



Mixed views on German patent investment funds

Did you know that there are currently at least five active patent funds in Germany managing a total of around €300 million (\$470 million)? One of these is run by Credit Suisse (Patent Invest 1), another by a bank based in Luxembourg whose name I have not been able to find out (Alpha Patent Fund) and three by Deutsche Bank (Patent Select 1, Patent Select 2 and Patent Portfolio 1). The aim of these funds is to buy patents and to leverage them so that they generate returns for investors. Presumably, this is supposed to be done through, among other things, assertion, technology transfer and resale. I say presumably because although they have been around for a couple of years or so, they do not seem to have done many deals.

In fact, in the next issue of *IAM*, our man on the ground in Germany **Malte Köllner** writes in his regular IP VC column that many in the country are coming to the conclusion that these funds are little more than a triumph of hype over reality, and that they stand very little chance of ever being successful. Malte points out that it is hard enough to find patents that can be monetised, let alone patents that can be monetised to the extent that they bring returns substantial enough to satisfy investors – especially when you bear in mind that many patents such funds buy will not turn out to be winners. “Grandparents are literally putting money into these funds to finance the future of their grandchildren. A very experienced and renowned colleague said to me that he has been in the IP business for 20 years and that putting money into these funds for his grandchildren is the last thing he would do. I have serious doubts that the bankers who helped to set them up and sell them really knew what they were doing,” Malte writes.

However, things may not be as bleak as Malte fears. Last week when I was in Berlin for the INTA meeting I met up with **Guido von Scheffer**, who is a director of **IP Bewertungs AG** (IPB), the firm that runs the Deutsche Bank funds. Their business model is based on the acquisition of patent rights which it believes underpin technologies that industry is looking for – primarily in areas such as biotechnology, renewables, electronics and medical devices.

Once a patent portfolio is acquired it then goes into development. Essentially, this means that before and during any commercialisation process there is an incubation process through which the technology is further developed. This is done in conjunction with the previous patent owner, who gets a cut of any final deals that are done, and with industry players, who pay to get exclusive access and, therefore, a say in how development takes place. It is during this period, Guido explained, that the tailoring process takes place – so giving the patents more chance of being attractive to industry players. He told me that, by contrast, the other funds do not do this and instead look to license or sell on what they have acquired without the development stage. Furthermore, Guido said, IPB bears the costs of all due diligences that do not end in the purchase of a patent, while the other funds make charges regardless of whether they end in an acquisition or not. Obviously, if this is not correct I will be happy to make a correction.

While Guido concedes that there are worries over the patent funds’ performance, he remains optimistic that the IPB-run ones at least have a chance of delivering. They have just closed their first licensing deal and apparently at least 80% of the projects they are working on have attracted industry interest. “There is no indication that the business model will not be successful,” he told me. Investors also seem to retain their optimism: when the Patent Portfolio 1 fund was launched it reached its minimum placement target within eight days; it is now closed and is worth a total of €130 million. However, the people entrusting their money to the likes of IPB are going to want to see serious returns at some stage in the not too distant future. Soon it will be time for German patent funds to start delivering.

On another note, IPB was behind the attempt to establish a **European IP auction market**: they held **one**, not very successfully, last year. Guido told me that there are no plans to hold any more.

Joff Wild, *IAM Magazine* | 27 May 2008

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