

**WASHINGTON STATE INVESTMENT BOARD
Private Markets Committee Meeting Minutes
February 4, 2016**

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
Kelly Fox
Judy Kuschel
Treasurer Jim McIntire
Richard Muhlebach
David Nierenberg (via teleconference)
Jeff Seely

Absent: Senator Mike Hewitt

Other Members Present: Arlista Holman
Marcie Frost
Bill Longbrake (via teleconference)

Also Present: Theresa Whitmarsh, Executive Director
Gary Bruebaker, Chief Investment Officer
Isabelle Fowler, Investment Officer – Private Equity
Björn Seebach, Investment Officer – Private Equity
Steve Draper, Senior Investment Officer – Real Estate
Linda Buchanan, Administrative Assistant
Alyssa Murphy, Administrative Assistant

Tor Jernudd, Assistant Attorney General
Tara Blackburn, Hamilton Lane
Natalie Fitch, Hamilton Lane
Lionel Giacomotto, Charterhouse Capital Partners
Stephan Morgan, Charterhouse Capital Partners
Lynsey Register, Charterhouse Capital Partners
Jay Hoag, Technology Crossover Ventures
Nathan Sanders, Technology Crossover Ventures
Jonathan Sokoloff, Leonard Green & Partners
Erika Spitzer, Leonard Green & Partners
Michael Humphrey, Courtland Partners
Rich Cline, Calzada Capital Partners
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 took roll call.

ADOPTION OF THE DECEMBER 3, 2015, MINUTES

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

PRIVATE EQUITY INVESTMENT RECOMMENDATION – CHARTERHOUSE CAPITAL PARTNERS X, L.P.

Mr. Seebach said that staff recommends a commitment of up to €225 million in Charterhouse Capital Partners X, a €3.0 billion target size fund. The proposed investment is consistent with the Board-approved 2016 private equity annual plan and the private equity model portfolio. The WSIB has invested in four prior Charterhouse funds, and staff is on the Advisory Board. Fund X will focus on buyout transactions across multiple sectors in the United Kingdom and Western Europe.

Mr. Seebach described the firm's investment strategy and focus, cohesive and experienced investment team, strong performance history, and management-friendly investment approach. Mr. Seebach commented on the underperformance of Fund VIII, the resulting refinement in Charterhouse's investment strategy, strong performance for Fund IX, and personnel changes.

Ms. Blackburn, Hamilton Lane, compared the WSIB's exposure to different managers in Europe and discussed Charterhouse's differentiated investment focus, management approach, and fit in the WSIB's private equity portfolio. She discussed changes the firm made after the economic downturn during Fund VIII. Ms. Blackburn stated that the investment was a good fit for the WSIB's private equity portfolio and recommended the investment.

The Committee discussed legal issues and resolutions.

Mr. Giacomotto, Mr. Morgan, and Ms. Register, Charterhouse Capital Partners, introduced themselves.

Mr. Giacomotto discussed the firm's history, reputation, culture, deal flow, value creation, past performance, business model, and sector focus. He described the firm's team, growth, focus, discipline, and experience.

Mr. Morgan described the firm's investment themes, deal sourcing, management teams, diversification, downside protection, due diligence processes, and value creation.

[Treasurer McIntire arrived at 9:21 a.m.]

Ms. Register described the firm's entrepreneurial culture, due diligence process, internal committees, and recent performance.

Mr. Giacomotto stated that the deployment of capital in Fund X would follow the pattern of Fund IX. He explained that the firm has broadened its deal flow sourcing

to allow greater diversification and other changes made. He said the team is well set to generate one to three deals per year.

The Committee discussed geographic targets and diversification, strategic deployment of capital, prolonged fundraising, and improvements the firm has made.

Mr. Fox moved that the Private Markets Committee recommend the Board invest up to €225 million, plus fees and expenses, in Charterhouse Capital Partners X, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Ms. Kuschel seconded, and the motion carried unanimously.

[Mr. Nierenberg joined the meeting via teleconference at 9:39 a.m.]

PRIVATE EQUITY INVESTMENT RECOMMENDATION – TCV IX, LP

Ms. Fowler stated that staff recommends an investment of up to \$200 million in TCV IX, a technology-focused growth equity fund. The fund will primarily make minority investments in private growth companies but may also invest in select majority transactions, private investments in public equity, and other public equity opportunities. The WSIB has invested in seven prior TCV funds. The proposed investment is consistent with the Board-approved 2016 private equity annual plan and the private equity model portfolio.

Ms. Fowler described the firm's deep domain expertise, strategy of investing in companies with demonstrated revenue traction, significant growth potential with lower risk, and nearer-term liquidity. She discussed the investment team, performance over multiple economic and market cycles, and strong deal flow. Ms. Fowler spoke to sector valuation levels and sourcing efforts.

Ms. Blackburn, Hamilton Lane, discussed TCV's evolution within the venture growth community, skillsets, sector expertise, successful performance, low loss ratio, ability to add value, and investment team. She stated that Hamilton Lane recommends the investment.

Messrs. Hoag and Sanders, Technology Crossover Ventures, introduced themselves and discussed the firm's team, experience, history, performance, global footprint, investments in Washington, sector focus, technological advances, market opportunities, well-known portfolio companies, deal sourcing, due diligence process, and geographic diversification.

The Committee discussed TCV's plans for increasing diversification among the firm's partners and personnel, deal size spread, network effect of investments, risks and opportunities, market cycles, and potential changes in the social media arena.

Mr. Fox moved that the Private Markets Committee recommend the Board invest up to \$200 million, plus fees and expenses, in TCV IX, LP, subject to continuing due diligence and final negotiation of terms and conditions. Treasurer McIntire seconded, and the motion carried unanimously.

[The Committee recessed at 10:14 a.m. and reconvened at 10:35 a.m.]
[Mr. Fox left the meeting at 10:35 a.m.]

PRIVATE EQUITY INVESTMENT RECOMMENDATION – GREEN EQUITY INVESTORS VII, L.P.

Ms. Fowler said that staff recommends an investment of up to \$350 million in Green Equity Investors VII, L.P. (GEI VII), a North American-focused fund with a target size of \$8.5 billion, being raised by Leonard Green & Partners (LGP). The WSIB has invested in three prior LGP funds. The proposed investment is consistent with the Board-approved 2016 private equity annual plan and the private equity model portfolio.

Ms. Fowler described the firm's investment strategy of investing in companies with market-leading franchises, defensible competitive positions, attractive growth prospects, proven management team, and its sector focus. She detailed the firm's cohesive team, limited turnover, deal sourcing, and performance. Ms. Fowler noted the increased fund size, number of unrealized investments, and number of board seats held by the partners.

The Committee discussed the increased fund size, number of board seats held, changes in the retail market, and deal size impact on performance.

Ms. Fitch, Hamilton Lane, reported on the firm's unique niche strategy approach, reputation, strong returns, network, deal flow, strong and consistent team, experience, processes, and culture. She said that Hamilton Lane recommends the investment.

Mr. Sokoloff and Ms. Spitzer, Leonard Green & Partners, introduced themselves. They described the firm's history, culture, consistent returns over multiple cycles, sector focus, diversity, investment strategy, value creation, reputation, strong network, due diligence process, and relationship with management teams. They commented on the firm's brand name, portfolio companies on *Fortune* magazine's "100 Best Companies to Work For" list, and growth.

[Mr. Nierenberg left the meeting at 10:45 a.m.]

The Committee discussed union relationships, outcome of a complaint against one of its portfolio companies, low turnover, impact of minimum wage increases, and the impact of internet purchasing on retail establishments. They discussed recruitment in LGP, including diversity goals and plans, partnerships with other investors, and co-investment opportunities.

[Mr. Longbrake left the meeting at 10:58 a.m.]

Treasurer McIntire moved that the Private Markets Committee recommend the Board invest up to \$350 million, plus fees and expenses, in Green Equity Investors VII, 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 11:23 a.m. and reconvened at 12:01 p.m.]

REAL ESTATE INVESTMENT RECOMMENDATION – CALZADA CAPITAL PARTNERS LLC

Mr. Draper stated staff recommends a follow-on investment of \$750 million in Calzada Capital Partners (Calzada). He discussed how the use of intermediary groups such as Calzada is necessary to assist with the oversight of investments as the real estate portfolio continues to grow and become more complex. The management team of Calzada has a great track record, has acquired four real estate operating companies (REOCs) previously directly-owned by the WSIB, and is providing the WSIB access to opportunities in Latin America. Mr. Draper described some key risks, including the prevalence of operational risk, the key person risk, and the risks associated with a large concentration of investments with one management team.

Mr. Humphrey, Courtland Partners, discussed how Calzada is a unique vehicle with an investment strategy format that has worked great for the WSIB. He indicated that this structure has helped to retain on-the-ground talent. He noted that the WSIB staff has a lot of interaction with the local management teams. He confirmed a few key risks, including key person risk and the international risk, particularly currency.

The Committee discussed the four REOCs that Calzada acquired from the WSIB and the roles and responsibilities of the WSIB investment officers overseeing REOC investments.

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.

[The Committee convened in executive session at 12:15 p.m. and reconvened in open session at 12:42 p.m.]

Mr. Cline and Mr. Flores, Calzada Capital Partners, introduced themselves and provided an overview of the firm. Mr. Cline explained that Calzada invests in REOCs globally with an emphasis on the Americas and discussed how they

exclusively invest capital on behalf of the WSIB alongside their own capital. He said Calzada was established in early 2013 and thereafter integrated four REOC investments that were acquired from the WSIB. Mr. Cline provided an overview of the seven currently-held REOCs.

Mr. Flores explained that having successfully integrated the four REOCs that were acquired from the WSIB, they have invested in three new REOCs with one additional new REOC investment pending. He identified Calzada's investment opportunity focus with an emphasis on Mexico, Chile, Colombia, and Costa Rica in the for-rent residential, convenience retail, industrial, and self-storage sectors. He stated Calzada is also focused on the growing Hispanic demographic influence in the United States.

The Committee discussed Calzada's potential opportunities over the next 5 years, the threat of internet shopping, and the profile of a typical borrower of the loans provided by one of its REOCs.

Mr. Cline stated that Calzada's primary focus will be in Spanish speaking Latin American countries and in niche strategies in the United States, with a bulk of its capital being invested in for-rent residential and convenience retail. He explained there is less of a risk of investments being impacted negatively by internet shopping with grocery-anchored neighborhood retail properties, as their locations are somewhat defensive. He added that with a lot of retail centers, non-grocer food tenants are a growing component, such as fast casual restaurants. Mr. Cline described the typical borrower of one of Calzada's REOCs as an entrepreneur who purchases a house, renovates it, and then sells it, with a loan term that ranges from 6 to 12 months, usually about 9 months.

[Ms. Frost left the meeting at 12:58 p.m.]

The Committee discussed Calzada's process for bringing new REOCs into its framework and the retention of the team.

Treasurer McIntire moved that the Private Markets Committee recommend to the Board an additional commitment of \$750 million, plus fees and expenses, to Calzada Capital Partners, LLC, 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 no other items to come before the Committee, and the meeting adjourned at 1:07 p.m.