

# **New York State Common Retirement Fund In-State Private Equity Investment Program**

---

**Status Report and Review of Investment Activity**

**May 2006 Update**



**New York State  
Office of the State Comptroller**

**Alan G. Hevesi**

**Division of Pension Investment and Cash Management**

Additional copies of this report  
may be obtained from:

Office of the State Comptroller  
Public Information Office  
110 State Street  
Albany, NY 12236

Telephone: (518) 474-4015

Or through the Comptroller's website: [www.osc.state.ny.us](http://www.osc.state.ny.us)

This report was prepared by the Office of the State Comptroller, Division of  
Pension Investment and Cash Management

Thomas Sanzillo, First Deputy Comptroller  
David Loglisci, Deputy Comptroller  
Nick Smirensky, CFA, Director of Alternative Investments  
Brad Woolworth, Investment Officer



STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

May 2006

*To Senator Joseph Bruno and Speaker Sheldon Silver:*

The Common Retirement Fund's (CRF) In-State Private Equity Investment Program was initiated in 1999. The Program is designed to increase the diversification of CRF's investment portfolio and provide a market rate of return consistent with the risks associated with private equity. In addition, the program has proven to be an important contributor to the state's economy by making capital available to small businesses. This report provides an overview of the Program's progress to date:

- \$425 million in CRF's capital has been made available to fifteen different managers for investments in New York State, This represents a \$321 million increase from the \$104 million available in January 2003 and a tripling of the number of managers.
- Our funds have invested \$145 million in 64 companies; this represents a nine-fold increase in both companies receiving capital and the amount invested in the last 39 months. In January 2003, there were seven portfolio companies in the program with \$16.9 million in invested capital.
- Including all funds made available for the investments CRF has participated in, a total of \$919 million has been invested, including \$450 million in upstate New York.
- Many of the companies in which CRF invested would not have remained in New York without CRF's capital, or would not have been able to expand at their full potential.
- The availability of CRF's capital has resulted in two companies relocating to the state: Versamed from New Jersey and Tri-Ed Distribution from Canada.
- Our venture capital investments have included companies developing important new technologies, including nanotechnology, biotechnology and homeland security.

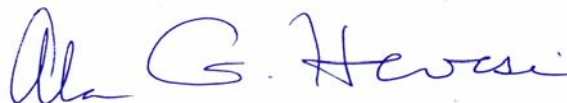
- Several of our early investments have been sold for significant profits:
  - Summer Street Capital, for example, returned \$21.6 million on CRF's \$3.8 million investment in an Albany company. This represents a multiple of 5.7 times the original investment and a compound annual rate of return of 88 percent.
  - Hamilton Lane has seen strong gains on two of its investments: \$10 million invested in Unifrax Corporation in Niagara Falls returned 3.2 times the investment (79 percent compound annual return) and a \$5 million investment in New York City-based Applied Graphics Technologies returned 2.5 times the investment (74 percent compound annual return).
- All fifteen of our fund managers are performing well and are establishing themselves. This program has resulted in a significant expansion in the number of professionals focusing on equity investing in New York: from an estimated seven in 1999 to 77 today. Sixty-six of these professionals are employed by funds that received CRF commitments

Although the Program has provided significant economic benefits to the state's economy, my primary objective is to obtain an appropriate risk-adjusted return comparable to what would be available for other investments with similar characteristics. It is first and foremost an investment program. The fiduciary responsibility of the Comptroller's Office is always paramount.

Private equity is at the upper end of the spectrum in investment risk. CRF targets returns of between three and five percentage points above public markets for its private equity investments. This asset class can provide superior returns, but with greater volatility. This volatility is manifested in a range of possible investment outcomes – from failure to success. While all of the companies that have received capital under the Program are still active, it is inevitable that some will fail. Although early returns have been extraordinary, it is inevitable and expected that some companies will have difficulty. The average holding period for CRF's In-State Program is currently less than three years; because private equity investments generally have a four to five year average holding period, it is too early to tell what overall returns will be.

I continue to seek out attractive investments in managers that focus on New York and intend to renew CRF's investment commitments to our partners that demonstrate success. Our in-state investments are a key part of CRF's private equity program and will continue to be so.

Sincerely,



Alan G. Hevesi

## **I. OVERVIEW**

The New York State Common Retirement Fund (CRF) created a private equity investment program (Program) targeted at investing in New York State in November 1999. The Program was in response to legislation (the “Jobs 2000 for New York State,” or “J2K” Act) adopted in August 1999 and signed into law in November 1999<sup>1</sup>. The legislation represented an important achievement by the Legislature under the leadership of Senator Bruno and Speaker Silver.

This report provides an overview of the investment strategies employed by the funds in the program, describes the process for selecting fund managers, and provides detail on the investments made to date.<sup>2</sup>

## **II. PRIVATE EQUITY INVESTMENTS**

### **Background**

Private equity investing is unlike most other forms of capital deployment. Unlike lending or making investments in the public stock of companies, private equity combines both the provision of capital and expertise. Private equity managers -- particularly those that focus on early stage venture investing or growth capital for small businesses -- provide management expertise, strategic direction, and other value added services along with capital. When making an investment, private equity managers become part owners of a company and generally join the company’s board of directors. Creating an environment where private equity capital is available helps spur economic development and supports the formation of strong, well-managed companies.

Modern private equity investing first developed in the United States through the personal investments of major industrial families, such as the Rockefellers, Phipps and Whitneys. Technology focused investing began following World War II with the formation of private limited partnerships that invested in companies whose shares were not traded on public markets.

Numerous, but small, organized pools of capital dedicated to technology investing were formed in the late 1950s, following the creation of the Small Business Investment Act at the federal level. It was not until the 1980s, however, when institutional capital began to be attracted

---

<sup>1</sup> Ch. 624, L. 1999

<sup>2</sup> The private equity asset class, which includes investments made through the in-state program, for the New York State Common Retirement Fund is invested under authorization granted by subsection 177-a (9) of the Retirement and Social Security Law, commonly referred to as the "basket provision". The other provision of Retirement and Social Security Law section 177 generally limits CRF investments to permitted levels of certain types of investments, otherwise known as the “legal list.” The basket provision allows CRF to invest in assets not specifically enumerated on the legal list if those investments meet the prudent investor standard. Recently, at the request of the Comptroller, the Governor and State Legislature (by the enactment of S. 6806-A/ A. 10058-A as of April 8, 2006) agreed to increase the size of the basket provision so that up to twenty five percent of CRF’s assets could be invested in vehicles that are suitable for a prudent investor but not on the legal list. In addition to allowing CRF to better optimize its asset allocation plan, the additional flexibility will ensure that CRF is capable of responding to future opportunities to invest with managers focused on New York investing.

to private equity. In 1979, changes to the federal Employment Retirement Investment Security Act (ERISA) were instrumental in allowing pension plans to invest in private equity.<sup>3</sup>

Private equity is now a recognized asset class for institutional investors. In 2003, nearly seventy percent of North American tax exempt investors (largely pension funds and endowments) had allocations to private equity; these investors had a median allocation of 8.2 percent to private equity.<sup>4</sup>

## **Structure of Private Equity Investments**

Private equity is an illiquid, long-term investment. It is typically structured in the form of a limited partnership where the general partner acts as fund manager and sponsor of the investment vehicle. The bulk of a private equity fund's capital is usually raised from outside investors, which can range from wealthy individuals to family offices to endowments and pension plans.

The partnership agreement is the contractual arrangement between the fund manager and investor limited partners. The agreement:

- details the responsibilities of the general partner to the fund (This generally includes an acknowledgement that the general partner is a fiduciary, provides limitations on outside activities of the general partner, and includes a contractual agreement that key individuals see the fund through completion.);
- outlines permitted investments, providing limits on the size of individual investments, restrictions on specific industries and geographies;
- sets a period of time during which investments may be completed (the "commitment period"), and then a deadline for liquidating the fund's investments (the fund's "term");
- provides rights to the limited partners to remove the general partner or stop the fund's investments if a set proportion of limited partners agree and the general partner has breached his or her agreed-to responsibilities.

Upon execution of a partnership agreement, a limited partner is contractually bound to follow the terms of the agreement, the most important of which is to agree to provide capital upon request to the general partner as investments are completed. The amount of capital that a limited partner is obligated to provide is capped at the partnership's inception, as is the length of time during which capital may be called (see "commitment period" above).

Private equity is unlike other forms of investments. Traditional investments are generally initiated with a set amount of capital provided to a manager. For private equity funds, a typical investment period is five or six years (an additional five to six years is provided to dispose

---

<sup>3</sup> DRI-WEFA, "Measuring the Importance of Venture Capital and Its Benefits to the United States Economy," June 19, 2002. The discussion of the origins of private equity investing is based on pages 7-11 of the DRI-WEFA report.

<sup>4</sup> Goldman Sachs & Russell Investment Group, "Report on Alternative Investing by Tax-Exempt Organizations 2003," undated.

investments). During this period, the general partner seeks out investment opportunities and negotiates the terms of investments with portfolio company owners. When an investment is completed, the general partner requests the capital from the limited partner.

When a fund has exhausted its capital, the general partner will typically raise a new vehicle to continue its investment program.

Compensation to the general partner takes two forms:

- A management fee, which is a set percentage of either commitments or invested capital that provides the general partner with income to manage the fund, pay investment professionals, and seek out and monitor investments.
- A share of profits, typically 20 percent of gains generated from fund investments. This is referred to as carried interest, promote or override.

Private equity investors structure a general partnership's economic terms in a way that maximizes the general partner's incentives to generate profits. This is done by limiting management fee income to an amount necessary to fund the manager's operations, but not provide a profit and by requiring that the general partner invest his or her own funds in the partnership.

Due to restrictions in the legal provisions that govern limited partnerships, the investor limited partner may not have a role in the operations of a private equity fund. Aside from reviewing potential conflicts of interest that may face the general partner, or other specified functions, limited partners may not influence how a fund operates and the general partner is completely responsible for all investments.

Private equity investments are not, however, entirely passive. Limited partners do play a role in monitoring the general partner's investment progress and performing ongoing evaluations of the quality of the fund's portfolio. Because general partners will raise new funds as capital is deployed, limited partners use ongoing monitoring as an important tool in the investment process for making investment decision about successor funds.

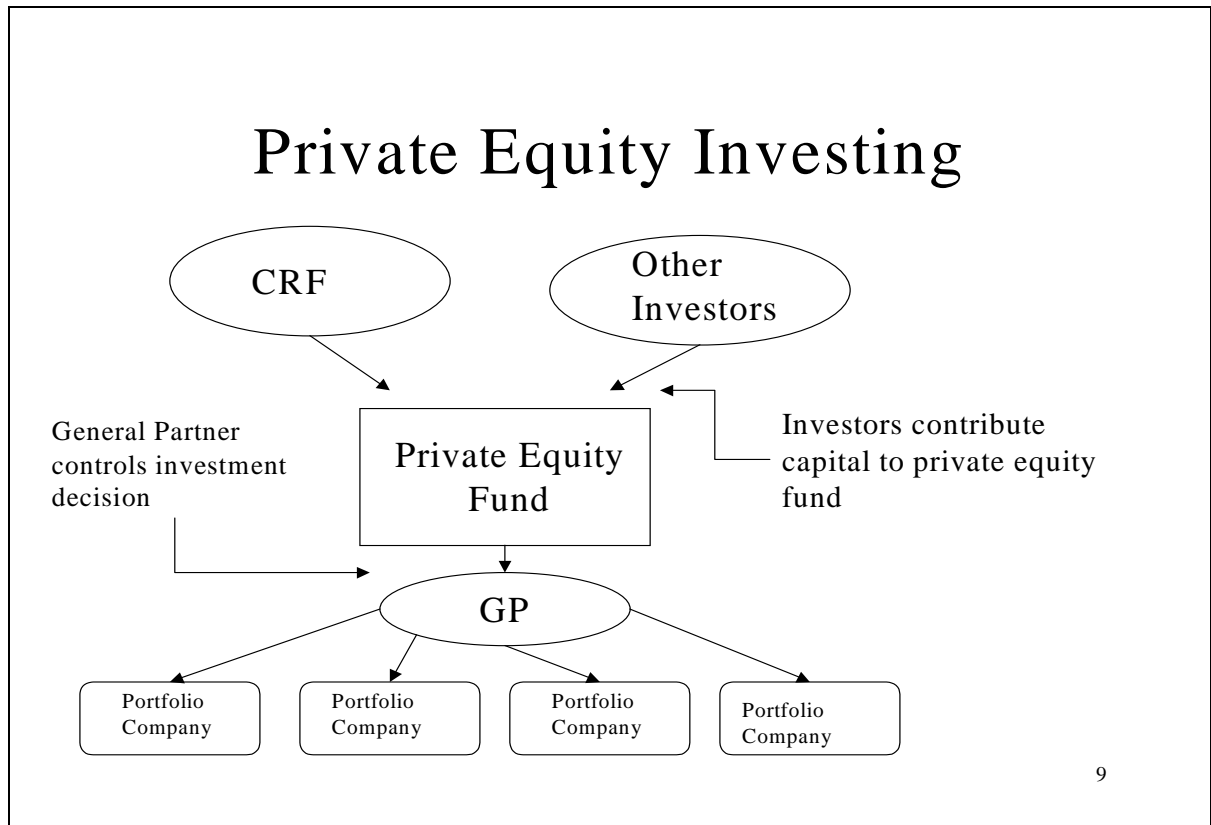
In summary, investments in private equity funds are blind pools of capital where the investor, after making a commitment and absent a breach by the general partner, is bound to see the investment through its ten to twelve year term.

The figure below summarizes the structure of the relationship between investors and a general partner in a private equity fund. Key features to highlight include:

- Private equity funds have a ten to twelve year life. The commitment of funds by a limited partner is the first step in the investment process. Funds are actually invested over a five or six year period "investment period;" during the remaining five to six years of the fund's term, the general partner focuses on selling the investments.

- The private equity fund is distinct from actual private equity investments in portfolio companies.
- The limited partners do not have a role in the operations of the fund and cannot be involved in the investment decision-making process.

**Figure 1**  
**Structure of Private Equity Investing**



### Investment Styles

The investment focus of a private equity fund is generally on a specific style of investing, largely determined by either the portfolio company’s stage of development or industry focus. A key feature is that investments involve equity ownership in a business, in contrast to loans. Equity investors generally receive a seat on a company’s board of directors and are involved in management and strategic decision-making. Private equity investment funds can be classified into the following three styles:

#### Venture Capital

Venture capital invests in companies early in development, ranging from seed investments designed to develop a concept, to funding complete development of a product, to

late stage investing where expanding a firm's customer base is the investment goal. Venture capital is frequently deployed in technology-oriented companies. This investment strategy carries the highest risk; early stage companies are subject to numerous risk factors, including financial, market, operational, and technology.

Venture capital investing can also provide spectacular returns. One of the notable examples from CRF's core portfolio is a \$53.7 million investment made by Warburg Pincus in BEA Systems; since 1995, BEA Systems has generated \$6.8 billion in returns, a multiple of 126 times cost. (CRF's share of this investment was 6.2 percent.)

### Buyout/Corporate Finance

Investments in existing operating businesses make up a large portion of the private equity investment universe. These investments may include helping new owners finance the acquisition of a business (generally as a result of a sale by a corporate parent or a generational change in the ownership of a family business); finance expansion for an existing business, allowing it, for example, to acquire smaller competitors; or to recapitalize a business to provide it greater flexibility to operate.

### Mezzanine

Mezzanine investments are a form of corporate finance where the investment has characteristics of both a loan and an equity investment. These investments are at the point in a company's capital structure between debt and equity (hence the term "mezzanine").

The fundamental difference between private equity investing and investments in public securities is the manager's participation in the growth and development of the portfolio company. The investment manager's ability to devise strategy, hire key staff, implement an optimal capital structure, seek new customers, and identify possible acquisitions set private equity apart from passive investments in public securities.

## **III. INVESTMENT CRITERIA AND SELECTION PROCESS FOR THE NEW YORK PROGRAM**

CRF began implementation of the Program by issuing a Request for Information (RFI) in November 1999. The RFI was designed to provide potential investment managers and other interested groups with broad outlines of the program and to seek advice on how it could best be structured. It also served as an invitation to fund managers to prepare proposals for CRF's consideration.

CRF received several suggestions in response to the RFI that shaped the design of the in-state investment program. Among these were:

**Flexibility.** Potential fund managers stressed the need to manage private equity funds in a commercial manner, and not as a government sponsored economic development program. Programmatic constraints on the characteristics of an investment, particularly a structure that

would require CRF approval of individual investments, would be counter-productive. General partner managers should be provided with the flexibility to pursue a broad investment strategy in pursuit of returns.

**Breadth of investment mandate.** An overall lack of private equity capital was identified as a serious impediment to business formation and growth. New York State, particularly upstate, is home to a large number of middle-market privately owned businesses. These businesses generally have few options when seeking equity capital. Because many operate proven, successful business models with existing employees, providing equity financing to allow expansion or ownership transitions is attractive: there is less risk backing a proven business and the ability to preserve and expand an existing employer provides immediate economic development benefits.

**Supporting Permanent Sources of Capital.** Private equity investing is hands-on, and business owners must be comfortable when exchanging ownership of their company for capital. In addition to the immediate benefit from investing in growing businesses, the in-state private equity program is designed to provide support to investors who will become permanent institutions in the State, and who will be an attractive source of equity capital in the future.

## **Fundamental Requirements**

To ensure that investments meet the prudent person fiduciary standard and the requirement that they be made solely for the benefit of CRF's participants, the following minimum standards for vetting potential general partners were required:

- A successful track record of making private equity investments, including an ability to demonstrate that value was added in the investment.
- An investment strategy designed to provide returns consistent with similar, non-New York focused investments.
- A coherent investment strategy consistent with the business environment.
- A fund manager dedicated to potential investments without any potential conflicts of interest.
- An ability to raise capital from other sources. This serves to both multiply the impact of CRF's capital and also to validate its investment decision.
- The infrastructure needed to monitor and report on the portfolio.
- An established network of contacts within the State to serve as a source of new investment opportunities.
- A business presence within the State.

The presence of a network to identify investments is an important component of evaluating a fund manager. Private equity transactions frequently arise through contacts with accountants, attorneys, business organizations and other entrepreneurs. These types of proprietary transactions may not be broadly known, and a fund manager's ability to access them is a significant competitive advantage.

## **Investment Process**

CRF's investment process for its core private equity portfolio requires both CRF staff and its private equity consultant to review investment opportunities. Both the staff and consultant must agree that an investment has merits before it is presented to the Comptroller for approval. This parallel recommendation system is an integral part of CRF's policies and procedures and provides an internal control in the investment process. This is particularly important given that the State Comptroller is the sole trustee of CRF.

All potential investment opportunities receive a preliminary review. Proposals that do not meet CRF's fundamental requirements are initially deferred, but the investment manager is provided with detailed advice on what steps are necessary to make a suitable proposal. In several instances, CRF staff worked with managers who were eventually added to the program for extended time periods before making commitments. During this period, staff monitored organizational restructuring or progress in developing an investment track record until the manager had met CRF's requirements.

For example, when DeltaPoint capital initially sought CRF funding, it was engaged in merger and acquisition advisory work that could pose a potential conflict of interest. CRF staff provided continuous feedback to DeltaPoint's principals as they restructured their business and expanded their investment track record.

Similarly, the Trillium Group approached CRF when it was early in its investment program. CRF worked closely with Trillium's principals, monitoring the progress of their investments until it was at the stage that demonstrated suitability for a large institutional investor.

GSAVP, CRF's most recent commitment, was also the result of a long-term relationship that originated in 2000, when one of the principals of GSAVP was managing a small venture fund. A second individual, who would later become a partner of GSAVP approached CRF in 2004 with a different fund. The two individuals later joined as a partnership, when CRF gave a commitment pending GSAVP raising sufficient capital to support their investment program. The CRF commitment was instrumental in making GSAVP attractive to Greenhill, a New York investment bank. Greenhill formed a strategic relationship with GSAVP, was able to provide it with matching capital, and also assisted GSAVP in identifying other investors. GSAVP now has close to \$100 million in commitments, is focused on investing in New York, and has the support of a major financial institution. Greenhill is a New York headquartered boutique investment bank that was a start-up itself in 1996, with one employee and \$1 million in capital. It went public in 2004 (NYSE:GHL). Greenhill now has over 150 employees, revenues of over \$220 million and net income of over \$80 million in 2005.

## **IV. BUILDING A PRIVATE EQUITY INFRASTRUCTURE IN NEW YORK**

New York State has long been a center for the global private equity industry. Private equity managers such as Alan Patricoff Associates (now Apax Partners), Blackstone, Apollo, Warburg Pincus, JP Morgan Partners, and KKR were founded and are headquartered in New York. These funds have many of their investment professionals based in the state. Although

these funds make significant investments in New York – as of June 2004, CRF’s private equity managers had \$5.1 billion invested in New York companies, with CRF’s share being \$438 million – their focus generally is on larger transactions.

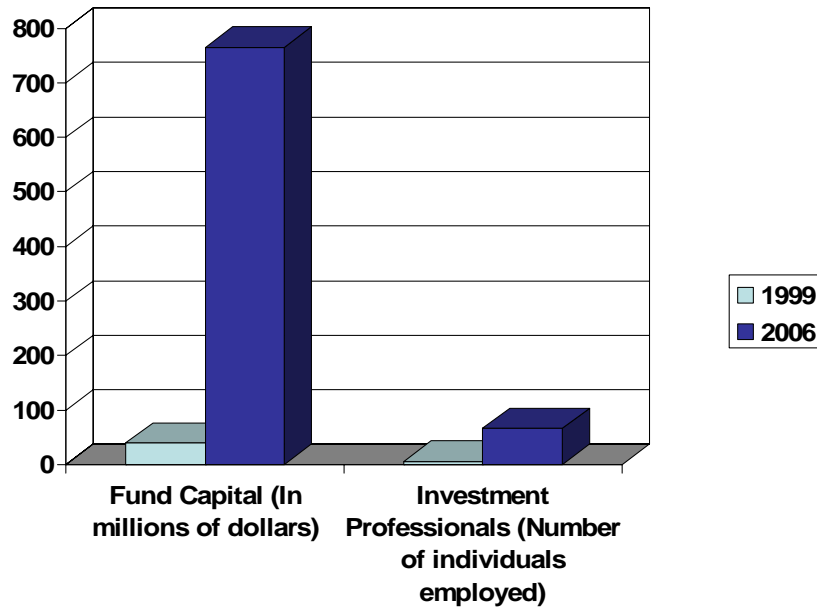
As discussed later in this section, until CRF’s In-State Investment Program was initiated, there were few choices for New York businesses seeking long-term equity investors. An important goal of CRF’s In-State Investment Program is developing a permanent source of private equity capital. A collateral benefit of CRF’s investment in attractive companies is the fund’s indirect investment in the managers making those investments. CRF’s commitments have frequently been instrumental in a fund manager being able to establish a private equity fund – absent CRF, many of the funds would not be in existence, or they would not have a New York focus.

In 1999, when the In-State Private Equity Program was initiated, there were seven funds operating in New York State with a focus of making private equity investments within the state. These seven funds had approximately \$41 million in available capital and had collectively employed a total of seven investment professionals.

In addition to these seven, there were approximately five other funds organized under the Capco program. These funds had an estimated \$65 million in equity capital to invest in 1999 and employed less than ten investment professionals combined. The Capco program is dependent on periodic allocations of tax credits by the legislature; the funds in the program have not attracted investors outside of the insurance companies that receive tax credits for investing through the Capco program.

In early 2006, there were twenty funds (aside from the Capco program) with a focus on equity investing in New York State. Today, these funds have total available capital of \$842 million and together employ 77 investment professionals. Fifteen of the twenty funds have received capital from the Common Retirement Fund and employ 66 investment professionals. The dramatic growth in the private equity industry in New York State is a largely a function of CRF’s support of its fund managers as well as a compelling investment environment.

**Figure 2**  
**Growth in Available Capital and Investment Professionals for New York Focused Private Equity Funds with CRF Investments**  
(Dollar amounts in millions)



Accompanying the growth in private equity investment professionals has been an expansion of expertise among legal and accounting firms in New York; services provided by these firms are needed to support the execution of private equity transactions.

Angel investing networks, groups of individuals who invest in very early stage companies, have also developed in New York. The Tech Valley Angel Network in Albany and the Rochester Area Investor Network are two examples. The Trillium Group’s University Technology Seed Fund based in Rochester also makes very early stage investments. Angel investors are an important element of company formation, since they provide financial support and strategic advice before most venture capital firms are able to make investments.

Upstate New York is also home to a series of networking events for investors, entrepreneurs and service providers. Attendance at these events is at levels that would have been unimaginable in the late 1990s. The Smart Start Venture Forum, the Summit in Tech Valley and the Upstate Venture Association of New York (UVANY) all draw hundreds of attendees to their meetings.

The following is a profile of a number of the private equity funds in CRF’s New York portfolio and a discussion of how CRF’s capital commitments affected their investment program.

**Ascend Ventures:** CRF backed the group's first fund and provided a pool of capital dedicated to New York transactions. The CRF commitment allowed the group to have sufficient capital to operate. Ascend is the first fund in New York's in-state program to have completed its initial investment program. Ascend raised its second private equity fund in 2005.

**Ascent Biomedical Ventures:** Ascent raised its first fund in 2005; the fund's partners worked with CRF early in the fundraising process to design an investment strategy that would be suitable for CRF. CRF's capital commitment helped bring Ascent's total capital under management to a level where it could comfortably operate and build a diversified portfolio of companies in the life sciences and biotechnology.

**CSFB Coinvestment Fund and the Hamilton Lane Coinvestment Fund** were created by CRF to take advantage of New York transactions by private equity fund managers where there was an additional need for capital. These funds would not exist without the participation of the Common Retirement Fund,

**DeltaPoint Capital** operated a mergers and acquisition advisory business (Capital Formation Group) prior to receiving a commitment from CRF. The firm, like Summer Street, pursued a small number of private equity investments opportunistically. With CRF's commitment, the principals of DeltaPoint became full-time managers of their private equity fund, allowing them to pursue New York investment opportunities.

**Founders Equity** has been actively investing in private equity since 1969, but did not have a New York focus until CRF's commitment was made in 2003. The availability of CRF's capital encouraged the firm to pursue growth equity investments in New York State.

**High Peaks Venture Partners** received a \$30 million commitment from CRF in 2003. Although the group had been able to attract capital from other investors, it was not at a level that would have allowed the firm to operate effectively. CRF's capital was instrumental in the formation and sustainability of High Peaks.

**Paladin Homeland Security Fund** has a national mandate to invest in companies developing technologies related to homeland security important to both government and private sector users. CRF's capital allowed it to open a New York office and seek out opportunities in New York companies developing services and technologies in the homeland security sector.

**Softbank NY** is staffed by three experienced investment professionals in Buffalo and is affiliated with a national venture capital fund, Softbank Capital. Softbank would not have created a New York focus to its investment program without CRF's commitment and the Buffalo partners would likely have relocated from Western New York if they were unable to raise a local venture capital fund.

**Summer Street Capital:** Summer Street Capital was originally organized as a mergers and acquisitions advisory firm (Buffalo Ventures) that also did individual private equity transactions

opportunistically. As part of the process of seeking CRF capital, the firm became focused on private equity investing and no longer does advisory work.

Trillium Lakefront Partners was operating a small, early-stage venture fund in 2000 when the group initially approached CRF. CRF indicated that pending successful completion of Trillium's investment program, an investment in a subsequent fund would be considered. CRF's role as an anchor investor gave the group the credibility to raise other capital; CRF's commitment also allowed the organization to operate at a much larger scale than otherwise would have been possible.

Wheatley Partners had a national focus prior to receiving CRF capital, with an interest in doing local transactions. Since CRF's commitment was made, the firm has reformulated its investment approach and is focused on New York State companies. It has been successful in having two of its portfolio companies relocate to New York State as a condition of making an investment.

## **V. IN-STATE PRIVATE EQUITY PORTFOLIO**

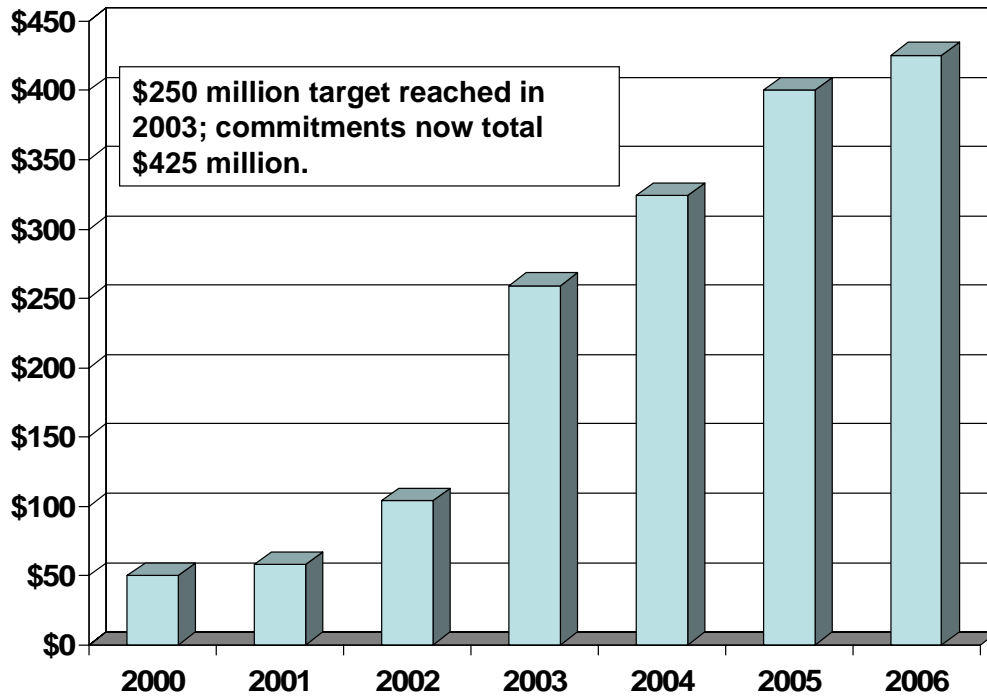
As of March 31, 2006, CRF has made nineteen commitments to fifteen private equity fund general partners. Comptroller Hevesi has made the investment program a high priority and has completed \$321 million in new commitments since taking office.

Year-by-year commitment activity by CRF has been:

- 2000: Two commitments for New York investments totaling \$50 million;
- 2001: Two commitments to one general partner with \$7.5 million targeted to New York;
- 2002: Two commitments totaling \$40 million;
- 2003: Five commitments totaling \$155 million;
- 2004: Three commitments totaling \$55 million;
- 2005: Four commitments totaling \$76 million; and
- 2006 (Year to date): One commitment totaling \$25 million.

Because CRF requires that funds included in the in-state program also seek capital from other sources, the impact of CRF's investments are leveraged. CRF's commitments of \$425 million are supplemented by \$325 million in additional capital raised by these funds from other investors, bringing total investments available for New York transactions to \$750 million. Even more capital is involved when the impact of syndication of transactions (several private equity funds will generally participate in a single investment) and lending and other forms of financing is considered.

**Figure 3**  
**Cumulative Commitments Made Through In-State Private Equity Program**  
(In Millions)



The in-state program is in addition to an existing lending partnership CRF has with the New York Business Development Corporation (NYBDC). Since the program began in 1987, NYBDC has made 650 loans totaling \$185.2 million to New York small businesses. During the 2005-06 fiscal year, 47 loans totaling \$10.2 million were completed.

CRF has built a portfolio that is well diversified by geographic focus, stage of investment, transaction types and industry.

### **Geographic Diversification**

The fifteen funds that comprise CRF's in-state program are located throughout New York, with offices from Buffalo to Long Island. None of the funds geographically constrained to a particular area within the state, and all will actively seek out investments throughout all regions in New York. Below are examples of the funds' investments outside of their home territory.

- Summer Street, based in Buffalo, has made investments in Syracuse, the Mid-Hudson Valley, and Albany.
- Softbank NY, also based in Buffalo, has invested in New York City.
- DeltaPoint, based in Rochester, has invested in Coxsackie and Albany.

- Founders, based in New York City, has invested in Saratoga County and Montgomery County.

## Industry

The managers of CRF's fifteen funds have expertise in a broad range of industries, including traditional manufacturing, business and consumer services, telecommunications, as well as a number of high technology areas where New York offers promising investment opportunities.

**Life sciences and biotechnology.** New York State has a number of resources in the life sciences sector that should generate excellent investment opportunities. New York is ranked third nationally among states in the award of grants by the National Institutes of Health, with 4,718 grants totaling \$1.7 billion in 2002.<sup>5</sup> This support of basic research has not, however, translated into investment opportunities. In 2005, the New York Metropolitan Region accounted for only \$289 million of the \$6.6 billion invested nationally by venture capital funds in the health sector. New York was far behind the \$1.9 billion that was invested in California's Silicon Valley, the \$863 million invested in New England and the \$671 million invested in San Diego.<sup>6</sup>

The availability of capital through a dedicated New York investment program as well as the presence of several funds in New York that focus on the life sciences should address this funding gap. In addition, a new bioscience center will be developed in New York City near Bellevue Hospital. The center will provide much needed incubator space to help New York companies develop new technologies.

- Easton Hunt Capital Partners, Wheatley Partners and Ascent Biomedical Ventures are three funds in CRF's in-state portfolio with expertise in the life sciences.

**Information technology (IT).** New York state is home to a number of information technology companies that develop software or provide services to businesses and consumers. The presence of a number of large firms in this sector has led to the creation of new small businesses as former members of those large companies decide to start their own entrepreneurial businesses. In addition, New York's higher education institutions have also spawned small, IT companies.

- FA Tech Ventures, Ascend Ventures, Wheatley Partners, High Peaks, Easton Hunt Capital Partners, Paladin Homeland Security Fund, and GSAVP New York all have significant expertise in investing in the IT sector.

**Nanotechnology** is one of the most widely cited new technologies that has the potential for offering significant advances in medicine, manufacturing and other sectors. Several New York higher education institutions have efforts to support research in nanotechnology. Applied

---

<sup>5</sup> For federal fiscal year 2002, Source: United States National Institutes of Health, <http://grants1.nih.gov/grants/award/trends/states02.htm>.

<sup>6</sup> Pricewaterhouse Coopers/National Venture Capital Association, *Venture Capital Investment in Health Industries Report: Full Year and Q4 2005 Results*, March 2006.

Nanoworks, based in Albany, and BinOptics, based in Ithaca, are both developing products using nanoscience.

- Both FA Tech Ventures and High Peaks Ventures have expertise in this area.

## **Investment Stage**

The funds in CRF's in-state program cover a full range of investment stages, from venture capital for new businesses, growth equity for established companies that are seeking to expand, and buyout funding for businesses that are undergoing ownership transitions and seeking growth. Of the \$425 million in CRF commitments, \$203 million has been to firms focusing on venture capital, \$77.9 million has gone to funds making buyout and growth equity investments and \$150 million has gone to funds that invest across stages.

Venture backed businesses are of significant interest for economic development because early stage companies have the potential for significant growth and frequently are involved in developing new technologies that may lead to the formation of related businesses.

- FA Tech Ventures, Ascend Ventures, Wheatley Partners, High Peaks, Eatson Hunt, Paladin Homeland Security, Trillium, Softbank NY, Ascent Biomedical Ventures, and GSAVP all pursue venture transactions.

Growth equity is also important from an economic development perspective because the availability of expansion financing allows established businesses to expand and acquire related businesses.

- Summer Street, DeltaPoint, Founders, Easton Hunt, Paladin Homeland Security, and Trillium invest in growth equity transactions.

Buyout transactions help finance the transfer of ownership of established businesses. These are frequently family owned companies where the founder is nearing retirement. Large companies also use buyout transactions to dispose of businesses that are not core to their main activities. Buyout transactions frequently involve businesses with significant existing employment and the potential to grow if stable financing is made available. Companies undergoing a buyout are also marketed nationally to other businesses and financial investors; the availability of capital available within New York State is critically important to ensure that these companies continue to be located in the state.

- Summer Street, DeltaPoint, and Trillium do buyout transactions.

## **Employment**

Buyout and growth equity investments frequently involve organizations with substantial employment and prospects for job growth. The 64 companies in which CRF had invested had approximately 3,700 employees at the time of initial investment. There were an estimated 4,500 as of March 2006.

**Table 1**  
**In-State Investment Program Fund Portfolio**  
**As of March 31, 2006**

<b>Fund</b>	<b>Stage</b>	<b>Commitment Date</b>	<b>Amount</b>
FA Tech Ventures <sup>1</sup>	Venture	Oct-00	25.0
Summer Street	Buyout	Aug-00	25.0
Ascend <sup>2</sup>	Venture	Mar-01	2.5
Ascend NY	Venture	Apr-01	5.0
Wheatley	Venture	Jul-02	25.0
Delta Point	Buyout	Aug-02	21.9
<b>Subtotal: Pre 2003</b>			<b>\$104</b>
Hamilton Lane Coinvestment	Buyout/Venture	Sep-03	50
Wheatley Additional Commitment	Venture	Dec-03	25
High Peaks	Venture	Dec-03	30
Founders	Growth/Buyout	Dec-03	20
Easton Hunt	Venture/Growth	Dec-03	30
Paladin Homeland Security Fund	Growth	May-04	20
Trillium Lakefront Partners	Venture	May-04	25
Ascend Ventures NY II	Venture	Oct-04	20
Summer Street Capital II	Buyout	May-05	6
CSFB Coinvestment	Multistage	May-05	25
Softbank NY	Venture	Jun-05	30
Ascent Biomedical Ventures I NY	Venture	Dec-05	15
GSAVP New York	Venture	Mar-06	25
<b>Subtotal: Since 2003</b>			<b>321</b>
<b>Total: All to date</b>			<b>\$425</b>

<sup>1</sup> FA Tech Ventures received a total commitment of \$50 million; \$25 million is the targeted New York State portion

<sup>2</sup> Ascend Ventures received a total commitment of \$10 million; \$2.5 million is the targeted New York State portion.

## Description of New York State Common Retirement Fund's (CRF) Portfolio



**FA Technology Ventures** is an Albany-based venture capital fund affiliated with First Albany Corporation, a regional investment bank. CRF's commitment includes \$25 million dedicated to New York investments. The fund seeks to capitalize on large trends that create attractive investment opportunities in two areas:

- The continuing IT (Information Technology) revolution, including software-based services, networked communications, Internet-enabled business models, and novel technologies,
- The emerging ET (Energy Technology) developments in the production of new-age power generation, storage, conditioning, and delivery systems.

FA Technology Ventures makes new investments of \$3 to \$8 million in early and expansion stage IT and ET companies. The fund's total available capital is approximately \$100 million.

Contact: John Cococcia, (518) 447-8200

Web site: [www.fatechventures.com](http://www.fatechventures.com)



**Summer Street Capital Partners** is headquartered in Buffalo. The fund has approximately \$100 million in committed capital provided by an investor group that includes national banking institutions, regional banks, the Small Business Administration, and high net worth individuals. CRF's commitment is \$25 million.

Summer Street focuses on investments with the following characteristics:

- Profitable companies with growth potential,
- Companies with market values of approximately \$10 to \$100 million,
- Strong management partners either already in place, or recruited from our network of potential partners,
- Proven products and technology,

Summer Street invests in acquisitions, phased buyouts of closely-held companies, recapitalizations, and expansion capital. The fund generally invests \$2-\$10 million per transaction.

Contact: Gary Hull, (716) 566-2900

Web site: [www.summerstreetcapital.com](http://www.summerstreetcapital.com)



**Ascend Venture Group** is located in New York City and invests in early-stage businesses that leverage emerging technologies, including computer hardware, software, online services and other Internet-related businesses. CRF's commitment includes \$27.5 million for New York investments. Ascend focuses on the following areas:

- Outsourced business services and software providers, especially those targeting small and medium-sized enterprises,
- Application of technology in the education, energy, financial services and retail sectors,
- Application of technology to improve direct marketing effectiveness, and
- Anywhere, anytime access to information.

Ascend actively uses minority and women-based networks to identify attractive investment opportunities.

Contact: David Bowen (212) 324-2222

Website: [www.ascendvetures.com](http://www.ascendvetures.com)



**DeltaPoint Capital Management** is a Rochester based fund with approximately \$44 million in total commitments; CRF's share of DeltaPoint's committed capital is \$22 million. The fund invests in management-led buyouts, corporate divestitures, going private transactions, and ownership transitions of family businesses. Businesses should be established with proven cash flow and revenues of at least \$5 million. Focus industries include manufacturing, distribution and specialized services. As a member of the board of directors of its portfolio companies, DeltaPoint is involved in the development and implementation of financial and operational strategies.

Contact: David Waterman (585) 454-6990

Website: [www.deltapointcapital.com](http://www.deltapointcapital.com)



**Wheatley Partners** is a New York-based private equity firm focused primarily on technology-related companies. CRF provided Wheatley with \$50 million in commitments. Wheatley works closely with entrepreneurs to build successful businesses and supports its portfolio companies at all stages of development. Wheatley's target sectors include Software, Business Services, Information Technology Services, Life Sciences, Medical Devices, Communications, Networking and Education.

Since its inception in 1992, Wheatley Partners has invested in over 150 private companies, most through multiple rounds of financing. Wheatley's principals have been investing in both public and private companies for over thirty years.

Contact: Larry Wagenberg (212) 918-0563

Website: [www.wheatleypartners.com](http://www.wheatleypartners.com)

# Founders

**Founders Equity** is a New York City based fund focusing on providing growth capital to existing businesses. CRF committed \$20 million to this fund. Founders is actively seeking out opportunities in the following areas:

- Information, Healthcare Delivery, Business and Environmental Services
- Outsourcing and Distribution
- Food/Food Services
- Industrial Manufacturing
- E-Commerce and Enhanced Technological Solutions Applied to "Old Economy" Businesses.

Founders primarily invests in stages ranging from accelerating growth to small-cap buyouts. Target companies will have the following characteristics:

- Size of Investments: Between \$5 and \$15 million for consolidation investments, and between \$3 and \$7 million for growth equity investments
- Size of Companies: Companies with valuations between \$10 and \$150 million.

Contact: John Teeger (212) 829-0900, x 203  
Web site: [www.fequity.com](http://www.fequity.com)



**High Peaks Venture Partners** is based in the Capital District with offices in Saratoga Springs and at Rensselaer Polytechnic Institute's (RPI) incubator, located on RPI's Troy campus. CRF committed \$30 million to High Peaks.

High Peaks will focus on making early-stage venture capital investments. Equity investments will range from \$500,000 to \$4 million in technology oriented businesses; investments in individual portfolio companies will be deployed in tranches of between \$500,000 to \$1.5 million. The geographic focus of the fund is upstate New York, in the region between "Tech Valley" in the Capital District area to Buffalo.

High Peaks is the upstate New York affiliate of Village Ventures, a consortium of thirteen venture capital funds located in areas not traditionally serviced by private equity investors. The network includes funds located in Middlebury, VT; Indiana; Portland, ME; Providence, RI; Williamstown, MA; and Boise, ID. The affiliation with Village Ventures will provide High Peaks with three major resources: networking and business contacts, capital and back office support.

Contact: Bela Musits or Brad Svrluga (518) 306-3058  
Web site: [www.highpeaksventures.com](http://www.highpeaksventures.com)



HAMILTON LANE

capital.

**New York Coinvestment Program** is managed by Hamilton Lane advisors. It provides additional capital to private equity fund investors who are deploying capital in New York State. Hamilton Lane Advisors will seek out private equity funds that are considering an investment in New York State. The Coinvestment Program will provide an additional source of

Contact: David Helgerson (610) 617-5338

Web site: [www.hamiltonlane.com](http://www.hamiltonlane.com)

**EASTON HUNT**

**Easton Hunt Capital Partners**, is a Buffalo and New York City based venture capital/private equity fund. The firm takes a multidisciplinary approach to investing by considering both venture capital investment in developing companies and growth equity investments in established businesses.

Targeted investments include:

- Healthcare has represented, and will continue to represent, the largest single segment of Easton's investment portfolio. Easton invests in all segments of the healthcare industry, including biopharmaceuticals, drug delivery, medical devices and healthcare services.
- Other growth capital opportunities which address continuing persistent societal needs:
  - Companies in overlooked or out-of-favor basic industries.
  - Companies with innovative products and services that have achieved or are likely to quickly achieve a critical level of commercial acceptance.

Easton invests between \$2 million and \$7.5 million in a company and prefers to invest alongside other strong financial players to provide maximum value to the company and to ensure the availability of adequate growth capital. Easton has generally not been a seed stage investor.

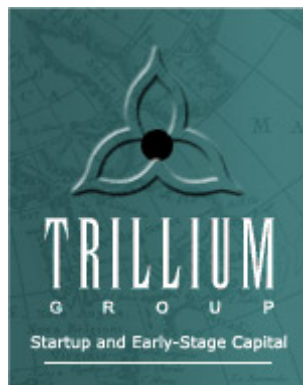
Contact: Richard Schneider, (212) 702-0950

Web site: [www.eastoncapital.com](http://www.eastoncapital.com)



**Paladin Homeland Security Fund** is a Washington DC based private equity fund that opened a New York office to pursue New York-based investment opportunities. The fund invests in enterprises whose principal business centers on products and services that address homeland security issues and needs. The Fund's first priority will be to invest in existing companies with immediate solutions designed to prevent harmful attacks, defend against attacks, cope with the aftermath of attack or disaster and recover from terrorist attacks and other threats to homeland security. CRF's investments will only be used to fund New York based businesses.

Contact: Mark Maloney (202) 293-5590  
Web site: [www.paladincapgroup.com](http://www.paladincapgroup.com)



**Trillium Lakefront Partners** is a Rochester based venture capital fund. Trillium invests in early stage businesses in growth technology areas, particularly those involved in photonics, imaging, medical technology and software, enterprise software and wireless or optical communications. Photonics and medical technology, areas where the principals have strong expertise, will be a priority for the fund.

Trillium plans to be the first venture capital round in portfolio companies, which will likely have received funding previously from seed or start-up angel sources.

Contact: Denny DeLeo (585) 383-5680  
Web site: [www.trillium-group.com](http://www.trillium-group.com)



**Credit Suisse First Boston Customized Funds Investment Group.** CSFB manages a coinvestment fund that provides capital to private equity

investors undertaking New York transactions. This investment is structured similar to the coinvestment fund managed by Hamilton Lane.

Contact: Nadim Barakat (212) 538-3423  
Web site: [www.csfb.com](http://www.csfb.com)

## **SoftBank Capital** **Softbank Capital Technology New York Fund.** In partnership with

Softbank, a global leader in technology, the Softbank NY fund invests in broadband technology and technologies that leverage broadband. Broadband refers to high-speed Internet connections that allow the transmission of large volumes of data (including sound and video). This investment focus is comprised of three main categories:

- *Enabling technologies* would include investments in technologies such as wireless computer communications, telephony, and home media technologies.
- *Applications* using broadband include advertising and gaming.
- *Content and Services* including entertainment and advertising.

Softbank NY plans to invest between \$3 million and \$5 million in each portfolio company, with initial investments of between \$1 million and \$3 million. Targeted companies will require less than \$20 million in total capital from all investors to reach cash flow break even. Softbank NY anticipates that it will be the first or second institutional capital in its portfolio companies and will generally invest after technology risks have been reduced.

Contact: Jordan Levy (716) 845-7522

Web Site: [www.seedcp.com](http://www.seedcp.com)



**Ascent Biomedical Ventures NY** is a New York City based venture capital fund focusing on life sciences. Ascent targets early stage companies and plans to be the lead or co-lead investor in a company's first institutional round. It will use relationships it has with leading clinicians in cardiovascular disease,

orthopedics, oncology and lipid metabolism to source transactions.

In the medical device sector, Ascent will focus on companies whose products have gained acceptance from thought leaders in the field. Target products will address a large market and will provide a substantial improvement over current standards of care.

In biotechnology and pharmacology, Ascent will seek companies developing novel therapeutic approaches that have a short time to commercial development.

Contact: Geoff Smith (212) 688-8810

Web site: [www.theascentgroup.com](http://www.theascentgroup.com)

Greenhill



**GSVP New York** is an early-stage applied technology venture firm focused on investing in business information and technology-enabled services companies located in New York State. The fund specializes in applied technology businesses that build on existing technology rather than create new core technology. Applied technology businesses improve the efficiency of business processes by using technology to increase the speed of communication, shorten product and sales cycles and provide demonstrable benefits to customers.

The fund's managers will be seeking investments throughout New York State.

Contact: Brian Hirsch (212) 967-6545

Web site: [www.savp.com](http://www.savp.com)

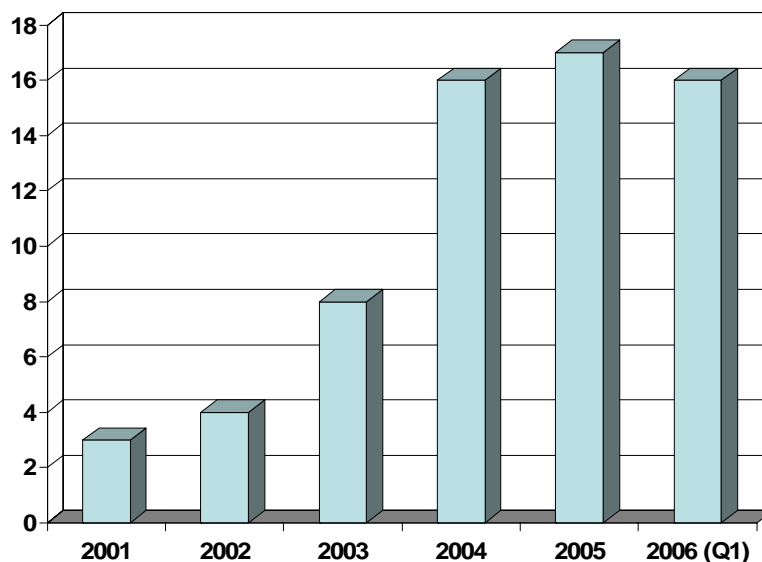
## VI. CAPITAL DEPLOYED BY PRIVATE EQUITY FUND MANAGERS

CRF's managers have invested \$145.6 million of CRF's capital in 64 different companies. This compares to the \$16.9 million invested in seven companies as of December 31, 2002. The substantial increase in the pace of investment activity is a result of both expanding the number of funds in which CRF has invested and also the natural delay in investment activity that occurs when a fund begins operations. Private equity transactions take time to identify and complete; there is frequently a period of over six months between the time a potential investment is located and an investment is completed.

**Table 2**  
**Annual Investment of CRF Capital**  
(Dollar amounts in Millions)

Year	Number of Investments	CRF Capital
2001	3	\$6.6
2002	4	\$10.3
2003	8	\$25.7
2004	16	\$35.0
2005	17	\$31.4
2006 (Q1)	16	\$36.6
<b>TOTAL</b>	<b>64</b>	<b>\$145.6</b>

**Figure 4**  
**New Investments Made by Calendar Year**



The full impact of CRF’s capital is magnified both by the funds provided by other investors to CRF’s managers as well as the participation of other private equity funds and lenders in the transactions in which CRF’s capital is deployed.

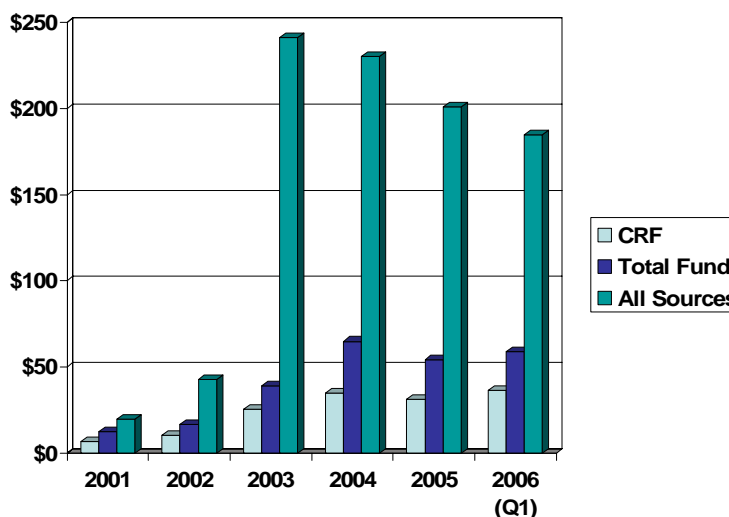
In addition to the \$145.6 million of CRF’s capital, there was \$101 million in capital from other investors in the same funds in which CRF invested. The total of \$246.6 million provides substantial leverage to CRF’s capital. This leverage is further increased when the total capital from all sources in these 64 transactions is considered: a total of \$919 million was provided to the 64 companies – over six times CRF’s capital.

**Table 3**  
**Total Capital from All Sources Deployed in CRF Portfolio Companies**  
(Dollar amounts in millions)

Year	CRF Capital	Total Fund Capital	All Capital
2001	\$6.6	\$12.5	\$19.8
2002	\$10.3	\$16.7	\$42.7
2003	\$25.7	\$39.0	\$241.1
2004	\$35.0	\$65.0	\$230.3
2005	\$31.4	\$54.4	\$201.1
2006 (Q1)	\$36.6	\$59.1	\$184.9
<b>TOTAL</b>	<b>\$145.6</b>	<b>\$246.6</b>	<b>\$919.9</b>

Note: **CRF Capital** includes funds provided directly by the Common Retirement Fund.  
**Total Fund Capital** includes CRF Capital plus funds provided by other investors.  
**All Capital** includes Total Fund Capital plus other sources of financing for the transactions in which CRF invested, including loans, other equity investors.

**Figure 5**  
**Capital Invested by Source in CRF Portfolio Companies**  
(Dollar Amounts in millions)



Because upstate New York has historically lagged the state in the availability of private capital, CRF has actively sought out fund managers located in the region to take advantage of the investment opportunities brought about by upstate's capital gap. Approximately half of CRF's capital has been deployed to companies located north of the New York City suburbs, 13 percent of investments were in suburban New York City and 38 percent was in New York City. The relative shares by region are roughly constant for total fund capital and all capital invested. Table 4 below provides detail

**Table 4**  
**Regional Distribution of Capital Invested in CRF Portfolio Companies**  
(Dollar Amounts in Millions)

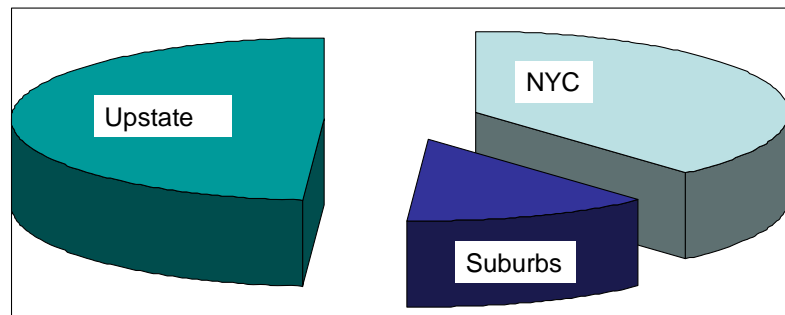
Region	CRF Capital	Fund Capital	All Capital
Eastern Upstate	\$22.8	\$43.9	\$125.4
Central Upstate	\$27.7	\$47.3	\$165.1
Western Upstate	\$20.5	\$31.3	\$159.9
Subtotal: Upstate	\$71.0	\$122.5	\$450.4
Suburbs	\$18.9	\$29.3	\$105.9
New York City	\$55.7	\$94.8	\$363.6
<b>TOTAL</b>	<b>\$145.6</b>	<b>\$246.6</b>	<b>\$919.9</b>

Eastern Upstate includes the counties north of Rockland and Westchester, with Schenectady at the western border. (Hudson Valley, Capital District and North Country).

Central Upstate includes the counties west of the Capital District and east of Erie County. (Mohawk Valley, Southern Tier and Finger Lakes)

Western Upstate includes the counties west of the Finger Lakes.

**Figure 6**  
**Share of CRF Capital Deployed by Region**



## Success Studies



VersaMed designs, manufactures and markets a compact, software-based, “smart” medical ventilator that is capable of supporting patients requiring mechanical ventilation. Wheatley Partners invested \$3 million in VersaMed in June 2003 (including \$1.5 million contributed from CRF). The company was located in New Jersey when it began seeking financing; as a condition of the investment from Wheatley using CRF assets, the company moved to Rockland County.



Summer Street Capital invested \$4.25 million in Reichert in December 2002. The transaction allowed management of this Buffalo-based subsidiary of Leica Microsystems AG to purchase the ophthalmic instruments manufacturing subsidiary. A sale to the division’s existing plant management was crucial to keep jobs in New York; other potential buyers were in similar businesses and would likely have closed the New York business and consolidated operations out of state. Employment at Reichert has expanded from 120 when the investment was made to 156 at the end of 2005. Summer Street assisted in Reichert’s recent acquisition of Leica’s Microscope Division, which saved and additional 23 jobs in Buffalo.



Latham International does business as Pacific Pools in the US and Technican Pacific in Canada, and Triac Industries in Canada and the US. Latham International, headquartered in Latham, New York, is the leading manufacturer of swimming pool components and accessories in North America. Latham offers a broad line of products, including in-ground and above-ground vinyl pool liners, polymer and steel pool wall systems, steps and ladders, pool safety covers, spillover spas and a variety of other pool related accessories. Latham's products are sold both through business-to-business distribution channels in the U.S., Canada and Europe and direct to pool builders and dealers. Summer Street Capital invested \$7.7 million in the buyout of Latham (the owner of Pacific Pools) from Cookson PLC, its United Kingdom based parent company. CRF’s share of the investment was \$3.8 million. Cookson was seeking to divest a portion of its United States assets and Summer Street partnered with the former owner to restore local ownership and preserve New York jobs. Pacific Pools manufactures vinyl pool liners and pool accessories in two plants in the capital district.

Summer Street sold its investment in September 2004 for a total of \$43.3 million, or a multiple of 5.7 times its original investment and a compound annual rate of return of 88 percent.



FA Tech Ventures invested \$1.5 million in Pittsford-based Concentrix. Concentrix is a leader in providing outsourced customer relationship management (CRM) services, which involve helping companies manage existing customers and acquire new customers. Concentrix offers companies a full range of strategic services to expand their customer base, and provides the resources necessary to implement those campaigns such as call centers, databases, and printing and mailings. The investment helped stabilize Concentrix, which was struggling at the time; it has since been able to expand employment in the Rochester area. The investment will allow Concentrix to expand its customer base. Employment has expanded from 191 at the time of investment to 304 at the end of 2005.



The NewsMarket provides a digital distribution channel to large corporations, government agencies and non-profit organizations for their public relations and corporate marketing activities. The company has constructed a Web-based platform that enables journalists to find, preview and obtain free video and other multimedia content online in a simple and intuitive way. Ascend Ventures was an early investor in the NewMarket in 2002. Softbank NY and HighPeaks both invested at the end of 2005. CRF has a total of \$4.3 million invested in the company.



Cara Therapeutics is a Tarrytown-based emerging biotechnology company focused on developing novel therapeutics to treat human diseases associated with pain and inflammation. The company has both near-term clinical development opportunities combined with proprietary approaches to developing first-in-class novel therapeutics. Cara's first patented compound, CR665, has entered clinical testing for acute pain. This best-in-class compound possesses unique analgesic and anti-inflammatory activities appropriate for multiple therapeutic applications. In addition, Cara aims to develop a future pipeline of first-in-class molecules at novel analgesic and anti-inflammatory targets using its proprietary drug screening technology. Ascent Biomedical invested \$0.5 million of CRF's capital in December 2005.



Founded in 1999, Knovel has offices in Norwich, Binghamton and New York City. Knovel delivers a virtual library of technical information and analysis tools to scientists, engineers and librarians worldwide. The company plans to create 30 new jobs in Binghamton, Norwich and New York City between 2005 and 2008. Knovel users can analyze and reorganize the data in over 800 full-text engineering and scientific reference works, handbooks, and databases. CSFB invested \$2.1 million of CRF capital in July 2005.



PCORE Electric is North America's only company 100% focused on the manufacturing of capacitance graded bushings, and related components, for transformers and oil circuit breakers. The company provides tailored solutions to the North American electric industry for bushings and related components. Established in July 2004 when the Bushing Division assets of the Lapp Insulator Company, LLC were acquired, PCore products are applied around the world on power generators, transformers, circuit breakers, and substations. PCore is located in LeRoy, New York, 25 miles southwest of Rochester. DeltaPoint invested \$2.5 million of CRF's capital in July 2005.



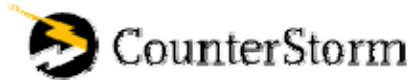
Acorda Therapeutics was established in March 1995 to develop therapies that restore neurological function to people with spinal cord injury (SCI), multiple sclerosis (MS) and related conditions of the nervous system. Acorda's marketed products include Zanaflex Capsules and Zanaflex, short-acting drugs approved for the management of spasticity. The Company also has a product in clinical development called Fampridine-SR that is being developed in human clinical trials for both MS and spinal cord injury. Additionally, Acorda is developing multiple approaches to regeneration and repair of the spinal cord and brain. Core technologies developed by Acorda for SCI and MS have potentially broad applicability for other neurological conditions. Focusing on these medical conditions provides insight into chronic and acute CNS conditions. EastonHunt invested \$0.75 million of CRF's capital in February 2004.



Established in 2001 and based in Rensselaer, Autotask has become the pioneer and #1 provider of web-based information technology (IT) services management software, used by thousands of IT service professionals. Autotask has been adopted by software companies as well as a wide array of professional services organizations including architecture, engineering, construction, government contractor, accounting, advertising, design, marketing, public relations, law firms, manufacturers, resellers and telecom companies. In April, 2004 the TechConnex Awards named Autotask a "Rising Star" for its excellent growth potential. Autotask Corporation achieved a double milestone in May 2004: landing its 100th customer and receiving \$2.5 million in equity investment from FA Technology Ventures. In September 2004, Autotask was named one of the "Great Places to Work in the Capital Region" by the Capital District Business Review. In December 2004, Autotask, was named a finalist in the Software and Information Industry Association's 20th annual CODiE awards, Best Business Productivity Product or Service category. In March 2005, Software Development magazine selected Autotask as a "Productivity Winner" in the prestigious Management Tools category during the magazine's 15th Annual Jolt Product Excellence and Productivity Awards. In April 2005, Autotask Corporation reported that new business in the first quarter of 2005 was up 170 percent over the same period in 2004, and that the value of the new business had increased 250 percent over the same period the previous year. FATech Ventures invested \$1.6 million of CRF's capital in April 2004.

**northersafety.com**

Northern Safety is a national distributor of top quality safety and industrial supplies and has over 20,000 products in stock for construction, maintenance, agricultural, food preparation & handling, public service works, medical, and hazardous materials. The company started in 1983 as a Frankfort, New York home-based business delivering medical supplies to local companies. Northern Safety is headquartered in Frankfort, New York in a 94,000 square foot, state-of-the-art facility. The company stocks over 20,000 of the best, cutting-edge safety and industrial products. In September 2001, the company completed the expansion of the warehouse, doubling its size from 60,000 to 120,000 square feet to stock more products. Investment by in-state private equity firms prevented competitors from purchasing the company and likely moving operations out of New York State. Hamilton Lane and Trillium Lakefront Partners invested \$1.5 million of CRF's capital in June 2005.



CounterStorm is a New York City-based software developer; its products provide immediate defense against zero day, known and targeted attacks. Zero day attacks exploit software vulnerabilities during the period before fixes are readily available. Targeted attacks are aimed at specific industries or companies, with a level of customization that makes them almost impossible to detect with traditional network security products or intrusion detection. CounterStorm-1™ provides network security through a unique combination of behavioral attack recognition (intrusion detection), anomaly detection and a dynamic honeypot. Using patent-pending technologies, CounterStorm-1™ achieves unprecedented accuracy and speed to immediately quarantine infected machines and prevent widespread damage. CounterStorm is the first network security company to simultaneously win two Small Business Innovative Research Phase II grants from the Department Homeland Security. The Paladin Homeland Security Fund invested \$1.5 million of CRF's capital in May 2005.



Originally founded as Innovative Marble and Tile in 1981 and headquartered in Hauppauge, Innovative Stone is one of the leading global suppliers of natural stone serving the commercial and residential sectors with operations in New York, Brazil, China, India and Italy. The company's track record in successfully responding to highly time-sensitive and historically significant projects was recently enhanced by its assignment in June to source, polish, engrave and set the 20 ton cornerstone for the new Silverstein Properties Freedom Tower at the World Trade Center site. Innovative Stone is also a dominant force in the residential market as the foremost supplier of granite countertops to The Home Depot stores. Easton Hunt Capital Partners invested \$3 million of CRF's capital in June 2004.



IPLogic is headquartered in Albany and provides converged voice and data business communications solutions. IPLogic's core focus areas include IP telephony, network security, managed services, network infrastructure (LAN/WAN), training, and staffing services. The company's core customers come from a variety of industries, including higher education, healthcare, financial services, and state and local government. DeltaPoint Capital invested \$0.75 million of CRF's capital in June 2005.



Applied NanoWorks is CRF's first investment in a nanotechnology company. Applied Nanoworks is headquartered in the Watervliet Arsenal near Albany. The company has developed the most practical and effective nanomaterial technology available today. The key to releasing the power behind materials at the quantum level is having a reliable, high volume source of nanomaterials in the sub-10nm regime. Product managers, researchers and government contractors are all seeking novel materials that are predictable, tunable and can be mass produced. Access to these nanomaterials will enable an explosion of new product capabilities. Applied NanoWorks is bridging the gap between labs and industry with its family of high volume Pinnacle AF Colloids nanomaterials. HighPeaks and FATech Ventures invested \$2 million of CRF's capital in February 2006.



Convergence Technologies (CTi) was created to acquire and integrate information technology businesses in order to bring together the skill sets, products, customers and depth of knowledge from both telephony and information technology into a single seamless offering. CTi can manage the voice, data and video traffic from one source achieving substantial economic efficiencies for small/mid-sized companies, government entities and educational organizations. Based in White Plains, New York, CTi plans to make several acquisitions of companies that provide data integration services, including Voice over Internet Protocol (VoIP) technologies. Founders Equity invested \$1.7 million of CRF's capital in February 2004.

## VII. LEGISLATIVE AMENDMENTS

The operation of CRF is guided first by the Comptroller's fiduciary responsibility to invest according to the prudent investor standard and to ensure that investments are done for the sole benefit of the beneficiaries of CRF.

The legislation that initiated the Program recognized that fiduciary responsibility was paramount. CRF implemented the Program using the flexibility the legislation offered, consistent with the fiduciary obligations noted above. Discussions with private equity fund managers and other investors highlighted the need for a program that did not unnecessarily limit the types of investments that could be pursued. Fund managers also identified a significant unmet need for equity capital for existing small businesses, which offer an attractive risk/reward profile. From an economic development perspective, they also offer immediate benefits as a result of job retention and the prospect of expanded employment.

The following key statutory changes are suggested to enhance the flexibility of the program:

- Clarify that private investments at all stages of a company's development should be considered as eligible. A balanced portfolio that includes investment funds that invest in all stages of a company's development will provide diversification to CRF and also ensure that private capital is available for businesses as they grow.
- Remove the cap on number of employees in an eligible company. An effective private equity investment program requires the participation of other capital. Because financial investors are motivated by returns, maximum flexibility should be allowed.
- Remove the cap on amount that may be allocated to the program. Under Comptroller Hevesi, total commitments to the program have now passed the Legislature's target of \$250 million. In addition, several new funds are under consideration. The comptroller should be allowed to invest to the extent that suitable transactions are available.

Statement of Legislative Intent. Amend the second paragraph of section 2 of Chapter 624 of the Laws of 1999 (the "Jobs 2000 for New York State [J2K] Act" to read as follows:

The legislature hereby recognizes the need to foster economic growth, particularly in emerging technology industries, by increasing the availability of [public venture] private equity capital funding to New York state businesses and entrepreneurs. In addition, the legislature recognizes the need to attract private [venture] equity capital to New York. The legislature hereby determines that a New York state [venture capital] private equity program should be established.

Amend Retirement and Social Security Law section 423-b to read as follows:

§ 423-b. New York state [venture capital] private equity investment program. The comptroller is hereby authorized to establish within the common retirement fund a New York state [venture capital] private equity investment program for the purpose of investing in [qualified businesses

as defined in paragraph six of subdivision (a) of section eleven of the tax law] private businesses. The comptroller is authorized to invest such amounts that may be prudently deployed [up to two hundred fifty million dollars of assets of the common retirement fund to carry out the purposes of this section]. The comptroller may make investments pursuant to this section in partnerships, corporations, trusts or limited liability companies organized on a for-profit basis that enter into agreements to invest the moneys of the New York state venture capital program in qualified businesses. The comptroller shall make such investments consistent with the provisions of [paragraph (b) of] subdivision nine of section one hundred seventy-seven of this chapter. The comptroller may establish procedures necessary to insure that investments of moneys of the New York state [venture capital] private equity investment program are, for each investment in a qualified business, equitably matched by investments made by other sources. The comptroller shall, to the maximum extent practicable, insure that the geographic distribution of investments in the program is in proportion to the State population.