The Unbearable Lightness of Being a Fund 1 (Part 1)

Bearing the moniker of a first-time fund can sometimes feel like you are walking around with the words “cursed” or “kick me” tattooed on your forehead. Even from my privileged viewpoint as an allocator navigating inbound capital requests all day, the visible angst of a manager pitching his/her first fund can unescapably affect the mood of the meeting. The uphill battle that new GPs face cannot be minimized. Empathetic ears, words of encouragement, and unsolicited advice do little to lessen the weight these ambitious folks have chosen to carry. Firsts are always difficult in life, but the emotional nakedness and sheer vulnerability that first-time GPs experience must be on a whole other level. Going out into the world and asking for money is one thing but doing so knowing you'll be openly and critically reprimanded for a history that doesn’t perfectly match your future endeavor, is another. If you happen to show a history that you believe prepares you for this new challenge, it will be subliminally (or sometimes blatantly) trivialized, diminished, and/or scoffed at.

I can speak for most allocators and say the occasional (or frequent) bluntness and demoralizing nature of feedback should not be taken overly personally. Fiduciary responsibilities, the volume of new funds birthed daily, and finite time constraints make it generally difficult for allocators to wear kid gloves when assessing first-time funds. “Do we really need another fund investing in x, y and z?”, “Aren’t you doing the exact same thing as the 30 other funds I spoke to last month?”, “Have you truly assessed the competitive landscape to determine whether what you provide is unique or additive to the existing ecosystem?" – these are the many iterations of one core question related to “a clear value proposition” Fund 1 managers should have answered before jumping into the third party capital raising pool.

I have reviewed 100s of Fund 1s in my day and even invested in a few. Some of the narratives laid out were extremely appealing, some were astonishing in their naivete, some were blatantly the product of being misled and misinformed, while others were so jaded by incessant rejection that they projected ultra defensiveness in response to the most innocent questions. I did feel some compassion for all these funds because regardless of how informed or delusional they were, they were still taking a chance to be seen in this fleeting life of ours. A few months ago, I wrote about “The birth of a fund”, detailing some traits I deem necessary (and sometimes counterproductive) for the creation of a fund. Since then, my inbox has been inundated with requests for a straightforward guide that first-time fund creators can follow. The following (Part 1) are some points and observations about Fund 1s that I hope will be helpful to current and future Fund 1 managers.

- **Your network is your saving grace**: A first-time fund sponsor must start at home – this means your family, friends, past colleagues, trusted industry peers, unwavering mentors, friends of friends, etc. should serve as your initial source for capital, critique, and emotional support. A respectable deck, the beginnings of a coherent narrative, and effective warm intros, can all be realized if a nascent GP is diligent about mining his/her immediate network.

- **Avoid too many chefs in the kitchen**: Although it is almost a prerequisite for new GPs to have a ravenous appetite for information and advice, caution must be exercised to prevent a fund that looks like a chaotic Frankenstein of ideas. Everyone wants to help; everyone has theories of what will work or what worked for them; but every idea is not a good or pertinent idea for your unique circumstance. I am aware that to a hammer, everything looks like a nail, but prospective LPs reviewing a fund made up of an amalgamation of many good ideas don't necessarily see a thorough thesis, but rather a lack of true personality. First-time fund managers must find a healthy medium of heeded advice and individual authenticity.

- **Beware of knights in shining armor**: For better or worse, most capitalist societies are well versed on preying on the most vulnerable. Raising a Fund 1 brings out all sorts of people who appear to mean you well, with the promise of capital, sound advice, and camaraderie, but most are just time and money vampires who will nickel, dime, and lead you on. Once again, having a trusted inner core of people who have successfully navigated the Fund 1 journey, and genuinely have your back, is the best form of defense.

- **Capital is king but information and connections also have value**: During the Fund 1 fundraise, a vast number of meetings will produce no committed capital. On paper, these meetings might seem like straight losses or pure wasted time, but in reality, there is valuable information about what is not resonating, folks you should be focusing on, aspects of the strategy that need underscoring, etc., that can be harvested for subsequent/future pitches. Additionally, asking so-called failed targets for introductions to others in their network can be an astute way to spread your story.

- **Be creative**: It bothers me that the creativity of first-time fund managers seems to hit a wall when it comes to fundraising. There is a mental block that I see time and time again with new GPs who have been rejected so often that bleakness becomes their blanket. I frequently attempt to jolt them back into their power by asking them deep questions about how they got to where they are today. How did you beat the odds to get you here? This is where the wheat gets separated from the chaff. There is self-selection happening at this point and those that are truly deserving will always find a way.

Part 2 coming soon.

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