

2220 - Entrepreneurial Finance and Venture Capital

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Lecture #17

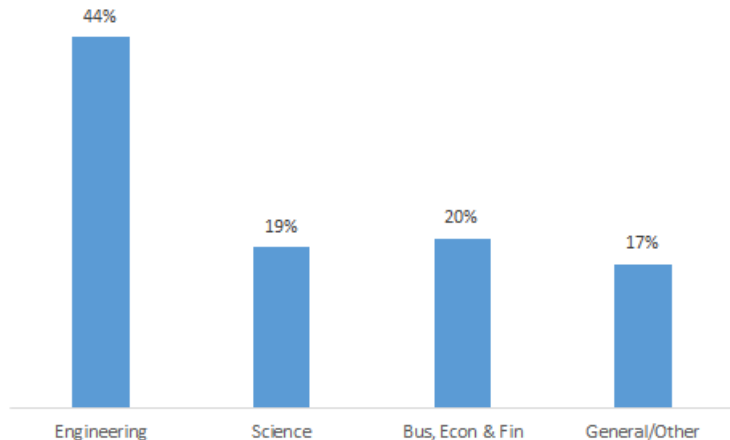
Do former entrepreneurs make the best VCs?

Fred Wilson clip

You can watch the full lecture here:

<https://www.youtube.com/watch?v=WyGalQkFzUA>

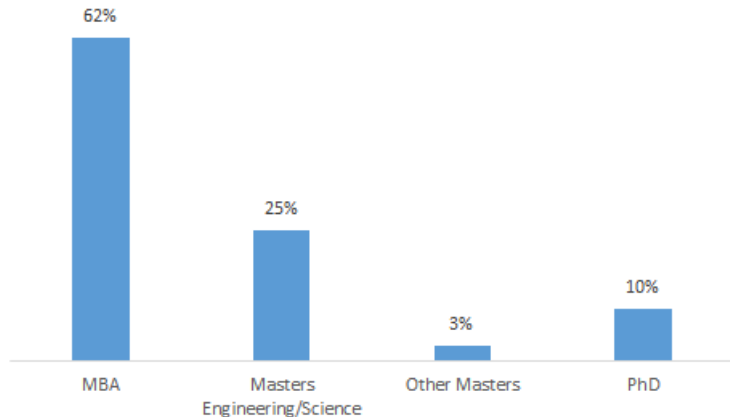
VC backgrounds: undergrad degrees



Sample: 125 GPs from the largest 15 VC firms in the US

Source: Wieland (2009) The role of human capital in private equity firms' investment strategies

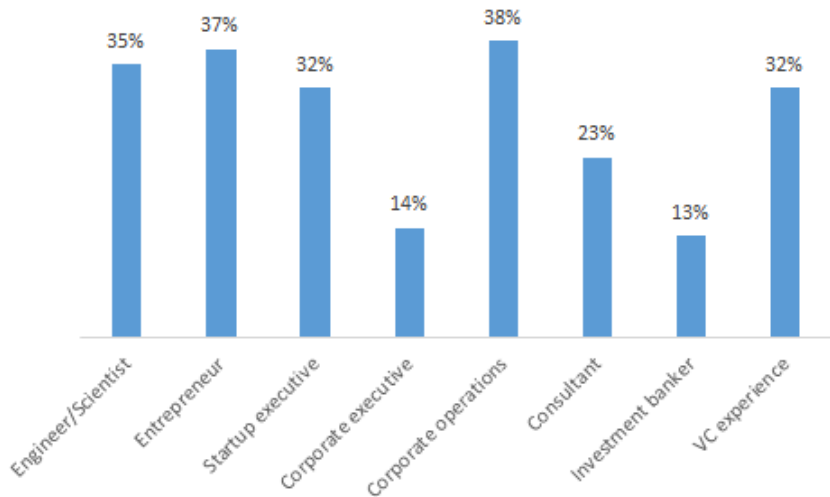
VC backgrounds: graduate degrees



Sample: 125 GPs from the largest 15 VC firms in the US

Source: Wieland (2009) The role of human capital in private equity firms' investment strategies

VC backgrounds: prior experience



Sample: 125 GPs from the largest 15 VC firms in the US

Source: Wieland (2009) The role of human capital in private equity firms' investment strategies


Andreessen Horowitz

“Over twenty years, our returns are going to come down to two or three or four investments, and the rest of this is the cost of getting the chance at those investments. There’s a sense in which all of this is math — you just don’t know which Tuesday Mark Zuckerberg is going to walk in.”

Marc Andreessen, New Yorker, May 2015

<http://www.newyorker.com/magazine/2015/05/18/tomorrows-advance-man>

VC ranking

Rank	Investor
1	SEQUOIA 
2	BENCHMARK
3	ACCEL [®] PARTNERS
4	greylockpartners.
5	ANDREESSEN HOROWITZ

Source: CB Insights

Reactions to a16z's entry

- Sequoia

- ▶ “Andreessen caused us to up our game on the marketing side”
- ▶ “Younger founders pay attention to media, and we don’t want to be depositioned”
- ▶ Hired publicist, new marketing specialists

- Benchmark

- ▶ “Benchmark is a small, focused partnership which has always functioned like a guild of artisan craftspeople rather than like a corporation. We believe this is the best model”
- ▶ Took down their website

Return persistence and barriers to entry in VC

- Returns are highly persistent and driven by few firms
 - ▶ “3% of firms generate 95% of returns, and the 3% don’t change”
 - ▶ Different from other fields
- Why?
 - ▶ Unlike public markets, investors need *access* to deals
 - ▶ VC track record has strong signaling value for outsiders
 - ▶ Hard for entrants to compete for deals
- Value of signal increases with asymmetric information and return concentration
 - ▶ Both strong factors in VC
- Self-reinforcing: persistence increases signaling value, which increases persistence

Top quartile returns

Figure 1: Historically outsized returns (%)

Top quartile

Asset	5-year	10-year	15-year	20-year	25-year
Venture capital	48	38	29	92	57
Private equity	25	22	27	31	31
Real estate	27	24	26	24	24
Large-cap equity	12	7	5	8	10
High yield bonds	5	6	7	6	8
Aggregate core bond	4	5	5	5	6

Source: Cambridge Associates Global Venture Capital, Global Private Equity, and Global Real Estate Benchmarks Return Report. Private equity asset class excludes venture capital. 5-, 10-, 15-, 20-, and 25-year returns representative of average pooled IRR for vintages dating back from 2014. Top quartile returns for all asset classes shown. Large-cap equity proxy is Lipper aggregated US large-cap equity fund performance. High yield bond proxy is Lipper aggregated high yield bond fund performance. Aggregate core bond proxy is Lipper aggregated core bond fund performance. Returns as of Dec. 31, 2015. Sample size for each asset listed is as follows: venture capital: 91-440; private equity: 174-630; real estate: 71-207; large-cap equity: 62-674; high yield bonds: 30-421; and aggregate core bond: 22-385. Past performance is not a guarantee of future results.