



ANGEL CAPITAL ASSOCIATION

Best Practice Series:  
Portfolio Strategy

September 22, 2015



- Use chat to submit questions
- Yes, you'll get the slides
- We're recorded, so come back and listen again

SD

- Mission: Fuel the success of angel groups and accredited individuals active in the early-stage landscape
- World's largest trade group for angel investors
  - 220+ angel groups
  - 13,000+ accredited investors
  - Voice of accredited individuals, portals, and family offices
- 50 US states + Canada
- Research/ education partner



ANGEL CAPITAL ASSOCIATION

## MEMBER GROUPS & ACCREDITED PLATFORMS



ANGEL CAPITAL ASSOCIATION

# ACA PARTNERS



# Rising Tide US Fund



## OUR MODERATOR



Bill Payne  
Frontier Angel Funds

- Entrepreneur, sold company to DuPont
- Lead Instructor and Developer, Power of Angel Investing series, Angel Resource Institute
- Entrepreneur in Residence, Kauffman Foundation
- Over 70 angel investments
- Hans Severiens Award Recipient – 2009
- Arc Angel of New Zealand - 2010
- BS, MS, Engineering, University of Illinois at Urbana-Champaign



ANGEL CAPITAL ASSOCIATION

## OUR SPEAKERS



Angela Jackson  
Portland Seed Fund

- Co-founder and managing director of Portland Seed Fund
- ~100 investments, 12 accretive exits (1X-10X)
- Oversees award-winning Portland State University Business Accelerator
- Past president of Portland chapter of Keiretsu Forum
- Chair of Angel Oregon 2010 investment conference
- Angel Capital Association's public policy committee
- 2015 Woman of Influence by Portland Business Journal
- Board member at Crowd Supply & TIE Oregon
- B.A. Boston University (English & history); M.A. University of Oregon (Environmental Studies)



ANGEL CAPITAL ASSOCIATION

## OUR SPEAKERS



Victoria Barnard  
Women's Capital  
Connection

- Co-Founder, Women's Capital Connection – all women angel group since 2008
- Mentor, Rising Tide Fund- new “learn by investing” micro-fund
- President, Foot Traffic - family fashion legwear business
- 30 year career at Hallmark Cards, Inc. including VP Strategic Planning and VP Acquisitions Integration at Hallmark Cards
- Member- Innovation Advisory Board, Humana Inc.
- 20 year member Wise Assets Investment Club
- BS in Business Administration from Marquette University
- MBA from The Darden School at the University of Virginia



ANGEL CAPITAL ASSOCIATION

## TOPICS WE'LL EXPLORE TODAY

- Data on Angel Investor Returns
- Six Key Issues:
  - Scalability
  - Diversification
  - Due Diligence
  - Business Sector Expertise
  - Post-investment Engagement
  - Follow-on Investment
- Risk Tolerance
- Investing Methods:
  - Solo Investing
  - Angel Groups
  - Platforms

BP



ANGEL CAPITAL ASSOCIATION

## RETURNS TO ANGELS IN GROUPS\*

Number of Investments	3097
Number of Exits	1137
ROI	2.6X
IRR	27%
Did Not Return Capital	52%
Nine of Ten	Returned Capital for Ten Investments
Source of Upside	One in Ten Provide all of Upside

BP

\*2007, Professor Robert Wiltbank, PhD Willamette University



## IMPORTANCE OF DIVERSIFICATION

Monte Carlo simulation of Wiltbank data:

- 6 investments – 50% of return of capital (1X)
- 12 investments – 75% probability of 2.6X return
- 48 investments – 95% probability of 2.6X return

BP



## PATIENCE IS REQUIRED

- Some investments mature early, most don't
- Lemons rot faster than plums ripen (Villalobos)
  - <1X – typically 3 years
  - 10X – typically 6 years
  - 30X – typically 8 years

BP



ANGEL CAPITAL ASSOCIATION

## EXAMPLE: ANGELA'S PORTFOLIO

- 98 investments, 9 years, returns from 0-10X
- 65 through Portland Seed Fund, 6 individual, remainder with angel groups/competitions
- 6 @ ~1X – ALL under 3 years – signals distress
- 5 @ ~2.6X (1-5 years)
- 3 @ ~3-5X (3-6 years)
- 1 @ 10X (8 years -- no 30X yet!
- Plenty of 0's – but more like 30% than 52%
- 19 are < 1 year; others building value or on yellow light

AJ



ANGEL CAPITAL ASSOCIATION

## SCALABLE VENTURES

- You invest \$100,000 looking for 10X return or \$1,000,000 in 5 years
- But, you are not the only one with skin in the game
- In total the business is valued at \$1,000,000 when you invest.
- The business has to exit for \$10,000,000 at the end of 5 years.
  
- If 1 in 10 investments provide all the upside
- ...and you don't know which one
- ....all your investments need to have the potential to scale.

VB



ANGEL CAPITAL ASSOCIATION

## PORTFOLIO STRATEGY



Bill Payne  
Frontier Angel Funds



Angela Jackson  
Portland Seed Fund



Victoria Barnard  
Women's Capital  
Connection



ANGEL CAPITAL ASSOCIATION



## DUE DILIGENCE: SIGNIFICANTLY RELATED TO BETTER OUTCOMES\*

<u>Time Spent</u>	<u>&lt; 20 HOURS</u>	<u>&gt; 20 HOURS</u>
Exit Multiple	1.1x	5.9X
% exits with <1X	65%	45%
% exits with 10X to 30X	1%	5%
% of exits > 30X	none	10%

VB

\*2007, Professor Robert Wiltbank, PhD Willamette University



## PORTFOLIO STRATEGY



Bill Payne  
Frontier Angel Funds



Angela Jackson  
Portland Seed Fund



Victoria Barnard  
Women's Capital  
Connection



## TO FOLLOW ON (OR NOT)

- Wiltbank data clearly warns angel groups off
- Points to consider:
  - Angels seek maximum diversification on a limited pool
  - May seem wiser to buy into a new deal than double down on an existing one
  - Institutional money (almost) always sets aside follow-on reserves
  - Series A is a long way away – more seed deals than ever chasing same number of A rounds
  - New statistically significant and accurate data sources from Cruchbase and others show angel results beyond groups

AJ



ANGEL CAPITAL ASSOCIATION

## PORTFOLIO STRATEGY



Bill Payne  
Frontier Angel Funds



Angela Jackson  
Portland Seed Fund



Victoria Barnard  
Women's Capital  
Connection



ANGEL CAPITAL ASSOCIATION

## RISK TOLERANCE

- Critical to know thyself as it relates to risk
- In the universe of angel investment risk, some deals are potentially riskier than others – but come with higher potential rewards
- Know why you are doing a deal. A lot can go wrong on the way to 100X, so have a hypothesis (and a back-up plan)
- Manage upside vs. downside protection
- Gender/ethnicity differences in risk tolerance

AJ



ANGEL CAPITAL ASSOCIATION

## HOW MUCH SHOULD I SET ASIDE?

- Set aside an angel investing “pot”.
- 3-10% in this asset class.
- 60% of angels report net worth between \$1m-\$2.5m
- How liquid or illiquid is your net worth?
- You will be moving liquid assets into illiquid assets
- How much risk is in your existing portfolio?
- Don't put aside more than you are willing to lose or makes significant others uncomfortable.
- Build your own angel investment balance sheet- initial commitment, investments, group dues, tax credits, exits, etc.

VB



ANGEL CAPITAL ASSOCIATION

## PORTFOLIO STRATEGY



Bill Payne  
Frontier Angel Funds



Angela Jackson  
Portland Seed Fund



Victoria Barnard  
Women's Capital  
Connection



ANGEL CAPITAL ASSOCIATION

## RESOURCES

### Speakers

- Victoria Barnard / [v.e.barnard@gmail.com](mailto:v.e.barnard@gmail.com)
- Angela Jackson / twitter @abjackson  
[angela@portlandseedfund.com](mailto:angela@portlandseedfund.com) [www.portlandseedfund.com](http://www.portlandseedfund.com)
- Bill Payne / [bill@billpayne.com](mailto:bill@billpayne.com)

### References:

- Returns for Angels in Groups – [Report for download](#)
- Q2 2015 Halo Report – [Special Edition Geography Report](#)

SD



ANGEL CAPITAL ASSOCIATION

## THANK YOU! UPCOMING WEBINARS

October 14, 2015: Structuring Exits for Competitive Returns

November 28, 2015: Experience from the Trenches: How Angels are Using Crowdfunding Now

November 4, 2015 : Online DEMO with Seraf Investor

November 18, 2015: Best Practices Series: Valuation of Pre-Revenue Companies

December 16, 2015: Best Practices Series: The Key Points of Term Sheets

Webinar programs archived at: [www.angelcapitalassociation.org/events/webinars/](http://www.angelcapitalassociation.org/events/webinars/)



ANGEL CAPITAL ASSOCIATION

## ADDITIONAL RESOURCES



**Forbes**

Marianne Hudson  
Executive Director  
Angel Capital Association

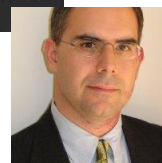


<http://www.angelcapitalassociation.org/news-forbes/>



**Inc.**  
Handbook of the American Entrepreneur

Christopher Mirabile  
Managing Director, Launchpad;  
Board Chair, Angel Capital  
Association



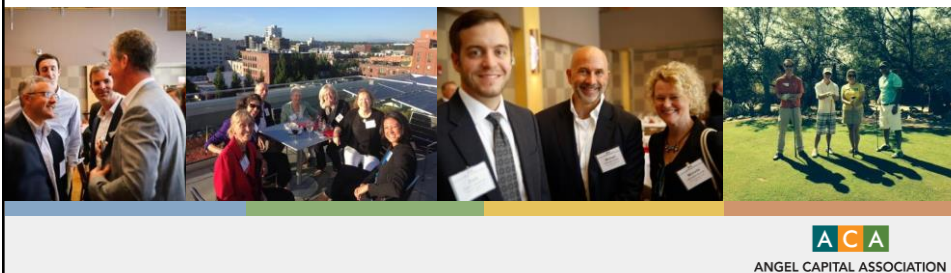
<http://www.angelcapitalassociation.org/news-inc/>



ANGEL CAPITAL ASSOCIATION

## UPCOMING ACA EVENTS

- October 21, 2015: New England Regional Meeting – Boston, MA
- October 22, 2015: Texas Angel Day – Fort Worth, TX
- October 23, 2015: Southwest Regional Meeting - Tucson, AZ
- November 9 – 10, 2015: Angel Insights Exchange, New Orleans, LA
- May 9 – 11, 2016: ACA Summit, Philadelphia, PA
- <http://www.angelcapitalassociation.org/events/>

**ACA**

ANGEL CAPITAL ASSOCIATION