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<http://blogs.wsj.com/biztech/2008/11/18/a-new-venture-capital-solution/trackback/>

## A New Venture Capital Solution?

Venture capitalists—who invest in startups with the hopes of profiting later when the companies get sold or go public—have had a tough time of late. With their main means of generating profits through the initial public offering market and mergers and acquisition arena dampened by the financial downturn, there have been few returns to be had.

Startups may have a new source of funding

Now some players are trying to step into the void. On Tuesday, a new company called InsideVenture is launching with the aim of acting as a matchmaker between venture-backed startup companies and institutional investors. Sponsored by Silicon Valley Bank, InsideVenture will create a “direct private market” so that large financial institutions such as mutual-fund companies T. Rowe Price, Fidelity Investments, Wasatch Advisors and others can invest their money into small startups. That also gives venture capital firms an additional source of capital to turn to to fund their young companies.

Mona DeFrawi, CEO of InsideVenture, explains to this blog how the process would work: InsideVenture has created two panels of venture capitalists to screen and select some top-tier healthcare and technology startups. The startups that are picked by the venture capitalists get to present themselves to InsideVenture’s membership list of institutional investors. The institutional investors can then choose whether or not to give funding to some of these startups.

“Stagnation in the IPO market has left institutional fund managers with little opportunity to invest in the next generation of innovative growth companies,” says DeFrawi, noting that InsideVenture hopes to change the situation.

Of course the jury is out on whether InsideVenture will succeed. But its launch is a sign of how the venture capital industry is seeking new solutions to profit from their investments. Expect more such creativity, especially as the financial downturn continues to freeze up the IPO and M&A market.

-Pui-Wing Tam