



SBA Has Implemented the Florida Growth Fund; Economic Impact of Investments May Not Be Apparent for Several Years

at a glance

The State Board of Administration has implemented its authority to invest in Florida-based technology and growth companies and businesses that have a significant presence in the state. In June 2009, the board created the \$250 million Florida Growth Fund and selected Hamilton Lane to manage fund investments.

As of December 2009, Florida Growth Fund managers had invested \$26.5 million in two technology and growth companies and one private equity fund that invest in such companies. It is too early to assess the economic benefits of these investments, which may not be realized for several years.

Scope

The Legislature has directed OPPAGA to annually review the State Board of Administration's Florida Growth Fund, which invests in technology and high-growth industries targeted to benefit Florida's economy.^{1,2} This report addresses the board's progress toward implementing the program.

¹ Section [215.474](#), F.S.

² OPPAGA's initial report, *Economically Targeted*

Background

The Florida State Board of Administration (SBA) is composed of the Governor, Chief Financial Officer, and Attorney General. Article XII, Section 9, of the Florida Constitution grants the board authority to oversee state funds, including pension funds. Specifically, the SBA has oversight of the Florida Retirement System's (FRS) Pension Plan, which had approximately \$99.7 billion in assets as of June 30, 2009. Although the board makes some of its investments directly, it generally hires and oversees external fund managers to research, invest, and manage monies in the FRS Pension Plan portfolio.

In 2008, the Legislature authorized the SBA to invest up to 1.5% of net state retirement system trust fund assets in technology and high-growth investments of certain businesses with a significant presence in Florida.³ The Legislature determined that such investments would economically benefit the state. These investments may include space technology, aerospace and aviation engineering, computer technology, renewable energy, and medical and life sciences.

Investment Program Under Development, OPPAGA [Report No. 08-72](#), December 2008, noted that the board was negotiating with investment firms to implement the program.

³ [Chapter 2008-31](#), *Laws of Florida*. Prior to passage of this legislation, the SBA invested pension funds in Florida-centered technology and high-growth industries as part of its overall investment portfolio. Although they potentially benefit the state, these investments are not economically targeted. As of June 30, 2009, these investments included \$606 million, or 0.61%, of the state's pension funds.

Findings

The State Board of Administration has implemented the provisions of Ch. 2008-31, *Laws of Florida*, by establishing a technology and high-growth investment program. This program, the Florida Growth Fund, is managed by a private investment company. As of December 2009, the fund had made its first three investments. It is too early to assess the economic benefits of these investments, which may not be realized for several years.

SBA established the technology and growth investment program and selected a firm to manage program investments

The SBA began to implement the provisions of Ch. 2008-31, *Laws of Florida*, in September 2008, when it issued an Invitation to Negotiate to investment firms. This solicitation invited bids from firms that were interested in contracting with the board to invest in technology and high-growth businesses that are domiciled in Florida or with a principal address in the state. Responding investment firms were required to have five years of experience managing technology or high-growth investments and to have managed or raised \$100 million in assets. In addition, the firms were required to have three years of returns on any investments the board deemed relevant to the technology and growth investment legislation. Twenty-four companies responded to the invitation to negotiate.

In June 2009, the SBA established a limited liability company called the Florida Growth Fund, which is authorized to invest \$250 million of capital, on behalf of the board, in technology and growth business based in the state.⁴ The board selected Hamilton Lane to manage this fund. Hamilton Lane is a Philadelphia-based investment company with offices in other parts of the United States and overseas. Hamilton Lane established an office in

Fort Lauderdale after it became manager of the Florida Growth Fund.

SBA's contract with Hamilton Lane contemplates that the fund will invest in technology and growth businesses domiciled in the state or whose principal addresses are in the state, or businesses that have a demonstrable and material operational presence in the state although they are not headquartered here. The contract also contemplates that the fund will invest in Florida-based investment management funds that directly invest in technology and growth businesses. In addition, the contract requires Hamilton Lane to

- provide the SBA with quarterly and annual reports on the fund's activities;
- prepare a strategic plan for the fund's investments and promote the fund in Florida and nationally as a source of investment capital; and
- create an investment plan to be updated annually that includes portfolio construction guidelines, investment restrictions, benchmark targets, and an overview of the target market.⁵

The contract also requires Hamilton Lane to provide the State Board of Administration 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 SBA requests. In addition to these contractual requirements, SBA staff monitors the Florida Growth Fund's status through monthly meetings with Hamilton Lane representatives. These discussions focus on fund performance, investment strategy, and ongoing activities related to evaluation of investments and promotion of the fund.

The SBA pays Hamilton Lane an annually contracted management fee from monies allocated for this purpose. As of December 2009, the SBA had paid the firm \$969,231. Hamilton Lane may also receive a percentage of the distributions from the fund if its investments produce sufficiently high returns.

⁴ The \$250 million currently authorized to be invested by the fund is significantly less than 1.5% of net state retirement system trust fund assets. The SBA intends to evaluate the fund's performance after four years of operation to determine if additional funds should be invested.

⁵ Hamilton Lane expects to complete the strategic plan and investment plan no later than July 1, 2010.

Hamilton Lane has invested \$26.5 million in two technology and growth companies and one private equity fund

As of December 2009, Hamilton Lane had committed to investing \$26.5 million, or 11% of the Florida Growth Fund’s total assets, in two technology and growth companies and one fund that invests in various companies (see Exhibit 1). The two individual companies represent co-investments, meaning that they were made in partnership with private equity funds. All three investments are located in Florida.

Exhibit 1

The Florida Growth Fund Has Invested \$26.5 Million in Three Companies as of December 2009

Company Description	Amount Invested
A Longwood-based waste management company that provides non-hazardous solid waste services	\$7 million
An Orlando-based telecommunications company that provides customers with interactive voice services	\$4.5 million
A St. Petersburg-based private equity fund that invests in Florida healthcare, communications, and technology companies	\$15 million
Total	\$26.5 million

Source: Hamilton Lane.

Current investments are too recent to result in measurable economic benefits to the state

It is too early to assess the economic benefits of the Florida Growth Fund, which may not be realized for several years. The State Board of Administration does not expect to earn

competitive rates of return on some investments for 8 to 10 years, because they could involve relatively young or start-up companies. Such companies often have high failure rates and have difficulty attracting early-stage capital. To address this risk, SBA managers reported that they have directed Hamilton Lane to diversify investments in the fund.

To report the progress of the Florida Growth Fund, OPPAGA will, in consultation with the Office of Economic and Demographic Research, measure the direct and indirect economic impact of fund investments using an input-output model. This model assesses the direct and indirect economic effects of specific investments. Direct impacts are those created by the initial investment, which in turn create indirect impacts such as expenditures in related industries. OPPAGA will measure the direct impact of Florida Growth Fund investments in technology sectors, and indirect impacts including increases in expenditures in related industries, tax revenues, jobs, and salaries. OPPAGA also will report on whether these investments are projected to provide competitive rates of return to the Florida Retirement System Pension Plan before collateral economic benefits are considered.

Agency Response

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

OPPAGA supports the Florida Legislature by providing evaluative research and objective analyses to promote government accountability and the efficient and effective use of public resources. 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 (850/487-3804), 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.

Florida Monitor: www.oppaga.state.fl.us

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Appendix A



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December 28, 2009

Mr. Gary R. VanLandingham
Director
OPPAGA
Claude Pepper Building, Room 312
111 West Madison Street
Tallahassee, Florida 32399

Dear Mr. VanLandingham:

We reviewed OPPAGA's preliminary and tentative report entitled, *SBA Has Implemented the Florida Growth Fund; Economic Impact of Investments May Not Be Apparent for Several Years*. We have no objection or questions in regard to the information presented in the report.

We welcome OPPAGA's efforts and, as always, we appreciate your diligence and professionalism.

Sincerely,

A handwritten signature in blue ink that reads "Kevin Sigrist For ACW".

Ashbel C. Williams
Executive Director & CIO

cc: Ms. Florida Rivera-Alsing, Chief of Internal Audit, State Board of Administration
Ms. Kim Mills, Director of Auditing, Chief Inspector General's Office