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Industry Ventures raises $265M secondary VC fund

By Mary Kathleen Flynn

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Endowment assets are down. Some limited partners are struggling to make capital calls. And dozens of venture capital firms appear to be in business but are no longer investing in new companies. It all adds up to good news for the secondary market, as Industry Ventures LLC makes clear in its Monday announcement of a new $265 million fund. The San Francisco firm had planned to raise only $200 million in its Industry Ventures Fund V LP, which is oversubscribed.

Industry Ventures' business is clearly growing. The firm's fifth fund is more than twice the size of the last major fund it raised at the end of 2006. In 2008, the firm completed more than 40 acquisitions -- which included secondary direct investments in private companies and limited partner interests -- compared with 27 acquisitions the previous year. Some of the transactions involved high-profile VC funds, as well as successful growth-stage private companies, says Hans Swildens, principal and founder of Industry Ventures.

The number of institutions investing in the firm's funds has increased from 15 in the last fund to 20 in the new fund, with 65 % of the money coming from domestic and foreign pension funds, Swildens said. The other investors are life insurance companies, endowments, family offices and investment banks.

Although much of Industry Ventures' deals are conducted in private under nondisclosure agreements, bankruptcy filings sometimes reveal terms. For example, Industry Ventures bought interests in nine VC firms from Washington Mutual Bank, which collapsed in September. The firms include Arch Venture Partners, Madrona Venture Group and Maveron LLC, all with headquarters or offices in Seattle. Industry Ventures acquired the stakes for $3.1 million and assume unfunded commitments of $1.7 million.

Industry Ventures plans to invest its latest fund over two to three years through new acquisitions of direct investments and limited partnership interests that will typically range from $1 million to $25 million each. The firm also has a co-investment capability in Fund V that enables it to acquire larger special situation transactions with selected limited partners or strategic investors.

The secondary market is hardly new, but the current macroeconomic trends are making it hotter than ever. We became intrigued by the opportunities in the secondary market back in October, when Path 101 Inc. CEO Charlie O'Donnell blogged on the topic. In a past life, O'Donnell had worked on the VC investment team at the GM Pension Fund (now PEQM), which was a major investor in secondaries. The pension fund backed secondary funds, such as those from Lexington Partners, a competitor to Industry Ventures, and also did a number of direct transactions.

These days O'Donnell is focused on Path 101, which he co-founded with CTO Alex Lines and which launched its career development service publicly last week. Earlier in the month, the New York startup received $200,000 in backing from NYCSeed, adding to the $350,000 previously raised from a slew of angels, including Fred Wilson and Brad Burnham, co-founders of Union Square Ventures, where O'Donnell worked for as an analyst. Later this year, Path 101 plans to tap the primary VC market, when it hopes to raise $2 million to $3 million.