

# Investor Expertise and Private Investment Selection

Shane Miller<sup>1</sup>, Emmanuel Yimfor<sup>2</sup>, Ye Zhang<sup>3</sup>

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## Abstract

Individual investors own 50% of global assets but only 16% of private market assets. As regulations expand individual investor access to private markets, we examine how they select venture capital funds compared to professional investors. In a survey experiment with 593 professional and 445 individual investors, we find that while both groups prioritize returns, they differ systematically in how they evaluate general partners (GPs). Professionals favor experienced GPs with strong track records, while individual investors prefer prestigious educational backgrounds and are indifferent to fund historical financial performance. These differences matter: based on historical performance persistence, the funds favored by professionals would outperform those chosen by individuals by 2.16 percentage points. Using SEC Form D data, we confirm that funds with more individual investors have worse investment outcomes. Our results suggest that even as access barriers fall, differences in fund selection may perpetuate performance gaps between individual and professional investors in private markets.

JEL: G11, G24, G30, G33, G34, G38

*Keywords:* Investor Expertise, Venture Capital, Private Equity, Asset Allocation, Experiment

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<sup>1</sup> University of Michigan, Stephen M. Ross School of Business, 701 Tappan Street, Ann Arbor, Michigan 48109, U.S.A. *email:* shanehm@umich.edu

<sup>2</sup> Columbia University, Stephen M. Ross School of Business, 665 W 130th St, New York, NY 10027 USA *email:* emmanuel.yimfor@columbia.edu

<sup>3</sup> Stockholm School of Economics, Finance Department, Sveavägen 65, 113 83 Stockholm, Sweden *email:* Ye.Zhang@hhs.se

# I. Introduction

In the evolving landscape of global wealth management, assets under management (AUM) have surged by 118%, from \$57.8 trillion in 2012 to \$125.9 trillion in 2021.<sup>1</sup> This growth is particularly notable in private markets, where AUM has skyrocketed by over 300%. Despite this remarkable growth, individual investors represent only 16% of total private capital AUM, a stark contrast to their 50% share in global AUM. This suggests a potential shift in market dynamics when individuals start to explore private market opportunities, a trend facilitated by recent regulatory changes. Specifically, the SEC’s amendments have expanded the pool of individuals eligible to qualify as accredited investors.<sup>2</sup> Despite the increasing accessibility of private markets to individual investors, little is known about how they choose investments compared to professional (institutional) investors. To address this gap, we conduct an experiment to provide the first empirical evidence on how individual investors’ venture capital (VC) fund selections compare to those of professionals.

It is challenging to understand how individual investors select private market investments using observational data alone. Standard databases mainly record completed deals, which reflect equilibrium outcomes influenced by both investors’ fund selection choices and their access to deals. Additionally, identifying natural experiments that isolate fund selection behavior without affecting investment opportunities is challenging. To address these issues, we adopt a controlled experimental approach based on [Lyons-Padilla et al. \(2019\)](#) and [Colonnelli et al. \(2022, 2023\)](#). By randomly assigning investment opportunities to participants, we standardize deal access, allowing us to isolate variation in fund selection behavior across investor types. Thus, we can control the supply of investment

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<sup>1</sup> See “[A New Foundation for Global Wealth: Rebuilding Portfolios for the New Regime.](#)”

<sup>2</sup> See the [Information Letter from the Department of Labor](#), the [Accredited Investor Definition Review Act](#) and [SEC’s Amendments to Accredited Investor Definition](#). Previously, individual investors, regardless of their financial knowledge, were excluded from investing in private markets if they did not meet certain income or net worth criteria. The SEC imposes these restrictions to “protect” individual investors due to the higher risks associated with private market investments compared to public markets. The recent SEC policy change, which expands the pool of accredited individual investors, aims to inject more capital into the private market and tap into the investment expertise of individual investors who were previously excluded.

opportunities and understand investors' demand.

Our experiment was implemented between 06/2023 and 08/2023. In total, 593 professional investors, alongside 445 accredited individual investors possessing private market investing experience participated. The experimental design follows the standard factorial experiment, akin to the pager evaluation experiment in [Lyons-Padilla et al. \(2019\)](#). Specifically, the experiment involves orthogonally randomizing characteristics of a VC fund's investment team seeking funding from investors (i.e., limited partners, LPs). These characteristics include commonly presented information on GP one-pagers, which are the first documents investors see in the fundraising process. Characteristics such as the GPs' work experience, educational background, professional network, team's prior performance or track record, fund type, and geographic location are typically highlighted. We randomly combine these attributes to create unique hypothetical one-pagers. We then ask the participants in the study to randomly evaluate one of these one-pagers and provide their likelihood of investing in the VC fund (i.e., their investment interest rating).

For both professional and individual investor groups, we analyze how these randomly assigned GP characteristics explain variations in investment interest ratings, allowing us to identify which characteristics most strongly influence investment decisions within each investor category.

Besides the investment interest ratings, we also collect information on how the different investor groups interpret the amalgamation of GP characteristics. Participating investors additionally evaluate each fund's network, matching likelihood (i.e., the likelihood the GP team accepts an investment offer from the investor), expected future returns, and potential risks. Crucially, the institutional and individual investor samples are presented with identical questions and identically randomized pagers. The only difference is that the professional investor sample is recruited from a list of known decision-makers at institutional LPs, while the individual investor sample is recruited randomly from a population of accredited individual investors.

We begin by showing that individual and professional investors prioritize different GP characteristics. Professionals favor GPs that are seasoned fund managers, have en-

trepreneurial experience, and have a strong track record. In contrast, individual investors select GPs with prestigious educational backgrounds and are indifferent between investing in first-time or seasoned funds. Both groups associate their preferred attributes with funds that are likely to have high investment returns. However, they differ in which GP characteristics they believe will generate these returns, ultimately leading to different preferences over GP characteristics.

While analyzing the relationship between GP characteristics and investment interest revealed different preferences across investor groups, we also examine how investors' other evaluations of the fund correlate with their investment interest. For both groups, investment interest ratings are positively correlated with their evaluations of expected returns. However, institutional investors' investment interest ratings are also strongly positively correlated with their network evaluation ratings and strongly negatively correlated with their risk evaluation ratings. These correlations are significantly weaker for individual investors. This suggests that while both groups similarly value returns and understand the importance of networks, they differ in how they map GP characteristics to the fund attributes they recognize as important for success.

Considering the distinct fund selection strategies employed by professional and individual investors, we next investigate the impact of these differences on investment performance. Leveraging the well-documented persistence of VC fund performance in [Harris et al. \(2023\)](#), we show a difference in the financial outcomes of these investor groups. Our analysis suggests that institutional investors, guided by their preference for VC funds with better past financial performance, would likely select high-performing funds compared to individual investors. Specifically, based on investment interest ratings and past fund performance, institutional investors would back funds with an average expected return of 19.52%, while individual investors would back funds with an expected return of 17.36%, a 12.44% difference.

To understand the role of access relative to fund selection, we consider a counterfactual in which individual investors do not have access to the top-performing funds, but professional investors do. We then compare the difference in returns under this counter-

factual to the full access benchmark in the experiment. We find that fund selection alone would account for about 20% of the estimated performance difference between individual investors with no access to top-performing funds and professional investors with full access.

Consistent with our experimental analyses, we use data from SEC Form D filings and Pitchbook to show that funds backed by a large number of accredited individual investors typically have inferior deal outcomes. Specifically, a 1% increase in accredited individual investors investing in the VC fund is associated with a 1.9 percentage point (p.p.) decrease in the likelihood that the fund backs startups with successful exits, and a 2.7 p.p. decrease in the likelihood of the fund backing startups that go public in an IPO.<sup>3</sup>

While regulatory changes and market dynamics have begun opening private markets to individual investors, there is limited understanding of how these investors approach private market investments compared to professional investors. As individual investors gain access, it becomes critical to examine whether their fund selection processes and priorities align with those of institutional investors, who traditionally dominate these markets. Our study fills this gap by comparing the fund selection behaviors of individual and institutional investors through a carefully designed experiment, providing new insights into private market investment strategies across investor types. Our findings not only show differences in selection preferences and risk perceptions but also highlight the potential performance implications of these contrasting approaches.

This paper contributes to three main streams of literature. First, it sheds light on the literature on the expertise of financial practitioners. The performance of professional public equity managers and their individual, often called retail, counterparts reveals significant performance gaps between professional and individual investors in public markets.<sup>4</sup> In contrast, empirical evidence on the investment pattern differences and performance

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<sup>3</sup> In the Form D data, we observe all accredited individual investors in the fund, but not a breakdown of institutional and individual investors. We assume that the higher the number of accredited investors listed on Form D, the higher the likelihood that individual investors participated in the fund.

<sup>4</sup> See, e.g., [Harvey and Liu \(2022\)](#) and [Berk and van Binsbergen \(2015\)](#) for evaluations of the performance of professional mutual fund investors in public markets, and [Barber and Odean \(2000\)](#) and [Barber et al. \(2022\)](#) for evidence of the performance of retail investors in public markets.

gaps between professional and individual investors in *private* markets is still lacking due to data limitations. Due to different regulatory environments, findings from the public market may not be directly applicable to the private market. For example, SEC regulations set a significantly higher entry bar for individual investors in private markets, requiring them to be accredited individuals. These accredited investors are often high-net-worth individuals with better-than-average performance in public markets (Karlsen et al., 2023). Therefore, it is unclear whether these more sophisticated individual investors would necessarily possess a lower level of expertise than institutional investors or adopt different investment strategies. Complementing the existing literature, our paper provides the first empirical evidence on the investment patterns and performance gap between individual and institutional investors in private markets, focusing on VC fund investments. Leveraging the experimental data combined with a novel link between observational outcomes and fundraising data, we demonstrate that while both individual and institutional investors prioritize returns, they rely on different GP characteristics to form their expectations of VC fund performance.

Second, we contribute to the entrepreneurial finance literature on LPs' portfolio selection criteria and VC fund formation. Colonnelli et al. (2022) conduct IRR experiments in the Chinese VC market by showing that government participation affects LPs' investment preferences of GPs in the developing economy. However, we still do not fully understand which GP characteristics causally influence LPs' investment interest in developed countries. Specifically, it is unclear whether the same set of GP characteristics would affect the fund return beliefs of different types of LPs in a similar way. In addition to identifying the causal impact of multiple GP characteristics on LPs' evaluation of VC funds, we also find that this impact varies depending on whether the LP is an institutional or individual investor. Moreover, by showing the importance of specific GP characteristics, this paper offers practical guidance for VC funds raising capital from different investor groups.<sup>5</sup>

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<sup>5</sup> Several studies highlight the importance of work experience or entrepreneurial experience (Zarutskie (2010); Cai et al. (2012); Brophy et al. (2022); Gompers and Mukharlyamov (2022); Zhang and Ebrahimiyan (2020); Gompers et al. (2006); Amornsiripanitch et al. (2022)), connection/network (Hochberg et al. (2007, 2010)), educational backgrounds (Fuchs et al. (2021); Garfinkel et al. (2021)), track records, (Kaplan and Schoar (2005); Block et al. (2019); Harris et al. (2023)), location (Chen

Specifically, the paper also adds to the entrepreneurial finance literature on the importance of the deal selection. Multiple papers have documented the importance of the deal selection channel in the VC-startup investment context (Gompers et al., 2020; Kaplan and Strömberg, 2001). However, little is known about the importance of deal selection on LPs’ financial performance. Based on the calibrated results from the collected experimental data, we find that deal selection alone could explain 20% of the difference in returns between professional and individual investors. This suggests that professional investors’ deal selection strategies could significantly contribute to higher returns compared to individual investors. Understanding this mechanism highlights the critical role of deal selection in shaping investment outcomes and underscores the importance of the selection channel in understanding and evaluating private market capital allocations.

Third, this paper is related to the literature on conducting experiments in finance. As emphasized by Floyd and List (2016), recruiting real financial practitioners is crucial for experimental approaches to address finance-related questions, given the specialized expertise required. Hence, several recent experimental papers in finance have stopped recruiting convenient subject pools, such as undergraduate students, and started recruiting MBA students or retail investors to gain insights about certain finance questions. Consistent with the literature, our paper shows that in the VC fund investment setting, even experienced accredited individual investors behave differently from institutional investors when making investment choices. Therefore, to address finance questions, especially those related to the private market, merely recruiting general investors would likely be insufficient. Researchers need to target specific types of investors in specialized markets, depending on the research question.

The remainder of the paper is organized as follows. Section II develops our hypotheses. Section III details the experimental design and recruitment process. Section IV analyzes investors’ behaviors in the experiment. Section VI discusses the implications of our experimental findings. Section V presents correlational evidence from observational data on

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et al. (2010)), and fund type (i.e., first-time funds or seasoned funds) (Kaplan and Schoar (2005); Harris et al. (2023); Knockaert et al. (2010)). Our study builds on these studies by identifying the causal impact of these characteristics on investor interest in VC funds.

the performance of funds based on the number of accredited individual investors listed on their Form D filings. Section VII discusses limitations, and Section VIII concludes.

## II. Hypothesis Development

In this section we develop the main hypotheses, which we test using the samples from the experiment. A key benefit of our experimental approach is that we can fix access to funds, and directly investigate LPs preferences over fund manager characteristics. Our first testable hypothesis focuses on whether LPs' investment interest is influenced by specific GP characteristics when access to funds is standardized.

**Hypothesis 1:** *Conditional on equal access to the same funds, all LPs will have similar investment interest ratings based on randomized GP characteristics.*

This hypothesis explores whether demand for GP characteristics truly differs among LPs, or whether LPs generally share beliefs about the relationship between GP characteristics and fund returns. However, different LPs may have diverse expectations of risk and return, which could influence how they evaluate GP characteristics. This consideration suggests a refinement in Hypothesis 2, focusing on the LPs' investment interest in funds labeled as low- or high-quality based on return expectations.

**Hypothesis 2:** *Conditional on equal access to the same funds and LPs' risk and return assessments, all LPs will have similar investment interest ratings based on randomized GP characteristics.*

To test this hypothesis, we will evaluate LPs' investment interest based on their assessments of low- or high-quality funds as defined by expected return and risk, with high-quality funds having both high expected return and lower risk by construction. By controlling LPs' beliefs on fund quality, we can examine whether they demand similar GP characteristics. Our approach not only measures LPs' assessments of risk and return but also their evaluations of key drivers of fund returns. Guided by academic literature, we focus on four primary mechanisms: (1) the network strength of the fund managers, (2) the likelihood that LPs will secure an allocation from the fund, (3) LPs' expectations



regarding high returns, and (4) LPs' risk assessments.

Building on these drivers, we explore in Hypothesis 3 how different LPs may map GP characteristics to investment interest. While LPs might agree on how each mechanism connects to their investment interest ratings, they may differ in how they connect GP characteristics to these drivers. This leads us to our third hypothesis:

**Hypothesis 3:** *Conditional on equal access to the same funds, LPs map similar mechanisms (e.g., network strength, allocation likelihood, return expectations, risk assessment) to investment interest ratings, yet may differ in how they associate GP characteristics with these mechanisms.*

We will also examine whether LP groups' beliefs align broadly with expected future fund performance.

### III. Experimental Design

By conducting a randomized controlled trial involving both institutional professional investors and accredited individual investors, we can present identical investment opportunities to both groups. This allows us to directly observe and compare their fund selection criteria.

We use the same experimental design as [Lyons-Padilla et al. \(2019\)](#), who conducted interviews with asset allocators across the financial services industry, to identify the key criteria they use to make investment decisions. Based on these interviews, they recreated the one pager: the first document that reaches an investor's desk. This document contains short summaries of fund managers' team credentials, track record from previous funds, and investment strategies. Investors use these one pagers to decide whether they want to meet with the team and continue the due diligence process that ultimately leads to an investment.

## A. Recruitment

We conducted the experiment between June and August 2023. To encourage participation from institutional investors, we offered incentives such as free due diligence on general partners from our partner CEPRES, a leading private market investment technology platform, a copy of this paper, and a chance for two participants to win a \$1000 award. Additionally, we sent customized recruitment emails to University of Michigan alumni.<sup>6</sup> Examples of our recruitment emails, including the Michigan-specific emails, can be found in Appendix Figure A.1 and Figure A.2.<sup>7</sup>

To recruit professional investors working as limited partners (i.e., LPs), we sent recruitment emails to LPs listed in Pitchbook. We identify these investors by selecting investors with senior roles at the L.P. firms, and send recruiting emails as described above. To recruit individual investors, we collaborate with RepData, a data company that facilitates data collection for primary quantitative research studies. Participants were eligible to participate if they were U.S. citizens, or employed in the U.S., had relevant experience investing in VC funds or startups, and had a household income exceeding \$300,000 before taxes in the last 12 months. The last criteria ensures that the investor is accredited and, therefore, eligible to invest in private funds under current rules.

In total, 593 professional investors participated in the experiment through online recruitment, while 445 individual investors participated. We excluded respondents who provided incoherent text responses, whose response time was below the 5th percentile of time spent on the experiment, and who participated multiple times. While our results are broadly similar when we include these participants, we focused on those who dedicated sufficient time to reviewing the randomly assigned one-pagers and answering the corresponding questions.

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<sup>6</sup> We thank David Brophy for his assistance with the Michigan alumni emails.

<sup>7</sup> The recruitment email included the statement “The data shows that only 20% of first-time private fund managers raise follow-on funds even though their end-of-fund performance is comparable to established funds.” While this information could potentially bias respondents to place less value on years of experience or to not penalize first-time funds—a pattern we observe among individual investors—only institutional investors received this email, and they still showed a strong preference for experienced managers.

Table 1 summarizes the background information of participating investors. Panel A describes the background information of participating professional investors while Panel B describes the background information of individual investors. To evaluate potential sample selection issues, we also report the background information of all professional investors we tried to recruit. As we can see the investors that participated in our experiment are largely representative of those we tried to recruit.

In Panel A, 95.45% of investors are senior investors, consistent with the fraction recorded in Pitchbook. Additionally, 51.14% of the recruited investors have more than 10 years of investment experience, and 45.63% are over 50 years old. Their investments span VCs investing in multiple industries, which also aligns with the industry information recorded in Pitchbook. Therefore, we do not find significant sample selection issues when recruiting institutional investors.

Panel B reveals that 33.78% of accredited individual investors have more than 10 years of investment experience, and 79.10% of investors fall within the age range of 30 to 50 years old. Moreover, 69.14% of participants are individual investors who invest using their personal wealth. In terms of education, over three-quarters of these investors have at least a bachelor’s degree, and over half (51.01%) have an interest in backing IT startups. While we recruited these individual investors through RepData using screening criteria for accreditation status and private market investment experience, there is no comprehensive database of accredited investors that would allow us to assess how representative our sample is of the broader accredited investor population.

[Insert Table 1 here]

## *B. Design*

**Pager Construction:** Our experiment follows a standard factorial experimental design, akin to the pager evaluation experiment in [Lyons-Padilla et al. \(2019\)](#). To understand the effect of GP characteristics on the investment decisions of these two types of investors, we orthogonally randomize the following characteristics of a GP team seek-

ing to raise funding from investors: work experience (Zarutskie (2010); Cai et al. (2012); Zhang and Ebrahimian (2020); Gompers and Mukharlyamov (2022)), connection/network (Hochberg et al. (2007, 2010)), educational backgrounds (Fuchs et al. (2021); Garfinkel et al. (2021)), track records, (Kaplan and Schoar (2005); Block et al. (2019); Harris et al. (2023)), location (Chen et al. (2010)), and fund type (i.e., first-time funds or seasoned funds) (Kaplan and Schoar (2005); Harris et al. (2023)). Our study builds on these previous studies by identifying the impact of these characteristics on investor interest in VC funds. Table 2 shows details on the randomization process of each variable and the corresponding definitions. Online Appendix Table A.4 confirms the success of our randomization by showing that these GP characteristics are uncorrelated with each other, as expected under random assignment.

[Insert Table 2 here]

To create GP profiles that are as realistic as possible, we adopt the format in Lyons-Padilla et al. (2019), which is based on real one-pagers used by GPs. To mitigate any bias driven by using one specific pager format, we use four different pager formats and randomly assign the format to each pager. The description of GP investors' work experience comes from real VC fund managers' biographies recorded in Pitchbook. Similarly, other GP characteristics, such as education background, track record, and location, all mimic real information on funds in PitchBook. Finally, we customize the description of track records for first-time funds and seasoned funds to avoid generating any unrealistic pagers. For example, it would be unrealistic for a first-time fund to have information on past returns but also unrealistic for this information to be excluded from the one-pagers of seasoned GPs. Prior to launching the experiment, we sought feedback from industry practitioners and MBA students to clarify ambiguous questions.

**Evaluation Questions:** To infer the characteristics that matter most for the investment decision, each investor responds to a series of questions after seeing a randomly

drawn one-pager, which covers decision questions and four mechanism questions. The evaluation questions are shown in Figures [A.3](#) and [A.4](#).

First, participants evaluate the likelihood that they will invest in the GP team (i.e.,  $Q_5$ ), which captures the extensive margin of their investment decision. Second, they indicate the amount they would invest in the GP team given their budget constraints (i.e.,  $Q_6$ ), which captures the intensive margin of their investment decisions. Third, we ask the investors to evaluate the likelihood that they will invest in a high-quality GP team who are open to an allocation from them (i.e.,  $Q_7$ ). Based on return data from PitchBook, we define a high-quality GP team as one with an expected TVPI of 4.5x with a standard deviation of 0.4x, the 75th percentile of the return distribution. Similarly, investors also evaluate low-quality GPs, whose expected TVPI is 0.7x with a standard deviation of 0.6x, the 25th percentile of the return distribution ( $Q_8$ ).

Please note that for  $Q_7$  and  $Q_8$ , which capture the likelihood that the GPs actually get an allocation from the participating investors, the information about GPs' expected return and risk was directly provided to the investors. Hence, compared to  $Q_5$  and  $Q_6$ , the hypothetical scenarios provided in  $Q_7$  and  $Q_8$  aim to control for investor beliefs of whether the GP team is high- or low quality based on their expected risk-adjusted returns.

To understand the mechanisms driving investors' investment strategies, each investor further responds to questions relating to four dimensions of a GP team: network/connection, collaboration likelihood (i.e., the matching channel), expected return, and expected risk. First, investors evaluate whether the GPs in the one-pagers they are evaluating are likely to syndicate a deal with an established and prestigious fund (i.e., network evaluation  $Q_1$ ). Second, investors evaluate the likelihood the GPs will accept their investment offer (i.e., matching evaluation  $Q_2$ ). Third, investors evaluate the likelihood that the GP would generate high returns (i.e., the return evaluation  $Q_3$ ). Lastly, investors evaluate the likelihood that the fund is riskier than the market (i.e., risk evaluation  $Q_4$ ). We expect that investors would be more inclined to invest in GP teams they perceive as having larger networks, GPs likely to accept their investment offers, GPs that can generate higher returns, and GPs that have lower risk.

### C. *Validity*

One might worry that hypothetical pager evaluations cannot meaningfully capture investor preferences, with any relationships between GP characteristics and investment ratings reflecting mere noise. However, three aspects of our results suggest otherwise. First, our experiment was pre-registered, preventing us from fishing for results in the data. Second, we find that certain GP characteristics, particularly track records and fund types, strongly influence investment ratings in ways that align with both the academic literature and industry practice. Third, and more tellingly, both investor groups show intuitive correlations between fund attributes they consider important (like returns and networks) and their investment interest ratings. These sensible patterns in how investors map fund attributes to investment decisions suggest our experimental findings capture genuine investment preferences rather than arbitrary responses.

## IV. Experimental Results

By directly observing the investment interest and allocation amount for the same set of VC funds, we isolate the effect of LPs' different investment strategies from GPs' fundraising behaviors, both of which can drive differences in observational data of funds selected by professional and individual investors. We provide summary statistics of investors' evaluations in Online Appendix Table [A.5](#).

### A. *Institutional and Individual Investors Value Different GP Characteristics*

In Table [3](#), we test which GP characteristics influence the investment interest ratings of investors and examine the extent to which these characteristics vary by investor type. Panel A shows the experimental results for the professional investors. Column (1) of Panel A shows that having entrepreneurial experience increases LPs' investment interest ratings by 5.57 percentage points (i.e., p.p.), representing an 18% increase relative to the mean investment interest rating of 30.82. Additionally, first-time VC funds receive 7.47

p.p. lower investment interest ratings compared to seasoned VC funds (a 24% decrease from the mean), and top-performing VC funds receive 15.65 p.p. higher investment interest ratings compared to under-performing VC funds (a 51% increase from the mean), while the effect of having venture capital experience is insignificant.

Column (2) of Panel A shows that these effects share the same sign but are both statistically and economically much weaker when we instead consider the effects of these GP characteristics on the amount of funding. Columns (3) and (4) further show that the significant effects observed in Column (1) are primarily driven by investor beliefs about future performance. When we explicitly tell investors that a fund will have low expected future performance (Low Quality), most of the effects from Column (1) become insignificant, suggesting that investors use these GP characteristics primarily as signals of expected performance.

Consistent with the existing literature on the persistence of VC performance, professional LPs heavily weight the track record of the funds they are evaluating, providing confirmation that their stated preferences align with common knowledge on the predictors of performance (Kaplan and Schoar (2005); Harris et al. (2023)).

[Insert Table 3 here]

Panel B shows the results for individual investors. Column (3) shows that these investors prefer GPs that graduated from top US schools, with an effect of 4.04 percentage points (a 5.6% increase relative to the mean investment interest rating of 71.96). When we restrict attention to GPs with high expected future performance in Column (3), we see that individual investors also prefer GPs located on the West Coast, with an effect of 4.81 percentage points (a 6.7% increase from the mean). When we only look at funds with low expected future performance in Column (4), we see that individual investors prefer first-time funds, with an effect of 4.71 percentage points (a 6.5% increase from the mean).<sup>8</sup> These effects, while statistically significant, are notably smaller in economic

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<sup>8</sup> For first time VC funds, we prime investors to think the fund would likely be a top-performing funds

magnitude compared to the effects we observed for professional investors, where top-performing funds generated a 51% increase in investment interest relative to their mean. Most strikingly, unlike professional investors, individual investors show no significant response to a fund’s past performance, despite the strong documented relationship between past and future performance in venture capital.

In Appendix Table A.6, we formally test for differences in investment criteria between professional and individual investors. The most economically and statistically significant difference is in how these groups respond to past performance information: individual investors show dramatically lower sensitivity to track records than professional investors, assigning much lower investment interest ratings to top-performing seasoned funds. This difference is particularly important given the strong documented relationship between past and future fund performance in venture capital (Kaplan and Schoar, 2005).

In sum, these results show that institutional professional investors consider return-relevant characteristics, such as past financial performance when choosing VC fund managers, while individual investors use heuristics, such as the reputation of the school the GP attended or location of the funds, in their evaluations. Individuals also place lower weight on return-relevant characteristics such as past returns in their evaluations.

### *B. Explaining Institutional and Individual Investors Ratings*

In Table 4, we test which factors explain the investment interest ratings and investment amounts. Columns (1) and (2) show the results for institutional professional investors, while Columns (3) and (4) show the results for accredited individual investors. Results show that different mechanisms influence the investment decisions of institutional professional investors and accredited individual investors in a similar way. Column (1) shows that one s.d. increase of investors’ network ratings correlate with 6.90 p.p. increase in these investors’ investment interest ratings. Similarly, one s.d. increase of the return ratings correlate with 14.46 p.p. increase in their investment interest ratings. We find similar

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by discussing investments the fund’s partners made before starting the fund. See A.3 for specifics of how we prime investors to think about a fund’s track record for seasoned and first-time funds.



results in Column (3), showing that GPs' network and potential returns all significantly influence professional- and individual investors. However, from Columns (1) and (3), we see that professional investors are more sensitive to fund risk compared to individual investors. Specifically, a one s.d. increase in risk ratings correlates with a 2.28 p.p. decrease in professional investors' investment interest ratings in Column (1), but this correlation is insignificant for individual investors in Column (4). These significant correlations show that both professional- and individual investors took our pager evaluation exercise seriously.

[Insert Table 4 here]

Table 4 also shows that return expectations, network evaluations, and risk evaluations jointly explain about 54 percent of the variation in investment interest ratings for professional investors and 72 percent of the variation in investment interest ratings for individual investors. Additionally, for both groups of investors, these variables matter for both their investment interest ratings and investment amount in the same direction. Note that we standardized these variables to have a mean zero and standard deviation of one in order to ease comparison of their relative effects. For professional investors, return evaluations matter most and are about twice as important as network evaluations and seven times as important as risk evaluations. For individual investors, return evaluations matter most and are about three times more important than network evaluations.

While choosing GPs that deliver high returns is important for both sets of investors, a key question is whether both types of investors map GP characteristics to expected returns in the same way. Given that both types of investors prefer GPs who will generate high returns, our next set of tests examine which characteristics of GPs the investor groups perceive as most influential in achieving these high returns. We also examine which investor group chooses characteristics that are most likely correlated with ex-post performance.

In Table 5, we regress the four mechanisms that explain over half the variation in investor interest on the GP characteristics originally used to explain their investment

interest ratings and allocation amount. This allows us to evaluate differences in the mechanisms the two investor types use to formulate demand and forecast performance. Panel A of Table 5 shows the results for institutional professional investors while Panel B of Table 5 shows the results for accredited individual investors. From Panel A, Column (1) of Table 5 shows that institutional professionals hold the belief that GPs with entrepreneurial experience and top-performing funds possess superior networks compared to GPs lacking entrepreneurial experience or overseeing under-performing funds. Our randomly assigned measure of connection, where we informed survey participants about the link between the GPs and top investment firms, only impacts the investment interest ratings of professional investors.

[Insert Table 5 here]

In Panel A, Column (2) shows that there are no statistically significant correlations between the GP characteristics and whether professionals think they can get an allocation in the fund. This is consistent with Table 4, where we show that matching evaluations do not explain the investment interest ratings of institutional professionals. Professionals anticipate that funds with entrepreneurial experience yield superior returns compared to those lacking such experience.

Column (3) shows that professionals expect funds with entrepreneurial experience to have better returns than funds without entrepreneurial experience. Professionals also expect top-performing funds to continue being top performers, consistent with existing evidence in the literature. They also expect first-time funds to underperform compared to seasoned funds. Finally, Column (4) shows that professionals expect top performing funds to be less risky, and first-time funds to be more risky.

When we turn to accredited individual investors in Panel B of Table 5, we observe that accredited individual investors do not have a consensus strategy of mapping GP characteristics to the mechanisms they believe are associated with returns. Column (1) shows that, at the aggregate level, their evaluations of GP networks is insignificantly associated with any of the randomized GP characteristics. Column (2) shows that investors perceive

that GPs from prestigious schools, first-time GPs, and GPs on the West Coast would be slightly more likely to accept their investment offers in the fund if they were interested, but these effects are only marginally significant. In Column (4), investors perceive GPs on the West Coast to generate higher returns compared to GPs on the East Coast, and that first-time funds are riskier compared to seasoned funds. The association between risk and first-time funds is the only mapping between GP characteristics and return-relevant information that is common between professional investors and individual investors.

Importantly, individual investors espouse a belief in no association between VC funds' past financial performance and their future financial performance, in direct contrast with professional investors' stated expectations. Similarly, connections primers the one-pagers are not associated with higher network ratings by individual investors, but professional investors responded to these connection clues. Hence, individual investors may have a different understanding of the role of networks and past performance in explaining future VC performance compared to professionals.

In sum, professional investors appear to heavily weight GPs' prior entrepreneurial experience, first-time fund status, and prior financial performance in their investment interest ratings. In contrast, although individual investors think performance, networks, allocation likelihood, and risk are important, there is no clear mapping between GP characteristics and these factors that explain 75 percent of the variation in their investment interest ratings. Individuals also seem to underweight the importance of GPs' historical financial performance of fund managers relative to institutional professional investors. Specifically, the most consistent and significant difference between institutional professional and accredited individual investors seems to be a differing evaluation of the importance of GPs' past financial performance. While observational data cannot allow for an isolation of the demand and access channels, we confirm in the following section that the historical performance of VC funds based on their funding sources is broadly consistent with demand and access differences driving a difference in average fund investment performance.

### *C. Perceptions of Adverse Selection and Deal Access*

While the experiment is designed to elicit and isolate LP investment demand separately from deal access, the richness of our results permits an analysis of heterogeneity in perceptions of deal access, enhancing our understanding of the observed demand heterogeneity. In order to investigate this issue, we begin by documenting heterogeneity in demand across investors by LP experience. In Table 7, we present an analogous exercise to Table 3 with the addition of interactions on each GP characteristic with an indicator for highly experienced individual GP's, those with more than 10 years of investment experience. The interaction terms therefore identify which coefficients in the original data are driven by investors with considerable investment experience.

The results in Table 7 are revealing. The limited interest of individual investors in top-performing funds documented in Table 3 is concentrated in investors without significant investment experience based on Panel A, Column 1 of Table 7, while the coefficient on top performing funds for experienced investors is significantly positive and on the same order as that of professional investors. Importantly, even experienced individuals do not seem to share professional investors' preference for entrepreneurial experience and reduced demand for first-time funds, characteristics less associated with investment success in the observational data. Further, Panel B documents that these experienced investors understand the significance of LP networks and ability to invest alongside successful funds as core performance mechanisms in the VC market in Column 1, and more directly documents the perception of performance persistence in Column 3, both through the positive interaction coefficient on top-performing funds.

Panel A, Columns 3 and 4 of Table 7 show that these experienced individual investors understand that their ability to match with top performing funds may be inferior, the core adverse selection issue in GP-LP matching. Comparing Column 4 against Column 3 in the interacted coefficient on top performing funds, experienced investors' investment interest in top performing funds overall is driven entirely by investment interest in historically successful but lower expected return funds, suggesting that these experienced individual GP's understand and incorporate adverse selection issues in their demand, but recognize

the historical persistence of performance. These effects are not present for inexperienced individual investors, suggesting that incorrect perceptions of adverse selection in match likelihood may be a substantial headwind to individual investors' performance in VC markets.

To further investigate perceptions of adverse selection in GP-LP matching we directly estimate the impact of the interaction of LP type and GP characteristics on match likelihood perceptions. Table 8 presents the results of regressing the match likelihood evaluation (Q2) on the interaction of individual investor status and GP characteristics. The results are striking where top performing funds are concerned - professional investors perceive that they are both economically and statistically significantly less likely to receive allocations from successful funds in Columns 1 and 2. In contrast, individual investors on average perceive no difference in match likelihood between themselves and top performing versus poorly performing funds, a statistically significant difference, despite their belief that their match likelihoods are lower on average. This highlights that individual investors, especially inexperienced ones, both do not incorporate performance persistence in their demand and do not understand that their access to the best funds is likely to be limited, in contrast to professional investors. As we document, the first effect could drive significant underperformance for individual LP's, while the second may drive inefficient overinvestment in VC markets by individual investors who overestimate the quality of GP's they may actually be able to invest with.

## V. Results from Observational Data

### A. Construction of the Observational Data

To compare the performance of VC funds selected by individual investors to funds backed by professionals, we require two crucial pieces of information: the proportion of professional and individual investors in the fund, and the fund's performance. However, most commercial databases do not have access to this data. Therefore, we scrape Form D from the SEC website to obtain the proportion of investors who are non-institutional (i.e., a

proxy for individual investors). To measure the VC fund performance, we use PitchBook to measure performance as the proportion of fund investments that result in a successful exit, which we measure using IPOs and acquisitions. This follows the method used in Hochberg et al. (2007), Hochberg et al. (2010), and Hochberg (2016).<sup>9</sup>

To merge PitchBook to Form D, we follow the procedure outlined in Cassel et al. (2022). Using the data on fund managers in PitchBook, we construct manager and fund-level covariates which we use as control variables.  $\ln(\text{Accredited Investors})$  is the log number of accredited investors listed on Form D.  $VC\ Exp$  and  $Entrepreneurial\ Exp$  are indicators which equal one if the senior GPs in the fund were part of another venture capital fund or founded a startup, respectively, before joining the current fund, and zero otherwise.  $Connection$  is an indicator for whether any of the senior GPs have previously (before the formation of the current fund) worked for a prestigious venture capital fund (See the *Network* row in Table 2 for the list of prestigious funds).  $Prestigious\ School$  is an indicator for whether the senior GPs attended prestigious schools. See A.2 for a list of prestigious schools.  $West\ Coast$  is an indicator that equals one if the VC fund is located on the west coast, and zero elsewhere.  $First\ Time\ Fund$  is equal to one if the VC fund is a first-time VC fund, and zero otherwise.

### B. Financial Performance of VC Funds Backed by Individual Investors

Using the observational data sample constructed in Section V, Figure 1 shows the trend of the average number of accredited individual investors per fund before and after the SEC policy change. Following the expansion of the pool of eligible accredited investors, the participation of accredited individuals in private market investments has increased significantly, rising from approximately 40 individual investors per fund in 2018 to over 60 individual investors per fund in 2021. This upward trend, which persists through the

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<sup>9</sup> We measure fund performance using successful exits (IPOs and acquisitions) rather than realized returns. While Yimfor and Garfinkel (2023) shows that these exit outcomes are strongly correlated with ultimate fund returns, using realized returns would severely restrict our sample given the recency of many funds and introduce potential selection bias in which funds we could observe. Our approach allows us to include younger funds and maintain a more representative sample, though it comes at the cost of using interim rather than final measures of performance.

end of the sample period, highlights the importance of understanding the private-market investment strategies of individuals.

[Insert Figure 1 here]

Next, we investigate the financial performance of funds with a high proportion of individual investors in Table 10. In Columns (1) - (4), the dependent variables represent the proportion of a fund's investments that have either successfully gone public, been acquired or gone public, been acquired, or ceased operations as of Q4 2022, respectively. These variables essentially serve as proxies for VC funds' financial performance, which is measured as the fraction of successful exits (i.e., IPOs or M&A) or the fraction of failed investments (i.e., firm closure or bankruptcy).  $\ln(\textit{Accredited Investors})$  represents the natural logarithm of the total number of accredited investors listed on Form D. In addition to controlling for multiple GP-level characteristics, all regressions add vintage year fixed effects, and standard errors are clustered at the fund level.

Columns (1) and (2) show that VC funds with a 1% higher proportion of accredited individual investors are associated with 1.9% lower likelihood of a successful exit and 2.7% lower likelihood of an IPO. Given that approximately 9% of fund investments exit through an IPO in our data, the coefficient in Column (2) suggests that VC funds with a 1% higher proportion of individual investors are 33% less likely to achieve a successful exit through an IPO. These results are statistically significant at the 5% and 1% level, respectively. Column (4) further shows that VC funds with more accredited individual investors are also more likely to close, although this result is not statistically significant.

[Insert Table 10 here]

Overall, our observational evidence suggests that GPs with a higher proportion of accredited individual investors tend to invest in funds that are less likely to achieve superior exits, even after accounting for common observable fund characteristics that may predict their future performance. This observation might be driven by either the

inferior fund selection strategies used by accredited individual investors or a reluctance of high-quality GPs to collaborate with accredited individuals and provide fund access.

The results from the observational data also support our conclusion that the beliefs of professional investors are more consistent with high future fund performance. While we cannot conclusively label these demand differences as investment mistakes, this observation suggests an analysis of the potential magnitude of performance differences driven by differences in demand and access is important to inform future research and policy. We use our experimental analysis to provide some evidence on the performance implications of demand versus access in the next section.

## VI. Implications of the Experimental Findings

### A. *Implications for Fund Performance*

The most notable and significant difference between professional and individual investors' stated demand for GP characteristics from our experiment is the importance of past GP performance for professional- but not individual investors. Given the strong relationship between past VC fund results and future performance, we now evaluate the impact that demand for fund allocations to historically top-performing funds is likely to have on investment performance.<sup>10</sup>

To evaluate this question, we use the persistence of performance in VC funds measured in prior work to conduct a counterfactual analysis on VC fund demand and investment performance. Specifically, we use Table 3 in [Harris et al. \(2023\)](#) to calculate the likelihood that a fund in the top or bottom quartile of prior fund returns will transition to any given quartile of fund returns in their next fund. Note that funds labeled as having high prior performance in our experiment are in the top quartile of funds in the [Harris et al. \(2023\)](#) data, while funds labeled as having low prior performance are in the bottom quartile.

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<sup>10</sup> While we focus on return differences between professional and individual investors within private markets, an important alternative counterfactual is the returns these individual investors would have achieved in public markets. This analysis is beyond our scope but a fruitful topic for future research.



As shown in the transition matrix in Table 6, a GP managing a VC fund with performance above the median level has a 60.71% chance of managing a new fund that will also have above-median performance, but a 39.29% chance of managing a new fund that will have below median performance. In our experiment, better-performing funds have a TVPI ratio of 4.7 or above and are ranked in the top quartile according to Harris et al. (2023). GPs of these top-performing funds have a 45.1% chance of maintaining top quartile status for their next fund and a 68.7% chance of remaining above median. Conversely, GPs of the worse-performing funds, with a TVPI below 0.7 in our experiment, fall into the bottom quartile. There is a 44% chance that new funds managed by these GPs will also fall in the bottom quartile.

Using this transition matrix, we calculate the difference in expected returns between funds selected by professional investors and individual investors.<sup>11</sup> Based on the investment interest ratings provided by all the professional investors, we first calculate the likelihood that this group would invest in VC funds with good track records and funds with poor track records. The expected return for each group of investors (professionals and individuals) is the weighted average return based on the likelihood that they back a fund (their investment interest ratings) and the transition probabilities across quartiles from Harris et al. (2023). We calculate standard errors (in parenthesis) by bootstrapping.

[Insert Table 6 here]

The results in Table 6 show that the financial performance of professional investors is likely to be significantly better than that of individual investors. Note that this difference in performance is only driven by differences in the demand for different funds based on past performance, as opposed to differential access to different types of funds. On average,

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<sup>11</sup> For each investor type, we calculate the expected returns based on their investment strategies by analyzing each subsample.  $\text{Expected Returns} = \text{Pr}(\text{Investing in Better-Performing Funds}) \times \text{Expected Returns of Funds with Top-quartile Performance} + \text{Pr}(\text{Investing in Worse-performing Funds}) \times \text{Expected Returns of Funds with Bottom-quartile Performance}$ .  $\text{Pr}(\text{Investing in Better-Performing Funds}) = \frac{\sum_{ij} Q_{5ij} \times \mathbf{1}_{\text{Profile}_{ij} \in \text{Better-Performing Fund Profile}}}{\sum_{ij} Q_{5ij}}$  where profile  $j$  is evaluated by investor  $i$ .  $\text{Pr}(\text{Investing in Worse-Performing Funds}) = 1 - \text{Pr}(\text{Investing in Better-Performing Funds})$  for each investor type.

funds backed by professional investors return 2.62 dollars for each dollar, approximately 7.38% higher than funds backed by individual investors. When the expected returns are measured using IRR, expected returns for funds demanded by professional investors are 19.52% and those for individual investors are only 17.36%, a 12.44% difference. The performance gap between the two investor groups is statistically significant at the 1% level based on the bootstrapped standard errors.

To put this difference differently, it is on the same order of magnitude as the risk adjusted average outperformance of VC funds documented across studies in Table 1 of [Korteweg \(2019\)](#). In essence, the demand variations between professional and individual investors based on past performance could cause individual investors to select underperforming funds, which accounts for the average risk-adjusted outperformance of VC funds. Given the lower emphasis individual investors place on risk in their investment interest evaluations, this indicates that the risk-adjusted impact of individual investor access to VC markets on overall investment performance is not unambiguously positive.

It is important to recognize that the calculated differences represent a rough first estimate of the true disparities in performance, as they are based solely on the demand difference driven by past performance. Our analysis is predicated exclusively on the transition matrix derived from the historical performance of VC funds and the estimated difference in demand conditional on performance from our experimental evaluation of stated investor interest. In the experiment and observational evidence, professional investors employ a more nuanced selection process, incorporating additional criteria such as fund types (i.e., seasoned funds versus first-time funds) and a more detailed view of fund manager experience and performance. Similarly, individual investors consider a number of additional factors when evaluating fund interest, like educational background, many of which are not strong forecasters of future performance. It is possible that these associations with demand for fund access that are unrelated to future performance could cause even lower fund performance for individual investors relative to professionals.

In total, however, our evidence supports a large negative impact on average VC fund portfolio performance based on the demand profiles of individual relative to professional

investors. The welfare implications of this shift are less clear, as our methodology cannot address the macroeconomic efficiency of changes in the magnitude of the VC market as a whole or the aggregate impact of the matching and access channel. That said, the magnitude of this effect is potentially economically large and could entirely eliminate the benefits in terms of risk-adjusted VC fund performance. To give a better sense of the economic magnitude of the demand channel, we conduct a counterfactual analysis in the next subsection comparing the likely relative impact of the fund selection (demand) channel to the deal access (supply) channel.

### *B. Importance of Fund Selection VS. Deal Access*

We use our experimental data to calibrate the importance of fund section and deal access channels in explaining the financial performance gap of funds selected by individual- and institutional investors. We present the results in Figure 3.

The x-axis represents the relative deal access of high-quality GPs with higher track records available to individual investors. For normalization purposes, we assume institutional investors have access to all GPs on the market, regardless of their track records. Conversely, individual investors have access to all GPs with lower track records and only partial access to GPs with higher track records. For example, when the x-axis value is 0.1, it indicates that individual investors have access to only 10% of the high-track-record GPs. When the x-axis value is 1, it indicates that individual investors have the same access to all GPs as institutional investors, including both high and low track record GPs.

The y-axis shows the ratio of the investment performance gap driven solely by the fund selection channel (i.e., in our experimental setting where the deal access channel is eliminated such that individuals have access to all funds) to the performance gap driven by both fund selection and deal access across different scenarios on the x-axis. For example, when x is 0, the y-axis shows the ratio of the performance gap driven solely by the fund selection channel compared to the gap driven by both fund selection and deal access, assuming individual investors have no access to high-quality GPs.

We illustrate the calibration process with an example where  $x = 0.1$ . As shown in the

one-pages in the experiment, GPs with high track records have an average TVPI of 4.9 (i.e.,  $(4.7 + 5.1) / 2$ ), and those with low track records have an average TVPI of 0.59 (i.e.,  $(0.62 + 0.56) / 2$ ). Based on the ratings of different types of investors, an average institutional (individual) investor would invest in GPs with high track records with a probability of 0.62 (0.51) and in GPs with low track records with a probability of 0.38 (0.49). Hence, institutional investors' expected TVPI is roughly 3.26 (i.e.,  $0.62 \times 4.9 + 0.38 \times 0.59$ ). When individual investors have access to all GPs (i.e., in our experimental setting), their investments' expected TVPI is roughly 2.79 (i.e.,  $0.51 \times 4.9 + 0.49 \times 0.59$ ). Hence, the performance gap driven solely by fund selection is  $3.26 - 2.79 = 0.47$ .

However, when  $x = 0.1$ , individual investors' expected TVPI becomes roughly 0.996 (i.e.,  $(0.51 \times 4.9 \times 0.1 + 0.49 \times 0.59 \times 1) / (0.51 \times 0.1 + 0.49 \times 1)$ ). Hence, the performance gap becomes  $3.26 - 0.996 = 2.264$ , which is driven by both fund selection and the deal access difference where  $x = 0.1$ . The y-axis is  $0.47 / 2.264 = 0.21$  (i.e., performance gap caused by fund selection/performance gap caused by both fund selection and deal access) in Figure 3 and  $2.27 / 0.47 - 1 = 3.8$  (i.e., performance gap caused by deal access/performance gap caused by fund selection) in Figure 4.

According to Figure 3, when individual investors have no access to deals with GPs who have high track records (i.e.,  $x = 0$ ), fund selection alone accounts for at least 18% of the performance gap between institutional and individual investors. If individual investors have 10% access to funds with high past performance (i.e.,  $x = 0.1$ ), fund selection alone explains at least 21% of the performance gap. Additionally, Figure 3 shows that when  $x = 0$ , the role of deal access is about 4.5 times more important than fund selection. However, when  $x = 0.6$ , deal access and fund selection become almost equally important in explaining fund performance.

Our calibration results highlight the significant role of fund selection differences in explaining the financial performance gap between institutional and individual investors.

## VII. Discussion

Our study provides a first look at the differences in demand for VC funds based on fund and manager characteristics and expected drivers of fund performance between professional and individual investors. To first provide evidence on the likely impact of the demand and access channels on LP investment performance, we directly evaluate differences in investment interest between professional and individual investors using a survey-based randomized controlled trial. Our experiment highlights statistically and economically significant differences in the fund selection process between professional and individual investors. We also show an economically and statistically significant difference between the performance of VC funds primarily funded by institutional investors and those funded by individual investors.

Our methodology provides new evidence on demand differences and their potential performance implications, but it is necessary to acknowledge the limitations of our experimental approach. First, we observe only stated interest and allocation intent, not actual decisions. This is particularly relevant for our results on individual investors, where we find lower association of interest or expected future performance with past results. Other factors aside from investment demand could drive these results for individual investors, such as evaluations of the likelihood of fund access polluting expectations despite prompting survey participants to ignore the access channel. Further, investors without significant allocations to VC markets may simply be uninformed of the stylized facts of performance. It is possible that these apparent demand differences based on easily observable factors would be eliminated through information acquisition by an investor actually making an allocation to VC, as the historical relationships are well established and the data readily available.

A potential concern on the performance sensitivity of demand arises from the possible mismatch of performance reported at fundraising with performance achieved by fund liquidation. As the performance metrics we present to the experiment participants also include metrics that are more costly to manipulate than reported NAV, such as investments and exits, this concern is mitigated but ultimately difficult to eliminate. The

specific concern is the susceptibility of information on VC funds' TVPI and IRR, which we randomize in the experiment, to manipulation in real-world practical settings. This tends to diminish the prediction power of interim fund performance on VC funds' future performance both in the same and subsequent funds. One possible driver of our observed demand differences could be that individual investors, possibly correctly, place less weight on these reported performance statistics. To mitigate this concern, it is crucial to highlight that we also use the number of successful exits as an additional metric to gauge general partners' (GPs) past financial performance. Unlike TVPI and IRR, this metric is more costly for the manager to manipulate and thus provides a more reliable signal.

Our experiment also provides little guidance on the dynamics of GP supply and the matching likelihood of GPs and LPs based on characteristics. While we acknowledge the weakness of not observing supply or matching behavior, the experiment provides a first look isolating at least the stated demand preferences of investors based on key characteristics of their investment experience. As a first attempt to isolate stated VC demand from matching and supply, the exercise provides considerable insight on the differences in expected performance and investor demand between investors with significant differences in investment experience in a market where these factors have not received substantial attention in the past. Our results strongly suggest that the LP selection channel is an economically first order concern for the investment performance of private funds and the allocational efficiency of private markets.

Our experiment also treats LPs as passive capital providers, while in practice, especially for institutional investors, LPs may provide value-add services beyond capital, such as networking, strategic advice, and access to portfolio company customers. This active LP involvement could affect both GP-LP matching dynamics and ultimate fund performance. The performance gap we document between institutional and individual investors could therefore reflect not just selection ability but also institutional LPs' greater capacity to add value post-investment. Future research examining how active LP involvement influences fund performance would complement our findings on the selection channel.

A full analysis of the welfare impacts of increasing access to private market investments

is beyond the scope of the current study, as it would require an analysis of the matching of GP's to LP's, the access channel, as well as the general equilibrium impact of shifting investable funds to private markets from similarly risky public investments. Instead, we provide a first look at potential drawbacks of access for both individual investors and the efficiency of allocations of capital to private firms. In a frictionless, full-information economy, increased access to private markets would unambiguously increase the options available to individual investors and therefore weakly increase welfare and improve the efficiency of allocations.

In practice, risk adjusted private market investment performance varies significantly in the cross-section of private funds. If individual investors do not match with the subset of GP's providing outperformance relative to public market alternatives, either because high-performing GP's do not select them as investors or because they tend to select GP's with lower expected performance, it is no longer clear whether investors are better off for having access or whether more positive net present value projects will be funded as a result of increased access to private markets. We provide evidence that the selection channel, driven by differences in beliefs about the GP characteristics associated with future investment performance, is likely to be both active and a first order consideration for estimating the welfare impact of expanded access of private markets to individuals. While we leave the estimation of overall welfare impacts to future studies, we provide novel evidence suggesting that the welfare impact of expanding access to private market investments is not unambiguously positive. Finally, we show that investor demand for GP characteristics and access to high-quality GP's should be included in the evaluation of future policies directed at increasing the availability of private market investments to individual investors.

## VIII. Conclusion

Despite the remarkable growth of individual investors in private markets, little is known about how these investors select private market opportunities or how their selections

might differ from mainstream institutional investors. To fill the gap, this study provides insights into the differing investment strategies adopted these investor groups by conducting an experiment with institutional- and individual investors.

We find that although professional and individual LPs both aim to select high-performing VC funds, they differ in their beliefs about which GP characteristics are associated with high returns. Professional investors focus more on factors known to forecast fund performance, such as track record (i.e., GPs' strong historical financial performance) and fund type. In contrast, individual investors place more value on GPs' educational background, which has a weaker correlation with VC fund performance. This leads to statistically and economically different demand for VC funds based on GP characteristics between professional and individual investors.

Given the well-documented persistence of VC fund performance, we further calibrate the effect of differing investment strategies of professional and individual investors on performance. Results show that on average, the expected returns for funds backed by professional investors is approximately 7.38% higher than for funds backed by individual investors. Moreover, this deal selection channel, which we can isolate from the deal access channel using our experiment, may account for 20% or more of the investment performance difference between these two types of investors.

Using observational data scraped from Form D filings, we confirm that VC funds backed by more individual investors tend to invest in companies with worse investment outcomes. This difference cannot be fully explained by observable performance predictors documented in previous literature.

Overall, this research provides the first evidence of significant differences in investment strategies between professional and individual investors in private markets. It highlights the economically significant role of deal selection in driving likely performance differences between LPs and opens the door for further exploration of individual investors' impact on private market investments. Our results support the selection channel as a sufficiently important driver of investment performance differences that might erase the average benefit of private markets access for some investors, amplifying the effect of individual



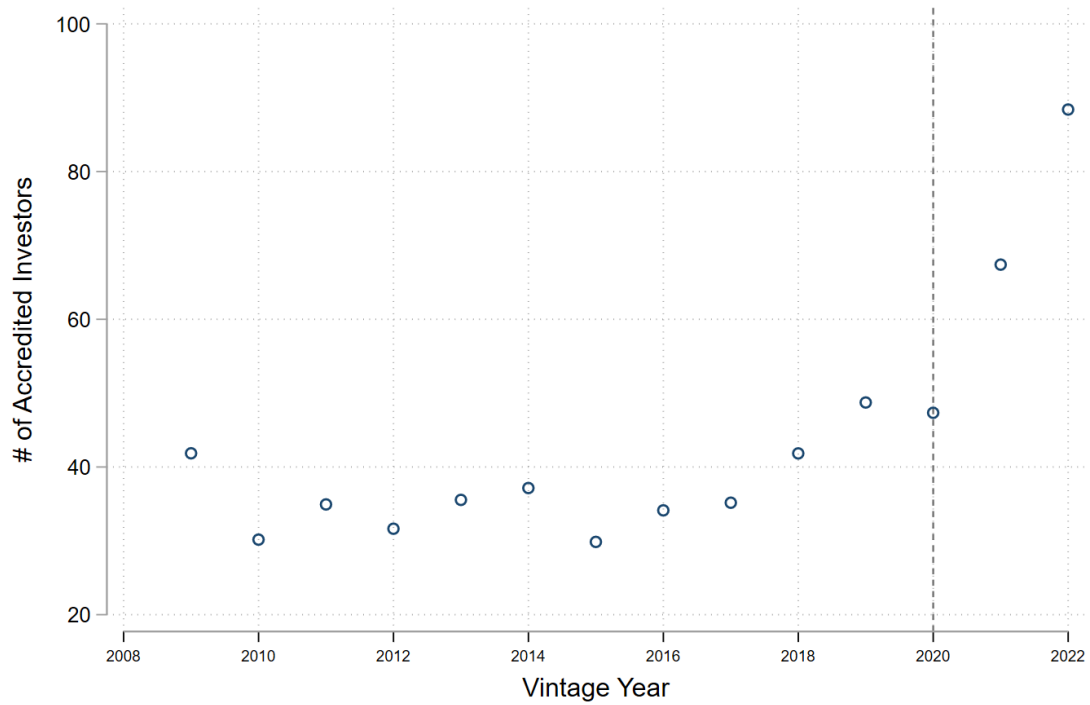
investors having limited access to top performing funds.

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**Figure 1: Growth in Individual Accredited Investor Participation in Private Capital Funds**

This figure plots the trend in the average number of accredited investors per fund in our Form D sample that we matched to PitchBook, over time. The vertical line at 2020 marks the year when the SEC expanded the definition of an accredited investor. Prior to the change, the criteria were mainly based on an individual’s income and net worth. The revised definition now includes individuals holding certain professional certifications, designations, or credentials recognized by the SEC, such as Series 7, Series 65, and Series 82 licenses, or those who are “knowledgeable employees” of the investment fund. We calculate the # of Accredited Investors as the number of total investors that have invested in the offering on Form D, minus the sum of the number of non-accredited investors (from Form D) and the number of institutional investors (from PitchBook).

# EXPONENT CAPITAL

\$250 MILLION – EXPONENT CAP III, LP

## The Opportunity

- **Fund Name:**  
Exponent Cap III, LP.
- **Target Size:**  
\$250 Million
- **Portfolio**  
Construction: 20-25 companies, investing \$1-10M each. For companies that take off, we maintain reserves for follow on [rounds](#)

## Track Record

**Fund I, \$75M (2011 vin.)**  
**Net IRR: -10.6% | TVPI: 0.62x**

15 investments, 2 successful exits, 5 investments money-back

**Fund II, \$150M (2014 vin.)**  
**Net IRR: -9.2% | TVPI: 0.56x**

20 investments, 2 successful exits, [6 investments](#) money-back

## OUR INVESTMENT TEAM

The Exponent team brings together a unique blend of complementary skill sets and networks, which positions us well for successfully running our [third](#) VC fund.



### **Nathan Phillips, Managing Partner**

Nathan previously served as the Chief Executive Officer of Cygnia. Also co-founded Dynamos Inc. with a focus on innovation and creativity. Princeton University graduate.



### **Benjamin Cook, Venture Partner**

Benjamin founded Vertexia to provide innovative solutions to a variety of challenges in the market. California Institute of Technology graduate.



### **Victor Anderson, Principal**

Victor built Nexodus from scratch, with a focus on delivering the best possible customer experience. University of California Los Angeles graduate.

**Nathan Phillips**

*Managing Director*

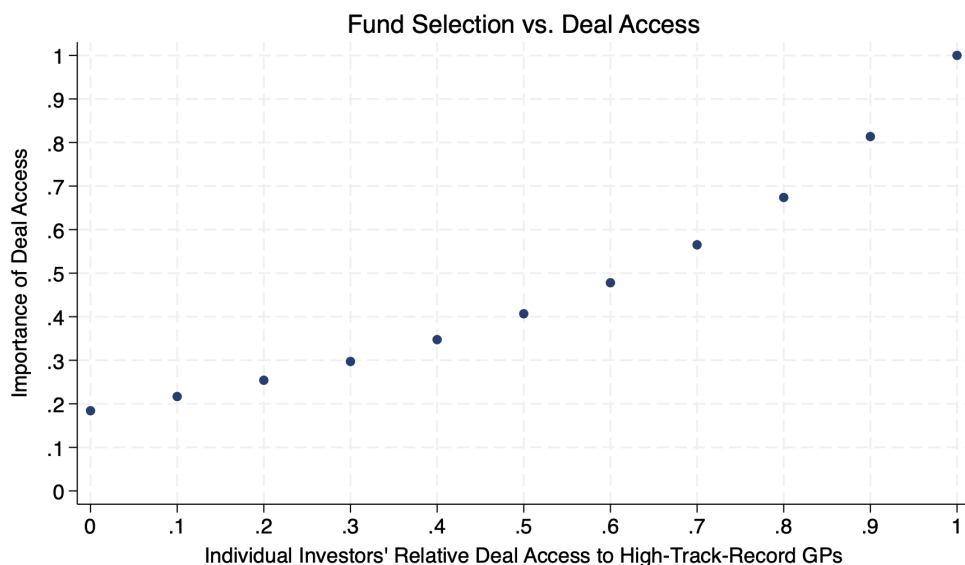
[investors@ExponentCap.vc](mailto:investors@ExponentCap.vc)

Los Angeles, CA

[ExponentCap.VC](http://ExponentCap.VC)

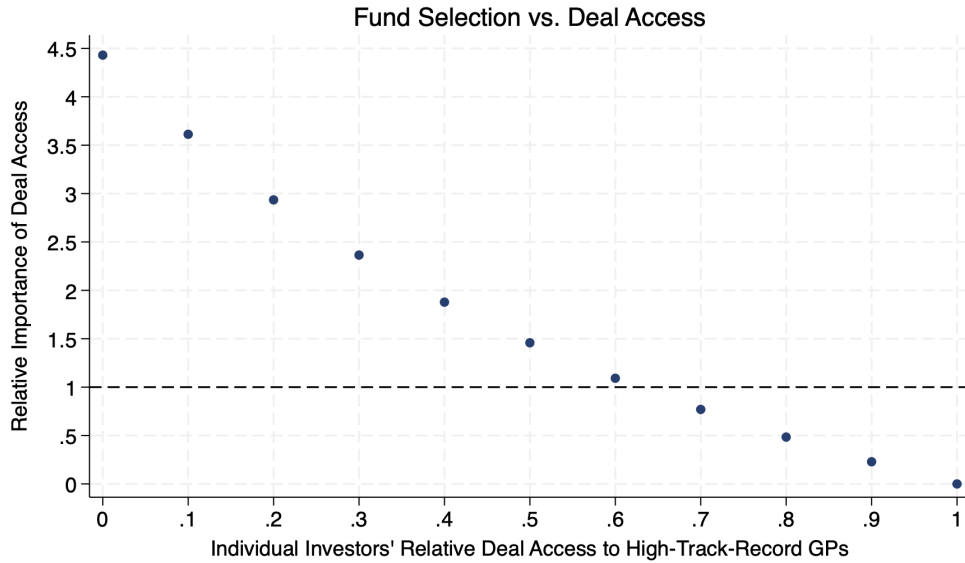
It is not our interest to provide any information about any current or future offering. Any information provided herein is intended to be general information about our management and business model and historical data only.

Figure 2: An Example One-pager Displayed to Experimental Participants



**Figure 3: Fund Selection vs. Deal Access**

This plot illustrates the calibrated relative importance of deal access and fund selection channels in explaining the financial performance gap between individual- and professional investors, based on experimental data. The x-axis represents individual investors' access to high-quality GPs — GPs with a good track record of past performance. For normalization purposes, we assume institutional investors have access to all GPs on the market, regardless of their track records. Conversely, individual investors have access to all GPs with bad track records and only partial access to GPs with good track records. For example, when the x-axis value is 0.1, it implies that individual investors get an allocation from a high-quality GP with 10% probability. When the x-axis value is 1, it indicates that individual investors have the same access to all GPs as institutional investors. The y-axis shows the ratio of the investment performance gap driven solely by the fund selection channel (the experimental setting where we shut down the deal access channel) to the performance gap driven by both fund selection and deal access as we vary individual-investor access to high-quality GPs. For example, when  $x$  is 0, the y-axis indicates the ratio of the performance gap driven solely by the fund selection channel compared to the gap driven by both fund selection and deal access, when individual investors have no access to high-quality GPs.



**Figure 4: Fund Selection vs. Deal Access**

This plot illustrates the calibrated relative importance of deal access and fund selection channels in explaining the financial performance gap between individual- and professional investors, based on experimental data. The x-axis represents individual investors' access of high-quality GPs — GPs with a good track record of past performance. For normalization purposes, we assume institutional investors have access to all GPs on the market, regardless of their track records. Conversely, individual investors have access to all GPs with bad track records and only partial access to GPs with good track records. For example, when the x-axis value is 0.1, it implies that individual investors get an allocation from a high-quality GP with 10% probability. When the x-axis value is 1, it indicates that individual investors have the same access to all GPs as institutional investors. The y-axis shows the ratio of the investment performance gap driven solely by deal access differences, as we vary individual-investor access to high-quality GPs on the x-axis, to the investment performance gap driven solely by fund selection channel. For example, the point (0.7, 0.77) indicates that when individual investors have 70% access to high-quality GPs and institutional investors have 100% access, the performance gap explained by the deal access is only 77% of the performance gap explained by fund selection.

**Table 1: Summary Statistics of Experimental Participants**

This table shows the background information of investors who participated in our experiment, divided in two panels. Panel A shows the background information of professional investors, while Panel B shows the background information of individual investors. In Panel A, we also separately report the background information of all the limited partners we contacted from the Pitchbook database, *Mean PitchBook*.

Panel A: Institutional Professional Investors			
	N	Mean (%)	Mean (%) Pitchbook
<i>Demographic Information</i>			
Top School	212	37.06%	30.60%
Senior Positions	566	95.45%	94.61%
Entrepreneurial Experience	327	57.37%	45.06%
Female Investors	57	9.61%	21.14%
Investors [age above 50]	261	45.63%	N/A
Investors [age below 30]	14	2.45%	N/A
Investors [age between 30 and 50]	255	44.58%	N/A
Unkown	63	10.62%	N/A
<i>Investment Experience</i>			
1-3 years	59	10.33%	N/A
4-6 years	57	9.98%	N/A
7-10 years	71	12.43%	N/A
Less than 1 year	70	12.26%	N/A
More than 10 years	292	51.14%	N/A
Unknown	44	7.42%	N/A
<i>Educational Background</i>			
High school graduate, diploma or equivalent	3	0.54%	8.31%
Bachelor's degree	140	25.88%	30.01%
Professional degree or Master's degree	333	61.55%	46.28%
Doctorate degree	65	12.01 %	9.31%
<i>Industry Background</i>			
Information Technology	144	25.17%	23.09%
Clean Technology	31	5.42%	0.43%
Energy	27	4.72%	6.46%
Consumers	45	7.87%	10.89%
Education	32	5.59%	1.20%
Healthcare	99	17.31%	15.12%
Life Sciences	49	8.57%	7.79%
Transportation	12	2.10%	5.24%
Finance	65	11.36%	6.01%
Manufacture	69	12.06%	0.98%
Media	22	3.85%	5.72%
Others	62	10.84%	17.07%
<i>Location</i>			
East Coast	95	16.64%	27.41%
West Coast	107	18.74%	15.76%
Other States in US	142	24.87 %	19.02%
Outside US	222	38.88%	37.80%
Unknown	27	4.55%	3.08%



Panel B: Accredited Individual Investors

	N	Fraction (%)
<i>Demographic Information</i>		
Investors [age below 30]	41	9.21%
Investors [age between 30 and 50]	352	79.10%
Investors [age above 50]	52	11.69%
<i>Investor Type</i>		
Individual investor with personal wealth	307	69.14%
An individual investor and invest on behalf of others	110	24.77%
Invest on behalf of others, such as clients or organizations	23	5.18%
Not currently an investor	4	0.90%
<i>Investment Experience</i>		
1-3 years	48	10.81%
4-6 years	108	24.32%
7-10 years	134	30.18%
Less than 1 year	4	0.90%
More than 10 years	150	33.78 %
<i>Educational Background</i>		
High school graduate, diploma or equivalent	13	2.93 %
Bachelor's degree	94	21.17 %
Professional degree	121	27.25 %
Master's degree	141	31.76 %
Doctorate degree	75	16.89 %
<i>Industry Background</i>		
Information Technology	227	51.01%
Clean Technology	99	22.25%
Energy	89	20.00%
Consumers	77	17.30%
Education	87	19.55%
Healthcare	104	23.37%
Life Sciences	77	17.30%
Transportation	73	16.40%
Finance	221	49.66%
Manufacture	88	19.78%
Media	41	9.21%
Others	21	4.72%
<i>Location</i>		
West Coast	47	10.56%
East Coast	188	42.25%
Other States in US	210	47.19%

**Table 2: Randomization of GP Profile Components**

This table shows the randomization process of each component of the fictional one-pagers presented to investors. The leftmost column lists each variable, the middle column explains the randomization method for each, and the third column shows how the variable is defined in our analysis. We also group variables by whether they are at the GP or fund-level.

Profile Component	Randomization Description	Analysis Variable
<i>GP Individual-level Information</i>		
Working Experience	Uniformly drawn from the following three working experience categories: 33% VC-related working experience, 33% entrepreneurial experience, and 33% benchmark working experience in investment banks or consulting firms. Each working experience is customized for managing partners, venture partners, and principals. The detailed description is provided in Appendix Table A.1	VC Exp, Entrepreneurial Exp
Educational Background	Drawn randomly: 50% US Elite School, 50% US Common School. Within each category, we uniformly draw one of the schools from the corresponding school list (see Online Appendix Table A.2)	Prestigious School
<i>GP Fund-level Information</i>		
Network	Drawn randomly: 50% With Connection, 50% Without Connection. For GPs with connections, the pager mentions that “The team has a close connection with [Prestigious VC Fund Name] through previous working experience.” The “Prestigious VC Fund Name” is randomly drawn from one of the following influential VC names: Accel, Andreessen Horowitz, Benchmark, FirstMark Capital, Founders Fund, Greylock Partners, Kleiner Perkins, Sequoia Capital, Intel Capital, and New Enterprise Associates. For GPs without connections, the pager does not provide any relevant information.	Connection
Track Record	Drawn randomly: 50% High Track Record, 50% Low Track Record. We customize the description of track records for first-time funds and seasoned funds, respectively. The detailed description is provided in Appendix Table A.3	Top Performing Fund
Fund Type	Drawn randomly: 50% First-time Funds, 50% Seasoned Funds. For the first-time funds, the pager mentions that “..., which positions us well for successfully running our first VC fund.” For the seasoned funds, the pager mentions that “..., which positions us well for successfully running our third VC fund.”	First Time Fund
Location	Drawn randomly: 50% West Coast, 50% East Coast. “West Coast” cities include San Francisco and Los Angeles. “East Coast” cities include New York and Boston.	West Coast

**Table 3: Investors’ Investment Interest Ratings and GPs’ Characteristics**

This table analyzes the causal effect of GPs’ characteristics on LPs’ investment interest ratings (i.e., decision evaluations) using OLS regressions. Panel A shows results for professional investors, while Panel B shows results for individual investors. The dependent variable is participants’ investment interest ratings (i.e.,  $Q_5$  the likelihood of investing in the VC fund) in Column (1), allocated investment amount (i.e.,  $Q_6$ ) in Column (2), investment interest ratings of high-quality VC funds (i.e.,  $Q_7$  the likelihood of investing in a high-quality VC fund) in Column (3), and investment interest ratings of low-quality VC funds (i.e.,  $Q_8$  the likelihood of investing in a low-quality VC fund) in Column (4), respectively. “VC Exp” and “Entrepreneurial Exp” are indicators which equal one if the lead GP has VC-related experience or has entrepreneurial experience prior to joining the current fund, and zero otherwise. “Connection” is an indicator for whether the fund has a close connection with a prestigious VC through previous working experience of its senior GP. “Prestigious School” is an indicator for whether the lead GP attended a top U.S. school. “Top Performing Fund” is an indicator that equals one if a seasoned VC fund has a high track record or the lead GP of a first-time fund was a successful entrepreneur. “Western Coast” is equal to one if the VC fund is located on the west coast, and zero if the VC fund is located on the east coast. “First Time Fund” is equal to one if the VC fund is a first-time VC fund, and zero if it is a seasoned VC fund. Robust standard errors are reported in parentheses.\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$  indicate statistical significance at 1%, 5%, and 10% levels, respectively.

Panel A: Professional Investors

<b>Dependent Variable:</b>	Investment Interest $Q_5$ (1)	Investment Amount $Q_6$ (2)	Investment Interest $Q_7$ (High Quality) (3)	Investment Interest $Q_8$ (Low Quality) (4)
VC Exp	-1.83 (2.66)	-0.91* (0.54)	2.41 (2.95)	-2.08 (1.77)
Entrepreneurial Exp	5.57** (2.73)	0.20 (0.57)	6.85** (2.84)	0.99 (1.91)
Connection	2.71 (2.07)	0.48 (0.37)	-1.86 (2.24)	0.87 (1.45)
Prestigious School	3.03 (2.12)	0.57 (0.39)	2.38 (2.30)	2.00 (1.45)
Top Performing Fund	15.65*** (2.08)	1.72*** (0.38)	6.63*** (2.26)	1.84 (1.44)
West Coast	2.18 (2.10)	0.48 (0.39)	1.84 (2.29)	-0.66 (1.48)
First Time Fund	-7.47*** (2.09)	-0.33 (0.39)	-3.03 (2.27)	-2.11 (1.44)
R <sup>2</sup>	0.122	0.055	0.028	0.016
Observations	593	571	593	593

Panel B: Individual Investors

<b>Dependent Variable:</b>	Investment Interest $Q_5$ (1)	Investment Amount $Q_6$ (2)	Investment Interest $Q_7$ (High Quality) (3)	Investment Interest $Q_8$ (Low Quality) (4)
VC Exp	-1.32 (2.78)	4.03 (6.56)	-0.26 (2.44)	-0.21 (3.34)
Entrepreneurial Exp	-0.62 (2.61)	0.77 (6.59)	-3.46 (2.42)	1.84 (3.18)
Connection	-1.73 (2.12)	3.18 (5.09)	-0.25 (1.99)	-2.55 (2.59)
Prestigious School	3.77* (2.23)	4.03 (5.16)	4.04** (2.04)	4.06 (2.69)
Top Performing Fund	2.38 (2.15)	0.94 (5.27)	-1.60 (1.96)	1.95 (2.58)
West Coast	2.74 (2.22)	4.48 (5.35)	4.81** (2.01)	1.00 (2.70)
First Time Fund	2.24 (2.13)	-5.75 (5.38)	1.94 (1.98)	4.71* (2.62)
R <sup>2</sup>	0.017	0.007	0.026	0.018
Observations	445	445	445	445

**Table 4: Correlations Between Investment Ratings and Mechanism Evaluations**

This table examines the correlations between investors' investment interest ratings and mechanism evaluations using OLS regressions. Columns (1) and (2) include evaluations of recruited professional investors, while Columns (3) and (4) include evaluations of individual investors. The dependent variable is participants' investment interest ratings (i.e.,  $Q_5$ ) in Columns (1) and (3), allocated investment amount (i.e.,  $Q_6$ ) in Columns (2) and (4). The independent variables are participants' network evaluations (i.e.,  $Q_1$ ), matching evaluations (i.e.,  $Q_2$ ), return evaluations (i.e.,  $Q_3$ ), and risk evaluations (i.e.,  $Q_4$ ), respectively. All the independent variables have been standardized, with mean zero with standard deviation of one. Robust standard errors are reported in parentheses. \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$  indicate statistical significance at 1%, 5%, and 10% levels, respectively.

Dependent Variable:	Professional Investors		Individual Investors	
	Investment Interest $Q_5$ (1)	Investment Amount $Q_6$ (2)	Investment Interest $Q_5$ (3)	Investment Amount $Q_6$ (4)
Network Evaluations $Q_1$	6.90*** (1.08)	0.66*** (0.16)	3.66** (1.16)	11.69** (4.30)
Matching Evaluations $Q_2$	0.31 (0.86)	-0.07 (0.17)	0.87 (1.28)	2.34 (2.17)
Return Evaluations $Q_3$	14.46*** (1.08)	1.72*** (0.28)	14.90*** (1.48)	3.47 (4.14)
Risk Evaluations $Q_4$	-2.28** (0.89)	-0.07 (0.16)	1.15 (1.12)	0.15 (3.49)
$R^2$	0.541	0.214	0.713	0.083
Observations	593	571	445	445

**Table 5: Investors' Mechanism Evaluations and GPs' Characteristics**

This table analyzes the effect of GPs' characteristics on investors' mechanism evaluations using OLS regressions. Panel A includes evaluations of recruited professional investors who work as limited partners while Panel B includes evaluations of individual investors. The dependent variable is participants' network evaluations (i.e.,  $Q_1$  the likelihood that the VC fund will syndicate with an established and prestigious VC fund) in Column (1), matching evaluations (i.e.,  $Q_2$  the likelihood that the VC fund will accept their investment) in Column (2), return evaluations (i.e.,  $Q_3$  the probability of generating higher returns) in Column (3), and risk evaluations (i.e.,  $Q_4$  the probability of generating higher risks) in Column (4), respectively. "VC Exp" and "Entrepreneurial Exp" are indicators which equal one if the leading investor has VC-related experience or has entrepreneurial experience before joining the current investment fund, and zero otherwise. "Connection" is an indicator for whether the investment team has a close connection with a prestigious VC fund through previous working experience. "Prestigious School" is an indicator for team members from top US schools. "Top Performing Fund" is an indicator that equals one if a seasoned VC fund has a high track record or the leading investor of a first-time fund has a successful career before starting the fund. "Western Coast" is equal to one if the VC fund is located on the western coast, and zero if the VC fund is located on the eastern coast. "First Time Fund" is equal to one if the VC fund is a first-time VC fund, and zero if it is a seasoned VC fund. Robust standard errors are reported in parentheses. \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

Panel A: Professional Investors

<b>Dependent Variable:</b>	Network Evaluations $Q_1$ (1)	Matching Evaluations $Q_2$ (2)	Return Evaluations $Q_3$ (3)	Risk Evaluations $Q_4$ (4)
VC Exp	3.76 (2.66)	1.93 (2.88)	1.28 (2.35)	2.05 (2.40)
Entrepreneurial Exp	8.39*** (2.72)	-1.81 (2.98)	4.17* (2.34)	1.21 (2.42)
Connection	4.81** (2.11)	0.80 (2.32)	2.60 (1.80)	0.28 (1.85)
Prestigious School	4.19* (2.15)	-3.46 (2.31)	1.40 (1.81)	0.72 (1.86)
Top Performing Fund	9.56*** (2.11)	-3.65 (2.29)	11.10*** (1.80)	-7.78*** (1.85)
Western Coast	2.02 (2.12)	-1.87 (2.32)	0.98 (1.80)	-1.29 (1.86)
First Time Fund	-2.39 (2.12)	1.22 (2.31)	-3.83** (1.80)	5.38*** (1.88)
R <sup>2</sup>	0.063	0.012	0.076	0.047
Observations	593	593	593	593

Panel B: Individual Investors

<b>Dependent Variable:</b>	Network Evaluations $Q_1$ (1)	Matching Evaluations $Q_2$ (2)	Return Evaluations $Q_3$ (3)	Risk Evaluations $Q_4$ (4)
VC Exp	-3.05 (2.50)	0.13 (2.44)	-2.95 (2.79)	-3.75 (2.48)
Entrepreneurial Exp	-2.32 (2.34)	-0.65 (2.30)	-0.28 (2.62)	-1.48 (2.40)
Connection	1.06 (1.95)	1.72 (1.94)	-0.88 (2.17)	-1.33 (1.99)
Prestigious School	2.47 (2.05)	3.94* (2.00)	2.36 (2.23)	1.14 (2.05)
Top Performing Fund	0.98 (1.95)	-1.32 (1.89)	1.63 (2.16)	-0.27 (1.98)
Western Coast	2.69 (2.01)	3.35* (1.97)	3.74* (2.20)	1.22 (2.06)
First Time Fund	3.18 (1.96)	3.87** (1.94)	2.19 (2.16)	5.14** (2.03)
R <sup>2</sup>	0.016	0.023	0.016	0.022
Observations	445	445	445	445

**Table 6: Transition Matrix and Expected Fund Returns**

This table reports the transition matrix and the expected returns based on professional- and individual investors' investment strategies. The sample only includes investors' evaluations of seasoned VC funds as only their track records are comparable to VC funds in [Harris et al. \(2023\)](#). The transition matrix comes directly from Table 3 of [Harris et al. \(2023\)](#). In the experiment, seasoned VC funds with higher track records have top-quartile performance in [Harris et al. \(2023\)](#) and those with lower track records have bottom-quartile performance in [Harris et al. \(2023\)](#). The detailed calculation process of investors' expected returns, measured by both TVPI and IRR, is provided in Section VI. We obtain standard errors (reported in parentheses) by bootstrapping.

		Current Fund Quartile				Expected Fund Returns	
		1	2	3	4	Professional Investors	Individual Investors
Fund Quartile at Fundraise	1	45.1%	23.6%	19.0%	12.2%	TVPI: 2.62 or IRR: 19.52%	TVPI: 2.44or IRR: 17.36%
	4	10%	20%	26%	44%	(0.06) or (0.77)	(0.07) or (0.81)

**Table 7: Investment Experience and Individual Investors' GP Evaluations**

This table presents an analysis of the varying patterns in how individual investors with different levels of experience evaluate GPs' past financial performance. Panel A analyzes their contact or investment decisions. Panel B covers these investors' mechanism evaluations. "Experienced Individuals" is an indicator which equals one if the individual investor has more than 10 years of investment experience in the private market, and zero otherwise. "VC Exp" and "Entrepreneurial Exp" are indicators which equal one if the leading investor has VC-related experience or has entrepreneurial experience before joining the current investment fund, and zero otherwise. "Connection" is an indicator for whether the investment team has a close connection with a prestigious VC fund through previous working experience. "Prestigious School" is an indicator for team members from top US schools. "Top Performing Fund" is an indicator that equals one if a seasoned VC fund has a high track record or the leading investor of a first-time fund has a successful career before starting the fund. "Western Coast" is equal to one if the VC fund is located on the western coast, and zero if the VC fund is located on the eastern coast. "First Time Fund" is equal to one if the VC fund is a first-time VC fund, and zero if it is a seasoned VC fund. Robust standard errors are reported in parentheses. \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

Panel A: Investment Interest Ratings

Dependent Variable:	Investment Interest	Investment Amount	Investment Interest	Investment Interest
	$Q_5$	$Q_6$	$Q_7$ (High Quality)	$Q_8$ (Low Quality)
	(1)	(2)	(3)	(4)
Top Performing Fund × Experienced Individuals	13.88*** (5.06)	0.05 (0.10)	2.65 (4.55)	13.68** (5.89)
VC Exp × Experienced Individuals	-3.69 (6.31)	0.16 (0.12)	-3.27 (5.54)	-0.08 (7.46)
Entrepreneurial Exp × Experienced Individuals	1.58 (6.27)	0.04 (0.13)	-0.27 (5.48)	10.90 (7.47)
Connection × Experienced Individuals	-3.81 (5.04)	-0.05 (0.10)	5.70 (4.64)	2.07 (6.04)
Prestigious School × Experienced Individuals	0.50 (5.23)	-0.06 (0.10)	-2.66 (4.75)	-6.21 (6.29)
Western Coast × Experienced Individuals	4.96 (5.21)	-0.08 (0.10)	3.69 (4.63)	4.17 (6.26)
First Time Fund × Experienced Individuals	2.92 (4.95)	-0.03 (0.10)	1.25 (4.55)	8.90 (5.93)
Top Performing Fund	-2.18 (2.11)	-0.01 (0.06)	-2.63 (2.10)	-2.50 (2.52)
VC Exp	-0.21 (2.78)	-0.14** (0.07)	0.82 (2.68)	-0.28 (3.21)
Entrepreneurial Exp	-1.60 (2.70)	-0.03 (0.07)	-3.82 (2.74)	-2.53 (3.24)
Connection	-0.63 (2.18)	-0.02 (0.06)	-2.04 (2.18)	-3.30 (2.60)
Prestigious School	2.51 (2.30)	0.02 (0.06)	4.36* (2.30)	4.66* (2.73)
Western Coast	1.29 (2.29)	0.10 (0.06)	3.79* (2.25)	0.07 (2.70)
First Time Fund	1.69 (2.20)	-0.01 (0.06)	1.71 (2.19)	2.32 (2.65)
Experienced Individuals	-17.70** (8.45)	-0.17 (0.15)	-10.02 (7.23)	-29.71*** (9.54)
R <sup>2</sup>	0.083	0.047	0.051	0.113
Observations	445	445	445	445

Panel B: Mechanism Evaluations

Dependent Variable:	Network Evaluations	Matching Evaluations	Return Evaluations	Risk Evaluations
	$Q_1$ (1)	$Q_2$ (2)	$Q_3$ (3)	$Q_4$ (4)
Top Performing Fund × Experienced Individuals	13.64*** (4.43)	1.05 (4.43)	11.39** (4.98)	4.61 (4.30)
VC Exp × Experienced Individuals	-5.85 (5.45)	-3.17 (5.35)	-4.88 (6.23)	-9.36* (5.34)
Entrepreneurial Exp × Experienced Individuals	1.08 (5.32)	-6.15 (5.14)	3.01 (6.20)	-1.52 (4.92)
Connection × Experienced Individuals	1.59 (4.48)	3.18 (4.54)	1.19 (5.04)	-2.73 (4.30)
Prestigious School × Experienced Individuals	-3.69 (4.62)	3.30 (4.44)	-4.36 (5.19)	-3.57 (4.48)
Western Coast × Experienced Individuals	1.25 (4.56)	1.54 (4.49)	4.30 (5.09)	8.52* (4.42)
First Time Fund × Experienced Individuals	-0.52 (4.40)	5.90 (4.38)	0.20 (4.98)	2.68 (4.35)
Top Performing Fund	-3.57* (2.11)	-1.85 (2.15)	-2.14 (2.21)	-1.61 (2.40)
VC Exp	-1.21 (2.76)	1.53 (2.86)	-1.52 (2.86)	-0.49 (2.96)
Entrepreneurial Exp	-2.99 (2.67)	1.36 (2.84)	-1.83 (2.75)	-1.03 (3.06)
Connection	0.21 (2.12)	0.66 (2.23)	-1.38 (2.28)	-0.51 (2.43)
Prestigious School	2.72 (2.24)	2.92 (2.32)	2.64 (2.35)	1.83 (2.43)
Western Coast	2.34 (2.19)	2.96 (2.30)	2.50 (2.33)	-1.63 (2.51)
First Time Fund	3.49 (2.16)	1.91 (2.25)	2.46 (2.27)	4.23* (2.48)
Experienced Individuals	-11.09 (6.91)	-4.43 (6.34)	-15.57* (8.05)	-4.83 (6.10)
R <sup>2</sup>	0.067	0.032	0.079	0.056
Observations	445	445	445	445



**Table 8: Understanding Adverse Selection: Professional vs. Individual Investors**

This table analyzes the strategic thinking patterns of professional and individual investors. The dependent variable is an indicator which equals one if investors'  $Q_2$  evaluations are above the median level and zero otherwise. Columns (1) and (2) only include evaluations of first-time VC funds. Columns (3) and (4) include evaluations of all VC funds. Columns (1) and (3) use OLS models, while Columns (2) and (4) use Probit models. "VC Exp" and "Entrepreneurial Exp" are indicators which equal one if the leading investor has VC-related experience or has entrepreneurial experience before joining the current investment fund, and zero otherwise. "Connection" is an indicator for whether the investment team has a close connection with a prestigious VC fund through previous working experience. "Prestigious School" is an indicator for team members from top US schools. "Top Performing Fund" is an indicator that equals one if a seasoned VC fund has a high track record or the leading investor of a first-time fund has a successful career before starting the fund. "Western Coast" is equal to one if the VC fund is located on the western coast, and zero if the VC fund is located on the eastern coast. "First Time Fund" is equal to one if the VC fund is a first-time VC fund, and zero if it is a seasoned VC fund. "Individual Investor" is an indicator which equals one for individual investors, and zero for professional investors. Robust standard errors are reported in parentheses.\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

Dependent Variable:	1{ $Q_2$ Above Median}			
	Seasoned Funds		All Funds	
	OLS (1)	Probit (2)	OLS (3)	Probit (4)
Top Performing Fund × Individual Investor	0.22** (0.09)	0.58** (0.24)	0.16*** (0.06)	0.42*** (0.16)
VC Exp × Individual Investor	-0.02 (0.11)	-0.06 (0.27)	-0.07 (0.08)	-0.17 (0.20)
Entrepreneurial Exp × Individual Investor	0.06 (0.12)	0.14 (0.30)	0.04 (0.08)	0.10 (0.20)
Connection × Individual Investor	0.01 (0.09)	0.02 (0.24)	0.00 (0.06)	0.00 (0.16)
Prestigious School × Individual Investor	0.19** (0.09)	0.50** (0.24)	0.13** (0.06)	0.33** (0.16)
Western Coast × Individual Investor	0.13 (0.09)	0.35 (0.24)	0.11* (0.06)	0.28* (0.16)
First Time Fund × Individual Investor			-0.08 (0.06)	-0.20 (0.16)
Top Performing Fund	-0.23*** (0.06)	-0.59*** (0.15)	-0.15*** (0.04)	-0.38*** (0.10)
VC Exp	0.07 (0.07)	0.18 (0.18)	0.06 (0.05)	0.16 (0.13)
Entrepreneurial Exp	0.02 (0.07)	0.06 (0.20)	0.00 (0.05)	0.01 (0.14)
Connection	0.08 (0.06)	0.23 (0.16)	0.04 (0.04)	0.11 (0.10)
Prestigious School	-0.08 (0.06)	-0.22 (0.16)	-0.06 (0.04)	-0.14 (0.11)
Western Coast	-0.10 (0.06)	-0.25 (0.16)	-0.06 (0.04)	-0.14 (0.11)
First Time Fund			0.04 (0.04)	0.11 (0.10)
Individual Investor	-0.25** (0.12)	-0.65** (0.31)	-0.15* (0.09)	-0.39* (0.23)
R <sup>2</sup> (Pseudo R <sup>2</sup> )	0.058	0.043	0.025	0.045
Observations	1,038	1,038	1,038	1,038

**Table 9: GP Evaluations Patterns Between Professional and Individual Investors**

This table analyzes the GP evaluation patterns of professional and individual investors. The dependent variables are an indicator which equals one if investors corresponding evaluations are above the median level and zero otherwise. Panel A reports the investment interest ratings and Panel B reports the mechanism evaluations. “VC Exp” and “Entrepreneurial Exp” are indicators which equal one if the leading investor has VC-related experience or has entrepreneurial experience before joining the current investment fund, and zero otherwise. “Connection” is an indicator for whether the investment team has a close connection with a prestigious VC fund through previous working experience. “Prestigious School” is an indicator for team members from top US schools. “Top Performing Fund” is an indicator that equals one if a seasoned VC fund has a high track record or the leading investor of a first-time fund has a successful career before starting the fund. “Western Coast” is equal to one if the VC fund is located on the western coast, and zero if the VC fund is located on the eastern coast. “First Time Fund” is equal to one if the VC fund is a first-time VC fund, and zero if it is a seasoned VC fund. Robust standard errors are reported in parentheses.\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Panel A: Investment Interest Ratings				
Dependent Variable:	Investment Interest	Investment Amount	Investment Interest	Investment Interest
	1{Q <sub>5</sub> Above Median}	1{Q <sub>6</sub> Above Median}	1{Q <sub>7</sub> Above Median}	1{Q <sub>8</sub> Above Median}
	(1)	(2)	(3)	(4)
Top Performing Fund × Individual Investor	-0.31*** (0.06)	-0.22*** (0.06)	-0.14** (0.06)	-0.01 (0.06)
VC Exp × Individual Investor	-0.09 (0.08)	-0.04 (0.08)	-0.01 (0.08)	0.00 (0.08)
Entrepreneurial Exp × Individual Investor	-0.24*** (0.08)	-0.14* (0.08)	-0.22*** (0.08)	-0.10 (0.08)
Connection × Individual Investor	-0.08 (0.06)	-0.13** (0.06)	-0.01 (0.06)	-0.10 (0.06)
Prestigious School × Individual Investor	-0.03 (0.06)	-0.03 (0.06)	0.06 (0.06)	-0.10 (0.06)
Western Coast × Individual Investor	0.01 (0.06)	0.02 (0.06)	0.16** (0.06)	0.01 (0.06)
First Time Fund × Individual Investor	0.13** (0.06)	0.05 (0.06)	0.11* (0.06)	0.08 (0.06)
Top Performing Fund	0.27*** (0.04)	0.22*** (0.04)	0.07* (0.04)	0.02 (0.04)
VC Exp	-0.01 (0.05)	-0.04 (0.05)	0.01 (0.05)	-0.04 (0.05)
Entrepreneurial Exp	0.11** (0.05)	0.13** (0.05)	0.04 (0.05)	0.02 (0.05)
Connection	0.05 (0.04)	0.08** (0.04)	-0.00 (0.04)	0.06 (0.04)
Prestigious School	0.04 (0.04)	0.04 (0.04)	0.02 (0.04)	0.12*** (0.04)
Western Coast	0.02 (0.04)	0.04 (0.04)	-0.01 (0.04)	0.02 (0.04)
First Time Fund	-0.08** (0.04)	-0.08** (0.04)	-0.06 (0.04)	-0.00 (0.04)
Individual Investor	0.25*** (0.09)	0.28*** (0.09)	0.04 (0.09)	0.10 (0.09)
R <sup>2</sup>	0.060	0.057	0.031	0.018
Observations	1,038	1,038	1,038	1,038

Panel B: Mechanisms Evaluations

Dependent Variable:	Network Evaluations	Matching Evaluations	Return Evaluations	Risk Evaluations
	1{Q <sub>1</sub> Above Median}	1{Q <sub>2</sub> Above Median}	1{Q <sub>3</sub> Above Median}	1{Q <sub>4</sub> Above Median}
	(1)	(2)	(3)	(4)
Top Performing Fund × Individual Investor	-0.18*** (0.06)	0.16*** (0.06)	-0.24*** (0.06)	0.16*** (0.06)
VC Exp × Individual Investor	-0.18** (0.08)	-0.07 (0.08)	-0.13 (0.08)	-0.12 (0.08)
Entrepreneurial Exp × Individual Investor	-0.21*** (0.08)	0.04 (0.08)	-0.18** (0.08)	-0.05 (0.08)
Connection × Individual Investor	-0.05 (0.06)	0.00 (0.06)	-0.06 (0.06)	0.04 (0.06)
Prestigious School × Individual Investor	-0.05 (0.06)	0.13** (0.06)	0.01 (0.06)	-0.00 (0.06)
Western Coast × Individual Investor	0.01 (0.06)	0.11* (0.06)	0.11* (0.06)	-0.04 (0.06)
First Time Fund × Individual Investor	0.12* (0.06)	-0.08 (0.06)	0.11* (0.06)	-0.02 (0.06)
Top Performing Fund	0.12*** (0.04)	-0.15*** (0.04)	0.25*** (0.04)	-0.15*** (0.04)
VC Exp	0.08 (0.05)	0.06 (0.05)	0.04 (0.05)	0.03 (0.05)
Entrepreneurial Exp	0.11** (0.05)	0.00 (0.05)	0.12** (0.05)	0.03 (0.05)
Connection	0.06 (0.04)	0.04 (0.04)	0.05 (0.04)	-0.04 (0.04)
Prestigious School	0.05 (0.04)	-0.06 (0.04)	0.01 (0.04)	0.01 (0.04)
Western Coast	0.08** (0.04)	-0.06 (0.04)	-0.01 (0.04)	0.03 (0.04)
First Time Fund	-0.03 (0.04)	0.04 (0.04)	-0.05 (0.04)	0.14*** (0.04)
Individual Investor	0.22** (0.09)	-0.15* (0.09)	0.13 (0.09)	0.00 (0.09)
R <sup>2</sup>	0.031	0.025	0.051	0.034
Observations	1,038	1,038	1,038	1,038

**Table 10: Investors’ Type and Fund Returns (Observational Data)**

This table analyzes the association between investor participation and fund success. The unit of observation is a fund in PitchBook that we mapped to Form D to get data on the number of investors participating in the offering. The funds included span vintage years from 2009 to 2019, allowing sufficient time for exits, and have engaged in at least five investments since their inception. The main dependent variables:  $P(IPOs)$ ,  $P(IPO/Acq)$ ,  $P(Acq)$ , and  $P(Closures)$  represent the proportion of a fund’s investments that have either gone public, been acquired or gone public, been acquired, or ceased operations as of Q4 2022, respectively.  $Ln(Accredited\ Investors)$  represents the natural logarithm of the total number of investors listed on Form D. “VC Exp” and “Entrepreneurial Exp” are indicators which equal one if the senior GPs in the fund were part of another venture capital fund before joining the current fund, and zero otherwise. “Connection” is an indicator for whether any of the senior GPs have previously (before the formation of the current fund) worked for a prestigious venture capital fund. “Prestigious School” is an indicator for whether the senior GPs attended prestigious schools. “Western Coast” is an indicator that equals one if the VC fund is located on the west coast, and zero elsewhere. “First Time Fund” is equal to one if the VC fund is a first-time VC fund, and zero otherwise. We cluster the standard errors by fund.\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$  indicate statistical significance at 1%, 5%, and 10% levels, respectively.

Dependent Variable:	P(IPO/Acq)	P(IPO)	P(Acq)	P(Closures)
	(1)	(2)	(3)	(4)
Ln(Accredited Investors)	-0.019** (0.007)	-0.027*** (0.007)	0.008 (0.005)	0.004 (0.004)
VC Exp	0.018 (0.021)	-0.009 (0.018)	0.027* (0.015)	-0.009 (0.009)
Entrepreneurial Exp	-0.008 (0.013)	0.006 (0.012)	-0.015 (0.010)	0.017*** (0.006)
Connection	-0.048*** (0.018)	-0.063*** (0.014)	0.015 (0.015)	0.002 (0.009)
Prestigious School	-0.001 (0.015)	-0.004 (0.010)	0.003 (0.012)	0.004 (0.007)
Western Coast	0.003 (0.012)	0.004 (0.010)	-0.001 (0.009)	0.005 (0.006)
First Time Fund	0.035* (0.018)	0.016 (0.016)	0.019 (0.013)	-0.005 (0.008)
Ln(Fund Size)	0.039*** (0.005)	0.045*** (0.005)	-0.006 (0.004)	-0.020*** (0.004)
Observations	662	662	662	662
Adjusted $R^2$	0.606	0.202	0.602	0.368
Vintage Year FE?	YES	YES	YES	YES

# Investor Expertise and Private Investment Selection

## Internet Appendix

Dear \${m://FirstName},

The data shows that only 20% of first-time private fund managers raise follow-on funds even though their end-of-fund performance is comparable to established funds. We believe that search and matching frictions might play a role. Hence, our research team from the University of Michigan Ross School of Business and SSE Finance Department would like to get your insights to train an algorithm that identifies talented fund managers.

By sharing your insights, **you will qualify for free due diligence services from our partner [CEPRES](#)**, a leading private market investment technology platform. You will also receive a copy of **our final research report** that encompasses all the collected insights. Importantly, as a token of appreciation for your participation, we will also randomly select two participants to **receive a \$1000 award** upon completion of the study.

Participation will only require **5-10 minutes** of your time. To share your thoughts, please click on the following link:

[\\${l://SurveyLink?d=Share Your Insights}](#)

Alternatively, you can copy and paste the URL below into your internet browser:

[\\${l://SurveyURL}](#)

We will provide you with a synthetic one-pager of a US private capital fund and use a fully anonymized version of your data to make progress on this puzzle.

If you have any inquiries or would like to learn more about this project, please feel free to contact the project investigators:

[Redacted contact information]

Sincerely,

[Redacted signature]

Follow the link to opt out of future emails:  
[\\${l://OptOutLink?d=Click here to unsubscribe}](#)

Figure A.1: Example Recruitment Email

**[Email Subject] Research Puzzle: First-time GPs Less Likely to Survive Despite Making Successful Investments**

Dear Alumni:

We hope this message finds you well. As mentioned in the previous email, you are uniquely positioned to contribute to an exciting new research project being conducted by our team from the University of Michigan's Ross School of Business and the Finance Department at the Stockholm School of Economics.

Our research has uncovered a surprising trend: despite showing performance metrics comparable to established funds from the same vintage years, only 20% of first-time private fund managers (in venture capital, growth equity, or private equity) successfully raise follow-on funds. We suspect that search and matching frictions may play a significant role in explaining this anomaly, and your insights could be the key to unlocking this puzzle.

**Why Participate?**

As our valued participant, you will not only contribute to solving this conundrum but will also gain exclusive benefits:

- 1) **Exclusive Access:** Upon sharing your insights, you will qualify for complimentary due diligence services from our esteemed partner, CEPRES.
- 2) **Research Report:** You will receive a copy of our comprehensive research report, consolidating the insights gathered from this study.
- 3) **Monetary Reward:** Two lucky participants will be randomly selected to receive a \$1000 award each.

**Who Can Participate?**

If you have ever been part of a fundraising process for a fund (in venture capital, growth equity, private equity, or other types of private capital funds) or have invested in a private capital fund as a limited partner, we encourage you to participate. Simply click on the link below:

[\\${1://SurveyLink?d=Share Your Insights}](#)

Alternatively, you can copy and paste the URL below into your internet browser:

[\\${1://SurveyURL}](#)

Rest assured, your participation will remain fully anonymous, and the data collected will be utilized solely for this research purpose. For any inquiries or further information, please feel free to reach out to



We deeply appreciate your time and consideration and look forward to your valuable contribution to our study.

Go Blue!  
Best Regards,

**Figure A.2: Example Recruitment Email Targeting Michigan Alumni**

1. **(Network)** What is the likelihood that this VC fund will syndicate with an established and prestigious VC fund?

0 10 20 30 40 50 60 70 80 90 100

Probability of Joining a Successful Syndication (Drag the bar)



2. **(Matching)** What's the probability that this fund will accept your investment?

0 10 20 30 40 50 60 70 80 90 100

Probability of Accepting Your Offer (Drag the bar)



3. **(Return)** Imagine that this VC fund is guaranteed to accept your investment offer. What's the likelihood that it will generate higher financial returns than other funds of the same type?

0 10 20 30 40 50 60 70 80 90 100

Probability of Generating Higher Returns (Drag the bar)



4. **(Risk)** Imagine that this VC fund team is guaranteed to accept your investment offer. What is the likelihood that this VC fund will have a higher risk than other funds of the same type?

0 10 20 30 40 50 60 70 80 90 100

Probability of Having Higher Risk (Drag the bar)



Figure A.3: Evaluation Questions (Investigating Mechanisms)



5. **(Decision)** If you consider the investment team's network, return, risk, and the likelihood that you get an allocation, how likely would you consider investing in the fund?

0 10 20 30 40 50 60 70 80 90 100

Probability of Investment (Drag the bar)



6. If you are planning to deploy \$25 million in VC capital this year, how much would you allocate to this fund considering that its target size is \$250 million?

**Note:** TVPI (i.e., "Total Value to Paid-In Capital") is calculated by dividing the current value of the fund's portfolio by the total amount of capital that has been called or paid in by limited partners in the following two questions. It is a common performance metric used to measure the return on investment for a fund.

1. After an initial meeting with the GPs, you feel that they are open to an allocation from you. Further, together with your consultants, your team estimates that their **expected TVPI is 4.5x** with a **standard deviation of 0.4x**. How likely would you consider making an allocation?

0 10 20 30 40 50 60 70 80 90 100

Probability of Investment (Drag the bar)



2. After an initial meeting with the GPs, you feel that they are open to an allocation from you. Further, together with your consultants, your team instead estimates that their **expected TVPI is 0.7x** with a **standard deviation of 0.6x**. How likely would you consider making an allocation?

0 10 20 30 40 50 60 70 80 90 100

Probability of Investment (Drag the bar)



**Figure A.4: Evaluation Questions (Decision Questions)**

**Table A.1: Description of Working Experience (Pager Construction)**

This table provides the description of GPs’ work experience, which we classify as VC experience, entrepreneurial experience, and benchmark experience. Panel A describes the work experience of managing partners. Panel B describes the work experience of venture partners. Panel C describes the work experience of principals.

Panel A. Managing Partner	
Experience Type	Description
VC Experience	<p>previously served as a Partner at the NZ Growth Capital Partners and a General Partner at Type One Ventures</p> <p>served as a General Partner at LocalGlobe and as a Board Member at Scape</p> <p>worked as a Managing Director at Parcom Capital and as a Board Member at Cassini</p> <p>served as a General Partner at A91 Partners and a Principal at Sequoia Capital</p> <p>previously served as a Managing Director at Index Ventures and as a General Partner at Blueprint Ventures</p> <p>previously held a position as a Partner at Capstone Ventures and Elm Street Ventures</p> <p>worked as a Principal at Cue Ball Capital and as a Managing Director at Think+ Ventures</p> <p>served as a Managing Director at Bullnet Capital and as a General Partner at Vestcomp Ventures</p> <p>worked as a Managing Director at RRE Ventures and as a Principal at Convergence Capital</p> <p>served as a Managing Director at Fontinalis Capital and as a Board Member at Avalon Ventures</p>
Entrepreneurial Experience	<p>was a Co-Founder and served as the Chief Executive Officer at Snowball. Also serves as a board advisor at Compound</p> <p>founded Vertexia to provide innovative solutions to a variety of challenges in the market</p> <p>started Opticore Co. with a focus on delivering exceptional value to customers, and gained a reputation for quality and reliability</p> <p>built Nexodus from scratch, with a focus on delivering the best possible customer experience</p> <p>co-founded and served as the Chief Executive Officer at Luminary Inc.</p> <p>previously served as the Chief Executive Officer of Cygnia. Also co-founded Dynamos Inc. with a focus on innovation and creativity</p> <p>founded Quantumium and scaled the company to serve customers across multiple markets</p> <p>founded Innovius Co. with a deep understanding of the market and a passion for innovation</p> <p>built Synergyx with a focus on creating a culture of creativity, collaboration, and excellence</p> <p>previously served as the Chief Executive Officer at Techlynx. Later co-founded Verityx with a passion for solving real-world problems</p>
Benchmark Experience	<p>previously ran the global consulting and professional services practice at Apollo Consulting.</p>
Investment Banking/Consulting	<p>previously worked in high-level management roles at a private strategic advisory firm helping companies secure international contracts</p> <p>worked as a Managing Director at Roland Berger Consulting and helped with IPOs of companies</p> <p>worked as a Vice Chairman at Piper Sandler’s Investment Banking Division for six years</p> <p>previously worked as a Vice Chairman at Netzel Investment Bank on deal sourcing and execution for growth equity investments</p> <p>worked for MindStorm Strategy Consulting as a Partner with a focus on corporate &amp; innovation strategy</p> <p>formerly worked as a Managing Director at PierCap Investment Bank on projects related to mergers and acquisitions</p> <p>served as a Director at Olivehorse Consulting Services with a focus on due diligence and mergers and acquisitions</p> <p>served as a Principal at Beacon Consulting Group and as a Partner at Praesta Consulting</p> <p>previously served as a General Partner at Clarion Capital Investment Bank focusing on IPOs</p>

Panel B. Venture Partner

Experience Type	Description
VC Experience	<p>previously served as an Analyst at the NZ Growth Capital Partners and an Associate at Type One Ventures</p> <p>served as an Analyst at LocalGlobe and as a Board Member at Scape</p> <p>worked as an Associate at Parcom Capital and as a Board Member at Cassini</p> <p>served as an Associate at A91 Partners and an Analyst at Sequoia Capital</p> <p>previously served as an Analyst at Index Ventures and as an Associate at Blueprint Ventures</p> <p>previously held a position as a Associate at Capstone Ventures and Elm Street Ventures</p> <p>worked as an Associate at Cue Ball Capital and as an Analyst at Think+ Ventures</p> <p>served as an Analyst at Bullnet Capital and as an Associate at Vestcomp Ventures</p> <p>worked as an Analyst at RRE Ventures and as an Associate at Convergence Capital</p> <p>served as an Analyst at Fontinalis Capital and as a Board Member at Avalon Ventures</p>
Entrepreneurial Experience	<p>was a Co-Founder and served as the Chief Executive Officer at Snowball. Also serves as a board advisor at Compound</p> <p>founded Vertexia to provide innovative solutions to a variety of challenges in the market</p> <p>started Opticore Co. with a focus on delivering exceptional value to customers, and gained a reputation for quality and reliability</p> <p>built Nexodus from scratch, with a focus on delivering the best possible customer experience</p> <p>co-founded and served as the Chief Executive Officer at Luminary Inc.</p> <p>previously served as the Chief Executive Officer of Cygnia. Also co-founded Dynamos Inc. with a focus on innovation and creativity</p> <p>founded Quantumium and scaled the company to serve customers across multiple markets</p> <p>founded Innovius Co. with a deep understanding of the market and a passion for innovation</p> <p>built Synergyx with a focus on creating a culture of creativity, collaboration, and excellence</p> <p>previously served as the Chief Executive Officer at Techlynx. Later co-founded Verityx with a passion for solving real-world problems</p>
Benchmark Experience	<p>previously served as an Associate in the global consulting and professional services practice at Apollo Consulting.</p>
Investment Banking/Consulting	<p>previously worked as an Analyst at a private strategic advisory firm helping companies secure international contracts</p> <p>worked as an Associate at Roland Berger Consulting and helped with IPOs of companies</p> <p>worked as an Associate at Piper Sandler's Investment Banking Division for six years</p> <p>previously worked as an Associate at Netzel Investment Bank on deal sourcing and execution for growth equity investments</p> <p>worked for MindStorm Strategy Consulting as an Associate with a focus on corporate &amp; innovation strategy</p> <p>formerly worked as an Associate at PierCap Investment Bank on projects related to mergers and acquisitions</p> <p>served as a Project Leader at Olivehorse Consulting Services with a focus on due diligence and mergers and acquisitions</p> <p>served as a Project Leader at Beacon Consulting Group and as an Associate at Praesta Consulting</p> <p>previously served as an Associate at Clarion Capital Investment Bank focusing on IPOs</p>

Panel C. Principal

Experience Type	Description
VC Experience	<p>previously served as an Associate at the NZ Growth Capital Partners and an Associate at Type One Ventures</p> <p>served as an Associate at LocalGlobe and as a Board Member at Scape</p> <p>worked as an Associate at Parcom Capital and as a Board Member at Cassini</p> <p>served as an Associate at A91 Partners and an Associate at Sequoia Capital</p> <p>previously served as an Analyst at Index Ventures and as an Associate at Blueprint Ventures</p> <p>previously held a position as an Associate at Capstone Ventures and Elm Street Ventures</p> <p>worked as an Associate at Cue Ball Capital and as an Associate at Think+ Ventures</p> <p>served as an Associate at Bullnet Capital and as an Associate at Vestcomp Ventures</p> <p>worked as an Associate at RRE Ventures and as an Associate at Convergence Capital</p> <p>served as an Associate at Fontinalis Capital and as a Board Member at Avalon Ventures</p>
Entrepreneurial Experience	<p>was a Co-Founder and served as the Chief Executive Officer at Snowball. Also serves as a board advisor at Compound</p> <p>founded Vertexia to provide innovative solutions to a variety of challenges in the market</p> <p>started Opticore Co. with a focus on delivering exceptional value to customers, and gained a reputation for quality and reliability</p> <p>built Nexodus from scratch, with a focus on delivering the best possible customer experience</p> <p>co-founded and served as the Chief Executive Officer at Luminary Inc.</p> <p>previously served as the Chief Executive Officer of Cygnia. Also co-founded Dynamos Inc. with a focus on innovation and creativity</p> <p>founded Quantumium and scaled the company to serve customers across multiple markets</p> <p>founded Innovius Co. with a deep understanding of the market and a passion for innovation</p> <p>built Synergyx with a focus on creating a culture of creativity, collaboration, and excellence</p> <p>previously served as the Chief Executive Officer at Techlynx. Later co-founded Verityx with a passion for solving real-world problems</p>
Benchmark Experience	<p>previously served as a Project Leader in the global consulting and professional services practice at Apollo Consulting.</p>
Investment Banking/Consulting	<p>previously worked as an Associate at a private strategic advisory firm helping companies secure international contracts</p> <p>worked as a Vice President at Roland Berger Consulting and helped with IPOs of companies</p> <p>worked as a Vice President at Piper Sandler's Investment Banking Division for six years</p> <p>previously worked as an Associate at Netzel Investment Bank on deal sourcing and execution for growth equity investments</p> <p>worked for MindStorm Strategy Consulting as a Project Leader with a focus on corporate &amp; innovation strategy</p> <p>formerly worked as a Vice President at PierCap Investment Bank on projects related to mergers and acquisitions</p> <p>served as a Project Leader at Olivehorse Consulting Services with a focus on due diligence and mergers and acquisitions</p> <p>served as a Project Leader at Beacon Consulting Group and as an Associate at Praesta Consulting</p> <p>previously served as an Associate at Clarion Capital Investment Bank focusing on IPOs</p>

**Table A.2: Description of Educational Background (Pager Construction)**

This table shows the school list used to signal GPs' educational backgrounds in our experiment. We select a mix of schools to signal U.S. elite- and other schools. All the schools we select have at least alumni working for a U.S. VC fund, according to Pitchbook.

School Type	School List	
US Elite School	Harvard Business School	
	Princeton University	
	Yale University	
	Cornell University	
	University of Pennsylvania Wharton Business School	
	Columbia Business School	
	Dartmouth College	
	Brown University	
	Stanford University	
	Massachusetts Institute of Technology	
	University of California Berkeley	
	California Institute of Technology	
	University of California Los Angeles	
	University of Michigan	
	University of Chicago	
	Northwestern University	
	Duke University	
	US Common School	George Mason University
		California Polytechnic State University
Virginia Polytechnic Institute and State University		
Drexel University		
George Washington University		
Western Washington University		
University of Montana Missoula		
Florida State University		
University of Tennessee		
University of Colorado Boulder		
University of Connecticut		
Colorado School of Mines		
New Jersey Institute of Technology		
Case Western Reserve University		
Georgetown University		
Rensselaer Polytechnic Institute		
University of Arizona		
Miami University		
Georgia State University		
University of Kansas		
Fordham University		
University of Utah		

**Table A.3: Description of Track Records (Pager Construction)**

This table provides the description of track records for both first-time VC funds and seasoned VC funds. In addition to displaying the historical net IRR and TVPI of seasoned GPs, we also include additional information about the number of their investments and successful exits.

Fund Type	Description
Seasoned Fund (Low Track Record)	Fund I, \$75M (2011 vin.) Net IRR: -10.6% — TVPI: 0.62x 15 investments, 2 successful exits, 5 investments money-back Fund II, \$150M (2014 vin.) Net IRR: -9.2% — TVPI: 0.56x 20 investments, 2 successful exits, 6 investments money-back
Seasoned Fund (High Track Record)	Fund I, \$75M (2011 vin.) Net IRR: 41% — TVPI: 4.7x 15 investments, 20% of invested capital marked above 5x, driving \$250M of cash back to LPs Fund II, \$150M (2014 vin.) Net IRR: 44% — TVPI: 5.1x 20 investments, median 100% YOY Rev. growth rate; \$250M cash returned to LPs within three years
First-time Fund (Low Track Record)	No relevant information is provided
First-time Fund (High Track Record)	(For managing partners with VC-related working experience) [Investor Name] was an extremely successful Venture capitalist who have participated in several famous deals (For managing partners with entrepreneurial experience) [Investor Name] was an extremely successful entrepreneur who have established several successful companies (For managing partners with benchmark working experience) [Investor Name] was an extremely successful investment banker/consultant who have participated in several famous deals

**Table A.4: Correlation Matrix of Orthogonally Randomized GP Characteristics**

This table reports the correlation matrix of orthogonally randomized GP characteristics used in the survey experiment.

Panel A. Professional Investors' Evaluations							
	VC Exp	Entrepreneurial Exp	Connection	Prestigious School	Top Performing Fund	Western Coast	First Time Fund
VC Exp	1.0000						
Entrepreneurial Exp	-0.5639	1.0000					
Connection	-0.0206	0.0064	1.0000				
Prestigious School	-0.1036	0.0152	0.0542	1.0000			
Top Performing Fund	-0.0015	-0.0358	0.0108	-0.0750	1.0000		
Western Coast	0.0470	0.0141	0.0784	-0.0750	0.0352	1.0000	
First Time Fund	-0.0032	0.0973	-0.0225	0.0260	0.0083	-0.0457	1.0000

Panel B. Individual Investors' Evaluations							
	VC Exp	Entrepreneurial Exp	Connection	Prestigious School	Top Performing Fund	Western Coast	First Time Fund
VC Exp	1.0000						
Entrepreneurial Exp	-0.5028	1.0000					
Connection	0.0541	-0.0075	1.0000				
Prestigious School	-0.0368	-0.0877	-0.0416	1.0000			
Top Performing Fund	0.0202	-0.0726	-0.0094	0.0301	1.0000		
Western Coast	0.0047	0.0445	-0.0224	-0.1856	0.0661	1.0000	
First Time Fund	0.0241	0.1039	-0.0893	-0.0512	0.0012	-0.0085	1.0000

**Table A.5: Descriptive Statistics of Variables**

This table reports descriptive summary statistics of variables used in the experiment.  $Q_1$  (Network Evaluations),  $Q_2$  (Matching Evaluations),  $Q_3$  (Return Evaluations),  $Q_4$  (Risk Evaluations),  $Q_5$  (Investment Interest Ratings),  $Q_6$  (Allocated Investment Amount),  $Q_7$  (Investment Interest Ratings of High-quality VC Funds), and  $Q_8$  (Investment Interest Ratings of Low-quality VC Funds) are participants' evaluation results of GP profiles. Panel A summarizes professional investors' evaluations, and Panel B summarizes individual investors' evaluations. The detailed evaluation questions are provided in Online Appendix Figure A.3 and Figure A.4.

Panel A. Professional Investors' Evaluations

	Obs.	Mean	S.D.	Min	Max	Percentile		
						10	50	90
$Q_1$ (Network Evaluations)	593	45.00	26.19	0	100	10	45	80
$Q_2$ (Matching Evaluations)	593	74.28	27.78	0	100	30	82	100
$Q_3$ (Return Evaluations)	593	36.39	22.40	0	100	10	30	67
$Q_4$ (Risk Evaluations)	593	59.56	22.76	0	100	30	60	89
$Q_5$ (Investment Interest Ratings)	593	30.82	26.76	0	100	1	21	71
$Q_6$ (Allocated Investment Amount)	593	3.35	4.66	0	50	0	2.5	50
$Q_7$ (Investment Interest Ratings of High-quality VC Funds)	593	54.52	27.61	0	100	10	60	90
$Q_8$ (Investment Interest Ratings of Low-quality VC Funds)	593	10.74	17.65	0	90	0	3	36

Panel B. Individual Investors' Evaluations

	Obs.	Mean	S.D.	Min	Max	Percentile		
						10	50	90
$Q_1$ (Network Evaluations)	445	71.02	20.57	0	100	40	74	98
$Q_2$ (Matching Evaluations)	445	74.40	21.22	0	100	48	79	97
$Q_3$ (Return Evaluations)	445	70.30	22.78	0	100	37	76	96
$Q_4$ (Risk Evaluations)	445	70.70	21.07	0	100	40	76	94
$Q_5$ (Investment Interest Ratings)	445	71.96	22.62	0	100	37	78	96
$Q_6$ (Allocated Investment Amount)	445	32.91	55.71	0	250	1	15	100
$Q_7$ (Investment Interest Ratings of High-quality Funds)	445	72.25	20.96	4	100	41	78	98
$Q_8$ (Investment Interest Ratings of Low-quality Funds)	445	66.61	27.26	0	100	20	75	95



**Table A.6: Investment Interest Ratings From Professional and Individual Investors**

This table analyzes the interaction effect between investors' investment interest ratings and the investor's type. The dependent variable is participants' investment interest ratings (i.e.,  $Q_5$  the likelihood of investing in the VC fund) in Column (1), allocated investment amount (i.e.,  $Q_6$ ) in Column (2), investment interest ratings of high-quality VC funds (i.e.,  $Q_7$  the likelihood of investing in a high-quality VC fund) in Column (3), and investment interest ratings of low-quality VC funds (i.e.,  $Q_8$  the likelihood of investing in a low-quality VC fund) in Column (4), respectively. "VC Exp" and "Entrepreneurial Exp" are indicators which equal one if the leading investor has VC-related experience or has entrepreneurial experience before joining the current investment fund, and zero otherwise. "Connection" is an indicator for whether the investment team has a close connection with a prestigious VC fund through previous working experience. "Prestigious School" is an indicator for team members from top US schools. "Top Performing Fund" is an indicator that equals one if a seasoned VC fund has a high track record or the leading investor of a first-time fund has a successful career before starting the fund. "Western Coast" is equal to one if the VC fund is located on the western coast, and zero if the VC fund is located on the eastern coast. "First Time Fund" is equal to one if the VC fund is a first-time VC fund, and zero if it is a seasoned VC fund. "Individual Investor" is an indicator for a member of the individual investor sample. Robust standard errors are reported in parentheses.\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$  indicate statistical significance at 1%, 5%, and 10% levels, respectively.

<b>Dependent Variable:</b>	Investment Interest $Q_5$ (1)	Investment Amount $Q_6$ (2)	Investment Interest $Q_7$ (High Quality) (3)	Investment Interest $Q_8$ (Low Quality) (4)
VC Exp	-1.83 (2.66)	-0.91* (0.54)	2.41 (2.96)	-2.08 (1.78)
Entrepreneurial Exp	5.57** (2.73)	0.20 (0.57)	6.85** (2.85)	0.99 (1.91)
Connection	2.71 (2.08)	0.48 (0.37)	-1.86 (2.25)	0.87 (1.45)
Prestigious School	3.03 (2.12)	0.57 (0.39)	2.38 (2.31)	2.00 (1.45)
Top Performing Fund	15.65*** (2.09)	1.72*** (0.38)	6.63*** (2.26)	1.84 (1.44)
Western Coast	2.18 (2.10)	0.48 (0.40)	1.84 (2.29)	-0.66 (1.48)
First Time Fund	-7.47*** (2.09)	-0.33 (0.39)	-3.03 (2.27)	-2.11 (1.44)
VC Exp × Individual Investor	0.51 (3.85)	4.94 (6.58)	-2.67 (3.83)	1.87 (3.78)
Entrepreneurial Exp × Individual Investor	-6.19 (3.78)	0.57 (6.61)	-10.31*** (3.74)	0.84 (3.71)
Connection × Individual Investor	-4.44 (2.97)	2.70 (5.10)	1.60 (3.00)	-3.42 (2.97)
Prestigious School × Individual Investor	0.74 (3.08)	3.46 (5.17)	1.66 (3.08)	2.06 (3.06)
Top Performing Fund × Individual Investor	-13.27*** (2.99)	-0.77 (5.27)	-8.23*** (2.99)	0.11 (2.95)
Western Coast × Individual Investor	0.56 (3.05)	4.00 (5.36)	2.98 (3.05)	1.66 (3.08)
First Time Fund × Individual Investor	9.71*** (2.98)	-5.43 (5.39)	4.96 (3.02)	6.82** (2.98)
Individual Investor	46.58*** (4.47)	25.90*** (7.80)	20.91*** (4.64)	51.32*** (4.50)
R <sup>2</sup>	0.449	0.142	0.134	0.614
Observations	1038	1016	1038	1038