

Lack of access to top funds is No. 1 LP concern

For the past two years, Probitas Partners has run investor surveys that aim to take the temperature of institutional investors focused on private equity. One of our questions, focusing on “what keeps investors up at night” has attracted a fair amount of attention. However, as noted in *Table 1*, the preponderance of dollars placed in the buyout market skews the overall results, with the top three answers focused on the buyout world in general and mega funds in particular.

In January, Probitas sent questionnaires to more than 3,500 investors worldwide, from which we received 396 responses. Investors were allowed to select up to four answers from a list of 21, and were allowed to add their own specific fears as well. Fears specific to venture capital market didn't place in the top five investor concerns.

A different picture emerges when one strips out just those answers targeted more at the venture capital world. *Table 2* below ranks investors' fears for the venture market in particular, highlighting as well where those fears ranked overall in the survey.

On a quick review, two thoughts emerge. One, investors are concerned about getting

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access to the best funds. Two, they don't believe the VC model is broken.

Unlike the buyout sector, where future performance and alignment of interest are key issues, the No. 1 concern of investors is their inability to access top quartile managers. The concern here is not of a major market correction, but of their inability to put assets into the game.

Though investors have some concerns about the strength of the IPO market and the amount of money going into venture capital, there isn't a strong feeling that the entire VC investing model is broken, as Sevin Rosen Funds asserted last year. Investors are much more worried about getting access to high-performing funds than they are about venture capital investments not being able to perform.

Another interesting result of the survey, as it relates to venture capital, came from our question on sector interest, either by investment stage or by industry focus. Most

responses here were tightly clustered, with investors somewhat equally interested, for example, in multistage and late stage funds, or technology-only or life science-only funds. Only two sectors broke out of the pack:

Early stage funds. This was the only stage or sector that more than 50% of respondents

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targeted, and clearly led the pack.

Clean technology-only funds. Though a number of general partners are adding clean technology investments to sectors that they invest in as part of their base fund, investors are a bit sanguine about funds focused solely on clean technology. These funds clearly trailed the pack, with only 7.7% of respondents focusing attention there.

One final note on the survey relates to the beginning of a divergence between European and U.S. investors on their respective venture capital markets. Though there is considerable interest in U.S. venture capital on both sides of the Atlantic, there is a gap between the levels of interest between these two groups (*see Chart 1*). In addition, interest by Europeans in their local venture capital markets seems to be increasing, with noticeable difference between Europeans and Americans on the sector.

In last year’s survey, both sets of investors seem equally disinterested in European venture capital, with only 5% of respondents on both sides of the Atlantic focused on Europe. With an increasing number of U.S.-based venture companies listing on the AIM market, it will be interesting to see how these particular numbers change next year.

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