

**WASHINGTON STATE INVESTMENT BOARD**  
**Private Markets Committee Meeting Minutes**  
**May 4, 2006**

The Private Markets Committee met in open public session at 9:00 a.m. in the boardroom at the Washington State Investment Board in Olympia, Washington.

Members Present:           George Masten, Chair  
                                  Senator Lisa Brown (teleconference)  
                                  Glenn Gorton (teleconference)  
                                  John Magnuson  
                                  Sandy Matheson (teleconference)  
                                  Treasurer Mike Murphy  
                                  David Nierenberg (teleconference)  
                                  Jeff Seely

Other Board Members  
Present:                     Charles Kaminski

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

                                  Paul Silver, Assistant Attorney General  
                                  David Woolford, Capital Dynamics  
                                  Ned Jannotta, GTCR Golder Rauner, LLC  
                                  Bruce Rauner, GTCR Golder Rauner, LLC  
                                  Karen Jakobi, Pathway Capital Management  
                                  Terry Melican, Pathway Capital Management  
                                  Pete Veravanich, Pathway 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 9:00 a.m. with Chair Masten identifying members present.

**ADOPTION OF MINUTES – APRIL 6, 2006**

**Treasurer Murphy moved to adopt the minutes of April 6, 2006. Mr. Gorton seconded, and the minutes were adopted unanimously.**

## **PRIVATE EQUITY INVESTMENT RECOMMENDATION – GTCR FUND IX, L.P.**

Mr. Ruggels introduced himself and stated that staff recommends an investment of up to \$200 million in GTCR Fund IX, L.P., a \$2.25 billion (target) private equity fund being raised by GTCR Golder Rauner to recruit and partner with top industry executives to build companies through acquisitions and internal growth. The fund will focus on consumer products and services, healthcare, outsourced business services, technology, and transaction processing. GTCR is an existing WSIB relationship. Mr. Ruggels discussed the firm's experienced team, differentiated strategy, strong track record with substantial realizations, limited partner friendly actions during difficult investment periods, fit in the WSIB portfolio, company turnover, generational transition plans, and volatility of the strategy.

Mr. Woolford introduced himself and discussed the firm's strategy, investment emphasis on financial services, reputation, strong brand identity, experience, skilled partners, volatile portfolio, improvements made in recent funds, ability to obtain good management teams in a competitive environment, and organizational structure. Mr. Woolford said that Capital Dynamics agrees with staff's recommendation of an investment of up to \$200 million.

Mr. Rauner and Mr. Jannotta, GTCR Golder Rauner, introduced themselves and described the fund's target size and strategy. They discussed the firm's relationship with the WSIB, performance, history, experience, management team, administrative committee, value-added approach, differentiated strategy, sector focus, sourcing of proprietary acquisitions, industry and operational expertise, recruitment of experienced executives, exit strategy, geographic focus, and the evolution and growth of the firm.

The Committee discussed the recruitment and recycling of management teams, executive compensation, outsourcing, performance of Fund VII, loss ratios, number of board seats per partner, the possibility of a larger WSIB commitment, and potential co-investment opportunities.

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

Mr. Kaminski suggested approval of a larger amount.

**The motion carried unanimously.**

[The Committee recessed at 10:09 a.m. and reconvened at 10:16 a.m.]

## **PRIVATE EQUITY – PATHWAY CAPITAL MANAGEMENT – CONTRACT EXTENSION AND ALLOCATION INCREASE**

Ms. Fowler introduced herself and explained that the WSIB hired Pathway in 1996 to manage non-discretionary separate account for investing in venture capital partnerships and, in 2001, rehired and gave discretion to the firm. The initial term of the contract will expire on June 30,

2006. Ms. Fowler discussed the firm's performance to date and stated that staff recommends that the Committee extend Pathway's contract for 5 years, amend the investment guidelines to increase the amount that Pathway can commit to a partnership from \$30 million to \$50 million and eliminate the restriction on maximum fund size of \$750 million, and approve an additional allocation of up to \$300 million. She discussed the firm's history, growth, ownership, reputation, stability, management team, due diligence process, proprietary system, excellent customer service, reports, top-quartile performance, and access to high quality partners.

The Committee discussed the fact that the Office of Financial Management considers this a personal services contract, the rationale for extending the contract for a 5-year period, the lag time in reporting of data, whether the WSIB should continue in the asset class, and the goal to leverage the relationship to gain access to direct investments with venture firms.

Ms. Jakobi and Mr. Melican, Pathway Capital Management, introduced themselves and discussed Pathway's relationship with the WSIB and the volatility of venture investing. They described the firm's history, independent ownership, assets under management, size, growth, management continuity, experience, focus on private equity investing, access to high quality investments, thorough due diligence process, analysis, documentation, extensive proprietary database, exceptional long-term investment results, clients, investment philosophy, opportunistic approach, and diversified portfolio. They discussed market trends, fundraising cycles, steady investment pace, the WSIB portfolio, recent investments, cash flows, and vintage year performance.

The Committee discussed performance, managed growth, first fund investments, and identification of emerging managers.

Mr. Kaminski asked Pathway to provide information on Washington-based companies in the Pathway portfolio that have had co-investments by Washington state-based venture capital firms. Ms. Jakobi replied that Pathway would provide the information.

Treasurer Murphy asked about audited information. Each underlying fund is audited annually and Pathway is audited. However, since WSIB money goes directly to the funds and not through Pathway, the Washington portfolio is not audited separately.

The Committee discussed the volatility of venture investments, the time factor involved between when an investment is made and the outcome known, that it was staff's idea to request a 5-year contract without Pathway's involvement in the decision.

[Senator Brown was no longer in attendance at 10:56 a.m.]

[Ms. Matheson was no longer in attendance at 11:00 a.m.]

**Mr. Gorton moved that the Private Markets Committee recommend to the Board a 5-year extension of the Pathway Capital Management contract; an amendment to the investment guidelines to increase the amount that Pathway can commit to a partnership from \$30 million to \$50 million and eliminate the restriction on maximum fund size of \$750 million; and an**

**additional allocation of up to \$300 million to be invested under the terms and conditions of the contract. The motion failed due to the lack of a second.**

**Treasurer Murphy moved that the Private Markets Committee recommend to the Board a 1-year extension of the Pathway Capital Management contract; an amendment to the investment guidelines to increase the amount that Pathway can commit to a partnership from \$30 million to \$50 million and eliminate the restriction on maximum fund size of \$750 million; and an additional allocation of up to \$300 million to be invested under the terms and conditions of the contract. Mr. Masten seconded, and the motion carried unanimously.**

### **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 11:24 a.m.