

**APPROVED**

**WASHINGTON STATE INVESTMENT BOARD  
Private Markets Committee Meeting Minutes  
June 12, 2014**

The Private Markets Committee met in open public session at 9:04 a.m. in the boardroom at the Washington State Investment Board in Olympia, Washington.

Members Present: Marcie Frost, Acting Chair  
Judy Kuschel  
Treasurer Jim McIntire  
Richard Muhlebach  
David Nierenberg  
Jeff Seely

Members Absent: George Masten

Others Board Members Present: Kelly Fox

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  
Steve Draper, Senior Investment Officer – Real Estate  
Fabrizio Natale, Assistant Senior Investment Officer – Private Equity  
John Graves, Assistant Senior Investment Officer – Tangible Assets  
Kristi Bromley, Administrative Assistant  
Stacy Conway, Administrative Assistant  
  
Mary Lobdell, Assistant Attorney General  
Tara Blackburn and Michael Augustine, Hamilton Lane  
Michael Humphrey, Daniel Moore, and Jay Morgan, Courtland Partners  
George Roberts, Mike Michelson, Johannes Huth, and Silke Scheiber, Kohlberg Kravis Roberts and Co.  
Philip Hammarskjold and Jeffrey Goldstein, Hellman & Friedman  
Craig Huff and Anil Ranavat, Reservoir Resource Partners  
Glenn Aaronson, Shiv Wallia, and Jean-Philippe Milot, Aevitas Property Partners

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

Acting Chair Frost called the meeting to order and took roll call.

## **ADOPTION OF THE MAY 1, 2014, MINUTES**

Acting Chair Frost announced the adoption of the minutes would be acted upon once a quorum was present.

### **PRIVATE EQUITY INVESTMENT RECOMMENDATION – KKR EUROPEAN FUND IV, L.P.**

Mr. Ruggels stated that staff recommended an investment of up to €200 million in KKR European Fund IV, L.P., a pan-European private equity fund with a target size of €3 billion. The fund will invest primarily in Europe, although it may invest in the Russian Federation and the countries of the Middle East and Africa on a limited basis. The WSIB has had a successful, long-term relationship with KKR dating back to KKR's 1982 Fund. The Board has committed approximately \$8.5 billion across a number of KKR-sponsored investment vehicles over that time period. The proposed investment is consistent with the 2014 private equity annual plan and model portfolio approved by the Board. Mr. Ruggels noted KKR's strong franchise and global platform, noting that KKR has been investing in Europe since the late 1990s. He reviewed the firm's focus on value creation and strong track record, returning over 16 percent net of all fees and expenses for Washington since inception.

[Treasurer McIntire arrived at 9:10 a.m.]

Mr. Ruggels reviewed KKR's European team and performance of the European funds. He noted that, at this time, up to 15 percent of Fund IV could be invested in Africa although the exact percentage would be an area of discussion with KKR. Discussion ensued regarding the fund being raised in euros rather than dollars, investment limit for Africa, and WSIB participation on the Fund's advisory board.

Ms. Blackburn, Hamilton Lane, discussed the European team and performance. Discussion ensued regarding the performance of KKR's European funds; the European team; likelihood that things will turn around in Europe; and the Fund's likely exposure to Africa and the opportunity for KKR to begin building a track record there.

Mr. Roberts reviewed the long standing relationship between KKR and the WSIB, noting the WSIB's aggregate commitments to KKR and the value KKR has created for WSIB and its beneficiaries. Mr. Huth reviewed the macroeconomic outlook for Europe, noting it is becoming more favorable despite some headwinds. Discussion ensued regarding the macroeconomic outlook for Europe, including unemployment in the southern economies, the positive effect beginning to be seen as result of the restructuring, fiscal and monetary policy in the region, geopolitical issues, competitive environment in the European private equity market place, and debt markets.

Mr. Huth reviewed the KKR Europe platform, including their long and established presence in Europe, team of investment professionals, industry focus complemented by regional coverage, and the support of the broader KKR team. Ms. Scheiber reviewed the KKR investment life cycle, including deal sourcing, and noted the resulting improved, differentiated performance. Mr. Huth reviewed

performance of the European funds and WSIB cash flows related to KKR European fund investments. He summarized KKR's differentiating characteristics, including their local yet global focus, experienced and strengthened team, and strong track record.

Discussion ensued regarding KKR's inclusion of environmental, social, and governance criteria in their due diligence process and potential investment opportunities in Africa.

The Committee discussed the size of the recommended investment.

**Treasurer McIntire moved that the Private Markets Committee recommend the Board invest up to €200 million, plus fees and expenses, in KKR European Fund IV, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Ms. Kuschel seconded, and the motion carried unanimously.**

#### **ADOPTION OF THE MAY 1, 2014, MINUTES**

**Ms. Kuschel moved to adopt the May 1, 2014, minutes. Treasurer McIntire seconded, and the motion carried unanimously.**

[The Committee recessed at 10:36 a.m. and reconvened at 10:51 a.m.]

#### **PRIVATE EQUITY INVESTMENT RECOMMENDATION – HELLMAN & FRIEDMAN CAPITAL PARTNERS VIII, L.P.**

Mr. Natale stated that staff recommended an investment of up to \$600 million in Hellman & Friedman Capital Partners VIII, L.P., a transatlantic private equity fund with a target size of \$9 billion. Hellman & Friedman (H&F) has been a long-term investment partner of the WSIB. Consistent with predecessor funds, the Fund will focus on making equity-related investments mainly in the \$300 million to \$1.5 billion range, primarily in the U.S. and other developed countries. The proposed investment is consistent with the Board-approved 2014 private equity annual plan and private equity model portfolio. Mr. Natale reviewed the focus of the firm; their outstanding track record; strong, cohesive team and closely knit culture; market leading franchise; alignment of interest; and availability of co-investment deal flow.

Mr. Augustine noted H&F's consistency of performance in several funds across multiple market cycles dating back to the late 1980s; limited volatility; and low loss ratio. He noted H&F's singular focus on private equity investing, their consistent investment strategy, and reasonable growth. He stated that Hamilton Lane supports the recommendation.

Discussion ensued regarding H&F's successful generational transitions, depth of the firm, and investment strategy.

Mr. Hammarskjold, H&F, introduced himself and Mr. Goldstein and thanked the Board for their support and a great relationship, which they take very seriously. He provided an overview of the firm and noted their strong, consistent performance; deep industry knowledge; and strong alignment of interests. Mr. Hammarskjold noted H&F's consistent and focused approach and rigorous adherence to their investment philosophy and process. He reviewed H&F's investment record since inception of each fund; record of creating substantial alpha in terms of net IRR, net multiple, and distributions to paid-in capital; and history of disciplined realizations, noting that realizations have exceeded investments every year over the last 8 years. He reviewed the H&F team and their mission to be the best large cap private equity firm in the developed world.

Mr. Goldstein reviewed H&F's differentiating features, including organization, investment philosophy, aligned limited partner base, culture and ability to attract and retain the highest quality people, alignment of interest, ownership structure, and successful generational transfer. He reviewed their investment philosophy and concentrated portfolio, noting their deep sectorial experience, deal sourcing, and value added were key ingredients to their success. H&F seeks to generate alpha by investing in outstanding businesses with strong and defensible competitive advantages. He reviewed their valuation creation philosophy, rigorous investment process, and proven results across sectors.

Discussion ensued regarding H&F's focus on their fiduciary duty, duration and quality of their investment record, and expanded recruitment process for investment professionals.

[Mr. Fox left at 11:42 a.m.]

**Chair McIntire moved that the Private Markets Committee recommend the Board invest up to \$600 million, plus fees and expenses, in Hellman & Friedman Capital Partners VIII, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Ms. Kuschel seconded, and the motion carried unanimously.**

[The Committee recessed for lunch at 11:45a.m., and reconvened at 12:13 p.m.]

#### **TANGIBLE ASSETS INVESTMENT RECOMMENDATION – RESERVOIR RESOURCE PARTNERS TE, L.P.**

Mr. Graves said that staff recommended an investment of \$100 million in Reservoir Resource Partners TE, L.P., a \$1.5 billion fund that will invest in a diverse mix of existing natural resources and power assets, with a particular focus on out-of-favor or distressed assets. The proposed investment fits the upstream and midstream segment of both the energy and agriculture categories of WSIB's tangible assets framework and is consistent with the Board-approved 2014 tangible assets annual plan. Reservoir Resource Partners' (RRP) typical approach is to be the sole capital provider, consistent with tangible assets' preference for control investors. The Fund

will focus on the middle-market with deal sizes in the \$50-\$200 million range. Additionally, the Fund fits the WSIB's income-focused objective in tangible assets. Mr. Graves noted three key individuals of the management team have been with the firm since inception in 1998. The team has deep domain expertise in the power and renewable energy markets and the group has minimal overlap with existing WSIB tangible assets general partners. They are distressed or turnaround experts and generate an attractive return with a low level of leverage. The portfolio has a high degree of complexity, which RRP manages well. While a first time fund in this strategy, they have a 15-year asset-level track record. Mr. Graves noted the complexity of distressed investing can lead to a need for increased risk management and expertise and stated RRP is highly competent at managing those risks.

Discussion ensued regarding the hedging strategies employed by RRP, which are used to protect contracted revenues linked to commodity prices and to lower risk as well as create more visible revenue streams and remove some volatility. Further discussion ensued regarding RRP investments in the power industry and primary focus on OECD (Organisation for Economic Co-operation and Development) markets.

Mr. Moore, Courtland Partners, reviewed RRP's team, track record, predominate focus on power and natural resources, deal sourcing, institutional-quality fees, and focus on downside protection. He reviewed risk factors, including currency, political, and commodity prices. Mr. Morgan noted RRP is a highly-regarded group that demonstrates integrity, honesty, and a focus on doing the right thing for investors.

Discussion ensued regarding RRP's renewable investments, portfolio fit, size of the proposed investment, and co-investment opportunities.

Messrs. Huff and Ranavat, Reservoir Resource Partners, introduced themselves. Mr. Huff provided an overview of RRP, including their focus on power and natural resources sectors, assets under management, and the long-term working relationship enjoyed by the three founding partners as well as their track record.

Mr. Ranavat reviewed RRP's experience in natural resources and power, including the execution of their strategy through the establishment of platform companies and focus on downside protection through contractual and structural features.

Discussion ensued regarding Reservoir's investments in orange groves, with Mr. Huff noting these investments, while certainly different than their typical investments in power and natural resources, have similar risk and reward components. The investments feature long-term contracts with inflation protection.

Mr. Huff reviewed Reservoir's investment philosophy, which has been employed for 20 years, and investment environment. He reviewed the European power market and Reservoir's strategy within that area. He concluded by noting Reservoir's

attractive track record, robust pipeline with downside protection and attractive cash flow characteristics, and embedded inflation protection.

Discussion ensued regarding their investment period, contracts, and exit strategies. Further discussion ensued regarding climate change and the transition to a more non-carbon power base over time, renewable energy opportunities in different markets, as well as other environmentally responsible investment opportunities.

**Treasurer McIntire moved that the Private Markets Committee recommend the Board invest up to \$100 million, plus fees and expenses, in Reservoir Resource Partners TE, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Ms. Kuschel seconded, and the motion carried unanimously.**

### **REAL ESTATE INVESTMENT RECOMMENDATION – AEVITAS PROPERTY PARTNERS LLC**

Mr. Draper said that staff recommended a follow-on investment of \$500 million in Aevitas Property Partners, LLC. The investment is consistent with the Board-approved 2014 real estate annual plan and would be the second investment recommendation for this group, following a \$250 million commitment approved by the Board in April 2012. He reviewed key merits and risks of the proposed investment. The quality of senior management, particularly Mr. Aaronson, their differentiated skill set, and willingness to be patient were key merits. In terms of strategy, merits included investments in operating companies, diversification, and market conditions. Governance rights, attractive terms and conditions, and exclusivity were key merits related to structure. Mr. Draper reviewed key risks, including operating risk associated with the real estate operating company strategy and key person risk related to Mr. Aaronson.

Discussion ensued regarding the community-based focus of real estate investing and the socially advantageous by-products that can come as a result of decisions made with the primary goal of return generation.

Mr. Humphrey, Courtland Partners, introduced himself and Mr. Morgan. He noted that the real estate operating company strategy employed by the WSIB through intermediaries has many benefits and provided significant outperformance during the economic downturn. He stated that the skillful selection of management teams and their focus on property type and region were reasons for this outperformance. He reviewed key person risk as well as risk associated with a developing organization. Mr. Morgan noted Aevitas' strategy and geographic focus were particularly attractive as well as the team's discipline in putting capital to work in markets where that capital would be well compensated.

[Treasurer McIntire left the meeting at 1:30 p.m. and rejoined the meeting via teleconference at 1:37 p.m.]

Messrs. Aaronson, Wallia, and Milot, Aevitas Property Partners, introduced themselves. Mr. Aaronson noted Aevitas' focus on platform real estate investments in either growth or consequential markets with sustainable property types. Aevitas focuses on identifying experienced professionals with conviction about an investment strategy and completes extensive due diligence on the people, market, and specific strategy. They work with the local partner to tightly focus an investment strategy that provides a competitive advantage then establish governance and control mechanism to provide an appropriate level of oversight and mentoring of the local partner. Real estate is a local business and local expertise is essential. They look for companies with long-term growth outlooks that will generate cash flow and ensure alignment of economic interests. Aevitas provides ongoing engaged oversight of their local partners.

Mr. Wallia and Milot provided examples of investments Aevitas has made, including lessons learned through each, with the primary lesson learned being that people are first and finding the right local partner is critical.

Discussion ensued regarding Aevitas' due diligence process and how they identify the right local partners. Further discussion ensued regarding the asset types and locations of Aevitas' investments.

Mr. Aaronson reviewed Aevitas' near-term pipeline and discussion ensued regarding multi-family residential in various geographies. Mr. Aaronson noted that their business is about finding good people, matching them with intelligent long-term strategies, and taking their time in doing this.

The Committee discussed diversification of investment types, geographic focus, and the size of Aevitas within the WSIB real estate portfolio,

**Acting Chair Frost moved that the Private Markets Committee recommend to the Board a follow-on investment of \$500 million, plus fees and expenses, in Aevitas Property Partners, LLC, subject to continuing due diligence and final negotiation of terms and conditions. Ms. Kuschel 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 2:20 p.m.