diffusetap
Virtual Event Series

Deal by Deal to a Fund

Guest Speaker

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Managing Director
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Hosts

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DiffuseTap: Deal by Deal to a Fund

Last time on DiffuseTap, Landon Ainge, Managing Director at Assure Syndicates, spoke about what it takes to be an SPV on a deal-by-deal basis, how to get started building a track record, and how to effectively build a strong and transparent relationship with your LPs.

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DiffuseTap

This networking session is part of our weekly virtual events series. Networking (you'll bump into at least a dozen high caliber fund managers) meets purposeful (you'll tap into brand-new sources of ideas) … straight from your armchair like a boss.

Meet the Speaker

LANDON AINGE helps individuals and family offices gain access to investment opportunities alongside VCs by utilizing SPVs, allowing more flexibility and keeping more of the upside with no management fees and only a 10% carry on each deal. In his current role as Managing Director of Assure Syndicates, Landon serves as a matchmaker between venture investors and the right entrepreneurial founders for them. LinkedIn: @landon-ainge

About Diffuse®

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KENNY ESTES: Our speaker of the day is Landon Ainge. Landon, do you want to do a quick introduction to yourself and what you're up to over at Assure Syndicates?

LANDON AINGE: Sure. I'm Landon Ainge. It's always hard to explain what I do, but I'm basically a three-sided marketplace where I commit to help founders, VCs, and angels connect. I help founders for free if they can convince me that they are ready for a seed and series A round of capital. I help VCs see custom deal flow for their thesis — only the deals that I'm willing to invest in (I never take a lead position). And then once terms have been set with a VC, I help angels get access to those deals on a deal-by-deal basis on 0 and 10 terms. And also, I customize the deals that each Angel sees based on what their passions, interests, or thesis are.

I'm basically an unpaid broker in the space, but I truly believe in the ecosystem. I focus generally on founders between the coasts, and I'm helping recruit individual angels and teach them about angel investing and help VCs that are truly conviction-based lead investors that want to take early bets on great founders. That's a little bit of what I do in this space, and I use special purpose vehicles to do it.

AYLA KREMB: We're excited to have you. And actually, we've got a lot of signups today, and quite a few in attendance as well. Everybody's excited to get a feel for this whole deal-by-deal concept. I think one of the burning questions we could probably start off with is, what is the purpose of building a track record using SPVs? If you are a first time GP, what is the purpose behind that? Why would somebody opt out of striking fund one, and instead kick into SPV mode and run individual deals that way?

LANDON: That's a great question. And to be honest, I should probably provide some context. In my day-to-day at Assure, one of the largest SPV administrators, I get context, watch, coach, and help people that are doing their first syndicates, or emerging managers that want to start funds. SPV's can show a track record that demonstrates your ability to get allocation. These deals also show your ability to build relationships with founders and utilize deals that fit your future thesis is a really effective tool to build relationships with future LPs.

I find that family office commitments are all based on trust. While it seems great to say that you have this really impactful thesis, I would say it's really important to show three deals that fit exactly what your thesis is. Through these deals you can develop that trust and get someone to write a larger LP check after they've written three to four smaller individual checks in deals that you've done. It's really an effective tool to prepare and build that track record, especially for those that were previously in junior positions, or those that are pivoting from investment banking or shifting from other industries.

KENNY: It's funny. I like to say that raising money is very habit forming in the sense that when you write one check, the second check always comes a little bit easier, especially if you do what you say you're going to do. But, seeing that you mentioned using the SPVs and then you eventually get to that fund, one thing we are always worried about is how closely it needs to match. If you were writing 50k checks in seed stage, but now you're going to do a fund and you're writing million-dollar checks, those are pretty different strategies. So, how do you see that transition working? What does that look like? And what is your advice to people going down that route?

LANDON: That's a great question. Joe asked a question here, so I'll just address that while answering yours. His question is, what threshold of doing an SPV is appropriate? Well, you have to make sure that you're doing an SPV that is large enough that the cost of administration isn't too high. You can create an SPV as small as $50,000, but the administration costs are somewhere around $4,000. That's pretty high when you look at the expense ratio, but comparatively low to what you would see in the industry.

But as you're thinking about building a track record, you need to start somewhere. So if you're only going to be able to get $100,000, that's where you start. Obviously, that’s where the relationship matters. If you're showing that you’re a conviction-based investor, and you're showing that you're the first to commit, and that the founders love you, then getting a million-dollar allocation is not that much more difficult than getting a $250,000 allocation from the founder side. From the LP side, it’s a matter of, are you able to convince them that you can do this at scale, and that they should give you more money. That's usually where I see the bigger hurdle. I'll give one story.

I had an individual in her early 20s, she came to me, and she had never done an investment but wanted to. She was able to complete four different SPVs. The first two, I kind of coached her through what to tell LPs, how to do it, and she was able to do four SPVs in a matter of six months, which is really fast for those that have never done it before. And after that, she decided she had enough to create a fund. So she started her first fund.

It's small, it's only like a $2.5 million fund, but she was able to utilize those door openings as she got into meetings with LPs because then, as you meet with LPs. The meetings are different once you’ve already demonstrated investments or if they participated in one of your investments. The door is a little bit more open for future investments. And then, as you have more investments, the doors open even more to talk about funds. So, that transition on the founder side is really easy in my mind, or at least easier. The LP side is where I see the bigger constraint.

AYLA: And that ties into one question here from the audience. How many LPs do you coordinate into an SPV? Because it all comes down to a little bit of a wrangling of the investors. It's fun to do one with 30. But then, you do another segment with 30, and another. And all of a sudden, you're doing 100.

Also, another follow-up question to that is how many SPVs are you running at the moment? And how many investors come in aggregate?

LANDON: Yeah. In an SPV you can legally have up to 99 LPs. From the issuer side, I always think about frameworks — how do I make my SPV more cost effective, etc. And so, to answer Joe's question, for me, I try to keep my SPVs under 20 LPs if I'm under $600,000 of allocation, just because that's a good number. Because the minute I go over 20 LPs, that goes to a different pricing structure.

So typically, most SPVs have between five and 25 investors. It just depends on the structure. Sometimes, I'll have a $250,000 check next to a $5,000 check, and that's the benefit of utilizing an SPV. You could hypothetically accept capital from a check size that wouldn't make sense otherwise. But for me, I am going huge right now. I've closed 24 deals this year, 17 of those ones I was bringing outside capital myself. And the other ones, I was either coaching individuals and managing SPV on their behalf, or helping founders consolidate their individual angels for no carry on those perspectives. Right now, I have 17 active SPVs that are a bit wide.

I don't tell my angels about all of those. I tell my angels about three of them at a time. Those are mostly my way of facilitating other people, or helping founders run their own process. I've managed about 350 individual Angel LPs to date, and I'm tailoring which deals they see for their thesis in most situations. That's how I multitask, and yeah, I would say it's quite a bit of work. I've reviewed about 600 companies in the past two months, and I'm constantly onboarding individual angels through a coordinated process.

People ask the question about my skin in the game, and that's a great question. When I got started, I committed to invest in my first 20 deals so that I could say, "Hey, there are no management fees, so I don't get anything for closing a deal, and I only have carry on the back end." If I'm doing this for the money, I'll be in it for the long game of 5 to 10 years. That would not be worth my time. I could make a lot more money doing other things, that's my perspective. But there are plenty of people who charge management fees on SPVs. You just need to make sure that you are regulatory compliant, but it's not my job to tell people what you need to fit into, like a lawyer.

KENNY: That makes sense. I do love that model, where it's all on the back end. You've got 24 this year, and 17 live. How do you manage the investors on an ongoing basis? I think Mariah had a good question. Do they have any say on when you liquidate a position? Do you have to give them information rights? How do you manage the information flows across that large number of entities and investors?

LANDON: I find that SPVs are a little bit different from a reporting perspective. Because every one of my deals is a fund. That's what a special purpose vehicle is: a deal-by-deal fund. And each one of those has a different group of LPs. Therefore, if I wanted to do LP reporting on an LP basis, it becomes pretty unmanageable. So, what I do is on a deal-by-deal basis, I directly provide the founder any updates of what's going on. I usually get information rights and, in most scenarios, pro rata rights as well.

As we are progressing through those opportunities, I proportionally provide those opportunities to invest. And those LPs get updates of what's going on. I provide a direct relationship, or direct conversations around what's going on with the company. That's my way of providing LP reporting and transparency, and a lot of people really like it, because they can actually take action when a founder has a specific ask. For example, “I'm looking for an engineer that does this”, or “we would like to meet with customers that look like this if you know any.”

That's the value of SPVs. That's why I believe SPVs will continue to grow. When you can provide a clean structure to mobilize accredited investors that have aligned incentives to help the company, you can truly make an impact on those companies. I think institutions are fantastic, and sometimes they add value. But sometimes, the type of value individuals can add is a little different, especially if they come from the industry, or are passionate about what the founders do.

AYLA: What do you think of AngelList, and the value that it provides? It feels a bit like you are a one-man Angellist in a way, where you bring together individual SPVs just like they do, but in a more automated way. Do you want to share a little bit more about how you view that platform?

LANDON: AngelList is great. They've done a fantastic job of marketing technology and mobilizing angels. Assure, is fantastic as well as an administrator and technology. In fact, Assure, up until about a year and a half ago, was the one structuring all of the legal entities that are special purpose vehicles for the AngelList platform. Since then, Assure, managing that, creating the bank account associated with it, and validating wires in that perspective. That's important to understand.

Someone asked, do I use AngelList? No, I use Assure. Assure has their own platform called Glassboard, and I’ve been working with them on version 2.0, and scaling those things. I’m really excited about what they're working on. I came to Assure to convince them to hire me, because I saw that every time I looked at an SPV, Assure was behind the curtain. Whether it was Jason Calacanis and what he was doing, whether it was AngelList and what they were doing, whether it was Venture University or Miami Angels, or these different groups around the country that I trusted on a structuring standpoint, I saw Assure behind the scenes. I knew that they were experts.

I'm a customer of Assure, and I utilize Glassboard. For anybody that wants to set up an SPV, the key differentiators between the two is that AngelList is more of a marketing tool to say “hey, go to the link, check out everything about the company.” But then, you don't necessarily have direct communication with your LPs. On the other hand, Assure’s platform is more about giving that direct communication with your LPs. They are your LPs and Assure will never reach out to them or communicate with them unless it's validating a wire, or giving them tax information. How you gauge interest is on your end.

Some people use Zoom. Some people use email. Some people have an interest in meeting angel groups. That's the key differentiator between those two groups. And so, those that want to keep that relationship with their LPs, that is the differentiator between Assure and AngelList. I don't see a great deal of people that use AngelList saying they’ve done five SPVs on AngeLlist. That’s because they don't actually know their LPs, and they don't have that kind of trust with them.

Building that relationship is the key to building a track record to create a fund long term. That is my perspective. But I love AngelList, and AngelLIst and Assure work together on a regulatory basis to change a lot of things with the SEC. On the regulatory side, we are enabling individuals to receive carry, if they don't charge management fees, which was revolutionary for the industry. And that completely changed what angel investing is today.

And now, Assure is moving on to Blue Skies, trying to help states stop charging fees when you're setting up an SPV. Because right now, Blue Sky fees are very technical. If a state has an investor from New York or Florida, the state says you owe them money. However, states like Florida, Utah, and Nevada are passing regulations that state that they are no longer going to charge these fees for certain size SPVs, which is really impactful, lowering the cost to make it more efficient to consolidate angels' expenses.

KENNY: To rapid-fire brass tacks questions before we do the breakout rooms, how much does everything cost? The SPV, all-in. What does the actual cost structure look like for those who want to do it? And the second one, which you can just tag them together because they are interrelated, is around charging management fees. I understand that there's some regulatory reasons why that might not be the best idea. I'd love to hear your thoughts on both of those.

LANDON: The cost, if you're staying in the rails and it's very clear with no customization, you're talking about $4,000 to $12,500 for the cost. It typically depends on the size. We're trying to make it more cost effective. But if you're doing a big SPV, it's capped out at around $12,500, plus the blue skies fees, unless you're doing some customization there. And then, you max out at around 20k. You could do an SPV of $30 million. We've done an SPV as large as that.

And then, to answer the follow up question about management fees, I would point you to other people for that. I'm not a lawyer. So I'm not the best one to answer on a definitive basis. I would review what it means to be a registered investment advisor and/or broker dealer if you want to run a fund or take management fees. I would say, just don't charge management fees if you don't know what you're doing. If you do, talk to a lawyer.

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Dennis Chookaszian
Corporate Director, CME Group

DiffuseTap: Institutional Grade Governance

Sharing his decades-long expertise on corporate governance, Dennis discussed how to avoid a co-partnership going sour, the problem with overly idealistic CEOs, and the importance of keeping your board in check. Read on

Susan Brazer
CEO & Founder, LionShare Media

DiffuseTap: Media Metaverse 2022

Susan talked about the 2020 digital media landscape; the evolution of media distribution; how converging, emerging technology points to the metaverse; and the prospect of having an open, decentralized, and free Web 3.0 marketplace. Read on

Raj Mukherjee J.D.
VP/Global Head of Tax, Binance.US

DiffuseTap: Crypto Taxes Decoded with Binance.US

Raj explained the complexities of the US crypto tax landscape, how he built a dynamic tax information system for Coinbase and Binance from scratch, and how investors can profit from crypto without getting caught in a taxation mess. Read on

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