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Fund Investing Versus Fund Management

When I started out investing (via a fund — not my money), I was just investing based on a simple schedule: About once a month, invest $25K into one company I liked. Pretty easy. Over the years, that check size grew slowly to $50K, then a few $100Ks, and I followed-on into a few at the $250K level, with two outsized pile-ins at $400K and $600K total exposure, respectively. That escalation from $25K back in 2013 took a little over four years.

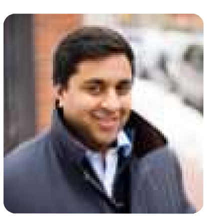
I consciously took that ramp slowly because I found it was easy to trick myself into thinking going faster and bigger would be straight-forward. As a result of going more slowly, I had the time to make a few mistakes to learn some lessons, but the mistakes were never too big to leave a massive crater in the total value of the portfolio. The trick with these experiments and lessons is that in investing, you don't get the feedback right away — it can take a few years at seed to understand the impact of those decisions.

As such, I feel like it really took me 4-5 years to internalize how all the aspects of fund management come together. The reason that's important — and why I'm writing this — is that in helping lots of folks think through starting their own new funds (there are even more of them bubbling up today), I find there's a crossing-point at which an investor transforms from being an angel or operating out of a small fund to being an "investment manager" of other people's money. Fund investing is easy — fund management is not.

This new mode of "investment management" is very different and requires the understanding of complex topics and how they are interrelated. Usually for funds who have become bonafide institutions and scaled up, they will then have enough resources to recruit and hire financial professionals and controllers to help with these topics — issues related to fund recycling, fee waivers, follow-on investment criteria, investment documentation, fund pacing, reserve management, cross-fund investing, secondaries, fund auditing, fund scaling and adding new partners, fund modeling, and the most critical, between years 3-5 where I've noticed this starts to sink in.

As new managers are meeting LPs to begin building those relationships, I know that many of those LPs will assess the GP as an investor (how good are they at investing?) but also assess them as a manager of assets (are they a good steward?). What makes this especially hard for newer managers is that the ability to understand and practice fund management takes a long time and can't be learned in an online course, or through blogs — it has to be practiced in real life, and the GP has to take it upon themselves to learn it and craft it. (As a side note, one of many reasons LPs are more comfortable with spinouts from existing VC firms is that the GPs in those cases have been exposed to the sophistication of fund management through their previous roles. That doesn't mean they'll be expert at it, but the learning curve is so steep at the beginning, they'll come in with more knowledge of it than their peers.)

I often mention this distinction to folks raising new funds because I am going through it right now myself. While I have not yet figured it all out (that's a continuous process), I have noticed that it took me over four years for these parts to click in my brain, and with lots of help, am figuring out a way that all of these parts of fund management need to be managed and cared for on a monthly basis. In some ways, the current Haystack IV was only possible by running lots of experiments in Funds I-III and having enough time to let the lessons reveal themselves. For managers who have ambitions of scaling beyond the $10M fund mark (or thereabouts — and by the way, scaling isn't something that's required), I believe being of the mindset to learn and master these components of fund management will be one of the best investments one can make.



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