

## Limited Partners Taking Closer Look At Succession Plans Of VC Firms

by Timothy Hay and David Smagalla

Limited partners are taking a closer look at venture firms' leadership succession plans as the recession and lack of liquidity take their toll on the industry.

Ashton Newhall, co-founder and general partner at Maryland-based fund-of-funds management company Montagu Newhall Associates, said the succession issue is "right at the top of the list for us, maybe number one." Another limited partner, Bronwyn Dylla Bailey, research director of SVB Capital, the venture division of Silicon Valley Bank, said her firm is "asking more questions of general partners" about their firm's succession plans.

Since the end of 2007, the number of venture capital principals has tumbled by more than 15%, according to the National Venture Capital Association. Firms have been letting general partners go as deal pace has slowed down, and other firms are seeing veteran investors retire.

That's troublesome to limited partners, which typically look to back management teams that boast a mix of veterans and up-and-comers that can carry on the legacy of the firm.

"Our biggest worry is a (general partnership) that's established might be at some point going through a succession or transition, and somebody who's in there who's already made a lot of money and really doesn't want to deal with this environment, frankly, and moves on or retires," Andrea Kramer, a principal at Hamilton Lane said at the recent Private Equity Analyst Limited Partners Summit 2009 in New York. With general partners her firm backs, Kramer said "we drill down pretty onerously" to ensure that the partnership has the proper agreements to retain key personnel. But, she said, "it's all about will you enforce it; can you enforce it realistically?"

When there is turnover, Chason Beggerow, a partner at Altius Associates, said firms should provide ample notice about the moves and how they're addressing them. In this context, making sure a firm has a succession plan in place is critical, said David McManus, a partner with law firm Morgan, Lewis & Bockius LLP. "I have seen [clients] looking at that next level of leadership," he said, speaking at the Limited Partners Summit. "Are they prepared to take on the mantle of running things from an operational standpoint if there is a defection?"

At an investment conference in San Francisco recently, Brian Ascher, a general partner at Venrock, said in a panel discussion that three veteran investors were preparing to retire from the firm, and that the firm has been recruiting for new team members. "This has been a long process," Ascher said. "It takes a long time to recruit." Venrock partners David Siminoff, Eric

Copeland, Rich Moran and Tony Sun are all either leaving the firm, or moving to a different role outside of managing portfolio companies, VentureWire has reported.

Newhall said LPs who put in the time can install a number of performance indicators for an investor, even if he or she is young and far from being a household name.

"Where have they worked, and did they play nice in the sandbox?" he said. "Was this person a great entrepreneur, and did they hang on all the way to an exit?...We do a tremendous amount of diligence on this issue."

VC firms, however, are not always completely forthcoming on the topic of who is retiring, limited partners say. Veteran investors sometimes keep their name at the top of a firm's masthead, even if the investor has all but retired.

"In general, a lot of firms see this as a personal, personnel matter, not an LP matter," Newhall said. "It's almost like asking to see someone's personal bank account."

Newhall said confidentiality agreements prevented him from saying which firms have solid succession practices, and which don't, except that he did say, "Bessemer [Venture Partners] is pretty good at it," declining to give further details.

**Most venture capitalists VentureWire contacted weren't interested in talking about the subject, although Reid Dennis, a co-founder of Institutional Venture Partners with more than five decades of experience in the VC industry, said his firm isn't tight-lipped about who is actively investing and serving on boards of directors, and who isn't.**

**"I am semi-retired, myself," said Dennis, 83 years old. "We are very transparent. We were clear when we raised our last fund that I would not be a general partner in it. There's been no equivocation at all."**

**Dennis no longer has board seats at portfolio companies, he said. But he still works with some of the firm's older investments - some of which are nearly 20 years old, he said. But when it comes to new investments, Dennis said, he keeps his distance. "I can't keep up with all this new stuff," he said.**

As the economy recovers, Thomas Kennedy, a managing director with Kensington Capital Partners, warned that succession plans will become even more important. "That second level [of leadership] is critical," he said at the Limited Partners Summit. "Some of the senior people have made tremendous fortunes. They may not call in rich today, but as

soon as they think things are back on track they may not be there any more."

In the coming years, said Newhall of Montagu Newhall, "You'll see implosions, and you'll see the baton handed flawlessly, and in stride. And you'll see everything in between."