Alumni Ventures

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Venture Returns Outperform Public Markets Over Many Periods

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Executive Summary

If your goal is to add investment opportunities that have both high return potential and strong diversification characteristics, historical data from Cambridge Associates (CA) shows that top-quartile venture capital has outperformed the S&P by ~2x over the last 5-, 10-, 15-, and 25-year periods. The venture capital industry as a whole has outperformed the public markets on each of those time horizons as well. AV provides actively managed venture portfolios to investors and co-invests alongside established venture firms in the majority of its deals.

NOTE: AV Cambridge Associates data is compiled and reported by Cambridge Associates based on self-reporting from institutional investors, VC firms, and other financial services firms. As that data is self-reported, it will likely be subject to reporting bias, including self-selection or other biases.

How To Compare Venture and Public Market Returns

Return potential plays a part in most individual and institutional investors' decision criteria when reviewing investment options. But how does one compare the gains of asset classes that have different characteristics and measures of success?

To answer that question, investment firm Cambridge Associates (CA) developed quarterly U.S. Venture Capital Index reports **designed to allow objective performance comparisons between venture capital and public markets**. Each report covers returns for the last 25 years. Reviewing long-term data is important because almost all venture funds (including AV's) are 10-year funds. A 25-year lens also gives insights into how venture performs in different macroeconomic environments.

To measure public returns, CA uses the most well-established indexes as its benchmarks:

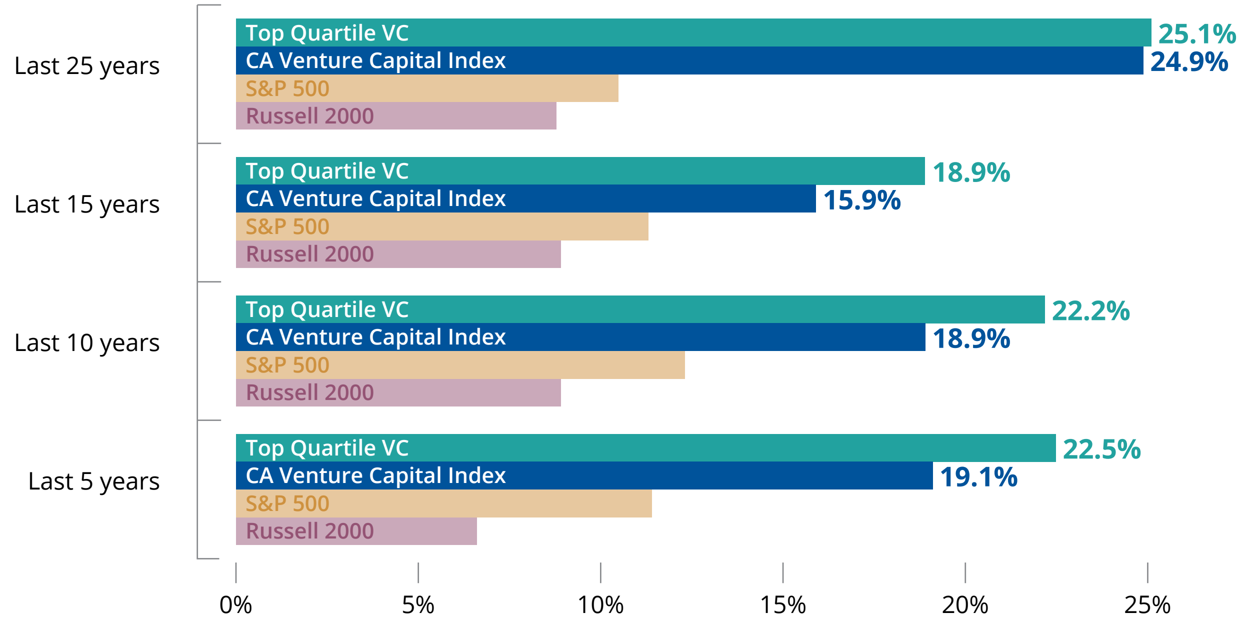
- **S&P 500**: Measures the performance of the 500 largest U.S. publicly traded companies. It is widely regarded as the best gauge of large-cap U.S. equities.
- **Russell 2000**: Measures the performance of the ~2,000 smallest-cap U.S. companies within the Russell 3000. It is widely regarded as the best gauge of small-cap U.S. equities.

To measure private returns, CA uses a Modified Public Market Equivalent (mPME). This calculation replicates private investment performance under public market conditions[1], answering the question: "What if I had put the same amount of money at the same time in the public markets as I had into the CA venture index from any particular year?"

1 "The mPME calculation is a private-to-public comparison that seeks to replicate private investment performance under public market conditions. The public index's shares are purchased and sold according to the private fund cash flow schedule, with distributions calculated in the same proportion as the private fund, and the mPME NAV (the value of the shares held by the public equivalent) is a function of mPME cash flows and public index returns. The mPME attempts to evaluate what return would have been earned had the dollars been deployed in the public markets instead of in private investments while avoiding the 'negative NAV' issue inherent in other PME methodologies." Cambridge Associates. *US Venture Capital: Index and Selected Benchmark Statistics*. PDF file. December 18, 2019.

Venture Has Outperformed the Public Markets Over Many Periods

DATA SHOWS AVERAGE IRR. TAKEN FROM THE CAMBRIDGE ASSOCIATES VENTURE CAPITAL INDEX AND SELECTED BENCHMARK STATISTICS (Q1 2019)



The Verdict: Venture Has Often Outperformed the Public Markets

With an understanding of what CA is indexing, let's now look at their results. Based on the data from CA's Q1 2019 report, the firm's U.S. VC Index indicates that venture outperformed the public markets over the 5-, 10-, 15-, and 25-year periods.

Furthermore, **AV's diligence and investment process is focused on accessing deals led by established VC firms**. While venture overall is an asset class that has had historically strong returns, the top-quartile venture firms do exceedingly well. According to data from Cambridge Associates, investments made by top-quartile VC firms produced an average IRR of over 25% over the last 25 years, performing about ~2.5x as well as the public market equivalents over the same time period. More recent time horizons have also fared well, outperforming the public markets by ~2x.

VC Performance in Recent Years

Between the recession in 2009 and this paper's publication in late 2019, the public markets were strong. Even in that context, venture capital offered stronger returns.

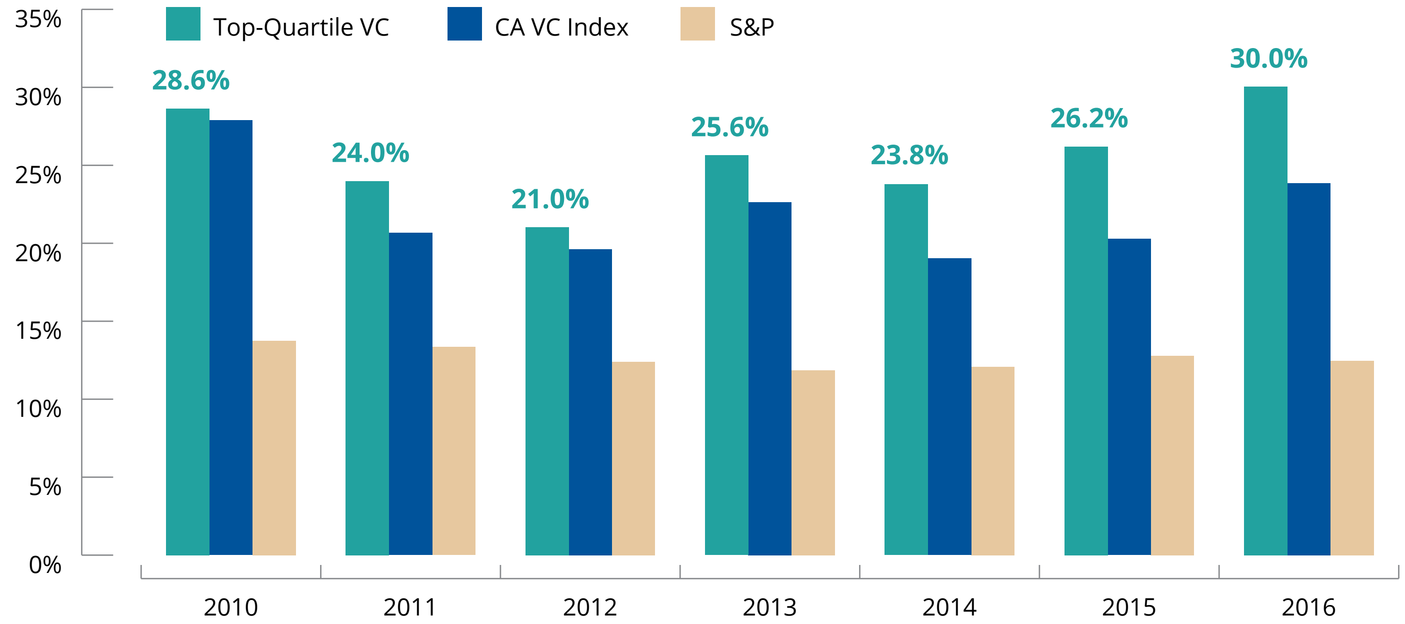
Venture vintage years 2010 to 2016 had an average IRR of 21.9%, with the top quartile coming in at 25.6%. The S&P was strong with an average IRR of 12.2% over the same time period.

The data shows that the venture asset class continues to offer meaningful returns.

The recent vintage year returns data is especially impressive because of the old venture capital adage that "your lemons ripen quickest." In other words, investors don't need to wait long to identify which of their investments will struggle, while home-run investments often take six to eight years to offer liquidity opportunities.

Venture Outperforms Public Markets in Recent Vintage Years

DATA FROM THE CAMBRIDGE ASSOCIATES US VENTURE CAPITAL INDEX AND SELECTED BENCHMARK STATISTICS (Q2 2019)



Conclusion

Venture capital offers investors opportunities for strong returns, especially if they co-invest alongside top-quartile venture firms.

The goal of many individual investors is to build a diversified portfolio and balance risk and reward opportunities. The data presented from Cambridge Associates shows that venture capital has consistently delivered higher returns than the public markets. Top-quartile venture capital has outperformed the public markets by ~2x over the last 5-, 10-, 15- and 25-year periods. Returns data from recent vintage years also support this historical narrative. Investors seeking diversification and the potential opportunity for strong returns may consider allocating some of their portfolio to venture capital.

Venture capital returns, especially those produced by top-quartile venture firms, have far outpaced public market returns in recent years.

Contact us at info@av.vc with questions or requests for additional information.

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