

STATE OF WASHINGTON
STATE INVESTMENT BOARD

Private Markets Committee Meeting
Minutes

April 3, 2003

The Private Markets Committee met in open public session at 9:02 A.M. in the boardroom at the Washington State Investment Board in Olympia, Washington.

Members Present: George Masten, Chair
John Charles
Charles Kaminski
Mike Murphy
Jeff Seely
Senator James West

Other Members Present: Lee Ann Prielipp

Members Absent: John Magnuson
Paul Trause

Others Present: Joe Dear
Gary Bruebaker
Steve Draper
Tom Ruggels
Linda Buchanan

Jeff Lane, Senior Assistant Attorney General
Richard G. Cline, Hometown America
Michael Humphrey, Courtland Partners
Alison Bonaci, Pacific Corporate Group

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

The meeting convened at 9:02 A.M. with Chair Masten identifying members present.

REVIEW AND APPROVAL OF MINUTES – FEBRUARY 6, 2003

Mr. Charles moved to adopt the February 6, 2003, minutes. Mr. Murphy seconded, and the motion carried unanimously.

HOMETOWN AMERICA, LLC – FOLLOW-ON INVESTMENT RECOMMENDATION

Mr. Draper discussed current market conditions and explained that poor real estate market fundamentals continue, but property prices have stayed high. This has resulted in few good investment opportunities being available at this time. The one exception is manufactured home communities. He

explained that Hometown America (Hometown) is a long-term WSIB partner with a strong management team. Mr. Draper described advantages and risks to investing in manufactured home communities, and compared this type of investment to other types of residential property. He discussed operating costs, the company's cost of capital, investment structure, and barriers to new competition entering the market. Mr. Draper stated that staff is recommending an additional investment of \$750 million in Hometown.

Discussion ensued regarding Hometown's leverage levels, the WSIB's veto ability, the company's outside board member, advantages in being the sole investor, anticipated timing of investments, rates of return, exit strategies, cost of capital, and competition.

Mr. Humphrey, Courtland Partners, described the financial structure of Hometown: debt cost; investment cycles; distressed market conditions; long-term stability of this property type; low turnover; occupancy and turnover rate percentages; and performance history of Hometown. He discussed the size of the allocation, and the advantages of the level of the WSIB's control.

Discussion ensued regarding market conditions, risks and advantages of being the sole investor, geographical focus, recommended investment size, past performance, the WSIB's portfolio allocations, and the status of the existing committed capital.

[Senator West was in attendance at 10:03 A.M.]

Mr. Draper summarized a memo from Mr. Magnuson favoring the recommendation.

Mr. Cline, Chief Executive Officer of Hometown, introduced himself. He presented an overview of the firm's history, growth, management team, current portfolio, geographical concentrations, and typical improvements made in communities purchased. Mr. Cline described the low maintenance and capital improvement requirements of this property type, resident profiles, stability and quality of income, and the quality and characteristics of manufactured home communities. He explained the current distress in the industry.

Discussion ensued regarding typical mortgage rates, vacancy rates, home turnover, investment returns, cash flows, investment pace, and financing.

[A recess was taken at 10:23 A.M. and the open session reconvened at 10:32 A.M.]

The Committee discussed the efficiency of acquisitions, capital structure, cost of capital, acquisition pricing, expected income, operating expense ratio, the firm's investment model, growth rate, and historic investment cycles.

Mr. Charles moved that the Private Markets Committee recommend to the Board an additional investment of up to \$750 million, plus fees and expenses, in Hometown America, LLC, subject to final negotiation of terms and conditions. Chair Masten seconded.

Discussion ensued regarding the amount of the investment, the window of opportunity, the Committee's ability to review the decision at a later date, and the WSIB's effective control of the investment.

The motion carried unanimously.

BENCHMARK UPDATE

Mr. Bruebaker updated the Committee on the progress of developing a benchmark that would not have the weaknesses of Venture Economics.

Discussion ensued regarding the involvement of Pacific Corporate Group and other institutional investors, and the need for consistency and reliability of information.

PUBLIC RECORDS ACT

Mr. Dear discussed the WSIB's policy regarding public disclosure, restraints of the Public Disclosure Act, and the importance of communication with general partners regarding requests received that will impact their funds.

Ms. Bonaci discussed the level of Pacific Corporate Group's due diligence and reporting.

Discussion ensued regarding information sharing with other pension funds, the need for a Board-adopted policy, and a need for consistency among public funds on reporting standards.

PRIVATE MARKETS CLOSING LOG

The Private Markets Closing Log was presented for informational purposes.

OTHER ITEMS

There being no further business to come before the Committee, the meeting adjourned at 11:28 A.M.