*You take money from a venture capitalist. It would be helpful to know how that venture capitalist actually makes money and how the firm that he or she is part of works. That's what we're going to cover in this next section.*

**Clint:** What's the typical structure for a venture capital firm?

**Brad:** Most venture capital firms consist of the following kind of structure. It's called a GP/LP structure, where GP stands for general partner and LP stands for limited partner.

The GP is the partnership of VCs, venture capitalists, that work together. In the case of Foundry Group, there are four of us: myself, Jason Mendelson, Seth Levine, and Ryan McIntyre. We make up the GP.

We then have investors, who are limited partners. They make up the LP. The limited partners invest in an entity, which we, the GP, also invest in. That's the fund.

A venture capital firm might be multiple funds. At Foundry Group, we raised our first fund in 2007 and it's very creatively named Foundry Group 2007. We raised another fund in 2010. It's also very creatively named, this time Foundry Group 2010. We have one in 2013 called Foundry Group 2013.

If we invest in your company, the fund would be the investor. You would see the investor's name be Foundry Group '10 or Foundry Group '13.

The GPs are part of, and own, something called a management company, as well, which is part of this overall structure. The idea of this whole thing is that the LPs put up most of the money.

The historical norm was 99% of the money came from the LPs and 1% came from the GPs. That changed over time. You'll now see partnership structures where 2%, 3%, or more come from the GPs.

They invest in the fund. The fund pays the management company a management fee. The fund invests in the various companies in the portfolio. Over time, as those companies exit, that money comes back into the fund and then it gets distributed to the GPs and to the LPs. That's the overall structure.

**Clint:** Why all of these different entities? Why not just put it all in one? It seems like you could make it all work in one, as well.

**Brad:** There are a couple of different reasons. The first is that each of the funds doesn't necessarily have the same investors. In 2007, our LPs, of which there are about 20, are a little different than our LPs in the 2010 fund.

For us, we didn't change the size of our funds, each of them are $225 million, but we did change a few of the underlying investors, for various reasons. In one of the cases in our 2007 fund, the investor had no money when we went to raise our 2010 fund. That's fine. They're in the 2007 fund, but they just didn't make a commitment to the 2010 fund.

In other cases, for some reason, the investor might decide that they're not interested in investing in us or they're getting out of the venture capital asset class. Over time, by having these separate fund vehicles, you can create a situation where you can raise money from different people.

It turns out that most venture capital firms increase the size of their funds. We made a deliberate decision to always raise the same size fund. As a VC fund grows from their first fund to their second fund to their third fund, those funds often expand in size. They have new investors who come in to those later funds. That's one reason.

The second reason is you might have different partners in the GP. When a venture fund starts out, you have a certain set of partners and by the time you get to the third fund, you might have added new partners, or you might have subtracted some partners. The economic ownership is different from fund to fund and having that fund structure allows you to have some flexibility and ability to deal with that over time.

The next is that it's important to realize the money doesn't come in all at once. When I talk about us having a $225 million fund, our investors, the day we close the fund, have simply made a commitment to us for $225 million. They haven't actually sent us the money yet.

We do, what are called, capital calls when we're ready to invest. If we're in a position where we're going to invest, let's say, $25 million in two companies, we do roughly a 10% or a bit more than a 10% capital call to get that cash from our investors.

They would then have two weeks to send us the money and we would subsequently make the investment. The structure allows for the capture of the commitment.

The last reason is that it's a more tax efficient structure than a lot of other structures. You have lots of flows of money from different places and you want to be able to have the flexibility to optimize those flows of money from a tax efficient perspective.

This LP/GP structure is one that's been around for a long time and is very tried and true in terms of being optimized for the dynamics of everyone in the system.

**Clint:** You have these 20 investors or so who make up your LP base. How did you get them? How did you raise your money?

**Brad:** For a VC firm, fundraising, especially for a first time fund, is often a very humbling experience. For us we started fundraising early in 2007, in January. We had about 90 meetings between January and March, where we met with institutional investors, people who we thought would be interested in investing in our fund.

Some were firms we knew, some were firms we got introduced to, and some were firms that we cold-called, not dissimilar to what an entrepreneur does with investors.

The firms we were calling on included university endowments; pension funds; fund of funds, which are other funds that are set up just to invest in venture capital funds; insurance companies; high net worth individuals or family office; a pretty broad range of different potential investors who invest in venture funds.

During that three month period, we got initially, out of the 90 meetings that we took, about 20 immediate no's. So no's either before we left the meeting in a couple of cases, which was always entertaining because then you wonder if you should just get up and go have a beer, or no shortly thereafter, from people who just were not interested in investing in us.

Of the remaining 70, we ended up with 20 investors. Those 20 investors didn't start making commitments to us until March. In fact, our first commitment was from a firm for $3 million. We ended up raising a $225 million fund, as I said.

I remember that day so well because it was so exciting to have someone finally say yes after all these people who we met with, many of whom had said no.

In May we got a couple more commitments. At the end of May, we got a commitment from one of our very large investors, actually our largest investor, and a couple of very notable investors along with that large investor.

That really changed the dynamics of our financing. Now we could go back to the remaining investors, at this point we had about a half a dozen commitments, and say, "These people have committed to us and we're now starting the process. We're trying to figure out what the whole fund was going to look like."

Things really picked up in June and July, in terms of meetings and commitments. We did a first close in September. That first close was on about $165 million. When we went out to originally raise the fund, we went out to raise $175 million, knowing that we would be happy with $175 million. If we were oversubscribed, if there was more interest, we'd increase the amount.

Notice we didn't go out with a range; we just went out with a number, same thing that we talked about early when you're raising money as a company. We ended up with several hundred million dollars probably $250-$300 million of commitments, of which we closed on $165 and agreed with our large investors that we'd cap the round at $225 million.

The reason that happened was we had several investors who really wanted the round to be at about $200 million. Ironically, of course, they said, "In addition to it being $220 million, we want 20% of it."

There was this tension to try and get all of the numbers to work out and get everyone what they wanted. We agreed that $225 million was the max amount. When we closed on $165 million in September, we allocated out the remaining amount. We allocated the full $225 million.

We had a few investors who needed to a do a bit more work before they could sign the documents and fully commit. They had to go through their own processes.

At the end of September, one of those investors, who represented about $40 million, the number two person at the investment group, which was a large public pension fund, resigned and went somewhere else. The senior person, who ran the group, decided that he didn't want to make any more investments for the rest of the year.

After saying to a bunch of people, "We're full. We can't accommodate you," all of a sudden, we had $40 million that we could close. We still were closed on $165 million, so we didn't feel terrible about it, but we'd agreed on $225 million and that was what we were going to close to.

We went around and humbly talked to our existing investors who had already committed, several of whom wanted more, and several other people to whom we had said, "Gosh, we're really sorry. We don't have room." We went back to them and said, "Actually, we have room. We had a big commitment go away."

During October and November, we rounded up the remaining amount. In November, we finally closed on the whole $225 million.

The process for us was an eleven-month long process, which was very heavily weighted on the front end with meetings for the first three months. For the next three months, it was very focused on trying to coax people across the go line. We were engaged with people, but trying to get them the information and give them the comfort that they wanted to invest in us.

The last three, four, five months were really spent going through the formal diligence process, going through the formal legal process, and getting everything done.

That was the fundraising for our first fund.

**Student:** With those 90 meetings you took initially and building that LP base, is 20 LPs, as a range, a bigger or smaller size; is the actual LP base something the entrepreneur ever needs to care about or have the monies distributed on their end doesn't matter that much?

**Brad:** It doesn't matter than much to the entrepreneur. It does have some impact because the health and longevity of the venture firm, which is your investor, matters.

We had a very specific goal. Our goal was to have a modest number- not a small number; not three or four but not 50- of investors, who were committed to invest with us for the long term, over multiple funds.

Our view was that each fund would last three to four years. We'd be able to make new investments for a three to four year period and then we'd have to go raise another fund.

**Student:** That's how it turned out, pretty much, right?

**Brad:** That's how it turned out. We didn't plan it out by the month, but we figured we could handle 10 investments a year, about 30 investments a fund, plus or minus. That puts us at about three years.

We knew that at the end of the second and a half or third year, we were going to have to go back to our investors and say, "We need to raise a new fund." If you're the entrepreneur, you want to believe that the fund that's investing in you is going to have a relatively straight forward time of raising their next fund, for a variety of reasons.

One is you want them to still be in business, making new investments, because then they have continuity and success long-term as a venture fund. Second, you don't want the senior partners spending all their time running around fundraising. I just told you an eleven month story of fundraising.

I spent a lot of my time, and my partner Ryan spent a lot of his time, in the first half of that fundraising. Our partner Jason spent a lot of his time in the second half of that working to wrestle the deal to the ground and get the fundraising closed.

That was a lot of time across our system on fundraising. When we raised our second fund- our first fund performed very well- we went to our same investors and the whole process of raising our second fund took two months. In that particular case, we only added two new investors.

**Student:** Were they easy because of your track record from the first fund?

**Brad:** Not just that, they had passed on our first fund, but they had stayed close to us. Like a good VC who might pass on your deal, but then stay close. "I'm not quite ready. I don't want to do the seed round, but I'll help you. I'll get to know you. I'll spend some time with you." When you're ready to go raise the next round, those VCs were there.

In our case, we had three LPs that stayed close to us. Before we started raising our second fund, we went to them and said, "We're going to raise another fund. We have no idea if we have any room or a lot of room, because we haven't thought hard about it. We don't know what people's commitments are. If you'll do your work and make a commitment, we'll try to fit you in."

Two of the three firms, within 30 days, committed more than we knew we could accommodate, so we told the third firm, "We really appreciate you spending time but it's not going to work; so don't struggle with it."

We then went to our existing LPs and said, "We're raising a fund. How much do you want?" We wanted our existing LPs to be able to have first shot at it. We knew a few of them didn't have any money or were in a position where they couldn't participate, for whatever reason.

Essentially, the second time around it was much more people who knew us well saying, "We'd like to invest this much," and then we added these two new investors.

When we raised our third fund, we didn't even have to go through that process. Our existing investors all wanted to invest again with us. Since we kept the size of the fund the same, at $225 million, we didn't have to go and find new investors.