



# Is Micro VC the New Macro Trend?

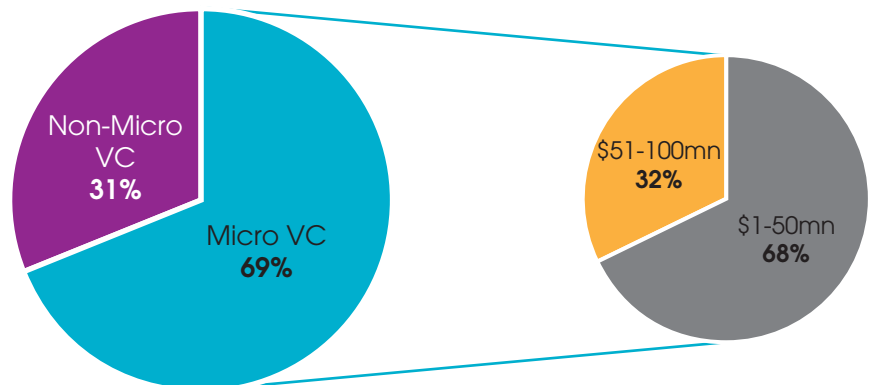
Justin Hall and Doug Paolillo take a closer look at the micro venture capital industry, including fundraising, funds in market, investors and more.

With the boom in fundraising activity and investor appetite for micro VC, several fund managers which could choose to raise larger funds are opting to keep their fund sizes in this sub-\$100mn range. In this month's feature article, we focus on the micro VC market, its position within the overall industry, investor sentiment and future outlook.

As of 6 June 2016, there are 501 micro VC funds\* in market globally looking to raise upwards of \$23bn in aggregate capital. These funds account for 69% of the total number of venture capital funds in market (Fig. 1) and a quarter of aggregate target capital.

Over the past decade, micro VC funds have consistently accounted for over half of all venture capital funds closed in a given year (Fig. 2). The proportion of micro VC funds in market reached its highest point in 2009, when 74% of venture capital funds closed on \$100mn or less. While the total number of micro VC funds closed per year has continued on a general upward trend, the proportion that micro VC has accounted for in overall venture capital fundraising has fluctuated. In 2015, 61% of total funds closed were micro VC funds – a decrease of 13 percentage points from the high of 2009. As shown in Fig. 3, the total aggregate capital raised by micro VC funds has risen steadily year-on-year, reaching \$8.5bn in 2015 – a 31% increase on 2009 (\$6.5bn).

**Fig. 1:** Proportion of Number of Venture Capital Funds in Market: Micro VC vs. Non-Micro VC (As at 6 June 2016)



Source: Preqin Private Equity Online

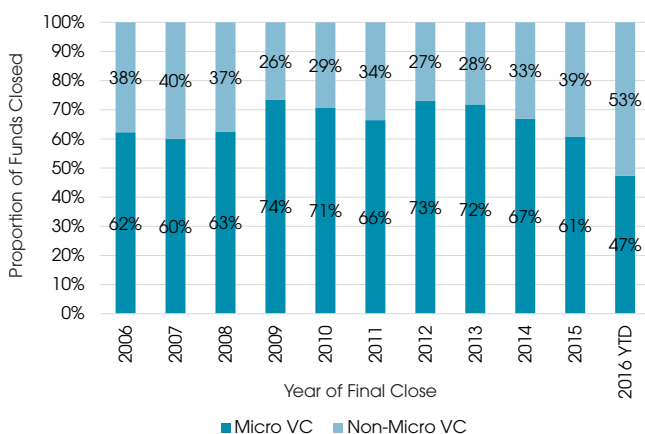
Notably, 2009 also saw the decade's largest proportion of micro VC funds closing below target size, with 54% of micro VC funds closing shy of their goals (Fig. 4). Since 2006, the largest proportion of micro VC funds closing on or above their target size was observed in 2015. Sixty-two percent of funds reached a final close equal to or greater than their target size last year.

Sixty-eight percent of micro VC funds in market are targeting \$50mn or less, with the remaining 32% seeking \$50-100mn.

North America has historically been home to the majority of micro VC activity (Fig. 5 & 6), and remains the primary geographic focus for the majority (58%) of funds currently seeking capital, followed by Asia (19%) and Europe (11%) as shown in Fig. 7. The remaining 11% is comprised of funds targeting Middle East & Israel, Africa, Australasia, Latin America, and those pursuing diversified multi-regional opportunities (Fig. 4).

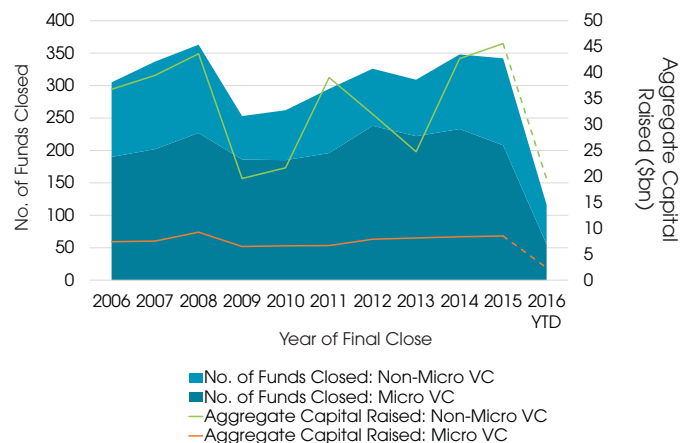
For half of venture capital funds in market targeting more than \$100mn,

**Fig. 2:** Proportion of Funds Closed: Micro VC vs. Non-Micro VC, 2006 - 2016 YTD (As at 6 June 2016)



Source: Preqin Private Equity Online

**Fig. 3:** Annual Fundraising: Micro vs. Non-Micro VC Funds, 2006 - 2016 YTD (As at 6 June 2016)



Source: Preqin Private Equity Online

\*Preqin defines micro venture capital funds as those targeting \$100mn or less.

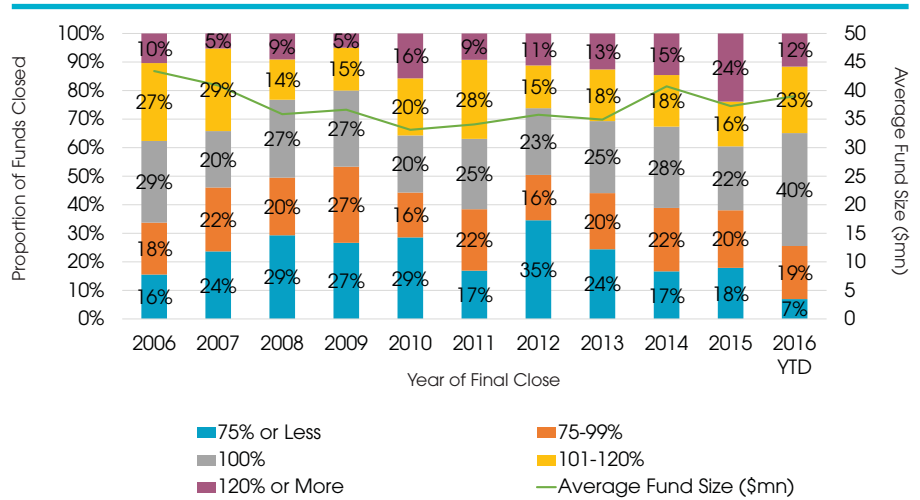


North America remains the primary focus, too. Asia and Europe are targeted slightly more frequently by larger funds, with 19% and 22% of funds targeting these regions respectively. Just 9% of non-micro VC funds in market will target investments in Rest of World.

The 10 smallest venture capital funds in market (Fig. 8) are each targeting \$1-\$3mn, of which nine are focused on investment in North America. The two smallest funds are both managed by [Angel Capital Group](#), a fully syndicated 'angel' capital private equity network operating across nine US states. Both funds, [Phoenix Fund](#) and [Kansas City Fund](#), will focus on local science and technology start-up investments in their respective cities. On the other side of the micro VC spectrum, 74 funds are each looking to raise \$100mn, collectively accounting for 32% of aggregate targeted capital by micro VC funds. Sixty-three percent of funds targeting \$100mn are focused on North America, and all but three of these funds are managed in the US.

When looking specifically at the US, the vast majority (88%) of funds in market seek investment throughout the country, with no specific regional preference. Four percent of US-focused funds have a primary geographic focus on the North East or Midwest respectively, and 3% will each target the Southeast and Western states. The US is home to 279 of the 292 fund managers currently raising a North America-focused micro VC fund, and half of these fund managers are located in the San Francisco Bay Area (Fig. 9). San Francisco leads the way with 14% of fund managers, followed by Palo Alto (6%), Menlo Park (4%), San Mateo (2%), Oakland (1%) and Mountain View (1%).

**Fig. 4: Proportion of Target Size Achieved by Micro VC Funds and Average Fund Size, 2006 - 2016 YTD (As at 6 June 2016)**



Source: Preqin Private Equity Online

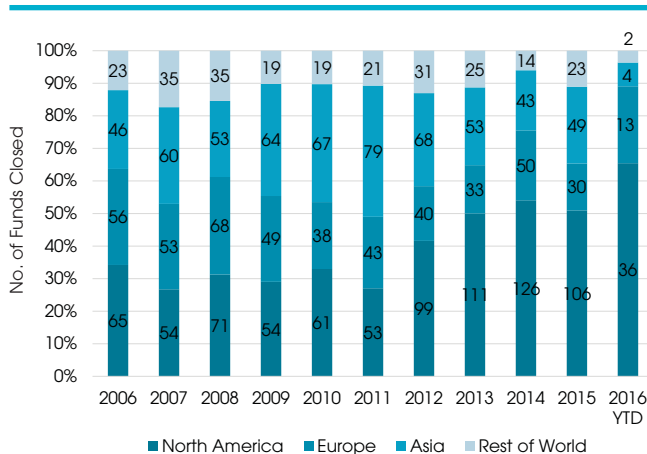
Thirty-one first-time venture capital fund managers based in the Bay Area are currently raising capital, seeking an aggregate \$2.6bn. The majority (65%) of these funds are focused on the technology sector; however, this is a significantly smaller proportion than the average (82%) for experienced fund managers in the area. First-time fund managers in the Bay Area are more receptive to investment opportunities outside the technology sector than their more established peers. Several micro VC fund managers also plan to utilize a diversified opportunistic approach to investing in the US, typically giving greater notice to sectors such as healthcare, retail, media and marketing.

The northeast corridor of Boston, New York and Washington, D.C. is also home to a high concentration of micro VC fund managers: 16% of fund managers with

funds currently in market are located in this region. Sixty-seven percent of fund managers in this region are based in New York City, while 22% are in Boston, followed by 11% in the Washington, D.C. area. There are currently 26 first-time funds being raised in the northeast corridor, targeting an aggregate \$1.4bn.

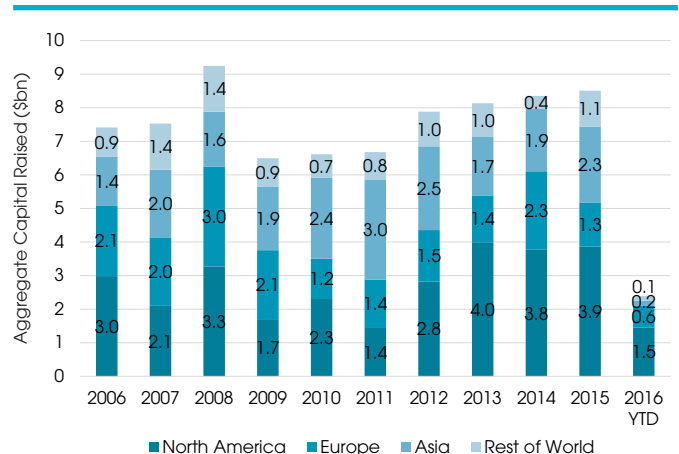
Chicago-based fund managers are seeking the majority of capital within the Midwest. There are currently 11 micro VC fund managers located in Chicago with at least one fund in market (as of 6 June 2016), seeking an aggregate \$500mn. [Illinois Ventures](#), a Chicago-based seed and early stage venture capital firm focused on innovative technologies – particularly those derived from research conducted at Midwest universities and federal laboratories – is currently raising [Illinois Emerging Technologies Fund III](#).

**Fig. 5: Number of Micro Venture Capital Funds Closed by Primary Geographic Focus, 2006 - 2016 YTD (As at 6 June 2016)**



Source: Preqin Private Equity Online

**Fig. 6: Aggregate Capital Raised by Micro Venture Capital Funds by Primary Geographic Focus, 2006 - 2016 YTD (As at 6 June 2016)**



Source: Preqin Private Equity Online

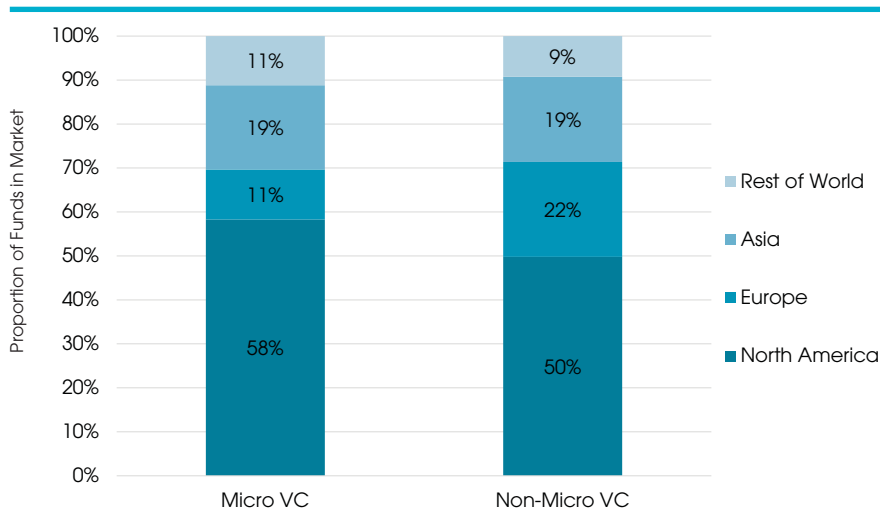


## Investors

Despite the smaller average investment size associated with micro VC funds, a wide range of investor types are seeking exposure to the segment. Similar to how venture capital fund managers often invest in companies that are located in close proximity to their headquarters, investors also look to commit to funds managed locally. In March 2016, [Contour Venture Partners](#) reached a final close on two of its funds, [Contour Venture Partners III \(CVP III\)](#) (\$56mn) and [Contour Opportunity Fund](#) (\$25mn). CVP III focuses primarily on early stage financial services, digital media and internet start-ups based in New York. Two local investors made commitments to the fund: [New York Life Insurance Company](#) along with [New York State Common Retirement Fund](#), which committed \$15mn. New York State Common Retirement Fund also committed an additional \$15mn to Contour Opportunity Fund, which makes expansion and late stage investments in the same sectors as CVP III.

The trend of committing to funds in close proximity applies to investors based outside North America as well. [Verso Spin-off Fund II](#) invests in underperforming European companies with a primary focus on Finland and reached a final close on \$54.9mn in April 2016. The primary investors in the fund include [Ilmarinen Mutual Pension Insurance Company](#) and private equity fund of funds managers [Finnish Industry](#)

**Fig. 7:** Proportion of Micro Venture Capital Funds in Market by Primary Geographic Focus (As at 6 June 2016)



Source: Preqin Private Equity Online

[Investment](#) and Luxembourg-based [European Investment Fund](#) – all investors based in Europe, with two located in Finland. Southeast Asia-focused [Monk's Hill Ventures Fund I](#) reached a final close in March 2016 on \$80mn and has already invested in several technology start-ups domestically in Singapore, as well as in Thailand, Indonesia and the Philippines. Investors in the fund include Japan-based [YJ Capital](#) and [ITOCHU Corporation](#), Singapore-based [National Research Foundation](#), sovereign wealth fund [Temasek Holdings](#) and one known US-based investor, [Cisco Systems](#).

In South America, [Brazilian National Development Bank](#), has committed to a total of eight known micro VC funds, including most recently [Fundo Performa-Key de Inovação e Meio Ambiente](#), which focuses on minority investments in early and growth stage innovative sustainability and cleantech companies in Brazil.

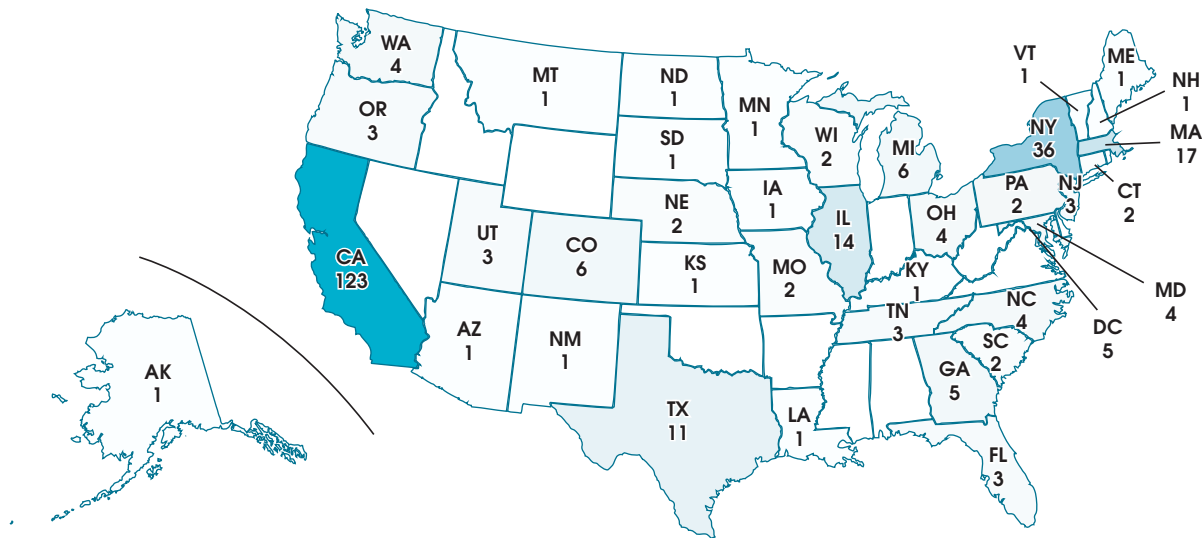
## Outlook

Micro VC funds by nature are well-suited to fulfil investor requirements for social and environmental impact investing.

**Fig. 8:** 10 Smallest Venture Capital Funds in Market by Target Size (As at 6 June 2016)

Fund	Firm	Vintage	Fund Type	Primary Geographic Focus	Industry Focus	Fund Status	Target Size (\$mn)
Kansas City Fund	Angel Capital Group	2016	Early Stage: Start-up	North America	Technology	Raising	1.0
Phoenix Fund	Angel Capital Group	2016	Early Stage: Start-up	North America	Technology	Raising	1.0
Tuck/DEN Ventures	Tuck CPE/E	2016	Early Stage	North America	Diversified	Raising	1.0
VenturCap II	VenturCap	2013	Venture Capital	Spain	Healthcare, Distribution, Software, Internet, Digital Media	Fourth Close	1.3
MPNYC Fund I	MetaProp NYC	2015	Venture Debt	North America	Technology	First Close	1.3
Talents Venture Fund V	Cheever Capital Management	2016	Venture Capital	North America	Healthcare IT, IT Security	Raising	1.5
Edge Edtech 2015 Fund	Edge EdTech	2016	Early Stage	North America	Technology, Education/ Training	Raising	1.7
DAN Fund III	Dallas Angels Network	2015	Venture Capital	Canada, North America	Diversified	First Close	2.5
Vestcomp Venture I	Vestcomp Ventures	2016	Venture Capital	North America	Diversified	Raising	2.6
Inclusive Startup Fund	Elevate Capital	2016	Early Stage: Start-up	North America	Diversified	Raising	3.0

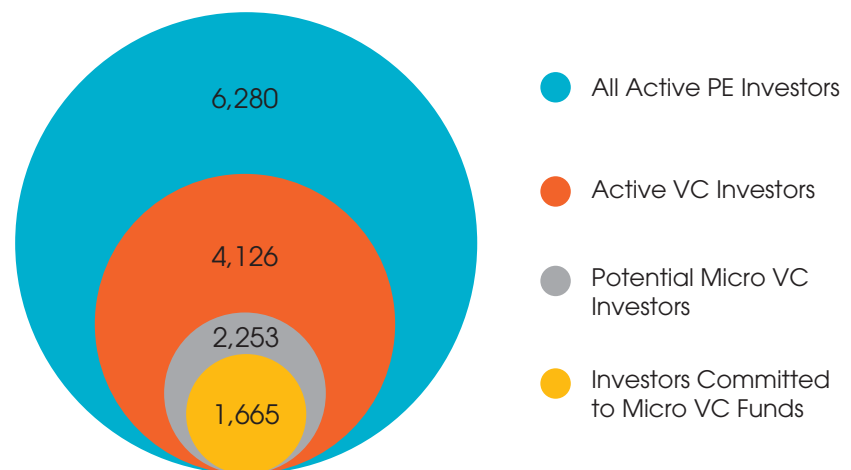
Source: Preqin Private Equity Online

**Fig. 9:** Headquarters of US-Based Fund Managers with at Least One Micro Venture Capital Fund in Market (As at 6 June 2016)

Source: Preqin Private Equity Online

As a function of necessity, these funds operate much closer to ground level, which enables them to identify and approach smaller opportunities, especially in developing regions of the world. For this reason, among others, micro VC funds have the chance to be an important part of alternatives portfolios moving forward, both for performance potential and satisfaction of increasingly prevalent goal-based investing across social, economic and educational fields.

With both robust investor appetite and fundraising targets in the pipeline, the micro VC industry seems set to continue carving a niche within the early stage investment community. A confirmed 2,253 institutional investors (55% of investors active in venture capital) have active mandates suited to micro VC investment based on commitment size range, strategy and other criteria which are listed on [Private Equity Online](#). This also includes 1,665 that are known to have at least one past investment in a micro VC fund (Fig. 10). These smaller funds will play important roles in funding growth in global communities by offering a greater degree of attention than larger funds, as result of being highly specialized.

**Fig. 10:** Number of Active Investors in Private Equity, Venture Capital, Micro VC and Investors Committed to Micro VC Funds

Source: Preqin Private Equity Online

Despite strong investor appetite, fund managers targeting micro VC funds are still likely to face competitive fundraising environments in the years to come. As the preference of fund managers to raise micro VC funds is likely to continue, more established fund managers will be raising these funds, whereas they had previously been a function of necessity

for first-time and less established fund managers. Fund managers will need to provide solid track records, favourable terms, and positive social impact investment opportunities to attract distinguished cornerstone investors that can clear the path to a broader range of investor capital.

**Data Source:**

Preqin's **Private Equity Online** currently tracks 501 micro venture capital funds in market (including venture debt) and over 1,600 investors that have committed to micro VC funds previously.

For more information, or to arrange a demonstration, please visit: [www.preqin.com/privateequity](http://www.preqin.com/privateequity)

**Coming Soon!** Preqin will soon be launching our new **Venture Capital Online** product, which will focus exclusively on the venture capital market. For more information, please email [info@preqin.com](mailto:info@preqin.com).

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