



Investment Committee Memorandum

Thoma Bravo Fund XIV, L.P. / Thoma Bravo Discover Fund III, L.P.

Private Equity Asset Class

September 29, 2020

Investment Recommendation

SERS' Investment Office Staff and SERS' Private Equity Consultant, StepStone Group, recommend that the State Employees' Retirement System Investment Committee interview Thoma Bravo, LLC ("Thoma Bravo", the "GP" or the "Firm") at the September 29, 2020 Investment Committee Meeting to consider a potential commitment of (i) \$50 million to Thoma Bravo Fund XIV, L.P. ("Fund XIV") and (ii) \$25 million to Thoma Bravo Discover Fund III, L.P. ("Discover III"), subject to the satisfactory completion of legal due diligence.

Investment Rationale

Staff identified Thoma Bravo XIV and Discover III as strong candidates for SERS' capital commitment as they offer:

- A long track record with strong net performance since inception;
- Strong quartile ranking against private equity competitors;
- Strong net alpha generation against the Russell 3000 Total Return Index benchmark since inception, far exceeding SERS' 3.0% excess return above the benchmark index;
- History of strong operating performance and capital preservation;
- Sector specialist in a secular growth arena;
- Attractive software business models;
- Blended exposure with middle market component favorably affects expected return profile;
- Consistency with SERS' PE portfolio objectives;
- Meaningfully deepens relationship with one of the pre-eminent minority-owned alternative investment firms.

Investment Risks

Staff identified the following potential risks of a commitment to the Thoma Bravo equity funds:

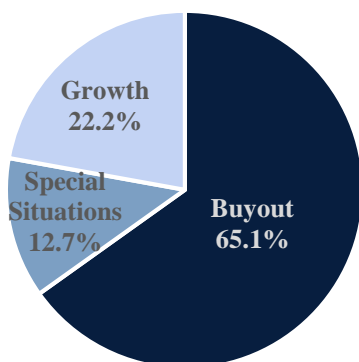
- Team capacity to manage new funds;
- Competitive dynamics at larger end of market for software;
- Valuation and leverage levels.

Portfolio Implications

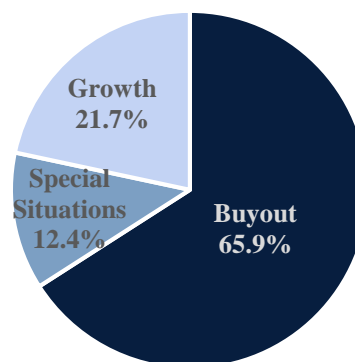
A commitment to Thoma Bravo would be a 2020 vintage allocation in the Private Equity asset class and Buyout sub-asset class. As of June 30, 2020, SERS' market value of Buyout investments was approximately 65.1% of the Core PE portfolio. This commitment aligns with SERS' Strategic Investment Plan initiatives of making fewer commitments to top-tier managers. SERS is targeting this commitment of up to \$75 million, or 13.6% of the 2020 strategic plan pacing budget for private equity. This commitment also reflects a position size of appx. 2.3% within the Core PE portfolio.

The following two charts show the Core PE portfolio allocations by sub-strategy as of June 30, 2020 on the left, and a prospective view of the allocation post a commitment to Thoma Bravo's Fund XIV and Discover III on the right.

SERS Core PE Sub-Strategy Allocation as of 6/30/20



SERS Proforma Core PE Sub-Strategy Allocation



Sponsor Overview

Thoma Bravo is a private equity firm focused on control investments in application, infrastructure, and security software in North America. With offices in San Francisco and Chicago, the firm is led by Orlando Bravo and ten partners, supported by 45 investment professionals and 25 operating partners. The managing partners have worked together for over 14 years.

Thoma Bravo’s predecessor firm was founded by Mr. Golder and Mr. Thoma in 1980. Orlando Bravo joined the firm in 1998 when the predecessor was split into two firms. The firm was renamed to Thoma Bravo in 2008. Thoma Bravo raised its first fund focused exclusively on software and tech-enabled services in 2008. Since then, Thoma Bravo has raised and managed seven institutional equity funds.

Investment Strategy

For nearly 20 years, Thoma Bravo’s strategy has been focused on control investments in leading mission-critical software businesses in North America that exhibit high recurring revenues, high customer retention rates, and attractive margins.

The strategy has the following additional attributes:

- Breadth of software investing experience.
- Accelerating growth through operational excellence.
- Accelerating growth through acquisitions.
- Downside-focused in periods of distress.

Management Team

Seth J. Boro, Managing Partner – Mr. Boro joined Thoma Bravo after receiving an MBA degree from the Stanford Graduate School of Business. He previously was part of the investment team at Summit Partners, where he was involved in private equity investments in the technology and business services sectors. Seth also worked as an analyst with investment bank Credit Suisse in Toronto. He became a partner at Thoma Bravo in 2010 and a Managing Partner in 2013. Seth has been featured in Mergers & Acquisitions Magazine as one of the “Rising Stars” of private equity and was named by the San Francisco Business Times as one of the region’s “40 Under 40,” which annually recognizes “the forty young business leaders Building the Bay Area’s Future by making significant contributions to their industries, their companies and/or their communities.” Seth earned an MBA degree from the Stanford Graduate School of Business and a Bachelor of Commerce degree from Queen’s University School of Business, Kingston, Ontario, Canada.

Orlando Bravo, *Managing Partner* – Mr. Bravo joined Thoma Cressey Equity Partners shortly after its formation and subsequently developed the firm's leadership position in Software investing. With Carl Thoma and other managing partners, Orlando later co-founded Thoma Bravo. Over the past 15 years, he has led or co-led most of the firm's software and related buyouts and major add-on acquisitions and has become recognized as one of the leading private equity investors in the sector. Thomson Reuters' Buyouts named him one of "Eight Buyout Pros to Watch" and a feature article in Forbes featured him with the headline of "...Wall Street's Best Dealmaker..." Orlando previously worked in the Mergers & Acquisitions group of Morgan Stanley & Co. in New York. Orlando received an MBA degree from the Stanford Graduate School of Business, a law degree from Stanford Law School and BA degrees in Economics and Political Science from Brown University.

S. Scott Crabill, *Managing Partner* – Mr. Crabill joined Thoma Bravo in 2002 from the Palo Alto, CA office of Summit Partners, where he invested in and worked with companies in various sectors, including software, technology and business services. Previously, he was with the private equity firm of J.H. Whitney & Co., Stamford, CT, where he was active in middle-market buyouts and growth equity financings across a wide range of industries. He also worked at Hewlett-Packard as a product manager and at Alex, Brown & Sons in corporate finance and in mergers and acquisitions. Scott earned an MBA degree from the Stanford Graduate School of Business and a BS degree in Industrial Engineering from Stanford University.

Lee M. Mitchell, *Managing Partner* – Mr. Mitchell participated in forming Thoma Bravo and previously was a partner in Golder, Thoma, Cressey, Rauner, Inc. (commonly referred to as GTCR) which he joined in 1994 after a career in law, business and investment management. As a partner at the law firm Sidley Austin, LLP, Lee specialized in corporate and regulatory matters in Chicago, Washington, DC and Asia. He later became CEO of what was then one of the country's largest privately held communications companies, where he directed investments in media, publishing and marketing services. He has been chairman of the Chicago Stock Exchange and is a trustee of Northwestern University (where he has been chairman of the Investments Committee), a director of Northwestern Memorial Hospital Corp. of Chicago (where he chairs the Alternatives Investment Committee) and chairman of the Illinois Venture Capital Association. Lee has a law degree from The University of Chicago Law School and a BA degree from Wesleyan University.

P. Holden Spaht, *Managing Partner* – Mr. Spaht joined Thoma Bravo from Morgan Stanley, where he had been with the investment bank's corporate finance department in San Francisco and, previously, with its private equity investment firm, Morgan Stanley Capital Partners, in London. He also has experience as part of the investment team at Thomas H. Lee Partners and at the Morgan Stanley Real Estate Fund. He became a partner at Thoma Bravo in 2010 and a Managing Partner in 2013. He has been named by the San Francisco Business Times as one of the region's "40 Under 40," which annually recognizes "the forty young business leaders Building the Bay Area's Future by making significant contributions to their industries, their companies and/or their communities." Holden has an MBA degree from Harvard Business School and a BA degree in Economics from Dartmouth College, where he was a Fulbright Scholar.

Carl D. Thoma, *Managing Partner* – Mr. Thoma is a co-founder of Thoma Bravo and each of its predecessor firms. He began his career with First Chicago Equity Group, where he helped build what then was one of the largest and most active private equity investment firms in the country. In 1980, he established Golder, Thoma & Co. with Stanley Golder. Over the next 18 years, that firm raised and invested a series of five successful private equity funds. Carl co-founded Thoma Cressey Equity Partners in 1998 and raised and co-managed three additional funds. With Orlando Bravo and other managing partners, he then co-founded Thoma Bravo. Carl has served as president of the National Venture Capital Association and chairman of the Illinois Venture Capital Association. He was named one of six "Legends of Private Equity" by Thomson Reuters' Buyouts Magazine and received the Association for Corporate Growth/Chicago Lifetime Achievement Award. Carl has an MBA degree from the Stanford Graduate School of Business and BS degrees in Accounting and Agriculture Economics from Oklahoma State University.