Press Release

29th November 2017

First-Time Venture Capital Funds See Strong Performance

Debut funds account for increased proportion of fundraising in 2017 YTD

Venture capital* fundraising has seen a slight slowdown in in the first three quarters of 2017 when compared to the same period last year. However, first-time venture capital funds represent a larger proportion of total fundraising compared to last year. As at September 2017, first-time venture capital vehicles represented 31% of all venture capital funds closed, compared to 25% in the same period last year. Additionally, the number of first-time funds in market has increased from 470 as at September 2016, to more than 590 in September 2017. Despite the many obstacles that emerging fund managers face, first-time venture capital funds of vintage 2010 or older have generated substantially higher median returns than vehicles run by experienced managers. In fact, first-time venture capital funds of all vintage years between 2006 and 2014, except for 2008 and 2009, have outperformed non-first-time funds.

For more information and analysis, see the *Preqin Special Report: Launching a First-Time Venture Capital Fund* here:

http://docs.preqin.com/reports/Preqin-Special-Report-Up-and-Away-Launching-First-Time-Venture-Capital-Fund-November-2017.pdf

Key First-Time Venture Capital Facts:

- As at September 2017, **there are more than 590 first-time venture capital funds raising capital, up from 470 this time last year**. By contrast, there are 900 successor vehicles currently in market.
- **The first three quarters of 2017 saw 114 first-time venture capital funds close,** which represented over 31% of all venture capital vehicles which saw a close, compared to 25% in the same period last year.
- **First-time managers generally outperform experienced venture capital managers**. The median net IRR for 2006-2014 vintage first-time venture capital funds is 12.9%, compared to 9.9% for experienced managers.
- On average, first-time vehicles outperformed non-first-time funds with vintage years from 2011 to 2014. In fact, **first-time funds with vintage year 2014 have a median IRR of 21.5%**, while non-first-time funds have a median IRR of just 7.8%.
- **However, first-time funds are riskier: while first-time funds have a standard deviation of 19.1%**, vehicles raised by experienced managers have a standard deviation of 15.6%.
- Although the greatest proportion of venture capital investors which have active first-time mandates are based in **North America, the region has seen a drop in the proportion of such investors from 51% in 2016 to 40% in 2017**.
- By contrast, **Europe has seen an increase in the proportion of venture capital investors with first-time mandates** from 26% in September 2016 to 32% in September 2017.

Felice Egidio, Head of Venture Capital Products:

“Launching a debut venture capital fund is a daunting prospect. In recent years the fundraising market has become increasingly crowded, and first-time fund managers are often competing with established firms which have built up their performance track record and can rely on pre-existing networks of investors. As such, debut fund managers have to be careful in how they position their fund’s strategy and scope, as well as how they approach and market to investors. Many investors remain less receptive to first-time funds, concerned that without an established track record they cannot commit to a vehicle.

However, there are indications that these reservations are being overcome, and that investors are warming to investing with emerging firms. This may be in part because first-time funds have consistently outperformed their experienced peers in almost every recent vintage year, offering investors outsized returns. The key challenge is in overcoming the legitimate concerns about the wide dispersal of performance, and convincing prospective investors to commit without requiring a previous track record.”

**** ‘Venture capital’ here refers to venture capital equity and private equity growth funds.***

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