

A QUICK GUIDE TO LAUNCHING A VENTURE CAPITAL FUND

INTRODUCTION

To effectively start a Venture Capital Fund, the prospective manager(s) must navigate the complex regulatory structures that govern setting up and operating a fund.

Venture capital funds are investment vehicles created by fund managers, also known as general partners (GPs) to raise capital for the purpose of making multiple investments in high-growth companies.

The process of setting up a Venture Capital fund may vary depending on the stage, sector, or geographical location of companies, the fund decides to invest in and the performance objectives for the fund's portfolio companies.

This article will familiarise emerging fund managers with the process of creating a venture capital fund.

HOW IS A VENTURE CAPITAL FUND STRUCTURED?

Generally, Venture Capital funds are structured as limited partnerships between General Partners and Limited Partners.

Venture Capital funds allow passive investors, known as limited partners (LPs) to make a commitment to invest a specified amount of capital over time.

The General Partner (Fund manager) operates within a management company that exists as a separate legal entity from the fund. It is essential that the General Partners establish a management company before raising a fund and scheduling meetings with potential portfolio companies.

The roles of the General Partner(s) and the Limited Partners are properly defined as follows;

1. General Partner(s) (GP)

A general partner creates a management company and a subsequent venture fund to deploy capital in viable high-growth companies. General partners are typically paid carried interest and management fees.

2. Limited Partners (LPs)

The Limited Partners invest in a blind pool (The VC Fund) and have a “limited role” in the affairs of the fund. The LPs benefit from the General Partner’s expertise in sourcing, managing, and divesting the fund’s investments for the greatest return. Traditionally, Limited Partners tend to be individuals, pension funds, corporations, universities, governments, and funds investing in other funds

THE MANAGEMENT COMPANY

The General Partner(s) opt to use a management company to take care of the daily operational tasks across its fund(s).

A Venture capital management company can raise multiple funds. Venture capital management companies are typically structured as Limited Liability Companies.

The Management fees, which are usually 2% of the fund size cater to the day-to-day expenses of running the fund and other administrative tasks.

The Following Agreements are crucial to regulating the affairs of the General Partner(s) and the Management Company:

1. Operating Agreement

The General partners’ operating agreement is the governing document that provides for the rights of the managers of the fund.

This document specifies ownership details among the managers, governance issues, and other internal provisions.

2. Investment Management Agreement

The Investment Management Agreement is an Agreement between the fund and the Management company.

The Agreement defines the services that the fund manager(s) will provide. It also delegates to the fund manager authority over the fund's assets and gives the fund manager the broad discretionary authority to manage investor funds in a manner that the fund manager believes is consistent with the investment strategy of the fund.

THE VENTURE CAPITAL FUND

The structure of a fund is largely dependent on tax, regulatory, and financial considerations. These issues have a bearing on what entity would be formed and the jurisdiction of the fund.

A limited partnership is often recommended for the formation of a venture fund because it protects investors from liability and absolves them from making active investment decisions.

However, a fund can also be structured as a Limited Liability Company based on the definitive circumstances surrounding the fund.

The following are essential documents that guide the formation and management of a fund;

1. Limited Partnership Agreement(Operating Agreement for a Limited Liability-based Fund)

The limited partnership agreement outlines the terms of the fund, rights, and duties of the Limited Partner and the General Partner.

The limited partnership agreement should include details about how much authority is given to the general partners regarding investment decisions, and any restrictions that are placed on their powers.

Other major provisions include the economic deal, allocations and distributions of profits to partners, restrictions on the diversity of investments, and relevant governance matters.

2. Private Placement Memorandum

A private placement memorandum provides potential investors with material information about the fund with specific information about the terms of the fund, the structure of the investment, the background of the managers, and other disclosure issues.

The private placement memorandum also contains risk factors that an investor should consider before investing in the fund.

3. Subscription Agreement

A Subscription Agreement provides Investors with a description of how to purchase limited partnership interests (or for a Limited Liability based fund, membership interests) in a fund and provides fund managers with information about the potential investor's eligibility.

This is the investor's contract with the fund, which specifies the subscription amount and outlines the terms under which the investment is being made.

We can guide you through the process of setting up a fund structure that works for you. Our team is equipped to help emerging managers set up a fund, the management company, and necessary fund agreements.



CONTACT US

info@abolaw.ng

[08109168055](tel:08109168055)