

**WASHINGTON STATE INVESTMENT BOARD
Private Markets Committee Meeting Minutes
April 3, 2014**

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
Marcie Frost
Judy Kuschel
Treasurer Jim McIntire
Richard Muhlebach
Representative Sharon Tomiko Santos
Jeff Seely

Members Absent: David Nierenberg

Others Board Members Present: William Longbrake

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
Janet Kruzal, Assistant Senior Investment Officer – Private Equity
Mo Mooers, Assistant Senior Investment Officer – Private Equity
Kurt Akers, Assistant Senior Investment Officer – Tangible Assets
John Graves, Assistant Senior Investment Officer – Tangible Assets
Linda Buchanan, Administrative Assistant

Mary Lobdell, Assistant Attorney General
Tara Blackburn and Natalie Fitch, Hamilton Lane
Charles Moore, The Banc Funds
Mark Siegel and Venky Ganesan, Menlo Ventures
Chris Masto and Spencer Fleischer, FFL Capital Partners
Jamie Shen, Callan Associates
Charlie McNairy, Mary Elizabeth McNairy, and Lloyd Chapins, International Farming Company
Tom Martin, Torrey Cove
Wesley Edens and Joe Adams, Fortress

[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 FEBRUARY 6, 2014, MINUTES

Ms. Frost moved to adopt the February 6, 2014, minutes.

Mr. Masten seconded, and the motion carried unanimously.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – BANC FUND IX, L.P.

Mr. Bruebaker described the innovation portfolio, which was approved by the Board in 2005 to make investments that do not fit neatly into one of the other asset classes. He stated that staff has authority to make investments in the innovation portfolio and discussed past and current investments within the innovation portfolio. Mr. Bruebaker explained that previous Banc Fund investments were in the private equity portfolio. Staff believes the current Banc Fund investment could be made within the private equity portfolio; however, the consultant believes the investment is a better fit within the innovation portfolio. Mr. Bruebaker opined that the investment would be beneficial to members either way.

[Treasurer McIntire arrived at 9:07 a.m.]

Mr. Masten clarified that the Board could still make the investment in private equity if the WSIB did not have the innovation portfolio. He noted that staff and the consultant bring the investment recommendations, and the Committee determines where the investment best fits.

[Representative Santos arrived at 9:09 a.m.]

Ms. Kruzel stated that staff was recommending an investment of up to \$100 million in Banc Fund IX, L.P., a \$550 million fund that will invest in U.S.-based financial services companies in a specialized niche with experienced professionals poised to capitalize on opportunities in the marketplace. Ms. Kruzel explained that, while the proposed investment was included in the private equity annual plan, the recommendation was for the innovation portfolio. The WSIB has invested in four prior Banc Funds. Ms. Kruzel described the firm's stable and experienced team; strong historical performance; narrowly focused, differentiated investment strategy; and the associated potential sector risk.

Ms. Blackburn, Hamilton Lane, described the firm's solid return success, team, and market opportunities. She explained that Hamilton Lane feels the investment is a better fit for the innovation portfolio due to benchmarking, governance control, and portfolio construction considerations. She opined that this is a good, long-term partner and stated that Hamilton Lane supports the investment.

The Committee discussed the financial market disruption of 2008, exit valuations, the positive way Banc Funds dealt with the market disruption, the favorable outlook for this fund, succession planning, market conditions, consumer regulations, investment opportunities, and investments in Washington.

Mr. Moore, The Banc Funds, discussed the firm's investment strategy; sector focus; investment cycle; investment sourcing; value creation; exit strategies; manager strengths; stable, experienced team; industry knowledge; market opportunities; valuations; sources of future earnings growth; investment return drivers; and historical performance.

Discussion ensued regarding succession planning.

Mr. Masten moved that the Private Markets Committee recommend the Board invest up to \$100 million, plus fees and expenses, in Banc Fund IX, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Treasurer McIntire seconded, and the motion carried unanimously.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – MENLO VENTURES XII, L.P.

Mr. Ruggels explained that the Board has invested with Menlo Ventures since 1981, making it the WSIB's longest standing private equity relationship. He said that staff was recommending an investment of up to \$100 million in Menlo Ventures XII, a multi-stage venture capital fund with a target size of \$400 million. He explained that the fund will invest in seed, early, expansion, and later-stage financings of companies with potential for significant growth. The proposed investment is consistent with the Board-approved 2014 private equity annual plan and model portfolio. Mr. Ruggels described the firm's historical performance and explained the volatility in returns is the nature of venture capital. He spoke to the changes Menlo made in Funds IX and X, lessons learned, and the subsequent return to smaller fund size. He noted generational changes, team stability, and succession plans.

The Committee discussed the firm's organizational structure, investment strategy, performance, market cycles, and lessons learned. They further discussed the evolution of the technology market, investment selection methodology, and the volatile nature of venture investments.

Ms. Blackburn, Hamilton Lane, discussed changes in the team and investment strategy. She opined that the fund should have a lower loss ratio and stronger performance in the marketplace. Hamilton Lane also recommended an investment of \$100 million in the fund.

Mr. Siegel and Mr. Ganesan, Menlo Ventures, discussed the firm's history, investment team, experience, historical performance, long relationship with the WSIB, investments in Washington, research methodology, proprietary deal flow, and expectations for Funds X and XI. They described disruptive technology trends, market cycles, and investment opportunities.

Discussion ensued regarding changes in the technology arena, analysis processes, average holding periods, government regulations, team changes, and firm culture.

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 Board or would result in private loss to the providers of the information. He said the executive session was expected to last approximately 10 minutes, at which time the Committee would reconvene in open session.

[The Committee convened in executive session at 10:47 a.m., and reconvened in open session at 11:02 a.m.]

Treasurer McIntire moved that the Private Markets Committee recommend the Board invest up to \$100 million, plus fees and expenses, in Menlo Ventures XII, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Ms. Frost seconded the motion.

Mr. Seely spoke in favor of the motion.

The above motion carried unanimously.

[The Committee recessed at 11:05 a.m., and reconvened at 11:17 a.m.]

PRIVATE EQUITY INVESTMENT RECOMMENDATION – FFL CAPITAL PARTNERS IV, L.P.

Mr. Mooers stated that staff recommended an investment of up to \$200 million in FFL Capital Partners IV, a middle-market private equity fund. He explained the firm invests in U.S. middle-market companies to finance buyouts, growth initiatives, and recapitalizations in the business services, consumer, financial services, and healthcare services sectors. If approved, a commitment to the fund would represent a new general partner relationship for the WSIB in a targeted investment strategy. The proposed investment would fall into the unidentified allocation in the Board-approved 2014 private equity annual plan and is consistent with the model portfolio. Mr. Mooers described the strategic fit in the WSIB private equity portfolio, the firm's proactive investment approach, strong performance, experienced team with deep industry expertise, and collaborative approach. He discussed the expected retirement of the firm's chairman.

Ms. Fitch, Hamilton Lane, discussed the firm's strong return profile, market niche, operational value-add capabilities, operating partners, consistent strategy, downside protection, historical performance, and excellent reputation. Hamilton Lane also recommended an investment of \$200 million in the fund.

In response to Committee questions, Mr. Mooers confirmed the terms were generally at market standards and included limits on cross fund investing.

Mr. Masto and Mr. Fleischer, FFL Capital Partners, discussed the firm's history, single office, focus on growth-oriented investments in the U.S. middle-market, sector focus, experienced team, culture, collaborative decision making process,

disciplined approach, leadership continuity, strong performance, active company involvement, deep sector expertise, thematic approach within sectors, low leverage use, systematic sector selection, and flexible deal structures.

Discussion ensued regarding a portfolio company, including litigation concerning that company. The Committee further discussed regulatory oversight, legal issues with and termination of the former chief financial officer, hiring practices, offshore manufacturing, reputational risk, and the amount of the recommended investment.

Mr. Masten moved that the Private Markets Committee recommend the Board invest up to \$200 million, plus fees and expenses, in FFL Capital Partners IV, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Ms. Frost seconded the motion.

The Committee discussed the desire to increase investments in the mid-market range, as well as concerns raised previously.

Representative Santos spoke against the motion. She said that while she respects the Chair's and Mr. Seely's comments and has confidence in the staff's work, she was apprehensive due to the concerns with regard to the issues raised.

Treasurer McIntire said he also had some anxiety about the investment and shared Representative Santos' concerns. He stated that he did like things the firm had done in the past and, given the desirability of investing in the mid-market space, he would prefer a smaller investment.

Treasurer McIntire moved to amend the motion to reduce the commitment to \$100 million. Ms. Kuschel seconded the motion.

Mr. Masten spoke against the amendment.

The amendment to the motion failed.

The Committee discussed the WSIB's advisory board seat and other public pension funds invested with the firm.

Mr. Seely said that he supports the investment and the issues raised are mitigated by the WSIB's advisory board seat.

Treasurer McIntire said that he will vote for this measure with hope that the WSIB's seat on the advisory board will alleviate concerns about reputation risks and types of investments and strategies that the fund will pursue. He spoke to the desirability of the market space.

The original motion carried, with Representative Santos voting no.

[The Committee recessed at 12:29 p.m., and reconvened at 12:55 p.m.]

TANGIBLE ASSETS INVESTMENT RECOMMENDATION – U.S. FARMING REALTY TRUST III, LP

Mr. Graves said that staff was requesting approval for an investment of up to \$250 million in U.S. Farming Realty Trust III, LP. He noted that the fund will invest in U.S. farmland dedicated largely to commodity row crops and in related on-farm businesses, such as grain storage and processing. He discussed the firm's strategy, ability to add value and boost yields, lease structure, typical crops, experienced team, high returns with manageable risk, and risk management processes. He explained risks inherent in agriculture, such as water sourcing and pest and disease control. Mr. Graves discussed the firm's relationship with the parent company, the efforts made to reduce conflict of interest risk, and past performance. The proposed investment is consistent with the Board-approved 2014 tangible assets annual plan.

Discussion ensued regarding sustainability, pesticide use, pricing of agricultural land, the U.S. Department of Agriculture's designation of different regions, ownership of infrastructure, leasing of major machinery, crops grown, genetically modified (GMO) crops, organic crops, and water rights.

Ms. Shen, Callan Associates, explained the due diligence process used to review the proposed investment. She said that Callan is impressed with the organization's investment strategy, high caliber of investment professionals, investment approach, ability to improve crop yields, culture, passion for the business, cohesive team, and desire to become an institutional investment manager. Ms. Shen discussed quarterly reporting, key hires, exemption from the Securities and Exchange Commission (SEC) registration, and selection of auditors. She said that overall this is a very positive and good investment. Callan Associates also recommended an investment of \$250 million in the fund.

The Committee discussed SEC registration, advisory committee seat, cash flow reporting, investment decision process, team relationships, experience, expertise, underwriting process, improvements, and acquisitions.

Mr. McNairy, Ms. McNairy, and Mr. Chapins, International Farming Company, described the firm's organization; operators; history; tenants; experience; qualifications; deal sourcing; land development; storage and processing equipment; research capabilities; model farm; analysis and monitoring capabilities; internal committees; external governance committees; and internal teams. They presented a case study and discussed best practices in the industry.

Discussion ensued regarding use of GMO and non-GMO crops; relationship to other companies; ability to maximize revenue through increased yield; preserved crops; direct sales to food companies; option to move upstream to the seed market with non-GMO products; soil quality monitoring; climate change issues; water rights;

farm locations; property divestment; government regulations; benefits of new technology; management team development; and organic growers.

Ms. Frost moved that the Private Markets Committee recommend the Board invest up to \$250 million, plus fees and expenses, in U.S. Farming Realty Trust III, LP, subject to continuing due diligence and final negotiation of terms and conditions. Representative Santos seconded the motion.

The Committee discussed the firm's opportunity for growth and seed production opportunities.

The above motion carried unanimously.

[The Committee recessed at 2:20 p.m., and reconvened at 2:29 p.m.]

TANGIBLE ASSETS INVESTMENT RECOMMENDATION – FORTRESS WORLDWIDE TRANSPORTATION AND INFRASTRUCTURE INVESTORS L.P.

Mr. Akers stated that staff recommended an investment of up to \$150 million in Fortress Worldwide Transportation and Infrastructure Investors (FTAI). The fund will invest in and actively manage transportation and infrastructure assets. The proposed investment is consistent with the Board-approved 2014 tangible assets annual plan. Mr. Akers described the firm's dedicated team, strong performance in transportation and infrastructure assets, strong deal-sourcing relationships, specialized expertise across numerous transportation sectors, unique value-add approach by applying private equity skills, existing portfolio of high-quality assets, and the potential to own desirable assets perpetually. He discussed exit strategies and payment to early FTAI investors.

The Committee discussed liability concerns, potential impact of the Keystone Pipeline, and regulatory changes.

Mr. Martin, Torrey Cove, discussed the team's competency in the target sector, transportation team, proprietary thesis, financial and operational skills, investment opportunities, performance history, compelling term structure, changing regulations, contemplated public listing, strong alignment of interests, long term relationship on the private equity side, and formal internal function to manage conflicts. Torrey Cove also recommended an investment of \$150 million in the fund.

Mr. Edens and Mr. Adams, Fortress, described the firm's history, experience, investment strategy, and experienced investment team. They described the fund's opportunities in transportation, strong performance in the sector, history, sector approach, equipment, infrastructure, attractive composition for the fund, focus on adding value, asset-based infrastructure approach, low competition, long-term growth rates, and current market conditions. They explained that the fund had made an investment in a railroad that previously had an accident in Canada and

subsequently filed for bankruptcy. Fortress bought the assets through auction and has no liability related to the accident.

Discussion ensued regarding exit strategies; that the public stock could trade on yield, the underlying value of the assets, or equity; transportation of oil; safeguards that need to be implemented; liability issues; potential impact of the Keystone Pipeline; and investment opportunities.

Ms. Frost moved that the Private Markets Committee recommend the Board invest up to \$100 million, plus fees and expenses, in Fortress Worldwide Transportation and Infrastructure Investors L.P., and related investment vehicles, subject to continuing due diligence and final negotiation of terms and conditions, with the ability to invest an additional \$50 million in subsequent public or private capital offerings. Treasurer McIntire 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 3:16 p.m.