ANGEL CAPITAL ASSOCIATION

# ACA Data Insights
## What We Learned From Our Data

**In support of ACA's Data Insights initiative, once a month we will be sharing charts illustrating useful learnings from analyzing data on angel investing and portfolio returns.**

**Angels are not VC Funds.** We represent a different asset class that: 1) often invests earlier in company development; 2) generally isn't constrained on how long we can hold investments; and 3) typically make investment decisions as individuals rather than through an investment committee. So it is always risky to make data comparisons between Angel and VC returns.

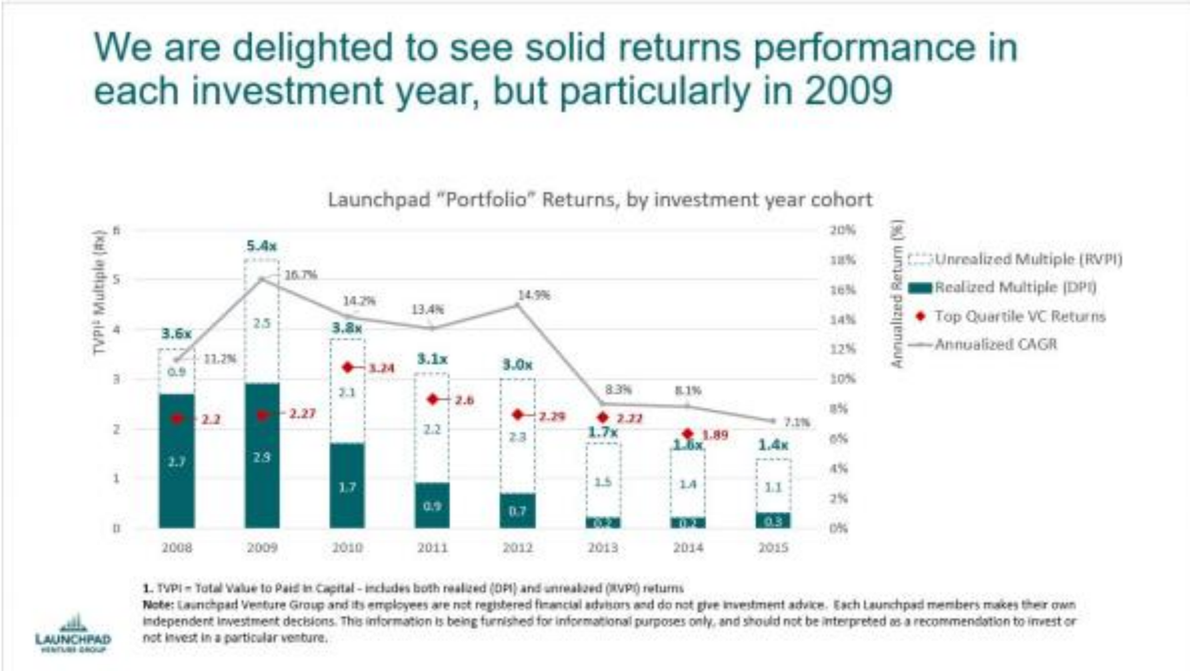
**That said, there are times when using VC metrics can help answer important angel questions.** For example, Launchpad Venture Group recently applied a "Total Value to Paid-in-Capital" (TVPI) lens to portfolio returns over the past twelve years to answer the important question "are we building a systematic process to make good investments, or did we just get lucky once or twice?"

**TVPI is a metric commonly used by VCs to report specific fund returns while they are still maturing. It includes two parts:**

- "Distributed to Paid-in-Capital" (DPI) that covers realized gains or losses from investments, and
- "Retained Value to Paid-in-Capital" (RVPI), which includes unrealized gains/losses in companies that have repriced but not yet exited.

**TVPI is typically expressed as a multiple of the original investment basis.** The advantage of reporting this way is that you can include returns-to-date for active investments, which given long Angel investment horizons may represent a large portion of the portfolio.

Launchpad grouped the portfolio into "cohorts" of investments made within a single year, and tracked the TVPI returns of each cohort over time. They also converted these returns to an annualized growth rate to account for the longer holding time of older cohorts. Finally, they compared the returns of each cohort year to Cambridge Associates' top quartile VC fund returns. (This is probably not the most appropriate benchmark for Angel returns, but it is a readily-available one).




**The analysis yielded three important insights:**

1. Launchpad does indeed seem to have built a systematic investment sourcing and diligence process that consistently delivers better than 3x returns (equivalent to top Quartile VC funds) across every year from 2008 to 2012.
2. The highest return year was 2009, in the depths of the last recession, reinforcing that it is important for Angels to continue investing across business cycles.
3. There appears to be an "inflection point" in returns about seven years after the initial investment where TVPI starts to increase dramatically. This suggests it takes about seven years for Launchpad investments to mature, which helps set expectations on how patient Angels must be. That maturation time appears to be two years longer than the equivalent VC benchmark, which makes sense given the earlier stage of most Angel investment.

**We plan to update this analysis annually to track the evolution of each investment year cohort, inform ways to further improve our processes, and confirm the seven-year inflection point theory.**

**Stay tuned for additional insights next month and sign up to participate in [ACA's Data Initiative] by submitting your data for future editions of the [Angel Funders Report] to provide angels with insights on the factors that affect the outcomes of startup investments.**

***Source: Ham Lord and Alexander Brown, Launchpad Venture Group***