



WASHINGTON STATE INVESTMENT BOARD

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) REPORT

2022



ASSET STEWARDSHIP & SUSTAINABILITY FOR THE LONG TERM

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A MESSAGE FROM OUR CEO

I am pleased to provide the Washington State Investment Board's (WSIB) 2022 ESG Report – a summary of our approach and progress related to environmental, social, and governance issues and their place in our organization and our investment process.

During my inaugural year as CEO at the WSIB, we have seen both remarkable achievements and challenges as part of our efforts to understand and evaluate ESG factors. Our Board has established clear priorities based on the need to be attentive to the systemic issues of climate change and diversity, equity, and inclusion (DEI).

BLUEPRINTS AS NAVIGATIONAL ROAD MAPS

During our Board's July 2022 strategic planning meeting, our staff unveiled a pair of blueprint planning tools – a Climate Blueprint and a DEI Blueprint. These are not rigid rulebooks that define do's or don'ts of ESG investing. Instead, they are strategic roadmaps that create a cohesive framework for ongoing evaluation and decision-making. They establish three interrelated tiers of activity related to 1) our organization, 2) our investment portfolios, and 3) our external role in the investment industry. These blueprints are designed to better organize, integrate, and assess ESG factors where they relate to investment materiality and our core mission as an investor of public trust funds.

NAVIGATING SYSTEMIC SEA CHANGES

ESG issues are an inescapable facet of daily life, and some involve traumatic natural disasters and troubling human conflicts. These issues are affecting business decisions, friendships, job choices, even home and car choices. We see an increasing sense of urgency and an outpouring of advocacy for changes related to everything from carbon emissions to racial and cultural inequities. We expect the scale, volume, and the polarization of these issues to increase. We expect some will continue to mistakenly categorize investing into two binary buckets: ESG and non-ESG.

The fact is, many ESG factors will affect how our investee companies equip themselves for a transition of energy sources, future access to workers' skills, or adherence to new regulatory requirements. We need to evaluate investments based on how private and public companies will position themselves for long-term growth amid so much change. We need to avoid the pitfalls of greenwashing and other market-driven distractions. Similarly, we need to avoid denial of the materiality of ESG factors just because company disclosures, regulations, or data remain imperfect. We need to be responsive without succumbing to the see-sawing reactivity that undermines many investment outcomes. The questions we ask of our investment partners and managers will change to reflect the risks and opportunities inherent in these evolving ESG factors. We will advance our capabilities and rigor for assessing these factors, and we will not deviate from our mission of maximizing returns at prudent levels of risk for the long run.

I look forward to leading our agency as we navigate these dramatic and ongoing changes. I am committed to our industry's efforts to encourage broader employee ownership programs at public and private companies. A well-crafted program to build ownership mindset can be tremendously valuable to workers, companies, and in turn, to investors like the WSIB.

I hope this report will highlight the additional work we are doing to understand, evaluate, and act on the investment materiality of the ESG factors that surround all of us.

Allyson Tucker, CFA, CAIA
Chief Executive Officer

WSIB'S ESG FRAMEWORK



The WSIB has an unwavering focus on our duty to act in the best interests of our beneficiaries over the long term. It is part of our fiduciary duty to integrate ESG issues that we believe can have an impact on the capital that our beneficiaries have entrusted us to manage. To meet our members' needs, the WSIB has developed an ESG framework that is comprised of three complementary programs: Asset Stewardship, ESG Integration, and Advocacy. These are described in greater detail on the following pages.

Systemic ESG issues such as climate change and DEI continued to be vital topics of conversation in 2021. The WSIB continues to sharpen its focus in these areas through strategic, long-term initiatives in an attempt to ensure that our efforts are progressing consistently and aligned across all three programs.

ASSET STEWARDSHIP PROGRAM

Corporate Governance Officer

- Proxy voting
- Public company engagement
- Oversight of investment manager proxy voting

ESG INTEGRATION PROGRAM

Sustainability Officer

- Promote best practices on ESG integration within each asset class
- Develop a monitoring tool that systematically identifies material ESG risks at a total portfolio level

ADVOCACY PROGRAM

Institutional Relations Team

- Engagement with industry groups and regulators on ESG issues
- Assist with creation of standards and frameworks that are material to the investment process and/or improve the functioning of capital markets

ASSET STEWARDSHIP

The members and stakeholders of Washington state's investment programs put their trust in the WSIB to act as a responsible steward of financial assets. Three key components make up the WSIB's Asset Stewardship program:

- Proxy voting policy development and implementation
- Engagement with publicly listed companies on priority issues
- Oversight of investment manager proxy voting and engagement policies and practices

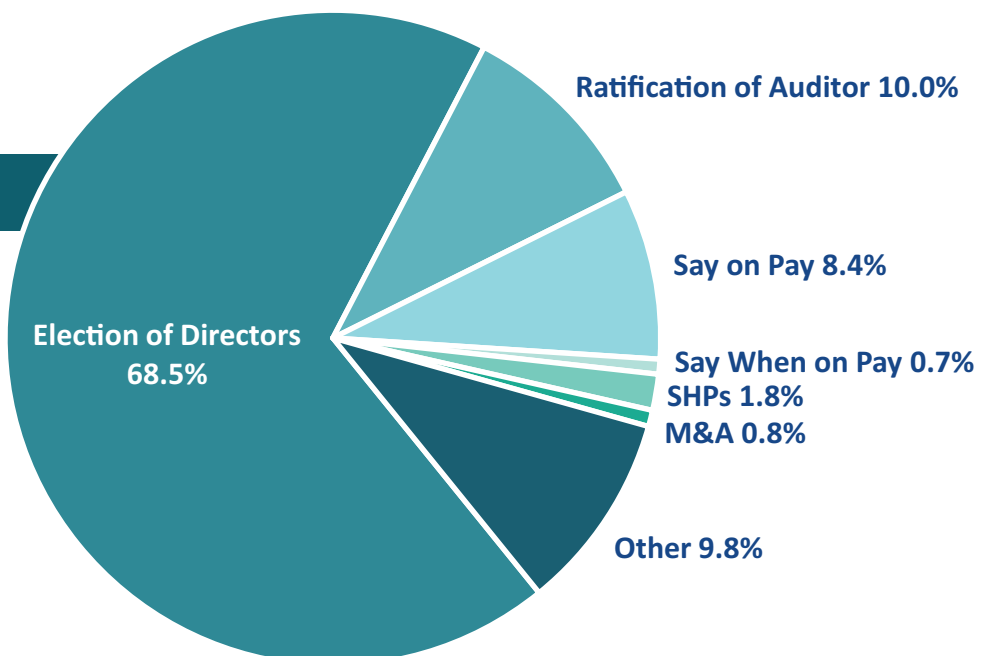
PROXY VOTING

When the WSIB invests in publicly traded stocks, the WSIB becomes a shareholder in that company and gains the right to vote at annual meetings. Shareholder proxy voting helps the WSIB to ensure that the public companies in which we invest are sufficiently focused on their long-term sustainability. To maximize the impact of the WSIB's resources and investor voice, the Board has approved several priorities that guide the WSIB's proxy voting and engagement practices:

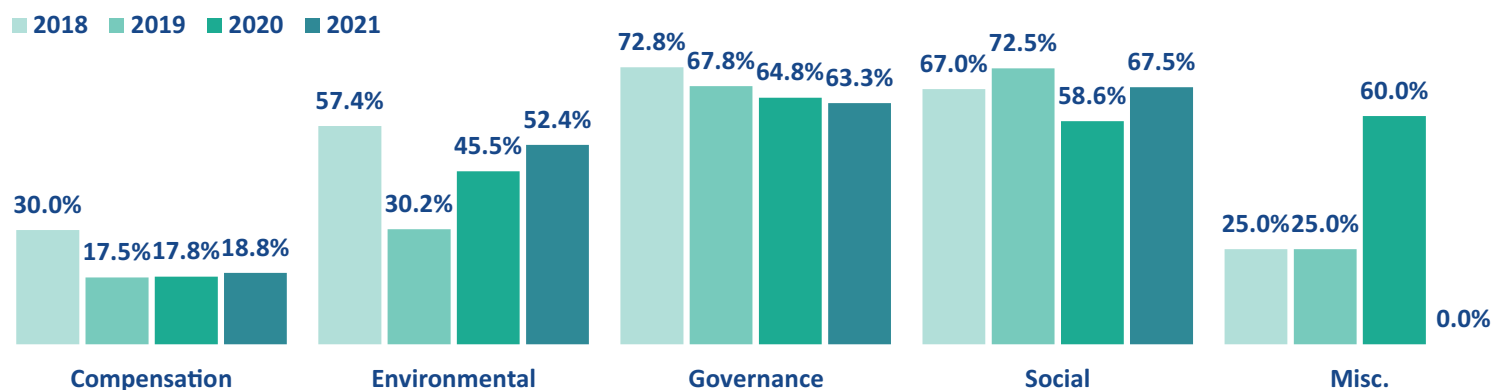
- Shareholder rights and long-termism – The WSIB supports proposals that will help ensure constructive shareholder input to companies, especially when such input encourages company management to focus on long-term growth rather than short-term valuations.
- Diversity of boards and company management – The WSIB has strengthened its voting policies around a general belief that diversity on company boards and management teams is in the best long-term interest of companies and investors.
- Climate issues – The WSIB often supports proposals that seek improved disclosure and reporting of risks associated with long-term climate change. These issues are assessed on a case-by-case basis, evaluating a company's existing reporting and progress, relevance to the industry, and emerging standards for climate impact.

The WSIB voted a total of 3,234 meetings between January 1 and December 31, 2021 (2020: 3,089). Proxy votes were cast on a total of 28,086 individual proxy proposals (2020: 27,670) primarily related to the election of directors, ratification of auditor, advisory vote on executive compensation (Say on Pay), frequency of Say on Pay (Say When on Pay), Shareholder proposals (SHPs), and mergers and acquisitions (M&A).

2021 PROXY VOTING



SUPPORT FOR SHAREHOLDER PROPOSALS BY CATEGORY 2018 - 2021



Of the 19,248 director votes in 2021 (up from 18,548 in 2020), the WSIB voted “against” or “withhold from” 1,368 nominees (approximately 7.1 percent versus 6.3 percent in 2020) in line with WSIB’s Global Proxy Voting Policy.

Primary reasons for voting against directors (in order of prominence):

- Initial public offering (IPO) governance concerns
- Poor compensation practices
- Lack of independence
- Poor attendance record
- Director serves on an excessive number of audit committees
- Lack of board gender diversity

In 2021, the WSIB supported 59.4 percent of SHPs submitted. This is almost identical to support levels in 2020 and 2019. The WSIB provided similar support across all shareholder categories in 2021 compared to 2020. The numbers differ slightly on environmental (E) and social (S) because our proxy advisor, Glass Lewis, no longer categorizes shareholder proposals as miscellaneous.



ENGAGEMENT WITH PUBLICLY LISTED COMPANIES

The WSIB has been increasing its engagement with a select number of publicly listed companies based in the state of Washington during recent years. These engagements have focused on the WSIB's asset stewardship priorities of board diversity and climate-related risks. Further, to have optimal impact, the WSIB has worked on these priority issues with investor coalitions including the Thirty Percent Coalition, The CDP (formerly the Carbon Disclosure Project) and the Climate Action 100+. As the public company engagement program continues, the WSIB plans to responsibly increase the number of strategic engagements with large publicly listed companies in our state, with a specific focus on ESG issues that are material to long-term investment outcomes. Highlights from 2021 from each of these campaigns include:

THIRTY PERCENT COALITION

- Advocated for diversity by participating again in company outreach via the Thirty Percent Coalition's "Adopt a Company Campaign."
 - Sent letters to 282 companies in the Russell 3000 with either one or zero women on the board (depending on size), including two companies based in Washington state.
- More than 500 women have been added as first-time additions to corporate boards, following collective engagement since inception (2012).

THE CLIMATE ACTION 100+

- The WSIB co-leads two campaigns within the Climate Action 100+, both of which involve working closely with large Washington-based companies that are structurally significant to global climate risks and solutions.
- The WSIB has met with each of these companies several times since the campaign was launched in 2017, and once with one of them and twice with the other in 2021.
- Engagement topics include governance of climate-related issues, setting and disclosing emissions and net zero targets, disclosure around climate lobbying and spending, and Task Force on Climate Change Related (TCFD) mapping.

THE CDP (FORMERLY THE CARBON DISCLOSURE PROJECT)

- Participated again in the "CDP Non-Disclosure Campaign."
- In 2021, this encompassed 168 investors with US\$17 trillion in assets requesting information on climate change, water and/or forests from 1,317 distinct companies (~25% responded).
 - The WSIB was the lead outreach participant for seven Washington-based companies.
 - The campaign yielded a 33 percent increase in company responses relative to prior year.
- Questionnaires contain metrics aligned with the TCFD.



OVERSIGHT OF INVESTMENT MANAGER PROXY VOTING AND ENGAGEMENT POLICIES

When it comes to publicly traded company shares held by the WSIB investment managers, nearly all proxies are voted for companies based in the United States. Proxy voting for companies outside of the United States is complicated by factors such as requirements for powers of attorney, share blocking, proxy voting materials that are not in English, and a requirement to have a representative present at meetings in some markets. To ensure that the WSIB adequately manages these considerations in a cost-effective manner, proxy voting for all non-U.S. holdings is delegated to the WSIB's external public equity managers.

The WSIB uses the following approach to ensure that public equity managers are voting its stakeholders' shares in a responsible manner:

- All potential managers must share their proxy voting policy with the WSIB as part of final due diligence during the selection process and must complete a stewardship and corporate governance questionnaire prepared by the WSIB's Institutional Relations and Public Equity units.
- Discussion of a manager's approach to proxy voting, engagement, and assessment of ESG risks is part of due diligence and monitoring meetings with each external public equity manager after they are hired by the WSIB.
- Non-U.S. managers are required to provide the WSIB with a record of all proxy votes, which is analyzed by our third-party proxy advisors and presented in summary to the Board annually.

WSIB JOINS COALITION TO ENSURE FAIR PROXY VOTING RIGHTS

The WSIB recently joined a new international coalition aimed at preserving investors' abilities to effectively vote proxies as part of its asset stewardship responsibilities.

The newly formed Investor Coalition for Equal Votes (ICEV) is focused on highlighting the importance of proportional voting rights in jurisdictions such as the US and the UK. The coalition is co-led by Railpen (UK) and the Council of Institutional Investors (CII) and includes five other founding US-based asset owner members. The other four founding members are the Minnesota State Board of Investment, New York City Comptroller's Office, New York State Common Retirement Fund and Ohio Public Employees Retirement System.

The WSIB advocates for fair access to voting rights (one share = one vote) and related ownership in public markets as a longstanding cornerstone of responsible governance. These voting rights are a core underpinning for shareholder rights and are essential to equal and well-functioning public markets. Our organization will continue to support these types of voting rights with our industry's stock exchanges, members of Congress, the Securities and Exchange Commission (SEC) and other regulatory bodies.

The WSIB invests most of its beneficiaries' assets through trusted partners and carefully researched investment managers. The exception is the WSIB's fixed income investment unit, which manages assets in-house. Once strategies are approved, our external manager and partners are empowered to make investments that meet the objectives of their strategy. This means that adequate assessment of the ESG capabilities of our partners is critical and, therefore, has been the focus of the WSIB's ESG integration efforts outside of fixed income, which directly incorporates financially material ESG factors into the purchases and sales of debt securities. In addition, since the drivers of risk and return vary by asset class, each of WSIB's asset class teams is responsible for ensuring that their own investment process adequately addresses financially material ESG risks and opportunities.


While it's important that the investment teams maintain some autonomy over how they consider ESG issues, best practices in ESG integration are shared across asset classes in order to benefit the WSIB investment programs as a whole. In 2020 we created an ESG Working Group comprised of the Institutional Relations director, Sustainability Officer, Corporate Governance Officer (as Chair), HR director, as well as at least one representative from each asset class, Risk Management and Asset Allocation (RMAA), legal, operations and the data team. The ESG Working Group meets monthly to discuss best practices, new developments, and reports from the various asset classes about how ESG is factoring into their processes.

During 2021 we continued to focus on ESG risks and opportunities during Investment Committee meetings as part of the comprehensive review of prospective new investments. The WSIB's Sustainability Officer plays an active role in these meetings to ensure ESG factors are sufficiently addressed as part of the consideration process for investment recommendations. The Investment Committee has also served an internal sounding board to discuss how voluntary sustainability reporting frameworks and standards might be relevant or valuable to the WSIB's investment process.

In 2022, the WSIB will begin to develop a Partner ESG Assessment tool that will support investment officers' efforts at due diligence and monitoring by systematically assessing the ESG integration capabilities across all managers/partners within an asset class and over time. This project will also help the WSIB increase consistency in how it defines materiality of ESG risks and opportunities across asset classes.

MEASURING CLIMATE RISKS AND OPPORTUNITIES

Historically, the WSIB has reviewed and reported the market value of its fossil fuel and coal holdings as a percent of the market value of the total portfolio as one indicator of climate risk exposure. This is a straightforward calculation, with verifiable inputs like securities prices, number of holdings, and standardized sector and industry classifications. However, we acknowledge that sectors outside of upstream energy also face climate risk, and that some upstream energy companies are also investing in new technologies that may aid in the climate transition. As part of a newly developed Climate Blueprint, which is further described in this report, the WSIB is working to develop a more comprehensive assessment of its climate risks and opportunities, beyond our exposure to a single sector.



The WSIB continues to advocate for disclosure of scope 1 and scope 2 emissions by companies both in public and private markets, which we believe is a better indicator of our overall climate risk than our exposure to a specific industry. However, emissions data is only publicly reported and verified by a small portion of the companies in our investment portfolio. This limitation currently creates difficulty when trying to obtain a total portfolio carbon footprint. With efforts like the proposed SEC Climate-Related Financial Disclosure rule and the ESG Data Convergence Initiative, we believe more companies will recognize that emissions data is financially material and therefore should be disclosed. While we continue to advocate for consistent, comparable disclosure of climate-related data, we offer our stakeholders the following description of some key climate-related risks and opportunities in our Commingled Trust Fund (CTF), the pooled assets supporting the retirement plans:



THE ALPHABET SOUP OF SUSTAINABILITY FRAMEWORKS

IFRS Sustainability Alliance

The WSIB actively participates in discussions that promote and support a global baseline of consistent, comparable, and financially material sustainability disclosure,

both in public and in private markets. We believe that the proliferation of frameworks and standards colloquially known as the alphabet soup of ESG frameworks (SASB, IIRC, CDP, GRI, TCFD, etc.) creates confusion both for investors and for companies who are trying to address ESG issues in a responsible manner. Significant progress was made in 2021 leading into 2022, both in public and in private markets.

At the COP26 climate conference on November 3, 2021, the IFRS Foundation announced the planned consolidation of the IFRS Foundation, the Climate Disclosure Standards Board (CDSB), and the Value Reporting Foundation (VRF) under the newly-created International Sustainability Standards Board (ISSB)¹. VRF had been created in 2021 by a merger of the Sustainability Accounting Standards Board (SASB) and International Integrated Reporting Standards (IIRC). Effectively, this will create a single entity for global sustainability standards under an organization that already has decades of experience creating and maintaining accounting standards. We expect this will primarily impact public companies, but private companies that are looking to increase their sustainability reporting could look to the ISSB when determining what and how to report.

In private markets, the ESG Data Convergence Initiative gained significant momentum in 2021 and now boasts over 200 participants. This initiative streamlines the private investment industry's historically fragmented approach to collecting and reporting ESG data in order to create a critical mass of meaningful, performance-based, comparable ESG data from private companies. This allows general partners and portfolio companies to benchmark their current position and measure progress toward ESG improvements while enabling greater transparency and more comparable portfolio information for limited partners².

- Our exposure to fossil fuel companies rose a small amount, from 3.26% to 3.30%. This is reflective of the increase in market value of fossil fuel holdings during the time period, as well as a few opportunistic purchases and sales made by our partners. Our exposure to coal companies remained very small, at just 0.04% of the total CTF.
- As a percent of the CTF, our exposure to renewable energy companies decreased slightly, from 0.87% to 0.79%. This is because our renewable holdings, particularly in the public equity portfolio, underperformed the broader market. However, absolute exposure to renewable energy companies in the CTF did increase, from \$1.13 billion on December 31, 2020 to \$1.29 billion on December 31, 2021. New investments in renewable companies were primarily made in our Innovation and Tangible Assets portfolios.
- In 2021, the WSIB approved a \$325 million commitment to a newly created climate impact fund, TPG Rise Climate. The Fund will seek to make investments in businesses that meet the return underwriting standards of other TPG private equity funds and have a positive quantifiable climate impact. Investments will typically be equity commitments of \$100 million to \$500 million across five sub-sectors: Clean Energy, Enabling Solutions, Decarbonized Transport, Greening Industrials, and Agriculture & Natural Solutions.

¹ IFRS - IFRS Foundation completes consolidation with Value Reporting Foundation

² ESG Data Convergence Initiative - ILPA

The WSIB has recently advocated for proposed rules that promote fair and functioning markets and encourage long-term investment disciplines. While the below list includes letters submitted by the WSIB, we also participated in numerous forums and webinars on a host of other regulatory proposals related to ESG issues.

- In June 2021, the WSIB submitted a letter to the SEC in response to its request for public input on proposed climate change disclosures for public companies.
- In September 2021, the WSIB submitted a letter to CFA Institute on a proposed diversity, equity, and inclusion Code.
- In October 2021, the WSIB submitted a letter to the House in support of CII-backed legislation on dual class shares and diversity.
- In November 2021, the WSIB co-led a collective institutional investor letter to the SEC requesting all public companies publicly release Equal Employment Opportunity (EEO-1) data.
- In December 2021, the WSIB submitted a letter to the SEC asking to rescind prior proposed rules that would greatly restrict proxy advisors in providing independent research to institutional investor clients.
- In June 2022, the WSIB submitted a letter to the SEC supporting key elements of its proposed Climate-Related Financial Disclosure Rule.



Ownership Works

In 2022, Allyson Tucker (CEO) joined those supporting the development and launch of Ownership Works, a new nonprofit with a mission to increase prosperity through shared ownership initiatives. The program

attracted similar support from more than 60 partners across the private, public, and nonprofit sectors. Ownership Works is helping to develop and implement broad-based employee ownership programs to create better work environments and financial opportunities for employees and is striving to help businesses improve their performance by attracting and retaining engaged employees who are invested in their company's success. This new movement is particularly timely as many workers are considering a change of jobs to seek better pay, benefits and corporate cultures.

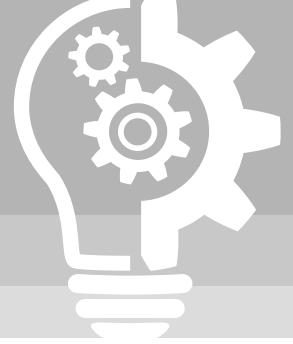
Ownership Works is supported by a broad consortium of corporations, foundations, investors, labor advocates and pension funds that recognize the power of employee ownership to unlock new levels of success for companies while creating a pathway to wealth creation for workers. This approach can play a role in helping to address the lack of stock ownership among the bottom 50% of households and by people of color. Ownership Works aims to catalyze a groundswell of interest in employee ownership across corporate America, and to provide private and public companies with practical models and tools to support program implementation.

By 2030, the nonprofit anticipates that the shared ownership movement will:

- Create hundreds of thousands of new employee-owners
- Generate at least \$20 billion of wealth for working families

At scale, this movement has the potential to create an ownership mindset among millions of lower-income workers and people of color who have been excluded from this wealth-building opportunity for generations. "This is about smart and responsible investing. When companies share ownership, it helps families, communities and society," said Allyson Tucker, CEO at the Washington State Investment Board. "Asset owners and managers all have a role to play here, and Ownership Works can help us promote shared ownership as a societal benefit that also yields strong returns for investors."

BLUEPRINT FRAMEWORKS



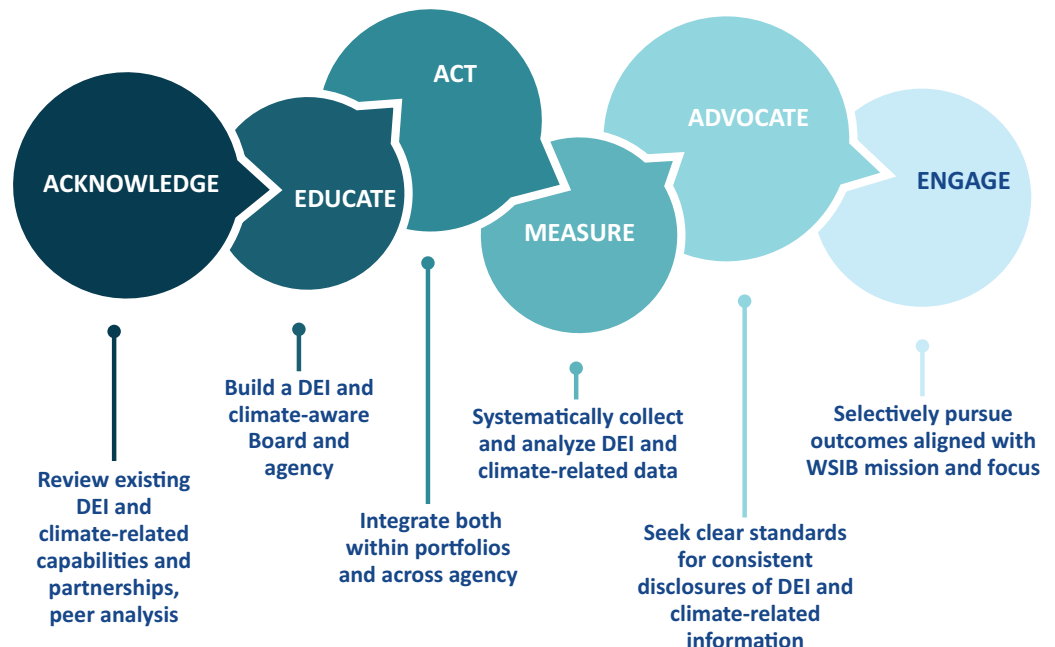
In 2022, the WSIB is introducing a DEI Blueprint and a Climate Blueprint as two of the agency's key long-term strategic initiatives. These blueprints are strategic tools to help define and advance the WSIB's ability to address systemic issues like DEI and climate change as integral factors within our investment discipline and organizational mission. These blueprints seek progress and consistency across agency, portfolio, and industry activities where feasible. The blueprints are not published reports with a definitive end product; they are dynamic project plans that will evolve over time based on WSIB priorities.

The blueprints can be viewed as integrated expansions of our existing ESG framework



THE BLUEPRINT FRAMEWORK

The DEI and Climate Blueprints create a governance structure and establish consistent direction and prioritization. The CEO is the champion and owner of the Blueprints and will provide updates to the Board as part of the annual strategic planning process. The Board is responsible for annual review and approval of the strategic priorities as identified in the strategic plan. A cross-functional team of staff members, project lead, and project manager have been identified to implement the Blueprints.





The WSIB is committed to providing an inclusive workplace which recognizes, values, and respects all individuals. The long-term DEI vision for the WSIB as an agency includes:

- Create and sustain an inclusive and diverse work environment
- Build the WSIB as an employer of choice
- Focus on career growth and advancement opportunities, providing resources and training opportunities across the organization
- Identify and elevate emerging issues, and support efforts to attract and retain talented people
- The long-term DEI vision for the WSIB's portfolio and investment industry activities include:
 - Uphold our investment belief that improved economic outcomes can be achieved by creating a more diverse, equitable, and inclusive work force
 - Support governance practices that provide transparency and long-term sustainability
 - Engage with public companies, investment managers, and partners
 - Incorporate DEI considerations into investment decision making
 - Align public advocacy efforts with investment beliefs in a deliberate and thoughtful manner to support meaningful change over time



CLIMATE BLUEPRINT



CLIMATE BLUEPRINT

Climate change is one of the largest systemic risks facing our investment portfolios today. The Earth's average temperature has risen by over 2 degrees Fahrenheit from preindustrial levels. Scientific consensus cites human activities as the primary cause of this observed climate-warming trend. The impact of these rising temperatures has already been seen across the globe in the form of natural disasters that are increasing in frequency and magnitude, melting glaciers, increasing droughts, and rising sea levels. These impacts are expected to continue to increase, even if humans take dramatic action to curb global greenhouse gas emissions now. The Climate Blueprint seeks to navigate these issues consistent with our fiduciary duty to our members.

A summary of activities we are considering as part of the Climate Blueprint include:

AGENCY	PORTFOLIO	INDUSTRY
<ul style="list-style-type: none">● Ensure alignment with fiduciary duty● Create governance structure to establish accountability● Evaluate climate competency● Provide education opportunities to Board and staff● Benchmark to peers● Assess operational sustainability	<ul style="list-style-type: none">● Support activities consistent with the WSIB's Sustainability Investment Belief● Integrate climate considerations into investment decision-making process● Explore participation in the ESG Data Convergence Initiative● Measure portfolio greenhouse gas emissions where data is available● Develop a Partner ESG Assessment Tool● Take into account climate scenario analysis● Review and update proxy voting policy regularly to maintain alignment with Investment Beliefs	<ul style="list-style-type: none">● Support aligned climate-related initiatives with leading organizations such as CDP, Ceres, Climate Action 100+, FCLT Global, and World Economic Forum● Assess collective engagement impacts● Advocate for responsible changes via letters to regulatory bodies supporting disclosure of financially material, consistent, and comparable climate-related data● Assist with the creation of standards and frameworks that are material to the investment process and/or improve functioning of capital markets

LOOKING FORWARD: 2022 AND BEYOND



In 2022, the WSIB introduced the DEI Blueprint and a Climate Blueprint as important strategic tools in support of two of the agency's key long-term strategic initiatives. These blueprints will help define and advance the WSIB's ability to address systemic issues like DEI and climate change as integral factors within our investment discipline and organizational mission.

They build upon and enhance our existing ESG Framework and will help us seek progress and consistency across our agency, portfolio, and industry activities. As ESG-related regulations and rulemaking continue to evolve, we will actively support long-term disciplines, shareholder rights, and initiatives that provide financially material information to all market participants. We intend to continue building an investment discipline that will ensure long-term, positive, and sustainable outcomes for our beneficiaries and stakeholders.



