



**Thursday, June 20, 2024
Board Meeting**

Call to Order - 9:30 A.M.

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**In-Person Attendance: Washington State Investment Board
2100 Evergreen Park Drive 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 April 18, 2024 Minutes

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

A. Oral Public Comment

B. Written Public Comment Submissions

4. Education Session (10:00-11:00)

A. Challenging Assumptions

5. Break (11:00-11:10)

6. Executive Session - Administrative Committee Report (11:10-11:45)

A. Sensitive Materials Handling

B. Staff Recruitment

C. Global Custodian Bank Update

D. CEO Term Expiration

7. Global Custodian Bank and Securities Lending Manager Recommendation (11:45-12:45)

A. Global Custodian Bank and Securities Lending Manager Recommendation

8. Lunch (12:45-1:15)

9. Administrative Committee Report (1:15-1:30)

A. Executive Session Report and Action Items (if any)

B. 2025-2027 Biennial Appropriated Budget and Fiscal Year 2025 Non-Appropriated Budget

10. Chief Executive Officer (CEO) Report to the Board (1:30-1:35)

A. CEO Report to the Board - May/June 2024

11. Audit Committee Report (1:35-1:40)

A. 2024 External Quality Assessment Report

B. Fiscal Year 2025 Audit Plan

12. Public Markets Committee Report (1:40-1:45)

13. Private Markets Committee Report (1:45-1:50)

A. TPG Rise Climate II, L.P.

B. 3-Year Policy Review

14. Quarterly Performance Update (1:50-2:00)

A. Quarterly Performance Update

15. Education Session (2:00-3:25)

A. Currency Hedging

B. Public Market Equivalent

16. Other Items (3:25-3:30)

17. Adjourn (3:30p)

**WASHINGTON STATE INVESTMENT BOARD
Board Meeting Minutes
June 20, 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: 263 901 486 588; Passcode: EqXvqv; Dial-In Telephone Number 1-360-726-3322; Phone Conference ID Number 512 454 428#. The meeting was also live-streamed and recorded by TVW.

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

Also Present: Allyson Tucker, Chief Executive Officer
 Christopher Hanak, Chief Investment Officer
 Kristina Taylor, Chief Financial Officer
 Fred Gjerstad, Assistant Senior Investment Officer – RMAA
 Liz Smith, Legal, Risk, and Compliance Director
 Celina Verme, Budget and Government Operations Officer
 Julia Ferreira, Assistant Senior Investment Officer - RMAA
 Stacy Conway, Executive Assistant

 Tor Jernudd, Attorney General’s Office
 Tammie Nuber, Office of the State Treasurer
 Louis-Vincent Gave, Gavekal
 Chris Coleman, State Street
 Brenda Dulgar-Sheikin, State Street
 Gavin Joyce, State Street
 Sean Bailey, State Street
 Abhilasha Bhola, Private Equity Stakeholder Group
 Andrew Eckels, 350 Seattle
 Barbara Carey
 Donna Albert

CALL TO ORDER

Chair Markley called the meeting to order at 9:32 a.m. and took roll call; all Board members listed as present could participate fully in the meeting while in attendance.

ADOPTION OF MINUTES

Chair Markley moved that the Board adopt the April 18, 2024, meeting minutes. Yona Makowski seconded the motion.

Discussion ensued regarding language in the section of the minutes addressing the adoption of the Chief Executive Officer (CEO) salary band.

The motion carried unanimously.

PUBLIC COMMENT

Chair Markley reported that four people signed up for public comment and noted that each individual would be allotted 3 minutes to make their comments.

Abhilasha Bhola addressed the Board regarding the WSIB's investment in the Rio Grande LNG project through its investment in GIP Fund V, thanking the WSIB for its continued engagement on the issue. Concerns noted included those around the holding company's lack of engagement with the area's original people, community opposition to the project, and the project's anticipated emissions, and the WSIB was urged to join in calling for GIP to cancel the Rio Grande LNG terminal projects.

Andrew Eckels addressed the Board regarding proxy voting and climate issues, urging the WSIB to use its shareholder power to put pressure on banks and other institutions to use their power to invest in renewals and stop investing in fossil fuels.

Barbara Carey addressed the Board regarding climate financial risk, noting that fiduciaries must treat climate risk like any other risk and asked the WSIB to develop a process for addressing the financial risk of fossil fuel investments in the WSIB portfolio and communicate why and how the risk is evaluated.

Donna Albert addressed the Board regarding concerns around LNG, climate change, and investment in fossil fuels and asked the WSIB to stop investing in fossil fuels and to align the portfolio and investment decisions with Paris goals and the climate goals of the state of Washington.

Chair Markley thanked those providing comments, noting that WSIB values the comments and referencing a proposed investment in a climate fund and an existing investment in a climate fund. The WSIB does see more opportunities to invest in climate solutions while maximizing return at a prudent level of risk. In addition, the WSIB has had multiple discussions with the general partner regarding the Rio Grande LNG project.

Allyson Tucker reported that in addition to the oral comments provided, the Board received 16 written public comment submissions, which were provided to the Board before today's meeting.

EDUCATION SESSION – CHALLENGING ASSUMPTIONS

Presenter: Louis-Vincent Gave, Gavekal

Allyson introduced Louis-Vincent Gave, noting that in the 2024 Strategic Plan, staff committed to providing the board with specific relevant education sessions and reviewing the education sessions provided to date.

Louis-Vincent Gave addressed the Board on a wide variety of geo-political issues and changes in the geopolitical and economic landscape that may require investors to challenge original assumptions, including climate change implications; proposed U.S. tariffs on China; consideration of China's clean energy innovation, use of industrial robots, and export of auto, earth-moving equipment, and high-speed trains to emerging markets; the Russia and Ukraine war; impacts of population growth in the 69 cities in the Valeriepieris circle; global GDP (gross domestic product) growth projections; and economic indicators that may impact the traditional 60/40 split in portfolio diversification. Also discussed were current momentum trade, attractive valuations, and anti-fragile assets, which do well in periods of crisis.

Discussion ensued regarding China investment risk and the substantial economic integration of the U.S., and the rest of the world, with China; investment implications of the overall high current geo-political environment and risk; U.S. reindustrialization scenarios of election outcomes; the comparative advantage of the western world in rule of law and property rights; inflation perspectives; tensions between the U.S. and China; and implications of China's innovative advancements.

EXECUTIVE SESSION – ADMINISTRATIVE COMMITTEE REPORT

Chair Markley announced that the Board would take a 10-minute recess and then reconvene in executive session to discuss 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 11:45 a.m., at which time the Board would reconvene in open session.

[The Board recessed at 11:03 a.m. and reconvened in executive session at 11:15 a.m.]

GLOBAL CUSTODIAN BANK AND SECURITIES LENDING MANAGER UPDATE AND RECOMMENDATION

Presenters: Kristina Taylor, Chief Financial Officer

Fred Gjerstad, Assistant Senior Investment Officer - RMAA

SENSITIVE MATERIALS HANDLING

Presenters: Greg Markley, Administrative Committee Chair

Allyson Tucker, Chief Executive Officer

[The executive session was extended to 12:15 p.m.; notice was provided to those waiting to rejoin the meeting.]

STAFF RECRUITMENT

Presenter: Allyson Tucker, Chief Executive Officer

CEO TERM EXPIRATION

Presenter: Greg Markley, Administrative Committee Chair

[The Board reconvened in open session at 12:25 p.m.]

GLOBAL CUSTODIAN BANK AND SECURITIES LENDING MANAGER RECOMMENDATION

Presenters: Chris Coleman, Brenda Dulgar-Sheikin, Gavin Joyce, and Sean Bailey, State Street

State Street staff presented the firm’s qualifications to continue as the WSIB’s custodian bank, highlighting asset owner solutions designed around the WSIB, the firm’s commitment to the WSIB, continued relationship growth, improvement in service to the WSIB, additional technical support, and the creation of better outcomes. The team focused on the firm’s technically proficient staff, robust platforms, and library of controls to ensure the best outcomes from investments, noting the firm’s multi-year investment in technology, allocation agnostic support model, and the knowledgeable local team experienced with the WSIB account.

Sean Bailey addressed State Street’s cybersecurity program and investment in training and awareness programs for employees and contractors with access to the State Street network. State Street staff highlighted the WSIB’s relationship team and roles, discussed details of the securities lending program, and thanked the WSIB for the 12-year relationship.

Discussion ensued regarding the potential volume and return of securities lending transactions.

Chair Markley shared that staff provided an update on the global custodian and securities lending manager at the Administrative Committee. Based on the results of the additional diligence conducted, staff recommends hiring State Street, and the Administrative Committee concurs with the recommendation.

Chair Markley moved that the Board appoint State Street Corporation as its global custodian and securities lending agent and manager for a term of 5 years with extensions up to 15 years, subject to continuing due diligence and final negotiation of terms and conditions, and further that the Board recommend the State Treasurer award the before-mentioned global custodial contract to State Street Corporation. Senator Mullet seconded, and the motion carried unanimously.

[Although the above motion references the appointment of State Street Corporation, the contract for services will be with State Street Bank and Trust Company, a subsidiary of State Street Corporation.]

[The Board recessed at 1:00 p.m. and reconvened in open session at 1:30 p.m.]

ADMINISTRATIVE COMMITTEE REPORT Continued

Presenter: Greg Markley, Administrative Committee Chair

Chair Markley reported that in the executive session, the Board discussed the handling and retention of Board materials. Staff will consider alternatives for the storage and handling of Board materials.

Discussion ensued regarding the potential to take action on a staff recommendation for an interim solution at the July Board meeting.

The Board received a recommendation from the Administrative Committee to move forward with a change to the basic organizational structure of the WSIB, which would add two positions to the executive management team.

On behalf of the Administrative Committee, I move that the Board approve the addition of two positions to the executive management team: a Government and Public Affairs Director and a Chief of Staff. Senator Mullet seconded the motion.

This was originally presented to the Board in executive session at the April Board meeting, and the Board was supportive. While the WSIB is a highly effective organization, it also needs to make additional investments in its leadership team and resources to keep up with ever-increasing demands. In the future, there are areas that would benefit from additional focus. The addition of these positions would serve to mitigate organizational risk, spur continuity and stability, enhance succession planning, and create capacity to help drive near-term strategic operational enhancements.

Treasurer Pellicciotti stated that he was not in support of the action due to concerns that it could lead to less accountability by the Legislature over the Board. He noted his appreciation for the Board's position and the thoughtful process that has gone into the recommendation.

The motion carried, with Treasurer Pellicciotti opposed.

It is anticipated that with the addition of the Chief of Staff position, it will be necessary to recruit a new Confidential Secretary. RCW 43.33A.100 provides that the compensation level for the confidential secretary be established by the Board. To effectively recruit the most qualified candidate, staff recommends that the Board approve a salary offering range, and the Administrative Committee concurs.

On behalf of the Administrative Committee, I move that the Board approve the salary offering range for the Confidential Secretary recruitment that was discussed in executive session. Sara Ketelsen seconded the motion.

This is not a salary range for the position, but rather a range of salary to offer to the incoming candidate. The range is based on an analysis of comparable executive assistant and confidential secretary positions within state government and higher education.

The motion passed unanimously.

Chair Markley discussed the reappointment process for the CEO, Allyson Tucker, whose appointment expires December 31, 2024. The reappointment would be for a term ending December 31, 2027.

On behalf of the Administrative Committee, I move that the Board reappoint Allyson Tucker as Executive Director/Chief Executive Officer of the Washington State Investment Board for an additional term of 3 years beginning January 1, 2025, and ending on December 31, 2027. Yona Makowski seconded the motion.

Clarification was made that the Board is responsible for the appointment of the Executive Director/CEO, and the State Finance Committee is responsible for the confirmation of the appointment.

Joel Sacks commented that in reflecting on the decision the Board made 3 years ago to appoint Allyson Tucker as CEO and what she has achieved, she has exceeded the Board's expectations.

Representative Gregerson expressed her appreciation for Allyson and the team and looks forward to taking this vote.

Treasurer Pellicciotti stated that he would abstain for reasons discussed with the Attorney General's Office and that the Chair has already mentioned.

The motion passed unanimously, with Treasurer Pellicciotti abstaining.

The Administrative Committee also received a budget update for Fiscal Year 2024. Staff reported that the appropriated budget has a projected balance of approximately \$3.99 million, or a 10.4 percent savings, and the non-appropriated budget has a projected balance of approximately \$27.9 million, or a 3.8 percent savings.

In addition, the Committee received the appropriated and non-appropriated budget recommendations. The funding source for both the appropriated and non-appropriated budgets comes from the earnings of the WSIB's assets under management. The appropriated funds cover the operating activities and are subject to Legislative approval. The non-appropriated funds pay for costs that are directly tied to investments and are not subject to Legislative approval.

On behalf of the Administrative Committee, I move that the Board approve the 2025-2027 Biennial Appropriated Budget and Fiscal Year 2025 Non-Appropriated Budget as proposed. Yona Makowski seconded the motion.

The proposed 2025-2027 biennial appropriated budget request is \$88.9 million, or 4 basis points total (2 basis points per year) of the total assets under management as of March 31, 2024. The proposed appropriated budget request includes two requests for increases. The first request is a \$2.2 million request for investment officer compensation to support the implementation of the new salary ranges and to bring compensation to the 2023 peer average. The second request is a \$2 million and four new FTE request designed to strengthen WSIB's controls and organizational capacity by providing additional resources in key strategic areas. There is also a technical adjustment of 0.8 FTE with no increase in dollars to adjust the FTE level by fiscal year.

The proposed Fiscal Year 2025 non-appropriated budget request is \$801.5 million, or 39.5 basis points of the total assets under management as of March 31, 2024. The total increase is approximately \$61.2 million, attributable to portfolio growth and new commitments in the private equity and tangible assets portfolios.

The motion carried unanimously.

CEO REPORT TO THE BOARD – MAY/JUNE 2024

Presenter: Allyson Tucker, Chief Executive Officer

Allyson Tucker thanked the Board for the reappointment vote and presented the CEO Report to the Board, highlighting the upcoming July Board meeting; a recent event honoring former WSIB CIO Gary Bruebaker; attendance at the Scottsdale Action Forum; and the most recent staff Learning Labs.

AUDIT COMMITTEE REPORT

Presenter: Sara Ketelsen, Audit Committee Chair

The Audit Committee met on June 4 with a full agenda, including two action items for the Board's consideration. The first item for the Board's consideration was the 2024 External Quality Assessment Report.

On behalf of the Audit Committee, Sara Ketelsen moved that the Board approve the 2024 External Quality Assessment Report on the WSIB's internal audit function. Yona Makowski seconded the motion.

The WSIB's internal audit function is required to conduct an external quality assessment every 5 years to assess conformance with professional standards and adherence to the "code of ethics," evaluate that internal audit is meeting the expectations of management, and identify opportunities for improvement. The Board hired IIA Quality Services to perform the assessment, and the Audit Committee was presented with the report and results. The WSIB's internal audit function received a rating of "generally conforms" for all standards and sub-standards, which is the highest possible rating available.

The motion carried unanimously.

The second item for the Board’s consideration is the Fiscal Year 2025 Audit Plan.

On behalf of the Audit Committee, Sara Ketelsen moved that the Board approve the Fiscal Year 2025 Audit Plan. Tracy Guerin seconded the motion.

The Audit Plan was developed using a risk assessment framework and designed to utilize internal audit and agency resources in an efficient and effective manner. The proposed audit areas are Daily Valued Funds – Pricing, Net Asset Value, and Unitization; Public Markets Trade Processing and Settlement; Real Estate – Commingled Trust Fund Portfolio; Payroll; Proxy Voting; Compliance Monitoring – Public Market Investments; Inventoriable Assets; Computer Assisted Auditing (Expenditures, Payroll, System Access); as well as two contingency audits, Cash Overlay – External Manager Monitoring and Securities Lending.

The motion carried unanimously.

The Committee received the results of the Budget Development and Management internal audit engagement. Staff concluded that overall, processes and controls are in place related to the budget development, approval, and submission processes, as well as budget monitoring, quarterly reporting, and operational continuity. There was one audit recommendation that would help support succession planning and operational continuity.

The Committee also received the results of the Assurance Mapping project. Internal audit and investment compliance staff analyzed the coverage areas within each their respective units as well as covered areas from the annual financial statement audit, State Auditor’s Office engagements, and third-party System and Organization Controls Reports. The results highlighted the audit areas that may be overdue or have a gap in coverage, areas with limited coverage or sufficient coverage, and areas not applicable for either internal audit or investment compliance. The Audit Committee will further discuss the risk assessment categories, audit universe, and how to reduce gaps in coverage at upcoming meetings. The Committee reviewed the financial statement audit planning letters and received an update on the status of prior audit recommendations, the final quarterly report from the Fiscal Year 2024 audit plan, and the quarterly investment referral report. In addition, the Committee reviewed and adjusted the Audit Director’s compensation.

PUBLIC MARKETS COMMITTEE REPORT

Presenter: Sara Ketelsen, Public Markets Committee Member

The Public Markets Committee met on June 4, 2024, to receive an educational presentation from Public Equity on managing cashflows in the Commingled Trust Fund (CTF) public equity portfolio.

Staff presented on how the Public Equity team manages cash flows in and out of the public equity portfolio in the CTF. A recent example of a routine cash raise illustrated the team’s process and considerations when rebalancing the portfolio. The discussion focused on portfolio construction and risk management, and staff shared techniques and tools used to adjust strategy allocations to improve potential risk-adjusted returns.

PRIVATE MARKETS COMMITTEE REPORT

Presenter: Yona Makowski, Vice Chair and Private Markets Committee Member

The Private Markets Committee met on June 6, 2024, to consider technical policy revisions and a Private Equity investment recommendation.

The investment recommendation for the Board's consideration was TPG Climate Rise II, L.P.

On behalf of the Private Markets Committee, Yona Makowski moved that the Board invest up to \$400 million, plus fees and expenses, in TPG Rise Climate II, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Joel Sacks seconded the motion.

TPG Rise Climate II is a climate-focused impact fund with a target size of \$10 billion that is being raised by TPG Inc. It is expected to pursue buyout, growth equity, and late-stage venture investments with a focus on climate solutions and carbon reduction. The fund is expected to deploy approximately 50 percent of its capital in North America, primarily in the U.S., 40 percent in Europe and other Organisation for Economic Co-operation and Development (OECD) countries, and 10 percent in the Global South, which is defined to comprise countries that are not members of the OECD. The fund is expected to make approximately 20 to 25 equity investments across TPG Rise Climate's three core sectors: clean electrons, clean materials and molecules, and negative emissions. The WSIB has had a 24-year partnership with TPG, having invested in 7 of TPG's flagship funds, in addition to 12 other TPG funds pursuing various strategies.

The recommendation is based in part on TPG's strong early performance, differentiated strategy, global platform with strong brand name, low loss ratios, robust impact underwriting, strong value creation resources, and other factors relevant to the recommendation.

The motion carried unanimously.

In addition to the investment recommendation, the Committee considered proposed technical revisions to the Advisory Boards Policy, the CTF Real Estate Investment Program Policy, and the Tangible Assets Investment Policy.

On behalf of the Private Markets Committee, Yona Makowski moved that the Board approve the proposed revisions to the Advisory Boards Policy 2.00.900, CTF Real Estate Investment Program Policy 2.10.600, and Tangible Assets Investment Policy 2.10.900 as presented. Joel Sacks seconded the motion.

There was a good amount of discussion related to one of the staff-recommended revisions to the Advisory Board policy, with the Committee ultimately voting to recommend the revisions brought before the Board today.

The motion carried unanimously.

QUARTERLY PERFORMANCE REPORT

Presenter: Christopher Hanak, Chief Investment Officer

Christopher Hanak presented the Quarterly Performance Update for the quarter ending March 31, 2024, including asset class performance and the impact on performance of the allocations to public and private markets; current economic conditions and Federal Open Market Committee activity; and Labor and Industries fund performance.

EDUCATION SESSION – CURRENCY HEDGING

Presenter: Fred Gjerstad, Assistant Senior Investment Officer – RMAA

Fred Gjerstad presented an education session on currency hedging, noting that the session was scheduled in response to a Board member’s request to better understand the WSIB’s approach in this area. The presentation covered currency risk characteristics, the basics of hedging, forward rates and the concept of interest rate parity; the impact of hedging on investment returns; examples of a perfect hedge and partial hedge; currency risk in the CTF; non-USD private asset cash flows into the CTF and challenges in hedging due to the unknown amount and timing of capital calls and distributions; operational complexity of hedging, key operational considerations; and observations made from discussion with managers.

Discussion ensued regarding WSIB investment partner response to foreign exchange risk, the WSIB’s currency position exposure, decision-making around hedging and inability to time the market, consideration of hedging as a core risk/return decision, the cost and complexity that hedging may bring to the WSIB’s investment program, continued awareness of currency risk, and challenges to forecasting due to the significant exposure to private markets.

Senator Mullet expressed his desire that the Board be fully aware of the impact of foreign exchange and make a conscious decision about a hedging program.

Additional discussion ensued regarding hedging activities of the Real Estate Operating Companies in the real estate portfolio, the potential for the WSIB to consider development of a hedging strategy, the historical oversight level of risk by the Board in broad categories, staff’s continued research and education should the Board choose to pursue the option, asset classes that could benefit from a hedging program; the potential for the Board to benefit from hedging; the need to simplify a very complicated subject; and consideration of time and expenses associated with the International Swap Dealer Agreements for counterparty default.

EDUCATION SESSION – PUBLIC MARKET EQUIVALENT

Presenter: Julia Ferreira, Assistant Senior Investment Officer – RMAA

Julia Ferreira led an education session on the difference between public and private assets’ performance metrics and how to use public market equivalent (PME) to bridge the differences into a direct comparison. The presentation included a description of the methodologies used to measure the performance of private assets, including a detailed explanation of time-weighted return and money-weighted return based on internal rate of return and total value to paid-in capital.

APPROVED

Discussion ensued regarding the timing of investment considered in the example presented.

The purpose of a PME analysis was described, with an example shared utilizing PERACS Alpha – PME rate of excess return to determine what the return on a private asset would have been if the same cash flows were invested in the relevant public market index. Applying the methodology to the WSIB’s private equity 20-year time-weighted return performance as of December 31, 2023, indicates PME excess return of 6.1 percent, outperformance if the private asset cash flows were invested in the public markets, and confirms the strong outperformance observed in the time-weighted return analysis.

Discussion ensued regarding the mathematical calculation of the impact of the 6.1 percent annual excess return; clarification that a positive PME excess rate of return is an indicator that investment in private markets returned higher than investment in public markets; and mathematical calculations of time-weighted return, investment rate of return, and money-weighted return.

ADJOURNMENT

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