# Launch 2025 I
# The Founder's Perspective
## Early Stage Capital

Welcome to Jefferies Launch 2025: The Founder's Perspective. Starting a successful alternatives fund is entirely different than it was 10 years ago. The costs are different, the challenges and potential upside are different. In this series, we leverage expert views on what potential founders need to know *now* before launch.

Today: **Early Stage Capital.** How you structure your earliest stage assets matters, and can impact how firms scale over time.

### SEEDS, SMAs and ANCHOR CAPITAL

Ben Kozinn and Eileen Overbaugh from Schulte Roth and Zabel help us think through balancing founders' needs and opportunities of different types of early stage capital:

- ✓ Seed financing: are you willing to give up some economics?
- ✓ Anchor capital: alignment of terms and fees in the short and long term
- ✓ SMAs: a structure that has exploded in recent years is increasingly in view for founders

#### Seed: Early Capital, At a Cost

Seed capital is among the longest standing forms of early stage assets. A seed investor provides an upfront amount of capital, in exchange (typically) for a percentage of top line revenue.

The pros of this can be guaranteed working capital for a set number of years during the earliest days of the firm's operation.

The cons can be the potential relinquishing of some of the top line revenue from other management fees.

There are an established group of seeder funds, and often founders will meet with a small handful in their earliest days to understand the potential terms and if that would be a fit for what the founder intends to build.

#### Anchor Capital: Early, But at a Discount

Anchor capital, or a founder's share class, does not have the revenue share attached that seed capital does, but it is typically at a discount to other share classes.

Typically management fees are discounted, and incentive fees can be, to offer earliest stage allocators an incentive for being Day 1. If allocators lock in these discounted terms and remain with a successful manager over time, the discount can translate into material additional gains/returns for the allocator.

But founders need to balance the discounts they are offering with the working capital needs of early years.

#### SMAs: The Early Capital That Could

In recent years, Separately Managed Accounts (SMAs) have grown substantially as a path to launch and scale funds.

In the wake of the Private Fund Rule coming into play, they could get even more popular. From an allocators perspective, it gives them a lot of positives in negotiating. Often they are idiosyncratic contracts with allocators retaining custody of their assets.

While there are tradeoffs for the manager in terms of added operational or administrative work, SMAs can also result in helping founders launch with a larger pool of assets than if they pursued a comingled product only.

Considerations for founders include:

- How many SMAs am I willing to consider?
- Will operational complexity outweigh the larger amount of assets?
- Are SMA LPs 'true' partners
- Do you have the operational resources to manage different SMAs?
- Do your SMAs introduce any forward capacity constraints?
- Will your negotiated terms allow your firm to scale?

#### What About Exclusivity?

Exclusivity is increasingly a concept (or product, depending on your view) that is developing in the market. In these cases, a pre-existing manager (or allocator) is willing to invest a significant amount of capital to a new manager.

But the new manager has to guarantee exclusivity (i.e. – no other outside LPs) for anywhere from one to four years. What this offers a founder is the ability to do is build their track record, have sizable capital to demonstrate they can manage risk well, and show they can operate successfully on their own, without the resources of a prior firm.

#### The Long and Short of It?

First, keep it simple. Launching with multiple, complex share classes can work against a streamlined, straightforward launch. Second, consider *all* your options. One size does not fit all, but founders can end up launching with structures or early capital they initial didn't consider early on.

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