



State of New Jersey

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July 2, 2013

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh
Director

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

The New Jersey Division of Investment (“Division”) is proposing an investment of up to \$100 million in Vista Foundation Fund II, L.P. Fund. 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:

Outstanding Track Record: Vista was the top performing private equity fund in the 2000 and 2007 vintage years, and since the creation of the firm in 2000, Vista has achieved a gross cash multiple of 4.1x and Gross Internal Rate of Return (“IRR”) of 50% on realized investments. The net multiple for all investments, realized and unrealized, is 1.8x with a Net IRR of 29.0%.

Experienced and Cohesive Investment 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 experience and a set of best practices which are utilized across all portfolio companies. Over the past 13 years, Vista has closed on 80 transactions for \$21 billion. For the Foundation Funds, Alan Cline and Rob Rogers co-head the team and bring their prior experience in technology companies to execute the strategy. The eight person team will also leverage principals in the main buyout funds as well the Vista Consulting Group. Robert Smith, Vista Chairman and CEO, and Brian Sheth, Vista President, worked with Mr. Cline and Mr. Rogers at Goldman Sachs in the Mergers and Acquisitions Group prior to starting Vista. In total, the Vista team has targeted its investment activities in the software space for more than 13 years and has a unique understanding of the risks and challenges these companies face.

Attractive Target Industry: Vista’s investment strategy focuses on enterprise software, which is not dramatically influenced by overall technology trends in the short run. 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. Enterprise software companies are able to generate a secure and recurring revenue stream because they often provide mission-

critical solutions to customers for which there are high switching costs. According to Gartner, an information technology research and advisory firm, the software industry is expected to grow at a 6.4% annual rate in 2013 with revenue projections of \$296 billion. In addition, software is now a \$2.5 trillion industry on a market cap basis.

Value Add: The Vista Consulting Group (VCG) was formed in 2006 to work in conjunction with the Vista investment professionals and portfolio company management to help portfolio companies strengthen their operations through the implementation of standardized, repeatable and proven processes and methodologies known as the Vista Standard Operating Procedures (“VSOPs”). These VSOPs are continually developed and improved upon as portfolio companies that have been through the VSOP implementation provide feedback on lessons learned. Across the seven platform companies in Foundation, the average revenue growth is 76% and the average recurring revenue growth is 104%. In 2012, the VCG team spent 52% of their time on Foundation Fund companies, with the remainder on Vista’s main fund companies.

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 Foundation Fund II, L.P. will be considered a private equity buyout 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 June 26, 2013. 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 July 11, 2013 meeting.

Attachments

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

July 2, 2013

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

Fund Details:

Firm AUM (\$bil.):	\$6.6 billion	<p>Key Investment Professionals: Robert Smith, Chairman & CEO. Mr. Smith founded Vista Equity Partners in 2000 and is the firm's Chairman and CEO. Robert 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. Alan Cline, Principal. Mr. Cline joined Vista in 2001, left in 2006 and rejoined Vista in 2008 specifically to co-head VFF I with Rob Rogers. During Alan's prior tenure at Vista he filled key leadership roles on numerous transactions including the investment and sale of SRC Software. Rob Rogers, Principal. Mr. Rogers joined Vista in 2002. During his tenure at Vista, prior to co-heading VFF I with Alan Cline, Rob filled key leadership roles on numerous transactions, including the investments in MDSI (Ventyx), Surgical Information Systems, Sunquest, ADERANT and SumTotal. Rob previously sat on the boards of Sunquest, ADERANT and SumTotal.</p>
Strategy:	Mid-Market Buyout	
Year Founded:	2000	
Headquarters:	San Francisco, CA	
GP Commitment:	2%	

Investment Summary	Existing and Prior Funds		
<p>The Division has made several commitments to prior Vista funds, including Vista Equity Partners III (\$100 million) & IV (\$200 million) as well as Vista Foundation Fund I (\$10 million) through our legacy CSFB separate account. Vista III is the Division's top performing private equity fund since inception. Vista Equity Partners is currently raising Vista Foundation Fund II targeting \$500 million principally to acquire controlling interests in small to middle-market enterprise software businesses and technology-enabled solutions companies with enterprise values between \$20 million and \$200 million with significant value creation opportunities. Vista only invests in opportunities in which the Principals believe Vista can drive operational change.</p>	<u>Funds</u>	<u>Strategy</u>	<u>Returns</u>
	Vista Foundation Fund I (2009)	Buyout	22.4% Net IRR, 1.32x MOIC
	Vista Equity Fund II (2000)	Buyout	30.1% Net IRR, 3.05x MOIC
	Vista Equity Partners Fund III (2007)	Buyout	30.1% Net IRR, 3.05x MOIC
	Vista Equity Partners Fund V (2011)	Buyout	30.1% Net IRR, 3.05x MOIC
	IRR= Internal Rate of Return MOIC= Multiple of Invested Capital		

Vehicle Information:

Inception:	2013	Auditor:	Deloitte
Fund Size (\$mil.):	\$750 million	Legal Counsel:	Kirkland & Ellis
Management Fee:	2%		
Carry:	20%		
Hurdle Rate:	8%		
Additional Expenses:	100% fee offset		

NJ AIP Program

Recommended Allocation (\$mil):	\$100,000,000	LP Advisory Board Membership:	Yes
% of Fund:	13%	Consultant Recommendation:	Yes
		Placement Agent:	No
		Compliance w/ Division Placement Agent Policy:	N/A
		Compliance w/ SIC Political Contribution Reg:	Yes

