

**WASHINGTON STATE INVESTMENT BOARD
Private Markets Committee Meeting Minutes
April 2, 2009**

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: George Masten, Chair
Glenn Gorton
Steve Hill
Charles Kaminski
Patrick McElligott
Jeff Seely

Other Board Members
Present: Mike Ragan

Members Absent: John Magnuson
Treasurer Jim McIntire
David Nierenberg

Others Present: Theresa Whitmarsh, Acting Executive Director
Gary Bruebaker, Chief Investment Officer
Tom Ruggels, Senior Investment Officer – Private Equity
Janet Kruzel, Investment Officer – Private Equity
Steve Draper, Senior Investment Officer – Real Assets
Steve Lerch, Research Director
Linda Buchanan, Administrative Assistant

Brian Buchholz, Assistant Attorney General
David Woolford, Capital Dynamics
Brian DeFee, Capital Dynamics
Jeffrey Chambers, TA Associates
Michael Child, TA Associates
Todd Crockett, TA Associates
Josh Lerner, Harvard Business School

[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 Masten identifying members present.

ADOPTION OF THE FEBRUARY 5, 2009, MINUTES

Mr. McElligott moved to adopt the minutes of February 5, 2009. Mr. Gorton seconded, and the motion carried unanimously.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – TA XI, L.P.

Ms. Kruzel introduced herself and said that staff recommended an investment of up to \$150 million in TA XI, L.P., a \$3.5 billion (target) growth private equity fund that is being raised by TA Associates, Inc. (TA). The WSIB has invested in three prior TA funds, committing \$15 million directly to TA VIII, and \$20 million to TA IX and \$30 million to TA X through the WSIB's discretionary investment manager, Pathway Capital Management. The Fund will focus on proactively originating investments in profitable middle-market companies with above-average growth in technology, financial and business services, and healthcare and consumer industries predominantly in North America and Western Europe. Ms. Kruzel described the firm's deep, experienced, and well-organized investment team; strong, long-term track record over multiple market cycles; focused investment strategy; proprietary database; strong industry knowledge; relationship with management teams; excellent portfolio fit; diversification across industries; and the impact of current market conditions on unrealized investments. The proposed investment represents the result of staff's long-term efforts over the three prior funds to expand the relationship with this current, top-quality general partner in a segment of the private equity portfolio targeted for increased investment.

The Committee discussed the reason prior funds were invested through Pathway, increased investment size, and reasons for increasing the WSIB's exposure with a direct investment.

Mr. Woolford and Mr. DeFee, Capital Dynamics, introduced themselves and stated that Capital Dynamics concurs with the recommendation. Mr. DeFee discussed the firm's team and culture, deal sourcing, competitive advantages, investment strategy, role of supporting management, economic environment, carry structure, flexibility in negotiating terms, increased deal size, focus on growth-oriented companies, and portfolio performance. He stated that Capital Dynamics also recommends an investment of up to \$150 million.

Mr. Chambers, Mr. Child, and Mr. Crockett, TA Associates, introduced themselves and described the firm's history, team, organization and culture, broad sharing of carry, experience over multiple cycles, multiple offices, proprietary database, increase in portfolio company employees, and historic performance. They discussed the fund's investment strategy, deal origination processes, modest use of leverage, single middle-market private equity focus, key industry sector focus, and portfolio diversification. The firm utilizes a value-added approach and has a strong alignment of interest with company owners. TA Associates is also offering a separate captive sub-debt fund.

Discussion ensued regarding transition and succession processes; rotation of executive committee members; performance of Steve & Barry's, a portfolio company in TA X; weighting in financial services; investment opportunities; and current market conditions.

[Mr. Ragan was in attendance at 9:39 a.m.]

Mr. McElligott moved that the Private Markets Committee recommend to the Board an investment of up to \$150 million, plus fees and expenses, in TA XI, L.P., subject to continuing due diligence and final negotiations of terms and conditions. Mr. Gorton seconded, and the motion carried unanimously.

PRIVATE EQUITY PORTFOLIO STRUCTURE DISCUSSION

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 10 minutes, at which time the Committee would reconvene in open public session.

[The Committee convened in executive session at 9:45 a.m. and reconvened in open public session at 10:02 a.m.]

[Mr. Hill was in attendance at 10:00 a.m.]

Mr. Gorton moved that the Private Markets Committee recommend to the Board the confidential action regarding private equity portfolio construction discussed in Executive Session. Mr. McElligott seconded, and the motion carried unanimously.

[The Committee recessed at 10:03 a.m. and reconvened at 10:15 a.m.]

PRIVATE EQUITY RESEARCH WORKSHOP

Mr. Lerch introduced himself, Mr. Ruggels, and Professor Lerner, Harvard Business School. Professor Lerner described recent research and analyses on private equity, the impact of private equity investments on the economy, the ability of general partners to add value through productivity gains and superior management, and performance persistency. He discussed previous boom-bust cycles in private equity, including the impact of private equity on employment; the impact of increased use of leverage and fee structures; investment timing issues; and the tendency of investors to concentrate more money in larger funds with its implications on portfolio construction. Professor Lerner further explained the negative relationship between increasing fund sizes and performance.

Discussion ensued regarding short-term liquidity issues, general public conviction levels in private equity investing, cycle trends, differences between previous cycles and current conditions, comparison of salaries, labor groups that served on the World Economic Forum research council on private equity, and indicators of changes in the investment environment. The Committee discussed the impact of fund size and returns across time and funds, the impact of changing market caps, relationship focus in investing, investing rationale differences between endowment funds and public pension funds, and the value of private equity investing. The Committee further discussed the potential effect of a more transparent and efficient public markets on private equity, whether investment advantage lies with large global firms or smaller firms, banking industry, deal flow, and value creation.

Mr. Lerner discussed future research projects, including the role of sovereign funds, regulatory questions, how regulatory regimes affect investing, the impact of private equity on labor organizing activity, and comparison of private-equity backed firms with other firms in industry.

[The Committee recessed at 11:40 a.m. and reconvened at 11:56 a.m.]

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 15 minutes, at which time the Committee would reconvene in open public session.

[The Committee convened in executive session at 11:57 a.m. and reconvened in open public session at 12:15 p.m.]

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 12:16 p.m.