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Venture capital funds require patience

Michigan's two relatively new, state government-created venture capital funds are not promising to create hundreds of high-tech companies and thousands of new jobs.

They are not promising to directly invest in geeky entrepreneurs who will create the next Google, Amazon.com or Facebook.

And they are not promising to transform Michigan's industrial-based economy into a knowledge-economy powerhouse overnight.

That's good. Too often in the past 20 years, rhetoric about Michigan's small, but growing, venture capital industry has been too lofty and the results too humble.

Michigan ranked 35th in the nation in venture capital investments in the July-through-September period this year, according to the National Venture Capital Association.

But the state's two funds -- the 21st Century Fund and the Venture Michigan Fund -- are hoping to improve that ranking. They are playing a critical role in providing millions of dollars to finance primarily technology-based businesses.

Gov. Jennifer Granholm's administration started the two

funds in January to invest in funds that are financing start-up or fast-growing companies.

Venture capitalists take ownership interests in the companies in hopes of making a killing by later selling those companies or taking them public.

The 21st Century Investment Fund received \$114 million from the state's portion of the federal tobacco settlement. The fund invests in early- and late-stage venture funds, and supplements small-business loans.

Venture Michigan Fund is using \$95 million in borrowed money to invest in venture capital funds that agree to finance primarily in young Michigan companies.

The two funds are managed by investment banking firm Credit Suisse, which already has committed \$47.5 million in investments from the 21st Century Fund and \$32.5 million in Venture Michigan.

But don't expect fast results, warns Kelly Williams, managing director of Customized Fund Investment at Credit Suisse.

"We're not expecting to have a return on the capital we've invested for a number of years," she said.

Most of that money has gone to

venture capital funds in the Ann Arbor area, the heart of the state's venture capital community. The state hopes to invest in funds in other parts of Michigan, either by encouraging new ones to open or in established funds such as those in Grand Rapids and Kalamazoo.

In other states, foundations, universities and state pension funds have invested heavily in local venture capital funds. That has not happened here.

"Without these two state funds, it's really hard for anyone to raise venture capital in Michigan," said Tom Porter, executive-in-residence at the **University of Michigan's** Sam Zell & Robert H. Lurie Institute for Entrepreneurial Studies.

Michigan is in a fight with most other states that are trying to nurture new businesses that can replace jobs being lost to China and India, Porter said.

If anything, Michigan needs to expand and accelerate its efforts to find more venture capital.

"The clock is ticking very loudly," he said. "We have to be careful that (Michigan's venture capital initiative) is not too little, too late."