New priorities and strategies for sovereign patent funds

Sovereign patent funds have become key players in the global IP market. However, a shifting economic, legal and political landscape raises questions for the future of this state-backed aggregation model.

By Jack Ellis

Back in early 2015, when this magazine first took an in-depth look at sovereign patent funds (SPFs) (“It’s time to talk about patent funds”, IAM, issue 70, pp 37–43), these state-funded aggregation entities were just beginning to make their presence felt. At that point, three had been launched: first on the scene was South Korea’s Intellectual Discovery in 2010, followed by France’s France Brevets in 2011 and Japan’s IP Bridge in 2013.

Our report revealed that while these three first-generation SPFs were all partially or wholly state funded and operationally focused on acquiring patents, they appeared to have varying objectives and different strategies for meeting those goals. They also gained a fair amount of unwanted notoriety, with a number of media reports imprecisely labelling them as ‘state-backed patent trolls’, whipping up anti-IP sentiment in the process.

A lot has changed in the past 18 months. When our initial report was written, only France Brevets was known to have asserted patents, suing HTC and LG Electronics in the German and US courts. Since then, all three SPFs appear to have been involved in patent litigation, filing suits either in their own names or through subsidiaries or likely proxies. At the same time, their buying activities have slowed, suggesting a shift towards securing a return on investment from their earlier push on aggregation. That said, the SPFs continue to pick up portfolios and are also entering into co-licensing alliances with operating companies rather than acquiring assets outright.

In a broader sense, it is arguably much tougher to license and sell patents in the United States today than it was two years ago. The growing popularity of *inter partes* reviews, the judicial trend of limiting patentable subject matter and a continued clamour for patent reform has made the United States an increasingly challenging environment for rights holders seeking to generate returns from their IP assets. Across the Atlantic, the impending introduction of the EU-wide unitary patent and Unified Patent Court (UPC) – whose future is now uncertain following the United Kingdom’s vote to leave the European Union – has also prompted a recalibration of IP strategies. The rise of China as a patent-owning powerhouse and the Chinese authorities’ drive to improve the country’s IP enforcement infrastructure through the introduction of specialist courts and higher damages awards are also having an impact.

As SPFs enter the next phase of their development amid so much upheaval, now seems a good time to take a more substantive look at the activities and holdings of the ‘big three’ first-generation SPFs.

Back in May, Warren Clarke of the Digital Entrepreneurship and Economic Performance (DEEP) Centre – a Waterloo, Canada-based thinktank – and Bereskin & Parr’s Jim Hinton did just that when they published *Mobilizing National Innovation Assets: Understanding The Role of Sovereign Patent Funds*. “We are at an inflection point where the SPF model is both established and rapidly evolving in different directions,” says Clarke, explaining the impetus behind the research. “We were interested in studying these three funds, which tend to be grouped together under the broad species category of SPF’s since they are each designed to address specific national issues. But what struck us on the data-oriented and qualitative side of our research was the diversity of the strategies that these funds are pursuing.”

Clarke and Hinton compiled their research using a range of publicly accessible and paid-for patent records to gain as full a picture as possible of the SPF portfolios – although they offer the caveat that their findings are likely to be incomplete due to discrepancies in the records, unclear patent family relationships and peculiarities of the SPF business models (eg, the use of shell companies). For example, Intellectual Discovery’s website claims that it currently owns over 5,000 patents worldwide – though Clarke and Hinton could identify only 1,428 with sufficient certainty. Nevertheless, their analysis suggests that the three SPFs continue to diversify their operations, adopting new goals over time and branching out into new areas. “One of the big points is that, from what we gather, the funds are making money,” says Hinton. “They seem to be achieving their objectives in terms of generating revenues. It is less clear if they are achieving some of their other goals, such as helping to develop national IP policy and advancing the interests of domestic operating companies. It is perhaps harder to measure those things, but certainly, some objectives have been met.”

**Acquisitions slow**

Kwang-Jun Kim, CEO at Intellectual Discovery, is likewise ambivalent when asked if his organisation has achieved its strategic goals. “Yes and no,” he responds. “If I had to quantify, I’d say we are 90% there – but it will take another couple of years before we can say for sure that our original objectives have been met.”

Intellectual Discovery was the first SPF to be established back in July 2010 and Kim – formerly chief IP officer at Samsung Display – took the reins as CEO in early 2015. One of the main driving factors behind
the Korean government’s contribution to Intellectual Discovery’s initial $45 million funding was a desire to reverse the country’s well-documented deficit in its balance of payments for use of IP rights. South Korean businesses continue to spend substantially more on licensing-in and buying foreign-held intellectual property than they make from licensing-out and selling their own, even though the country’s industrial conglomerates and research institutions file patents at some of the highest rates in the world. Since its launch, Intellectual Discovery has worked closely with both those groups to try to maximise the value of their large-scale IP holdings, through a range of monetisation, commercialisation and financing activities.

Details of these operations are thin on the ground. Despite being the longest-established SPF, Intellectual Discovery is the one about which least is known publicly in terms of its business operations.

However, a little detective work suggests that the fund is involved, at least indirectly, in asserting patents in the US market. In July 2015 a Seoul-based company named Game and Technology Co filed suit against several video game makers in the Eastern District of Texas, alleging infringement of several patents which had been assigned to it by Intellectual Discovery. Kim would not be drawn on litigation-related matters when questioned.

Clarke and Hinton’s research sheds further light on the fund’s patent acquisition and management activities. They found that the vast majority (roughly 82%) of Intellectual Discovery’s patents are US-issued assets, with Korean patents making up the next-largest portion of its portfolio. By comparison, Intellectual Discovery owns few patents in other jurisdictions. “Of course, we are watching very closely how the UPC in Europe plays out,” says Kim. “That will be a big focus for us. But the United States is still by far the most important market.”

Closer to home, Kim states that China is also likely to feature more prominently in Intellectual Discovery’s forward planning. “We haven’t done licensing in China yet, but it is certainly one of our priorities,” he says. “We have to find effective ways to do that. We are geographically close to the market and we have a lot of good contacts there. Nearly all the conditions are right – it is just a case of finding the right time.”

In terms of where its assets come from, the biggest contributor of patents to Intellectual Discovery’s portfolio is Korea’s Electronics and Telecommunications Research Institute (ETRI), which accounts for around 22% of its US holdings. Other significant assignors include Samsung Electronics, IBM and Singaporean semiconductor firm Avago (now merged with Broadcom). A further 140 US patents were originally assigned to Intellectual Discovery.

The Korean fund’s busiest year in terms of both number of patents acquired and number of assignments transacted was 2014, with 2013 activity not far behind. Clarke and Hinton point out that the much lower activity recorded for 2015 – which can also be seen in their research for France Brevets and IP Bridge – may be compounded by lags in data reporting.

This proviso notwithstanding, it would appear that Intellectual Discovery has indeed slowed down on the acquisitions front as it focuses more resources on monetising or otherwise exploiting the patents that it already owns. “There will not necessarily be many more purchases,” says Kim. “If you look at the patent market today, the bigger deals are simply not happening as much as before.”

Moreover, he sees no negatives in stepping back from
the transactions market: “We don’t have to be committed to buying – we can also find other ways to work with patent owners.”

**Different missions**

Paris-based France Brevets has experimented with these more complex arrangements from the outset. “The France Brevets portfolio looks significantly smaller than the ones we found for Intellectual Discovery and IP Bridge,” says Clarke. “But while the latter two have been more oriented towards acquisitions, France Brevets has been involved in more deals where it gets a licence to sub-license. That doesn’t necessarily mean a smaller footprint or lower level of engagement – it simply reflects what we were able to extract from the available data points.”

For example, in its infringement lawsuits against HTC, LG Electronics and later, concerning some of the same patents, Samsung Electronics, France Brevets subsidiary NFC Technology LLC was named as a plaintiff. However, press releases announcing the settlement and licence agreements that ended the dispute with Samsung, as well as a licence with Sony, suggest that the final deal included patents owned not just by France Brevets, but also by French semiconductor player Inside Secure – from which the SPF has acquired assets – and local telecommunications operator Orange.

This partnering-focused model perhaps reflects France Brevets’ original objective, which it was tasked with on launching in March 2011 with €100 million of public money. “The Japanese and Korean funds have a different mission in many ways compared to what you see in France, where there was this desire to create a critical mass and to facilitate access to IP for SMEs,” says Clarke. “So France Brevets is not so much looking at partnering with large national champions, which do not exist on the same scale in France as they do in Asia. It is mainly about working with anyone from the individual inventor up to the SME level, and trying to correct IP-related market failures that inhibit those businesses.” On its website, France Brevets states that it “deployes the financial capabilities needed to build strong patent portfolios and to monetise them, while the ownership typically remains in inventors’ hands… Licensing revenues are then shared between the inventor and France Brevets on a fair basis”.

This goes some way towards explaining why the fund’s portfolio contains a much greater proportion of French and other European patents compared to Intellectual Discovery and IP Bridge’s holdings, which are overwhelmingly US-centric. In terms of large patent deals, France Brevets has engaged in few compared to its

**China’s first major patent fund experiment – but almost certainly not its last**

Although not normally considered a sovereign patent fund (SPF) in the same way as Intellectual Discovery, France Brevets and IP Bridge, China’s Ruichuan IPR Funds – managed by Beijing-based IP consulting firm Zhigu – did have at least some features in common with them. For example, Ruichuan derived a significant portion of its initial funding from local government and state-backed initiatives. Nevertheless, most of its investment came from a small group of Chinese corporates, including Xiaomi and Kingsoft, in addition to Zhigu itself. In addition, its strategic ambit seems to have been set by the specific objectives of these few companies, with a narrower technological focus than the aforementioned ‘big three’ SPFs.

Another key difference was that Ruichuan apparently did not assert patents in either China or the United States. Bearing in mind the potential for media scare stories about foreign state-backed patent trolls – accusations which have been levelled at all SPFs at one time or another – it is not difficult to imagine the furore that would have been caused if China’s Ruichuan and Zhigu had been involved in any US litigation.

Against this backdrop, it is probably unsurprising that Ruichuan has now come under Xiaomi’s sole management after the smartphone maker bought out Zhigu’s remaining third-party investors and absorbed the firm earlier this year. Several members of the Zhigu team which operated the fund are now in senior executive positions within Xiaomi’s IP function; Zhigu vice president Paul Lin is now the smartphone maker’s vice president of IP strategy.

The status of investors in Ruichuan other than Xiaomi and its affiliates, such as the local Haidian District government and Zhongguancun Science Park, is unclear. As such, we can assume that Xiaomi will continue to run it as a separate portfolio for the time being – although it may well end up being completely assimilated into the company’s wider IP holdings.

In any case, the fact that Ruichuan is now a private sector concern clearly takes it out of the SPF category – and removes at least some of the PR risk inherent in state-backed patent aggregation.
Asian counterparts; its largest acquisition came in 2011 – also its busiest year in terms of the number of patents acquired – when it took on the portfolio of bankrupt French display technology company Nemoptic. These patents make up around 20% of the fund’s portfolio, with Technicolor subsidiary Thomson Licensing and Nokia the second and third-biggest contributors.

However, significant changes have taken place at France Brevets in the past few months. A number of personnel have come and gone; in May CEO Jean-Charles Hourcade was replaced by Didier Patry, who was previously head of intellectual property for Dublin-based Eaton Aerospace and before that led Hewlett-Packard’s IP transactions department from 2002 to 2014. According to anecdotal accounts, these team changes have been accompanied by something of a shift in strategic focus. France Brevets was unable to provide comment for this article which might have clarified the situation. However, it would seem that securing a return on its 100% public sector investment is now the fund’s prime directive, with its aims of boosting the domestic small and medium-sized enterprise (SME) sector and kick-starting a local market in IP assets taking a back seat. The appointment of Patry, with his extensive corporate credentials, would seem to support this account; as do news reports suggesting that the French government is considering the launch of a second fund focused on defensive patent aggregation, leaving France Brevets to focus on licensing, sales and assertion.

**Business creation**

In Japan, meanwhile, significant changes are also underway at IP Bridge, which was established in July 2013 with a mix of public and private capital. As Clarke and Hinton’s research indicates, the Japanese SPF has mainly engaged in big patent transactions with a small number of large, long-established Japanese corporates. Most notable among these is Panasonic and its affiliates, assignments from which currently make up most of the fund’s extant portfolio. Unlike France Brevets and Intellectual Discovery, IP Bridge does not appear to have acquired patents from individual inventors; and while US assets are its focus, IP Bridge is not known to hold any Japanese-issued patents – reflecting the poor prospects for monetisation under its home country’s enforcement system.

However, IP Bridge has made demonstrable progress on a global scale over the last few years. The fund has launched three litigation campaigns in the United States, targeting Broadcom, OmniVision and TCL for alleged infringement of patents that originally belonged to

**Shigeharu Yoshii**

CEO, IP Bridge

“We have experienced increased cooperation from industry and feel it is getting easier to gain partners and investors”
Panasonic group companies or to NEC. “Our company has achieved a number of our original objectives and is on course to meet its ongoing objectives,” claims CEO Shigeharu Yoshii. “For example, one of our goals is to activate underutilised IP assets. The number of leading technology companies that have transferred such assets to IP Bridge has increased significantly since its inception.”

Another key objective is to generate new businesses based on the IP assets of Japanese corporates, SMEs and universities. Great strides have been taken in this direction, too. “Our strategies are not only focused on licensing, but also on creating and expanding IP-based businesses by connecting technical seeds with business needs, as well as supporting IP owners with the development of our IP finance business,” Yoshii explains. “Recently, we have experienced strong demand for these services, including our new IP financing business.”

This apparent success is encouraging other Japanese companies to team up with IP Bridge, which this year made significant acquisitions of patents from Funai, Hitachi and Seiko Epson, among others (these transfers are too recent to be reflected in Clarke and Hinton’s analysis). Moreover, these advances are helping to secure future growth capital by piquing the interest of private-sector investors. “Our business is well funded and supported by capable stakeholders,” says Yoshii. “Since our inception three years ago, we have experienced increased cooperation from industry and feel it is getting easier to gain partners and investors.”

**Another round?**

While Yoshii reports increased investor and corporate interest in IP Bridge, Pascal Asselot – who served as France Brevets’ director of development and licensing until June this year – has a rather more pessimistic view about the wider market’s response to the SPF model. “The acceptance of this notion has remained pretty low in corporate circles and this is true for all SPF geographies,” he says. “The truth is that SPFs, as a whole, have only served a handful of operating companies. In France, this lack of acceptance also reflects the timid awareness of IP matters in C-suites.”

Asselot suggests that IP-savvy players remain predominantly US based, with IP assets still largely ignored by both institutional and non-institutional investors elsewhere. Moreover, the prevailing political climate is making it increasingly difficult for SPFs to expect further rounds of public money, especially without having solid returns to show. “Brexit and its impact on the UPC will affect all players, not just SPFs, and the increased tensions we see between US companies and Europe on IP-related tax issues may highlight the state subsidy and argued anti-competitive nature of
SPFs,” he suggests. “I am not sure that all the rhetorical skills deployed by SPFs to explain there is a market failure that they need to address, and that justifies their public funding, will be enough to feed the appetite of governments for such sovereign tools in the future.”

Yoshii agrees that the days of generous state funding for such patent aggregation projects may be numbered, at least in the three countries where they have been launched in earnest so far. “The IP business which we are running is necessary for the healthy growth of industries and academic research institutes, but it takes years to make a profit and before that business can continue to run independently,” he says. “Therefore, so-called ‘patient capital’, such as government-supported funding, is necessary for this kind of business. But we think that this kind of business should ultimately be managed by the private sector. Therefore, government support should be limited to the initial stages.”

In South Korea, Kim seems even more certain that the future for Intellectual Discovery lies in becoming a 100% private-sector entity. “The trend here is that the sovereign patent fund will lose its sovereign status,” he says. “You have to go back and ask yourself why there was a decision to set up a sovereign fund in the first place.” The patent market was not developing organically, as it had in the United States, he suggests. “In Korea, Japan and France, we got a little help, in the form of public money.”

According to Kim, the next few years will likely be spent trying to secure additional investment from the private sector, as well as exploring longer-term options such as joint ventures and even initial public offerings. “We are confident we will handle that – numbers are up compared to last year, with a higher bottom line, thanks to straight licensing revenues and patent transactions,” he says. “Going private means we would have a little more freedom – we would be able to broaden our horizons, perhaps working with non-Korean operating companies and partnering with other NPEs, if those scenarios are consistent with our strategy and goals.”

**Next generation**

Although the three established SPFs are seemingly moving ever closer to privatisation or new business models, and the likes of China’s Ruichuan patent fund (see box on p11) have come and gone, it would be wrong to assume that the SPF model has had its day. The Korea Development Economic Performance Centre in May 2015 published an Action plan for France Brevets’ portfolio is Nemoptic (18%); while for Intellectual Discovery, it is South Korea’s Electronics & Telecommunications Research Institute (22% of its US portfolio).

- Intellectual Discovery is the original assignee of approximately 12% of its US patents. For France Brevets, original assignments account for 6% of its total portfolio, while for IP Bridge the figure is just 3% – perhaps indicating a greater focus on acquisitions.
- Unlike France Brevets and Intellectual Discovery, IP Bridge does not appear to have acquired any patents that were originally assigned to individual inventors.

In terms of technology, all three SPFs are overwhelmingly focused on the IPC classifications of ‘electricity’ and ‘physics’, with Intellectual Discovery particularly concentrating on ‘basic electric elements’ and France Brevets focusing in on ‘electric communication techniques’.

### TABLE 1. US litigation linked to sovereign patent funds

<table>
<thead>
<tr>
<th>Plaintiff</th>
<th>Defendant(s)</th>
<th>Jurisdiction</th>
<th>Date case(s) filed</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>NFC Technology*</td>
<td>HTC, LG Electronics</td>
<td>East Texas</td>
<td>December 5 2013</td>
<td>Two patents-in-suit, originally owned by Inside Secure. Corresponding suits filed in Germany. LG entered settlement and licence deal in August 2014; HTC case remains active.</td>
</tr>
<tr>
<td>NFC Technology*</td>
<td>Samsung Electronics</td>
<td>East Texas</td>
<td>February 26 2015</td>
<td>Four patents-in-suit, originally owned by Inside Secure. Samsung signed licence deal in May 2016 and litigation terminated the following month.</td>
</tr>
<tr>
<td>Game and Technology Co**</td>
<td>Blizzard Entertainment, Riot Games, Valve, Wargamingnet</td>
<td>East Texas</td>
<td>July 9 2015</td>
<td>Intellectual Discovery assigned patents-in-suit to plaintiff in January 2015; originally owned by NHN Entertainment. Each suit was transferred to defendants’ home districts in August 2016.</td>
</tr>
<tr>
<td>IP Bridge</td>
<td>TCL</td>
<td>Delaware</td>
<td>July 24 2015</td>
<td>Three patents-in-suit, originally owned by Panasonic.</td>
</tr>
<tr>
<td>IP Bridge</td>
<td>Broadcom</td>
<td>East Texas</td>
<td>February 14 2016</td>
<td>Six patents-in-suit; five originally owned by Panasonic, one originally owned by NEC.</td>
</tr>
<tr>
<td>IP Bridge</td>
<td>Omnivision</td>
<td>Delaware</td>
<td>April 22 2016</td>
<td>Ten patents-in-suit; nine originally owned by Panasonic, one originally owned by NEC.</td>
</tr>
</tbody>
</table>

*NFC Technology LLC is a subsidiary of France Brevets.

**Game and Technology Co, Ltd is a Seoul-based entity. While there is no publicly available information confirming any operational relationship between it and Intellectual Discovery, all of its patents were assigned to it by the latter.
Bank and Industrial Bank of Korea have joined forces to launch KDB Infra IP Capital, a $90 million investment entity which in many ways resembles a second SPF for the country. Authorities in Taiwan continue to drop hints about setting up an SPF on the island, despite one or two apparent false starts; the Modi administration in India has also made overtures about establishing a state-backed patent pool as part of a wider drive to update and enhance the country’s IP system. And although Ruichuan has left the scene, China should never be discounted.

Writing in the Globe and Mail in July, Clarke and Hinton also made the case for a Canadian SPF as one potential element of a wider national IP policy. “It was an interesting time to do this research for us, as there is a policy window around innovation at the moment,” says Clarke. “What Canada comes up with will have a big impact on where we are 10 years from now. Our patent applications per capita are low, our business R&D spending is low by OECD standards, our IP trade deficit is massive… The SPF presents an interesting model that has enough room for customisation. There might be a way to tailor it in some way that means it could be in Canada’s toolkit as it looks to address its innovation problem.”

Based on the $4.5 billion eventually paid for it by the Rockstar consortium in July 2011, the patent portfolio of bankrupt Canadian telco Nortel was among the most valuable pieces of intellectual property in history. Just how much that sale benefited Canadians in real terms is another question entirely. There is also the case of BlackBerry, which has indicated a greater emphasis on patent and technology licensing in the future as its share of the product market continues to shrink. Throw into the mix Canada’s host of IP services-related expertise – in the form of recently merged reverse engineering firms Chipworks and TechInsights, as well as NPEs such as Conversant and WiLAN – and the case for a Canadian SPF, or something resembling one, becomes even more compelling.

In conclusion, Asselot offers a few wise words for those countries considering launching publicly funded patent funds of their own. “I talked with a lot of people thinking of setting up SPFs – mostly in Asia – and the message I gave has always been the same,” he says. “In addition to hiring people with the right experience, make sure you set precisely the ‘personality’ of your SPF at the very beginning. Will it be serving local industry only or will its main purpose be making a financial return, whatever it takes? Will it be focused on licensing or on defence?” Beyond this, it is crucial to ensure that investors understand the implications of this choice: “If you do decide to go down the licensing route, they need to know about the likelihood of litigation, with its funding requirements and the potential political backlash.”

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