**WASHINGTON STATE INVESTMENT BOARD**
**Board Meeting Minutes**
**March 16, 2006**

The Washington State Investment Board met in open public session at 9:31 a.m. in the boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

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| Present: | Pat McElligott, Chair<br>Senator Lisa Brown<br>Glenn Gorton<br>Charlie Kaminski<br>George Masten<br>Sandy Matheson<br>Treasurer Mike Murphy<br>Bob Nakahara<br>David Nierenberg (via teleconference)<br>Dave Scott<br>Representative Helen Sommers<br>Gary Weeks |
| Absent: | John Magnuson<br>Jeff Seely |
| Also Present: | Joe Dear, Executive Director<br>Gary Bruebaker, Chief Investment Officer<br>Tom Ruggels, Senior Investment Officer – Private Equity<br>Kristi Walters, Executive Assistant<br>Paul Silver, Assistant Attorney General |

[Names of other individuals attending the meeting are not included in the minutes, but are listed in the permanent record.]

Chair McElligott called the meeting to order and roll call was taken.

## VICE CHAIR ELECTION AND COMMITTEE ASSIGNMENT

**Mr. Scott nominated Mr. Gorton as Vice Chair. There being no further nominations, Chair McElligott declared Mr. Gorton elected by acclamation.**

**Chair McElligott moved that the Board approve his recommendation to move Mr. Gorton to the Private Markets Committee, and appoint Mr. Scott as the Public Markets Committee Chair. Mr. Masten seconded and the motion carried unanimously.**

## ADOPTION OF MINUTES – FEBRUARY 16, 2006

**Mr. Gorton moved to adopt the February 16, 2006, Board minutes. Treasurer Murphy seconded and the motion carried unanimously.**

## PUBLIC COMMENT

There was no public comment.

[Representative Sommers was in attendance at 9:35 a.m.]

## PRIVATE MARKETS COMMITTEE REPORT – PRIVATE EQUITY INVESTMENT RECOMMENDATIONS

**Fortress Investment Fund IV, L.P.**

Mr. Masten reported that the Private Markets Committee met on March 2 and discussed four investment recommendations. Due to a lack of quorum, the Committee was unable to take action. It was the consensus of those members present to forward these items to the Board for consideration.

**Mr. Masten moved that the Board invest up to $250 million, plus fees and expenses, in Fortress Investment Fund IV, L.P., and Fortress Investment Fund IV Coinvestment Fund, subject to continued due diligence and final negotiation of terms and conditions. Treasurer Murphy seconded the motion.**

Mr. Masten said that the Committee submits for consideration an investment of up to $250 million in Fortress Investment Fund IV, L., based, in part, on the following: 1) Fortress has an experienced and stable management team with multidisciplinary expertise in asset-based investing. The core team has been investing together since 1987 and has almost 60 years of collective experience, including mergers and acquisitions, bankruptcy, real estate, capital markets, tax, and law. 2) Fund IV will continue the proven strategy of targeting cash-flowing investments backed by real estate and other tangible and intangible assets that can be acquired at a discount to intrinsic value. 3) Fortress has a strong investment track record with substantial realizations. Over 10 years, through four funds, Fortress has generated an aggregate net IRR of 32.4 percent on $4.4 billion of invested capital, including $3.5 billion in realizations. 4) The investment is an excellent fit in the WSIB private equity portfolio. The fund's asset-based, low-risk strategy is unique within the WSIB's corporate finance sub-class, offering diversification benefits to the portfolio. 5) This investment represents an opportunity to expand a successful relationship with a high quality partner.

Mr. Weeks confirmed that staff recommended a commitment level of $250 million.

**The above motion carried unanimously.**

**Blackstone Capital Partners V, L.P.**

> **Mr. Masten moved that the Board invest up to $200 million, plus fees and expenses, in Blackstone Capital Partners V, L.P., subject to continued due diligence and final negotiation of terms and conditions. Treasurer Murphy seconded the motion.**

Mr. Masten said that the Committee submits for consideration an investment of up to $200 million in Blackstone Capital Partners V, L P., based, in part, on the following: 1) Blackstone is one of the largest and most successful private equity investors in the world, with a strong franchise in the U.S. and Europe; they are extending their reach into Asia as well. Blackstone's reputation, extensive resources, and vast network of relationships provide significant advantages in deal sourcing, transaction execution, and access to human capital. 2) While private equity is the cornerstone of the firm, it is part of a powerful platform of complementary business lines that comprise The Blackstone Group. The private equity group is able to leverage the resources and expertise of the entire organization, which is a significant competitive advantage. 3) The management team, led by co-founder Stephen Schwarzman, is deep and experienced with 63 professionals in New York, London, Hamburg, and Mumbai. The 17 Senior Managing Directors have an average tenure of 8 years with the firm. 4) Blackstone has some unique and innovative strategy elements, including an extensive history of corporate partnership investments and a centralized procurement program providing significant cost advantages to its portfolio companies. 5) The firm has an exceptional long-term record of performance. Since 1987, Blackstone has invested $11.1 billion, generating an aggregate net IRR of 22.9 percent and a net multiple of 1.79x, including $11.2 billion in realizations. Each of the firm's five funds is a top quartile performer versus the Venture Economics universe of all U.S. buyout funds for its respective vintage year.

[Mr. Kaminski was in attendance at 9:38 a.m.]

Treasurer Murphy noted that Capital Dynamics assisted in getting Blackstone to raise its cap target to get the WSIB into the fund, and he is appreciative of their work. Mr. Bruebaker said that the WSIB is guaranteed a $100 million investment.

> **The above motion carried unanimously.**

**TPG Partners V, L.P.**

> **Mr. Masten moved that the Board invest up to $750 million, plus fees and expenses, in TPG Partners V, L.P., subject to continued due diligence and final negotiation of terms and conditions. Treasurer Murphy seconded the motion.**

Mr. Masten said that the Committee submits for consideration an investment of up to $750 million in TPG Partners V, L.P., based, in part, on the following: 1) TPG has a differentiated strategy that has proven successful through a variety of economic cycles. The firm has a value-oriented, often contrarian approach, and pursues complex and turnaround opportunities that are avoided by many of its competitors. 2) TPG has a strong track record over a long time period with

substantial realizations. Since 1994, TPG has invested $10.3 billion in four prior funds, producing a net IRR of 22.5 percent and a net value multiple of 1.74x. These investments have yielded realized value of $12.2 billion and have a remaining value of $8.9 billion. 3) TPG has a deep and experienced management team that includes 70 investment professionals and 24 partners. The firm has substantial resources, investment experience, and networks in the U.S., Europe and Asia, contributing to strong quality deal flow, and deal execution capabilities. 4) The firm's operating group, 25 full-time management professionals, is an exceptional resource for improving operations and building value in portfolio companies post-acquisition. 5) This investment is an attractive fit in the private equity portfolio, representing an opportunity to expand a successful relationship with a high quality partner.

Mr. Masten noted that Capital Dynamics had recommended an investment of $500 million and staff had recommended $750 million. The consensus of the Committee was to forward for consideration an investment of up to $750 million.

Mr. Nierenberg said that he would recuse himself from discussion of the proposed TPG investment.

Mr. Bruebaker noted that Capital Dynamics is comfortable with $750 million, but would prefer $500 million as their belief is to build a portfolio of equal size positions over a number of partnerships. Mr. Dear said that Capital Dynamics' comfort with $750 million was provided that the Board understood that the rise in the private equity allocation would occur sooner, versus later. The private equity target allocation is 17 percent, plus or minus 4 percent. All current allocations are consistent with existing policy. Ms. Matheson asked if the projections are based on 8 percent growth. Mr. Dear responded that the capital market assumption for private equity is 11.5 percent based on a cash model, which is an estimate, not an absolute forecast. Treasurer Murphy suggested that the Board should further discuss liquidity issues.

**The above motion carried unanimously.**

**Madison Dearborn Capital Partners V, L.P.**

**Mr. Masten moved that the Board invest up to $175 million, plus fees and expenses, in Madison Dearborn Capital Partners V, L.P., subject to continued due diligence and final negotiation of terms and conditions.**

Mr. Masten reported that both staff and Capital Dynamics had each recommended an investment of up to $150 million in the fund. The Committee expressed an interest in pursuing a higher investment amount in the fund if an additional allocation is available. Staff and Capital Dynamics are comfortable with an investment of up to $175 million.

He said that the Committee submits for consideration an investment of up to $175 million in Madison Dearborn Capital Partners V, L.P., based, in part, on the following: 1) Madison Dearborn has a deep and specialized industry expertise in five key industrial sectors. 2) Madison Dearborn has a strong track record over a long time period with substantial realizations. Since 1993, MDCP has invested $5.8 billion in four prior funds, producing a net IRR of 18.2 percent and a net value multiple of 1.57x. These investments have yielded realized value of $5.6 billion and have a remaining value of $5.5 billion. 3) The firm has a deep, stable, and experienced

management team with a strong franchise in communications and paper/packaging investing. 4) The investment is an attractive fit in the private equity portfolio. 5) The investment represents an opportunity to expand a successful relationship with a high-quality, existing general partner.

**Treasurer Murphy seconded the motion.**

Treasurer Murphy noted that one of the other investment recommendations heard at the Committee meeting was cut back by $100 million, so the consensus was that an additional $25 million to this investment was well within range. Mr. Bruebaker concurred that staff is very comfortable with the recommendation to invest up to $175 million.

**The above motion carried unanimously.**

Representative Sommers asked about negative cash flow issues. Mr. Dear said that a complete study had been conducted in 2004, which concluded that cash flows are in fine shape if assets continue to grow at present levels. Representative Sommers said that negative cash flows are expected and the Board should have a discussion on the issue. Chair McElligott asked the executive director to arrange for a Board discussion.

## STAFF'S REPORT

### Executive Director's Report

Mr. Dear provided his monthly report for March on Board governance, staff, investments, budget, operations, public affairs, legislation, and open procurement activities.

### Monthly Investment Report

Mr. Bruebaker reported that the U.S. equity portfolio lost 1 basis point (bp) in February, outperforming the performance of the benchmark by 2 bps for the month, and outperforming by 1 bp for the year ended February 28, 2006. The international equity portfolio lost 21 bps for the month, outperforming the benchmark by 8 bps, while underperforming by 44 bps for the year. The CTF fixed income investment portfolio returned 40 bps for the month, outperforming the performance of the Lehman Universal by 1 bp. The one-year performance has outperformed the Universal by 60 bps. Private Equity returned 5.0 percent for the month. Draws were $402 million, with $214 million from KKR and $188 million from the LP portfolio. Average monthly draws for 2005 were $186 million. Distributions were $195 million, with $31 million from KKR and $164 million from the LP portfolio. Average monthly distributions for 2005 were $223 million. The Fisher Lynch Co-investment Fund closed in February. They have already made one investment and are in the final due diligence on another. Real Estate returned 0.1 percent for the month. Draws were $17 million and distributions back were $5 million.

Treasurer Murphy reported that the GET Program reached 60,000 accounts opened for children who will have the opportunity to have all or part of their college tuition paid for, which is a major milestone. He said he is proud of that effort.

Mr. Kaminski asked for the status of the Innovation Portfolio account. Mr. Bruebaker said that there are no investments yet, but several opportunities are being evaluated. One strategy considered

to date is too large of a commitment for the Innovation Portfolio, so it will be taken instead to the Public Markets Committee for consideration.

Mr. Nakahara asked if staff had considered rebalancing the portfolio due to U.S. equity being close to the limits of its asset allocation. Mr. Bruebaker said that some discussion had occurred. He noted that private equity is still under its target and two managers will be taken to the next Public Markets Committee for consideration of a cash overlay program, which should help.

**ASSISTANT ATTORNEY GENERAL'S REPORT**

Mr. Silver provided a brief status overview of Enron criminal proceedings and summary of class action proceedings. Mr. Silver reported that no class certification rulings have occurred, so he is unsure whether certain older bond claims for the WSIB will be allowed. He said he would provide details on what recovery the WSIB might expect as soon as information is available. The next hearing on settlements is May 24.

**OTHER ITEMS**

Chair McElligott congratulated Mr. Gorton on his appointment as Vice Chair.

There was no further business to come before the Board. The meeting adjourned at 10:14 a.m.

Pat McElligott
Chair

ATTEST

Joseph A. Dear
Executive Director