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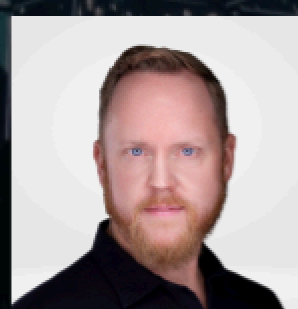
Virtual Event Series

How to Launch a VC Firm

Guest Speaker:

Asher Siddiqui
General Partner
Sukna Ventures

Hosts:



Kenny Estes
CEO & Founder
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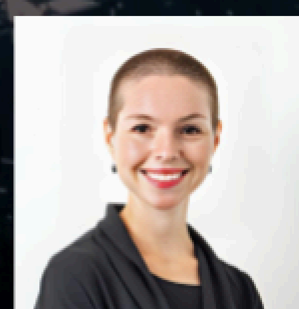

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COO & Co-Founder
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DiffuseTap: How to Launch a VC Firm

Last time on DiffuseTap, Asher Siddiqui, General Partner at Sukna Ventures, talked to us about why VCs should be thinking about exiting as early as fund one, setting up a robust back office, and the importance of establishing institutional processes early on for long-term success.

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Meet the Speaker

ASHER SIDDIQUI is a seasoned tech investor with 25+ years of experience in entrepreneurship, corporate development, and venture capital, with 100+ investments and $15 billion in M&A deals. Based between the San Francisco Bay Area and Dubai, Asher is a General Partner at Sukna Ventures, where he invests in early stage startups focused on or from the MENA region, and on the side, advises institutional LPs and mentors emerging VC fund managers worldwide. LinkedIn: @ashersiddiqui

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KENNY ESTES: It's now over to Mr. Siddiqui. If you want to unmute yourself, and give everyone a little bit about your background.

ASHER SIDDIQUI: Thank you, Kenny. Before I give my background, I couldn't endorse the Geeks community more. I've been part of it for 10 years. Some of my best friends are part of the Geeks community. Sorry, Kenny, I hope you don't mind me going on about the Geeks.

KENNY: Literally, spend the next 15 minutes plugging it if you want—that's completely fine.

ASHER: And this is not a plug because I have no stake in it. I've just been a beneficiary of the Geeks. What is great about the Geeks is that you're pulled into an environment with super-smart people who share aligned interests, and then you go into different ecosystems together. I'm actually really excited about the Africa trip coming up. I hope I can make it, but I have to figure out if my wife and daughters will give me permission to go. Some of the best experiences I've ever had have been with the Geeks.

Some of my best friends and people I've raised funds with were on Geek trips. So, if you're trying to figure out your next move or looking for opportunities, it's a great resource. For example, my friend Chok Ooi (co-founder of 42Geeks) went on a Geeks Africa trip in 2017 with me, then he came back to the U.S. and launched a startup that he later exited successfully, all because of that trip. I can't endorse Geeks trips enough, but I'll shut up about that now. I didn't mean for this to be a plug—I'm just excited to have Kenny and Faith now running the trips.

My name is Asher. I'll TRY to keep it short and sweet, though I'm not known for that. I'm almost 50, so let's backtrack a bit. I graduated in 1998. I am from the UK, though my accent might not sound like it because I'm a third-culture kid. My parents are from the subcontinent, I was born in London, and I went to 12 different schools across four countries in Africa, the Middle East, Asia, and the UK. So, I'm a bit "messed up" by definition.

In 1998, I realized the UK wasn't for me, so I packed my bags. For the first eight years of my career, I was a digital nomad—though I didn't call myself that until three or four years ago when the term became popular. From 1998 to 2004, I lived in New York, Chicago, St. Louis, Indianapolis, LA (or more accurately, Irvine and Huntington Beach), and then the Bay Area in Santa Clara.

KENNY: I'm going to jump in since we only have 15 minutes left. Could you skip ahead a bit and give us some background on the VC funds we're here to discuss?

ASHER: Sure. From 2006 to 2016, I spent 10 years in corporate development in telecoms in Dubai and Abu Dhabi, handling $15 billion in M&A. Then I launched a $100 million fund of funds to invest in venture capital. Since 2016, I've been a VC. I joined 500 Startups as part of the management team, and then left 500 in 2019 and since then, I've helped launch six VC firms globally. I'll shut up now.

KENNY: Wow, you ended on a high note there. Very efficient—I love it! All right, so six different VC firms worldwide. Let's start with the basics. How do you find partners? Say, someone wants to launch a VC in Poland. What qualities should they look for in a partner?

ASHER: That's probably the hardest question. Every day I meet super-smart people who are great investors, but just being a good investor doesn't make you a good VC. Let me unpack that. In recent years, we have had amazing angel investors who are great at spotting good opportunities. I'm not looking for those guys. I'm looking for people who have those skills *and* something else.

For me, a good VC is not a one-, two-, or even three-trick ponies. I want someone who is a great investor, has unique insights into a market opportunity, and can raise capital, generate deal flow, and build a unique portfolio—all while being committed for the long term. It's challenging because you'll find talented one- or two-trick ponies who are only in venture because they have the privilege of access to capital. But that doesn't mean they're a great VC.

And honestly, I'm not even sure I'm a great VC yet. I've only been at this for 10 years, and it takes 8–10 years just to know if you're good and want to keep going. I think I do, but who knows?

KENNY: That's fascinating. Fun fact—I raised a seed-stage B2B fintech VC fund before I'd ever written a single angel check. I had no idea why people trusted me with their money, but it worked out for them. Now, speaking of long-term commitment, why is longevity so important when choosing partners?

ASHER: Great question. Longevity isn't important to everyone, but it is if you're looking for institutional capital. If you're a good investor and just want to try out venture capital, you can likely raise a fund by talking to a thousand people, then see if you're good at it and want to continue.

But my focus is institutional capital because, if you're a general partner (GP) looking to build a platform and stay long-term, institutional capital is ideal. And when I talk about institutional capital, I mean investors whose primary mandate is to invest in funds. Institutional capital is patient; they take a long time to get to know you and build conviction, but once they commit, they are in it for the long haul.

Institutions deploy capital over 20, 30, even 50 years. They may seem high-maintenance at first, but after they commit, it's easier to secure funding for fund two, fund three, and so on. So if you're an emerging manager interested in trying out venture capital, I'd say go for it—just don't waste the time of LPs who are institutionally-minded if you are not committed long-term.

KENNY: That makes sense. And I think that is pretty consistent with the fact that most larger investors in venture *do not* touch first-time fund managers. This is one of the many reasons why—not just if they can raise it, but also if they can operate it, and if they have the right processes in place. So, let's stick there for a second. Let's say someone like Jesse in the audience here wants to start a VC fund. What would be the biggest stumbling block he is going to run into?

ASHER: Let's focus on poor Jesse. I have plenty of case studies of first-time fund managers, and I tell them—like I would tell Jesse—institutional LPs for a first fund? Forget about it. It's not going to happen. But when I talk to people like Jesse, I always say this: Just because you are unlikely to get institutional capital for fund one doesn't mean you shouldn't act like you're going to get institutional capital from fund one.

I have worked with six different funds in various parts of the world, and I told each one, "There's no way you're getting institutional capital for fund one." But if you want to build a long-lasting franchise, a platform that endures long after you're gone, then let's talk about building an institutional platform.

So, my point is that if you act like you are building an institutional platform—by doing things my venture friends might call "stupid stuff" that you don't need to do at this stage—you will be setting up a foundation that can attract institutional LPs, maybe not right away, but possibly by fund two or fund three.

And honestly, as Dave here knows very well I have no ego, but I can say this: I've co-founded six VC firms, and all six had significant or major institutional fund-of-funds on the cap table by the final close of fund one. It took time, sure, but the point is if you structure yourself like an institutional fund, you might just get lucky and attract those fund-of-funds investors even for fund one.

KENNY: So, in short, "fake it to make it." Do the "stupid stuff," even if you don't necessarily need to. What are some specific examples of this "stupid stuff" that, while unnecessary for a first fund, is essential if you want institutional capital?

ASHER: First off, it's not really "fake it till you make it." The point is, you're going to have to *invest* in these structures. For example, I make all my fund managers write Private Placement Memorandums (PPMs). Most people tell first-time fund managers, "Don't bother with a PPM because you're not going to meet institutional investors anyway." But, let me ask—are there any entrepreneurs here, like founders or ex-founders?

KENNY: Yes, I'd say there are quite a few.

ASHER: Great. A PPM is like a business plan. So, when you started your company, you probably built a business plan, right? A PPM serves that same purpose. Let me break it down: think of yourself as an entrepreneur. But in this case, your "first product" is your fund. Now, just like in a tech startup, your product isn't just a couple of lines of code and an interface. To launch, you need infrastructure that supports everything from customer onboarding to account management.

In my early career, I didn't build businesses—I built products. But if you're a VC, you're not just creating a product; you're building a firm that will launch multiple "products" over time, with each fund as a new "product". This requires you to establish the infrastructure around it, starting with your PPM.

As you draft your PPM, which is a detailed document, you will find that some assumptions are baseless, and some are insightful. This process forces you to validate your thesis, identify your unique advantage, and then back that up with research. The PPM becomes more than a business plan—it's a blueprint for how you see the market and the opportunity within it.

KENNY: That makes sense. Setting up these processes and planning as if you'll succeed from the start. I assume you'd also recommend getting a fractional CFO early on and having a robust CRM system for tracking deals. That way, you can leverage your data for positioning and marketing by the time you reach fund two.

ASHER: Yes, but let me clarify. When I talk about the "stupid stuff", I'm actually referring to the backend, not the front-end things like networking and CRM, which are table stakes. What I'm talking about is the back office: fund administration, LP reporting, accounts—basically, all the unglamorous but essential components.

Take exits, for example. By fund one, or even fund two or three, nobody is typically thinking about exits. But you need to plan for them and model various scenarios. I find it disappointing when I talk to first-time fund managers who think this is a waste of time. To me, it's crucial. Portfolio management does not mean passively waiting for updates and then marking up your portfolio. It means actively engaging with your portfolio companies, building and maintaining relationships, and tracking them independently to form an objective view on how they're doing.

So, in fund one, institutional LPs will judge you based on how well you report and your perspective on your portfolio. It's okay to be wrong, but you have to demonstrate a sense of fiduciary responsibility. You're managing other people's money, which means managing their investments. They will be looking at how well you understand your portfolio, how you are sticking to your investment thesis, and how effectively you are managing what you promised.

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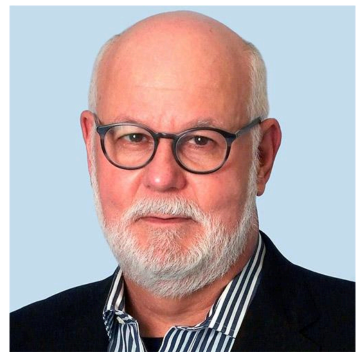

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