

**WASHINGTON STATE INVESTMENT BOARD  
Private Markets Committee Meeting Minutes  
December 1, 2011**

The Private Markets Committee met in open public session at 9:05 a.m. in the boardroom at the Washington State Investment Board in Olympia, Washington.

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

Members Absent: Patrick McElligott  
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  
Fabrizio Natale, Assistant Senior Investment Officer – Private Equity  
Gary Holt, Investment Officer – Private Equity  
Steve Draper, Senior Investment Officer – Real Estate  
Tripp Gantt, Assistant Senior Investment Officer – Real Estate  
Ceri Walker, Assistant Senior Investment Officer – Real Estate  
Matt Meredith, Assistant Senior Investment Officer – Real Estate  
Reggie Ross, Investment Officer – Real Estate  
Brian Shrader, Investment Officer – Real Estate  
Erwin Vidallon, Investment Officer – Real Estate  
Linda Buchanan, Administrative Assistant  
Raelyn Wilson, Administrative Assistant  
  
Steve Dietrich, Assistant Attorney General  
Michael Humphrey, Courtland Partners  
Tara Blackburn, Hamilton Lane  
Joseph Landy, Warburg Pincus  
Steven Schneider, Warburg Pincus  
Bill Zartler, Denham Commodity Partners  
Riaz Siddiqi, Denham Commodity Partners

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

The meeting convened at 9:05a.m. with Chair Masten identifying members present.

#### **ADOPTION OF THE SEPTEMBER 1, 2011, MINUTES**

**Mr. Hill moved to adopt the minutes of September 1, 2011. Mr. Masten seconded, and the motion carried unanimously.**

#### **PRIVATE EQUITY INVESTMENT RECOMMENDATION – WARBURG PINCUS PRIVATE EQUITY XI, L.P.**

Mr. Holt introduced himself and said that staff recommends an investment of up to \$750 million in Warburg Pincus Private Equity XI, L.P., a global private equity fund with a target size of \$12 billion. The WSIB has invested in six previous Warburg Pincus funds since 1994. The proposed investment is consistent with the model portfolio but, as staff believed that Warburg Pincus XI would begin fundraising in early 2012, was not specifically included on the Board-approved 2011 annual plan. However, since some 2011 planned commitments are being delayed until 2012, Warburg Pincus XI is being moved into 2011, without exceeding total commitments in the approved 2011 plan. The fund will continue the general partner's successful multi-stage strategy of investing in venture capital, growth capital, buyouts, recapitalizations, and other special situations, primarily in North America, Europe, and Asia. Mr. Holt discussed the fee break for large investors and the firm's reputation, stable and deep management team, global presence, top-down investment strategy, diversification in volatile markets, successful succession plan, early international presence, history, key-person clause, and long-term performance. He noted that Warburg Pincus X is largely unrealized.

The Committee discussed the WSIB's position as one of the largest investor in the last three Warburg Pincus funds.

Ms. Blackburn, Hamilton Lane, introduced herself and opined that Warburg Pincus is one of the few groups that can provide a large commitment with more attractive fees for the WSIB, in addition to a large level of diversification. She explained that the proposed investment is complementary to the WSIB private equity portfolio and discussed the firm's global reach, historic performance, alignment of interest with investors, fundamental focus on private equity, and strong investment focus. Ms. Blackburn noted that the unrealized commitments are on target, and that the firm's turnover is commensurate with its size. She said that Hamilton Lane supports the recommended investment.

Mr. Landy and Mr. Schneider, Warburg Pincus, introduced themselves and Mr. Landy discussed the firm's history, investment strategy, low levels of leverage, industry specialization, staffing model, global presence, diversification, and historic performance.

Mr. Schneider described the firm's alignment of interests, both within the firm and with investors. He described the firm's investment strategy, profit sharing, investment focus on companies over industries, value creation, industry sectors, and geographic sectors. He said that the firm operates out of one fund, but is viewed as local in the markets where the fund invests.

Mr. Landy highlighted several portfolio companies and discussed the firm's investment pace, thesis-driven strategies, growth oriented investments, and stable base of professionals globally.

The Committee discussed market conditions in Brazil, media and social networking opportunities, and the positive impacts on the community and state from financial investments. They further discussed problematic investments and lessons learned, the division of labor between the co-presidents, and market conditions in Europe.

**Mr. Hill moved that the Private Markets Committee recommend to the Board an investment of up to \$750 million, plus fees and expenses, in Warburg Pincus Private Equity XI, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Mr. Masten seconded, and the motion carried unanimously.**

#### **PRIVATE EQUITY INVESTMENT RECOMMENDATION – DENHAM COMMODITY PARTNERS FUND VI, L.P.**

Mr. Natale introduced himself and discussed the desirability of increasing the WSIB's private equity portfolio presence in the emerging markets and energy sectors in accordance with the 2011 private equity annual plan. He said that staff recommends a commitment of up to \$200 million in Denham Commodity Partners Fund VI, a global energy, growth and middle-market buyout fund with a target size of \$2.5 billion. The proposed investment would be a new relationship for the WSIB. Mr. Natale described the WSIB's current exposure to the energy sector within the private equity portfolio, the search for the most desirable avenue to increase exposure, market conditions and opportunities, performance of domestic oil and gas exploration and production, and other upcoming sectors. He discussed sector volatility and fluctuations for demand. Mr. Natale stated that an investment in Denham mitigates the volatility concerns as it is diversified in industry verticals and invests in both developed and emerging markets. He described the firm's history, global presence, experienced investment professionals, operational approach, in-house risk management group, strong performance, and fit in the private equity model portfolio. The proposed investment is consistent with the 2011 private equity annual plan.

The Committee discussed staff's model for ranking performance and whether the fund would be a fit in the tangible assets portfolio.

Ms. Blackburn, Hamilton Lane, introduced herself and discussed the fund's fit in the private equity sector, investment strategy, performance, operational focus, experienced team, and the desirability of enhancing the energy portion of the WSIB's private equity portfolio.

Mr. Zartler and Mr. Siddiqi, Denham Commodity Partners, introduced themselves. Mr. Zartler described the firm's investment team, operational background, history, global approach, internal culture, transparency and working relationship with limited partners, and investment sectors.

Mr. Siddiqi discussed the firm's global platform, disciplined and rigorous investment process, and investment sectors. He described the growth of the middle class in India and other emerging markets and the resultant need and desire for increased access to energy. Mr. Siddiqi elaborated on the firm's global presence, coverage of developed and emerging markets, purity of culture, and disciplined investment approach.

Mr. Zartler described the firm's partners, diverse team, internal risk group, and carry split.

Mr. Siddiqi discussed the portfolio services group and its ability to provide timely, creditable, and actionable information, and management support to portfolio companies through exit.

Mr. Zartler summarized the fund's investment approach and proposed terms.

The Committee discussed the growth in U.S. exports of petroleum products; the desirability of increasing energy sector exposure in the WSIB's private equity portfolio; investment opportunities; related businesses; new drilling techniques, including fracking; impact of potential regulations; and pipeline exposure.

**Mr. Hill moved that the Private Markets Committee recommend to the Board an investment of up to \$200 million, plus fees and expenses, in Denham Commodity Partners Fund VI, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Mr. Masten seconded, and the motion carried unanimously.**

[The Committee recessed at 11:00 a.m. and reconvened at 11:18a.m.]

#### **REAL ESTATE INVESTMENT RECOMMENDATION – EMERGING MARKETS FUND OF FUNDS II, LLC**

Ms. Walker introduced herself and said that staff recommends an allocation of \$400 million to Emerging Markets Fund of Funds II, LLC (EMFOF II), which will be an entity wholly owned by the Washington State Investment Board designed specifically to invest in real estate funds in emerging markets around the world. She explained that this is effectively a follow on investment to the successful Emerging Markets Fund of Funds, LLC (EMFOF I) which was approved by the Board in March 2007.

Mr. Muhlebach asked how the risks in this type of investment are managed. The Committee then discussed risks inherent to investing in emerging markets and EMFOF's approach to managing them.

Ms. Walker discussed the success of EMFOF I and the desirability of EMFOF II. She said that EMFOF I has, to date, achieved its primary objective of providing excellent risk-adjusted returns while providing portfolio diversification and insight into new markets. Ms. Walker reviewed the current status of EMFOF I, including geographic diversification, sector diversification, and performance. She noted that, consistent with EMFOF I, EMFOF II will maintain staff discretion of up to \$50 million and allow a maximum of 33.3 percent in developed markets. Ms. Walker reviewed EMFOF II's target markets and described the Fund's excellent management team, cost-effectiveness, strong track record, diversification provided to the real estate portfolio, and the attractive strategy which provides access to emerging markets. She further discussed the risks of emerging markets, specifically noting corruption and exit risk. The proposed commitment is consistent with the 2011 real estate annual plan.

The Committee discussed EMFOF I's sector diversification and exit timeline.

Mr. Humphrey, Courtland Partners, introduced himself and discussed current market trends, the risk/reward equation of the proposal, and the benefits of having a first-mover advantage. He described EMFOF's attractive focused strategy and its role as an advance on the WSIB real estate program's preferred real estate operating company strategy. He discussed risks of EMFOF II, including political risk, lack of transparency, development risk, and currency risk.

The Committee discussed global economic trends and EMFOF's role as an advance on the real estate operating company strategy.

**Mr. Hill moved that the Private Markets Committee recommend to the Board an allocation of \$400 million plus fees and expenses to Emerging Markets Fund of Funds II, LLC. Mr. Masten seconded, and the motion carried unanimously.**

[The Committee recessed at 11:55 a.m. and reconvened at 12:20 p.m.]

[Treasurer McIntire was no longer in attendance at 11:55 a.m.]

#### **REAL ESTATE ANNUAL PLANNING SESSION**

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 10 minutes, at which point the Committee would reconvene in open session.

[The Committee convened in executive session at 12:20 p.m.]

[The Committee recessed at 1:31 and reconvened in executive session at 1:43 p.m.]

[Treasurer McIntire was in attendance at 2:50 p.m.]

[The Committee reconvened in open session at 3:53 p.m.]

**Mr. Hill moved that the Private Markets Committee recommend that the Board adopt the confidential 2012 Real Estate Annual Plan that was presented and discussed in executive session. Mr. Masten 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 3:54 p.m.