

**WASHINGTON STATE INVESTMENT BOARD
Private Markets Committee Meeting Minutes
September 1, 2016**

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
Judy Kuschel
Treasurer Jim McIntire [Teleconference]
Richard Muhlebach
David Nierenberg
Jeff Seely

Also Present: Theresa Whitmarsh, Executive Director
Gary Bruebaker, Chief Investment Officer
Tom Ruggels, Senior Investment Officer – Private Equity
Gary Holt, Investment Officer – Private Equity
Diana Will, Senior Investment Officer – Tangible Assets
Susan Freese, Investment Officer – Tangible Assets
Dorota Czub, Investment Officer – Tangible Assets
Linda Buchanan, Administrative Assistant

Tara Blackburn, Hamilton Lane
Lisa Bacon, Meketa Investment Group
Jamie Shen, Callan Associates
John Shearburn, Warburg Pincus
Charles Kaye, Warburg Pincus
Lydia Whyatt, Resonance Asset Management
Nick Wood, Resonance Asset Management
Daniel Little, Homestead Capital
Gabe Santos, Homestead Capital
Gary Thien, Homestead Capital

[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 JUNE 2, 2016, MINUTES

Mr. Fox moved to adopt the June 2, 2016, minutes. Ms. Kuschel seconded, and the motion carried unanimously.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – WARBURG PINCUS CHINA, L.P.

Mr. Holt stated that staff recommends an investment of up to \$200 million in Warburg Pincus China, L.P. (the China Fund), which has a \$2 billion target size. The proposed commitment is consistent with the Board-approved 2016 private equity annual plan, as updated in July, and the private equity model portfolio.

Mr. Holt described the WSIB's investment history with Warburg. He explained that the proposed investment is a companion fund to Warburg Pincus Private Equity XII (Fund XII) and would invest equally in the China component of Fund XII. Mr. Holt noted that the same team leads the China Fund with the same core strategy as Fund XII. Mr. Holt described the firm's multi-stage, global style of investing and spoke to the firm's longevity, history, local presence, and expertise. He added that Mr. Kaye started Warburg's China business in 1994. Mr. Holt discussed the addition of Mr. Tim Geithner as president and the departure of Mr. David Li.

[Treasurer McIntire joined the meeting at 9:03 a.m.]

The Committee discussed the level of commitments to China in the WSIB's private equity portfolio, as well as the type of deals that the firm is doing.

Ms. Blackburn, Hamilton Lane, described the WSIB's long-term relationship with Warburg Pincus and the firm's history of specialty sectors. She discussed the firm's demonstrated strong performance, management team, leadership transitions, experience, and resources. She stated that Hamilton Lane believes the China Fund will do well.

Mr. Shearburn and Mr. Kaye, Warburg Pincus, introduced themselves and described their backgrounds and roles in the firm. Mr. Shearburn described the firm and its history. He explained that Warburg Pincus is celebrating its 50th anniversary and is the oldest continuously operating private equity firm in the world. Mr. Shearburn addressed the firm's investment approach and philosophy, use of equity capital with

limited leverage, industry sectors, and geographic diversification. He noted that over the last several years, the firm has focused on emerging markets where the growth investment model is a good fit. Mr. Shearburn stated that the firm has remained privately-owned and discussed previous leadership transitions.

Mr. Kaye discussed Warburg's history as a firm and in Asia. He discussed the opportunities that have developed in Asia and how those opportunities fit with the Warburg Pincus investment style. Mr. Kaye described the firm's local presence, expertise, and team. He addressed China's macro environment, the country's complicated economic transition and the shift in focus from exports to domestic consumption, and increasing leverage across the economy. Mr. Kaye noted the nation's strengths, financial capacity, high savings rates, foreign currency reserves, and political tools. He explored China's investment opportunities, share of the global gross domestic product, and economy. Mr. Kaye provided examples of portfolio companies and described the firm's past performance, low loss ratio, reputation, investment team, professional and support teams, industry sectors, deal flow, investment strategy, domain expertise, alignment of interests within the firm, and one-firm culture.

The Committee discussed the portion of global growth that will come from China, the importance of investing in China, public markets in China, consumer demand, exit strategies, energy investments, and the importance of patient investing. Discussion ensued regarding the financial services sector, opportunities due to the change in the one-child policy, and the healthcare sector.

Mr. Bruebaker acknowledged the WSIB's long-term relationship with Warburg Pincus and spoke to the coinvestment opportunities that Warburg Pincus has shared with the WSIB through Fisher Lynch. He said that he hopes to see those opportunities continue.

Mr. Shearburn noted that Warburg Pincus has investments in the Seattle area.

Discussion ensued regarding global issues that could affect investments in China.

Mr. Fox moved that the Private Markets Committee recommend the Board invest up to \$200 million, plus fees and expenses, in Warburg Pincus China, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Ms. Kuschel seconded, and the motion carried unanimously.

TANGIBLE ASSETS INVESTMENT RECOMMENDATION – RESONANCE INDUSTRIAL WATER INFRASTRUCTURE LIMITED

Ms. Freese said that staff recommends an investment of up to \$100 million, plus fees and expenses, in Resonance Industrial Water Infrastructure Limited. The proposed investment is consistent with the revised annual plan presented at the July Board meeting.

Ms. Freese described the fund's focus on water infrastructure assets that provide operationally critical services to industrial clients. She explained that the fund will partner with top-tier operators to develop, expand, and retrofit assets across Europe and Australasia, employing a build-buy-operate-transfer (BOT) model. Ms. Freese discussed the predictable cash flow profile, mitigation of exit risk, global exposure, and the team's investing and operating experience. She addressed counterparty risk, deal flow uncertainty, and currency risk. Ms. Freese concluded that staff believes the fund poses a unique and attractive investment opportunity and is a great fit for the WSIB's tangible assets portfolio.

The Committee discussed the industries, such as pharmaceuticals, that have a need for the fund's services, the importance of the investment in terms of portfolio construction, and the lack of similar operations in the portfolio.

Ms. Bacon, Meketa Investment Group, opined that this is a strategy with a timely focus on the market. She discussed the investment opportunity's cash yield, built-in exit strategy, pipeline, diversification, experienced team, sourcing network, and

attractive terms. Ms. Bacon noted that the team members have known each other for a long time and have good individual track records. She discussed the durability and accessibility of the opportunity, market trends, operating partners, economic alignment, and organizational structure.

Ms. Whyatt and Mr. Wood, Resonance Asset Management, introduced themselves. Mr. Wood provided an overview of the firm and described its history, office locations, focus on responsible investing, strategy, relationships, extensive pipeline, diverse portfolio, and team. He spoke to the self-liquidating process, as well as the growing needs for the services.

Ms. Whyatt detailed the shortage of water in many countries and the industrial needs for water services. She discussed the costs and engineering skills required to deliver clean water to where it is needed. Ms. Whyatt said the firm invests alongside the operating partners, enabling those operators to deliver solutions.

Mr. Wood and Ms. Whyatt provided examples of the types of investments the firm would make and discussed ownership structure, production time, cash flow, low leverage use, mission critical needs, global view, limited competition, positive environmental impact, and attractive returns.

The Committee discussed operator risks, vetting processes for clients and operators, site inspections, insurance, geographic allocation, and protection against environmental risks.

Mr. Nierenberg spoke to the merits of the investment and the differences between Tangible Assets and the other asset classes. He advised that the WSIB's representatives on the advisory board need to be trained and vigilant to advance the WSIB's interests in a way that is stronger and more proactive than other asset classes.

Mr. Fox moved that the Private Markets Committee recommend the Board invest up to \$100 million, plus fees and expenses, in Resonance Industrial Water Infrastructure Limited, subject to continuing due diligence and final negotiation of terms and conditions. Ms. Kuschel seconded and the motion carried unanimously.

[The Committee recessed at 10:47 a.m. and reconvened at 10:59 a.m.]

TANGIBLE ASSETS INVESTMENT RECOMMENDATION – HOMESTEAD CAPITAL USA FARMLAND FUND II, L.P.

Ms. Czub stated that staff recommends an investment of up to \$100 million in Homestead Capital USA Farmland Fund II, L.P. The proposed investment is consistent with the revised annual plan presented at the July Board meeting. The fund will invest in row and permanent cropland in the Pacific, Mountain West, Midwest, and Delta regions of the United States.

Ms. Czub described the fund's investment strategy, wide geographic footprint, and fit in the WSIB's tangible assets portfolio. She explained that Homestead will use a variety of lease structures and engage in direct farming in order to manage the risk exposure of its portfolio and to generate an attractive cash yield. Ms. Czub discussed the firm's well-diversified and balanced portfolio, partnership with regional farm managers, and access to exclusive deal flow. She spoke to the firm's unrealized track record and the increase in fund size from the first fund. Ms. Czub concluded that staff believes in the attractiveness of Homestead's strategy and team.

Ms. Shen discussed the due diligence she performed for the proposed investment. She described the firm's value-added approach to farmland investments, differentiation in segment and approach from other organizations, and Homestead's prior fund. Ms. Shen professed confidence in the ability of staff to partner with and

provide guidance to the organization as it grows and stated that she recommends the investment.

Messrs. Little, Thien, and Santos, Homestead Capital, introduced themselves and discussed their backgrounds and roles in Homestead. Mr. Little provided an overview of the firm's investment team, local presence, experience, investment process, deal sourcing, and diversification.

Mr. Thien described the firm's regional managers, backgrounds, and experience, and Mr. Santos noted the thoroughness and importance of documentation and structuring during the due diligence process.

Discussion ensued regarding the history and use of regional managers.

Mr. Little described the firm's investment process, due diligence, and diversification. He spoke to the importance of understanding weather patterns, water rights, crops that grow well in the area, building financial models, and identifying areas where improvements can add value. Mr. Little explained the acquisition process and exit strategies.

Mr. Santos discussed the firm's private equity approach, active hands-on role, and value creation methodologies. He described the fund's target investment size and detailed areas considered for improvement and where value can be added.

Mr. Santos described Homestead's sustainable farm management practices. The Committee discussed various lease structures, risk controls in place, governance rights, and low use of leverage.

Mr. Nierenberg noted that the low use of leverage is important because high debt is one of the most common reasons for failure.

Mr. Fox moved that the Private Markets Committee recommend the Board invest up to \$100 million, plus fees and expenses, in

Homestead Capital USA Farmland Fund II, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Ms. Kuschel seconded and the motion carried unanimously.

TANGIBLE ASSETS INVESTMENT POLICY 2.10.900

Mr. Bruebaker explained 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 process, technical changes have been made to the Tangible Assets Investment Policy 2.10.900 to provide consistency in structure and format; however there are no material changes.

Ms. Kuschel moved that the Private Markets Committee recommend the Board approve the proposed technical revisions to the Tangible Assets Investment Policy 2.10.900. Mr. Fox seconded, and the motion carried unanimously.

2017 PRIVATE MARKETS COMMITTEE MEETING SCHEDULE

Mr. Bruebaker presented the proposed 2017 Private Markets Committee meeting schedule for the Committee's consideration.

Mr. Fox moved that the Private Markets Committee adopt the 2017 meeting dates as presented. 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 11:42 a.m.