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Venture Firms vs. Investors

Yale and the Like
Quietly Cite Pressure
To Back Offbeat Funds

By REBECCA BUCKMAN
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Some top venture-capital firms eager to expand into new markets are twisting their investors' arms to get or so say the investors.

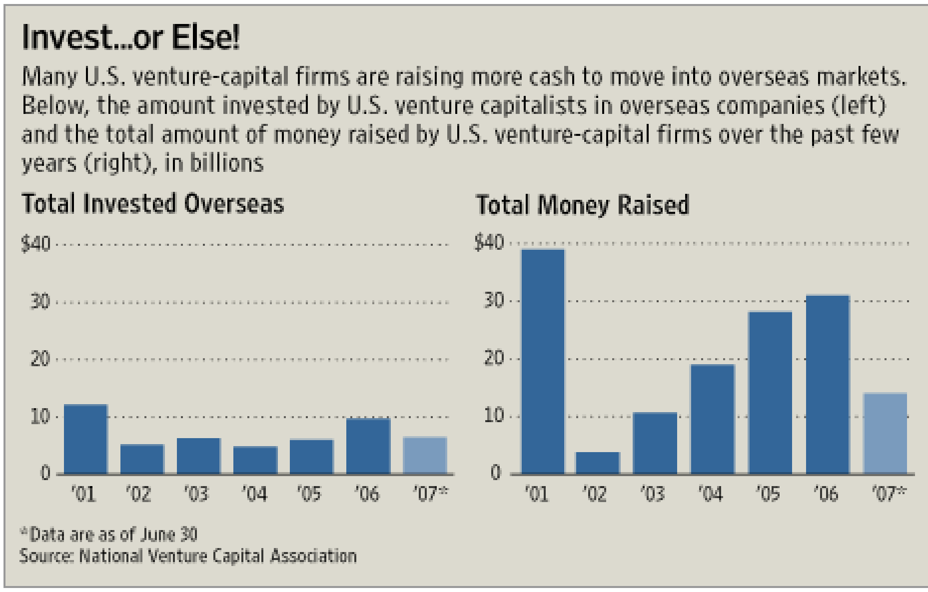
Investors said big-name firms such as Sequoia Capital and North Bridge Venture Partners have been exe not-so-subtle -- pressure on some of their limited partners, as these investors are called, to put money int investment vehicles, including funds that invest in China, India and so-called later-stage U.S. companies

OUR WAY OR THE ...

• **The Situation:** Investors in some venture-capital funds say they're being pressured to go along with ra
• **What's Behind It:** The venture capitalists are trying to expand into investing in China, India and other They need the big investors to go along.
• **The Memo:** Venture firm Sequoia told Yale University that it preferred investors that would give it a invest, according to a Yale memo. Sequoia says it doesn't pressure its investors.

These investors -- including big university endowments, foundations and pension funds -- worry that if t they could damage their relations with the venture-capital firms and possibly lose out on the chance to ge more typical funds, which invest in small start-ups.

One limited partner feeling the heat is Yale University and its $18 billion endowment fund. Yale decline



funds launched in the past few y
including a 2005 fund focused o
companies. Sequoia later decide
its partner group" because the ur
the new funds, which targeted "l
China and Israel," according to a
internal Yale review of the endo
equity portfolio.

Sequoia told Yale it preferred in
give the Menlo Park, Calif., vent
"blank check" to invest as it saw
39-page Yale memo, parts of wh
by The Wall Street Journal. A Y
declined to comment.

Sequoia partner Doug Leone declined to comment on the Yale situation, citing privacy agreements with
He said Sequoia doesn't pressure its investors and has "multiple" investors who have declined to put mor
many overseas funds "without repercussions of any kind.... We encourage our limited partners to invest
they believe in."

Some Sequoia investors said they felt no pressure to invest in the firm's overseas funds. One Sequoia inv
Massachusetts Institute of Technology, provided a statement at Sequoia's request saying the university h
one occasion declined to invest in name brand venture capital firms' affiliated products that did not matc
requirements," and "we continue to maintain excellent relationships with those firms."

The discord offers a look inside the culture of the venture-capital world, highlighting the increasing pow
top firms. With median industry returns lackluster lately, spots in venture funds that are performing well
prized than ever -- and new spots seldom open up, except when firms launch new investment vehicles.

So, even large investors like universities and foundations generally are loath to publicly criticize the firm
getting kicked out of their funds. Many investors also pony up for new types of funds because they don't
have a choice of not investing -- even though some venture firms tell them they won't be punished for pa
investors are skeptical about the ability of even the best-performing firms to succeed in such areas as inv
in larger companies at home.

In some cases, investors "have really felt like there's been a gun held to their heads," says Josh Lerner, a
School professor who has studied the venture-capital industry. Some venture-capital firms tell investors
continue to be able to invest in the mother ship, you've got to play ball and invest" in the secondary fund

Apart from Sequoia, investors said North Bridge pressured some existing investors to put money into a n
roughly $500 million the Waltham, Mass., firm raised last year. At least one institution said it was told th
into the growth fund would help determine how much the institution could invest in a coming early-stage
criterion was how much money it had invested in North Bridge's previous early-stage fund, these investo

North Bridge declined to comment. Three investors with the firm who were asked by North Bridge to co said they weren't pressured to put money into the growth fund.

Some investors said they don't mind any subtle arm-twisting over secondary funds because they are happ
any product offered by such top-ranked firms as Sequoia and North Bridge.

Many investors said they don't begrudge the best venture-capital firms using their increasing influence to
markets. Sequoia, which has funds targeting China, India and Israel, said in June regulatory filings that it
additional China funds of about $225 million and $450 million.

Kleiner Perkins Caufield & Byers, which famously backed such companies as Amazon.com Inc. and Go
$360 million China-focused fund this year and last year launched a $200 million fund focusing on compa
drugs or disease-detection products used in health pandemics. And Silicon Valley's Accel Partners this su
teamed up with IDG Ventures to launch a $510 million fund focusing on China, two years after the firms
joint China fund.

"All the first-tier funds are sort of rolling into this new model of multisector venture funds, which is a wa
finger in a lot of pies," said Paul Kedrosky, executive director of the William J. von Liebig Center for En
Technology Advancement at the University of California at San Diego. It also means funds can collect m
investors, because fees generally are based on assets under management. Most venture-capital firms expa
they are simply responding to increasing globalization in the industries in which they invest.

Still, limited partners who don't want to go along worry they may get cut out of future funds if they don't
offerings. Sometimes the pressure is subtle, with firms saying that declining to participate in new funds i
"change the relationship" between the firm and the investor, according to one university endowment offi

What makes Yale's falling out with Sequoia so unusual is that big investors known for their long-term ou
League endowments and well-known charitable foundations, often have more clout and receive better tre
venture firms.

"With our relationships, we're close enough with the [fund] managers that we're part of the dialogue whe
about doing something with a new fund" and are rarely "approached after all is said and done," says Dan
manage the endowment at Princeton University in New Jersey. "But I understand that our experience is p
typical."

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