Cash moves back to US VC business
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Cash has flowed back into the venture capital business in the US this year, helping to push the valuations of private companies higher and drawing familiar warnings from financiers of a return to some of the "me-too" investment habits that characterised the dotcom boom.

Confirmation of the renewed round of fund-raising by VC firms came yesterday with the news that venture capitalists have taken in more cash this year than they raised in total in any of the previous three years.

They could have raised far more, bringing a return of the sort of investment mania seen at the start of this decade, had they not chosen to turn away most of the cash washing into the industry, according to Mark Heesen, president of the National Venture Capital Association.

VC funds could have taken in $50bn-$75bn this year, he estimated, compared with the $17.3bn they raised.

The large amount of cash available to private equity firms echoes the boom year of 2000, when nearly $107bn flooded into the funds that back start-up or later-stage private companies. Much of that money was poured into dotcoms and telecoms companies that collapsed in the subsequent bust.

The low expected returns from public equity markets have prompted more investors to turn to venture and buy-out funds, said Gary Morgenthaler, a general partner at Morgenthaler, a Silicon Valley firm that has just raised a $450m fund. "Private equity, relative to that, looks pretty good," he said.

Many venture capitalists chose to limit the size of their latest funds rather than take all the money that was offered to them and risk jeopardising their investment returns, according to the NVCA. The largest fund raised in the quarter, by Silicon Valley firm Sequoia

Capital, amounts to $520m, still a far cry from the $1bn funds typical during the bubble.

Morgenthaler's decision to raise only $450m, rather than attempt to repeat the $870m it attracted for its last fund in 2001, reflected the fact that it had taken longer to invest the earlier fund than expected, said Mr Morgenthaler.

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