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Governance Framework for Early-Stage Fund Managers and Investment Companies

An initiative of FSD Africa's Venture Finance Platform

FSD Africa's Venture Finance Platform

This guidance forms part of FSD Africa's Venture Finance Platform, an initiative addressing the long-term challenges of developing financial markets systems to meet the needs of small and growing businesses central to Africa's sustainable economic development.

Early-stage alternative local capital providers play a vital role in delivering alternative financing solutions to small and growing businesses across Africa. Yet many face significant operational and fundraising constraints in their early years, thereby limiting the flow of capital to these businesses.

FSD Africa's Venture Finance Platform seeds and scales alternative local capital providers through direct investment, coupled with wide-ranging investment advisory and capacity strengthening support to improve key aspects of their strategy and operations.

Through the Platform, FSD Africa also plays a convening role, sharing insights and learnings from its investment portfolio and other partnerships to demonstrate this emerging asset class of capital providers and strengthen the market infrastructure necessary for a thriving early-stage financing ecosystem.

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Glossary

AB	Advisory Board
AC	Advisory Council
CFO	Chief Financial Officer
EDI	Diversity, Equity and Inclusion
DFI	Development Finance Institution
ESG	Environmental, Social, Governance
FI	Financial Institution
FM	Fund Manager
FO	Family Office
GP	General Partner
GPOA	General Partner Operating Agreement
HNWI	High Net Worth Individual
IC	Investment Committee
IMA	Investment Management Agreement
INVESTCO	Investment Company
KPI	Key Performance Indicator
KYC/AML	Know Your Customer/ Anti-Money Laundering
LP	Limited Partner
LLC	Limited Liability Corporation (US)
LLP	Limited Liability Partnership
LPA	Limited Partnership Agreement
LPAC	LP Advisory Committee
Manco	Fund Management Company
Portco	Portfolio Company
SPV	Special Purpose Vehicle

Why build governance?

What is governance?

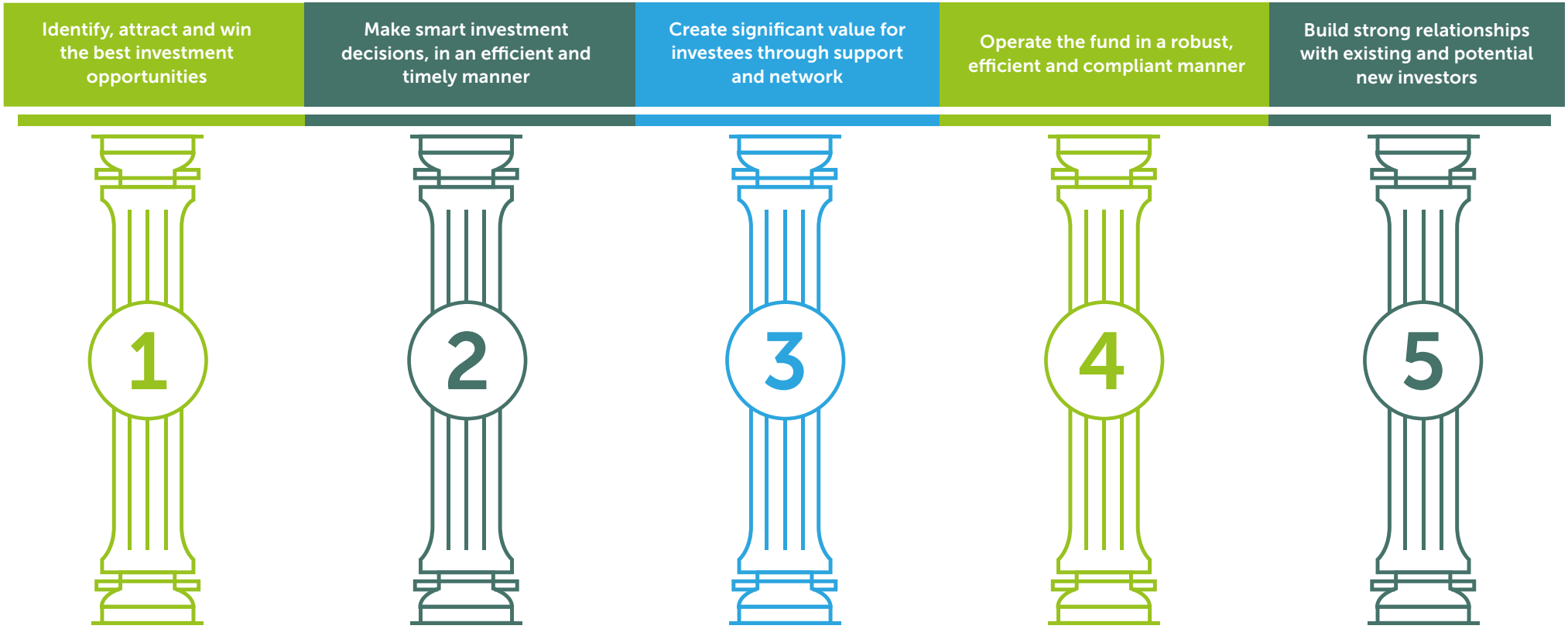
Governance is the combination of legal structures & agreements, decision-making bodies, people, policies and processes that investment companies and funds adopt to achieve their objectives.

Why is it important?

Governance provides the foundation for achieving successful and sustainable performance. It helps to maximize financial and impact returns, win better opportunities, create wealth and crowd in further capital.

It is also valued by investors, some of whom require specific governance measures as a pre-condition for investment.

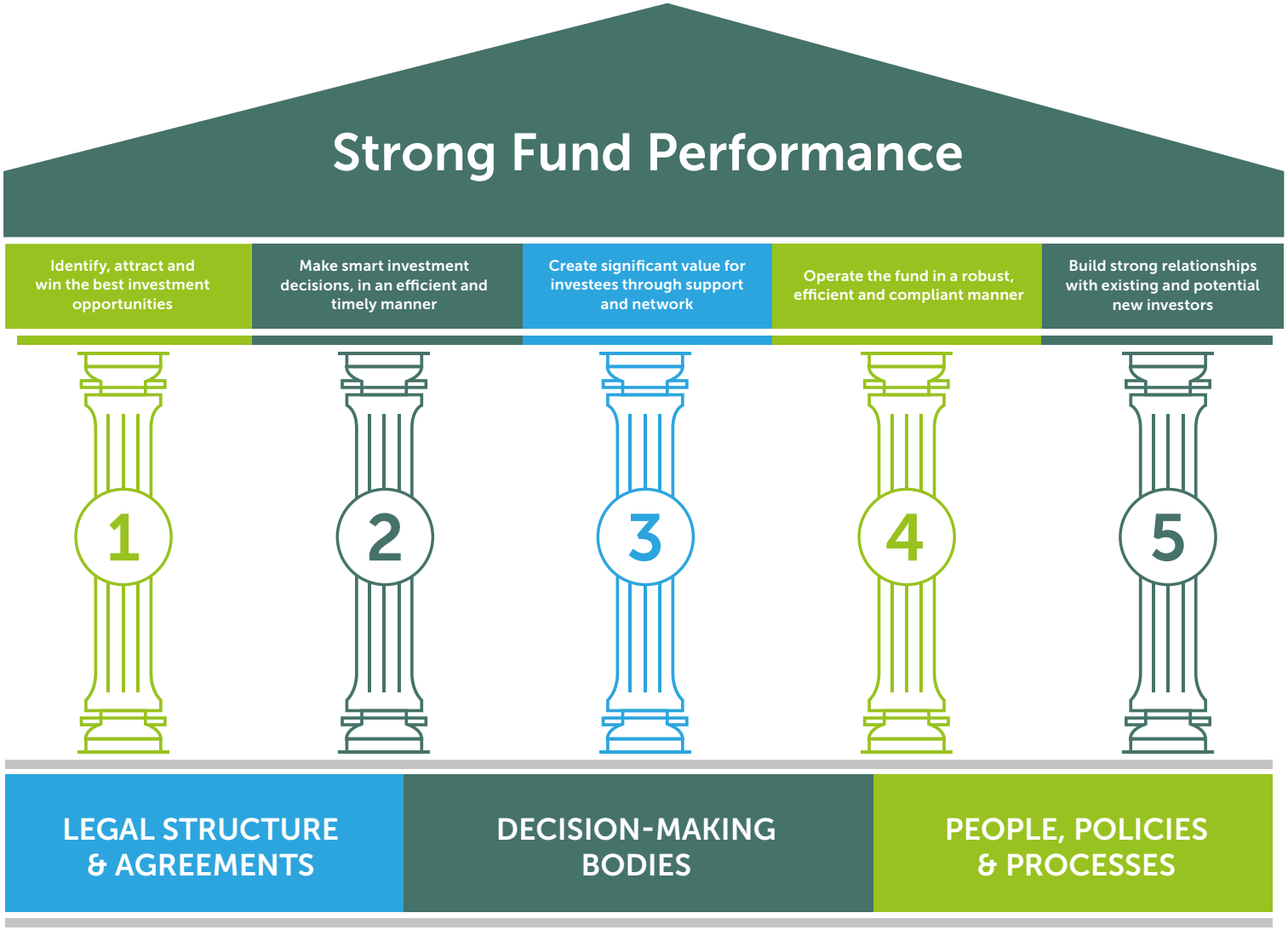
The five pillars of successful fund performance



It is critical for the Fund Manager to assess regularly:

- How are we performing against each of the five pillars?
- Where performance is lagging, what is missing?

The fund governance framework underpins the five pillars of successful fund performance



Fund governance improves when..

Legal Structure & Agreements

- Investors and management company (manco) are clear on goals, mandates, roles, key persons, responsibilities and decision-making bodies.
- Financial, compliance & legal commitments, constraints, expenses and fund economics are clear.
- Protections for investors are established.
- Mechanisms are in place to manage conflict/s, to ensure fund continuation and liquidation of investment proceeds.

Decision Making Bodies

- The fund's decision-making processes support high quality decisions, meeting the expectations of investors and building confidence with founders and co-investors.
- The Manco is leading decision making, with independents (if any) and LPs supporting effectively.
- The best positioned people to make investment decisions are empowered and incentivized, with the right support and checks & balances.

People, Policies & Processes

- The management team and operations are disciplined, robust and efficient, building investor confidence.
- The key information needed for decisions is being generated.
- The fund is compliant with laws, regulations and legal documents.
- Portfolio support strengthens and adds value to investee governance[1].
- The management team and the company values, culture and ethics are "founder first", building trust and providing support alongside appropriate challenge.
- The fund's reputation with founders and investors is strong.

1. **Fund Managers can access various governance toolkits, including the Guidance Notes for Governance of Early-Stage Companies developed by AGP for British International Investment and FMO. See:**
   Guidance Note 1: Governance red-flags in venture capital start-ups –interpreting and acting on warning signs
   Guidance Note 2: A startup governance journey -how to develop a phased governance framework for venture capital startups
   Guidance Note 3: The monitoring challenge -how to maintain good governance and oversight post-dilution

Governance should be proportionate to fund stage

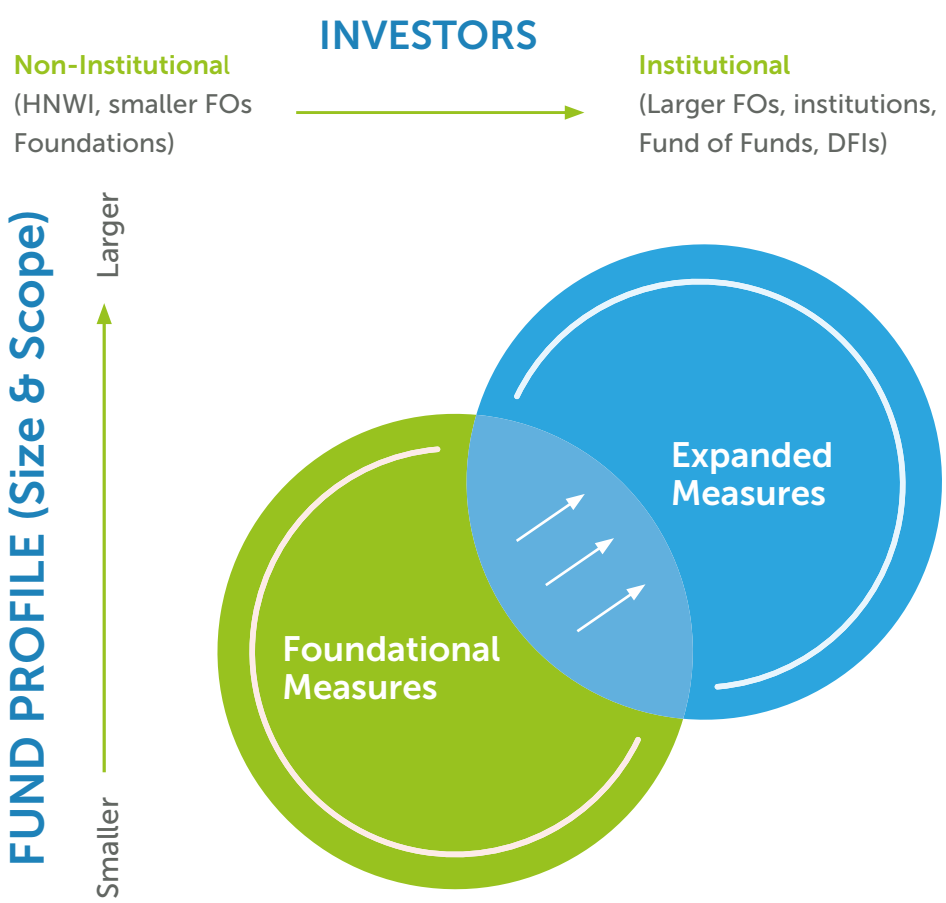
Governance provides the foundation for achieving successful and sustainable performance. It helps to maximize financial and impact returns, win better opportunities, create wealth and crowd in further capital. It is also valued by investors, some of whom require specific governance measures as a pre-condition for investment.

Too light

Optimal

Too heavy

Governance requirements tend to increase as the fund grows in size & scope and adds bigger/ institutional investors



NOTES

The Fund Governance Framework distinguishes foundational measures for early-stage funds and expanded measures as the portfolio grows, complexity increases and more institutional funding is raised.

1. Size & Scope. Smaller funds by size and scope tend to limit themselves by investment stage (e.g. early-stage only, such as pre-seed and seed) and size (which varies by country and region - but in Africa smaller funds might be < $20m, and "larger" might be funds > $20m). As a Manco raises subsequent funds, further resources may be required based on the additional companies being served. While this may not increase the legal structures or decision-making bodies required, it is likely to require stronger people, policies and process. **NB Fund sizes and investor types are indicative and vary between funds.**

2. Investor requirements usually change significantly based on the type of investor. Generally, institutional investors such as banks, pension funds, fund of funds, and DFIs will request more detailed and complex governance measures. Depending on the investor, a Fund Manager or Investment Company may be able to reduce these requirements through negotiation.

3. Others factors: Expanded governance measures are likely to be required as the Fund Manager or Investment Company establishes new funds, covers new geographies, and deploys more complex financial instruments.

KEY:
FI –Financial institution; DFI –Development Finance Institution ; FO –Family Office ; HNWI –High Net Worth Individual

Common legal structures for early-stage funds

There are many legal structures that can be used effectively. The Fund Governance Framework distinguishes two broad categories

Limited Liability Partnership (LLP)

A closed end fund, administered via a Limited Liability Partnership between a General Partner and Limited Partners. Investors are generally less involved in investment decision making and delegate to the Management Company (Manco) to deliver the agreed strategy. Operating costs are paid from the management fee. The domicile selected will be determined by a combination of investor preference and costs. Costs of establishment and running vary significantly between jurisdictions.

Advantages: Includes robust checks and balances in decision making and risk management. Typically, there are tax benefits for investors, as partnerships are generally treated as transparent pass-through vehicles for tax purposes, while offering limited liability for LPs. LLPs are preferred, and in some cases required, by many Financial Institutions (FIs) and Development Finance Institutions (DFIs).

Risks to consider: It is often uneconomic to set up a small fund under a LLP structure. Fund economics improve significantly above approx. $30m AUM. The more complex decision-making processes can provide more opportunity for investors to introduce additional requirements which increase costs and reduce agility. More governing bodies can lead to a lack of clarity around roles which may reduce the quality of investment decisions.

Investment Company (Investco)

An Investment company, with shareholders and board, acting as a permanent capital vehicle, investing from its balance sheet or via SPVs. Also described as financial intermediaries, investcos can also be registered as closed ended vehicles, or self-regulated funds. Usually, shareholders are more involved in company and investment decision making. Costs are paid from operating capital (funds raised from investors) or from operating income (profits from investments)

Advantages: It is usually lower cost to set up and operate, enabling economic viability at a smaller scale. Investcos are acceptable to many early, non-institutional investors. Fewer governing bodies can allow for more agile decision making.

Risks to consider: Typically, investcos have fewer independent members in governing bodies, raising the risk that investment decisions are made with more limited knowledge / expertise. Some institutional funders require LLPs structures as a pre-condition to invest. With permanent capital vehicles, there may be tax disadvantages, with taxes being trapped in the vehicle.

Options for first time funds

First time investment managers can set up a legal structure in either category, having considered the pros and cons of each and taken legal advice.

Examples of types of funds and legal structures used:

- **Debt, Mezzanine, and Revenue Share Investment Vehicles,** providing debt or self-liquidating financing to small and growing businesses. These vehicles raise both debt and equity from funders and work well with an open-ended or permanent capital structure.
- **Micro PE,** making equity or equity-like investments in small privately held businesses. These funds typically raise equity from funders, with closed-end vehicles being better suited for this investment type.
- **Micro VC,** which are smaller than traditional VC funds and typically raise equity from investors. Closed-end vehicles are better suited for this investment type.

Interviews with approx. 20 African focused funds in 2024 suggest that common scenarios include:

- starting as an LLP
- starting as an investco and then setting up an LLP structure once track record has been built and a second or third fund is planned
- starting as an investment company and then securing a fund license in a domicile country
- start as a self managed fund, with sub-advisers in market

Fund Managers who start out as an investco and later set up an LLP should remember that the investor role in governance is more hands off in the LLP and they should ensure investors respect the boundaries of their role.

First time fund managers should be aware that economic viability of LLPs is challenging at the smaller range and they should closely monitor this. Investcos can be viable at a smaller scale given their different sources of income.

How to use this fund governance framework

For Limited Liability Partnerships, Investment Companies

- To help decide what measures to implement by when
- As a tool to self assess governance performance and create a roadmap for governance improvements

For Investors

- Pre-investment, as a due diligence framework which generates a governance strengthening roadmap
- Post investment, as a measurement tool to help investees ensure their governance is helping to maximize returns

Legal Structure & Agreements

Decision Making Bodies

People, Policies & Processes

Disclaimer:
There are a wide variety of fund and investco types and jurisdictions vary. The Fund Governance Framework is not designed to be prescriptive, but rather act as a tool to assist Fund Managers to think through next steps in terms of governance development. Consult with a specialized fund lawyer when making decisions about legal structure and compliance with local regulations.

Limited Liability Partnerships

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ensure it contributes to performance

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The fund governance framework

Main components

Legal Structure & Agreements

- Limited Partnership Agreement and Side Letters
- Investment Management Agreement
- General Partner Agreement
- Other Agreements (as needed): Fund Administration, Employee, Advisory, Venture Partners, Custodial, etc.

Decision Making Bodies

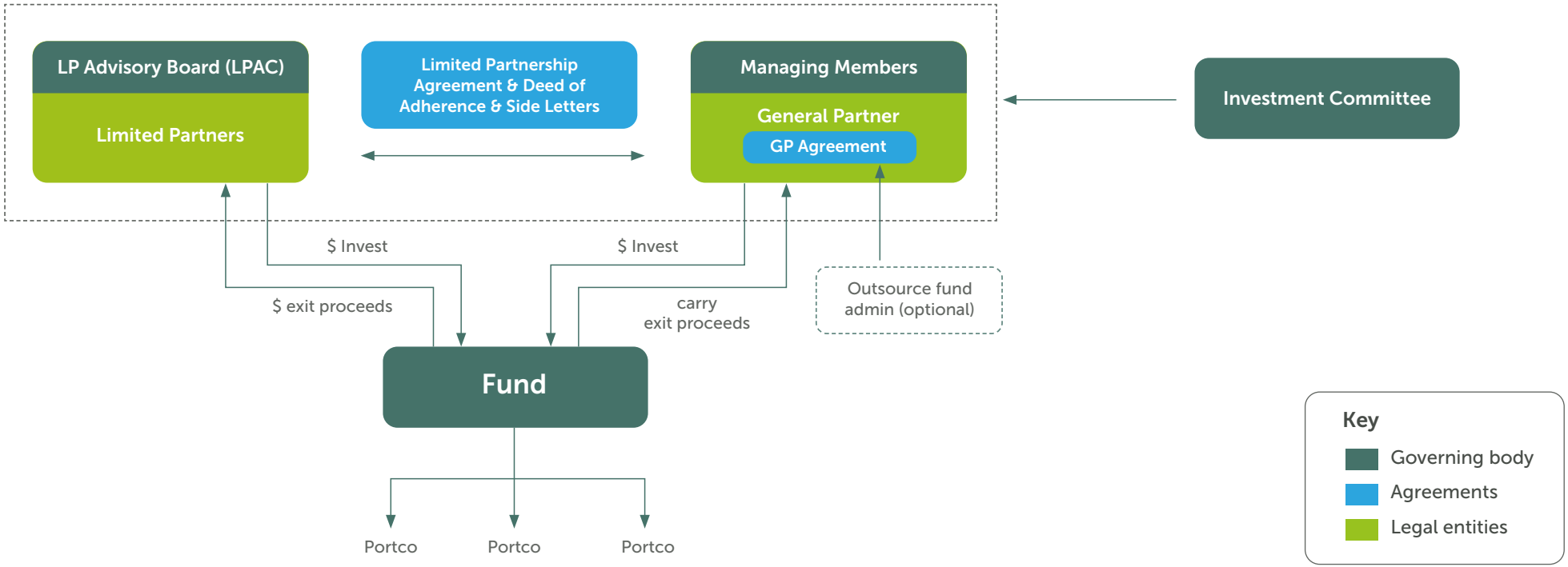
- LPAC (sometimes referred to as "Advisory Board")
- General Partner Board
- Management Company Board
- Investment Committee
- Advisors/ Advisory Council

People, Policies & Processes

- Investment Policy and Process Manual
- Investor Reporting & Portfolio Monitoring
- Policies Focused on Business Integrity
- ESG Policies

Example first-time LLP structure

Limited Liability Partnership

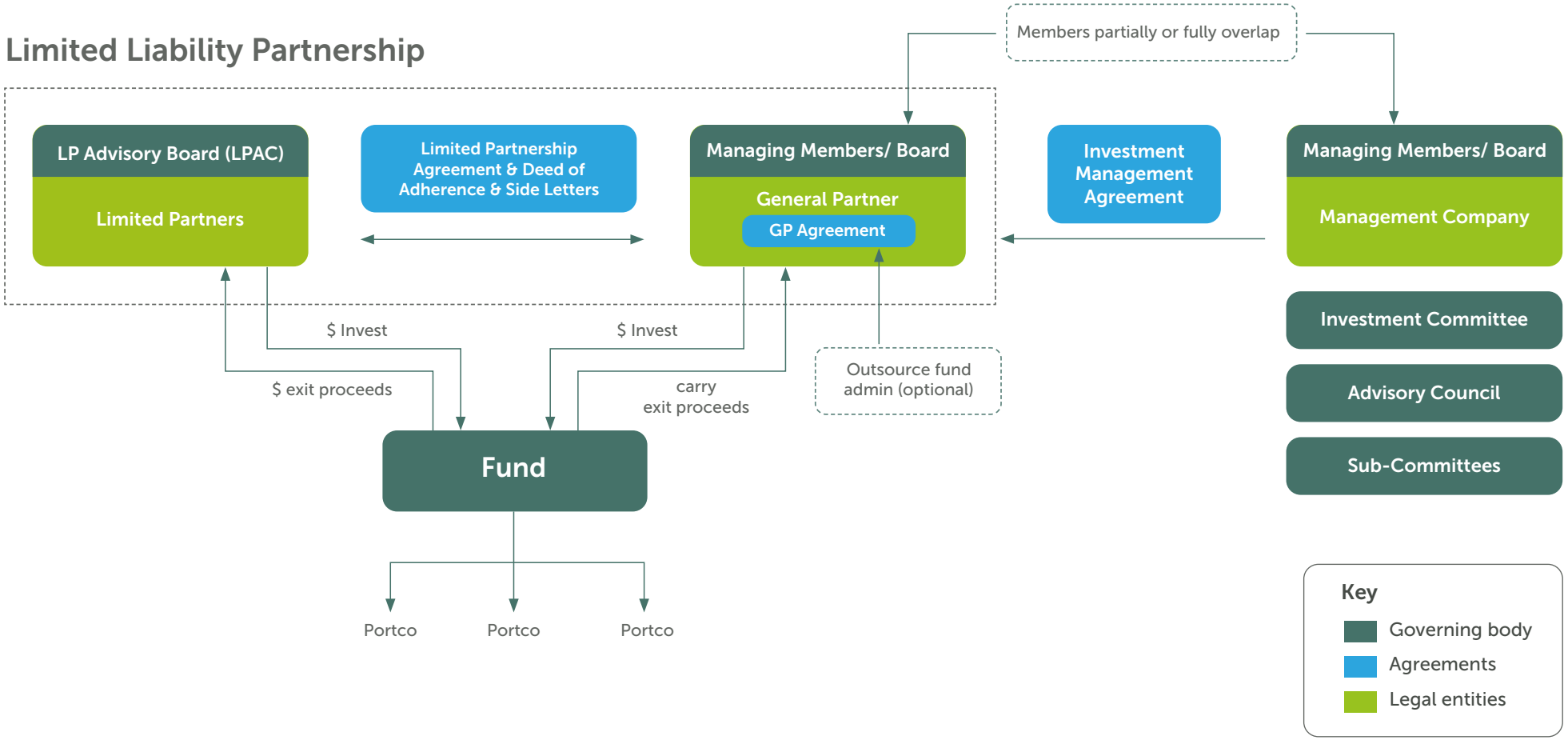


Note 1: In this example, there is no separate legal entity created yet for fund management and hence no Investment Management Agreement. Nevertheless, the fund would still need a legal agreement (likely embedded within the LPA) to define governance, fees, and responsibilities. Operating without any agreement may expose both the GP and LPs to legal, tax, operational, and/or financial risks to the fund managers, if not correctly structured. Consult with a specialized fund lawyer to ensure compliance while meeting your goals.

Note 2: This is a general example of an LLP structure. Language, and entities will change based on region, fund size, naming conventions, fund complexity and other specific requirements.

Disclaimer: Legal and professional advice should be sought independently of this document.

Example established LLP structure



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Distinction between General Partner & Management Company

General Partner (GP)

The GP is a legal entity that acts as the channel for the GP members into the LLP. The GP has unlimited legal liability for the LLP's liabilities. It is usually a shell company consisting only of the assets committed for investment. It is the entity that earns the carry and is ultimately responsible for the obligations in the LPA. It has managing members (usually the founders) and other members. Its responsibilities are set out in a GP Agreement, and include developing the investment strategy, high-level goals and guidelines that are set in the LPA and agreeing these with investors. Its managing members will provide final approval to investments and exits. It is empowered to outsource certain LPA obligations e.g. fund management and define what flexibility, if any, the management company has to deviate from the investment strategy.

Management Company (Manco)

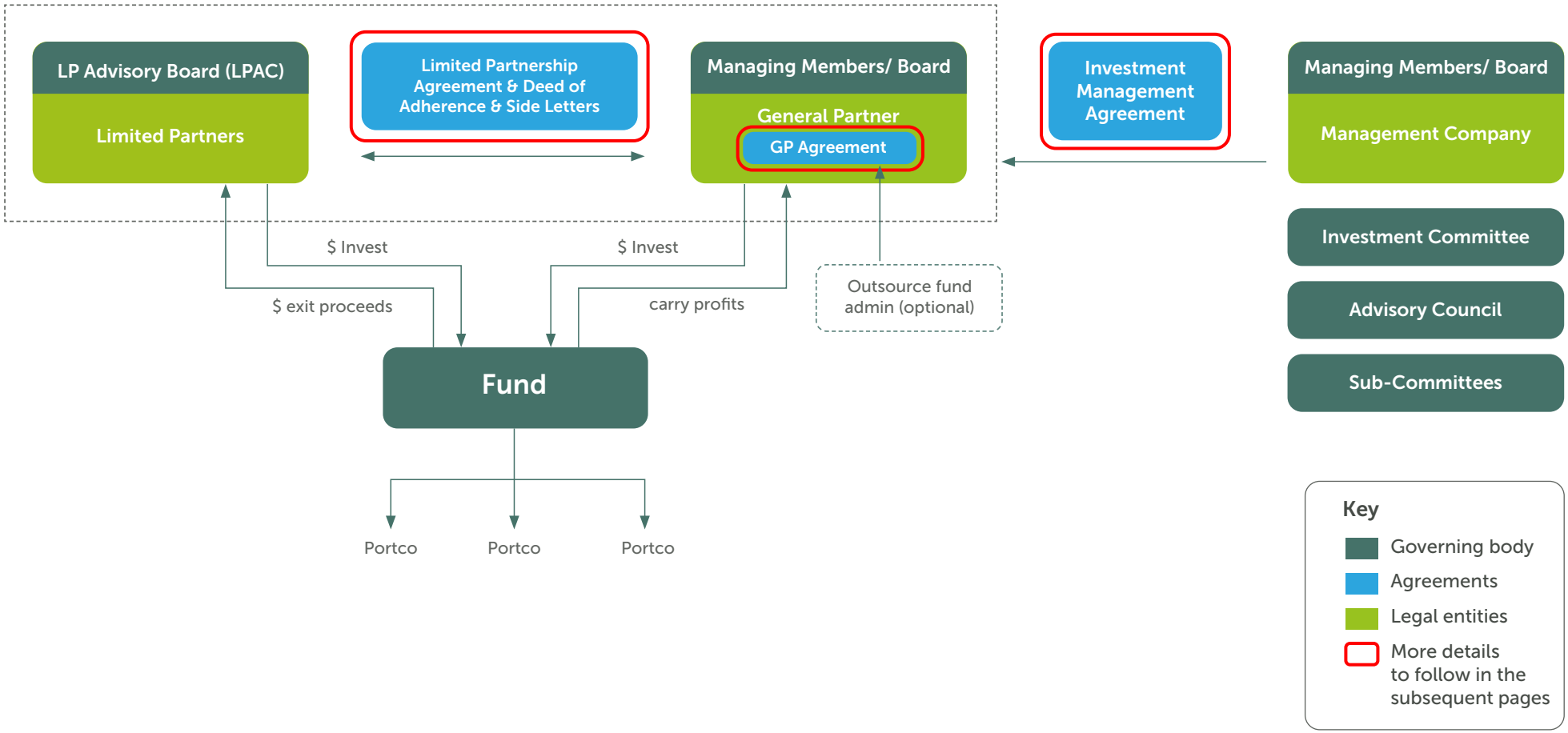
The Management Company executes the fund's investment strategy as defined in the LPA, under an agreement with the GP (usually called an Investment Management Agreement) handling operational, financial, and administrative tasks. Responsibilities include implementing investment decisions, portfolio monitoring, financial management, reporting, compliance and administration, developing leads, conducting due diligence and recommending decisions to the IC (See **Annex 2**: Investment Management Agreement).

Overlap

For early-stage funds, the Managing Members of the GP may partially or fully overlap with the Managing Members of the Manco. Also, at the outset, here may be only one legal entity, which is a workable for the initial period. However, it is recommended that a separate legal entity is created for Manco at an early stage.

What to have in place by when

Limited Liability Partnership



What to have in place by when

	FOUNDATIONAL	EXPANDED
Limited Partnership Agreement (LPA) & Side Letters	Sets out the rules that define how the limited partnership is operated, how it protects its partners, prevents disputes, defines roles, establishes guidelines, authorizes actions and sets restrictions. Requirements specific to certain LPs can be set out in Side Letters	LPA may include additional rules governing the partnership, as new investors come in. Typically including reputation, valuations, compliance, auditing, scrip counts, reporting, longer draw-down periods, governance committees, books and records
Investment Management Agreement (IMA)	Where the management company is a distinct legal entity from the GP, the IMA sets out the terms and conditions between the GP and the manco and ensures that all parties involved are working together in a way that protects their best interests. Where the GP and manco are the same, the GP's investment activities are guided by the LPA, which contains the Investment Policy and Process Manual	IMA may include additional terms & conditions, including fee adjustments, additional reporting and more provisions in LP side letters
General Partner Agreement	Sets out the roles, responsibilities and commitments of General Partners (GPs) and how they share profits and losses	Only where new partners are admitted, bringing specific amendments to the GPA, or where new LPs request specific additional measures, such as arrangements relating to former members
Fund Administration Agreement	If fund administration is outsourced this agreement sets out the terms and conditions of services provided by the Fund Administrator	No change

How to ensure they improve performance

Pillars of Performance

Limited Partnership Agreement (LPA) & Side Letters

PURPOSE	To set out the rules that define how the limited partnership is operated, its investment strategy, how it protects its partners, prevents disputes, defines roles, establishes guidelines, authorizes actions and sets restrictions. Side Letters are additional to the LPA and not all LPs will have them. They are common with DFIs to capture specific requirements that may not be a priority for other investors e.g. reporting.	
WHY THIS MATTERS	The agreement describes the terms under which a GP is entrusted with LP funds. It is the central document which describes how the relationship will work, what the parties will contribute and how they will interact. The detail matters as it defines how things will work in a relationship which will usually last over 10 years. It is principally the concern of LPs and GPs.	
Does your LPA contain the key elements suitable for your stage ?	FOUNDATIONAL Checklist (**Annex 1**)	EXPANDED Checklist (**Annex 1**)
How do you know your LPA is achieving its purpose?	The LPA sets up the partnership in a way that provides you a clear investment strategy, resources to secure the skills you need, agile decision making, efficient operations and investee support, which allows you to make the best investment decisions possible, and a pragmatic approach to understanding and managing risk. The investors allow you to perform your fund management role and delegate adequate authority for decision making, as agreed in the LPA. The special requirements of LPs are adequately reflected in Side Letters and rights & obligations of new partners are covered in Deeds of Adherence	
How do you know your LPA is manageable, given your level of resources ?	You have reviewed all the LPA clauses and none of them place unreasonable or unaffordable burden on your company. You have sufficient resources to deliver all reporting requirements listed in the LPA.	

How to ensure they improve performance

Pillars of Performance

Investment Management Agreement (IMA)

PURPOSE	To set out the terms and conditions between the GP and the Manco, where they are distinct legal entities, and to ensure that all parties involved are working together in a way that protects their best interests.	
WHY THIS MATTERS	The fund management team needs to have a clear investment mandate and incentives to deliver the financial return and and impact outcomes that investors want to see. The IMA sets out how the investment manager will do this and is therefore essential for maintaining clear expectations and trust between the investor and manager.	
Does your IMA contain the key Pillars elements suitable for your stage ?	FOUNDATIONAL Checklist (Annex 2)	EXPANDED Checklist (Annex 2)
How do you know your IMA is achieving its purpose?	As Manco, you are clear about your mandate, what you can and cannot do, how you measure success, what your obligations and liabilities are and to whom you are accountable. The IMA allows you to have efficient operations, agile decision making, the freedom to source good opportunities and support your investees. Your fee structure is simple and clearly understood and there are no disputes arising from it. The incentive structure motivates your team. You have robust indemnity clauses in your IMA which provide sufficient protection from LPs.	
How do you know your IMA is manageable, given your level of resources ?	You have sufficient resources to manage the fund, capture the data you need for reporting and prepare reports in line with investor expectations	

How to ensure they improve performance

Pillars of Performance

General Partner Agreement (GPA)

PURPOSE	To set out the roles and responsibilities of General Partner (GP) Managing Members and how they share profits and losses. Signatories are GP Managing Members and items covered include: management duties, co-investment, expenses and remuneration, appointment of a Manco and approval of the IMA.	
WHY THIS MATTERS	GPs in a fund are in a long-term business partnership and it is therefore critical that they establish the rules around this how this partnership will work, how new partners come in and how they can exit. The GPA is where GPs formally document their alignment on the financial and impact objectives of the fund. It includes financial and time commitments. It also sets out clearly where liabilities lie, typically the GP company having unlimited liability, and the GPs, as members, having limited liabilities. It also covers provisions for defaulting members and admission of new members.	
Does your GPA contain the key elements suitable for your stage ?	FOUNDATIONAL Checklist (Annex 3)	EXPANDED Checklist (Annex 3)
How do you know your GPA is achieving its purpose?	GPs have a common understanding of the goals of the fund and what their individual and collective roles are in managing it. They will understand their obligations relating to the fund and how these are distinct from their individual financial interests, including in relation to tax reporting. The financial arrangements between members is clear and the Manco is performing in line with the IMA.	
Are the roles of the GPs and Manco clear and distinct ?	GPs can clearly articulate the different roles and how they are delivering them. As outlined in Slide 17, while in some early-stage funds the members overlap, nevertheless, the roles of the GP and Manco are distinct.	

Good practice examples

First Circle has set up a traditional limited partnership structure registering both the GP and Fund as LLCs in Delaware. This is a structure that is familiar to investors. It is now formalizing an LPAC and Advisory Board with 3 independent members, giving a good balance of in-house and external views. This is likely to strengthen performance and meet the needs of incoming investors. The roles of these decision-making bodies, and Investment Committee, are clearly documented. A conscious decision to adopt a non-consensus-based decision-making protocol at the IC has proven successful at bringing more innovative, but high potential startups into the portfolio. For pre-board investee companies, securing a board seat option strengthens the fund's ability to influence later on.

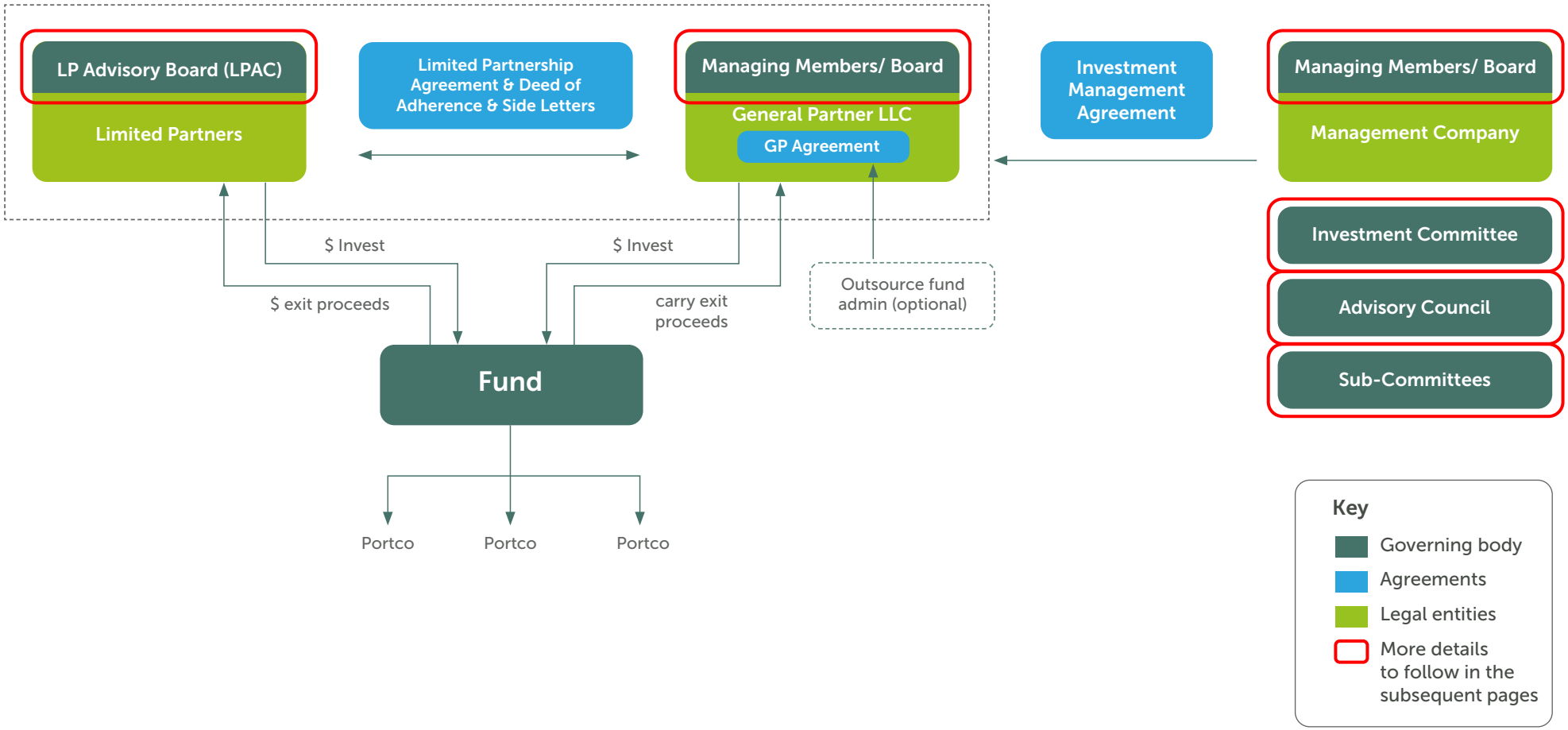
The following funds have outsourced functions as an approach to increasing cost-efficiency

- **CRAF** is currently an LLC and is developing an LPA in Mauritius. It plans to use outsourced fund administration companies in Mauritius for functions such as KYC, AML and drawdowns and valuations. This helps the company to deliver a high touch business support model from the team's business advisers, which is a strength of the fund. The team has developed a structured approach to reviewing the portfolio companies which ensures each portfolio company is reviewed regularly. The fund seeks to ensure the business support model is sustainable by targeting a range of funding sources, such as a) grant funded TA facilities b) venture partners and pro bono mentorships c) paid consultants via repayable grants to the investee and d) including a consultant budget in management fee. External advisors are used on matters such as tax and legal. CRAF uses a simple ESG reporting model, with a small set of metrics, which are appropriate for its early stage. Overall, it is focusing on governance at an early stage in anticipation of the needs of institutional investors.

- Holocene is a Limited Liability Company (LLC, C-Corp), administered under contract by a specialist platform for early-stage funds in the US, which offers a standard suite of corporate governance services to multiple funds. The fund's Management Company is registered in South Africa. This offers a cost-effective route to establishing the fund. It has a highly structured & thorough due diligence process, given its early stage, and a good range of expertise across its decision-making bodies, albeit with terms of reference still under development.

What to have in place by when

Limited Liability Partnership



What to have in place by when

	FOUNDATIONAL	EXPANDED
Limited Partners Advisory Committee (LPAC)	Is consulted by GP on material matters during the fund lifetime, such as investment related matters, as well as specific issues including conflict of interest. Approves decisions on specific items as set out in the LPA, such as material changes to governing documents and investment mandate of the fund. For first time funds, the LPAC can be very light touch, for example, with one annual investors meeting.	Quarterly meetings of LPAC.
GP Managing Members / Board	Is responsible for ensuring the GP complies with its responsibilities under the terms of the LPA. Composed of managing members of the GP, who may call themselves managing members or a board. At the early stage, the managing members may choose to take responsibility for fund management, but once a fund is established this is usually delegated to a separate Manco.	The GP board will grow if and when new Managing Members are admitted to the GP. Further expansion unlikely as fund management is likely to be delegated to a separate entity by this stage.
Managing Company's Board (Manco)	Oversees Manco's business and ensures it delivers its responsibilities under the IMA. Where there is no management company as a separate legal entity, the GP performs the management role and its actions are guided by the GP Agreement.	No change.
Investment Committee (IC)	Decides what investments to recommend for approval by the GP managing members, after assessing the potential risks and returns, in alignment with the fund's investment policy and the IC Charter. This is the key decision-making body in the governance structure and it is essential to consider composition carefully. Support to the IC members in terms of information should be prioritized, with regular self-assessments on how it is working.	The IC will need to be prepared for an increased requirement for documentation of decisions, including justifications for approvals or rejections, ensuring greater accountability and transparency. It is likely that additional expertise will be required on the IC as markets, sectors, jurisdictions and investors expand.
Advisory Council (AC)	Not essential at this stage. Can be an informal group of advisers.	To be established if and when the GP decides it is needed. The AC adds value to the fund through provision of expert advice and acts as a sounding board for the Manco. It does not have a formal decision-making, fiduciary, or compliance role. Well selected, the IC at this stage should enhance fund credibility and help capital raise. It is good practice for the AC to have a charter which defines its role.
Sub Committees	Not essential at this stage.	To be established if and when the GP decides it is needed. Main committees used in VC funds are Audit & Risk, Compliance, Ethics and Risk Management, Valuations, Exit/Liquidity, Compensation, ESG/EDI. Typically, sub-committees are a feature of much larger funds (see Annex 8).

How to ensure they improve performance

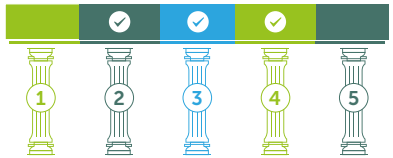
Pillars of Performance

Limited Partner Advisory Board/Committee (LPAC)

PURPOSE	To be a body that the GP can consult on material matters during the fund lifetime, such as investment related matters, as well as specific issues including conflict of interest. To approve decisions on specific items as set out in the LPA, such as material changes to governing documents and investment mandate of the fund.
COMPOSITION	Negotiated between the GP and the LPs. For first time funds, the LPAC can be very light touch, for example, with one annual investors meeting. The group should provide a balanced representation of investors -typically, the larger LPs and representatives of smaller LPs. Includes professional fund administration officers where regulations in country of domicile require this.
WHY THIS MATTERS	This is the main route through which investors express their views, protect their interests and influence the way the fund is managed. It is also the approval body for specific decisions. It therefore matters to LPs, GPs and management companies. Institutional investors generally require an LPAC to be included in the fund structure. The LPAC can be a useful tool for the GP, as it allows them to have conflicts or investment restrictions waived by a subset of LPs.
Does your LPAC Terms of Reference contain the key elements?	FOUNDATIONAL Checklist (Annex 4)
How do you know your LPAC is achieving its purpose?	The fund is benefiting from LPAC's advisory input. Investors feel represented and are clear about which decisions they are advising on and which they are approving. The LPAC is efficient in dealing with fund matters such as conflicts and its other duties and does not absorb a disprportionate amount of the management company's time and resources.
How do you know your LPAC is manageable, given your level of resources ?	The time you invest in managing the LPAC is amply rewarded in terms of the value you receive.

How to ensure they improve performance

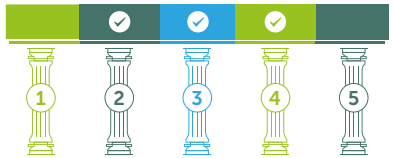
Pillars of Performance



GP Managing Members / Board

PURPOSE	To be responsible for ensuring the GP fulfills its obligations under the terms of the Limited Partnership Agreement. Approves investments recommended by the Investment Committee. Decides what to delegate to the Manco, monitors its performance and replaces if needed. Earns carried interest.	
POSSIBLE DUAL PURPOSE AT EARLY STAGE	At the early stage, the GP managing members may also take responsibility for fund management, in which case they assume the roles and responsibilities listed below under "Management Company Board". However, once funds are established, fund management is usually delegated to a separate Manco. Even with a separate Manco, there may be overlap between members of both. In this case, GP Managing Members should maintain a clear distinction between their role on the GP Board and their role in the Management Company.	
COMPOSITION	Composed of managing members of the GP, who may call themselves managing members or a board.	
WHY THIS MATTERS	It matters because this is the decision-making body that is ultimately responsible for the fund, its assets and obligations.	
Are your GP Managing Members operating in line with the GP Agreement ?	FOUNDATIONAL Checklist (Annex 3)	EXPANDED Checklist (Annex 3)
How do you know your GP Managing Members / Board is achieving its purpose?	The GP is fulfilling its obligations under the terms of the LPA, including approving investments, ensuring adequate management systems and policies are in place for the effective functioning of the fund, while ensuring regulatory compliance. The Manco is performing satisfactorily. Investments are being approved in line with plan.	

Pillars of Performance



How to ensure they improve performance

Management Company Board

PURPOSE	To ensure the Manco fulfills its obligations under the terms of the IMA and has a qualified management team in place to do so.	
COMPOSITION	Normally between 3-5 members for early-stage funds; a) General Partners, b) legal counsel c) may include other members of the GP leadership team, such as Chief Investment Officer, Chief Finance Officer. Independent members, especially women, provide balance, and are likely to be welcomed by investors. As the fund grows, additional Manco board members may be needed to provide additional functional and market expertise.	
WHY THIS MATTERS	It is important that the management company is well resourced and held accountable for the delivery of its obligations under the terms of the IMA. The board will also help to ensure that the management company looks after the health of its own business.	
Does your Manco Board Terms of Reference contain the key elements?	FOUNDATIONAL Checklist (Annex 5)	EXPANDED Checklist (Annex 5)
How do you know is your Manco Board is achieving its purpose?	The management company has a qualified management team in place, including key functions such as Chief Investment Officer and Finance Manager, and is fulfilling its obligations under the terms of the IMA. Investments are being sourced, processed and approved according to plan, adequate management systems and policies are in place for the effective functioning of the fund, and the fund is compliant. There is sufficient oversight on the financial health of the management company and it is meeting its business objectives including the financial returns, growth and the underlying performance of its funds.	

How to ensure they improve performance

Pillars of Performance

Investment Committee (IC)		
PURPOSE	To make investment recommendations for approval by the GP, after assessing the potential risks and returns, in alignment with the fund's investment policy.	
COMPOSITION	The IC is appointed by the GP with such number of independents as are agreed with the investors in the LPA. Investment analysts of the Manco can be invited to present to the IC in person, if required. Typically, 5-6 people, with a minimum of 3 for diversity in perspectives and balance of skills. The IC is usually made up of GP and Manco members, and this can be the case for the lifetime of the fund. If the GP/Manco decides it will add value, they can invite independent members to join the IC. This is usually where specific technical or market expertise is lacking. Remuneration can be offered where this is needed to secure specialist expertise not available internally. In the African market, independent IC members may be required by investors, typically the chair and/or one other.	
WHY THIS MATTERS	The IC is the most important decision-making body as it recommends what the fund should invest in.	
IC Culture	Investments are brought to the IC by a person or team that has done a lot of due diligence and research on the investment. IC members should not hesitate to push back on proposals, but at the same time should take the team's research seriously, trust they have done thorough due diligence and listen to their opinions. The IC should have a culture of trust and openness –balancing questioning whilst respecting diverse opinions. Members should leverage each other's diverse backgrounds.	
Does your IC Charter contain the key elements ?	FOUNDATIONAL Checklist (Annex 6)	EXPANDED Checklist (Annex 6)
How do you know your IC is achieving its purpose ?	The IC has demonstrably contributed to a track record of good investment decisions. It demonstrates agile decision making, is efficient to run, members are clear about the fund's Investment Policy, their role and the IC rules on decision making protocols. The IC is adding credibility in the eyes of investors.	
How do you know your IC is manageable, given your level of resources ?	The time you invest in managing the IC is amply rewarded in terms of the value you receive.	

Pillars of Performance

How to ensure they improve performance

Advisory Council (AC)	
PURPOSE	To add value to the fund through provision of expert advice and act as a sounding board for the manco. Some typical issues on which it advises include market opportunities, industry trends, risk-management, investment strategy regulation, governance and access to networks. It does not have a formal decision-making, fiduciary, or compliance role.
COMPOSITION	To be established if the GP managing members or Manco believe it will add value. The AC typically includes industry and investment experts in the fund's sector of focus. ACs benefit from representation of FIs and DFIs and from a balance of ethnicity, gender and background. For early-stage funds, an AC can consist of a small and informal group of 2-3 people. Members of the AC may be invited to advise the IC on specific investments.
WHY THIS MATTERS	The AC, when carefully selected, can be a valuable source of knowledge, expertise and experience. It assists the IC to understand opportunities and risks and therefore make well informed investment decisions. It is distinct from the LPAC and is not a decision-making body. Well selected, the IC at this stage enhances fund credibility, which in turn helps fundraising.
Have you considered the role you want your AC to perform?	FOUNDATIONAL Checklist (Annex 7)
How do you know your AC is achieving its purpose?	The advice, contacts and opportunities you are getting from your AC is helping you identify pipeline, make better investment decisions, improve investee support and raise more capital. The AC helps you understand and mitigate risk and provides a healthy degree of challenge. The advice provided by the AC translates into actionable and measurable outcomes.
How do you know your AC is manageable, given your level of resources ?	The time you invest in managing the AC is amply rewarded in terms of the value you receive.

Good practice examples

Catalyst Fund has developed an effective separation of responsibilities between its decision-making bodies. The LPAC is composed of lead investors and performs a high-level advisory role, while approving specific matters, such as LPA amendments or strategic changes. This role is defined in the LPA. The investment management company provides a comprehensive report to the LPAC each quarter. The IC is composed of 1 in-house and 3 independent members and makes investment recommendations to the management, in line with an investment management agreement and the investment thesis of the fund. IC members are remunerated under a contract that defines their roles and responsibilities. The GP's responsibilities are documented in its own operating agreement.

Front End has taken a proactive approach to building its governance, to ensure it contributes to performance and does not become too complex. Currently the Fund Board consists of the two co-founders plus an independent; the IC is two co-founders and four independents; the LPAC is two investors, with the appointment of an anchor investor nominee in process; an additional member is expected to join the LPAC with the entry of a new investor. The Fund Manager Board comprises the two co-founders and one independent. With investors requesting expansion of the IC and establishment of an ESG Committee, Front End is now in the process of reviewing the functions of the different bodies with the aim of reducing the number where composition overlaps, while clarifying their distinct roles and how they relate to each other. In this way, Front End is ensuring governance is effective, while being proportionate to its stage.

First Circle has set up a traditional limited partnership structure registering both the GP and LP as LLCs in Delaware, which is a structure familiar to investors. The IC is composed of general partners and fund manager staff, with occasional industry experts attending. It is formalizing an Advisory Council, which is composed of 3 independents with fund management experience, with members earning carry as a fee and they have contracts. The roles of the IC and AC are well documented, have minimal overlap of functions, with a clear distinction between advisory and decision-making. The fund is now forming an LPAC with a mainly advisory remit, but responsible for approving changes to LPA. A conscious decision to adopt a non-consensus-based decision-making protocol at the IC has proven successful at bringing more innovative, but high potential startups into the portfolio. For pre-board investee companies, securing a board seat option strengthens the fund's ability to influence later on. First Circle has taken a deliberate approach to maximizing performance, balancing internal versus external expertise and meeting the expectations of incoming investors.

What to have in place by when

	FOUNDATIONAL	EXPANDED
Investment Policy & Process Manual	The Investment Policy outlines the fund's investment strategy, including sectors, stages of development and geographic regions the fund will focus on. Includes investment objectives, restrictions, target returns, asset allocation, acceptable levels of risk, exit strategies -all consistent with the LPA. It also sets out the investment process, decisions-making rules and voting procedures. The Process Manual includes basic descriptions of deal sourcing, due diligence, deal tracking, investment memos, term sheets, tracking exit opportunities, essential documents required for an investment, valuations. At this stage, it can be managed with the use of simple excel-based tracking tools or CRM,	The Investment Policy will likely allow a broader investment thesis, including a wider range of sectors, geographies, and stages. It will allow for more complexity, such as a structured voting process for investment decisions and hierarchical approval levels (sub-committees, full IC). More detailed documentation of key risks and risk mitigation strategies. Exit strategies: when and how to sell a company, engage in secondary sales and how to handle public listings or acquisitions. Due diligence will include more detailed criteria for assessments. This includes more detailed internal documentation, a more detailed legal review prior to the term sheet process, a definition of how the fund manager takes an active role in liquidity events and a methodology for more detailed and frequent valuations and audits. There may be more LP rights to review and challenge.
Investor Reporting & Portfolio Monitoring	The fund is providing regular investor updates (quarterly, bi-annual). Early-stage funds report on a small number of fund level financial KPIs, and essential investee metrics, as set out in the Investment Management Agreement (Annex 2). Tracking can be done on simple spreadsheets or more generalized freely available online platforms. The fund manager uses a customer relationship manager (CRM) tool to track meetings, decision, pipeline etc.	More detailed portfolio monitoring and analytics tools to track KPIs, financial performance and ESG impact metrics, as per IMA (Annex 2). More detailed monitoring of market updates and exit opportunities. More detailed monitoring of portfolio company KPIs, ensuring that underperforming companies receive the business support they need. Disclosure practices conform to industry standards (e.g. ILPA, CFA Institute).
Policies Focused on Business Integrity	Adopt and implement priority policies which are needed from the outset: conflict of interest, code of ethics, KYC, AML, confidentiality and data protection. Report on these routinely to the management company board.	Policies formally adopted will include a) risk management b) ESG c) whistleblowing and d) security. The Manco should also maintain a compliance manual, showing how the fund complies with regulatory and corporate governance requirements.
ESG	A simple ESG monitoring and reporting plan is in place, suitable for early-stage funds. The Manco is reporting a limited number of impact KPIs to investors, is committed to industry exclusions and follows standard data protection practices. Investees are required to report on local regulatory and legal compliance, registration and trademarks.	There will be an increased level of detail in due diligence of investees, to include the firm's impacts on climate, vulnerable ecosystems, HR policies such as equitable hiring and whistleblowing and data protection. The fund is ready to provide regular disclosures on fund level impact performance to investors and other relevant stakeholders, adopting an established framework such as BII or IFC.

How to ensure they improve performance

Investment Policy & Process Manual

Pillars of Performance

PURPOSE	The Investment Policy provides a clear description of the fund's investment processes and procedures to implement the fund strategy. It establishes the modus operandi of the team, ensuring all the critical steps are taken to maximize the quality of investing achieved by the team. The Process Manual describes the standard processes followed by the management for deal sourcing, assessment, approval, transaction and portfolio management, from sourcing to exit.	
WHY THIS MATTERS	It guides the manager in what investments to make and how to manage the portfolio within a risk level acceptable to investors. Consistently high-quality investment decisions and effective risk management rely on a consistent approach, including standardized procedures, a clear workflow and structured due diligence framework. The manual is central in staff onboarding, collection of performance data and helps win investor confidence.	
Does your Investment Policy contain the key elements suitable for your stage ?	FOUNDATIONAL Checklist (**Annex 9 & 10**)	EXPANDED Checklist (**Annex 9 & 10**)
How do you know your Investment Policy is achieving its purpose ?	Your investment strategy is clear, investments are in line with the objectives of the fund, your investment team is well briefed on the investment process and you are generating financial and impact returns in line with investor expectations. The management team is clear about the steps from start to finish of the investment process.	

Portfolio Monitoring & Investor Reporting

Pillars of Performance

PURPOSE	To help maximize value addition to the portfolio and maintain investors informed of portfolio performance
WHY THIS MATTERS	Targeted and effective support to investees is only possible if there is adequate information on their progress. Good investor reporting is vital to win investor confidence and attract more investment.
How do you know your portfolio monitoring strategy is working?	The management team is able to report to investors the key financial and impact metrics agreed in the LPA.
How do you know your investor reporting strategy is working?	Investors are reporting satisfaction with the quality and timeliness of reporting they are receiving from the Manco.

How to ensure they improve performance

Pillars of Performance

Policies for Business Integrity

PURPOSE	To ensure the fund is managed in such a way that minimizes the risk of incidents relating to ethics, conflict of interest, data breaches or HR complaints which distract management and, if serious, can threaten the continuation of the fund.
WHY THIS MATTERS	It sets the tone from the start on how the GPs want to see the business managed and is critical in protecting the fund's license to operate.
Do you have the Policies for Business Integrity that are needed at the outset and do they contain the key elements?	FOUNDATIONAL Checklist (Annex 11) Code of Ethics, Conflict of Interest, KYC/AML, Confidentiality & Data Protection
How do you know that your Policies for Business Integrity are achieving their purpose ?	Conflicts of interest are disclosed transparently, and associated risks mitigated effectively. The organization's values, principles and standards of conduct are understood by all and reflected in day-to-day activities and behaviours. The process for identifying and managing issues arising from AML & KYC information are effective and avoid any investments causing reputational damage. Management of data complies with applicable privacy and data protection laws.

Pillars of Performance

ESG

PURPOSE	To ensure the fund's business is conducted in a way that meets your own and your investors' standards relating to sustainabilityand impact.	
WHY THIS MATTERS	This is important for all funds with impact goals. It is also increasingly an expectation and requirement of commercial fund investors.	
How do you know your portfolio monitoring strategy is working?	FOUNDATIONAL Checklist (Annex 12)	EXPANDED Checklist (Annex 12)
Does your ESG strategy contain the key elements suitable for your stage?	Your portfolio companies are compliant with their country's laws relating to company registration, environment, employment and IP. At a portfolio level, you have clearly defined excluded industries and a set of reporting metrics for environmental & social impact agreed with investors, which is clearly striving for best practice in your industry, while being appropriate to your stage.	

Good practice examples

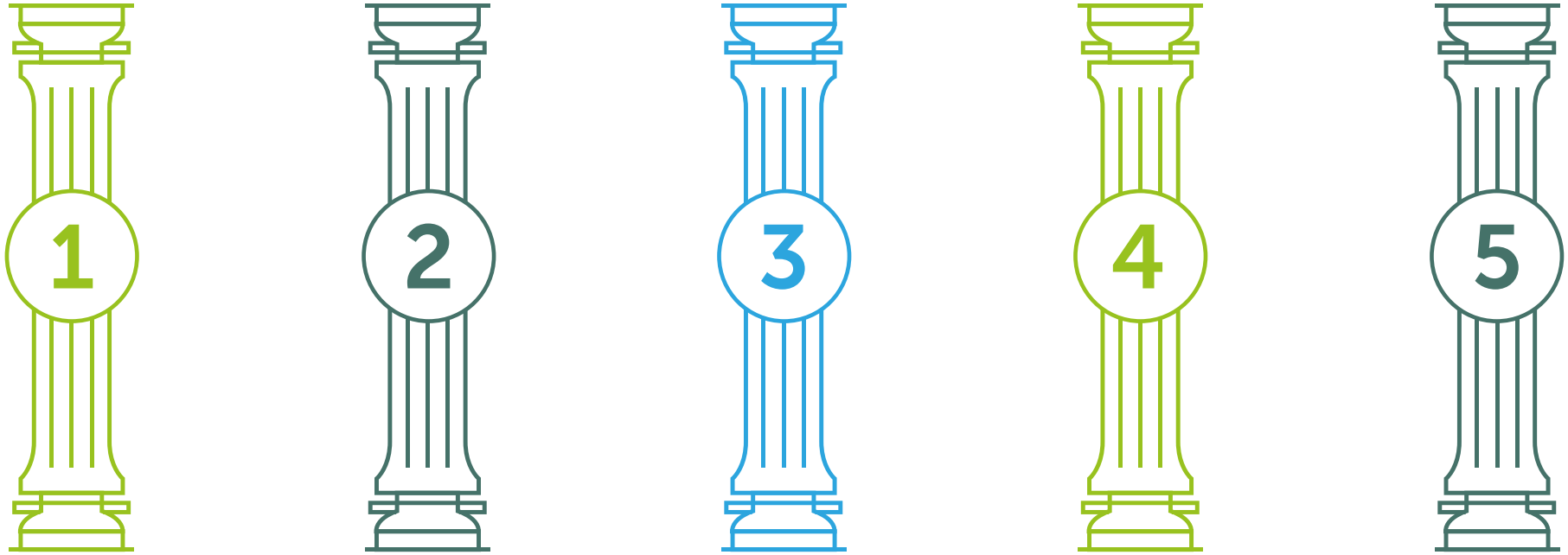
Holocene A highly developed and well-documented due diligence process is considered a strength of the fund. Including pre-screening memorandum, concept note and investment memorandum stages. General Partners are deeply involved in the investee businesses, which maximized the opportunity to add value whilst also helping to mitigate investment risk. Lower touch portfolio support models are equally valid, where investees have good access to business support from elsewhere. All policies appropriate for an early-stage fund have been put in place from the start.

Catalyst Catalyst Fund has adopted a set of operating policies which is suitable for an early-stage fund, without being too onerous. This includes a code of ethics, a conflict of interest policy and related party transactions.The fund also developed a comprehensive Compliance Manual covering essential fund policies. It is now looking at the next governance strengthening measures in order to stay ahead of the requirements of the institutional investors in their pipeline. One recent addition is using a risk register to look at key risks facing the fund each quarter and how they can be mitigated. Catalyst Fund has adopted an existing framework (FSDA's framework) to report on ESG risks.

CRAF has a well-developed process for providing business support to its investees, which is funded via a range of models and which is designed to minimize of eliminate the need for ongoing external grant funding. This includes fees and equity kickers payable from future portfolio company raises, grant funded TA, pro bono support from venture partners, mentorships and paid consultants. The high-touch business support is a feature of the company and draws on a team of business generalists. Each portfolio company has an investment lead assigned. Investment leads meet every 6 weeks to review a portfolio company in depth. External advisers are used for highly specialized topics such a tax and legal. CRAF has taken steps to ensure that all policies appropriate for a first-time fund targeting DFIs are in place and operational.

Assess whether your governance framework is contributing to fund performance

1	2	3	4	5
Do we identify, attract and win the best investment opportunities?	Do we make smart investment decisions, in an efficient and timely manner?	Do we create significant value for investees through support and network?	Do we operate the fund in a robust, efficient and compliant manner?	Do we build strong relationships with existing and potential new LPs?



Download and use the Fund Governance Self-Assessment Tool on your PC to measure how you are doing and identify priority actions to improve performance.

Annexes

Checklists of key elements that should be included in the documents outlined in Fund Governance Framework

Annex 1

Key Elements Checklist - Limited Partnership Agreement (LPA)

FOUNDATIONAL

- Fund objectives, mandate and investment strategy
- Roles and responsibilities of General Partner (GP) and Limited Partners (LP)
- Key performance indicators (KPIs) and metrics for fund performance
- Process, timing, and communication for capital calls, commitments, drawdowns, and distributions, ensuring clarity for LPs
- Distribution, carry, waterfall and return structure
- Management fees and expenses
- Investment period and fund term
- Strategy for exits, how liquidity will be managed and what are the dissolution provisions
- Governance and advisory structures with roles and responsibilities
- Reporting and transparency requirements
- Reference to, or summary of, conflict of interest policy
- Key persons and change of control clauses
- Regulatory and legal framework to which the fund, its operations and investments, needs to comply, including KYC & AML
- Amendment procedures specifying how the LPA can be amended
- Dispute resolution mechanism, defining procedures for resolving disputes, including any arbitration or mediation requirements
- Side Letters from larger investors to cover specific requirements on investment policy, reserved rights, co-investment rights, ESG reporting
- LPAC rights
- Summary of services provided by Manco
- Fund extension and continuation provisions
- Approach to follow on investments and recycling of distributions
- Tax and withholding provisions to address withholding requirements for LPs in different jurisdictions
- Default and remedies for non-performing LPs
- GP removal and replacement procedures
- Redemption and transferability provisions
- Borrowing limits outlining the extent to which funds can borrow to increase investment capacity

EXPANDED

- Additional restrictive or expansive requirements around KYC/AML, reputation, valuations, compliance, auditing, scrip counts, reporting, longer draw-down periods, governance committees, books and records
- Additional audit requirements, more items to report to the regulator
- Requirement to establish ESG or EDI policies and/or committees
- With new or follow on investors, side letters may cover more stringent requirements, such as: excluded transactions based on geography and type; improved economics for investor (e.g. participation in fund carry, or reduced fee), most favoured customer status, EDI reporting for fund and portfolio companies; conditions precedent for transforming legal entity; specific ESG requirements including specific exclusions and detailed sustainability and impact reporting

Annex 2

Key Elements Checklist - Investment Management Agreement (IMA)

FOUNDATIONAL

- Services to be provided by Manco to the GP and discretion granted by the LPs to make investment related decisions, activities and transactions
- Services to include sourcing, evaluating and executing deals, managing the fund's portfolio, tracking company performance and advising on growth strategies, ensuring the fund adheres to legal, regulatory, ESG and fiduciary obligations, preparing regular updates and reports for LPs on the fund's performance and operations
- Commitment to manage the fund in line with the investment policy and what steps to take when this is anticipated to be breached
- What Manco can delegate to third parties
- Investment process, how orders are executed, decision making authority and use of counterparties
- Fees, costs, charges incentive fees. Typically 2-3% fee, with partners committing 1-5%
- Investment restrictions and limits including concentration limits, prohibited asset classes, leverage limits
- Portfolio monitoring includes a set of essential metrics, e.g. revenue growth, cash burn, customer acquisition. Investee milestones at various stages (seed, Series A, Series B, etc.) are documented (e.g. product-market fit, growth metrics, customer retention)
- Reporting to investors includes a small number of financial metrics (e.g. ROI, IRR, MOIC, multiples) and impact KPIs (e.g. jobs, revenue, carbon avoided). Tracking can be done on simple spreadsheets or more generalized freely available online platforms
- Cash management and borrowing guidelines
- Key person provisions to address key man risk
- Arrangements around custody of assets
- Insurance policies, such as professional liability or errors and omissions coverage, fidelity guarantees to protect investment manager against legal or operational risks
- A customer relationship manager (CRM) tool to track meetings, decision, pipeline etc
- What records will be kept
- Methods and frequency of valuations
- Conflicts of interest, reporting and mitigation
- Liabilities of the manager and to what extent they are indemnified
- Commitment to confidentiality and data security
- Amendment procedures and dispute resolution
- Termination process
- Procedures for appointing a successor if the manager is unable to perform, to ensure continuity and minimize disruption

EXPANDED

- Additional clauses relating to processes, compliance and reporting
- Specific additional LP provisions stated in side letters
- Manco uses detailed portfolio monitoring and analytics tools to track KPIs, performance metrics, fund growth and returns, EDI, ESG metrics, manage risk and ensure timely interventions if needed
- It is reporting against a detailed ESG and impact reporting template for responsible investment compliance
- It monitors market updates and exit opportunities
- It monitors portfolio company KPIs, ensuring that underperforming companies receive the business support they need
- The fund's disclosure practices conform to industry standards (e.g. ILPA, CFA Institute)

Annex 3

Key Elements Checklist - General Partner Agreement

FOUNDATIONAL

- Sets out the General Partner responsibilities for the investment activities of the fund, setting business strategy, including fundraising, compliance
- Decisions on delegation of fund management functions to Manco under IMA, and monitoring Manco performance, replacing if needed
- The capital contributions of members, ownership and how capital calls and distributions are made
- Dilution arrangements when a new GP member is admitted
- Roles and responsibilities of members within the GP
- Essential reports and financial accounting required
- Voting arrangements
- % split on carried interest, share of funds profits and distribution terms
- Any other people who can get carry other than a GP, e.g., venture partners
- Arrangements for members joining and leaving and conditions for transfer of interests
- Limitations on liability of members
- Terms to apply when there are non-contributing members
- Expenses policy
- Conditions for amendment of the agreement
- Default and dispute resolution
- Term and termination procedures and asset distribution to LPs
- Professional liability insurance provisions -to protect the GP and LPs against claims from fund operations

EXPANDED

- Complexity may increase based on number of investing members / employees, their commitments, and the extended requirements of LPs
- Arrangements relating to former members
- Fees and carry for other staff, advisors, venture partners
- Employment practices relating to privacy, security & confidentiality
- Processes relating to the protection of information and security of LP and deal information

Annex 4

Key Elements Checklist - Limited Partner Advisory Board/Committee (LPAC)

- Provides advice and guidance as requested by GP. This could include for, example, fund performance, delivery against the fund agreements (LPA, IMA, GPA), regulatory compliance in country of domicile, business integrity policies, alignment with investment strategy and fund termination
- Receives and reviews regular fund reports
- Mediates disputes between GP and investors
- Approves removal of the Manco for cause and, usually, violation of key man provisions (after notice and cure period)
- Represents the views and perspectives of LPs
- LPA may specify matters that require the approval of the LPAC or of all investors. This can include: conflicts of interest, investments that are restricted or exceed concentration limits, extending fund time periods, appointing key people, financial transactions over $X, fund strategy changes, major operational decisions, changes in governance and amendments to the LPA, changing auditors, changing sector allocations, changing asset restrictions, replacing GPs, or winding down the fund under specific circumstances
- Decisions are generally by majority or super-majority. Regularity can be periodic or in case of material events, as set out in the LPA
- Reviews and responds to bad actor behaviour and breaches of LPA by GP, as per process set out in LPA
- Conflict resolution per LPA provisions

Annex 5

Key Elements Checklist - Management Company Board - Terms of Reference

- Oversees the operations and strategic direction of the Manco, ensuring its organizational health, whilst meeting its fiduciary responsibilities and its obligations under the IMA
- Approves and monitors the Manco's business strategy, including goals for fundraising, growth strategies and fund management
- Ensures the Manco has a qualified management team in place, monitors performance metrics, resource allocation, and human capital management to support fund operations
- Ensures the Manco has adequate systems, policies and procedures in place
- Monitors and manages risks related to Manco operations, investments, and compliance
- Reviews and approves budgets, financial statements, and capital allocations for the GP and ensures adequate financial controls are in place
- Ensures adherence to regulatory requirements, and relevant environmental, social, and governance (ESG) principles

Annex 6

Key Elements Checklist - Investment Committee Charter

FOUNDATIONAL	EXPANDED
• Assesses investment proposals against the company's investment policy. This includes the company's investment thesis, stage, geography, risk profile, and potential for returns • Previews investments in preliminary diligence phase. Provides guidance for what is needed in full diligence • Develops a good understanding of deal risks and ensures risk mitigation is in place • Verifies that diligence was thorough, continuing to do this through the term sheet stage • Recommends investments to GP for approval • Provides strategic guidance on asset allocation, follow on investments and exits • Has a process for managing conflicts of interest, usually recorded in a separate document • Members commit to confidentiality of data protection via IMA or employment contract • Terms of reference reviewed annually and updated as needed • Investment process and IC decision-making rules (e.g. majority, GP or champion led), due diligence process, voting procedures, process for resolving disagreements or conflicts of interest within the IC, structure and frequency of IC meetings, decision criteria for greenlighting investments and how IC decisions are documented • Number and experience profile of IC members, and how they will be remunerated	• Increased requirement for documentation of decisions, including justifications for approvals or rejections, ensure accountability and transparency • The IC composition may be broader, or take more advice from independent advisors, where additional expertise is needed because of portfolio growth into new sectors or markets

Annex 7

Key Elements Checklist - Advisory Council Role

- Provides strategic guidance on industry trends, market opportunities, investment strategies, risk management, regulation and governance. It does not have a formal decision-making, fiduciary, or compliance role
- Provides access to networks, market connections, investment opportunities
- May support due diligence and enhances fund credibility
- Can be formally established by the GP, with a terms of reference and chair, or run as an informal advisor group
- Mentors the management team
- Helps to identify and mitigate risks, promoting long term stability for the fund
- May provide mentoring to portfolio companies
- Members can receive fees, a share of carry or an opportunity to invest in the fund on favourable terms
- Members agree to maintain confidentiality of all proprietary information
- Challenges assumptions and suggests innovative approaches

Annex 8

Key Elements Checklist - Sub Committees

COMMITTEE	ROLE	COMPOSITION
Valuation Committee	• Oversees the valuation of the fund's portfolio companies, ensuring that valuations are in line with accounting standards and market conditions • Regularly assesses the fair market value of portfolio companies • Ensures compliance with financial reporting standards (e.g., GAAP, IFRS) • Reviews inputs from third-party valuation firms if used	• Managing partner/fund principal • Investment team member with sector expertise • Valuation specialist

Audit & Risk Committee	• Ensures financial accuracy and transparency by overseeing audits and internal controls
	• Engages with external auditors to review fund accounts, etc
	• Monitors compliance with financial regulations
	• Oversees internal controls and risk management
	• Ensures regular and transparent reporting to LPs, including:
	  • Quarterly or annual reports on the fund's performance
	  • Updates on individual portfolio companies.
	  • Disclosure of fund expenses, management fees, and carried interest calculations
		• Independent Chair reporting to the GP board
		• Finance Manager
		• External auditor (usually without voting rights)

Compliance, Ethics & Risk Management Committe	• Oversees risk management (e.g., operational, market, legal risks, KYC/AML, etc.) • Reviews and approves fund policies on governance, compliance, and ethics • Monitors risk register and reports from management team on breaches	• Independent Chair • Compliance Manager • Ethics or HR Team Lead • Legal advisor
Exit/Liquidity Committee	Oversees fund's strategy for exits and makes decisions on disposals	• Chief Investment Officer • Legal advisor (internal or external) • CFO
Compensation Committee	Determines and reviews compensation structures for the fund's employees and partners	• HR Team Lead • Key fund partner • CFO
ESG/DEI Committee	Oversees the fund's ESG and DEI practices and ensures alignment with the fund's policies, and the commitments to ESG/DEI set out in its governing documents	• ESG champion from a governing body • Inclusion champion (") • Member of leadership team

Annex 9

Key Elements Checklist - Investment Policy

FOUNDATIONAL

- Investment objectives defining the primary goals of the investment strategy, including financial and impact goals
- Target sectors, focus areas, geography, stage, average ticket size, reserve allocation
- Key investment criteria (e.g. market, team, projections etc)
- Company's approach to risk and return and general strategies to mitigate risk
- Target returns, asset allocation, restrictions, holding periods, limits to borrowing, portfolio diversification, sole or joint holding
- Valuation policy and who decides
- How portfolio performance is tracked and reported
- Company's strategy for being part of investee governance
- Adherence to laws governing securities and investment practices
- Compliance with ethical standards such as ethical investing and responsible stewardship
- Summary of exit strategy: when and how to sell a portfolio company, whether to engage in secondary sales, approach to IPOs, and how to handle public listings or acquisitions

EXPANDED

- New investors may come in on the condition that the fund broadens its investment thesis, including a wider range of sectors, geographies and stages
- Allows for more complexity, including: structured voting process for investment decisions, hierarchical approval levels (sub-committees vs full IC);
- Risk analysis: structured process for identification, documentation and mitigation of key risks
- Exit strategies: more detail likely as new investors come in and sales become more imminent
- More detailed ESG reporting requirements
- Key risk factors for Manco to track and mitigate (e.g. political, financial , economic, technology, business cycle, governance, legal)

Annex 10

Key Elements Checklist - Investment Process Manual for Deal Team

FOUNDATIONAL

Manual to include basic descriptions of the following processes, with use of simple excel based tracking tools:

- Deal sourcing, usually relying on customer interviews, market-expert feedback, founder references
- Preliminary due diligence scoping memo template for partners/IC to get initial guidance on terms, approach
- Full due diligence scoping memo template for partners/IC
- Customer Relationship Management system for deal tracking, decisions and deal notes. Can be excel based
- Legal and finance due diligence usually done internally by the investment team. If resources allow, outsource technology, legal, financial, tax, regulatory due diligence.
- Full listing of the documents required for IC approval and getting deal completed. Includes template for investment memo
- Key terms to include in term sheets for early-stage deals (valuation, cap table, rights). Signing process
- Valuations policy, at this stage in general terms and flexible

EXPANDED

- Due diligence to include: more detailed assessment, leveraging internal & external resources: for technology, legal, financial, tax, regulatory, ESG, EDI. Formal reference checks may be augmented with broader team interviews. Expert advisors may conduct personality and related assessments of C-Team
- Detailed investment memo format (company history, future projections). Centralized deal tracker with performance analytics. Version-controlled document management system
- Detailed term sheet negotiation (liquidation preferences, terms, board seats). Legal and compliance review before term sheet submission. Formalized negotiation playbook
- Active role in liquidity events (M&A, IPO readiness). Exit timeline strategies aligned with company capital planning
- Secondary sale facilitation strategies
- Detailed and frequent valuation methodologies and audits, and potential rights of board to review and challenge
- Process for tracking exit opportunities. What support is provided to portfolio companies around exit

Annex 11

Key Elements Checklist - Policies for Business Integrity

CONFLICT OF INTEREST

- Defines what constitutes a conflict of interest
- Process for identifying potential conflicts, obligations of employees and board members to disclose any situations that may lead to a conflict, including method and timing
- Who reviews and what criteria are used to assess whether a conflict exists
- Steps for managing conflicts of interest, e.g. recusal from decision making, divestiture of conflicting interests
- Reporting mechanisms, including anonymous channels if applicable
- Consequences for violation
- Training and awareness for employees, boards and advisors
- How conflicts are documented

ANTI MONEY LAUNDERING / KYC

- Reference to applicable AML laws and regulations specific to jurisdiction of the company, plus international standards such as Financial Action Task Force
- KYC process for risk assessment, including verifying the identity of company owners, the company's financial behaviour and risk profile and ongoing monitoring. Enhanced procedures for high-risk companies
- Internal controls e.g. segregation of duties
- Monitoring, reporting process and record keeping for AML
- Employee training on AML policies and processes
- Who is responsible for oversight
- How staff / managers communicate AML breaches up & downwards

CODE OF ETHICS POLICY

- A guiding framework for the organization's values, principles and standards of conduct
- Core values (e.g. integrity, respect, fairness, accountability, transparency)
- Defines ethical principles guiding decision making, e.g. honesty, confidentiality, respect for diversity, commitment to quality
- Compliance with applicable laws, regulations and standards
- Avoidance of conflicts of interest
- Definition of professional behaviour e.g. respect for colleagues, clients and stakeholders, maintaining a safe and inclusive work environment
- Confidentiality, integrity in reporting, compliance and reporting mechanisms, disciplinary measures
- Who is responsible for oversight

CONFIDENTIALITY & DATA PROTECTION POLICY

- Defines process for signing NDAs with potential investees
- References the appliable privacy law that the fund manager complies with, e.g. GDPR, to ensure it protects personally identifiable information and financial data
- Seeks consent before collecting data
- Informs individuals about how their data is collected and used
- Stores data securely and limits access
- Regularly updates data and erases what's unnecessary
- Defines clearly what boundaries are set for the use of data, how long it will be held and when it will be deleted

Annex 12

Key Elements Checklist - ESG

FOUNDATIONAL

Manco ensures each investee meets the following standards

- Is compliant with national environmental standards
- The legal entity is registered, has the minimum number of directors required by local law and is registered for corporate income tax and other local taxes
- Maintains a basic website with company registration number, disclosure of management and board members, and contact information
- Ensure trademarks, copyrights, and patents are in place to protect the company's intellectual property
- Evaluates at a high level the environmental and social impacts of the company's core service or product, categorizing them intuitively into three levels: positive, neutral, and negative as part of due diligence
- Founders are aligned with investors' ESG intentions, even where systems are not yet in place, on the understanding that investors can encourage and support further ESG initiatives after investment

Investors ensures the Manco meets the following standards

- Sets an initial set of fund level environmental and social impact objectives and agrees KPIs and reporting with investors. Examples any one or more of: financial inclusion, gender, job creation, people more resilient to climate change, services delivered, health metrics, 2x compliance, women in work, emissions reduction, climate mitigation, costs saved as a result of renewables, finance leveraged
- Defines a list of excluded industries and ensures companies in these industries are not financed
- Selects and abides by a credible data protection code (e.g. GDPR) regarding privacy, data security, and consent

EXPANDED

Likely requirements of DFI investors - to be negotiated

Manco ensures each investee meets the following standards

- Conducts an initial assessment of key GHG drivers and explores renewable energy procurement options for the company's operations
- Complies with national standards and international commitments that govern waste management, emissions, and sustainability practices
- Maps how the company's operations interact with ecosystems, especially in locations dependent on vulnerable ecosystems or areas facing water stress. Assesses company's dependencies and impacts on nature, such as reliance on specific raw materials
- Evaluates supplier dependency risks and develops a contingency plan for scenarios like water stress
- Has a process for monitoring pending legislation across relevant geographies to ensure compliance
- Has an HR Handbook and staff are aware of it. Employment of staff complies with relevant employment law, for example employment contracts, performance management, minimum wage, anti-discrimination, health & safety, employee benefits, staff grievance policy and dismissal procedures
- Has inclusive hiring and staff management practices, e.g. EDI, ESOP. Unconscious bias training, diversity in the candidate pools
- Appoints person responsible for data security & data privacy, conducts regular data audits and establishes a process for addressing data breaches
- Establishes an operational-level grievance mechanism for those potentially impacted by the firm's activities
- Evaluates firm activities that may affect the human rights of employees, contract workers, supply chain workers, local communities, and end users of the products or services

Investors ensures that Manco meets the following standards

- Provides regular disclosures on fund level ESG performance, activities and progress to investors and other relevant stakeholders, adopting an established framework such as BII or IFC
- Includes ESG capacity building as part of its investee support program me
- Include ESG term sheet clause where investee companies give the fund the right to request data and collaborate with them on their ESG performance

Early-Stage Investment Companies (Investcos)

Framework overview: 51

Typical structures: 52-53

What to have in place by when & how to: 54-67
ensure it contributes to performance

Self-assessment tool: 68

Annexes-Key elements checklists: 69-78

Limited liability partnerships: 13

The fund governance framework

Main components

Legal Structure & Agreements

- Shareholders Agreement
- Loan Agreement
- IC Member Engagement Letter
- Fund Administration Agreement

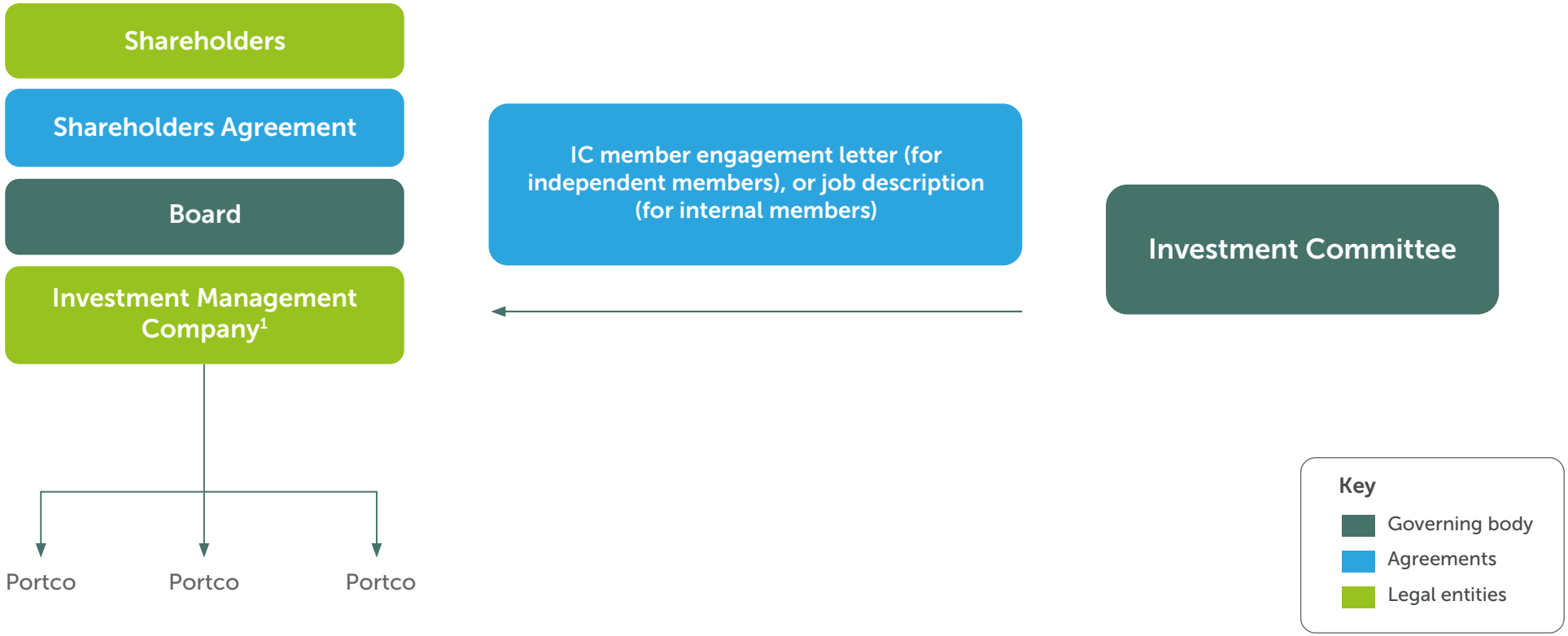
Decision Making Bodies

- Company Board
- Investment Committee
- Advisory Council
- Sub Committees

People, Policies & Processes

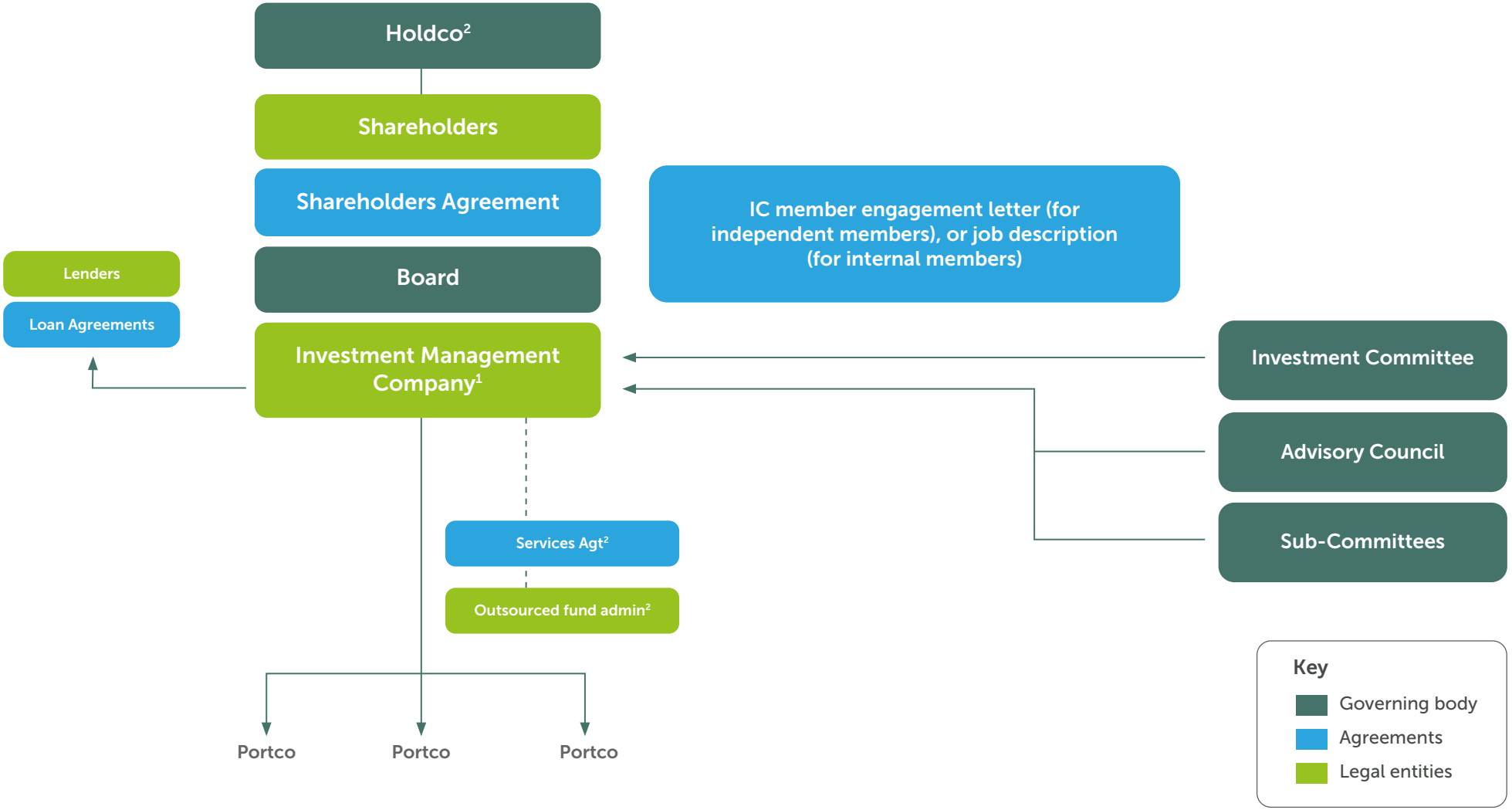
- Investment Policy and Process Manual
- Investor Reporting & Portfolio Monitoring
- Policies Focused on Business Integrity
- ESG Policies

Example early-stage investco structure



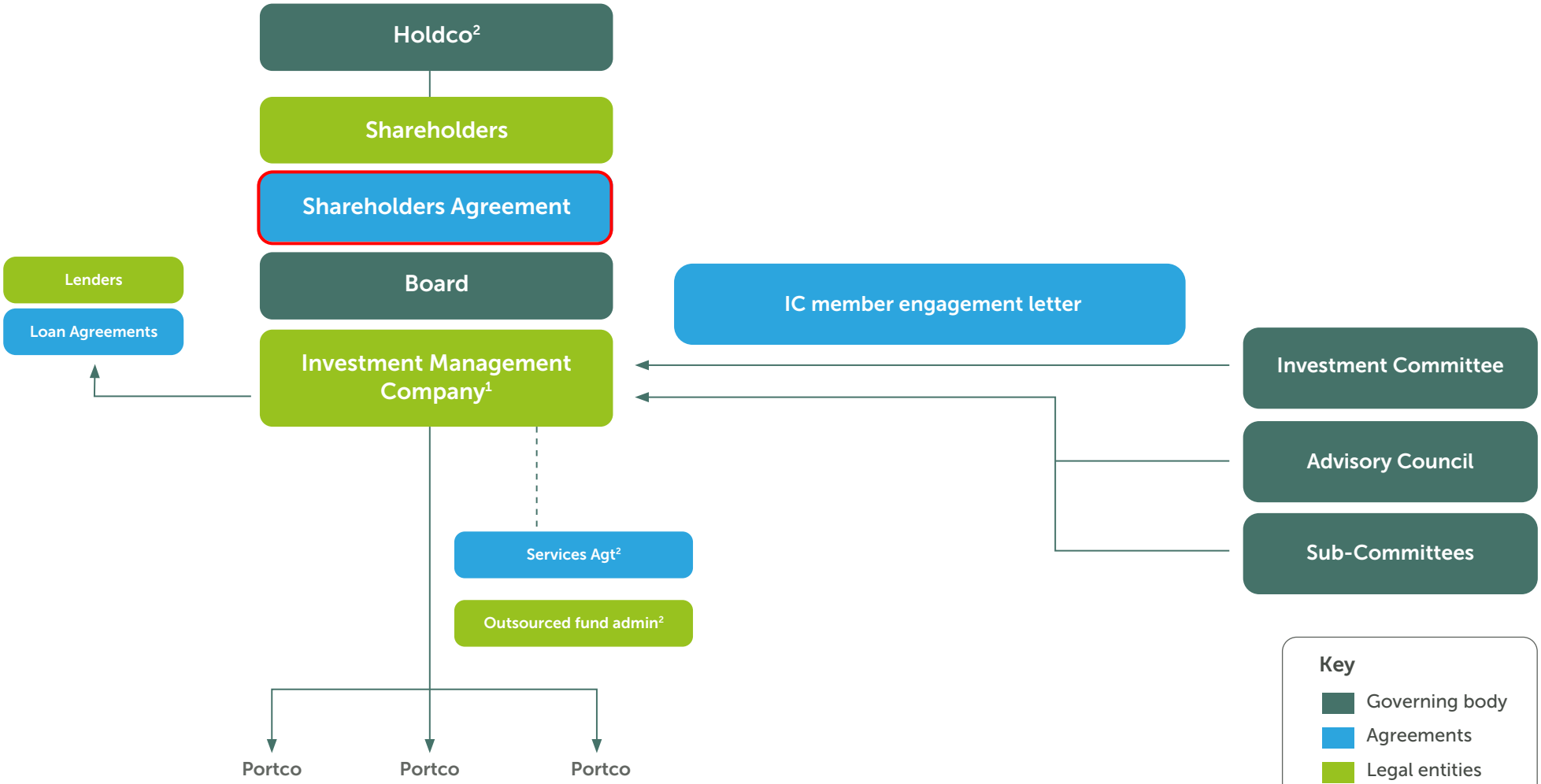
1. Variety of legal entities, e.g. LLC, B.V. Self Managed Fund, Global Business License Co

Example established investco structure



1. Variety of legal entities, e.g. LLC, B.V. Self Managed Fund, Global Business License Co
2. Optional, and a recent innovation being tested by a small number of investcos

What to have in place by when



1. Variety of legal entities, e.g. LLC, B.V. Self Managed Fund, Global Business License Co
2. Optional

What to have in place by when

	FOUNDATIONAL	EXPANDED
Shareholders Agreement	Sets out the relationship between the shareholders, and the terms under which they invest in the company. Includes investment policy, board composition and decision-making processes, ownership and share classes, investment terms, voting rights, transfer of shares, exit strategies, dividends and profit distributions and information rights. It should be in synch with the company's constitutional documents e.g. Articles of Association, Charter or Certificate of Incorporation	Additional specific terms agreed with new shareholders. Rights and obligations of additional share classes if/when they are issued. New operational processes and reporting requirements as the fund grows in size and complexity. More comprehensive protections for minority shareholders. More detailed provisions around the transfer of shares, including preemptive rights of existing shareholders. More specific provisions around exit strategies, e.g. IPOs, sales, mergers or buyouts.
Loan Agreements	Where company has borrowing, outlines the terms under which lenders provide financing to the company	No change
Investment Committee Member Engagement Letter	Written commitment of IC members to serve on the IC and follow the company's Investment Policy and IC Charter	No change
Fund Administration Services Agreement	Where administrative and corporate functions are outsourced, this agreement sets out the terms and conditions under which the services are provided	No change

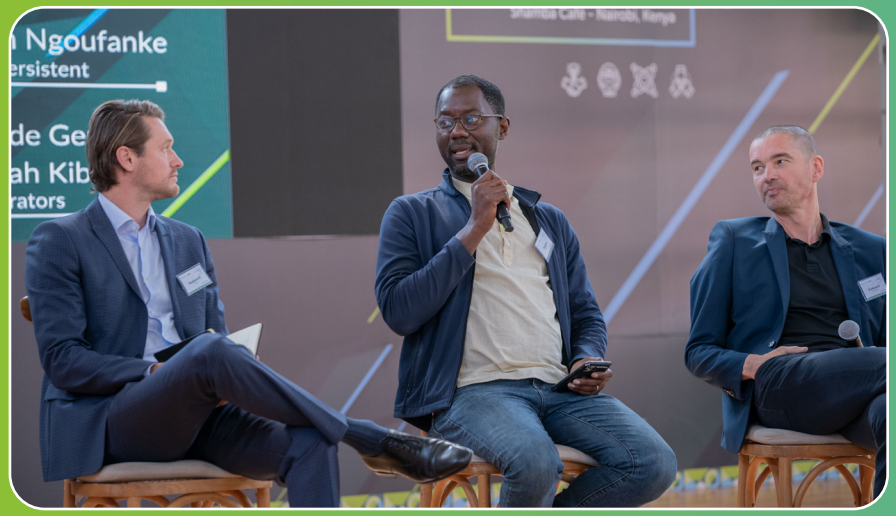
How to ensure they improve performance

Pillars of Performance

Shareholders Agreement (SA)

PURPOSE	Sets out the relationship between and among the shareholders/investors and the company.	
WHY THIS MATTERS	It contains all of the terms covering the objectives of the company and how it operates and acts as the core agreement between investors and the management. It can evolve over time to meet the needs of new investors and the requirements of the investment portfolio as it grows in scope and complexity.	
Does your SA contain the key elements suitable for your stage ?	FOUNDATIONAL Checklist (Annex 1)	EXPANDED Checklist (Annex 1)
How do you know your SA is achieving its purpose ?	You have a clear investment mandate, access to the skills you need, agile decision making, efficient operations and investee support, which allows you to make the best investment decisions possible, while having a pragmatic approach to understanding and managing risk. Shareholders and management are clear about their rights and obligations and how decisions are made. Your investors allow you to perform your role as investment manager and delegate adequate authority for decision making. The special requirements of individual investors are adequately reflected in Side Letters and the rights & obligations of new partners adequately covered in Deeds of Adherence. There is sufficient transparency around the terms applying to each investor to maintain trust and confidence among investors.	
How do you know your SA is manageable, given your level of resources ?	You have reviewed all the SA clauses and none of them place an unreasonable or unaffordable burden on your company. You have sufficient resources to deliver all reporting requirements listed in the SA.	

Good practice examples

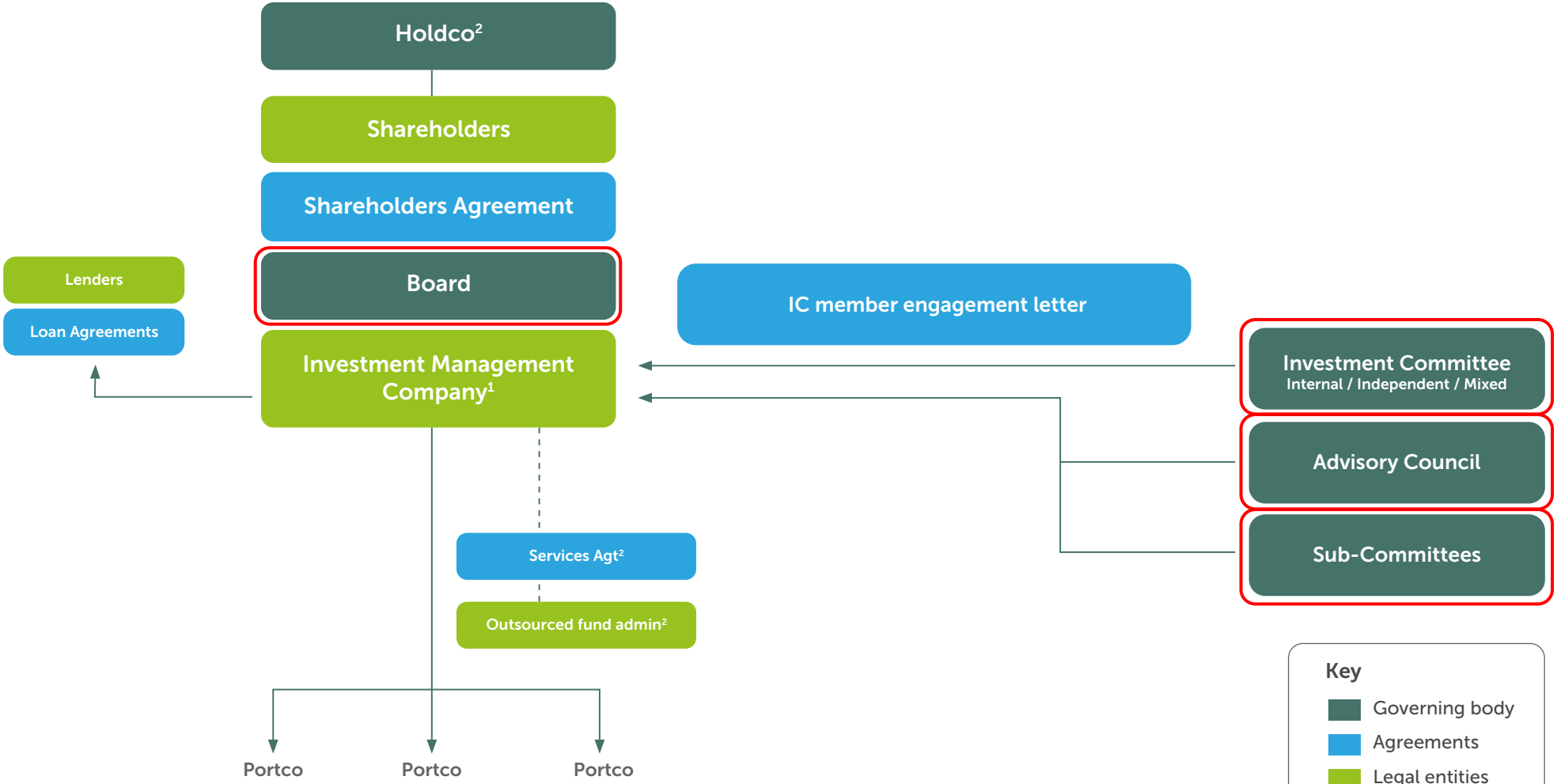


Nithio's investment vehicle, FAIR, contracted an administrator, registered in the investment vehicle's country of domicile, to manage compliance, accounting, secretarial, regulation, NAV, transfers and support on loan monitoring and financial reporting. This has allowed the investment management team at NithioFinance Inc. to allocate more time to deal sourcing, due diligence and portfolio support. The combination of Supervisory Board for FAIR, Investment Manager board at Nithio Finance Inc and the Investment Committee (with well documented roles in each), allows experts to focus on their key competencies, while providing equity investors a mechanism to influence at a strategic level. Now establishing a lenders committee, which would strengthen key stakeholder representation. Portfolio companies benefit from a proprietary AI-driven analytics tool to assess the value of receivables from sales on credit and provide ongoing monitoring of performance. These analytics are used to evaluate transactions but also are made available to borrowers, which can strengthen their portfolio risk management and provide direct business planning support. Nithio has also ensured that the set of operating and compliance policies that were established from the outset meet the expectations of their institutional funders.

Spark was set up as a SPV Global Business License Company registered in Mauritius, which has been effective at attracting capital from investors, mainly commercial debt providers, due to its lower cost and simplicity. Spark achieves additional cost efficiencies by having access to corporate services from its parent company, Camco, including sub-committees for audit and risk, HR and sustainability. This is backed by a highly developed shareholders agreement, which includes an investment policy and sets out reserved matters. Both the Investment Committee and board have defined terms of reference set out in the shareholders agreement.

Aruwa has adopted an innovative legal structure which is lean and relatively low cost to establish, whilst at the same time providing the participation of investors and independents and comprehensive risk management which are a feature of limited liability partnerships. Aruwaisan LLC investment company, set up as a closed end, self regulated fund in Mauritius. Ithas outsourced aspects of fund management to a Mauritian service provider, including audit, financial controls, reporting and fund administration. The shareholder agreement contains all the main elements of governance, including terms of reference for thedecision-making bodies and investment policy, as would an LPA. Theroles of each decision-making body are clearly distinct and well documented. The fund board checks alignment with investment policy, fund documentation, KYC etc, while the Investment Committee recommends what deals to invest in Both of these bodies have independent members. The investor interests are represented by an Investor Advisory Committee (IAC). Cases where deals deviate from the investment policy, go first to the IAC, then IC, then board. Aruwais confident the governance arrangements meets the needs of institutional investors, and has successfully raised $40 million across two funds with this structure.

What to have in place by when



1. Variety of legal entities, e.g. LLC, B.V. Self Managed Fund, Global Business License Co
2. Optional

What to have in place by when

	FOUNDATIONAL	EXPANDED
Investco Board (IC)	A formal group primarily representing investors and investco partners. Sets the company purpose, vision, objectives and investment strategy, including its overall approach to risk and returns. Oversees the company's performance and governance. Monitors the performance of the management team, as well as providing support and guidance. At this stage, performance will be measured using a simple set of financial and impact metrics. The board also approves annual budgets, financial statements and investments above a certain value. It ensures investco's legal and regulatory compliance and approves policies as they are developed. Its terms of reference is outlined in the Shareholders Agreement.	Responsibility to monitor a broader set of financial and impact metrics, reflecting the increased size and complexity of the fund, with reporting requirements increasing accordingly. Structured risk monitoring and management is a routine board item. CEO appraisals are led by the board chair and follow a formal process, including 360 feedback. Greater focus on ensuring effective external communication of the fund and its results, with a more direct board role in liaising between management and shareholders and supporting capital raise. Terms of reference includes more comprehensive voting procedures as new investors come in. A succession plan for key managers is in place. The board will regularly assess its own performance.
Investment Committee (IC)	Makes investment decisions, after assessing the potential risks and returns, in alignment with the fund's investment policy and the IC Charter. This is the key decision-making body in the governance structure and it is essential to consider composition carefully. Support to the IC members in terms of information should be prioritized, with regular self-assessments on how it is working.	The IC will need to be prepared for an increased requirement for documentation of decisions, including justifications for approvals or rejections, ensuring greater accountability and transparency. It is likely that additional expertise will be required on the IC as markets, sectors, jurisdictions and investors expand.
Advisory Council (AC)	Not essential at this stage. Can be an informal group of advisers.	To be established if and when the investco decides it is needed. It can be industry and/or investment experts. Alternatively, can consist entirely of lenders, i.e. a Lenders Council. The AC adds value to the fund through provision of expert advice and acts as a sounding board for the company. It does not have a formal decision-making, fiduciary, or compliance role. Well selected, the IC at this stage should enhance fund credibility and help capital raise. It is good practice for the AC to have a charter which defines its role.
Sub Committees	Sub-committees are not essential at this stage	To be established if and when the investco decides it is needed. Main committees used in VC funds are Audit & Risk, Compliance, Ethics and Risk Management, Valuations, Exit/Liquidity, Compensation, ESG/EDI. Typically, sub-committees are a feature of much larger funds (see Annex 5).

How to ensure they improve performance

Pillars of Performance

Investco Board

Purpose	Sets the company purpose, vision, objectives and investment strategy, including its overall approach to risk and returns. Oversees the company's performance and governance.	
Composition	Normally between 3-5 members for early-stage investcos, composed of investors and investco partners. Typically including the larger investors and a representative of smaller investors. Includes professional fund administration officers where regulations in country of domicile require this. May also include other members of the leadership team, such as Chief Investment Officer, Chief Finance Officer. Independent members can add significant value, especially women, providing a wider rage of views and experience and is likely to be welcomed by investors.	
Why This Matters	As the principal governing body of the company, the board is accountable for the overall health and success of the business and its effectiveness is therefore of key importance to investco partners, staff and investors.	
Does your Board terms of reference contain the key elements ?	FOUNDATIONAL Checklist (Annex 2)	EXPANDED Checklist (Annex 2)
How do you know your Board is achieving its purpose ?	The company's investment strategy is clear and compelling, with a healthy pipeline of interested new investors. The company is delivering strong financial and impact results. The board understands its role, adds significant value, bringing diversity of views and is highly motivated. It fulfills its decision-making responsibilities efficiently and has the tools to ensure the company effectively manages risk and remains compliant. It is open to assess it own performance and is constantly seeking to improve. It adds credibility in the market and is making useful market linkages and investor introductions. It is holding management to account, providing the right balance of challenge and support.	
How do you know your Board is manageable, given your level of resources ?	The time you invest in servicing the Board is amply rewarded in terms of the value you receive.	

Pillars of Performance

How to ensure they improve performance

Investment Committee (IC)

Purpose	To make investment decisions on behalf of the fund, after assessing the potential risks and returns, in alignment with the fund's investment policy.	
Composition	The IC is appointed by the Investco with such number of independents as are agreed with the investors in the Shareholders Agreement. Investment analysts of the Investco can present to the IC. Typically, 5-6 people, with a minimum of 3 for diversity in perspectives and balance of skills. The IC is usually made up of Investco members, and this can be the case for the lifetime of the fund. If the Investco decides it will add value, it can invite independent members to join the IC.	
Why This Matters	The IC is the most important decision-making body as it recommends what the fund should invest in.	
IC Culture	Investments are brought to the IC by a person or team that has done a lot of due diligence and research on the investment. IC members should not hesitate to push back on proposals, but at the same time should take the team's research seriously, trust they have done thorough due diligence and listen to their opinions. The IC should have a culture of trust and openness – balancing questioning whilst respecting diverse opinions. Members should leverage each other's diverse backgrounds.	
Does your IC Charter contain the key elements ?	FOUNDATIONAL Checklist (Annex 3)	EXPANDED Checklist (Annex 3)
How do you know your IC is achieving its purpose ?	The fund has built a track record of good investment decisions. Your IC demonstrates agile decision making, is efficient to run, members are clear about the fund's Investment Policy, their role and the IC rules on decision making protocols. The IC is adding credibility in the eyes of investors.	
How do you know your IC is manageable, given your level of resources ?	The time you invest in managing the IC is amply rewarded in terms of the value you receive.	

How to ensure they improve performance

Pillars of Performance

Advisory Council (AC)

Purpose	To add value to the fund through provision of expert advice and act as a sounding board for the management company. Some typical issues on which it advises include market opportunities, industry trends, risk-management, investment strategy regulation, governance and access to networks.
Composition	To be established if the investco believes it will add value. The AC typically includes industry and investment experts in the fund's sector of focus. ACs benefit from representation of FIs and DFIs and a balance of ethnicity, gender and background. Alternatively, it can consist entirely of lenders, i.e. a Lenders Council. For early-stage funds, an AC can consist of a small and informal group of 2-3 people. Members of the AC may be invited to advise the IC directly on specific investments.
Why This Matters	The AC, when carefully selected, can be a valuable source of knowledge, expertise and experience. It assists the IC to understand opportunities and risks and therefore make well informed investment decisions. It is distinct from the Investco Board and is not a decision-making body. Well selected, the IC at this stage enhances fund credibility, which in turn helps capital raise.
Have you considered the role you want your AC to perform?	FOUNDATIONAL Checklist (Annex 4)
How do you know your AC is achieving its purpose ?	The advice, contacts and opportunities you are getting from your AC is helping you identify pipeline, make better investment decisions, improve investee support and raise more capital. The AC helps you understanding and mitigate risk and provides a healthy degree of challenge. The advice provided by the AC translates into actionable and measurable outcomes.
How do you know your AC is manageable, given your level of resources ?	The time you invest in managing the AC is amply rewarded in terms of the value you receive

Good practice examples

Linea Capital ("Linea") has a well-structured set of decision-making bodies with clear roles. It has Boards of Directors at its holding company and investment company levels, with cofounder and investor representation, a management company board, composed of founders, and an Investment Committee, comprising cofounders and independents and investors. Linea has also established a Lenders Council, which comprises Linea's funders, and which receives quarterly performance updates from the Linea executive team. This forum also creates an opportunity for funders to share expertise and advice and provides access for lenders advises and raises lender issues to the holding company Board. The Terms of reference and Investment Charter has been drawn up for the Lenders Council and Investment Committee. Linea has opted for an evergreen structure, given its perspective on deploying capital while raising funds. It sees a substantial pool of DFI and institutional investors who consider Linea's structure, along with other non-banking financial institutions, as investible and a good option for boosting portfolio liquidity. Investor interest is also encouraged by Linea's blended finance structure, in which lenders have the option to invest on a range of terms (senior, junior, first loss etc). Should this change, Linea would consider setting up an LLP in the future, with Linea as GP.

Persistent Energy Capital (PEC) has a well-developed shareholder agreement, which it has consistently updated as the company has grown. It includes all the company's governance arrangements including, for example, the Board's role, decision making rules, delegated responsibilities and reserved matters, investment committee guidelines, meeting cadence and investment strategy. Its decision-making bodies allow for a good balance of in-house and independent viewpoints. Its Board, comprises four investors and two PEC partners; the Management Committee is made up of company partners and the Investment Committee is 5 company staff, 1 independent and two investors as observers; its Advisory Council is 4 female independent, African advisors. Also notable is the depth of financial expertise which includes a CFO, external auditors and tax advisers. Its business model allows for strong portfolio support, with specialists embedded in portfolio companies and funded through sweat equity.

ACV has developed an innovative investor structure attracting different types of capital, along with decision making bodies to support this. As a private LLC investment company, ACV offers a range of investment terms to investors, to suit risk, return and liquidity appetite. It has separate share classes for founders, financial-first investors and impact-first investors. ACV is evolving its governance structure to suit the needs of the business as it grows. The current Board comprises founders, independents and investors, currently the Board also sits as an Investment Committee during separately scheduled meetings. In anticipation of new investors coming in, ACV intends to move to different compositions for both bodies and is contemplating the addition of an Impact Committee and Advisory Council, in each case retaining a good balance of investors and independents to complement its experienced co-founders.

What to have in place by when

	FOUNDATIONAL	EXPANDED
Investment Policy & Process Manual	The Investment Policy outlines the fund's investment strategy, including sectors, stages of development and geographic regions the fund will focus on. Includes investment objectives, restrictions, target returns, asset allocation, acceptable levels of risk, exit strategies - all consistent with the Shareholders Agreement. It also sets out the investment process, decisions making rules and voting procedures. The Process Manual includes basic descriptions of deal sourcing, due diligence, deal tracking, investment memos, term sheets, tracking exit opportunities, essential documents required for an investment, valuations. At this stage, it can be managed with the use of simple excel-based tracking tools or CRM.	The Investment Policy will likely allow a broader investment thesis, including a wider range of sectors, geographies, and stages. It will allow for more complexity, such as a structured voting process for investment decisions and hierarchical approval levels (sub-committees, full IC). More detailed documentation of key risks and risk mitigation strategies. Exit strategies: when and how to sell a company, engage in secondary sales and how to handle public listings or acquisitions. Due diligence will include more detailed criteria for assessments. This includes more detailed internal documentation, a more detailed legal review prior to the term sheet process, a definition of how the fund manager takes an active role in liquidity events and a methodology for more detailed and frequent valuations and audits. There may be more LP/board rights to review and challenge.
Investor Reporting & Portfolio Monitoring	The investco is providing regular investor updates (quarterly, bi-annual). It is reporting on a small number of portfolio level financial KPIs, and essential investee metrics, as set out in the Shareholder Agreement. Tracking can be done on simple spreadsheets or more generalized freely available online platforms. The management uses a customer relationship manager (CRM) tool to track meetings, decision, pipeline etc.	More detailed portfolio monitoring and analytics tools to track KPIs, financial performance and ESG impact metrics, as per the Shareholder Agreement. More detailed monitoring of market updates and exit opportunities. More detailed monitoring of portfolio company KPIs, ensuring that underperforming companies receive the business support they need. Disclosure practices conform to industry standards (e.g. ILPA, CFA Institute).
Policies Focused on Business Integrity	Adopt and implement priority policies which are needed from the outset: conflict of interest, code of ethics, KYC, AML, confidentiality and data protection. Report regularly to the management company board.	Policies formally adopted will include a) risk management b) ESG c) whistleblowing and d) security. The management company should also maintain a compliance manual, showing how the fund complies with regulatory and corporate governance requirements.
ESG	A simple ESG monitoring and reporting plan is in place, suitable for early-stage funds. The management company is reporting a limited number of impact KPIs to investors, is committed to industry exclusions and follows standard data protection practices. Investees are required to report on local regulatory and legal compliance, registration and trademarks.	There will be an increased level of detail in due diligence of investees, to include the firm's impacts on climate, vulnerable ecosystems, HR policies such as equitable hiring and whistleblowing and data protection. The fund is ready to provide regular disclosures on fund level impact performance to investors and other relevant stakeholders, adopting an established framework such as BII or IFC.

How to ensure they improve performance

Pillars of Performance

Investment Policy & Process Manual

PURPOSE	The Investment Policy provides a clear description of the fund's investment processes and procedures to implement the fund strategy. It establishes the modus operandi of the team, ensuring all the critical steps are taken to maximize the quality of investing achieved by the team. The Process Manual describes the standard processes followed by the management for deal sourcing, assessment, approval, transaction and portfolio management, from sourcing to exit.
WHY THIS MATTERS	It guides the manager in what investments to make and how to manage the portfolio within a risk level acceptable to investors. Consistently high quality investment decisions and effective risk management rely on a consistent approach, including standardized procedures, a clear workflow and structured due diligence framework. The manual is central in staff onboarding, collection of performance data and helps win investor confidence.
Does your Investment Policy contain the key elements suitable for your stage ?	FOUNDATIONAL Checklist (Annex 6 & 7) EXPANDED Checklist (Annex 6 & 7)
How do you know your Investment Policy is achieving its purpose ?	Your investment strategy is clear, investments are in line with the objectives of the fund, your investment team is well briefed on the investment process and you are generating financial and impact returns in line with investor expectations. The management team is clear about the steps form start to finish of the investment process.

Pillars of Performance

Portfolio Monitoring & Investor Reporting

PURPOSE	To help maximize value addition to the portfolio and maintain investors informed of portfolio performance.
WHY THIS MATTERS	Targeted and effective support to investees is only possible if there is adequate information on their progress. Good investor reporting is vital to win investor confidence and attract more investment.
How do you know your portfolio monitoring strategy is working?	The management team is able to report to investors the key financial and impact metrics agreed in the Shareholders Agreement.
How do you know your investor reporting strategy is working	Investors are reporting satisfaction with the quality and timeliness of reporting they are receiving from the management company.

What to have in place by when

Pillars of Performance

Policies for Business Integrity

PURPOSE	To ensure the fund is managed in such a way that minimizes the risk of incidents relating to ethics, conflict of interest, data breaches or HR complaints which distract management and, if serious, can threaten the continuation of the fund.
WHY THIS MATTERS	It sets the tone from the start on how the GPs want to see the business managed and is critical in protecting the fund's license to operate.
Do you have the Policies for Business Integrity that are needed at the outset and do they contain the key elements?	FOUNDATIONAL Checklist (Annex 8) Code of Ethics, Conflict of Interest, KYC/AML, Confidentiality & Data Protection.
How do you know that your Policies for Business Integrity are achieving their purpose ?	Conflicts of interest are disclosed transparently, and associated risks mitigated effectively. The organization's values, principles and standards of conduct are understood by all and reflected in day-to-day activities and behaviours. The process for identifying and managing issues arising from AML & KYC information are effective and avoid any investments causing reputational damage. Management of data complies with applicable privacy and data protection laws.

Pillars of Performance

ESG

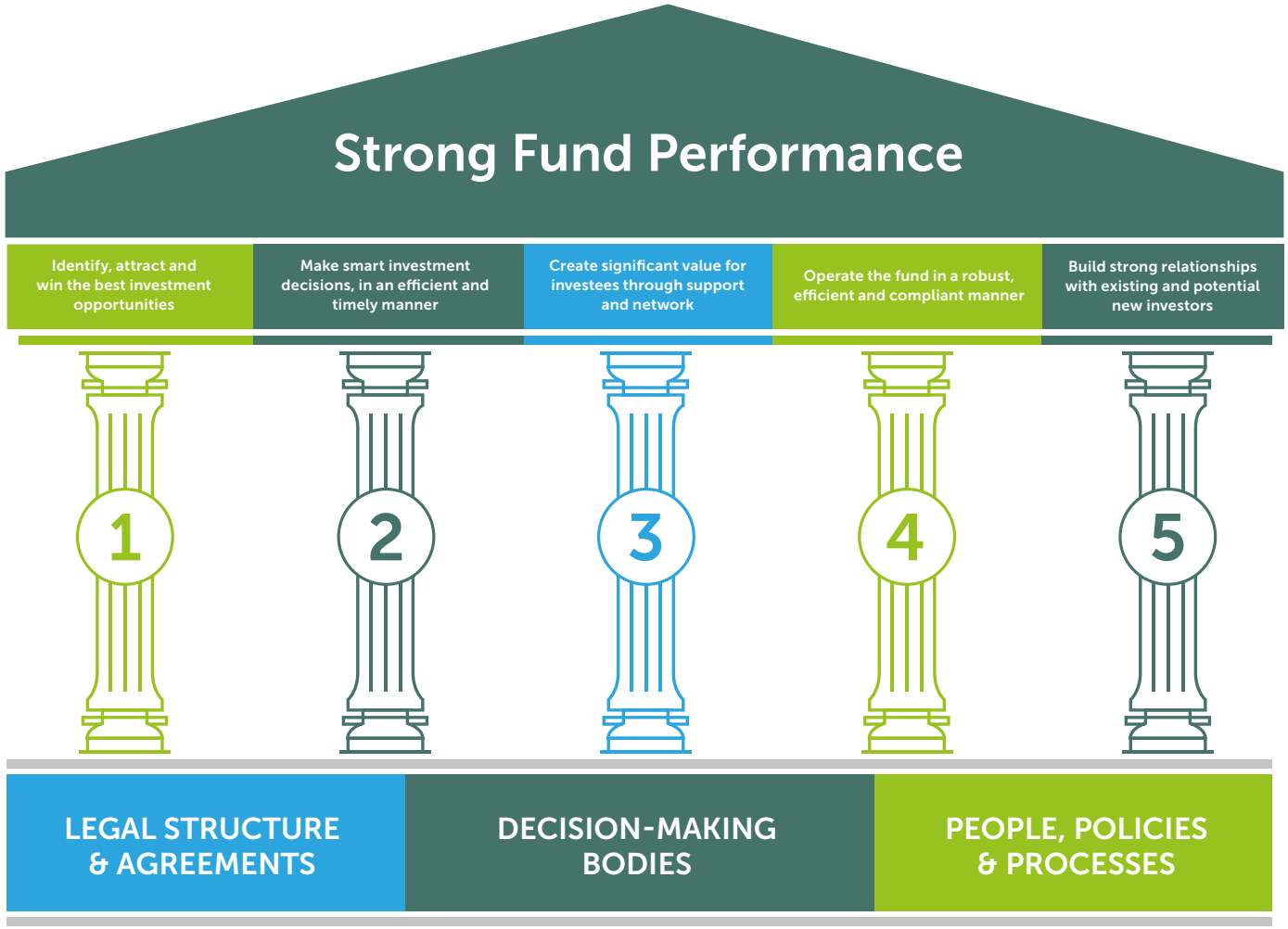
PURPOSE	To ensure the fund's business is conducted in a way that meets your own and your investors' standards around sustainability and impact.	
WHY THIS MATTERS	This is important for all funds with impact goals. It is also increasingly an expectation and requirement of commercial fund investors.	
Does your ESG strategy contain the key elements suitable for your stage?	FOUNDATIONAL Checklist (Annex 9)	EXPANDED Checklist (Annex 9)
How do you know your ESG strategy is achieving its purpose ?	Your portfolio companies are compliant with their country's laws relating to company registration, environment, employment and IP. At a portfolio level, you have clearly defined excluded industries and a set of reporting metrics for environmental & social impact agreed with investors, which is clearly striving for best practice in your industry, while being appropriate to your stage.	

Good practice examples

iungo capital has a highly developed and well documented due diligence process. iungo's business support model is strong, having access to skilled business experts through its sister company, iungoxl. The TA team works closely with portfolio companies during pre-investment, which lowers the cost of due diligence. Sustainability of the support is helped by charging services at a cost to portfolio companies. iungo capital has established an appropriate set of operational and compliance-related policies to suit its early stage and has started to report quarterly to its investors against IFC's ESG framework, which is well advanced for this stage of company.

WIC Capital has developed an effective portfolio support model. Support is provided by experienced business advisers from WIC Association, which is separately funded. This includes mentoring on topics such as investment readiness, business set up, governance, strategy, working capital management and board representation. This is complemented by an Investment Committee drawn from over 90 WIC investors, with a deep knowledge of gender focused investing. WIC has established a set of foundational policies which is suitable for this early stage and investment processes from sourcing to exit are well documented. The relative simplicity of WIC's structure, helps to keep administration manageable, suitable for the early stage of the fund. WIC plans a second, larger fund, for which it is considering an LLP domiciled in Mauritius with the intent of attracting more institutional investment.

Assess whether your governance framework is contributing to fund performance



Download and use the Fund Governance Self-Assessment Tool on your PC to measure how you are doing and identify priority actions to improve performance.

Annexes

Checklists of key elements that should be included in the legal agreements and terms of reference for governing bodies

Annex 1

Key Elements Checklist - Shareholders Agreement

FOUNDATIONAL

- Ownership structure and capital contributions
- Rights of shareholders of different classes relating to dividends, reinvestment of earnings, voting, access to information, reserved matters, veto rights
- Composition of board and how decisions are made, including the role of shareholders
- Obligations of shareholders in terms of compliance with company policies
- Procedures and restrictions relating to the transfer or sale of shares, e.g. tag along, drag along
- Provisions for exit strategies including conditions for selling shares, IPOs, mergers, acquisitions, secondary sale
- Provision for future funding rounds, including how new investments will be handled and any obligations of existing shareholders to participate
- Obligations for shareholders around confidentiality of proprietary information
- Non-compete and dispute resolution process
- Management commitment to manage the fund in line with the investment policy and what steps to take when this is anticipated to be breached
- What management can delegate to third parties
- How orders are executed, decision making authority and use of counterparties
- Investment restrictions and limits including concentration limits, prohibited asset classes, leverage limits
- Priority reporting metrics (e.g. ROI, IRR, MOIC)
- Process, timing, and communication for capital calls, drawdowns, and distributions, ensuring clarity for investors
- Arrangements around custody of assets
- What records will be kept
- Methods and frequency of valuations
- Conflicts of interest, reporting and mitigation
- Specific terms for individual investors set out in side letters

EXPANDED

- Additional restrictive or expansive requirements around KYC/AML, reputation, valuations, compliance, auditing, scrip counts, reporting, longer draw-down periods, governance committees, books and records
- Additional audit requirements, more items to report to the regulator, requirement to establish ESG or DEI departments and/or committees
- Side letters cover more stringent requirements, such as: excluded transactions based on geography and type; most favoured customer status, EDI for portfolio companies; ESG requirements including specific exclusions, and detailed sustainability and impact reporting
- Key person provisions to address key man risk
- Arrangements around custody of assets
- Approach to follow on investments and recycling of distributions
- Tax and withholding provisions to address withholding requirements for investors in different jurisdictions
- Redemption and transferability provisions
- Borrowing limits outlining the extent to which invescos can borrow to increase investment capacity
- Additional clauses relating to processes, compliance and reporting
- Standards and reporting expectations for ESG factors to attract LPs with an ESG mandate
- Insurance policies, such as professional liability or errors and omissions coverage, fidelity guarantees to protect investco management against legal or operational risks
- Procedures for appraisal, appointment and removal of CEO to ensure continuity and minimise disruption
- Outline exit options and liquidity terms, ensuring clarity on how returns will be realized

Annex 2

Key Elements Checklist – Investco Board Terms of Reference

FOUNDATIONAL

- Oversees the strategic direction and operational management of the company ensuring the company's objectives are met
- Sets vision and strategy. Approves investment strategy, including criteria for selection and overall approach to risk and returns
- Ensures the company complies with applicable laws and regulations, and the essential ESG practices
- Establishes effective governance practices and monitors how they work
- Monitors risks associated with the company investments and approves risk management strategies to safeguard the firm's assets
- Monitors the financial health of the company and its portfolio, approves annual budgets and allocation of resources between operations and investments
- Approves investments as recommended by the IC, or that are above an agreed value, or that are outside the investment policy
- Hires and evaluates CEO, leading regular CEO appraisals
- Leverages its networks to support the firm's strategy and can provide mentoring to investees
- Promotes ethical conduct and helps to disseminate company values
- Encourages diversity and inclusion throughout the organization
- Ensures that the systems, policies and procedures established by the company are fit for purpose
- Meeting quarterly, with decisions by majority in line with shareholder agreement
- Members commit to confidentiality of all proprietary information
- Annual review of the terms of reference to ensure they reflect any material changes in the investcos operations, size, investment focus, governance or regulatory environment
- Board members adequately protected through indemnifications
- Each member commits to adhere to the company's code of conduct

EXPANDED

- Monitors investee performance in more detail and guides management as needed
- May develop a more structured approach to providing mentoring support to investees
- Oversees the development of succession plans for the CEO and key leadership positions to ensure continuity
- May participate in selection of senior management team
- Engages with lead investors, holding annual investor meeting, as well as with investees and regulatory bodies
- Sub-committees may be established to monitor in more detail specific issues such as valuation, audit & risk, compliance and ethics, exit/liquidity, compensation, ESG, EDI
- Monitors portfolio risks at a more detailed level, with a more comprehensive risk management process

Annex 3

Key Elements Checklist – Investment Committee Charter

FOUNDATIONAL	EXPANDED
• Assesses investment proposals against the company's investment policy. This includes the company's investment thesis, stage, geography, risk profile, and potential for returns • Previews investments in preliminary diligence phase. Provides guidance for what is needed in full diligence • Develops a good understanding of deal risks and ensures risk mitigation is in place • Verifies that diligence was thorough, continuing to do this through the term sheet stage • Recommends investments for approval • Provides strategic guidance on asset allocation, follow on investments and exits • Has a process for managing conflicts of interest, usually recorded in a separate document • Members commit to confidentiality of data protection via IMA or employment contract • Terms of reference reviewed annually and updated as needed • Investment process and IC decision-making rules (e.g. majority, GP or champion led), due diligence process, voting procedures, process for resolving disagreements or conflicts of interest within the IC, structure and frequency of IC meetings, decision criteria for greenlighting investments and how IC decisions are documented • Number and experience profile of IC members, and how they will be remunerated	• Increased requirement for documentation of decisions, including justifications for approvals or rejections, ensure accountability and transparency • The IC composition likely to be broader, includes independent members or expert, non-voting advisors, where additional expertise is needed because of portfolio growth into new sectors or markets

Annex 4

Key Elements Checklist – Advisory Council Role

- Provides strategic guidance on industry trends, market opportunities, investment strategies, risk management, regulation and governance
  It does not have a formal decision-making, fiduciary, or compliance role
- Provides access to networks, market connections, investment opportunities, enhancing credibility of the company
- Can be formally established by the Investco, with a terms of reference and chair, or run as an informal group
- May mentor the management team, and provide regular guidance on performance improvement
- Challenges assumptions and suggests innovative approaches
- Helps to identify and mitigate risks, promoting long term stability for the fund
- May provide mentoring to portfolio companies
- Members can receive fees, share options or an opportunity to invest in the investco on favourable terms
- Members maintain confidentiality of all proprietary information

Annex 5

Key Elements Checklist – Sub Committees

COMMITTEE	ROLE	COMPOSITION
Valuation Committee	• Oversees the valuation of portfolio companies, ensuring that valuations are in line with accounting standards and market conditions • Regularly assesses the fair market value of portfolio companies • Ensures compliance with financial reporting standards (e.g., GAAP, IFRS) • Reviews inputs from third-party valuation firms if used	• Managing partner(s) • Investment team member with sector expertise • Valuation specialist

Audit Committee	• Ensures financial accuracy and transparency by overseeing audits and internal controls
	• Engages with external auditors to review fund accounts, etc
	• Monitors compliance with financial regulations
	• Oversees internal controls and risk management
	• Ensures regular and transparent reporting to investors, including:
	  • Quarterly or annual reports on the company's performance
	  • Updates on individual portfolio companies
	  • Disclosure of operational expenses
		• Independent Chair reporting to the GP board
		• Finance Manager
		• External auditor (usually without voting rights)

Compliance, Ethics & Risk Management Committee	• Oversees risk management (e.g operational, market, legal risks, KYC/AML, etc.) • Reviews and approves company policies on governance, compliance, and ethics • Monitors risk register and reports from management team on breaches	• Independent Chair • Compliance Manager • Ethics or HR Team Lead • Legal advisor
Exit/Liquidity Committee	Oversees company's strategy for exits and makes decisions on disposals	• Chief Investment Officer • Legal advisor (internal or external) • CFO
Compensation Committee	Determines and reviews compensation structures for the company's employees and partners	• HR Team Lead • Company partner • CFO
ESG/EDI Committee	Oversees the fund's ESG and EDI practices and ensures alignment with the company's policies	• ESG champion from a governing body • Inclusion champion (") • Member of leadership team

Annex 6

Key Elements Checklist – Investment Policy

FOUNDATIONAL	EXPANDED
• Investment objectives defining the primary goals of the investment strategy, including financial and impact goals • Target sectors, focus areas, geography, stage, average ticket size, reserve allocation • Key investment criteria (e.g. market, team, projections etc) • Company's approach to risk and return and general strategies to mitigate risk • Target returns, asset allocation, restrictions, holding periods, limits to borrowing, asset allocation, portfolio diversification, sole or joint holding • Valuation policy and who decides • How portfolio performance is tracked and reported • Company's strategy for being part of investee governance • Adherence to laws governing securities and investment practices • Compliance with ethical standards such as ethical investing and responsible stewardship • Summary of exit strategy: when and how to sell a portfolio company, whether to engage in secondary sales, approach to IPOs, and how to handle public listings or acquisitions	• New investors may come in on the condition that the fund broadens its investment thesis, including a wider range of sectors, geographies and stages • Allows for more complexity, including: structured voting process for investment decisions, hierarchical approval levels (sub-committees vs full IC); • Risk analysis: structured process for identification, documentation and mitigation of key risks • Exit strategies: more detail likely as new investors come in and sales become more imminent • More detailed ESG reporting requirements • Key risk factors for the fund manager to track and mitigate (e.g. political, financial , economic, technology, business cycle, governance, legal)

Annex 7

Key Elements - Checklist Investment Process Manual for Deal Team

FOUNDATIONAL

Manual to include basic descriptions of the following processes, with use of simple excel based tracking tools:

- Deal sourcing, usually relying on customer interviews, market-expert feedback, founder references
- Preliminary due diligence scoping memo template for partners/IC to get initial guidance on terms, approach
- Full due diligence scoping memo template for partners/IC
- Customer Relationship Management system for deal tracking, and decisions, and deal notes. Can be excel based
- Legal and finance due diligence usually done internally by the investment team. If resources allow, outsource technology, legal, financial, tax, regulatory due diligence
- Full listing of the documents required for IC approval and getting deal completed. Includes template for investment memo
- Key terms to include in term sheets for early-stage deals (valuation, cap table, rights). Signing process
- Valuations policy, at this stage in general terms and flexible

EXPANDED

- Due diligence to include: more detailed assessment, leveraging internal & external resources for technology, legal, financial, tax, regulatory, ESG, EDI. Formal reference checks may be augmented with broader team interviews. Expert advisors may conduct personality and related assessments of C-Team
- Detailed investment memo format (company history, future projections). Centralized deal tracker with performance analytics. Version-controlled document management system.
- Detailed term sheet negotiation (liquidation preferences, terms, board seats). Legal and compliance review before term sheet submission. Formalized negotiation playbook
- Active role in liquidity events (M&A, IPO readiness). Exit timeline strategies aligned with company capital planning.
- Secondary sale facilitation strategies
- Detailed and frequent valuation methodologies and audits, and potential rights of board to review and challenge
- Process for tracking exit opportunities. What support is provided to portfolio companies around exit

Annex 8

Key Elements Checklist – Policies for Business Integrity

Conflict of Interest

- Defines what constitutes a conflict of interest
- Process for identifying potential conflicts, obligations of employees and board members to disclose any situations that may lead to a conflict, including method and timing
- Who reviews and what criteria are used to assess whether a conflict exists
- Steps for managing conflicts of interest, e.g. recusal from decision making, divestiture of conflicting interests
- Reporting mechanisms, including anonymous channels if applicable
- Consequences for violation
- Training and awareness for employees, boards and advisors
- How conflicts are documented

Anti Money Laundering / KYC

- Reference to applicable AML laws and regulations specific to jurisdiction of the company, plus international standards such as Financial Action Task Force
- KYC process for risk assessment, including verifying the identity of company owners, the company's financial behaviour and risk profile and ongoing monitoring. Enhanced procedures for high-risk companies.
- Internal controls e.g. segregation of duties
- Monitoring, reporting process and record keeping for AML
- Employee training on AML policies and processes
- Who is responsible for oversight
- How staff / managers communicate AML breaches up & downwards
- Who is responsible for oversight

Code of Ethics Policy

- A guiding framework for an organization's values, principles and standards of conduct
- Core values (e.g. integrity, respect, fairness, accountability, transparency)
- Defines ethical principles guiding decision making, e.g. honesty, confidentiality, respect for diversity, commitment to quality
- Compliance with applicable laws, regulations and standards
- Avoidance of conflicts of interest
- Definition of professional behaviour e.g. respect for colleagues, clients and stakeholders, maintaining a safe and inclusive work environment
- Confidentiality, integrity in reporting, compliance and reporting mechanisms, disciplinary measures
- Who is responsible for oversight

Confidentiality & Data Protection Policy

- Defines process for signing NDAs with potential investees
- References the appliable privacy law that the fund manager complies with, e.g. GDPR, to ensure it protects personally identifiable information and financial data
- Seeks consent before collecting data
- Informs individuals about how their data is collected and used
- Stores data securely and limits access
- Regularly updates data and erases what's unnecessary
- Defines clearly what boundaries are set for the use of data, how long it will be held and when it will be deleted

Annex 9

Key Elements Checklist – ESG

FOUNDATIONAL

Investco ensures each investee meets the following standards

- Is compliant with national environmental standards
- The legal entity is registered, has the minimum number of directors required by local law and is registered for corporate income tax and other local taxes
- Maintains a basic website with company registration number, disclosure of management and board members, and contact information
- Ensure trademarks, copyrights, and patents are in place to protect the company's intellectual property
- Evaluates at a high level the environmental and social impacts of the company's core service or product, categorizing them intuitively into three levels: positive, neutral, and negative as part of due diligence
- Founders are aligned with investors' ESG intentions, even where systems are not yet in place, on the understanding that investors can encourage and support further ESG initiatives after investment

Investors ensures the Investco meets the following standards

- Sets an initial set of fund level environmental and social impact objectives and agrees KPIs and reporting with investors. Examples any one or more of: financial inclusion, gender, job creation, people more resilient to climate change, services delivered, health metrics, 2x compliance, women in work, emissions reduction, climate mitigation, costs saved as a result of renewables, finance leveraged
- Defines a list of excluded industries and ensures companies in these industries are not financed
- Selects and abides by a credible data protection code (e.g. GDPR) regarding privacy, data security, and consent

EXPANDED

Likely requirements of DFI investors - to be negotiated

Investco ensures each investee meets the following standards

- Conducts an initial assessment of key GHG drivers and explores renewable energy procurement options for the company's operations
- Complies with national standards and international commitments that govern waste management, emissions, and sustainability practices
- Maps how the company's operations interact with ecosystems, especially in locations dependent on vulnerable ecosystems or areas facing water stress. Assesses company's dependencies and impacts on nature, such as reliance on specific raw materials. Evaluates supplier dependency risks and develop a contingency plan for scenarios like water stress
- Has a process for monitoring pending legislation across relevant geographies to ensure compliance
- Has an HR Handbook and staff are aware of it. Employment of staff complies with relevant employment law, for example employment contracts, performance management. minimum wage, anti-discrimination, health & safety, employee benefits, staff grievance policy and dismissal procedures
- Has inclusive hiring and staff management practices, e.g. EDI, ESOP. Unconscious bias training, diversity in the candidate pools
- Appoints person responsible for data security & data privacy, conducts regular data audits and establishes a process for addressing data breaches
- Establishes an operational-level grievance mechanism for those potentially impacted by the firm's activities
- Evaluates firm activities that may affect the human rights of employees, contract workers, supply chain workers, local communities, and end users of the products or services

Investors ensures that Investco meets the following standards

- Provides regular disclosures on fund level ES&I performance, activities and progress to investors and other relevant stakeholders, adopting an established framework such as BII or IFC
- Includes ESG capacity building as part of its investee support programme
- Includes ESG term sheet clause where investee companies give the fund the right to request data and collaborate with them on their ESG performance

Governance Framework

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