

**WASHINGTON STATE INVESTMENT BOARD
Special Private Markets Committee Meeting Minutes
April 15, 2009**

The Private Markets Committee met in open public session at 9:01 a.m. in the boardroom at the Washington State Investment Board in Olympia, Washington.

Members Present: George Masten, Chair
Glenn Gorton (teleconferenced)
Steve Hill (teleconferenced)
Charles Kaminski
David Nierenberg (teleconferenced)
Jeff Seely (teleconferenced)

Members Absent: John Magnuson
Patrick McElligott
Treasurer Jim McIntire

Others Present: Theresa Whitmarsh, Acting Executive Director
Gary Bruebaker, Chief Investment Officer
Tom Ruggels, Senior Investment Officer – Private Equity
Linda Buchanan, Administrative Assistant

Brian Buchholz, Assistant Attorney General
Martha Cassidy, Capital Dynamics
Mike Michelson, Kohlberg Kravis Roberts & Co.
Dominique Hansen, Kohlberg Kravis Roberts & Co.
Johannes Huth, Kohlberg Kravis Roberts & Co. (teleconferenced)

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

The meeting convened at 9:01 a.m. with Chair Masten identifying members present.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – KKR ANNEX FUND

Mr. Ruggels introduced himself and Ms. Cassidy, Capital Dynamics, and said that staff recommended an investment of up to \$94 million in KKR E2 Investors L.P. (the Annex Fund), and an offsetting reduction of up to \$94 million to the WSIB's \$700 million commitment to KKR European Fund III (Europe 3). The WSIB committed \$500 million to KKR European Fund II (Europe 2) in September 2005 and \$700 million to Europe 3 in February 2008. Europe 2 has been fully invested, and the WSIB's commitment has been fully drawn. Europe 3 is early in its investment period and has invested in one company to date. The Annex Fund is being formed to invest in certain portfolio companies of Europe 2 in which KKR anticipates additional capital being invested. Mr. Ruggels explained that the Advisory Committee discussed several options to meet the needs of Europe 2 companies, and that, after much consideration, the Annex Fund proposal was most favored.

Mr. Bruebaker explained that different limited partners have different circumstances and diverse interests making consensus challenging.

The Committee ascertained that investments would be in specifically targeted companies rather than broadly invested across the portfolio and would be structured to be attractive investments for the Annex Fund on a stand-alone basis. They discussed management and carry fees, offset fees, calculations made on an after-tax basis, ongoing negotiations, preferred returns and hurdle rates, and reimbursement of taxes paid on clawback payments.

Ms. Cassidy, Capital Dynamics, introduced herself and stated that Capital Dynamics also recommends that the WSIB commit the maximum allowed to the Annex Fund, which is approximately \$94 million, and simultaneously reduce the commitment to Fund 3, subject to completion of negotiations and due diligence. She said that the investment is in the best economic interest of the plan. Ms. Cassidy discussed the conflicts of interest of the limited partners and recommended continued discussion regarding the terms, particularly regarding the preferred rate of return and fee reduction.

The Committee discussed whether Europe 3 or the Annex Fund provided greater potential for higher returns, market conditions in Europe, debt availability, and historic returns of investments made during similar economic conditions. Further discussion ensued regarding comparison of KKR's investments to those of their peers in the European market, favorable pricing environment, investment opportunities, investment pacing, disciplined investment approach, and liquidity issues.

Mr. Michelson, Ms. Hansen, and Mr. Huth, Kohlberg Kravis Roberts & Co. (KKR), introduced themselves and discussed current market trends and the firm's investment strategy and discipline. They explained that the Annex Fund would make investments that are attractive on a stand-alone basis. The Annex Fund would be offered to investors in E3 that are also investors in E2 and would be capped at €730 million. They described fees, carried interest, and the investment period. Any remaining funds after the investment period of the Annex Fund will revert to E3. The investment represents no net new commitment, just a transfer of a portion of the E3 commitment to Annex Fund, and provides the WSIB a significant savings in management fees.

Discussion ensued regarding tax provisions and fees.

Mr. Nierenberg commended KKR on taking initiative to raise the Annex Fund at this time as it is a shrewd action to take advantage of market dislocation to produce a better outcome.

Chair Masten moved that the Private Markets Committee recommend to the Board an investment of up to \$94 million plus fees and expenses in KKR E2 Investors L.P. (the Annex Fund) and a corresponding reduction of \$94 million to the WSIB's commitment to the KKR European Fund III, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Mr. Gorton seconded. Chair Masten called the roll, and the motion carried unanimously.

OTHER ITEMS

There being no further business to come before the Committee, the meeting adjourned at 9:52 a.m.