

**WASHINGTON STATE INVESTMENT BOARD
Private Markets Committee Meeting Minutes
February 4, 2010**

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
Patrick McElligott
Steve Hill
Treasurer Jim McIntire
Richard Muhlebach
David Nierenberg (teleconferenced)
Jeff Seely

Members Absent: Representative Sharon Tomiko Santos

Others Present: Theresa Whitmarsh, Executive Director
Gary Bruebaker, Chief Investment Officer
Steve Draper, Senior Investment Officer – Real Assets
Tom Ruggels, Senior Investment Officer – Private Equity
Mo Mooers, Investment Officer – Private Equity
Gary Holt, Investment Officer – Private Equity
Linda Buchanan, Administrative Assistant

Steve Dietrich, Assistant Attorney General
David Woolford, Capital Dynamics
Glenn Hutchins, Silver Lake Partners
Evan Feinberg, Silver Lake Partners
Stuart Schonberger, CDH Investments

[Names of other individuals attending the meeting are listed in the permanent record.]

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

The Chair announced that the approval of the minutes would be deferred to later in the meeting due to lack of a quorum.

ECONOMIC UPDATE

Mr. Mooers introduced himself and welcomed Mr. Hutchins of Silver Lake Partners. He explained that Silver Lake Partners is a leading investor in technology. The WSIB has invested in three Silver Lake funds and has a long relationship with the firm.

Mr. Hutchins, Silver Lake Partners, gave an educational presentation to the Committee on the recent financial crisis and a history of events leading to the crisis. Topics included the housing bubble, excessive use of leverage, rating agency failures, government stimulus, global economic impact, the deleveraging process, and the prospects for future growth. He also discussed the impact of current economic conditions on investment opportunities.

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

[Mr. Nierenberg was in attendance via teleconference at 9:06 a.m.]

[Mr. Hill was in attendance at 9:13 a.m.]

[Mr. Nierenberg was no longer in attendance at 9:46 a.m.]

The presentation was interactive, with many questions asked by Committee members.

[The Committee recessed at 10:29 a.m. and reconvened at 10:46 a.m.]

PRIVATE EQUITY INVESTMENT RECOMMENDATION – CDH FUND IV, L.P.

Mr. Holt introduced himself and stated that staff recommends an investment of up to \$25 million in CDH Fund IV, L.P., a \$1.4 billion private equity fund that will invest in both state-owned and privately-owned enterprises in China. The fund will use a disciplined investment approach and strong sourcing network to make minority or control investments in leading Chinese companies and will invest \$50 to \$200 million in target companies. The investment is consistent with the private equity annual plan and model portfolio approved by the Board in January 2010, and adds a new general partner relationship in the underweight Asian market. Mr. Holt explained that staff has been talking to the group for over 3 years, and CDH has been on the short list of top Asian opportunities for some time. Mr. Holt described CDH's long-term track record, experience, and reputation. He discussed concerns, including sovereign risk and emerging markets risk, and reviewed risk mitigating factors. Mr. Holt stated that CDH has also raised a separate pool of capital denominated in local Chinese currency (RMB) for Chinese investors only. He discussed the impact of potential conflicts between the funds and how those conflicts will be mitigated.

The Committee discussed the possibility of a larger investment. The fund is oversubscribed, so more is not available; however, the general partner has assured staff that the relationship will be scalable for future funds, at the WSIB's option. The Committee also discussed the clarification of the management team's level of investment.

Mr. Woolford, Capital Dynamics, introduced himself and stated that CDH is among the first movers in China. Capital Dynamics committed to an investment in the fund in August of last year. Mr. Woolford discussed market conditions in China, CDH's experience, contacts, regional reach, and reputation. He stated that Capital Dynamics also recommends an investment of \$25 million.

The Committee asked Mr. Woolford if the recommendation would be higher if more was available and Mr. Woolford replied affirmatively. The Committee discussed the impact of other investment vehicles, the Cayman domicile, and the impact on the annual plan if a larger investment were made.

Mr. Schonberger, CDH Investments, introduced himself and explained that the fund has closed on U.S. \$1 billion as of December 2009 and is capped at \$1.4 billion, with the final close expected in the first quarter of 2010. He described the firm's strategy, sourcing capabilities, investment team, strong performance, reputation, brand recognition, network, pipeline of investment opportunities, liquidity events, mature and transparent investment approach, focus, and alignment of interests with limited partners. Mr. Schonberger discussed market conditions

in China, growth in the market, sector trends, consolidation trends, and inefficiencies in China's financial system. The fragmented market provides opportunities for growth through consolidation.

Ms. Whitmarsh asked whether returns were driven by domestic demand or export. Mr. Schonberger replied that they were mostly domestic demand. He stated that CDH's competitive edge is understanding domestic demand and finding companies that will take advantage of that demand. He described CDH's geographic sourcing, support and trust of local government, deep expertise and sector knowledge, stability and teamwork, and seasoned dealmakers. CDH has brought in their first operating partner and plans to bring in more in the future.

The Committee discussed the minimal use of leverage, the potential to scale up the size of the WSIB investment, the Cayman base, tax implications, and location of the CDH team.

Mr. McElligott moved that the Private Markets Committee recommend to the Board an investment of up to \$25 million, plus fees and expenses, in CDH Fund IV, 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 OPPORTUNITIES FUNDS VIII AND VIIIb, L.P.

Mr. Ruggels introduced himself and explained that the Board approved a \$250 million investment in Oaktree Opportunities Fund VIII (Opps VIII) in September 2009. The commitment closed in December 2009. Oaktree has notified the WSIB of its plans to cap Opps VIII at \$4 billion in size and organize Oaktree Opportunities Fund VIIIb (Opps VIIIb), with a target size of \$2 billion. Oaktree is recommending that Opps VIII investors consider moving up to one-third of their commitment to Opps VIIIb. Oaktree characterizes the current state of the distressed market as "uncertain" as prices have risen significantly and the supply of distressed assets has declined. If supply picks up, Opps VIIIb will invest alongside Opps VIII. If not, it will be invested afterward. Staff recommended moving up to half of the WSIB's commitment in Opps VIII to Opps VIIIb in order to achieve better time diversification and more consistent exposure to the market.

The Committee discussed the advantages of spreading the investment over a longer time period. The Committee also discussed the fee structure differences and the amount already drawn down in Fund VIII.

Treasurer McIntire moved that the Private Markets Committee recommend to the Board the transfer of up to \$125 million of the WSIB's commitment in Oaktree Opportunities Fund VIII to Oaktree Opportunities Fund VIIIb, subject to continuing due diligence and final negotiations of terms and conditions. Mr. Hill seconded, and the motion carried unanimously.

**REAL ASSETS – REAL ESTATE INVESTMENT PROGRAM POLICY 2.10.600
REVISION**

Mr. Draper introduced himself and explained that the intent of the proposed policy update was to implement adjustments approved at the Real Estate Annual Planning session to the target benchmark. The revision also includes wording to memorialize in policy staff's existing practice regarding the management of investment concentration.

Mr. McElligott moved that the Private Markets Committee recommend the Board approve the proposed revisions to the Real Estate Investment Program Policy 2.10.600. Treasurer McIntire seconded, and the motion carried unanimously.

ADOPTION OF THE JANUARY 7, 2010, MINUTES

**Mr. McElligott moved to adopt the minutes of January 7, 2010.
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 12:02 p.m.