

**WASHINGTON STATE INVESTMENT BOARD
Private Markets Committee Meeting Minutes
June 5, 2008**

The Private Markets Committee met in open public session at 9:04 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
George Masten
Sandy Matheson
David Nierenberg
Jeff Seely

Members Absent: Treasurer Michael Murphy

Other Board Members Present: Mason Petit

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
Brian Roberts, Investment Officer – Private Equity
Steve Draper, Senior Investment Officer – Real Estate
Tripp Gantt, Investment Officer – Real Estate
Ceri Walker, Investment Officer – Real Estate
Linda Buchanan, Administrative Assistant

Brian Buchholz, Assistant Attorney General
David Woolford, Capital Dynamics
Bill Macaulay, First Reserve Corporation
Mark McComiskey, First Reserve Corporation
Alex Krueger, First Reserve Corporation
Cathleen Ellsworth, First Reserve Corporation
Steve Schwarzman, Blackstone Capital Partners
Wesley Edens, Fortress Investment Group
Timothy Bernardez, Evergreen Pacific Partners
T. J. McGill, Evergreen Pacific Partners
Michael Nibarger, Evergreen Pacific Partners
Michael Humphrey, Courtland Partners
Tom DeFranco, Courtland Partners
Craig Wrench, Washington Real Estate Holdings
Richard Anderson, Washington Real Estate Holdings
David Millard, Washington Real Estate Holdings
Dan Schulte, Principal Enterprise Capital
Chris Beale, Alinda Capital 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 9:04 a.m. with Chair McElligott identifying members present.

ADOPTION OF THE APRIL 3, 2008, MINUTES

Mr. Gorton moved to adopt the minutes of April 3, 2008. Ms. Matheson seconded, and the motion carried unanimously.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – FIRST RESERVE FUND XII, L.P.

Mr. Bruebaker explained that staff and consultants would use a new format to present the recommendations and not reiterate information already provided in the written material provided in the packet. This would give the Committee more time to interact with the presenters.

Mr. Roberts introduced himself and said that staff recommends an investment of up to \$400 million in First Reserve Fund XII, L.P., an energy industry large buyout fund that will invest in a global portfolio of companies diversified across several industry sectors. He summarized the firm's history with the WSIB, strategy, proven team, franchise and brand, consistent top returns, portfolio fit, increased fund size, investment pace, key person issue, generational transition, sector diversification, favorable energy market trends, and exuberant investor demand. Staff and Capital Dynamics completed significant due diligence. The investment was originally expected to come to the Committee in 2009; therefore, it was not included in the 2008 Private Equity Annual Plan approved by the Board. This investment, if approved, would replace other allocations in the 2008 plan that were moved to 2009.

The Committee discussed portfolio company valuations and performance.

Mr. Woolford, Capital Dynamics, introduced himself and stated that Capital Dynamics recommends an investment of \$400 million. He summarized the manager's exceptional results, thoughtful and insightful decision process, the fund's diversification within the energy sector, and the WSIB's increased exposure.

The Committee discussed uranium reserves, nuclear power, increase in the WSIB's commitment proportion, and the impact on the private equity allocation.

Ms. Ellsworth, Mr. McComiskey, Mr. Macaulay, and Mr. Krueger, First Reserve Corporation, introduced themselves and described the firm's history with the WSIB, industry focus, experience and tenure, reputation, value-added investment strategy, structure, investment teams, consensus-based decision-making process, performance with strong returns across multiple cycles, discipline, diversified portfolio across global energy sectors, broad knowledge base, relatively low use of leverage, current market conditions, and investment opportunities.

The Committee discussed the insurance portion of the portfolio, renewable and alternative energy sources, market trends, hindrances to nuclear energy development, manufacturing issues, uranium reserves, aging infrastructure, cost of oil production, legal and political impacts on development, geographic focus, product growth, refurbishment, and level of production.

Ms. Matheson moved that the Private Markets Committee recommend to the Board an investment of up to \$400 million, plus fees and expenses, in First Reserve Fund XII L.P., subject to continuing due diligence and final negotiation of terms and conditions. Mr. Masten seconded.

The Committee discussed the timeliness of the investment.

Mr. Nierenberg stated that he would like staff to explore what the WSIB's overall energy investment strategy should be, whether there are other funds that the WSIB might invest in, and whether there is more the WSIB should be doing in this domain.

The Committee further discussed the volatility of the sector, radical price swings, political risk, and the environmental impact of coal use.

The motion carried unanimously.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – BLACKSTONE CAPITAL PARTNERS VI, L.P.

Mr. Holt introduced himself and stated that staff recommends an investment of up to \$300 million in Blackstone Capital Partners VI, a buyout fund that will invest in classic leveraged buyouts, corporate partnerships, growth equity, and strategic minority investments on a global basis. The WSIB previously invested in Blackstone Capital Partners V. Staff and Capital Dynamics have completed extensive due diligence, and the recommendation is consistent with the 2008 Private Equity Annual Plan approved by the Board. Mr. Holt summarized the merits and issues of this investment, including the firm's brand name, unique global alternative asset platform, experienced team, value creation capabilities, solid performance history, rapid investment pace of Fund V, fund size, organizational growth, current financing and economic environment, and public ownership of the Blackstone group

The Committee discussed concerns about public ownership of the firm.

Mr. Woolford, Capital Dynamics, summarized the firm's reputation, opportunistic approach, impressive operations team, high turnover, European performance, and market trends. He stated that Capital Dynamics recommends an investment of \$300 million.

The Committee discussed the firm's turnover issues, different strategies for investing in Europe and the U.S., knowledge base, global presence, current portfolio companies, plan to improve underperforming companies, staffing, and fund size.

Mr. Schwarzman, Blackstone Capital Partners, introduced himself and discussed the firm's intellectual capital; performance history; competitive advantage; global presence; decision-making process; diversification by sector, size, and geography; value creation; market trends; and investment opportunities.

The Committee discussed the impact of market volatility on investments and opportunities, one of the firm's portfolio companies, the impact of current market conditions on airlines and the travel industry, the different processes for domestic and international investments, and the general partner commitment to Fund VI.

Mr. Gorton moved that the Private Markets Committee recommend to the Board an investment of up to \$300 million plus fees and expenses, in Blackstone Capital Partners VI, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Mr. Masten seconded.

Mr. Kaminski suggested that the proposed investment level be increased to \$400 million to equal the amount invested in the last fund. Discussion ensued regarding the recommended amount.

The motion carried unanimously.

[The Committee recessed at 11:00 a.m. and reconvened at 11:10 a.m.]

PRIVATE EQUITY INVESTMENT RECOMMENDATION – FORTRESS INVESTMENT FUND VI, L.P.

Mr. Holt introduced himself and stated that staff recommends an investment of up to \$300 million in Fortress Investment Fund VI and Fortress Investment Fund VI Coinvestment Fund. The Fund will target control-oriented, cash-flowing investments backed by physical and financial assets, including real estate-related assets, which can be acquired at compelling valuations. The Board has invested in all five prior funds. The investment was originally expected to come to the Committee in 2009; therefore, it was not included in the 2008 Private Equity Annual Plan approved by the Board. This investment, if approved, would replace other allocations in the 2008 plan that were moved to 2009. Staff and Capital Dynamics completed comprehensive due diligence. Mr. Holt summarized the merits and issues of this investment, including the firm's differentiated asset-based strategy; experienced, multi-disciplined management team; performance history; alignment of interest; fit in the WSIB portfolio; key person risk; organizational risk; increased fund size; rapid investment pace; strategy evolution; and public ownership.

Mr. Woolford, Capital Dynamics, summarized the firm's investment pace, differentiated product, investment strategy, and equity markets. He stated that Capital Dynamics recommends an investment of \$300 million.

The Committee discussed the firm's returns and public ownership.

Mr. Edens, Fortress Investment Group, introduced himself and discussed the firm's private equity business, team, sectors, focus on assets and cash flowing businesses, portfolio examples, insurance investments, and experience in distressed markets. He also discussed current market conditions, supply and demand imbalance, and investment opportunities.

Mr. Masten moved that the Private Markets Committee recommend to the Board an investment of up to \$300 million, plus fees and expenses, allocated between Fortress Investment Fund VI, L.P., and Fortress Investment Fund VI Coinvestment Fund, subject to continuing due diligence and final negotiation of terms and conditions. Ms. Matheson seconded, and the motion carried unanimously.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – EVERGREEN PACIFIC PARTNERS II, L.P.

Ms. Kruzel introduced herself and stated that staff recommends an investment of up to \$50 million in Evergreen Pacific Partners II, a lower middle-market private equity fund that will invest primarily in Western North America. The recommendation is consistent with the 2008 Private Equity Annual Plan approved by the Board and, if approved, will create a new investment relationship. Staff and Capital Dynamics conducted extensive due diligence. Staff has tracked and met with the team on a consistent basis for over 5 years. Ms. Kruzel summarized the firm's talented, stable investment team; successful 10-year performance record; proven strategy; strong institutional investor base; fund size; and fit in the WSIB private equity portfolio.

The Committee discussed whether Fund II would make follow-on investments in Fund I portfolio companies.

Mr. Woolford, Capital Dynamics, summarized the firm's performance, discipline, due diligence process, and size. He said that Capital Dynamics supports the staff recommendation.

Mr. Nierenberg cited his prior positive knowledge of this team and strongly endorsed them.

Mr. Bernardez, Mr. McGill, and Mr. Nibarger, Evergreen Pacific Partners, introduced themselves and discussed the firm's cohesive team, investment strategy, geographic and industry focus, investment size, disciplined processes, due diligence, operationally intensive approach, transaction execution, current investors, local presence, robust pipeline, reputation, service providers, current market conditions, and current portfolio companies. They indicated that Evergreen would like WSIB to be a member of the LP advisory board for this fund.

The Committee discussed the firm's size, value-added approach, sector focus, opportunistic approach, and the impact of the fuel economy on the trucking company.

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

[The Committee recessed at 12:28 p.m. and reconvened at 12:48 p.m.]

REAL ESTATE INVESTMENT RECOMMENDATION – WASHINGTON HOLDINGS STRUCTURED FINANCE, LLC – FOLLOW-ON INVESTMENT

Mr. Draper introduced himself, Mr. Gantt, and Mr. Humphrey. Mr. Gantt stated that staff completed extensive due diligence and recommends a follow-on investment of \$400 million in Washington Holdings Structured Finance, which pursues less-risky, income-oriented, moderate-returning structured finance opportunities. He discussed the firm's management team, strong underwriting skills, asset management skills, attractive governance terms, exit risk, illiquidity, structure risk, key person risk, and fit in the WSIB real estate portfolio.

Mr. Humphrey, Courtland Partners, introduced himself and summarized noted the extensive due diligence performed and recommended an investment of \$400 million. He discussed market conditions, increased deal flow, quality of deals, and market volatility.

The Committee discussed the WSIB's ownership position in the partnership as well as the partnership's investments and structure.

Mr. Wrench, Mr. Anderson, and Mr. Millard, Washington Real Estate Holdings, introduced themselves and discussed current market conditions, the firm's long relationship with the WSIB, performance, moderate use of leverage, disciplined approach, investment strategy, portfolio construction, deal sourcing, transaction pipeline, and their team.

The Committee discussed borrower rights, inter-creditor agreements, early payoff discounts, prepayment penalties, defeasance penalties, targeted portfolio weights, capital positioning within the debt stack, and deal sourcing.

Mr. Masten moved that the Private Markets Committee recommend to the Board an additional investment of \$400 million, plus fees and expenses, in Washington Holdings Structured Finance, LLC, subject to continuing due diligence and final negotiation of terms and conditions. Ms. Matheson seconded, and the motion carried unanimously.

REAL ESTATE INVESTMENT RECOMMENDATION – PRINCIPAL ENTERPRISE CAPITAL HOLDINGS, LLC – FOLLOW-ON INVESTMENT, RESTRUCTURE, AND GEOGRAPHIC EXPANSION

Mr. Draper introduced himself and Mr. Humphrey. Mr. Draper stated that staff recommends a follow-on investment of \$400 million in Principal Enterprise Capital Holdings. The recommendation is consistent with the 2008 Real Estate Annual Plan approved by the Board. Mr. Draper also highlighted that the recommendation includes expansion of the partnership's target geography to a global mandate and changes to the terms of the partnership. He discussed staff's extensive due diligence, the firm's long-term relationship with the WSIB, attractive returns, exclusivity, and positive governance rights. He noted that operating risk was the most significant risk in the proposal; also, that the PEC team lacked experience outside the U.S., but had a careful approach.

Mr. Humphrey, Courtland Partners, recommended an investment of \$400 million and summarized the firm's investment model, performance, talented team, alignment of interest, reputation, exit flexibility, restructuring, market conditions, management fees that are below industry averages, and operating risk.

The Committee discussed the firm's relationship with the parent company, Principal Financial Group, and protections inherent in the agreement should the parent company choose not to invest in real estate any longer.

Mr. Schulte, Principal Enterprise Capital, introduced himself and explained the firm's investment strategy, team, assets, strategic objectives, long-term ownership, operational focus, private equity business model, value creation, chronology of investment, evolving sector themes, performance, current gross assets, structure, geographic and sector focus, and investment trends.

The Committee discussed transaction size, local partners, geographic expansion, deal sourcing, global networks and relationships.

Ms. Matheson moved that the Private Markets Committee recommend to the Board an additional investment of up to \$400 million, plus fees and expenses, in Principal Enterprise Capital Holdings, LLC, the restructuring of the Partnership as explained in the confidential memorandum provided by staff, and expansion of the Partnership's target geography to a global mandate, subject to continuing due diligence and final negotiation of terms and conditions. Mr. Gorton seconded and the motion carried unanimously.

[The Committee recessed at 1:58 p.m. and reconvened at 2:09 p.m.]

TANGIBLE ASSETS INVESTMENT RECOMMENDATION – ALINDA INFRASTRUCTURE FUND II

Ms. Walker introduced herself. Ms. Walker stated that staff recommends an investment of \$400 million in Alinda Infrastructure Fund II, which will invest in the industrial, energy, and public sectors located mainly in North America with up to 25 percent in Europe. The recommendation is consistent with the 2008 Tangible Assets Annual Plan approved by the Board. Staff has conducted significant due diligence, and the WSIB previously invested in Fund I. Ms. Walker summarized the firm's experienced team, history, independence, concentration on income, performance, operating risk, and generational transition concerns.

Mr. Humphrey, Courtland Partners, introduced Mr. DeFranco. Mr. DeFranco recommended an investment of \$400 million, and explained the extensive due diligence conducted by Courtland Partners and discussed Alinda's experience, performance, reduced management fees, independently owned entity, generational issues, and exit strategies.

The Committee discussed the firm's succession issues, experience, exit strategies, political risk, deep experience with foreign operators, privately owned roads, and key person risk. It was noted that the partners in Alinda Capital have invested a large part of their personal net worth in their funds.

Mr. Beale, Alinda Capital Partners, introduced himself and discussed the advantages and characteristics of infrastructure investing, including monopoly positions, inflation-linked returns, long-term investments, and low volatility. He outlined elements of the firm's strategy including duration, investment grade ratings on debt, target size, geographic focus, successful

differentiated strategy, value-added investments, deal sourcing, Fund 1 investments, average transaction size, and geographic and sector focus. He referred to Alinda's reputation, experienced team, principals, history, and long-term incentive plans.

The Committee discussed the firm's road and utilities investments, deal sourcing, focus on industrial rather than social infrastructure, management teams, Heathrow investment, exit strategies, and ability to take public entities private.

Mr. Gorton moved that the Private Markets Committee recommend to the Board an investment of \$400 million, plus fees and expenses, in Alinda Infrastructure Fund II, subject to continued due diligence and final negotiation of terms and conditions. Ms. Matheson seconded, and the motion carried unanimously.

[Ms. Matheson was no longer in attendance at 2:49 p.m.]

PRIVATE EQUITY CONTRACT EXTENSION – PATHWAY CAPITAL MANAGEMENT

Ms. Fowler introduced herself and said that staff recommends execution of the remaining three 1-year extensions of the Pathway contract. Staff has performed extensive due diligence. Ms. Fowler discussed the firm's experienced management team, ability to access quality partnerships, performance, proprietary system, excellent fit in the WSIB portfolio, and the venture capital market.

The Committee clarified that this recommendation does not entail an additional capital commitment and maintains the ability of the WSIB to cancel the contract at any time. Committee members discussed whether the WSIB should reconsider venture capital as a sector in the portfolio and Pathway's investment strategy.

Mr. Masten moved that the Private Markets Committee recommend to the Board execution of the remaining three 1-year extensions of the Pathway Capital Management contract. Mr. Gorton seconded, and the motion carried unanimously.

PRIVATE EQUITY CONTRACT EXTENSION – INVESCO PRIVATE CAPITAL

Ms. Fowler introduced herself and said that staff recommends execution of the remaining three 1-year extensions of the INVESCO contract at rates of \$58,350, \$60,100, and \$61,900. She stated that the contract may be terminated with a 5-day written notice, and that INVESCO has performed the services of the contract to staff's satisfaction.

Mr. Bruebaker commented that INVESCO is doing a fine job, but just wanted to inform the Committee that staff is exploring other options.

Mr. Gorton moved that the Private Markets Committee recommend to the Board execution of the remaining three 1-year extensions of the INVESCO Private Capital contract at rates of \$58,350, \$60,100, and \$61,900. Mr. Masten 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 3:12 p.m.