U.S. Securities and Exchange Commission
Office of the Advocate for Small Business Capital Formation

What are the differences in friends and family, angel investors, and venture capital funds?

Early-stage investors include:

Friends and Family	Angel Investors	Venture Capital Funds

However, each differ in their investor profile, the stage or funding round(s) in which they generally invest in companies, the structure of their investment, their level of involvement with the company, and the size or scale of their investments. More details on each of these differences are outlined below.

Does that mean funding rounds with each of these categories of investors has their own regulatory exemption?

In a nutshell: no. While the capital raising industry often distinguishes between funding rounds by type of investor or series round, the federal securities laws do not differentiate in the same way. That means that regardless of whether the company calls it a “friends and family round,” “angel round,” “seed round,” or “Series A,” the company must structure the deal to fit within one of the regulatory exemptions if it wishes to avoid having to register the offering, most commonly using Regulation D and selling to accredited investors.

Friends and Family

Investor Profile

Many entrepreneurs fund their startups from their own savings, as well as by raising capital from their personal network of friends and family. Most friends and family are investing based on their relationship with the founding team and do not bring strategic industry knowledge.

Company Stage

Friends and family tend to invest at the earliest stages of a company’s life cycle in the pre-seed or seed round.

Investment Structure

Friends and family tend to invest directly in the company rather than through a pooled investment vehicle or fund. The form of investment may be structured as loans, convertible debt, or equity, depending on the needs of the investors and the company.

Level of Involvement

Friends and family investors tend not to be actively involved in the oversight of the business. Because of the close relationships involved with friends and family investors, founders should take care to clearly disclose the risks of investment as well as the downsides if the company is not ultimately successful.

Scale of Investments

The size of friends and family deals tend to be the smallest, around $10,000 to $50,000.

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What are the differences in friends and family, angel investors, and venture capital funds? *(continued)*

Angel Investors

Investor Profile

Angel investors are generally high-net-worth individuals who invest their own money directly in emerging businesses. Most angel investors are accredited investors, and many are current or former entrepreneurs themselves.

Company Stage

While the company life cycle stage can vary, angel investors tend to invest in early funding rounds, including seed and Series A rounds.

Investment Structure

Because angel investors are typically investing on their own behalf, angel investors often syndicate. Coming together as a syndicate allows them to participate in larger deals with smaller investment amounts and limits their portfolio exposure. Investments tend to be structured as either convertible debt or equity, depending on the preferences of the investor and company.

Level of Involvement

Angel investors often bring strategic industry knowledge to the company, taking an active role as a director or advisory board member.

Scale of Investments

Angel investors tend to syndicate together and invest across multiple companies, pooling together $200,000 to $400,000 per deal. In 2020, angels invested over $25 billion in early-stage companies.

Venture Capital Funds

Investor Profile

A venture capital (VC) fund is a type of private fund that typically invests in rapidly growing companies, often with a specific industry focus.VC funds are typically structured to last at least ten years, with the first few years focused on investing in portfolio companies, followed by monitoring their investments, and then “exiting” and hopefully returning a profit to their own investors (or limited partners). Specific criteria for exemption from registration apply to both the VC fund and its investment adviser under the Investment Advisers Act, including pursuit of a venture capital strategy, limits on redemption rights, qualifying investments, and the use of leverage.

Company Stage

VC funds invest in companies across their growth life cycle, from Series A through their public offering. Many invest repeatedly in their portfolio companies when these companies seek to raise subsequent rounds of capital.

Investment Structure

VC funds may syndicate together with other funds during a funding round. Because of regulatory requirements, most venture capital investments are structured as equity, such as preferred stock. VC investments have a long time horizon and are generally locked in until a liquidity event (such as an acquisition or initial public offering), when the VC fund and its investors hope to realize profits from their investment.

Level of Involvement

VC funds tend to take an active role in mentoring their portfolio companies, taking a seat on the board of directors or advisory board. Traditional VC investors provide an array of services to their portfolio companies, including strategic guidance, connection to other investors, connection to customers, operational guidance, and support on hiring key personnel.

Scale of Investments

Aggregate venture capital investment has increased in recent years, reaching a high water mark of approximately $330 billion in 2021.

Have suggestions on additional educational resources? Email smallbusiness@sec.gov.