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How are Search Fund Investors Really Faring?

Search fund investors face entrepreneur access challenges and must grapple with investment weighting decisions; these dynamics impact portfolio MOICs

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The search fund community has exploded since its inception in the mid-1980s, when only one or two funds were launched each year. Fast forward to 2025, and it seems like there are hundreds of new funds launched annually, when self-funded and accelerator projects are included. For reference, according to the 2024 Stanford Graduate School of Business Search Fund Study, 94 traditional search funds were created in 2023, with 29 company acquisitions completed. Additionally, $682 million of investor equity was invested in core search funds and search-acquired companies in 2022 and 2023 combined, and the previous two-year period saw $776 million invested.[4] Search funds and entrepreneurship through acquisition (ETA) is clearly a growing asset class that is attracting more and more talent and investor dollars.

Part of the appeal is the investment returns highlighted in the biennial Stanford Search Fund Study. Since the 2011 report, aggregate internal rates of return (IRRs) have hovered in the mid-30s when considering all funds and have remained relatively stable in the low 20s to low 30s when the top three to five funds are excluded. Additionally, even though aggregate multiples of invested capital (MOICs) have declined from 11.0x to 4.5x since 2011, considering all funds, they hold steady at approximately 3.0x when excluding the top three to five performers (**Exhibit 1**).[5] These are juicy returns by any standard, and they are stimulating a stampede of aspiring entrepreneurs and novel investors. Of course, these returns are *gross* numbers and do not reflect any fees and compensation paid to the general partners in pooled funds. The *net* returns to limited partner capital providers and investors are somewhat lower, reflecting the general partners' take. Still, it appears that there is a lot of money being made.

Despite these attractive return profiles, however, we are unsure whether investors truly match their intended mark. There are several reasons for this, and the phenomenon is similar to retail investors in public markets failing to match tracking indices; they buy and sell at the wrong times, and there are tracking errors, resulting in underperformance. Search fund investors might face temporal challenges, exiting in the first recapitalization instead of waiting for the sale to the frothy strategic buyer, or rolling equity into a new sponsor's deal that turns out to be a dud. Certainly, they face access, selection, and allocation dilemmas.

Each investor's portfolio is only a *sample* of the Stanford population, and this has meaningful implications for investor returns. The Stanford study acts as a sort of index, and it represents

[*] A special thanks to my favorite college intern, Leah Wasserstein, who helped with the early-stage data organization and analysis.

entrepreneur-reported returns (as compared to investor outcomes). It claims to represent the entire population (as opposed to a sample) of core search fund projects in the U.S. This means that the reported IRRs and MOICs encompass *all* deal opportunities, both successful and unsuccessful. However, this is not necessarily a proxy for every investment's behavior, since no investor participates in every deal—there are simply too many, or investors lack access. And even if investors had access to every single deal, they tend to focus on some and pass on others. In other words, it is highly unlikely that any single investor can replicate the breadth of coverage shown in the Stanford study. Furthermore, the Stanford study does not account for equity dollar allocation in any way; it assumes there are no weighting decisions. In practice, if an investor chooses to participate in a deal, they must decide whether to bet a small amount or a large one. This decision does not affect IRR or MOIC on a deal basis, but it does impact portfolio returns—especially in nominal dollars.

We explore this phenomenon in **Figure 1**, which illustrates various investment strategies and their corresponding portfolio outcomes. Let's imagine a world where only four investment opportunities exist. The returns, measured by MOIC, are constant for investments 1, 2, 3, and 4 across the respective investor portfolios. However, the *portfolio* MOIC will vary widely based on whether investors have access to every opportunity, whether they choose to participate in an opportunity or not, and the ante of their investment.

In the upper left panel, we see an investor who takes their pro rata opportunity for each investment possibility and ends up with a 3.60x MOIC. In the upper right panel, we observe an investor who deploys a constant dollar strategy, making equal-sized wagers on every opportunity. This results in a smaller stake on investment 1 (a dud with a zero MOIC), a larger bet on investment 3 (a winner with a 5.00x MOIC), and a slightly smaller allocation to investment 4 (the star with a 7.00x MOIC). Shake it up, and this constant dollar strategy yields a 3.75x MOIC in our fictitious world. Similarly, in the bottom two panels, we observe different portfolio MOICs based on active allocation (sizing up or down) with deleterious and serendipitous results either by chance or genius.

The point is that actual portfolio results by investor will vary based on their access to talent and how they size their wagers. This implies that, in practice, investors will have investment returns that deviate from the Stanford index. Some investors will dramatically underperform because they do not get access to the best deals or haplessly pass on those winners. Additionally, some investors will bet too big on the duds and not enough on the stars, and vice versa. We suspect that there is a dispersion of investor outcomes in ETA land and that the Stanford benchmarks could be an elusive guidepost—at least for some investors. This does not mean Stanford is misrepresenting its data or intentionally misleading investors; they are simply presenting an index of entrepreneur-reported results without weighting constraints, and we merely want to make sure investors are aware of the difference.

Figure 1: Illustrative portfolio MOICs based on capital allocation actions

Pro rata strategy				
Investment	% weight	Dollar weight	MOIC	Value
1	30%	$300,000	0.00	$0
2	25%	$250,000	3.00	$750,000
3	15%	$150,000	5.00	$750,000
4	30%	$300,000	7.00	$2,100,000
Sum	**100%**	**$1,000,000**	**3.60**	**$3,600,000**

Constant dollar strategy				
Investment	% weight	Dollar weight	MOIC	Value
1	25%	$250,000	0.00	$0
2	25%	$250,000	3.00	$750,000
3	25%	$250,000	5.00	$1,250,000
4	25%	$250,000	7.00	$1,750,000
Sum	**100%**	**$1,000,000**	**3.75**	**$3,750,000**

Active allocation strategy (unlucky)				
Investment	% weight	Dollar weight	MOIC	Value
1	50%	$500,000	0.00	$0
2	30%	$300,000	3.00	$900,000
3	20%	$200,000	5.00	$1,000,000
4	0%	$0	7.00	$0
Sum	**100%**	**$1,000,000**	**1.90**	**$1,900,000**

Active allocation strategy (fortuitous)				
Investment	% weight	Dollar weight	MOIC	Value
1	0%	$0	0.00	$0
2	10%	$100,000	3.00	$300,000
3	40%	$400,000	5.00	$2,000,000
4	50%	$500,000	7.00	$3,500,000
Sum	**100%**	**$1,000,000**	**5.80**	**$5,800,000**

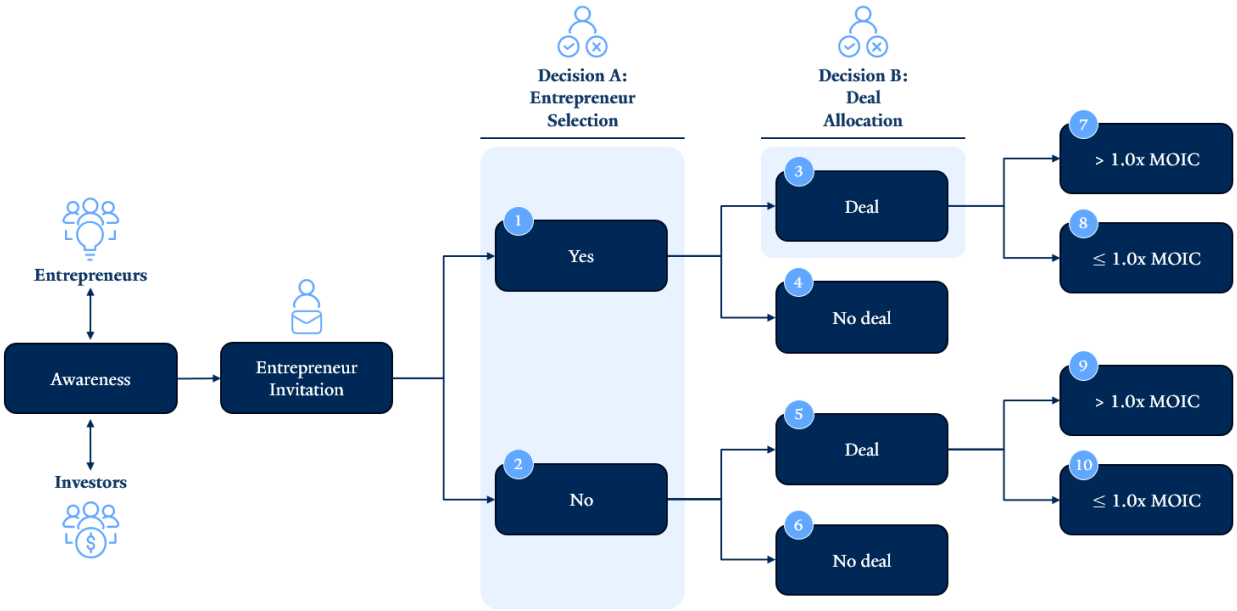
We are curious whether actual ETA investors underperform, match, or surpass the Stanford bogies. This question is crucial for several reasons. New investors entering the marketplace should have some realistic expectations of what potential realized returns are. Additionally, limited partners (LPs) in pooled investments depend on the general partners' (GPs) ability to prognosticate the future. Finally, we wonder whether this asset class is genuinely appealing to a broad range of investors, or if there are segments of investors who experience different returns. We believe that some of the answers to our questions will be revealed in our analysis below, which will examine a sample of *actual* investor results.

For readers who are not ETA jocks, we will provide a brief overview of the investment model from the investor's perspective. In **Figure 2** below, we show a general schematic of the search fund investor's journey. Moving from left to right, the first stage involves bilateral awareness between investors and aspiring entrepreneurs. This process is similar to dating before marriage—consisting of conversations, on-campus interactions, coffee chats, Zoom calls, and general courting. After this initial phase, the entrepreneur may invite some investors, but not all, to join their project and financing. This marks the first important decision point, though it involves a low-stakes dollar bet (perhaps $25,000 to $75,000)—deciding whether to accept the invitation to participate in the entrepreneur's project. Many investors see this as a nearly free call option. Since the entrepreneur at this stage does not have an actionable acquisition target, the investor is essentially betting on the person. This serves as a talent assessment and a wager on whether the individual will succeed or fail. It is important to note that investors might or might not be asked to participate in any one entrepreneur's project. This process is about gaining access—investors who receive more invitations have better access and greater opportunities. Developing this skill provides a valuable edge and competitive advantage.

If the searcher finds a company to acquire—and many do not, as we will see later—the investor faces the second key decision point: deal allocation. The investor must decide whether to participate in the deal and how much to invest, which is a form of capital allocation (French for how big the bet is). Overall, this dance is a two-stage investment method unique to the ETA model. There is a low-cost option to enter the game (the bet on the entrepreneur), followed by a usually much larger decision about whether to invest in the company acquisition.

When the investor makes a choice at decision point A, indicated by boxes one and two, it ultimately leads to outcomes in boxes seven, eight, nine, and ten. We will examine the sequence of events for investors who choose to invest in an entrepreneur, the affirmative decision represented by box one. We will follow that narrative and evaluate the subsequent outcomes that drive such a portfolio's MOICs. Our study would be more comprehensive if we could also follow the branch from box two; however, investors lack data on the path not taken. Suffice it to say that when an investor opts out at either decision point A or B, they miss all potential positive outcomes and avoid the terrible ones.

Figure 2: A schematic illustrating the typical investor's decision points and outcomes



So, do all investors replicate the investment returns reported in the Stanford study? Spoiler alert: We lack evidence that *any* ETA investors in our sample data set can match the Stanford MOIC returns. Our data and analysis stand on their own, and the purpose of our note is not exclusively to compare or contrast our data with Stanford's. We are not attempting to verify or disprove the Stanford work; we are simply reporting on a sample of actual investor outcomes. Our goal is for readers to internalize and synthesize our data and analyses and use that information as they approach the ETA market. However, at the end of the note, we will discuss our results in the context of the well-known and more familiar Stanford report, but first, our data.

In this note, we will assess a sample of ETA investors and their returns as we discuss four principal topics (**Figure 3**). We hope that reading it will help students and entrepreneurs better understand ETA investor performance and outcomes. Let's dive in!

Figure 3: The roadmap for this note

Our methodology

To conduct our analysis, we used a valuable data set provided by 12 investors representing 23 funds (**Figure 4**). Overall, our data includes 1,192 observations in which an investor made an entrepreneur selection decision and a subset of 768 observations where an investor had to make a capital allocation decision. This is likely more detail than most readers have previously had access to and represents a rich sample of *actual* investor outcomes. Some of our observations are duplicated, meaning investor B saw the same opportunity as investor J. This highlights the core of our exercise. We think of search fund investing as similar to going to a baseball batting cage where a machine pitches to different batters. The machine offers identical pitches, yet batters respond differently. Some choose not to swing, while others bunt or swing big. Similarly, investors react to entrepreneurs with a swing or no swing, and the size of the swing can vary, too. We find this fascinating because these choices influence deal and portfolio returns. This is the dynamic we discuss in **Figure 1** in action.

Figure 4: Our data set

Investor	Fund	Count	Count deals
A	1	58	35
A	2	85	63
B	1	91	60
C	1	122	82
D	1	129	60
E	1	82	38
E	2	45	36
E	3	71	66
E	4	9	9
E	5	8	8
F	1	60	40
G	1	16	13
H	1	16	10
H	2	24	17
H	3	46	29
I	1	11	11
I	2	17	17
I	3	8	8
I	4	2	2
J	1	51	23
J	2	46	18
K	1	64	33
L	1	131	90
		1,192	**768**

For each of the 1,192 observations, we also have data on whether the entrepreneur successfully found a target acquisition, the amount of capital the investor allocated to the acquisition, if any, and the ending MOIC by deal. If the deal is still operating, we use a current mark provided by the investor. This methodology is similar to the Stanford project, where some companies have exited and others are still operating. In our study, we will focus solely on MOIC and not on IRR because the investors who generously shared the data universally provided MOICs, while some did not share IRRs. As researchers, we work with the data we have, not the data we would like to analyze (an unavoidable occupational hazard).

Using the data provided, we calculated the percentage of entrepreneurs who identified an actionable acquisition target and the percentage who achieved at least a 1.0x MOIC (a low bar for some proxy of success). We created a histogram showing the distribution of MOIC outcomes for our entire sample by investment. Additionally, we computed weighted MOIC returns for each investor fund and overall across the entire dataset. We also analyzed investor lifetime performance in comparison to fund performance. Furthermore, we investigated the impact of positive outliers on investors' results. Finally, we conducted various descriptive and inferential statistical analyses to evaluate our results.

Our study is certainly not perfect, but overall, the analyses we conducted provide some directional insights into investor selection, allocation abilities, and MOIC performance. All our data comes from a dozen investors, which could introduce sampling bias. We solicited a wide range of serial search fund investors for data, and some chose to participate while others did not. It is possible that investors with poorer results might have opted not to engage in the project. However, we believe that those who participated are somewhat representative of the search fund universe. Some are more experienced, seasoned investors with decades of experience, while others are newer entrants. Some investors are well-known, bold-faced names in ETA land, and others are a bit more under the radar. More data from more investors would be helpful and could either underscore or refute our conclusions.

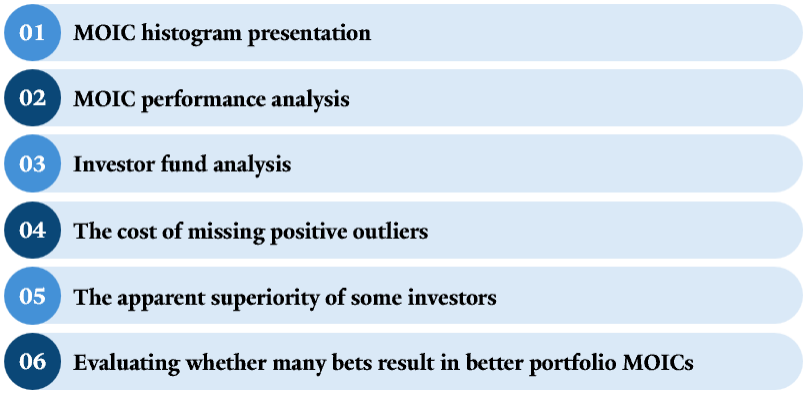
Our data and analyses offer valuable insights to GPs, LPs, and entrepreneurs, but they are only directional at best and contain some inherent flaws. When working with private companies, we use the best data available and accept its intrinsic limitations.

The results

We approached our analysis from multiple angles to gain a comprehensive understanding of how ETA investors actually perform. Although it involves a lot of math and numbers, all evidence points to the same conclusion: *Investors have a range of portfolio outcomes, and none match the Stanford benchmark*.

We will now discuss a sextet of analyses related to investor performance, selection, and allocation skills (**Figure 5**).

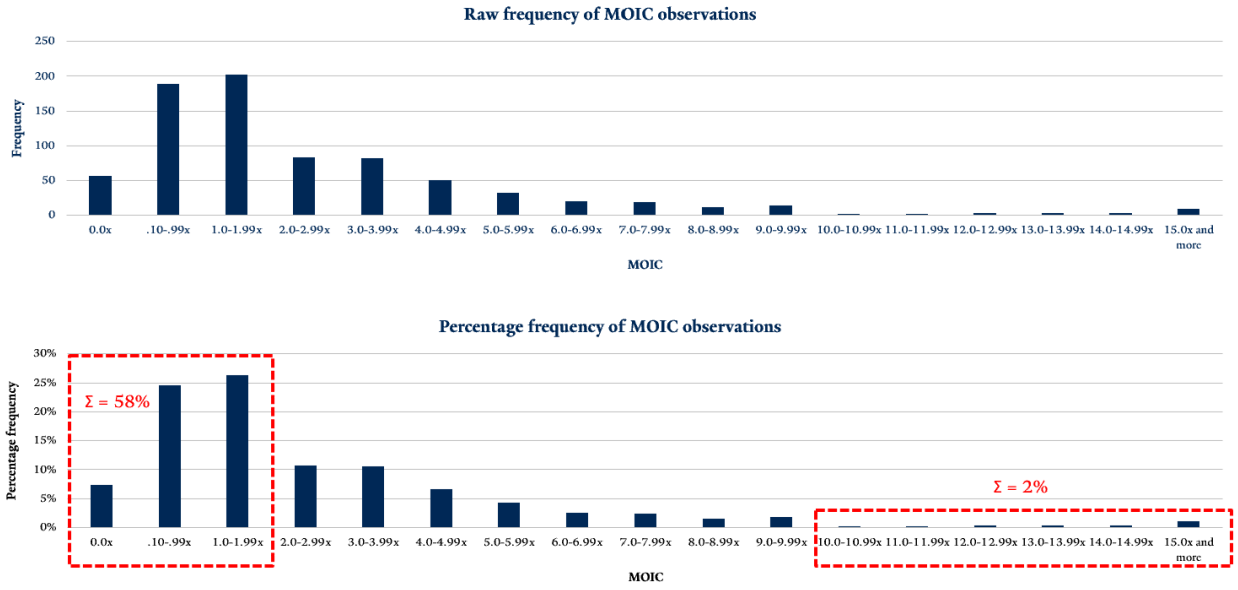
Figure 5: The results we will examine



01 *MOIC histogram presentation*

We will begin with a presentation of various histograms to quickly and visually illustrate outcomes by deal opportunity (**Figure 6**). These histograms are based on the 768 observations that resulted in actionable deals and *exclude* observations where an entrepreneur could not find an acquisition (broken search). We believe this is the first known presentation of a full distribution array by individual unique MOIC bins—a very exciting visualization for ETA observers. In the top panel of **Figure 6**, we display the raw observations by MOIC bin; in the bottom panel, we present the percentage frequency of observations by MOIC bin.

Figure 6: Aggregate histograms for all observations (no broken searches)



Both panels display the same pattern. There is clear clustering in the 0, 0.10-0.99x, and 1.0-1.99x MOIC bins, with a long tail as MOIC increases. The histograms are highly right-skewed and indicate that 58% of the observations are in the first three MOIC bins (up to 1.99x MOIC). It almost seems as if the default outcomes are zero to 1.99x, with higher values being less common. The percentage of MOIC observations

above 10.0x is just 2% (a one-in-fifty outcome). For a real-world example of such a low probability, sports fans might know that the National Football League (NFL) reports that just 1.6% of college football athletes will play professionally.[6] Garnering a greater than 10.0x MOIC outcome is akin to making it to the NFL; digest that.

Recall these are actual investor results, highlighting how rare 10x and greater outcomes are in practice. They certainly exist, but they are difficult for investors to catch. We think of these 10x and greater outcomes as griffins, similar to the ancient mythological creature that has the head and wings of an eagle and the lower body of a lion. This mash-up represents the king of the skies and the king of the jungle. They are depicted as powerful and majestic, and are known as guardians of treasure. Griffins are our answer to venture capital's unicorns, and they are just as precious and rare.

This distribution does not exactly match what we would expect in venture capital (VC) investing, where a pure power law distribution has most outcomes near zero, and a few, such as one or two, are extremely large. However, the distribution in our dataset appears closer to venture capital than it does to what we anecdotally hear about in traditional private equity (PE). This is an interesting point because in VC, unicorns are so magnificent that they can pay for all the losers. In PE, there have historically just been more winners than losers. In ETA, there are many total and partial losses, and most griffins are not stunning enough to cover the rabble. This is significant because we believe ETA is positioned as a close cousin of PE in classrooms, at conferences, and by GPs to aspiring entrepreneurs and LPs. This positioning makes intuitive sense because ETA investments are in established firms, more similar to PE investments than the startups that attract VC funding. We are not suggesting that anyone is intentionally misrepresenting what ETA is; we just believe there has been a lack of robust data that tells the full and actual story.

In **Figure 7**, we show the descriptive statistics for the 768 observations in our data set. We observe that the mean MOIC, at 2.78x, is significantly higher than the median MOIC, at 1.60x. This suggests skewness in our data and indicates that the distribution is not normal (a bell curve). When the mean is much higher than the median, it implies that a few griffins (outliers) are raising the average and that there is a tilt toward winner-takes-all dynamics.

Figure 7: Descriptive statistics for all observations (no broken searches)

Select descriptive statistics	
Mean	2.78
Standard Error	0.14
Median	1.62
Mode	1.00
Standard Deviation	3.83
Sample Variance	14.65
Kurtosis	71.11
Skewness	6.64
Range	53.80
Minimum	0.00
Maximum	53.80
Count	**768.00**

02 *MOIC performance analysis*

In **Figure 8**, we present some calculations, including MOIC by investor and fund. We will discuss the columns from left to right. Immediately, we see in the count column that investors are making many bets. This column shows the number of entrepreneurs backed (decision A from **Figure 2**). Investors seek a wide range of opportunities to increase their chances of making a bigger bet when a company is acquired and for catching the elusive 10x+ MOIC events. We have already reported that the 1,192 entrepreneur picks resulted in 768 actionable deals, yielding a 64% conversion rate. The broken searches represent $17 million in capital invested out of a total of $700 million deployed. This represents a weighted average cost of 2% when accounting for all investors.

Next, we show how many observations ultimately generate a MOIC of greater than or equal to 1.0x, *including broken searches*. Out of 1,192 entrepreneurs, 612 (51%) deals ultimately generated a positive return of at least 1.0x MOIC. We do not think this is particularly meaningful information for investors willing to endure many broken searches to stay in the game. After all, the cost of the broken searches is chump change. However, for entrepreneurs, this is a very significant fact. For aspiring entrepreneurs entering this tournament, there is only a 51% chance they will make any money at all. This is sobering and worth internalizing. Furthermore, only 31% of the 768 completed deals generated a MOIC greater than 3.0x—the point at which things start to get exciting for the entrepreneur. That 31% refers to the percentage of completed deals, but it accounts for only 20% (31% * 64%) of the individuals entering the race, which includes the 36% of broken searches.

Figure 8: Key calculations from our data set[†]

Investor	Fund	Count	Count deals	Close %	Broken search $	Invested $	Broken search %	≥1.0 MOIC	≥1.0 MOIC %	Min MOIC	Max MOIC	Mean MOIC	Mean MOIC 2	Median MOIC	Median MOIC 2	Weighted MOIC
A	1	58	35	60%	$920,000	$19,003,199	4.6%	27	47%	0.00	8.60	1.61	2.67	0.70	1.90	2.26
A	2	85	63	74%	$1,100,000	$81,455,381	1.3%	43	51%	0.00	10.00	1.69	2.27	1.00	1.40	2.15
B	1	91	60	66%	$775,000	$12,590,841	5.8%	48	53%	0.00	15.26	2.66	4.04	1.50	3.37	3.39
C	1	122	82	67%	$4,000,000	$167,815,827	2.3%	79	65%	0.00	8.64	1.47	2.06	1.00	1.41	2.36
D	1	129	60	47%	$2,553,000	$33,856,222	7.0%	47	36%	0.00	47.33	2.43	5.22	0.00	3.36	4.32
E	1	82	38	46%	$1,364,000	$26,430,742	4.9%	35	43%	0.00	15.87	1.88	4.06	0.00	3.84	4.16
E	2	45	36	80%	$387,000	$55,885,909	0.7%	29	64%	0.00	9.10	2.02	2.52	1.49	1.74	2.56
E	3	71	66	93%	$180,000	$57,358,788	0.3%	45	63%	0.00	3.36	1.10	1.18	1.00	1.00	1.40
E	4	9	9	100%	-	$28,036,266	0.0%	8	89%	0.16	6.73	3.00	3.00	2.97	2.97	2.99
E	5	8	8	100%	-	$9,254,196	0.0%	8	100%	1.00	1.89	1.12	1.12	1.00	1.00	1.25
F	1	60	40	67%	$1,000,000	$23,851,753	4.0%	40	67%	0.00	9.40	1.55	2.33	1.20	1.55	2.05
G	1	16	13	81%	$351,000	$39,633,633	0.9%	9	56%	0.00	3.09	1.04	1.28	1.04	1.24	1.50
H	1	16	10	63%	$93,000	$2,863,021	3.1%	9	56%	0.00	7.66	2.56	4.10	1.49	4.45	3.56
H	2	24	17	71%	$120,227	$5,243,301	2.2%	11	46%	0.00	3.24	0.98	1.38	0.87	1.17	1.38
H	3	46	29	63%	$850,000	$19,524,432	4.2%	17	37%	0.00	5.00	0.80	1.27	0.52	1.00	1.45
I	1	11	11	100%	-	$4,398,081	0.0%	11	100%	1.40	9.00	4.64	4.64	3.50	3.50	4.35
I	2	17	17	100%	-	$18,169,390	0.0%	13	76%	0.00	8.80	3.17	3.17	2.90	2.90	3.36
I	3	8	8	100%	-	$15,021,073	0.0%	8	100%	1.40	5.30	3.76	3.76	4.05	4.05	4.10
I	4	2	2	100%	-	$8,845,000	0.0%	2	100%	3.10	3.20	3.15	3.15	3.15	3.15	3.17
J	1	51	23	45%	$980,000	$20,643,297	4.5%	15	29%	0.00	19.79	1.32	2.93	0.00	1.91	2.68
J	2	46	18	39%	$1,120,000	$20,008,395	5.3%	11	24%	0.00	6.26	0.60	1.54	0.00	1.18	2.14
K	1	64	33	52%	$265,494	$2,117,377	11.1%	32	50%	0.00	7.16	1.25	2.15	0.92	1.56	1.87
L	1	131	90	69%	$1,230,000	$29,043,000	4.1%	65	50%	0.00	53.80	2.24	3.26	0.90	1.20	3.18
		1,192	**768**	**64%**	**$17,288,721**	**$701,049,126**	**2.4%**	**612**	**51%**	**0.00**	**53.80**	**2.00**	**2.78**	**1.00**	**1.62**	**2.50**

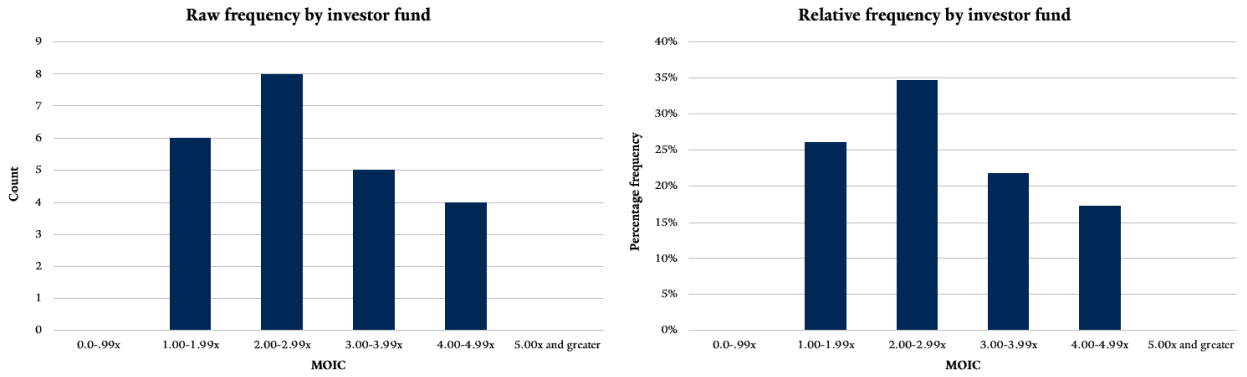
The mean MOIC including broken searches is 2.0x; the mean MOIC excluding broken searches is 2.78x. The median MOIC including broken searches is 1.0x, while the median MOIC excluding broken searches stands at 1.6x. Lastly, the weighted average MOIC for all investors across all funds is 2.50x. To be clear, these are gross returns, and LPs would net lower outcomes after GP fees and compensation.

[†] Mean and median MOIC data *include* broken searches, while mean MOIC 2 and median MOIC 2 *exclude* broken searches.

03 *Investor fund analysis*

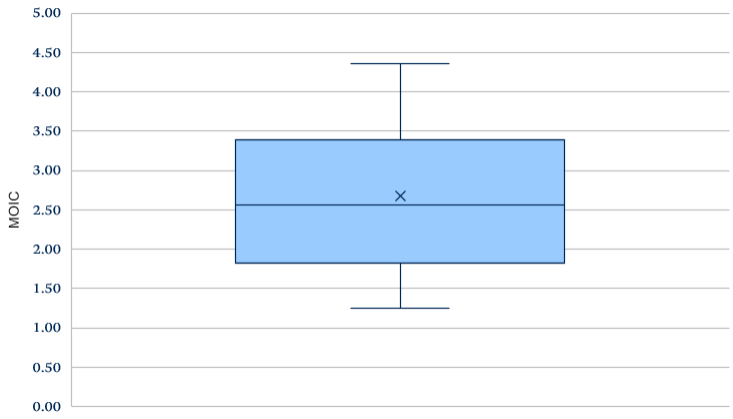
We will now focus on discussing investor MOICs by fund (**Figure 9**). We compare fund reporting to a baseball player's season batting average—a performance measure for a specific period relative to a career metric. What we find most interesting about the results in **Figure 9** is the variation. It seems that some investor funds are performing well, with desirable MOICs, while others are underperforming slightly. Although the histograms do not perfectly follow a normal distribution, there is a noticeable spread, with most funds clustered in the 2.00x to 2.99x MOIC bin. The median MOIC for all funds is 2.50x, while the average MOIC is higher at 2.80x. The standard deviation is relatively high at 1.00. This is the central limit theorem in action. The distribution of the means of reasonably large samples (each fund's MOIC can be viewed as a mean of a sample from the population of investor bets) will look more like the normal distribution, even if the population distribution is very different from a normal distribution, as we see in the right skewness of **Figure 6**. We will see this concept more pronounced in **Figure 12** below.

Figure 9: Investor MOIC histograms fund level analysis



In **Figure 10**, we draw a box plot reflecting the histogram data in **Figure 9**. This is an alternative visual presentation highlighting the spread in MOIC outcomes by fund and the central tendency in the interquartile range. Once again, not all investors perform at the same levels.

Figure 10: Box plot for investor fund MOIC outcomes



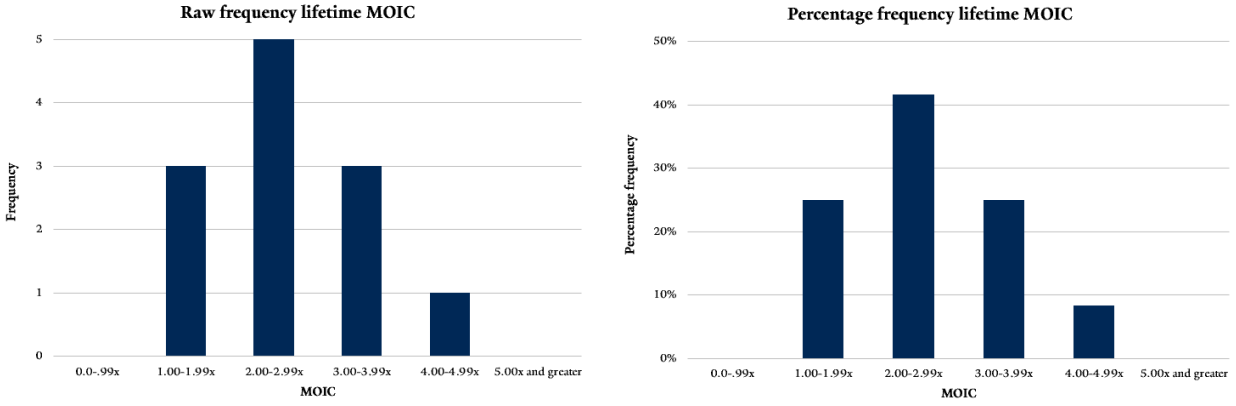
In **Figure 11**, we report select descriptive statistics for the investor fund MOIC outcomes. Once again, we see significant spread and deviation in performance.

Figure 11: Select descriptive statistics for investor fund MOIC outcomes

Select descriptive statistics	
Mean	2.68
Standard Error	0.21
Median	2.56
Standard Deviation	1.01
Sample Variance	1.01
Range	3.11
Minimum	1.25
Maximum	4.35
Count	**23**

We performed the same analysis while excluding fund structures to calculate lifetime performance metrics for investors (**Figure 12**). That is, investor MOIC reflects the combined performance across all funds sponsored by that investor. Although the data differs slightly, it echoes the pattern in **Figure 9**, perhaps with a more noticeable normal distribution.

Figure 12: Investor MOIC histograms fund lifetime analysis



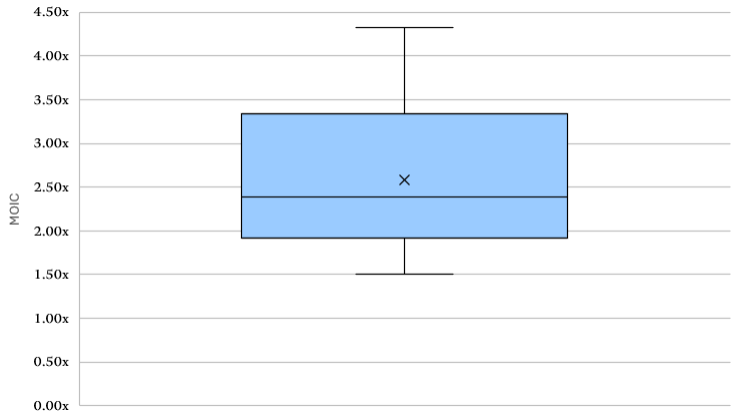
In **Figure 13**, we present descriptive statistics based on lifetime investment performance returns. The mean and median MOICs are 2.58x and 2.39x, respectively. The mean being higher than the median indicates the slight skewness seen in **Figure 12**. Once again, we see dispersion in returns among investors, with *none* outperforming the Stanford benchmarks we will discuss below. Our maximum is 4.32x, which is lower than all the aggregate MOICs reported across different Stanford studies in **Exhibit 1**. The lowest MOIC in **Exhibit 1**, which is for the 2024 study, is 4.50x.

Figure 13: Select descriptive statistics for investor lifetime MOIC outcomes

Select descriptive statistics	
Mean	2.58
Standard Error	0.25
Median	2.39
Standard Deviation	0.87
Sample Variance	0.75
Range	2.82
Minimum	1.50
Maximum	4.32
Count	12

In **Figure 14**, we present a box plot illustrating investors' lifetime MOIC performance. This clearly highlights the variation in investors' results. The good news is that the short downside whisker indicates there is less variation on the downside than on the upside. Additionally, we see no negative (loss of capital) observations. However, the long whisker on the high end reveals there is much less concentration among the top performers. The interquartile range is 1.20 MOIC turns, indicating a fairly large gap in performance between the bottom and top of the middle two quartiles.

Figure 14: Box plot of investors' lifetime MOIC performance



04 *The cost of missing positive outliers*

Let's focus on investor outcomes and redo the analysis without outliers. In **Figure 15**, we removed outlier events greater than 15x MOIC, the biggest winners that every investor dreams about. There is a clear and very real impact. For example, investor D in fund 1 loses $30.8 million (21%) of value. Wow! Those outliers can really influence a portfolio.

Figure 15: The dollar impact on portfolios when removing 15x and greater MOIC events

Investor	Fund	>15x observations	Old mean	New mean	Old median	New median	Old MOIC	New MOIC	Delta	Old fund value (millions)	New fund value (millions)	Delta (millions)	% change
B	1	1	4.0	3.7	3.4	3.2	3.4	3.4	0.0	$42.68	$42.22	$0.46	-1%
D	1	3	5.2	3.5	3.4	2.7	4.3	3.4	0.9	$146.23	$115.43	$30.80	-21%
E	1	1	4.0	3.6	3.8	3.7	4.2	4.0	0.2	$109.90	$105.37	$4.53	-4%
J	1	1	2.9	2.0	1.9	1.6	2.7	1.7	1.0	$55.41	$35.03	$20.39	-37%
L	1	2	3.2	2.4	1.2	1.1	3.2	2.2	1.0	$92.22	$63.79	$28.43	-31%
						Mean	**3.5**	**2.9**	**Sum**	**$446.44**	**$361.83**	**$84.61**	**-19%**
						Median	**3.4**	**3.4**					

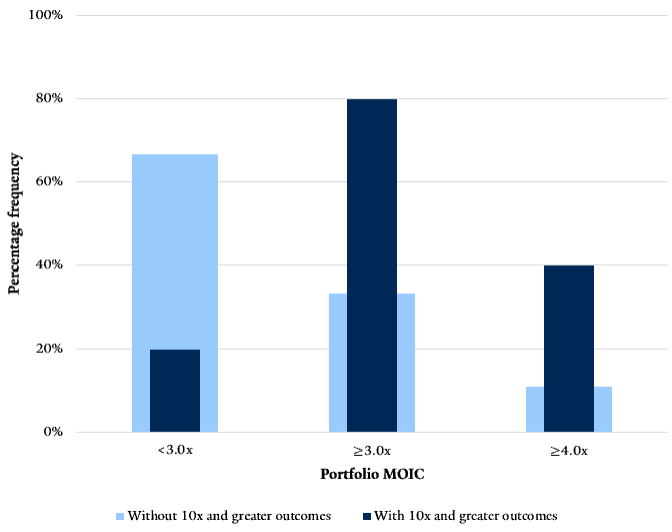
In **Figure 16**, we repeated the analysis but excluded all outcomes greater than 10x MOIC. Again, we see the powerful impact of dropping those very rare griffin outliers on both a raw dollar and weighted MOIC basis.

Figure 16: The dollar impact on portfolios when removing 10x and greater MOIC events

Investor	Fund	>10x observations	Old mean	New mean	Old median	New median	Old MOIC	New MOIC	Delta	Old fund value (millions)	New fund value (millions)	Delta (millions)	% change
B	1	4	4.0	3.1	3.4	2.7	3.4	3.0	0.4	$42.68	$37.42	$5.25	-12%
D	1	5	5.2	3.0	3.4	2.6	4.3	2.7	1.6	$146.23	$91.09	$55.14	-36%
E	1	1	4.0	3.6	3.8	3.7	4.2	4.0	0.2	$109.90	$105.37	$4.53	-4%
J	1	1	2.9	2.0	1.9	1.6	2.7	1.7	1.0	$55.41	$35.03	$20.39	-37%
L	1	5	3.2	2.0	1.2	1.0	3.2	1.9	1.2	$92.22	$56.42	$35.80	-39%
						Mean	**3.5**	**2.7**	**Sum**	**$446.44**	**$325.33**	**$121.11**	**-27%**
						Median	**3.4**	**2.7**					

Finally, we performed a rudimentary analysis where we bifurcated our 23 investor fund observations into two groups. The first group of five includes funds that experienced at least one griffin, an outcome exceeding 10x MOIC. The second group of eighteen observations includes funds with no griffins. We then counted how many funds in each group had MOICs greater than or equal to four, greater than or equal to three, and below three. Lastly, we converted these counts into percentages (**Figure 17**). We do not consider this a sophisticated statistical analysis because our sample sizes are small. However, visually and observationally, it appears that funds with griffins tend to have considerably higher MOICs.

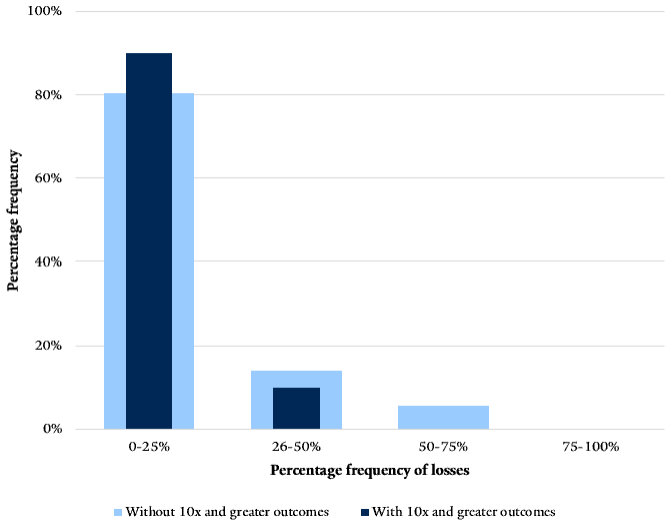
Figure 17: A simple analysis of upside performance bifurcated by griffin and non-griffin investor groups



	Griffin group		Non-griffin group	
MOIC	Raw count	Percentage	Raw count	Percentage
< 3.0x	1	20%	12	67%
≥ 3.0x	4	80%	6	33%
≥ 4.0x	2	40%	2	11%

Additionally, we conducted a similar analysis on the downside, examining funds and the rate at which they experienced total and partial losses. We did this to determine whether the griffin and non-griffin buckets face losses at similar rates (**Figure 18**). Visually, it appears that griffin investors are not only better at winning but also slightly less prone to losing. However, based on our sample, we cannot draw strong conclusions about the downside. Directionally, it seems all investors lose at similar rates, but the griffin bucket wins at significantly higher rates. In other words, it is crucial to catch the outlier winners.

Figure 18: A simple analysis of downside performance bifurcated by griffin and non-griffin investor groups



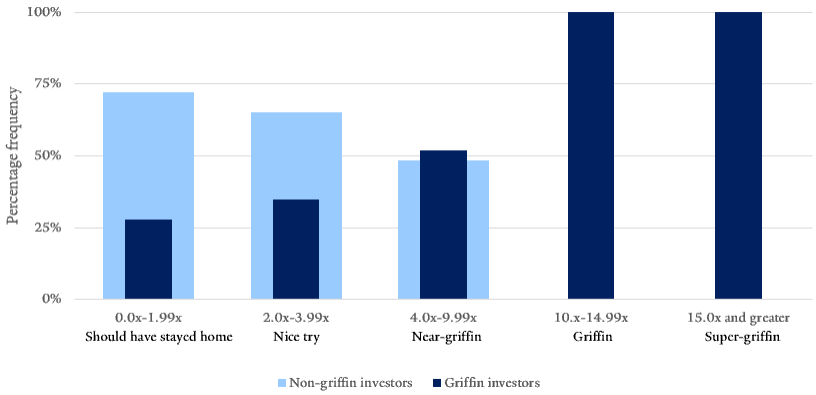
	Griffin group		Non-griffin group	
Total and partial loss %	Raw count	Percentage	Raw count	Percentage
0-25%	9	90%	29	81%
26-50%	1	10%	5	14%
51-75%	0	0%	2	5%
76-100%	0	0%	0	0%

05 *The apparent superiority of some investors*

In the section above, we explored the impact of missing griffins on portfolio MOICs. We will now discuss whether investors who capture griffins are superior investors across all MOIC bins. Spoiler alert: They are. To perform this analysis, we tabulated the number of observations in each MOIC bin by investor and then bifurcated the results into two groups: investors who have griffins, and investors who do not have griffins.

We then created five bins to assess performance across various MOIC levels by griffin and non-griffin investors. The bins we selected are as follows: should have stayed home (0.0x-1.99x); nice try (2.0x-3.99x); near-griffins (4.0x-9.99x); griffins (10.0x-14.99x); and super-griffins (15.0x and greater). Finally, we calculated the percentage of observations by bin by investor group (**Figure 19**). This decomposition of MOIC bin performance is illuminating.

Figure 19: Decomposition of griffin and non-griffin investors by MOIC bin



	Should have stayed home	Nice try	Near-griffin	Griffin	Super-griffin
MOIC bin	0.0x-1.99x	2.0x-3.99x	4.0x-9.99x	10.0x-14.99x	15.0x and greater
Griffin group	28%	35%	52%	100%	100%
Non-griffin group	72%	65%	48%	0%	0%
Sum	100%	100%	100%	100%	100%

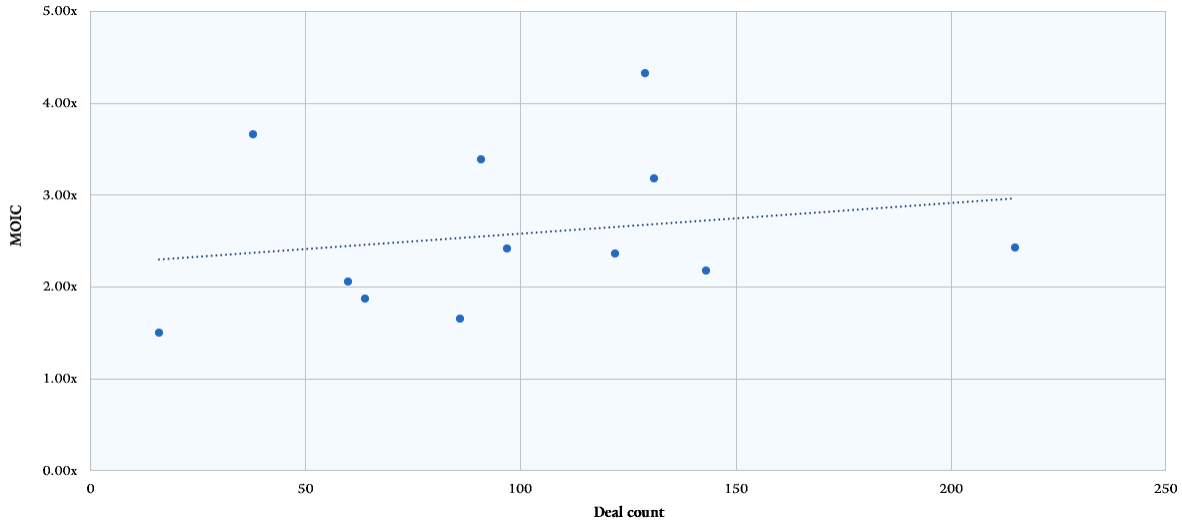
In every bin category, investors with the griffins outperform non-griffin investors. It appears that a tier of super investors has either better access to top entrepreneurs and deals or superior selection and allocation skills. Alternatively, they are prestidigitators who make the companies in which they invest higher performers; it is likely a combination of multiple factors. Additionally, these super investors tend to perform better as they ascend the MOIC ladder. This is important because entrepreneurs and investors need to recognize that not all investors are equal. Furthermore, in our 768-company sample, only five out of 23 funds have griffin exposure. This is a herculean challenge not to be taken lightly, and not all investors will outperform.

06 *Evaluating whether many bets result in better portfolio MOICs*

At this point, readers might be thinking that gaining exposure to the outlier MOIC companies is essential for boosting portfolio results. We agree. However, that is a complex problem and we are not sure of the best way to solve it. One logical approach would be to make many bets and get as broad an exposure as possible. This could address part of the issue of missing the biggest winners, but it does not solve the weighting problem—betting more on the home runs. We have some data to test this idea, as we know how many entrepreneurs investors bet on and what investor MOICs are, so we can run a regression comparing deal count and MOICs (**Figure 20**). Our plot of a dozen observations reflects investor lifetime MOICs, as

compared to our 23 investor fund MOICs. We do not, unfortunately, have the right data to assess the weighting conundrum.

Figure 20: Deal count versus MOIC

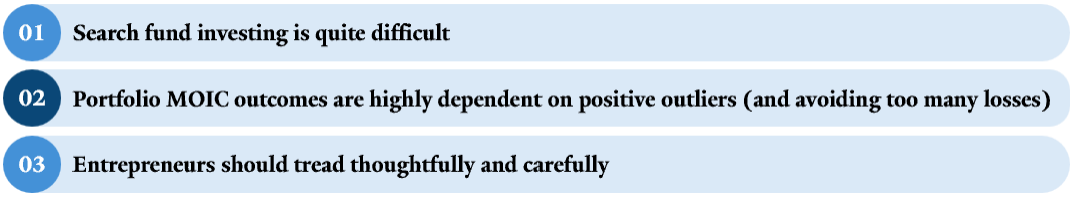


We would have liked to see a positive correlation and a low p-value indicating a strong link between deal counts and MOICs, which would have made us feel optimistic—leading to more wagers and higher MOICs. Unfortunately, we do not observe that. Our coefficient is low at 0.003, and we calculated a high p-value of 0.521, suggesting that we cannot reject the null hypothesis that there is no link between deal counts and MOICs. This does not imply that investors should not attempt to build highly diversified portfolios in an effort to catch the biggest winners; they should. However, we did not see as strong a correlation between deal count and MOICs as we would have liked and expected. Perhaps this implies that the biggest victors are so rare that even scores of bets and broad diversification do not guarantee superior portfolio MOICs.

Key insights

At this point, our readers probably have glazed eyes from all the data and math. We understand, but the information is real, fascinating, and important, offering us valuable insights that we will now highlight and discuss (**Figure 21**). If we had to sum up the insights simply and succinctly, it would be that search fund investing and entrepreneurship are *not easy and should not be approached cavalierly*.

Figure 21: Key takeaways and insights



01 *Search fund investing is quite difficult*

There might be a tier of super ETA investors, the top quartile or decile of investors, a high-status rank with access to many deals and the best opportunities. They have unlimited capital resources to make large bets and cover all the options in the race, ensuring they have chips on the winning horse, which improves their portfolio outcomes (they catch the griffins). However, most investors are not in that category. They are either not as prominent and cannot access all the deals, or they lack the resources to make all the best investments. Alternatively, some investors might be making concentrated bets on the wrong players and coming up short in the MOIC department.

We are concerned that many new investors entering the asset class believe ETA investing is easy or offers disproportionately high returns with little risk. We do not think this belief is correct, at least based on our data. It is actually quite difficult to succeed as an investor in this space. Investors might not lose, but it is hard to generate the 4.0x and 5.0x MOIC returns we all read about in the Stanford study. Obviously, some investors do achieve this and will continue to do so.

ETA entrepreneurs who sell their businesses and transition into an investment role should heed these words as well. Just because they were successful (perhaps lucky) entrepreneurs does not mean they will also succeed in the investor world. It is difficult to pick the winners ex ante. We recall New York Yankees baseball-great-cum-philosopher, Yogi Berra, who is rumored to have said, "It's tough to make predictions, especially about the future." Please look at our histograms in **Figure 6** again. There are very few outcomes in the premium griffin bins and many outcomes in the lower bins. Do the math and do not pretend to be exceptional, because most of us are not.

Finally, we should recognize that investors are not soothsayers and do not have clairvoyance when choosing and allocating funds. Remember, it is a fifty-fifty chance whether a search results in a 1.0x MOIC or higher. Furthermore, investors take risks on many zeros, partial losses, and 1.0-1.9x MOICs. That is the nature of this system, and we should all accept that fact. However, it does appear that some investors have superior allocation, selection, and access skills, with consistent outperformance across all MOIC bins. Ultimately, though, entrepreneurs should respect investors for their valuable skills and experiences, but they should not deify them.

02 *Portfolio MOIC outcomes are highly dependent on positive outliers (and avoiding too many losses)*

The math is sobering: Portfolios without 10x+ MOIC events are decent but not remarkable, while those with 10x+ MOIC home runs tend to perform better. ETA investing is all about avoiding zeros for sure, but it is also about catching lightning in a bottle—finding enough griffin companies to offset some VC-like losses and hopefully raise the portfolio MOIC. Based on our data, it is a challenging path to achieve this by consistently generating 4.0-5.0x MOICs. While these are important as a foundation in a portfolio, they usually do not lead to runaway success. Investors should expect natural dispersion and realize that, to truly boost MOICs, they need big wins in their portfolio.

This adds to our previous point because, as important as the big deals are, they are rare based on the investor observations in our data set. Unfortunately, those are market dynamics and the food chain in action in the ETA jungle. The superlative outcomes matter, but they are highly intermittent and very difficult to get exposure to due to sheer numbers. That is intimidating math.

03 *Entrepreneurs should tread thoughtfully and carefully*

We are unabashed ETA enthusiasts and cannot think of a more compelling post-MBA career option for our students and fellow MBA graduates. We love the model and the community, and we are especially thankful to investors who back and open doors for many young aspiring entrepreneurs. It all comes together as a very special and almost magical convergence of factors.

However, entrepreneurs should carefully examine the mean and median outcomes within the ecosystem, especially metrics that include broken searches. ETA investing is not a simple or guaranteed proposition, and our data provides valuable insights and lessons. Entrepreneurs should remain confident and optimistic, but that confidence must be grounded in the reality shown by the data. Furthermore, since our analysis is based on nearly 1,200 observations—most of which involve individuals who excelled at every stage of their lives—entrepreneurs should avoid hubris and not presume they are better than everyone else. Our data reflects a diverse group, many of whom are truly exceptional. In other words, by all means jump into the pool, but do not do so blindly or overconfidently; set expectations by focusing on median outcomes, not the outliers, which almost appear random and occur in low single-digit percentages.

Comparison with the Stanford data

Before we compare and contrast Stanford and Yale's data sets, we want to acknowledge the excellent work done by our friends, the Stanford study co-authors Peter Kelly, Sara Rosenthal, Sara Heston, and Dom Ng. We stand on their shoulders. The Stanford study is an invaluable resource and beneficial for all ETA observers, including us. We appreciate their analyses and collaboration.

Our data set and the Stanford data set are related but not identical. There are subtle, nuanced differences in each collection. One includes outcomes reported by entrepreneurs, while the other is a sample of results reported by investors. One does not account for weighting and allocation decisions, while the other does. One assumes access to every deal opportunity, whereas the other recognizes that investors sometimes pass on deals or are shut out of some opportunities. One reflects effectively hypothesized returns, while the other shows a sample of realized returns. Both are extremely valuable for GPs, LPs, entrepreneurs, and the ETA curious crowd. We do not believe one is superior, and both should be analyzed and considered.

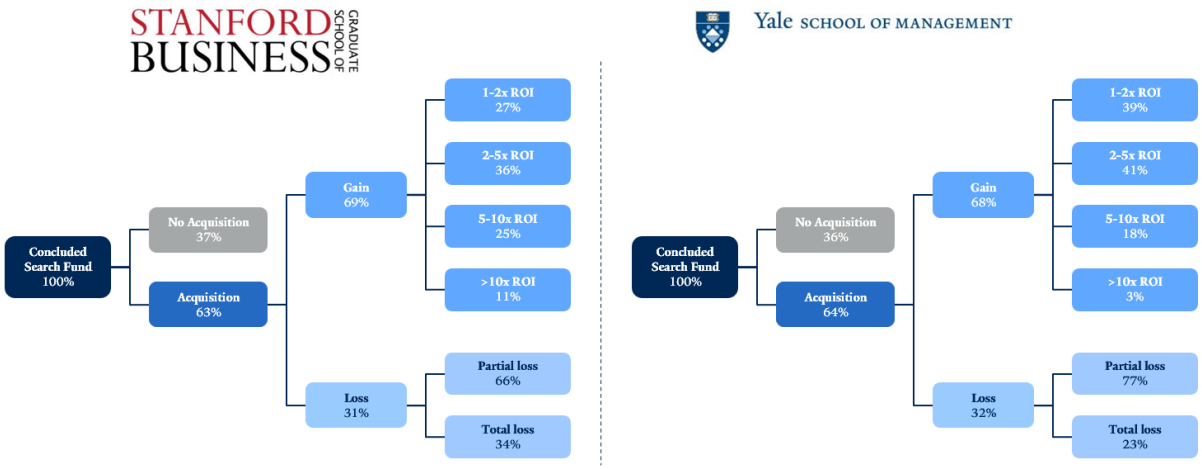
By now, readers might be scratching their heads and wondering how our data and analyses compare to the Stanford data and report—a fair question. The first thing we need to do is assess whether our sample is adequate.

According to the 2024 Stanford Search Fund Study, 681 search funds have been raised since the model's inception in the mid-1980s, with a median of twelve investors each. This results in 8,172 potential investor observations where an investor supports a particular entrepreneur starting the process. Recall that our sample data set consists of 1,192 observations, which is 14% of the potential Stanford observations. Readers may wonder about the precision of our average MOIC of 2.78x. Is our sample large enough to be reasonably representative of the larger population from which it was drawn? Fortunately, having 1,192 observations allows for fairly precise estimates. As shown in **Figure 7**, the mean 2.78x MOIC is associated with a standard error of 0.14. Subtracting and adding twice that standard error (0.28) from the mean gives us a 95% confidence interval within which the population mean might lie. That is, there is only a 5% probability that the true mean MOIC is below 2.50x or above 3.06x.

Now that we have established that we have an adequate sample, a reasonable follow-up question readers might have is how our data compares to the Stanford study. Our succinct answer is this: differently. **Figure 22** shows a comparison using the Stanford tree branches and bins that readers might be familiar with from the widely read Stanford report. The left panel is the Stanford data replicated directly from the most recent study report. The right panel is our data and represents *actual* investor results by deal opportunities, as compared to the data in the Stanford study, which is a population of entrepreneur-reported returns, but not MOICs earned by capital providers. The macro numbers are nearly identical, with similar acquisition rates of 63% and 64% and similar gain and loss rates at 69% and 68% and 31% and 32%, respectively. So, from a top-down perspective, the results align. However, there is significant deviation in the composition of gains and losses—and that will ultimately influence aggregate and investor MOICs, which we will discuss below.

In the loss categories, Stanford reports a total loss of 34%, while we report 23%. Additionally, Stanford shows 66% partial losses, where we report 77%. This means that in the Stanford index, there are more zeros, but in our sample, investors are somehow eschewing the worst wrecks and taking more exposure to the partial crashes. To clarify, the loss percentages are based on the 31% or 32% loss buckets, not the total observations. There are more important discrepancies on the gain side, with Stanford reporting more observations in the two MOIC bins greater than 5.0x and Yale reporting more in the two MOIC bins less than or equal to 5.0x. Once again, it is hard to catch the griffins, even though we know they exist, and in our sample of 768 observations, we are seeing far fewer griffins (3%) than in the Stanford data set (11%).

Figure 22: Stanford population data versus Yale sample data



Source: Kelly, Peter, et al. *2024 Search Fund Study Selected Observations.* Stanford University Graduate School of Business. Case E-870.

In **Figure 23**, we present the data from **Figure 22** in a tabular format for easy comparison. Additionally, we included two columns showing percentage outcomes when including broken searches, which we think is particularly useful for entrepreneurs.

Figure 23: Stanford population data versus Yale sample data (tabular)

Bin	Stanford	Yale	Stanford	Yale
No acquisition	37%	36%		
Acquisition	63%	64%		
Loss	31%	32%		
Total loss	34%	23%		
Partial loss	66%	77%		
	Excluding broken searches		*Including* broken searches	
Gain	69%	68%	43%	44%
1-2x ROI	27%	39%	17%	25%
2-5x ROI	36%	41%	23%	26%
5-10x ROI	25%	18%	16%	11%
>10x ROI	11%	3%	7%	2%
Aggregate ROI (MOIC)	4.5x	2.5x		

Are we suggesting that the Stanford data is wrong or inaccurate in some way? No, we are not. There are likely several reasons we see deviations, one of which is that we are witnessing the concept we discussed in **Figure 1** manifesting in real life. Recall that the Stanford index covers an entire population of observations. Therefore, that index includes every opportunity, both good and bad. Our data, however, is a sample that reflects *actual* investor portfolio observations. It seems that in our data set, investors are either intentionally or unintentionally missing some of the worst outcomes (the total losses), as shown by our data's lower exposure. Our study also demonstrates the harsh reality that it is impossible to access every exceptional deal (griffins) because they are so scarce, as we see in **Figure 6**, and many investors are competing for them. Our data reveals the painful truth that not all investors will have access or exposure to ETA's griffin outcomes, which negatively impacts portfolio MOICs. This is exactly why we believe it might be overly optimistic for entrepreneurs, GPs, and LPs to rely too heavily on the Stanford index.

Readers might pause here to note that our reported MOIC (2.5x) is significantly lower than Stanford's (4.5x). We do not fully know why this is the case and cannot reconcile and disentangle the differences. We do not think our sample includes particularly poor performers; we think they are *normal* performers. Instead, we once again face the reality that many investors will not achieve Stanford-level returns because they do not capture all of the griffins or allocate sufficient capital—relative to their portfolios—to those top opportunities. Conversely, they may be allocating too much to the worst deals (although our data does not reflect this). As we have previously mentioned, Stanford's index includes every transaction, capturing *all* the positive outliers. Once again, our data shows that it is extremely difficult for investors to actually participate in *all* the best outcomes, which suppresses actual portfolio MOICs.

Despite our weighted average actual MOIC of 2.5x being lower than Stanford's 4.5x, GPs and LPs might still be thrilled with that outcome. It offers a premium to the 1.80x median MOIC reported by DealEdge for a sample of private equity firms across multiple sectors from 2010 to 2023.[7] The 0.70x premium is significant, but readers should recognize that not all returns are equal. In addition to the return, we should consider variance to better understand which asset class provides more return on a risk-adjusted basis, which will be the topic of a future note.

What is absolutely clear from the results is that the Stanford benchmark is well above the point around which our MOIC outcomes cluster. Once again, the results reported in the Stanford report, while valid, are not necessarily achievable for all investors. This might provide some succor for investors who do not reach Stanford-like outcomes, as well as a warning to those who expect them.

Conclusion

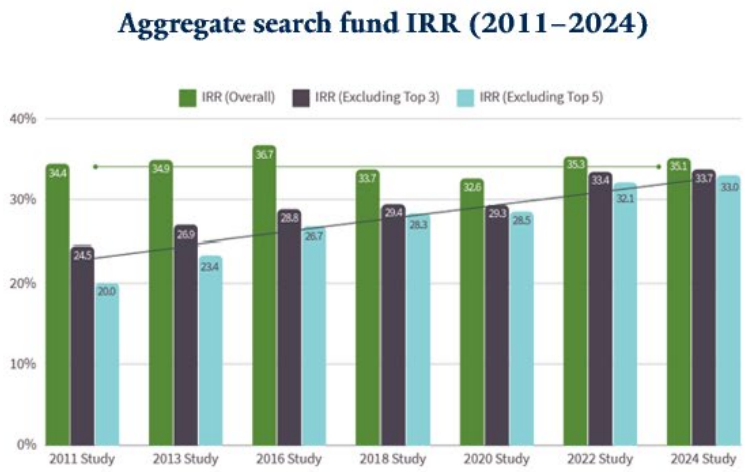
Search fund entrepreneurship and investing are gaining popularity, and we are excited about it. Not only is it a focus of our academic and research interests, but we also believe it presents a great opportunity for aspiring entrepreneurs and investors. However, it is challenging, and entrepreneurs and investors should be aware of and realistic about their actual chances of success. Aspiring entrepreneurs often face steep odds of achieving MOICs greater than 1.0x, especially when considering broken searches. Investors will see a range of portfolio MOIC outcomes, and while some may reach or exceed the impressive Stanford-reported MOICs of 4.0x to 5.0x, we expect most will fall between 2.0x and 3.0x (still delightful outcomes equating to 15% and 25% IRRs over five years, respectively). This is mainly because portfolio success heavily depends on having access to and making significant bets on the griffin (10x+ MOIC) outcomes. Unfortunately, such events are extremely rare and nearly random, and access is limited because not all investors have the same opportunity to participate.

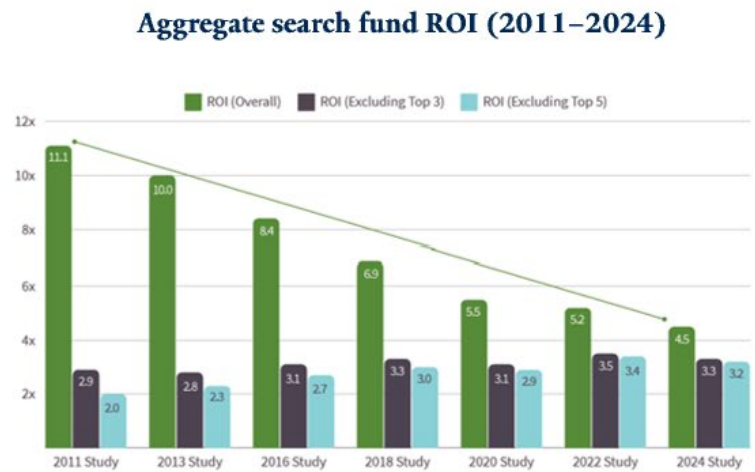
We believe there are different levels of investors in the ETA ecosystem, and some high-status investors perform better because they have access to more and higher-quality opportunities that drive superior outcomes. Additionally, they make many bets and have the financial ability to attempt to capture the best winners. This dynamic is similar to other asset classes and is not unique to search funds.

Entrepreneurs and investors should proceed carefully and understand the risks and their role in the market. ETA investing is complex and challenging, and investors who believe otherwise will likely face disappointment unless they are extremely lucky.

Whether you are an investor or an entrepreneur, we wish you good fortune on your journey. We are excited to see your story unfold and are inspired by your enthusiasm, optimism, and courage. We root for you every day and believe that with hard work and a little serendipity, you will succeed!

Exhibit 1: Stanford study internal rate of return (IRR) and return on investment (ROI) data





Source: Kelly, Peter, and Heston, Sara. *2024 Search Fund Study Selected Observations.* Stanford University Graduate School of Business. Case E-870.

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Endnotes

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[2] Jacob Thomas is the Williams Brothers Professor of Accounting and Finance at the Yale School of Management.

[3] A. J. Wasserstein is the Eugene F. Williams, Jr., Senior Lecturer in the Practice of Management at the Yale School of Management.

[4] Kelly, Peter, and Heston, Sara. *2024 Search Fund Study Selected Observations.* Stanford University Graduate School of Business. Case E-870.

[5] Ibid.

[6] "NFL College Player Development | NFL Football Operations." *Operations.nfl.com*, operations.nfl.com/journey-to-the-nfl/nfl-development-pipeline/college-player-development/.

[7] "Data Book: 2024 Private Equity Deal Performance Benchmarks." *DealEdge*, DealEdge Data Book | DealEdge.