



**Thursday, November 16, 2023
Board Meeting**

Call to Order - 9:30 A.M.

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**In-Person Attendance: Washington State Investment Board
2100 Evergreen Parkway SW, Olympia, WA 98502**

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The link to join online can be found at www.sib.wa.gov/meetings.html

1. Call to Order/Roll Call (9:30a)

2. Adoption of Minutes (9:30-9:35)

A. Adoption of the September 21, 2023, Minutes

3. Public Comment (9:35-9:45)

4. CEO Report to the Board (9:45-9:55)

A. October/November 2023 CEO Report to the Board

5. Quarterly Budget Update (9:55-10:05)

A. Quarterly Budget Update

6. Committee Assignments (10:05-10:10)

A. Committee Assignments

7. Private Markets Committee Report (10:10-10:15)

A. Fisher Lynch Co-Investment Partnership V, L.P.

8. Commingled Trust Fund (CTF) Updates (10:15-10:35)

A. Quarterly CTF Performance Report

9. Office of the State Actuary Annual Update (10:35-11:05)

A. Office of the State Actuary Annual Update

10. Break (11:05-11:15)

11. Education Session - Implications of Recent SEC Rulings (11:15-12:30)

12. Lunch Break (12:30-1:00)

13. CEM Benchmarking Review (1:00-1:30)

A. Annual CEM Benchmarking Review

14. Public Equity Annual Plan (1:30-2:45)

A. 2024 Public Equity Annual Plan

15. Break (2:45-2:55)

16. Executive Session - Real Estate Annual Plan (2:55-4:25)

A. 2024 Real Estate Annual Plan

17. 2024 Real Estate Annual Plan Approval (4:25-4:30)

18. Other Items (4:30-4:35)

19. Adjourn (4:35p)

**WASHINGTON STATE INVESTMENT BOARD
Board Meeting Minutes
November 16, 2023**

The Washington State Investment Board met in open public session at the office of the Washington State Investment Board at 2100 Evergreen Park Drive SW, Olympia, Washington and via Microsoft Teams video conferencing available to participants and members of the public at <https://www.microsoft.com/en-us/microsoft-teams/join-a-meeting?rtc=1>; Meeting ID: 256 681 077 480; Passcode: aoN4og; Dial-In Telephone Number 1-360-726-3322; Phone Conference ID Number 865 819 826#. The meeting was also live-streamed and recorded by TVW.

Members Present: Representative Mia Gregerson
Tracy Guerin
Ada Healey
Sara Ketelsen
Judy Kuschel
Liz Lewis
Bill Longbrake
Yona Makowski
Greg Markley, Chair
Senator Mark Mullet
David Nierenberg
Treasurer Mike Pellicciotti
Mary Pugh
Joel Sacks
George Zinn

Members Absent:

Also Present: Allyson Tucker, Chief Executive Officer
Christopher Hanak, Chief Investment Officer
Celina Verme, Budget and Government Operations Officer
Fabrizio Natale, Senior Investment Officer – Private Equity
Jason Gordon, Financial Services Manager
Phil Paroian, Senior Investment Officer – Public Equity
Chris Biggs, Assistant Senior Investment Officer - Public Equity
Rhonda McNavish, Assistant Senior Investment Officer - Public Equity
Fletcher Wilson, Assistant Senior Investment Officer - Public Equity
Ada Chen, Investment Officer - Public Equity
Ben Lachmann, Assistant Senior Investment Officer - Public Equity
Steve Draper, Senior Investment Officer – Real Estate
Lerryn McCullough, Portfolio Manager – L&I Real Estate
Stacy Conway, Executive Assistant

Tor Jernudd, Attorney General’s Office
Matt Smith, State Actuary
Jennifer Choi, Institutional Limited Partners Association
Franco Wang, CEM Benchmarking

CALL TO ORDER

Chair Markley called the meeting to order at 9:30 a.m. and took roll call; all Board members listed as present were able to fully participate in the meeting while in attendance.

ADOPTION OF MINUTES

Chair Markley moved that the Board adopt the September 21, 2023, meeting minutes. Yona Makowski seconded the motion.

Liz Lewis noted that she was incorrectly listed as present at the September 21 meeting.

The motion to approve the minutes, as corrected to reflect Liz Lewis not in attendance, carried unanimously.

PUBLIC COMMENT

Chair Markley noted that due to the full agenda and number of individuals signed up to provide public comment, comments would be limited to two minutes each.

Maris Zivarts, representing Unite Here Local 8, the hospitality hotel and food service workers union of the Northwest, noted support of the comments to follow by members of the Unite Here Local 11 regarding investments made by PAI Partners and Advent International in Arias and Aimbridge Hospitality.

Jordan Greenslade, representing Unite Here Local 11, provided comment regarding environmental, social, and governance (ESG) risk in investments made by PAI Partners and Advent International in Arias and Ambridge Hospitality and asked that the WSIB Board engage with these two to ensure swift resolution to labor disputes and ensure future investments are protected by a guaranty of labor peace.

Andrea Vancini, as translated by Jordan Greenslade, addressed the Board regarding working conditions at the Sheraton Park Hotel, operated by Aimbridge Hospitality, and the ongoing labor dispute between workers and management.

Joshawa Nichols addressed the Board regarding working conditions at Ashland Hills, owned by Arias, urging the WSIB to engage with PAI and Advent to ensure they resolve labor disputes at their portfolio companies and future investment holdings are protected by labor peace.

Jessica Benson addressed the Board regarding the ongoing labor dispute with Arias, urging the WSIB to engage with PAI and Advent to ensure they resolve labor disputes at their portfolio companies and future investment holdings are protected by labor peace.

Abhilasha Bhola addressed the Board regarding GIP Fund V's investment in the proposed Rio Grande LNG terminal, noting concerns regarding potential financial and environment risk associated with the project and urging the WSIB to join calls to halt the build-out of the Rio Grande LNG terminal.

Bekah Hinojosa addressed the Board on behalf of the South Texas Environmental Justice Network in opposition of the Rio Grande export terminal project, stating that it is a widely opposed, controversial project, detailing the specific opposition, and asking Board to discontinue support of the project and consult with impacted community members.

APPROVED

Christopher Balsaldú addressed the Board in opposition of the Rio Grande LNG terminal, noting environmental impacts and requesting that the WSIB divest from the project and demand that GIP meet with the tribal and other community members.

Jerry Cornfield addressed the Board in opposition to the Rio Grande LNG terminal, noting environmental concerns, and asked the WSIB to divest from the project.

Donna Albert addressed the Board regarding the WSIB's investment in fossil fuels, asking the Board to recommend that fiduciary duty be redefined to exclude industries that harm the climate.

Ed Chadd addressed the Board regarding the WSIB's investments in fossil fuels and urged the WSIB to discontinue making these investments.

Barbara Carey addressed the Board regarding the WSIB's investment in GIP investment and its Rio Grande LNG terminal, requesting that the Board halt the building of the building of the Rio Grande LNG terminal and look closely at private equity investments.

Allyson Tucker reported that the WSIB received written public comment, and all comments in their entirety were submitted to the Board members prior to the meeting.

Chair Markley thanked the public commenters, noting that the Board takes its role very seriously and discusses these issues on a regular basis.

COMMITTEE ASSIGNMENTS

Presenter: Greg Markley, Board Chair

Chair Markley reviewed the recommended Committee assignments and changes. The recommended Committee assignments are:

Private Markets Committee

Tracy Guerin, Chair
Judy Kuschel
Senator Mark Mullet
Yona Makowski
Joel Sacks

Treasurer Pellicciotti will replace Judy Kuschel on the Private Markets Committee effective January 1, 2024.

Audit Committee

Sara Ketelsen, Chair
Tracy Guerin
Joel Sacks
Liz Lewis
Yona Makowski

Public Markets Committee

Liz Lewis, Chair

Sara Ketelsen

Treasurer Pellicciotti

Representative Gregerson

The Public Employees Retirement System representative to be appointed to replace Judy Kuschel on the Board will join the Public Markets Committee as its fifth voting member when the appointment is finalized.

Tracy Guerin moved that the Board approve the Committee assignments as proposed. Yona Makowski seconded, and the motion carried unanimously.

OCTOBER/NOVEMBER CEO REPORT TO THE BOARD

Presenter: Allyson Tucker, Chief Executive Officer

Allyson Tucker presented the CEO Report to the Board, highlighting industry event participation and asking the Board to refer to the current quiet periods listed on the report.

QUARTERLY BUDGET UPDATE

Presenter: Celina Verme, Budget and Government Operations Officer

Celina Verme presented a budget update for the quarter ended September 30, 2023. The appropriated budget has a projected balance of \$1.9 million, or 4.9 percent savings, due primarily to staff vacancies. The non-appropriated budget has a projected balance of \$53.8m, a 7.3 percent savings, and is expected to change depending on market volatility and other factors. The total operating budget projected balance of \$55.6 million, 7.1 percent, is conservative and expected to change.

Discussion ensued regarding the accounting system used to verify and reconcile against the official book of record.

PRIVATE MARKETS COMMITTEE REPORT

Presenter: Joel Sacks, Private Markets Committee Chair

The Private Markets Committee met on November 2, 2023, to consider one Private Equity investment recommendation: Fisher Lynch Co-Investment Partnership V, L.P.

On behalf of the Private Markets Committee, Joel Sacks moved that the Board invest up to \$100 million, plus fees and expenses, in Fisher Lynch Co-Investment Partnership V, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Judy Kuschel seconded the motion.

Fisher Lynch Capital currently manages Evergreen Park Investment Fund, an evergreen co-investment separate account with \$3 billion of committed capital, on behalf of the WSIB. Fisher Lynch Co-Investment V is a commingled co-investment fund managed by Fisher Lynch that will invest alongside Evergreen Park in the highest conviction co-investments

using a thoughtful allocation process. The recommendation is based in part on Fisher Lynch’s attractive market opportunity, low-cost structure, additive net returns, long-term collaborative partnership, and other factors relevant to the recommendation.

The motion carried unanimously.

COMMINGLED TRUST FUND (CTF) UPDATES

Presenter: Christopher Hanak, Chief Investment Officer

Christopher Hanak presented the Commingled Trust Fund’s (CTF’s) quarterly investment returns, noting that the economy expanded at a strong pace, job gains have moderated, and the labor market remains strong. The presentation addressed individual asset class returns, asset class target allocation ranges and the underlying causes for changes in actual allocations, and liquidity maintenance, and an overview of the Labor and Industries fund performance.

Discussion ensued regarding the pacing of investment distributions, the ability for partners to extend the life a fund, and the types of investments in the Labor and Industries portfolio.

[Representative Gregerson left the meeting at 10:28 a.m.]

OFFICE OF THE STATE ACTUARY ANNUAL UPDATE

Presenter: Matt Smith, State Actuary

Matt Smith presented the annual Office of the State Actuary (OSA) presentation, including an update on the state’s pension systems, the Guaranteed Education Tuition (GET) program, and the Long-Term Services and Support Fund (WA Cares Fund). For the state’s pension systems, the presentation covered participant data, plan funded status, projected employer and employee contribution rates, an outlook for the state’s pension plans, and key long-term economic assumptions.

Discussion ensued regarding minor changes to the program’s liability assumptions; the increase in liabilities over the following year; and the source of funding for education districts that increase compensation from levy dollars.

For the GET program, the presentation addressed current funded status, key contract data, key assumptions, and funded status and tuition growth history.

Discussion ensued regarding changes in GET pricing, reduction in unit sales, and impact of Washington’s DreamAhead 529 plan.

The WA Cares update covered the OSA’s role in supporting the program; the latest solvency analysis conducted by the program’s actuary, Milliman; the evaluation of the projected fund solvency; and the latest solvency projections.

Discussion ensued regarding changes in premium collection estimates.

[The Board recessed at 11:05 a.m. and reconvened at 11:15 a.m.]

SEC REGULATION OF PRIVATE FUND ADVISERS

Presenter: Jennifer Choi, Institutional Limited Partners Association (ILPA)

Jennifer Choi presented an education session regarding the Security and Exchange Commission's (SEC's) recent rulings impacting private fund advisers, including an overview of ILPA and its role in the industry; a history of regulation of private fund advisers; recent proposals by the SEC to increase required disclosures and to restrict certain activities; key beneficial issues that ILPA is focused on in engaging with the SEC; and insights provided to limited partners (LPs) from SEC risk alerts, exam priorities, and enforcement actions,

Discussion ensued regarding ESG disclosure requirements and ensuring policies that documented policies provided to General Partners (GPs) are actually in practice.

The presentation addressed new SEC rules for private fund advisers, many of which have been areas of the focus of ILPA's work for 20 years; GP industry group lawsuits challenging the rules and the SEC's mandate; and the timing conflict of implementation of new rules with the expected court rulings on the GP filings. The new rules include required quarterly fee and expense reporting; fiduciary duty, preferential treatment; non-pro rata fees and expenses; legacy treatment; regulatory, compliance, and examination expenses.

[George Zinn joined the meeting at 12:12 p.m.]

Discussion ensued regarding the WSIB's support of ILPA actions through its position on the ILPA board; the reasons behind the lack of support by some GPs; litigation from a coalition of large and small GPs, both private equity and hedge funds; changes to enforcement authority of the SEC and resistance to oversight; challenges to rule interpretation; ILPA member debates around disclosure of most favorable nation (MFN) terms; and unknown impact of rules on fees paid by LPs.

[The Board recessed at 12:15 p.m. and reconvened at 1:00 p.m.]

ANNUAL CEM BENCHMARKING REVIEW

Presenter: Franco Wang, CEM Benchmarking

Franco Wang presented the results of the annual CEM Benchmarking analysis comparing the WSIB's cost and performance to the 284 funds in CEM's pension database and to a peer group of 19 pension funds. The key takeaways presented were that the 5-year net total return of 9.3 percent was above both the U.S. Public median of 5.9 percent and the peer median of 6.1 percent; the 5-year net value added was 3.0 percent, above both the U.S. Public median of 1.1 percent and the peer median of 1.1 percent; the 3.0 percent 5-year value added translates into approximately \$19.8 billion of cumulative value added over 5 years; the 25-year net return of 8.1 percent was above both the U.S. Public median of 6.8 percent and the peer median of 6.9 percent; the 1.2 percent higher 25-year net return versus the peer median translates into approximately \$32.5 billion over the period; the investment cost of 52.6 basis points was below the benchmark cost of 72.5 basis points, suggesting the fund was low cost compared to peers, primarily because the WSIB paid less than peers for similar services.

Discussion ensued regarding the appropriateness of using a 5-year reporting timeframe due to volatility, and there was consensus by the Board and CEM to include a 10-year reporting period in future analyses. Additional discussion centered around the methodology in assessing risk; the impact of lower cost on employer and employee contribution rates; Washington's consistent placement in the bottom quartile of the National Association of State Retirement Administrator's peer comparisons for contributions of employees and employers; and savings connected to the uniqueness of the WSIB's real estate program.

PUBLIC EQUITY ANNUAL PLAN

Presenters: Phil Paroian, Senior Investment Officer – Public Equity

Chris Biggs, Assistant Senior Investment Officer - Public Equity

Rhonda McNavish, Assistant Senior Investment Officer - Public Equity

Fletcher Wilson, Assistant Senior Investment Officer - Public Equity

Ada Chen, Investment Officer - Public Equity

Ben Lachmann, Assistant Senior Investment Officer - Public Equity

Phil Paroian introduced the 2024 Public Equity Annual Plan, opening with key Investment Beliefs considered. Ben Lachmann addressed the macroeconomic backdrop using the three pillars of shifts, shocks, and fragilities.

Discussion ensued regarding a slowing global rate of growth as an additional shift.

Ada Chen addressed the impact of high and rising inflation on various sectors and how it impacts public equity market valuations.

Public Equity staff shared four examples of how WSIB's public equity active managers are adapting to the economic environment.

Phil Paroian discussed active and passive management, including performance of active global equity and active emerging markets as compared to passive on a net basis, and described a "public equity paradox" where active management has become more important than ever, but active returns have become harder than ever for managers to deliver and sustain.

Discussion ensued regarding distinctions between active management and passive management in various markets, capitalizations, and/or styles; passive management benchmarks; and the implementation of passive management.

Fletcher Wilson reviewed the framework for the 2024 Public Equity Annual Plan initiatives.

Discussion ensued regarding the open rolling procurement process for the Commingled Trust Fund (CTF) active global and active emerging markets mandates and the Public Equity team's inclusion of proxy voting reviews and discussions as part of their ongoing monitoring of managers.

Rhonda McNavish addressed enhancements to existing programs, focusing on the upcoming implementation of the new Socially Responsible Investment option for the Plans 3, Deferred Compensation Plan (DCP) and Judicial Retirement Account (JRA).

Discussion ensued regarding the anticipated differences between the DCP Investment Beliefs, under development, and the CTF Investment Beliefs.

Rhonda McNavish presented the Public Equity initiatives and accomplishments over the last year.

Discussion ensued regarding staff's decision-making process around liquidation of investments when required and the potential for utilization of artificial intelligence in Public Equity risk systems.

Rhonda McNavish discussed collaboration with other units, and Phil Paroian summarized Public Equity's 2024 key initiatives.

Discussion ensued regarding the construction of the passive investment portfolio and staff's continued analysis and consideration of appropriate program changes and Board interest in the results of the proposed peer review.

Chair Markley moved that the Board approve the 2024 Public Equity Annual Plan as presented. Yona Makowski seconded the motion.

Treasurer Pellicciotti noted the opinion that the Board does not have the data to conclude that the public asset proxy voting is in alignment with Board beliefs, and any public management plan approved must work to mitigate those risks to the WSIB's long-term investments. To satisfy that the Board is mitigating those risks to the WSIB's public equity investments, the Board needs a comprehensive proxy voting system that is in alignment with Board beliefs. The Board has not had a chance to vote on the proxy voting issue substantively, and this vote does seem to maintain the status quo as to how staff will continue to monitor engagement efforts in proxy voting.

Chair Markley noted that the decision was made to move proxy voting oversight from the Audit Committee to the Board, and an internal audit of the WSIB's proxy voting has been identified in the Fiscal Year 2025 Internal Audit Plan.

The motion carried, with Treasurer Pellicciotti opposed.

EXECUTIVE SESSION

Chair Markley announced that the Board would go into executive session to discuss financial and commercial information relating to an investment since public knowledge regarding the discussion would result in loss to the funds managed by the WSIB or would result in private loss to the providers of the information. The executive session was expected to last approximately one hour and forty minutes, at which time the Board would reconvene in open session.

APPROVED

[The Board went into executive session at 2:46 p.m.]

[Mary Pugh and Bill Longbrake left the meeting.]

[The Board recessed at 2:46 p.m. and reconvened in executive session at 2:58 p.m.]

2024 Real Estate Annual Plan

**Presenters: Steve Draper, Senior Investment Officer – Real Estate
Lerryn McCullough, Portfolio Manager – L&I Real Estate**

[Mary Pugh and Bill Longbrake rejoined the meeting telephonically at 3:10 p.m.]

[Joel Sacks left the meeting at 3:37 p.m. and rejoined at 3:50 p.m.]

[The Board reconvened in open session at 4:26 p.m.]

REAL ESTATE ANNUAL PLAN APPROVAL

Chair Markley moved that the Board approve the 2024 Real Estate Annual Plan as presented in executive session. Tracy Guerin seconded, and the motion carried unanimously.

ADJOURNMENT

There were no other items to come before the Board, and the Board meeting adjourned at 4:27 p.m.