

**WASHINGTON STATE INVESTMENT BOARD
Private Markets Committee Meeting Minutes
September 6, 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
Glenn Gorton
Allan Martin
Sandy Matheson
Patrick McElligott
David Nierenberg
Jeff Seely (teleconference)

Other Member Present: Charles Kaminski (teleconference)

Members Absent: John Magnuson

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

Paul Silver, Assistant Attorney General
David Woolford, Capital Dynamics
George Roberts, Kohlberg Kravis Roberts & Company
Johannes Huth, Kohlberg Kravis Roberts & Company
Joe Landy, Warburg Pincus
Steven Schneider, Warburg Pincus
Ernest Bachrach, Advent International
Juan Carlos Torres, Advent International
Bruce Barclay, Advent International
Chris King, Service Employees International Union

[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.

ADOPTION OF THE JUNE 7, 2007, MINUTES

Mr. McElligott moved to adopt the minutes of June 7, 2007. Mr. Gorton seconded, and the motion carried unanimously.

PUBLIC COMMENT

Mr. King, a member of the Service Employees International Union (SEIU), introduced himself and explained that the SEIU sent a letter to Kohlberg Kravis Roberts & Company (KKR) asking for information on the impact of KKR's investments on workers, communities, and public services in Washington and in the rest of the U.S. In SEIU's view, the response received did not satisfactorily answer the questions. Mr. King expressed concern that although KKR has delivered high returns to the WSIB those returns may have come at social costs not measured by traditional investment metrics. He stated that the SEIU believes the WSIB should not make further investments in KKR until they can perform a thorough evaluation of the overall impact of its investments with KKR and until KKR answers the questions posed by the SEIU.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – KKR EUROPEAN FUND III, L.P.

Mr. Ruggels introduced himself and said that staff recommends an investment of up to \$700 million in KKR European Fund III, L.P., a large-cap, pan-European buyout fund with a target size of €6-8 billion (approximately \$8-11 billion). Mr. Ruggels described the WSIB's 25-year relationship with KKR, prior WSIB commitments, the firm's growth, development of its European franchise, competition in Europe, experienced and deep team, extensive resources, expertise, strong performance, successful value-creation strategy, institutionalized decision-making and monitoring processes, and the fund's fit in the WSIB Private Equity portfolio. He discussed portfolio concentration, co-investment in the 2006 Fund and its successor creating additional exposure, increased fund size, recent events in the credit market, and rapid investment pace of European Fund II.

The Committee discussed the impact of currency movements on European Fund I returns, the workload on senior partners, and current issues involving debt financings.

Mr. Woolford, Capital Dynamics, introduced himself and two staff from their European office. He discussed similarities in the current market place and at the time of the WSIB investment in KKR European Fund I, KKR's investment strategy, rapid investment pace, valuation processes, strong team, and reputation. He stated that Capital Dynamics concurs with staff's recommendation of an investment of up to \$700 million.

[Mr. Martin was in attendance at 9:26 a.m.]

Mr. Roberts and Mr. Huth, KKR, introduced themselves. Mr. Roberts discussed the status of U.S. credit markets and current market conditions, market liquidity, the leverage loan business, international investors increasing interest in private equity, and investment opportunities.

The Committee discussed fund size and anticipated average deal size.

Mr. Huth discussed the firm's history in Europe, fund target size, geographic focus, experienced team, one-firm approach, global footprint, value-creation approach, current market environment, economic growth, regulatory environment, public perception of KKR, relationship with unions in Germany and France, performance history, employment growth generated in portfolio companies, stability of large buyout niche, competitors, average transaction size, exit opportunities, differentiation, operational resources, industry knowledge, portfolio status, terms,

experienced investment team, deep industry knowledge, expertise in building value in complex global businesses, and processes with unique operational resources.

Mr. Gorton asked KKR about the lack of response from them to specific questions from the SEIU.

Mr. Roberts explained that he previously met with union representatives and would continue to do so. KKR did send a letter responding to SEIU's questions.

The Committee discussed potential returns from 2005 and 2006 investments, market risk, portion of investments that were proprietary opportunities, investment opportunities, and workload of senior partners.

Mr. McElligott moved that the Private Markets Committee recommend to the Board an investment of up to \$700 million, plus fees and expenses, in KKR European Fund III, L.P., subject to continued due diligence and final negotiation of terms and conditions. Ms. Matheson seconded the motion.

Mr. Gorton requested that staff request answers from KKR to the SEIU's questions.

The motion carried unanimously.

[The Committee recessed at 10:20 a.m. and reconvened at 10:30 a.m.]

PRIVATE EQUITY INVESTMENT RECOMMENDATION – WARBURG PINCUS PRIVATE EQUITY X, L.P.

Mr. Holt introduced himself and said that staff recommends an investment of up to \$750 million in Warburg Pincus Private Equity X, L.P., (WP X) a \$12 billion global private equity fund. He discussed the firm's compensation practices, long relationship with WSIB, history, brand name, reputation, international investing prowess, deep and experienced team, international presence, leadership transition, investment processes, unique strategy, diversity, performance history, investment pace, and fund size.

Mr. Woolford, Capital Dynamics, introduced himself and discussed the firm's professionals, compensation structure, training system, diversification, and investment discipline. He stated that Capital Dynamics concurs with staff's recommendation of up to \$750 million.

Mr. Schneider and Mr. Landy, Warburg Pincus, introduced themselves and discussed the firm's performance, investment strategy, market conditions, experience, investment opportunities, international presence, industry specialization, alignment of interest, investment professionals, investment diversification, exit strategies, and liquidity issues.

Ms. Matheson moved that the Private Markets Committee recommend to the Board an investment of up to \$750 million, plus fees and expenses, in Warburg Pincus Private Equity X, L.P., subject to continued due diligence and final negotiation of terms and conditions. Mr. Gorton seconded the motion.

The Committee discussed the recommended investment size, co-investment opportunities, unique investment strategy, and disciplined investment approach.

The motion carried unanimously.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – ADVENT LATIN AMERICAN PRIVATE EQUITY FUND IV, L.P.

Mr. Holt introduced himself and stated that staff recommends an investment of up to \$25 million in Advent Latin American Private Equity Fund IV, L.P., a \$1.3 billion private equity fund that will invest primarily in Mexico, Brazil, and Argentina. He discussed the firm's experience, history, global presence, investment strategy, exit strategy, pan-regional approach without fixed country allocation, performance, team, WSIB portfolio fit, emerging market risk, fund size, and investor demand.

Mr. Woolford, Capital Dynamics, stated that Capital Dynamics has invested in Advent, and discussed co-investments, minority positions, and pricing. He stated that Capital Dynamics concurs with staff's recommendation of \$25 million.

Mr. Bachrach, Mr. Torres, and Mr. Barclay, Advent International, LLC, introduced themselves and discussed the firm's global reach, deep local presence, investment professionals, investment returns, investment opportunities, large team, investment strategy, deep knowledge of the target region, access to the global resources of the Advent Group, regional focus, low entry valuations, limited private equity available, increase in foreign direct investment, risk management, sector focus, and exit strategies.

The Committee discussed investment sectors, due diligence process, co-investment opportunities, and reasons for the write-downs in the portfolio.

Mr. Gorton moved that the Private Markets Committee recommend to the Board an investment of up to \$25 million, plus fees and expenses, in Advent Latin American Private Equity Fund IV, 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 12:09 p.m. and reconvened at 12:40 p.m.]

PRIVATE EQUITY INVESTMENT RECOMMENDATION – AVENUE SPECIAL SITUATIONS FUND V, L.P. (SUPPLEMENTAL)

Mr. Holt introduced himself and stated that staff recommends an additional investment of up to \$50 million in Avenue Special Situations Fund V, L.P., a targeted \$6 billion distressed debt fund. The Board previously approved an investment of \$150 million in this fund in March 2007. The fund has not closed and is still in the fundraising cycle. Due to recent turmoil in the credit markets, the firm decided to raise the cap on the fund to opportunistically pursue a robust pipeline of distressed transactions. The Advisory Board has already approved the increased cap. Mr. Holt discussed current market trends and the firm's strong management team.

Mr. Woolford stated that this is an attractive opportunity with a stable partner that has a strong global presence. He stated that Capital Dynamics concurs with staff's recommendation of an additional \$50 million investment.

Mr. McElligott moved that the Private Markets Committee recommend to the Board an additional investment of up to \$50 million (for a total commitment of up to \$200 million), plus fees and expenses, in Avenue Special Situations Fund V, L.P., subject to continued due diligence and final negotiation of terms and conditions. Mr. Gorton seconded, and the motion carried unanimously.

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 an investment 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 about 2:35 p.m. at which time the Committee would reconvene in open session.

[The executive session convened at 12:44 p.m.]

PRIVATE EQUITY ANNUAL PLAN UPDATE

REAL ESTATE ANNUAL PLAN UPDATE

[The executive session recessed at 3:08 p.m. and the Committee reconvened in open public session.]

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 3:08 p.m.