

WASHINGTON STATE INVESTMENT BOARD
Private Markets Committee Meeting Minutes
December 7, 2006

The Private Markets Committee met in open public session at 9:05 a.m. in the boardroom at the Washington State Investment Board in Olympia, Washington.

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

Other Board Members
Present: Patrick McElligott

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

Paul Silver, Assistant Attorney General
David Woolford, Capital Dynamics
David Roux, Silver Lake Partners
Jim Coulter, Texas Pacific Group
William McGlashan, Jr., Texas Pacific Group
Jamie Gates, Texas Pacific Group
Michael Humphrey, Courtland 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 9:05 a.m. with Chair Masten identifying members present.

ADOPTION OF THE NOVEMBER 2 AND 16, 2006, MINUTES

Mr. Gorton moved to adopt the minutes of November 2 and 16, 2006.

Mr. Masten seconded, and the motion carried unanimously.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – SILVER LAKE PARTNERS III, L.P.

Mr. Ruggels introduced himself and stated that staff recommends an investment of up to \$250 million in Silver Lake Partners II, a \$7.5 billion (target) private equity fund. The fund will focus on large-scale investments in technology, technology-enabled, and related growth industries globally. The WSIB has invested in two prior Silver Lake Partners funds -- \$60 million in SLP I in 1999 and \$125 million in SLP II in 2004. The recommendation is consistent with the revised private equity annual plan discussed with the Committee in September 2006. Mr. Ruggels described the firm's strategy, investment team, strong franchise, reputation, performance history, increased focus on value creation, access to deals, and increase in fund size.

Mr. Woolford introduced himself and stated that Capital Dynamics concurs with Mr. Ruggels points. He discussed Capital Dynamics' history with Silver Lake Partners, the firm's reputation, value creation strategy, dominance in the technology arena, fund size, technology market, performance history, and market volatility. Mr. Woolford stated that Capital Dynamics' supports an investment of \$250 million, but would be cautious of a higher allocation due to sector volatility.

The Committee discussed the firm's strategy, increase in fund size, whether the increase would be utilized for larger investments or an increase in the number of investments, future deal flow, availability of cash, current market trends, valuations of technology growth companies, investor reactions to investment cycles, the effect of newer technology on older technology, and club deal investments.

Treasurer Murphy requested that Capital Dynamics show IRR by company in future recommendations. Mr. Woolford agreed.

Mr. Roux, Silver Lake Partners, introduced himself and described the firm's core strategy, sector specialization, market leadership, operating expertise, historic performance, organization, global presence, investment team, value creation process, due diligence process, and market trends.

[Mr. Seely was in attendance at 9:30 a.m.]

[Senator Brown was in attendance at 9:55 a.m.]

The Committee discussed investment opportunities and segments, financial services opportunities and trends, the impact of the transition of analog to digital technology, club deal investments, co-investment opportunities, and overlap of portfolio companies in Silver Lake Partners Funds I and II.

Treasurer Murphy moved that the Private Markets Committee recommend to the Board an investment of up to \$250 million, plus fees and expenses, in Silver Lake Partners III, L.P., subject to continued due diligence and final negotiation of terms and conditions. Ms. Matheson seconded, and the motion carried unanimously.

[The Committee recessed at 10:12 a.m. and reconvened at 10:23 a.m.]

PRIVATE EQUITY INVESTMENT RECOMMENDATION – TPG STAR, L.P.

Mr. Green introduced himself and stated that staff recommends an investment of up to \$100 million in TPG STAR, L.P., a middle-market, multi-stage fund. The fund is a new initiative of Texas Pacific Group (TPG) that will focus on global venture capital, growth equity, turn-around, and middle-market buyout transactions requiring less than \$75 million of equity with a concentrated geographic focus on North America, India, and China. He discussed the firm's strategy, sector focus, relationships, reputation, operating resources, management team, experience, network, performance history, fit in the WSIB portfolio, potential dilution of the principals' time and attention, and team dynamics.

Mr. Nierenberg recused himself from participation in the decision due to an existing business relationship with one partner in the firm.

The Committee discussed the applicability and attribution of the track record for TPG STAR, deal flow, affiliation with and access to TPG, and that this should be considered a first-time fund.

Mr. Woolford described the firm's experience, skills, fit in the overall TPG network, control and non-control mix, short tenure of team, and depth of team. He stated that Capital Dynamics recommends an investment of \$75 million.

The Committee discussed hurdle rates, market terms, the firm's background, relationship with TPG and the benefits of that relationship, terms and conditions, and other investors.

Mr. Coulter and Mr. McGlashan, TPG, introduced themselves and described the fund's strategy, sector focus, geographic focus, team, affiliation with TPG, and reputation.

The Committee discussed the relationship of TPG STAR with TPG, potential dilution of partners' time, dedicated team members, open deals in prior funds, performance metrics, hurdle rates, market cycles, deal sources, the firm's reputation, shareholders' voting rights, corporate governance, and CEO compensation practices.

Mr. Gates introduced himself and shared that TPG has received similar comments from other investors regarding hurdle rates, and that a hurdle rate will probably be added to the terms.

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

The Committee discussed the potential of including hurdle rates in the terms, investment team, desirability of increasing exposure to the middle-market area, expected returns, market cycles, and potential that other managers will be looking at a similar strategy.

The motion carried unanimously.

PRIVATE MARKETS CLOSING LOG

The Private Markets Closing Log was presented for informational purposes.

OTHER ITEMS

There were no other items to report.

[The Committee recessed at 11:15 a.m. and reconvened at 11:43 a.m.]

REAL ESTATE ANNUAL PLAN

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 real estate investments 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 8:00 p.m., at which time the Committee would adjourn.

[Treasurer Murphy was no longer in attendance at 12:01 p.m.]

[Mr. McElligott was no longer in attendance at 12:25 p.m.]

[Senator Brown was no longer in attendance at 12:48 p.m.]

[The Committee recessed at 1:45 p.m. and reconvened in Executive Session at 2:00 p.m.]

[Mr. Seely was no longer in attendance at 2:58 p.m.]

[The Committee recessed at 3:37 p.m. and reconvened in Executive Session at 3:50 p.m.]

[Mr. Nierenberg was no longer in attendance at 4:30 p.m.]

There being no further business to come before the Committee, the meeting adjourned at 5:07 p.m.