



State-Run Venture Funds Picking Up Slack for Private VCs

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The Silicon Valley venture capital climate continues to improve, according to the quarterly VC survey from Fenwick & West, LLP. The survey examined the valuations -- and terms -- of venture financings for 100 technology companies headquartered in greater Silicon Valley which reported raising capital during the third quarter of this year.

State-run venture capital funds are increasingly financing early stage technology companies, picking up some of the slack left by private venture capitalists in the wake of the stock market bubble's burst, experts tell the E-Commerce Times.

Thirty-six states have venture funds, and the largest is Maryland's, started in 1994. Overseas governments also sponsor venture capital funds for their nascent technology industries, raising tens of millions of dollars for start-up firms.

Networking Investments

The Maryland Venture Fund (MVF) distinguishes itself from other American state-run funds by making larger investments than other funds, and focusing on leveraging additional private investment in its portfolio companies. Many other state-run funds focus on technology transfer from research institutions.

The MVF is run by six employees of the Maryland Department of Business and Economic Development, and has invested US\$48 million in more than 100 companies, in traditional venture-equity investments and in seed financing for basement-and-garage technologists, according to a statement. During its first 10 years in operation, MVF has an annual internal rate of return of close to 30 percent. The benchmark annual average for the venture fund industry is 20 to 25 percent, experts said.

Broad Spectrum

In May 2005, MVF announced its investment in Fidelis Security Systems of Bethesda, Md. "Fidelis produces network security software that prevents the loss of critical digital information. Since receiving funding from MVF and private VC funds, Fidelis has moved into larger offices, created nearly a dozen jobs and concluded a number of significant sales," said John Jordan, a spokesman for Fidelis, based in Washington D.C.

Overseas, government funds are producing similar results. The government-backed New Zealand Venture Investment Fund said this week it has received a flurry of applications from investors wanting to contribute to its Seed Co-Investment Fund 1.

The first round of applications Get the facts on wireless solutions suited to your industry. closed just over a week ago, on November 30, and the NZVIF received 13 investor applications from New Zealand angel investors and investor networks, said chief executive Franceska Banga.

The NZVIF was established by New Zealand's government in 2002 to fill a gap in funds operating at the high-risk "seed stage" of investment in New Zealand.

Banga said the applications were from across the spectrum, including software, electrical, electronic engineering, among other fields.

The NZVIF operates as a "fund of funds," investing \$1 for every \$2 of private capital invested.

In the latest round of funding, the maximum investment per deal was \$250,000, subject to at least 50:50 matching investment by the approved co-investor. The applicants were eligible for a maximum of \$4 million. The government hoped to finalize approvals for funding by February of next year.

Five funds operate under the aegis of the government there; iGlobe Treasury Management, TMT Ventures, No 8 Ventures, Endeavour iCap and BioPacificVentures.

Private VC Improving

Meanwhile, the Silicon Valley venture capital climate continues to improve, according to the quarterly VC survey from Fenwick & West, LLP.

The survey examined the valuations -- and terms -- of venture financings for 100 technology companies headquartered in greater Silicon Valley which reported raising capital during the third quarter of this year.

"The results show a continuation of positive trends in the venture environment," said Barry Kramer, partner in the firm and co-author of the survey.

What is more, Fenwick & West's Venture Capital Barometer -- a measurement of changes in share price of companies funded during the quarter -- was up 38 percent.

"The amount of the increase in the barometer was slightly less than the second quarter of 2005; it was the second highest over the past seven quarters," Kramer said.