

How to Scale a Venture Capital Fund: *Lessons on Moving from Emerging Manager to Institutional-Grade Firm*



Introduction

Interest in emerging managers has grown rapidly, backed by clear data showing that smaller funds consistently outperform larger ones, especially at pre-seed and seed stages.

[Cambridge Associates](#) and [PitchBook](#) report that early-stage funds deliver the highest median IRRs and DPIs. [Santé Ventures \(2023\)](#) found that sub-\$350M funds are 50% more likely to exceed 2.5× TVPI than mega-funds, with nearly double the average IRR. A 2024 Preqin-backed study by [Energy Transition Ventures](#) showed that more than half of top-decile funds were under \$250M, while billion-dollar funds consistently underperformed. This data explains LPs' growing appetite for early-stage innovation and higher returns.

But optimism is often checked by a core challenge – the majority of small funds lack the operational maturity to scale sustainably. Emerging managers sit close to innovation. They are faster, more diverse and less encumbered by legacy, but that agility must be matched with the discipline to scale. This gap between potential and preparedness is what we explore here.

This blog is a joint perspective between [KfW Capital](#) – one of Europe's most active institutional LPs – and [Emerge](#), a pre-seed and seed venture firm focused on human capital development. Our goal is to unpack what it takes to become institutional-grade and how GPs and LPs can grow together.

[Nic Newman](#), General Partner at Emerge, will reveal how the firm's partners (Nic is a GP alongside [Jan Lynn-Matern](#) and [Mario Baros](#)) have evolved Emerge over the past decade from a high-energy syndicate into a regulated, institutionally-backed second fund. Alongside the GP view are insights from [Sabrina Senzel](#), who is part of KfW Capital's investment team. Sabrina supported Emerge through a rigorous diligence process and ultimately committed as a cornerstone LP in their second fund.

We start with our [Ten Top Tips for Emerging Managers](#), then explore the history and rationale behind them.

Ten Top Tips for Emerging Managers

1

Scale Operations Ahead of AUM

Operate at “Fund III discipline” level even if you’re still deploying Fund I or Fund II capital. Build systems, governance and compliance structures one step ahead to earn LP trust early. Have a clear, regulated structure with audited financials and legal compliance.

2

Invest in Governance as a Strategic Asset

Institutional-grade funds run regular LPACs, maintain transparent follow-on allocation policies and uphold robust decision governance (including IC memos, rubrics, and audit trails). This isn’t bureaucracy, it’s a foundation for clarity and trust.

3

Move from Founder-Led to Firm-Led Investing

Institutional LPs don’t back charismatic individuals; they back scalable firms. Transition from intuition to documented processes, from ad hoc decisions to systematised workflows. Develop rubrics to support and aid your decision-making.

4

Own Your Portfolio Construction Philosophy

Articulate and model your approach to ownership, diversification and capital allocation. Emerge moved from 50/50 deployment to a 75% initial/25% follow-on model with a 15% ownership target, guided by internal simulations and market benchmarks.

5

Automate Early. AI is Not Optional

AI and tech are your leverage points, not future luxuries. Build infrastructure like scalable sourcing engines, automated LP reporting, and deal triage systems early (no-code and low-code tools are reducing barriers to automation, meaning even non-technical VCs can start building with AI). Develop a strong internal tool like Emerge’s scalability index to benchmark how far you’ve progressed.

Ten Top Tips for Emerging Managers

6

Treat LP Reporting Like Product

Institutional LPs don't just want returns; they want attribution clarity, impact visibility and audit-ready financials. Use tools like Tactyc for fund modelling, Notion for IC traceability, and Atlas for ESG data and design reporting as if you're building software - iteratively, with user feedback.

7

Build Liquidity Discipline Before You Need It

Don't wait for DPI pressure. Begin quarterly liquidity reviews for any company held >5 years or stalled for 2+. Develop exit roadmaps and proactively support secondaries or strategic paths. This wins LP confidence and signals strategic maturity.

8

Thesis Drives Brand, Brand Drives Dealflow

Publishing open, thoughtful research isn't marketing, it's pipeline development. Emerge's content was read >2M times, catalysing inbound from top founders who said, "We built this because of your thesis".

9

Treat Your Data Room as a Strategy Document

A mature data room is a reflection of firm-wide intentionality. Ensure alignment across DDQ, attribution, strategy, fund modelling, compliance logs and LP decks. Emerge's Fund II data room drew praise as "Fund III ready".

10

Don't Just Take LP Feedback – Build With It

KfW's Capital's feedback led to real improvements in Emerge's ESG reporting, attribution and liquidity planning. Treat LPs as partners who can shape your operating model. Done right, their feedback becomes a growth accelerator.

The Emerging Manager Journey (Emerge perspective)

Starting Point: Early DNA and Syndicate Roots

Emerge launched in 2014 with a mission to back entrepreneurs reshaping human capital development. We were Europe's first specialist syndicate focused on this thesis, and made 52 investments across the region. These early years were defined by hustle and experimentation with a lean operation, face-to-face founder time, iterative feedback loops to improve our offering, and a focus on strong community engagement. Throughout this period, we carefully built a passionate mission-driven team with both operator and investment expertise – a team crafted to succeed at the early stage. Yet even then, we were laying the right foundations as we began building our proprietary sourcing engine, attracting sector-specific Venture Partners and tracking key performance metrics.

Over the years, the Syndicate (Fund 0) has achieved 10 exits, a portfolio valuation exceeding \$2.5B (as of 2025) and a DPI of 1.9x, all strong proof points for institutional LPs down the line. Fund 0 is where we built our track record, leant into becoming stage- and sector-specific, and showed that Europe was an underserved market, offering high-quality, globally ambitious founders at half the entry price of US-based competition. The stage was set.



Backing specialist early-stage managers like Emerge is critical to the long-term strength of the European venture ecosystem. Their combination of deep sector focus, institutional discipline and founder-centric execution demonstrates how emerging managers can scale into durable, institutional-grade firms without losing their edge.

Nic Newman

Fund I – Building Institutional Foundations

The launch of Fund I in 2019 marked a defining shift for Emerge – from an energetic, founder-led syndicate to a regulated, institutionally-backed venture firm with FCA authorisation in place and \$25M raised (from two leading fund-of-funds, an impact-focused endowment and three strategics). Fund I became the scaffolding for everything that followed.

1. Institutionalising Structure, Decision-Making and Reporting

We laid the groundwork through repeatable, auditable processes and transparent LP reporting. FCA authorisation brought regulatory rigour, while **new governance structures** professionalised our decision-making for both initial and follow-on investments. We instituted **formal Investment Committees** with structured voting, investment memos and founder scorecards, and quarterly LPACs that moved us from informal updates to strategic dialogue with our LPs. This infrastructure ensured transparency, accountability and alignment with institutional LP expectations. Our quarterly updates to LPs and rubric-based decision-making process stood out early on as way ahead of other managers at our stage; it laid a marker for our underlying processes, bringing repeatable, consistent scalability.

2. Building a Scalable Community and Deep Ecosystem Relationships

We expanded our operating capacity by hiring [Zara Zaman](#), who brought deep experience in scaling founder and community engagement to help grow our [Venture Partner community](#). This highly engaged community, made up of 100+ of the industry's top founders and execs, is the cornerstone of our value-add and leads to portfolio NPS scores of 90% and 100% for Fund I and Fund II.

What's more, we made a deliberate choice from day one not to raise a Series A fund, and we've stayed in the early-stage lane for more than a decade. This discipline has enabled us to build **exceptional relationships with top Series A and B VCs**, who trust us to introduce our breakout companies and give them early visibility. Our reputation as pre-seed and seed specialists has become a strategic moat with both LPs and founders.

3. Enhancing Investment Rigour and Data Discipline

To sharpen our investment judgment, we developed a 50-point diligence rubric spanning founder attributes, market structure, defensibility and impact. This wasn't simply a checklist; it acts as a framework to encourage internal debate from our scoring discussions, helping us codify and track conviction. This framework also helps us onboard and train new investment team members, such as [Sami Tatar](#), who joined us at the beginning of Fund II. Alongside this, we began systematically tracking TVPI, DPI, IRR and attribution against decision-making frameworks. LPs could now see not just performance, but the thinking behind it.

4. Scaling Sourcing and Reporting by Leveraging Tech

We evolved our sourcing engine from a few hundred leads per month into a machine learning-powered pipeline processing thousands of in-thesis leads each month. With custom triage and lead-scoring logic, we scaled dealflow without bloating headcount. In 2020, [Dr. Charlotte Jones](#) joined to build out this key part of our fund's operation. On the portfolio side, we began looking at Tactyc (now a Carta company) to replace spreadsheets with a structured, scenario-ready data infrastructure, enabling real-time impact tracking, performance monitoring, and LP-ready tear sheets.

5. Leading with Impact and Building a Research-Led Brand

Impact was embedded from day one. [Mario Baros](#) designed a custom framework aligned to the **Impact Management Norms**, tracking learner outcomes, equity and mobility. It became a core part of LP diligence, especially for impact-driven institutions like KfW Capital. At the same time, we built a **research-led brand**: [publishing reports](#) that seeded new categories (e.g., [challenger universities](#)) and reached more than two million readers. For many founders, our thinking was the reason they reached out. This was the foundation of our internationally recognised and respected brand.

Fund II – Operating Like a Fund III

In 2023, [our \\$75M Fund II](#) was backed by more than 100 elite operators, including executives from Coursera, Udemy, 2U and Andela, as well as leading institutional LPs such as **KfW Capital**, the **Jacobs Foundation** and **Laerdal Invest**. Fund II was larger, enabling us to lead deals, and to enable this we improved both structurally and operationally.

1. Building a Scalable Operating System

Fund II catalysed a **bottom-up redesign of our platform**. We onboarded institutional-grade legal, audit and fund admin partners. We transitioned from our fractional CFO, with 25+ years of cross-border fund experience, and replaced him with [Chloe Trigg](#), a full-time role who manages finance and operations, so that compliance, ESG, fund pacing and financial oversight became auditable, repeatable systems. At Emerge, governance has always been more than a checkbox; it's a core part of how we execute strategy and build LP trust. **In Fund II, governance became even more integral**: we took what was already in place and improved it with LP feedback. LPACs had a regular quarterly cadence; we extended our rubric for follow-on decisions, and we redesigned our LP reporting, elevating both transparency and trust.

2. Sharpening the Fund Model: Ownership, Discipline, Liquidity

We overhauled our capital allocation strategy. Informed by our own research, Monte Carlo simulations, Tactyc modelling and peer benchmarks, Fund II shifted to 75% initial deployment and 25% follow-on reserve, **with a focus on 15%+ entry ownership** in a concentrated portfolio of 25-30 investments. This front-loaded conviction gives us fund pacing clarity, maximises exposure to breakout companies and simplifies our reserve discipline. Alongside this, we introduced quarterly liquidity reviews – assessing any company >5 years old or inactive >2 years – enabling **clear DPI roadmaps** and exit preparation in partnership with our founders and LPs.

3. Data-Driven Attribution and Institutional Reporting

Between Fund I and Fund II, one of our biggest leaps was in how we captured, connected and communicated data. We overhauled our entire data infrastructure: Tactyc was fully rolled out to power portfolio and fund performance tracking. Notion serves as our operational wiki, and Atlas aligns our ESG reporting with InvestEurope standards. That same discipline shaped our **data room**, which (with feedback from Stepstone and the British Business Bank) has evolved into a fully institutional-grade portal. With a full DDQ, audit trails, compliance logs and end-to-end sourcing-to-exit documentation, it communicates our maturity and systematic, data-driven approach to VC.

4. Lean Tech Stack, Big Leverage

With [Dr. Charlotte Jones](#), we embedded automation across the stack, starting with a focus on sourcing that moves across our processes, using a proprietary scalability index to track which processes are automated, what percentage bandwidth they unlock and where to invest next. Charlotte overhauled our Airtable CRM, underpinning it with a vast company and founder database in Sapien.io, a decentralised data foundry which turns our collective proprietary human knowledge into enterprise-grade AI training data. At our 2025 Summit, LPs requested sessions with us to run through our playbooks and we now run AI adoption clinics for our portfolio. The message is clear to our LPs and portfolio: automation is core to how we operate and a key part of our strategic edge.

5. Institutional Readiness Future proofing

KfW Capital's due diligence was the **most comprehensive** we'd experienced, and when they confirmed their investment, they shared a single line that stuck with us: **"You feel like a Fund III"**. For us, it was validation that we were then operating with the systems, discipline and strategic clarity expected of top-tier institutional managers. The next challenges for us as we approach Fund III are to scale our capacity to sit on a growing number of boards, drive efficiency of our back office tasks and further invest in the repeatable quarterly processes to bring even higher quality deal flow into our funnel. The process of improvement never stops of course, you need to keep iterating, and keep those upgrades coming!

What KfW Capital Looks for in Emerging Managers (KfW Capital Perspective)

Theme: Backing the ones who want to scale

A. Why KfW Capital Backs Emerging Managers

Our overall objective is to **sustain a competitive German and European venture environment**, on a GP and startup level. We are fully aware that, from an LP perspective, investing in emerging managers involves greater risk than backing established players. That's precisely why we, as a governmental institution, see it as our responsibility to also facilitate access to capital for young teams. By backing first and second-time teams, we aim to bring new perspectives with diverse experiences and networks into the GP market and enable them to support founders who might otherwise be overlooked.

In addition to this general objective, we have a separate funding program specifically for funds smaller than EUR 50 million. The focus here is on **fostering diversity within the ecosystem**, currently with an emphasis on gender diversity. We require these funds to have a diverse team composition, as we hope this will lead to increased financing for female founders who still remain underrepresented.



Backing emerging managers is essential to keep the European venture ecosystem competitive. By supporting first- and second-time teams, we help to bring new perspectives and networks into the market.

Sabrina Senzel

B. How KfW Capital Assesses Emerging Managers

Identifying promising emerging managers isn't about checking boxes. It's about recognising potential, alignment, and a strong foundation for long-term success. At KfW Capital, we look at several key dimensions.

1. Team Composition

We search for **complementary skill sets**, ideally combining operational experience with relevant investment expertise. Equally important is team **stability**: Have the members worked together before? Do we believe the Partnership can sustain for 12+ years? A history of joint investments is a plus. Just as important is genuine **motivation and passion**. Teams that care about supporting founders and strengthening the ecosystem often stand out, not just as investors, but as partners.

2. Governance Structure & Incentive Alignment

A solid governance setup is essential. For example, we place particular value on an **independent investment committee** consisting of voting members who are actively involved in the fund management. When it comes to incentive alignment, there are several factors to consider. The following are among the most important:

- **Carry Distribution**: Each team member's carry share should correspond to their level of responsibility and actual contribution. At the same time, it should offer meaningful upside potential to incentivise long-term commitment.
- **GP Commitment**: The amount of personal capital invested should provide adequate "skin in the game" and be reasonable compared to the respective carry participation. This balance signals both conviction and fairness in the team's internal structure.
- **Management Company Ownership**: The ownership structure of the management company should be transparent and aligned with the team's internal roles. Ideally, decision-making responsibility is reflected in economic ownership.

3. Track Record

A compelling track record of relevant investment experience is essential. For first-time teams, this could include a history of managing an **angel portfolio** or **previous attributable investments as members** of other funds. Ideally, we prefer to see a joint investment history among team members to demonstrate an alignment in strategy. And while past mistakes are part of the journey, what matters is how teams have learned and **evolved along the way**.

4. Investment Strategy & Competitive Advantage

We pay particular attention to how well a team's investment **strategy aligns with their background** and what sets the fund apart in a competitive landscape. Compared to established funds, emerging managers lack an established brand. That makes it even more important to have a **compelling value proposition** which earns a seat at the cap table. Examples are access to hard-to-reach networks, proprietary data, deep sector knowledge, or a distinctive market perspective. Ultimately, we want to understand how the team contributes beyond providing capital.

5. Fundraising Traction & LP Offering

One critical indicator of a promising fund is **evidence of traction in fundraising**. We look for signs that the fund's offering resonates with other (especially private) LPs and attracts their interest. This could include of course, signed commitments, but also ongoing negotiations or clear market feedback. Demonstrating momentum in fundraising suggests market relevance and the **team's ability to convince others of their approach**.

6. Operational Infrastructure

Operational readiness is often one of the first visible signs of a team's professionalism. **Well-structured internal processes** - including for instance, investment policies, ESG guidelines, and crossover protocols - matter, especially when well documented and consistently applied. A **well-organised data room** and attention to detail in the pitch deck or due diligence questionnaire help demonstrate that the team is ready for institutional limited partners.

In the end, while individual criteria matter, it's the overall picture of the fund, in the context of the broader opportunity landscape, that guides the final investment decision.

The following visuals provide an overview of how KfW Capital structures its investment assessment and decision-making process.

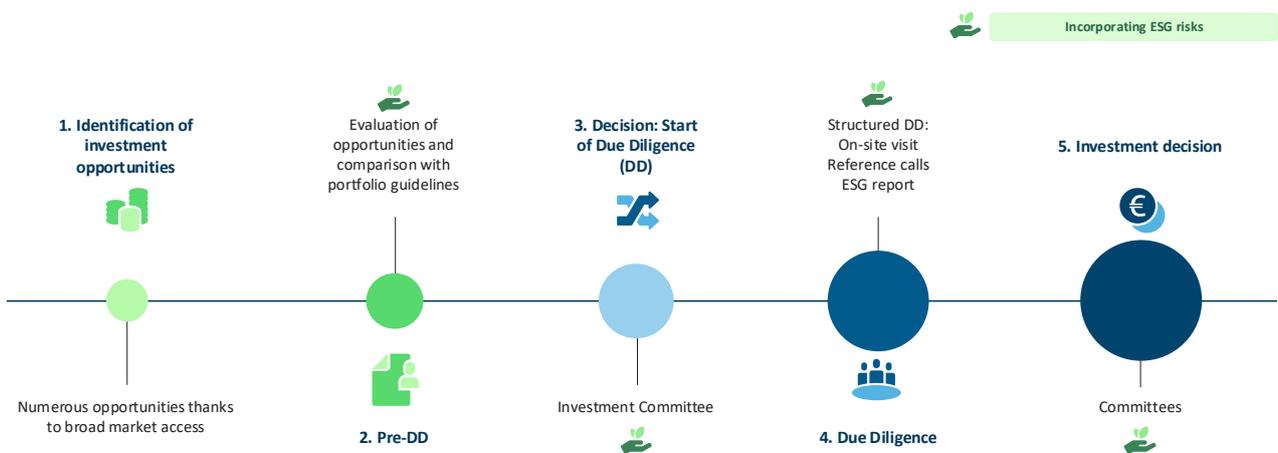
Due Diligence Criteria: Investment Selection

Further reading: [KfW Capital Investment Criteria](#)

Investment Factors	Short description
Structure	Investor Overview Commitments from other LPs; existing investors; private (>50%) vs. public capital
	Fund Organization Organization; processes; governance (independent shareholder & decision structure of the GP, no evergreen structure)
	Terms & Conditions Management fee; GP commitment; carry distribution; advisory board
Financials	Track Record Personal (Sourcing; value creation and exits); team; insights; DPI vs. TVPI; IRR (gross vs. net); Germany TR
	Investment Strategy/ESG Sector (all), phase (seed, early and growth stage), region & Germany exposure (European venture capital and venture debt funds w/ 1x Germany multiple), ESG (sustainability strategy)
	Fund Planning Fund volume; number of Investments; holding period; cash management; target return; use of management fee
Socials	Team Team stability; know-how & skills; motivation; succession planning
	Reference Calls May include former co-investors, (former) employees, and portfolio companies
Market	Market & Competition Market situation; competitive edge

Due Diligence

We pursue a selective and systematic investment process.



C. Best Practices from an LP Viewpoint

By screening several hundred funds per year, we frequently detect recurring challenges that prevent funds from attracting institutional capital. Based on these observations, the following points summarise our perception of best practices:

Team & Setup

- Your team is your most important asset: Make sure it's not only strong on paper but actually works well together.
- Clearly define roles, responsibilities and decision-making processes.
- Show authentic motivation and founder orientation. In the end, we invest in people, not just strategies.

Positioning & Strategy

- **Be honest:** Why does the market need your fund?
- **Clearly communicate your USP:** explain why investors want you in their portfolio.
- **Show how you added value:** the founders & co-investors you worked with are your reputation.

Process

- Start building relationships with LPs early: pipelines, especially at institutional investors, form long in advance.
- Show how you developed over time, what you learned and how you adapted.
- Be aware of the time and effort institutional due diligence requires. You can front-load a lot by preparing policies, processes and reporting structures early.

Last but not least, raising institutional capital is one way to build a VC firm and play an active role in the ecosystem - but it is not the only path, and it is not the right fit for everyone. Each team needs to decide whether the institutional playbook aligns with their long-term goals, values and way of working!

Call to Action

For GPs, the path from emerging to institutional means building systems that scales beyond the original partners and founders. For LPs, it means investing early in those systems and actively shaping what excellence looks like.

Emerging managers sit close to innovation. They are faster, more diverse and less encumbered by legacy, but that agility must be matched with the discipline to scale.

Institutional LPs such as KfW Capital have a unique role to play. When they bring early conviction, candour and operational challenge, they accelerate the institutionalisation process and unlock enduring performance.

This blog is part of a shared effort to bring transparency to that process.

- **To emerging GPs:** If you're building your institutional muscle, we hope this provides both a benchmark and encouragement. The box out 'Ten Lessons for Emerging Managers' gives you a good place to start.
- **To LPs:** If you want to shape the next generation of institutional-quality firms, don't wait until Fund III.

The future of venture will be shaped by intentional collaboration between bold institutions and the GPs they back early enough to matter.

Let's start that dialogue now.



Nic Newman is a General Partner at Emerge, where he focuses on backing early-stage founders building the future of human capital. He brings a strong operator perspective shaped by leadership roles in fast-growth tech startups and global multinationals, with particular expertise in digital user experience and product design. Alongside his investing role, Nic has held a range of ecosystem and advisory positions spanning education, public policy and international development.

Emerge is a European pre-seed and seed venture capital firm focused on the future of Human Capital Development. HCD is a \$4T global category spanning how people learn, navigate careers and work effectively - one of the largest and most durable markets in venture. Emerge has evolved from a deal-by-deal syndicate into an institutionally backed, FCA-regulated firm with a strong track record, deep sector knowledge and a highly engaged founder and operator community.

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KfW Capital fosters innovation and growth by investing in German and European venture capital and venture debt funds as a wholly owned subsidiary of KfW Group. Through these investments, they strengthen the capital base of financially robust funds, with the goal of enhancing access to funding for innovative, technology-driven growth companies.

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