

**WASHINGTON STATE INVESTMENT BOARD
Private Markets Committee Meeting Minutes
September 3, 2009**

The Private Markets Committee met in open public session at 9:03 a.m. in the boardroom at the Washington State Investment Board in Olympia, Washington.

Members Present: George Masten, Chair
Charles Kaminski
Patrick McElligott
Treasurer Jim McIntire
David Nierenberg

Members Absent: Steve Hill
John Magnuson
Jeff Seely

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

Brian Buchholz, Assistant Attorney General
Thomas Kubr, Capital Dynamics
Howard Marks, Oaktree Capital Management
Bruce Karsh, Oaktree Capital Management
Steve Kaplan, Oaktree Capital Management

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

The meeting convened at 9:03 a.m. with Chair Masten identifying members present.

[Treasurer McIntire was in attendance at 9:04 a.m.]

ADOPTION OF THE APRIL 2 AND 15, 2009, MINUTES

**Mr. McElligott moved to adopt the minutes of April 2 and 15, 2009.
Treasurer McIntire seconded, and the motion carried unanimously.**

[Mr. Kaminski was in attendance at 9:06 a.m.]

**PRIVATE EQUITY INVESTMENT RECOMMENDATION – OAKTREE
OPPORTUNITIES FUND VIII, L.P.**

Ms. Fowler introduced herself and described the two investments that would be presented. She stated that the WSIB has made a conscious decision to invest in distressed debt as a diversifier. Opportunities Fund VIII is a \$5.0 billion (target) fund that will focus on investments in undervalued public bonds and bank debt of financially distressed companies in which value can be

created through management of a bankruptcy reorganization or restructuring outside bankruptcy. The WSIB has committed \$998.6 million to nine prior Oaktree funds.

Ms. Fowler described the firm's strong and experienced investment team; historic performance; successful investment strategy; and market conditions that have created attractive opportunities for distressed investments. Oaktree is a long-time partner with the WSIB, and the proposed investment is an excellent fit in the private equity portfolio. Ms. Fowler said that staff recommended an investment of up to \$250 million in Oaktree Opportunities Fund VIII, L.P. The proposed investment is consistent with the 2009 Private Equity Annual Plan approved by the Board in November 2008.

Mr. Kubr, Capital Dynamics, introduced himself and stated that Capital Dynamics concurs with the recommendation. Mr. Kubr discussed the firm's experience over several investment cycles; risk-adjusted, solid performance; and reputation. He stated that the investment would be a clear diversifier for the WSIB's portfolio, and that Capital Dynamics also recommended an investment of up to \$250 million.

The Committee discussed improvements in the market since the March report, the percentage of distressed debt occupied by Oaktree in the WSIB private equity portfolio, and potential concentration risk.

Mr. Marks and Mr. Karsh, Oaktree Capital Management, introduced themselves and described the fund's investment strategy, current market conditions giving rise to exceptional opportunities, historic and projected returns, fund size, diversified portfolio with high-quality companies, and secured debt position. They provided an update to the performance information provided in the Committee materials, noting improved performance since the first quarter of 2009.

The Committee discussed fees, key man provision, market timing, strength of the team, and the firm's competitive advantage.

Mr. McElligott moved that the Private Markets Committee recommend to the Board an investment of up to \$250 million, plus fees and expenses, in Oaktree Opportunities Fund VIII, L.P., subject to continuing due diligence and final negotiations of terms and conditions. Treasurer McIntire seconded, and the motion carried unanimously.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – OAKTREE PRINCIPAL FUND V, L.P.

Ms. Fowler introduced herself and said that staff recommended an investment of up to \$150 million in Oaktree Principal Fund V, L.P., a \$5 billion (target) fund that will invest globally \$50 million to \$200 million in equity and debt obligations of middle-market companies, combining traditional private equity and distress-for-control investing. If approved, the investment would be the WSIB's second commitment to the principal strategy. Ms. Fowler discussed the difference between the opportunities strategy and the principal strategy. She explained that the opportunities strategy does not have a goal of ultimately controlling a company while the principal strategy makes investments that result in control of middle-market

companies that are held for 3 to 6 years. She discussed the second quarter rebound that resulted in improved performance.

Oaktree Capital Management is an existing relationship, and the proposed investment is consistent with the 2009 Private Equity Annual Plan approved by the Board in November 2008.

Mr. Kubr, Capital Dynamics, introduced himself and stated that Capital Dynamics concurs with the recommendation. Mr. Kubr discussed historical performance and the WSIB's relationship with Oaktree.

Mr. Nierenberg said that the investment follows the same cyclical pattern, and this is an opportune time to invest in this area.

Mr. Marks and Mr. Kaplan, Oaktree Capital Management, introduced themselves and described strategy differences between the opportunities and principal funds; the fund's geographic focus; cyclical environment and current market conditions creating excellent investment opportunities with quality companies; Oaktree's preference not to participate in auctions or use leverage; and value-added approach. They also provided an update of performance numbers for the second quarter.

Discussion ensued regarding transaction dynamics and relationship with companies and existing owners.

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

[The Committee recessed at 10:22 a.m. and reconvened at 10:39 a.m.]

PRIVATE EQUITY MARKET DISCUSSION

Mr. Ruggels explained that the Capital Dynamics private equity performance report for the period ending March 31, 2009 would be presented at the next Board meeting. At that time, Capital Dynamics would normally answer questions and discuss market conditions. However, Capital Dynamics has a conflict with the September Board meeting date; as a result, the Committee chair approved Mr. Kubr presenting the market update at this time.

Mr. Kubr, Capital Dynamics, presented an overview of current market conditions and trends. He discussed the decline in buyout and mezzanine commitments and distributions, the similarity of private equity performance to public equity markets but with a higher return, industry adjustment to a lower use of leverage, the impact of adverse market conditions on mergers and acquisitions and initial public offerings activity, investment opportunities, quarterly performance, and regulatory and public perceptions. Mr. Kubr described modeling assumptions, cash flows, and forecast percentiles corresponding to actual cash flows. He predicted that drawdown activity would pick up before distribution activity does.

Mr. Nierenberg agreed with the forecast, and stated that there will be many attractive investment opportunities.

CAPITAL DYNAMICS ORGANIZATIONAL STRUCTURE DISCUSSION

Mr. Ruggels explained that Capital Dynamics was involved in a restructuring of HRJ Capital and that Thomas Kubr had been asked to summarize the transaction for the Committee.

Mr. Kubr discussed the restructure of HRJ Capital, a fund-of-funds manager founded in 1999 by Harris Barton and Ronnie Lott. In 2008, the HRJ made commitments to funds significantly in excess of its fund-of-funds capacity. The collapse of fundraising, together with other issues, resulted in potential losses of almost \$100 million. Capital Dynamics was chosen in March 2009 to restructure the situation and became the new general partner for all HRJ funds. In June 2008, four individuals, three of whom are connected to WSIB fund investments, provided a \$48 million line (sub-debt) to HRJ Capital to assist in the resolution of the situation. Investors of HRJ funds did not bear any losses from the portfolio restructuring, and the senior lenders will see a 60 to 70 percent recovery of their \$57 million exposure. The transaction will have no negative impact on the culture or business of Capital Dynamics. Benefits of the transaction include a new office in Menlo Park and an increase in staff. Going forward, additional investment staff will be located at the Menlo office.

2010 MEETING SCHEDULE

Mr. Bruebaker explained that the dates presented for consideration by the Committee follow the normal format of meeting on the first Thursday of each month; the exception, in accordance with a Committee member's request and the Chair's approval, is the April 8 meeting.

The Committee discussed other requested changes and whether the dates proposed conflicted with general partner annual meetings. No changes were made to the recommendation presented by staff. Treasurer McIntire requested that notification be made as soon as possible regarding any cancellations.

Mr. McElligott moved that the Private Markets Committee schedule its 2010 meeting dates. Treasurer McIntire 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 11:23 a.m.