

**WASHINGTON STATE INVESTMENT BOARD
Private Markets Committee Meeting Minutes
May 1, 2014**

The Private Markets Committee met in open public session at 9:18 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 (teleconferenced)
Representative Sharon Tomiko Santos
Jeff Seely

Members Absent: Judy Kuschel

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
John Graves, Assistant Senior Investment Officer – Tangible Assets
Gary Holt, Investment Officer – Private Equity
Linda Buchanan, Administrative Assistant

Mary Lobdell, Assistant Attorney General
Tara Blackburn, Hamilton Lane
Jay Yoder, Altius Associates
Daniel Rudolph and Eric Alsembach, Bunge Asset Management Limited
Kaleb Belzer, Bunge North America
Steve Schneider and Peter Kagan, Warburg Pincus

[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 3, 2014, MINUTES

**Ms. Frost moved to adopt the April 3, 2014, minutes.
Representative Santos seconded, and the motion carried
unanimously.**

TANGIBLE ASSETS INVESTMENT RECOMMENDATION – CASCADE MIDSTREAM PARTNERS I, LLC

Mr. Graves stated that staff recommended an investment of up to \$150 million in Cascade Midstream Partners I, LLC, in partnership with Bunge, Ltd., one of the world's largest agribusiness firms. The proposed investment is consistent with the Board-approved 2014 tangible assets annual plan.

[Treasurer McIntire arrived at 9:30 a.m.]

Mr. Graves explained the proposed investment would be a unique relationship compared to other agriculture investments brought before the Private Markets Committee, and he went on to describe the types of typical assets and the contractual structures in place between Bunge and Cascade. He stated the structure of the proposed investment is attractive due to the steady, long-term income focus; the opportunity to leverage the expertise of Bunge; and other factors. He further stated the investment was a good fit within the tangible assets portfolio. Mr. Graves provided details regarding the Bunge team, including the length of time that individuals have worked together, at Bunge and elsewhere. Mr. Graves discussed potential issues identified during underwriting, including conflicts of interest with Bunge, which are mitigated by various mechanisms, and highlighted the fact that WSIB will run the conflicts committee. Mr. Graves shared that Bunge has a long, impressive asset-level track record and staff is comfortable that Bunge North America is properly aligned to fulfill their duties. Mr. Graves indicated there is a potential for reputation risk to WSIB, including safety issues; however, Bunge places a high priority on safety concerns.

The Committee discussed Bunge's staffing related to this particular investment, potential environmental risks, workplace safety, potential economic impacts within the state of Washington, the separate account structure of the investment, Bunge's involvement in global sustainability practices, investment returns, and risk related to labor issues.

Mr. Yoder, Altius Associates, stated that his firm conducted operational and investment due diligence. Altius did not find any back office or operational issues. Bunge is a large global firm with extensive systems in place. He also stated the investment due diligence was favorable and the investment would be a good addition to the tangible assets portfolio. Mr. Yoder discussed the positive aspects of the investment, including favorable fundamental trends for the foreseeable future; Bunge's size; agriculture expertise; global presence; years of experience; ability to identify, analyze, and manage investments; merchant banking experience; and limited competition. Mr. Yoder also shared the risks of the investment, including Bunge's primary business not being investment management, the ability of Bunge staff to dedicate the necessary time to the investment, and potential conflicts of interest; however, he is of the opinion that these risks can be mitigated and controlled by the WSIB. He summarized by sharing the attractions outweighed the mitigable risks, the investment is a good addition to the tangible assets portfolio, and the investment was unanimously approved by the Altius investment committee.

[Mr. Nierenberg left at 9:50 a.m.]

Mr. Rudolph and Mr. Alsebach, Bunge Asset Management, Limited, and Kaleb Belzer, Bunge North America, provided background information about Bunge, including major businesses, locations, and business focus, and explained how Bunge will add to the success of the investment. They went on to discuss macro-economics, including income, population growth, consumption and production, improved farming techniques, and crop price points. They highlighted the infrastructure opportunity provided by the increase in grain production and their desire to partner with the WSIB to develop this necessary infrastructure.

Discussion took place regarding Bunge operations globally; the fiduciary relationship between Climate Change Capital and Cascade Midstream; Bunge's global values; global sustainability training and education; investment returns; GMO risks and mitigants; competition; separate account structure; and required U.S. port inspections.

Ms. Frost moved that the Private Markets Committee recommend the Board invest up to \$150 million, plus fees and expenses, in Cascade Midstream Partners I, LLC, subject to continuing due diligence and final negotiation of terms and conditions. Treasurer McIntire seconded, and the motion carried unanimously.

[The Committee recessed at 10:34 a.m. and reconvened at 10:47 a.m.]

PRIVATE EQUITY INVESTMENT RECOMMENDATION – WARBURG PINCUS ENERGY, L.P.

Mr. Holt described past discussions between the Board and staff regarding opportunities to invest in the energy sector, as well as the capacity in the private equity portfolio for such investments. He stated that staff recommended an investment of up to \$200 million in Warburg Pincus Energy, L.P., a global energy companion fund with a target size of \$3 billion being raised by Warburg Pincus LLC to invest alongside Warburg Pincus Private Equity XI and subsequent Warburg Pincus global funds in all energy deals. He explained that Warburg was raising the Energy Fund due to investor demand for more opportunity in the sector and because Warburg believes the energy sector is poised for significant growth. The Energy Fund will use the same team and employ the same core hydrocarbon exploration and production strategy that Warburg has used for the last decade. The WSIB has a 20-year partnership with Warburg Pincus and has invested in seven funds since 1994. The proposed investment is consistent with the Board-approved 2014 private equity annual plan and the private equity model portfolio.

Mr. Holt discussed the Board's long history with Warburg and described the firm's culture, multi-stage and multi-geographic strategy, alignment of interests, attractive terms, and historical performance. Mr. Holt stated that, although a large portion of Warburg's current energy portfolio is unrealized, the investments appear to be on track to produce attractive returns.

Discussion ensued regarding the equal sharing between the Energy Fund and the global fund and Mr. Holt verified that the Energy Fund will invest in every opportunity in which the main fund invests and cannot make independent investments.

Ms. Blackburn, Hamilton Lane, discussed market conditions in the energy sector and other WSIB general partners that have raised specialty funds. She described Warburg's decision to raise additional capital to invest pari passu with the main funds and discussed the firm's growth orientation, diverse portfolio across the energy chain, unconventional energy plays, proven, dedicated energy team, reputation, deep relationships, and well-known brand. Hamilton Lane also recommends an investment in the fund.

The Committee discussed climate change concerns, the impact of reserves on long-term climate change objectives, timing of recovery, potential regulatory laws, the impact of new technology, and recent strides in reducing carbon emissions.

Mr. Schneider and Mr. Kagan, Warburg Pincus, introduced themselves, and Mr. Schneider reviewed the firm's decision to establish the Energy Fund, investment opportunities, and market trends.

Mr. Kagan discussed the firm's history; performance; network; reputation; adherence to responsible guidelines and to environmental, social, and governance policies; and globally integrated management team. He described the fund's progress, low loss ratio, investment strategy, low leverage, investment pace, investment team, expertise, investments in alternatives, alignment of interest, and competitive advantage.

Mr. Schneider described the fundraising progress and expectations.

The Committee discussed the addition of Mr. Geithner to the team, climate change issues, potential regulations, bridge fuels, investments in alternatives, use of technology and its impact on the field, expected final cap, whether there would be room for an increased commitment, potential changes in exploration and production due to technology advances, and the possibility of developing a method to capture methane.

Further discussion ensued on the proposed commitment amount, staff's reasons for the recommended amount, and whether the size was sufficient to obtain the best terms.

Treasurer McIntire moved that the Private Markets Committee recommend the Board invest up to \$200 million, plus fees and expenses, in Warburg Pincus Energy, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Ms. Frost seconded, and the motion carried unanimously.

PRIVATE MARKETS CLOSING LOG

The Private Markets Closing Log was presented for informational purposes.

OTHER ITEMS

The Committee recognized and thanked Representative Santos for her service on the Board.

DISCUSSION WITH CONSULTANTS

Chair Masten 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 Board or would result in private loss to the providers of the information.

Chair Masten said the executive session was expected to last approximately 10 minutes, at which time the Committee would reconvene in open session and adjourn.

[The Committee convened in executive session at 11:54 a.m. and reconvened in open session and adjourned at 12:09 p.m.]