

FUND MANAGEMENT STRUCTURE

ROLE OF SINGAPORE VENTURE CAPITAL FUNDS

Risk capital sources take four different forms:

- Individuals and private sources of capital
- Corporate resources for expansion and diversification
- Corporate in-house venture funds
- Professionally managed venture funds investing in country or regional funds

Singapore venture capital funds are managed by experienced business professionals, who are willing to provide active support to investees. This can take the form of business expertise or the use of their extensive contacts. Venture capital funds have five aspects wherein they can help their investments:

- Financial, tax and strategic planning
- Assistance in identifying opportunities for joint ventures with major corporations
- Marketing and new business development, mergers and acquisitions, licensing, procurement or sale of technology
- Sourcing of materials and access to manufacturing facilities through associated businesses and contacts
- Planning and preparation for public listing

INVESTMENT TARGETING

Singaporean funds typically look for a medium to long term investment horizon of 3-8 years. They will buy into new as well as existing projects. Also, venture funds usually will take a minority stake in the companies that they buy. This level of involvement is geared to giving the entrepreneur full autonomy, and hopefully preserve the motivation to survive and excel.

A potential portfolio company is evaluated on four main points:

- **Potential for Capital Gain**
Since small and young companies usually offer little in the way of profit, the typical range for appreciation should be between 30 and 40% compounded annually. This is necessary since high risk funds aim for returns of 20% annually, despite the fact that some portfolio companies may go bankrupt and 20% of a fund's capital is expended on its own overheads.
- **Liquidity**
A key concern is how difficult will it be for the investor to realize gains when the portfolio company is ready for divestment.
- **Possibility of Future Capital Injections**
Under-capitalization is one of the major reasons why SMEs flounder, especially high technology companies operating under the uncertainty of R&D progress. Therefore, the fund will attempt to gauge the probability of future additional financial support.