



Industry Ventures/Little Hawk Acquisition

Frequently Asked Questions

1. What are the reasons for this acquisition?

A: Limited Partners looking to sell recent, unfunded commitments in venture capital funds have few options for liquidity. This remains a real problem in the venture capital asset class today. The addition of Little Hawk allows us to capitalize on this opportunity and offer limited partners access to these funds in a diversified manner, which is highly complementary to our secondary venture business in a segment of the market that is underserved.

Roland's expertise and relationships will help expand our secondary investment pipeline and due diligence capabilities while deepening relationships with general partners who manage smaller venture capital and growth equity funds.

This transaction is good for our two key constituencies—our investors and the general partners we work with, and it positions Industry as a leader in two of the most compelling investment areas of venture capital—secondaries and small funds.

2. How does this benefit your Limited Partners and General Partners?

A: We used firm capital to purchase Little Hawk, not our fund capital.

Specifically, the acquisition benefits **limited partners** by:

- expanding the combined firm's deal flow on both coasts;
- strengthens our research and due diligence capabilities on venture capital funded companies and managers;
- Little Hawk Capital has over 150 underlying company investments from 15 fund commitments. The firm has reviewed over 300 venture capital and growth equity funds and has a research database of fund, General Partner and company level performance.

For our **general partners**:

- Industry Ventures now can provide capital support throughout a fund's lifecycle including primary commitments, secondary purchases of unfunded and fully-funded limited partnership interests, fund liquidations and secondary direct investments.

3. Why would an institution invest in a fund of funds? What is the value?

A: If Little Hawk were a generic private equity fund of funds, Industry Ventures would not be interested. But the firm's focus on smaller venture and tech growth equity funds, and Roland's expertise and relationships are differentiators. Institutional investors have embraced fund of funds for geographic (India/China) or sector coverage (small buyouts) where relationships, due diligence and expertise are lacking. Given limited investment staff, it is extremely difficult for large institutions to continuously identify, evaluate and monitor smaller venture and growth equity managers and to proactively source unfunded secondary limited partnership interests. Furthermore, these large institutions are typically precluded from investing sufficient capital by a fund's small size



and would be forced to invest into an unmanageable number of smaller funds to achieve target allocations. It is a compelling case for such institutions to outsource their small venture fund investment program.

The data shows that top quartile private equity FoFs achieve healthy returns comparable to the returns of some of the best direct private equity partnerships (2009 Private Equity Intelligence Global Private Equity Review). In this 2009 Preqin Report, nearly two thirds (61%) of all fund of funds' investments were made into first or second quartile funds while only 14% were in bottom quartile funds. This positive skew confirms that fund of fund managers typically possess strong manager selection skills.

4. It's been widely covered that many experts believe the existing VC model is broken. Why do you think it's a good time to start doing primary investing into smaller funds?

A: The venture model isn't completely broken, it's going through a period of "cleaning out" underperforming managers and readjusting the amount of capital invested in the market —many firms have generated attractive returns in the last decade but there is clearly a change underway. We believe the industry is going to "right size" and that many of the well known venture capital funds have become too large (\$500M plus) to achieve historical outsized returns (i.e. 3-4x fund level) particularly in light of today's lackluster IPO market over the last five years. Little Hawk has built a portfolio of smaller fund managers that invest small amounts into capital efficient business which can achieve strong returns from more modest sub \$100M M&A exits and which can return multiples of their total committed capital from one or two "home run" investments. We believe smaller funds with highly experienced managers are a compelling investment strategy. When combined with buying unfunded limited partnership interests, we believe there are good returns and therefore interested in helping Little Hawk invest in this market.

5. When you say smaller venture capital and growth equity funds, what does this mean?

A: Little Hawk invests in sub \$250M venture capital funds and sub \$500M technology growth equity funds. We believe that funds with a specific expertise and focus that are small can produce outsized returns. Even small exits (sub \$100M) for these managers return large percentages of their fund size.

6. How is an unfunded secondary different from a secondary LP interest? What is the opportunity?

A: There is a need in the secondary market to pick up unfunded interests (0-50% called). Today, Industry Ventures doesn't focus on those interests because they are essentially investments in managers rather than in companies. Our secondary team looks at investment opportunities from a principal investing viewpoint and invests based on the merits of existing assets. This is fundamentally different than making an informed investment decision to back a manager. Most traditional secondary investors also shy away from interests that are less than 50% funded, particularly for venture capital. Though there are very few buyers of unfunded secondary interests, there is a growing pool of limited partners seeking to reduce their unfunded commitments given the recent financial turmoil. We believe this presents a tremendous opportunity.

7. Will the acquisition create a distraction to Industry or make the firm lose focus?

A: No. There are clearly defined teams, roles and target investments. Industry Ventures' secondary team will not spend any time evaluating primary or unfunded secondary investments—only Ken Wallace, who has been promoted to Vice President will work on both efforts. Both Industry Ventures and Industry Little Hawk focus on the same market, work with the same General Partners, and also are invested in the same underlying companies. The main difference between the groups is transaction type and where the firm invests along the lifecycle of a venture capital investment or fund. For example, Industry Ventures has completed secondary direct and fund transactions with four of Little Hawk's managers. These transactions include buying co-investors interests (i.e. secondary directs) and limited partnership interests.

8. Was the timing driven by the current economic environment?

A: Yes and No. This is a strategic broadening of our investment options that allows us to capitalize on the value we see in sub-\$250 million venture capital funds. Our track record proves that strong returns can be achieved in venture capital secondaries, and we believe one of the other compelling areas for venture capital investment is in smaller focused funds. This acquisition uniquely positions Industry Ventures as a preferred partner and differentiates us by offering a complete spectrum of solutions to the industry.

9. Are their conflicts of interest/how will you handle potential conflicts with investments?

A: There are structural and contractual limitations in the IV/LH fund documents that clearly delineate the two fund strategies and teams.

10. How will the combined firm and funds be organized/structured? One firm?

A: Industry Ventures is acquiring Little Hawk. The firm name continues to be Industry Ventures. The particular funds will be jointly branded for their functions. Industry Ventures is our secondary fund and Industry Little Hawk is our primary and unfunded secondary fund.

11. Where will the firm's headquarters be? Will Little Hawk keep their offices?

A: The firm will continue to be headquartered in San Francisco. We will now have a bi-coastal presence with Little Hawk's office in the Washington, DC area (Alexandria, Virginia). Two offices will allow us to better cover both coasts. We expect to be more active in Boston, New York, DC and North Carolina. These are the centers of venture capital and growth equity on the East Coast and represent over 25% of our market.

12. What or who brought the firms together, and when did you start talking?

A: Industry Ventures and Little Hawk developed a relationship in 2008. Little Hawk is a Limited Partner in Industry Ventures Fund V and we have worked on transactions together over the last year. Industry Ventures isn't acquiring the Little Hawk funds, we are acquiring the management company.