



Stanford eCorner

Small and Large Funds

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Roizen talks about performance and limited partners in venture capital. Smaller funds on the most part are suffering. A large funds success depends on what a startup's past performance has been.



Transcript

When you think about limited partners that when you think about venture capital, venture capital is a hit business and it's a marathon. Unfortunately, what happened is a lot of new funds got raised and a lot of people became LPs who were never LPs before. I think it's Don Valentine who sort of says the tourists have now left the market. So what happened is a lot of funds got raised and the performance, if you only have one fund and you raised at '99, I can pretty much guarantee your performance is going to look pretty bad unless you happen to be a contrarian and you were planning maybe biotech will be the one that hits or you had an outlier hit. But for the most part, most of the small funds are suffering. I think the larger funds, it's really going to depend on three things. What has your performance been? For Mobius, for example, funds one through four were great. Fund five is challenged, no doubt about it. Fund six is well positioned because we raised it in July of 2000 so just based on economics alone, you raise a \$1.5 billion fund post crash, you're shopping in a less expensive market. Right now, you've got longer timeframes.

So for example for us, we will not be in the market again to raise money. The earliest we would raise is 2003 so by 2003, our performance on the early parts of six, they'll have some vision as to what that looks like. So number one, it's your past performance. I think those funds who are on their fifth, sixth, seventh or eighth fund are going to have an easier time working with the LPs than fund number one. I mean I think you probably just saw the Barksfield group shutdown right after one fund. They just said the environment is really hard. But for a fund like us, we go to an LP and they can look at the money they've made to date on our partnership and then they say oops, '99, bad vintage, don't drink that again.