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Private equity provides outsized returns, yet is a small part of Florida's public pension portfolio



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The Nov. 1 gathering at Triad Retail Media says a lot about the success of the Florida Growth Fund. Triad was bursting at the seams in Westshore, and it moved to fill a whole building in Carillon. Employees crowded the rafters of a courtyard as the mayor came by to cut a ribbon to celebrate the growth.

Triad expanded on the heels of a private equity infusion by the Growth Fund, which uses Florida public pension system assets to inject equity into technology and high-growth companies and investment firms in the Sunshine State.

Following the lead of other states and expanding the pool of dollars available to the fund could go a long way to closing a \$21 billion gap in Florida's retirement system obligations, while also providing capital for growth and new jobs at entrepreneurial firms statewide.

Cautious approach

Since the Florida Growth Fund, a limited liability company, was created in 2009 through legislation sponsored by State Sen. Jeremy Ring, D-Margate, companies backed by the fund have created more than 5,000 jobs at an average salary of more than \$64,500 a year.

The four-year-old fund's gross internal rate of return was 17.4 percent as of March 31, the most recent date for which data was available. That exceeds returns over a similar period of time for other types of investment by the \$140 billion state pension plan, which provides retirement checks for police officers, firefighters, teachers and other public servants.

There was a \$21 billion gap between the amount the state is expected to have to pay out in retirement benefits and the value of the assets it has to pay those benefits with, as of an Oct. 2 report.

Officials with the State Board of Administration, the agency that oversees Florida's retirement

**\$289
million**

Investment commitment by Florida Growth Fund as of March 31, 2013

17.44 percent

Gross internal rate of return since inception in 2009

\$64,500

Average salary at jobs created through Florida Growth Fund investment

5,008

Jobs created by companies with Florida Growth Funding backing

system, are skittish about allocating a bigger percentage of assets in the public pension system to the fund. The SBA has allocated \$500 million to the fund, about 0.3 percent of state pension fund assets.

Although Ring's legislation would allow the SBA to allocate up to \$2 billion for the Growth Fund, "we sized the opportunity set and concluded we have the right size," said Ash Williams, executive director and chief investment officer for the SBA. "It's important not to put too much money in a market. What you will do is drive up the price in a way that will diminish the return."

The Growth Fund is the most visible vehicle Florida's pension system uses for private equity investing and the only one dedicated to backing Florida firms. Total private equity investing by the SBA equals about 5 percent of pension fund assets.

Other states' public pension funds have allocated much bigger percentages of their assets to private equity. Private equity investments made up 10.3 percent of total investments by 146 public pension funds nationwide, according to a recent study by the Private Equity Growth Capital Council, a Washington, D.C.-based trade association.

Both Williams and Ring are concerned about Florida's capacity for quality private equity investments. "You don't just throw money at [potential investment targets]," said Ring, an entrepreneur and former executive with Yahoo! Inc. (Nasdaq: YHOO).

Ring said early stage companies in Florida are not investable businesses for Growth Fund, because they would raise the risk profile. What's needed before more state pension dollars are allocated to the Growth Fund is the conversion of young Florida firms into thriving businesses, Ring said. That requires a state support system that includes an incubator, seed capital fund and a fund of funds that invests in venture capital - all elements already in place, he said.

As of March 31, the Growth Fund had deployed about \$289 million of the \$500 million allocated to it. Managers are using some of the untapped existing allocation in the Growth Fund to establish a separate credit fund to make loans to Florida business.

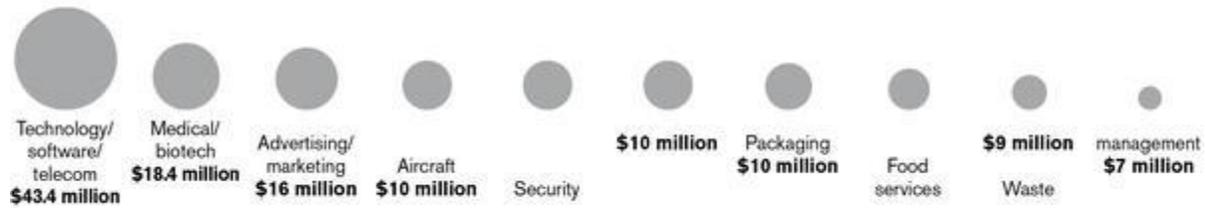
"I think it was prudent on their part to say 'let's see if we could do this,'" said Greg Baty, who runs the Florida Growth Fund. Baty is a principal with Hamilton Lane, the Philadelphia-based asset management firm hired by the SBA to develop and manage the fund. "We're hoping we've proved it and we're hoping we will continue to increase the size of this fund in a very successful way."

Returns three times investment

One of the Growth Fund's early investments was in Triad. In December 2009, the Growth Fund quietly co-invested in Triad with H.I.G. Ventures LLC in South Florida.

"We really appreciate the Florida Growth Fund for having confidence in us," said Greg Murtagh, Triad's CEO. "You can see today that really helped us grow."

Florida Growth Fund investment breakdown



Source: OPPAGA

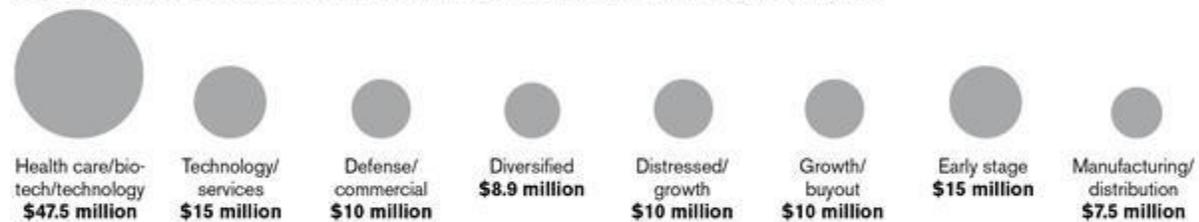
By the time H.I.G. and Florida Growth Fund sold their investment to Detroit-based Rockbridge Growth Equity three years later, Triad’s annual revenue swelled from \$70 million to \$170 million, said John Kim, H.I.G. managing director. Triad’s staff has grown from 150 at the time of the investment to about 330 now, Murtagh said. In October, Triad moved from a 30,000-square-foot office in Westshore to a 65,000-square-foot national headquarters in Carillon Park.

The investment also provided strong returns to the retirement system.

“For a technology investment like this, we would be very happy with a three time return on our capital invested, and this far exceeded that,” Baty said.

Florida Growth Fund investment breakdown

As of Sept. 30, 2012, the Florida Growth Fund committed to invest \$123.9 million in 15 private equity funds



Source: OPPAGA

The Growth Fund got a return just under three times its investment in Voxeo, an Orlando software firm, the fund’s initial investment and the only investment besides Triad that it has exited.

State pension plans have been investing in private equity for years, but the Florida Growth Fund’s focus on injecting equity into Florida firms makes it unusual, said Jonathan Taylor, former chairman and one of the founders of Voxeo.

“If you are picking the good companies, you have both the possibility and potential for the upside of the investment itself and the added incentive of helping stimulate the Florida economy,” said Taylor, whose current businesses include EntreNext Ventures, an early investment firm that gives startups money and knowledge to grow.

The state should be investing in entrepreneurs, Murtagh said.

“The vast majority of job growth is created by entrepreneurs, not by large corporations,” Murtagh said. And while he doesn’t claim to be an expert on private equity, “it seems to me that if you want to get superior returns, the only place you should be is within the private equity market, as long as

you pick your shots in terms of developing a portfolio.”

Return – not economic development objectives – is the most important criteria for investment by the fund, Baty said. By keeping returns as a first priority “that’s how you ensure these programs last,” said Dave Helgerson, who runs the in-state investment programs for Hamilton Lane.

The Private Equity Growth Capital Council study found that private equity delivered a 10 percent annualized return to the median public pension over the last 10 years.

“There is no doubt that private equity is the single best asset class for public pensions and has consistently provided the best returns over a long horizon,” said Noah Theran, a council spokesman. “Private equity is a very important piece of pension portfolios that helps strengthen the retirement security of millions of Americans across the country.”

Editor Alexis Muellner contributed to this report.

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<http://www.bizjournals.com/tampabay/print-edition/2013/11/15/private-equity-provides-outsized.html?page=all>