Twitter Thread by Mac the VC



Mac the VC
@MacConwell

1/ I feel like breaking some rules today. Let's get transparent and have an open discussion about management fees in VC to help other emerging managers. The standard fee structure is 2% the size of the fund every year for 10 years or the life of the fund.

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2/ This means if you are an emerging manager raising a micro/nano fund of let's say $10M, then you get $200K a year for operations. That $200K pays for legal, fund admin, accounting, expenses, and your salary. basically that 2% doesn't go very far

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3/ This is in contrast to a larger fund, let's say $100M fund where 2% is $2M a year. This is why some LPs (those who invest in funds) are looking for smaller management fee which is unreasonable for micro funds which many diverse managers are raising

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4/ Now at RareBreed Ventures we structured our fees to be 2.5% for the first 5 years and 1.5% for the last 5 years. This comes out to the standard 2% but front-loaded in earlier years

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5/ This means when we hit our target of $10M (if you want to be an LP our min investment is 10K and you can go to https://t.co/dm6ywrNFnU). We'll have 250K for the first 5 years giving a little more cushion for operations and allowing me to bring on a hire

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6/ That seemed like the best option for me because it still keeps the fees at 2% overall and we are essentially making the bet that in 3 years or so we'll raise fund 2 which will be larger (our goal is $50M)

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7/ The important thing to note here is the raising of new funds every 3 or so years. in our case let's say we close a $50M fund with the standard 2% fees in year 4 of our fund 1. Then we will be getting fees from both fund 1 & fund 2 which make life easier

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8/ To this point @Nivo0o0 from @ShrugCap gave me some of the best advice ever and I wish I had gotten it earlier in my fundraising journey

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9/ Basically @Nivo0o0 suggested front-loading the management to 4% but then only taking fees for the first 4 year. This leads to lower fees over the full 10 years while giving you more money to work with when getting started

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10/ His point with this is if you do what you say you will, you'll raise fund 2, and then you won't need the fees from fund 1 anymore. I think this is really smart and appealing to LPs because its less fees overall and more money for investments

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11/ I'd love to hear other thoughts on this topic so we can educate other emerging managers.@Samirkaji @DSox @davidrgoldberg @ceonyc @chudson @johnhenrystyle @MyDailyPosts @Jai__Malik @jasonlk @roybahat @PDXStephenG @minal_hasan @dunkhippo33 @yoheinakajima

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