

# OC LEADER BOARD

Opinion, Analysis, Insight

## A CEO Master Fund to Fuel Orange County Tech Growth

By Dick Gochnauer



By Steve Milligan



Talk with **Ike Kavas**, founder and CEO of Irvine-based **Ephesoft Inc.**, about the process of securing startup funding, and you'll hear a story that's common for many local entrepreneurs.

"We've built our company here in Orange County," Kavas said. "But I was told 'no' everywhere I went for funding in the region. We bootstrapped the business for seven years before the time was right to expand and try again. Despite pitching to local investors again, I found a better fit outside the area. My story is not unique. The challenge of finding funding here is nearly universal, and it makes it especially difficult for first-time entrepreneurs. Many give up or move out."

Research shows that 95% of the innovation capital invested in OC startups has come from investors outside Southern California. This means we are exporting 95% of the investment profits from these local companies to other regions.

The **CEO Leadership Alliance of Orange County (CLA-OC)** has set out to disrupt this dynamic with its new SC Master Fund. A fund of funds, the Master Fund invests in promising local venture capital funds that will in turn invest in early-stage high-potential innovation companies based in and around Orange County.

Funded VCs and portfolio companies will leverage the advantages of our location, expertise, talent pool, and distinctive corporate know-how in sectors such as property technology, medical devices, fintech, gaming, artificial intelligence, and enterprise software.

CLA-OC's research has identified that a root cause of many of OC's social problems is a lack of good jobs that enable workers to afford to live and work here. Building a top-tier innovation region can help solve this, as each innovation job created pays well and generates five additional new jobs. But we have work to do. An analysis of the 10-year period ending in 2018 shows that top innovation regions grew high-paying jobs an average 15 times faster than Orange County.

When it comes to talent, our region is the largest producer of STEM Ph.D.s and second in STEM undergraduates in the U.S., but the majority leave to take jobs in Silicon Valley or other tech hubs. At the same time, the lack of deep talent pools is a barrier for many OC companies to grow here.

To build a successful innovation hub, we need to provide good jobs that keep our talent in OC, and we need to significantly increase local innovation capital.

### More Diversified and Inclusive Investment

To solve the local capital problem, the SC Master Fund plans to raise \$500 million in the next five years. It has committed up to \$100 million to its first two VCs: **Visionary Ventures**, the leading ophthalmology VC in the U.S., and **Miramar Venture Partners**, which invests in companies that utilize distinctive AI and data science technology. Early investors in the Master Fund include **Edwards Lifesciences Corp.**, **Pacific Life Insurance Co.**, **Golden State Foods**, **Anduril**, and CLA-OC CEOs.

The emphasis is on supporting startups in Angel, Seed or Series A or B funding stages where local capital markets are not adequately meeting demand.

The Master Fund spreads the risks and gives investors access to a curated group of top quartile VCs investing locally. The fund has already identified and done early evaluations on 20 additional VCs.

The Master Fund is committed to creating a more inclusive innovation ecosystem that prioritizes geographic, racial, and gender equity, with entrepreneur ecosystems that better reflect the population of California.

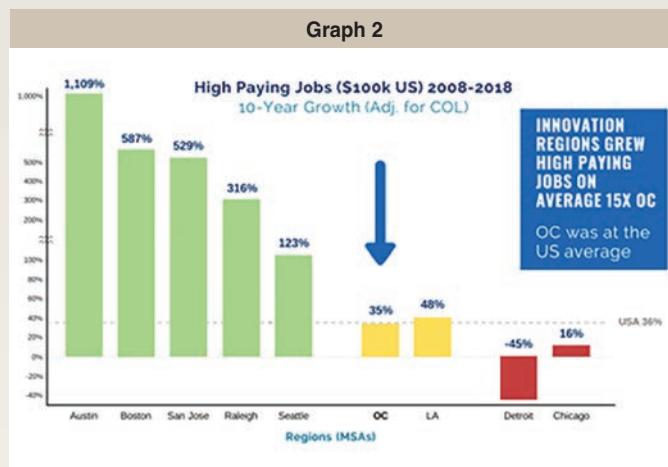
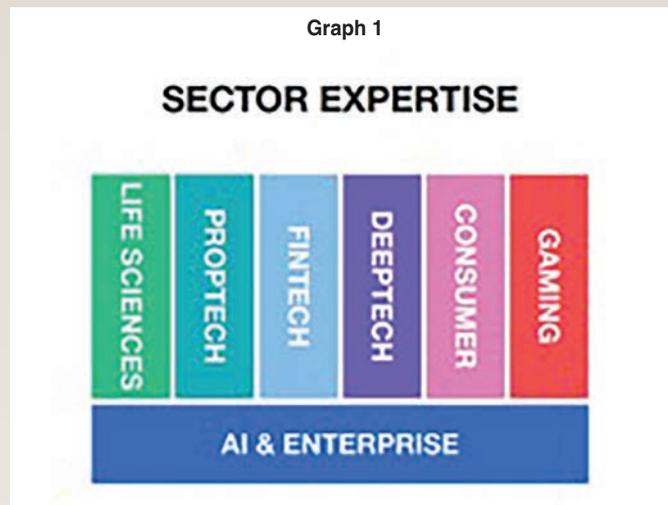
### Where the Money Comes From Matters

In the past seven years, OC has lost 55% market share in VC funding compared to the total U.S. Early-stage investments from any source has declined 18% from 2017 to 2019 while other California regions have increased by as much as 50%.

When investors from outside the region take their profits elsewhere, the region does not develop capital to grow and support an expanding entrepreneurial base.

It is also difficult for local, first-time startups to find capital from outside the area, which delays or kills many good companies before they

get off the ground. Local investment would mean profits from these new companies stay here and fuel our local economy.



### Local Capital Feeds Cycle of Talent and Innovation

Research shows the top predictor of consistent entrepreneurial success is a network of sharing deals among local investors and dealmakers.

In Orange County, we are building what we think of as a flywheel, where all parties involved will advance and fuel each other. Startups and local VCs will tap into corporate expertise in foundational technologies and market insights across our region. Investors will find exciting new opportunities for their capital and join in building this hub. Established companies will gain early access to technology innovation. And talent from our local schools and universities will have ample opportunity to find jobs that allow them to live and work locally.

OC has grown and prospered in the past five decades, but today more than 95% of our land has been developed, and some of our largest companies are being acquired and downsized. If we are to continue thriving, we need to bring our leadership and pioneering spirit to the challenge of creating value with our talent.

Solving the innovation capital problem is key to enabling OC to become an innovation hub, so we can create and grow good jobs and enable many more to live, work and thrive in OC. Participating in this Master Fund is a way for all of us to do well and do good at the same time.

*Editor's Note: Dick Gochnauer, retired CEO of Essendant Inc., is manager of SC Master Fund. Steve Milligan is the former CEO of Western Digital Corp. and SC Master Fund board member. The CEO Leadership Alliance of Orange County was forged by the leaders of some of the most prominent Orange County companies to grow OC into a top-tier innovation region in the U.S. To learn more, visit: www.claoc.org. Contact Greg Wertman, general partner at gregory@ocmasterfund.com, for more on the SC Master Fund.*

## ORANGE COUNTY BUSINESS JOURNAL

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