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Subject: After 10 Years, Nathan Myhrvold's \$3 Billion Of Private Equity Funds Show Big Losses

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After 10 Years, Nathan Myhrvold's \$3 Billion Of Private Equity Funds Show Big Losses

[Nathan Vardi](#) Jun 1, 2018 @ 07:49 AM

Some 10 years ago, Nathan Myhrvold, the former chief technology officer of Microsoft, raised nearly \$3 billion for two private equity funds from financial investors and tech companies. These were not your typical funds. They were designed to invest in patents and innovations, not companies or their securities, over a lifespan of 20 years, as opposed to the usual 10 to 13 years. Halfway through their run, the funds are deep in the red.

Invention Investment Fund II was the bigger fund that Myhrvold's firm, Intellectual Ventures, raised in 2008. It has generated a -15.44% internal rate of return, according to data provided by the University of Texas Investment Management Co., one of Intellectual Ventures' investors.



Nathan Myhrvold, co-founder of Intellectual Ventures. (Photo by Pier Marco Tacca/Getty Images)

The other fund, Invention Development Fund, has posted an IRR of -24.7%. The Standard & Poor's 500 index has over the same period, which included the stock market crash of the Great Recession, produced an annualized return of 8.42%.

Intellectual Ventures has always maintained that "traditional accounting rules don't accurately reflect the value of our patent portfolio." But the cash-on-cash returns of the funds also remain bleak. After 10 years, Invention Investment Fund II has returned 37 cents of each dollar it has invested. Invention Development Fund has returned 2 cents

on each dollar invested. Neither fund has returned a penny to investors in the last two years.

“We continue to work diligently to generate returns for investors across all our funds through patent licensing, assets sales, joint ventures, and the creation of new companies,” Intellectual Ventures said in a statement. “We’ve created nearly 20 new businesses which have raised more than \$700 million in venture funding of their own, inventions from our Global Good fund are being used in the [fight against Ebola](#), and we have reached patent licensing agreements with many of the world’s largest companies.”

Nevertheless, Myhrvold has washed his hands of Invention Development Fund. It is now being managed by a new firm, Allied Inventors Management, which was set up solely to run Invention Development Fund outside of Intellectual Ventures. The fund has been renamed Allied Investors Fund. “The terms of the arrangement are subject to confidentiality agreement,” said DG Kim, Allied’s chief financial officer. “As far as internal fund matters, I am bound and can’t say anything really.”

Invention Development Fund’s capital was [initially deployed at Intellectual Ventures by Andre Lee](#), who played a central role in bringing down one of Asia’s best known investment banks, Peregrine, in 1998. Lee was running Invention Development Fund while at the same time being barred by a Hong Kong court from being a director of a Hong Kong company.

Lee left Intellectual Ventures by 2011, the start of a trend that has seen the key people who raised money from financial investors for Intellectual Ventures’ 20-year funds leave the firm. This is perhaps the biggest warning signal that Intellectual Ventures may serve for private equity investors thinking about locking up their money for two decades.

Three of Intellectual Ventures’ four founders, Greg Gorder, Peter Detkin, and Ed Jung, [have either left Intellectual Ventures or significantly diminished their roles at the firm](#). That has left Myhrvold as the only founder with a day-to-day role. But Myhrvold often seems to spend a lot of his time on his own passions, like writing a 2,400-page

cookbook, a 2,600-page guide to baking bread and picking fights with asteroid-hunting scientists.

Some of the people who made the decision to invest institutional funds in Intellectual Ventures' funds have also moved on. Lindel Eakman helped push UTIMCO's investment in Intellectual Ventures, but he now runs his own investment firm. [He once told Forbes](#) it would only be fair to judge the investment after a decade had passed.

And here we are a decade later. Myhrvold did manage to raise a third Invention Investment Fund, but it appears to have been similar to Myhrvold's original fund, which catered not to financial investors but to tech companies concerned about patent wars that would impact their businesses and rivals. Microsoft contributed some 70% of Invention Investment Fund III's capital and Microsoft's Ireland subsidiary [recently wrote down \\$136.5 million](#) of its investment in the fund. [IAM reported](#) that the write-down indicated that the fund is closing and Intellectual Ventures is ceasing to buy patents.

In total Myhrvold's firm has acquired 95,000 patents and launched or been behind dozens of lawsuits, making it a giant patent troll. But Intellectual Ventures' litigation strategy has been dealt some setbacks. The nation's top patent court has [thrown out patents](#) Intellectual Ventures has tried to assert against companies like Capital One. [This week](#) a federal appeals court issued a ruling that will make it very difficult for Intellectual Ventures to assert a patent it had sued Ericsson for infringing.

Myhrvold has maintained his firm is all about promoting innovation. Maybe one of the venture-backed businesses Intellectual Ventures has a stake in will pan out. But he will really need some home runs if wants to make 20 years of illiquidity make sense for financial investors. After 10 years, they are yet to recoup most of their initial investment.