Liquidity and diversification for ambitious founders, a profile of Collective Equity

With #QVCS, Maddyness profiles different funds to give founders and entrepreneurs the information they need to choose the right investor. Today, we speak to Mike Royston, Brian Pallas and Tristan Schnegg, Founding Partners at Collective Equity.

Temps de lecture : minute

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17 June 2024

Collective Equity launched its first pooled equity fund in 2022 to liberate founders from their equity shackles.

Founders pour their heart and soul into their businesses. They dedicate countless hours and invest significant personal resources to see their vision come to life. Despite their unwavering dedication and the potential for their companies to generate substantial wealth, not every founder will become the next William Shu (Deliveroo) or Ben Francis (Gymshark) and most face financial constraints in their personal lives. This dichotomy, where founders are rich on paper but cash-poor in reality, is a silent struggle that many entrepreneurs face.

As Founding Partners, the three of us had all been exposed to the frustration founders face, having millions of pounds of shares on paper yet consistently financially strained. Our backgrounds range from a career in helping founders raise capital, to extensive entrepreneurial wealth management studies and experiencing the pre-exit liquidity challenges first-hand as a serial entrepreneur. We all got to understand that putting 99% of your wealth at risk in one asset, and the inability to access the value they have created can lead to significant stress and anxiety that impacts daily life. The small amount of cash we provide helps them to pay back personal loans, buy houses or pay for school fees.

It was clear that the gap between equity and cash was widening. While it is accepted that liquidity is rarely available to founders as part of the Series A funding, neither were successive funding rounds providing founders with opportunities to get some cash back to support their lives. Even when it was available, it often came with heavy discounting on the value of their shares and may be blocked by existing investors who fear disruption to the cap table.

With the road to a successful exit longer than ever and paved with more potholes – Beauhurst estimates that more than 20,000 equity-backed companies in the UK are active but haven't had an exit – we knew we had to lift the lid on the pressure pot of pre-exit, secondary liquidity. It is at a crisis point that could impact the entire scale up ecosystem, stalling both investment and the sort of innovation from startups that boosts economic growth. Our fund offers an alternative solution to the liquidity issue.

Which industries are you working in?

We are sector agnostic, but the founders who pooled their equity in our first two funds span fintech, AI, healthcare, medtech, Sustainability, consumer goods and travel.

What do you look for in a founder?

To join a Collective equity fund, founders must have raised capital in the last 12 months from a top-tier VC or institution.

Can you talk about your current portfolio?

Our second fund is structured in the same way as a typical VC fund with Collective Equity as the General Partner and founders as Limited Partners based on the value of their equity contributions. A global private bank has loaned the fund £10M to give instant cash back to the founders.

Compared to a typical 2/20 fee structure, Collective Equity does not charge annual management fees and only levies a 15% fee when cash is released and proceeds are distributed to founders. This occurs from the initial loan distribution, and again only after loan has been repaid from future exit proceeds of the portfolio companies.

Our second fund consists of 19 founders (including some NEDs and early investors) from a range of sectors. For example Algbra, the British fintech startup providing ethical financial platforms and backed by Standard Chartered’s ventures arm and Safi, a B2B marketplace for trading recyclables that recently raised $19.5M in series A funding. The portfolio companies from our second fund have an average VC or institutional backing of around £43M and age of 8 operating years.

What does the future look like?

We expect that more lenders, including private banks, will collaborate with us in these funds. There is a strong appetite for such investments based on our structure which pays rates similar to Net Asset Value (NAV) lending or venture debt as well as being lower risk and a valuable tool for client acquisitions. Beyond the private bank that backed us with a £10M loan, we are currently negotiating with several other well-known lenders to back our future funds. We have no doubt this traction will enable us to expand our innovative structure on a global basis very soon.

We also plan to launch more funds of course and there is the potential that some of these could be based on different sectors such as startups that are addressing the climate crisis or even female founders specific. Further expansion into the US is also on the cards.

What makes Collective Equity different?

Collective Equity's fund is the most significant new source of liquidity for founders. It aims to give founders 100% of the value of their shares, whereas other secondary options are often heavily discounted, as well as up to 15% cash on-top, all while ensuring they retain full control.

The collaboration and networking opportunities that arise from being part of a synergistic support network of founders, who are financially incentivised and aligned with each other's long term goals, has also been an important attraction for founders.

What one piece of advice would you give founders?

At every successful turn, you want to be thinking about strengthening your foundation and considering secondaries. Diversifying and releasing cash on your equity is essential to support your journey to the end. No exit is guaranteed. We echo what Scott Galoway often says "Past the age of 35, and never past the age of 45 have all your eggs in one basket. You want to move everything around, put your eggs in multiple baskets, and you want to get out of eggs and get into cheese".

Mike Royston, Brian Pallas and Tristan Schnegg are Founding Partners at *Collective Equity*.

Article by Mike Royston, Brian Pallas & Tristan Schnegg