



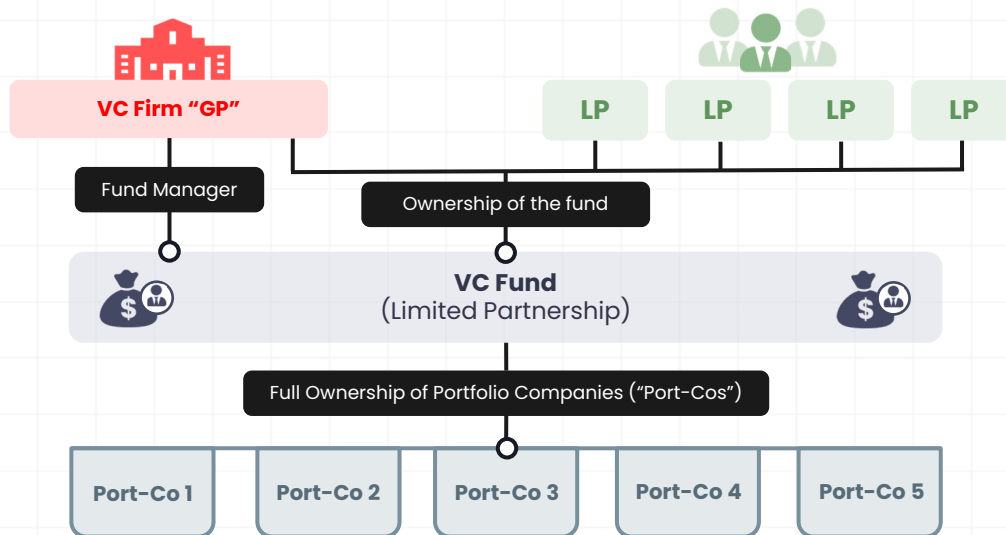
# Life Cycle of a Venture Capital Fund

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## VC Structure

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**VC Fund** is a collective group of “**Limited Partners (or LPs)**” and a “**General Partner (or GP)**” that invest their capital through a **VC Fund**

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## VC Structure – Fund Raising Period

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**Fund Raising Period**



**Investment Period**



**Harvesting Period**



Period is typically **1-2 years**

Venture Capital (VC) General Partners (GPs) are typically:



### High Net Worth Individuals



Entrepreneurs



Company  
Operators



Bankers



Celebrities  
or athletes

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These **GPs typically** (but not always) develop an **Investment Thesis** for their **VC Fund**, which may describe:



Type of **companies**  
or **product**  
**services** they  
will be **investing in**



Fund's point  
of view of  
selected  
**product market**  
or **industry sector**



**Unique value**  
**proposition** to  
entrepreneurs



**Experience** or  
**credentials** in  
managing a fund

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These **GPs typically** (but not always) develop an **Investment Thesis** for their **VC Fund**, which may describe:



Amount of **capital raise** and **allotment** per startup



**Management fee** and **carry**



Capital Call **terms/timing**



**Targeted returns** for the **VC Fund**

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A **GP** may have **multiple VC Funds**

Each **VC Fund** would **operate as a separate LP** from a **legal perspective** and could have the **same** or **different LPs** in each fund



**2 years to complete**



The **GPs** will often spend months **seeking out potential LPs** to “pitch” their **VC fund opportunity** and ask the **LPs** to commit a **pool of capital**



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Where do **VC Funds** turn to for **sources of capital** their **investment activities**?

### High Net Worth Individuals



Invest in **capital funds** as part of their **investment strategy**

### Family Offices



Manage **multi-generational wealth** through a **collective investment strategy**

### Foundations



Invest in **funds aligned** with their **goals**

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Where do **VC Funds** turn to for **sources of capital** their **investment activities**?

### University Endowments



Have long been **substantial investors** in **VC Funds**

### Fund of Funds Investment vehicles



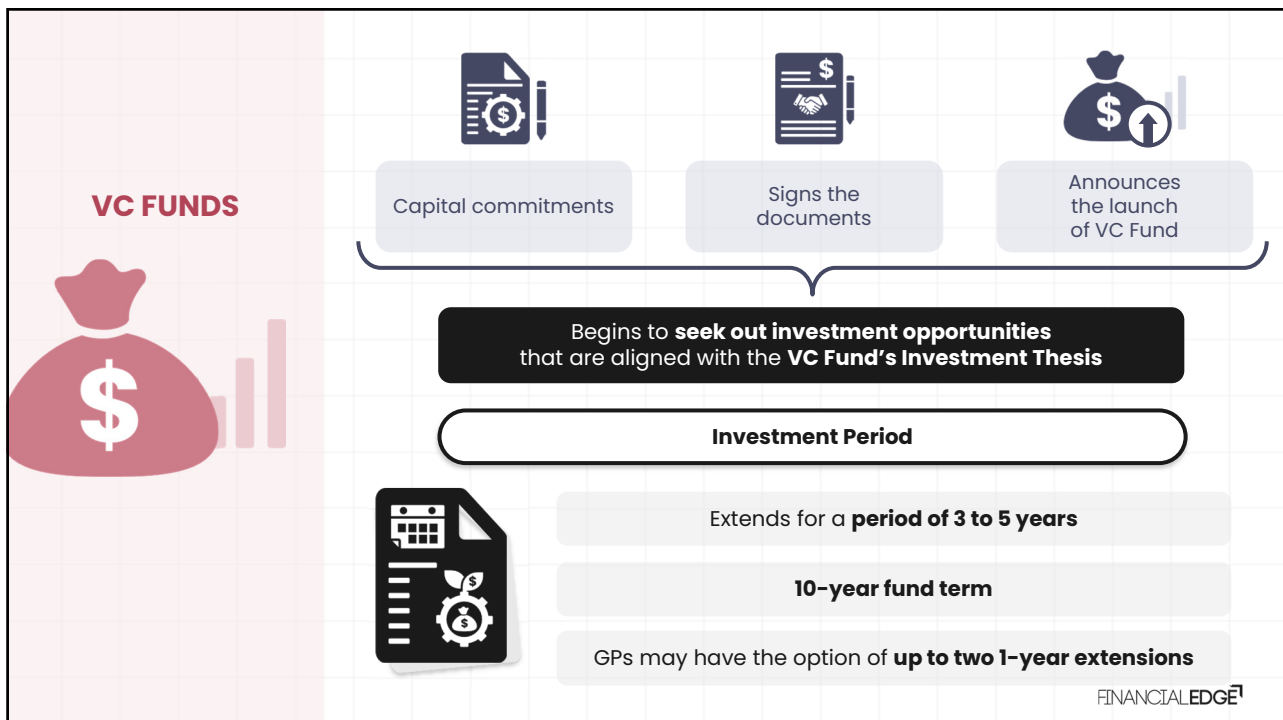
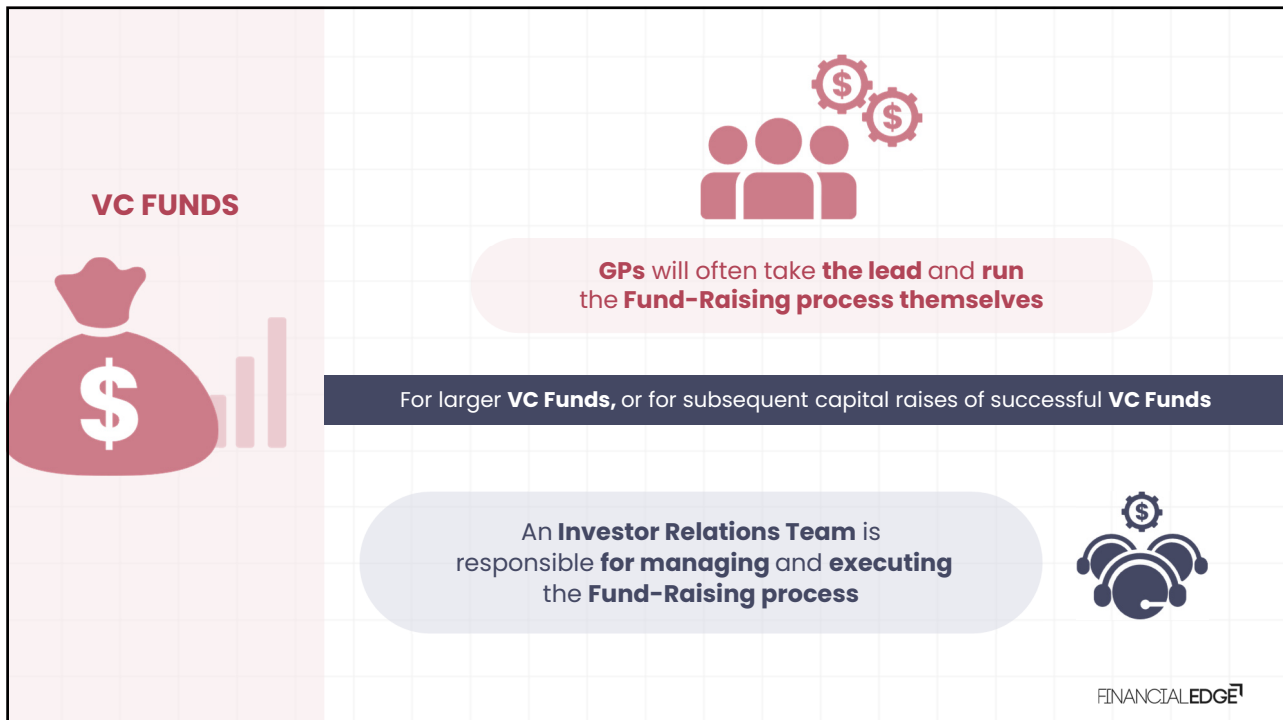
**Raise capital** from a **pool of investors** and invest in other funds rather than in **direct investments**

### Institutional Investors



Include **pension funds, financial institutions** and **sovereign wealth funds**

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The diagram features a large, stylized smiley face shape. The top half is a red arc with a circular icon containing a money bag and two upward arrows. The bottom half is a blue arc with two circular icons: one with a gear and dollar sign, and another with a stack of coins and a calendar. The background is a light gray grid.

# VC Structure – Investment Period

FINANCIALEDGE<sup>7</sup>**Fund Raising Period****Investment Period****Harvesting Period**FINANCIALEDGE<sup>7</sup>



**The Investment Period**, is arguably, the most active period in a **VC Fund's Life**



**GPs and their teams are:**



**Sourcing and evaluating potential investments**



**Conducting business and valuation due diligence**



**Negotiating term sheets**



**Closing deals**

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### **Partners and employees of a VC Fund to review**

**100s**

**1000s**

**Company pitches a year**



While making only **two or three investments per year**



Principals and associates typically play the **"gatekeeper"** role and **filter out 90% of the pitches they review**

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## The VC Fund team

### VC Investment Analysts



### Entrepreneur in Residence (EIR)



### Diverse Team Complement

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### VC Investment Analysts



Junior staff that support the research and data analytics

Startups



Industries



Emerging trends



Assist the principals and associates in screening company pitches

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## The VC Fund team

### VC Investment Analysts



### Entrepreneur in Residence (EIR)



### Diverse Team Complement

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### Entrepreneur in Residence (EIR)



Experienced entrepreneur with a history of founding a successful start-up

Successful exit experience



Can be an alum of the firm



Often an LP in the Fund

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## The VC Fund team

**VC Investment  
Analysts**



**Entrepreneur in  
Residence (EIR)**



**Diverse Team  
Complement**

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**Diverse Team  
Complement**



Strong team to support the VC Fund

Managing Partners

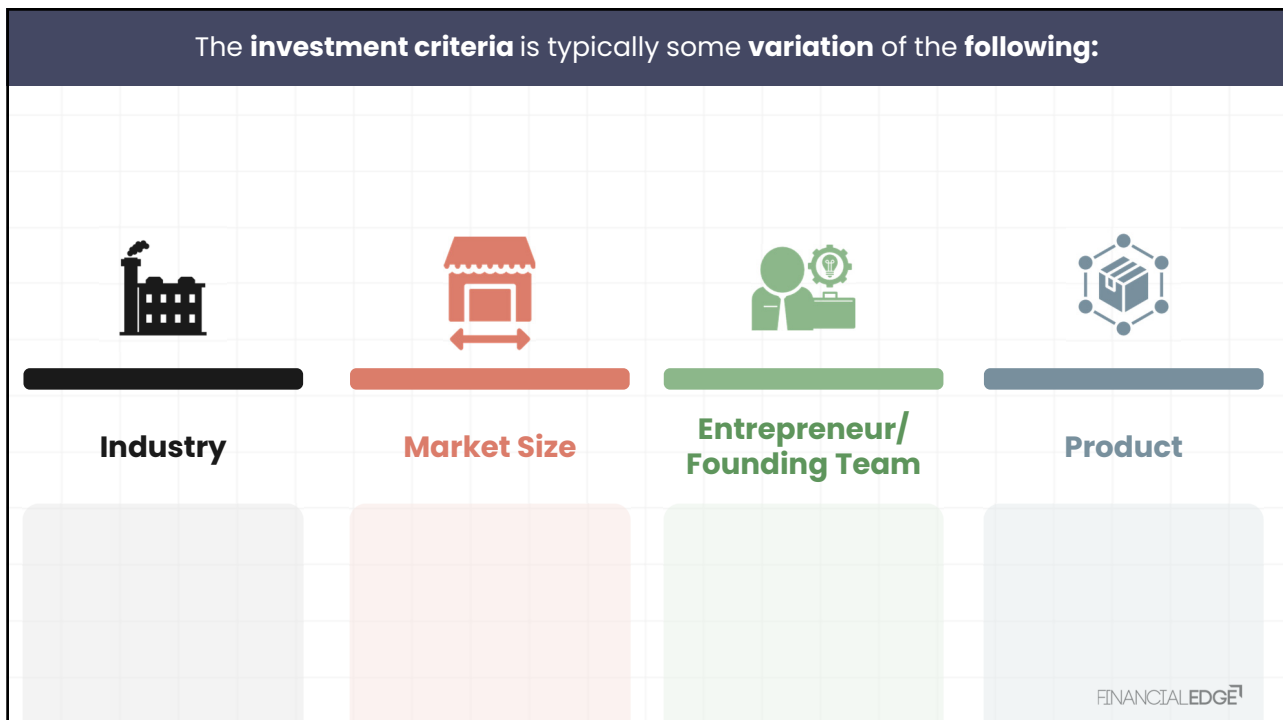
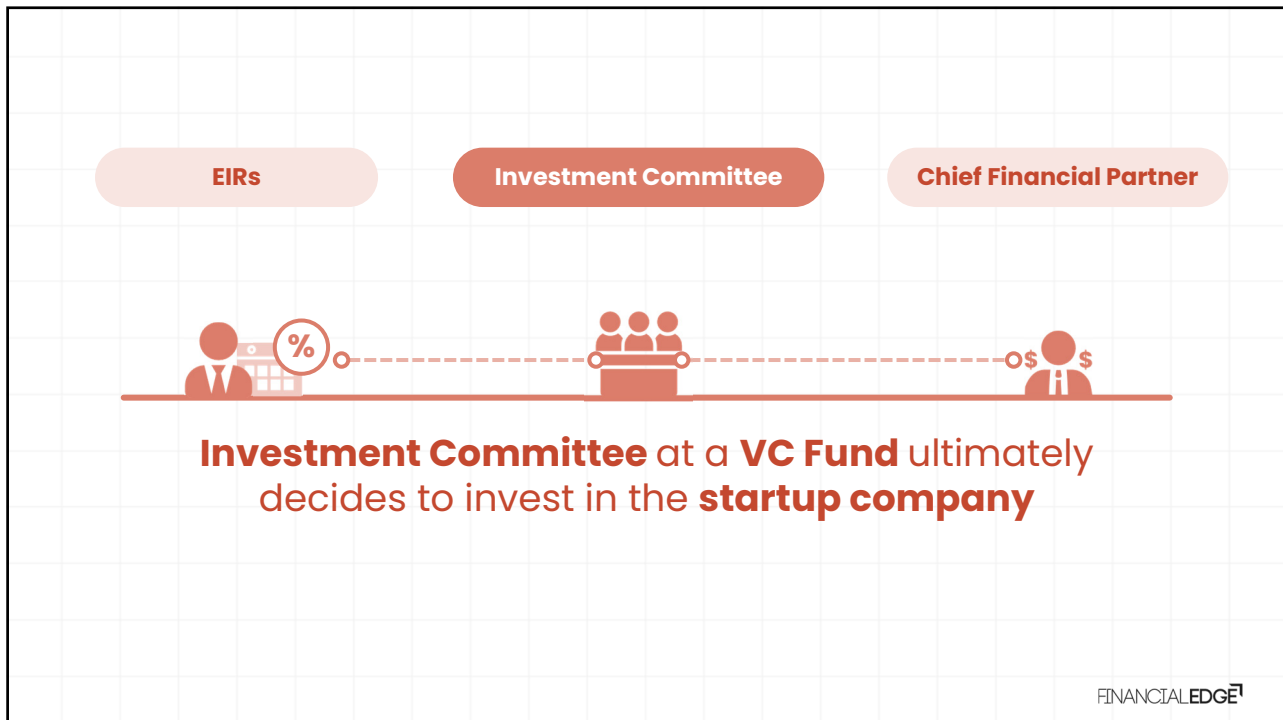


Technical Partners



Chief Technology Partner

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The **investment criteria** is typically some **variation** of the **following**:



## Industry

Varies by VC Fund, but preference:

High growth sector

Strong potential  
investor returns

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The **investment criteria** is typically some **variation** of the **following**:



## Industry



## Market Size



## Entrepreneur/ Founding Team



## Product

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The **investment criteria** is typically some **variation** of the **following**:



## Market Size

### Maximum Addressable Market:

Represents **all potential customers** within a **target market**

### Maximum Serviceable Market:

The **portion of the addressable market** that can be **profitably reached**

**Compelling growth opportunities**

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The **investment criteria** is typically some **variation** of the **following**:



**Industry**



**Market Size**



**Entrepreneur/  
Founding Team**



**Product**

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The **investment criteria** is typically some **variation** of the **following**:



## Entrepreneur/ Founding Team

VC Funds are looking for individuals that possess:

**Visionary**

**Leadership**

**Tenacity**

**Demonstrate an ability**  
to be **"coachable"**

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The **investment criteria** is typically some **variation** of the **following**:



**Industry**



**Market Size**



**Entrepreneur/  
Founding Team**



**Product**

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The **investment criteria** is typically some **variation** of the **following**:



## Product

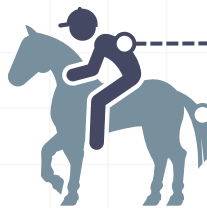
VC Funds will also expect to see a compelling and disruptive

Minimum Viable Product (MVP)

**Plan** and **vision** for how the **product will evolve**

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## Horse and Jockey



Management

Company



It is considered that **investment**  
is **made in a horse (a business)**



To ensure that the horse has an **experienced**  
**jockey (CEO/management team) on board**

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# The Investment Process

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The **Capital Call** will be for **\$45m**

$$3 \times (\$5\text{m} \times 3) = \$45\text{m}$$



Funding will come in **pro-rata amounts** from each of the **four LPs**



**\$5m**

The GP will transfer **\$5m** to each of the **Port-Cos** at **closing**



**\$10m**

Will reserve the remaining **\$10m** for each of the **companies** for **follow-on financing**

## VC Structure – Harvesting Period





**Fund Raising Period**



**Investment Period**



**Harvesting Period**

VC fund focusing solely on **advising** and **working** with the **companies**



**Harvesting Period**

The **third** and **final** phase

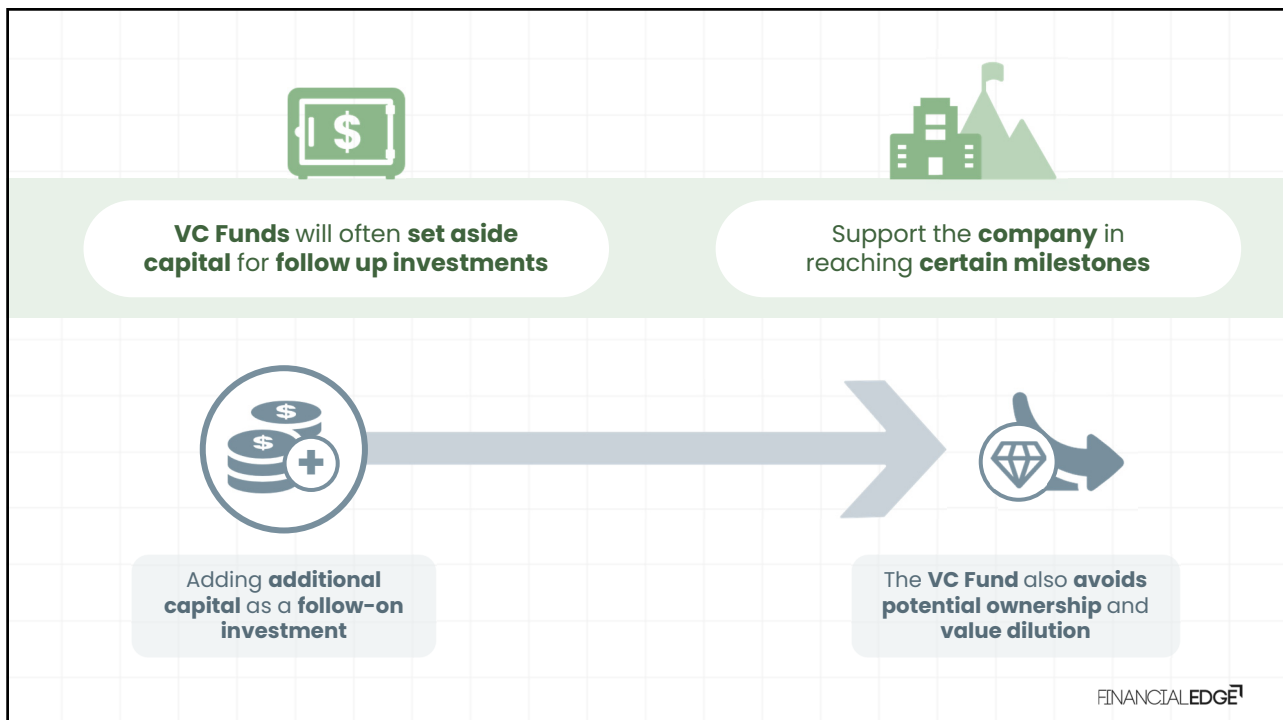
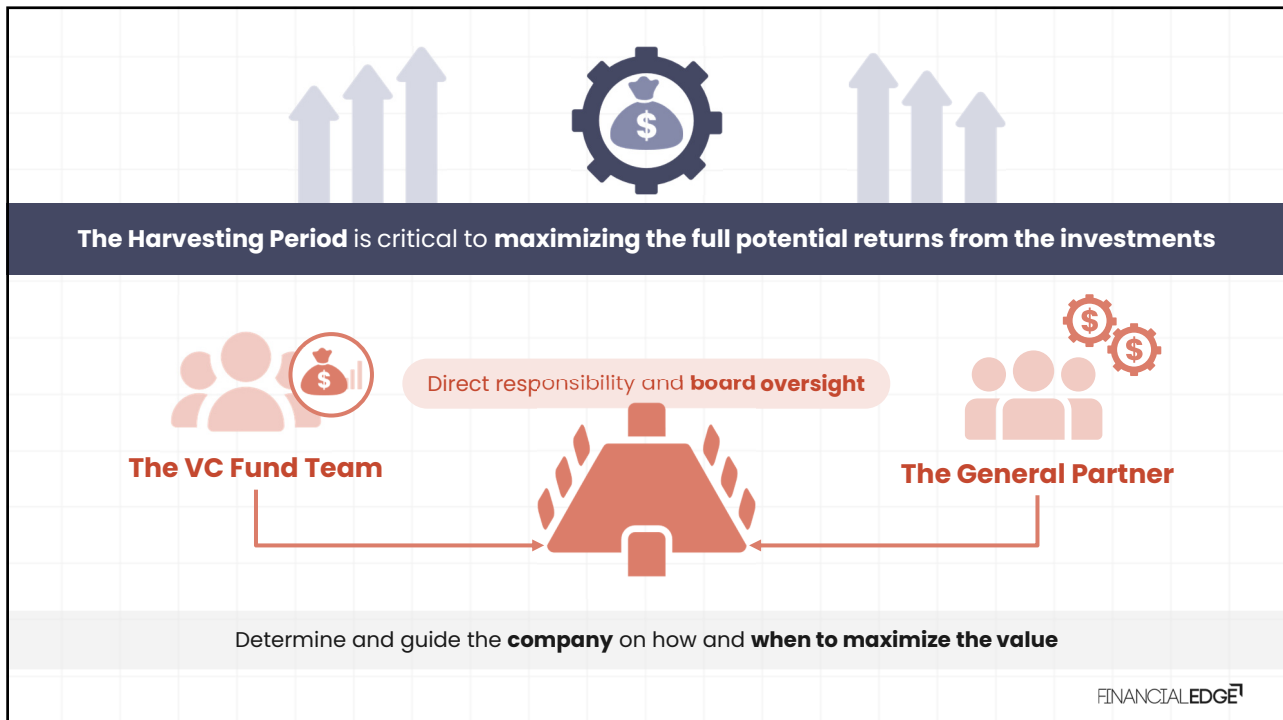
The **hectic pace** during the **investment period** will **slow down**

The **GPs** will instead **focus** on their **existing portfolio of company investments**

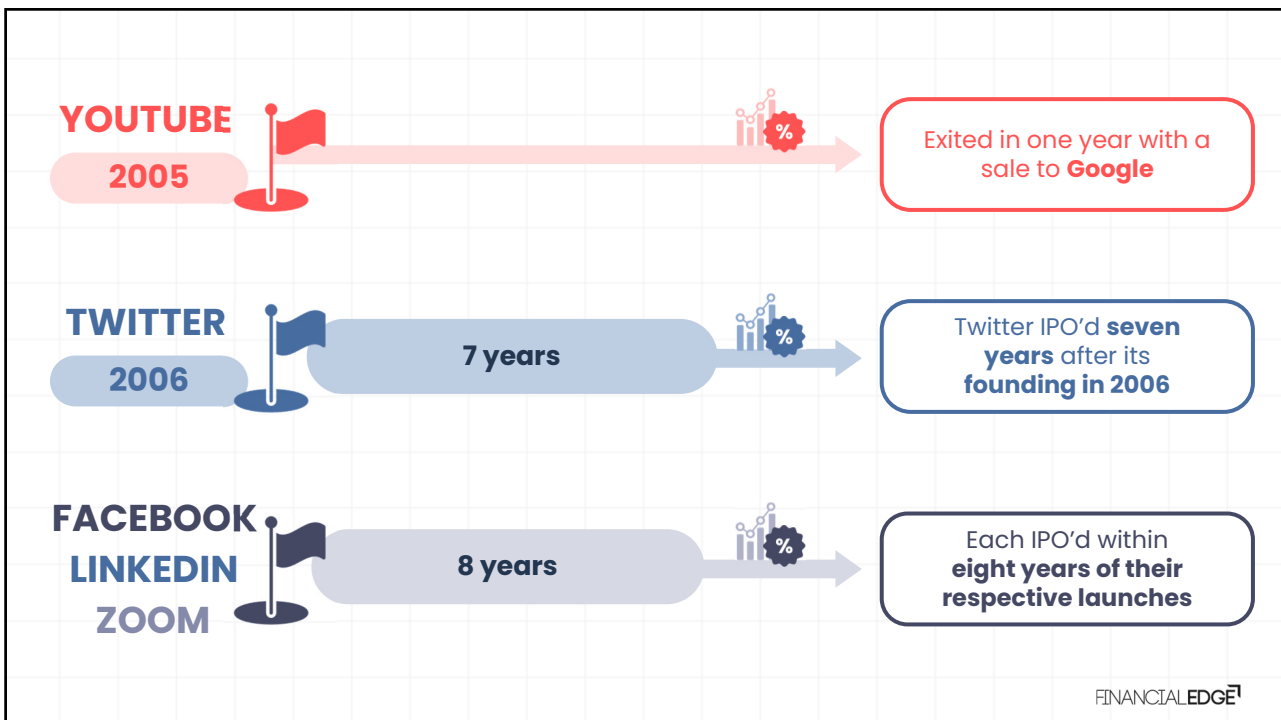
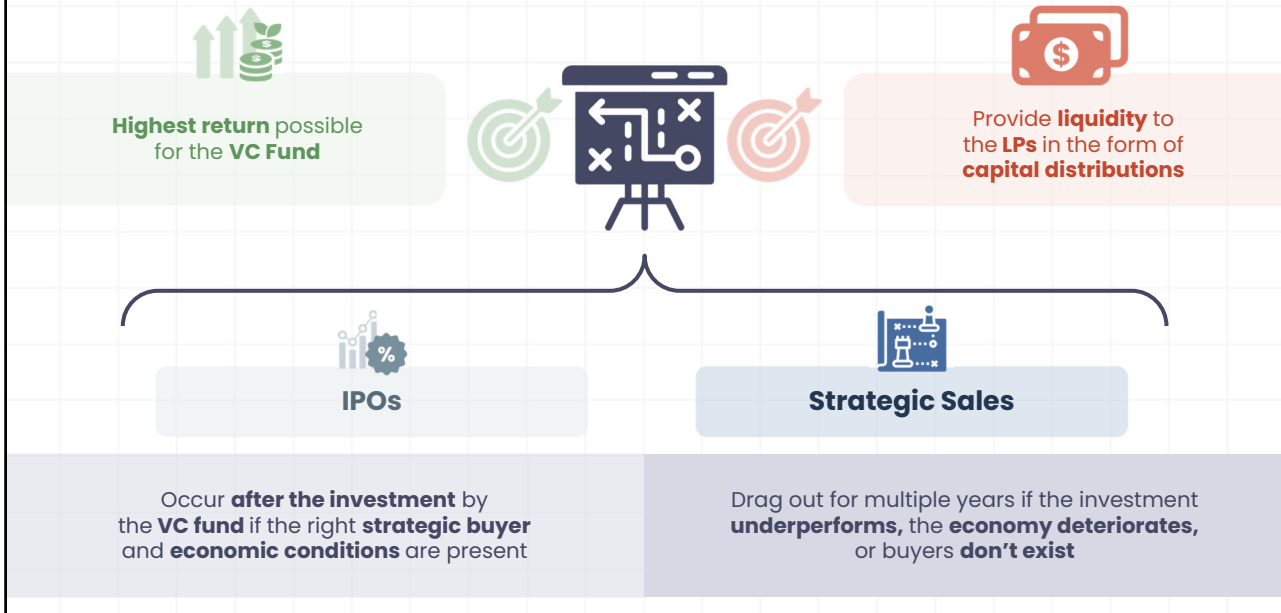


The Harvesting Period is typically **2 to 4 years post Investment period**





## The Goals of a VC Fund Exit





The **longer** an **investment** remains in a **portfolio**



The **higher** the **required exit price** to meet **target IRRs**

Some funds may establish a **cut off period**

e.g. after **10 years**



## VC Exit Options



Selling their **position** to a **secondary fund** or **investor**

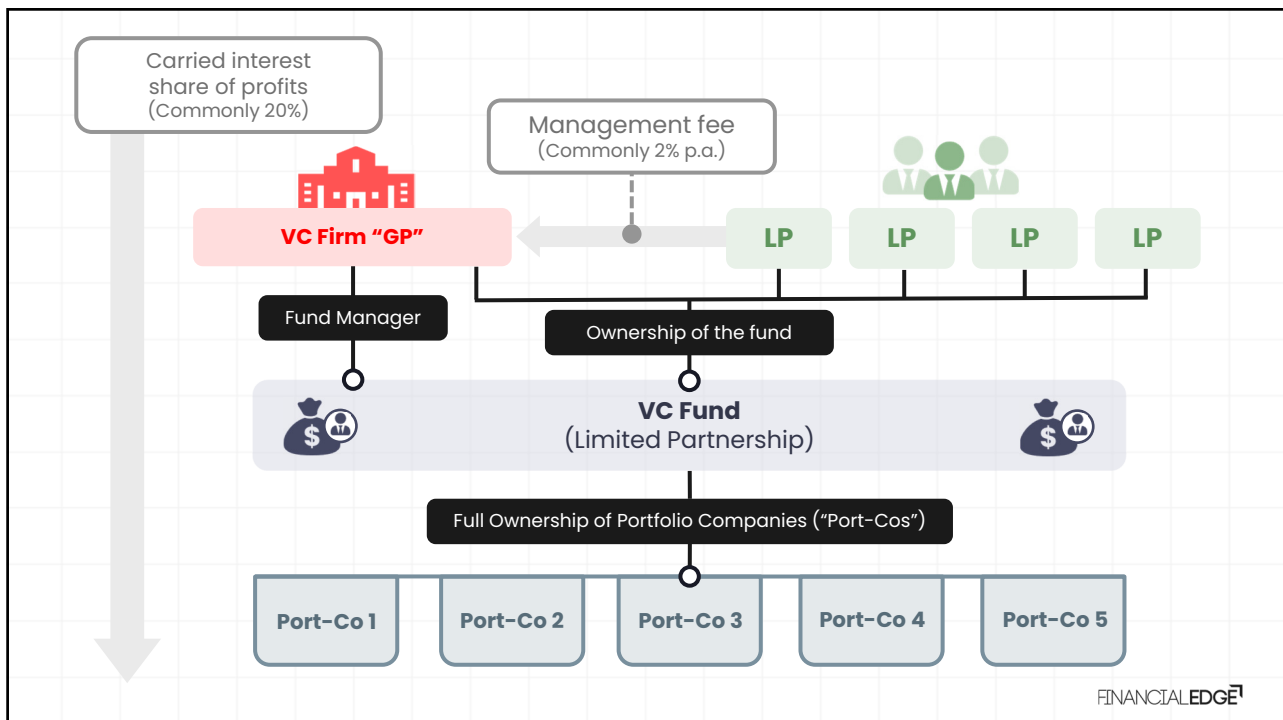


Extending the **VC fund** another **1 – 3 years** to accommodate an **IPO** or **strategic sale**



Holding a **“fire sale”** of the company

# VC Fee Structure – The “2 and 20”

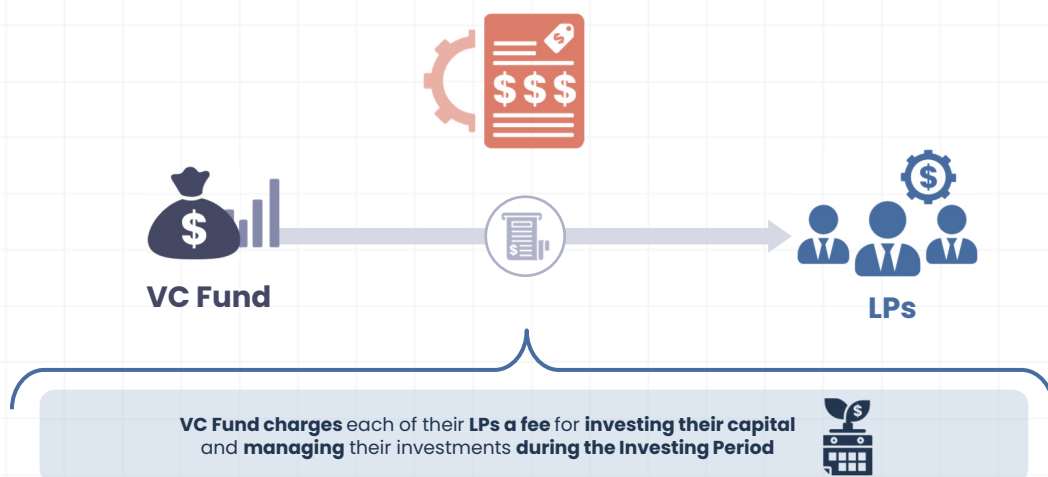
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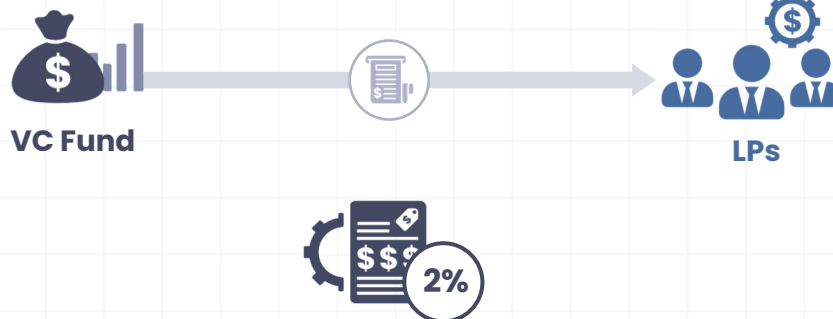
# How VCs Make Money – Management Fee

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## Management Fee

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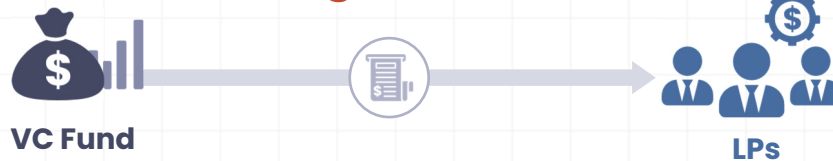
## Management Fee



Per year of their **total committed capital**.

There can be a certain amount of **cyclicality** in the fee set-up depending on **market conditions** and **regional variations** may be applicable

## Management Fee



2% p.a. fee on a \$100m LP Investment = \$100m \* 2% = \$2m per year

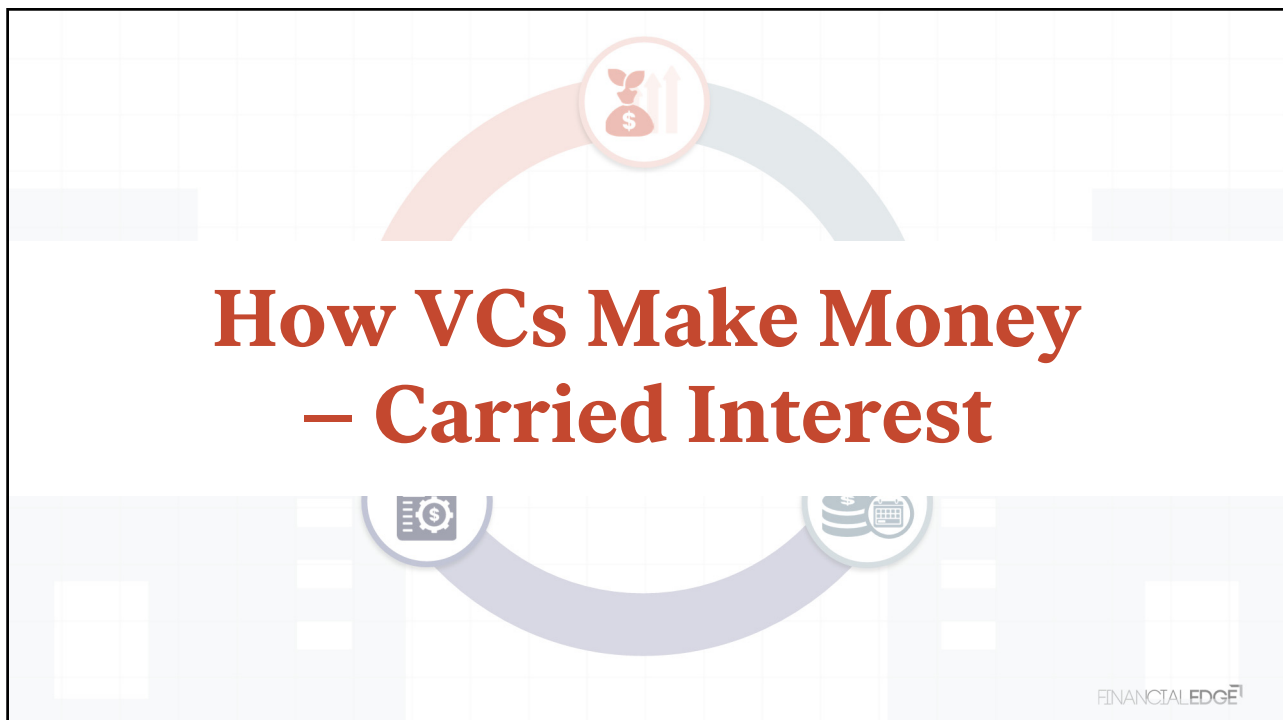
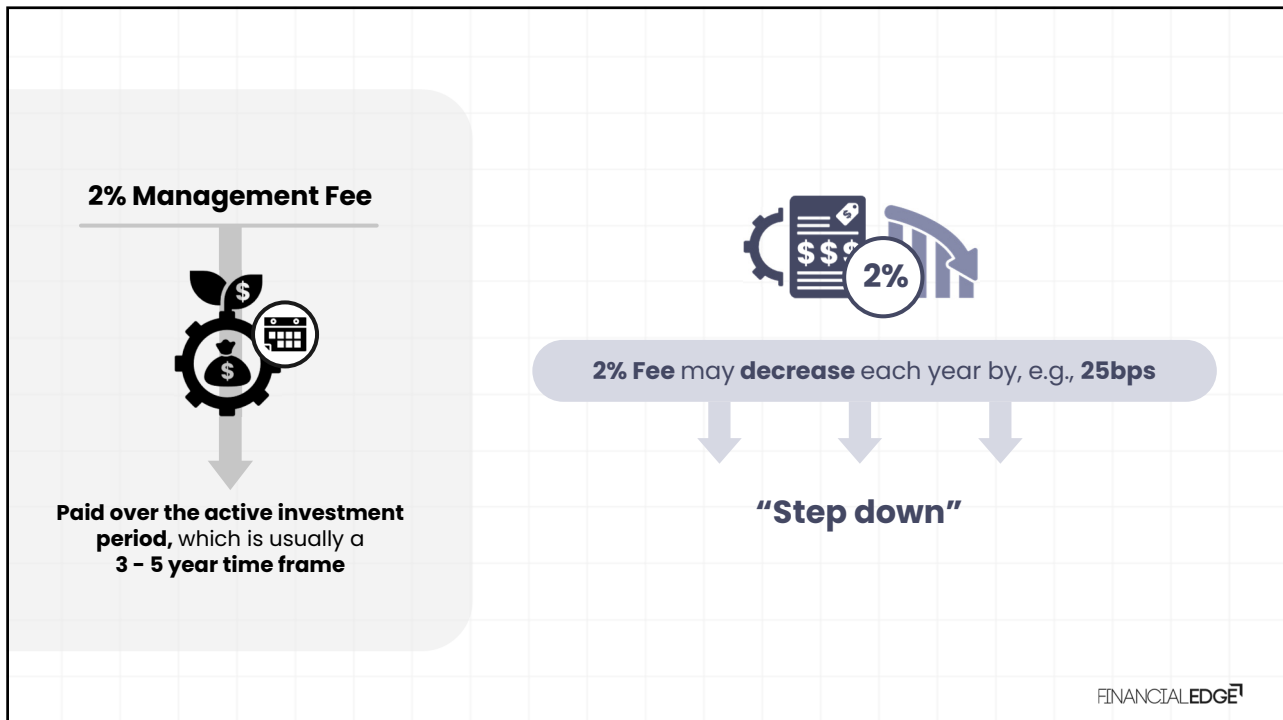
VC Fund would earn **\$2m per year**



Salaries



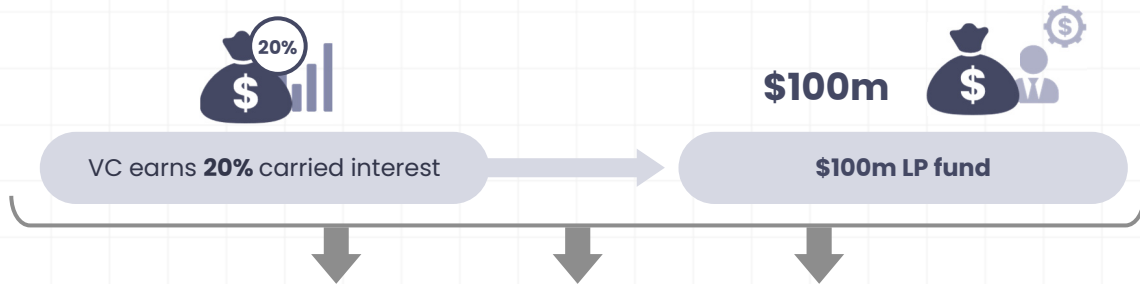
Operating Expenses



## Carried Interest



The **GPs** earn from their portion of the **VC fund's** profit sharing of the **Port-Cos** exit valuations



The **GPs** will receive **\$0.20** on **every dollar** earned **over \$100m**

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## Carried Interest



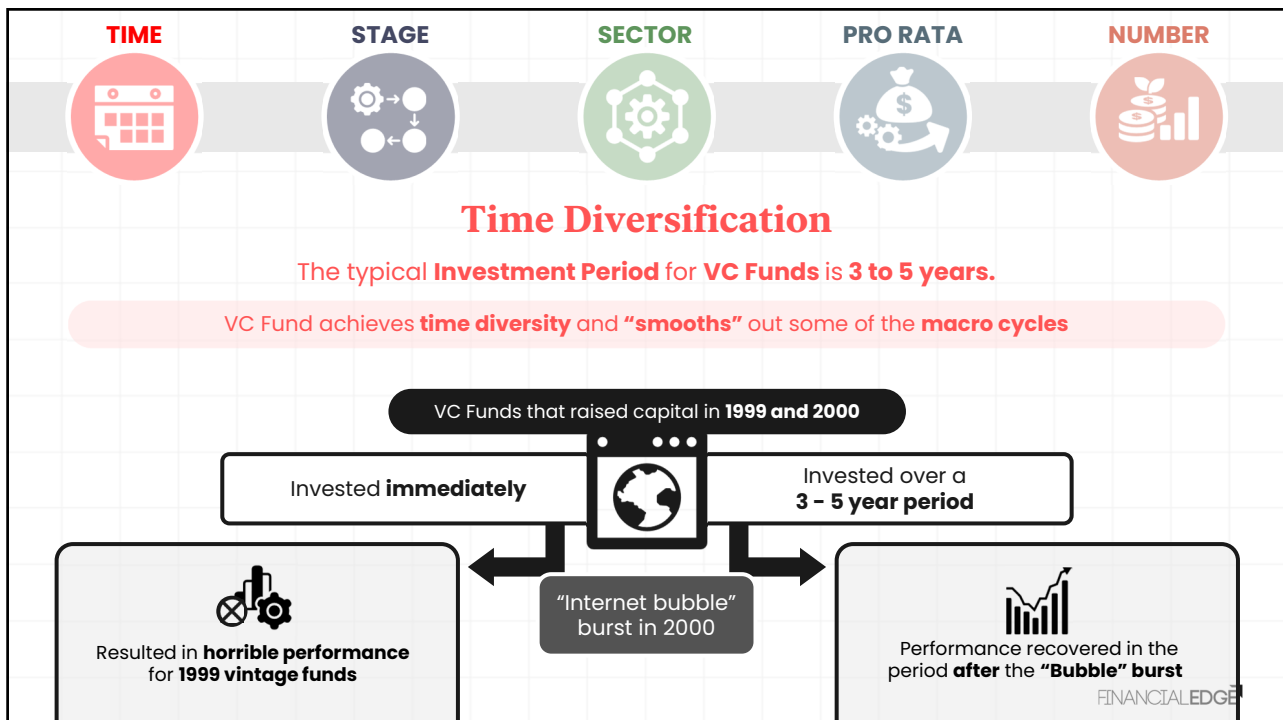
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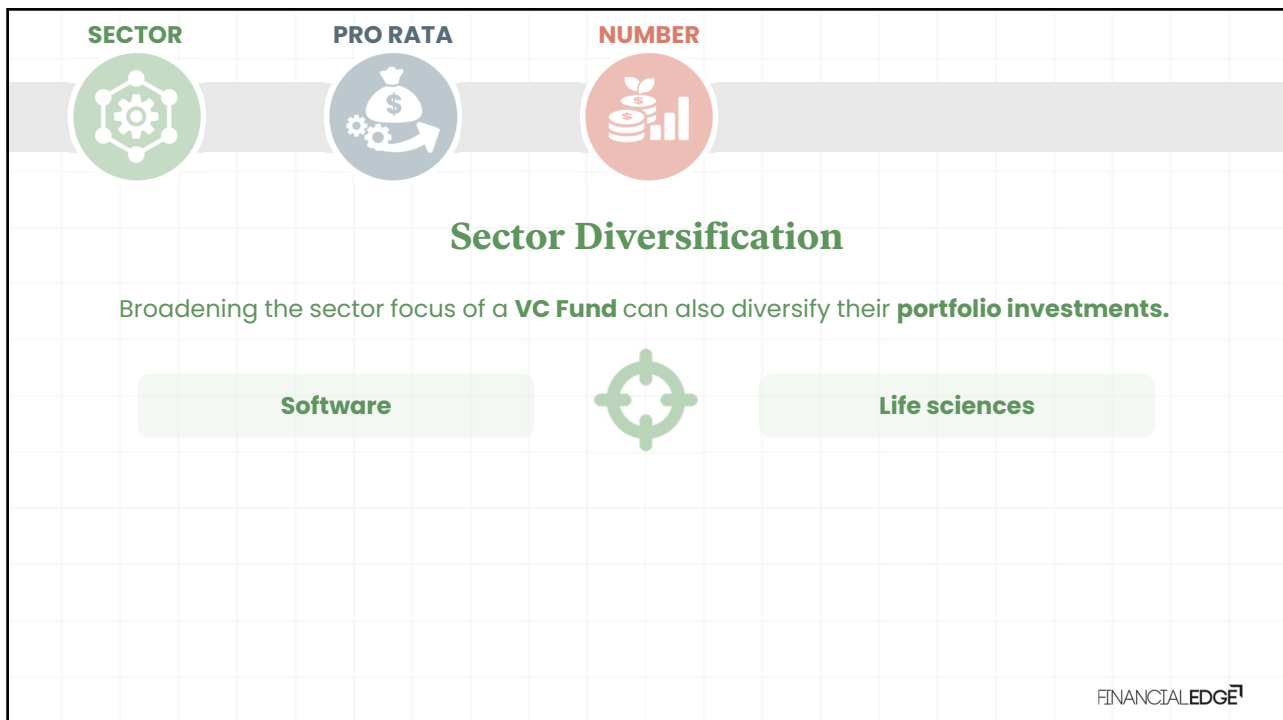
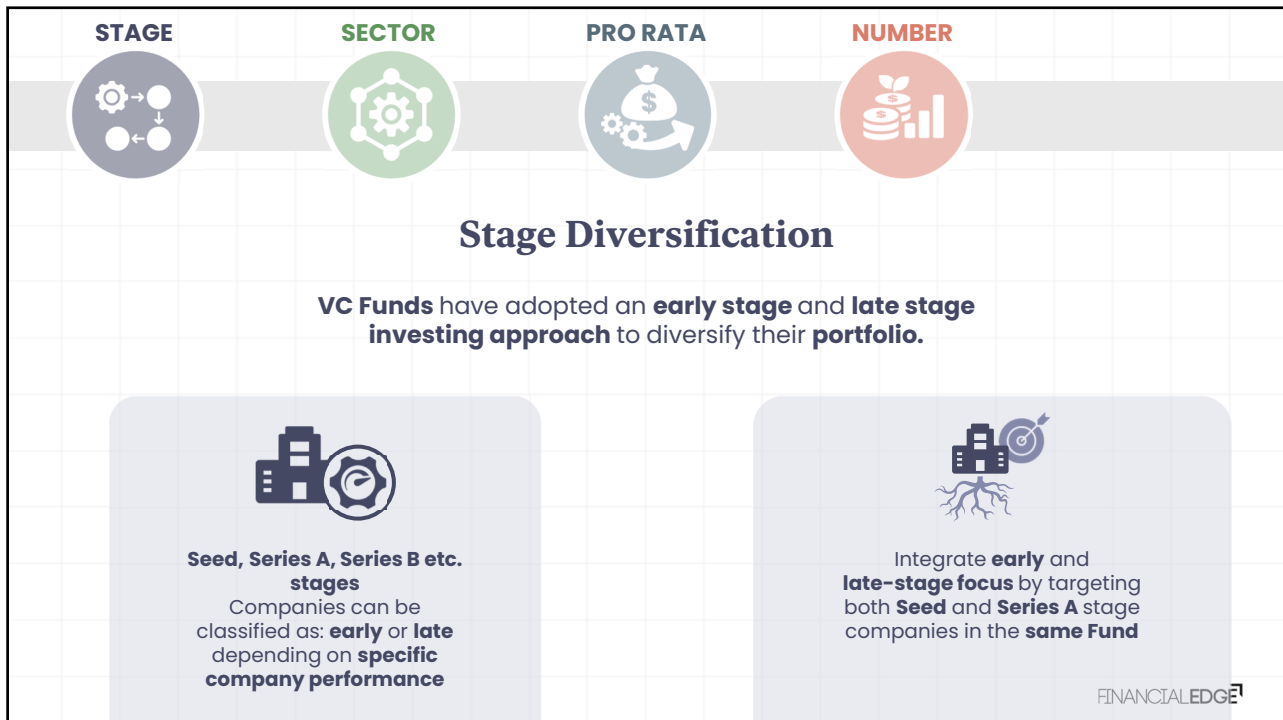


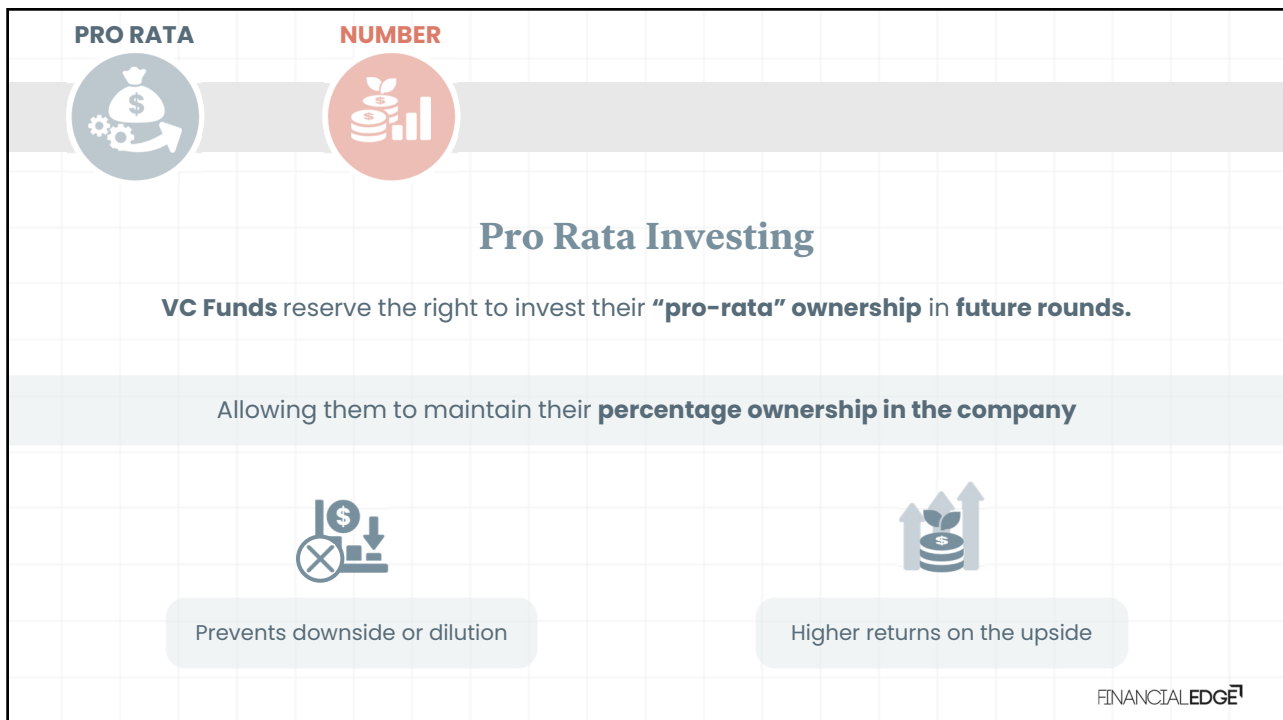
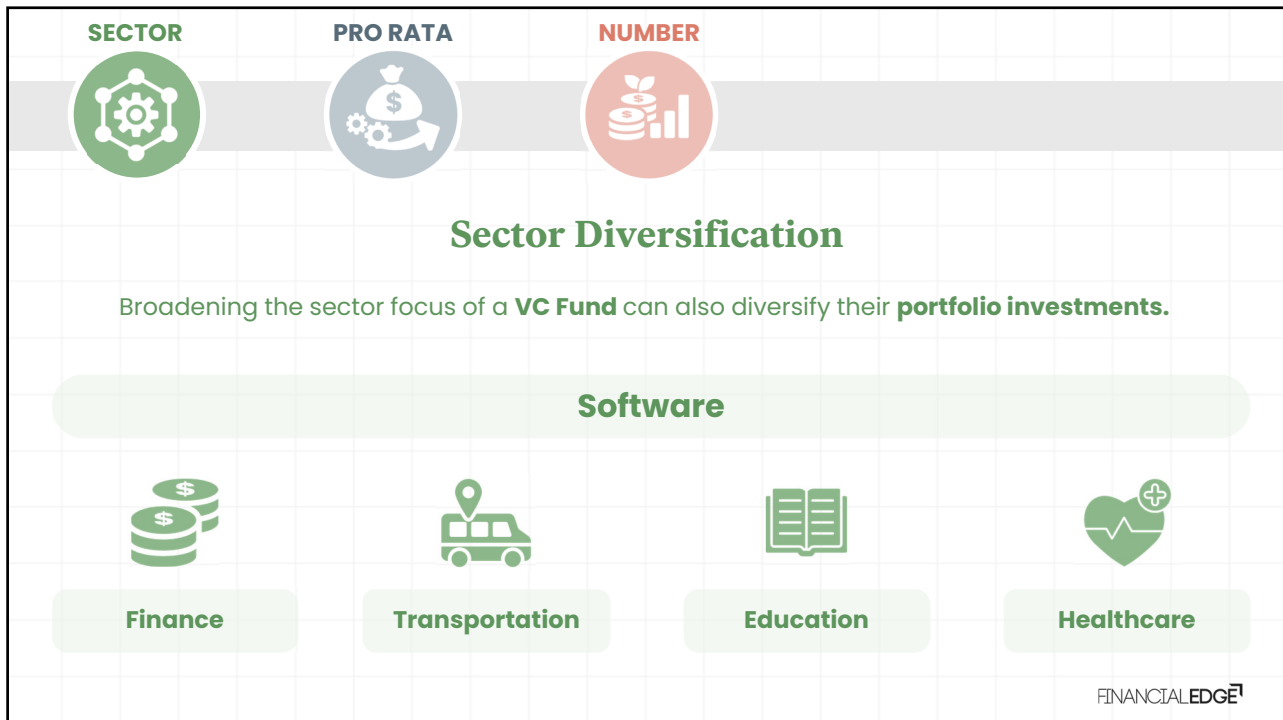
$$\left( \$300\text{m return} - \$100\text{m original investment} \right) \times 20\% = \$40\text{m carried interest}$$

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# Multiple Investments within a VC Fund

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## NUMBER



## Number of Investments



Number of investments **depends on market conditions** and companies **seeking VC investment**

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