

**WASHINGTON STATE INVESTMENT BOARD
Private Markets Committee Meeting Minutes
April 11, 2013**

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
Marcie Frost
Treasurer Jim McIntire (teleconferenced)
Richard Muhlebach
David Nierenberg
Mike Ragan
Jeff Seely

Other Board Members Present: Judi Owens

Members Absent: Representative Sharon Tomiko Santos

Also Present: Theresa Whitmarsh, Executive Director
Gary Bruebaker, Chief Investment Officer
Tom Ruggels, Senior Investment Officer – Private Equity
Janet Kruzel, Assistant Senior Investment Officer – Private Equity
Steve Draper, Senior Investment Officer – Real Estate

Tara Blackburn, Hamilton Lane
Michael Humphrey, Courtland Partners
Deven Parekh, Insight Venture Partners
Cian Cotter, Insight Venture Partners
Richard Cline, Calzada Capital Partners
Raymond Flores, Calzada Capital Partners
Linda Buchanan, Administrative Assistant
Steve Dietrich, Assistant Attorney General

[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 7, 2013, MINUTES

**Mr. Ragan moved to adopt the minutes of February 7, 2013.
Ms. Frost seconded, and the motion carried unanimously.**

PRIVATE EQUITY INVESTMENT RECOMMENDATION – INSIGHT VENTURE PARTNERS VIII, L.P.

Ms. Kruzel introduced herself and stated that staff was recommending an investment of up to \$150 million in Insight Venture Partners VIII, L.P., a private equity fund with a target size of \$1.75 billion. The fund will primarily invest growth equity in software, software-enabled services, and Internet businesses. The firm executes both minority and majority investments between \$10 million and \$200 million, as well as take-private transactions, including leveraged buyouts. If approved, Insight will be a new direct general partner relationship for the WSIB; however, the WSIB invested in three prior Insight funds through the Pathway portfolio. The proposed investment is consistent with the Board-approved 2013 private equity annual plan and model portfolio.

Ms. Kruzel discussed the firm's highly specialized strategy; in-house consulting firm, Insight Onsite; stable, experienced investment team; successful strategy for growth; differentiated sourcing model; consistent, attractive performance; and excellent fit in the WSIB's private equity portfolio. Ms. Kruzel analyzed the fund's increased fund size, as well as increased deal size.

Ms. Blackburn introduced herself and described the fund's investment stage, structure, ownership, industry focus, alignment of interest, and unrealized deal valuation. She said that the investment would be a great portfolio fit for the WSIB and discussed the firm's past performance.

The Committee discussed the progressively increased fund size, comparison of portfolio companies in different funds, excellent performance, and changes in the technology market. The Committee compared and contrasted Insight's structure and strategy to that of other WSIB private equity partners.

Mr. Parekh and Mr. Cotter, Insight Venture Partners, introduced themselves. Mr. Parekh discussed the firm's history and investment strategy; sector; proprietary deal sourcing; investment and operational professionals; captive consulting firm, Insight Onsite; industry experience and relationships; external resources; recent market activity; current portfolio; exit events; historical fund performance; single firm location; culture; and performance consistency.

Discussion ensued regarding involvement with portfolio companies, number of board seats held, workload issues, outbound calling process, effectiveness of finding deal flow from a single location, liquidity events, and exit strategies.

Mr. Parekh described the firm's portfolio construction, expected and historical returns, and geographic distribution, as well as industry and sector diversification.

The Committee discussed the benefits to portfolio companies that utilize Insight Onsite, use of leverage, and potential future developments that could benefit the firm.

Mr. Ragan moved that the Private Markets Committee recommend the Board invest up to \$150 million, plus fees and expenses, in Insight Venture Partners VIII, L.P. subject to continuing due diligence and final negotiation of terms and conditions. Ms. Frost seconded, and the motion carried unanimously.

[The Committee recessed at 9:48 a.m. and reconvened at 9:58 a.m.]

REAL ESTATE INVESTMENT RECOMMENDATION – CALZADA CAPITAL PARTNERS, LLC

Mr. Draper discussed the history and thought process that led to the recommendation to invest \$250 million in Calzada Capital Partners, LLC, and transfer of the WSIB's investments in and commitments to four existing real estate operating companies (REOCs), as adjusted, currently overseen directly by WSIB staff. As noted in the 2013 real estate annual plan, staff views the use of intermediaries as necessary to assist with the oversight of investments as the portfolio continues to grow in complexity and size. Mr. Draper elaborated on the selection of partners to lead the company, the WSIB's history of investing in REOCs, and the excellent performance of those REOCs. He described Mr. Cline's and Mr. Flores' experience, skills, and performance. Mr. Draper discussed the shifting of concentration of investments from staff responsibility and oversight to Calzada. He stated that most of the risks involved are embedded in what the WSIB already owns and will be transferred into Calzada from the four current REOCs. These risks include market risk, key person risk, foreign risk, taxation issues, and operational risk. Mr. Draper emphasized that this is a startup venture with its associated risks and expressed his confidence in Mr. Flores and Mr. Cline.

The Committee discussed the ability of Mr. Flores and Mr. Cline to work together as equal partners and the reaction to this proposal of the REOCs that will be moved to Calzada.

Mr. Humphrey described the team's past success, experience, capabilities, the WSIB real estate staff's veto rights, and potential conflict issues.

Discussion ensued regarding the types of properties and businesses in Mexico, where the partners will be based, WSIB governance rights, and the impact on staff responsibilities.

Mr. Flores and Mr. Cline, Calzada Capital Partners, introduced themselves and stated that Calzada would be a new intermediary to invest in REOCs exclusively for the WSIB, taking on four existing REOCs, as well as looking for new companies in the U.S. and internationally.

Mr. Flores discussed the partner's past performance and experience; history of Hometown and Corporate Properties of the Americas; status of existing REOCs; new investment ideas, including core and niche strategies; geographic focus; investment philosophy and oversight; and exit opportunities.

Mr. Cline described the firm's priorities to concentrate on building the team, integrate existing REOCs, and establish internal financial controls. He explained the partners have been looking at possibilities to improve the focus, strategy, and organization in existing REOCs; potential growth; new initiatives; financial structure; and exit strategies. Mr. Cline noted the firm would look for new partners with which to build long-term businesses.

The Committee discussed the firm's capacity to acquire and supervise REOCs, investment strategy, team building, the ability of the partners to work well together, changing conditions in Mexico, sector diversification, and the types of residential investments the firm would consider.

Ms. Frost moved that the Private Markets Committee recommend to the Board that the WSIB's investments in and commitments (as adjusted) to Hometown America, Corporate Properties of the Americas, PBSC Holdings, and Terramar Retail Centers, be transferred to Calzada Capital Partners, LLC, plus an additional commitment of \$250 million, plus fees and expenses, subject to continuing due diligence and final negotiation of terms and conditions. Mr. Ragan 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 10:59 a.m.