



**Report to Board of Administration**

Agenda of: **FEBRUARY 23, 2016**

From: Thomas Moutes, General Manager

ITEM: **IV-F**

**SUBJECT: NOTIFICATION OF COMMITMENT OF UP TO \$10 MILLION IN DFJ VENTURE XII, L.P.**

Recommendation:

That the Board receive and file this notice.

Discussion:

*Consultant Recommendation*

Portfolio Advisors, LLC (Portfolio Advisors), LACERS' Private Equity Consultant, recommended a commitment of up to \$10 million in DFJ Venture XII, L.P. (the Fund), a projected \$325 million venture capital strategy managed by DFJ Venture XII Partners, LLC (the GP). This recommendation is consistent with the Private Equity Investments 2016 Strategic Plan adopted by the Board on November 24, 2015.

*Key Terms of the Fund*

Investment Term	5 years
Fund Term	10 years; plus two 1-year extensions with GP discretion followed by a one 1-year extension with Advisory Committee consent
Management Fee	Investment Period: 2.5% of aggregate commitments (\$250,000 per year for LACERS during the investment period) Post-Investment Period: 25 basis point reduction each year
Carry / Preferred Return	20% if aggregate commitments generate over 2.5x return; 25% if aggregate commitments generate over 3x return; No preferred return
GP Commitment	At least \$16.25 million
Fee Offset	100%

*Background*

Draper Fisher Jurvetson (DFJ) was established as Draper Associates by Tim Draper in 1985. The firm was renamed DFJ with the addition of John Fisher in 1991 and Steve Jurvetson in 1995. Since inception, DFJ has invested in 590 venture and growth stage companies totaling over \$3.6 billion. The firm currently consists of 34 professionals and is based in Menlo Park, California. The venture team is led by three senior partners: Steve Jurvetson, Andreas Stavropoulos, and Josh Stein.

This is LACERS first commitment to DFJ's venture fund series and second commitment to a DFJ-sponsored fund. The prior three venture funds raised by the firm, DFJ Venture IX, L.P. (2007 vintage); DFJ Venture X, L.P. (2010 vintage); and DFJ Venture XI, L.P. (2014 vintage); have earned net IRRs of 12.0%, 11.0%, and 19.7%, respectively.<sup>1,2</sup> LACERS previously committed \$25 million to DFJ Growth 2013, L.P. (vintage 2013), which has earned a net IRR of 11.0%.<sup>1,2</sup>

#### *Investment Thesis*

The Fund seeks to invest in U.S.-based, technology-enabled, early stage venture companies, with additional opportunistic growth stage and international exposure. The areas of focus include internet, social and mobile-enabled consumer applications and services, next-generation enterprise application and infrastructure, and innovative technologies. Historically, the GP has made early stage investments in firms such as Hotmail, Box, Tesla, SolarCity, SpaceX, and Baidu. The GP adds value to portfolio firms by working with founders and providing strategic guidance, financial oversight, and executive recruiting.

For the Fund, the GP will construct a portfolio of 25 to 35 investments ranging from \$5 million to \$15 million per transaction, with no individual investment exceeding 20% of aggregate commitments. Furthermore, 80% - 90% of aggregate commitments are expected to be invested in North American domiciled enterprises. Exit strategies include initial public offerings and sales to financial institutions or strategic partners, such as other private equity firms or large enterprise firms.

#### *Placement Agent*

The GP does not outsource its fundraising and does not use placement agents.

#### *Staff Recommendation*

Staff concurred with Portfolio Advisors' recommendation. The commitment has been consummated pursuant to the LACERS Discretion in a Box Policy; no Board action is required.

#### *Strategic Plan Impact Statement*

Investment in DFJ Venture XII, L.P. will allow LACERS to maintain exposure to private equity, pursuant to the strategic objectives contained in the LACERS Private Equity Investments 2016 Strategic Plan by Portfolio Advisors, which is expected to help LACERS achieve satisfactory long-term risk adjusted investment returns (Goal IV).

This report was prepared by Jimmy Wang, Investment Officer I, Investment Division.

RJ:BF:JW:ag

Attachments: 1) Portfolio Advisors Recommendation  
2) Workforce Composition  
3) Discretion in a Box

<sup>1</sup>Performance as of September 30, 2015

<sup>2</sup>Performance data (1) does not necessarily accurately reflect the current or expected future performance of the Fund(s) or the fair value of LACERS' interest in the Fund(s), (2) should not be used to compare returns among multiple private equity funds and (3) has not been calculated, reviewed, verified or in any way sanctioned or approved by the general partner(s) or manager(s).



PORTFOLIO  
ADVISORS LLC

DFJ Venture XII, L.P.

February 2016



*FINAL INVESTMENT REPORT*

## FUND INFORMATION

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<b>General Partner:</b>	DFJ Venture XII Partners, LLC
<b>Fund:</b>	DFJ Venture XII, L.P.
<b>Firm Inception:</b>	1985
<b>Target Size / Hard Cap:</b>	\$325 million / \$350 million
<b>Strategy:</b>	Venture Capital
<b>Sub-Strategy:</b>	Early Stage
<b>Geography:</b>	United States
<b>Team:</b>	10 Officials/Managers, 7 Office/Clerical, 4 Operations, 4 Investments, 5 Finance, 3 Compliance, 1 IT
<b>Senior Partners:</b>	Steve Jurvetson, Andreas Stavropoulos, and Josh Stein
<b>Location:</b>	California
<b>Industries:</b>	Technology
<b>Investment Size:</b>	\$5 to \$15 million
<b>Recommendation:</b>	Up to \$10 million

## INVESTMENT HIGHLIGHTS

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- Highly Regarded, Established Venture Firm with Differentiated Sector Strategy
- Attractive Track Record
- Successful Generational Transition and Firm Reorganization to Focus on Core Strengths

# DFJ VENTURE XII, L.P.

## ◆ Firm and Organization Background

- Founded in 1985, the Firm will focus on U.S based, technology enabled early-stage venture companies, with some additional opportunistic growth stage and international exposure
- The investment team is comprised of three Managing Partners, three Partners, one Senior Associate, three analysts, and one Operating Partner
  - Managing Partners have worked together as a team since 2004
  - Partners have over 75+ years of investing experience
- Thirteen previous funds, twelve of which can be benchmarked (four 1<sup>st</sup> quartile, seven 2<sup>nd</sup> quartile and one 3<sup>rd</sup> quartile), have generated a gross MOIC of 2.2x as of September 30, 2015
- The General Partner will commit at least \$16.25 million to the Fund
- Fund XII represents LACERS' second investment in a DFJ-sponsored fund<sup>1</sup>

**DFJ Previous Fund Performance**

	Draper Associates Fund IV (1997)	DF Associates Fund III (1995)	DF Associates Fund IV (1997)	DFJ Fund V (1998)	DFJ Fund VI (1998)	DFJ ePlanet (1999)	DFJ Fund VII (2000)	DFJ Fund VIII (2004)	DFJ Growth 2006 (2006)	DFJ Fund IX (2007)	DFJ Fund X (2010)	DFJ Growth 2013 (2013)	DFJ Fund XI (2014)
<b>Net IRR<sup>2</sup></b>	28.0%	108.0%	181.0%	5.0%	(1.0%)	14.0%	(1.0%)	3.0%	16.0%	12.0%	16.2%	11.0%	19.7%
<b>Net MOIC<sup>2</sup></b>	2.5x	6.1x	6.6x	1.2x	0.9x	1.7x	0.9x	1.3x	2.1x	1.9x	1.5x	1.1x	1.2x
<b>Quartile Ranking<sup>3</sup></b>	2 <sup>nd</sup>	1 <sup>st</sup>	1 <sup>st</sup>	2 <sup>nd</sup>	2 <sup>nd</sup>	1 <sup>st</sup>	2 <sup>nd</sup>	2 <sup>nd</sup>	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	2 <sup>nd</sup>	NM

1) Excluding affiliates

2) Net IRR and net MOIC shown in the table above are as of September 30, 2015

3) Based on the Thomson One benchmark data for global buyout funds for each relevant vintage year as of June 30, 2015

## DFJ Venture XII, L.P. (Continued)

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### ◆ Investment Strategy

- Focus on early-stage technology enabled companies, who seek to disrupt large, incumbent-driven industries
  - Invest in extraordinary, passionate, often young entrepreneurs
  - Maintain flexibility to invest in later-stage or internationally domiciled companies if the investment opportunity offers an attractive risk-adjusted return
- Invest broadly in the technology sector, including:
  - internet, social and mobile-enabled consumer applications and services; next-generation enterprise applications and infrastructure; and disruptive “big-bet” technologies
  - Target markets with explosive growth potential, either existing today or likely to develop in the near future
- Current investment themes the team finds particularly interesting include:
  - Mobile-first reinvention of traditional industries
  - The impact of “bring-your-own-device” and software-as-a-service delivery models for enterprise IT
  - Machine learning platforms applied to big data sets in the cloud;
  - The impact of genomic research on synthetic biology and agriculture
  - New business models enabled by dramatically reduced costs to access space and autonomous transportation
- Seek to complete transactions in which DFJ can take a meaningful ownership position in early investment rounds; Serve as board members or board observers in the majority of their investments
  - Actively partner with founders by leading and pricing investment rounds
  - Allow for ample reserves for follow-on investments to “double down” on emerging winners
- Actively engage with portfolio companies to provide assistance with strategic guidance, financial oversight, and executive recruiting needs
- Construct a portfolio of approximately 25-35 investments with equity commitments typically ranging between \$5- \$15 million

## KEY TERMS

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<b>Commitment Period:</b>	Terminates on the fifth anniversary of the Initial Contribution Date, unless approved by the Advisory Committee.
<b>Fund Term:</b>	The Partnership will have a ten-year term with two one-year extensions at the option of the General Partner and additional one-year extensions at the option of the General Partner with the consent of the Advisory Committee.
<b>Management Fee:</b>	2.5% of the Partnership's committed capital from the Initial Contribution Date until the Fee Stepdown Date. Beginning on the Fee Stepdown Date, the annual management fee shall be reduced by twenty-five (25) basis points per year (i.e., the annual management fee shall be reduced from 2.5% to 2.25%, to 2.0%, to 1.75%, and so on). The "Fee Stepdown Date" shall mean the earlier of (i) the fifth anniversary of the Initial Contribution Date and (ii) the date that is three months after the commencement of a Suspension Period that has not been terminated prior to such date, unless such Suspension Period is subsequently terminated.
<b>Fee Offset:</b>	The management fee shall be reduced by the amount of director's fees, consulting fees, break-up fees, investment banking fees or equivalent compensation.
<b>Carry / Hurdle:</b>	20% carry to the GP if the return to the Limited Partners is 2.5x the aggregate commitments and 25% to the GP if the return to the Limited Partners is 3x. No preferred return.
<b>GP Commitment:</b>	Minimum of \$16.25 million.
<b>Key Man:</b>	If two or more of the Managing Partners (Stephen Jurvetson, Andreas Stavropoulos and Josh Stein) cease to actively participate in the affairs of the General Partner for any reason (a "Key Person Event"), then the General Partner shall provide notice to the Limited Partners of such Key Person Event within 30 days of the occurrence of such Key Person Event, and two-thirds in interest of the Limited Partners may elect to terminate the Partnership within the 90 day period following the date of such notice.

## COMPLIANCE MATTERS

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We have discussed with DFJ the applicable regulatory framework in which it and/or the Fund operates, certain compliance policies and procedures that DFJ currently has in place and/or that otherwise govern the operations and practices of the sponsor, its employees and/or the fund and generally found them to be reasonable. Starting in 2011, DFJ began filing its Form ADV with the U.S. Securities and Exchange Commission as an exempt reporting investment advisor. The following compliance policies and procedures of DFJ were discussed: allocations of investment opportunities, and their identification and handling of conflicts of interest.

# DISCLOSURE STATEMENT

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THE INFORMATION HEREIN IS NOT INTENDED TO PROVIDE, AND SHOULD NOT BE RELIED UPON FOR, ACCOUNTING, LEGAL OR TAX ADVICE OR INVESTMENT RECOMMENDATIONS. YOU SHOULD CONSULT YOUR TAX, LEGAL, ACCOUNTING OR OTHER ADVISORS ABOUT THE MATTERS DISCUSSED HEREIN.

THE FUND WILL NOT REGISTER AS INVESTMENT COMPANIES UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "COMPANY ACT") IN RELIANCE UPON THE EXEMPTION UNDER SECTION 3(C)(7) THEREUNDER, AND, ACCORDINGLY, THE PROVISIONS OF THE COMPANY ACT WILL NOT BE APPLICABLE TO THE FUND.

AN INVESTMENT IN THE FUND WILL BE SUITABLE ONLY FOR CERTAIN SOPHISTICATED INVESTORS WHO HAVE NO NEED FOR IMMEDIATE LIQUIDITY IN THEIR INVESTMENT. SUCH AN INVESTMENT WILL PROVIDE LIMITED LIQUIDITY BECAUSE INTERESTS IN THE FUND WILL NOT BE FREELY TRANSFERABLE AND MAY GENERALLY NOT BE WITHDRAWN. THERE WILL BE NO PUBLIC OR SECONDARY MARKET FOR INTERESTS IN THE FUND, AND IT IS NOT EXPECTED THAT A PUBLIC OR SECONDARY MARKET WILL DEVELOP.



## DISCLOSURE STATEMENT (CONTINUED)

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Vendor **Name** DFJ Venture XII Partners, LLC  
 Address **Address** 2882 Sand Hill Road, Suite 150  
 Menlo Park, CA 94025

Date Completed: **December 2, 2015**

Category **Asset Class** Private Equity

TOTAL COMPOSITION OF WORK FORCE									
<u>Occupation</u>	<u>African American Full Time</u>	<u>Hispanic Full Time</u>	<u>Asian or Pacific Islander Full Time</u>	<u>American Indian/Alaskan Native Full Time</u>	<u>Caucasian (Non Hispanic) Full Time</u>	<u>Total Employees Full Time</u>	<u>Percent (%) Minority Full Time</u>	<u>Gender Full Time</u>	
								<u>Male</u>	<u>Female</u>
Officials & Managers	0	0	1	0	9	10	10.00%	8	2
Professionals	0	0	0	0	0	0	N/A	0	0
Technicians	0	0	0	0	0	0	N/A	0	0
Sales Workers	0	0	0	0	0	0	N/A	0	0
Office/Clerical	0	1	0	0	6	7	14.29%	0	7
Semi-Skilled	0	0	0	0	0	0	N/A	0	0
Unskilled	0	0	0	0	0	0	N/A	0	0
Service Workers	0	0	0	0	0	0	N/A	0	0
Other (Operations)	0	0	1	0	3	4	25.00%	0	4
Other (Investments)	0	0	2	0	2	4	50.00%	3	1
Other (Finance)	0	0	3	0	2	5	60.00%	0	5
Other (Compliance)	0	2	0	0	1	3	66.67%	0	3
Other (IT)	0	0	0	0	1	1	0.00%	1	0
<b>Total</b>	<b>0</b>	<b>3</b>	<b>7</b>	<b>0</b>	<b>24</b>	<b>34</b>	<b>29.41%</b>	<b>12</b>	<b>22</b>

## Discretion in a Box

	<b>Role of Board</b>	<b>Role of Staff</b>	<b>Role of Private Equity Consultant</b>
Strategy/Policy	<ul style="list-style-type: none"> <li>• Select Private Equity Consultant.</li> <li>• Approve asset class funding level.</li> <li>• Annually review, provide input, and adopt investment policies, procedures, guidelines, allocation targets, ranges, and other assumptions.</li> </ul>	<ul style="list-style-type: none"> <li>• With Private Equity Consultant and General Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.</li> </ul>	<ul style="list-style-type: none"> <li>• With staff and General Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.</li> </ul>
Investment Selection	<ul style="list-style-type: none"> <li>• Review investment analysis reports.</li> <li>• Interview and approve investments in new management groups of amounts greater than \$25 million prior to investment.</li> <li>• Interview and approve investments in follow-on partnerships of amounts greater than \$40 million prior to investment.</li> <li>• May refer investments to Private Equity Consultant and staff for preliminary screening. Such referrals are to be considered only for the purpose of enlarging the candidate pool, and are not to be considered to be a Board endorsement or request for differentiated consideration.</li> </ul>	<ul style="list-style-type: none"> <li>• May refer investments to Private Equity Consultant for preliminary screening. Such referrals are to be considered only for the purpose of enlarging the candidate pool, and are not to be considered to be a staff endorsement or request for differentiated consideration.</li> <li>• Conduct meetings with potential new investments prior to recommending to the Board, if practical.</li> <li>• In conjunction with Private Equity Consultant, invest up to \$25 million for new partnerships, and up to \$40 million for follow-on funds without Board approval. If staff opposes, refer to Board for decision.</li> <li>• In conjunction with Private Equity Consultant, make recommendations to Board for approval for investments over \$25 million in new partnerships, or over \$40 million in follow-on funds.</li> <li>• Execute agreements.</li> </ul>	<ul style="list-style-type: none"> <li>• Conduct extensive analysis and due diligence on investments.</li> <li>• Recommend for Board approval investments over \$25 million for new managers, or over \$40 million in follow-on funds.</li> <li>• With staff concurrence, approve investment of up to \$25 million for new partnerships, and up to \$40 million in follow-on funds.</li> <li>• Provide investment analysis report for each new investment.</li> <li>• Communicate with staff regarding potential opportunities undergoing extensive analysis and due diligence.</li> <li>• Coordinate meetings between staff, Board, and general partner upon request.</li> <li>• Negotiate legal documents.</li> </ul>
Investment Monitoring	<ul style="list-style-type: none"> <li>• Review quarterly, annual, and other periodic monitoring reports.</li> </ul>	<ul style="list-style-type: none"> <li>• Review quarterly, annual and other periodic monitoring reports prepared by Private Equity Consultant.</li> <li>• Conduct meetings with existing managers periodically.</li> <li>• Attend annual partnership meetings when appropriate.</li> <li>• Fund capital calls and distributions.</li> <li>• Review Private Equity Consultant's recommendations on amendments.</li> <li>• Execute amendments to agreements.</li> </ul>	<ul style="list-style-type: none"> <li>• Maintain regular contact with existing managers in the portfolio to ascertain significant events within the portfolio.</li> <li>• Recommend amendments to staff for approval.</li> <li>• Provide quarterly, annual, and other periodic monitoring reports.</li> </ul>