Upshot: VCs Cut Their Funds
by Patty Enrado
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Are billion-dollar funds going the way of the dinosaur? It looks that way, considering that a handful of top-tier venture firms are reducing their current funds. Charles River Ventures (CRV) plans to cut the $1.2 billion it raised in 2001 by at least half. Accel Partners proposed to cut its $1.4 billion fund in half and invest the second half of the fund in late 2003 or 2004. Mohr Davidow Ventures (MDV) reduced its current fund from $843 million to approximately $650 million, releasing its investors from roughly 22 percent of their commitment. Kleiner Perkins Caufield & Byers (KPCB) is drawing only 75 percent of its fund of less than $500 million. Redpoint Ventures would not confirm its reductions, although reports claim it reduced its $1.25 billion fund by 25 percent.

Fundraising was too easy back in the late 1990s, but times have changed. CRV Partner Ted Dintersmith says that the industry won't be able to invest billions of dollars profitably in today's market, so the logical response is to reduce fund sizes. MDV General Partner Nancy Schoendorf says that the key is devising a strategy for getting the best possible return for investors. In MDV's case, that strategy is-no surprise-fund reduction.

In hindsight, venture capitalists universally agree that simple math was discarded during the boom times. Gary Morgenthaler, general partner at Morgenthaler Ventures, says, "VC firms have a business model based around the amount of capital that a general partner can deploy over a period of time, typically over a year, over the life of a fund." To be fair, partners were able to take on many company board seats because of early exits via the public markets and acquisitions. But that phenomenon wasn't going to last forever, and going back to basic math has become the requirement.

Kevin Compton, general partner at KPCB, says that although it's not the first or the last time that his firm hasn't invested all of its money in a fund, "it's a nonevent" because the same limited partners are involved from fund to fund.

Regardless of how you slice it, Morgenthaler says the bottom line is, "Now we have to go off and build real businesses, and we have to invest at sensible valuations. That's what we're trying to do."