

**APPROVED**

**WASHINGTON STATE INVESTMENT BOARD  
Private Markets Committee Meeting Minutes  
June 4, 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  
Senator Mike Hewitt  
Judy Kuschel  
Treasurer Jim McIntire  
Richard Muhlebach  
Jeff Seely

Other Members Present: Marcie Frost  
Arlista Holman

Absent: David Nierenberg

Also Present: Theresa Whitmarsh, Executive Director  
Gary Bruebaker, Chief Investment Officer  
Diana Will, Senior Investment Officer – Tangible Assets  
John Graves, Assistant Senior Investment Officer – Tangible Assets  
Dorota Czub, Investment Officer – Tangible Assets  
Kurt Akers, Assistant Senior Investment Officer – Tangible Assets  
Susan Freese, Investment Officer – Tangible Assets  
Tom Ruggels, Senior Investment Officer – Private Equity  
Janet Kruzel, Assistant Senior Investment Officer – Private Equity  
Alyssa Barada, Administrative Assistant  
Linda Buchanan, Administrative Assistant  
  
Mary Lobdell, Assistant Attorney General  
Jay Yoder, Altius Associates  
Kristina Johnson, Cube Hydro Partners  
Gautham Bhandari, I Squared Capital  
Thomas Martin, Torrey Cove

[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 2, 2015, MINUTES**

**Mr. Fox moved to adopt the April 2, 2015, minutes. Senator Hewitt seconded, and the motion carried unanimously.**

### **TANGIBLE ASSETS INVESTMENT RECOMMENDATION – ISQ CUBE HYDRO CO-INVESTMENT FUND, L.P.**

Mr. Graves stated staff recommends an investment of \$200 million in ISQ Cube Hydro Co-Investment Fund, L.P. Mr. Graves stated that this will be a special purpose vehicle to invest in hydropower strategies around the United States. Mr. Graves stated that subsidiary regimes are necessary due to the cost of renewable generation. He discussed how hydropower is the oldest form of renewable energy and that it is also the cheapest and lowest cost form of electricity generation that can be delivered at scale to the grid. Mr. Graves stated a few key risk. One risk is that this is a first time strategy for I Squared and Cube Hydro. Individually, I Squared and Cube Hydro have been in the Hydro industry for many years, but as a team this is a first time. Another risk is that hydropower is precipitation dependent.

The Committee discussed renewable and nonrenewable exposure risk, risk of removal of dams, and the salmon flow risk.

Mr. Graves stated that renewable is low as part of the commitments in the portfolio. Mr. Graves stated that most dams are there for flood control, while some don't serve a purpose. Mr. Graves stated that dams are expensive to remove, but some will be removed. Mr. Graves discussed that most of the opportunities are in the Northeast, where salmon flow is not an issue. Mr. Graves stated that there are turbines that allow 98 to 99 percent of the fish to pass through.

The Committee discussed the risk of projects being in the Pacific Northwest and climate risk.

Mr. Graves discussed that the WSIB has the ability to restrict projects. He also discussed the only way to mitigate climate risk is to have a diversified portfolio.

[Mr. Seely joined the meeting at 9:04 a.m.]

[Treasurer McIntire joined the meeting at 9:18 a.m.]

[Ms. Kuschel joined the meeting at 9:19 a.m.]

Mr. Yoder, Altius Associates, discussed that his company has done many site visits and conference calls. Mr. Yoder explained some of the risks associated with this being a first time fund, climate, and regulations.

The Committee discussed the risk of changing a dam into a power dam.

Mr. Yoder discussed that the run-of-river hydropower projects have minimal impact and that there is minimal political risk. Mr. Yoder stated that if it is a big risk in a certain area, such as the Pacific Northwest, Cube Hydro would not invest in those areas.

Mr. Bhandari, I Squared Capital and Ms. Johnson, Cube Hydro Partners, introduced themselves. Mr. Bhandari provided an overview of the firm as Ms. Johnson did for her firm. Ms. Johnson discussed that Cube Hydro is in the mid-market space, building small hydropower. She said that Cube Hydro has \$700 million in equity and \$700 million in debt.

Ms. Johnson discussed the two platforms that they are in. One platform in Pennsylvania, Maryland, Virginia, West Virginia, and Ohio, and the second platform in New York. She discussed doing business with individuals who support clean energy and looking for those legacy assets. Companies have left these hydropower plants because they are no longer strategic to the investment.

The Committee discussed what the contracts look like with the Army Corps., what the plans of the company, and hydropower being competitive.

Ms. Johnson discussed Cube Hydro's relationship with the Army Corp. Ms. Johnson stated that the contracts are 50 years and that they are drawn up at the headquarters for decentralization. She stated that Cube Hydro pays the power and the USGS gauge in the stream. Mr. Bhandari stated that hydropower is a lost renewable and that it works the same way that it did 100 years ago. He stated that there is a potential to eventually think about pension plans who would like to hold this asset as Fixed Income. Ms. Johnson stated that solar power is very competitive now, but it is a bubble. Mr. Bhandari discussed competing more with local families that are having an issue or a fund that is trying to round out their portfolio.

The Committee discussed big players being interested in hydropower and investment opportunity in the Pacific Northwest.

Ms. Johnson stated that there are three different groups interested in hydropower. Ma & Pa who do not want to sell, small aggregators who are looking at 5-106 MW plants, and big players who are looking at 1000-3000 MW plants. Ms. Johnson discussed that she is an environmentalist, that there are enough dams for flood control, and that Cube Hydro only does environmentally sound projects.

**Mr. Fox moved that the Private Markets Committee recommend to the Board an investment of \$200 million, plus fees and expenses, in ISQ Cube Hydro Co-Investment Fund, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Treasurer McIntire seconded, and the motion carried unanimously.**

## **TANGIBLE ASSETS INVESTMENT RECOMMENDATION – TWIN CREEKS TIMBER, LLC**

Mr. Akers stated staff recommends an investment of \$300 million in Twin Creeks Timber, LLC. Mr. Akers stated that Twin Creeks will focus its investment activities in timber in the United States, with its primary focus in the South. He said that it fits into the upstream agriculture segment of WSIB's tangible assets framework. Mr. Akers discussed that the investment meets staff's preference for direct asset ownership, management control over investments, and an income focus, with more than half of the targeted return expected to come in the form of regular dividends.

Mr. Akers stated that he would save his discussion of specific merits and concerns regarding this investment opportunity until the planned executive session.

Mr. Martin, Torrey Cove, stated his company spent time meeting fiduciaries, visiting corporate and local locations and doing field visits as part of their due diligence. Mr. Martin agreed with staff that this is a compelling opportunity.

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 24 minutes, at which time the Committee would reconvene in open session.

[The Committee convened in executive session at 10:06 a.m., extended the executive session for 30 minutes, extended the executive session for 15 minutes, and reconvened in open session at 11:16 a.m.]

**Treasurer McIntire moved that the Private Markets Committee recommend to the Board an investment of \$300 million, plus fees and expenses, in Twin Creeks Timber, LLC, subject to continuing due diligence and final negotiation of terms and conditions. Senator Hewitt seconded, and the motion carried unanimously.**

[The Committee recessed at 11:17 a.m., and reconvened at 11:25 a.m.]

[Ms. Holman left the meeting at 11:19 a.m.]

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 19 minutes, at which time the Committee would reconvene in open session.

## **TANGIBLE ASSETS INVESTMENT OPPORTUNITY DISCUSSION**

### **PRIVATE EQUITY INVESTMENT DISCUSSION**

[The Committee convened in executive session at 11:26 a.m., extended the executive session for 10 minutes, and reconvened in open session at 11:57 a.m.]

### **BOARD POLICY REVIEW**

Mr. Bruebaker stated that Board policies are required to be reviewed every 3 years to ensure they remain relevant and appropriate. As part of the 3-year review, technical changes have been made to the Private Markets Committee Charter 1.00.140, Advisory Board Policy 2.00.900, Real Estate Investment Program Policy 2.10.600, and Private Equity Investment Program Policy 2.10.700 to provide consistency in structure and format.

**Mr. Fox moved that the Private Markets Committee recommend the Board approve the proposed revisions to policies 1.00.140, 2.00.900, 2.10.600, and 2.10.700. 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 12:04 p.m.