UNIVERSITY OF OXFORD

Saïd Business School

Track Record Marketing in Private Equity

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TBN Private Equity at a Glance

▪ Strong **PERFORMANCE**	▪ Realized Software track record: 3.8x Gross MoM and 49.7% Gross IRR[1]
▪ Experienced **ORGANIZATION**	▪ Focused on Software investing for nearly two decades ▪ Managing Partners have been together for 1x years ▪ Responsible for 2xx Software acquisitions since 200x representing $xx of Enterprise Value
▪ Expanding Software **MARKET**	▪ About $6.0T Software public market capitalization, +490% increase since 2008 ▪ Most mature Software companies are privately owned ▪ Market lacks operational discipline, allows for TBN value-add advantage
▪ Differentiated **STRATEGY**	• Strategy centered around accelerating growth through operational excellence
▪ Repeatable **PROCESS**	▪ Consistent execution of the strategy enabled by TBN proprietary processes, business metrics and Operating Partners

TBN is an asset manager with zillions under management and a long history of strong performance in a growing Software market

▪ Past performance is not an indicator of future results and all data is qualified by the Notes to Presentation. The complete investment history of TBN is available in materials provided to the staff of ERSRI. 1) Returns are the result of Realized Investments in Software made by or under the supervision of persons now part of TBN investment staff while at TBN or its predecessor firm. Since in some cases the investments constituted only a portion of the funds in which they were made, no fund investor could have made such an investment and no investor received the returns indicated…

- Presentation to Employees' Retirement System of Rhode Island (ERSRI), June 2020
- Gross return ?!!
- 20 years track record. If earned 49.7% p.a. they would have multiplied money by 3,300. Their $7bn would have become $24 trillion !!

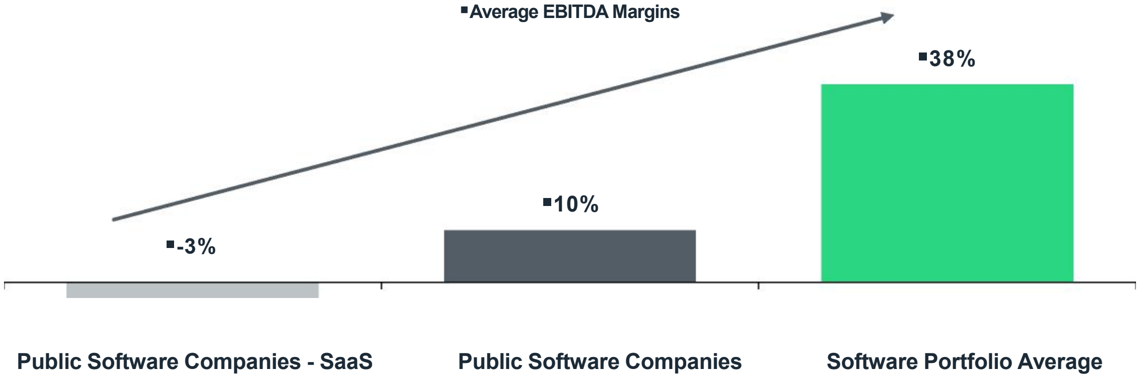
Would have noticed, no?

NB: GDP US is $21T, Japan is $5T

- 3.8x MoM is high -- duration?
- It's a selected track record !!!?
- There is no lying, but if this is allowed you can manufacture the most amazing track records out of thin air!!!!

TBN Value Creation Advantage

As the software market has expanded and new companies are created and scaled, the average software company operating profile has not changed



Margin improvement opportunity can be between ~25 – 40%, a dynamic that persists in various market environments

Source: Software Equity Group LLC – 2020 Annual Report, available at: https://softwareequity.com/seg-2020-annual-software-industry-report/ and SunTrust Software Update – February 2020. The average public software universe EBITDA margin was calculated using the 2020 estimated EBITDA margin of the companies in SunTrust Robinson Humphrey's public software company universe with $34M-$2.5B 2020 estimated revenue, a range that would include the current Software portfolio companies of the TBN funds. Please refer to data provided to ERSRI staff for detail regarding 38% EBITDA margin.

Performance Summary

EQUITY FUND PERFORMANCE SUMMARY AS OF 3/31/20

FUND	VINTAGE YEAR	FUND SIZE	NET MOM (TVPI)	NET IRR TO LPs
Fund VII	2000	$554M	2.1x	24.8%
Fund VIII	2005	$765M	2.9x	18.3%
Fund IX	2008	$823M	3.8x	44.7%
Fund X	2011	$1,275M	2.8x	38.7%
Fund XI	2014	$3,662M	2.8x	29.3%

- Can't help but see average IRR of 32% over a 20 years period – implies 260x MoM
- Net MoM of 2.9 is indeed quite high – correctly computed?
- Depends on holding period: 23% p.a. if 5 years
- Thomson Reuters US Software index, past 10 years is:

  23.3%!
- Dow Jones US Tech: 19% over past 10 years
- Note a 39% RoR, with 2.8x, means duration of 3 years
- MoM expresses a return in a different language from stock market returns, it helps PE maintain the illusion of doing something different. Should mandate MoMs to be compared to Comparable investment, expressed as a MoM.
- Same re vintage year returns (e.g. No vintage lost money in PE)

No dispersion in performance for investors, and not much across large firms, it is all the same as public equity

Table 5: Investor Performance – Public Pension Funds

	Multiple of Money in PE
California (CalPERS)	1.51
Washington (WISB)	1.56
Pennsylvania (PSERS)	1.49
Florida (FSBA)	1.51
Oregon (OPERF)	1.53

- The big 4, vintages 2006-2015, gross MoM all between 1.68 and 1.92 (SEC fillings)
- Net of fees, range would be yet smaller!! And if apply a 2-20 to these figures there is not much left!
- Similar figures if include all vintages
- None of them show their net MoM!? But they usually show their net IRR!?
- Most PE billionaires are affiliated to these firms

All the data are on my website: www.pelaidbare.com

Quite a contrast:

- Founded in 199x, Big4-A presents itself as follows in its 10K filings: “As of December 31, 2019, we had total AUM of zillions, ... We have consistently produced attractive long-term investment returns in our traditional private equity funds, generating a 39% gross IRR and a 25% net IRR on a compound annual basis from inception through December 31, 2019.”

Note to oneself: $1bn earning 39% over 30 years would be worth $20 trillion. And $20 trillion is the GDP of the United States!

- Similarly, Big4-B, in its 10K filings prominently states: “From our inception in 197x through December 31, 2019, our investment funds with at least 24 months of investment activity generated a cumulative gross IRR of 25.6%, compared to the 11.8% and 9.1% gross IRR achieved by the S&P 500 Index and MSCI World Index, respectively, over the same period, despite the cyclical and sometimes challenging environments in which we have operated.”

Note to oneself: $1bn earning 26% over 45 years would be worth $32 trillion, and that's 40% of the GDP of planet Earth!

Magic numbers constantly flashed to Investors. Should this stay legal?

[redacted]	SEC form	Net	[redacted]	SEC form	Gross	Net	*Yale*	Net
Legacy funds returns			*Legacy funds returns*				2000	34.1%
'76-'96 Funds	10K	26.1%	'90-'98 Funds	10K	39%	26%	2001	32.9%
Annual report of since inception return			*Annual report of since inception return*				2002	31.4%
Mar-07	S1	26.3%					2007	31.4%
Mar-08	S1	26.1%	Mar-08	S1	40%	28%	2008	30.9%
Dec-09	S1	25.8%	Sep-09	S1	39%	26%	2009	30.4%
Dec-10	10K	25.8%	Jun-10	S1	39%	26%	2010	30.3%
Dec-11	10K	25.7%	Dec-11	10K	39%	25%	2011	30.3%
Dec-12	10K	25.7%	Dec-12	10K	39%	25%	2012	30.0%
Dec-13	10K	25.7%	Dec-13	10K	39%	26%	2013	29.9%
Dec-14	10K	26.0%	Dec-14	10K	39%	25%	2014: Changed format	
Dec-15	10K	25.6%	Dec-15	10K	39%	25%	After publication	
Dec-16	10K	25.6%	Dec-16	10K	39%	25%	Of my paper	
Dec-17	10K	25.6%	Dec-17	10K	39%	25%	Showing the above	
Dec-18	10K	25.6%	Dec-18	10K	39%	25%		
Dec-19	10K	25.6%	Dec-19	10K	39%	25%		

Key take away

- If the 'sophisticated investor' argument held true, then why are sophisticated investors treated like idiots in PPMs and other material? There would be no point! If this is shown it means some people believe in this, that they are impressed/influenced by this
- Are these documents kept confidential because they contain the Coca Cola recipe or because this content is embarrassing at daylight?
    - If PE is very good, why keeping all the information secret, or selectively choosing who to share it with?
    - If my numbers are wrong (as often claimed), then why aren't people showing the correct numbers?
- Why having PE fund managers playing by different rules when presenting their track records?
    - Didn't the SEC banned selective disclosure to equity analysts? And many similar things?
- Most expensive investment vehicles of all times (7% fees average) ➔ sales people can earn serious money by promoting PE (consultants, advisors,…). If you can do anything you want as long as you do not lie, many will be all too happy to get really creative
- Honest/good people are penalized and have no incentives to scream or to act differently