

**WASHINGTON STATE INVESTMENT BOARD**  
**Private Markets Committee Meeting Minutes**  
**September 7, 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  
                                  Senator Lisa Brown (teleconference)  
                                  Glenn Gorton  
                                  John Magnuson  
                                  Treasurer Mike Murphy  
                                  David Nierenberg  
                                  Jeff Seely

Members Absent:           Sandy Matheson

Other Board Members  
Present:                     Charles Kaminski  
                                  Patrick McElligott

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

                                  Paul Silver, Assistant Attorney General  
                                  Thomas Kubr, Capital Dynamics  
                                  Michael Humphrey, Courtland Partners  
                                  Peter Ryder, Indochina Capital  
                                  Maximo Lima, Prosperitas Capital

[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 JUNE 1, 2006, MINUTES**

**Treasurer Murphy moved to adopt the minutes of June 1, 2006. Mr. Gorton seconded, and the minutes were adopted unanimously.**

After a brief discussion, the Committee decided that Agenda Item 4 would be held in open public session rather than executive session as listed on the agenda.

Chair Masten announced that the 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 approximately 10:30 a.m., at which time the Committee would take a recess and reconvene in open session.

[The executive session convened at 9:07 a.m.]

### **REAL ESTATE – ANNUAL PLAN UPDATE**

### **PRIVATE EQUITY – ANNUAL PLAN UPDATE**

[Senator Brown was no longer in attendance at 11:51 a.m.]

[The executive session recessed at 11:51 a.m. and the Committee reconvened in open public session at 12:14 p.m.]

### **INDOCHINA LAND HOLDINGS 2, L.P.**

Mr. Draper introduced himself and described the firm's attractive strategy, geographic focus, sector focus, and seasoned team. He discussed Vietnam's strong economic growth, demographics, rapidly emerging middle class, increasingly affluent younger people, real estate demand and supply imbalance, and the country's potential membership in the World Trade Organization (WTO). Mr. Draper explained emerging markets advantages and potential risks, and stated that the WSIB may be able to participate in co-investment opportunities with the Fund.

Treasurer Murphy questioned the advantages and disadvantages of long-term leaseholds rather than ownership, the impact such leaseholds have on the need to obtain a clean title, whether all of the firm's investments would entail leaseholds, and the risk associated with corruption.

Mr. Draper replied that long-term leaseholds are not that unusual and that a clean title showing no other claims on the property is still required whether the property is held freehold or via long-term lease.

Regarding the issue of corruption, Mr. Draper noted that staff examines such risks carefully, and that Mr. Ryder and his partner Mr. Mayo-Smith are subject to the U.S. Foreign Corrupt Practices Act.

[Senator Brown was in attendance at 12:26 p.m.]

Mr. Draper stated that this investment by itself would not have a large impact on the real estate portfolio, but is an important part of the broader emerging markets real estate plan. He recommended an investment of \$25 million in the Fund, which would give the WSIB major investor status and a place on the advisory committee. Mr. Draper closed by emphasizing that the Fund provides an attractive opportunity to invest in a rapidly growing market, is an integral part of the emerging markets plan, and is run by a quality team. Mr. Draper introduced Mr. Humphrey, Courtland Partners.

Mr. Humphrey discussed the investment as an emerging markets opportunity and commented about market conditions, political stability, economic growth of the region, demographics, and the advantages of getting in on the ground floor.

The Committee discussed the leasehold aspect of the fund, other investors, exit strategies, and geographic focus within the country.

[Mr. Kaminski was no longer in attendance at 12:36 p.m.]

[Mr. Seely was no longer in attendance at 12:41 p.m.]

Mr. Ryder, Indochina Capital Partners, introduced himself and discussed Vietnam's demographics, high literacy rate, work ethic, consumer orientation, economic growth, global competitiveness, political reforms, stability, commitment to full global economic and political integration, accession to the WTO, and market conditions. He described the firm's strategy, deal sourcing, 7-year investment horizon, geographic focus, sector focus, performance record, history, network, and team.

The Committee discussed government control, secondary market, exit strategies, potential growth, future opportunities for investment, prior fund size and projects, type of residential housing, strategy of investing in leasehold and then selling freehold interests, and the pricing differential between leasehold and freehold land.

**Mr. Gorton moved that the Private Markets Committee recommend to the Board an investment of up to \$25 million, plus fees and expenses, in Indochina Land Holdings 2, L.P., subject to continued due diligence and final negotiation of terms and conditions. Treasurer Murphy seconded, and the motion carried unanimously.**

### **PROSPERITAS REAL ESTATE PARTNERS I, L.P.**

Mr. Vidallon introduced himself and recommended an investment of \$50 million in Prosperitas Real Estate Partners I. Although not a large investor at that level, the WSIB would have a seat on the advisory board. Mr. Vidallon discussed Brazil's demographics, improving economic environment, fiscal and economic reforms, fiscal and monetary controls, market conditions, and growing middle class. He described the firm's investment theme, strategy, team, geographic focus, reputation, potential emerging markets risk, lack of transparency, volatility, and key person risk.

Mr. Draper said that the recommended investment on its own would not have a significant impact on the real estate portfolio, but is part of the emerging markets plan for real estate.

The Committee discussed the firm's geographic focus, Brazil's population concentration, language, energy independence, fiscal controls, and the advantages of investing in South America.

Mr. Humphrey described Brazil's economic diversity, economic development, and currency volatility and the firm's limited performance history, cap rates, and fee structures.

The Committee discussed building maintenance, standard of living, improving economic conditions, growing middle class, housing shortages, currency, advantages of investing in the Brazilian reais-denominated fund over the U.S. dollar fund, and fee structures. Mr. Bruebaker requested that Mr. Humphrey provide a break-even analysis comparing the terms of the two parallel funds.

Mr. Lima introduced himself and discussed Brazil's demographics, diversified economy, economic growth, exports, trade surplus, fiscal responsibility, low inflation, declining interest rates, stabilized currency, improved international credit rating, political and institutional stability, economic openness, natural resources, availability and quality of labor, capital competition, large private sector, market conditions, diverse investment opportunities, improving legislation, and landlord rights. He described the firm's skills, network, access to capital, and reputation. Mr. Lima explained the fund's target size, strategy, targeted sector, sourcing advantage, product diversification, and exit strategies.

The Committee discussed operational management and maintenance.

**Treasurer Murphy moved that the Private Markets Committee recommend to the Board an investment of up to \$50 million, plus fees and expenses, in Prosperitas Real Estate Partners I, L.P. (Reais Fund), subject to continued due diligence and final negotiation of terms and conditions. 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 2:41 p.m.