

Industry Ventures Acquires Fund-Of-Funds Manager Little Hawk

By Daniel Hausmann

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Seeking to build out a full secondary platform, secondary investor Industry Ventures is teaming up with venture fund-of-funds manager Little Hawk Capital Management LLC.

Industry Ventures' management company acquired the Alexandria, Va., management company for an undisclosed sum and renamed it Industry Little Hawk LLC. The deal has no effect on the limited partnerships on either side, according to both sides' management.

The Little Hawk deal gives Industry Ventures an arm that can acquire largely unfunded limited partnership interests in venture funds - often called "early secondaries," "secondary-lite" or "pregnant primaries."

With the liquidity crunch continuing, many limited partners have looked to sell off liabilities, such as their underfunded commitments in private equity funds. Industry Ventures Principal Hans Swildens said his firm has had to pass on a number of early secondary opportunities in this cycle because the firm invests in more seasoned limited partner interests, usually more than 50% funded.

"Unfunded secondaries are a big opportunity," Swildens said. "[Typical] secondary funds usually analyze the companies in a portfolio; [early secondaries] is more of a primary due-diligence process."

Little Hawk committed as a limited partner in Industry Ventures' most recent fund, the \$265 million Industry Ventures Fund V LP, which closed in March.

Swildens and Little Hawk founder Roland Reynolds started talking about a combination about eight weeks ago. For Little Hawk, it was an opportunity to accelerate the growth of its venture and growth equity fund-of-funds business, Reynolds said.

Little Hawk closed its debut fund, the \$30 million Little Hawk Venture Opportunity Fund LP, in 2006. That fund has about \$6 million left to invest, which will mostly be invested through secondary opportunities, Reynolds said. The firm will look to raise a fund of undisclosed size next year.

Besides picking up an East Coast base in Little Hawk, San Francisco-based Industry Ventures gets Reynolds' rolodex of contacts and diligence files on venture general partners.

"Because [Reynolds] spent the last four to five years doing due diligence on venture funds and because we've historically not done that, we believe this will make us a better investor on the secondary side," Swildens said.

Although they said they didn't need approval, Swildens and Reynolds said they reached out to their limited partners already to inform them of the deal. Industry Ventures Senior Analyst Ken Wallace was promoted to vice president and will work with Industry Little Hawk. Pat Hanson, former Little Hawk chief financial officer, will work as a consultant administering the Little Hawk fund. Reynolds said that move didn't trip any "key person" provisions.

Little Hawk was founded in 2005 and has investments in JMI Equity, .406 Ventures LLC, Battery Ventures and Frontier Capital. The firm typically committed to funds that were less than \$250 million in size, a

space Reynolds likes because he believes smaller funds have greater performance potential.

Combined with Industry Ventures, both firms have stakes in about 100 venture and growth equity limited partnerships.