'Clean tech' fund draws $62.5M

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Scott Barrington, director of private equity for Piper Jaffray, said that the firm's clean-technology fund was oversubscribed as mainstream investors embraced the concept as good for business.

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Staff Writer

Piper Jaffray Cos. is betting on the market for "clean technology" with a new, $62.5 million fund of funds that puts money in the hands of venture capitalists with environmentally-friendly portfolios.

It's a bet the investment bank is confident will pay off, with movements in social and corporate responsibility pointing to increased demand for clean technology, and venture-capital activity in the sector climbing.

"Clean tech" covers products ranging from filters that desalinate water to biodegradable plastics and more-efficient batteries.

Piper closed on its Clean Tech Fund, which is backed by institutional investors, at the end of last month. More than 80 percent of the fund is committed to venture capital and private-equity groups, such as West Coast firms Nth Power and VantagePoint Venture Partners.

Piper started the fund following demand from existing investors, said Scott Barrington, director of private equity for the Minneapolis-based investment bank. However, there were also signs that investment in the space was becoming more mainstream.

"Clean tech is being embraced as being smart for business," he said.

The bank set out to raise $25 million, but after word got out about the effort, the fund more than doubled in size, and investors were eventually turned away.

The fund is diversified among growing clean-tech industries. But biofuels such as ethanol are "under-weighted" in Piper's fund, as those areas are already seeing heavy investments and valuations are rising, Barrington said.

Piper is one of a growing number of large investment banks, such as Goldman Sachs and Credit Suisse Group, eyeing clean-technology deals through funds-of-funds, said Craig Cuddeback, chief operating officer for Cleantech Venture Network, an industry trade group based in Ann Arbor, Mich. The movement was partly sparked by interest from large pension funds such as CALPERS, the California state pension fund.

The strategy is becoming more commonplace, but there is a worry that there may eventually be too much money pumped into the clean-tech sector. Last year, venture investment in North America-based clean technologies reached $2.9 billion, up 78 percent compared to 2005, according to the network.

"There is a concern because there's a lot of money chasing not that many deals," Cuddeback said. "The big difference [between] here and the dot-com bubble is that these are real products with a real market pool for what's being produced. While there will be bad investments, they will be well-researched bad investments."

Piper is not committing any funding to Minnesota-based venture capital firms, as it's not the area of expertise for most companies based here.

There is, however, some investment going into Minnesota companies. From 2005 through last year, Minnesota companies raised more than $25 million in venture capital investment deals that qualify as clean tech, according to Cleantech Venture. The bulk of that money went to Sage Electrochromics Inc., which makes energy-saving windows, and Restaurant Technologies Inc., which manages grease for the foodservice industry.

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