

**WASHINGTON STATE INVESTMENT BOARD
Private Markets Committee Meeting Minutes
November 5-6, 2008**

The Private Markets Committee met in open public session at 9:00 a.m. at Mercato's Ristorante in Olympia, Washington.

Members Present: Patrick McElligott, Chair (November 6)
Glenn Gorton
Charles Kaminski
George Masten
Sandy Matheson
Treasurer Mike Murphy (evening of November 5, and November 6)
David Nierenberg
Jeff Seely

Members Absent: John Magnuson

Other Board Members Present: Mason Petit
Judy Schurke (November 5)

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 Kruzel, Investment Officer – Private Equity
Mo Mooers, Investment Officer – Private Equity
Brian Roberts, Investment Officer – Private Equity
Steve Draper, Senior Investment Officer – Real Assets
Diana Will, Senior Investment Officer – Asset Allocation
Linda Buchanan, Administrative Assistant

Brian Buchholz, Assistant Attorney General
Steve Dietrich, Assistant Attorney General
Thomas Kubr, Capital Dynamics
David Woolford, Capital Dynamics
Christian Diller, Capital Dynamics
George Roberts, Kohlberg Kravis Roberts and Co.
Mike Michelson, Kohlberg Kravis Roberts and Co.
Dominique Hansen, Kohlberg Kravis Roberts and Co.

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

The meeting convened at 9:11 a.m. November 5, 2008, at Mercato's Ristorante, with Acting Chair Gorton identifying members present.

The Acting Chair announced that the Committee would go into executive session 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 WSIB or would result in private loss to the providers of the information. The executive session was expected to last approximately 10 hours, at which time the Committee would adjourn for the day.

REVIEW OF ILLIQUID ASSETS ALLOCATIONS

PRIVATE EQUITY ANNUAL PLAN

The Committee reconvened in open public session and adjourned for the day at 6:30 p.m.

The meeting reconvened at 9:07 a.m. on November 6, 2008, at the Washington State Investment Board with Chair McElligott identifying members present.

ADOPTION OF THE SEPTEMBER 4 AND 5, 2008, MINUTES

Mr. Gorton moved to adopt the minutes of September 4 and 5, 2008.

Ms. Matheson seconded, and the motion carried unanimously.

The Chair announced that the Committee would go into executive session 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 WSIB or would result in private loss to the providers of the information. The executive session was expected to last approximately 45 minutes, at which time the Committee would reconvene in open public session.

REVIEW OF ILLIQUID ASSETS ALLOCATIONS

PRIVATE EQUITY ANNUAL PLAN

[The Committee reconvened in open public session at 10:50 a.m.]

[The Committee recessed at 10:50 a.m. and reconvened at 11:06 a.m.]

PRIVATE EQUITY INVESTMENT RECOMMENDATION – KKR 2009 FUND, L.P.

Mr. Ruggels introduced himself and Mr. Mooers. Mr. Mooers stated that staff recommends an investment of up to \$750 million in KKR 2009 Fund, L.P., a mega-cap buyout fund being raised by Kohlberg Kravis Roberts and Co. (KKR). The fund will target large, franchise-leading businesses in North America and will co-invest in investments made by KKR's European and Asian Funds. KKR has been a long-term investment partner of the WSIB. Since 1982, the Board has committed more than \$7.3 billion to 16 KKR-sponsored investments. He stated that this was an opportunity to expand an important long-term relationship with the WSIB and discussed the firm's strong franchise, extensive resources and expertise, large global staff, strong investment performance, successful value-creation strategy, institutionalized decision-making and monitoring processes, and fit in the WSIB private equity portfolio. Mr. Ruggels discussed portfolio concentration issues, management succession, rapid growth of the firm, expansion of product lines, plans for the firm to go public, and the potential impact of current market conditions on KKR's unrealized portfolio.

Mr. Woolford introduced himself and Mr. Kubr, Capital Dynamics, and discussed KKR's long relationship with the WSIB, stability, experience, impressive team, reputation, expanded practice with single investment committee, in-house operational consultancy, reorganization, public offerings, extensive network, competing demands on executive managers' time, performance, management fees, and current internal rates of return (IRRs). He said that Capital Dynamics also recommends an investment of \$750 million in KKR 2009 Fund.

The Committee discussed quartile thresholds and IRR impacts on vintage year investments.

Mr. Roberts introduced himself, Mr. Michelson, and Ms. Hansen, Kohlberg Kravis Roberts and Co., and discussed current market volatility, limited credit availability, historic perspective of similar cycles, portfolio investments in sound companies, interesting opportunities to make good investments in high-quality companies, due diligence processes, and investment discipline. Mr. Michelson discussed the WSIB's relationship with KKR and the firm's past performance, expertise, experienced investment team, deep industry knowledge, relationships, global reach, internal processes, emphasis on value-creation with substantial resources, strong global team, proprietary deal sourcing, KKR Capstone's operating team, investment approach, current portfolio, industry and geography diversification. He also discussed market cycles, trends, and opportunities.

The Committee discussed the impact of less available leverage on the global market, KKR's disciplined investment approach, the current credit crisis, what will help reverse the trend, target fund size for KKR 2009 Fund, expected drawdown period for the fund, and changes to reported portfolio earnings. The Committee also discussed the possible dilution of partners' time due to KKR's growth and expansion, and the potential impact of KKR becoming a public company, including alignment of interests.

Mr. Masten moved that the Private Markets Committee recommend to the Board an investment of up to \$750 million, plus fees and expenses, in KKR 2009, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Ms. Matheson seconded.

Mr. Bruebaker stated that this investment is a clear indication of the impact of the denominator effect and that while \$750 million commitment recommended by staff is large, it would have been larger if the WSIB had not experienced the substantial reduction in its public equity portfolio and the related decrease in the denominator of the asset allocation equation. He said that staff's commitment to KKR and private equity remains strong, but the WSIB's capacity to make commitments and stay within the target asset allocation has diminished.

The motion carried unanimously.

PRIVATE EQUITY ANNUAL PLAN

Ms. Matheson moved that the Private Markets Committee recommend that the Board adopt the confidential 2009 Private Equity Annual Plan that was developed in executive session. Mr. Masten seconded, and the motion carried with Treasurer Murphy voting no.

PRIVATE MARKETS CLOSING LOG

The Private Markets Closing Log was presented for informational purposes.

OTHER ITEMS

The Committee discussed performance and reporting standards, the value of attending the annual meetings of the WSIB's general partners, and asked staff to provide a list of recommended meetings to attend.

There being no further business to come before the Committee, the meeting adjourned at 12:40 p.m.