



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.

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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 9, 2007
Subject: Vista Equity Partners Recommendation

Fund Facts

Fund Name:	Vista Equity Partners Fund III, LP
Fund Type:	Middle Market Buyout Fund
Current Fund Size:	\$1.3 billion
Previous Fund Size/Vintage:	\$1.1 billion / 2000
Final Close:	July-07
Fund Address:	150 California Street, 19th Floor San Francisco, CA 94111

GP Contact Info

Name:	John Warnken-Brill
Telephone:	415-765-7013
Email:	jwarnken-brill@vistaequitypartners.com

Summary of Terms and Investment Strategy

Investment Strategy:	The Partnership will make control equity investments in middle-market enterprise software companies with significant value creation opportunities
Geographic Focus:	United States
GP Co-Investment Amount:	2% / \$22 million
Terms:	
Term:	10 years
Investment period:	5 years from initial closing
Management Fee:	2.0% per annum of such LP's commitment during commitment period and; after commitment period, 2.0% per annum of LP's capital contributions with respect to unrealized portfolio investments.
Other Fees:	Transaction fees will be split 80/20 between the limited partners (as an offset to the management fee) and the general partner.
Hurdle Rate:	8%

NJ AIP Program:

Recommended Allocation:	\$100 million
% of Fund:	7.70%
% 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:	Yes
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.