VENTURE CAPITAL FUND TOOLKIT

A Guide to Set Up a VC Fund in Latin America and the Caribbean

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Author
Angel Ventures, a leading venture capital firm focused on early-stage investments with high growth potential throughout Latin America. Founded in 2008, Angel Ventures manages two funds, has over US$ 100 million in assets under management, and has invested in 76 startups (two unicorns minted) that continuously impact the US-Hispanic population and >90% of Latam's GDP.

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I. General Terms

The document is intended to summarize the fundamental objectives and considerations used in the investment, administration, and management of a Venture Capital Fund (the "Fund"). These policies and guidelines are designed to set boundaries that will ensure prudence and care in the management of the assets while allowing sufficient flexibility to capture investment opportunities.

Rules of Construction

Except as may be otherwise specifically provided in this Manual and unless the context otherwise requires, in this Manual:

1. the terms "Manual", "this Manual", "the Manual", "hereto", "hereof", "herein", "hereby", "hereunder," and similar expressions refer to this Manual in its entirety and not to any particular provision hereof;
2. references to a "Chapter" or "Section" followed by a number or letter refer to the specified Chapter or Section of this Manual;
3. words importing the singular number only shall include the plural and vice versa and words importing the use of any gender shall include all genders;
4. the word "including" is deemed to mean "including without limitation";
5. any reference to this Manual means this Manual as amended, modified, replaced, or supplemented from time to time;
6. any reference to a statute, regulation or rule shall be construed to be a reference thereto as the same may from time to time be amended, re-enacted, or replaced, and any reference to a statute shall include any regulations or rules made thereunder;
7. all dollar ($) amounts refer to U.S. dollars, unless otherwise specified;
8. any time within which a payment is to be made or any other action is to be taken hereunder shall be calculated excluding the day on which the period commences and including the day on which the period ends; and
9. whenever any payment is required to be made, action is required to be taken or period is to expire on a day other than a Business Day, such payment shall be made, action shall be taken, or period shall expire on the next following Business Day.

Reference to Supporting Materials

This Manual refers to the operational framework of a Venture Capital fund and contains several procedures for different matters that are needed to effectively manage the Fund daily. As such, to successfully provide a clear understanding on the procedures carried out for such activities, throughout this document, reference will be made to other documentation that is part of this Manual and shall be available in the corresponding Annex.

II. Definition of Main Terms

i. Bylaws: The written agreement between Investors and the Fund Manager who join as partners to form and carry on a for-profit business. Among other things, it states the 1) nature of the business, 2) capital contributed by each partner, and (3) their rights and responsibilities.

ii. Angel Round: Any capital amount raised by entrepreneurs that is financed by angel investors. Angel rounds typically occur at early stages of a startup's funding cycle.

iii. Allocation: A portion of the total Fund's commitments that will be used for a specific purpose established either in the Term Sheet or any other subscribing documentation, such as a Side Letter.

iv. Bridge Round: A small investment amount that is raised by entrepreneurs between two large rounds (for example, raising capital between a Serie Seed and a Series A round). The amounts of such rounds are not pre-defined but are used by entrepreneurs in situations where their track-record is not sufficiently attractive, or ready enough to raise a large investment round.

v. Commitment: The aggregate amount of cash agreed to be contributed as capital to the Fund by an Investor and the amount of cash agreed to be contributed as capital to the Fund by the Fund Manager pursuant to the Fund's Bylaws.

vi. Convertible Note: It is a form of short-term debt that converts into equity upon a triggering event (a subsequent investment round, or the holder's decision upon maturity). In other words, the investor lends money to a startup with the option of either i) having a return in the form of principal plus interest, or 2) converting such principal and interests into equity at pre-defined valuation terms.

vii. Eligible Companies: Any company that, subject to the Fund Manager's assessment and criteria, is entitled to receive investment from the Fund.

viii. Fund Manager: An investment firm that will be selected by the Sponsor to become the sole manager of the investment vehicle described in this document.

ix. IDB: Inter-American Development bank (including subsidiaries).

x. Initial Investment Round: The first commitment the Fund makes and honors to a Portfolio Company.

xi. Investor/LP/Limited Partner: means the persons and/or entities admitted as partners of the Fund.

xii. KISS "Keep-it-Simple Security": It is an agreement between a company and an investor that states the mechanisms and conditions for an investment: The investor invests money in the company and, in exchange, receives the right to purchase shares in a future equity round when it occurs. It is a hybrid vehicle that has includes many characteristics of both equity and convertible notes.

xiii. Option/Warrant: It is a certificate issued with a security giving the holder the option of buying a stock at a certain strike price for a certain period. Warrants are issued by companies during a round of financing as an added incentive to buy a security; they are not issued by individual investors or brokerages.

xiv. Partners: Both Investors and Fund Manager.

xv. Portfolio Company: Any company that has been invested by the Fund.

xvi. Prohibited Practice: A Prohibited Practice is any i) corrupt practice, which means the offering, giving, receiving, or soliciting, directly or indirectly, of anything of value to influence improperly the actions of another person; ii) fraudulent practice, which means any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a person to obtain a financial or other benefit or to avoid an obligation; iii) coercive practice, which means impairing or harming, or threatening to impair or harm, directly or indirectly, any person or the property of such person to improperly influence the actions of such person or any other person; iv) a collusive practice, which means an arrangement between two or more persons designed to achieve an improper purpose, including influencing improperly the actions of another person; and iv) an obstructive practice, which means, in connection with any investigation by the Sponsor or any governmental authority into allegations of Prohibited Practices committed by any person, deliberately destroying, falsifying, altering or concealing evidence material to the investigation or making false statements to investigators, in order to materially impede such investigation; threatening, harassing or intimidating any person to prevent such person from disclosing knowledge of matters relevant to such investigation or from pursuing such investigation; or in the case of the Fund Manager, taking any action intended to materially impede the exercise of the rights to access, information and inspection provided under the Fund's Bylaws.

xvii. Qualified Investor: An investor that i) must not be a first or second-degree relative or relationship of the founding team (basically, no family & friends); ii) has immediate liquidity to disburse capital to the company; iii) is not found on any sanction lists approved by Sponsor; iv) is not a politically-exposed person, and v) must not have been part of any past, pending or ongoing, criminal or administrative proceedings, or investigations against him/her.

xviii. SAFE: It is an agreement between an investor and a company that provides rights to the investor for future equity in the company without determining a specific price per share at the time of the initial investment. The SAFE investor receives the futures shares when a priced round of investment or liquidation event occurs. SAFEs are intended to provide a simpler mechanism for startups to seek initial funding than convertible notes.

xix. Series A Round: A large amount of capital raised by entrepreneurs that is typically used to grow the company to higher levels. These rounds normally include institutional or high-profile investors, and they are considered as a "sign" of success because the startup is on its way to surpass the Valley of Death (a region where cash flows are negative, and risk of failure is high).

xx. Seed Round: Any capital amount raised by entrepreneurs that is financed by the first wave of institutional investors. These rounds are normally used to validate the company's business model an prepare it to grow exponentially.

xxi. Sponsor: Any public, private or multilateral organization that is interested in pursuing the establishment of such Fund. The Sponsor will oversee applying the contents of this Manual and evaluate the outcomes soon.

III. Objectives

Main Objectives

1. Promote the establishment of an investment fund in Latin America that allows for investment in innovative, early-stage startups. The purpose of the Fund will be to detonate access to capital, short the funding gap for startups, increase angel investor activity and develop the next generation of Latin America's entrepreneurship success cases.
2. Capture attractive risk-adjusted long-term investment returns by investing in private assets and securities. Relative to publicly traded investment securities, attractive investment opportunities are presented because of inefficient markets, longer investment horizons, and advantageous corporate governance structures.

Specific Objectives

1. Provide a framework that allows the Sponsor to:
    a. Understand early-stage investments in Latin America, including trends and the importance of such sector for emerging markets.
    b. Map and analyze all relevant components of the ecosystem, as a first step of a fund structuration process.
    c. Map and analyze the main variables in an entrepreneurial ecosystem to identify its maturity and sophistication stages, understand the value drivers associated with its growth, and the main players that power the ecosystem.
    d. Structure and devise the Fund's investment thesis that can be leveraged by the Fund Manager.
    e. Understand how to provide value to Portfolio Companies to maximize returns on investments.
    f. Understand which key players and stakeholders are needed to develop, launch, and support the Fund.
2. The Fund will be formed for the primary purpose of equity and equity-related investments in Eligible Companies in certain Latin American Markets, subject to the restrictions on investments set forth by the Sponsor The Fund may also engage in such other activities as the Fund Manager deems appropriate and in the best interests of the Fund in furtherance of, in connection with or ancillary to the activities of the Fund, including, but not limiting to, provide management support to Portfolio Companies and participate in fundraising efforts.
3. Provide superior risk-adjusted returns than those attainable in publicly traded securities and other high-liquidity assets by increasing the value of all equity positions in the Fund's portfolio through carefully selected value-add strategies envisioned by the Fund Manager.
4. Develop sound corporate governance structures that allow for the participation of coinventors and provide a common ground for the development and growth of privately held companies.
5. Provide a first-hand approach for investors, co-investors, partners, and entrepreneurs to develop the necessary technical skills to improve the targeted ecosystem's sustainability.
6. Bring closer the funding gap of a startup's financing cycle, improving survival ratios, and promoting the increase of investment activity in the industry.
7. Boost the target market's recognition as a popular destination in Latin America for venture capital investments and angel investor activity.

IV. Preface

This Manual was crafted with the purpose of becoming a handbook with an actionable instruction manual for any potential Fund Manager and/or Sponsor who wants to set up, raise, and manage a Venture Capital fund that will target Latin American investments. The reader must understand that each section is a continuation of the previous one, so skipping or skimming through the document is not recommended.

Chapter V and VI describe the context of making VC investments in Latin America and several reasons the asset class has become increasingly popular among Latin American investors and its success in recent years. Chapter VI describes the framework and ideology behind the "Investment Thesis," a set of rules defined by the Fund Manager to execute investments. It is important that this chapter must not be skipped, as it provides the intellectual foundation upon which the VC fund will be created.

Chapter VII describes recommendations about the best appropriate form of corporate governance, and the rules and definitions that must be analyzed in its corresponding legal framework. Chapters VIII through X describe the overall process of sourcing, analyzing, investing, managing, and exiting an investment using the fund. It is recommended that each section must be thoroughly reviewed at least once before drafting any manual or policy.

Chapter XI explains the economic structure of a VC investment and provides several examples of how returns are calculated. Even though Angel Ventures took the uttermost care in developing potential real-life scenarios as examples, it is recommended that the reader consult with its legal and fiscal advisors to craft the best strategy towards returning capital to investors, since fiscal and legal regulations change between geographies.

Chapter XII illustrates best practices for managing LPs and provides recommendations when fundraising. The most important steps of the liaison process are described in this chapter, but there may be several additional steps that the Fund Manager must complete because of the investor, the regulatory framework that affects the fund's operational workflow or specific requests that LPs may ask before subscribing to the fund. It is advised that the Fund Manager consults with a legal advisor to review tailor-made requests and devise specific strategies to manage such investors.

Finally, this manual includes several templates and additional documentation that can help the manager kick-start their operational workflow. The reader is welcomed to adjust and customize the templates to suit its needs.

V. About Early-Stage Investments in Latin America

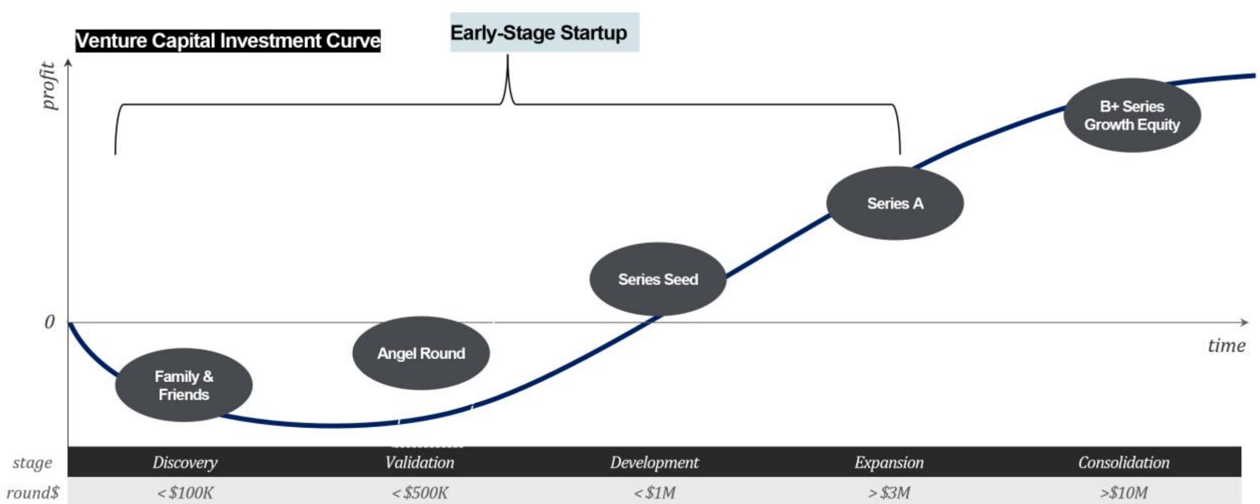
Importance of Early-Stage Investments in Latin America

In its most basic form, a startup is a company whose aim is to develop a product/service that carries an important innovation at the product and/or business model-level. These startups have a different management and growth method when compared to, for example, corporations. Startups, by nature, have the primary aim of testing solutions to different problems (marketing, technology, business model, supply chain, etc.) by designing strategies that no-one has thought of (at the most basic level) yet. By "design," we mean the ability for the management team to "idealize, craft and implement actionable steps for situations where no current solution is workable, or accommodating to the problem." For example, questions like "how can we deliver a product without the need of a distribution company?" or "how can we sell our product online if everybody uses retailing stores?" are part of a much broader process call "pivoting", which involves the ability of a company to i) create a hypothesis about potential solutions to these problems, ii) draft the most efficient process to validate that hypothesis and iii) swiftly change ways in case the previous step fails.

A particular feature of startups is their focus on top-line growth, rather than becoming profitable. This is because, in most cases, valuations are based on market expectations about revenue, and because of the risk nature of the business model: if the model has no revenue, then the company does not have a product desired by customers and therefore, no value. When we add the fact that cash constraints are a key survival component, which are supplied by knowledgeable investors, we can then say that a startup's primary purpose is to "burn" cash to make the business model "profitable" by "pivoting" operational strategies to become "valuable". This is the game of venture capital investments, and investors are a major part of such objective.

Financing Curve and Early-Stage Investments

Depending on the stage of investment and degree of business model validation, startups are normally accompanied by different tags that define their status in the market. When they endeavor in their first investment rounds (normally carried out by government grants, friends, and family members, as well as angel investors and VC firms), and have the primary objective of "crafting a product/service", "validating a business model", or "growing its user base" we say that they are "early stage" startups, since they lack the ability to either become profitable, or institutionalize itself into a corporation. In other words, early-stage investments are focused exclusively on growing the company as much as possible, as fast as possible without maintaining a profit or minimum cost-structure. Typically, in Latin America, early-stage investments cover several investment rounds of the VC Investment Curve (shown below), ranging from their first investment round until Series A.



Compared to other developed markets, Latin America investments are starting to signal similar behavior as their counterparts in terms of amounts and number of rounds. During the first 5 to 7 years of the 2010's, a Series Seed round had a maximum amount of $500,000, due to the relatively scarce supply of cash coming from very few VC managers. An angel investment round, or micro-rounds were the norm and no more than $250,000 were raised before moving on to Series A. This behavior changed dramatically when Latin American startups started spawning across the region, which signaled the world that the industry was entering its maturity phase. Before the end of the decade, the number of companies raising rounds each time bigger than the other became a common occurrence, and the amount of capital flowing to the region increased dramatically (particularly fueled by international investors, such as SoftBank and its $5 billion fund exclusively raised to invest in Latin America). Today, we can see entrepreneurs and founders raising first +$10 million rounds (which are still rare) and a minimum ticket of $250,000 on average (something that was the median in the first half of the decade)[1].

Multiplier Effect and Early-Stage Investments

When making venture capital investments, a big side-effect of bringing capital to new industries business models and motivated management teams, is the ability to "multiply" expected profit value by including economic gains that are related to the amount of stakeholders impacted. This "Multiplier Effect" is a positive macroeconomic term that amplifies the value generated by a VC fund when

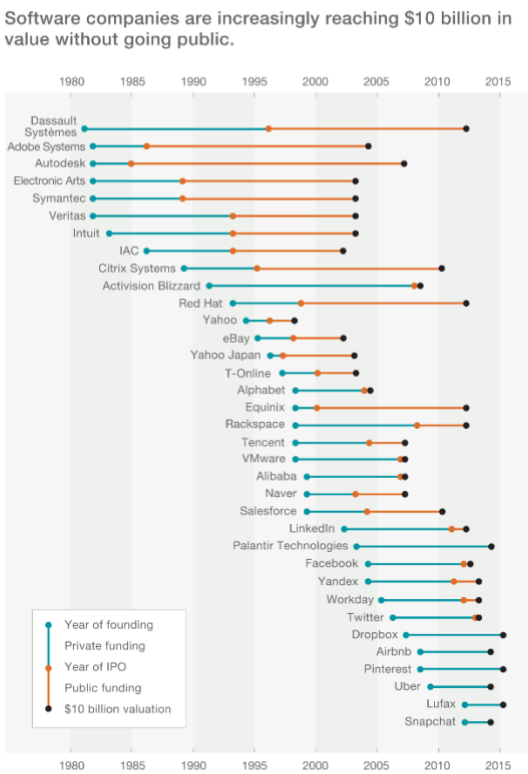
[1] Source: Angel Ventures internal data.

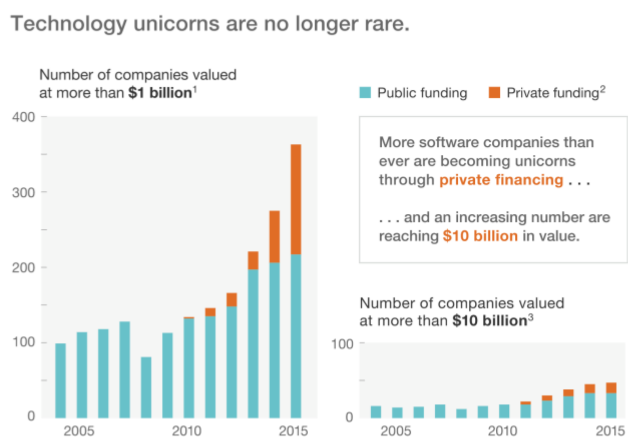
investing in companies that impact communities, suppliers, and clients from an economic standpoint. Taking a startup as an "agent," it will move through the economic web of intricated stakeholders, affecting them in the form of additional revenue streams, strategy gains (better ways to do something), or socio-economic gains (such as better quality of living as a customer). As an example, Endeavor Chile[2] conducted a study where it estimated that a $200 million fund-of-funds could provide an economic spill-over of more than 10 times their size. In that same study, the fund could provide financing to 80 startups that would provide job opportunities to more than 5,000 people and bringing more than $300 million in VC co-investments.

Why is Venture Capital a Key Component for Portfolio Diversification Strategies?

Private Companies generate more value than post-IPO ventures

More companies remain private longer due to the burdens of being a public company. Additionally, more value is being captured before going public and popular public-market investors are increasingly participating directly in late-stage private rounds. Combined with the fact that a generation of technology-backed companies, and the increasing appetite for innovative solutions that challenge the status-quo, has sprouted quite several "unicorn startups" (companies whose valuation is larger than US 1 billion) that are driving public ETFs and other indexes in public markets.





Source: McKinsey & Company

Venture Capital Returns are Uncorrelated with Public Markets

Venture capital Investing varies from other popular asset classes in several aspects, the most notable of which being its high-risk/high-reward risk profile, restricted access to a quality pipeline (thus limiting investment opportunity for outsider investors) and a lack of correlation with other asset classes, as unease in public markets does not tend to affect VC returns. In fact, correlation is almost zero between both assets:

Index	10-Year Return	15-Year Return	20-Yea Return	25-Year Return	Correlation with CA Index
Cambridge Associates US - Early Stage VC Index	15.53	11.01	14.17	54.40	

[2] "A Strategy to Multiply Tomorrow Companies" – Endeavor Chile, 2021.

Nasdaq Composite Index mPME	15.72	11.53	8.74	11.25	-0.10
S&P 500 Index mPME	13.47	9.36	7.54	9.58	-0.07

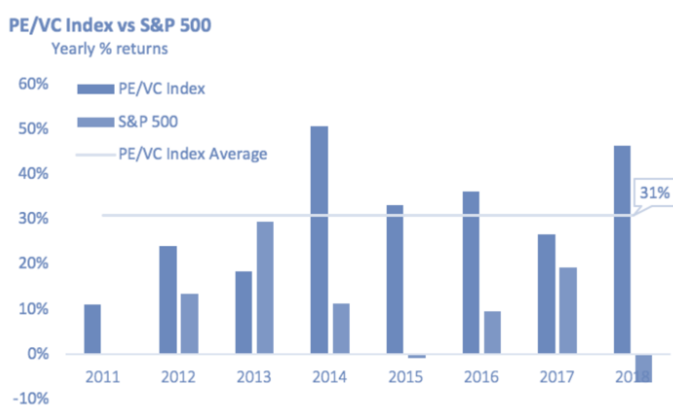
Private Equity/Venture Capital vs. Public Market Returns Benchmark. Source: Cambridge Associates

	Correlation with Cambridge Associates Benchmark Index 1994-2017
Cambridge Associates NASDAQ Composite Index Annual MPME TVPI	0.18
Russell 3000 Index Annual MPME TVPI	0.08

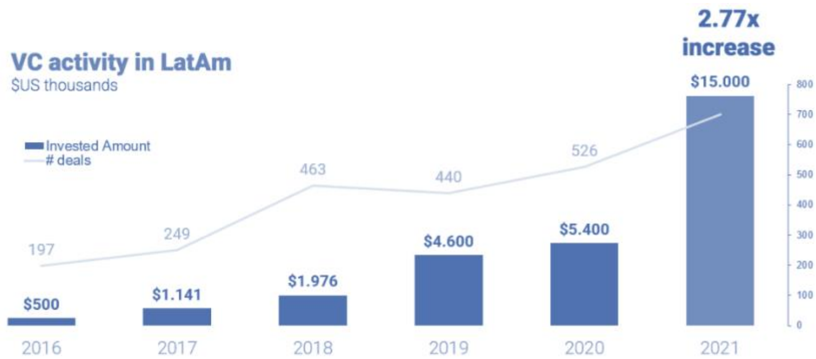
There are several reasons this may be the case, which are listed below:

1. Speculation and fear-induced sale/buy positions are irrelevant in VC investments. Because of its illiquid nature, investors treat each startup as a long-term investment. This also means that VC investments provide insulation from the fluctuations of short-term market conditions (such as foreign exchange risk, debt rates or inflation).
2. Startups are going after recently created markets or “stealing” market share from the slow-moving incumbents
3. Markups are not in real-time and depend upon the value of future technologies/industries. This also explains why venture capital investors focus more on future market conditions than current circumstances.
4. Startups fight for a smaller, less competitive market segment; large companies often grow in a more competitive sector over a large revenue base. Most times, some startups are even created an entirely new category that puts them with a vast competitive advantage. This means that the value perceived is greater since comparable are scarce. Scarcity means a lack of offers and, therefore, an increase in potential acquisition prices.VC-backed IPOs Dramatically Increased Since the Pandemic Started

VC has consistently beaten the public markets especially in years of negative returns for the public markets, confirming the null correlation between both asset classes as seen in the graph below.



High returns and proper diversification have called the attention of international investors, thus increasing the number of deals and funding amounts in the region, after years of investing in the region LATAM is yielding the initial results in the VC ecosystem with technology companies reaching valuations of over 1 billion USD.



VC historical deals and invested amounts in LATAM. Source: Crunchbase/Pitchbook

The Latin American Boom

The Latin American Market Opportunity

With world-class investors such as SoftBank's $5 billion Latin America Fund, General Atlantic, Sequoia, Tiger Global, and others entering the region, venture capital investment in Latin America reached a new high of over $15,000 million dollars deployed in 2021 alone, three times higher than the previous all-time high record set in 2019. All of this and because the number of unicorns in the region has already surpassed thirty, the number of exits is increasing rapidly, which are indicators of a fast-growing entrepreneurial ecosystem.

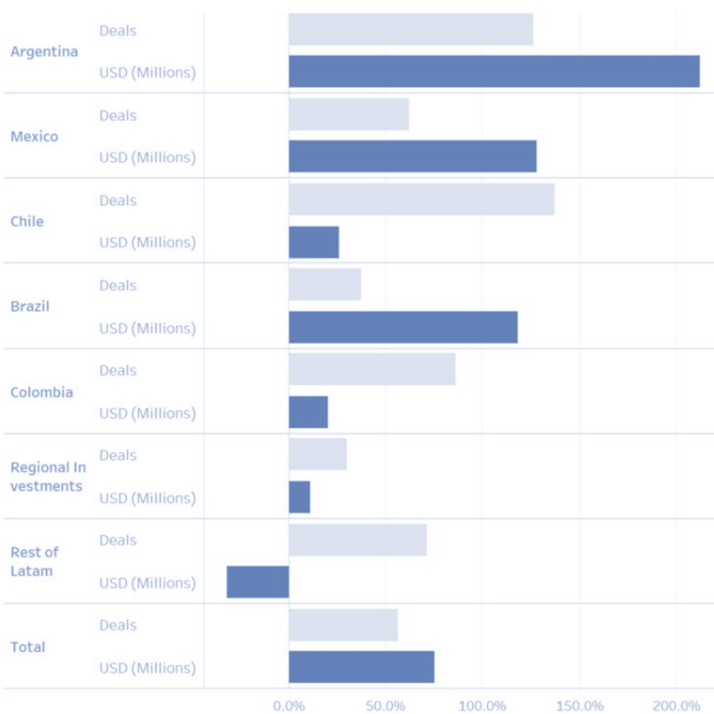
The market is maturing, and Latin America has become one of the most-active regions in terms of venture money deployed during the last two years. 2021was a record year for total early-stage capital invested in the region and for total number of deals: $15 billion dollars were deployed in the region, a 3x increase compared to numbers from 2019, and with world-class investors such as SoftBank's $5 billion Latin America Fund, General Atlantic, Sequoia, Tiger Global, and others all trying to access regional pipelines.

This acceleration is showed by looking at the region's economics: a population of 664 million people and expected to be the world's third largest in terms of population by 2050 (around 762.5 million), accommodating 7.8% of the world's population. The region, although significantly deficient in a wide range of services that in other regions are basic, such as access to financial products or certain public services, it is a highly advanced region in terms of technological infrastructure, with an expected 81% smartphone penetration by 2025 and 87% of the continent's population living within range of a 4G antenna (although actual internet penetration still being low at 37%), representing an interesting opportunity for foreign and local companies and funds to capitalize from these pains and generate significant value for their investors while solving some of the region's most critical problems. This growth, however, is expected to remain constant within a certain degree over the following years, as estimations point that the portion of market capitalization from technology companies in Latin America is only 2.5% today compared to 40% + in the US, with expectations to reach similar levels in the mid-term future.

In terms of regional performance levels in Latin America, the venture capital industry is seeing its best moment in history, with all-time top record amounts of capital deployed as well as valuations and returns. In Mexico, for example, for the first time in history, funds with returns of over 4-5x multiple on invested capital are being seen, while during the last year alone, twelve new unicorns emerged between Mexico and Brazil, as well as 5x and 2x growth in the volume of capital invested in Peru and Colombia, respectively.

This growth behavior can be seen in most Latin American countries, with an average increase in both the number of investments and the volume of 65% and 75%, respectively, year over year.

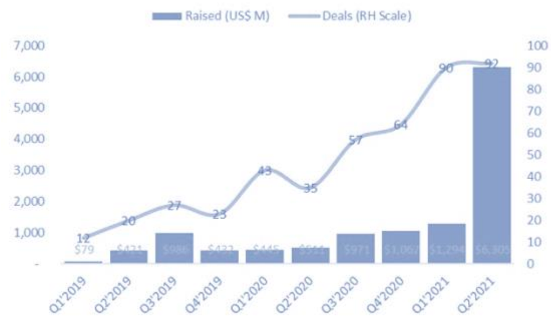
2020-2021 Δ% in Venture Money and Number of Deals by Country. (LAVCA)



Regionally, however, VC activity has not only kept growing but also reaching record basis levels, even after governments enforced lockdowns during the pandemic, demonstrating a strong and constantly growing ecosystem. As seen in the breakdown by country, 2021 saw a capital deployment of almost thirty billion dollars, driven by the digitalization of traditionally manual processes as the dominant trend across Latin America's private capital landscape.

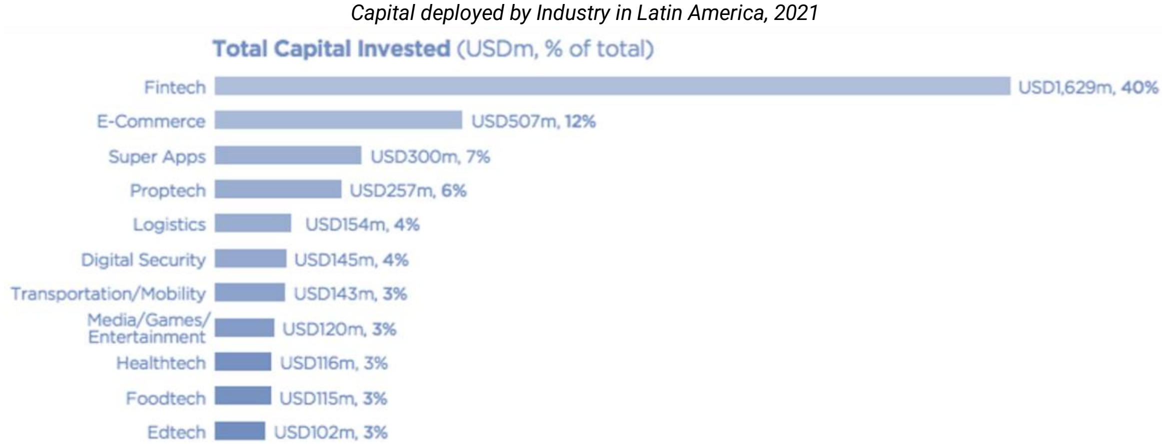
Interest in technology companies blurred the lines between asset classes and pushed private capital investment to a new record of US 29.4 billion dollars across 1,095 transactions, a 75% YoY gain in deal value and 56% gain in deal count. Despite major economic and political headwinds exacerbated by the COVID-19 pandemic, countries across the region reached new investment milestones, with record annual investment figures for Brazil, Mexico, Colombia, and Chile.

Fintech deals were especially noticeable in the industry, which was the most active in the region, once again reaching record highs in both number of deals and capital deployed volume, achieving quarter-over-quarter growth rates of 4.9x and 12.3x YoY, reaching a volume greater than the previous nine quarters combined, something rarely seen in the industry:



Apart from fintech, other highly active sectors in the region in terms of private investment were E-commerce (12%), Super Apps (7%) and Proptech (5%). These categories managed to raise a combined more than 1 billion USD during 2021.

Capital deployed by Industry in Latin America, 2021



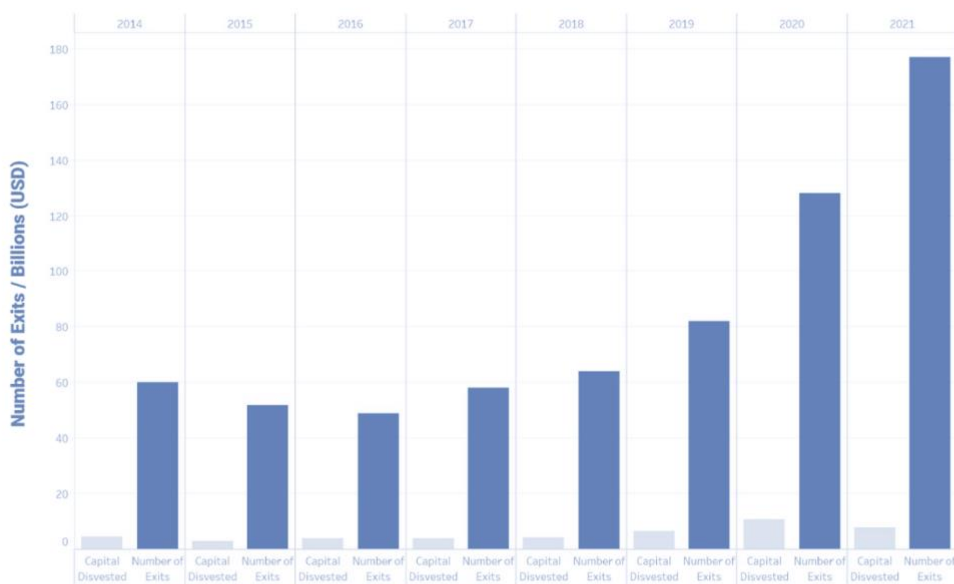
IPOs and Exit Pathways

Venture-backed companies that later turned into backed IPOs have continued to dramatically increase their value, even if original investors already exited their position. As a testament to this, some world-class funds are even realizing the potential of holding VC/PE investment positions for longer, even post-IPO, as is the case of Sequoia and its Evergreen Fund. As a proof of this, Q4 2021 marked the sixth straight quarter where over $150 billion USD were notched worldwide by venture-backed exits across traditional routes. With 2021 experiencing overall historic liquidity, the global venture ecosystem is experiencing an unprecedented rate of VC investment being returned to fund investors thereby encouraging even greater investment rates.

In terms of local and regional IPO potential, Latin America currently hosts more than 42 IPO-ready companies, with the vast majority being founded in both Brazil and Mexico, and surpassing the $1 Billion USD value mark, with the latter also hosting several "soonicorns" or companies with a valuation expected to surpass the threshold over the following months.

Mexican Unicorn Hotlist (2022). Clip, Kueski and Valoreo are all Angel Ventures portfolio companies.

In terms of realized exits, have increased by 30.2 percent on an annual basis over the last five years, demonstrating a clear path to potential returns for LPs in the VC ecosystem and distributing more than $2.7 billion USD to fund managers via public equity markets through 20 IPOs listed on public exchanges in Brazil and the United States as well as by low interest rates and dealmaking acceleration in the area fueling 83 Strategic Acquisitions and Mergers in the region.



Number of Exits and Distributed Volume (Bn USD) by year

VI. Fund Thesis Development

Overview

Successful deployment of capital in meaningful investments requires a delicate balance between i) the ability for the Fund Manager to find the best possible opportunities and ii) its capacity to utilize tangible and intangible assets to add value to the portfolio. When crafting a Venture Capital fund, the Fund Manager must devise a strategy associated to the generation, analysis, development, and execution of investment deals in a portfolio. These achievements depend on the ability of the Fund Manager to articulate what it wants, what it expects to execute, what the market needs and what the market can provide.

When it comes to VC investments, the Fund Manager relies on many factors to make an investment decision, such as i) the ability to source potential investment opportunities, ii) the skillset to carefully curate and discriminate deals that are harmful or profitable to portfolio's economics, iii) the timing to execute these investments, and iv) current market dynamics (with its deficiencies and limitations). It is wise then to craft a series of rules and strategies that will maximize the return on investments in the expected portfolio, to avoid deviation from the expert objective (produce a healthy, profitable portfolio). In the same manner that the CEO of a company must understand where the company needs to go (vision) and craft the necessary strategies to arrive to such destination (objectives), the Fund Manager must craft a series of rules, strategies, and objectives to accommodate its vision of what a "healthy and profitable portfolio" must look like.

The Investment Thesis Framework

Before even attempting to raise capital, the Fund Manager must have a clear understanding of why is raising a fund good for the purpose of maximize the return of investment of a group of investors. It can be considered then that an **Investment Thesis is defined as the set of objectives, rules, limits, amounts, assets, and frameworks that allow the fund to construct a portfolio comprised of *n* companies, which will provide *x* returns, in a *z* amount of time.** By deconstructing this definition, we get that:

a) **The thesis must provide actionable and measurable items.** A carefully crafted thesis has key indicators that can be measured through time, irrespective of the outcomes, and those indicators must support the set of rules devised to construct the portfolio.

b) **The thesis must have the objective to construct a portfolio and provide the necessary steps to liquidize its assets in the form of cash.** In other words, the thesis must provide all the necessary resources to complete the full investment cycle of a Venture Capital deal (sourcing, analyzing, executing, developing, and exiting investment deals).

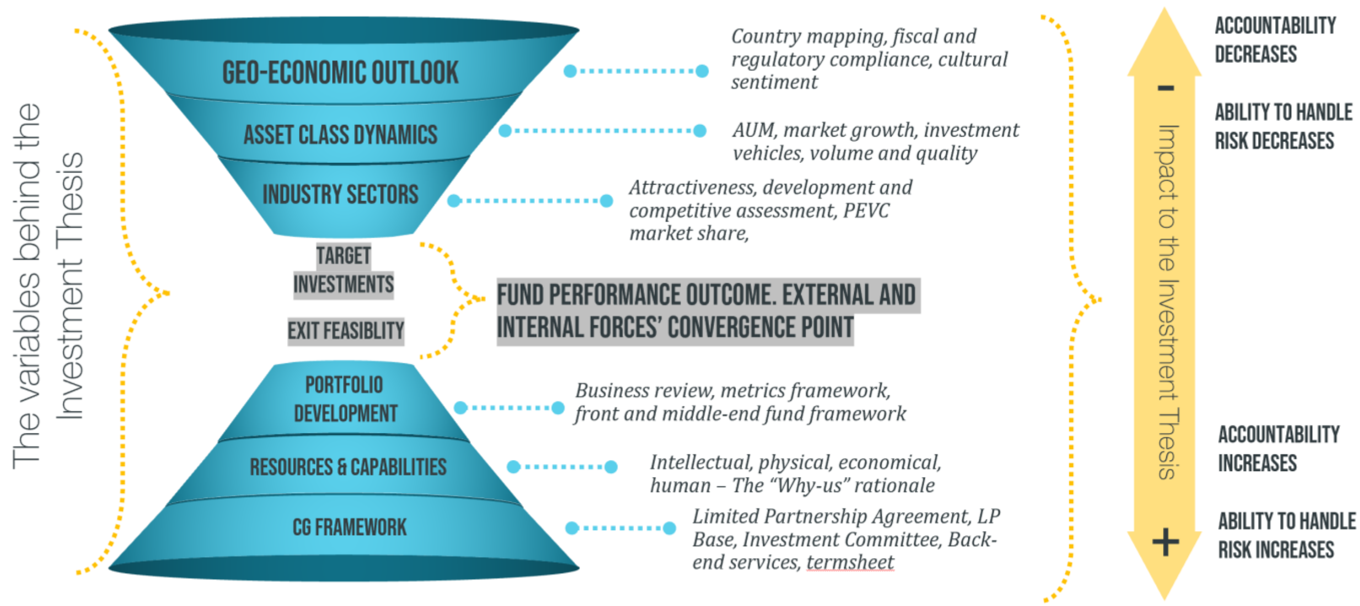
c) **The thesis must maximize the value of its investors by proving superior, risk-adjusted returns.** The strategies, the rules of construction and workstreams must always be devised with the objective of generating returns to Limited Partners (whether such returns are of financial, social, or environmental nature).

d) **The thesis must take into consideration the timeframes of all the stakeholders involved.** Depending on the objective of the Fund Manager, it can craft closed-end funds (those that return capital and profits in a limited timeframe), or evergreen funds (those that re-invest profits perpetually). The timing of each fund affects the holding period of portfolio companies, the type of potential investors that can provide capital to the fund, and the stage of development of startups.

Based on the definition provided above, the Fund Manager must follow five major steps to craft its investment thesis, which will be thoroughly described in the next sections:

1. Assess the external forces that affect the thesis of the fund
2. Determine the dynamics of the portfolio and craft the rules of its construction
3. Assess the internal forces that affect the development of the portfolio
4. Determine the resources, frameworks and strategies that are necessary to exit from portfolio companies
5. Test the thesis, understand risks, and build risk-mitigation frameworks

Step 1. Industry and Ecosystem Mapping



Assess External Forces

A portfolio is bound to be positively or negatively affected by forces that are external to the capabilities and assets of the Fund Manager: the countries in which the manager expects to invest in, the industries selected, the overall competitive landscape of other fund managers, the amount of liquidity available in each market affects the way a Manager will behave and therefore the expected outcome of the portfolio.

As the first step in the construction rules, the Fund Manager must then thoroughly research about the impact that these forces will have in its ability to find deals, going from the least effective (Geographical and economic outlook), to the most impactful (target industries). The image above illustrates some of the most important forces that impact the portfolio. To understand how these forces should be approved, below is a table that explains the thought-process that the Manager must perform:

Force	In what ways can such forces affect the portfolio?	What are some of the issues that need to be addressed??	What are the conclusions that must be translated into rules/items for the Investment Thesis?
Geo-Economic	*Fiscal and Legal Compliance*	What are the protection mechanisms that the country offers to shareholders? What are the consequences of poorly managed investments? Is there a benefit in investing in such countries? What are the fiscal costs associated with the investment? Is it logistically feasible to distribute capital to local and foreign investors in that country?	• Target countries in which startups will operate • Country of origin of the founder/startup • The legal structure of the investment • The legal structure of the fund • International scope • Ability to make opportunistic deals (outside thesis)
	Cultural Sentiment	How should entrepreneurs be approached to do business? Is my way of doing business compatible with the target country? Where are normally entrepreneurs spending time together? Where do I get the investors?	
	Economic Strength	Is the country good enough to do business? Are they in a period of political instability? What are the risks associated as a foreign investor?	

Asset Class	*Market Dynamics*	Is the industry able to provide a full investment cycle? What are the exit options? Are there success cases that can back-up its attractiveness? How well established/developed is the ecosystem? Are there enough sources of pipeline (accelerators, universities, other VCs, government organizations, etc.)? Where can I find these entrepreneurs? How much money is invested per year? How are deals executed? Is there a successful business case?	• Stage of the startup (Series Seed, Series A, etc.) • Portfolio management style (proactive, supportive, reactive) • Transaction criteria (initial ticket, follow-on ticket, investment caps, holding periods) • Portfolio size • Type of securities used to make an investment • Impact investments and sustainable deals • Sourcing capabilities (where are the deals coming from?) • Leadership style (lead investor or co-investor)
	Competitive Landscape	Who are investing in these deals? Are they local or foreign funds? Which parts of the startup financing curve are crowded with VC funds or corporates? What makes these investors particularly interested in those markets?	
Industry	*Market Trends*	Why are demand/supply shifts and how does that represent a benefit/problem? How is technology implemented in such industries? Is the market growing enough to allow for more competitors? Why is it growing?	• Number of industries reviewed • Sustainability component • Restrictions on investments • Restrictions on the amount of deals/money per industry • Industry impact (how are these deals becoming increasingly relevant in the industry) • Characteristics of potential investment opportunities (company size, team size, management team's credentials, degree of business model/product innovation, etc.)
	Market Sizing	How big are those markets? Who are the major representatives of such markets? Why is innovating in such markets a necessity for the economy? How are consumers in this market dealing with current offerings?	
	Timing	Is it the right time to make investments in the industry? What are doing similar countries in this space? Are entrepreneurs flocking to this industry?	

Step 2. Construct Investment Thesis Based on Mapping Results

After careful diligence, the Fund Manager must have the ability to describe, in a very succinct way, how is it going to build the expected portfolio, and how will the capital be allocated in such a way that the Manager maximizes the returns associated with the probability of success/failure in each startup. To aid with the development of such rules, the following list contains a set of parameters that the Fund Manager can use to complete its thesis:

a) Vehicle structure (trust, partnership, corporation, etc.,)

b) Waterfall structure and economic model (fees, hurdle rates, expenses and costs associated with fund operations)

c) Fund economics: fund size, percentage allocated to initial tickets/follow-on investments.

d) Stage of the company at entry and its profile (valuation, amount to be raised, investment series round)

e) Investment vehicle (debt, convertible debt, equity, quasi-equity securities)

f) Portfolio dynamics (size, investment caps, follow-ons, restrictions on investment/industries/stages, transaction size, number of deals, timeframe to complete the portfolio)

Assessing Internal Forces

Upon completing step (2), the Manager now must make an internal assessment of the things that it needs to successfully transform the portfolio into a successful business case. In the same manner as before, the Manager must understand, using the table below, the things that it needs to build its portfolio, how is it going to nurture it, and the frameworks upon which the Fund Manager will manage the day-to-day operations of the fund:

Force	In what ways can such forces affect the portfolio?	What are some of the issues that need to be addressed??	What are the conclusions that must be translated into rules/items for the Investment Thesis?
CG Framework	*Fund Legal Structure*	What are the rules that are going to be put in place to manage the careful balance between a fiduciary duty to respond towards portfolio outcomes and the responsibility to behave correctly and professionally?	• Advisory Committee (or other governing body) • Investment committee construction • Decision-making process (how are we going to approve a deal?) • Negotiation style on deal-closing • Limited Partner onboarding and sourcing (what are the most appropriate investors to achieve a successful fundraising?)
	Corporate Governance	How am I going to approve/reject an investment? Who are involved and to what extent? What are potential conflicts-of-interest associated to the decision-making process? How are we going to behave ethically, responsibility and professionally when risks are detected?	
	Deal Structuring	What are the major things that we are interested when it comes to manage the investment opportunity daily? What are the most important terms to us in the term sheet? What Is	
Resources	*Tangible Resources*	How many offices/personnel/directors need to find build the portfolio? Software? Where are we going to place this people/resources? Is the fund large enough to accommodate the budget necessary to safeguard the day-to-day operations of the fund?	• Competitive advantages – why is the Fund Manager the best option to manage the fund? • Where are we going to get the deals? • How are going to successfully exit a company upon maturity? • Sourcing and onboarding Limited Partners • Key hirings • Advisors and mentorship
	Intangible Resources	Who will participate in the decision-making process? How can we add value to the portfolio and increase its profitability? How much networking can we leverage to help the portfolio companies grow? How are we going to position the fund among its competitors? Do we have a framework to approve an investment deal? Do we have the resources need to exit a deal?	
Portfolio Development	*Business Review*	What are the things that we are most interested in when it comes to reviewing portfolio performance? How can we measure the impact of value-add strategies implemented? How can we know that the company is performing correctly? How do we respond to crisis and risky situations?	• What is the management style of the Fund Manager? • What is the monitoring framework? • How do we add value to companies? • KFI and KPI disclosure • In-house vs. outsourced operations •
	Value-Add Strategies	What are the things that we will do to increase the value of our investments? What are we good at? Is there a particular set of skillsets that we can use to help portfolio companies grow?	
	Fund Operations	How are we going to manage the day-to-day operations of the fund (capital calls, distributions,	

	financial statements, report drafting, compliance for LPs, etc.)	

Understand Fund Success Criteria

Once the Fund Manager has understood how the market will impact its portfolio, and has identified the tools and resources available to develop it, the Manager will then have to explain, in a concise manner, how is it going to i) decrease the risk of writing-off/down companies, ii) maximize the amount of overperformers, and iii) anticipate and resolve problems arising from the day-to-day operations of portfolio companies (assuming that the Manager takes an active role in portfolio management). Once this assessment has been successfully completed, and a high-level picture of the thesis is developed, the Fund Manager will then proceed to execute the last step in the Thesis-creation process: craft a framework that will allow him to swiftly respond to risks associated with the performance of the portfolio.

Finally, when it comes to validating the sources necessary to add value to the portfolio, there many ways a Fund Manager can engage with portfolio companies to assist them in their growth roadmap. In this sense, a Fund Manager can:

a) …aid in CAPEX, OPEX and working capital issues

b) …provide knowledge about certain processes, matters, activities, and solutions to problems pertaining to a particular business model, industry, or product

c) …provide key support in the form of strategic advice when the company achieves new growth paradigms or is transitioning out of a startup to become a corporation

d) …provide financial advice to strengthen financial statements and top-line growth

e) …provide industry experience in the form of "lessons learned", "know-how" and "dos and don'ts"

f) …assist in certain operational services, such as accounting services, key-hirings, office space, and key savings in the form of partnerships with airlines, co-working spaces, software, etc.

g) …leverage network to make intros to key accounts, government institutions, advisors, or any other commercial partnership

h) …aid in the transformation of the company's corporate governance, by providing rules of construction for boards, incentive alignment to management team

i) …provide advice in fundraising tactics, assisting entrepreneurs in key introductions to other funds and institutions that can provide liquidity to the company

Step 3. Craft Risk Management Framework

Devise a Risk-Management Framework

Risk management is central to managing the Fund's portfolio and achieving the strategic objectives. A framework for investment risk management is established through:

a) Adoption of investment policies for total fund allocation.

b) Portfolio Companies with appropriate benchmarks.

c) Reasonable risk limits for the implementation of the program.

The level of risk assumed will be monitored and reported using selected risk metrics as required. It is important to note that the framework does not require the elimination of risk but instead strives to achieve a balance between risk and return. The Fund must take on risk to achieve desired levels of return. The objective is to ensure that economic and investment risks taken are prudent and effectively managed with collaborative input from each one of the Portfolio Companies. A good risk management policy will try to accomplish the following objectives:

a) Provide an integrated process for overall investment risk management from a macro-economic perspective up to a portfolio and operations level.

b) Identify, measure, and communicate investment risks across the Fund's major stakeholders (such as LPs).

c) Monitor investment returns as well as risk to determine if risks taken are adequately compensated.

Elements of a Comprehensive Risk Management Policy

The Fund must regularly assess and address financial risks, business risks, event-driven risks, information risks, and compliance risks. The following table provides an overview of potential risks the Fund may face during its lifecycle, and examples of actions to control the likelihood of the risk occurring and the resulting impact if the risk event does occur.

Risk Level	Risk Assessment	Risk-Minimizing Tools
Macro-Economic Variables	*Currency Risk*	Short-Term cash flow deposits, Tranche-based company commitment. Limited exposure to financial assets.
	Geo-political Risk *Market Risk* *Economic Risk*	Portfolio diversification based on company size, industry, jurisdictions, deal sizes, vintage deals, and commitment allocations.
Fund Corporate Governance	*Conflicts of Interest*	Remuneration is based on long-term incentive arrangements. Investment Team time allocation review. Conflict resolution Sub-Committee.
	Fund Strategy Risk	Market and sector development assessment. Monitor external trends and forecasts while consistently reviewing our assumptions and tracking the performance of our investments.
	Reputation Risk	Thoroughly assess the companies in which the Fund will invest. Any indication of unethical practices is identified during the due diligence process and afterwards, the Fund will continuously monitor such risk with Portfolio Companies.
Fund Operations	*Funding Risk*	LP Due Diligence procedure. LP Cash flow monitoring through compliance procedures.
	Liquidity Risk	Commitment subscription is structured so that LPs can offer continuity to the Fund during its duration. Updates on a regular basis with detailed information about their portfolios to ensure that our strategies remain aligned. Diversify and expand our investor base.
	Investment Risk	Managing Directors and Investment teams involved throughout the investment process. Due Diligence Process. Equity and Equity-related investment vehicles. Follow-up assessment based on exit strategy timing, additional due diligence procedures. Co-Investment sponsorship.
	Operations Risk	Management reports & review procedures. Cash management control (cash flow forecasting and monitoring of liquidity). Clearly defined roles for back-end and front-end operations, segregation of duties, delegated authorities, and monitoring at all levels. Third-party services are contracted with reputable firms and have service-level contracts with a number of these parties.

	Fraud Risk	Treasury services managed by one of the leading Banks in VC and PE investments.
Fund Portfolio	*Investment Concentration Risk*	Limits on committed capital per portfolio company. Asset allocation discussed regularly.
	Strategy Risk	Quarterly business review and assessment, including forecast vs. actuals performance, detection and enhancement of value drivers, identification of new business opportunities, synergies between Portfolio Companies.
	Individual & Entrepreneur Risk	Flexible corporate governance and legal engineering, including motivational and rewarding schemes for the founding team.
	Performance Risk	Financial control measures, use of proceeds monitoring, assurances and resource controls in bylaws, audit policies, wages and salary policies aligned with market standards, re-investment of profit policies.

Whenever a problem is detected, or if the Fund Manager spots several issues and or results that could trigger a problem that is susceptible to happen soon, it is recommended that the action plan includes a carefully selected assessment framework with the following considerations:

g) (Re-)Define the approach for risk measurement: The Fund Manager must define the approach for measuring risks and establish the limits in which the risk affects the company. Afterwards, the Fund Manager defines the frequency in which the risk should be evaluated and establishes thresholds in which it will escalate efforts.

h) Gather risk management input data: The Fund Manager must gather the necessary information to thoroughly understand the problem, by identifying the stakeholders involved, and set up the instruction and communication protocols to tackle the risk.

i) Implementation model: The Fund Manager must design the implementation model that will minimize or extinguish the risk associated with a Portfolio Company. Such model will include the scope of the risk, the approach, timeframes, and a clearly defined set of roles and responsibilities for both the company's management team and the Fund Manager's team.

j) Execute the procedure: The Fund Manager then proceeds to perform the implementation model. During action, the key employees will compile data extracted from the model, analyze it, and provide a summary of the results and its outcomes.

k) Monitor & Control: Once the risk has been minimized, controlled, or mitigated, the Fund Manager will proceed to draw conclusions from the results obtained and save the corresponding courses of action that helped mitigate such risk for further consultation in future cases. Otherwise, the Fund Manager must analyze the rationale behind the failure and proceed to adjust the action plan accordingly to re-start the framework.

VII. Corporate Governance of the Fund

The Fund Manager (General Partner)

The Fund Manager should follow a functional organizational structure where accountability is distributed among the Key Persons. It is recommended to construct a hierarchical structure that has no more than three reporting levels, the Key Persons being at the top of such structure. The Fund Manager shall have full authority to create, change or eliminate (whole or part) the necessary areas for purposes of creating a lean structure to efficiently manage the Fund's affairs.

At all times, and during the Fund's Term, the Key Persons shall devote at least 80% of their professional time to manage the Fund and its affairs. If any of the Key Persons have sufficient evidence that his time allocation will not be sustainable soon, the Key Persons shall summon the Advisory Committee to look for a remedy (in the best case) or trigger a Key Person event (in case there is no remedy).

The organizational structure should differentiate the corresponding activities for each management area: back-end services (most basic activities that are independent from the investment process, such as accounting, treasury, etc.), middle-end services (those activities that are related to managing the Fund's portfolio), front-end services (activities that are related to the investment process, such as pipeline sourcing), and upper-end services (activities that are fall between middle-and front end services, but are executed using external stakeholders, such as LP subscription or partnerships with accelerators, incubators, etc.). The following diagram shows a complete model of the expected organizational structure implemented by the Fund Manager:

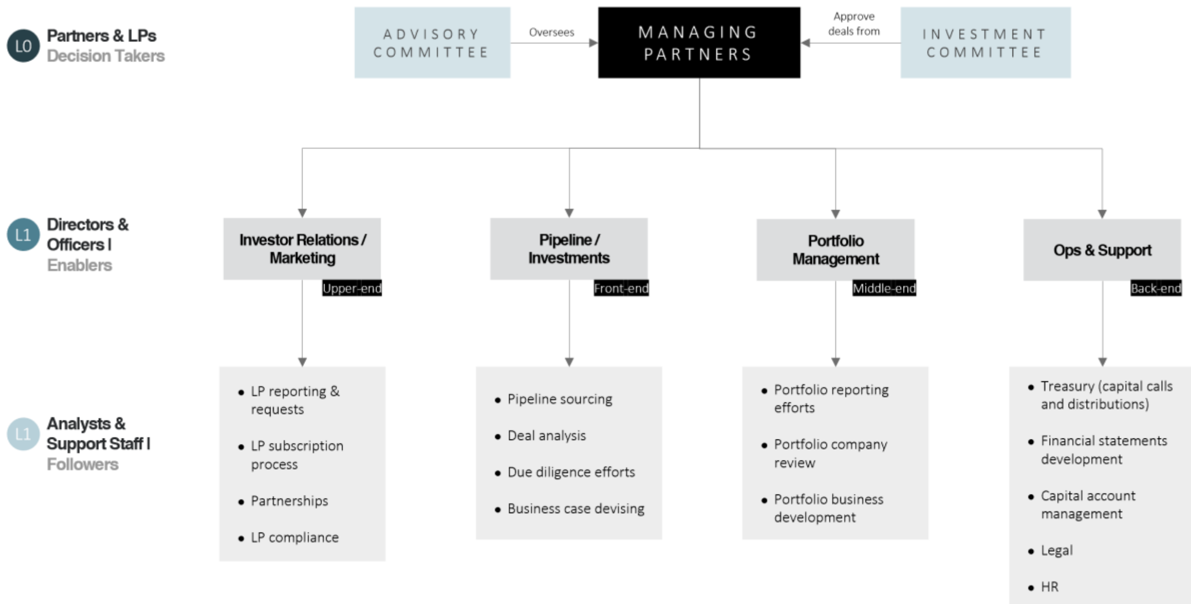


Figure 1. Proposed organizational structure

Responsibilities & Accountability

Using Figure 1 as a guideline for the organizational structure, the following list describes the key responsibilities by area or person involved. It is important to note that these guidelines relate to the ultimate responsibility and accountability of each area, regardless of the number of persons involved and how their duties and responsibilities are divided among them:

Area	Ownership (Ultimate responsibility and accountability) for:
Managing Partner (Key Persons)	• Fund public image, ecosystem standing, and market perception • Fund strategic direction and operations (incl. internal communication, culture, strategy execution, adherence to policy, and compliance) • Fundraising efforts and capital calls • Investor relations • Committee appointments, and committee member relations • Due diligence process, including business case development and execution • Investment 'go-ahead' decision-making and distributions • Investment 'Memorandum of Understanding (MoU),' 'NDA,' and 'Term Sheet' negotiations; deal closing • Business review process and relationship with entrepreneurs • Investment 'exit' decision-making • Divestment preparation, negotiation, and closing
Investor Relations / Marketing	• Onboarding new investors • Maintaining investor information database updated • Handling committee communications (incl. scheduling meetings, distributing key documents prior to committee meetings – e.g., 'investment teasers')

	• Handling investor communications • Issuing and following up on investor capital calls • Ensuring investors supply required compliance documentation (e.g., FATCA) • Distributing fund Quarterly Business Review Report to investors • Assisting investors with specific requests (e.g., sending information and documentation) • Enhancing the fund's public image, ecosystem standing, and market perception by (i) participating in and organizing networking and ecosystem events; ii) maintaining and enhancing the fund's social media presence, or iii) communicating with media representatives
Pipeline / Investments	• Attending industry and ecosystem events and establishing contact with entrepreneurs to source investment opportunities • Conducting the investment screening process • Collecting high-level project information and pitch decks through the investment application process • Conducting investment screening meetings to learn about projects and the entrepreneurs behind them and decide which track should they be in • Assessing investment opportunities and reporting of main findings to Managing Partners • Recommending attractive opportunities to the Managing Partners based on opportunity attractiveness and fit with fund investment thesis • Coordinating with entrepreneurs to schedule committee meetings • Following-up with entrepreneurs whose projects are on standby and determine appropriate time to re-introduce them into the process • Conducting due diligence and creating all report materials • Review and make sure that there are no pending issues or 'red flags' to be addressed before signing term sheet
Portfolio Management / Development	• Maintaining relationship with portfolio company's entrepreneurs and staff • Gathering portfolio company data for business review • Following-up on KPI data and following up on missing or unexpected items • Developing strategic and operational recommendations based on portfolio company analysis • Liaising with Managing Partners to communicate portfolio company pain points and requirements (e.g., resources, contacts) • Attending portfolio company board of director meetings • Developing fund portfolio reports • Developing Quarterly Business Review Report • Developing institutional investor reports (as appropriate) • Developing industry reports (e.g., PitchBook) • Liaising with independent auditors to provide fund-specific data (e.g., financials) • Providing portfolio companies with required support, resources, and contacts by tapping into the fund's internal resources and network (liaise with Managing Partners as required) • Following-up with portfolio companies to ensure pain points have been alleviated and requirements have been met • Conducting the exit strategy by identifying and shortlisting potential exit opportunities, examining asset strategic value, support the development of marketing materials and sales term negotiations
Operations & Support	• Developing and enhancing fund policies, processes, and templates • Overseeing fund operations and faithful execution of fund processes • Ensuring fund compliance with relevant rules and regulations • Overseeing compliance with fund internal policies and ethical code • Conducting fund accounting (e.g., capital requirements, individual investor financials, required distributions) • Developing, reviewing, and providing legal opinion on all fund contracts (e.g., term sheets, shareholder agreements, MoUs, NDAs)

	• Coordinating with Due Diligence team and third-party lawyers to conduct legal due diligence process (scope legal due diligence, select contractors, oversee their work, and review legal 'Detailed Due Diligence Report') • Managing staffing throughout the organization • Managing performance evaluation process • Overseeing recruiting process • Developing financial statements and reports • Developing and preparing all treasury related documentation, such as capital calls, distribution notices, and following-up with investors for those activities.

Investment Committee

Only the Fund Manager may present proposed investments to the Investment Committee, and the Fund Manager shall provide to the Investment Committee in connection with any such proposed investment a business plan, a business case, a financial model, a report on any potential conflicts of interest, a valuation and any other information required for the Investment Committee to make an informed investment decision, or as may be otherwise requested by the Investment Committee in order to consider such proposed investment. The Fund Manager shall also provide to the Investment Committee in connection with each such proposal copies of all term sheets, letters of intent or similar documents executed in connection with the proposed investment or any co investment by other investors with the Fund and, if not otherwise provided, the identity, investment amounts and terms of investment of any co-investors in the company. The Investment Committee shall decide on the proposed investment within 15 Business Days of having received complete information regarding the proposed Operating Company Investment.

If the Investment Committee reaches a negative decision in respect of a proposed investment, the Fund Manager may request, by not less than five Business Days prior notice, a further meeting of the Investment Committee to review with the Fund Manager the reasons for the negative decision and to reconsider such decision, if appropriate.

The members of the Investment Committee shall not receive any fees or compensation in cash for serving as such but shall be entitled to be reimbursed by the Fund for reasonable expenses incurred in connection with their service on the Investment Committee; provided, however, that the Key Persons and any other affiliate of the Fund Manager shall not be entitled to such reimbursement.

The responsibility to appoint independent members shall be conferred exclusively to the Fund Manager. The Fund Manager shall find potential members that are properly competent in the affairs and issues falling within the Bylaws and the overall Investment Thesis of the Fund, to be able to provide the Fund Manager, as well as the Advisory Committee, independent advice on matters outlined in the Bylaws. These members shall be appointed no later than the day the Fund achieves its First Closing.

To safeguard the continuity of the Investment Committee, in case any of the members are no longer deemed responsible to carry their duties, the Fund Manager shall use the following guidelines to find an appropriate replacement:

a) Have earned at least a university degree that can prove specialized knowledge in alternative assets or an industry that the Fund invests in. A Master's Degree and / or PhD shall be always preferred, but not required.

b) Have excellent oral and written communication skills, including demonstrated ability to communicate ideas clearly and confidently with good presentation skills in one-on-one settings and to larger groups.

c) Have at least 8 years of relevant professional experience in investment banking, private equity, venture capital, management or leading a successful entrepreneurial venture. Direct investing experience with alternative assets, with a focus on equity and quasi-equity investments is preferred or have at least 5 years of relevant professional experience in any of the industries that the Fund invests in, where major strategic and / or high-level positions have been performed.

d) Have strong interpersonal skills and ability to work effectively with culturally diverse teams at all levels.

e) Have strong practical experience in each of the target industries. Structuring, negotiating, and monitoring relevant transactions in any of the Target Industries is preferred.

f) Have a time commitment of at least four faces to face meetings annually, alongside several conference meetings with at least 2 to 3 hours with preparation time for each meeting.

g) Have a strong work ethic and values that mirror the Fund's values.

Upon nomination of potential members, the Fund Manager shall always use reasonable efforts to perform due diligence to detect potential conflicts of interests. Such findings shall be disclosed to the Advisory Committee.

a) The Fund Manager reserves the exclusive right to nominate and appoint all current and future members of the Investment Committee. After the appointment of such members, the Fund Manager shall notify both LPs and members of the Advisory Committee of such changes.

b) The Fund Manager may present potential candidates to the Advisory Committee for advice and evaluation to ensure that such members fit within the investment thesis, but neither the Advisory Committee nor the investors shall have the authority to approve and/or reject any candidate.

Advisory Committee or Board of LPs

Upon the Initial Closing, the Fund Manager shall establish an advisory committee (the "Advisory Committee") of the Fund to provide information on such matters as the Fund Manager may from time to time request, including information about the status of portfolio companies, any plan for the dissolution of the Fund, any proposed material transactions involving the Fund and Affiliates of the Fund Manager (other than as expressly contemplated hereby), reviewing through the Advisory Committee any potential material conflicts of interest involving the Fund, or other matters at the request of the Fund Manager or on the Advisory Committee's own initiative. Without limiting the generality of the forgoing, the Fund Manager shall submit to the Advisory Committee quarterly valuations of the Operating Company Investments, annual budgets of the Fund and the audited financial statements of the Fund and proposals to submit to the Investors for modifications of the Investment Policies or guidelines to be followed by the Fund in making Investors. In carrying out such advisory functions, the Advisory Committee shall have the right, at its discretion, to call meetings of the Investors or to otherwise solicit their views and to make recommendations to and requests of the Fund Manager based on such views expressed by the Limited Partners. The Fund Manager shall record minutes of the proceedings of every meeting and such minutes shall be included in the quarterly reports.

The Advisory Committee shall be a consultative body and shall have no decision-making power in respect of the activities or affairs of the Fund, except to such extent as the approval of the Advisory Committee of any matter is expressly required by any provision of this Bylaws. The Fund Manager shall consider the recommendations and requests of the Advisory Committee and the Investors but shall not be obliged to take direction from the Advisory Committee or the Limited Partners, provided that where any provision of this Bylaws expressly requires that the Fund Manager obtain the approval of the Advisory Committee or the Investors for any action, it shall not take such action without obtaining such approval.

The Advisory Committee shall be comprised of a minimum of 3 members and a maximum of 7 members. None of the members of the Advisory Committee shall be directors, officers, or employees of the Fund Manager or any of its Affiliates. Each investor that holds more than 10% of the Fund´s total committed capital shall be intitled to only one seat on the Advisory Committee, provided that, where two or more Major Limited Partners are Affiliates, they shall collectively be entitled to only one seat on the Advisory Committee. Any additional members of the Advisory Committee shall be selected from representatives of the Investors or business leaders at the discretion of the Fund Manager and Sponsor, having regard to such representative's contribution towards deal flow or other benefits that would accrue to the Fund from such member's participation on the Advisory Committee. Any Investor may appoint a representative as an observer to attend meetings of the Advisory Committee.

The members of the Advisory Committee shall not receive any fees or compensation for serving as such but shall be entitled to be reimbursed by the Fund for reasonable out-of-pocket expenses incurred in connection with their service on the Advisory Committee, provided, however, that the Fund Manager and any other affiliate of AV shall not be entitled to such reimbursement.

All actual or potential conflicts of interest shall be submitted by the Fund Manager to the Advisory Committee, and no actual or potential conflict of interest transaction or arrangement involving the Fund, any entities established by the Fund to facilitate the making or holding of an investment or portfolio company shall be made without the approval of the Advisory Committee. Approval of the Advisory Committee shall also be required to admit any lender to the Fund as a Partner. The Advisory Committee shall deal with conflicts of interest which the Fund Manager is required to or chooses to submit to the Advisory Committee for its review pursuant to the provisions of the Bylaws. The Advisory Committee may determine the procedures to be followed in dealing with such conflicts of interest. All decisions, proceedings, and resolutions of the Advisory Committee about conflicts of interest shall be binding on the Fund Manager and the Fund.

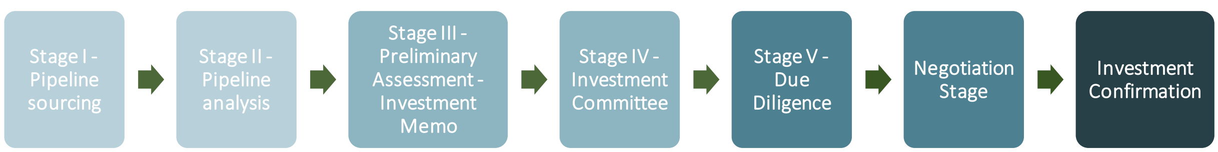
The Advisory Committee shall meet at least annually. Members of the Advisory Committee may attend in person, by any communications facility, by appointing a substitute to attend in their place (if evidence satisfactory to the Advisory Committee of the appointment of such substitute shall be provided by the member prior to the attendance at a meeting of such substitute) or by a proxy in favor of another voting member of the Advisory Committee. Any Member of the Advisory Committee shall have the authority to summon a meeting at any time; and at the request of any Member of the Advisory Committee, any meeting of the Advisory Committee shall be held “in camera” without the Fund Manager, any other affiliate of AV and/or any non-voting member of the Advisory Committee. A quorum for Advisory Committee meetings shall be not less than three voting members of the Advisory Committee. The Fund Manager shall deliver all information that deems to be necessary to carry out the meeting no later than 15 days prior to the meeting. All decisions of the Advisory Committee shall be made by a majority of the voting members, unless the Advisory Committee has determined that a higher majority is required in respect of any decision, such as proposed amendments to Investment Policies. In lieu of a meeting, the Advisory Committee may act by written resolutions signed by all voting members of the Advisory Committee. All Limited Partners shall receive copies of all communications and decisions of the Advisory Committee.

VIII. Investment Process Framework

Overview of the Investment Process

The purpose of this Section is to give a thorough explanation of the steps that are necessary to complete an investment. The Manager is encouraged to alter the process if it provides a reasonable argument about the benefits of such changes. In no event shall the Fund Manager be able to execute an investment without clearing all the phases explained herein.

The process contains five major steps to be completed:



Subject to Article VII(f), the Fund Manager will not sign a non-disclosure agreement, letter of intent or any other document that i) binds the Fund’s decisions or actions to an obligation, ii) restricts the Fund Manager to review other opportunities (such as non-compete agreements), iii) limits the scope of the Fund’s operations or iv) impairs the Fund’s ability to make decisions.

Subject to the confidentiality clauses stated in the Bylaws, the Fund Manager shall treat all external information as confidential and shall not be made available to third parties. In case this information is requested by LPs, the Fund Manager will have full authority to send partial information, aggregated information or make the Investor sign a one-way disclosure agreement to protect the privacy and information of third parties (in case the Bylaws does not contain wording to protect such information under the respective Confidentiality clause).

The investment process is a non-stop, continuous methodology: at any time, the Fund Manager will be engaging in different stages with different companies. The Fund Manager is advised to develop a lean workflow that categorizes investment opportunities in cohorts or “batches” to improve efficiency in the process. Because the Investment Committee schedules a limited number of meetings per year, the Fund Manager must recognize the expected duration of each company’s analysis and accommodate its workflow to present the largest amount of companies to the Investment Committee[3]. Additionally, the Fund Manager must make sure that the expected time to complete

[3] To avoid careless analysis and to improve the Committee’s attention and efficiency, the number of investment opportunities presented should be capped.

the investment process does not adversely affect the company's investment round timeframe. In such cases, the Fund Manager must take reasonable efforts to prioritize those deals to avoid any disruption in the company's fundraising process.

Sourcing Pipeline

The Fund Manager shall have the obligation to take all necessary actions, measures, and initiatives to actively seek and review potential investment opportunities for review.

In this stage, the Fund Manager will retrieve basic information of the companies, such as the pre-money valuation, size of the investment round, date of foundation, some financial and/or performance indicators, etc. The main purpose of this stage is to analyze each company and understand whether the company fits within the Fund's investment thesis. In other words, this stage will "filter" those companies that are of interest to the Fund Manager and fall within the Fund's investment thesis.

The criteria to be used to shortlist companies from the pipeline database shall be applied irrespective of its origin, structure, and composition, to promote a fair judgment and equal opportunity for all companies that apply for financing.

The Fund Manager will select the companies that will be reviewed in subsequent stages using the following criteria:

a) If the opportunity fits within the desired criteria, it will move forward to the next stage of the process.

b) If the opportunity does not fit within the selected criteria, but the Fund Manager is still interested in the opportunity given the strength of the business case, the Fund Manager may have the option to either i) approve the opportunity as long as the rationale of such decision is thoroughly reviewed during the due diligence stage, ii) approve the opportunity and explain the rationale in the Investment Committee, or iii) hold the decision pending a second "review" once the opportunity has evolved into something that may have a better fit.

c) Reject the opportunity.

Pipeline Analysis

For all companies that have been selected to move forward into the process, the Fund Manager shall request a summary that details the most important aspects of the company. This document can be a one-pager, a teaser, a presentation, an executive summary, or a database (the "Teaser"). The Fund Manager will standardize the structure of the Teaser and will make sure that the document meets, at least, the following criteria:

a) The Teaser shall have the exact same outline and contents to avoid uncertainty, ambiguity, and lack of objectivity.

b) Each Teaser will be the result of a cooperation between the entrepreneur and the investment team; the document shall not be created by the investment team alone (in fact, it would be wise to let the company oversee developing the Teaser and review it just for purposes of clarity, consistency, and grammar structure).

c) Each Teaser shall be reviewed by the entrepreneur to avoid any misunderstandings about the information contained therein.

The Teaser will be part of the requirements to become an Eligible Company for investment. The Fund Manager may ask, in its documentation package, additional documents, such as financial models, presentations, business plan, etc.

Upon selecting those companies that may be of interest to the Fund, the Fund Manager shall arrange a review meeting with the founding team, key executive employees, and/or whatever person is the main contact, to assess the company using the following framework:

a) In each meeting, the company shall explain (non-inclusive list) what it does, the market it attends, the product/service it provides to the client, etc., to fully understand the business case presented.

b) The Fund Manager will look for potential strengths that support the idea of investing in the company or find the weaknesses that prevent the Fund Manager from committing capital to the company.

c) The meeting is expected to be an open discussion that will be used to resolve questions or inquiries from both parties. The Fund Manager is encouraged to explain the investment process, how many people will be involved, the expectations that will be established from both parties, as well as timeframes, deadlines, and approval mechanisms. The Fund Manager must ensure that the entrepreneur fully understands the premises behind investing in the company, the responsibilities, and consequences that such action will entail, should the entrepreneur accept an investment offer.

d) The Fund Manager shall decide how to approach the review meetings and shall control the course of it, including the number of people involved in the meeting, whether the Key Persons, junior or senior staff will be present, and the time allocated to each meeting.

e) At the end of each meeting, the Fund Manager shall keep track of all conclusions using simple minutes. To promote transparency and good management practices, the minutes shall have the same structure and contents regardless of which and how many team members participated in the meeting.

The Fund Manager shall have frequent meetings with the investment team to assess and decide upon which opportunities shall move on to the next stage of the investment process. To help the Fund Manager with its decision-making process, the following list describes questions that can be discussed in such meetings. While these questions convey a well-defined assessment of the company, the Fund Manager is welcomed to increase or change these questions to suit its investment philosophy:

a) What are the good things that stood out? Why do we think that those things are good for us?

b) What are the red flags? Are those flags risky enough for us to back off the deal? Otherwise, will we be able to succeed in extinguishing those risks? Were those red-flag created by wrong-doings? Were those red flags created by external events that are not related to the company? (Note: these questions should be analyzed from the perspective of a consultant, not from that of a judge: Its purpose is to know whether we can help the company or not in removing those risks).

c) Why should we invest in the company?

d) What about the market? Is it a suitable time to play in such an industry? Is it large enough to capture demand? Are we too late in the game because the market is full of startups competing? Is the target customer the most "profitable"? Who else can deliver the same value to prospective clients?

e) Are the terms of the investment round good enough for us to make a good case? Is the entrepreneur willing to change those terms? How flexible are current investors?

f) Will we be leading the round? If so, can we invite other investors? In which case, are we willing to invest more than half of the investment round should the entrepreneurs require it as a condition to become lead investors?

g) Timing: What is the entrepreneur's expected timeframe to close the round? Will we be able to promptly decide whether to invest or not within that timeframe? Is the decision more like a "take it or leave it" scenario? Can we take our time and calmly negotiate?

h) Are we comfortable with the management team skillset? Is it something we should worry about or praise about?

i) Is it the right time to invest in the company? Should we wait for the next round? Is it too early for us to invest?

j) Will the company steadily continue to achieve more milestones? Will those milestones be each time greater than the previous one?

k) How does the company fit into the portfolio? Are there any synergies that the company may enjoy by interacting with other portfolio companies?

l) Is the investment round in tune with the company's strategy and growth map? Are they looking for the right amount of capital?

    i. How valuable is the company and how is that value reflected in the pre-money valuation? (These questions try to compare the overall sentiment of the company, its capacity, and milestones achieved with the valuation; if the value perceived does not justify the proposed valuation, then, the company is an expensive investment). What about other companies that play in the same industry? Do they have lower or higher valuations? Is the company an outlier valuation-wise?

ii. Besides us, who can give us more insights/another perspective about the company? Are there some third-party (advisors, mentors, other investors, Sponsor itself) stakeholders that could help us develop a clearer picture of the company?

iii. What other deals are we analyzing right now? Which ones should we prioritize? Which ones are not necessarily desperate to raise capital? Which deals are not that interest to raise capital? Which other deals seem more exciting/dull than the one we are analyzing?

iv. How can we help the company? Are we able to do it in the first place? Do we have the expertise/skills/assets/resources to do it? If not, are we comfortable doing an investment where we do not have much value to deliver to the company?

Once the Fund Manager has shortlisted those companies that have the potential to become portfolio companies, it would then approve/reject these companies based on the following decision process:

a) If the opportunity fits within the desired criteria and the Fund Manager is convinced that it wishes to move forward, then, the Fund Manager will start the due diligence process.

b) If the opportunity does not have favorable conclusions, but the Fund Manager is still interested in the opportunity given the strength of its potential business case, the Fund Manager may have the option to either i) approve the opportunity as long as the rationale of such decision is thoroughly reviewed in the due diligence stage, ii) approve the opportunity and explain the rationale of such decision to in the Investment Committee, provided that, the due diligence does not find potential "deal-breakers", or iii) hold the decision pending a second "review" once the opportunity has resolved the issues stated by the Fund Manager.

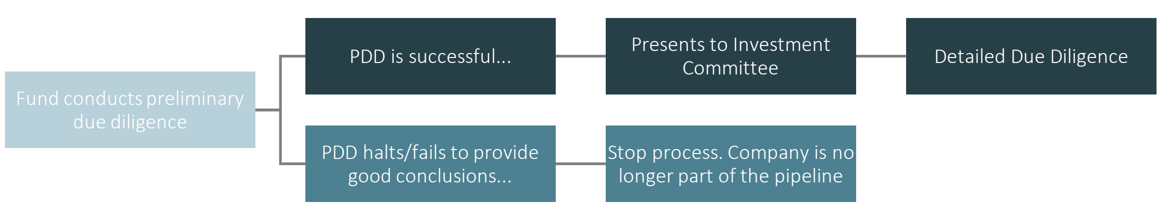
c) Reject the opportunity if the risks associated with the company overshadow the benefits of investing in it.

At all times, the Fund Manager may request additional information about the company if it is useful to provide a stronger case in the decision-making process.

Preliminary Assessment – Investment Memo

For investments that have passed through a fund's initial deal sourcing filter, the next step is thorough due diligence. During this critical step, the Fund will employ both internal to explore all material aspects related to investing in a company. It is important to note, however, that the process will become increasingly complex the more interested is the Fund Manager in investing, because the process has a snowball-effect in terms of resources and time needed: as the Fund advances through the main areas of analysis, the issues and matters to attend will become increasingly complex, which in turn, will make the process more time consuming and will require more resources. As such, the purpose of this phase is to i) recognize which companies will not complete the process in time, before draining the Fund's limited resources, so that, ii) for the companies that have the largest probability of succeeding, the Fund may assign plenty of resources to finish its analysis.

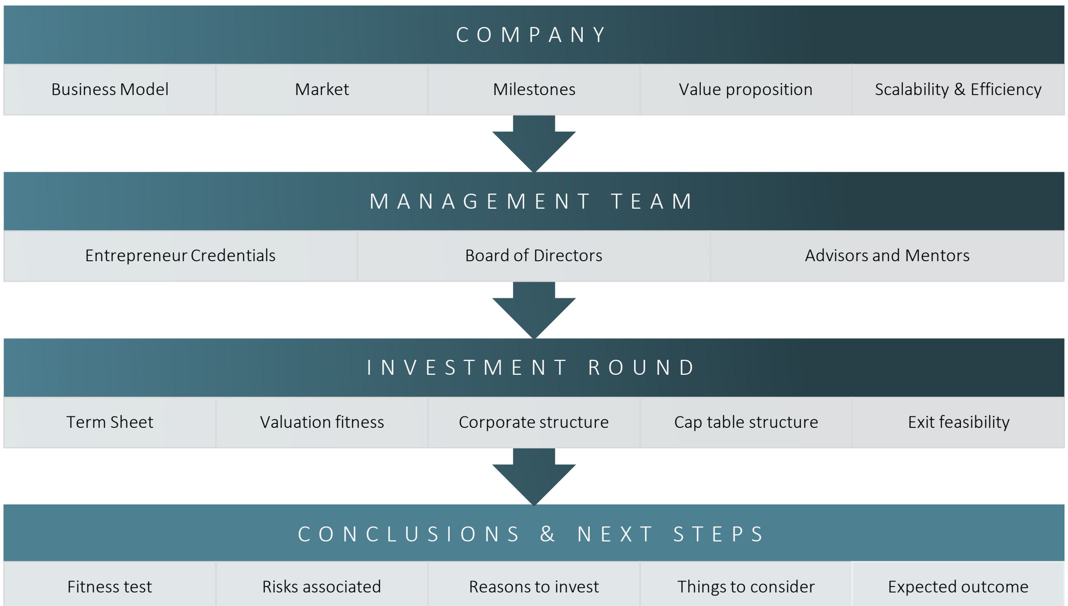
The Fund will follow the following framework to move investment opportunities nearer to the "Closing" stage of the process:



The Fund Manager will prepare a preliminary business case report (the "Investment Memo") that will be used to determine if the company is a potential investment target. Due to the Fund's limited access to resources, the main purpose of the Investment Memo is to quickly understand all major areas of the company and gather high-level conclusions that should be discussed with the Investment Committee.

Upon confirmation from the Investment Committee that the company may become part of the Fund's Portfolio, the Fund Manager will engage in the second part of the due diligence, which is a detailed, highly resourceful step of the investment process.

The Investment Memo will be prepared by the Fund Manager, describing the aspects that reflect major areas of the company analyzed. The Fund Manager will be responsible for designing the outline, approach, and contents of the Memo. In any case, the Memo shall cover at least the following topics:



The purpose of this Memo is to develop a high-level SWOT (Strengths, Weaknesses, Opportunities, and Threats) to set a common ground for a deep conversation between the Investment Committee, the Fund Manager, and the Entrepreneur. At the end of such meeting, the Memo should still hold the conclusion that it can indeed provide exceptional value to the markets it serves and demonstrate a clear path towards a successful exit strategy.

If the conclusions derived from this analysis lead to uncertain and / or negative outcomes, the Fund could terminate the process and communicate the outcome to the company. It is important to note, however, that the Fund will continuously seek new investment opportunities, regardless of the companies that are in earlier and/or advanced stages into the process, or if the Fund has approved or denied its access to subsequent stages into the process.

Investment Committee Approval Mechanism

The Investment Committee is the most important corporate governance body in the investment process. Once the Fund Manager has a set of companies that it wishes to invest, then, an Investment Committee session will be scheduled to discuss the approval of such opportunities, based on the findings and conclusions described in the Investment Memo. The approval process will follow a simple-majority system where one of the following scenarios can happen:

a) The Committee approves the investment, and the Fund Manager will commence the full due diligence phase.

b) The Committee approves the investment if and only if certain conditions are successfully met by carrying certain additional actions by either the Fund Manager (a change in the terms and conditions of the term sheet, such as the pre-money valuation) or the company (additional proof and validation of a certain milestone, deeper analysis of a particular subject, etc.). Otherwise, the Fund Manager will reject the offer.

c) The Committee rejects the investment opportunity without any further action.

Due Diligence

Upon approval of the company for investment by the Investment Committee, the company shall engage with the Fund Manager to fully review the company's affairs and status. Although the Fund Manager is encouraged to create its framework that fits within the desired and expected investment thesis, the following is a list of potential issues that shall be thoroughly assessed:

Area of Analysis	What should be included in the report?	Questions that should be solved in the analysis...
Macroeconomics	Market size (potential)	• Is the target market large enough to support substantial growth? • Has the industry been growing rapidly?
	Competitive landscape	• Are there too many competitors? • Is the company operating in a niche market? • How difficult will it be to penetrate the market?
	Market Fit (scope)	• Are the customers ready to use the product/service? • What about tropicalization issues? • Is the company addressing a customer need? • Has the customer already adopted the means to understand the product/service? • Is it a good timing to deploy the product?
Value Proposition	Product/ service innovation	• Does the core product potential rely on deep technologies? • Is the project hardware or software-oriented? • Any barriers to entry that might hinder other competitors' offer?
	Distribution Channels	• How complete is the revenue stream? • Is the value chain solid enough across its links? • Can something be improved?
	Monetization / scalability	• How is it going to make money? • Does it make sense to earn money through that business model? • Is the business model quick and easy enough to deliver high growth-potential?
	Customer acquisition & retention (Go-to-Market)	• Does the company have a clear plan to acquire clients? • How complete is the entrepreneur's sale strategy? • How "good" and "profitable" are their customers? Are they a pain? • How is the relationship between customer sale cycle and balance-sheet economics?
Strategic Planning	Strategic partnerships	• Does the company have any current partnerships? • Are there any additional partnerships that could improve the business model? • On what level and how deep is the integration of those partners with the company?
	Product development	• How is the product going to become better? • Is it ready to deliver the customers' expectations? • How can the product be improved? Is it a cost-effective measure?
	Expansion plan	• Does the entrepreneur have a clear, logical, and exciting approach to reach for new customers?

		• How does the expansion plan fit within current and future investment rounds, and the capital associated to its development?
Traction	Profitability	• What are the unit economics that make the company profitable? • How likely is to achieve profits in the short term? In the medium and long term? How does that fit within the Fund's investment thesis? • What happens if the company does not achieve profitability within the proposed timeframe? • What is the critical path to attain solid unit economics that can improve the company's success in raising subsequent investment rounds at a higher valuation?
	Customer loyalty	• Are the customers piling up and staying in? • How is the LTV and CAC? Do they demonstrate increasing recurrence and favor for larger and more efficient economies of scale?
	Actual vs. forecasted top line	• How aligned is earned revenue versus budgets and forecasts? • Is earned revenue far below its projections? • Is earned revenue significant enough to maintain forecasted growth rates? • Is it realistic to achieve that level of revenue in the future?
	Milestones	• Are milestones enough evidence to predict the company's success soon? • How are the milestones creating and delivering value to the company?
Management Team	Expertise and knowledge	• Does the entrepreneur have enough experience in the sector? • Does the management team have an expert in product development? • How are the advisors going to be leveraged? • Is the executive team sufficient? Does the company need to hire more key positions? • What is the corporate culture of the company and how is that culture reinforced by the management team?
	Skillset, incentives, and motivation	• Is the management team a good selling team? • What are the skills that each team member leverage to the company and to what extent do those skills transform company's assets into value? • Why are these guys doing this? • Is the deal good enough for the team to be involved?
Portfolio Onboarding	Use of proceeds	• Is the money raised sufficient to complete all the company's objectives? • Does the investment round have an efficient capital deployment plan? • Do all the milestones make sense for the total amount of capital the company is raising?
	Valuation attractiveness	• Does the valuation make sense with what we have seen in the market? • Does the valuation fit properly with the number of milestones achieved by the company and its expected KPIs? • What about the previous investment rounds? What were the assumptions behind such rounds and what was the outcome of such rounds?
	Exit feasibility	• How likely will a strategic buy-out occur? • Does the entrepreneur have a clear vision of the expected strategy? • Is the entrepreneur willing to sell the company in the first place?

		• Would the timing of the investment of the Fund fit within the projected timeframes?
Risk Assessment	Assessment areas	• Labor & workforce issues • Intellectual property issues • Commercial and sales issues • Operational issues • Corporate governance issues • Legal and tax-related issues

Each of these areas should contain a workflow of detailed analysis based on specific points that should be tackled for the sole purpose of detecting and anticipating risks. In addition to the information of the business plan, financial projections, and the recommendations and observations of the Committees, the Fund shall use external service providers, mentors, and advisors to develop a comprehensive report (the "Due Diligence Report") that will contain all the conclusions (both negative and positive) gathered in this phase.

The workflow methodology to engage with the entrepreneur should contain the following features and objectives:

a) The senior expertise of the team (including accounting specialists, legal specialists, and specialists with in-depth knowledge of the business being considered) will be key in the successful development of the due diligence.

b) The review of all the material information provided by the entrepreneur occurs during a specific period, once the company provides access to information (a data room, for example).

c) The investment team shall review the documentation obtained to discover everything about the state of the company, its stakeholders, and its past performance. Due to the limitations of time and access, the team will always focus its efforts to create value and establish clear priorities so that these limited resources are directed to an insightful conclusion about the potential investment.

d) The team's findings primarily focus on the probability of success of the key assumptions of the company's business plan, to identify risks previously not surveyed.

e) The conclusions gathered from the review will support or alter the preliminary assessment made by the Fund and will provide inflection points to better negotiate the terms of the investment that minimizes risk and exploit opportunities for value creation.

f) With the results of the process, a monitoring plan is prepared. This plan will allow the Fund to better optimize the global Portfolio Strategy to better capitalize on the value created throughout the process.

To ensure that the transaction will result in a healthy acquisition and a profitable investment, the Fund will address the due diligence process from the perspective of an investor as well as that of an auditor. From the beginning, clear objectives will be set with regards to the interest in investing in a business, and how the company proposes to generate an attractive return for its investors. This planning includes the following elements:

a) A simple, yet convincing reason to invest: The Fund must develop a key solid argument that supports its intention to invest, which implies objective reasoning over the impact of the investment in the Fund.

b) Key value drivers: An assessment of the magnitude and variability of the sources that modify and/or increase value in the company.

c) Main risks: A comprehensive assessment of the risks and disadvantages of the investment (if any), describing actions to mitigate them.

The engagement of the investment team (including Key Persons) should follow a similar approach as the one described below:

a) The team behind the process is expected to meet key executives and/or the founding team several times (including its stakeholders) to diagnose and verify the information delivered, sharing observations, and comments about it.

b) The Fund Manager shall deliver a checklist with all necessary information that should be used to be analyzed by the investment team (the "Information Checklist").

c) Upon confirmation that information has been delivered, the investment team will compile it and proceed to review it.

d) The Fund Manager must analyze the information gathered in the previous step and obtain conclusions on the matters previously discussed. It is important to note that, additional questions may arise that will have to be validated with the entrepreneur to continue the process. This is a crucial step since it creates the necessary statements for the Fund to maintain its decision of investing in the company.

e) Define action courses: Upon the validation of all the above steps, the investment team will summarize its findings of that subject in the Report. It will then repeat the process until all key areas have been thoroughly analyzed.

This cycle will last as many times as it may be necessary to complete the Due Diligence Report (according to the pre-defined schedule).

The Investment Memo may be used to further increase its contents and convert the document into the Due Diligence Report, so long as it follows the same structure as defined in this Article.

For the Fund to approve the investment and advance into the negotiation step of the process, the following must happen (in no order):

a) The Fund Manager does not have reasonable doubt to reject the investment since the risks found in the Report will be manageable and/or extinguished upon investment. A "no red-flags" condition must be cleared.

b) The entrepreneur has furnished all necessary information and there are no pending issues to be addressed.

c) The Fund Manager has received positive feedback from third-party contractors and no other risks have been found.

It is recommended that the negotiation of the pre-money valuation should be done prior (and, therefore, a condition for investment) to the Investment Committee´s meeting, since it is one of the most sensitive items of the entire process, but at the same time, the fastest to validate and confirm.

It may be required by the company to sign a non-disclosure agreement before furnishing information to the Fund Manager, in which case, the Fund Manager must make sure that the terms and conditions of such document will not impair its ability to continue sourcing and analyzing companies that share similar business models and/or serve similar markets.

Negotiation and Investment Confirmation

Once the Fund has successfully cleared all investment stages, the Fund Manager will then proceed to set up the Term Sheet and structure the deal. The Fund Manager shall use its best efforts to create ideal conditions to maximize the returns offered by the potential investment. Although the Fund Manager may use its framework to negotiate the Term Sheet, the following list displays some of the issues to be considered before the consummation of the investment:

a) The overall valuation proposal for all curated companies. While the entrepreneurs may have a valuation proposal, the valuation presented may be adjusted using the conclusions derived from the due diligence and/or the Investment Committee's feedback.

b) Determination of the system of incentives and responsibilities for both entrepreneurs and other investors, including stock repurchase options or conversion of convertible notes, and performance goals set over a temporary framework.

c) Determination of financial assurances by audit, management, wages, and salaries committees.

d) Determination of corporate structure, including tag-along rights, drag-along rights, preemptive rights, and a differentiation of classes of shares for the protection of minority rights.

e) The Fund may seek to invest in corporate structures that will allow the Fund to participate in the board of directors of the company; to have the flexibility in voting rights according to each subject; to establish control structures and protect minority rights; to exercise rights of veto for strategic decisions, including those related to the amendment of statutes, sale of shares and assets, mergers and acquisitions, public and private offerings, strategic and operational alliances, opening or closing lines of business, budget, wages and salaries for managers, administrative staff changes and lock clauses for profit sharing (dividends). To give ample protection to the Fund, the legal structure should include information rights; first exit rights and guaranteed minimum returns preferred; anti-dilution rights, including those of first preference of both and tagalong; first exit rights, such as drag-along, as well as clauses and resolve deadlock situations arising from disagreements among investors that affect the operational activities of the company. These terms will be set to the extent that the regional legal corporation structures allow them, otherwise, the Fund will seek further legal advice to determine the best possible structure to comply with the clauses.

f) Financial control. The Fund will monitor the uses of capital, ensuring that it is utilized strictly as intended by the Due Diligence Report.

g) Financial assurances. The Fund will establish assurances and resource controls in the bylaws for administrators (e.g., joint signatures for certain amounts).

h) Auditing Committee. Assurance for the proper legal and accounting operations that are made from the start of the investment process.

i) Wages and Salaries Commission. Control wages and salaries to homogenize them with market standards and avoid excessive premiums, supervising the pay-roll policy of employees at each of the supported companies/projects.

j) Reinvestment of profits. Ensure that the corporate profits are reinvested for no less than a four-year period and that their capitalization and growth meet the initial estimated return on investment.

If all the steps above have been successfully completed, then, the Fund shall proceed to sign the term sheet and execute all the necessary paperwork to consummate the investment.

IX. Value-Creation Framework

Adding Value to Portfolio Companies

The Fund Manager must develop and create its value-add framework, taking into consideration i) how his/her investment thesis will benefit from such strategies, ii) the resources (both tangible and intangible) needed to complete those strategies, iii) the amount of time it is required to execute those initiatives, iv) how his/her efforts correlate to the stage of the company (initiatives that the Company today needs the most), and iv) the overall cost-benefit behind those strategies.

To have a successful Portfolio, the Fund Manager will play a key role in developing the right value-drivers to increase its overall performance. It is expected then that these initiatives will serve the primary purpose of helping Portfolio Companies achieve whatever they described in the Due Diligence stage and their overall growth map (this is a reason the Due Diligence stage of the Investment Process is a key step). The following framework contains the minimum criteria that the Fund Manager must consider when developing its framework:

A key element to increase the success of Portfolio Companies is the ability to assist and have influence on the Board of Directors of each company. Because corporate governance will play a significant role in the development of each Portfolio Company, the Fund Manager must include any corporate governance clause that allows him/her to promote a healthy environment to the management team, as well as other shareholders. It is recommended that the Fund Manager exploits as much as possible the power and influence that a Board seat brings to his/her overall value-add strategy.

There are several resources that the Fund Manager must consider (and when it will be a good time to use them) as part of his/her framework:

a) Access to top-quality executives that tend to have degrees from top worldwide universities, with high-quality leadership skills.

b) Adopt top-notch corporate governance practices based on our Corporate & Investment Policy.

c) Availability to retain and motivate the management team that will breed the necessary executives that will be qualified to lead the international expansion.

d) Economies of scale in their procurement processes. Understand, plan, and generate resources within the Company that will allow it to find economies of scale at a top-line level (bulk contracts) or bottom-line level (marginal improvement of costs and expenses).

e) The adequate time to grow outside the target countries. The level of economic development and the size of their domestic market may prove difficult for a company to stay in their local market, thus needing to expand and succeed regionally to stay prominent by exploring new markets, particularly those in close nearby.

The main objective of the Fund is to massively grow all Portfolio Companies. While each one will have its exceptional circumstances that will need to be assessed, the general notion is to achieve combined sustained growth, leveraging each one of their unique components that made them a reason to invest. The Fund must approach this as episodic events:

a) Step 1. Test the fit between product and market, validate the value proposition, and make sure that it appeals to a broad target.

b) Step 2. Focus on four critical drivers for growth: market, monetization model, rapid adoption, and incentives. This step will provide the "scale" element into the growth strategy, which in consequence, will bring customers and consistently generate revenues.

c) Step 3. Expand the value proposition to new geographies and/or channels, extending the success of the business model to new markets, transforming the company into a regional platform.

d) Step 4. At this point, the rapid adoption curve will reach a natural conclusion. In this step, the company will look to achieve a second and subsequent product offering and start the cycle again.

The success of Portfolio Companies assumes that these will companies have a large, homogeneous market with millions of users and customers. Then, the market will be acquired through a monetization model that will enable the company to capture demand without stifling it and thus scaling up successfully. The Portfolio Company (supported by the Fund) will figure out the best way to capture value from its customer base, which consequently will define its business model.

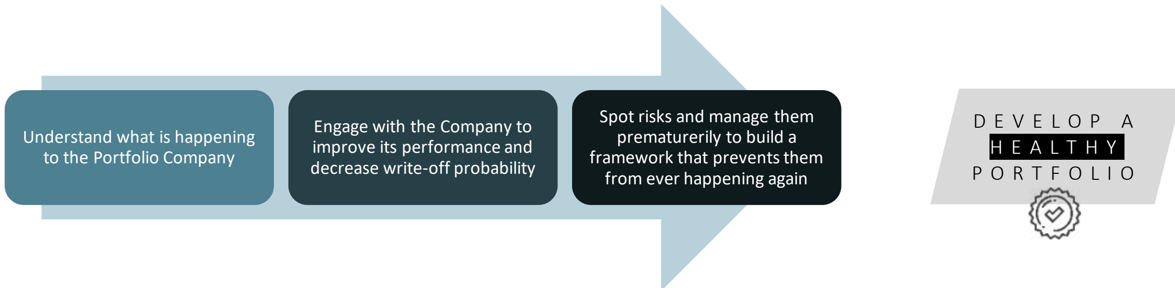
Once the company has successfully entered the exponential growth-phase, it will then go on a rapid adoption/integration state to become the dominant player at a local and regional level. In this stage, the creation of proper incentives for the management team will be designed to maintain a healthy corporate culture and will help the team to be always motivated and committed to the company. The Fund will use tools that will make the entrepreneurs focus on building multimillion-dollar companies - with regards to revenue and not market capitalization, a small yet crucial distinction for the Latin American market.

These measures indicate a special focus on top-line growth. It is then recommended that the Fund Manager focuses its efforts on improving customer acquisition, market validation, customer retention and margin contributions to increase the value of the Company, and therefore, the value of its equity.

X. Fund Performance Evaluation – Portfolio Management

Overview

Portfolio Management has three main objectives: i) understand the status and performance of Portfolio Companies, ii) engage with Portfolio Companies to generate value through actions that increase their survival probability, and iii) detect risks and act rapidly upon extinguishing those risks as soon as possible to avoid damage to the economic value of the company.



Although this Manual approaches several strategies and structures that will help the Fund Manager, it is by no means the framework itself, because it depends on the guidelines that will be used to build and manage the Portfolio, the skillset, and knowledge of the Fund Manager, the assets that it will be leveraging on this framework, and the timing of execution.

Data Compilation & Analysis Framework

Once the company has become part of the portfolio, it is expected that the Fund Manager negotiated and embedded all the clauses into the Company's bylaws and/or investment legal paperwork that will grant it the right to execute frequent performance assessments about the Portfolio Company's status (as long as it is a shareholder and/or an interested party – in case the Fund Manager invested through using debt vehicles-). The following are a few samples of the clauses that should have been included in the legal paperwork:

a) Information rights.

b) Right to conduct activities.

c) Board of Director's membership and appointment.

d) Bylaws that include explicit clauses pertaining to the compilation and use of the company's historical and forecasted data for internal purposes.

e) Side letter (in cases that debt has been used as the preferred vehicle) establishing any of the clauses mentioned above.

The Fund Manager will have the obligation to review and assess the performance of the company regularly. The time and frequency by which such assessments are performed will be decided by the Fund Manager. In any case, the Fund Manager must compile and review portfolio data at least every quarter.

At the most basic level, the Fund Manager shall have a set of indicators for each Portfolio Company that will help it understand how the company is performing. This set of KPIs may not be the same across each portfolio company, since it is expected that each Portfolio Company will have its own unique set of value-drivers. Therefore, the framework upon which the Fund Manager should work with the information provided by the companies has to provide information about the following matters:

	What type of information should be needed?	Information the entrepreneur must disclose...	What information can be used?
Dimensions	Issues to be addressed	Sample thought process...	Type of information gathered – Sample KPIs/tools

Operational Performance	• Key events during the period • Discover potential risks on time • Discover, keep, and maintain value drivers • Review business development	We sold “x” number of devices, driven by solid commercial prospects and high conversion rates….	• Customer Acquisition Cost • Average revenue per user • # of units sold • Lifetime Value • Take-rate
Financial Performance	• Enhance company’s budget • Review assumptions • Compare actuals vs. historical and forecasted indicators	… which improved our margins by x% and brought the company closer to break-even	• Gross Revenue • Net Revenue • Gross Margin • Contribution Margins • EBIT / EBITDA
Strategic Performance	• Identify opportunities to explore • Review growth plans and adjust where necessary • Review internal HR affairs • Discuss subsequent investment rounds • Review entrepreneur’s mindset and compare against milestones	… this was within our budget and parameters, but we spent more capital that was necessary because we could not hire the CMO in the quarter, so we need to adjust the budget for the next three quarters	• Milestones vs. capital raised • Strategy roadmap • Board meetings’ minutes • Cash on hand • Cash runway

Many of the indicators and data inputs used to manage the Portfolio have been, in some way, collected by the investment team during the investment process. In fact, a lot of information is already in the hands of the Fund Manager, so the purpose of this step is to review the overall performance of the company and compare it against its development plan and forecasts.

It is recommended that the Fund Manager maintain internal databases about each company’s financial and operational performance, which will be updated each time the Fund Manager reviews the performance of Portfolio Companies (the “Business Review Profile”). A summary of such profile must be included in the quarterly report.

Communication with Portfolio Companies

The Fund Manager should establish a quick but effective communication framework. Meeting agenda, duration of the meeting, parties involved, frequency of meetings, etc., shall be decided at its own discretion. The Fund Manager must make sure that there is enough space between the date of the meeting and the time the investment team receives the information package from the Company to allow for a quick review prior to the meeting. Below is a sample communication strategy between the Fund Manager and the Portfolio Company:

Meeting	Value Creation Meetings	Quick-review Meetings	Deep-dive Meetings
Frequency	Anytime	Monthly meetings (at most)	Quarterly Meetings (at most)
Duration	A reasonable timeframe that ensures efficiency	Less than 1 hour	Less than 3 hours
What should it be discussed?	• Events that the entrepreneur must resolve within days • Value-add strategies that the entrepreneur is asking from the Fund Manager	• Quick summary of the results achieves in the previous month. Discuss about performance, what-ifs, recognize risks and errors to improve execution in the following months.	• Thorough review of operational and financial indicators • Review of initiatives and actions (execution)

	• Day-to-day tasks that must be resolved between the Fund Manager and the Company • Mentoring and coaching	• This meeting is not suitable to discuss strategy • Main objective: detect risks and minimize their impact in time.	• Review forward-looking budgeting and adjust accordingly • Review strategy and revise if necessary
Who should participate?	Any member appointed by the Fund Manager, based on its own framework (analysts, Managing Partners, VPs, etc.)		High-level executives and supporting staff. Key Persons must be available for all meetings.
Level of Confidentiality	Varies (could be a life-threatening issue or a simple day-to-day issue)	High. Sensitive information will be used in the meeting	
How should it be carried out?	WhatsApp™, Slack™, Chat, email, quick phone call or online meeting	Online (Zoom™/Skype™) or In-person (location to be decided between the parties). It is recommended to have visual contact of the management team as much as possible	

Value Creation Meetings are bilateral initiatives between the Company and the Fund Manager. It should not be used as a replacement for those meetings that are held company-wide (quarterly and annual Board Meetings). It should then be understood that the purpose of these meetings is to i) help the Company achieve its milestones, and ii) manage the investment from an operational standpoint. These meetings should happen exclusively between the Portfolio Company and the appointed Fund's team, due to the high level of confidential information that those meetings might be brought to the discussion.

The Fund Manager should recognize the amount of effort that goes into preparing all the information required by the Portfolio Company to fully comply with the Fund's policies. As such, the Fund Manager must develop a framework that thoroughly reviews the Portfolio Company without increasing the burden and the resources it needs to fulfill such requests, otherwise, the Company could decrease its performance because it is using its time to fulfill requirements that do not bring any value (preparation of information, development of presentations, liaising with internal departments, etc.), instead of engaging in growing its business.

Reporting Guidelines Framework

Because the Fund has a fiduciary duty to its investors, it must perform reporting procedures on the performance of the investments. The Fund Manager must take all reasonable efforts to communicate the events that have impacted the Fund's performance. As such, this Section is designed to give a clear strategy about what and how the information will be shared among investors and provide a standardized procedure that i) informs and explains transactions accurately, ii) reduces the information-processing time, achieving minimal monitoring costs, iii) provides a common communication channel between the Fund and its LPs, and iv) enables legal compliance over the information reported. The process of reporting events to LPs should follow the following steps:

Understand events	Organize information	Prepare report	Review & Sign-off	Send and Provide Support
•Classify information (events, risks, outcomes & strategies) •Recognize time frame (before, during or after reporting period) •Distinguish between external (market) and internal information (company's affairs)	•Fund-level data •Company-level data •Financial Statements •LP Capital Account	•Design and draft period information report	•Inspection and review •Sign-off and validation	•Prepare massive mail workflow •Attach specifc-LP information package •Confidentiality & security protocols

a) **Understand events.** The first major step is to understand what has happened in the period selected as the timeframe to draft the report. The Fund Manager should have liaised with all Portfolio Companies to properly understand the events that led to their status. Additionally, the Fund Manager must understand, from an internal perspective, how will those events affect the current performance of the Fund (will those events increase the Fund's NAV? Is there a company that may be at risk of becoming a write-off, down? etc.). A key element in this step is to use all available resources (databases, files, minutes, etc.) to draw the initial conclusions that will be drafted later into the final report.

b) **Organize information.** Once the Fund Manager understands what has happened in the reporting period, the investment team must organize the information and put it together in one central database to maintain a lean process that promotes organized access to current and past information. The following classification list is one of many ways that the Fund Manager may organize the data:

   i. Fund-level data: Information that is produced internally and that describes the performance of the Fund. It describes both financial (conclusions gathered from financial statements) and operational (conclusions gathered from operational initiatives) aspects of the fund. Data points may include total value to paid-in capital, total committed capital, Investment Committee sessions, internal events, key hires, and/or lay-offs, etc.

   ii. Company-level data: Information that relates to each Portfolio.

   iii. Financial statement (accounting and financial) data: Information that relates to the cash-flows and how they were used to manage the day-to-day operations of the fund. Normally, this information should be available in accounting software, or, if the Fund Manager decides to outsource this section of the Fund, then, it will be available upon request by the selected contractor.

   iv. LP capital account data: Information that specifically relates to the monetary position of each Limited Partner subscribed to the Fund. Net Asset Value, total capital called, date of subscription, etc.

c) **Prepare report.** In this step, the Fund Manager must always use a template that i) contains the same layout and content outline for each reporting period to maintain a lean reporting process and ii) provides a familiar outline for LPs to avoid misunderstandings and/or inquiry requests that may increase the operational burden of the Fund Manager. It is recommended that the Fund Manager uses ILPA reporting standards to provide a best-in-class report. In this Manual, a sample report is included with data inputs that comply with most major ILPA guidelines (the "Business Review Report").

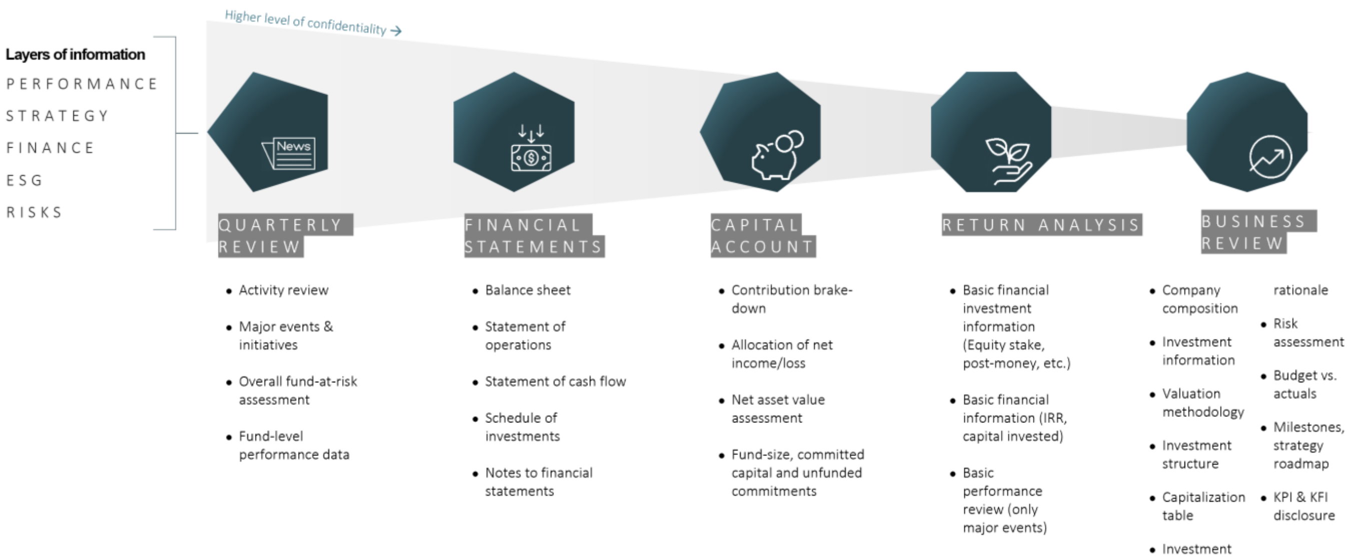
d) **Review & sign-off.** Once the investment team (or whichever members of the Fund Manager are appointed to carry this step) finishes drafting the report, the Key Persons (or any other high-level executive) must review the contents to ensure that the report i) is duly completed; ii) no relevant information has been omitted; iii) information has been curated to prevent a breach in confidentiality agreements; and iii) expresses a simple narrative to avoid misinterpretations.

An important thing to consider at the time of reviewing the report is that the Fund Manager must be prepared to explain and, to some extent, “defend” the contents of this report, since LPs might inquire additional information post-delivery. It is recommended that the Fund Manager uses simple language and is confident that the information is true and objective.

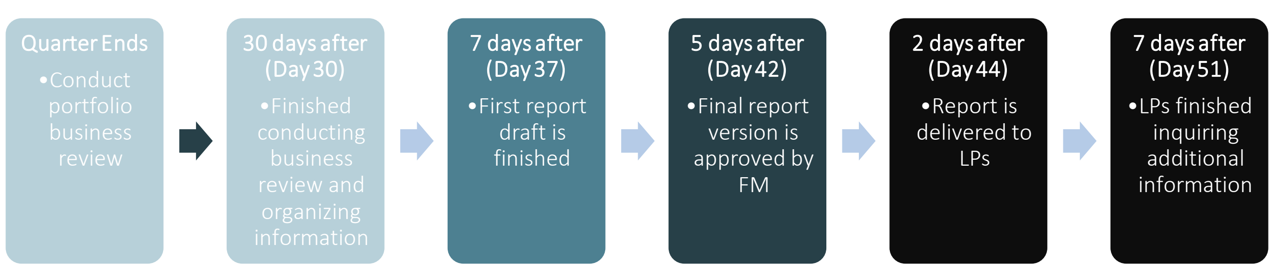
It may be the case that the Fund Manager includes opinions and conclusions based on the information presented in the report. In those circumstances, the Fund Manager must act in good faith and provide objective opinions that are exclusively related to the affairs of the Fund and transmit a constructive argument that explains a particular situation.

a) **Send and provide support.** Once the Fund Manager finishes the report, it must then send it to all LPs, based on the information rights established in the Fund’s Bylaws. It may be the case that the Fund Manager must also attach documentation that is personalized to each LP (such as Capital Accounts). The Fund Manager may elect to use specialized software to gain access to these reports (which can become quite expensive depending on the management fees obtained) or may use a more traditional file system (such as massive mail workflows attaching a PDF version of the report). Finally, depending on the confidentiality clauses drafted in the Fund’s Bylaws, the Fund Manager may have to adjust a set of reports to a particular group of LPs given potential conflicts of interest and/or additional requirements that are part of such LPs compliance procedures. In this case, it is recommended that the Fund Manager integrates these exceptional cases into their workflow to maximize response times and avoid the possibility of not fulfilling those requirements.

The proposed layout of the Business Review Report should contain the following outline:



The timeline to prepare the documentation should follow the guidelines established in the Fund’s Bylaws. A typical timeframe that most funds use to deliver a report is up to 60 days (at most) after the quarter ends. The Fund Manager should then prepare itself to accommodate all necessary steps using the proposed timeline below:



Information Disclosure

The following table describes a summary of the most important topics that should be included in the report. Although the Business Review Template covers some of the information described below, the Fund Manager may adjust it accordingly to reflect the Fund's investment thesis, the Fund Manager's operational philosophy, and the resources available to complete the information provided to LPs.

Layout	Frequency	Contents

Summary Letter	Quarterly with each package, unaudited	• Discussion of key drivers of activity and performance during the quarter that bridges the activity between the two period ends.
		• Summary of capital activity (cash flows) and transactions pending or closed.
		• Explanation of extraordinary moments.
		• Discussion of material events in portfolio companies that would impact the fund as a whole
		• Summary of any material risks including:
		  o Concentration risk at fund level.
		  o Foreign exchange risk at fund level.
		  o Leverage risk (if applicable) at fund level.
		  o Realization risk at fund level.
		  o ESG risks at fund level.

Balance Sheet	Quarterly, audited annually	• Current period vs. prior period end columns. • Inclusion of receivables and payables to affiliates (such as investment advisors, for example). • Inclusion of investments at cost and fair value. • Inclusion of fund-level debt.
Schedule of Investments	Quarterly, audited annually	• Full detail on unrealized investments. If possible, provided at legal-entity level (not LP share). • Name of the investment, including debt and equity positions on separate amounts. Additionally, it must include the number of shares held by the Fund, fund ownership % (fully diluted). • For each investment, the Schedule should include total committed amount to investment, total invested (historical cost), current cost, reported value and realized proceeds. • It is important to note that all amounts described in this section should be in accordance with IFRS or GAAP requirements.
Statement of Operations	Quarterly, audited annually	• Information should include current period, year-to-date and since inception cohorts. • Breakout of investment income, with a separation between portfolio interest from convertible debentures and/or dividends. • Breakout of expenses, detailing its individual components, such as management fees, broken deal fees, advisory/director frees, monitoring fees, etc. • Net operation gain/loss. • Breakout of gains/(losses) on investments, including a distinction between realized/unrealized gain/loss. It is important to distinguish the F/X variability independently.
Statement of Cash Flows	Quarterly, audited annually	• Describe current period, year-to-date and since inception information. • Breakout of cash flows from operating activities, investing activities and financing activities. • Describe cash and cash equivalents.
Capital Account Statement	Quarterly to LPs	• This statement should encompass the necessary components for a LP to assess the value of its investment as well as reconcile the proper allocation of flows across the relevant periods. • Current period, year-to-date and since inception information

		• Breakout of the total fund by LP, Fund Manager, and total fund • Bridge the prior net asset value to the current net asset value, and discuss any adjustments made prior to the beginning balance, if needed • It should also include Fund Manager balances, accrued carried interest should the partnership liquidate • Breakout of contributions and distributions for the relevant period, including changes in partner's capital resulting from operations • Commitments of LP, Fund Manager, and total fund, indicating any adjustment due to expired capital, write-offs, adjustments, etc. • Schedule of changes of individual unfunded commitment.
Notes to the Financial Statements	Relevant notes provided quarterly; all footnotes provided annually	Describe all the footnotes that accompany any of the financial statements (including the Capital Account Statement). The following is a list that includes some examples: • Organization and fund details (formation, termination, extensions, commitment period, etc.). • Significant accounting principles • Partners' Capital (breakdown) • Management Fee and other fees breakdown • Related parties and other transactions • Financial highlights (IRRs and other fund-level financial performance indicators) • Carry details • Advisory board • Subsequent events
Executive Summary	Fund-level data provided quarterly; firm-level data updated annually	• Firm data (AUM, active funds, active portfolio companies) • Fund-level data (total commitments, drawdowns since inception, remaining commitments, number of investments since inception, total distributions – including total drawdown percentages and total committed capital – • Key valuation metrics, including TVPI, RVPI, DPI, PIC indicators • Historical fund performance (over TVPI or Net IRR over time) • Portfolio breakdown by industry and region
Portfolio Company Update	Quarterly	• Company overview: company description and headquarters, acquisition details (investment date, multiples, equity breakdown, acquisition thesis), current metrics (revenue, EBITDA, debt, CAGR, and a company assessment thermometer). • Financial tables (investment structure, capitalization table, financial results, etc.). • Recent events and key initiatives (staffing changes, key developments, covenant issues, achievements, certifications, approvals, etc.). • Valuation bridge: how does value add being created in portfolio company over time (increase in EBITDA, multiples, or debt payback), valuation methodology and assumptions, including a list of comparable companies, if applicable. • Risk assessment update: a qualitative discussion of any material changes in risks factors (foreign exchange, leverage, strategy, reputation, ESG issues, etc.).

ESG Issues

Although ESG (environmental, social and governance) issues are not a core part of managing an investment fund, but it has become an increasingly relevant item of the investment philosophy of fund managers in recent years, due to its effectiveness in decreasing risks and promoting a better relationship between portfolio companies, general partners, and limited partners. The following policy will help the Fund Manager identify, manage, and report ESG related risks and opportunities in their investment decisions and monitoring activities.

Before implementing an ESG policy, the Fund Manager must have an appropriate organizational structure and culture in place, as this enables it to consider the full spectrum of ESG issues in its business analysis. This could include:

a) **Commitment to ESG integration.** The Fund Manager must have a formal commitment to guarantee sustained institutional dedication and resources; a person or team responsible for ESG considerations with the relevant expertise; employees educated on the rationale, strategy, and practices for integrating ESG; linking ESG objectives to employee evaluation.

b) **Setting ESG objectives.** The Fund Manager must set and communicate objectives for ESG integration; establish an operations group or use consultants to monitor portfolio companies.

c) **Engage with stakeholders.** Engage with collaborative initiatives; engage with LPs.

To create an effective ESG policy, the Fund Manager should align his/her framework for ESG integration with existing tools and standards to ensure it is based on international standards and good industry practices. One of the best standards available for PEVC investments is the United Nations' Principles of Responsible Investment. Other initiatives, such as the IRIS reporting guidelines, EVCA responsible investment guidelines, BVCA responsible investment guidelines, etc.

The following table describes examples of how the Fund Manager may create its ESG policy and deploy its guidelines throughout various stages of the investment process:

Investment Stage	Initiatives to integrate ESG issues
Screening	• Compile a checklist to screen for high-level ESG risks • Establish an exclusion list for high-level checks
Due diligence	• Consider resource allocation for ESG Due diligence • Use due diligence question based on best practice standards or organizations that promote the implementation of ESG issues in alternative assets.
Investment decision	• Include ESG considerations as standard practice in investment committee decisions • Include ESG findings from due diligence in the investment memorandum
Negotiation and Term Sheet sign-off	• Share ESG objectives, policies, and practices with the portfolio company • Use templates from existing industry toolkits to integrate ESG clauses into investment agreements • Seek formal commitment from portfolio company by incorporating ESG issues into the deal documents • Collaborate with portfolio company to draft an internal plan with a locked implementation timeframe (one hundred days for example). • Formulate a roadmap with a 3-5-year horizon with clear process benchmarks
Value-add strategies	• Collaborate with portfolio companies to set up an ESG program • Leverage portfolio company board to implement ESG initiatives • Leverage ESG expertise and experience across the portfolio • Conduct periodic site visits
Portfolio monitoring	• Define company-specific or portfolio-wide ESG indicators. • Prioritize ESG issues and focus on the most critical issues in the short/medium term. • Ensure ESG considerations are consistently on the portfolio company's board agenda. • Provide portfolio company with tools to monitor and measure ESG practices. • Collect information on ESG developments from portfolio company and include in annual review. • Monitor ESG development in internal review meetings.
Reporting	• Agree upon the form and frequency of reporting • Create and develop an information disclosure template based on industry toolkits

XI. Impact Analysis of the Returns Associated with the Fund

Fund Accounting Policies

Accounting for a VC fund is quite unique since, when accounting frameworks are defined, the standards-setters usually do not write them with private equity or venture capital in mind, and therefore some modifications to these rules and accounts formats are required for those accounts to be useful to their user – mostly the investors.

There are five major differentiators that separate fund accounting from accounting for entities of other industries and other types of investment vehicles:

a) The legal form of the fund: a limited partnership with its different investor classes and the way that this legal form is used to cater for the specific needs of the asset class.

b) The fund terms laid down in the limited partnership agreement (LPA).

c) The purpose and nature of the activities of the fund.

d) The needs of the main users of the financial statements, such as investors and their reporting requirements.

e) Unique accounting framework used only in this asset class. Several funds use accounting principles that are defined by investors themselves and may not follow national or international guidelines, which may complicate the calculation of certain indicators (or make them otherwise easier).

The combination of these five factors will make the Fund accounting framework unique and difficult to understand, at least at first, by accountants from outside of the asset class. This Section will aboard some of the issues in financial statements drafting and will provide certain recommendations and/or guidelines as to specific items that the Fund Manager must carefully assess to describe the financial performance of the Fund.

Policy Recommendations

The first thing to understand is that, in a Fund, there are several stakeholders that have different rights and obligations to the Fund. Depending on which legal structure the Fund Manager may incorporate the Fund, the number of different stakeholders may differ from those described in a typical entity, such as a corporation (LLCs, INCs, Anonymous Societies, etc.). These different stakeholders in the fund can be referred to as "classes of partners." The Fund Manager, LPs, partners, affiliates, non-voting partners, carried interest partners are different classes of Partners that may be available in the Fund. As such, a basic premise for the preparation and presentation of the partnership's financial statements is to reflect the interest of each class of partner (or shareholders in a corporate form) in the net assets of the Fund at each reporting date, or in other words, the share of each class of partners in all the Fund's assets, liabilities, income, expenses, and gains or losses.

The Fund Manager must also present the financial returns (understood as the total profit & loss) of the Fund and allocate it by partner class, as well as by individual non-managing partner/investor. Therefore, a Fund Manager must be able to track transactions and identify balances at the partner-level. All Partners have certain functions, rights, and responsibilities within the structure. Following that logic, when recording transactions that stem from those functions, rights and responsibilities, these transactions should be allocated to each partner, allowing for individual reporting on each partner in terms of its share in the assets, liabilities, income, expenses and gains or losses which is ultimately their share in the net assets or net asset value (NAV):

Items that are specific for funds, such as drawdowns, distributions and even simple fund expenses or income arising from interest on loan notes or capital gains or loess from the realization (or unrealized appreciation) of investments, the total amount of each of these transactions must be allocated to each individual partner in a certain way. This process is called 'allocation' and the ways in which the Fund Manager must allocate these amounts to each partner will be followed by the rules that will be specified in the Bylaws.

It is important that the Fund Manager maintains separate accounts from the Fund and the management company. In a typical structure, the Fund Manager has a separate entity in which the management fees and carried interest are deposited (this entity may also be used to manage the day-to-day operations of the Manager). These items must be carefully disclosed as they have a double impact in the accounting of both entities: for example, management fees are cash outflows from the Fund to the management company (but a cash inflow from the perspective of the management company); the Fund Manager would have to record both transactions (and disclose only the Fund side of the transaction, since it is the one that affects LPs and other Partners). Depending on how the Bylaws will be drafted, access to the management company's records may be prohibited to LPs (which is something that is recommended, since the administration of the management company must remain outside the scope of LPs, as it has no effect whatsoever in the returns and financial performance of their investments).

Disbursements and Capital Contributions

The Fund Manager will issue a "Disbursement Notice," a document that describes the amount of capital that each LP must contribute to the Fund to i) make a new or follow-on investment, or iii) make customary contributions that fulfill a particular requirement from the Fund Manager (such as expenses or fees). These amounts are typically pro-rated according to the amount of capital contributed by the rest of investors in a particular company. These notices have the following considerations:

a) The Fund Manager must consider the liquidity status of the Fund. Current bank account balances and expected proceeds from a potential sale of a Portfolio Company should be considered before proceeding to calculate the total amount that will be contributed.

b) The Fund Manager must consider the timeframe of each capital disbursement and the number of Distribution Notices issued each year (or at least on a quarterly basis). It is recommended that the Fund Manager prepare a "disbursement schedule", a document describing the number of disbursements that the Fund will make throughout the year, who will be receiving those disbursements, the expected date of transfer, and the use of such proceeds (whether that capital will be used as an investment or expense) to understand how many Notices should be issued, when should it be sent and the expected timeframe that these notices will be fulfilled, which must be in line with the expected dates of disbursement.

In each Notice, the Fund Manager should consider the following as a general practice:

a) Transaction details should be presented from an accounting perspective, consistent with how the transaction will be accounted for within the Fund's records.

b) The Fund Manager should always include information about the Bank's unfunded commitment, cumulative contributions, and cumulative distributions.

c) At a minimum, the Notice should describe the cumulative amounts that have been called for a particular item (such as a portfolio company investment or an expense allocation), the overall balance of the Bank (whether it is up to date with contributions or has any preceding pending amount to be contributed) and any other indicator the Sponsor must understand and that relates to the status of its contributions.

Financial Statements Drafting

The Fund Manager must prepare the financial statements at least on a quarterly basis, based on international accounting principles (IFRS) or other GAAP agreed by all LPs. It is recommended that the Fund Manager utilizes the former principles since the reconciliation of profit and loss, as well as the calculation of tax returns might become easier for LPs that are not based in the jurisdiction upon which the Fund was incorporated in (or to those investors that comply with tax rules that are significantly different from those established in such jurisdictions).

The minimum required financial statements that must be disclosed in each quarterly and annual report are the following:

a) Balance Sheet

b) Statement of Operations (Profit & Loss Statement)

c) Statement of Cash Flows

d) Schedule of Investments: This statement discloses the economic and financial performance of each investment made by the Fund Manager, and it is broken-down into several indicators that are both quantitative (such as book value and fair value of a particular portfolio company), and qualitative (basis and methodology of the calculation of fair value, vehicles used to execute the investment). Although this schedule might be considered as an annex to the basic financial statements, it provides a detailed view of the performance of the Fund, because it disaggregates the fund-level performance and reveals the value generated (or lost) in each portfolio company.

e) Capital Account Statement: This statement discloses the Net Asset Value (NAV) of each LP's commitment to the Fund, based on i) total capital contributed to the fund; ii) profit and loss allocation by each LP; and iii) liabilities and fee set-off by each LP. In all instances, even though all LPs might be treated equally in terms of responsibilities and obligations, each LP might have a different NAV. For example, an LP who is lagging in terms of capital contributions, might see a reduced NAV in early stages of the Fund's investment schedule, since the allocation of profit and loss (which in early stages is mostly management fees), which is equally distributed to all LPs, has a greater (and negative) impact on the total capital contributed, reducing even further the NAV.

f) Notes to the Financial Statements: Since the Fund will have a long-term mandate, in the form of capital appreciation by managing fixed assets, the Fund Manager must disclose the following categories that reflect the investment activities of the Fund in the profit and loss statement:

   i. Income (including dividends from the underlying companies and interest from convertible debentures).

   ii. Acquisition costs (whether charged to the profit & loss or capitalized, depending on the accounting framework and/or the accounting policy).

   iii. Expenses (including management fees, due diligence fees, tax advisory fees, legal fees, and administration fees).

   iv. Revaluation (whether in equity/revaluation reserve or through the profit & loss depending again on the accounting framework and/or the accounting policy).

   v. Gains or losses on realization of portfolio investments.

   vi. Estimation of gains or losses on the fair value of investments that have yet to be disposed of (unrealized gains/losses) based on accounting framework and/or accounting policies.

Regarding the Fund's cash flow statement, cash flows from investment activities, such as a dividend from portfolio companies or interest from convertible notes are presented in the operating activities as that is the core business of the fund. This differs from a manufacturing company, for example, in which the cash-flow statement items such as dividends or other similar income from subsidiaries or associates would be reflected in the investment activities.

As a result of investment activities, the presentation of investment schedules and schedules of acquisitions and disposals of investments with its level of detail, will probably the purest reflection of the fund activities. Activities such as drawdowns and distributions are reflected in the statement of changes in partners' accounts (or equivalents depending on the accounting framework).

The Fund Manager must not forget about the specific implications of the carried interest and other profit-sharing schemes among investors as they must be reflected fund accounts, which must be calculated based on the definitions of such schemes in the Bylaws.

It is recommended that the Fund Manager follows a major compliance framework for financial disclosure, such as Institutional Limited Partners Association's quarterly reporting standards, European Private Equity and Venture Capital Association (EVCA) reporting guidelines, British Private Equity and Venture Capital Association (BVCA) reporting guidelines, International Private Equity and Venture Capital Valuation (IPEV) guidelines, European Association for Investors in Non-listed Real Estate Vehicles (INREV) industry guidelines for property funds or other guidelines selected by the Fund. Although these examples come from organizations that may be stablished outside the Fund's legal jurisdiction, it is nonetheless a good idea to follow, since the examples mentioned before are considered 'best practice frameworks' for many international investors (which may happen to be LPs in the Fund).

Capital Account Statement

The Capital Account information presented for the current period and since inception provides each LP with current and cumulative information on their individual commitment in the fund and allows analysis of income and capital allocations. Although the contents of the statement are generally the same across different vehicle structures and investment philosophies, it is recommended that the Fund Manager changes the content to accommodate the statement structure, particularly involving the allocation of returns to different classes of shares (participating preferred, redeemable preferred stock, etc.).

Each LP should receive a statement of their own capital account together with relevant information for either the whole Fund or the entity/partnership in which they have invested (or both) to include the following information[4]:

a) LP's percentage ownership in the fund/partnership at the reporting date.

b) Total commitment split between different instruments if appropriate at the reporting date.

c) Total contributions.

d) LP unfunded commitment at the reporting date.

e) Cumulative distributions.

f) Number of cumulative distributions recallable by the Fund Manager at the reporting date.

g) Realized portfolio gains/losses.

h) Unrealized portfolio gains/losses.

i) Allocation to the carried interest.

j) Non-portfolio income and expenses.

k) Management fees.

l) Capital account at fair value at the beginning of the period (for current period report).

m) Capital account at fair value at the reporting date.

n) Confirmation that LP's NAV is reported net of unrealized carried interest attributable to the General Partner and the amount of the unrealized carried interest deducted; alternatively, show unrealized carried interest assuming all investments are realized at their reported fair value at the reporting date.

o) Cash flow schedule detailing dates and amounts of drawdowns and distributions, either showing amounts for the individual LP or for the fund/partnership as a whole; • Analysis of distributions for the current period by source (i.e., between return of cost, capital gains/losses, dividends, and interest) and/or by nature (i.e., cash vs. in-specie);

p) LP's share of individual investments (particularly where individual LPs are excluded from certain investments);

q) Breakdown of expenses between establishment costs and ongoing operational costs;

r) A table showing the bridge between the opening and closing capital account balance.

Fair Value Recognition

In general accounting theory, there are two different measurement bases for assets and liabilities, and considering the subject discussed, investments in particular: historical cost (HC) and fair value (FV):

a) Historical Cost. Investments are held at cost (meaning the book value of the investment in each quarter). Although IFRS allows the recognition of historical cost as the basis of valuation, by using this method, the Fund Manager will not be able to reconcile the quarterly financial statements against the accounts. Moreover, both the accounting department of the Sponsor and the Fund Manager must keep record on both indicators (the historical and current value data).

The benefits of using a historical cost-based account are that it is easy to manage, and it does not allow for manipulation (which is a particular, yet important consideration since PEVC investments tend to have valuations that are highly subjective. Generally speaking, cost is a one-time arbitrary measure, originating at vastly different points in time that provides little useful information

[4] *The Fund Manager might not use all the indicators described since they depend on the type of investments, legal vehicle, source of capital, type of investors, and their requirements from a compliance perspective.*

for investors in decision-making; it provides non-comparable data and would result in arbitrary analysis and thus effectively any analysis of data based on historical cost alone would invalidate underlying conclusions.

b) Fair Value. Investments are held at a fair value, which is the "the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction." Fair value is a better approach to assessing the performance of the Fund since it can identify, measure, and compare its performance against other competitors, funds, and similar assets, which is an exercise that provides insights about the relative value and its performance in the market.

c) Although comparability and transparency are the most important advantages of fair value, there are several drawbacks: to be objective, it must be stated that fair value is by far a perfect measurement, particularly for less observable financial instruments that lack objective market data where calculating the fair value might represent a significant challenge.

According to IFRS 9 "Financial Instruments", financial statements must disclose information about the valuation techniques and inputs used to develop fair value measurements. They also indicate how fair-value measurements using significant unobservable inputs affected profit or loss or other comprehensive income for the period, which has been achieved by combining the disclosures currently required by other IFRS rules.

When initially recognized, investments (as well as financial liabilities), are measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability (acquisition costs). The exception is for financial assets at fair value through profit or loss where acquisition costs are directly expensed to profit & loss. Available-for-sale investments, as well as for held-to-maturity financial instruments and loans and receivables, transaction costs directly attributable to the acquisition (acquisition costs) are capitalized to the value of the investment.

After initial recognition, financial assets (including investments) are generally measured at fair value, without any deduction for transaction costs on disposal. Exceptions to the rule are i)loans and receivables, which are measured at amortized cost using the effective-interest method, ii) held-to-maturity investment, which is measured at amortized cost using the effective-interest method, and iii) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured (and derivatives linked to them), which are measured at cost.

When reporting gains/losses arising from a change in fair value of the asset, the classification and evaluation depends on the financial instrument:

a) For financial assets (and financial liabilities) at fair value through profit or loss, a gain or loss arising from a change in fair value, is recognized in profit & loss.

b) For available-for-sale investments recognized net of tax effects in equity and reflected in other comprehensive income (previously 'statement of total recognized gains and losses' (STRGL)), until the financial (investment) has been derecognized when the cumulative gain or loss previously recognized in other comprehensive income is reclassified (recycled) from equity to profit & loss as a reclassification adjustment. Foreign exchange gains and losses and impairment losses for available-for-sale investments, however, are recognized in profit & loss.

c) For financial assets (and financial liabilities) carried at amortized cost (that is, held-to-maturity investment and loans and receivables), recognized through profit & loss when the financial asset or financial liability is derecognized or impaired, and through the amortization process.

If an asset held decreases in value (or has a value that is lower than the current cost), derived from objective evidence that the asset is impaired, the Fund may apply the following rules:

a) For an available-for-sale investment, when a decline in the fair value has already been recognized in other comprehensive income the cumulative loss that had been recognized is reclassified (recycled) from equity to profit & loss as a reclassification adjustment even though the financial asset has not been derecognized.

b) For financial assets (and financial liabilities) carried at amortized cost (that is, held-to-maturity investment and loans and receivables), impairment is recognized in profit & loss, as the carrying amount is reduced either directly or through use of an allowance account and the loss is to be measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (that is, the effective interest rate computed at initial recognition).

c) For financial assets carried at cost (that is, unquoted equity instruments not carried at fair value because its fair value cannot be reliably measured), impairment loss is recognized in profit & loss and measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Calculation of Fund's Performance Metrics

The principal metrics used in performance assessment are the Internal Rate of Return (IRR), Paid-in Capital (PIC), Distributions to Paid-in Capital (DPI), Residual Value to Paid-on Capital (RVPI), and Total Value to Paid-In Capital (TVPI).

Internal Rate of Return

The IRR is the discount rate that makes the net present value of cash flow from a cash flow source equal to zero. This is an especially valuable tool to use in benchmarking one fund against another, as all the fund cash inflows and outflows can be analyzed and summarized in one individual and easy-to-understand statistic. It is not necessarily the case that the fund with the highest IRR is the best; it depends on many factors and the basis of preparation. IRRs can be presented in a range of diverse ways and funds can be operated in different manners, which can lead to materially different IRR results.

GROSS IRR
IRR of cash flows to/from Fund

ARITHMETIC AVERAGE IRR
Simple average of IRRs on all Portfolio Companies

WEIGHTED AVERAGE IRR
Averages gross IRRs on deals by capital invested

TIME-ZERO IRR
All initial investments are calculated using the same start and end date

NET IRR
IRR of cash flows to/from LPs

IRRs can be presented in several diverse ways that give different results. The main difference in presentation is whether the cash flows are presented before or after a deduction for operating expenses and carried interest. A return quoted on the cash flows between the fund and the investee company before these deductions, just considers the pretax investment-specific cash flows, and can give a materially higher result than on a post deduction basis. The main expenses that net down the result are fees that are paid by LPs to the Fund (and therefore to the Fund Manager) and carried interest, which is typically 20 percent of remaining profits after a carefully methodic distribution scheme is placed upon (the Waterfall Distribution Scheme).

The IRR suffers changes depending based on calculation and the origin of cash flows. For example, cash flows between the fund and the investors, or the cash flows between the fund and the investee companies can have a significant difference.

Total Value to Paid-in Capital

$$TVPI = \frac{(realized\ value + unrealized\ value)}{Paid - in\ Capital}$$

The realized value is the cumulative number of distributions to date, the unrealized value (also called residual value) is the net asset value (NAV) of the fund and the paid-in capital is the cumulative contributions to date. The result of the TVPI is what is sometimes referred to as the money multiple, or multiple over invested capital. This is because the result shows how much will be returned to investors for each unit of currency they invest. This is a useful performance-monitoring indicator, particularly when it is combined with the IRR. The use of the two metrics together is powerful: the TVPI illustrates the overall cash-on-cash return of a fund, and the IRR gives a guide as to how quickly this cash-on-cash return is being made.

The Fund Manager must understand that the unrealized value is an inherently sui generis amount, since it is based on a fair value assessment that depends on the policies stablished by the Fund and the Fund Manager. Nevertheless, the TVPI indicator becomes less and less subjective as the fund reaches maturity and the proportion of realized value becomes larger since the unrealized value of investments will decrease as it transforms into realized gains (or losses).

Distributions to Paid-in Capital and Residual Value to Paid-in Capital

$$DPI = \frac{Total\ distributions\ to\ investors}{Paid{-}in\ Capital} \qquad RVPI = \frac{Valuation\ of\ unrealised\ investemnts}{Paid{-}in\ Capital}$$

These performance indicators are subsets of the TVPI and so are useful in aiding an appraiser in understanding performance to date.

The DPI shows how much money the fund has returned compared to the amount paid in. It is a non-subjective metric since it gives an indication of the tangible progress that a fund has made in meeting its return objectives.

On the other hand, the RVPI shows the value of the unrealized investments (also known as the residual value of a fund) compared to the amount paid in by investors. It is a measure of the amount of future value that the investor would hope to receive should the investments be sold at the valuation date. The investment will not have been sold at the balance sheet date and so the proceeds that eventually are remitted to the investors may well be an entirely different figure.

PIC Multiple

$$PIC = \frac{Total\ paid - in\ capital\ to\ date}{Committed\ Capital}$$

The PIC multiple is a simple metric used to assess the stage at which a fund is in its lifecycle. If an investor made a commitment of $100 and had paid in $75 then the PIC multiple would be 0.75. A fund with a low PIC value is likely to be at an early stage of its investment period and a fund with a higher value of approximately 0.8 and above is likely to be around the end of its investment period. Therefore, when using the PIC, it is important to understand the current and future expected level of capital that can be redrawn to ensure that a full understanding is gained of the stage of the fund’s maturity.

Net Asset Value (NAV)

NAV is calculated by adding the value of all the investments in the fund and dividing by the number of shares (or interests, depending on the Fund structure) that are outstanding. NAV calculations are required to assess the performance of closed-end funds since it is the indicator that specifically describes the value of the investment to each Partner in the Fund (including the Fund Manager).

The Carried Interest

Carried interest is a performance fee, a reward for superior performance. In other words, it is a bonus payable to the Fund Manager for doing an excellent job, which means that carried interest is conditional on performance. If the Fund generates outstanding performance, and such level of performance hits certain thresholds (known as hurdle rates), the Fund Manager is entitled to receive (often subject to some limitations called claw back provisions) a bonus or performance fee called carried interest, which is in simplified terms usually a certain share (usually 20 percent) of the profits. Since it is performance-related, carried interest is designed to incentivize the carried interest holders; therefore, it could be regarded as an incentive mechanism.

The Fund Manager, in all cases, is a partner too since it must commit a certain amount of capital to become the manager of the fund (often referred to as ‘skin in the game’). The effort to generate value, time to operate, and positive execution of the investment thesis must be compensated in one way to another to make the management of venture capital funds an interesting feat, and the best way to incentivize and reward such hard work is through a disproportionate return on their investment (most Fund Managers commit between 1 and 3% of the total aggregate fund size). The rest of its investment in the fund is “carried,” in a way, by the limited partners (LP).

There is a spectrum of diverse types of carried interest models. At one end of the spectrum the most conservative is the whole-of-fund model (European model), with a hurdle/preferred return and no catch-up, which is the most investor-friendly. At the other end of the spectrum the most aggressive GP-friendly model is structured on a pure deal-by-deal (American model) basis, with no hurdle/preferred return and no claw back. Falling between both ends of the spectrum there are numerous hybrid structures.

One of the most popular carried interest models (the whole-of-fund with hurdle/preferred return and catch-up) is the preferred model for most Fund Managers, since it balances both ends of the spectrum, motivating the Fund Manager enough to generate above-market returns, while avoiding a sudden loss of focus due to early profits.

To protect LP's investment, a claw back provision can smooth out situations where initial high multiples are followed by disappointing returns from later realizations, which would mean that more carry is paid on earlier deals and therefore must be clawed back from the Fund Manager to repay the LPs.

There is a vast variety of claw back provisions. Escrow accounts are among the most popular with the proceeds held in an account (usually under the Fund Manager's control, but for the benefit of LPs) from which the Fund Manager may make withdrawals subject to certain rules, in case that subsequent losses are incurred.

European Carried Interest Waterfall Model

The whole-of-fund carried interest model is more typically prevalent in Europe where it seems to be the standard carried interest arrangement, which of course does not mean that there are no funds using deal-by-deal arrangements. In this model, the timing of the distribution of the carried interest is delayed (typically allocated in years six to 10) compared to the deal-by-deal carry model where distribution of carry takes place a lot earlier in the fund's life when carry may be distributed after the first profitable disposal.

The reason for the appeal of the whole-of-fund model in is due to the protection it provides for investors against early payments of carry being made despite disappointing overall fund returns.

The cash application/waterfall for a whole-of-fund arrangement is executed as follows:

a) To the Fund Manager and LPs, until they have been repaid the outstanding commitments

b) To the LPs, in payment of an amount equal to the preferred return (preferred return is explained below).

c) To the Fund Manager, a catch-up (for a 20 percent carry, the catch up is a 25 percent of the preferred calculated in the step below.

d) Usually an 80:20 split (or a different split according to the LPA) between the LPs and the Fund Manager, respectively. The 20 percent is the carried interest. Note that the sum of the amounts in step 3 (the catch-up) and the 20 percent from the 80:20 split in step 4 is the total carried interest amount.

The preferred return in step 2, which is also called hurdle (the relevant percentage of which is called the hurdle rate), is like a guaranteed return on the LPs' investment in the fund (subject to the fund generating enough profits). It is called hurdle because the Fund Manager needs to pass that hurdle before it starts receiving carried interest; anything after the hurdle has been reached will be split on an 80:20 basis or whatever is stipulated in the Bylaws.

A typical preferred return/hurdle is 8 percent, but it could be set at another rate. There may even be more than one hurdle rate and more than one carry split detailed in an LPA; for example, there may be an 80:20 split past an 8 percent hurdle and 70:30 split past a 30 percent hurdle for one fund.

Typically, the preferred return is calculated as an interest at an annual rate of a defined percentage (for example, 8 percent), compounded annually on a defined date (for example, December 31 or the date of the first drawdown), and calculated daily on the outstanding capital commitments.

American Carried Interest Waterfall Model

With the pure deal-by-deal carried interest model, payments are made to the Fund Manager out of the returns of a particular investment. This payment is made once investors have received the commitments drawn down for the investment (and that investment alone) plus a preferred return on that amount (there is no hurdle for the most extreme form of pure deal-by-deal with no hurdle and no claw back).

The commercial terms stipulate that on each realization a percentage of profits is allocated to the Fund Manager; there is no requirement for the manager to achieve an overall target rate of return; for the most extreme form, mentioned earlier in the paragraph, any losses on realization of other investments do not impact allocations to the Fund Manager, that is, no claw back. No account is taken of costs incurred in the fund, and carried interest is paid from the first profitable realization. Also, since the pure deal-by-deal carry model does not monitor the overall performance/return of the fund, modelling it is much easier than the whole-of-fund carry model.

Analysis of Fund Performance Metrics

As with any other financial asset, time and the amount of profit will adversely impact the outcome of the Fund's financial performance. The ultimate objective of the Fund Manager will always be to **maximize the amount of profit in the shortest possible time.**

To illustrate how these metrics are used, we will create a simple exercise calculating the financial returns of a 10-year venture capital fund. For sake of simplicity, this model will assume that 100% of commitments will be called in $t_{1,}$ and that all distribution proceeds will be returned to LPs in t_{10} (remember that this will not be the case in a real-life scenario, since capital is called and distributed across the fund's timeframe depending on the schedule of investments/divestments).

In this exercise, a USD 10 million fund is raised, with a 10-year term, 8% preferred return, 20% carried interest and 2% management fee (no other fees are charged to LPs). At the end of its term, the fund has increased its value to thirty million, effective generating a 3.0x ROI. The following table illustrates the Carried Interest waterfall of the fund (European version):

Step	Who receives it?	Cash Flow	Balance
0. Proceeds before waterfall		0	30,000,000
1. Investments and fees (fund size)	GP/LP	10,000,000	20,000,000
2. Preferred return (hurdle rate)	LP	11,473,357	8,526,643
3. Catch-up	GP	2,294,671	6,231,971
4a. Carry GP	GP	1,246,394	4,985,577
4b. Carry LP	LP	4,985,577	0
Total		**30,000,000**	

In this example, because the fund has returned more capital that the total commitments (ten million), the Fund Manager will effectively generate profit to all parties. As demonstrated in (2), the Fund Manager will not receive any profits until it has paid 100% of that amount to LPs. This means that a hurdle rate forces the Fund Manager to increase the value of the fund beyond the threshold of the hurdle rate to receive any profit (in this case, the threshold is 21,473,357 or 2.14x ROI). For any additional dollar generated in profit, and for up to 20% of the amount in (2), proceeds will be exclusively awarded to the Fund Manager (the catch-up). The remainder will be split 80:20 between LPs and the Fund Manager until all proceeds have been allocated, respectively.

When discussing performance metrics, the timing of the commitments and contributions, as well as the status of the realization of each investment will affect the TVPI, RVPI, DPI and PIC multiples, respectively. In the example above, since 100% of the capital has been returned to LPs (meaning that the profits have been "realized" and distributed), the DPI multiple is 2.0x (since twenty million are profits and ten million is the paid-in capital). This also means that all funds start with a DPI of 0.0x (which means that there are no realized profits yet).

If we assume that the value of all investments has not been converted yet into cash and delivered to LPs, then it must mean that it is still held in assets in the form of equity positions and other debentures. If that is the case, then the DPI is 0.0x, but the RVPI is 2.0x. The sum of both indicators becomes the TVPI, and it shows the total value of the fund regardless of whether the positions have been fully realized (transformed into cash) or unrealized (held at fair value).

The three indicators are used interchangeably to understand whether capital has been returned to LPs, and the proportion of the realized/unrealized assets held by the Fund. A high DPI but low RVPI means that the Fund Manager has completed the full investment cycle in many portfolio investments and has returned capital to LPs. A high RVPI and low DPI means that the Fund Manager is yet to exit from most of its portfolio companies but has increased the value of its positions. Therefore, a large DPI indicator is preferred.

When we factor the timeframe of such returns, the IRR is disclosed with and without the effect of fees/expenses (Net and Gross IRR, respectively):

Performance	GP	LP	Fund Net	Fund Gross
Commitment	-100,000	-9,900,000	-10,000,000	-8,000,000
Total Cash Flow	3,641,066	26,358,934	30,000,000	30,000,000
MOIC	**36.41x**	**2.66x**	**3.00x**	**3.75x**
IRR	43.26%	10.29%	11.61%	14.13%

To understand the performance of the Fund as a whole, there are two ways of calculating its returns: the first one, considering only gross proceeds, takes only into account the capital used to make investments and the total proceeds from their exit events. In this example, only eight million is used as a negative cashflow for purposes of calculating the IRR, since 20% of the total fund size was used to pay for expenses and fees throughout the life of the fund. Net indicators, on the contrary, include fees and expenses to make calculations. Therefore, and for most cases, gross returns will always be larger than net-level returns.

As discussed in previous sections of this Manual, the Fund Manager will most likely commit 1% of the total size of the fund (in this example, the Fund Manager commits 100,000 dollars). Using the cashflows described in the waterfall table, we can see that the Fund Manager's work has been rewarded: a 100K investment has returned more than 3.6 million dollars to the Fund Manager, generating a 36.41x ROI (or MOIC, multiple over invested capital), and an IRR of 43.26%.

A common mistake that many Fund Managers do is include the management fees that have been used as part of their IRR calculations. This is a wrong practice because management fees (in most cases and where most standard terms have been negotiated) must be returned to LPs before gaining any profit. As a closed-end type fund, the amount of capital that investors contribute to the fund cannot exceed their commitment, so the management fees, expenses and the capital used to make investments are all already included in the commitment since the very beginning.

In this example, LPs have also achieved a profitable return on their investment, since their commitment was multiplied by 2.66x (which means a 10.29% annual return). Because catch-up and carried interest proceeds awarded to the Fund Manager are deducted from the cash flows, LPs see a decrease in the proceeds distributed to them, which is the major explanation of why they receive a lower return than fund-level data.

A combination of multiples and IRRs will provide a comprehensive outlook of the overall performance of the fund, without thoroughly reviewing its financial statements. As a best practice, Fund Managers must disclose these indicators on a quarterly basis, using quarter-to-date, year-to-date and "since inception" timeframes.

XII. LP Management Framework

Overview

Up until now, this Manual has discussed everything related to the sourcing, analysis, investment, and management of Portfolio Companies. The rest of the Chapters in this Manual will touch upon the relationship between the Fund Manager and Limited Partners.

This Chapter focuses on the role of the Fund Manager during the subscription process of a potential investor to become a Limited Partner in the Fund. Although many investors have slightly different ways of approaching the process which may require the Fund Manager to change its framework (for example, the investor may request to exclusively engage with the Managing Partners or high-level executives within the firm and not deal with analysts, the meetings may be conducted exclusively on-site or the investor may request different questionnaires than those described in this Manual), the objectives of the process will most likely stay the same.

In general, the Fund Manager will use the following process to select, approach, and engage with potential investors and convince them of becoming a Limited Partner in the Fund:

Eligibility	First pitch	Discussion of terms*	Pivot and negotiate terms*	Due Diligence	Subscription process
Select which investors may have a high probability of becoming LPs	Introduce the company, the Fund and the reason why such investor may be interest in becoming an LP	Investors may further assess the investment thesis (sometimes it is referred to a pre-due diligence)	Investors may require the Fund Manager to accept certain terms and conditions before engaging in due diligence efforts	Investors will thoroughly assess the investment opportunity	Investors will approve the investment and commence the subscription process

a) **Eligibility.** In this step, the Fund Manager will look for potential investors and prepare himself to provide the information package to them, arrange meetings, and schedule his/her agenda to start the fundraising process. The best way for the Fund Manager to organize the process is to create a shortlist of potential investors that may be interested in investing in the Fund. It is not recommended to use a "spray and pray" technique since the process is time-consuming, resource-intensive (roadshow expenses may include arranging travel accommodations) and it is not considered a wise approach because a quite high percentage of meetings will not lead to subsequent efforts since the investor may not be interested at all in the Fund (even before the meeting takes place). As such, the purpose of this stage is for the Fund Manager to understand the market, the myriad of potential prospects, and shortlist them to reduce the fundraising timeframe to be as effective as possible. The Fund Manager may elect to follow the following guidelines and modify them as the Fund Manager may see fit to accommodate his/her objectives and management style:

   i. It is recommended to use a CRM (or a spreadsheet that behaves like a CRM) to understand the stage of each encounter, the information and tasks that need to be done to advance further into the process, the resources allocated, how many people the Fund Manager is interacting with, and, to let the Fund Manager organize itself to always ensure professionalism and efficiency.

   ii. The Fund Manager may create a shortlist of all the potential candidates that may become LPs based on a priority filter (closing probability, potential commitment amount, time-to closing, etc.).

   iii. In general, the Fund Manager must also consider the time needed for each investor since it greatly varies (a corporate may take less than 6 months to confirm its subscription, a high net-worth individual may confirm his desire to invest in a couple of weeks, or an institutional investor may carry its process for more than a year due to regulatory and compliance procedures in its process).

   iv. It is wise to work with attorneys and other third-party providers to create the most appropriate fund entity structure and offering documents before engaging with potential investors, since they may ask for them in subsequent steps.

   v. In general, before engaging with potential investors, it is recommended that the Fund Manager at least reviews a public DDQ to understand what kind of questions may arise at the time of the meeting, thus increasing the success probability of achieving a second and/or third "deep-dive" meeting.

   vi. It is important for the Fund Manager to understand the synergies that his/her investment thesis will create with the overall objectives of prospective investors. For example, an institutional investor that has a portfolio of aggrotech companies, may not find suitable an investment thesis that invests in the healthcare industry only. In that case, the institutional investor might not be able to continue the process since it does not "fit" within its investment mandate. In order words, potential LPs behave in the same way as the Fund Manager when approaching startups.

b) **First pitch.** Once the Fund Manager has scheduled its first meeting with the potential investor, the most important thing to remember is that the first meeting is about knowing and understanding the Fund Manager, not the Fund. As such, these meetings should be approached from a "human or social" perspective (there are a couple of instances where this is not the case). The first and most important thing to remember is that the Fund Manager must transmit the idea that he/she is a trustable partner (people are more likely to buy something from someone they like and trust). Therefore, the meeting should focus on describing the firm, the people behind it, and the value proposition (why does the Fund Manager believes that this person/entity should become an LP).

c) **Discussion of Terms (optional).** In some cases, the investor may ask the Fund Manager to send additional information to understand better the opportunity (but not as much as the amount of information requested in the due diligence step). Although this may seem a forward step into the process, it is not the due diligence stage, so the probability of an investor backing out of the deal continues to be high. In this step, a key element is to provide the requested information as fast and as complete as possible. It may be possible that the investor requires approval from a committee or a board of directors to continue the process. It may be possible that this step is not done until the due diligence is finished. It all depends on the investor, so the Fund Manager must be prepared to adjust its strategy accordingly. A key step then is to understand as early as possible how the process works with each investor.

d) **Pivot and negotiate terms.** Occasionally, the investor may be interested in pursuing a deal with the Fund Manager, but, because due diligence efforts are a very time-consuming process, the investor may opt to pre-negotiate the terms and conditions that must be included in the subscription documentation should the investor accepts to become an LP. This step benefits the investor because it will negotiate the most important terms that he/she will not back off from, which will expedite the decision-making process (if the Fund Manager does not accept a particular clause, then the investor can terminate the process without incurring additional expenses or time). Should the Fund Manager encounter a process with a step embedded in it, it is recommended that the discussion should be performed with the inclusion of his/her legal attorneys.

e) **Due diligence.** This step has the same objective as the due diligence that the Fund Manager uses to assess potential investment opportunities: the investor will ask the fund manager to compile a large set of documents and deliver it to the investor; he/she will then analyze and assess the information and request frequent meetings to discuss the findings of the information delivered to detect potential risks or red flags. More information is available in the following Sections to this Chapter.

f) **Subscription process.** Once the due diligence successfully concludes, the investor does not have a reason to not invest, and it has sought approval from a governing body (which is mentioned earlier in this document that could happen before or after the due diligence is executed), the investor will formally request to become an LP, in which case the Fund Manager will proceed to i) arrange the paperwork and send it to the investor, ii) perform KYC processes, or; iii) arrange any other customary procedure (for example, seek approval from the Advisory Committee, although this is something that should not be pursued since it is a quite inefficient effort) to approve his entrance as an LP. More information is available in the following Sections to this Chapter.

Data Rooms & Investor Due Diligence

In the same manner, the Fund Manager assess an investment opportunity by executing due diligence efforts, the investor might engage in the same procedures to understand the Fund Manager, its previous performance, and overall, to make sure that i) the Fund Manager understand what it is doing (particularly if the Fund Manager is a “First Time Fund Manager”), ii) the Fund has the correct assets/philosophy/strategies to execute the described investment thesis, ii) understand previous performance and value drivers that the Fund Manager has generated for its portfolio companies, iii) competitive advantages, iv) detect risks (conflict or interests, cases of misconduct, pending/current/previous litigation procedures and v) understand the legal framework of the Fund and how it affects the investor’s distribution proceeds.

As such, the following Section describes strategies, recommendations, and instructs about how to approach this step in the most efficient manner:

a) It is recommended to fill-out the ILPA Due Diligence questionnaire template (found in its website) before engaging with potential investors, since it is the most used question bank in the industry, and many investors use it to construct their own version of the questionnaire. Even if the Fund Manager expects that shortlisted investors may not use it, the document provides a thorough list of topics that the Fund Manager must assess to correctly execute the Fund’s strategy and its investments. It that case, the questionnaire will become a good “sanity check” for the Fund Manager’s strategy.

b) Most institutional investors have a big DD Information Questionnaire (DDQs) that ask information about the Fund Manager, the Fund structure, the markets in which the Fund will be investing, the sources and tools used to carry out the investment strategy, to name a few sections. The investor will not move forward into the process until such questionnaire has been completely fulfilled in a timely matter. Consider prioritizing resources to fill the questionnaire as quickly as possible to avoid any delays in the overall process.

c) Most investors will request that all information exchange shall be put inside a "Data Room", a place (mostly an online storage folder) where the investor will request the Fund Manager to store all documents that are related to the due diligence process. A few recommendations in this regard:

    i. Keep the info labeled to the investor who is entitled to receive it. If possible, watermarked the most sensitive files to avoid careless use of the documents.

    ii. Review conflict of interests for material, non-public information (signing an NDA might be an excellent choice given the level of sensitivity of the information shared).

    iii. Information requests are unpredictable and could result in a prolonged process. This process is facilitated when the Fund Manager carefully effectively assigns human resources to the process. In other words, the Fund Manager must arrange its team in such a way that the team, i) will be the same attending the investor throughout the whole process, ii) will not be overwhelmed with the amount of workload, ii) is knowledgeable about what information must be sent, how to create it and where to send it.

d) As the Fund Manager engages with more investors in the due diligence stage, it may realize that the information that is requested by all of them is the same (and most certainly, it will be the case). When this happens, the Fund Manager must not send the same type of documentation to all these investors, because although the information might be virtually the same, investors have different approaches to address the information requested. The investor might not then be satisfied with the way information was sent, and that could hurt the overall fundraising process, since the investor might require to re-send all information with the appropriate structure.

e) The Fund Manager must be prepared, from a time perspective, to attend many calls, meetings, and on-site revisions, since the investor will consider this stage as the most critical for purposes of confirming its subscription as an LP in the Fund.

The Side Letter

It may be that, as a condition to invest, the investor might require the Fund Manager to sign a Side Letter. A Side Letter is an agreement that is not part of the underlying or contract (such as the Fund's Agreement), and which some or all parties to the contract use to reach agreement on issues the primary contract does not cover or that need clarification or to amend the primary contract. As part of the Fund's legal framework, side letters should be under similar controls to any other contractual agreement, as they can have significant financial or operational impact, or expose the organization to risks of many types.

The reason why some investors might negotiate a side letter is, for the most part, i) to force the Fund Manager to attend certain customary regulatory procedures that the investor needs as part of its own operational framework, ii) change material terms and conditions of the Fund (such as the management fee percentage), iii) restrict or refrain the Fund Manager from doing certain actions (restriction on investments, on activities of the General Partner, conflict of interest resolutions, etc.), or iv) embed additional clauses that are not addressed in the Agreement.

The general strategy of signing side letters is to avoid them as much as possible, due to the peculiar way these contracts are addressed in case a problem arises (a side letter has the same force as the underlying or primary contract. However, the validity of side letters has been denied by some courts in specific circumstances).

A clause that the Fund Manager must be mindful of is the "Most Favored Nation" clause. Whenever a Side Letters offers this clause, it will state that the investor will have a "non-discriminatory right" to gain access to all rights that the Fund Manager has negotiated with other investors that have a better benefit for them. In order words, whatever the Fund Manager has negotiated with another investor that has a greater, positive impact, it will also apply to that investor as well.

While side letters and MFN rights add to the obligations and administrative duties of the Fund Manager, the side letter process may be made more manageable through careful consideration of appropriate side letter recipients and by limiting the scope of side letter provisions granted. Please consider the following practices:

a) Begin the formation process with a clear side letter strategy. Prepare a road map setting out who will receive side letters and MFN rights, and the scope of such MFN rights, and determine which team member will be responsible for monitoring compliance with side letter obligations and handling the MFN election process.

b) Consult with legal counsel regarding appropriate terms in the partnership agreement. Disclose the potential use of side letters in the private placement memorandum and ensure that the Fund's Agreement permits the use of side letters.

c) Standardize terms across letters. Standardizing side letter language to address areas of overlapping concern will ease monitoring and compliance burdens and limit the number of provisions available for the MFN election.

d) Consider including applicable side letter requests in the partnership agreement. Doing so will cut down on the number of side letter provisions granted, ease the administrative burden, and reduce or eliminate the MFN election process.

e) Tailor side letter provisions to specific facts and circumstances. Avoid generic provisions, confirmation of terms set out in the Agreement, and broad obligations regarding "in favor of" provisions that address the needs of a LP. For an LP seeking side letter comfort with respect to compliance with applicable law, regulation, or policy, require acknowledgment of the application of such law, regulation, or policy in the side letter.

   Additionally, for a limited partner seeking side letter comfort based upon its internal policy, seek confirmation that the policy is formal, in writing, and applicable to all similar investments.

f) Consider preparing a side letter summary. Summarizing side letter obligations in one document can provide an easy point of reference when negotiating side letter provisions with subsequent investors and for monitoring (and complying with) side letter obligations, particularly in circumstances where there are numerous side letters. Such summary should include each side letter provision granted, without duplication (such that any provision found in more than one side letter appears only once in the side letter summary), and, for compliance purposes, should note the beneficiary of each provision.

Subscription Process

Upon confirmation of an investor to become LP in the Fund, the following process is executed by the Fund Manager to integrate such investor into its LP base:

Confirmation Stage	KYC Form	Subscription Agreement	Capital Call Issuance
• Investor confirms its intention to become an LP	• The Investor completes the KYC form to make sure it complies with local regulation	• The Investor completes the subscription agreement that effectively confirms its participation as an LP.	• As an LP, the investor must contribute its pro-rata of all capital called up to that point.

A few considerations regarding the process:

a) In the confirmation stage, the Fund Manager must understand if the confirmation is binding, and if it has a timeframe attached to it (most institutional investors and corporates provide a timeframe in which the Fund must confirm its entrance, otherwise, it will be considered null and the whole process might start again).

b) The Side Letter is signed at the same time as the Subscription Agreement, so the Fund Manager must make sure that the contents of the Letter have been thoroughly reviewed and that a "definitive version" has been agreed upon by all parties.

c) When calling capital, the Fund Manager must remind itself that the investor is bound by the same terms and conditions stated in the Agreement. As such, the Fund Manager must make sure that the investor has sufficient liquidity to attend the capital call notice. As a rule of thumb, the investor has close to fifteen business days to contribute the called capital to the Fund.

Investor KYC

When the investor confirms its participation as an LP into the Fund, the Fund Manager must execute a "Know-your-Consumer" process to understand who the investor is, where does the investment proceeds come from, if the investor has the sufficient knowledge, assets and risk sensibility to withstand potential losses from such investment, and overall, to create a "profile" of the investor to understand who the investor is, for both internal and regulatory purposes.

It is important to understand that the KYC process must be carried out according to regulatory procedures described in the Fund's Agreement, as well as the legal framework of the country that the Fund structure is incorporated in. The Fund Manager must understand the requirements that the legislation states for purposes of constructing this "investor profiling" and making sure that the investor has fulfilled, from a legal perspective, the requirements that are necessary to become an investor in the Fund. A basic template is attached to this Manual and shall be modified by the Fund Manager to comply with the appropriate regulatory framework.

Data Security & Classification

It is expected that the Fund Manager will use both internal and external information sources to manage the Fund daily. The information should be safely stored and classified as it handles stakeholder's material and non-material information (from both public and private sources). It is recommended that the Fund Manager use the following classification list to understand which information must be treated as confidential, and develop a policy that contains safe locking mechanisms and restricted access to employees depending on the priority level of confidentiality:

Type of record	Examples	Who may have access?	Location of the Information
Public Non-Material Information	Market research reports, news articles,	Everyone	Cloud storage service, Internet (via bookmarks and other location services)
Portfolio Material & Non-Material Information	Financial statements, Management reports, Marketing documentation	Investment Team, Operations Team Investor Relations & Marketing Team	Cloud storage service that is shared only with specific employees. Logged information about its usage may be recorded.
Fund Operations	Fund Financial statements, ledger accounts, bank statements	Investment Team & Operations Team	Physical paper stored in a secured compartment with only few keys. Cloud storage service that is shared only with specific employees. Logged information about its usage is recorded.
Stakeholder Material Information	Subscription Bylaws, LP personal information, bank accounts, etc.	Investment Team & Operations Team	Physical paper in a secured compartment with only few keys. Cloud storage service that is shared only with specific employees. Logged information about its usage is recorded.

When information is received, processed, and stored, the Fund Manager may use the following policy to determine the risk, level of sensitivity and risk-mitigation strategies of the information used and the levels of assessment that must be done to process each piece of information to avoid potential errors:

Assessment	Policies and Rules	Risk-mitigation rationale
Information Completeness	Batch totaling: transactions are grouped and counted. After input and processing, the batch is compared against the initial balance.	The technique helps discover exceptions and un-matched data
	Sequence checking: transactions are expected to be processed	Detection of missing or duplicate sequence information
	Computer matching: Each record entered for processing is compared to a control file	Unmatched records are reported to management.
	One-for-one checking: Source documents are compared to a report of transactions.	Ensures that the transaction was processed once and only once.
Information Accuracy	Reasonableness check	Data falls within predetermined limits.
	Dependency check	The relationship among data elements is logical
	Existence check	Data is compared to a file of data for that file
Information Validity	Manual authorization	An appropriate employee of the Fund reviews and approves the validity of each transaction.
	One-for-one checking	Manual authorization could be checked on source documents when executing such policy, for purposes of achieving the completeness and / or accuracy information processing objectives.
Restriction of Access	Data security	Information is only stored in approved offline and online media.
	File reconciliations	Key employees may regularly reconcile file totals with an independently maintained control to ensure that unauthorized changes have not occurred.
	Detailed checking of data	Period review of key data elements to ensure that proper calculations are being made.

Expense Categorization

Accounting for expenses and income in private equity funds at the fund level is not a particularly challenging task, since the amount of these events are easily registered, quick to calculate and have a low volume (compared to a traditional company). The Fund Manager must expect a few expenses-based invoices each quarter, and these expenses can be legal fees, tax advice, fund administration services (if accounting has been outsourced to a fund administrator) or other professional fees.

Nevertheless, it is important to understand that the most significant expense is the management fee, which is the most important in terms of value and scrutiny, since LPs will carefully follow the calculation, disbursement, and use of this fee during the Fund's term. The Fund

Manager's administration entity, however, will have a high volume of income and expenses, and as such, the most essential element in this Section is to understand that expenses carried out by the Fund will be different from those borne by the Manager's management company, and should not be mixed in the process. A simple rule must then be followed: The Fund Manager must keep every transaction separate on an entity level (Fund's expense transactions must be processed separately from those transactions that are executed in the management company).

Organizational expenses, which may be expenses defined in the Bylaws, are preliminary expenses or establishment costs that are incurred when establishing and organizing the Fund and the sale of interests (in the case of a partnership), including all out-of-pocket, legal, accounting, printing, travel and filing fees and expenses, but usually excluding placement fees. In some cases, it is specified that organizational expenses should be paid/incurred by the Fund and if the general partner (GP), the manager or its affiliates pay on behalf of the fund, the fund should reimburse them by recharging those expenses to them.

The amount of organizational expenses to be incurred by the Fund may be limited either in absolute terms (for example, a capped amount), as a percentage of the size of the fund or the lesser of these. Excess organizational/preliminary expenses/establishment costs mean the amount of organizational expenses has exceed the preestablished threshold, in which case, the surplus of that amount will be borne by the Fund Manager, often through the management fee.

Fund expenses, also referred as partnership expenses or ongoing expenses, are incurred by the Fund, or arise out of its operations and activities. Examples of fund/partnership/ongoing expenses are as follows:

a) Legal, custodial, administrative, and accounting expenses, including expenses associated with the preparation of the fund's financial statements and tax returns and reports.

b) Auditing, banking, and consulting expenses.

c) Costs of investor reporting and annual meetings.

d) Appraisal expenses related to the fund's assets and potential investments.

e) Investment due diligence fees and expenses related to organizing special purpose vehicles (SPVs).

f) Advisory committee expenses.

g) Taxes and other governmental charges, fees, and duties payable by the fund (including value-added tax (VAT) for European funds), other than taxes withheld from distributions to the partners or otherwise paid by them.

h) Insurance premiums protecting the fund, usually to the extent that the cost of a premium is not reimbursed by a portfolio company or third party.

i) Costs and expense of winding up and liquidating the fund. In some cases, these wind-up/termination costs/expenses may be separated from the fund/partnership/ongoing expenses.

Like organizational/preliminary/establishment expenses, these are to be paid/incurred by the Fund and if the GP, manager, or its affiliates pay on behalf of the fund, the fund should reimburse them. Although they are usually both borne by the Fund, the fund/partnership/ongoing expenses do not include and are separated from the organizational expenses (and sometimes the wind-up costs/expenses) which may be treated differently for accounting purposes under different GAAPs. Although nowadays they tend to be treated by most recognized accounting frameworks as a current expense as opposed to amortizing it over a period.

The Fund may incur in other types of expenses that may differ in the calculation and recognition as per the Bylaws' rules. It is recommended that the Fund Manager carefully select and prioritize which expenses will be mostly likely incurred during the life of the Fund, so that the proper wording can be introduced in the Bylaws. The following list explains several types of expenses that are used in Private Equity and Venture Capital accounting:

a) **Placement fees.** These fees are paid to (or due to) placement agents in connection with the marketing and sale of partnership interests (or company's shares, depending on how the Fund is structured). Fund/partnership/ongoing expenses do not usually include placement fees which are usually borne by the Fund Manager, the reason being that as they are similar to a marketing expense to market the fund and because the fund expenses are typically funded by the LPs through **drawdowns, it would not be fair to expect investors to pay the bill for finding other investors.**

b) **Deal costs.** These expenses are related to the acquisition of portfolio investments or as lawyers refer to them, "consummated portfolio investments." They often fall within the definition of and are listed in the examples of fund/partnership expenses and would typically include due diligence, legal and tax advice, evaluation, acquisition, holding and disposition in relation to portfolio investments, usually to the extent that such fees and expenses are not reimbursed by a portfolio company or third party.

c) **Broken deal** fees**.** These costs are paid by the Fund and relate to proposed but unconsummated investments, or in other words, aborted deals, usually to the extent that such fees and expenses are not reimbursed by a third party. As with deal costs, they usually fall within this definition and are listed in the Bylaws as an example of fund/partnerships expenses and would typically include items like the deal costs/expenses, only for deals that have been aborted.

Investor & Capital Account Management Overview

This Section outlines two major relationships between the Fund Manager and LPs. The first one will be related to the management of the LP's Capital Account, which is related to how the investor will contribute capital, how the Fund Manager will ask for those contributions, and the description of the performance of such contributions throughout time. In other words, the first relationship is capital-based and how it will impact the Fund's cash reserves (capital calls) and the investor's cash performance (described through the Capital Account Statement).

The next relationship describes how the information will be exchanged between the Fund Manager and LPs. Most of the time, LPs will have a right to conduct activities that may help them understand the performance of the Fund by requesting certain information documents that may have to be prepared by the Fund Manager (in addition to the standard quarterly and/or annual information packages). This section also describes how the Fund Manager should approach those requests, as well as recommendations regarding the sensibility of the requests, the process behind attending those requests, and the implications of providing that information to LPs.

Capital Calls

Subject to rules established in the Fund's Bylaws, the Fund Manager will issue a "Capital Call Notice", a document that describes the amount of capital that each LP must contribute to the partnership to i) make a new or follow-on investment, ii) pay for expenses described in the Bylaws, and/or iii) make customary contributions that fulfill a particular requirement from the Fund Manager. These amounts are typically pro-rated according to each LP's ownership percentage of the Fund and are followed by a set of guidelines and restrictions outlined in the Bylaws.

The Fund Manager must make sure that the following conditions are met before issuing a Capital Call Notice:

a) The Fund Manager must consider the liquidity status of the Fund. Current bank account balances expected proceeds from a potential sale of a Portfolio Company, and contributions from late LPs (or the lack thereof) should be considered before proceeding to calculate the total amount that will be contributed from all LPs. Since each contribution is used for purposes of calculating returns (and therefore, the total waterfall scheme), it would be wise then to maintain the least possible amount reserved in the bank account, since that money has a cost equal to the preferred return of the total distribution waterfall[5].

b) The Fund Manager must consider defaulting investors or those investors that lag its contribution schedule. In most funds, the general rule is that all capital call notices are based on a pro-rata calculation (each partner contributes an equal percentage of its commitment); if one investor has not completely contributed its corresponding share, or if such investor becomes a defaulting partner (they cannot pay any current, previous or future calls anymore), the Fund then might not be able to fulfill its investment schedule and/or fail to provide the adequate budget to the Fund Manager to continue its operations. If the Fund Manager falls

[5] *Although European waterfalls are the preferred option among investors, the Fund Manager must nevertheless review the terms and conditions in the Bylaws regarding the type of waterfall use, its restrictions and the indicators that are used to calculate to validate whether having unused money in bank accounts is a prudent decision from an economic and financial standpoint.*

into any of the situations previously mentioned, the Fund Manager must make sure that the Bylaws has the possibility to call additional capital from those non-defaulting LPs to fulfill its obligations towards its portfolio companies.

c) The Fund Manager must consider the timeframe of each capital disbursement and the number of Capital Call Notices issued each year (or at least on a quarterly basis). It is recommended that the Fund Manager prepares a "disbursement schedule", a document describing the number of disbursements that the Fund will make throughout the year, who will be receiving those disbursements, the expected date of transfer, and the use of such proceeds (whether that capital will be used as an investment or expense), to understand how many Notices should the Fund Manager issue, when should he/she send them and the expected timeframe that these notices will be fulfilled (a typical Notice has a 15-day fulfillment requirement) that should be in line with the expected dates of disbursement. The Fund Manager should try to issue Notices that have similar timeframes between them so that LPs can have sufficient time to complete them and avoid urgent Notices as much as possible.

In each Notice, the Fund Manager should consider the following as a general practice:

a) Transaction details should be presented from an accounting perspective, consistent with how the transaction will be accounted for within the Fund's records. If the Fund Manager is calling an estimated account, a reconciliation of such estimation should be presented in the next Notice and how it might impact the LP's capital account balance.

b) The Fund Manager should always include information about the LP's unfunded commitment, cumulative contributions, and cumulative distributions.

c) At a minimum, the Notice should describe the cumulative amounts that have been called for a particular item (such as a portfolio company investment or an expense allocation), information about the calculation of management fees (including offsets and cumulative balances), waterfall details that affect the overall balance of the LP account, LP's share of the fund, as a percentage of aggregate commitments, the overall balance of the LP (whether it is up to date with contributions or has any preceding pending amount to be contributed) and any other indicator LPs must understand and that relates to the status of their contributions.

LP Requests & Access to Information

Subject to the Bylaws' clauses regarding access to records, accounts and other information produced by the Fund Manager, LPs will generally have the right to ask information about the status of their investments, which might require the development of certain documents by the Fund Manager which are additional to those that are normally issued on a quarterly or annual basis. As such, it is recommended that the Fund Manager reviews the rights and obligations outlined inside letters and other customary documentation that current and/or potential investors might request and integrate them into the reporting framework to avoid time constraints or a sudden spike in workload.

Before the subscription process, the Fund Manager must have conducted a KYC procedure to understand, among other things, the objectives that investors are expecting to achieve with the investment. In that procedure, the Fund Manager must make sure that there are no potential conflicts of interest that may arise from such commitment. For example, an investor could be an LP of another fund that is a direct competitor to the Fund Manager and could use quarterly reports to disseminate information.

In those instances where the Fund Manager may realize that the information shared may become a potential conflict of interest, it is recommended that the Fund Manager discusses the scope and limits about the information that these investors might get in quarterly or annual reports (particularly for information about the portfolio companies) since that information may be misused and could damage the performance of the Fund. A quick way to resolve those situations is to create a report where the information regarding the LP's individual investment performance is thoroughly disclosed, except for the information that describes the overall performance of the Fund or each individual Portfolio Company; the Fund Manager may use indexes (meaning a time series will describe the performance of indicator that starts in the year in which the Fund invested in that particular company and will have a baseline of 1 or 100%) to describe the growth and performance of those companies or show charts that describe trends but will not disclose the units that describe such charts. As always, these actions must be aligned with the appropriate terms described in the Bylaws that relate to conflicts of interest, information disclosure, and investor rights to avoid a potential violation of the Bylaws.

The Fund Manager must create a formal procedure to attend any information requests initiated by LPs (such as quarterly or annual reports): all information that must be disclosed as per the Bylaws' clauses must have a timeframe and a delivery framework that is sufficient for the Fund Manager to be able to complete in a timely manner. For any information that is additionally requested and that it is not found in the Bylaws' framework, the Fund Manager must have the following process to assess a request and process it with the uttermost care since the data inputs to be used might be sensible to other parties, such as LPs and Portfolio Companies:

Information request is initiated by LPs → **Investment team assesses the request** → **Key Persons decide whether the request can be fulfilled** → **Information is produced** → **Information is delivered**

For example, a request is initiated by LP describing that it needs information about the ratio of female employees to male employees for each Portfolio Company. In the next step, the investment team would analyze the request and confirm whether it can fulfill the information given the scope of the request. If so, then, before compiling the report, the Key Persons must make sure that the information can be completed by answering the following questions:

a. Do we have the data needed to develop and deliver the request?

b. Will the information requested not result in a breach in any confidentiality agreement with the party involved (in this case, all portfolio companies)?

c. Will the information be available in a timely manner and within the expected timeframe visualized by the LP?

If the Key Persons answer a "Yes" to each question described above, then the investment team would carry on and fulfill the request, otherwise, the Key Persons will have to discuss with the LP about the potential negative implications of such request that could damage the Fund's performance or any other third party.

XIII. Templates and Other Important Documentation

Teaser Template

COMPANY NAME [LOGO]

High-level Information		Corporate & Investment Round Information	
Founded	*Year*	Total Capital Invested	*How much capital has been invested to date?*
Website	*www.xxx.com*	Pre-Money / Valuation Cap	*What is the current valuation? Use Cap if raising through a convertible note / SAFE*
Industry	*Use NAICs or internal classification*	Investment Round & Vehicle	*How much capital are you raising and the series? Through what vehicle are we investing?*
Country of Incorporation/Foundation	*Where is the legal entity (only holding)? Country of where the company was founded can be used instead.*	Equity Purchased	*What % of the company investors will be purchasing? (Only if raising equity, otherwise, write N/A)*
Countries of Operation	*Use three-letter abbreviations*	Use of Proceeds	*How will you be using the capital raised? Use percentages %*
Equity Structure	*Founding Team - %* *Investors (Current) - %* *Other - %*	Last Round Raised	*How much capital have you raised during your previous round? At what valuation? When was it? (If you have never raised a round, please write: 100% Bootstrapped)*
		Identity of Past Investors	*Please provide the name of past institutional investors*

Product / Service – Project Description

What is the solution for the problem? What necessity is being covered? How is it being tackled/solved? What is the Service/Product bringing to the table? How is it disruptive?

The Problem & The Market

What is the situational problem that needs to be solved? What are people forced to do now because they do not know about the solution? What is the market addressed?

Business Model - Monetization

How the Company creates, delivers, and captures value? This section should address the monetization model and its logic.

Distribution Channels & Go-to Market Strategy

Describe how the product is channeled to the end costumer. What are the different means of proposing the product/service?

Competitive Landscape

How fragmented is the market? Who are the major players?

Competitive Advantages

Describe the characteristics of your competitive advantages (technology, partnerships etc.).

Management Team

Please give the names of the Key Personnel (no more than five names), their position and their country of origin.

Advisors and/or Key Partners

Please give the names of Advisors (Board Members) and/or Key Partners (no more than five names), their position in the Company and their position outside of the Company

Milestones & Achievements

Please mention any achievement or milestone that validates the business model, product, and overall, the performance of the Company. Such milestones should be meaningful and recent.

Key Assumptions over Valuation

Briefly describe how the valuation was calculated and the key assumptions made.

KFIs/KPIs

[The Fund Manager may put a general table that contains several KPIs/KFIs in the Teaser; it is recommended that no more than 5 KPIs should be used in the table].

Additional Information

What should we know that it is not described in the sections above? Is there anything else we must know?

Investment Memo

Score System	1 pt. Deficient	2 pts. Insufficient	3 pts. Acceptable	4 pts. Outstanding	5 pts. Excellent

	Parameters	Reference Questions	Weight	Category Score	Highlights	Downsides
Macroeconomics (10%)	Market size/potential (scale) *Is the target market large enough to support substantial growth? Has the industry been growing rapidly?*	1	20%			
	Competitive landscape *Are there too many competitors? Is the Company operating in a niche market? How difficult will be to penetrate the market?*	2	40%			
	Market fit (scope) *Are the potential costumers ready to use the product/service? Tropicalization issue. Is the project really addressing a need? Has the costumer targeted already adopted the means to understand the product/service? Timing*	3	40%			
Value Prop. / Comp. Advantage (25%)	Product/Service Innovation *Does the product core potential rely on deep technologies? Is the project hardware or software oriented? Any Barriers to entry?*	5 & 6	40%			
	Distribution Channels *How complete is the revenue stream? Is the value-chain process solved? Can it be bettered?*	4 & 6	20%			
	Monetization / Scalability *How is it going to make money? Does it make sense? Is the model of high-growth potential? How quickly can it be grown?*	7 & 6	40%			
Strat. Planning (15%)	Customer Acquisition & Retention (Go-to-Market) *Does the Company have a clear plan to acquire clients? How complete is the entrepreneur's sale strategy?*	10	25%			
	Strategic Partnerships *Are partnerships pursued? Are they promising? Does the entrepreneur rely heavily on them?*	8 & 9	25%			
	Product Development *How is the product going to become better? Is it ready to deliver the product to the customer?*	9, 11, 12	25%			
	Expansion Plan *Does the entrepreneur have a clear, logical, and exciting approach to reach new costumers (bettering value chain, platform, etc.)*	9 & 12	25%			
Traction (25%)	Profitability *At what level is the company profitable? How achievable? What are its unit economics?*	9, 13	25%			
	Customer Loyalty *Are the customers piling up and staying in?*	14 b) c)	25%			
	Actual Revenue Growth vs. Forecasted Revenue *How aligned is earned revenue versus budget? Is earned revenue far below projected revenue? Is earned revenue significant enough to maintain forecasted growth rates? Is it realistic?*	14 a) f)	25%			
	Milestones *Are milestones enough evidence to reflect the company's success in the future?*	15	25%			
Management Team (15%)	Expertise and Knowledge *Does the entrepreneur have enough experience in the sector? Does the management team have an expert in product development? How are the advisors are going to be leveraged?*	16, 17	40%			
	Presentation and Sales skills *Is it a good seller? Does the entrepreneur have a good English knowledge base? Is the presentation good enough to properly sell the deal?*	Analyst	30%			
	Incentives & Motivation	18, 19	30%			

	Why are they doing this? Is the deal good enough for the team to be motivated?		
Portfolio Onboarding (10%)	Use of Proceeds *Is the money raised sufficient to complete all the entrepreneur's objectives? Does the proceeds allocation make sense? Does the invest round have an efficient capital deployment plan?*	10, 14 d) e)	20%
	Valuation attractiveness *Does the valuation make sense with what we have seen in the market?*	20	40%
	Exit feasibility *How likely will a strategic buy-out occur? Does the entrepreneur have an unobstructed vision of? Would the timing of the investment of the Fund fit into the projected potential exit?*	13	40%
	Investment Memo SCORE		

Instructions to use the Investment Memo

- The purpose of this Memo is to create a SWOT report that describes the main value drivers of the Company and see whether it is worth the time to advance forward into next stages (such as Due Diligence, for example). To measure how "attractive" an investment opportunity is, the Fund Manager must grade each item in the table according to the weights described in the parameter column and the weight column (this assessment has two weights that will affect overall score). In this example, the assessment has a maximum grade of 100 points (20 categories with a maximum grade of 5 points each).
- The analysis should be carried out as objectively as possible and based on what the Fund Manager considers important. As such, the table provides with a sample grade system. The Fund Manager is welcomed to adjust it to fit its own needs
- To have a more objective assessment, the "Reference Questions" column is a section that guides the Fund Manager through its thought process by providing ideas, tips and things that must be considered to grade each section.

Reference Questions

Macroeconomics - Industry/Market

Industry characteristics - KPIs

1. In which industry is your project operating and how fast is it growing? What are the market's main drivers/KPIs?
   a. How large is the industry? Can it support substantial growth?
   b. Is the industry of high growth potential?
   c. Does the entrepreneur understand its industry and its main drivers and KPIs?

Competition –Industry Fragmentation

2. Please write about your major competition in and outside the region and their respective share of the market. How do they stand against you? How do you plan to penetrate the market?
   a. Is the industry fragmented? Or is it a niche market?
   b. Is there a market for the Company to penetrate?
   c. Are there any Big Player that could create difficulties to penetrate the market?
   d. Is there an oligopoly? If so, would it cause dominant players to rely on the Company?
   e. Are there similar startups raising capital around the world?
   f. This question can assist the analyst in his/her understanding of the Approach to take

Market fit – Client Readiness

3. Describe your customer. Who is he/she? Why is he/she buying your solution?
   a. Is the product really addressing a need?
   b. Why will clients make the move to this product? service (ease-of-use, user experience, etc.)?
   c. Timing: Is the targeted client ready to make the move to the new product/service (e.g., has he been trained to understand the product/service (technology, online platform, etc.)?
   d. Tropicalization issue
   e. Does the entrepreneur understand his/her clients?

Value Proposition

Business Model Maturity and Distribution Channels

4. Describe the process of how your customer purchases your solution. Explain how your value-chain engages in the process.
   a. Has the company solved its value chain? Is it ready to deliver the product to the customer?
   b. Is it innovative? Does it allow him/her to have a competitive advantage?

Competitive Advantage

5. Which is more important to the success of your solution, hardware, or software?
   a. Did the Company develop a technology capable of eliminating competition?
   b. Does the product core potential have deep technologies (such as an algorithm or AI maximizing efficiency)?
   c. Is the IT patented and unique?
   d. Is the Company really addressing a need of the costumer?
   e. Does the project have a strong hardware component (which would provide friction (providers, supply chain, logistics), or does it rely heavily on software?
6. What are the assets (both tangible and intangible) that the Company is building / developing to generate additional barriers of entry?
   a. Barriers to entry
   b. Patent & IP rights: the core of the technology must be proprietary to have a sustainable competitive advantage
   c. Why would the entrepreneur's project be difficult for someone else to replicate? How will he/she make it hard for competitors to steal his/her customers?

Monetization

7. How is the company going to make money? Have you clearly defined your monetization model? How can it trigger high growth? Will it evolve with time?
   a. Does the monetization model make sense? How was it defined?
   b. Is the average ticket sufficient for the project to be highly scalable?
   c. Does the project offer a niche monetization model?
   d. Does the entrepreneur clearly understand why its monetization model was designed this way?

Vision & Strategy

Company development

8. Tell us about your company's strategic partnerships. How are they important to your project's success? How dependent are you from them?
   a. Did the entrepreneur seek partnerships? How valuable are these?
   b. Did he/she show initiative in obtain those?
   c. Is the project dependent on key partnerships to be successful?

Business Model Validation

9. How do you measure your project's success?
   a. Does the entrepreneur understand what will make his company successful?
   b. Does he have a clear understanding of how his Company will become profitable?
   c. Is the entrepreneur profit-driven?
   d. Has he/she the capacity to successfully tackle upcoming difficulties?
   e. Has he/she evaluated his assumptions in the market?
   f. Is the business model validated?
   g. What are the company's KPIs, KFIs which will be key for his/her project to succeed?

Customer Acquisition (Marketing) - Go-To-Market

10. What is your strategy to acquire new clients? In what proportions will you use the raised capital towards marketing? Why?
    a. Does the entrepreneur have a clear picture on how he/she will focus his/her marketing budget?
    b. Marketing ROI, CAC, etc.
    c. Organic Growth vs. Marketing
    d. Viral potential – word of mouth vs. paid advertising (referral program, etc.)
    e. Is this a push-based model (where the supplier "pushes" the client to purchase) or a pull-based model (where the client is naturally drawn to the product/service)?

Product Development

11. How will you make your product/service better and more popular in time? How is the client going to keep buying your product/service?
    a. Understanding the process from the Company strategy to the product
    b. How will the product evolve? What are the processes that will allow the product/service to become its better version?
    c. Will the product development allow stronger customer retention?

Strategy Development – Expansion plan

12. What is your strategy to expand to new markets for the next three years? Please provide a roadmap of the company's expansion efforts.
    a. Short-term expansion plan (platform launch, offline/online stores, etc.)
    b. Go-to-market strategy
    c. How fast can the project be implemented and scaled-up
    d. Potential acquisitions
    e. New product-lines, development objectives
    f. Capacity to grow rapidly in the short-term
    g. Will the strategy allow for exponential growth?
    h. Is it sufficiently ambitious?
    i. Does he/she understand the risks his/her project needs to tackle?

Exits

13. At what point does the Company need to grow for a potential strategic buyer to acquire it? How do you envision your exit?
    a. Can the Company grow fast enough within the Fund exit timeframe to successfully be bought out?
    b. How will buy-out occur (strategy and timeframe)
    c. Is the entrepreneur's vision aligned with the Fund's objectives?
    d. Are the exit possibilities attractive, possible, or desirable?

Traction

Traction

14. Please provide a short statement (1 sentence) regarding your Company's traction over the following indicators. We are looking for KPIs/KFIs (Revenue / Sales, growth (last 12 months), customer acquisition, Cash-on-Hand, burn-rate, run-rate
    a. Is the value proposition of the project validated by users/customers that pay for the product?
    b. Have users adopted it fast enough?
    c. Check ratings (google store, etc.) to verify satisfaction levels
    d. Check Similar Web to measure existing client-base
15. Please describe your most important milestones to date and explain how they helped you bring the Company to the next level?
    a. Were the milestones completed aligned with what the entrepreneur had envisioned?
    b. Are the milestones completing a clear signal of future rapid growth?

Team Capacity

Experience & Ability

16. Tell us something about the top three key personnel in the Company. Why are they the most suitable for the Company?
    a. High level of ability and relevant experience of Management Team.
    b. Is the entrepreneur prepared to face hurdles/problems with his company?
    c. Does he/she have the tools to find solutions?
    d. Has he/she shown past exits to demonstrate this?
    e. Will the entrepreneur be able to adapt to the market, create key partnerships, evolve his product/service?
    f. Does the Team have core members that are builders, IT experts: external advisers, junior partners, or software shops, etc. are a negative?
17. Tell us briefly about your advisory board (if any). How do they add value to the Company?
    a. Are the advisors professionally qualified to assist the project?
    b. Are the advisors helping in business development?
    c. How are they leveraged?
    d. Are they active advisors?

Motivation – Entrepreneur commitment

18. How does the Company make sure that the management team will be working for the Company for the next 5 years? What assurances will be made available to keep them motivated?
    a. Motivations of the Managerial Team
    b. Motivations of the Employees – Pulls and Push
    c. Is there an employee stock-option pool?
19. Is the management team's time allocated 100% to the Company? Is any of them working at another company? If so, please explain.
    a. How committed is the Management Team to the success of the project?

Funding

Valuation

20. Please explain in 2-3 sentences max. how you determined your valuation.
    a. Does the valuation make sense with regards to the market?
    b. Are revenues, EBITDA, large enough to justify the valuation?
    c. Is the valuation attractive?

Risks

Risks

21. What are the major risks that could cause the Company to fail? Entry of a Big Player in the market, IP or legal issues, technological failures, etc.
    a. that you are lacking now that could power the strategy and provide a better value proposition?
    b. Clear vision of obstacle and how to keep them in check

Due Diligence Information Checklist

[Month] [Day #], [Year]

[Name of the Entrepreneur]
[Position at the Company]
[Company Legal Name (Commercial Name)]

To facilitate the due diligence process to be conducted in connection with the proposed investment by [*] (the "Fund") and certain affiliates of the Fund (the "Investors") in [Company Legal Name] (the "Company"), we request the information listed in the attached checklist. References to the "Company" should be deemed to include the Company, its subsidiaries, joint ventures, and their respective predecessors.

As you gather and deliver the information requested, please update the below checklist's 'Delivery Status' column. There, you can specify whether the requested information is 'ready for review,' 'in process,' 'unavailable' or 'inapplicable.' All checklist items marked as 'ready for review' in the 'Delivery Status' column must be provided in the corresponding [cloud storage file / data room / enclosed USB Drive / access link] (example: The Company's Certificate of Incorporation must be added to folder "one. Corporate Matters" and sub-folder "1.1. Certificate of Incorporation").

Failure to provide the requested information in a timely manner, may cause The Fund to reject the Company for further review, discontinuing the Investment Process in the Company. The Fund may require additional information that is not listed within the attached checklist during and after the due diligence process.

The information requested represents a standard due diligence effort, and it tries to be exhaustive. It is understood that some items may not apply to the Company, its subsidiaries, and joint ventures. If any item does not apply to the Company, please market it as 'inapplicable' in the 'Delivery Status' column of the checklist below.

We appreciate the effort required to prepare and submit the requested information. In the event of any questions, comments, or concerns, please do not hesitate to contact the sender of this document or call our offices at [Office Phone Number] during our business hours.
Sincerely,

[GP Name & Signature]

#		Information List	Delivery Status[6]	Document(s) Title	Comments
1.		**Corporate Matters**			
	1.1.	The Company's certificate of incorporation, including any amendments.			
	1.2.	The Company's bylaws, including any amendments.			
	1.3.	Minutes or other records of all meetings, actions, and resolutions of the board of directors and any board committees.			
	1.4.	Minutes and other records of all meetings, actions, and resolutions of the Company's shareholders.			
	1.5.	Communications with shareholders – All reports and any other letters to shareholders.			
	1.6.	List of all domestic and foreign jurisdictions in which the Company has an office, owns, or leases property, where employees are located, or is otherwise licensed to do business.			
	1.7.	Charter and by-laws of each wholly or partially owned subsidiary of the Company and of any joint venture involving the Company or any of its subsidiaries.			
	1.8.	The Company's proposed term sheet and Stock Purchasing Agreement (if any) or related documentation prone to be signed.			
2.		**Capitalization**			
	2.1.	Cap Table: a current list of shareholders, option holders, warrant holders and other persons that own securities of the Company or that have any rights regarding the securities of the Company (e.g., holders of convertible notes). Please provide information as to the name of the individual or entity, the type and number of shares, the issuance date, the sale price, exercise price, vesting terms (incl. cliffs) and any other relevant information.			*Preferred Format: Formula-Linked Excel*
	2.2.	The Company's stock ledger or stock transfer books.			*Preferred Format: Formula-Linked Excel*
	2.3.	Copies of all stock, certificates, debt, warrants, notes, etc., representing all securities issued by the Company (incl. any securities issued in the current financing round).			
	2.4.	Documents detailing outstanding stock plans, including option agreements.			
	2.5.	Other agreements relating to: a. Security voting rights b. Share transfer restrictions, including rights of first refusal and co-sale rights c. Pre-emptive or other preferential rights to acquire securities d. Registration rights and e. Other stockholder rights, whether the Company is a party to those agreements			
	2.6.	Evidence of qualification or exemption under applicable federal and state securities laws for all issuances and transfers of Company securities, including Holdings and Parent Companies.			
3.		**Intellectual Property**			

[6] If the document requested does not apply to the Company, please write "inapplicable" in the *Delivery Status* column.

	3.1.	A list of all patents, trademarks, service marks, trade names, copyrights, domain names, licenses, and similar proprietary rights owned or licensed by the Company or used (or expected to be used) in its business.			
	3.2.	Pending patent, copyright and trademark applications, searches, and registrations.			
	3.3.	Any joint ventures, development agreements or other agreements with third parties relating to the development of inventions, technology, or intellectual property.			
	3.4.	A list of third party, shareholder, or employee protected intellectual property /technology that is used by the Company or incorporated in the Company's products or services or otherwise material to the business.			
	3.5.	Form of proprietary information and invention agreements signed by past and present employees.			
	3.6.	A list of any employees or consultants who have not signed proprietary information and invention agreements, including a list of any periods of time when employees or consultants performed services for the Company while not bound by such agreements.			
4.		Market Analysis			
	4.1.	Market sizing and forecast models for each of the Company's business lines (please provide sources for all model assumptions).			*Preferred Format: Formula-Linked Excel*
	4.2.	Explanation of material market growth drivers for the Company's core business lines on every relevant geography.			
5.		Competition			
	5.1.	Description of the competitive landscape within each relevant market segment.			
	5.2.	Market position and related strengths and weaknesses of key competitors as perceived in the marketplace.			
	5.3.	Basis of competition by product (e.g., price, service level quality, technology, distribution).			
6.		Strategy and Key Relationships			
	6.1.	Company principal avenues for future growth (e.g., customers, geographies, business lines, products).			
	6.2.	Discussion of Company competitive advantage and key points of differentiation (by business line if applicable).			
	6.3.	Discussion of barriers to entry (by business line if applicable).			
	6.4.	List of strategic relationships (e.g., J.V. partners, suppliers, distributors) and description of relationship model, strategic relevance, and relationship outlook.			
	6.5.	List of top ten suppliers by value purchased for the past two fiscal years and current year-to-date (incl. description and contact information).			
	6.6.	List and description of domestic and international distribution channels for each product.			
	6.7.	List of top ten distributors by revenue generated for the past two fiscal years and current year-to-date (incl. description, most recent available revenue figures, and contact information).			
	6.8.	Description of any significant relationships/agreements severed within the last two years.			
	6.9.	3-yr. roadmap including key initiatives, and milestones.			
7.		Products			
	7.1.	Detailed product descriptions (incl. applications and market positioning).			

7.2.	Evidence of product market validation (e.g., key hypotheses with accompanying markets tests, market traction).			
7.3.	Description of target customers and major customers by product.			
7.4.	Sales market share by product (incl. key competitor market).			
7.5.	Unit profitability by product (i.e., cost structure and profitability by product).			
7.6.	New product pipeline (incl. planned and actual project status and timeline, budgeted and actual development costs, product strategy, and product risks).			
8.	**Customer Information**			
8.1.	List of top ten largest customers by revenue for the past two fiscal years and current year-to-date incl. discussion of future growth and development prospects for each customer.			
8.2.	Unit economics per customer (e.g., customer lifetime value and acquisition cost figures) over the past 3 years (or since the Company started operations).			
8.3.	Customer pipeline discussion (e.g., key leads, in-progress customers).			
9.	**Financials**			
9.1.	Annual, quarterly, and monthly financial statements (incl. P&L, Cash Flow Statement, Balance Sheet, and notes) for the last three fiscal years (or since the Company's inception) and since the end of the last fiscal year, together with all compilations, reviews, reports, and other related documentation prepared by the Company's auditors, if any.			
9.2.	General accounting policies adopted by the Company (e.g., revenue recognition).			
9.3.	Breakdown of sales and gross profits by: a. Product Type b. Channel c. Geography (State or Country level as applicable)			
9.4.	Quarterly financial projections for the next 5 years for the P&L, cash flow statement, and balance sheet including economic assumptions, projected capital expenditures, and working capital arrangements.			
9.5.	Sales and Gross Profit projections for the next 5 years broken down by: a. Product Type b. Channel c. Geography (State or Country level as applicable)			
9.6.	Budget figures for the past two years (or since the Company's inception).			
9.7.	Accounts receivable aging schedule.			
9.8.	Year-to-date purchase order backlog (i.e., customer orders that need to be filled) by customer for the Company's top ten largest customers.			
9.9.	Summary of the Company's current federal, state, and foreign tax positions, including net operation loss carryforwards.			
9.10.	Summary of all debt instruments/bank lines with key terms (incl. rate, payment schedule, terms, and covenants).			
9.11.	List of off-balance sheet liabilities and detailed explanation for each one.			
10.	**Management, Employees, and Consultants**			
10.1.	A list of key Company employee, board member, and advisor biographies (incl. age, education, and employment history) and detailed account of tenure, as well as roles and			

		responsibilities within the Company. If an officer is not devoting all his or her business time to the Company, please so indicate.			
	10.2.	Compensation levels (incl. salary, bonus, stock-based compensation, options, benefits, profit sharing agreements, and other special arrangements) and performance KPIs for key employees, board members, and advisors within the organization (at least two levels down from the CEO).			
	10.3.	Verification of education and other credentials (e.g., diplomas, employment letters) for key employees, board members, and advisors.			
	10.4.	Organization chart down to the lowest level with workforce numbers at each level (incl. vacancies).			
	10.5.	Workforce model forecasting full time employee requirements for the organization over the next 3 years or as far into the future as possible.			*Preferred Format: Formula-Linked Excel*
	10.6.	Current and historical (2-years and year-to-date or since the Company's inception) monthly and yearly employee turnover figures.			
	10.7.	Copies of agreements, understandings, or proposed transactions between the Company and any of its officers, directors, key employees, consultants, and advisors including employment agreements, consulting agreements, deferred compensation agreements, severance agreements, indemnification agreements, special privileges, and any loans or guarantees.			
	10.8.	Copies of agreements, understandings or proposed transactions involving the Company in which an officer, director, employee, or consultant has an indirect material interest (e.g., through a family member or business affiliate).			
11.		Legal and regulatory			
	11.1.	Documents and correspondence relating to any pending or threatened actions, allegations, lawsuits, proceedings, or investigations (incl. intellectual property infringement) initiated by or targeting the Company, its executive officers, or its directors (or any disputes that could lead to any of the foregoing).			
	11.2.	Any orders, injunctions, judgments, decrees, settlement agreements or similar matters involving the Company.			
	11.3.	Any letters from counsel sent to auditors for year-end and interim audits.			
	11.4.	Significant permits and authorizations relevant to the Company's operations.			
	11.5.	Documentation relating to any tax audits, investigations, disputes, deficiencies, or penalties.			
	11.6.	Any other correspondence with governmental or regulatory authorities.			
12.		Agreements			
	12.1.	Documents and agreements evidencing borrowings or available borrowings, whether secured or unsecured, or other financing arrangements, including loan and credit agreements, promissory notes, and any guarantees of any of the above.			
	12.2.	Material agreements encumbering real or personal property, including mortgages, deeds of trust and security agreements.			
	12.3.	Significant real or personal property lease agreements to which the Company is a party, either as lessor or lessee.			

12.4.	Material agreements with customers and resellers.			
12.5.	Material agreements with suppliers, manufacturers, and distributors.			
12.6.	Management, service, and marketing agreements.			
12.7.	Joint venture or partnership agreements.			
12.8.	Documents relating to any significant acquisitions or dispositions or currently proposed acquisitions or dispositions.			
12.9.	Standard agreement forms (e.g., product/service terms and conditions) used by the Company.			
12.10.	Any contract restricting the ability of the Company to compete in any line of business with any person or entity or committing the Company to continue in any line of business.			
12.11.	Confidentiality and nondisclosure agreements binding the Company.			
12.12.	Agreements requiring consent or approval regarding financing.			
12.13.	Any arrangements with a broker or finder regarding this or other financings.			
12.14.	Agreements involving amounts more than USD $10,000.			
12.15.	Any other agreements material to the Company.			
13.	Environmental, Social, and Corporate Governance			
13.1.	Significant fines levied against the Company or any of its subsidiaries.			
13.2.	Non-monetary sanctions for non-compliance with regulations (including environmental laws and regulations).			
13.3.	Environmental grievances or governmental notifications/ reminders of the law.			
14.	Other			
14.1.	Description of marketing/ customer acquisition programs and campaigns with supporting materials (e.g., advertisements).			
14.2.	All news or press releases issued by or with respect to the Company over the past 3 years (or since the Company's inception).			
14.3.	Risk assessment attendant to both local and foreign operations and mitigation strategies (i.e., how the Company is affected by economic, market, operational, and other risks and how it mitigates them).			
14.4.	The Company's most recent business plan as well as any offering memorandum prepared in connection with any financing.			
14.5.	Any reports and studies prepared by the Company or outside consultants on the Company or its subsidiaries or affiliates business or financial condition, including any valuation reports regarding the fair market value of the Company's securities.			
14.6.	Agreements relating to insurance policies held for the benefit of the Company (e.g., fire or casualty insurance, "key person" insurance, etc.) or its directors, officers, or employees (e.g., directors' and officers' insurance), and a summary of any claims under those policies.			
14.7.	Any other information important to an understanding of the Company, its financial condition, financial performance, key risks, liabilities, prospects, products, or the industry in which it operates.			

Due Diligence Report Outline Template

Business Model

The Problem

What is the need? What is the situational problem that needs to be solved? What are people forced to do now because they do not know about the solution?

About the Service / Product

What is the solution for the problem? What necessity is being covered? How is it being tackled/solved?

What is the Service/Product bringing to the table?

Features & Components

1) Describe the product or service's core characteristics, size, etc.

2) Describe how the product or service can be used and its functionalities

3) How is it disruptive?

Within 1) and 2) include the **Intellectual Property** held by the Company to justify the features and components. This can in turn be reflected in the Comparative advantage of the Company. This could be patents, logos, names, domains, etc. Also be sure to precise where the patents are held.

Distribution Channels

Describe how the product is channeled to the end costumer. What are the different means of proposing the product/service? Are the verticals sufficient to service the target market efficiently?

Does the Company propose a strong After-Service once the product is bought?

Tip: It is useful to draw a chain process describing how the company delivers the product to the end customer.

Customer Service

Explain how is the client/user attended once the product/service is bought? How is the Company addressing the needs of the client/user and maintaining the relation?

Revenue Model & Unit Economics

1) Describe the revenue streams for each business unit. Detail how the Company makes money.

2) Create a table that describes the revenues and costs associated with each business unit expressed on a per-unit basis (customer, weight, income, etc...) in terms of (1) Revenues and (2) Costs. Explain the different streams/sources of each one.

Tip: You can use a table where the columns represent each business unit / product and the rows describe each P&L line (revenue, cogs, expenses, etc.). Consider OPEX, Marketing, Production, Distribution, etc. and their respective costs. All the information written in this section should perfectly address the **monetization model** and its logic.

Industry Analysis

Market Overview – Customer Segments

1) Describe the size and characteristics of the customer (who are the customers, in which categories are they classified etc.). Detail the demographics of the population: age, behavior, class, income, education, etc. Analyze the target customer segments and their drives.

With this information at hand, describe the size of it. How large is the market? Please provide data justifying the size of the market related to the customer segments. Please provide an analysis of the past growth up to today. Ideally, the analysis should be on the industry before entering into the niche analysis.

Tip: The most important thing in this section is to identify who the customer is, so that in the next section, you can assess the performance of the market over time. While this section is intended to be more descriptive of the industry, the next one aims to be more analytical.

Market Trends – Projections

Explain why/how the industry is projected to grow. What are the market growth drivers (what are the aspects that make the market move upwards? What are the trends? Is the market going up, or down and why? Are there specific conditions that govern this industry? Has the industry suffered any slowdown? Explain the reasons behind this trend. This section should also explain the dynamics/factors that affect the future of this industry: political, social, technological, governmental, etc.

Tips: Do not be too subjective or overuse lengthy paragraphs. Always use numbers, graphs, and tables to describe, in tangible terms, the overall context of the industry.

Example: *In explaining the recent rapid growth in solar energy, the Analyst should look at its recent trend and compare it with the other players of the energy industry (Gas, Electricity, etc.). The Analyst should then explain that recent government initiatives/laws have encouraged the production and consumption of renewables while the gas market has liberated its competition causing its price to hike (using key data to support the argument). Finally, technology improvements are expected to lower the price of renewables while government initiatives (such as the Paris Accords) should increasingly favor the promotion of solar energy.*

Competitive Assessment

Start with giving an overview of the Competition and their respective market-share. The objective here is to determine how fragmented is the market, who are the major players and, to the extent permissible by the availability of information, the reasons for their respective leadership.

Industry Ecosystem Table

The objective here is to give the Competitors of the Industry together with their respective size (as close as your research can find), the countries in which they operate (describing their main markets), their business model, and what sets them apart from the other players.

Direct Competitors	Market-Share	Countries of Operation	Business Model	Comp. Advantage

Product Competition Table

Please provide the most important/relevant features that characterize the product and rank them according to the defined Ranking System.

Tip: The Analyst should place the Logos of the Companies to facilitate the reading of the Table.

Company	E.g., Price	E.g., Design	E.g., Durability	E.g., Usability
Company 1	*	***	**	***
Company 2	**	*****	*	*****
Etc.				

Score System	* Deficient	** Insufficient	*** Acceptable	**** Outstanding	***** Excellent

Please assess under this table how you view the competition and how this would fit with the investment thesis.

After filling the information above, describe the **Competitive Advantages** of the Company. It can be IT, sales strategy, supplier relations, barriers to entry, etc. The objective here is to structure this in the below table, and then give it a grade on how advantageous it is. The Analyst is then expected to explain the rationale behind each competitive advantage.

Core Advantage	Grade	Analysis

Score System	*** Acceptable	**** Outstanding	***** Excellent

Current Strategy Growth & Expansion

Current Go-to-Market Strategy

The objective of this Section is to explain the commercialization strategy of the Company.

What the Company has been doing: how the immediate strategy has been structured. How efficient has the marketing been? How have clients been approached? How rapidly has costumer/user grown (organic & viral) with regards to the marketing efforts. Look at the Social Media activity, event organizations, etc. and their effect on the Company. The Company's recent traction in the area can be looked on Similar Web or on Google's ratings for Apps.

Roadmap / Expansion Plan

What the Company plans to do: The objective here is to give a detailed explanation of the roads the Company plans to take to grow/consolidate its business, such as:

Brand consolidation (marketing);

- Product-development (R&D, new patents);
- Business development (sales team, expansion plan, new partnerships, etc.);
- Business strategy (evolution of online vs. offline stores, new processes, new monetization models, new customer segments, etc.).

Here the Company should have a clear 5-year plan. The Analyst is expected to provide a timeline of the objectives/milestones the Company wishes to reach. These should be explained and supported by the Company's financial projections. This will be important as the information will be used for the Detailed Business Case.

When building the timeline, describe the financing rounds the entrepreneur must achieve to complete the objectives set out in the Expansion (e.g., if the round is of $US 1M over 12 months, the Analyst needs to show how the trenches of the proceeds will be received in time).

Afterwards, provide a graph showing how the funds from the current investment round will be used (regional expansion, teams, software development, working capital, R&D, etc.),

Strengths & Opportunities about Roadmap Analysis

In this part, the Analyst should assess the proposed roadmap and expose its advantages and weaknesses. These could be on the use of proceeds, the Company Strategy, the development plan, etc.

Expansion Plan	Strengths	Opportunities	Weaknesses	Risks
E.g., Marketing				
E.g., R&D				
E.g., Monetization				

Partnerships & Strategic Alliances

Describe the main partners/allies of the Company that will help carry the Brand, help promote the Name, boost sales, help build the product, etc.

Explain the nature of the said partnership/alliance, how strong/useful it is, and whether such partnership could entail potential risks (e.g., if the supplier has too much negotiation power over the entrepreneur, etc.).

Exit Strategy

Provide a clear picture of how an exit could occur with which companies.

Potential Buy-Out Company	Rationale

Financial Information

<u>Relevant Historical Information</u>

If the company provided historical financial statements, the Analyst should only review the Income Statement and the Cash Flow Statement (using exclusively the balance sheet as supporting material) and provide a summary of key findings regarding:

Revenue streams: What was the performance of the Company since the last investment in terms of revenue growth? Is the company showing signs of recurrent revenue? What are the drivers behind revenue growth?

- *Costs & Expenses*: Using a vertical and horizontal analysis the Analyst will assess the most important costs associated with the company's operations and analyze whether the Company is effectively allocating its resources to generate more revenue.
- The analysis should provide positive conclusions on the evolution of the Company's main value drivers. This should also reflect the Company's strategy as to when a new market is reached, a new product is sold, etc.

Tips: Do not summarize this section using financial statements. Provide a KPI & KFI summary with the most important indicators that support the analysis (CAC? Churn? Conversion rate? Marketing ROI? Sales growth? Burn-Rate? Cash-On-Hand? etc.). Additionally, and more importantly, the Analyst should provide his/her own conclusions about the profitability and growth expectations.

Forecasted Information

- Market fit analysis: The objective when looking at the projected financial results is to verify that the Company's KFIs and Unit Economics correspond to the size of the market, the historical financial performance, and the objectives of the investment round. The Analyst should perform a Break-Even analysis (both at the Cash Flow and Income Statement level) and how far/close the Company is to become cash-flow-positive The Analyst is expected to use his previously realized market study to verify if the market demand can match growth expectations. Is the growth rate expected from the sale of the products realizable with regards to the market? How many potential clients exist? How many of those would be willing to buy the Service/Products?
- Valuation: The Company should have financial projections from which it calculated its investment requirement, and pre-money valuation. Valuation is often calculated under two formats:
    - *Free Cash Flow*: Using the NV function of Excel to extract the Discounted Cash-Flow
        - From that number, the analyst adds a % of probability (50%) for the projection to be successfully realized. Include here a comparison of the analyst's calculated pre-money and the entrepreneur's initial pre-money valuation.
    - *EBITDA (Sales Multiple):* Taken from a 5-year sales projection (even though some entrepreneurs can value their Company from sales at Year 0 with a given multiple. In this case, he/she should explain this rationale).
        - The Analyst can then compare the EBITDA with the valuation multiple for the industry[7].

Validation & References

Interviews

The objective of realizing interviews is to 1) demonstrate the quality of the entrepreneur as a leader, and 2) get feedback over the quality of the product and customer satisfaction.

The Analyst should interview up to six types of stakeholders described as follows (from most important to least relevant):

Past investors (those who are already invested in the company);

Potential investors (investors that are seeking to invest in the company);

Most important clients/customers;

Largest suppliers, in terms of both size and their influence in the company;

Current and potential advisors;

Past employers/collaborators to diligence the capacity of the entrepreneur to carry the project, and;

Whoever the entrepreneur considers can help the Fund Manager get an external/ non-biased opinion on the Company's Product/Service and its advantages and issues.

Interview Analysis

Here, the analyst should summarize the section above in bullet points-format. The Analyst should analyze the results of the interviews and try to take out key points and insights.

Mystery Shopper

The Analyst can be brought to (1) buy the product/service to test or (2) contact a vendor of the said product/service to get his/her feedback over it. An analysis of the experience should then be written here.

[7] Search for NYU Professor Damodaran online (1) *Data*, 2) *Current Data*, 3)*Value/EBIT by Industry Sectors*)

Human Resources

Management Team

Brief Bio of the Team (5 lines max. per person). What were their position/role in their previous jobs? How was that relevant for their current position? How relevant is their experience and accomplishments are to completing the job? Do they have the core capacities required to be successful in their project?

Current Board of Directors & Advisors

How relevant and committed are the Board & Advisors to the success of the Committee? Are their contacts, experience of the industry being leveraged?

Tip: The Analyst should try his/her best to find out if any member of the Board or Advisor presents any problems. If this is the case, he/she should write about this in this Section.

Corporate Governance

Corporate Governance Composition

Is the company registered? How? Under which name, address? Where is the holding? Is there any special condition Angel Ventures should be aware of? Are there conditions in the bylaws that may provide a risk for the investment and the current investors?

Organizational Structure

The Analyst should make a diagram (or more probably take it from the Company) illustrating the organizational structure of the Company and explain it if necessary. Is the Company structured in a particular way? Are the lines of communication and authority well defined? Is the top-level of the structure owned by too few people?

Terms of the Investment

Capitalization & Investment Rounds

1. Cap Table before & after investment (when and how)
    a. *Before Investment Cap Table*: What are the types and classes of shares that were issued in the cap table? Are there any treasury shares allocated to shareholders? Is there an Employee Stock Option Pool defined?
    b. *After Investment Cap Table*: Explain the total shares issued, how the structure will change with this new series? Will the dilution be equal? Will an Employee Stock Option Pool (ESOP) be created?
2. Past investment rounds summary (cash-on-cash valuation, summary of terms per round, rights & obligations)
    a. The entrepreneur should disclose any potential provisions in past rounds that may/will be applied in the current round (conversion of convertible debentures, warrant issuance, liquidations, etc.)
    b. The entrepreneur should also disclose if he/she has provided Most Favored Nation Clauses to past investors.
    c. Additionally, the Analyst should review with the entrepreneur if any potential "non-standardized" clauses exist and provisions that could become a potential risk in the governance of the Company (e.g., punitive dilution if the investor does not invest in time and matter, terms and conditions that benefit past investors over current ones, etc.).
3. Summary of Term Sheet (if there is one)
    a. First, describe the economic terms of the Term Sheet (pre-money, price per share, etc.), and then a summary of the most relevant provisions in it (meaning potential clauses that could override the Fund's fiduciary duty and could potentially conflict with the Fund's investment thesis).
4. Updates on the Investment Round
    a. What is the Company's current Fundraising situation? Who is expected to invest? Are there already any hard commitments? How does the ideal closing of this round look like?

Business Review Profile

Company Name

Investment Round History Snapshot

Investment Round	Investment Vehicle	Total Amount Raised	Pre-Money	Post-Money	Fund Commitment	Investment Committee Approval Date	Date of Signed Term Sheet	Main Investors	Notes
Series Seed	Convertible Note	750,000	6,000,000	7,200,000	300,000	1/29/2018	4/4/2018	Investor one	
Series A	Equity	1,500,000	12,000,000	13,500,000	1,000,000	1/29/2018	4/4/2018	Investor A, B, C	
Total		1,200,000			1,200,000				

Disbursement Schedule

Date	Bank Account	Amount	Investment Round	Tranche
6/1/201X	SVB-08943	-137,000.00	Series Seed	T1
5/25/201X	SVB-08943	-83,000.00	Series Seed	T2
8/7/201X	SVB-08943	-230,000.00	Series A	T1
Total general				

Investment Snapshot

Indicator	Q1'18	Q2'18	Q3'18
Beginning Period	1/1/2018	4/1/2018	
Ending Period	3/31/2018	6/30/2018	
Total Fully Diluted Shares (accum)	834,083	834,083	
Fund Shares (accum)	139,014	139,014	
Fund Ownership	16.67%	16.67%	
Founders' Ownership	235,509	235,509	
Other Investors Ownership	459,560	459,560	
Post-Money	7,200,000	7,200,000	
Price per Share	8.63	8.63	
Committed Capital	1,200,000	1,200,000	
Called Capital	450,000	450,000	
Capital Invested			
Investment Fair Value			
Unrealized Gain / (Loss)			
Investment Multiple			
Gross IRR			

Key Performance Indicators

Indicator		Q2'18	Q3'18
Cash-on-Hand	*Actual*		
	Budget		
	Forecast		
	Actual vs. Forecast		
Burn-rate	*Actual*		
	Budget		
	Forecast		
	Actual vs. Forecast		
KPI 1	*Actual*		
	Budget		
	Forecast		
	Actual vs. Forecast		
KFI 1	*Actual*		
	Budget		
	Forecast		
	Actual vs. Forecast		
Revenue	*Actual*		
	Budget		
	Forecast		
	Actual vs. Forecast		
EBITDA	*Actual*		
	Budget		
	Forecast		
	Actual vs. Forecast		

Business Review Report

Quarterly Update Summary Letter

Activity and performance during the quarter

Extraordinary events

Material events during the quarter

Risk assessment overview

Fund Overview

Fund Level Data

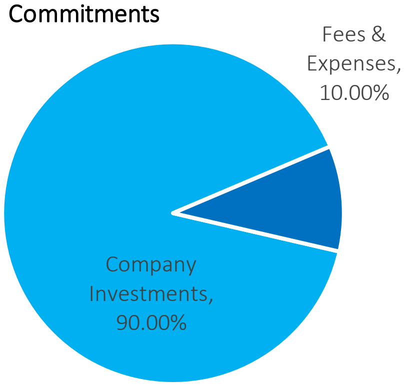
Executive Summary for Fund Level Data

(US dollars, unaudited)

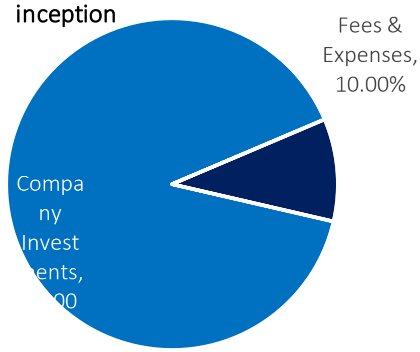
	[MM/DD/YYYY]
Commitments	
Total Commitments	$[■]
Portfolio Company drawdowns	$[■]
Fee drawdowns	$[■]
Total drawdowns since inception	$[■]
Remaining Commitments	$[■]
Investments	
Total investments since inception	[■] companies
Capital drawdowns to active portfolio companies (since inception)	$[■]
Capital drawdowns to portfolio companies (since inception)	$[■]
Disbursements	
Total disbursements since inception	$[■]
Total disbursements as percentage of Aggregate Commitments sin inception	[■]%

Fees		Amount	As % of Aggregate Commitments
	Total fees and expenses called since inception	$[■]	[■]%
Fund Level	Total fees and expenses drawdowns since inception	$[■]	[■]%
	Total fees and expenses used since inception	$[■]	[■]%
	Total called since inception	$[■]	[■]%
Management Fees	Total drawdowns since inception	$[■]	[■]%
	Total used since inception	$[■]	[■]%
	Total called since inception	$[■]	[■]%
Set up Expenses	Total drawdowns since inception	$[■]	[■]%
	Total used since inception	$[■]	[■]%
	Total called since inception	$[■]	[■]%
Fund Expenses	Total drawdowns since inception	$[■]	[■]%
	Total used since inception	$[■]	[■]%

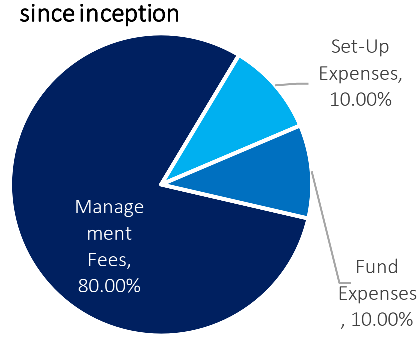
Commitments



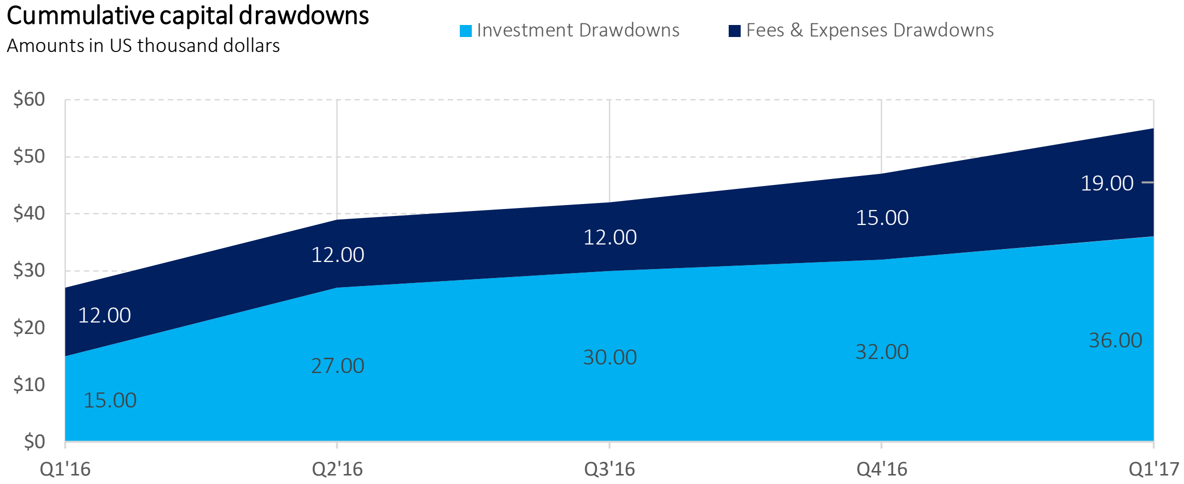
Capital Drawdowns since inception



Fees & Expenses drawdowns since inception



Cummulative capital drawdowns
Amounts in US thousand dollars



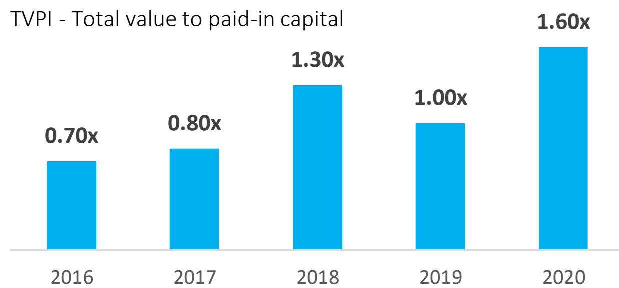
Performance Metrics

Performance Metrics

(unaudited)

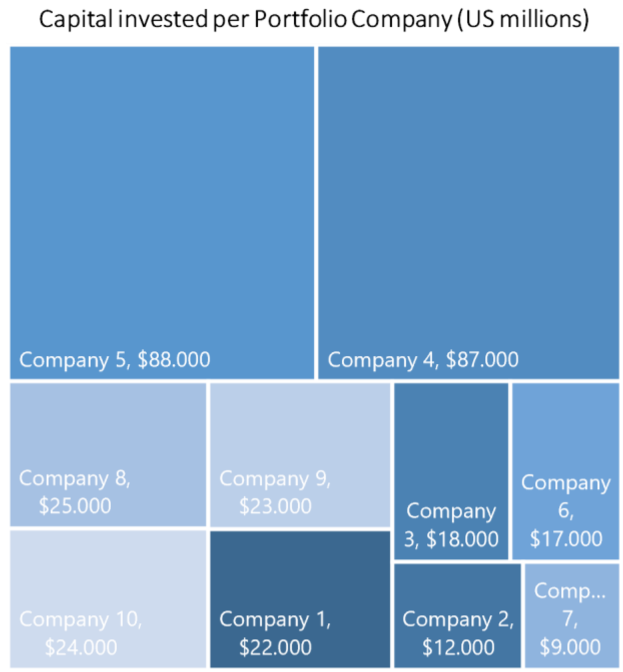
	[MM/DD/YYYY]
DPI – Distributions to paid-in capital	[■]x
RVPI – Residual value to paid-in capital	[■]x
TVPI – Total value to paid-in capital	[■]x
Fund-level multiple over invested capital	[■]x

Historical Fund Performance
TVPI - Total value to paid-in capital



Portfolio Data Summary

Portfolio Metrics		
(US dollars, unaudited)		
[MM/DD/YYYY]		
	Amount	% Fund
	$[■]	[■]%
	$[■]	[■]%
	$[■]	[■]%
Investments by industry (accumulated since inception)	Amount	% Fund
Retail / Consumer	$[■]	[■]%
ICTs / Media	$[■]	[■]%
Agro / BoP	$[■]	[■]%
Health / Biotech	$[■]	[■]%
Fin-Tech	$[■]	[■]%



Financial Statements

Statement of Assets, Liabilities and Partner's Capital

FUND NAME		
Statement of Assets, Liabilities and Partners' Capital		
[Month] [Day], [Year]		
(US$ dollars, unaudited)		
	Current Period End 12/31/2016	Prior Year End Audited 12/31/2015
Assets	[■]	[■]
Investments at cost	[■]	[■]
Equity investments	*[■]*	*[■]*
Convertible securities investments	*[■]*	*[■]*
Unrealized gain / loss on investments	[■]	[■]
Investments at Fair Value	[■]	[■]
Cash and cash equivalents	[■]	[■]
Other assets	[■]	[■]
Accounts receivable	[■]	[■]
Total assets	[■]	[■]
Liabilities & Partners' Capital	[■]	[■]
Liabilities		
Accounts payable and accrued expenses	[■]	[■]
Notes payable	[■]	[■]
Payable to affiliates	[■]	[■]
Total liabilities	[■]	[■]

Partners' capital		
General Partner	[■]	[■]
Limited Partners	[■]	[■]
Total Partners' capital	[■]	[■]
Total liabilities and Partners' capital	[■]	[■]

Statement of Operations

FUND NAME

Statement of Operations

For the periods ending [Month] [Day], 20XX

(US$ dollars, unaudited)

	Month one	Current Period End	Year-to-Date	Year-over-Year
	MM//DD – MM/DD 20XX	*MM//DD – MM/DD 20XX*	*MM//DD – MM/DD 20XX*	*MM//DD 20XX– MM/DD 20XX*
Portfolio interest income	[■]	[■]	[■]	[■]
Convertible securities income	*[■]*	*[■]*	*[■]*	*[■]*
Other interest income	*[■]*	*[■]*	*[■]*	*[■]*
Portfolio dividend income	[■]	[■]	[■]	[■]
Other interest earned	[■]	[■]	[■]	[■]
Total income	[■]	[■]	[■]	[■]
Management Fees, net	[■]	[■]	[■]	[■]
Set-Up Expenses, net	[■]	[■]	[■]	[■]
Fund Expenses, net	[■]	[■]	[■]	[■]
Total expenses	[■]	[■]	[■]	[■]
Net operating income / (deficit)	[■]	[■]	[■]	[■]
Net realized gain / (loss) on investments	[■]	[■]	[■]	[■]
Net change in unrealized gain / (loss) on investments	[■]	[■]	[■]	[■]
Net realized gain / (loss) due to F/X	[■]	[■]	[■]	[■]
Net realized and unrealized gain / (loss) on investments	[■]	[■]	[■]	[■]
Net increase / (decrease) in Partners' Capital resulting from operations	[■]	[■]	[■]	[■]

Statement of Cash Flow

FUND NAME	Month one	Current Period End	Year-to-Date	Since Inception
Statement of Cash Flow For the periods ending [Month] [Day], 20XX (US$ dollars, unaudited)	*MM//DD – MM/DD 20XX*	*MM//DD – MM/DD 20XX*	*MM//DD – MM/DD 20XX*	*MM//DD 20XX– MM/DD 20XX*
Net increase / (decrease) in partners' capital resulting from operations	[■]	[■]	[■]	[■]
Adjustments to reconcile net increase / (decrease) in partners' capital resulting from operations to net cash provided by / (used in) operating activities:				

Net change in unrealized (gain) / loss on investments	[■]	[■]	[■]	[■]
Net realized (gain) / loss on investments	[■]	[■]	[■]	[■]
Changes in operating assets and liabilities:	[■]	[■]	[■]	[■]
Increase / (decrease) in accounts payable and accrued expenses	[■]	[■]	[■]	[■]
(Increase) / decrease in due from affiliates	[■]	[■]	[■]	[■]
(Increase) / decrease in due from third party	[■]	[■]	[■]	[■]
(Increase) / decrease in due from investment	[■]	[■]	[■]	[■]
Purchase from sale of investments	[■]	[■]	[■]	[■]
Proceeds from sale of investments	[■]	[■]	[■]	[■]
Net cash provided by / (used in) operating activities	[■]	[■]	[■]	[■]
Cash flows from financing activities:				
Capital contributions	[■]	[■]	[■]	[■]
Distributions	[■]	[■]	[■]	[■]
Increase / (decrease) in due to limited partners	[■]	[■]	[■]	[■]
Increase / (decrease) in due to affiliates	[■]	[■]	[■]	[■]
(Increase) / decrease in due from limited partners	[■]	[■]	[■]	[■]
Proceeds from loans	[■]	[■]	[■]	[■]
Repayments of loans	[■]	[■]	[■]	[■]
Net cash used in financing activities	[■]	[■]	[■]	[■]
Net increase / (decrease) in cash and cash equivalents	[■]	[■]	[■]	[■]
Cash and cash equivalents, beginning of period	[■]	[■]	[■]	[■]
Cash and cash equivalents, end of period	[■]	[■]	[■]	[■]

Partner's Capital Account Statement (illustrative only)

FUND NAME

Partner's Capital Account Statement
For the periods ending [Month] [Day], 20XX
(US$ dollars, unaudited)

	Limited Partner			Fund (FUND NAME)		
	Current Period *MM/DD – MM/DD 20XX*	YTD *MM//DD – MM/DD 20XX*	Since Inception *MM/DD/YY – MM/DDYY*	Current Period *MM//DD – MM/DD 20XX*	YTD *MM//DD – MM/DD 20XX*	Since Inception *MM/DD/YY – MM/DDYY*
Net Asset Value						
Beginning NAV balance	[■]	[■]	[■]	[■]	[■]	[■]
(+) Contributions	[■]	[■]	[■]	[■]	[■]	[■]
(-) Distributions	[■]	[■]	[■]	[■]	[■]	[■]
(=) Total cash / deemed flows	[■]	[■]	[■]	[■]	[■]	[■]
Net operating income (expense):						
Portfolio income	[■]	[■]	[■]	[■]	[■]	[■]
Realized gain / (loss)	[■]	[■]	[■]	[■]	[■]	[■]
Management Fees	[■]	[■]	[■]	[■]	[■]	[■]
Set-up Expenses Fund Expenses	[■]	[■]	[■]	[■]	[■]	[■]
Total Net Operating Income (Expense)	[■]	[■]	[■]	[■]	[■]	[■]

Unrealized Gain / (Loss)	[■]	[■]	[■]	[■]	[■]	[■]
Ending NAV balance	[■]	[■]	[■]	[■]	[■]	[■]
Accrued Potential Incentive Allocation	[■]	[■]	[■]	[■]	[■]	[■]
Commitment Summary						
Total Commitment	[■]	[■]	[■]	[■]	[■]	[■]
Beginning unfunded commitment	[■]	[■]	[■]	[■]	[■]	[■]
(-) Contributions	[■]	[■]	[■]	[■]	[■]	[■]
(+) Recallable distributions	[■]	[■]	[■]	[■]	[■]	[■]
(=) Ending unfunded commitment	[■]	[■]	[■]	[■]	[■]	[■]

Schedule of Investments

FUND NAME

Schedule of Investments

For the periods ending [Month] [Day], 20XX

(US$ dollars, unaudited)

Portfolio Composition				Portfolio Status					Investment Information			
Thesis Approach	Business Model	Company Name	Type	Security Type	Number of Shares	Fund Ownership (% fully diluted)	LP Ownership % (fully diluted)	Initial Investment Date	Exit date	Fund commitment	Total investment	Current cost
Active Investments												
A1	e-Commerce Fashion	Company 1	HQ – MX	CN	[■]	[■]	[■]	[MM/DD/YY]	[MM/DD/YY]	[■]	[■]	[■]
		Company 2	S – CL	CN	[■]	[■]	[■]	[MM/DD/YY]	[MM/DD/YY]	[■]	[■]	[■]
		Company 4	S – CO	CN	[■]	[■]	[■]	[MM/DD/YY]	[MM/DD/YY]	[■]	[■]	[■]
A2	Payment Processing	Company 5	HQ – MX	E	[■]	[■]	[■]	[MM/DD/YY]	[MM/DD/YY]	[■]	[■]	[■]
		Company 6	S – CL	E	[■]	[■]	[■]	[MM/DD/YY]	[MM/DD/YY]	[■]	[■]	[■]
		Company 7	S – PE	E	[■]	[■]	[■]	[MM/DD/YY]	[MM/DD/YY]	[■]	[■]	[■]
		Company 8	S - CO	E	[■]	[■]	[■]	[MM/DD/YY]	[MM/DD/YY]	[■]	[■]	[■]
A3	Retail Store	Company 9	HQ - CL	CN	[■]	[■]	[■]	[MM/DD/YY]	[MM/DD/YY]	[■]	[■]	[■]
		Total Active Investments								[■]	[■]	[■]
Liquidated Investments												
A3	Virtual Real.	Company 10	HQ - MX	CN	[■]	[■]	[■]	[MM/DD/YY]	[MM/DD/YY]	[■]	[■]	[■]
		Total Liquidated Investments								[■]	[■]	[■]
		Fund Level Total								[■]	[■]	[■]

FUND NAME

Schedule of Investments

For the periods ending [Month] [Day], 20XX

(US$ dollars, unaudited)

FUND NAME

Schedule of Investments

For the periods ending [Month] [Day], 20XX

(US$ dollars, unaudited)

Portfolio Composition				Valuation Information							Performance Assessment			
ID TAG	Business Model	Company Name	Type	Reported value	Realized proceeds	Valuation Driver*	Period change in valuation	Period change in cost	Unrealized gains / (loess) & accrued interest	Movement Summary**	Current MOIC	Prior period MOIC	% Change	Gross IRR
Active Investments														
PC1	e-Commerce Fashion	Company 1	HQ – MX	[■]	[■]	A	[■]	[■]	[■]	1	[■]	[■]	[■]	[■]
		Company 2	S – CL	[■]	[■]	B	[■]	[■]	[■]	2	[■]	[■]	[■]	[■]
		Company 4	S – CO	[■]	[■]	C	[■]	[■]	[■]	3	[■]	[■]	[■]	[■]
PC2	Payment Processing	Company 5	HQ – MX	[■]	[■]	D	[■]	[■]	[■]	4	[■]	[■]	[■]	[■]
		Company 6	S – CL	[■]	[■]	E	[■]	[■]	[■]	5	[■]	[■]	[■]	[■]
		Company 7	S – PE	[■]	[■]	F	[■]	[■]	[■]	6	[■]	[■]	[■]	[■]
		Company 8	S - CO	[■]	[■]	G	[■]	[■]	[■]	7	[■]	[■]	[■]	[■]
PC3	Retail Store	Company 9	HQ - CL	[■]	[■]	H	[■]	[■]	[■]	8	[■]	[■]	[■]	[■]
		Total Active Investments		[■]	[■]		[■]	[■]	[■]		[■]	[■]	[■]	[■]
Liquidated Investments														
PC4	Virtual Real.	Company 10	HQ - MX	[■]	[■]	A	[■]	[■]	[■]	1	[■]	[■]	[■]	[■]
		Total Liquidated Investments		[■]	[■]		[■]	[■]	[■]		[■]	[■]	[■]	[■]
		Fund Level Total		[■]	[■]		[■]	[■]	[■]		[■]	[■]	[■]	[■]

Glossary of Terms

FUND NAME

Schedule of Investments

Glossary and Selected Information Chart

Thesis Approach	Company Type	Security Type	Valuation Driver*		Movement Summary**	
A1 – Business Model	HQ – Headquarter	E – Equity	A	Investment held at cost	1	No Change
A2 – Conglomerates	S – Subsidiary	CN – Convertible Note	B	Valuation has been reduced due to significant deterioration in the company's performance and potential	2	Change in public market value
A3 – Single Company	MX / CO / PE / CL – Country of operations	W – Warrant	C	Valuation has been adjusted to the value paid by a sophisticated unrelated new investor	3	Deterioration in performance and potential
		O – Other (see Company Profile)	D	Valuation at a later round of financing (no new unrelated investor)	4	Future realization proceeds
			E	Valuation based on the closing quoted price	5	Follow-on financing
			F	Valuation based on the closing price with a discount for lock up restrictions	6	New investment
			G	Follow-on costs of a written down investment	7	Investment write-off
			H	Future realized proceeds	8	Realized investment
			I	Valuations based on fairness option in relation to proposed merger		

J	Realization
K	Valuation based on recent transaction multiples
L	Valuation based on recent market multiples
M	Valuation based on recent market and transaction multiples
N	Valuation based on expert third party opinion
O	Valuation based on closing quoted price plan valuation of warrants
P	Revised company prospects

Notes to the Financial Statements

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Portfolio Company Composition

Composition of Portfolio Company	
Logo	Startup 1 Name
Logo	Startup 2 Name
Logo	Scaleup 3 Name
Logo	Startup 4 Name
Logo	Scaleup 5 Name
Logo	Startup 6 Name
Logo	Startup 7 Name

Portfolio Key Indicators Scorecard

Key Indicator		XQ'1X	XQ'1X	XQ'1X	XQ'1X	XQ'1X	XQ'1X	XQ'1X	XQ'1X
	Real	[■]	[■]	[■]	[■]	[■]	[■]	[■]	[■]
KI1	*Plan*	*[■]*	*[■]*	*[■]*	*[■]*	*[■]*	*[■]*	*[■]*	*[■]*
	Real/Plan	[■]	[■]	[■]	[■]	[■]	[■]	[■]	[■]
	Real	[■]	[■]	[■]	[■]	[■]	[■]	[■]	[■]
KI2	Plan	[■]	[■]	[■]	[■]	[■]	[■]	[■]	[■]
	Real/Plan	[■]	[■]	[■]	[■]	[■]	[■]	[■]	[■]
	Real	[■]	[■]	[■]	[■]	[■]	[■]	[■]	[■]
KI3	Plan	[■]	[■]	[■]	[■]	[■]	[■]	[■]	[■]
	Real/Plan	[■]	[■]	[■]	[■]	[■]	[■]	[■]	[■]
KI4	Real	[■]	[■]	[■]	[■]	[■]	[■]	[■]	[■]

	Plan	[■]	[■]	[■]	[■]	[■]	[■]	[■]	[■]
	Real/Plan	[■]	[■]	[■]	[■]	[■]	[■]	[■]	[■]
KI5	Real	[■]	[■]	[■]	[■]	[■]	[■]	[■]	[■]
	Plan	[■]	[■]	[■]	[■]	[■]	[■]	[■]	[■]

Portfolio Business Review Profile

Startup I				
Logo	Part of:	[Portfolio Company I]	Country of incorporation	[Country]
	Type:	[Subsidiary / Headquarter]	Country of operations	[Business Model]
	Vintage Date	[MM/YY]	Country Manager	[Name]

Investment Information			
Total committed	$ [■]	Current valuation	$ [■]
Invested capital	$ [■]	Investment Multiple	[■]%
Realized proceeds	$ [■]	Gross IRR	[■]x
Po.Mo. valuation after investment	$ [■]		

Valuation Methodology

Investment Rationale – Why invested in it?

Milestones, Updates and Summary of Operations during Quarter

Strategies for Next Quarter

Selected KPI & KFI Information

	Key Indicator	Current Quarter	Previous Quarter	Year-to-Date	Year-over-Year
KI1	*Real*	[■]	[■]	[■]	[■]
	Plan	[■]	[■]	[■]	[■]
	Real / Plan	[■]	[■]	[■]	[■]
KI2	*Real*	[■]	[■]	[■]	[■]
	Plan	[■]	[■]	[■]	[■]
	Real / Plan	[■]	[■]	[■]	[■]
KI3	*Real*	[■]	[■]	[■]	[■]
	Plan	[■]	[■]	[■]	[■]
	Real / Plan	[■]	[■]	[■]	[■]

Selected Environmental, Social & Governance Indicators

Key Indicator	Current Quarter	Previous Quarter	Year-to-Date	Year-over-Year
KI1				
KI2				
KI3				
KI4				
KI5				

Risk Assessment Update

Above Plan

Know Your Customer Template

The purpose of this Questionnaire is to ensure compliance with applicable regulations and to determine: (1) whether an investment in the Partnership is suitable considering the Subscriber's financial position, (2) whether the Subscriber qualifies as an "accredited investor," (3) whether the Subscriber engages in financial activities that could provide harmful consequences for the Partnership, including the General Partner and other Limited Partners.

Please complete this Questionnaire and answer all questions as carefully as possible. Your answers will be always kept strictly confidential. Each person who subscribes to purchase Interests hereby agrees that the Partnership may present this Questionnaire to such parties as it deems appropriate to assure itself that the offer and sale of Interests will not result in any violation of applicable law.

Section 1 – General Information

Note: This section should be thoroughly completed

Investor Name:		
Citizenship:		
If entity Investor Legal representative:		
Investor's Social Security Number (if individual) or Taxpayer Identification Number (if entity):		
Birth /constitution date:		
Main place of business:		
Check one of the following: The investor is a		
☐SAPI de CV	☐Investment Partnership	☐Trust
☐Limited Liability Partnership	☐Individual Retirement Account ("IRA")	☐Corporation
☐Individual Investor	☐Limited Liability Corporation	Other:
Will this investment be held in joint tenancy or in tenancy in common (check "No" if Investor's Interest will be held as community property with Investor's spouse)?		
	☐Yes ☐No	
Check the following box if the joint investor is married to Investor named at the beginning of this section. (Do not check box if Interest will be held as community property). ☐		

Section II – Education, Employment & Investment Experience

This section should be thoroughly completed. If the Subscriber is an Entity, provide information about the primary contact as set forth in the Subscription Agreement.

Education Profile	
Highest level of education attained	
Field of study	
Institution	
Employment	
Name of Employer	
Address of Employer	
Nature of Employment	
If self-employed, nature of business:	
Prior employment you consider relevant (if applicable)	
Investment Experience	
Approximate number of years the investor has been engaged in investing activities	____________ years
Please define below the frequency that the investor engages in investments according to the following asset classes:	

Marketable securities (stocks, bonds, debentures, notes)	☐never	☐rarely	☐occasionally	☐regularly
Mutual Funds	☐never	☐rarely	☐occasionally	☐regularly
Hedge Funds, Commodity Pools	☐never	☐rarely	☐occasionally	☐regularly
Private Equity, Venture Capital	☐never	☐rarely	☐occasionally	☐regularly
Foreign Exchange	☐never	☐rarely	☐occasionally	☐regularly
Derivatives and futures	☐never	☐rarely	☐occasionally	☐regularly
Real estate, other than principal residence (directly or through partnerships or other entities managed by others)	☐never	☐rarely	☐occasionally	☐regularly
Energy and Infrastructure	☐never	☐rarely	☐occasionally	☐regularly

Investment Profile		
Please check only one of the following options The amount to be subscribed in the Partnership by the investor represents which percentage of the investor's total assets:	☐ <5% ☐ Between 5% and 10%	☐ Between 10% and 20% ☐ Between 20% and 50% ☐ >50%

Section III – Investor Identity Verification

Instructions. Please check the box in each item according to the following form. All Investors should complete this section regardless of the type of investor (Individual or Entity)

Why the Fund Requests Identity Verification: To avoid assisting terrorists and certain other persons designated by the U.S. government as wrong doers, the Fund takes certain steps to verify Investor's identity. Please indicate what proof you can supply to verify Investor's identity and place of residence or business, and whether you are supplying that proof now. The Fund may request additional documentation to verify Investor's identity. The General Partner may instead be able to rely to some extent on identity-verification procedures implemented by Investor's bank (see "Important Note" at the bottom of this page). If you have any questions, please contact the General Partner.

Information Required for Individual Investors

☐ Copy of passport or other government photo ID (IFE, DNI, driver's license)

☐ Proof of current address, only if not included in photo

Information Required for Entity Investors

☐ A copy of a certificate of formation (or similar document) of Entity and a certificate evidencing Investor's continued authorization to conduct business in the jurisdiction of its organization (for example, a certificate of good standing).

☐ A list of all persons who directly or indirectly own 10% or more of any class of equity interests of Entity (Use space below if sufficient; otherwise, attach separate list).

Persons who directly or indirectly own 10% or more of any equity interest of the Entity ______________________

If Investor is a trust of which the trustee is not a regulated bank or trust company, a list of all beneficiaries that directly or indirectly hold 25% or more of any interest in Entity. (Use space below if sufficient; otherwise, attach separate list).

Name of the persons who own 25% of more of any interest in the Entity ______________________

Information Required for All Investors

Please indicate the location of the Investor's source-of-funds bank account:

☐ United States	☐ Mexico	☐ Chile
☐ Colombia	☐ Peru	☐ Republic of Korea
☐ Other: _______________		

Accredited Investor Status

Instructions. Please check the box in each item according to the following form. All Investors should complete this section regardless of the type of investor (Individual or Entity).

Reason for this Questionnaire: Investor must be an "accredited investor" as defined in Rule 501(a) of Regulation D under the Securities Act of 1933. By marking the appropriate box(es) in this questionnaire, Investor indicates each category under which Investor is an accredited investor (list of categories continues next page). <u>Check one or more of the boxes on this page and the next page:</u>

☐ **A. Individual – Income Test.** An individual who had income more than $200,000 in each of the two most recent years (or had joint income with his or her spouse more than $300,000 in each of those years) and has a reasonable expectation of reaching the same income level in the current year.

☐ **B. Individual – Net Worth Test.** An individual who has a net worth (or joint net worth with his or her spouse) more than $1,000,000. For the purpose of calculating Investor's net worth, ignore both the value of Investor's primary residence and any indebtedness on that residence, except that (1) if such indebtedness exceeds such value, count the excess as a liability (even if Investor is legally or practically not liable for the excess indebtedness); and (2) if non-acquisition indebtedness on the residence has increased in the last 60 days (for example, Investor has borrowed on a line of credit secured by Investor's primary residence), count the net increase as a liability.

☐ **C. IRA – Beneficiary Makes Investment Decisions and is Accredited.** An individual retirement account ("IRA") whose beneficiary is an individual who (1) makes investment decisions for the IRA, and (2) is an accredited investor based on Box A or B above

☐ **D. IRA – Person Other than Beneficiary Makes Investment Decisions and Decision-Maker is Accredited.** An individual retirement account ("IRA") whose investment decisions are made by an individual or entity other than the IRA beneficiary, and that decision-maker is an accredited investor under Category(ies) ____ in this Questionnaire. In the blank, please insert the letter of each Category in this Questionnaire that applies to the decision-maker.

☐ **E. Revocable Trust other than IRA – Income or Net Worth Test Applied to Grantor(s) and Decision-Maker.** A revocable trust (other than an IRA), and

☐ **F. Self-Directed Pension Plan other than IRA – Income or Net Worth Test Applied to Participant.** A self-directed pension plan (other than an IRA), and the participant who directed that asset of his or her account be invested in the Fund is (1) an accredited investor based on Box A or B above, and (2) the only participant whose account is being invested in the Fund.

☐ **G. Other Pension Plan.** A pension plan that is not a self-directed plan, and either (1) the plan has total assets more than $5,000,000; or (2) the plan's investment decisions are made by a plan fiduciary that is a bank, savings and loan association, insurance company or registered investment adviser.

☐ **H. Irrevocable Trust.** An irrevocable trust that consists of a single trust (1) with total assets more than $5,000,000, and (2) which was not formed for the specific purpose of investing in the Fund, and (3) whose purchase is directed by a person who has such knowledge and experience in financial and business matters that he or she is capable or evaluating the merits and risks of the prospective investment.

☐ **I. Corporation, Partnership, Business Trust.** A corporation, a partnership, or similar business trust, or an organization described in Section 501(c)(3) of the United States Internal Revenue Code, which was not formed for the specific purpose of acquiring an interest in the Fund, with total assets more than $5,000,000.

☐ **J. Other Entities.** Any of the following entities that has a net worth of at least $5,000,000:

K. a bank or financial institution (check one or more of the following items that are applicable to the investor) that is:

☐ acting for its own account;

☐ acting in a fiduciary capacity;

☐ a savings and loan association or similar institution,

☐ acting for its own account;

☐ acting in a fiduciary capacity;

☐ a broker-dealer registered under the Securities Exchange Act of 1934;

☐ an insurance company,

☐ an investment company registered under the Investment Company Act of 1940;

☐ a "business development company,"

☐ a "private business development company"

☐ K. None of the above applies (further information may be required to determine Investor's accredited investor status).

The undersigned certifies that he or she has full power and authority to act on behalf of the Subscriber and is authorized pursuant to the organizational and/or governing documents of the entity named below to execute this form on behalf of the entity and to make the representations and warranties made therein and in this Questionnaire on its behalf and that this investment in the Partnership: (i) has been affirmatively authorized by the governing board or body of such entity and (ii) is not prohibited by law or the governing documents of the entity.

By signing this Questionnaire, you represent and warrant that the information stated herein is true and complete as of the date hereof and that you will promptly notify the Partnership if any of such information became inaccurate in any material respect.

Dated:______________

SIGNATURE IF INDIVIDUAL SUBSCRIBER

Subscriber Name	
Signature of Subscriber	

SIGANTURE IF ENTITY SUBSCRIBER

Print Name of Entity Subscriber	
Signature of Authorized Signatory of Subscribing Entity	
Print Name and Title of Authorized Signatory	
Dated:	

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Term Sheet

MEMORANDUM OF TERMS FOR THE PRIVATE PLACEMENT OF

SERIES A PREFERRED STOCK OF

Company Name, INC. (the "Company")

THIS TERM SHEET SUMMARIZES THE PRINCIPAL TERMS OF THE PROPOSED SERIES A FINANCING (THE "FINANCING") OF THE Company Name, INC. [EXCEPT AS PROVIDED BELOW UNDER CONFIDENTIALITY AND EXCLUSIVITY, WHICH ARE LEGALLY BINDING,], THIS TERM SHEET IS FOR DISCUSSION PURPOSES ONLY AND THERE IS NO OBLIGATION ON THE PART OF ANY NEGOTIATING PARTY UNTIL DEFINITIVE SECURITIES PURCHASE AGREEMENTS ARE SIGNED BY ALL PARTIES. THE FINANCING CONTEMPLATED BY THIS TERM SHEET IS SUBJECT TO THE SATISFACTORY COMPLETION OF DUE DILIGENCE AND THE NEGOTIATION OF MUTUALLY SATISFACTORY LEGAL AGREEMENTS. THIS TERM SHEET DOES NOT CONSTITUTE EITHER AN OFFER TO SELL OR AN OFFER TO PURCHASE SECURITIES.

Amount to be Raised: $_______ through the issuance of Series A Preferred Stock (the "Series A Preferred"). At the Closing (as defined below), the Investors will be as follows:

Investors	Cash Amount	Shares
xyz Venture Partners, L.P., and affiliated funds ("XYZ")	$[________]	
[Conversion of Outstanding Bridge Notes ("Bridge Note Holders")]	$[_____, equivalent to $___ with 20% note discount]	[DISCUSS DISCOUNT VS. WARRANT COVERAGE]
[Other Investors]	$[_____]	
Total	$[_______]	

Series A Pre-Investment Valuation: $[_________]

Series A Price Per Share: A price per share for the Series A Preferred (as adjusted for any stock split, recapitalization or the like, the "Series A Purchase Price") is equal to $[________] per share assuming (i) the pre-investment valuation set forth above, (ii) the pre-investment capitalization as set forth on Exhibit A hereto, (iii) increasing the available-to-grant (unissued) option pool immediately prior to Closing to represent approximately 15% of the fully diluted shares of the Company immediately following Closing, and (iv) conversion of the existing Bridge Notes into Series A Preferred, [including the applicable discount as set forth in the Bridge Notes.]

Consideration: The Series A Purchase Price will be paid in the form of either cash or immediately available funds [and conversion of the Bridge Notes].

Post-Financing Capitalization: A proposed post-financing capitalization based on the foregoing is set forth on the attached Capitalization Table (Exhibit A).

Closings: The closing of the sale of the Series A Preferred (the "Closing") is anticipated to occur on or before _________, _____ (the "Closing Date").

Conditions to the Closing: The Closing will be subject to the following conditions precedent:

- Satisfactory completion of due diligence by the Investors;
- Increase to pre-money option pool consistent with foregoing;
- Execution by all employees and contractors of confidentiality and proprietary rights assignment agreements in forms satisfactory to the Investors;
- Execution of vesting and repurchase agreements for the options or equity shares held by the following founders and/or executives: ________________ [and employment agreements with ________________ and ____________], in each case satisfactory to the Investors;

	• Negotiation and mutual execution and delivery of mutually satisfactory Series A Preferred investment agreements; • Delivery of a legal opinion of counsel to the company, including customary opinions for venture capital deals, including an opinion regarding the outstanding capitalization of the Company; and • Payment of the legal fees of XYZ as set forth below.
Use of Proceeds:	The proceeds from the sale of the Series A Preferred are anticipated to be used for working capital and operating costs.
SERIES A PREFERRED TERMS	
Series A Terms:	The rights and preferences of the Series A Preferred will be as set forth herein.
Dividends:	The holders Series A Preferred will be entitled to receive non cumulative dividends in preference to the holders of the Common Stock of the Company (the "Common Stock") at a non-compounding annual rate of 8% on their respective original issue prices (as adjusted for any stock split, dividend, recapitalization, and the like). Such dividend will be payable as and if declared by the Company's Board of Directors (the "Board"). No dividend will be paid to the holders of Common Stock unless a dividend of equal amount is first distributed to each holder of Series A Preferred.
Liquidation Preference:	In the event of any liquidation or winding up of the Company, the holders of Series A Preferred will be entitled to receive in preference to the holders of Common Stock an amount equal to [____] times the original purchase price of the Series A Preferred (as adjusted for any stock split, recapitalization, or the like), plus all accrued and unpaid dividends (the "Initial Series A Preference"). After payment of the Initial Series A Preference, the remaining assets of the Company will be distributed ratably to the holders of Common Stock [and Preferred Stock], on an as-converted basis. [The holders of Preferred Stock may elect to convert the Preferred Stock into Common Stock immediately prior to a distribution upon liquidation.] A sale, conveyance or other disposition of all or substantially all of the property or business of the Company, or a merger or consolidation with or into any other corporation, limited liability company or other entity, other than (i) a merger effected exclusively to change the domicile of the Company; (ii) an equity financing in which the Company is the surviving corporation; or (iii) a transaction in which the stockholders of the Company immediately prior to the transaction own 50% or more of the voting power of the surviving corporation following the transaction (collectively, a "Change of Control Transaction"), will be deemed to be a liquidation for purposes of the liquidation preference.
Voluntary Conversion:	Each holder of Preferred Stock will have the right, at the option of the holder at any time, to convert shares of Preferred Stock into shares of Common Stock at an initial conversion ratio of one-to-one, subject to adjustment as described herein.
Automatic Conversion:	The Series A Preferred will be automatically converted into Common Stock, at the then applicable conversion rate, in the event of either (i) the election of holders of at least a [majority] [DISCUSS BASED ON PORTFOLIO COMPANY CAPITALIZATION] of the then-outstanding Series A Preferred or (ii) the closing of an underwritten initial public offering of the Company's Common Stock pursuant to a Registration Statement under the Securities Act of 1933, as amended (a "Public Offering") with aggregate proceeds of at least $30 million at a public offering price of at least [five] times the Series A Purchase Price (a "Qualified Public Offering").
Antidilution Provisions:	The conversion price of the Series A Preferred will be subject to proportional adjustment for stock splits, stock dividends and the like. The conversion price of the Series A Preferred will also be subject to adjustment on a broad-based weighted average basis for subsequent issuances of Company equity at a purchase price less than the then-effective

conversion price for the Series A Preferred ("Dilutive Issuances"). No adjustment to the conversion price of the Series A Preferred will occur for any future issuance of shares above the Series A Purchase Price.

Price-based anti-dilution adjustments to the conversion prices of the Series A Preferred will be subject to the following exceptions (provided that each is approved by the Board): (i) the issuance of securities of capital stock to employees or consultants, pursuant to a stock option or restricted stock plan, approved by the Board, including the XYZ Director (as defined below); (ii) the issuance of securities in connection with acquisition transactions, commercial credit arrangements or equipment financings approved by the Board, including the XYZ Director; (iii) shares issued upon conversion of the Series A Preferred; (iv) the issuance of securities in a Qualified Public Offering; (v) the issuance of securities pursuant to options, warrants, notes, or other rights to acquire securities of the Company outstanding as of the Closing; (vi) stock splits, stock dividends or similar transactions for which proportional adjustments are made to the conversion price of the Series A Preferred; or (vii) shares of capital stock or other securities which are explicitly excluded by the affirmative vote or consent of the holders of at least a [majority] of the then-outstanding shares of Series A Preferred. The carve outs set forth in subsections (i) through (vii) are "Permitted Additional Securities."

Voting Rights:

The holders of Series A Preferred will be entitled to vote as a single class on all matters except as described below or as required by law.

The holders of shares of Series A Preferred will be entitled to that number of votes on all matters presented to stockholders equal to the number of shares of Common Stock then issuable upon conversion of such shares.

Except as provided herein, the Certificate of Incorporation will deny any separate common or preferred class or series voting rights to the maximum extent allowed by law.

Protective Provisions:

Without the approval of the holders of at least a [majority] of the then-outstanding shares of Series A Preferred voting together as a single class on an as-converted basis, the Company will not take any of the following actions: (i) a sale, conveyance or other disposition (including the dissolution, liquidation or voluntary reorganization) of all or substantially all of the property or business of the Company; (ii) the merger, consolidation or reorganization of the Company with and into another company or entity, or of any other company or entity with and into the Company (including the merger with a wholly-owned subsidiary); (iii) the acquisition of a substantial portion of the assets or business of another company or entity or any other acquisition of material assets; (iv) amend the Certificate of Incorporation or the Bylaws of the Company; (v) increase the number of authorized shares of Company stock of any class or series or authorize the issuance of equity securities (including securities convertible into or exercisable for equity securities) having rights, preference or privileges superior to or on a par with the Series A Preferred; (vi) authorize any distribution by the Company other than the preferential dividends with respect to the Series A Preferred; (vii) adopt or amend any incentive compensation plan; (viii) materially change the business of the Company; (ix) redeem or repurchase shares of stock of the Company (excluding Common Stock repurchased at not more than cost upon termination of an individual or entity pursuant to a restricted stock purchase agreement or the Company's stock option plan); (x) change the number of authorized members of the Board; (xi) undertake any transaction or expenditure or series of expenditures involving an obligation or liability in an amount in excess (individually or in the aggregate) of $[50,000] [TO DISCUSS BASED ON STAGE OF COMPANY] unless approved by the Board, including the XYZ Director; (xii) sell, license, transfer, lease, sublease or otherwise dispose of assets having a value in excess of $[50,000] outside of the ordinary course of business, unless approved by the Board, including the XYZ Director; or (xiii) make loans or advances in an amount in

	excess of $10,000 to any employee, director or consultant without the prior approval of [both Investor Directors]..
Registration Rights:	**<u>Registrable Securities</u>**: All shares of Common Stock issuable or issued upon conversion of the Series A Preferred will be deemed "<u>Registrable Securities</u>" and entitled to customary demand, Form S-3, and piggyback registration rights. **<u>Approval Required</u>:** The granting of additional registration rights on a pari passu or senior basis will be subject to the approval by the holders of at least 30% of the Registrable Securities.
Market Standoff:	In connection with a Qualified Public Offering, each holder of registration rights will be required not to sell or otherwise dispose of any securities of the Company (except for those securities being registered) for the lesser of (i) 180 days or (ii) such period requested by the underwriters following the effective date of the registration statement for such offering if so requested by the underwriters of such offering, in each case <u>provided</u> that all officers, directors and 1% and greater holders of the Company's outstanding stock have entered into similar agreements.
Information Rights:	The Company will deliver to Major Holder (as defined below), at least 30 days prior to the beginning of each fiscal year, copies of its annual budget and business plan for the upcoming fiscal year and, within [90/180] days following the end of each fiscal year, audited financial reports, prepared in accordance with generally accepted accounting principles ("<u>GAAP</u>"). During each fiscal year, the Company will submit unaudited, but reviewed, quarterly financial reports, no later than 45 days after the end of each of the first three fiscal quarters. During each fiscal year, the Company will also submit unaudited and unreviewed monthly financial reports, no later than 30 days after the end of each month. The Company will also deliver to each Major Holder such other information relating to the financial condition, business, prospects, or corporate affairs of the Company as such Major Holder requests, unless the Company in good faith determines such information to be a trade secret or similar confidential information. The Company will allow each Major Holder reasonable access, during normal business hours, to the Company's premises and records and reasonable opportunity to discuss the Company's affairs, finances, and accounts with the Company's officers; <u>provided</u>, <u>however</u>, that the Company will not be obligated to provide access to any information that it reasonably considers to be a trade secret or similar confidential information, unless a customary confidentiality undertaking is signed. The obligation of the Company to furnish such information and access will terminate on the earliest of the closing of a Public Offering, at such time as the Company becomes subject to the reporting provisions of the Securities Exchange Act of 1934, as amended, or a liquidation of the Company.
Right of First Offer:	Each Major Holder will have the right in the event the Company proposes to offer equity securities, or any securities convertible into or exchangeable for equity securities, to any person (other than Permitted Additional Securities) to purchase that number of such equity securities necessary to maintain its pro rata percentage ownership of the Company, on a fully diluted and as converted basis. Such equity securities will be purchased upon not less than 20 days notice from the Company and on the same terms as they are purchased by other third-party purchasers of the equity securities. To the extent that any Major Holder elects to not acquire its full pro rata share of the offered securities as determined above, each Major Holder electing to acquire it full pro rata portion will have the first right to acquire any remaining shares not subscribed by other Major Holders. The term "<u>Major Holder</u>" will mean each holder of Preferred Stock that holds at least 5% of the Company's issued and outstanding capital stock (on an as converted basis and as adjusted for any stock split, recapitalization, or the like). This right of first offer will terminate immediately prior to (i) a Qualified Public Offering or (ii) a Change of Control Transaction.

Co-Sale Right and Right of First Refusal on Common Stock:	Each holder of Series A Preferred will have first refusal rights with respect to all transfers (except for (i) transfers to the Company at cost pursuant to an agreement approved by the Board providing for repurchase of shares upon certain events, (ii) certain customary intra-familial transfers and (iii) transfers to an entity wholly owned by the transferor) of shares of Common Stock now or hereafter acquired by other stockholders, to the extent such rights are not exercised by the Company. In addition to the foregoing, all Major Holders will have co-sale rights (on a pro rata basis) with respect to such transfers of shares by the Company founders and management. This right will terminate immediately prior to a Qualified Public Offering or a Change of Control Transaction.
[***Redemption Rights:***	The Series A Preferred shall be redeemable from funds legally available for distribution at the option of the holders of at least a [majority] of the Series A Preferred commencing any time after the fifth (fifth) anniversary of the Closing at a price equal to the Series A Purchase Price plus all accrued but unpaid dividends.]
Common Stock Option Valuation:	Within 90 days of the Closing, Company will provide the Board with a completed 409A valuation report produced by an independent valuation firm. Following Closing, all common stock options, or the equivalents such as common stock warrants will be granted at fair market value as determined by the Board with reference to such 409A valuation report, or an updated valuation report.
GOVERNANCE AND MISCELLANEOUS TERMS:	
Board of Directors/Observers:	The Company will have ______ (__) members on its Board elected as follows: • One (1) seat occupied by the then-current Chief Executive Officer of the Company, initially __________ (the "CEO Director"); • For so long as XYZ owns at least [__________] shares of the outstanding Series A Preferred or Common Stock issued upon conversion of the Series A Preferred (as adjusted for any stock splits, stock dividends and the like), XYZ will be entitled to designate one (1) member of the Board, who initially will be [__________] (the "XYZ Director"); • ________ (_) member[s] designated by the mutual consent of the other directors, initially _____________. The Board will meet at least monthly (with telephonic participation allowable), unless otherwise approved by the XYZ Director. The bylaws will provide, in addition to any provisions required by law, that the XYZ Director may call a meeting of the Board. Board members will be entitled to reimbursement of reasonable expenses related to the Company. In addition to its director appointment, XYZ will be entitled to have one non-voting observer attend each meeting of the Board, and to receive all materials submitted to the Board in connection with each such meetings, who will initially be [_________________].
Insurance:	The Company will provide its directors with indemnification to the fullest extent permitted by law and as of the Closing will have entered into indemnification agreements with the members of the Board in a form acceptable to the Investors. The Company will procure and maintain Directors and Officers Insurance in such amounts as determined appropriate by the Board, but no less than $2,000,000. The Company will procure and

maintain key person life insurance policies, payable to the Company as beneficiary, on the life of __________ in the aggregate amount of at least $1,000,000.

Confidential Information and Invention Assignment, Non-Competition and Non-Solicitation Agreements: Prior to the Closing, each employee and consultant of the Company will have entered into a Confidential Information and Invention Assignment Agreement with the Company in form and substance delivered to the Investors and attached hereto. Additionally, the Company will require all future employees and consultants of the Company to enter into such agreements.

Additionally, the Company will require all present and future employees and consultants of the Company to enter into a non-competition and non-solicitation agreement (covering a one-year period following employment termination) in form and substance satisfactory to the Investors.

Vesting and Acceleration of Executives' Common Stock: Common Stock issued to [_______________ certain executives] shall be subject to vesting over a [three year] period as follows: (a) 25% of the Common Stock issued will be fully vested on the Closing and (b) the remaining [75% will vest in equal monthly installments over the next succeeding 36] month period. Vesting of such Common Stock shall be subject to acceleration only upon the following terms: (i) [fifty percent (50%)] upon termination (including constructive termination) of such executive's employment within 12 months of a Change of Control Transaction; or (ii) [fifty percent (50%)] upon termination (including constructive termination) of such executive's employment without cause.

Option Pool: The total number of pre-closing authorized stock options issuable and available for grant under the Company's plan will be equal to 15% of the fully diluted shares immediately following the initial Closing of the Financing assuming all authorized shares are sold. All grants will be subject to the recommendation and approval of the Board.

Unless otherwise approved by the Board, all stock options or restricted stock awards granted after the Closing will vest on a standard four year, one year cliff vesting schedule and acceleration of vesting will occur only if both (i) a Change of Control Transaction is consummated, (ii) the option is not assumed by the acquirer, and (iii) no more than 50% of the unvested shares subject to the option will be accelerated.. The Company will retain a right of first refusal on transfers of all shares of Common Stock issued upon the exercise of options until the closing of a Public Offering.

Purchase Agreement: The sale of Series A Preferred as described above will be made pursuant to a stock purchase agreement mutually acceptable to the Company and the Investors, which agreement will contain, among other things, appropriate representations and warranties of the Company and the Investors, covenants of the Company reflecting the provisions set forth in this term sheet and appropriate conditions to closing which will include, among other things, qualification of the securities to be sold under applicable Blue Sky laws, and the filing of the Amended and Restated Certificate of Incorporation.

Counsel to the Company:

Counsel to XYZ: DLA Piper LLP (US)
701 Fifth Avenue, Suite 7000
Seattle, Washington 98104

Finders: Each party will represent to the other that there are no finders' fees applicable to this transaction. The Company and the Investors shall each indemnify the other for any finder's fees for which either is responsible.

Expenses: As a condition to Closing, the Company will pay the fees and expenses of one special counsel to XYZ, not to exceed $xx,000. [TO DISCUSS; DILIGENCE; DOCUMENT STATUS; OTHER FACTORS (TIME ABLE TO BE DEVOTED BY COMPANY COUNSEL, MULTIPLE LOCATIONS, CORPORATE CLEANUP ISSUES)].

Confidentiality:	Except as required by law, the Company will not, without the written consent of XYZ, discuss the terms of this term sheet or the transactions contemplated hereby with any person other than key officers, members of the Board or the Company's accountants or attorneys. In addition, the Company shall not use an Investor's name in any manner, context, or format (including reference on or links to websites, press releases, etc.) without the prior approval of such Investor.
Exclusivity:	From the date of last signing of this Term Sheet until [_____________, ____ 30 to 45 days forward], the Company agrees not to solicit, encourage others to solicit, or accept any offers for the purchase of any capital stock of the Company, or any proposals for merger or consolidation involving the Company, and that it will not negotiate or enter into an agreement with respect to any such transaction, other than the transaction proposed by XYZ under this term sheet. The parties intend for this Exclusivity provision to be legally binding

As of this ___ day of _________, 20__, the undersigned hereby acknowledge that the terms of this Memorandum of Terms are acceptable as a basis for negotiating an investment by the Investors, [and that other than with respect to the Confidentiality and Exclusivity provisions,] none of the parties shall be bound until a definitive purchase agreement has been executed by all parties.

Except as required by law, the Company will not, without the written consent of , discuss the terms of this term sheet or the transactions contemplated hereby with any person other than key officers, members of the Board or the Company's accountants or attorneys. In addition, the Company shall not use an Investor's name in any manner, context or format (including reference on or links to websites, press releases, etc.) without the prior approval of such Investor Except as required by law, the Company will not, without the written consent of , discuss the terms of this term sheet or the transactions contemplated hereby with any person other than key officers, members of the Board or the Company's accountants or attorneys. In addition, the Company shall not use an Investor's name in any manner, context or format (including reference on or links to websites, press releases, etc.) without the prior approval of such Investor Except as required by law, the Company will not, without the written consent of , discuss the terms of this term sheet or the transactions contemplated hereby with any person other than key officers, members of the Board or the Company's accountants or attorneys. In addition, the Company shall not use an Investor's name in any manner, context or format (including reference on or links to websites, press releases, etc.) without the prior approval of such Investor Except as required by law, the Company will not, without the written consent of , discuss the terms of this term sheet or the transactions contemplated hereby with any person other than key officers, members of the Board or the Company's accountants or attorneys. In addition, the Company shall not use an Investor's name in any manner, context or format (including reference on or links to websites, press releases, etc.) without the prior approval of such Investor Except as required by law, the Company will not, without the written consent of , discuss the terms of this term sheet or the transactions contemplated hereby with any person other than key officers, members of the Board or the Company's accountants or attorneys. In addition, the Company shall not use an Investor's name in any manner, context, or format (including reference on or links to websites, press releases, etc.) without the prior approval of such Investor

Agreed and Acknowledged:

1. **XYZ VENTURE PARTNERS, L.P.** **[COMPANY NAME], INC.**

______________________________	______________________________
By: (name) ____________________	By:___________________________
Title: ________________________	Title: _______________________
Date: ________________________	Date: ________________________

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