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Fast Money / Slow Money in VC during a financial crisis - Tribe Capital

5-6 minutes

> Today we are sharing additional research on the impact historical downturns have had on VC behavior. The report was originally shared within our investment team then sent to all our partners and founders, and is included below.

———- Forwarded message ———
Date: Tue, Mar 31, 2020 6:29 PM
Subject: Fast Money / Slow Money in VC during a financial crisis
To: LPs; Founders

To our partners and founders,

In an effort to help advise and guide our companies, we recently released research on the impact that the 2008 financial crisis had on companies and their ability to fundraise.

In the last few weeks, there have been many rumors about investors re-trading, re-pricing and/or walking away from their prior commitments at the 11th hour despite signed term-sheets and pending definitive documents/wires. As previous founders, we understand that these situations can be devastating to your company and your team. We've personally gone through this with larger firms during the great financial crisis and some of those firms are still around today behaving exactly how they behaved during any glitch in the economy.

To help the entrepreneurial community think about who they partner with and how they partner with firms it's important to understand how firms have behaved during past circumstances.

Capital allocators have a portfolio of companies they need to prioritize or triage. For example, at Tribe Capital, we sent a note to our LPs of how we were spending our time and attention with our companies because this moment is a critical one for many of them and we must spend our time wisely to help the ones that need it the most. Investors of all types are likely making such tradeoffs during this rapidly evolving situation.

> Our triage framework for our portfolio companies

We are in it for the long run, and will do whatever it takes to help our portfolio, LPs and partners make it through whatever might come. Some other investors will do this too, by being what we call "Slow" money: persevering through tough times alongside their portfolio companies and coming out on the other side, no matter what. Naturally, others are "Fast Money," coming in quickly, but also retreating when the going gets tough, often because they participated in VC for transactional or opportunistic reasons, or if their capital base was at elevated risk.

The question every entrepreneur should be asking is, where should I be spending my time to find partners that will align with our long-term vision?

We can look to history for guidance for questions like this by exploring different categories of investors and how they reacted to the financial crisis.

An analysis along these lines is attached. This analysis is based on investment data and is independent of how investors claim they reacted during the crisis. We learned that different categories of investors reacted differently. Some hardly yielded ("Slow" money) and others traded out, cut ties or couldn't withstand the downturn ("Fast" money).

Our findings provide us with confidence in recommending to our portfolio that they continue to partner with traditional venture capital firms that are long-term players in the space.

Avoid transactional, opportunistic firms at all costs.

These “Fast” money firms are not in the business of venture capital. They aren’t interested in helping with company building in the long run. They are what is commonly referred to as “fair-weather friends.”

At Tribe, we’ve been through all kinds of storms, big and small.

We’re here to help every single one of our portfolio companies, and if you as a founder or partner feel like you need advice, don’t hesitate to reach out to ask for help at hello@tribecap.co

We have your back and we will respond.

———- Forwarded message ———
Date: Tue, Mar 31, 2020 at 3:48 PM
Subject: fast money / slow money in vc during the financial crisis
To: Investment Team

Hi all,

As a follow up to the research around how startups weathered the financial crisis we filled in some of the picture around VC funds — memo attached.

We didn’t see much of an effect on long term outcomes for startups, but we *do* see effects on VCs. In particular small / micro vcs and “transactional vcs” (investors whose participation is opportunistic or strategic) had lower retention rates through the crisis versus normal periods (a statistically significant result). Transactional VCs were particularly “fast money,” and we estimate 1 of every 3 that would have stayed in the game in good times dropped out because of the recession.

With fast money in the system, continuing to be there for our LPs / entrepreneurs / broader partners will probably become more important if the financial climate worsens.