

**APPROVED**

STATE OF WASHINGTON  
STATE INVESTMENT BOARD

Private Markets Committee Meeting  
Minutes

September 1, 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  
                                  Senator Lisa Brown  
                                  Jeff Hanna  
                                  Sandy Matheson  
                                  Patrick McElligott  
                                  Treasurer Mike Murphy  
                                  Jeff Seely

Members Absent:           John Magnuson

Other Board Members  
Present:                    Charles Kaminski  
                                  George Masten

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

Paul Silver, Assistant Attorney General  
Michael Humphrey, Courtland Partners  
Mike Krems, Pacific Corporate Group  
Ray Flores, Corporate Properties of the Americas  
Garret House, Evergreen Real Estate Partners  
Don Suter, Macquarie Capital Partners  
Robert Meyer, Macquarie Capital Partners  
Dan O’Connell, Vestar Capital Partners  
Jim Kelley, Vestar Capital Partners  
Richard Masson, OCM Capital Management  
Patrick McDivitt, OCM Capital Management

[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.

**ADOPTION OF MINUTES – JUNE 2, 2005**

**Mr. McElligott moved to adopt the minutes of June 2, 2005. Treasurer Murphy seconded, and the minutes were adopted unanimously.**

**REAL ESTATE INVESTMENT RECOMMENDATION – CORPORATE PROPERTIES OF THE AMERICAS – FOLLOW-ON INVESTMENT**

Mr. Draper introduced himself and stated that this investment was highlighted in the 2005 Real Estate Annual Plan. He discussed the firm's investment strategy, regional focus, fit in the WSIB real estate portfolio, excellent returns, leading market presence, deep deal pipeline, and solid management team. Mr. Draper described risks of the investment, including potential operating risks, concentration of WSIB capital, potential development risks, incentive compensation on unrealized events, currency issues, and potential political risks. Mr. Draper stated that staff recommends a follow-on investment of \$500 million in Corporate Properties of the Americas, consistent with the 2005 Real Estate Annual Plan.

Mr. Humphrey introduced himself and discussed the firm's attractive risk-adjusted return, high quality portfolio, quality tenants, appealing niche strategy, reputation, track record, geographic focus, quality management team, significant market knowledge, competitive advantage due to access to institutional capital, lender relationships, construction expertise, depth of the organization, and relationships with landowners. He described risks of the investment, including market conditions, competition, projected rapid growth, and key personnel issues.

The Committee discussed the advantages of local personnel, hold or sell strategies, and potential exit strategies.

Mr. Flores introduced himself and described the firm's strategic focus, business model, history, geographic focus, dedicated management team, platform, local land relationships, market expertise, knowledge base, competitive debt sources, and integrated services. He discussed current market trends and investment opportunities.

The Committee discussed debt structure, rent rates, market conditions, percentage of WSIB ownership, risk profiles, previous and potential asset sales, impact of competition within the market, and the relative amount of distribution for CPA tenants internal and external to Mexico.

**Mr. McElligott moved that the Private Markets Committee recommend to the Board an additional investment of up to \$500 million, plus fees and expenses, in Corporate Properties of the Americas, subject to ongoing due diligence and final negotiation of terms and conditions. Treasurer Murphy seconded, and the motion carried unanimously.**

[The Committee recessed at 10:12 a.m. and reconvened at 10:23 a.m.]

## **REAL ESTATE INVESTMENT RECOMMENDATION – EVERGREEN REAL ESTATE PARTNERS – FOLLOW-ON INVESTMENT AND GEOGRAPHIC EXPANSION**

Mr. Draper described the firm's investment strategy, fit in the WSIB portfolio, proposed geographic expansion, track record, depth of team, outstanding deal pipeline in both the U.S. and Europe, quality due diligence, attractive terms, and conservative underwriting. He stated that the investment is consistent with the 2005 Real Estate Annual Plan. Mr. Draper discussed operating risk, limited operating history of the firm, competition, market pricing, incentive compensation on unrealized events, and currency/general non-U.S. property risks, as risks of the proposal.

The Committee discussed preferred returns and fees.

Mr. Draper explained that staff views this team as one of the cornerstones of the WSIB portfolio, and recommended an investment of an additional \$500 million and the expansion of the geographic mandate to include Europe, consistent with the 2005 Real Estate Annual Plan.

Mr. Humphrey discussed the firm's investment strategy, flexibility, dedicated team, broader organization, track record, deal sourcing, experience, alignment of interests, value retention, long-term investment horizon, market knowledge, asset management experience, European track record, and potential conflicts of interest. He described the WSIB's control and exclusivity.

The Committee discussed indemnification issues, conflicts of interest, and percentage of WSIB ownership.

Mr. House, Mr. Suter, and Mr. Meyer introduced themselves and discussed the relationship between Macquarie Capital Partners, Evergreen Investment Advisors, Evergreen Real Estate Partners, and the WSIB. They described the firm's sector and geographic focus, organization, professionals, multi-national team, real estate sourcing, differences between U.S. and European investing, diversification, strategy, experience, management team, and integrity.

The Committee discussed potential conflicts, preferred returns, and carried interest. Treasurer Murphy inquired how the potential conflicts and indemnity issues are addressed. Mr. Draper indicated that the existing investment agreement addresses Washington law as to the indemnity issues. Mr. House explained the relationship of Evergreen Investment Advisors, Evergreen Real Estate Partners, and Macquarie Capital Partners, and that any potential conflict of interest is minimal due to the unique investment strategy of Evergreen Real Estate Partners and the oversight role of the WSIB.

**Mr. McElligott moved that the Private Markets Committee recommend to the Board an additional investment of up to \$500 million, plus fees and expenses, in Evergreen Real Estate Partners, LLC, and the expansion of the partnership's investment mandate to include Europe, subject to ongoing due diligence and final negotiation of terms and conditions. Treasurer Murphy seconded, and the motion carried unanimously.**

**PRIVATE EQUITY INVESTMENT RECOMMENDATION – VESTAR CAPITAL PARTNERS V, L.P.**

Mr. Holt introduced himself and stated that staff recommends an investment of up to \$100 million in Vestar Capital Partners V and explained that the WSIB invested in two previous Vestar funds. He described the fund's strategy, business model, investment team, experience, organizational growth, consistency, fit in WSIB portfolio, industry group focus, performance history, terms, alignment of interests, increased fund size, and geographic expansion.

Mr. Krems discussed the European operations, the expected increase in European investments, geographic focus, expertise, target sectors, current market trends, past performance, and improved terms.

The Committee discussed differences in valuations between Pacific Corporate Group's report and Vestar's report.

Mr. O'Connell and Mr. Kelley introduced themselves and discussed the firm's history, investment team, strategy, performance, portfolio companies, expansion, industry focus, reputation, business model, decision making process, substantial commitment of personal capital by Vestar partners, resources, senior advisors, network, deal flow, organization, and conservative leverage.

The Committee discussed valuation differences and net versus gross IRR.

[Senator Brown was no longer in attendance at 11:52 a.m.]

Mr. O'Connell and Mr. Kelley discussed recent realizations, benchmarking analysis, market conditions, and terms.

The Committee discussed product focus and deal sourcing.

**Ms. Matheson moved that the Private Markets Committee recommend to the Board an investment of up to \$100 million, plus fees and expenses, in Vestar Capital Partners V, L.P., subject to continued due diligence and final negotiation of terms and conditions. Treasurer Murphy seconded the motion.**

The Committee discussed the firm's values, conservative valuation methodology, and Washington-based investments.

**The motion carried unanimously.**

[The Committee recessed at 12:13 p.m. and reconvened at 12:50 p.m.]

[Mr. Seely was no longer in attendance at 12:13 p.m.]

**PRIVATE EQUITY INVESTMENT RECOMMENDATION – OCM OPPORTUNITIES FUND VI, L.P.**

Ms. Fowler introduced herself and stated that staff recommends an investment of up to \$100 million in OCM Opportunities Fund VI, L.P, to be allocated up to \$30 million in OCM VI and the remaining balance in OCM VIb if raised within 18 months of the final close of OCM VI. The WSIB invested in five prior OCM funds. She explained the firm's strategy, target fund size, experienced team, strategy, historic performance, negotiation and analytic skills, key personnel issues, recent personnel changes, and cyclical market.

Mr. Krems described the attractiveness of the distressed market, market cycles, investment opportunities, competition, and the firm's strategy.

Mr. McDivitt and Mr. Masson introduced themselves and discussed the firm's history, investment team, strategy, historic performance, valuation methodology, geographic expansion, and the distressed debt market.

The Committee discussed personnel changes in the firm, litigations, potential claims, and the potential effect of leverage on distressed debt markets.

**Mr. McElligott moved that the Private Markets Committee recommend to the Board an investment of up to \$100 million, plus fees and expenses, in OCM Opportunities Fund VI, L.P., to be allocated as follows: up to \$30 million in OCM VI and the remaining balance in OCM VIb if raised within 18 months of the final close of OCM VI, subject to continued due diligence and final negotiation of terms and conditions. Treasurer Murphy seconded the motion.**

The Committee discussed the possibility of a larger investment.

**The motion carried unanimously.**

Chair Brookman announced that the Private Markets Committee would go into executive session under the provisions of RCW 42.30.110(1)(k) to discuss financial and commercial information relating to the investment of retirement funds since public knowledge regarding the discussion would result in loss to the funds managed by the Board or would result in private loss to the providers of the information. The executive session was expected to last until about 2:55 p.m., at which time the Committee would reconvene in open session and adjourn. The Committee expected to take no further action.

[The executive session convened at 1:26 p.m.]

**PRIVATE EQUITY ANNUAL COMMITMENT PLAN UPDATE**

**REAL ESTATE ANNUAL COMMITMENT PLAN UPDATE**

[The regular session reconvened at 2:39 p.m.] No members of the public were in attendance after reconvening.

**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 2:40 p.m.