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Peer Insights REPORT

Q&A with Garrett Van Wagoner

General Partner of Silicon Valley Associates

Principle Series:

Family Office Insights sits down with Garrett Van Wagoner, General Partner of the Silicon Valley Associates Impact I Fund to talk about his career and his new fund, from the genesis of the idea to its role in helping impact the global environment.

Family Office Insights is a voluntary, "opt-in" collaborative peer-to-peer community of single family offices, qualified investors and institutional investors.

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Q: Before diving into the fund specifics, tell us a little about your career on Wall Street.

A: I started about 40 years ago in 1978 asan equity analyst and portfolio manager, first with a few regional banks then from 1982-1993 at Bessemer Trust Co. in New York.

Q: After working for prestigious firms like Bessemer Trust, why go it alone?

A: My experience at Bessemer was outstanding, great people and a wonderful atmosphere, but I was very interested in specializing in emerging technologies and during the mid 80's believed Silicon Valley was the next mecca for industrial growth. In 1993, I had an opportunity to move to San Francisco and develop a small cap business for a UK-based money manager Govett; I leapt at the chance. After three successful years there it was time to strike out on my own as so many entrepreneurs were doing in the Valley.

Q: What were the products your firm brought to market and what were the results?

A: Our mutual fund company focused on emerging new US based technology companies. Our products were in a defined niche and when the sector was hot, we had some spectacular successes. When it wasn't, we laid an egg. I have always tried to develop products first rather than focusing on creating a business in financial services and that certainly led to great volatility.

Q: What do you believe contributed to the performance during those go/go years?

A: Certainly the niche product helped, but I also implemented two disciplines that added greatly to the results. The arbitrage window on these disciplines each lasted a few years, but eventually faded due to a combination of competition, market cycles and new regulation.

Q: What were those two unique alpha generators and how did they contribute?

A: The first was once ensconced in the Bay Area I focused on Company products through direct research rather than relying on Wall Street research. Product cycles were everything for these young companies and I spent most of my time visiting competitors, supply chain partners, sales people and anyone who might bring insight into the potential acceleration/disruption of a new product cycle. During this process I also started to visit private companies and found them to be a valuable source of insight into various markets and products. I also attended trade shows back when there were very few Wall Street types attending, usually just the investment bankers and a few VCs. This approach worked great until many mega size buy side firms focused on a combination of greater participation in primary research lessening the reliance on Wall Street research combined with the great equalizer Reg FD. Once everyone along the information chain hid behind Reg. FD, building a mosaic of alpha generating research based on the impact of product cycles became impossible.

Q: And the second?

A: After visiting with leading private companies I realized that IPO qualifications were equal part business model maturity, market cycle dynamics and banker's agendas. I decided to change my thinking and invest in companies that were at the knee in the product growth curve, and not the legal form of the investment. That led to investing in late stage private companies generating tremendous alpha for our shareholders. By 2000, non-traditional VC capital flooded in creating unrealistic valuations for many leading private companies. Then the internet bubble burst and IPO qualifications became much more stringent and private capital liquidity vanished.

Q: Let's turn to the new fund. What was the genesis for it?

A: Like the first two approaches I tried, I see the opportunity to do something in a niche I believe can generate strong alpha. There are a several handfuls of companies that have developed products to support nextgen green transportation and sustainable infrastructure markets that have products in market and need additional financing for working capital or other market expanding reasons. The market demand is global and very large driven by accelerating emissions regulations and a commitment from most of the largest industrialized countries to work on air pollution.

Q: Let's drill down a little. Can you be a little more granularon the investments?

A: The primary emphasis will be on Socially Responsible Investments (SRI) in market segments with breakaway dynamics and having a positive global social impact. Our "flavor" of impact investing is in transformative emerging technology companies that provide a measured sustainable impact on society and the environment with direct focus on the green transportation and renewable power infrastructure markets. We will make limited targeted direct investments in these types of late stage businesses with measurable social impact and supplement these with accumulation of secondary equity positions.

Q: Why do you think you have a competitive advantage? Won't the VCs dominate this segment?

A: I think some will participate but the vast majority of big VC firms have moved on, either because the returns are not large enough, business models don't scale like social/mobile apps or they have been burned before. The VC community spent the first decade of this century trying to develop products to increase clean alternatives in providing energy. Most have not been successful, either because the product relied on government subsidies and costs could not be brought down to where supply demand balanced, or the infrastructure to support their products was not mature enough. The only true success in the transportation market has been Tesla and they have had to develop a lot of proprietary technology as well as develop infrastructure.

Q: Given your first two unique ideas, what gives you confidence this one will last?

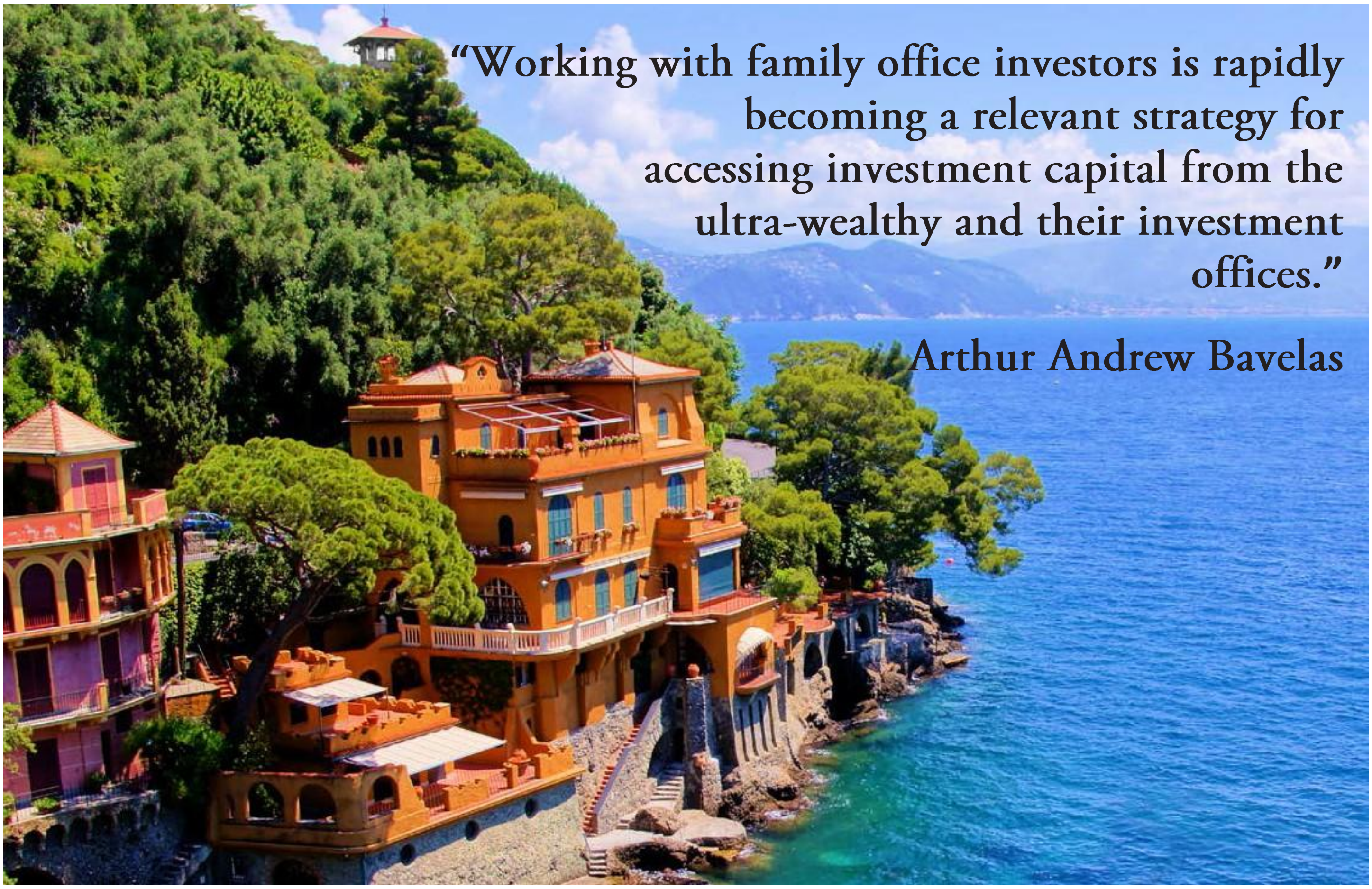
A: I do think there are a limited number of first to market ideas. I already have a short list of several which we will move very quickly to assure we remain at the head of the class. Once invested over the first several years we will be intimately involved in helping the business model mature prior to any liquidity event. Second, I will be very aware of signs that this idea has lost its alpha potential and will be quick to react if investment opportunities dry up. Nothing lasts forever.

Q: In the end, why should people be interested in this product?

A: When I have found a new niche I have a proven track record of strong economic returns until the crowd catches up. The idea of finding products that can have a direct impact on the environment in a positive way, helping the company grow and at the same time generate strong returns is something that I believe should interest everyone. Whether it's a family office, foundation or endowment partnering to provide a solution to a problem that is fixable and generate strong returns is a win/win for everybody.

Garrett Van Wagner

Garrett Van Wagoner started his career in 1978 as an equity analyst and portfolio manager, first with regional banks then from 1982-1993 at Bessemer Trust Co. in New York. In 1993, he moved to San Francisco to develop a small cap business for a UK-based money manager, Govett. After three successful years at Govett, he left to form Van Wagoner Funds an Open End Mutual Fund company. Besides successful years in the public investing space, he started to invest in late stage venture capital in 1996, having 25 IPO's and 26 private portfolio sales and six acquisitions among the 66 company investments from 1997-2003. For more information, please email info@svaventure.com.


"Working with family office investors is rapidly becoming a relevant strategy for accessing investment capital from the ultra-wealthy and their investment offices."
Arthur Andrew Bavelas