NY Pension Invests in Own Backyard

Article published on May 8, 2006

By **Raquel Pichardo**

Private equity investors have funneled close to $1 billion into funds that invest in New York state-based companies, spurred in part by a **New York State Common Fund** initiative to increase the flow of cash for New York entrepreneurs.

The state legislature passed legislation in 1999 pushing the fund to invest $250 million in New York-based investments. Since then, the Common Fund has invested $425 million in 15 funds. Combined with other investors' contributions, $920 million has been invested in New York businesses, according to a **report** released last week by State Comptroller **Alan Hevesi**.

Some of the managers are required to match or exceed the Common Fund's investments, multiplying the amount reaching New York entrepreneurs. "That's almost a billion dollars working to build New York companies and New York's economy. And the investments will also bring a substantial return for the pension plan," wrote Hevesi in a release.

Meanwhile, the number of private equity managers that focus on New York investments has multiplied 11-fold, from seven in 1999 to 77 today, writes Hevesi in the report.

Washington D.C.-based **Paladin Capital Group** opened a New York office about two years ago. The Common Fund invests $20 million in the firm's $235 million *Paladin Homeland Security Fund*, which invests in companies that offer products and services that address homeland security needs.

"We've always had an interest in companies looking for expansion capital in New York," says **Mark Maloney**, managing director at Paladin in Washington D.C., especially because of the city's ties to the September 11 terrorist attacks.

Public pension plans need to walk the line between investing in their home state and encouraging job-growth and keeping with their fiduciary duties and reaping strong returns. The Common Fund has done just that with some investments returning close to 80% to date.

A $3.8 million investment in with **Summer Street Capital** in has so far returned 88% and a $10 million investment with **Hamilton Lane Coinvestment** in September 2003 has returned 79%. It may be too soon for the New York fund to celebrate its high returns. Private equity investments are long-term and illiquid. At times, it can take up to a decade before the returns are fully realized.

John Teeger
President
Founders Equity

"The concept is to improve your yield while allowing a certain level of risk," says **John Teeger**, president of **Founders Equity**, a New York-based fund focused on providing growth and capital to existing businesses. The Common Fund invests $20 million with the firm.

One concern about regional-specific mandates is whether or not the location is lucrative. "Will we find deals in New York?" asks Teeger. Founders already invests 25% of its assets in New York so the Common Fund's stipulation did not affect its investment practices.

The **California Public Employees Retirement System** boasted similar strong returns from its California-related investments. The $207 billion fund in 1992 took advantage of a state recession and invested $375 million in residential development that supplemented the shortage of funds available to local builders. The Single Family Housing Program has reaped annualized returns of about 20%. The fund invests some $21 billion in-state.

Still other funds shy away from limiting their managers to a specific region. The $33 billion **Illinois Teachers' Retirement System** (TRS) does not have an in-state initiative. The fund is "just going for the best investments. If they happen to be in Illinois, great," says a fund spokeswoman.

The fund has $2.7 billion invested in-state, largely due to its managers' picks. It does prefer to target Illinois real estate investments since TRS plays the role of a direct investor in those assets, says the spokeswoman. Of the $2.7 billion invested in Illinois, $547 million is invested in real estate assets.

The state of Utah also tried to stimulate local investment three months ago by launching a $100 million **Utah Fund of Funds**, a permanent fund established to lure venture capital money into the state.

But the fund takes a different approach to local investing than New York - it does not require managers to invest in Utah start-ups. Instead, the fund will tap venture funds that agree to demonstrate a commitment to the state by establishing a presence in Utah and seriously considering investing in Utah-based companies as part of their investment strategy.

The goal of the fund is to encourage local entrepreneurs to set up shop in Utah, instead of fleeing to VC-heavy states like California or Boston.

711 Fifth Avenue, 5th Floor, New York, NY 10022 www.fequity.com TEL (212) 829-0900