# Oral History with Edward Kane

**NVCA-Venture Forward Oral History Collection**

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National Venture Capital

Association Venture Capital Oral

History Project

# Edward Kane

Interview Conducted by
Carole Kolker, PhD
May 19, 2015

This collection of interviews, *Venture Capital Greats*, recognizes the contributions of individuals who have followed in the footsteps of early venture capital pioneers such as Andrew Mellon and Laurence Rockefeller, J. H. Whitney and Georges Doriot, and the mid-century associations of Draper, Gaither & Anderson and Davis & Rock — families and firms who financed advanced technologies and built iconic U.S. companies.

Each interviewee was asked to reflect on his formative years, his career path, and the subsequent challenges faced as a venture capitalist. Their stories reveal passion and judgment, risk and rewards, and suggest in a variety of ways what the small venture capital industry has contributed to the American economy.

As the venture capital industry prepares for a new market reality in the early years of the 21st century, the National Venture Capital Association reports (2008) that venture capital investments represented 21 percent of U.S. GDP and was responsible for 12.1 million American jobs and
$2.9 trillion in sales**.** These figures, while significant, greatly understate the collective accomplishments of the venture capital industry.

I'm pleased to have initiated and given my early support to this project, which is now receiving support and funding from NVCA and Harvard Business School. I believe these oral histories will advance the understanding of the venture capital industry. This collection, along with Paul Bancroft's Bay Area oral history project at the Bancroft Library at the University of California, Berkeley, and Paul Holland's Silicon Valley project for the Western Association of Venture Capitalists, will add significantly to a growing body of venture capital memoirs available to the public sector.

A special note of gratitude goes to each interviewee who generously gave of his time while candidly sharing his memories. Their recollections bring to life the dynamic story of venture capital in the 20th century, providing a powerful perspective on the history of this industry.

Charles W. Newhall III 2010

**Carole Kolker:** The following is an interview with Ed Kane of HarbourVest Partners, taking place in Boston, Massachusetts. Today's date is May 19th, 2015. My name is Carole Kolker. This interview is being conducted as part of Harvard University's Venture Capital Oral History Project.

<off-topic conversation>

**Kolker:** So let's just... Just start from the beginning for the record. When were you born and where?

**Edward Kane:** 1949, and outside of Philadelphia, Pennsylvania.

**Kolker:** Oh, what-- how come your family was located in Philadelphia at that time?

**Kane:** My family has been in Philadelphia since William Penn. They came over in 1683 and were-- my family were Quakers and helped settle Southeastern Pennsylvania. I'm actually the first one in 10 generations to move away, so... Everybody else, you know, for 10 generations stayed within about 20 miles of each other, so...

**Kolker:** Your parents' names?

**Kane:** Now, I'm just curious. Why do you want that? I mean...

**Kolker:** Because, okay, if you're going to read the history--

<off-topic conversation>

**Kane:** I mean, I'm just thinking about privacy. You know, I'm happy to-- I'm happy to talk about private equity, but talking about my family--

**Kolker:** Okay. Let's continue and did you have any siblings?

**Kane:** I have a brother who's a doctor, an M.D., so...

**Kolker:** Uh-huh. And where did you fall in this? Were you older, younger?

**Kane:** Younger. Two years younger.

**Kolker:** Uh-huh. How'd you all get along? <laughs>

**Kane:** I wouldn't say we're close but we get along.

**Kolker:** <laughs> So what were your interests as a child?

  

**Kane:** A lot of things.  I was always involved in-- I always liked deals, even when I was young.  I liked trading things and swapping things and so forth.  That was always an interest of mine.  I liked building things like forts, and-- some sports.  I played a lot of sports, but I wouldn't say I was a sports fanatic.  I was interested in sports, and it was a big part of my life, but it wasn't my whole life, as I'm sure it was for some people.  I was always interested in science, chemistry and physics and that kind of stuff and experiments, so...

**Kolker:** And how would you describe the values in your home towards education, towards a work ethic?

**Kane:** Oh, very -- neither of my parents went to college, and both of them pushed my brother and I to make sure that we could get as much education as we could get.  That was a very, very, very strong value in the family.  As were things like work ethic and working hard.  The obligations that you have to an employer was something that was always stressed very importantly.

**Kolker:** And how about expectations for success?

**Kane:** Yeah.  I would say that was the case.  It was balanced with expectations for being happy.  It wasn't success at the expense of happiness, but I think success was the kind of thing that was valued in the family and rewarded.  But not to an excess amount.

**Kolker:** Mm-hm.  So where did you go to school?  Did...?

**Kane:** I went to public high school outside of Philadelphia.

**Kolker:** Oh, you did?

**Kane:** And then I went to University of Pennsylvania as an undergraduate, and then I was drafted into the military.  I went to Officer Candidate School.

**Kolker:** I think I have-- I've got some of that.  Were you-- when you were in high school were you high energy?

**Kane:** Yeah.

**Kolker:** Risk taking?  Any of that?  Was that--

**Kane:** I don't know.  I don't know about risk taking.  I didn't have any money, so I didn't have money to invest to take risks.

**Kolker:** Well, you said you liked to collect things and exchange--

**Kane:** Yeah, yeah.  Yeah, But I don't remember. I was good student, and I was also an athlete.

  

**Kolker:** Were you competitive?

**Kane:** Yeah, yeah, yeah, both as a student and an athlete. I would characterize myself as being academically oriented and a good student, but I don't know that I'd say I was a risk taker at that point in my life.

**Kolker:** Okay. There weren't any early signs of that.

<laughter>

**Kolker:** And is there anyone you would cite as a early role model or mentor in those early years before you went off to college?

**Kane:** Yeah, I was fortunate. I feel as though I had a good education from public high school. Public high school at the time in Pennsylvania was very good. The public high schools were really as good as private schools. Both my kids went to private boarding school and so I was able to do a comparison of the kind of education they were getting, which was outstanding. But compared to mine, I think mine was very, very solid as well. So I don't know what the case is in Pennsylvania right now for public education. But I know in Massachusetts, public education is kind of frowned upon. Most of the wealthy, elite, capable people here generally send their kids to private school. Whereas in Pennsylvania at time, private school was an option but it wasn't necessarily where the elite sent their children because the public schools were still very, very good.

**Kolker:** And how about work? Did you earn money at all during those early years?

**Kane:** Oh, yeah. Yeah. I worked from a very early age. I mean, we had to. We weren't a very affluent family. I worked mowing lawns and shoveling driveways in the winter and worked construction at an early age and so yeah, work was a big part of my early years.

**Kolker:** Okay. So then you went to University of Pennsylvania.

**Kane:** Right.

**Kolker:** And what was your major there?

**Kane:** I majored in political science because it was the one major where you could take the largest number of courses outside the major. So I took a lot of courses from the Wharton School and got exposed to business, and I took a number of electives and things like music and art and so forth. So I had a very broad-based education. Political science wasn't something that-- I don't want to say it didn't interest me, but it was a way to take a broad brush of a number of courses.

**Kolker:** And did you continue to play sports at Penn?

  

**Kane:** Yeah, I wrestled in college.

**Kolker:** Oh, you did?

**Kane:** I was actually recruited athlete and wrestled for several years in college. But I got a combination of getting injured multiple times, and also recognized that I could probably be an outstanding student or an outstanding athlete, but I couldn't do both, and so I opted to go the more academic route.

**Kolker:** Uh-huh. And how about mentors at Penn or anything that-- any courses that might've influenced the direction you were going to take?

**Kane:** Fortunately, Penn had a very large number of very good faculty members, and many of them willing to mentor people like myself. So I found myself exposed to a lot of good professors and a lot of good opportunities for people to kind of help steer me in whatever direction I was going.

**Kolker:** Mm-hm. So, what were your plans when you graduated?

**Kane:** Well--

**Kolker:** You graduated in '71?

**Kane:** '71, yeah. At the time I was thinking about law school and/or business school, but I didn't have to think very hard because I was drafted. I was one with the last class drafted in... So, I literally was drafted when I was-- I knew I was going in the military when I was a senior, and was able to go to Officer Candidate School and get a commission. So be in the Army as a commissioned officer, and that was also a very positive experience for me as well. Because you learn leadership and management, which is not something that you can really learn. I mean, even business school courses don't teach leadership, and they don't teach how to manage. They, of course, are sort of about management but they don't teach you how to do it, whereas the military teaches you how to do it. When you come out of Officer Candidate School, you know how to manage people. I mean, you have to; you won't graduate. <laughs>

**Kolker:** Oh. So you graduated from the U.S. Army Command and General School?

**Kane:** Well, no, that was different.

**Kolker:** Oh.

**Kane:** I graduated from Infantry Officer Candidate School at Fort Benning.

**Kolker:** Oh, okay. Then--

**Kane:** And then the military schools' progression is you go to what's called the Officer Candidate School, then you go to whatever course in your branch is referred to as the advanced school. In my case I was in military intelligence, so I went to the military intelligence, took a what's called advanced course. Then after that I went to the Command and General Staff College at Fort Leavenworth. But that's while I was in the Reserves. When I was on active duty I only went as far as basic intelligence training. I had four months of Intelligence School at Fort Devens, Massachusetts, and then served the rest of my time in Washington, D.C., in one of the intelligence headquarters there. This was when the Vietnam War was winding down and the war was essentially over in January, and at the time they had too many officers and so I applied for and received an early out. And so I got out of the Army about nine months early, which was great. Part of the deal was I agreed to stay in the Reserves for a while. So I went to the intelligence officers advanced class, advanced school, and Command and General Staff College while I was in the Reserves. That was after I was off active duty.

**Kolker:** Oh. Okay. I just-- <laughs> I was trying to figure it out via the internet, but...

**Kane:** Yeah, I know. I know. It's kind of confusing.

**Kolker:** It's kind of-- yeah.

**Kane:** You have to understand, some of it's active duty, some of it's Reserves, and a lot of people don't understand that, so...

**Kolker:** And when did you-- what year did you get out of the service? You said you took an early...?

**Kane:** Yeah. I got out of the military-- I graduated college in '71, got out of the military in September of '73.

**Kolker:** Okay. And is that when you-- so you went to Harvard in '73.

**Kane:** Yeah, literally. I got out of the Army I think on a Friday and started Harvard on a Monday.

**Kolker:** So what made you decide to pursue this MBA?

**Kane:** I think as a result of going to Officer Candidate School and serving as an officer in the military, I became more interested in the management side of business than legal. I realized that you can always hire a lawyer. A manager hires a lawyer; a lawyer doesn't hire a manager. So...

**Kolker:** <laughs> That's interesting.

**Kane:** Really the military had steered me in the direction of business school, and I was very fortunate to be able to apply to business school, and get an early out, and have everything sort of line up so I could do it in two years instead of three years, so...

**Kolker:** So, what kind of career were you envisioning for yourself at that point?

  

**Kane:** Probably more public service at the time. Having lived in Washington, D.C., and worked in-- basically for the government in the intelligence side of the military I probably saw myself as either a career in public service, returning to Washington or something, or running a government department or something or other. Not necessarily a career in business at the time.

**Kolker:** Yeah. So, what were you learning about yourself in Harvard that kind of made you change your mind?

**Kane:** For one thing, I was tired of moving. When I was in the military, I would move about every three or four months to some new place. I'd have to make new friends and get reestablished, and so I decided-- I graduated in a recession year; 1975 was a very poor year to be graduating business school. But I decided notwithstanding that, that I was going to stay in Boston, because I'd lived in Boston now for two years, and I just was tired of moving. I just didn't want to move anymore. So, I decided to stay in Boston whether I had a job or not. <laughs>

**Kolker:** And were there any mentors in business school?

**Kane:** Well, the business school, the classes are very large, so it's a little bit difficult to get-- to find a mentor, but no. I wouldn't say that I had a mentor at Harvard. I enjoyed Harvard and I enjoyed the faculty. I think the faculty's very good, but I don't remember any faculty member either taking a particular interest in me or that I took a particular interest in.

**Kolker:** Or that influenced you in any--

**Kane:** I don't-- I don't--

**Kolker:** Any course that kind of--

**Kane:** I don't--

**Kolker:** --just got you excited?

**Kane:** No, I don't recall that. I guess I had a slight concentration in finance, and at the time when I graduated there really were very few jobs. There weren't many job offers coming.

**Kolker:** The '70s.

**Kane:** And the one place where you could generally find some likelihood being hired was in the banking industry, and so combination of an interest in finance and the fact that there were jobs in the banking industry, I decided to look at commercial banking as something that might interest me.

**Kolker:** So, what was your first job out of college?

**Kane:** I worked as a commercial loan officer for a small regional bank in New England. The name of it was New England Merchants Bank.  New England Merchants National Bank, and because we were in New England at the time and because the high technology industry was just starting to take off, a lot of the financing that you would do was one way or another related to technology.  We were financing the Route 128 kinds of companies.  They were either expanding their space and we built a larger building for them, or a new building, or financing their growth somehow. So I got exposed to a lot of what we used to call the black box companies. These companies that made stuff, and nobody really necessarily thoroughly understood what they made. But they're very profitable and growing very, very rapidly and this was the Route 128 high-tech industry, which was a bit of a rival of Silicon Valley at the time.  I mean, there were two areas of the country that were focused on technology, one was outside of Boston, and one was outside of San Francisco.

**Kolker:** Yeah, that regional difference, huh?

**Kane:** Yeah.

**Kolker:** And so how long did you stay?

**Kane:** Four years.

**Kolker:** Four years.

**Kane:** Just under four years in commercial banking, and I enjoyed it.  I learned a lot.  It was a great place to learn financial skills, interact with a lot of different companies and a lot of different businesses. And it was a fascinating place to work and great people there and so forth, so...

**Kolker:** So, why'd you leave?

**Kane:** I just got a better offer.  I didn't have to move or relocate.  I could basically have almost the same commute and work at another financial institution in Boston for quite a bit more money and what eventually became a much more interesting career.

**Kolker:** So that's 1979 you joined on Hancock?

**Kane:** Yeah.  Yeah, 19-- yes, that's right.

**Kolker:** And you say you recruited?

**Kane:** Yeah, yes.  Somebody from Hancock called me and said, you know, would I like to come talk to him?  I said, "Sure, I'll always talk," you know, so...

**Kolker:** And what were your responsibilities when you started working there?

  

**Kane:** It's interesting. When I started, I was, again, involved in corporate finance. Much larger companies with Hancock than we had been doing before, but the same kind of thing. It was lending to businesses, lending to companies. With the one exception that we had a very, very small venture capital portfolio, a couple of investments in very small venture capital firms. I sort of took an interest in that and wanted to learn more about that industry, and because I had some knowledge of technology it just seemed natural to try to focus on venture capital as an investment area for an institution like Hancock.

**Kolker:** And so were you acquiring some new skills at this point or was it just getting more and more absorbed in--

**Kane:** No. I wouldn't say I was acquiring new skills. I was acquiring much more knowledge of an activity. I would call it an activity, not an industry and not a business. At the time it was an activity of what some of the people in both Silicon Valley and the Boston area were doing in terms of investing in young startup -- mostly technology companies. And this was really the beginning of the venture capital industry. Now, later we're going to talk about the private equity industry, but at the time you didn't call it the private equity industry. You called it the venture capital industry.

**Kolker:** It was kind of--

**Kane:** And there were probably six or seven firms, partnerships, nationwide that would raise outside capital. And some of these funds were only 10 million dollars, and so they would raise 10 or 15, or in the case of a very large funds, 25 million dollars, and invest in either startup or early-stage companies with the thought that those companies would grow to become large companies. And that was really the beginning of the venture capital industry.

Remember, this was 1979, and there were a number of things that were just gearing up. One was the spread or the fact that the microprocessor or the semiconductor was becoming pervasive in the American economy. And it was really the semiconductor that I think drove the venture capital industry to becoming what it was. Almost everything, with a possible exception of the biotech industry, was very, very small at the time. But almost everything you invested in at the time, or all of the company formation was somehow related to the semiconductor, because it was a way to miniaturize something. It was a way to make computing and calculating and information processing be able to be done very much faster but also cheaper.

So there was a semiconductor that was-- I almost liken it to the cost of gasoline or the cost of fuel, which really allowed cars to become very much pervasive in the American economy. It wasn't that gasoline was available. It's that it became more and more available, and it became cheaper. So, over the years, the price of gasoline actually went down. That's what drove the development of the automotive industry. And I think it, in the same way, it was the semiconductor that served as the fuels, which caused the spread or growth or rise of the venture capital industry.

The second thing that happened was there was a reduction in capital gains taxation rates. Capital gains tax rates used to be very high and all of a sudden, they were cut dramatically, and this meant that risk capital became much more available, because you could invest and then get more favorable treatment from a tax point of view. The third thing that happened was that pension funds, which were, and probably still are, the largest source of capital in the world. For the first time, the Department of Labor allowed pension funds to invest in venture capital funds, which meant that an investor could adapt the prudent man rule to allow him to invest in venture capital funds for the first time. S

o you had the semiconductor, the reduction in capital gains tax, and the more favorable rulings for pension fund investing, all occurring at the same time, and the venture capital industry just took off. And what's interesting for me personally, because this was exactly the point in my life or in my career, when I began to study this industry and said, "Well, maybe we can build a business out of this."

So what was fortunate for me was that because we had had a number of very small investments in some small venture capital funds, I got to go to some dinners and some meetings, lunches or whatever, when these firms would have their investor meetings, and I would sit at a table and to my left would be a pension fund manager, and to my right would be either an insurance company investor or a pension fund manager, and they would be talking and they would say how they really liked the venture capital industry. It's intriguing and so forth, but it takes an awful lot of time to make these investments in funds and they can't put that much money to work. So you had these sort of investment vehicles that would take up maybe one percent of somebody's portfolio but take up 80 percent of their time trying to get in there.

**Kolker:** Yeah, tons of time.

**Kane:** And it occurred to me that maybe we could set up a business where we could act as an intermediary and pull this capital for pension funds and institutional investors and do it for them and earn a fee in the interim, and that was really the start of what I think became the first fund of funds in private equity and venture capital.

**Kolker:** Was there anyone at Hancock that was-- who was there before you were who was urging you to pursue this or...?

**Kane:** No. No. This was--

**Kolker:** This was just--

**Kane:** --something that I dreamed up.

**Kolker:** And so how did-- so what happened? I mean...?

**Kane:** Well, I proposed the idea to John Adams, who was the head of the corporate finance department, and he thought it was an intriguing idea and gave me the support and mentorship and so forth that I needed to move this forward.

**Kolker:** So that started Hancock Venture Partners?

**Kane:** That's right.

**Kolker:** That was 1982?

**Kane:** It actually--

**Kolker:** And then--

**Kane:** What happened was that my partner, Brooks Zug, was working on a different idea. He was working on a municipal bond fund. Same kind of thing. Pooling capital for, in that case, casualty insurance companies that invest on their behalf. So John Adams suggested, "Well, look. Why don't you guys get together and see if you can come up with a business that makes sense." So Brooks joined me and then he had some ideas about doing this as a limited partnership. I had always thought of it as a separate account, but it turned out the limited partnership was probably a better idea, better way to do it. So we joined forces and then developed what was Hancock Venture Partners. And that really started I'm going to guess in kind of 1980, maybe '81, it was-- 1982 was the year that we closed our first closed-end vehicle. But it took, you know, a good almost two years of lead time to get there.

**Kolker:** Okay. So, I mean, how did you perceive that there was a need for this fund of funds?

**Kane:** As I mentioned, it was listening to investors--

**Kolker:** Yeah. Can you just--

**Kane:** --saying that they were-- they liked the industry. The liked the returns. They just didn't have the time or the energy to--

**Kolker:** Right. So you just kind of--

**Kane:** --to invest in it.

**Kolker:** --stepped in-- you saw a--

**Kane:** So, we saw a way to maybe be an intermediary between very large pools of capital and these small private equity funds.

**Kolker:** Right. And did you have a mission statement of what you were setting out to do or...?

**Kane:** It was a little bit trial and error. I mean, we were--

**Kolker:** Oh, okay.

  

**Kane:** We did have sort of an idea about how to go about it, but we also learned along the way. Because nobody'd ever done this before, so we had to figure out along the way how to put this thing together.

**Kolker:** And--

**Kane:** Because there was no roadmap. <laughs>

**Kolker:** So, what made you feel well suited to do this? I mean, it's taking a lot...

**Kane:** I had a fair degree of confidence. First of all, I understood technology….at the time. I don't understand it anymore because it's outgrown me!

<laughter>

**Kane:** But at the time--

**Kolker:** Yeah.

**Kane:** Between military training and--

**Kolker:** That's interesting.

**Kane:** --the knowledge of science that I had; I understood the technology as it existed at the time. So, I had confidence in that. I also had obviously a pretty good academic background, between taking courses at the Wharton School and Harvard Business school I probably had as much academic knowledge of the business world as it was possible to obtain in-- without getting a PhD in <laughs> something in business, so-- and that-- so that-- combination of that and...

**Kolker:** Is there another skill? Is it a art or a science to managing assets?

**Kane:** No, I don't think so. I think if you get an MBA from a school like Harvard, you probably come away with a fundamental understanding of how to manage assets. I don't think there's a-- other than just experience, which I'd obviously had, between banking and Hancock. I had fairly good knowledge of how the financial world works.

**Kolker:** Is there-- or certain assets a person has that allows them to be more successful in this area?

**Kane:** It's a-- it's a good question.

**Kolker:** Because I'm sure everyone's not equally as successful, right.

**Kane:** Yeah, I mean, there's a lot of theories on that. You know--

**Kolker:** Yeah. What's yours? <laughs>

**Kane:** I don't know. There are people that are just very successful in the investment world. And you wonder if they're, out of a thousand people, 10 of them get it right, and, you know, whether that's random walk or whether they have certain characteristics that they bring to table. I don't know-- I've never been able to answer that.

**Kolker:** Okay. That's fair enough. So what venture capitalist were you working with when you started this?

**Kane:** Yeah--

**Kolker:** Back in the early '80s?

**Kane:** TA Associates, Hambrecht & Quist, Charles River. Cable & House, Oak. Trying to remember some of the others. Palmer. So, there were a number of private equity firms that were small but obviously wanted to grow. None of the private equity firms ever want to stay small. They want to become bigger, and so they all grew, of course, as we grew as well.

**Kolker:** Mm-hm. And how did you make these contacts?

**Kane:** Once you let it be known that you're interested in investing in venture capital firms, that word gets out really fast.

**Kolker:** So they come to you?

**Kane:** Yes. Yeah. Yeah. The word would spread. Well, when you think of it, the industry really was concentrated in the Boston area. So everybody in the Boston area all know each other, and as soon as the word got out that we were putting together a program to invest in private equity, we had a lot of people knock on our door, and the same thing in Silicon Valley. I mean, Silicon Valley was a very, very small community of a small number of people, and once the word got out that we were investing in venture capital firms in California, again, we had--

**Kolker:** They came out?

**Kane:** Yeah.

**Kolker:** How interesting.

**Kane:** Yeah.

**Kolker:** And who were your early investors?

  

**Kane:** They were primarily pension funds. Now, here's where I think we really did strategically think this through. Because we wanted to raise a fairly sizable pool of capital, but we also wanted to raise it from a variety of sources. So we raised the capital largely from pension funds, but also a number of other insurance companies. And that was kind of interesting that one insurance company would invest in another. We raised it from endowments, foundations. And also, we raised a reasonable amount of foreign capital, non-U.S. capital, and that was almost strategic. We wanted to get a variety and a diversity-- a diverse mix of investors.

**Kolker:** So how did you go about marketing your service so--

**Kane:** We just by calling up people and seeing if we could come see them and, you know, try to get a meeting. If we got a meeting, generally then try to get a second meeting. It was pioneering because we had to explain to people what venture capital was. They didn't know what it was at the time. They didn't know venture capital. What's that? It sounds illegal, you know. <laughs>

So, we had to establish credibility. Basically it was a selling exercise, it was a marketing exercise, it was a, you know, if this is an interesting area, this industry is going to grow. You would be wise to stick your toe in the water. Get some experience and knowledge of the industry and we're a way that you can do it without it taking a lot of your time and without you taking the eye off the other 99 percent of your assets, which is really where you ought to be focused anyway, so...

**Kolker:** Mm-hm. And how successful were you initially, or did it...?

**Kane:** Yeah, it took a while. It took a while for us to figure out our story and it took a while to-- again, it was pioneering. But our first fund was an immense pool of capital for the time, and we had the household names of pension funds in corporate America that were investors and that gave us some credibility as well.

**Kolker:** So I'm curious to know how things changed over time from the very beginning, and we can look at that later but it's...

**Kane:** Right. Well, I'd have a couple of comments.

**Kolker:** Oh, sure.

**Kane:** First of all, the buy-out industry didn't exist at the time. The first real buyout fund in a true sense was put together a few years later. I don't know whether it was 1985 or 1986, but it wasn't 1982. We realized that we wanted to include buyout funds in this, once there were enough buyout funds in existence to really be able to make a choice. Once buyout funds were included with venture capital, the name eventually-- and I don't know whether this was 10 years later or 15 years later-- but it changed to private equity. Was no longer just venture capital. We used the word private equity. Distinguishing from public equity. In other words, buying stocks from an exchange. Where you buy public stocks.

  

But the name of the industry converted from venture capital to private equity, and that was one of the major changes. Because once you included buyout funds, it became-- it was still private investing, which was where we felt our skillset was, but it became a bigger industry, and... I don't know what-- I think-- I'm trying to figure out whether the growth came because the venture capital funds got larger or because we, by including private equity, it was tremendous growth as well. It was probably a combination of the two.

**Kolker:** So how did you go about selecting the venture funds that you wanted to put in our portfolio and...?

**Kane:** Just generally we would have meetings. They would send us information, a private placement memo or brochure. We would read that. We would focus almost a hundred percent on their track record and try to invest in those that had already produced returns. We usually wouldn't invest in anybody's first fund. We usually would look at the second or third fund and try to evaluate their track record. The cohesiveness of the group, the way they do their financial reporting, the professionalism and the other factors. But it was mostly track record that we were interested in.

**Kolker:** So how important was networking?

**Kane:** Oh, I think it was quite important, I think it was very important.

**Kolker:** I mean, do you have any examples, or, on what to buy?

**Kane:** Yeah, we would. If you were talking to venture capitalists you would ask them, "Who else is good out there, what other venture, what venture firms should we be talking to that we're not talking to already," and then we would call them and go visit them. The other thing that we did at a very early stage was invest outside the United States in venture capital firms.

**Kolker:** How did that come about?

**Kane:** A combination of we went looking for people and some of the people would find us. There weren't many people. Back in the early '80s there were, I don't know, maybe 3 or 4 investment groups outside of the United States that were involved in venture capital. Every year there would be another one, or 2 more, then 4 more, then 8 more, then 10 more. But in the early years there just weren't that many. But we decided that we wanted to have the opportunity to do that very early on.

**Kolker:** So, what would you say, just looking back at these early years, were the greatest challenges in working with the venture capital industry, connecting with them?

**Kane:** I think one of our big challenges was we were still part of Hancock, and that was more of a liability than an asset.

**Kolker:** Why?

  

**Kane:** Just because we felt that we were in many ways held back by Hancock, that this industry, this business, this private equity industry was going to grow very, very large and it was going to grow very, very fast, and we just, as part of Hancock we didn't have the nimbleness to take advantage of opportunities and to move quickly, make decisions, so we realized that we had to find some way to separate ourselves from Hancock.

**Kolker:** I'm curious when you say that because I was wondering if initially Hancock gave you an entrée, just the name Hancock.

**Kane:** You know, it might have. But we always had to downplay the Hancock connection. We were always apologizing for our connection to Hancock. It was never a strength; it was a weakness.

**Kolker:** Oh, interesting. So, what did you do? I mean, here you're feeling held down.

**Kane:** Well, we told, we explained that we had to find a way to achieve greater independence and eventually it led to our buying out the Hancock.

**Kolker:** And when you say, "we"?

**Kane:** Brooks, my partner Brooks Zug and I.

**Kolker:** Okay.

**Kane:** Every year we would get more and more separate. For example, we moved out of the Hancock Building, and we moved into this building. That allowed for some degree of separation. But we eventually had to do a complete buyout. So that was a struggle, that took a lot of energy and so forth.

**Kolker:** So this is the beginning of HarbourVest?

**Kane:** Yes.

**Kolker:** And what year was that?

**Kane:** That's a good question, I'd have to go back. I mean, it was 20 years ago, so I'd have to-- That information must exist on a website somewhere.

**Kolker:** Oh, well, I couldn't find the exact date. It just says starts out as Hancock & Partners, Inc.

**Kane:** I'm sure there's people that can tell you that.

**Kolker:** You'll have to put that on your website. Okay, so I asked Felda if he had any questions for you, and he said he wanted to know why fund of funds haven't been as disintermediated as other types of financial middlemen.

**Kane:** Well, I think they are being today. I think to some extent that is happening today.

**Kolker:** You want to just address that as a topic?

**Kane:** Yeah. Remember, when we did this, pension funds didn't have the expertise to invest in venture capital and private equity. Well, today the private equity, because venture capital, I use these words interchangeably.

**Kolker:** I know, well, it is they are interchangeable at times.

**Kane:** Private equity used to account for maybe one percent or two percent of a pension fund manager's portfolio, or an endowment fund, or a foundation or whatever. I mean, it was a very, very small percentage, if it was even that high. Today the industry has grown so much, the private equity industry has grown so much, that there are portfolios, there are pension funds or endowments or foundations where it accounts for 30 percent of their portfolio. So, they can now afford to hire the staff with the expertise that we had, and they can do it on their own. So there is disintermediation.

At the same time there's disintermediation. In other words at the same time that our industry, what I call the fund of funds industry, is losing clients because they have the capability of doing it on their own, the world pool of economic savings or investment capital has grown so phenomenally there's always new entrants coming in that don't have the expertise. So, we've been able to replace those that have left because they can now do it on their own with those that they can't do it on their own.

**Kolker:** And you're global.

**Kane:** Oh, yeah.

**Kolker:** What are the challenges of working globally?

**Kane:** Well, one is dealing with jet lag. I was in London all last week, so I'm trying to stay alert here. I'm not over my jet lag from last week. Yeah, jet lag is a big challenge. I mean, it's just dealing in other time zones; it's hard. We have an office in Hong Kong, well, the only time that I'm alert to talk to them is when they're asleep, and vice versa, and so that's a bit of a struggle.

**Kolker:** How about culturally?

**Kane:** I don't find that culturally it has been as big of a problem as a lot of people say. Most of the people that we interact with, whether it's in China or Japan or France, Germany--I was trying to think of some other--Italy, speak English. So, in terms of conversing, in terms of dealing with international people in the business world, English is the common language. I speak French, but I don't really use it for business. I use it for taxicabs, but I don't need it. Culturally I don't find that people in other parts of the world are a whole lot different than we are. Everybody wants to buy low, sell high, you know, it's not--

  

**Kolker:** Well, sometimes we talk about the cultural difference between East Coast venture capital and West Coast venture capital.

**Kane:** Yeah, but even that, I think the internet has narrowed that. The biggest cultural difference that I found was West Coast people didn't wear ties and they don't wear jackets --, you know they didn't wear suits. I tried to convince the people at HarbourVest that, look, we should look like the venture capital industry. We shouldn't look like insurance people and bankers; we should look the way people look in Silicon Valley. It took me years to get people around here to stop wearing ties and stop wearing suits. Everybody said, "Well, you know you look more professional if you're more dressed up, or you act more profess--," and I said, "Well, then if your performance is based on how you look, then we should be wearing white tie and tails. Because if the fancier you're dressed up means that you're going to make better decisions why aren't we all in white tie? Don't you want to be dressed as fancy as you possibly can be?" Anyway, that was a cultural battle that took forever.

**Kolker:** And that's funny.

**Kane:** And I'm glad to say that I won that, but it took 10 years and was a knock-down, drag-out fight. Maybe I should put my energy into something else!

**Kolker:** Do you find them riskier, or?

**Kane:** West Coast people?

**Kolker:** Yeah, just a different attitude toward investing?

**Kane:** Yeah, probably. I mean, they seem to be able to find these little niche areas that end up growing into huge businesses, like a Google or even Facebook. I wonder how those companies would have been received on the east coast, and Facebook is a good example. I mean, I went to Harvard, you had to go to the west coast to raise the money now.

<off-topic conversation>

**Kane:** So the west coast does seem to have an ability to kick off and find and evaluate a number of businesses that I don't know if the east coast people could do it. You know is that because they're more risk takers--

**Kolker:** Less conservative.

**Kane:** --or is it because they're smarter, I don't know. Who knows? Who knows the answer to that? But there is a demonstrated capability out there to do something maybe a little better than we can do here, and I don't know why that is. Maybe the weather is better, you know? Maybe they have more energy to put into their investment decisions because they're not shoveling snow.

  

**Kolker:** And also, how do you go about, backing up a little bit, your due diligence on these venture funds, I mean, what's your process?

**Kane:** Well, first of all, we usually like to see written material before we have a meeting. We like to read about the background and understand it before we sit down in a one-to-one meeting. And I think that's a healthy thing to do. Again, we focus on track record, so we'll look at their portfolio companies. We'll call the presidents of the portfolio companies and talk about what value the investor is at and we'll talk about other people that have invested with them. We do a lot of phone calling. We call a lot of people on the phone and talk to a lot of their, not only the contacts that they give us, but then we come up with our own contacts. So we do a lot of reference checking and so forth on people.

**Kolker:** Also, I mean, you were talking, and I want to get back to it, you wanted to talk about private equity, and you separate private equity from venture capital.

**Kane:** Yeah, that was, I think largely is a function of the buyout industry becoming part of our domain.

**Kolker:** So how do you see them differently?

**Kane:** Oh, I think they're totally different. Venture capital is you're trying to invest in a small company that is going to grow through what we call either internal growth or occasionally adding, you know doing mergers or whatever. The leveraged buyout with the buyout industry, you're using debt to acquire an existing business, and it may not be a growth business. It may be either a slow growth business or a business that's not growing at all, but it's the use of what we call financial architecture that triggers the return. Ideally, the company is going to be growing as well, but it's not going to be like a Google or a Facebook where it grows at just an enormous rate. It's much slower growth,

They tend to be more basic industries. A lot of them are family businesses where there's not a succession, the next generation coming along doesn't want to run the business, or can't run the business. So the liquidity is provided by an outside investor, and it's a totally different kinds of businesses, less reliant on the technology and less reliant on new markets and new businesses, as opposed to existing markets and existing businesses. But it really does lend itself to the fund of funds investor as well as the kind of private investing that we do. Because in most cases the way you get out of these investments is either through selling the company, an acquisition, or initial public offering. So, most of the terminology and most of the process is the same, the only thing that's different is the kind of companies that these groups are investing in.

**Kolker:** Also can you just talk a little bit about the difference in the disciplines of direct investing and indirect investing that you've experienced?

**Kane:** Sure. We wanted early on to be involved in direct investing for several reasons. One, we thought that if we could co-invest with a private equity firm, it was a way to save fees. We'd be saving on the carrier. We'd also be saving on the management fee. It was never our intent to go out and lead deals, do our own deals, or whatever, find deals on our own, or even other deals. It was always our intent to co-invest with other venture capital firms in the same deal, the same round of financing, on the same structure, same terms, conditions, structure, and price. So, our thought was almost a way to replicate to some extent their portfolios in our own portfolio, and that was always our strategy from day one. We would do our own due diligence to make sure that we thought it was a reasonable investment, but we wouldn't second guess, we wouldn't try to do this on our own. It was always going to be with another venture capital, private equity firm.

**Kolker:** So how much has all of this changed since HarbourVest? I mean, you've been through the bubble and the burst.

**Kane:** Well, first of all, the industry grew phenomenally, and there was a lot of reasons why it grew. I would like to think we were one of the reasons why it grew. When you think about it, we took a very, very small industry and made it a very large industry. Now there were a lot of other people in a lot other firms that were involved in doing that other than ourselves, but because we were the first and because we were the largest and because we were successful, I think to some extent we legitimized the industry and we made this an industry that was appealing to a wide variety of investors who provided a lot of capital.

So the private equity industry went from a very, very small industry where there was just a handful of firms, you know 10 or 15, 20 partnerships, firms, groups doing this to where there were 600, 800, 1,000 groups doing it. And where the total pool of cap-- I think the total pool of capital at the time that HarbourVest, our first Hancock Venture Partners Fund, one, we raised $150 million. I think the total pool of capital at the time might have been something like $200 or $300 million. So we raised like half the money in the industry, and then I think the industry grew because the returns were good. They grew because it took on another asset class which included buyouts, and it grew because the whole pool of investment capital grew. So even if private equity just stayed at 1 percent or 2 percent of an institutional investor's portfolio it would have grown anyway because that whole pool grew. In fact, that whole pool grew and the percentage increased from 1 or 2 percent to 5 percent, 10 percent, and in some cases 20 percent. So everything grew very fast and very rapidly, the whole industry got bigger, and we, of course, grew with it.

**Kolker:** So was part of the growth due to the success?

**Kane:** Oh, yeah, you couldn't have done this if it wasn't working. If people were investing and losing money it wasn't going to work.

**Kolker:** So do you still do all your calls trying to get people to come in, or do you still--

**Kane:** Yeah, we do marketing much the same way as we always did. The fortunate thing is we have many, many more investors so we have, you know if some percentage of those investors re-up in new funds it's very healthy for us.

**Kolker:** So it's the pensions and endowments, large families.

  

**Kane:** Pensions, endowments, foundations, insurance companies, and foreign investors. Foreign investors also have primarily insurance companies, pension funds, institutional investors, banks. There are also a small number of wealthy individuals, but they tend to invest through family offices. We never see any individuals, but we deal with investment professionals.

**Kolker:** I spoke with Jim Bailey last month and now he does the advising to--

**Kane:** Yeah.

**Kolker:** So how do you all work, do you work with him at all?

**Kane:** Oh, yeah. Think of him more as a consultant.

**Kolker:** Right, uh-huh, so he's a consultant on the other side.

**Kane:** He's a consultant to pension funds. He would suggest to them that they might want to look at XYZ fund or they might want to look at this fund over here, or this fund over here. At the same time they might want to think about a fund of funds, so.

**Kolker:** Okay, so he's kind of in between you and that.

**Kane:** Yeah, the difference is we manage money, he doesn't. He advises, we manage, so.

**Kolker:** So he's part of your network.

**Kane:** Yeah, absolutely.

**Kolker:** And so is this more that, I mean, this is one more somebody in the middle in a way, is it?

**Kane:** Say that again?

**Kolker:** Is this one more layer between--

**Kane:** Yeah, a little bit, except not everybody uses an advisor.

**Kolker:** And is this becoming more commonplace to--

**Kane:** Yes and no. Again, they tended to be. Cambridge Associates years ago had a very strong following among endowments, and particularly some of the smaller endowments because they just didn't have the staff that Cambridge does to do this. As some of those smaller endowments became larger endowments, they hired their own staff. So, you talk about disintermediation, I mean, they were disintermediating as well, and at the same time some of the Cambridge Associates clients would either grow or graduate to having the capability of doing it themselves. But then other smaller endowments, either through large gifts or whatever, would become larger, and so his client base has grown as well, even though occasionally he may lose one or two to internal growth within the endowment.

**Kolker:** I had interviewed Bon French, and he had Adams Street, and so did you work, I mean, did you all start at the--

**Kane:** No, we're competitors.

**Kolker:** I know you're competitors, but were you more or less getting off the ground at a similar time, early in the--

**Kane:** Well, it depends. We could argue that Adams Street used to be Brinson, and before that was somebody else, and before that was First Chicago or whatever. They always had kind of different names and different people and is it really fair to take your track record, is it really fair to say that Adams Street-- You know, yeah, it might be fair, I don't know. Some other people argue differently, but we've always basically been the same people. We've been the same people, and with the exception of the change of the name, but if you look at our initials, HVP.

**Kolker:** Right, I saw that.

**Kane:** Hancock Venture Partners and HarbourVest Par--, I mean, that was done on purpose.

**Kolker:** Oh, it was.

**Kane:** Oh, yeah, because it was the same people. It was still Brooks and I and the other people that were here, we wanted to be able to identify with our, you know have our track record come with us. So we didn't want to change, we wanted to change the name but we didn't want to change it too much, you know what I mean?

**Kolker:** What was the conversation? How did you come up with this name?

**Kane:** Oh, with the name HarbourVest?

**Kolker:** Yeah.

**Kane:** Oh, it was kind of fun because we realized that we were going to separate from Hancock, and we had to have a different name. Hancock didn't want us to use their name; we didn't want to use their name. So we had to come up with another name. We couldn't come up with a name. We had a contest internally here. At the time I forget how many employees, I don't know whether we had 20 or 50 or whatever. It wasn't a lot, and we decided that anybody that could come up with a name we'd give them $1,000.00. This is back, $1,000.00 was a lot of money. So no matter what name people came up with nobody liked it. So one rainy day we were all sitting in the conference room, the partners and all. We were just kind of saying, "Look, we've got a couple of names," you know, so somebody is looking out at the water there, and they're looking out at the harbor and they said, "Why don't we name it Harbor View," and everybody said, "No."

**Kolker:** It sounds like a B&B.

**Kane:** That sounds like a restaurant, you know, no, we're not going to… And then somebody said, "Well, how about HarbourVest," and all of a sudden everybody looked up and said, "That's it."

**Kolker:** Oh, that's good.

**Kane:** That is exactly how it happened.

**Kolker:** That's a great story. I'm glad that that came up.

**Kane:** I don't think we ever gave out the $1,000.00 because we could never figure who came up with it.

**Kolker:** Oh, well, it was so great.

**Kane:** Nobody claimed it.

**Kolker:** And I want to have time, I just have to check on this. I'm never over confident. And also I wanted to congratulate you on HarbourVest being inducted into the Private Equity Analyst, Private Equity Hall of Fame.

**Kane:** Oh, we get a lot of awards.

**Kolker:** Oh, well, that was cited in it, so I think that's--

**Kane:** Yeah, well, that's great, thank you.

**Kolker:** Okay, so we just touched on this, but just in reflection what distinguishes HarbourVest from other private equity investment management firms?

**Kane:** I think first of all, we're very international here, probably half of our capital comes from outside the United States. Half the investing we do is outside of the United States, so we have a significant international presence. We have offices in Tokyo, Beijing, Hong Kong, London, Colombia, Bogotá, Colombia, Toronto.

**Kolker:** No wonder you have jet lag.

**Kane:** Probably opened a few more. So, it's a very international organization. I also think our longevity. Our track record goes back, and it's not a track record of some organization that used to exist but then got sold and all new people came in. I mean, this is our track record, this is the people that founded this firm are still here, are still involved. So, I think also the longevity is a major component of it, I'm trying to think what else. One thing, you're doing this for Harvard Business School. We probably have hired more Harvard Business School people, we have more Harvard Business School, probably a higher percentage of Harvard Business School people than any other firm. I don't know if that's a plus or a minus, but it's a fact.

**Kolker:** You know why?

**Kane:** Well, first of all we're based in Boston.

**Kolker:** That's true.

**Kane:** People who have been through a tough winter. Secondly, Brooks and I went to Harvard Business School, and we acquired, you know hired a number of people from there probably just because it's a program that's known to us. But also, we have virtually no turnover here. Most of the people, almost all the people that have joined us out of Harvard Business School or joined along the way, are still here. So we run a very, very low turnover firm.

**Kolker:** How many people are in their firm?

**Kane:** How many people in the firm?

**Kolker:** Locally, yeah, here in Boston.

**Kane:** Oh, here in Boston, maybe 200, yeah, that's about right.

**Kolker:** So, do you have an enduring philosophy about what you do?

**Kane:** Yeah, well, enduring philosophy, let me think about that. Yeah, you know we're very client oriented, our clients come first. You know we strive for the highest level of investment returns that we can get. I think integrity and honesty is a big part of this. We drill into people here we don't want you trading. This thing of insider trading is a concern to many investment firms. But we basically tell people, look, if you want to trade, if you want to buy and sell stocks on the Stock Exchange you should probably work somewhere else because that's not who we are, what we do here. We don't want to run that risk. So go work somewhere else; this is the wrong firm for you. We care about our people, we probably overpay. Based on whatever rates in the industry are, we're usually maybe 10 or 20 percent higher than what comparable positions pay. We stress low turnover, and we try to retain people. If they have issues or problems in their life we try to work it through with them so that they can work those out and still be part of the firm. So, yeah, I think there's sort of a core philosophy. It's kind of easier to do it than to explain it.

**Kolker:** So did you ever stop to think you might have enjoyed doing something else?

  

**Kane:** No, knowing what I know about this industry, I can't imagine another career. I've thought sometimes about staying in the military, I thought about academic, you know writing books or something or other, or being a museum curator or something, but this has been a fascinating, it has been a good run.

**Kolker:** You've worked hard, and so how do you feel you describe your contributions in terms of giving back to the country in terms of economic growth? I mean, do you feel that, in any way that you've made a contribution along those lines?

**Kane:** Oh, yeah, I think just in terms of job creation, I think the whole private equity industry has been one of the major sources of job creation in the United States and maybe in the world. And to the extent to which HarbourVest allowed at least some of the growth in the private equity industry, some of the reason it became from a very, very small industry to a very large industry, I think is directly attributable to HarbourVest. I think we played a role in that. Now you could argue that whether we accounted for 1 percent of that growth or 20 percent of that growth, but it's not 0, you know it's not 0. We've played a role in making the private equity industry GDP relevant, GDP relevant, whatever people call it today. You know we definitely had a role in that in the extent to which I had a role in making HarbourVest function I think, yes, I have to take some credit for that.

**Kolker:** Okay, well, you deserve it I'd say.

**Kane:** I mean, we can argue about how much, but I don't think it's 0.

**Kolker:** Okay, before we just move on beyond work, is there anything else you'd like to contribute about this industry?

**Kane:** Yeah, I would say for one thing that this has generally been a fraud-free industry. I can only say one or two or three examples where I really think there was fraud, and that was a big concern early on. You've got private people in control of other people's money, pension fund money, endowment money, and what about fraud? What if they just skip off and go to Mexico? What if they just-- You know it really, you know one one-thousandth of one percent has happened here. I can count them on one hand where I think people have mismanaged assets or done something fraudulent.

**Kolker:** Yeah, there are opportunities just in terms of payback, you know under the table that would be--

**Kane:** Well, it's almost a professionally policed business, because you're talking about peer pressure. I mean, this is a case where the pressure from the peers would be significant if they heard or thought that anything like that was going on. Fortunately, today it's a much more regulated industry than it was. You have SEC audits, you have accounting firms doing audits, you have a lot of oversight. But in the early years you didn't have that, you know there was less of that, and the SEC wasn't going to come in and audit a $10 million private equity firm or whatever. So I think it has been a very, very clean business, and I'm sort of proud of that.

  

**Kolker:** Interesting, yeah. Is there anything else that you thought I might have asked and I didn't?

**Kane:** I might when I'm driving home tonight, but not right now. But you're going to have me take a look at this, right?

**Kolker:** Well, yes. I'm going to send this to Harvard for transcription, and they should be sending it to you for your--

**Kane:** Right, great, so if I think of anything else can I add it then?

**Kolker:** You can, as far as, I mean, you know.

**Kane:** Yeah, okay. I mean, I'll just make little notes in the column or whatever.

**Kolker:** So I'm assuming you take breaks for some other outside interests or some interests of pleasure?

**Kane:** Yeah.

**Kolker:** So what takes up your time outside of HarbourVest?

**Kane:** I've done a lot of sailing. I do a lot of outdoor sports, hiking, canoeing, horseback riding, jogging. I play a little bit of tennis. I used to play golf, but I don't that much anymore. But I think getting exercise outside the office is very important. It's a high pressure, very intense industry and you've got to get a break from it. I think exercising outdoors is a good way to do it. You're away from phones, you're away from people, you know and people that you work with, and I think that's critically important to success.

**Kolker:** And your family? I mean, since this is your story can you talk about your family, introduce your family?

**Kane:** I have a wonderful wife and two children. They both went to Phillips Exeter, and then they went to Penn. My son is a lawyer in California, environmental lawyer, and my daughter has graduated from Brown and now she's getting a PhD at the University of New Hampshire and running an organic farm at the same time, so.

**Kolker:** Oh, my, so it sounds like you're very proud of them.

**Kane:** Yeah.

**Kolker:** Okay, well, if there's anything you'd like to add to this.

**Kane:** No, I think your questions are very good, they're right on the money. I can tell that you've talked to a lot of people, and you know the industry and understand it and so forth, and that's--

  

**Kolker:** Well, everybody's story is different, so it makes this interesting.

**Kane:** Yeah, so I want to thank you.

**Kolker:** Oh, thank you, thank you for your time and thank you for Harvard, and Chuck Newhall is always grateful for people who have participated.

**Kane:** They've been good partners of ours.

**Kolker:** Yeah, he's at the heart and soul of this project, so--

**Kane:** Yeah, well, that's good.

**Kolker:** --he deserves a lot of credit for it getting this far.

**Kane:** Can I help you with logistics or anything, you know where you're going next?

**Kolker:** Oh.

END OF THE INTERVIEW

  