

The Essential Allocator

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We're Hearing...

→ **Location, Location, Location:** When you operate a fund in a venture capital hub like San Jose, it's almost a given that you'll invest in the asset class.

The city's Federated City Employees' Retirement System and Police and Fire Department Retirement Plan, led by CIO Prabhu Palani, started their VC program [back in 2018](#), allocating 4 and 5 percent to venture respectively.

"At San Jose, we are ground zero for VC investments and this has been a tremendous advantage," Palani said. "Being in the heart of Silicon Valley has provided us unprecedented access to wealth creation. Our location also means that our public trustees are drawn from a pool of investment talent located in the Bay Area, another source of unfair advantage to us."

Three years into the program, Palani said things are progressing steadily. Given the growth (and competition) in the VC sphere, Palani said his team wanted to be "thoughtful" in how they approach the asset class before taking the plunge.

Over the past year, the two funds have been "busy" implementing their new investment framework, which includes diversification across vintage, stage, and industry, with a tilt toward early-stage investments, because those valuations "have not increased exponentially." The fund favors investors who are long-term partners, rather than the "flavor-of-the-month," Palani said, adding that they have both direct and fund-of-fund investments.

The funds have made several allocations in recent years, including to early-stage investor Canvas Ventures' third fund, Northgate Venture Partners' ninth fund, and Top Tier Capital Partners' ninth fund, [plan documents show](#).

Palani credited his board with having a hand in the program's success so far. "Having investment professionals on our boards ensures that we can critically evaluate investment opportunities while keeping in mind the realities of the marketplace," Palani said. "GPs are often amazed at the depth of our due diligence and the speed with which we can execute."

The two funds' board members include Elaine Orr, who also sits on the board at activist investment firm Engine No. 1; Eswar Menon, who founded asset manager Harper Capital Management; and Andrew Lanza, partner at the Berkeley Catalyst Fund.

"Ultimately this is a people business," Palani said. "Success of a good venture program begins and ends with being associated with the right talent – venture capitalists, entrepreneurs, and the right support system."