

**Q1 2023**

**MARKET MAKERS OF INNOVATION**

# **NEXTGEN VC MANAGERS**

**AN INSIDE LOOK AT WHO IS FUNDING THE FUTURE**



# VC Lab Research

## PROFILE OF THE NEXTGEN EMERGING MANAGER

# OVERVIEW

**V**enture capital functions as research and development for humanity. When done right, venture capitalists fund and support innovative ideas from pioneering founders that change the world for the better.

Over the last five years, a couple thousand new venture capital firms have been launched worldwide. By analyzing the profile of the new managers launching these firms, we can glean a forecast of what the innovation of tomorrow will look like.

VC Lab Research collected information from **401 venture capital firms** from around the world focused on early stage investing to present a detailed profile. The firms were launched from May 2020 until January 2023. In the following report, we will seek to answer the following:

## WHO ARE THE NEXT GENERATION MANAGERS?

## WHAT TYPES OF INNOVATION ARE THEY FUNDING?

These are the investors that ultimately decide which founders and which technologies will receive capital. They are the market makers of the innovations that drive society forward. Let's get started.

# THE BIG TRENDS

Venture capital has been a homogenous and geographically isolated industry. The data in this report shows a new class of venture capitalists is increasingly diverse in demographics, outlook, location and ambition.

These three prominent trends emerged from the data on next generation managers:



## IMPACT

**29.7%** of all VC firms in this report have incorporated a positive societal impact into their investment thesis, including Sustainability, CleanTech, and Diversity. This represents the most prominent focus of the firms in this report.



## DIVERSITY

The next generation managers come from an increasingly diverse range of backgrounds, specialties and geographies. The focus on diversity also extends to their investments: **9.8%** of the funds are set up to back diverse teams, including women and minorities.



## EMERGING MARKETS

Next generation managers are focusing on markets both inside and outside of the traditional innovation hubs in North America and Europe. **14.4%** of managers are focusing on Africa, and **8.3%** are focused on South America, with multiple countries having the first venture capital firms started.

# WHO ARE THE MANAGERS?

Becoming a venture capitalist is one of the harder things to do professionally. The traditionally opaque industry did not have widely accessible training, information, and resources for building a venture capital firm.

As a result, the main way to start a firm was to work at a venture capital firm and learn the trade in an apprenticeship model. Then, after reaching the principal or partner level in a firm, aspiring managers would break out and learn by trial and error. This is changing.

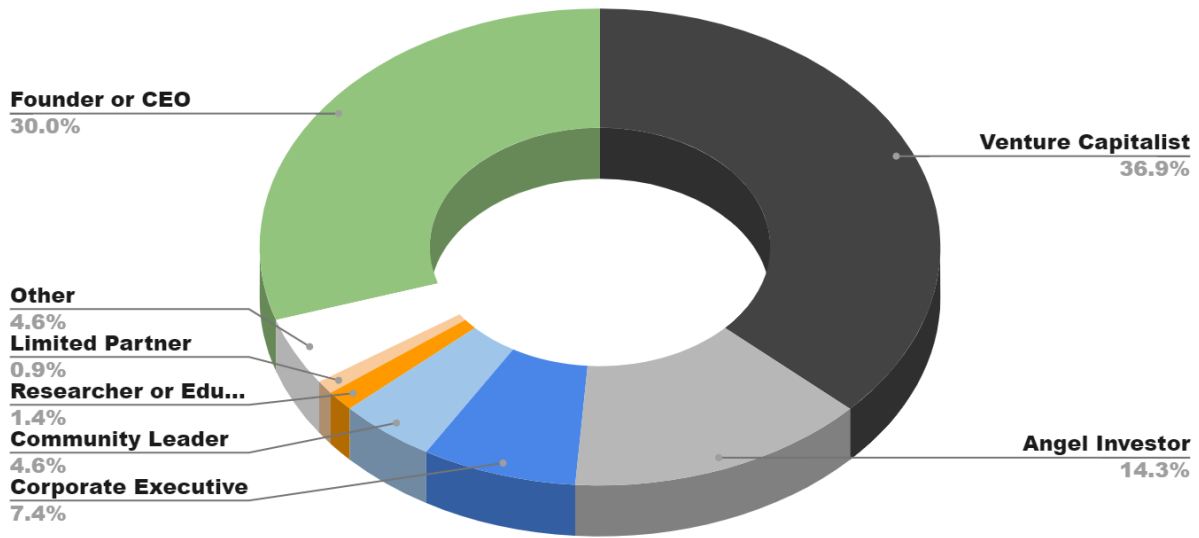
**40.5%** of next generation managers have not worked in venture capital previously. **30%** of new managers are former Founders or CEOs, **14.3%** are professional angels, and **7.4%** are former Corporate Executives.

## FOUNDERS BACKING FOUNDERS

**36.9%** of all next generation managers were venture capitalists before starting a new firm, which has been the traditional path. However, this segment is shrinking. **30%** of next generation managers are former Founders or CEOs, and this segment is growing.

Many Founders and CEOs are inspired to build firms to treat Founders the way they want to be treated themselves. This growing class of venture capitalist, “the former operator,” has a clear passion to change the asset class for the better.

Another growing segment is the **14.3%** of professional angel investors who are making the switch to venture capitalists. Using tools like AngelList, some professional angels have backed dozens to hundreds of startups and have detailed data on their results. Many of the top performing angels are now becoming some of the most exciting new managers.



## VENTURE EXPERIENCE IS OPTIONAL

Working in venture capital is no longer required to launch a VC firm. Nonetheless, venture capital is a nuanced and opaque business that does not attract managers to launch funds unless they have some familiarity with the model.

**59.5%** of next generation venture capital firms were launched by managers who had experience working in venture capital. This percentage is decreasing. **40.5%** of new managers have not worked in venture previously and were drawn to the model by other means, such as being a Founder that is passionate about changing the status quo.

WORKED IN VC	PERCENTAGE
YES	<b>59.5%</b>
NO	<b>40.5%</b>

## WOMEN STEP INTO LEADERSHIP

Less than 10% of managing partners at venture capital have historically been women. The lack of women has hurt the reputation and the reach of venture capital. This is changing.

**25%** of managing partners for next generation firms are women, and **26.6%** of firms have either all women or mixed gender teams. These percentages are increasing. Many of the funds with women leadership have diversity as part of their fund Thesis, which provides hope that startups headed by women will see increased funding rates.

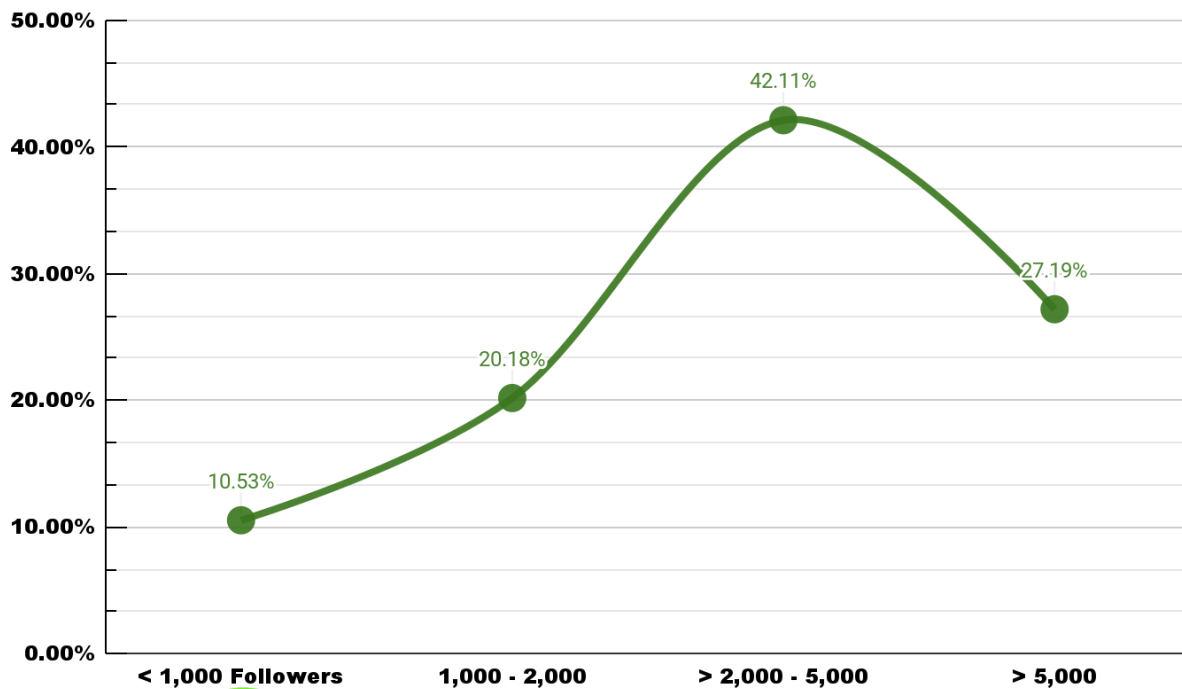
MANAGER GENDER	PERCENTAGE
Male	<b>74.8%</b>
Female	<b>25.0%</b>
Non-Binary	<b>0.2%</b>

VC FIRM GENDER	PERCENTAGE
Male Only	<b>73.4%</b>
Female Only	<b>15.4%</b>
Mixed Team	<b>11.2%</b>

## A NETWORK MATTERS

Networking is essential to the success of venture capitalists, as this is how managers source limited partners, identify portfolio companies and provide support. So, how large is the network of the average next generation manager? Large.

Looking at LinkedIn as a proxy for network size, **89.5%** of next generation managers have in excess of 1,000 followers, and **27.2%** have over 5,000 followers. Many managers have over 25,000 followers, and some have hundreds of thousands of followers or more.

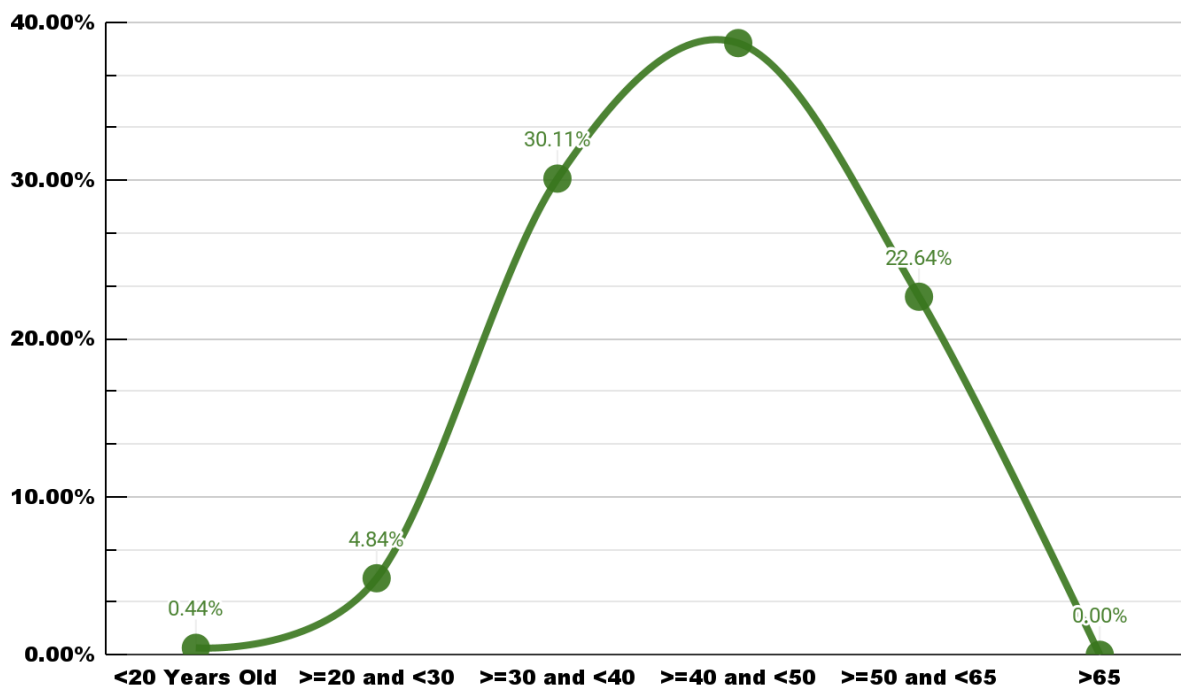


## LIFE EXPERIENCE HELPS

Many of the top performing venture capitalists have traditionally been older. Older people also have larger networks, and with age comes experience. So, it is not surprising many next generation managers are also older.

**63%** of new managers are over the age of 40, whereas only **5%** are under the age of 30. Each individual fund lasts at least a decade, and to build an established venture capital firm takes much more than a decade. As a result of the long time horizons, only a handful of the new managers in this report are 65 or older.

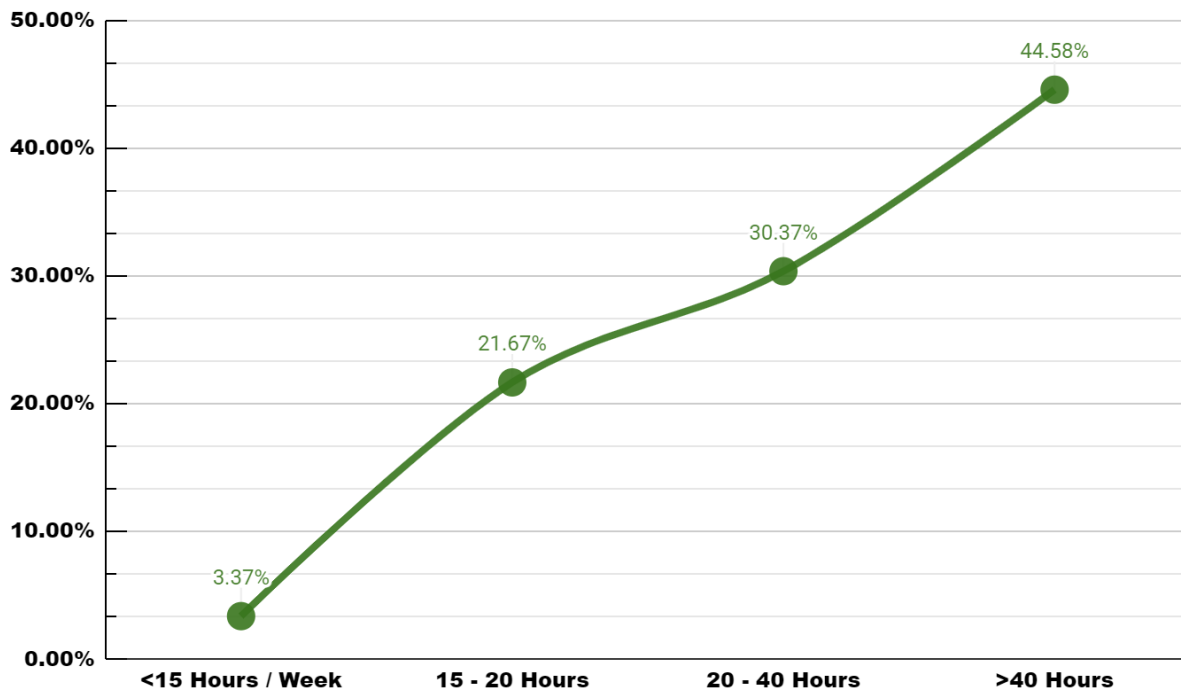
The older age of managers presents a “leadership vacuum” problem. Established firms have done a poor job retaining a next generation of leaders, since most talented venture capitalists leave to start their own firms, usually in their late 30’s and 40’s. These new managers will need to bring on younger talent to take control of the firms when they retire.



## DIVERSE BACKGROUNDS ARE NEEDED

Venture capital firms used to be insular organizations, composed of people with close social and professional ties. Next generation venture capital firms are reaching beyond their immediate four walls, forming multi-disciplinary teams of experienced investors and domain experts.

**75%** of new managers surveyed by VC Lab plan to commit most or all of their working time to building a venture capital firm. **25%** are not full time, but are contributing to teams with domain expertise and name recognition. Top scientists, leading university professors, successful entrepreneurs, and famous individuals are partnering with full time operators to build next generation firms. Next Generation managers come from all walks of life increasing the likelihood of expanding the Venture model.

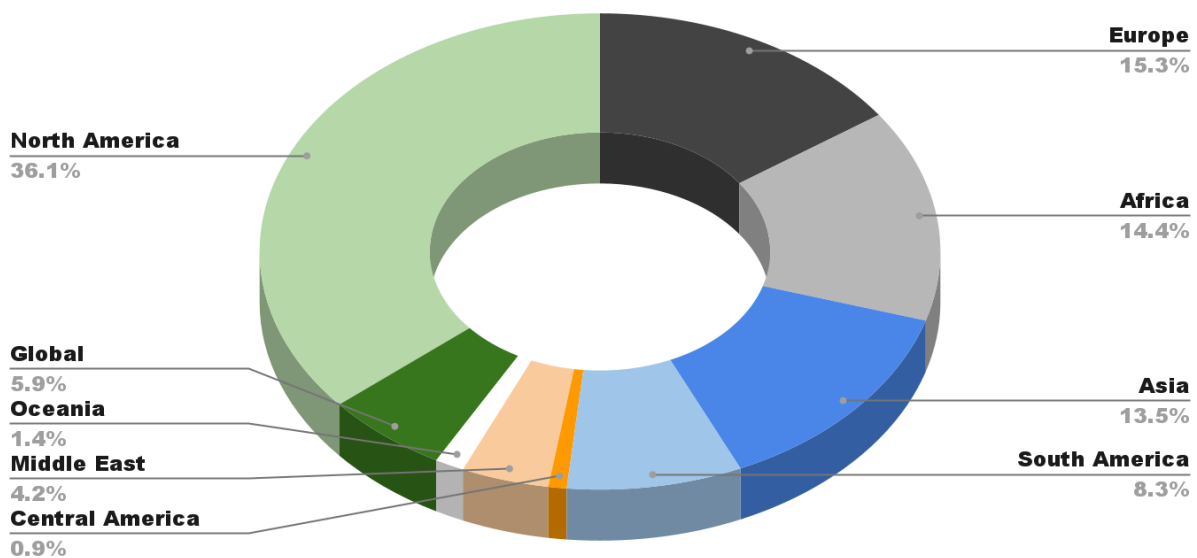


# WHAT ARE THEY FUNDING?

## THE RISE OF EMERGING MARKETS

Venture capital has made Silicon Valley into the world’s premiere innovation hub, and the rest of the world has noticed. Where there are strong venture capital ecosystems, unicorns follow. VC Lab has helped launch the first venture capital firms in a number of countries around the world, from Africa to Asia.

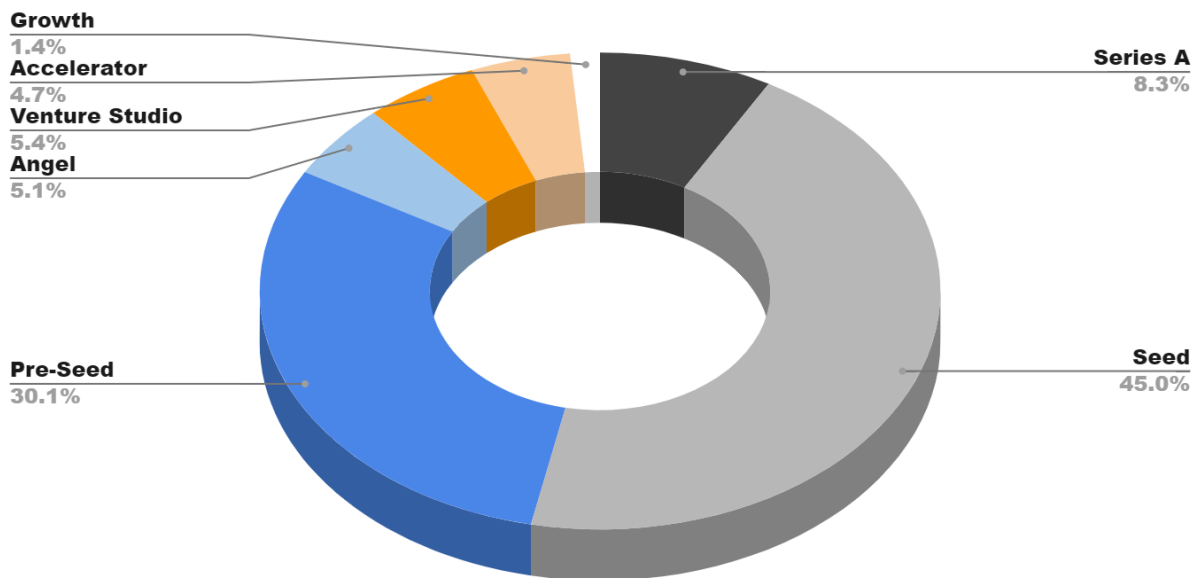
The largest number of venture capital firms are focused on North America at **36.1%**, followed by Europe at **15.3%**, which are the traditional venture ecosystems. These markets are shrinking as a percentage. The fast growing areas are Africa, with **14.4%** of next generation firms being launched there, followed by South America at **8.3%**. There is significant growth in all emerging markets.



## GETTING IN EARLY

Established funds have been moving to later stages, creating early stage opportunities. As firms achieve success, they raise larger fund sizes, often growing by 2 to 5 times between each fund. Larger funds move to a later stage and write large checks.

**90.3%** of next generation venture capital firms are focused on the Seed stage or earlier, picking up the opportunities left open by the established firms. **45%** focus on seed, the least risky of the early stages. **30.1%** are focused on Pre-Seed, which has been growing. There is also a fast rise in Venture Studios, which are **5.4%**.



## FOCUSING ON IMPACT

Venture capital managers have traditionally been generalists, knowing a little bit about a lot of areas. As innovations have become increasingly complicated, fund managers have had to develop more in-depth knowledge about breakthrough technologies like precision medicine and quantum computing.

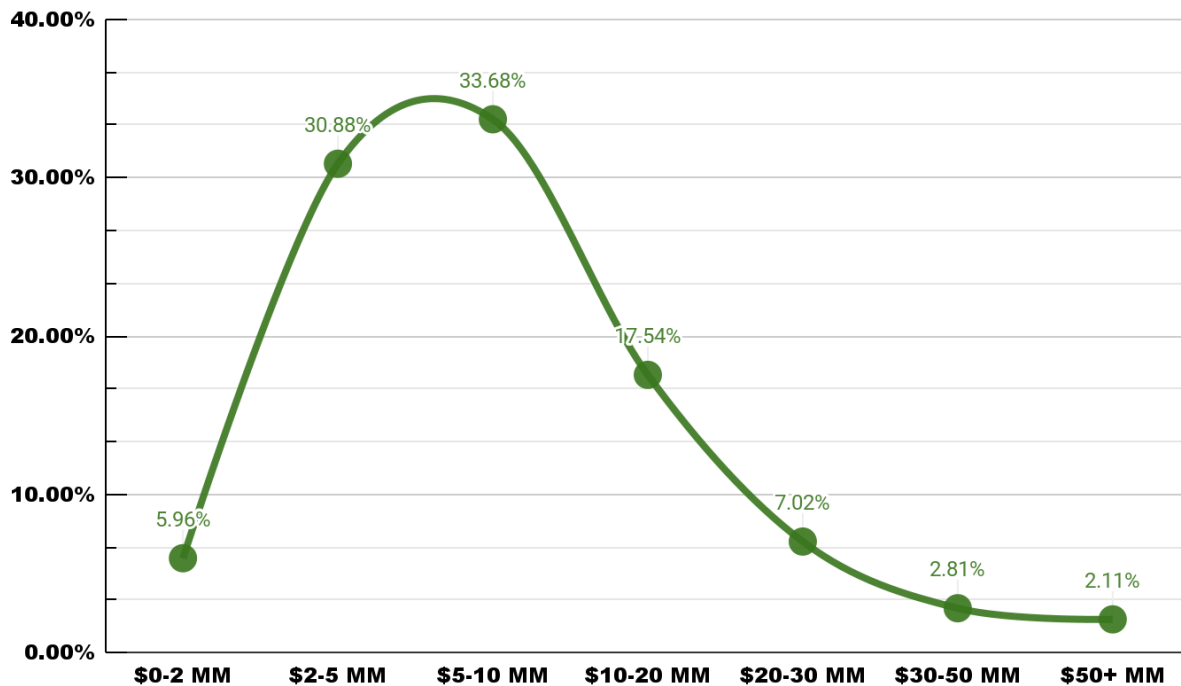
Only **19.9%** of new managers in this study pursue the traditional path of a generalist. **80.1%** of next generation managers specialize in one specific industry or a set of related industries. The most popular set of industries are related to positive impact, including Impact itself (**11.5%**), Diversity (**9.8%**), CleanTech (**4.6%**), Food (**2.1%**) and Climate (**1.6%**).

INDUSTRY	FIRMS
<b>Generalist</b>	<b>19.93%</b>
<b>FinTech</b>	<b>12.94%</b>
<b>Impact</b>	<b>11.54%</b>
<b>Healthcare &amp; BioTech</b>	<b>9.79%</b>
<b>Diversity</b>	<b>9.79%</b>
<b>DeepTech</b>	<b>9.44%</b>
<b>Software &amp; B2B</b>	<b>9.09%</b>
<b>Blockchain &amp; Crypto</b>	<b>5.24%</b>
<b>AI &amp; Data</b>	<b>4.20%</b>
<b>CleanTech</b>	<b>4.55%</b>
<b>Consumer &amp; B2C</b>	<b>3.85%</b>
<b>AgriTech &amp; Food</b>	<b>2.10%</b>
<b>Supply Chain &amp; Logistics</b>	<b>1.75%</b>
<b>Climate</b>	<b>1.75%</b>
<b>Space</b>	<b>1.40%</b>
<b>EdTech</b>	<b>1.40%</b>
<p>There is possible overlap between the industry categories shown, since some of the VC firms have investment strategies that focus on multiple industry categories.</p>	

## STARTING SMALL

The conventional wisdom in venture capital is the larger return multiples come from the smaller funds, since it is easier to turn \$1 MM into \$100 MM than it is to turn \$1 Bn into \$100 Bn. When funds return large multiples, more limited partners become interested in investing, and the fund sizes grow. The established firms, such as Sequoia Capital and Andreessen Horowitz, have been raising large funds.

**88%** of next generation firms are starting with smaller funds at \$20 MM or less. Only **2.1%** in the study are launching with funds over \$50 MM. In addition to having a higher likelihood for a larger multiple, smaller funds are easier to raise and faster to deploy, allowing new managers to move on to Fund II faster with fewer setbacks.



FUND SIZE	AMOUNT
Average	<b>\$11.9 MM</b>
Median	<b>\$10.0 MM</b>

# CONCLUSION

New managers are launching next generation firms that are changing the traditional composition of venture capital ecosystems worldwide. There is a greater diversity of background, team composition and focus. Next generation firms are launching in markets traditionally overlooked by venture capital.

As a result of these changes, the type of innovation that gets funded is changing, which affects venture ecosystems everywhere. More diversity in fund leadership is projected to create more funding for diverse teams. A greater focus on impact will lead to more startups with an impact focus on getting capital.

While venture capital has not yet achieved the ideal state of being a positive force for change in the world, the recent developments with new managers and next generation firms demonstrate positive momentum. In conclusion, next generation managers focus on impacting humanity, and helping others while changing the venture landscape. This can help to drive innovation and growth in new and exciting areas, while also contributing to a more equitable and just society.

