APPROVED

WASHINGTON STATE INVESTMENT BOARD
Private Markets Committee Meeting Minutes
March 7, 2007

The Private Markets Committee met in open public session at 9:03 a.m. in the boardroom at the Washington State Investment Board in Olympia, Washington.

Members Present:	George Masten, Chair Glenn Gorton John Magnuson Sandy Matheson Patrick McElligott Treasurer Mike Murphy David Nierenberg Jeff Seely
Others Present:	Joe Dear, Executive Director Gary Bruebaker, Chief Investment Officer Tom Ruggels, Senior Investment Officer – Private Equity Isabelle Fowler, Investment Officer – Private Equity Gary Holt, Investment Officer – Private Equity Steve Draper, Senior Investment Officer – Real Estate Ceri Walker, Investment Officer – Real Estate Linda Buchanan, Administrative Secretary Paul Silver, Assistant Attorney General John Gripton, Capital Dynamics Urs Rieder, Capital Dynamics Dr. Martin Halusa, Apax Partners Emilio Voli, Apax Partners Alexander Wolfman, Avenue Capital Group Bruce Grossman, Avenue Capital Group Richard Masson, Oaktree Capital Management Partners Patrick McDivitt, Oaktree Capital Management Partners Michael Humphrey, Courtland Partners J. Timothy Morris, Morgan Stanley Richard Bailey, Pacific Properties

[Names of other individuals attending the meeting are not included in the minutes but are listed in the permanent record.]

The meeting convened at 9:03 a.m. with Acting Chair McElligott identifying members present.

ADOPTION OF THE FEBRUARY 9, 2007, MINUTES

Treasurer Murphy moved to adopt the minutes of February 9, 2007. Ms. Matheson seconded, and the motion carried unanimously.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – APAX EUROPE VII, L.P.
Ms. Fowler introduced herself and said that staff recommends an investment of up to €115 million in Apax Europe VII, L.P., an €8.5 billion (target) European buyout fund that will focus on large European companies in five sectors: financial and business services; healthcare; media; retail and consumer; and technology and telecom. The WSIB is an existing investor with Apax, and the proposed investment is consistent with the private equity annual plan approved by the Board in January 2007. Ms. Fowler discussed the firm's investment team, organizational changes, professional turnover, strategy shift away from venture capital, increased fund size, performance history, global reach, strong market positions, and reputation.

Mr. Gripton, Capital Dynamics, introduced himself and stated that Apax is a well-established and experienced firm in Europe. The firm historically ran a balanced portfolio between venture and buyout, but will now focus on large buyouts, primarily in Europe. Mr. Gripton described the firm's investment strategy, sector focus, geographic focus, experienced team, merger of the U.S. and European firms, decision-making process, succession issues, staff changes, performance history, valuation process, and increased fund size. He said that Capital Dynamics recommends an investment of up to €200 million.

[Mr. Masten was in attendance at 9:34 a.m.]

Mr. Nierenberg asked whether the firm's distinctive advantage in deal sourcing was expected to continue given the increased level of competition and whether reference checks included more than the current chief executives of the portfolio companies. Mr. Gripton replied that the firm's advantage is in its sector expertise, that there will be fewer non-competitive opportunities as transaction sizes increase, and that reference checks included former employees. Capital Dynamics has had a relationship with Apax since the 1980s.

The Committee discussed the firm's exit committee and process, compensation practices, the practice of asking the low performers each year to leave the firm, use of leverage, and the length and depth of Capital Dynamics' relationship with Apax.

Dr. Halusa and Mr. Voli, Apax Partners, introduced themselves and discussed the firm's investment strategy, fund size, sector focus, transaction size, large number of proprietary deals, industry expertise, strong local presence, history, and large team.

The Committee discussed how the firm balances keeping good partners whose focus might be in an out-of-favor industry with the policy of removing poor performing partners.

Dr. Halusa explained compensation methods, the firm's centralized investment committee, value creation methodology, presence in nine countries, large team of experienced professionals, high share of non-competitive deals, and investment strategy.

The Committee questioned what impact the increased competition in the market would have on the firm's proprietary deal sourcing. Dr. Halusa stated that he believes that proprietary deals will continue due to the value of the personal network of contacts, local presence, and industry expertise of the partners.

Dr. Halusa and Mr. Voli discussed the investment process, industry sectors, performance history, low-loss ratio, active participation post-investment, value creation, and earnings growth.

> **Mr. McElligott moved that the Private Markets Committee recommend to the Board an investment of up to €115 million, plus fees and expenses, in Apax Europe VII, L.P., subject to continued due diligence and final negotiation of terms and conditions. Mr. Gorton seconded the motion.**

The Committee discussed the reasons for the difference between staff's recommendation of €115 million and the consultant's recommendation of €200 million.

> **The above motion carried unanimously.**

[The Committee recessed at 10:04 a.m. and reconvened at 10:14 a.m.]

PRIVATE EQUITY INVESTMENT RECOMMENDATION – AVENUE SPECIAL SITUATIONS FUND V, L.P.

Mr. Holt introduced himself and said that staff recommends an investment of up to $150 million in Avenue Special Situations Fund V, L.P., a $4.5 billion distressed debt fund that will invest primarily in the debt and equity securities of U.S. companies in financial distress. The fund will continue the value-investing strategy employed in its four previous funds and pursue opportunities in companies poised for a turnaround, companies in industries that are in turmoil, and companies that are undervalued due to an extraordinary event. The WSIB has previously invested in two Avenue funds, and the proposed investment is consistent with the private equity annual plan approved by the Board in January 2007. Mr. Holt described the firm's management team, investment strategy, reputation, experience, targeted industries, performance history, quick capital turnover, low loss ratio, fund size, unrealized performance in prior funds, and key person provision.

The Committee discussed the firm's practice of investing in lower-risk debt by seeking senior positions rather than coming down the capital structure.

Mr. Rieder, Capital Dynamics, introduced himself and said that Avenue is one of the leading distressed debt players with a strong reputation, successful track record, and experienced team. He discussed the firm's investment strategy, consistent returns through multiple cycles, low loss ratio, cautious investment approach, affiliation with Amroc, competitive advantage, and the recent Morgan Stanley investment in Avenue.

Treasurer Murphy asked about Morgan Stanley's level of involvement and whether there would be a provision to allow an exit if they do take control, and whether the concern was addressed in the key person provision.

Mr. Rieder explained that Avenue is operated independently from Morgan Stanley, especially during the tenure of this fund. The key person provision provides that Marc Lasry and Sonja Gardner will continue to give at least 50 percent of their time, and other key professionals are covered. Morgan Stanley will not have board rights.

The Committee discussed the desirability of a stronger key person provision and concerns over alignment of interest if partners monetize by selling interest in the firm.

Mr. Rieder discussed the increased fund size, strong deal flow, market trends for distressed debt, and the firm's reputation as a leading player in the market. He said that Capital Dynamics recommends an investment up to $150 million.

The Committee discussed the fact that some portfolio companies of general partners the WSIB invests with do not do well and then end up in the portfolio of a WSIB distressed debt general partner.

Mr. Grossman and Mr. Wolfman, Avenue Capital Group, introduced themselves and discussed the firm's investment strategy, team of investment professionals, industry focus, capital structure, significant general partner commitment, low default rate, robust deal pipeline, analysis process, performance history, portfolio construction, market trends, and disciplined approach.

The Committee discussed Morgan Stanley's involvement, key person provisions, and whether there is a likelihood of further sales. Morgan Stanley adds value through its contacts and expertise, but has no rights, does not sit on the committees or board, and has not changed the nature of the firm or how Avenue conducts business. Avenue would not sell to other companies that want some control.

The Committee discussed the advantages of ad hoc committees as opposed to creditor committees. Mr. Grossman explained that Avenue prefers to remain on the public side and unrestricted as much as possible, allowing for greater exit flexibility.

Mr. Seely asked about industry concentration. Mr. Grossman said that Avenue has a bias toward asset rich industries such as the energy sector, which is very diverse, and infrastructure. The firm seeks diversification by name and industry.

> **Mr. Gorton moved that the Private Markets Committee recommend to the Board an investment of up to $150 million, plus fees and expenses, in Avenue Special Situations Fund V, L.P., subject to continued due diligence and final negotiation of terms and conditions. Treasurer Murphy seconded the motion.**

The Committee discussed the Morgan Stanley involvement, the need to pursue a stronger key person provision, and the need to look at the possible trend of general partners cashing out.

> **The above motion carried unanimously.**

REAL ESTATE INVESTMENT RECOMMENDATION – MORGAN STANLEY REAL ESTATE SPECIAL SITUATIONS FUND III, L.P.
Mr. Draper introduced himself, Ms.Walker, and Mr. Humphrey.

Ms. Walker described the fund's investment strategy, diversification, global presence, different types of funds, history with the WSIB, potential investments, performance history, investment team, and deep pipeline. She explained that only a portion of the investment recommendation would be invested now, and the remainder invested as the fund is periodically re-opened over the next 18 months. She discussed potential market, political, and currency risks; potential conflict of interest among Morgan Stanley funds; and fee levels.

Mr. Draper discussed fit in the WSIB real estate portfolio.

Ms. Walker said that staff recommends an additional allocation of up to $200 million in Morgan Stanley Special Situations Fund III, L.P.

The Committee discussed the fee level, fee structure, current market trends, and other investors. Mr. Humphrey, Courtland Partners, noted that the best investment management groups can demand higher fees. He also highlighted that Morgan Stanley has a large international organization, which is more expensive to operate.

Mr. Morris, Morgan Stanley, introduced himself and discussed market opportunities and the firm's investment strategy, global presence, investment professionals, history, balanced investing platform, historic performance, exit strategies, unique and flexible fund, diverse portfolio composition, and pipeline composition.

The Committee discussed the relationship with other Morgan Stanley funds, the decision as to whether a deal goes to this fund or another fund, exit strategies, valuation methodology, hurdle rates, fee structure, audit practices, and where the firm has invested compared to original projections.

Mr. Seely stated that although the performance and strategy are good, the terms seem excessive, and that it becomes increasingly difficult for public funds such as the WSIB to accept higher carry without clawback provisions.

> **Ms. Matheson moved that the Private Markets Committee recommend to the Board an additional investment of up to $200 million, plus fees and expenses, in Morgan Stanley Real Estate Special Situations Fund III, L.P., to be invested over the next 18 months as the fund is re-opened, subject to continued due diligence and final negotiation of terms and conditions. Mr. McElligott seconded the motion.**

The Committee discussed the firm's fee structure, reputation, expertise, quality of the team, and performance.

> **The above motion carried unanimously.**

[The Committee recessed at 11:57 a.m. and reconvened at 12:32 p.m.]
[Treasurer Murphy was no longer in attendance at 12:27 p.m.]

PRIVATE EQUITY INVESTMENT RECOMMENDATION – OCM OPPORTUNITIES FUNDS VII AND VIIB, L.P.

Mr. Bruebaker explained that staff's recommendation for OCM has changed from $150 million to each Fund VII and VIIb, to $300 million to the two funds combined to allow for more flexibility.

Ms. Fowler introduced herself and said that staff recommends an investment of up to $300 million to be allocated between OCM Opportunities Funds VII and VIIb, L.P. These distressed debt funds will focus on investments in under-valued public bonds, and bank debt of financially distressed companies in which value can be created through management of a bankruptcy reorganization or restructuring outside bankruptcy. The funds are being concurrently raised and will focus primarily in opportunities in the U.S. and Europe. The WSIB is an existing investor with Oaktree Capital Management, and the proposed investment in OCM VII is consistent with the private equity annual plan approved by the Board in January 2007. OCM VIIb was not contemplated when the plan was presented. Ms. Fowler described the firm's investment team, reputation, performance history, investment strategy, strong deal flow, developed network of contacts, and fit in the WSIB private equity portfolio. She discussed staff turnover, the increased fund size, and distressed debt market trends.

Mr. Rieder, Capital Dynamics, introduced himself and discussed the firm's experienced team, strong reputation, consistent investment strategy, performance history, market knowledge, global presence, diversification benefits, staff turnover, strong culture, compensation package, key person provision, increased management fees, and the unclear maximum fund size with the VIIb Fund. He said that Capital Dynamics recommends an investment of up to $150 million in Fund VII and $150 million in Fund VIIb.

Mr. Masson and Mr. McDivitt, Oaktree Capital Management, introduced themselves and described distressed debt cycles, the investment environment, and market trends. They discussed the firm's performance history, large and expert staff, access to deal flow, diversification, flexible approach toward identifying opportunities, leadership role in restructuring process, low turnover, long-term focus, fee structure, and little or no use of leverage.

The Committee discussed current market trends, debt build up, and the possibility of a recession.

> **Mr. McElligott moved that the Private Markets Committee recommend to the Board an investment of up to $300 million, plus fees and expenses, to be allocated between OCM Opportunities Funds VII and VIIb, L.P., subject to continued due diligence and final negotiation of terms and conditions. Mr. Gorton seconded, and the motion carried unanimously.**

REAL ESTATE INVESTMENT RECOMMENDATION – PACIFIC PROPERTIES, S.C.

Mr. Draper introduced himself and said that, consistent with the 2007 real estate annual plan approved by the Board, staff recommends a commitment of €160 million to

Pacific Properties, S.C., a real estate operating company focused on the acquisition and development of resort properties in French Polynesia. He described the firm's investment strategy, chief executive officer Dick Bailey's reputation, proven team, significant management co-investment, and performance history. Mr. Draper discussed demographic and market trends, tax incentives available in French Polynesia, the underserved mid-market sector, lack of institutional capital, and fit in the WSIB real estate portfolio. He noted that the group is environmentally conscious. Mr. Draper discussed market, political, tax structure, operating, and key person risks.

Mr. Humphrey, Courtland Partners, introduced himself and discussed the French Polynesia's alignment with France, currency, and legal and educational systems. He discussed Mr. Bailey's knowledge, experience, and background, and the firm's alignment of interest, fees, attractive cost structure, key person risk, exit risks, complex tax incentive structure, and political risks.

The Committee discussed the benefits of the tax incentive structure, the possibility of it changing, whether there are grandfather clauses, indemnification possibilities, current trend of building hotels on stilts over water, air transportation stability issues, and hotel management.

Mr. Bailey, Pacific Properties, introduced himself and discussed the firm's investment strategy, history, diversification, superior returns, existing portfolio, pipeline of attractive opportunities, opportunity to secure a dominant market position, local expertise and contacts, management team, large co-investment commitment, proven commitment to sustainable development, and geographic focus. He described the region's government, demographics, size, literacy rates, healthcare, democratic traditions, French law and justice, ethnically diverse and tolerant population, modern infrastructure, airlines, stable financial system, and tourism-based economy.

The Committee discussed the possibility of Seattle gaining direct flights via the Tahitian national airline, government support for the tourism industry, marketing expertise, promotion of repeat visitors, stability of the airline industry, family-based activities, climate and cyclone risk, seasonality of tourism, insurance, revenue per available room, construction materials used for over-water construction, and tax incentives.

> **Ms. Matheson moved that the Private Markets Committee recommend to the Board an investment of up to €160 million, plus fees and expenses, in Pacific Properties, S.C., subject to continued due diligence and final negotiation of terms and conditions. Mr. Gorton seconded the motion.**

The Committee discussed due diligence performed by staff and consultant, single property type investment, key person risk, remote location, climate and weather risks, and impact on the WSIB real estate portfolio.

> **The motion carried unanimously.**

[The Committee recessed at 2:10 p.m. and reconvened at 2:22 p.m.]

REAL ESTATE INVESTMENT RECOMMENDATION – EMERGING MARKETS FUND-OF-FUNDS, LLC

Mr. Draper introduced himself and said that, consistent with the 2007 real estate annual plan approved by the Board, staff recommends a commitment of $400 million to Emerging Markets Fund-of-Funds and, in addition, to include the WSIB's prior commitments to Prosperitas Real Estate Fund I ($50 million), Indochina Land Holdings 2 ($25 million), and Emerging Beachfront Land Investment Fund ($50 million) in Emerging Markets Fund-of-Funds, LLC. He discussed the investment strategy, as well as the potential to help build and enlarge relationships and increase exposure to key emerging markets. No more than 20 percent of the fund would be committed to any one fund; anything larger would come to Private Markets Committee and the Board. Mr. Draper discussed the desirability of investing in emerging markets, attractive demographic trends, and the opportunity to get into early mover positions and to create and grow new relationships. He discussed risks associated with emerging markets investments, including title, legal systems, political environment, stability, and exit. He indicated that, if approved, the recommended investment would likely represent less than 3 percent of the WSIB real estate portfolio in 5 years' time.

Mr. McElligott asked whether Courtland's recommendation for this investment would create any potential conflict of interest or would in any way hinder Courtland from applying as consultant to the Fund-of-Funds. The Committee discussed the issue with staff and with Mr. Silver. There would be no hindrance or problem involved, and Courtland would be able to submit a bid for the position during the competitive process.

The Committee discussed the investment process, safeguards imposed, and team approach.

Mr. Humphrey, Courtland Partners, introduced himself and discussed current market trends, fee structures, risk reward, ability to access opportunities efficiently and effectively, economics, market volatility, and residential development.

The Committee discussed the mechanism for reporting when investments are made, the possibility of bringing partners in for education sessions, the benefit to managing the Board's time, and the need for an additional investment officer in real estate.

> **Mr. McElligott moved that the Private Markets Committee recommend to the Board an investment of up to $400 million, plus fees and expenses, in Emerging Markets Fund-of-Funds, LLC, subject to continued due diligence and final negotiation of terms and conditions, and, in addition to this commitment, include the WSIB's prior commitments to Prosperitas Real Estate Fund I ($50 million), Indochina Land Holdings 2 ($25 million), and Emerging Beachfront Land Investment Fund ($50 million) in Emerging Markets Fund-of-Funds, LLC. Mr. Gorton seconded the motion.**
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> **Mr. Masten moved to amend the motion by adding "provided that there can be no more than $50 million in one fund, without Board approval."**
> **Mr. Gorton seconded the amended motion.**

Mr. Dear suggested a $75 million limit rather than $50 million.

The amendment carried unanimously.

The amended motion that the Private Markets Committee recommend to the Board an investment of up to $400 million, plus fees and expenses, in Emerging Markets Fund-of-Funds, LLC, subject to continued due diligence and final negotiation of terms and conditions, and, in addition to this commitment, include the WSIB's prior commitments to Prosperitas Real Estate Fund I ($50 million), Indochina Land Holdings 2 ($25 million), and Emerging Beachfront Land Investment Fund ($50 million) in Emerging Markets Fund-of-Funds, LLC, provided that there can be no more than $50 million in one fund, without Board approval carried unanimously.

PRIVATE MARKETS CLOSING LOG
The Private Markets Closing Log was presented for informational purposes.

OTHER ITEMS
There were no other items to report.

There being no further business to come before the Committee, the meeting adjourned at 2:54 p.m.