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The end of venture capital's disclosure fight

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The University of Texas' endowment recently made its first fund commitment to Sequoia Capital, which is among the top-performing venture capital firms of all time.

Why it matters: It is the final coda to venture capital's fight to prevent disclosure of its funds' performance, which raged in courtrooms and newspapers during the early aughts.

The backstory: VC fund returns once were held in strict confidence between general partners and limited partners. But then, beginning in 2002, a series of media FOIA requests and at least one fat finger incident by someone at a California public pension began to erode the opacity.

- Sequoia was the loudest firm in wanting to maintain confidentiality. It demanded that the University of Michigan's endowment leave its active LP roster, and vowed to never let it invest again, although Michigan later passed a shield law that largely kept such data under wraps. Sequoia's fund performance — plus that of Kleiner Perkins — also was the basis of a lawsuit brought by the San Jose Mercury News against the University of California Regents.
- The University of Texas Investment Management Co. (UTIMCO) was the loudest limited partner in supporting disclosure of fund-level returns, in light of media insinuations that it had given sweetheart deals to some individuals affiliated with the school. Its disclosure efforts were boosted by then Texas AG John Cornyn (now a U.S. senator), and the accusations disintegrated in the sunlight.

At issue was venture capital's claim that fund performance was a trade secret, and that funds would be put at a competitive disadvantage if performance was disclosed.

- There also were slippery slope concerns about how fund-level disclosures could evolve into portfolio-level disclosures.

Fast forward: Sequoia's fears were unfounded, as it has since tacitly acknowledged. Around a decade ago, it quietly re-added the University of Michigan to its LP roster, and subsequently brought the University of California back as well. No public pension has ever disclosed underlying portfolio company information.

- But UTIMCO is the most notable, because it remains the gold standard of public LP transparency. Whereas UC Regents and many other public pensions report with an extended lag, UTIMCO is much more up-to-date, and enables disclosure requests via a dedicated web form.

The bottom line: Disclosure within alternative investments rarely leads to disaster, no matter how hard the industry fights to maintain its secrets.