ENVIRONMENTAL, SOCIAL, AND GOVERNANCE REPORT

2021

WASHINGTON STATE INVESTMENT BOARD

ASSET STEWARDSHIP & SUSTAINABILITY FOR THE LONG TERM

INVESTING TO WITHSTAND THE TESTS OF LONG-TERM SUSTAINABILITY

The combination of the COVID-19 pandemic and social unrest, triggered by a cumulative wave of racial injustice, recently created a twin catalyst for the broadest systemic economic shift in our lifetimes. Environmental, social, and governance (ESG) considerations that were once only the concern of activist investors have increasingly become the focus of regulators, investors, and the public at large. The mainstream investment community is more broadly recognizing that many ESG issues at some point become investment issues.

Economic and social change is occurring with a breadth and depth that is unsettling and unpredictable. For investors, change is challenging. But these conditions are not paralyzing, nor should they cause an upheaval in our strategy. In fact, in many ways this environment is a proof statement for the Washington State Investment Board's (WSIB) focus on long-term sustainable investing and responsible stewardship of our assets. The WSIB's investment program continues to rank as a top-decile performer among comparable public pension plans in the United States. Since its inception, the Commingled Trust Fund has earned 9.2 percent annually as of year-end 2020.

The increased focus on sustainability and ESG issues across the entire investment profession is welcomed by the WSIB. Over time, this will lead to a better understanding of the systemic nature of risks such as climate change and income inequality. Investors must consider the impact these risks have on the financial system and the role the financial system can play to improve outcomes related to these risks over the long run.

In 2020 we saw a dramatic increase in proposed regulation on ESG-related disclosures by public companies globally, and a concerted effort by the various voluntary sustainability reporting frameworks and standards to work together rather than compete. We also saw a proliferation of new investment vehicles and data-related products that purport to support investors' ESG-related objectives. Dozens of initiatives focused on issues ranging from committing to net-zero portfolio emissions by 2050 in line with the Paris Agreement, to improving diversity and inclusion among private equity general partners. The WSIB continues to monitor the maturing, yet still rapidly evolving, sustainability landscape. We will participate where we believe it benefits our beneficiaries and stakeholders.

Here are a few of the 2020 ESG-related highlights:

- In 2020, our Diversity, Equity, and Inclusion (DEI) Committee was revamped to build, foster, and continually improve the WSIB's culture. This committee, which meets monthly, also developed an internal library to share DEI-related resources for all staff members.
- We developed an ESG Working Group, which meets monthly to share best practices and the latest developments related to ESG investing.
- We began integrating MSCI's ESG data and the Sustainability Accounting Standards Board's (SASB's) materiality map into our public equity investment manager due diligence process.
- We provided education sessions on the current state of ESG investing to staff and the Board.
- Our exposure to coal mining companies declined to just .0095% of our total assets under management (AUM). This represents a decrease of 66.9% from 2019.
- Our exposure to fossil fuel companies declined to just 2.93% of our total AUM, a decrease of 44.3% from 2019.
- Our exposure to renewable energy investments rose to 0.71% of our total AUM, an increase of 34.8% from 2019. We have since made a significant additional investment in a dual-objective climate impact fund that is designed to generate both specific performance targets and a positive impact on climate.

In this report, you'll find additional details on our long-term approach to ESG investing as it exists today and how we plan to move forward. We remain committed to our mission of serving our stakeholders and beneficiaries by focusing first and foremost on investment strategy and financial results. Long-term sustainability remains a vital and evolving centerpiece in our investment program.

Sincerely,

Theresa Whitmarsh, Executive Director

THE 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 investment capital entrusted to us. The WSIB has developed an ESG framework that is comprised of three distinct and complementary programs: Asset Stewardship, ESG Integration, and Advocacy. These are described in greater detail on the following pages.

As systemic ESG issues such as climate change and diversity became key topics of conversation in 2020, we sharpened our focus on ensuring that the objectives of each program were aligned with each other as well as with our fiduciary duty to our beneficiaries and stakeholders.

Asset Stewardship Program
Corporate Governance Officer

- Proxy voting policy development and implementation
- Select public company engagement
- Investment manager oversight of proxy voting and engagement policies

ESG Integration Program
Sustainability Officer

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

Advocacy Program
Institutional Relations Team

- Engagement with industry groups, peers, 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

For example, our renewed focus during 2020 on diversity involved a range of complementary efforts: as part of the **Asset Stewardship Program**, we updated our Proxy Voting Policy to include more specific language that upholds our belief that diversity on company boards and management teams benefits the long-term interest of companies and investors. As part of the **ESG Integration Program**, we began systematically asking our private equity general partners for data on gender and ethnic diversity while they were raising capital for new funds. Through our **Advocacy Program**, we wrote a letter supportive of NASDAQ's landmark proposal to improve gender and ethnic diversity among those companies listed on the NASDAQ stock exchange.

ASSET STEWARDSHIP

The members of Washington state's retirement plans put their trust in the WSIB to act as a responsible steward of their 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
- Investment manager oversight of proxy voting and engagement policies

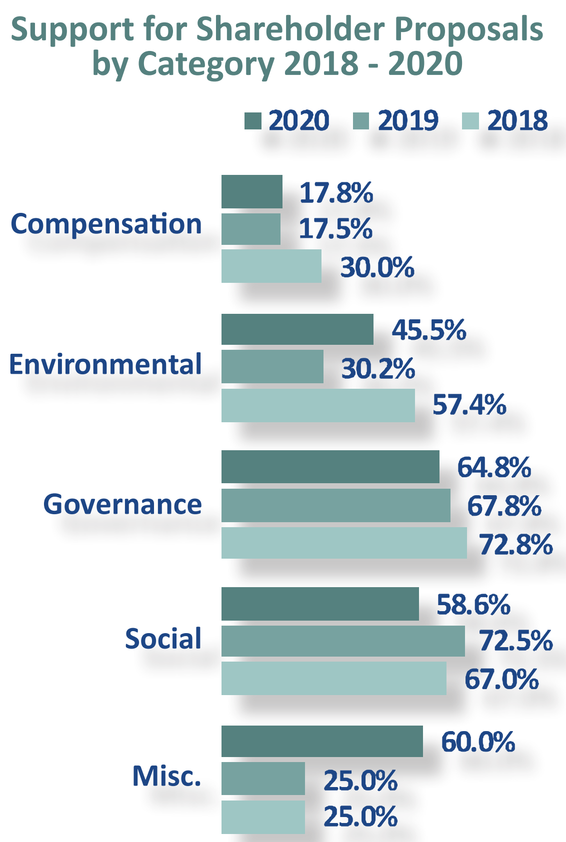
PROXY VOTING

Proxy voting helps the WSIB to ensure that the public companies in which we invest are sufficiently focused on their long-term sustainability. In 2020, the WSIB voted a total of 3,089 meetings, an increase of 30 from the prior year.

To maximize the impact of our resources and our investor voice, our Board has approved several topical priorities that guide the WSIB's proxying voting and engagement practices:

- **Shareholder rights and long-termism** – We support 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** – We have strengthened our 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** – We often support proposals that seek improved disclosure and reporting of risks associated with long-term climate change. We assess these issues on a case-by-case basis, and evaluate a company's existing reporting and progress, relevance to the industry, and emerging standards for climate impact.

In 2020, the WSIB supported 60 percent of shareholder proposals submitted, which was nearly identical to the prior year. The WSIB saw a large increase in year-on-year support for environmental shareholder proposals, from 30.2 percent in 2019 to 45.5 percent in 2020. The primary reasons for the increase in support were that the adoption of the proposal could help mitigate a company's climate-related risks, and that additional disclosure could help analysts better assess a company's climate-related risks.



Focusing Proxy Voting on Diversity

Important diversity-related revisions to our Global Proxy Voting Policy were approved by the Board in December 2018 and were put in place during the 2019 and 2020 proxy seasons. This policy update related to gender diversity on boards, and stated, "The WSIB closely reviews the composition of the board for representation of diverse director candidates and will generally vote against the nominating committee chair of a board that has no female members." Subsequently, in December 2020, the Board further strengthened this policy by calling for two or more women on a board of directors for larger listed U.S. companies, and by requesting that company boards consider and report on broader diversity markers such as race and ethnicity. This revised policy was in place for the 2021 proxy voting season. The WSIB continues to actively review the proxy voting policies related to diversity and plans to incrementally update those policies in the near term.

ENGAGEMENT WITH PUBLICLY LISTED COMPANIES

The WSIB is increasing its direct and collective work with select publicly listed companies, particularly those in Washington state. Our engagement and industry leadership efforts are driven by an understanding that existential risks such as climate change and other systemic factors will have an impact on investments – especially for long-term investors. In working with company and industry leaders, the WSIB is advocating for better disclosure and ESG accountability. To optimize our impact, we are working with investor coalitions including the Thirty Percent Coalition, The CDP (formerly the Carbon Disclosure Project), and the Climate Action 100+. Our aim is to take a fully responsible yet reasonable approach to ESG factors, and to evaluate how companies are equipping themselves for future sustainability.

Highlights from 2020 from each of these campaigns include:

Thirty Percent Coalition

- The WSIB co-signed 252 letters to public companies with inadequate gender diversity on their boards as a part of the 2020 "Adopt-a-Company Campaign," including six letters to companies based in Washington state.
- The WSIB aims to more actively engage with Washington-based companies included in this campaign in future years.

The CDP

- The WSIB was the lead for outreach to nine Washington-based companies in the CDP's 2020 "Non-disclosure campaign."

The Climate Action 100+

- The WSIB co-leads two campaigns within the Climate Action 100+, both of which involve large, Washington-based companies whose products, services, and operations are inherently 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 each in 2020.
- Engagement topics include governance of climate-related issues, setting and disclosing emissions targets, disclosure around climate lobbying and spending, and Task Force on Climate Change-Related (TCFD) mapping.

The Benefits of Active Ownership versus Divestment

The first half of 2021 saw an increase in state and local legislation involving divestment related to fossil fuels in public pensions. In May 2021, Texas passed a bill that prevents its state pension from investing in any ESG product that boycott Texas energy companies. In June 2021, Maine became the first state in the United States to pass a law directing that state's pension system to divest from fossil fuels. While fossil fuels are the current focus of divestment campaigns in the United States, the concept of divesting public funds from certain types of stocks is not new. Credible research and analysis of historical performance has tended to show that the effectiveness of divestment campaigns on both performance and societal impact is questionable or even detrimental. The WSIB views active ownership as one of the most effective tools we can use to positively influence how companies consider critical, systemic issues such as climate change and racial inequality in their governance and operations. Divestment would erode or eliminate our ability to use this important tool.

Active Ownership Influences Change: ExxonMobil

2021 was a pivotal year for long-term investors who believe that proxy voting and engagement are key tools in the transition to a low carbon economy. In a landmark proxy contest, a relatively unknown activist investor, Engine No. 1, sought four seats on ExxonMobil's Board of Directors. Engine No. 1 claimed that the company's existing Board did not have the breadth of experience necessary to navigate the transition to a low carbon economy and had resisted previous shareholder calls to more seriously consider the long-term risks the energy industry is facing. The WSIB took these claims seriously, and met with the leaders of Engine No. 1, members of ExxonMobil's investor relations team, and other investors who were supporting Engine No. 1's slate in advance of the shareholder meeting. Our team then engaged in our own evaluation before submitting a ballot. In the end, the WSIB supported the Engine No. 1 slate, believing that the experience set of the candidates that Engine No. 1 put forth was more diverse and directly applicable to transitioning a large oil and gas company to a lower carbon economy over the long term. With the help of long-term investors like the WSIB, three out of four of the Engine No. 1 board members were elected to ExxonMobil's board, alongside nine ExxonMobil candidates. This landmark outcome may not have been achieved if fossil fuel divestment mandates were commonplace among large public asset owners who take a long-term perspective on systemic risks such as climate change.

Fossil Fuels: Impacts of Active Ownership versus Divestment

	Active Ownership	Divestment
Alignment with WSIB investment beliefs	Fully aligned with fiduciary duty and overall objective to maximize returns at a prudent level of risk	Misaligned with investment belief that "investment or asset class constraints and/ or mandates will likely reduce investment returns"; rigid ESG mandates do not always align with fiduciary duty
Impact on risk/return	Allows for maximum diversification and selection of high-quality fossil fuel companies that provide energy transition solutions	Reduces diversification; may lead to unintended bets or imprudent risks elsewhere in a portfolio
Influence on how companies are run (Public Equities only)	Maximizes responsible ownership via actively voting proxies and engaging with companies to reduce their carbon footprint	Concedes proxy voting responsibility to other shareholders who may have shorter-term interests
Participation in transition to a low carbon economy	Ability to influence company strategy that aligns with the transition to a low carbon economy	While divestment from fossil fuels will reduce the total portfolio carbon footprint, it likely will have little effect on reducing global emissions
Cost	The cost of active ownership is not materially reduced by a decision to divest from a portion of the market	Increases costs to plan because custom mandates require selectively removing fossil fuel exposure from investment products

INVESTMENT MANAGER OVERSIGHT OF PROXY VOTING AND ENGAGEMENT POLICIES

When it comes to publicly traded company shares owned by our investment managers, the WSIB votes nearly all proxies 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 we are adequately managing these considerations in a cost-effective manner, the WSIB delegates the proxy voting for all non-U.S. holdings to the WSIB's external public equity managers.

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

- All potential managers must share their proxy voting policy with the WSIB as part of final due diligence and must complete a stewardship and corporate governance questionnaire.
- Discussion of a manager's approach to proxy voting, engagement, and assessment of ESG risks is part of every due diligence meeting with each external public equity manager.
- 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.

ESG INTEGRATION

At the WSIB, we invest most of our 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 for our external managers and partners, they are empowered to buy or sell specific securities to fulfill that 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. In addition, since the drivers of risk and return vary by asset class, each of the WSIB's asset class teams is responsible for ensuring that their own investment process adequately addresses financially material ESG risks and opportunities. Specific examples of how this is done can be found on the following pages.

While it's important that our investment teams maintain some autonomy over how they consider ESG issues, we also share best practices in ESG integration across asset classes in order to benefit the WSIB as a whole. In 2020 we created an ESG Working Group comprised of one member of every asset class team and other staff considered critical to the WSIB's ESG integration efforts. 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 2020 we also saw an increased focus on ESG risks and opportunities during internal 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 as a sounding board to discuss how voluntary sustainability reporting frameworks and standards might be relevant or valuable to the WSIB's investment process.

INVESTMENT PROCESS AND ESG CONSIDERATIONS

The following sections provide specifics on how ESG is an integral part of staff's decision-making.

A MATURING INDUSTRY

While the ESG landscape has matured considerably in recent years, the meaning of terms like "ESG investing" and "sustainability" still varies by company and region, and even interpretation. Rather than waiting for universally accepted definitions to emerge, the WSIB has worked to educate our staff and Board members on how ESG investing is defined in the context of our investments and what it means for us. For example, the WSIB is refining the ESG-related language in its core investment beliefs, which are due for Board consideration and approval in July 2021. Our ESG education sessions are run both by internal and external subject matter experts, so that staff and the Board can stay up to date on these rapidly evolving concepts.

In coming years, we expect company specific ESG data to improve dramatically. The investment industry has seen significant growth in voluntary sustainability reporting standards and frameworks, such as the Sustainable Accounting Standards Board (SASB), Global Reporting Initiative (GRI), and Task Force on Climate-Related Financial Disclosures (TCFD). Several regulatory bodies globally have or are considering mandating sustainability reporting for publicly listed companies.

In general, the WSIB supports both regulatory and voluntary sustainability reporting efforts that are focused on financial materiality, assist us in our ability to make meaningful comparisons across companies, and aim to reduce the reporting burden on companies through consolidation of standards and frameworks. As sustainability data become more readily available across both public and private asset classes, the WSIB will be better able to systematically monitor ESG risks and opportunities at a total portfolio level. We continue to monitor the regulatory environment, various tools and services, and other third-party offerings that would aid us in better assessing these risks and opportunities.

RISK MANAGEMENT AND ASSET ALLOCATION

The WSIB's RMAA unit is responsible for monitoring investment risk across all investment portfolios, recommending strategic asset allocation targets, monitoring allocations, and rebalancing portfolios. In 2020, RMAA reviewed WSIB's capital markets assumption (CMA) methodology. A core component of this exercise involved research into the feasibility of incorporating climate-related metrics into the 2021 CMAs. The team surveyed the industry landscape to better understand best practices, then identified key approaches emerging from both academic and consultant-led research for understanding climate impact on portfolio assets. The subfield of climate economics, relating to how climate impacts financial markets, is a nascent and emerging area of study.

The RMAA team's research revealed a rapidly evolving field, including divergence of data sources and varying interpretation of data sets and assumptions. A broad range of investment outcomes is possible given climate-related impacts due to physical and transition risks. While the exercise did not result in incorporating quantifiable climate-related risks into the 2021 CMAs, staff is monitoring investment managers and academic results and reviewing the most relevant assumptions behind performing climate-related stress tests on the WSIB's investment funds.

This team also is performing a comprehensive review of the WSIB's core investment beliefs in conjunction with a 2021 strategic asset allocation study. This includes a proposed expansion of WSIB's commitment to sustainability and ESG as one of the core investment beliefs.

Our RMAA team also oversees WSIB's Innovation Portfolio, which evaluates a broad range of investment opportunities that do not fit neatly into existing asset classes. Example investments include the TPG Rise series of impact funds which seek to achieve the dual purpose of strong financial results and positive social impact.

PUBLIC EQUITY

The WSIB's public equity investments are entirely managed via external managers. These investments include both active and passive strategies that utilize approaches ranging from quantitative to traditional fundamental strategies. The Public Equity team's ESG integration process is focused on ensuring that ESG risks and opportunities are being appropriately considered in the context of each manager's specific investment strategy. For example, the questions asked of an active, bottom-up, fundamental investment manager will differ from those asked of a passive investment manager or a quantitative active manager.

As part of the Public Equity team's global equity manager search in 2020, a proxy voting and engagement due diligence questionnaire was sent to a final list of candidates. The WSIB's Corporate Governance Officer reviewed responses and discussed follow-up items with candidates as part of the search's due diligence process. The team discussed with each of these candidates how ESG factors are considered in their investment process. ESG integration, proxy voting, and engagement receive dedicated time at each of the WSIB's ongoing due diligence meetings, with the WSIB's Sustainability Officer and Corporate Governance Officer often in attendance.

The availability of third-party ESG data that is comparable across companies tends to be better for the public equity asset class than for others, though even in public equities, our team sees much room for improvement in the data. As ESG data continue to grow and become more robust, our staff expects to see improved accuracy and insights that will enhance our understanding of ESG issues related to the stocks held in the public equity portfolio. After a nearly year-long research process and assessment of external ESG data providers, the WSIB determined that MSCI would best suit the Public Equity team's ESG data needs. In 2020, we began to incorporate MSCI's reports into our manager search and ongoing monitoring due diligence processes. In 2021, the Public Equity team will continue to further incorporate the ESG data and reports into manager monitoring, including manager diligence meetings, as well as the global search effort.

FIXED INCOME

The WSIB's fixed income assets are managed in house by a highly skilled investment team. The Fixed Income team incorporates a longer-term fundamental view in the investment process, focusing on macro-economic, industry, company, and market fundamentals. When industries or government policies are at a turning point, simply extrapolating from the past does not work. Therefore, in the case of climate-related risks specifically, the Fixed Income team has selectively reduced fossil fuel exposure over time and has added investments in companies that are moving toward a carbon-free future. The goal is to protect the portfolios from investment losses.

In addition to evaluating climate-related risks and opportunities, the Fixed Income team assesses other key ESG issues such as water management, quality of company management, product quality and safety, labor relations, and credit factors.

ESG Integration into Credit Ratings

The major rating agencies - Moody's, S&P, and Fitch - include ESG scoring in their credit reports. To give an example, the following are S&P's ESG credit factors in its scoring system.

Environmental credit factors

- Greenhouse gas emissions, including CO2 emissions
- Natural conditions such as weather events
- Pollution, separate from greenhouse gases
- Other environmental factors, such as water and land use and biodiversity
- Environmental credit benefits, such as factors that create revenue and earnings opportunities or reduce environmental risks

Social credit factors

- Health and safety, such as safety violations that lead to financial and reputational damage
- Consumer-related, such as selling products based on misleading information, linked to environmental and social factors
- Human capital management, such as factors linked to employee disputes and productivity
- Social credit benefits, such as factors that create revenue and earnings opportunities or reduce social risks

Governance credit factors

- Strategy, execution, and monitoring
- Risk management and internal control
- Transparency, including factors linked to the quality of information disclosure
- Board-related factors, including factors linked to the board's composition, independence, turnover, skill sets, key person risk management, culture, and oversight of management
- Other governance factors

PRIVATE EQUITY

In the Private Equity arena, our staff assesses each partner's ESG capabilities and integrates this assessment into its formal scoring system for all investment opportunities. As part of due diligence, the WSIB's Sustainability Officer reviews our investment partners' ESG reports, policies, and capabilities, along with their responses to ESG questionnaires. Additionally, the private equity consultant, Albourne, assesses each potential new partner's ESG capabilities as part of its due diligence process and includes a section on ESG in its reports for all new potential investments.

Staff has observed that while some may perceive that ESG integration in public equities has matured more rapidly than in private equity, the structural differences between public and private companies allow for private equity partners to have a very meaningful impact on ESG issues that they believe are material. An example of this can be seen in the Institutional Limited Partners Association's (ILPA's) creation of the Diversity in Action Initiative in late 2020. It requires specific actions that general partners must take to sign on to the initiative, including measuring the investment staff diversity by seniority level. As of May 2021, more than 200 signatories supported this initiative, including many of our partners. As a result, the WSIB has started collecting comparable data on the diversity of our partners beyond what is available in other asset classes.

Investing in private equity during the ongoing energy transition requires consideration of the opportunities for growth and returns along with avoiding or mitigating value destruction caused by climate change. The convergence of these two concepts may be serendipitously found in in the sizeable opportunity offered by the developing world, which is the growth market for the energy industry, and through a combination of investments in alternative energy as well as less carbon-intensive fossil fuels such as natural gas.

REAL ESTATE

Since real estate investments are long term in nature, our Real Estate team has embedded ESG issues into the program's investment process for many years. Long before the term "ESG" was widely used, our partners considered many factors in portfolio construction, risk assessment, and execution of their business strategies, including:

- Exposure to climate-related events such as excessive heat, flooding, drought, and extreme weather conditions.
- Changing preferences for where and how people prefer to live, work, and play.
- Increasingly stringent and unpredictable regulatory requirements, including those that may control landlord rights, such as rent and eviction limitation, as well as those that place additional environmental requirements on property owners.

Using an ESG lens has helped our real estate partners identify relevant risks and opportunities, which drives long-term value creation and sustainable financial performance.

To date, most of the real estate industry has focused ESG efforts on reducing energy and water usage and associated emissions. As governments continue to advance regulatory requirements and higher environmental standards, real estate owners and operators are increasingly being forced to integrate environmental considerations into their business strategies, in order to avoid fines, penalties and other potential reputational risks. On the positive side, increased inclusion of environmentally beneficial attributes can often help real estate companies attract high-quality tenants who are increasingly seeking efficient and healthy buildings. Additionally, by prioritizing these factors real estate owners may improve operational performance, better identify and mitigate risks, and gain competitive advantages in their businesses. Incorporating these factors can lead to improved returns on investments through higher property values, reduced expenses, and improved rental rates.

While most real estate investors' ESG attention tends to focus on the "E," real estate can have a significant social impact, as well. Potential social impacts may include:

- Returning unused or under-utilized real estate to productive use, such as the rehabilitation of buildings and public spaces, and changes of use.
- The provision of affordable housing, including housing for the middle-class in high-cost areas.
- The creation of healthy and safe living and working environments.

Real estate investments have the potential to improve communities and impact people's lives in a positive manner. But the benefits of focusing on the "S" go beyond just doing what is socially responsible or morally right. Integration of these factors by our partners can be a market differentiator, giving them a competitive advantage and potentially leading to improved long-term financial performance.

In terms of the governance aspects of ESG, our real estate partners operate within a comprehensive framework of policies, procedures, and practices, many of which are established or recommended by the WSIB. This ensures that our partners operate their businesses with responsibility, accountability, integrity, ethics, and transparency. These governance principles also apply to the investment analysis and due diligence processes of our real estate partners, which include rigorous underwriting regimen, risk management evaluation, and documented multi-level approval processes.

TANGIBLE ASSETS

The WSIB's Tangible Assets team invests in physical assets that are used in the production or supply of goods and services in four areas: minerals and mining, energy, agriculture, and society essentials. These investments are primarily made in private blind pool vehicles managed by external partners. Because the WSIB's team doesn't know the specifics of each investment asset prior to it being purchased by a partner, the team focuses on the type of ESG risk a partner could encounter in carrying out their investment strategy. For example, the following cases describe a variety of environmental risks that might be evaluated.

In agriculture, water is at the core of a major environmental risk. Prior to a partner's investment, our team strives to understand what types of crops the partner plans to invest in and the geography for such crops. This helps the team understand the water needs of that crop type and whether the crops will receive their water naturally or through irrigation. If crops will be

naturally watered, we strive to understand the partner’s risk appetite and their understanding of rain volatility. If the crops are irrigated, we want to understand the partner’s knowledge of legal rights to water and associated costs.

In minerals and mining, a key environmental risk consideration involves the land itself and any potential for harmful impacts that could affect the mine or neighboring lands during the mine operations or throughout every phase of the full life cycle of the mine. As our program typically does not invest directly in mine operations, our team focuses on our investment partners’ interactions and oversight of the mining companies. This includes an evaluation of how the mining company interacts with the community and with regulatory agencies involved in mine safety.

Our program also recognizes that energy-related tangible assets are susceptible to climate change and must be evaluated for long-term sustainability. Our team makes a point to invest in partners that will play a part in the energy transition, with a clear focus on both the investment time frame and the unknowns that come with the future.

Our investment category of society essentials encompasses investment types such as a partner’s project to improve municipal water and waste disposal systems. This portfolio has also invested in opportunistic options such as environmental mitigation banking, which earns a return through the completion of land improvements.

ADVOCACY

The WSIB works actively to advocate for industry rules that promote fair and functioning markets and encourage long-term investment disciplines. While the below list includes letters submitted by the WSIB during the past 12 months, we also participated in numerous forums and webinars on a host of other regulatory proposals related to ESG issues. By lending our voice to these efforts, both formally and informally, the WSIB can positively impact investment results for our beneficiaries now and for future generations.

- In January 2020, we submitted a letter to the Securities and Exchange Commission (SEC) on proposed rules to proxy voting and the shareholder resolution processes.
- In August 2020, we joined the Council of Institutional Investors and the Universal Proxy Working Group in submitting a letter to the SEC offering perspective on elements of the Universal Proxy Rule, supporting the objectives of clarity, ease of use, and fairness in an orderly process.
- In October 2020, we submitted a letter to the Department of Labor (DOL) on proposed rules to the proxy voting process.
- In December 2020, we submitted a letter of support to NASDAQ's Proposed Rule Change to Adopt Listings Rules Related to Board Diversity, stating that the proposal is "a reasonable approach that addresses the investor's need to understand diversity in key positions where a multitude of governance practices come into play on issues that directly affect shareholders, employees, customers, suppliers, and a broader community."
- In April 2021, the WSIB co-signed a letter representing pension plans, institutional investors, foundations, labor unions, religious organizations, and consumer groups to support a Congressional Review Act disapproval of the SEC's shareholder proposal rule amendments, stating that in amending the rule, the SEC ignored evidence that shareholder proposals deliver significant benefits for all shareholders.
- In June 2021, we joined 455 investors representing over $41 trillion in assets in signing the 2021 Global Investor Statement to Governments on the Climate Crisis. The statement is a call to governments to strengthen their net carbon disclosures for 2030 before COP26 to align with limiting warming to 1.5 degrees Celsius and commit to a domestic mid-century, net-zero emissions target.
- In June 2021, the WSIB submitted a letter to the SEC in response to their request for public input on proposed climate change disclosures for public companies. We emphasized the need for consistent, comparable climate-related data, primarily drawing from the voluntary sustainability reporting standards and frameworks that currently exist.

LOOKING FORWARD: 2021 AND BEYOND

The WSIB began considering ESG risks and opportunities as investment considerations long before "ESG" or "sustainability" entered the mainstream vocabulary. As we've highlighted in this report, our Real Estate team has been providing affordable, energy efficient housing to middle-income communities for many years. The Tangible Assets team has examined the environmental impacts and human rights issues associated with the mining of minerals needed for batteries and other critical components of the energy transition. They take care to partner with operators who have a reputation for upholding the highest environmental and social standards. Each of our investment teams at the WSIB identifies ESG-related strengths, issues, and opportunities that enter into our ongoing investment decision-making.

In 2021 and beyond, the WSIB will continue to build on its experience investing for both results and sustainability. We plan to further increase the alignment of our Asset Stewardship, ESG Integration, and Advocacy program with Board-approved policies and priorities such as diversity and climate change. We will develop enhanced internal tools that will help us to better assess our partners' ESG integration capabilities and make more meaningful comparisons across partners and over time. As we see ESG-related regulations and rulemaking gain momentum, we will actively support long-term disciplines, shareholder rights, and providing 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.