

**WASHINGTON STATE INVESTMENT BOARD
Private Markets Committee Meeting Minutes
April 3, 2008**

The Private Markets Committee met in open public session at 9:00 a.m. in the boardroom at the Washington State Investment Board in Olympia, Washington.

Members Present: Patrick McElligott, Chair
Glenn Gorton
Charles Kaminski
John Magnuson
Allan Martin
George Masten
Sandy Matheson
Jeff Seely

Other Board Members
Present:

Mason Petit

Members Absent:

David Nierenberg

Others Present:

Joe Dear, Executive Director
Gary Bruebaker, Chief Investment Officer
Theresa Whitmarsh, Chief Operating Officer
Tom Ruggels, Senior Investment Officer – Private Equity
Gary Holt, Investment Officer – Private Equity
Janet Kruzell, Investment Officer – Private Equity
Steve Draper, Senior Investment Officer – Real Estate
Ceri Walker, Investment Officer – Real Estate
Linda Buchanan, Administrative Assistant

Paul Silver, Assistant Attorney General
David Woolford, Capital Dynamics
Steven Hahn, RV Kuhns
Jim Voytko, RV Kuhns
Becky Gratsinger, RV Kuhns
Irina Doroshkin, RV Kuhns
Philip Bilden, HarbourVest Partners
Kevin Delbridge, HarbourVest Partners
Charles Moore, The Banc Funds
Mike Shannon, KSL Capital Partners
Eric Resnick, KSL Capital Partners
Michael Humphrey, Courtland Partners
John Grayken, Lone Star
Louis Paletta, Lone Star

[Names of other individuals attending the meeting are not included in the minutes but are listed in the permanent record.]

The meeting convened at 9:00 a.m. with Chair McElligott identifying members present.

ADOPTION OF THE FEBRUARY 7, 2008, MINUTES

Mr. Masten moved to adopt the minutes of February 7, 2008. Mr. Gorton seconded, and the motion carried unanimously.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – HARBOURVEST INTERNATIONAL PRIVATE EQUITY PARTNERS VI ASIA PACIFIC / EMERGING MARKETS FUNDS, L.P.

Mr. Holt introduced himself and explained that RV Kuhns was acting consultant on this investment as Capital Dynamics has a conflict of interest. Mr. Holt said that staff recommends a commitment of up to \$50 million each in HarbourVest International Private Equity Partners VI Asia Pacific and HarbourVest International Private Equity Partners VI Emerging Markets, for a total investment recommendation of \$100 million. Both funds are components of the HarbourVest International Private Equity Partners (HIPEP) VI \$2 billion (target) fund-of-funds program. Asia Pacific, a \$500 million fund, will invest in primary partnerships in the Asia Pacific region with buyout or venture strategies. Emerging Markets, a \$300 million fund, will invest in diverse primary partnerships in markets such as Africa, Israel, the Middle East, Latin America, and Russia. The WSIB is a long-time investor with HarbourVest Partners and its predecessor John Hancock, and has invested over \$600 million in 12 HarbourVest funds since 1982. Mr. Holt discussed HarbourVest's deep, experienced investment team; proven global investment strategy; access to both top-tier and up-and-coming managers; solid Asia Pacific experience; fit in the WSIB private equity portfolio to include increasing portfolio diversification and providing staff with a valuable resource; investment performance; fundraising environment; management fees; emerging markets risks; and general partner commitment.

The Committee discussed the firm's knowledge, experience, and projected returns.

Mr. Voytko, Mr. Hahn, Ms. Gratsinger, and Ms. Doroshkin, RV Kuhns, introduced themselves. Mr. Voytko said that RV Kuhns supports the staff recommendation. Mr. Voytko, Ms. Gratsinger, and Mr. Hahn discussed HarbourVest's portfolio diversification in Asia; on-the-ground research facilities; access to top groups and top-quartile investments; global investment staff; employee ownership; due diligence process; regional experience; performance record; risk of compression of returns; change in structure so that secondary investments will be in a separate vehicle; currency exposure; and venture capital exposure. They also discussed market trends.

Discussion ensued regarding personnel changes, geographic location, investments in South Africa, and political issues.

Mr. Delbridge and Mr. Bilden, HarbourVest Partners, introduced themselves and discussed the firm's history, investment professionals, performance history, client service, local presence, infrastructure, emerging markets experience, investment strategy, and geographic diversification. They explained that the target size of the Asia Pacific fund is \$500 million and \$300 for the Emerging Markets fund. The funds will be invested pari passu with the main fund with a consistent investment period.

The Committee discussed investments in Africa and other emerging markets, investment strategy, staffing, and gender balance within the firm's organizational structure.

Ms. Matheson moved that the Private Markets Committee recommend to the Board an investment of up to \$50 million in HarbourVest International Private Equity Partners VI Asia Pacific, L.P., and up to \$50 million in HarbourVest International Private Equity Partners VI Emerging Markets, L.P., for a total of \$100 million, plus fees and expenses, subject to continuing due diligence and final negotiation of terms and conditions. Mr. Gorton seconded.

Further discussion ensued regarding HarbourVest's investment performance.

The motion carried unanimously.

[The Committee recessed at 10:05 a.m. and reconvened at 10:18 a.m.]

PRIVATE EQUITY INVESTMENT RECOMMENDATION – BANC FUND VIII, L.P.

Ms. Kruzel introduced herself and stated that staff recommends an investment of up to \$75 million in Banc Fund VIII L.P., a \$600 million (target) private equity fund that will invest in U.S.-based financial services companies, mainly small regional and super-community banks. The recommendation is consistent with the Private Equity Annual Plan approved by the Board in January 2008. The WSIB has previously invested in three prior Banc Funds. Ms. Kruzel discussed the firm's experienced, stable management team which has had virtually no turnover since 1986; reputation; extensive financial services expertise; differentiated niche strategy; consistent, strong returns and low loss ratios generated through multiple cycles; fit in the WSIB private equity portfolio; impressive research capacity; sector risk; and key person and generational transition risk.

[Mr. Seely was in attendance at 10:26 a.m.]

The Committee discussed the firm's concentration on small regional banks, timing, great investment model, and transitional issues.

Mr. Woolford, Capital Dynamics, stated that this investment represents an opportunity to increase the WSIB's commitment with a quality partner. He discussed the firm's portfolio mix, investment strategy, expertise, reputation, carefully selected fund size, performance, succession issues, and sector risks. He stated that Capital Dynamics recommends a commitment of up to \$100 million.

The Committee discussed the firm's investment in minority positions, ability to influence the behavior of portfolio company investments, excellent reputation, sector risk in current market conditions, and exit strategies. The potential impacts of regulation were also discussed.

Mr. Moore, The Banc Funds, introduced himself and discussed the firm's history with the WSIB, investment strategy, deal sourcing, growth, investment types, strong and consistent returns,

risk/return profile, investment niche, and experience of the firm's investment professionals. Mr. Moore also reviewed the financial industry consolidation, industry trends, and current market conditions.

The Committee discussed the advantages of non-control positions, deal sourcing, regulatory issues, and investment opportunities. The causes and effects of the current banking crisis were also discussed in addition to what the government could do to help rectify the problem.

Mr. Gorton moved that the Private Markets Committee recommend to the Board an investment of up to \$75 million, plus fees and expenses, in Banc Fund VIII, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Ms. Matheson seconded.

The Committee discussed the merits of the investment and the recommended amount.

Mr. Masten moved to amend the motion to recommend an investment of up to \$100 million. Mr. McElligott seconded.

The Committee discussed the impact of the increase on the Private Equity Annual Plan, the opportunity to invest a larger investment in the Fund would be available, concerns of overshooting the allocation, and the unique niche in which the portfolio is underweight.

**The amendment carried unanimously.
The amended motion carried unanimously.**

PRIVATE EQUITY INVESTMENT RECOMMENDATION – KSL CAPITAL PARTNERS SUPPLEMENTAL II, L.P.

Ms. Kruzel introduced herself and stated that staff recommends an investment of up to \$50 million in KSL Capital Partners Supplemental II, L.P., a \$500 million (target) private equity fund that will invest in travel and leisure businesses. The recommendation is consistent with the Private Equity Annual Plan approved by the Board in January 2008. In January 2006, the WSIB committed \$100 million to KSL Capital Partners II, which is now 40 percent committed. KSL believes that the current market disruption has made this an attractive time to invest in their target industries. The supplemental fund will selectively invest alongside KSL Capital Partners II, L.P., to provide additional equity on larger, more operationally intensive investments. The Fund will continue KSL's proven niche investment strategy, which is to pursue acquisitions of under-managed or under-capitalized businesses in the hospitality, recreation, club, real estate, and travel services sectors ranging in size from \$500 million to \$2 billion total enterprise value. Ms. Kruzel discussed current market trends and opportunities. She described the firm's experienced management team and strong performance with substantial realizations across multiple cycles, noting that much of performance occurred when KSL was a portfolio company of KKR. She also reviewed the firms' focused, niche strategy; attractive deal flow; excellent fit in the WSIB private equity portfolio; sector risks; and potential conflicts with KSL Resorts.

Discussion ensued regarding the firm's use of leverage, disciplined approach, and relationship with KSL Resorts.

Mr. Woolford, Capital Dynamics, discussed strategies implemented to mitigate possible conflict of interest with KSL Resorts in addition to the firm's reputation, expertise, and investment team. He stated that Capital Dynamics recommendation was to invest up to 10 percent of the final fund size, which currently would be \$50 million.

The Committee discussed the concerns regarding KSL Resorts and that the WSIB is not subject to UBTI issues.

Mr. Shannon and Mr. Resnick, KSL Capital Partners, introduced themselves and discussed the firm's investment team; investment and operational resources; investment history; leverage use; performance history; market trends; current investment portfolio; sector diversification in the five areas of hospitality: recreation, real estate, clubs, and travel services; investment strategy; operating performance; diversified revenue base; and investment opportunities.

The Committee discussed the firm's relationship with KSL Resorts; the negative effect of a long-term property management contract on the sale of a resort property; and the advantages of not being dependent on the use of leverage at this time.

Ms. Matheson moved that the Private Markets Committee recommend to the Board an investment of up to \$50 million, plus fees and expenses, in KSL Capital Partners Supplemental II, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Mr. Masten seconded, and the motion carried unanimously.

[The Committee recessed at 12:21 p.m. and reconvened at 12:45 p.m.]

REAL ESTATE INVESTMENT RECOMMENDATION – LONE STAR FUND VI (U.S.), L.P.

Ms. Walker introduced herself, Mr. Draper, and Mr. Humphrey. Ms. Walker stated that staff recommends an allocation of up to \$600 million in Lone Star Fund VI (U.S.), L.P. The fund will acquire a broad range of financial and other investment assets, mainly those that are distressed or underperforming in some way; secured and corporate unsecured debt; overstretched, financially-oriented operating companies, including banks; and operating companies with significant real estate assets. She discussed the attractive market opportunities available to the Fund, the team's experience, investment strategy, and relationship with the WSIB. She noted several risks of the investment, including market and key person risks.

Mr. Humphrey, Courtland Partners, discussed current market conditions, the Fund's size, average deal size, length of the investment period, market timing, historic performance of Lone Star, and the experience of the management team.

The Committee discussed investment pricing and timing, mistakes made by other firms, unique distressed opportunities, market conditions, and the impact of this recommendation on the Real Estate Annual Plan. Further discussion ensued regarding the firm's top management, skill sets, experience, knowledge of market cycles, underwriting process, and expertise.

Mr. Grayken and Mr. Paletta, Lone Star Partners, introduced themselves and described the firm's investment strategy, the Fund's target returns, and Lone Star's historical performance. They focused in some depth on market conditions in Japan and Europe, current U.S. market conditions and trends, and the associated investment opportunities.

The Committee discussed regulatory impact, current market conditions, which tranches of debt would be of interest to Lone Star, issues in the market caused by sub-prime mortgages, investment opportunities in the existing environment, competition, and the cause and effect of the current market situation.

[Mr. Seely was no longer in attendance at 1:43 p.m.]

Mr. Masten moved that the Private Markets Committee recommend to the Board an investment of up to \$600 million, plus fees and expenses, in Lone Star Fund VI (U.S.), L.P., subject to continuing due diligence and final negotiation of terms and conditions. Mr. Gorton seconded.

The Committee discussed the firm's historic performance and its expertise.

The motion carried unanimously.

PRIVATE MARKETS CLOSING LOG

The Private Markets Closing Log was presented for informational purposes. Mr. Kaminski asked about the status of the Kitson Evergreen partnership. Mr. Draper noted that it is progressing satisfactorily and that the firm has not yet needed the capital.

OTHER ITEMS

There being no further business to come before the Committee, the meeting adjourned at 1:46 p.m.