

WOMEN AND ANGEL INVESTING:
An Untapped Pool of Equity for Entrepreneurs

Insight and Recommendations
from Leading Women Angels
April, 2006

Ewing Marion

KAUFFMAN
Foundation

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More than ever, economic growth and vitality depend on new companies. Societies that prosper, and regions and districts within the nation that prosper, tend to have healthy streams of new firms starting and growing alongside the old.

Especially vital are the high-impact firms bringing new ideas to market—new technologies, new products and new ways of serving the public. Companies of this kind started during the past few decades have given us personal computing, modern medical treatments and a host of other things we rely on daily. Their combined impact is nearly unfathomable.

Entrepreneurs who start such companies do more than make money; they make a difference. They raise living standards by raising the society's level of functioning. Through their companies' growth, they create jobs.

What Angel Investors Do

What are angels, and where do these investors fit into our entrepreneurial culture? Angels are high-net-worth individuals who make equity investments in start-up and early-stage companies. Some angels also provide personal support, with mentoring and advice to entrepreneurial teams. Some are veteran entrepreneurs themselves; others have business experience or special expertise that equips them to mentor a new company or to serve on its board.

Angels fill a gap in the ecosystem of support; they step in at the critical early stages, when companies are taking shape or beginning to grow. Venture capital firms, contrary to what many think, don't usually invest at the early stage. Over the last five years, the percentage of VC money invested in start-ups has fallen to two percent, according to the PricewaterhouseCoopers MoneyTree™ report. In addition, only a small number of companies receive venture capital—MoneyTree™ reports that venture capitalists invested \$21.7 billion in 2,939 deals in 2005. Most entrepreneurs raise some money from friends and family to get their businesses started initially, but the sums tend to be small and, along with other start-up funds, often aren't enough for an ambitious enterprise.

Angel investors, sometimes individually but often acting in groups, can supply a young company with sums ranging from tens of thousands to a million dollars or more. Altogether in the United States, an estimated 227,000 active angels invested \$23.1 billion in nearly 50,000 entrepreneurial deals in 2005, according to the Center for Venture Research.

Angel investing is risky. But when all goes well the return on investment can be quite high. And there are ways to mitigate the risk (one way is by investing with other angels in a diverse portfolio of companies), and the rewards include knowing that one has helped bring new ideas and new enterprises into being.

The Potential of Women

At present, women are seriously under-represented in angel investing. Women own about half of this country's wealth but, by various estimates, make up no more than 8 percent of angel investors.

Increasing the numbers could be a logical way of increasing overall financial and mentoring support for new companies.

As strong as entrepreneurship currently is, we see only the fruits of the new companies that have gotten the early stage support they needed. We don't know what we are missing. We do know that running out of capital is a commonly cited reason for failure, and that many other new enterprises fall short of their promise by having insufficient funding or expertise.

The untapped *human* potential, in total, is surely vast. It is just starting to be recognized as a long-term competitiveness issue for this country and others. More angel investing is not the only answer, but it is an essential element, and women must be part of it. This report includes stories from a dozen women investors who are eager to get more women involved—and who argue that doing so will be good for society as a whole.

The Power of Angel Groups

Whereas most angel investors were once “solo” angels, there is a growing trend for individuals to organize with others and invest in groups. This offers multiple benefits:

- Angels can pool their resources to make more and bigger investments while managing risk through diversification as each group member typically owns parts of several companies;
- Angels can pool their brainpower to evaluate investments and mentor the portfolio companies more effectively; and
- Angel groups—often with more visible public profiles in their home regions—are easier for entrepreneurs to find and approach. The angels get to see a larger quantity of high quality opportunities.

As recently as ten years ago there were just a handful of angel organizations across North America; currently there are an estimated 250, with new groups forming on a regular basis. The typical group meets once a month, often for breakfast or dinner, with the officers of two or three new startup companies invited to present their business plans to the members. How investments are actually placed can vary with the structure of the group. In those organized as “angel networks,” the members evaluate opportunities together but decide on their own whether to invest in a given company; while in those organized more like funds, members combine their investments up front and then have a majority vote on which companies to support.

Most angel groups are comprised of mostly men, though women are making inroads in various ways. Some women start groups expressly for women angels. At least six of these are now operating in the United States, with interest expressed (or groups already building) in about ten other North American metro regions. Women lead or administer at least 12 angel groups, and according to the Center for Venture Research in 2004, 19 angel groups had memberships of at least 25 percent women—including the “women’s groups” then existing, plus those with the strongest gender balance.

Roundtable of Women Leaders to Gain Perspective

To dig deeper into the issues and rewards that angel investing presents to women, the Kauffman Foundation asked prominent women angels from across the United States to share their experiences and observations. The Kauffman Foundation held a full-day leadership roundtable in December, 2005 and followed up with interviews in January and February, 2006. The women were asked about a variety of issues, including:

- What attracted them to angel investing and to angel organizations?
- How did they get started and do they now try to involve other women in angel groups?
- How is angel investing similar and different for women as angels?
- What are the special challenges and opportunities for women in the field?
- What further steps could be taken to recruit and empower more women as angels?

Most of the 12 women are members of angel groups in which they have played key roles. While solo angels are very important, focusing on group members allowed a more far-reaching sample: these women have contact with many other women angels and are also active in recruiting additional women angels.

Roundtable Profile

The women who shared their experiences and thoughts are:

- Lauren Flanagan, Managing Partner, Phenomenelle Angels Fund I, LP, Madison WI
- Jean Hammond, Member, Launchpad Venture Group, Boston, MA
- Stephanie Hanbury-Brown, Founder and Managing Director, Golden Seeds, LLC, New York, NY
- Sydney Joyner, Chairman, The Women's Investment Network, Portland, OR
- Wendee Kanarek, Co-founder, WomenAngels.net, Washington, DC
- Susannah Malarkey, Executive Director, Technology Alliance, Seattle, WA
- Catherine Mott, Managing Partner, BlueTree Capital Group and BlueTree Allied Angels, Pittsburgh, PA
- Cynthia Pharr Lee, Co-founder, Texas Women Ventures Fund, Dallas, TX
- Sue Preston, Co-founder and member, Seraph Capital Forum, Seattle, WA
- Laura Roden, Managing Director, The Angels' Forum, Palo Alto, CA
- Carol Sands, Founder and Managing Member, The Angels' Forum, Palo Alto, CA
- Dedee Wojtal, Managing Partner, Phenomenelle Angels Fund I, LP, Madison WI

The group includes current and former executives from the commercial banking and investment industries, as well as cashed-out entrepreneurs. Their educational backgrounds vary from MBAs and technical degrees to other non-business degrees. Some are full-time angels; others invest on a part-time basis. All are accredited investors and appear to be investing first-generation (earned) wealth, as opposed to inherited money.

As different as their backgrounds and histories may be, the angels represented here share a passion for the entire entrepreneurial community. They like being in the company of entrepreneurs. They talk about the "buzz" they get from working with entrepreneurs, and even those who haven't been entrepreneurs themselves told stories about how much they enjoyed working with clients who were.

In their own careers, many have taken significant risks and non-traditional turns. They are not put off by the uncertainty and course changes that inevitably occur in early-stage businesses. They describe themselves as risk-takers but also express a sense that when it comes to investing, some women have appeared more cautious than their male counterparts might be.

All describe the shortage of women angels as a missed opportunity for women, for the entrepreneurial community, and for the U.S. economy. They express some frustration that more corporate women, as well as women of inherited wealth, are not part of the early-stage investment pool.

The Attractions of Angel Investing for Women

When roundtable participants were asked why women become angels all cited reasons that are similar for all angels, whether they are men or women. These include the desire:

- for an above-average rate of return on investment;
- to engage in the high-passion, high-energy world of entrepreneurship;
- to not only invest in but mentor emerging companies; and
- to seek a "second career" that is challenging, but allows them to participate in other interests.

Women also find an opportunity in angel investing that appears to be different than their male colleagues: growing the number of women appointed to corporate boards of directors. In addition, some women are attracted to angel investing as a means of supporting the growth and development of women-owned businesses.

Seeking Above-Average Returns

Whether they are women or men, the main metric of angel investing is making a good return. Lauren Flanagan in speaking of her Phenomenelle Angels Fund states: "We have three objectives, and the first is to make money." The high rates of return possible from early-stage private equity investment are accompanied by above-average risk. Thus, angel investing tends to appeal to women who (a) see this form as a worthwhile complement to other investments in their portfolios, and (b) can enjoy the highs and learn from the lows.

Some women in the roundtable started angel groups in the late 1990s when the dot.com era was at its peak. WomenAngels.net and Sue Preston's Seraph Capital Forum were two of the earliest women angel groups in the country. "It was an exciting time," says Wendee Kanarek of WomenAngels.net. "We were attracted by the energy and possibility of high returns."

When the bubble burst, women angels, like their male counterparts, were sobered and had their wallets lightened but were not driven away. Says Sydney Joyner of Women's Investment Network (WIN), "That educated us on going back to the basics. Is this a company you really believe in and understand? Is the management team good?"

WIN has weathered the ups and downs: it currently has 40 members and a portfolio of five companies. In less than a year the newer Golden Seeds, LLC has attracted nearly 20 members and more than \$700,000 in capital. Phenomenelle Angels Fund met its \$2 million minimum closing goal in less than 90 days. The fund is still raising money until the sooner of \$10 million or March 31, 2007, and Texas Women Venture Fund (TWVF) closed a charter round of \$3 million from 43 investors. "The response is to the opportunity to make money," says TWVF's Cynthia Pharr Lee. "We had to turn away people who didn't get organized quickly enough."

A Passion for Entrepreneurship

The women angels we talked with see start-ups as the place in the business world where the creativity and energy is, and they actively seek out involvement with entrepreneurial companies, both as angel investors and in their professional lives. "Start-ups are where the excitement is as opposed to corporate jobs," says Jean Hammond, a serial entrepreneur, independent angel, and member of LaunchPad Venture Group. "Start-ups are where the do-it-completely-different people are, where junior administrators turn out to be senior engineers."

"I've always loved to be around entrepreneurs," says Sydney Joyner. "It's such an opportunity to watch a company grow and be successful, to take the risk and see the benefit." Adds Catherine Mott, "People who have an affinity for early stage investing love to evaluate business plans and business opportunities. It's addictive. Active angel investors truly find a thrill in analyzing the businesses and helping the businesses succeed."

The Opportunity to Mentor

The women angels in the roundtable had been gaining experience (and mentoring people) inside their own businesses for years. They found that angel investing let them leverage what they know by mentoring other companies along the road to success. "I was co-founder of a boot-strapped start-up which was sold to 3Com and then went on to be the founding CEO of a venture-backed company," says Hammond. "I want to give back and be part of something exciting."

Cynthia Pharr Lee says that her women members are focused on mentorship. "These women have been mentoring young women in their law firms, their medical careers, and their technology companies. They

want to reach beyond their own organizations.” As Lee sees it, there are two ways TWVF can uniquely help women—with capital and in the boardroom.

Later-Stage Career Opportunities

Angel investing also offers lucrative professional opportunities. Stephanie Hanbury-Brown, a former Wall Street executive and now Director of Golden Seeds, LLC, describes angel investing as a very serious business that can be a high-powered second career. “With angel investing, there is the ability to leverage your experience, whether you’ve sold a business or retired from a corporate job,” she says. “I didn’t want to be involved in a single business. I wanted to be involved in a lot of different businesses.”

Opportunity to Serve on Boards of Directors

Women angels recognize that investing in start-ups opens up new horizons. One is the chance to serve on boards of start-up companies—often attractive because larger for-profit boardrooms have not been accessible to women. According to the *2005 Catalyst Census of Women Board Directors of the Fortune 500*, women held only 14.7 percent of Fortune 500’s board seats.

“We offer an opportunity for our investors to prepare for life after their current positions,” says Flanagan. “Our portfolio companies represent good opportunities for advisory board, board, and consulting positions, and potentially executive management if the need arises.”

Interest in Investing in Women Entrepreneurs

Women angels express a strong interest in investing in women-led companies. All of the women angel groups also invest in men’s companies—but they put extra effort and time into ensuring that worthy women-led businesses are not passed over. This heightened receptivity to investing in women business owners and founders and the special attention to women-led businesses generally isn’t observed in angel groups that have a small number of women members.

The mission is not just to help more women start businesses, but to help their businesses grow and flourish more robustly. Census data show that women now own nearly 30 percent of all businesses in the United States, up from 5 percent in the 1970s, but they still own fewer than 10 percent of all firms with annual revenues of \$1 million or more. Women’s companies also lag in the share of venture capital received and in other indicators of high growth and impact.

The roundtable participants say women entrepreneurs sometimes must be encouraged and taught to think bigger. They see angel mentoring as a way to help these women turn their ideas into solutions that solve big problems for huge markets, rather than just implementing them on a modest scale. Hanbury-Brown is also involved in Make Mine a \$Million Business™, an organization aimed at moving women’s firms past the million-dollar revenue mark.

In turn, women entrepreneurs gravitate to women angels. “When [they] find out there is actually a women’s investing group, they are more eager to get in front of us than other angel groups,” Joyner says. “We think we look at more women’s start-up businesses than some of the more traditional groups do.”

How Women Became Angels and How They Recruit Women to Groups

Although the attractions and motivations for participating in angel groups are very similar for men and women, the process and experience of joining an angel organization appears to be different. Some of the interesting differences include:

- Women often come from different social networks than do men. This turns out to be both a challenge (they’re not in the loops that most commonly lead into angel investing, so they’ve had to show initiative to break in) and an opportunity (they can locate other women candidates more easily).

- Women find ways to enter angel groups on their own, as most of the women we interviewed were not asked to join angel groups. They didn't wait to be invited, and instead invited themselves to angel groups or started their own angel organizations.
- Strategies for recruiting women have many similarities to those for men, but women have found different messages that resonate with women, and have focused on providing more information and education to secure their participation.
- Women angel group leaders have received significant support from men.

Women are still wrestling with a few challenges this field. These challenges relate to the backgrounds of high net worth women: they are less likely to have first generation wealth or to be "cashed out" entrepreneurs and thus are less exposed to the opportunities and skills of angel investing.

How Women Have Dealt with Networking Challenges: From Starting Your Own Group to 'Inviting Yourself'

To join an angel group, one typically has to be invited. This tends to keep most groups predominately male, since most angels at present are men, and their closest social and business relationships are usually with other men. Also, men seem more likely to have - affiliations that lead to angel recruiting—they've been high-tech entrepreneurs; they are members of corporate boards, and they socialize together. Thus, for them, learning about this form of investment and joining a group becomes almost a natural extension of their existing networks.

For most women the process has not been so seamless. Their networks and associations often aren't linked to angel investing (perhaps because there are so few women angels or serial entrepreneurs to begin with). And though existing angel groups are actively seeking them, several members of the roundtable did not find this to be the case when they were starting out.

When Wendee Kanarek and her partners formed WomenAngels.net in 2000, organized angel investing in the Washington, DC, area was generally through pooled dinner clubs that were almost entirely male. The groups didn't prohibit women's participation, but they didn't exactly invite it either. Kanarek's male partner in her firm was asked to join while she and the other female partner were not.

"They asked their buddies and cashed-out entrepreneurs," Kanarek says matter-of-factly. "Women weren't in those networks, and they weren't cashed-out entrepreneurs. Women didn't have people coming to them saying, hey, you've got this great experience. Come sit on our board. Come help us out. So my partner and I thought, well, women could be doing this, too."

Dedee Wojtal of Phenomenelle Angels Fund is a science writer who grew interested in angel investing as she wrote about new companies spinning out of the University of Wisconsin. Wojtal attended a meeting of an existing angel group but didn't feel welcome and wasn't sure she would be invited anyway, so she and two others—one man and one woman decided to found a mostly female group focused on high-potential women- and minority-led businesses.

Says Jean Hammond, "I like investing in groups, but I also have to say that angel groups are like clubs. At an angel group I visited before joining the two that I am in, I felt like such an outsider. At the time I thought, these guys go skiing together. I'm never going to fit in."

Catherine Mott had learned how to evaluate business plans and new ventures early in her career while working in investment banking, yet still had to put herself forward almost impertinently to get involved in angel investing. "I heard some men talking about it after a round of golf," she says. "I told them that I was interested, that I'd like to invest in the company they were talking about. Women don't get invited by men. It's a reflection of their networks. We have to invite ourselves." Mott made that investment and eventually decided that she wanted to engage in angel investing full-time, so she started Blue Tree Allied Angels with a male partner.

Cynthia Pharr Lee says that although there had been national publicity about women entrepreneurs, "I had never heard anyone in Texas even talk about it. I said that someone should do something here, and then I realized that someone was me." Lee and three associates recruited eight other women to form a

steering committee. They met for several months to become educated about equity investing and decide how to organize; then they formed Texas Women Ventures Fund, a professionally managed, limited partnership.

Strategies for Recruiting Women to Angel Groups: Women Can Tap Their Own Networks

Roundtable members say that recruiting other women—either for an explicitly women-oriented angel group or for a mixed-gender group—is not the most daunting of tasks, but it does take work. The “easy” part stems from the fact that so many women have thus far been overlooked by the mostly-male groups. Therefore women, by using their own networks plus a logical search process, can find female candidates that many existing angel groups don’t know about.

Angel groups without many women members are vocal about wanting more women members and say that they proactively seek them out. However, leaders of mainly male angel groups report greater difficulty identifying and attracting women members than do some leaders of women angel groups. Dedee Wojtal is finding women mostly by word of mouth and says that interested women seem to know other women who would be interested. In contrast, she tells how a friend who was raising money for another angel group in Wisconsin told her that his working list had 20 men’s names for every one woman’s name.

To identify likely prospects, one starts with the basic qualification for being an angel investor: an angel must have ample money to invest. Most groups require members to be “accredited investors” as defined by the Securities and Exchange Commission. (Under current SEC rules these are people with a net worth of at least \$1 million, or earned income of at least \$200,000 per year individually or \$300,000 on a household basis—the idea being that only people of such wealth should be exposed to the risk of placing tens of thousands of dollars, or more, in private equity issues.) The recruiting effort begins by listing friends and acquaintances who meet these guidelines. Other local women who are known or thought to meet these guidelines are sought out as well.

That is how Sydney Joyner and her partners started building the Women’s Investment Network in Portland. “We drew up a list of powerful women in the community who were accredited investors,” she says. “We each went through our own list [of personal contacts] and then started to look at the women who were running things, organizing things, doing things.”

Kanarek and her partners brought together 83 accredited women and two men to form WomenAngels.net. “The women were out there, but no one knew where to find them,” Kanarek says. “We had a lot of breakfasts and lunches with women we thought might be interested. One would be interested, and three wouldn’t be. But that one would know somebody else.”

Thus recruiting becomes a matter of one-to-one, personal discussion. It often entails networking to forge new relationships. Some prospects say yes quickly or even come aboard on their own. “Without solicitation,” Lee says, “the lead female television anchor in Dallas heard about Texas Women Venture Fund and called to ask where she should send her check.” This however is not the norm. More commonly it takes weeks or months to attract a new angel, as most women seek several conversations—and a deeper understanding of angel investing than men may require—before they consider joining a group.

Recruiting Messages that Work for Women

Experienced women angels have found that certain messages resonate with other women. In telling prospects about the financial advantages of joining an angel group, Mott stresses three aspects: the general opportunity to increase one’s net worth; the power of “mind-sharing”—which she defines as group members bringing a variety of experiences and insights to the table to evaluate investments and negotiate sound deals, plus the soundness of diversification as a principle of the group. “You don’t own one stock,” she says. “Why would you own one [startup] company?” (This message also resonates well with men.)

Laura Roden of The Angels' Forum, LLC in Palo Alto finds it effective to tell women that they don't need a "hardcore" quantitative background to be good at angel investing. She explains that knowledge of sales, marketing, and human resources can be even more useful for evaluating young companies and helping to coach them to success.

"I tell women that they can do this, too," Kanarek says. "A lot of the analysis required is common sense based on one's own intelligence and experiences. I tell them that prior private-equity investing is not a necessity and that a group composed of investors with diverse experiences is ideal because every member will bring some different professional experiences and connections to the table."

As for the things that new women angels will in fact need to learn, "We tell our investors that we provide a comfortable environment with leveraged resources for women to learn to invest in early-stage companies," Flanagan says. "I tell them that a key tenet of our due diligence process is that all questions are permitted. There are no dumb questions."

Last but not least, there often needs to be a strong non-financial aspect to a good recruiting message. When they've sold their company or become semi-retired, women often wish to turn their energies to areas they feel they have neglected—such as family, faith, or philanthropic and civic activities. Angel investing takes time and attention, yet Stephanie Hanbury-Brown says it makes an ideal second career.

Moreover, a strong appeal can be made on the grounds of social and civic responsibility. Many people do not automatically equate investing with contributing to society. In fact, women who become angel investors contribute in multiple ways:

- by building up the region's (and the world's) economy;
- by helping other women succeed as entrepreneurs;
- by mentoring passionate people as they translate great ideas into useful products, services and job creation for the good of all; and
- by forging powerful new networks, and generating new wealth, which can then be turned to a variety of purposes in the future.

Someone who is just learning about angel investing may not see all these benefits. Telling personal stories can convey that the benefits are real.

Women Angels Have Benefited from Men's Support

The women in the roundtable cited many examples of men helping them start angel groups—either by giving advice or by playing direct and vital roles in the new groups. Mott says she was introduced to the concept of angel networks by a male venture capitalist, adding that a man has been her partner in launching BlueTree and that the inaugural members were all men.

One of Phenomenelle Angels' three founders is a man who has made early stage investments in 30 companies on his own and with his daughters. "He strongly believes in empowering women entrepreneurs and that this will be a competitive advantage of our fund," Flanagan says. "About half of our advisory board members are men who believe strongly in the goals of the fund."

Texas Women Ventures Fund gained the support of the Ray Hunt (of Hunt Oil interests), who became a champion in the first round. As a result, Hunt Investment Corp., the private investment arm of its namesake, invested \$2 million in the fund. "The chairman of the Hunts' venture investments serves on TWVF's investment committee," says Lee. "As an institutional investor he represents an equity structure of multiple VC firms that have been very supportive."

Kanarek says, "John May [Chairman of the Angel Capital Association and co-founder of The Dinner Clubs in Washington, DC] was a huge supporter of WomenAngels.net, both in the formation of the group and in advising us on managing the challenges that come with any organized activity like this." She adds, "there are group dynamics that emerge; there are investment questions that we look for other opinions on. We are co-investors with his angel clubs in certain deals, and he looks to us for investment discussions as well. It's been a great relationship for us, and John is invaluable."

Rarely in the angel-investing community does one find systemic bias against women (such as through membership rules) or deliberate attempts to exclude women, our roundtable members say. They attribute the under-representation of women mainly to ingrained cultural and gender differences and to lack of awareness. Most “women’s” angel groups accept qualified men who show interest in joining (though most, at present, tend to have just two or three men as members).

Moreover there is reason for hoping that all kinds of angel groups, including the mostly male groups, will attract increasing numbers of women. There is a growing awareness of the unique qualities that diversity (whether based on industry, function, culture, race, or gender) can bring to the process of evaluating entrepreneurial opportunities.

Challenges Remain for Women: Different Backgrounds and Sources of Wealth

While women are making headway in building female involvement in angel investing and angel groups, there are a few challenges that have not yet been addressed. To begin with, the roundtable participants believe that women in general tend to be more conservative investors and less experienced investors than men of equivalent wealth. These two traits can reinforce one another: a high-earning woman who is used to letting a professional manage her investments may rightly be skeptical of an arrangement where she’ll be called on to make risky, early-stage investment decisions herself.

Also, not many women as yet have the kinds of backgrounds from which angel investors are most likely to come. For instance, even those who’ve been entrepreneurs in their own right tend to have moderate-sized firms with which they are still involved. Relatively few women have taken a high-growth startup through to an acquisition or IPO and then become “cashed-out” entrepreneurs, and it is the latter who are most inclined to being “active and consistent angel investors,” says Laura Roden. “They have a high risk appetite and high confidence in the ability to turn new ideas into big businesses against high odds. The percentage of women cashed-out entrepreneurs is very low, much lower, for example, than the percentage of women compared to men in middle-management corporate jobs.”

A comparatively larger portion of women’s wealth comes from inheritance. They may be movers and shakers in civic affairs but are less likely to have a visceral feel for, or to easily identify with, the world of high-risk investing in high-potential startup companies. Our experienced angels view these women as the least promising candidates—though some are quite willing to venture in, given proper encouragement and education, along with some patience.

Catherine Mott has helped build an angel network in Pittsburgh, where much of the private wealth is either corporate or inherited, and has seen the challenges of getting investors with inherited wealth—who are mostly male—actively involved. The city, she says, has “a lot of old money trying to behave like new money. We aren’t like a lot of other places where you have [large numbers of] cashed out entrepreneurs who can put their money back in. I call it dormant capital. People get interested, but for six months I might have someone sitting on the sidelines learning how to feel comfortable writing their \$20,000 check. It’s reflective of our culture.”

Several of the women angels expressed concern about being disconnected from venture capital firms, which are acknowledged as important links to deal flow and often the source of subsequent round funding when successful early stage companies launch into growth. This concern highlights another example of “networking disconnect” for women angels, perhaps because there are so few women in VC firms, especially at the partner level.

What Women Can Bring to Angel Investing: Characteristics of Groups with Strong Participation by Women

Angel groups have basic similarities. Whether they are women-oriented, mostly male, or mixed, they come in a range of financial and legal structures, but tend to follow certain basic processes. They conduct rigorous due diligence, calling upon the diverse expertise and contacts of group members to vet a potential investment. In some cases they invest collaboratively with other angel groups—an emerging

trend among the groups that participate in the Angel Capital Education Foundation and Angel Capital Association.

However, the roundtable members say they have noticed distinct differences between groups along gender lines. They report that women's groups, along with groups which have "strong participation" by women, stand out from most others in the following ways:

- The women-friendly groups tend to be more collaborative. They create a supportive environment that encourages questions from newcomers and also emphasizes respect for entrepreneurs.
- Women angels may consider a broader range of investment opportunities, and bring new perspectives to the evaluation process.
- They express a strong commitment to supporting women (and sometimes minority) entrepreneurs
- They emphasize angel education.

Collaborative Culture: More Welcoming To Newcomers (and to Entrepreneurs)

The Alliance of Angels (AoA) in Seattle was one of the early non-gender-specific groups to actively seek out women as members. AoA was created under the wing of the statewide Technology Alliance launched by William Gates, Sr. in the mid-1990s. Susannah Malarkey, Executive Director of the Technology Alliance, says the vision for AoA included women's participation from the very start, although it took a little longer to get a critical mass of women involved.

AoA meetings are about finding great companies regardless of gender, but Malarkey says that in her experience the women investors look at things a little differently. "Once we had a woman at every table," she says, "the culture of the organization began to change. Now about 20 percent of our membership is women. Because the group has both men and women members and is intentionally welcoming to women, they may feel more comfortable than in some other angel environments."

At WomenAngels.net, says Wendee Kanarek, "We created a safe and inclusive environment where women who had the money but not the know-how could learn about early-stage equity investing." The results, she says, speak for themselves: "Only a small percentage of WomenAngels.net's 85 members were from the venture capital industry, yet the group was oversubscribed and raised \$6 million in the fund." WomenAngels.net made investments ranging from \$300,000 to more than \$1 million in eight early stage companies; six of those have exited; two remain in the portfolio.

Women who have participated in both mostly-male and mostly female angel groups claim it is often easier to get things done in the women's groups. The women angels expressed that point of view in many different ways, but the bottom line is that a woman can have a conversation with a woman—even about a term sheet—in a different and sometimes more productive way than she can with a man.

"Angel groups are a chemistry experiment," Jean Hammond says. "Each has its own chemistry and leadership. Women need to find a way to play, and it's important to set up special ways to cross-communicate. For some people, operating in a women's group is better. There is the potential for less of a need to show off and prove things when women work with women—in general and in investing."

Angel investing is about feeling comfortable, says Catherine Mott, and at many groups it's hard for visitors to feel comfortable with the prospects of joining or for new members to feel comfortable chiming in. "If you don't have previous experience and some degree of investment knowledge you are less inclined to embrace it. This can be daunting to someone who comes to a meeting and sees the angel process for the first time," says Mott. "It can be overwhelming. There is real merit in the all-women angel networks where the environment is more nurturing and there is more of a sense of 'I'll help you along.'"

Our women angels also said it must be an absolute priority to construct a culture of respect for the entrepreneur. They spoke of experiences in some angel groups (not women's groups) where high-powered experts grew heavy-handed with presenting entrepreneurs. These cases, they say, were not examples of standard practice but weren't isolated occurrences either. In their own groups, the women say, they have put processes in place to ensure that each entrepreneur who presents receives value-

adding support and advice. They often go an extra step by directing entrepreneurs to other sources of support when their companies do not meet the group's investment criteria.

New Perspectives: Women May See Opportunities Men Don't and May Evaluate Them Differently

Both men and women angels agree that there are differences in gender perspectives—and that these differences can be valuable when it comes to evaluating the products, markets, and management teams of new companies. One obvious example: everyone knows that women's health care is a multibillion-dollar industry. Legions of entrepreneurs are stepping forward with new approaches to diagnosing and treating women's diseases or new models for managing their care. Aside from the few that offer large gains in efficacy, subtle features may determine which will win market acceptance and which will not. Women are probably most attuned to noticing these.

Women angels and angel groups are also willing to invest in markets and industries that may be less considered by angel groups that are predominantly male, perhaps based on the fact that they have more experience and understanding of a different mix of industries, such as retail and consumer products. Several roundtable participants mentioned that women angel groups invest in high tech and life sciences opportunities, but they also want the flexibility to be "sector agnostic" when the right deal comes along.

In addition to software and technology businesses, women groups' portfolios include companies in such industries as banking, media, consumer products, healthcare, and construction. Possibly because women make about 80 percent of household purchasing decisions, women angels recognize innovation and a potential to scale in certain products or markets that may be less evident to men. Some women angels, like many men, also express an interest in investing in scalable "green" companies and businesses involved in social good.

Any angel group can benefit from having a mix of men and women members who are active participants: they will receive a diversity and balance of input across the gender line.

Women Angels Support Women Entrepreneurs and Can Thus Find Untapped Opportunities

Women angels who focus on working with women-led ventures put them through the same scrutiny and due diligence as any other company, but see their focus as a way to find untapped investment opportunities and reach underserved markets. "The women entrepreneurs we've recruited know we are committed to helping them build their businesses. We are rigorous in the process, are totally supportive of the entrepreneur, and respect what they've accomplished," says Stephanie Hanbury-Brown.

Golden Seeds, LLC and Texas Women Venture Fund target only women-led companies. Phenomenelle Angels will invest in women- and minority-led businesses. Even groups that don't exclusively target women's firms appear to invest in them significantly. About 60 percent of WIN's investments have been in women-led companies, and five of WomenAngels.net's eight businesses were either run by women or had women in key executive roles. "That wasn't entirely by design," Kanarek says, "but the women investors performing the due diligence and evaluating the management teams may have been better able than their male counterparts to develop a comfort level with the women entrepreneurs."

All roundtable participants said they received hundreds of referred and unsolicited business plans, but try to drive additional quality deal flow by drawing on regional and national women's organizations and programs. One such organization, Springboard Enterprises of Washington, DC, has become a key national provider of high-quality investment opportunities for angel groups and venture capitalists.

Lauren Flanagan was the founder and CEO of a company featured at the first Springboard Venture Forum in 2000. "My company received approximately \$20 million largely due to Springboard coaching," Flanagan says. "I became a boot camp instructor and volunteer for Springboard after I left my last venture, and SCIO Corp., my current venture, and I have invested in multiple Springboard companies."

The roundtable members believe that as more women entrepreneurs take their companies to scale and accumulate wealth, they will do as the cashed-out entrepreneurs before them did and gravitate to angel groups—another reason to hope for continued growth in the ranks of women angels.

Women's Groups Emphasize Angel Education

Angel investing has a flow and a lexicon all its own that can confuse and intimidate any investor. “We find that people who are kind of interested in angel investing are put off by the terminology and their lack of knowledge,” Hammond says. “What is due diligence? How do we represent a business model or the aspects of market size in terms of valuation? What are deal terms like ‘participating preferred’ and ‘anti-dilution,’ and what do they mean?”

The barrage of unfamiliar details can be overwhelming to both men and women who don't have sophisticated financial backgrounds. Instead of bluffing their way through, women may be more likely to walk away. But the upside, according to the roundtable members, is that women are more likely than men to admit they need education. The women angels were unanimous in stressing the need for a non-intimidating, welcoming environment where new angels can ask questions and learn.

They report that having a women's angel group creates a dynamic which doesn't usually exist in other groups. They suggest that women may be willing to take more time to understand angel investing. As an example, Stephanie Hanbury-Brown provided her services *pro bono* to a venture capital firm for six months so she could learn about what they did, hoping to carry that knowledge to an angel group. She now provides ongoing education sessions to members of Golden Seeds.

Our roundtable participants pointed out that men who are entry angels also need educating. As observed by faculty in the Kauffman Foundation's Power of Angel Investing seminar series, the need for technical training and education extends even into the ranks of “experienced” angels. The main difference between men and women at the entry level may be that a man considering joining an angel group might know a half-dozen other angels he can speak to informally, or call privately after the fact, to express concerns or get a question answered. Women are less likely to know people who have the requisite experience and with whom they also feel comfortable revealing their lack of sophistication.

Like Golden Seeds, some angel groups offer their members ongoing training along with regular presentation meetings. TWVF meets quarterly for education and deal discussion. Mott is initiating a mentoring program for new investors at BlueTree. More could be done on the education front, however, which brings us to the final section of this report. We close with further steps that could be taken on several fronts to promote angel investing by women.

Recommendations of the Roundtable

The roundtable women made suggestions in the following broad areas:

- Build stronger networks for women angels and prospective angels.
- Establish visible role models.
- Further improve angel education (including with “women-only” programs).
- Conduct more research on women angels.

Here are details for each.

Recommendation: Address the ‘Disconnects’ in Networking

As noted earlier, women's social and professional networks tend to be different from men's, and women are not well represented in many of the circles where one can be introduced to angel investing.

For instance, many angels come from the ranks of founders and top managers of firms in information technology, engineering, and other industries where women hold few leadership posts. There also are not many high-ranking women in venture capital, an industry from which many migrate over to angel investing. (Tellingly, Silicon Valley—rich in IT and VC firms—has no women-specific angel groups, nor does it appear to have a higher percentage of women angels overall than most other regions, even

though one could argue that the culture of angel investing is more firmly established in the Valley than anywhere else.)

Some roundtable ideas for closing the network gap include:

- Go where the women are. Intensify efforts, for instance, to recruit and connect prospective women angels in health care and the life sciences. Women make up large and growing numbers of the scientists in these fields—approaching 50 percent in some disciplines—and are increasingly emerging as entrepreneurs, executives, or academic and research leaders.
- Women angels who are happy joining mostly male groups should be diligent in recruiting more like-minded women. The men are often eager for women members, clearly understanding the benefits they can bring, but do not know where or how to look.

The roundtable participants also strongly endorsed three broad-brush measures to catalyze networking:

- At the regional level, they suggested speakers' series featuring interesting women investors, perhaps calling on widely known angels such as Esther Dyson, President of EDventure Holdings, or Jean Hammond. Active angels within the local community (both men and women) should also be encouraged to speak and reach out.
- Nationally, they recommend that the Angel Capital Association foster a network of women angels through roundtables, discussion groups, and as an adjunct to The Power of Angel Investing education series. Such a network would share ideas and best practices for involving more women in angel groups, as well as for building good investment processes. They also encouraged the Angel Capital Association to facilitate partnerships between angel groups and well-recognized women's support organizations such as Springboard Enterprises.
- Carol Sands, founder of The Angels' Forum, has been recruiting women into angel investing for almost a decade. She suggested a "power invitation" to "power women" who hold some of the most influential business positions in the country. The invitation would be bold and prestigious, coming from a person (not necessarily a woman) so well-known that recipients would feel compelled to respond. It might be worded along these lines:

"Your name has come to my attention. I've been doing angel investing for a long time. One of the things I'm very clear about is that there a number of women starting companies, and I think it's important for women to have another woman as a mentor. I'm willing to pass to you my experience in angel investing along with how I handle it as part of my busy day." Sincerely, Jack Welch (or someone similar).

These ideas, in turn, tie closely into the next area addressed by the roundtable.

Recommendation: Establish Visible Role Models

Today's women angels didn't have many women role models as they were coming along. Being very conscious of the importance of role models, our roundtable members suggested efforts to raise the visibility of women angels to multiple audiences—including women of wealth, existing angel groups, venture capital firms, and women entrepreneurs.

- They felt this could be done, in part, just by getting more women angels involved in activities such as judging business plan competitions or speaking at community functions about the personal and financial rewards of angel investing. The roundtable participants do these things and more themselves.
- The angels, however, believe role-model visibility and awareness-building in general are such significant challenges that it may take a high-profile spokesperson to create meaningful change—someone of the caliber of an Oprah Winfrey, Tom Peters, or Guy Kawasaki.

- Finally there should be efforts to have women angels quoted and stories about them presented in high-impact media outlets. These outlets would include business publications such as *Fortune* and the *Wall Street Journal*, and could also include magazines read by affluent women who may not follow business news closely, such as *Town and Country* or *Architectural Digest*.

Wherever possible, women angels should make sure their talking points include the key rewards of their profession: the chance to make money while contributing to society. The opportunity to support and mentor other women; that angel investing is an ideal second or part-time career, and any specific benefits that the speaker herself has found especially meaningful.

Recommendation: Support for Angel Education, Including Programs Targeted to Women

As noted, angel investing can be daunting to anyone new to the game but particularly to women who may lack the financial expertise and contacts that many men have. Many women's groups have thus made education a priority item. But beyond that, the angels in our roundtable expressed a strong desire for the Kauffman Foundation to continue to facilitate training, roundtables, and discussion groups for and among women angels. They asked for more women-only sessions of The Power of Angel Investing seminars and workshops. The overview seminar will be held for women audiences in the spring in Chicago, San Francisco, and New York City.

- The request for women-only education comes because a number of angels reported that the feeling of "everyone else knows what that means but me, so I'd better not ask" can be prevalent among women in male-dominated settings. The concern is reduced when the group is all women, they say. As long as the environment is safe and collaborative, women will raise their hands and admit what they don't know. And with increased understanding, checkbooks appear.
- The angels also had specific ideas on how the Kauffman Foundation and its Angel Capital Education Foundation could further develop training materials and curricula to de-mystify angel investing for women. Given the conservative behavior of people with inherited wealth, and the notion that women may also by nature be more conservative investors, an important focus would be on how angel groups manage the risk of early-stage investing—for instance by applying their collective expertise to investment evaluation, and by mentoring entrepreneurs to increase the chances of success.

Finally, the angels requested that women-only education events be held so as to reach as many regions as possible. They noted that regional women's groups conducting self-designed education sessions (such as Golden Seeds, Women's Investment Network, Technology Alliance of Washington, and BlueTree Allied Angels) are willing to exchange materials and content.

Recommendation: Conduct More Research on Women in Angel Investing

Limited data and quantitative research has been published on women in angel investing. The angels believe that more specific demographics could help angel organizations, especially those with few women members, to target and attract more qualified female candidates.

Further, they suggest the Foundation take a lead role in interviewing qualified women who are not angel investors. This could lead to a better understanding of what it would take to get them involved.

Finally, the angels would like to see data on the connection between women investors and women-led companies. Are women angels in fact more likely to invest in women's businesses? If so, how do their portfolios perform compared to groups that don't have a special focus?

Studying such data and discussing the implications could help in achieving the ultimate goals: more success for women across the board in high-impact venturing and a stronger entrepreneurial economy for everyone.

Comments and Questions

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More information about angel investing and angel groups are available from the following organizations:

Angel Capital Education Foundation
www.angelcapitaleducation.org

Angel Capital Association
www.angelcapitalassociation.org

Appendix

Interviews with Leading Women Angels

Wendee Kanarek, Co-founder WomenAngels.net, Washington, DC

“Women weren’t in the men’s networks, so we created a network of our own.”

In the late 1990s, Wendee Kanarek and two partners, one woman and one man, started the Women’s Growth Capital Fund, in Washington, DC, to target women-led enterprises which they saw as an untapped market. Although Kanarek had a background in finance, an MBA, and was in commercial banking, this was her first experience in equity investing.

WCGF was a typical venture capital fund with women, men, and institutions as passive investors. “When we saw the interest from our women investors,” Kanarek says, “we thought that women angels as active investors would be very appealing.” In 2000 the three partners organized WomenAngels.net, a committed angel fund.

\$6 Million Source of Angel Capital

At the time, organized angel investing in Washington was through pooled dinner clubs which were almost entirely male. The groups didn’t prohibit women’s participation, but they didn’t exactly invite it either. Kanarek’s male partner was asked to join, but Kanarek and the other woman partner were not.

Kanarek is very matter of fact. “They asked their buddies and cashed-out entrepreneurs,” she said. “Women weren’t in those networks, and they weren’t cashed-out entrepreneurs. Women didn’t have people coming to them saying, hey, you’ve got this great experience. Come sit on our board. Come help us out. So my partner and I thought, well, women could be doing this, too.”

They brought together more than 80 accredited women to form WomenAngels.net. “The women were out there, but no one knew how to find them,” Kanarek acknowledges. “We had a lot of breakfasts and lunches with women we thought might be interested. One would be interested, and three wouldn’t be. But that one would know somebody else.”

A leading angel from the existing local angel groups helped Kanarek and her co-founders structure WomenAngels.net, which followed the dinner club format. Investment units were \$75,000, and they raised about \$6 million. The group was over-subscribed.

Only about ten percent of the WomenAngels.net fund was from the venture capital industry. The majority came from attorneys, marketing and technical executives, and CEOs of local entrepreneurial companies. Almost all of them were still in the midst of their careers.

“The late nineties was an exciting time,” Kanarek says. “Our members had no other way to get close to the activity or to understand it better. WomenAngels.net provided a great forum to have a front seat within the newest development at the time.” Kanarek and her partners created a safe environment for women who had not had private equity experience; they encouraged people to ask questions about what they didn’t know. A powerful and supportive group dynamic emerged.

WomenAngels.net invested from \$300,000 to \$1 million in eight companies. Five of the portfolio businesses were either run by women or had women in key executive roles. That wasn’t entirely by design, but Kanarek says that the women investors performing the due diligence and evaluating the management teams may have been better able than their men counterparts to develop a comfort level with the women entrepreneurs.

Membership Evaluating Future Plans

"The network has as been a wonderful intellectual exchange of committed and professional women," Kanarek says, "but people have busy lives, and there is a certain amount of investment fatigue. We invested when the stock market took significant hits and the investment experience in private equity was bad. That lowered our risk tolerance. The membership would prefer to operate as a network without a committed fund or as a fund that required much smaller investment units."

Kanarek says that most of the members of WomenAngels.net are still working in their official jobs and don't have time to manage an angel group. They aren't cashed out entrepreneurs and don't have inherited wealth so the dollar requirements that can make the angel group efficient and attractive to professional managers are higher than the angels may be able or willing to invest in risk capital. "With the network model," Kanarek says, "people could go off and opt out for a while and then return; that isn't the case with a committed fund model."

Although WomenAngels.net concluded their investment period about two years ago, the group continues to meet quarterly with 20 to 30 members attending. Kanarek says that many in the organization would like the group to continue and are having discussions about how to proceed.

**Sydney Joyner, Chairman
Women's Investment Network, Portland, OR**

"Start small and build."

Sydney Joyner has always enjoyed being around entrepreneurs and entrepreneurial companies. She was mentored into angel investing by clients and colleagues, both male and female, who she trusted and liked. Some were venture capitalists and some were entrepreneurs who had done well. She says that she was intrigued with the opportunity to help a company grow and be successful.

Attracting Women to Angel Investing Through Networking and Education

The Women's Investment Network (WIN) began in 2002 under the auspices of the Oregon Entrepreneurs Forum (OEF). WIN's mission is specific: to increase the activity of women angels through networking and education; to build relationships that result in qualified women joining advisory committees and taking board positions in emerging businesses, and to build a knowledge exchange during the due diligence process so that mentoring of novice angels by experienced angels becomes a natural activity.

"We drew up a list of powerful women in the community who were accredited investors," Joyner says. "We each went through our own list and then started to look at the women who were running things, organizing things, doing things."

WIN follows Angel Network Model

At first people, sobered by the dot.com experience, were tentative about investing. "That's why we started small and are building," Joyner says. WIN reviews one to two early-stage company opportunities per month and investments are voluntary through LLCs of five to ten women who put in \$5,000 to \$50,000 each. The group doesn't exclusively target women-owned or led businesses, but 60 percent of their investments have been in women-led companies. In a typical round, there are other co-investors, such as other angel groups, venture capital companies, or private investors.

WIN's membership has settled at about 40 angels. The group has a dues structure and is led and managed entirely by volunteers. They receive support from OEF's infrastructure. An independent board of directors provides oversight. Joyner reports that WIN is operating to its own business plan.

Occasionally Joyner receives inquiry from the members in the other local angel groups. "Why don't you just join us?" they ask. Besides the usual feelings women have in male-dominated angel groups, Joyner says that WIN members are interested in a diverse portfolio including consumer products, environmental companies, and possibly businesses with social interest. WIN's current portfolio includes a software company, a magazine, a local bank, and a construction company.

WIN is gaining steam. "We are seeing momentum; more women are becoming interested in participating," Joyner says, "and the dollars are getting interesting." She is also seeing women's interest in entrepreneurial activities surface at different entry points and different levels, including a group of high school girls.

**Dedee Wojtal, Managing Partner
Phenomenelle Angels Fund I, L.P., Madison, WI**

“Interested women know other women who will be interested (in joining angel groups).”

Dedee Wojtal is a science writer who became interested in angel investing through interviewing entrepreneurs and writing about companies that were spinning out of the University of Wisconsin. Wojtal attended a meeting of an existing angel group, but didn't feel welcome and wasn't sure she would be invited anyway, so she and several associates decided to form a mostly-woman angel group.

Phenomenelle Angels Fund I, LP, is a woman's angel investment fund being organized to invest in women or minority owned or managed businesses in Wisconsin and the Midwest. The fund will focus on seed and early stage growth businesses in information technology, life sciences, consumer goods/services, and communications industries. Investment units are \$100,000, with a \$5,000 initial payment, and the balance to be contributed over a four to six year period. The fund is more than half-way toward its initial closing goal.

Wojtal is finding women mostly by word of mouth and says that interested women seem to know other women who would be interested in joining Phenomenelle Angels. She tells a story of how a male friend who was raising money for another angel group in Wisconsin told her that his working list had twenty men's names for every one woman's name.

Wojtal wasn't surprised that he had trouble locating women candidates, since much of women's wealth is in the hands of a generation of women who may not have start-up business savvy or may have left investment decisions to someone else—whether family members or hired professionals. In spite of that, she is optimistic that once a share of the growing number of women founders of companies begin to accumulate wealth, they will gravitate toward angel groups not just as investors, but as mentors willing to share lessons learned along the way.

Stephanie Hanbury-Brown, Co-founder, Golden Seeds, LLC, New York, NY

“Angel investing is a fantastic second or part-time career.”

As Stephanie Hanbury-Brown was transitioning out of a successful career at JP Morgan, where she had been an “intrapreneur” running several global businesses, she knew she wanted to do something to support women entrepreneurs, but she wasn’t sure what direction that would take.

“With angel investing, there is the ability to leverage your experience whether you’ve sold a business or retired from a big corporate job,” Hanbury-Brown says. “I didn’t want to be involved in a single business. I wanted to be involved in a lot of different businesses.” She discovered that for women who have had significant business experience, angel investing makes an exciting second career.

Golden Seeds, LLC Targets Early Stage Women-led Companies

Hanbury-Brown took a pro bono position in a venture capital firm and recognized that once an entrepreneur was ready for a \$5 or \$10 million round, investors became interested, but that seed and early stage capital available to all businesses and particularly to women-led companies was extremely limited.

Hanbury-Brown, who is a member of New York Angels, in New York City, made it known that she was interested in receiving business plans from women entrepreneurs. She saw technology deals and a wide range of other types of companies, such as cosmetics, consumer goods and media, many of them businesses with good potential that she says wouldn’t gain traction in a typical angel group.”

In the spring of 2004, Hanbury-Brown co-founded Golden Seeds, LLC, an angel group that invests in early-stage women-led companies. Golden Seeds currently has 17 members with a goal of reaching fifty. The group requires a minimum of \$25,000 investment per deal.

Group Invests more than \$700,000 in First Few Months

“I find that what the women we’ve recruited really respond to is that we have a purpose and it’s serious business,” Hanbury-Brown says. “We are rigorous in the process and yet totally supportive of the entrepreneur. We have a lot of respect for them and what they’ve done. Our investors get really excited being around women entrepreneurs. It resonates. At our meetings you can feel the buzz.”

In less than a year, the group has made six investments ranging from \$25,000 to \$300,000 and totaling more than \$700,000. Golden Seeds’ portfolio companies include three technology businesses, one consumer products firm, a media firm, and one healthcare company. The group has three more companies in due diligence.

Most of the members of Golden Seeds are women. Hanbury-Brown says that two of the three men who joined did so because they were interested in investing in other than high technology deals and wanted to see deal flow with more variety.

Cynthia Pharr Lee, Co-founder Texas Women Ventures Fund, L.P., Dallas, TX

“Breaking the glass ceiling with capital.”

Cynthia Pharr Lee is a serial entrepreneur with a strong financial bent who has started two successful businesses. Through the process of raising capital for her own companies, Lee learned in the fox holes how difficult the process can be. She has counseled companies who were raising money for IPOs, and she has always been a mentor.

Lee was already thinking about how to help female entrepreneurs when about five years ago she read about the first Springboard Enterprises venture forum for women entrepreneurs. “There was national publicity about women entrepreneurs presenting at Springboard,” she says, “but I had never heard anyone in Texas even talk about it. I said that someone should do something here, and then I realized that someone was me.”

\$3 Million Charter Round Targets Women-Led Businesses

Lee and three associates recruited eight other women to form a 12-member steering committee that met for several months to become educated about equity investing and to decide how they wanted to organize. They formed Texas Women Ventures Fund (TWVF), a professionally managed, limited partnership aimed at investing in women-led businesses. Charter shares were \$60,000 with a minimum of \$20,000 paid up front. “We thought we wouldn’t be taken seriously unless we had money in the bank,” Lee says.

In August 2003 TWVF closed its charter round. The fund raised \$3 million from 43 accredited investors—42 women and one man. “It was an important part of proving our business proposition,” says Lee, “to demonstrate that enough women were capable and interested that we could raise the charter round from all women. We didn’t solicit the man. He came to us.”

Less than ten of TWVF’s members were angel investors already; others had never seen a term sheet and wanted a comfortable place to learn how to be direct investors in businesses, other than their own. TWVF had to turn away people who didn’t get organized quickly enough.

ROI and Mentoring

The reason for the fast and diverse response is to the opportunity to make money in equity investing, but Lee says that many joined for another reason as well. “Most of TWVF’s members’ money is self-made,” Lee says. “These women want to give back. They’ve been mentoring young women in their law firms, their medical careers, and their technology companies. They want to reach beyond their own organizations.” As Lee sees it, there are two ways TWVF can uniquely help women—with capital and in the board room.

Most charter investors are from Dallas; several investors from Houston and Austin read about the group in business publications and called to ask where to send their checks. Without solicitation, the lead female television anchor in Dallas called and asked, “Where do I send my check?” “Interestingly,” Lee observes, “our investors are all very busy people. None of them need another thing to do.”

Additionally, Texas Woman’s Ventures Fund gained the support of the Ray Hunt interests. The Hunt organization invested \$2 million in the fund as an institutional investor representing the equity structure of multiple venture capital firms.

Fund Targets Mezzanine Investments

TWVF is something of a hybrid organization in that members perform angel-like due diligence and provide mentoring and expertise to their portfolio companies, however, instead of investing in seed or early stage, TWVF invests in mezzanine opportunities with the intent of addressing the gap between early stage investments and venture capital interests.

Lee says that TWVF members who are participating in private equity investing for the first time (or who saw their investments disappear when the dot.com market burst) are cautious. Since mezzanine investments are less risky than seed or start-up opportunities they are attractive to TWVF, even though the fund is capable of investing in earlier stage businesses and some of the members have done so independently. An investment committee, which includes the chairman of the Hunt family's (Hunt Oil) venture interests, provides input to the general partner, who makes the final investment decisions.

TWVF has yet to make its first investment, but the fund has three companies in serious due diligence. The group has already been a change agent in the Texas market. They are listed as a source of capital and are recognized by bankers, attorneys, CPAs, other funds and large companies in the area.

TWVF is building community among group members who want that. The group meets quarterly for education and deal discussion which is part of the value proposition that TWVF offers investors.

"We are distinctive, and we love that," Lee says. "This is a way to tackle the glass ceiling. It's fun to think about an alternative investment that's always been available, but not thought about or learned about. This is the ultimate shopping experience. Anyone can buy shoes. We are going to buy companies."

**Catherine Mott, Managing Partner
BlueTree Capital Group and BlueTree Allied Angels, Pittsburgh, PA**

“You can’t wait to be invited. You have to invite yourself.”

For Catherine Mott, a former senior level banking executive and current managing partner of BlueTree Capital Group and BlueTree Allied Angels of Pittsburgh, the possibility of a substantial return drew her to angel investing. “This is addictive,” she says.

As a banker, Mott knew the terminology and was trained to evaluate business plans in her early years long before she entered management, but when it came to her first experience as an angel investor, she wasn’t invited to join an angel group. She invited herself.

“I heard some men talking about (an investment opportunity) after a round of golf,” she explains. “I told them that I was interested, that I’d like to invest in the company they were talking about. Women don’t get invited by men. It’s a reflection of their networks. We have to invite ourselves.”

BlueTree Allied Angels Invests \$3 Million in Nine Companies.

Mott made that investment and eventually decided that she wanted to engage in angel investing as a career. She and her partner co-founded BlueTree Allied Angels, which has more than 40 members and follows a pledge fund model. The group has invested \$3 million in nine companies with a minimum of \$200,000 per deal. About 50 percent of their portfolio is in life sciences, which is reflective of the region.

Besides Mott, there are few other women in BlueTree Allied Angels, but she is actively looking for more. She is in conversation with a number of self-made women who still aren’t quite comfortable with the risk of angel investing, but it can be slow going.

“Pittsburgh isn’t a place of critical mass (of first-generation wealth),” Mott says. “This is a very conservative region. There is a great deal of family money here, but we don’t have a lot of cashed-out entrepreneurs. I might have someone sitting on the side lines for six months learning how to feel comfortable before writing their first \$20,000 check.”

However, Mott feels a sense of momentum. BlueTree Allied Angels just had their third women member join, and Mott says that she’s talking to another woman who right away offered up two women friends that she would like to bring along. Mott is initiating a mentoring program for new investors, which will be another way to attract more women.

Angel investing, Mott says, is about feeling comfortable. “If you don’t have previous experience and some degree of investment knowledge,” she says, “you are less inclined to embrace it. This can be daunting to someone who comes to a meeting and sees the angel process for the first time. It can be overwhelming. There is real merit in the all-women angel networks where the environment is more nurturing and there is more of a sense of I’ll help you along.”

**Susannah Malarkey, Executive Director
Technology Alliance, Seattle, WA**

“One there was a woman at every table, the culture began to change.”

In the mid-1990s William Gates, Sr., initiated the Technology Alliance in Seattle with the goal of building a successful technology-based economy in Washington state. Support and capitalization of early stage companies was a key component of this vision, and the Alliance of Angels (AoA) was created under the wing of the Technology Alliance. Susannah Malarkey says that from the beginning, the vision included female participation.

At first, she says, there were few women in either the Technology Alliance or the Alliance of Angels. Although there was no specific gender agenda, as she went about building the organization, Malarkey, whose management style is one of inclusion, looked for ways to increase women’s participation. She recruited a few key sponsors to fund rotating fellowships for MBA students to staff AoA – and a significant portion of those MBAs have been female. Malarkey also encourages the sponsoring organizations (among them attorneys, a bank, and a public relations firm) to send women from their organizations to AoA meetings and events.

AoA meetings are about finding great companies regardless of gender not about gender, but Malarkey says that in her experience women do look at things a little differently. “Once we had a woman at every table,” she says, “the culture of the organization began to change. Now about 20 percent of our membership is female. Because the group is has men and women members, and is intentionally welcoming to women, they may feel more comfortable than in some other angel environments.”

AoA currently has 66 members, including individuals, husband and wife partnerships, venture capital groups, and investment firms. Since 1998 AoA has invested more than \$25 million in a range of companies, most of them high tech. They currently have about 16 regional companies with \$3 million in angel money and about \$3 million in venture funds.

**Carol Sands, Founder and Managing Member
Laura Roden, Managing Director
The Angels' Forum, Palo Alto, CA**

“The most active and consistent angel investors are people who have built businesses from the ground up and made a lot of money doing it.” (Laura Roden)

Entrepreneurs have the confidence to make small ideas into big businesses, and once they do it successfully, many of them crave doing it again. Laura Roden says that this hunger for being involved in start-ups helps place cashed-out and even active entrepreneurs among the most engaged and involved angel investors.

Entrepreneurs talk about the buzz that comes from creating a business. They understand very well the potential risks and benefits of start-up companies. They learn things about building a business from scratch that can't be learned any other way

The successful ones have the satisfaction of seeing their ideas become huge realities. They speak in short-hand to other entrepreneurs, and they remember like yesterday how hard building a company is. Many successful entrepreneurs have a natural affinity to helping the next entrepreneur. It's their way of contributing.

Angel Groups are Full of These Men

However, while 30 percent of entrepreneurial businesses are started by women today, relatively few women entrepreneurs have taken a company from start-up through acquisition or IPO. Women's wealth is more likely to come from some other source, such as corporate America or inheritance, which means that women angel candidates haven't been in the situation to develop a visceral understanding of angel investing and therefore, the attraction isn't as automatic as for an entrepreneur.

Carol Sands has been interviewing women of wealth for the last eight years. She sees them pulled many ways and says that helping the next generation of start-up entrepreneurs might not be as much of a priority as other things in their lives. “Men have a different sense about how to help the community and how to help each other,” Sands says. “They have a sense about how important it is to invest in small companies and help them grow. For whatever reason, women haven't had that same feeling.”

Another influencing factor Laura Roden sees is how women define themselves. “Businessmen are used to defining themselves by their business interests,” she says, “while businesswomen are comfortable defining themselves in many ways—in particular by their nonprofit work and/or family responsibilities—in addition to their business interests.”

Businessmen have many role models that suggest that staying involved with business after retiring or cashing out is the way successful businessmen behave. Sands says that women must have those types of role models, too.

**Jean Hammond, Individual Investor and Member,
LaunchPad Venture Group, Boston, MA**

“You can never underestimate the personal connection part of investing. It will happen, and it will emerge. It’s not an issue of gender, so much as sameness.”

Jean Hammond, principal JPH Associates, in Wellesley, MA is a poster-woman for angel investing. A serial entrepreneur and CEO who founded huge-idea, scalable companies with substantial success, she now focuses her energies and considerable self-made wealth toward early stage investing with a special interest in women-led companies.

Hammond was a co-founder of a boot-strapped start-up which was sold to 3Com and then went on to be the founding CEO of a venture-backed company in 2000. She got into angel investing because she wanted to give back and to be a part of something exciting. “Start-ups are where the excitement and energy is as opposed to corporate jobs,” she says. “Start-ups are where the do-it-completely differently people are, where junior administrators turn out to be senior engineers.”

Like many of the very top angel investors, Hammond has an interesting background. She has an undergraduate degree in biology. Her first entrepreneurial venture involved food coops, and then ran a \$1.5 million cheese house and drove a truck to the Boston meat market three days a week. After that she was president of a national education organization that put on conferences teaching people how to solve business and organizational structures in their companies.

She went back to business school at MIT and then on to a high tech start-up company in Edinburgh, Scotland, where she was the 35th employee. She says, “It was a fun, young group that was intent on having a blast. I got to look at every decision that was being made.”

Hammond is a very active angel who invests independently but also belongs to two angel groups in New England. She notes that she had to become comfortable with group investing. “I like investing in groups, but I also have to say that angel groups are like clubs,” she says. “At an angel group I visited before joining the two that I am in, I felt like such an outsider. At the time I thought, these guys go skiing together. I’m never going to fit in.”

Angel groups are a chemistry experiment. Each has its own chemistry and leadership. Women need to find a way to play and it’s important to set up special ways to cross-communicate. For some people operating in a women’s group is better. There is the potential for less of a need to show off and prove things when women work with women—in general and in investing.”

Thoughts on Why More Women Are Not in Angel Groups

Hammond has thought a great deal about the dynamics of angel groups and how they fit for all angels, but especially women. She explains, “You can never underestimate the personal connection part of investing. It will happen, and it will emerge. It’s not an issue of gender so much as sameness. That’s the right issue. Angel investing with a group is all about trust.

It’s a big thing, trusting that someone else has done the right due diligence and that they made the phone calls they say they did. You have to trust their basic business judgments. You look for sameness with the expectation that people who are similar to you will react more like you than not like you. This is brutally explicit in the partnerships of venture capital firms.

When we interview we also find that people who are kind of interested in angel investing are put off by the terminology and their lack of knowledge. What is a ‘due diligence’? How do we represent a business model or the aspects of market size in terms of evaluation? What are deal terms—like “participating preferred and anti-dilution’, and what do they mean? We find that a many smart people are still nervous about the words. What does double dip mean? People feel threatened. Women need a place to learn

those things. This is a place where more experienced angels can work together to help more women become successful angel investors.”