Venture & conquer

PHOTO: KELVIN CHING

A formidable mix of determination and intellect makes co-founder of Vickers Venture Partners' Finian Tan one of the world's most successful venture capitalists

BY GENEVIEVE CUA

WHEN venture capitalist Finian Tan was in University of Glasgow pursuing his engineering degree, he was determined to make a clean sweep of all the academic awards available in the final two years of the course – three in the third year and eight in the fourth.

"I couldn't leave anything to chance because I wanted to win all. I had to beat everyone in everything. I planned it like a war from day one. First I had to build speed. I practiced every morning when I woke up and wrote the answers like a song, and checked against the model answers to make sure I didn't miss anything. After doing this for 365 days, my speed was unbelievable."

He swept up all the awards, which opened the gates to postgraduate scholarship offers from Oxford University, Cambridge University and Massachusetts Institute of Technology. Yet this formidable determination and intellect are only part of the mix that makes Mr Tan one of the world's most successful venture capitalists. He has shrewd financial acumen and an ability to make bold, contrarian choices. But there is also a disarming candour and easy warmth that likely inspire loyalty among his partners, staff and portfolio companies.

Vickers Venture Partners was launched in 2005 with four partners. Last year, the firm raised US$230 million in its fifth fund, its largest fundraising yet. As at end-2016, the firm has raised a total of US$363 million and assets have a combined value in excess of US$2 billion. Its track record is enviable: The net internal rate of return for Funds I to IV is an estimated 41 per cent on a base-case basis, and the final net multiple on a base-case basis is expected to be 48 times.

Yet while his time in university seemed idyllic, his family in Singapore faced bankruptcy. His father, who worked as chief financial officer at a stockbroking firm, was made bankrupt when

the firm fell victim to the Pan Electric debacle. His father owned a small number of shares at the firm, but was saddled with unlimited liability. "I had a scholarship in university so I wasn't affected in my fees and living. But when I left Singapore we lived in a bungalow. I came back to a HDB flat, all crammed into a small space because we lost everything.

"But I was independent. Not a big deal; money can be earned."

Armed with a PhD in engineering from Cambridge, he explored working at Shell, which had awarded him a scholarship. He was put in the trading division and took to it like the proverbial fish to water. In less than two years he became chief trader based in Japan. He caught the eyes of Goldman Sachs which roped him in to head its commodities trading arm in Singapore. He was by then drawing a salary reportedly in the seven-figure when he was approached by the Singapore government to help transform Singapore into a Silicon Valley for

"Most VCs they see 10 deals they pick one. There is no portfolio construction, no idea of what the full picture will look like. I look top-down and see where the trends are."

Asia. He became deputy secretary at the Ministry of Trade and Industry for two years, and also became deputy chairman of the National Science and Technology Board.

"It was a very big sacrifice for me. It was reported in the papers that my salary in government was less than the income tax I used to pay. So the cut was huge. But it was hard to say no because it was an opportunity to serve the country. It was a senior position and they have never taken anyone from the private sector at that level even today. It was an honour."

HE recommended three strategies for Singapore, which were accepted. One was an inter-ministerial committee to remove the red tape that hindered startups, to encourage them to thrive. Two was to build a science hub in the Buona Vista area. Third was the establishment of a billion-dollar fund to jump-start a VC community in Singapore.

It was the TIF fund that fuelled his passion for venture capital. "I totally fell in love with it. I was really interested in markets, but venture had an added dimension. It was finance plus technology. I had a PhD in engineering. I could use everything I learnt, not just my market acumen but technical skills, social skills and management because you managed a portfolio. It needed people, presentation and salesmanship skills. It required everything I felt I was pretty good at."

Before long, his role at TIF chafed at him. "I could only urge people on, I wasn't a player. I was referee, umpire, everything but a player. And everytime I urged people on they argued with me, the investment value would go up and I got frustrated."

IN 2000, he joined Draper Fisher Jurvetson, becoming the founding partner of its Asia operations. It was at this time that he discovered Baidu, then a fledgling search company in China looking for capital. Yet Baidu was not his star investment then, he says. The highest IRR was generated by a portfolio company Focus Media which returned 14 times in as many months. The second was Kongzhong which generated a multiple of 36 times and went public after 36 months.

Emboldened by his success at Draper, he started Vickers Ventures, assembling highly qualified partners with strengths that complemented his. San Francisco-based Dr Elkhalil Binebine, for instance, was a practicing doctor in New York and was personal physician to Malcolm Forbes. He has since been personally responsible for several key deals. The firm's managing director is Dr Tan's brother, Damian Tan, who has over 30 years experience in major IT firms and himself holds a doctorate in Business Administration.

There are a number of ingredients that make up Vickers Ventures' so-called secret sauce. One is having a good net to catch fish, one with a "dynamic filter". Each partner must cast a vote on whether to include a company in the portfolio. Each gets a "silver bullet" in the life of a fund to override others' votes. "We create a culture where people take a stand. We don't want fence sitters. The silver bullet can penetrate any armour. If all the partners hate a deal, and I am for this deal, I can still invest if I love it." Dr Tan has not used his silver bullet.

A second ingredient is the high alignment of interest between investors and the firm in terms of fees. Unlike most other funds, all the annual fees collected are invested in talent and running costs. This means the firm only earns from performance fees generated when the funds are profitable. "I decided to spend all the fees to hire the best I can find, because the performance will be so good that I'd make more from the profits. From day one I lose money on annual fees, but make it all back on performance fees. I spend more than I earn in order to generate the profits. I have 30 people in six offices, that's all very expensive. None of us get rich from our annual fees."

Third is clear thinking on macro-trends and executing that with astute choices that reflect those trends. He recounts that in the late 1990s when deciding on investments amid a growing technology bubble, he drew a line on a piece of paper. On the left were the unknowns. At the time these included firms like Amazon and Yahoo and questions on their business models. On the left were the knowns. "On the left, the Internet will grow. China will grow, and that's all. I asked myself what could I invest in that would surely make money because these two trends will happen. I felt the promising thing was the operating system of the Internet in China...

"And that was search, because that's what everyone does. The rest was easy. Baidu was head and shoulder above everyone. Baidu had new architecture that was novel and a magnitude better than anything else.

"Because of the success of that approach I decided to keep the macro/micro approach. Most VCs they see 10 deals they pick one. There is no portfolio construction, no idea of what the full picture will look like. I look top-down and see where the trends are." The firm's investment in Samumed, a life-sciences firm, demonstrates this approach. Biotechnology, he believes, is the biggest thing since the Internet.

"Whatever you pay for your iPad you would spend a lot more to save your life. The biggest company in the world should not be Apple, it should be a biotech firm that has cured the world of a major ill. Cancer is debilitating, dementia, lower back pain. These are low-hanging fruit."

Samumed focuses on the Wnt pathway which plays a crucial role in tissue health, ranging from formation to the repair and regeneration of tissues. "If you can control cell death you can prevent tumours from growing. If you can control cell life you can rejuvenate the human body a disease at a time. I believe this company will be the biggest I have ever invested in." The firm has six diseases in clinical human trial.

MEANWHILE, Dr Tan, 55, is mulling his succession plan. It's not urgent, he says, but is "damned important". Four out of the firm's five directors are in their 50s. "Ten years from now we'd be between 65 and 70. It's not the optimal age for a VC. If I sat on my laurels, in the blink of an eye, eight years from now the issue is suddenly urgent. I don't want to be in that position."

He is now building "institutional knowledge". Last year the firm made 13 hires who are in their 30s. "I'm the coordinator for everything. I have to keep delegating well ... We must be able to look at things that are not urgent but important. I always grow the firm faster than the fees we have because I must always create capacity so that I can raise a bigger fund next time. The system must be in place so we institutionalise the knowledge."

He aims to take on a "lesser" role by the time he is 65. "I have plans for a new career," he declares. This is likely in philanthropy, relating to environmental conservation or protection and education in developing regions like Afria.

"Africa is growing, but it is poor and education is weak... I would like to try my best to contribute. Another trend is climate change. It's crazy what we do to this world. We should at least leave the world unchanged, if not better."

He had a discussion with his four sons, ages 15 to 29, on his vision to eventually give away most of the family fortune. "It was a difficult decision but after a few hours of explaining, they were on board. They felt it was more money than we needed, and we could do a lot of good with it.

"We must leave this earth having contributed something and making it a better place than when we came. The more you can do, the more you should do. You should not just use whatever you have in your pocket, but also whatever you can muster, all your connections. And that should be how you are measured on earth."