• 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
  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

ANGEL RESOURCE INSTITUTE
ACA MEMBER PLATFORMS

AgFunder
AngelList
angelMD
DreamFunded
FlashFunders
Florida Funders
FundersClub
healthfundr
masscatalyst
onevest
OurCrowd
portfolia
Seed Equity Capital Partners, LLC
seedInvest
SEEDRS
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

<table>
<thead>
<tr>
<th></th>
<th>Multiple</th>
<th>Hold</th>
<th>IRR</th>
<th>&lt;1X</th>
<th>10% of exits to $</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2007</strong></td>
<td>2.6</td>
<td>3.5</td>
<td>27%</td>
<td>52%</td>
<td>90%</td>
</tr>
<tr>
<td><strong>2009</strong></td>
<td>2.2</td>
<td>3.6</td>
<td>22%</td>
<td>56%</td>
<td>80%</td>
</tr>
<tr>
<td><strong>Early stage VC ’05-’11</strong></td>
<td>2.1</td>
<td></td>
<td>29%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Gross TVPI & includes carried value*
<table>
<thead>
<tr>
<th>Driver</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proprietary deal flow</td>
<td>Sourced through relationships – fewer bad actors/behaviors</td>
</tr>
<tr>
<td></td>
<td>Up to 70% for established angel groups</td>
</tr>
<tr>
<td>Strong angel led due diligence culture</td>
<td>Angels that spend more than 40 hours achieve a 5.9x return compared to low diligence investors who achieve a 1.1x return*</td>
</tr>
<tr>
<td>Active participation in portfolio companies</td>
<td>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*</td>
</tr>
<tr>
<td>Deep expertise in investment areas</td>
<td>Angels investing in areas of direct industry experience achieve multiples twice as high as those invested outside their expertise*</td>
</tr>
<tr>
<td>Tight relationships with follow on investors</td>
<td>Leading angel groups partner with venture capital and strategic investors to enable follow on rounds and exits</td>
</tr>
</tbody>
</table>

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

Expected Returns

- >20%: 55
- 10 to 20%: 45
- <10%: 0

IRR in %

Diversified: Expectation

- >20%: 57
- 10 to 20%: 42
- <10%: 1

Number of Companies

- >30: 1
- 15 to 30: 17
- <15: 81

Actual Portfolio Size

19%

Sources: Fifth Era survey of 250 Keiretsu Forum members
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.:
  o Not other asset classes (Public markets, Real estate, Series B/later VC/PE etc.)
  o Made by angels investing in groups
  o 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

<table>
<thead>
<tr>
<th>Guiding Principles</th>
<th>More, Smaller Direct Deals (Syndicate)</th>
<th>Angel Co-Investment Funds as LP</th>
<th>Equity Crowdfunding (Direct/syndicates/funds)</th>
<th>Incubator/Accelerator Funds as LP</th>
<th>VC Micro Funds as LP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments are Angel Investments</td>
<td>Yes</td>
<td>Yes</td>
<td>Can be</td>
<td>?</td>
<td>Can be</td>
</tr>
<tr>
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<td>Yes</td>
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<td>?</td>
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<td>?</td>
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<td>?</td>
<td>Can be</td>
<td>?</td>
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<tr>
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<td>Can be</td>
<td>?</td>
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<td>Yes</td>
<td>Can be</td>
<td>Can be</td>
<td>Can be</td>
<td>Can be</td>
</tr>
<tr>
<td>No/Low costs</td>
<td>Yes</td>
<td>?</td>
<td>?</td>
<td>?</td>
<td>?</td>
</tr>
</tbody>
</table>
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

• Matthew Le Merle – matthew@keiretsucapital.com

• http://www.angelresourceinstitute.org/

• www.keiretsucapital.com/angel-returns/
THANK YOU!

UPCOMING WEBINARS

June 27, Exit Strategies, Basil Peters

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

- 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/](http://www.angelcapitalassociation.org/events/)