



January 2013

Report No. 13-01

# Florida Growth Fund Investments Have Increased and Recipients Report Employment Growth and Expanded Business Activities

## *at a glance*

As of September 30, 2012, the Florida Growth Fund had committed to invest \$255 million in 19 technology and growth companies and 15 private equity funds. As of June 30, 2012, the fund had a net internal rate of return of 21.03% since its inception.

Companies that received Florida Growth Fund investments reported creating 4,164 jobs as of September 30, 2012. This included 2,110 jobs created by technology and growth companies and 2,054 jobs created by companies in which private equity funds were invested. The companies also reported paying an average annual salary of approximately \$58,000. Salaries ranged from \$23,500 to \$110,000 per year.

OPPAGA will continue to collaborate with the State Board of Administration, Hamilton Lane, and the Office of Economic and Demographic Research to identify and gather the data necessary to conduct a comprehensive analysis of the Florida Growth Fund's economic benefit to the state. To facilitate such analysis in future reports, companies receiving fund investments should be encouraged to provide the data to the fund manager by September 30 each year.

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

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

<sup>2</sup> *Economically Targeted Investment Program Under Development*, OPPAGA [Report No. 08-72](#), December 2008; *SBA Has Implemented the Florida Growth Fund; Economic Impact of Investments May Not Be Apparent for Several Years*, OPPAGA [Report No. 09-45](#), December 2009; *The Florida Growth Fund Added Investments in 2010, but It Is Still Too Early to Assess Total Economic Impact*, OPPAGA [Report No. 10-60](#), December 2010; and *Florida Growth Fund Investments Increase; Additional Data Needed to Estimate Economic Benefit*, OPPAGA [Report No. 11-26](#), December 2011.

## 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 \$122,745,973,551 in assets as of June 30, 2012.<sup>4</sup>

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 may include space technology, aerospace and aviation engineering, computer technology, renewable energy, and medical and life sciences.<sup>5</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>6</sup> The board compensates the fund manager from funds that it budgets for this purpose. As of June 30, 2012, the board had paid Hamilton Lane \$5,991,026 since the growth fund's inception. The company may also receive a percentage of the distributions from the fund if its investments produce returns above a defined investment 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-

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

<sup>4</sup> The SBA was investing pension funds in Florida-centered technology and high-growth industries prior to passage of the legislation as part of its overall investment portfolio. Although they potentially benefit the state, these investments are not economically targeted. As of June 30, 2012, these investments included \$631.9 million or 0.51% of the state's pension funds.

<sup>5</sup> No more than 10% 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>6</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.

focused investment management firms that directly invest in technology and growth businesses. 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>7</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. Investments are stratified among companies that invest in early-stage, growth-stage, and mezzanine-level companies and funds.

To further minimize risk, Hamilton Lane managers reported that they always work with co-investors or partners with expertise in specific industries and who serve as lead investors. The Florida Growth Fund never contributes more than 50% of any single investment. Moreover, some investments are made in stages as companies 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

### ***The Florida Growth Fund has committed to invest \$255 million in technology and growth companies***

As of September 30, 2012, the Florida Growth Fund had committed to invest \$255 million in 19 technology and growth companies and 15 private equity funds. (See Exhibit 1.) As of June 30, 2012, the fund had a net internal rate of return of 21.03% since its inception.<sup>8</sup>

<sup>7</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>8</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 does not include Hamilton Lane's management fees and expenses. Net of Hamilton Lane's fees, internal rate of return as of June 30, 2012 is 16.4%.

Investments are Florida-based; most realized returns are in the future. The 19 technology and growth companies shown in Exhibit 1 are all Florida-based and have a net internal rate of return of 22.66% as of June 30, 2012. At least 50% of the funds invested in private equity funds are in Florida-based investments and have a net internal rate of return of 12.56%.<sup>9</sup> The fund's overall net internal rate of return of 21.03% represents the growth in the value of the entire fund since its inception. The net internal rate of return for each investment varied widely primarily based on the relatively recent nature of the investments; this is typical of new private equity investments. For example, the range for technology and growth companies was -21.66% to 199.14%, while the range for private equity funds was -59.60% to 84.11% as of June 30, 2012.

SBA managers reported that the fund distributed \$8.6 million to the Florida Retirement System Trust Fund as a result of its investment activity. This included proceeds from the sale of portfolio companies by a buyout fund, dividend distributions by a mezzanine fund, and funds from a company that went through recapitalization.

However, most Florida Growth Fund investments do not currently pay dividends or capital gains. To realize an actual return, the state must sell all or part of an investment that has increased in value. According to the SBA and Hamilton Lane managers, an overall industry guideline for holding the types of investments in the Florida Growth Fund is three to six years.

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. As of September 30, 2012 the fund manager had committed approximately \$42.5 million from the second tranche.<sup>10</sup>

<sup>9</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>10</sup> A tranche is a portion of a larger security that can be divided and sold to investors.

### Exhibit 1 As of September 30, 2012, the Florida Growth Fund Had Committed to Invest \$255 Million in 19 Companies and 15 Equity Funds

Industry	Date Committed	Amount Invested
<b>Technology and Growth Companies</b>		
Telecommunications	09/18/09	\$4.5 million
Advertising Services	12/30/09	1.5 million
Waste Management	11/03/09	7.0 million
Aircraft Parts and Leasing	05/26/10	10.0 million
Medical Devices	07/16/10	12.8 million
Financial Services	08/16/10	2.3 million
Software	09/28/10	4.0 million
Medical Products	12/22/10	2.0 million
Biotechnology	01/18/11	3.6 million
Mobile Technology	01/20/11	6.1 million
Chemicals	02/02/11	5.0 million
Marketing	02/24/11	14.5 million
Telecommunications	02/24/11	15.1 million
Communications	04/11/11	5.0 million
Technology	06/17/11	8.7 million
Restaurants	02/13/12	5.0 million
Food Services	04/09/12	4.0 million
Security	05/24/12	10.0 million
Packaging <sup>1</sup>	08/20/12	10.0 million
<b>Total</b>		<b>\$131.1 million</b>
<b>Net Internal Rate of Return<sup>2</sup></b>		<b>22.66%</b>
<b>Private Equity Funds</b>		
Health Care/Technology	10/01/09	\$15.0 million
Technology/Services	05/17/10	15.0 million
Diversified	07/02/10	5.0 million
Diversified	07/02/10	2.5 million
Defense/Commercial	07/20/10	7.5 million
Biotechnology	01/21/11	15.0 million
Diversified	02/23/11	1.4 million
Distressed/Growth	04/26/11	5.0 million
Distressed/Growth	04/26/11	5.0 million
Growth Buyout	06/30/11	10.0 million
Defense/Commercial	08/24/11	2.5 million
Early Stage	02/20/12	15.0 million
Technology/Health Care	02/28/12	10.0 million
Technology/Health Care	03/23/12	7.5 million
Manufacturing/Distribution <sup>1</sup>	09/25/12	7.5 million
<b>Total</b>		<b>\$123.9 million</b>
<b>Net Internal Rate of Return<sup>2</sup></b>		<b>12.56%</b>
<b>Grand Total</b>		<b>\$255.0 million</b>
<b>Net Internal Rate of Return<sup>2</sup></b>		<b>21.03%</b>

<sup>1</sup> Not included in internal rate of return as investments was post June 30, 2012.

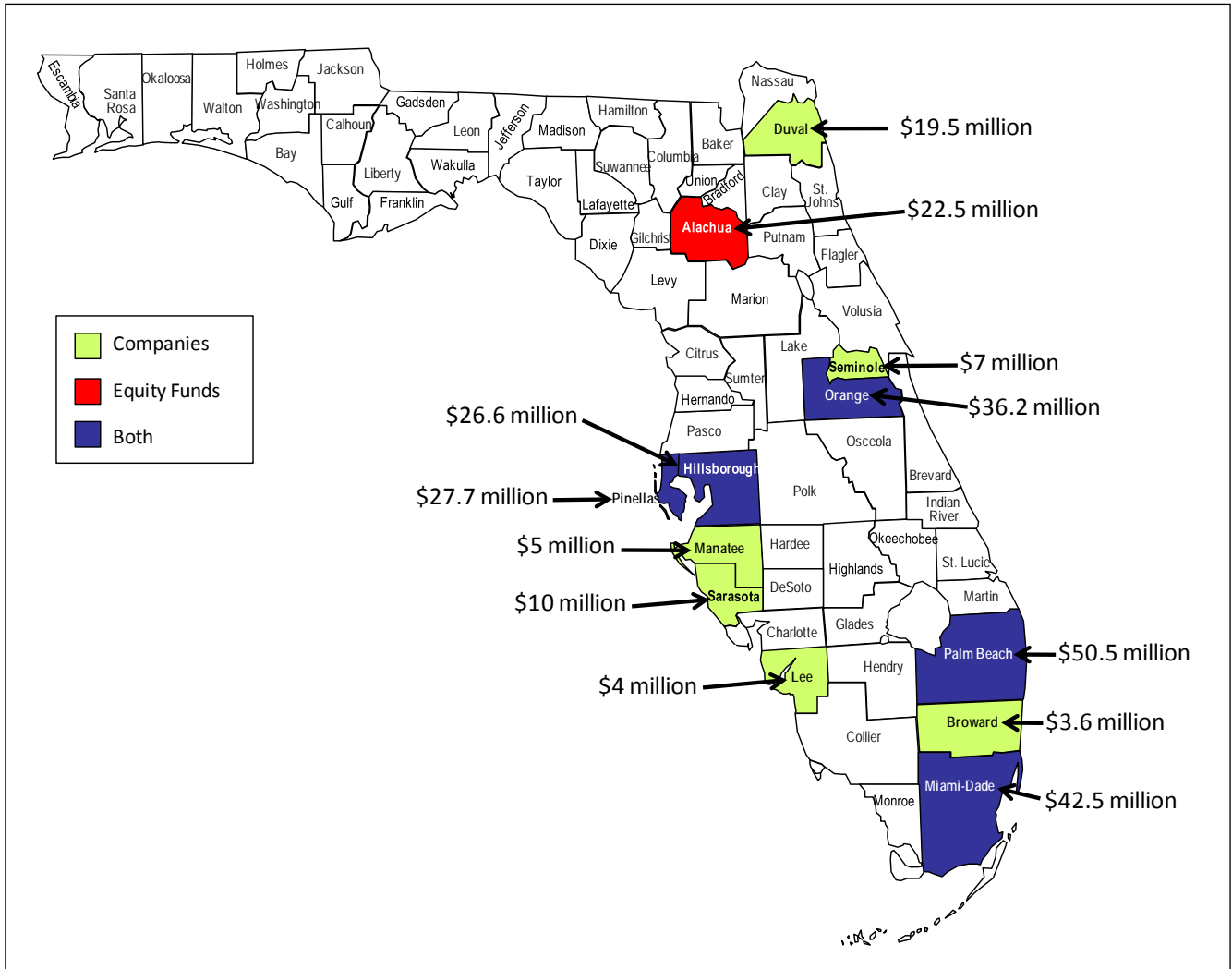
<sup>2</sup> Net internal rate of return figures are as of June 30, 2012.

Source: State Board of Administration and Hamilton Lane.

As shown in Exhibit 2, Florida Growth Fund direct and private equity investments are spread across 12 counties in the state, with amounts ranging from \$3.6 million in Broward County to \$50.5 million in Palm Beach County. 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 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 expand business activities***

Based on data provided by Florida Growth Fund investment recipients, State Board of Administration managers reported that companies in which the fund has invested had created 4,164 jobs as of September 30, 2012. This included 2,110 jobs created by technology and growth companies and 2,054 jobs created by companies in which private equity funds were invested. (See Exhibit 3.)

#### **Exhibit 3 Florida Growth Fund Companies Have Created 4,164 Jobs Since the Fund's Inception**

Industry	Date Invested	Jobs Created
<b>Technology and Growth Companies</b>		
Marketing	02/24/11	992
Waste Management	11/03/09	595
Telecommunications	02/24/11	185
Restaurants	02/13/12	24
Food Services	04/09/12	10
Chemicals	02/02/11	6
Advertising Services	12/30/09	50
Technology	09/18/09	61
Aircraft Parts and Leasing	05/26/10	95
Communications	04/11/11	14
Medical Devices	07/16/10	38
Software	09/28/10	-19
Mobile Technology	01/20/11	1
Biotechnology	01/18/11	1
Financial Services	08/16/10	4
Technology	06/17/11	18
Medial Products	12/22/10	-2
Security	05/24/12	30
Packaging	08/20/12	7
<b>Total</b>		<b>2,110</b>
<b>Private Equity Funds</b>		
Diversified	07/02/10	1,201
Health Care/Technology	10/01/09	794
Technology/Service	05/17/10	21
Biotechnology/Medical	01/21/11	30
Technology/Health Care	03/23/12	8
<b>Total</b>		<b>2,054</b>
<b>Grand Total</b>		<b>4,164</b>

Source: State Board of Administration and Hamilton Lane.

In addition to job growth, the SBA and Hamilton Lane reported that the companies paid an average annual salary of approximately \$58,000. Salaries ranged from a low of \$23,500 to a high of \$110,000. Hamilton Lane also reported that eight growth and technology companies and five private equity funds made an estimated \$121.4 million in capital expenditures since the Florida Growth Fund's inception. All of the capital expenditures were made in Florida, including those made by equity funds that invest in both Florida- and non-Florida based companies.

### ***More information is needed for an in-depth economic analysis of the Florida Growth Fund***

Florida law requires OPPAGA to analyze the direct and indirect economic benefits to the state resulting from Florida Growth Fund investments. To facilitate such analysis, s. 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.

Direct and indirect economic benefits can be estimated using an input-output model such as the statewide model or REMI.<sup>11, 12</sup> Using various data points, EDR would run the model for Florida Growth Fund investments. Model results would be reported in the aggregate as a measure of the fund's overall economic impact, not on an investment-by-investment basis.

<sup>11</sup> EDR contracted for the development of the statewide model to address concerns about other models not having the capacity to take into account Florida's statutory tax and budget structure. The statewide model is a "Computable General Equilibrium" model that uses economic data to estimate how an economy may react to changes in policy, technology, or other factors.

<sup>12</sup> Regional Economic Models, Inc. (REMI) is a private group that develops economic-forecasting and policy-analysis models. A REMI model is "an input-output structural econometric model that incorporates inter-industry transactions and endogenous final demand feedbacks. REMI also allows for substitution among factors of production in response to changes in relative factor costs, migration in response to changes in expected income, and wage responses to changes in labor market conditions."

According to EDR officials, the most effective use of the model requires the collection of various data from the companies and equity funds in which the Florida Growth Fund is invested. This data includes

- number of jobs created;
- average employee wages;
- employee position titles;
- the state's investment as a percentage of total investment;
- date of each Florida Growth Fund investment, including distributions made in stages;
- revenues for all activities and those activities related to the Florida Growth Fund; and
- capital investments.

Citing confidentiality concerns, companies in which the Florida Growth Fund has invested provided most but not all of this data, which limited our ability to conduct an extensive economic analysis using input-output models such as REMI or the statewide model.

OPPAGA will continue to collaborate with the State Board of Administration, Hamilton Lane, and the Office of Economic and Demographic Research to identify and gather the data necessary to conduct the most comprehensive possible analysis of the fund's economic benefit to the state. To facilitate such an analysis in future reports, companies receiving fund investments should be encouraged to submit the data to the fund manager by September 30 each year, which would allow OPPAGA to provide the information to EDR for evaluation using an input-output model.

## Agency Response ---

In accordance with the provisions of s. 11.51(2), *Florida Statutes*, a draft of our report was submitted to the State Board of Administration for review and response. The written response has been reproduced in Appendix A.

**Appendix A**

---



**STATE BOARD OF ADMINISTRATION  
OF FLORIDA**

1801 HERMITAGE BOULEVARD  
TALLAHASSEE, FLORIDA 32308  
(850) 488-4406

POST OFFICE BOX 13300  
32317-3300

RICK SCOTT  
GOVERNOR  
AS CHAIRMAN  
JEFF ATWATER  
CHIEF FINANCIAL OFFICER  
AS TREASURER  
PAM BONDI  
ATTORNEY GENERAL  
AS SECRETARY  
ASH WILLIAMS  
EXECUTIVE DIRECTOR & CIO

January 9, 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 Have Increased and Recipients Report Employment Growth and Expanded Business Activities*. As recommended, we commit to work with Hamilton Lane and the companies receiving fund investments to ensure that requested data is available by September 30<sup>th</sup> of each year.

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. Kim Mills, Director of Auditing, Chief Inspector General's Office

# *The Florida Legislature*

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

---



OPPAGA provides performance and accountability information about Florida government in several ways.

- [Reports](#) deliver program evaluation and policy analysis to assist the Legislature in overseeing government operations, developing policy choices, and making Florida government more efficient and effective.
  - [PolicyCasts](#), short narrated slide presentations, provide bottom-line briefings of findings and recommendations for select reports.
  - Government Program Summaries (GPS), an online encyclopedia, [www.oppaga.state.fl.us/government](http://www.oppaga.state.fl.us/government), provides descriptive, evaluative, and performance information on more than 200 Florida state government programs.
  - [PolicyNotes](#), an electronic newsletter, delivers brief announcements of research reports, conferences, and other resources of interest for Florida's policy research and program evaluation community.
  - Visit OPPAGA's website at [www.oppaga.state.fl.us](http://www.oppaga.state.fl.us)
- 

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 (850/487-3804), 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.

**OPPAGA website:** [www.oppaga.state.fl.us](http://www.oppaga.state.fl.us)

Project conducted by Darwin Gamble and Larry Novey  
Kara Collins-Gomez (850/487-4257), Staff Director  
R. Philip Twogood, Coordinator