

What do LPs look for in emerging fund managers?

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European Venture

In comparison to other private assets

Venture outperforms as a long-term asset class



One-year horizon IRRs of select strategies

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022*	15-year horizon IRR
Other PE 404.3%	Private debt 17.3%	Venture capital 38.3%	Venture capital 15.1%	Other PE 212.2%	Venture capital 17.6%	Secondaries 12.6%	Other PE 41.9%	Growth-Expansion 23.3%	Real estate 27.6%	Other PE 122.7%	Buyout 20.7%	Growth-Expansion 21.3%	Growth-Expansion 51.6%	Real assets 9.1%	Venture capital 11.5%
Real estate 0.0%	Growth-Expansion 9.0%	Growth-Expansion 20.0%	Real assets 14.8%	Secondaries 24.4%	Secondaries 17.1%	Real assets 12.2%	Funds of funds 20.0%	Funds of funds 12.7%	Buyout 25.9%	Growth-Expansion 27.1%	Venture capital 17.5%	Venture capital 20.2%	Buyout 43.2%	Real estate 8.2%	Secondaries 10.9%
Secondaries -10.8%	Venture capital 6.6%	Secondaries 14.7%	Buyout 5.7%	Buyout 13.8%	Growth-Expansion 16.1%	Other PE 8.4%	Buyout 10.9%	Buyout 10.1%	Private capital 20.5%	Real assets 18.9%	Growth-Expansion 16.0%	Buyout 19.5%	Secondaries 42.5%	Other PE 4.7%	Buyout 10.4%
Real assets -11.0%	Buyout 4.8%	Buyout 13.8%	Private capital 4.6%	Private capital 12.5%	Buyout 13.4%	Real estate 8.2%	Real assets 10.5%	Private capital 9.3%	Secondaries 16.4%	Buyout 13.1%	Private capital 15.2%	Funds of funds 19.5%	Venture capital 38.4%	Secondaries 4.1%	Other PE 10.3%
Private debt -16.0%	Private capital 0.5%	Private capital 10.3%	Real estate 3.9%	Private debt 9.2%	Private capital 11.2%	Buyout 7.3%	Private capital 10.2%	Secondaries 9.3%	Venture capital 14.2%	Funds of funds 12.1%	Private debt 13.3%	Private capital 12.6%	Other PE 36.6%	Private capital 1.3%	Growth-Expansion 10.1%
Funds of funds -19.1%	Real assets -1.7%	Private debt 3.2%	Funds of funds 1.3%	Funds of funds 7.9%	Other PE 7.9%	Venture capital 7.2%	Secondaries 8.6%	Real assets 8.7%	Funds of funds 12.6%	Secondaries 12.0%	Real assets 10.4%	Real assets 8.5%	Funds of funds 31.3%	Private debt -0.2%	Private capital 9.3%
Growth-Expansion -20.0%	Funds of funds -7.8%	Real assets -1.7%	Secondaries -0.6%	Real estate 7.4%	Private debt 6.6%	Private capital 7.0%	Private debt 7.6%	Other PE 7.1%	Growth-Expansion 12.1%	Private capital 11.3%	Real estate 9.9%	Real estate 7.4%	Private capital 30.0%	Buyout -0.5%	Real assets 8.9%
Venture capital -22.0%	Secondaries -9.7%	Real estate -6.1%	Private debt -2.5%	Venture capital 6.7%	Funds of funds 4.7%	Private debt 3.3%	Real estate 5.8%	Real estate 6.7%	Private debt 10.8%	Venture capital 8.4%	Funds of funds 9.2%	Private debt 5.2%	Real estate 16.1%	Funds of funds -1.3%	Private debt 6.1%
Buyout -25.3%	Other PE -27.8%	Other PE -14.6%	Growth-Expansion -12.4%	Growth-Expansion 2.9%	Real estate 1.2%	Funds of funds -1.0%	Venture capital -1.8%	Private debt 5.9%	Real assets 7.4%	Real estate 6.3%	Secondaries 6.1%	Secondaries -3.4%	Real assets 12.8%	Venture capital -4.5%	Funds of funds 5.8%
Private capital -26.2%	Real estate -50.4%	Funds of funds -21.6%	Other PE -41.2%	Real assets -10.4%	Real assets -5.1%	Growth-Expansion -9.5%	Growth-Expansion -3.7%	Venture capital 5.8%	Other PE -41.6%	Private debt 0.6%	Other PE -4.6%	Other PE -17.2%	Private debt 8.1%	Growth-Expansion -5.0%	Real estate 4.8%

Source: PitchBook | Geography: Europe | Data as of June 30, 2022

VC in Europe

A Snapshot of the Market in 2022

1

Pulling back on the reins of unicorn status

- **31 unicorns** created in 2022 (vs. 105 in 2021),
- **45** companies were “de-horned” as unicorn status,
- Total Unicorn count is **352** as of 2022

2

Deceleration in VC deal activity

- # of VC investments declined by **26%**, to **12,383** in 2022 (vs. 13,028 in 2021)
- Value of deals eased to **\$90B** in 2022 (vs. \$119B in 2021)

3

VC Managers remain resilient

- **\$25.4B** raised across **212 VC Funds** in 2022, (vs. \$25.3B raised across 305 funds in 2021)
- **43 first time fund managers** as of 2022 (vs. 80 in 2021)

Geographic Concentration

UK Leads the Charge

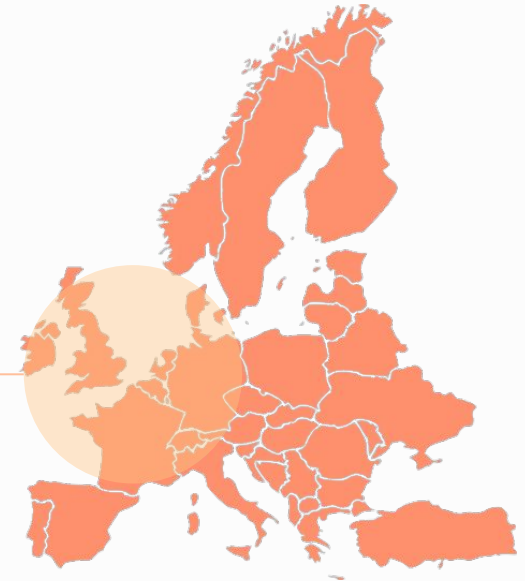
550 venture capital funds reported in 2022:

- 1 London (25%)
- 2 Paris (12%)
- 3 Amsterdam (>5%), Berlin (>5%)

Distribution of European VCs:

- 1 UK (28%)
- 2 Germany (13%)
- 3 France (12%)
- 4 Rest of EU (46%)

53%
of European VCs



Emerging Managers

How and why you would become one

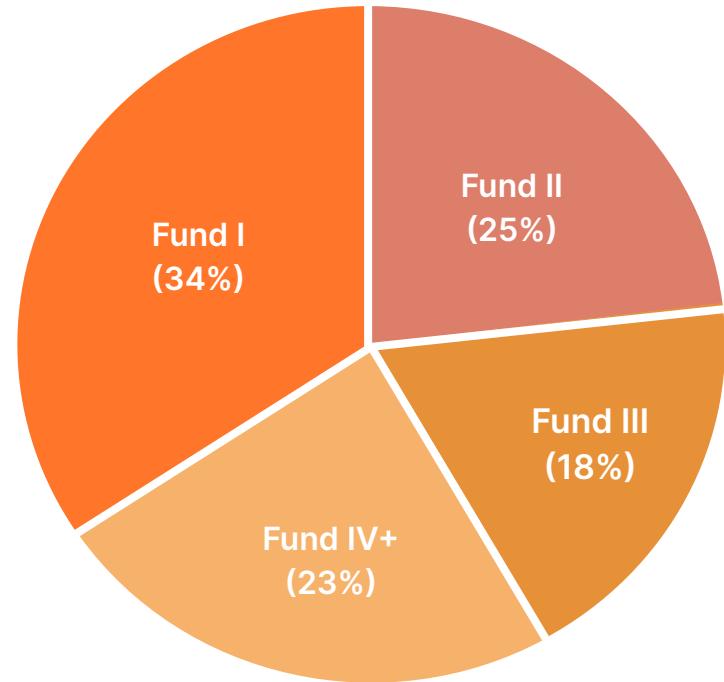
	☰ Description	✓ Benefits	🌀 Considerations
Spin Out	Previous VC investor , generally at a larger, well-established firm, and decided to create their own fund	<ul style="list-style-type: none"> ● Familiarity with established investment strategies and techniques ● Strong network and industry connections 	<ul style="list-style-type: none"> ● May be more dependent on their employer/colleague, which could limit their autonomy and decision making process
The Founder	Exited founders that provide experience and knowledge from building a business in a sector	<ul style="list-style-type: none"> ● Entrepreneurial experience ● Strong industry knowledge 	<ul style="list-style-type: none"> ● May have a lack of track record, ● May have limited fund & portfolio management experience
Strategic Investor	Range from PE or IB backgrounds to Syndicate Leads or Angels to Industry experts or operators	<ul style="list-style-type: none"> ● Strong analytical & strategic skills ● Industry connections 	<ul style="list-style-type: none"> ● May have a lack of track record, ● May have limited fund & portfolio management experience
Solo GP	Single General Partner Backgrounds can range from all the above.	<ul style="list-style-type: none"> ● Autonomy and efficient decision making ● Alignment of interests 	<ul style="list-style-type: none"> ● Limited resources ● Risk of over-reliance on a single individual decision making

Emerging Managers

Role in the European ecosystem

“In 2021, about 20% of all teams EIF supported were first time managers, and **42% were emerging managers.**”

-EIF



Emerging Managers

Performance Ranking



State of LPs

Current market environment

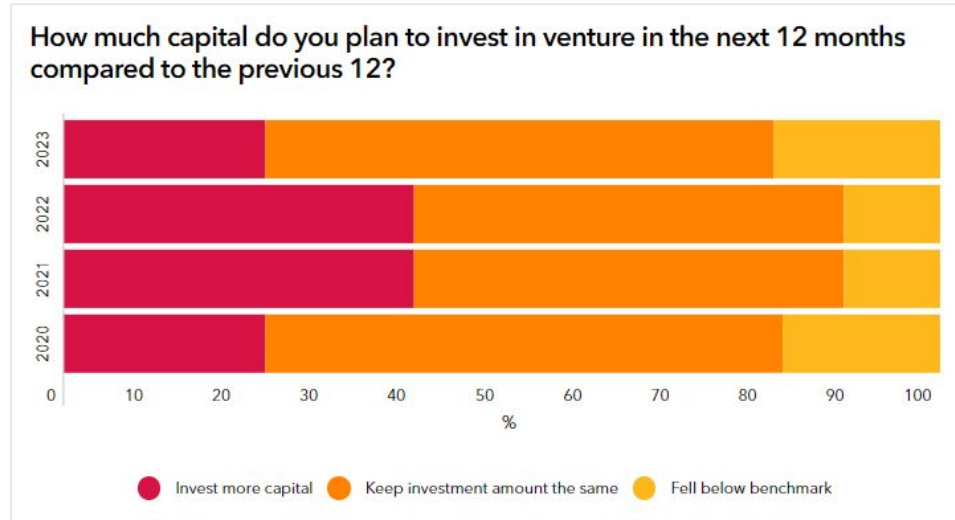
Venture remains an active strategy:

23% plan to invest more in venture capital

58% invest the same amount

20% plan to invest less

VC remains an active strategy for LP's overall investment strategy.



*Venture Capital Journal conducted an LP survey with 107 institutional investors

State of LPs

Current market environment

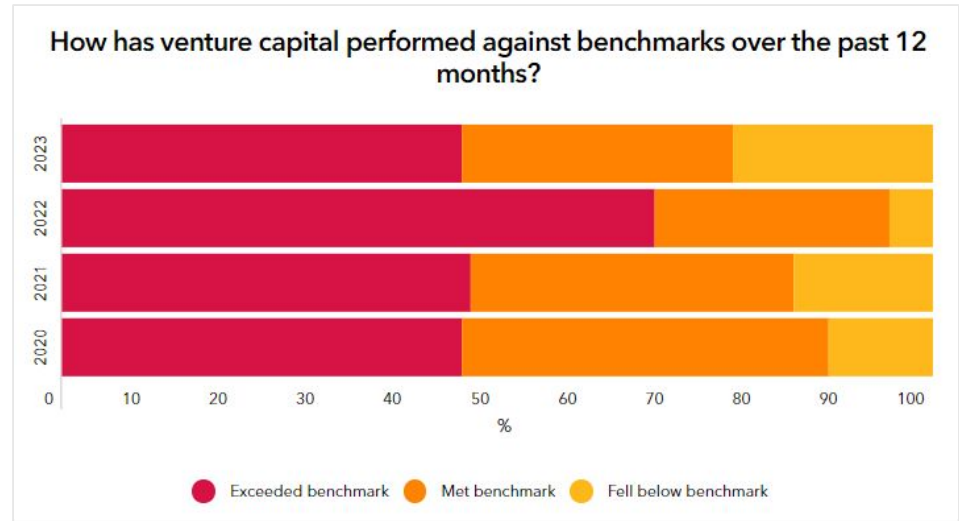
Performance Anxiety

46% exceed their benchmark (vs. 68% last year)

31% were in line (vs. 27%)

23% of VCs fell short (vs. 5%)

LP's will expect more cash distributions on returns rather than paper gains.



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State of LPs

Current market environment

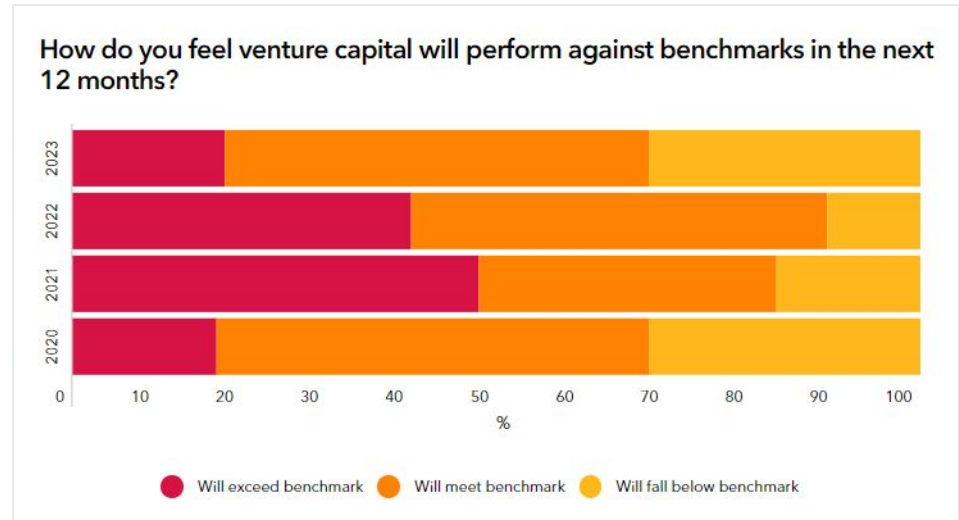
VCs got something to prove

50% of LPs expect their VC holdings to meet their benchmarks

18% expect outperformance (vs. 40% last year)

23% expect underperformance (vs. 11%)

LP's expectation is lower on VC's being able to generate exceed returns.



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State of LPs

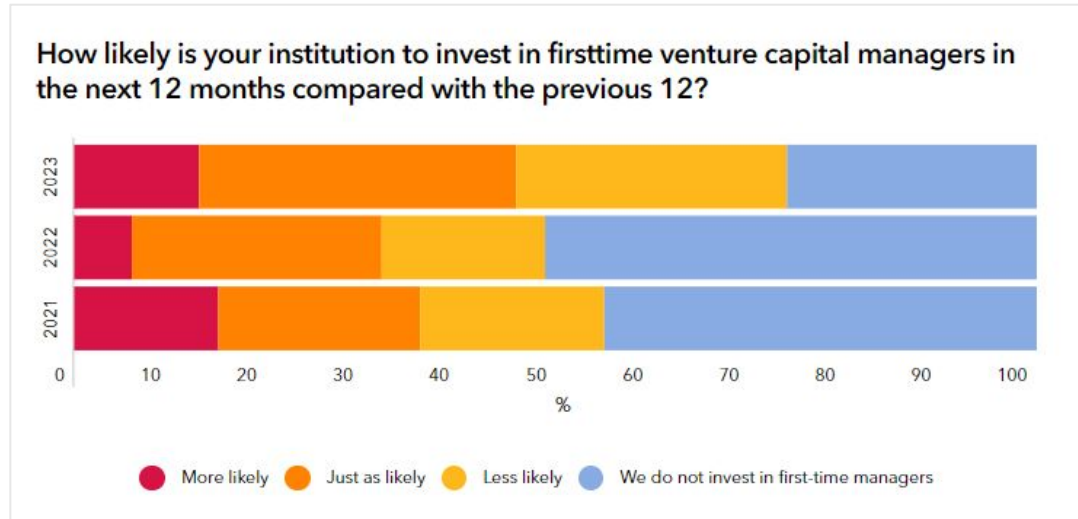
Current market environment

First Time Managers take the brunt of fundraising.

28% less likely to commitment to first time funds (vs. 17% last year)

A positive note: **28%** don't invest in first time managers (vs. 50% last year)

There's more appetite from LP's to invest in first time venture capital managers. But with lower expectation on returns, it'll be harder to convince LP's to invest in first time fund managers.



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Limited Partners

Who are they?

	☰ Description	✓ Benefits	🎯 Considerations
High Net-worth Individuals	Individuals who have significant amount of investable assets	<ul style="list-style-type: none"> • Access to large pools of capital • Build a personal connection or mentorship 	<ul style="list-style-type: none"> • Difficult to access • May have specific investment criteria
Family Offices	Private wealth advisory firms or families with large sum of wealth	<ul style="list-style-type: none"> • Long-term investment horizon to maintain generational wealth 	<ul style="list-style-type: none"> • Difficult to access • May require a personal connection or introduction
Fund of Funds	Investment vehicle that pools capital from multiple investors and then uses to diversified portfolio of vc funds.	<ul style="list-style-type: none"> • Actively invest in funds • Brand recognition • Able to provide insights 	<ul style="list-style-type: none"> • Limited Capital in the fund
Institutional Investors	Endowments, Foundations, CVCs, & Government institutional investors.	<ul style="list-style-type: none"> • Strategic partnerships and collaboration • Long-term investment horizon 	<ul style="list-style-type: none"> • Specific investment criterias • Less flexible on investment terms

Limited Partners

Due Diligence: What do LPs look for?

	☰ Description	💡 Suggestions
Track Record	Historical performance is the best proxy for LP's to gauge the type of deal flow the GP's will be able to get allocation on	<ul style="list-style-type: none"> • Consider building a track record through angel investments or leading SPVs. • Sharing deal opportunities is a great way to connect with LPs • Why would founder's come to you?
Team	Found member and other general partner's background in being able to deliver results.	<ul style="list-style-type: none"> • Finding a compatible team that will work well together - it's a 10+ year journey. • First time teams that have no history working together will have less likelihood of being able to fundraise.
Strategy	Investment thesis and strategy for investing	<ul style="list-style-type: none"> • LP's have their own investment strategies and determine if your investment thesis fits into their strategy • 42% of LP's have met VC's 1-5 times before investing & 40% met 5-10 times, according to survey results by Mounside Ventures & Allocate.
Investment Terms & Fit	We lumped other considerations like Fund & Fee structure, governance, reporting, ESG, Limited Partner Committee	<ul style="list-style-type: none"> • LP's can be strategic & financials to investors • LP's have restrictions and limitations to certain terms and conditions. • Consideration of jurisdiction & fund structure.

Words of Advice



Monik Pham

General Partner, Pact VC

“**Don’t wait** until your fund is launched to build a track record and a brand as a team (if you don’t already have one). Use whatever resources you have to start investing – even if it is a small angel ticket. Doing is a lot more valuable than just talking about it in pitches.”



Hussein Kanji

General Partner, Hoxton Ventures

“Be born rich...or be born very socially connected if you want to be a VC fund in Europe. Otherwise, focus on anchor investors, **set your target size to something you can raise in a short amount of time**, and then get going. Show you have deal judgement, don’t optimize for a perfect size, and solve everything backwards from what you can raise.”



Marcus Love

General Partner, Love Ventures

“Get a reputation for helping founders without expecting anything in return and you will **build trust and a powerful founder network**. Build an angel syndicate to show how you operate as an investor then starting a fund will be easier.”

Words of Advice



Paolo Pio

General Partner, Exceptional Ventures

“It takes grit and a village to raise a fund. During the 2 years of the fundraise, you want to **be relentless**, put in your 80 hours/week, and ask all your friends, family, ex colleagues, portfolio CEOs for help!”



Dominic Maier

Partner, AXA Venture Partners

“There's a kind of anecdotal correlation that we've observed in terms of first time teams, if they haven't worked together historically, or made investment decisions, or been C suite operators; they actually break up before they even raise the fund, more often than not. So, **we're happy to back first time funds, but we will never back first time teams.**”



James Heath

Investment Principal, Dara5

“Double down on what you are really good at and **educate LPs** on it repeatedly. Share updates and excite prospective LPs with co-investment opportunities, where relevant. A 10 year fund relationship isn't born overnight and can typically take 12 months.”

Words of Advice



Yoann Berno,
General Partner, Climentum Capital

“LPs increasingly want an allocation in Article 9 climate and sustainability funds. But they often don't know how to assess those funds and how to set the bar for their own impact expectations. **We've played quite a bit of educational role, which has been instrumental in converting some of them.**”



Thomas Schneider
Partner, Isomer Capital

“Emerging managers connect very well with the founders they are backing because they are facing the same challenges and aspire to the same dream: **creating a company that will bring something new to the world.**”

Hard work, persistence, focus and, passion will get them there.”



Stephan Heller
AlphaQ Venture Capital

“Be open and honest in your communication, and **don't be afraid to ask for support when needed.** This will help establish trust and create a strong network, which is crucial for building a successful venture capital brand in the long term.”

Words of Advice



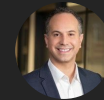
Thomas Laurer,
Partner, Curtis

"Keep your fund structure simple, don't overcomplicate it or try to reinvent the wheel. Following accepted industry standards will send a signal to your investors that you know what you are doing. Choose your service partners wisely as your administrators, lawyers or auditors may be a valuable extension of your team and provide helpful market insight."



Bertie Highmore
Head of Investments, BWC

"Find something that makes you unique and go all in on why that characteristic or focus is appealing & why you are best to execute the strategy you have set out. It sounds obvious but true differentiation in VC is pretty hard and very rare, and having it makes it hard for LPs to reject you solely on the basis that they have exposure to something similar."



Brad Doline
Of Counsel, Wilson Sonsini

"In a challenging environment for raising funds, patience and persistence are key. Be realistic in determining your minimum viable fund size and target raising that amount for first closing – no need to shoot for the moon. When setting the commercial terms, if the underlying fundamentals are there (e.g., track record, experienced team, value proposition for returns, etc.), investors will focus less on terms so long as they are generally within prevailing market terms. There isn't a need to get to overthink the terms or devalue your brand if everything else lines through."

In our opinion...

VCS remain **optimistic** with new technologies & a new wave of founders emerging. There's no better time to invest in venture given the **long-term investment horizon & continued outsized returns**.

LPs continue to be committed to allocating their portfolio to alternative assets including venture capital. In the near term, there may be a rebalancing of their asset allocation, slower commitments to new funds, and liquidity constraints.

