

## Recommendation for Thoma Bravo Fund XIV and Discover III

To: RISIC  
Prepared: June 16, 2020  
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The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on Thoma Bravo Fund XIV, L.P. ("TB XIV") and Thoma Bravo Discover III, L.P. ("Discover III"). (TB XIV and Discover III are collectively referred to as the "Funds".) Cliffwater has completed its investment due diligence and operational due diligence and recommends the TB XIV and Discover III as part of ERSRI's Private Equity allocation.

### Summary of TB XIV and Discover III

**Fund Overview:** TB XIV and Discover III will make buyout investments in software companies, primarily in the U.S. TB XIV will target companies with enterprise valuation over \$800 million and Discover III will target companies with enterprise valuation between \$300 million and \$800 million.

**People and Organization:** The general partner, Thoma Bravo (or the "Firm"), has a long history. Carl Thoma, Bryan Cressey, and Lee Mitchell formed Thoma Cressey Equity Partners Inc. ("TCEP") in 1998. Previously, Thoma and Cressey had been founders of Golder Thoma & Co., a firm formed in 1980 which was later renamed GTCR. TCEP formed its first fund, Thoma Cressey Fund VI, L.P., in 1998 with \$450 million of commitments. TCEP pursued buy-and-build investments in various services sectors including healthcare and business services. Orlando Bravo joined TCEP in 1998 after earning an MBA and law degree from Stanford University and helped the Firm pursue its first software company buyout. Bravo hired the Firm's senior team members who have been exclusively focused on software and technology enabled services companies since they joined. The predecessor organization was renamed from Thoma Cressey to Thoma Cressey Bravo in 2007 in recognition of the leadership role that Orlando Bravo played. Prior to the formation of Fund IX in 2008, the group split with the healthcare focused professionals forming Cressey & Company. Thoma Bravo was the firm that formed Fund IX to predominantly focus on software and technology enabled services companies. Thoma Bravo is equally owned by the six managing partners (Boro, Bravo, Crabill, Mitchell, Thoma, Spaht), four of whom have a full-time focus on investment activity and have been working together for 14 years. The managing partners are supported by an additional 39 investment professionals, two capital market professionals, 23 operating partners/advisors and 49 operating staff professionals. Thoma Bravo expects to have approximately 50 investment professionals for the Funds, consisting of the six managing partners and over 20 operating partners/advisors.

**Investment Strategy and Process:** Thoma Bravo is focused on control-oriented investing in upper middle market and large-cap software and technology enabled services businesses. The Firm made its first software investment in January 2003 and evolved to fully focus on software and technology enabled services companies starting with Fund IX in 2008. Transactions may take the form of leveraged buyouts, corporate carve-outs, take privates, buy-and-build, and recapitalizations. Thoma Bravo partners with management and has a high level of strategic and operations involvement post-investment to increase efficiency and grow the businesses. The Funds will construct a portfolio of approximately 12 platform investments, each, during the investment period. Thoma Bravo works closely with management post-investment and is involved with its portfolio companies on a strategic and operational level. Investment professionals work with company management on debt financings, and strategic initiatives

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whereas operating partners take the lead on financial reporting, infrastructure building, product development, marketing, and sales. Furthermore, the Firm's operating partners and advisors typically speak to and meet with company management teams often. At a minimum, there are two operating partners assigned to each company and a majority of the companies have additional operating partners and/or operating advisors. Post-investment, the Firm seeks to execute its add-on acquisition strategy to rapidly grow its portfolio companies. Add-on acquisitions are executed only when the business is organized in a way that the add-on acquisitions further strategic goals and can be integrated into an organization that is functioning well. These add-ons are generally financed from the portfolio company's free cash flow which do not require additional equity investment. To date, Thoma Bravo has invested in 155 add-on acquisitions to their platform businesses, representing an additional \$11 billion in value.

*Performance:* As of December 31, 2019, each of the Firm's mature funds outperformed the Russell 3000 index and iShares Expanded Tech-Software Sector ETF by a wide margin. Since 2000, Thoma Bravo has generated a net IRR of 27.0% since 2000, outperforming the Russell 3000 index and iShares Expanded Tech-Software Sector ETF by 16.2% and 11.8%, respectively. Each of Thoma Bravo's mature funds (funds active more than three-years as of December 31, 2019) rank in the first quartile or first decile in terms of net IRR and a net TVPI basis. Thoma Bravo Fund XIII (2018 vintage) and Discover Fund II (2017 vintage) have performance that is too young to be meaningful.

*Investment Terms:* Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards. The TB IV will charge a management fee equal to 1.5% of commitments during investment period; 1.5% of invested capital thereafter. The Discover III will charge a management fee equal to 2.0% of commitments during investment period; 2.0% of invested capital thereafter. Both funds charge a carried interest of 20% on a deal-by-deal basis. There is not preferred return. The general partner will commit at least \$500 million.

#### Cliffwater Recommendation

Cliffwater recommends an investment of up to \$20 million Thoma Bravo XIV, L.P. and up to \$30 million to Thoma Bravo Discover III, L.P. as part of ERSRI's Private Equity allocation.