



**Thursday, December 15, 2022
Board Meeting**

December 15-16

Call to Order - 9:30 A.M.

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**In-Person Attendance: Washington State Investment Board
2100 Evergreen Parkway SW, Olympia, WA 98502**

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The link to join online can be found at www.sib.wa.gov/meetings.html

1. Call to Order (9:30a)

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

A. Adoption of the November 17, 2022, Minutes

3. Public Comment (9:35-9:50)

4. CEO Report to the Board (9:50-10:00)

A. CEO Report to the Board - December 2022

5. Administrative Committee Report (10:00-10:05)

A. Chief Executive Officer Performance Evaluation and Compensation Policy Revisions

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

A. Fiscal Year 2022 Independent Financial Auditor's Reports and WSIB Annual Report

B. WSIB Proxy Voting Policy Updates

7. Private Markets Committee Report (10:10-10:15)

A. Global Infrastructure Partners Core Fund, L.P.

B. Stonepeak Core Fund (A) LP

C. Menlo Ventures 2023, L.P.

8. Industrial Insurance Consultant Recommendation (10:15-11:00)

A. Industrial Insurance Consultant Recommendation

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

10. Executive Session - Private Markets Asset Class Annual Plans (11:10-5:00)

A. 2023 Real Estate Annual Plan (11:10-12:10)

B. Break (12:10-12:40)

C. Real Estate Annual Plan continued (12:40-2:10)

D. Break (2:10-2:20)

E. 2023 Tangible Assets Annual Plan (2:20-3:50)

F. Break (3:50-4:00)

G. Tangible Assets Annual Plan continued (4:00-5:00)

11. Recess for the day

12. Friday, December 16, Reconvene (9:00a)

13. Executive Session - Private Markets Asset Class Annual Plans continued (9:00-11:45)

A. 2023 Private Equity Annual Plan (9:00-10:30)

B. Break (10:30-10:45)

C. Private Equity Annual Plan continued (10:45-11:45)

14. Annual Plan Approvals (11:45-11:50)

15. Adjourn (11:50a)

APPROVED

**WASHINGTON STATE INVESTMENT BOARD
Board Meeting Minutes
December 15-16, 2022**

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. Due to an unforeseen technical issue, there was no internet to the building, and, therefore, the planned Microsoft Teams virtual attendance option was not available.

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

Members Absent: Representative Timm Ormsby
George Zinn

Also Present: Allyson Tucker, Chief Executive Officer
Chris Hanak, Chief Investment Officer
Kristi Bromley, Investment Officer – RMAA
Steve Draper, Senior Investment Officer – Real Estate
Lerryn McCullough, Portfolio Manager – L&I Real Estate
Diana Will, Senior Investment Officer – Tangible Assets
Dorota Czub, Assistant Senior Investment Officer – Tangible Assets
Raman Kabarwal, Assistant Senior Investment Officer – Tangible Assets
Susan Freese Baker, Investment Officer – Tangible Assets
Chay Norbom, Investment Officer – Tangible Assets
James Sinks, Investment Officer – Tangible Assets
Fabrizio Natale, Senior Investment Officer – Private Equity
Aaron Daley, Assistant Senior Investment Officer – Private Equity
Kariym McHoney, Assistant Investment Officer – Private Equity
Stacy Conway, Executive Assistant

Tor Jernudd, Attorney General's Office
Donna Albert
Barbara Carey
Janet Becker-Wold, Callan, LLC
Steven Center, Callan, LLC
Kevin Machiz, Callan, LLC
Tom Cawkwell, Albourne America LLC

CALL TO ORDER

Chair Guerin called the meeting to order at 9:30 a.m. and took roll call. All Board members listed as present attended the meeting in person.

ADOPTION OF MINUTES

**Chair Guerin moved to adopt the November 17, 2022, meeting minutes.
Mr. Markley seconded, and the motion carried unanimously.**

PUBLIC COMMENT

Ms. Tucker reported that the WSIB received six written public comment submissions relating to the WSIB's investment in fossil fuels and requesting divestiture. Copies of the submissions are included in your Board materials. Written public comment was received from Donna Albert, Glen Anderson, Barbara Carey, Kirsten Edmark, Sally Keely, and Bob Zeigler. In addition, subsequent to the November 17 Board meeting, staff discovered that several written public comments were diverted to the agency's spam email. These six submissions were received from Ann Butler, Hiedi Culbertson, Sally Keely, Colleen Murfitt, Bill Norman, and Dorethea Simone and were provided to the Board members via email on November 23. Ms. Albert appeared in person to communicate her concerns regarding climate change and its global impact. She discussed the release of carbon into the atmosphere and shared her belief that an effective and practical solution is to stop funding the extraction and burning of fossil fuels. She acknowledged the Board's fiduciary responsibility, addressing concerns regarding a reduced value of retirement funds, and she referenced additional materials that she would provide to Board members outlining the speed at which fossil fuel use should be discontinued.

Ms. Carey provided public comment by telephone due to the WSIB's inability to accommodate virtual public comment. She expressed her concern that the WSIB is moving too slowly on fossil fuels, opining that this is not in alignment with state law. She stated that the WSIB's climate blueprint has little impact on WSIB investments, and the Board is ignoring the urgency, referencing the Board's private equity portfolio. She commented that this puts financial security at risk, noting the Private Equity Stakeholder Group's private equity scorecard.

CEO REPORT TO THE BOARD

Ms. Tucker relayed that there are no Board and Committee meetings scheduled for the month of January and noted the dates of the February meetings. She shared upcoming Board conference and education opportunities and commented on her legislative outreach with Mr. Gavigan and presentations made to the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Board and the Select Committee on Pension Policy. She introduced one new staff member, Jennifer Braveboy.

Ms. Tucker reported that two Board policies remain out of compliance with the required 3-year review cycle because of the 4-year asset allocation cadence. Following review of these last two policies, the review and asset allocation cadence will align going forward. She noted the quiet periods that are currently in place.

Mr. Gavigan reported that the proposed budget provides full funding of the WSIB's Board-approved budget request. He noted that he and Ms. Tucker will continue legislative outreach and will keep the Committee informed of the budget proposal as it moves through the process.

Chair Guerin thanked staff for their work on the budget.

ADMINISTRATIVE COMMITTEE REPORT

Chair Guerin reported that the Administrative Committee met before the Board meeting and considered the proposed revisions to the policies that govern the evaluation and compensation of the Chief Executive Officer (CEO). These changes, recommended to accommodate the CEO evaluation and compensation timeline, were discussed at the November Administrative Committee and Board meetings

On behalf of the Administrative Committee Chair Guerin moved that the Board approve the revisions to the Chief Executive Officer Performance Evaluation Policy 2.00.220 and the Chief Executive Officer Compensation Policy 2.01.110 as proposed. Ms. Makowski seconded, and the motion carried unanimously

AUDIT COMMITTEE REPORT

The Audit Committee met on December 6 with a full agenda, including two action items for the Board's consideration. The first item for consideration was the Fiscal Year 2022 Independent Financial Auditor's Reports and WSIB Annual Report:

On behalf of the Audit Committee, Treasurer Pellicciotti moved that the Board accept the Fiscal Year 2022 Independent Auditor's Reports and approve the Fiscal Year 2022 WSIB Annual Report. Mr. Sacks seconded the motion.

The Board's independent financial statement auditors, Eide Bailly, reviewed the audit of the seven sets of WSIB-prepared financial statements for Fiscal Year 2022. Alternative investments were highlighted as an area emphasis, and the financial auditors concluded that processes and controls are in place to determine fair valuation. Overall, each financial statement received an unmodified opinion, which is the highest opinion available, and there were no internal control deficiencies or material weaknesses.

Staff presented an overview of the WSIB's Annual Report for Fiscal Year 2022, highlighting the financial statement background, composition of the annual report, and the significance that the WSIB's audited financials have to other state agencies and the state as a whole. Once approved by the Board, the Annual Report will be made available on the WSIB's website.

The motion carried unanimously.

Also presented for the Board's consideration were revisions to the Global Proxy Voting Policy 2.05.200.

On behalf of the Audit Committee, Treasurer Pellicciotti moved that the Board approve the proposed revisions to the Global Proxy Voting Policy 2.05.200. Ms. Ketelsen seconded the motion.

Staff recommended incremental updates to the policy, focused on shareholder rights, diversity, and climate. The updates are aligned with the WSIB's Climate and DEI Blueprints and are focused on meaningful ESG disclosures as well as governance structures. Staff anticipates proxy voting policy updates to continue to follow an incremental cadence, with the Blueprints acting as a reference and tool to align policy updates with agency priorities and Investment Beliefs. The Audit Committee concurs with staff's recommended approach.

The motion carried unanimously.

The Committee received the results of the Fixed Income Investments internal audit engagement. Staff concluded that overall, there are processes and controls in place to ensure fixed income investments are managed in compliance with Board and investment policies and duties are appropriately separated to ensure assets are safeguarded. There were no formal audit recommendations.

The Committee also received the results of Internal Audit's Real Estate Labor & Industries Portfolio consulting engagement. The engagement focused on a limited review of the process and controls over investment due diligence, approval, and monitoring for the L&I real estate portfolio. Staff provided management with improvements or enhancements for consideration and management plans to implement the suggestions in the coming months. The Committee received the Enterprise Risk Management Annual Report. Staff reviewed the WSIB's approach to risk management and the report highlighted the agency's systems of risk management, what ERM is and how it addresses and assesses risks, and common misunderstandings of ERM. Staff also noted ERM's importance in relation to agency culture, risk management activities, and the role ERM has in senior management's decision-making process. In addition, staff reviewed 2022 ERM Committee activities, updates to the risk assessment ERM Dashboard, and anticipated 2023 activities. The Committee received updates on the status of prior audit recommendations and the Fiscal Year 2023 audit plan, as well as the quarterly investment referral report.

PRIVATE MARKETS COMMITTEE REPORT

Mr. Sacks reported that the Private Markets Committee met on December 1, 2022, to consider two Tangible Assets investment recommendations and one Private Equity investment recommendation. The first investment recommendation for the Board's consideration was Stonepeak Core Fund (A) LP.

On behalf of the Private Markets Committee, Mr. Sacks moved that the Board invest up to \$500 million, plus fees and expenses, in a parallel investment vehicle alongside Stonepeak Core Fund (A) LP, subject to continuing due diligence and final negotiation of terms and conditions. Ms. Kuschel seconded, and the motion carried unanimously.

Stonepeak Core Fund (A) LP, referred to as Core, is an open-ended vehicle managed by Stonepeak Infrastructure Partners with an initial target of \$5 billion. Core targets mature infrastructure investments within key focus areas that include communications, energy transition, and transportation and logistics, primarily across OECD countries. Within these sectors, the Fund emphasizes investments with defensive attributes including stable cash flows and high barriers to entry. As a new strategy with an existing partner, this proposed investment would fall into the new partners or new strategies allocation in the Board-approved 2022 tangible assets annual plan. The recommendation is based in part on Stonepeak's stable, high-quality team with proven track record, aggressive focus on capital preservation, proven ability to identify and adapt to changing market dynamics, strong proprietary deal sourcing and origination, ground-floor entry into perpetual investment strategy, the WSIB's existing relationship with a high-conviction partner, competitive fee structure with thoughtful alignment of interests, and other factors relevant to the recommendation.

The motion carried unanimously.

The second investment recommendation for the Board's consideration was Global Infrastructure Partners Core Fund, L.P.

On behalf of the Private Markets Committee, Mr. Sacks moved that the Board invest up to \$300 million, plus fees and expenses, in Global Infrastructure Partners Core Fund, L.P., subject to continuing due diligence and final negotiations of terms and conditions. Ms. Ketelsen seconded the motion.

Global Infrastructure Partners Core Fund, L.P., referred to as GIP Core, is being raised by Global Infrastructure Partners and has a target fund size of \$5 billion. The Fund will target investment opportunities in the Core segment of the infrastructure landscape in OECD countries, with a focus on North America and Europe. The Fund's investment objective is to generate attractive risk-adjusted returns, with a target portfolio gross IRR of 8 percent to 11 percent and an attractive mid-single digit income yield. As a new strategy with an existing partner, this proposed investment would fall into the new partners or new strategies allocation in the Board-approved 2022 tangible assets annual plan. The recommendation is based in part on GIP's longer hold period with an income focus, experienced team with deep sector expertise, operational value-add focus, strong track record, control investing, proprietary deal sourcing, and other factors relevant to the recommendation.

The motion carried unanimously.

The third investment recommendation for the Board’s consideration was Menlo Ventures 2023, L.P.

On behalf of the Private Markets Committee, Mr. Sacks moved that the Board invest up to \$225 million, plus fees and expenses, in Menlo Ventures 2023, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Ms. Makowski seconded the motion.

Menlo Ventures 2023, L.P. is being raised by Menlo Ventures and will invest in parallel, at the same time, and in fixed proportions, with each of Menlo Ventures’ three new funds: Menlo Ventures XVI, L.P.; Menlo Bio I, L.P.; and Menlo Labs Fund II, L.P. The target fundraising is \$650 million for Fund XVI, \$200 million for Bio, and \$150 for Labs II. In total, the funds have a target size of \$1 billion. Menlo Ventures 2023, L.P. represents a single commitment across three funds and strategies. The fund will invest directly in each of the three Menlo funds at a fixed ratio of \$150 million alongside XVI, \$50 million alongside Bio, and \$25 million alongside Labs II. Menlo Ventures is the WSIB’s longest-standing private equity relationship. Since 1981, the Board has committed over \$1.6 billion across 16 Menlo Ventures funds, including, most recently, a \$125 million commitment to Menlo Ventures XV, L.P. in 2020 and a \$250 million commitment to Menlo Special Opportunities Fund III, L.P. in 2022. This proposed investment is being brought to the Board because it would be a commitment to a different structure, albeit with a long-standing manager. The Fund will be invested pro rata in Menlo XVI, Menlo Labs, and Menlo Bio. The recommendation is based in part on Menlo Ventures’ strong franchise, experienced team, long-term performance, portfolio fit, successful long-term relationship with the WSIB, and other factors relevant to the recommendation.

The motion carried unanimously.

INDUSTRIAL INSURANCE CONSULTANT RECOMMENDATION

Ms. Bromley introduced the recommended industrial insurance consultant for the Labor and Industries (L&I) portfolio. She noted that in preparation for the search, staff reached out to firms to widen the pool of respondents to the Request for Qualifications and Quotations (RFQQ). There was a total of five respondents and the evaluation team conducted virtual meetings with three firms before narrowing the pool to two for further due diligence review. Callan was selected as the final recommended firm.

Ms. Becker-Wold introduced the team, sharing background on Callan, noting the firm’s client retention and trust, third generation of ownership, collaborative culture, staff size and tenure, leveraging of technology. She addressed the leadership of the firm.

Mr. Center shared an overview of the Callan’s team structure, including the capital markets strategy team, explaining that all project assignments are reviewed internally by committees to ensure multiple voices in decisions. He discussed the firm’s other client insurance pools and noted that the firm provide webinars and workshops focusing on topics of interest, along with a biennial conference.

In response to Mr. Sacks' inquiry regarding examples of outside workers' compensation programs, Mr. Center and Ms. Becker-Wold discussed two of the firm's largest clients, noting that Washington State's portfolio would be on the larger side of clients that they service. Mr. Center addressed his role in capital market assumption research and the manager research group, noting that clients include states that are both monopolistic and competitive with regard to workers compensation plans. He emphasized that the purpose of assets is different for a monopolistic state program than for a private for-profit insurer or state plan with competitive option. It is important to understand the organization's business model as a provider of insurance to be reflective in advice on investment policy.

Ms. Becker-Wold, Mr. Center, and Mr. Machiz addressed their approach to understanding an organization's priorities, inflows and outflows, drivers of impact to reserves or liabilities, and analytical process to arrive at a recommended investment policy.

Discussion ensued regarding the statutory accounting requirements for the L&I portfolio and the impact on valuation, claim history, impact of benefit changes made by the legislature, premium rate history, variation in risk classes, and the similarity of Washington State's L&I program to that of Canadian systems and Callan's access to Canadian system data. Additional discussion focused on the statutorily allowable investments for the L&I portfolio designed to provide stability and limit volatility; the benefits of low volatility, primarily in premium rate setting; and the historical performance of WSIB's fixed income portfolio and incorporation of real estate investments into the L&I portfolio.

Chair Guerin moved that the Board select Callan, LLC as its industrial insurance investment consultant, subject to final negotiation of terms and conditions. Mr. Sacks seconded, and the motion carried unanimously.

[The Board recessed at 10:51 a.m. and reconvened at 11:03 a.m.]

EXECUTIVE SESSION

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 until approximately 4:30 p.m., at which time the Board would reconvene in open session to recess for the day.

[The Board went into executive session at 11:03 a.m.]

2023 Real Estate Annual Plan

[The Board recessed at 12:08 p.m. and reconvened in executive session at 12:40 p.m.]

2023 Real Estate Annual Plan continued 2023 Tangible Assets Annual Plan

[Senator Mullet left the meeting.]

[The Board recessed at 3:02 p.m. and reconvened in executive session at 3:15 p.m.]

2023 Tangible Assets Annual Plan continued

[The Board reconvened in open session at 4:30 p.m. and recessed for the day]

Friday, December 16, 2022

[The Board reconvened in open session at 9:00 a.m.]

[Senator Mullet rejoined the meeting at 9:00 a.m.]

EXECUTIVE SESSION

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 until approximately 11:15 a.m., at which time the Board would reconvene in open session.

[The Board went into executive session at 9:01 a.m.]

2023 Private Equity Annual Plan

[The Board recessed at 10:32 a.m. and reconvened in executive session at 10:46 a.m.]

2023 Private Equity Annual Plan continued

[The executive session was extended to 11:30 a.m. There were no members of the public waiting to attend.]

[The Board reconvened in open session at 11:31 a.m.]

ANNUAL PLAN APPROVALS

Chair Guerin commented that over the last day and a half the Board engaged in thorough discussions around the private markets asset class annual plans. Staff presented well thought out strategies and reasoning and collectively the Board is supportive of staff's recommendations.

APPROVED

Chair Guerin moved that the Board approve the 2023 Real Estate Annual Plan as presented in executive session. Ms. Kuschel seconded, and the motion carried unanimously.

Chair Guerin moved that the Board approve the 2023 Tangible Assets Annual Plan as presented in executive session. Ms. Kuschel seconded, and the motion carried unanimously.

Chair Guerin moved that the Board approve the 2023 Private Equity Annual Plan as presented in executive session. Ms. Kuschel seconded, and the motion carried unanimously.

ADJOURNMENT

There were no other items to come before the Board, and the Board adjourned at 11:33 a.m.