



**Thursday, April 18, 2024
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 February 15, 2024 Minutes

3. Public Comment (9:35-10:00)

A. Oral Public Comment

B. Written Public Comment Submissions

4. Chief Executive Officer (CEO) Report to the Board (10:00-10:05)

A. CEO Report to the Board - March/April 2024

5. Public Markets Committee Report (10:05-10:10)

A. 3-Year Policy Review

6. 3-Year Policy Review (10:10-10:15)

A. 3-Year Policy Review - Technical Revisions

7. Break (10:15-10:20)

8. Education Session - Geopolitics (10:20-11:20)

A. U.S. and Global Political Outlook

9. Education Session - Board Governance (11:20-12:20)

A. Fiduciary Duties and Sustainability Considerations

10. Break (12:20-12:50)

11. Annual Global Proxy Voting Report (12:50-1:50)

A. Annual Global Proxy Voting Report

12. Economically Targeted Investments (ETI) (1:50-2:20)

A. Economically Targeted Investments (ETI) Annual Report & Presentation

13. Administrative Committee Report (2:20-2:40)

A. Biennial Investment Officer Salary Survey and Salary Band Recommendation

B. Biennial Chief Executive Officer Salary Survey Update and Salary Band Recommendation

14. Break (2:40-2:50)

15. Executive Session: Administrative Committee Report continued (2:50-3:30)

A. Operations Update

B. Succession Planning

C. CEO Term Expiration

16. Administrative Committee Report continued (3:30-3:35)

17. Audit Committee Report (3:35-3:40)

A. Financial Statement Auditor Appointment

B. IT Security Auditor – Auditor Appointment

18. Other Items (3:40-3:45)

19. Adjourn (3:45p)

**WASHINGTON STATE INVESTMENT BOARD
Board Meeting Minutes
April 18, 2024**

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: 227 311 745 597; Passcode: dDnw4e; Dial-In Telephone Number 1-360-726-3322; Phone Conference ID Number 887 311 113#. The meeting was also live-streamed and recorded by TVW.

Members Present: Yona Makowski, Acting Chair
Representative Mia Gregerson
Tracy Guerin
Sara Ketelsen
Liz Lewis
Senator Mark Mullet
David Nierenberg
Treasurer Mike Pellicciotti
Mary Pugh
Heather Redman
Joel Sacks
Tracy Stanley
George Zinn

Members Absent: Ada Healey
Greg Markley

Also Present: Allyson Tucker, Chief Executive Officer
Christopher Hanak, Chief Investment Officer
Bobby Humes, Human Resources Director
Bridget Murphy, Corporate Governance Officer
Rhonda McNavish, Assistant Senior Investment Officer – Public Equity
Carmen Matsumoto, Assistant Senior Investment Officer – Private Equity
Fabrizio Natale, Senior Investment Officer – Private Equity
Stacy Conway, Executive Assistant

Tor Jernudd, Attorney General’s Office
Tammie Nuber, Office of the State Treasurer
Fassil Michael, International Shareholder Services (ISS)

CALL TO ORDER

As Board Chair Markley was unable to participate in the meeting, Vice Chair Makowski presided over the meeting as Chair. Chair Makowski, 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 Makowski moved that the Board adopt the February 15, 2024, meeting minutes. Joel Sacks seconded, and the motion carried unanimously.

PUBLIC COMMENT

Chair Makowski reported that there were 11 people signed up for public comment and noted that each individual would be allotted 2 minutes to make their comments.

Michael Angulo addressed the Board regarding ongoing labor disputes with Aimbridge Hospitality, an Advent International portfolio company, and Areas, a PAI portfolio company, requesting the Board intervene to resolve the current labor disputes and prevent those in the future.

Fernando Perez addressed the Board regarding ongoing labor disputes with Advent International portfolio company, Aimbridge Hospitality, and requested that the Board ask Advent International to settle the labor disputes and prevent future disputes.

Maritza Villeda addressed the Board regarding the hostile work environment at a hotel owned by Aimbridge Hospitality, noting complaints she made in connection with verbal abuse and sexual harassment that eventually resulted in her employment termination and asking for support to hold Aimbridge Hospitality accountable.

Cristina Santiago addressed the Board regarding ongoing labor disputes, sexual harassment allegations, and security issues at properties operated by Aimbridge Hospitality.

Donna Albert addressed the Board regarding climate change concerns and the WSIB's investments in fossil fuels, referencing a UK actuarial report and asking the Board to request a similar analysis.

Kristen Edmark addressed the Board regarding climate change and the WSIB's investments in fossil fuels, opining that these investments slow the progress of clean energy and asking the Board to act now.

Barbara Carey addressed the Board regarding the financial risk imposed by climate change, referencing the UK actuarial analysis and asking the Board to request that staff report on a potential blind spot on assessing climate risk and prepare a plan.

Abhilasha Bhola addressed the Board on behalf of the Private Equity Stakeholder Group regarding potential investment and community risk of the WSIB's investment in Rio Grande LNG through Global Infrastructure Partners (GIP), urging the WSIB to stop the project.

Bekah Hinojosa addressed the Board regarding the Rio Grande LNG project, noting community and municipality opposition to the project and asking the WSIB to withdraw and divest from the project and request that GIP meet with those in opposition.

Ed Chadd addressed the Board regarding climate change concerns and the WSIB's investments in fossil fuels, asking the Board to divest.

Allyson Tucker reported that in addition to the oral comments provided, the Board also received 15 written public comment submissions, which were provided to the Board prior to the start of today's meeting.

Chair Makowski thanked those providing comment, noting the actions that staff and the Board have taken to understand and address the various concerns while continuing to take a thoughtful and considered approach relative to the energy transition. The WSIB has made over \$1 billion in new commitments to renewable energy projects and technologies and continues to consider all material risk factors in the investment decision-making process, including environmental.

MARCH/APRIL CEO REPORT TO THE BOARD

Presenter: Allyson Tucker, Chief Executive Officer

Allyson Tucker presented the CEO Report to the Board, highlighting upcoming Board and Committee meetings and the new staff endeavor, Learning Labs, designed to provide opportunity for staff connection and learning. The event was a success, and feedback was provided to improve future sessions. The last item highlighted was staff changes, and overviews will be provided in the report while the agency continues to consider staff turnover as a potential risk.

Discussion ensued regarding the right forum to fully discuss the issues and appropriate response to the public comment that has been provided over the last several months and regarding the accessibility of historical Board materials.

PUBLIC MARKETS COMMITTEE REPORT

Presenter: Liz Lewis, Public Markets Committee Chair

The Public Markets Committee met on March 12, 2024, to consider one technical policy revision and receive an educational presentation from LSV Asset Management, one of the Public Equity's investment managers.

The Public Markets Committee Charter Policy contains technical revisions only:

On behalf of the Public Markets Committee, Liz Lewis moved that the Board approve the proposed revisions to the Public Markets Committee Charter Policy 1.00.150. Tracy Guerin seconded the motion.

The policy was presented to the Committee as part of the required 3-year review to ensure policies remain relevant and appropriate. Proposed technical revisions include changes to simplify policy language and update title language in the current charter.

The motion carried unanimously.

The committee also received an education session on value/growth cycles and the current landscape. LSV Asset Management presented a variety of topics related to value versus growth cycles, including current versus historical market valuations, lessons from the tech bubble of 2000, persistence of growth rates, merits of contrarian strategies, and potential dangers of trend chasing. It was observed that the largest U.S. companies are valued at levels far exceeding their long-term averages and the relative valuations of value and growth are near stretched levels. It was noted that signs that could be pointing to irrational exuberance, and data was provided showing that growth rates are difficult to predict and high rates of growth generally do not persist. LSV concluded by reiterating that being contrarian is a difficult but proven strategy and investments require patience.

3-YEAR POLICY REVIEWS

Presenter: Christopher Hanak, Chief Investment Officer

Christopher Hanak presented the proposed revisions to the Economically Targeted Investment Policy 2.05.600 and the Innovation Portfolio Policy 2.10.800, both of which contain minor technical revisions intended to clarify language without changing the intent of policies.

Chair Makowski moved that the Board approve the proposed technical revisions to the Economically Targeted Investment Policy 2.05.600 and the Innovation Portfolio Policy 2.10.800 as presented. Sara Ketelsen seconded, and the motion carried unanimously.

[The Board recessed at 10:15 a.m. and reconvened at 10:20 a.m.]

U.S. AND GLOBAL POLITICAL OUTLOOK

Presenter: Daniel Clifton, Strategas

Daniel Clifton presented a comprehensive U.S. and global political outlook, noting that in 2024 there will be the largest voter turnout ever on a global basis. The presentation covered the implications to investors of the toxic political debate in the U.S., stock trading indicators, election year S&P performance, implications of recent recessions in re-elections and of current economic conditions, tools used by the current administration to cushion the U.S. economy, and the implications of the nearly equally divided political stance of the U.S. Also discussed was Strategas' framework for analyzing the 2024 Presidential election, including the campaign narrative, economic outlook, and swing state activity; the current administration's strategy and approval rating; the "misery index" of inflation plus unemployment, together with real incomes as predictors; the repercussions of a tie in the electoral college; each U.S. candidate's priorities should they be elected; implications of the speed of de-globalization; the need to again raise the debt ceiling mid-2025 and the largest fiscal cliff ever at the end of 2025 requiring Congress to address financial issues and avoid recession; and a reminder that stocks are not partisan and have done well under all administrations.

Discussion ensued regarding other global elections that impact markets, including Taiwan, Mexico, and India; the populist movement in UK Parliamentary and German state elections; the global impact of U.S. elections; impact of the U.S. deficit and debt service at higher interest rates; the U.S. interest rate outlook and expectations for interest rate cuts; impact of higher rates on real estate markets and development; and asset allocation implications in a multi-polar world requiring understanding of economic shifts and being proactive.

FIDUCIARY DUTIES AND SUSTAINABILITY CONSIDERATIONS

Presenter: Tiffany Reeves, Faegre Drinker

Tiffany Reeves presented an overview of fiduciary duties in the context of sustainability, describing the complexity of the term “fiduciary” and the definition differences depending upon mandate; the variety of sources of fiduciary guidance; the two core fiduciary duties of loyalty and prudence; duty of impartiality; use of external fiduciary consultants; the impact of bias on process; confusion around the term ESG (environmental, social, and governance), political implications of misunderstandings, and the need to be clear when using the term ESG; the shifting regulatory guidance around the consideration of climate change and other ESG considerations as part of fiduciary duty and the importance of considering ESG factors in the same manner as other risk and return considerations; examples of prudent process and poor process, along with common attributes of leading peer practices; and the importance of transparency.

Discussion ensued regarding the Board’s highest level of duty as pension fund fiduciaries in the context of additional considerations related to the oversight of non-pension funds; the requirement for pension funds to consider all material risks, regardless of labels; and the importance of consideration of external stakeholder perspectives, while focusing on fiduciary duty and process.

[The Board recessed at 12:22 p.m. and reconvened at 12:50 p.m.]

ANNUAL GLOBAL PROXY VOTING REPORT

Presenters: Bridget Murphy, Corporate Governance Officer

Rhonda McNavish, Assistant Senior Investment Officer

Fassil Michael, International Shareholder Services (ISS)

Bridget Murphy reported that each year ISS conducts a thorough review and analysis of the proxy votes cast by the WSIB’s international public equity managers. Historically the voting results were provided to the Audit Committee in March along with the results of the WSIB’s own proxy voting, which is focused on U.S. markets. This year the presentations have been divided, with the global analysis provided today and the U.S. analysis provided to the Board at its September meeting. ISS analyzes external managers’ proxy votes across two spectrums: vote alignment with ISS’s standard policy and vote alignment with portfolio company management. This provides a good barometer for how often international managers cast votes that differ from ISS and/or company management focusing on trends over time and allowing staff to follow up accordingly.

Fassill Michael presented the results of the ISS review of international investment managers' proxy voting activity from July 2022 to June 2023, discussing the analysis process and findings in the comparison of manager votes with ISS and company management. Voting activity of WSIB's international investment managers generally reflects sound corporate governance practices. Also addressed was U.S. director accountability, including the decline in failed director elections and specific upcoming contested director elections; reduced support for environmental and shareholder proposals (SHPs), due largely to proposals that are too prescriptive or would not result in increased shareholder value; and much fewer majority-supported proposals.

Discussion ensued regarding the impact of improved company practices resulting from engagement leading to the decline in support for environmental and shareholder proposals.

Fassil Michael addressed the increase in virtual-only shareholder meetings and the introduction of SHPs regarding virtual-only shareholder meetings; increased number of executive compensation renewal proposals in Europe, and specifically performance-based remuneration packages in the U.K; continued low number of Say-on-Climate proposals; global governance hot topics by geographical markets; and the rise and spread of collective engagement coalitions.

Discussion ensued regarding participation in engagement coalitions, specifically the voting recommendations and data gathering capability of the Climate Action 100+, the implications of the Climate Action 100+ large asset manager exits, and other engagement groups that may come online in the future.

Rhonda McNavish described the ways through which Public Equity staff partners with Corporate Governance staff to ensure that the external managers are voting proxies responsibly, including the initial due diligence for a prospective manager, inquiries by staff during the semi-annual due diligence meetings with the managers, and the annual review and analysis completed by ISS. At a high level, staff believes that managers are showing judgement and are casting votes in line with their investment philosophies. When referring to results and alignment, staff is looking through two lenses: alignment with ISS's standard benchmark policy and alignment with portfolio company management. The analysis results indicate that, most managers' alignment with ISS were within 1 to 3 percentage points of last year's number. Managers are often not voting in alignment with company management.

Rhonda McNavish discussed specific managers, grouping them into the categories of passive managers, active quantitative managers, and active fundamental managers, describing their respective characteristics and detailing the attributes of several specific managers that lead to the outlier results in ISS's analysis.

Discussion ensued regarding staff's interactions with managers regarding the importance of proxy voting as a fiduciary duty and staff's expectation for voting alignment results given the managers' individual investment philosophies and strategies.

[David Nierenberg left the meeting at 1:48 p.m.]

ECONOMICALLY TARGETED INVESTMENTS (ETI) ANNUAL REVIEW

**Presenters: Carmen Matsumoto, Assistant Senior Investment Officer
Bridget Murphy, Corporate Governance Officer**

Carmen Matsumoto presented the ETI annual review, explaining the ETI policy provisions and the general partner survey process.

Discussion ensued regarding the WSIB's efforts to encourage survey responses by its general partners.

The presentation covered survey results for corporate finance investments in Washington, the Pacific Northwest, and the U.S. as a whole; venture capital investments; initial public offering (IPO) activity; 10-year historical fair market value of Washington-based investments; Washington-based investments as a percentage of the entire private equity portfolio; and performance of Washington-based investments.

Discussion ensued regarding the difference between corporate finance and venture transactions.

Bridget Murphy discussed the WSIB's engagement with Washington- and Northwest-based publicly traded companies and involvement with the Climate Action 100+ and the Task Force on Climate-Related Financial Disclosures (TCFD), noting that the WSIB renewed its participation in Phase 2 of Climate Action 100+ and joined a new phase 2 campaign as a supporting investor for a Washington-based company. Also discussed was engagement with the CDP (formerly the Carbon Disclosure Project), the Thirty Percent Coalition, and the Investor Coalition for Equal Votes.

Discussion ensued regarding Climate Action 100+ engagement activities; the evolution of the WSIB's participation in engagement coalitions, specifically the Climate Action 100+; and progress the WSIB has made on the issue of gender diversity over the years.

Carmen Matsumoto closed, highlighting the ETI objectives for the next year.

ADMINISTRATIVE COMMITTEE REPORT

Presenter: Yona Makowski, Acting Administrative Committee Chair

The Administrative Committee met earlier today to consider two action items, both relating to biennial salary surveys and associated salary band recommendations. In addition, the Committee met in executive session to receive an operational update and to discuss succession planning and the CEO's expiring term.

The first item for the Board's consideration is the Biennial Investment Officer Salary Band Recommendation. McLagan staff presented the results of their analysis which resulted in recommended salary bands as follows:

- Chief Investment Officer: \$432,000 to \$720,996, an increase of 1 percent in the top of the range.
- Senior Investment Officer: \$231,000 to \$384,996, an increase of 4 percent in the top of the range.
- Assistant Senior Investment Officer: \$174,000 to \$289,998, also an increase of 4 percent in the top of the range.
- Investment Officer: \$132,000 to \$219,000, an increase of 10 percent in the top of the range.
- Assistant Investment Officer: \$84,000 to \$141,000, an increase of 4 percent in the top of the range.

The Joint Legislative Audit and Review Committee has reviewed the analysis and provided response indicating that there is nothing concerning to them. The Administrative Committee supports moving forward with the proposed salary ranges.

The updated salary bands will be reflected in the biennial budget request, if approved.

On behalf of the Administrative Committee, Chair Makowski moved that the Board adopt the proposed salary ranges for Investment Officers, provide notice to the director of the Office of Financial Management (OFM) and the chairs of the House of Representatives and Senate fiscal committees, and provide an effective date for the new salary ranges of 60 days after notice is given to OFM and the fiscal committee chairs. Tracy Guerin seconded and the motion carried unanimously.

Also considered by the Administrative Committee was the biennial CEO Salary Band Recommendation. Staff engaged a local talent acquisition firm, Karras Consulting, to conduct an update to the analysis completed by Heidrick and Struggles for the Board in 2021. Per the CEO Compensation Policy, the bottom of the salary range is the 25th percentile of total cash compensation and the top of the range is the median or average, whichever is higher. These policy parameters and the updated data result in a proposed salary range of \$629,694 to \$1,170,861.

Discussion ensued regarding the engagement of Karras Consulting for the analysis update, due to the inability of Heidrick and Struggles to conduct the update; whether or not it is appropriate to include combination CEO/CIO roles in the comparison data, the rationale for including them, and the impact on the analysis of including these positions; the rationale at the time of 2021 analysis to include non-pension comparable organizations; and whether there may be more appropriate comparator funds now.

On behalf of the Administrative Committee, Chair Makowski moved that the Board adopt the proposed salary range of \$629,694 to \$1,170,861 for the Chief Executive Officer. Tracy Guerin seconded and the motion carried with Treasurer Pellicciotti opposed.

EXECUTIVE SESSION

Acting Chair Makowski announced that the Board would take a 10-minute recess then reconvene in executive session to review the performance of public employees and 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 until approximately 3:20 p.m. at which time the Board would reconvene in open session.

[The Board went into executive session at 2:30 p.m.]

[The Board recessed at 2:30 p.m. and reconvened in executive session at 2:40 p.m.]

[Senator Mullet left the meeting at 2:30 p.m.]

ADMINISTRATIVE COMMITTEE REPORT Continued

Operations Update

Presenters: Yona Makowski, Acting Administrative Committee Chair
Allyson Tucker, Chief Executive Officer

Succession Planning

Presenters: Yona Makowski, Acting Administrative Committee Chair
Allyson Tucker, Chief Executive Officer

CEO Term Expiration

Presenter: Yona Makowski, Acting Administrative Committee Chair

[The Board reconvened in open session at 3:24 p.m.]

At the request of the Board Chair, Tor Jernudd relayed information related to the Executive Director Compensation discussion that took place prior to the executive session, clarifying that the process for setting Investment Officer compensation is set in statute; however, the statute gives the Board complete discretion with respect to the Executive Director and Confidential Secretary salaries. It was previously the intent of the Board to align the practice for setting the Executive Director salary with that of the Investment Officers to the extent possible or reasonable, but that requirement is in Board policy, not statute.

ADMINISTRATIVE COMMITTEE REPORT Continued

Presenter: Yona Makowski, Acting Administrative Committee Chair

The Board received an operational update from staff during the executive session and discussed the CEO's expiring term. In addition, the Board discussed the performance of public employees and a staff proposal to address the performance. After thorough discussion, there was Board consensus to move forward with the plan presented.

AUDIT COMMITTEE REPORT

Presenter: Sara Ketelsen, Audit Committee Chair

The Audit Committee met on March 12 with a full agenda, including two action items for the Board's consideration. The first item the Committee considered was the Financial Statement Auditor Appointment. Based on the information provided, the Audit Committee was in support of staff's recommendation to reappoint Eide Bailly to perform the independent financial statement audits for an additional 3 years - Fiscal Years 2025 through 2027. Additional information relative to the recommendation was disclosed to the Board in the earlier executive session, and members of the Audit Committee in attendance and the full Board are supportive of staff's recommendation.

Sara Ketelsen moved that the Board appoint Eide Bailly LLP to perform the independent financial statement audits for Fiscal Years 2025 through 2027. Tracy Guerin seconded, and the motion carried unanimously.

The second item for the Board's consideration was the IT Security Auditor Appointment.

On behalf of the Audit Committee, Sara Ketelsen moved that the Board appoint Intrinium, Inc., doing business as Torchlight, to conduct a comprehensive IT security audit and perform penetration testing. Tracy Guerin seconded the motion.

The IT Security Audit is to be performed by an experienced external consultant as part of the Fiscal Year 2024 Internal Audit Plan. The Committee is recommending Intrinium, Inc. based on the qualifications and experience of the individuals assigned to the audit and experience performing audits for clients similar to the WSIB.

The motion carried unanimously.

The Committee received the results of the Travel Administration and Expenditure audit engagement. Staff concluded processes and controls are in place over travel administration, expense reimbursement, and risk management. There was one audit recommendation to help ensure compliance with laws, regulations, and policies. The Committee also received the results of the Commingled Trust Fund – Valuation and Pricing audit engagement. Staff concluded that processes and controls are in place to ensure monthly valuations and pricing are accurate and complete and to monitor market movements and repricing of the CTF in

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accordance with established procedures. There was one audit recommendation to help ensure compliance with agency policies.

Staff presented the Annual Investment Compliance Report, which included a review of investment compliance activities, gifts, and personal investments. The presentation highlighted information on the regulatory reporting requirements of the WSIB, operational due diligence activities, compliance system testing results, 2023 gift reporting analytics, and personal trading and reporting requirements for Board members and staff.

The Committee reviewed the independence of the financial statement auditor and received an update on the status of prior audit recommendations, the quarterly report from the Fiscal Year 2024 audit plan, and the quarterly investment referral report.

In addition, the Committee convened in executive session to review the Audit Director's excellent performance evaluation.

ADJOURNMENT

There were no other items to come before the Board, and the meeting adjourned at 3:29 p.m.