00:01:44.860 --> 00:01:55.450
Olga Zolotnik: Welcome everyone for those of you who joined us for our 1st webinar. Welcome back, and thank you for joining us again for those of you joining for the 1st time. Welcome. We're very glad to have you

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00:01:55.710 --> 00:02:18.759
Olga Zolotnik: if you're not familiar with the firm. Gundersen is one of the leading firms in the venture. Capital ecosystem. We represent thousands of venture backed companies and venture capital investment firms on the company side. We represent companies from formation all the way through their life cycle on the fund formation side, which is where I sit. We represent venture capital firms and the formation of their funds, and also day to day business activities.

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00:02:18.760 --> 00:02:43.709
Olga Zolotnik: We were also recently named the number one Vc. Law firm by pitchbook for the 11th year in a row, which is pretty exciting. This is the second of a 3 part Webinar series that is, exploring the journey of starting a venture fund. Following our 3rd webinar in the series. We'll be kicking off a pilot program in which we'll invite a group of La Based Fund managers to work with us as part of a cohort to build their investment advisory business based on industry

27
00:02:43.710 --> 00:03:01.950
Olga Zolotnik: practices and get their funds into market and through a close with the right legal framework for success. Our program details are still being finalized. But if you're in today's discussion, or if you find it helpful as an early registrant in the session, you'll automatically receive notice of our pilot program and information about the application process.

28
00:03:02.700 --> 00:03:29.450
Olga Zolotnik: whether you're just getting started or you're coming up on your second or 3rd fund. We want you to walk away from these sessions with new insights based on the deep experiences of our co-hosts. So with that in mind, it's my sincere pleasure to introduce Ann Kim and Charlie Smith of Stifel Bank, and Charlie. Thank you very much for taking the time to have this conversation today to get us started. Can you tell us a little bit about yourselves, and a little bit about Stifel.

29
00:03:31.990 --> 00:03:33.649
Ann Kim: Yes, Charlie, would you like.

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00:03:33.920 --> 00:03:45.050
Charlie Smith: Sure. Yes, hey, Charlie Smith, I'm a managing director in the Fund Banking group. I actually sit in Southern California and very honored to be here.

31
00:03:45.980 --> 00:04:03.580
Ann Kim: And Hi, there! My name is Ann Kim, and I sit in San Francisco, and I'm part of the investor coverage team. So I spend the majority of my time talking to GPS about ways we could support the portfolio

companies potentially fund banking and also on the strategic side, building up community thought pieces, events, etc.

32
00:04:03.640 --> 00:04:26.800
Ann Kim: And actually, for those of you who haven't heard of stifle before, just wanted to give you a very high level overview. That stifle is a diversified financial services platform. We actually are 130 years old. We are publicly listed on the New York Stock Exchange with over 10,000 employees, so some people might guess that we're a Fintech or a startup. We're not very stable platform.

33
00:04:26.800 --> 00:04:41.280
Ann Kim: and then we have 3 businesses, one where the we're ranked. Number one for our large Mid-market Investment Bank. We have the number 7 largest wealth platform in the Us. And the 3, rd the Commercial bank is where Charlie and I sit. So we provide venture and fund banking services.

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00:04:44.000 --> 00:05:03.879
Olga Zolotnik: Thank you for that introduction. I think that's sort of a nice relationship. Given the history of Stifel's existence as a banking partner at Gundersen. We like to think about a fund's relationship with its law firm as one sort of like a marriage. So in our view, it's important to work with a firm that can scale with you as you scale.

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00:05:03.930 --> 00:05:22.640
Olga Zolotnik: And so, if you're an emerging manager which many of our listeners today are, how should an emerging manager think about a banking relationship over the long term, and in what day, in what ways does that relationship scale that an emerging manager might not be thinking about sort of at this very early stage of building their business.

36
00:05:23.570 --> 00:05:24.230
Charlie Smith: Yeah.

37
00:05:25.407 --> 00:05:40.220
Charlie Smith: I'll tackle that one. I I think of scale in in 2 dimensions one dimension being economic scale or scaling on an economic basis or sophistication scale.

38
00:05:40.670 --> 00:05:59.900
Charlie Smith: So on the economic side, I'd say, you know, you need to be thinking about treasury services, depository services. Whatnot. However, you want to label those some things to keep in mind. You know how much fdic coverage is the bank providing

39
00:06:01.960 --> 00:06:08.690
Charlie Smith: my cash you know my short term investments with the firm with the bank. What is my yield?

40

00:06:08.900 --> 00:06:11.619
Charlie Smith: Some simple questions to be thinking about up front.

41
00:06:11.860 --> 00:06:27.169
Charlie Smith: and then, and I'll just jump to it. Lending is the bank that I'm at considered a lender right? And if they're not considered a lender, I I you know I would humbly suggest that you might think about a different bank.

42
00:06:27.832 --> 00:06:39.460
Charlie Smith: And then the other piece about lending is, I would just say, can the lender grow with, you know. Knock on wood hopefully arise in my in in Aum as a sponsor

43
00:06:40.150 --> 00:06:57.809
Charlie Smith: on the sophistication scale side, I'd say Treasury services once again. Does my bank understand what it is that I do? You know, one recent horror story that we heard was a Gp. Walking into a branch to make distributions to a group of lps.

44
00:06:59.380 --> 00:07:04.612
Charlie Smith: You know the branch bankers were like I I have no idea what you're talking about.

45
00:07:05.050 --> 00:07:14.140
Charlie Smith: And then, just further to that. Do? Does the bank that I'm working with? Understand the economics of the Gp. Do they understand the economics of a management company?

46
00:07:14.609 --> 00:07:29.279
Charlie Smith: Can they hang in with my fund in providing capital when I'm past my investment period so that I can continue to support my portfolio companies. Those are there. We could go through a myriad of things, but those are kind of

47
00:07:30.320 --> 00:07:33.530
Charlie Smith: top of mind points that would probably just raise.

48
00:07:35.650 --> 00:07:46.554
Olga Zolotnik: Very helpful, because certainly, if I think if I were sort of starting as an emerging manager I think there, there's a lot there for me to take away. I think one place you kind of started was sort of

49
00:07:47.150 --> 00:07:53.890
Olga Zolotnik: you know, sort of the fdic, and how much money is insured. And and so some of that is sort of a nice segue

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00:07:53.890 --> 00:08:18.840
Olga Zolotnik: to maybe a not so nice topic of conversation, which is certainly that over sort of the history of Vc. Sort of Svb. And Frb. Had control of many, if not most, Vc. Relationships, and they were sort of generally known for being pretty nimble and flexible, and founder and Vc. Friendly. Obviously over the course of the last couple of years there have been various new entrants on the scene that range from folks

51
00:08:18.840 --> 00:08:24.329
Olga Zolotnik: like sort of the Jpms of the world to very small sort of regional banks

52
00:08:24.640 --> 00:08:38.450
Olga Zolotnik: over the course of the last couple of years. What would you say? Has sort of changed. And what should Vc. Fund managers expect both on the banking and the regulatory side, as they're thinking about their relationships and general operations.

53
00:08:39.120 --> 00:08:39.860
Charlie Smith: Yeah.

54
00:08:40.049 --> 00:08:51.979
Charlie Smith: Well, I would say hopefully, this doesn't really surprise anybody, but it could. I would say that things on the Fund banking side really haven't changed all that much at all.

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00:08:54.000 --> 00:09:00.119
Charlie Smith: now, probably, and would be the better person to to discuss this point. But I think venture banking has changed a lot.

56
00:09:01.007 --> 00:09:06.730
Charlie Smith: And and so, you know, turn time over to her on that. But, you know

57
00:09:08.880 --> 00:09:10.280
Charlie Smith: I I would.

58
00:09:10.420 --> 00:09:23.187
Charlie Smith: I would humbly submit that banking for Vc and growth equity growth equity firms has actually improved. And I simply mention that because, you know,

59
00:09:23.740 --> 00:09:42.601
Charlie Smith: the the banks that have stepped into the void that was created by, you know. Kind of the havoc march madness of, you know, 23 are larger, more stable less one trick pony type banks, and and

60
00:09:43.790 --> 00:10:04.969

Charlie Smith: and I dare I say I think the DNA for the banks have kind of stepped in the void are probably the risk. DNA are probably a little bit more in line with what you would expect out of a bank, whether it be on the security side or be on the lending side. So yeah, I'll stop there.

61
00:10:05.550 --> 00:10:21.069
Ann Kim: Yeah, and maybe just expand on what Charlie said. So we call it venture banking and fund banking. And so for people on the call, who aren't familiar with the different products or the different groups. When we say venture banking that's really geared towards startups and company banking.

62
00:10:21.070 --> 00:10:36.390
Ann Kim: and so assuming that people coming from a product background or a tech background haven't really understood the nuances, you know, on the venture banking side, people used to think about Svb. 1st Republic. There were kind of the household names.

63
00:10:36.390 --> 00:10:51.749
Ann Kim: and I think that over time after the bank run occurred there have been a lot of new entrants coming in. So for venture banking on the company side, which I think is very important to GPS, because you want to make sure that your portfolio companies are taken care of.

64
00:10:52.123 --> 00:11:04.090
Ann Kim: I think that's where stifle has really come in and really shined as not necessarily new because our practice started in 2018, but we've emerged as really one of the top

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00:11:04.090 --> 00:11:26.610
Ann Kim: 3, I think, Banks to compete now in that space and then on the fund banking side, as Charlie mentioned, Stifel has actually been in the practice for a very long time very stable with over 8 billion in credit commitments. And that's actually one of the reasons why I think that a lot of the GPS that have come over to the platform have felt confident in our abilities to perform.

66
00:11:26.810 --> 00:11:38.809
Ann Kim: And so as you think about what Banks to consider, I would actually recommend that you not only look for a good fund banker, but somebody that can take care of your companies as well. So the venture banking side.

67
00:11:41.150 --> 00:12:01.790
Olga Zolotnik: Yeah. And so you know, that's kind of a nice segue to a question about you know what an emerging manager should be thinking about in a in a banking relationship and and sort of to your point, it's can the bank support both my business as the Vc. But also sort of the corollary to my business, which is the companies that I'm investing in. So that's a great factor to consider.

68
00:12:01.790 --> 00:12:26.779

Olga Zolotnik: you know. I think on on the legal side as you work with fund managers. One thing that comes up is sort of navigating some of the regulatory landscape, and you know, certainly there's been a fair amount of change over the last few years, in how both Banks and Vc. Funds are sort of being asked to manage some of the Aml sort of Kyc. And the timing of opening sort of banks, and so, or sorry bank accounts. And so then the question

69
00:12:26.780 --> 00:12:39.090
Olga Zolotnik: becomes a little bit of you know. How do you think about if you're an emerging manager, differentiating between the different players in the market in terms of those kind of more tactical or sort of operational sort of

70
00:12:39.730 --> 00:12:49.699
Olga Zolotnik: issues to consider as you're sort of getting the business off of the ground. And then, you know, putting funds on the platform or Sp is where there's a need to move relatively quickly.

71
00:12:50.720 --> 00:12:54.067
Charlie Smith: Yeah, I love what Ann said. I mean, I

72
00:12:55.740 --> 00:13:14.900
Charlie Smith: if I put my Gp hat back on and and I you know my banking career has been a little bit probably unconventional vis-a-vis. A lot of bankers I interact with. I actually started off on the Gp side with city alternative investments back in the day in the office of the Cfo.

73
00:13:15.744 --> 00:13:20.982
Charlie Smith: So I feel like I've got a kind of unique perspective in that in that respect.

74
00:13:22.490 --> 00:13:24.700
Charlie Smith: I would just say

75
00:13:24.940 --> 00:13:37.209
Charlie Smith: what Ann was saying, is that look you want to think about a bank that's gonna help you comprehensively whether it's on the with. In dealing with the fund.

76
00:13:37.370 --> 00:13:41.278
Charlie Smith: the Management Company, the Gp. Or,

77
00:13:42.260 --> 00:13:45.629
Charlie Smith: potentially, even more importantly, working with your port coast.

78
00:13:46.255 --> 00:13:52.444

Charlie Smith: I would. I would just say, I, you know, kind of 5 5 things come to mind. One is,

79
00:13:53.020 --> 00:13:58.200
Charlie Smith: you know, as as you think about a banking partner.

80
00:13:59.070 --> 00:14:05.597
Charlie Smith: you have a number of constituencies that you have to

81
00:14:06.940 --> 00:14:16.350
Charlie Smith: be mindful of one is is yourself as the Gp. Right? What is right for me? Who can help me grow and make my life easier.

82
00:14:16.848 --> 00:14:26.170
Charlie Smith: Our our elevator spent pitch for stifle, and and I think any bank that you would select should be thinking the same way is

83
00:14:28.640 --> 00:14:36.486
Charlie Smith: you know we make GPS lives easier right? Every every banker should be thinking that way.

84
00:14:37.520 --> 00:14:39.130
Charlie Smith: you know. So it it.

85
00:14:39.790 --> 00:14:58.140
Charlie Smith: Strength talks to Treasury platform, it talks to lending solutions. It also talks to the ability to be able to consult whether it be the GPS or the Cfo. The other thing I would. The second one, I just say, is, lps, right? So what's the reputation of the bank that I'm considering working with?

86
00:14:58.872 --> 00:15:02.109
Charlie Smith: Ulps considered that bank to be stable

87
00:15:02.260 --> 00:15:11.577
Charlie Smith: relative, or in light. Of all the happenings that just occurred over the past few years. Sleep at night insurance is really important.

88
00:15:12.510 --> 00:15:14.069
Charlie Smith: your fund admin

89
00:15:15.315 --> 00:15:23.579

Charlie Smith: does the fund admin? I'm using or considering using does. What? What's the plumbing like between

90
00:15:23.690 --> 00:15:28.390
Charlie Smith: the bank and the fund. Admin? Do they work well together? Are they compatible?

91
00:15:29.385 --> 00:15:31.260
Charlie Smith: Audit and tax

92
00:15:31.897 --> 00:15:41.069
Charlie Smith: does does your audit and tax firm know the bank. Are they comfortable with the bank? Have they worked with them in times past? And then, of course.

93
00:15:41.480 --> 00:15:49.570
Charlie Smith: you know, last piece is fund formation and lending council. Right? So what are their opinions of the bank that you're considering?

94
00:15:50.226 --> 00:15:52.460
Charlie Smith: Do they know them well?

95
00:15:53.008 --> 00:15:57.479
Charlie Smith: How they worked with them? I think those are the kind of questions that need to be asked.

96
00:15:58.890 --> 00:16:22.670
Olga Zolotnik: I think those are a lot of those questions that you ask are extremely extremely sort of practical and operational, and so I'd like to if we could spend a little bit of time, you know, sort of stepping into sort of this hypothetical world again, where many of our audience members might be in reality, which is, you've just sort of put together. Maybe your 1st fund, or maybe even it's a second fund. You don't have a Cfo yet.

97
00:16:22.985 --> 00:16:33.020
Olga Zolotnik: But you've got all this capital that you've technically closed on on paper. You have, you know, a fund of X amount of millions of dollars that's available for investment, but also for operations.

98
00:16:33.330 --> 00:16:51.490
Olga Zolotnik: you know. And you've got capital from lps that's going to flow into the fund. The fund is going to be sending some capital out to make investments. It's also going to be sending money out to, for example, the Management Company to pay management fee. And then you've got GPS that also have to make their capital contributions to the fund. So there's a lot of

99
00:16:51.490 --> 00:17:04.649

Olga Zolotnik: flow of capital, and if you are a 1st time fund manager. You might not have a Cfo. And I happened to be chatting with a Cfo of a client recently. And you know he made some very

100
00:17:04.650 --> 00:17:29.640
Olga Zolotnik: interestingly practical sort of points of like, you know, if you're sitting in that position, do you really know kind of how that capital flows? And so maybe. Could you tell us a little bit about? You know, as a banking partner, how are you working with these emerging fund managers to help them with sort of the very basics of authorizing capital movement. Is this something I can pick up the phone and do, can I do it through my cell phone.

101
00:17:29.640 --> 00:17:38.999
Olga Zolotnik: you know, how do I sort of think about this? And and maybe some of the best practices you've seen about cash control and sort of, you know, protecting the fund

102
00:17:39.000 --> 00:17:40.210
Olga Zolotnik: and its assets.

103
00:17:41.210 --> 00:17:42.616
Charlie Smith: Yeah, no.

104
00:17:43.810 --> 00:18:02.969
Charlie Smith: 2 things come to mind. Probably most prominent. One is making sure that you get the right Fund Formation Council. We as as bankers, we leverage pretty heavily off of the way in which the Fund Formation Council has established what I'll call sort of the legal organizational entity chart

105
00:18:03.648 --> 00:18:23.769
Charlie Smith: whether we're lending or we're just helping sponsors with making sure that their treasury functions working properly, we do leverage off of that, and that that actually is super helpful to us, and making sure that everything's functioning properly, and making sure that you've got that good

106
00:18:23.930 --> 00:18:37.219
Charlie Smith: foundation of what I refer to as a separation between between Church and State. And that's that's a separation between the fund and the management company, right? That they can't be commingled or

107
00:18:37.350 --> 00:18:53.809
Charlie Smith: crossover or anything like that. They're very separate entities. You know I've had people in times past come to me and say, Well, can I get a credit card at the fund for for management company expenses. And the answer is 99.9% of the time. No.

108
00:18:54.485 --> 00:18:58.314

Charlie Smith: it. And it goes back to that. That good

109
00:18:59.050 --> 00:19:07.950
Charlie Smith: connectivity, that good understanding that's created through working with Fund Formation Council. The second thing I would just say is

110
00:19:08.430 --> 00:19:11.559
Charlie Smith: just fund admins. I think

111
00:19:12.850 --> 00:19:27.549
Charlie Smith: picking a fund admin that's going to work well, for you can be can make a world of difference, because, especially as it pertains to kind of 2 things. One is capital calls kind of en masse.

112
00:19:27.780 --> 00:19:32.640
Charlie Smith: But then, in addition to that, that's reporting so

113
00:19:33.200 --> 00:19:41.279
Charlie Smith: 2 critical functions that, both of which, if you, if you if you set them up correctly.

114
00:19:41.450 --> 00:19:47.629
Charlie Smith: will make your life abundantly easier on a relative basis.

115
00:19:48.472 --> 00:19:50.130
Charlie Smith: So that said.

116
00:19:50.940 --> 00:20:03.589
Charlie Smith: how does it? How does it all work? Right? So management fees pretty simple. Right? We'll set up a management fee. We'll start sorry we'll set up a management company account. That account will be the recipient of the management fees.

117
00:20:04.150 --> 00:20:30.849
Charlie Smith: You know your there'll be directions that are established that you know the the rails will know that that money is supposed to come from the funds lps to the management company. Pretty simple. That's where the most activity actually occurs for our clients. Is that the management company? Because, you know, they're paying for computers. They're paying payroll. They're paying rent.

118
00:20:31.100 --> 00:20:43.339
Charlie Smith: etc, etc. And so once again, I think it kind of talks to the point of hiring a bank that actually understands what a management company is, and what they do. And

119
00:20:43.878 --> 00:20:58.591
Charlie Smith: you know I, some of our clients are pretty early stage, but even then we we can get them a credit card, which I think is quite nice. Because you know, it kind of creates that sort of nice

120
00:20:59.250 --> 00:21:12.088
Charlie Smith: separation between personal and management company. And so that talks the idea of actually understanding how revenues work for management companies, what the what the revenue risks are for management companies,

121
00:21:12.970 --> 00:21:18.275
Charlie Smith: etc, etc. So you have that you have the management company. You have the fund. Right?

122
00:21:18.800 --> 00:21:34.040
Charlie Smith: calling capital is is you know, is a process. It it. It's I think even managers that are seasoned always have. It's always a little bit of a headache. Unless you, unless you're

123
00:21:34.130 --> 00:21:56.490
Charlie Smith: Lp list, is entirely institutional, and they're all super regimented. That's usually not the case, especially for younger newer firms. But you know know this, I think the receiving capital calls is really not that complicated where I probably would submit that it gets most complicated, as I kind of alluded to earlier, is is making distributions.

124
00:21:57.314 --> 00:22:21.189
Charlie Smith: You want a bank that can do what we call bulk bulk, upload distributions. As opposed to wanting to send out individual wires to, you know. Kind of in a discrete fashion to each individual. Lp, you want it to be a lot more systematic and a lot more easy. That's something that just

125
00:22:21.540 --> 00:22:26.690
Charlie Smith: once again sorry to beat the dead dead horse here that talks to the idea of having a bank that knows

126
00:22:26.970 --> 00:22:29.650
Charlie Smith: how to work with sponsors.

127
00:22:31.520 --> 00:22:39.749
Olga Zolotnik: I mean. Candidly, I think it's kind of a good dead horse to beat, because I do think when you're thinking about setting up a fund operationally. I think

128
00:22:39.750 --> 00:23:04.060

Olga Zolotnik: you know, you're building a business. You're looking for success. So certainly you're looking forward to those distributions. But we're not quite sort of solving that problem on day one. Because, you know, it's kind of going to be a little while before you've got the distributions to make. But you certainly would not want to be the fund manager that's looking at a banking partner that can't figure out, you know, when that distribution has arrived, which is, you know, great, for everyone involved.

129
00:23:04.190 --> 00:23:15.089
Olga Zolotnik: The bank doesn't know how to do it. And then and then what do you do? So I think it's great to be thinking about that again. Dead horse sort of well ahead of when you have to kind of deal with it.

130
00:23:16.640 --> 00:23:37.539
Olga Zolotnik: So we've talked a little bit about. You know, it sounds like there's processes in place to make sure that management fee is going to the right place and sort of directionally, you know, it sounds like there's a relationship between the fund Admin and the bank in terms of capital calls, and then certainly good mechanics for making distributions to your point sort of en masse.

131
00:23:37.710 --> 00:24:05.400
Olga Zolotnik: So then, the other piece we kind of haven't talked about is, how do you make sort of the investments into the portfolio companies? Right? And so you know, a little bit of this is okay. I've managed the capital call process. I've got the money in the door, and now I found a great company, and I want to fund it. And so thinking about, are there any sort of practical mechanics that are worth thinking about. When you are the fund manager getting ready to wire capital to a company you're excited to back.

132
00:24:06.290 --> 00:24:09.671
Charlie Smith: Yeah, yeah, yeah, no, it. It's a good question. So

133
00:24:10.340 --> 00:24:34.429
Charlie Smith: I I will say that generally the process is not terribly complicated. the the actual, like physical transfer of of monies is not complicated. I'll stay away from the the legal and cause you'd be much better suited to answer that question than I would

134
00:24:34.824 --> 00:24:53.770
Charlie Smith: but but we do see hangups from time to time. But that's that's once again. That's that's the legal end. And no, I mean I I wanted I and I kind of missed the portion of the prior question. You know who who's authorized. And how does it all work together? You know.

135
00:24:55.040 --> 00:25:16.660
Charlie Smith: with fund admin. Typically, you know the way that we see a lot of our sponsors work. And this, I think this is a really good best practice is the the fund Admin will be the initiator of the wire, and actually even be the 1st authorization for the wire. Most of our clients have dual authorization.

136
00:25:17.645 --> 00:25:24.529

Charlie Smith: And then the the second wire is is usually Gp.

137
00:25:24.690 --> 00:25:30.400
Charlie Smith: and the the reasoning for that is twofold. One is

138
00:25:31.340 --> 00:25:51.639
Charlie Smith: is they kind of sound like they're the same, but they are different. One is is to be able to kind of understand the the flow of time, right, you know, to be able to communicate with Council. Communicate with the port code to say, Hey, we're just about to release funds. If there's if there's questions around timing

139
00:25:51.930 --> 00:26:16.610
Charlie Smith: so that I I view that as being sort of a critical element, because, you know. I I don't think anybody you know, you never would be in position where you you've got a footfall on day one, and you upset someone a founder whatever the case may be. So that's that. That's the timing control. And the second control is the actual control of releasing the wire itself right? You don't want

140
00:26:17.039 --> 00:26:39.290
Charlie Smith: some other, you know. Kind of 3rd party, whether it's your fund admin, or or somebody else within your shop to be able to release the wire. It's it's it's a control factor to get that those dollars out the door to actually release the dollars. Because, you know, once the dollars are out the door. If it was a mistake, they're really really hard to recover. So

141
00:26:40.346 --> 00:26:59.530
Charlie Smith: yeah, it's it's it's working with Sellers Council to figure out where the dollars need to go where the wires need to go. It's working with. You know your bank to make sure that the wire instructions are proper. You can.

142
00:27:00.080 --> 00:27:12.429
Charlie Smith: If you have the right bank, I would always say you will have a relationship team that you can get on the phone and say, guys, please hold my hand here. I'm I'm new to the process.

143
00:27:13.378 --> 00:27:26.679
Charlie Smith: Please just help me make sure everything's working here. And then over time you get to a point where you're like. Look, I can do this myself. I'll just jump into, you know our our, you know whatever. Firstly, platform

144
00:27:27.170 --> 00:27:38.409
Charlie Smith: your bank utilizes whoever you decide to go with, you know, jump online and actually do the wire yourself. But but I think you need both right. You need a live person.

145
00:27:38.710 --> 00:27:48.129

Charlie Smith: and you need a, a, a treasury platform that allows you to be able to have all the capabilities and functionality that you need to be able to

146
00:27:48.560 --> 00:27:49.840
Charlie Smith: run your shop.

147
00:27:51.550 --> 00:27:54.210
Olga Zolotnik: Yeah, I I personally certainly would not want to

148
00:27:55.000 --> 00:28:19.990
Olga Zolotnik: skip out on having the availability of the live component, because certainly the 1st time you're playing with that amount of capital. And you're sitting in that fiduciary role, I think being able to talk to someone with sort of experiences would at least sort of call me sort of through the process, making sure you're kind of dotting all the i's and crossing all the t's and being thoughtful about it especially again. You know many of our sort of audience members and many 1st time fund managers just don't have. The Cfo.

149
00:28:19.990 --> 00:28:32.790
Olga Zolotnik: Isn't sort of that institutional experience of how do you kind of track the capital and sort of make sure it's going to the right places at the right time in the right way. So the fact there's both components, I think, is a good thing to look out for.

150
00:28:35.150 --> 00:28:54.860
Olga Zolotnik: You talked a little bit earlier, Charlie, about credit, and that's sort of an important part of scaling a bank relationship. An important thing to make sure that sort of your bank understands what your needs might be, and so could you maybe sort of spend a little bit of time talking to us about the credit relationship.

151
00:28:54.860 --> 00:29:12.799
Olga Zolotnik: the kind of credit that sort of venture banks and fund banks offer, and maybe the focus might be a bit on the venture fund itself, and maybe a little bit of color for those listeners who are newer, obviously to sort of building a Vc fund business.

152
00:29:12.960 --> 00:29:39.839
Olga Zolotnik: You know, the credit can come up in a couple of different places, and I imagine that a good banking partner is thinking about how those pieces work together. And so there's kind of the capital call line where you're just trying to bridge between capital calls, you know, if you're a 1st time Gp. Or even a second time, Gp, you might be cash strapped, and so, being able to sort of fund your Gp capital commitment at the same time that you're using management fee to build your business.

153
00:29:39.840 --> 00:29:56.720
Olga Zolotnik: you know, and perhaps there's some lending or borrowing that you're doing at the management company level to get that business sort of off the ground, because fundamentally a venture

capital firm is still a business right into your earlier point. Renting, you know, maybe space now in 2025, but certainly sort of

154
00:29:57.410 --> 00:30:04.859
Olga Zolotnik: and payroll and sort of platforms. And so, being able to to finance all of that. Given that, you are facing sort of lumpy revenue streams.

155
00:30:05.450 --> 00:30:11.096
Charlie Smith: Yeah, yeah. Yeah. No. Happy to all, all good points, all good questions.

156
00:30:11.820 --> 00:30:26.150
Charlie Smith: I fund banking I refer to as the 3 legged stool, and you want a bank that walks the walk, but it talks the talk, but also walks the walk.

157
00:30:27.027 --> 00:30:38.732
Charlie Smith: There are, and I'd always be happy to take calls offline to give color around the space. And who does what and who doesn't do what?

158
00:30:39.470 --> 00:30:46.100
Charlie Smith: But you want a bank that does all 3 and does all 3 well. And actually, I would even submit, does all 3 within one group?

159
00:30:47.294 --> 00:30:50.739
Charlie Smith: Because I just think it. I think it's much.

160
00:30:50.850 --> 00:30:56.200
Charlie Smith: It's a much easier process to have one central point of contact

161
00:30:56.800 --> 00:31:02.580
Charlie Smith: to help you with all all the needs that are necessary. So

162
00:31:02.680 --> 00:31:10.939
Charlie Smith: 1st leg is it? As you mentioned, Olga is is a capital call line of credit. Some people call it subscription line of credit.

163
00:31:11.910 --> 00:31:14.800
Charlie Smith: you know. Look, there's 3 ways you can

164
00:31:14.990 --> 00:31:29.010

Charlie Smith: get at capital to fund an investment. The 1st way is what we refer to as just in time funding right? So I find a deal I call capital from my lps.

165
00:31:29.540 --> 00:31:36.390
Charlie Smith: The second way is to call capital in an abundance of capital, if you will.

166
00:31:37.026 --> 00:31:43.140
Charlie Smith: Maybe along the lines of like, you know, 2 times my Max check size.

167
00:31:43.250 --> 00:31:47.240
Charlie Smith: I'm going to call that capital from an Alps, and I'm going to park, that on my balance sheet.

168
00:31:48.410 --> 00:31:55.039
Charlie Smith: and then the 3rd is kind of what I call squirreling away capital, and then the 3.rd The 3rd approach is to have a line of credit.

169
00:31:56.930 --> 00:31:59.470
Charlie Smith: I will tell you that I think

170
00:31:59.660 --> 00:32:04.988
Charlie Smith: the 1st and the second approaches have their problems.

171
00:32:06.040 --> 00:32:10.240
Charlie Smith: and I will tell you that with just in time

172
00:32:10.939 --> 00:32:19.099
Charlie Smith: calls. I think it's a headache for the sponsor. I think it's a headache for the lps. And you run the risk

173
00:32:19.230 --> 00:32:26.450
Charlie Smith: of. If there is an Lp default, you run the risk of not funding a deal potentially.

174
00:32:28.540 --> 00:32:37.440
Charlie Smith: second is is the squirreling away of capital on your balance sheet. Look whether you have an implicit or explicit hurdle rate.

175
00:32:38.303 --> 00:33:05.146
Charlie Smith: We all know that it's a drag on the irr which does not help. You know your current lps doesn't help you with fundraising, as I always say, the mother's milk of of sponsors is is aum right and and continued

growth of aum. And if you're if you're messing with that recipe and and sort of damaging your irr, I think it could be really detrimental

176
00:33:06.030 --> 00:33:12.043
Charlie Smith: The 3rd is the line of credit, and I I you know I think the line of credit has its

177
00:33:13.021 --> 00:33:15.580
Charlie Smith: you know, maybe it's not

178
00:33:15.990 --> 00:33:39.850
Charlie Smith: I. I won't say negatives, but maybe not necessarily pluses either. But I would say, on whole, as you think about the 3 options, it's definitely the best of all 3 options. And you know, and I I actually heard recently from a sponsor client that we were talking to and she had a legitimate concern, she said, you know she kind of got sticker shock with where rates are today.

179
00:33:40.454 --> 00:33:44.989
Charlie Smith: Look if you're efficient with the line of credit.

180
00:33:45.090 --> 00:34:11.439
Charlie Smith: The sticker shock actually should not really be there, because actually, the sticker shock is usually the interest payment. The interest rate you're paying is actually substantially lower, because you're, you know, if you're only holding the line out, maybe say, I don't know. 2 months, 3 months, a quarter of the year. Then you're basically just multiplying whatever the interest rate is by a quarter

181
00:34:12.006 --> 00:34:19.659
Charlie Smith: and and so the sticker shock should be should wear off a bit. So that's the 1st leg. The second leg is Management company lending.

182
00:34:20.750 --> 00:34:21.559
Charlie Smith: you know.

183
00:34:22.050 --> 00:34:45.800
Charlie Smith: You want a bank that can be able to work with you, whether it be the simple sort of working capital revolver on on the simple end of the spectrum all the way up to the complex end of the spectrum where you're doing, you know, financing what our, what we kind of refer to as a leveraged esop where you're buying out. Maybe legacy legacy. Gp. Wants to move on, retire

184
00:34:46.243 --> 00:35:01.449
Charlie Smith: or or you're doing a bolt on acquisition. Or maybe you're financing your Gp commitment through the management company. So you want you want that you want a bank that understands all of that landscape can assist with all that landscape. And then the 3rd thing is.

185
00:35:01.500 --> 00:35:19.320
Charlie Smith: look, there are people that are not necessarily super well healed to get into this space, you know. God bless the the founders who sold their company for a bazillion dollars, and or or people that come from family wealth. That's great. Not all of us are in that position, and so we show up. And there's a big commit

186
00:35:19.662 --> 00:35:24.180
Charlie Smith: day one because your lps want to see that you can eat your own cooking

187
00:35:24.310 --> 00:35:30.749
Charlie Smith: and and then, oh, yeah, by the way, we're we continue to be in this aum space race.

188
00:35:30.960 --> 00:35:48.490
Charlie Smith: and I don't think that's going to subside anytime soon, especially since you know what there's 7 trillion dollars on the sidelines, the number that I saw, for you know, high net worth more high net worth people getting into the space, and maybe even on high net worth individual investors getting in the space

189
00:35:49.094 --> 00:35:55.735
Charlie Smith: those as the Aum ticks up. And there's not necessarily a ton of Dpi

190
00:35:56.330 --> 00:36:01.199
Charlie Smith: and you've got 2%, 3% commits, and you're launching a fund every 2 or 3 years.

191
00:36:01.490 --> 00:36:08.300
Charlie Smith: Guess what those numbers start to get a little tricky. And at some point you have to finance. So you need to find a bank that can do all 3 things.

192
00:36:10.090 --> 00:36:14.289
Olga Zolotnik: Yeah. And I think again, that sort of thinking ahead to sort of.

193
00:36:14.940 --> 00:36:33.860
Olga Zolotnik: there's a lot not just in sort of the the banking relationship, but also how you're building your firm. And certainly I think that point about sort of your aum is going to continue to sort of rise and and your sort of the capital commitments are going to stack and having the ability to really sort of scale yourself over time is is super important.

194
00:36:34.922 --> 00:37:01.500
Olga Zolotnik: You know, you touched on probably a couple of these. We talked a little bit about sort of best practices with, like, you know, authorization and and whatnot. But could you spend just maybe a few

minutes if you will? Maybe just some common mistakes that you've seen emerging managers make when they're sort of putting together their business. Maybe if they're like, you know, misconceptions about the banking relationship that you've seen that that we could sort of help clear up for our audience.

195
00:37:02.220 --> 00:37:07.903
Charlie Smith: Yeah, yeah, yeah. Yeah. Okay, I'll try to run through these fairly quickly.

196
00:37:09.550 --> 00:37:12.516
Charlie Smith: you know, I I sometimes feel like

197
00:37:13.630 --> 00:37:17.288
Charlie Smith: Gp's fundraising process may be

198
00:37:18.600 --> 00:37:23.090
Charlie Smith: a tad bit rushed, or maybe a tad bit unfocused.

199
00:37:24.960 --> 00:37:30.276
Charlie Smith: You know, and I don't necessarily think that people are doing things

200
00:37:32.160 --> 00:37:41.953
Charlie Smith: consciously. Maybe it's just a matter, you know. Look at the end of the day the the folks that are dialing in. They're dialing in, because

201
00:37:42.790 --> 00:37:45.439
Charlie Smith: they want to invest.

202
00:37:45.610 --> 00:37:55.450
Charlie Smith: They didn't jump into the space to become a venture capitalist or growth equity sponsor because they love fundraising. I know that there are those types that do that. But that's

203
00:37:55.620 --> 00:38:04.819
Charlie Smith: typically not, I'd say, in the vast majority of situations, not the reason why we see people get into the space they're not excited to go out and fundraise. They're excited to go out and invest

204
00:38:06.486 --> 00:38:07.130
Charlie Smith: but

205
00:38:07.660 --> 00:38:18.200

Charlie Smith: I do see from time to time. You say, Hey, I've got a bunch of friends who've got money. They can allocate to my funds. So let's get to investing right? Let me just get to it right? Because I. That's what I want to do.

206
00:38:18.560 --> 00:38:30.799
Charlie Smith: When perhaps a slower process, I would submit to you. A slower process might yield higher quality institutional lps that can further professionalize your shop.

207
00:38:31.260 --> 00:38:56.109
Charlie Smith: and because, you know, you may say, Well, wait a minute. Wait a minute. Wait a minute. I'm seed stage, early stage, maybe even pre-revenue Vc. Sponsor, how in the world am I going to attract institutional capital? There are a lot of institutional lps that have emerging manager allocations.

208
00:38:56.250 --> 00:39:03.837
Charlie Smith: and even strategics like, I know, Microsoft has one. I think Google has one.

209
00:39:04.520 --> 00:39:12.349
Charlie Smith: you know, it's it's taking that time to find the right lps. And when you find that right anchor. Lp, guess what

210
00:39:12.690 --> 00:39:18.510
Charlie Smith: success breeds success, because that it acts as sort of a seal of approval

211
00:39:18.910 --> 00:39:32.039
Charlie Smith: to allow you to raise more capital and the right type of capital. Now, look, I love high. It's fine high net worth. Lp, lists are fine. We work with high net worth Lp lists all the time.

212
00:39:32.150 --> 00:39:33.720
Charlie Smith: I would just say

213
00:39:33.960 --> 00:39:47.989
Charlie Smith: sometimes, they, they can be more complex to work with, and then it would be with truly professionalized institutional lps. So something to be mindful on the fundraising landscape.

214
00:39:48.000 --> 00:40:06.409
Charlie Smith: Set up the Gp. Properly. Work with your Fund Formation Council talking to the Gp. Lending earlier that I mentioned the Banks banks are looking for what we call lendable interests right? And that's interests that are not associated with the management of the firm or the management of the fund.

215
00:40:06.410 --> 00:40:33.489

Charlie Smith: Right? So you can. You work with Fund Formation Council, figure out the smallest amount that you can put into the Gp. They'll allow you to effectuate the Gp. And then put the rest into the fund through some other separate means, because at the end of the day your lps are not necessarily necessarily saying, Well, legally, you have to put it into here. All they're saying is, I want to make sure that you put 2% into the fund. 3% of the fund. They don't really care how you got there.

216
00:40:34.067 --> 00:40:37.409
Charlie Smith: If you are not gonna hire a Cfo

217
00:40:38.140 --> 00:40:49.339
Charlie Smith: and you're gonna use like a fractional Cfo arrangement, or even if you're gonna hire like a more like junior professional, to be like a controller which are both totally fine.

218
00:40:49.690 --> 00:40:53.700
Charlie Smith: You need to really make sure that you get a banker that has a ton of experience.

219
00:40:54.900 --> 00:40:58.040
Charlie Smith: kind of experience to help you guide, guide you in the space.

220
00:41:00.620 --> 00:41:05.360
Charlie Smith: I think I'm on Number 4. Do not use up all of your uncalled capital on deals.

221
00:41:06.080 --> 00:41:20.139
Charlie Smith: It sounds. It sounds a little counterintuitive because you're like, you know, hey? I'm here to invest. I gotta get all the dollars out the door you need. I have seen it time and time again. Hold some capital back. Hold some on! Call capital back for Port Co support.

222
00:41:20.270 --> 00:41:25.720
Charlie Smith: and I'm dare I say, even more importantly, to pay management fees.

223
00:41:26.280 --> 00:41:28.779
Charlie Smith: so don't use all your capital

224
00:41:29.938 --> 00:41:38.540
Charlie Smith: to the degree possible. I maybe this is nails on a chalkboard to some people, but I'm gonna say it anyways steer clear of using Spvs.

225
00:41:39.050 --> 00:41:58.859
Charlie Smith: Reserve those deals for funds lps, love. I get that Lps love Spvs. I get it, and that's why GPS do them. But on the whole, I think it makes things more complicated, and it doesn't allow for the funds to

benefit from the potential strong returns of having those port codes being in the portfolio as opposed to being in an Spv.

226
00:42:00.460 --> 00:42:03.640
Charlie Smith: Keep expenses low at the management company.

227
00:42:03.890 --> 00:42:14.670
Charlie Smith: Really really critical. I think people are like, well, we should hire like 20 people, and research, and, you know, have in house counsel. And la, la! It's like, no, no, no.

228
00:42:15.000 --> 00:42:26.960
Charlie Smith: find find more efficient ways to manage your bottom line. Keep expenses without the Management Company. Make sure you have the right Fund Formation Council that create stocks that banks can lend against

229
00:42:27.705 --> 00:42:35.329
Charlie Smith: amendments are fine, but they're a headache. So why not just hire the Right Fund Formation Council initially, and then you'll have the right docs.

230
00:42:36.873 --> 00:42:41.170
Charlie Smith: Negotiate your Lpas carefully with your lps.

231
00:42:41.927 --> 00:42:54.019
Charlie Smith: And try at all costs to stay clear of side letters to the degree that you can. Really, honestly, if you can day one aim to get the best terms possible

232
00:42:54.567 --> 00:43:06.349
Charlie Smith: for working with your lps. That will be so beneficial to you in the long term, because you know, you launch on one, and your lp is kind of pushed you around.

233
00:43:06.906 --> 00:43:13.669
Charlie Smith: And you say, Hey, well, hey, I really want to have this, that, and the other in Fund 2.

234
00:43:13.780 --> 00:43:30.909
Charlie Smith: It makes it really hard to get them to re-up when they were already kind of accustomed to where everything was in Fund one. So you're probably not going to get them to change terms on Fund 2. So if you can make that stuff happen on Fund One. Your life is going to be way easier for future fundraisers.

235
00:43:31.433 --> 00:43:34.989
Charlie Smith: Try to get a nav lending concept into your Lpa. From the start

236
00:43:35.650 --> 00:43:42.370
Charlie Smith: as opposed to trying to get that in later. Ilpa put out guidance late last year.

237
00:43:42.885 --> 00:43:49.600
Charlie Smith: And talks to transparency, was one of the biggest themes that came out of that that directive from Ilpa.

238
00:43:49.750 --> 00:43:51.870
Charlie Smith: So be mindful of that.

239
00:43:52.020 --> 00:43:58.570
Charlie Smith: 2 last 3 last things, and I'll shut up financial engineering, I think is a good thing as long as it benefits lps

240
00:43:58.910 --> 00:44:02.540
Charlie Smith: find strategic ways to support Dpi

241
00:44:03.501 --> 00:44:07.220
Charlie Smith: and that's it. I'll stop there.

242
00:44:07.880 --> 00:44:20.960
Ann Kim: And I'm just gonna double click on Charlie's comment about if you don't have a full time. Cfo, if you have a controller or a fractional Cfo getting a good banker. So I think kind of ties it all together. You know, for our

243
00:44:21.320 --> 00:44:42.119
Ann Kim: as we think about our jobs right? Like my job really is to find ways to add value to GPS. And so again, Charlie's the expert when it comes to the fund finance side. And then I'm the expert when it comes to the Portfolio Company support. So as you think about getting a banker who also understands how to help your company scale.

244
00:44:42.120 --> 00:45:04.940
Ann Kim: as we also have credit products that are called like venture debt, financing. And we are also very thoughtful about the different business models that exist. So a lot of times your founders will ask GPS, who do I work with what kind of products are available? How can I make sure that I can scale minimizing dilution. And so I think it's a really good call out just to make sure that GPS are aware that

245
00:45:04.940 --> 00:45:12.350

Ann Kim: your banking relationships don't stop at the fund level. You really should explore opportunities to help support your portfolio companies as well.

246
00:45:14.470 --> 00:45:16.000
Olga Zolotnik: Yeah. So you know, I think

247
00:45:16.920 --> 00:45:39.969
Olga Zolotnik: all of these concepts, to my mind, sort of bring us back to a little bit of where we started, which is, which is that you know these relationships, whether sort of in our view, between Council and a fund. But even in this conversation, banks and a fund. It really is sort of a marriage, and it is sort of this, this blending of support on both sides, and sort of all around through all the different experiences that you're going to have as a fund manager.

248
00:45:39.970 --> 00:45:52.980
Olga Zolotnik: And so I think this has been a really phenomenal overview.

283
00:53:10.140 --> 00:53:34.839
Olga Zolotnik: So you know, I think we spent quite a bit of time, I think, talking about sort of how to pick banking partners sort of what a bank can do for you. I, personally have learned quite a bit. I know we have sort of just a few minutes left here, but you know, I think, would probably like to use the time to thank you both. If there's sort of anything else that I didn't get a chance to sort of ask you that you, you know, would want to share with our audience of emerging fund managers happy to give you the floor.

284
00:53:34.840 --> 00:53:40.899
Olga Zolotnik: but primarily. Thank you so much for the time you've shared quite a bit of wisdom and practical experience.

285
00:53:40.900 --> 00:53:57.030
Olga Zolotnik: and like I said, certainly, if I were sort of in the position of starting my own fund. It would be phenomenal to have that kind of personal relationship where you can call and ask some of these questions so hopefully, that does inspire folks to sort of really think about their banking relationships from that perspective of having that personal relationship.

286
00:53:58.250 --> 00:54:04.879
Ann Kim: Thank you so much, Olga. I really appreciate the opportunity and really excited to potentially support some of your companies or your funds. Actually.

287
00:54:04.880 --> 00:54:05.870
Olga Zolotnik: And the companies too.

288

00:54:07.740 --> 00:54:10.609
Charlie Smith: Yeah, I echo. I echo, Ann.

289
00:54:10.750 --> 00:54:12.689
Charlie Smith: Awesome. Thank you, Olga. Appreciate it.

290
00:54:12.690 --> 00:54:25.579
Olga Zolotnik: All right. Well, thank you very much. We're ending a few minutes early, but I think we've we've covered quite a bit of ground. So some time to digest would be helpful. Thank you to everyone who attended, and thank you very much, Ann and Charlie, for all of your time and your help.