

**WASHINGTON STATE INVESTMENT BOARD  
Private Markets Committee Meeting Minutes  
June 2, 2016**

The Private Markets Committee met in open public session at 9:04 a.m. in the boardroom at the Washington State Investment Board in Olympia, Washington.

Members Present: George Masten, Chair  
Marcie Frost  
Treasurer Jim McIntire  
Richard Muhlebach  
David Nierenberg  
Jeff Seely

Absent: Kelly Fox  
Judy Kuschel

Also Present: Theresa Whitmarsh, Executive Director  
Gary Bruebaker, Chief Investment Officer  
Tom Ruggels, Senior Investment Officer – Private Equity  
Fabrizio Natale, Assistant Senior Investment Officer –  
Private Equity  
Morian Mooers, Assistant Senior Investment Officer –  
Private Equity  
Carmen Matsumoto, Investment Officer – Private Equity  
John Graves, Assistant Senior Investment Officer – Tangible  
Assets  
Linda Buchanan, Administrative Assistant  
Alyssa Murphy, Administrative Assistant

Mario Giannini, Hamilton Lane  
Tara Blackburn, Hamilton Lane  
Natalie Fitch, Hamilton Lane  
Steve Hahn, RVK, Inc.  
Chris Tehranian, Meketa Investment Group  
Frank Tang, FountainVest Partners  
George Chuang, FountainVest Partners  
Tom Lister, Permira  
Chris Davison, Permira  
Monica Chase, Permira  
Brett Fisher, Fisher Lynch  
Leon Kuan, Fisher Lynch  
Marshall Bartlett, Fisher Lynch  
Chris Beale, Alinda Capital Partners  
Mark Prybutok, Alinda 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.

#### **PRIVATE EQUITY MARKET UPDATE**

Mr. Ruggels introduced Mr. Giannini and explained that Mr. Giannini would present an informal general market update for discussion.

Mr. Giannini, Hamilton Lane, discussed general market conditions and the potential political impact on investments. He spoke to preparation for potential dramatic events, the importance of maintaining investment discipline, market timing, and cycles. Mr. Giannini explained that large sums of money are being invested and that the best funds are oversubscribed and pushing back on terms.

[Treasurer McIntire arrived at 9:12 a.m.]

Discussion ensued regarding potential political impact on market conditions, potential investments during the next downturn, changing investment structures, alternate investment vehicles and structures, longer-term investments, changes in exit strategies, and the risks and advantages to alternate investment options. The Committee analyzed the Japanese and Asian markets and potential methods of venture investing.

Mr. Giannini opined that the WSIB's current investment methods are working well and should continue to do so.

#### **PRIVATE EQUITY INVESTMENT RECOMMENDATION – FOUNTAINVEST CHINA CAPITAL PARTNERS FUND III, L.P.**

Mr. Natale stated that staff recommends an investment of up to \$200 million in FountainVest China Capital Partners Fund III, L.P., a growth equity and middle-market buyout fund. The fund will continue the strategy of investing thematically in revenue-generating, high-growth businesses that benefit from sustainable macro trends in China, pursuing transactions that require between \$50 and \$250 million of equity. Mr. Natale reviewed the WSIB's commitments to prior funds and observed that FountainVest is one of a very few institutional quality managers in China. He discussed the firm's demonstrated ability to execute in a volatile market; strong performance; native investment team with local and international experience; strong relationship networks; attractive deal sourcing; consistent investment strategy; sector focus in healthcare, consumer goods and services, and media and entertainment; environmental awareness; disciplined approach in a continually evolving market; applied pricing discipline; value creation; downside protection; and single asset class focus. The proposed investment is consistent with the Board-approved 2016 private equity annual plan and the private equity model portfolio.

The Committee questioned whether this was the WSIB's only Chinese private equity manager. Mr. Natale responded that this is the WSIB's only Chinese-owned firm but other partners have pan-Asian and pan-emerging markets exposure, including China. The Committee discussed the U.S. dollar investment, market conditions, the investment in auto dealerships, expectations of portfolio company performance,

and the firm's growth-oriented strategy. The Committee compared the types of investments that FountainVest makes to those of other WSIB managers.

Ms. Blackburn, Hamilton Lane, said that FountainVest is well-positioned in the market with a local team. She discussed the firm's evolution in the market and the desirability of exposure in the area. Ms. Blackburn discussed the firm's institutional quality, performance, liquidity, volatility in returns, and unrealized capital. She commented on the continued evolution within the market and stated that Hamilton Lane believes the proposed investment is an excellent opportunity for the WSIB.

Mr. Tang and Mr. Chuang, FountainVest Partners, introduced themselves. Mr. Tang described the fund's country focus and strategy. He discussed the firm's history, experience, sector focus, investment team, consistent investment approach, rigorous due diligence, and culture. Mr. Tang described current and evolving market, political, and social conditions in China.

The Committee discussed the impact of political uncertainty and change. Mr. Tang described methods the firm uses to ensure success in a volatile market and explained that the firm focuses on companies and sectors resilient to change. He noted the importance of having a local team.

Mr. Chuang described the firm's consistent investment strategy, core approach, institutionalized practices, local knowledge and presence, sector focus, value creation, disciplined execution, focus on middle-class growth, and in-house operation team.

The Committee discussed the fit of travel and online booking in FountainVest's strategy.

Mr. Bruebaker asked about potential co-investment opportunities, an important part of the WSIB private equity program, and explained that Fisher Lynch does co-investments on behalf of the WSIB.

Discussion ensued regarding conditions that provide a catalyst for potential co-investment opportunities, consumer debt, real estate values in China, material risks due to speculative investments, improving business environment, and exit strategies.

**Treasurer McIntire moved that the Private Markets Committee recommend the Board invest up to \$200 million, plus fees and expenses, in FountainVest China Capital Partners Fund III, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Ms. Frost seconded, and the motion carried unanimously.**

[The Committee recessed at 10:42 a.m. and reconvened at 10:55 a.m.]

## **ADOPTION OF THE APRIL 7, 2016, MINUTES**

**Treasurer McIntire moved to adopt the April 7, 2016, minutes. Ms. Frost seconded, and the motion carried unanimously.**

### **PRIVATE EQUITY INVESTMENT RECOMMENDATION – PERMIRA VI, L.P.**

Ms. Matsumoto said that staff recommends an investment of up to €320 million (approximately US\$356 million as of June 1, 2016) in Permira VI, L.P. The fund has a target size of €6.5 billion and a cap of €7.25 billion. The proposed investment is consistent with the Board-approved 2016 private equity annual plan and model portfolio. Ms. Matsumoto explained that the proposed investment would increase the WSIB's private equity exposure to Europe, which is underweight compared to the model portfolio.

The WSIB has invested in two prior Permira funds. Ms. Matsumoto explained that Permira is a large European buyout firm with 12 investing offices in Europe, Asia, and the United States. The firm believes that having a local presence in key geographic markets enhances its ability to originate opportunities. Ms. Matsumoto described the firm's investment professionals, managing partners, experience, strategy, geographic focus, industry sectors, global expansion, and value creation. She detailed the firm's performance, current fund, expected investments, and expected exits.

The Committee discussed exchange rates and the impact the rates have on performance, timing of the new fund, and undrawn capital.

Ms. Fitch, Hamilton Lane, stated that this is a good time to invest in Europe and that the WSIB has committed to a handful of other funds this year that will provide significant European exposure. She explained that Permira is a good investor that will provide global exposure. Ms. Fitch described the firm's performance, turnover, deal sourcing, improved operational capabilities, sector teams, and strong market position. She said that Hamilton Lane is supportive of the recommendation to Permira.

The Committee discussed the firm's European focus with a global presence.

Mr. Lister, Mr. Davison, and Ms. Chase, Permira, introduced themselves. Mr. Lister described the firm's history, expansion, private equity focus, ownership, performance over different markets and cycles, global reach, local presence, investment themes, collaborative environment, investment platform, sector vision, value creation, and limited competition. He explained that the firm looks for businesses that grow regardless of environment and market cycle. Mr. Lister provided examples of successful portfolio companies and spoke to the firm's sector and geographic diversification, senior leadership team, culture, specialist teams, and plans for this fund.

The Committee discussed investment opportunities in Japan and potential co-investment and secondary opportunities.

**Treasurer McIntire moved that the Private Markets Committee recommend the Board invest up to €320 million, plus fees and expenses, in Permira VI, 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 – FISHER LYNCH CO-INVESTMENT PARTNERSHIP III, L.P.**

Mr. Mooers stated that staff recommends an investment of up to \$700 million in Fisher Lynch Co-Investment Partnership III, L.P. The proposed investment is consistent with the Board-approved 2016 private equity annual plan and model portfolio. The fund will continue the strategy utilized for prior funds, making co-investments in private equity transactions originated by private equity general partners, targeting co-investments in leveraged buyout and growth equity transactions.

Mr. Mooers explained that the fund will continue the strategy started in 2006 to develop a private equity co-investment program for the WSIB. The first two funds were done jointly with the Oregon State Treasury (OST). The current fund will not include OST, as they are evaluating various aspects of their strategy and have decided not to commit to this fund at this time. Due to this, the WSIB will be the only limited partner in this fund, and Fisher Lynch will work exclusively for the WSIB to source and manage co-investments. Mr. Mooers opined that Fisher Lynch will continue to see strong overall deal flow due to the significant position the WSIB typically holds in funds and good relationships with its general partners. He discussed the benefits of the co-investment program, including the lower cost exposure to private equity deals, the increase of the WSIB's reputation as a high-quality and stable long-term partner, and a deeper understanding of the deal sponsor general partner and their approach to transactions.

The Committee discussed performance, valuations, and the need for caution and robust due diligence.

Mr. Hahn, RVK, Inc., discussed Fisher Lynch's performance, reputation, and the overall co-investment market and opportunities.

Discussion ensued regarding deal sourcing and the reasons OPERS is not continuing with the program.

Messrs. Fisher, Kuan, and Bartlett, Fisher Lynch introduced themselves. Mr. Fisher discussed the firm's history, investment staff, experience, lower fee levels, and reputation.

Mr. Kuan explained that the investment strategy will remain the same but at a slightly larger investment size. He said the fund will target 15 to 25 portfolio companies and will continue to focus on leveraged buyouts and growth equity.

Mr. Bartlett discussed co-investment sourcing, selection, and deal flow.

Messrs. Fisher, Kuan, and Bartlett discussed the firm's relationship with the WSIB's general partners, fund size, investment period, team, locations, experience, fee savings, diversification, distributions, and selectivity.

The Committee considered when and why general partners seek co-investments, the increasing interest in co-investments, and that Fisher Lynch does not have similar arrangements with other limited partners.

**Treasurer McIntire moved that the Private Markets Committee recommend the Board invest up to \$700 million, plus fees and expenses, in Fisher Lynch Co-Investment Partnership III, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Ms. Frost seconded and the motion carried unanimously.**

[The Committee recessed at 12:14 p.m. and reconvened at 12:40 p.m.]

#### **TANGIBLE ASSETS INVESTMENT RECOMMENDATION – ALINDA INFRASTRUCTURE III, L.P. AND SEPARATELY MANAGED INVESTMENT VEHICLE**

Mr. Graves stated that staff recommends a \$100 million commitment in Alinda Infrastructure Fund III, L.P. and a \$300 million commitment in a Separately Managed Investment Vehicle. These investments were included in the Board-approved 2016 tangible assets annual plan. If approved, this will be the WSIB's third investment with Alinda.

Mr. Graves explained the fund will target asset-based opportunities in the transportation, telecom, and energy industries, allocating roughly 1/3 of Alinda III capital to each of these industries, while maintaining a 60/40 geographic split between U.S. and Europe. He illustrated several merits, including a deeply experienced core team with a talented younger tier and a strong track record balancing income and growth. Mr. Graves confirmed a few key risks, including turnover at the partner level and below and high valuations being paid for portfolios.

Mr. Graves explained that the separately managed account (SMA) will invest in lower-risk, asset-based opportunities that are smaller than Alinda III investments, while providing for strong distributable cash flow across multiple economic cycles and longer holding periods than those anticipated for the fund. He highlighted merits, including the income focus with long duration objectives and being an attractive diversification vehicle. Mr. Graves mentioned a few key risks: this is a longer duration vehicle, the same team that will be running the fund will be running the SMA, and this is a first time strategy for Alinda.

Mr. Tehranian, Meketa Investment Group, detailed his firm's review of Alinda II and the SMA, which consisted of numerous site visits to both Connecticut and London as

well as reference calls. He illustrated several merits, including the independent firm, evolving team that has strengthened since inception, and positive performance. Mr. Tehranian confirmed that Meketa's concerns overlapped with those of staff, but these concerns could be mitigated through the negotiation process.

The Committee discussed the potential of investing in coal and one of the Fund I transactions. Mr. Graves explained Alinda has historically never invested in coal, the aforementioned transaction was invested pre-financial crisis, and it was predicated on assumptions that did not materialize.

Mr. Beale and Mr. Prybutok, Alinda Capital Partners, provided an overview of the firm. Mr. Beale stated Alinda has a 9-year relationship with the WSIB. He described Alinda as an independent firm that is wholly-owned by its principals with a single focus on infrastructure. Mr. Beale shared that Alinda has grown its team to 42 professionals with professionals who have strong relationships in targeted sectors, are part of the underwriting process, and specialize in operational improvements. He explained that the strategy for Fund III will be consistent with that of Fund I and Fund II, and the investment approach is to avoid auction processes, sourcing their own investments, and to actively manage by creating value through operational improvements and growth.

Mr. Beale outlined Alinda's geographic focus in North America and Europe and their sector focus in energy, transportation, and telecommunications. He detailed examples of past investments in Fund I and II and explained how Alinda adheres to high environmental, social, and governance standards. Mr. Prybutok said the geographic focus for the SMA will be predominately North America, and the sector focus will be in transportation equipment and fleets and purpose-built assets that are leased to operating companies. He discussed the market opportunities that are available and the long-term investment strategy and flexible structure.

Discussion ensued around the structure of other SMAs, the meaning of lower leverage, and the historical turnover rate of the firm.

Mr. Prybutok stated Alinda would be rolling out the opportunity for SMAs to other large limited partners, but the WSIB is the first SMA investor. Mr. Beale expressed the tremendous stability in the firm's core team and their proven success at Alinda.

The Committee discussed exit plans for the assets and the value at the end of a long-held asset. Mr. Graves explained there is no exit value anticipated with a depreciating asset. It is fully depreciated at the end of its life, and while it is possible to continue leasing the asset after this period, it is not considered at the time of acquisition.

**Ms. Frost moved that the Private Markets Committee recommend the Board invest \$100 million, plus fees and expenses, in Alinda Infrastructure Fund III, L.P., subject to continuing due diligence and final negotiation of terms and**

**conditions. Further, that the Board invest \$300 million, plus fees and expenses, in a Separately Managed Investment Vehicle, an entity to be created for WSIB infrastructure investments, managed by Alinda Capital 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. Treasurer McIntire 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 1:30 p.m.