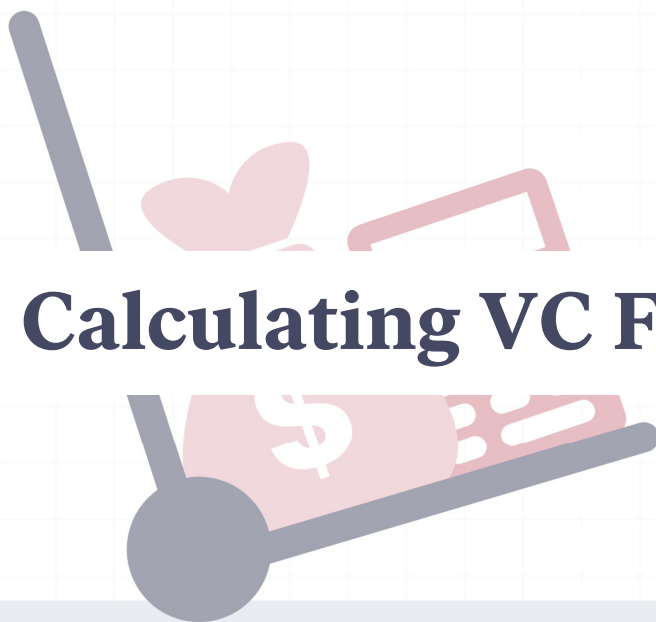




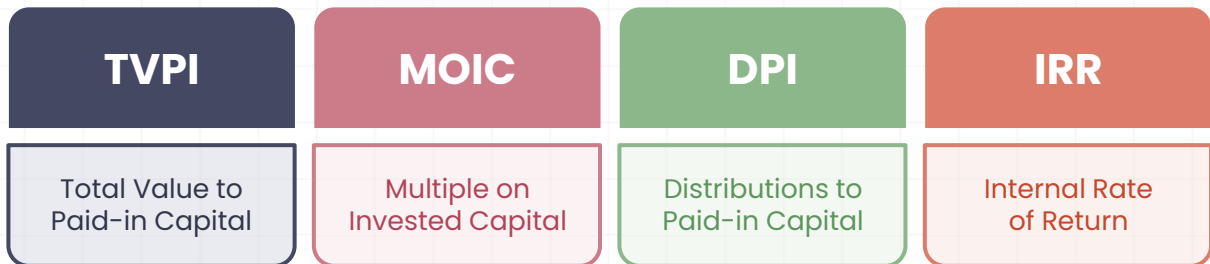
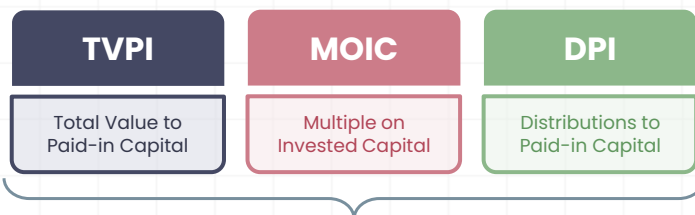
Calculating VC Fund Returns

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Calculating VC Fund Returns

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Methods of Calculating Returns for a VC Fund

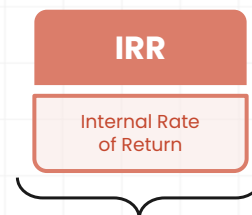
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Multiple Metrics

Measure the **total value of a portfolio**, do not consider timing



Get a picture of the VC fund's **overall performance** and **returns** at a given point in time



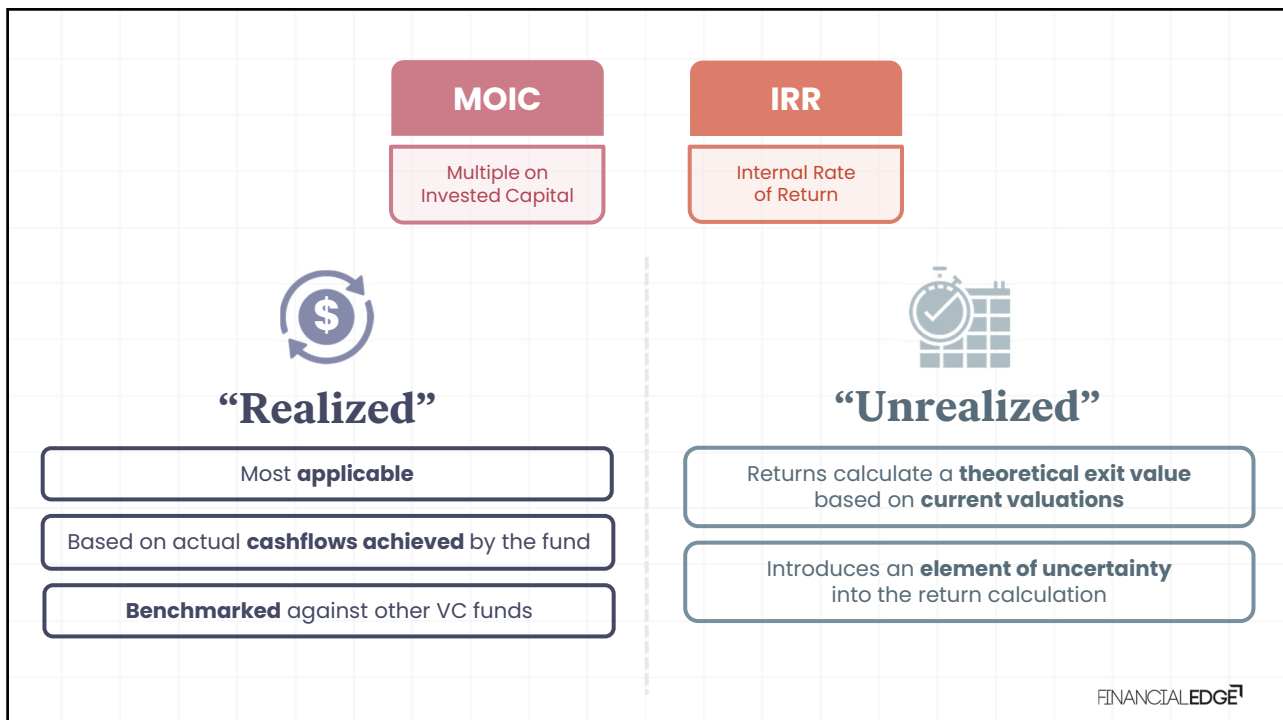
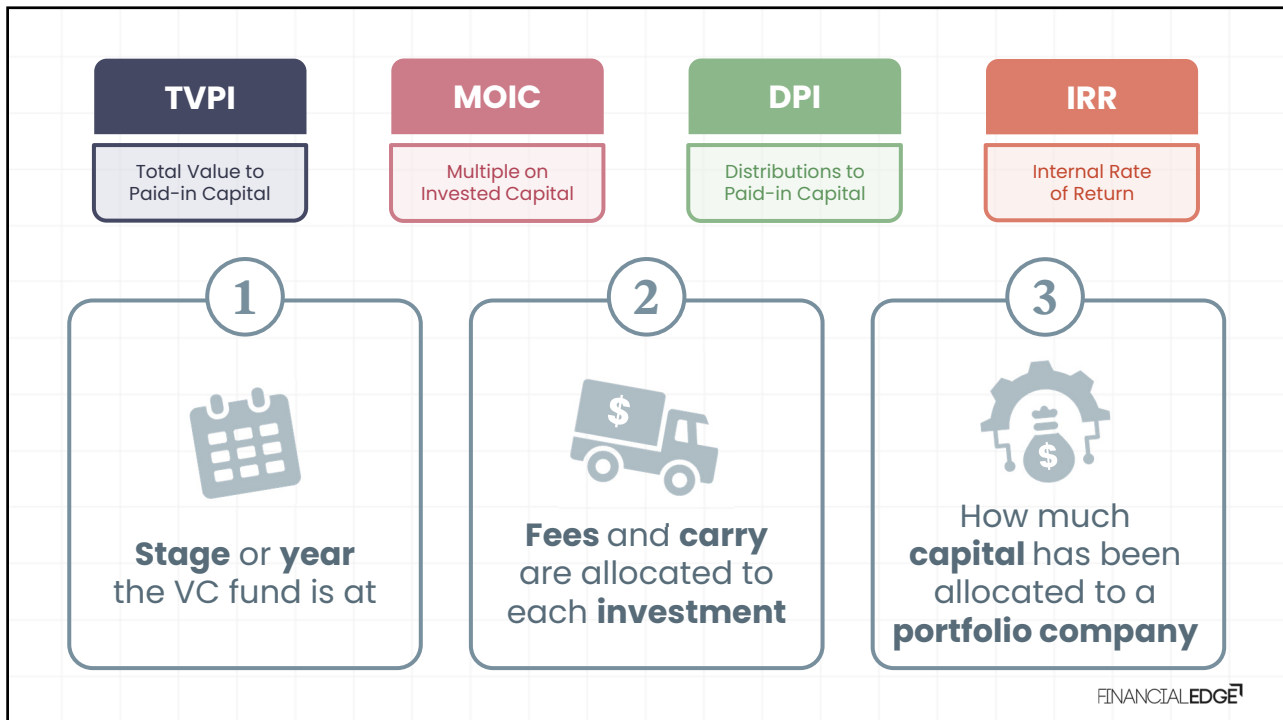
IRR

Considers **return on investment** and how much money the VC fund will make



Provides a clear picture of a VC fund's **projected** or **actual performance**

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Returns

The **fees that the investor must pay**



Gross returns

Return made on the investment **(before fees)**



Net returns

Return earned by the investor **(including fees)**

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Returns

The **fees that the investor must pay**

Typical VC fund

2%

Management fee

20%

Carried interest

Successful VC fund

2.5%

Management fee

30%

Carried interest

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Multiples Based Return Metrics

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Total Value Paid-In (TVPI) Capital Multiple

$$\text{TVPI} = \text{Total Value Paid-In Capital Multiple} = \frac{\text{Realized value} + \text{Unrealized value}}{\text{Paid-in capital}}$$

= Cash on Cash Multiple (CoC)

Paid-in capital



This metric measures the **total value of the VC fund's investments**

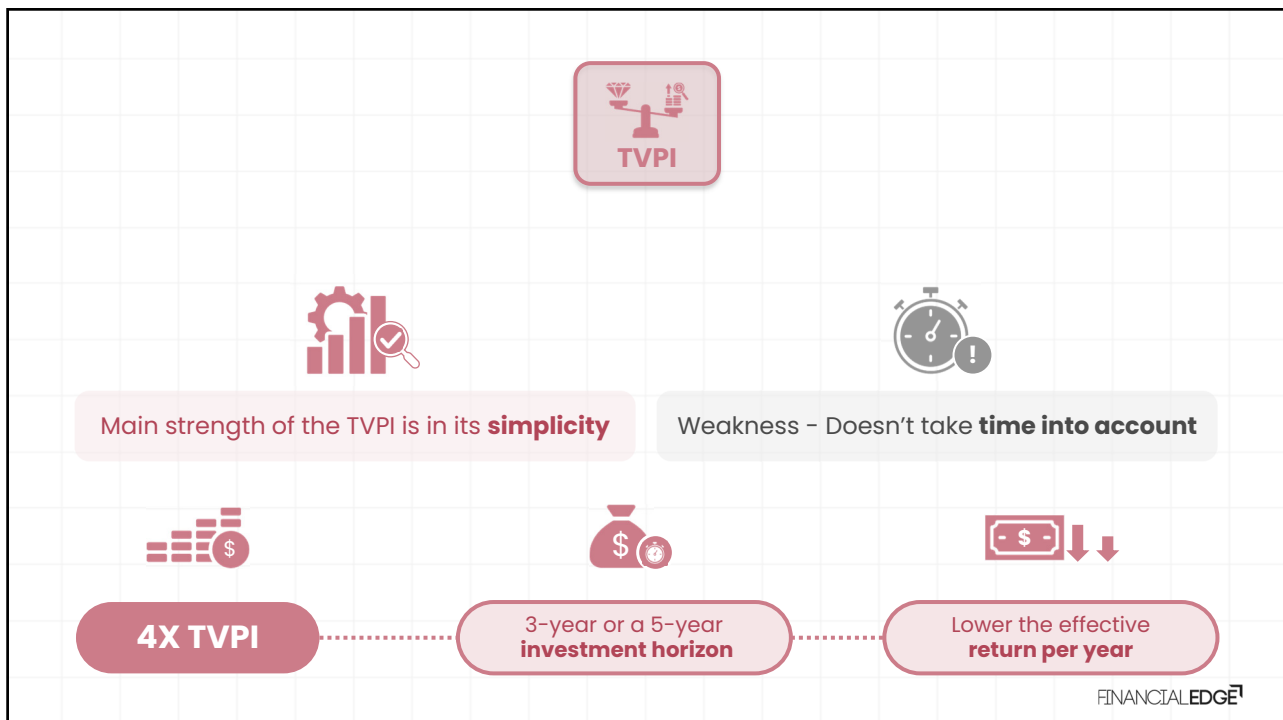
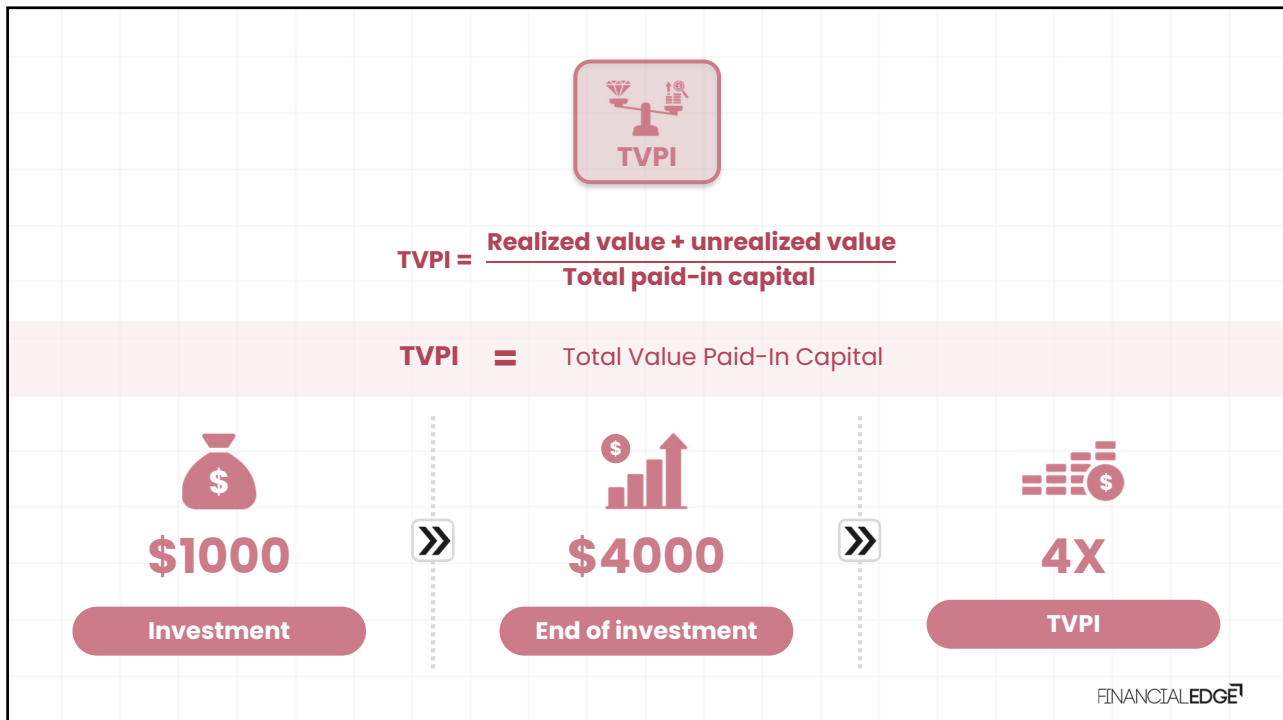


Higher than 1.0
Profitable investment



Lower than 1.0
Implies a loss

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Multiple on Invested Capital (MOIC)

$$\text{MOIC} = \text{Multiple on Invested Capital} = \frac{\text{Realized value} + \text{Unrealized value}}{\text{Amount invested}}$$

MOIC



Divides the **total value of the investment** or **VC fund** by the **initial investment**

Distinction

TVPI



Divides the **total value of the investment** or **VC fund** by the **paid-in amount**

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MOIC and TVPI

$$\text{TVPI} = \frac{\text{Value}}{\text{Paid-in Capital}}$$

$$= \frac{120}{100} = 1.2 \times$$

100 paid into the VC fund by investors



$$\text{MOIC} = \frac{\text{Value}}{\text{Invested Capital}}$$

$$= \frac{120}{90} = 1.3 \times$$

Only 90 of the 100 has been invested into startups



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Distributions to Paid-In Capital (DPI)

$$\text{DPI} = \text{Distributions to Paid-In Capital} = \frac{\text{Cash distributions made to investors}}{\text{Paid-in capital}}$$

Distributions only include:



Realized investments



Exit



Liquidity event

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Internal Rate of Return (IRR)

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Internal Rate of Return

Calculates the **annualized effective rate of return** an LP investor earns on invested capital

Solving for the **discount rate (r)**

$$\sum \frac{CF_n}{(1+r)^n} = 0$$



Present value
of **all cash flows**



During the **life of an investment**
(inflows and outflows)



Time value of money

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Internal Rate of Return



Cash flows received **before the maturity** of the investment horizon



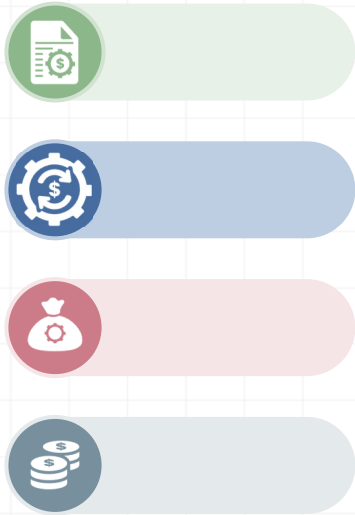
Might be different to **actual rates of returns** earned on cash flows



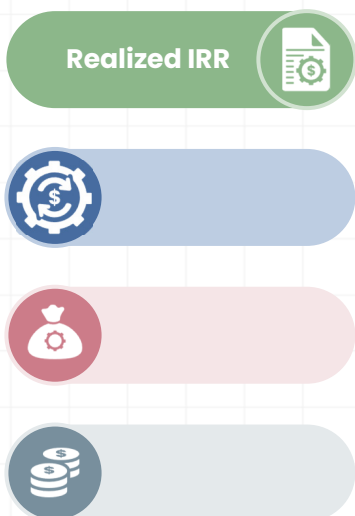
Reinvested at the IRR

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Internal Rate of Return (IRR)

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Internal Rate of Return (IRR)

**Realized IRR**

Actual cash flows from an exit or liquidity event

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Internal Rate of Return (IRR)

Realized IRR



Actual cash flows from an exit or liquidity event

Unrealized IRR



"Theoretical" cash flows based on private market valuation estimates

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Internal Rate of Return (IRR)

Realized IRR



Actual cash flows from an exit or liquidity event

Unrealized IRR



"Theoretical" cash flows based on private market valuation estimates

Gross IRR



Cash flows between VC fund and investment companies. Does not include management fees and carried interest paid to GPs

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Internal Rate of Return (IRR)

Realized IRR



Actual cash flows from an exit or liquidity event

Unrealized IRR



"Theoretical" cash flows based on private market valuation estimates

Gross IRR



Cash flows between VC fund and investment companies. Does not include management fees and carried interest paid to GPs

Net IRR



Cash flow between VC fund and LP investors. Gross IRR less management fee and carried interest cash flows paid to GPs

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Understanding VC Return Metrics

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VC Funds

Evaluated and **compared** to other VC Funds of the same “**vintage**” or when each of the VC Funds **began investing** in the same year



All Metrics Are Relevant



All or most capital has to be invested



Exit opportunities for investments are being created



Short term performance does not include long term potential

All good metrics, but not in the **short term**



TVPI



MOIC

Can be used in the **earlier years** as the returns include potential cash flows



DPI



IRR

Can only be used in the **longer term** as require actual cash flows

