

**WASHINGTON STATE INVESTMENT BOARD
Private Markets Committee Meeting Minutes
November 5, 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
David Nierenberg (via teleconference)

Absent: Jeff Seely

Other Members Present:

Also Present: Theresa Whitmarsh, Executive Director
Gary Bruebaker, Chief Investment Officer
Steve Draper, Senior Investment Officer – Real Estate
Diana Will, Senior Investment Officer – Tangible Assets
John Graves, Assistant Senior Investment Officer – Tangible Assets
Alyssa Murphy, Administrative Assistant

Tor Jernudd, Assistant Attorney General
Brent Burnett, Real Asset Portfolio Management
Adebayo Ogunlesi and Matthew Harris, Global Infrastructure 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 3, 2015, MINUTES

**Ms. Kuschel moved to adopt the September 3, 2015, minutes.
Mr. Fox seconded, and the motion carried unanimously.**

**TANGIBLE ASSETS INVESTMENT RECOMMENDATION – GLOBAL
INFRASTRUCTURE PARTNERS III, L.P. AND SEPARATELY MANAGED
ACCOUNT**

Mr. Graves stated staff recommends an investment of \$500 million in Global Infrastructure Partners III, L.P. and an additional \$500 million in a Separately Managed Account (SMA). The SMA will be managed by GIP and will target lower-

risk, lower-return investments with longer hold periods than GIP III will target. Mr. Graves said the requested commitments were not presented in the 2015 Tangible Assets Annual Plan, but Board and Private Markets Committee members were briefed of this commitment as soon as staff engaged with GIP on this prospect.

[Treasurer McIntire joined the meeting at 9:07 a.m.]

Mr. Graves explained that GIP is a partner that specializes in large-scale infrastructure assets in energy, power, and transportation industries. He said GIP looks for assets in OECD countries, that are difficult or impossible to replicate, and with reasonable levels of leverage. Mr. Graves discussed GIP's two core differentiators: its in-house team of 26 operations experts and its approach of strategic joint ventures with industry leaders as a means of securing proprietary deal flow. He stated the SMA will focus on lower-risk assets with more of an income focus than the fund, providing longer-duration assets with high cash yields and customized governance rights for the WSIB. Mr. Graves discussed a few key risks, including the funds size of GIP III, which is a large increase from the previous fund, and the allocation of deal flow to the SMA versus the fund.

A discussion ensued, the Committee recommended terms that it would like to see as part of the negotiations with GIP. The committee commented on the large size of the commitment and Mr. Bruebaker stated that Ms. Whitmarsh and he have been encouraging the team to bring larger deals, and with the SMA the WSIB has authority to invest in a deal or not. Ms. Whitmarsh explained that other LPs will make larger contributions and that WSIB's commitment, while large, is on the lower end.

Mr. Burnett, Real Asset Portfolio Management, discussed how GIP has the best infrastructure team, which has dedicated itself to only infrastructure. He explained how the size of the fund allows GIP to compete where others cannot without a consortium of limited partners and that the merits for GIP warrant a larger investment. Mr. Burnett explained that there is some competition risk between the fund and the SMA, but the SMA will be competing for smaller deals than the fund, and the priority is the fund. In addition, the SMA cannot invest alongside the fund.

The Committee discussed the number of limited partners in the fund and the reputation level of those limited partners. Mr. Graves explained that many of the same limited partners that invested in GIP II will be investing in GIP III.

Mr. Adebayo Ogunlesi and Mr. Matthew Harris of Global Infrastructure Partners introduced themselves and provided an overview of the firm. Mr. Ogunlesi said GIP invests in three sectors: energy, transportation, and water, and in the transportation area focuses only on airports, freight railroads, ports, and air traffic control systems. He identified the portfolio companies for GIP I and GIP II and gave a brief description of each, as well as an overview of equity invested by subsector, geography, and risk category for each fund.

Mr. Ogunlesi shared GIPs organizational structure and said they have only had one partner leave in the history of the firm. He explained how the team is two to three times larger than other infrastructure teams and detailed GIP's five keys to investment performance: origination, deal structuring, operations, growth, and exit.

The Committee discussed the investment that GIP learned most from, climate change risk, and GIP's involvement in coal.

Mr. Ogunlesi discussed GIP's environmental review processes and said they have one investment in coal as it is the cheapest source of energy in Chile.

The Committee discussed the impact of technology on its investments within long-term investing and investments in railroad tank cars.

Mr. Ogunlesi stated GIP invests with a ten-year time horizon, planning to sell each asset between five and seven years, occasionally earlier. He said that GIP is concerned with what technology will look like in 5 to 7 years, in line with this funds investment horizon. Mr. Harris discussed GIP's risk mitigating factors with respect to its investments in crude-by-rail tank cars.

The Committee inquired about the allocation to the SMA. Mr. Bruebaker explained that the WSIB will not have an opt-out right with investments in Fund III, as typical for any fund, but has more flexibility in the SMA than the Fund.

Mr. Fox moved that the Private Markets Committee recommend to the Board an investment of up to \$500 million, plus fees and expenses, in Global Infrastructure Partners Fund III, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Further, that the Private Markets Committee recommend to the Board an investment of up to \$500 million, plus fees and expenses, to a Separately Managed Account, an entity to be created for WSIB infrastructure investments, managed by Global Infrastructure Partners, LLC, the legal form of which will be determined by WSIB counsel, subject to continuing due diligence and final negotiation of terms and conditions. Senator Hewitt seconded, and the motion carried unanimously.

BOARD POLICY REVIEW

Mr. Draper stated Board policies are required to be reviewed every 3 years to ensure they remain relevant and appropriate. The Committee reviewed the proposed additional technical changes to the Real Estate Investment Program Policy 2.10.600, intended to provide consistency in structure and format.

Mr. Fox moved that the Private Markets Committee recommend the Board approve the proposed additional revisions to the Real Estate Investment Program Policy 2.10.600. 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 10:38 a.m.