



State of New Jersey

CHRIS CHRISTIE
Governor

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

KIM GUADAGNO
Lt. Governor

ANDREW P. SIDAMON-ERISTOFF
State Treasurer

January 20, 2012

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed Investment in Edison Ventures Fund VII, LP**

The New Jersey Division of Investment ("Division") is proposing an investment of \$35 million in Edison Ventures Fund VII, LP. This memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9.

As part of NJDOI's mandate to invest in top quality venture capital firms on a direct basis, staff and SIS are recommending an investment in Edison Ventures Fund VII. Edison Venture Fund's strategy of investing in late-stage growth businesses diversifies and complements the Division's existing portfolio of early-stage venture funds. The late-stage strategy has generated cash-on-cash returns that are top quartile relative to the Venture Economics universe of venture capital funds. 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 Edison Ventures Fund VII, LP will be considered a "venture capital" 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 January 18, 2012. 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 January 26, 2012 meeting.

Contact Info: John Martinson (609.873.9201 / johnm@edisonventures.com); Chris Sugden (609.873.9210 / csugden@edisonventures.com)

Fund Details:

AUM (\$mil.):	~ \$800 million	Key Investment Professionals: * John Martinson, Managing Partner - With 30 years of venture capital experience, John has organized 150 equity financings. John has served on the Board of Directors of 40 companies. He made multiple investments in application software serving the drug industry, customer relationship management, education, human resources, manufacturing and enterprise solutions. High return investments include: Axent Best Software, Dendrite, Marcam, Mathsoft and POMS. John has a BS in Aeronautical and Engineering from the US Air Force Academy, an MS in Astronautics from Purdue University and an MBA from Southern Illinois University. * Chris Sugden, Managing Partner - Chris is chairman of the firm's investment committee and leads Edison's largest industry segment in financial services and technology. Previously, Chris was an Executive Vice President with Princeton eCom. Chris was CEO of the Electronic Billing Division. He earlier served as CFO at the Company, he raised multiple rounds of venture capital and completed an acquisition. During his tenure with the Company revenue grew in excess of 500%. Chris has a B.A. in Accounting from Michigan State University and is a CPA. * Joe Allegra, General Partner - Joe was a co-founder and CEO of Princeton Softech. Princeton Softech was a rapidly growing, profitable company that developed and marketed database products to Fortune 1000 companies. The company was named twice in the INC. 500 list of fastest growing companies. Joe has a BA in Economics and Computer Science from Rutgers University and an MBA in Information Systems from NYU Stern School of Business. * Michael Balmuth, General Partner - Michael has 20 years experience in the tech industry as a venture capitalist, investment banker and software executive. He joined Edison in 2009 and opened Edison's New England office. During the past 11 years in the Boston Area, he served as Managing Partner of Mainspring Capital and General Partner at Summit Partners. He led the east coast office for the Summit Accelerator Fund as a founding partner.
Strategy:	Growth Equity / Venture Capital	
Year Founded:	1986	
Headquarters:	Lawrenceville, NJ	
GP Commitment:	5% of Edison VII	

Investment Summary

Edison Venture Fund VII provides growth equity and venture capital for expansion-stage businesses located primarily in the Mid-Atlantic region. The fund will concentrate on industries where its professionals have investment and operating experience, notably the business solutions and technology segments. Edison's capital is generally used to increase sales and marketing, improve operations, expand development and upgrade the management team. The companies they invest in will have revenue momentum and a clear path to profitability. Edison primarily operates as a sole or lead investor in companies with revenues of \$5 million to \$20 million at the time of investment.

Existing and Prior Funds

Funds	Strategy	Returns*	TVPI
Edison I (1986)	growth equity / venture capital	13.8%	3.3x
Edison II (1990)	growth equity / venture capital	22.3%	2.6x
Edison III (1994)	growth equity / venture capital	18.3%	1.9x
Edison IV (1998)	growth equity / venture capital	10.2%	2.3x
Edison V (2002)	growth equity / venture capital	2.1%	1.2x
Edison VI (2006)	growth equity / venture capital	6.2%	1.2x
Edison VII (2010)	growth equity / venture capital	n.m.	

*Net IRR as of 9/30/11

Vehicle Information:

Inception:	2010
Fund Size (\$mil.):	expected ~\$285 million
Management Fee:	average of 1.82% over 10-year life : 1.66% net of interest charge waiver
Carry:	20%
Aggregate hurdle:	125% of all contributed capital
Additional Expenses:	Up to \$500,000

Auditor:	PricewaterhouseCoopers LLP
Legal Counsel:	Cooley LLP
Accounting Firm:	PricewaterhouseCoopers LLP

NJ AIP Program

Recommended Allocation:	\$35 million	LP Advisory Board Membership:	Yes
% of Fund:	12% assuming \$285 million fund size	Consultant Recommendation:	Yes
		Placement Agent:	No
		Compliance w/ Division Placement Agent Policy:	N/A
		Compliance w/ SIC Political Contribution Reg:	Yes