WIT FUND I FAQs

WHAT IS ANGEL INVESTING?

Angel investing gets its name from those brave (or foolhardy) backers of Broadway shows, such as in the movie The Producers. Angel investing is putting money into very early stage companies, many of which will fail but some of which will succeed brilliantly. We all know about people who invested early in Apple, Microsoft, Facebook, LinkedIn, Airbnb, Uber etc. We want to bring that investment opportunity to investors in western MA.

The typical angel investor tries to hold at least 10 companies in a portfolio and preferably closer to twenty. Of those companies, 60% are expected to fail but most angels cannot predict in advance which ones those will be. Another 30% will return the principal but not much profit and 10% should be the wildly successful ones that make it all worthwhile.

The ones that fail usually fail quickly (within 18 months) and the ones that succeed usually take 7-8 years to show their success. Often times they need additional money after the first or second round. Many angel funders like to invest in subsequent rounds so they set aside money for those subsequent rounds to keep themselves holding the same amount of equity as before.

WHO CAN BE AN ANGEL?

The Securities and Exchange Commission sets a firm guideline on what it takes to be able to be an angel investor. The requirement is annual individual income of $200,000, family annual income of $300,000 or investable assets (outside of the primary residence) of $1 million. There are no guidelines on skills or knowledge to be an angel, simply the ability to take risk without suffering too badly. Some people think angel investing is gambling while getting the odds on your side.

WHAT WOULD THE FUND INVEST IN?

As you know, women-led companies have traditionally gotten less investment than companies led by men. Yet many studies show that gender-diverse teams do substantially better than homogenous teams. Existing studies show they ultimately perform better, perhaps due to the diversity of opinions or to the more risk averse nature of women.

The primary target for this fund is early stage companies with at least one woman in a leadership role and as a founder with equity. We have a geographic focus of western Massachusetts but are willing to consider opportunities in geographic proximity to western MA.

WHY? WHAT IS THE IMPACT ON THE COMMUNITY?

There are two reasons. First, women-led companies have been underfunded which creates opportunity. This is an underserved market. Second, we want to make western MA a model for women-led companies. We believe that this will not only provide economic stimulation to the area but encourage others to locate here.

What we believe will set us apart is an approach to the investment process that includes intense mentoring of the startups. This means that even if the fund does not invest in a specific startup there will be mentoring for all applicants and all women-led companies will benefit, regardless of funding. For some of this we intend to rely on the larger WIT group but we hope our angels will be active in this crucial aspect of successful startups.

We know this is an intensive approach and will require support beyond the initial fund management's capabilities, but we believe that we are co-creating a community that supports and encourages women to fulfill roles as leaders, employers, creators of wealth, mentors and investors.

WHAT WOULD ANGEL TRAINING LOOK LIKE?

We are still determining this but we know of several models that provide classroom education combined with hands on experience. We will provide you with the hands-on experience to complement the academic portion. This is not rocket science but it definitely does better with lots of brains thinking about the potential investment.

We hope that most of our angel investors will want to participate in mentoring, screening of investments and the necessary due diligence to make sure our investments are well thought out. We want your intellectual investment in addition to your money. So getting that training will be very important to the success of the fund.

HOW DOES THE PROCESS WORK?

A typical angel process is to

- invite applications from companies that member(s) think are qualified,
- for a small group of members to get 10 minute presentations from applicants followed by 10 minutes of questions and answers. If the members present like the presentation,
- it will be recommended for presentation to the entire group of members. This is typically also a 10-minute presentation followed by Q&A. If the membership thinks this is good,
- a team of members is formed to do the work of a deep dive into learning more than can be learned in 10 minutes - a longer period (1.5-2 hours) is spent understanding the business and the investment potential.

- Due diligence and deal structuring are done somewhat simultaneous and include verifying the accuracy of what can be determined about the market and customers, evaluating the business plan and milestones, checking references, determining a valuation or discount to a future valuation, etc.

At each step of the way, the deal can fall apart, so it requires a lot of looking to find the ones we like. Members are encouraged to participate in all of this and the work is usually divided according to the members' interests and aptitudes. How the work is done is by agreement among the members and can take different forms or order than what is outlined above.

WHAT IS A TYPICAL INVESTMENT IN A STARTUP?

We think a typical investment will be around $50,000 but it could be higher or lower depending on the stage of the company and what other sources are available to it. We also expect that there will be follow on investment in those companies that grow and need additional capital that might come from our subsequent funds.

With a $3 million fund we expect to make about 50-70 investments over 3-4 years. That is a lot of time and effort spent on screening and due diligence as well as follow up to sit on boards and provide ongoing advice. We do anticipate that some will be follow-on investments which are less time consuming.

WHAT DOES AN INVESTMENT STRUCTURE LOOK LIKE?

They can be straight equity. These days most investments are structured as either convertible preferred stock or convertible debt. These come in a variety of formats but all provide that they become equity at certain trigger points. By not structuring it as straight equity, the investor has a senior position to the founders in the event of something adverse, which means we get our money back before it is distributed to the founders.

WHAT IS THE FUND TIMELINE? IS IT ONGOING?

Typically angel and venture capital funds are 10 years in length with a provision to extend for an additional two years. This is because it can take 8-10 years for an investment in an early stage company to mature and have a liquidity event. A liquidity event is either an Initial public offering (IPO = going public and selling stock through a listed exchange) or selling the company to a buyer, usually a larger corporation. The latter is the most common liquidity event and tends to happen earlier in the development of a startup.

Usually fund managers say they are investing for 5-7 years but they know that the best investments often take longer. Often a fund will make provision for liquidation of the existing investments and transfer to the limited partners (you are the limited partner) the shares in any startups that have not yet had liquidity events. Sometimes the fund makes provision to continue to 12 years if several of the investments have not yet had liquidity events but are still viable companies.