

**WASHINGTON STATE INVESTMENT BOARD
Private Markets Committee Meeting Minutes
January 8, 2015**

The Private Markets Committee met in open public session at 9:00 a.m. in the boardroom at the Washington State Investment Board in Olympia, Washington.

Members Present: George Masten, Chair
Kelly Fox
Marcie Frost
Judy Kuschel
Treasurer Jim McIntire (teleconferenced)
Richard Muhlebach
David Nierenberg
Jeff Seely (teleconferenced)

Also Present: Theresa Whitmarsh, Executive Director
Gary Bruebaker, Chief Investment Officer
Tom Ruggels, Senior Investment Officer – Private Equity
Janet Kruzel, Assistant Senior Investment Officer – Private Equity
Mo Mooers, Assistant Senior Investment Officer – Private Equity
Fabrizio Natale, Assistant Senior Investment Officer – Private Equity
Isabelle Fowler, Investment Officer – Private Equity
Björn Seebach, Investment Officer – Private Equity
Linda Buchanan, Administrative Assistant

Mary Lobdell, Assistant Attorney General
Tara Blackburn and Michael Augustine, Hamilton Lane
Bill McGlashan and Vish Narain, TPG Capital
Hilary Goshier and Cian Cotter, Insight Venture Partners
Bruce Karsh and Bob O’Leary, Oaktree Capital Management
Dipanjan Deb and David Golob, Francisco Partners

[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 SEPTEMBER 4 AND DECEMBER 4, 2014, MINUTES

Ms. Frost moved to adopt the September 4 and December 4, 2014, minutes. Ms. Kuschel seconded, and the motion carried unanimously.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – TPG GROWTH III, L.P.

Mr. Natale said staff recommends an investment of up to \$300 million in TPG Growth III, L.P., a growth equity and middle-market buyout fund with a target size of \$3 billion. He explained that TPG developed the Growth strategy to make smaller investments as the TPG Capital strategy gravitated toward larger transactions, and the WSIB invested in the two prior Growth funds. Mr. Natale discussed the ability of the Growth funds to leverage TPG Capital's global footprint, sourcing engine, and operational resources to invest in smaller transactions regardless of geography. He described the Growth funds' performance, locations, geographic targets, and thematic approach. Mr. Natale provided examples of successfully exited investments. The proposed investment is consistent with the Board-approved 2015 private equity annual plan and the private equity model portfolio.

Mr. Augustine, Hamilton Lane, described TPG Growth's evolution of a smaller fund out of larger platform, reasonable growth, increased fund size, and operating and investment teams. He noted the fund's ability to leverage the larger TPG Capital platform and said this was an opportunity to invest in a manager the WSIB knows very well. Mr. Augustine discussed the firm's proprietary deal flow, brand name, competition, global approach, expansion into other markets, investment teams, experience, and competitive edge. He stated that Hamilton Lane recommends a \$300 million investment in TPG Growth III.

Messrs. McGlashan and Narain, TPG Capital, introduced themselves. Mr. McGlashan provided an overview of the TPG Growth funds and described the firm's consistent strategy, global platform, disciplined approach, consistent leadership team, dedicated operations organization, performance of prior Growth funds, and integration with the larger TPG firm. He described TPG's investment committee, integrated global team, and one-firm culture. Mr. McGlashan discussed the fund's geographic diversification, sectors, performance, and robust global team.

Mr. Narain provided details regarding one portfolio company as an example of how the firm takes a control position and adds value, utilizing the firm's deep sector expertise and integration.

Mr. McGlashan discussed fund performance, value drivers, portfolio company details, media investments, and the firm's reputation.

Discussion ensued regarding reputation risk and the types of firms that TPG Growth may invest in.

Mr. Fox moved that the Private Markets Committee recommend the Board invest up to \$300 million, plus fees and expenses, in TPG Growth III, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Ms. Frost seconded, and the motion carried unanimously.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – INSIGHT VENTURE PARTNERS IX, L.P., AND INSIGHT VENTURE PARTNERS GROWTH-BUYOUT COINVESTMENT FUND, L.P.

Ms. Kruzel described the WSIB's history with Insight, consisting of four prior investments in Insight funds through the Pathway portfolio and then directly in Insight Venture Partners VIII.

Mr. Seebach stated staff recommends an investment of up to \$150 million in Insight Venture Partners IX, L.P., and an additional investment of up to \$50 million in Insight Venture Partners Growth-Buyout Coinvestment Fund, L.P., for an aggregate investment of up to \$200 million. The proposed investment is consistent with the Board-approved 2015 private equity annual plan and the private equity model portfolio.

Mr. Seebach described the firm's experience, investment strategy, sector focus, strong historical performance, investment team, in-house team of operational experts, and differentiated sourcing model. He addressed the firm's investment and fundraising pace, increased fund size, and number of board seats held by each partner. Mr. Seebach pointed out the partner has consistently and successfully exited companies through different economic cycles, including the most recent recession, and employs moderate levels of leverage.

Ms. Blackburn, Hamilton Lane, described the firm's fit in the broader market context, sector focus in a fast growing market, broadened investment capability, strong realizations, strategic sector, and performance over multiple cycles. She stated Insight is a key manager in this space, and Hamilton Lane recommends an aggregate investment of up to \$200 million.

The Committee discussed the firm's sourcing and investment model.

Mr. Cotter and Ms. Goshier, Insight Venture Partners, introduced themselves. Mr. Cotter discussed the firm's history, investment strategy, experienced team, single-office firm, global investments, fund performance with a focus on returns to investors, sector focus, proprietary deal sourcing, in-house operational team, and the monitoring and due diligence processes.

Ms. Goshier described the firm's stable investment team, the in-house sourcing team, and differentiated level of portfolio company governance and oversight.

Mr. Cotter commented on the highly resilient sector and industry growth, as well as the firm's increased fund size due to growth in sector deal flow, deal sourcing, and investment pace.

Ms. Goshier added that the size of companies has grown and emphasized the importance of focus on nullifying execution risk.

The Committee discussed target market characteristics, size and growth rates, mistakes made and lessons learned, market valuation trends, and the firm's approach to valuing investments.

Ms. Goshier elaborated on the firm's focus on growth, benchmarking and metrics, operational network, management teams, and deal sourcing.

Discussion ensued regarding execution risk, investment pacing, downside protection, larger deal size, underwriting standards, external consultants, market conditions, the firm's goals and preference for one office, liquidation strategy, sourcing processes, and geographic focus.

In response to Mr. Fox's question, Mr. Seebach said the firm is working on a policy for environmental, social, and governance issues that they plan to implement in the next six months. Ms. Blackburn added that smaller U.S. funds typically do not yet have such a policy, but are starting to move in that direction.

Mr. Fox moved that the Private Markets Committee recommend the Board invest up to \$150 million, plus fees and expenses, in Insight Venture Partners IX, L.P. and up to an additional \$50 million, plus fees and expenses, in Insight Venture Partners Growth-Buyout Coinvestment Fund, L.P., for an aggregate commitment of up to \$200 million, plus fees and expenses, subject to continuing due diligence and final negotiation of terms and conditions. Ms. Frost seconded and the motion carried unanimously.

[The Committee recessed at 10:32 a.m., and reconvened at 10:45 a.m.]

PRIVATE EQUITY INVESTMENT RECOMMENDATION – OAKTREE OPPORTUNITIES FUND X, LP, AND OAKTREE OPPORTUNITIS FUND Xb, LP

Ms. Fowler said staff recommends an investment of up to \$200 million in Oaktree Opportunities Fund X, LP (Fund X) and an additional investment of up to \$400 million in Oaktree Opportunities Fund Xb, LP (Fund Xb), distressed debt funds with targets of \$3 billion and \$7 billion, respectively. She explained that Fund Xb is being raised as stand-by capital and may be drawn if Oaktree determines the availability of distressed corporate debt warrants the larger amount of capital or as co-investment capital on large transactions. WSIB has invested with Oaktree since its inception in 1995, with commitments totaling \$1.4 billion to 11 Opportunities funds and \$300 million to two Principal funds. The proposed investment is consistent with the Board-approved 2015 private equity annual plan and the private equity model portfolio.

Ms. Fowler reviewed the firm's experienced global investment team headed by Mr. Bruce Karsh, long-term performance across multiple cycles, proven strategy that focuses on risk control and loss avoidance, strong deal flow, and geographic focus. The firm has been building its European team in anticipation of increased opportunities in the region. Ms. Fowler described the firm's industry contacts, trading operation with other firm strategies, and close working relationship with the Oaktree real estate group. She discussed the cyclical distressed market, Oaktree's

demonstrated ability to provide good returns even during times of corporate distress, attractive opportunities, and advantages of the two-fund structure.

Mr. Augustine, Hamilton Lane, discussed the WSIB's strategy regarding distressed investments and the firm's long-standing relationship with the WSIB, investment strategy, performance, consistency of returns, history, and geographic and industry diversification. He said that Hamilton Lane recommends an aggregate investment of up to \$600 million.

Messrs. Karsh and O'Leary, Oaktree Capital Management, introduced themselves. Mr. Karsh described the firm's long-time relationship with the WSIB, long-term performance, risk control investment strategy, high ratio of gains to losses, and distributions back to investors.

Mr. O'Leary discussed the firm's investment strategy, fund size, cyclical distressed sector, disciplined investment approach, attractive returns, use of recycled capital, exit strategies, risk control, diversification, and buy and hold strategies.

Mr. Karsh spoke to the current investment environment and potential opportunities.

The Committee discussed the types of real estate investments the firm might make.

Treasurer McIntire asked whether Oaktree would be likely to make any investments in coal. Mr. O'Leary and Mr. Karsh responded that Oaktree does not currently have any investments in coal, but does watch the sector and it is possible it may investment in that sector in the future.

The Committee discussed triggering events for economic cycles, collapsing oil prices, impact on energy producers, commodity prices, world economy, and the proliferation of emerging market debt.

[Treasurer McIntire left at 11:21 a.m.]

Mr. Fox moved that the Private Markets Committee recommend the Board invest up to \$200 million, plus fees and expenses, in Oaktree Opportunities Fund X, LP, and \$400 million, plus fees and expenses, in Oaktree Opportunities Fund Xb, LP, subject to continuing due diligence and final negotiation of terms and conditions. Ms. Frost seconded, and the motion carried unanimously.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – FRANCISCO PARTNERS IV, L.P.

Mr. Mooers stated staff recommends an investment of up to \$150 million in Francisco Partners IV, L.P., a middle-market private equity fund with a target size of \$2.0 billion. The fund will invest in middle-market technology companies and typically seeks to be the controlling investor in transactions and drive operational improvements when needed. The WSIB invested in the first Francisco Partners

fund in 2000. The proposed investment is consistent with the Board-approved 2015 private equity annual plan and the private equity model portfolio.

Mr. Mooers described the oversight of Francisco Partners by WSIB staff and continued interest in the sector. He discussed the firm's team development, strong performance of Funds II and III, modest use of leverage, diversity in types and sizes of deals, investment sectors, focus on internal processes, experience, contacts in the industry, deal sourcing, network of operating professionals, geographic focus, and fit in the WSIB's private equity portfolio. He addressed the fund size and market volatility.

Discussion ensued regarding Funds II and III, the reasons the WSIB did not invest in those funds, and improvements the firm has made during that time.

Ms. Blackburn, Hamilton Lane, described the fund's investment sector, fit in the WSIB's portfolio, management team evolution, investment process, and market conditions and opportunities. She stated that Hamilton Lane recommends the investment.

Messrs. Deb and Golob, Francisco Partners, introduced themselves. Mr. Deb described the firm's history, exclusive focus on technology in the middle-market sector, investment and value add strategies, and partnership with Sequoia. He discussed mistakes made and lessons learned during the first fund, and outlined changes made in investment philosophy, processes implemented, and improved sharing of economics. The changes implemented caused both Funds II and III to be top-quartile performers and improved performance in Fund I.

Mr. Golob discussed current market conditions and trends, as well as the firm's investment sector and strategy.

Mr. Deb presented a case study of a typical portfolio company and detailed Francisco's value creation process.

Mr. Golob described Francisco's focus on technology, flexible approach, divisional carveouts, exit opportunities, and marketplace approach.

The Committee discussed target markets.

Mr. Deb discussed value creation, fund performance, exit strategies, and the investment team.

Mr. Fox moved that the Private Markets Committee recommend the Board invest up to \$150 million, plus fees and expenses, in Francisco 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 MARKETS CLOSING LOG

The Private Markets Closing Log was presented for informational purposes.

OTHER ITEMS

There were other items to come before the Committee, and the meeting adjourned at 12:02 p.m.