

**APPROVED**

STATE OF WASHINGTON  
STATE INVESTMENT BOARD

Private Markets Committee Meeting  
Minutes

February 3, 2005

The Private Markets Committee met in open public session at 9:04 A.M. in the boardroom at the Washington State Investment Board in Olympia, Washington.

Members Present:           Debbie Brookman, Chair  
                                  John Charles  
                                  Jeff Hanna  
                                  John Magnuson  
                                  Patrick McElligott  
                                  Treasurer Murphy  
                                  Jeff Seely

Members Absent:           Senator Zarelli

Other Board Members  
Present:                    Charles Kaminski  
                                  George Masten

Others Present:            Joe Dear, Executive Director  
                                  Gary Bruebaker, Chief Investment Officer  
                                  Tom Ruggels, Senior Investment Officer – Private Equity  
                                  Steve Draper, Senior Investment Officer – Real Estate  
                                  Isabelle Fowler, Investment Officer – Private Equity  
                                  Sam Green, Investment Officer – Private Equity  
                                  Hanna Jirasetpatana, Investment Officer – Real Estate  
                                  Linda Buchanan, Administrative Secretary

Paul Silver, Senior Assistant Attorney General  
Eric Becker, Pacific Corporate Group  
Michael Humphrey, Courtland Partners  
William Jackson, Bridgepoint  
Graham Dewhirst, Bridgepoint  
DuBose Montgomery, Menlo Ventures  
Doug Carlisle, Menlo Ventures  
Michael Hoffman, Palamon European  
Louis Elson, Palamon European  
Tom Darden, Cherokee Partners  
John Mazzarino, Cherokee Partners  
Bret Batchelder, Cherokee 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 9:04 A.M. with Chair Brookman identifying members present.

### **REVIEW AND APPROVAL OF MINUTES – JANUARY 6, 2005**

**Mr. McElligott moved to adopt the minutes of January 6, 2005. Ms. Brookman seconded, and the motion carried unanimously.**

### **PRIVATE EQUITY – BRIDGEPOINT EUROPE III – INVESTMENT RECOMMENDATION**

Mr. Green introduced himself and stated that staff recommends an investment of up to €100 million in Bridgepoint Europe III, a €2.0 billion pan-European middle-market buyout fund, consistent with the private equity annual commitment plan presented in January. If approved, Bridgepoint would be a new relationship for the WSIB. Mr. Green discussed the firm's team, strategy, diversification, fit in the WSIB portfolio, and minimal overlap with existing WSIB partners. The firm has seven offices located in six countries.

Mr. Becker, Pacific Corporate Group (PCG), introduced himself and discussed the firm's competitive advantage, performance history, multi-cultural and multilingual management team, fit in the WSIB portfolio, cashflow, experience, historical performance, and conservative valuations. PCG also recommended an investment of up to €100 million.

Discussion ensued regarding whether one of the WSIB's existing partners purchased a portfolio company sold by Bridgepoint, impact and amount of turnover, number of investments realized, number of investments still active, valuation methods, vintage year of investments, currency issues, negative returns, minimal competition with other WSIB partners, and structure of Bridgepoint's investment committee.

Mr. Jackson and Mr. Dewhirst, Bridgepoint, introduced themselves and discussed the firm's reputation, network, infrastructure, experience, investment and exit strategies, financial performance, history, team, and single carried interest structure. Fund III will not invest in Fund II portfolio companies.

Discussion ensued regarding sourcing methodology and decision-making process, number of partners on the investment committee, performance computations, hurdle rates, currency issues, trade sales, comparison with other WSIB European funds, valuation methodologies, European concentration, and WSIB due diligence process.

**Mr. McElligott moved that the Private Markets Committee recommend to the Board an investment of up to €100 million (approximately U.S. \$130 million), plus fees and expenses, in Bridgepoint Europe III, subject to continued due diligence and final negotiation of terms and conditions. Ms. Brookman seconded.**

Discussion ensued regarding projected returns, Bridgepoint's reputation, and cash versus stock returns to limited partners.

**The motion carried unanimously.**

[The Committee recessed at 10:26 A.M. and reconvened at 10:38 A.M.]

**PRIVATE EQUITY - MENLO VENTURES X, L.P. – INVESTMENT RECOMMENDATION**

Mr. Ruggels introduced himself and stated that staff recommends an investment of up to \$250 million in Menlo Ventures X, L.P., a multi-stage venture capital fund with a target capitalization of \$1 billion. Menlo Ventures is the WSIB's longest standing partnership, dating back to 1981. The proposed commitment is consistent with the private equity annual plan presented in January. Mr. Ruggels discussed the firm's reputation, network of industry contacts, stability, experienced management team, differentiated strategy, strong long-term performance record, and the proposed investment's excellent fit in the WSIB private equity portfolio.

Discussion ensued regarding terms and fee structure, increased fund size, valuation methodology, and future prospects for existing funds.

Mr. Becker discussed Menlo's long-standing relationship with the WSIB, financial performance, experience, team, reputation, deal flow, extensive network, strategy, and process. PCG also recommended an investment of up to \$250 million.

Discussion ensued regarding impact of vintage years on returns, j-curve, unrealized investments, impact of valuation methodology, investment strategy, key person provision, and team stability.

Mr. Montgomery and Mr. Carlisle, Menlo Ventures, introduced themselves and discussed the firm's strategy, sector focus, team, experience, expertise, financial performance, network, portfolio companies, conservative valuations, diversification by industry, terms, management fees, market outlook, return expectations, deal flow, reporting practices, and exit strategies.

Treasurer Murphy inquired about the results for Funds VIII and IX and the terms for Fund X. Discussion ensued regarding the WSIB's current investments with Menlo, expected returns for existing funds, valuations, and market conditions.

**Mr. Charles moved that the Private Markets Committee recommend to the Board an investment of up to \$250 million, plus fees and expenses, in Menlo Ventures X, L.P., subject to continued due diligence and final negotiation of terms and conditions. Mr. McElligott seconded.**

Discussion ensued regarding increased fund size, performance of Fund VIII, and valuations of portfolio companies.

**The motion carried with Mr. Murphy voting no.**

[The Committee recessed at 12:00 P.M. and reconvened at 12:21 P.M.]

**PRIVATE EQUITY - PALAMON EUROPEAN EQUITY II, L.P. – INVESTMENT RECOMMENDATION**

Ms. Fowler introduced herself and stated that staff recommends an investment of up to €100 million in Palamon European Equity II, L.P., a pan-European middle-market fund with a target capitalization of €650 million. The fund will invest in small- to middle-market financings and buyouts of companies in the service industries. Palamon is an existing WSIB partner. While the recommendation is larger than discussed in the private equity annual plan, after continued due diligence staff believes the larger commitment is warranted. Ms. Fowler discussed the firm's multinational and multilingual team, strategy, performance record, alignment of interest, fit in the WSIB portfolio, upside potential, growth of the team, and increased fund size.

Discussion ensued regarding management fees, negotiation of terms, and caliber of the management team.

Mr. Becker discussed reasons for the amount of the investment recommendation, the fund's fit in the WSIB portfolio, growth of the firm, development of infrastructure, financial performance, experience, network, history, adherence to strategy, investment thesis, market volatility, and potential returns in an improving market. PCG also recommends an investment of €100 million.

Discussion ensued regarding fit and diversification in the WSIB portfolio, background of partners, performance record, management fees, transaction fee offsets, market trends, realized and unrealized investments, investment sector, amount of general partner investment, target fund size, and preferred return.

Mr. Hoffman and Mr. Elson, Palamon, introduced themselves and discussed the firm's strategy, history, investment focus, sector focus, diversification, active involvement in portfolio companies, pan-European coverage, multilingual and multi-cultural team, investment philosophy, stability, and adherence to strategy.

Treasurer Murphy asked why the Committee only had a draft and not a completed Private Placement Memorandum and discussed his concerns regarding the performance of Palamon's first fund and the proposed terms for the new fund. Discussion ensued regarding performance numbers, terms, structure, investment opportunities in the European middle market, competition, cap on fund size, general partner commitment, management fees, alignment of interests, return expectations, realizations, and unrealized returns.

[Mr. Seely was no longer in attendance at 12:44 P.M.]

**Mr. McElligott moved that the Private Markets Committee recommend to the Board an investment of up to €100 million (approximately U.S. \$130 million), plus fees and expenses, in Palamon European Equity Fund II, L.P., subject to**

**continued due diligence and final negotiation of terms and conditions.  
Mr. Charles seconded.**

Discussion ensued regarding the draft Private Placement Memorandum, Palamon's reporting process, and fund size.

**The motion carried with Mr. Murphy voting no.**

[The Committee recessed at 1:48 P.M. and reconvened at 1:58 P.M.]

**REAL ESTATE INVESTMENT RECOMMENDATIONS – CHEROKEE INVESTMENT PARTNERS IV, L.P., AND CCP, L.P.**

Mr. Draper and Ms. Jirasetpatana introduced themselves. Mr. Draper mentioned Mr. Mazzarino's representation of the WSIB on the Board of Hometown America and the value he has added to that investment. Mr. Draper noted that the recommendations for Cherokee Fund IV and CCP are consistent with the real estate annual plan presented in January.

Ms. Jirasetpatana discussed the firm's history, investment strategy, and performance. She explained the similarities and differences between Cherokee Investment Partners IV, L.P., and CCP, L.P.

[Mr. Charles was no longer in attendance at 2:02 P.M.]

Mr. Draper discussed the merits and risks of the proposed investments, including the strategy, depth of management's experience, lack of competition, Cherokee's dominant franchise in brownfield investing, access to deal flow, , support of local governments to get entitlements, strong markets, extensive underwriting procedures, and fit in the WSIB portfolio. He stated that staff recommends an investment of \$350 million to Cherokee Investment Partners IV, L.P., and \$200 million to CCP, L.P, based on the attractive investment strategy, returns, dominant franchise, quality of team, and excellent fit in the portfolio.

Discussion ensued regarding the relaxation of federal environmental regulations, Cherokee's fit in the real estate portfolio, other investors, terms, investment strategy, liquidity of sector, diversification, alignment of interests, breadth of investment, key principals, entitlement process, average length of investments, and the benefits of two investment vehicles.

Mr. Darden, Mr. Mazzarino, and Mr. Batchelder, Cherokee, introduced themselves and discussed Cherokee's strategy, tactics, expertise, competitive advantage, performance, deal flow, reputation, commitment, organization, and experience. They discussed market and urbanization trends.

Discussion ensued regarding a higher leverage cap for Fund IV, changes in environmental regulations at the federal level, expected returns, and management fees.

**Mr. Murphy moved that the Private Markets Committee recommend to the Board an investment of \$350 million, plus fees and expenses, in Cherokee**

**Investment Partners IV, L.P., subject to continued due diligence and final negotiation of terms and conditions. Mr. McElligott seconded.**

Discussion ensued regarding governance, consistency of the proposed investments with the real estate annual plan, fit in the WSIB portfolio, management leadership, deal flow, expansion to Europe, expertise, prudent level of reserve capital, alignment of interest, and access to insurance.

**The motion carried unanimously.**

**Mr. Murphy moved that the Private Markets Committee recommend to the Board an investment of \$200 million, plus fees and expenses, in CCP, L.P., subject to continued due diligence and final negotiation of terms and conditions. Mr. McElligott seconded.**

Discussion ensued regarding the name of CCP, L.P.

**The motion carried unanimously.**

#### **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 2:58 P.M.