

**WASHINGTON STATE INVESTMENT BOARD
Private Markets Committee Meeting Minutes
October 18, 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
Patrick McElligott
Treasurer Jim McIntire (teleconferenced)
David Nierenberg (teleconferenced)
Representative Sharon Tomiko Santos
Jeff Seely (teleconferenced)

Members Absent: Steve Hill
Richard Muhlebach

Other Board Members Present: William Longbrake (teleconferenced)
Judi Owens (teleconferenced)
Mike Ragan

Others Present: Theresa Whitmarsh, Executive Director
Gary Bruebaker, Chief Investment Officer
Tom Ruggels, Senior Investment Officer – Private Equity
Diana Will, Senior Investment Officer – Tangible Assets
Fabrizio Natale, Assistant Senior Investment Officer – Private Equity
John Graves, Assistant Senior Investment Officer – Tangible Assets
Linda Buchanan, Administrative Assistant

Steve Dietrich, Assistant Attorney General
Paul Yett, Hamilton Lane
Bill Macaulay, First Reserve
Alex Krueger, First Reserve
Claudi Santiago, First Reserve
Tom Martin, Torrey Cove
Douglas Silver, Red Kite
Chris Von Strasser, Red Kite

[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.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – FIRST RESERVE FUND XIII, L.P.

Mr. Natale introduced himself and stated that staff recommends an investment of up to \$400 million in First Reserve Fund XIII, L.P., a global fund investing across all

sector verticals of the energy industry with a target size of \$6 billion. The fund will make both minority and buyout investments between \$100 and \$500 million, often in partnership with strategic investors. The WSIB has invested in five previous First Reserve funds. The proposed investment is consistent with the Board-approved 2012 private equity annual plan and model portfolio.

Mr. Natale described the firm's diversified approach to energy investing, experienced team with extensive energy investing expertise, expectation of a return to the strong historical performance of earlier funds, and attractive fit with the WSIB's desire to increase its exposure to the energy industry and emerging markets. He discussed the firm's track record, turnover, and risks associated with the energy industry. Mr. Natale explained that the firm has returned to its more successful strategy with a smaller, more appropriate fund size; refocused on its core; strengthened the team and processes; and compares favorably to large/mega funds of the same vintage. He discussed the formalized succession plan and its implementation.

Discussion ensued regarding past funds, mistakes made, lessons learned, vintage year issues, partner turnover, and improvements made. The Committee also discussed deal size, crossover investments, experience with high turnover at other firms, performance of other funds in the 2006 to 2008 vintage years, proposed management fees, and the performance of First Reserve compared to other energy funds. Mr. Natale explained that diversification within the fund by industry and sector verticals, strategy, and risk factors are considered when selecting a fund.

[Representative Santos was in attendance at 9:17 a.m.]

Mr. Yett, Hamilton Lane, introduced himself and recommended an investment in First Reserve Fund XIII. He opined that this fund will be well positioned to provide top tier performance and that it is prudent to increase exposure to energy. He explained that there is cyclicity in all the funds.

Mr. Macaulay, Mr. Krueger, and Mr. Santiago, introduced themselves. Mr. Macaulay described the firm and its energy specialists, deep team, extensive record, network, performance consistency, reputation, and global focus. He discussed the current market trends and the positive outlook for energy investments.

Mr. Krueger discussed the firm's global capacity and presence, extensive network, long-term performance, and geographic focus. He described expectations for Funds X and XI, lessons learned, and a refocusing in Fund XII on the core sectors where the firm has historically been successful. He discussed the investment strategy, size, and focus for Fund XIII.

Mr. Macaulay described the firm's evolution over recent years; succession plans; continued focus across the energy industry with a focus on three sectors: resources, equipment and services, and midstream and downstream. He discussed the growth in the number of investment professionals and other employees.

Mr. Santiago discussed the firm's domain knowledge in the energy industry, operating experience, large team of investors, extensive network of relationships,

sourcing, global footprint, process to improve portfolio companies, and exit strategies.

Mr. Krueger summarized that First Reserve has invested in the same industry niche for 30 years and has a diverse background, solid track record, unique network, and access on a global basis.

Discussion ensued regarding projections for Funds XI and XII, mistakes made, lessons learned, improvements applied, and investment pacing.

Mr. McElligott moved that the Private Markets Committee recommend to the Board an investment of up to \$400 million, plus fees and expenses, in First Reserve Fund XIII, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Representative Santos seconded the motion.

The Committee discussed the performance of prior funds, changes implemented, other energy firms, sharper focus as a result of errors of past funds, changing demographics of the industry, investment discipline through market cycles, and the performance of other funds in the 2006 to 2008 vintage years.

The above motion carried unanimously.

[The Committee recessed at 10:35 a.m. and reconvened at 10:44 a.m.]

ADOPTION OF THE SEPTEMBER 6, 2012, MINUTES

Mr. McElligott moved to adopt the minutes of September 6, 2012. Representative Santos seconded, and the motion carried unanimously.

TANGIBLE ASSETS INVESTMENT RECOMMENDATION – RK MINE FINANCE (MASTER) FUND II, L.P.

Mr. Graves introduced himself and said that staff recommends an investment of up to \$150 million in RK Mine Finance (Master) Fund II, L.P., a \$1.15 billion fund that will invest in low-cost, lower-risk mining projects that are at or near production. The firm intends to invest roughly 50 percent in precious metals projects and 50 percent in base metals projects that are located primarily in Canada, the U.S., and Australia.

Mr. Graves said the fund fits the tangible assets framework preferences as it is necessity based; does not use leverage, except for bridge financing; and does not control the mine, but does control the output of the mine. He described the firm's unique strategy; risk analysis process and independent risk team; experienced team; lower-risk, income-driven investment approach; competitive advantage; insight into the trends in quality and quantity of production; market opportunities; Fund I results; and investment strategy. He discussed the firm's history, project-specific risks, evergreen structure on Fund I, loan agreements and collateral, multiple funds, and increased fund size.

The Committee discussed potential market impacts, downside protection, fund diversity, potential loan defaults and how the company would handle them, the fund's advisory board, fees and carry, and the overall commodities cycle.

Mr. Martin, Torrey Cove, introduced himself and stated that Torrey Cove has studied a broad spectrum of managers in this area and believes that Red Kite provides a compelling risk-adjusted way to gain exposure in the market. While other firms use early-stage development capital and assume more risk, Red Kite utilizes a later-stage, lower-risk strategy. He discussed the potential volatility of the market, increasing competition, dislocation in credit markets, market conditions, deal flow, strong downside protection, diversified returns, current income, capital gains, and the firm's multiple exit and liquidation options.

Mr. Von Strasser and Mr. Silver, Red Kite, introduced themselves. Mr. Von Strasser described the firm's income-focused strategy, lower-risk, diversification, value-added approach, experience, and market opportunities.

Mr. Silver described the firm's investment focus, high returns with low risk, network, and reputation. He explained the use of offtake agreements, mineral royalties, and the firm's geographic focus.

Mr. Silver discussed the firm's investment process, sustainability policy, global presence, World Bank principles, and environmental and human rights practices. He described the due diligence process, including the use of permitting experts and specialists to ensure the companies use the best practices.

Discussion ensued regarding potential price declines, downside protections, and environmental and human rights analysis.

Representative Santos moved that the Private Markets Committee recommend to the Board an investment of up to \$150 million, plus fees and expenses, in RK Mine Finance (Master) Fund II, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Mr. McElligott seconded, and the motion carried unanimously.

PRIVATE MARKETS CLOSING LOG

The Private Markets Closing Log was presented for informational purposes.

[Treasurer McIntire was no longer in attendance at 11:43 a.m.]

OTHER ITEMS

The Committee discussed OVP's announcement that they will not raise another fund and will be managing out the existing portfolio. The WSIB invested \$40 million in each of the last two funds. Discussion ensued regarding the transition process, remaining portfolio companies, professionals that will remain active in the fund, amount left to be drawn down, and management fees. The Committee requested further discussion on the topic next month.

EXECUTIVE SESSION DISCUSSION WITH CONSULTANTS

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. He said the executive session was expected to last at least 10 minutes, at which point the Committee would reconvene in open session.

[The Committee convened in executive session at 11:55 a.m. and reconvened in open session at 12:22 p.m.]

The Committee requested that staff discuss changes in the energy market, other firms in the market, macro market changes, and risk assessment in the metals areas in the annual planning sessions. They also requested a discussion regarding the percentage of the private equity portfolio invested in energy, the amount invested through funds not labeled as energy, and energy investments in the overall WSIB portfolio.

There being no further business to come before the Committee, the meeting adjourned at 12:27 p.m.