

FEATURE



Corporate funds benefit from taking on external investors

By Kim Moore

More money to invest, greater technology insights and better support for startups are some of the reasons corporates are bringing on multiple limited partners.

When United Airlines opened its Sustainable Flight Fund to outside investors, the fund doubled in size to \$200m just five months after its launch in early 2023. Today it has 13 limited partners, including several US airlines.

A clear benefit of opening up to external limited partners is the bigger pot of money that fund manager United Airlines Ventures has to invest in startups that develop sustainable aviation fuel (SAF), with the increase coming from like-minded partners. Having multiple partners, some of which directly compete with United for passengers, also sends a signal that airlines want to work together on a global climate problem, says Andrew Chang, managing director of the airline's corporate venture capital unit.

United Airlines is one of a recent wave of corporates that have launched funds open to outside investors. In a break with the traditional CVC playbook, some have even taken on institutional investors and operate more like their peers in the financial venture capital sector.

As more corporations see the benefits of having multiple LP funds, these kinds of structures are likely to become a more common part of corporate venture capital practice.

There are four main ways that corporates do multi-LP fund structures: multiple LPs from the same group, multiple LPs from the same sector, multiple LPs from different sectors with mainly strategic goals and multiple LPs from different sectors looking mainly for financial returns from the fund.

“
A multi-LP fund structure will allow us to recruit and retain the best talent.

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— Nicolas Sauvage, TDK Ventures

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Type 1: Group multi-LP funds

One model that has been around for a while is when a corporation launches a fund that has multiple limited partners from its own company or a federation of companies that share a common brand. An example is Blue Venture Fund, a corporate venture programme in which 36 Blue Cross Blue Shield health plans invest in startups that have strategic value to the US health insurance plan affiliates.

Type 2: Sector multi-LP funds

Another model is when corporates come together from the same sector to do strategic investing. A recently launched fund in this category is Amberra, an investment arm for the largest banking and insurance groups in Germany. Its mission is to invest in startups looking beyond banking. The Oil and Gas Climate initiative, which brings together 12 energy sector companies to invest in climate-tech also operates in this way.

Type 3: Cross-sector multi-LP funds

Another variant of the multi-LP model is where the investors are from different sectors but they are focused on a specific area where their strategic interests converge. United Airlines' Sustainable Aviation Fuel fund is a good example of this. While a number of other airlines are LPs in the fund, the backers also include Honeywell, the aerospace and materials conglomerate, airport owner ADP, financial services company American Express and energy company Saudi Aramco. It might otherwise be difficult to reconcile the different investment interests of these companies, but in a very clearly focused fund they can be brought together.

Type 4: Financial multi-LP funds

A fourth multi-LP fund model, which splits the most from traditional CVC, is when a corporation sets up a fund that takes on limited partners from different sectors and often includes institutional investors seeking purely financial returns.

Sony Ventures chose to open its Innovation Fund 3 to between 10 and 20 external limited partners when it launched the fund in 2022. Limited partners in the ¥25 bn (\$165m) fund include Mizuho Group, Sumitomo Mitsui Trust Bank and Mitsubishi Estate. The head of Sony Ventures, Gen Tsuchikawa, said it plans to keep close ties with Sony.

Testing the model

TDK Ventures recently dipped a toe into a multi-LP fund with the idea of showing that this arrangement, far from leading to a separation between the parent company and the CVC unit, will actually bring even more strategic and ecosystem value to the mothership.

"We want to prove the model of multi-LPs fund," says Nicolas Sauvage, president of TDK Ventures. "We want to prove the value to TDK, to the LP, and the governance."

TDK Ventures started relatively small as it explores the model, launching the \$150m Fund EX1 in May to invest in energy and climate tech startups. The fund has two LPs: parent TDK and Amperex Technology Limited (ATL), TDK's Hong Kong-based lithium-ion rechargeable batteries specialist.

TDK Ventures's multi-LPs fund is both the type 1 and type 2 model — a fund where the LPs are from the same sector, interested in mainly strategic benefits from the investments. Investors in this kind of fund can band together to help scale the portfolio companies effectively.

Sauvage says ATL is an especially meaningful LP because of the value it can bring to portfolio companies. "If we are smart

in selecting the right LPs to join the multi-LP fund, they are thinking from a go-to-market point of view. Anyone receiving investment from this multi-LP fund would get privileged access to the LPs which would bring them go-to-market more quickly," says Sauvage.

Benefits of multi-LP funds

Limited partners can get several benefits from joining a corporate fund. They can, for example, make portfolio companies customers for their own businesses or help them discover new markets.



Nicolas Sauvage, TDK Ventures

For the CVCs, opening up their fund to external investment can bring a degree of freedom. One of the issues it can help with is attracting and retaining talent, says Sauvage. This is especially the case in the highly competitive climate and clean energy sectors. CVCs are vulnerable to poaching of staff by financial VCs because they can pay better than corporate venture capital units. Having multiple-LP fund structure gives CVCs more flexibility to provide VC-like compensation, such as carried interest.

"In a sector that is very competitive, like energy transformation, there are a lot of climate tech VCs that have billion-dollar-plus investments. This means they attract the best of the best in the ecosystem. A multi-LP fund structure will allow us to recruit and retain the best talent," says Sauvage.

CVCs may also be attracted the added safety net of a multi-LP fund structure. It is harder for the parent corporation to shut down a fund that has external LP money. CVC fund managers spend a lot of time explaining the value that corporate venture capital brings to the mothership. This time could be spent on other tasks with a multi-LP fund structure.

Dong-Su Kim, CEO of LG Technology Ventures, the investment arm of the Korean conglomerate LG, says sole LPs can have "too much influence on decision-making because they see it as their money. In a multi-LP fund, the fund manager has more control."

LG Technology Ventures manages several funds for LG subsidiaries. But LG also recently set up a \$309m fund focused on AI, batteries and mobility, which is financed jointly by four of the LG units: LG Energy Solution, LG-Uplus, LG CNS and LG Chem. Kim says that bringing in several limited partners has a clear benefit in bringing added insights to investment decisions.

“Even strategically, the interaction among multiple LPs can be very beneficial to LG. At LG Technology Ventures we have invested as an LP in financial venture capital funds and there are always insights that can be obtained from the perspective of the LPs.”

Challenges

Having multiple LPs does, however, bring an extra layer of complexity that single-LP funds don't have to bother with. Multi-LP is not a small undertaking, says Sauvage. “There is much more governance and overhead to run a multi-LP fund,” he says.

Managers of multiple-LP funds have to make sure the investment team understand all partners' interests and goals. And all limited partners have to agree on common goals. This reduces the risk of running into disagreements over investment decisions.

Despite the challenges, those who run these kinds of funds say the benefits outweigh the complexities. Being able to have the perspectives of various stakeholders can give funds a competitive edge in sourcing successful startups.

For Chang at United Airlines Ventures, the chance to bring on external LPs brings benefits that are “immeasurable in terms of expanding the scope and nature of discussions. There is heightened credibility,” he says. ●



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The interaction among multiple LPs can be very beneficial to LG.
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— Dong-Su Kim, LG Technology Ventures



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CASE STUDY ONE

United Airlines Ventures Sustainable Flight Fund

Limited partners: Air Canada, Boeing, GE Aerospace, JP Morgan Chase, Honeywell, American Express Global Business Travel, Aramco Ventures, Aviation Capital Group, Bank of America, Boston Consulting Group, Groupe ADP, Hawaiian Airlines, JetBlue Ventures

Airlines band together to solve climate challenge

United Airlines Ventures saw clear financial benefits in partnering with outside investors in the effort to decarbonise air travel.

In 2023 it launched the \$100m Sustainable Flight Fund to invest in startups developing sustainable aviation fuel (SAF). UAV wanted to bring on external investors because reducing aviation fuel emissions requires more capital than what a single corporate could handle.

“We thought it was more impactful and wanted to send a clear message that we are collaborating to accelerate SAF development – not competing or withholding information,” says Andrew Chang, managing director of the airline’s corporate venture unit.

Air Canada, Boeing, GE Aerospace, JP Morgan Chase and Honeywell were part of the first batch of limited partners to join the fund.

The idea of taking on multiple LPs emerged internally at United Airlines, but the venture unit was pushed to proceed with a multi-LP fund model by the limited partners, who were mostly customers and stakeholders of the airline. “With most, we have a long-standing relationship. What pushed us over the edge was the interest and recommendations of our partners.”

Five months after its launch the fund grew to \$200m and eight new corporate partners joined, including Hawaiian Airlines, American Express Global Business Travel, Aramco Ventures and Bank of America. Some of the LPs compete directly with United for passengers, such as JetBlue.

Chang says competition among airlines does not come into play with investments in sustainable aviation fuel. “SAF and renewable energy is a global, multi-sector challenge. You can’t compete for something that doesn’t exist. There is just not enough SAF,” he says.



The venturing unit continues to seek other corporations across industries to join the fund. It prioritises investments in a variety of sustainable alternative aviation fuel feedstocks, including household waste and forest waste. SAF portfolio companies include Cemvita, which uses industrial biotech to recover natural resources such as hydrogen and metals without environmental damage, and Fulcrum Bioenergy, a developer of transportation fuels from landfill waste.

The fund also invests in mobility-related technologies, such as carbon capture, hydrogen-electric engines, electric regional aircraft and air taxis. Portfolio companies include Archer, a developer of electric vertical takeoff and landing aircraft, and Natron Energy, a maker of sodium-based batteries for industrial uses.

CASE STUDY ONE

It takes a lot of time and effort to manage a multi-LP fund. The venture unit holds regular quarterly meetings with all 13 of its LPs in addition to informal monthly and biweekly meetings with each of the partners. Having multiple LPs does require extra work and money, says Chang. It hired a law firm to act as general partner. It also has to take time to understand its partners' interests and sensitivities. "If we are doing something very different than what they have done in their core business, there needs to be a good reason for that. Those are additional complexities," says Chang.

An issue the fund has to deal with are conflicts of interest between the fund, which is financially driven, and the corporate partners behind the financing that want to have access to sustainable aviation fuel at a reasonable price.

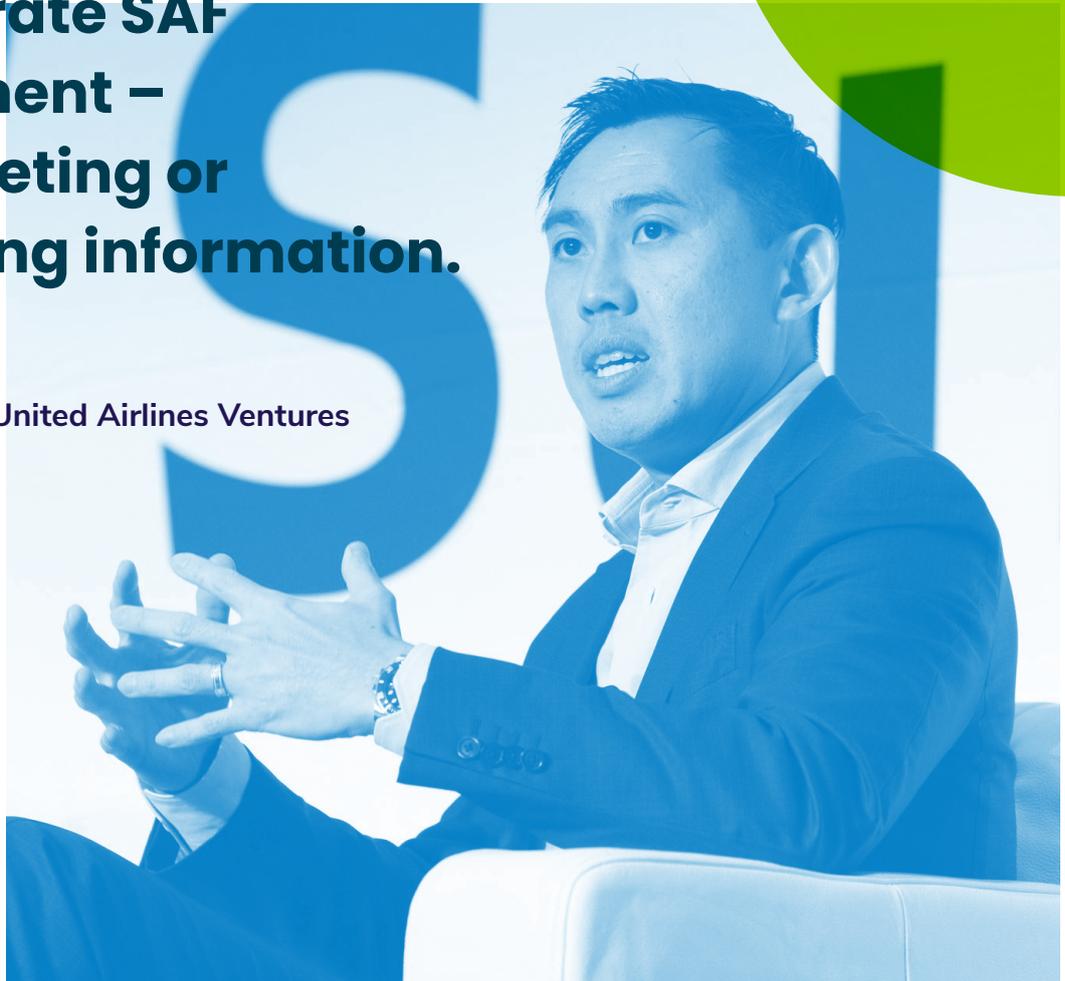
"We are not only making investments in the technology; we want a commercial agreement; we want offtake rights and access. How do you balance that with the needs of our parent company and our LPs versus what the fund's objective is, which is a financial return," says Chang.

Despite the challenges, Chang says the benefits of the multi-LP model are worth it as having more people working on a global issue like climate change improves the credibility and effectiveness of investments.

"Anytime you have more people thinking about it, bringing capital, helping to problem solve, it is all helpful," he says. ●

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— Andrew Chang, United Airlines Ventures



CASE STUDY TWO

Sony Innovation Fund 3

Disclosed limited partners: SMBC Group, Mizuho Group, Daiwa Securities Group, Sumitomo Mitsui Trust Bank, The Bank of Yokohama, The Shiga Bank, Koei Tecmo Group, Kawasaki Heavy Industries, Mitsubishi Estate Co.

Sony takes on outside investors to be in venture for the long run

When Gen Tsuchikawa, head of Sony Ventures, considered bringing on external investors for a new fund in 2019, the risks posed to corporate venture capital through the ups and downs of the economy were on his mind.

CVCs are known for often getting shut down by the parent corporation when the economy is in decline and then getting opened up again when the economy is doing well. By bringing on external investors, CVCs protect themselves from closure by the parent because they are dealing with outside money.

This fund model of having a general partner (GP) and limited partners (LPs) offered some protection. "To be sustainable in this market, which goes up and down, the GP/LP structure was a meaningful step," says Tsuchikawa.

Sony Ventures launched a joint venture fund with Daiwa Capital Holdings, a Japanese investment banking group, in 2019. The Sony Ventures team felt so emboldened by the experience of running the joint fund with external LPs that they decided to launch their own fund open to outside investors in 2022.

"We learned a lot in terms of financial rules and regulations, and the very clear fiduciary duties to the investors," Tsuchikawa says of the partnership with Daiwa. "After doing that for three years, we felt we were up the curve enough to do it by ourselves."

This new fund, Sony Innovation Fund 3, has between 10 and 20 external limited partners, including institutional investors and financial services firms. Limited partners include Sumitomo Mitsui Trust Bank, Kawasaki Heavy Industries and Mitsubishi Estate.

Eighty percent of investors in the joint venture fund with Daiwa joined the Innovation Fund 3.



Sony Center Headquarters building in Tokyo

With its external institutional investors the fund resembles its peers in the financial venture capital sector. But the focus on making financial returns for its investors was not a big leap for the Sony Ventures team. It soon became clear to Tsuchikawa that parent Sony was not just interested in companies that are of strategic value. It wanted to invest in companies that provided a financial return, too.

"We are looking for companies that scale, create a meaningful presence, and potentially can grow more by support from Sony. Naturally, potential of financial performance is an important factor to get there," says Tsuchikawa.

CASE STUDY TWO

So far, the LPs in the fund are all from Japan where Tsuchikawa says there is plenty of money to draw on. It seeks LPs that can write big cheques and partners that can help them to analyse investment opportunities in sectors where the partners have expertise. As an example, one of the LPs, Kawasaki Heavy Industries, is a big player in sector for large industrial vehicles. Mitsubishi Estate is an expert in real estate.

“Sony, with its global reach and diversified portfolio, allows us to evaluate many different areas, but it sometimes makes sense working with LPs with knowledge on specific areas to refine our analysis,” he says.

Its LPs typically join the fund to access Sony’s global business network to explore new markets and customers. “What we are hearing from the LPs is that sometimes the startups we invest in gives them a food for thought on cultivating new areas.”

Bringing on external LPs also helps the parent company with its diversification efforts. Sony is known for its focus on games, music and electronics. But it has also grown into other areas such as semiconductors and financial services. It has

even ventured into electric vehicle manufacturing with the launch of a joint partnership with Honda, called Sony Honda Mobility, in 2022.

“We continue to consider going into new areas. Some areas are cultivated through investments that Sony Innovation Fund finds,” says Tsuchikawa.

Running a fund with external investors brings an extra layer of complexity. “The fiduciary duty is very clear. And the rigour to meet the fiduciary duty is very clear. There are no shortcuts,” he says.

Having a strong investment team is critical. The Sony Ventures team comes mostly from Sony, although it has made more external hires to deal with the extra workload. It spent five years cross training all its staff, says Tsuchikawa, so that they are expert areas such as tech scouting, mergers and acquisitions, and business development.

“In this GP/LP fund, you need to know what Sony can evaluate and what it can’t evaluate. The communication internally is very important.” ●

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— Gen Tsuchikawa, Sony Ventures



CASE STUDY THREE

Climate Investment Catalyst Fund

Limited partners: Saudi Aramco, BP, Chevron, Eni, Equinor, ExxonMobil, Occidental, Petrobras, Repsol, Shell, TotalEnergies

Oil and gas majors pool resources to invest in climate tech

Many of the world's largest oil and gas producers have their own dedicated corporate investment arms. But 12 big names in the sector have also chosen to invest collectively through the Oil and Gas Climate Initiative (OGCI).

The members of the initiative, which include large players such as ExxonMobil, BP and Shell, all have targets to achieve net zero emissions at their own operations. The Oil and Gas Climate Initiative provides a way for the members to agree on goals for reducing carbon dioxide and methane emissions as well as sharing knowledge on how best to measure emissions.

The group uses an external investment firm, Climate Investment, to invest in technologies on its behalf. Its initial fund, Catalyst Fund I, made its first investments in 2017 and focuses on early-stage emissions reduction technologies.

Climate Investment, which was founded by the OGCI members in 2017, is independently managed. The Oil and Gas Climate Initiative members have no investment decision-making involvement in any of Climate Investment's funds.

This arm's length relationship benefits the fund's partners, says Josh Haacker, chief investment officer for Climate Investment. "Our focus on climate impact allows us to pursue investment opportunities that might not be a fit for direct investment from an individual investor in our funds or those that might not relate closely enough to the core business today.

"In this way, we provide a broader lens into greenhouse gas solutions in a resource-efficient manner," says Haacker.

The investment firm has more than 35 portfolio companies across its three main areas: reduction of methane or carbon dioxide emissions, carbon capture, and recycling and storage.



Carbon capture, utilisation and storage is a big part of the members' carbon reduction investment strategy. The partners estimate they can collectively store 300 million tonnes of carbon dioxide a year by 2030 from projects they invest in.

Reducing methane emissions from oil and gas is also a priority investment area for the Oil and Gas Climate Initiative partners.

Climate Investment's recent investments include Trace Carbon Solutions, a developer of carbon capture, transportation and sequestration; Carbon Upcycling, a technology that stores carbon in industrial byproducts; and Sensorup, a provider of software that measures and verifies methane emissions.

CASE STUDY THREE

Climate Investment also invests in startups that are not directly connected to the oil and gas sector, such as steel, cement, agriculture and the built environment. “Our portfolio of investments, and now our investors as experts in those industries, have expanded up and down the value chain,” says Haacker.

Overall, the investment firm aims to reduce 100 million tonnes of greenhouse gases a year by 2030 across its portfolio companies.

The oil and gas sector’s collective investing is an efficient way to use resources, says Haacker. “We believe that engaged, cross-sector collaboration is critical to driving capital-efficient global, multi-sector decarbonisation at pace,” he says.

The members of the Oil and Gas Climate Initiative have invested \$65bn in technologies since its founding.

The fund’s limited partners can also access and participate in Climate Investment’s network of policymakers, academics and non-government organisations that are focused on decarbonisation. The investment firm is a member, for example, of the United Nations Principles for Responsible Investment and the Global CSS Institute, a think tank focused on carbon capture and storage technology.

Climate Investment facilitate commercial contracts between the startups in its portfolio and the fund’s limited partners to help the startups test out and validate technologies. The firm says it has facilitated more than 135 deployments of its portfolio companies’ technologies with members of the Oil and Gas Climate Initiative.

“A key advantage is the partnership network and operational expertise of our team in understanding which LPs might benefit from which solutions,” says Haacker. ●

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