

Venture Capital Glossary

What does this mean?

A practical reference for anyone learning about or investing in venture funds. Search it when a term comes up in a fund deck, manager conversation, article, or one of the She Has Leverage tools.

84 terms in 8 sections

About this glossary

This glossary is educational. Fund documents control the terms of any investment; a qualified legal or tax adviser can address how a term applies to your circumstances.

Every term also has its own page at shehasleverage.com/glossary.

Section 1

Investor types and access tiers

Investor eligibility affects which private funds and offerings a person can access. The rules differ by offering and fund structure.

Accredited Investor

An accredited investor is a person or entity that meets one of the categories in SEC Rule 501(a) of Regulation D. As an individual, you most commonly qualify through one of three routes: income above \$200,000 in each of the previous two years (or above \$300,000 jointly with a spouse or spousal equivalent), with a reasonable expectation of the same this year; net worth above \$1 million, alone or jointly with a spouse or spousal equivalent, excluding your primary residence; or a qualifying Series 7, 65, or 82 license held in good standing. Other categories also exist, including certain knowledgeable employees of a fund. Many private offerings are limited to accredited investors, but the rules that apply depend on the offering.

Example: A fund may ask you to represent your accredited-investor status in its subscription documents.

Net Worth

Net worth is the value of what you own minus what you owe. For the accredited-investor test, you exclude the value of your primary residence and generally exclude debt secured by it up to its fair market value; special rules apply to recent increases in that debt.

Example: \$1.2 million in savings and investments minus \$150,000 in other debt leaves \$1.05 million, before counting any other assets or liabilities.

Series 7, 65, and 82

Series 7, 65, and 82 are FINRA securities licenses. If you hold one in good standing, you can qualify as an accredited investor regardless of your income or net worth.

Example: If you hold a Series 65 license in good standing, you may qualify even if your income is below \$200,000.

Qualified Purchaser (QP)

A qualified purchaser (QP) is a separate investor category under the Investment Company Act. As an individual, you generally qualify by owning at least \$5 million in investments. Some family companies can qualify with at least \$5 million in investments, while another category of entities needs at least \$25 million in investments owned and invested on a discretionary basis. Additional conditions apply. Funds relying on Section 3(c)(7) generally accept only qualified purchasers.

Example: A fund organized under Section 3(c)(7) may require QP status as well as any accredited-investor status that applies.

Family Office

A family office is an organization that manages wealth and related affairs for one or more families. Its services, staff, assets, and eligibility to invest in a particular fund vary.

Example: A family office may review venture funds as part of a broader portfolio.

Single-family office (SFO)

A single-family office (SFO) is a family office that serves one family, often with services tailored to that family's financial and administrative needs.

Multi-family office (MFO)

A multi-family office (MFO) is an organization that serves several families through shared investment and administrative resources.

Institutional LP

An institutional LP is an organization that invests in funds as a limited partner, such as an endowment, pension plan, foundation, sovereign wealth fund, or insurance company.

Section 2

Fund structure and roles

Who manages a fund, who invests in it, and which documents govern their relationship.

General Partner (GP)

A general partner (GP) is the partner legally responsible for managing a limited partnership, often acting through an entity. In conversation, “GP” can also mean the people or firm managing the fund. Its obligations and liability depend on the fund’s structure and governing documents.

Example: The GP selects investments and oversees the fund under the limited partnership agreement (LPA).

Limited Partner (LP)

A limited partner (LP) is an investor who commits capital to a fund but generally doesn’t make its day-to-day investment decisions. As an LP, your liability is generally limited, subject to applicable law and the fund documents, and you remain responsible for obligations such as unfunded commitments.

Example: If you commit \$25,000 to a venture fund as a limited partner, the fund can call that commitment according to its documents.

Fund Manager

Fund manager is an informal term for the GP or the firm running a fund. It’s sometimes used to mean the senior decision-makers, the partners, at a multi-partner firm.

Investment Team

The investment team is the group of people at a venture firm who source, evaluate, and decide on investments. It may include partners, principals, associates, and analysts.

Investor Relations (IR)

Investor relations (IR) is the team or person responsible for communicating with LPs: fundraising, reporting, capital calls, and the ongoing relationship. At small funds, the GP often handles IR directly; larger funds may have a dedicated IR team.

Example: When you send the IR Questionnaire from the Due Diligence Toolkit, address it to the fund’s IR contact.

LPA (Limited Partnership Agreement)

The LPA, usually called the limited partnership agreement, is the legal agreement that governs a limited partnership and the rights and obligations of its GP and LPs. It covers fees, distributions, investment restrictions, governance, defaults, and fund extensions, among other matters. Review it before you sign, and consider legal advice.

Example: The LPA sets out the fund's carry, capital-call, key-person, and extension provisions.

LPAC (LP Advisory Committee)

An LPAC (LP advisory committee) is a committee of selected LPs that reviews certain fund governance matters, particularly conflicts of interest. The fund documents set its membership, authority, and voting rules.

KYC (Know Your Customer)

KYC (know your customer) is the set of identity and related checks a fund uses when onboarding investors and to meet financial-crime compliance requirements. A fund may also collect tax information and assess your eligibility during subscription, but accredited-investor verification is a separate requirement.

Example: A fund may ask for your identification and information about the source of the money you're investing.

Subscription Documents

Subscription documents are the documents you complete to invest in a fund, including the subscription agreement and the representations it requires. Your eligibility, identity checks, and tax forms may be collected in the same process.

Section 3

Fund economics

Fees, carry, GP commitment, and fund size help an LP assess a manager's incentives and the cost of investing.

Committed Capital

Committed capital is the amount you legally promise to contribute to a fund, whether or not the fund has called it yet. Depending on the limited partnership agreement (LPA), fees may be calculated on commitments during the investment period. If you fail to meet a capital call, default provisions can apply.

Example: A \$100,000 commitment remains \$100,000 after the fund calls the first \$30,000; the uncalled portion is \$70,000.

Called Capital

Called capital is the portion of your commitment the fund has requested. Paid-in or contributed capital is the amount the fund has received; the two can differ if a call hasn't yet been funded.

Example: If a fund calls \$60,000 of your \$100,000 commitment and you pay it, \$60,000 has been called and paid in.

Uncalled Capital

Uncalled capital is the part of your commitment the fund hasn't yet requested. It's still a binding obligation: when the fund calls it, you're expected to send it. It's sometimes called an unfunded commitment.

Example: You commit \$100,000 and \$60,000 has been called. Your uncalled capital is \$40,000, still owed when the fund asks for it.

Management Fee

A management fee is the fee that supports a fund's management and operations, generally charged as a percentage of a base the fund documents specify. It may be based on committed capital during the investment period and on a different base later. Fund expenses can be charged separately from the management fee.

Example: A 2% annual fee on \$50 million of committed capital would be \$1 million for that year, before any offsets or changes in the fee base.

Carried Interest (“carry”)

Carried interest, or carry, is the manager’s contractual share of fund profits, often 20%, paid after the distribution conditions in the limited partnership agreement (LPA) are met. When it’s paid depends on the fund’s waterfall, any hurdle, and clawback terms.

Example: If a fund invests \$50 million and realizes \$200 million, a simplified whole-fund waterfall that returns capital first and pays 20% carry on the \$150 million profit gives the manager \$30 million of carry. Actual distributions depend on the LPA, expenses, and timing.

Hurdle Rate

A hurdle rate is a minimum return some funds require LPs to receive before the GP is entitled to carry. Whether a fund has a hurdle, and how it’s calculated, depends on its limited partnership agreement (LPA); hurdles are more common in some private-equity strategies than in early-stage venture.

Example: If \$1 is contributed on day one and returned exactly ten years later, an 8% annually compounded hurdle equals about \$2.16. Real funds call capital at different times, so the actual calculation differs.

Catch-up Provision

A catch-up provision is a waterfall term that can direct a larger share of distributions to the GP after LPs receive a hurdle, until the GP reaches its agreed share of profits. The formula depends on the limited partnership agreement (LPA).

Clawback

A clawback is a provision that can require the GP to return carry it already received if later fund results mean it was paid more than it was entitled to under the agreed waterfall.

GP Commit (GP Commitment)

A GP commitment is the capital the GP or its principals commit to their own fund. Look at the amount, whether it’s cash or a fee waiver, and how meaningful it is relative to the principals’ resources; a percentage alone doesn’t show alignment.

Example: A 2% GP commitment to a \$50 million fund is \$1 million in total.

Fee Waiver

A fee waiver is an arrangement in which a GP gives up some management fees in exchange for an interest in fund profits or another contractual economic interest, on its specific terms. Ask how much of the GP commitment is cash and how much is fee waiver.

Recycling

Recycling is a provision in the limited partnership agreement (LPA) that lets a fund reinvest, or recall, specified proceeds or distributions for additional investments and expenses. The documents set the eligible amounts, timing, and limits, and recycling can affect when you receive and keep cash.

Fee Offsets

A fee offset is a reduction in management fees that reflects certain fees the GP or its affiliates receive from portfolio companies or transactions. The limited partnership agreement (LPA) determines which fees count and the offset percentage.

Fund Size Step-Down

A fund size step-down is a change in the management fee rate or calculation base after the investment period. Check the limited partnership agreement (LPA) for its timing, base, and treatment of remaining investments.

Example: A fund may charge fees on commitments while it makes new investments, then on the cost of remaining investments afterward.

Section 4

Fund lifecycle and operations

The stages of a fund and the mechanics of capital calls, reporting, and distributions.

Vintage Year

A vintage year is the year assigned to a fund for performance comparisons, often based on its first close or first investment. Data providers may use different conventions, so check each benchmark's definition.

Example: Compare a fund's results with funds of a similar vintage and strategy, not with funds launched in very different conditions.

Fund Life

Fund life is the full term of a fund, set in the limited partnership agreement (LPA), from first close through wind-down. It's often around 10 years, and many funds extend beyond it.

Example: A fund with a 10-year term and two one-year extensions could still hold companies in year 12.

Liquidity

Liquidity is how quickly an investment can be turned into cash. LP interests in venture funds are illiquid: you generally can't withdraw your capital early, and selling an LP interest on the secondary market is possible but not guaranteed.

Example: If you need cash in year four, you generally can't pull your commitment back out of the fund.

First Close

The first close is the fund's first admission of investors and their binding commitments. The fund may begin calling capital or investing after it, subject to its documents.

Final Close

The final close is the fund's last scheduled admission of new commitments, after which it generally stops accepting new investors into that fund.

Investment Period

The investment period is the time during which a closed-end fund is generally permitted to make new portfolio investments. The limited partnership agreement (LPA) specifies how long it lasts and what investments or expenses remain permitted afterward, including possible follow-ons.

Capital Call

A capital call is a request from the fund manager for you to send a portion of your committed capital. Funds call capital on different schedules: some collect it upfront, some call quarterly, and some call as deals close.

Example: If you commit \$100,000 and the fund has called 60%, you've sent \$60,000 and have \$40,000 committed but not yet called.

Drawdown

A drawdown is another term for a capital call: the fund “drawing down” on your commitment.

Commitment

A commitment is the total amount you've promised to send to a fund. It's different from how much has been called or sent so far.

Example: You commit \$100,000. In year one the fund calls 30%, or \$30,000. You owe \$70,000 more, callable over the remaining years.

NAV (Net Asset Value)

NAV (net asset value) is the estimated value of a fund's assets, including cash and investments, minus its liabilities at a specified date. Private-company values rely on the fund's valuation policy, and reporting frequency varies.

Example: Assets valued at \$80 million less \$5 million in liabilities produce a NAV of \$75 million.

Fund Administrator

A fund administrator is a third-party provider that may maintain a fund's records, accounting, investor statements, capital-call notices, and distribution calculations. The scope of services varies. Ask who performs this work, and if the fund handles it in-house, ask how it controls the process.

Auditor

An auditor is an independent accounting firm engaged to audit a fund's financial statements. Ask whether the fund gets annual audited statements and who performs the audit, and if it doesn't, ask why. Requirements and exceptions vary.

Distribution

A distribution is cash or securities transferred from a fund to its LPs under its governing documents. Distributions may reflect realized proceeds, income, or return of capital; the waterfall determines any carry and other allocations.

In-kind Distribution

An in-kind distribution is a distribution of securities rather than cash, often shares of a portfolio company that has gone public, once any lockup period ends. You then decide whether to hold or sell the shares, subject to any remaining restrictions.

Wind-down

Wind-down is the later stage of a closed-end fund, when its remaining investments are exited, distributed, or written off and it settles its obligations. The limited partnership agreement (LPA) sets the fund term and any available extensions.

IPO (Initial Public Offering)

An IPO is the first time a private company sells its shares to the public on a stock exchange. For a venture fund, an IPO doesn't mean you get paid right away. The fund may have to wait out a lockup period before it can sell, and it may give you shares instead of cash.

Source: SEC, Initial Public Offerings and Lockup Agreements, <https://www.sec.gov/answers/lockup.htm>

Performance metrics

Each measure answers a different question. Compare funds using consistent definitions, dates, and peer groups.

DPI (Distributions to Paid-In)

DPI (distributions to paid-in) is the value of distributions to LPs divided by the capital they've paid in. It measures value delivered out of the fund, not the estimated value of investments still held. Check whether distributions include securities and whether any can be recalled.

Example: If LPs paid in \$50 million and received \$20 million in distributions, DPI is 0.4x. If TVPI is 3.0x on the same basis, RVPI is 2.6x.

TVPI (Total Value to Paid-In)

TVPI (total value to paid-in) is distributions plus the fund's remaining net asset value (NAV), divided by paid-in capital. Because NAV estimates the value of unsold assets, TVPI includes unrealized value.

Example: \$30 million distributed plus \$70 million of remaining NAV on \$50 million paid in produces a TVPI of 2.0x.

IRR (Internal Rate of Return)

IRR (internal rate of return) is an annualized return measure based on the size and timing of contributions, distributions, and any remaining value. An interim IRR includes estimates for unrealized investments and can change as exits occur.

Example: With a single contribution on day one and a single distribution six years later, a 3.0x return implies about 20% annually. Capital calls over time require a cash-flow calculation.

RVPI (Residual Value to Paid-In)

RVPI (residual value to paid-in) is the fund's remaining NAV divided by paid-in capital. On a consistent reporting basis, RVPI plus DPI equals TVPI. RVPI rests on estimated value until investments are realized.

Example: TVPI of 2.0x less DPI of 0.6x leaves RVPI of 1.4x.

MOIC (Multiple on Invested Capital)

MOIC (multiple on invested capital) is the total value realized, plus any value still held when stated on an unrealized basis, divided by the capital invested. Usage varies between a single deal and an entire fund, so check the numerator, the denominator, and whether fees are included. MOIC doesn't account for time.

Example: An investment costing \$100 million and later worth \$300 million has a gross MOIC of 3.0x.

Vintage Benchmark

A vintage benchmark is a comparison of a fund's performance with a defined peer group, usually grouped by vintage year and strategy. Confirm the data provider, as-of date, sample, fee basis, and whether the comparison uses DPI, TVPI, or IRR.

Example: Compare a 2018 seed fund's reported DPI with a 2018 seed peer set using the same reporting date.

Top Quartile

Top quartile is the highest-performing 25% of funds in a specified peer set, on a specified metric and reporting date. A fund can rank differently by DPI, TVPI, and IRR, so "top quartile" needs context.

J-curve

The J-curve is the pattern in which a fund's reported value first falls below contributions, because of fees and early losses, then rises if investments appreciate or produce exits. Its shape and timing vary, and some funds never recover the early decline.

Investment vehicles and structures

Different ways to pool capital, invest alongside a fund, or transfer a private investment.

SPV (Special Purpose Vehicle)

An SPV (special purpose vehicle) is a separate legal entity formed for a defined investment or purpose, sometimes used to pool investors into a single company investment. Minimum checks, fees, rights, and eligibility vary by offering.

Example: Several eligible investors invest through an SPV that purchases shares in one startup.

Side Letter

A side letter is a separate agreement between a fund and an LP that grants that LP specified rights or clarifies terms, subject to the limited partnership agreement (LPA) and applicable law. Side letters may address reporting, tax treatment, or co-investment access.

Example: You may negotiate additional reporting in a side letter; whether the fund agrees depends on the negotiation.

Most-Favored-Nation (MFN) Clause

A most-favored-nation (MFN) clause is a provision that may let an eligible LP elect certain terms granted to other LPs through side letters. The MFN language defines eligibility, timing, commitment-size thresholds, and excluded provisions; it doesn't automatically give you every better term.

Co-investment

A co-investment is an investment in a specific company alongside a fund, made directly or through a separate vehicle. Access, allocations, fees, and rights depend on the opportunity and its documents.

Example: A fund invests in a financing round and separately invites eligible LPs to invest alongside it through a co-investment vehicle.

Secondary

A secondary is a purchase or sale of an existing private-market interest. An LP-led secondary transfers an existing fund interest, subject to required approvals. A direct secondary transfers an existing stake in a private company.

Example: If you need liquidity, you may be able to sell part of your fund interest to another investor, if the limited partnership agreement (LPA) permits a transfer and the GP approves it.

Continuation Fund / Continuation Vehicle

A continuation fund, or continuation vehicle, is a vehicle used in a GP-led transaction to acquire one or more assets from an existing fund so they can be held longer. As an existing LP, you may be offered a choice to sell, roll into the new vehicle, or do some of each, depending on the transaction; the conflicts and pricing deserve scrutiny.

Direct Investment

A direct investment is an investment made in a company rather than through a diversified fund. You bear the company-specific risk and need to assess the investment's rights, valuation, and possible need for follow-on capital.

Example: An angel investor buys shares in one startup directly.

Angel Investing

Angel investing is investing your own money directly in early-stage startups, choosing each company yourself. You do the research on every company, and spreading your money takes many separate investments.

Fund of Funds (FoF)

A fund of funds (FoF) is a fund that invests in other funds. It can spread your exposure across multiple managers, but it adds its own fees and terms on top of those of the underlying funds, and access to particular managers isn't guaranteed.

Evergreen / Open-ended Fund

An evergreen, or open-ended, fund is a fund without a fixed wind-down date that may accept new capital over time. Some offer periodic redemption opportunities, but notice periods, gates, suspensions, and the liquidity of the underlying assets can limit withdrawals.

Portfolio strategy concepts

Terms that describe how a manager builds a portfolio, protects ownership, and handles follow-on investments.

Power Law

The power law is the pattern in venture returns in which a small number of investments may account for a large share of gains. It describes portfolios in general; it's not a guarantee that every fund will produce an outlier.

Example: In a 25-company portfolio, one exceptional outcome might account for much of the fund's return.

Pro-rata

A pro-rata right is an existing investor's contractual right to buy enough securities in a later financing to maintain its ownership percentage, subject to the financing documents and applicable limits.

Example: If a fund owns 5% and can exercise pro-rata rights in a \$20 million round, its proportional investment would be \$1 million.

Reserves

Reserves are the capital a fund plans to use for follow-on investments in its existing portfolio companies. The amount and deployment rules depend on the fund's strategy and documents.

Example: A fund may hold part of its investable capital for later rounds rather than use it all for initial checks.

Ownership

Ownership is the percentage of a company's equity an investor holds, measured on a specified share-count basis. Future financings can dilute that percentage; participating in follow-on rounds may help maintain it.

Dry Powder

Dry powder is capital a manager has raised but not yet deployed. Depending on the context, it can include uncalled commitments and cash held by the fund, so check the reporting definition. Reserves are the portion planned for follow-on investments.

Concentration

Concentration is the share of a portfolio's capital or value represented by a small number of investments. Ask whether a concentration figure uses invested cost or current value, and whether it measures the whole fund or only the remaining portfolio.

Lead Investor

A lead investor is an investor that takes a leading role in a financing round, often negotiating the principal terms and coordinating diligence. A lead may seek a board seat, but that's not automatic.

Anchor LP

An anchor LP is an LP that makes a significant early commitment to a fund and can help build fundraising momentum. An anchor may be an institution, a family office, or an individual; any special rights depend on negotiations and the fund documents.

Cross-fund Investment

A cross-fund investment is an investment in the same company by two or more funds managed by the same firm. Allocation, valuation, and differing LP interests can create conflicts that the fund's policies and documents should address.

Section 8

Tax and legal terms

Starting points for a discussion with a qualified tax or legal adviser; eligibility depends on the transaction and the investor.

K-1 (Schedule K-1)

A K-1 (Schedule K-1) is the tax schedule a partnership typically issues to each LP, showing that investor's share of income, gains, losses, deductions, and credits. Timing varies and can affect your tax filing plans.

Example: Ask a manager when prior-year K-1s have historically been delivered.

QSBS (Qualified Small Business Stock)

QSBS (qualified small business stock) is stock that meets the conditions of Internal Revenue Code Section 1202, which may let an eligible noncorporate taxpayer exclude part or all of the qualifying federal gain. The rules depend on the stock's acquisition date, original issuance, the company's business and gross assets, the holding period, and your circumstances. For qualifying stock acquired after July 4, 2025, the potential exclusion is 50% after at least three years, 75% after four, and 100% after five, and the gross-assets threshold rose to \$75 million. The per-issuer gain limit is generally the greater of \$15 million (subject to applicable adjustments) or ten times the adjusted basis, with different rules for older stock. As a venture fund LP, you don't automatically qualify for the exclusion when the fund sells a company.

Example: Before relying on QSBS treatment for a fund distribution, ask a qualified tax adviser whether the stock, the fund, and your LP interest meet the applicable rules.

Section 1045

Section 1045 is a provision that may let you defer eligible gain when QSBS held for more than six months is sold and replacement QSBS is purchased within the 60-day period beginning on the sale date. Special rules apply when a partnership sells the stock.

Example: If you sell QSBS after eight months, you may ask a tax adviser whether a timely replacement purchase qualifies for rollover.

ERISA (Employee Retirement Income Security Act)

ERISA (the Employee Retirement Income Security Act) is the federal law governing many employer-sponsored retirement plans, including their fiduciary duties. It affects how covered plans assess and make investments; not every pension or retirement vehicle is governed by the same provisions.

Net Investment Income Tax (NIIT)

The net investment income tax (NIIT) is a 3.8% federal tax on certain net investment income when modified adjusted gross income exceeds a filing-status threshold, including \$200,000 for single filers and \$250,000 for married couples filing jointly. Taxable investment gains may be included. Gain excluded from gross income under an applicable QSBS exclusion is generally not included in net investment income; any taxable portion needs separate analysis.

AMT (Alternative Minimum Tax)

The alternative minimum tax (AMT) is a separate federal tax calculation that can change the treatment of particular items. For QSBS acquired before September 28, 2010, part of an excluded gain may be an AMT preference item. Stock acquired later is treated differently, so ask a tax adviser to apply the rules for its acquisition date.

State Conformity

State conformity is whether, and how, a state's tax law follows a federal provision, such as the QSBS gain exclusion. A federal exclusion doesn't necessarily determine your state tax treatment; rules vary by state, transaction, and tax year.

Example: Before relying on a QSBS exclusion, confirm the rules that apply in your state of residence at the time of sale.

Pass-through Taxation

Pass-through taxation means a partnership generally reports its income, gain, loss, deduction, and credit to its partners rather than paying federal income tax on those items itself. Amounts are allocated under the partnership agreement and applicable tax rules, and as an LP you can owe tax without receiving a matching cash distribution.

Example: A fund may report a gain on your K-1 in a year when its cash distributions to you are small.

UBTI (Unrelated Business Taxable Income)

UBTI (unrelated business taxable income) is income that can create tax obligations for a tax-exempt investor, including some IRAs, when an investment generates certain business income or debt-financed income. Ask a tax adviser about the fund's structure before you invest through a tax-advantaged account.

Carry as ordinary income vs. Capital Gains

Carried interest can be taxed at long-term capital gain rates or at ordinary income rates, depending on the underlying gain and the applicable rules. Section 1061 generally requires a holding period of more than three years for certain gains allocated to an applicable carried interest to keep long-term capital gain treatment. Other tax rules and exceptions may apply.

Section 83(b) Election

A Section 83(b) election is an election to include the value of property you receive for services, such as certain restricted founder shares, in taxable income when it's transferred rather than when it vests. It generally must be filed with the IRS within 30 days of the transfer and can create tax cost or forfeiture risk. It matters more to founders and employees than to a fund LP.

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