STRICTLY VC

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The Industry Gets a New, $50 Million Micro-VC Fund of Funds

Today, **Venture Investment Associates**, a 21-year-old fund of funds group that commits capital to venture capital, growth capital, and private equity groups, is announcing that it has closed on an oversubscribed $50 million seed fund of funds that counts some pretty tony institutions as LPs. Managing director Chris Douvos — who joined the firm in 2011, having worked previously for TIFF (The Investment Fund for Foundations) and Princeton University's endowment — won't let StrictlyVC *name* those investors. But we talked recently about numerous other facets of the new fund, and who it's liable to back. Our chat has been edited for length.

This is your second formal micro-VC fund of funds, and half of it is already committed. Is that right?
Yes, we've been investing in [micro-VC] since 2004; we were part of First Round Capital's friends-and-family round. But we closed on an oversubscribed $25 million fund of funds in 2012, 80 percent of which went to four managers: True Ventures, First Round Capital, Data Collective and [O'Reilly AlphaTech Ventures]. And half of this oversubscribed $50 million fund is deployed among First Round, True, and Data Collective. We're also likely to do OATV again when it comes back in the market.

That's concentrated.
I believe investing is about conviction. I would give [First Round founder] Josh Kopelman the last dollar in my kids' college funds.

What kind of ownership percentage do you target?
When we're a major institutional backer of a new entity, we like at least 10 percent of the fund. In the case of OATV, back in 2006, we did 15 percent of the fund. At Data Collective, we [bought] 10 percent of fund in 2012. We have a group of [institutional] investors who are super sophisticated and we're sort of bird-dogging ideas for them.

What new idea are you spying? What other types of funds are you looking to back right now?
We're looking to find another group or two where we can really make an impact and put them in business. Having invested in the space for more than a decade now, it's easy to tell who the tourists are and who the long-term players are.

I focus on groups that somehow punch above their weight, that offer a platform dynamic where their companies will materially benefit from interaction with the VC but where the VC doesn't end up being a bottleneck.

I'm not looking for sharpshooters that are the next really smart ex-entrepreneur, because I've seen that model rise and fall several times. There are a plethora of these people raising funds; I think we'll have a Cambrian explosion and the species will kind of die off during the next financial crash. It'll be like a meteor hitting.

Are you seeing many newer firms emerge with platform approaches? I take it you're looking for another True or First Round – firms that do a lot to facilitate interactions between the founders of their portfolio companies.
Firms that demonstrate platform dynamics are really special, but they're few and far between. There's no one on my radar screen right now.

Do you care where a firm is based? Would you fund a firm that's not in the U.S.?
This is an information business, and when you're investing far afield, you start outrunning your supply lines of information. You're investing in people and you need to understand their motivations and their fears and their contexts, and it's hard to know those when they're thousands of miles away.

Do you favor VCs who spin out on their own to entrepreneurs?
I think operating experience is overrated and that people undervalue the investing experience of people who've written checks of institutional size. When I'm looking at an entrepreneur, I'm asking myself: How do they think about investing as a fiduciary, because it's a very different skill set and thought process.

There's a bias in the Valley that [investing experience] is a secondary consideration and that finding a cool technology or exciting team will make everything work out. But we're starting to see with late-stage deals that are heavily structured and sapping the returns of earlier investors that [those ties] aren't sufficient to the end goal of making money for investors.

What do you make of AngelList? Do you think more entrepreneurs should or will begin using it to form their own micro VC outfits?
I think AngelList Syndicates and [the accredited investor platform] FundersClub could really reshuffle the landscape. We don't know yet how those stories play out. We made a small investment in AngelList's Maiden Lane [a fund that backs investors on AngelList] partially to have a front row seat as things unfold.

But part of me wonders about a lot of people who are raising these small funds. Traditional fund structure is deeply flawed. The average fund lasts twice as long as the average American marriage. It often outlasts their LP's tenure at an institution. They've got to be thinking: Why not raise money via AngelList instead?

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