



December 2015

Report No. 15-14

# Florida Growth Fund Expands and Diversifies Investments

## *at a glance*

As of June 30, 2015, the Florida Growth Fund had invested \$402.4 million in 30 technology and growth companies and 23 private equity funds. Investments were dispersed across 12 counties, with amounts ranging from \$5.8 million in Lee County to \$78.8 million in Palm Beach County. Since its inception, the fund has experienced a net internal rate of return of 11.1% and has distributed \$143.3 million to the Florida Retirement System.

The fund's investments also resulted in reported economic benefits to the state. Companies that received Florida Growth Fund investments reported creating 14,545 jobs as of June 30, 2015. This included 3,386 jobs created by technology and growth companies and 11,159 jobs created by companies in which private equity funds were invested. The companies reported paying an average annual salary of \$67,536. In addition, 13 growth and technology companies and 7 private equity funds made an estimated \$60.8 million in capital expenditures between June 30, 2014, and June 30, 2015, bringing total capital expenditures to \$312.6 million since the fund's inception.

Due to the success of the Florida Growth Fund, SBA managers authorized Hamilton Lane to initiate Florida Growth Fund II, which started making investments in December 2014. To date, the fund has made one fund commitment and three co-investments, totaling \$32.5 million in capital.

## 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 eighth 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

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

<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; [OPPAGA Report No. 13-01](#), January 2013; [OPPAGA Report No. 13-11](#), December 2013; and [OPPAGA Report No. 14-11](#), December 2014.

government assets.<sup>3</sup> The largest fund that the SBA manages is the Florida Retirement System (FRS) Trust Fund, which had \$148 billion in assets as of June 30, 2015.

State law authorizes the SBA to invest up to 1.5% of net FRS Trust Fund assets in technology and high-growth businesses with a significant presence in Florida. Growth and technology investments 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> As of June 30, 2015, the board had paid Hamilton Lane \$13.4 million in management fees to manage three separate tranches of capital since the fund's inception in 2009. The company may also receive a percentage of the distributions from the fund if its investments produce returns.

The board's contract with Hamilton Lane requires the company to invest in technology and growth businesses domiciled in Florida, with a principal address in the state, or that have an operational presence if they are not headquartered in the state.<sup>6</sup> 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.<sup>7</sup> 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>8</sup>

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

## Findings

### ***The Florida Growth Fund has committed to invest \$402.4 million in technology and growth companies and private equity funds***

As of June 30, 2015, the Florida Growth Fund had committed to invest \$402.4 million in 30 technology and growth companies and 23 private equity funds. (See Exhibit 1.) As of June 30, 2015, the fund had a gross internal rate of return of 13.9% and a net internal rate of return of 11.1% since its inception; this represents the growth in the value of the entire fund since its inception.<sup>9</sup> The fund represents approximately 0.20% of the FRS Trust Fund.

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

<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 a Florida office in Fort Lauderdale, as well as several other offices in the United States and overseas.

<sup>6</sup> SBA managers have directed Hamilton Lane to diversify investments in the fund in order to minimize risk. Consequently, the fund manager has invested in companies representing various industries such as aerospace, medical products, telecommunications, and waste management.

<sup>7</sup> Private equity fund investments and growth and technology investments are stratified among companies that invest in early-stage, growth-stage, and later-stage as well as in debt investments in credit worthy companies.

<sup>8</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.

<sup>9</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 June 30, 2015, the Florida Growth Fund Had Committed to Invest \$402.4 Million in 30 Companies and 23 Private Equity Funds**

<b>Technology and Growth Companies</b>	<b>Date Invested</b>	<b>Amount (in Millions)</b>	<b>Private Equity Funds</b>	<b>Date Invested</b>	<b>Amount (in Millions)</b>
Telecommunications	09/18/09	\$4.5	Health Care/Technology	10/01/09	\$15.0
Waste Management	11/03/09	7.1	Technology/Services	05/17/10	15.0
Advertising Services	12/30/09	1.5	Diversified	07/02/10	6.2
Aircraft Parts and Leasing	05/26/10	10.0	Diversified	07/02/10	1.4
Medical Devices	07/16/10	20.4	Defense/Commercial	07/20/10	7.5
Financial Services	08/16/10	2.4	Biotechnology	01/21/11	15.0
Software	09/28/10	5.8	Distressed/Growth	04/26/11	5.0
Medical Products	12/22/10	7.5	Distressed/Growth	04/26/11	5.0
Biotechnology	01/18/11	5.4	Diversified	04/26/11	11.3
Mobile Technology	01/20/11	8.7	Growth/Buyout	06/30/11	10.0
Chemicals	02/02/11	5.0	Defense/Commercial	08/24/11	2.5
Marketing	02/24/11	14.5	Early Stage	02/20/12	10.0
Telecommunications	02/24/11	15.1	Technology/Health Care	02/28/12	10.0
Communications	04/11/11	5.0	Technology/Health Care	03/23/12	7.5
Technology	06/17/11	10.4	Manufacturing/Distribution	09/25/12	7.5
Restaurants	02/13/12	6.8	Diversified Buyout	02/28/13	7.5
Food Services	04/09/12	4.8	Health Care	03/15/13	7.5
Security	05/24/12	10.0	Growth	04/12/13	5.0
Packaging	08/20/12	10.0	Life Sciences	07/16/13	7.5
Distribution	03/15/13	15.2	Health Care/Industrial/Aerospace	12/23/13	7.5
Restaurants	11/19/13	6.3	Diversified/Mezzanine	03/24/14	4.4
Health Care IT	12/26/13	5.1	Health Care/Technology	04/01/14	15.0
Clinics	03/26/14	5.0	Diversified/Mezzanine	04/03/14	5.0
E-learning <sup>1</sup>	05/08/14	6.0			
Health Care	05/16/14	2.0			
Mobile Technology	06/11/14	3.0			
Health Care <sup>1</sup>	06/26/14	3.8			
Travel Technology <sup>1</sup>	11/05/14	4.0			
Health Care <sup>1</sup>	02/26/15	3.0			
Restaurants <sup>1</sup>	06/15/15	5.7			
<b>Subtotal</b>		<b>\$214.1</b>			<b>\$188.3</b>
<b>Gross Internal Rate of Return<sup>2</sup></b>		<b>14.4%</b>			<b>11.9%</b>
<b>Total</b>					
<b>\$402.4 million</b>					
<b>Gross Internal Rate of Return<sup>2</sup></b>					
<b>13.9%</b>					
<b>Net Internal rate of Return<sup>2</sup></b>					
<b>11.1%</b>					

<sup>1</sup> Investment was part of effort to use uninvested capital to invest in credit opportunities; the initiative is described in more detail on page 5.

<sup>2</sup> Internal rate of return figures are as of June 30, 2015.

Sources: State Board of Administration and Hamilton Lane.

Most fund investments are in Florida-based companies; four industries account for over 50% of direct investments. Eighty-one percent of total fund commitments are in Florida-based businesses. According to SBA and Hamilton Lane managers, 100% of the technology and growth companies that receive direct investments have a significant Florida presence that ranges from being headquartered

in the state to having a significant portion of their employees as well as core divisions or business functions (e.g., engineering, sales, and production) in the state. As of June 30, 2015, investments in these companies resulted in a gross internal rate of return of 14.4%. SBA managers also reported that approximately 29% of funds invested in private equity funds are in Florida-based investments. As of

June 30, 2015, investments in these funds have resulted in a gross internal rate of return of 11.9%.<sup>10</sup>

Florida Growth Fund direct investments include a wide range of industries, from restaurants to medical device manufacturers to waste management companies. However, 54.6% of the investments fall into four industry areas.<sup>11</sup>

- Information and Electronic Sales – 20.5%
- Professional, Scientific, and Technical Services – 19.8%
- Health Care and Social Assistance – 8.2%
- Accommodations and Food Service – 6.1%

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<sup>10</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>11</sup> Businesses' industry areas were determined using North American Industry Classification System codes. The following codes were used: Information and Electronic Sales (51 and 443); Professional, Scientific, and Technical Services (54); Health Care and Social Assistance (62); and Accommodations and Food Service (72).

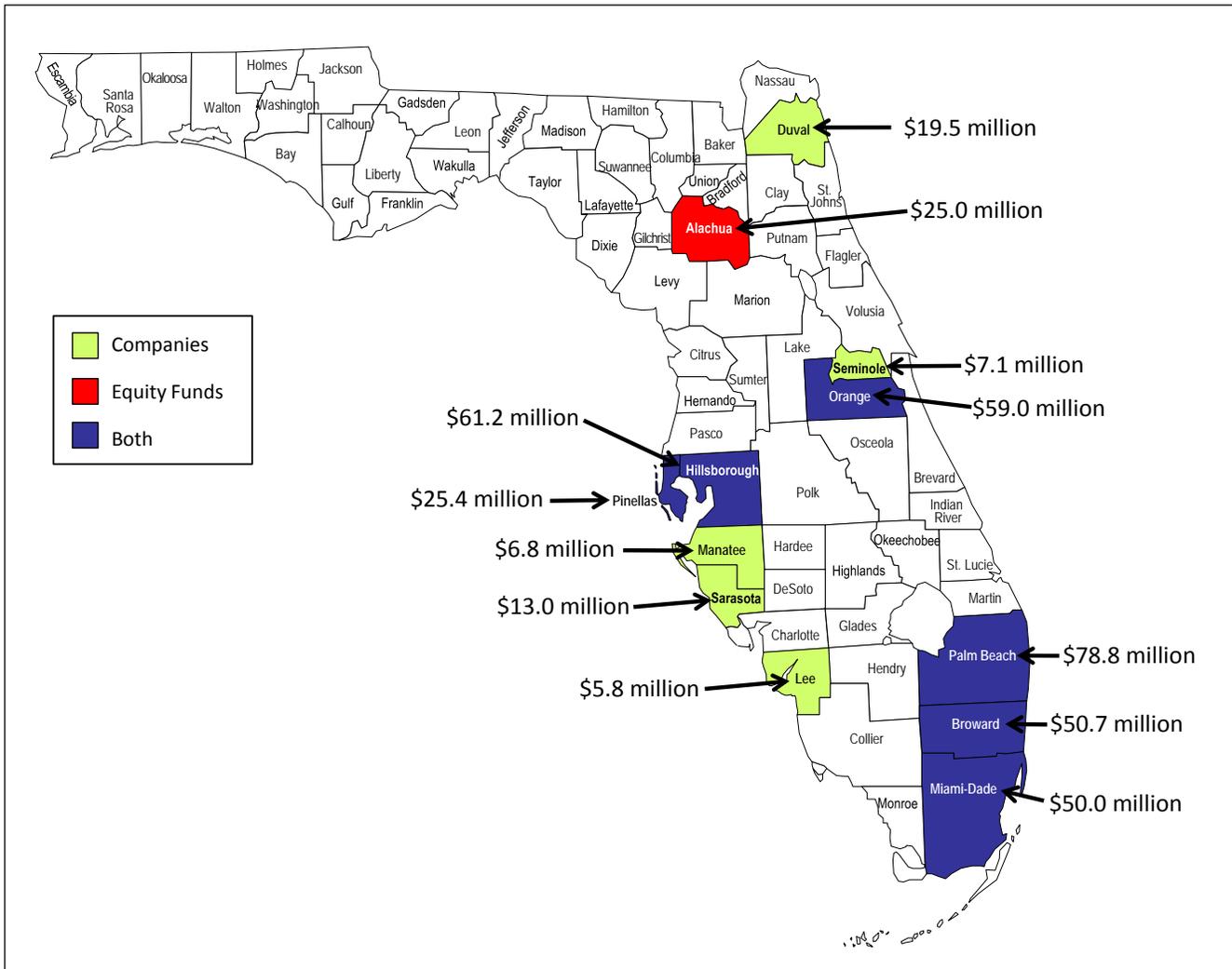
Two of these industries are among Florida's growth leaders. Specifically, over a five-year period (2009 to 2014), the state's growth in gross domestic product from accommodations and food services and health care and social assistance outpaced national growth in these industries by 1.6% and 1.4%, respectively.

Fund investments are distributed across the state; five counties account for a significant portion. Florida Growth Fund direct and private equity investments are dispersed across 12 counties. Investment amounts range from \$5.8 million in Lee County to \$78.8 million in Palm Beach County. Direct and private investments in five counties—Broward, Hillsborough, Miami-Dade, Orange, and Palm Beach—account for 74.5% of the funds that have been invested since the program's inception. (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 equity investments likely differs from that of the direct investments in technology and growth companies domiciled in counties.

**Exhibit 2**

**Florida Growth Fund Investments Totaling \$402.4 Million Are Distributed Across 12 Counties**



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

***Florida Growth Fund investments have become more diverse over time***

The SBA authorized Hamilton Lane to invest a first tranche of \$250 million when it established the fund in 2009 and a second tranche of \$250 million in 2011.<sup>12</sup> In 2013, to address Florida small businesses’ need for debt capital, SBA managers initiated negotiations with Hamilton Lane to devote approximately \$100 million of uninvested capital from the second tranche to invest in credit opportunities.

According to SBA and Hamilton Lane managers, the credit tranche is a source of capital for credit-worthy Florida companies seeking growth. It also complements the other Florida Growth Fund tranches by creating an ongoing cash flow stream through interest payments that are typically monthly or quarterly. Fund managers seek to invest \$3 million to \$15 million per transaction, with transactions varied by industry and loan type. As of June 30, 2015, the fund had made five investments representing \$22.5 million of invested capital.

<sup>12</sup> A tranche is a portion of a larger security.

SBA managers also authorized Hamilton Lane to initiate Florida Growth Fund II, which started making investments in December 2014. To date, it has made one fund commitment and three co-investments, totaling \$32.5 million in capital. All three co-investments were completed after June 30, 2015. The investment strategy for Florida Growth Fund II is similar to the strategy of Florida Growth Fund I—making investments in growth and technology companies in the state as well as private equity funds that invest in Florida.

In addition to receiving interest income from investments, the Florida Growth Fund also receives distributions resulting from the fund taking equity positions in investments. For example, after the loan related to one investment was paid off, the fund retained an interest in the business with the expectation that the business’ value will appreciate and provide further distributions.

SBA managers reported that the fund distributed \$143.3 million to the FRS Trust Fund as a result of its investment activity from inception to June 30, 2015. These distributions included dividends and interest, return of capital, and capital gains resulting from dispositions. Nearly half of the distributions, or \$66.9 million, resulted from two full investment exits after June 30, 2014.

***Companies receiving Florida Growth Fund investments continue to create jobs and make capital expenditures***

According to Hamilton Lane managers, companies in which the Florida Growth Fund has invested reported creating a total of 14,545 jobs as of June 30, 2015, a net increase of 3,420 since June 30, 2014. (See Exhibit 3.) This included 3,386 jobs created by technology and growth companies and 11,159 jobs created by companies in which private equity funds were invested. The type of job created through co-investments and private equity fund investments varied widely, from warehouse workers to registered nurses to vice presidents of marketing.

**Exhibit 3  
Florida Growth Fund Companies Reported  
Creating 14,545 Jobs Since the Fund’s Inception**

	Industry	Date Invested	Jobs Created (Lost)
Technology and Growth Companies	Aircraft Parts and Leasing	05/26/10	30
	Medical Devices	07/16/10	17
	Financial Services	08/16/10	(44)
	Software	09/28/10	21
	Medical Products	12/22/10	51
	Biotechnology	01/18/11	7
	Mobile Technology	01/20/11	0
	Chemicals	02/02/11	10
	Telecommunications	02/24/11	185
	Communications	04/11/11	67
	Technology	06/17/11	22
	Restaurants	02/13/12	379
	Food Services	04/09/12	139
	Security	05/24/12	44
	Packaging	08/20/12	149
	Distribution	03/15/13	206
	Restaurants	11/19/13	(163)
	Health Care IT	12/26/13	25
	Clinics	03/26/14	1
	E-learning	05/08/14	8
Health Care	05/16/14	32	
Mobile Technology	06/11/14	(29)	
Health Care	06/26/14	6	
Travel Technology	11/05/14	0	
Health Care	02/26/15	(7)	
Restaurants	06/15/15	0	
Exited Companies <sup>1</sup>			2,230
	<b>Subtotal</b>		<b>3,386</b>
Private Equity Funds	Health Care/ Technology <sup>1</sup>	10/01/09	858
	Technology/Services <sup>1</sup>	05/17/10	433
	Diversified <sup>1</sup>	07/02/10	9,095
	Defense/Commercial	07/20/10	96
	Distressed/Growth <sup>1</sup>	04/26/11	148
	Growth/Buyout	06/30/11	0
	Early Stage	02/20/12	20
	Technology/Health Care <sup>1</sup>	02/28/12	51
	Technology/Health Care	03/23/12	(5)
	Manufacturing/Distribution	09/25/12	68
	Health Care	03/15/13	23
	Growth	04/12/13	342
	Life Sciences	07/16/13	6
	HealthCare/Industrial/ Aerospace	12/23/13	22
		<b>Subtotal</b>	
	<b>Total</b>		<b>14,545</b>

<sup>1</sup> Data includes information for companies that were previously reported; these companies have since been exited.

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 \$67,536; this exceeds the state's annual mean wage of \$41,820.<sup>13</sup> Salaries ranged from \$15,600 to \$475,000. Hamilton Lane also reported that 13 growth and technology companies and 7 private equity funds reported making an estimated \$60.8 million in capital expenditures between

June 30, 2014, and June 30, 2015, bringing total capital expenditures to \$312.6 million since the Florida Growth Fund's inception.

## Agency Response ———

In accordance with the provisions of s. 11.51(2), *Florida Statutes*, we submitted a draft of our report to the Office of the State Courts Administrator for their review and response. Their response has been reproduced in Appendix A.

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<sup>13</sup> *State Occupational Employment and Wage Estimates: Florida*, U.S. Bureau of Labor Statistics, May 2014.

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OPPAGA supports the Florida Legislature by providing data, evaluative research, and objective analyses that assist legislative budget and policy deliberations. This project was conducted in accordance with applicable evaluation standards. Copies of this report in print or alternate accessible format may be obtained by telephone (850/488-0021), by FAX (850/487-9213), in person, or by mail (OPPAGA Report Production, Claude Pepper Building, Room 312, 111 W. Madison St., Tallahassee, FL 32399-1475). Cover photo by Mark Foley.

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R. Philip Twogood, Coordinator

## Appendix A

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STATE BOARD OF ADMINISTRATION  
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December 2, 2015

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 Expands and Diversifies Investments*. We have no objection or questions in regard to the information presented in the report.

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