



FIRST REPUBLIC

What are limited partners thinking about the venture capital sector?

Executive Summary

To understand the effects of the COVID-19 outbreak on the venture capital sector, we recently conducted a survey of limited partners to gauge their sentiment on venture fund investing, plans for 2020 allocations and areas of focus. Within a few days, nearly 100 institutional and non-institutional limited partners responded to the survey.

Some key observations:

- 72% of the respondents were funds of funds (FOFs) and single-family offices, who happen to be the two most active groups in adding new and emerging venture names. *(Slides 3, 6 and 7)*
- Somewhat surprisingly, allocation into new managers in 2020 is expected to mirror 2019, with the exception of pension funds, which historically have been less active in venture given allocation size requirements. *(Slides 6 and 7)*
- Limited partners (LPs) seem to be warming to the idea of allocating without an in-person meeting as nearly 60% of both non-institutional and institutional investors said they would allocate without a site visit. *(Slide 8)*
- Limited partner liquidity appears strong, as only 3% of institutional and 12% non-institutional LPs remarked they would look to transfer commitments or ask for a delayed call. None of the survey respondents said that they were at risk of defaulting. *(Slide 10)*
- Confidence in VC remains high at a median of 8 for all investor types. *(Slide 12)*

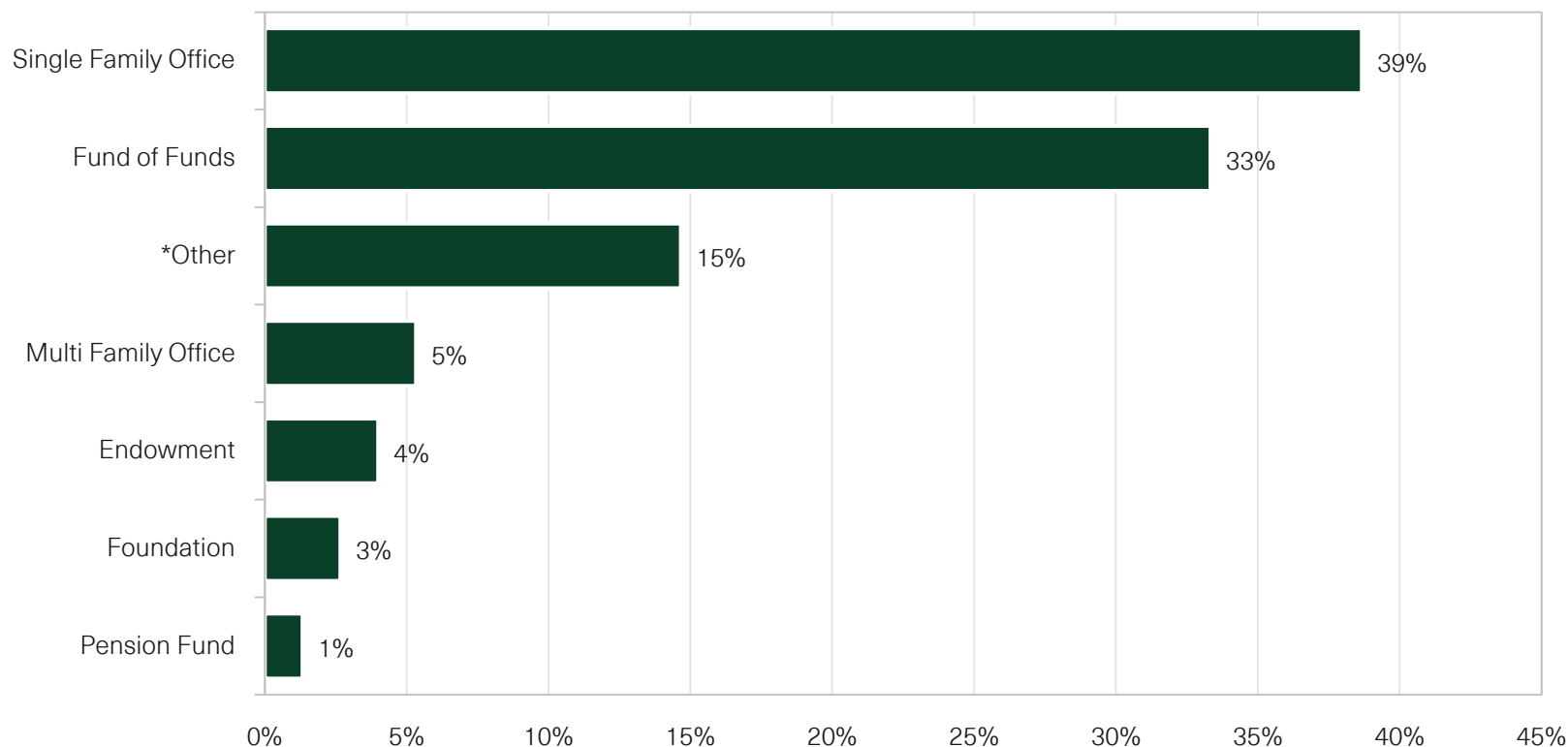
The following pages present the findings of the survey. We hope the data helps you form a perspective on industry trends, and we look forward to hearing from you on how it aligns with your observations and strategy.



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72% of respondents were single-family offices and funds of funds.

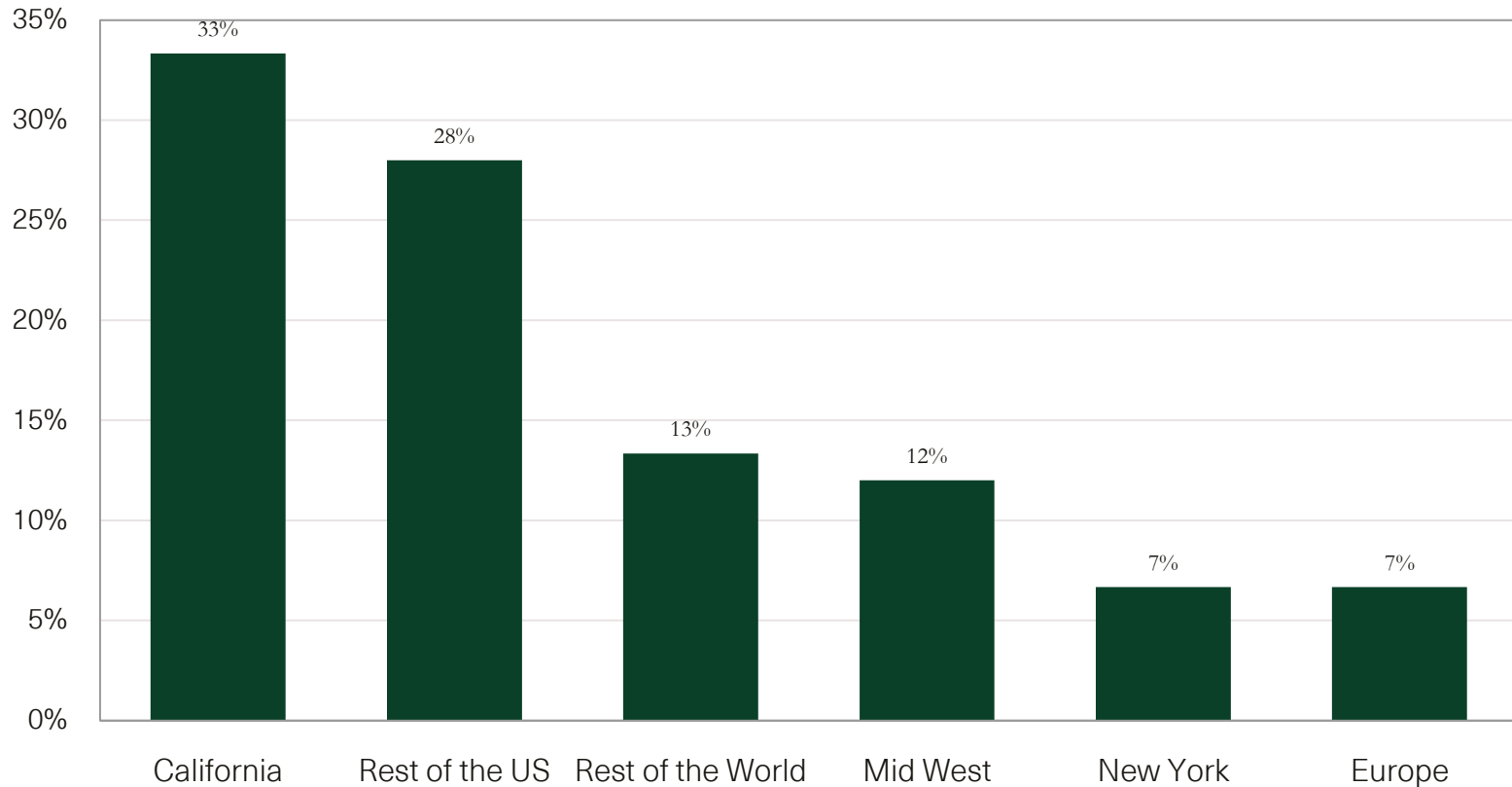
LP Respondents Distribution (%)



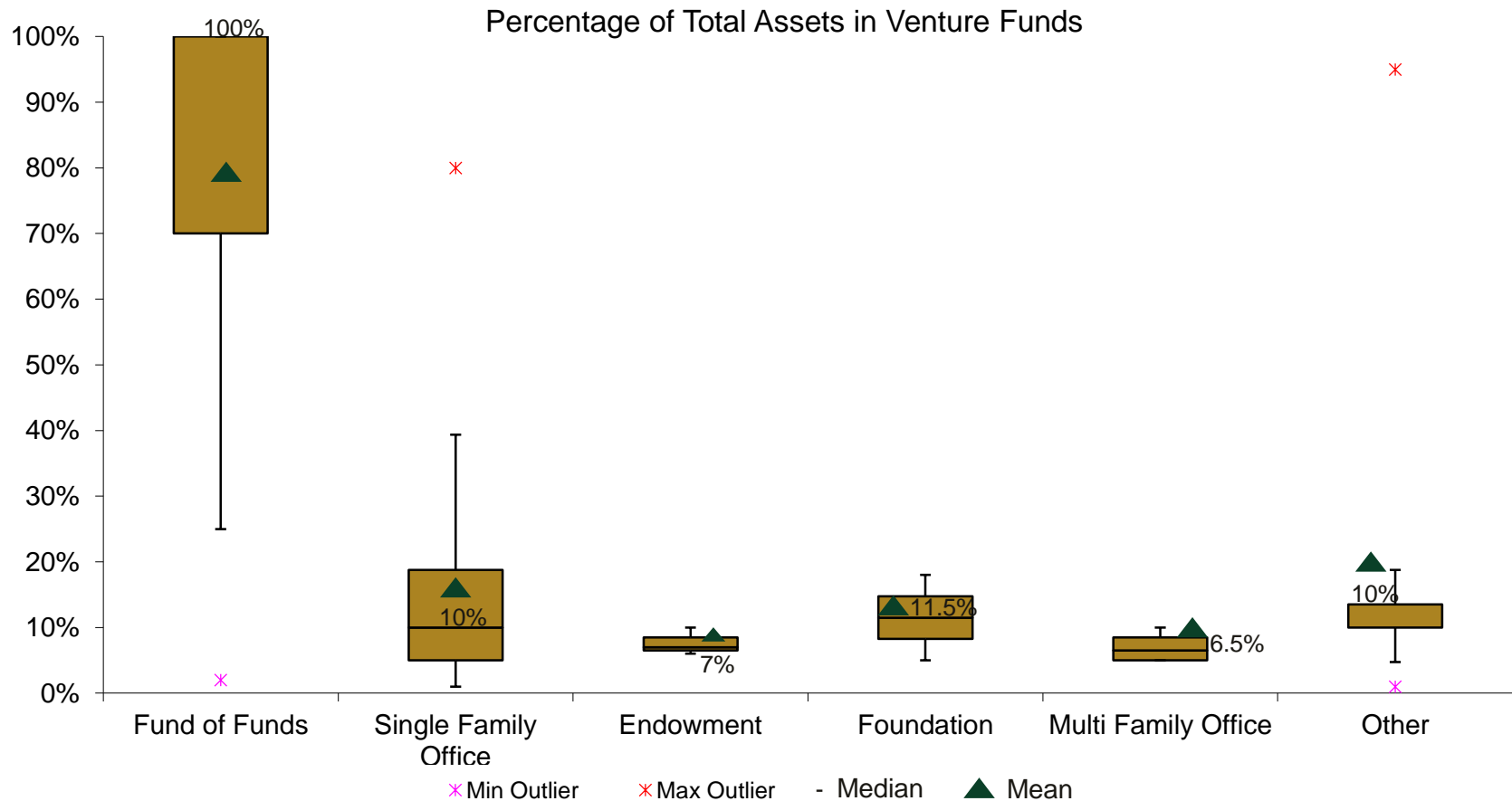
*Other includes high net worth investors, individual investors, family trusts, consultants, RIAs and multiproduct asset managers.

Geographic distribution of respondents

LP Regional Distribution (%)

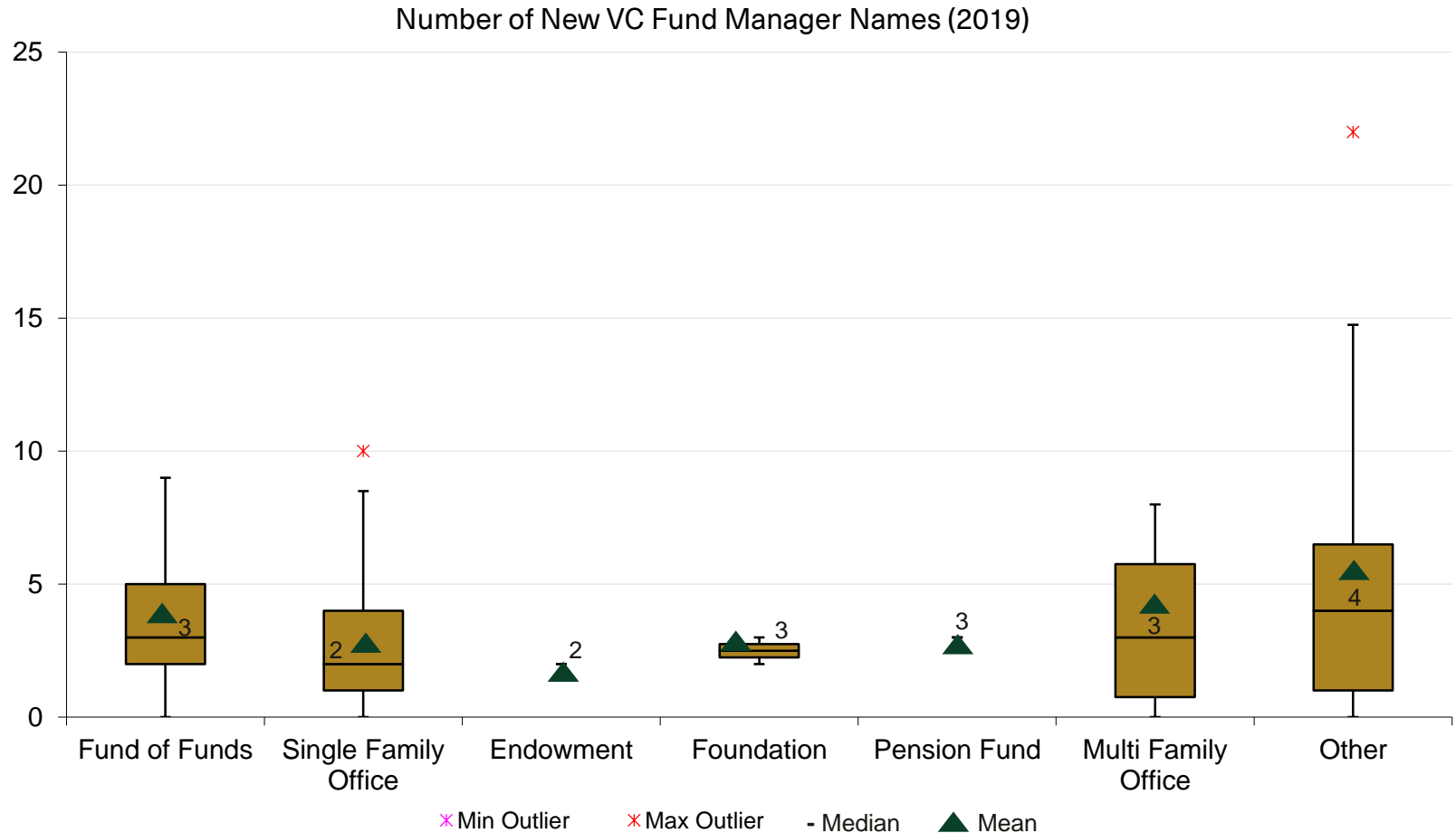


On average, non-FOF entities have ~10% of total assets in venture funds



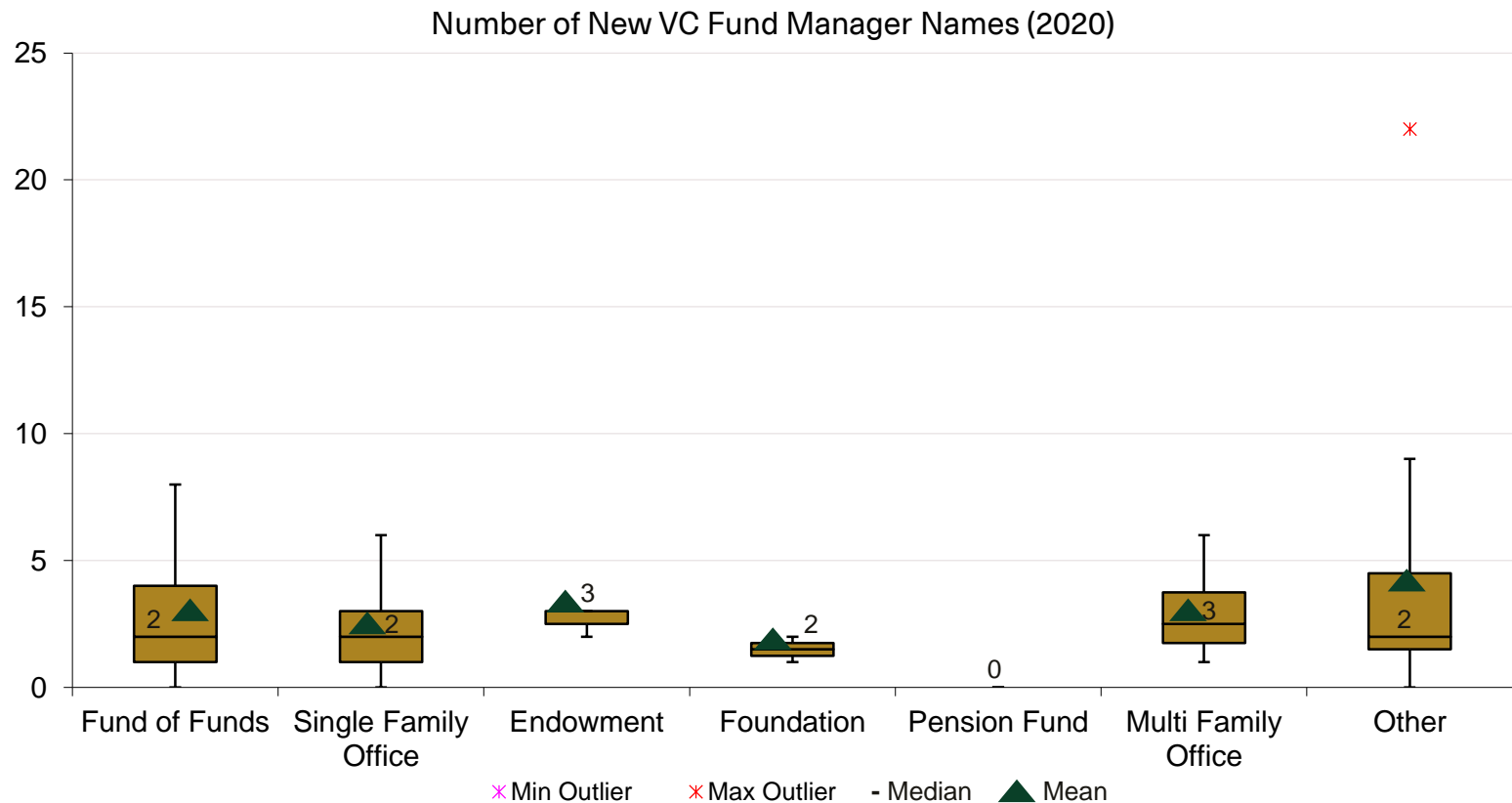
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Allocation into “New” manager names by LP type



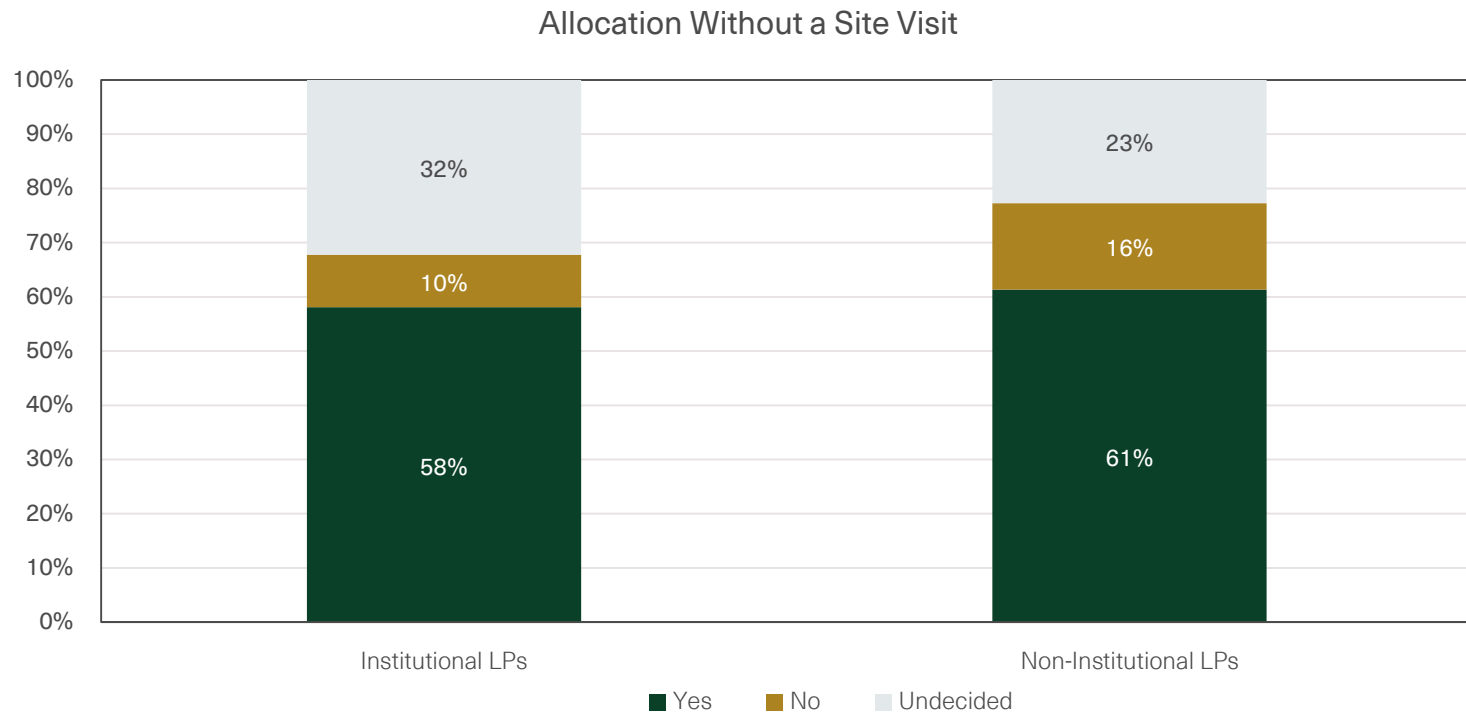
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Surprisingly, LPs noted that 2020 would be similar to 2019 in terms of # of new names they would add (except for Pension funds)



*Other includes high net worth investors, individual investors, family trusts, consultants, RIAs and multiproduct asset managers.

58% of institutional and 61% of non-institutional LPs are willing to make an allocation without a site visit (and without meeting a manager prior to the pandemic)



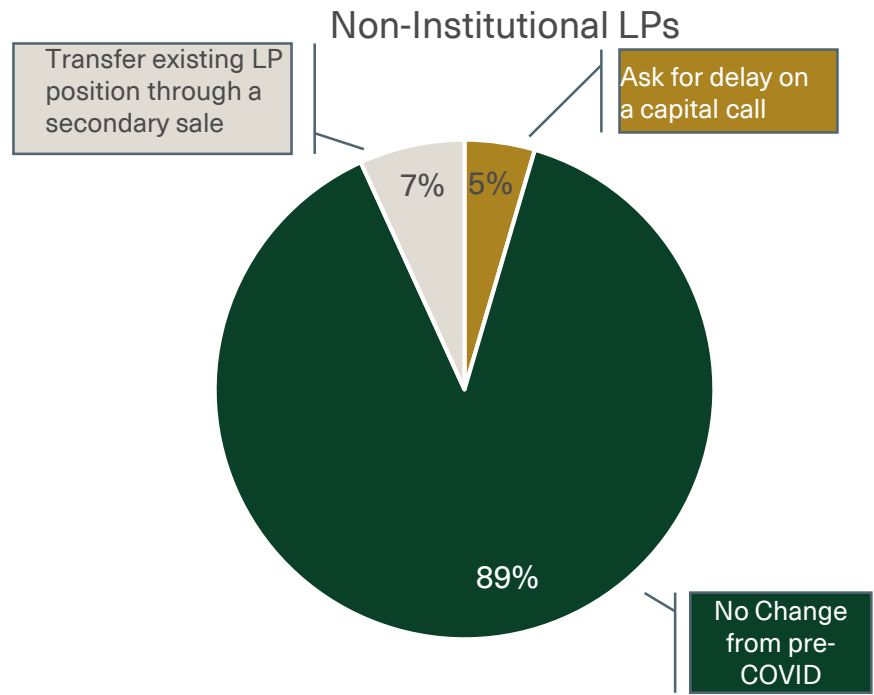
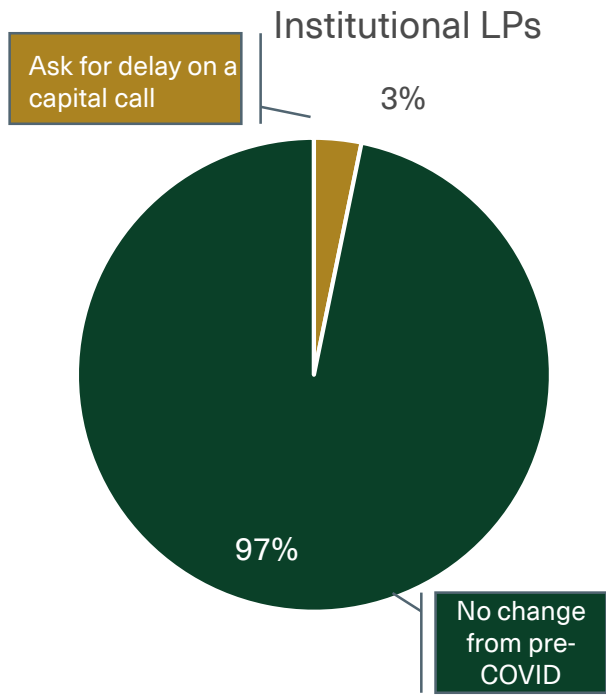
Seed and late-stage growth VCs are most popular among institutional and non-institutional LPs

(Note that this survey concluded prior to recent events and, anecdotally, the emphasis on underrepresented managers has increased.)

Areas of Particular Interest for Institutional and Non-Institutional LPs

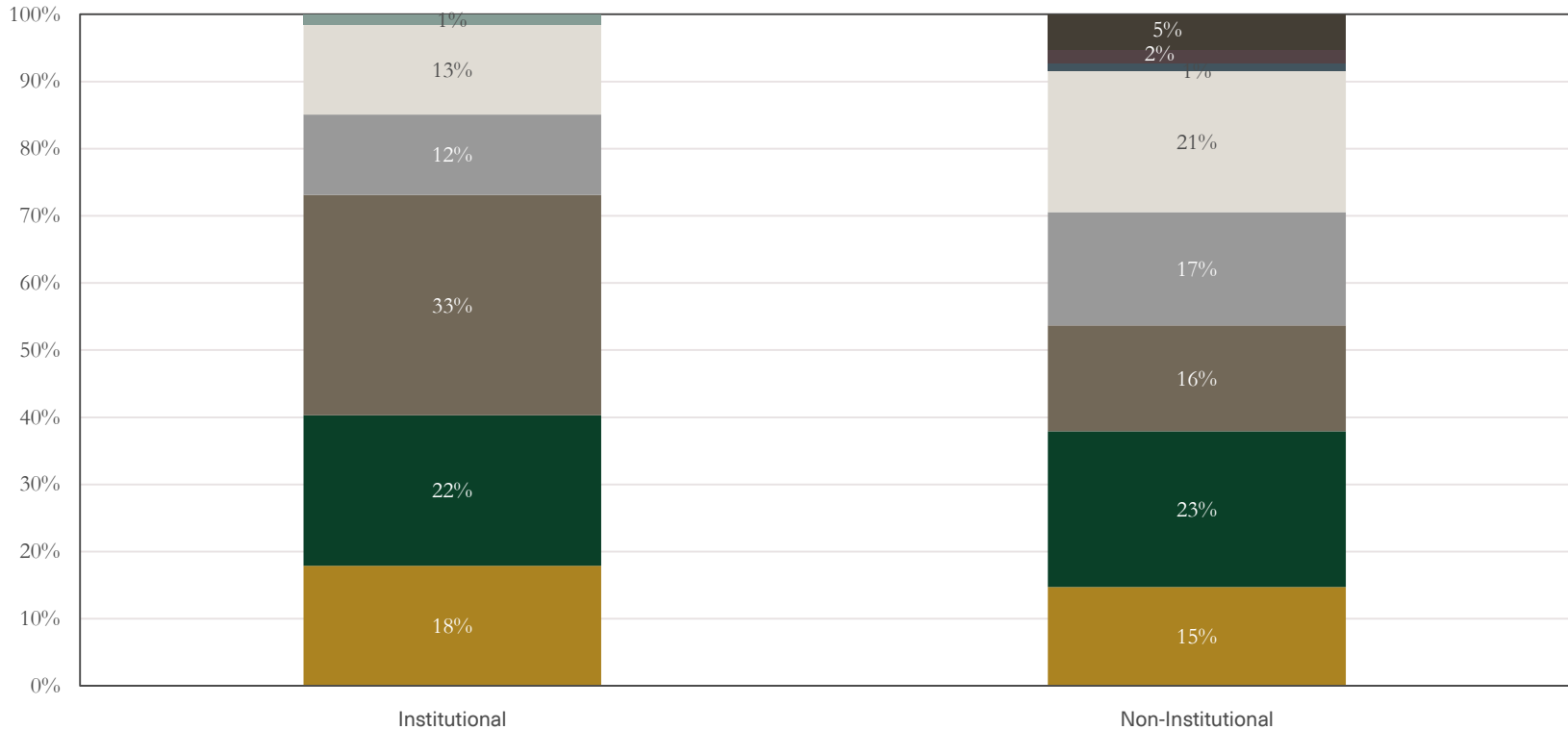


Only 3% of institutional LPs expect to require any relief on capital calls



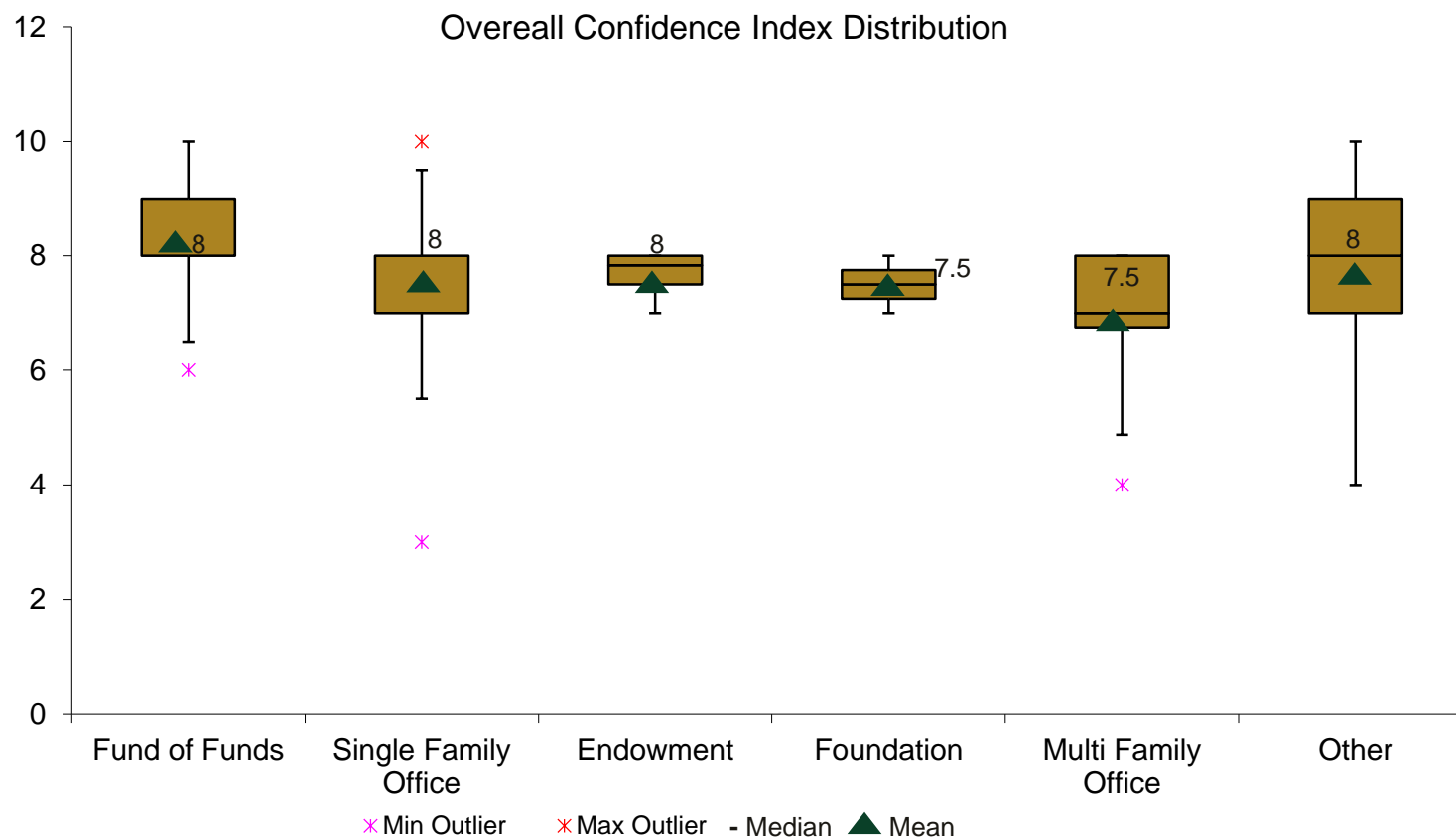
AUM bloat a major pain point for LPs

Factors Troubling LPs



- Poor firm infrastructure (finance ops etc.)
- Additional products (opportunity funds etc.)
- Inadequate or inconsistent communication from GP
- Fund size bloat
- Fund strategy drift
- No concerns
- We have only the normal concerns of how good their picks are. Nothing related to Covid.
- Illiquidity
- Fund deployment is too fast

Confidence in venture remains high at a median of 8 for all investor types.



*Other includes high net worth investors, individual investors, family trusts, consultants, RIAs and multiproduct asset managers.

Survey Methodology

The link to the anonymous survey was sent via email to First Republic's limited partner clients and contacts and posted to Twitter.

Responses were gathered from May 28 through June 10, 2020. Results were aggregated through the Qualtrics platform and further analyzed in-house by the First Republic team.

Contributors



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Survey Questions

1. What type of Limited Partner are you?

- Endowment
- Pension Fund
- Foundation
- Fund of Funds
- Single-Family Office
- Multi-Family Office
- Other (please specify)

2. What is your firm's primary location? (City, State)

3. What is the size (in \$MM) of your typical average allocation to venture funds?

4. What approximate % of your total assets owned or managed are invested in venture capital funds?

5. How many NEW venture capital fund manager names did you add to your portfolio in 2019?

6. How many NEW venture capital fund manager names do you expect to add to your venture fund portfolio from now through the end of the year?

7. Are you comfortable with making allocations to managers not already in your portfolio where a site visit is not possible due to COVID-19 (e.g., only engagement is calls and videoconferencing)?

(Continued on next page.)

Survey Questions (cont'd)

8. Please mark the areas of particular interest for you right now? (Check all that apply.)

- Seed venture capital firms (micro-VC)
- Late-stage/Growth VC firms
- Sector-focused firms
- Firms led by underrepresented groups (women-led firms, people of color)
- Firms located outside of the U.S.
- U.S. firms located outside of CA or NY

9. Given the economic effects of COVID-19, do you believe you may have to do any of the following with existing managers? (Check all that apply.)

- Ask for delay on a capital call
- Transfer an existing LP position through a secondary sale
- Default on a capital call

10. From the items below, please check the items that are most troubling for you with your portfolio or VC in general. (Check all that apply.)

- Fund strategy drift
- Fund deployment is too fast
- Illiquidity
- Fund size bloat
- Inadequate or inconsistent communication from GP
- Poor firm infrastructure (finance, ops, etc.)
- Other (Please specify.)



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