

UNC Delves Into Venture Capital

By ANNE FAWCETT
Staff Writer

Future fund-raisers for UNC might not be alumni. They might not even be employed by the University.

But venture capitalists — professionals who distribute investors' funds to entrepreneurs — will be in a position to increase the University's endowment by larger percentages than ever before as institutions take advantage of high-return investment possibilities.

"It's a beautiful thing," said Dennis Dougherty, a venture capitalist at InterSouth Partners, a firm in Research Triangle Park. "Startups want to have money, and universities want to invest money. The schools get a good return, and they advance science."

"We're in the middle, and we're having a great time."

Venture capitalists are not the only ones smiling. Universities are finding that in today's high-tech, high-growth economy, investments in technology through venture capital are some of the quickest ways to increase their endowments.

Chancellor-elect James Moeser has already made growth of UNC's endowment one of his top priorities.

While he has said he intends to tap the University's loyal alumni base for increased funds, venture capital will be another weapon in his arsenal.

Along with other private sector funds, venture capital goes toward UNC's

endowment, which is allocated to scholarship programs, endowed professorships and athletic programs.

Mark Yusko, UNC's chief investment officer, said venture capital was one direction universities looked when they came under revenue pressures.

But Jeff Reid, executive director of Kenan-Flagler's Center for Entrepreneurship and Technology Venturing, said the state should not depend on UNC's investment strategy.

"I hope the state will continue to support the University at a high level, no matter how well the University manages its money," Reid said. "Money gained through venture capital could be used for new programs. It would be unfortunate if the state decided to give the University less money because it was managing its money better."

UNC's investment in venture capital produced returns of 133 percent last year, Yusko said. About 12 percent of the university's \$1 billion endowment is allotted to private equity, a category that encompasses venture capital and buy-outs, in which firms buy other firms in financial need.

The University targets its investment in venture capital at 15 percent. Investors in venture capital trade extremely high returns, or profits, for a relatively high level of risk.

By definition, venture capitalists invest funds in young companies with the potential either to become very profitable or to fail miserably.

Investors count on the former.

"Venture capital has been one of the best options in recent years," Reid said. "Once the companies grow, mature and produce a return, they give back the money to the universities."

Yusko said that although private equity was volatile, it could actually reduce the riskiness in a university's investment portfolio.

On a large scale, this works because venture capital's performance is uncorrelated with that of stocks and bonds.

The survival of individual startups is uncorrelated, as well, which means that a group of different venture capital investments is less risky than just one. This is called diversification.

"Venture capital delivers the highest rate of return per unit of risk," he said. "It's the last free lunch in the world, where you actually get higher returns and lower risk by diversifying risky assets."

Dougherty said most institutions minimized their risks by devoting less than 5 percent of their endowments to private equity.

UNC's decision to invest a significantly greater percentage showed a measure of sophistication instead of recklessness, he said.

But even UNC's investment decisions seem stodgy when compared to the newest trend in venture capital investment — universities creating their own venture capital funds to invest in local startups.

One of the hot spots for these new funds is Silicon Valley.

The University of California-Los Angeles's development foundation recently began taking donations for a venture capital fund separate from the university's regular endowment.

The university's regular endowment only devotes about 2 percent of its money to private equity in an attempt to minimize risk, said David Lundberg, director of UCLA's venture capital fund. UCLA alumni who invest or work in venture capital themselves spurred the new fund, he said.

"With our fund, people who give money understand we're going to make a high risk investment with it," he said.

"This is a whole new generation of alumni. They're wealthy at a very young age and are engaged in philanthropy in other ways than 70-year-old alums who take their checkbook out of their pocket."

UCLA's fund has received about \$500,000 from investors to date. The fund's strategy is to invest no more than \$25,000 in any Silicon Valley company.

"We're not diversifying to reduce risk," Lundberg said. "We just want to take advantage of all the great companies out there."

This philosophy is contrary to traditional maxims advising investors to spread their wealth among different industries in different geographic locations. Lundberg said those rules could be broken in only a few areas of the



Dennis Dougherty (right) and Malcolm Kendall review a business plan for InterSouth Partners, which handles UNC's venture capital investments.

country where technology development was booming. Silicon Valley is one.

RTP is another.

N.C. State University has taken advantage of its location by creating Centennial Venture Partners, its own venture capital firm. Kathy Hart, treasurer of the development foundation, said a modest \$10 million of the university's \$300 million general endowment was devoted to the fund.

Investments will be limited to entrepreneurs with some relationship to N.C. State and its technology, Hart said. Venture capitalists are likely to choose companies in RTP because the startups will need monitoring and guidance after they receive the funds.

"Our connection with RTP and the proximity of three major research universities means we've got a lot of entre-

preneurial talent in the area," Hart said. "This tends to stir startups and form the basis for venture capital investments."

UNC alumni also recognize the potential advantage the university's location offers.

Yusko said Tar Heel alumni with California ties had encouraged the development office to start its own fund, which is now in the formative stage.

Lundberg said the way today's economy was characterized by venture capital marked enormous growth from anything the nation had seen before.

"It's a whole new mind-set," he said.

"I think it's the most dramatic change of our social and economic culture since the industrial revolution."

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Vt. Allows Same-Sex Marriages

The governor said he would sign a bill allowing gay and lesbian couples the same benefits as in marriages.

Associated Press

MONTPELIER, Vt. — Vermont lawmakers gave final approval Tuesday to a bill that would make the state the first in the nation to give gay and lesbian couples the benefits of marriage.

Gov. Howard Dean has promised to sign the bill and might do so by the end of the week. The first civil unions ceremonies could take place after July 1 of this year.

The final House vote on accepting the Senate's amendments to the bill was 79-68.

"The granting of the equal protections of the law by providing the legal protections, benefits and responsibilities that flow from marriage will not diminish your humanity, your dignity, your freedom or independence," House Judiciary Committee Chairman Thomas Little said.

"The continued denial of these legal protections, benefits and responsibilities to a small but vulnerable class of Vermont's citizens diminishes their humanity, dignity, freedom and independence," he said.

Opponents made one last futile attempt to derail the bill before the final vote.

A Republican representative proposed delaying the vote until Nov. 30, after the fall elections, but the move was defeated 84-63.

The bill would create civil unions as a legal framework parallel to marriage between heterosexual couples.

Same-sex couples would be able to go to their town clerk to obtain a civil union license, just as opposite-sex couples obtain marriage licenses.

The civil unions then would be officially certified by a justice of the peace, judge or member of the clergy, just as marriages.

Breakups between civil-union partners would be handled like divorces, through Family Court, although they would be called dissolutions.

Civil-union partners would gain all of the benefits that the state confers through marriage, such as making medical decisions on behalf of partners or inheritance.

The state action, however, has no effect on federal programs, such as Social Security.

The biggest Senate change the House had to accept was moving up the date when the first civil unions could be formed, to July 1 instead of two months later under the original House measure. Other Senate amendments dealt largely with language and did not change the substance of the bill.

After the Hawaii Supreme Court raised the possibility of same-sex marriages in 1993 — a prospect the state's voters later rejected — 30 states and the federal government passed laws that denied recognition of same-sex marriages.

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