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## What's wrong with local investment pros?

On June 1, Gov. Mitch Daniels and officials from the Indiana Public Employees Retirement Fund announced the Indiana Investment Fund, a \$100 million investment vehicle. The fund will invest in early-stage startups and loans to mature firms. It will invest in Indiana-based agriculture, manufacturing, information technology, transportation and life sciences companies.



**BRIAN WILLIAMS**

*Commentary*

Credit Suisse was selected to manage this new fund. As a global investment bank, Credit Suisse certainly has skilled bankers who can evaluate investment proposals, gauge risk and structure transactions. With its global reach, Credit Suisse could help promising Indiana companies find additional capital.

Unfortunately, the structure of this deal is poor. The first problem is the dual assignment given to Credit Suisse, which is (1) to identify and make promising investments in Indiana companies; and (2) to identify and manage fund managers who will invest in Indiana companies. Each of these tasks is difficult and each requires different skill sets to execute successfully. The second problem is that capable Indiana firms were not selected.

The first assignment, to identify promising Indiana companies in which to invest, requires Credit Suisse to be viewed as a credible partner by Indiana

entrepreneurs and their advisers—the lawyers, bankers and accountants to whom they turn for counsel. Without a local presence, without local decision-making authority and without a track record of partnering with Indiana entrepreneurs, Credit Suisse must take the time to build relationships with the Indiana business community.

If PERF wanted a manager with a track record of successfully investing in companies in Indiana, why not select an existing Indiana fund manager? Hammond Kennedy & Whitney & Co. Inc. has an outstanding track record of investing in traditional manufacturing and distribution-related companies. HKW is headquartered in Indianapolis with offices in Chicago and New York. Centerfield Capital, Monument Advisors Inc. and CID Equity Partners have all shown an ability to invest in later-stage companies. Twilight Ventures, Gazelle TechVentures and Springmill Partners have all demonstrated an ability to invest in early-stage companies in technology, distribution and life sciences. Each of these Indiana firms is as capable of finding, evaluating and nurturing an Indiana investment as a New York City-based banker—maybe more so.

The second objective of the fund directs Credit Suisse to find fund managers in which to invest. Again, PERF missed the opportunity to nurture and grow existing Indiana businesses. Craig Dobbs, Bob Kaspar, Dave Knall, Jeff Moheban, Jeff Thomasson and their respective firms all have significant experience in selecting fund managers and all of them manage asset pools as

large as the Indiana Investment Fund or larger. Each of their firms can conduct manager due diligence as effectively as some folks in New York. More important, each of these firms would have been building talent in Indiana, hiring finance graduates from Indiana University, Purdue University, Butler University, the University of Notre Dame and their well-respected MBA programs.

Maybe there is merit in having one firm oversee both objectives. Again, why didn't PERF select a capable Indiana firm to do the job? City Securities Corp. has a long investment banking history and recently beat New York-based competitors to manage one of the state's biggest bond offerings. Their competitors at David A. Noyes & Co. and Periculum Capital Co. LLC also have meaningful histories of successful investment banking.

The state of Indiana has a policy that expresses a preference for Indiana firms. However, PERF chose to go to New York at the expense of a vibrant, successful Indiana investment community. Why? Credit Suisse has shown a commitment to manage Indiana dollars for a fee. There is nothing special in that relationship. PERF should have made a decision that generated a quadruple bottom line for Indiana: investing in Indiana managers, who hire Indiana college graduates, who invest in Indiana companies, who generate above-market returns for Indiana retirees. •

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