



# Motley Fool<sup>TM</sup> VENTURES

Educate, Amuse, Enrich - together

## INVESTOR QUALIFICATIONS

JULY 31, 2018

# QUALIFICATIONS FOR THE VENTURE FUND

Welcome, Fools.

Thank you for expressing an interest in investing in the Motley Fool Ventures. Fund.

This presentation is intended to share:

- What drives the eligibility requirements
- the minimum eligibility for the fund,
- A general description of the definitions,
- How the eligibility is checked.

Readers should take our interpretations as general information, and we strongly encourage prospective investors to consult with their own financial advisors to determine if they are eligible.

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# COMPANY & FUND STRUCTURE

**3(c)(7) fund**

**506(c) offering**

Most venture funds are structured as 3(c)(1) funds and marketed through a 506(b) offering exemption.

The 3(c)(1) structure allows the fund to accept accredited investors, but also limits the fund to 99 limited partners.

The 506(b) offering permits the accredited investors to self certify their accredited status, but does not allow the fund to market broadly for investors and requires that the fund build a relationship with the prospective investor before making an offer to invest.

To build the vibrant and effective community of LPs that we are seeking, and to make the opportunity available to more of our large audience, **the Motley Fool Ventures fund will be structured as a 3(c)(7) fund, and marketed via a 506(c) offering exemption.**

The benefit of our choices is:

- that the maximum number of limited partners expands to 1,999,
- we are allowed to make “general solicitations”, such as emails to our members, and
- We can discuss our plans for the fund earlier in the process

To meet the requirements of the applicable rules, each LP will need to be **both** a “Qualified Purchaser” and an “Accredited Investor,” and we will need to confirm their eligibility.

# QUALIFIED PURCHASER

The SEC definition of a qualified purchaser is based on the value of an individual or entity's investments, not their net worth, which companies use to define accredited investors.

## **Criteria to be a qualified purchaser**

To be considered a "qualified purchaser," at least one of the following criteria must be met:

- The purchaser is an individual or family owned business that owns \$5 million or more in investments. If the purchaser is a family owned business, it cannot be formed solely for the purpose of investing in the fund.
- The purchaser is a trust sponsored and managed by qualified purchasers, which wasn't formed for the sole purpose of investing in the fund.
- The purchaser is an individual or other entity that invests at least \$25 million, either for their own accounts or on others' behalf. Like the other criteria, entities cannot have been formed for the specific purpose of investing in the fund. Examples in this category would be a professional investment manager or a corporation.
- Any entity, if all owners are qualified purchasers.

For the purposes of these definitions, "investments" include but are not necessarily limited to stocks, bonds, retirement accounts, other securities, as well as investment real estate, futures contracts, physical commodities, financial contracts, and cash and equivalents. It does not include the primary residence.

***Excerpted from "What is a Qualified Purchaser?"***

<https://www.fool.com/investing/2018/02/14/what-is-a-qualified-purchaser.aspx>

## ACCREDITED INVESTOR

The accredited investor qualification is the more common of the standards for venture fund investing, particularly among “retail” investors.

For an individual to qualify as an accredited investor, one of two conditions must be met:

- The individual must have earned income exceeding \$200,000, or \$300,000 when combined with a spouse, during each of the previous two full calendar years, and a reasonable expectation of the same for the current year. The same method (single or joint) must be applied to the income test in all three years, or
- The individual must have a net worth greater than \$1 million (either alone or combined with a spouse), excluding the person's primary residence.

The SEC has an Investor Bulletin that describes the accredited investor qualification in more detail:

[https://www.sec.gov/files/ib\\_accreditedinvestors.pdf](https://www.sec.gov/files/ib_accreditedinvestors.pdf)

# VERIFICATION OF QUALIFIED PURCHASER AND ACCREDITED INVESTOR STATUS

## **ACCREDITED INVESTOR:**

If an investor has invested in a venture fund before, they may not have been asked to provide specific verification for their accredited investor status. However, because we are taking advantage of the general solicitation, **we are required to VERIFY the investor's accredited investor status.**

The verification requires the review of supporting documents, which may include:

- Requesting a letter from an accountant, lawyer, financial advisor, or stock broker certifying accredited investor status,
- Reviewing tax returns or W-2's for the past two years to verify earned income,
- Evaluating a credit report and investment statements to verify a minimum \$1 million net worth.

Motley Fool Ventures has contracted with a firm, Verify Investor, to perform the verifications on our behalf. Verify Investor gets zero points for naming creativity, but 100 points for naming clarity, reliability, and efficiency.

Verify Investor will provide Motley Fool Venture with a letter certifying the accredited investor status of investors that are validated by them.

## **QUALIFIED PURCHASER:**

As part of the subscription agreement, all investors will self-certify their qualified purchaser status. While investors will not have to provide supporting documentation, it is important that investors clearly understand the qualified purchaser requirement and are comfortable that they meet the eligibility requirement.

## 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.