APPROVED

WASHINGTON STATE INVESTMENT BOARD
Private Markets Committee Meeting Minutes
April 7, 2016

The Private Markets Committee met in open public session at 9:08 a.m. in the boardroom at the Washington State Investment Board in Olympia, Washington.

Members Present:	George Masten, Chair Judy Kuschel Treasurer Jim McIntire Richard Muhlebach David Nierenberg
Absent:	Kelly Fox Marcie Frost Jeff Seely
Also Present:	Theresa Whitmarsh, Executive Director Gary Bruebaker, Chief Investment Officer Tom Ruggels, Senior Investment Officer – Private Equity Isabelle Fowler, Investment Officer – Private Equity Diana Will, Senior Investment Officer – Tangible Assets Kurt Akers, Assistant Senior Investment Officer – Tangible Assets Steve Draper, Senior Investment Officer – Real Estate Linda Buchanan, Administrative Assistant Alyssa Murphy, Administrative Assistant Mary Lobdell, Assistant Attorney General Tara Blackburn, Hamilton Lane Natalie Fitch, Hamilton Lane Hugh Langmuir, Cinven Alexandra Hess, Cinven Mark Siegel, Menlo Ventures Venky Genesan, Menlo Ventures Mitch Truwit, Apax Partners David Kim, Apax Partners Tom Martin, TorreyCove Capital Partners Katherine Richard, Warwick Energy Group Ian Yingling, Warwick Energy Group Michael Humphrey, Courtland Partners Glenn Aaronson, Aevitas Property Partners Desiree Theyse, Aevitas Property Partners Garret House, Evergreen Real Estate Partners Don Suter, Evergreen Real Estate 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 FEBRUARY 4, 2016, MINUTES

> **Ms. Kuschel moved to adopt the February 4, 2016, minutes. Treasurer McIntire seconded, and the motion carried unanimously.**

PRIVATE EQUITY INVESTMENT RECOMMENDATION – THE SIXTH CINVEN FUND, L.P.

Ms. Fowler said that staff recommends an investment of up to €275 million in The Sixth Cinven Fund, a European buyout fund with a target size between €5.5 billion and €7.0 billion. 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 sector-focused strategy of making buyouts across Europe in market-leading, cash-flow generative companies. She discussed the firm's deep, experienced team, consistent investment strategy, focus on the acquisition of mid- to large-cap European companies, and successful track record. Ms. Fowler spoke to the firm's smooth managerial transition, as well as current market conditions.

Ms. Fitch, Hamilton Lane, reviewed current market conditions and recent WSIB European investments. She discussed the firm's strong brand name, history, investment strategy, successful leadership transition, strong team, experience across multiple cycles, performance, and consistent investment approach. Ms. Fitch highlighted the firm's approach to investing, deal sourcing, high-quality investments, operations team, and reputation. She stated that Hamilton Lane supports the recommendation and has a strong conviction in the recommendation for this manager.

The Committee discussed the level of commitment compared to prior investments. Ms. Fowler explained that this would be an increase in commitment and that the WSIB has invested in all five of the prior funds.

Mr. Langmuir and Ms. Hess, Cinven, introduced themselves. Mr. Langmuir discussed the firm's history with the WSIB and changing market conditions. He explained the firm's successful investment strategy, experience over multiple economic cycles, and experienced team. Mr. Langmuir detailed the current fund's strong performance, steady investment pace, and consistent realizations. He described the firm's partnership culture, alignment of interest with limited partners, geographic focus, target market, and sector focus.

Ms. Hess addressed the firm's unique combination of characteristics, multiple locations, European focus with global reach, investment team, investment sectors, and strong performance. She explained that most deals have two lead partners: a sector expert and a geography expert. Ms. Hess said that the firm focuses on growing companies, value creation, and profit growth.

Mr. Langmuir discussed investment opportunities for this fund, current market conditions, and trends.

Discussion ensued regarding political unrest, business challenges, and investment opportunities.

> **Treasurer McIntire moved that the Private Markets Committee recommend the Board invest up to €275 million, plus fees and expenses, in The Sixth Cinven Fund, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Ms. Kuschel seconded, and the motion carried unanimously.**

PRIVATE EQUITY INVESTMENT RECOMMENDATION – MENLO SPECIAL OPPORTUNITIES FUND, L.P.

Mr. Ruggels stated that staff recommends an investment of up to $150 million in Menlo Special Opportunities Fund, L.P., a $200 million to $250 million target size fund that will co-invest with Menlo Ventures XII and other Menlo flagship venture funds, both in subsequent financings of select existing portfolio companies and in new later-stage and growth round investments. Mr. Ruggels said that Menlo Ventures is the WSIB's longest-standing private equity relationship. Since 1981, the WSIB has committed $783.6 million to Menlo Venture funds in all of Menlo funds. The proposed investment is consistent with the Board-approved 2016 private equity annual plan and the private equity model portfolio.

Mr. Ruggels spoke to the firm's generational transition; technology focus; past performance; market volatility; lessons learned, including a return to a smaller fund size; and investment discipline. He explained that one disadvantage of a smaller fund is the inability to participate in future rounds of financing for portfolio companies that are doing well, and this vehicle will enable the firm to continue to fund select portfolio "winners," where the firm has an information advantage. Mr. Ruggels noted that fees for this fund will only be charged on invested capital, not committed capital. He said that staff is confident in the team that is in place now and discussed the firm's growth and expansion.

Mr. Nierenberg spoke to the difficulty of investing in top venture firms, the WSIB's relationship with Menlo Ventures, good returns, and risks and benefits of venture investing. He stated that he likes this idea because it does, in a prudent way, give the WSIB more exposure to the only asset class where the potential return remains virtually uncapped.

Mr. Ruggels explained that the recommended commitment represents up to 60 percent of the fund's capital. The WSIB's Private Equity Investment Program policy number 2.10.700 states, in part, "the WSIB should not consider taking more than 25 percent of any single partnership, except in unusual circumstances." Staff believes that the opportunity to invest in scale in a venture capital fund managed by a general partner with whom the Board has had a successful 34-year relationship represents such an unusual circumstance and is comfortable with exceeding the concentration threshold.

Treasurer McIntire spoke in support of the investment and asked how many other limited partners may be in this fund and how quickly the capital would be deployed. Mr. Ruggels responded that there would be approximately six other limited partners, and the fund would likely be deployed over a 2 to 4 year period.

Ms. Blackburn, Hamilton Lane, discussed the fund's investment strategy, fee levels, performance, volatility, investment discipline, and market cycles. She stated that Hamilton Lane supports the investment.

Messrs. Siegel and Genesan, Menlo Ventures, introduced themselves. Mr. Siegel noted the firm's 35-year relationship with the WSIB, past performance, and Washington-based investments.

Mr. Genesan explained that the purpose of this fund was to invest in opportunities as the market stabilizes and later-stage valuations correct. He discussed market opportunities and trends.

Mr. Siegel described the firm's investment team, experience, and performance. He detailed the fund's target size, investment period, market timing, and short fundraising period.

The Committee discussed the volatility of venture investing, the ability of this fund to select only the best companies, fees based on invested capital rather than committed capital, long-term relationship with the WSIB, and the size of the WSIB's allocation.

Mr. Bruebaker reminded the general partner of the WSIB's relationship with Fisher Lynch and asked that they think of Fisher Lynch as an extension of WSIB staff when co-investment opportunities arise.

> **Treasurer McIntire moved that the Private Markets Committee recommend the Board invest up to $150 million, plus fees and expenses, in Menlo Special Opportunities Fund, 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 10:23 a.m. and reconvened at 10:37 a.m.]

PRIVATE EQUITY INVESTMENT RECOMMENDATION – APAX IX, L.P.
Ms. Fowler said that staff recommends an investment of up to $250 million in Apax IX, L.P., a global buyout fund with a target size between $7.5 billion and $8.5 billion. She described the fund's sector focus, investment thesis, target

enterprise values, large and experienced investment team, global footprint with eight offices in eight countries, and deep industry knowledge. Ms. Fowler discussed the firm's historic performance, positive changes made after an extensive review, and staff changes. She stated that staff believes the team is stronger and more motivated than ever. The WSIB has invested in four prior Apax funds. The proposed investment would fall into the unidentified allocation in the Board-approved 2016 private equity annual plan and is consistent with the private equity model portfolio.

Ms. Blackburn, Hamilton Lane, discussed the firm's unique and successful transition from a European firm to a global entity. She described improvements the firm has made and detailed the firm's investment discipline and approach, value creation methodologies, and past performance. Ms. Blackburn stated that Hamilton Lane concurred with commitment.

Discussion ensued regarding the median age of the partners, European culture regarding retirement age, and the firm's investment experience.

Messrs. Truwit and Kim, Apax Partners, introduced themselves. Mr. Truwit discussed the firm's market approach, sector focus, history, global approach, geographic flexibility, and alignment of interest with limited partners. He provided information on some of Apax's past deals and described the firm's sector expertise, exit strategies, cohesion of the trans-Atlantic team, experienced partners, reputation, access to deals, exit strategies, investment approach, and value creation. Mr. Truwit discussed the current market environment, and exit strategies.

Mr. Nierenberg commented on the firm's size and Mr. Truwit's experience and background.

Mr. Bruebaker reminded the general partner of the WSIB's relationship with Fisher Lynch and asked that they think of Fisher Lynch as an extension of WSIB staff when co-investment opportunities arise.

> **Treasurer McIntire moved that the Private Markets Committee recommend the Board invest up to $250 million, plus fees and expenses, in Apax IX, 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 11:26 a.m. and reconvened at 11:53 a.m.]

TANGIBLE ASSETS INVESTMENT RECOMMENDATION – WARWICK PARTNERS III, L.P.

Mr. Akers stated that staff recommends a $125 million commitment to Warwick Partners III, L.P. This investment was included in the tangible assets annual plan that the Board approved in December of last year. If approved, this will be the WSIB's first investment with Warwick. He conveyed how Warwick is a good fit for the upstream energy portfolio in WSIB's Tangible Asset framework and is a unique investment opportunity.

Mr. Akers said the Fund is not expected to make regular distributions of income; instead, income produced from operating assets will be re-invested. He illustrated some merits, including a unique investment approach that is not well covered on an institutional scale; the edge the firm has in data from land, geology, and engineering; and strategic value to the Tangible Asset's energy portfolio. Mr. Akers confirmed a few key risks, including acquisition of Fund I assets by Fund III and Warwick being a relatively new team.

The Committee discussed what non-operated interests are and what the allocation to oil and gas is for the Tangible Assets portfolio. Ms. Will stated only 25 percent of the 50 percent in the Tangible Assets energy sector is in oil and gas and that we do not want a majority of the portion to be in certain areas so we do not overexpose ourselves.

Mr. Akers explained that most wells have multiple owners but the largest owner is responsible for operating the well. A non-op owner is a minority interest holder in the well. He described that if the company that operates the wells has a reduced capital budget which will not allow them to drill, but has acreage that is able to be drilled on, the non-op partner has a right to take over the interest in a particular well.

Mr. Martin, TorreyCove Capital Partners, said their review of Warwick started in the second quarter of 2015 and they had previous knowledge of the deals Warwick executed through other people. He explained Warwick is an organization that has changed and evolved over time and is a cutting edge group. Mr. Martin detailed Warwick's team and how they are sophisticated in the technology sector with a great blend of seasoned and new professionals. He illustrated some merits, including a strong institutional limited partner base and strong alignment of people. Mr. Martin confirmed a few key risks, including evolution in regards to the changes in Warwick over the last 5 years.

The Committee discussed investing in the non-op asset, pricing on the assets, making money drilling in certain basins, and duration of investments in future acreage.

Mr. Martin said the acquisition capital will fund the acquisition of the non-op positions in operating wells. He stated the pricing on the assets are based on the current commodity strip prices and that money can still be made drilling in premium basins in Oklahoma. He declared there are different assumptions on the long-term duration on the holdings with a discount analysis on the wells going beyond 5 years.

Ms. Richard and Mr. Yingling, Warwick Energy Group, provided an overview of the firm. Ms. Richard stated Warwick actively manages and optimizes wells and acreage for the life of the well. Mr. Yingling described Warwick's team and their extensive experience. He explained why non-op's exit, how things have changed from the early days of the American oil boom to modern drilling and development, and why drilling units matter. Ms. Richard shared the strategy overview, in which Warwick is focusing on four areas: two in Oklahoma and two in Texas.

Mr. Yingling detailed how Warwick capitalizes on operational distress. Ms. Richard outlined a case study of Warwick's diversified non-op assets, focusing on the top operators, top basins, product mix, and concentrated focus in Oklahoma and Texas. She declared Warwick is the only institutional-quality general partner focused exclusively on investing in non-op with hugely diverse data sets and downside protection.

The Committee discussed the challenges in investing in oil and gas and how to mitigate those challenges, Warwick's competitive advantage in technology, and the risk of stricter regulations.

Ms. Richard expressed Warwick has a good hedging practice in place and a dedication to the basins that they are already in. She stated Warwick analyzes their own data rather than using consultants to underwrite new investments. When questioned, Ms. Richard acknowledged there are more regulations in Oklahoma now and on specific things, but for Warwick it is business as usual without specific issues. Mr. Yingling explained how working with good operators is key in order to know how the regulations are going to impact them, and they need those people to stay on top of the regulations.

> **Ms. Kuschel moved that the Private Markets Committee recommend to the Board an investment of $125 million, plus fees and expenses, in Warwick Partners III, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Treasurer McIntire seconded and the motion carried unanimously.**

[Mr. Nierenberg left at 1:47 p.m.]

REAL ESTATE INVESTMENT RECOMMENDATION – AEVITAS PROPERTY PARTNERS, LLC

Mr. Draper stated that staff recommends an additional investment of $500 million in Aevitas Property Partners, LLC. He noted that this is the third time Aevitas has presented to the Private Markets Committee. Mr. Draper explained Aevitas currently owns six real estate operating companies (REOCs). He highlighted their high-quality management team and described how Aevitas has discipline, a differentiated mindset, and can see angles in strategies on which others do not pick up and where they are able to find value. Mr. Draper discussed Aevitas' positive diversification impact on the real estate portfolio and mentioned some key risks, including key person risk, market risk, and currency risk.

Mr. Humphrey, Courtland Partners, detailed Aevitas's strategy and how this is a well-aligned group in which WSIB has attractive governance rights. He confirmed a few key risks, including market risk, political risk, economic risk, and international (currency) risk.

The Committee discussed the implications of potential investment in Turkey. Mr. Draper explained that the potential transaction has been in the works for 3 years and focuses exclusively on two suburbs in Istanbul, across the country from where the most of the current events are happening. He assured that the WSIB and Aevitas are aware of the risks and that Mr. Aaronson is highly-experienced investing in the Turkish real estate market.

Mr. Aaronson and Ms. Theyse, Aevitas Property Partners, provided an overview of the firm and their vision, which remains unchanged. Mr. Aaronson explained the team evolution over the last 4 years as the company has grown. He described what has worked well for them to date, their focus on getting the right mix of people for the long term, and doing an extensive amount of research. Mr. Aaronson stated that what has not worked as well for Aevitas is converting existing real estate platforms to Aevitas ownership and oversight. He also noted the challenges of finding great people to implement great strategies, with people needing to fit three ways: with their local teammates, with Aevitas, and within the world of the WSIB.

Mr. Aaronson and Ms. Theyse provided details concerning the six existing REOCs, including the investment strategy, investment thesis, people, and some portfolio informations for each. Mr. Aaronson outlined what was on the drawing board for the near future, including strategies in India and Turkey. He stated Aevitas would be staying the course and continuing to do things how they have been, while staying disciplined, committed, innovative, and not forgetting who they work for.

The Committee discussed possible market peaks, rehabilitation projects, and consideration of ethical challenges faced in some markets.

Mr. Aaronson conveyed that he believes Europe trails the U.S. in terms of market peaking, as interest rates have continued to drop. He also noted that much of the developing world is not in line with the U.S. He noted that they are willing to take on distress, and operating in Central Europe will require them to take on distress. Mr. Aaronson stated that in order to deal with the ethical challenges real estate investors face in certain markets, one needs to have an open, transparent dialog; Aevitas has a strong code of conduct that is reviewed and signed off by their professionals every year.

> **Treasurer McIntire moved that the Private Markets Committee recommend to the Board an additional investment of $500 million, plus fees and expenses, in Aevitas Property Partners, LLC, subject to continuing due diligence and final negotiation of terms and conditions. Ms. Kuschel seconded and the motion carried unanimously.**

REAL ESTATE INVESTMENT RECOMMENDATION – EVERGREEN REAL ESTATE PARTNERS, LLC

Mr. Draper stated that staff recommends an additional investment of $600 million in Evergreen Real Estate Partners LLC. He noted that this is Evergreen's ninth time presenting to the Private Markets Committee in 11 years. Mr. Draper discussed highlights of the investment proposal: Evergreen currently owns 13 companies; the team is high-quality and has good depth; the results speak for themselves. He explained the WSIB has a large commitment with Evergreen, but with the allocation spread over 13 companies, and how the governance rights work provide comfort. Mr. Draper mentioned some other key risks, including operational risk and the high amount of developmental risk currently in Evergreen's portfolio.

Mr. Humphrey, Courtland Partners, discussed Evergreen's strategy, which has significant exposure to non-U.S. and how this is a testament to their management team because of the attractive return for the level of risk. He described Evergreen's property type selection, which includes non-traditional sectors such as self-storage, motor way retail, student housing, and death care. Mr. Humphrey confirmed a few key risks, including operational risk, succession plans, and international risk.

Messrs. House and Suter, Evergreen Real Estate Partners, provided an overview of the firm. Mr. Suter explained that Evergreen is managed by an SEC-regulated investment manager which is a wholly-owned subsidiary of M3. He described M3's organization with offices in Chicago, London, São Paulo, and Hong Kong. Mr. House mentioned Evergreen's existing investments and the type of REOCs in each country. He noted that Evergreen has to have the discipline to wait to have the correct systems and people in place before making an investment. Mr. House provided an overview of Evergreen's performance, with a few historical challenges and ongoing/future risks, including the potential of being slow to attain scale and finding the right people in the right places. He expressed how Evergreen is meeting and exceeding their goal to build best-in-class REOCs.

The Committee discussed the investment opportunities and diversifying niches within the REOCs.

Mr. House stated most of the investment opportunities will be in existing businesses. He explained Evergreen is more focused on cities rather than countries.

Treasurer McIntire requested from staff more information regarding how real estate partners are compensated.

> **Treasurer McIntire moved that the Private Markets Committee recommend to the Board an additional investment of $600 million, plus fees and expenses, in Evergreen Real Estate Partners, LLC, subject to continuing due diligence and final negotiation of terms and conditions. Ms. Kuschel seconded and the motion carried unanimously.**

PRIVATE EQUITY SECONDARY INVESTMENT – BRIDGEPOINT EUROPE IV, L.P.

Mr. Bruebaker informed the Committee that the WSIB invested $28.4 million in a secondary transaction in Bridgepoint IV, a fund in which the WSIB is an existing primary limited partner, and assumed the proportional uncalled commitment of $4.8 million, for a total exposure of $33.2 million. He explained that the investment complies with the WSIB's secondary investment policies, as both the consultant and staff deemed this an attractive investment opportunity; the total exposure for the WSIB remains below $35 million; and the purchase occurred at a discount to June 30, 2015, valuations due to the overall portfolio value increase, as well as the findings from the analysis performed on the individual portfolio companies. Mr. Bruebaker stated that staff and the consultant agree that this investment presented an attractive opportunity to increase the WSIB's exposure to a well-performing European mid-market buyout manager with whom the WSIB has invested over the general partner's three prior funds, including Bridgepoint IV.

PRIVATE MARKETS CLOSING LOG

The Private Markets Closing Log was presented for informational purposes.

Mr. Akers gave an update on the Plum Creek and Weyerhaeuser merger with regard to the WSIB's investment in Twin Creeks.

OTHER ITEMS

There were no other items to come before the Committee, and the meeting adjourned at 2:23 p.m.