

Sarah Jennings of Beyond Angels - Yellow Jacket Fund

Hall T Martin: [00:00:04] This is the Investor Connect Podcast Program, I'm Hall T Martin. I'm the host of the show in which we interview angel investors, venture capital, family offices, private equity, and many other investors for early-stage and growth companies. I hope you enjoy this episode.

Hall T Martin: [00:00:23] Well hello, this is Hall Martin with Investor Connect. Today we're here with Sarah Jennings, Assistant Director of Beyond Angel Network Yellow Jacket Fund. Yellow Jacket Fund 1 is a sidecar fund capped at \$5 million with the objective to invest in early-stage companies led by a Christian founder that have scalable growth, a clear exit strategy, and they're post-revenue. Sources of capital have great influence on the mission of early-stage companies. Yellow Jacket Fund 1 is the first in a series of funds designed to provide access to faith-aligned capital with a faith-driven mission of Christian founders. The fund is the first of its kind for the rapidly-growing faith-driven startup marketplace. Sarah, thank you for joining us.

Sarah Jennings: [00:00:58] Thank you for having me, Hall. It's a pleasure to be on the show.

Hall T Martin: [00:01:01] Great, thanks. So, what was your background before working with investors in early-stage companies?

Sarah Jennings: [00:01:06] Yeah, so before joining the Beyond Angel Network, in my current role as Assistant Director, I interned with the network during my senior year of college as their venture finance intern. So, one of my main roles in that internship was a focus on the investor side of the network and building relationships with the team and the angels, and communicating with them on a regular basis, and really being one of the angel's main points of contact, which was so much fun and a great experience to have the opportunity to interact with so many successful businessmen and women. So, during my internship, I was fortunate enough to be offered a full-time position for after graduation, and I absolutely loved everything I was learning and everything I was doing in the venture capital space. So, I heartily accepted and have been having a blast in my current role ever since.

Hall T Martin: [00:01:56] So tell us more about your angel network.

Sarah Jennings: [00:01:58] Yeah. So the Beyond Angel Network is affiliated with Cedarville University, which is a private Christian university in southwest Ohio, of which I'm an alum of. And so, we have about 4,600 hundred undergrad students and we continue to grow every year. And so, for our network, we have about four events per year where we invite 2-4 entrepreneurs per event to pitch to our investors. And so, we just had our last event a few weeks ago, where we had two founders pitch and we collected over \$1 million in soft interest for the two companies. So our network has just continued to grow over the last few months, and just since the summer, we've added 11 new angels to our network. So, about two-thirds of our angels have a previous connection to the University in some way, and then about a third of them have no prior relationship, and there's really no advantage or disadvantage for members to have a prior connection or not have a prior connection with the University. Of course, we have a strong affinity group with the University, which is why a lot of our members have some connection with Cedarville, but we're happy to adopt others into our group and bring them into what we call the "Cedarville Nation". So, a few things are kind of different about our angel group in comparison to other angel networks is first off, that we have this global proprietary deal flow that comes through our pipeline. So, we are a part of \$2-million investment to create a new deal flow platform called the Faith Driven Investor Marketplace Platform. So being co-founders and building this platform really provides us with global syndication and deal flow, which is, I think, really unique. A second thing that makes us different from other angel groups is our highly-disciplined due diligence process. So on average, we spend at least 50-60 hours per deal screening and vetting each company that we consider for investment, and this is really significant because Angel Capital Association's historical data has shown that those who spent less than 20 hours on due diligence, received an average return multiple of 1.1 times, while those who spent more than 20 hours received an average return multiple of 5.9 times. So, one of the reasons why we're able to spend so much time vetting these companies is because of how we're structured. So, our screening team is made up of our venture capital analyst team who are top students at the University who intern with us, and this team is led by the Assistant Dean of the School of Business, who serves as the sponsoring professor for our venture capital program. And then alongside this team, we have angel mentors. So, these are our angel members who volunteer to work alongside the analysts to screen the deal. And, we have a really diverse member base, which is a

huge advantage for us, because no matter what type of company comes across our path, we have an angel member who has deep knowledge and experience in that industry that will be able to work alongside the analysts to screen that deal. And so in each screening cycle, once we have identified the top candidates for an invitation to pitch to our investors, all of our angels vote and force rank those companies in order to then select the top 2-4 to come pitch to our group. So, that's a little bit about how we're structured and how we operate.

Hall T Martin: [00:05:12] Well, great. Well, how do you see the industry evolving for angel groups? Where do you see it going?

Sarah Jennings: [00:05:16] Yeah. So Hall, as you know, impact investing has really been a big trend that's continuing to grow, and we've seen an increase in capital being allocated to companies that apply ESG principles to their companies, and recently I read the study that Deloitte did on how the number of investments in impact investing has increased over the last few years, and they found that globally, the share of retail and institutional investors that apply these kind of ESG principles to at least a quarter of their portfolios, increased from 48% in 2017 to 75% in 2019. And so, I think we've seen these ESG metrics becoming more important to investors, and there's a lot of reasons why I think impact investing is such a big trend. And then one of them really from my perspective, is the influence of the younger generations of investors and the things that matter to them. So purpose-driven companies are, I think, really a powerful mechanism and vehicle for engaging the younger generation who view social responsibility and responsible investing as highly important. So I think we're seeing more angel groups adapt their investment thesis to include some sort of impact principle in that. And then more specifically, with this kind of niche subset of faith-driven impact investing, I think we've seen this trend continue as well. And so the marketplace platform, as I mentioned earlier, it's been live for one month and already we have over 100 investors registered and 150 companies from around the world looking to raise capital on this platform. So, there's clearly a demand for impact investments, both on the investor side and on the entrepreneur side as well.

Hall T Martin: [00:06:58] Well, that's great. Well, as you launch the group and the fund, what's the biggest challenge you face today?

Sarah Jennings: [00:07:02] Yeah, so I think I can take this from both the entrepreneur's perspective and the investor's perspective. So for entrepreneurs, I think the biggest challenge is finding capital that's aligned with their mission and values of their company. And capital is more than just money, right? It's, capital's influence. And so, entrepreneurs want to have their company influenced and supported by investors who are aligned with their company's mission and values. And then for investors who are wanting to start kind of allocating capital to these kinds of impact investments, I think the biggest challenge is trying to source for these kinds of deals alone. If an investor is trying to identify these kinds of impact investment opportunities by themselves, it can be a really daunting task. And so my advice to that would just say, hey, get connected in this growing system and ecosystem that is, of faith-driven impact investing.

Hall T Martin: [00:07:53] That's great. So, what is your investment thesis for your group and overall? I understand it's impact and faith-based, but more specifically, what do you look for in companies?

Sarah Jennings: [00:08:04] Yeah, so we look for for-profit companies that have scalable growth, a clear exit strategy, and that are post-revenue. We invest in a diverse array of industries, but we do have a preference to tech or platform businesses. So that's kind of the main things that we look for in our general kind of criteria of companies.

Hall T Martin: [00:08:23] Great. Can you talk about one or two companies you've seen that fit that thesis?

Sarah Jennings: [00:08:27] Yeah, absolutely. So, the two most recent companies that we've added to our portfolio are KiwiTech and Soteria Battery Innovation Group. And so I'll kind of explain how each company fits our thesis. So, KiwiTech, their mission is innovating for a better world, and out of their 300 client portfolio companies, 100 of them have impact investing missions that are aligned with our investment thesis. And so, investing in KiwiTech provides needed capital that flows to these startups that have missions aligned with things such as the UN's Sustainable Development Goals. And then, Soteria, they fit our thesis as it is led by a faith-driven founder whose desire was just to kind of live out his values of his faith in the way he conducted his business in the marketplace. And so the company really focuses on being an example of integrity

amongst the ethical pressures and the consortium to treat members unfairly for future profit. And so, both companies meet all of our criteria that I listed in this last question of scalable growth, clear exit strategy, post-revenue, and in this screening cycle, we screen 20 companies in order to get to these two. And these are really the kinds of investments the angels in our network want to see. And as I said earlier, we will end up investing over \$1 million between the two companies subject to the completion of our due diligence.

Hall T Martin: [00:09:44] Great. So you have the Yellow Jacket Fund, how does it work?

Sarah Jennings: [00:09:48] Yeah. So, the Yellow Jacket Fund is an emerging angel sidecar fund that will augment our angel network. So, this is a \$5 million-pooled fund and it's aligned with the same investment thesis as our network is. And so, this will be the first fund in a series of funds, and our intent is to launch a new fund every three years. So, in preparation for launching this fund, we did a lot of financial modeling in order to see what our portfolio construction should be. So all of these models resulted in us deciding to target investing in 30 portfolio companies, of which we would have follow-on reserves to invest in the top 10 of those in follow-on rounds, and our average check size would be around \$100,000 for an initial investment, and then an average follow-on of \$150,000. And of course, this is a sidecar to our angel network. So that means that the 30 companies that we invest in would receive anywhere from \$250,000-\$1 million each between our network and our fund, which I think is very attractive to entrepreneurs and helps us to continue to attract quality deal flow. Another thing that I think is a unique advantage that we offer to portfolio companies is the deep network of investors and affiliated partners that we have that can help companies exit. So, through this growing ecosystem that we are a part of as the Midwest hub, we can help companies exit by introducing them to other groups who can help them in their later rounds. And so, in this FGI marketplace, we have every type of funding an entrepreneur would need from angel groups, to venture capital, to private equity. So, as co-founders of this platform, we can help make these introductions in order to help with later stages of funding, which we see as a big value add to founders who come through our pipeline. And then for our investors, we see a lot of advantages for our fund as well, such as diversification across a broad portfolio of investments. And then, as I described earlier when discussing the network, we have, you know, proprietary deal flow that the

fund has access to as the co-founders of this marketplace platform. And so per year, this global ecosystem for deal flow and syndication will generate around 200+ potential companies for investment. And then we then use our disciplined vetting and due diligence process to select the best 16 companies per year to pitch to our network and our fund. So we really are focused on only investing in the best of the best and we also see a lot of structural advantages of having a sidecar fund. So, some of these being the assets of the University that we have access to, such as the venture capital analyst team and then access to professionals with diverse backgrounds and experience. And then, of course, as I also mentioned earlier, investors in the fund benefit from the 50-60+ hours of due diligence that is done on each of the companies that we bring to them as investment opportunities. So, this just reiterates that our focus is to only bring the best companies to pitch to our investors.

Hall T Martin: [00:12:44] Great. So, what excites you right now?

Sarah Jennings: [00:12:47] Oh man, so many things! But really what excites me Hall is just getting to wake up every day and work in the space. I love getting to interact with both investors and entrepreneurs who share a common goal and purpose, and every investor and entrepreneur has a unique story, and one of the best parts about my job is that I get to hear their stories every day and that really energizes me. It's been a privilege to get to play a role in connecting entrepreneurs with like-minded investors in our network and fund, and so, every day there's something new that we're doing that excites me. And we're moving at a high speed here and have a lot of exciting things coming up and one of them being the launch of this fund. So, I've been privileged to get to really be a part of the whole process of the fund launch from the get-go, and that's been an absolute blast. And we're looking forward to a potential initial close at the fund at the end of January, which would be a great way to start off the new year.

Hall T Martin: [00:13:45] That's great. So, what's your advice for your investors in the startups? What do you tell them to do before they write that check?

Sarah Jennings: [00:13:51] Yeah, so I would say for investors, get aligned with faith-driven entrepreneurs if you're looking to start investing in the space. If you're looking to make strategic investments that create economic value and also address a societal problem or make an impact, we're a one-stop-shop to achieve this through our

angel network, our fund, and this marketplace platform. So, we'd love to have you join our network and our fund. Again, there's no previous relationship or connection to Cedarville University necessary, we welcome members from all over. So currently we have angels in 13 different states and two countries. So we always have a virtual component to all of our meetings, so it's easy to participate from wherever you're at. And also, you know, every investor style is a little different, so there are ways to be as involved or as passive as you want.

Hall T Martin: [00:14:42] Well, great. Then on the other side of that table, what's your advice for people running startups? What do you tell them to do?

Sarah Jennings: [00:14:47] Yes, it's kind of the flip flop of the investors, but I would say, you know, search for investors who are aligned with your values and your faith and the mission of your company. Sources of capital has such great influence on the mission and direction of early-stage companies, and through this new ecosystem, there is now increased access to capital that's aligned with your values, which means you no longer have to worry about your values and mission being compromised due to contrary investor influence. So, when people - and in this case, investors - share your purpose, I think you really just earn their trust and their enthusiasm for what you're doing. So, if you're searching for investors who share your purpose, we're accepting applications to pitch to our investors at our next meeting, which is on January 29th. So, if you're interested in pitching to our network and fund, you can learn more and apply on our website by clicking on the "For Entrepreneurs" tab.

Hall T Martin: [00:15:39] Great. Well, in the last few minutes that we have here, what else should we cover that we haven't?

Sarah Jennings: [00:15:42] Hall, you know, I think we've covered everything. I'd just like to take a moment and invite everyone listening to join our next fund launch webinar, which will be on January 15th. So, at this webinar, we will discuss the fund in more detail and then answer any questions that attendees have. So, you can register for this by just going to our "Events" page on our website. But Hall, your questions did a great job at allowing me to tell listeners a little bit more about our network and our fund, and I love getting to be a part of your show and talk with you more about what we're doing over here.

Hall T Martin: [00:16:14] Well, great. So, how best for listeners to get back in touch with you?

Sarah Jennings: [00:16:17] You can find me on LinkedIn, or reach out to me by my email as well. Both are great ways to get a hold of me.

Hall T Martin: [00:16:23] We'll put those in the show notes. I want to thank you for joining us today and hope to have you back for a follow-up soon.

Sarah Jennings: [00:16:27] Thank you Hall for the opportunity.

Hall T Martin: [00:16:31] Investor Connect helps investors interested in startup funding. In this podcast series, experienced investors share their experience and advice. You can learn more at Investorconnect.org.

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