Nebraska Investment Council

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Memo on Francisco Partners V, L.P.

Motion

That the Nebraska Investment Council (the Council) for the Defined Benefit Plans and Cash Balance Benefit Plans make a $50 million commitment to Francisco Partners V, LP., subject to completion of a legal review and satisfactory agreement of terms.

Background

Francisco Partners Management, LP (FP) is a San Francisco-based firm specializing in technology, middle market private equity investments. It operates through a limited partner (fund) structure. The Council committed $20 million to Francisco Partners IV, LP in 2015.

Council Staff (Staff) conducted an analysis of the Francisco Partners V, LP (Fund V) investment opportunity. The analysis included various attributes of FP, its funds, investment staff, strategy and process, associated risk management, operational due diligence, performance, and, finally, terms and conditions. Staff utilized due diligence materials provided by Aon Hewitt (Aon) and FP. Staff closely reviewed Fund V's private placement memorandum. Lastly, Staff visited FP's headquarters this year and participated in a telephone meeting with one FP executive (Andrew Brown) to discuss Fund V.

Business

- Before FP, two of the founders were the technology group at TPG and accounted for 80% of profit for TPG I and II.
- There are five founding partners. These five are DJ Deb, David Stanton, Sanford "Sandy" Robertson, Benjamin "Ben" Ball and Neil Garfinkel. Stanton left FP after Fund I and Robertson retired.
- As of June 30, 2017, the firm had $10.3 billion in assets under management. Fund V will be a $3.25 billion fund, with a $3.50-3.75 billion hard cap. Fund IV has $2.87 billion in limited partner commitments.

Investment Staff

- There are now 42 professionals in the Investment Staff. Among the 42, DJ Deb is Managing Partner and there are 12 partners, four principals, 12 vice presidents and 15 associates.
- The firm has experienced modest staff turnover, losing nine investment people since 2000 plus the CFO. There has been one leadership issue as David Stanton was Managing Partner until 2005 when DJ Deb took over control.
- FP has developed Francisco Partners Consulting (FPC) which is a mix of former executives that delivers operational expertise to FP, its funds and portfolio companies. There are 11 former corporate executives with FPC.
- In addition to the FPC relationship, FP has a relationship with Sequoia Capital. Sequoia Capital is a venture capital firm. FP benefits from Sequoia's network, its deal flow and technical knowledge in the ever changing technology sector.

Investment Strategy and Process

- FP develops investment ideas and, through the networks of its team, FPC and Sequoia, identifies acquisition targets. Portfolio development follows a barbell strategy. Some investments are value-oriented and some are growth oriented.
- The value portfolio companies feature attractive entry multiples; robust cash on cash returns, room for meaningful operating improvements, significant opportunity to upgrade management, and slow mature growth.
- The growth portfolio companies feature accelerating revenue momentum, dislocating existing markets, increased strategic relevance, management augmentation, and re-investing in growth opportunities.

- FP operates in a variety of technology sub-sectors that include application & infrastructure software, communications, education technology, financial technology, healthcare technology, industrial technology, internet, semiconductors and capital equipment, security, and security and hardware..
- Fund V will focus on North America but can include Europe and Israel and other developed markets. Past platform investments have included the following countries: US (73 companies), UK (9), Israel (5), Australia (2), Canada (1), Switzerland (1), France (1) and South Korea (1).
- FP is planning on 15-25 investments in Fund V. These investments will have a targeted enterprise value of $100 million - $500 million, and will primarily be control investments.

Risk Management

- Perhaps the greatest risk tool FP has at its disposal, is its process to complete deals with low purchase price multiples and modest leverage (approximately 3x for purchases).
- Fund will have an Advisory Board comprised of a variety of Limited Partners, not including the Council. FP will make the meeting materials available though.

Performance

Fund	Net IRR	Quartile	Net TVPI	Quartile
FP I (2000)	4.4% `	4th	1.3x	4th
FP II (2006)	10.5%	2nd	1.4x	2nd
FP III (2011)	19.5%	2nd	2.0x	1st
FP IV (2015)	10.6%	1st	1.1x	2nd
Agility Fund I (2016)	N/A	1st	N/A	1st

Terms and Conditions

- Management fee is 1.5% of committed amount, with a step down to 1.25% post investment period.
- Carried interest is 20% and Preferred Return is 8%.