

WASHINGTON STATE INVESTMENT BOARD
Private Markets Committee Meeting Minutes
June 1, 2006

The Private Markets Committee met in open public session at 9:02 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
 Sandy Matheson
 Treasurer Mike Murphy
 David Nierenberg
 Jeff Seely

Members Absent: John Magnuson

Other Board Members
Present: Charles Kaminski

Others Present: Joe Dear, Executive Director
 Gary Bruebaker, Chief Investment Officer
 Tom Ruggels, Senior Investment Officer – Private Equity
 Sam Green, Investment Officer – Private Equity
 Gary Holt, Investment Officer – Private Equity
 Isabelle Fowler, Investment Officer – Private Equity
 Steve Draper, Senior Investment Officer – Real Estate
 Erwin Vidallon, Investment Officer – Real Estate
 Ceri Walker, Investment Officer – Real Estate
 Tripp Gantt, Investment Officer – Private Equity
 Linda Buchanan, Administrative Secretary

 Paul Silver, Assistant Attorney General
 David Woolford, Capital Dynamics
 Marc Lasry, Avenue Asia
 Alex Wolfman, Avenue Asia
 Charles Sherwood, Permira Limited
 Bill Gerrity, GMS Realty
 Philip Mintz, Warburg Pincus
 Mike Profenius, Warburg Pincus
 Patrick Sullivan, Warburg Pincus
 Steven Schneider, Warburg Pincus

[Names of other individuals attending the meeting are not included in the minutes but are listed in the permanent record.]

The meeting convened at 9:02 a.m. with Chair Masten identifying members present.

ADOPTION OF MINUTES – MAY 4, 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 – FIRST RESERVE FUND XI, L.P.

Mr. Green introduced himself and recommended an investment of up to \$300 million in First Reserve Fund XI, L.P., a \$5.5 billion (target) energy focused, large buyout fund. The WSIB has invested in three prior funds, and the recommendation is consistent with the annual plan submitted to the Committee. Mr. Green discussed the firm's experienced, cohesive management team; substantial realizations; franchise; reputation; investment team; strong energy industry fundamentals and trends; transitional issues; increased fund size; team development; key person risk; commodity price risk; and accounting issues with one portfolio company.

The Committee discussed the issues with the portfolio company.

Mr. Woolford, Capital Dynamics, discussed the allocation of the fund and stated that Capital Dynamics fully supports staff's recommendation. Mr. Woolford discussed the firm's strategy, competition, increased fund size, ability to execute large transactions, infrastructure, political challenges, team, reputation, and sector volatility.

The Committee discussed differences in the staff's and consultant's reports because of net and gross numbers, the portfolio company issues, potential impact of changing oil prices, and market volatility.

Mr. Macaulay and Ms. Ellsworth, First Reserve, introduced themselves and discussed the firm's industry and geographic focus, diversified portfolio, reputation, industry expertise, experience, proprietary deal sources, management team, strategic relationships, consistent discipline,

performance, history, international exposure, market trends, investment opportunities, and accounting issues with one portfolio company.

The Committee discussed the accounting issues and time required to fix the issues, the impact of price fluctuations, pace of investments, market opportunities, capacity of the firm, deal flow, due diligence processes, staff additions, corporate culture, investment discipline, and potential co-investment opportunities.

Mr. Masten said that Mr. Magnuson provided a written response to the recommendation and would be in favor of a larger investment. The Committee discussed the appropriate recommendation level.

Treasurer Murphy moved that the Private Markets Committee recommend to the Board an investment of up to \$300 million, plus fees and expenses, in First Reserve Fund XI, L.P., subject to continued due diligence and final negotiation of terms and conditions. Ms. Matheson seconded.

The Committee discussed the recommended allocation and the amount that could be available to the WSIB.

The motion carried unanimously.

[The Committee recessed at 10:25 a.m. and reconvened at 10:35 a.m.]

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

Mr. Holt introduced himself and recommended an investment of up to \$100 million in Avenue Asia Special Situations Fund IV, L.P. The WSIB has invested with Avenue Capital Group before, but this would be the first investment in Avenue's Asian strategy. Mr. Holt described the firm's experienced and stable management team, investment strategy, non-performing loans

(NPLs) market, strong performance, fit in the WSIB portfolio, exit strategies, increased fund size, key person risk, and market risks.

The Committee discussed market volatility, political issues, and exit strategies.

Mr. Woolford said that Capital Dynamics agrees with staff's recommendation. He described the firm's effective analytical team, ability to execute strategy, performance, focus, future market concerns, and due diligence processes.

The Committee discussed political risks, causes of the high quantity of NPLs in the market, and government control issues.

Mr. Lasry and Mr. Wolfman, Avenue Asia, introduced themselves and discussed the firm's history, geographic focus, local offices, country managers, investment strategy, transparency issues, and management team.

The Committee discussed fund size, lack of local investors, sovereign risk, cultural differences, and political issues.

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

PRIVATE EQUITY INVESTMENT RECOMMENDATION – PERMIRA IV, L.P.

Mr. Green recommended an investment of up to €100 million in Permira IV, L.P. He described the firm's reputation; deep, cohesive, and experienced team; strong performance; pan-European presence and experience; franchise; and investment strategy. The investment is an opportunity to add a top-tier, high-quality general partner to the WSIB portfolio. Mr. Green discussed the firm's increased fund size and geographic expansion.

Mr. Woolford discussed the firm's reputation, expertise, due diligence process, pan-European presence, access to management, performance, low-loss ratio, partner turnover, experience, and participation in club deals. Mr. Woolford recommended an investment of up to €200 million.

The Committee discussed partner turnover.

Mr. Sherwood introduced himself and described the firm's international presence, integrated professionals, performance, sector focus, transaction expertise, deal sourcing, strategy, market growth, and proposed key terms.

[Senator Brown was no longer in attendance at 11:42 a.m.]

The Committee discussed the possibility of an advisory board seat in future funds, background of partners, internal consulting capability, investment strategy, investment stage of Fund III, larger fund size, target transaction size, participation in auctions, and investor base.

Ms. Matheson moved that the Private Markets Committee recommend to the Board an investment of up to €100 million, plus fees and expenses, in Permira IV, L.P., subject to continued due diligence and final negotiation of terms and conditions. Treasurer Murphy seconded, and the motion carried unanimously.

[Mr. Kaminski was no longer in attendance at 12:05 p.m.]

[The Committee recessed at 12:13 p.m. and reconvened at 12:47 p.m.]

[Mr. Seely was no longer in attendance at 12:16 p.m.]

REAL ESTATE INVESTMENT RECOMMENDATION – GMS INTERNATIONAL, LLC

Mr. Draper and Mr. Vidallon introduced themselves and recommended an investment of up to \$750 million to GMS International, LLC, a fully integrated real estate operating company (REOC) focused on the acquisition, development, and management of neighborhood and

community retail properties in the western U.S. This would be a new commitment to a current relationship and, if approved, will be used to recapitalize and expand the existing U.S.-based portfolio of retail shopping centers and to expand internationally. The WSIB has invested in GMS through Principal Enterprise Capital I (PEC). Mr. Draper and Mr. Vidallon discussed the firm's investment strategy; geographic focus; history; international opportunities; diversification benefits; cohesive management team; expertise; successful performance; risks associated with REOC investments; lack of non-U.S. track record; currency, tax, and political risks; market trends; pricing of domestic retail properties; and the sale of some properties.

The Committee discussed costs associated with the move of GMS properties from PEC to make GMS a direct partner, property valuations, appreciation, carry, advantages of keeping properties instead of selling them, long-term goals, and governance rights.

Mr. Gerrity introduced himself and discussed the firm's history, financial performance, management, strategy, integrated operations, experience, expertise, current portfolio, international opportunities, access to capital, network of industry and tenant contacts, and current market trends.

[Senator Brown was in attendance at 1:20 p.m.]

The Committee discussed market volatility, tenants, supply and demand ratio, necessity rather than discretionary shopping center anchors, range of trade area, and shopping trends in different cultures.

Treasurer Murphy moved that the Private Markets Committee recommend to the Board an investment of up to \$750 million, plus fees and expenses, in GMS International, LLC, subject to continued due diligence and final negotiation of terms and conditions. Ms. Matheson seconded, and the motion carried unanimously.

[Senator Brown was no longer in attendance at 1:32 p.m.]

REAL ESTATE INVESTMENT RECOMMENDATION – WARBURG PINCUS REAL ESTATE I, L.P.

Mr. Draper, Ms. Walker, Mr. Gantt, and Mr. Humphrey introduced themselves and discussed the firm's investment strategy, geographic focus, urbanization in Asia, market trends, demographics, organization, reputation, relationship with the WSIB, experience in relevant markets, local contacts, Asian strategy, real estate deal flow, exposure to emerging markets and associated risks, areas of overlap with existing WSIB partners, key person provision, portfolio considerations, and diversified global strategy. They recommended an investment of up to \$100 million in Warburg Pincus Real Estate I, L.P.

The Committee discussed the relationship of Warburg Pincus Real Estate to Warburg Pincus Private Equity, the delineation and definition of whether opportunities would qualify as real estate or private equity, percentage of WSIB ownership, the fact that the partners have not worked together before, the fund's focus and limitations, potential access to direct investments.

Mr. Profenius, Mr. Sullivan, and Mr. Mintz, Warburg Pincus, introduced themselves.

Mr. Bruebaker reminded the presenters that anything on the screen or discussed in the meeting was subject to public disclosure.

Mr. Profenius, Mr. Sullivan, and Mr. Mintz discussed the firm's history, experienced investors, ability to leverage the Warburg Pincus franchise, differentiated strategy, real estate deal flow, geographic focus, investment strategies, experience, demographics, local offices, and fund terms.

Treasurer Murphy questioned the size of the investment team spread over six offices. The team would have the same ratio of deals per person as they do in the private equity sector and would have access to the expertise of the private equity team.

Treasurer Murphy asked whether the real estate team is independent or co-dependent on the private equity team. It is a separate fund but an integrated firm.

The Committee discussed the firm's global focus, reasons for the dedicated fund when real estate had previously been a part of the private equity funds, exit strategies, investment strategy, deal sourcing, allocation of deals between real estate and private equity funds, compensation of partners, and integration of teams.

Ms. Matheson moved that the Private Markets Committee recommend to the Board an investment of up to \$100 million, plus fees and expenses, in Warburg Pincus Real Estate I, L.P., subject to continued due diligence and final negotiation of terms and conditions. Mr. Gorton seconded.

Treasurer Murphy stated that he would vote against the recommendation because of concerns of how the two entities fit, compensation concerns, and the size of the organization.

Mr. Nierenberg supported the recommendation and spoke to the firm's investment focus, intelligent construction, and relationship to the parent company.

Mr. Masten said that Mr. Magnuson supported the investment.

The Committee discussed compensation, decision-making process, due diligence process, and the relationship of the firm to the parent company.

The motion carried with Treasurer Murphy voting no.

PRIVATE EQUITY – INVESCO PRIVATE CAPITAL CONTRACT EXTENSION FOR LIMITED PURPOSES

Ms. Fowler introduced herself and explained that the INVESCO contract will expire on June 30, 2006. INVESCO currently provides transaction management, performance measurement, and reporting on 35 investments. Staff is negotiating with Capital Dynamics to absorb these tasks. Should these negotiations fail, and in order to ensure that these services continue without interruption, staff requested approval to extend the INVESCO contract for

1 year, if necessary, as allowed under its terms, but only for transaction management and portfolio monitoring.

The Committee discussed INVESCO's current role as a discretionary manager.

Mr. Dear said that the issue would be resolved by the June 15, 2006, Board meeting.

Treasurer Murphy moved that the Private Markets Committee recommend to the Board that the Executive Director be authorized, if necessary, to extend the INVESCO Private Equity contract for 1 year to provide transaction management and limited reporting services under the current contract at a fee of up to \$55,000. Mr. Gorton 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 2:44 p.m.