# WHY EMERGING VENTURE CAPITAL MANAGERS MATTER

## Rethinking Institutional Portfolio Construction

**7.2%** IRR outperformance by emerging managers

February 2026

# EXECUTIVE SUMMARY

## The Alpha Imperative

Institutional venture capital commitments in the first half of 2025 were dominated by a small number of large firms, leaving first-time venture capital managers with a small share of capital (Bradbury, 2025). The concentration reflects screening practices centered on size, track record length, and brand recognition rather than investment capability.

Emerging venture capital managers, defined by exclusion from institutional search processes, outperform established peers by an average of 7.2 percentage points in internal rates of return (IRR), 0.34x in total value creation, and 0.18x in unrealized value. For institutional portfolios, this result is not only a much narrower manager set, but it translates into $72 million in foregone returns on a $100 million venture capital allocation. Concentration is both a market structure outcome and an alpha story shaped by institutional allocation decisions.

**7.2%** IRR outperformance

Emerging managers vs. established peers across 2,471 U.S. venture funds (2000-2024)

## What the Data Shows

Analyzing 2,471 U.S. venture capital funds raised between 2000 and 2024, we find that emerging managers outperform across all major performance metrics. This outperformance is consistent across definitions of emerging and persists across market cycles.

The advantage is not accidental but reflects how emerging managers configure portfolios under constraints, and how those constraints translate into discipline. Configuration strategies vary by fund type, while enterprise risk is driven by fundamentals rather than fund size. Further, funds with women in General Partner (GP) roles perform equivalently or better despite documented fundraising barriers.

## Why It Matters

Institutional search processes systematically exclude alpha-generating fund managers at the phase where their advantages are strongest. Assets under management (AUM) thresholds and consensus-driven allocation practices create persistent inefficiencies that compound over time.

Allocators who recognize this dynamic gain an advantage by committing to top-performing managers earlier and capturing the benefits of early relationships before broader institutional recognition

**$7.2mm** forgone returns

on every $100M allocated to venture capital through consensus-driven manager selection

## What This Paper Provides

This paper presents empirical evidence that emerging managers represent untapped alpha and offers a framework for evaluating fund configuration and capability. The question is no longer whether emerging managers can deliver alpha—it is whether institutional investors will adapt their structures to access it.

> **CORE TAKEAWAY**
>
> The cost of exclusion is measurable, the mechanisms are understood, and the opportunity is accessible to allocators willing to adapt their processes.

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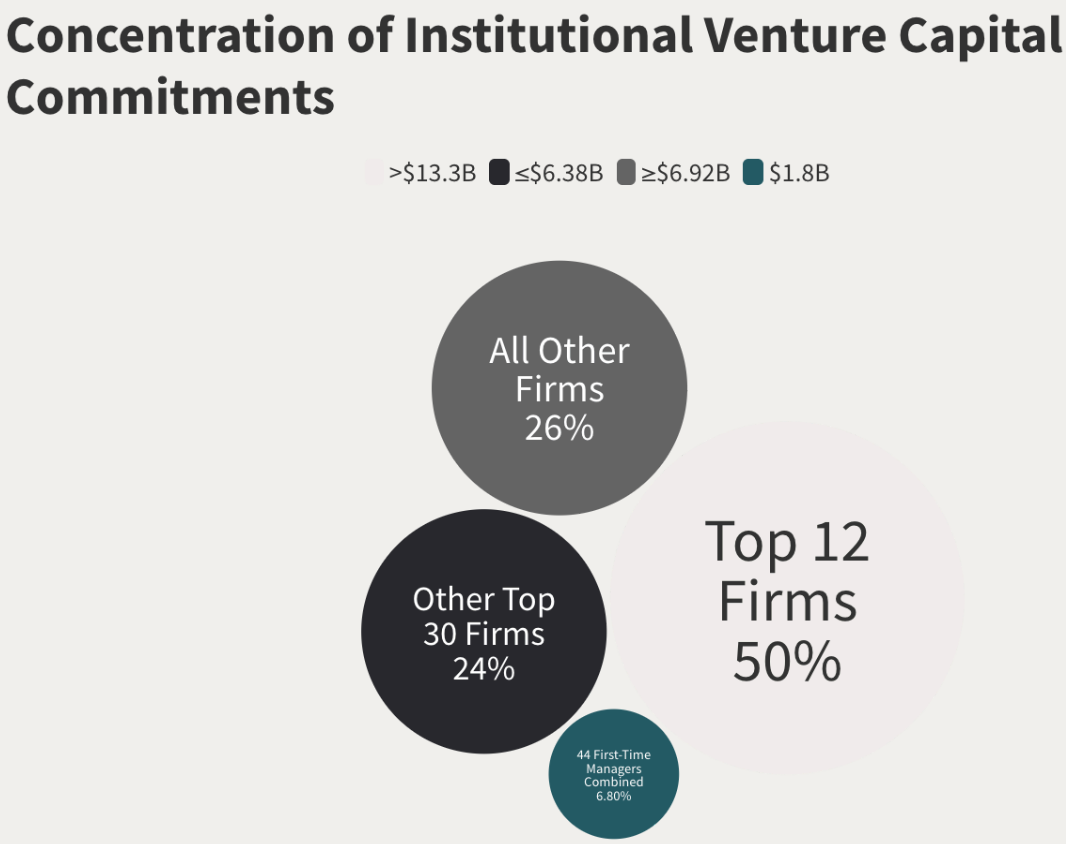
# I. INTRODUCTION: THE EMERGING MANAGER OPPORTUNITY

## The Current State of Institutional VC Allocation

Institutional venture capital fundraising is highly concentrated, with a small number of large firms capturing the majority of capital in the first half of 2025, while first-time managers collectively raised only a marginal share of 6.8% (Bradbury, 2025).




Source: Pitchbook, 2025

Institutional capital has historically flowed disproportionately toward large, established firms. Limited partners screen on assets under management, require minimum fund sequences, and prioritize relationships with larger platforms. These heuristics are designed to manage perceived risk and justify decisions to boards and investment committees.

However, the same heuristics also serve as a sorting mechanism that systematically excludes a category of managers who, on average, outperform.

A "safety in numbers" strategy reinforces this pattern, as allocating to Sequoia or Andreessen Horowitz remains defensible regardless of the outcome, aligning with industry consensus and carrying a built-in narrative of sound judgment. By contrast, allocating to a first-time fund, especially at smaller fund sizes, requires explanation and exposes allocators to career risk if the fund underperforms. The asymmetry is clear: there is little penalty for following industry consensus, but substantial risk in deviating towards outperformance.

The result is systematic underallocation to emerging managers: most institutional venture portfolios allocate only a small share of capital to emerging managers, and some allocate none at all. Further, those that maintain emerging manager programs often treat them as separate portfolios designed to satisfy "impact" or "diversity" mandates rather than to capture alpha.

## Defining the Problem

### Institutional screening deselects top-performing managers based on criteria that do not reliably predict returns.

AUM thresholds disqualify funds from entering an allocator's portfolio precisely at the organizational phase where configuration advantages are strongest. Requirements for prior fund performance exclude Fund I and Fund II managers who may have deep investing experience but lack a vehicle-level track record that fits institutional templates. Preferences for established brands screen out managers who have left large platforms to launch independent firms, even when their underlying sourcing and decision-making capability is unchanged.

Where emerging manager programs exist, they are often designed in response to political, stakeholder, or diversity-related considerations rather than grounded explicitly in performance objectives. This framing creates a predictable failure mode in which fund managers are selected based on identity-adjacent proxies rather than capability, and the programs they manage are often held to different standards than their core portfolios. When underperformance follows, programs are eliminated, and the entire category is blamed, reinforcing the belief that "emerging" equals "concession" rather than "alpha."

Compounding the problem is the persistent equation of enterprise risk with firm size. Many institutional investors assume that larger firms are safer, but this assumption is rarely tested against what actually drives risk in venture capital. Size can correlate with infrastructure, but it is not a substitute for it, nor is it a guarantee of sound portfolio construction. Yet, size-based proxies routinely exclude emerging managers, regardless of operational maturity, financial health, or governance quality.

**The result is systematic exclusion of high-performing talent and a measurable opportunity cost.**

## The Research Foundation

We address that opportunity cost through original empirical analysis of a large, multi-cycle sample of U.S. venture capital funds.

The research builds on NexTier Capital's "Why Not the Best?" framework (Mason et al., 2016), which defined emerging managers as firms excluded from traditional institutional search processes. We extend this empirically through a multidimensional definition specifically for venture capital and focus on structural exclusion, the conditions that predict whether a manager is likely to be screened out before performance is even evaluated.

We define a fund as emerging if it meets any of the four criteria:

- ➔ The firm oversees less than $100 million in total assets under management (AUM) across all funds.
- ➔ The fund is Fund I, II, or III, regardless of prior individual investing experience of the general partners.
- ➔ The management firm has a vintage of less than five years, reflecting organizational youth rather than fund age alone.
- ➔ The founding team includes women and/or underrepresented general partners, where fundraising outcomes diverge from performance due to documented structural barriers.

This definition is intentionally not a demographic proxy, but a reflection of how size, track record length, organizational youth, and team composition correlate with institutional access and shape portfolio construction, firm operations, and return outcomes.

Our analysis is venture-specific in ways that matter, reflecting the power-law nature of venture capital returns, in which a small number of investments account for the vast majority of outcomes (Clauset et al., 2009; Crawford et al., 2015). Venture capital operates under return dynamics that differ materially from the assumptions of Modern Portfolio Theory. For emerging managers, spreading capital across a larger number of smaller investments helps manage access constraints, information asymmetry, and uncertainty in early-stage markets.

These dynamics make venture capital a particularly strong setting for studying emerging manager effects, where configuration and capability alignment matter more, and performance consequences are amplified by extreme return skew.

## Core Findings

Five core findings emerged from our analysis, each with direct implications for institutional allocation practices:

1. **Emerging managers outperform established peers on average.** The IRR advantage is 7.2 percentage points, and the total value creation gap is 0.34x. These differences are statistically robust and economically significant.
2. **Outperformance is driven by configuration choices aligned with capabilities and constraints.** Emerging managers tend to deploy smaller checks, build broader portfolios, invest in earlier-stage companies, and maintain disciplined capital pacing. These are not "best practices" in the abstract; they are strategies that fit their access, information, and resource realities.
3. **Configuration-performance relationships differ by fund type and resource environment.** The same strategy can produce opposite outcomes depending on context. Portfolio breadth enhances returns for emerging funds but not for established funds; larger check sizes benefit established managers but penalize emerging managers.
4. **Enterprise risk is not a function of size but of operational fundamentals.** Risk tracks with governance, financial health, operational discipline, documentation adequacy, and team dynamics. Many emerging managers rigorously manage these fundamentals and, on operational dimensions, can offer lower risk than larger platforms.
5. **Institutional search processes systematically exclude alpha-generating talent.** Common screening criteria correlate with institutional embeddedness but do not reliably predict performance, creating a persistent inefficiency in manager selection.

## How to Use This Research

We provide empirical evidence that emerging managers represent untapped alpha and offer a framework for evaluating fund configuration under constraint.

The findings challenge conventional assumptions and require institutional investors to rethink screening criteria and allocation strategies. The opportunity is clear: emerging managers outperform, and the mechanisms are increasingly understood..

**The question is not whether emerging managers can deliver alpha - the data shows they do. The question is whether institutional investors will build the capability and adjust systems to identify and access it.**

# II. UNDERSTANDING EMERGING VENTURE CAPITAL MANAGERS

Before we can evaluate whether emerging venture capital managers generate superior outcomes, we need to be precise in what we mean by "emerging". Too often, the term is treated as shorthand for small, new, or diverse funds. In practice, none of those labels, on their own, captures what actually matters: whether a manager aligns with institutional allocation strategy and can drive meaningful returns.

**We treat emerging managers not as a demographic category, but as a structural one.**

The defining characteristic of an emerging venture capital manager is exclusion from traditional institutional search and selection processes. This framing builds directly on the foundational work of Mason, Casselberry, and Kushner (2016), who argue that emerging managers are best understood not by identity or assets under management alone, but by whether they are systematically overlooked or screened out by conventional allocator pipelines.

This distinction matters, as institutional capital is not allocated neutrally but is shaped by heuristics, thresholds, and process constraints that favor scale, long track records, and brand recognition. As a result, many highly capable managers operate under persistent resource constraints not because of differing skills, but because they fall outside of the filters for "investable" institutions.

## The Core Principle: Exclusion from Institutional Search

The NexTier framework defines emerging managers as firms excluded from standard institutional search and due diligence processes, a principle we adapt to venture capital and extend empirically in this analysis.

Why does this matter? Because size is a proxy, not a proper mechanism. Assets under management, fund number, or firm age often correlate with institutional access, but they do not explain the underlying drivers of performance. Some small funds are institutionally embedded, some diverse funds are not emerging, and some first-time funds raise capital with remarkable ease.

To operationalize this concept in venture capital, we define emerging managers using a multidimensional, VC-specific framework. A fund qualifies as emerging if it meets any one of the following criteria.

## Four Defining Characteristics of Emerging Venture Capital Managers

### Scale Constraints: Managing Less Than $100M in AUM

Scale constraints are the most visible, but least sufficient, marker of emergence.

Smaller funds operate under hard capacity constraints that materially shape their investment decisions. Unlike large venture funds, they can deploy capital into alpha-rich but less efficient segments of the market without distorting prices or crowding out opportunities. They can underwrite "smaller ideas" and can take meaningful positions in companies that may be immaterial to an established fund.

*Scale is not just a constraint, but also a strategic condition that shapes investment strategy.*

### Limited Track Record: Funds I, II, or III

Early-sequence funds face heightened scrutiny from institutional allocators. Limited performance history increases perceived risk, intensifies screening, and raises the bar for capital access.

At the same time, early-sequence funds tend to have high founder engagement, faster, less bureaucratic decision-making, and more hands-on portfolio support. Incentives are tightly aligned with outcomes because the firm's reputation and future fundraising are still being built in real time.

Importantly, the population of first and second-time funds is not random. Research on performance persistence suggests that managers with strong prior experience are disproportionately likely to launch new firms, creating a selection effect that distinguishes early funds from later iterations of the same organization (Kaplan & Schoar, 2005; Zarutskie, 2010). Early-sequence funds can signal higher perceived uncertainty, but they can also reflect a team with unusually strong investing experience, even if the track record sits in prior roles rather than prior vehicles.

> **CORE TAKEAWAY**
> Early fund sequence reflects both constraint and opportunity.

## Organizational Youth: Firm Vintage Less Than Five Years

Firm age captures a different dimension of emergence: organizational maturity.

Young firms are in a period of experimentation, learning, and capability formation. They have not yet accumulated the layers of process, delegation, and dilution that often accompany scale. Founding partners remain deeply involved in sourcing, underwriting, and portfolio management, operating inside the decision loop.

In venture capital, outcomes are also shaped by judgment, timing, and post-investment engagement. Organizational youth is not just a stage of development; it can be a meaningful performance advantage.

## Founding Team Diversity: Women and Overlooked GP Teams

Diversity is not a sufficient condition for emergence, but it is frequently correlated with it.

A growing body of research documents that women-led and otherwise overlooked GP teams face persistent fundraising barriers that cannot be explained by performance alone (Cassel et al., 2023). These barriers affect fund size, fundraising timeline, and institutional access, even when underlying investment outcomes are comparable.

At the same time, diverse teams often bring access to differentiated founder networks, communities, and deal flow that remain unexplored by established firms. The performance relevance of diversity is structural rather than normative: when networks shape access, who the team is and how they are connected can influence which opportunities they see and how early they see them.

*We include this criterion not as an identity marker, but as a documented mechanism of institutional exclusion within the venture capital ecosystem.*

## Why Do These Criteria Matter?

Each of these characteristics captures a different pathway through which managers are excluded from institutional capital. In practice, these pathways often overlap. A first-time fund with a diverse founding team and under $100M in AUM faces compounded constraints that shape how it operates and is evaluated.

Those constraints influence portfolio construction, check size, diversification, stage focus, and risk management.

**This framework is not about identity, but about aligning the resource environment with capabilities. Performance differences arise not because emerging managers are categorically better or worse, but because they operate under different structural conditions and adapt their strategies accordingly.**

### Distinguishing "Emerging" from "Small" or "Diverse"

It is important to be precise about terms that are often collapsed.

- ➔ **Small does not equal emerging.** Some smaller funds are deeply institutionally embedded and therefore do not face the same access constraints.
- ➔ **Diverse does not equal emerging.** While diversity is often correlated with exclusion, team composition alone does not determine access, constraint, or the ability to raise institutional capital.
- ➔ **Emerging means structurally excluded.** We define "emerging" as managers systematically excluded from institutional capital flows, regardless of whether they are small, new, or diverse.

The rest of this paper examines what happens when those opportunities are taken seriously, measured empirically, and evaluated on venture capital's own terms.

# III. THE PERFORMANCE CASE: WHAT THE DATA SHOWS

We have established that emerging venture capital managers are defined not by demographics or firm characteristics alone, but by their systematic exclusion from institutional capital flows. The framework is structural, and the question now is empirical: do these managers actually perform differently?

**Our findings are clear: emerging managers do not merely perform differently; they consistently outperform.**

This outperformance holds across multiple performance metrics, remains robust under varying definitions of emergence, and is sufficiently persistent to be unlikely the result of luck or statistical noise.

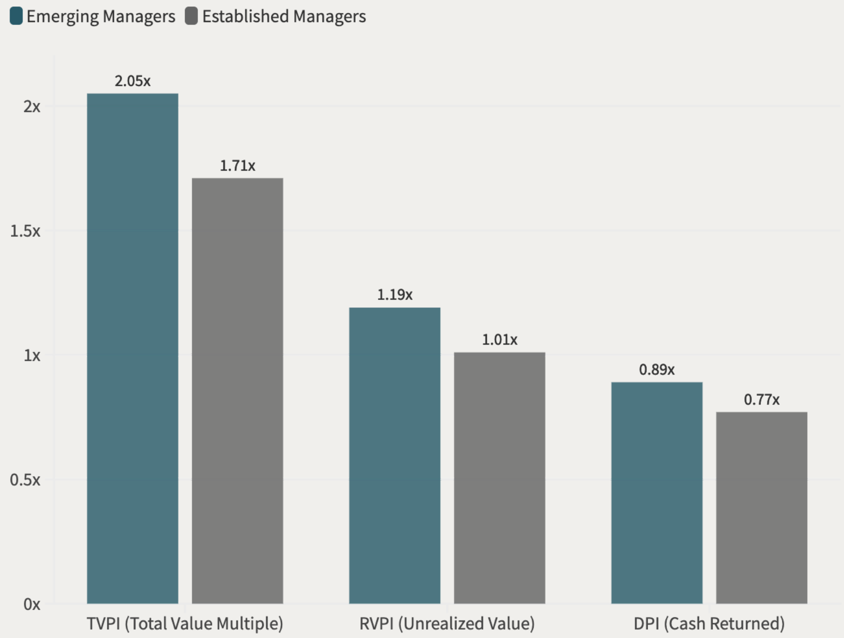
This section presents the performance case in three parts. First, we document baseline performance differences from direct comparisons. Second, we show that these differences hold regardless of how "emerging" is defined. Third, we demonstrate that emerging managers build portfolios differently and that these differences drive divergent outcomes.

## Descriptive Performance Patterns: The Baseline Outperformance

Our sample comprises 2,471 U.S.-based venture capital funds raised between 2000 and 2024, spanning multiple market cycles (Moncada, 2026, doctoral working paper). We track four standard performance metrics:

- ➔ **Internal Rate of Return (IRR):** annualized return, sensitive to timing and interim marks.
- ➔ **Total Value to Paid-In (TVPI):** total value created per dollar invested (distributions + remaining value).
- ➔ **Distributions to Paid-In (DPI):** realized cash returned to investors (liquidity and exit timing matter).
- ➔ **Residual Value to Paid-In (RVPI):** unrealized portfolio value still held (a measure of remaining upside and exposure).

## Emerging Managers Deliver Higher Value Multiples

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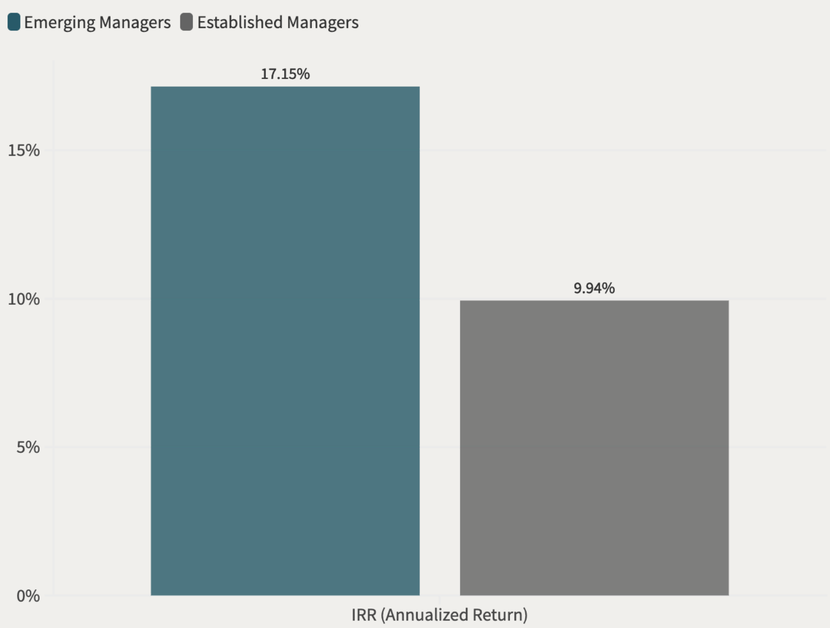
*2,471 U.S.-based venture capital funds, 2000–2024.*

## Emerging Managers Deliver Higher IRRs

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Using the multidimensional definition introduced in Section II, the baseline comparison shows a consistent pattern: **Emerging managers outperform established peers across all four metrics.**

These figures represent averages across a large and heterogeneous sample. Not every emerging fund outperforms, and not every established fund underperforms. However, the central tendency is consistent: across IRR, total value, unrealized value, and cash returned, emerging managers outperform established peers on average. The fact that the pattern appears across all four metrics makes it difficult to attribute the results solely to chance or timing.

## Performance Holds Across Definitions

A reasonable concern is whether these results depend on the specific definition of "emerging." If the performance advantage appears only within a narrow classification, it could reflect how we drew the boundaries rather than a genuine phenomenon. We tested this by re-running the analysis under four alternative definitions, each isolating a different aspect of emergence (Moncada, 2026).

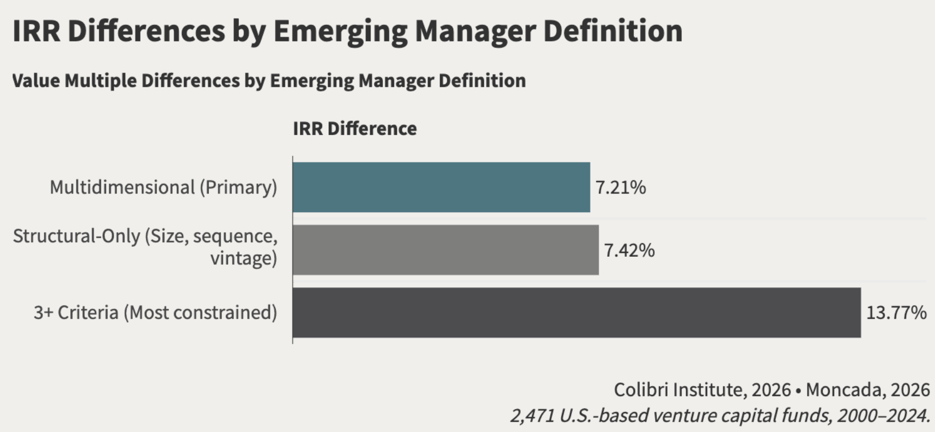
> **CORE TAKEAWAY**
>
> Performance advantages strengthen when multiple emergence criteria are present simultaneously. The 3+ criteria subset shows +14pp IRR advantage and +0.63x RVPI, indicating that compound constraints amplify configuration advantages rather than dilute them.

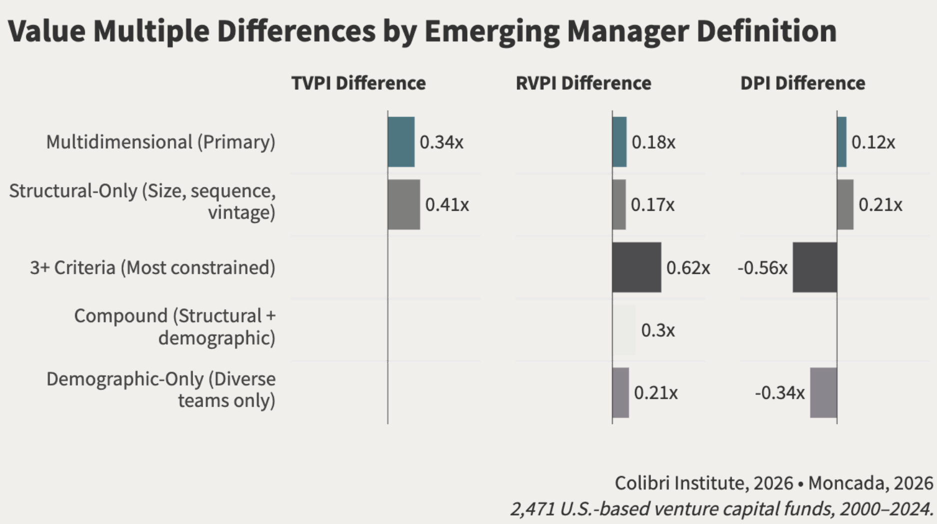
**Structural-only:** When we limit the definition to structural constraints—funds managing less than $100 million, Funds I-III, or with vintages under five years—the IRR advantage strengthens to 7.4 percentage points, and the total value gaps widen. This suggests that when we isolate resource constraints and organizational youth directly, the performance differences intensify.

**3-plus criteria:** When we examine only funds that meet three or more emergence characteristics simultaneously (the most constrained subset), the results become more pronounced. These funds achieve IRRs nearly 14 percentage points higher than established peers, and their RVPI is 0.63x higher, indicating portfolios with substantial remaining upside that have not yet converted to cash. Rather than diluting performance, compound constraints amplify it under specific configurations.

**Compound definition:** When we require funds to meet both structural and demographic criteria, the pattern shifts: IRR differences narrow and become less consistent, but unrealized value remains meaningfully elevated. One interpretation is that funds facing both resource scarcity and demographic exclusion maintain strong portfolio quality, even when the path to exit and liquidity is more frictional.

**Demographic-only:** When we classify funds based solely on founding team gender diversity, the results diverge from the structural patterns. IRR and total value differences become less consistent, while cash distributions are lower, though unrealized value remains higher. This reinforces the argument from Section II: demographic characteristics correlate with barriers to institutional access but, by themselves, do not explain performance. Importantly, the dataset captures only gender composition; data on other dimensions of founder background were not consistently available. The underlying mechanism identified here is constraint and exclusion, not identity.



## Core Findings: What Actually Differentiates Emerging Managers

What differentiates emerging managers is not labeling, but the concrete decisions they make around portfolio construction, capital deployment, and risk management. Our analysis identifies configuration patterns that differ across fund types, leading to divergent outcomes even when managers appear to pursue similar strategies.

**1**

**Emerging managers configure portfolios to fit their constraints, not to copy established funds.**

Emerging funds deploy an average check size of $17 million, compared to $60 million for established peers, roughly one-third the scale. Average check size is measured as total deployed capital per portfolio company, including initial and follow-on investments, rather than entry check size alone. They operate with smaller fund sizes and hold far less undeployed capital. Despite these capital constraints, they build portfolios averaging 28 companies, only slightly smaller than the 37-company average among established funds, but deployed at a fraction of the per-investment scale.

### How Emerging Managers Build Portfolios Differently

| Configuration Element | Emerging Managers | Established Managers | Difference |
|---|---|---|---|
| Average Check Size | $17 million | $60 million | -72% |
| Fund Size | $163 million | $427 million | -62% |
| Number of PortCos | 28 companies | 37 companies | -24% |
| Dry Powder (Undeployed) | $25 million | $62 million | -60% |
| Investment Stage (1=Seed, 3=Late) | 1.68 (Earlier) | 1.78 (Later) | Earlier stage |
| Number of Industries | 2.19 | 1.67 | 31% broader |

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These are not deficiencies but strategic adaptations, as smaller check sizes allow emerging managers to participate in more opportunities without depleting capital or overconcentrating in a handful of companies. Broader portfolios increase the odds of capturing the rare, outsized outcomes that drive venture returns. Limited dry powder forces disciplined capital pacing and reduces the deployment pressure that pushes large funds into late-stage deals where price is less forgiving, and differentiation is more complex.

Emerging funds also invest slightly earlier on average and maintain broader sector exposure. These patterns reflect both necessity and opportunity: earlier-stage deals align with smaller checks and lower valuations, while broader sector positioning reflects the need to search widely when proprietary deal flow is constrained by network access and brand recognition.

## 2 Portfolio breadth enhances performance for emerging managers but not for established funds.

When we examine how portfolio size affects performance across fund types, a striking pattern emerges. For established funds, adding investments produces relatively small improvements in total value. However, for emerging funds, the relationship is materially stronger: broader portfolios improve TVPI substantially more for emerging managers than for their established peers.

This challenges conventional assumptions about diversification, which in public markets reduces risk but dilutes the returns of winners. In venture, where returns follow extreme power-law distributions (Clauset et al., 2009; Crawford et al., 2015), a small number of investments generate the vast majority of returns. Breadth serves a different function for resource-constrained managers. It increases the probability of capturing the rare, extreme outcomes that determine whether a fund succeeds.

Established funds gain little from portfolio expansion because they can already access high-conviction opportunities through brand, information, and relationship-driven deal flow. For them, marginal additions are less likely to improve exposure to outliers—they can access them directly.

## 3 Larger check sizes benefit established funds but penalize emerging managers.

Check size emerges as the clearest point of differentiation, as its relationship to IRR differs sharply by fund type across all emerging manager definitions.

### Check Size Discipline: Different Impact by Fund Type

| Average Check Size | Emerging Manager IRR Impact | Emerging Manager IRR Impact |
|---|---|---|
| $5 million | Higher returns | (+) 14% |
| $10 million | Good performance | Baseline |
| $15 million | Performance declining | (-) 14% |
| $20 million | Lower returns | (-) 28% |
| $25 million+ | Materially worse | (-) 42% |

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For established funds, deploying larger checks is neutral with respect to IRR, reflecting their ability to absorb scale through infrastructure: larger teams, parallel diligence capacity, monitoring systems, and governance experience. For emerging funds, the opposite holds. Larger average check sizes are consistently associated with materially lower IRRs, regardless of how emergence is defined.

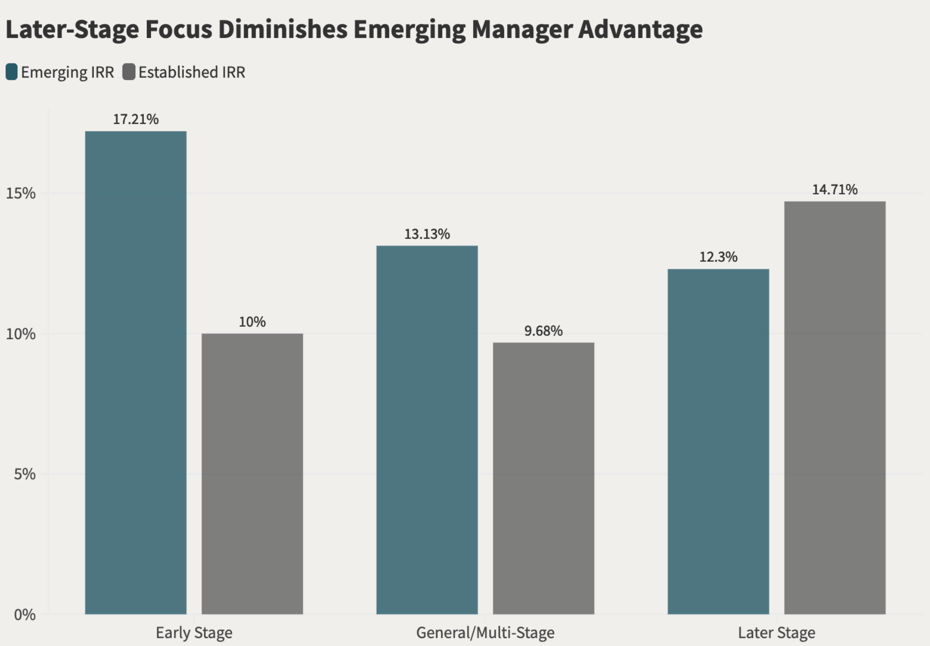
Writing large checks requires capabilities that emerging managers often lack early on, including diligence capacity, co-investor networks, board experience at scale, and reputational capital in competitive rounds. When emerging funds stretch to deploy larger checks, they face adverse selection: they lose the most competitive deals to better-positioned funds and overpay for the deals they win, with a weaker ability to influence outcomes post-investment.

## CORE TAKEAWAY

For allocators: emerging managers that maintain disciplined check sizes ($5–15 million) are far more likely to outperform, while attempts to compete with established platforms on check size often dilute value.

## 4 Later-stage investing penalizes emerging funds more than established peers.

Later-stage deals demand precisely the resources emerging managers are least likely to have early: large check-writing capacity, deep syndicate relationships, brand recognition that drives access to inbound deal flow, and board experience with scaling companies. Established funds can leverage these advantages to compete effectively and capture value at growth stages. Emerging funds face weaker access and less influence when they move beyond early-stage investing before building the capabilities required to win and support those investments.

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This does not imply that emerging managers should never invest in later-stage companies. Stage migration should follow, not precede, capability development. Funds that expand into growth rounds before building the networks, governance experience, and capital base to compete effectively often underperform.

## 5 Funds with women general partners achieve equal or stronger performance despite structural fundraising barriers.

One of the most relevant findings for institutional allocators concerns funds with women general partners. In our sample, nearly all funds with at least one woman GP on the founding team qualify as emerging under the multidimensional framework, a pattern that reflects well-documented barriers to institutional fundraising (Cassel et al., 2023; Brophy et al., 2022).

### Funds with Women GPs Perform Despite Structural Barriers

| Performance Metric | Funds with Women GPs | Other Funds | Difference |
|---|---|---|---|
| IRR | 14.99% | 13.41% | (+) 1.6% |
| TVPI | 1.74x | 1.89x | (-) 0.15% |
| RVPI (Unrealized Value) | 1.29x | 1.08x | (+) 0.21% |

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Despite fundraising headwinds, these funds do not underperform, delivering IRRs comparable to peers and significantly higher unrealized value, even after accounting for fund size, vintage year, stage focus, and portfolio configuration.

**The implication is direct: women's underrepresentation in venture capital is not driven by weaker investment capability, but by access constraints that create a market inefficiency.**

Limited partners who screen out funds with women GPs based on perceived risk are making decisions not supported by performance evidence. Evidence from adjacent asset classes shows similar patterns: women and minority managers often perform on par with, or above, their peers despite facing systematic barriers (Evans et al., 2020; Dewald & Fan, 2022).

This reframes the diversity conversation by shifting it away from performance, which the data clearly support, and toward whether institutional investors will recognize that slower fundraising and smaller fund sizes among women-led managers reflect structural barriers rather than capability gaps.

**6**

**Sector concentration matters less than check discipline and portfolio breadth.**

Contrary to theoretical expectations, sector concentration shows weak and inconsistent relationships with performance across fund types. The effects do not replicate reliably across specifications or definitions of emergence.

This null result is informative, suggesting that sector positioning is more adaptable than other configuration choices, as GPs can hire expertise, build partnerships, and readjust exposure over time. By contrast, check size, portfolio breadth, and stage focus are harder to change once a fund's structure is set. These constraints bind more tightly, and their effects on performance are correspondingly stronger.

## Configuration Matters Differently by Fund Type

The clearest takeaway from this analysis is that venture capital fund configuration is not universal. The same portfolio strategy can produce opposite outcomes depending on whether a fund operates with the resources of an established platform or under the constraints of an emerging manager.

This pattern appears across multiple analytical approaches, including standard regression models, models that account for clustering within management firms, and comparisons that add controls incrementally to isolate where effects emerge. The direction and magnitude of the relationships remain stable across these approaches, supporting the conclusion that configuration-performance dynamics genuinely differ by fund type (Moncada, 2026).

### CORE TAKEAWAY

For allocators, this has immediate practical relevance: evaluating emerging managers requires assessing not only what they do, but whether their choices align with the resource environment in which they operate.

**The performance case is not that emerging managers are categorically superior. It is that they succeed when they configure strategies to fit their constraints, and that institutional allocators who understand this dynamic can identify and access alpha that others systematically overlook or screen out.**

The following section examines why these configuration choices produce outperformance, moving from empirical patterns to underlying mechanisms.

# IV. WHY EMERGING MANAGERS OUTPERFORM: MECHANISMS AND THEORY

Section III established two things: emerging managers outperform on average, and the advantage is closely tied to how they configure portfolios under constraint. This section explains why these choices produce higher returns, integrating theory, empirical evidence, and findings from adjacent asset classes.

We organize the explanation around three core dynamics:

- ➔ how resource constraints can shape portfolio construction in ways that enhance rather than inhibit performance;
- ➔ how organizational structure and ownership incentives create alignment that large platforms struggle to replicate; and
- ➔ how power-law return distributions in venture capital reward the breadth-oriented strategies that emerging managers often adopt by necessity.

## Portfolio Construction Under Constraint

The most counterintuitive finding from Section III is that resource scarcity, rather than limiting performance, often enhances it. Emerging managers not only succeed despite their constraints, but also thrive. They succeed because constraints change the opportunity set and force sharper choices.

### Access to alpha-rich, less-efficient segments

Large venture platforms face a structural deployment problem: they must deploy large amounts of capital across a finite set of investable opportunities. A multi-billion-dollar fund cannot meaningfully invest exclusively in seed-stage companies writing $2 million checks—the fund's economics require larger check sizes, later-stage entry, or portfolio expansion so broad that it begins to resemble a benchmark.

Emerging managers face a different reality: a $75 million fund can take meaningful positions in early-stage companies, participate in opportunities that are immaterial to billion-dollar funds, and move without disrupting market prices or crowding out the very inefficiencies that create upside. Research across different asset classes supports this general capacity dynamic: smaller managers can consistently generate higher excess returns per unit of risk in less-efficient market segments precisely because scale becomes a barrier to entry (Aggarwal & Jorion, 2010).

In venture capital, where the highest-returning investments often occur at the earliest stages and smallest scale, this capacity advantage is amplified. Emerging managers operate in the segment of the market where information asymmetry is most significant, competition from large platforms is weakest, and the potential for mispricing is highest.

## Forced discipline in portfolio construction

Capital constraints impose discipline that large platforms can struggle to maintain. Emerging managers cannot deploy capital indiscriminately; each investment represents a material share of available resources. This creates natural selection pressure: only high-conviction opportunities justify deployment.

Larger funds, by contrast, face deployment pressure, as finite investment periods and LP expectations implicitly reward keeping capital at work. As funds approach the end of the investment window, the hurdle rate for incremental deals can drift downward, not necessarily because the opportunity has improved, but because the remaining capital must be deployed. Over time, this can pull large platforms toward more marginal deals, later-stage entry, or price-taking behavior.

Emerging managers avoid this trap, as smaller fund sizes naturally reduce that pressure. The result is often a portfolio that is more deliberately constructed, with clearer trade-offs and greater deviation from consensus, conditions more consistent with true active management.

## Founder focus on portfolio management

Organizational structure matters because venture value creation is not only about selection; it is also about support. In large platforms, senior partners increasingly spend time on firm management: recruiting, internal governance, fundraising, brand, and LP relationships. Those activities are rational at scale, but they dilute partner attention away from sourcing, diligence, and hands-on company support.

Emerging managers operate with leaner structures, keeping founding partners closer to portfolio management through deeper market engagement, more time with founders, and more direct involvement with portfolio companies. That proximity can translate into better decision loops and higher-quality post-investment support. Research on organizational learning in venture capital shows that hands-on GP involvement in portfolio companies is one of the strongest predictors of exit success (Knockaert et al., 2010).

## CORE TAKEAWAY

Taken together, the configuration choices documented in Section III—smaller checks, broader portfolios, and earlier-stage focus—reflect more than constraint. They reflect strategic positioning that can leverage constraints into structural advantages.

# Organizational and Ownership Dynamics

Performance differences also reflect who becomes an emerging manager, and why. The population of emerging fund managers is not random. It is shaped by selection effects and incentive structures that can concentrate talent and sharpen alignment in ways large platforms often cannot replicate.

## Selection bias among entrepreneurial managers

The most talented investment professionals at established platforms face a recurring tradeoff. They can remain, earning salaries, bonuses, and a share of carry that typically dilutes as partnerships grow and broader firm economics expand. Or they can leave to launch an independent firm, taking on fundraising risk and organizational responsibility in exchange for larger ownership stakes, therefore capturing more of the value they create.

Those who choose independence are often investors with a combination of capability, confidence, and conviction in their ability to operate outside a platform. They typically bring experience, relationships, and a view of the market they believe is underexploited. This can create a selection effect: a meaningful share of the industry's most entrepreneurial investors end up in the "emerging" category precisely because they are willing to bear the risks of building a firm (Zarutskie, 2010).

*This is not to claim that all emerging managers are superior or that all established fund partners are inferior. It is to argue that the population of emerging managers is systematically skewed toward individuals willing to accept a sharper risk-reward profile. That skew can show up in performance outcome data.*

## Alignment of interests extends beyond financial capital

Conventional discussions of alignment often focus on GP commitment; how much personal capital is invested in the fund. For emerging managers, alignment runs far deeper than the financial commitment alone.

For emerging managers, a single fund defines professional reputation, future fundraising ability, and long-term career trajectory, while the opportunity cost of leaving a stable partnership is real and ongoing. Since ownership and carry are less diluted in small firms, the upside from success is more directly connected to individual decision quality and execution.

Underperformance can lead to reduced compensation, loss of institutional credibility, and an inability to raise a subsequent fund, with severe, visible reputational damage. In small teams, results are also harder to hide behind firm-wide averages, both internally and in the market's perception.

Contrast this with larger platforms, where fund-level reporting can blur personal attribution, organizational continuity can soften the immediate consequences of a miss, and compensation structures may be less tightly coupled to incremental value creation at the partner level. Large firms can still be highly aligned, but layers of processes often mediate alignment, shared branding, and diversified outcomes. Emerging managers operate with fewer buffers and cannot afford such separation. For them, performance and survival are much more tightly linked. This alignment drives behavior in ways that larger platforms struggle to replicate.

## Adaptability and search intensity

Emerging managers must differentiate to survive, and without brand recognition, institutional inertia, or decades of inbound deal flow, they are compelled to hustle, innovate, and find an edge quickly.

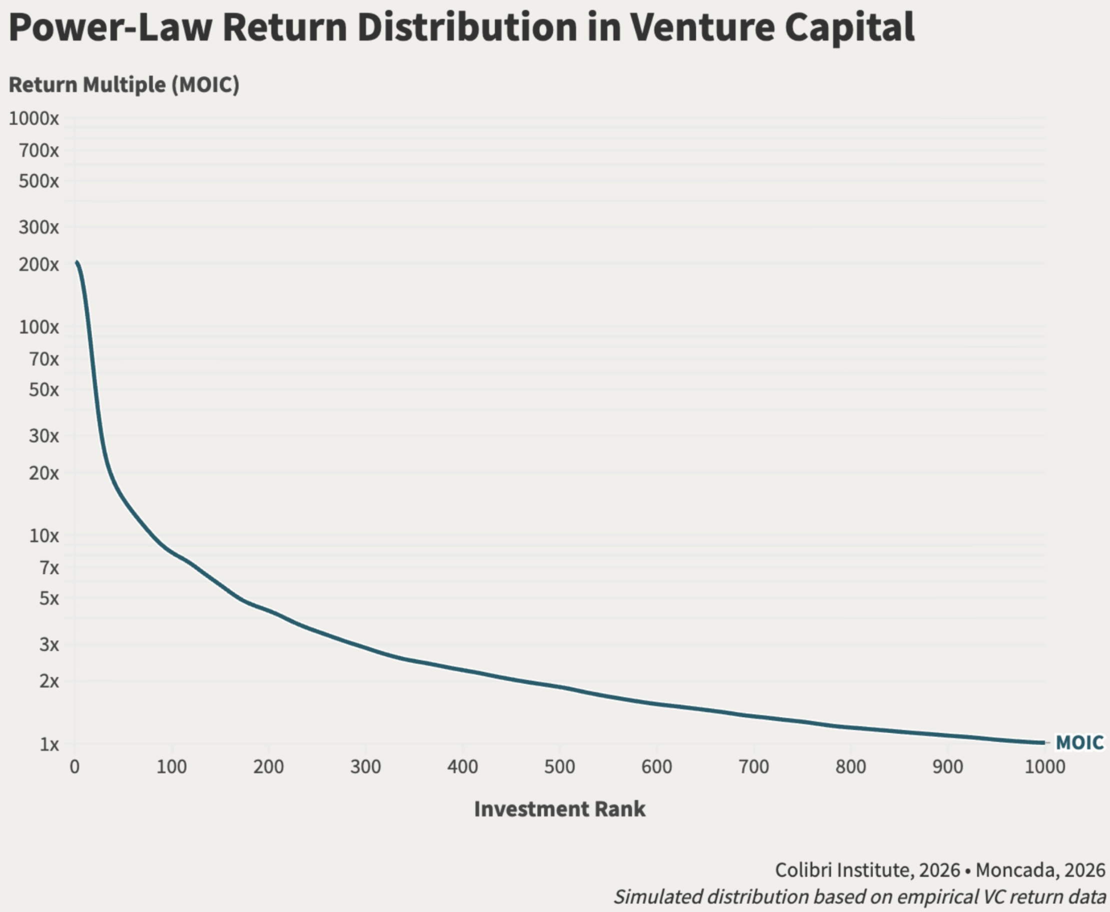
This creates two performance-relevant dynamics. First, sourcing deals is more relationship-intensive by necessity. Emerging managers often gain access over time through trust and founder-level engagement rather than through platform reputation. That can surface opportunities that established fund pipelines miss, particularly outside of the most saturated networks. Second, emerging managers face continuous pressure to adapt. Strategies that do not work are harder to sustain due to institutional momentum. Emerging funds either evolve or fail, creating Darwinian selection pressure that larger established platforms do not face.

The result is a population of managers who, on average, are more adaptive, more relationship-driven, and more focused on identifying differentiated opportunities than their established counterparts. These attributes do not guarantee success, but they can tilt the odds toward outperformance, particularly in early-stage ventures, where access, judgment, and post-investment engagement compound over time.

## Power-Law Returns and Capability Fit

The final mechanism concerns how venture capital returns are distributed, and why that distribution favors the strategies emerging managers adopt.

Venture capital returns do not follow normal distributions, but follow power-law distributions, characterized by extreme right skew and heavy tails (Clauset et al., 2009; Crawford et al., 2015). In practical terms, a small number of investments generate the vast majority of returns. The top 5% of assets in a typical venture portfolio often account for 60% or more of total value. This is not an anomaly; it is a defining feature of venture capital as an asset class.



Power-law dynamics create a fundamental tension in portfolio construction. Traditional Modern Portfolio Theory (MPT), which assumes normally distributed returns, treats diversification as a tool for risk reduction. In venture capital, diversification serves a different purpose: increasing the probability of capturing rare outliers that drive fund-level outcomes. The relevant question is therefore not how much risk is reduced, but how many credible shots on goal a portfolio has to reach an extreme winner, and whether the manager can maintain ownership through the moments that matter.

This is precisely the strategy emerging managers adopt, not by design, but by structural reality. Emerging managers frequently build broader portfolios with smaller checks, often not for ideological reasons but as a response to access constraints and uncertainty. Without consistent access to the most competitive investment rounds or the same information advantages as established platforms, concentrating capital can increase downside risk for emerging managers: a small number of missed investments can disproportionately determine outcomes. Spreading capital across more investments reduces this sensitivity and increases the likelihood of identifying outlier companies that are underpriced, overlooked, or sourced outside mainstream pipelines.

Established funds, by contrast, can make concentration work for different reasons. Brand, relationships, and institutional position can improve access to high-demand opportunities, increase allocation sizes, and strengthen follow-on rights. In that context, larger checks into fewer deals can be rational because the platform is better positioned to reach and maintain exposure to outliers earlier and to support them at scale (Gompers et al., 2009).

The empirical patterns in Section III align with this logic. Portfolio breadth improves performance more for emerging funds but not for established funds. Check size discipline matters more for emerging managers because it enables breadth without exhausting capital. These are not coincidences. They are conditional strategies whose effectiveness depends on a manager's access, infrastructure, and ability to win, and retain ownership in the highest-upside outcomes.

*We are developing a formal theoretical framework that connects power-law dynamics to portfolio construction under heterogeneous capability and access conditions; this will be the subject of forthcoming research.*

For now, the key insight is practical: the optimal venture portfolio strategy in venture capital is not universal and depends on the manager's position within the opportunity network; emerging managers occupy a fundamentally different position than established funds.

## Configuration, Capability, and Fit

The mechanisms we have outlined—capacity advantages in less-efficient segments, forced discipline from capital constraints, founder focus on portfolio management, selection bias toward entrepreneurial talent, concentrated alignment of incentives, and strategic adaptation to power-law return dynamics—operate in combination, not in isolation.

**Emerging managers outperform not because they are categorically superior, but because performance improves when configuration matches capability.**

When an emerging manager maintains check discipline, builds portfolio breadth, stays earlier-stage, and leans into relationship-driven sourcing, strategy, and constraint can reinforce each other. When a fund attempts to mimic large-platform playbooks, such as large average checks, late-stage concentration, heavy reliance on competitive brand-driven access, before it has the networks, governance infrastructure, and follow-on capacity to execute, the strategy can become misaligned and value-destructive.

In that sense, the performance differences documented in Section III are not a verdict on emerging managers as a category, but evidence of strategic fit. Managers who understand their constraints and configure accordingly outperform those who do not. Institutional allocators who can distinguish between the two can access alpha that others systematically overlook.

The following section translates these findings into practical implications for institutional investors.

# V. IMPLICATIONS FOR INSTITUTIONAL INVESTORS

The evidence in Sections III and IV establishes two facts. First, emerging venture capital managers outperform established peers on average. Second, that outperformance stems from strategic configuration under constraint, not categorical superiority. The question for institutional investors is straightforward: what does this mean for how capital should be screened, processed through due diligence, and allocated?

This section translates the empirical findings into practical implications, beginning by quantifying the cost of excluding emerging managers from institutional portfolios. We then challenge a core assumption underlying many screening systems: that firm size is a reliable proxy for enterprise risk. Finally, we offer a framework for designing emerging manager programs that capture alpha rather than satisfy compliance mandates, along with a practical evaluation toolkit for allocators.

## The Cost of Exclusion

### Institutional investors are leaving meaningful returns on the table.

Emerging managers generate IRRs that are 7.2 percentage points higher than those of established funds. Over a typical ten-year fund life, translating into approximately $72 million of incremental IRR-driven value and $35 million of additional total value on a $100 million allocation.

| Allocation Size | Foregone Returns (IRR-driven) | Foregone Returns (TVPI-driven) |
|---|---|---|
| **$100M** | **~$72M** | **~$35M** |
| **$500M** | **~$360M** | **~$175M** |
| **$1B** | **~$720M** | **~$350M** |

Scaled across a typical institutional venture capital portfolio, the opportunity becomes difficult to ignore. If a pension fund allocates $500 million to venture capital and underweights emerging managers at 5%, it forgoes roughly $50-$75 million in incremental returns over the portfolio's lifetime; those spreads compound into material value differences on the same capital base. For example, with an endowment of $1 billion in venture exposure, the opportunity cost could exceed $100 million.

**$360M** foregone returns over portfolio lifetime

for a $500M VC allocation underweighting emerging managers

These are not hypothetical losses, but a predictable result of screening criteria that systematically exclude high-performing managers. AUM thresholds eliminate funds at the phase of organizational development where performance advantages are strongest. Graduation policies that remove managers once they cross an AUM threshold can eject the best performers precisely as they prove their capability. The resulting structural misallocation of capital persists because the "safety in numbers" makes consensus allocations career-protective, even when they are return-dilutive.

## Rethinking Enterprise Risk Assessment

Much of the systematic exclusion of emerging managers rests on a foundational assumption: that firm size correlates with enterprise risk. Larger firms are presumed safer; smaller firms are presumed riskier. This assumption is widespread and too rarely tested.

### What actually drives enterprise risk?

Enterprise risk is a function of fundamentals, not fund size: document adequacy, financial health, operational efficiency, and team dynamics.

| Risk Driver | What to Assess |
|---|---|
| **Document Adequacy** | Client agreements, fund docs, vendor contracts, employment terms, compliance policies—properly executed and maintained |
| **Financial Health** | Runway, staffing sustainability, appropriate budgeting, and stable firm economics |
| **Operational Efficiency** | Infrastructure, processes, technology, and third-party support that reduce fragility and single points of failure |
| **Team Dynamics** | Incentive design, ownership structures, decision rights, and the presence (or absence) of internal friction that undermines execution |

Large firms do not automatically excel in these areas, and small firms do not automatically fail. The relevant diligence question is not "How large is the firm?" but "How well are these fundamentals managed?"

### Why can smaller sometimes be less risky?

In some respects, smaller organizations can present lower enterprise risk, as there are fewer moving parts, which reduces coordination costs. Cleaner organizational charts make accountability clearer. Less operational sprawl can mean fewer failure points. Tighter communication loops make problems visible faster. A three-person emerging manager team with clean legal documentation, healthy cash reserves, reputable outsourced middle and back-office support, and aligned incentives can present lower enterprise risk than a 40-person platform with partnership conflicts, outdated systems, weak controls, and misaligned compensation.

> **CORE TAKEAWAY**
>
> This is not an argument that emerging managers are categorically safer, but an argument that enterprise risk must be assessed on its own terms, not proxied through fund size. Allocators who screen out emerging managers based solely on AUM thresholds conflate two distinct concepts and, in doing so, exclude high-performing managers that would pass rigorous operational diligence.

## Design Principles for Effective Emerging Manager Programs

Many institutional emerging manager programs underperform because they are designed around compliance, stakeholder, or political considerations rather than built as performance-driven components of the core venture allocation. When performance is secondary, outcomes are easier to dismiss, and when results disappoint, programs are often curtailed or eliminated.

**Effective emerging manager programs begin with a different premise: they exist to capture alpha. Everything else follows from that.**

Below are five design principles that consistently show up in programs that work.

## Principle 1: Integration, not isolation.

Emerging managers should not be treated as a separate portfolio with different standards. They should be integrated into the overall venture capital allocation, evaluated using the same core criteria, held to the same performance expectations, and subject to the same retention and termination discipline as established managers.

Integration also requires a credible graduation pathway that allows top-performing emerging managers to transition into the main platforms as they scale. Policies that eject managers once they exceed $100 million in AUM are counterproductive: they remove the strongest performers precisely when institutional relationships, capacity, and access advantages begin to compound.

## Principle 2: Performance-based, not compliance-based.

Programs designed to satisfy diversity, equity, and inclusion or stakeholder mandates often default to selecting managers based on identity rather than capability. The failure mode is predictable: weaker underwriting, noisier outcomes, internal skepticism, and eventual program rollback.

The alternative is straightforward: select managers based on capability and configuration, hold them to the same performance standards as the rest of the venture portfolio, and evaluate retention decisions based on results. Demographic diversity may correlate with emerging status because structural barriers shape access, as documented in Section III. Still, the selection criterion must prioritize capability and include it, rather than relying solely on identity.

## Principle 3: Configuration-focused evaluation.

Evaluating emerging managers requires understanding how a fund configures its portfolios relative to its resource environment. Misconfiguration is often visible early, even before returns are.

Allocators should assess check-size policy, portfolio breadth, stage focus, reserves strategy, and sector positioning, then evaluate whether said choices align with the team's capabilities, access position, and operational bandwidth. Evidence of disciplined configuration is among the strongest early signals of future performance.

### Principle 4: Dual focus on selection and incubation.

Allocating capital to emerging managers is necessary but not sufficient. Institutional investors can improve outcomes by supporting emerging managers in addressing operational weak points, building infrastructure, and scaling without losing the founder-level engagement that often drives advantage.

Rather than micromanagement, this approach focuses on targeted enablement, including facilitating introductions to co-investors, sharing operational and compliance best practices, advising on scaling paths that preserve founder focus and decision quality, and connecting managers to service providers to professionalize middle- and back-office functions. Done well, this support improves manager success rates and strengthens relationships with top-performing firms before broader institutional recognition.

### Principle 5: Evidence-based risk assessment.

Enterprise risk should be evaluated on operational fundamentals: document adequacy, financial health, operational efficiency, and team dynamics, rather than inferred from fund size. Effective operational due diligence focuses on these risk drivers rather than relying on proxies such as assets under management.

The appropriate default is not that "smaller is riskier", but that risk must be assessed on its merits. Many emerging managers will meet rigorous operational standards; those that do not should be excluded for that reason, not because they are below an arbitrary threshold.

## The Opportunity

Emerging managers represent an untapped source of alpha in institutional venture portfolios: the performance data are clear, the mechanisms are increasingly understood, and the evaluation frameworks exist. What remains is execution.

Institutional investors who build disciplined emerging manager programs, integrate them into core allocations, rigorously evaluate configuration, and support operational maturation are positioned to outperform peers who rely on size-based screening criteria and "safety-in-numbers" heuristics. This opportunity is not speculative but empirical, measurable, repeatable in the data, and accessible to allocators willing to adapt their processes.

**The market inefficiency persists because exclusion is systematic. First movers gain access to the strongest emerging managers before they graduate into broader institutional demand. In venture, access compounds: early relationships can translate into repeat allocations, information advantage, and the capacity to shape future outcomes.**

# VI. WHAT THIS MEANS FOR THE INSTITUTIONAL INVESTMENT COMMUNITY

The evidence in this paper challenges foundational assumptions about venture capital allocation. Emerging managers outperform. Their outperformance is driven by strategic configuration under constraint, not luck. In practice, the institutional processes designed to manage risk systematically exclude alpha-generating talent while compounding opportunity costs.

This section addresses what must change. We begin with a call for disciplined reassessment of how emerging managers are evaluated and integrated into institutional portfolios. We then reframe the conversation around emerging managers away from diversity, equity, and inclusion compliance and toward performance and capability. Finally, we outline a research agenda required to deepen understanding and improve decision-making across the institutional investment community.

## A Call for Disciplined Reassessment

The performance case is no longer speculative. Emerging venture capital managers generate higher returns, on average, than their established counterparts. The gap is +7.2 percentage points in IRR, +0.34x in total value creation, and +0.18x in unrealized value. These differences persist across multiple definitions of emergence, hold under rigorous statistical controls, and replicate across modeling approaches designed to account for clustering, selection effects, and temporal variation.

**This is not a marginal finding. It is a structural phenomenon rooted in how resource-constrained managers configure portfolios, how organizational incentives align interests, and how power-law return distributions reward breadth-oriented strategies when information is imperfect and access is uneven.**

Current institutional search processes do not account for these dynamics. They screen on size, track record length, and brand recognition. These criteria correlate with institutional embeddedness but do not predict performance. In practice, they systematically exclude the managers most likely to outperform. AUM thresholds eliminate funds at the organizational phase, where configuration advantages can be strongest. Graduation policies eject top performers precisely as they prove capability. The result is structural misallocation at scale.

The "safety in numbers" mentality that drives this behavior is not safe. It produces opportunity costs that compound over decades. Overweighting consensus managers and underweighting emerging managers is not risk minimization; it is the foregoing measurable returns.

What must change is straightforward: institutional investors should shift from size-based to capability-based screening. They should integrate emerging managers into core allocation strategies rather than treating them as peripheral programs. They should develop internal expertise in evaluating smaller, younger funds, including the ability to assess configuration discipline, capability alignment, and enterprise risk on fundamentals rather than proxies. They should build sourcing and assessment infrastructure for emerging managers that matches the rigor applied to established fund diligence.

Implementing these changes requires updates to search processes, investment committee frameworks, operational due diligence protocols, and performance monitoring systems, but the return case justifies the effort. Institutions that make these changes position themselves to outperform those that do not, as demonstrated by the performance differences documented in this study.

## Beyond DEI: Reframing the Conversation

Much of the conversation around emerging managers has been conflated with diversity, equity, and inclusion (DEI) initiatives. This conflation has not been effective. It positions emerging manager programs as compliance exercises rather than performance imperatives, encourages selection based on identity rather than capability, and creates a predictable failure mode: underperformance, skepticism, and program rollback.

A better approach begins with precision, recognizing that emerging managers are not a demographic category but a structural one defined by exclusion from institutional capital flows. Demographic diversity can correlate with emergence because women and underrepresented groups face documented fundraising barriers. (Cassel et al., 2023; Brophy et al., 2022). But the mechanism is access and constraint, not identity.

This distinction matters. When programs select managers solely based on demographic characteristics, they ignore the configuration and capability factors that actually drive performance. When they hold emerging managers to different standards than established funds, they create separate-and-unequal portfolios that reinforce, rather than correct, bias. When allocation decisions are framed as social mandates rather than alpha opportunities, programs become politically contingent instead of performance-durable.

**Emerging managers should be evaluated on configuration-performance fit, held to the same performance standards as established managers, and selected based on whether their strategic choices align with the resource environment in which they operate, not on whether a founding team meets a demographic target.**

This approach produces stronger outcomes and stronger programs. Capability- and configuration-based selection improves performance, which justifies program continuation and expansion. Institutional credibility grows. And because structural exclusion disproportionately affects women and underrepresented groups, a performance-first approach can still expand demographic diversity, but as a byproduct of removing structural exclusion, not as a substitute for rigorous underwriting.

The result is broader access to differentiated talent, stronger performance from emerging manager allocations, and program sustainability rooted in results rather than political mandate. This is not a rejection of diversity. It is a reframing that puts performance first and recognizes that the most durable and effective way to expand opportunity is to demonstrate, with data, that excluded managers can and do deliver alpha.

## The Research Imperative

This paper presents a comprehensive empirical analysis of emerging venture capital manager performance, introduces a venture-specific definition of emergence, and demonstrates that configuration–performance relationships differ by fund type. The findings are robust across alternative definitions, performance metrics, and model specifications.

At the same time, this analysis is a starting point rather than a conclusion. Important questions remain about how emerging managers source deals, make selection decisions, add value post-investment, and convert unrealized portfolio value into realized outcomes over full fund lifecycles. Further research is also needed to test generalizability beyond U.S. markets and to develop more granular measures of manager capability that go beyond fund-level configuration.

Colibrí Institute is committed to advancing this agenda through ongoing empirical research that bridges academic scholarship and institutional practice, including work on risk–return efficiency, lifecycle dynamics, and capability measurement in venture capital. Continued collaboration among investors, managers, data providers, and researchers will be essential to improve transparency, benchmarking, and decision-making across the asset class.

# VII. CONCLUSION: RECONFIGURING INSTITUTIONAL CAPITAL

The venture capital industry is concentrated, institutionalized, and increasingly resistant to change. Capital flows to established brands. Screening processes favor longer track records and larger sizes. Limited partners follow consensus, confusing "safety in numbers" with prudent risk management. The result is systematic exclusion of emerging managers who, as this paper demonstrates, outperform on average, and do so for reasons that are empirically measurable and theoretically grounded.

## What We Now Know

Emerging venture capital managers generate higher returns than their established counterparts across multiple performance metrics: an average of +7.2 percentage points in IRR advantage, a +0.34x total value creation gap, and a +0.18 unrealized value differential.

Outperformance is not coincidental, but the result of how emerging managers configure their portfolios under constraint. Smaller check sizes, broader portfolios, earlier-stage focus, and disciplined pacing align with the capabilities and resource environments in which these managers operate. When emerging managers maintain that alignment, they succeed. When they attempt to replicate large-platform strategies without the networks, governance infrastructure, or capital base required to execute them, performance deteriorates.

Configuration performance relationships differ by fund type, as the same strategy can produce opposite outcomes depending on whether a fund operates with established platform resources or emerging manager constraints. Portfolio breadth enhances performance for emerging funds but not for established funds. Larger check sizes can benefit established managers while penalizing emerging managers. Later-stage investing can reward established platforms while imposing penalties on emerging funds that lack the syndicate position and reputational capital required to compete effectively.

These patterns are not artifacts of statistical modeling, but reflect fundamental differences in how resource environments shape strategic choices and drive outcomes. Yet many institutional search processes ignore these dynamics, screening on size and track record rather than configuration and capability. The result is measurable alpha left on the table, persistent misallocation at scale, and opportunity costs that compound over decades.

Finally, enterprise risk is not a function of size. Large firms can carry material risks, including succession fragility, operational sprawl, governance drift, and compliance failure, just as smaller firms can. Risk should be assessed on fundamentals such as document adequacy, financial health, operational efficiency, and team dynamics, rather than proxied through assets under management.

## What Institutional Investors Should Do

Institutional investors should rethink how they evaluate, select, and allocate to venture capital managers.

### Shift from size-based to capability-based screening.

➔ Evaluate funds on configuration discipline, capability alignment, and strategic coherence rather than AUM thresholds or brand recognition.
➔ Assess whether portfolio construction choices align with the fund's resource environment.
➔ Recognize that a well-configured emerging manager can outperform a misconfigured established platform.

### Integrate emerging managers into core allocation strategies.

➔ Treat emerging managers as part of the core portfolio, not as separate, experimental, or compliance-driven allocations.
➔ Apply consistent standards: selection criteria, performance expectations, and retention frameworks across all managers.
➔ Build graduation pathways that retain top performers as they scale rather than ejecting them at arbitrary AUM thresholds.

### Develop internal expertise in evaluating smaller, younger funds.

➔ Build the capability to assess configuration rigor and evaluate enterprise risk on fundamentals.
➔ Distinguish between managers adapting strategically to constraints and those improvising without discipline.
➔ Create sourcing and assessment infrastructure for emerging managers that matches the rigor applied to established fund diligence.

### Focus evaluation on configuration.

➔ Examine how funds structure portfolios given their constraints.
➔ Assess the check size policy, portfolio breadth, stage focus, and sector positioning.
➔ Look for evidence that managers understand their capabilities and configure accordingly.
➔ Evaluate whether choices reflect strategic intent or tactical drift.

## The Opportunity

Emerging managers represent an untapped source of alpha in institutional venture capital portfolios. The performance data are clear, the mechanisms are understood, and the barriers to access are systematic rather than fundamental.

Institutional investors who build disciplined emerging manager programs will outperform peers who rely on size-based heuristics and consensus-driven allocation. The market inefficiency created by systematic exclusion is persistent and measurable. First movers who recognize this dynamic can gain access to the strongest emerging managers before they graduate to larger platforms and broader institutional recognition. In venture, those early relationships compound: they shape future access to allocation, capacity, and information advantage across investment cycles.

**This is not a speculative opportunity. It is empirical, data-driven, and accessible to allocators willing to adapt their processes. The question is not whether emerging managers can deliver alpha. The data show they do. The question is whether institutional investors will build the capabilities to identify and access it.**

# FINAL THOUGHTS

More than a decade ago, NexTier Consulting observed that "the single greatest misconception plaguing the selection process is that AUM is an accurate proxy for a firm's ability to manage operational, financial, compliance, and other business risks."

The evidence now demonstrates that this misconception carries real cost at an institutional scale. Emerging managers often outperform not despite constraints but, in many cases, because constraints shape configuration discipline. They build portfolios that fit their capabilities. They operate with a high level of accountability that large platforms struggle to replicate. And they can access segments where capacity limits preserve inefficiency and, therefore, preserve alpha.

The evidence is clear, the mechanisms are established, and what remains is execution. Institutional investors who act on this research, reconfiguring search, diligence, and portfolio construction to capture rather than screen out emerging manager alpha, can generate higher returns for their beneficiaries. Those who do not will continue to accept measurable value on the table while following consensus.

**The choice, and the opportunity, sit with allocators.**

# METHODOLOGY

This analysis draws on data from 2,471 U.S.-based venture capital funds raised between 2000 and 2024, spanning multiple market cycles. Fund-level performance data were sourced from PitchBook (PitchBook, 2024). The sample includes funds across all stages, including seed, early, and growth, and covers a period sufficient to observe full fund lifecycles and realized outcomes.

Funds are classified as emerging using the multidimensional framework introduced in Section II, including funds managing less than $100 million in assets, Funds I–III, firms with vintages under five years, or those with women general partners on the founding team. Performance is measured using four standard metrics: Internal Rate of Return, Total Value to Paid-In, Distributions to Paid-In, and Residual Value to Paid-In.

Statistical analysis includes descriptive comparisons, regression models controlling for vintage year and fund size, and robustness checks under alternative definitions of emergence to ensure findings are not artifacts of classification choices. A key data limitation is that the dataset captures only the gender composition of founding teams; consistent data on other dimensions of founder background, including race and ethnicity, were not available across the full sample.

# ABOUT COLIBRÍ INSTITUTE

Colibrí Institute is an independent, nonprofit research organization advancing empirical, venture-specific research to strengthen institutional decision-making in venture capital. The Institute produces open-access research and field intelligence for allocators, policymakers, universities, and ecosystem leaders, bridging academic scholarship and investment practice. While its work informs the broader Colibrí platform, the Institute operates with clear intellectual independence and a long-term, public-interest research agenda.

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# APPENDIX A: DATA, SAMPLE CONSTRUCTION, AND DESCRIPTIVE STATISTICS

This appendix provides an overview of the dataset, variable construction, and summary statistics underlying the analysis presented in this paper. The purpose of this appendix is to document data scope and structure, establish transparency around measurement choices, and support interpretation of the empirical findings without interrupting the practitioner-facing narrative in the main text.

## Academic Research Foundation

This whitepaper draws on original empirical research conducted as part of an ongoing doctoral dissertation examining venture capital fund configuration and performance. The underlying analysis is documented in a longer-form academic working paper and is available upon request.

## Data and Sample Construction

The analysis draws on a sample of 2,471 U.S.-based venture capital funds raised between 2000 and 2024, spanning multiple market cycles. Fund-level performance and characteristics were sourced from PitchBook and supplemented with internal data cleaning and validation procedures.

Funds are classified as emerging or established using the multidimensional framework described in Section II. A fund is classified as emerging if it meets at least one of the following criteria at the time of fundraising:

1. assets under management below $100 million,
2. Fund I, II, or III,
3. firm vintage under five years, or
4. inclusion of women general partners on the founding team.

This definition is intentionally structural rather than demographic and reflects the mechanisms through which funds are excluded from institutional search processes prior to performance evaluation.

## Variables

Performance outcomes are measured using four standard venture capital metrics:

- Internal Rate of Return (IRR)
- Total Value to Paid-In (TVPI)
- Distributions to Paid-In (DPI)
- Residual Value to Paid-In (RVPI)

Portfolio configuration variables include average check size, number of investments, stage focus, sector breadth, and capital deployment characteristics. Control variables include fund size, total assets under management, dry powder, fund sequence, firm vintage, and team composition. All monetary values are reported in U.S. dollars.

## Descriptive Statistics and Correlations

Table 1 presents summary statistics and pairwise correlations for the full sample and for emerging and established funds separately. The table highlights systematic differences in fund size, portfolio construction, and performance outcomes across fund types.

Several patterns are evident. Emerging funds operate with smaller fund sizes and average check sizes, build portfolios with greater breadth relative to capital deployed, and invest slightly earlier on average. Despite these constraints, emerging funds exhibit higher average performance across multiple metrics, consistent with the results presented in the main analysis.

Correlation coefficients are provided for transparency and exploratory context only. They are not intended to imply causal relationships. Formal inference in the paper relies on multivariate regression analysis, controlling for vintage year, fund size, and fund sequence, along with robustness checks across alternative definitions of emerging managers and model specifications.

## Limitations

As with all private market datasets, the analysis is subject to reporting and survivorship biases. Performance metrics reflect reported outcomes and may differ from realized results over full fund lifecycles. The sample is limited to U.S.-based venture capital funds; generalization to other geographies requires further study. Demographic data availability is limited primarily to gender composition; other dimensions of manager background were not observable.

**Table 1. Descriptive Statistics and Correlations**

*Panel A: Summary Statistics*

| | *Emerging Funds (n=1,259)* | | | | | | *Established Funds (n=1,212)* | | | | | | *Full Sample (N=2,471)* | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Variable | N | Mean | Std. Dev. | Q1 | Median | Q3 | N | Mean | Std. Dev. | Q1 | Median | Q3 | N | Mean | Std. Dev. | Q1 | Median | Q3 |
| Performance Metrics | | | | | | | | | | | | | | | | | | |
| IRR (%) | 924 | 17.150 | 29.060 | 0.790 | 12.570 | 28.150 | 923 | 9.940 | 20.010 | (0.650) | 7.200 | 17.180 | 1,847 | 13.550 | 25.050 | 0.260 | 10.020 | 21.900 |
| DPI | 969 | 0.890 | 1.460 | 0.000 | 0.400 | 1.180 | 966 | 0.770 | 0.990 | 0.000 | 0.410 | 1.280 | 1,935 | 0.830 | 1.240 | 0.000 | 0.400 | 1.230 |
| TVPI | 964 | 2.050 | 2.140 | 0.960 | 1.430 | 2.400 | 995 | 1.710 | 1.250 | 0.990 | 1.350 | 2.040 | 1,959 | 1.880 | 1.740 | 0.980 | 1.390 | 2.220 |
| RVPI | 905 | 1.190 | 1.200 | 0.390 | 0.970 | 1.510 | 917 | 1.010 | 0.890 | 0.420 | 0.950 | 1.290 | 1,822 | 1.100 | 1.060 | 0.400 | 0.960 | 1.400 |
| Configuration Variables | | | | | | | | | | | | | | | | | | |
| Total Investments | 1,116 | 28.430 | 31.350 | 9.000 | 20.000 | 38.000 | 938 | 37.230 | 51.650 | 6.000 | 21.000 | 48.000 | 2,054 | 32.450 | 42.020 | 7.000 | 20.000 | 42.000 |
| Avg Check Size (M USD) | 992 | 17.410 | 100.270 | 1.070 | 3.190 | 8.310 | 868 | 60.260 | 168.100 | 3.390 | 9.850 | 39.780 | 1,860 | 37.410 | 138.630 | 1.920 | 5.380 | 17.430 |
| Investment Stage | 1,252 | 1.680 | 0.550 | 1.000 | 2.000 | 2.000 | 1,212 | 1.780 | 0.540 | 1.000 | 2.000 | 2.000 | 2,464 | 1.730 | 0.550 | 1.000 | 2.000 | 2.000 |
| Num of Industries | 996 | 2.190 | 3.860 | 1.000 | 1.000 | 2.000 | 853 | 1.670 | 2.160 | 1.000 | 1.000 | 2.000 | 1,849 | 1.950 | 3.150 | 1.000 | 1.000 | 2.000 |
| Num of Verticals | 715 | 1.520 | 1.060 | 1.000 | 1.000 | 2.000 | 649 | 1.430 | 0.960 | 1.000 | 1.000 | 2.000 | 1,364 | 1.480 | 1.010 | 1.000 | 1.000 | 2.000 |
| Control Variables | | | | | | | | | | | | | | | | | | |
| Fund Size (M USD) | 1,200 | 163.440 | 309.150 | 20.000 | 64.750 | 200.000 | 1,173 | 426.580 | 724.400 | 62.500 | 207.500 | 500.000 | 2,373 | 293.520 | 554.540 | 36.910 | 135.050 | 350.000 |
| Dry Powder (M USD) | 1,101 | 25.290 | 84.930 | 0.370 | 2.590 | 11.210 | 1,073 | 61.860 | 140.400 | 1.100 | 9.720 | 56.910 | 2,174 | 43.340 | 115.940 | 0.650 | 4.950 | 24.590 |
| Total AUM (M USD) | 1,259 | 1,151.760 | 2,263.170 | 31.310 | 271.000 | 1,199.000 | 1,212 | 3,972.890 | 5,334.640 | 439.530 | 1,712.300 | 4,934.670 | 2,471 | 2,532.800 | 4,279.850 | 147.410 | 652.000 | 2,948.740 |
| Vintage Year | 1,246 | 2,013.280 | 7.060 | 2,007.000 | 2,015.000 | 2,019.000 | 1,172 | 2,013.830 | 7.160 | 2,008.000 | 2,015.000 | 2,020.000 | 2,418 | 2,013.550 | 7.110 | 2,008.000 | 2,015.000 | 2,020.000 |
| Fund Number | 1,227 | 3.000 | 4.450 | 1.000 | 2.000 | 3.000 | 1,157 | 15.190 | 22.080 | 3.000 | 7.000 | 17.000 | 2,384 | 8.920 | 16.740 | 2.000 | 4.000 | 9.000 |
| Num of Female GPs | 1,244 | 0.240 | 0.530 | 0.000 | 0.000 | 0.000 | 1,161 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 2,405 | 0.120 | 0.400 | 0.000 | 0.000 | 0.000 |
| Num of All GPs | 1,207 | 1.230 | 1.200 | 0.000 | 1.000 | 2.000 | 1,135 | 0.900 | 1.050 | 0.000 | 1.000 | 1.000 | 2,342 | 1.070 | 1.140 | 0.000 | 1.000 | 2.000 |
| Total Deal Roles | 1,259 | 31.280 | 55.790 | 0.000 | 4.000 | 30.000 | 1,212 | 44.760 | 76.510 | 0.000 | 12.000 | 54.000 | 2,471 | 37.860 | 67.030 | 0.000 | 8.000 | 45.000 |

*Panel B: Pearson Correlation Matrix*

| Variable | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. IRR | 1.000 | | | | | | | | | | | | | | | | |
| 2. DPI | 0.361 | 1.000 | | | | | | | | | | | | | | | |
| 3. TVPI | 0.603 | 0.785 | 1.000 | | | | | | | | | | | | | | |
| 4. RVPI | 0.501 | (0.042) | 0.585 | 1.000 | | | | | | | | | | | | | |
| 5. Fund Number | (0.037) | (0.029) | (0.048) | (0.039) | 1.000 | | | | | | | | | | | | |
| 6. Vintage Year | 0.433 | (0.205) | 0.157 | 0.522 | 0.082 | 1.000 | | | | | | | | | | | |
| 7. Years Since Vintage | (0.433) | 0.205 | (0.157) | (0.522) | (0.082) | (1.000) | 1.000 | | | | | | | | | | |
| 8. Avg Check Size | (0.011) | (0.037) | (0.035) | (0.007) | 0.504 | 0.057 | (0.057) | 1.000 | | | | | | | | | |
| 9. Total Investments | 0.017 | 0.108 | 0.103 | 0.025 | 0.014 | (0.073) | 0.073 | (0.172) | 1.000 | | | | | | | | |
| 10. Num of Industries | 0.024 | (0.084) | (0.049) | 0.031 | (0.004) | 0.061 | (0.061) | 0.007 | (0.076) | 1.000 | | | | | | | |
| 11. Num of Verticals | 0.142 | (0.086) | 0.044 | 0.183 | 0.044 | 0.274 | (0.274) | 0.010 | (0.148) | 0.164 | 1.000 | | | | | | |
| 12. Fund Size | (0.036) | (0.024) | (0.070) | (0.081) | 0.423 | 0.047 | (0.047) | 0.624 | 0.183 | (0.041) | (0.043) | 1.000 | | | | | |
| 13. Dry Powder | 0.062 | (0.101) | (0.051) | 0.050 | 0.165 | 0.283 | (0.283) | 0.267 | (0.039) | 0.022 | 0.088 | 0.515 | 1.000 | | | | |
| 14. Total AUM | 0.031 | 0.075 | 0.025 | (0.058) | 0.390 | 0.046 | (0.046) | 0.200 | 0.298 | (0.067) | (0.022) | 0.611 | 0.326 | 1.000 | | | |
| 15. Num Female GPs | 0.109 | (0.067) | (0.011) | 0.070 | (0.074) | 0.186 | (0.186) | (0.011) | (0.003) | 0.267 | 0.056 | (0.049) | 0.002 | (0.048) | 1.000 | | |
| 16. Num All GPs | 0.145 | (0.042) | 0.072 | 0.171 | (0.096) | 0.281 | (0.281) | (0.059) | 0.094 | 0.034 | (0.011) | (0.047) | 0.034 | 0.010 | 0.387 | 1.000 | |
| 17. Total Deal Roles | 0.113 | 0.038 | 0.142 | 0.180 | (0.043) | 0.213 | (0.213) | (0.063) | 0.218 | (0.042) | (0.054) | 0.012 | 0.047 | 0.146 | 0.182 | 0.708 | 1.000 |

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