

VC firms line up for cash

Ohio-Midwest Fund looking to invest \$51M

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by [Dan Eaton](#)

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When Mike Arpey talks about managing a new investment fund built with state pension money, one of the first things he says is likely one of the last things some politicians want to hear.

"We have no interest in economic development," Arpey said. "We're a fiduciary entity. We're entirely about rate of return."

Of course, he admits, if the fund does its intended job, the employment, investment and innovation discussed and desired by scores of political and business leaders will come naturally - it is just the icing, not the cake.

The Ohio Public Employee Retirement System in September announced the creation of the \$51-million Ohio-Midwest Fund, which is managed by [Credit Suisse First Boston LLC](#).

The goal of the fund is to invest in private venture capital firms, buy-out firms and firms that provide mezzanine funding.

Those firms would then invest in Ohio and Midwest-based companies, said Arpey, a Credit Suisse managing director who helps lead the investment bank's customized fund investment group.

Managers plan to meet with 26 firms seeking funding in the coming months, Arpey said, before the list is winnowed down to between six and eight firms that will receive investments. Some of those could be selected before the end of the year, he said.

"We're moving quick, moving aggressively," Arpey said. "We can do that because we know how to do it. We've done it before."

Credit Suisse manages similar funds for employee or teacher pension plans in Arkansas, Indiana, New York, Oregon and Texas.

One of the applicants hoping to make the cut for Ohio-Midwest Fund support is Columbus-based [Reservoir Venture Partners LP](#).

Curtis Crocker, Reservoir managing partner, said the fund's goals dovetail with those of his venture capital firm. Since its formation in 2000, Reservoir has invested in 12 companies, including six in Columbus and three others elsewhere in Ohio.

The key issue for a small venture capital fund such as Reservoir is access to capital, Crocker said. The Ohio-Midwest Fund provides a focused access that can be tapped into.

"Anything that stimulates capital is a good thing," he said. "These cannot be give-aways though. It has to be return-oriented."

Cincinnati-based [Fort Washington Investment Advisors Inc.](#), an investment-management company is not pursuing funding at this time, but is not ruling out approaching the fund in the future, said Stephen Baker, Fort Washington vice president of private equity.

He said more funding always is welcome to the state, especially early-stage funding and funding with a regional focus.

"We need more funds, more investors on the street," he said.

An added bonus is that the funding is a state source being directed toward regional funds, rather than national ones, as often is the case, Baker said.

Around the same time the Ohio-Midwest Fund was created, Fort Washington and Cleveland-based [Peppertree Partners LLC](#) collaborated to form Buckeye Venture Partners LLC, which will manage the \$100 million Ohio Capital Fund. The state-funded venture is aimed at early-stage technology companies.

Ohio presents promise

Arpey said the groups are complementary, not competitive.

Success by Buckeye Venture Partners affirms the belief that Ohio provides an opportunity for investment, he said, and because the Ohio-Midwest Fund could include buy-out firms, companies that benefit from venture capital infusions could eventually be buy-out targets.

Despite managing several state funds, Arpey said Credit Suisse only works with states where it sees potential for a good return on investment and has turned down other states' offers.

Most venture capital firms invest in companies in their own back yards, he said. With most of the investment money concentrated on the East and West coasts, that leaves ample opportunity in the Midwest. Ohio in particular, Arpey said, is fertile investment ground because of the number of major research universities, the diversity of businesses and a solid private equity infrastructure.

Aerospace and defense work, information technology, bioscience and advanced materials are among the state's strengths and possible areas of investment, he said.

The fund will be able to invest in firms that already have had success in the market, he said. Established firms also could leverage additional investment from outside of the market.

For proof of its faith, Credit Suisse is putting its own stake in the fund, contributing \$1 million.

"We don't part with money easily," Arpey said. "We don't part with it unless it is a good opportunity."

Key to the success, Arpey said, is a local focus.

The fund has an office in Columbus and has hired Mel Carter, who joined the fund after working as the senior vice president of member services with the [Columbus Chamber](#).

Firms that get funding will be required to host and attend networking events and other functions designed to promote the visibility of the fund.