



**Washington State
Investment Board**

Sustainability and Integration of Environmental, Social, and Governance (ESG) Considerations in Plans 3 / DCP / JRA Investment Options

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Agenda



Introduction: Why we are Here

Current ESG Landscape

ESG in Current DC Menu Options

Rebid of the SRI Option

Getting your Feedback

Next Steps



Introduction: Why we are Here



What is ESG and why does it matter?

How does the WSIB think about ESG?

- ▣ Uphold our fiduciary duty
- ▣ Meet member needs

SRI option must be rebid by 2023

- ▣ WSIB plans to conduct a manager search subject to open procurement processes
- ▣ The rebid is an opportunity to reexamine the search parameters of the SRI option in the context of meeting these primary goals



Current ESG Landscape

Sustainable investing has experienced tremendous growth over past decade



Perceptions have also changed: ESG integration no longer considered an automatic drag on performance



Nearly all current WA State DC investment options have elements of sustainability in their investment processes



Regulatory uncertainty for ESG investments clouds outlook for further adoption



The many flavors of ESG Investing

VALUE

ESG Integration

Incorporation of ESG factors into all stages of the investment decision making process in an effort to improve returns or reduce risk of a portfolio

Active Ownership

Utilization of ownership rights through proxy voting and engagement with company management teams to improve the long term sustainability of a company

Best-in-Class Selection

Investing only in companies that lead their peer groups in ESG performance, may also exclude companies based on ESG criteria

Thematic

Top-down investment in themes or assets specifically related to sustainable objectives

Exclusionary

Commonly referred to as divestment; an approach that screens out companies or industries due to exposure to a negative ESG factor or factors

Impact

Investments made with the primary goal of achieving specific, positive environmental or social benefits while also delivering a financial return

VALUES



Current DC Menu Options and Types of ESG Investing Used

	DC Menu Option	Type of Integration
Alliance Bernstein	Retirement Strategy Funds (default)	ESG Integration
		Active Ownership
		Measures impact on society and the environment
BlackRock	U.S. Small Cap Value Equity Index Fund	Active Ownership
	U.S. Large Cap Equity Index Fund	Active Ownership
	Global Equity Index Fund	Active Ownership
	Emerging Markets Equity Index Fund	Active Ownership
	Short Term Investment Fund	None
WSIB	TAP	ESG Integration
	Washington State Bond Fund	ESG Integration
	Savings Pool	None
Walden	Socially Responsible Balanced Fund	ESG Integration
		Active Ownership
		Best-in-Class Selection
		Exclusionary
		Measures impact on society and the environment



Examples of ESG Investing in the DC Plan Lineup

BlackRock

- ❑ BlackRock engages in direct dialogue with companies on ESG issues that have a material impact on sustainable long-term financial performance
- ❑ BlackRock has a large corporate governance team that is responsible for performing independent research on proxy voting decisions
- ❑ In recent years, BlackRock's stewardship focus has been on diversity of its company boards and GHG emissions reporting that is consistent with a transition to a lower carbon economy
- ❑ In Larry Fink's 2021 letter to CEOs, BlackRock announced its objective of net-zero portfolio emissions by 2050

Alliance Bernstein

- ❑ Alliance Bernstein utilizes a robust proprietary platform to ensure that material ESG factors are integrated throughout the process
- ❑ Similar to BlackRock, Alliance Bernstein also has a large in house corporate governance team that votes proxies and engages with companies in a way that is aligned with its ESG research
- ❑ Recently, Alliance Bernstein increased its emphasis on climate-related risks and opportunities, partnering with Columbia University's Earth Institute to provide its employees and clients like the WSIB a climate science and investing curriculum

WSIB Fixed Income

- ❑ The bond fund offered in the DC plan lineups is managed in house by the WSIB
- ❑ The WSIB is a long-term investor, which creates a natural alignment with many of the principles of sustainable investing
- ❑ As fiduciaries, the WSIB has a responsibility to consider and integrate ESG factors that are financially material into the investment decision-making process
- ❑ In the Fixed Income fund, this focus on ESG has led to cutting exposure to coal and a reduced and decreasing exposure to nonrenewable energy relative to the benchmark



In Focus: Socially Responsible Investment Fund

	DC Menu Option	Type of Integration
Alliance Bernstein	Retirement Strategy Funds (default)	ESG Integration
		Active Ownership
		Measures impact on society and the environment
BlackRock	U.S. Small Cap Value Equity Index Fund	Active Ownership
	U.S. Large Cap Equity Index Fund	Active Ownership
	Global Equity Index Fund	Active Ownership
	Emerging Markets Equity Index Fund	Active Ownership
	Short Term Investment Fund	None
WSIB	TAP	ESG Integration
	Washington State Bond Fund	ESG Integration
	Savings Pool	None
Walden	Socially Responsible Balanced Fund	ESG Integration
		Active Ownership
		Best-in-Class Selection
		Exclusionary
		Measures impact on society and the environment



Overview of the Socially Responsible Balanced Fund

Best-in-Class Selection

Walden invests in companies with better or improving ESG performance relative to sector peers

Engagement

Walden seeks to strengthen corporate accountability and encourage more sustainable business practices through:

- Company dialogue
- Shareholder resolutions
- Proxy voting
- Public policy initiatives

Exclusions

Walden avoids investment in companies with more than 5% of revenues coming from:

- Tobacco
- Alcohol
- Gambling
- Firearms and weapons systems
- Prison operations
- Factory farming
- Coal mining
- Nuclear power

ESG Integration

Consideration given to material environmental, social, and governance factors in the investment process to enhance risk-adjusted returns

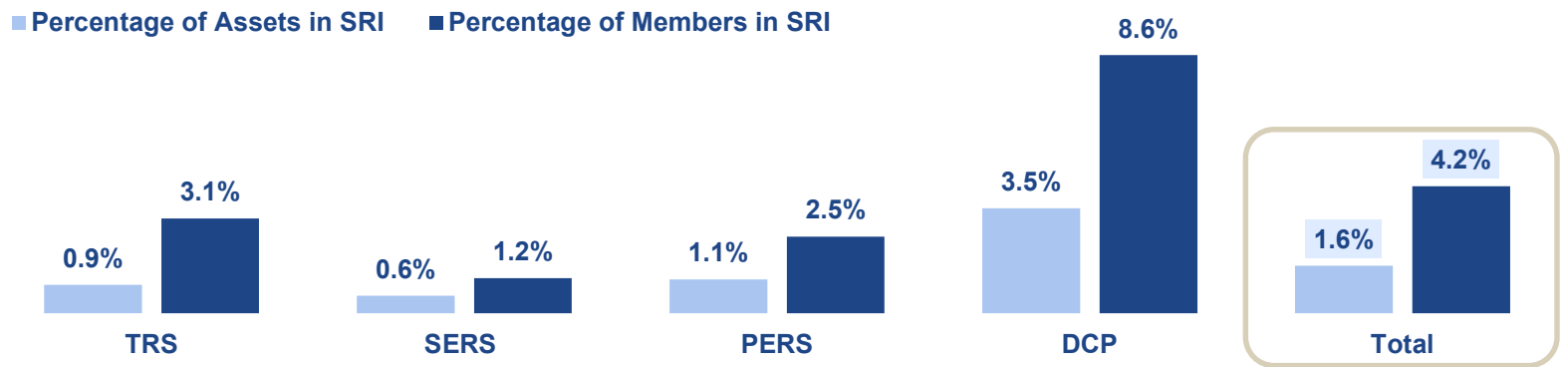


How are our Participants Using the SRI Option?

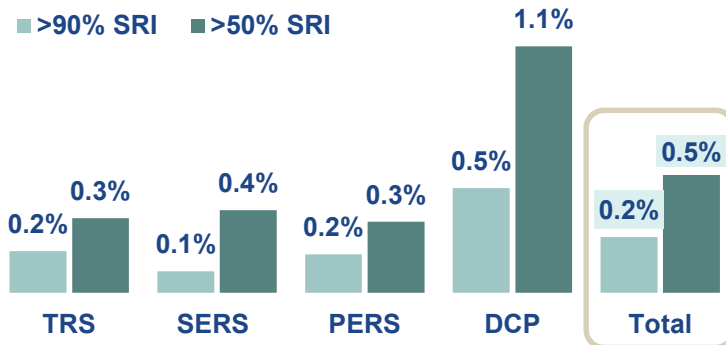
A Look at the Data

\$362.5 million currently invested across TRS, SERS, PERS, and DCP

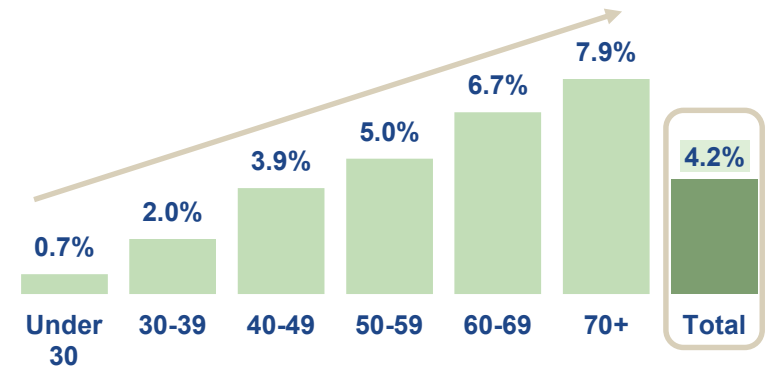
Overall Participation



% of Members with Significant SRI Balances



% of Members with SRI Balance by Age





Questions for Consideration



Should the WSIB continue to offer an SRI option?

- ❑ Low overall participation rate
- ❑ Lower utilization by younger cohorts could be a sign of declining interest
- ❑ Other options in the DC menu integrate ESG factors into their investment processes at least to some extent
 - ❑ Opportunities for communicating this to members more effectively?

If we continue offering an SRI option, how should we define 'socially responsible'?

- ❑ Exclusions? If so, which?
 - ❑ Is there more interest in a low carbon fund? Other factors?
- ❑ Is there more interest in a product that incorporates ESG factors with an aim to enhance risk adjusted returns?

Should the strategy be balanced or equity-only?

- ❑ For those that do invest in the SRI option, very few have substantially all of their assets invested in the fund
- ❑ The pool of available products would increase significantly if the mandate is changed to equity-only

Are there legal or regulatory risks we should be thinking about?

- ❑ DOL ESG rule



Next Steps



The WSIB will summarize feedback from today's discussion, providing a framework of options to be considered for the upcoming socially responsible investment option rebid

- ▣ **We may request a special DRS Advisory Committee meeting to act as a more in-depth focus group as needed**