



ANGEL CAPITAL ASSOCIATION

ANGEL SIDECAR FUNDS: COMMON PROBLEMS & DIFFERENT SOLUTIONS

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Paul Pryzant, Houston Angel Network

Marcia Dawood, Bluetree Enova Fund

Christy Luquire, Texas Halo Fund

Brian Fenske, Norton Rose Fulbright

**Paul Pryzant (General Counsel – Houston Angel Network
Partner – Seyfarth Shaw LLP (Houston office)**

Paul Pryzant is a partner at Seyfarth Shaw, LLP, a full-service law firm with over 850 attorneys in 12 offices in the U.S., U.K., China and Australia.

Paul's practice focuses on mergers and acquisitions, and works regularly with private equity funds and their portfolio companies, as well as strategic buyers and sellers. For over thirty-five years, he has represented clients in a variety of mergers and acquisitions, equity and debt financings, joint ventures, strategic alliances, and other corporate transactions.

Paul has served as the General Counsel to the Houston Angel Network (HAN) for the past 12 years. He also helped establish the Texas HALO Fund I, HAN's first investment fund.

Paul is an angel investor with investments in OrthoAccel, Moleculin, First Choice Pet Care, SURGE II, and the Texas HALO Fund I. He is also a limited partner in Mercury Fund III, L.P., a venture capital fund based in Houston Texas.



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SHAW**

Marcia Dawood (Managing Partner - BlueTree Capital Group)

Marcia Dawood is a Managing Partner at BlueTree Capital Group where she is responsible for investment strategy and diligence research. She is a lead investor of Next Wave Impact Fund I, an impact-focused fund designed to increase women's participation in angel investing. Marcia is also an active member Golden Seeds, an investment firm focused on women-led businesses. She serves on the Board of the Angel Capital Association with a chair position on the membership committee.

She holds a Bachelor's of Science degree from the University of Pittsburgh and an MBA from the Global Executive program at UNC's Kenan Flagler's School of Business. In addition to the US, the program studies included business learning in the Netherlands, Turkey, Brazil, Mexico, Hong Kong and India.

During her graduate studies, her group acquired the franchise rights to a new sports team. She served on the Board of Directors and managed financial and legal matters for the organization. This gave her experience as an entrepreneur from the start through the exit of a business.

Marcia is an experienced speaker at many national and international venues. Prior to becoming an active investor she was with Kaplan Higher Education 16+ years.



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Christy Luquire (Managing Director–Texas Halo Fund I & II)

Christy is an active angel investor and Managing Director of Texas Halo Fund I and II. Previously, Christy co-founded Lucid (www.luc.id), a PE-backed software company based in New Orleans, and served for five years as CFO. While in New Orleans, Christy served on the board of the New Orleans Angel Network and the New Orleans Start-up Fund investment committee.



Christy is a frequent lecturer at the University of Houston Bauer College of Business and a member of the University of Houston Cougar Venture Fund Board of Advisors, and she also serves as Vice Chair of the Junior League of Houston (JLH) Foundation Board and JLH Finance Council, as well as in other volunteer roles in the community. Christy has a BS in Engineering from Duke University and an MBA from Wharton School of Business.

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Brian Fenske – Fund Counsel to Texas Halo Fund II

Partner: Norton Rose Fulbright LLP (Houston office)

Brian Fenske has a broad-based corporate and securities practice including extensive experience in mergers and acquisitions, IPOs and other public and private offerings of equity and debt securities and venture capital financings. He serves as outside general counsel for a wide variety of companies.

His practice also includes the representation of public companies on a broad range of issues pertaining to federal and state securities laws and corporate governance, as well as the representation of public and private companies in connection with the negotiation and structuring of joint venture, strategic partnering, software and technology licensing and other general business agreements. His practice includes representation of clients in a broad range of industries including energy, technology, software, telecom, alternative energy, consumer products, retail, healthcare and others.



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BENEFITS OF ANGEL FUNDS

- **Problem:** Putting \$25K in individual deals takes time, effort and money to build a diversified portfolio
- **Problem:** To get good at angel investing takes extended time and \$ to gain experience
 - new members frequently leave angel groups after a year or two when they realize it is not easy making money with angel investments.
- **Solution:** Angel Funds allow members of angel groups:
 - to gain a diversified portfolio for a relatively low investment amount
 - to leverage the expertise and experience of the fund managers
 - to gain experience in angel investing through watching the Fund's investments

PROBLEMS OF ANGEL FUNDS

- **Small:** Generally \$1.0 to \$5.0 million
- **Long-Time Horizon:** 10+ years from investment to exit
- **Expensive:** To form, operate and administer (as a % of capital being raised)
- **Administrative Burden:** accounting, tax returns, K-1s
- **“Volunteer” Managers:**
 - Time consuming to source deals, make investments & manage portfolios after investments made
 - Fund is too small to provide compensation to Managers;
 - Carry (20% share of investment after capital paid back) is generally the sole compensation
 - Long-term commitment (10+ years)

THE “CLOSED-END FUND” PROBLEM

- VC & Angel Funds are generally “closed-end” funds, meaning that after the fund raises the targeted amount, the fund is closed to new investors
- Angel groups generally have high turnover of new members of 20-30% per year
- If an Angel Fund is set up as a closed-end fund, then new members can't join until a new fund is formed
- Example: Texas Halo Fund I is a closed-end fund (\$4.2 million) which was closed in 2013 with 58 investors.
- The Houston Angel Network had 29 new members in 2016, many of whom wanted to join the Fund, but could not since it was closed to new investment

BLUETREE ENNOVA FUND



BlueTree Enova Fund

- **Three ways to deploy your investment capital at BlueTree Allied Angels**
 - 1. Invest \$30K in Fund, and fund will deploy in 4 – 8 companies**
 - 2. Fly solo (NO FUND INVESTMENT REQUIRED); select your own investments, minimum per deal is \$20,000 (unless follow-on); the single purpose LP structure remains in play**
 - 3. Invest \$30K in Fund, and deploy additional amounts (\$5000+) in companies that highly appeal to you; the single purpose LP entity will handle the additional capital as a “side car” investment**
- **Committee involvement available to all investors**
- **Screening Meetings > all are encouraged to attend**

BLUETREE ALLIED ANGELS

- *Committee Process – engages membership*
 - Deal Flow/Screening Committee
 - Screening Meeting
 - Due Diligence Committee
 - Key Deal Negotiation Members
 - Monitors/Board Reps
 - Growth and Transaction Committee
 - Limited to “See Something, Say Something”

BlueTree Enova Fund

- **Our structure: We are BlueTree Allied Angels with an angel fund. Thus the industry will refer to us as a “Fund with a Network”, or “Blended Model”**
- **More than 57% of the members of the ACA have shifted to a Blended Model**
- **The fund will be managed by Catherine Mott and Marcia Dawood, utilizing the committee structure**
- **The fund will be an “evergreen fund”; capital calls will be annual**
 - **Once the fund has invested in 5 – 7 companies, the fund will call another \$30k to invest another 5 – 7 companies**
 - **Annually, fund investors can opt in or opt out**

BlueTree Enova Fund

- All investors receive an annual portfolio statement
- Updates on portfolio companies will be distributed as they are received
- Annual Dues:
 - Solo investors \$2850
 - Fund investors \$1000 There is a 2%/20% VC type model on the fund dollars committed
- No dollars in each fund are held back for follow on funding

TEXAS HALO FUND



BRIEF OVERVIEW OF TEXAS HALO FUND I SIDECAR FUND OF HOUSTON ANGEL NETWORK (HAN)

Capital Under Management	\$4.2M (2012) (committed capital closed-end fund)
Stage	Seed & Early-stage Angel/Venture Capital
Industries	Diversified (primarily life sciences, technology, energy)
Geography	National (Texas-focused)
Term	10 years
Portfolio	21 companies
Exits	3 exits (1 positive, 1 negative, 1 write-off) with several deals showing potential to pay back entire fund



WHAT WE LEARNED FROM TEXAS HALO FUND I

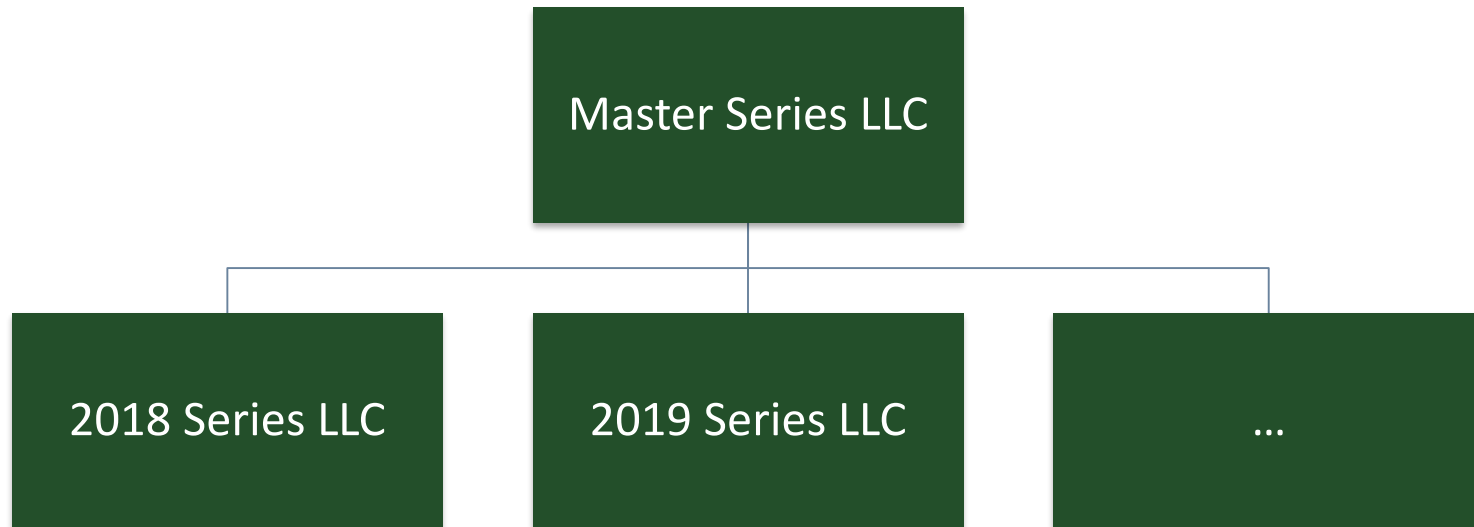
- **Time consuming** and **expensive** to structure, form, and raise the fund
- **No additional members** may be added (in the case of Halo I, since 2013). New HAN members become frustrated with lack of ability to invest in Halo I and gain the advantages of diversification and smaller deal size that Halo I provides
- Angel investors **liquidity** changes over time – ability to commit capital changes as investors deploy capital and realize returns over time
- Ability to **lead deals** and **invest outside of HAN-led deals** is also important to our members



SOLUTION: SERIES LLC

Two parts:

- Master Series LLC, which dictates the general terms of the fund
- Individual Series, formed separately each year or as needed



MAJOR BENEFITS OF SERIES LLC APPROACH

- Ability to add members over time as each Series is introduced (up to 99 per series)
- Ability to change member commitments over time
- Can execute quickly on opportunities due to committed capital nature of the fund
- “Evergreen” fund as new series launch over time
- Time savings and cost savings – consolidation of functions, reporting, filings
- Simplified corporate governance – one management team



TEXAS HALO FUND II DETAILS

- Managed by six dedicated, experienced angel investors
- Opportunity to participate in due diligence with Fund's leadership
- Annual report of portfolio companies will be provided to members
- Can invest in deals outside of HAN where at least \$150K is committed from experienced angel investors
- Currently fundraising with \$4M committed so far for first series; additional series will open as needed in future years



TEXAS HALO FUND II DETAILS

- Each series will have 20-30 portfolio companies
- Capital will be reserved in each series for portfolio's follow-on investments
- 10 year maturity with up to three one-year extensions
- \$60K minimum commitment (three equal annual capital calls)
- Management fee averaging 1.5% of committed capital per annum, based on ten year Fund duration
- 20% profits interest for the Managing Directors, after return of all capital

