



State of Rhode Island  
Office of the General Treasurer

## Thoma Bravo Discover Fund V- Staff Recommendation

May-2024

### RECOMMENDATION:

- [Rhode Island Employees Retirement Systems Pooled Trust \(“ERSRI”\)](#): **Approve a commitment of up to \$30 million to Thoma Bravo Discover Fund V (“TB Discover V”)**. ERSRI previously committed i) \$30 million to Thoma Bravo XIV (2021 vintage) and \$20 million to Thoma Bravo Discover III (2021 vintage), and ii) \$25 million to Thoma Bravo XV (2022 vintage) and \$35 million to Thoma Bravo Discover IV (2022 vintage).
- [Rhode Island OPEB System Trust \(“OPEB”\)](#): **Approve a commitment of up to \$1 million to Thoma Bravo Discover Fund V (“TB Discover V”)**. OPEB previously committed \$2 million to Thoma Bravo XV (2022 vintage) and \$ 2 million to Thoma Bravo Discover IV (2022 vintage).

**ASSET CLASS:** Private Equity (ERSRI), Private Growth – Private Equity (OPEB)

**SUB-STRATEGY:** Middle-Market Buyout

### ALLOCATION:

- [Rhode Island Employees Retirement Systems Pooled Trust:](#) The target allocation for Private Equity is 12.5% and the allocation as of 4/30/2024 is ~16.9%. The current pacing plan for the 2024 vintage is \$240 million committed to 5-10 funds at \$15-40 million per fund. Pending approval of this recommendation, ERSRI’s 2024 vintage commitments will be \$148 million.
- [Rhode Island OPEB System Trust:](#) The target allocation for Private Growth is 5.0% and the Private Equity sub-strategy is targeted to be ~80% of the asset class (i.e., 4.0% at the OPEB Trust level). The actual allocation to Private Equity as of 4/30/2024 is ~0.9%. The current pacing plan for 2024 is \$9 million committed to 5-10 primary funds at \$0.5-2 million per fund. Pending approval of this recommendation, ERSRI’s 2024 vintage commitments will be \$5.25 million.

### PORTFOLIO FIT:

- [Rhode Island Employees Retirement Systems Pooled Trust \(“ERSRI”\)](#): ERSRI’s Private Equity allocation is composed of a core of buyout strategies, complemented by venture capital, growth equity, and opportunistic credit investments. Rhode Island targets 60-80% of the allocation to be in buyout strategies and seeks to build a portfolio diversified by geography, sector, and company size. Thoma Bravo Discover V will target control buyouts of companies within application, infrastructure, security software, and tech-enabled services sectors, employing an operational value-add approach. Pending approval of the proposed recommendations, Thoma Bravo would represent ~5.5% of ERSRI’s Private Equity portfolio and 7.6% of the buyout exposure (NAV + uncalled commitment. See *Appendix 4*).
- [Rhode Island OPEB System Trust \(“OPEB”\)](#): The Private Growth portfolio allocates to Private Equity) and Non-Core Real Estate strategies, and is ramping up to its target allocation through commitments made in tandem with ERSRI. Pending approval of the recommendations, Thoma Bravo would represent ~21% of OPEB’s Private Growth exposure and ~27% of its Private Equity exposure (see *Appendix 5*).

### MERITS:

- [Strong Performance & Team:](#) Thoma Bravo is a sector specialist in software and is known for its ‘buy-and-build’ investment strategy. It has completed 440 software acquisitions since 2003 and has demonstrated strong

performance. Most of the value creation is by growing EBITDA (as opposed to multiple expansion and debt repayment). Thoma Bravo's investment team and operating partners have shown the ability to buy companies with high quality revenue, cut costs and grow revenue through operational improvements, growth initiatives, and strategic add-on acquisitions. Thoma Bravo's portfolio companies have an average EBITDA margin of 38%, significantly higher than comparable public software companies and margins at entry.

- **Market Fundamental -Software:** The software market has been expanding considerably and hasn't shown a sign of decline. Software businesses have evolved from charging customers for a one-time, perpetual license model to a Software-as-a-Service ("SaaS") model with recurring revenue. Software can be seen as an extension to the end markets (e.g. Education & EdTech, Financial Service & FinTech) and its growth has consistently outperformed those end markets. Successful businesses run on these mission-critical software programs, which tend to be "sticky" given their high switching costs. With the explosion of artificial intelligence (AI), software companies have the potential to become more efficient and profitable.

#### CONCERNS:

- **Potential Conflicts Within Thoma Bravo:** Thoma Bravo is currently raising a \$20 billion fund (Flagship Fund XVI) in addition to the \$7 billion Discover Fund V. The flagship fund focuses on larger software companies and will command a larger portion of the firm's shared resources.
  - **Mitigant – Dedicated Investment Team & Performance:** Thoma Bravo has created and expanded the investment team dedicated for Discover Fund since 2015. The number of operating partners, advisors, and investment personnel within the firm have grown in line with total firm assets under management (AUM).
- **Increased Market Competition:** Competition among private equity firms for software companies has increased, leading to potential higher entry multiples and shorter due diligence windows.
  - **Mitigant – Industry Specialist – Focusing on Software:** Thoma Bravo has been focusing on technology-enabled services companies when it formed Flagship Fund IX in 2008. Sourcing growing software companies with high-quality recurring revenue, growing revenues through organic growth and accretive add-ons, and improving profit margins are the keys to its success. Roughly 70-90% of the value creation is through EBITDA growth, with the remaining from multiple expansion and debt repayment. Thoma Bravo is an industry specialist in software and has successfully demonstrated experience in profitably growing its software portfolio companies.

**ESG:** Thoma Bravo is rated as a **Leader** with respect to their ESG practices.

- **ESG:** Thoma Bravo created its initial ESG policy in 2014, and its ESG steering group is comprised of the senior management team. A list of ESG items is considered during the investment selection and portfolio company management process. Thoma Bravo publishes an annual ESG report and has adopted responsible investment guidelines developed under the UNPRI (UN Principles for Responsible Investment).
- **DEI:** Thoma Bravo became a signatory to ILPA's Diversity in Action initiative in 2021 and formally developed a Diversity, Equity and Inclusion (DE&I) Policy in 2023. Around 63% of the firm's employees are women or minorities (42% of the investment team). Thoma Bravo has partnership with DE&I focused organizations such as SEO (Sponsors for Educational Opportunity), PEWIN (Private Equity Women Investor Network) and Gender Equity Consortium.

**FEES:** Fees for Thoma Bravo Discover V are in-line with industry standards.

- **Management Fee:** TB Discover V will charge a 2% management fee during the 6-year investment period and 2% of invested capital thereafter. The management fee will be offset by 100% of transaction fees.
- **Carried Interest:** 20% carried interest on a deal-by-deal basis with a clawback provision. There is no preferred return hurdle.

## Appendix 1: ERSRI Prior Fund Exposure

Current Partnerships	Fund Exposure*							
	Vintage Year/ Initial Investment	Type	Amount Committed	Amount Drawn	Amount Distributed	Amount Unfunded	Valuation (NAV)	Exposure (Amount Unfunded + Valuation)
Thoma Bravo Fund XIV LP	2021	Buyout	\$20,000,000	\$ 19,701,244	\$ 2,604,647	\$ 2,903,403	\$19,990,602	\$ 22,894,005
Thoma Bravo Discover Fund III LP	2021	Buyout	\$30,000,000	\$ 29,941,164	\$ -	\$ 58,836	\$35,733,996	\$ 35,792,832
Thoma Bravo XV LP	2022	Buyout	\$25,000,000	\$ 17,829,514	\$ -	\$ 7,170,486	\$19,866,637	\$ 27,037,123
Thoma Bravo Discover IV LP	2022	Buyout	\$35,000,000	\$ 20,013,056	\$ -	\$14,986,944	\$21,797,357	\$ 36,784,301

## Appendix 2: ERSRI Prior Fund Performance

Current Partnerships	Vintage Year/ Initial Investment	Type	Net Performance*			Public Market Equivalent (PME)	
			Net IRR (%)	Net Multiple of Investment	Distributed to Paid-In Capital	Net Index PME IRR**	Fund Excess Return (Fund IRR - PME)
Thoma Bravo Fund XIV LP	2021	Buyout	6.2%	1.15	0.13	2.10%	4.07%
Thoma Bravo Discover Fund III LP	2021	Buyout	8.7%	1.19	0.00	2.57%	6.16%
Thoma Bravo XV LP	2022	Buyout	N/M	N/M	N/M	N/M	N/M
Thoma Bravo Discover IV LP	2022	Buyout	N/M	N/M	N/M	N/M	N/M

\*Data as of 12/31/2023

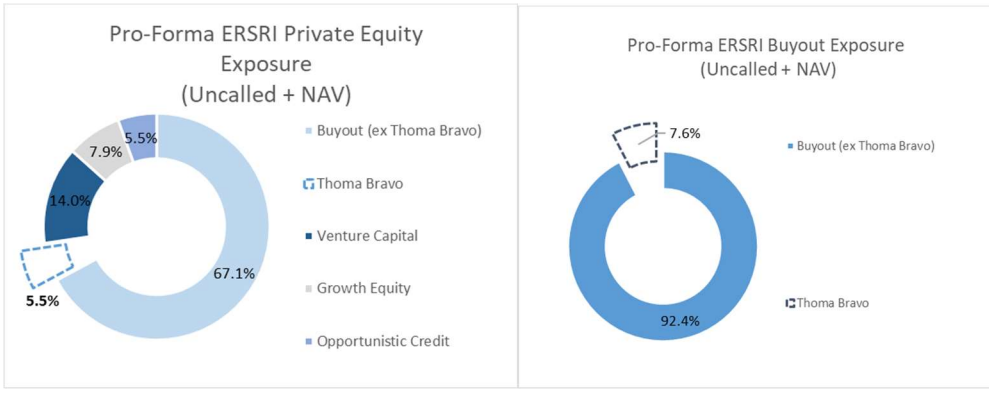
\*\* Long Nickels PME Methodology

\*\*MSCI ACWI Net Index PME IRR

## Appendix 3: ERSRI Private Equity Buyout Managers

Manager	Buyout (ERSRI)		Buyout (ERSRI)		
	Exposure in MMUSD* (NAV+Uncalled)	Geographic Focus	Sector Focus	Size	
Advent International	108.70	Global	Diversified	Large	
Altaris Capital Partners	33.90	North America	Healthcare & Lifesciences	Middle	
Bain Capital	3.60	North America	Diversified	Large	
Baring Private Equity Asia	123.15	Asia	Diversified	Large	
Birch Hill Equity Partners	0.36	North America	Diversified	Middle	
Carlyle Group	61.70	Asia	Diversified	Large	
Centerbridge Partners	28.05	Global	Diversified	Middle	
Charlesbank Capital Partners	41.50	North America	Diversified	Middle	
CVC Capital Partners	155.47	Europe	Diversified	Large	
EnCap Investments	81.11	North America	Energy	Middle	
Endeavor Capital	51.33	North America	Diversified	Small	
Eureka Equity Partners	32.30	North America	Diversified	Small	
First Reserve	0.01	Global	Energy	Middle	
ECM Equity Capital Management	20.88	Europe	Diversified	Middle	
Green Equity - Leonard Green & Partners	1.22	North America	Diversified	Middle	
Hastings Equity Partners	36.86	North America	Energy	Small	
Havercrest Capital Management	38.06	North America	Healthcare & Lifesciences	Small	
Nautic Partners	106.68	North America	Diversified	Middle	
Nordic Capital	6.11	Europe	Diversified	Middle	
Oaktree Capital Management	11.32	Europe	Diversified	Middle	
Odyssey Investment Partners	60.84	North America	Diversified	Middle	
Paine Schwartz Partners	129.53	North America	Diversified	Middle	
Parthenon Capital	94.44	North America	Diversified	Middle	
Pollen Street Capital	72.81	Europe	Business & Financial Services	Middle	
Providence Equity Partners	26.34	North America	Media, Entertainment, & Communication	Middle	
Riverside Company	156.97	North America	Diversified	Middle	
RLH	52.97	North America	Business & Financial Services	Middle	
Shamrock Capital Advisors*	59.18	North America	Media, Entertainment, & Communication	Middle	
Siris Capital Group	65.29	North America	Software & IT	Middle	
Southwest - Gen Cap America	48.16	North America	Diversified	Small	
Tenex Capital Management	93.63	North America	Diversified	Middle	
Thoma Bravo	152.51	North America	Software & IT	Middle	
TPG Capital	0.55	Global	Diversified	Large	
Trilantic Capital Management	2.17	Global	Diversified	Middle	
Vinci Capital	41.17	Latin America	Diversified	Middle	
Wynnchurch Capital	74.28	North America	Manufacturing & Industrial	Middle	

## Appendix 4: ERSRI Portfolio Fit



## Appendix 5: OPEB Portfolio Fit

