

“5 Things VCs Should Know about Raising Money from Private Investors”

From the standpoint of the venture capitalist raising a fund, there are two very different investor worlds to consider: that of the large institutions (who typically commit at least \$5 million, and often as much as \$25 million, per fund), and that of the private accredited investors (generally those who make commitments of \$250,000-\$2 million per fund.) While all investors seek positive returns, these worlds entail almost entirely different investment cultures and processes; in a sense, the amount of money involved is almost incidental: the key difference is the decision-making dynamic of the professional money managers vs. the person whose pocket the money is coming from.

Smaller funds, as well as special “entrepreneur fund” carve-outs of larger funds, must address the private investor market effectively. If the structure of your fund includes private investors, the first step is to appreciate the peculiarities of this market:

1. Nonfinancial factors influence decisions.

Spouses are sometimes key influencers. Geographic loyalties can be significant. Life experiences with certain technologies (e.g., social networks, life saving devices, clean tech industries) can influence investment sector preferences more strongly than economic forecasts.

2. Due diligence is very personal.

Individual investors don't go to committee – they look you in the eye and think about their gut feel. They can make a decision at breakfast, in the shower, or on an airplane, so you have to be in touch and easy to reach. A personal referral, a straightforward presentation, and transparent and timely answers to follow-up questions are more important than a lengthy PPM (private placement memorandum) or DD (due diligence) binder.

3. Financial advisors are not unbiased.

Financial advisors have agendas. They frequently get better compensation from some investment products than others. They may have to promote a company line on investment recommendations. They are wary of introducing products that could bring them personal liability for poor investor suitability.

Advisors often have had extremely limited exposure to venture capital. This can make them feel uncomfortable, distrustful, or disinclined to ask important questions for fear of appearing foolish.

Finally, an advisor may personally like or dislike a fund manager. In short, financial advisors may make a better door than a window between you and your potential investor.

4. Private investors can be more loyal than institutional investors.

If you treat private investors well, they'll come back: it's not just an investment, it's a relationship. They don't change titles. They can believe in a future story despite gaps in historical results. They can also evaporate like the dew if treated poorly – they don't get paid to invest.

5. Demand quality investors.

Your investors demand quality from you: quality deal flow, expert portfolio management, conscientious reporting, and superior investment results. You can hold investors to equally high standards. Seek out investors who are:



- serious about investing,
- respectful of your time as well as their own,
- reasonably responsive to information and document requests, and
- honest and consistent about their commitment levels.

You don't have to accept less, and shouldn't.

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