

**WASHINGTON STATE INVESTMENT BOARD  
Private Markets Committee Meeting Minutes  
September 4-5, 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 (in person Sept. 4, teleconference Sept. 5)  
John Magnuson  
Allan Martin  
George Masten  
Sandy Matheson  
David Nierenberg  
Jeff Seely (September 4)

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  
Brian Roberts, Investment Officer – Private Equity  
Steve Draper, Senior Investment Officer – Real Assets  
Linda Buchanan, Administrative Assistant  
  
Steve Dietrich, Assistant Attorney General  
Thomas Kubr, Capital Dynamics  
Peder Prah, Triton Partners  
Marco Attolini, Triton Partners  
Carl Evald Bakke-Jacobsen, Triton Partners  
J. Gordon Bonnyman, Charterhouse Capital Partners  
Duncan Aldred, Charterhouse Capital Partners  
Frank Tang, FountainVest Partners  
George Chuang, FountainVest Partners  
Michael Humphrey, Courtland Partners  
Rich Cline, Hometown America  
Garret House, Evergreen Investment Advisors  
Don Suter, Evergreen Investment Advisors

[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. September 4, 2008, with Chair McElligott identifying members present.

**ADOPTION OF THE JUNE 5 AND JULY 11, 2008, MINUTES**

**Mr. Gorton moved to adopt the minutes of June 5 and July 11, 2008.**

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

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

Mr. Roberts introduced himself and said that staff was recommending an investment of up to €100 million (approximately U.S. \$150 million) in Triton Fund III, L.P., a €1.9 billion (target) mid-market European buyout fund. He explained that Triton would invest in global and regional mid-market companies headquartered within the German-speaking and Nordic countries in the business services, industrials, and consumer industries. If approved, Triton would be a new general partner relationship for the WSIB. Mr. Roberts stated that the recommendation was consistent with the private equity annual plan approved by the Board in January 2008.

Mr. Roberts described the firm's deep multinational team, talented leadership, decentralized management structure, strong performance, focused strategy, investment discipline, well-developed sourcing platform, strategic partnerships with leading European players, market environment, investment opportunities, excellent fit in the WSIB's portfolio, limited number of prior funds and realized track record, difficult start to Triton I and subsequent restructure, early staff turnover, increasing competition, and growing fund size.

The Committee discussed the firm's performance, early write-offs in the portfolio, restructure, turnover, and Fund IA.

Mr. Kubr, Capital Dynamics, introduced himself and stated that Capital Dynamics recommended an investment of up to €100 million. He discussed the advantages of diversifying the WSIB's portfolio by expanding into Europe and away from large mega funds. He stated that Triton is a good firm and expected to be one of the top performers and a future core relationship in Europe.

The Committee discussed the firm's industry sector focus and flexibility, competition with other WSIB partnerships, investment discipline, team approach with horizontal integration, number of board seats held per partner, and prior experience.

[Mr. Kaminski was in attendance at 9:12 a.m.]

Mr. Prah, Mr. Attolini, and Mr. Bakke-Jacobsen, Triton Partners, introduced themselves and discussed the investment landscape in the Nordic region and described the firm's investment model, lessons learned from past mistakes, value-creation approach, investment discipline, due diligence process, regional and industry focus, reputation in core market, deal flow, relationships with lenders, deal sourcing, portfolio companies, performance, systematic management of value creation, clear strategy, alignment of interests, investment cycles, and the Triton team.

The Committee asked about the firm's investment strategy, long-term vision, management fees, due diligence process, use of leverage, deal sourcing, competition and its effect on prices, proprietary deals, and patient disciplined approach. Mr. Nierenberg also asked whether a larger commitment amount would be available.

The Committee members and staff discussed the firm's well-executed niche strategy, the WSIB's need to expand in the mid-market area, fee structure, portfolio exposure in the Nordic region, and size of commitments to other partners. Significant discussion ensued regarding the impact on the overall WSIB private equity portfolio if a larger commitment amount was recommended, staff's process in forming the annual plan, and the desire for the Committee to be involved in that process.

**Mr. Masten moved that the Private Markets Committee recommend to the Board an investment of up to €150 million, plus fees and expenses, in Triton Fund III, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Mr. McElligott seconded.**

The Committee discussed the fund's fit in the WSIB portfolio, allocation considerations, how the Committee could reduce other commitments this year to offset this increase, the need to allocate more in the middle-market buyout arena, increasing competition, growing fund size, balance of merits and risks, changing market conditions, and market cycles.

Mr. Gorton stated that he would vote against the larger commitment amount.

Mr. Kubr said that Capital Dynamics can support the larger amount if the amount is equally reduced elsewhere.

**The motion carried with Mr. Gorton voing no.**

[The Committee recessed at 10:30 a.m. and reconvened at 10:43 a.m.]

#### **PRIVATE EQUITY INVESTMENT RECOMMENDATION – CHARTERHOUSE CAPITAL PARTNERS IX, L.P.**

Ms. Fowler introduced herself and stated that staff was recommending an investment of up to €200 million (approximately U.S. \$300 million) in Charterhouse Capital Partners IX, a €6 billion (target) fund that would focus on management buyouts, corporate restructurings, and similar transactions in a small number of high quality investments. She noted that Charterhouse targets large, established companies primarily headquartered in Western Europe, with a focus on the United Kingdom and France. The WSIB has invested in three prior Charterhouse funds. Ms. Fowler said that an investment in Fund IX would provide the opportunity for the WSIB to expand its relationship with a high quality European partner. She discussed the firm's experienced, stable investment team; performance; strategy; and extensive network that provides strong deal flow. Ms. Fowler stated that the recommendation was consistent with the private equity annual plan approved by the Board in January 2008.

Mr. Kubr, Capital Dynamics, said that Capital Dynamics has invested with Charterhouse for many years and has been delighted that the WSIB also invested with the firm. He discussed Mr. Bonnyman's planned retirement at the completion of this fund. He stated that because of Charterhouse's deep team and succession plan, he did not expect any problems.

The Committee discussed the size and number of deals actively managed per partner.

Mr. Bonnyman and Mr. Aldred, Charterhouse Capital Partners, introduced themselves and discussed the firm's strategy, regional focus, history, investment team, wide target range, leverage ratios, fund target size, low profile, opportunistic approach, flexibility, rate of returns,

one-office one-team approach, high quality deal flow, low capital loss ratio, and alignment of interests.

The Committee discussed portfolio companies, investment strategy, and competition.

**Ms. Matheson moved that the Private Markets Committee recommend to the Board an investment of up to €200 million plus fees and expenses, in Charterhouse Capital Partners IX, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Mr. Gorton seconded and the motion carried unanimously.**

### **PRIVATE EQUITY INVESTMENT RECOMMENDATION – FOUNTAINVEST CHINA GROWTH FUND, L.P.**

Mr. Holt introduced himself and stated that staff was recommending an investment of up to \$50 million in FountainVest China Growth Fund, L.P., a \$940 million private equity fund that would seek long-term capital appreciation by investing in privately held companies led by dynamic, local Chinese entrepreneurs. Mr. Holt explained that this was a promising first time fund. Although the fund has fully closed with all other investors, \$50 million was held for the WSIB if the Board approves the proposed investment. Mr. Holt discussed the firm's experienced and cohesive investment team, attractive and unique strategy, successful prior track record, compelling macro environment, emerging market risk, country concentration risk, and political risk. If approved, this investment would create a new general partner relationship for the WSIB. Mr. Holt said that the emerging market recommendation was consistent with the private equity annual plan approved by the Board in January 2008.

Mr. Kubr, Capital Dynamics, discussed risks associated with first time funds and stressed that investing in China, or in other emerging markets, carries high risks due to less stable legal and political situations, and cited the recent situation in Georgia as an example. He described the detailed due diligence performed by Capital Dynamics, the background of the partners, and the promising potential of the fund.

The Committee discussed the firm's investment strategy, portfolio companies that improve the environment and fight global warming, government regulations, reference calls, other investors, and the fact that this is a first time find.

Mr. Tang and Mr. Chuang, FountainVest Partners, introduced themselves and discussed the firm's history, investment team, performance, investment strategy, unique investment opportunities, development of socially responsible enterprises, key investment sectors, offices, geographic focus, investment size, cohesive team, disciplined approach, institutional approach, strong local experience, international training, current market conditions, and investment opportunities.

The Committee discussed the firm's strategy of taking minority positions in privately owned companies, standard protective provisions, adjudicative procedures, use of international law, alignment of interest with partners, political environment, investment themes and weighting,

sustainable development, geographic focus, demographics, valuations, the team's experience, and forestry products.

**Mr. Gorton moved that the Private Markets Committee recommend to the Board an investment of up to \$50 million, plus fees and expenses, in FountainVest China Growth Capital Fund, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Ms. Matheson seconded.**

The Committee discussed reference checks and requested that further calls be made and information provided.

**The motion carried unanimously.**

The Committee adjourned for the day at 12:13 p.m.

The meeting reconvened at 9:00 a.m. on September 5, 2008, with Chair McElligott identifying members present.

Mr. Nierenberg said that he made contact with another firm that has made an investment in FountainVest, and the reference was very positive. Chair McElligott stated that the Committee was now comfortable with moving forward with the recommendation.

#### **REAL ESTATE INVESTMENT RECOMMENDATION – HOMETOWN AMERICA HOLDINGS, LLC, FOLLOW-ON INVESTMENT**

Mr. Draper introduced himself and stated that staff was recommending an additional investment of \$400 million in Hometown America Holdings, LLC, a real estate operating company focused on owning and operating manufactured housing communities and other residential property. The WSIB initially invested in the Company in 1998. Mr. Draper said that the recommendation was consistent with the update to the Board-approved 2008 real estate annual plan. Mr. Draper explained that Hometown was a long-term partner, has been very successful for more than a decade, would continue to invest in low volatility properties that are generally counter-cyclical in nature, and has a deep and robust pipeline. He discussed market risk, operating risk, and current market conditions affecting the Company.

Mr. Humphrey, Courtland Partners, introduced himself and discussed the firm's investment strategy, performance, current market conditions, and the potential impact of the lending crisis, specifically the struggles of Fannie Mae.

The Committee discussed the lending portion of Hometown's business, financing opportunities, use of leverage, market trends, and integration and performance of the new chief operating officer.

Mr. Cline, Hometown America, introduced himself and described the firm's business of owning and operating manufactured housing communities, target demographics, geographic diversity, growth and history of the firm, portfolio concentration, net operating income growth, market conditions,

low delinquencies and write offs due to improved collections, stable property occupancy trends, home sales and financing, repossessions, and potential investment opportunities.

The Committee discussed Hometown's approach to repossessions, sales of properties, and home sales.

[Mr. Nierenberg was no longer in attendance at 9:34 a.m.]

**Mr. Gorton moved that the Private Markets Committee recommend to the Board an investment of up to \$400 million, plus fees and expenses, in Hometown America, LLC, subject to continuing due diligence and final negotiation of terms and conditions. Mr. Masten seconded.**

The Committee discussed the impact of hurricanes and new building codes for manufactured homes put into place since 1994.

**The motion carried unanimously.**

#### **REAL ESTATE INVESTMENT RECOMMENDATION – EVERGREEN REAL ESTATE PARTNERS, LLC, FOLLOW-ON INVESTMENT**

Mr. Draper stated that staff was recommending a follow-on investment of \$500 million in Evergreen Real Estate Partners, LLC, and changes to certain terms of the WSIB's agreement with Evergreen. The WSIB initially invested with Evergreen in 2005. Mr. Draper said that the recommendation was consistent with the Board-approved 2008 real estate annual plan. Mr. Draper discussed the firm's investment strategy, high quality portfolio, strong and talented team, and highlighted key risks, including operating risks, development risk, and exit opportunities.

Mr. Humphrey, Courtland Partners, discussed the firm's investment strategy and opportunities, political connections, and market conditions.

The Committee discussed the proposed changes to the terms and conditions, alignment of interest, incentives, general market terms, performance, the expected time it would take for investments to show profits, and the potential impact and timing of the proposed changes to the terms.

Mr. House and Mr. Suter, Evergreen Investment Advisors, introduced themselves and discussed the firm's investment platform, net returns, sector focus, geographic focus, business plan for next 12 months, investment strategies, management team, current market conditions, and discussed their current portfolio. He described the benefits of the broader M3 organization to identify and execute deals.

The Committee discussed investment strategies, target market areas, and the student housing platform.

**Mr. Masten moved that the Private Markets Committee recommend to the Board an additional investment of \$500 million, plus fees and expenses, in Evergreen Real Estate Partners, LLC, subject to continuing due diligence and final negotiation of terms and conditions. Ms. Matheson seconded.**

Mr. Martin stated that he would vote no at the Private Markets Committee because he needs further clarification of the changes in the terms.

The Committee discussed the importance of properly incentivizing the WSIB's partners, fair compensation, market trends, alignment of interest, the WSIB's reputation in the marketplace, timing and applicability of the change in terms to prior periods, and the return to the beneficiaries.

**The motion carried with Mr. Martin voting no.**

[The Committee recessed at 10:23 a.m. and reconvened at 10:36 a.m.]

#### **TANGIBLE ASSETS INVESTMENT RECOMMENDATION – TANGIBLE ASSETS CO-INVESTMENT, LLC**

Mr. Draper explained that, consistent with the 2008 tangible assets annual plan approved by the Board, staff was recommending a commitment of \$250 million to Tangible Assets Co-Investment, LLC (TAC). He stated that TAC would be the legal vehicle through which the WSIB would undertake co-investments with existing WSIB Tangible Asset investment partners and on tangible asset transactions with existing WSIB Real Estate investment partners. TAC would be managed by WSIB staff with the assistance of external consultant(s) and external legal counsel. Individual investment decisions would be at staff discretion, upon an affirmative recommendation by TAC's consultant. The Executive Director and Chief Investment Officer would have final review and approval of all transactions. Mr. Draper explained that the proposed platform was designed to mirror the real estate co-investment fund. He stated the primary goal of TAC is as a portfolio management tool to influence diversification and focus more capital on transactions that are income oriented. Mr. Draper discussed concentration risk, staff's expertise and experience, and the target investment areas of timber, agriculture, infrastructure, natural resource rights, and commodities.

Mr. Humphrey, Courtland Partners, explained that the platform would allow access to co-investment deal flow of the WSIB's partners, provide a good opportunity to get exposure to some of these assets, the short time frames allowed for approval of the opportunities, the potential to negotiate better fees on co-investments than on the underlying funds, the pool of excellent fund managers already approved by the Board, exit and liquidity concerns, and staff capacity.

The Committee discussed that investments would only be made with current partners, portfolio fit, long-term goals, target returns (income generation plus appreciation commensurate with inflation), confidence in staff's ability, and staff workloads.

Mr. Magnuson asked Courtland Partners to use larger font size and graphs in their reports to the Committee.

**Ms. Matheson moved that the Private Markets Committee recommend to the Board an investment of \$250 million, plus fees and expenses, in Tangible Assets Co-Investment, LLC, subject to continuing due diligence and completion of terms and conditions. Mr. Gorton seconded.**

The Committee discussed the reporting process and the flexibility to invest in areas that require a quick turn-around. Mr. Draper noted the Board's ability to end the program at any time.

**The motion carried unanimously.**

#### **2009 MEETING SCHEDULE**

**Mr. Masten moved that the Private Markets Committee schedule its 2009 meetings. 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 10:55 a.m. on September 5, 2008.