

# Members only: the sociable way to invest

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**Eddie G. Lush discovers how a wealthy elite are clubbing together to buy into high-growth private companies**

Are you a serial investor, but with more money than time? You like the idea of being a business angel but you're too busy to research companies yourself? Investment clubs or partnerships may be just what you're looking for.

The basic aim of an investment club is — for a fee — to allow members the opportunity to invest in deals that they might not otherwise see. They typically finance companies looking for new capital of between £250,000 and £5 million — too small for most venture-capital and private-equity funds. Unlike 'business angel' syndicates, where members do their own due diligence and deal-structuring, investment club management does the hard work and club members simply put up the cash.

Investment clubs are a relatively recent phenomenon. According to David Giampaolo, chief executive of Pi Capital, they were born during the late-1990s internet boom. Many invested in technology businesses that crashed. But while those initial investments may have failed, the club business model is thriving.

There are many variations on the theme. Hotbed charges a £495 fee and offers direct private-equity and commercial property investments to investors in £25,000 units. Hotbed members are encouraged to join the companies in which they invest as directors. Pi Capital charges £4,000 a year and, in addition to offering a chance to opt into select private-equity deals alongside bigger investors, it also enables members to pool funds to invest in private-equity or property funds such as Alchemy and Englefield Capital, which normally demand at least a £5 million minimum stake.

London Capital has a slightly different proposition. It runs two limited partnerships with an initial five-year life. To join both, partners subscribe £10,000. These amounts are invested in a portfolio of about 40 small companies. London Capital then manages a co-investment activity alongside the partnerships, through which partners can invest larger amounts directly in the same companies, so partners can tailor their portfolios to their individual tastes.

The co-investment mechanism can be tax-efficient, and encourages engagement between investors and companies — something that is rarely available to individual investors, and that is proving popular with the portfolio companies.

All these ventures claim high-net-worth and ultra-high-net-worth individuals as members. Giampaolo waxes lyrical on why they're so receptive to the investment club concept. 'Many very wealthy individuals are sceptical of relying on third parties to invest their capital. They don't want to be shown a product which a bank has created, and to which large fees are usually attached whether the investment does well or not.'

In addition, he argues, 'being a millionaire simply doesn't mean you're rich' these days. You're never going to get an invitation to sit at the top table or get access to the best investment opportunities with the smartest people unless you're worth far more than that, and extremely well connected. 'That's why our model is so appropriate to the times we're in.' Graham Spooner, manager of the recently founded Beer Investors' Club, adds that people who are cash-rich and time-poor are looking for opportunities where someone else has done the hard work. 'They want access to a variety of deals which fit with their risk profile but don't want to become directly engaged with companies like a traditional business angel.'

According to Hotbed's Gary Robins, business clubs and partnerships have barely started to scratch the surface of the 'passive wealth' that is available in the UK. Over the last six years Hotbed has built up a collection of 700 investors who have raised more than £127 million for 56 different investments. He adds that 'private investors, harnessed with ambition, could make a big difference to the enterprise economy'.

There seems to be no shortage of managers interested in running investment clubs and partnerships. Many are run by successful former investment bankers and venture capitalists.

London Capital's Richard Lesmoir-Gordon says, 'Recent years have seen more and more good people coming out of the City and industry in their forties and fifties who have become disenchanted with big-corporate life, have money to invest and like the idea of helping entrepreneurs with financial backing and practical help — technical expertise, contacts, advice. Our partnerships suit these people very well.'

In addition to offering access to otherwise elusive private-equity deal-flow, investment clubs have a social angle, with regular members' evenings at which the club offers new investment opportunities as well as presentations by City and political grandees. Giampaolo has gone even further by making Pi Capital an exclusive members' club: in addition to quarterly evening events (the next being in April with Sir Tom Hunter) Pi offers lunches and dinners every month where members meet fellow investors and hear speakers on subjects from corporate governance to climate change and philanthropy. Fine wine tastings, trips to China and India and Test cricket at Lord's are a few more of the delights available.

This networking aspect can be hugely beneficial to the investment club itself. Hotbed's Robins says, 'About half of our deals are generated from our members. They're all serial investors, and some are of an age and a wealth that handing over the hard work needed to make a good investment decision is an attractive option.'

He cites Original Travel, a premier travel business which offers snorkelling with orcas in Norway and kite-surfing in Morocco in addition to more conventional holidays. It was in discussions with mainstream funders when a member introduced it to Hotbed. Original decided to go with the club because it could provide not only finance but also potential customers.

How has current market nervousness affected sentiment in the clubs? Experience differs. Robins says that earlier this month he was able to raise £1.6 million of 'growth capital' for an online estate agency. 'And this when newspapers are full of stories saying that the housing market could collapse. It was very interesting to me that even in an early-stage online venture in real estate we saw strong member uptake. Taking the wider picture over the past rather uncertain six months, there has been no evident reduction in the appetite of our members to invest in any of our new opportunities, as they're quite clear that we are not focused on any which are dependent on exits in the very short term.'

Pi Capital's members have shown more caution. 'In the very short term there is some crisis-type behaviour,' says Giampaolo. Subprime horrors, Northern Rock, SocGen, changes in capital gains taxes and pending legislation for non-doms 'have all contributed to making people very bearish on the UK in particular'. 'But,' he adds, 'in a tougher economic climate Pi will prosper even more because the intellectual capital and contacts embedded within Pi's 300 members will be able to find great investment opportunities at much lower valuations.'

Investment via a club or partnership comes with all the usual caveats that apply to risk capital, and there is no surprise that the clubs' track records are not without the occasional flop. But if you join one, you'll at least be among like-minded people, and guaranteed a congenial time along the way.