

**WASHINGTON STATE INVESTMENT BOARD
Private Markets Committee Meeting Minutes
December 4, 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
Kelly Fox
Richard Muhlebach
David Nierenberg
Jeff Seely

Members Absent: Marcie Frost
Judy Kuschel
Treasurer Jim McIntire

Others Board Members Present: Bill Longbrake (teleconferenced)
Joel Sacks

Also Present: Theresa Whitmarsh, Executive Director
Gary Bruebaker, Chief Investment Officer
Tom Ruggels, Senior Investment Officer – Private Equity
Steve Draper, Senior Investment Officer – Real Estate
Janet Kruzel, Assistant Senior Investment Officer – Private Equity
Linda Buchanan, Administrative Assistant
Stacy Conway, Administrative Assistant

Mary Lobdell, Assistant Attorney General
Tara Blackburn and Natalie Fitch, Hamilton Lane
Michael Humphrey, Courtland Partners
Eric Resnick and Mike Shannon, KSL Capital Partners
Stephen Babson, John von Schlegell, and Bradaigh Wagner, Endeavour Capital Partners
Don Suter and Garret House, Evergreen Real Estate Partners
Rich Cline and Ray Flores, Calzada Capital Partners

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

Chair Masten called the meeting to order and announced the location of the meeting would be changed to the main capital building due to lack of water in the WSIB building.

[The Committee recessed at 9:05 a.m. and reconvened in the House Rules Room at the Washington State Legislative Building at 9:46 a.m.]

ADOPTION OF THE SEPTEMBER 4, 2014, MINUTES

Due to a lack of quorum, the minutes were tabled until the next regular meeting.

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

Ms. Kruzel said staff recommended an investment of up to \$250 million in KSL Capital Partners IV, a specialty niche investment with an experienced, successful partner employing a proven, operationally-driven strategy in the travel and leisure business, primarily in North America. She described the firm's investment strategy and prior WSIB investments with the firm. The proposed investment is consistent with the updated 2014 private equity annual plan shared with the Board in July and the private equity model portfolio.

Ms. Kruzel described the firm's large, experienced, and skilled team; expertise in both equity and debt investments; attractive sector that fits well in the WSIB's private equity portfolio; strong performance; and proven, focused niche strategy. Ms. Kruzel commented on management succession and sector risk.

Ms. Blackburn, Hamilton Lane, described the firm's strategy, sectors, team transition and growth, performance, and liquidity events. She stated the proposed investment was a strong opportunity to invest with a great management team, and Hamilton Lane concurred with the recommendation.

Messrs. Resnick and Shannon, KSL Capital Partners, introduced themselves. Mr. Shannon discussed the firm's history, the status of the current funds, disciplined approach to investments and distributions, attractive but complicated sector with limited competition, and defensive investments such as recreation and golf.

Mr. Resnick discussed the firm's cumulative investment and distribution pace, focus on operations, and ability to recognize economic and consumer trends. He said the firm is therefore able to generate higher revenue and appeal to a greater number of consumers. Mr. Resnick described the firm's investment sectors and platforms, target consumers, value creation methods, and strategic rotational aspect during economic cycles.

Discussion ensued regarding fundraising patterns, allocations, operating and valuation cycles, the firm's London office, possible geographic expansion, sectors where the firm owns real estate, and value creation. Further discussion arose concerning the gaming sector, the St. Regis holding, current market conditions, and investment opportunities.

Due to a lack of quorum, the Committee was unable to take action. It was the consensus of those Committee members present to forward this item to the Board for approval.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – ENDEAVOUR CAPITAL FUND VII, L.P.

Mr. Nierenberg recused himself due to a conflict of interest arising from a business relationship with several members of the general partner.

Ms. Kruzel stated staff recommended an investment of up to \$150 million in Endeavour Capital Fund VII, a lower middle-market private equity fund that continues Endeavour's focus on the less efficient, lower middle-market, in the Western United States. The WSIB invested in three of the prior Endeavour equity funds, as well as in the Endeavour Structured Equity and Mezzanine Fund through the Innovation Portfolio. The proposed investment is consistent with the updated 2014 private equity annual plan shared with the Board in July and the private equity model portfolio.

Ms. Kruzel reviewed the firm's stable, experienced investment team with no turnover; strong reputation for integrity; and expertise in investment banking, consulting, law, and public accounting in addition to private equity. She discussed the firm's performance, generational transition, and fund size.

Ms. Fitch, Hamilton Lane, discussed the firm's strengths and key differentiators, strong performance, return on exited funds, current funds, and strong portfolio companies. She addressed the long hold periods, disciplined growth, and experienced, cohesive team. Ms. Fitch said Hamilton Lane supports the proposed investment.

[The Committee recessed at 11:05 a.m. and reconvened at 11:15 a.m.]

[Mr. Longbrake left the meeting at 11:07 a.m.]

Messrs. Babson and von Schlegell, and Ms. Wagner, Endeavour Capital Partners, described the firm's investment model, long-term view with an emphasis on return on capital over internal rate of return, values and culture, investment performance, transaction analysis, status of current funds, and investment team. Endeavour has a 23-year history, sources deals through strong relationships in the industry, and is disciplined in pricing and structuring of transactions. The nine managing directors have over 140 years of cumulative investing experience and, to date, no managing director or principal has left the firm. They discussed the firm's reputation, transparency, philosophy, and culture.

Due to a lack of quorum, the Committee was unable to take action. It was the consensus of those Committee members present to forward this item to the Board for approval.

REAL ESTATE INVESTMENT RECOMMENDATION – EVERGREEN REAL ESTATE PARTNERS LLC

Mr. Draper said that staff recommended an additional investment in Evergreen Real Estate Partners (Evergreen) of \$500 million, consistent with the 2014 real estate annual plan, for further growth of existing real estate operating companies (REOCs)

and commitments to new companies. He explained the intermediary and REOC structure and the necessity for the increased commitment to Evergreen, including the need for additional capital needed to grow existing REOCs. Mr. Draper shared the merits of the investment in Evergreen, including the long and successful history that the WSIB has had with them, as well as their high returns, deep experience, exceptional patience, and ability to time transactions. He said the most prominent risks include operating, currency exposure, and development risks. In addition, there is concentration risk present in the investment, which is consistent with the WSIB real estate investment strategy of investing the majority of the allocation through the four intermediaries. However, each intermediary owns a number of REOCs, all of which are focused on different sectors in different geographies that in turn own numerous properties.

Mr. Sacks asked if the additional allocation would be used for existing REOCs or for the acquisition of new REOCs. Mr. Draper responded that he expected the majority would be used for existing REOCs.

Mr. Humphrey, Courtland Partners, shared that the REOC strategy employed by the WSIB has outperformed during all time periods, especially during the recent economic downturn. He noted that the partnership's unrealized 15 percent internal rate of return (IRR) is top-quartile performance. He said that this is due to the strong alignment of interests, flexible exit strategy, sharing of information among the partnership's companies, and the significant control maintained by the WSIB. He said the investment structure deals more with individual people rather than organizations, and key personnel are important.

Messrs. House and Suter, Evergreen Real Estate Partners, introduced themselves. Mr. Suter shared his appreciation for the relationship with the WSIB and thanked the Board and staff.

Mr. House said that Evergreen is invested in 13 REOCs, and he provided an overview of the companies, including location, geography and sector focus, history of investments, and examples of how they are able to add value to existing platforms and properties. He shared Evergreen's strengths, including operations, competitive advantage, stable cash flow, and growth.

Discussion ensued regarding Evergreen's real estate sectors and markets, considerations when developing in emerging markets, performance of a particular Evergreen REOC, the ownership structure of Evergreen, and the SEC registration of the partnership's Managing Member.

Due to a lack of quorum, the Committee was unable to take action. It was the consensus of those Committee members present to forward this item to the Board for approval.

[The Committee recessed for lunch at 12:10 p.m. and reconvened at 12:27 p.m.]

REAL ESTATE INVESTMENT RECOMMENDATION – CALZADA CAPITAL PARTNERS, LLC

Mr. Draper said that although Calzada is a newer entity, the WSIB has had a long history with both Mr. Flores and Mr. Cline, the principals of partnership, in their respective roles leading two REOCs that were previously directly owned by the WSIB. Mr. Draper shared that the firm is currently analyzing several new opportunities, and the long-term prospects for this intermediary are exciting. He said that Calzada is comprised of highly-qualified professionals, including Messrs. Flores and Cline, as well as Chief Operating Officer, Hugh Zwiieg. Mr. Draper acknowledged that there is key person risk and market risk, especially in the future as Calzada expands in Latin America. He also explained that there is concentration risk, which is consistent with the WSIB real estate investment strategy of investing the majority of the allocation with four intermediaries. However, each intermediary owns a number of REOCs, all of which are focused on different sectors in different geographies that in turn own numerous properties.

Discussion ensued around the concentration risk relating to the intermediary investment structure, including the inherent risk of investing through four intermediaries; the day-to-day operation of the individual REOCs; and key person risk, as well as the mitigants of these risks, including the high degree of governance and control maintained by the WSIB.

Mr. Humphrey, Courtland Partners, said that his only comments would be with regard to the concentration risk, already discussed, and the risk associated with investments outside of the U.S., primarily Latin America.

Messrs. Flores and Cline, Calzada Capital Partners, discussed the performance of the four directly-held REOCs transferred to Calzada by the WSIB, as well as that of the new REOC investment made; their expectations for geographic and sector expansion; the criteria on which they base their investment decisions, including demographics and market gaps; and their current team.

Discussion ensued regarding the activities and operations of specific Calzada REOCs; prospective new REOC platforms, including sector and geography; sector concentrations within the firm's portfolio; how Calzada's current and prospective REOCs fit within the original plan presented to the WSIB; projected returns; and experience of Calzada's leadership.

Due to a lack of quorum, the Committee was unable to take action. It was the consensus of those Committee members present to forward this item to the Board for approval.

PRIVATE MARKETS CLOSING LOG

The Private Markets Closing Log was presented for informational purposes.

OTHER ITEMS

The Committee discussed the need and timing for meetings with the consultants at future Private Markets Committee meetings. It was the consensus of those present that the Committee would meet with the consultants on a bi-annual basis.

There were no other items to come before the Committee, and the meeting adjourned at 1:00 p.m.