State of New Jersey
DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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May 11, 2007

MEMORANDUM TO: State Investment Council

FROM: William G. Clark
Director

SUBJECT: **Proposed Private Equity Investments in Vista Equity Partners Fund III and New Mountain Partners III**

This due diligence memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9 (a) to report on two proposed private equity investments: a $100 million commitment to Vista Equity Partners Fund III and a $100 million commitment to New Mountain Partners III.

Please note that these investments will be authorized pursuant to Articles 69 and 90 of the Council's regulations. Both of these investments are considered "Buyout Fund" investments as defined under N.J.A.C. 17:16-90.1.

The Alternative Investments Procedures adopted by the Council on January 20, 2005 require any potential alternative investment opportunities to be identified and initially evaluated by the Head of Alternative Investments of the Division (myself in an acting capacity) and the applicable Asset Class Consultant (Strategic Investment Solutions for private equity, or "SIS") in coordination with the DOI Investment Committee (Ike Michaels, Deputy Director and myself).

Based on this due diligence, we have determined that both investments meet the criteria for investments set forth in the Council's Alternative Investment Policy.

Vista Equity Partners III – will focus on acquiring controlling interests in middle-market enterprise software companies with significant value creation opportunities. Over the past seven years, Vista has successfully demonstrated the ability to create value through a disciplined investment focus on companies that offer mission-critical software and technology-enabled solutions, have strong revenue streams and where there is an opportunity to improve the company's valuations.

The Vista team consists of experienced investment professionals as well as software industry operating professionals. Together, they take a very hands-on approach to value creation within their portfolio companies. Vista's approach combines cost management and margin expansion initiatives with identification of an investment in opportunities for long-term growth in the business. Vista's prior fund, Vista Equity Fund II, has already realized five of its thirteen investments, and has generated returns that are well above top-quartile levels. The management fees are reasonable, and all the legal and economic terms associated with the partnership are fair and consistent with market standards.

New Mountain Partners III – is a middle-market buyout fund that focuses on defensive growth industries companies that can succeed in both robust and weak economic environments. To date, New Mountain has developed particular skills in industries such as adult education, health care, business services, transaction processing, and media, among others.

The investment professionals at New Mountain start by researching and identifying defensive growth sectors from a "top down" perspective. After a target industry is uncovered, a group within the firm is formed to further research the industry and target companies. Ultimately, the goal is to identify the best business models in an industry sector, and to acquire such companies proactively. Using this approach, New Mountain has been successful at targeting companies with leading market shares, rapid growth, high free cash flow and high barriers to entry.

In New Mountain's prior two funds, the firm has generated well-above top quartile returns. The management fees are reasonable, and all the legal and economic terms associated with the partnership are fair and consistent with market standards.

As a result of internal and external sourcing, the DOI Investment Committee identified this proposed investment. SIS and Division staff then proceeded to undertake extensive due diligence on the proposed investments. We completed the same due diligence as with all other alternative investment opportunities presented to the council. Based on this due diligence, the Division has determined that the proposed investments meet the criteria for investments set forth in the Alternative Investments Policy.

A formal written due diligence report for each proposed investment was sent to each member of the Investment Policy Committee of the Council on May 4, 2007, and a meeting of the Committee was held on May 9, 2007. In addition to the formal written due diligence reports, all other information obtained by the Division on these investments was made available to the Investment Policy Committee.

After review of the extensive due diligence, the Investment Policy Committee of the Council decided to report on the proposed investments to the full Council pursuant to Step 4 of the Alternative Investments Procedures. Under these procedures, the Council may adopt or otherwise act on this report.

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 each investment. In addition, each proposed investment must comply with the Council's "pay to play" regulation (N.J.A.C. 17:16-4). While we are confident that we will work through these issues, the potential exists that a successful resolution will not be reached with the other general partner.

We look forward to discussing these proposed private equity investments at the Council's May 17, 2007 meeting.

WGC:cae
Attachment

*SIC Investment Committee Fund Review Memo

To:	**State Investment Council**
From:	**SIC Investment Committee**
Date:	**May 11, 2007**
Subject:	**New Mountain Partners IIII, L.P. Recommendation**

Fund Facts

Fund Name:	New Mountain Partners III, L.P.
Fund Type:	Middle Market Buyout Fund
Current Fund Size:	$3.0 billion
Previous Fund Size/Vintage:	$1.55 billion / 2005
Final Close:	TBD
Fund Address:	787 7th Avenue, 49th Floor New York, New York 10019

GP Contact Info

Name:	Michael Flaherman
Telephone:	415-788-3300
Email:	mflaherman@newmountaincapital.com

Summary of Terms and Investment Strategy

Investment Strategy:	The Fund will primarily make equity invetments in middle market sized buyouts of companies that possess strong growth potential.
Geographic Focus:	United States based global businesses
GP Co-Investment Amount:	$50 million.
Terms:	
Term:	10 years from final closing date with two 1-year extentions
Investment period:	5 years
Management Fee:	2.0% per annum of the aggregate Commitments of the Limited Partners and thereafter 1.5% of actively invested capital.
Other Fees:	100% of the amounts of any directors' fees, and and 50% of other net fee income, including transaction fees, investment banking fees, break-up fees, advisory fees or monitoring fees.
Hurdle Rate:	8%

NJ AIP Program:

Recommended Allocation:	$100 million
% of Fund:	3.33%
% of New Jersey State Pension Plan:	0.13%
% of AIP Private Equity Allocation ($3.5b):	2.86%
% of Private Equity Allocation for FY07 ($1.875b):	5.33%

LP Advisory Board Membership:	TBD
Consultant Recommendation:	Yes
Compliance with SIC "Pay to Play" Reg:	Side letter required

*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.