

# Washington State Investment Board Economically Targeted Investments Policy



**2021 Annual Report  
April 21, 2022**

## INTRODUCTION AND SUMMARY

This is the nineteenth annual report on the Washington State Investment Board (WSIB or the Board) Economically Targeted Investments (ETI) policy. This report provides a summary of the Board's activities regarding the ETI policy and the Washington-based investment activity over the past year.

The WSIB conducts its investment activities in accordance with investment policies and procedures designed to maximize returns at a prudent level of risk. At the core of the WSIB's risk management program is the requirement that investment portfolios are globally diversified. Accordingly, the WSIB invests in global asset classes including public equity, fixed income, real estate, tangible assets, and private equity to help control risk and ensure stronger overall performance. As of September 30, 2021, the Board managed \$186.3 billion in 38 funds investing on 6 continents, in 90 countries, within 51 currencies, and over 17,554 investment holdings.

Per the ETI policy, WSIB staff conducted the annual survey of the WSIB's private equity general partners (GPs) for the twelve months ending September 30, 2021. Key findings were as follows:

- 26 GPs looked at 340 Washington-based investment opportunities.
- 109 investment opportunities were still under consideration as of September 30, 2021.
- 32 investments were completed.
- The WSIB's private equity GPs continue to seek quality investment opportunities in Washington state.

The WSIB believes the state of Washington is an excellent place in which to invest a portion of the pension trust funds under its management. As of June 30, 2021, \$5.6 billion in value was held in the WSIB investment portfolio in Washington-based investments through its public equity, fixed income, real estate, tangible assets, innovation portfolio, and private equity investment programs. Every investment was made in accordance with the WSIB's statutory mandate. The \$5.6 billion in Washington-based investments represents approximately 4.0 percent of the state's Commingled Trust Fund (CTF). To provide additional context, in 2020, the state's gross domestic product (GDP) was reported by the U.S. Bureau of Economic Analysis as \$620.1 billion or 0.7 percent of the World's GDP.

## OVERVIEW OF THE ETI POLICY

In March 2003, the Board adopted the ETI policy. The policy defines ETI as investments having the primary objective of investment return to pension trust fund assets and the possible collateral objective of assisting the regional economy and the economic well-being of Washington, its localities, and its residents. The policy is designed to communicate the role and responsibilities of the Board relative to such initiatives.

As stated in the policy, the Board believes Washington is an excellent place in which to invest a portion of the trust funds it manages. The Board has a fiduciary duty to invest and manage the trust funds in a manner consistent with statutes, regulations, Board policies, and the highest standard of professional conduct for the exclusive benefit of fund beneficiaries. Investments are made taking into consideration the established policies and procedures designed to exclusively maximize return at a prudent level of risk. Exposure to the Washington economy is considered in a manner that is consistent with the Board's fiduciary obligations and its independent exercise of discretion. As a result, the Board will only consider for investment those ETIs that are commensurate on a risk-adjusted financial basis to alternatively available investments.

Subject to staffing capacity, the Board established a role for WSIB staff to facilitate the exchange of information between its private equity GPs and appropriate parties with knowledge of quality, in-state investment opportunities. Through the policy, the Board delegated authority to WSIB staff to ask its private equity GPs to report annually on Washington-based investments evaluated during the prior year. Additionally, the policy directs WSIB staff to annually provide a summary of the Board's activities regarding the ETI policy and Washington-based investment activity, including Washington-based opportunities selected for investment to the Board, beneficiaries, Legislature, and Governor.

## OVERVIEW OF PRIVATE EQUITY

Private equity investments include securities that are generally not listed on a public exchange and are not easily accessible to most individuals. These investments range from initial capital in start-up enterprises, known as venture capital, to leveraged buyouts of mature corporations, referred to as corporate finance. Private equity investments are typically long-term commitments that last 12 years or more. Although less liquid, and perhaps riskier than publicly traded investments, private equity investments can offer higher returns than traditional public equity and are an attractive asset when employed as part of a larger, balanced portfolio.

The WSIB's private equity portfolio originated in 1981. Private equity investments are made through limited partnerships formed and managed by a GP. A GP acquires or creates ongoing businesses or operating companies which are placed into the limited partnerships and managed to produce an investment return. When the companies are sold in the public market or to strategic or financial buyers, the true return on investment is measured. To meet investment return and investment plan objectives, the WSIB's private equity portfolio has diversified investments in a broad cross section of sub-sectors, industries, and geographic regions, including Washington.

## WASHINGTON-BASED INVESTMENT ACTIVITY<sup>1</sup>

This section provides a summary of Washington-based investment activity between October 1, 2020 and September 30, 2021.

The table below provides a breakdown of venture capital deals completed in Washington, the northwest region, defined as Washington, Oregon, Idaho, Montana, and Wyoming, and the U.S.

### VENTURE CAPITAL ACTIVITY

	Deals Completed	Capital Invested (\$ Billions)
WA	463	\$7.0
NW	677	\$8.4
US	15,152	\$278.2

Washington represented 68 percent of venture capital deals completed in the northwest region and accounted for 83 percent of the capital invested. By industry sector, information technology businesses received the largest capital investment in Washington at 49 percent or \$3.4 billion. The healthcare sector was second, capturing 24 percent of the capital invested or \$1.7 billion. More than 75 percent of the deals completed in Washington were \$25 million or larger in size, while 13 percent of the deals were between \$10 million and \$24.9 million in size. In terms of venture capital funding stages, late-stage venture captured 55 percent of the invested capital, or \$3.9 billion. At the other end of the spectrum, early-stage venture represented 35 percent of the capital invested at \$2.4 billion. By comparison, California was the state with the most venture capital activity in the U.S. Venture capitalists invested \$193.8 billion in 7,197 deals during this timeframe.

The table below provides a breakdown of corporate finance deals completed in Washington, the northwest region, and the U.S.

### CORPORATE FINANCE ACTIVITY

	Deals Completed	Capital Invested (\$ Billions)
WA	140	\$1.7
NW	267	\$9.7
US	6,483	\$443.2

<sup>1</sup> Source: PitchBook Data, Inc.

Washington represented 52 percent of the corporate finance deals completed in the northwest and 17 percent of the capital invested. By industry sector, information technology businesses received 72 percent or \$1.2 billion of the capital invested in Washington. The business services sector was second in dollars invested, receiving 13 percent or \$211 million of the capital invested into the state. The business-to-consumer sector was third in dollars invested at 9 percent or \$156 million.

More than 54 percent of the deals were between \$500 million and \$999 million in size, while 34 percent of the deals were between \$100 million and \$499 million in size. Leveraged buyout transactions represented 65 percent of the total capital invested at \$1.7 billion, while add-on transactions represented 18 percent of the capital invested, or \$450.5 million. Corporate divestitures (full or partial disposition of a business) represented 17 percent of the capital invested at \$443 million. In comparison, California was the state with the most corporate finance activity in the U.S with \$149.4 billion invested in 995 deals during this timeframe.

### INITIAL PUBLIC OFFERING ACTIVITY

Other investment activity by Washington-based companies included initial public offerings (IPOs) and special purpose acquisition company (SPAC) transactions. In 2021, 13 IPOs were completed raising \$2.8 billion. This was a 63 percent increase in the number of IPOs and a 103 percent increase in the amount of capital raised compared to 2020. (In 2020, eight IPOs raised \$1.4 million.) There were three SPAC transactions completed in 2021: BlackSky (real-time geospatial intelligence company), Rover (online marketplace for pet care), and Nautilus Biotechnology Inc (development stage life sciences company), compared to one company in 2020. This section shows that capital continues to be actively invested into Washington-based companies through a multitude of asset classes and investment categories.

### WASHINGTON-BASED INVESTMENTS IN THE CTF PORTFOLIO

The WSIB seeks the best investment opportunities no matter where they might be headquartered. The state of Washington is home to many successful companies, and Washington-based investments can be found in many WSIB investment portfolios. The following table reflects a summary of Washington-based investments in the WSIB CTF portfolio at each fiscal year ended June 30 for the years 2016 through 2021.

#### FAIR MARKET VALUE AS OF FISCAL YEARS ENDED JUNE 30 (\$ MILLIONS)

Investment Class					
	2017	2018	2019	2020	2021
Public Equity	\$1,027.5	\$1,169.3	\$1,497.2	\$2,095.2	\$2,944.6
Fixed Income	104.9	100.6	103.3	197.7	278.5
Real Estate	1,043.1	985.9	1,132.5	1,057.6	1,193.8
Tangible Assets	80.8	112.0	254.7	402.8	469.9
Innovation Portfolio	0.0	0.0	12.6	13.8	34.1
Private Equity	190.8	290.8	206.5	429.6	729.0
<b>Total</b>	<b>\$2,447.1</b>	<b>\$2,658.6</b>	<b>\$3,206.8</b>	<b>\$4,196.7</b>	<b>\$5,649.9</b>
<b>Washington Investments as a Percentage of Comingled Trust Fund</b>					<b>4.0%</b>
<b>State of Washington Gross Domestic Product (GDP) as a Percentage of the Investable Universe GDP</b>					<b>0.72%</b>

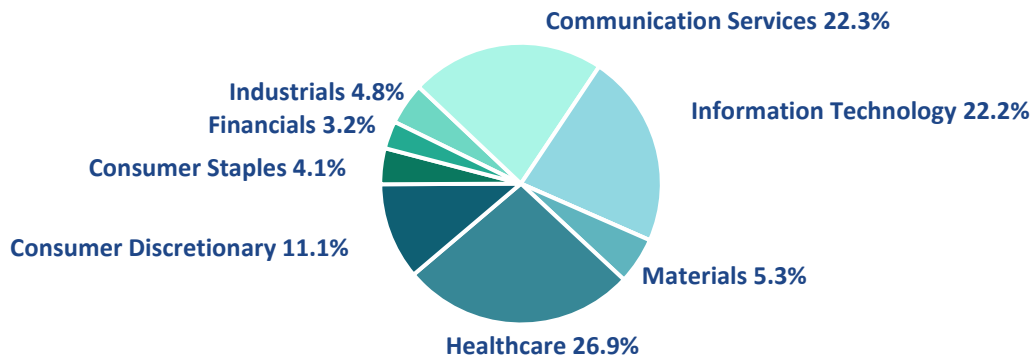
Note: Values include Boeing

The WSIB CTF portfolio contains numerous public equity and fixed income investments in Washington-based companies. In the year-over-year comparison, the June 30, 2021, total value was up \$1,453.2 million or 34.6 percent. The value of

public equities increased 40.5 percent; this was due to the strong stock price performance of many large Washington-based companies that are heavily represented in the passive indices. The value for fixed income increased \$80.8 million, or 40.9 percent, due primarily to aerospace industry investments during this period. The 12.9 percent increase in investment value for real estate reflects a combination of acquisitions and dispositions, as well as increased values at the property level. The tangible assets investment value increased \$67.1 million, or 16.7 percent, due primarily to recent transportation infrastructure investments in Washington state. The Innovation Portfolio value increased \$20.3 million, or 147.1 percent primarily due to an increase in the value of one portfolio company, Dreambox Learning Holding, LLC. The 70 percent increase in value year-over-year for private equity was due to \$36.3 million of new in-state investments combined with substantial appreciation in the fair market value for various companies in the past fiscal year, offset by \$128.5 million of proceeds from realizations. As of June 30, 2021, the WSIB had \$729.0 million of invested value in Washington-based companies in its private equity portfolio, representing approximately 2.8 percent of the total domestic private equity portfolio value. The fair market value is the value remaining of more than \$716.8 million invested by the WSIB since 1992 through its GPs. The current Washington-based investments have been made by 38 different funds managed by 23 individual GPs, two of which are regionally based.

The following chart shows the breakout of Washington-based investments in the private equity portfolio by sector. The largest concentration is in the Healthcare sector at 26.9 percent, followed by the Communications Services and Information Technology sectors which are at 22.3 percent and 22.2 percent, respectively.

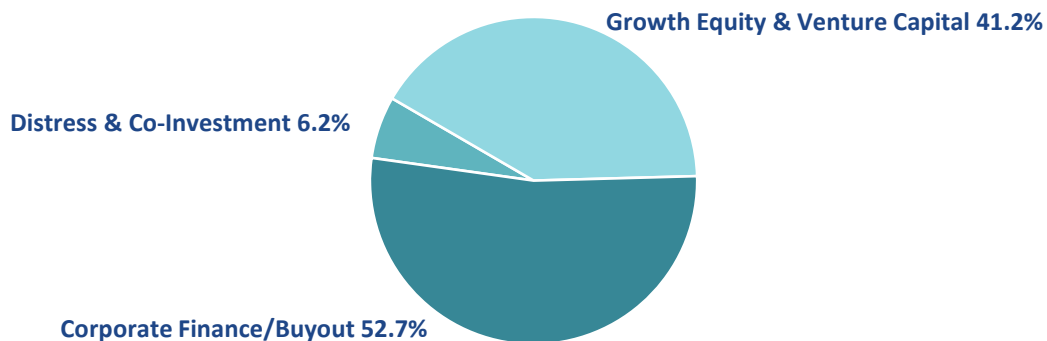
**PRIVATE EQUITY HOLDINGS IN WASHINGTON-BASED COMPANIES BY SECTOR AT JUNE 30, 2021 (\$ MILLIONS)**



Note: totals may not add up due to rounding

The chart below shows the breakout of Washington-based investments in the private equity portfolio by investment strategy. The largest concentration is in the Corporate Finance/Buyout at 52.7 percent followed by the Growth Equity and Venture Capital strategies strategy at 41.2 percent.

**PRIVATE EQUITY HOLDINGS IN WASHINGTON-BASED COMPANIES BY STRATEGY AT JUNE 30, 2021 (\$ MILLIONS)**



Note: totals may not add up due to rounding

As of June 30, 2021, the WSIB’s private equity portfolio, invested with 89 GPs in 275 partnership funds, was valued at \$40.8 billion. An additional \$19.8 billion had yet to be called by the GPs. The unfunded commitment represents a significant amount of capital to be invested in the future by current WSIB GPs, many of whom actively review and evaluate investments in Washington State. As of June 30, 2021, the WSIB had invested approximately \$716.8 million as a limited partner through the private equity program in Washington-based transactions. The total amount invested by WSIB GPs in Washington-based transactions was \$11.9 billion.

## HIGHLIGHTS OF 2021 ETI ACTIVITY

### ANNUAL SURVEY OF WASHINGTON-BASED GPS

The WSIB conducted its annual survey of its private equity GPs by requesting information about their investment activity in Washington state for the twelve months ending September 30, 2021. The survey was sent to GPs that invest in the U.S. with current active investment periods. This survey asked GPs to provide the number of deals completed, the number passed or not pursued, and the number still being evaluated at the time of their response. The table below continues to show that WSIB private equity GPs are actively reviewing and investing in Washington-based companies. The data shows that Washington is rich with investment opportunity and does not appear to have a problem attracting private equity firms to source and ultimately execute deals. The data is also an important reminder that while a larger number of deals are reviewed, only a small number make it to the finish line. Staff’s continued interaction with GPs encourages interest in Washington state investment opportunities and helps to facilitate investment activity.

	2017	2018	2019	2020	2021
<b>Number of GPs involved</b>	<b>25 of 35</b>	<b>26 of 39</b>	<b>24 of 39</b>	<b>25 of 39</b>	<b>26 of 46</b>
<b>Total deals reviewed</b>	<b>413</b>	<b>346</b>	<b>325</b>	<b>316</b>	<b>340</b>
<b>Deals not pursued</b>	<b>213</b>	<b>229</b>	<b>213</b>	<b>196</b>	<b>197</b>
<b>Number of GPs involved</b>	<b>11</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>12</b>
<b>Deals in pipeline</b>	<b>187</b>	<b>98</b>	<b>91</b>	<b>101</b>	<b>109</b>
<b>Number of GPs involved</b>	<b>4</b>	<b>9</b>	<b>11</b>	<b>11</b>	<b>11</b>
<b>Deals done</b>	<b>13</b>	<b>19</b>	<b>21</b>	<b>19</b>	<b>32</b>

Note: Includes partners that invest in the U.S. and are in an active investment period

### REGIONAL FUNDS AND NETWORKS

Over the years, WSIB staff has met with over 100 regional firms and interested parties and has invested in funds managed by six regional firms: Endeavour Capital, Endeavour SEAM, Evergreen Pacific Partners, Polaris Venture Partners, Frazier Healthcare Ventures, and OVP Venture Partners. The WSIB continues to actively invest with Endeavour Capital, a firm with regional offices in Seattle and Portland, Oregon. WSIB staff regularly participates in regional meetings and events to remain relevant, understand the investment environment, broaden the WSIB regional contact base, and enhance the WSIB image. WSIB staff will continue to build and strengthen these relationships over the long term to the benefit of all parties.

## ENGAGEMENT WITH PUBLICLY LISTED WASHINGTON-BASED COMPANIES

The WSIB has been increasing its engagement with a select number of publicly listed companies based in the state of Washington during recent years. These engagements have focused on the WSIB's asset stewardship priorities of board diversity and climate-related risks. Further, to have optimal impact, the WSIB has worked on these priority issues with investor coalitions including the Thirty Percent Coalition, The CDP (formerly the Carbon Disclosure Project) and the Climate Action 100+. As the public company engagement program continues, the WSIB plans to responsibly increase the number of strategic engagements with large publicly listed companies in our state, with a specific focus on environmental, social, and governance (ESG) issues that are significantly material to long-term investment outcomes. Highlights from 2021 from each of these campaigns include:

- Thirty Percent Coalition
  - Advocated for diversity by participating again in company outreach via the Thirty Percent Coalition's "Adopt a Company Campaign."
    - Sent letters to 282 companies in the Russell 3000 with either one or zero women on the board (depending on size), including two companies based in Washington state.
  - Over 500 women have been added as first-time additions to corporate boards, following collective engagement since inception (2012).
- The Climate Action 100+
  - The WSIB co-leads two campaigns within the Climate Action 100+, both of which involve working closely with large Washington-based companies that are structurally significant to global climate risks and solutions
  - The WSIB has met with each of these companies several times since the campaign was launched in 2017, and once with one of them and twice with the other in 2021.
  - Engagement topics include governance of climate-related issues, setting and disclosing emissions and net zero targets, disclosure around climate lobbying and spending, and Task Force on Climate Change Related (TCFD) mapping.
- The CDP (formerly the Carbon Disclosure Project)
  - Participated again in the "CDP Non-Disclosure Campaign."
  - In 2021, this encompassed 168 investors with US\$17 trillion in assets requesting information on climate change, water and/or forests from 1,317 distinct companies (~25% responded).
    - The WSIB was the lead outreach participant for seven Washington-based companies.
    - The campaign yielded a 33 percent increase in company responses relative to prior year
  - Questionnaires contain metrics aligned with the TCFD.

## LOOKING FORWARD

The WSIB will continue to be a point of contact and source of assistance for investment activity in Washington. The WSIB will continue to:

- Assist Washington-based companies in finding potential sources of appropriate capital through relationships with regional and national GPs as well as other funding sources.
- Enhance relationship building with regional GPs and other investment organizations.
- Continue to promote awareness and provide accessibility to potential Washington-based opportunities.

WSIB staff will also continue build on the policy implementation efforts made to date to generate long-term results, so that the WSIB continues to be an interested ally and resource which helps the investments environment in Washington thrive.

## APPENDIX

### DOLLARS INVESTED AND NUMBER OF VENTURE CAPITAL AND CORPORATE FINANCE DEALS OCTOBER 1, 2020 THROUGH SEPTEMBER 30, 2021 (\$ BILLIONS)

#### WASHINGTON

##### VENTURE CAPITAL

Number of Deals: 463  
Amount: \$7.0

##### CORPORATE FINANCE

Number of Deals: 140  
Amount: \$1.7

#### NORTHWEST

##### VENTURE CAPITAL

Number of Deals: 677  
Amount: \$8.4

##### CORPORATE FINANCE

Number of Deals: 267  
Amount: \$9.7

#### U.S.

##### VENTURE CAPITAL

Number of Deals: 15,152  
Amount: \$278.2

##### CORPORATE FINANCE

Number of Deals: 6,483  
Amount: \$443.2

