RAISING A VC FUND FOR DIVERSE MANAGING PARTNERS

JULY 2021

STARTOUT

OVERVIEW

BRIEF

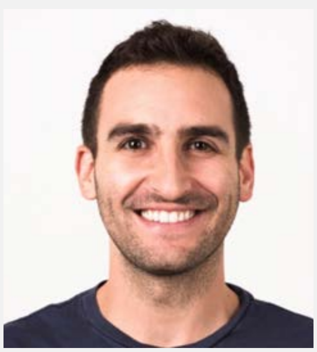
The event explored what it is like to raise and manage a fund as an underrepresented managing partner, in a context where we see more underrepresented fund managers emerging across the US to lead investments in often overlooked geographies, founder groups, and ideas.

The discussion was an opportunity to hear from both fund managers and Limited Partners (LPs) and to deep dive into LP management, fund structure, best practices, and thesis development. We also got a chance to look into the idiosyncrasies of raising a fund as an "outsider" and what steps you can take to gain traction.

THE PANELISTS

Our panel consisted of McKeever (Mac) Conwell,II, Kelli (Trent) Fontaine, Charles Hudson, and Daniel Dehrey. The panel was moderated by Ian Foley.

Charles Hudson (he/him)
Precursor Ventures
Managing Partner



Daniel Dehrey (he/him)
Silicon Valley Bank
Managing Director,
Emerging Managers

McKeever (Mac) Conwell, II (he/him)
Rarebreed Ventures
Managing Partner

Kelli (Trent) Fontaine (she/her)
Cendana Capital
Partner

Ian Foley (he/him)
Level Ventures
Partner

THE AUDIENCE

A total of 230 professionals registered for the event. 120 attendees joined the online event, representing a broad cross section of investors from different sectors, specializations and levels of experience as well as aspiring fund managers with diverse backgrounds (investment professionals, startup founders, etc.).

Of this group, 48 individuals answered live polling questions during the conversation. The following insights and graphs were taken from the panelists' commentary and live polling results from the 48 participants.

DIVERSE EMERGING MANAGERS

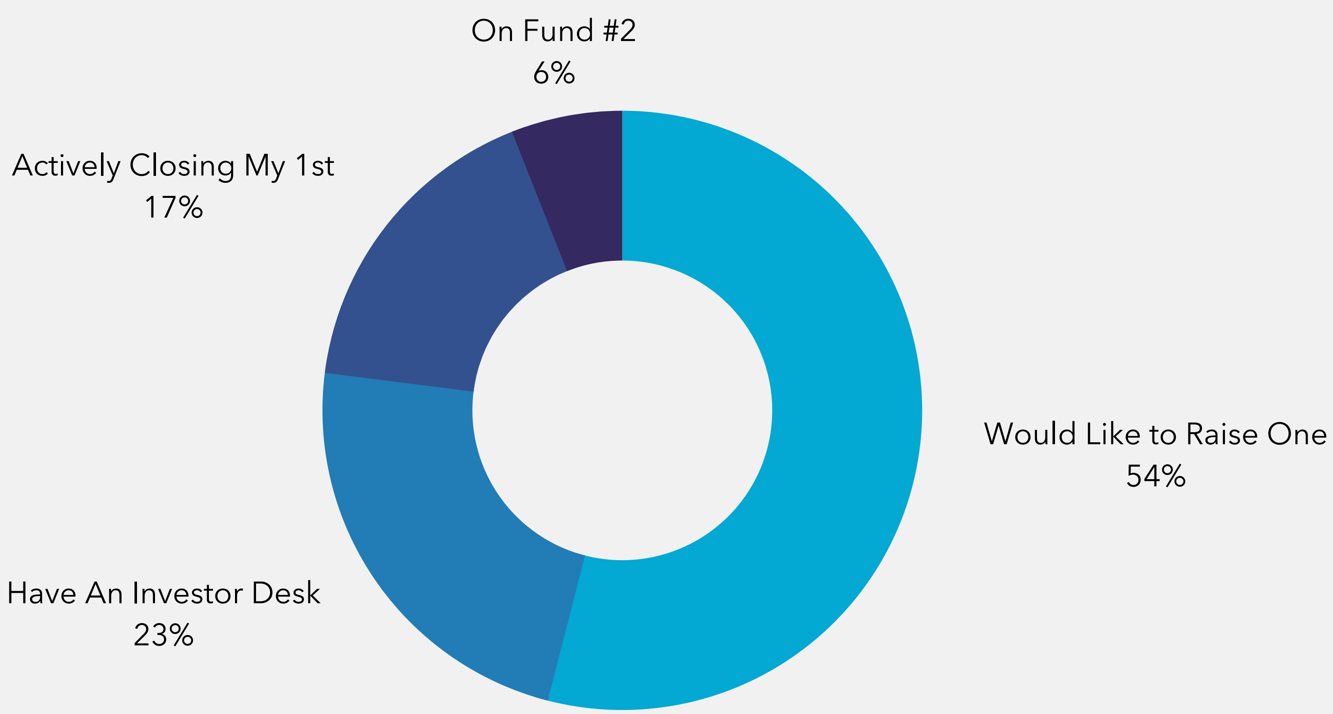
Despite the fact that there is a lot of capital in the Venture Capital market right now and despite the fact that the sector has acknowledged the diversity and representation issues there are in the industry, there is still a large gap and underrepresented managers are still a minority.

The market is still catching up with decades of very coded career paths to VC (founder > professional VC > fund manager). Historically, it has been the only path available, unless you have easy access to HNWI. It is still very difficult and unusual to make it any other way than the traditional approach, especially for first-time fund managers.

The past few years have definitely seen more diversity (backgrounds, geography, focus, etc.) in emerging fund managers but the spotlight on diverse and underrepresented fund managers does not have a large impact on numbers just yet. Specific programs to accelerate diversity and representation are slowly catching up and there is still work to be done to level the playing field.

RAISING YOUR FIRST VC FUND

What Stage Are You in Raising A VC Fund?



RAISING YOUR FIRST VC FUND

Insights

There has been an explosion of emerging fund managers over the past several years. This can be attributed to an economy providing liquidity for startups and founders, a growing interest in the risk/reward of investing in private markets, and increased accessibility through tech-enabled services, among other factors.

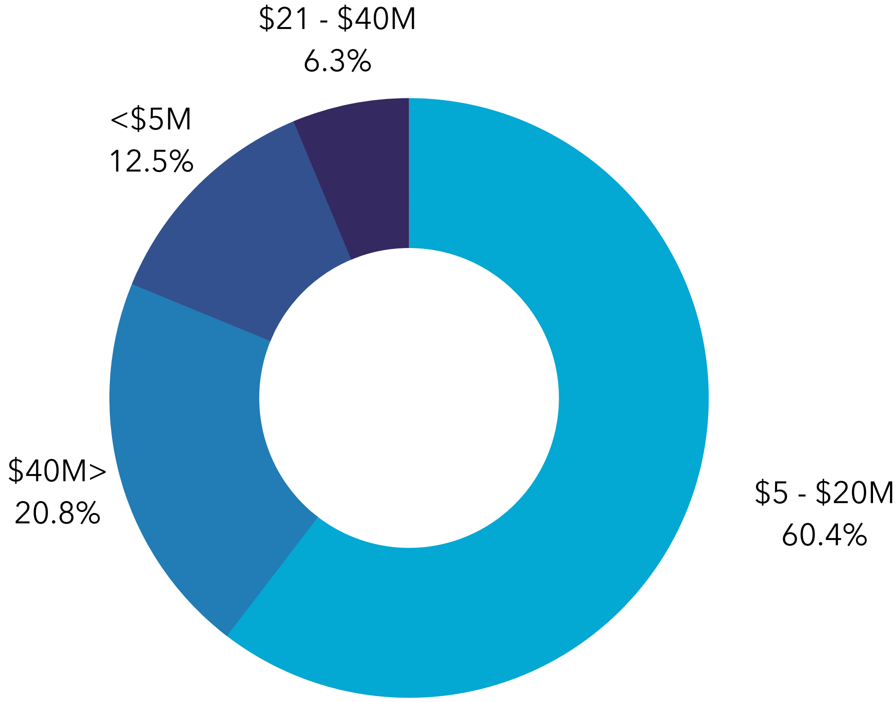
However, our panelists shared that starting a fund from scratch is an extremely long journey and that most aspiring fund managers underestimate how much it takes to raise a first fund. “People get to the one year mark and are burned out emotionally and financially”, says Charles Hudson.

Advice for first-time funders:

- Be mentally prepared to be stuck in your raise and to grind.
- Make sure to build a strong support system that will keep you going, especially if you are a solo GP.

TARGET FUND SIZE

What Do You Expect to Be the Size of Your First?



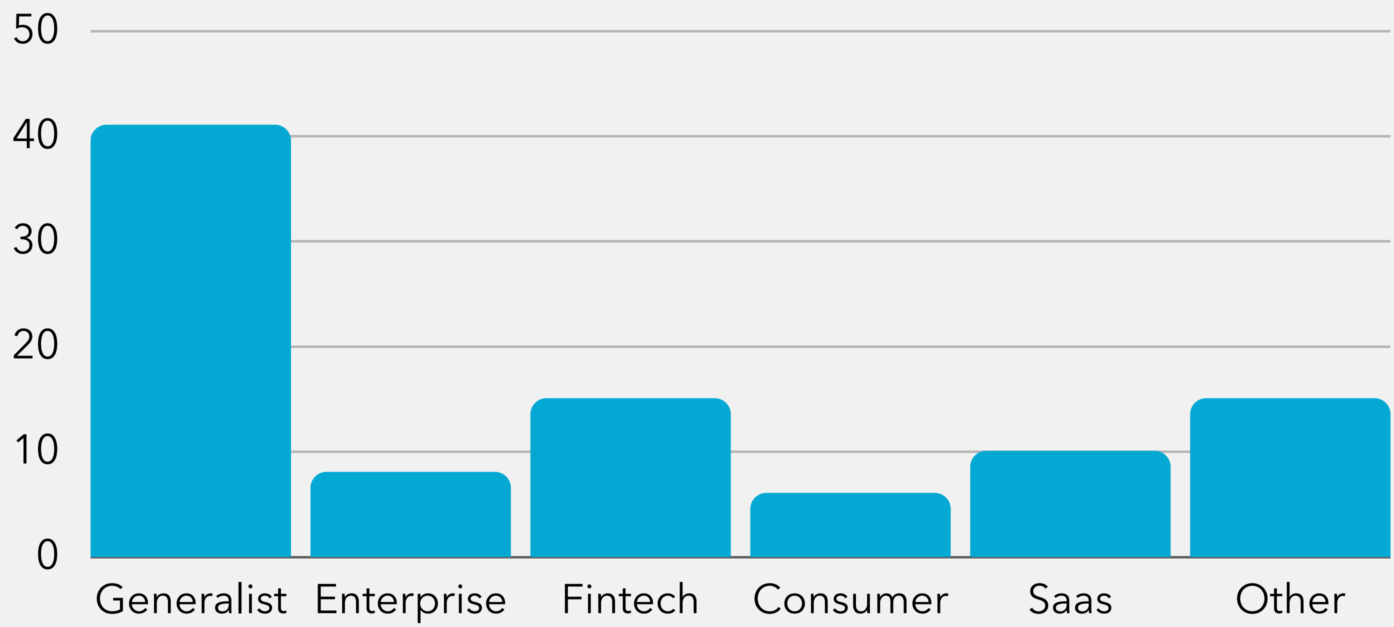
TARGET FUND SIZE

Insights

Panelists agreed the $5-$20MM range is common for first-time funds. Our panelists, especially the LPs, shared that first-time fund managers generally target larger fund sizes than they actually raise for their first fund as raising a first fund is a very difficult exercise that takes longer than expected.

INVESTMENT FOCUS

What Type of Fund Are You Looking to Raise (in %)?

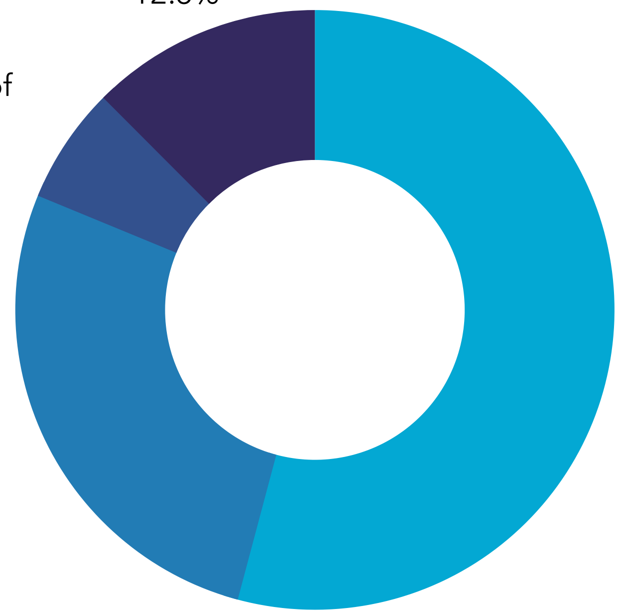


Insights

Although participants overwhelmingly selected a generalist approach when polled on expected investment focus, our panelists shared that a more specialized focus will be easier to differentiate your offer from the competition. If you are truly a generalist, however, it's important to have some sort of differentiation as well as a compelling story. The story can be "macro" - knowledge outside of the generalist lane - or "micro" - why are you uniquely positioned. Panelists stressed out the difficulty of being able to propose something that is truly unique and special in today's highly competitive landscape.

BIGGEST CHALLENGE WHEN RAISING YOUR FIRST FUND

What Do You Think is the Biggest Challenge to...?



Insights

More than half the participants mention differentiation - creating a differentiable fund value proposition - as the biggest challenge to raise their first VC fund. Our panelists agree with the importance of pitching a uniquely different value proposition in a highly crowded space.

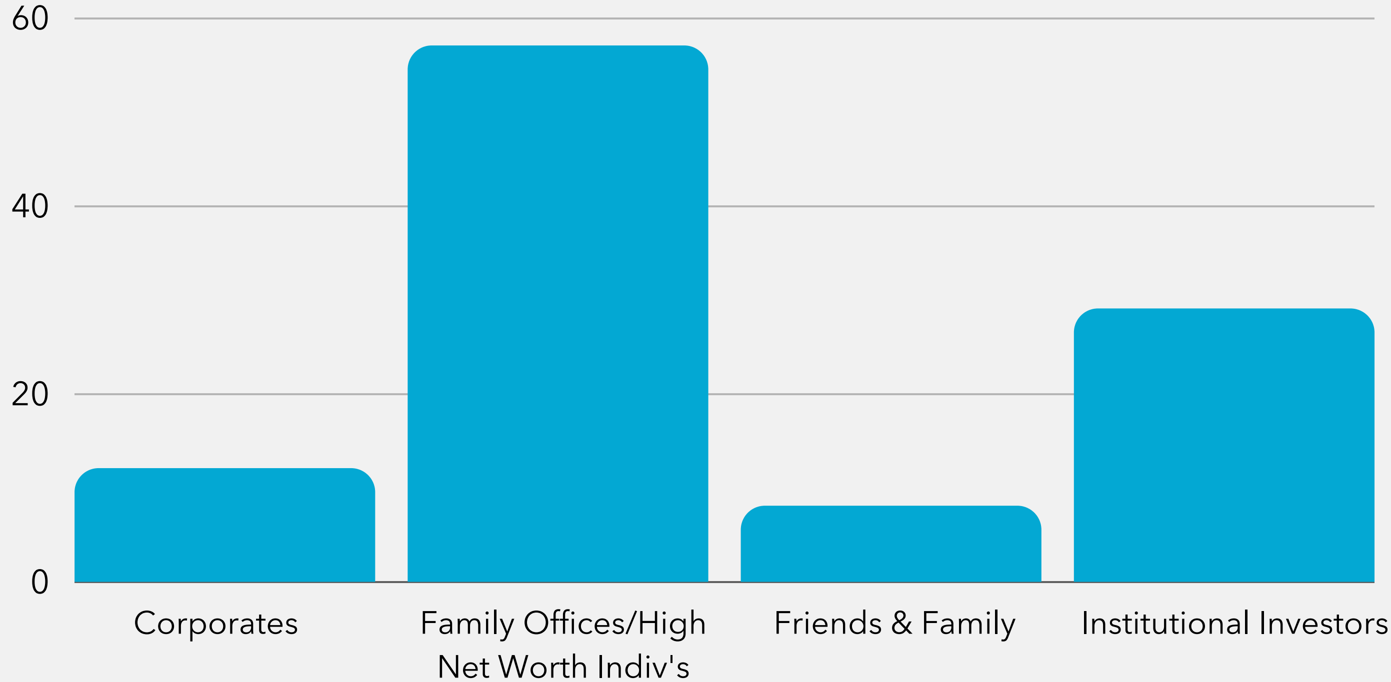
In addition, our panelists shared that one of the biggest challenges when raising a first fund is to know the right LPs for the fund you are raising and that PMF discovery can take some time. "It takes a while to calibrate and to find the right LPs for your fund strategy" says Charles Hudson. Each LP is buying something different and it is crucial for fund managers to understand what LPs are looking for and what their mandate is.

Most institutional LPs are looking for some type of track-record. For first-time fund managers track record can be built via rolling funds, angel syndicates, etc.

> ***It is crucial for fund managers to understand what LPs are looking for and what their mandate is.***

SECURING LP CAPITAL

Where Do Think You Will Secure the Majority of the LP Capital for the Fund?



Insights

When polling participants on where they believed they would secure the most LP capital, it is not surprising that Family Offices & HNWI (56.25%) was the top answer. This category is often the easiest to approach and is typically a better fit for a first fund. HNWI can be more creative and can take more risks trying something new, contrary to endowments and founders who are less likely to support fund I.

When asked how to find LPs, our panelists all share the importance of building a network and connections. As Kelli Fontaine mentioned, "As LPs, we are buying your network. So use your network to get to us". Building relationships with potential LPs is a long game and a relationship game: it can take years for LPs to write a check and support a fund manager.

Beyond building a network of LPs, fund managers also stress the importance of building connections with experienced fund managers or peers to learn from people who have been through the same hustle of raising a first fund as well as to find your first checks.

SECURING LP CAPITAL

Insights

Mac Conwell, II, shared his experience and the importance of social media for him in building a network as well as leveraging this network to get in front of LPs. “Other GPs and VCs can be the LPs of your first fund” says Mac Conwell, II. As referenceability remains one of the biggest gatekeepers in the venture community, it is key to make sure that your connections and network will recommend you and have your back when being asked about you. In that context, panelists shared with the audience the importance of being authentic to connect with people and to find your community of “true believers”.

> ***As LPs, we are buying your network. So use your network to get to us. - Kelli***

IN SUMMARY

In recent years, the presence of emerging fund managers has grown exponentially due to economic and technological advancements. Specific programs to accelerate diversity and representation are slowly catching up and there is still work to be done to level the playing field. Without this leveling, emerging fund managers cannot as easily connect the right LPs for the fund they are raising, knowing that PMF discovery will take even longer for diverse fund managers due to a perceived lack of reference-ability or shared networks. This and the increasing requirement of pitching a uniquely different value proposition in a highly crowded space presents many barriers to success for fund managers with diverse backgrounds. We encourage first-time fund managers to investigate building their network, expanding those connections, and showcasing your track record via rolling funds, angel syndicates, etc.

Venture capital is a complex industry to navigate. We're here to help.

Ian Foley, Venture Partner | ian@level.ventures
Level Ventures is a VC firm with a unique platform to support investment managers through capital raises and access to a curated network of resources to help investors build an independent track record, create an investment thesis and launch their own fund.

Daniel Dehrey, Managing Director - Emerging Managers | DDehrey@svb.com
For 35 years, SVB Financial Group and its subsidiaries have helped innovative companies and their investors move bold ideas forward, fast. SVB Financial Group's businesses, including Silicon Valley Bank, offer commercial, investment and private banking, asset management, private wealth management, brokerage and investment services and funds management services to companies in the technology, life science and healthcare, private equity and venture capital, and premium wine industries.

Sarah Burgaud, Director of Programs & Partnerships | sarah.burgaud@startout.org
StartOut is a non-profit organization founded in 2009 that focuses on supporting LGBTQ+ startup founders. Our mission is to increase the number, diversity, and impact of LGBTQ+ entrepreneurs and also to amplify their stories, ultimately to drive the economic empowerment of the Queer community. Over the past 10 years, we have built a community of 17,000 members and we support 300+ entrepreneurs every year.