

**WASHINGTON STATE INVESTMENT BOARD  
Private Markets Committee Meeting Minutes  
April 12, 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  
Jeff Seely

Members Absent: Representative Sharon Tomiko Santos

Other Board Members Present: Judi Owens  
William Longbrake

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  
Steve Draper, Senior Investment Officer – Real Estate  
Linda Buchanan, Administrative Assistant  
Raelyn Wilson, Administrative Assistant  
  
Steve Dietrich, Assistant Attorney General  
Tara Blackburn, Hamilton Lane  
Frank Tang, FountainVest China  
George Chuang, FountainVest China  
Alan Waxman, TPG Opportunities Partners  
Clint Kollar, TPG Opportunities Partners  
Michael Humphrey, Courtland Partners  
Jay Morgan, Courtland Partners  
Dan Schulte, Principal Enterprise Capital Holdings  
Glenn Aaronson, Aevitas Property Partners  
Michele Vitucci, Aevitas Property Partners

[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 FEBRUARY 2, 2012, MINUTES**

**Mr. McElligott moved to adopt the minutes of February 2, 2012. Mr. Hill seconded, and the motion carried unanimously.**

### **PRIVATE EQUITY INVESTMENT RECOMMENDATION – FOUNTAINVEST CHINA GROWTH CAPITAL FUND II, L.P.**

Mr. Natale introduced himself and said that staff recommends an investment of up to \$150 million in FountainVest China Growth Capital Fund II, L.P., a China growth equity fund being raised by FountainVest Partners with a target size of \$1.25 billion. FountainVest II will continue the strategy of investing in revenue-generating, high-growth businesses that require between \$50 and \$200 million of equity. FountainVest is an existing relationship for the WSIB. The proposed investment is consistent with both the Board-approved 2012 private equity annual plan and the private equity model portfolio.

[Mr. Seely was in attendance at 9:04 a.m.]

Mr. Natale described the WSIB's current level of exposure to China through FountainVest and other partners and the desirability of increasing that exposure. He discussed China's growing economy and current market conditions, growth of the middle class and related domestic consumption growth, continuing urbanization and industrial upgrade, and sustainable development, as well as emerging markets risk and China-specific risk. Mr. Natale noted FountainVest's high institutional quality, the team's prior tenure at Goldman Sachs and Temasek, discipline in deal sourcing and pricing, and investment focus. He summarized the firm's evolving investment strategy, operational capabilities, and potential outperformance and clear paths to further liquidity events.

[Treasurer McIntire was in attendance at 9:08 a.m.]

Ms. Blackburn, Hamilton Lane, introduced herself and discussed the rapid growth in China, current market trends, and the firm's interesting strategy in a competitive market. She stated that

the investment is a good fit for Washington and that Hamilton Lane recommends an investment in FountainVest.

The Committee discussed the investment status of Fund I, age of data provided, whether the realizations are typical of deals expected for Fund II, and the increase in the WSIB's commitment.

[Ms. Owens was in attendance at 9:12 a.m.]

Mr. Tang and Mr. Chuang, FountainVest China, introduced themselves and described the firm's investment focus, sectors, and history. Mr. Tang stated that although FountainVest is a young firm, the team has a long history working together. He described the firm's founding partners, team, strategy, investment process, market opportunities, current market conditions, deal sourcing, and exit strategies.

Discussion ensued regarding the firm's growth that adds operational expertise to the existing financial expertise. Mr. Tang elaborated on the firm's investment focus and value-added approach to growing companies. Mr. Chuang described deal selection, investment opportunities, conservative investment approach, portfolio companies in Fund 1, performance, and investments expected within the next 12 months. Mr. Tang discussed the firm's consistent investment pace, experienced and cohesive investment team, investment strategy, disciplined approach, consistent performance, market opportunities, and availability of credit.

Discussion ensued regarding interest rates charged by private lenders in China, the firm's senior advisors, sector expertise, exit strategies, ways in which the firm improves working conditions in portfolio companies, and that FountainVest generally does not leverage their investments.

**Mr. McElligott moved that the Private Markets Committee recommend to the Board an investment of up to \$150 million, plus fees and expenses, in FountainVest China Growth Capital Fund II, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Mr. Hill seconded, and the motion carried unanimously.**

[The Committee recessed at 10:02 a.m. and reconvened at 10:18 a.m.]

**PRIVATE EQUITY INVESTMENT RECOMMENDATION – TPG OPPORTUNITIES PARTNERS II, L.P.**

Mr. Nierenberg recused himself from discussion about this investment because several members of the general partner are investors in the fund he manages.

Mr. Natale introduced himself and stated that staff recommends an investment of up to \$200 million in TPG Opportunities Partners II, L.P., a special situations investment fund being raised by TPG with a target size of \$1.5 billion. TPG has been a long-term investment partner of the WSIB. The fund will invest in special situations and distressed opportunities worldwide across the credit cycle as a stand-alone vehicle. The strategy was previously executed as part of TPG's buyout funds. Mr. Natale described the fund's investment strategy in corporate special situations and asset special situations, performance history with superior returns, the benefits of access to the broader resources of the TPG organization, current European market conditions, and potential exposure to European distressed opportunities. The proposed investment is consistent with both the Board-approved 2012 private equity annual plan and the private equity model portfolio.

[Mr. McElligott was no longer in attendance at 10:23 a.m.]

Ms. Blackburn, Hamilton Lane, introduced herself and compared the fund to other distressed partners and stated that the recommended investment is a good fit in the WSIB's private equity portfolio. She explained that general partners increasingly are following the path of specialization, and that this is TPG's debt offering.

The Committee discussed the firm's carry distribution, access to the parent company's resources, loan servicing capabilities with proprietary relationships, differences between the two investment strategies, perspective, and due diligence by Hamilton Lane and staff and ways the two groups came to a consensus on the recommendation, aggregate performance by source, outperformance of

one investment, operation enhancements that increase returns, potential reputation risk, and loan restructuring.

Mr. Waxman and Mr. Kollar, TPG Opportunities Partners, introduced themselves and discussed the firm's history, investment strategy, enhanced capabilities through the fully integrated TPG platform, sector specialization, high positive resolutions, hands-on approach, consistent track record, fund migration across credit cycles, and historic performance.

The Committee inquired and further discussion ensued regarding allocation sources for the prior fund.

Mr. Kollar explained that leverage is not used to generate returns. He discussed existing investments, market dislocations and volatility, and the fund's differentiated set of capabilities. Mr. Waxman described the firm's investment team, resources, deal sourcing, and investment processes.

The Committee discussed the firm's relationship with the loan sourcing firms, alignment of interest, European market opportunities, dislocation themes, non-performing loans in Europe, geographic focus, cautious approach, and European banking issues.

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

## **REAL ESTATE INVESTMENT RECOMMENDATION – PRINCIPAL ENTERPRISE CAPITAL HOLDINGS, LLC**

Mr. Draper introduced himself and stated that staff recommends a follow-on investment of \$500 million in Principal Enterprise Capital Holdings, LLC (PEC), a longtime partner to the WSIB whose strategy is to invest in real estate operating companies (REOCs) on a global basis. The

WSIB has previously committed \$1.8 billion to PEC since it was established in 1999. Mr. Draper described the firm's history, strong returns, history of performing through down cycles, and strength in underwriting. Mr. Draper also noted the competition between PEC and its parent company, Principal Financial Group. He emphasized that staff has been and will continue working to solve the issue of competition. The proposed investment is consistent with the Board-approved 2012 real estate annual plan.

The Committee discussed the relative attractiveness and risks of various property types, the potential costs of using intermediaries, carried interest, and investment structure.

Mr. Humphrey and Mr. Morgan, Courtland Partners, introduced themselves and recommended a follow-on investment in PEC. Mr. Humphrey discussed the firm's established investment strategy, strong track record, long-standing history with the WSIB, and alignment of interests.

The Committee discussed concentration risk and property type diversification.

Mr. Schulte, Principal Enterprise Capital Holdings, introduced himself and discussed PEC's history with the WSIB. He explained the firm's investment strategy and their key success factors. Mr. Schulte discussed the firm's past performance and current position, including their geographical and property type diversification. He discussed the firm's investment thesis and the impact of globalization and urbanization on this going forward.

The Committee discussed the REOC strategy.

[The Committee recessed at 12:09 p.m. and reconvened at 12:39 p.m.]

**Mr. Hill moved that the Private Markets Committee recommend to the Board a follow-on investment of \$500 million, plus fees and expenses, in Principal Enterprise Capital Holdings, LLC, subject to continuing due diligence and final negotiation of terms and conditions. Treasurer McIntire seconded, and the motion carried unanimously.**

## **REAL ESTATE INVESTMENT RECOMMENDATION – AEVITAS PROPERTY PARTNERS, LLC**

Mr. Draper introduced himself and stated that staff recommends an investment of \$250 million in Aevitas Property Partners, LLC, a startup venture that will invest in real estate operating companies (REOCs) globally, but primarily in non-U.S. markets. Mr. Draper explained that the addition of Aevitas would potentially help to mitigate concentration risk among the WSIB's REOC intermediaries. He described Aevitas' differentiating factors from Evergreen and PEC, including their niche-focused investing, ability and willingness to tackle distressed situations, and focus on different markets. Mr. Draper discussed the quality of senior management, the governance rights, attractive terms and conditions, and exclusivity of the proposed partnership. Mr. Draper also noted the risks associated with this new relationship, including key person risk, startup risk, and market risk. The proposed investment is consistent with the Board-approved 2012 real estate annual plan.

Mr. Humphrey and Mr. Morgan, Courtland Partners, introduced themselves and discussed Aevitas' fit with the WSIB's strategy, the benefit of Aevitas' strong experience in geographies currently underrepresented in the WSIB portfolio (Southern Europe, India, and Turkey), strength of the management team, deal sourcing, and alignment of interests. Mr. Humphrey also noted key person risk, startup risk, and market risk of the targeted geographies.

The Committee discussed the REOC strategy, distressed investing, and governance rights.

Mr. Aaronson and Mr. Vitucci, Aevitas Property Partners, introduced themselves and discussed the company, including their vision and market perspective. Mr. Aaronson reviewed the backgrounds of the team members. He then outlined the general investment principles by which Aevitas will operate, including their desire to invest in retail, residential, and logistics; their understanding of the importance of cash flow to the success of the team and the WSIB; and their understanding that every investment situation is unique and must be underwritten as such.

Mr. Vitucci discussed Aevitas' underwriting process and stressed the importance of underwriting people, governance, and policies when making strategic real estate investments. Mr. Vitucci also summarized Aevitas' investment oversight process, which will include supervisory board attendance, quarterly review of business plans, and financial control and reporting. Mr. Aaronson concluded by discussing the need for discipline, commitment, and innovation to make this strategy work.

The Committee further discussed the REOC strategy, timing of the deployment of capital, and the difficulty in finding the right partner to execute this strategy.

**Treasurer McIntire moved that the Private Markets Committee recommend to the Board an investment of \$250 million, plus fees and expenses, in Aevitas Property Partners, LLC, 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 1:26 p.m.