

Content Includes:

First-Time and Spin-off Managers

There are 470 first-time or spin-off venture capital managers with a fund currently in market.

Investors

Half of all venture capital investors on Preqin's databases have committed, or are considering committing, to first-time or spin-off managers.

Placement Agents

Forty-five percent of venture capital placement agents will work with first-time fund managers.

Funds in Market

First-time venture capital funds in market are seeking a combined \$48bn in investor capital.

Preqin Report: Lift off! Launching a First-Time VC Fund with Institutional Support

September 2016





Foreword

Improvements in performance have led to a resurgence in investor interest for venture capital funds. As a result, there has been an uptick in first-time and spin-off fund managers entering the space in an effort to capitalize on the institutional interest.

While there is an opportunity for new managers to capture the outsized returns seen in the venture capital market, the fact that the fundraising market is currently home to more than 1,240 vehicles seeking investor capital is making things more difficult for new fund managers.

Additionally, successful venture capital investing involves high levels of skill, extensive resources and strong networks. A fundraising market that is competitive and actively expanding will put less experienced fund managers at a disadvantage, making it vital for fundraising efforts to be targeted at investors whose preferences and investment plans intersect specifically with each fund manager's vision.

For managers lacking a track record, there can be some advantages if framed correctly. Preqin data shows that the performance of first-time venture capital funds can have a higher standard deviation than that of experienced fund managers, making the case that first-time or spin-off funds could satisfy certain institutional portfolios that account for higher levels of perceived risk.

Given the nature of venture capital investing and how it fits into the larger private equity picture, there are certainly opportunities for fund managers to migrate from other areas of alternative assets successfully. Due to this, a makeshift track record can be established through performance at past firms.

Though there are certainly many challenges facing fundraising managers, given the appropriate tools and approach to institutional investors, fundraising success can be attained.

This report will provide first-time managers helpful insights to make their fundraising roads a bit smoother based on data from Preqin's comprehensive private equity & venture capital databases, with extensive coverage of the fundraising markets from both fund manager and investor perspectives. We hope you find this report useful, and welcome any feedback you may have.

For more information, please visit www.preqin.com or contact info@preqin.com.

Key Facts



\$106mn

Average target size of first-time venture capital funds currently in market.



\$950mn

Final close size of the largest first-time venture capital fund closed in 2016 YTD.



470

Number of first-time venture capital funds currently in market.



84

Number of first-time venture capital funds closed so far in 2016.

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How First-Time and Spin-off Fund Managers Can Get to the Table with Investors

As of September 2016, more than 470 first-time or spin-off venture capital fund managers are raising capital worldwide. In itself, this indicates a significant amount of competition; within the context of the nearly 800 other venture capital vehicles managed by more experienced firms coming back to market, the task facing these fledgling firms appears even more daunting.

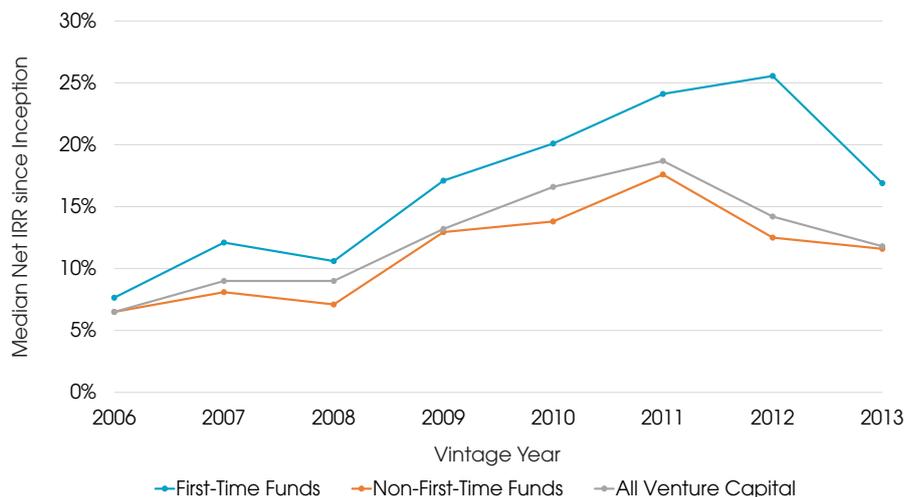
How can these less experienced firms compete for investor attention and successfully raise institutional capital for the first time? Is gaining institutional support a realistic prospect with so many more experienced managers on the road vying for new commitments?

With a compelling proposition and the right strategy, we believe success is achievable. In this exclusive report, we look at the success first-time managers have been achieving, and analyze Preqin data to uncover some of the key factors for first-time fund managers to consider when seeking support for their maiden offerings.

Are Investors Interested?

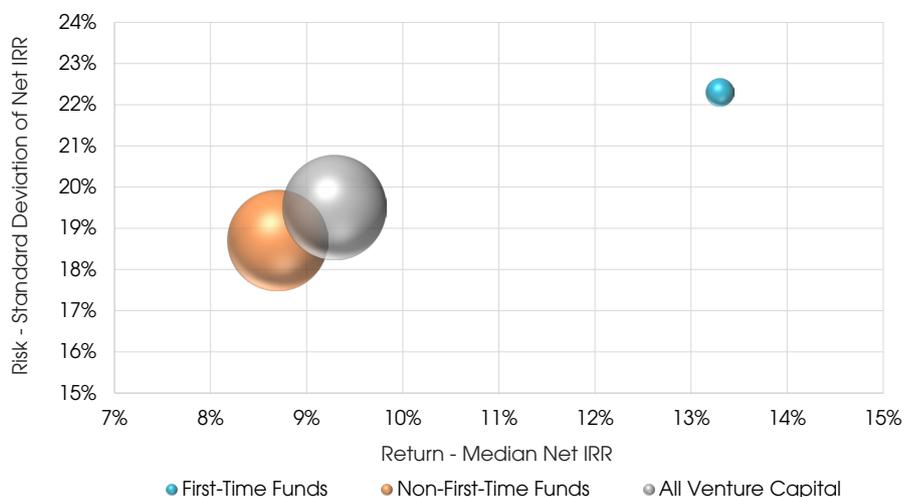
Fuelled by significantly improved performance in more recent vintages, venture capital has undergone somewhat of a renaissance among institutional investors. Today, more than 4,200 investors tracked by Preqin are confirmed as actively investing in venture capital funds, or are considering investments in the next year. The good news for first-time fund managers is that half of those investors have either committed to first-time managers previously, or are open to making such commitments in the future. These investors span the full spectrum of investor types and investment goals, so it is most useful to utilize an intelligence service such as Preqin to determine which investors represent the best prospects, and conversely, which investors should be avoided. From our many interactions with private equity & venture capital firms, it is clear that managers' most precious commodity is time – especially for smaller clients that rely heavily on senior personnel to engage in much of the heavy lifting

Fig. 1: Venture Capital Performance: First-Time vs. Non-First-Time Funds by Vintage Year



Source: Preqin Private Equity Online

Fig. 2: Risk/Return Profile of Venture Capital Funds: First-Time vs. Non-First-Time Funds (Vintages 2003-2013)



Source: Preqin Private Equity Online

when it comes to securing meetings with potential LPs. Time spent chasing dead-ends, such as investors with a stated policy to not invest with firms without a track record, could be better spent forming relationships with those that actively seek out new managers.

How to Get Past the Lack of Track Record

Managers without a track record typically face greater obstacles on the road to

fundraising success; however, when comparing the average performance (net IRR) of first-time versus experienced venture capital fund managers, first-time managers actually outperformed the pool of experienced venture capital funds from 2006 to 2013 (Fig. 1). This higher return profile has not come without higher risk: Fig. 2 illustrates the higher standard deviation generated by inexperienced managers over a similar time period. Investors without strict investment criteria and rules, such as family offices,



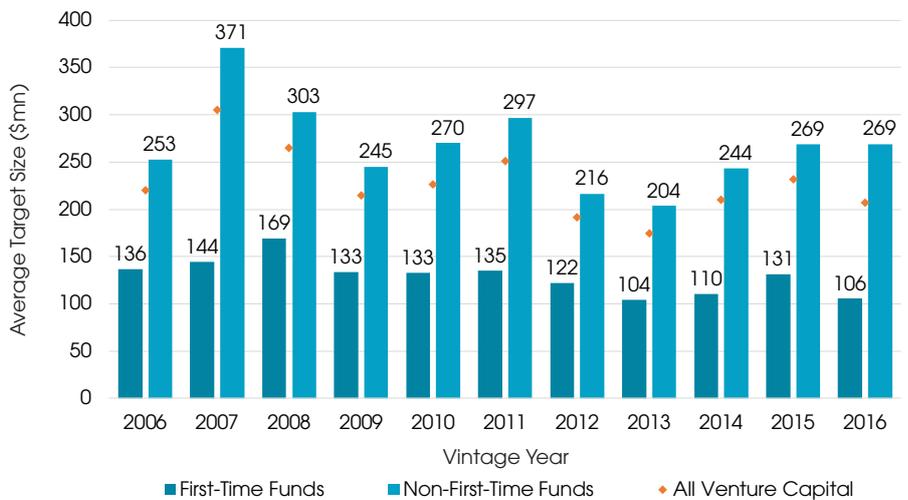
which have a high level of confidence in their selection ability, may be willing to take on this added risk in order to expose themselves to potentially high returns. More experienced investors with bigger programs are often able to combine their selection expertise with a large enough portfolio to achieve diversification and overcome the potential dangers of investing with a small number of untested managers.

Where a track record for a new entity is not available, it is helpful to demonstrate the past performance of individuals while at former companies or venture capital firms in terms that the LP will understand, including the IRR for previously managed vehicles and multiples achieved for prior investments. With the vast majority of first-time fund managers raising relatively small vehicles, it may also be useful to highlight the potential advantages that smaller funds can bring, such as “small ball” strategies and micro VC opportunities. Managers that achieve success are often those that are able to communicate the virtues of their fund and the smaller first-time fund landscape in its own right, rather than simply presenting themselves as the potential superstar brand name of the future.

Who Are the Investors?

While Preqin tracks investors across the entire spectrum seeking opportunities in first-time funds, some are more active than others. Foundations have historically been the most active investor type in first-time or spin-off venture capital funds, led especially by those based in North America, of which there are 222 known to have participated in

Fig. 3: Average Venture Capital Fund Target Size: First-Time vs. Non-First-Time Funds by Vintage Year



Source: Preqin Private Equity Online

the space (Fig. 4). This single vertical itself is a higher total than all but one of the other investor types constituting the list, signifying the importance of North America-based foundations to the first-time fund manager community. Some of the largest foundations by current allocation to private equity & venture capital are widely recognized firms, such as Ford Foundation, The James Irvine Foundation and The Howard Hughes Medical Institute.

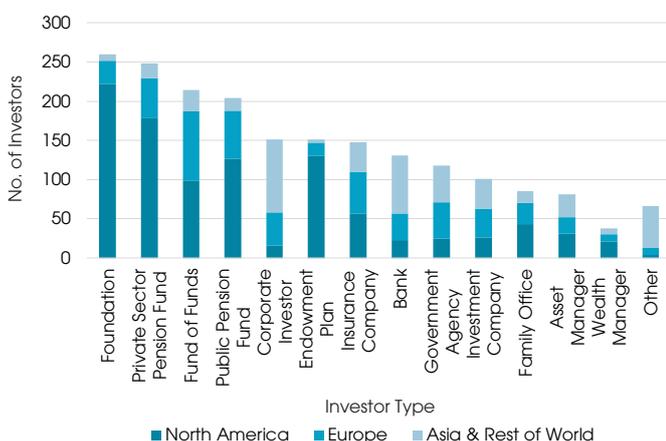
The second most common type of investor in first-time or spin-off venture capital funds is private sector pension funds. Again, North America-based investors make up the largest proportion of this group, with 178 private sector pension funds located across Canada and the US.

Where to Start?

While it is encouraging news that around half of the 4,200 active venture capital investors tracked by Preqin will consider first-time funds, it also presents an obvious problem for fund managers: where do I start? Identifying investors that may be a good fit for a fund based on past investment activity, preferences and future mandates is one of the primary qualifiers in any fundraising process, and there are some simple first steps that we advise our clients to consider when hitting the road.

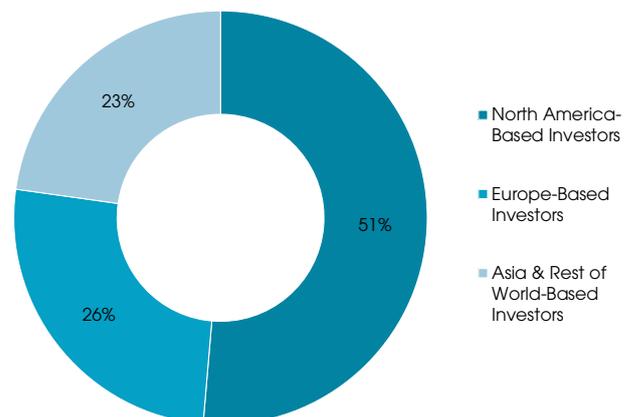
For starters, simply identifying investor location preferences can yield inroads to local investors with mandates for venture capital funds focused on investments in their home region. The first port of call for managers seeking

Fig. 4: Venture Capital Investors with Active Mandates and/or Past Investments in First-Time Funds by Type and Location



Source: Preqin Private Equity Online

Fig. 5: Venture Capital Investors with Active First-Time or Spin-off Mandates by Investor Location



Source: Preqin Private Equity Online

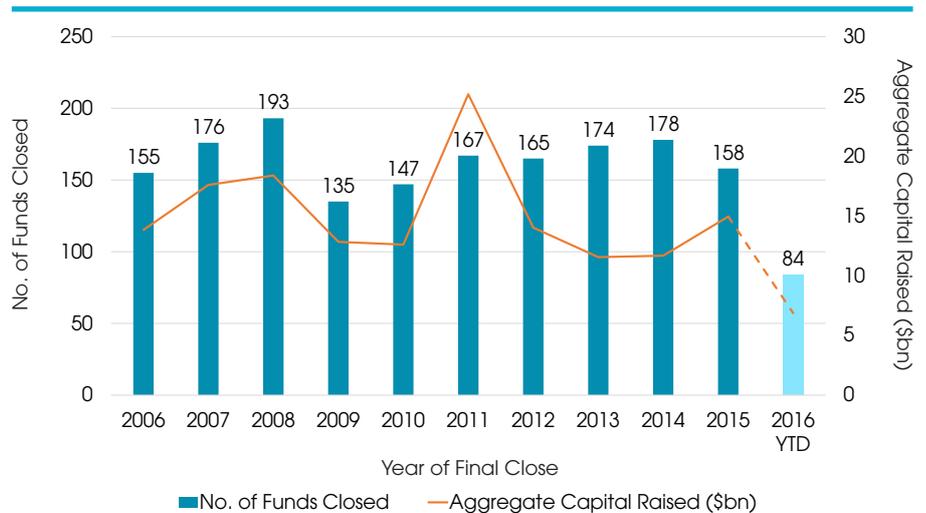


capital should always be local LPs that have a remit for local development. For example, Portland, Oregon-based Meyer Memorial Trust's \$200mn allocation to private equity comes with a preference for local investments and is open to first-time funds; in June 2016 the foundation committed \$2mn to Elevate Capital I, the debut fund from Oregon-focused Elevate Capital, which is targeting \$10mn.

Managers raising funds with a social impact ethos can narrow their investor search according to specific social impact/ESG factors. New York State Common Retirement Fund lists a preference for both women- and minority-owned firms, and will consider making commitments to first-time funds in the next 12 months.

With investors tending to execute commitment strategies over months or even years, it will also be helpful for managers to target investors that have committed to vehicles similar to their own during recent interim or final closures. Preqin tracks 243 first-time venture capital funds that have held interim or final closes since the beginning of the year (as at 22 September 2016), with many of the tracked investors in these vehicles still actively seeking out new opportunities.

Fig. 6: Annual First-Time Venture Capital Fundraising, 2006 - 2016 YTD (As at September 2016)



Source: Preqin Private Equity Online

Funds of Funds

Aside from the traditional LP-GP format, many funds of funds are highly active in the venture capital industry, and often look to capitalize on first-time fund upside potential. More than 200 fund of funds managers across 29 countries are considering or are investing in first-time venture capital managers. For example, Sun Mountain Capital, a New Mexico-

based fund of funds manager, is seeking to make commitments in the next 12 months to venture capital funds targeting Mexico and various US states, and could be a great lead for managers targeting these regions.

Contact Preferences

Once promising leads are identified, an important consideration for fundraising

Fig. 7: Sample Cornerstone Investors in First-Time Venture Capital Funds

Fund	Firm	Target Size (\$mn)	Cornerstone Investor(s)
Advantech Capital	Advantech Capital	350.0	Alaska Permanent Fund Corporation
Anthemis Venture Fund I	Anthemis Group	100.0	UniCredit Bank Austria, European Investment Fund
Keio Innovation Initiative I	Keio Innovation Initiative	146.7	Mizuho Bank, Sumitomo Mitsui Banking Corporation, Toho Bank, Tokyo Broadcasting System, Yahoo Japan Corporation, Dai-ichi Life Insurance, Mitsubishi UFJ Capital
Menterra Social Impact Fund I	Villgro	5.9	Lemelson Foundation, Michael and Susan Dell Foundation
Agrinnovation	Agrinnovation	6.0	Yissum Research Development Company, Provident Fund of the Employees of the Hebrew University of Jerusalem

Source: Preqin Private Equity Online

Fig. 8: Sample First-Time Venture Capital Funds Closed in the Past 12 Months

Fund	Firm	Final Close Size (\$mn)	Final Close Date	Known Investor(s)
Altair III	Altair	30	Oct-15	MHC (Services)
Geodesic Capital Fund I	Geodesic Capital	335	May-16	Bank of Tokyo-Mitsubishi UFJ, Development Bank of Japan, Sompo Japan Nipponkoa Insurance
Coparion Fund I	Coparion	251	Dec-15	European Investment Fund, KFW Banking Group
March Capital Partners Fund I	March Capital Partners	240	May-16	Lowell Milken Family Foundation
Medicxi Ventures I	Medicxi Ventures	234	Feb-16	Glaxo Smith Cline, Johnson & Johnson Innovation
Elephant Partners I	Elephant Partners	156	Oct-15	Cordish Private Ventures
Venturra Fund I	Venturra Capital	150	Oct-15	Lippo Group
TLV Partners I	TLV Partners	115	Feb-16	University of Texas Management Company
SignalFire Fund I	SignalFire	53	Oct-15	Horsley Bridge Partners

Source: Preqin Private Equity Online



firms is how to contact the potential investor through the proper channels as directly as possible. Connecting with the right person can be the difference between entering serious discussions and not getting past voicemail. Whether it be directly or through a consultant, it is essential to be armed with the most up-to-date preferred points and methods of contacting investors. For example, Preqin tracks which institutional investors employ consultants that screen all incoming proposals; some utilize a single general consultant, while others have several asset class specialized consultants. Commonfund Capital serves as general consultant for the Catholic University of America Endowment, Florida State College Foundation and Southwestern University. As for asset class specialists, CalPERS and Florida

State Board of Administration utilize Grove Street Advisors specifically for its expertise in private equity and venture capital.

Cornerstone Investors

Securing one or more cornerstone investors (reputable investors making substantial early commitments) lends inexperienced managers considerable credibility among other investors, and can go a long way towards ultimate fundraising success. As time is of the utmost importance to fundraising managers, starting discussions with influential investors early is key to securing commitments as quickly as possible. Managers can identify potential cornerstone investors by seeking investors that are open to making

commitments prior to the first close in conjunction with other preference criteria, as well as reviewing the market to establish which investors have recently committed to a first-time fund ahead of its first close.

Keio Innovation Initiative and Villgro have both been successful in securing cornerstone investors within the past year. Tokyo-based Keio Innovation Initiative secured a third (\$48mn) of its total targeted capital (\$147mn) at the first close of Keio Innovation Initiative I from seven Japan-based investors including Mizuho Bank, Sumitomo Mitsui Banking Corporation and Toho Bank, as well as two corporate investors, an insurance company and a private equity firm (Fig. 7). Villgro received cornerstone investments from Michael and Susan Dell

Fig. 9: 10 Largest First-Time Venture Capital Funds in Market (As at September 2016)

Fund	Firm	Type	Fund Status	Fund Geographic Focus	Target Size (\$mn)
Lippo Tsinghua Holdings Fund	Lippo Capital Advisors	Growth	First Close	Asia	1,632
SummitView IC Industry Fund	Summitview Capital	Venture Capital (All Stages)	First Close	Asia	1,621
Rocket Internet Capital Partners Fund	Rocket Internet	Expansion/Late Stage	First Close	Europe	1,105
Asia-Germany Industrial Promotion Capital Fund I	AGIC Group	Growth	First Close	Europe	1,000
Banma Capital	Zebra Investment	Venture Capital (All Stages)	First Close	Asia	1,000
K2 Global Fund I	K2 Global	Venture Capital (All Stages)	Raising	US	1,000
Asia Climate Partners	Asia Climate Partners	Growth	Fourth Close	Asia	750
Butterfly Enterprises I	Butterfly Enterprises	Expansion/Late Stage	Raising	US	750
Gateway Fund I	Gateway Partners	Growth	First Close	Diversified Multi-Regional	750
Asia Development Fund	Makara Capital Partners	Growth	Raising	Diversified Multi-Regional	737

Source: Preqin Private Equity Online

Fig. 10: 10 Smallest First-Time Venture Capital Funds in Market (As at September 2016)

Fund	Firm	Type	Fund Status	Fund Geographic Focus	Target Size (\$mn)
VestedWorld Africa Fund	VestedWorld	Early Stage	Raising	Diversified Multi-Regional	0.2
BootUp Capital A	BootUp Capital Partners	Early Stage: Start-up	Raising	US	1.0
Kansas City Fund	Angel Capital Group	Early Stage: Start-up	Raising	US	1.0
MPNYC Fund I	MetaProp NYC	Venture Debt	First Close	US	1.3
Edge Edtech 2015 Fund	Edge EdTech	Early Stage	Raising	US	1.7
Harbinger Venture Fund I	Harbinger Ventures	Venture Capital (All Stages)	Raising	US	2.5
Tuck Capital Partners	Tuck CPE/E	Growth	Raising	US	2.5
Vestcomp Venture I	Vestcomp Ventures	Venture Capital (All Stages)	Raising	US	2.6
Angels Unleashed Fund I (International Sub-Fund)	Angels Unleashed	Early Stage	Raising	Europe	2.7
Inclusive Startup Fund	Elevate Capital	Early Stage: Start-up	Second Close	US	3.0

Source: Preqin Private Equity Online



Fig. 11: Sample Custom Benchmark: US-Focused Healthcare Micro VC Funds Closed 2003-2013

Benchmark	Called up (%)	Distributed (%) - DPI	Remaining Value (%) - RVPI	Net Multiple (X)	Net IRR (%)
Median	94.0	27.0	108.5	1.44	14.3
Weighted	85.3	38.8	123.8	1.63	13.0
Average (Mean)	86.7	48.6	117.3	1.67	14.1
Standard Deviation	20.1	53.4	99.8	1.01	19.1
Pooled IRR					8.2

Source: Preqin Private Equity Online

Foundation and Lemelson Foundation for its Menterra Social Impact Fund 1 totalling \$4.4mn of its \$5.9mn target.

Benchmark Performance

Additionally, custom benchmarks can be used to provide context through tracking the historical performance of similar funds that have invested in a given industry or region. For example, using a custom benchmark could spark interest in an industry-specific fund in a space that has great potential and a strong recent track record, but that has received limited exposure. In this case, a first-time fundraising manager could create custom benchmarks to mirror the average performance of similar funds that are focused on the same industries or regions as the vehicle they are bringing to market. This data-driven approach could lend a strong argument to a manager looking to capitalize on an industry or region's strong track record and potential for success in future.

To Use a Placement Agent?

Among the many questions facing managers when raising capital for the first time is whether to utilize a placement agent. Placement agents can assist managers in many aspects of fundraising, but the primary task will be tapping their extensive networks to deliver potential investors and provide added credibility to new managers. Placement agents can also help to create marketing materials, which adds value to the overall expenditure. There are 249 placement agents active within venture capital, of which 45% will work with first-time and spin-off fund managers.

Managers can conduct research and due diligence on these service providers according to a wide range of criteria,

including fund type expertise, regional focus, fund size and more. Utilizing these criteria, along with the ability to easily filter by total number and value of funds closed and currently raising, managers can find a placement agent to best meet their needs. For example, there are 40 placement agents that have successfully raised first-time micro (\$100mn or less) VC funds, while an additional eight placement agents are currently working to raise funds of the same criteria for the first time. While the fees charged by placement agents can be significant (up to 3% is not unheard of for a first-time fund), the value of the time saved and potential for an on-target close can make this a worthwhile investment. Many of Preqin's clients choose to employ a hybrid approach; for example, seeking the services of a placement agent in foreign regions while conducting their own fundraising process for allocators closer to home.

Success Is Possible!

So far this year (as at 22 September 2016), 25% (84 funds) of the venture capital funds that have reached a final close have been first-time funds. Funds closed this year range from a high of \$950mn, raised by MF Venture Private Investments Infinity, to much smaller funds such as Pathbreaker Ventures Fund (\$13mn), which is focused on making telecoms media investments in the US. Over the past five years (2011-2015), on average there have been 168 first-time funds that have raised an aggregate \$15bn per year.

There are 470 first-time venture capital funds in market (as at 22 September 2016), seeking a total of \$48bn in capital. Of these, just over a third (34%) have held at least a first close, including Anthemis Venture Fund I, managed by Anthemis

Group, which secured cornerstone commitments worth 60% of its \$100mn target at its first close in August 2016 from investors including UniCredit Bank Austria and European Investment Fund.

Thirty-four first-time managers with venture capital funds currently in market have disclosed to Preqin that they are working with placement agents; just over 65% of these funds have held a first close, more than double the proportion of all first-time funds in market. Rocket Internet Capital Partners Fund, the debut fund from Rocket Internet, has successfully raised €385mn of its €1bn target with placement agents Merrill Lynch Alternative Investments and Goldman Sachs.

While this is encouraging news, the fact remains that the fundraising market is extremely crowded, and not all of those managers in the market today will see success any time soon. Some may never achieve success in the face of such intense competitive noise.

Fundraising is distracting, and time is the manager's most precious commodity of all. We recommend that first-time fund managers start their process as early as possible, strategically identifying the best prospects and capitalizing on all available data to reach out in the most intelligent way. The sooner that fundraising success can be achieved, the sooner the real work can begin...

To find out how Preqin's services can help you fundraise, or to source new investors for funds and co-investments, please visit www.preqin.com or contact info@preqin.com.



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