



December 2013

Report No. 13-11

# Florida Growth Fund Investments Add Jobs and Result in Distributions to the Retirement Fund

## *at a glance*

As of July 2013, the Florida Growth Fund had invested \$317 million in 20 technology and growth companies and 20 private equity funds. Investments were dispersed across 12 counties, with amounts ranging from \$5 million in Manatee County to \$54.5 million in Palm Beach County. Since its inception, the fund has experienced a net internal rate of return of 17.44% and has distributed \$22.8 million to the Florida Retirement System.

The fund's investments also resulted in economic benefits to the state. Companies that received Florida Growth Fund investments reported creating 5,008 jobs as of June 30, 2013. This included 2,836 jobs created by technology and growth companies and 2,172 jobs created by companies in which private equity funds were invested. The companies reported paying an average annual salary of \$64,586, ranging from \$19,308 to \$97,569. In addition, growth and technology companies and private equity funds have made an estimated \$165.4 million in capital expenditures since the fund's inception.

## Scope

State law directs OPPAGA to annually review the State Board of Administration's Florida Growth Fund, which invests in technology and high-growth industries.<sup>1</sup> The review must include

- the dollar amount of fund assets invested in state technology and growth industries and the investments' percentage share of the system's trust fund net assets;
- a list of investments in state industries the board identified as technology and growth investments within each asset class; and
- an analysis of the direct and indirect economic benefits to the state resulting from the investments.

This sixth annual report addresses the board's progress in managing the Florida Growth Fund and presents information on the economic impact of fund investments.<sup>2</sup>

## Background

The State Board of Administration (SBA) is constitutionally authorized to oversee state funds, including investing state and local government assets.<sup>3</sup> The largest fund that the SBA manages is the Florida Retirement System Trust Fund, which had \$132.4 billion in assets as of June 30, 2013.

State law authorizes the SBA to invest up to 1.5% of net Florida Retirement System Trust Fund assets in technology and high-growth businesses with a significant presence in Florida. Growth and technology investments

<sup>2</sup> OPPAGA [Report No. 08-72](#), December 2008; OPPAGA [Report No. 09-45](#), December 2009; OPPAGA [Report No. 10-60](#), December 2010; OPPAGA [Report No. 11-26](#), December 2011; and OPPAGA [Report No. 13-01](#), January 2013.

<sup>3</sup> The board is composed of the Governor, Chief Financial Officer, and Attorney General.

<sup>1</sup> Section [215.474](#), F.S.

may include space technology, aerospace and aviation engineering, computer technology, renewable energy, and medical and life sciences.<sup>4</sup> The board makes these investments through the Florida Growth Fund, a limited liability company established for this purpose.

The SBA contracts with Hamilton Lane to manage the Florida Growth Fund.<sup>5</sup> The board has a specific budget that it uses to compensate the fund manager. As of June 30, 2013, the board had paid Hamilton Lane \$8.5 million since the fund's inception. The company may also participate in a percentage of the realized gains from the fund's investments if they exceed a stated preferred return.

The board's contract with Hamilton Lane requires the company to invest in technology and growth businesses domiciled in the state, with a principal address in the state, or that have an operational presence in the state if they are not headquartered here. The contract also requires the company to invest in Florida-based or Florida-focused investment management firms that directly invest in technology and growth businesses in the state. Hamilton Lane is required to provide quarterly and annual reports about its investments and to annually update an investment plan that the SBA uses to assess the fund's performance.<sup>6</sup>

SBA managers have directed Hamilton Lane to diversify investments in the fund to minimize risk. Consequently, the fund manager has invested in companies representing various industries, such as aerospace, medical products, telecommunications, and waste management. Similarly, private equity fund

investments are stratified across investment managers who invest in early-stage, growth-stage, and late-stage companies, as well as mezzanine-level companies and funds.

In addition, Hamilton Lane managers reported that they always work with lead investors or partners with expertise in specific industries. Further, the fund never contributes more than 50% of any single direct investment. Some investments are made in stages as companies or equity funds meet specific milestones. For example, Federal Food and Drug Administration approval of a company's medical product could be a milestone that triggers additional investment.

## Findings

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### ***The Florida Growth Fund has invested \$317 million in technology and growth companies and equity funds***

As of July 2013, the Florida Growth Fund had invested \$317 million in 20 technology and growth companies and 20 private equity funds. (See Exhibit 1.) The fund had a net internal rate of return of 17.44% since its inception.<sup>7</sup> The fund represents approximately 0.24% of the Florida Retirement System Trust Fund.

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<sup>4</sup> No more than 20%, in the aggregate, of the fund may be invested in alternative investments, such as equity funds, venture capital funds, or securities and investments that are not publicly traded and are not otherwise authorized by law. The investments must also be consistent with the board's fiduciary duties.

<sup>5</sup> Hamilton Lane is a Philadelphia-based investment company that has an office in Fort Lauderdale, as well as several other offices in the United States and overseas.

<sup>6</sup> The contract also requires Hamilton Lane to provide the SBA with all due diligence information, summary reports about each investment, all executed closing documents, the financial performance of the fund, and any other information the board requests.

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<sup>7</sup> The internal rate of return is defined as the rate of return that would make the present value of future cash flows from an investment plus the final market value of the investment equal the investment's current market price. The net internal rate of return includes Hamilton Lane's management fees and expenses, while the gross internal rate of return does not.

**Exhibit 1**  
**As of July 2013, the Florida Growth Fund Had Invested \$317.1 Million in 20 Companies and 20 Equity Funds**

Industry		Date Invested	Amount (in millions)
Technology and Growth Companies	Telecommunications	09/18/09	\$4.5
	Waste Management	11/03/09	7.0
	Advertising Services	12/30/09	1.5
	Aircraft Parts and Leasing	05/26/10	10.0
	Medical Devices	07/16/10	15.8
	Financial Services	08/16/10	2.4
	Software	09/28/10	5.4
	Medical Products	12/22/10	7.0
	Biotechnology	01/18/11	5.4
	Mobile Technology	01/20/11	7.5
	Chemicals	02/02/11	5.0
	Marketing	02/24/11	14.5
	Telecommunications	02/24/11	15.1
	Communications	04/11/11	5.0
	Technology	06/17/11	10.4
	Restaurants	02/13/12	5.0
	Food Services	04/09/12	4.0
	Security	05/24/12	10.0
	Packaging	08/20/12	10.0
	Distribution	03/15/13	15.2
<b>Total</b>			<b>\$160.7</b>
<b>Net Internal Rate of Return<sup>1</sup></b>			<b>18.86%</b>
Private Equity Funds	Health Care/Technology	10/01/09	15.0
	Technology/Services	05/17/10	15.0
	Diversified	07/02/10	5.0
	Diversified	07/02/10	2.5
	Defense/Commercial	07/20/10	7.5
	Biotechnology	01/21/11	15.0
	Diversified	02/23/11	1.4
	Distressed/Growth	04/26/11	5.0
	Distressed/Growth	04/26/11	5.0
	Growth Buyout	06/30/11	10.0
	Defense/Commercial	08/24/11	2.5
	Early Stage	02/20/12	10.0
	Technology/Health Care	02/28/12	10.0
	Technology/Health Care	03/23/12	7.5
	Manufacturing/Distribution	09/25/12	7.5
	Diversified Buyout	02/28/13	7.5
	Health Care	03/15/13	7.5
	Diversified	04/26/11	10.0
	Growth	04/12/13	5.0
	Life Sciences	07/16/13	7.5
<b>Total</b>			<b>\$156.4</b>
<b>Net Internal Rate of Return<sup>1</sup></b>			<b>10.40%</b>
<b>Grand Total</b>			<b>\$317.1</b>
<b>Net Internal Rate of Return<sup>1</sup></b>			<b>17.44%</b>

<sup>1</sup> Net internal rate of return figures are as of March 31, 2013.

Source: State Board of Administration and Hamilton Lane.

The 20 technology and growth companies shown in Exhibit 1 are all Florida-based and have a net internal rate of return of 18.86%. At least 50% of the funds invested in 20 private equity funds are in Florida-based investments and have a net internal rate of return of 10.40%.<sup>8</sup> The fund's overall net internal rate of return of 17.44% represents the average annual return earned on the entire fund since its inception.

Fund investments are distributed across the state. Florida Growth Fund direct and private equity investments are dispersed across 12 counties. Investment amounts range from \$5 million in Manatee County to \$54.5 million in Palm Beach County. (See Exhibit 2.)

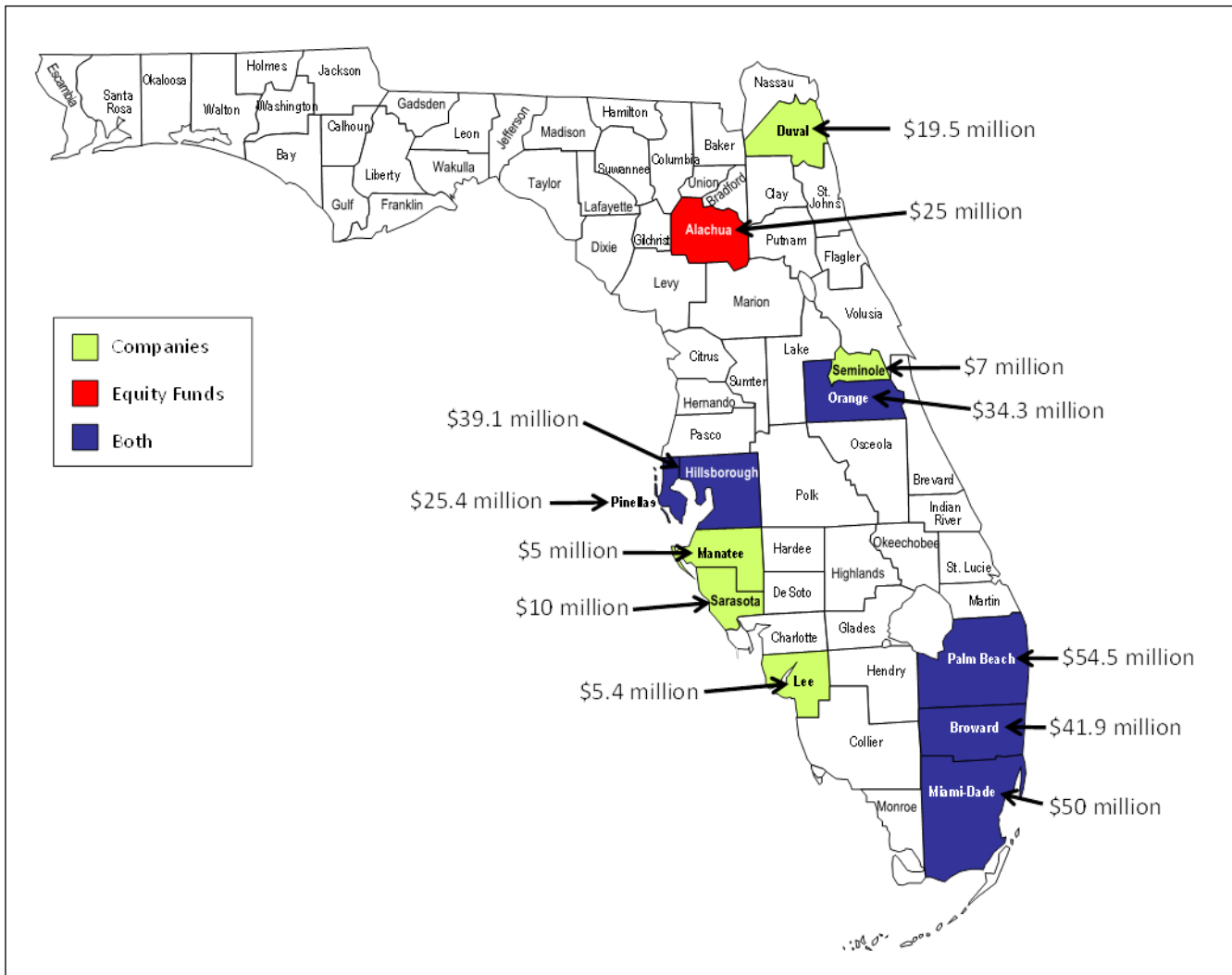
While the private equity funds have offices in specific counties, they may invest in other counties, states, and countries. Thus, the economic impact of the private equity investments likely differs from that of the direct investments in technology and growth companies domiciled in counties.

Further diversification of investments is likely. The SBA authorized Hamilton Lane to invest a first tranche of \$250 million when the fund was established in 2009 and a second tranche of \$250 million in September 2011.<sup>9</sup> In 2013, to meet Florida small businesses' need for debt capital, SBA managers initiated negotiations with Hamilton Lane to devote approximately \$100 million of uninvested funds from the second tranche to invest in direct credit and mezzanine debt investments. In addition to providing businesses access to capital that banks may be unwilling or unable to provide, this effort will further diversify Florida Growth Fund investments. At the SBA's request, Hamilton Lane has added credit expertise to the staff who will be dedicated to this endeavor. In addition, SBA managers may consider authorizing Hamilton Lane to begin investing a third tranche of \$250 million in 2014 dependent upon the amount of capital committed and the performance of the first two tranches.

<sup>8</sup> In some cases, Hamilton Lane purchases a sidecar or side fund that contains all Florida-based investments, while the main fund has a more regional focus.

<sup>9</sup> A tranche is a portion of a larger security that can be divided and sold to investors.

**Exhibit 2  
Florida Growth Fund Investments Are Distributed Across 12 Counties**



Source: OPPAGA analysis of data provided by the State Board of Administration and Hamilton Lane.

***Companies receiving Florida Growth Fund investments continue to create jobs and provide other economic benefits***

State Board of Administration managers reported that the Florida Growth Fund distributed \$22.8 million to the Florida Retirement System Trust Fund as a result of its investment activity from inception to June 30, 2013. These distributions included dividends and interest, return of capital, and capital gains resulting from dispositions. For example, since our last report, the fund exited two investments that achieved positive returns. One was a technology company that returned

2.5 times its invested capital during 3.7 years. The other was a digital media company that returned 4.9 times its invested capital during three years. The first company added 80 employees during the investment period, while the second added 50 employees.

According to Hamilton Lane managers, companies in which the Florida Growth Fund has invested reported creating a total of 5,008 jobs as of June 30, 2013, a net increase of 844 since September 30, 2012. This included 2,836 jobs created by technology and growth companies and 2,172 jobs created by companies in which private equity funds were invested. (See Exhibit 3.)

**Exhibit 3  
Florida Growth Fund Companies Reported  
Creating 5,008 Jobs Since the Fund’s Inception**

Industry		Date Invested	Jobs Created
Technology and Growth Companies	Technology <sup>1</sup>	09/18/09	80
	Waste Management	11/03/09	748
	Advertising Services <sup>1</sup>	12/30/09	50
	Aircraft Parts and Leasing	05/26/10	55
	Medical Devices	07/16/10	38
	Financial Services	08/16/10	(5)
	Software	09/28/10	13
	Medical Products	12/22/10	49
	Biotechnology	01/18/11	2
	Mobile Technology	01/20/11	2
	Chemicals	02/02/11	5
	Marketing	02/24/11	1,212
	Telecommunications	02/24/11	221
	Communications	04/11/11	3
	Technology	06/17/11	19
	Restaurants	02/13/12	194
	Food Services	04/09/12	14
	Security	05/24/12	42
	Packaging	08/20/12	62
Distribution	03/15/13	32	
<b>Total</b>			<b>2,836</b>
Private Equity Funds	Health	10/01/09	
	Care/Technology <sup>2</sup>		(36)
	Technology/Services <sup>2</sup>	05/17/10	(18)
	Diversified	07/02/10	1,346
	Distressed Growth	04/26/11	4
	Growth/Buyout	06/30/11	20
	Technology/Health Care	02/28/12	4
	Technology/Health Care	03/23/12	1
	Healthcare	03/15/13	4
	Exited Companies		847
<b>Total</b>			<b>2,172</b>
<b>Grand Total</b>			<b>5,008</b>

<sup>1</sup> These companies were sold since the last reporting period; data shown is latest available.

<sup>2</sup> Information for companies that have exited the fund is not available.

Source: State Board of Administration and Hamilton Lane.

In addition to job growth, the SBA and Hamilton Lane managers reported that the companies and funds paid an average annual salary of approximately \$64,586; this exceeds the state’s annual mean wage of \$40,930.<sup>10</sup> Salaries ranged from \$19,308 to \$97,569. Hamilton Lane also reported that six growth and technology companies and two private equity funds reported making an estimated \$44 million in capital expenditures between October 1, 2012, and June 30, 2013, bringing total capital expenditures to \$165.4 million since the Florida Growth Fund’s inception.

The SBA and Hamilton Lane will continue efforts to identify and gather additional data that will enable the Office of Economic and Demographic Research to conduct the most comprehensive possible analysis of the fund’s economic benefit to the state.<sup>11</sup> This data includes

- employee position titles;
- the state’s investment as a percentage of total investment;
- revenues for all activities and those activities related to the Florida Growth Fund; and
- capital investments.

## Agency Response

In accordance with the provisions of s. 11.51(5), *Florida Statutes*, a draft of our report was submitted to the Executive Director of the State Board of Administration for review and response. The Director’s written response to this report is in Appendix A.

<sup>10</sup> U.S. Bureau of Labor Statistics, *May 2012 State Occupational Employment and Wage Estimates: Florida*.

<sup>11</sup> Section 215.474, *Florida Statutes*, authorizes OPPAGA to consult with the State Board of Administration, Department of Revenue, Office of Economic and Demographic Research (EDR), and other entities as necessary to obtain and evaluate the information necessary to determine the economic benefits of the fund.

## Appendix A

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**STATE BOARD OF ADMINISTRATION  
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December 16, 2013

Mr. R. Philip Twogood  
Coordinator  
Office of Program Policy Analysis & Government Accountability (OPPAGA)  
Claude Pepper Building, Room 312  
111 West Madison Street  
Tallahassee, FL 32399

Dear Mr. Twogood:

We reviewed the preliminary findings and recommendations included in OPPAGA's draft report titled, *Florida Growth Fund Investments Add Jobs and Result in Distributions to the Retirement Fund*. We have no objection or questions in regard to the information presented in the report. We will continue efforts to obtain necessary information needed to determine the economic benefits of the Florida Growth Fund.

As always, we appreciate OPPAGA's diligence and professionalism.

Sincerely,

A handwritten signature in blue ink that reads "Ashbel C. Williams".

Ashbel C. Williams  
Executive Director & Chief Investment Officer

cc: Ms. Florida Rivera-Alsing, Chief Audit Executive, State Board of Administration  
Ms. Melinda Miguel, Chief Inspector General, Executive Office of the Governor



# *The Florida Legislature*

## *Office of Program Policy Analysis and Government Accountability*

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