

transferring *risk*: a sound business solution

Many risks you take as a venture capitalist are part of managing your business. From determining the viability of a start-up company to knowing the right time for an IPO, you understand and accept the risks, as well as the rewards, of making difficult business decisions. Now there is a way to better manage the risks inherent in many of your day-to-day business decisions. Chubb's Venture Capital Asset Protection policy offers you a sound business solution: a comprehensive insurance product to assist you in transferring and mitigating some of your personal and business risk.

Chubb's Venture Capital Asset Protection (VCAP) policy is a combined product offering management liability, management indemnification, outside directorship liability and professional services liability (errors & omissions) insurance in one policy to help eliminate any gaps in your insurance program. With our combined VCAP policy, venture capital firms receive true value and one of the broadest policies in the industry.

Our VCAP policy recognizes that venture capital firms and their partners have unique exposures. Chubb's comprehensive risk transfer program, introduced to the venture capital community in 1997, is specifically designed to help protect your firm's returns through the preservation of capital. By mitigating potential losses, we help safeguard reputations and investment returns.

What are the exposures?

Following are some of the exposures that venture capital firms, their general partners and employees face as investors and developers of emerging companies:

- *Down Round Financing* The perception created by down rounds may be that the best interests of other parties are intentionally not being considered.
- *Conflicts of Interest* Divergent interests may create scenarios in which not all interested parties feel they have benefited to the fullest extent possible.

You're Protected With Chubb

The Venture Capital Asset Protection policy is highly effective at addressing the needs of many types of private investment firms, including:

- Venture Capital Funds
- Private Equity Funds
- Fund of Funds
- Mezzanine Debt Funds
- Distressed Debt Funds
- Small Business Investment Companies
- Corporate-Sponsored Investment Funds
- Government-Sponsored Investment Funds

In-kind Distribution Heads South

A venture capital firm (VC) made an “in-kind” distribution of stock to its limited partners by placing the shares into a clearing account with a third-party distribution agent. The VC faxed notice of the distribution of stock to their limited partners, except that through a processing error, the VC fails to notify two limited partners that the shares were available for trading. The mistake was discovered five months later during an internal audit.

During those five months, the share price plummeted, costing the limited partners millions in lost value. Luckily, the VC had an insurance policy that covered the error and the resulting damages, preserving the firm’s reputation and the fund’s internal rate of return in the process.

- *Portfolio Company Board Seats* The active participation of your partners in managing portfolio companies is a critical aspect of your success. However, board of director duties and decisions may also expose you to potential litigation brought by a portfolio company’s competitors, customers, regulators, shareholders or even employees.
- *Indemnification* To what extent does the indemnification power of a portfolio company protect a venture capitalist serving as an outside director, in particular, a portfolio company in the seed or early stage of development? Inadequate indemnity from a portfolio company may force you to call capital from your investors for defense expenses, thus negatively impacting your fund’s rate of return.
- *“Wash-Outs”* Some situations create the perception that a venture capital firm is acting unfairly and in its own best interest while breaching its fiduciary duty to a particular portfolio company, its management and its other investors.
- *In-Kind Distributions* An in-kind distribution is a highly anticipated event. What happens if it doesn’t go exactly as expected?
- *Bankruptcy* Declaring bankruptcy is a reality for some emerging companies, but that reality can carry significant liabilities for the company’s board of directors and business developers.
- *Nonpublic Information* How secure is nonpublic information when it is being transported via e-mail, fax or letter or while it sits on a partner’s desk or in a file cabinet?
- *Employment Practices* In certain cases, new management is hired to take a portfolio company to the next level. How does the old management feel about it?
- *Intellectual Property* With thousands of new companies being started every year, it is becoming increasingly difficult to be certain that proprietary intellectual property has not already been “claimed” by another.
- *Initial Public Offering* Initial public offerings invite added scrutiny by unaffiliated third-party investors of past and present financial information, management decisions, the offering itself, etc., potentially resulting in unexpected litigation.

Venture Capital *Asset* Protection Policy

Product highlights

Since introducing our policy to the Swiss market in 2000, we have continued to enhance the protection we offer to keep pace with the changing legal exposures you face. As a result, we offer a highly specialized risk transfer solution, built upon Chubb's extensive market experience.

What is included?

The following insurance coverages are automatically included with every VCAP policy:

- Management Liability
- Management Indemnification
- Professional Services Liability
- Outside Directorship Liability
- Estates and Legal Representation
- Spousal Liability Extension
- Creation of Another Private Fund
- Worldwide Scope of Coverage
- Advisory Board Liability

What is protected?

Chubb's VCAP policy is specifically designed to address those organizational structures typically used by the venture capital industry:

- Limited Partnerships
- General Partnerships
- Limited Liability Partnerships
- Limited Liability Companies
- Stock Corporations

Who is protected?

Our policy offers automatic protection for the firm's critical contributors, including past, present and future:

- General Partners
- Managing Members
- Directors & Officers
- Employees
- Advisory Board Members

Policy features

- Broad professional services liability
 - Includes the formation, capitalization, operation and management of a private investment fund
 - Includes lenders' liability for those situations when permanent or temporary credit vehicles are more appropriate investments for a portfolio company
 - Includes the customary financial and strategic advice given to develop portfolio companies
- Broad outside directorship liability
 - Insurance for outside directorships on not-for profit or private portfolio companies
 - Run-off coverage, until the end of the policy period, for insured persons who resign from an outside board position
- Claims made policy form
- Policy responds not only to lawsuits, but also to written demands and criminal or administrative proceedings
- Insureds have the right to choose their own legal counsel subject to Chubb's approval
- Advancement of defense costs
- No prior acts exclusion
- Severability of all exclusions for insured individuals
- No exclusions or limitations on suits brought by portfolio companies against the venture capital firm, its employees or management
- Policy is non-cancelable by Chubb, except for non-payment of premium
- No exclusions for tortious interference, intellectual property or antitrust
- Extended reporting period available
- In-house capacity up to CHF 15 million, with various deductible options

our industry *expertise* is unrivaled

In a world where time is a valuable commodity, you shouldn't have to spend your teaching an insurance carrier about your industry. We have a depth of knowledge that is unrivaled in the industry. In fact, Chubb is selected the lead and primary insurance carrier by our venture capital clients in over 90% of the management and professional liability insurance programs we place, a statistic that demonstrates true leadership in the market. Our expertise allows us to take a consultative approach when meeting with you and your insurance agent or broker to discuss specific exposures or negotiate specialized terms and conditions to protect your firm. We believe you'll find this industry expertise both refreshing and invaluable.

Why choose Chubb?

When considering which insurance carrier should help protect some of your most important assets — your reputation and your firm — think Chubb. Chubb was the first insurance company to develop an integrated management and professional liability product tailored for venture capital firms. Our product expertise and tailored insurance solutions for venture capital firms are recognized by some of the leading associations for your industry. For example, Chubb is the exclusive insurance carrier for the United States National Association of Small Business Investment Companies. Since its founding in 1882, Chubb has built a reputation for:

- *Financial Strength* Chubb consistently earns high ratings for financial stability from A.M. Best, Moody's and Standard & Poor's — all leading evaluators of insurance companies.
- *Hallmark Claim Service* Our claim service is often imitated, but never duplicated; we have earned a reputation for providing claim service in a prompt and fair manner. As a leading insurer of venture capital firms, our specialty claims adjusters are well-versed in the complexities of the venture capital industry and the litigation faced by its management. Through our worldwide network of claim adjusters, we can respond to a claim anywhere in the world.
- *Far-Reaching Global Network* We offer multinational companies a global network of more than 134 offices in 31 countries staffed by Chubb professionals who understand the local laws and regulations. These professionals fully embrace Chubb's philosophy of conducting business with integrity and building long-term relationships with our customers
- *Industry Leadership* Our innovative insurance solutions have made Chubb an industry leader in many of the markets in which we do business. Chubb is a top insurer of personal insurance products designed for individuals with fine homes and possessions such as yachts and art collections. Chubb is also a leading provider of specialized or niche insurance products — perhaps we protect one of your portfolio companies through our specialized insurance for information technology companies or life sciences firms.

Chubb around the world:

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Bermuda - Brazil - Canada - Chile
- China - Colombia - Denmark -
France - Germany - Hong Kong -
India - Indonesia - Ireland - Italy -
Japan - Korea - Mexico - The
Netherlands - Puerto Rico -
Singapore - Spain - Sweden -
Switzerland - Taiwan - Thailand -
United Kingdom of Great Britain
and Northern Ireland - United
States of America - Venezuela

In addition to these locations, we
also have a correspondent
network of affiliates in virtually
every country in the world.

Do you want to learn more? Ask us!

Our Financial Institutions team would be
happy to answer your questions.

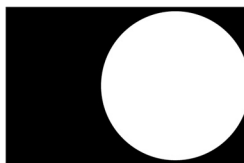
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