

scaling VC firms: insights into investors & operations

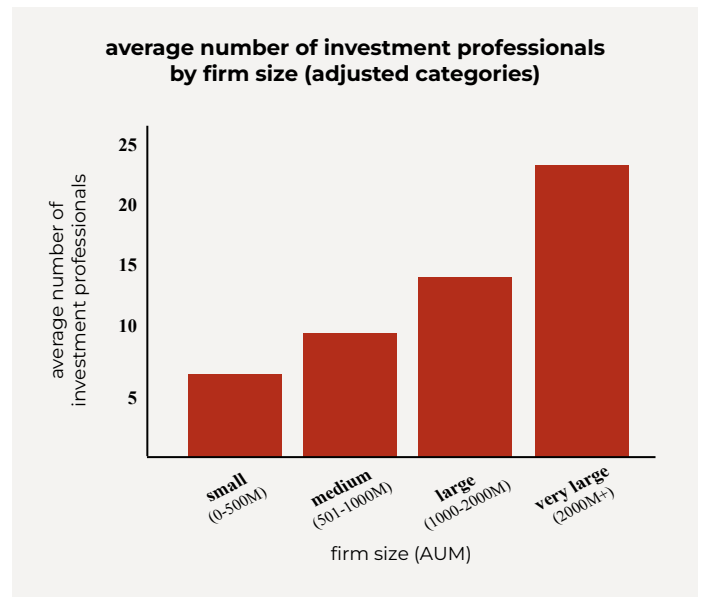
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introduction

The primary question we sought to answer is: while investment teams scale with AUM, *what is the progression of other roles?*

VC firms often come to us for advice on team construction for roles outside of the investment team. Investment teams are of course the core of most investment firms (see chart). The average firm adds .25 investment professionals for every \$100m in additional AUM they manage.

While perhaps not a well-known rule of thumb, it's intuitive to most that as a firm manages more money, they will need more investors to deploy it—indeed the relationship is quite linear. Our research set out to answer how other key teams in VC firms scale as a firm grows.



methodology & dataset

We looked at a dataset of VC firms that have raised a fund of at least \$200m in the last three years, with accessible public information about their firm composition and teams. This dataset comprised roughly 200 firms. We then gathered precise information on each of their functional teams in operations, finance, IR, talent, and legal, typically through their websites and the public profiles of their professionals on either the website, LinkedIn, or Pitchbook. These firms categorized themselves as “venture capital,” but the dataset includes firms that only invest early, only invest late, do both, or invest in buyout deals as well as venture.

The firms comprise every sector with general technology being the most common. The median fund size of this group was \$500m, and the largest fund was \$3.8bn. Most of the firms in this group raised multiple funds in the three year window our data captured, with two-thirds having a total AUM at the firm of >\$1bn. By all accounts venture capital is, on an aggregate basis, a young asset class—all but the largest firms in our dataset were, on average, founded in 2013; firms with over \$2bn AUM were founded, on average, in 2005.

summary

- Analyzed a dataset of approximately 200 VC firms with public information on team composition, that raised at least \$200m in funds over the last three years, revealing a median fund size of \$500m, and that the majority raised multiple funds, resulting in two-thirds having a total AUM of over \$1bn. Founding years for the firms in our data set varied only slightly by firm size.
- Gathered detailed information on the firm's operations, finance, IR, talent, and legal teams from websites and LinkedIn. Firm strategies and industries varied but all identified primarily as venture capital, and most invested in technology (sometimes among many sectors).

finance

The non-investing functions develop in VC firms in a less obvious manner. Among the most complex searches beyond investment teams we see are finance and operations, particularly the office of the CFO. The early lives of VC firms largely consist of outside consultants and fund admins substituting for an in-house finance lead, but at some point the value of collecting institutional knowledge (or the cost of outsourcing the work) flips the value proposition. Finance is also an obvious ‘first owner’ of all the other components of the firm that tend to accumulate at this point in a firm’s lifecycle—compliance, IT, and the other elements of managing a business that become too much for the founding investment team to handle well as the firm grows in size. It is perhaps no surprise then that the largest functional team outside of investors in a VC firm is finance, and typically the lead finance hire is the first key hire a VC firm makes beyond the investment team. We wanted to learn more about what those key hires look like and how the finance function changes as firms scale.

Anecdotally, the two situations we see the most for CFO searches at VC firms are ‘first CFO’ and transition planning. As described above, a search we do frequently is the first CFO hire in the firm’s life, transitioning from outside finance consultants to somebody in-house. The other end of the spectrum is the transition planning search, usually to replace a retiring CFO, often one who has been at the firm for a long time. In both cases we often find the same challenge, which is that sitting CFOs are difficult to move from one firm to another, and ‘first CFO’ searches often face the question of hiring a very experienced (and expensive) longtime CFO versus a candidate who would be taking the role for the first time.

Stina Ladd, a Partner at True who leads CFO searches for investment firms, noted that a common challenge in these roles is the expansive nature of the job, and the tension that presents with first-time CFO candidates.



“You have to consider that this individual may essentially be taking on the CFO, COO, and Compliance lead roles. The best first-time CFO candidate is often high-slope, showing they can take on lots of additional small responsibilities.”

Eric Schaft, the CFO of LRVHealth, shared that especially in firms where the CFO role is new or relatively new, the role is very often as much about organizational support and people management.

“You need somebody who is a doer; someone with experience in everything [...] you are trying to relieve administrative burden, to free up the investors to invest.”



does firm size correlate to team size?

Our data does support our anecdotes, and it also highlights a few other things we wouldn't have suspected. Small firms are as likely to have a finance team as not. Exactly half of the firms in our dataset with <\$500m in AUM have no finance team. Somewhere between \$500m and \$1bn AUM seems to be the pivotal point for hiring a first CFO—81% of firms in that range have at least one dedicated member of the finance team, and half of those firms have more than one.

“When to hire a CFO depends on the firm and how it's structured,” Schaft said. “It really depends a lot on the LP base. They are the consumers of the reporting you are putting out. So if you have a sophisticated LP base, you will want to hire a CFO a lot sooner.”

The types of CFOs you find in smaller firms differ pretty dramatically from their peers in large firms in other ways. We looked at whether individual CFOs had prior experience in another investment firm, and 47% of CFOs at small and medium sized firms did not, whereas 59% of CFOs at large and very large firms did.

How finance teams and their leaders scale with fund size

AUM category	average finance team size	average finance lead years of experience
Small	1.7	16.3 years
Medium	1.8	21.7 years
Large	2.6	23.4 years
Very Large	4.5	22.8 years

Tenure also changes dramatically as firms continue to grow. The impression we have at True from conducting these searches is that VC CFOs seldom change platforms, with long tenures on average. “It's really hard to get tenured CFOs to leave their seats,” Schaft said. “CFOs really only leave firms if they don't feel valued, or if the firm isn't going to raise another fund.”

David Wehrs, COO at Obvious Ventures, shared a similar perspective. “You really never get a lateral hire in the CFO seat,” he said. “It's almost always a number two or director who takes that first CFO role in a fund.” He also reiterated some of the few reasons CFOs switch firms: “only if they are deeply unhappy, and usually tied to economics.”

The data suggests this is indeed the case. Average tenure for the CFO increases significantly as you look at larger firms, suggesting that those firms both hire more seasoned executives, and retain those executives for long periods of time.

finance

role of EQ

Another common theme in our discussions with industry practitioners around the CFO role was the need for high EQ. “The CFO in a smaller firm has to be perceptive. You have to be able to deal with ambiguity,” Schaft said, talking about the interpersonal dynamics that come to the fore in smaller partnerships.

David Wehrs from Obvious Ventures noted that many CFO roles are de-facto COO roles, and that firms more often look for ‘athletes:’



“People today are looking for a Jack of All Trades who can do seven different things.”

David Wehrs | COO, obvious ventures

The stakes are high for retention—not for the CFO, but for everybody else—if the firm gets the balance wrong. “The first CFO ends up with almost every other function reporting to them, and if they are a jerk, then none of those other people will be happy,” a Senior Operating Partner who happily reports to a CFO told us.

summary

- The finance function represents one of the most complex areas beyond investment teams in VC firms, often initially managed by outside consultants before transitioning in-house.
- The lead finance hire is often the first significant addition beyond the investment team, and finance teams are often the largest of the non-investing teams.
- CFOs in VC tend to have long tenures, and small firms often hire finance leads with fewer total years of experience, and those who have not previously worked for an investment firm.
- Half of the small firms we studied have no finance team. The vast majority of larger firms have a CFO, and most have more than one person on their finance team.
- It is much more common for the CFO at large firms to have prior investment firm experience than CFOs at small firms.

investor relations (IR)

Another role that seems to have surged in need recently is Investor Relations. As Wehrs told us, “for a long time, IR was viewed as straightforward and easy. In light of the current VC climate, the role is certainly elevating rapidly in importance”. The story around IR roles in VC is a very natural progression. Early on in a firm’s life, with smaller funds and fewer LPs, the investing partners often perform LP communications and fundraising themselves. But as firms scale, this becomes too significant of a time commitment to do well, and firms are also more likely to want to explore raising from different pools of capital.

We talked to Kendra Perlitz, Operating Partner and Head of IR at Playground Global, about both hiring for the role and how firms should think about their needs. As with finance, it’s all about the scope of responsibilities. Specifically in IR, the makeup of the LP base and the fundraising ambitions should dictate what sort of support a firm needs in the function.

We typically see firms hire someone dedicated to IR somewhere between the second and third funds and our data generally supports this. With so many new VC firms appearing in the last 5-10 years, it’s no surprise then that many are now finding IR to be much more important. “Fund Two is usually more of an investor services need, which is just responding to and maintaining existing LPs, than an investor relations need where you are also courting new LPs,” Perlitz commented. Perhaps the more challenging fundraising environment of the last few years, coupled with harder narratives about portfolio company valuations and performance, have shined a light on the need for strong LP communications more than ever. “The number one reason there are so many IR roles right now is because nobody wants to give bad news,” she said. This also creates complications for future fundraises, where the firm might be looking to expand the LP base. “Fund Three is often where you start to see a lot of turnover in LPs, because many Fund One LPs will underwrite a commitment for two funds. But then it becomes exponentially more work to service one LP base, while also bringing in another LP base for Fund Three.”

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“step back and ask why you are making the hire, and build the role and responsibilities around that. are you maintaining your LP base, and are they happy? or do you need somebody to help you change your LP base?”

Kendra Perlitz

operating partner and head of IR,
playground global

investor relations (cont.)

The percentage of firms that have a head of IR scales consistently with size. Only 16% of small firms have heads of IR, but half of medium and large firms do, as do more than 60% of large firms. We found that the number of funds a firm had raised in the last five years was a better predictor of the size of the IR team than the total AUM of the firm. When a firm is raising at least one fund a year (i.e. five or more in the last five years), those firms tend to have teams of IR supporting the effort.

Unlike in finance where tenure and firm size correlate, Investor Relations leaders have the same amount of career experience at small firms as at large firms, and across firms that raise more versus fewer funds. Perlitz noted the challenge in IR around keeping a leader happy: “Often, LPs demand a CFO first, and IR after that.” This sets up a unique dynamic between the GP, CFO, and head of IR, whereby the head of IR is the newest member of the triumvirate to the firm. And, as Perlitz pointed out, statistically the GP and CFO are more likely to be white men, and the head of IR more likely to be a woman. “The moment there isn’t alignment between those three, only the CFO or IR lead can leave,” she said. This means it is critical to have a shared view of values around critical fundraising topics like when to update valuations, and what success looks like in LP communications, otherwise it’s hard to keep a talented IR lead in the seat.

***IR team sizes
scale up as
fundraises
become more
frequent***

funds closed	average IR team size	average IR lead years of experience
1-2 Funds	0.8	17.4 years
3-4 Funds	1.0	17.8 years
5+ Funds	1.8	17.0 years

summary

- Pace and frequency of fundraising is a better predictor of IR team composition than AUM. Firms raising one or two funds every five years often don’t have an IR function, but firms raising three or more funds every five years typically have at least an IR leader and often a team.
- IR leaders in VC tend to have a uniform amount of career experience regardless of the size of the firm or the number of funds the firm raises.

other teams

We also looked at other functional teams, specifically portfolio value-creation and legal. It is generally less consistent that VC firms have dedicated teams in these areas, and these teams were both the smallest and the least likely to exist at all across firms of all sizes relative to the other functions we examined. The composition of these teams is also less consistent, with firms choosing to hire across a spectrum of roles including marketing, communications, events, corporate relations, talent, and expert-as-a-service.

Talent teams, for example, exist in only 8% of small firms, 20% of medium and large firms, and only half of very large firms. The legal function is slightly more common: 25% of small firms, 36% of medium and large firms, and more than half of very large firms have legal teams. Similarly, the average size of the operations team at all firms except for very large firms is >1.

Percent of firms with at least one team member in:

firm size	ops	legal	talent	IR
Small	58.33%	25.00%	8.33%	16.67%
Medium	36.36%	36.36%	22.73%	45.54%
Large	41.89%	36.00%	16.00%	53.33%
Very Large	64.29%	60.47%	48.84%	60.71%

talent

The state of talent teams in the venture capital industry has been a subject of much discussion in recent years, particularly in the recent cooling-off period the industry has experienced since 2022. “For a period of time, every firm staffed up talent teams pretty heavily,” noted Dan Miller, co-lead of the Venture Capital practice at True. “But as fundraising became more challenging, and as headcount in the underlying portfolio companies started to take a turn, we’ve seen more firms seek a better answer to why they should have an in-house talent team at all.” True’s own search work for VC talent roles dropped by 30% from 2022 to 2023.

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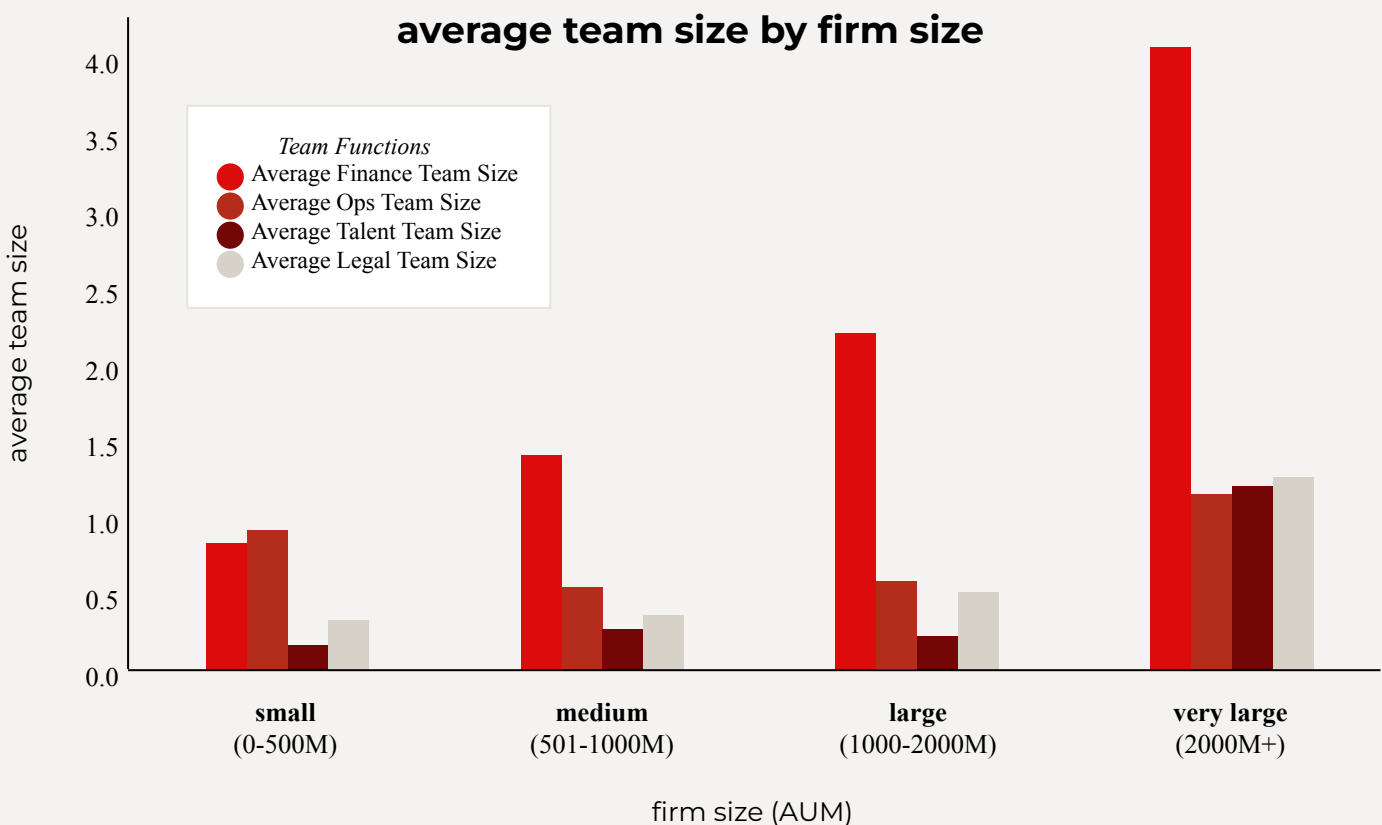
talent (cont.)

Practitioners in the industry shared a similar sentiment. Mike Mangini, a Partner who has led the talent function at SignalFire said, “some firms genuinely understand and value the talent function as a critical piece to the firm’s existence and nature through which they help their portfolio. Others do it because others are doing it, and those firms tend to cycle through these types of people really quickly.” Coming to a conclusion about why a firm needs a talent function, and what value it will add to either the portfolio or the firm’s own recruiting (or both), is a key first step in defining the role before a first hire. This is also an important factor in retaining great people in the function. “People leave because of a lack of clarity around the scope of the role, and how that translates into value for LPs and the portfolio,” Mangini commented.

John Woody, True Partner who focuses on talent functions for VC funds, notes there is a shift in how firms view the talent function and what problems it can solve. “There is an increased need for leaders who can think through structure and prioritize lean internal resources,” he says. “Firms now seek professionals with broader operating backgrounds in talent and or people.”

This shift has two outcomes: it lends more credibility to the advice VCs give their portfolio companies, and also broadens the advice to go beyond recommendations on agency choice and onto a wider range of people and talent issues (compensation, leveling, organizational design, DEI, return-to-office, effective RIFs etc.).

Traditional archetypes for talent partners have changed as value creation has gained importance. There is more emphasis on how the talent leader's guidance can assist in value creation for the portfolio companies, especially around the post-investment alpha-generation and early problem detection.



conclusion

Venture Capital as an asset class is in its teenage years. In the literature we reviewed, the phrase “growing pains” was frequent. When the large boom in private technology companies from 2020 - 2022 came to a close, VC firms both new and storied have had to reassess their futures, and reevaluate what role each person at a VC firm should play.

There is reason to believe our data collection may reflect the nadir of headcount in non-investment functions at VC firms, as they have had to do more with less in the lean period during which we examined team makeup. If so, our paper clearly outlines the consensus minimum for operational support in the various functions required, as firms grow larger and more complex. It is unlikely that venture capital will ever need fewer finance, operations, legal, IR, and talent leaders than they have now—measured in a continuous downturn for the industry.

get in touch



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