

Industry spreads wings with Little Hawk acquisition

San Francisco-based Industry Ventures plans to capitalise on Little Hawk Capital's focus on investments in smaller funds and unfunded commitments.

By Christopher Witkowsky

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Industry Ventures, a secondary firm in the venture capital market, has acquired fellow venture secondaries player Little Hawk Capital Management for an undisclosed amount.

The deal will expand Industry Ventures focus in the VC secondaries space to include investments in unfunded commitments and small venture capital and technology growth capital funds.

Industry Ventures has traditionally invested in secondary and primary opportunities, including direct portfolios, direct secondaries, limited partner interests and special situations.

Little Hawk raised \$30 million for its debut fund in 2006 and has about 20 percent remaining, according to Little Hawk founder Roland Reynolds. Reynolds will continue to lead the fund and will work with Industry Ventures' executive Ken Wallace. Little Hawk has been rebranded Industry Little Hawk.

Industry Ventures has raised five funds since its founding in 1999 and has \$500 million under management. Its fifth fund collected \$265 million and closed in March.

With the acquisition, the firm is now positioned to take advantage of a massive consolidation in the VC industry that will occur over the next few years, according to Hans Swildens, principal and founder of Industry Ventures.

"We believe the VC industry as a whole is being right-sized," Swildens said. "Half the firms in the business today probably will not be in business five or 10 years from now."

Studies from secondaries firm Landmark Partners and placement agent Probitas Partners show that VC returns in the past decade have been anemic.

Reynolds and Swildens believe with the business combination, Industry Ventures is poised to take advantage of consolidation in the VC industry. The two most attractive areas in venture now are secondaries, because of the industry consolidation, and investments in smaller funds, according to the firm.

Reynolds said investors in venture funds will reduce new commitments to venture funds by 40 percent this year. Venture funds raised \$28 billion in 2008 and that number will drop to around \$17 billion in 2009, he said. About 600 firms operate "smaller" VC funds, which are funds with commitments of up to \$250 million. Reynolds said 300 of those 600 smaller funds will not be able to raise any new money.

The other 300 firms with smaller funds will be able to raise new capital and stay in business, and about half of those will raise larger funds and "lose a bit of their focus and specialisation", Reynolds said. The remaining 150 funds will continue to manage small funds and the top performers in that group will produce attractive returns, he said.

On top of the consolidation, venture firms at the “smaller” end of the market, those with up to \$250 million in commitments, have outperformed larger funds. The disparity between the performance of large and small funds will widen over the next few years, Reynolds said.

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