Q&A

TrueBridge Capital's Poston Predicts Continued Consolidation in Venture Industry

Edwin Poston, cofounder of venture capital fund-of-funds manager TrueBridge Capital Partners, spoke with Sabrina Willmer about why the firm is investing less in life sciences funds, its approach to angel funds, and the outlook for the venture industry for the rest of 2012. The five-year-old firm, whose founders have endowment and foundation backgrounds, focuses on early stage firms in northern California, also investing globally in India and China.

Q: How is your allocation changing?

A: There has been change on the margins. We have decreased the amount of capital allocated to life sciences-dedicated firms. Fund I had an up to 10 percent allocation to life sciences. For Fund II, our allocation will likely be further decreased, potentially to zero. We still have exposure to life sciences through generalist funds managed by Bessemer Venture Partners and Kleiner Perkins.

Q: Why are you decreasing your life sciences allocation?

A: We start with the rationale of why we would want to invest in life sciences-focused funds, such as aging demographics in the U.S., Europe and Japan where there is a need for medical device and pharmaceuticals innovation, plus dramatically reduced research and development budgets among large biopharmaceuticals companies. There are also a lot of patents rolling off and therefore a need for large pharmaceutical companies to buy small biotech businesses. All of these drivers have been in place since the mid-1990s but we haven't seen a lot of life science investments turn into great returns. If you find a cure for a disease it is likely to be a specific type of disease, such as one type of cancer. If you find a cure, then you have to charge what is ethically responsible rather than what the market will bear. In contrast, Microsoft, as an example, can charge what the market will bear. In life sciences, it also takes a lot of capital and a long time, sometimes eight or 10 years, to reach an exit. Most importantly, it isn't that we don't like life sciences but we are more enthusiastic about what we are seeing in the traditional IT space.

Q: How have VC distributions been over the past year?

A: We are seeing capital come back over the last year, but from a fairly low base. VC doesn't operate in a vacuum. There needs to be a strong economy and markets. That hasn't been the case over the last 10 years. Top quartile funds on average have generated 10 and 11 percent IRRs in the last five and ten year periods. These are not the venture returns we hoped for but it is still a nice premium of 700-1300 basis points above the public markets. Another thing to note is the number of VC firms in the industry is decreasing pretty dramatically. There were 1,000 firms in 2000 and in 2011 it was closer to 350 firms. We expect continued consolidation over the next few years.

Q: What do you make of the rise of super angel/ micro VC funds?

A: We are closely examining them, as well as cautiously and methodically investing. We generally do not want to back someone brand new to game. Of the hundreds of these firms out there, we believe less than 10 will drive most of the value. We will likely back a small number of these since we don't want to have a broad index of seed managers.

Q: How much do you plan to commit this year to venture funds?

A: The first quarter of this year was very busy with approximately $90 million committed. The second half will be quieter. We will probably commit to three or four more funds this year, dependent on the fundraising schedules of our underlying managers. Last year, we committed over $100 million to managers in which we have high conviction.

Q: What is your outlook for venture capital fundraising this year?

A: We did an analysis that found 15 firms raised 60 percent of the capital last year. I think this is what we will see in 2012 as well. In the first quarter of this year, $5.2 billion was raised, which annualizes to around $21 billion. So, $15 billion to $20 billion feels like the "new normal" and this is far more manageable for the industry to digest than the $50 and $100 billion raised in 1999 and 2000.

Q: What are your investors' VC views?

A: In general, VC seems not to be on the top of their lists. Through the financial crisis, liquidity was dear and investors were particularly averse to venture capital risk, which tends to take longer and have more returns variability. Also, VC did not perform particularly well through the early 2000s, primarily as a result of overcapitalization. As the exit market has improved, and as the press discusses companies such as Facebook, Groupon, LinkedIn, and Zynga more and more, we've seen increased appetite. Still, investors who like venture the best are those that have been investors in the asset class for a long period of time and understand its nuances. Going forward, the importance of investors having fewer manager relationships has become apparent.

A full version of this interview appears on the terminal at {NSN M3REH56K50ZS <GO>}.

AT A GLANCE

Hometown: Columbia, South Carolina

Education: BA from the University of North Carolina, JD/MBA from Emory

Professional Background: Investment banker before becoming the Senior Investment Officer for the Brandywine Trust in New York. Managing Director with the Rockefeller Foundation before co-founding TrueBridge

Hobbies: After having three children ages 6,4 and 1, vaguely remembers hobbies as running, reading, college sports and movies

Favorite Restaurant in the Carolinas: Bambu, in Charleston, South Carolina