

**WASHINGTON STATE INVESTMENT BOARD
Private Markets Committee Meeting Minutes
June 8, 2017**

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: Joel Sacks
Kelly Fox
Judy Kuschel
Tracy Guerin
Richard Muhlebach
David Nierenberg (teleconference)

Absent: Senator Mark Mullet

Also Present: Theresa Whitmarsh, Executive Director
Gary Bruebaker, Chief Investment Officer
Diana Will, Senior Investment Officer – Tangible Assets
Kurt Akers, Assistant Senior Investment Officer –
Tangible Assets
Tom Ruggels, Senior Investment Officer – Private Equity
Carmen Matsumoto, Investment Officer – Private Equity
Bjorn Seebach, Investment Officer – Private Equity
Fabrizio Natale, Assistant Senior Investment Officer –
Private Equity
Alyssa Murphy, Administrative Assistant

Tor Jernudd, Assistant Attorney General
Brent Burnett, Real Asset Portfolio Management
Natalie Fitch, Hamilton Lane
Tara Blackburn, Hamilton Lane
Greg Richards, Arable Capital
Derek Yurosek, Arable Capital
Lawrence Sorrel, Tailwind Capital
Daniel S. O’Connell, Vestar Capital Partners
Kenneth J. O’Keefe, Vestar Capital Partners
Arif M. Naqvi, The Abraaj Group
Wahid Hamid, The Abraaj Group
Anuscha Ahmed, The Abraaj Group

[Names of other individuals attending the meeting are listed in the permanent record.]

Chair Sacks called the meeting to order and took roll call.

ADOPTION OF THE APRIL 6, 2017, MINUTES

Ms. Kuschel moved to adopt the April 6, 2017, minutes.

Ms. Guerin seconded, and the motion carried unanimously.

TANGIBLE ASSETS INVESTMENT RECOMMENDATION – ARABLE CAPITAL, LLC

Mr. Akers stated staff recommends an investment of up to \$300 million in Arable Capital, LLC. This investment was not included in the tangible assets annual plan but was covered under the unidentified allocation. He illustrated several merits, including filling a gap in the portfolio in the agricultural midstream bucket, leveraging a combination of patient capital, industry expertise, personal networks, and Arable's highly qualified team. Mr. Akers confirmed a few key risks, including this being a first-time team with a track record that is not observable.

Discussion ensued regarding capital deployment and labor.

Mr. Burnett, Real Asset Portfolio Management, discussed the firm's sector-focused strategy. He indicated his firm had done extensive due diligence on Arable, coming to the conclusion this is a very strong firm. Mr. Burnett echoed staff's concerns including the timeframe for investing capital, and this being a first-time fund. He stated the right governance is in place to mitigate the risk of investing in a first-time fund.

The Committee discussed reference checks, first-time fund exposure, and operating risk.

Mr. Burnett explained that he grew up in the Yakima valley and knows some of the same people with whom Arable will be doing business gave strong reference checks. He said the fund will be invested over 3 to 5 years and there is more flexibility with Arable to make changes than with a normal

closed-end fund. Mr. Burnett stated there is more operating risk in this strategy than in land, as the nature of that business is very straightforward.

Messrs. Richards and Yurosek, Arable Capital, introduced themselves. Mr. Yurosek discussed the reasons to invest in Western U.S. agribusinesses, the process of acquiring quality agribusinesses, and the ideal model for investing in them. He detailed the great opportunities for growing returns in an under-invested asset class and the selection criteria that Arable uses to find the right opportunities. Mr. Richards gave an overview of Arable's existing opportunities, the type of relationships with owners and farmers they seek, and Arable's team, which is balanced and experienced.

[Mr. Fox arrived at 9:37 a.m.]

The Committee discussed water supply and labor risks, having a single investor, and company culture.

Mr. Yurosek said labor has always been a demand requiring employers to be current on technology and automation. He explained that a lot of associations work with state and local governments to fill those demands. Mr. Richards indicated that from a manager standpoint, they want to find investors who are investing for the long term. Mr. Yurosek noted the key is continued communication. He described how Arable will put a team together that does not solely consist of members from one office or another, but a combination of both.

Ms. Kuschel moved that the Private Markets Committee recommend the Board invest up to \$300 million, plus fees and expenses, in Arable Capital, LLC, subject to continuing due diligence and final negotiation of terms and conditions. Ms. Guerin seconded, and the motion carried unanimously.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – TAILWIND CAPITAL PARTNERS III, L.P.

Ms. Matsumoto said staff is recommending a commitment of up to \$200 million in Tailwind Capital Partners III, L.P. She stated Tailwind falls into the small to medium corporate finance subsector and will focus on three industry sectors: healthcare, business services, and industrial services. Ms. Matsumoto spoke to the firm's talented and experienced team, repeatable investment process, strong performance, and favorable economic terms. If approved, this would be a new relationship for the WSIB.

Ms. Fitch, Hamilton Lane, indicated this is a strong and mature team who are focused on value add and sector. She described the firm's culture, management team, long term approach, and strong performance. Ms. Fitch explained Tailwind is a preferred partner with preferential investing abilities. She stated that Hamilton Lane supports the recommendation and reiterated that the WSIB has been able to negotiate very favorable terms.

Discussion ensued regarding performance, the difference between target size and hard cap, fund size, and a number of potential deals.

Messrs. Sorrel and Gorton of Tailwind, introduced themselves. Mr. Sorrel provided an overview of the team, investment strategy, and performance. He discussed an investment strategy focused on growth, add-on acquisitions, strategic transformations, and targeting three industry sectors; healthcare, business services, and industrial services. Mr. Sorrel also reviewed the performance of both Fund I and Fund II.

The Committee discussed involvement of the operating executives, diversification, and acquisition risk.

Mr. Sorrel stated that in addition to the investment professionals, the firm's dedicated operating executives often work directly with the acquired companies in a

capacity comparable to a Chief Executive Officer. When asked about the lack of gender diversity among the partners, Mr. Sorrel indicated that is an area in which Tailwind is working to improve.

Ms. Guerin moved that the Private Markets Committee recommend the Board invest up to \$200 million, plus fees and expenses, in Tailwind Capital Partners III, 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 10:38 a.m. and reconvened at 10:52 a.m.]

PRIVATE EQUITY INVESTMENT RECOMMENDATION – VESTAR CAPITAL PARTNERS VII, L.P.

Mr. Seebach said staff is recommending a commitment of up to \$200 million in Vestar Capital Partners VII, L.P. and the WSIB has invested in Vestar's four most recent funds. Mr. Seebach stated Vestar will focus on companies operating in three industry sectors: consumer, business services, and healthcare. He said the underperformance in Fund V is a concern and that Vestar refined its investment strategy starting with Fund VI, including the discontinuation of the European investment effort. Fund VII is expected to follow Fund VI's investment strategy. The proposed investment would fall into the unidentified allocation in the Board-approved 2017 private equity annual plan and is consistent with the model portfolio.

Ms. Fitch, Hamilton Lane, discussed the firm's history, investing in Europe, and investment performance. She highlighted Vestar's experienced team, alignment with limited partners, and reference calls. Ms. Fitch stated that Hamilton Lane supports the recommendation.

Discussion ensued regarding performance, the investment team, and diversification.

[Mr. Nierenberg left the meeting at 11:06 a.m.]

Messrs. O'Connell and O'Keefe, Vestar Capital Partners, introduced themselves. Mr. O'Connell noted the WSIB has invested in the last four funds over the past 20 years and is a member of those funds' Advisory Committees. He detailed Vestar's strong, experienced franchise; cohesive team and established firm culture; sole focus on the U.S. middle market; proven track record; and creation of value through active portfolio management.

Mr. O'Keefe gave an overview of the team. Mr. O'Connell explained the firm's investment strategy for Fund VI and Fund VII. Mr. O'Keefe described the phases of value creation, portfolio construction, deal pipeline, and investment selection. Mr. O'Connell detailed Vestar's track record by fund and provided an overview of four investments.

The Committee discussed performance, fund strategy, diversification, and Vestar's phases of value creation.

Mr. O'Connell reviewed the performance of Funds V and VI and highlighted a few reasons for differences between the two. He indicated the strategy and the team will be the same for Fund VII as for Fund VI. He gave an overview of sourcing, execution of transactions, management of investments during ownership, and exiting investments. Mr. O'Keefe explained the amount of time spent on each phase varies depending on the need of the respective investment.

Ms. Kuschel moved that the Private Markets Committee recommend the Board invest up to \$200 million, plus fees and expenses, in Vestar Capital Partners VII, L.P., subject to continuing due diligence and final negotiation of terms and

conditions. Ms. Guerin seconded, and the motion carried unanimously.

[The Committee recessed at 11:42 a.m. and reconvened at 12:03 p.m.]

PRIVATE EQUITY INVESTMENT RECOMMENDATION – ABRAAJ PRIVATE EQUITY FUND VI L.P.

Mr. Natale said staff is recommending a commitment of up to \$250 million in Abraaj Private Equity Fund VI LP, a private equity fund focused in emerging and frontier markets. He stated Abraaj focuses in markets whose economies are primarily driven by internal consumption. Mr. Natale noted Abraaj has a large, institutionalized team with extensive emerging and frontier markets experience and an on-the-ground presence. If approved, this would be a new relationship for the WSIB.

Ms. Blackburn, Hamilton Lane, discussed the firm's approach to investing, reputation, culture, track record, and currency risk. She stated that Hamilton Lane supports the recommendation.

Discussion ensued regarding overall fund size and transparency.

Messrs. Naqvi and Hamid and Ms. Ahmed, The Abraaj Group, introduced themselves. Mr. Naqvi indicated that Abraaj invests in consumer-driven opportunities across growth markets, with 20 primary markets and 12 secondary markets. He explained that Abraaj disaggregates the Emerging Markets to identify the specific growth markets in which they invest, focusing on cities, not countries for opportunities. Mr. Naqvi detailed that domestic private consumption is the segment of the economy that Abraaj generally focuses on. He reviewed the four key elements that define the Abraaj value proposition, which are local presence, global platform, active value creation, and realization with a focus on four core sector groups: consumer goods and services, financial services, industrial, materials, and logistics, and healthcare and education.

Mr. Hamid discussed the four sector groups that represent the core of their experience. He stated that environmental, social, and governance (ESG) drives performance and value creation. Ms. Ahmed discussed the tools Abraaj uses to assist in the active management of currency risk. She provided an overview of the target portfolio construction and their track record.

Discussion ensued regarding ESG and setting standards for limited partners.

Ms. Guerin moved that the Private Markets Committee recommend the Board invest up to \$250 million, plus fees and expenses, in Abraaj Private Equity Fund VI LP, 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 1:02 p.m.