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Top 10 Tips For Pitching An LP

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Money is flowing into the venture industry at near record levels.



More than 250 venture capital funds raised nearly \$30 billion last year, more funds than in any year since 2001, according to the [National Venture Capital Association](#). Even more interesting is that 96 of these were first-time funds.

Yet attracting quality limited partners that will stay with a fund over the long term is never easy. For first-time funds, fundraising can be particularly difficult.

So how does a fund position itself to attract long-term focused institutional capital, especially in today's market when LPs have a lot of product to consider?

Most important is to have good answers to some key questions. As an LP investing in early-stage venture funds, we hear pitches all the time. Here's our top 10 list of questions we think every fund manager should be able to answer before talking to a potential LP. While seemingly simple questions, the clarity that comes with answering them can make a significant difference when engaging with LPs and driving fundraising efficacy.

1. Why you? No, really, why you? What makes you unique? Assuming the best entrepreneurs can choose their investors, you should hone in on the characteristics that truly make you stand out. If an limited partner isn't convinced that you will stand out in a significant way, he or she won't invest.

2. How long has your team worked together? This is LP speak for “how do you know you can work together?” The sad truth is that many VCs fail (even if they have made money) because of internal team dynamics. You need to convince your LP that you can collaborate well over a long period of time.

3. What is your track record? LPs care about this... a lot. There's an old adage in venture capital that past success is a strong indicator of future success. (Note: Not a guarantee, but an indicator.) The belief is that entrepreneurs want to work with an investor who has demonstrated past success as either an investor or an entrepreneur. Presumably successful investors have strong networks, know a thing or two about the spaces in which they invest and have developed thought leadership. Successful entrepreneurs are knowledgeable about their investment sectors and are able to provide operational expertise and value to their portfolio companies. Theory has it that all of this will drive better deal flow, increase an investor's acumen in deal selection and enhance the investor's ability to make meaningful introductions and connections on behalf of investments.

4. What guides your investment selection process? Are you a generalist or a thematic investor? Make sure there is alignment between who you are, what you know, where you want to invest and how you intend to make investments. Know your anti-portfolio. LPs want to know what deals you missed and why.

5. What is your portfolio construction strategy? LPs spend a lot of time understanding a fund's portfolio construction and its implications as they hunt for outsized returns. To understand your portfolio strategy, LPs will dig into the assumptions you're making around how much capital you will have to invest, after adjusting for management fees and recycling, what size checks you will write, and your ownership and valuation targets. When you play the math out—along with your estimates on exits—can you see your way to outsized returns of more than 3x on a net basis?

6. Who are you competing with? Some limited partners know your peers/competitors in the investment community, so understanding who else invests in your space, and how you differentiate your firm from them is key. Some LPs might not be as knowledgeable, and you might find yourself needing to educate them on the market opportunity and the investing ecosystem. Be prepared for either possibility, and be ready to adjust in real-time as needed.

7. Who is your audience? Do your best to answer this. There's a lot less information out there on LPs than GPs would like. Many LPs, including Sapphire Ventures, are registered with the Securities and Exchange Commission, which limits what we can say. Don't let that stop you. If the LP you're pitching has a website, read it. Search for any articles in which they're quoted and mentioned. Check out their blogs, videos, social media feeds, etc. When all else fails, ask them. Is their investment thesis aligned with your fund?

8. What is your fundraising strategy? LPs are like snowflakes, each subtly different from the next and not just in the size of their checks or their willingness to bet on an emerging manager. Think about what value you want your LPs to bring and the role you need them to play. Do you want LPs whose value-add is the checks they write? Or partners who can be close collaborators on your advisory board and will help you navigate rough waters? This can take the form of providing perspective on industry best practices and making well-placed introductions. Keep in mind that some LPs will want to co-invest in your portfolio companies, so you should know what they offer and their investment objectives.

9. Have you done your homework on LPs? If you can, find out in advance if your target LP is actively making new investments. This can be a bit tricky. Sometimes it helps to ask the LP directly early on. If they have a full plate of existing managers, their ability to make new commitments might be limited, or even non-existent. Or they might be done with their investment allocation for the year. While that might not help you in the short term, it could help you in the long term. If you identify that they aren't currently investing in new managers, you can use the opportunity to get a free trial run on your pitch, start developing a relationship for a future fund investment, solicit advice and, if there is a good rapport, ask for introductions to other LPs.

10. How are you going to connect with an LP? The best way to meet an LP is through a referral from someone in the LP's network, perhaps a GP, another LP or an entrepreneur. Don't reach out cold. Similar to VCs, most LPs don't respond to cold calls or out-of-the-blue e-mails. Figure out who you know that knows the LP you want to approach and go through them.

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