

**WASHINGTON STATE INVESTMENT BOARD  
Private Markets Committee Meeting Minutes  
September 4, 2014**

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  
Judy Kuschel  
Treasurer Jim McIntire  
Richard Muhlebach  
David Nierenberg  
Joel Sacks

Members Absent: Jeff Seely

Others Board Members Present: Bill 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  
Steve Draper, Senior Investment Officer – Real Estate  
Kurt Akers, Assistant Senior Investment Officer – Tangible Assets  
Janet Kruzel, Assistant Senior Investment Officer – Private Equity  
Carmen Matsumoto, Investment Officer – Private Equity  
Stacy Conway, Administrative Assistant  
  
Mary Lobdell, Assistant Attorney General  
Daniel Moore and Michael Humphrey, Courtland Partners  
Thomas Martin, TorreyCove Capital Partners  
Tara Blackburn and Michael Augustine, Hamilton Lane  
Greg Martin and Steve Bickerton, Prostar Capital  
Lisa Stewart and James Bass, Sheridan Production Partners  
Paul Ginsberg and Erik Morris, Roark Capital Group  
Juan Pablo Zucchini, Santiago Castillo, and Maggie Sahlman, Advent International  
William Jackson and Guy Weldon, Bridgepoint Advisors Limited

[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 JUNE 12, 2014, MINUTES**

**Ms. Frost moved to adopt the June 12, 2014, minutes. Treasurer McIntire seconded, and the motion carried unanimously.**

### **TANGIBLE ASSETS INVESTMENT RECOMMENDATION – PROSTAR ASIA-PACIFIC ENERGY INFRASTRUCTURE FUND L.P. AND GLOBAL TERMINALS INVESTMENTS LTD.**

Mr. Akers said that staff recommended three actions: approval of \$100 million in the Prostar Asia-Pacific Energy Infrastructure Fund (the fund), \$100 million in Global Terminal Investments (GTI) on a co-invest basis alongside the fund in its storage terminal investments, and the authority to exercise provisions in the fund that allow for extended holds, as well as the ability to enter into a subsequent management agreement if necessary, which must be done within 10 days of notification. Prostar Capital (the firm) was formed in 2011 to target investments in the energy sector. The fund will focus on the Asia-Pacific region and will make control and influential minority equity investments in middle-market energy infrastructure assets and operating companies that are focused on midstream, storage, transportation, and energy distribution infrastructure. The proposed investment would fall into the unidentified allocation in the Board-approved 2014 tangible assets annual plan; however, the investment was included in the mid-year update.

Mr. Akers discussed the increasing global demand for energy products, especially in the Asia-Pacific region; the subsequent need for new infrastructure to handle the storage, transportation, and distribution of those energy products; market conditions; and the shift toward natural gas and away from coal. He described the firm's investment strategy, lack of competition, long-term relationships with key strategic operators, strong team, high quality seed assets and transaction pipeline, proprietary deal flow, and platform company concept. Mr. Akers explained the WSIB would be able to control exits through GTI, other co-investments, and unique fund terms. He noted that this is a first-time team and discussed currency and political risk, lack of majority control, and potential conflicts of interest with SK Holdings.

Mr. Moore, Courtland Partners, noted that Courtland Partners recommended both the fund and the co-investment opportunity. He discussed the fund's investment strategy, significant opportunities for added value or expansion, attractiveness of the co-investment structure, the compelling partnership with SK Holdings, operating and strategic partners, and limited development risk. He opined that, although there is the potential for a conflict of interest between the firm and SK Holdings, there will be no intermingling of the two. Mr. Moore described the current market opportunities, high demand for conventional energy and energy infrastructure, limited competition in the middle-market sector, and political and regulatory risk. He explained that, although this is a first time strategic partnership, the team has been active in region for two decades.

Discussion ensued regarding geographic targets.

Messrs. Martin and Bickerton, Prostar Capital, introduced themselves. Mr. Bickerton provided an overview of the fund, the fund's seed asset, and investment and co-investment opportunities. He described the firm's focused investment strategy in the mid-stream energy infrastructure sector in high-quality assets with growth potential.

The Committee discussed key risk factors and how the firm maintains a common approach and culture and manages rivalry across four offices.

Mr. Martin discussed his personal background, the firm's history, experience, and sector and regional focus.

Mr. Bickerton described his personal background and the firm's experienced team.

Mr. Martin discussed the firm's investment strategy and approach, niche focus in the Asia-Pacific region, first-mover advantage, low competition, deal flow, and market conditions.

[Mr. Longbrake left at 9:41 a.m.]

Discussion ensued regarding the likely slowdown in China's growth, business interruption and catastrophic occurrence insurance, the partners' vision for the future of the firm, and potential changes in the industry.

[Treasurer McIntire left at 9:54 a.m.]

The Committee discussed staff's oversight, due diligence, utilization of advisory board seats to mitigate risks, controls in place to prevent strategy shift, deal size, and the firm's utilization of platform companies to mitigate capacity issues.

**Mr. Sacks moved that the Private Markets Committee recommend the Board invest up to \$100 million, plus fees and expenses, in Prostar Asia-Pacific Energy Infrastructure Fund L.P. and co-invest up to \$100 million, plus fees and expenses, in Global Terminal Investments Ltd. Further, that the Private Markets Committee recommend that the Board authorize staff to exercise, at its discretion, an option in the Fund that allows an investor to retain its pro-rata share of an asset upon liquidation by the Fund, and to negotiate a management agreement for such share with equal or better terms as those of the Fund, with notification to the Board to follow promptly in the subsequent Executive Director report when any such option is exercised. Ms. Frost seconded, and the motion carried unanimously.**

## **TANGIBLE ASSETS INVESTMENT RECOMMENDATION – SHERIDAN PRODUCTION PARTNERS III, L.P.**

Ms. Will stated that staff recommended an investment of up to \$150 million in Sheridan Production Partners III (the fund), a \$1.5 billion fund that will make direct investments in mature oil and gas properties in the U.S. This would be the third standalone fund for Sheridan Production Partners Manager (the firm). The WSIB invested in both of the previous funds. Ms. Will explained the fund will invest in a diverse portfolio of mature, predictable oil and gas producing properties within various U.S. basins. The proposed investment would fall in the Board-approved 2014 tangible assets annual plan and is complementary to the other oil holdings in the WSIB's tangible assets portfolio.

Ms. Will described the firm and its investment strategy, alignment with the tangible assets strategy, cash generation, narrow focus, experienced team, succession planning, and core assets.

Mr. Martin, TorreyCove Capital Partners, said the firm stands out as the best of breed in a small universe of comparable managers. He discussed the firm's organizational changes, evolving relationship with Warburg Pincus, reasonable and fair economics, investment strategy, compelling market opportunity, active post-investment management, value-add methodologies, internal tracking system, competitive dynamics, historical performance, governance terms, structure of operating company, and reasonable limited partnership structure.

Discussion ensued regarding the industry's dependency on water availability, use of recycled water, results of the second fund, the amount of time management and the workforce would need to spend on the second fund while investing the new fund, the new team's ability to work together well, the timing of the new fund, Ms. Stewart's expertise, exit strategies, and income stream.

Ms. Stewart and Mr. Bass, Sheridan Production Company, introduced themselves. Ms. Stewart described the fund's investment strategy, value creation methodologies, use of hedging, and cash returns to investors. She discussed the firm's experience and history, market conditions, investment opportunities, alignment of interest, partnership with Warburg Pincus, broadly shared equity, stable team, and mission clarity. Ms. Stewart discussed the performance of prior funds and the progression of the Sand Ridge acquisition.

Discussion ensued about the improvements in the second fund, availability of managerial and other resources to continue prior funds while investing this fund, operationally intensive process to get the most value from an asset, future inventory, life cycle of asset development, anticipated additions to the team, potential to recover carbon dioxide for additional revenue, succession planning, staff development, and divestiture planning.

Mr. Bass spoke to the plans for the new fund, including the predictability, stability, and cash flow generated from investing in mature areas with a long production history, as well as geographic diversity.

Ms. Stewart discussed the firm's consistent business strategy; investment opportunities; reputation; environmental, social, and governance oversight; and investment committee.

Discussion ensued regarding the members of the investment committee, the changes in management roles, and growth of the organization.

**Ms. Frost moved that the Private Markets Committee recommend the Board invest \$150 million, plus fees and expenses, in Sheridan Production Partners III, 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 at 11:04 a.m. and reconvened at 11:16 a.m.]

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

Ms. Matsumoto stated that staff recommended an investment of up to \$200 million in Roark Capital Partners IV, a North American middle-market buyout fund with a target size of \$2 billion. She said the WSIB previously invested \$125 million to Roark Capital Partners III in 2012, and the proposed investment is consistent with the updated 2014 private equity annual plan shared with the Board in July, as well as the private equity model portfolio. Ms. Matsumoto discussed the fund's fit in the WSIB's private equity portfolio and its excellent returns. The fund will invest in middle-market companies in franchising and multi-unit type businesses, as well as consumer products and services, environmental services, and business services sectors, mainly in the United States, and to a much lesser extent, Canada. Ms. Matsumoto noted that while a large portion of the portfolio is unrealized, the firm's performance has been strong.

Ms. Blackburn, Hamilton Lane, opined that Roark was doing a great job and described the firm's interesting middle-market niche, plans to begin investment of the fund in 2015, robust pipeline of exits, institutionalization of the organization, ability to build out franchises, and past performance. She discussed economic cycles and said this was an excellent opportunity. Hamilton Lane also recommended an investment of up to \$200 million in the fund.

Messrs. Ginsberg and Morris, Roark Capital Partners, introduced themselves, and Mr. Ginsberg provided an overview of the firm, discussing the firm's team, core values, value-add approach, investment strategy, geographic diversification, prudent use of leverage, and planned growth.

Mr. Morris discussed the current portfolio, investment returns, sector focus, industry diversification, acquisition of companies, proprietary sourcing, value creation through earnings growth rather than cutting staff, investment opportunities in a growing industry, and low use of debt.

Mr. Nierenberg asked how much of the earnings growth was organic versus through acquisitions. Mr. Morris replied that it was primarily organic growth, and that he would research and provide those details.

Discussion ensued regarding the firm's successful model, changes in the market, the potential impact of court decisions, and the need to continue to grow and improve.

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

#### **PRIVATE EQUITY INVESTMENT RECOMMENDATION – ADVENT LATIN AMERICAN PRIVATE EQUITY FUND VI L.P.**

Ms. Kruzel said that staff recommended an investment of up to \$250 million in Advent Latin American Private Equity Fund VI (the fund), a \$2 billion target size private equity fund that will invest in companies across Latin America and will pursue control positions in later-stage, middle-market businesses, principally in Mexico, Brazil, and Colombia. Ms. Kruzel stated the WSIB has invested in four previous Advent International funds, and further this is an opportunity to expand a relationship with a well-established partner in an area in which the WSIB desires more exposure. The proposed investment is consistent with the 2014 private equity annual plan and model portfolio.

Ms. Kruzel described the firm's team, experience, expertise, global platform, pan-regional offices staffed with local people, strong governance, proven investment strategy, consistent performance record over multiple cycles, successful exits, sector focus, and operational improvement strategy. She discussed the Latin American market environment, exit opportunities, competition in the Latin American middle-market buyout arena, and methods to guard against risks. Ms. Kruzel described the firm's transition from co-head management to a more institutional investment committee structure and opined the change allowed the firm to maintain its senior expertise while providing opportunity for promotion among the team. Ms. Blackburn, Hamilton Lane, discussed market trends, especially in the emerging markets; limited opportunities in Latin America; the firm's impressive level of consistency through drastic cycles; and limited competition. Hamilton Lane also recommended an investment of up to \$250 million in the fund.

Discussion ensued regarding the upside optionality and consistent returns.

Messrs. Zucchini and Castillo and Ms. Sahlman, Advent International, introduced themselves. Ms. Sahlman described the firm's history, global organization, focus on only traditional private equity investing, and geographic diversification.

Mr. Castillo discussed the firm's integrated teams, systematic investment approach, and history over multiple cycles that has enriched the team and developed skills.

Mr. Zucchini described the Latin America presence with 37 investment professionals in three offices. He discussed the firm's investments in 44 companies in six countries with either control positions or substantial management rights. Mr. Zucchini spoke to the fund's flexibility to deploy capital across its target markets and sectors.

Mr. Castillo discussed the in-house portfolio support group, operating partner program, and investment advisors.

Discussion ensued regarding the firm's sourcing of executives, reputation, and trainee development process.

Messrs. Castillo and Zucchini discussed the fund's sector allocation that follows global trends but applies local scrutiny, consistent returns, realizations, focus on operations, preparation of 100-day plans, and detailed analysis processes.

Ms. Sahlman said that this fund would follow the same successful strategy and expected to close by the end of September.

**Mr. Sacks moved that the Private Markets Committee recommend the Board invest up to \$250 million, plus fees and expenses, in Advent Latin American Private Equity Fund VI 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 12:22 p.m. and reconvened at 12:55 p.m.]

[Mr. Longbrake rejoined the meeting at 12:22 p.m.]

[Mr. Nierenberg left at 12:45 p.m., and rejoined the meeting via teleconference at 12:50 p.m.]

## **PRIVATE EQUITY INVESTMENT RECOMMENDATION – BRIDGEPOINT EUROPE V L.P.**

Ms. Kruzel stated that staff recommended an investment of up to €225 million in Bridgepoint Europe V (the fund), a pan-European middle-market buyout fund with a target size of €3.5 billion. The fund will invest in well-established, market-leading, middle-market companies with strong growth potential, primarily in the United Kingdom and Western Europe, and to a lesser extent in Eastern Europe and the

Nordic region. The WSIB has invested in two prior Bridgepoint Europe funds. Ms. Kruzel said the proposed investment would expand the relationship with a well-established partner. The proposed investment is consistent with the 2014 private equity annual plan and model portfolio.

Ms. Kruzel reviewed the firm's consistent investment strategy that complements larger European investments; experienced multi-national and multi-lingual investment team; local coverage from multiple offices; wide networks; reputation for integrity; and relationship with financial providers, even in difficult markets. The fund will invest in diverse industries, but with a particular focus on consumer, healthcare, financial services, business services, industrial, and media and technology sectors. Ms. Kruzel described the firm's strong performance history with substantial realizations over multiple cycles and attractive fit in the WSIB's private equity portfolio. She discussed the firm's dedication to private equity, geographic focus, consistent culture, and ability to shift across sectors and geographies to take advantage of the most attractive opportunities. Ms. Kruzel discussed the European market environment, exit opportunities, and the performance of a prior fund.

Mr. Augustine, Hamilton Lane, described the firm's performance on an aggregate basis, improvements in the third fund, composition of the fourth fund, and current attractive pricing. He discussed the firm's market position, unique niche, strong deal flow, proprietary deal sourcing, and current market conditions. Mr. Augustine opined that this was an opportunity to continue an existing relationship with a well-positioned manager. Hamilton Lane also recommended an investment of up to €225 million in the fund.

Discussion ensued regarding potential changes in Europe and the mitigation of risks associated with potential problems if the euro deteriorates. The Committee discussed the firm's pricing discipline, flexibility within geographic and industry sectors, and international exposure.

Messrs. Jackson and Weldon, Bridgepoint Advisors Limited, introduced themselves. Mr. Jackson provided a company overview. He stated that Bridgepoint is the pre-eminent pan-European middle-market firm operating from seven investment offices and a portfolio support office in China. He described the firm's highly experienced investment professionals and operating team; proven track record; control positions; investment strategy; the importance of specialist support functions in value creation; investment track record; and valued relationship with the WSIB.

Mr. Weldon discussed middle-market investment opportunities, volatility in Europe, and recovery expectations. He described the firm's investment strategy, flexibility across sectors, diversification across industries and geographies, and well-defined ESG principles.

Mr. Jackson discussed the multi-lingual team operating across seven offices, support activities in Asia, and the current platform that has incorporated key learnings from the global financial crisis.

Mr. Weldon discussed prior performance and expected returns.

Mr. Jackson stated that this fund will continue the successful strategy of prior funds and discussed specific market conditions, citing relative examples of portfolio companies. He said the fund terms are compliant with the standards set forth by the Institutional Limited Partners Association (ILPA). He summarized why Bridgepoint believes the middle market is a very attractive opportunity and how the Bridgepoint platform is well positioned and will continue to evolve.

Discussion ensued regarding the deployment of the portfolio support group, the value creation plan, expected low to no growth in Europe's gross domestic product, low inflation, political risks, and how the firm mitigates economic and political risks.

**Ms. Kuschel moved that the Private Markets Committee recommend the Board invest up to €225 million, plus fees and expenses, in Bridgepoint Europe V L.P. subject to continuing due diligence and final negotiation of terms and conditions. Ms. Frost seconded, and the motion carried unanimously.**

#### **2015 MEETING SCHEDULE**

Mr. Bruebaker put forth the proposed meeting dates for consideration.

**Ms. Kuschel moved that the Private Markets Committee adopt the 2015 meeting dates as presented. 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 in open session.

#### **EXECUTIVE SESSION – DISCUSSION WITH CONSULTANTS**

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. Chair Masten said the executive session was expected to last approximately 5 minutes, at which time the Committee would reconvene in open session and adjourn.

[The Committee convened in executive session at 1:48 p.m. and reconvened in open session and adjourned at 1:51 p.m.]