

The Role of the Sponsor

One of the unique requirements of the VMS fund (“VMSF”) is that every investment requires at least one sponsor. A sponsor is a senior level manager from within Constellation who is willing to endorse the investment. VMSF will require one sponsor who has worked with the new company’s leaders to endorse the team and / or one sponsor who is familiar with the potential market to validate the product idea. In many cases, there will be a single sponsor, familiar with both the team and the market, who will provide the endorsements. The sponsor will often provide coaching to the company and participate in the diligence process. In the case of an entrepreneur sourced from outside of CSI, the sponsor’s operating group will have to deploy some of their business’ capital alongside VMSF. In the case of an entrepreneur sourced from within CSI, the sponsor’s operating group will not have to deploy their business’ capital alongside VMSF but may do so if the entrepreneur is supportive of the idea. Note that the sponsor is not a co-founder and will not have a full-time job with the new company. The sponsor’s role can be broken up into their responsibilities pre and post investment. I describe each in more detail below.

Pre-investment responsibilities

For an internal investment (an investment backing a CSI employee/entrepreneur), help with product and market diligence is appreciated but not mandatory, however an endorsement of the entrepreneur is mandatory. For an investment in an external start-up, assistance with diligence is required. If there are separate sponsors for the management team and the product idea, they should each aid in their area of expertise. The ways in which a sponsor can help with diligence are to:

- Verify the market size and competition for the proposed investment
- Assist the VMS team with the creation of an IM and model.
- Assist with customer references.
- Explain any assistance that existing CSI businesses might be able to provide the new company (e.g. a sales referral arrangement on an arms-length basis).
- Consider investing their BU’s own capital alongside VMS. This is optional for internal investments (investments in companies with CSI employees as founders), but is mandatory for external investments.
- In the cases where the sponsor will invest their own capital, they should lead the approval process within their operating group.

Post-investment responsibilities

The sponsor's role does not need to end with the investment. For internal investments, sponsor's have the choice whether to provide aid post-investment. For investments in external start-ups this is mandatory. The types of aid a sponsor can provide post-investment include:

- Taking a board seat in the new company
- Executing any part of the pre-investment plan that required assistance from other CSI businesses
- Providing coaching and advice on an as-needed basis to the new management team (as long as the new team are willing)
- Help with valuation and diligence for future funding rounds.

Since every investment is unique, the sponsor's role will undoubtedly differ for each investment. We hope the guidelines above give an indication of what is usually expected from a sponsor. Feel free to reach out to karl.schabas@vmsfund.com with any further questions.

	Sponsor for Internal Entrepreneur	Sponsor for Product Idea put forward by an Internal Entrepreneur who is not known to the Sponsor	Sponsor for Product Idea put forward by an External Entrepreneur
Qualifications	The Sponsor should have previously worked with the proposed entrepreneur.	The Sponsor should be familiar with the market for the product idea.	Sponsor should be familiar with the market and endorse the product idea.
Capital Investment	Optional – Sponsor's BU may invest on the same terms as VMSF but only if the Entrepreneur agrees. Investment is not mandatory.	Mandatory – Sponsor's BU will invest on the same terms as VMSF. Some investment by the Sponsor's BU is mandatory in the first round of investment capital.	Mandatory - Sponsor should expect to contribute ~50% of the required first round of investment capital.
Diligence	Provide strong endorsement of the entrepreneur. Other diligence aid is optional.	Provide endorsement of the market need, market size and competitive situation. Other diligence aid optional.	Provide significant aid during diligence in evaluating the team, market and product idea.
Post-Investment Aid	Optional – If the entrepreneur agrees, the Sponsor may wish to have a board seat or provide coaching to the company.	Optional – may wish to have a board seat or provide coaching to the company.	Mandatory - Sponsor should be prepared to take a board seat and provide coaching to the company as required.