Alumni Ventures

Network-Powered Venture Capital

eGUIDE

Five Compelling Reasons to Start Venture Investing

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Five Compelling Reasons to Start Venture Investing

Today, there is no shortage of options for an investor to consider, with thousands of public equities to choose from and a bevy of apps that make trading as easy as a swipe. Private investments are increasingly popular for sophisticated portfolios, but options can be limited for many individual investors and deliver varying results. However, there is another asset class that can play an important role in your financial strategy, and it's still missing from many seasoned investors' portfolios.

Enter venture capital.

When you imagine the venture capital industry, you might immediately think "high risk," "exclusive," and "elite." You might think of storied venture firms like Andreessen Horowitz, Sequoia Capital, or imagine the likes of Mark Cuban, Shark Tank, and decisions made in 10 minutes or less.

While it's true that this asset class is high-risk/high-reward, serious firms conduct far more diligence than TV would lead you to believe, and venture is no longer only available to the ultra-high-net-worth investor. In fact, this is an asset any individual accredited investor can own. You might be one of the millions of accredited investors still missing venture capital from their portfolios — but you have options.

There are a number of financial and inspiring reasons to consider adding VC to your investment mix. Here are just five compelling reasons to consider venture investing.

> "Venture capital is an asset any individual accredited investor can own."

1

Reduce risk and improve chances for success through diversification.

> It is critical to own a venture portfolio of at least 30 companies to give yourself a strong chance of investing in the few big winners that produce most of the returns for an entire portfolio.

To understand the potential for returns, you first have to understand how venture capital works. You invest in a company when it's young, privately owned, and has a lower valuation. Your investment has the chance of becoming more valuable over time if the company grows, gains customers, increases revenue, and maybe even goes public or is acquired.

The larger your venture portfolio, the greater the odds of potential gains and reducing risk.[1] Most venture-backed companies will either fail or reach at most a modest level of success. But a few big winners — those returning 10x, 100x, 1000x — produce most of the returns for an entire portfolio and can make up for numerous losers.

That is why it is critical to own a venture portfolio of approximately 30 companies or more: to give yourself a strong chance of investing in those winners. Early investors in tech companies like Zoom[2] and Snowflake[3] saw 6000x and 3000x-9000x return on their initial investments respectively. The AV investment Freshly, a leader in the prepared meals space that launched in 2015 was just acquired by Nestlé for $950 million, with another $550 million in possible earnouts.[4]

Before you take off on a unicorn hunt, you should recognize that there is an art and science to doing venture investing well; DIY is not advised. That means saying "no" to that deal you heard about on the golf course — unless losing friends and money is your goal.

VC TIP #1

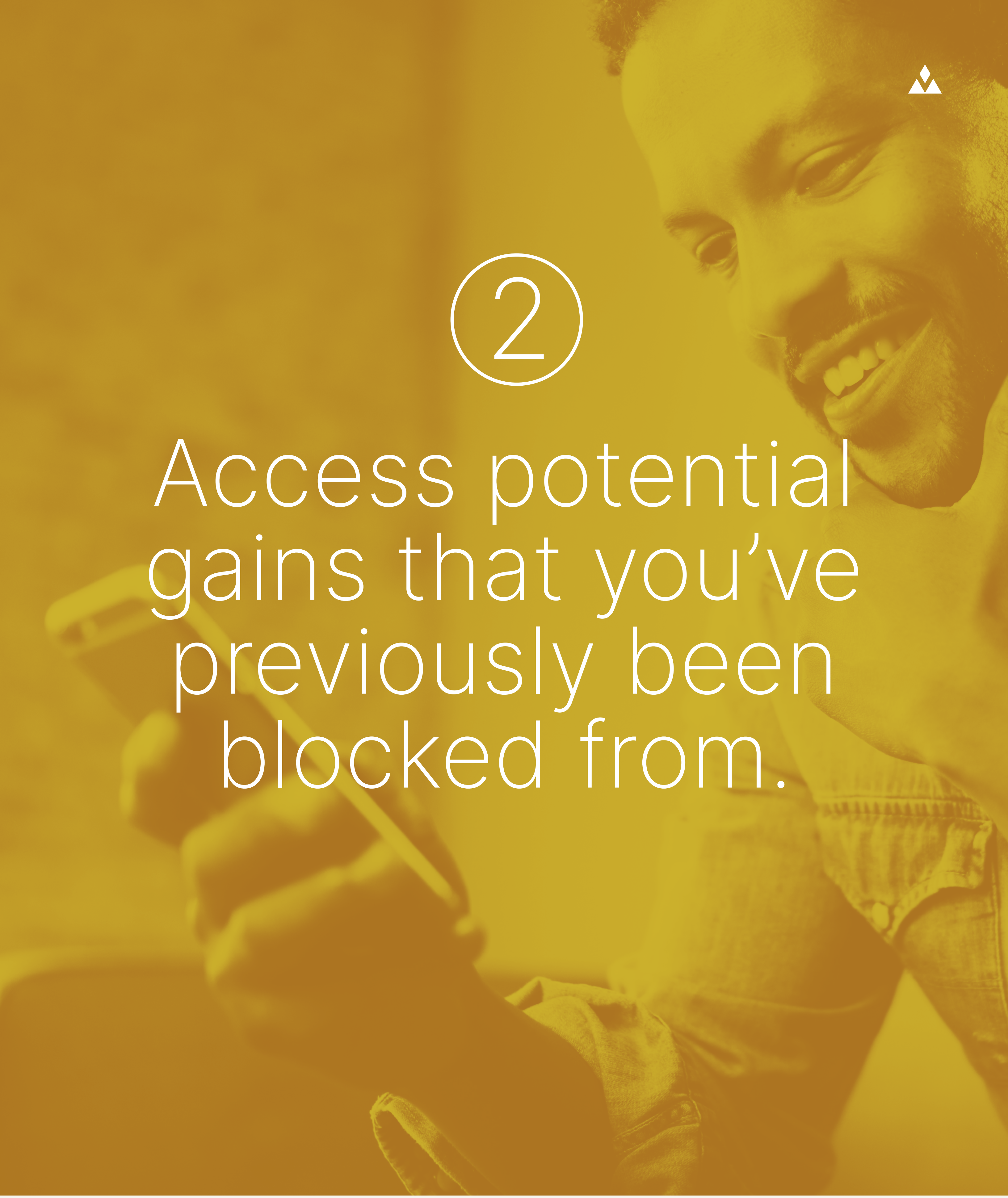
Deploy your capital into a large venture capital portfolio (~30+ companies per fund), diversified over sector, stage, geography, lead investor, and time, that is actively managed by investment professionals.

1 Crossan, Steve. "Modelling Suggests Rational Venture Investors Should Have Bigger Portfolios." Medium, Unreasonable Effectiveness, 19 Apr. 2018.

2 https://craft.co/zoom/funding-rounds

3 https://craft.co/snowflake-computing/funding-rounds

4 Nestlé USA acquires Freshly, a pioneer in healthy prepared meals. (2020, October 30). Nestlé Global.



2

Access potential gains that you've previously been blocked from.

> If you wait until the IPO to invest, it can be a challenging way to make money. You've missed out on all that value creation between the low price and the IPO price.

The number of public companies in the U.S. peaked in the late 1990s[5] and has been on a steady decline ever since. If you exclusively invest in public markets, that might not be good news for you. Many companies now experience their "hyper growth" while still private (i.e. pre-IPO). Slack, Lyft, and Uber, are just a few examples of companies with stellar private market growth and lackluster IPOs.[6]

Today, it's not uncommon for companies to go public with valuations ranging from a billion to tens of billions.[7] If you wait until the IPO to invest, it can be a challenging way to make money. You've missed out on all that value creation between the low price and the IPO price. There are ways to participate in venture capital through a large, diversified portfolio that help minimize risk while giving you access to pre-IPO entry prices.

VC TIP #2

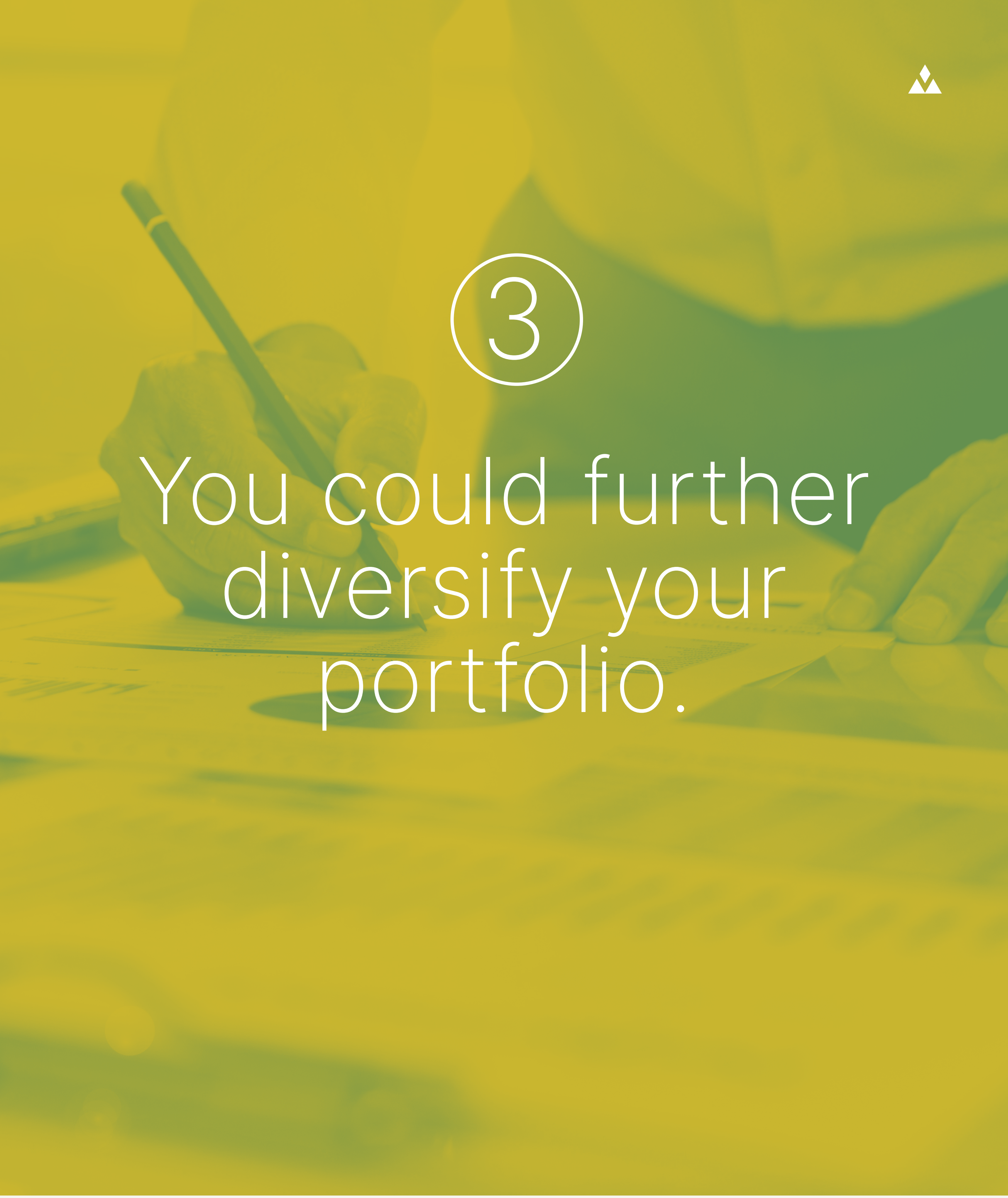
As more venture-backed companies delay their IPO or don't go public at all, VC is an increasingly attractive option for long-term, accredited investors looking to access the value created in the private markets. In addition, owning a larger portfolio of VC investments significantly reduces your risk and improves your chances of investing in home-run winners that would deliver most of your portfolio's profit.[8]

5 Thomas, Jason M. "Where Have All the Public Companies Gone?" The Wall Street Journal, 17 Nov. 2017.

6 Playing Hard in the Early Innings Looking for the Home Runs in Venture Investing, page 4.

7 Wilhelm, A. (2019, September 18). Here's Who Has Gone Public In 2019... Crunchbase News.

8 Modelling suggests rational venture investors should have bigger portfolios, Steven Crossan, April 2018.



3

You could further diversify your portfolio.

You've likely given plenty of thought to diversifying your portfolio of publicly traded assets such as stocks and bonds. But have you considered the next level of diversification — diversification into private market asset classes?

Broader diversification can be gained by adding a long-horizon private investment like venture capital to your portfolio, alongside your short-term public stock portfolio that fluctuates in value by the day. VC returns have historically been strong and only loosely correlated with stock returns.*

Alumni Ventures has talked to thousands of investors, and diversification often comes up as a reason for investing in venture. "When I speak to investors and advisers about their reasons for wanting to invest in venture capital, either for themselves or their clients, the number-one reason is diversification — without question;" said Laura Rippy, Managing Partner at Green D Ventures. "They have a regular portfolio, diversified by large cap, small cap, stocks, and bonds. But they realize they are missing venture capital."

Cambridge Associates, a global investing firm managing and advising on large institutional portfolios, recommends that institutional investors put up to 15% of their portfolios in early-stage private companies with high-growth potential.[9] In fact, Yale has targeted putting over 23% of its endowment into venture capital for 2021.[10]

You might wonder what you have in common with an institution or endowment, but their investment goals can be similar to an individual's. Each can be expected to seek positive returns and risk minimization through diversification.

The decision is this: What's the right mix for you based on your circumstances and goals?

VC TIP #3

A venture portfolio can be a strategic addition to balance your overall portfolio. The appropriate investment allocation for you depends on your own circumstances. Consult your financial, tax, and other professional advisers to determine the right mix for your portfolio.

* Past performance is not indicative of future results.

9 Cambridge Associates, "The 15 Percent Frontier", July 2016.

10 Yale News, Sept 2020.

4

Get a front-row seat to the innovation economy.

> If you love learning about new technologies, innovation, and disruption, becoming a venture investor is an experience that you are likely to enjoy.

Many investors find venture capital exciting and a window into "what's next." It's filled with game-changers, high-tech innovations, and business models that are disrupting industries.

Here are just a few examples of venture-based startups from AV's portfolio that are making an impact:

- **Taking on COVID:** Kinsa, Tembo Health, and many others are doing great work to tackle problems caused by the virus.
- **Making deep tech leaps:** Capella Space is making vital information about our planet more accessible, while others are pushing the boundaries of quantum computing, 5G networking, and next-generation composites.
- **Proving the power of science:** Frore Systems and hosts of others are relying on science to break through boundaries and solve tough technological challenges.
- **Protecting food supplies:** Ag innovators like EnkoChem and FarmWise are making contributions to crop-protection and sustainability.
- **Delivering treatment:** Notable Labs and SHINE Medical are improving the effectiveness and efficiency of cancer treatment, while Tempest and Sondermind are revolutionizing the delivery of care for addiction and mental health.

VC TIP #4

If you love learning about new technologies, innovation, and disruption, becoming a venture investor is an experience that you are likely to enjoy. Venture capital investing gives you a front row seat to what's new and next for our world.

5

You can align your investment strategy to your values and passions.

> **If you're passionate about science, equality, diversity, or even supporting the startups of your alumni entrepreneurial ecosystem, there is a venture capital fund to align your beliefs, values, and priorities.**

If you want your investments to truly make a difference, venture investing allows you to invest in areas that align to your values and passions. As AV CEO **Mike Collins** said, "The world today is really driven by the entrepreneurial economy. It has great power to do good."

Investing in a venture brings much-needed capital to fuel the ideas, creativity, and relentless energy of innovators and entrepreneurs. Venture-backed entrepreneurs are forming companies with the potential to change industries, and your investment can play a role in contributing to their good work.

If you're passionate about science, equality, diversity, or even supporting the startups of your alumni entrepreneurial ecosystem, there is a venture capital fund to align your beliefs, values, and priorities. "Doing good" and "doing well" do not need to be mutually exclusive concepts.

VC TIP #5

If you're interested in impact investing while building your portfolio, invest in a fund with a focus that excites you. AV offers a number of special thesis funds that aim to deliver you the potential for positive returns by backing companies that address your passions.

Important Disclosure Information

Disrupting the Venture Industry

Alumni Ventures (AV) is democratizing the venture asset class by offering a path for accredited individuals to own an actively managed, diversified venture portfolio (about 20-200 investments per fund), co-investing alongside experienced VC firms.

We invite you to learn more by speaking with a member of our team. If you are interested specifically in our alumni-based funds, click here to select your fund.

(Not sure if you're accredited? Here's how to easily find out.)

Important Disclosure Information

The manager of the AV Funds is Alumni Ventures, LLC (AV), a venture capital firm. AV and the funds are not affiliated with or endorsed by any college or university. These materials are provided for informational purposes only. Offers of securities are made only to accredited investors pursuant to each fund's offering documents, which describe among other things the risks and fees associated with the Fund that should be considered before investing. The funds are long-term investments that involve a substantial risk of loss, including the loss of all capital invested. Past performance is not indicative of future results. Opportunities to invest in any security (of a Fund, of AV or in a Syndication offering) is not a guarantee that you will be able to invest and are subject to all terms of the specific offering. Diversification cannot ensure a profit or protect against loss in a declining market. It is a strategy used to help mitigate risk.

AV offers smart, simple venture investing to accredited investors. Specifically, AV provides a path for individuals to own an actively managed diversified venture portfolio with a single investment co-investing alongside experienced VC firms. Traditionally, with limited investment capital and contacts, individual investors have had limited access to desirable deals alongside experienced VC firms, and even if they could access one or more such deals, it would take an inordinate amount of time, money and negotiation to build a diversified portfolio. With AV Funds, investors can choose from a number of funds to make a single investment to gain exposure to a diversified portfolio of investments selected by an experienced manager. AV Funds' simple fee mechanism permits investors to avoid constant capital calls throughout the life of the fund as found in other private investment vehicles. Contact info@av.vc for additional information. To see additional risk factors and investment considerations, visit av-funds.com/disclosures.

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