



## State of New Jersey

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

CHRIS CHRISTIE  
*Governor*

KIM GUADAGNO  
*Lt. Governor*

ANDREW P. SIDAMON-ERISTOFF  
*State Treasurer*

January 11, 2013

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh  
Director

SUBJECT: **Proposed Investment in Silver Lake Partners IV, L.P.**

The New Jersey Division of Investment ("Division") is proposing an investment of \$200 million in Silver Lake Partners IV, L.P. 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:

**Strong Performance:** In January 2007 the Division committed \$100 million to Silver Lake Partners III, L.P. (SLP III), which as of 9/30/12 has generated a net multiple of invested capital (MOIC) of 1.37x and a net internal rate of return (IRR) of 16.76%. This performance is considered top quartile according to Cambridge Associates and Venture Economics. In addition, SLP III's net distributions to paid-in-capital is currently 63% which also places the fund in the top quartile. Over their history, the Silver Lake funds have generated a Net MOIC of 1.58x and a Net IRR of 18.11%.

**Sector Focus and Industry Expertise:** Silver Lake's pursuit of buyout and growth capital opportunities in large-cap technology and technology-enabled companies provides them an advantage in knowledge, ability and sourcing within a sector that continues to be one of the most important growth and efficiency drivers within the global economy. Companies that partner with Silver Lake want to access their expertise, resources and relationships across the global technology industry. Silver Lake has established a strong reputation among many venture capitalists and industry leaders for investing in companies that generate disruptive innovation in technology and often lead to technology-enabled innovation in other industries. Their main focus is on themes such as cloud computing, SaaS, Big Data Analytics, e-Commerce, Social/Digital Media and Mobility among large businesses that are market leaders or have the potential to become market leaders within their specialist technology field.

**Deep Organization and Network:** Since the firm's inception in 1999, Silver Lake has invested over \$12 billion in 48 companies and fully realized 26 of those investments, resulting in \$14.5 billion in gross proceeds as of 12/31/12. Due to the firm's long history and past success in the technology industry, Silver Lake has cultivated many relationships with senior executives within the space. This is evident from the composition of their Value Creation Team which consists of a number of respected Senior Advisors and Operating Executives at major technology firms. The Value Creation Team contributes to Silver Lake superior access to deal flow and a better understanding of industry structure and the evolution of technology.

*Proposed Investment in Silver Lake Partners IV, L.P. Fund*  
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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.

The fund utilized Credit Suisse Securities (USA) LLC (the "placement agent") as third-party solicitor in connection with the potential investment. Staff has determined that the placement agent and its representatives met the registration, licensing and experience requirements set forth in the Division's Placement Agent Policy (the "Policy"). Pursuant to the Policy, the fund has disclosed the contract between the fund and the placement agent, specifying the scope of services to be performed by the placement agent and the fee arrangement between the placement agent, the general partner and any other third party.

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 Silver Lake Partners IV, L.P. will be considered a private equity buy-out 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 9, 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 January 17, 2013 meeting.

Attachments

**Fund Name:** SILVER LAKE PARTNERS IV, L.P. **January 17, 2013**

**Contact Info:** Susannah Carrier, 9 West 57th Street, 32nd Floor, New York, NY 10019; (212) 381-7301

**Fund Details:**

Firm AUM (\$bil.):	\$13.61 billion	<p><b>Key Investment Professionals:</b>  <b>Jim Davidson</b>, (Co-Founder, Managing Partner &amp; Managing Director) Mr. Davidson currently serves as Chairman of the Managing Partners Committee of SLP. Prior to SLP, Mr. Davidson was a Managing Director at Hambrecht &amp; Quist.  <b>Kenneth Hao</b>, (Managing Partner and Managing Director) Mr. Hao joined SLP in 2000. In 2007 and 2008, he led the establishment of the firm's offices in Asia. Prior to joining SLP, Mr. Hao was a Managing Director at Hambrecht &amp; Quist ("H&amp;Q") where he led a range of investment banking and venture capital activities.  <b>Greg Mondre</b>, (Managing Partner and Managing Director) Mr. Mondre joined SLP in 1999. Prior to joining SLP, Mr. Mondre was a principal at Texas Pacific Group, where he focused on private equity investments across a wide range of industries, with a particular focus on technology. Earlier in his career, Mr. Mondre worked as an investment banker in the Communications, Media, and Entertainment Group of Goldman, Sachs &amp; Co.  <b>Mike Bingle</b>, (Managing Partner &amp; Managing Director) Prior to joining SLP in 2000, Mr. Bingle was a principal at Apollo Advisors, L.P., then a large-scale and diversified private equity firm. He also worked as an investment banker in the Leveraged Finance Group of Goldman, Sachs &amp; Co.  <b>Egon Durban</b>, (Managing Partner &amp; Managing Director) Mr. Durban joined SLP in 1999 as a founding principal and has worked in the firm's Menlo Park and New York offices and set-up and oversaw the firm's London office from 2005 to 2010. Prior to Silver Lake, Mr. Durban worked in Morgan Stanley's Investment Banking Division.</p>
Strategy:	Private Equity Buy-Out	
Year Founded:	1999	
Headquarters:	New York, NY; Menlo Park, CA	
GP Commitment:	lesser of \$225 million or 3%	

Investment Summary	Existing and Prior Funds												
<p>Founded in 1999, Silver Lake Partners ("SLP" or the "Firm") is a global private equity investor headquartered in Menlo Park, CA and New York, NY with a global presence in London, Hong Kong, Shanghai and Tokyo. The firm pursues buyout and growth capital investments in large-cap companies in technology and technology-enabled industries and seeks companies with leading market positions, proprietary core technologies, advantageous business models and processes, sound management teams, and strong growth prospects. Improving the operational performance of its portfolio companies is one of the major components to executing SLP's investment strategy effectively. SLP has established a strong reputation among venture capitalist and industry leaders for investing in companies that generate disruptive innovation in technology and often lead to technology-enabled innovation in other industries.</p>	<table border="1"> <thead> <tr> <th>Funds</th> <th>Strategy</th> <th>Returns</th> </tr> </thead> <tbody> <tr> <td>SLP I</td> <td>Buyout</td> <td>24.59% Net IRR/2.4x Net TVPI</td> </tr> <tr> <td>SLP II</td> <td>Buyout</td> <td>9.82% Net IRR/1.54x Net TVPI</td> </tr> <tr> <td>SLP III</td> <td>Buyout</td> <td>16.76% Net IRR/1.37x Net TVPI</td> </tr> </tbody> </table>	Funds	Strategy	Returns	SLP I	Buyout	24.59% Net IRR/2.4x Net TVPI	SLP II	Buyout	9.82% Net IRR/1.54x Net TVPI	SLP III	Buyout	16.76% Net IRR/1.37x Net TVPI
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**Vehicle Information:**

Inception:	2012	Auditor:	PricewaterhouseCoopers LLP
Fund Size (\$mil.):	\$7.5 billion	Legal Counsel:	Simpson Thacher & Bartlett LLP
Management Fee:	1.425% on committed capital; .95% on invested capital		
Carry:	20%		
Hurdle Rate:	8%		
Additional Expenses:	NA		

**NJ AIP Program**

Recommended Allocation (\$mil):	\$200,000,000	LP Advisory Board Membership:	Yes
% of Fund:	2.70%	Consultant Recommendation:	Yes
		Placement Agent:	Yes
		Compliance w/ Division Placement Agent Policy:	Yes
		Compliance w/ SIC Political Contribution Reg:	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.