

Investors Predict Globalization Of Industry, Especially To China

Venture capitalists expect their industry to grow increasingly global, as firms shift more attention to Asia and as institutional investors around the world seek to add venture funds to their portfolios, a survey shows.

Half of 725 venture capitalists queried said they expect their investment in Asia (excluding India) to increase over the next three years, while 12% projected a decline, according to the [2009 Global Venture Capital Survey](#) conducted by Deloitte Touche Tohmatsu and the National Venture Capital Association. Meanwhile, 43% said they planned to boost their investing in India. The survey, which included U.S., European, Asia Pacific, Israeli and non-U.S. American investors, found that 52% of respondents already invest outside their home country.

Burgeoning middle classes and relatively strong economic growth are prompting venture investors to see strong opportunity in Asian countries such as China. "You have a huge market and a lot of problems that can be solved in China," said NVCA President Mark Heesen in a conference call Tuesday. "The United States is no longer the only area in the world for venture capital activity."

Venture firms raising funds are also searching the globe for investors. Fifty-four percent of respondents predicted that their number of limited partners outside their home country would increase, while 38% said the number would remain the same, and 8% predicted that foreign limited partner involvement would decline. While U.S. firms don't look at the federal government as a direct source of capital, governments in other countries are more active in supporting venture capital firms.

"You are going to continue to see marked interest around the world in this asset class," Heesen said. "This is a not a zero sum game; we believe everyone can win in this new global venture capital environment."

But survey respondents said China stands to gain from the downturn that's drying up investment in the U.S. and other Western nations. Thirty-eight percent said China has the most to gain from the crisis, while 18% chose the U.S. Further, 51% said the U.S. had the most to lose from the downturn, though Heesen said this is not unexpected considering that the U.S. has been the industry leader. "When you're on top, you have the most to lose," he said.

Globalization, however, is only one of the trends shaking up the industry. Another is a general winnowing of venture capital firms. Institutions will continue to invest in venture firms that have delivered good returns, but will cut off those that haven't, Heesen said. In the coming years, 10% to 15% of firms operating today will disappear because they will be unable to get their existing limited partners to re-up or find new investors, he said.

Meantime, venture firms have spent the bulk of this year reassessing their portfolios, which has contributed to a general slowdown in new investment. In some ways, the downturn has made it

easier to sort through a portfolio, said Steve Fredrick, general partner of Grotech Ventures, in an interview.

“It’s getting easier to do that triage, because the market is sending decisive signals as to what has traction and what doesn’t,” Fredrick said.

Now that firms are completing the process, however, they can get back to making new deals, said Terry McGuire, managing general partner of Polaris Venture Partners and chairman of the NVCA, during the conference call. “We have our houses in order for the most part,” McGuire said. “You’re going to see a lot more investment coming in the second half of the year.”

Much of that investment will likely be in later-stage companies, according to the survey. Thirty-six percent of respondents said they intend to move toward later-stage investing to support existing portfolio companies. Just 6% intend to move toward early-stage investing.

This is partly because firms are looking to shorten the time to exit, but for many firms, it’s not by choice, Heesen said. Older firms with large portfolios have many maturing companies that need capital, so firms by necessity are spending much of their money and time on these holdings, he said.

The survey shows that venture investors intend to move away from traditional, maturing industries such as semiconductors and telecommunications, and toward emerging opportunities in fields such as clean technology and medical devices. Sixty-three percent of venture capitalists surveyed said they expect to boost their investments in clean technology over the next three years, while 37% said they planned to ratchet up investment in medical devices. Just 15% said they planned to invest more in telecom, while 6% were looking to invest more in semiconductors.