smart and simple FX.

A guide for busy VC finance teams

bound

contents.

Useful stuff you'll find in this guide

Message from Seth Phillips, Founder and CEO, Bound 03

Why FX is such a pain for VCs in 2025 04

The three main FX challenges international VCs face 05

Deep-dive on management fees in another currency 06

Case study MOONFIRE 07

How to sort overseas investment challenges 09

Case study CONNECT 11

Navigating the FX risks of foreign exits 12

Checklist 4 FX questions every VC should ask 14

Recap of Bound's smart hedging strategies 16

Your shortcut to mastering FX risk

If you're involved in running an international venture fund, you've likely got multimillion dollar FX decisions to make – whether you want to or not.

From collecting management fees in one currency and dealing with operational expenses in another, to deploying capital overseas, and navigating foreign exits, exchange rate volatility can mess with your plans, budgets, and returns.

It impacts more than just the bottom line. LPs also expect you to have FX risk under control.

This guide will show you how to tackle FX risk quickly, simply and efficiently. We'll share how top VCs manage currency volatility, letting them focus on what really counts – growing their portfolios.

Seth Phillips
Founder and CEO
Bound

Macro issues impacting FX in 2025

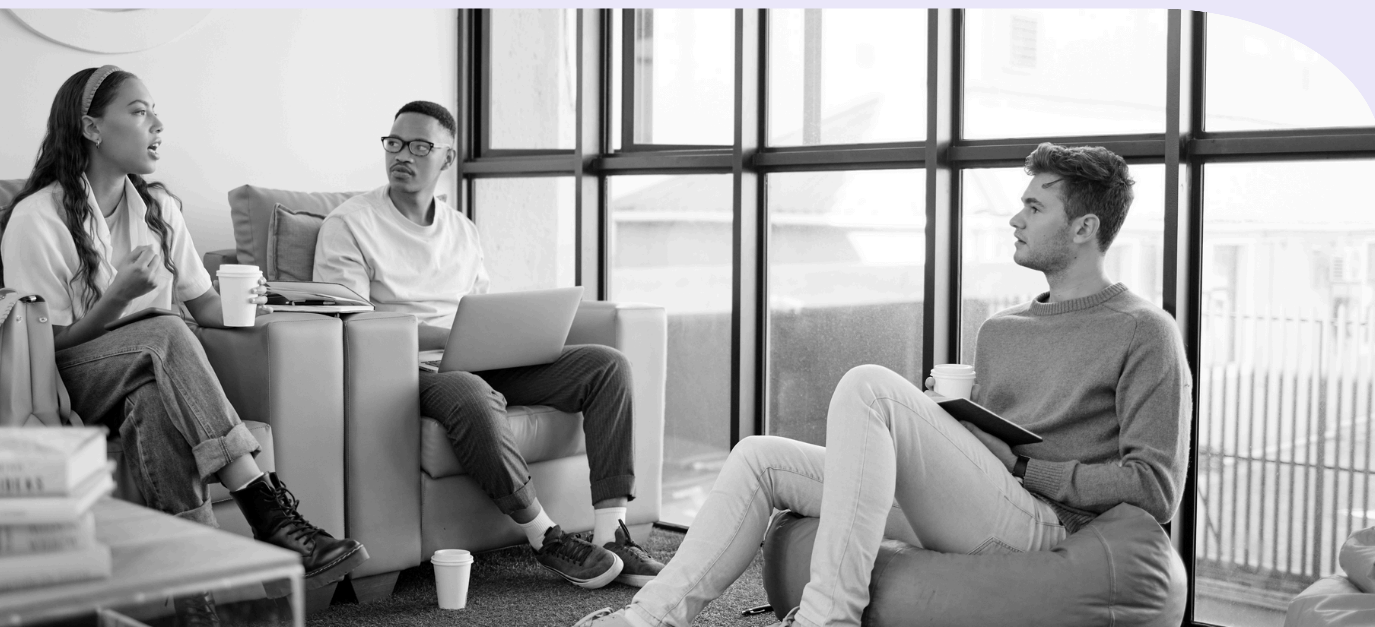
A few years ago, it might have been easier to ignore FX risk. But today's market environment presents a different set of challenges for internationally active VC funds:

- **USD is no longer the safe haven it once was.** While the dollar remains 'the global currency', its dominance is starting to be challenged by shifting trade dynamics and geopolitical risk.

- **Diverging central bank policies influence FX.** Differences in interest rate decisions across the Fed, ECB, and BoE are creating significant movements in exchange rates, impacting cross-border investments.

- **Geopolitical risks are creating volatility.** Events such as the ongoing war in Ukraine and change of leadership in the US are leading to heightened currency sensitivity to political shifts.

For VCs operating internationally, this adds up to potentially greater exposure to FX risk and increased unpredictability in returns. Managing this exposure proactively can help stabilise investment outcomes and reduce the impact of currency fluctuations on the fund's internal rate of return (IRR).



Three big FX headaches

At Bound, we work closely with a lot of VCs – and we're backed by them too. So, we get to see (and help them solve) their challenges first-hand. There are three main FX pain points they typically ask us for help with:

1

Management fees and operational expenses mismatch
Operating a fund with management fees denominated in one currency and expenses in another creates vulnerability to exchange rate fluctuations. This mismatch can lead to cash flow instability and disrupt financial planning.

2

FX shifts between signing term sheets and closing deals
When deploying capital across borders, currency volatility between the term sheet signing and deal closure can increase the cost of investment. This can complicate planning and make capital calls unpredictable.

3

Maximising returns for foreign exits
FX fluctuations during exit transactions can significantly impact the value of proceeds, cutting into overall returns and undermining the profitability of international investments.

Management fees and operational currency mismatch

Management fees are the backbone of a VC firm's day-to-day operations, covering essential costs like salaries and office rent. But when a fund's committed capital is denominated in one currency (e.g. USD) while operational expenses are incurred in another (e.g. GBP or EUR), budgeting becomes unpredictable.

Of course, you know exactly how much your management fees will be in your fund's denominated currency – they're agreed with your LPs. And you probably have a pretty good idea of your operational budget as well (in your operational currency).

But do you know what the exchange rate will be next January? Or July? Or how much money you'll really end up with to cover those operational expenses? Will you have enough? Will you have as much left over as you expect?

If you simply convert your fees at the start of each quarter, the amount of GBP or EUR available can fluctuate by as much as 10% in either direction, particularly in today's volatile markets.

This additional unpredictability can wreak havoc on your budget, leaving you scrambling to readjust financial plans, and needing to delay critical decisions. It can also make long-term planning – like hiring or supporting portfolio companies – unnecessarily complicated.

How Moonfire Ventures tackled its management fee currency mismatch

The challenge
Moonfire Ventures, a tech-driven seed-stage VC firm, and investor in Bound, manages a USD-denominated fund while incurring operational expenses in GBP and EUR. This currency mismatch can lead to frequent and unpredictable conversions, which can complicate budgeting and reduce visibility and confidence in financial planning.

Nic Lowden
Head of Finance
Moonfire Ventures

Like many firms, Moonfire needed to enhance their FX strategy to stabilise cash flows, mitigate risk, and optimise control/predictability for their finances.

Nic Lowden, Head of Finance, Moonfire Ventures, summarises the situation: "It's critical for us to manage this exposure effectively – to optimise conversions, protect against adverse currency fluctuations, and plan for various scenarios – without the FX unpredictability that complicates financial planning and reporting."

The solution
Moonfire implemented Bound to take control of their currency management using the ranging strategy. This helps set limits on potential downside while allowing them to capture upside opportunities if the market moves in their favour.

How it works
Ranging is essentially a combination of two types of orders: a limit order and a stop order.

- A stop order locks in your worst acceptable rate by triggering an exchange if the market moves against you.
- A limit order locks in your desired rate by setting a price to exchange if the market moves in your favour.

You can adjust your limits and stops at any time, instantly.

Moonfire's use of ranging
In September 2024, the GBP/USD rate was ~1.332. At that time Moonfire could have exchanged $1 of their management fees for £0.75 to cover UK operations.

Moonfire captured a ~10% improvement in the GBP/USD rate, boosted operational cash flows, and beat their operational budget.

How Moonfire captured market improvements with ranging

Instead of converting everything at once at the spot rate, they used the ranging strategy to ensure the rate couldn't move too far against them – while still giving them flexibility to take advantage if the rate improved.

Over H2 2024, as USD strengthened, Moonfire toggled their range parameters each time USD moved in a positive direction. They tracked market improvements while maintaining protection from an adverse rate change.

Wider benefits

- Stabilised budgets ensured Moonfire could confidently allocate resources for salaries and office expenses.
- The ability to capture market upside while maintaining a clear view of worst-case scenarios.
- Time and cost savings that allowed the team to focus on scaling their portfolio.

The deployment challenge

Most VCs think about FX too late – after an exit has been announced, when the deal is closing, or even worse, when the money is already in transit. The reality is that FX risk doesn't just show up at exit, it begins the moment a VC invests in a company denominated in a different currency from its fund.

For example, if you're raising capital in USD but deploying it into European startups in EUR, FX rate fluctuations can quickly skew the economics of a hard-fought investment.

Your investing team spends countless hours finding standout companies, evaluating opportunities, and hammering out terms that work for everyone. A signed term sheet reflects all that effort – a win for your LPs, the fund, and the founders you're backing. The last thing you need during due diligence is FX rate swings throwing the deal off balance.

Big FX fluctuations during due diligence

- Might adversely impact the economics or entry price of the deal.
- Can force your team to redo financial models and revise investment memos.
- Could require you to build in buffers or overcall capital to ensure sufficient funding in case rates move against you.
- In extreme cases, this may result in having to revisit terms with founders.

Nic from Moonfire explains: “When we sign a term sheet for an international investment, it’s usually a few months before the deal closes. In that time, exchange rates can shift, which might mean calling down more capital than planned or, worse, renegotiating terms, which could hurt our credibility with LPs and founders. So, that’s something we always look to avoid.”

Mark Pettit, CFO, Connect Ventures, shares a similar story: “In venture, deals can move fast, unlike private equity where you have more lead time. That means we need tools to react quickly and manage currency exposure without slowing things down.”

Proactive planning is key and doesn’t have to be difficult, as Connect Ventures discovered when they started using Bound (see case study on the next page).

The FX risks of making capital calls to international LPs

Capital calls typically allow two weeks for investors to make a payment. Within this period, exchange rate volatility can work for or against the fund.

- A negative currency movement could mean the fund doesn’t receive enough capital to complete an investment, forcing a follow-on capital call or creating cash shortfalls.
- A favourable market move might mean drawing more capital than necessary, creating IRR drag and inefficiencies in capital allocation.

FX for investments – made simple at Connect Ventures

The challenge
Connect Ventures faced an FX headache when managing cross-border investments. A sudden 15-20% surge in GBP during an EUR-denominated deal increased their capital calls beyond initial expectations.

Adding to the frustration, outdated banking platforms with clunky interfaces, poor transparency, and subpar rates made it difficult to manage currency fluctuations effectively.

Mark Pettit
CFO
Connect Ventures

The solution
By using Bound's forwarding strategy, Connect locks in exchange rates long before deals close. This helps ensure predictability and protects against sudden market swings – which have become increasingly frequent and sizeable in the last 10 years.

In turn, this proactive approach gives the team confidence that their capital calls will stay on track, no matter how the market moves.

The impact
Switching to Bound was a game-changer for Connect Ventures.

Locking in rates has turned unpredictable capital calls into a streamlined, predictable process. And moving away from outdated manual systems has freed up the team to focus on growing their portfolio.

Mark Pettit, CFO of Connect Ventures, notes: "Before Bound, there was always uncertainty on where our cost of investment would end up. Now, with structured FX management, we know exactly what we need and can call down the correct amounts confidently with no need for buffers or estimates."

The exit equation

Exits are the ultimate test of a VC fund's success. But they're also the riskiest phase when it comes to FX. Exchange rate shifts during prolonged closings or deferred payments can erode returns, impact the value of carried interest and overall fund performance.

Nic explains: "We've seen exits that looked exceptional on paper, only to have currency movements during closing erode those returns. When LPs see projections fall short due to FX issues, it raises questions about the operational rigour of a fund."

Mark adds: "Exits are unpredictable. Even when you know a deal is happening, the timeline to completion is often unclear, and the flow of funds can be delayed. Without precise tools, managing currency during exits becomes reactive rather than proactive."

The consequences of ignoring FX at exit

Take the example of a London-based VC fund that has an investment worth ~£67m in a US tech startup at a GBP/USD rate of 1.20. The company scales, the exit looks promising, and the fund is set to receive $80m in proceeds.

But in the months between signing the exit agreement and receiving the final payment, GBP/USD moves from 1.20 to 1.32. This 10% shift reduces the converted value of the exit proceeds, resulting in ~£6.7m less than initially expected.

Exit timing and visibility

Who needs to hedge?
The timing of an exit is a critical factor in FX risk management. And hedging approaches vary:

- **Seed, Series A, and Series B funds** often have little visibility into their exit timing. But with the right hedging strategy, funds can maintain flexibility while mitigating unnecessary currency risk. Flexible solutions allow VCs to manage exposure without committing too early, ensuring they are protected when an exit does materialise.

- **Later-stage VCs**, fund-of-funds investors, and credit funds have much greater visibility into exit timing. These funds often deploy capital into companies that are approaching profitability, strategic acquisition, or IPO. Their exposure is more predictable, making them ideal candidates for structured FX hedging strategies.

- **Funds with strong board influence** can steer an exit and have better insight into its timing and structure. If a fund knows it will exit via IPO in a year, forward contracts can lock in today's exchange rates, eliminating uncertainty.

How Bound can help
Exit proceeds can be the trickiest part of FX management, often needing tailored solutions to handle their unique challenges. While Bound covers most exit-related scenarios, we also offer advanced strategies designed to fit your specific needs. From managing fluctuating timelines and assessing the likelihood of closing to dealing with lock-up periods, we'll give you tools to help create the right structure for your situation.

Ian Milbourn, COO and CFO, Notion Capital, comments: "As a UK-based firm, we operate in GBP, but receive management fees in EUR over time, so we hedge that exposure. But we'll also eventually exit companies – at an unknown time, for an unknown price, and more often than not, in USD. That exposure is massive, but it's also difficult to hedge when none of the key variables are fixed. That's why we use Bound."

Got a big exit in a foreign currency on the horizon? Let's make sure you're set up for success. Get in touch, and we'll help you protect those returns.

checklist.

4 questions every VC should ask about FX risk

Before making any hedging decisions, consider:

1. How material is the FX risk?

Not every currency fluctuation is worth losing sleep over. The first step is understanding whether FX moves will actually impact your returns in a meaningful way.

As a general rule of thumb, if more than 20% of your fund's capital is exposed to FX risk, you need a hedging strategy. If it's less, you might still want to hedge selectively, especially if an exit is on the horizon.

2. How likely is investment success?

Hedging too early can be a waste of time (and money). Many early-stage VC investments won't make it to an exit, so locking in a hedge for an asset that never materialises could result in unnecessary costs.

But, for later-stage deals, where an exit is increasingly likely, waiting to hedge is a risk you can't afford to take. And there are flexible options available to help you get the best outcome, regardless of what the currency market throws at you.

3. What's the planned exit route?

- M&A with a domestic buyer? FX risk is limited.
- M&A with a foreign buyer? If the exchange rate moves against the fund before conversion, millions can be lost.
- IPO in a foreign market? FX exposure is real and should be managed.
- Secondaries sale? Depends on the buyer's currency, but risk needs to be carefully assessed.

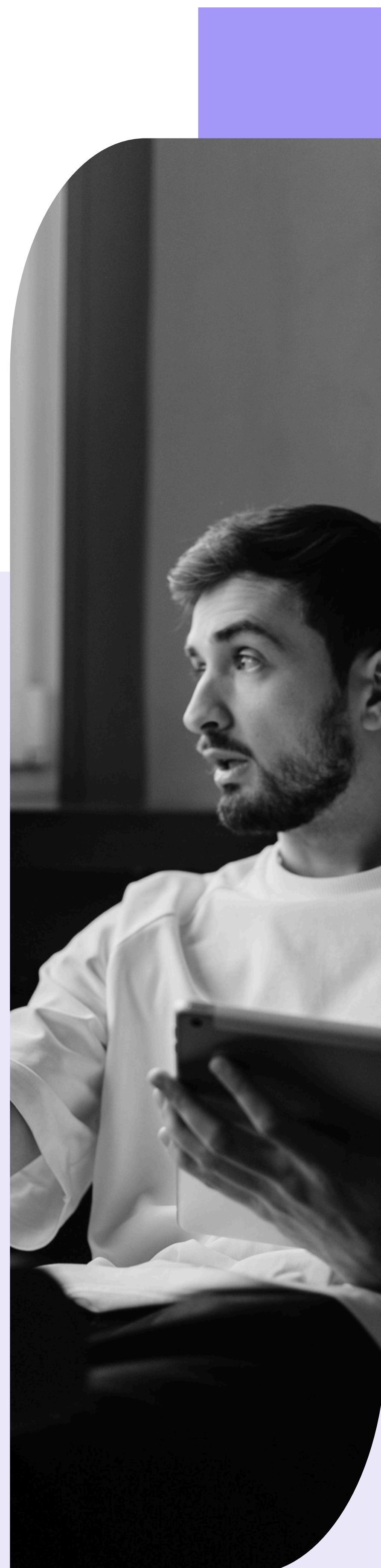
4. How much control do you have over exit timing?

If you have strong visibility on an exit date, hedging is straightforward. You can use forward contracts to lock in today's exchange rate for future cash flows.

If your exit window is uncertain, a mixed hedging strategy can give you the flexibility to manage FX risk without getting locked into a rate that might not match your actual exit. And with the right tech in place, it's easy to implement a hedge that works for you, not against you.

How FX hedging supports IRR

IRR is a key measure of a VC fund's performance. While investment growth is the primary driver of IRR, external factors – including currency fluctuations – can also have a meaningful impact.



- FX risk affects IRR by influencing the final value of investment proceeds when converted back into the fund's base currency. If an exit occurs in a different currency, exchange rate movements can either enhance or reduce returns.
- Unhedged FX exposure introduces variability, making it harder to forecast returns accurately and creating potential mismatches between expected and realised performance.
- Hedging strategies help stabilise IRR, ensuring that currency movements do not significantly impact exit proceeds or capital distributions.

For funds investing across multiple currencies, managing FX exposure is an important consideration in preserving IRR stability and ensuring more predictable returns for LPs.

Chat with us

Currency risk is complex, but managing it doesn't have to be. With Bound, you can tackle FX challenges head-on and stay focused on growing your portfolio.

Here's a recap of our strategies:

Forwarding

Locks in exchange rates for future transactions, providing predictability for capital deployment and securing returns during foreign exits.

Averaging

Aims to smooth out volatility by breaking large currency conversions into smaller, regular transactions – ideal for stabilising recurring expenses and addressing mismatches between collecting fees in one currency and spending them in another.

Ranging

Sets upper and lower rate limits, aiming to cap potential losses while capturing upside gains, making it perfect for unpredictable flows like deployments or exit proceeds.

These strategies aim to offer VCs a flexible and efficient way to manage currency risk at every stage of the investment lifecycle. With automation, simplicity, and powerful tech, we'll help you save time, stabilise budgets, and protect returns.

> "Bound has simplified and streamlined our FX management. It's incredibly easy to use, and we no longer waste time haggling with banks or brokers. The automation has been a game-changer, allowing us to focus more on investments and less on currency challenges."
>
> **Mark Pettit, CFO,**
> **Connect Ventures**

Get in touch at info@bound.co to find out more about how our VC customers have made FX headaches a thing of the past.

Or visit bound.co for additional info, customer stories, and FX insights.

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