

## VENTURE CAPITAL MYTHS AND TRUTHS

Diane Mulcahy, in a Harvard Business Review titled "Six Myths about Venture Capitalists", debunked the myths concerning VCs. Following are her main points:

*MYTH: VCs are often portrayed as risk-takers who back bold new ideas.*

*TRUTH: While they do take risks, they risk their investors' capital and very little of their own.*

In most VC funds, the sponsor's money often accounts for just 1% of the total. The industry's revenue model, long investment cycle, and lack of visible performance data make VCs less accountable for their performance than most other professional investors. What the VC risk is its reputation and track-record which if positive wins it more investor capital.

The reason behind that is the standard VC fund charges an annual fee of 2% on committed or invested capital over the life of the fund, which is usually 10 years.

Moreover, the VC enjoys a significant percentage of the profits upon successful exit, usually when a portfolio company is acquired or goes public.

*MYTH: VCs are believed to generate great returns on their investments.*

*TRUTH: Research suggests that the overall performance of the industry is poor.*

VC funds haven't significantly outperformed the public markets since the late 1990s, and particularly since 1997, due to less cash being returned to VC investors than what they have invested.

There is a small group of top-performing firms that generate great "venture rates of return" at least twice the capital invested, net of fees.

However, it's hard to know definitively which firms are in that group because performance data are not generally available and are not consistently reported.