

Evidence That a) 1st-Time Funds, b) Seed Stage Funds, and c) Small Funds Outperform and Top *All* Peers

a) 1st-Time Funds. According to *PitchBook Benchmarks 2021 Report*: 27% of 1st-time funds achieved top-quartile annualized or internal rates of return (IRR) vs. only 20% for established peers. Separate reports covering different time periods, by Cambridge Associates, and by the National Venture Capital Association, also found a consistent outperformance by 1st-time VC funds — besting *all* other funds by 5% per year.

According to Pregin (now owned by BlackRock), the median net IRR of 1st-time VC fund managers for the 2020 vintage was 36.5% vs. 20.9% for VC funds overall.

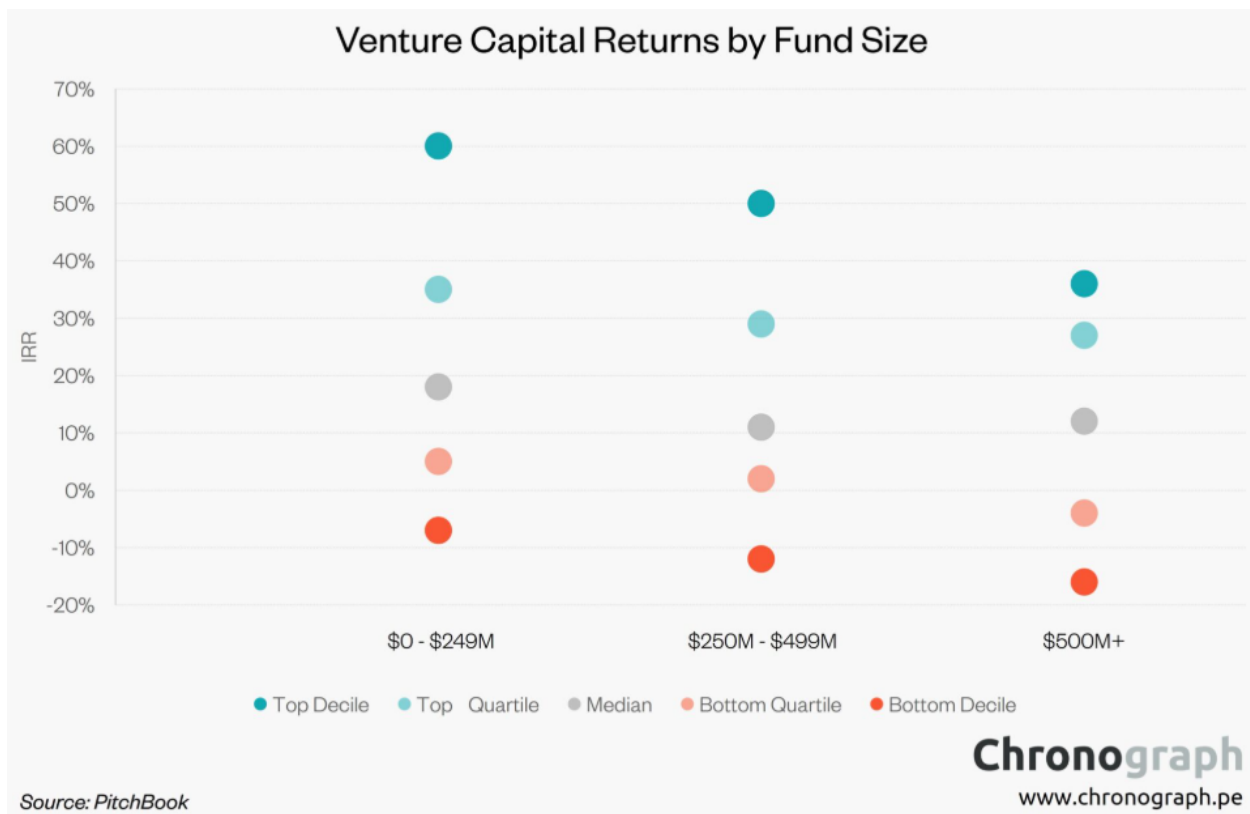
b) Seed Stage Funds. According to *PitchBook Venture Capital Performance Report (2011-2020)*: Seed investments achieved 4.5x median DPI (Distributed to Paid-In capital, the ratio of cash returned to LPs) – outperforming *all* other stages.

c) Small Funds. As reported in *Institutional Investor*: “Although the amount of venture capital funneling into huge funds has increased, the performance of the largest ones, with the presumed advantages of scale, brand, and experience, has lagged smaller ones.”

In venture capital, “bigger is not better, better is better.” Once you get too big, “it gets statistically more and more difficult to generate great returns.”

One study discovered that a “smaller” (<\$350M) fund was roughly 50% more likely to return > 2.5-times total value to paid-in capital after fees and expenses (TVPI) than a large fund. “Smaller” funds had a 17.4% IIR compared to the average of 9.7% of larger funds — representing ≈80% higher annual returns.

The following [chart by Chronograph](#) (below) based on PitchBook data shows the same pattern but with more granular detail — it displays top decile “smaller” (\$0 - \$249M) funds’ 60% IRRs dwarfing top decile large funds’ ≈ 36-37% annualized gains. That is, in general, the smaller the fund size (on the left), the better the performance:



[Carta's study](#) reached the same conclusion: The data indicates smaller funds typically have a higher TVPI than larger funds from the same vintage or founding year.

Carta's analysis is more useful than the studies cited earlier because it got more granular at the small end of the spectrum, breaking funds sizes down into more precise, relevant and meaningful categories: <\$25M, \$25M-\$99M, and \$100M+ (rather than lumping them all together as <\$250M or <\$350M).

Smaller fund TVPI tends to be higher at 90th percentile

25th, 50th, 75th, and 90th percentile TVPI split by fund size | Vintage years 2017–2022 | Data as of Q1 2024

Vintage	25th Percentile			50th Percentile			75th Percentile			90th Percentile		
	Under \$25M	\$25M-\$99M	\$100M+	Under \$25M	\$25M-\$99M	\$100M+	Under \$25M	\$25M-\$99M	\$100M+	Under \$25M	\$25M-\$99M	\$100M+
2017	1.2x	1.1x	1.6x	1.9x	1.6x	2.4x	2.6x	2.0x	2.5x	3.8x	3.5x	2.7x
2018	1.2x	1.1x	1.0x	1.5x	1.4x	1.3x	2.1x	1.8x	1.3x	2.9x	2.7x	1.6x
2019	1.0x	1.0x	1.0x	1.2x	1.4x	1.2x	1.6x	1.8x	1.3x	2.1x	2.2x	1.5x
2020	0.9x	0.9x	1.0x	1.1x	1.1x	1.2x	1.6x	1.2x	1.5x	2.4x	1.5x	1.7x
2021	0.9x	0.9x	0.8x	1.0x	1.0x	1.0x	1.1x	1.1x	1.0x	1.4x	1.2x	1.2x
2022	0.9x	0.9x	0.8x	0.9x	0.9x	0.9x	1.0x	1.0x	1.0x	1.1x	1.2x	1.0x
<div>0.6x</div> <div>2.5x</div>												
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In particular, notice the (right-most) “90th Percentile” column, the top decile performers: *In all years*, the smallest (<\$25M) funds outperformed the largest (\$100M+) funds.

Bear in mind that this research was published in September 2024, only around 2 years after the last vintage year (2022) of funds commenced operations; yet even in such short time periods, performance differences emerged; and after 4-7 years (from vintage years 2020 back to 2017), the smallest (<\$25M) funds’ outperformance became visibly significant, besting large funds by 40-80+% ... *so far*.

One would expect the smallest funds’ outperformance to continue to grow in the years to come, since the full return potential of a fund is usually not realized until the fund has reached the conclusion of its lifecycle (typically ten years).

In the same analysis, Carta found that *IRRs* of the smallest funds also tend to be higher than larger funds:

Smaller fund IRR tends to be higher at 90th percentile

25th, 50th, 75th, and 90th percentile IRR split by fund size | Vintage years 2017–2022 | Data as of Q1 2024

Vintage	25th Percentile			50th Percentile			75th Percentile			90th Percentile		
	Under \$25M	\$25M-\$99M	\$100M+	Under \$25M	\$25M-\$99M	\$100M+	Under \$25M	\$25M-\$99M	\$100M+	Under \$25M	\$25M-\$99M	\$100M+
2017	4.2%	3.7%	12.9%	17.1%	12.0%	20.2%	21.6%	18.1%	23.1%	31.0%	28.6%	23.8%
2018	5.0%	1.3%	-0.7%	11.2%	10.5%	8.1%	18.2%	17.6%	11.6%	27.1%	34.1%	16.5%
2019	0.8%	-0.1%	-0.8%	7.4%	12.0%	6.4%	14.7%	22.0%	10.2%	20.3%	29.5%	15.1%
2020	-2.4%	-3.0%	-1.5%	5.0%	2.3%	6.8%	17.3%	9.0%	14.8%	31.8%	20.7%	19.1%
2021	-6.5%	-9.7%	-9.8%	-0.8%	-2.9%	-2.1%	4.6%	4.1%	2.6%	16.4%	11.5%	7.5%
2022	-11.0%	-12.9%	-18.2%	-5.1%	-7.0%	-7.4%	0.0%	0.8%	-2.4%	9.2%	12.6%	0.8%

-10%

30%

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Focusing again on the top decile, at right:

90th Percentile		
Under \$25M	\$25M-\$99M	\$100M+
31.0%	28.6%	23.8%
27.1%	34.1%	16.5%
20.3%	29.5%	15.1%
31.8%	20.7%	19.1%
16.4%	11.5%	7.5%
9.2%	12.6%	0.8%

The smallest (<\$25M) funds significantly beat the largest (\$100M+) funds *every* year. And in doing so, they racked up impressive annual returns — as high as 32% — *so far*.

Again, their returns advantage should widen in coming years once they have sufficient time for all of their portfolio company investments to exit.

Why Elite Investors Like Yale and Princeton Back 1st-Time, Small VC Funds. As covered in Robert Padulo's 27-minute webinar "[Angel & Venture Capital, in Context](#)," Yale's and Princeton's endowments have been the two most successful over the past 20 years. Their current asset allocations are:

- Yale: ≈ 77% in alternative investments: 41% in PE, targeting 23.5% in VC, and a mere 2.25% in US public stocks!
- Princeton: 80% in alternative investments: 26% in PE, 21% in VC, and only 5% in US public stocks.

Evidently pleased with their performance, Yale Investments is doubling down on alternative investments such as venture capital — particularly by *seeking out new and emerging fund managers*.¹ Why? Because 1st-time fund managers most frequently outperform the established firms.

Industry statistics reveal that 1st-time GPs and VC firms outperform the veterans, in part because they're smaller, and small is actually better — you don't have oodles of cash to deploy but must be pickier. For example:

- Sequoia Capital's 1st fund was \$3M.
- First Round Capital's 1st fund was \$7M.
- Kleiner Perkins' 1st fund was \$8M.

Most of the *most*-successful VC firms of all time began with relatively small initial funds. While ROI figures for funds are generally not publicly disclosed, their earliest — and smallest — funds are widely understood to be among the top-performers ever in venture capital history, especially for their initial LP investors.

This trend aligns with Princeton's and Yale Investments' emphasis on venture capital and other alternative investments and underscores the advantages of backing smaller funds with 1st-time managers.

Conclusion. Of course, the 3 factors explored here — a) **1st-Time Funds**, b) **Seed Stage Funds**, and c) **Small Funds** — are not just independent advantages; they are inherently interconnected and mutually reinforcing. 1st-time fund managers usually raise smaller funds, enabling them to remain nimble and focused on high-potential early-stage opportunities, such as Seed investments. Smaller fund sizes align naturally with Seed stage investing, where capital requirements are lower but the potential for outsized returns is higher. Additionally, 1st-time fund managers bring fresh perspectives, hunger, and agility, critical traits for identifying and supporting the next generation of transformative startups at the Seed stage. Together, these factors create a virtuous cycle: small funds led by emerging managers excel in Seed stage investing, where successful exits can generate exceptional fund ROIs. This alignment positions 1st-time managers of small, Seed-focused funds for outperformance vs. larger and more established peers.

¹ Yale Investments offers an eight-week intensive program that partners with five forward thinking investment management entrepreneurs. To read more about Yale Investment's Prospect Fellowship program, click [here](#).



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