



Motley FoolTM VENTURES

Educate, Amuse, Enrich - Together

**LP Education
Series:
Commitment
vs.
Capital Call**

“While the minimum commitment for Founding LPs is \$250,000, you don’t need to provide that up-front.

The cash is transferred via capital calls.”

INTRODUCTION

Hello prospective Motley Fool Ventures limited partner.

If you’ve had a call with someone on Motley Fool Venture’s portfolio team, you’ve probably heard something similar to the statement on the left.

If you have not been a limited partner (LP) in a venture fund before, it may seem like an unusual statement.

We’re not surprised that people are unfamiliar, but it’s a very common approach.

One of our goals in launching this fund is to offer members access to an asset class that was largely inaccessible or offered by uncertain sources.

We appreciate the trust you are placing in us, and with a purpose of **Educate, Amuse and Enrich – Together**, let’s do a little of the first.

Ollen Douglass
Managing Director
Motley Fool Ventures

SoftBank, Saudis Launch \$100 Billion Tech Fund

-WSJ, May 20, 2017

Whoa! Did they really raise \$100 BILLION!??

Well... yes and no. They received commitments equaling that amount.

What Exactly is a Commitment?

When you see a venture fund headline like that, the amount quoted is almost always the commitment.

A commitment is what the LPs are promising to invest **OVER THE LIFE OF THE FUND**. So... yes – they raised \$100 billion. But, no one is required to write a check for their full commitment up front.

It's a promise, or more accurately, a **contractual obligation**, to pay upon request as capital calls are made.

OK – So What Exactly is a Capital Call?

Once the fund finds companies and agrees to invest in them, the fund manager makes a **capital call** to investors to collect enough to make the investment.

Capital calls may also include amounts for the management fee and other fund expenses.

A commitment is the obligation. A capital call is a cash request, or “call”, for a portion of that obligation.

\$250,000 Commitment \neq \$250,000 Check



OK... So a \$250,000 commitment does not mean I have to immediately write a \$250,000 check?
Correct. You may prefer to, but that is a subject for a different presentation.



When will you make capital calls?

That depends on several factors, including how fast the managers find companies to invest in. In your typical venture capital fund, the timing and the amount of the capital calls are both variable.

In Motley Fool Ventures, we plan to release an annual schedule of capital call dates in advance, so that at least the timing is known. We are also estimating 3 capital calls a year (after the launch year, tentatively Jan, May and Sep).



How much do you think will be called in a single capital call?

It is difficult to say with 100% certainty. However, since capital calls are triggered by the actions of the fund managers, they are not outside of our control.

While this will make the lawyers cringe, next we will share a rule of thumb to convert a commitment to the general range of a capital call.

RULE OF THUMB:

1: a method of procedure based on experience and common sense

2: a general principle regarded as roughly correct but not intended to be scientifically accurate

-Merriam-Webster

** Of course, the lawyers might ask me to remind you that the numbers in the table could change if we find opportunities in which we need to invest faster than we anticipate.*

At the high end, the most significant driver of the capital call is the **investment pace**. At the low end, the **management fee** drives the bulk of the activity. In between is, well, in between.

If we invest 80% of the money really fast, say 3 years, a single capital call (**1 of 3 in a year**) may be:

$$80\% / 3\text{ys} / 3 \text{ capital calls} = \sim\mathbf{10\%}$$

If we invest the same amount at an average pace (6-7 years):

$$80\% / 6\text{-}7\text{yrs} / 3 \text{ capitals calls} = \sim\mathbf{5\%}$$

If we only have management fees and admin fees, it may be:

$$80\% \times 1.5\% - 3\% / 3 \text{ capitals calls} = \sim\mathbf{1\%}$$

As a **RULE OF THUMB**, here is what a single high, average and low capital call might be:*

	\$500,000 Commitment	\$250,000 Commitment	\$100,000 Commitment
High	\$50,000	\$25,000	\$10,000
Average	\$25,000	\$12,500	\$5,000
Low	\$5,000	\$2,500	\$1,000

In Conclusion...



1. A commitment is the contractual obligation.



2. A capital call is the cash request, or “call”, for a portion of that obligation.



3. In general, a single capital call for Motley Fool Ventures may range from 10% of the commitment to 1%.



4. These are only rough guides, and are intended to serve as a directional estimate, not a promise or commitment.

Motley Fool Ventures:

Educate, amuse and enrich – together

Educate: Teach, learn and share, in a virtuous cycle

Amuse: Have fun. Be a joyful realist

Enrich: Add value to our lives... economically, socially and intellectually

Together: As a community, change the world for the better. Join us.