



State of New Jersey

CHRIS CHRISTIE
Governor

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Lt. Governor

DEPARTMENT OF THE TREASURY
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FORD M. SCUDDER
Acting State Treasurer

CHRIS MCDONOUGH
Director

March 18, 2016

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Director

SUBJECT: **Proposed Investment in Vista Foundation Fund III, L.P.**

The New Jersey Division of Investment (“Division”) is proposing an investment of \$100 million in Vista Foundation Fund III, L.P. This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9.

Vista Equity Partners (“Vista” or the “Firm”) is establishing Vista Foundation Fund III, L.P. (“VFF III”) to pursue investments in lower-middle and middle-market mission-critical enterprise software, data and technology-enabled solutions companies, generally with enterprise values ranging between \$50 million and \$400 million. Like the previous Vista Foundation Funds, VFF III will continue its disciplined investment focus to source and acquire target companies with strong recurring revenues, as well as applying the proprietary Vista Standard Operating Procedures to implement change that drives operational improvement.

The Division is recommending this investment based on the following factors:

Attractive Industry: Vista is solely focused on the enterprise software industry, whose technology spans across many major industries from healthcare to real estate to financial services. The sector is typically characterized as being stable with a secure revenue stream and has been one of the key drivers behind efficiency gains and innovation for large and small businesses over the last 20 years. The stability of the sector is exemplified with steady cash flow and relatively high profit margins which can make it an excellent source of potential investments. Companies in the sector often provide mission-critical software solutions to customers, high switching costs, and high recurring revenue providing a secure revenue stream. The software industry in general is attractive economically because of low fixed costs with declining marginal costs due to the one-time expense of developing the software followed by mass reproduction and distribution, resulting in high free cash flow conversion rates.

Stellar Track Record: Vista’s financial and operational abilities combined with its depth of experience in the software sector have enabled Vista's Foundation strategy to generate impressive and consistent returns. As of 9/30/15, Vista Foundation Fund I is ranked top quartile across all

relevant measures. Vista Foundation Fund II is a relatively young fund, with the average age of its portfolio companies slightly over one year as of 9/30/15. However, the underlying performance metrics of those companies continue to impress.

Experienced Team: Vista has invested only in the enterprise software space since its founding in 2000 and is considered one of the first private equity firms to invest solely in the sector. As long-time investors, the General Partners have developed domain expertise and a set of best practices which are utilized across all portfolio companies. The senior management team has worked together for over two decades, and since inception, Vista has invested approximately \$11.0 billion in equity across their flagship and foundation platforms in 52 companies and successfully realized, either fully or partially, 24 of the 52 platform investments through December 31, 2015.

Operational Value-Add: The Vista Consulting Group (“VCG”) team was started in 2006 to work in conjunction with the Vista investment professionals and portfolio company management to help current and newly acquired businesses strengthen their operations through the implementation of standardized, repeatable and proven processes and methodologies known as the Vista Standard Operating Procedures (“VSOPs”). The creation of VCG was to centralize the delivery of the VSOPs and have a dedicated team, which now numbers greater than 80 members, that provides direct oversight across all portfolios.

A report of the Investment Policy Committee (“IPC”) summarizing the details of the proposed investment is attached.

Division Staff and its private equity consultant, TorreyCove Capital Partners, undertook extensive due diligence on the proposed investment in accordance with the Division’s Alternative Investment Due Diligence Procedures.

As part of its due diligence process, staff determined that the fund has not engaged a third-party solicitor (a "placement agent") in connection with New Jersey’s potential investment.

We will work with representatives of the Division of Law and outside counsel to review and negotiate specific terms of the legal documents to govern the investment. We have obtained a preliminary Disclosure Report of Political Contributions in accordance with the Council’s regulation governing political contributions (N.J.A.C. 17:16-4) and no political contributions have been disclosed. We will obtain an updated Disclosure Report at the time of closing.

Please note that the investment is authorized pursuant to Articles 69 and 90 of the Council’s regulations. Vista Foundation Fund III, L.P. will be considered a private equity buyout investment, as defined under N.J.A.C. 17:16-90.1.

A formal written due diligence report for the proposed investment was sent to each member of the IPC and a meeting of the Committee was held on March 11, 2016. In addition to the formal written due diligence report, all other information obtained by the Division on the investment was made available to the IPC.

We look forward to discussing the proposed investment at the Council’s March 23, 2016 meeting.

Attachments

Fund Name: Vista Foundation Fund III, L.P.

March 23, 2016

Contact Info: John Warnken-Brill, 150 California Street, 19th Fl, San Francisco, CA 94111

Fund Details:

Firm AUM:	\$14 billion	Key Investment Professionals: <u>Robert Smith</u> , Chairman & CEO. Mr. Smith founded Vista Equity Partners in 2000 and is the firm's Chairman and CEO. He currently sits on or participates in the boards of all Vista portfolio companies. He is Chairman of the investment committee and is actively involved in Vista's direction, investment decisions, executive development and operational strategies. <u>Brian Sheth</u> , President. Mr. Sheth co-founded Vista with Robert Smith in 2000 and is the firm's President. He is Vice-Chairman of the investment committee and is actively involved in the execution of the all of the investment activities for the portfolio. He is also focused on the development of Vista's personnel and executive leadership of the portfolio companies. <u>Alan Cline</u> , Principal and Co-Head of Vista Foundation Fund. Mr. Cline originally joined Vista Equity Partners in 2001 and rejoined Vista in 2008 to start and co-Head the Vista Foundation Fund, which is Vista's private equity fund focused on the lower middle market within the software universe, overseeing both the buyout and growth equity efforts within the fund. <u>Rob Rogers</u> , Principal and Co-Head of Vista Foundation Fund. Mr. Rogers joined Vista Equity Partners in 2002. Rob sits on the investment committee and co-heads the Foundation Fund. Prior to joining Vista, Rob served as Director of Finance and Business Development for Integra LifeSciences, a publicly traded medical technology company.
Strategy:	Middle Market Buyout	
Year Founded:	2000	
Headquarters:	Austin, TX	
GP Commitment:	At least 2.0% of aggregate capital commitments	

Investment Summary

Vista Foundation Fund III ("VFF III") is the latest fund in the Foundation series and will be targeting \$2.5 billion to pursue investments in lower-middle and middle-market mission-critical enterprise software, data and technology-enabled solutions companies, generally with enterprise values ranging between \$50 million and \$400 million. Like the previous Vista Foundation Funds, VFF III will continue its disciplined focus to source and acquire target companies with strong recurring revenues, as well as applying the proprietary Vista Standard Operating Procedures to implement change that drives operational improvement. Vista's financial and operational abilities combined with its depth of experience in the software sector have enabled Vista's Foundation strategy to generate impressive and consistent returns.

Existing and Prior Funds

Funds	Vintage Year	Strategy	Returns as of September 30, 2015
VFF I	2009	Buyout	43.0% Net IRR, 2.89x Net TVM, 2.04x Net DPI
VFF II	2013	Buyout	6.8% Net IRR, 1.07x Net TVM, 0.0x Net DPI

IRR = Internal Rate of Return; TVM= Total Value Multiple; DPI= Distributions to Paid-In

Vehicle Information:

Inception:	2016	Auditor:	Deloitte & Touche LLP
Fund Size (\$mil.):	\$2.5 billion	Legal Counsel:	Kirkland & Ellis LLP
Management Fee:	2.0% of capital commitments during the investment period; thereafter, 2.0% on the cost basis of investments, less dispositions and permanent write-downs.		
Carry:	20.0% below a 2.5x multiple; 25.0% between a 2.5x and 3.0x multiple; 30.0% above a 3.0x multiple		
Hurdle Rate:	8%		
Fee Offset:	100% fee offsets		

NJ AIP Program

Recommended Allocation):	\$100 million	LP Advisory Board Membership:	TBD
% of Fund:	4.00%	Consultant Recommendation:	Yes
		Placement Agent:	No
		Compliance w/ Division Placement Agent Policy:	N/A
		Compliance w/ SIC Political Contribution Reg:	Yes

*This review memorandum was prepared in accordance with the State Investment Council rules governing the Alternatives Investment Program and the policies and procedures related thereto.



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March 18, 2016

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Director

SUBJECT: **Proposed Investment in Vista Equity Partners Fund VI, L.P.
and related co-investment separate account**

The New Jersey Division of Investment (“Division”) is proposing an investment of up to \$200 million to Vista Equity Partners Fund VI, L.P. and \$200 million for a related co-investment separate account. This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9.

Vista Equity Partners (“Vista” or the “Firm”) is establishing Vista Equity Partners Fund VI, L.P. (“Fund VI”) to continue the Firm’s successful strategy of acquiring “mission critical” enterprise software or technology-enabled companies with high recurring revenue and high customer retention. Fund VI will continue its buy-and-build strategy of past funds, targeting company acquisitions with enterprise values generally between \$400 million and \$5 billion.

The Division is recommending this investment based on the following factors:

Attractive Industry: Vista is solely focused on the enterprise software industry, whose technology spans across many major industries from healthcare to real estate to financial services. The sector is typically characterized as being stable with a secure revenue stream and has been one of the key drivers behind efficiency gains and innovation for large and small businesses over the last 20 years. The stability of the sector is exemplified with steady cash flow and relatively high profit margins which can make it an excellent source of potential investments. Companies in the sector often provide mission-critical software solutions to customers, high switching costs, and high recurring revenue providing a secure revenue stream. The software industry in general is attractive economically because of low fixed costs with declining marginal costs due to the one-time expense of developing the software followed by mass reproduction and distribution, resulting in high free cash flow conversion rates.

Stellar Track Record: The Vista private equity platform has a history of outperformance, with all of the Flagship private equity funds since 2000 being ranked in or near the top quartile in terms of

net Internal Rate of Return (“IRR”) and net Total Value to Paid-In (TVPI) when compared against the North American buyout funds in the Cambridge Index. In addition, Vista has an extremely low loss ratio of 0.4% over the last four Flagship funds, which is the result of two minority investments made in 2001. Since the inception of the Firm, no majority or control investment has returned less than cost.

Experienced Team: Vista has invested only in the enterprise software space since its founding in 2000 and is considered one of the first private equity firms to invest solely in the sector. As long-time investors, the General Partners have developed domain expertise and a set of best practices which are utilized across all portfolio companies. The senior management team has worked together for over two decades, and since inception, Vista has invested approximately \$11.0 billion in equity across their flagship and foundation platforms in 52 companies and successfully realized, either fully or partially, 24 of the 52 platform investments through December 31, 2015.

Operational Value-Add: The Vista Consulting Group (“VCG”) team was started in 2006 to work in conjunction with the Vista investment professionals and portfolio company management to help current and newly acquired businesses strengthen their operations through the implementation of standardized, repeatable and proven processes and methodologies known as the Vista Standard Operating Procedures (“VSOPs”). The creation of VCG was to centralize the delivery of the VSOPs and have a dedicated team, which now numbers greater than 80 members, that provides direct oversight across all portfolios. In addition, these VSOPs are continually developed and improved upon as portfolio companies that have been through the VSOP implementation provide feedback on lessons learned.

Co-Investment Provides Attractive Platform-level Terms: The Division has negotiated preferential terms on its co-investment separate account, with a management fee of 0%, performance fee of 10%, and an 8% preferred return. In addition, the Division will be able to participate in co-investment opportunities across the entire Vista Private Equity Platform, while maintaining veto rights on all proposed co-investment opportunities.

A report of the Investment Policy Committee (“IPC”) summarizing the details of the proposed investment is attached.

Division Staff and its private equity consultant, TorreyCove Capital Partners, undertook extensive due diligence on the proposed investment in accordance with the Division’s Alternative Investment Due Diligence Procedures.

As part of its due diligence process, staff determined that the fund has not engaged a third-party solicitor (a "placement agent") in connection with New Jersey’s potential investment.

We will work with representatives of the Division of Law and outside counsel to review and negotiate specific terms of the legal documents to govern the investment. We have obtained a preliminary Disclosure Report of Political Contributions in accordance with the Council’s regulation governing political contributions (N.J.A.C. 17:16-4) and no political contributions have been disclosed. We will obtain an updated Disclosure Report at the time of closing.

Please note that the investment is authorized pursuant to Articles 69 and 90 of the Council’s regulations. Vista Equity Partners Fund VI, L.P. and the related co-investment separate account will be considered a private equity buyout investment, as defined under N.J.A.C. 17:16-90.1.

A formal written due diligence report for the proposed investment was sent to each member of the IPC and a meeting of the Committee was held on March 11, 2016. In addition to the formal written due diligence report, all other information obtained by the Division on the investment was made available to the IPC.

We look forward to discussing the proposed investment at the Council's March 23, 2016 meeting.

Attachments

Fund Name: Vista Equity Partners Fund VI, L.P. and related co-investment separate account

March 23, 2016

Contact Info: John Warnken-Brill, 150 California Street, 19th Fl, San Francisco, CA 94111

Fund Details:

Firm AUM:	\$14 billion	Key Investment Professionals: Robert Smith, Chairman & CEO. Mr. Smith founded Vista Equity Partners in 2000 and is the firm's Chairman and CEO. He currently sits on or participates in the boards of all Vista portfolio companies. He is Chairman of the investment committee and is actively involved in Vista's direction, investment decisions, executive development and operational strategies. Brian Sheth, President. Mr. Sheth co-founded Vista with Robert Smith in 2000 and is the firm's President. He is Vice-Chairman of the investment committee and is actively involved in the execution of the all of the investment activities for the portfolio. He is also focused on the development of Vista's personnel and executive leadership of the portfolio companies.
Strategy:	Middle Market Buyout	
Year Founded:	2000	
Headquarters:	Austin, TX	
GP Commitment:	At least 2.0% of aggregate capital commitments	

Investment Summary	Existing and Prior Funds			
<p>Vista Equity Partners Fund VI ("VEPF VI", "Fund VI" or the "Fund") is the latest iteration of Vista's Flagship series of funds, and its focus will be similar to that pursued in the prior funds. The Firm will seek to acquire "mission critical" enterprise software or technology-enabled companies with high recurring revenue and high customer retention. Fund VI will be positioned to continue the platform and add-on focus of past funds, targeting company acquisitions with enterprise values generally between \$400 million and \$5 billion. The Fund will usually invest at least \$200 million into a platform company, while also utilizing small-sized "add-on" transactions to increase scale and efficiencies of the platform. In addition, the Firm utilizes its 84 proprietary processes and methodologies (the "Vista Standard Operating Procedures" or "VSOPs") to implement change, create value, and generate positive returns.</p>	<i>Funds</i>	<i>Vintage Year</i>	<i>Strategy</i>	<i>Returns as of September 30, 2015</i>
	Vista Equity II	2000	Buyout	29.2% Net IRR, 2.73x Net TVM, 2.73x Net DPI
	Vista Equity III	2007	Buyout	28.5% Net IRR, 2.46x Net TVM, 2.12x Net DPI
	Vista Equity IV	2011	Buyout	22.4% Net IRR, 1.63x Net TVM, 0.41x Net DPI
	Vista Equity V	2014	Buyout	10.4% Net IRR, 1.06x Net TVM, 0.03x Net DPI
IRR = Internal Rate of Return; TVM= Total Value Multiple; DPI= Distributions to Paid-In				

Vehicle Information:

Inception:	2016	Auditor:	Deloitte & Touche LLP
VEPF VI Fund Size (\$mil):	\$8.0 billion target	Legal Counsel:	Kirkland & Ellis LLP
VEPF VI management fee:	1.5% on committed capital during the investment period; thereafter, 1.5% on the cost basis on unrealized investments		
Co-investment management fee:	0%		
VEPF VI Carry:	20%		
Co-investment Carry:	10%		
VEPF VI Hurdle Rate:	8%		
Co-investment Hurdle Rate:	8%		
VEPF VI Fee Offset:	100% fee offsets		
Co-investment Fee Offset:	100% fee offsets		

NJ AIP Program

VEPF VI Recommended Allocation:	\$200 million (plus \$200 million to related co-investment separate account)	LP Advisory Board Membership:	TBD
% of Fund:	2.5% (Co-investment fund % to be based on pro rata share)	Consultant Recommendation:	Yes
		Placement Agent:	No
		Compliance w/ Division Placement Agent Policy:	N/A
		Compliance w/ SIC Political Contribution Reg:	Yes

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