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

MEMBER GROUPS & ACCREDITED PLATFORMS
Rising Tide US Fund
OUR MODERATOR

- 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

Bill Payne
Frontier Angel Funds

OUR SPEAKERS

- 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)

Angela Jackson
Portland Seed Fund
OUR SPEAKERS

- 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

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
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

*2007, Professor Robert Wiltbank, PhD Willamette University

IMPORTANTANCE 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
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

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
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.

PORTFOLIO STRATEGY

Bill Payne
Frontier Angel Funds

Angela Jackson
Portland Seed Fund

Victoria Barnard
Women’s Capital Connection
# DUE DILIGENCE: SIGNIFICANTLY RELATED TO BETTER OUTCOMES*

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

*2007, Professor Robert Wiltbank, PhD Willamette University

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# 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

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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

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.
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RESOURCES

Speakers
- Victoria Barnard / v.e.barnard@gmail.com
- Angela Jackson / twitter @abjackson angela@portlandseedfund.com www.portlandseedfund.com
- Bill Payne / bill@billpayne.com

References:
- Returns for Angels in Groups – Report for download
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/

ADDITIONAL RESOURCES

Marianne Hudson
Executive Director
Angel Capital Association

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

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

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