

**WASHINGTON STATE INVESTMENT BOARD
Private Markets Committee Meeting Minutes
February 2, 2012**

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
Steve Hill
Patrick McElligott
Treasurer Jim McIntire
Richard Muhlebach
David Nierenberg (Teleconference)

Members Absent: Representative Sharon Tomiko Santos
Jeff Seely

Other Board Members Present: Judi Owens
Mike Ragan

Others Present: Theresa Whitmarsh, Executive Director
Gary Bruebaker, Chief Investment Officer
Tom Ruggels, Senior Investment Officer – Private Equity
Isabelle Fowler, Investment Officer – Private Equity
Steve Draper, Senior Investment Officer – Real Estate
Erwin Vidallon, Investment Officer – Real Estate
Linda Buchanan, Administrative Assistant
Raelyn Wilson, Administrative Assistant

Steve Dietrich, Assistant Attorney General
Tara Blackburn, Hamilton Lane
Howard Marks, Oaktree Capital Management
Anthony Harrington, Oaktree Capital Management
George Roberts, Kohlberg Kravis Roberts and Company
Joe Bae, Kohlberg Kravis Roberts and Company
Hugh Langmuir, Cinven Partners
Alexandra Hess, Cinven Partners
Max Lima, Hemisferio Sul Investimentos

[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.

ADOPTION OF THE JANUARY 6, 2012, MINUTES

Mr. Hill moved to adopt the minutes of January 6, 2012. Mr. McElligott seconded, and the motion carried unanimously.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – OAKTREE OPPORTUNITIES FUND IX, L.P.

Ms. Fowler introduced herself and said that staff recommends an investment of up to \$400 million in Oaktree Opportunities Fund IX, L.P., a non-control distressed debt fund with a target size between \$4 billion and \$6 billion.

Ms. Fowler explained that Fund IX will focus on investments in under-valued public bonds and bank debt of financially distressed companies in which value can be created through management of a bankruptcy reorganization or restructuring outside of bankruptcy. Up to 50 percent of commitments can be invested outside of the U.S. and Canada.

Oaktree is an existing general partner relationship. Since 1994, the Board has committed \$1.2 billion to ten prior Opportunities funds and \$300 million to two Principal funds, Oaktree's distressed-for-control strategy.

Ms. Fowler described the firm's strong, high quality, and experienced investment team, track record achieved over multiple cycles, successful investment strategy, strong deal flow, and fit in the WSIB's private equity portfolio. She discussed Mr. Karsh's responsibilities, key person provision, and terms of the fund.

The proposed investment is consistent with the Board-approved 2012 private equity annual plan and model portfolio.

Ms. Blackburn, Hamilton Lane, introduced herself and explained the firm's evolution, long-time relationship with the WSIB, consistent returns, and the desirability of exposure to the European distressed market. She stated that Hamilton Lane recommends the investment.

Mr. Marks and Mr. Harrington, Oaktree Capital Management, introduced themselves. Mr. Marks discussed the long-term relationship between the WSIB and Oaktree, performance of prior funds, investment opportunities, market conditions, opportunity sources, European financial crisis, regulations in Europe, geographic diversification, and sector diversification.

Mr. Bruebaker expressed his appreciation of Oaktree's investment discipline.

The Committee discussed the prospects of Fund VIII and market conditions.

Mr. McElligott moved that the Private Markets Committee recommend to the Board an investment of up to \$400 million, plus fees and expenses, in Oaktree Opportunities Fund IX, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Mr. Hill seconded.

The Committee discussed management fees.

The motion carried unanimously.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – KKR ASIAN FUND II, L.P.

Mr. Ruggels introduced himself and stated that staff recommends an investment of up to \$400 million in KKR Asian Fund II, a pan-Asian private equity fund with a target size of \$4 billion to \$6 billion.

Mr. Ruggels explained that the fund will pursue investments in large, industry-leading businesses in Asia, with a focus on six regions: Australia, Greater China, India, Japan, South Korea, and Southeast Asia. He described the long and successful relationship between the WSIB and KKR since 1983. Over the past 29 years, the WSIB has committed a total of \$7.8 billion across 18 KKR-sponsored investments, including \$400 million to the KKR Asian Fund in 2007.

The proposed investment is consistent with the Board-approved 2012 private equity annual plan and model portfolio.

Mr. Ruggels discussed the fund's fit in the WSIB private equity portfolio. He elaborated on KKR's strong Asian team, reputation and strong brand name, operational focus, and resources such as the separate KKR Capstone Asia group. He discussed portfolio concentration risk and the firm's short track record in Asia with limited realized performance, organization growth, other product lines, and management succession.

The Committee discussed KKR's investment committee restructure to include senior management from Asia, the dynamics of the KKR Asian Fund and its fit within the overall KKR firm, and the investment decision process.

Ms. Blackburn, Hamilton Lane, introduced herself and discussed the fund's attractive expense ratios, management fees, benefits of being part of larger organization, team growth, performance compared to peers in region, and global brand. She stated that Hamilton Lane supports the recommendation.

The Committee discussed co-investment of other KKR funds alongside the Asian fund.

Mr. Roberts and Mr. Bae, Kohlberg Kravis Roberts and Company, introduced themselves. Mr. Roberts discussed the long-standing relationship between KKR and the WSIB, the firm's past performance, growth and evolution, one-firm culture, opportunities in Asia, Asian team of local people with strong business relationships, and fee sharing practice.

Mr. Bae discussed KKR Asian's robust team, growth of the firm, six regional offices, attractive investment opportunities, strong deal flow, track record, operational focus and capabilities, resources such as KKR Capstone, value creation, proprietary sourcing process, global perspective, attractive market outlook, investment strategy, current portfolio companies, and geographic and industry diversification. He described the differences between U.S. and Asian investments and expectations of returns from current portfolio companies.

Discussion ensued concerning economic and social governance, including health and safety concerns. Mr. Roberts described KKR's efforts to improve conditions in its portfolio companies, citing several examples of how KKR oversees and improves conditions. The Committee further discussed investments and co-investments with other private equity firms and other KKR funds.

Mr. Hill moved that the Private Markets Committee recommend to the Board an investment of up to \$400 million, plus fees and expenses, in KKR Asian Fund II, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Mr. McElligott seconded.

The Committee discussed the size of the fund and attractiveness of the Asian market.

The motion carried unanimously.

The Committee discussed the size of the investment recommendation.

[Treasurer McIntire was in attendance at 10:20 a.m.]

[The Committee recessed at 10:20 a.m. and reconvened at 10:37 a.m.]

PRIVATE EQUITY INVESTMENT RECOMMENDATION – THE FIFTH CINVEN FUND, L.P.

Ms. Fowler introduced herself and stated that staff recommends an investment of up to €192 million (approximately U.S. \$250 million) in The Fifth Cinven Fund, a European buyout fund with a target size of €5.0 billion.

Ms. Fowler explained that Cinven is an existing relationship for the WSIB. The Board committed £25 million to Fund 1 in 1996, £61 million to Fund 2 in 1998, €100 million to Fund 3 in 2001, and €125 million to Fund 4 in 2006.

Ms. Fowler described the firm's experienced investment team, consistent and proven investment strategy, long-term track record, dedicated financing and portfolio teams, and the firm's single focus. She explained that the firm opened a Hong Kong office in 2008 to assist portfolio company growth. The firm has not expanded its product offering or geographic focus; the firm's entire focus will be on Fund 5. Ms. Fowler discussed management transition, turnover within the firm, and European market volatility. She opined that the firm's history, reputation, and sector knowledge position the group to take advantage of market opportunities.

The proposed investment is consistent with the Board-approved 2012 private equity annual plan and model portfolio.

The Committee discussed Fund 4 performance to date, including a recent realization.

Ms. Blackburn, Hamilton Lane, introduced herself and discussed the firm's reputation, managed senior transition, consistent performance, value creation strategies, and deal sourcing. She said that Hamilton Lane supports the recommendation.

The Committee discussed the current European market conditions and opportunities, the desirability of remaining in the European sector, the firm's history and contacts, London base, the WSIB's long-term view to investing, and the importance of maintaining a good relationship with a top-tier partner.

Mr. Langmuir and Ms. Hess, Cinven Partners, introduced themselves. Mr. Langmuir discussed Cinven's long-time relationship with the WSIB, current market conditions and opportunities, the firm's portfolio companies, investment strategy and focus, past performance, sector teams, the recent addition of an office in Hong Kong to assist portfolio companies' access to the fast growing Asian markets, value creation through active ownership, transaction size, and strong deal flow.

Ms. Hess discussed the firm's recent performance, investment strategies, geographic diversity, stable portfolio, and value creation through revenue growth.

Mr. Langmuir elaborated on the firm's consistent performance, experienced cohesive team, and firm growth. He stated that the firm is positioned well to benefit from opportunities.

The Committee discussed the firm's geographic focus, the purpose of the Asian office, assumptions of market trends, and the availability of financing.

Mr. McElligott moved that the Private Markets Committee recommend to the Board an investment of up to €192 million, plus fees and expenses, in The Fifth Cinven Fund, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Mr. Hill seconded, and the motion carried unanimously.

REAL ESTATE INVESTMENT RECOMMENDATION – HEMISFERIO SUL INVESTIMENTOS FUND IV, L.P.

Mr. Draper and Mr. Vidallon introduced themselves and stated that staff recommends an investment, to be included in the Emerging Markets Fund of Funds II (EMFOF II), of up to \$50 million in Hemisferio Sul Investimentos Fund IV, a Brazilian real estate fund capped at \$650 million. Mr. Draper stated that, while technically this recommendation falls within staff discretion, it is being brought before the Private Markets Committee for full transparency. He explained that EMFOF II is limited to \$50 million per fund unless approved by the PMC and the Board and that this investment, when combined with \$50 million already invested within Emerging Markets Fund of Funds (EMFOF I), exceeds the staff discretionary limit.

The Fund's investment strategy will be opportunistic and primarily focused on industrial and retail opportunities, but may also take advantage of investments in the office and residential sectors.

Mr. Vidallon discussed the longstanding relationship the WSIB and EMFOF I have with Max Lima, managing partner at Hemisferio Sul Investimentos (HSI), and HSI's predecessor, Prosperitas Real Estate Partners. He explained that, since 2006, the WSIB and EMFOF I have committed \$250 million across three Prosperitas funds. Mr. Vidallon explained that the name change is a result of the departure of two founding partners of Prosperitas.

Mr. Vidallon described the quality leadership and investment team, including their strong reputation, deal sourcing advantage, disciplined investing approach, and strong track record. He further discussed the attractive strategy, the advantageous market conditions, and Brazil's strong economy and compelling demographics.

Mr. Draper discussed organizational change, key person risk, and risks inherent in emerging markets investments, specifically Brazil's currency. He also discussed the oversubscription of the Fund.

Mr. Muhlebach asked about and the Committee then discussed investment strategy, development risk, construction risk, and reputation risk. The Committee also discussed management fees.

Mr. Humphrey, Courtland Partners introduced himself and discussed the Brazilian market. He described the skill, knowledge, foresight, and discipline of Mr. Lima and his team of investment professionals.

Mr. Lima, Hemisferio Sul Investimentos, introduced himself and discussed HSI, including the strong team, history of the firm, strong track record, and strategy. Mr. Lima discussed the attractiveness of the Brazilian market and the country's demographics, economy, and challenges. He described the investment opportunities in Brazil's real estate market, including retail, residential, office, and industrial. Mr. Lima discussed the value proposition of the HSI management team. He explained the Fund's proactive investment strategies, including acquisition, development, value add, build-to-suit, sale and leaseback, and structured debt.

In response to a question from Mr. Muhlebach, Mr. Lima discussed in-house development.

Mr. McElligott moved that the Private Markets Committee recommend that the Board approve an investment of up to \$50 million, plus fees and expenses, in Hemisferio Sul Investimentos Fund IV, L.P., through Emerging Markets Fund of Funds II, LLC, subject to continuing due diligence and final negotiation of terms and conditions. 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 12:06 p.m.