



**Thursday, June 16, 2022
Board Meeting**

Call to Order - 9:30 A.M.

There has been a declaration of emergency by the state government, and the Washington State Investment Board, a public agency of the state of Washington, has determined that it cannot hold a meeting of the governing body with members or public attendance in person with reasonable safety because of the emergency. The Board meeting will be conducted via Webex video conference, and members of the public will be provided access via teleconference. If you would like to submit a public comment for this meeting, please email it to recep@sib.wa.gov at least 24 hours before the meeting to give us enough time to send the comment to the Board members prior to the meeting.

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

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

A. Adoption of the April 21, 2022, meeting minutes.

3. CEO Report (9:35-9:45)

A. CEO Report to the Board - May/June 2022

B. Public Comment

4. Administrative Committee Report (9:45-9:55)

A. 2023-2025 Biennial Appropriated Budget and Fiscal Year 2023 Non-Appropriated Budget Requests

B. 3-Year Policy Review - Ethics Policies

5. Private Markets Committee Report (9:55-10:00)

A. Tangible Assets Investment Consultant Recommendation

B. Private Equity Investment Program Policy 2.10.700 Revisions

6. Audit Committee Report (10:00-10:05)

A. Fiscal Year 2023 Audit Plan

7. WA Cares Program: Long-Term Services and Supports Trust Account Policy 2.35.600 (10:05-10:35)

A. Long-Term Services & Supports Trust Account Policy 2.35.600

8. Break (10:35-10:45)

9. Fiduciary Duties, Conflicts of Interest, Open Public Meetings Act (OPMA) Annual Review (10:45-12:00)

A. Fiduciary Duty, Conflicts of Interest, OPMA Annual Review

10. Break (12:00-12:30)

11. Labor & Industries (L&I) Investment Strategy Review (12:30-1:00)

A. L&I Investment Strategy Review

12. Quarterly CTF Performance Update (1:00-1:15)

A. Quarterly CTF Performance Update

13. Public Equity Annual Plan Update (1:15-1:30)

A. Public Equity 2022 Annual Plan Update

14. Executive Session - Asset Class Annual Plan Updates (1:30-2:30)

A. Tangible Assets 2022 Annual Plan Update

B. Real Estate 2022 Annual Plan Update

C. Private Equity 2022 Annual Plan Update

15. Other Items (2:30-2:35)

16. Adjourn (2:35p)

APPROVED

**WASHINGTON STATE INVESTMENT BOARD
Board Meeting Minutes
June 16, 2022**

The Washington State Investment Board met in open session via Webex video conferencing, with dial-in access available to the public.

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

Members Absent: Ada Healey
Representative Timm Ormsby

Also Present: Allyson Tucker, Chief Executive Officer
Chris Hanak, Chief Investment Officer
Liz Smith, Legal, Risk, and Compliance Director
Phil Paroian, Senior Investment Officer – Public Equity
Diana Will, Senior Investment Officer – Tangible Assets
Steve Draper, Senior Investment Officer – Real Estate
Fabrizio Natale, Senior Investment Officer – Private Equity
Stacy Conway, Executive Assistant

Tor Jernudd, Attorney General's Office
Tiffany Reeves, Faegre Drinker
Daniel Erickson, Conning
Ryan Soucy, Conning
William Burns, Conning

CALL TO ORDER

Chair Guerin called the meeting to order at 9:31 a.m. and took roll call; all Board members listed as present were able to fully participate in the meeting.

ADOPTION OF MINUTES

**Chair Guerin moved to adopt the April 21, 2022, meeting minutes.
Ms. Kuschel seconded, and the motion carried unanimously.**

Chair Guerin noted the Juneteenth activities taking place at the state capitol and suggested that we take a moment to pause on Monday, June 19, in acknowledgement.

CEO REPORT TO THE BOARD

Ms. Tucker reported that the location has been secured for the July 19-21 Board meeting in Tacoma and reminded the Board that this is the first in-person meeting since early 2020 and there will be health and safety protocols in place. More information will be provided. She highlighted the official re-opening date of the office of September 12, noting the flexible working arrangements put in place.

Ms. Tucker highlighted her travel, including participation as a panelist at the Milken Global Conference, a KKR portfolio company visit in connection with employee ownership, and the World Economic Forum annual meeting. She introduced new staff and announced internal promotions.

Chair Guerin thanked the Human Resource Unit staff for their recruitment and onboarding activities since the beginning of the year.

Ms. Tucker noted that the WSIB received three submissions of public comment for today's meeting. Copies of these submissions were provided before the meeting to all Board members as part of the meeting materials. The submissions include written comment from Courtney Alexander from the United Food and Commercial Workers International Union; Ben Wolcott from Wall Street Accountability Campaigns, who submitted a letter on behalf of a PetSmart employee named Oscar; and Kristen Edmark, a concerned Washington state citizen.

ADMINISTRATIVE COMMITTEE REPORT

Chair Guerin reported that the Administrative Committee met earlier this morning. The Committee received a budget update for Fiscal Year 2022. Staff reported that the appropriated budget has a projected balance of \$2.9 million, or an 8.8 percent savings, and the non-appropriated budget has a projected balance of \$108.9 million, a 14.7 percent savings.

In addition, the Committee received the biennial appropriated and annual non-appropriated budget recommendations.

On behalf of the Administrative Committee, Chair Guerin moved that the Board approve the 2023-2025 Biennial Appropriated Budget and Fiscal Year 2023 Non-Appropriated Budget requests as proposed. Ms. Makowski seconded the motion.

Chair Guerin explained that the funding source for both the appropriated and non-appropriated expenses come from earnings of the WSIB's assets under management. The WSIB is a non-general fund agency. 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. The proposed 2023-2025 biennial appropriated budget request is \$80.2 million, or 4 basis points total of the total assets under management as of March 31, 2022. The proposed appropriated budget

request includes 2 requests for increases. The first is a \$3.5 million request for investment officer compensation to support implementation of the new salary ranges and to bring the compensation gap down to an average of 2 percent behind the 2021 peer average. The second request is \$3.4 million for 6 new FTEs designed to enhance and support investment capacity and to maintain investment discipline. The proposed Fiscal Year 2023 non-appropriated budget request is \$740.3 million, or 38.5 basis points of the total assets under management as of March 31, 2022. The request includes a series of funding adjustments with a total zero-dollar impact. The proposed budget is a zero-increase budget or a carry forward-request.

The motion carried unanimously.

Chair Guerin relayed that the Committee also considered technical revisions to the Board's series of ethics policies.

On behalf of the Administrative Committee, Chair Guerin moved that the Board approve the proposed revisions to the Conflict of Interest and Recusal Policy 2.00.101, Gifts Policy 2.00.102, Confidentiality and Use of Position Policy 2.00.103, Personal Investments Policy 2.00.104, Travel Reimbursement by Investment Partners and Others Policy 2.00.105, and Sanctions for Violations Policy 2.00.106. Mr. Markley seconded the motion.

Chair Guerin noted that all Board policies are required to be reviewed at least every 3 years to ensure they remain relevant and appropriate. As part of this review, staff presented proposed technical revisions to the policies listed in the motions, referred to as the Board's ethics policies. There are no material revisions proposed.

The motion carried unanimously.

PRIVATE MARKETS COMMITTEE REPORT

Mr. Sacks reported The Private Markets Committee met on June 2, 2022, to consider the Tangible Assets Investment Consultant recommendation and the Private Equity Investment Program Policy 2.10.700 revisions.

The first item for the Board's consideration is the Tangible Assets Investment Consultant Recommendation.

On behalf of the Private Markets Committee, Mr. Sacks moved that the Board approve the inclusion of Aksia LLC, Callan LLC, Hamilton Lane Advisors, L.L.C., Meketa Investment Group, Inc., and Mercer LLC in the Tangible Assets consultant pool. Ms. Kuschel seconded the motion.

Mr. Sacks explained that the Tangible Assets Unit does not engage a single, retainer-based consultant that oversees the investment program but rather utilizes a consultant pool on a per-project basis to provide independent investment recommendations and research reports. This approach gives access to differentiated expertise and allows the Tangible Assets team to engage with a consultant that has the most knowledge in a specific area. The impetus for the procurement to add to the pool is that four of the six current consultant contracts are expiring on June 30, 2022. In addition, the process going forward will be streamlined by having all consultant contracts on the same timeline. Legal, Risk, and Compliance staff participated in the process and three of the Tangible Assets team members evaluated the proposals. They determined that the five consultants that submitted proposals met the minimum qualifications and demonstrated the expertise and quality of advice within real assets, and all were selected for the final consultant pool.

The motion carried unanimously.

The second item for the Board's consideration was the Private Equity Investment Program Policy 2.10.700 with proposed revisions.

On behalf of the Private Markets Committee, Mr. Sacks moved that the Board approve the proposed revisions to the Private Equity Program Policy 2.10.700. Ms. Makowski seconded the motion.

The proposed policy revisions consist of a change in investment authority in secondary market opportunities, from a fixed dollar amount to a percentage of approved annual plan totals, along with clarifying language to explicitly include new partnerships with existing partners and to exclude rollover investment amounts from the authority limit calculation. In addition, the requirement for private equity investment consultant due diligence on secondary market opportunities was removed to streamline the process and provide the ability for the WSIB to participate in transactions with tight election deadlines.

The motion carried unanimously.

AUDIT COMMITTEE REPORT

Treasurer Pellicciotti reported that the Audit Committee met on June 7 with a full agenda, including one action item for the Board's consideration.

On behalf of the Audit Committee Treasurer Pellicciotti moved that the Board approve the Fiscal Year 2023 Audit Plan. Mr. Sacks seconded the motion.

The Audit Plan was developed using a risk assessment framework and designed to utilize Internal Audit resources in an efficient and effective manner. The proposed audit areas are private markets capital calls and distributions; Human Resource management; Tangible Assets due diligence, investing, and monitoring; Fixed Income portfolio management,

monitoring, and compliance; tax reclaims; personal trading system; and computer assisted auditing – vendor payments, payroll, system access.

The motion carried unanimously.

Treasurer Pellicciotti noted that the Committee also received the results of internal audit's review of State Street Bank as the Board's Custody Bank. Staff concluded that overall, State Street has adequate processes and controls in place to ensure that the WSIB's assets are safe guarded and financial and operating information is complete and accurate. There were no reportable audit recommendations.

The Committee received a presentation from a representative from Institutional Shareholder Services, which highlighted the significant progress made since 2020 to increase diversity on boards and the collaborative engagement working and drive change over time.

The Committee reviewed the financial statement audit planning letters, received an update on the status of prior audit recommendations, and received the final quarterly report from the Fiscal Year 2022 audit plan and the quarterly investment referral report. In addition, the Committee had a discussion with staff on the impact and risks to the portfolio of the current market volatility. Staff gave a helpful overview of controls in place to mitigate portfolio impact.

WA CARES PROGRAM: LONG-TERM SERVICES AND SUPPORTS TRUST ACCOUNT POLICY 2.35.600

Mr. Hanak thanked Ms. Bromley, who prepared and was scheduled to make the recommendation, but was unavailable to be at today's meeting.

Mr. Hanak noted that the proposed policy was presented to the Long-Term Services and Support (LTSS) Trust Commission Investment Strategy Subcommittee in April, and they are supportive of the recommendation.

Mr. Hanak shared an overview of the WA Cares program, including the timing of premium collection, eligibility, benefits, and timing of funding of the account. He discussed the investment strategy, noting that as the funds are public assets, without a constitutional amendment, they are not able to be invested in equities. Staff has become comfortable with the inclusion of credit bonds, which will increase the expected return over that of a Treasury Bond-only portfolio. The proposed policy is similar to the Commingled Trust Fund (CTF) Fixed Income policy. He discussed the modeling and considerations, noting the reasons that an updated asset allocation may be conducted before the scheduled 4-year review. He highlighted key investment policy components and the expected return for the program, with volatility reduced over the long term. He highlighted the key policy components, noting that there is adequate flexibility to allow effective active management, that the policy anticipates that there may be periods of market dislocation and includes exceptions that prevent forced selling, the policy contains issuer and sector concentration limits designed to ensure adequate diversification of the portfolio.

Discussion ensued regarding the prohibition of investment of public assets in equities and specifically what is allowable under the state constitution; the constitutional amendments that were passed previously for the CTF and Labor and Industries (L&I) investments; suggestion to include language in external presentations reminding stakeholders that there are constitutional amendments in place for the CTF and other investment funds allowing them to take advantage of potentially higher-earning investments; the mechanics of funding of the LTSS account and modeling over a 4 decade period; and the likely intent of the legislature to consider a constitutional amendment once it becomes clear that the program will move forward.

Ms. Tucker noted that staff is moving forward to do what can be done at this point. If it turns out that we can invest differently, a revised investment policy would be brought forth with an updated recommendation.

Chair Guerin moved that the Board adopt the Long-Term Services & Supports Trust Account Policy 2.35.600. Ms. Ketelsen seconded, and the motion carried unanimously.

FIDUCIARY DUTY, CONFLICTS OF INTEREST, OPEN PUBLIC MEETINGS ACT (OPMA) ANNUAL REVIEW

Ms. Smith presented the annual ethics training, covering the Ethics in Public Service Act, including use of state resources, and the WSIB's ethics policies: Conflict of Interest and Recusal Policy 2.00.101, Gifts Policy 2.00.102, Confidentiality and Use of Position Policy 2.00.103, Personal Investment Policy 2.00.104, Travel Reimbursement by Investment Partners and Others Policy 2.00.205, and Sanctions for Violations 2.00.106. She encouraged Board members to reach out with any questions regarding compliance with these policies.

Ms. Smith discussed key elements of the Ethics in Public Service Act, which establishes the minimum standards of conduct while performing public duties, conflicts of interest, recusal, gifts, entertainment, meals, confidentiality, use of position, and post-WSIB employment/Board service, personal investments, and sanctions for violations. She addressed quiet periods, as provided by the Service Provider Policy 2.00.230; the Public Records Act; and Open Public Meetings Act, including the recent legislative changes.

[The Board recessed at 10:37 a.m. and reconvened at 10:45 a.m.]

Ms. Smith continued with the annual review, addressing the Board's Code of Conduct Policy 2.00.150, which sets forth the expectation for integrity, professionalism, and ethical behavior.

Ms. Smith introduced Ms. Reeves to present the Fiduciary Duty portion of the session.

Ms. Reeves detailed the many sources of fiduciary guidance and fiduciary principles, including the two core principles: the duty of prudence and the duty of loyalty. She stressed that the duty of prudence is forward-looking; decisions are not judged on the success or failure of a decision, but on the prudence of the process in making the decision. The duty of loyalty requires that Trustees act solely in the best interest of beneficiaries, referred to as the exclusive benefit rule. She addressed the perplexity of wearing two hats; however, undivided loyalty is required without exception. Duty of loyalty does not permit consideration of a hierarchy of interests. When wearing the Board member hat, the only consideration is to beneficiaries.

In response to Senator Mullet's inquiry regarding maintaining a focus on fiduciary duty in light of the external pressure around climate change, Ms. Reeves noted that it is likely prudent to consider environmental, social, and governance (ESG) factors in the context of impact to the portfolio. As a long-term investor, transitions are appropriate to consider as any other investment risk. If considering ESG issues, it is because of the impact on the portfolio, not because of external pressure.

Ms. Reeves explained that the duty of impartiality derives from the duty of loyalty. Different beneficiaries have different levels of risk tolerance and different time horizons. The duty of impartiality does not mandate equality, rather intergenerational equity, which requires careful consideration and weighing of the different interests of beneficiaries.

Ms. Reeves opined that governance and fiduciary duties are two sides of the same coin. Good governance practices support fiduciary duty and support the duty of loyalty by providing guardrails for compliance and establishing expectations in advance for challenging situations.

Good governance requires clarity on powers reserved exclusively for the Board, authorizing the Board to conduct the business of the Board and its committees, approve key decisions above a threshold, set direction and policy and then prudently delegate, oversee the execution of direction within policy, and verify, then trust, and obtain independent advice as needed.

Ms. Reeves discussed the standard of care, noting the WSIB's directive set forth in Revised Code of Washington 43.33A.140. Fiduciaries must remain active and diligent in learning. She shared an example of a framework for fiduciary process, which includes process and diligence, consulting outside experts, objectives and policies, strategy, structure optimization, select and instruct delegates, and oversight with formality and accountability.

Ms. Reeves noted that people are not agnostic so the process must be agnostic. Process and diligence include education, research and data, peer practices, analysis, and evaluation. Peer practices are important as a reference point but herding around similar practices should be avoided, and analysis of how peer practices fit or don't fit in the process should be conducted.

She addressed how bias impacts the process, including self-deception, social influence, emotion, and heuristic simplification. She discussed various types of investor biases, sharing an example.

Discussion ensued regarding the difference between a belief and a bias, the process in determining what is prudent for the WSIB with regard to Board diversity, and current issues with a peer public pension fund.

Ms. Reeves relayed the importance of making informed, unbiased decisions; researching using credible sources; understand bias and actively seek out and consider diverse perspectives; and compare to benchmarks and peers. There is no substitute for rigorous critical thinking. Research should inform the goal, and the sequence of decision-making is important. She noted the two key points: it's all about the beneficiaries, and process is critical.

In response to Mr. Sacks' inquiry around best practices for Boards, Ms. Reeves responded that one of the least effective practices is Boards being inundated with information that is not useful. It is important that staff provides targeted information that is useful to the decision-making process. Also important is a sound governance process and assurance process, including internal audit, compliance, and external audits.

[The Board recessed at 11:45 a.m. and reconvened at 12:16 p.m.]

QUARTERLY CTF PERFORMANCE UPDATE

Mr. Hanak presented the quarterly CTF performance update, highlighting the positive performance for the first quarter of 2022 and outperformance of all benchmarks across all time periods. He noted that the CTF exhibited top decile performance against peer groups across all time periods and returned 60 basis points for the quarter, driven by strong returns in private asset classes, and he detailed the individual asset class returns. He noted the CTF annual performance of 8.89 percent versus the benchmark of 6.87 over the 20-year period and the 10-year return of 10.83 percent versus the benchmark of 9.86. He cautioned that there is currently significant price movement in fixed income and equities, and private markets are not immune to these movements. As private market returns are reported on a lagged basis, with the significant allocation to private assets, it is reasonable to expect the CTF to react slower than peers with higher allocations to public markets in periods of both positive and negative returns. He commented on the implications of lagged valuations that can be seen in the effect of asset allocations versus targets. The WSIB's investment policies are written to anticipate periods of volatility to avoid forced selling that could harm the value of the fund.

PUBLIC EQUITY ANNUAL PLAN UPDATE

Mr. Paroian presented the Public Equity annual plan update, summarizing the key initiatives included in the unit's 2022 annual plan including return to office considerations, incorporation of ESG considerations into the public equity investment process and integration of Diversity, Equity, and Inclusion (DEI) principles into the portfolio. He noted

that the core of the unit's work is to build the public equity portfolio of the future, commenting on the response activities to current market conditions, portfolio performance, and downside protection should we be in a prolonged bear market. He addressed progress of the global equity manager search and the launch of the SRI rebid, as well as the unexpected priorities of the disposition of holdings in Russia and the recruitment of an investment officer.

Mr. Paroian reported that the unit is pursuing enhancements to the public equity search process with the Department of Enterprise Services (DES). He noted that the work with Risk Management and Asset Allocation (RMAA) on Defined Contribution Investment Beliefs will be delayed until the SRI rebid is complete in 2023.

LABOR AND INDUSTRIES (L&I) INVESTMENT STRATEGY REVIEW

Mr. Hanak introduced Messrs. Erickson and Soucy and Mr. Burns, the newest member of the Conning team and co-lead on the WSIB's account. He reminded the Board that the L&I consulting contract will expire at the end of the year, and a Request for Quotation and Qualifications (RFQQ) will be launched shortly and expected to be completed later in the year.

Mr. Erickson shared an overview of the areas of expertise of Conning and the components of the team servicing the L&I portfolio, and he provided an overview of the L&I program. He described the three L&I funds: Accident Fund, Medical Aid Fund, and Pension Reserve Fund, discussing the purpose, funding, and balances of each, along with the key characteristics and investment implications and strategic targets of each. He addressed investment strategy drivers, including premium rates, insurance accounting rules, capital adequacy, risk tolerance, and results of operations.

Mr. Erickson discussed L&I objectives, noting that in accordance with RCW 43.33A.110, the portfolio is to be managed to limit fluctuations in the industrial insurance premiums, and subject to this purpose, achieve a maximum return at a prudent level of risk. Based on this, the objectives are to maintain solvency of the funds and premium rate stability, ensure sufficient assets are available to fund the expected liability payments and earn the maximum return consistent with the first three at a prudent level of risk. He discussed U.S. insurance accounting, state insurance regulations, and U.S. Insurer Rating agencies.

Mr. Soucy shared a comparison of L&I's asset allocation, total return, and investment yield, with that of selected groups of peers. He detailed the bond portfolio allocation, bond maturity distribution comparison, bond credit rating distribution of portfolios, and foreign exposure of bond and stock portfolios. He noted the comparison of investment expenses, with L&I at the least cost as compared to all peer groups, representing an estimated savings of \$35 million.

Mr. Sacks highlighted that the management of the portfolio by the WSIB saves employers and workers across the state an estimated \$35 million annually.

EXECUTIVE SESSION – ASSET CLASS ANNUAL PLAN UPDATES

Chair Guerin announced that the Board would go into executive session to discuss financial and commercial information relating to an investment since public knowledge regarding the discussion would result in loss to the funds managed by the WSIB or would result in private loss to the providers of the information. The executive session was expected to last approximately 1 hour at which time the Board would reconvene in open session.

[The Board went into executive session at 1:08 p.m.]

**Tangible Assets Annual Plan Update
Real Estate Annual Plan Update
Private Equity Annual Plan Update**

[The Board reconvened in open session at 1:59 p.m.]

Discussion ensued regarding the health and safety protocols, appreciation of staff's work, and the agenda for the July Board meeting.

ADJOURNMENT

There were no other items to come before the Board, and the Board adjourned at 2:04 p.m.