



## Information Note

### Background

The Business Angel Co Investment Fund (Angel CoFund), established with a £50m commitment from the UK Government's Regional Growth Fund (RGF), is now operational and is open to making investments alongside Business Angel syndicates (Syndicates) into eligible SMEs.

The fund has been established in recognition of the importance of Business Angel investment to SMEs, especially those seeking amounts in the range £200k to £2m, where other sources of risk capital have become more constrained. The Angel CoFund will leverage private sector funds to support high growth businesses, support job retention and new employment and has a strong regional focus through close proximity between Angels' location and where they tend to invest.

The fund operates by investing alongside and on the same terms as Syndicates. This note contains details of the type of investment that can be supported and the roles of the respective partners.

The fund is not open to approaches from individual businesses. Businesses seeking investment should first look for an investment Syndicate. More information on Business Angels, Syndicates and Networks can be found on the British Business Angels Association website [www.bbba.org.uk](http://www.bbba.org.uk).

The Angel CoFund is a company limited by guarantee and private sector body with an independent board of directors. Investment decisions are taken by an Investment Committee made up of experienced investors from the Business Angel and Venture Capital community. Administration of the fund is supported by Capital for Enterprise Limited (CfEL)

<http://www.capitalforenterprise.gov.uk>.

### What type of business will the fund invest in?

Syndicates should be looking for the Angel CoFund to provide equity or quasi-equity investment of between £100,000 and £1m into eligible SMEs. The fund will provide up to 49% (although by preference will be a smaller proportion) of the capital in investment rounds ranging from £200,000 upwards. The size of the investment proposed needs to be significant enough to properly fund the business and to allow for the cost of proper due diligence and legal advice. The investment needs to be a new investment for the Syndicate, rather than supporting an existing investment, which will help to ensure that the Syndicate and the CoFund's objectives are broadly aligned. The CoFund will, to the extent possible, follow the terms of the Syndicate including the structure and price of any investment. Once invested the CoFund will be able to make follow on investments alongside Syndicates in to companies that are already within its portfolio.

In order to meet the conditions of the Regional Growth Fund, certain geographical restrictions apply and at its outset the fund will not invest in companies based in the 25% of most affluent wards (a post code lookup facility to confirm this will be available shortly). Investee companies must also fall



within the European Commission SME definition (headcount not exceeding 250, turnover not exceeding € 50 million and balance sheet assets not exceeding € 43 million).

Investee businesses can be from within any industrial sector and whilst it is anticipated that the majority of beneficiaries will be early stage high growth companies, SMEs at any stage of their lifecycle are eligible providing they have the required level of investment from the angel syndicate.

### **How does the relationship with the Syndicate work?**

The Angel CoFund is inviting investment proposals from Syndicates where the Syndicate itself has made the decision to invest but is unable to provide the entire equity funding requirement of the investee business.

Syndicates will be responsible for sourcing investments, carrying out appropriate due diligence and producing papers to support the case for investment. These documents will be shared with and used by the Investment Committee of the Angel CoFund to inform their approval of an investment.

Syndicates will also need to share details of how they are constituted and be able to sign the necessary commitments, in the form of a Syndicate Agreement, to become a partner of the Angel CoFund.

On completion of any investment the Syndicate will become a Partner of the Angel CoFund, in so doing the Syndicate will agree to provide the Angel CoFund with access to all future investment opportunities that the Syndicate considers (although the Angel CoFund will not be obliged to invest).

In addition to sharing future investment proposals the Syndicate will agree to provide the CoFund with monitoring information relating to the co-investments. This information will include a requirement to make a recommendation in relation to future investment or exit activity.

### **What makes a Syndicate?**

To qualify as a partner each Syndicate must comprise at least three investors (although the counterparty to the Syndicate Agreement may be an individual or organisation) who are investing as part of the Syndicate.

The Angel CoFund will also accept proposals from Syndicates that are supported by a non-investing manager. In such instances the manager or network will need be in a position, either directly or through its constituent investors, to meet the obligations to report on the portfolio company and monitor its performance. Again the manager will be obliged to share all future investment opportunities.



## **Investment Terms**

The fund will, to the extent possible, follow the investment terms proposed by the Syndicate, including the structure and price of any investment and will invest in equity (or equity like instruments) alongside other Syndicate partners. It is anticipated that many investments will be compliant with the Enterprise Investment Scheme (EIS) but this is not a criteria for funding.

In order to ensure that investment objectives are aligned, the Syndicate or its associates must not already have an interest in the investee company prior to the funding round (although it is possible that other investors in the overall round will already be investors in the business). The Angel CoFund may not hold more than 30% of the total equity of the target company immediately following the funding round. Syndicates and other investors may also be required to consider any applicable State Aid restrictions as a result of other investments.

## **Syndicate Fees and Carried Interest**

Where the Angel CoFund chooses to invest, a one off fee of 2.5% of the amount it invests will be payable to the Syndicate manager. This is the same level of fee that is paid to partners of the Scottish Co-Investment fund and is considered reasonable as a payment for the investment monitoring and reporting activities that the syndicate is then required to carry out on behalf of the CoFund.

In addition to the above the Syndicate will be able to collect an arrangement fee from the investee company on the CoFund contribution, and primarily this should be used to pay costs (e.g. legal fees). All fees will have to be transparent in the investment paper and the Investment Committee will be able to reject a proposal if they feel that fees and charges are too high. The CoFund will expect to share in any monitoring or other fees charged to the investee company on the same basis as other syndicate members.

Where a Syndicate manager normally charges a carried interest payment on successful investments to other investors the Angel CoFund will consider supporting this and having it applied to its investment.

The one off fee will be kept under review and some partners may want to accept a reduced fee to be allowed, for example, a larger share of carried interest (a success related payment).

## **Putting forward an Investment Proposal**

Initial applications to the Angel CoFund should be made using the Investment Proposal Form, available from the fund website ([www.angelcofund.co.uk](http://www.angelcofund.co.uk)). Further to a basic eligibility check, a detailed investment paper will then be requested and will be considered by the Angel CoFund's Investment Committee.



Angel CoFund investments are not intended to be State Aid and the Investment Committee will consider all propositions on a fully commercial basis, “from the perspective of an Angel investor”. Assuming that sufficient information has been received, it is envisaged that for the majority of proposals the Investment Committee will make a decision without any company visits or meetings with management. The Investment Committee may however request Syndicate members to be available to answer questions by telephone.

The Syndicate will be expected to take the lead in managing the deal through to completion. The Angel CoFund will appoint counsel and use standard legal documentation, typical for investments of this nature. Details of standard legal terms are available on request.

**Applications to the Angel CoFund may only be made by Business Angel Syndicates.** Individual businesses seeking investment should first look for an investment Syndicate. More information on Business Angels, Syndicates and networks can be found on the British Business Angels Association website [www.bbba.org.uk](http://www.bbba.org.uk).

### **Monitoring and Reporting**

Following investment the Angel CoFund will, where possible, remain a passive investor following the Syndicate on decisions relating to the investee company. In majority of situations it will not expect to appoint a director or attend board meetings as an observer (although it may elect to do so under certain circumstances). The Angel CoFund will require the Syndicate to provide board papers, management & statutory accounts and other necessary documents in order to enable reporting to the Investment Committee and to Government.

### **Subsequent Funding Rounds and New Opportunities**

The Angel CoFund is designed to participate in a Syndicate in the same way as any other Business Angel and as such will be able to participate in all future investment rounds for the portfolio company. All follow-on investments will be subject to the approval of the Investment Committee. The Angel CoFund will also be entitled to participate in all new eligible company investments which the Syndicate undertakes.

### **Further Information**

For further information, please visit the Angel CoFund website at [www.angelcofund.co.uk](http://www.angelcofund.co.uk). The site is currently under development but will offer more detailed information in the next few weeks.

For specific enquiries, please email [info@angelcofund.co.uk](mailto:info@angelcofund.co.uk).