

PENSCO Insights:

2015 PENSCO Crowdfunding Report



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Crowdfunding Redefined

The new wave of capital raising in 2015

Crowdfunding. Equity crowdfunding. Crowdinvesting. Peer-to-peer lending. What do these terms mean? How do they help investors locate and access opportunity? These are two of the questions that we hear regularly from clients who are looking to diversify their tax-advantaged retirement portfolios with high-quality alternative assets.

The answers are a work in progress. Less than three years ago, private placements could not be advertised, on the web or otherwise. Today, we are able to create an entire report about using websites, social media and other Internet-based technology to connect investors with private placements.

The rapid evolution of “crowdfunding” means there is still debate over basic terminology (see page 4), but more importantly the opportunities to participate in private equity and debt offerings continue to grow and expand, aided by a favorable regulatory environment, lower investment minimums and technology.

We created [The PENSCO Marketplace™](#) to help self-directed investors research these opportunities. Many IRA holders do not realize that in addition to traditional exchange-traded assets like stocks, bonds and mutual funds, they can also invest in assets that traditional financial institutions don't offer, such as limited partnerships, private equity and real estate.

The goal of this report is to help investors research the evolving landscape of opportunities that meet their investment goals and risk profile. Offered here are the perspectives of participants in [The PENSCO Marketplace™](#) along with insight from one of the preeminent angel investing industry organizations.

There are a few key trends to keep in mind as you explore this material.

First, investment in and access to private equity are growing rapidly. A watershed moment was September

2013, when the Securities and Exchange Commission (SEC) released new rules for [accredited investors](#) under Title II of the Jumpstart Our Business Startups (JOBS) Act. This began “equity crowdfunding” to accredited investors and inspired new funding models for [early stage companies](#), [angel investors](#), and [local businesses](#). Existing laws also allow for private equity investing by unaccredited investors under certain conditions as well as peer-to-peer lending for all investors, and the SEC is working now on Title III, which could eliminate the last barriers between unaccredited investors and private placements.

Second, the variety of opportunities available to investors is increasing. Through online platforms, accredited investors now have access to a myriad of assets and sectors, including [consumer products](#), [filmed entertainment](#), [healthcare](#), [commercial real estate](#), [residential real estate](#) and [sports](#).

Third, popularity and interest are putting pressure on issuers to provide a level of transparency and communication that is more like a public company than a traditional private placement.

Fourth, the combination of transparency and access means that online platforms are beginning to provide individual investors with [institutional grade information](#) and deals, allowing those investors to use private equity and debt to diversify their portfolios.

Crowdfunding has grown out of its first phase, when most people were still learning the word and understanding the concept. Today, online platforms

are making it much easier for more people to participate in private investments offered online. PENSICO created The PENSICO Marketplace™ to help investors do just that. In the next few years, we expect the rules for unaccredited investors will change and potentially take crowdfunding through another major evolution. Fortunately, investors don't have to wait until then. There are already numerous opportunities for accredited investors, such as real estate and lending, in which unaccredited investors can regularly participate. When we consider that [\\$146 billion is currently](#)

[held in self-directed IRAs](#)¹, it is easy to see that this new course of investing is only just getting started.

Regulatory and technology changes are also shifting lending activities -- like small business and personal loans -- from traditional banks to peer-to-peer lenders or other non-bank competitors like alternative asset managers. The two largest peer-to-peer loan issuers, Lending Club and Prosper, grew 65X from 2009 to 2014 [\$26M to \$1.7B]². Clearly, both investors and borrowers would be interested in tapping into the more than \$7.3 trillion that is sitting in retirement accounts.³

"Crowdfunding" or Not?

"Crowdfunding" has become an umbrella term for a new wave of fund raising for startup businesses, working its way into [Merriam-Webster's dictionary in 2014](#). Even so, there is disagreement and confusion around the term. For example, most private equity offerings are still limited to accredited investors, so some question whether this is really a "crowd," and the market currently views peer-to-peer lending separately. Whatever moniker is applied, the most important thing to understand before putting money behind a "crowdfunding" campaign is what you can expect to receive, if anything, for handing over your money. This question divides crowdfunding into three main categories:

Rewards-based

This is the original "crowdfunding" and is now also referred to as "peer-to-peer investing." Participants pledge money online to support a fledgling business or project, and they receive a reward, such as the right to buy a product first when – and if – it hits the market. Well-known players include Kickstarter and Indiegogo. Individuals do not receive an ownership stake and if the endeavor fails, there is typically little recourse. This category continues to attract investors, and we believe it is [poised for continued growth](#) this year.

Equity

A quickly growing subset of crowdfunding offers ownership in private enterprise with the possibility – though no guarantee – of a payoff through an initial public offering (IPO), merger or acquisition. This "equity crowdfunding," "crowdfinancing," "securities crowdfunding," or investing through "accredited platforms" brings eligible investors together through technology for a [private placement](#). It can

require long holding periods and [significant due diligence](#), and investors can expect to complete a purchasing document and agree to terms and conditions. Often only [accredited investors](#) can participate, although new legislation for unaccredited investors is moving through the states. At the federal level, the SEC is still reviewing Title III of the JOBS Act and will likely not implement new rules for unaccredited investors until 2016.⁴

Peer-to-peer lending

Not to be confused with peer-to-peer investing, peer-to-peer lending matches investors with individual borrowers who are looking to refinance personal loans, such as credit card debt. The sector started with small-sized loans to well-qualified investors, but is now expanding to include larger loans, like mortgages, and securitization. We expect peer-to-peer lending to [gain more popularity this year](#).

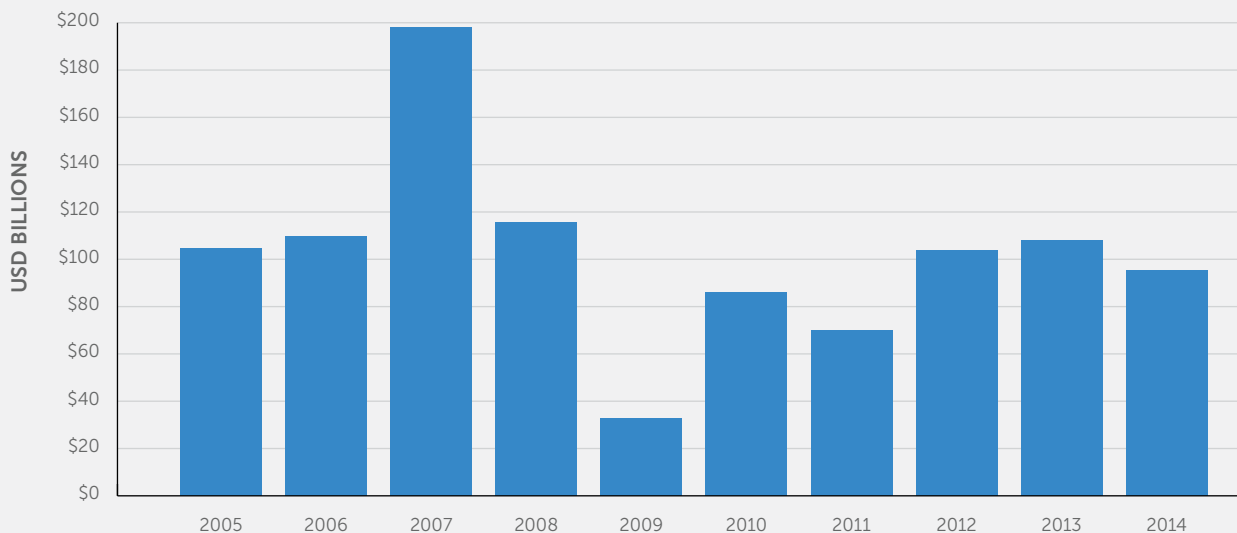
Strong Finish

Quality drives success in sports and entertainment deals

ANDY BRUSMAN, *ALCHEMY GLOBAL HOLDINGS, LLC*

According to PitchBook, 2014 was the third consecutive year that business-to-consumer companies raised more than \$90 billion through private equity in the United States.⁵ Within the sports and entertainment sectors specifically, we have seen a healthy pipeline of deals over the past four years and the category continues to expand. For example, new opportunities have emerged in recent years with endurance sports and consumer products related to health and wellness, such as wearables.

Private Equity Financing for B2C Companies



Source: Pitchbook Data, Inc.

Sports and entertainment deals benefit from familiarity. Investors know many of the products, personalities and brands involved, either as fans or consumers. At Alchemy Global Holdings, we estimate that approximately 95 percent of consumers have ties with the sports and entertainment sector.

Given the wealth of investment opportunities, the key question for companies seeking funding is,

“How can we bring investors to the table?” One new answer to this old question is “general solicitation,” which the U.S. Securities and Exchange Commission defines as offering an investment in securities through “advertisements published in newspapers and magazines, public websites, communications broadcasted over television and radio, and seminars where attendees have been invited by general solicitation.”⁶

Quality versus quantity

General solicitation is also sometimes called “equity crowdfunding” in the United States, but that is something of a misnomer in the sports and entertainment sector. The majority of these deals are not available to the general public but to accredited investors. Still, the online marketplaces that facilitate general solicitations are building the foundation of what may become true crowdfunding, if the current regulations change (as some expect they will).

In sports and entertainment, Internet platforms are competing to build networks of investors that may be able to fully fund a significant volume of deals in the coming years. This is putting many new opportunities in front of investors, who now have the additional option of using their individual retirement accounts to invest. In this environment, deal quality is very important.

It’s important to remember that general solicitation has not changed investing fundamentals. To identify quality deals, investors need to be familiar with the sector and conduct thorough research. The drivers of quality for sports and entertainment investments are similar to those for many other sectors. Two examples are a large total market opportunity and being in a vertical that is growing quickly. Wearable technology is one sector that currently has both. In golf products, on the other hand, market share is not currently growing and it hasn’t in the past several years.

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In addition to understanding the issuer’s business back to front, investors should ask questions about the Internet funding platform and the issuer’s capital raising plan. With Internet marketplaces still nascent, issuers usually need to supplement online efforts with other fundraising strategies in order to meet their goals. If the issuer’s only plan is online marketing, it’s worth noting.



Good Communication

As the investor base expands, issuers have to get used to more transparency. Some are uncomfortable supplying all the information required for general solicitation. Internet platforms have responded by guiding issuers through investor communications, including providing ways to keep information confidential and manage non-disclosure agreements.

Companies sometimes worry that the simple fact of raising money “in public” may be seen as a sign of failure or weak finances. The opposite is true: capital raising signals that a company is in growth mode, and closing a successful round is a strong validation of future prospects. That means transparency is a win for both investors and companies seeking their interest.

General solicitation is not a passing fad. It is currently a supplemental funding strategy for sports and entertainment companies because the model is really in its infancy. All signs point to it becoming a game-changing means of raising capital for companies that will significantly expand investment opportunities for accredited investors.

It is also one step closer to true crowdfunding in the United States. The U.S. Securities and Exchange Commission is currently considering how to open access to private equity beyond accredited investors, and if the United Kingdom is any guide, growth could be explosive. In April of 2014, the UK changed the rules around private equity, establishing certain limits and protections for non-accredited investors, so that any individual could conceivably invest. This opened the gates to crowdfunding in the true sense of the word, and by the end of 2014, equity crowdfunding in the UK had grown 201%, with an average deal size of more than USD \$300,000.⁷

One of the ingredients of success in the UK has been good education for non-accredited investors on the benefits and risks of private equity and particularly the risk of failure for early stage companies. There are still areas to be worked out, such as how to include the appropriate disclaimers and warnings in social media promotion,⁸ but overall the UK may serve as a model for the United States' next step towards open access to private equity.

At the end of the day, general solicitation and crowdfunding will succeed in the United States through quality deals and good communication. Both help issuers finish strongly with successful funding rounds that can ultimately lead to profitable exits for their investors.



THE GREAT FINISH STARTS HERE

About the Author

In his role as the Founder and Chairman/CEO of Alchemy Global Holdings, LLC, Andy Brusman is responsible for guiding the strategic growth of the company, fundraising and business development. Prior to Alchemy, Andy was the founder and Managing Partner of SAE Advisory Group. In this role, he worked with notable clients such as Great White Shark Enterprises/Greg Norman, Legend 10 (the acquirer of the global IP of international soccer legend Pele) and Montel Williams Enterprises. Previously, Andy was a Managing Director with Cortview Capital Securities, where he oversaw the firm's activities in sports and entertainment. Andy graduated with a BA in Communications from Lynchburg College. He and his wife, Chris, are the parents of two sons and reside in Charleston, SC. Andy currently maintains the Series 82 and Series 63 securities licenses.

About Alchemy Global Holdings

Alchemy Global Holdings, LLC is an investment banking and advisory services firm focused on sports and entertainment. Backed by investors who include Greg Norman, Jim Courier, Boris Becker and Sir Elton John's Rocket Sports agency, the firm works with emerging growth companies to help them raise capital and assist with the implementation of their growth plan.

Alchemy Global Holdings, LLC ("Alchemy") is not a registered broker dealer. Securities offered are through Merriman Capital Inc, a registered broker dealer and member FINRA/SIPC.

New Wings for Angels

Accredited platforms and other innovations create opportunity

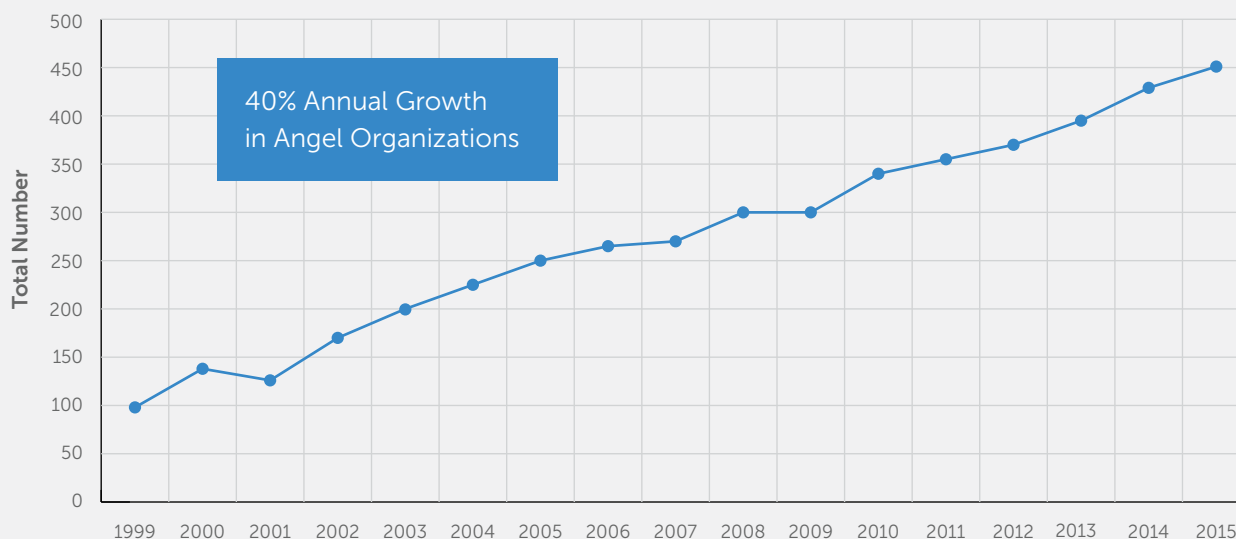
MARIANNE HUDSON, ANGEL CAPITAL ASSOCIATION

The landscape for early-stage investing has changed more in the last few years than it has in centuries. The result is exciting new opportunities for investors and entrepreneurs. Just look at the evolution. For 200 years angel investing was done only privately on an individual basis. In the last 20 years, major events created an evolutionary leap.

More big changes will undoubtedly come as the market continues to innovate and adjust to rules and regulations that will help the [Jumpstart Our Business Startups \(JOBS\) Act](#) become a reality. So what do accredited investors need to know to capitalize on new opportunities?

Tracking the Evolutionary Leap in Angel Investing

1995	Individual angels invest together with other angels in formal groups	2009	Entrepreneurs use social media to connect to potential investors
2000	Number of angel organizations passes 100	2010	Innovative angels connect investors and startup deals over the Internet, developing new ways to "curate" interesting deals for private investment
2005	Y Combinator launches	2011	Accelerators proliferate to develop interesting startups for angels to support
2006	Angel groups co-invest together, helping diversify angel portfolios; TechStars launches	2012	Congress passes the JOBS Act, which allows for private offerings to be "generally solicited" and creates new financing paths, including equity crowdfunding
2007	Super angels: Top angels raise funds with institutional investors to fund hundreds of startups per year		



Source: Center for Venture Research & Angel Capital Association

Different Kinds of Crowdfunding

To start, it is important to understand that there are different kinds of “crowdfunding.” It has become a popular term, but it is often misunderstood - and confusion could result in problems for all parties involved in a deal. Currently the crowdfunding world can be divided into two categories: equity crowdfunding for accredited investors and crowdfunding for any investor. The reason for the distinction is that securities rules are different for deals involving accredited investors than they are for those that include investors who are not accredited.

Accredited investors benefit from “[Regulation D](#)” (Reg D) by the Securities and Exchange Commission (SEC). This establishes rules for entrepreneurs who want to raise capital without having to register with the SEC. It saves considerable money and red tape, and a portion of the Regulation, “Rule 506,” allows for an unlimited amount of capital to be raised from accredited investors. The combination of these benefits has made Rule 506 of Reg D the vehicle for the vast majority of private offerings in the United States. American angels invested an estimated \$24.8 billion in 2013 under this rule.⁹

Regulation D and Rule 506 are also the rules under which some top angels formed today’s equity crowdfunding platforms for accredited investors, aided by changes from the JOBS Act. Examples include [AngelList](#), [FundersClub](#), [Onevest](#), and [SeedInvest](#), with a growing number coming online. More than 50,000 angels are members of these platforms and more deals are being done on them. The largest platform, AngelList, helped 243 startups raise \$104 million in 2014.¹⁰ The platforms are also increasingly sophisticated, applying best practices and attracting stellar deal flow.

The big difference with unaccredited investors is the limit placed on equity investment. The rules do allow for reward- or product-based crowdfunding¹¹ by unaccredited investors, and a \$5 billion worldwide market has sprung up, with players such as [Kickstarter](#) and [Indiegogo](#). Also permitted are “peer-to-peer” lending or credit sites, such as [LendingClub](#), which help connect borrowers with lenders over the internet for personal or business loans. Entrepreneurs cannot, however, seek unlimited equity investments through national offerings to unaccredited investors.



Title III of the JOBS Act requires the SEC to reconsider the rules for unaccredited investors but it looks like any changes will be stalled through much of this year, with national unaccredited crowdfunding not getting started until 2016. In the meantime, several states have passed their own rules to allow equity crowdfunding for offerings to investors located within one state.

Beyond the regulations, the bigger concern is that a lack of sophistication among unaccredited investors could decrease their chances of success in the risky world of startup investing. Additionally, it is likely that unaccredited investor dollars will flow only to industry sectors that the public can more easily understand, excluding many tech and life science companies due to their inherent complexity.

Opportunities on Accredited Platforms

Many funding websites aimed at accredited investors don’t consider themselves “crowdfunders” because of the current limitations on working with unaccredited investors and because they are associated with more sophisticated accredited investors. The [Angel Capital Association](#) (ACA) and others in the field use the term “accredited platforms.” Today, these offer exciting opportunities to accredited investors in the following areas:

- **Access to deals outside your region** – Many angels like to invest in their communities, but a growing number are becoming interested in deals they are seeing from other regions on

accredited platforms. These platforms may also offer deals in an angel's sector specialty or in "hot" markets such as Silicon Valley (perhaps led by a famous super angel). Some deals on these platforms have a low minimum investment (as little as \$1,000), increasing the opportunity to diversify a portfolio through multiple investments, which can help improve the chances of a good return.

- **Access to new investors to help fill out investment rounds** – At ACA, we have seen a new trend emerge in the last nine months: angel groups are posting deals on accredited platforms to access new investors in order to complete investment rounds. For example, a group might offer a vetted deal with strong term sheets and due diligence that may need another \$200,000. So far, we have seen a handful of deals, but we expect this number to grow quickly.
- **Connections to like-minded investors and deals** – As accredited platforms innovate, investors are gaining access to a broader swath of deals and companies. This presents them with more ways to network with other like-minded investors and invest in the kinds of companies they care about. For example, [Portfolia](#) is a new accredited platform for women investors to invest in women-led companies, and [HealthiosXchange](#) focuses on health industry investments. Other affinity type platforms are likely on the way, as crowdfunding continues to grow.

Innovations by accredited platforms provide a whole new set of opportunities for accredited investors. This means more options to help each investor find the best fit for them – as long as they understand the rules and language in the rapidly evolving world of early-stage investing.



ANGEL CAPITAL ASSOCIATION

About the Author

Marianne Hudson is executive director of the Angel Capital Association and co-founded the organization in 2004. Her career is based in entrepreneurial support, including leadership of entrepreneurial growth and mentoring programs at the Kauffman Foundation, creation of organizations to support small manufacturing businesses, and working in multiple state technology economic development organizations. As an angel investor, she supports startups in her hometown of Kansas City and also belongs to two accredited platforms for investments in other U.S. locations.

About the Angel Capital Association

The Angel Capital Association (www.angelcapitalassociation.org) is the leading professional and trade association supporting the success of angel investors in high-growth, early-stage ventures. ACA provides professional development, industry voice, public policy advocacy and an array of benefits and resources to its membership of more than 220 angel groups and platforms and more than 12,000 individual accredited investors throughout North America.

Local Money

Community financing for the 21st century

KIM KASELIONIS, *BREAKAWAY FUNDING*

Crowdfunding has created new opportunities for individual investors and community banks to profit by strengthening local economies. While the concept seems new, crowdfunding has been used to capitalize local businesses for hundreds of years. If you had an idea, you pitched it to the elders. If they liked it, they pooled their money and showed up regularly to make sure you were running it right.

Today, town elders have been replaced by peers who connect through the Internet and social media. Crowdfunding has democratized the investment arena by broadening the base of individuals who can legally invest in virtually any business they choose. This, in turn, is changing the roles of individuals and banks in funding local businesses. A new financing model is emerging. We call it “Community Capital.”

We Need Community Capital

When Congress passed the Jumpstart Our Business Startups (JOBS) ACT, it brought equity crowdfunding into the mainstream. It also conceded that bank financing for small businesses would not be available in sufficient quantity to fuel our economy. In the last decade, bank failures, consolidation and new regulation have taken a toll on lending. As of February 2015, 530 banks had failed, another 6,000 had been consolidated, and the number of community banks dropped more than 14,000 to less than 5,900.¹² The continuing battle to understand, much less integrate, the Dodd Frank Act has also helped push community banks to take a “time-out” from financing.

This pause could have dire consequences for the economy. There are approximately 28 million small businesses in the United States. They are the root of job creation, generating some 65% of net new jobs¹³, while propelling innovation and keeping



those jobs local. They help local communities thrive but are having increasing difficulty securing funding from the banks that traditionally supported them.

As the former chief executive officer of a community bank, I see an opportunity to bring banks, investors and entrepreneurs together to create a powerful funding mechanism. If crowdfunding can shore up the balance sheets of small businesses, banks would have a flow of viable customers for commercial loans. Investors will benefit too because the loans can fuel growth without diluting their ownership positions.



Fixing the Funding Highway

When banks lend to small businesses, they inevitably seek a state or federal small business loan guarantee in order to reduce their risk. One of the requirements of the guarantee is that the business owner has current “skin in the game.” For example, if a business needs \$1 million, the owner may have to bring \$200,000 in cash to the funding table. Experience tells us, however, that early-stage businesses and businesses in an expansion mode generally do not have that cash at the time they need to borrow, because they have already invested their liquidity back into the business. For a small business this can be true even at later stages of development.

As a result many small businesses miss opportunities to grow, expand and mature. Both the Small Business Administration (SBA) and U.S. Bureau of Labor Statistics say that most businesses fail because they lack adequate capital and planning. Without adequate funding, no business can afford the luxury of planning. Startups are particularly vulnerable: 30 percent fail in the first two years and only 55 percent are in business after four.¹⁴

Crowdfunding Can Bridge Gaps

Equity crowdfunding can solve this dilemma and can be utilized by businesses to bridge gaps in the funding highway. Equity financing is an alternative to loans¹⁵,

but in the past, small businesses have had difficulty obtaining equity investment beyond what friends and family were able to provide. So how does it help?

Historically, access to private equity investments was reserved for the wealthy, and even they lacked access to certain investment opportunities due to solicitation restrictions in federal securities laws. As a consequence, a significant percentage of the potential investing population was excluded and many business owners were precluded from connecting with willing and able investors.

The JOBS Act changes that dynamic. First, Title II of the JOBS Act removes the ban on advertising restrictions, thereby making it possible for any accredited investor to have access to all types of private equity investment through readily available crowdfunding web sites. Secondly, Title III of the JOBS Act, which has yet to be implemented by the Securities and Exchange Commission, will give similar access to unaccredited investors. This will allow all Americans to invest in private equity and could fundamentally change the way innovation and job creation are funded.

While everyone awaits Title III, we must keep in mind that existing state and federal regulations already permit business owners to engage with investors of all financial capacities, using both online and offline capital raising systems. Now,

more than ever, investors can exercise their economic power to support businesses and owners whose projections show promising returns, whose mission is aligned with their values, and whose owners or operations they know personally.

But where will the money come from? One potential source is retirement savings. The total assets in individual retirement accounts (IRAs) reached \$7.3 trillion in 2014,¹⁶ and investments can be made from self-directed IRAs through crowdfunding portals with alternative asset custodians.

A Model that Works

As with many other community banks, the institution that I ran, Circle Bank, was funded with seed capital exclusively from the community. In those days, \$3 million was raised by “opening the Rolodex.” Crowdfunding is a derivative of that method – the secret sauce, aided by a dash of regulatory change and a pinch of technology. It is an opportunity for local entrepreneurs to convert their social capital into financial capital by seeking out investors among the professional and personal relationships they have developed over time, from customers to suppliers to their faith communities and hobbies.

And that’s how it works. Investors find new opportunities. Companies tap new sources of capital. Banks start a steady stream of qualified businesses with whom to build relationships. And local economies see a clear path to sustainable, economic growth. Community capital is a collaborative, crowd-based financing model for the 21st century.



About The Author

With more than 25 years of experience in the banking industry, Kim Kaselionis founded Breakaway Funding in 2013. She recognized that a fully-integrated crowdfunding platform should serve to match investors with businesses requiring capital to strengthen their balance sheets and position them for funding by traditional banks and credit unions. Kaselionis has held several banking leadership positions, most recently as Chief Executive Officer and Chairman of Circle Bank, leading it to 53 consecutive profitable quarters, and has proven experience packaging significant financial deals, including the sale of Circle Bank to Umpqua Bank for an over-book-value price.

About Breakaway Funding LLC

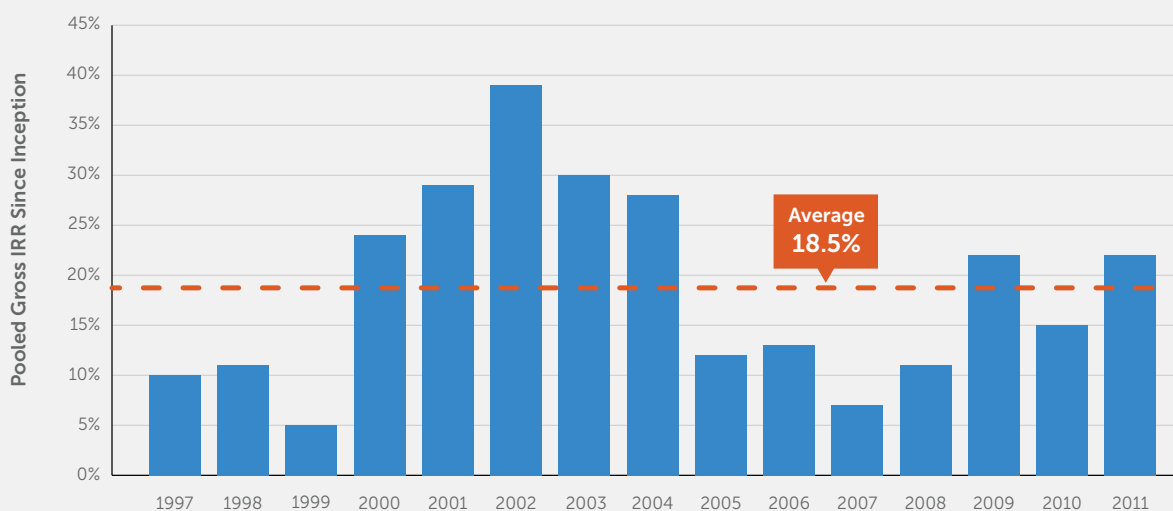
Breakaway Funding connects growth-ready entrepreneurs with investors seeking alternatives to conventional equity investments. Breakaway provides business owners with the tools, technology and training they need to conduct successful financing campaigns, and investors with the opportunity to invest in ventures they have personal interest in. Breakaway’s technology portal brings together investors and businesses in an environment where both benefit from Breakaway’s due diligence, management transparency policy and post-investment progress updates.

Welcome to the Private Capital Markets

RORY EAKIN, CIRCLEUP

Despite the array of retail investment products that experienced investors can include in their portfolios—ranging from CDs and bonds to stocks, funds, and options—the menu is far more limited than it may seem. That’s because private equity investing, which represents a \$426 billion¹⁷ market in the U.S., has never been broadly accessible to individual investors.

Consumer & Retail Private Equity Returns



The traditional retail investment advisory industry may steer you away from private equity (“PE”)—it does, after all, limit their control and the fees they can charge. But PE deserves consideration as an allocation in a well-diversified portfolio, as institutional investors have known for decades.

As of late 2013, Cambridge Associates data¹⁸ show outperformance for the US Private Equity Index over public equities in 1-yr, 5-yr, 10-yr and 20-yr periods. In Consumer and Retail, CircleUp’s area of focus, the data show average gross company

returns above 18% Internal Rate of Return, or IRR, in both Private Equity and Venture Capital investments for companies receiving investments in the last three years.

With so many opportunities to invest in alternative assets now available to investors following the passage of the JOBS Act in 2012, where should investors begin?

At CircleUp, we’re fortunate to sit at the intersection of private equity investing and data, giving us exceptionally rich insight into the

private markets. More than 100 Consumer & Retail companies are currently raising capital on CircleUp; moreover, we're capturing metrics and indicators from thousands of companies that apply for funding, and more than 15,000+ investors in our network. (We curate deal flow, accepting less than 5% of applications.)

How can investors benefit? Here are three trends we're monitoring closely; trends that will shape the market not just over the next few quarters, but years. These are the kinds of trends that can create tremendous wealth for investors who understand and know how to play them.

- Rapid growth of smaller brands: The "personalization" of the consumer is accelerating.
- 'Make it easy': Consumers are overworked, tired and stretched for time.
- Ethnic spice: Ethnic foods moving mainstream.

Rapid growth of smaller brands

The "Personalization" of the consumer is accelerating, as consumers increasingly opt for small brands.



Increasingly, consumers are demanding more personalized offerings. Gluten-free foods, natural skincare, and freeze-dried, human grade pet food. Essentially consumers, more than any point in history, are expressing their individual, unique

needs and are voting with their wallet. My wife doesn't wear the same makeup her mother wore, and we don't feed our dog, Tucker, the same food my parents fed their dog.

As the demand for products that meet more unique needs increases, those companies that are able to provide innovative products will win. We're seeing small brands capitalizing on this changing consumer, as large, public brands increasingly lag behind.

The data says it all: Large brands lost share to small brands in 42 of the top 54 most relevant food categories in the last five years, according to a report by investment banking firm [Jefferies](#), which is aptly titled, "Food: The Curse of the Large Brand."

Opportunities

Two publicly-traded companies that are well positioned to benefit from this trend are Whole Foods Market (NASDAQ:WFM) and United Natural Foods (NASDAQ:UNFI). But most of the pure play opportunities to invest in the small-brand wave are in private markets, which is one reason why investment firms are steadily increasing their allocation to private consumer and retail companies.

Make it easy

Consumers are over-worked, tired and stretched for time.

We've reached a tipping point where consumers are demanding solutions from the products they buy. Consumers want healthy snacks in simple consumable forms. Snacks for babies and kids are ground zero for this trend. Just a few examples: Plum brand acquired by Campbell (NYSE:CPB) after reaching ~\$100 million in sales; Danone's (OTCQX:DANOY) acquisition of the Happy Family brand of organic baby food; and The Hain Celestial Group's (NASDAQ:HAIN) deal for Ella's Kitchen Group Ltd., known for organic baby food in flexible pouches. This phenomenon is playing out in private markets as well. In just nine years privately-held Chobani has grown from \$0 to become the leading Greek yogurt brand with an estimated \$1.5 billion in annual sales and a \$5 billion valuation.

Opportunities

The public market play on healthy convenient foods may be to invest in the companies acquiring the emerging private brands, companies such as Danone, Campbell and Hain. Private investors may also find innovative brands that are addressing consumers' desire for convenience, including, for example, companies such as [Cooksimple](#), a company raising capital on CircleUp that provides healthy, easy-to-use meals and other products. It has grown sales 60% year-over-year.

Ethnic Spice

Ethnic foods moving mainstream.

One of every seven dollars spent on groceries is in ethnic foods. Surprising, right? Sales now exceed \$2.4 billion annually, as a growing immigrant population and increasing interest among American consumers in new flavors is driving a surge in ethnic eating options - whether it's in the "International Aisle" of the supermarket, or in restaurants. Mexican, Korean, Chinese, Thai and Indian cuisines, among others, are growing rapidly in both packaged foods and fast casual dining.

Opportunities:

Perhaps the most visible public-company benefiting from this trend has been Chipotle Mexican Grill (NYSE:CMG), which is adding stores and steadily innovating its product line to satisfy the needs of health-conscious consumers. In the private markets, there are emerging and fast-growing private companies such as Sukhi's Gourmet Indian Foods, in the packaged space, or [Kosofresh](#), a company growing in the healthy fast casual Korean food category.

Consumer and Retail are going through phenomenal transformations, and companies large and small are identifying and capitalizing on these changes. At CircleUp, we spend a lot of our time combing through the massive amount of data we capture through our platform, and we're excited to see our companies riding these massive shifts.



About the Author

Rory Eakin is Founder and COO of CircleUp. CircleUp is an online private equity platform that enables accredited investors to invest in high-growth consumer and retail companies. Learn more at [CircleUp.com](#).

About CircleUp:

We launched CircleUp in 2012 to solve the problem of access to private markets for individual investors. We've built an online marketplace that connects accredited investors with high-growth consumer and retail companies, and allows investors to invest in and receive equity in those companies. By lowering the cost to make these investments - plus networking time and minimum investment - we are expanding participation in the market. On CircleUp, accredited investors can build a portfolio of early stage private companies with an initial investment as low as \$1,000. What's more, unlike traditional private equity funds, there are zero fees.

The Future of Investing is Now

The evolving private market is poised for growth

HEATHER SCHWARZ-LOPES, EARLYSHARES



It's been three-and-a-half years since I co-founded EarlyShares, one of the first market entrants in "equity crowdfunding." In less time than it takes to finish high school, a brand new industry has emerged, found its footing, and begun to change the "old way" of doings.

EarlyShares' story follows that of the industry at large. My co-founders and I incorporated in late 2011, amid the first whisperings about the Jumpstart Our Business Startups (JOBS) Act. Our vision was to build a business based on the Act's Title III – a platform where entrepreneurs could raise equity capital from non-accredited investors.

Alas, we all know how that has turned out. The promise of Title III has yet to come to pass. What has, however, is the Act's Title II. We, along with our peers, have seized this opportunity wholeheartedly and learned a lot along the way.

The biggest lesson thus far: Title II may not be the 'promise' we wanted, but it is the exemption the private markets needed.

Takeaways from an Emerging Industry

The exemption for Title II – Regulation D, Rule 506(c) on general solicitation – took effect in September 2013, creating a new market for "online private investing" or "accredited/equity crowdfunding" or "crowdfinance." While the industry hasn't yet agreed on what to call itself, there are a few key trends that epitomize it.

Evolution (not revolution) and education

By lifting the longstanding ban on the advertising (i.e. general solicitation) of private investment opportunities, Title II has finally enabled the private investing and capital raising processes to move online. Powered by technology, the private market has become more accessible to a broader array of

investors – marking a long-overdue shift from its traditionally closed-door, offline nature.

Yet because the general solicitation ban was in place for 80 years, the shift to web-enabled processes and the use of a new private placement exemption is a difficult adjustment for many. Even some securities attorneys conflate Title II with Title III or remain confused about what requirements are involved. Likewise, some investors are simply wary of change.

Platforms at the forefront of the Title II market have had to accept this reality in order to move the industry forward. We've tackled resistance and confusion in two ways:

1. By embracing a commitment to education (serving as a thought leader in the media and providing quality informational resources to help people understand new opportunities), and
2. By adapting to the preferences of individual users for combining online and offline processes (using our platform to 'bridge the gap' between them).

Investors are the core

There are two key parties involved in a private market transaction: the capital raiser and the investor. The essential role of a funding platform is to connect those two parties in the smartest, most effective way possible.

Each platform brings a different approach to that role. Some function like online venture capital firms, investing alongside "crowd" investors in each deal. Others conduct little or no due diligence or vetting on investment offerings, functioning more like listing services. Still others operate as registered broker-dealers.

No matter how a platform positions itself, it has to serve both the investor and capital raisers (i.e., issuers), but the investor remains the core user. Why? Without investor participation, no successful Title II transaction can take place. Capital raisers

provide the products (investments) that investors consume. Investors should look for platforms that have built their businesses around appealing to investors and providing them with the best experience possible.

The old rules still apply

So what creates the best investor experience? While they make for nice add-on features, the 'bells and whistles' of a tech platform – dashboard capabilities, deal tracking and monitoring, communication tools – don't compel investors to invest.

Simply put, investors have always been drawn to quality investment opportunities, and that hasn't changed. Platforms need to select issuers carefully, and investors should consider whether and how a platform has vetted the investment opportunities for viability and potential.

No platform can guarantee investors returns, but it's become clear over the first 18 months of Title II that the top-performing platforms gravitate toward high-potential alternative investments, like real estate, which investors can't access through traditional brokers or financial advisors.

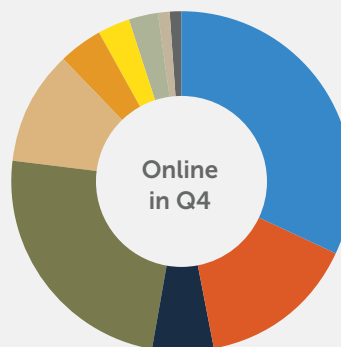
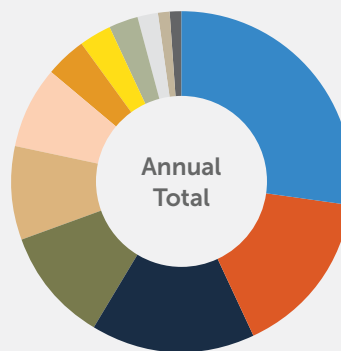
Platforms need to select issuers carefully, and investors should consider whether and how a platform has vetted the investment opportunities for viability and potential.

It's also critical for capital raisers to present themselves with integrity. Inflated market-size estimates and outlandish return projections don't fly – investors see right through them. The traditional private placement process was built on relationships, personal introductions, and face-to-face meetings, not on hype. Even as Title II moves that process online, issuers must build trust with investors in order to make investment transactions happen.

2014 Venture Capital Investment by Total Value

	Annual Total	Online in Q4
Information Technology	28%	32%
Financials	16%	15%
Healthcare	16%	6%
Real Estate	11%	24%
Consumer Discretionary	9%	11%
Other	8%	0%
Energy	4%	4%
Consumer Staples	3%	3%
Industrials	3%	3%
Materials	2%	0%
Telecommunications	1%	1%
Utilities	1%	1%

Source: Dealflow.com



2015 & Beyond: Trends to Watch

With some “growing pains” now over, Title II funding is moving into a more mature phase in 2015. We expect three themes to dominate the year:

1) Real estate will continue to be popular

The U.S. market is rebounding and EarlyShares is seeing expanded interest in real estate investments from a variety of audiences, including international investors. Ranked by deal value, real estate tends to be one of the largest sectors both for total venture capital investment and funding through Rule 506(c).¹⁹

2) Variety will increase

The types of deals and investment vehicles offered will keep expanding according to investor preferences. Look for more ways to invest (e.g. institutional investment funds and self-directed individual retirement accounts).

3) As more players play, more stakeholders will benefit

As institutions enter the Title II action, they are bringing a wide variety of partners with them. This is an important validation of the market and helps increase investor interest and opportunity.

EarlyShares

About the Author

Heather Schwarz-Lopes is co-founder and chief strategy officer of [EarlyShares](#). In addition to spearheading strategy for EarlyShares, Heather has been an active advocate for private investment “crowdfunding” since 2011 and is EarlyShares’ primary liaison with Washington regulators. As

an experienced executive with a 16-year track record in financial services, Heather also served previously as senior vice president and senior private banker at Wells Fargo-The Private Bank. She is a Certified Financial Planner™ and holds the FINRA Series 7 and 66 licenses. Follow her on Twitter [@EarlySharesCSO](#).

About EarlyShares

[EarlyShares](#) is the trusted platform that gives accredited investors direct access to private opportunities in commercial real estate.

Act like a Public Company

How to create greater demand for Rule 506(c) offerings

THOMAS CARTER, EQUITY ROUND

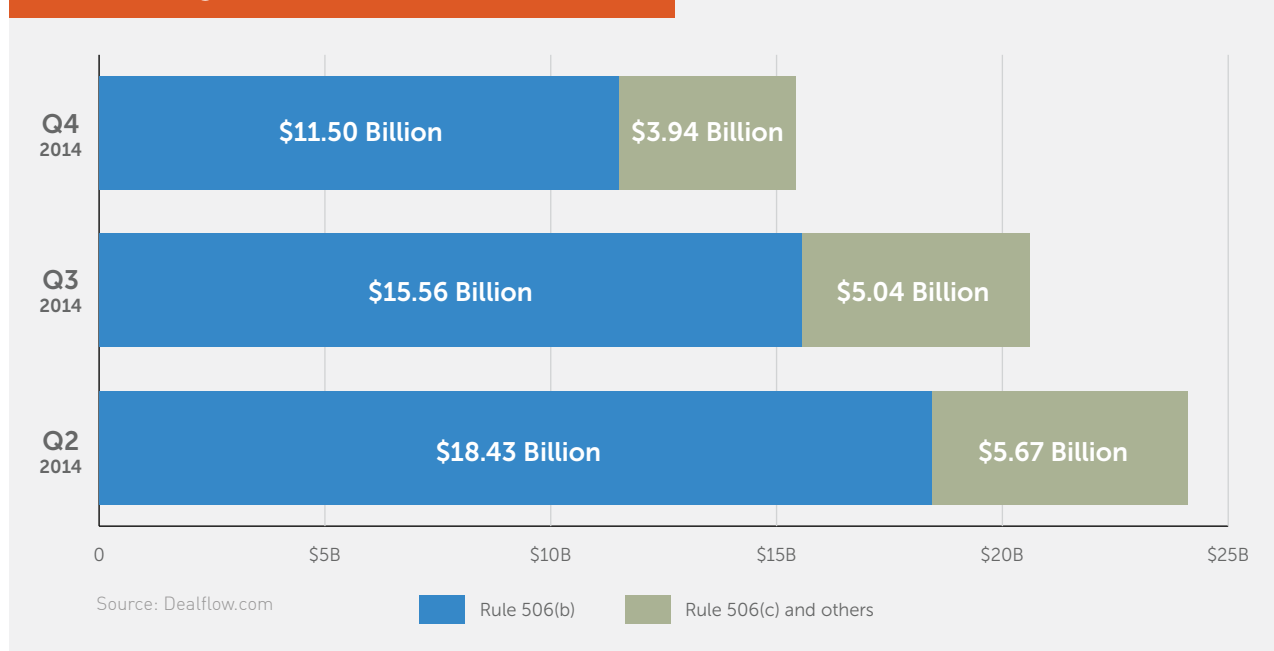
As a result of the Jumpstart Our Business Startups (JOBS) Act, the U.S. Securities and Exchange Commission added a new paragraph (c) to Rule 506, which governs private placements. This regulation for “general solicitation” came into effect at the end of 2013 and was intended to “democratize” early stage investing.

Since then, individual investors have gained access to opportunities that had previously been controlled by venture capital and institutional investors; however, the market for 506(c) offerings does not yet rival that for traditional private placements

under Rule 506, paragraph (b). At present, Rule 506(c) offerings represent less than 10% of all 506 fundraising campaigns.²⁰

One reason for the low use of 506(c) is that it requires issuers to verify accredited investors. As it stands now, there is very little that issuers and investors can do to ease this part of process, but they can address another important reason for the low interest in 506(c). Issuing companies have too frequently underwhelmed investors with their level of transparency about key material facts. Knowledge of those facts is the foundation of creating investor comfort and conviction.

Dollars Sought in New Private Placements



According to industry data, the observed median investment size of Rule 506(c) offerings is about \$1,000.²¹ Given the stringent disclosure requirements, it seems ironic that qualified, accredited investors are not writing larger checks. We believe this has to do with a general lack of

confidence in the offerings themselves. Investors might be concerned about the completeness of information provided. They might also be concerned that the issuing company will not complete the full offering amount due to the “new” nature of the Rule 506(c) format.

Issuers Should Act like a Public Company. Investors Should Avoid Those that Don't.

Issuers can do a lot to boost interest in 506(c) offerings. Generally, companies that capture the imagination and interest of conventional Wall Street investment banks are packaged, positioned and scripted for success. Their financials are in order. They are prepared. There is a commitment from sponsor placement agents to use their resources to get a deal done.

In short, they act like a public company. Today, this kind of offering typically doesn't use general solicitation, but the traditional path in accordance with paragraph (b) of Rule 506. That means individual investors rarely get access.

The companies that stand to benefit the most from the Rule 506(c) format are not likely candidates for 506(b) sponsorship. Their offering may be too small. Their business may not promise enough growth. The value proposition may not be sexy enough.

These companies don't have a network of investors in their "Rolodex." They don't have experience planning and executing road shows. They don't have experience preparing and scripting presentations. As a result, they aren't clear about what to disclose about their business to make investors feel comfortable.

All of this makes online marketplaces appealing because they were created to connect these companies to qualified, accredited investors. But marketplaces face their own challenge: namely, how do they attract and retain interest for a significant and growing base of accredited investors?

Providing access to interesting and exciting growth companies is a necessary condition. But investors also need to feel confident that the information they review about these companies is accurate and complete.



To address this (and help issuers and investors alike), online private offering platforms should set the following conditions for listing on their site:

- *Require the offering company to provide the two most recent years of financial statements, prepared according to generally accepted accounting principles (GAAP).*
Some companies may argue that this information would put their business and ability to compete at risk. As a compromise, offering platforms should, at least, insist that this information be available to qualified, actionable, and vetted investors in a secure environment with oversight.
- *Require the offering company to support these financial statements with a thoughtful and detailed "Management Discussion and Analysis."*
The value of a good MD&A section accompanying financials can't be understated. It provides the offering company with the opportunity to articulate, in plain English, what the numbers mean and how investors should consider them. It provides investors with a much needed understanding of the underlying economics of the prospective investment. This understanding is critical to making an informed decision.

Online Marketplaces Should Encourage Well-Rounded Offerings

The marketplaces should encourage companies to think about online fundraising as just one piece of a complete strategy. They should provide companies conventional offering resources, including road show planning and execution, syndication capabilities, and introductions to investors and investment groups. These resources, along with others including “carve-outs” to additional registered broker-dealers and access to strategic distribution resources such as PENSCO’s alternative investment marketplace, are in place to help the issuer raise the maximum amount possible.

At the same time, the offering platform and issuing company should inform investors about these complimentary capital raising efforts. The offering strategy is an often overlooked consideration, but it is material to determining the risk in investing. The more issuers and platforms can reduce risk for investors, the more willing they will be to invest.

The best practices I just discussed could result in the median investment size for online offerings more closely aligning with conventional capital raising. Providing complete financial data and leveraging sales channels to complete an offering are considered basic techniques among public companies. They are universally adopted. Online offering platforms and issuing companies need to utilize these techniques as well (and investors should vote with their business to ensure that they do). In doing so, they can create an environment that attracts greater participation into Rule 506(c) offerings.



About the Author

Thomas Carter is a pioneering, multi-faceted entrepreneur with successes over the past 25 years in start-ups and early-stage companies. He has founded several entities and has taken companies public. Specializing in corporate finance, financial services technology (FinTech), marketing, multimedia and new product innovation, Mr. Carter is the founding partner of Capital Services Group, Equity Round and CapValue. These financial services platforms are designed to prepare and package companies to access capital more efficiently through Reg D private placement, as well as registered offerings. For more information see www.capservgroup.com.

About Equity Round

Founded by Capital Services Group, Equity Round (equityround.com) is an online marketplace that connects many of today’s most exciting growth companies seeking capital to qualified, accredited investors. We have designed Equity Round to provide investors with optimal transparency with a powerful investor relations platform that includes the offering company’s narrative, financial statements and a powerful dashboard (VentureTarget) supported by a comprehensive data room. The end result is a more informed investor and a better prepared issuer. Equity Round is wholly-owned by Capital Services Group, Inc., a capital advisory firm dedicated to help emerging and early-stage companies prepare and ultimately tap the capital markets.

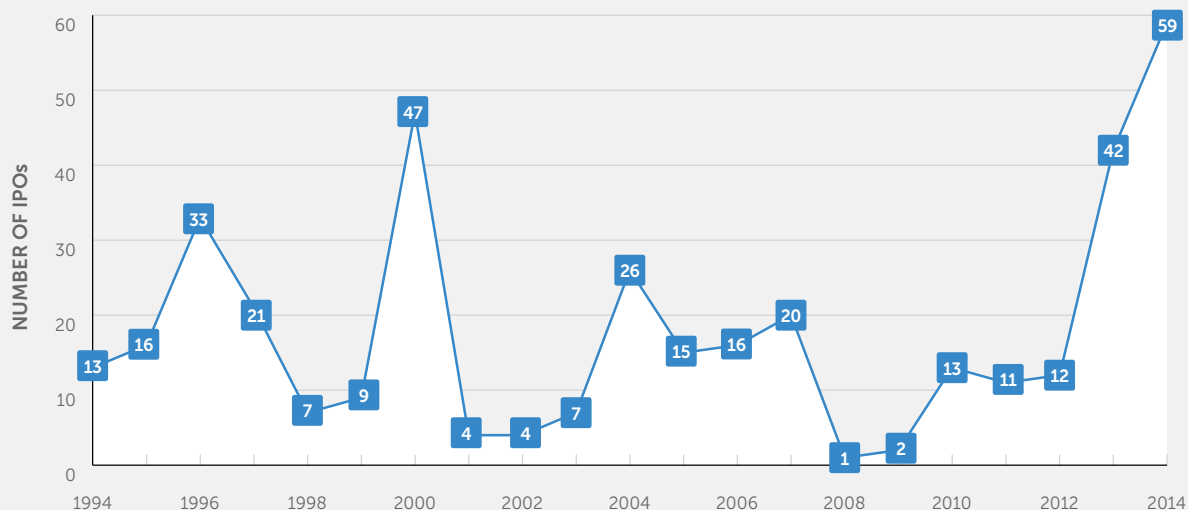
Strong Pulse

A booming sector fuels healthcare crowdfunding

SCOTT JORDAN, HEALTHIOSXCHANGE

There's little doubt that this is an exciting time for healthcare private equity in the United States. 2014 was a record year. Funding for healthcare startups hit \$4.1 billion, a 125% jump over 2013.²² The biotechnology sector alone posted the most venture-backed initial public offerings in the last 20 years, and merger and acquisition activity was strong as well.²³

Venture-Backed Biotech IPOs by Year



Source: National Venture Capital Association & Thomson Reuters

There are good indications that growth may continue. The outlook for the public markets is good this year, which generally encourages IPOs, and fundamentals suggest a continued appetite for acquisitions and partnering. The current forward-year price-to-earnings ratio of the Standard &

Poor's Healthcare Index²⁴ is above 17, implying that the market expects growth of 13% or more; however, the three-year organic revenue growth rate of the top 25 healthcare companies is just 6%. The only way to close that gap would be through mergers, acquisitions and partnering.

Active Verticals

For accredited investors looking to diversify their portfolios, the healthcare sector may offer untapped opportunities that meet their risk profiles and investment goals. Research can help identify categories that have the most growth potential in the future. To name just a few more examples in addition to biotechnology, some of the top performing sectors in 2014 were the following²⁵:

Health information technology

Investments in data mining, analytics and mobile technologies continue to grow. By some estimates, 50% of hospitals will use advanced analytical solutions by 2016.

Urgent care

In the last four years, the number of urgent care facilities has grown to more than 9,300 nationwide.²⁶ Growth in this segment is expected to continue as more and more hospitals face pressure to lower costs and outsource patient treatments.

Medical Devices

The aging U.S. population is fueling development of new medical devices; in fact, new companies continue to form in order to keep up with consumer demand in this area. Orthopedics, telehealth and mobile health are experiencing the most interest from investors.

Crowdfunding Basics

Early stage healthcare companies have traditionally raised capital from angel investors, broker-dealers, registered investment advisors, institutions (including strategic investors) and friends or family. But that changed in September of 2013 with new rules under the Jumpstart Our Business Startups (JOBS) Act. Since then, accredited investors have been able to invest in health care private equity through crowdfunding platforms.

Crowdfunding is ideal for early-stage private equity, an asset class that most accredited investors do not currently hold in their portfolios. In the healthcare sector, equity crowdfunding platforms eliminate the friction for investors and issuers that is created in traditional forms of capital raising. They provide issuers an efficient way to increase their investor base, while also protecting confidential information and valuable intellectual property.



For investors, these platforms increase access to premium deal flow and make it more cost effective to invest using capital from a variety of sources, including funds from an individual retirement account. They also include education and tools to allow investors to diversify across multiple types of companies and vehicles. Tools may include social media forums where they can meet other investors and then transact offline.

Some platforms also have investor syndicates, which offer access to leadership and industry expertise, as well as oversight of the investment. Established investors with a steady track record of funding companies (referred to as “lead” investors) raise capital from the “crowd” or “syndicate investors” in return for fees or a percentage of any profits from the investment (known as “carry”).

The major providers of crowdfunding syndicates today include AngelList, CircleUp and HealthiosXchange’s “The Champions Program.” With these platforms, investors have the opportunity to diversify their investments across multiple lead syndicators. When evaluating a syndicate, investors should consider more the speed at which the syndicate is taking on money, which is sometimes called “funding velocity.” There is an element of a popularity contest in the metric, and while it does indicate a degree of validation, it does not necessarily translate into investment returns.

The Money Pipeline

Institutions, angel groups, and friends and family already provide a healthy money pipeline into early stage healthcare companies. Crowdfunding has the potential to open these existing channels even wider, while breaking down barriers in others, such as broker-dealers and self-directed individual retirement accounts (IRAs).

In the past, high minimum investments of at least \$25,000 discouraged interest in private equity. Access was also limited outside the major hubs of San Francisco and Boston, and fees could be high, for example, in some packaged products sold through brokers and registered investment advisors.

Crowdfunding makes it possible for accredited investors to efficiently access private equity deals regardless of where they live and at minimum investment levels as low as \$5,000. Platforms bring a world of due diligence including lead investor ratings, capital flow data, online and offline events, and direct communication with existing investors and company management. At the same time, regulated communications and privacy are handled by technology that covers every stage of investment from identifying deals and investors, to subscription agreements and term sheets, to electronic signatures and payments.

The bottom line: accredited investors now have the ability to tap into private equity deals using secure, online capital raising platforms. Healthcare presents a tremendous opportunity for entrepreneurs and investors to get started in changing the landscape of the industry by bringing new and innovative companies and products to the market.



About the Author

Scott Jordan is the Founder of HealthiosXchange, the leading healthcare crowdfunding portal. Scott is an accomplished life sciences business development and investment banking professional with over 25 years of corporate experience in negotiating strategic corporate alliances, securing international licensing agreements, building national sales teams, and contributing to successful product development, approval, and launch. Previously Scott held business development and commercialization roles with Neopharm, Akorn Ophthalmics, and Abbott Laboratories. Scott graduated from the Kellstadt Graduate School of Business (MBA) and he holds a BA from Michigan State University. Scott is a Level II Candidate in the Chartered Financial Analyst (CFA) Program and holds Series 7, 66, 63 & 31 security licenses.

About HealthiosXchange

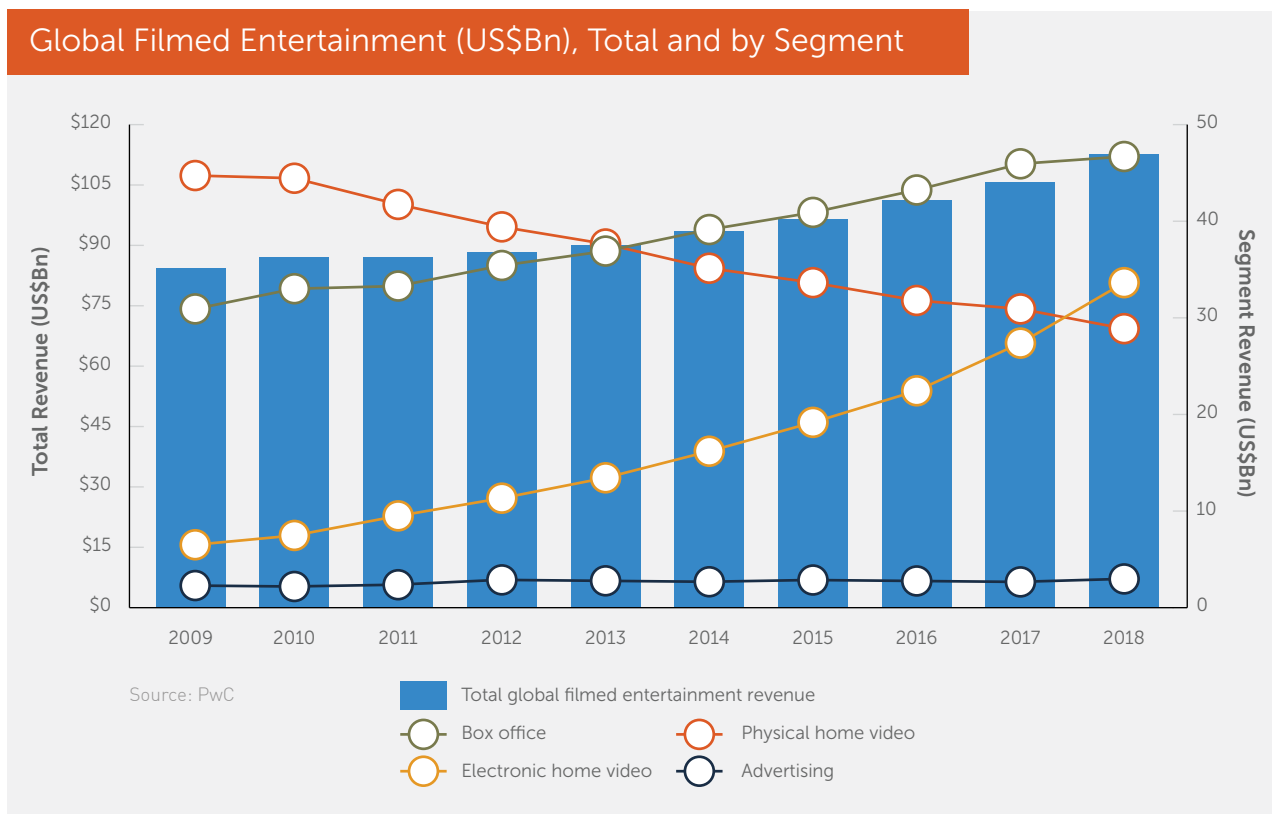
The HealthiosXchange is the premiere investment marketplace dedicated exclusively to the global healthcare industry. Employing crowdfunding as the cornerstone of a new paradigm in healthcare investing, the HealthiosXchange offers direct access to the broadest investment opportunities on a "Fee Free, Carry Free" basis in the most trusted online environment. The mission of the HealthiosXchange is to "unify the promise of medicine with the fortunes of those who invest in it."

Blockbuster Alternatives

Film financing finally opens its doors

GREGORY PARKER, INDIECROWDFUNDER.COM

The future for the film and television industry is bright. In its *Global Entertainment and Media Outlook 2014-2018*, PricewaterhouseCoopers predicts that global revenues will rise at a compound annual growth rate of 4.5%, topping \$100 billion by 2018. The fastest growing segment of the market is streaming services, such as Netflix and Amazon, which are on track to exceed the revenue from physical sell-through by 2018. Until recently, opportunities to invest in this market were not widely available to individual investors, but crowdfunding is opening doors that once said, "Members Only."



Electronic home video's increasing popularity and box office's continuing strength will drive filmed entertainment revenue over \$100 billion (US) in 2017



For film and television, crowdfunding took off when web sites began helping independent filmmakers reach their funding goals through donations. Using a model made popular by telethons, donors were offered incentives, such as a DVD of the completed film, for different contribution levels. High-profile successes followed, such as the Veronica Mars movie, which raised more than \$5 million, according to Kickstarter. Some have claimed this demonstrates the potential of crowdfunding as a financial vehicle for the commercial film and television industry. Others see crowdfunding fatigue, as many projects struggle to meet goals.

The truth is that both are right. The competition for donors has exploded along with the number of projects. At the same time, despite the popularity of the model, it is difficult to see how donations alone can meet the demand from commercial projects. A 2012 analysis of 732 campaigns showed 80% of incentives were offered for contributions of \$100 or less²⁷. In contrast, the production budgets for studio projects routinely top \$100 million for film²⁸ and \$2 million per episode for one-hour television.²⁹

Put more simply, many investors are looking for more return potential than a free DVD. Equity crowdfunding has stepped into the gap between the donor-driven model and the needs of investors and production companies. It offers ownership shares in film and television projects. In other words, it's a form of private equity.

What Should I Look For When Using Crowdfunding?

Alternative investments³⁰ in entertainment assets are inherently risky and may have lower liquidity and longer time horizons than publicly traded securities. This is why it's important for investors to seek out crowdfunding platforms that offer support for evaluating and managing risk, including:

1. Project Slates

The projects that a film production company is planning or producing are known as its "slate." Entertainment financing has adopted this term to refer to a group of two or more projects that are bundled together into a single offering to investors. A slate spreads an investor's risk across multiple entertainment investments. Looked at another way, this creates multiple opportunities to achieve a positive return in single investment.

2. Verified Investments Opportunities

To maintain quality, entertainment investments should be screened by experts before being offered to investors. A crowdfunding platform should offer not only licensed securities professionals but also experts in film and television production to prudently evaluate each entertainment project. That includes performing broker-dealer level due diligence and background checks on each issuer.

3. Lower Minimum Investments

Crowdfunding has helped lower the high minimum investment thresholds that once made entertainment equity available only to high-net-worth individuals. Lower minimums also allow investors to risk less of their allocated capital.

4. Key Investment Metrics

As with traditional asset classes, metrics can give investors insight into growth potential and viability. Investing platforms should estimate key metrics for each opportunity, such as return on equity, price-to-earnings ratio and earnings per share, and then provide them at a glance to potential investors.

Next Stop: Retail Investing

Today, the existing regulations around equity crowdfunding often limit access to deals. Issuers who want to market to the general public, as opposed to accredited investors, need to get approval from regulators in every state where they plan to seek investment. In practice, this means many issuers stick with accredited investors or single state offerings. The good news: This is likely to change as a result of the Jumpstart Our Business Startups (JOBS) Act of 2012. The SEC is now considering new rules that may tear down the last remaining barriers between retail investors and entertainment private equity.

Equity in film and television projects can help diversify an investment portfolio by creating sources of return that have not historically shown strong correlations with cash, publicly-traded stock, and fixed-income (bonds). Add to this the tax benefits of investing through an individual retirement account (IRA) and many investors may be interested in these opportunities as part of a retirement portfolio. Crowdfunding sites like IndieCrowdFunder.com are prepared for the day when this kind of diversification will be widely available to all investors.



About the Author

Gregory Parker is currently Co-Founder & Chief Executive Officer of IndieCrowdFunder. Gregory Parker has worked as a public policy analyst, director of software development and most recently an elected and appointed government official. Gregory, a graduate of Columbia Southern and Walden Universities, holds a bachelor's degree in business administration, a master's degree of public administration (MPA); and has completed OpenCourseWare from Massachusetts Institute of Technology (MIT) in economics. He has more than 17+ years of management experience, including managing large multi-million dollar government organizations. Gregory's passion led him to the entertainment industry where he has directed music videos, TV pilots and film shorts. Gregory currently holds Series 82 and Series 63 securities licenses. Gregory is also an optioned writer.

About IndieCrowdFunder

IndieCrowdFunder.com, headquartered in Beverly Hills, facilitates equity-based crowdfunding for feature films, television and new media projects conceived by Hollywood professionals. IndieCrowdFunder.com – bringing investors and Hollywood professionals together.

Game Changer

Crowdfunding opens unprecedented access to real estate

CAROLANN DEKKER, LENDZOAN

Equity crowdfunding continues to grow in popularity as an alternative investment vehicle. More and more accredited investors are exercising their newfound ability under the Jumpstart Our Business Startups (JOBS) Act to invest in people, real estate and even companies without an intermediary.

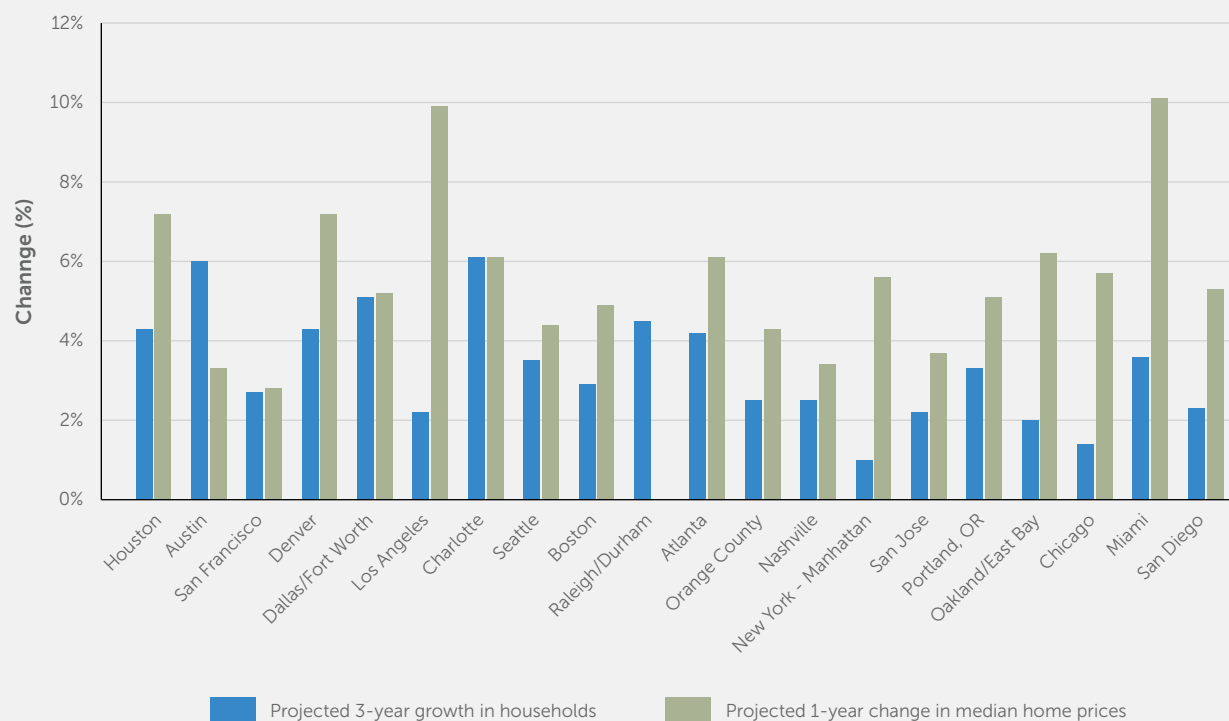
Crowdfunding has grown at a staggering rate worldwide. According to a 2014 report from the financial market research firm TABB Group, it could reach \$17 billion globally this year, with more than 1,000 funding platforms available.³¹ Another recent study by The World Bank estimated that the global market for crowdfunding will be between \$90 billion and \$96 billion by 2025.³²

For accredited investors generally, equity crowdfunding delivers a greater degree of control and, some would argue, reduces risk. But for accredited real estate investors specifically, the rise of equity crowdfunding has transformed investing. Now, these investors are able to directly invest in the kind of real estate deals that have historically been closed off to most individual investors.

Residential Market Outlook

It is a great time for savvy investors who are familiar with real estate investing to diversify their portfolios and possibly increase returns using online crowdfunding portals. In the United States last year, median home prices rose to their highest

PwC and ULI's 20 Cities to Watch in 2015



level since 2007, though total sales decreased slightly (3.1 percent) from 2013.³³

One headwind in 2015 may be rising interest rates, but overall strong demand is expected to continue as the economy strengthens and job and wage growth remain healthy.³⁴ A survey of more than 1,000 real estate experts found that the 20 cities with the most positive outlook for 2015 highlighted economies in the Southern states in addition to a number of the usual suspects.³⁵

Crowdfunding vs. Tradition

Through equity crowdfunding, accredited investors are able to locate viable real estate deals with unprecedented speed and efficiency. Compared to traditional banks or lending houses, online marketplaces allow more people to participate in deals, which can shorten the time to reach funding goals.

Traditional lenders making large investments in select projects may also want to avoid more “out-of-the-box” projects because of perceived risk. Through crowdfunding platforms, private lenders are proving more willing to think creatively as they spread their investments over multiple projects.

At a basic level, creating a portfolio of different projects can spread risk. If one project fails, an investor may have several others in place that could succeed. Real estate can also diversify the sources of potential return in a portfolio that may rely mostly on traditional assets classes, such as a retirement account. Investors are increasingly interested in using individual retirement accounts (IRAs) to invest directly in real estate, and niche projects in particular may present opportunities for return that are even less correlated to some traditional asset classes than real estate overall.

Over time, an investor may also use a portfolio approach to gain confidence by testing different types of projects, regions, and even funding mechanisms. Information provides another confidence boost. Using educational tools available online through crowdfunding portals, investors can research investments and gauge the level of market interest based on the funding success for similar projects or Internet chatter.³⁶ Since crowdfunding campaigns are public and often

promoted through social media promotions, investors may be able to see and follow the level of interest surrounding a project before investing.

Real estate represents a tangible investment that can be used as an income generator and portfolio diversifier. Crowdfunding has put these opportunities in the hands of a much larger network of accredited investors and by doing so, changed real estate investing forever.



About Carolann Dekker, CMO, LendZoon

Carolann Dekker is Chief Marketing Officer of LendZoon. She joined the real estate lending marketplace after more than two decades of experience in marketing, developing online and off-line communities, new products and revenue streams working with some of the most high-profile entrepreneurs and renowned sporting events and enterprises. Chief among them are Tony Robbins, noted world authority on leadership; Vistage International, a 17,000-member CEO networking organization established more than 50 years ago with offices in the US, UK and China; and CollegeClub.com, the first online community to connect over 15 million college students from around the globe. In addition, she also served in marketing executive capacities for the America's Cup and Super Bowl.

About LendZoon

LendZoon (www.LendZoon.com) is the only real estate lending marketplace that connects investors to buyers through local real estate experts. These certified experts provide investors with local knowledge of local projects, and the platform allows them to compare projects with similar criteria or features. Our mission is to leverage all the advantages of real estate crowdfunding to provide borrowers with capital on better terms and deliver investors better deals with greater flexibility.

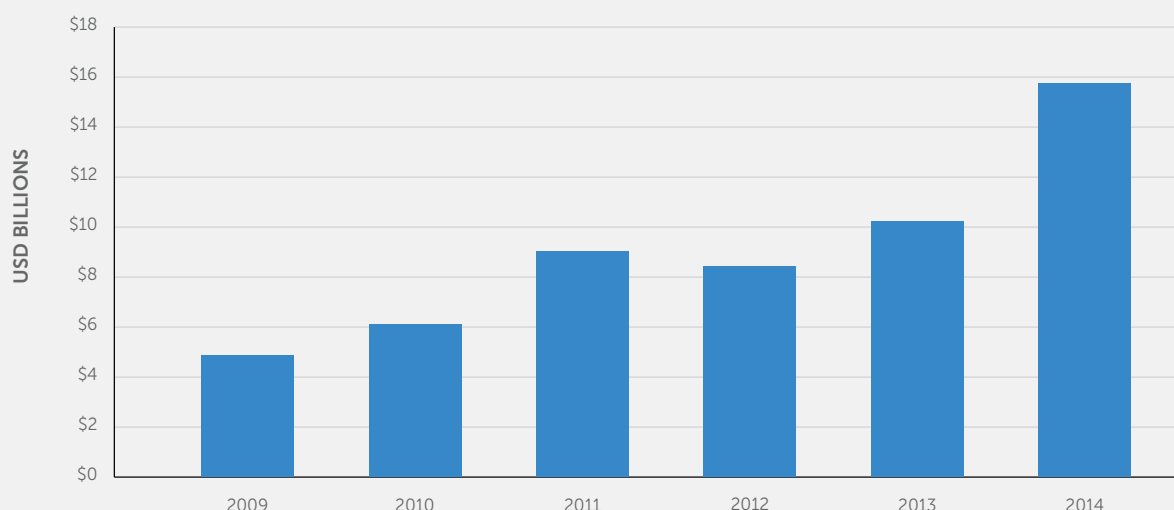
Less is more

“SPVs” unlock startup opportunities

ALEJANDRO CREMADES, ONEVEST

Private equity investments in early stage companies are on the rise. In the fourth quarter of 2014, they topped \$5.6 billion, the highest quarterly total since the year 2000, according to PricewaterhouseCoopers. To access this opportunity, startups are increasingly turning to equity “crowdfunding”, using online tools and lower minimum investments to generate interest.

Investments in Early Stage Companies



The trouble with crowdfunding

The typical minimum investment for an angel investor can be \$25,000 or more but at Onevest we see many deals with \$10,000 minimums and some as low as \$5,000. In theory, the minimums could go even lower. This creates opportunities for a much larger pool of investors than ever before. It opens the possibility that individual investors can access high-quality early-stage deals without needing “to know someone.” And this street runs two ways. For company founders it means an even better chance their business will win backers based on merit.

The prospect of more, smaller investors can be daunting. As a company’s list of investors, also known as its capitalization table, expands, so too does the time and effort required to communicate with them. At the same time, smaller investors have different needs and motivations and should have access to information that addresses them. After all, equity investors are owners. That’s a different relationship with the company than a “crowd” that gives money in exchange for a product or a perk. To fully unlock the opportunity in equity investing, early-stage companies have to find ways to manage a larger, more diverse investor base.



Is the answer SPV?

Two years ago I was having lunch with a friend who worked in the alternative investment group of a large investment bank. He and his team administered and marketed special purpose vehicles (SPVs) for already established companies that wanted to raise additional money. I wondered then why SPVs were only a niche financing vehicle and the investment minimums generally high. For example, \$250,000 was a common minimum at that time.

A lot has changed in two years. SPVs have been used to purchase equity from early investors in companies like Pinterest and Twitter and startups are beginning to turn to SPVs as a way to attract more investors at lower minimums than have generally been the norm in private equity.

What is a special purpose vehicle exactly? An SPV is a legal entity that can own debt or assets such as equity, trademarks, brands, copyrights or patents. This flexibility offers two ways to raise capital. The first way is through debt financing. A company seeking a loan can put assets in an SPV as security for a loan from investors. A patent, for example, would offer investors a potential income stream

that could be used to pay the loan back over time. If structured properly, the SPV would continue to hold the patent and pay investors, even if the startup went out of business.

The second way is equity financing. This seems like a perfect fit for equity crowdfunding. All investors in the SPV are pooled in a single entity which can make life for a young startup company a lot easier. Management deals with one point of contact, the SPV organizer, who represents all the SPV's investors. (Onevest currently accommodates up to 99 investors per SPV.) A startup can meet its funding minimum by gathering smaller sums from more individuals while requiring less time communicating with them, leaving more time and space to focus on the business.

Likewise, the SPV organizer can be the main point of contact with investors for communications about the company and questions about their investment. This can be particularly important for individual investors, who may have used private savings, such as an individual retirement account (IRA). As a result, they may be more risk averse than a traditional angel investor who has experience in startup funding and its risks.

Tell me you're tenacious

For early stage companies, there is high probability that investors could lose their entire investment. Accordingly, all potential investors should understand the level of risk before investing and consult with a lawyer or financial advisor before becoming involved with an SPV. From our experience at Onevest, when performing due diligence on these opportunities, investors should pay close attention to the following factors:

- A seasoned founding team with a track record of success and knowledge in the industry;
- A product or service that solves a real problem in a unique manner, thus setting the company apart from the competition;
- Momentum in the investment offering, evidenced by other investors, and clear terms for the offering;
- Validation for the company, sometimes known as "traction," in the form of revenue, key partnerships, signed agreements indicating future revenue, or other concrete indications of its future prospects; and
- A tenacious founder who will finish the marathon to the exit strategy.

Central banks around the world and several rounds of quantitative easing have held interest rates low and helped to lift stock markets to record highs. In this environment, finding sufficient, diversified investment returns remains a challenge for investors. Early stage private equity offers a potential source of yield. SPVs can unlock the full potential of crowdfunding to bring this opportunity to a broad base of investors.



About the Author

Alejandro Cremades leads the vision and execution for Onevest, an equity crowdfunding platform that focuses on early stage companies. Previously, Alejandro was Co-Founder and CEO at RockThePost, one of the largest startup investing platforms. Prior to RockThePost, Alejandro was an attorney at King & Spalding where he was involved in one of the biggest investment arbitration cases in history, Chevron v. Ecuador (with USD \$113 billion at stake). Alejandro guest lectures at NYU Stern School of Business and The Wharton Business School.

About Onevest

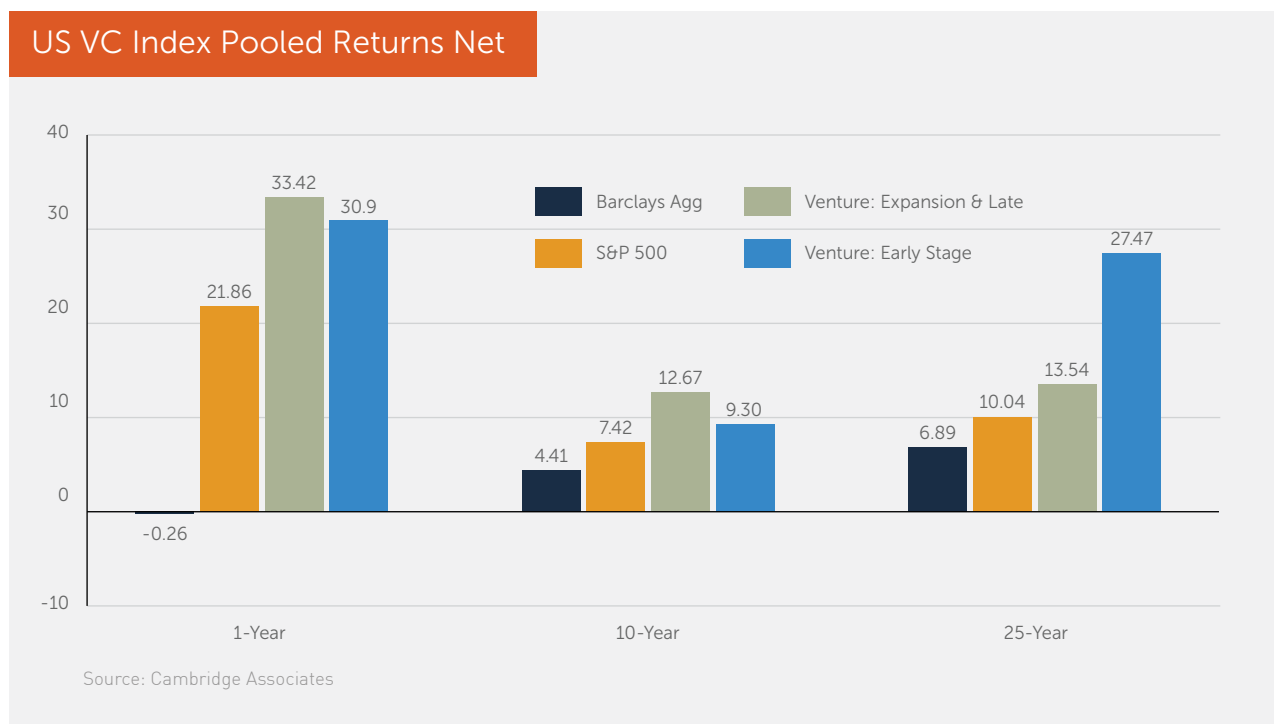
Onevest is an online network and transactional platform which supports founders and investors in building successful businesses. Through our curated startup investment marketplace, our accredited investor community gains access to high-quality, pre-vetted investment opportunities. Founders on Onevest are introduced to accredited investors after deep consultation with fundraising specialists to prepare their companies for due diligence and pitching.

A Modern Portfolio

Diversification Through Early Stage Investing

KEVIN SMITH, SEEDCHANGE

Investing in early stage companies offers the opportunity of decreasing a portfolio's overall risk profile while increasing expected returns. According to modern portfolio theory, the key to maximizing returns is efficient diversification. Investment standards have evolved dramatically in line with this belief over the past 20 years, as investors have added new exposures to diversify portfolios that were once concentrated in large cap stocks and bond funds.



An increase in investment opportunities has helped this trend. Widespread access to foreign stock markets came with Morgan Stanley's launch of the World Equity Benchmark Series (WEBS) in 1996. Eight years later, exchange traded funds (ETFs) made precious metals and commodities easily and cheaply available. Since then individual investors have seen new opportunities in emerging and frontier markets, real estate, private equity and hedge strategies. All of these are asset classes or investment strategies that have long been used by institutional investors.

Not Just for Silicon Valley Anymore

It used to be difficult to invest in early stage technology companies. Few investors outside Silicon Valley, New York and Boston had regular access, and venture capital was dominated by large funds seeking large fees from large institutions. As a result, early stage investing has rarely been part of a systematic approach to portfolio management for most investors. That includes institutions and family offices as well as individuals.

The passage of the JOBS Act in 2012 catapulted startup investing into the financial news and 2013 and 2014 were the best years for initial public offerings (IPOs) of technology companies since the end of the last century. The deal value of technology mergers and acquisitions also spiked to reach \$161 billion in 2014. Innovation has not slowed in 2015 and high levels of “dry powder” in private equity, combined with cash and securities hoards at top technology companies, are expected to fuel another year of active deal making.³⁷

Not surprising, the majority of investors have continued to focus on the handful of high-profile companies (such as AirBnB, Lyft and Palantir) that have drawn huge investments from venture firms, or on recent IPOs like Alibaba, ZenDesk and GoPro. In most cases, only major institutional investors have access to these kinds of investments before they are publicly traded. By the time the general population purchases shares on the public markets, the highest returns have already gone to earlier investors.

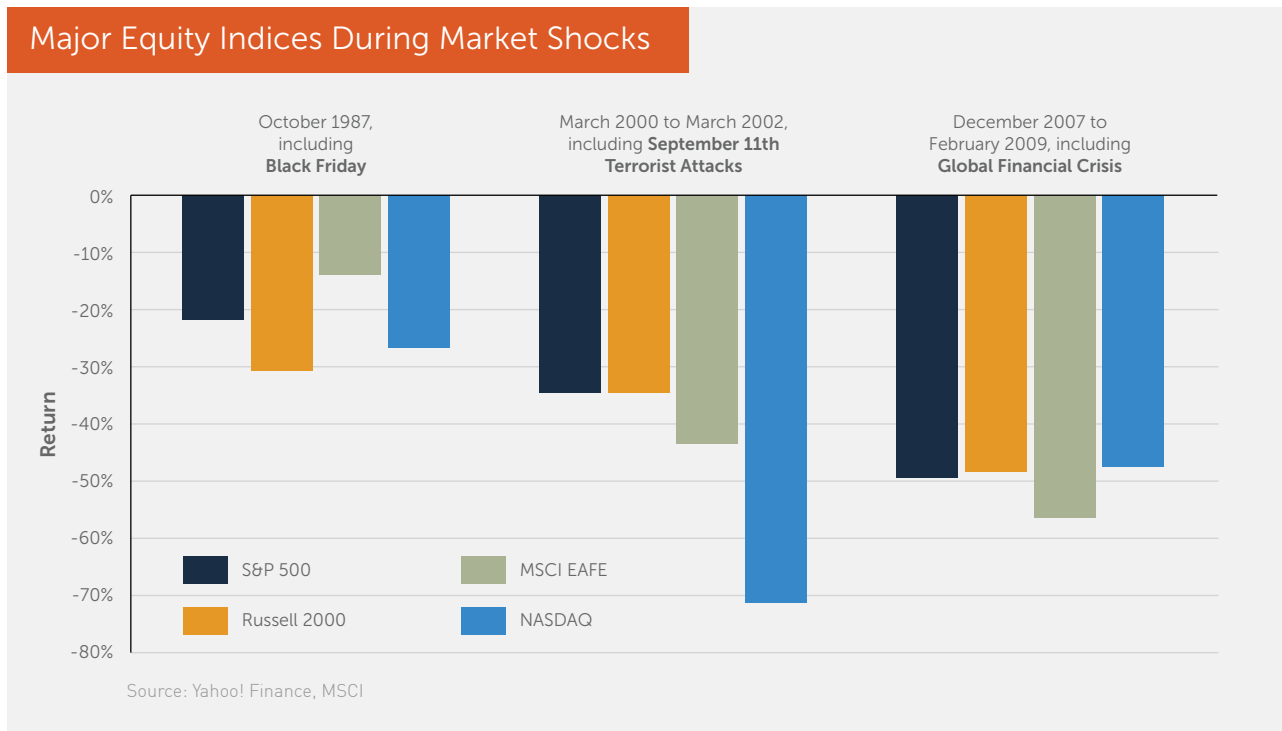
Efficient Diversification

Dr. Christopher Geczy, professor of finance at the Wharton School, noted that “modern portfolio theory did not fail during the [2008] credit crisis—

portfolio construction did. Many investors did not have exposure to enough different asset classes.”³⁸

For decades investors attempted to create diversified portfolios by combining stocks and bonds in a proportion that weighted bonds more heavily as an investor approached retirement. Investors sought geographical, sector and style (e.g., growth versus value) diversification within their equity and bond holdings. However, these factors often proved to be correlated. Over the last 25 years, for example, market shocks led to significant, simultaneous declines in indices that represent large capitalization US stocks (S&P 500), small cap US stocks (Russell 2000), international equities (MSCI EAFE), and US technology and growth stocks (NASDAQ Composite).

True diversification can help a portfolio approach the “efficient frontier” where potential returns are the highest for the given level of risk. That means investors need to hold asset classes that are not highly correlated. Early stage companies may have higher volatility than traditional investments but they tend to have low correlations to other asset classes. As a result, the addition of early stage assets to a portfolio as part of a thoughtful portfolio management strategy can improve its overall risk-return profile.



Early Stage Returns

By combining asset classes that have different responses to market changes, efficient diversification can reduce the level of overall portfolio risk. Unfortunately, in the last five years, the cost of diversification through fixed income and cash instruments has been steep. As interest rates have dropped to zero (and below), investors have seen the returns on these assets fall behind inflation.

In contrast, venture investments—particularly in the early stage—have provided diversification while generating long-term returns. For example, the total pooled returns of Cambridge Associates' Venture Capital Index³⁹ were higher than the widely tracked S&P 500 stock index and the Barclays Aggregate Bond index. In fact, early stage investments outperformed middle- and late-stage private investments too.

Removing Barriers

Now we're back where we started: Consistent access to high quality investment opportunities in early stage companies remains elusive for most investors, despite the fact they can now invest directly or even use individual retirement accounts to invest in early stage companies. With crowdfunding in the mainstream, the question is, "Why?"

There are multiple reasons: sourcing opportunities is time-consuming; there is no standard process or method for analyzing early stage opportunities; due diligence is difficult and tedious; private securities are subject to considerably less regulation and fewer disclosure requirements than public securities; and legal costs can eat into performance long before returns begin to appear.

A reputable broker dealer that focuses on early stage opportunities can remove these barriers, allowing individual as well as institutional investors to access the potential for more efficient portfolio diversification. That, in turn, transforms "crowdfunding" into serious investing.

SEEDCHANGE

INVEST IN WHAT'S NEXT

About the Author

Kevin Smith is the Chief Executive Officer and Founder of SEEDCHANGE. Most recently, Kevin was a Director at Barclays Global Investors/BlackRock, and he previously worked as a lawyer at Davis Polk & Wardwell LLP in Menlo Park. Before law school, Kevin co-founded a management consulting firm, CBSD, in Moscow and worked as a consultant for Levi Strauss & Co. and Xerox.

About SEEDCHANGE

SEEDCHANGE (www.seedchange.com) combines rigorous analysis with an innovative platform to transform the way investors access, analyze and invest in early-stage companies. We employ an intensive 90-step process to identify and develop the most promising opportunities and before listing, every company passes through a rigorous analysis conducted by our team of analysts and lawyers. SEEDCHANGE: Invest in what's next.

Nothing contained herein should be considered an investment recommendation. No investment is risk-free and the performance of securities is not guaranteed. Investing in early-stage assets carries additional risks and is suitable only for accredited or sophisticated investors. An investor may lose money including all of his/her principal.

The Institutional Crowd

Real estate crowdfunding offers institutional investment opportunities

JON K. HAAHR, ROBERT E. LEE, JON K. HAAHR JR., SILVER PORTAL CAPITAL

“It’s a dangerous business, Frodo, going out your door. You step onto the road, and if you don’t keep your feet, there’s no knowing where you might be swept off to.” It may seem silly to start a discussion of real estate crowdfunding with a quote from J.R.R. Tolkien’s *Lord of the Rings*, but in fact, as many real estate professionals would tell you, they have oftentimes felt like Frodo, standing on the precipice of the unknown, squinting against the darkness, trying to determine whether or not it is safe to step out into the rushing wind and driving rain.

Backstage to Red Carpet

The dynamic evolution of capital raising within the real estate industry over the past two decades, both in the public and private markets, has often made us feel as if we have been swept off our feet. But ultimately, that evolution has enabled us to reach the point we are today: through equity crowdfunding, real estate professionals are putting control and information into the hands of a broad group of investors, providing transparency and access to high-quality opportunities in a sector that historically has been reserved for institutions and ultrahigh-net-worth investors.

The industry has leveled the investment playing field by taking advantage of the Jumpstart Our Business Startup (JOBS) Act, which, among other things, allows for general solicitation to accredited investors. Real estate projects can now be marketed to prospective investors directly through publicly accessible websites and even television and radio advertisements.

Crowdfunding platforms take unique advantage of this new general solicitation freedom by employing technology to do much of the “heavy lifting” in investor communications, including data dissemination and verification of accreditation/suitability. The result, investor empowerment - individuals now have ready

access to detailed information and investment opportunities and the ability to make informed decisions without having to depend solely on traditional investment professionals.

Institutions to Individuals

Historically, real estate has been widely accepted as an attractive investment product by institutions, such as pension funds, foundations and endowments. More recently, high-net-worth individuals have begun to understand the same – that direct real estate investing offers the potential to generate current and future income, decrease the volatility of returns in a portfolio and hedge against inflation.

Equity crowdfunding will enable many more accredited investors to own real estate directly, including in their individual retirement accounts (IRAs), as well as diversify their overall holdings. Instead of committing capital into a single property in a single market, individuals can invest across multiple assets, property types, and geographies, which may reduce the overall portfolio risk.

Investors interested in equity crowdfunding in the real estate sector should consider the history, focus and model of the sponsor platform to ensure

it matches their needs. Some good questions to consider include:

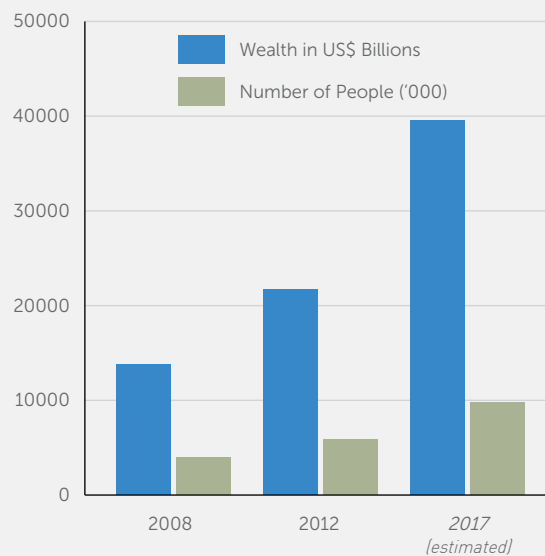
- Do the sponsors have a deep expertise in real estate? At Silver Portal Capital, for example, the principals have decades of experience and a track record of advising on and raising over \$17 billion of capital, both public and private, exclusively for the real estate sector.
- Is the firm an experienced broker-dealer (B-D)? Working with a registered B-D with the Financial Industry Regulatory Authority (FINRA), which Silver Portal has been for over 14 years, investors are protected through FINRA's oversight of the firm as well as requirements for transparency and net worth.
- What types of investments are being offered and do they fit your objectives? You could make an equity investment and share in the gain/loss of an asset's value, or a loan that provides a return based on the rate of interest being charged. You may invest directly into an individual property or portfolio, into a fund being marketed by the sponsor which then invests directly into the real estate, or partner with a third-party operator and its capital.
- What is the sponsor's overall investment philosophy and the breadth of investment opportunities being offered? By way of example, Silver Portal focuses on a range of property types, both traditional and non-traditional (core and non-core), as well as strategies from core stabilized to value-add/opportunistic and tax deferred 1031/DST. We also create alignment by investing as principals or funding alongside nationally recognized, vertically integrated real estate operating partners.

The key in all of these is to clearly outline your investment objectives and ensure the crowdfunding sponsor has the track record and demonstrated history to be successful on your behalf.

The continuing evolution of the industry can be expected to result in a number of related trends, including a growing interest among traditionally institutional sponsors, like Silver Portal, to use crowdfunding platforms for larger, higher profile investments. In 2015, we expect that several properties valued in excess of \$100 million will

successfully tap into an online network. We also believe that the type of opportunities sponsors allocate to crowdfunding platforms will broaden – from basic debt and equity offerings to preferred and mezzanine capital. Finally, larger funds, private REITs and other national operators will be attracted to the lower cost of raising capital and streamlined investor relations that web portals provide, as well as the expanded access to private accredited investors and family offices.

High Net Worth Individuals* in the US



*Net assets of \$1 million or more excluding primary residence
Source: WealthInsight

Over time we anticipate that equity crowdfunding will consolidate into a smaller number of platforms – those with the most real estate industry experience, transparency and institutional-quality opportunities. Investor networks, on the other hand, are likely to expand dramatically as the crowdfunding business model is refined and recognizable brands emerge. The sheer size of the accredited investor base makes growth a virtual certainty. According to a recent WealthInsight report, by 2017 it is estimated that there will be more than 9.5 million high-net-worth investors in the United States, an increase of 68% from 2012, with the total wealth of this group increasing by 83% to just under \$40 trillion. Similarly, the number of ultrahigh-net-worth investors – those with net assets of \$30 million or more – is projected to increase by 67.7% to \$39.6 trillion by 2017. Clearly, we are only in the first stage of the crowdfunding lifecycle.



About the Authors

Jon K. Haahr

Mr. Haahr is the Founder of Silver Portal Capital with over 25 years of experience in real estate investment/merchant banking, advising and capital raising for both private and public companies. He has been managing underwriter, placement agent and advisor in over \$17 billion of equity, debt and financial advisory transactions for the real estate industry from 1992 to the present, involving more than 140 transactions. Mr. Haahr was Co-Head and Managing Director of Real Estate Investment Banking for Wachovia Securities from 1999-2001, prior to which he founded and ran the Real Estate and Lodging Group at Kemper/Everen Securities. He is a past and present member of multiple corporate boards and speaks regularly at a variety of industry events.

Robert E. Lee

Mr. Lee is the Director of Capital Markets for Silver Portal Capital. He has over 15 years of direct experience in real estate and capital markets and extensive capital raising and real estate investment knowledge. Prior to joining Silver Portal Capital, Mr. Lee served as Senior Director of Private Equity for Bainbridge Private Equity and was the Founder and Managing Partner of SIG Equity Partners, LLC. He began his real estate career in brokerage with Sperry Van Ness, Colliers International, and Realty Capital Partners.

Jon K. Haahr Jr.

Mr. Haahr is an Associate at Silver Portal Capital with previous investment banking and commercial

real estate experience. He handles most of the firm's analytic and financial modeling work as well as market research and presentation drafting. Mr. Haahr previously interned as an analyst for RedHill Realty Investors and Westcore Properties, private real estate investment firms that specialize in raising institutional capital and acquiring multi-family and office/industrial assets. Mr. Haahr has a B.A. in Economics from Cornell University as well as minors in Spanish and Science and Technology Studies.

About Silver Portal Capital

Silver Portal Capital, a registered broker-dealer and FINRA member founded in 2001, is a real estate investment and merchant-banking boutique traditionally focused on institutional investors. The platform is owned and managed by a team of professionals with a track record of advising on and raising over \$17 billion of capital, in both the public and private markets, exclusively for the real estate sector. We focus on identifying, underwriting, and financing only high-quality properties and portfolios in which we invest as principals or fund alongside nationally recognized, vertically integrated operating partners.

Silver Portal Capital operates the crowdfunding platform, Silver Portal Direct (SPD, www.silverportaldirect.com), which combines our nationwide relationships and real estate experience with a best-in-class technology platform. We believe our depth of experience, alignment of interest and history of working with the country's most sophisticated investors in an accountable, transparent way, set Silver Portal Direct apart – as an institutional quality real estate crowdfunding platform designed to provide superior risk-adjusted returns to our investors.



PENSCO Makes It Possible™

PENSCO Trust Company has been helping investors use their retirement account funds to invest in real estate, private equity and other non-exchange traded assets since 1989.

As the trusted custodian of over \$10 billion in assets on behalf of more than 45,000 clients, PENSCO works with asset sponsors, financial institutions, and financial advisors, as well as self-directed investors who typically have a point of view about alternative investment opportunities based on their own knowledge or expertise.

Early on, PENSCO recognized the potential opportunities for using retirement funds to invest in crowdfunding platforms. To help our clients, we created The PENSCO Marketplace™, which connects providers, products, and services with alternative asset investors who want to invest in private placement opportunities using their IRA.

To learn more about PENSCO services and investing in non-traded alternative assets, please visit <http://www.pensco.com/marketplace> or call:

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Alternative investments are not FDIC insured and are subject to risk, including loss of principal.

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