



State of New Jersey

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
P.O. BOX 290
TRENTON, NJ 08625-0290

CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

ANDREW P. SIDAMON-ERISTOFF
State Treasurer

March 19, 2014

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Acting Director

SUBJECT: **Proposed Investment in Vista Equity Partners Fund V, L.P.**

The New Jersey Division of Investment (“Division”) is proposing an investment of up to \$200 million in Vista Equity Partners Fund V, L.P. The Division has commitments to three of Vista’s previous funds; \$100 million to Vista Equity Partners III, L.P., \$200 million to Vista Equity Partners IV, L.P. and \$75 million to Vista Foundation Fund II, L.P. This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9.

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

Stellar Track Record: Vista has returned a gross multiple of invested capital of 3.8x with a 50% Internal Rate of Return (“IRR”) on all realized investments since inception, as well as generating a net 1.8x Multiple of Invested Capital (“MOIC”) and a 29% IRR on all investments, realized and unrealized, since 2000. In addition, the second and third series of the Flagship fund are top quartile with respect to net IRR and net MOIC, and the third series was named the top performing domestic buyout fund in its vintage (2007) by Thomson Reuters.

Operational Value-Add: The Vista Consulting Group, with over 30 team members, is focused on strengthening the operations of portfolio companies through the implementation of standardized, repeatable and proven processes. These operating procedures have materially improved sales prospects, customer satisfaction, R&D throughput and price increases at its companies. On average, the team has increased recurring revenues across its portfolio companies by 1.5x and expanded Earnings Before Interest, Taxes and Depreciation (“EBITDA”) by 2.8x across its portfolio.

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 firm’s target company is typically a market leader with products that are mission critical to its users, have recurring revenue streams from long-term contracts and high customer retention rates. The highly predictable and strong cash flows characteristics of its companies’ provide insulation from economic cycles and end markets as evidenced by consistent portfolio EBITDA growth through the recent recession. Furthermore, software companies generate high

EBITDA margins since products are created once and sold many times and their minimal capital expenditures result in high free cash flow conversion rates.

Experienced Team: The senior management team has worked together for close to two decades, and over the past 14 years has completed over 110 transactions representing over \$26.4 billion in transaction value

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

Division Staff and its private equity consultant, Strategic Investment Solutions, 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. In addition, the proposed investment must comply with the Council’s regulation governing political contributions (N.J.A.C. 17:16-4).

Please note that the investment is authorized pursuant to Articles 69 and 90 of the Council’s regulations. The Vista Equity Partners Fund V, L.P. will be considered a private equity buy-out investment fund, 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, 2014. 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 19, 2014 meeting.

Attachments

Fund Name: Vista Equity Partners Fund V, L.P. **March 19, 2014**

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

Fund Details:		
Firm AUM (\$bil.):	\$5.8 billion as of 12/31/2013	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. Jamie Ford, Principal and Chief Operating Officer. Mr. Ford joined Vista Equity Partners in 2000 and is the firm's COO. In addition to his role on the Investment Committee, He manages the firm's deal outreach initiatives, personnel development and leads transaction teams. Prior to joining Vista, He worked in the Mergers and Acquisitions Group at Goldman, Sachs & Co., where he advised clients in a variety of industries including consumer products, chemicals, energy and power, and media.
Strategy:	Middle Market Buyout	
Year Founded:	2000	
Headquarters:	Austin, TX	
GP Commitment:	2% or \$70 million	

Investment Summary **Existing and Prior Funds**

The Division is proposing an investment of up to \$300 million in Vista Equity Partners Fund V, L.P., a top-quartile investment manager with a successful track record of investing in companies within the enterprise software industry. Vista was founded in 2000 to pursue buyout transactions of companies in the enterprise software, data and technology-enabled solutions industries. Vista's investment strategy is to acquire companies that meet this profile and then apply its proprietary set of Vista Standard Operating Procedures ("Vista SOP's"), which are enterprise software company-specific operational practices, designed to rapidly and aggressively implement change, create value and generate positive returns. Vista Equity Partners V will invest in middle market companies with \$75 million to \$1 billion in revenues in the enterprise software industry. The fund will target investments in market leading companies with high recurring revenue, strong customer retention and products that are mission critical to its users. The firm's operating professionals will systematically deploy over 50 unique best practices/ Vista SOP's to substantially grow profitability across the portfolio.

<u>Funds</u>	<u>Vintage Year</u>	<u>Strategy</u>	<u>Returns as of September 30, 2013</u>
Vista Equity II	2000	Buyout	2.8x Net MOIC, 30.49% Net IRR
Vista Equity III	2007	Buyout	2.7x Net MOIC, 32.38% Net IRR
Vista Equity IV	2011	Buyout	1.05x Net MOIC, 4.67% Net IRR
Vista Foundation Fund I	2009	Buyout	1.72x Net MOIC, 30.27% Net IRR
Vista Foundation Fund II	2013	Buyout	0.85x Net MOIC, -61.37% Net IRR
Net MOIC = Multiple on Invested Capital			
Net IRR = Internal Rate of Return			

Vehicle Information:

Inception:	2014	Auditor:	Deloitte
Fund Size (\$mil.):	\$3.5 billion	Legal Counsel:	Kirkland & Ellis LLP
Management Fee:	1.50%		
Carry:	20%		
Hurdle Rate:	8%		
Additional Expenses:	100% fee offset		

NJ AIP Program

Recommended Allocation (\$mil.):	\$200,000,000	LP Advisory Board Membership:	Yes
% of Fund:	6%	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.