

**WASHINGTON STATE INVESTMENT BOARD  
Private Markets Committee Meeting Minutes  
June 7, 2012**

The Private Markets Committee met in open public session at 9:02 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)  
Representative Sharon Tomiko Santos  
Jeff Seely

Other Board Members  
Present: William Longbrake  
Judi Owens

Others Present: Theresa Whitmarsh, Executive Director  
Gary Bruebaker, Chief Investment Officer  
Diana Will, Senior Investment Officer – Tangible Assets  
Steve Draper, Senior Investment Officer – Real Estate  
Tom Ruggels, Senior Investment Officer – Private Equity  
Janet Kruzel, Assistant Senior Investment Officer – Private Equity  
Gary Holt, Investment Officer – Private Equity  
Linda Buchanan, Administrative Assistant  
Raelyn Wilson, Administrative Assistant  
  
Steve Dietrich, Assistant Attorney General  
Tara Blackburn, Hamilton Lane  
Humphrey Battcock, Advent International  
Maggie Sahlman, Advent International  
Joakim Karlsson, Nordic Capital  
Morgan Olsson, Nordic Capital

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

The meeting convened at 9:02 a.m. with Chair Masten identifying members present.

**ADOPTION OF THE APRIL 12, 2012, MINUTES**

**Mr. McElligott moved to adopt the minutes of April 12, 2012. Mr. Hill seconded, and the motion carried unanimously.**

## **PRIVATE EQUITY INVESTMENT RECOMMENDATION – ADVENT INTERNATIONAL GPE VII, L.P.**

Ms. Kruzel introduced herself and said that staff recommends an investment of up to \$400 million in Advent International GPE VII, L.P., a €7 billion private equity fund that will invest primarily in Europe and North America. The fund will pursue control positions in buyout, recapitalization, and growth equity opportunities in upper middle-market companies with enterprise values of €200 million to €2 billion, primarily in the developed private equity markets of Continental Europe, the U.K., and North America. Advent 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.

Ms. Kruzel described the firm's experience, multi-national team in 8 countries, proven investment strategy, successful 23-year performance across multiple cycles, strong sector focus, in-depth industry knowledge, seamless succession plan, and excellent fit in the WSIB private equity portfolio. Ms. Kruzel discussed the size of the fund and potential size of individual deals, as well as market concerns. The WSIB serves on the GPE advisory committee and has frequent discussions with the partner.

[Representative Santos was in the attendance at 9:07 a.m.]

Ms. Blackburn, Hamilton Lane, introduced herself and discussed the firm's size, reputation, capacity for a broad range of deals in the U.S. and Europe, and flexibility to invest across sectors and geographies. She described the firm's investment team, history, operationally intensive focus, and fit in the WSIB's private equity portfolio. Ms. Blackburn explained that the firm has performed consistently well through various economic cycles.

[Mr. Seely was in attendance at 9:16 a.m.]

Mr. Battcock and Ms. Sahlman, Advent International, introduced themselves. Mr. Battcock described the firm's history, multi-national presence, stable and experienced investment team, alignment of interest with its limited partners, and traditional private equity approach. He stated that the firm has no plans to go public or change its structure.

Ms. Sahlman discussed the firm's top-quartile performance and progress in prior funds. She explained that GPE VII will continue Advent's proven investment strategy of control-oriented buyouts, recapitalizations, and growth equity with a strong focus on transforming business through earnings growth. Ms. Sahlman described the fund's sector focus, target size of €7 billion, and anticipated first close in two weeks.

[Mr. Nierenberg was in attendance at 9:19 a.m.]

Mr. Battcock described the firm's deal sourcing, investment process and strategy, sector and geographic focus, dedicated operating teams, and investment pace.

Ms. Sahlman elaborated on the firm's resource intensity, large and growing team, and global presence with 9 offices in 8 countries employing local people.

Mr. Battcock summarized the firm's performance, investment model, healthy legacy portfolio, stable investment team, and alignment of interest with investors. He discussed European market conditions and explained that various countries and regions have been affected differently. Mr. Battcock stated that the firm is well positioned to succeed in the current market conditions. Advent allocates capital dynamically with no fixed geographic or industry ratios for investments. The firm finds and invests in the best opportunities.

Ms. Sahlman added that a company headquartered in a country having difficulty may have sales in other countries, thus, mitigating the impact of local economic conditions.

Mr. Battcock said that volatility can also produce good investment opportunities.

Discussion ensued regarding the current market conditions in Europe and potential impacts on both the current and future portfolios, Advent's investment strategy and analysis, stress tests on the current portfolio companies, and the fund's financial sourcing and economic outlook.

**Mr. McElligott moved that the Private Markets Committee recommend to the Board an investment of up to \$400 million, plus fees and expenses, in Advent International GPE VII, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Mr. Hill seconded, and the motion carried unanimously.**

#### **PRIVATE EQUITY INVESTMENT RECOMMENDATION – NORDIC CAPITAL FUND VIII, L.P.**

Mr. Holt introduced himself and stated that staff recommends an investment of up to €320 million in Nordic Capital Fund VIII, L.P., a buyout fund focused on the Nordic region with a target size of €4.0 billion. The fund will invest in sector-diversified, large- and middle-market companies primarily in Sweden, Norway, Finland, Denmark, and Germany. The fund will invest along the same investment themes as its predecessor fund, with a distinct pan-European healthcare focus. The WSIB has invested in five previous Nordic Capital funds. The proposed investment is consistent with the Board approved 2012 private equity annual plan and model portfolio.

Mr. Holt discussed Mr. Olsson's health and described the firm's experience, investment team, low turnover, smooth generational transition, successful investment strategy, strong performance for over 20 years, favorable terms, and fit in the WSIB's private equity portfolio. Mr. Holt discussed the status of the prior fund, the targeted fund size, and management succession.

Discussion ensued regarding the status of Fund VII and the strong performance of prior funds.

Ms. Blackburn, Hamilton Lane, introduced herself and discussed Fund VII and expressed confidence that the fund would do well. She described the firm's investment strategy and focus, reputation, successful succession strategy, and low loss ratio. She stated that Nordic is an important component of the WSIB's private equity portfolio.

The Committee discussed the firm's expectations on performance and future realizations in consideration of the current market concerns in Europe.

Mr. Karlsson and Mr. Olsson, Nordic Capital, introduced themselves and Mr. Karlsson described the firm's top quartile performance, expected performance of current funds, investment strategy, geographic and industry focus, long-standing presence in the European healthcare arena, reputation, local presence, value-creation themes, stable and experienced investment team, and performance history through multiple market cycles. He explained that the Nordic countries have retained their own currencies and are, thus, somewhat protected from the current euro concerns. Mr. Karlsson discussed the firm's consistent returns over multiple cycles, flexibility to invest where the best deals are, advantages to investing in the Nordic region, strength of the Nordic banking system, attractive investment sectors, industry specific trends, low use of leverage, and conservative valuations.

Discussion ensued regarding the firm's focus on the healthcare industry, targeted sectors, exposure to the euro, and investment strategy refinements.

The Committee further discussed the WSIB's overall exposure to the euro and what the potential impact on the total portfolio would be if the situation were to worsen.

**Treasurer McIntire moved that the Private Markets Committee recommend to the Board an investment of up to €320 million (approximately U.S. \$400 million), plus fees and expenses, in Nordic Capital Fund VIII L.P., subject to continuing due diligence and final negotiation of terms and conditions. Mr. McElligott seconded, and the motion carried unanimously.**

#### **TANGIBLE ASSETS CONSULTANT POOL**

Ms. Will introduced herself and discussed the results of the Request for Qualifications and Quotations (RFQQ) issued on February 10, 2012, which sought proposals from firms to be placed in a pool to provide consulting services for Tangible Assets. Ms. Will described the evaluation process and criteria. She stated that staff recommends that Altius Associates, Callan Associates Inc., Meketa Investment Group, Inc., Mercer Investment Consulting, Inc., and TorreyCove Capital Partners LLC be added to the Tangible Assets consultant pool.

Ms. Will clarified that Courtland Partners was already in the consultant pool and did not need to respond to the RFQQ.

**Mr. McElligott moved that the Private Markets Committee recommend the Board approve the addition of Altius Associates, Callan Associates Inc., Meketa Investment Group, Inc., Mercer Investment Consulting, Inc., and TorreyCove Capital Partners LLC to the Tangible Assets consulting pool, subject to continued due diligence and final negotiation of terms and conditions. Treasurer McIntire seconded, and the motion carried unanimously.**

## **BOARD POLICY REVIEW – SUBSTANTIVE POLICY REVISIONS**

Mr. Draper introduced himself and explained that the intent of the proposed real estate investment policy update was to redefine diversification guidelines. He discussed geographic and property type diversification targets that are reflected in the proposed changes.

Discussion ensued regarding the proposed policy changes and the policy revision process.

**Mr. McElligott moved that the Private Markets Committee recommend the Board adopt the proposed substantive revisions to policy 2.10.600. Mr. Hill seconded, and the motion carried unanimously.**

Mr. Ruggels introduced himself and explained that the proposed private equity investment policy revisions reflect the evolution of the investment categories used to segment the portfolio; discontinuation of the Board's discretionary venture capital manager program, while maintaining the flexibility to add discretionary manager programs in the future; and lowering of the guideline limiting the percentage of a fund that the WSIB should generally be, consistent with existing practice and the Board's continued focus on risk management.

The Committee discussed the policy revisions.

**Mr. Hill moved that the Private Markets Committee recommend the Board adopt the proposed substantive revisions to policy 2.10.700. Mr. McElligott 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 11:06 a.m.