



**Thursday, April 21, 2022
Board Meeting**

**Webex
9:30 A.M.
Dial-in information provided upon request.**

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

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

A. Adoption of the February 17, 2022, meeting minutes.

3. CEO Report to the Board (9:35-9:45)

A. CEO Report to the Board - March/April 2022

B. Public Comment Submissions

4. Administrative Committee Report (9:45-10:05)

A. Biennial Investment Officer Salary Survey/Proposed Investment Officer Salary Bands

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

A. State Auditor's Office – Fiscal Years 2020 & 2021 Accountability Audit

6. Public Markets Committee Report (10:10-10:15)

A. Cash Overlay Manager Recommendation

7. Private Markets Committee Report (10:15-10:20)

A. Private Equity Investment Recommendation - The Rise Fund III, L.P.

B. Private Equity Investment Recommendation - TPG Healthcare Partners II, L.P.

8. Retirement Commingled Trust Fund Asset Allocation Policy Update (10:20-10:40)

A. Retirement CTF Asset Allocation Policy 2.10.050 Revision

9. Break (10:40-10:45)

10. Education Session: Q&A with Retired U.S. Army General David Petraeus (10:45-11:45)

11. Economically Targeted Investments (ETI) Annual Report (11:45-12:15)

A. Economically Targeted Investments (ETI) Annual Report & Presentation

12. Break (12:15-12:45)

13. Introduction to Commingled Trust Fund Quarterly Risk Report (12:45-1:45)

A. Introduction to Commingled Trust Fund (CTF) Quarterly Risk Report

14. Board Conference and Education Reports (1:45-2:00)

A. Pacific Pension Institute (PPI) Winter Roundtable

B. Council of Institutional Investors Spring Conference

15. Executive Session - Administrative Committee Report continued (2:00-2:10)

A. Executive Assistant Compensation

16. Other Items (2:10-2:15)

17. Adjourn (2:15p)

APPROVED

**WASHINGTON STATE INVESTMENT BOARD
Board Meeting Minutes
April 21, 2022**

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

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

Members Absent: Ada Healey
George Zinn

Also Present: Allyson Tucker, Chief Executive Officer
Chris Hanak, Chief Investment Officer
Aileen Liu, Assistant Senior Investment Officer – RMAA
Carmen Matsumoto, Investment Officer – Private Equity
Bridget Murphy, Corporate Governance Officer
Chris Green, Assistant Senior Investment Officer - RMAA
Stacy Conway, Executive Assistant

Tor Jernudd, Attorney General's Office
Retired U.S. Army General David Petraeus, KKR

CALL TO ORDER

Chair Guerin called the meeting to order at 9:32 a.m. and took roll call; all Board members listed as present were able to fully participate in the meeting.

Chair Guerin announced that, assuming no objections, Joel Sacks would be appointed to serve as chair should she lose connection to the meeting. There were no objections.

ADOPTION OF MINUTES

**Chair Guerin moved to adopt the February 17, 2022, meeting minutes.
Ms. Kuschel seconded, and the motion carried unanimously.**

CEO REPORT TO THE BOARD

Ms. Tucker noted that there were no meetings scheduled for the month of May and listed the next scheduled June meetings, commenting on the development of the location and agenda for the July meeting. She shared information on her participation in Ownership Works, a non-profit organization backed by private equity firms and limited partners, and she highlighted changes made to the staffing section of the CEO report. She introduced six new WSIB staff members and noted several recent staff departures.

ADMINISTRATIVE COMMITTEE REPORT

Chair Guerin reported that the Administrative Committee met earlier in the morning with several agenda items. The first item was the presentation of the biennial salary survey completed by McLagan and the proposed investment officer salary bands.

On behalf of the Administrative Committee, Chair Guerin moved that the Board adopt the proposed salary ranges for Investment Officers, provide notice to the director of the Office of Financial Management and the chairs of the House of Representatives and Senate fiscal committees, and provide an effective date for the new salary ranges of 60 days after notice is given to OFM and the fiscal committee chairs. Mr. Sacks seconded the motion.

Chair Guerin reminded the Board that parameters for investment officer compensation are set by state statute, with total pay limited to the average of total compensation provided by state or other public funds of similar size based on a biennial salary survey, which was conducted by McLagan. The salary survey completed by McLagan indicates appropriate ranges for the WSIB as follows:

Chief Investment Officer	\$438,984 to \$716,496
Senior Investment Officer	\$202,344 to \$371,496
Asst. Senior Investment Officer	\$162,672 to \$280,344
Investment Officer	\$113,712 to \$199,000
Assistant Investment Officer	\$81,468 to \$134,868

She noted that these salary ranges would be effective in July 2023, as part of the 2023-2025 biennial budget.

The motion carried unanimously.

Chair Guerin relayed that the Administrative Committee also received an update from the *ad hoc* committee, which met on March 23 to continue its discussions. At that meeting, Ms. Tucker shared a summary of activities that have taken place since the last *ad hoc* committee meeting, including the introduction of the climate and DEI blueprint framework at the February Board meeting as part of the agency's Strategic Plan, and she provided perspectives from other pension plans. In the *ad hoc* committee discussion, Senator Mullet noted that the legislature recently created a large fund to impact underrepresented communities; these funds are available because of the WSIB's strong investment performance. *Ad hoc* committee members expressed their desire to move forward in a

thoughtful manner, focusing on measurable outcomes where the WSIB can have a meaningful impact. There are many ways to be deliberate around DEI, and this will be explored in the development of the blueprints. Members also acknowledged the positive impact the Board has had over the years through its engagement with external partners and coalitions, including its influence in the area of women in finance. The WSIB has work to do in terms of developing processes for broadening diversity in decision-making, and it will be a collaborative process, with the Board providing guidance to staff, and staff making recommendations to the Board.

Chair Guerin said that, ultimately, there was *ad hoc* committee consensus to include development of a racial equity investment belief as part of the blueprint to be discussed, along with tailored education sessions, at the Board's strategic planning meeting in July.

The Administrative Committee discussed including the synergy between climate and DEI in future education sessions.

The July Board meeting will give all Board members the opportunity to engage on these issues and participate in moving the organization forward in these important areas. In bringing these discussions back to the Board, the *ad hoc* committee's work has been completed. The July meeting of the Board will allow the members to get a good grounding and shared understanding of the issues.

Treasurer Pellicciotti noted his agreement with the summary.

Ms. Pugh noted that staff was very thoughtful, as was the committee, and the committee was able to add some perspective to the direction of the work that staff is undertaking.

Discussion ensued regarding the original purpose of the *ad hoc* committee.

On behalf of the Administrative Committee, Chair Guerin moved that the Board disband the *ad hoc* committee that was formed in November 2021 to address social responsibility in the context of fiduciary duty, as it has completed its intended work and made its recommendation. Ms. Kuschel seconded, and the motion carried unanimously.

Chair Guerin thanked the committee members for their work.

AUDIT COMMITTEE REPORT

Treasurer Pellicciotti reported that the Audit Committee met on March 1 with a full agenda, including one action item for the Board's consideration.

On behalf of the Audit Committee, Treasurer Pellicciotti recommended that the Board accept the State Auditor's Office Accountability Audit Report of the Washington State Investment Board for Fiscal Years 2020 and 2021. Chair Guerin seconded the motion.

Staff from the State Auditor's Office (SAO) reviewed the scope and results of their accountability audit, which included payroll, procurement of professional services, Private Equity external manager due diligence and monitoring, tracking, and monitoring of sensitive assets, and a review of open public meeting documentation. For the audit areas included, the SAO concluded that the WSIB complied with applicable state laws, regulations, and internal policies, and provided adequate controls over the safeguarding of public resources.

The motion carried unanimously.

The Committee received the results of the Non-Appropriated Disbursements internal audit engagement. Internal audit staff concluded that expenditures were valid, properly supported, appropriate, and in compliance with applicable vendor payment policies, and the WSIB has processes and controls in place to ensure compliance and the safeguarding of assets. There were no audit recommendations.

Staff presented the Annual Investment Compliance Report which included a review of investment compliance activities, gifts, and personal investments. The presentation highlighted an overview of the WSIB's operational due diligence activities, a review of the daily compliance program, gift reporting, and personal trading. Staff noted that the WSIB is focused on maintaining a strong compliance culture.

Staff and representatives from Glass Lewis and International Shareholder Services (ISS) delivered the annual U.S. proxy voting report for 2021, discussed recent and emerging U.S. stewardship trends, and presented an analysis of the WSIB's non-U.S. managers voting records and global stewardship trends. Additionally, Public Equity staff provided an assessment of the ISS non-U.S. manager review concluding that, overall, non-U.S. managers are voting their proxies in compliance with the WSIB's specified investment philosophies and processes.

In addition, the Committee reviewed the independence of the financial statement auditor, received an update on the status of prior audit recommendations, reviewed the updates made to the Fiscal Year 2022 audit plan, and received the quarterly investment referral report.

Lastly, the committee convened in Executive Session to complete the Audit Director performance evaluation.

PUBLIC MARKETS COMMITTEE REPORT

The Public Markets Committee met on March 1, 2022, to consider the cash overlay manager recommendation and receive updates on the socially responsible investing and active global equity manager searches.

On behalf of the Public Markets Committee, Ms. Makowski moved that the Board select Russell Investment Group, LLC for the WSIB's Commingled Trust Fund cash overlay program mandate, subject to continuing due diligence and final negotiation of terms and conditions. Mr. Sacks seconded the motion.

The contract for implementing a comprehensive cash overlay program for the CTF is due to expire in June 2022. Staff and the Public Markets Committee recommend that Russell Investment Group, LLC. be hired as its cash overlay manager for the CTF. Russell demonstrated the level of thoroughness, curiosity, and flexibility, backed by reliable internal trading capabilities, to implement and evolve the CTF cash overlay program over time as needed.

Members of Russell's cash overlay services team addressed the Committee, discussing the firm's background, team, philosophy, and highlighting their customized implementation approach, specialized business model, and broad research capabilities.

The motion carried unanimously.

Staff provided an overview of changes being made to the search criteria for the Socially Responsible Balanced Fund, an investment option in the defined contribution and savings plan menus for Plans 3, Judicial Retirement Accounts, and the Deferred Compensation Plan. The changes seek to expand the universe of potential strategies in the upcoming rebid of the fund later this year. Specifically, in addition to the current universe of socially responsible balanced funds, the changes will allow staff to consider equity-only socially responsible funds and thematic environmental strategies. Finally, staff removed the requirement that the Socially Responsible Balanced Fund utilize exclusions in the investment process. The change will allow staff to consider strategies that utilize exclusions and those that do not.

There was also a discussion of the ongoing CTF active global equity search. Staff launched a rebid of the CTF's active global equity program in December 2019, and the subsequent recommendation was approved by the Board and implemented, with the understanding that additional recommendations would be made, as the due diligence on several remaining candidates had been postponed due to pandemic-related travel issues. After a review of the search process to assess if and how the remaining diligence could be completed in accordance with the high standards of the WSIB, staff formulated a plan to move forward with the search process and expects to present further manager recommendations to the Public Markets Committee in September. A transition to the approved investment recommendation is targeted for completion by year-end.

Chair Guerin reminded the Board that there is only one Socially Responsible Balanced Fund, so staff are being very diligent in the due diligence on this option.

PRIVATE MARKETS COMMITTEE REPORT

The Private Markets Committee met on April 7, 2022, to consider two private equity investment recommendations.

The first item for the Board's consideration was The Rise Fund III, L.P.

On behalf of the Private Markets Committee, Chair Guerin moved that the Board invest up to \$250 million, plus fees and expenses, in The Rise Fund III, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Ms. Lewis seconded the motion.

The Rise Fund III, L.P. is an impact private equity fund with a target size of \$3 billion being raised by TPG Inc. that will pursue growth equity, growth buyout, and venture capital investments across multiple industry sectors in growth-stage businesses. The Fund will seek to make investments in businesses that meet the return underwriting standards of other TPG Growth funds and that also have a positive societal impact. The proposed investment is included in the Board-approved 2022 private equity annual plan and is consistent with the model portfolio.

The recommendation is based in part on TPG's strong overall performance; recent liquidity at attractive multiples; differentiated strategy; differentiated sourcing and deal flow; dedicated value creation team; and other factors relevant to the recommendation.

Discussion ensued regarding opportunities to share these positive messages with the legislature; KKR's upcoming impact fund; investments in Rise I and Rise II through the Innovation Portfolio as a test to determine whether the WSIB could reach impact investing at scale, and the local firm that is a part of the proposed fund.

The motion carried unanimously.

The second item for the Board's consideration was TPG Healthcare Partners II, L.P.

On behalf of the Private Markets Committee, Chair Guerin moved that the Board invest up to \$120 million, plus fees and expenses, in TPG Healthcare Partners II, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Senator Mullet seconded the motion.

TPG Healthcare Partners II, L.P., or THP II, is a healthcare-focused sidecar being raised by TPG Inc. alongside TPG Partners IX, L.P. with a target size of \$3.5 billion. THP II is expected to pursue control-oriented transactions in the healthcare sector, alongside TPG IX, primarily in the United States and Europe. The Board-approved 2022 private equity annual plan included a \$600 million commitment to TPG IX; \$480 million was allocated to TPG IX and \$120 million to THP II. A commitment to THP II is consistent with the model portfolio.

The recommendation is based in part on TPG's strong overall performance; recent liquidity at attractive multiples; strong portfolio fit; strong value creation with a dedication operations team; deep sector expertise in healthcare; and other factors relevant to the recommendation.

The motion carried unanimously.

RETIREMENT COMMINGLED TRUST FUND ASSET ALLOCATION POLICY UPDATE

Ms. Liu introduced the policy update, reminding the Board that the CTF asset allocation was approved on October 18, 2021. She explained that due to strong market performance, real estate and private equity actual allocations are above the 2021 year-end and long-term targets. Staff recommended increasing the real estate portfolio 2022-2024 targets to the long-term target of 18.0 percent and reducing the fixed income 2022-2024 year-end targets, offsetting the corresponding increase to the real estate year-end targets. This will maintain the 45 percent fixed income and 55 percent public equity rolled-up allocation set forth in the policy. The proposed year-end targets for real estate are 18.0 percent for calendar year-end 2022-2024; the proposed year-end targets for fixed income are 20.9 percent for 2022; 20.3 percent for 2023; and 19.6 percent for 2024.

Discussion ensued regarding the recent performance of fixed income, potential future opportunities in the asset class, the WSIB's long-term market view, the impact on allocation targets of strong performance in specific asset classes, and recent private markets performance.

Chair Guerin moved that the Board adopt the proposed revisions to the Retirement CTF Asset Allocation Policy 2.10.050. Ms. Makowski seconded, and the motion carried unanimously.

PUBLIC COMMENT

Ms. Tucker noted that there were four public comment submissions located in the Board member materials, including two beneficiary letters requesting fossil fuel divestment; a letter from an employee of a portfolio company held by a private equity partner asking for consideration; and a letter from a concerned citizen in the state of Washington about private equity investments in fossil fuel infrastructure.

[The Board recessed at 10:22 a.m. and reconvened at 10:45 a.m.]

EDUCATION SESSION

Q&A with Retired U.S. Army General David Petraeus

Ms. Tucker introduced General Petraeus, thanking him for presenting and sharing highlights of his background. She acknowledged that the war in Ukraine is very difficult on an emotional level; the discussion at this meeting will focus on the financial implications.

General Petraeus shared some introductory remarks on the events in Ukraine to date, noting that the Russia has vastly underestimated Ukraine in its intent to roll in, topple the government, and replace President Zelenskyy with a Russian leader. The Ukrainian people have shown great resilience, and the Russian military is encountering significant obstacles.

He noted the pace and the speed and the comprehensive nature of the sanctions on the Russian economy, with more to come, including freezing Russia's foreign reserves. Russia's economy will struggle, but it is one that is difficult to completely cut off due to the commodities it provides to the rest of the world.

[Representative Ormsby joined the meeting at 11:09 a.m.]

[Mr. Markley joined the meeting at 11:13 a.m.]

Discussion ensued regarding the instability of Russian leadership and the potential for use of nuclear weapons; limited potential for future investment opportunities in Russia due largely to the likelihood of a continuation of the current political structure; likelihood of a peace agreement in light of western public condemnation and need for Russia to claim some victory; the rising popularity of President Putin in Russia; impact on China of the U.S. reaction to the crisis in Ukraine; and risk of Russia experiencing enough victory to continue moving against other nations.

In response to Ms. Tucker's inquiry about the global or geopolitical trends that the WSIB should be paying attention to, General Petraeus pointed out the U.S./China relationship and the importance of following where the trend is going, not where it has been, and understanding the nature of the relationship, privacy issues, laws, and sanctions, and how these could change. He opined that this is currently the most significant global development and is worth watching.

ECONOMICALLY TARGETED INVESTMENTS (ETI) ANNUAL REPORT

Ms. Matsumoto presented the annual ETI report, discussing investment activity in Washington State, with a focus on private equity investments. She shared an overview of the ETI objectives, noting that while there is not an explicit mandate for economic development in Washington, the WSIB is an active and powerful supporter in the state economy and the investments made are beneficial and have a positive impact on the state.

Ms. Matsumoto discussed the process of surveying general partners to gather data, and she shared the results of the annual analysis, highlighting the dramatic increase in investment activity in 2021, both nationally, as well as within the state of Washington. She presented a 10-year history of investment activity in the state of Washington, highlighting venture capital investments, and she addressed contributing factors to the increase.

[Mr. Markley left the meeting at 11:57 a.m.]

Discussion ensued regarding staff's assessment of risk associated with the increase in investment activity and the importance of vintage year diversification with deliberate and consistent allocation of capital.

Ms. Matsumoto discussed the increase in initial public offering (IPO) and special purpose acquisition company (SPAC) activities in Washington state and noted the growth of Washington-based investments in the CTF over the last 10 years.

Ms. Murphy addressed the WSIB's public company engagement program's efforts with Washington-based companies, including involvement with the Thirty Percent Coalition and the Climate Action 100+, and the positive results of staff's engagement efforts.

Ms. Matsumoto highlighted a Washington-based portfolio company that implemented an employee ownership program last year in which every employee received ownership units that can grow based on the overall performance of the company. In total 1300 employees

were positively impacted by the employee ownership program. She noted the connection between this example and Ms. Tucker's earlier discussion regarding involvement in Ownership Works.

Discussion ensued regarding the criteria for company inclusion in the reporting and how the WSIB might share the positive impact examples with stakeholders.

[The Board recessed at 12:18 p.m. and reconvened at 12:45.]

INTRODUCTION TO THE COMMINGLED TRUST FUND QUARTERLY RISK REPORT

Mr. Green re-introduced the quarterly CTF risk report, explaining that the report summarizes CTF risk exposures and provides insight about how the CTF has changed over the last decade. Going forward, the risk report will be included in Board materials on a quarterly basis. He discussed the WSIB's build-out of the total portfolio risk and performance analytics over the last 15 years, including the construction of a data warehouse, implementation of BarraOne as the total portfolio risk and performance analytics system, and development of reporting tools. He shared considerations in the development of a Board-level report and noted that staff is looking for guidance from the Board as to desired content.

Discussion ensued regarding the reporting of CTF geographic exposures, historical use of MSCI country definitions in assessing risk and staff's shift to a new risk-based country definition for a more accurate risk assessment, and domination of a home-country bias in pension fund allocations.

Mr. Green began with a review of the CTF's geographic exposure. He discussed the changes in the CTF's geographic exposure over the last 10 years and compared the CTF's exposures to those of the passive benchmark. He provided additional detail on China exposure by asset class and industry. He explained that the decline in the weight of China holdings in the CTF during 2021 is largely explained by a drop in the value of public equity investments in China combined with an increase in the valuation of the CTF. The discussion covered the reporting of CTF geographic exposures, the different definitions of "country" in use in the investment industry, and home-country bias in pension fund allocations.

Mr. Green reviewed the CTF's industry concentration. RMAA tracks industry concentration using the MSCI Global Industry Classification Standard (GICS). He noted the changes in the CTF's industry concentration over the last 10 years. He also covered the evolution of the CTF's fossil fuels exposure over the last 10 years and touched on recent market and portfolio movements in that sector.

Mr. Green concluded the concentration risk portion of the report with a review of the CTF's issuer concentration, which aggregates holdings in a given company across asset classes and security types.

Mr. Green discussed CTF risk analyses from the risk system, BarraOne, including volatility forecasts, contribution to risk by asset class, and stress tests. Discussion ensued regarding long-term rates of return by risk category; the ability of BarraOne to address risk horizons

longer than 1 year; consideration of risk in the capital market assumptions (CMA) analysis; comparison of the risk forecasts from BarraOne and from the CMAs; and use of the stress tests in liquidity planning and portfolio management. In response to a question regarding scenario analysis of funding ratios, Ms. Tucker noted that the funding ratio is explicitly modeled within the asset allocation study every 4 years, and the Board votes on the importance of the funding ratio. It is the basic measurement of the success of the system, but there are some aspects outside of the WSIB's control.

Discussion ensued regarding the use of information in the risk report to influence investment decision-making and improve outcomes; and the significant amount of staff effort involved in the analysis and reporting.

Discussion ensued regarding inclusion of the climate and DEI blueprint work in future risk reporting for a comprehensive analysis and holistic view; a review of the methodology for the CMAs; possibility of benchmarking the CTF's risk results against pension peers and other institutional investors; and future education on how the investment program should address index exposure risks.

[Senator Mullet left the meeting at 2:15 p.m.]

BOARD CONFERENCE AND EDUCATION REPORTS

Pacific Pension & Investment Institute (PPI)

Chair Guerin reported on her attendance at the PPI Winter Roundtable. She shared highlights of the program and acknowledged the value of attending this conference.

Council of Institutional Investors (CII)

Ms. Kuschel, Ms. Makowski, Treasurer Pellicciotti, and Mr. Longbrake reported on their attendance at the CII Winter Conference, sharing their various perspectives of the conference and highlights of the program.

In response to Ms. Makowski's inquiry regarding private equity portfolio company job growth, Ms. Tucker reported on the action that staff has taken since the original discussion, including an initial survey of general partners, which did not lead to meaningful information. Staff is reviewing the industry standardized template and use is under consideration. She thanked Ms. Makowski for continuing to bring it to staff's attention.

EXECUTIVE SESSION

Chair Guerin announced that the Board would go into executive session to review the performance of a public employee. The executive session was expected to last approximately 10 minutes, at which time the Board would reconvene in open session.

[The Board went into executive session at 2:15 p.m.]

Executive Assistant Compensation

[The Board reconvened in open session at 2:24 p.m.]

On behalf of the Administrative Committee, Chair Guerin moved that the Board approve a salary of \$103,569 for the executive assistant of the Washington State Investment Board consistent with comparable salaries in government. Representative Ormsby seconded, and the motion carried unanimously.

ADJOURNMENT

There were no other items to come before the Board, and the Board adjourned at 2:25 p.m.