

**WASHINGTON STATE INVESTMENT BOARD  
Private Markets Committee Meeting Minutes  
June 7, 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: Glenn Gorton, Acting Chair  
Patrick McElligott  
Treasurer Mike Murphy  
David Nierenberg  
Jeff Seely

Other Member Present: Allan Martin

Members Absent: George Masten  
John Magnuson  
Sandy Matheson

Others Present: Joe Dear, Executive Director  
Gary Bruebaker, Chief Investment Officer  
Tom Ruggels, Senior Investment Officer – Private Equity  
Isabelle Fowler, Investment Officer – Private Equity  
Gary Holt, Investment Officer – Private Equity  
Janet Kruzell, Investment Officer – Private Equity  
Steve Draper, Senior Investment Officer – Real Estate  
Linda Buchanan, Secretary Administrative

Paul Silver, Assistant Attorney General  
David Woolford, Capital Dynamics  
Andrew Liu, CCMP Capital Asia  
Stephen King, CCMP Capital Asia  
John von Schlegell, Endeavour Capital  
Stephen Babson, Endeavour Capital  
Aaron Richmond, Endeavour Capital  
Karen Jakobi, Pathway Capital Management  
Terrence Melican, Pathway Capital Management  
Pete Veravanich, Pathway Capital Management  
Joe Cook, Courtland Partners  
Dan Krivinskis, Courtland Partners  
Garret House, Evergreen Investment Advisors  
Don Suter, Evergreen Investment Advisors  
Rich Cline, Hometown America

[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 Acting Chair Gorton identifying members present.

#### **ADOPTION OF THE MAY 3, 2007, MINUTES**

**Treasurer Murphy moved to adopt the minutes of May 3 2007.**

**Mr. McElligott seconded, and the motion carried unanimously.**

#### **PRIVATE EQUITY INVESTMENT RECOMMENDATION – ASIA OPPORTUNITY FUND III, L.P.**

Mr. Holt introduced himself and said that staff recommends an investment of up to \$125 million in Asia Opportunity Fund III, L.P., a \$2.5 billion fund being formed by CCMP Capital Asia Ltd. to do leveraged buyouts in Asia. He discussed the WSIB's investment in Asia Opportunity Fund II, the firm's history, the spinout from JP Morgan, and the collaborative relationship with JP Morgan. Mr. Holt described the firm's investment team, network of industry partners, reputation, deal sourcing, investment strategy, targeted geographies and markets, performance history, operationally driven value creation model, strategic affiliation, and investment pace.

The Committee discussed current investments outside of Asia, portfolio companies that plan to expand into Asia, and the amount of investments that are planned outside of Asia.

Mr. Woolford, Capital Dynamics, introduced himself and discussed the firm's reputation, experience, investment process, extensive network, success in the region, performance history, investment pace, as well as the departure of one partner and increasing competition in the area. He stated that Capital Dynamics recommends an investment of up to \$125 million.

Discussion ensued regarding the potential impact of the departure of the partner that left the firm and which investments in Fund I were attributable to him. Mr. Woolford explained that the firm always has two partners on every transaction, which minimizes the impact of one partner leaving.

Mr. Liu and Mr. King, CCMP Capital Asia, introduced themselves and discussed the firm's experienced team, operationally oriented investment strategy, pan-Asia focus, global network, affiliation with JP Morgan, organization, deal sourcing, geographic diversification, performance history, exit strategies, investment size, and industry focus. They explained lessons learned from Funds I and II, including the importance of strategy discipline and making control investments. They described the fund's target size, investment strategy, targeted geography, and sector focus.

The Committee discussed non-Asian investments, plans of companies to move into Asia, status of investments in Fund II, number of co-investments outside Asia, partners for co-investments, valuation methodology, and liquidity of remaining assets.

**Mr. McElligott moved that the Private Markets Committee recommend to the Board an investment of up to \$125 million, plus fees and expenses, in Asia Opportunity Fund III, L.P., subject to continued due diligence and final negotiation of terms and conditions. Mr. Gorton seconded the motion.**

The Committee discussed performance issues, lessons learned, and industry focus.

**The motion carried unanimously.**

[The Committee recessed at 10:15 a.m. and reconvened at 10:28 a.m.]

**PRIVATE EQUITY INVESTMENT RECOMMENDATION – ENDEAVOUR CAPITAL FUND V, L.P.**

Ms. Kruzel introduced herself and said that staff recommends an investment of up to \$75 million in Endeavour Capital Fund V, a \$425 million middle-market private equity fund that will focus on the less efficient, lower middle market. The WSIB previously invested in Fund IV.

Ms. Kruzel discussed the firm's sourcing network, investment team, reputation, expertise, performance history, investment strategy, fit in the WSIB portfolio, key person risk, regional expansion, increased fund size, investment discipline, controlled growth in professional staff, and the positive response to reference checks.

Mr. Nierenberg recused himself from participation in the discussion due to personal business relationship with one of the Endeavor's managing directors.

Mr. Woolford, Capital Dynamics, introduced himself and described the firm's expertise, history, interaction with owners, competition, investment targets, and geographic focus. He stated that Capital Dynamics recommends an investment of up to \$75 million and that he would support a larger share of the fund but would not recommend a larger fund size.

The Committee discussed the advantages of retaining the smaller fund size, the size of the recommended investment, the firm's regional focus, consistency in deal size, mid-market niche, current market conditions, and performance of one portfolio company.

Mr. von Schlegell, Mr. Babson, and Mr. Richmond, Endeavour Capital, introduced themselves and discussed the firm's strategy, geographic focus, performance history, conservative capital structures, pricing discipline, investment criteria with focus on the lower middle market, investment team, low professional turnover, network, valuation discipline, value-added approach, experience, portfolio companies, rate of investment, manageable fund size, investment terms, and targeted closing date.

Discussion ensued regarding the sector, market trends, investment opportunities, investment discipline, regional focus, and excellent returns. The Committee noted that a larger commitment size would be desirable, given the firm's strengths, including its track record, geographic focus, and portfolio fit.

**Treasurer Murphy moved that the Private Markets Committee recommend to the Board an investment of up to \$100 million, plus fees and expenses, in Endeavour Capital Fund V, L.P., subject to continued due diligence and final negotiation of terms and conditions. Mr. McElligott seconded the motion.**

The Committee discussed the firm's expertise, discipline, reputation, and fit with the annual commitment plan. The Committee recommended a larger commitment to benefit from the firm's expertise, excellent returns, and regional focus and to give staff greater flexibility in negotiations. Mr. Bruebaker, Ms. Kruzell, and Mr. Woolford indicated support for the \$100 million recommendation.

**The motion carried unanimously.**

### **PRIVATE EQUITY – PATHWAY CAPITAL MANAGEMENT CONTRACT EXTENSION**

Ms. Fowler introduced herself and stated that staff recommends a 1-year extension of the Pathway Capital Management contract, which will expire June 30, 2007. Pathway was originally hired through an RFP process in 1996 to manage a non-discretionary separate account investing in venture capital partnerships. In 2001, Pathway was given discretion under a 5-year contract that allows for up to five 1-year extensions at the Board's discretion. If approved, this would be the second of the five possible 1-year extensions. Ms. Fowler discussed the firm's performance history, experience, long-term relationships, excellent customer service, comprehensive reports, proprietary data system, fit in the WSIB portfolio, and market conditions.

The Committee discussed the firm's performance and investment mandate.

Ms. Jakobi, Mr. Melican, and Mr. Veravanich, Pathway Capital Management, introduced themselves and described the firm's history, performance, assets under management, global client base, location, expertise, management and investment teams, investment focus, proven access to high quality investment opportunities, due diligence process, and returns. They discussed market trends, fundraising activities, average investment size of funds, and IPO activity.

The Committee discussed returns, investment strategy, WSIB mandate, desirability of investing with young funds, number of commitments to first or second time funds, experience of managers, and the need to be proactive in exploring investments in new and growing areas.

Mr. McElligott requested information on the investments explored in the past year that were first or second time funds.

**Mr. McElligott moved that the Private Markets Committee recommend to the Board a 1-year extension of the Pathway Capital Management contract. Treasurer Murphy seconded the motion.**

Discussion ensued regarding the advantages and risks associated with first time venture funds, contract mandates, Pathway's performance compared to the benchmark, exploration of other options as a way to invest in younger funds, Pathway's due diligence process, and diversification needs in the WSIB portfolio.

**The motion carried unanimously.**

[The Committee recessed at 12:20 p.m. and reconvened at 12:40 p.m.]

**REAL ESTATE INVESTMENT RECOMMENDATION – EVERGREEN REAL ESTATE PARTNERS, LLC – FOLLOW-ON INVESTMENT AND GEOGRAPHIC EXPANSION**

Mr. Draper introduced himself and explained the firm’s strategy, regional focus, expertise, exclusivity, outstanding underwriting skills, depth of process, and return potential. He discussed operating risks; incentive payments on unrealized events; foreign risks such as currency, political, and tax; lack of specific experience outside the U.S. and Europe; and fit in the WSIB portfolio. Mr. Draper stated that staff recommends an additional investment of \$500 million and expansion of the target geography to a global mandate and believes this is best group to expand the real estate operating company (REOC) strategy globally.

Mr. Cook and Mr. Krivinkas, Courtland Partners, introduced themselves and discussed the firm’s investment strategy, deal sourcing, performance history, alignment of interests, low management fees, organizational capacity, key person risk, and potential conflicts of interest. They explained that the proposal provides a cost effective way to expand and retain an outstanding manager and provides an opportunity for the WSIB to expand its reach globally.

The Committee discussed potential operating risk.

Mr. House and Mr. Suter introduced themselves and discussed the firm’s relationship with the WSIB, investment strategy, target sectors, historic returns, recent investments, future plans, management team, and platform investments.

Discussion ensued regarding investments in cemeteries, market trends, and legal issues.

**Mr. McElligott moved that the Private Markets Committee recommend to the Board an additional investment of up to \$500 million, plus fees and expenses, in Evergreen Real Estate Partners, LLC, and expansion of the Partnership’s target geography to a global mandate, subject to ongoing due diligence and final negotiation of terms and conditions. Treasurer Murphy seconded the motion.**

Mr. Gorton stated that Mr. Magnuson submitted written comments that would be added to the record.

**The motion carried unanimously.**

[Mr. Seely was no longer in attendance at 1:15 p.m.]

## **REAL ESTATE INVESTMENT RECOMMENDATION – HOMETOWN AMERICA HOLDINGS, LLC, STRATEGY EXPANSION AND RESTRUCTURE**

Mr. Draper introduced himself, described the firm's history, and explained the proposed changes to the investment strategy and incentive compensation. The current strategy is to own and operate manufactured housing communities and ancillary businesses. The proposed expansion would include apartments (primarily age-qualified) and expand the targeted geography to a global mandate. Mr. Draper discussed the importance of identifying trends and getting in front of them, whether trends are demographic, economic, or political. He discussed the firm's return potential, performance history, management team, and the need to incentivize management. Mr. Draper explained the fund's terms, key person risk, incentive payments on unrealized events, risks associated with proposed strategy expansion, and fit in the WSIB portfolio. Mr. Draper read a portion of Mr. Magnuson's written comments to the Committee.

The Committee discussed valuation methodology and the incentive fee mechanics.

Mr. Cook and Mr. Krivinskas, Courtland Partners, introduced themselves and discussed the proposed strategy change, the firm's performance, outstanding management team, favorable demographics, and the Company's lack of apartment and international experience.

Mr. Cline introduced himself and discussed the company's history, investment strategy, growth since inception, geographic diversification, historic returns, expertise in the age-qualified property sector, excellent risk-adjusted returns, planned geographic focus, long-term incentive compensation, and alignment of interest, as well as plans for expansion. He noted that the new strategy areas had few competitors, limited existing supply, and favorable demographics. He also discussed foreign market opportunities, similarities in markets, taxes, and currency risk.

**Treasurer Murphy moved that the Private Markets Committee recommend to the Board an expansion of the investment mandate of Hometown America Holdings, LLC, to include apartments and to include investments outside the U.S., and to change the carried interest structure of the Company as confidentially included in the materials provided to Committee members. Mr. McElligott seconded, and the motion carried unanimously.**

[Mr. Nierenberg was no longer in attendance at 1:54 p.m.]

## **PRIVATE EQUITY – INVESCO PRIVATE CAPITAL CONTRACT EXTENSION**

Ms. Fowler introduced herself and said that staff recommends a 1-year extension of the INVESCO Private Capital contract, which will expire June 30, 2007. She described the history of the INVESCO relationship and explained that INVESCO currently provides transaction management with limited reporting on existing partnerships and no authority to make new commitments on behalf of the WSIB.

**Treasurer Murphy moved that the Private Markets Committee recommend to the Board a 1-year extension of the INVESCO Private Capital contract at a rate of \$56,650. Mr. McElligott seconded and the motion carried unanimously.**

**REAL ESTATE INVESTMENT PROGRAM POLICY 2.10.600 REVISION**

In response to Treasurer Murphy's question, Mr. Draper confirmed that the proposed changes reflected action previously taken by the Board.

**Treasurer Murphy moved that the Private Markets Committee recommend to the Board the approval of the proposed revisions to the Real Estate Investment Program Policy 2.10.600. Mr. McElligott seconded and the motion carried unanimously.**

**PRIVATE MARKETS CLOSING LOG**

The Private Markets Closing Log was presented for informational purposes.

**OTHER ITEMS**

There being no further business to come before the Committee, the meeting adjourned at 2:00 p.m.