FINANCING

Sequoia Looks to Shift Strategy

New Fund Could
Mean More Profits;
Self-Competitive?

By REBECCA BUCKMAN

Sequoia Capital, one of Silicon Valley's most influential venture-capital firms, appears to be laying the groundwork to invest in a host of new areas, which could range from public stocks to real estate to oil and gas -- and, potentially, put Sequoia in competition with some of its existing investors.

Sequoia, the Menlo Park, Calif., firm that backed technology stars such as Google Inc. and YouTube Inc., declined to comment. But people familiar with the firm's plans said Sequoia recently hired two managers from Stanford University's endowment to prepare for a possible strategy shift.

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- **The Issue:** Sequoia Capital wants to expand into other types of investments and become more of an asset manager.
- **The Risk:** Sequoia could alienate some of its existing investors, many of which already follow a more diversified investment strategy.
- **The Upside:** Sequoia's partners could reap bigger fees and profits by managing larger pools of assets, instead of hoping to find a few big hits in smaller venture funds.

The two men are Eric Upin, formerly the chief investment officer of the Stanford Management Co. -- manager of the university's $18.8 billion endowment -- and a more junior manager, Keith Johnson, who had worked with the management company's public-equity portfolio, these people said. Mr. Johnson resigned from Stanford last week while Mr. Upin left in late January.

Mr. Upin is leading Sequoia's charge to create an investment fund that would invest in multiple asset classes, instead of just venture capital, the people familiar with Sequoia's plans said. He and Mr. Johnson couldn't be reached for comment.

The new vehicle -- if it gets off the ground -- likely would mimic the investment style of university endowments and other private funds that put money into stocks and bonds but also "alternative investments," such as buyout funds, venture capital and natural-resources investments.

Endowments often invest in these more exotic sectors by spreading their money between other, existing funds that specialize in those areas. Many of Sequoia's existing investors, for example, are university endowments and not-for-profit foundations that invest in venture capital through Sequoia.

Sequoia hasn't begun fund raising for the new effort, the people familiar with the firm's plans said, and could, of course, not follow through with the plan. Sequoia is also contemplating starting a hedge fund, these people said.

Sequoia's hiring of Mr. Upin, and some of its plans to expand its investment mandate, were reported by the Thomson Reuters blog peHUB.

The endowment-style model has become popular recently as universities such as Yale, Princeton and Stanford have used the strategy to generate big returns. And it is moving off college campuses: Michael McCaffery, formerly the Stanford Management Co.'s chief executive, left that post in 2006 with several of his top lieutenants to start a private, endowment-like fund called Makena Capital Management.

Sequoia's move would represent a notable shift in direction for a venture-capital firm at the top of its game. The firm, now led by partners Michael Moritz and Doug Leone, has aggressively invested in Internet companies over the past few years, some of which have gone on to become hits. The firm has also created so-called growth funds for larger investments and planted flags overseas, introducing funds in China, India and Israel.

Lately, however, it has gotten tougher to make money in venture capital. For one thing, the lackluster stock market has made it hard for start-ups to go public, and some firms have been forced to pump money for longer periods into their portfolio companies.

Sequoia also could have ambitions to manage more money and play a larger role in global finance, says Josh Lerner, a Harvard Business School professor who has studied private equity but said he had no knowledge of Sequoia's specific plans. "Certainly it seems very reminiscent of what we've seen happen on the private-equity front," where buyout firms like the Blackstone Group have expanded into other areas like real estate and hedge funds, he said.

One investor familiar with Sequoia's plans said the firm is interested in raising and managing larger pools of assets than it typically can in the venture-capital business, which remains tiny compared to the buyout and hedge-fund industries. More assets would mean more fees and profits for Sequoia. Right now, Sequoia makes investments of $100,000 to $50 million each, though it is best-known for bets in early-stage companies of just a few million dollars.

It is unclear how large any new Sequoia diversified fund would be, but people familiar with the firm's plans said it could total more than $1 billion. But Sequoia might have trouble raising the money, these people said. Since many of its existing investors are university endowments themselves -- and might view the Sequoia effort as competitive -- Sequoia might need to find entirely new investors.

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