

**WASHINGTON STATE INVESTMENT BOARD**  
**Private Markets Committee Meeting Minutes**  
**April 6, 2006**

The Private Markets Committee met in open public session at 9:03 a.m. in the boardroom at the Washington State Investment Board in Olympia, Washington.

Members Present:           George Masten, Chair  
                                  Glenn Gorton  
                                  John Magnuson  
                                  Sandy Matheson  
                                  Treasurer Mike Murphy  
                                  Jeff Seely

Members Absent:           Senator Lisa Brown  
                                  David Nierenberg

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

                                  Paul Silver, Assistant Attorney General  
                                  Michael Humphrey, Courtland Partners  
                                  Tim Morris, Morgan Stanley Real Estate Partners  
                                  John Carrafeill, Morgan Stanley Real Estate Partners  
                                  John Gripton, Capital Dynamics  
                                  Andrew Joy, Cinven Limited  
                                  Hugh Langmuir, Cinven Limited  
                                  Richard Kramlich, New Enterprise Associates  
                                  Michael Raab, New Enterprise Associates  
                                  James Voytko, R.V. Kuhns & Associates  
                                  Jonathan Kowolik, R.V. Kuhns & Associates  
                                  Brooks Zug, HarbourVest Partners  
                                  Philip Bilden, HarbourVest 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 9:03 a.m. with Chair Masten identifying members present.

## **ADOPTION OF MINUTES – FEBRUARY 2 AND MARCH 2, 2006**

**Treasurer Murphy moved to adopt the minutes of February 2, 2006.  
Mr. Gorton seconded, and the minutes were adopted unanimously.**

**Treasurer Murphy moved to adopt the minutes of March 2, 2006.  
Mr. Gorton seconded, and the minutes were adopted unanimously.**

[Mr. Magnuson was in attendance at 9:04 a.m.]

## **REAL ESTATE INVESTMENT RECOMMENDATION – MORGAN STANLEY REAL ESTATE SPECIAL SITUATIONS FUND III, L.P.**

Mr. Draper introduced himself and recommended an investment of up to \$150 million in Morgan Stanley Real Estate Special Situations Fund III, L.P., a \$1.5 billion fund that will make non-controlling investments in the securities of private and public real estate companies, continuing the strategy of the previous two Special Situation funds. The fund will focus on growth markets, domestically or abroad, including emerging markets; distressed markets; and developed markets where a public-to-private or private-to-public arbitrage exists. Mr. Draper discussed the firm's management team and past investment performance.

[Ms. Matheson was in attendance at 9:07 a.m.]

Mr. Draper described the fund's portfolio of pre-identified investments, diversification by geography, exposure to emerging markets, fee structure, strategy, and fit in the WSIB's real estate portfolio. The investment will expose the WSIB to a number of local management teams in a variety of markets that could graduate in the future to a more direct investment relationship with the WSIB. Mr. Draper outlined potential risks associated with foreign investments, including currency, tax, political, and exit options.

The Committee discussed fee structure, carry, valuation processes, lack of a claw back option, structure of an open-ended fund, market conditions, and the team's experience. Mr. Humphrey discussed appreciation, investment cost of assets, and the firm's fee structure, team, and reputation.

Mr. Morris and Mr. Carrafeill, Morgan Stanley Real Estate Partners, introduced themselves and discussed the firm's experience, infrastructure, geographic platform, stability and longevity of key employees, experience, regional resources, dedicated team, strategy, strong market knowledge, performance history, and long-term approach. The fund will invest in four quadrants: private equity, public equity, private debt, and public debt, and will target exposure, investments, and pipelines by country and sector.

The Committee discussed the fee structure based on the fund's net asset value (NAV), the open-ended quality, valuations, exit options, market trends and cycles, dissolution value, compensation methods, and geographic and sector investment focus.

**Mr. Gorton moved that the Private Markets Committee recommend to the Board an investment of up to \$150 million, plus fees and expenses, in Morgan Stanley Real Estate Special Situations Fund III, L.P., subject to continued due diligence and final negotiation of terms and conditions. Ms. Matheson seconded.**

Treasurer Murphy said that he will vote in favor of the investment, but he is concerned about setting a precedent relative to the fee structure. He said that he likes the return numbers and strategy, but he believes the firm is overpaid.

**The motion carried unanimously.**

[The Committee recessed at 10:14 a.m. and reconvened at 10:21 a.m.]

[Ms. Matheson was no longer in attendance at 10:21 a.m.]

**PRIVATE EQUITY INVESTMENT RECOMMENDATION – THE FOURTH CINVEN FUND, L.P.**

Mr. Green introduced himself and said that staff recommends an investment of up to €25 million in The Fourth Cinven Fund, a €5 billion (target) pan-European large buyout fund. The investment is consistent with the private equity annual commitment plan presented to the Committee in January 2006. The fund will continue Cinven's strategy of investing in sector-focused, large buyout transactions across Europe, primarily in the industrial; retail and leisure; business services; healthcare; consumer; and telecom, media, and technology sectors. Mr. Green described the firm's history, management team, experience, pan-European presence, past performance, strategy, investment approach, reputation, diversification, partner turnover, compensation, and structure. Cinven has offices in London, Paris, and Frankfurt, and will soon open an office in Milan. Staff knows the team well and has been on the advisory board for many years.

Mr. Gripton described Cinven's strong team, compensation, strategy, internal organization, involvement in club deals, and performance. He said that Capital Dynamics supports an investment of €25 million in the fund.

The Committee discussed the events that impacted the underperformance of Fund 2, experience and expertise of the partners, equity participation of key partners, operating partners, and strategies to improve portfolio companies.

Mr. Masten asked whether Cinven was in Capital Dynamics fund-of-funds. Mr. Gripton replied that they were not.

Mr. Masten requested that Capital Dynamics always inform the Committee whether or not general partners they are recommending to the Committee have a relationship with Capital Dynamics.

Mr. Joy and Mr. Langmuir, Cinven Limited, introduced themselves and described the firm's continuity, 10-year relationship with the WSIB, pan-European presence, investment record, investment strategy, history, focus on finding profitable exits, pan-European team, sector approach, and holding periods. They discussed the underperformance of Fund 2, and the lessons learned that have been applied in the construction of Fund 3, which is off to a very strong start.

The Committee discussed the partners' experience and background, network of industrial advisors, performance, realized and unrealized multiples, cost versus realized numbers, potential cross fund investing, stage of investments, discrepancies in reports due to the reporting date of information and net versus gross IRRs, and involvement in club deals.

**Mr. Gorton moved that the Private Markets Committee recommend to the Board an investment of up to €125 million, plus fees and expenses, in The Fourth Cinven Fund, L.P., subject to continued due diligence and final negotiation of terms and conditions. Chair Masten seconded.**

Treasurer Murphy stressed the importance of consistent and complete performance reporting.

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

#### **PRIVATE EQUITY INVESTMENT RECOMMENDATION – NEW ENTERPRISE ASSOCIATES 12, L.P.**

Mr. Green introduced himself and said that staff recommends an investment of up to \$100 million in New Enterprise Associates 12, L.P., a \$2.25 billion (target) venture capital fund that will invest in seed- through late-stage venture companies in the information technology and healthcare sectors. In addition, Fund 12 will target later-stage growth equity investments, as well as select investment opportunities in India and China. The WSIB has invested in two prior funds, and the proposed investment is consistent with the private equity annual commitment plan presented to the Committee in January 2006. Mr. Green described the firm's team, franchise, access to syndicate deals, performance history, investment niche, strategy, turnover, and cross fund investments that must be approved by the advisory board.

Mr. Gripton described the firm's reputation, team, network of venture partners, co-investors, performance history, focus on venture growth investments, increased international exposure, and increased fund size. He said that Capital Dynamics recommends an investment of up to \$100 million.

The Committee discussed staff turnover, succession planning, performance, and the volatility of venture capital investments.

Mr. Kramlich and Mr. Raab, New Enterprise Associates, introduced themselves and discussed the firm's history, the evolution of venture growth equity, investment opportunities, and market conditions. They described the firm's investment platform, organization, team, venture partners, transparency, co-alignment with limited partners, and egalitarian sharing of carry.

The Committee further discussed succession planning, fund performance, and turnover in the partnership.

**Treasurer Murphy moved that the Private Markets Committee recommend to the Board an investment of up to \$100 million, plus fees and expenses, in New Enterprise Associates 12, L.P., subject to continued due diligence and final negotiation of terms and conditions. Mr. Gorton seconded, and the motion carried unanimously.**

[The Committee recessed at 12:08 p.m. and reconvened at 12:27 p.m.]

**PRIVATE EQUITY INVESTMENT RECOMMENDATION – HIPEP V – ASIA PACIFIC AND REST OF WORLD PARTNERSHIP FUND, L.P.**

Ms. Fowler introduced herself and said that staff recommends an investment of up to \$75 million in HIPEP V – Asia Pacific and Rest of World Partnership Fund, L.P. (HIPEP V), a \$400 million fund-of-funds that will invest in newly raised partnerships and other pooled investment vehicles that invest in buyout, venture, mezzanine, special situations, and recapitalization transactions in the Asia Pacific region and in other markets, excluding the U.S. and Western Europe. The WSIB has invested a total of \$527.7 million in 11 HarbourVest funds since 1982. Ms. Fowler discussed the firm’s management team, experience, fees, and performance. The WSIB has received ancillary benefits from the HarbourVest relationship, including market intelligence and due diligence information, and would gain valuable access to the Asian and other emerging markets through the fund.

Mr. Kowolik and Mr. Voytko, R.V. Kuhns, introduced themselves and recommended an investment of up to \$75 million in HIPEP V, a specialty investment vehicle formed to meet a specific need, concentrated in the Asian buyout market. They discussed HarbourVest’s strategy, organization, employee ownership, team, succession planning, unanimous consent decision making process, records, reputation, investment thesis, performance history, and experience in Asia. Investment risks include regional cash flows, cyclical, and currency issues. The investment is an important diversification element for the WSIB portfolio and is an appropriate structure given the difficulty of accessing funds.

The Committee discussed other funds in the region; reasons for investing in a fund-of-funds vehicle; limited staff resources; and HarbourVest’s experience, sourcing and due diligence advantages, performance history, investment strategy, and other investors.

Mr. Zug and Mr. Bilden, HarbourVest Partners, introduced themselves and described the firm’s history; investment focus; performance history; geographic diversification; pioneer status; team; local presence; leadership position; experience in geographies outside the U.S. and Western Europe, including Latin America, Israel, Eastern Europe, Russia, and South Africa; investment philosophy; reputation; and terms and conditions. They discussed the fund’s target size, diversified portfolio, strategy, commitments to date, commitment period, investment focus, fees, and terms and conditions.

The Committee questioned the partners regarding fund investment returns, reasons for differences in numbers reported by the partner and by staff, and whether the fund plans to invest in venture capital. The fund's main focus will be on buyout investments, but has a potential to do some venture capital.

The Committee discussed the fee structure, leverage of the relationship with HarbourVest, access to Asian funds, the potential of venture capital investments, other WSIB partners with Asian connections, and the elimination of the cash drag on performance.

**Mr. Gorton moved that the Private Markets Committee recommend to the Board an investment of up to \$75 million, plus fees and expenses, in HIPEP V – Asia Pacific and Rest of World Partnership Fund, L.P., subject to continued due diligence and final negotiation of terms and conditions. Mr. Masten seconded.**

The Committee discussed investment returns and the opportunity to gain contact to top tier funds.

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

#### **PRIVATE MARKETS CLOSING LOG**

The Private Markets Closing Log was presented for informational purposes.

#### **OTHER ITEMS**

There was no further business to come before the Committee and the meeting adjourned at 1:45 p.m.