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## Tech start-ups find funding

By Joseph Menn in San Francisco

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With Wall Street all but closed to market listings, investors in Silicon Valley's technology start-ups are turning to informal methods to sell some of their holdings.

The rise of this secondary market has opened a back-door way to invest in private companies at knock-down prices, according to backers, because the sellers are often forced by their need for immediate liquidity to cut their holdings, even in the middle of the downturn.

The informal secondary trading has emerged as an important outlet at a time when frozen public markets might otherwise have damaged the start-up financing system, said veteran venture capitalist Tim Draper, whose firm has backed one of the new intermediaries in the field.

"Without liquidity, venture capital investors will stop investing in VC funds, who will no longer be able to support entrepreneurs," he said. "The American Dream is at risk."

The dearth of capital for flotations has fuelled the rise of the new class of investment funds, which specialise in snapping up stakes in venture capital funds, direct holdings in venture-backed companies, or both.

Investment vehicles created to invest in this booming area, such as San Francisco-based Industry Ventures and Saints Capital, report rapid inflows of funds. At the same time, specialist dealers and brokers have emerged to bring together buyers and sellers of stakes in individual start-ups, or even of entire portfolios of venture investments.

Traditionally, venture capital funds would take small companies through three or four rounds of financing and then reap the rewards with a market listing.

"There now exists an epic void in the ability of capital markets to bridge to an [initial public offering]," said David Weild, a former vice-chairman of Nasdaq.

Mr Weild last month joined the board of Inside Venture, a match-maker for institutions and the late-stage venture-backed companies that in ordinary times would be going public. He said one such candidate was earning $80m on annual revenue of $1bn and still could not get out of the gate.

Industry Ventures' investment pool has more than tripled in three years to $500m. Saints Capital said it had invested $360m since last May, compared with just $20m over the previous 18 months.

The National Venture Capital Association yesterday launched a campaign aimed at easing the costs and regulations associated with a Wall Street listing.

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