Create Your Investment Policy Statement

HOW TO USE THIS SECTION...

Statistically speaking, the more opportunities one is able to review, the more likely one is to find an investment suitable to one's goals.

With this in mind, it would make logical sense to review as many investment opportunities as possible, and use an organized process to help us figure out which opportunities...

- **DO NOT fit our current investment goals**, and can be discarded immediately. The faster you can determine this, the better.
- **DO fit our current investment goals**, and should be considered as a potential candidate.

To this end, it means we must first define our investment goals, as well as which types of investments we are willing to consider.

This is known as an ***Investment Policy Statement***.

The more clearly defined this document is, the easier it becomes to find opportunities worth consideration. Also, if you make this information available to other people, they will know what types of opportunities to send your way (and which ones to avoid).

DISCLAIMERS

BEFORE WE BEGIN...

Nothing in this workbook should be considered as professional advice or individualized advice. Please consult your financial professionals before making any investment.

All investments carry some sort of risk. Regulation Crowdfunding should be considered a risky asset class with a high rate of failure.

Please don't risk any capital you need immediate access to, or otherwise cannot afford to lose.

CONSIDERATIONS

Before investing, it's useful to understand how the IRS rules and regulations could impact your returns.

According to "Topic No. 409 Capital Gains and Losses" on IRS.gov...

> Almost everything you own and use for personal or investment purposes is a capital asset. Examples include a home, personal-use items like household furnishings, and stocks or bonds held as investments.
>
> ***When you sell a capital asset, the difference between the adjusted basis in the asset and the amount you realized from the sale is a capital gain or a capital loss.***
>
> Generally, an asset's basis is its cost to the owner, but if you received the asset as a gift or inheritance, refer to Topic No. 703 for information about your basis.
>
> **Short-Term or Long-Term**
>
> To correctly arrive at your net capital gain or loss, capital gains and losses are classified as long-term or short-term.
>
> Generally, if you hold the asset for more than one year before you dispose of it, your capital gain or loss is long-term. If you hold it one year or less, your capital gain or loss is short-term.

For exceptions to this rule, such as property acquired by gift, property acquired from a decedent, or patent property, refer to Publication 544, Sales and Other Dispositions of Assets; or for commodity futures, see Publication 550, Investment Income and Expenses.

As always, please consult your tax advisor or other financial professionals for individual guidance regarding your individual situation. We here at Equifund are not tax professionals, nor do we play one on television.

However, it is commonly accepted that reducing tax liability can materially impact your potential return on investment.

BASIC FINANCIAL FITNESS

Can you maintain your current lifestyle for at least the next six (6) months based only on...

#1) YOUR CURRENT CASH AND CASH EQUIVALENTS

- **Cash and cash equivalents help [companies/investors] with their working capital needs since these liquid assets are used to pay off current liabilities, which are short-term debts and bills**
    - Cash equivalents should be highly liquid and easily sold on the market. The buyers of these investments should be easily accessible.
- **Demand Deposit Accounts (checking/savings)**; funds can be withdrawn at any time (bills, coins, and currency notes)
- **Investments that can readily be converted into cash**; The investment must be short term, usually with a maximum investment duration of three months or less. (aka "Marketable Securities")
    - Certificates of deposit (CDs) may be considered a cash equivalent depending on the maturity date.
    - Preferred shares of equity may be considered a cash equivalent if they are purchased shortly before the redemption

date and not expected to experience material fluctuation in value.

#2) PASSIVE INVESTMENT INCOME

According to the IRS, there are two kinds of passive activities.

- Trade or business activities in which you don't materially participate during the year.
- Rental activities, even if you do materially participate in them, unless you're a real estate professional.

Participation as an investor. You don't treat the work you do in your capacity as an investor in an activity as participation unless you're directly involved in the day-to-day management or operations of the activity. Work you do as an investor includes:

- Studying and reviewing financial statements or reports on operations of the activity,
- Preparing or compiling summaries or analyses of the finances or operations of the activity for your own use, and
- Monitoring the finances or operations of the activity in a nonmanagerial capacity.

- [ ] If "NO": Reconsider if making any investments into Crowdfunding Capital Markets makes sense for your personal financial situation.
- [ ] If "YES: Proceed to the next step

STEP 1) DEFINE YOUR PORTFOLIO

THOUGHTS ON PORTFOLIO BUILDING

Generally speaking, the commonly accepted wisdom about investing is to build a diversified portfolio of investments as a way to reduce risk and improve overall returns.

There are lots of ways to think about building a portfolio, but generally speaking, a portfolio is constructed with a specific goal in mind, relative to all other investments you currently own.

WHAT IS YOUR PRIMARY GOAL?

Given your current situation, which of the following is most important when considering your investment?

[Rank the following four options. 1 being most important. 4 being least important.]

CASH FLOW

- ☐ **Time Horizon:** Short Term (less than 12 months)
- ☐ **Primary Goal:** Passive investment income is greater than total monthly expenses.
- ☐ **Benchmark:** Most people could comfortably live on $5,000 per month from passive sources. Please adjust this number based on your own personal goals.

GROWTH/SPECULATION

- ☐ **Time Horizon:** Medium / Long Term (greater than 12 months)
- ☐ **Primary Goal:** Increase portfolio value.
- ☐ **Benchmark:** According to CNBC, Berkshire Hathaway has posted average annual returns of 17.1% since 1985, well ahead of the broader stock market's 10.5% including dividends. Berkshire's Chairman, Warren Buffet, is considered one of the greatest living investors.

PROTECTION

- ☐ **Time Horizon:** Long Term (greater than five years)
- ☐ **Primary Goal:** Defend portfolio value.
- ☐ **Benchmark:** Does the investment decrease Risk or offer Non-Correlated Returns? Risk can be managed with insurance products. Non-Correlated Returns can potentially be achieved through "alternative asset classes" like precious metals, artwork, and other collectibles.

PROTECTION

- ☐ **Time Horizon:** Long Term (greater than ten years)
- ☐ **Primary Goal:** Investing for reasons beyond personal monetary benefit.
- ☐ **Benchmark:** Whatever is meaningful to you.

EXAMPLE: THE MOONSHOT PORTFOLIO

By nature, investing in the ***Crowdfunding Capital Markets*** is speculative. With this in mind, it's helpful to approach portfolio building in a way similar to how Venture Capital and Private Equity firms approach it.

According to billionaire entrepreneur and investor, Peter Thiel, in his book Zero to One...

> "The biggest secret in venture capital is that the best investment in a successful fund equals or outperforms the entire rest of the fund combined.
>
> This implies two very strange rules for VCs.
>
> First, only invest in companies that have the potential to return the value of the entire fund. This is a scary rule, because it eliminates the vast majority of possible investments.
>
> This leads to rule number two: because rule number one is so re-

> strictive, there can't be any other rules.
>
> Of course, no one can know with certainty ex ante which companies will succeed, so even the best VC firms have a 'portfolio.' However, every single company in a good venture portfolio must have the potential to succeed at vast scale."

We describe the approach as building a ***"Moonshot Portfolio."***

If you're going to put money into a non-publicly traded security, chances are, it means you're locked in for 5,7 or even 10+ years.

And in exchange for that "lock up," we as investors need to have a big enough return that's worth the wait (**professional investors call this the "liquidity premium"**)

That's why smart investors don't bet big on one single early-stage investment…

They're consistently investing into "Moonshot" opportunities over the course of years.

The "deal math" on this thought process is simple.

Statistically speaking, early-stage investments produce an almost binary return…

It either goes to zero or it goes "to the moon".

Most VCs are willing to take 9 losers if the 1 winner makes up for it (and then some).

STEP 2) DEFINE MEGA TRENDS

WHAT IS A“MEGA TREND?”

Mega Trend: A major movement, pattern or macroeconomic trend. A persistent force that an investor can gain exposure to.

What sectors, industries, or investment themes are you interested in?

FINANCIAL TECHNOLOGY (FINTECH)

- ☐ WealthTech
- ☐ InsurTech
- ☐ Blockchain
- ☐ Payments

AGRICULTURE, AGTECH

- ☐ Tech Assisted Farming
  - ☐ Vertical Farming
  - ☐ Hydroponics
  - ☐ Aerofarms
- ☐ New Farming
  - ☐ Aquaponics
- ☐ Revolutionary Farming
  - ☐ CRISPR-Cas9 gene editing to engineer crops

CANNABIS/CBD

- ☐ Growers
- ☐ Supply Chain Management
- ☐ Technology Providers

- ☐ Bricks and Mortar Locations
- ☐ Direct-to-Consumer Brands

BIOTECHNOLOGY

- ☐ Digital Health – Technology used to deliver clinical health services to patients.
- ☐ Medical Devices – Technology that helps to diagnose, treatment, monitoring, prevention, and potentially cure diseases.
    - ☐ Subgroup A) Clinical devices - stuff that gets used by medical professionals
    - ☐ Subgroup B) Retail devices - stuff that get sold to regular people
- ☐ Telemedicine
- ☐ Pharmaceuticals

FUTURETECH

- ☐ AI / Machine Learning
- ☐ Quantum Computing
- ☐ Cybersecurity

TRANSPORTATION AND LOGISTICS

- ☐ Drones
- ☐ Last Mile Delivery
- ☐ Cold Storage

MANUFACTURING

- ☐ Precision Engineering

- ☐ Defense
- ☐ Automobiles
- ☐ Technology (Hardware)

NATURAL RESOURCES

- ☐ Oil
- ☐ Natural Gas
- ☐ Precious Metals
- ☐ Commodities

REAL ESTATE

- ☐ Commercial
- ☐ Residential

STEP 3) DEFINE DEAL STAGE

DEAL STAGE

What “Deal Stage” am I interested in?

- ☐ **<$5m (“Pre Results” / Early Stage)**
  - Silicon Valley won’t entertain valuation of higher than $5m if issuer is pre-revenue and pre-results
    - If you’re a FinTech company, your average user value (AUV) is $300
    - If you are a SaaS company, you can get 4x - 8x annual recur-

ring revenue (ARR)

- If you are an e-commerce company, have only a single product, or no recurring revenue model, your business is worth 2.5x annual revenue.

☐ **$5m - $15m ("Post-Results" / "The Dreaded Bridge Round")**

- ***The Equifund "Reg-CF Sweet Spot"***
    - You're not the first money in (too much risk)
    - The too small for a real Series A (too much dilution)
    - Company has a minimum viable product and is ready to start scaling operations.

☐ **$15m - $100m (Series A)**

- ***The Equifund "Reg-A+ Sweet Spot"***
    - It will cost the company ~$150,000 to file and launch the Reg-A+ fundraising vehicle
    - In practice, this means they need at least a $35m valuation

CONFIRMATION REQUIRED?

How much confirmation do I need to see before investing? (check all that apply):

☐ I am comfortable being "first money" in (i.e. "Friend & Family")

☐ I am comfortable being "second money" in (i.e. has other individual investors in the deal)

☐ I am only comfortable when at least one legitimate Venture Capital / Private Equity firm has already invested

DEAL CRITERIA RANKING

When considering an investment, what order of importance do I rank the following criteria?

- People – The strength of the management team running the company
- Product – The strength of the product/technology/solution the company sells
- Process – The strength of the marketing, sales, and operational capacity of the company.
- Financials – The strength of the company's balance sheet and cash flow statements.

STEP 4) DEFINE PORTFOLIO + POSITION SIZE

TERMS AND LIMITATIONS

While anyone over the age of 18 can invest, regulators have set investment limitations since investing in private companies is unpredictable and they risk losing their entire investment.

The investment limitations depend on the company's offering type and whether or not the investor is accredited or non-accredited.

- **Accredited investors** are individuals who earn an annual income of $200,000 or have a net worth over $1 million.
- **Non-accredited investors** are individuals who do not meet these requirements.

Offering type and investment limitations:

Reg A+ Tier 1 offering: Accredited and non-accredited investors can invest any amount.

Reg A+ Tier 2 offering: Accredited investors can invest any amount. Non-accredited investors can invest a maximum of 10% of their annual income or net worth — whichever is less.

Regulation Crowdfunding offering: If your annual income or net worth is less than $107,000, you can invest a maximum of 5% of your annual income or net worth — whichever is less.

If your annual income and net worth are equal to or above $107,000, you can invest a maximum of 10% of your annual income or net worth — whichever is less and must be no more than $107,000.

■ AVAILABLE CAPITAL

Which of the following "Capital Pools" do I have access to?

- ☐ Personal Savings
    - ☐ Checkbook
    - ☐ ACH/Wire
- ☐ Retirement Accounts
    - ☐ 401k
    - ☐ 403b
    - ☐ IRA
    - ☐ Roth
    - ☐ Other
- ☐ Corporate Accounts

- ☐ A legal entity you've set up for investing activity

☐ Debt Capital

- ☐ Unsecured Credit
- ☐ Credit Cards
- ☐ Secured Credit
- ☐ Home Equity / Reverse Mortgage

PORTFOLIO SIZE

What is my 12 month maximum allowance for this specific issuance (Reg-CF / Reg-A+) [Use this calculator if you aren't sure]

- Reg-CF: $________
- Reg-A+: $________

Of the number above, how much am I planning on investing over the next 12 months?

Total Funds Available (TFA):__________

POSITION SIZE

How many total investments am I planning on making over the next 12 months?

Total Anticipated Investments (TAI):_______

Divide your "Total Funds Available (TFA) by your Total Anticipated Investments (TAI). This amount is your Average Position Size

Average Position Size (APS): _________

■ CHECK POINT / RISK ASSESSMENT

How much money can I afford to lose with no material change to my current lifestyle? This is called "Risk Capital"

Total Risk Capital (TRC): $__________

Is your Total Risk Capital (TRC) equal to, or greater than, Total Funds Available (TFA)?

- ☐ If NO, consider decreasing your TFA to match TRC
- ☐ If YES, proceed to Phase 1: Deal Flow