

STATE OF WASHINGTON
STATE INVESTMENT BOARD

Private Markets Committee Meeting
Minutes

October 2, 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
 Mike Colleran
 John Magnuson
 Jeff Seely
 Senator Zarelli

Members Absent: Charles Kaminski
 Paul Trause

Other Board Members
Present: Pat McElligott

Others Present: Joe Dear, Executive Director
 Gary Bruebaker, Chief Investment Officer
 Tom Ruggels, Senior Investment Officer – Private Equity
 Sam Green, Investment Officer – Private Equity
 Linda Buchanan, Administrative Secretary

 Paul Silver, Senior Assistant Attorney General
 Tara Blackburn, Pacific Corporate Group
 Eric Becker, Pacific Corporate Group
 David Bonderman, TPG Partners
 Jim Coulter, TPG Partners
 James Gates, TPG Partners
 Glenn Hutchins, Silver Lake Partners
 David Roux, Silver Lake Partners

[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 – JULY 10, 2003

Mr. Charles moved to adopt the July 10, 2003, minutes. Senator Zarelli seconded, and the motion carried unanimously.

[Mr. Seely was in attendance at 9:05 A.M.]

PRIVATE EQUITY – TPG PARTNERS IV, L.P. – INVESTMENT RECOMMENDATION

Mr. Green stated that staff recommends an investment of \$125 million in TPG Partners IV, L.P. (TPG) and that Pacific Corporate Group (PCG) concurs with staff's recommendation. He described the firm's partners, differentiated strategy, deal flow, expertise, and track record. Mr. Green explained that the investment is an attractive fit in the private equity portfolio and provides an opportunity to expand a successful relationship with an existing general partner. Mr. Green mentioned that this group would have potential overlap with others in the portfolio, but that the overlap is mitigated by TPG's unique strategy. He discussed the volatility of returns and stated that TPG had some big winners and a few losers.

Ms. Blackburn, PCG, stated that TPG is well known in the market place. She discussed the firm's diversification and stated that the firm does a good job capitalizing on its strengths. Ms. Blackburn discussed the fund's volatility, potential overlap with other general partners, and stated that the proposed terms need further negotiation.

Discussion ensued regarding the firm's policy regarding follow-on investing, fee structure, clawback clause, fund performance, size of recommendation, due diligence, and the WSIB's investment plan.

Mr. Bonderman, Mr. Coulter, and Mr. Gates, TPG Partners, introduced themselves. They discussed the firm's background, experience, performance, recent transactions, differentiation, strategy, operational value, and professionals. They presented a general market overview.

Discussion ensued regarding use of leverage, timing issues, the European market, exit strategies, and concerns about general partners competing for the same transaction.

[Mr. McElligott was no longer in attendance at 9:48 A.M.]

Discussion ensued regarding the amount of the investment recommendation.

Mr. Charles moved that the Private Markets Committee recommend to the Board an investment of up to \$125 million, plus fees and expenses, in TPG Partners IV, L.P., subject to final negotiation of terms and conditions. Mr. Colleran seconded, the motion carried unanimously.

PRIVATE EQUITY – SILVER LAKE PARTNERS II, L.P. – INVESTMENT RECOMMENDATION

Mr. Ruggels stated that staff is recommending an investment of \$125 million in Silver Lake Partners II, L.P., a \$3 billion fund which will invest in technology companies. He explained that the recommendation was included in the revised annual plan submitted in July. Mr. Ruggels described the

firm's management team, expertise, reputation, extended network of key technology executives, competitive advantage, resource base, track record, investment strategy, and excellent fit in the WSIB's portfolio. Mr. Ruggels stated that there is potential overlap with other general partners but such overlap would be minimal. He explained that this investment is an opportunity to expand a successful relationship with an existing partner. Mr. Ruggels stated that the fund's sector focus increases the risk profile, but the risk is mitigated because the investment would represent only slightly more than one percent of the WSIB's private equity portfolio and the higher expected return justifies the risk. He discussed the performance of the fund's portfolio companies and the fact that the strong return at the fund is due in large part to the success of a single investment, Seagate Technology. Mr. Ruggels described allegations against MCI being investigated and stated that it is unclear what the impact will be. Mr. Ruggels stated that staff believes this investment is a strong offering.

Discussion ensued regarding general partners working together on transactions.

Mr. Becker, PCG, described the firm's competitive advantage, expertise, unique market insights, management team, operational focus, strategy, and performance record. He stated that the fund is in the top quartile. Mr. Becker discussed fund size and terms of the fund. He stated that PCG concurs with the staff recommendation of an investment of \$125 million.

Discussion ensued regarding fund size and management fees.

Mr. Hutchins and Mr. Roux, Silver Lake Partners, introduced themselves. They discussed pricing, opportunities, and technology's impact on the market and economy. They described the firm's proprietary approach, investment strategy, team, and performance.

Discussion ensued regarding the firm's portfolio companies and joint transactions.

Mr. Colleran moved that the Private Markets Committee recommend to the Board an investment of up to \$125 million, plus fees and expenses, in Silver Lake Partners II, L.P., subject to final negotiation of terms and conditions. Mr. Charles seconded, the motion carried unanimously.

[A recess was called at 10:59 A.M. and the regular session reconvened at 11:08 A.M.]

SHOTT CAPITAL MANAGEMENT CONTRACT EXTENSION

Mr. Bruebaker explained that the Board hired Shott Capital Management (Shott) in December 2000 to act as a fiduciary providing comprehensive post-venture distribution management and stock liquidation services. He stated that Shott performs a complex task, plays an important role, and provides good services. Mr. Bruebaker stated that Shott has been purchased by State Street Global Alliance and that individuals that work with the WSIB are staying with the firm. Mr. Bruebaker explained that staff is respectfully requesting the first of two one-year extensions.

Discussion ensued regarding fees.

Mr. Charles moved that the Private Markets Committee recommend that the Board authorize the Executive Director to extend the contract with Shott Capital Management for the first one-year extension through December 31, 2004, as

provided in the existing terms of the contract. Mr. Colleran seconded, the motion carried unanimously.

PRIVATE EQUITY – ADDITIONAL INFORMATION FOR PATHWAY CAPITAL MANAGEMENT AND INVESCO PRIVATE CAPITAL

Mr. Ruggels explained that the Committee requested additional information regarding Pathway Capital Management and Invesco Private Capital at the July 10, 2003, Private Markets Committee meeting. Mr. Ruggels stated that, in response to that request, information is provided in the packet.

Mr. Seely stated that the charts were helpful.

PRIVATE EQUITY MANAGER INVESTMENT PERFORMANCE DISCUSSION

Mr. Ruggels stated that the Committee and Board have held educational sessions regarding private equity performance measurement methodologies, benchmarking options, and related issues. He explained that PCG has applied these concepts to the track record of KKR, one of the Board's best-performing, long-term strategic partners, and that PCG would share the results of the analysis with the Committee.

Ms. Blackburn explained that performance calculations are measured using the IRR basis as well as the multiple of capital invested. She explained that PCG calculates this using actual cash flows and the capital account balance. Ms. Blackburn stated that PCG confirms the numbers regularly with general partners and confirms cash flows with the WSIB's custodian on a monthly basis. She then described the application using KKR as an example and comparing KKR's performance to the S&P.

Discussion ensued regarding the relationship between investments in KKR funds and direct investments in Beatrice, Daw, Red Lion, and Accel-KKR; the vintage year of the direct investments; the correlation of KKR's returns and the S&P 500; and the consistency of what PCG and KKR have reported.

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 11:25 A.M.