ARCHANGEL

29 January 2024

The Director
Investment Funds Unit
Retirement, Advice and Investment Division
Treasury
Langton Crescent
PARKES ACT 2600

By email: misreview@treasury.gov.au.

Dear Director

Submission to the Review of the Regulatory Framework for Managed Investment Schemes

Thank you for the opportunity to lodge a submission to the review.

We welcome the opportunity to make a submission, particularly given our firm and its partners (individually, and collectively) have made over 400 investments across Australia and overseas in early stage companies.

Archangel Ventures (**Archangel**) is a venture capital manager that has invested in over 50 early stage companies in Australia and operates an early stage venture capital limited partnership (ESVCLP) which is registered with Innovation and Science Australia under s13-1(1A) of the *Venture Capital Act* 2002 and regulated by the Government. Archangel has raised approximately $40M from 150 wholesale investors to enable it to fund companies at the earliest stages, where there are very few alternative sources of capital.

The partners of Archangel have been in the industry for over a decade and have seen firsthand the substantial contribution to the economy (jobs, growth, opportunities and global standing) and competitiveness of Australia as a result of entrepreneurial activity by Australians. We have also seen (and experienced personally) the transformational impact of successful investments to individual investors (who are wholesale investors) for example in companies like Canva (about to return another $1.5B to their investors and potentially create a new generation of Australian investors).

Background and overview

Early stage venture capital is a recognised high risk asset class and as such is recommended to form a small part of a diversified investment portfolio. Statistically there is a high risk of loss of capital in any one investment, so diversification is key to achieving the prospective returns. Many investors make dozens of relatively small investments ($5K-20K) to achieve this or invest in a syndicate or fund that provides diversification. The data suggests that you need to make ~50 investments in the class to achieve good returns (Source: AngelList analysis). This is often impractical to do directly because of the time required, often requiring access to managed vehicles like syndicates or venture funds.

From our experience, investors in this asset class are usually younger, more technologically savvy and predominantly believe that they have some kind of affinity to the sector eg they work in the technology sector as an employee and might have relevant contacts, they have been a successful entrepreneur themselves, they want to support Australian entrepreneurs or they run a small family office investing in technology either through their SMSF or directly. In essence they aren't retirees or people urged to make investments into things they don't understand the balance of risk and reward.

Archangel believes that there are sensible policy reasons to increase the number of prospective investors who can fund innovative Australian companies at the early stages and improve parity with the US, rather than making Australia a less desirable investment market.

Alternatively, if there are good reasons to increase the thresholds for other industries or sectors, we suggest exempting the changes from early stage investors in Australian companies whether directly, through a syndicate and also to ESVCLPs which are already separately monitored by Government.

Our submission is limited to the questions to which our commercial industry experience is most relevant.

Chapter 1: Wholesale Client Thresholds

2. Should the financial thresholds for the net assets and/or gross income in the individual wealth test be increased? If so, increased to what value and why?

We view the existing rules as already too restrictive to investors in early stage companies and the venture capital asset class, based on the following:

1) on an AUD currency basis the qualification thresholds for individuals are already comparable;
2) potential investors are required to seek accountants certificates rather than being able to self certify (allowed in both the US and UK); and
3) there is no clear option for those with experience or relevant education to qualify to invest in this asset class unless they meet the income or asset threshold.

AngelList (one of the largest marketplaces for matching investors to companies with over 85,000 active investors, 23,000 investment syndicates and 12,000 startups funded with US$8B raised) has provided some information about who can be defined as an "Accredited Investors" under the US SEC rules. Below is an extract (with highlights by Archangel):

In general, you must meet one of the following definitions to qualify as an Accredited Investor:

- Individuals with **annual income** over $200,000 USD (individually) or $300,000 USD (with a spouse or spousal equivalent) in each of the last 2 years and an expectation of the same this year
- Individuals with a **net worth** over $1,000,000 USD, excluding the primary residence (unless more is owed on the mortgage than the residence is worth)
- An institution with over $5,000,000 USD in **assets**, such as a venture fund or a trust
- An entity made up entirely of **accredited investors**
- SEC- and state-registered **investment advisers**
- **Exempt reporting advisers** filing with the SEC
- Individual with certain **professional certifications** (FINRA Series 7, Series 65, and Series 82 license)
- **Family offices** with over $5,000,000 USD in assets under management and their "family clients," as each term is defined under the Investment Advisers Act
- Any entity with over $5,000,000 USD in **investments**, given it was not formed for the specific purpose of investing in the securities offered

Figure 1: Comparison of individual qualification thresholds *(based on current exchange rates)*

	Australia	US	AUD difference	Comment
Individual income threshold	$250,000 + qualified accountant certificate	US$200,000	US is 20% higher	No requirement to "prove" this via seeking an accountant certificate.
Couples income threshold	N	US$300,000	AU is 11% higher (couples require $500K to both invest)	Introducing a couples threshold might benefit professional couples where one participates less in the workforce.
Individual asset test	$2,500,000 + qualified accountant certificate	US$1,000,000 (excludes family home)	AU is 66% higher ($1M) but US excludes the family home	
Proof of education option	N	Y		Multiple options: FINRA Series 7, Series 65 and Series 82 licences

The US has more exemptions than in Australia however overall, the current qualification thresholds are broadly comparable. The US assets test is much lower while excluding the family home and there is no clear option for individuals based on education and proficiency. Our sense is that the US is generally moving in the direction of allowing more individuals to invest rather than restricting the options of its citizens.

It is unclear to us why the Australian market is more risky than the US market, justifying a higher threshold.

We would be supportive of an option that recognised people's willingness to spend time, effort and money in proving they have an understanding of the asset class to which they want to invest rather than limiting access based on the assumption that income or assets alone should determine access. This seems unnecessarily exclusionary for classes of prospective investors particularly migrants and people earlier in their careers.

We understand in the UK there are also other methods of qualifying based on experience which could also be considered. An example of a proficiency based test (including the cost and results requirements): section 65 exam commentary.

Global competitiveness

We support policies that don't make it harder for Australian investors to invest in Australian companies than to invest into the larger US market.

The Australian early stage venture capital market is already less competitive (less investors, less capital, less critical mass) than the US and this would further impact the number of companies getting funded and reduce the prices that entrepreneurs would receive, driving them offshore in search of capital. There are nearly as many millionaires (estimated 22m) in the US as there are people in Australia.

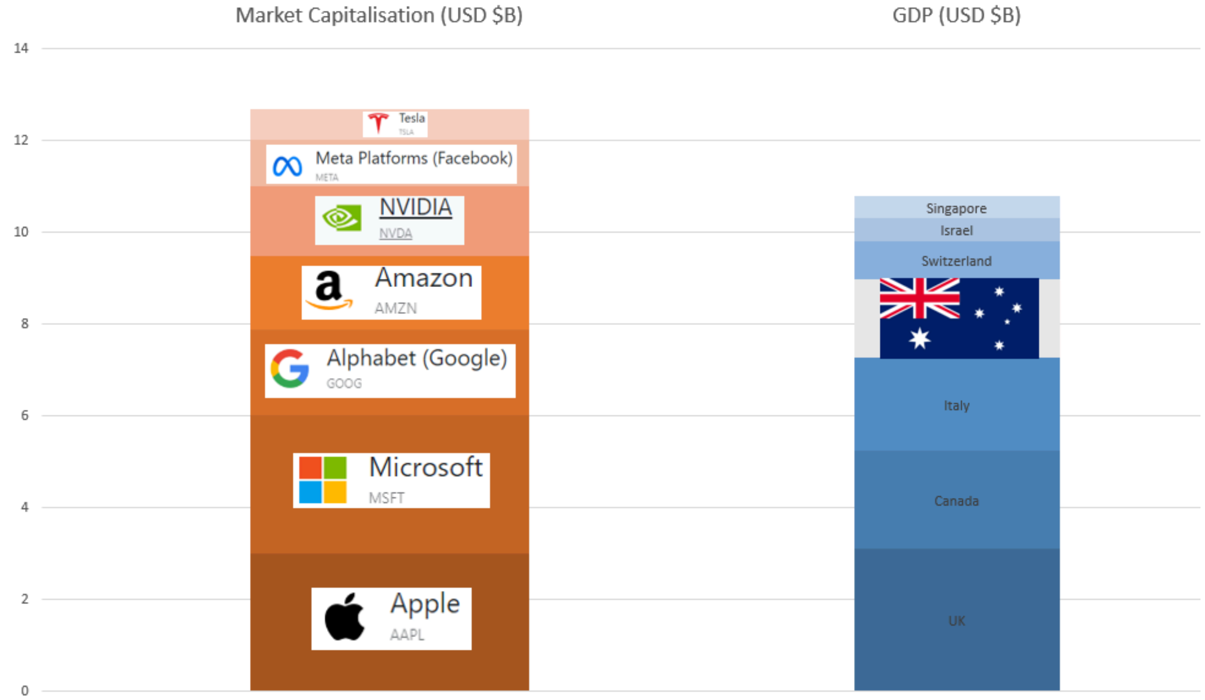
Early stage companies and the early stage market

Most early stage companies aren't backed by large superannuation funds, billionaires or even the well known venture capital funds. Instead, they are family and friends, along with angel investors with some form of knowledge or network in the market and smaller venture capital funds. Data from the US indicates that in 2023 across 19,000 investments in the sector, 62% of all investments were under $25K. (Source: Carta, see chart).

Once these early stage companies achieve some level of success they typically attract larger investors. With less activity at the formative stages, there will be many less entrepreneurial companies created.

The US market is the biggest market for venture capital and attracts more companies and investors than any other. The value created by the industry and for their economy is significant and eclipses the combined GDP of globally significant countries.

Figure 2: Comparison of market valuation of top 7 listed tech companies in the US vs GDP of selected economies. (Source: [World Bank Data](#) (2022 GDP figures) and public market capitalisation as at [25 January 2024](#))



3. Should certain assets be excluded when determining an individual's net assets for the purposes of the individual wealth test? If so, which assets and why?

We'd support bringing the asset test more in line with that of the US by excluding the family's primary residence from the calculation while lowering the threshold.

Yours Sincerely

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