

Case Study: Member-Managed Angel Funds

Overview

Loon Creek Capital Group has created and administered 5 member-managed Angel Funds in Boise, Idaho and Fresno, California. The company also services Angel Investors and funds throughout the Northwest United States. This case study follows the evolution of the Boise Angel Alliance and the creation of member-managed funds. These funds along with the alliance have deployed over \$12M into the local economy resulting in over 375 new jobs, \$38M in payroll, and more than 100 educated investors.

Boise Angel Alliance Formation

In 2004, a group of local business people with an interest in promoting economic development through entrepreneurship came together to form the Boise Angel Alliance. It was their belief that by making private investment capital available to local entrepreneurs, they could incentivize companies to start and keep their operations in Idaho rather than moving to Seattle or Silicon Valley. The original group of five started meeting and hearing pitches and soon grew to a regular group of around 20 potential investors.

After they had been meeting for about two years, the original group convened to discuss how things were going. It appeared that while the group was effective at finding entrepreneurs to pitch and the meetings were a great social success, there were very few actual investments being made. The group's structure had not addressed the challenges that solo investors face: conducting due diligence, negotiating the deal, understanding legal documents and complex investing terms, and maintaining relationships with the company post-investment. Investment decisions in the group often fell along the lines of the "I'll invest if you invest" conversation.

Fund Creation

The founders decided that formation of a legal entity with pooled funds and shared efforts and expertise to conduct the work might address the issues noted above, and result in actual investments. So in 2007, they formed the Boise Angel Fund, a member-managed LLC with 27 members and \$1,350,00 in committed capital.

Early Lessons Learned

The strategy worked. Over the next seven years (including the recession of 2008-2009) the first fund invested \$1.3 million in fifteen early stage companies, twelve of them located in Boise. Today several of those companies have become notable successes including Nurture, Inc. with their Happy Family brand of children's food and Cradlepoint, the leading supplier of WAN solutions for distributed and mobile computing. In making these investment decisions, we learned several important lessons:

- 1. Good fund governance is critical.** In a member-managed fund, the members make the investment decisions by vote. Not surprisingly, angel investors have different perspectives, often strongly felt, and

seldom do all agree upon an investment. Early decisions often took months, frustrating both entrepreneurs and the angels.

Over the nine years since founding the first fund we have developed a governance structure and process that includes clearly defined responsibilities, facilitates timely decision-making, and ensures all members have a voice. This includes an effective pre-screening process, a Screening Committee that meets monthly, a preliminary vote by the members before due diligence, an effective and timely due diligence process, a supermajority vote to authorize investment, a Portfolio Committee to maintain an ongoing relationship with investment companies and a Co-investment Committee to share deals with other angel groups.

2. When the fund is fully invested, the process stops. We waited until the first fund was fully invested before beginning the process of raising the next fund. This resulted in our not being active in the market for nearly a year. As a consequence, we had to rebuild both our reputation and deal flow once the next fund was ready to consider deals. Today as the current fund approaches full investment, we actively work to create the next fund.

3. Someone has to do the work. Like any volunteer organization, administrative work must be done. But good administration is even more important given we are dealing with more than a million dollars. The fund must call meetings, keep legal, investment and accounting records, file tax returns, maintain access to records for members, screen out inappropriate deals, close and track investments, liquidate investments and return capital to the members. While members enjoy the investment process and actively participate on committees, none of them want to do the administrative work. Accordingly, funds must hire an individual or engage professionals to conduct the administration.

Loon Creek Capital Group

As the first fund approached the end of its active investing phase, Kevin Learned, one of the fund's founders and its administrator, repeatedly called for volunteers to help launch the next fund. While members agreed a new fund should be started, no one wanted to volunteer for the effort. As a result, Loon Creek Capital Group was formed in 2010 by Kevin Learned and Denise Dunlap, an investor in the fund. Their vision was to facilitate the formation of future funds by providing professional administration services and to maintain continuity by retaining the expertise gained by the groups over time.

Loon Creek initiated, founded and provided administrative support to the Treasure Valley Angel Fund in 2012 and the Capitol City Angel Fund in 2014. In 2015 they facilitated the founding of the Central Valley Angel Group in Fresno, CA and continue to provide administrative and consulting support to that group. Loon Creek is currently working to facilitate formation of a fourth fund in Idaho, the Gem State Angel Fund.

Continuing Role of the Boise Angel Alliance

While each fund is a separate legal entity with overlapping investors, the Alliance has continued as an umbrella organization to support local angels. Its mission is in part to help individuals who have the means and interest in making angel investments do so using best practices. Some individuals are

uncomfortable with investing in a fund where there is group decision making. They may join the Alliance as an individual member by paying dues. This entitles them to attend all the meetings of the active funds, including screening committee and due diligence team meetings as observers.

The Alliance provides a consistent brand and voice for the angels in the Boise community. It maintains the web site, issues press releases, and maintains impact records.

It has an active education effort with monthly one-hour workshops and occasional daylong seminars. Perhaps most importantly, it has become the catalyst for the formation of new angel funds in Idaho.

Conclusion

Just as accelerators and incubators foster the development of novice entrepreneurs, member-managed angel funds incubate new angels. By participating in an angel fund, members learn best practices along side more experienced angels, and reduce their risk through a diversified portfolio.

As subsequent funds have been formed, we have observed the trend of members investing in syndicates as a way to stay involved and diversify while retaining more capital for side investments. Side investments in funds two and three have increased substantially as our members have become more experienced and are more comfortable making their own investment decisions.

The impact of an organized angel group within a community can be substantial. In addition to the employment numbers noted in the introduction, the following has been a result of the Boise Angel Alliance and its funds:

- Over 100 local individuals have invested in Boise startups through the Boise Angel Alliance since it was created and twenty-three local companies have received capital support.
- Collectively the first three funds have provided about \$3 million in early stage capital
- Members have invested an additional \$3 in these companies for every \$1 the funds have invested, resulting in more than \$12 million of capital for our local entrepreneurs.
- We have learned how to effectively manage member-based funds including creating syndicates so angels can purchase fractional units.
- Because the funds usually function as lead investors, they generally can set their own terms rather than accepting excessively high valuations.
- The investors in the first fund have received all their capital back and still own an interest in a diversified portfolio of growing companies. The second fund has begun to liquidate its positions and the third is still making investments.

Perhaps most importantly, the Boise Angel Alliance has established a culture of investing and supporting early stage, high-growth companies within the area. Many companies who previously would have started or relocated their companies to more supportive cities now believe they can grow their companies at home in Idaho.