

## Cautious investors cool to venture capital firms

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### Funds hit lowest level in 15 years

By Robert Weisman, Globe Staff | October 13, 2009

Venture capital fund-raising, the rocket fuel for the nation's entrepreneurial economy, slid to its lowest level in 15 years in the third quarter, when just 17 venture firms raised \$1.5 billion, according to data released yesterday by the Thomson Reuters research firm.

By comparison, 63 venture capital firms raised \$8.5 billion in the third quarter of last year, while 27 firms raised \$1.9 billion in the second quarter of this year, the firm's data showed.

In Massachusetts, one of the US centers for venture capital and the high-tech start-ups they back, only two firms raised new funds in the three months ended Sept. 30. The two, Excel Venture Management of Boston and Longworth Venture Partners of Cambridge, pulled in a total of \$147.5 million from investors.

Venture fund-raising activity in recent years reached a peak in the fourth quarter of 2007, when 86 firms raised \$8.4 billion from investors, such as pension funds and university endowments. Since then, as the broader financial markets have weakened, those investors have become more cautious.

"This is part of the Darwinian environment we're in," said Mark G. Heesen, president of the National Venture Capital Association in Arlington, Va. "There are fewer venture capital funds being raised, so there will be fewer venture capital firms going forward."

Heesen said many venture firms have delayed fund-raising or raised less than they had hoped, while some have given up on raising funds and begun the years-long process of winding down activity in the funds they currently manage. The number of venture capital professionals, which soared from 5,600 in 1998 to 8,900 in 2007, fell back to 7,500 in 2008, the most recent year for which the venture capital association has statistics, Heesen said.

Excel Venture Management, one of the two Bay State firms that successfully raised investment money in the July-to-September period, is a two-year-old partnership focusing on health care, life sciences, and medical technology. The \$25 million it raised in the quarter brings its first fund, called Excel Medical Fund, to \$125 million, said Steve Gullans, managing director of the Boston firm.

Gullans said the Excel fund is being invested in start-ups in health care information technology, medical devices and diagnostic tools, and new biotechnology and life sciences applications, including biofuels and synthetic genomics. These niches have been expanding faster than other venture-backed businesses, said Gullans.

"Life sciences is growing to be a much larger component of many industries," he said. "Health care is already 16 or 17 percent of the US economy. With the life sciences platforms moving into other areas like biofuels, it's only going to be getting larger."

Fund-raising has become more difficult in the past year because many investors found their portfolios were overallocated to "alternative" investments, such as venture capital, when the assets in their stock-market investments tumbled, Gullans said. That has made it harder for them to justify new investments in venture funds.

"It took more meetings than anticipated" to raise the Excel fund, he said. "It took a little longer than we anticipated."

Now that it has raised its money, however, Excel has found there is less competition for potential investments from rival venture capital firms whose funds have been depleted. "We're seeing good opportunities now because there's very little money available," Gullans said. "And there are still a lot of attractive companies out there."

The other firm that raised money in the third quarter, Longworth Venture Partners, collected \$122.5 million. Officials from Longworth were unavailable for comment yesterday.

Heesen, at the venture capital association, said the third quarter could be a market bottom for venture fund-raising.

"There are a lot of venture firms that intentionally did not go out in the last few quarters," Heesen said. "For better or worse, all of the funds that were going to go out in 2009 will go out in 2010. They put off fund-raising, so you're going to have a much larger class next year."

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