

**WASHINGTON STATE INVESTMENT BOARD
Private Markets Committee Meeting Minutes
April 8, 2010**

The Private Markets Committee met in open public session at 9:13 a.m. in the boardroom at the Washington State Investment Board in Olympia, Washington.

Members Present: George Masten, Chair
Steve Hill
Treasurer Jim McIntire
Richard Muhlebach
David Nierenberg (teleconferenced)

Members Absent: Patrick McElligott
Representative Sharon Tomiko Santos
Jeff Seely

Other Board Members
Present: Judi Owens
Mason Petit (teleconferenced)

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

Chad Standifer, Assistant Attorney General
David Woolford, Capital Dynamics
H. DuBose Montgomery, Menlo Ventures
John W. Jarve, Menlo Ventures
Douglas C. Carlisle, Menlo Ventures

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

The meeting convened at 9:13 a.m. with Chair Masten identifying members present.

ADOPTION OF THE FEBRUARY 4, 2010, MINUTES

Treasurer McIntire moved to adopt the minutes of February 4, 2010.

Mr. Hill seconded, and the motion carried unanimously.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – MENLO VENTURES XI, L.P.

Mr. Ruggels introduced himself and said that staff recommends an investment of up to \$200 million in Menlo Ventures XI, L.P. a multi-stage venture capital fund with a target size of \$800 million that will focus on technology sectors in the U.S.

Menlo Ventures is the WSIB's longest standing private equity relationship. Since 1981, the Board has committed to nine Menlo Ventures funds. The proposed investment is consistent with the private equity annual plan and model portfolio approved by the Board in January 2010.

Mr. Ruggels described the firm's strong franchise; talented, experienced team; long-term performance; differentiated, pro-active strategy; fit in the WSIB's private equity portfolio; focus; consistency; excellent and timely reporting; and investments made within Washington state. Mr. Ruggels discussed the merits of investing in venture capital, changes in the venture capital market, investment cycles, and the importance of diversification within the WSIB private equity portfolio. He further discussed Menlo's performance history, lessons learned, workload, and succession planning.

Mr. Woolford, Capital Dynamics, introduced himself and stated that Capital Dynamics recommends a commitment of the lesser of 25 percent of the amount raised by the general partner or \$200 million. He discussed the WSIB's history with Menlo as a lead investor and described Menlo's workload issues, exit projections, investment strategy, reputation, past performance, and current fund return outlook.

Mr. Nierenberg raised concerns regarding changes in the IPO market and its potential impact on prospective venture returns, returns for the past three Menlo funds, and workload issues. He explained that he was comfortable with the workload issues, but still has concerns on the other points.

Mr. Woolford described alternative exit strategies to IPOs and his outlook for the industry based on these strategies. Mr. Ruggels discussed Menlo's return history and noted the differences in drawdown periods between Menlo funds and other venture funds during the same time period, which contributed to return variances.

The Committee discussed market cycles, exit strategies, and private equity targets for venture capital and growth equity.

[Mr. Petit was no longer in attendance at 10:10 a.m.]

Mr. Montgomery, Mr. Jarve, and Mr. Carlisle, Menlo Ventures, introduced themselves and explained the firm's history, performance record, strong industry relationships, reputation, seasoned team, dedicated professionals, deep expertise, and workload and succession planning. They described the firm's consistent investment approach and focus, disciplined evaluation and monitoring system, and unique deal flow. They discussed market cycles, investment opportunities, reduced competition, and improved pricing. They also described the current portfolio, exit strategies, Fund IX return expectations, Fund X position and outlook, investments made in Washington, and plans for Fund XI, including fees and terms and conditions.

The Committee discussed capacity and workload issues, infrastructure to support board participation, operational influence in portfolio companies, average investment size, number of investors in companies, fund size, other investors, and the size of the investment recommendation.

Treasurer McIntire moved that the Private Markets Committee recommend to the Board an investment of up to \$200 million in Menlo Ventures XI, L.P., not to exceed 25 percent of the fund's commitments, plus fees and expenses, subject to continuing due diligence and final negotiation of terms and conditions. Mr. Hill seconded, and the motion carried unanimously.

Mr. Hill thanked Mr. Nierenberg for his input and questions.

PRIVATE EQUITY – PRIVATE EQUITY INVESTING POLICY 2.10.700 REVISION

Mr. Bruebaker introduced himself and explained that the intent of the proposed policy update was to implement adjustments to the private equity benchmark that were discussed at the private equity annual planning session and approved at the January Board meeting. The retroactive application of the new benchmark will make performance comparable to WSIB's peers and for the analysis for the annual CEM cost effectiveness study.

Mr. Hill moved that the Private Markets Committee recommend the Board approve the proposed revisions to the Private Equity Investing Policy 2.10.700. Treasurer McIntire seconded, and the motion carried unanimously.

PRIVATE MARKETS CLOSING LOG

The Private Markets Closing Log was presented for informational purposes. Mr. Ruggels explained that negotiations were successfully completed for Oaktree Principal Fund V and that changes also favorably impacted Oaktree Opportunities Fund VIII.

OTHER ITEMS

There being no further business to come before the Committee, the meeting adjourned at 11:02 p.m.