It's a Right Time For New Investments

Fund allocations in a bear market


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LONDON, UNITED KINGDOM, September 15, 2022 / EINPresswire.com/ -- What's the most common red flag for LPs?

In our experience, it's the three words that cut off the possibility of being funded by 80% of LPs out there… "first-time fund".

But this year, that has all changed.

The record Bull market hit a brick wall towards the end of last year, and now recessions loom globally with the build now, make money later businesses (those that VC's are typically quite fond of), finding their valuations come under increasing scrutiny. However, as we all know, with these slashed valuations it's a great time to have dry powder to deploy.

But it's an even better time to have cash in the bank with no pre-existing portfolio companies. This is because a lot of these pre-profit and pre-revenue businesses will need to be hooked up to life support through the ongoing turbulence.

The ideal position for a fund, therefore, would be to have plenty of cash on hand, and minimal ties to cash-draining bets that may not be able to adapt to these new market conditions.

Enter first-time funds.
The risks associated with first-time funds are no less present, but the opportunity is far greater with the chance to create once-in-career vintages. With most capital sources drying up with a "wait and see" approach, a recently capitalised first-time fund can take advantage of an open ocean of opportunity, not to mention valuations that would make those that deployed only 6 months ago weep with envy.

Added to this, most seasoned funds will be spending a lot of time (and money) making sure their legacy portfolio companies don't sink as the markets continue to surprise the bulls. This is absolutely the right thing to do if you have legacy portfolio companies…

If you're a new fund now, not only will you have minimal competition securing the best deals, but you'll also be able to tell which teams are able to deal with a market that doesn't always go up and to the right.

Of course, a seasoned VC house that managed to raise a new fund at the peak of 2021 and hadn't got round to deploying much before the market turned offers a similar opportunity. However, we also need to consider hunger. There is arguably no team more hungry than in a first-time fund. They'll be looking to make their careers on that fund, rather than just avoiding getting fired, and it's at times like these that you want that hunger to drive your GPs to take the risks worth taking.

That being said, the risks with first-time funds are real, and not to be entirely put to one side. Only 25% of new funds raise, and of them, a non-negligible number have consistency issues as first-time teams finally work out what it's like to be stuck with one another for seven days a week.

So how do you manage that risk?
Luckily, it's not particularly hard. If a fund has raised the first close, they're far more likely to raise the rest as the first close is notoriously the hardest. Additionally, you can look for how long the team has worked together, whether they've worked together before the fund and the team's consistency over the fundraising period. All of these are excellent indicators of long-term team stability.

Now for the pitch…
The tone of this piece may seem partisan given that it's coming from a first-time fund, however, we believe the observations are no less valid, and the opportunity no less real. We're also happy to say that it is firmly backed up by the opportunities we see in the market, the quality of the founders we're dealing with and the sentiment of our backers.

If you'd like to hear more about Oskare Capital's new global Deep Tech and Life Sciences fund targeting the Endocannabinoid System, as well as "picks and shovels" businesses, please feel free to contact ollie@oskarecapital.com

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