

Washington State Investment Board Economically Targeted Investments Policy



2023 Annual Report
April 18, 2024

INTRODUCTION AND SUMMARY

This is the twentieth annual report on Washington State Investment Board (WSIB or the Board) Economically Targeted Investments (ETI). 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, 2023, the Board managed \$188.5 billion in 39 funds investing on 6 continents, in 90 countries, within 51 currencies, and over 18,663 investment holdings.

Per the ETI policy, WSIB staff conducted the annual survey of the WSIB's private equity general partners (GPs) for the 12 months ending September 30, 2023. Key findings were as follows:

- 21 GPs looked at 349 Washington-based investment opportunities.
- 197 investment opportunities were still under consideration as of September 30, 2023.
- 10 investments were completed.
- The WSIB's private equity GPs continue to seek quality investment opportunities in Washington state.

As of June 30, 2023, the WSIB's investment portfolio held \$5.2 billion in Washington-based investments across its public equity, fixed income, real estate, tangible assets, innovation portfolio, and private equity investment programs. This represents approximately 3.3 percent of the state's Commingled Trust Fund (CTF). Every investment was made in accordance with the WSIB's statutory mandate. To provide additional context, in 2022, the state's gross domestic product (GDP) was reported by the U.S. Bureau of Economic Analysis as \$738.1 million 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 in alignment with the WSIB's established policies and procedures, which are designed exclusively to 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 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 provide an annual 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 are held for 12 years or more. Although less liquid, and perhaps riskier than other asset classes, 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 ACTIVITY¹

This section provides a summary of Washington-based investment activity between October 1, 2022 and September 30, 2023.

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

VENTURE CAPITAL ACTIVITY

	Investments Completed	Capital Invested (\$ Billions)
Washington	654	\$5.7
Northwest	1,077	\$6.9
U.S.	22,112	\$182.5

Washington represented 3 percent of venture capital investments completed in the U.S. and accounted for 3 percent of the capital invested. Washington represented 61 percent of venture capital investments completed in the northwest region and accounted for 83 percent of the capital invested. By industry sector, the information technology and healthcare sectors each accounted for 27 percent of the capital invested. Together the two sectors accounted for \$3.1 billion of the capital invested in Washington state. More than 72 percent of the investments completed in Washington were \$25 million or larger in size, while 16 percent of the investments were between \$10 million and \$24.9 million in size. In terms of venture capital funding stages, late-stage venture captured 60 percent of the invested capital, or \$3.4 billion. At the other end of the spectrum, early-stage venture represented 20.5 percent of the capital invested at \$1.2 billion. By comparison, California was the state with the most venture capital activity in the U.S. Venture capitalists invested \$79.2 billion in 5,957 investments during this timeframe.

¹ Source: PitchBook Data, Inc.

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

CORPORATE FINANCE ACTIVITY

	Investments Completed	Capital Invested (\$ Billions)
Washington	133	\$9.5
Northwest	246	\$13.0
U.S.	6,218	\$414.0

Washington represented 2 percent of corporate finance investments completed in the U.S. and accounted for 2 percent of the capital invested. Washington represented 54 percent of the corporate finance investments completed in the northwest and 73 percent of the capital invested. The information technology sector accounted for majority of the capital invested in Washington. The business services and financial services sectors accounted for less than one percent of the invested capital into the state. Eighty-nine percent of the investments completed were \$2.5 billion or more in size, while 11 percent of the investments were between \$1 billion and \$2.49 billion in size. Leveraged buyout transactions represented 53 percent of the total capital invested, while public to private transactions represented 47 percent of the capital invested. In comparison, California was the state with the most corporate finance activity in the U.S with \$97 billion invested in 711 companies 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 2023, two IPOs were completed raising \$461.3 million. In contrast, the two IPOs completed in 2022 raised \$6 million. There was only one SPAC transaction completed in 2023 compared to three in 2022. Capital continues to be actively invested into Washington-based investments but at a lower level than the high of 2021 when 13 IPOs were completed.

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 2019 through 2023.

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

Asset Class	Fair Market Value (\$ Millions)				
	2019	2020	2021	2022	2023
Public Equity	\$1,497.2	\$2,095.2	\$2,944.6	\$2,010.3	\$2,386.5
Fixed Income	103.3	197.7	278.5	227.0	253.7
Real Estate	1,132.5	1,057.6	1,193.8	1,388.9	1,311.9
Tangible Assets	254.7	402.8	469.9	674.0	698.0
Innovation Portfolio	12.6	13.8	34.1	18.4	12.6
Private Equity	206.5	429.6	729.0	476.8	517.7
Total	\$3,206.8	\$4,196.7	\$5,649.9	\$4,795.4	\$5,180.4
Washington Investments as a Percentage of Commingled Trust Fund					3.3%
State of Washington Gross Domestic Product (GDP) as a Percentage of the Investable Universe GDP					0.7%

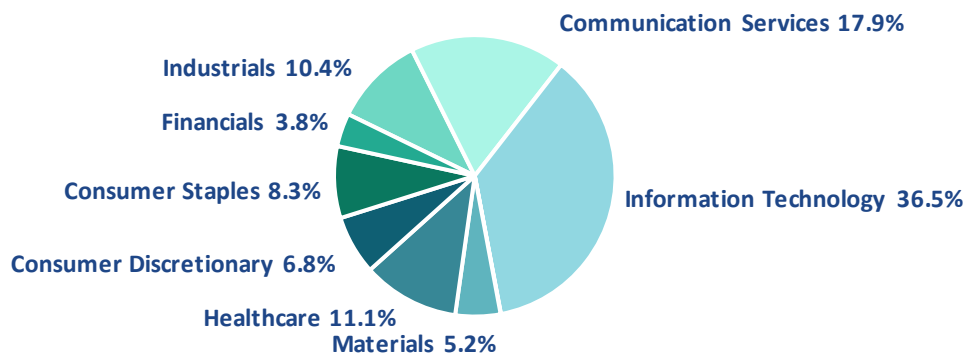
Note: Values include Boeing

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, 2023, total value was up \$979.2 million or 20.4 percent. The value of public equities increased 18.7 percent, primarily driven by positive market movements in the stock price performance of many large Washington-based companies that are heavily represented in the passive indices.

The value for fixed income increased \$26.7 million, or 11.8 percent. The increase in exposure is attributable to higher valuations in Washington-based holdings as well as net sales and maturities across the funds. The 5.5 percent decrease in investment value for real estate reflects a combination of increases and decreases in the value of individual properties, leveraging activities during the year, and acquisitions and dispositions. The tangible assets investment value increased \$24 million, or 3.6 percent, due primarily to recent agriculture investments in Washington state. The Innovation Portfolio value decreased \$5.8 million, or -31.5 percent, primarily due to a decline in valuations of existing holdings which was partially offset by a new investment. The 8.6 percent increase in value year-over-year for private equity was due to an increase in the fair market value of various companies in the past fiscal year, \$26 million of new in-state investments, and \$83 million of proceeds from realizations. As of June 30, 2023, the WSIB had \$517.7 million of invested value in Washington-based companies in its private equity portfolio, representing approximately 1.1 percent of the total domestic private equity portfolio value. Since 1992, our private equity GPs have invested more than \$860 million in Washington-based companies. The current Washington-based investments have been made by 29 different funds managed by 20 individual GPs, two of which are regionally based.

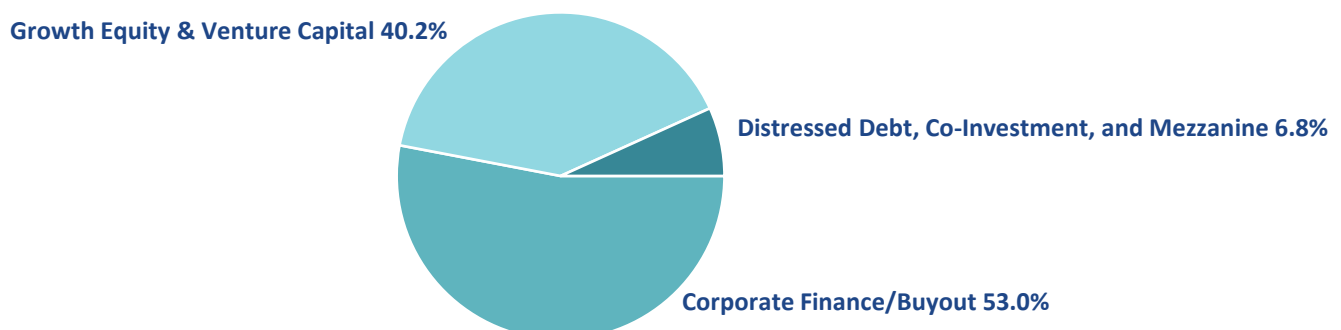
The following chart shows the breakout of Washington-based investments in the private equity portfolio by sector. The largest concentration is in the Information Technology sector at 36.5 percent, followed by the Communications Services and Healthcare sectors which are at 17.9 percent and 11.1 percent, respectively.

PRIVATE EQUITY HOLDINGS IN WASHINGTON-BASED COMPANIES BY SECTOR AS OF JUNE 30, 2023 (\$ MILLIONS)



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 53.0 percent followed by the Growth Equity and Venture Capital strategies at 40.2 percent.

PRIVATE EQUITY HOLDINGS IN WASHINGTON-BASED COMPANIES BY STRATEGY AT JUNE 30, 2023 (\$ MILLIONS)



As of June 30, 2023, the WSIB's private equity portfolio, invested with 93 GPs in 288 partnership funds, was valued at \$44.9 billion. An additional 19.1 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, 2023, the WSIB had invested approximately \$859.9 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 \$13.8 billion.

HIGHLIGHTS OF 2023 ETI ACTIVITY

ANNUAL SURVEY OF WASHINGTON-BASED GPs

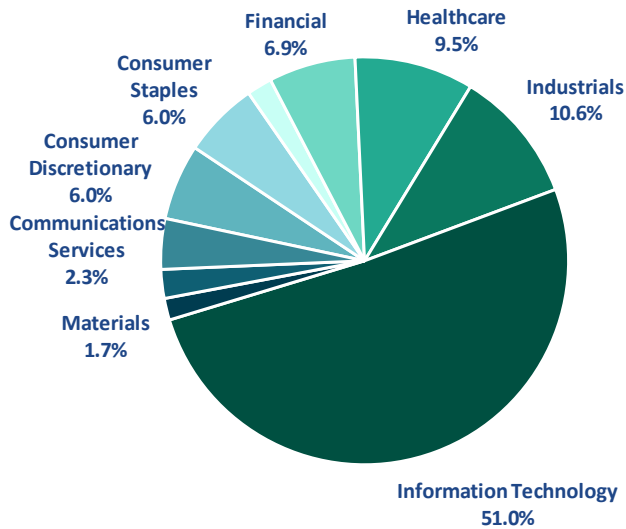
The WSIB conducted its annual survey of its private equity GPs by requesting information about their investment activity in Washington state for the twelve months ending September 30, 2023. The survey was sent to GPs that invest in the U.S. with current active investment periods. This survey asked GPs to provide the number of investments completed 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 investments. The data is also an important reminder that while a larger number of investments are reviewed, only a small number are ultimately completed. Staff's continued interaction with GPs encourages interest in Washington state investment opportunities and helps to facilitate investment activity.

	2019	2020	2021	2022	2023
GPs Responded Versus Surveyed	24 of 39	25 of 39	26 of 46	28 of 43	21 of 45
Total Investments Reviewed	325	316	340	335	349
Total Investments Pursued	112	120	141	181	207
Investments Under Review	91	101	109	163	197
Investments Completed	21	19	32	18	10

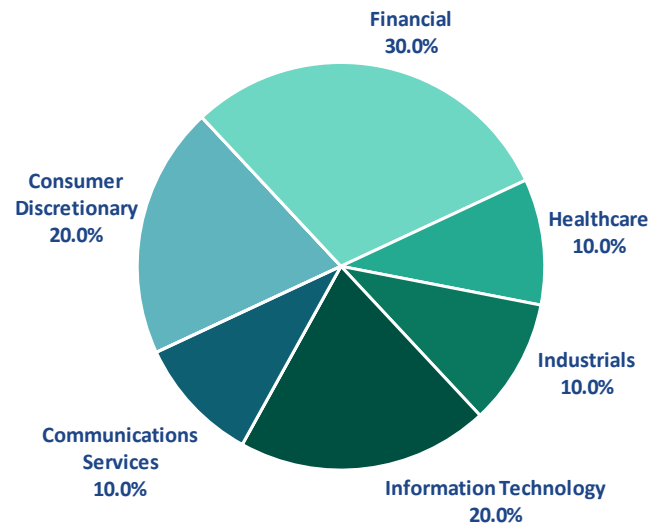
Note: Includes partners that invest in the U.S. and are in an active investment period

The following pie charts provide a breakdown of the investments reviewed and those completed by our GPs in Washington state by sector. Of the 349 investments reviewed by our GPs, 51 percent were in the information technology sector, 10.6 percent were in the industrials sector, and 9.5 percent in the healthcare sector. The financial sector, consumer staples, and consumer discretionary sectors each comprised less than 7 percent of the investments reviewed. Thirty percent of the investments completed in Washington were in the financial sector and the information technology and consumer discretionary sectors each represented 20 percent. The communication services, industrials, and healthcare sectors each accounted for 10 percent of the investments completed.

Investments Reviewed



Investments Completed



REGIONAL FUNDS AND NETWORKS

Over the years, WSIB staff has met with over 115 regional firms and interested parties. The WSIB is currently invested with Endeavour Capital, a firm with regional offices in Seattle and Portland, Oregon. WSIB staff regularly participate in regional meetings and events to understand the investment environment, broaden the WSIB's regional contact base, and enhance the WSIB's 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 (AND THE NORTHWEST)

The WSIB engages with a select number of publicly-listed companies, where possible with a focus on those based in the state of Washington. These engagements have been focused mainly on the WSIB's asset stewardship priorities of shareholder rights, board diversity, and climate-related risks. Further, to have optimal impact, the WSIB has worked on these issues in partnership with select investor coalitions, including the Climate Action 100+, The CDP (formerly the Carbon Disclosure Project), the Thirty Percent Coalition, and most recently, the Investor Coalition for Equal Votes (ICEV). These efforts remain centered on sustainability themes and environmental, social, and governance (ESG) factors that are significantly material to long-term investment outcomes and aligned with WSIB investment priorities.

The Thirty Percent Coalition and the ICEV engagements did not provide opportunities to lead on Washington state-based companies in 2023, but we will continue to look for opportunities within those campaigns to do so in the future.

Highlights from 2023 from each of these campaigns include:

THE CLIMATE ACTION 100+

- The WSIB joined the Climate Action 100+ at its inception in 2018, and – after review – renewed participation in phase 2 of the campaign, which was launched in June 2023 and will extend to 2030.
- The WSIB co-led two campaigns within the Climate Action 100+ until mid-2023, both of which involved working closely with large Washington-based companies that are structurally significant to global climate risks and solutions.
 - One of the campaigns the WSIB led was successful as the company strengthened its climate-related business practices and was removed from the target list for phase 2.
 - The other company remains on the Climate Action 100+ target list for phase 2.
 - The WSIB transitioned from lead to supporting investor on this campaign.



- Engagement topics and areas of progress for those companies included governance enhancements of climate-related issues, setting and disclosing emissions and net zero targets, new or enhanced climate lobbying and spending disclosures, and first-time Task Force on Climate-Related Financial Disclosures (TCFD) mapping.
- The WSIB also joined a new phase 2 campaign, as a supporting investor, for a Washington-based company.

THE CDP (FORMERLY THE CARBON DISCLOSURE PROJECT)

- Participated again in the “CDP Non-Disclosure Campaign”.
- In 2023, 288 investors (up from 260 in 2022) representing nearly \$29 trillion in assets requested information from 1,590 companies on climate change, water, and/or forests.
 - 317, or 19.9 percent, responded.
 - The CDP noted in its review the companies were twice as likely to disclose after being targeted by investors under the campaign.
- The WSIB led outreach efforts for seven Washington-based companies.

THIRTY PERCENT COALITION

- The WSIB has participated in the “Adopt a Company Campaign” for over 5 years.
 - Letters were sent to 57 companies in 2023 drawn from the 1,500 largest companies by market capital that, according to Equilar data, met the following criteria:
 - Less than 30 percent gender diversity.
 - Less than two racially and/or ethnically diverse directors.
 - Failed to disclose overall board diversity.
 - None of the targeted companies are based in Washington or the broader northwest.
 - The campaign had been suspended in 2022 due to a change of leadership and strategy review but resumed in 2023.

THE WSIB JOINED THE INVESTOR COALITION FOR EQUAL VOTES (ICEV) IN JUNE 2022

- Co-led by the Council of Institutional Investors (CII) and Railpen (UK).
- The WSIB is a founding member alongside select other U.S. pension peers.
 - This coalition continues to add other investors to its membership ranks.
 - Achievements in 2023 included issuing a report on the rise and risk of unequal voting rights and sending a series of letters to regulators and index providers on the topic.

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.
- Seek out opportunities to engage with local companies on priority ESG issues.

WSIB staff will also continue build on the policy implementation efforts made to date to maximize returns at a prudent level of risk, while serving as an interested ally and resource to help the investment environment in Washington thrive.

APPENDIX

DOLLARS INVESTED AND NUMBER OF VENTURE CAPITAL AND CORPORATE FINANCE INVESTMENTS OCTOBER 1, 2022
THROUGH SEPTEMBER 30, 2023 (\$ BILLIONS)

WASHINGTON

VENTURE CAPITAL

Number of Investments: 654
Amount: \$5.7

CORPORATE FINANCE

Number of Investments: 133
Amount: \$9.5

NORTHWEST

VENTURE CAPITAL

Number of Investments: 1,077
Amount: \$6.9

CORPORATE FINANCE

Number of Investments: 246
Amount: \$13.0

U.S.

VENTURE CAPITAL

Number of Investments: 22,112
Amount: \$182.5

CORPORATE FINANCE

Number of Investments: 6,218
Amount: \$414.0

