

DRS ADVISORY COMMITTEE BRIEFING: UPCOMING CHANGE TO THE SOCIALLY RESPONSIBLE INVESTMENT OPTION IN THE DC MENU



APRIL 27, 2023

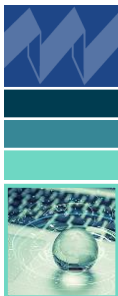
Ben Lachmann
Investment Officer, Public Equity



AGENDA



- Overview of the Socially Responsible Investment (SRI) Option
- Summary of Changes to the SRI Search Parameters Considered/Adopted Prior to the Launch of the Search
- Overview of the Recommended Strategy
- Comparison of the Current SRI Option and the Recommended Option



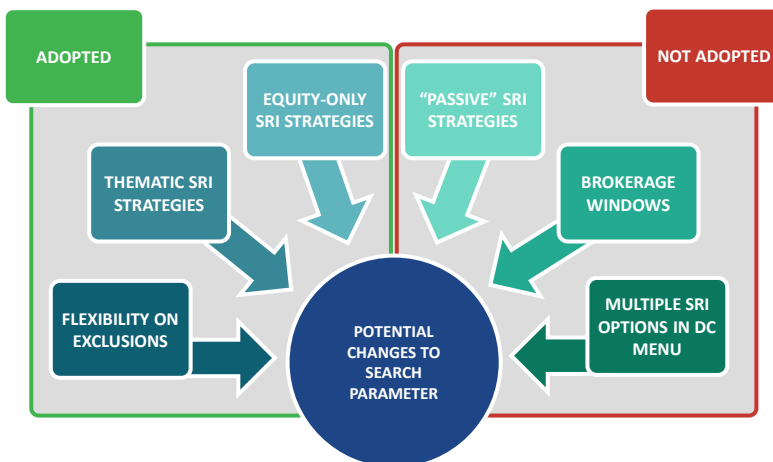
OVERVIEW OF THE SRI OPTION

The current SRI option is:

- A stand-alone investment option in the defined contribution (DC) and savings plan menus that features the integration of environmental, social, and governance (ESG) factors into the investment process and positive social impact through shareowner engagement
- A balanced fund of stocks, bonds, and money market instruments
- An option with relatively low utilization by members*
 - Assets in the Balanced SRI fund totaled ~\$348 million as of December 31, 2022
- The current SRI contract expires in June 2023

*DC menu assets totaled \$25.2 billion as of December 31, 2022. The SRI option represented 1.4 percent of total DC assets.

SUMMARY OF CHANGES TO THE SRI SEARCH PARAMETERS CONSIDERED/ADOPTED



AB SUSTAINABLE GLOBAL THEMATIC STRATEGY

Board Approved Strategy

On April 20, 2023, the Washington State Investment Board approved staff’s recommendation to select the Sustainable Global Thematic (SGT) strategy managed by AllianceBernstein (AB) as the SRI option in the DC and Savings Plan menus

Rationale

- AB has been a trusted partner to the WSIB for more than a decade, having managed the glide path of the Target Date Funds in the DC menu since 2008
- Investments that further the United Nations Sustainable Development Goals (SDGs) are the basis for the SGT strategy
- A rigorous investment process is overseen by a highly capable investment team
- Fundamental ESG research and company engagement is conducted directly by the investment team

OVERVIEW OF THE RECOMMENDED STRATEGY

United Nations (UN) Sustainable Development Goals (SDGs) provide a map for thematic investors

- The goals represent tremendous investment and social opportunity

The SDGs are a Powerful Framework of 17 Goals



The goals address challenges relating to economic prosperity, environmental sustainability, and social inclusion



Why Align a Portfolio with the SDGs?

Thematic Relevance	The SDGs offer a road map for identifying thematic opportunities that are underappreciated by traditional investors
Investment Opportunity	The estimated investment required to achieve the SDGs is massive – roughly \$90 trillion
Global Consensus	193 nations committed to achieving the goals, signaling broad global consensus and creating a powerful tailwind for aligned companies
Social and Environmental Objectives	Investments that align with the SDGs can help to end poverty, protect the planet and improve the lives and prospects of everyone, everywhere

OVERVIEW OF THE RECOMMENDED STRATEGY

Sustainable themes provide compelling investment opportunities

- Themes expected to persist, irrespective of changing geopolitical or economic factors

Three Primary Themes

Supported by dynamic, narrow, and definable sub-themes

Climate 	Health 	Empowerment 
Sub-Themes <ul style="list-style-type: none"> ■ Cleaner energy ■ Resource efficiency ■ Sanitation and recycling ■ Sustainable transportation 	Sub-Themes <ul style="list-style-type: none"> ■ Access to quality care ■ Food security and clean water ■ Medical innovation ■ Well-being 	Sub-Themes <ul style="list-style-type: none"> ■ Education and employment services ■ Financial security and inclusion ■ Information and communication technologies ■ Sustainable infrastructure

Source: AB. Informational purposes only.

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COMPARISON BETWEEN CURRENT AND RECOMMENDED SRI OPTIONS

	Current Option	Recommended Option
Asset Class	Balanced/multi-asset	Equity only
Investment Style	Tactical asset allocation; quality at a reasonable price	Growth with a quality bias
Risk Characteristics	Less volatility, greater downside, protection and more stable return pattern from allocation to fixed income	Higher volatility, greater investment "style" risk, greater return potential
Integration of ESG Considerations	ESG considerations integrated throughout the investment process	Sustainability themes align portfolio with the SDGs; ESG considerations integrated throughout the investment process
Use of Exclusions	Yes: alcohol, coal mining, factory farming, firearms and weapons systems, gambling, nuclear power, prison operations, tobacco	Yes: misalignments with the SDGs* – adult entertainment, alcohol, coal, controversial weapons, firearms, gambling, GMOs, military contracting, prisons, tobacco
Diversity, Equity, and Inclusion/Proxy Voting/Engagement	Exemplifies industry best practices	Exemplifies industry best practices

*A minimum of 25 percent of company revenue must align with the SDGs to be included in the investment universe.

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NEXT STEPS



- Staff will conduct final due diligence, including fee and contract negotiations, with the recommended investment manager
- If final due diligence and negotiation is successful, WSIB staff will work with the Department of Retirement Systems and all relevant parties to transition funds.