

**WASHINGTON STATE INVESTMENT BOARD  
Private Markets Committee Meeting Minutes  
January 11, 2007**

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  
Glenn Gorton  
John Magnuson  
Sandy Matheson  
Patrick McElligott  
David Nierenberg  
Jeff Seely

Members Absent: Treasurer Mike Murphy

Other Board Members Present: Charles Kaminski (teleconference)  
Judy Schurke

Others Present: Joe Dear, Executive Director  
Gary Bruebaker, Chief Investment Officer  
Tom Ruggels, Senior Investment Officer – Private Equity  
Isabelle Fowler, Investment Officer – Private Equity  
Steve Draper, Senior Investment Officer – Real Estate  
Ceri Walker, Investment Officer – Real Estate  
Linda Buchanan, Administrative Secretary  
  
Paul Silver, Assistant Attorney General  
David Woolford, Capital Dynamics  
Jamie Green, Kohlberg Kravis Roberts & Co.  
Joe Bae, Kohlberg Kravis Roberts & Co.  
Ming Lu, Kohlberg Kravis Roberts & Co.  
Taketo Yamakawa, Kohlberg Kravis Roberts & Co.  
Dominique Hansen, Kohlberg Kravis Roberts & Co.  
Jonathan Sokoloff, Leonard Green & Partners  
Michael Humphrey, Courtland Partners  
Don Suter, Evergreen Investment Advisors  
Garret House, Evergreen Investment Advisors  
Robert Meyer, Evergreen Investment Advisors

[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 DECEMBER 7, 2006, MINUTES**

**Mr. Gorton moved to adopt the minutes of December 7, 2006. Ms. Matheson seconded, and the motion carried unanimously.**

Chair Masten announced a revision to the agenda to discuss the real estate matter first.

## **REAL ESTATE DISCUSSION**

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 10:00 a.m., at which time the Committee would reconvene in open session.

[The Committee convened in executive session at 9:08 a.m. and reconvened in open session at 10:17 a.m.]

[Mr. McElligott was in attendance at 9:15 a.m.]

**Mr. Gorton moved that the Private Markets Committee recommend to the Board approval of the guidance provided to staff in executive session as to one of the WSIB's real estate investments. Ms. Matheson seconded, and the motion carried unanimously.**

[The Committee recessed at 10:18 a.m. and reconvened at 10:28 a.m.]

## **PRIVATE EQUITY INVESTMENT RECOMMENDATION – KKR ASIAN FUND, L.P.**

Mr. Ruggels introduced himself and stated that staff recommends an investment of up to \$500 million in KKR Asian Fund, L.P., a \$4 billion (target) private equity fund that will invest in the Asian region, particularly in Japan, China, Taiwan, Hong Kong, Australia, and New Zealand. The WSIB has committed more than \$6.2 billion across 14 KKR-sponsored investments since 1982. The investment, if approved, will provide meaningful exposure to geographic regions that are under-represented in the private equity portfolio, resulting in diversification benefits. Mr. Ruggels described the firm's brand name and franchise, experience, successful expansion in Europe, management team, relationships with senior advisors, past performance, market trends, geographic and political risks, fit in private equity portfolio, KKR's limited experience in Asia, the new team that would be involved with the Asian fund, and fund size.

The Committee discussed the fund's geographic focus, the differences of investing in Asia as opposed to the U.S. and Europe, market trends, political and geographic risk, importance of diversification of the portfolio, and experience of the Asian team.

Mr. Woolford, Capital Dynamics, introduced himself and stated that KKR is core to the WSIB private equity portfolio and discussed the firm's move into Asia, investment approach, quality of the local team, and its ability to fit into KKR's one-firm approach, global presence, compensation package, political risks, and relationship with the Capstone team. Mr. Woolford stated that Capital Dynamics recommends an investment of \$300 million. He discussed the desirability of investing in Asia, the WSIB's relationship with KKR, the impact on the WSIB private equity portfolio, and other potential investment opportunities.

The Committee discussed the WSIB's private equity exposure to Asia; the experience and quality of the investment team; KKR's one-firm approach to investing; the relationship with KKR's operating, investing, and portfolio management teams; the Department of Justice inquiry related to club deals; political risk; parallels between KKR European Fund and this fund; and the percentage of the WSIB private equity portfolio invested in international and domestic funds.

Mr. Green, Mr. Bae, Mr. Liu, Mr. Lu, and Mr. Yamakawa, KKR, introduced themselves and Ms. Hanson, and described the fund's size, geographic focus, experience, investment approach and disciplines, portfolio management techniques, differentiated operational approach, deep industry knowledge, team of investment and operating professionals, four completed transactions in Asia, global footprint, portfolio company level experience in Asia, KKR's overall strategy, processes, and competitive advantage. KKR currently has six offices, 93 investment executives, 309 total staff, and 26 members with an average of 11 years with KKR, but one culture, one operating committee, one investment committee, one portfolio committee, and one compensation structure, with common goals, shared resources, and global expertise. They discussed investment opportunities, the importance of finding the right partners, increased deal size, terms, and fees.

The Committee discussed desirable attributes of team members, process of unifying the team, KKR's operational fundamentals and culture, integration with other parts of the firm, commitment of partners to support the Asian team, use of leverage, investment strategy, deal dynamics of different countries, deal sourcing, availability of a larger investment, risk factors of emerging markets, how the Asia team interacts with the investment team, and succession issues.

Mr. Green affirmed that Mr. Kravis and Mr. Roberts expect to remain active in the firm in the foreseeable future.

The Committee discussed the quality of the team, the size of the recommended allocation, the amount that should be allocated to international investments in the WSIB portfolio, the advantage of investing in this region, the value of the KKR brand in foreign markets, use of leverage, concentration risk, and the fact that the team is new and has not worked together.

**Chair Masten moved that the Private Markets Committee recommend to the Board an investment of up to \$600 million, plus fees and expenses, in KKR Asian Fund, L.P., subject to continued due diligence and final negotiation of terms and conditions. Mr. McElligott seconded.**

The Committee discussed KKR's performance and the rationale for staff's recommendation.

Mr. Bruebaker stated that an investment of up to \$600 million would be reasonable and prudent. He explained that staff considered many factors, including the new team, impact on the overall portfolio, and the differences between this fund and the European Fund.

Mr. Dear described staff's extensive planning process and said that \$500 million is a strong vote of confidence in the KKR Asian opportunity.

The Committee discussed the annual plan as a guide as opposed to a binding contract, the value of early investing in Asia, the excellence of the KKR firm, and potential co-investment opportunities.

**The motion failed with Ms. Matheson and Mr. Gorton voting no.**

**Ms. Matheson moved that the Private Markets Committee recommend to the Board an investment of up to \$500 million, plus fees and expenses, in KKR Asian Fund, L.P., subject to continued due diligence and final negotiation of terms and conditions. Mr. Gorton seconded, and the motion passed with Mr. McElligott voting no.**

[The Committee recessed at 12:27 p.m. and reconvened at 12:54 p.m.]

### **PRIVATE EQUITY INVESTMENT RECOMMENDATION – GREEN EQUITY INVESTORS V, L.P.**

Ms. Fowler introduced herself and stated that staff recommends an investment of up to \$150 million in Green Equity Investors V, L.P., a \$4 billion (target) private equity fund that will target control acquisitions of established, North American middle-market companies across a broad range of industries with a preference for retail, consumer products, distribution, media, business services, and healthcare. Leonard Green & Partners is an existing general partner relationship. Ms. Fowler described the firm's experienced, cohesive management team; past performance; disciplined investment strategy; proactive deal sourcing; fit in the WSIB private equity portfolio; minimal realizations in Fund IV; and fund size.

Mr. Woolford said that Capital Dynamics concurs with staff and recommends an investment of \$150 million plus expenses and fees. He discussed the fund's sector focus, informal investment style, specialization in retail and restaurants, experience, strong pricing discipline, good market timing, outbound sourcing, and excellent fit in the WSIB private equity portfolio.

The Committee discussed the increased fund size, the size of the recommended commitment, past performance, expected performance of Fund IV, niche strategy, and fit in the WSIB private equity portfolio.

Mr. Nierenberg said that the portfolio companies in Fund IV in aggregate are doing well, have good growth and cash flow, and that he expects to see the net IRR increase.

Mr. Sokoloff, Leonard Green & Partners, introduced himself and described the firm's history; experienced, cohesive team; investment performance; investment strategy with limited use of club deals; portfolio companies; current market trends; and investor base. The fund will invest in retail, media, consumer products, health care, consumer and business services, and distribution.

The Committee asked whether the increased fund size posed a risk to the adherence to the investment strategy. Mr. Sokoloff replied that the team stayed focused during previous market cycles and would maintain that discipline.

[Ms. Schurke arrived 1:31 p.m.]

The Committee discussed participation on portfolio company boards and the impact on the Partners' time and energy, portfolio company investments, deal sourcing, the firm's reputation in the market, available allocation, returns of Fund IV, and investments in health care.

**Mr. McElligott moved that the Private Markets Committee recommend to the Board an investment of up to \$200 million, plus fees and expenses, in Green Equity Investors V, L.P., subject to continued due diligence and final negotiation of terms and conditions. Mr. Masten seconded the motion.**

The Committee discussed the unique investment model and niche, fit in the WSIB private equity portfolio, the experience of the general partner, and whether the larger investment would negatively impact the WSIB's ability to invest with other partners later.

Mr. Bruebaker stated that an investment of \$200 million would be reasonable and prudent. This is an area that is underweighted in the WSIB portfolio, and he is comfortable with the larger amount.

Mr. Ruggels said that he is comfortable with the \$200 million recommendation.

The Committee discussed the impact on the portfolio and the possibility of exceeding the target of 17 percent, whether money would be available for other partners who will be coming to market in the future, and the importance of diversification of the portfolio.

**The motion failed with Ms. Matheson and Mr. Gorton voting no.**

**Ms. Matheson moved that the Private Markets Committee recommend to the Board an investment of up to \$150 million, plus fees and expenses, in Green Equity Investors V, L.P., subject to continued due diligence and final negotiation of terms and conditions. Mr. Gorton seconded, and the motion failed with Mr. Masten and Mr. McElligott voting no.**

Mr. Dear said that he appreciated the Committee's consideration of the plan, that staff develops the recommendation in context of the overall portfolio, and that the comments and questions raised by the Committee add value to the investment recommendation. He said that due to the conversation regarding this investment, he is comfortable with the higher number.

**Ms. Matheson moved that the Private Markets Committee recommend to the Board an investment of up to \$205 million, plus fees and expenses, in Green Equity Investors V, L.P., subject to continued due diligence and final negotiation of terms and conditions. Mr. McElligott seconded.**

Mr. McElligott said that Mr. Bruebaker, Mr. Dear, and Mr. Ruggels stated their comfort with the larger amount, this is a good company, and he supports the higher amount.

**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 2:12 p.m. and reconvened at 2:25 p.m.]

### **PRIVATE EQUITY 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 private equity 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 4:00 p.m., at which time the Committee would reconvene in open session.

[The Committee convened in executive session at 2:26 p.m.]

[Ms. Schurke was no longer in attendance at 3:29 p.m.]

[Ms. Matheson was no longer in attendance at 4:00 p.m.]

[The Committee reconvened in open session at 5:17 p.m.]

**Mr. McElligott moved that the Committee recommend that the Board adopt the confidential private equity investment plan for calendar year 2007 that was presented and discussed in executive session, to be used as the guide for the Board and staff as to the types, number, size, and overall targets for private equity investments in 2007. Mr. Gorton seconded, and the motion carried unanimously.**

There being no further business to come before the Committee, the meeting adjourned at 5:18 p.m.