



## State of New Jersey

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February 3, 2014

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough  
Acting Director

SUBJECT: **Proposed Investment in TCV VIII, L.P. Fund**

The New Jersey Division of Investment (“Division”) is proposing an investment of \$100 million in TCV VIII, L.P. Fund (the “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:

**Performance:** Technology Crossover Ventures (“TCV”) has delivered strong and consistent returns over a number of technology, economic and market cycles. As of 09/30/2013, their most recent fund, TCV VII (a 2008 vintage fund), has delivered top-quartile returns with a Net Total Value to Paid-In (“TVPI”) of 1.53x and a Net Internal Rate of Return (“IRR”) of 19.9%. On an aggregate basis as of June 30, 2013, TCV’s seven funds have delivered a Net TVPI of 1.60x and a Net IRR of 16%. The firm’s impressive historical performance validates its ability to outperform and return capital to investors irrespective of market environments.

**Experienced Team with Deep Sector Knowledge:** TCV has been investing in the technology growth equity space for over 18 years, with a team of over 40 investment professionals that has been collectively involved in hundreds of transactions. These professionals, equipped with an extensive industry network built upon long-standing relationships, are then tasked with owning the firm’s designated sectors and subsectors to effectuate the firm’s strategy. By being purely focused on the technology space and committing all of the firm’s resources into understanding the intricacies of each sector and subsector, it allows for the team to properly identify, add value and navigate the constantly changing landscape of the industry while investing in the next generation of leading technology companies.

**Focused Investment Strategy:** TCV’s strategy rests upon a singular focus of investing in the technology sector through growth equity investing. Given the complexity and rapid change in the technology market, TCV believes that deep domain expertise is essential to identify the next generation of premier technology companies, and can do so by providing growth equity, which allows the firm to participate in significant growth with a lower risk profile and more near-term opportunities for liquidity than earlier stage investments. TCV’s Partners execute this strategy by evaluating the technology landscape on an ongoing basis to select the sectors that they believe provide the greatest opportunity set and alignment with TCV’s investment strategy and

experience. Over time, certain sectors have provided stronger investment opportunities and TCV has responded by shifting resources to better address those sectors. TCV currently focuses on the following sectors within the broad technology industry: internet, software, financial technology, infrastructure and services. Inclusive to these broad sectors, there are many subsectors of each which are explicitly identified and targeted.

**Market Opportunity:** Information technology is a key contributor to the global economy and is a growth driver across many industries. U.S. internet penetration has doubled to 80% of the population, and global information technology spending is forecasted to reach over \$3.8 trillion in 2014. Technology is now deeply embedded in everyday life, and has become transformational for both businesses and consumers alike. Businesses worldwide are leveraging new technology to improve operating efficiency and attract more customers, and the advent of mobile and social technologies is allowing a new generation of companies to emerge in leadership positions.

**Complementary to Existing Portfolio:** The Division currently has minimal exposure to venture capital and growth equity due to a lack of access to quality managers in meaningful size. Therefore, the addition of TCV allows the Division to increase its exposure to a space where it has been lacking while investing with a successful, highly respected manager in its space.

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 used third-party solicitors (“placement agents”) in the fundraising of the fund but no placement agent was engaged or paid 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 TCV VIII, L.P. Fund will be considered a private equity 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 14, 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 February 3, 2014 meeting.

Attachments

**Fund Name: TCV VIII, L.P.** **February 3, 2014**

**Contact Info:** Robert Trudeau, 280 Park Avenue, East Building 26th Floor, New York, NY 10017

<b>Fund Details:</b>	
<b>Firm AUM:</b>	\$4.7 billion
<b>Strategy:</b>	Private Equity - Venture Capital
<b>Year Founded:</b>	1995
<b>Headquarters:</b>	Palo Alto, CA
<b>GP Commitment:</b>	6%

**Key Investment Professionals:**

**Jay Hoag**, Co-Founder and General Partner: Has spent the past 18 years at TCV, where he sits on the Executive, Valuation, and Investment Committees. At TCV, Mr. Hoag's primary focus is on internet investments. He is currently on the Board of Directors of Electronic Arts, Netflix, TechTarget and Zillow. Prior to co-founding TCV, Mr. Hoag was a Managing Director at Chancellor Capital Management where he spent over 12 years as a technology focused venture capitalist and fund manager.

**Rick Kimball**, Co-Founder and General Partner: Has spent the past 18 years at TCV, where he focuses on infrastructure and financial technology investments. Prior to co-founding TCV, Mr. Kimball was a Managing Director at Montgomery Securities where he spent over ten years focusing on telecommunications and data communications as a both a venture capitalist and senior research equity analyst.

**Jake Reynolds**, General Partner: Joined TCV in 1997 and is a member of the Firm's Executive Committee. Mr. Reynolds' primary focus is on software and services. Prior to joining TCV, Mr. Reynolds was an Associate with General Atlantic Partners, a private equity firm focused on late stage software and service businesses.

**Robert Trudeau**, General Partner: Joined TCV in 2005 and leads the Financial Technology Group. Prior to TCV, Mr. Trudeau was a Principal at General Atlantic Partners where he led the firm's financial services practice.

Investment Summary	Existing and Prior Funds																																
The Division is proposing an investment of \$100 million in TCV VIII, L.P. (the "Fund"). Technology Crossover Ventures ("TCV"), a Palo Alto based firm, was founded in 1995 by Jay Hoag and Rick Kimball with the sole focus of executing growth equity investments within the technology sector. TCV's strategy consists of leveraging its industry network to access and invest in market leading companies while creating value post-investment with a team of professionals that employs comprehensive domain knowledge in each of their sectors and sub-sectors. Over the past 19 years, TCV has invested approximately \$7 billion in the space with a 1.6x Net Multiple on invested capital and a 16% Net IRR across all of their funds.	<table border="1"> <thead> <tr> <th><i>Funds</i></th> <th><i>Vintage Year</i></th> <th><i>Strategy</i></th> <th><i>Returns as of June 30, 2013</i></th> </tr> </thead> <tbody> <tr> <td>TCV I</td> <td>1995</td> <td>VC</td> <td>36.00% Net IRR, 2.40x Net TVPI</td> </tr> <tr> <td>TCV II</td> <td>1997</td> <td>VC</td> <td>75.70% Net IRR, 3.60x Net TVPI</td> </tr> <tr> <td>TCV III</td> <td>1999</td> <td>VC</td> <td>13.60% Net IRR, 1.30x Net TVPI</td> </tr> <tr> <td>TCV IV</td> <td>2000</td> <td>VC</td> <td>8.70% Net IRR, 1.60x Net TVPI</td> </tr> <tr> <td>TCV V</td> <td>2004</td> <td>VC</td> <td>11.40% Net IRR, 1.70x Net TVPI</td> </tr> <tr> <td>TCV VI</td> <td>2006</td> <td>VC</td> <td>14.00% Net IRR, 1.50x Net TVPI</td> </tr> <tr> <td>TCV VII</td> <td>2008</td> <td>VC</td> <td>14.20% Net IRR, 1.30x Net TVPI</td> </tr> </tbody> </table>	<i>Funds</i>	<i>Vintage Year</i>	<i>Strategy</i>	<i>Returns as of June 30, 2013</i>	TCV I	1995	VC	36.00% Net IRR, 2.40x Net TVPI	TCV II	1997	VC	75.70% Net IRR, 3.60x Net TVPI	TCV III	1999	VC	13.60% Net IRR, 1.30x Net TVPI	TCV IV	2000	VC	8.70% Net IRR, 1.60x Net TVPI	TCV V	2004	VC	11.40% Net IRR, 1.70x Net TVPI	TCV VI	2006	VC	14.00% Net IRR, 1.50x Net TVPI	TCV VII	2008	VC	14.20% Net IRR, 1.30x Net TVPI
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IRR = Internal Rate of Return; TVPI = Total Value to Paid-In																																	

**Vehicle Information:**

<b>Inception:</b>	2013	<b>Auditor:</b>	Ernst & Young
<b>Fund Size:</b>	\$2.25 billion	<b>Legal Counsel:</b>	Simpson Thacher & Bartlett LLP, Maples and Calder, Ropes & Gray LLP
<b>Management Fee:</b>	1.1% 1st year, 1.75% 2nd year, 2.00% Years 3-6, declines by 10% thereafter		
<b>Carry:</b>	20%		
<b>Additional Expenses:</b>	100% fee offset on directors' fees, consulting fees or transaction fees		

**NJ AIP Program**

<b>Recommended Allocation:</b>	\$100 million	<b>LP Advisory Board Membership:</b>	Yes
<b>% of Fund:</b>	4.4%	<b>Consultant Recommendation:</b>	Yes
		<b>Placement Agent:</b>	No
		<b>Compliance w/ Division Placement Agent Policy:</b>	N/A
		<b>Compliance w/ SIC Political Contribution Reg:</b>	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.