

APPROVED

STATE OF WASHINGTON
STATE INVESTMENT BOARD

Private Markets Committee Meeting
Minutes

November 3, 2005

The Private Markets Committee met in open public session at 9:05 a.m. in the boardroom at the Washington State Investment Board in Olympia, Washington.

Members Present: Debbie Brookman, Chair
 Senator Lisa Brown
 Jeff Hanna
 John Magnuson
 Sandy Matheson
 Patrick McElligott
 Treasurer Mike Murphy
 Jeff Seely

Other Board Members
Present: Charles Kaminski

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
 Isabelle Fowler, Investment Officer – Private Equity
 Sam Green, Investment Officer – Private Equity
 Linda Buchanan, Administrative Secretary

Paul Silver, Assistant Attorney General
Tara Blackburn, Pacific Corporate Group
Mike Krems, Pacific Corporate Group
Michael Humphrey, Courtland Partners
Morgan Olsson, Nordic Capital
Marc Lasry, Avenue Capital Group
Julie Baumann, Avenue Capital Group
Ron Silva, Fillmore Capital 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 9:05 a.m. with Chair Brookman identifying members present.

ADOPTION OF MINUTES – SEPTEMBER 1, 2005

**Treasurer Murphy moved to adopt the minutes of September 1, 2005.
Mr. McElligott seconded, and the minutes were adopted unanimously.**

PRIVATE EQUITY INVESTMENT RECOMMENDATION – NORDIC CAPITAL FUND VI, L.P.

Mr. Green introduced himself and recommended a commitment of up to €125 million in Nordic Capital Fund VI, L.P., consistent with the revised annual plan submitted to the Committee in September 2005. Mr. Green discussed Nordic's unique position and fit in the WSIB portfolio, the firm's history with the WSIB, successful strategy, fund size, performance, management team, deal flow, investment pace, and generational transition issues.

[Mr. Kaminski attended at 9:11 a.m.]

Mr. Krems, Pacific Corporate Group (PCG), introduced himself and discussed the firm's quality of performance, impressive track record, consistency generating realized returns, and stated that Nordic is one of most impressive firms he has seen.

The Committee discussed the rationale for the larger-size fund, increased capital flow into the Nordic region, increased investor demand, market orientation, and company growth.

Mr. Olsson, Nordic Capital, introduced himself and discussed market conditions, trends, and deal sourcing.

The Committee discussed trend lines in the presentation, increased deal size, market trends, decrease in number of deals rejected, and whether rejected deals could be considered in subsequent years.

Mr. Olsson discussed the firm's growth, track record, realizations, performance, and status of unrealized investments.

The Committee discussed investments made by Nordic funds, the global aspect of the investments, Nordic's competition in the marketplace, and types of healthcare investments.

Mr. Olsson discussed investment strategies and plans for Fund VI.

**Treasurer Murphy moved that the Private Markets Committee recommend to the Board an investment of up to €125 million (approximately U.S. \$150 million), plus fees and expenses, in Nordic Capital Fund VI, L.P., subject to continued due diligence and final negotiation of terms and conditions.
Ms. Matheson seconded.**

The Committee discussed the rationale for the size of the recommendation and whether a larger investment would be available.

Treasurer Murphy amended the motion to increase the recommended commitment to €150 million. Ms. Matheson concurred with the amendment.

The Committee discussed the merits of the increased amount with staff and PCG, who both gave their rationale for the original recommended amount, but indicated that they would be comfortable with the increased commitment size.

The amended motion carried unanimously.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – AVENUE SPECIAL SITUATIONS FUND IV, L.P.

Mr. Ruggels introduced himself and discussed the cyclical nature of the distressed debt market, and staff's desire to better position the portfolio in advance of the next distressed cycle by seeking an additional partner or partners to invest within the distressed debt category.

Ms. Fowler introduced herself and recommended an investment of up to \$100 million in Avenue Special Situations Fund IV, consistent with the revised annual plan submitted to the Committee in September 2005. She stated that PCG concurred with the recommendation, and described the fund's targeted size, investment team, experience, investment strategy, market intelligence, deal sourcing, track record, low loss ratio, growth of organization, staff turnover, key person provision, increased fund size and the fund's fit in the WSIB portfolio.

Mr. Krems discussed the firm's investment focus, target market, strategy, internal structure, familiarity with market, and key person provisions.

The Committee discussed carried interest allocations, compensation, opportunities for staff advancement, PCG's analysis methods, vesting of the GP's carried interest, trade receivables, fee structure, and time leverage factors.

Mr. Lasry, Avenue Capital Group, introduced himself and discussed the firm's focus, infrastructure, client support, alignment of interest, current investors, team, and investment opportunities.

Ms. Baumann, Avenue Capital Group, introduced herself and described the firm's investment strategy and due diligence, including analysis of current market economy, interest rates, choice of industry sectors, leveraged equity, vendor finance, trade claims, European opportunities, and investment performance.

The Committee discussed trade receivables, the difference between this fund and junk bond funds, fee structures, how Avenue allocates investment opportunities between its several investment vehicles, competition, and fund performance.

Mr. McElligott moved that the Private Markets Committee recommend to the Board an investment of up to \$100 million, plus fees and expenses, in Avenue Special Situations Fund IV, L.P., subject to continued due diligence and final negotiation of terms and conditions. Ms. Matheson seconded.

The Committee discussed the merits of the investment and compared the fund structure to other distressed debt funds.

The motion carried unanimously.

[The Committee recessed at 11:14 a.m. and reconvened at 11:27 a.m.]

Chair Brookman announced that Mr. Hanna would no longer be serving on the Board. Mr. McElligott presented a plaque and letter of recognition to Mr. Hanna and thanked him for his service to the Board and to the Committee. Treasurer Murphy expressed his appreciation for Mr. Hanna's service to the Audit Committee.

REAL ESTATE INVESTMENT RECOMMENDATION – FILLMORE EAST FUND, L.P., AND FILLMORE STRATEGIC INVESTORS, LLC

Mr. Draper introduced himself and explained that, consistent with the annual plan, staff was presenting two deals from the same manager. He discussed the firm's investment strategy and focus on operating-intensive properties. He described what structured finance is, and discussed the proposed investments' merits, high yields, and competition, and the manager's past performance levels, market presence, deal pipeline, momentum in the marketplace, management team, long history with WSIB staff, and focus on not losing principal. He explained the rationale for two investment vehicles, including the limitations of investment opportunities for the Fillmore East Fund. Fillmore Strategic Investors was noted as an exclusive investment partnership between Fillmore and the WSIB that provides investment opportunities beyond the limitations of the Fillmore East Fund. Mr. Draper described as risks the key person provisions, higher-risk placement in the capital structure, complexity of transactions, operating-intensive nature of the targeted property types, leverage on debt, and governance terms. He then highlighted how the two investments fit in the WSIB real estate portfolio.

Mr. Humphrey, Courtland Partners, introduced himself and discussed market trends, vacancy rates, declining capitalization rates, capital flows, and the growing market for structured debt. He discussed the fund's attractive risk-adjusted return target, focus on certain property types, limited duration of investments, key personnel, track record, alignment of interests, WSIB portfolio diversification, intensive operating property types, leverage, sector risk, and key personnel issues.

The Committee discussed differences of structured finance compared to other vehicles, the strategy niche, key person and depth of the management team, growth of the firm, staff expertise in sectors, the choice of the fund name, and Mr. Silva's background.

[Treasurer Murphy was no longer in attendance at 12:01 p.m.]

Mr. Silva introduced himself and discussed the firm's history; personnel; focus on preservation of capital; investment approach; focus on non-traditional, non-commodity investments and market inefficiencies; scalability; and performance. He explained that the Fillmore East Fund is a commingled fund and described its target returns and structure. Fillmore Strategic Investors is a direct partnership with the WSIB that will focus on transactions outside the scope of the Fillmore East Fund. Mr. Silva described the firm's investment strategy, capital structure, investment volume,

loan turnover ratio, investment and property sectors, performance, and asset management capabilities.

The Committee discussed selection of partners, investment examples, portfolio diversification, and market trends.

Mr. McElligott moved that the Private Markets Committee recommend to the Board an investment of up to \$50 million, plus fees and expenses, in Fillmore East Fund, L.P., subject to continued due diligence and final negotiation of terms and conditions. Senator Brown seconded the motion.

The Committee discussed the merits of the investment, including generation of income stream, strong management alignment, and the quality of investment approach.

The motion carried unanimously.

Ms. Matheson moved that the Private Markets Committee recommend to the Board an investment of up to \$350 million, plus fees and expenses, in Fillmore Strategic Investors, LLC, subject to continued due diligence and final negotiation of terms and conditions. Mr. McElligott seconded, and the motion carried unanimously.

2006 MEETING SCHEDULE

Mr. McElligott moved that the Private Markets Committee schedule its 2006 meeting dates as indicated in the transmittal. Senator Brown seconded, and 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 12:35 p.m.