Institutional Investor Profile: Jason Andris, Managing Director, Venture Investment Associates

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Andris on investing in venture capital and buy-out funds, on the firm's breakdown of re-ups versus new fund relationships, on bite-sizes, on alignment of GP and LP interests and on the importance of understanding a fund manager's reputation in the market as part of the due diligence process.

Venture Investment Associates is a manager of private equity funds of funds in the New York City area. It was formed in 1993 through a secondary purchase of the private equity fund portfolio of the American Express Company by its management team. VIA's predecessor, AVA Partner, started investing in private equity during the industry's formative years. The firm currently manages nearly $1bn across six funds, which primarily invest in venture capital, buy-out and growth capital funds.
The firm closed its sixth fund, Venture Investment Associates VI, on $225m of limited partner commitments including a 'significant' commitment from the general partner. Fund VI has already committed to ten funds. The previous fund, Venture Investment Associates V, closed on $182.5m in 2002. Fund V is fully committed.

VIA has a team of eight, with three investment professionals. Andris joined VIA in 2000. He started his career as an investment banker at Robertson Stephens & Co and then joined the management team of a venture-backed company he helped take public.

What is the split between venture capital and buy-out funds in your current portfolio?

'We commit our portfolios approximately two thirds to venture capital funds and the balance to buy-outs and growth equity. We look for industry specialists, often with operating experience, who can really add value to their portfolio companies. On the buy-out front, we are particularly interested in the mid market, often the lower end of the mid market because we feel that those segments are the ones that offer the most attractive opportunities because they are inefficient.

Our focus is almost exclusively US, we do, however, have a couple of managers that invest in Europe and a couple of California-based managers that have satellite offices in Asia, on the venture side.

Within the US, we are open to investing anywhere in the country. We look for best-of-breed managers, which often makes us gravitate towards the regions where there is the most activity - on the venture side that is Silicon Valley and also the area around Boston. That does not mean we do not have venture mangers in other parts of the country. On the buy-out side, there is less of a concentration in certain geographies of the US. Many of our buy-out managers have a regional focus, but that can be anywhere in the country.'

Do you expect to be more active in other parts of the world in the future?

'We consider opportunities as they arise.'

How many funds do you have in your portfolio at the moment?

'We manage six funds and each of our funds has made between 18 and 25 commitments. We have about 20 managers that we are actively working with at this time.

We promise our limited partners that we will commit between 80 and 85 per cent of our funds with existing relationships. Over half of our capital is invested with managers that we have known and trusted over a long period of time, over several cycles and funds. In most cases, we were founding investors with these firms. We also tend to serve on their advisory boards. Our deep relationships with these firms allow us disproportionate access to their funds. That is why we are able to commit over half of our funds to these few top-tier managers.

The balance, the 15 to 20 per cent, goes to managers that we have not supported in the past. We make one or two new commitments, smaller in size, per year in an effort to get to know these managers. Over time, as we get comfortable with them, we can raise them up to a full relationship, with a larger commitment. If they fail to meet our expectations in executing on their stated strategies, we are not afraid to end the relationship.'

What are reasons why you would drop an existing fund relationship?

'Reasons why we have decided not to support fund managers that we have backed in the past include style drift, a poor generational transition, an inability to favourably impact their portfolio companies' development during changing conditions, damage to the alignment of interests between the LPs and the GPs, or a dramatic increase of their fund size.'

What are other reasons why you would not invest in a certain fund?

'We do not invest in funds whose general partner is owned by a larger financial institution or if the general partner has opted to sell itself either to a minority investor or to the public markets. We believe that in those cases the alignment of interests between the GP and the LPs has been weakened. The LP interests need to be the primary focus - a GP should not have too many parties to serve.'

What is your appetite for first-time funds?

'VIA has committed to first-time funds in the past, although we are more likely to do so when there has been some form of relationship in the past. There may be partners from other firms that we know or entrepreneurs who have run companies in our portfolios. We need validation from our own tested network that these new managers are truly in a position to become top-tier, value-adding managers.'

How much capital do you invest per fund?

'It varies, depending on the relationship we have had with a particular manager. A group that we have been with for over a decade may receive as much as $30m. A group with whom we are making a first-time commitment may receive as little as $5m, and then there is everything in between.'

How much capital do you invest per year?

'We do not have a specific annual allocation target. It depends to a degree on when our existing fund managers are back in the market with their next fund. Our funds commit across three to four vintage years but it does turn out that the funds are fairly well distributed over time.

While there were years when we committed to quite a number of managers, in 2002, when there were few good fund opportunities, we did not make a single commitment. We are not going to force money out of the door and it should be noted that when we did not make a commitment in 2002, we opted not to charge management fees to our LPs. By not taking a management fee we were showing that what was driving us is the performance, not the management fee.'

How do you find out about good investment opportunities?

'There are a number of ways. We spend and have spent quite a lot of time in the industry and are in contact with all sorts of people, who are at the heart of new opportunities. When we see successful outcomes we research to see who backed the company. If it is a group with whom we have not previously been in contact, we approach them and start building a new relationship well in advance of a fundraise.

We are in a dialogue with many people, all the time, and try to ascertain who the groups are that really add value to their investments. Not everyone can or does. We look to work with those fund managers who drive the process of building successful companies. We aim to understand who is perceived in the community as adding the most value to portfolio companies and those who identify the best opportunities.

We do not overly weight past performance track records; we want to understand who is structured to achieve success today and who is motivated to achieve that success.'

How do you conduct your due diligence?

'We utilise our network, which dates back to the early 1970s, and our decades of experience in the industry to complete a thorough due diligence process. We make in-depth reference checks and form our opinions based on what we hear from our network and our own factual analyses.

All of our partners need to meet with every single underlying partner of each firm with which we invest to be able to dig very deep into what drives each individual. There are 'soft qualities' that only a face-to-face meeting and a network of trusted advisors can identify: a person's character, their mentoring ability, management and advisory skills, and the cohesiveness of a team, for example.

We also need to see an alignment of interests between the general partner and the limited partners. We want to see that general partners place their interests on equal footing with their limited partners' interests. We make significant commitments to our funds which demonstrates an alignment of interests with our limited partners'

Do you co-invest?

'No, we think that our fund managers are best suited to make and handle the investments into companies. The required skill set for co-investments is very different from the skill set required for the selection of fund managers.'

Are you interested in secondaries transactions?

'Yes, we acquire them on a very selective basis. I would say currently we are experiencing a fairly good environment for sellers. For a secondary to be attractive to VIA, it must not be auctioned and the interest must be in the fund of a manager that we know well.'

Can you tell us a bit more about your investor base?

'Our investor base is almost exclusively US. In the future we may include more international LPs.

Our investor base is split roughly 50/50 between non-profit institutions and high-net-worth families, with a small number of corporate plans.'