



5 questions with Roland Reynolds

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Roland Reynolds, principal of Industry Little Hawk, talks about the secondary supply chain and techniques for spotting deals

Three years after launching an inaugural fund to invest in small venture and growth equity funds, Little Hawk Capital Management is partnering with a bigger predator.

The Alexandria, Va.-based firm announced in late September that it was acquired by San Francisco-based secondary investor Industry Ventures and will change its name to Industry Little Hawk.

It'll be a change of pace for Roland Reynolds, who launched Little Hawk Capital Management in 2006 with \$30 million and a mandate to invest in venture funds with less than \$250 million under management and growth equity funds with less than \$500 million under management.

Little Hawk is now looking to invest more aggressively in the subsector of the secondary market known as unfunded commitments. In particular, Reynolds says, Little Hawk will focus on stakes being sold by limited partners who have had less than 50% of their committed capital called down.

Part of the impetus for the combination, says Reynolds, was to enable Industry Ventures to become more of a "one stop shop" for venture firms seeking capital commitments, whether at the primary, unfunded secondary commitments, or traditional secondary stakes. To date, Little Hawk has been a primary investor in venture firms including .406 Ventures, Battery Ventures and Foundry Group.

With Little Hawk expected to complete investments out of its first fund in the next couple of quarters, the firm is prepping to launch a follow-on fund in 2010. No decision has been made on how much to raise, though it will be larger than the first fund, Reynolds tells PE Week Senior Editor Joanna Glasner.

Q: Why focus on unfunded commitments?

A: There's a lot of interest in the secondary marketplace, but most of the activity is around these fully funded secondaries. There is a unique window of opportunity to target some of these unfunded secondaries, where less than 50% of capital has been called. The economic downturn has created a situation where there are a number of limited partners whose circumstances have changed dramatically, and yet there aren't a whole lot of buyers for these unfunded secondaries.

Q: What's your criteria for choosing secondary investments?

A: We ask ourselves: 'Is this a manager we would have committed to on a primary basis?' If so, we simply improve our cost structure in that manager by buying an unfunded secondary.

Q: What kinds of deals can you get?

A: In some cases, you pay nothing for the capital that's already invested. For example, if it's a \$5 million commitment, and the seller has put in \$1 million, one can typically pick up the full stake in exchange for the \$4 million unfunded liability. The selling limited partner is often less concerned about getting compensation for the dollars they've already invested. What they're looking for is to get out of the existing commitment.

Q: How do you find the deals?

A: That was part of the rationale for the combination with Industry Ventures. Often, an opportunity isn't marketed as this great unfunded commitment investment. It may be buried, say, in a portfolio that an endowment is putting up or sale. Industry Ventures is seeing these portfolios and seeing these opportunities.

Q: Do you expect we'll still see a large supply of unfunded commitments on the market when the economy improves?

A: I suspect that the supply of the unfunded secondaries is going to be cyclical. We're seeing a significant supply today because of the economic conditions over the last 12 months. In 2006 and 2007, when we started out, I don't think there was as much. But there is always going to be some supply, as there are always going to be LPs who are facing a changed financial outlook.