



**Tuesday, March 1, 2022
Audit Committee Meeting**

**Webex
9:00 A.M.
Dial-in information provided upon request.**

1. Call to Order/Roll Call (9:00a)

2. Adoption of Minutes (9:00-9:05)

A. Adoption of the December 7, 2021, Minutes

3. External Audit (9:05-9:25)

A. Financial Statement Auditor Independence Review

B. State Auditor's Office – Fiscal Years 2020 & 2021 Accountability Audit – Exit Conference

4. Internal Audit (9:25-9:50)

A. Audit Recommendation Status Report

B. Internal Audit Report – Non-Appropriated Disbursements

C. Audit Plan Quarterly Status Report - Fiscal Year 2022

5. Management (9:50-10:10)

A. Annual Investment Compliance Report

B. Investment Referral Quarterly Report

6. Break (10:10-10:20)

7. Management cont. (10:20-11:35)

A. 2021 Year-End Proxy Voting Reports, and 2022 Proxy Season Preview

8. Executive Session (11:35-11:55)

A. Audit Director Performance Evaluation

9. Other Items (11:55-12:00)

10. Adjourn (12:00p)

**WASHINGTON STATE INVESTMENT BOARD
Audit Committee Meeting Minutes
March 1, 2022**

The Audit Committee met in open public session via Webex video conferencing, with dial-in access available to the public.

Committee Members Present: Treasurer Mike Pellicciotti, Chair
Tracy Guerin
Sara Ketelsen
Joel Sacks
Liz Lewis
Bill Longbrake
David Nierenberg
George Zinn

Committee Members Absent:

Also Present: Allyson Tucker, Chief Executive Officer (CEO)
Chris Hanak, Chief Investment Officer (CIO)
Marie Steffen, Audit Director
Loni Dean, Internal Auditor
Liz Smith, Investment Compliance Manager
Shawna Killman, Investment Operational Due Diligence
Officer
Greg Henderson, Investment Compliance Officer
Bridget Murphy, Corporate Governance Officer
Rhonda McNavish, Assistant Senior Investment Officer –
Public Equity
Stacy Conway, Executive Assistant
Lisa Devlin, Administrative Assistant

Brad Berls, Eide Bailly LLP
Carol Gross, State Auditor's Office
Raj Maynock, State Auditor's Office
Eric Shostal, Glass Lewis
Brianna Castro, Glass Lewis
Fassil Michael, Institutional Shareholder Services
Tor Jernudd, Attorney General's Office

CALL TO ORDER

Chair Pellicciotti called the meeting to order at 9:02 a.m. and took roll call. All Committee members listed as present were able to fully participate in the meeting.

ADOPTION OF THE DECEMBER 7, 2021, MINUTES

Chair Pellicciotti moved to adopt the December 7, 2021, meeting minutes. Mr. Sacks seconded, and the motion carried unanimously.

Chair Pellicciotti acknowledged global events in Russia and Ukraine and asked Ms. Tucker to remark on the impacts and potential risks to the WSIB. She explained that the WSIB has minimal exposure in Russia, and the WSIB has had a long-standing position of skepticism as it relates to investing in the region. Discussion ensued regarding the impacts of global markets halting the trade of Russian securities, the WSIB's investments in Russia and Ukraine, and further Board education related to investment risks in other volatile geopolitical regions and emerging markets.

EXTERNAL AUDIT

Financial Statement Auditor Independence Review

Ms. Steffen and Mr. Berls met with the Committee to review the independence of the Board's annual external financial statement audit firm, Eide Bailly. Eide Bailly provided a statement of independence to confirm their independence from the WSIB and staff provided a list of payments that were made to the firm between February 1, 2021 and February 1, 2022.

When asked about the WSIB's processes and controls, Mr. Berls stated that the WSIB has ample controls, and WSIB staff is responsive and proactive. Discussion ensued regarding performing audits in a virtual environment and cybersecurity audit areas.

State Auditor's Office – Fiscal Year (FY) 2020 & 2021 Accountability Audit – Exit Conference

Ms. Steffen introduced Ms. Maynock to discuss the results of the FY 2020 and 2021 accountability audit of the WSIB. Ms. Maynock reported that the WSIB complied with applicable state laws, regulations, and internal policies, and provided adequate controls over the safeguarding of public resources as it related to the selected audit areas. The audit areas examined were payroll, procurement of professional services, Private Equity external manager due diligence and monitoring, tracking and monitoring of sensitive assets, and a review of open public meeting documentation. Ms. Maynock stated that the audit costs were in alignment with the original estimate and the next accountability audit would be in 2024.

Discussion ensued regarding the ability to perform quality audits in a virtual environment and the documentation that was reviewed as part of the open meetings act audit area. Ms. Gross noted that the most common area of risk their office sees related to the open meetings act is the meeting body going into executive session for unallowable reasons.

Chair Pellicciotti moved that the Audit Committee recommend the Board accept the State Auditor's Office Accountability Audit Report of the

Washington State Investment Board for Fiscal Years 2020 and 2021.

Ms. Guerin seconded, and the motion carried unanimously.

INTERNAL AUDIT

Audit Recommendation Status Report

Ms. Steffen reported on seven open audit recommendations and noted that five were completed over the quarter. The timeline for the completion of the Investment Performance Reporting audit remains March 31, 2022, and the completion of the cash receipting recommendation remains on hold pending staff's full return to the office. When asked about the level of risk associated with the cash receipting recommendation, Ms. Steffen explained that at this time the opening of the mail is assigned to one person which assists in mitigating the risk of fraud or misappropriation.

Internal Audit Report – Non-Appropriated Disbursements

Ms. Dean presented the results of the Non-Appropriated Disbursements audit engagement. The audit focused on investment-driven payments made by the WSIB, such as payments to money managers, the custodian bank, legal firms, and investment consultants. The audit concluded that expenditures were valid, properly supported, appropriate, in compliance with applicable vendor payment policies, and there are processes and controls in place to assist with ensuring compliance and safeguarding assets. There were no reportable audit recommendations.

Audit Plan Quarterly Status Report - Fiscal Year 2022

Ms. Steffen reported on the status of the FY2022 Audit Plan, noting the changes to the Audit Plan that were made over the quarter. She provided context for the changes and discussed considerations that were made including the impacted unit's workload while an audit is occurring, staff transitions, feasibility of adding an additional audit, and Internal Audit's focus for the remainder of the FY2022 plan. In addition, Ms. Steffen reviewed the audit coverage area for each audit being postponed and reviewed additional external audits occurring at the WSIB.

MANAGEMENT

Annual Investment Compliance Report

Ms. Smith introduced the investment compliance team and explained that Board policy requires annual reporting to the Audit Committee on investment compliance activities, gifts, and personal investments. She presented an overview of the investment compliance unit, the WSIB's required regulatory reporting, and market documentation related to tax compliance

and tax reclaims. The WSIB works diligently to maintain a strong compliance culture and works regularly with staff and Board members to ensure accuracy and consistency.

Ms. Killman presented an overview of the WSIB's operational due diligence (ODD) activities. Real Estate intermediaries are reviewed by staff on a 2-year rotation, and a framework for the intermediaries to self-assess controls has been established. The recommended intermediary control guidelines are reviewed periodically and were updated in 2021. In addition, Ms. Killman highlighted other ODD activities related to public market manager searches and system and organization control report reviews of the Board's key service providers. Ms. Killman reviewed Private Markets compliance testing and noted there were positive test results in 2021.

Mr. Henderson reviewed the daily compliance program, gift reporting, and personal trading. He noted that there were a limited number of daily compliance breaches that required follow-up, all gifts were reported timely and in accordance with policy, and there was 100 percent compliance in staff and Board member annual personal trading attestations.

Discussion ensued regarding the WSIB's restricted list, including trading related to WSIB's private equity partners, the number of names on the restricted list, and the ability to add and remove names based on ongoing positions and perceptions. In addition, the Committee discussed the required Public Disclosure Commission Statement of Financial Affairs Form F-1 filings and how the WSIB compliance unit compares to its peers.

Investment Referral Quarterly Report

Ms. Tucker provided an overview of the investment referral report, stating that there were three investment referrals on the report over the quarter.

[The Committee recessed at 10:37 a.m. and reconvened at 10:46 a.m.]

Ms. Tucker provided a clarifying comment to the Committee noting that the WSIB does have some investment exposure in Ukraine. It is a nominal amount and staff are working on computing the exact exposure amount in addition to inviting KKR to further discuss associated risks with the Board.

CORPORATE GOVERNANCE

2021 Year-End Proxy Voting Reports, and 2022 Proxy Season Preview

Ms. Murphy presented the calendar year 2021 year-end proxy voting results as well as related trends. She highlighted the types of proxy proposals that were voted on and noted that the WSIB voted against, or “withheld” from, 7.1 percent of the director nominees up for approval in 2021, which was up slightly from 2020. She detailed that one of the top reasons that the WSIB voted against directors was due to lack of board gender diversity. She reported on executive compensation proxy voting practices, shareholder proposals, and asset stewardship program updates and priorities for 2022.

Discussion ensued regarding the impacts of the WSIB’s individual proxy votes. Ms. Murphy explained that she has not historically done individual vote assessments, although she did include two examples of individual proxy votes in the presentation, and her approach is instead to typically present proxy voting outcomes on a macro level. Ms. Murphy acknowledged the continued interest by the Board to understand the impact of voting and engagement. She said she would continue to provide case studies and industry outcomes accordingly, as well as produce reporting on the WSIB’s individual activities, especially regarding the emerging engagement program.

Discussion ensued regarding progress in the environmental and social areas of governance, incorporation of feedback received by the Board into staff’s corporate governance work, and corporate governance influence in non-U.S. markets through investment manager due diligence.

Ms. Murphy introduced Mr. Shostal and Ms. Castro from Glass Lewis to present the 2022 U.S. proxy season preview. Mr. Shostal reviewed the 2021 U.S. meetings, proposals, and outcomes. He highlighted the significant increase in special meetings in 2021 and noted that Board diversity and disclosure and director accountability for environmental, social, and governance (ESG) were ongoing themes. He reviewed the voting outcomes of director proposals, say on pay proposals, and shareholder proposals. He noted that 84 individuals failed to receive majority support and when asked, Ms. Castro explained that ten of the 84 directors who failed to receive majority support stepped down from their positions.

Mr. Shostal presented a preview of the key trends for 2022 in the areas of climate change, human capital management, board accountability, diversity, governance provisions, and executive compensation. He highlighted that the most common shareholder proposals deal with human capital or climate related issues and institutional investors are able and willing to hold directors accountable when it comes to poor management of ESG risks.

Ms. Castro reported on key diversity data. She noted steady progress related to gender diversity on boards and highlighted how the WSIB impacts progress. She reported on Glass Lewis policy changes over the prior year and stated that company disclosure expectations are an area of emphasis when it comes to analyzing underrepresented community diversity. In addition, Ms. Castro highlighted the significant increase in quality diversity disclosure data and noted that 74 percent of S&P 500 companies disclosed racial and ethnic metrics in 2021.

Discussion ensued regarding the diversity disclosure rating system, the board gender diversity policy change moving from a fixed-numerical approach to a percentage-based approach, and the drivers of the increase in S&P 500 racial and ethnic disclosures.

Mr. Michael presented the WSIB's international investment managers' proxy voting activity and a review of key global trends in 2021. The four categories that were analyzed included board quality, compensation, economic factors, and shareholder rights. Overall, ISS concluded that managers appear to be scrutinizing the issues closely, voting activity aligns with their investment philosophy, and voting activity is generally aligned with WSIB's proxy voting expectations. He reviewed long-term environmental and social trends highlighting that ESG trends are on the rise globally and noted other trending global topics that included board gender diversity, executive compensation, climate change, and greater disclosure for underrepresented groups. Discussion ensued regarding withdrawn shareholder proposals and the behind-the-scenes success that negotiation and company engagement can produce.

Ms. McNavish presented the Public Equity Unit's qualitative assessment of the ISS non-U.S. manager review. Overall, staff concluded that the ISS report confirms that non-U.S. investment managers are voting their proxies in compliance with investment philosophies and processes. She discussed the managers' year over year voting trends and noted that Magellan showed the lowest alignment with ISS for the year ended June of 2021. She explained that Magellan is a highly concentrated manager and has a limited number of votes. This does not mean they are less diligent, rather one stock can be the source of misalignment. Staff noted that the number of votes cast by BlackRock in the ISS report had declined by 20% since the previous year. Staff followed up with BlackRock and the manager confirmed that the information that they had originally provided was incomplete. Staff did receive additional information from BlackRock, which staff is reviewing. A final assessment will be reported back to the Audit Committee.

OTHER ITEMS

There was no further business to come before the Committee.

EXECUTIVE SESSION

Chair Pellicciotti announced that the Committee would go into executive session to discuss the performance of a public employee. The executive session was expected to last approximately 10 minutes, at which time the Committee would reconvene in open session to adjourn the meeting.

[The Committee went into executive session at 12:03 p.m.]

Audit Director Performance Evaluation

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

The meeting adjourned at 12:13 p.m.