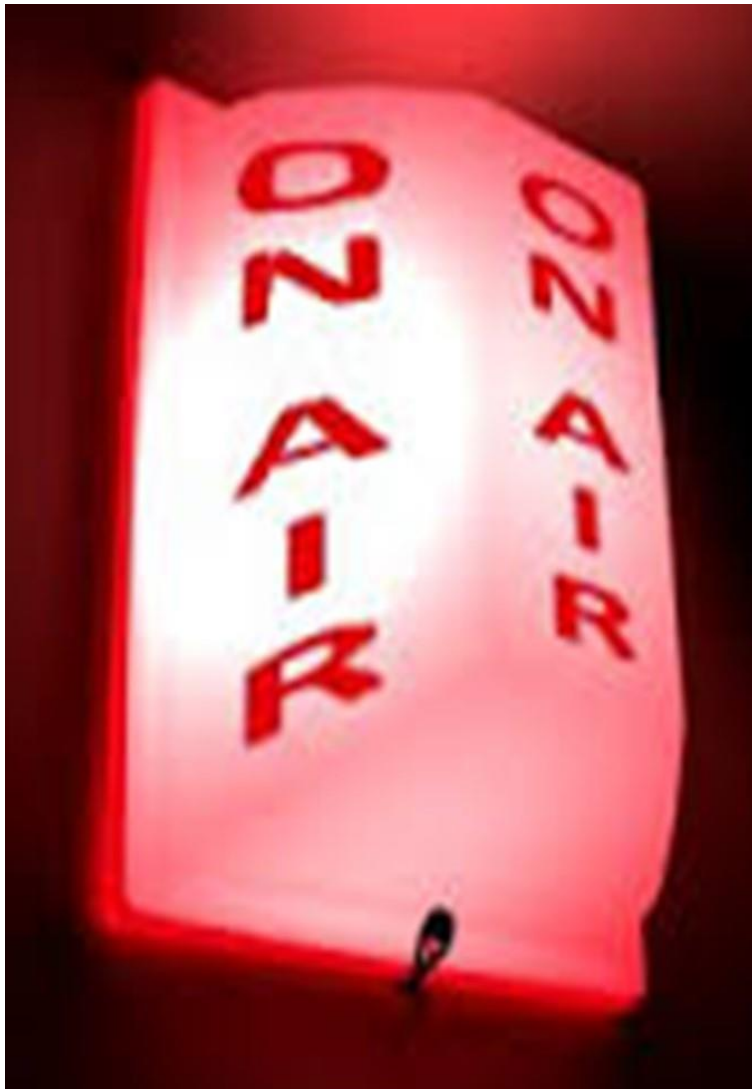




ANGEL CAPITAL ASSOCIATION

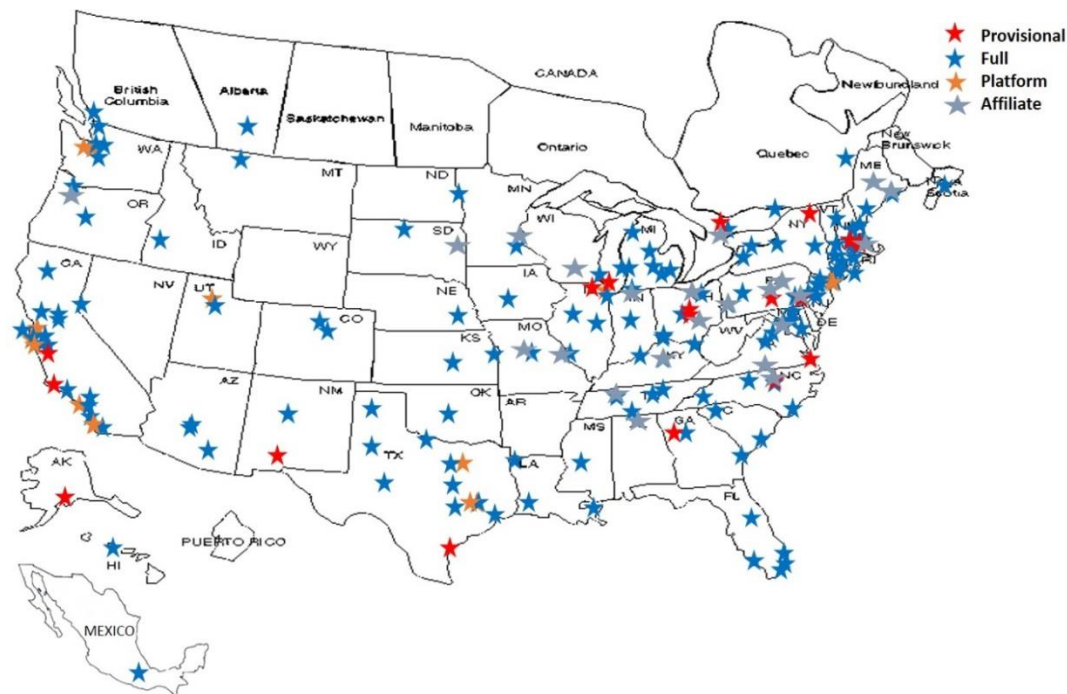
# Practical Strategies for Diversifying Your Portfolio

June 9, 2016



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

- Mission: Fuel the success of angel groups and accredited individuals active in 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



# ACA MEMBER GROUPS



# ACA MEMBER PLATFORMS



# ACA PARTNERS



# TODAY'S SPEAKERS



Rob Wiltbank  
Professor of Entrepreneurship,  
Willamette University  
CEO, Galois



Matthew Le Merle  
Managing Partner,  
Keiretsu Capital & Fifth Era

# TOPICS WE'LL EXPLORE TODAY

1. Angel Returns, Best Practices & Case for Diversification
2. Observed Angel Behaviors/Practical Constraints Faced
3. Practical Strategies for Diversification – Pros and Cons
4. Conclusion



# 1A. ANGEL RETURNS ATTRACTIVE

	Multiple	Hold	IRR	<1X	10% of exits to \$
2007 Returns to <b>Angel Investors</b> in Groups	2.6	3.5	27%	52%	90%
2009 <b>Siding with the Angels</b> Business angel investing – promising outcomes and effective strategies	2.2	3.6	22%	56%	80%
CAMBRIDGE C A ASSOCIATES Early stage VC '05-'11	2.1		29%		
	<i>Gross TVPI &amp; includes carried value</i>				

# 1B. BEST PRACTICES DRIVING RETURNS

Driver	Comment
Proprietary deal flow	Sourced through relationships – fewer bad actors/behaviors Up to 70% for established angel groups
Strong angel led due diligence culture	Angels that spend more than 40 hours achieve a 5.9x return compared to low diligence investors who achieve a 1.1x return*
Active participation in portfolio companies	Angels who interact 2 times a month or more with portfolio companies achieve a 3.7x return compared to passive investors who achieve a 1.3x return*
Deep expertise in investment areas	Angels investing in areas of direct industry experience achieve multiples twice as high as those invested outside their expertise*
Tight relationships with follow on investors	Leading angel groups partner with venture capital and strategic investors to enable follow on rounds and exits

\* Source: Kauffman Foundation, Professor Wiltbank of University of Willamette, Keiretsu Capital

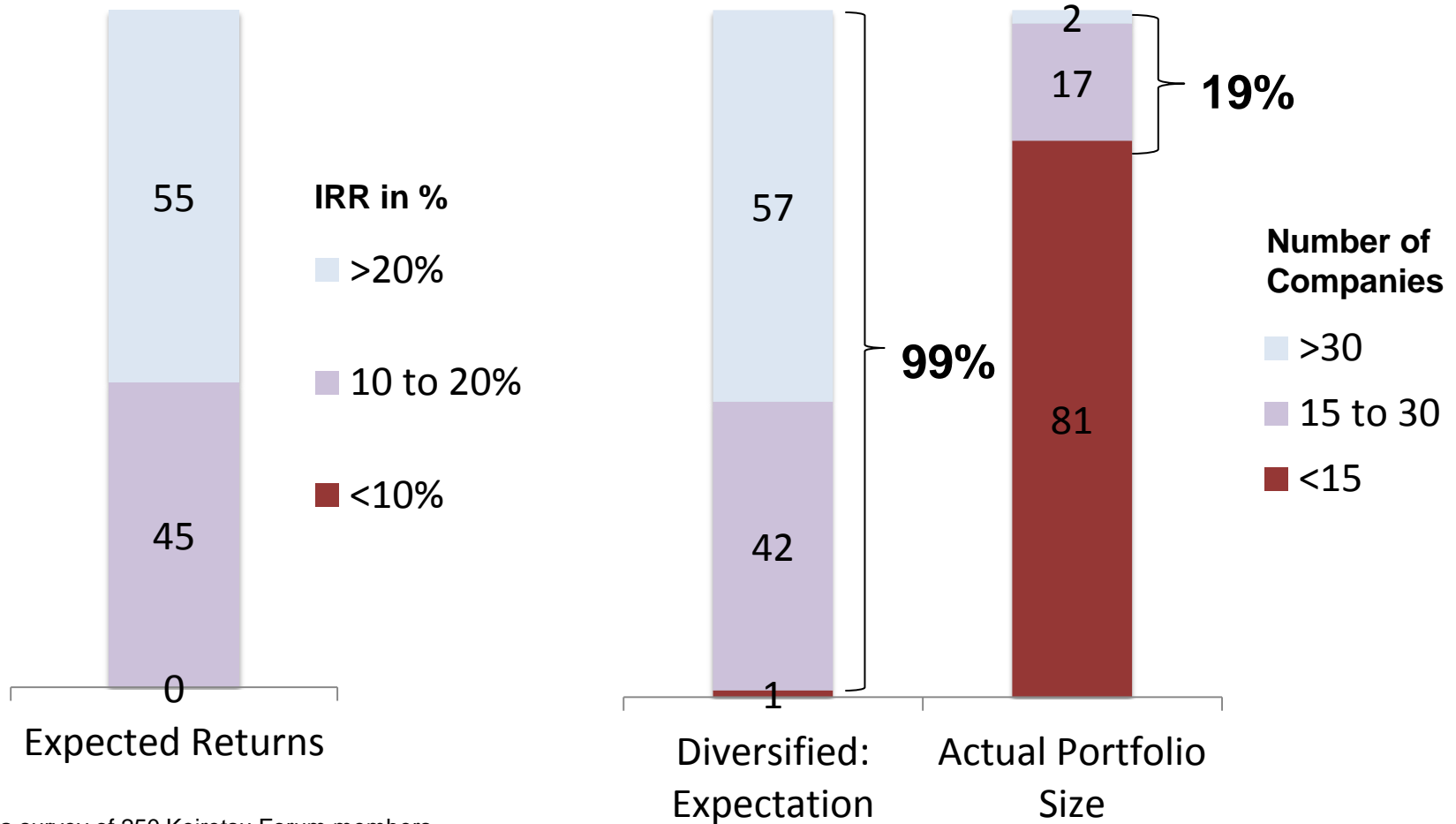
# 1C. CASE FOR DIVERSIFICATION

- Given skew of returns and reliance on 10x exits...
- ...approximately 40% of investors will receive no capital return
- As angels we focus on return – but can manage risk too
- **Diversification does not increase return, but does raise probability of achieving the expected population return**
- Larger portfolio of investments improves risk profile:
  - 12 Investments = 75%
  - 24 investments = 90%
  - 48 investments = 95%

\* Source: Professor Wiltbank of University of Willamette

# 2A. OBSERVED BEHAVIORS

SURVEY OF 250 KEIRETSU FORUM MEMBERS, 2016



Sources: Fifth Era survey of 250 Keiretsu Forum members

# 2B. PRACTICAL CONSTRAINTS

SURVEY OF 250 KEIRETSU FORUM MEMBERS, 2016

## Reasons given for insufficient diversification

- Allocation (say 10%) given net worth limits investment #
- Minimum investment sizes limit portfolio size
- Requires too much time to be active across large portfolio
- Don't have enough time to attend enough meetings
- Uncomfortable investing outside own area of expertise
- Don't see enough in home geography

Sources: Fifth Era survey of 250 Keiretsu Forum members

# 3A. PRACTICAL STRATEGIES FOR ANGEL PORTFOLIO DIVERSIFICATION

If the intent is to “play the same game” and not invest in some other game (e.g. Spray and pray)

## Guiding Principles:

- Investments must be “Angel Investments” to accurately reflect asset class return E.g.:
  - Not other asset classes (Public markets, Real estate, Series B/late VC/PE etc.)
  - Made by angels investing in groups
  - US, North America, International geographical sector focus needs consideration
- Best practices of Angels investing in groups must be ensured
- No or low cost is best (to capture largest return)

# 3B. STRATEGIES FOR DISCUSSION

1. More, smaller, direct investments (more syndication)
2. Angel co-investment funds as LP
3. Equity crowd-funding direct/syndicates/funds
4. Incubator/Accelerator funds as LP
5. Micro VC fund as LP (Professional managers)

# 3C. STRATEGY DISCUSSION

Guiding Principles	More, Smaller Direct Deals (Syndicate)	Angel Co-Investment Funds as LP	Equity Crowdfunding (Direct /syndicates /funds)	Incubator/ Accelerator Funds as LP	VC Micro Funds as LP
Investments are Angel Investments	Yes	Yes	Can be	?	Can be
Proprietary Deal flow	Yes	Can be	?	Yes	?
Strong angel led DD culture	Yes	Can be	?	Can be	?
Active participation in portfolio companies	Yes	Can be	?	Yes	Can be
Deep expertise in investment areas	Yes	Can be	?	Can be	Can be
Tight relationships with follow on investors	Yes	Can be	Can be	Can be	Can be
No/Low costs	Yes	?	?	?	?



# 3D. IMPLICATIONS

In order to get the benefits of diversification:

- Angels should invest in more deals with less capital/deal
- For many this will require more syndication
  - Syndication processes and standards needed
- All other strategies raise important questions
- Angels should ask the right questions and insure guiding principles are met across all other strategies
- The devil is in the detail

# 4. CONCLUSIONS

- Angel returns attractive – in mid 20's IRR's
- Angels demonstrating best practices benefit most
- Given skewed returns, diversification needed
- 24 (to 48) or more investments likely required
- Angels rarely meet this diversification threshold
- Practical constraints intervene – most have < 15
- Five key strategies exist; all but one raise issues
- **Recommend more smaller investments, syndication and exploring strategies/vehicles that maintain best practices**

# AUDIENCE RESOURCES

- Robert Wiltbank – [wiltbank@willamette.edu](mailto:wiltbank@willamette.edu)
- Matthew Le Merle – [matthew@keiretsucapital.com](mailto:matthew@keiretsucapital.com)
- <http://www.angelresourceinstitute.org/>
- [www.keiretsucapital.com/angel-returns/](http://www.keiretsucapital.com/angel-returns/)

# THANK YOU!

## UPCOMING WEBINARS

June 27, Exit Strategies, Basil  
Peters

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



# 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/>

# UPCOMING ACA EVENTS

- September 6, 2016 Women in Angel Investing, Boston, MA
- September 22, 2016, Best of the Midwest, Minneapolis, MN
- October, 2016 SW Regional Meeting, Phoenix, AZ
- November 2016, Angel Insights Exchange, Nashville TN
- <http://www.angelcapitalassociation.org/events/>

