FOR ASPIRING FUND MANAGERS

A GUIDE TO

Launching a GP/LP Fund

Structuring and running a limited partnership fund

A plain-English guide to how a GP/LP fund is built, how its economics work, and how an experienced team can bring one to market.

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Sapphire

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What's inside

A note for the reader. This guide explains how a GP/LP fund works, in plain language, for people setting up or running a fund. It is general information only, not legal, regulatory, tax or financial advice, and it is not itself a financial promotion or an invitation to invest.

A WORD FROM OUR CHAIRMAN

The classic fund structure, explained plainly

The GP/LP fund is the structure venture capital and private equity have used the world over for decades. It is flexible, well understood by investors, and the natural home for a fund that will back a portfolio over several years.

Yet for a first-time manager the language can be off-putting: commitments, drawdowns, carried interest, hurdles, the J-curve. This guide takes each idea in turn and explains it in plain English, with everyday analogies, so you can see how the pieces fit together.

The one thing most new managers lack is FCA authorisation, which is required to operate a fund in the UK. That is the piece Sapphire provides. We have helped launch dozens of funds, so the structure on these pages is not theory; it is what we do every day.

Boyd Carson FCA

CHAIRMAN, SAPPHIRE CAPITAL PARTNERS LLP

01 · UNDERSTANDING THE STRUCTURE

What is a GP/LP fund?

A GP/LP fund pools money from several investors into a single vehicle, run by a manager, to back a portfolio of companies. GP stands for general partner, LP for limited partner. It is the classic structure used by venture capital and private equity funds.

The two roles

The general partner runs the fund: it sources deals, makes the investment decisions and manages the portfolio. The limited partners are the investors who provide most of the money. They stay hands-off, and their liability is limited to what they have committed, so they cannot lose more than they put in.

Why a partnership

A limited partnership lets profits and losses flow through to the investors while keeping their liability capped. It is flexible, familiar to investors, and the natural home for a fund that will hold a portfolio over several years.

IN PLAIN TERMS

Picture a property development partnership. The general partner is the developer who runs the project day to day and puts in a small slice of the money. The limited partners are the backers who provide most of the capital, stay out of the building work, and can only ever lose what they put in. A GP/LP fund works the same way, with companies instead of buildings.

The GP runs it

The general partner makes the decisions and carries the work.

The LPs back it

Investors commit capital and stay hands-off, with capped liability.

Aligned by design

The GP usually invests alongside the LPs, so everyone wins together.

02 · UNDERSTANDING THE STRUCTURE

GP/LP versus an EIS portfolio

Sapphire helps managers launch both GP/LP funds and EIS or SEIS portfolio funds. They raise money for similar reasons but work quite differently, and choosing the right one matters.

The EIS or SEIS portfolio

Investors subscribe and the manager invests on their behalf across a spread of qualifying companies. Each investor directly owns the shares, and the draw is the generous SEIS and EIS tax reliefs. Money tends to be invested fairly quickly, often within a year.

The GP/LP fund

Investors commit capital to a single partnership that holds the portfolio. They own an interest in the fund rather than the underlying shares. There are no EIS-style personal tax reliefs, but the structure is flexible on what it backs, how long it runs, and how returns are shared.

WHICH TO CHOOSE

As a rough guide: if the tax reliefs are central to the pitch and investors want to own the shares directly, an EIS or SEIS portfolio often fits. If you want a longer-term, flexible vehicle that can back a wider range of opportunities and share profits through carried interest, a GP/LP fund is usually the better home. Many managers run both.

Ownership

EIS investors own shares directly; LPs own a stake in the fund.

Tax

EIS and SEIS carry personal reliefs; GP/LP funds do not.

Flexibility

GP/LP funds are more flexible on assets, life and economics.

03 · UNDERSTANDING THE STRUCTURE

The cast, and who it suits

A GP/LP fund brings together three parties. Understanding who does what is the key to seeing where you fit, and where Sapphire fits.

The general partner

The manager. Sources deals, decides what to back, and looks after the portfolio. This is usually you and your team.

The limited partners

The investors. They commit capital and share in the returns, but stay out of day-to-day decisions.

The authorised operator

An FCA-authorised firm, such as Sapphire, that carries the regulatory responsibility for running the fund.

Who it suits

The structure suits an individual or team with real expertise in a sector, such as technology, climate, life sciences or consumer brands, who wants to deploy capital in that space over several years. The one thing such teams usually lack is FCA authorisation, which is required to operate a fund in the UK. That is the piece Sapphire provides.

IN PLAIN TERMS

Think of a professional kitchen. You are the chef with the recipes and the talent. Sapphire owns the kitchen, holds the hygiene licence, and is responsible if anything goes wrong. Without the licensed kitchen the chef cannot legally serve the public. With it, the chef can focus on cooking.

04 · ECONOMICS AND MECHANICS

Commitments, drawdowns and calls

Investors in a GP/LP fund do not hand over all their money on day one. Instead they pledge a total, and the fund calls it down in instalments as it needs it. This is one of the biggest differences from an EIS portfolio.

Commitment versus drawdown

A commitment is the total an investor pledges to the fund. A drawdown, or capital call, is the fund asking for part of that commitment when a deal is ready or fees are due. So an investor who commits £500,000 might be called for £100,000 now and the rest over time.

Why it works this way

It means investors are not sitting on idle cash, and the fund only holds money it can put to work. It also spreads the commitment over the investment period, which most investors prefer.

IN PLAIN TERMS

It is like an agreed overdraft, or a builder calling for stage payments. You agree the total at the start, but the money is only drawn as the work actually happens. An uncalled commitment is a promise, not cash in the fund's account.

Commit the total

Investors pledge an overall figure when they join.

Call as needed

The fund draws money down in instalments for deals and fees.

Plan for calls

Investors should keep committed capital available to meet calls.

05 · ECONOMICS AND MECHANICS

Fees, carry and the hurdle

How a GP/LP fund is paid is set out in its rulebook and shapes the relationship between manager and investors. There are three pieces to understand: the management fee, carried interest, and the hurdle.

Management fee

An annual fee, often a small percentage of commitments, that covers the cost of running the fund: the team, the admin, the oversight. It keeps the lights on while the portfolio matures.

Carried interest

The manager's share of the profits, typically a percentage of the gains. This is where a successful manager really earns, and it aligns the manager with investors.

The hurdle

A minimum return investors must receive before the manager takes any carry. Only once investors are made whole, and then some, does the profit share begin.

IN PLAIN TERMS

A common shorthand is “two and twenty”: a 2% annual management fee and 20% carried interest. Think of carry like a chef's share of the tip, paid only once the diners are happy. The hurdle makes sure investors get their money back, plus an agreed minimum, before the manager shares in the upside.

06 · ECONOMICS AND MECHANICS

Fund life and the J-curve

A GP/LP fund is closed-ended, meaning it has a set life rather than running forever. Understanding its shape over time helps set expectations with investors.

A defined life

A typical fund runs for around ten years: a few years investing, then several years nurturing the portfolio and seeking exits. Extensions of a year or two are common if good companies need more time to mature.

The J-curve

Returns rarely rise in a straight line. Early on, fees and write-downs can pull the value below cost, before successful companies lift it back up and beyond. Plotted on a chart, this dip-then-rise looks like the letter J.

IN PLAIN TERMS

Picture planting an orchard. In the early years you spend on saplings and see little fruit, and some trees fail. The harvest comes later. A fund works the same way, so patience in the early years is part of the design, not a sign that something is wrong.

Set the life

Agree the fund term and any extension options up front.

Expect the dip

The J-curve means early value can sit below cost.

Plan for exits

Returns come as companies are sold or float later in the life.

07 · BUILDING THE FUND

The key documents

Three documents do most of the work in setting up a GP/LP fund. Sapphire drafts and assembles these, but it helps to know what each one is for.

The partnership agreement

Often called the LPA. The rulebook: how the fund is governed, the economics, what the manager can and cannot do, and the rights of investors. Everything else hangs off it.

The placement memorandum

The PPM, given to prospective investors. It explains the strategy, the team, the terms and, importantly, the risks. It must be fair, clear and not misleading.

The subscription pack

The joining forms. This is how an investor commits, confirms they qualify, and is brought into the fund.

IN PLAIN TERMS

A useful way to see them: the partnership agreement is the constitution, the placement memorandum is the prospectus, and the subscription pack is the membership form. Get these right and the fund rests on solid foundations. Sapphire prepares all three as part of bringing a fund to market.

08 · BUILDING THE FUND

Domicile and the operator

Two early decisions shape how a fund is run: where it is based, and who holds the regulatory permission to operate it.

Where the fund sits

Most UK venture funds are set up as English limited partnerships. The domicile affects tax, investor familiarity and reporting, so it is worth taking advice early, but for UK-focused venture funds the answer is usually straightforward.

Who operates it

Operating a fund in the UK is a regulated activity, which means an FCA-authorised firm must be responsible for it. A new manager can either seek its own authorisation, which takes time and money, or launch under an established authorised operator such as Sapphire.

IN PLAIN TERMS

The authorised operator is like the licensed site manager who holds the safety certificate for a building project. Sapphire holds the FCA permission and carries the regulatory responsibility, so you can focus on finding and backing companies rather than on building a compliance function from scratch.

09 · BUILDING THE FUND

Timeline and cost

Two questions every prospective manager asks are how long it takes and what it costs. The honest answer is that it depends, but some realistic expectations help.

How long

With the documents, structure and regulatory cover handled by an experienced operator, a fund can often move from decision to first close in a matter of months rather than years. Seeking your own authorisation first would add many months.

What it costs

Costs include legal and structuring work, the operator's fees, and ongoing administration. Launching under an established operator spreads and reduces much of this, which is one reason the model is so popular with first-time managers.

WORTH KNOWING

A growing focus for the regulator is that the cost of launching a fund has become a real barrier to entry, and reform is expected to make it easier for start-up managers. Until then, launching under an authorised operator remains the quickest, most cost-effective route to market for most teams.

10 · RUNNING THE FUND

Raising the money

Once the fund is built, the work shifts to raising it. This is where the financial promotion rules bite, and where careful investor onboarding matters most.

Who you can talk to

Interests in a GP/LP fund can generally only be promoted to certain categories of investor, such as professional investors, certified high net worth individuals and sophisticated investors. You must establish and record that an investor qualifies before you send them promotional material, not afterwards.

Doing it properly

Marketing materials must be fair, clear and not misleading, and approved by the authorised firm before they go out. Onboarding then confirms the investor's category, completes anti-money-laundering checks, and brings them into the fund through the subscription pack.

AT SAPPHIRE

As the authorised operator, Sapphire approves the fund's promotions and oversees onboarding, so the rules are met before a single investor sees the material. If you are preparing anything investor-facing, the simplest safeguard is to involve us early. Our separate guide to financial promotions covers this in more depth.

11 · RUNNING THE FUND

Investing and valuing

With money raised, the fund deploys it and then has to value what it holds. Both deserve discipline, and both are areas the regulator watches.

Deploying capital

The fund invests across a portfolio in line with its stated strategy, calling capital from investors as deals complete. Good due diligence on each company, and on any partners the fund relies on, is essential, and is a recurring theme in cases that go wrong.

Valuing the portfolio

Between deals and exits, the fund must value its holdings so investors can see how things stand. UK venture funds typically follow the IPEV valuation guidelines, holding at cost until an event such as a funding round or a sale justifies a change.

AT SAPPHIRE

The regulator expects a clear, well-governed valuation policy that is applied consistently, with genuine independence where it can be achieved. At Sapphire we encourage every investment committee to interrogate the valuation rather than take it on trust. Disciplined valuation is how trust in a fund is earned.

Invest to strategy

Back companies that fit the fund's stated mandate.

Do the diligence

Thorough due diligence protects investors and the manager alike.

Value with rigour

A clear, consistent valuation policy, following IPEV.

12 · RUNNING THE FUND

Reporting and staying compliant

A fund's job does not end once the money is invested. Investors expect regular reporting, and the regulator expects the fund to keep meeting its obligations throughout its life.

Keeping investors informed

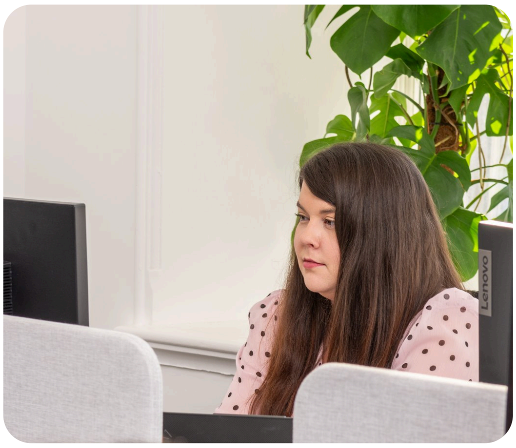
Limited partners receive regular reports: how the portfolio is performing, what has been invested, and a statement of their capital account showing what they have committed, what has been called, and what their interest is worth.

Staying compliant

Behind the scenes, the fund must keep meeting its regulatory obligations: oversight, financial-crime controls, record-keeping and reporting. As the authorised operator, Sapphire carries much of this so the manager can focus on the portfolio.

AT SAPPHIRE

Good reporting is not just a regulatory box to tick; it is how a manager builds the trust that brings investors back for the next fund. Sapphire provides modern fund administration and investor-relations support, so reporting is accurate, timely and professional from the first fund onwards.



ABOUT SAPPHIRE

What we do, and how we do it

What we actually do is straightforward, even if the execution isn't: we take experienced operators, sector specialists and recognised experts who want to deploy capital in their field, and we build the fund around them, acting as the FCA-authorised operator and manager. Properly structured. Ready to raise.

We are also a Certified B Corporation, which means we hold ourselves to standards beyond return. That matters to us, and increasingly to the people we work with.

BOYD CARSON FCA · CHAIRMAN

A BUSINESS MEASURED, NOT JUST STATED

Certified B Corporation

93.1
OUR B IMPACT SCORE

50.9
MEDIAN FOR ORDINARY BUSINESSES

Independently verified by B Lab across how we treat our people, serve our clients, govern ourselves and contribute to our community. First certified in 2022 and recertified with an improved score in 2025, we are among fewer than 2,700 UK B Corps and one of only a handful of FCA-authorised investment managers.

CASE STUDY

Zero Carbon Capital

How the GP/LP model works in practice, so a specialist climate team can focus on backing companies rather than building a compliance function.

AT A GLANCE

GP/LP fund
A limited partnership vehicle

Since 2019
Appointed Representative of Sapphire

Deep-tech
Climate and carbon reduction

Zero Carbon Capital, founded in 2019, invests at pre-seed and seed stage in companies working to cut carbon emissions. It became an Appointed Representative of Sapphire in 2019 and, alongside an earlier EIS fund, launched a GP/LP vehicle, the Zero Carbon Capital 2022 LP.

Sapphire acts as the authorised operator and manager, carrying the regulatory responsibility, while the Zero Carbon team focuses on sourcing and backing companies. Across its funds the team has completed around twenty-five investments over five years, in companies spanning clean fuels, climate-resilient crops and advanced materials.

WHAT THIS SHOWS

The GP/LP structure gave a specialist climate team a flexible, longer-term vehicle to back deep-tech companies, while Sapphire's authorisation and oversight removed the need to build a regulated operator from scratch. It is a clear illustration of the model this guide describes.

Sapphire

Sapphire Capital Partners LLP

A multi-award-winning venture capital firm with offices in London and Belfast, helping fund managers and founders across the UK build and run their funds.

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