

**WASHINGTON STATE INVESTMENT BOARD  
Private Markets Committee Meeting Minutes  
February 3, 2011**

The Private Markets Committee met in open public session at 9:00 a.m. in the boardroom at the Washington State Investment Board in Olympia, Washington.

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

Members Absent: Representative Sharon Tomiko Santos

Other Board Members  
Present: Judi Owens

Others Present: Theresa Whitmarsh, Executive Director  
Gary Bruebaker, Chief Investment Officer  
Tom Ruggels, Senior Investment Officer – Private Equity  
Isabelle Fowler, Investment Officer – Private Equity  
Linda Buchanan, Administrative Assistant  
  
Steve Dietrich, Assistant Attorney General  
Tara Blackburn, Hamilton Lane  
George Roberts, Kohlberg Kravis Roberts and Company  
Michael Michelson, Kohlberg Kravis Roberts and Company  
Andrew Newington, BC Partners  
André François-Poncet, BC Partners

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

The meeting convened at 9:00 a.m. with Chair Masten identifying members present.

**ADOPTION OF THE JANUARY 6, 2011, MINUTES**

**Mr. McElligott moved to adopt the minutes of January 6, 2011. Mr. Hill seconded, and the motion carried unanimously.**

**KKR NORTH AMERICAN XI FUND, L.P.**

Mr. Ruggels introduced himself and said that staff recommends an investment of up to \$500 million in KKR North American XI Fund, L.P., a mega-cap buyout fund with a target size of \$8 to \$10 billion. The fund will target large, franchise-leading businesses in North America, but may invest up to 25 percent of aggregate capital commitments outside of the U.S. and Canada. Since 1983, the Board has committed more than \$7.3 billion to 17 KKR-sponsored investments.

The proposed commitment is consistent with the private equity annual plan developed by the Private Markets Committee in January 2011 and the private equity model portfolio adopted by the Board in January 2010. Mr. Ruggels described the firm's strong franchise, extensive resources and expertise, global presence, historic performance, successful value-creation strategy, resources, and institutionalized decision-making and monitoring processes. He discussed the firm's long history with the WSIB, fit in the WSIB private equity portfolio, rapid growth and evolution of the firm, KKR's unrealized portfolio, the firm's public listing, and management succession.

[Treasurer McIntire was in attendance at 9:07 a.m.]

The Committee discussed what percentage the proposed commitment would be compared to the total fund, KKR's performance compared to other firms, market recovery, and expected returns.

Ms. Blackburn, Hamilton Lane, introduced herself and stated that Hamilton Lane recommends a commitment of \$500 million in KKR North American XI Fund, L.P. She described KKR's growth; global presence; resources; value added aspects of Capstone, the Public Affairs Group, and the Capital Markets Group; the public aspect of the firm; geographic focus of the fund; and KKR's responsiveness to limited partners.

The Committee discussed the likely geographic focus for the portion of the fund invested outside North America and proposed commitment size. They further discussed the impact of KKR's other business ventures on senior partners' time and how those ventures may add value to the WSIB's KKR investments.

Mr. Roberts and Mr. Michelson, Kohlberg Kravis Roberts and Company, introduced themselves. Mr. Roberts described KKR's investment philosophy, growth, industry groups, partnership with the environmental defense group, progress with union and other stakeholder relationships, the public aspect of the firm, large investments made by the partners, alignment of interests, and development of other businesses. He discussed the firm's succession issues, team of professionals, management committee, one-firm culture, market conditions, and portfolio valuations.

Mr. Michelson provided an update on KKR's performance in the North American portfolio and other investments. He described the growth of portfolio companies and the strong diversification of the portfolio, historic returns, and improved capital structure of portfolio companies.

The Committee discussed KKR's capital markets group, public aspect of the company and its impact on management, historic performance, energy holdings, long-term investment view, and succession issues.

The Chair announced that the Committee would go into executive session to discuss financial and commercial information relating to an investment since public knowledge regarding the discussion would result in loss to the funds managed by the WSIB or would result in private loss to the providers of the information.

The executive session was expected to last approximately 5 minutes, at which point the Committee would reconvene in open session.

[The Committee convened in executive session at 10:20 a.m.]

[The Committee recessed at 10:35 a.m. and reconvened in open session at 10:45 a.m.]

The Committee discussed the WSIB's model portfolio, the impact of distributions on future KKR exposure, discipline needed to reach targeted amounts in the model portfolio, percentage of WSIB commitments to past funds relative to fund size, and other KKR funds that will be coming to market in the near future.

**Treasurer McIntire moved that the Private Markets Committee recommend to the Board an investment of up to \$500 million, plus fees and expenses, in KKR North American XI Fund, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Mr. Hill seconded.**

The Committee discussed the size of the proposed commitment, the WSIB's long-term strategy and focus, importance of the KKR relationship, diversification needs, the size of this commitment compared to proposed commitments to other partners, other KKR funds coming to market in the near future, and KKR's growth and expansion.

**The motion carried unanimously.**

#### **BC EUROPEAN CAPITAL PARTNERS IX, L.P.**

Ms. Fowler said that staff recommends an investment of €185 million in BC European Capital IX, L.P., a European-focused private equity fund with a target size of €6 billion. The fund, which will utilize the same successful strategy as past funds, will seek to build a portfolio of 15 to 20 companies with significant businesses or operations in Europe with enterprise values ranging from €300 million to €2 billion that have attractive competitive positions and are managed by executives with a proven record. The WSIB has invested in three prior BC Partners funds. The proposed investment is consistent with the private equity annual plan developed by the Private Markets Committee in January 2011 and with the private equity model portfolio approved by the Board in 2010. Ms. Fowler described the firm's strong, historical performance with substantial realizations; proven strategy; and experienced team. She discussed turnover in the firm and attribution of prior track record.

Ms. Blackburn stated that Hamilton Lane recommends a commitment of \$250 million in BC European Capital IX, L.P. She said that BC Partners is a premier firm and described the firm's unique and successful cultural structure, succession planning, investment focus, and well-managed and thoughtful growth and evolution.

The Committee discussed turnover, key person provisions, and geographic expansion.

[Mr. Nierenberg was no longer in attendance at 11:23 a.m.]

Mr. François-Poncet and Mr. Newington, BC Partners, introduced themselves. Mr. François-Poncet described the firm's investment strategy, geographic focus, history, partnership, decision-making process, completed generational transition, culture, stability, historic performance, exit strategies, balanced portfolio, industry profile, and moderate risk.

[Treasurer McIntire was no longer in attendance at 11:27 a.m.]

Mr. Newington discussed the firm's consistent returns, local presence, and partnership structure.

Mr. François-Poncet discussed the firm's team, investment processes, investment committee, and conservative approach.

Mr. Newington described the fund's recent performance and investments, recent realizations, successful investment strategy, disciplined exits, and stable team.

The Committee discussed the firm's expansion into the U.S.

**Mr. McElligott moved that the Private Markets Committee recommend to the Board an investment of up to €185 million, plus fees and expenses, in BC European Capital IX, LP, subject to continuing due diligence and final negotiation of terms and conditions. Mr. Hill 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 11:49 a.m.