

EXCLUSIVE REPORTS

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Sema4 carves out niche as VC rescue consultant

Tom Witkowski
Journal Staff

METHUEN -- Limited partners in venture funds have started to go to a new extreme when dealing with a troubled venture investment -- replacing the fund's management.

Clearing out a fund's general partners is rare, but limited partners' desires to more actively manage investments have enabled a local technology consulting firm to carve out a curious niche in the venture business.

Last month, Methuen-based Sema4 Inc. took over its latest fund, Northcoast Fund II, a \$34 million fund based in Chicago. By the end of this month, as interim managers, Sema4 will have made follow-on investments in all six of that fund's portfolio companies.

Bringing in new fund management is an alternative to closing a fund or selling interest in the fund on the secondary market.

The managers work with portfolio companies, help them raise additional funds or even shut them down. In some cases, the interim fund managers can turn the fund around and bring a positive return. At the very least, it gives limited partners in the fund the time and space they need to make a thoughtful decision about the future of their investments, experts said.

Out of its technology due diligence consulting business, Sema4 created a practice that steps in and takes over an investment fund. The firm comes in at the request of the limited partners when the general partner is no longer involved, for reasons ranging from a general partner's health to a poor fund performance.

"There's a growing sophistication among limited partners that they have to manage their exposure to private equity, not just when they invest, but throughout the process," said Ed Powers, Chicago-based managing director in the principal investing group for Bank of America Corp. Powers has worked with Sema4 since Bank of America's purchase of FleetBoston Financial Corp., which had invested as an LP in a fund Sema4 has managed.

Sema4 has nine people working in the venture capital management practice, split between offices in Methuen, Washington, D.C., and New York City, said CEO Mark DiSalvo. The firm often does not disclose the names of funds or limited partners with which it is working, and does not disclose the circumstances under which its services are required, DiSalvo said.

"We've taken over many since the end of 2002," he said.

"We started offering general partner-oriented technology consulting services," DiSalvo said. Around the time the technology market bubble burst, Sema4 was being asked to perform a deeper level of due diligence on technologies and portfolio companies.

"We turned it into a specific practice with a defined methodology," DiSalvo said.

The firm works with funds with less than \$100 million under management, ranging from funds with no capital remaining to funds with enough capital for follow-on rounds or even to finance additional companies. But Sema4 does not add new companies to portfolios.

Sema4's practice is a niche play and possibly the only one around, said Mike Jordan, an associate with Columbus, Ohio-based law firm Schottenstein, Zox & Dunn Co. LPA, that represents institutional investors. Often, it is a law firm's recommendation that brings Sema4 to the table.

"If you (the LP) needed to find another entity to serve as general partner, Sema4 would be somebody who has taken on this role in the past," said Jordan.

San Diego-based Compliance Coach Inc., an online compliance education and training company, is in one of the portfolio companies Sema4 is currently managing, said CEO Sai Huda. Compliance Coach raised \$2.5 million in capital over five years.

"What we see (Sema4) to be providing is not only financial capital, but also intellectual capital," Huda said.

Since Sema4 is often coming into a firm during a time of distress, the interim managers try to minimize disruption. Still, Sema4 has stepped in during court battles between partners and even had to go in to fund offices armed with sheriff's orders and a locksmith at their side, said DiSalvo.

"Change is always alarming and troublesome, and you want to minimize that," said DiSalvo.

TOM WITKOWSKI can be reached at twitkowski@bizjournals.com.

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