

**WASHINGTON STATE INVESTMENT BOARD  
Private Markets Committee Meeting Minutes  
September 5, 2013**

The Private Markets Committee met in open public session at 9:00 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  
Mike Ragan  
Representative Sharon Tomiko Santos

Other Board Members Present: Kelly Fox  
Bill Longbrake (teleconferenced)

Members Absent: Jeff Seely

Also 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  
  
Mary Lobdell, Assistant Attorney General  
Tara Blackburn, Hamilton Lane  
Michael Augustine, Hamilton Lane  
David Altshuler, Meketa Group  
Stuart Porter, Denham Capital Partners  
Carl Tricoli, Denham Capital Partners  
Dean Mihas, GTCR  
Collin Roche, GTCR  
Richard Magnuson, GI Partners  
Hoon Cho, GI Partners  
Eric Mullins, Lime Rock Resources  
Charles Adcock, Lime Rock Resources

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

Chair Masten called the meeting to order and took roll call.

## **ADOPTION OF THE APRIL 11, 2013, MINUTES**

**Mr. Ragan moved to adopt the April 11, 2013, Private Markets Committee minutes. Ms. Frost seconded, and the motion carried unanimously.**

### **PRIVATE EQUITY INVESTMENT RECOMMENDATION – DCPF VI OIL AND GAS COINVESTMENT FUND, L.P.**

Mr. Natale introduced himself and stated that staff was recommending an investment of \$100 million in DCPF VI Oil and Gas Coinvestment Fund, L.P., an oil and gas exploration and production focused middle-market buyout fund being raised by Denham Capital Management with a target size of \$750 million. The fund will coinvest alongside Denham Commodity Partners Fund VI, L.P., in all oil and gas deals done by Denham VI after June 2013. The WSIB committed \$200 million to Denham VI in December 2011. Denham VI is a diversified energy private equity fund with a target allocation that is divided among oil and gas, mining and minerals, and power and renewables. The proposed investment would fall into the unidentified allocation in the Board-approved 2013 private equity annual plan and is consistent with the model portfolio.

Mr. Natale discussed the benefits of the fund, including more favorable terms. He noted the firm's strong performance, experienced team, industry expertise, and attractive fit with the WSIB's private equity portfolio. Mr. Natale described the increase in oil and gas assets under management, as well as energy and commodities cycle risk.

Ms. Blackburn, Hamilton Lane, introduced herself and discussed the firm's strategy, fit in the WSIB private equity portfolio, historic performance, opportunities going forward, and differentiated strategy. She stated that Hamilton Lane is supportive of the investment.

Mr. Porter and Mr. Tricoli, Denham Capital Partners, introduced themselves. Mr. Porter described current market conditions with growing energy independence in the U.S. He discussed the firm's opportunities, history, investment sectors, operational expertise, industry experience, high returns, and global footprint. He explained this fund would invest primarily in the U.S. Mr. Porter noted the largest, most productive Denham investments are in oil and gas.

[Treasurer McIntire arrived at 9:14 a.m.]

Mr. Tricoli discussed the firm's team, industry experience, technical expertise, and investment strategy. He described some of the operational procedures, history and growth of the sector, capital requirements versus available funding, and low competition. Mr. Tricoli explained that the coinvestment fund was formed to take advantage of the current unique opportunity set.

The Committee discussed the names and locations of various geographic areas referred to, potential risks, and how the firm mitigates potential risks.

[Treasurer McIntire left the meeting at 9:45 a.m.]

**Mr. Ragan moved that the Private Markets Committee recommend the Board invest \$100 million, plus fees and expenses, in DCPF VI Oil and Gas Coinvestment Fund, 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 – GTCR FUND XI, L.P.**

Mr. Ruggels introduced himself and stated that staff was recommending an investment of up to \$350 million in GTCR Fund XI, L.P., a North American focused middle-market private equity fund with a target size of \$3.25 billion. The fund will invest primarily within four growth sectors in North America: information services and technology, healthcare, financial services and technology, and growth business services. The WSIB has invested in five previous GTCR sponsored funds since 1999. The proposed investment is consistent with the Board-approved 2013 private equity annual plan and model portfolio.

Mr. Ruggels described the firm's differentiated and successful strategy through multiple cycles, strong performance, successful management transition, experienced team with deep industry expertise, focus on geography and strategy, narrow range of industry sectors, and fit in the WSIB private equity portfolio.

Discussion ensued regarding the number of board seats held by the partners and distribution of workload, as well as fit and impact on the WSIB's private equity model portfolio in connection with geographic allocations and awareness and sensitivity to reputational risk associated with various types of investments, such as sub-prime lending. Representative Santos emphasized the need for the Board and Committee to be cognizant of such issues. Mr. Ruggels noted the firm had made one investment in non-prime automobile lending, but not sub-prime mortgages.

Mr. Augustine, Hamilton Lane, introduced himself and discussed the firm's brand name and reputation, experience, team, successful generational transition, stability and cohesion of senior partners, attractive returns, differentiated strategy, consistency of strategy, discipline in fund size over multiple cycles, niche market, volatility in prior funds, fit in the WSIB's private equity portfolio, limited competition, proprietary sourcing, and little overlap with other funds in WSIB's private equity portfolio. He said that Hamilton Lane supports the investment.

Discussion ensued regarding the limited competition, investment strategy, network, reputation, and leadership transition.

Mr. Mihas and Mr. Roche, GTCR, introduced themselves. Mr. Roche described the firm's history, differentiated investment strategy, value added approach, excellent

performance across multiple cycles, and partnership approach to governance and economics. He discussed the firm's team, cultural attributes, and investment strategy. Mr. Mihas discussed the fund's investment strategy, targeted sectors, opportunities, diversification, and operational focus.

Discussion ensued regarding the number of board seats in which each partner is involved, as well as challenges and opportunities in the healthcare and financial services and technology sectors.

Mr. Mihas spoke to recent improvements in the firm, focus on becoming best in class organization, back office functionality, and professional and organization development.

Mr. Nierenberg opined that GTCR is one of the top firms in the top quartile.

**Mr. Ragan moved that the Private Markets Committee recommend the Board invest up to \$350 million, plus fees and expenses, in GTCR Fund XI, 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 10:29 a.m. and reconvened at 10:42 a.m.]  
[Mr. Fox arrived at 10:40 a.m.]

#### **PRIVATE EQUITY INVESTMENT RECOMMENDATION – GI PARTNERS IV, L.P.**

Mr. Natale stated that staff was recommending an investment of up to \$150 Million in GI Partners IV, L.P., a private equity fund focusing on complex transactions and special situations with a target size of \$1.5 billion. The fund will pursue control-oriented investments in middle-market companies with underlying asset values in sectors that are out of favor or where the company is undergoing financial distress. The investment would add a new high-quality general partner relationship to the WSIB's private equity portfolio. The proposed investment would fall into the unidentified allocation in the Board-approved 2013 private equity annual plan and is consistent with the model portfolio.

Mr. Natale described the firm's investment strategy; target sectors; geographic focus; past performance; value-add processes; conservative use of leverage; experienced, stable, and cohesive team; and attractive fit in the WSIB private equity portfolio.

Ms. Blackburn, Hamilton Lane, discussed the fund's investment strategy and underlying thesis, as well as its fit in the WSIB's private equity portfolio. She said that Hamilton Lane supports the investment.

Mr. Magnuson and Mr. Cho, GI Partners, introduced themselves. Mr. Magnuson spoke to the firm's history, operational improvements, investment performance, modest use of leverage, team, deep network, experience, expertise, sector focus,

and alignment of interest. Mr. Cho illustrated sector focus and value-creation processes utilizing specific case studies of several portfolio companies.

Discussion ensued regarding the large contingent of human resources, techniques to improve companies, best practices, and the sale of a specific healthcare portfolio company.

**Mr. Ragan moved that the Private Markets Committee recommend the Board invest up to \$150 million, plus fees and expenses, in GI Partners Fund IV, 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 11:20 a.m. and reconvened at 11:51 a.m.]  
[Mr. Longbrake left the meeting at 11:21 a.m.]

### **TANGIBLE ASSETS INVESTMENT RECOMMENDATION – LIME ROCK RESOURCES FUND III-A, L.P.**

Mr. Graves introduced himself and said that staff was recommending an investment of \$100 million in Lime Rock Resources Fund III-A, L.P., a \$750 million fund that will invest in low-cost, conventional, producing oil and gas fields with a high component of proved, developed, and producing reserves in the United States.

Mr. Graves discussed current market trends and described the firm's history; strategy; experienced, cohesive team; disciplined and patient investment approach; direct operational control; low cost, income-driven investment approach; impressive post-acquisition increases in production and proved reserves; clear post-acquisition value creation plan; innovative, aggressive strategies to reduce costs; and clear hedging strategy and judicious use of leverage. Mr. Graves spoke to potential geologic, cost, and competition risks. He noted potential conflicts of interest, including a master limited partnership that is publicly traded.

Mr. Altshuler, Meketa Investment Group, introduced himself and stated that Meketa recommends the investment and discussed the fund's investment strategy, sophisticated team, focus on value creation, and active use of hedging.

Mr. Mullins and Mr. Adcock, Lime Rock Resources, introduced themselves. Mr. Mullins described the firm's history, investment strategy, geographic focus, value creation, conservative use of leverage and hedging, deal sourcing, focus on high-quality concentrated properties, low production costs, patient and disciplined approach, and historic returns. Mr. Adcock explained the drilling process, low risk, low cost, and solid returns. He illustrated his points with specific investment examples.

Mr. Nierenberg spoke to the attractive opportunity in this area and the potential for continued success.

**Mr. Ragan moved that the Private Markets Committee recommend the Board invest \$100 million, plus fees and expenses, in Lime Rock Resources Fund III-A, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Ms. Frost seconded, and the motion carried unanimously.**

#### **2014 MEETING SCHEDULE**

**Mr. Ragan moved that the Private Markets Committee approve the schedule of its 2014 meeting dates. Ms. Frost seconded, and the motion carried unanimously.**

#### **PRIVATE MARKETS CLOSING LOG**

The Private Markets Closing Log was presented for informational purposes.

#### **OTHER ITEMS**

There were no other items to come before the Committee and the meeting adjourned at 12:27 p.m.