

**WASHINGTON STATE INVESTMENT BOARD
Private Markets Committee Meeting Minutes
February 7, 2013**

The Private Markets Committee met in open public session at 9:06 a.m. in the boardroom at the Washington State Investment Board in Olympia, Washington.

Members Present: George Masten, Chair
Marcie Frost
Treasurer Jim McIntire
Richard Muhlebach
David Nierenberg
Jeff Seely

Other Board

Members Present: Judi Owens

Members Absent: Mike Ragan
Representative Sharon Tomiko Santos

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

Steve Dietrich, Assistant Attorney General
Tara Blackburn, Hamilton Lane
Mike Michelson, Kohlberg, Kravis, Roberts and Company
Dan McLaughlin, Kohlberg, Kravis, Roberts and Company
KY Tang, Affinity Equity Partners
CJ Lee, Affinity Equity Partners
Thomas Martin, TorreyCove Capital Partners
Steve Gruber, Real Asset Portfolio Management
Brent Burnett, Real Asset Portfolio Management
Howard Kaplan, Farmvest, Inc.

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

The meeting convened at 9:06 a.m. with Chair Masten identifying members present.

ADOPTION OF THE JANUARY 9, 2013, MINUTES

Treasurer McIntire moved to adopt the January 9, 2013, minutes. Ms. Frost seconded, and the motion carried unanimously.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – KKR NORTH AMERICA FUND XI, L.P.

Mr. Ruggels introduced himself and stated that staff was recommending an additional investment of \$250 million in KKR North America Fund XI, L.P. In February 2011, the Board approved an investment of \$500 million in the fund, which closed in February 2012. If approved, this additional investment would raise the WSIB's total investment to \$750 million. The proposed investment is consistent with the Board-approved 2013 private equity annual plan and model portfolio. Mr. Ruggels described the firm's global firm, strong performance, structured value-creation process, resources, institutionalized decision-making process, and long-term relationship with the WSIB of over 30 years. He discussed ongoing issues, including that KKR is a public company, the rapid growth and evolution of the firm, substantial growth of assets under management, and unrealized portfolio. Mr. Ruggels spoke to the firm's management succession, performance, the WSIB's exposure to KKR, and anticipated investment opportunities. The proposed additional commitment provides an opportunity to invest more capital targeting the North American region with an existing partner.

Ms. Blackburn introduced herself and discussed KKR's performance, evolution of succession, changes in the team, decision-making process, growth, and return consistency. She stated that Hamilton Lane supported the investment.

The Committee discussed evolution in the firm's culture, diversification, and presence in the retail space.

Mr. Michelson and Mr. McLaughlin, Kohlberg, Kravis, Roberts and Company, introduced themselves. Mr. Michelson explained the investment period for the 2006 Fund was completed last year and investment began in North America Fund XI. He discussed the current investment environment, the current and anticipated U.S. economic conditions, investment opportunities, and debt availability. Mr. Michelson updated the Committee on the performance of the existing North American KKR funds, length of investment periods, returns, and expectations for North America Fund XI.

The Committee discussed the timing for the fund relative to anticipation of higher interest rates and fuel costs.

Chair Masten announced 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 9:47 a.m. The Committee recessed at 10:23 a.m. and reconvened in open session at 10:35 a.m.]

Treasurer McIntire moved the Private Markets Committee recommend to the Board an additional investment of up to \$250 million, plus fees and expenses, in KKR North America Fund XI, L.P. subject to continuing due diligence and final negotiation of terms and conditions. Ms. Frost seconded, and the motion carried unanimously.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – AFFINITY ASIA PACIFIC FUND IV, L.P.

Mr. Holt said that staff was recommending an investment of up to \$300 million in Affinity Asia Pacific Fund IV, L.P., a pan-Asian buyout fund with a target size and cap of \$3.5 billion. The fund would employ the same strategy as the three previous funds and target market-leading companies in four core markets: Korea, Australia/New Zealand, Greater China, and Southeast Asia. The WSIB previously committed \$100 million to Affinity Asia Pacific Fund III in 2007. The proposed investment is consistent with the Board-approved 2013 private equity annual plan and model portfolio.

Mr. Holt discussed the firm's history, prior funds, experienced and cohesive management team, local presence, one-firm culture, pan-Asian strategy, target geographies, investment strategy, performance, reputation, and excellent fit in the WSIB private equity portfolio. He spoke of the larger fund size, changing market, and unrealized performance in Fund III. Mr. Holt stated the proposed investment represents an opportunity to continue a relationship with a successful pan-Asian general partner and gain meaningful exposure to the Asia Pacific region.

Ms. Blackburn, Hamilton Lane, introduced herself and discussed evolution in the Asian investment market. She described the team's western investment approach, discipline, evolution, reputation, stable team, performance, and emerging market exposure. Ms. Blackburn said that Hamilton Lane supports the commitment.

Mr. Tang and Mr. Lee, Affinity Equity Partners, introduced themselves. Mr. Tang described the firm's history, reputation, investment strategy, stable team, experience, consistent performance, proprietary sourcing, lead position in investments, active involvement in portfolio companies, local network and presence, diversification by geography and sector, core markets, and alignment of interest with limited partners.

Discussion ensued regarding worker conditions, welfare, and safety improvements in the portfolio companies. Mr. Lee emphasized that one of the firm's core strategies is to maintain its reputation of working well with management and employees and taking care of them. The Committee also discussed a joint investment made with KKR as a co-lead and valuation methodology.

Treasurer McIntire moved the Private Markets Committee recommend the Board invest up to \$300 million, plus fees and expenses, in Affinity Asia Pacific Fund IV, L.P., subject to

continuing due diligence and final negotiation of terms and conditions. Ms. Frost seconded, and the motion carried unanimously.

TANGIBLE ASSETS MARKET INFORMATION – COMMODITY SUPERCYCLE PRESENTATION

Ms. Will introduced herself and explained that staff was bringing the two educational sessions to the Committee as an introduction to the annual plan.

Mr. Martin, TorreyCove Capital Partners, introduced himself and discussed cycle fluctuations in the commodity market. He spoke to inconsistent academic theories on causes and triggers, growth of commodity markets, and the differing views of several experts. Mr. Martin opined there are more upside opportunities in the near future with more stability. He emphasized that each commodity is unique and independent and there is an inherent imbalance between supply and demand.

[Treasurer McIntire left the meeting at 11:40 a.m.]

[The Committee recessed at 11:59 a.m. and reconvened at 12:21 p.m.]

TANGIBLE ASSETS MARKET INFORMATION – AGRICULTURE AND TIMBER PRESENTATION

Mr. Gruber and Mr. Burnett, Real Asset Portfolio Management, and Mr. Kaplan, Farmvest, Inc., introduced themselves and discussed investments in agriculture and timber. They focused on return characteristics, fundamental drivers, investment approaches, risks, renewable and depleting resources, historical benefits, inflation protection, consistent income yield, factors influencing demand and supply, investment vehicles, operating strategies, prices, diversification methods, and operating risks.

The Committee discussed the green revolution, genetic improvements, government-owned timberland, and how an institutional investor can invest in agriculture at a large level.

2013 TANGIBLE ASSETS ANNUAL PLAN

Chair Masten announced 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 20 minutes, at which point the Committee would reconvene in open session.

[The Committee convened in executive session at 1:05 p.m.]

[Mr. Nierenberg left the meeting at 2:45 p.m.]

[Treasurer McIntire joined the meeting via teleconference at 2:50 p.m.]

[The Committee reconvened in open session at 2:51 p.m.]

Ms. Frost moved the Private Markets Committee recommend the Board approve the 2013 Tangible Assets Annual Plan that was presented and discussed in executive session. Mr. Masten seconded, and the motion carried unanimously.

TANGIBLE ASSETS INVESTMENTS POLICY 2.10.900 REVISION

Ms. Will described the proposed changes to the Tangible Assets policy.

The Committee discussed the proposed changes.

Ms. Frost moved the Private Markets Committee recommend the Board adopt the proposed revisions to Policy 2.10.900. 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 other items to come before the Committee, the meeting adjourned at 2:54 p.m.