



Florida Growth Fund Investments Continue to Add Jobs and Provide Distributions to the FRS

at a glance

As of June 30, 2014, the Florida Growth Fund had invested \$381.5 million in 27 technology and growth companies and 24 private equity funds. Investments were dispersed across 12 counties, with amounts ranging from \$5.8 million in Lee County to \$71.4 million in Palm Beach County. Since its inception, the fund has experienced a net internal rate of return of 14.96% and has distributed \$49.6 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 11,125 jobs as of June 30, 2014. This included 2,926 jobs created by technology and growth companies and 8,199 jobs created by companies in which private equity funds were invested. The companies reported paying an average annual salary of \$65,080. In addition, 13 growth and technology companies and 13 private equity funds made an estimated \$86.3 million in capital expenditures between June 30, 2013, and June 30, 2014, bringing total capital expenditures to \$251.7 million 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.¹ 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 seventh annual report addresses the board's progress in managing the Florida Growth Fund and presents information on the economic impact of fund investments.²

Background

The State Board of Administration (SBA) is constitutionally authorized to oversee state funds, including investing state and local government assets.³ The largest fund that the SBA manages is the Florida Retirement System (FRS) Trust Fund, which had \$149.1 billion in assets as of June 30, 2014.

¹ Section [215.474](#), *F.S.*

² 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; and OPPAGA [Report No. 13-11](#), December 2013.

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

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.⁴ 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.⁵ The board has a specific budget that it uses to compensate the fund manager. As of June 30, 2014, the board had paid Hamilton Lane \$11.8 million 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. 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. 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.⁶

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. Similarly, 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.

In addition, 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 \$381.5 million in technology and growth companies and private equity funds

As of June 30, 2014, the Florida Growth Fund had committed to invest \$381.5 million in 27 technology and growth companies and 24 private equity funds. (See Exhibit 1.) As of June 30, 2014, the fund had a gross internal rate of return of 18.25% and a net internal rate of return of 14.96% since its inception; this represents the growth in the value of the entire fund since its inception.⁷ The fund represents approximately 0.20% of the Florida Retirement System Trust Fund.

⁴ 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.

⁵ 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.

⁶ 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.

⁷ 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, 2014, the Florida Growth Fund Had Committed to Invest \$381.5 Million in 27 Companies and 24 Private Equity Funds

| Technology and Growth Companies | Date Invested | Amount (in millions) | Private Equity Funds | Date Invested | Amount (in Millions) |
|--|----------------------|-----------------------------|----------------------------------|----------------------|-----------------------------|
| 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 | 5.0 |
| Aircraft Parts and Leasing | 05/26/10 | 10.0 | Diversified | 07/02/10 | 2.5 |
| Medical Devices | 07/16/10 | 18.9 | Diversified | 07/02/10 | 1.4 |
| Financial Services | 08/16/10 | 2.4 | Defense/Commercial | 07/20/10 | 7.5 |
| Software | 09/28/10 | 5.4 | Biotechnology | 01/21/11 | 15.0 |
| Medical products | 12/22/10 | 7.0 | Distressed/Growth | 04/26/11 | 5.0 |
| Biotechnology | 01/18/11 | 5.4 | Distressed/Growth | 04/26/11 | 5.0 |
| Mobile Technology | 01/20/11 | 7.5 | Diversified | 04/26/11 | 10.0 |
| Chemicals | 02/02/11 | 5.0 | Growth/Buyout | 06/30/11 | 10.0 |
| Marketing | 02/24/11 | 14.5 | Defense/Commercial | 08/24/11 | 2.5 |
| Telecommunications | 02/24/11 | 15.1 | Early Stage | 02/20/12 | 10.0 |
| Communications | 04/11/11 | 5.0 | Technology/Health Care | 02/28/12 | 10.0 |
| Technology | 06/17/11 | 10.4 | Technology/Health Care | 03/23/12 | 7.5 |
| Restaurants | 02/13/12 | 5.9 | Manufacturing/Distribution | 09/25/12 | 7.5 |
| Food Services | 04/09/12 | 4.8 | Diversified Buyout | 02/28/13 | 7.5 |
| Security | 05/24/12 | 10.0 | Health Care | 03/15/13 | 7.5 |
| Packaging | 08/20/12 | 10.0 | Growth | 04/12/13 | 5.0 |
| Distribution | 03/15/13 | 15.2 | Life Sciences | 07/16/13 | 7.5 |
| Restaurants | 11/19/13 | 6.3 | Health Care/Industrial/Aerospace | 12/23/13 | 7.5 |
| Health Care IT | 12/26/13 | 5.1 | Diversified/Mezzanine | 03/24/14 | 4.4 |
| Clinics | 03/26/14 | 5.0 | Health Care/Technology | 04/01/14 | 11.0 |
| E-learning | 05/08/14 | 6.0 | Diversified/Mezzanine | 04/03/14 | 5.0 |
| Health Care | 05/16/14 | 2.0 | | | |
| Mobile Technology | 06/11/14 | 3.0 | | | |
| Health Care | 06/26/14 | 3.8 | | | |
| Subtotal | | \$197.2 | | | \$184.3 |
| Net Internal Rate of Return¹ | | 20.02% | | | 10.46% |
| Total: \$381.5 | | | | | |
| Total Net Internal Rate of Return¹: 14.96% | | | | | |

¹ Net internal rate of return figures are as of June 30, 2014. The gross internal rate of return as of that date was 18.25%.

Source: State Board of Administration and Hamilton Lane.

According to SBA and Hamilton Lane managers, all of the technology and growth companies 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, 2014, investments in these companies resulted in a net internal rate of return of 20.02%.

A Florida Growth Fund target provides that at least 50% of the funds invested in the 24 private equity funds be in Florida-based investments. SBA managers reported that approximately 70% of funds invested in private equity funds are in Florida-based investments. As of June 30, 2014, investments in these funds have resulted in an internal rate of return of 10.46%.⁸

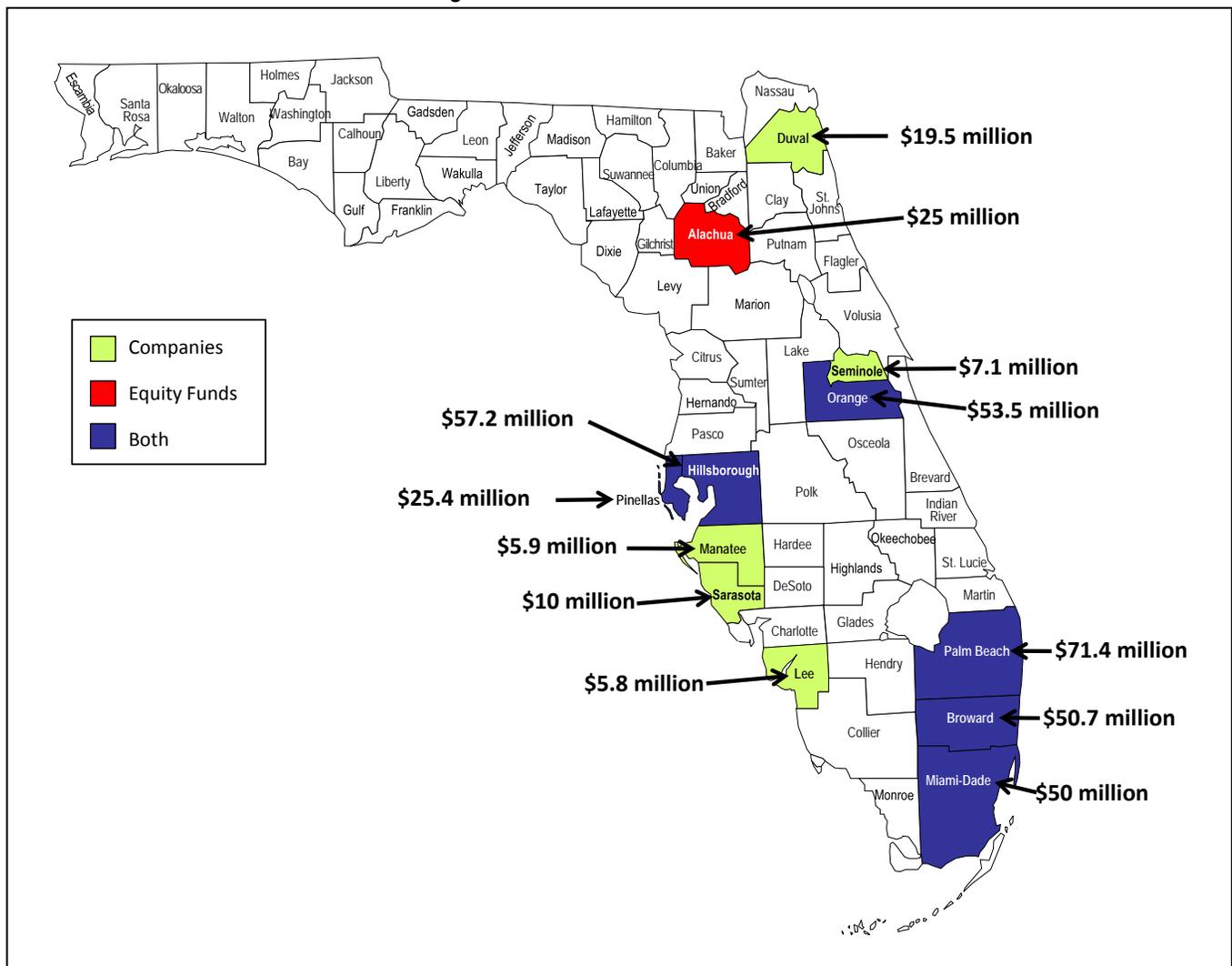
⁸ In some cases, Hamilton Lane purchases a sidecar or side fund that contains all Florida-based investments while the main fund has a more regional focus.

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 \$71.4 million in Palm Beach County. Direct and private investments in five counties—Broward, Hillsborough, Miami-Dade, Palm Beach, and Orange—account for

74.1% 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 \$385.1 Million Are Distributed Across 12 Counties



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

Some recent investments are in credit and debt-related funds. 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 2011.⁹ In 2013, to try 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 and mezzanine investments.

According to SBA and Hamilton Lane managers, the recently created 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 September 2014, the fund had made two sponsor-backed investments representing \$9.8 million of invested capital. Recently, SBA managers and Hamilton Lane have discussed creating Florida Growth Fund II. It would be similar to Florida Growth Fund I with two separate tranches of \$250 million, each subject to the SBA's approval.

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

State Board of Administration managers reported that the Florida Growth Fund distributed \$49.6 million to the Florida Retirement System Trust Fund as a result of its investment activity from inception to June 30, 2014.¹⁰ These distributions included dividends

and interest, return of capital, and capital gains resulting from dispositions.

For example, since our last report, the fund exited an investment it made in a Jacksonville based marketing company. The investment returned 3.4 times the invested capital of \$14.5 million during 3.5 years, resulting in \$49.3 million of distributions and a 41% gross internal rate of return. Since this investment was made, the company reported adding over 1,300 jobs in Florida.

The Florida Growth Fund also invested in a Longwood-based waste management company that returned 2.5 times the invested capital of \$7 million during a five-year period ending in October 2014. This investment resulted in \$17.5 million of distributions and a 20% gross internal rate of return. Since this investment was made, the company reported adding 790 jobs. In addition, four other direct investments have resulted in initial dividends of \$32.6 million as a result of strong company growth.

According to Hamilton Lane managers, companies in which the Florida Growth Fund has invested reported creating a total of 11,125 jobs as of June 30, 2014, a net increase of 6,117 since June 30, 2013. This included 2,926 jobs created by technology and growth companies and 8,199 jobs created by companies in which private equity funds were invested. (See Exhibit 3.)

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

¹⁰ From June 30, 2014 to October 30, 2014, the Florida Growth Fund distributed an additional \$70 million to the FRS Trust Fund, bringing the total amount of distributions since inception to more than \$120 million.

**Exhibit 3
Florida Growth Fund Companies Reported Creating 11,125 Jobs Since the Fund’s Inception**

| Industry | Date Invested | Jobs Created |
|---------------------------------|-------------------------------------|--------------|
| Technology and Growth Companies | Waste Management | 790 |
| | Aircraft Parts and Leasing | 14 |
| | Medical Devices | 62 |
| | Financial Services | (20) |
| | Software | 20 |
| | Medical products | 44 |
| | Biotechnology | 2 |
| | Mobile Technology | 1 |
| | Chemicals | 9 |
| | Marketing | 1,310 |
| | Telecommunications | 217 |
| | Communications | 5 |
| | Technology | 25 |
| | Restaurants | 227 |
| | Food Services | 34 |
| | Security | 54 |
| | Packaging | 130 |
| | Distribution | 118 |
| | Restaurants | (259) |
| | Health Care IT | 10 |
| | Clinics | 0 |
| | E-learning | 0 |
| | Health Care | 6 |
| | Mobile Technology | (3) |
| | Health Care | 0 |
| | Exited Companies ¹ | 130 |
| Subtotal | 2,926 | |
| Private Equity Funds | Health Care/Technology ¹ | 829 |
| | Technology/Services ¹ | 45 |
| | Diversified ¹ | 7,047 |
| | Defense/Commercial | 11 |
| | Distressed/Growth ¹ | 50 |
| | Growth/Buyout | 21 |
| | Early Stage | 84 |
| | Technology/Health Care ¹ | 18 |
| | Technology/Health Care | 6 |
| | Manufacturing/Distribution | 29 |
| | Health Care | 41 |
| | Growth | 15 |
| | Life Sciences | 3 |
| | Health Care/Industrial/Aerospace | 0 |
| | Subtotal | 8,199 |
| Total | 11,125 | |

¹Data includes information for companies that 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 \$65,080; this exceeds the state’s annual mean wage of \$41,140.¹¹ Salaries ranged from \$13,902 to \$350,000. Hamilton Lane also reported that 13 growth and technology companies and 13 private equity funds reported making an estimated \$86.3 million in capital expenditures between June 30, 2013, and June 30, 2014, bringing total capital expenditures to \$251.7 million since the Florida Growth Fund’s inception.

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.

¹¹ *State Occupational Employment and Wage Estimates: Florida*, U.S. Bureau of Labor Statistics, May 2013.

Appendix A



**STATE BOARD OF ADMINISTRATION
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November 25, 2014

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 Continue to Add Jobs and Provide Distributions to the FRS*. 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, reading "Ashbel C. Williams".

Ashbel C. Williams
Executive Director & Chief Investment Officer

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

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