

Capital call line of credit can give venture capital firms cash flow predictability and investing agility

By Mike Cole, Bank of Ann Arbor's Technology Industry Group

Bridging the divide from capital call to funding with a capital call line of credit can be a smart way for a venture capital fund manager to smooth out cash flows and address working capital needs, as well as create opportunities to quickly deploy capital.

Bank of Ann Arbor Technology Industry Group (BOAA TIG) clients, who manage limited partnerships and fund-of-funds, have increasingly sought a line of credit against capital calls from investors as a way to help temper unpredictable funding needs. BOAA TIG client Renaissance Venture Capital Fund, a limited partner participating in more than 20 venture funds, likes the capital call facility from an investor perspective. "It allows us to do more accurate cash forecasting and not execute multiple capital calls in any one quarter," says Jeff Rinvelt, Principal at Renaissance.

Rinvelt is not the only client who appreciates the predictability a line of credit can offer; since Venture capital fund managers are able to use their line to protect against deal fluctuations before closing. "The two weeks from capital call to funding is a long time when you are negotiating an initial investment with a new company, so I draw on the line [of credit] to prevent us from calling funds that ultimately may be returned," said Marcy Marshall, CFO of Arboretum Ventures. "The drawback to using leverage is that it can create some problems for our tax-exempt limited partners, so we are careful to keep it outstanding on a very short-term basis."

The capital call line of credit offered by BOAA TIG provides fund managers an opportunity to work in accelerated transaction timelines. The ability to make quick investment decisions has allowed some managers to gain exclusivity and access fast moving deals. "The capital call line of credit gives me the agility to invest quickly; if I have to react to an event in the portfolio company, I can still participate even when a round comes together very quickly. This impacts my return because I'm better able to place capital and provide support to my portfolio company," said Sonali Vijayavargiya, Founder and Managing Director, Augment Ventures.

Tim Streit, Co-Founder and Managing Partner with Huron River Ventures, has found the BOAA TIG capital call line of credit "really helpful to bridge operational efficiencies. I slept better at night knowing we had a financing solution and could support our portfolio companies on short notice. It's been good for our entrepreneurs as well as our investors."

For information about Bank of Ann Arbor's Technology Industry Group and our capital call line of credit, or other banking and financial solutions designed for private equity, venture capital and entrepreneurial clients, please contact Mike Cole at mcole@boaa.com.