

NC Innovation Fund to Diversify Investments Broadly

Less Focused on NC's Early Stage Scalable Businesses

The new \$232.3 million N.C. Innovation Fund plans to take a multipronged approach to investing in businesses with an N.C. connection.

State Treasurer Janet Cowell said in an interview in April that the fund, which is being run by investment banking giant Credit Suisse, won't pursue a one-size-fits-all investment strategy. Instead, it will make different types of equity investments, including:

Venture capital, which targets emerging companies with high-growth potential;

Mezzanine, which involves loans plus warrants to acquire a minority ownership stake, and which typically involve companies that are established and profitable;

And growth equity, which helps relatively mature companies expand.

That kind of flexibility will maximize returns for the \$67 billion state pension fund, Cowell said. Although the fund's primary focus is making money for the pension fund, it also aspires to support economic development in the state.

Last week, the treasurer's office named Credit Suisse as the fund manager, but Tuesday was the first time Cowell discussed the investment parameters in detail. She also disclosed the fund was shifting its target from companies with "significant operations in North Carolina" to those having a "significant nexus" with the state.

The State Employees Association of North Carolina had complained the pension fund should focus on performance rather than investing in North Carolina businesses.

The new approach will allow the fund to invest in a company that is in California but plans to expand to North Carolina, Cowell explained.

Cowell said that, after internal debate over the original wording, the change was made to avoid putting the fund in a straitjacket.

"I clearly want to have the flexibility to make the investments we need to," Cowell said.

The investment strategy unveiled by Cowell confounds the expectations in some quarters that the Innovation Fund would focus on venture capital. Even some of the companies that competed to manage the fund assumed venture capital was its *raison d'être*, Cowell said.

Kel Landis, co-founder of investment firm Plexus Capital and former CEO of what is now RBC Bank, said a "full menu of capital" is better.

"I think this is a chance to create some economic development and create some jobs, but I also think it can produce a nice return for the pension fund," said Landis, who is helping to lead Gov. Bev Perdue's efforts to get banks to focus more on small business loans.

Jeff Barber, a managing director at Fennebresque & Co., which helps companies raise private capital, said that if the fund was focused solely on venture capital it might be forced to settle for less than "top-level deals." Given the size of the fund, it's questionable if there are enough good venture deals in North Carolina to absorb that amount of money.

"You could argue there is a lack of venture capital here," said Barber, the former managing partner of the Raleigh office of PricewaterhouseCoopers. "At the same time, I think the really best companies are getting funded."

The fund plans to invest its money in three to five years, averaging \$46.5 million over five years, about 16 percent of the \$289.6 million in venture capital raised by N.C. companies last year.

Up to \$160 million of the fund is earmarked for equity and mezzanine investments, Cowell said. The remainder will be invested in equity investment funds, including - but not limited to - venture capital funds.

The Innovation Fund won't make solo investments; instead, it will partner with other investors to diversify risks as well as bring "another set of eyes and expertise" to deals, Cowell said.

Individual investments will typically range from \$2 million to \$20 million. The treasurer's approval is required on investments exceeding \$20 million.

Cowell said the fund's investments will be long term, with a typical repayment period of seven years. Add the three to five years it will take to deploy the fund's capital and "that gets you to a decade before you truly know whether this whole program is a success. ... But I think it's an effort worth doing."

Read more: <http://www.charlotteobserver.com/2010/03/25/1334590/pension-fund-ties-to-nc-relaxed.html#ixzz0jJDdrnWQ>

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