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HEDDA PAHLSON-MOLLER

HEDDA PAHLSON-MOLLER, BUSINESS ANGEL AND BOARD MEMBER OF THE EUROPEAN AND LUXEMBOURG BUSINESS ANGEL NETWORKS

BUSINESS ANGELS AND THE VALUE OF PATIENCE

Hedda Pahlson-Moller, Business Angel, focused on Social Investing and board member of the European and Luxembourg Business Angel networks, says it is important for Luxembourg's government to create a supportive tax environment for Business Angels that help businesses to thrive.

"If investments in start-ups that fail could be used as tax credits, this would not only act as a powerful incentive for early stage investors, but also considerably reduce the real downside of an investment," adds the board member of the European and Luxembourg Business Angel Networks (EBAN and LBAN). *"However, in order for this to work, I would like to underline that these tax credits should only have the objective to encourage investment and change the risk profile of start-ups and are not meant to be a tool to reduce the tax burden of wealthy individuals."*

According to Pahlson-Moller, it is imperative that public-private partnerships are allowed to flourish. For social impact investing, more flexible legal structures are needed that accommodate the hybrid nature of the social enterprise (some are for profit and not-for-profit all rolled into one) and the matching blended financing that goes with it (grant and investment).

"Investment value chains are not always properly mapped nor linked across borders," adds the Business Angel.

Although associations like the European Business Angel Network association (EBAN) are committed to connecting the early-stage ecosystem for start-ups and SMEs, gaps remain. *"The next step is building the bridges to secondary markets,"* she adds. *"Crowdfunding, for example, is a terribly exciting development for start-up capital – but again, without secondary markets, there is no exit and that means value gets… stuck."*

Other hurdles include inefficient matchmaking platforms, between projects and investors. On-boarding more investors (both early-stage and impact) requires better training and support.

"There is a lot of work to be done. Specifically in the impact investing space, which is younger and still finding its footing, where we have even greater lags and discontinuities in the investment value chain. But if I am bold enough to point out a tendency towards convergence of traditional and impact investing, it suggests that it won't take long before the 'impact' capital markets catch up and follow the trends of the 'traditional' markets."

Pahlson-Moller also believes that investors in this space need to think longer-term, rather than expecting short-term returns. *"In social investment, we talk about 'patient capital'… which speaks for itself."*

In Luxembourg there is a growing body of alternative investment structures, including some attractive impact investing options.

"The Luxembourg Microfinance and Development Fund is a good example. With six years of stable returns and an attractive share class structure where the Luxembourg government buffers first-loss, there is ample reason to start looking at impact investments as viable investment strategies".

If we look at small cap investments such as venture capital, private equity and angel investing, there are some interesting trends for Europe. Early stage capital was estimated by Invest Europe to be around 7.5 billion EUR in 2014 (of which Business angels were a large majority with 5.5 billion) – and growing.

"Even without a true single market, young companies are expanding rapidly into neighbouring countries to create economies of scale and hit growth targets. This brings the need for more investments," continues Pahlson-Moller. With the stock market being volatile and the safe-haven of bonds disappearing (with 0 to negative returns),

> "As soon as a FinTech company is reaching the moment of growth it becomes more difficult to attract investors."
>
> GORDANA ADOLF

alternative investments become a more attractive and necessary option - small cap investments have become an interesting diversification technique.

"To tie things up, quoted companies are focused on short-term returns, which means paying out a dividend and meeting earnings expectations, as opposed to investing for the long-term" she concludes. It looks now as if the preferred way to access innovation is by acquisition (for large caps). Therefore the acquisition of small companies, entirely focused on innovation, disruptive technologies (and why not positive social impact) will become a likely growth engine for listed companies, who are unable to replicate this internally.