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GOVERNOR

STATE OF MICHIGAN
OFFICE OF THE GOVERNOR
LANSING

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Invest Michigan!

Aggressive Economic Transformation Through Investment Capital

To continue Michigan's aggressive economic transformation, the state will need to continue to diversify its economy by investing in growth companies that create high-skill, high-wage jobs.

Encouraging growing companies to plant roots in Michigan or existing companies to expand here can be challenging. While some companies are self-funded at early stages, many depend on venture capital to commercialize their products and grow as job-creating enterprises.

Traditionally, Michigan has lacked a continuum of capital necessary to help technology companies start and grow. The 21st Century Jobs Fund and Venture Michigan Fund – introduced by Governor Granholm in previous years – have been excellent initial steps in this process, investing \$100 million to create eight private funds focused on Michigan's early stage companies. Until this point, however, there has not been funding available for later-stage capital needs.

INVEST MICHIGAN!

A Powerful New Tool to Attract Jobs

This year, Michigan will introduce the Invest Michigan! Fund – one of the most aggressive efforts by any state in the nation to make investment capital available to successful entrepreneurs who create jobs here. This unique pool of capital will provide assistance to growing Michigan companies, attract world class investment firms to focus on the outstanding companies already present in Michigan, and encourage top-tier investors to locate their portfolio companies in Michigan.

The fund will be capitalized with \$300 million from the state of Michigan's pension fund over the next three years. The state will aggressively encourage other institutional investors – in-state foundations, universities, other units of government, and the business community – to commit investment capital and immediately grow the size of the fund.

Creation of this fund levels the playing field. Michigan makes the statement that we are not willing to be just a fly-over state – we want to, and can, compete with the coasts in making capital available to entrepreneurs.

INVEST MICHIGAN!

Making Investment Capital Available to Successful Entrepreneurs Who Create Jobs Here

- The state of Michigan Retirement System will initially commit, pending satisfactory completion of all due diligence items, \$150 million in capital. To protect retirees and assure soundness, a review will be made once this amount is invested to ensure that the fund's primary objective – a competitive return on investment – is being achieved. If the state treasurer determines that the fund has met – or is projected to meet – its primary objective of competitive returns, an additional \$150 million will be committed to the fund.
- Invest Michigan! will be professionally managed by a top-tier investment manager who will be responsible for underwriting all investments. The manager's primary focus will be to make sound, prudent investments that result in competitive returns.

- To help ensure the success of the businesses in which the fund will invest, an advisory board headed by top Michigan business officials will be created to mentor entrepreneurs who benefit from the fund. The board will assist in making contacts, connections with customers to help ensure success.
- The state currently invests in multi-state private equity, venture capital, and real estate in addition to stocks and bonds. Invest Michigan! will put Michigan's money to use growing jobs in Michigan by targeting co-investment opportunities in Michigan companies – opportunities which are currently not targeted by existing funds.
- Co-investments will represent approximately 80 percent of the fund's investments; 20 percent will be invested in venture capital funds that invest in Michigan companies.
- Invest Michigan! will be structured with a number of features that make it attractive to potential investors as well as to potential lead co-investors and portfolio companies, ultimately enhancing Michigan's company attraction and job creation efforts. Features include:
 - Very competitive management fees;
 - Growth stage and expanding companies targeted to maximize returns; and
 - Diversification by stage of company and by industry segment to help reduce risk and assist in broadening Michigan's economy.
- Other states use public pension fund dollars to invest specifically in their states or regions to great success for both their pensioners' investment returns and their state's economic vitality.
 - The New York State Common Retirement Fund has dedicated more than \$800 million to investments targeted in New York, with an emphasis on the underserved upstate region. Since 1999, the program has invested more than \$271 million in 107 New York companies. The New York Common Retirement Fund manages \$154.5 billion of which only 6.5 percent – or about \$10 billion – is allocated to alternative investments. Of that, \$836 million – or a little over 8 percent – is specifically targeted for in-state investments.
 - Between 2001 and 2006, California's Public Employees Retirement System (CALPERS) invested \$475 million in 130 companies in underserved areas, mostly in California creating more than 2,500 jobs and producing more than 16 percent annualized returns (as of 2005). In 2006, CALPERS dedicated \$500 million more to the program.
 - The Ohio Public Employees Retirement System dedicated \$50 million in 2005 and doubled its commitment to \$100 million this year citing excellent initial investment returns and 1,450 jobs. Indiana's Public Employees Retirement Fund dedicated \$155 million in 2006 to an in-state investment program, and the North Carolina Retirement System committed \$250 million.