

**WASHINGTON STATE INVESTMENT BOARD
Private Markets Committee Meeting Minutes
May 6, 2010**

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
Richard Muhlebach
David Nierenberg (teleconferenced)
Wolfgang Opitz for Treasurer McIntire
Representative Sharon Tomiko Santos
Jeff Seely

Members Absent: Steve Hill
Patrick McElligott

Other Board Members
Present: Judi Owens

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

Chad Standifer, Assistant Attorney General
David Woolford, Capital Dynamics
Christian Diller, Capital Dynamics
Angus C. Littlejohn, Jr., Littlejohn Partners
Michael L. Klein, Littlejohn Partners

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

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

OATH OF OFFICE – WOLFGANG OPITZ

Chair Masten administered the oath of office to Assistant Treasurer Opitz as the State Treasurer's designee per RCW 43.33A.020(4).

ADOPTION OF THE APRIL 8, 2010, MINUTES

Representative Santos moved to adopt the minutes of April 8, 2010.

Assistant Treasurer Opitz seconded, and the motion carried unanimously.

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

Mr. Mooers introduced himself and said that staff recommends an investment of up to \$150 million in Littlejohn Fund IV, L.P., a private equity fund with a target size of \$1.25 billion that will make control investments in companies that are underperforming. Investments are expected to range from \$50 million to \$100 million. In addition to direct control investments, a portion of the fund will be dedicated to making distressed debt investments in middle-market companies. He discussed investment strategy and the coordination between the control equity team and the distressed debt team. Mr. Mooers explained that this would be a new general partner relationship for the WSIB. The proposed investment is consistent with the private equity annual plan and model portfolio approved by the Board in January 2010.

Mr. Mooers described the firm's cohesive and experienced investment team, attractive target market, strong historic performance, and fit in the WSIB portfolio. He reviewed current market trends and potential investment opportunities.

The Committee discussed Mr. Littlejohn's prior association with JLL.

Mr. Woolford, Capital Dynamics, introduced himself and described the firm's succession plans, workload, internal resources, external advisors, investment strategy, value added investment approach, strong performance, and focus on management. He said that Capital Dynamics recommends an investment of up to \$150 million subject to satisfactory negotiation of terms and conditions.

The Committee discussed the age and experience of the firm's management team and interaction between partners.

Mr. Littlejohn and Mr. Klein, Littlejohn Partners, summarized the firm's history, experience, past performance, investment strategy, and management team. Mr. Littlejohn explained the fund's control and distressed securities teams, low staff turnover, dynamic allocation of carry, and growth of the team. Mr. Klein described the firm's investment strategy, control platform, hands on approach, opportunistic strategy, transaction size, distressed debt platform, middle-market focus, broad investment mandate, industry focus, value-creation approach, low use of leverage, productivity improvement programs, and strategic growth initiatives. Mr. Littlejohn concluded that the team is excited about current opportunities and trends.

The Committee discussed mistakes and lessons learned from those mistakes, the lack of diversity within the organization and potential impact on operations, competition, market trends, deal flow and opportunities, and knowing when to withdraw from an investment.

Mr. Masten moved that the Private Markets Committee recommend to the Board an investment of up to \$150 million in Littlejohn Fund IV, L.P., plus fees and expenses, subject to continuing due diligence and final negotiation of terms and conditions. Assistant Treasurer Opitz seconded the motion.

Mr. Nierenberg spoke in favor of the investment and stated that he liked the team's investment approach, stability, focus, returns across different economic cycles, high value added management. He said that the WSIB is underweight in the area.

Representative Santos explained that while she did not have a problem supporting this motion, she did have misgivings around the lack of diverse perspectives that might be represented in this organization. She said that as the Board looks to changing demographics of the country, it should be monitoring and encouraging diversity not just with respect to investments with certain partners, but in all aspects of the Board's decisions.

Mr. Nierenberg agreed that more diversity is desirable, but that it is lacking in the industry as a whole. He said that endowments seem to do a better job in this area and that perhaps we could learn from them how to do a better job developing such diversity.

Mr. Seely said that he supports this investment. He explained that the industry as a whole is suffering from the lack of diversity and that, although he would like to see greater diversity, the primary concern of the Board is return on investments.

The motion carried unanimously.

[The Committee recessed at 10:03 a.m. and reconvened at 10:19 a.m.]

[Mr. Nierenberg was no longer in attendance at 10:03 a.m.]

VALUE CREATION IN PRIVATE EQUITY

Mr. Bruebaker explained that this presentation was part of an ongoing series of educational sessions based on conversations with the Board during the annual planning session. This specific session was managed by the research staff of the WSIB.

Mr. Woolford and Dr. Diller, Capital Dynamics, gave a presentation on value creation in private equity. They discussed measurement of value drivers in private equity transactions, operational components, cash flow, increase in multiple effect, leverage effect, pricing, comparison of value drivers and earnings before interest, taxes, depreciation, amortization (EBITA) components, and transaction sizes. They compared private and public companies.

The Committee discussed the value and advantages of private equity and public equity investments. They also discussed whether results would have varied if the firms studied had been U.S. based.

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 10:40 a.m.