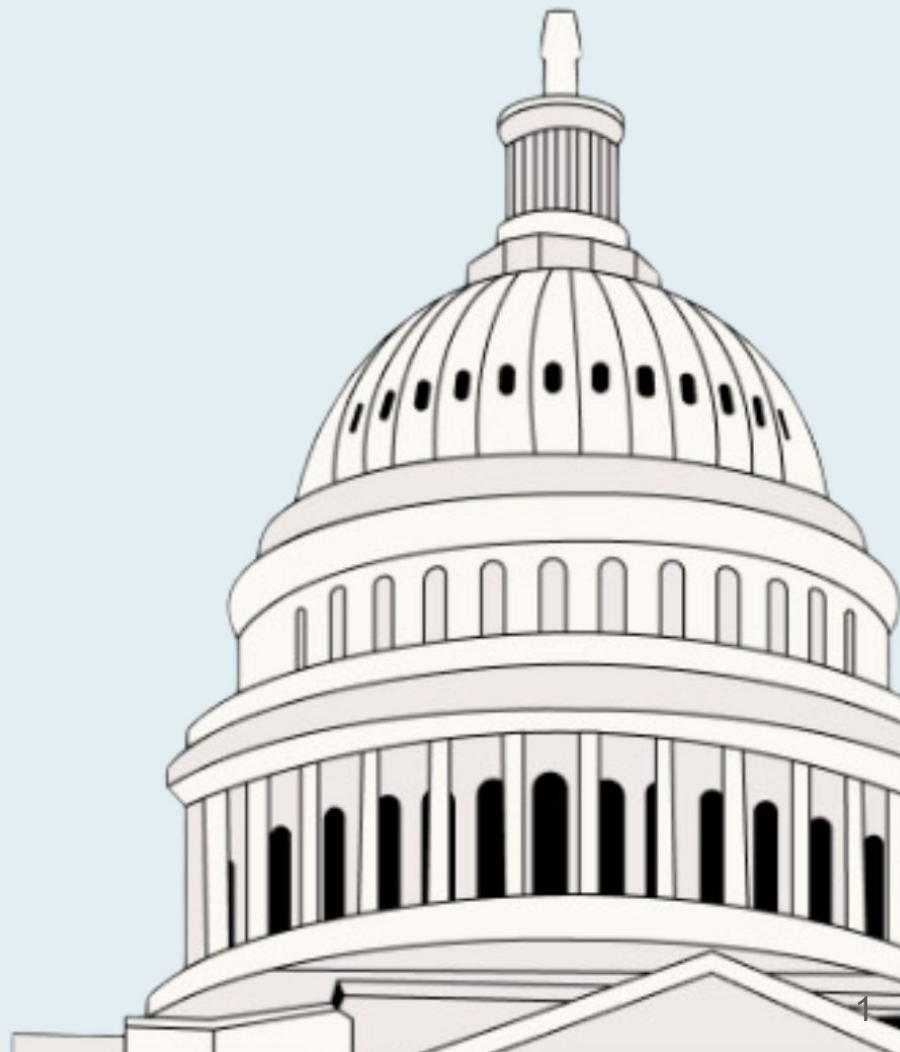


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Policy

Carta Policy

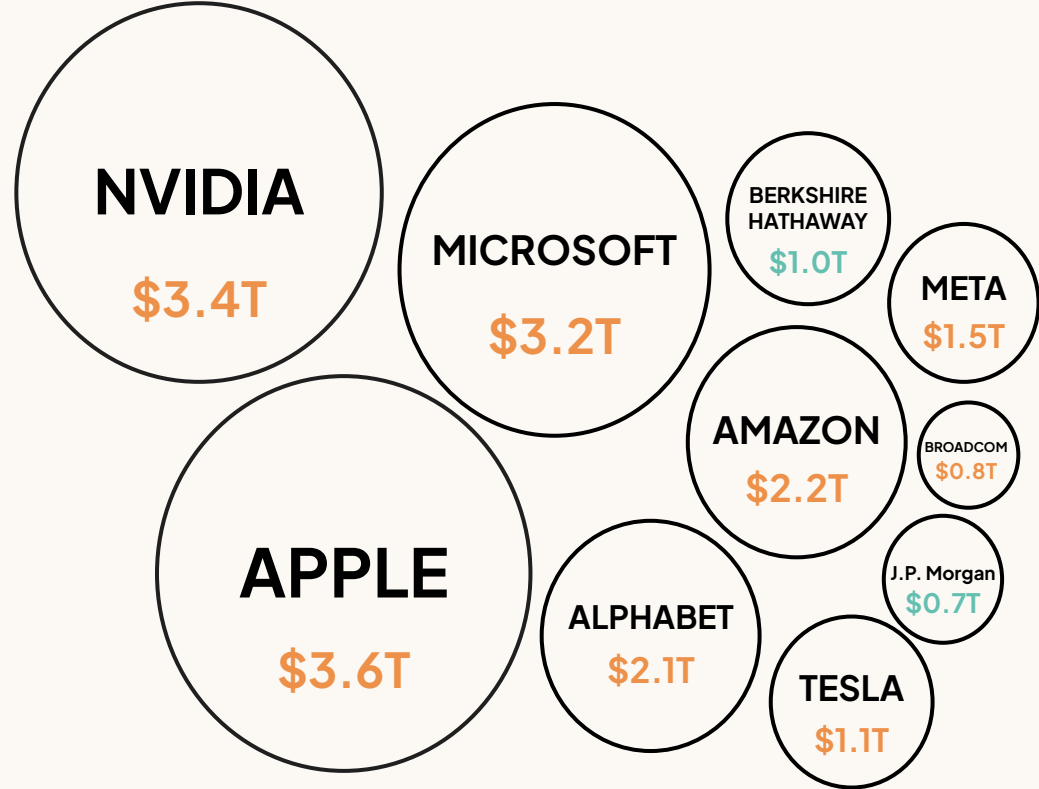
VC 101



The Economic Engine of venture capital

What do the largest public companies have in common?

Venture capital.



VC-BACKED COMPANY | NON-VC-BACKED COMPANY

Source: Yahoo Finance (as of Dec. 2, 2024; rounded to the nearest hundredth of a trillion)

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carta

Venture capital
drives
innovation,
economic
growth, & U.S.
competitiveness

+50% of the public
companies in the US
were venture backed

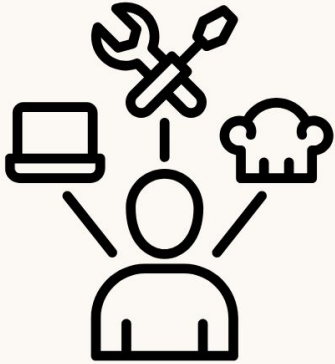
$\frac{3}{4}$ of total market value
comes from
VC-backed companies

8^{out}_{of} 10 of the top ten US
companies were
VC-backed

Source: Will Gornall and Ilya Strebulaev, [The Economic Impact of Venture Capital: Evidence from Public Companies](#) (June 2021)

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Venture capital is...



Economy & Jobs



Innovation & Competition



Value Creation & Results



From pipe dream to
mainstream,
venture capital is
the catalyst that has
revolutionized our
everyday lives.

Venture capital has helped us work smarter, feel safer, live healthier, and build lasting connections.

Technology & Innovation



Google
Apple
Intel

Health & Wellness



Genentech
Moderna
Impossible Foods

Travel & Transportation



Uber
Flexport
Airbnb

Commerce & Convenience



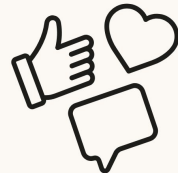
Amazon
Shopify
Instacart

Safety & Security



Anduril
Palantir
Ring

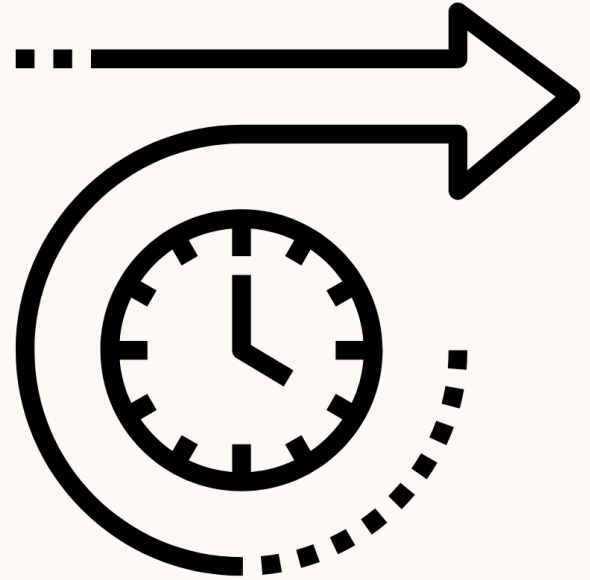
Social Media & Communication



Instagram
Bumble
Zoom

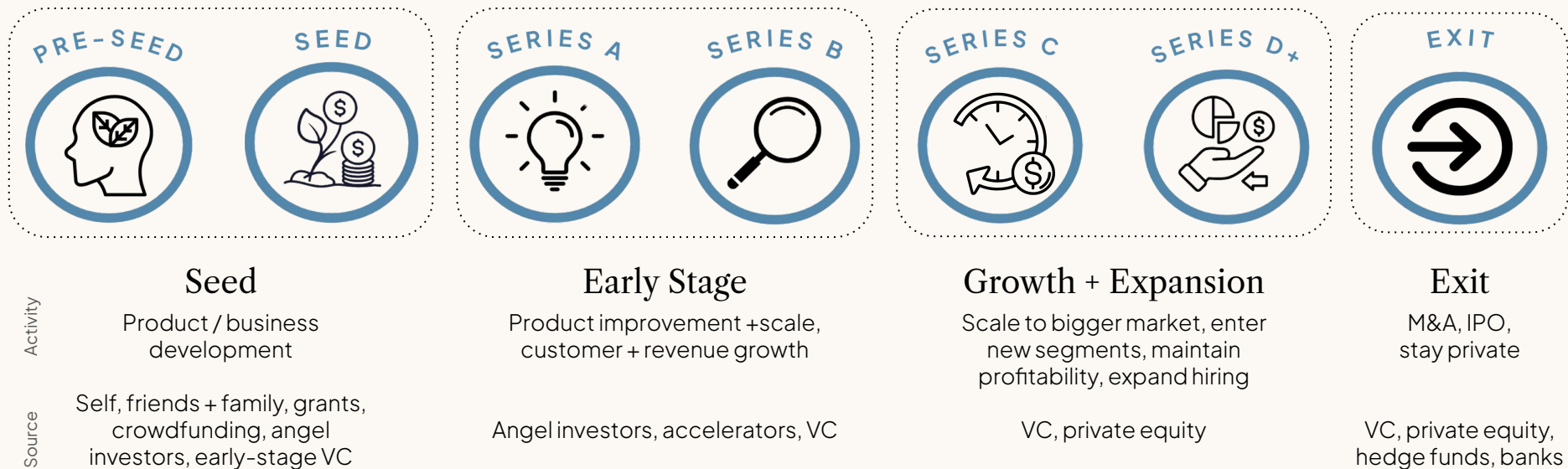
The Fundamentals of venture capital

Startups and high-growth companies depend on venture capital for long-term, risk-forward investments needed to foster innovation and drive competition.

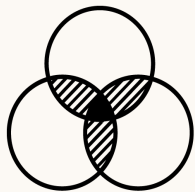


Company life cycle

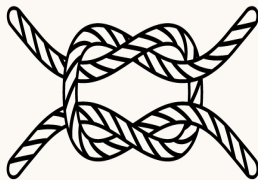
Venture capital invests across a company's life cycle.



Characteristics of venture capital



Subset of private equity



Diversification across array of portfolio companies



Risk-profile incorporates failure in pursuit of outsized returns



Early stage companies that scale and grow quickly



Relatively small investment for minority stake



Long-term commitment, active engagement

PRIVATE EQUITY

Invest in established companies to optimize operations, drive growth, and build value, leading to profitable exit

Mature, established or growth-stage companies; may take public companies private

Larger investments (millions to billions) in fewer companies

Equity and debt

Majority stake (50%+), with exception of growth

Directly involved in operations and management; industry expertise to optimize outcomes

5–7 years

Moderate risk, positive return

vs.

STRATEGY

COMPANY PROFILE

DEAL SIZE

LEVERAGE

OWNERSHIP

ENGAGEMENT

DURATION

RISK & RETURN PROFILE

VENTURE CAPITAL

Invest in early-stage companies with high growth, high-return potential to help develop, grow, and scale, leading to potential for outsized returns at exit

Startups and early-stage companies with high growth, high-return potential

Smaller investments (mostly <\$10M, particularly at early stages)

Equity only

Minority stake

Provide guidance, business development support, network and sourcing resources

6–10+ years

High-risk investments with potential for outsized returns

VENTURE CAPITAL FIRM

LIMITED PARTNERS

Pension funds, endowments, family offices, HNWIs, other VC funds

LIMITED PARTNERS

Pension funds, endowments, family offices, HNWIs, other VC funds

GENERAL PARTNERS

CAPITAL

FUND MANAGEMENT

CAPITAL

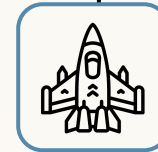
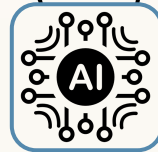
FUND 1

FUND 2

INVESTMENT

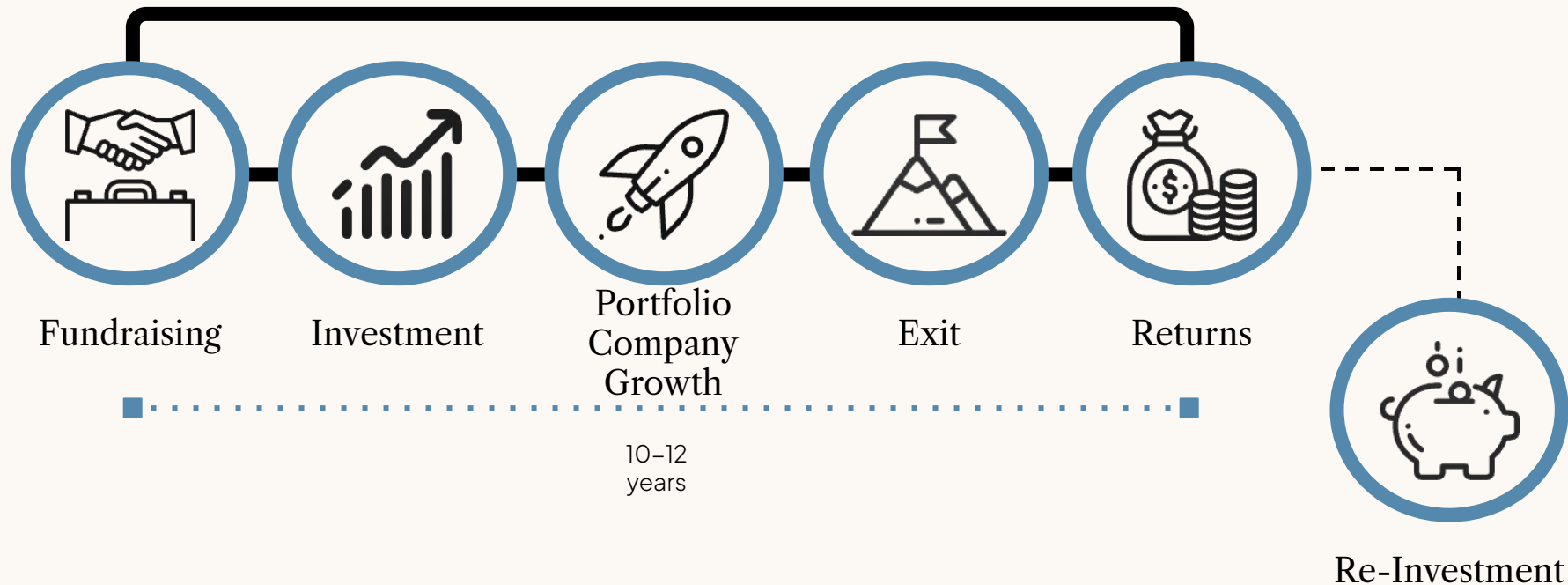
FOLLOW UP INVESTMENT

INVESTMENT



PORTFOLIO INVESTMENTS

Fund life cycle



The Regulatory Landscape of venture capital

Regulatory framework



The Fundraising Process

Securities Act of 1933

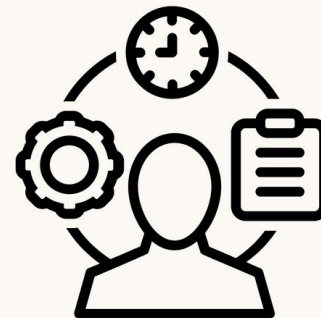
Regulation D



The Fund

Investment Company Act

Section 3(c)(1)
Section 3(c)(7)



The Fund Manager

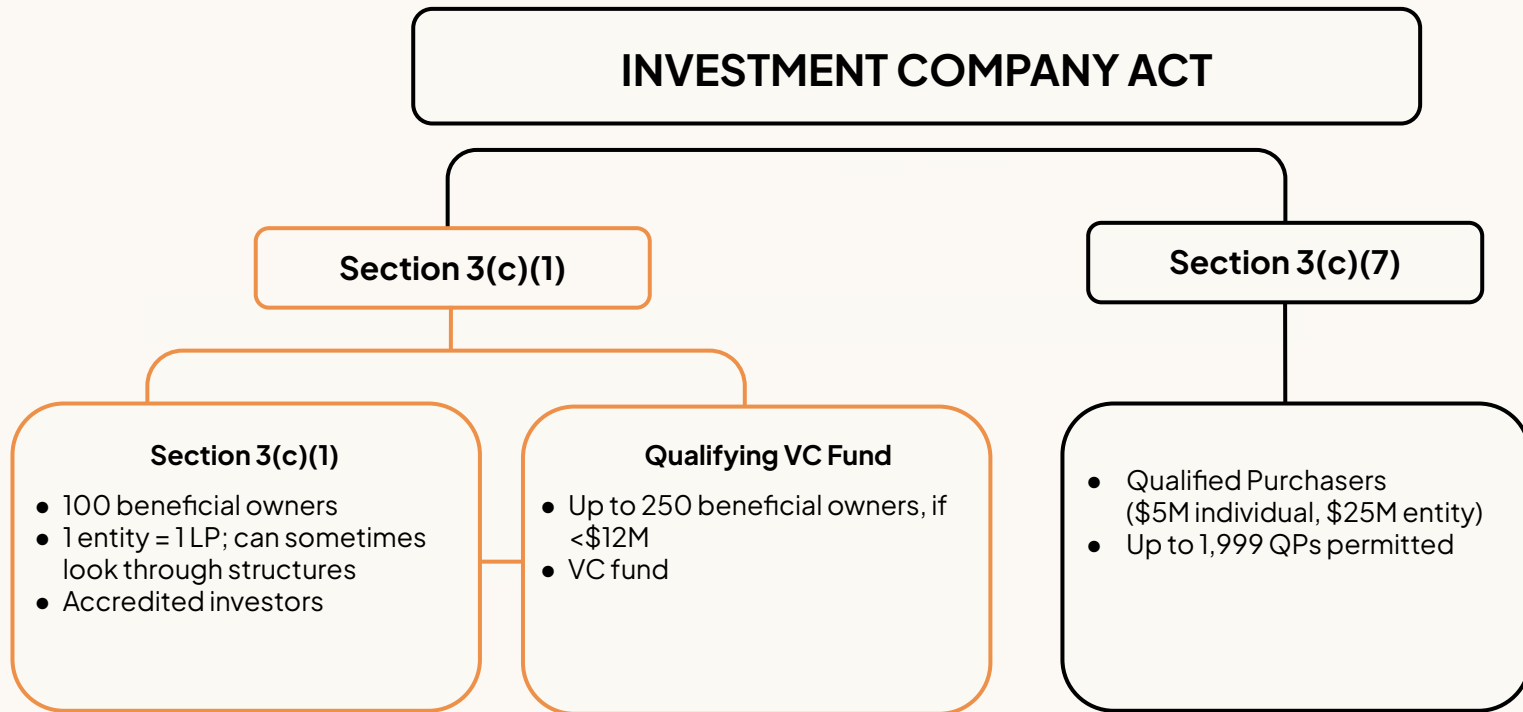
Investment Advisers Act

Registered Investment Adviser (RIA)
Exempt Reporting Adviser (ERA)

Fundraising: Regulation D

	RULE 506(b)	RULE 506(c)
Investors	Accredited investors (up to 35 non-accredited with disclosures)	Accredited investors
General Solicitation	No; requires pre-existing, substantive relationship or demo day	Yes
Accredited Investor Verification	Self-certification	GP must take “reasonable steps” to verify
Form D	File with SEC within 15 days after first close	
Blue Sky Filings	Notice filing with state	

Fund regulation



Fund manager regulation

SEC-registered investment adviser (RIA)

Private fund advisers > \$150M AUM

VC fund advisers who invest in > 20% non-qualifying assets

Exempt reporting adviser (ERA)

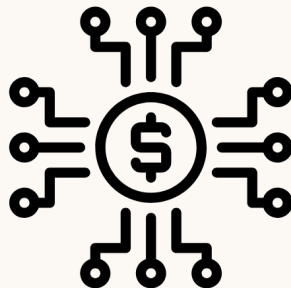
Solely advises private funds < \$150M

Solely advises venture capital funds

Venture capital fund requirements



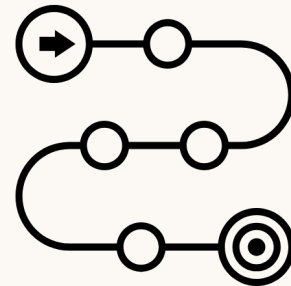
80% assets in
qualifying
investments
(direct portfolio
investments + cash)



No more than 20%
assets in non-qualifying
investments
(fund-of-fund,
secondaries, crypto)



Limited leverage +
redemption rights



Private fund that
pursues venture
investment strategy

Fund manager regulation

Exempt Reporting Advisers

- ❑ **Form ADV:** Uniform doc to register with SEC & states
- ❑ **Anti-fraud:** All advisers are subject to anti-fraud rules
- ❑ **Material nonpublic information:** Written policies to prevent misuse of MNPI
- ❑ **Pay to play:** Political contributions could prevent adviser from providing services to government entities
- ❑ **SEC examinations and enforcement:** SEC still examines and oversees

Registered Investment Advisers

ERA requirements, plus:

- ❑ **Enhanced filing requirements:** Form ADV (Part 2A fund brochure) and Form PF
- ❑ **Compliance:** Written policies and procedures, dedicated chief compliance officer, and compliance program tailored to the business.
- ❑ **Recordkeeping rule:** Maintain extensive records of business, including all written communications.
- ❑ **Code of ethics:** Written code outlining responsibilities and standards of conduct
- ❑ **Custody + audit requirements**
- ❑ **Marketing rule**

The Future of venture capital

Venture capital is
frequently
overlooked or
misunderstood.

That can lead to
flawed policy.



New compliance costs and reporting obligations



Greater SEC enforcement and examinations scrutiny



Disclosures around fees, expenses, performance, and operations



Relationships with LPs and vendors



More expensive and harder to raise capital

Smart policy lowers
barriers to entry,
fosters innovation, and
helps companies grow.

Policy can
appropriately
expand investor
access to enable
more to benefit
from increased
returns and
diversification.



Expand accredited investor
on-ramps to reflect financial
sophistication



Permit access to private market
investments through
professionally managed funds



Increase participation in private
market investments through
retirement accounts

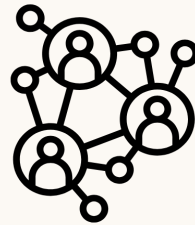
Policy should
**bolster emerging
fund managers** by
lowering barriers,
facilitating
fundraising, and
making it easier to
invest in
entrepreneurs.



Help emerging managers attract anchor LPs by making fund-of-fund investments qualifying investments

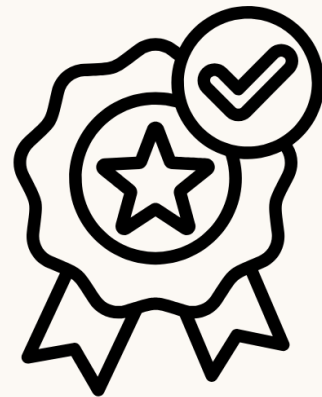


Raise the size and investor limits to help emerging managers assemble competitive funds



Bolster regional networks to make it easier for funds and companies to access capital locally

Tailored regulation
balances the risks
and opportunities
that lower barriers,
unlock capital, and
unleash innovation



Industry-driven standards and
best practices to shape a
framework that reflects venture
model

The Appendix

Glossary of Terms

- **Accredited investor:** One of two types of investors permitted to invest in startups by the SEC. To become accredited, an investor must meet a specific income or net worth threshold, or pass a financial exam and hold a specific license. The accredited investor qualification is a common way for individual people to start investing in startups. As of today, the criteria are either 1) an income of \$200,000 a year single or \$300,000 joint in each of the two most recent years; 2) a net worth of over \$1 million not counting the value of your primary residence, or 3) taking the test to receive a license Series 7, Series 65, or Series 82. But these requirements may change. At Carta, we believe that more people should be able to become accredited investors.
- **Angel investor:** An individual person with enough capital to invest in startups who invests directly into the company, rather than putting money into a fund. Angel investors often invest in the early stages of a company, usually via convertible instruments. That means angel investors typically take on more risk.
- **Fund:** A legal structure that pools other people's money together to invest. Typically, VC firms are structured into three parts: The general partner, the management company, and the fund.
- **General partner (GP):** A member of a limited partnership who plays an active role in day-to-day operations and assumes unlimited personal liability for any business debts. In the context of private equity and venture capital, most investment funds are structured as limited partnerships with limited partnership agreements; limited partnership agreements (LPA); the GP is typically seen as the venture fund manager.
- **High net worth individual (HNWI):** An individual with a large amount of investable wealth, typically exceeding \$1 million in liquid assets after accounting for their liabilities.
- **Limited partner (LP):** Institutional investors who invest in venture capital funds through a VC firm. LPs bring the money to invest, but typically aren't involved in the day-to-day—though they will have requirements.

Glossary of Terms

- **Management company:** A company that is part of a VC firm. Everything that makes the firm run, like hiring and paying employees and finding office space and software, is done and paid for by the management company. You can think of the management company like the “brand” of the firm, and the “headquarters” of the firm.
- **Management fee:** A fee on a fund charged by the management company so it can handle overhead. Usually, the fee is around 2% of the value of a fund. Along with carried interest, this is the other way a VC firm makes money. GPs often refer to their overall pay structure with the phrase “two and 20,” or 2% management fee with a 20% carry.
- **Merger/acquisition (M&A):** When your company gets bought by another entity, or merges with another company. Mergers and acquisitions can be liquidity events. Often, the acquiring company will give you a lump sum payout. If you own common stock (like most employees and founders do), you’ll be the last to be paid out.
- **Post-money valuation:** A calculation of the amount of money the company will be worth after an investment comes in. It’s based on the price of preferred shares, which are granted to investors. This type of valuation is a way for founders to keep track of the equity they control in a company.
- **Pre-money valuation:** A calculation of the amount of money the company is worth before an investment comes in. Investors often require an employee stock option pool to be created on a pre-money basis, meaning that the pool will only affect the people who owned shares before the investment came in.
- **Preferred stock:** A type of stock that is mainly issued to investors, who usually pay a higher price per share than for common stock. Shareholders of preferred stock get paid out first if the company has an exit event (like an IPO or M&A) or in case of bankruptcy.

Glossary of Terms

- **Priced round:** A way private companies can raise funds from investors by taking money in exchange for shares in the company. In these agreements, the investor pays a clear, defined price for a certain percentage (or number of shares). Priced rounds are typically used by VC firms once a company gets some traction and really starts growing. Those rounds tend to be “lettered,” like Series A, B, and C.
- **Qualified Purchaser:** An entity—which could be an individual or a business—with a significant amount of investment capital. This is the second of two types of investors permitted to invest in startups by the SEC. Qualified purchasers are permitted to take on more types of investments than accredited investors, but the credentials are stricter. Individuals need to have either \$5 million invested for themselves or \$25 million in private capital invested on behalf of other people.
- **Special-purpose vehicle (SPV):** Like a VC fund, but it’s designed to only invest in one single thing—often one company. New investors often use SPVs to build a track record when they’re just starting out. Investors might also use an SPV when they want to do a deal that’s outside the normal operating procedure of their fund.
- **Stock options:** A type of equity compensation that gives you the option to buy shares at the price listed on your equity grant. Early-stage companies tend to give stock options. Stock options aren’t stock. That’s a big misconception. You still need to buy (“exercise”) them at the agreed-upon price (“strike price”) in order to be an owner.
- **Securities and Exchange Commission (SEC):** A government regulatory agency whose duties include protecting investors. A private company isn’t required to make financial information public, so investing in a private company comes with more risk. For that reason, not everyone can invest in a startup—only people deemed by the SEC to be sophisticated enough to understand the heightened risk involved.

The fine print

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