

**WASHINGTON STATE INVESTMENT BOARD
Private Markets Committee Meeting Minutes
February 9, 2007**

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
Sandy Matheson
Patrick McElligott
Treasurer Mike Murphy
David Nierenberg
Jeff Seely

Members Absent: Glenn Gorton
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
Steve Draper, Senior Investment Officer – Real Estate
Ceri Walker, Investment Officer – Real Estate
Erwin Vidallon, Investment Officer – Real Estate
Linda Buchanan, Administrative Secretary

Paul Silver, Assistant Attorney General
David Woolford, Capital Dynamics
Julie Richardson, Providence Equity Partners
Kok-Yew Tang, Affinity Equity Partners
Michael Humphrey, Courtland Partners
James Goulding, LimeTree Capital Partners
Robin Holdsworth, LimeTree Capital Partners
Nevius Glussi, LimeTree Capital Partners
Stephen Bowers, GMS Realty Partners
Stephan Dirkes, GMS Realty Partners
Pamela Aguirre, GMS Realty 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 9:02 a.m. with Chair Masten identifying members present.

Chair Masten announced a revision to the agenda to discuss Providence Equity first.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – PROVIDENCE EQUITY PARTNERS VI, L.P.

Mr. Green introduced himself and stated that staff recommends an investment of up to \$250 million in Providence Equity Partners VI, L.P., a \$12 billion buyout fund that will pursue large-scale investments in the media, communications, information, and entertainment sectors, primarily in North America and Europe. The recommendation is consistent with the 2007 private equity plan approved by the Board in January 2007. If approved, Providence would be a new general partner relationship for the Board. He described the firm's experienced team, expertise, reputation, industry relationships, leading franchise in its targeted sectors, competitive advantage in generating deal flow, investment strategy, performance history, and fit in the WSIB's portfolio.

[Mr. McElligott and Mr. Kaminski were in attendance at 9:07 a.m.]

[Ms. Matheson was in attendance at 9:09 a.m.]

Mr. Woolford introduced himself and discussed the firm's reputation, industry knowledge, competitive advantage, sector-focus, disciplined investment approach, growth, and performance history. He stated that Capital Dynamics also recommends an investment of up to \$250 million.

The Committee discussed the firm's history with Capital Dynamics, fees, and performance factors.

Ms. Richardson, Providence Equity Partners, introduced herself and said that Providence has over \$20 billion under management and has offices in Providence, London, and New York. She discussed current market trends, the firm's performance history, objectives, investment strategy, management team, valuation methodology, sector focus, investment opportunities, and geographic focus.

The Committee discussed potential investments in Asia, anti-trust litigation regarding club deals, the firm's growth, increased fund size, chief executive officer compensation provisions and controls, education sector potential, newspaper investment trends, media trends, co-investment opportunities, partnering with other firms, and desirable traits of potential partners.

Mr. Bruebaker disclosed that Oregon invested in Providence funds I through IV when he was the Deputy State Treasurer of Oregon.

Mr. McElligott moved that the Private Markets Committee recommend to the Board an investment of up to \$250 million, plus fees and expenses, in Providence Equity Partners VI, L.P., subject to continued due diligence and final negotiation of terms and conditions. Ms. Matheson seconded.

The Committee discussed the merits of the investment and the firm's reputation.

The motion carried unanimously.

ADOPTION OF THE JANUARY 11, 2007, MINUTES

Ms. Matheson moved to adopt the minutes of January 11, 2007. McElligott seconded, and the motion carried unanimously.

[The Committee recessed at 9:55 a.m. and reconvened at 10:05 a.m.]

PRIVATE EQUITY INVESTMENT RECOMMENDATION – AFFINITY ASIA PACIFIC FUND III, L.P.

Mr. Holt introduced himself and stated that staff recommends an investment of up to \$100 million in Affinity Asia Pacific Fund III, L.P., a \$2.5 billion (target) private equity fund that will seek to make controlling equity investments in Korea, Australia, Singapore, Hong Kong, Japan, Taiwan, and China. The recommendation is consistent with the 2007 private equity plan approved by the Board in January 2007; this investment would constitute a new relationship for the WSIB. Mr. Holt described the firm's history, reputation, experienced management team, local presence, performance history, investment strategy, deal sourcing, fit in the WSIB's portfolio, increased fund size, Fund II performance, and increased competition in the Asian market.

Treasurer Murphy asked about Fund II performance numbers. Both staff and the consultant stated that Fund II is still in an early stage, so the numbers are not meaningful, but the Fund is performing well. The Committee discussed Fund II performance and valuation methodology.

Mr. Woolford introduced himself and discussed current market trends, the firm's Asian focus, political situations, deep local market experience, risk-management disciplines, and large team. He stated that Capital Dynamics concurs with staff's recommendation.

The Committee discussed the early stage of Fund II and the significance of the reported portfolio company values.

Mr. Tang, Affinity Equity Partners, introduced himself and said that Affinity is in the final stages of its third and final close. He described the firm's history, investment and geographic focus, performance history, management and investment teams, investment strategy, and focused investment approach.

Treasurer Murphy asked about the firm's spin off from UBS and the how much Fund I performance was due to UBS oversight. Mr. Tang said that Fund I was under UBS, and all the professionals that were involved are now Affinity Partners. Affinity has not lost a single partner and the spin off was amicable.

Mr. Tang discussed the firm's geographic focus, concentration on control transactions, investment team, culture and values, deal sourcing, execution strategy, and proprietary deal flow. The firm has local offices in Hong Kong, Singapore, Seoul, and Sydney.

The Committee discussed the number of deals planned for Fund III and the geographic diversification of the fund.

Mr. Tang discussed valuation methodology, active value-creation post investment, risk management, and low use of leverage. He described Asia's economic growth, regulatory and monetary reforms, global and economic development, market opportunities and trends, the increasingly competitive landscape, and the firm's culture and values.

The Committee discussed the growth of one portfolio company, alignment of interest with management, protection against political risk, currency issues, appreciation of Asian currencies, and valuation methodology.

Mr. McElligott moved that the Private Markets Committee recommend to the Board an investment of up to \$100 million, plus fees and expenses, in Affinity Asia Pacific Fund III, L.P., subject to continued due diligence and final negotiation of terms and conditions. Ms. Matheson seconded.

The Committee discussed valuation methodology, and concentration of value in a single deal.

The motion carried unanimously.

[The Committee recessed at 11:08 a.m. and reconvened at 11:15 a.m.]

[Mr. Kaminski was no longer in attendance at 11:09 a.m.]

REAL ESTATE INVESTMENT RECOMMENDATION – EMERGING BEACHFRONT LAND INVESTMENT FUND, L.P.

Ms. Walker introduced herself and stated that consistent with the 2007 Real Estate Annual Plan, staff recommends an investment of up to \$50 million in Emerging Beachfront Land Investment Fund, L.P., a \$150 million fund being raised by LimeTree Capital Partners that will focus on buying entitled but undeveloped beachfront land in the Asia/Pacific Region. She described the fund's investment strategy, regional demographic trends, local improving infrastructure, the team's disciplined investment process, potential returns, the teams' background, and underwriting process. Ms. Walker discussed the lack of performance history and political and currency risks associated with emerging markets as well as the greater volatility of land investments.

Mr. Nierenberg asked about tsunami risk and whether insurance is available to cover such a catastrophe. The Committee discussed potential environmental risks and the firm's methods of evaluating those risk factors.

Mr. Draper discussed the fund's fit in the real estate portfolio as part of a broader emerging markets strategy.

Treasurer Murphy asked whether the Fund would invest in low bank or high bank properties. Mr. Draper stated that the firm has a clear due diligence policy and invests in land with higher elevations and appropriately sloped beaches for maximum protection. The Committee discussed types of target properties, land elevations, anticipated holding times of properties, nationality of partners and intention to hire local analysts, length of time the partners have been in the region, and language concerns.

Mr. Humphrey introduced himself and discussed the region's growing middle class and wealth, real estate opportunities, and political and economic risks. He described the firm's unique strategy, partners, and reputation and the inefficiency of the target markets.

The Committee discussed the region's land values, anticipated appreciation, demand profile, changing demographics, improving infrastructure, and international level of tourism.

Mr. Goulding, Mr. Holdsworth, and Mr. Glussi, LimeTree Capital Partners, introduced themselves and discussed the investment team, changing demographics, increased accessibility, improving infrastructure, and land prices.

The Committee discussed the potential appreciation of land investments, planned divestiture, and whether it would be better to retain the land and use it to generate long-term income.

Mr. Goulding, Mr. Holdsworth, and Mr. Glussi discussed the region's land values and geographical, climatic, economic, political, and religious risks. They described the firm's management team and experience, due diligence processes, investment criteria, pricing discipline, exit strategies, land acquisition process, and site evaluation process.

The Committee discussed the investment matrix.

Mr. Goulding, Mr. Holdsworth, and Mr. Glussi discussed the fund's geographic focus and the region's tourism growth, improving infrastructure and accessibility, land valuation, and growth potential.

The Committee discussed language concerns, use of local law firms, tsunami risks, and topography of the sites.

Ms. Matheson moved that the Private Markets Committee recommend to the Board an investment of up to \$50 million, plus fees and expenses, in Emerging Beachfront Land Investment Fund, L.P., subject to continued due diligence and final negotiation of terms and conditions. Mr. McElligott seconded.

Treasurer Murphy stated that he was originally skeptical but was very pleased with the presentation.

The Committee discussed the acceptable level of risk, the possibility of holding land rather than selling, the possibility that the firm could become a real estate operating company (REOC), and that this is an excellent opportunity with a first-time fund.

The motion carried unanimously.

Treasurer Murphy sought clarification that the GMS proposal to be presented later in the meeting was not an additional allocation but re-affirmation of a previously approved investment.

[Treasurer Murphy was no longer in attendance at 12:13 p.m.]

REAL ESTATE INVESTMENT RECOMMENDATION – GMS INTERNATIONAL, LLC

Mr. Draper and Mr. Vidallon introduced themselves and explained that the Committee approved an investment of \$750 million in GMS International, a California-based neighborhood retail REOC, in June 2006. Bill Gerrity, the Chief Executive Officer (CEO) at that time, has since left the firm. Mr. Bowers was appointed as the new CEO and has run the operations of the Company since he joined the firm in November 2004. At that time, Mr. Gerrity took a strategic role more consistent with a company Chairman. Staff recommended moving forward with the investment previously approved by the Committee with Mr. Bowers in the position of CEO.

The Committee discussed the firm's solid strategy, competent team, and great portfolio.

Mr. Humphrey introduced himself and discussed the departure of Mr. Gerrity and the impact on the operations of the company, the WSIB's ownership of the REOC, and the Company's potential joint ventures with other WSIB REOCs.

The Committee discussed the potential of Mr. Gerrity hiring away other members of GMS.

Mr. Bowers, Mr. Dirkes, and Ms. Aguirre, GMS Realty Partners, introduced themselves and discussed the firm's investment strategy, growth, quality portfolio, quality and experience of the team, reputation, formation, performance history, departure of Mr. Gerrity, future plans, management strategy, relationship with tenants, capital improvement plans for assets, efficient information systems, current portfolio, and development projects.

The Committee discussed Washington-based companies.

Mr. Bowers, Mr. Dirkes, and Ms. Aguirre discussed acquisition plans going forward, market trends, focus on fundamentals, competitive advantages, deep retail knowledge, operations and management, commitment, access to capital, strong network, superior risk adjusted returns, international growth opportunities, teamwork ethic, competitive advantage, strong leadership, strong retail platform, and relationship with other WSIB partners. They noted that GMS has been a successful partner with the WSIB for 7 years.

The Committee discussed non-disparagement agreements and potential economic penalties to prevent poaching of key people or relationships and the firm's plans for international expansion, joint venturing with Corporate Properties of the Americas (CPA), investment strategy, and potential effect of change in personnel.

Ms. Matheson moved that the Private Markets Committee recommend that the Board re-affirm the previously approved 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. Mr. McElligott seconded.

The Committee discussed the deal with CPA.

The motion carried unanimously.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – BLACKSTONE CAPITAL PARTNERS V, L.P. (SUPPLEMENTAL)

Mr. Ruggels introduced himself and stated that staff recommends an additional investment of up to \$200 million in Blackstone Capital Partners V, L.P., a large, global leveraged buyout fund. This recommendation is in addition to the \$200 million that the WSIB previously committed to this fund in 2006, and is consistent with the 2007 private equity annual plan approved by the Board in January 2007. Blackstone reopened this fund to seek up to \$5.75 billion of additional limited partner commitments. The additional commitment would be an opportunity for the WSIB to expand a relationship with a high-quality partner. Mr. Ruggels discussed current market trends, increased competition, the firm's strong brand and franchise, experienced management team, differentiated strategy, and historic performance. He clarified that this recommendation is for a supplemental amount going into the main fund, not the supplemental fund.

Mr. Woolford discussed the fund's investment pace and explained that there would be no dilution of the WSIB's position in existing portfolio companies from Blackstone raising this additional capital. However, the WSIB would have a larger share of future Blackstone V portfolio investments by making this commitment.

Ms. Matheson moved that the Private Markets Committee recommend to the Board an additional investment of up to \$200 million, plus fees and expenses, in Blackstone Capital Partners V, L.P., subject to continued due diligence and final negotiation of terms and conditions. Mr. McElligott seconded, and the motion carried unanimously.

[The Committee recessed at 12:59 p.m. and reconvened at 1:35 p.m.]

REAL ESTATE INVESTMENT RECOMMENDATION – GLOBAL CO-INVESTMENT, LLC

Mr. Draper introduced himself and stated that consistent with the 2007 Real Estate Annual Plan, staff recommends an investment of up to \$500 million in Global Co-Investment, LLC, the legal vehicle through which the WSIB will undertake co-investments with its existing real estate partners in areas that might be outside their normal investment parameters. The program will be managed by WSIB staff with the assistance of an external consultant and legal counsel.

Mr. Draper described the program's strategy, diversification benefits, potential returns, opportunity for growth, short time frames involved in co-investments, impact on staff resources, and potential portfolio concentration.

Mr. Humphrey discussed the importance of developing relationships with partners, terms of co-investments, improved access to deals, and condensed deal periods.

The Committee discussed that the co-investment strategy can be to invest alongside any of the WSIB's real estate partners, Courtland Partners' potential conflict of interest, and the consultant selection process for the co-investment program.

Mr. McElligott moved that the Private Markets Committee recommend to the Board an investment of \$500 million, plus fees and expenses, in Global Co-Investment, LLC, subject to continued due diligence and final negotiation of terms and conditions. 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 were no other items to report.

There being no further business to come before the Committee, the meeting adjourned at 1:50 p.m.