



[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 THE SEPTEMBER 7, 2006, MINUTES**

**Treasurer Murphy moved to adopt the minutes of September 7, 2006.**

**Mr. Gorton seconded, and the minutes were adopted unanimously.**

### **PRIVATE EQUITY INVESTMENT RECOMMENDATION – OCM PRINCIPAL OPPORTUNITIES FUND IV, L.P.**

Ms. Fowler introduced herself and stated that staff recommends an investment of up to \$125 million in OCM Principal Opportunities Fund IV (POF IV), a fund being raised by Oaktree Capital Management (OCM). The WSIB has invested an aggregate total of \$398.6 million in six prior OCM Opportunities funds, OCM's non-control distressed debt strategy. However this would be the Board's first investment in OCM's Principal Opportunities Funds, which combine middle-market private equity and distress-for-control investing. Ms. Fowler described Oaktree's experienced, cohesive management team; performance; realizations; differentiated investment strategy; strong deal flow; fit in the WSIB portfolio; reputation; duplicate exposure with other OCM funds; and increased fund size.

Mr. Woolford introduced himself and stated that Capital Dynamics also recommends a commitment of \$125 million in POF IV. He discussed investment timing; competition; and potential for conflict with other OCM funds.

The Committee discussed expectations for distressed opportunities, life of the fund, size of the fund, management fees, overlap with other OCM funds, amount of the recommendation, and the possibility of a follow-on fund.

[Mr. Seely was in attendance at 9:18 a.m.]

Mr. McDivitt and Mr. Beck, Oaktree Capital Management, introduced themselves and explained the firm's strategy, history, team, geographic focus, market conditions, and investment cycles.

[Senator Brown was in attendance at 9:29 a.m.]

The Committee discussed market trends, fund life, management fees, size of fund, amount available to the WSIB, covenants and constraints, potential of a supplemental or "B" fund, market cycles, and liquidity in the market.

**Ms. Matheson moved that the Private Markets Committee recommend to the Board an investment of up to \$125 million, plus fees and expenses, in OCM Principal Opportunities Fund IV, L.P., subject to continued due diligence and final negotiation of terms and conditions. Treasurer Murphy seconded.**

The Committee discussed fees, the potential term of the investment, fit in the WSIB private equity portfolio, the management team, the firm's performance record, rationale for staff's recommendation, and the private equity allocation to the total WSIB portfolio.

**Chair Masten moved to amend the motion to recommend an investment of up to \$150 million. Treasurer Murphy seconded.**

The Committee discussed the portfolio allocation, appropriate size of investment, that the portfolio is underweight in both distressed debt and middle market investments, the amount committed this year, and timing of opportunities. Mr. Bruebaker stated that while staff is recommending an investment of \$125 million, he believes that an investment of \$150 million would be reasonable and prudent.

**The amendment carried with Ms. Matheson and Mr. Gorton voting no.**

**The amended motion carried unanimously.**

[The Committee recessed at 10:02 a.m. and reconvened at 10:16 a.m.]

**PRIVATE EQUITY INVESTMENT RECOMMENDATION – HELLMAN & FRIEDMAN CAPITAL PARTNERS VI, L.P.**

Mr. Ruggels introduced himself and stated that staff recommends an investment of up to \$275 million in Hellman & Friedman Capital Partners VI, L.P., an \$8 billion private equity fund that will invest primarily in large transactions the United States and Western Europe. He discussed the firm's history, reputation, experience, strategy, low loss ratio, sector focus, performance history, fund size, and the retirement of one partner.

Mr. Woolford stated that Capital Dynamics also recommends an investment of \$275 million and described Hellman & Friedman's excellent team, performance, and the retirement of one partner. He said that the reference calls were very favorable.

The Committee discussed the key person provisions, reasons for the retirement of a partner, participation in club deals, size of the fund, investment pace, size and number of deals expected, the firm's capacity, the advantages and insights gained from participating in the Advisory Board, the market trend of privatizing public companies, accounting regulations, and exit strategies.

Mr. Powers and Mr. Cohen, Hellman & Friedman Capital Partners, introduced themselves and discussed the firm's investment record, investment professionals, office locations, investment philosophy, alignment of interests with the limited partners, consistency of returns, investment strategy, and disciplined approach.

The Committee discussed the firm's position on the boards of acquired companies; exit strategies; CEO compensation levels; corporate governance; the firm's strategies to add value to portfolio companies, including restructuring the boards and bringing in new people; size of this fund; larger investments; geographic expansion; performance history; use of leverage; cost of capital; and participation in club deals.

**Treasurer Murphy moved that the Private Markets Committee recommend to the Board an investment of up to \$275 million, plus fees and expenses, in Hellman & Friedman Capital Partners VI, L.P., subject to continued due diligence and final negotiation of terms and conditions. Ms. Matheson seconded, and the motion carried unanimously.**

**REAL ESTATE INVESTMENT RECOMMENDATION – CORPORATE PROPERTIES OF THE AMERICAS, LLC**

Mr. Draper introduced himself and recommended a follow-on investment of up to \$250 million in Corporate Properties of the Americas, LLC (CPA). He explained that the WSIB has made two prior investments in CPA and discussed the firm's investment strategy, geographic focus, quality of investments, quality of tenants, high yields, potential returns, leading market presence, deep deal pipeline, solid management team, fit in the real estate portfolio, and synergies with other WSIB real estate partners. He highlighted as risks of the recommendation, operating risks, concentration of capital, development risk, incentive compensation on unrealized events, currency risks, and other risks associated with non-U.S. investments.

The Committee discussed cash flows, exit strategies, and compensation methods.

Mr. Humphrey described the firm's talent, high-quality tenants, high-quality buildings, growth, position within the Mexican industrial market, fit in the WSIB real estate portfolio, steady income returns, political stability, projected growth, portfolio compensation, increasingly competitive market, key personnel issues, and currency issues.

The Committee discussed the firm's returns and strategy; concentration of risk in a single country; other endowment or pension plans committed to this area; increasing competition; WSIB control; political risk; controversy over the recent presidential election; potential overbuilding in certain submarkets; quality of space; market volatility; vacancy rates; demand; construction and land costs; the WSIB's controlling interest; invested funds; returns to date; commitment remaining; size of commitment; and significant pipeline of existing deals.

Mr. Magnuson requested that Courtland add all the pertinent components in one table, including data on competition, absorption rate, and occupancy rate.

[Mr. McElligott was no longer in attendance at 11:50 a.m.]

Mr. Flores, Corporate Properties of the Americas, introduced himself and described CPA's strategy, geographic and sector focus, location, employees, market fundamentals, market risk, yield premium, income-driven returns, investment platform, and local land relationships. He gave a portfolio overview and discussed the quality of the assets and tenants, market concentration, new competition, infrastructure issues, asset management, and human resources.

The Committee discussed the economy, political unrest, U.S. immigration policy impact, amount of commitment, anticipated investment period, possibility of overbuilding in Monterrey, and use of leverage.

**Ms. Matheson moved that the Private Markets Committee recommend to the Board a follow-on investment of \$250 million, plus fees and expenses, in Corporate Properties of the Americas, LLC, subject to continued due diligence and final negotiation of terms and conditions. Mr. Gorton seconded.**

The Committee discussed the level of commitment, marketplace fundamentals, political risks, and staff control.

**The motion carried unanimously.**

[The Committee recessed at 12:30 p.m. and reconvened at 12:59 p.m.]

[Mr. Kaminski was no longer in attendance at 12:50 p.m.]

**REAL ESTATE INVESTMENT RECOMMENDATION – MORGAN STANLEY REAL ESTATE FUND VI INTERNATIONAL – T.E., L.P.**

Ms. Walker introduced herself and recommended an investment of \$440 million in Morgan Stanley Real Estate Fund VI International – T.E., L.P. She discussed the firm's investment focus, organization, relationship with the WSIB, excellent track record, global franchise, deal flow, balanced strategy, limited supply and improving demand, high concentration in developed markets, currency issues, tax risk, political risk, market risk, exit strategies, potential overlap with other partners, and fit in the WSIB real estate portfolio.

Mr. Humphrey discussed the firm's global presence, level of staffing, geographic diversification, skill, significant platform, exit strategies, exposure in Europe, track record, co-investment opportunities, level of investment, fees, and lack of room to negotiate.

The Committee discussed potential conflicts of interest and access to service groups within Morgan Stanley.

Mr. Mantz, Mr. Kalsi, and Mr. Kessler, Morgan Stanley Real Estate, introduced themselves and discussed the firm's size, global presence, organizational structure, real estate investment team, access to other parts of the Morgan Stanley organization, compensation, market conditions, and investment opportunities.

The Committee discussed market forecasts, prior funds, continuation of proven strategy, robust pipeline of deals, size and quantity of deals anticipated for the new fund, the use of corporate sale and lease-back, potential conflicts of interest, whether the investment banking or real estate side of Morgan Stanley is the decision making authority for this fund, competitive processes, deal flow, role of the Advisory Board, recommended commitment amount, and the use of the 10 percent reserve. Staff confirmed that the \$400 million is used during the investment period, and the \$40 million reserve can be drawn after the investment period to support existing portfolio investments.

**Mr. Gorton moved that the Private Markets Committee recommend to the Board an investment of \$400million (plus a 10 percent reserve, for a total commitment of \$440 million), plus fees and expenses, in Morgan Stanley Real Estate Fund VI International – T.E., L.P., subject to continued due diligence and final negotiation of terms and conditions. Ms. Matheson seconded, and the motion carried unanimously.**

**REAL ESTATE INVESTMENT RECOMMENDATION – WASHINGTON HOLDINGS STRUCTURED FINANCE, LLC**

Mr. Gantt introduced himself and recommended a \$350 million follow-on investment in Washington Holdings Structured Finance. He explained that Washington Real Estate Holdings and Washington Holdings Structured Finance are two different partnerships with the same partners. He discussed the firm's strategy, geographic focus, management team, experience with the WSIB, reputation, disciplined underwriters, excellent investment performance, attractive risk/return attributes, excellent fit in the WSIB real estate portfolio, governance terms, competition, complexity of transactions, liquidity issues, and portfolio considerations.

The Committee discussed the firm's portfolio.

Mr. Humphrey discussed the differences between the structured finance platform and traditional real estate investments, steady income, geographic focus, WSIB level of control, market conditions, flexibility needed to take advantage of opportunities, the firm's efficiency, leverage positions, and promote structure.

The Committee discussed types of deals, market conditions, and cash flows.

Treasurer Murphy requested that a more detailed analysis of cash flows and residual value be included in staff's and consultant's reports.

The Committee discussed whether the decision could wait until the December meeting, pending a more detailed analysis from staff and the consultant, and what effect, if any, such postponement would have on the partnership.

**Treasurer Murphy moved to table the Motion, and Chair Masten seconded.**

The Committee discussed whether they could still hear from the general partners who were waiting to make their presentation.

**The Motion to table failed.**

Mr. Wrench, Mr. Millard, and Mr. Anderson, Washington Real Estate Holdings, introduced themselves and discussed the firm's history, investment team, relationship with the WSIB, track record, geographic focus, market trends, investment strategy, product types, pricing considerations, and investment performance.

The Committee discussed performance, portfolio consideration, market trends, recycling of funds, returns, target life of the partnership, WSIB controls and ability to liquidate the partnership, competition, the differences between Washington Real Estate Holdings and Washington Holdings Structured Finance, excellent deal flow, the firm's reputation, what impact the delay of this decision would have on deals in the pipeline, non-binding letters of intent, and the level of WSIB staff involvement in the investment process.

**Ms. Matheson moved that the Private Markets Committee recommend to the Board a follow-on investment of \$350 million, plus fees and expenses, in Washington Holdings Structured Finance, LLC, subject to continued due diligence and final negotiation of terms and conditions. Mr. Gorton seconded.**

The Committee discussed the impact of delaying the decision, fiduciary responsibility of the Committee members, the need to follow due process, the Committee's high regard for the firm, and information needed to support the motion.

Mr. Draper apologized if the information provided was viewed as insufficient, but he believed it was consistent with previous recommendations that discuss IRR information rather than cash flows. He reassured the Committee that staff does review cash flows to recalculate the IRR, but will be happy to provide the level of information desired going forward.

Treasurer Murphy said his expectation for a follow-on recommendation is that the paperwork provided by staff should show what the IRR is and the money invested, returned, and the market value of the remaining investment and he cannot find that in the staff report provided.

Mr. Bruebaker pointed out the IRR information on page 1 of the Executive Summary.

Mr. Draper explained that numbers for both Washington Holdings Structured Finance and Washington Real Estate Holdings were included and could be causing some confusion. He said staff would provide more details for the Board members if desired.

**Ms. Matheson withdrew the motion. Mr. Gorton agreed to the withdrawal of the motion.**

Chair Masten announced that consideration of the investment matter was continued to a special meeting of the Private Markets Committee on November 16, 2006, at 8:30 a.m.

[Mr. Seely was no longer in attendance at 3:05 p.m.]

### **REAL ESTATE INVESTMENT RECOMMENDATION – FILLMORE STRATEGIC INVESTORS, LLC**

Mr. Draper introduced himself and Mr. Vidallon. Mr. Vidallon recommended a follow-on investment of \$250 million in Fillmore Strategic Investors. He discussed the firm's track record, management team, investment strategy, focus on structured finance investments, property types,

complex transactions, competition, risk-adjusted return attributes, reputation, market connections, growth prospects, and attractive pipeline.

Mr. Draper discussed some of the risks of the proposal, including key person risk; the higher risk segment of the capital structure in which Fillmore Strategic Investors invests; the fact that their focus is on complex, operating-intensive businesses; and exit strategies. He also commented on the fit of this recommendation in the WSIB real estate portfolio.

Mr. Humphrey discussed the level of WSIB control, the firm's management team, expertise, deal sourcing capabilities, operation-intense focus, government payment schemes, litigation risks, and leverage.

The Committee discussed types of health care investments and hospitality investments.

Mr. Silva, Fillmore Partners, introduced himself and discussed the firm's relationship with the WSIB, investment focus, strategy, performance history, investment objectives, strong returns, exit strategies, market timing, market conditions, and investment volume.

**Mr. Gorton moved that the Private Markets Committee recommend to the Board a follow-on investment of \$250 million, plus fees and expenses, in Fillmore Strategic Investors, LLC, subject to continued due diligence and final negotiation of terms and conditions. Ms. Matheson seconded, and the motion carried unanimously.**

### **2007 MEETING SCHEDULE**

Mr. Bruebaker presented the 2007 Meeting Schedule and asked that Committee members put a hold on their calendars for months that are not scheduled, as meetings will be called if needed.

**Mr. Gorton moved that the Private Markets Committee adopt its 2007 meeting dates. Ms. Matheson 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 3:29 p.m.