

not boring capital

Fund II Memo

Hi friends 🙌,

I'm Packy McCormick. I write a newsletter called [Not Boring](#) about tech companies and trends that currently has about 90,000 subscribers.

I'm raising \$30 million for Not Boring Capital Fund II.

Not Boring Capital invests in companies with stories to tell, and helps tell them.

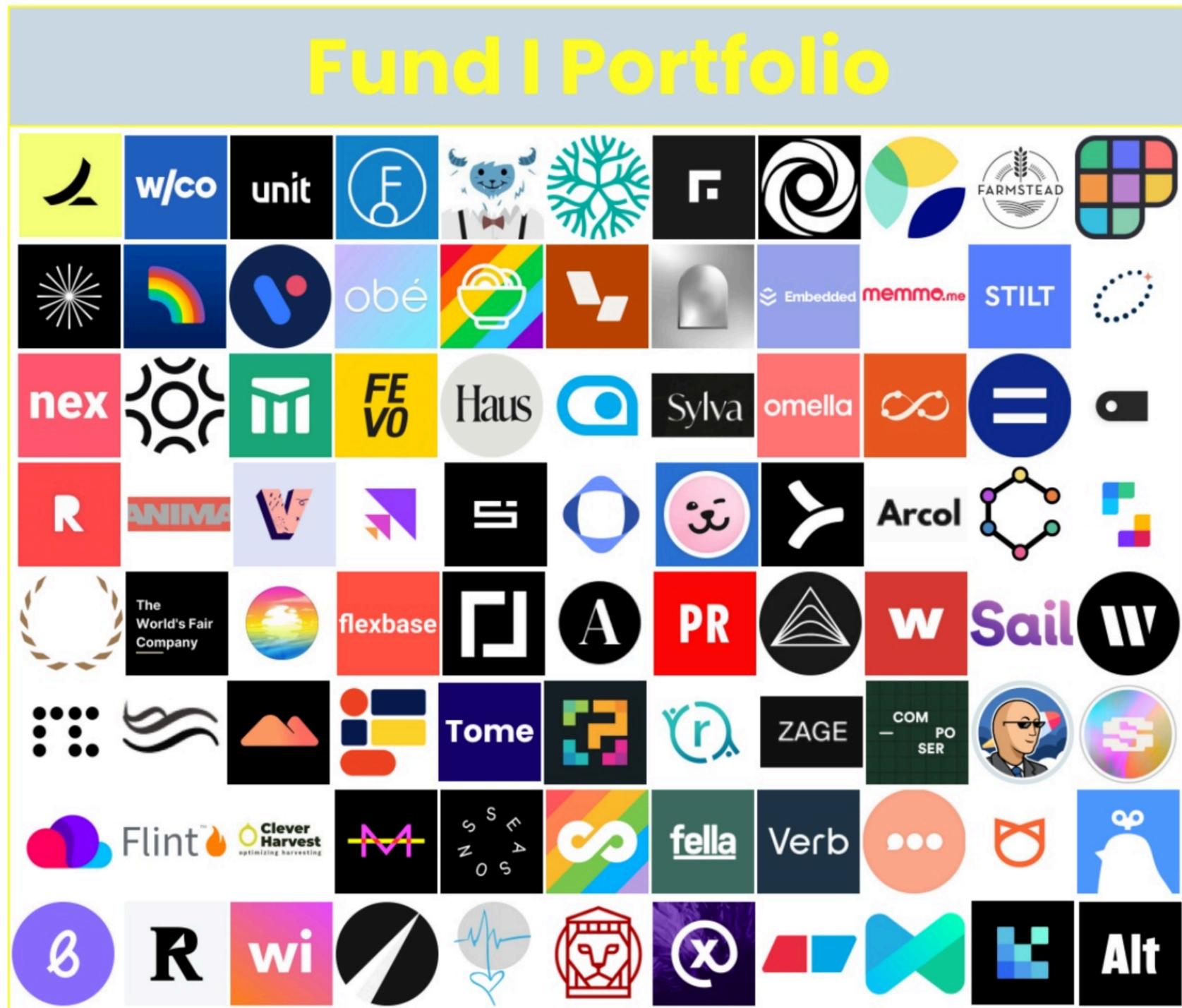
I raised Fund I in April 2021, expecting that I would raise \$5-7M and that it would take 12 months to deploy the capital. I was wrong. Fund I ended up raising \$9.9M and I deployed it in a little over six months.

Part of the reason for the discrepancy was the market. Things moved faster than I could have even anticipated back in April. Particularly for a small multi-stage generalist fund, the opportunities to invest in great companies came faster and more furiously than anticipated.

The other half was that **the Not Boring thesis resonated more strongly** than I could have hoped. In the Fund I Memo, I said that to build a successful fund, I need to be able to do three things:

1. Pick the Right Investments
2. Get Allocations
3. Help Portfolio Companies Succeed

So far, steps two and three are playing out beautifully. It will take some years to understand whether we've picked the right investments, but I feel strongly that we've built a portfolio full of phenomenal companies.



Fund II's portfolio should look similar to Fund I's, but with bigger checks. I've been holding back on allocations in Fund I, and want to move the range closer to \$100-\$500k, with the ability to flex up (or very occasionally down) for Fund II.

We will mostly focus on Seed to Series B tech companies, broadly defined, but will occasionally go earlier or later. For example, our pre-seed checks into [Composer](#) and [Party Round](#) have

already resulted in markups, and I would write checks into the later-stage companies we've backed like Ramp, Sky Mavis, Modern Treasury, and Scale ten times out of ten.

Once again, I expect to invest roughly $\frac{1}{3}$ of the fund into Pre-Seed and Seed, $\frac{1}{3}$ into Series A, and $\frac{1}{3}$ into Series B+. While I will make most investments with the expectation that they can return the fund, I am also happy making safer later-stage investments that I think have a high probability of 5-10x returns and smaller investments into earlier stage companies and protocols with big upside and the opportunity for larger follow-on checks.

One new addition for Fund II will be follow-on checks from Fund I. I don't have an exact percentage set aside for follow-ons; I will treat them like new investments from an analysis and sizing perspective. I hope that we have the opportunity to do follow-on checks in all of our Fund I investments, and even some early Fund II investments, during the life of the fund, and may do certain ones out of SPVs.

I also expect to invest a higher percentage of the fund in web3 projects, protocols, and companies than Fund I (which was roughly 11%). As is evident from Not Boring essays, I am incredibly bullish on web3 and think we have a great opportunity to go deeper there. Many of these projects need help telling a clear story about what they do, why it's important, and how they make money for owners, and we can help there. To the extent that we run into our 20% non-qualifying investment cap, to which token deals (and secondary purchases) are subject, before the fund is fully deployed, I expect to run SPVs either via AngelList or [Syndicate](#). If the latter, I will send through instructions on how to invest.

While I'm bullish on web3, we're simply looking to back the best companies that we can, whether or not they're decentralized or plan to issue tokens, and expect to invest in a broad basket of the best startups out there across categories.

Why invest in Not Boring Capital?

Not Boring is and does a few things:

- **Newsletter:** Twice weekly, 98k subscribers

- **Not Boring Syndicate:** \$4 million invested across 25 deals, 1,500 backers
- **Investment Memos:** Public memos on companies we invest in
- **Sponsored Deep Dives:** Companies pay Not Boring to write about them
- **Not Boring Founders.** Podcast conversations with portfolio founders with ~3-7k listeners per episode.
- **Twitter and Spaces:** 125k Twitter followers
- **Not Boring Capital.** A multi-stage venture fund.

Those help us do the three things we need to do to be successful: see & pick the best companies, get allocation, and help portfolio companies. Figuring out exactly what we should be doing with those assets, and how, is the secret sauce of Not Boring Capital's strategy.

Strategy

In our recent LP Update, I shared thoughts on Not Boring Capital's Strategy. I'll summarize it here using the strategy kernel framework from Richard Rumelt's [Good Strategy, Bad Strategy](#): diagnosis, guiding policy, coherent actions.

Diagnosis

For Not Boring Capital, there's a three-part **diagnosis**:

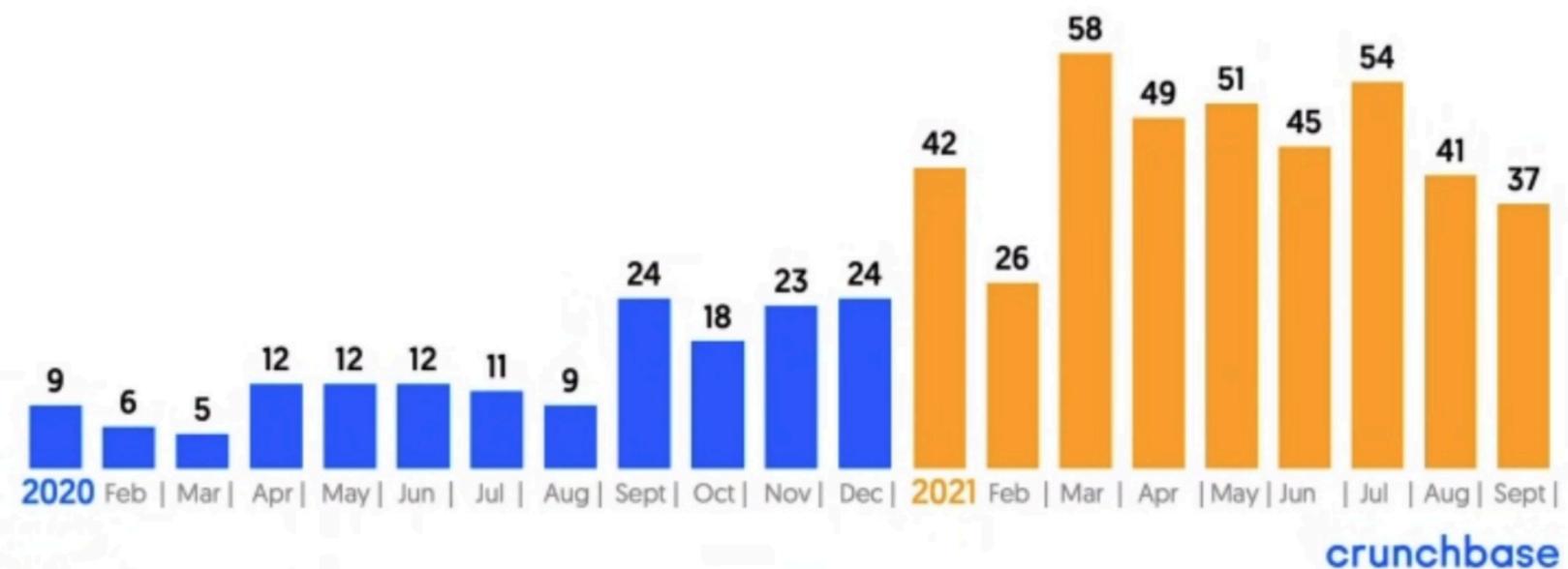
1. Maximize winners > minimize losers.
2. The rules of the game are different for a small solo fund like Not Boring Capital.
3. The newsletter is our unfair advantage; I need to protect time to make it good.

The first part is well-known to everyone reading this: power laws drive venture returns -- i.e. the couple biggest winners deliver most of the returns for a fund. The job is to invest in and support as many of them as possible. **It's not about minimizing losers; it's about maximizing winners.**

And there are more big winners than ever before. When I sent the Q2 LP Update, I mentioned that there were 750 unicorns on [CB Insights' Real-Time Unicorn Tracker](#). Today, 90 days later, there are 860. Crunchbase, which has an even larger list of unicorns, puts the number even

higher: it tracks 994 unicorns, worth a combined \$3.4 trillion, 132 of which were valued over \$1 billion for the first time in Q3. Whichever list you look at, the takeaway is the same: **Over the past quarter, more than 1 new unicorn was born every single day.**

Global New Unicorn Count By Month

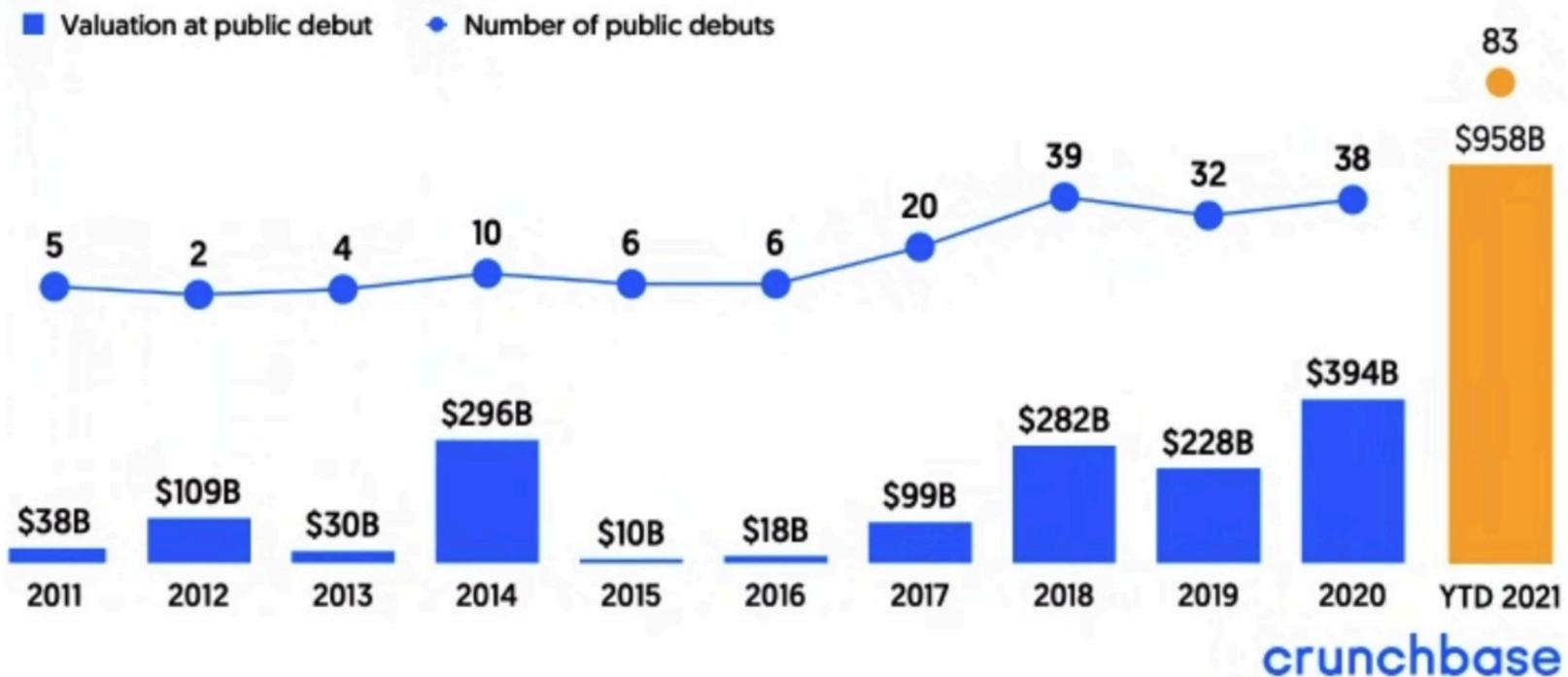


Source: Crunchbase

It's not just private market mania fueling valuations, either. Crunchbase reported that 83 unicorns went public in the first nine months of 2021 at a combined market cap of \$958 billion, for an average public valuation of \$11.5 billion at IPO.

Unicorn Companies Public Debuts

Excludes companies previously acquired. Data as of Sept 28 2021.



Source: Crunchbase

That \$958 billion is higher than the past three years combined, and if the pace continues, 2021 unicorn valuations at public debut will exceed the combined value of the past six years.

The second piece of the diagnosis is that the **rules of the game are different for a small solo fund like Not Boring Capital**. We are structurally set up to be able to invest in a lot of the most credible companies. We don't lead deals. We don't sit on boards. The newsletter generates strong dealflow. If we invest a little bit in companies that can break out, I can often pull the "Deep Dive" arrow out of the quiver to write bigger checks in later rounds. We can often get \$250k allocation but rarely \$1 million. Time isn't a constraint, but allocation often is.

At the same time, the biggest funds are getting bigger, which has been well-covered. What's less appreciated is that, counterintuitively, **the bigger and better the big funds get, the better it is for small funds like Not Boring Capital**. Bigger funds mean more management fees going towards bigger teams and better tooling to better diligence and support investments. They can meet and spend time on more companies, in a more sophisticated way, particularly in a world in which Zoom means getting days back that would have been spent on travel. Then, they get to put more resources to bear on their portfolio companies' behalf. As a small, solo fund that's no

threat to lead and is a friend to all, we get to piggyback on all of that work for free, which saves time and lets us meet with, invest in, and write about more companies.

The third part of the diagnosis is that **without the newsletter, I would be a very average venture investor at best**. I probably wouldn't be doing this. I would see fewer deals, spend less time thinking deeply enough about companies and markets to put my thoughts out there, and win few allocations in more competitive deals. No Not Boring, no Not Boring Capital.

Guiding Policy

All of those inputs combine into a **guiding policy** for Not Boring Capital: **set Not Boring Capital up to see and invest in as many great companies as possible by increasing high-quality dealflow and time spent with companies while protecting time to write.**

I want to put particular emphasis on the **great companies** piece here. Seeing and investing in as many great companies as possible **does not mean investing in as many companies as possible. It doesn't mean investing in everything**. I say no a lot more than I say yes. If I invested in every company, even every "credible" company, it would mean less when I did invest. But since we invest in companies across stage, vertical, and geography, we can say yes to a lot of companies while keeping the bar high.

Coherent Actions

The diagnosis and guiding policy are interesting to write about, but the rubber hits the road in the **coherent actions**, the actual things we do to execute on the strategy. For Not Boring Capital, the coherent actions I use to carry out the guiding policy need to involve trade-offs and take advantage of my comparative advantage. I can't be the best at everything, so I need to focus on areas where I have the most leverage and de-emphasize areas where I don't. Specifically, that means more time writing and talking to founders, and less time doing diligence and in-person coffee chats. Here are a few of the actions:

- **Write about the spaces I want to invest in:** sends out a bat signal and does upfront diligence on the space.

- **Share deals with other solo GPs and funds:** this is collaborative, not competitive.
- **Write Sponsored Deep Dives on great later stage companies:** they don't need money, they need customers and employees, and the deep dive can help with both.
- **Don't worry about % ownership:** I'd rather own .25% of a 1000x company than 0%.
- **Apply a strong filter upfront:** only take calls with companies I'm likely to invest in.
- **Spend less time poking holes in companies:** spend more time looking at upside than downside, and trust others' diligence, accepting that could lead to mistakes.
- **Amplify portfolio companies using my reach:** newsletter, twitter, podcast.
- **Work with companies behind the scenes:** I like getting my hands dirty and digging in when I have relevant expertise or connections.

Of course, things could go wrong with my approach. The most obvious risk areas are:

- **Investing in a lot of companies and still missing the winners**
- **Less time diversification**
- **Inability to raise future funds**
- **Investing in a company that looks like the leader in a competitive set now when the ultimate winner has yet to be built and conflicting myself out**
- **I can't be helpful enough to this many portfolio companies and lose reputation (this one's in my control and I'm always developing more channels to help)**

There are certainly others. This strategy could be completely wrong. It's going to take a very long time to learn if it worked. For now, the only thing I have to go on is the companies we've invested in, and I couldn't be more excited about them.

For more detail on my **existing portfolio, upcoming deals** that I hope to invest in through the fund if timing allows, and a **summary of terms**, see below.

Fund I Portfolio

We invested in 79 companies in the first two quarters, with 16 more closed in Q4 or in process.