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A High Level Comparison of Venture Capital Funds & Investment Syndicates

Venture Capital Investment Funds

A venture capital firm will raise a specific fund size (for example $500M) the value of which is underwritten by the fund investors who are called Limited Partners (LPs). The LPs contractually commit capital to the fund during the fundraising process and this will be called off by the VC fund manager as each investment is made. The fund will often be given a name (Acme VC Fund 1, 2, 3, 4, 5 etc). Examples of the types of LPs they would seek out might be pension funds, or college endowment funds who are able to commit significant amounts to a fund. Most VCs prefer to keep the number of LPs relatively small and the checks big since this minimizes complexity.

Once the capital has been committed by the LPs and the fund raise is closed, the VC fund manager is essentially at liberty to go and invest the capital where he sees fit. The LPs at this point do not get to make any individual investment decisions - instead they will become pro-rata invested across all the start-ups that the VC fund manager chooses to invest in.

Existing VC fund LPs will usually be given first dibs on re-investing in subsequent fund-raising rounds as well. The top VCs usually provide impressive returns on their funds and thus the ability for an individual Angel investor to invest a relatively modest amount into one of these funds - directly or indirectly - is virtually impossible.

VC fund managers may invest from pre-seed/seed stage through multiple investment rounds and invested amounts vary from hundreds of thousands of dollars to tens of millions and sometimes even hundreds of millions of dollars per round.

Syndicate Investment Funds

Syndicates also get their capital from LPs who are often Angel investors. However, each LP has no hard commitment to invest any amount of money into any given deal. To become an LP with a syndicate, the investor "backs" the syndicate and provides the necessary assurance they are approved to make financial investments. Once approved the LP will start to get visibility of investment opportunities that the Syndicate is offering. The entire slice of a deal that a syndicate is able to offer might be as little as $100,000 across all of its LPs or it may be higher. Each individual LP can then choose to invest some small amount - perhaps as little as $1,000 - or pass on the opportunity entirely.

So - unlike a VC fund - the capital raising for a syndicate investment is made on a deal by deal basis and each LP can to decide if they want to invest or not. Of course if they take too long to decide, the entire allocation may be taken up by other LPs, so there is an element of timing to consider. The investment amounts needed to be an LP for a syndicate are typically orders of magnitude lower than that required to be able to gain access to a high quality VC fund. In a nutshell, syndicates are the perfect investment vehicle for Angel investors seeking direct access to leading edge investment opportunities of start-up businesses.

VCs and Syndicates work together - that's what we do at Mapache Capital

There is no "us vs them". These are different vehicles with different value propositions to different types of investor. VCs will often partner, share deal-flow and co-invest with syndicates under the same or similar investment terms. Most start-ups when raising money will be taking capital from more than one entity in any given round so partnering makes sense. For example, if a start-up is looking to raise $3M but the VC is only comfortable committing $2.5M, they may turn to a syndicate to see if they are interested in taking the other $500K allocation under the same terms to fill the funding round. Mapache Capital builds partnerships with leading Silicon Valley VCs on just this premise and thus brings fantastic investment opportunities already led by leading VC firms to the door of its LPs.

If you have any questions on the above please email rob@mapachecap.com