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Special Focus

Published August 22, 2006

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ENTERPRISE & INNOVATION
Upstream eyes tech start-ups in Singapore, India and China
By **MATTHEW PHAN**
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2,480.59 ▼0.40

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HSI	17,101.12	-48.63
NIKKEI	16,132.05	-49.12

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Nasdaq	2,150.02	+2.27
S&P	1,298.82	+1.30

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'WE tap into the empty space between how far up angels and how far down venture capitalists are willing to invest,' says Carmelo Pistorio, managing partner of Upstream Ventures.

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Keeping faith with Singapore: Upstream's portfolio includes Singapore-based XID Technologies, which owns facial recognition technology for security purposes.

money, in Singapore.

The three areas have common denominators, he says. Again, unlike others, he believes there is a 'strong need for technology and other tech-related value industries' in all three countries, fired by the phenomenal economic growth they have experienced.

'When you look at China, it is no longer just a place with low-cost infrastructure. Consumer and industrial demand has changed. Production processes use more and more foreign and home-grown technology. It has been true in Singapore for the last 20 years and is truer day-by-day in China,' he says.

'If you are a PhD from Paris or Milan and want to commercialise your research, Asia is the best place to go because of its growth. Going straight to China or India is difficult, but you can go to Singapore, from which you can tap the Chinese and Indian markets,' he says. China's shaky legal system and India's poor infrastructure also make Singapore a better

Upstream, as its name suggests, is involved in early stage, technology related investments in three markets: Singapore, China and India.

It is not surprising to see China and India on the list - many Singapore-based funds are scouring the two emerging economies for deals - and Upstream is no different. However, unlike others who focus most of their efforts in East and South Asia, Mr Pistorio still has faith, and

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choice.

Upstream invests in start-ups in 'knowledge-based industries'. It likes companies with technology, devices and applications in Internet and new media, wireless and telecommunications, IT software and solutions, biometrics, and semiconductors. It avoids capital intensive industries like manufacturing or medical research, and prefers start-ups that 'can achieve their goals with small-cap injections'.



Upstream is often the lead investor, with an initial injection of \$500,000 and can invest up to \$5 million in three rounds of funding. Its portfolio currently includes Singapore-based XID Technologies, which owns facial recognition technology for security purposes; Rediye, an Indian software firm that develops data mining, wireless and multimedia applications; and Mikoishi, which operates multiplayer games for mobile devices and is also based in Singapore.



'There is definitely a fear of technology after the dot-com bust. But tech is continuing to grow and people are digesting that psychological trauma,' says Mr Pistorio.



'Technology-related investment in Asia is new, unlike in the US and Europe, which have a strong tradition of investing in technology. Large institutions are still looking at infrastructure, financial services and real estate plays, as these are safer. VCs are rapidly moving downward towards smaller deals but for the time being are largely interested in short-term plays like buyouts or pre-IPO companies,' he says.



Maybe Mr Pistorio just likes hanging out with entrepreneurs. All five members of Upstream's team have run tech-related start-ups and work closely with the management of their chosen ventures to ensure success.



And when selecting an investment, Upstream's most important criterion is the quality of the start-up's management. Every VC will tell you the same, but in Upstream's case, it appears critical. 'Ninety per cent of the time, a company's success will be off-the-track printed in its business plan. In the start-up environment, you need people who are flexible enough to change course when the plan doesn't work. It's too much work to sit on top of management and find a new team if necessary - that's for buyout people,' says Mr Pistorio.

What makes a team good?

'Everyone knows the business and things go like clockwork. No matter who you speak to, all have the vision and understand what they are doing,' he says. He mentions one venture where one partner was extremely committed, but the other had his tennis bag in the front of the car and was unwilling to give up his game for a company meeting. Upstream looked elsewhere.

Upstream gets investing leads from four main sources, Mr Pistorio says. The most important of these is the network of universities, research laboratories and incubators. The fund is closely connected with the National University of Singapore, Nanyang Technological University, Singapore Management University, Insead and A*Star here and is developing similar relationships, through local partners, in China and India. Its network includes Tsinghua University in Beijing and two of the Indian Institutes of Technology.

Another source is the Economic Development Board, and finally, multinational companies and other venture capitalists. 'Sometimes a VC has fallen in love with a company but has no space for them. Walden and other large funds are familiar with us and have a history of introducing

start-ups they think are worthy. Microsoft, too, is completely connected with the local scene. They work with hundreds of start-ups and have their own VC relations arm,' he says.

Mr Pistorio started Upstream in 2003, though the Italian, whose father Pasquale Pistorio is former CEO and honorary chairman of ST Microelectronics, has been an angel investor in Singapore since 2001. The fund today has 12 companies in its portfolio and is in the process of raising a formal \$80 million fund.

Much of the money raised so far, against expectations, has come not from Europe but from Asia, says Mr Pistorio. 'European funds are more conservative and we have raised interest but not found people capable of taking early-stage risks. China and India have a lot of money that is flowing outside. They want to develop their own VC industry and want to rub shoulders with international investors. They do that by investing in funds like us.'

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