



Tuesday, July 16, 2024
Board Strategic Planning Meeting

July 16-18, 2024
Silver Cloud Hotel at Point Ruston
5125 Grand Loop, Ruston, WA 98407
Call to Order: July 16 at 1:00 p.m.
Adjourn: July 18 at 11:45 a.m.

1. TUESDAY, JULY 16

2. Buffet Lunch [Waterview Terrace] (12:00p-1:00p)

3. Call to Order [Onyx] (1:00p)

4. Welcome and Announcements (1:00-1:15)

5. Education Session (1:15-2:15)

A. Twelve: A Washington Innovation Story

6. Education Session (2:15-3:15)

A. Greenhouse Gas (GHG) Emissions Measurement

7. Break (3:15-3:45)

8. Education Session (3:45-5:00)

A. 2024 Mid-Year Outlook: Opportunity Knocks

9. Reception [Waterfront Terrace] (5:45-6:30)

10. Buffet Dinner [Waterfront Terrace] (6:30-8:00)

11. WEDNESDAY, JULY 17

12. Buffet Breakfast [Onyx Foyer] (7:45-8:45)

13. Strategic Plan Update (9:00-10:20)

A. 2024 Strategic Plan Update (9:00-9:30)

B. Climate Blueprint Update (9:30-10:00)

C. Diversity, Equity, and Inclusion (DEI) Blueprint Update (10:00-10:20)

14. Public Equity Annual Plan Update (10:20-10:45)

A. Public Equity 2024 Annual Plan Update

15. Break (10:45-11:00)

16. Executive Session - Private Markets Annual Plan Updates (11:00-12:30)

A. Tangible Assets 2024 Annual Plan Update (11:00-11:25)

B. Real Estate 2024 Annual Plan Update (11:25-11:50)

C. Private Equity 2024 Annual Plan Update (11:50-12:30)

17. Buffet Lunch [Waterfront Terrace] (12:30-1:30)

18. Education Session (1:30-2:30)

A. A Discussion on Challenging Assumptions: Sustainability, Economics, and Politics

19. Education Session (2:30-3:30)

A. A Conversation on Labor Dynamics

20. Break (3:30-3:45)

21. Education Session (3:45-4:30)

A. Private Credit Landscape

22. Education Session (4:30-5:15)

A. Private Credit as an Asset Class

23. Reception [Waterfront Terrace] (5:45-6:30)

24. Dinner [Waterfront Terrace] (6:30-8:00)

A. Fireside Chat with BlackRock and Global Infrastructure Partners (6:50-7:30)

25. THURSDAY, JULY 18

26. Buffet Breakfast [Onyx Foyer] (7:45-8:45)

27. Education Session (9:00-11:15)

A. Trust, Fiduciary Duty, and Good Governance

28. Closing Remarks/Other Items (11:15-11:45)

29. Adjourn (11:45)

**WASHINGTON STATE INVESTMENT BOARD
Board Meeting Minutes
July 16-18, 2024**

The Washington State Investment Board met in open session at the Silver Cloud Hotel at Point Ruston, 5125 Grand Loop, Ruston, WA 98407.

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

Members Absent: George Zinn

Also Present: Allyson Tucker, Chief Executive Officer
Chris Hanak, Chief Investment Officer
Bobby Humes, Human Resources Director
Curt Gavigan, Chief Operating Officer
James Aber, Institutional Relations Director
Kristina Taylor, Chief Financial Officer
Sherrie Trecker, Head of Sustainability
Phil Paroian, Senior Investment Officer – Public Equity
Dorota Czub, Senior Investment Officer – Tangible Assets
Steve Draper, Senior Investment Officer – Real Estate
Fabrizio Natale, Senior Investment Officer – Private Equity
Li Gao, Senior Investment Officer – Risk Management and
Asset Allocation (RMAA)
Julia Ferriera, Assistant Senior Investment Officer –
Innovation Portfolio
DuWayne Belles, Investment Officer Innovation Portfolio
Stacy Conway, Executive Assistant
Lisa Devlin, Administrative Assistant
Ashana Wenzel, Administrative Assistant

Dr. Etosha Cave, Twelve
Sarah Bernstein, Meketa

Henry McVey, KKR
David Rubenstein, The Carlyle Group
Megan Starr, The Carlyle Group
Wilma Liebman
John Fiscella, Oak Hill Advisors
Glenn R. August, Oak Hill Advisors
Larry Fink, BlackRock
Adebayo Ogunlesi, Global Infrastructure Partners
Tiffany Reeves, Faegre Drinker

CALL TO ORDER

Chair Markley called the meeting to order on Tuesday, July 16, at 1:02 p.m. and took roll call.

WELCOME AND ANNOUNCEMENTS

Allyson Tucker welcomed the Board to the 2024 annual strategic planning meeting, introducing the staff in attendance, providing an overview of the three-day agenda, and noting for the record the receipt of public comment submissions from Jenn Kropack, Chris Goelz, Barbara Carey, and Kristin Edmark, all of which were provided to Board members before the meeting.

EDUCATION SESSION

Twelve: A Washington Innovation Story

Presenters: Dr. Etosha Cave, Twelve

Dr. Cave presented an overview of Twelve, a WSIB portfolio company, and outlined the scientific process of industrial photosynthesis, which transforms carbon into an alternative energy source. The presentation highlighted the stages of technology development and scaling, the construction of an AirPlant for large-scale energy creation, and partnerships that have utilized the energy to generate fuel and other products. In addition, three key elements were noted to ensure Twelve’s progress, including unit economics and assistance from the Inflation Reduction Act, an increased customer base, and funding.

Discussion ensued regarding energy transportation, funding and the impact of federal and state assistance, the electricity resources needed to generate the energy, resource competitors for sustainable electricity, and fuel testing and safety procedures.

Greenhouse Gas (GHG) Emissions Measurement

Presenters: Sherrie Trecker, Head of Sustainability

Sarah Bernstein, Meketa

Sherrie Trecker introduced Sarah Bernstein and explained the connection between this presentation and the Climate Blueprint update to be presented later in the meeting.

Sarah Bernstein began the presentation by noting that climate change is expected to be material to investments through the 21st century. The presentation addressed what is and is not accomplished with GHG measurement; differences among corporate-level reporting of

Scope 1, 2, and 3 emissions; voluntary nature of Scope 4 emissions due to the difficulty in estimating emissions avoided; variety of options, inputs, and methodologies used to calculate and report emissions; issues around double counting in measurement; efforts to standardize measurement; federal and state disclosure rules; and implications of a recent UK supreme court ruling regarding downstream environmental impact reporting.

Discussion ensued regarding the general method of calculating estimated emissions and a current reporting requirement that applies only to some publicly listed companies.

Sara Bernstein summarized the pros and cons of measuring emissions as a public fund, discussed alternative supplemental measurements and examples of available data sources, and presented the results of an analysis conducted by Meketa based on data gathered from other U.S. public funds around their measurement activities. New initiatives regularly arise from different organizations that focus on aggregating and reporting data. GHG emissions data is often considered a starting point when attempting to measure long-term climate exposures.

Discussion ensued regarding actions that the Board can take to begin to consider what should be measured, how it should be measured, should it be reported, and what should be done about the results; compliance requirements for international companies doing business in the U.S.; where the WSIB falls in terms of comparison with the public funds included in the analysis; measurement used as a tool to impact company engagement strategies; impact on institutional investor investment decision-making based on measurement outcomes; the WSIB's integrated approach to sustainability in the investment process; and challenges of Oregon Investment Council's proposal to reach a net-zero target by 2050.

[The Board recessed at 3:15 p.m. and reconvened at 3:48 p.m.]

2024 Mid-Year Outlook: Opportunity Knocks

Presenter: Henry McVey, KKR

Henry McVey discussed KKR's views of the market, opportunities in digitization and private assets; current key economic drivers, geopolitical implications in investment opportunities; the current economic cycle; global attractive investment opportunities; U.S. and global economic indicators; and impacts of fiscal policy, aging populations exiting the workforce, supply chains, and the energy transition.

Discussion ensued regarding tangible assets' pricing power, central banks' balance sheets, and exposure to the technology sector.

Henry McVey addressed fiscal tailwinds and consumer debt, U.S. productivity compared to Europe and China, China's economy, current capital markets, real rates, and top key themes, including a focus on labor productivity and workforce development, artificial intelligence (AI), and security of everything. Expected return is down and volatility has increased, central bank policy is shifting, disinflation is anticipated in the near term, mega-investment themes will require significant capital, and asset allocation should be considered differently.

Discussion ensued regarding the drivers behind higher productivity levels; hypothetical scenarios that include a balanced budget; China's valuations versus the U.S.; replacing treasuries with liquidity; tax cuts, government spending, and decreasing interest rates contributing to GDP; portfolio construction and positive correlation for bonds; and risk mitigation in response to isolation.

[The Board recessed at 4:52 p.m.]

July 17, 2024

[The Board reconvened in open session on Wednesday, July 17, at 9:00 a.m.]

STRATEGIC PLAN UPDATE

2024 Strategic Plan Update

Presenters: Allyson Tucker, CEO

Allyson Tucker presented the 2024 Strategic Plan Update, which addressed the process for developing the plan, the framework of value, support, and capacity, implemented over 20 years ago by previous WSIB leadership, key risks, and strong historical performance. Also covered was the status of 2024 strategic initiatives in the value, capacity, and support areas.

Discussion ensued regarding the importance of maintaining trust as a prominent and influential organization with multiple constituencies, the current inability to have rational discourse; appreciation for the amount of work accomplished by staff allowing the Board to do the job it does; appreciation for the acknowledgment of employee burnout; staff Learning Lab activities; and challenges in responsibly forecasting the need for future FTEs.

[Senator Mullet joined the meeting at 9:34 a.m.]

Climate Blueprint Update

Presenter: Sherrie Trecker, Head of Sustainability

Sherrie Trecker presented an update on the WSIB's Climate Blueprint. The Climate Blueprint's framework was described as a dynamic strategic tool that prioritizes progress and consistency across agency climate goals, investment portfolio activities, and industry participation in climate-related activities. A progress report on elements of the blueprint was provided. It highlighted various staff educational sessions, advancement on the collection of climate-specific data from the WSIB's holdings and internal measurement capabilities, and staff's continued engagement with climate-focused industry organizations.

The presentation included GHG emissions measurement and efforts the agency is making regarding data collection and reporting, tracking progress towards a low carbon economy, and how the data and tracking will be used to make more informed investment decisions and help the WSIB understand the impact GHG emissions have on investment performance. The current state of emissions measurement and specific considerations for each asset class were discussed.

Discussion ensued regarding engagement with public companies, penalties for not reporting emissions under mandatory standards, private credit as an area of future engagement, the economic rationale and financial materiality of climate data collected by private equity, and economic expectations in conjunction with the duration of the energy transition.

The presentation concluded with an evaluation of Net Zero commitments made by the WSIB's partners and the Climate Blueprint's path forward. Enhancements to the agency's Sustainability Report and increased climate-related data collection for public and private markets were noted as two focus areas for the following year.

DEI Blueprint Update

Presenter: Bobby Humes, Director of Human Resources

Bobby Humes presented an update on the WSIB's Diversity, Equity, and Inclusion (DEI) Blueprint. The presentation highlighted the progress made on education, action, and measurement elements of the plan's framework and how the agency is creating sustainable governance structures that advance the work of the blueprint. The accomplishments over the past year, present initiatives, and the core work for 2024 were summarized. The presentation concluded with how the blueprint acts as a strategic roadmap and how outcomes are shaped by the WSIB's vision, mission, values, fiduciary goals, and strategic focuses.

Discussion ensued regarding the concept of "belonging" and its incorporation into DEI efforts as a core value of the WSIB, how blueprint success is measured and tracked, internships and other DEI engagement opportunities, inclusion and training opportunities within the employee development process, and how the Climate and DEI Blueprints overlap when further discussion on the topics is conducted with public and private companies.

ANNUAL PLAN UPDATES

Public Equity Annual Plan Update

Presenter: Phil Paroian, Senior Investment Officer – Public Equity

Phil Paroian explained that the staff's development of annual plans is a way to operationalize the commitments to a long-term focus on discipline. Annual plans allow staff to confirm trajectory and current focus and build a framework to agree on priorities. Staff can adjust if needed based on the framework.

Investment beliefs are core to public equity and the role of the asset class in the overall portfolio structure of the WSIB. Public equity is the most liquid asset class, as it can trade any day the stock markets are open, is efficient and broad-based, and includes investable passive options. Passive is the default for public equity, and they are disciplined in active management. A key investment belief is that passive is the default option, the long-term horizon is important, and active management should only be considered when conditions are in place. Also addressed in the presentation were the considerations related to challenging assumptions, including whether the program has the right partners, whether improvements to risk management could be made, and whether the portfolio structure could be improved. A peer review is underway, the results of which will be presented to the Public Markets Committee in September and will feed into the 2025 Public Equity annual

plan. The Public Equity unit is on track with all initiatives, including the open rolling procurement and passive management contract rebids.

Discussion ensued regarding the public equity portfolio's outstanding performance, research on carbon-intensive assets, responsiveness to public comments; passive management indices, innovative approaches to decarbonization, the impact of the decrease of public companies on the manager pool, and the passive/active split of the portfolio.

[The Board recessed at 11:14 a.m. and reconvened at 11:31 a.m.]

EXECUTIVE SESSION

Chair Markley 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 1:00 p.m., at which time the Board would reconvene in open session.

[The Board convened in executive session at 11:33 a.m.]

Tangible Assets Annual Plan Update

Presenter: Dorota Czub, Senior Investment Officer – Tangible Assets

Real Estate Annual Plan Update

Presenter: Steve Draper, Senior Investment Officer – Real Estate

Private Equity Annual Plan Update

Presenter: Fabrizio Natale, Senior Investment Officer – Private Equity

Moved to Thursday, July 18 at 8:45 am

[The Board reconvened in open session at 12:47 p.m.]

[The Board recessed at 12:47 p.m. and reconvened at 1:36 p.m. Tracy Guerin and Ada Healey were not in attendance.]

EDUCATION SESSION

A Discussion on Challenging Assumptions: Sustainability, Economics, and Politics

Presenters: David Rubenstein and Megan Starr, The Carlyle Group

Allyson Tucker introduced David Rubenstein and Megan Starr from the Carlyle Group, sharing background information on the individuals, the firm, and the WSIB's relationship with them.

David Rubenstein and Megan Starr presented their observations on sustainability and the current economic and political environment. Topics addressed included ESG and return on investment considerations in private equity; significant company action plans to keep commitments to net zero goals; national and global decarbonization regulation; alignment of economic incentives with environmental outcomes; interest rate scenarios; independence

of central banks; and election perspectives, outcomes, and potential implications.

[Tracy Guerin and Ada Healey rejoined the meeting at 2:07 p.m.]

Discussion ensued regarding U.S. presidents serving second terms; investment implications of current political polarization, high debt levels, and education issues in the U.S.; and challenges of balancing the U.S. budget.

A Conversation on Labor Dynamics

Presenters: Allyson Tucker, CEO

Wilma Liebman, Former Chair – National Labor Relations Board

Allyson Tucker introduced Wilma Liebman for a discussion surrounding various labor dynamics areas. They discussed the evolution of U.S. labor dynamics over the past 50 years and ongoing changes concerning deindustrialization, deglobalization, technological advancements, and deregulation. The effect of decreased collective bargaining relationships and unionization rates was discussed, as well as other changes to how workers navigate workforce differences with demands and protests that focus on creating a more dignified workplace.

Wilma Liebman provided several examples of labor-focused issues, including the outcomes of recent Supreme Court cases, a new wave of union organizing, and examples from large organizations examining how worker unionization or activism can drive changes at the organizational level. In addition, the relationships between business groups, labor unions, and government and the framework on how issues are addressed were discussed. Wilma Liebman opined that greater experimentation with a variety of models or case examples can produce greater worker empowerment; one model does not fit every situation.

The discussion concluded with how the nonprofit organization Ownership Works acts as a model generating labor dynamic change and Wilma Liebman's experience as she was being considered for a board seat at Starbucks, which was put forward via a shareholder proposal.

[The Board recessed at 4:15 p.m. and reconvened at 4:30 p.m.]

Private Credit Landscape

Presenters: John Fiscella and Glenn August, Oak Hill Advisors (OHA)

Chris Hanak introduced the OHA team, sharing background and explaining the context of having the firm present to the Board.

Glenn August reviewed OHA's history and the firm's focus on private credit and provided an overview of private credit. The asset class has an attractive investment structure, risk/reward attributes, and an attractive financing solution. The transformation of leveraged finance markets and OHA private credit deployment growth were discussed.

Discussion ensued regarding the percentage of equity making private credit safer, lower volatility, and credit spreads as a function of supply and demand.

An update on the private lending market was provided, and leveraged loan market share, projected growth, pricing and volatility, relative value, and various allocation approaches across U.S. pension plans were addressed.

Discussion ensued regarding saturation in the asset class, portfolio management, WSIB's Commingled Trust Fund (CTF) and worker's compensation funds, and large insurance company allocations.

Private Credit as an Asset Class

Presenters: Li Gao, Senior Investment Officer – RMAA

Julia Ferreira, Assistant Senior Investment Officer – Innovation Portfolio

DuWayne Belles, Investment Officer – Innovation Portfolio

Li Gao stated that RMAA has researched private credit for the past few years and has opted to include private credit in the current asset allocation study.

DuWayne Belles reviewed the research and shared an overview of private credit. Staff has developed a high conviction in including private credit as an asset class in the WSIB portfolio. Staff believes it provides enhanced risk-adjusted returns, increased diversification, and predictable income. Staff explained the asset allocation study and considered private credit. Research has solidified confidence in the asset class.

Julia Ferreira discussed adding private credit to the CTF, the growth of the asset class, and the three main types of private credit.

Discussion ensued regarding oversupply, risk, allocation modeling, the potential inclusion of Labor and Industries funds in a future strategic asset allocation study, the inclusion of current private credit performance in analysis, Board governance proceedings, diversification and impact on private equity allocation, the importance of appropriate implementation, and differences between institutions and limited partners as capital allocators.

Staff discussed the potential role of private credit in the CTF, including initiatives, value proposition, comparison to current asset classes, and growth-oriented compared to income-oriented focus strategies. Staff is enthusiastic about the potential private credit opportunities and believes it can enhance the risk/return characteristics of the CTF. Staff will conduct a series of analyses to assess the impact of including private credit in the CTF including risk/return impact, diversification benefits, and liquidity considerations. Contingent on the analysis and Board input, staff will consider private credit in the CTF as part of the 2025 Strategic Asset Allocation study.

Discussion ensued regarding providing Board education around creating an asset class, constituent engagement around the decision, measuring risk profile, and mapping out potential overlap with other asset classes.

[The Board recessed at 5:58 p.m. and reconvened at 7:00 p.m.]

Fireside Chat with BlackRock and Global Infrastructure Partners

Presenters: Allyson Tucker

Larry Fink, BlackRock

Adebayo Ogunlesi, Global Infrastructure Partners

In a fireside chat format with Allyson Tucker, Larry Fink and Adebayo Ogunlesi addressed topics including the financial services industry's response to the evolving demographic realities that are reshaping the retirement system, the transformative role of AI in the global economy and financial services and infrastructure arenas, and the implications of current macro and geopolitical issues.

[The Board recessed for the day at 8:15 p.m.]

July 18, 2023

[The Board reconvened in open session on Thursday, July 18, at 8:47 a.m. Heather Redman, Senator Mullet, and David Nierenberg were not present.]

EXECUTIVE SESSION

Chair Markley 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 9:20 a.m., at which time the Board would reconvene in open session.

[The Board convened in executive session at 8:47 a.m.]

[Heather Redman rejoined the meeting at 9:17 a.m.]

[The executive session was extended to 9:40 a.m. Those waiting to join the meeting were notified of the extension.]

Private Equity Annual Plan Update

Presenter: Fabrizio Natale, Senior Investment Officer – Private Equity

[The Board reconvened in open session at 9:47 a.m.]

EDUCATION SESSION

Trust, Fiduciary Duty, and Good Governance

Presenter: Tiffany Reeves, Faegre Drinker

Allyson Tucker introduced Tiffany Reeves and previewed the anticipation session format, including planned small group discussions.

APPROVED

Tiffany Reeves shared an in-depth presentation on fiduciary duty and Board governance. The presentation addressed the foundation and framework of good governance, a collective process requiring formal planning unique to the organization that research indicates can result in outperformance of 1 to 3 percent. Powers reserved for the Board, fiduciary principles of prudence and loyalty, and fiduciary responsibilities as co-trustees were also covered in detail, along with two case studies of funds experiencing governance challenges.

[David Nierenberg joined the meeting at 10:01 a.m. via telephone with the ability to listen to the proceedings only.]

Discussion ensued regarding the significance of verification before trust and the importance of having the process and infrastructure in place to ensure that information received is accurate and reliable, followed by trusting that reporting is correct.

Tiffany Reeves addressed the concept and importance of trust in all areas of an organization. Fear and mistrust associated with Board governance practices can be pervasive, potentially leading to a toxic work environment, contributing to behavior issues, and impacting organizational culture. The trust components of care, sincerity, reliability, and competence can lead to positive outcomes. Examples of effective Board behavior and problematic board behavior were presented, along with tangible steps that can be utilized to build trust.

[Mary Pugh left the meeting at 11:22 a.m.]

Chair Markley announced that, in the essence of time, the Board would forego the planned small group discussions.

Discussion ensued regarding onboarding best practices of new Board members, the benefit of utilizing external sources to conduct Board self-evaluations and the recommended cadence of these, clarification of co-trustee fiduciary responsibilities, and the value of small conversations to keep trust and address issues before they lead to problems.

Chair Markley thanked Allyson and the WSIB staff, noting that the 3-day meeting was a great success.

ADJOURNMENT

No further business was to come before the Board, and the meeting adjourned at 11:48 a.m.