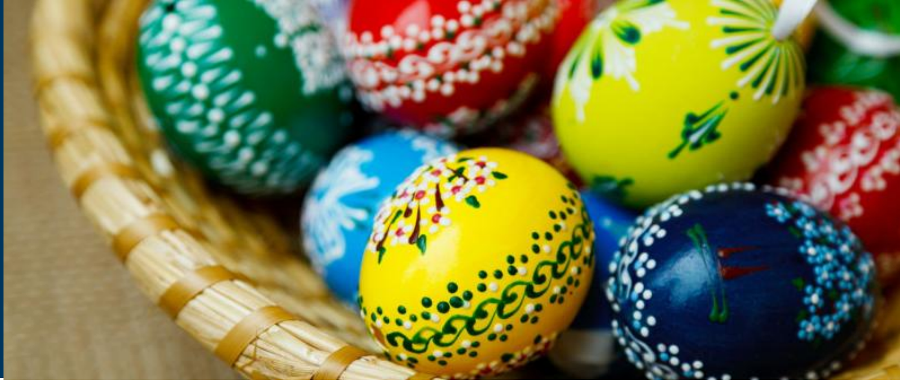
Enterprise Angels
Investment for Growth

The Importance of Diversification

Structuring your portfolio to mitigate risk.



You know the old saying 'don't put all your eggs in one basket'? This is certainly true when it comes to investing and angel investing is no different. A key strategy in any investment portfolio is diversification – invest in different asset classes and within those asset classes, invest in different industries, regions and stages. By diversifying, you spread your risk, minimise loss and maximise returns. This guide briefly covers risk and return, asset allocation and diversification and how a fund can play an important part of your investment portfolio.

What is your appetite for risk?

Understanding risk and deciding what your appetite for risk is, is an important part of building your investment portfolio. Your risk profile will take into consideration several factors including stage in life, investment goals, income level and personal preference. Your risk profile drives the decisions in setting the asset allocation of your portfolio.

Asset allocation to balance risk and return

Asset allocation is the way in which you spread your investments across different asset classes, e.g. equity, property, fixed interest (bonds etc) and cash (money in the bank). Each asset class has a unique risk and return profile. Generally, the higher the risk, the higher the return and vice versa. Cash typically carries the lowest risk and therefore earns the lower returns, while shares carry the higher risk and earn higher returns. Our strategic partner, Craigs Investment Partners, provide a wealth of investor education here with more detail on this topic.

Angel investment can be considered an alternative asset class and depending on your risk profile and wealth, could form an important part of a broader investment portfolio. Angel investing carries a high risk and can potentially earn high returns.

Minimise risk in angel investing

Angel investors seek to mitigate the risk of investing in early-stage businesses through careful screening of deals, extensive due diligence and post investment management. This can be achieved more efficiently by joining angel groups and investing with other angel investors. By actively assessing investment opportunities together and providing expertise, networks and guidance to investee companies post investment, angel investors can substantially reduce the rate of failure.

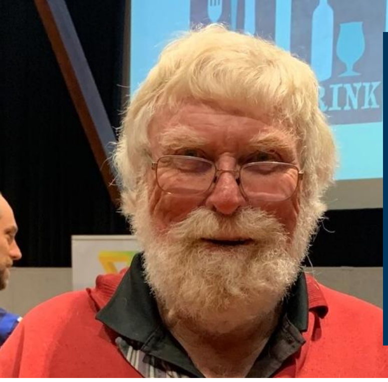
Another risk mitigation strategy is diversification.

Why should I diversify?

US studies suggest that well-diversified angel portfolios can achieve ~2–3× cash multiples and ~20–30% IRR, but outcomes are highly skewed—top decile exits drive most of the returns.

Rob Wiltbank's earlier research on angel investing portfolio diversification indicated that if an investor invested in 6 investments, they had a 50% chance of return of capital (1x), with 12 investments this increases to 75% probability of 2.6x return and with 48 investments there was a 95% probability of 2.6x return.

Given that the typical angel investor in New Zealand invests between $5,000 and $50,000 in each startup, if you have less than $200,000 to invest in this space, the best way to gain sufficient diversification is via a fund. EA Funds have a minimum investment size of $30,000 which is spread across 20+ companies.



> "Angel investing gives me the ability to keep an interest in new ideas and business opportunities in retirement and an opportunity to both pass on knowledge and keep myself informed of current thinking and ideas in the entrepreneur and business development space. The cooperative assessment – but individual investment, coupled with ability to invest in angel funds means a spread on investments without over exposure to anyone" - Alan Dick

Obviously, there are no guarantees that a large portfolio will give you better returns, but the odds are certainly better! It's important to also note that large does not necessarily mean diverse. It's not just the quantity that counts, it's the quality and range of startups that you invest in, e.g., different industries, stages and locations.

What is exit envy?

When making individual investment decisions, angels tend to invest in what they know and understand. We have some very smart investors, however it's impossible to be an expert in everything!

Imagine you decided not to invest in a deal because you didn't get time to review the due diligence report or it was outside your area of expertise, so you skipped that investment opportunity – 18 months on, it's the company that returns 4x. There you have it – exit envy!

At Enterprise Angels, we've had twenty positive exits to date. Recent successes include companies such as Easy Crypto which returned 1.6x investment in three years, Moxion, which returned 5x in under five years, Merlot Aero, which returned 2.6x in five years, and in 2018 BOP company SwipedOn returned 2.4 times in less than 12 months.

- 82 Enterprise Angels investors benefited from the SwipedOn sale, 63 of those investors were part of EA Fund 2.
- Merlot Aero, Moxion, SwipedOn, Volpara and OneSixOne were invested in by EA Fund 1 or 2 and have returned funds to the Fund Investors as well as direct investors.

How does an angel fund help?

An angel fund pools money from investors and does all the work involved in finding and investing in early-stage companies including post investment reporting. The number of companies a fund invests in will depend on the fund's investment mandate and size.

As an investor, if you decide to invest in a fund, you commit to invest a certain amount, pay your initial investment application monies and over time, you pay 'tranches' of your remaining commitment as the fund manager makes investments and requires further capital to invest. The fund manager provides regular portfolio updates to investors.

The fund manager typically charges a fee to pay for the ongoing management of the fund. A 2% annual fee is typical in New Zealand.

Investing in a fund allows smart investors to build a portfolio of early-stage company investments with less money, personal time and effort and provides access they would not otherwise have to a high risk, high reward part of the market investing alongside experienced early-stage investors. It is a very efficient mechanism for investors to build a portfolio of early-stage company investments and include companies you might not have expertise or interest in but could be potential 'unicorns'.

Why an Enterprise Angels Fund?

Our funds rely on a combination of Enterprise Angels professional staff and the enormous sectoral expertise of the group's investors (more than 300 experienced businesspeople). Enterprise Angels staff and Investment Committee have years of early-stage investment expertise and no matter what industry an investment opportunity comes from, there will be an Enterprise Angels member with expertise in that industry.

Enterprise Angels members undertake due diligence and take up directorships on investee company boards using their experience and contacts to enhance investee company success. Early-stage investment expertise combined with the business experience of its members are the keys to minimising risk and maximising returns from angel investing.

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Enterprise Angels manages four funds. The funds operate as a Limited Partnership with Limited Partner investors many of whom are EA members. EA Fund 1, EA Fund 2 and EA Fund 3 are fully invested and are 'sidecar' funds – funds established by an angel group that invests alongside the members. The funds do not undertake due diligence but rather rely upon the investment expertise and commitment of EA members in a deal.

EA Fund 4 is similar in that it leverages the angel group deal flow and expertise however, it is not a sidecar fund, meaning it can act independently of the angel group and access deals from a broader range of sources providing greater diversification for investors. EA Funds have an Investment Committee who are directly involved in assessing investment opportunities and ensure the Fund is aligned with its investment mandate and is building a well-balanced portfolio.

- EA Fund 1 closed in late 2014, raising $2.4m. It invested in 16 portfolio companies. To date it has seen four positive exits in Volpara, Merlot Aero, Techion and OneSixOne via WNT. It has six live portfolio companies remaining plus its investment in technology incubator WNT.
- EA Fund 2 closed in late 2016, raising $2.6m. It invested in 20 companies and has seen three positive exits in SwipedOn, OneSixOne and Moxion with partial returns from WNT and Quantec. It has ten live portfolio companies plus its investment in technology incubator WNT.
- EA Fund 3 closed in 2020, raising $3m. It invested in 23 companies and to date has had one exit, Yabble, which is dependent on earnout payments to provide a positive return. It has 15 live portfolio companies plus its investment in technology incubator WNT.
- EA Fund 4 closed in March 2025 raising $3.2m. It has a target of investing in more than 20 companies with 10 investments made so far.

Occasionally fund units are available for purchase, to be notified of these opportunities register your interest here.

Practical investing tips:

- Aim for 12–20+ companies for strong diversification and better odds of positive returns.
- EA Funds target portfolios of 20+ companies, making diversification easier for investors with less capital or time.
- Diversify across industries, stages, and regions to reduce risk.
- Keep some capital aside for follow-on investments in your best performers.
- Building your portfolio gradually over time helps manage risk and keeps you engaged with new opportunities.

NEXT STEPS.........

Enterprise Angels is a membership-based investment network and a wider community of nationwide wholesale investors. If you're keen to find out more or partner with us, contact us here, or if you are ready to leap right in to investing or membership visit: www.enterpriseangels.co.nz/invest.