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100 F Street, N.E., Washington, D.C. 20549

Speaker Panel:

Rita Astoor, Head of Venture Capital Business Development and Product Advisor, Carta

Jay Bockhaus, Managing Partner, Center on Rural Innovation's (CORI) Innovation Funds

Dana A. Guthrie, Managing Partner, Gateway Capital Partners

Courtney Haseley, Special Counsel

Julie Zelman Davis, Senior Special Counsel

Mark T. Uyeda, SEC Commissioner

Karl Fooks, Outreach Manager, Office of Domestic Finance US Department of the Treasury

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C O N T E N T S

P R O C E E D I N G S

INTRODUCTION

MS. HASLEY: Hi. I'm Courtney Haseley from the SEC's Small Business Advocacy Team. Thank you for joining us today to hear how we can support smaller funds and their managers as they support small businesses. And welcome back to those who joined us earlier this week. While I have your attention, I want to make clear that the views expressed today are the speakers' own and do not necessarily reflect those of the Commission, any of the Commissioners or any of our colleagues on the staff. In addition, nothing we share today is intended as legal advice. With that out of the way, let's get today's session started.

MS. ZELMAN DAVIS: Thank you, Courtney. I'm Julie Zelman Davis. I'm a proud member of the SEC's Small Business Advocacy Team, and I'm looking forward to emceeing today's forum session. After a couple days of focusing on ways to help entrepreneurs access the capital they need and ecosystems to support them, today we'll focus in on investors in small business with a discussion about the successes and challenges facing smaller funds. One of the things I've always loved about the SEC's Small Business Forum is that it provides an easy way for small businesses and their investors to have their voices directly heard by the Commission. And while Courtney just gave our standard disclaimer about how I'm not speaking for our commissioners, I feel 100 percent confident saying that all five of our commissioners share our appreciation for the input and breadth of participation we get during this event

So each day we've opened with a different commissioner to give remarks and today we are joined by Commissioner Mark Uyeda. Commissioner Uyeda?

COMMISSIONER UYEDA: Well good afternoon, Julie. It's pleasure to address this forum on small business capital formation. Today's panel will focus on the successes and challenges facing smaller funds, including barriers to entry for emerging fund managers.

This topic is not new. In fact, last year's forum also included a panel on emerging fund managers and their important role in diversifying capital. One policy recommendation arising out of that panel was for the Commission to support underrepresented emerging fund managers, specifically minorities and women.

The Commission responded to that recommendation by stating that it supports efforts to improve diversity among fund managers and entrepreneurs who raise capital. The Commission pointed to its Small Business Capital Raising Hub, an educational resource to assist small businesses in their capital raising efforts.

The Commission also recognized that its Small Business Capital Formation Advisory Committee had submitted similar recommendations in 2020 and 2021, and that other commission advisory committees had submitted recommendations on this topic as well. With such a large number of recommendations, the Commission ought to take concrete action to support such objectives.

One pathway for potential success is for the Commission to carefully consider the impact of its rules on small businesses and emerging fund managers. For example, in February 2022, the Commission proposed a rule that would impose significant new burdens on private fund advisors. Commenters have noted that private equity is a highly competitive industry and that the proposal is likely to place disproportionately large burdens on advisors, the small funds, and first-time funds.

One comment letter cited data that more women- and minority-owned firms are associated with smaller (video interference.) The proposal might have the effect of stifling the ability of emerging fund managers, including women and minority-owned managers, to operate successfully. One change that the Commission could make to ease the burden on emerging fund managers is to have a longer transition to comply with new rules.

For instance, the Commission recently adopted final proxy vote disclosure rules on Form N-PX for executive compensation. Under the final rules, emerging fund managers who file on Schedule 13-F because they hold more than 100 million in equity securities, would be required to Form N-PX for the very first time. And emerging advisors with several hundred million in assets under management were treated no differently than the largest advisors with trillions of dollars of assets under management.

Any new rule or modification often requires further clarification to implement. Emerging fund managers should be able to have extra time to allow these questions to be resolved before mandating compliance.

One might wonder how the Commission's expanding private fund advisor regulations comport with its express support for efforts to improve diversity among fund managers, especially since the response to the Commission's proposals from smaller fund managers has been resoundingly clear.

The increase burdens will make it more costly to operate and will disincentivize institutional investors from allocating Capital to emerging fund managers. This forum is an important venue for stakeholders to convey thoughtful policy recommendations to the Commission. I am hopeful that participants in today's panel will highlight the likely impact of the Commission's proposals on emerging fund managers

Small businesses are the backbone of our economy and private fund advisors play an important role in providing capital to those businesses. Greater diversity in the private fund space can help expand the numbers and types of businesses for which funding is necessary to flourish

I appreciate the efforts of the Office of the Advocate for Small Business Capital Formation in making this year's forum a success. I also want to thank the forum's panelists for contributing to an important conversation and I look forward to seeing the recommendations that emerge from today's discussions. So thank you very much.

MS. ZELMAN DAVIS: Thank you, Commissioner Uyeda. We really appreciate you being here and your kind words. During Monday and Tuesday's sessions, separate panelists each mentioned the states' Small Business Credit Initiative and the opportunity that it gives for small businesses to possibly tap into funds that were recently authorized in that program. So today, we're honored to be joined by Karl Fooks from the U.S. Department of Treasury, who is playing a big role in that capital formation program.

SSBCI, to use the acronym speak, has 20 -- or I'm sorry -- $10 billion in federal money to support small businesses and promote American entrepreneurship, with a specific inclusion of underserved communities. So we invited Karl to join the forum today to provide a brief update on that program.

MR. FOOKS: Hello. Today's presentation will provide a brief update on the SSBCI Equity Venture Capital programs. My name is Karl Fooks. I'm part of the outreach team for the U.S. Department of Treasury's States Small Business Credit Initiative, and along with my colleagues Eric Cromwell and Dan Shmishner, I provide outreach on the SSBCI Equity Venture Capital programs.

For those of you not familiar with SSBCI, this was a program reauthorized by the 2021 American Rescue Plan Act. It provides $1 billion of funding to states, territories, the District of Columbia, and tribal governments for these jurisdictions to operate small business financing programs.

The SSBCI Capital Program guidelines, allow for allow for jurisdictions to design and adapt small business financing programs to reflect the name of their local and regional economies. There are five broad platforms of SSBCI capital programs; capital access programs, equity venture capital programs, loan participation programs, loan guarantee programs, and collateral support programs.

The application of broad federal parameters is required in the design of a jurisdiction's SSBCI capital program. First of all, the private lenders and investors participate participating in these programs must have their own capital at risk. These programs must be able to demonstrate that they can cause and result in one dollar a private financing at a minimum for every dollar of SSBCI capital provided.

In addition, the jurisdictions had to be able to demonstrate that their program designs could crowd in $10 a private financing for every one dollar of SSBCI capital deployed.

The eligible small businesses have to meet certain business size and transaction size requirements. And the jurisdictions also had to address how the capital programs would create access to capital for underserved communities.

Specifically for the equity programs there are two broad deployment types; a fund investment program, in which the SSBCI capital is pooled with private capital in a venture capital fund and this venture capital fund invests in small businesses.

A direct investment program, by contrast, the SSBCI capital is invested directly into a small business alongside other private investors also investing in that business. These private investors could include local venture capital funds operating in that jurisdiction's ecosystem.

Of the 46 applications reviewed or approved that included venture capital programs, these jurisdictions allocated a total of $3 billion to the various equity programs. This breaks down into 47 direct programs and 36 fund programs.

As a result, the scale of these programs is fairly significant: 9 programs are $100 million or larger; 70 percent of approved programs to date are between 25 million and 100 million in size; and a handful are less than 25 million.

I can see by the map a majority of the U.S. is covered by these various equity venture capital programs. Orange represents jurisdictions that have both a direct and a funded program. Blue are jurisdictions with just a direct program. Green are jurisdictions with only a fund program. And gray represents jurisdictions that chose not to operate a venture capital program.

Further information on each of these individual jurisdictions their programs and their contact information can be found at the link provided at the bottom of the slide. In addition you can go to the SSBCI website and on the landing page you will see a link to the state programs and contacts.

Thank you very much for this opportunity to provide an update.

MS. ZELMAN DAVIS: Thank you, Karl. Our office has been really pleased to work with Treasury and the Minority Business Development Agency as those to agencies roll our this SSBCI to get those investment dollars to small businesses across the country.

Now, it's time to get to today's business. In just a moment, I'll turn it over to me colleague, John Cavanagh, who will be moderating today's panel discussion. But first -- and this will come as no surprise to those of you who joined us earlier this week -- we'd like to take a minute to learn a little bit about you are and who is in the audience today.

Below the chat box on -- if you look at the right-hand side of your platform, you'll see --

underneath the chat box you'll see a few polling questions that we'd love to have folks weigh in on. And while you're scrolling, I also want to mention there's a number of resources on this page. If you scroll all the way down you'll see bios of today's panelists and below that there are links to a number of our offices educational resources. So I encourage you to check those out as the day goes on.

Back up top on the page we encourage folks to use that chat function for questions throughout. You can drop any questions or comments for us on the Small Business Team or ideally, for the panelists -- because this is your one shot with them -- and we'll do our best to save some time at the end of the panel to address those.

And finally just to now give folks a preview of what's to come, we have received a number of policy recommendations so far. And for folks who want to advocate for policy changes to the SEC or to Congress, at the end of today's session we'll open up the voting in the same window below where we currently have the polling questions so that folks can help prioritize those recommendations to be put into the report.

If you have additional policy recommendations that you don't see or that you know you'd like to submit, go ahead and drop those in the chat and we'll integrate that into the voting.

If you want to vote to prioritize recommendations that relate to topics discussed earlier this week, at the end of today's session you can click on the agenda tab on the left-hand side of your screen and select a different day to access the voting windows for those different day recommendations.

And with all those logistical details covered, I'm happy now to welcome John Cavanagh to the screen. John's a lawyer on our Small Business Advocacy team who will introduce today's fabulous panelists.

SPEAKER PANEL DISCUSSION

MR. CAVANAGH: Thank you, Julie, thank you Karl, thank you commissioner Uyeda, and thank you all for joining us for the third day of the SEC Small Business Forum. Today we're going to discuss some of the successes and challenges facing emerging fund managers. It's my pleasure to spend time with three thought leaders in this space. Dana, Jay, Rita, it's so great to have you here today. Thank you for taking the time to join us.

As we'll discuss, emerging fund managers are critical in supporting our entrepreneurial ecosystem. Not only are they small businesses themselves, but they are an important source of investment capital for those entrepreneurs who are often otherwise overlooked by more establish firms.

So far everyone out there watching, I'm joined today by Dana Guthrie, managing partner of Gateway Capital Partners; Jay Bockhaus, managing partner of the Center on Rural Innovation's CORI innovation Funds; and Rita Astoor, head of venture capital business development and a product advisor at Carta, as well as a lecturer at UC Berkeley Law.

I am now going to turn the ball over to them and let our panelists introduce themselves a little bit more before we jump directly into today's discussion. Dana, do you want to kick us off?

Ms. GUTHRIE: Sure thing. Thank you so much, John. Thank you for having us today. So my name is Dana Guthrie. As John mentioned, I'm managing partner at a Milwaukee-based venture capital firm called Gateway Capital. My background is really in engineering product development and entrepreneurialship. And after managing my own angel investment network for several years, I ended up launching Gateway Capital in 2021, which our first fund has about 13 1/2 million in assets under management.

We invest primarily in pre-revenue start-ups within the state of Wisconsin, which is a somewhat unique focus area, and we also an emphasis on finding and ensuring that we have a deal flow that comes in from low- to moderate-income communities.

MR. CAVANAGH: Thanks very much, Dana. Jay, do you want to go next?

MR. BOCKHAUS: Sure, John. Thanks for including on the panel. I'm looking forward to the discussion.

MR. CAVANAGH: Thank you.

MR. BOCKHAUS: I am the managing partner of the CORI Innovation Fund and let me give you all a little background on the organization.

So our parent org is the Center on Rural Innovation and that is a not-for-profit that was founded to close the opportunity gap that's developed between metro and rural areas in the United States. And in digging into that, one of the largest drivers in that disparity is the technology economy.

So metro has benefited greatly and created a lot of jobs and economic activity from technology businesses that has largely not permeated to rural areas. So what CORI does is partners with local rural communities to create tech ecosystems in those areas.

One of the other barriers tends to be access to capital, and that's why we launch the CORI Innovation Fund; to help great entrepreneurs making scalable tech businesses in rural areas both within our network and other small towns. And that's the effort that I lead.

MR. CAVANAGH: Great. Thanks so much, Jay. I'll reiterate. You said it at the beginning but CORI is the Center on Rural Innovation, so C-O-R-I. Okay, Rita, how about you?

MS. ASTOOR: Sure. Thank you, John and thank you so much for having me. It's great to be a part of this important conversation. My name is Rita Astoor. I'm the head of venture capital development and I work as a product advisor at Carta. They're really focused on engaging the venture ecosystem so we think about law firms, tax and audit firms, banks, anyone else in the ecosystem, to make sure that we are at carter are filling the right solutions for what the market actually wants.

Prior to joining Carta, I was an investment funds attorney at Latham and Watkins in New York. And as you mentioned, I'm also a lecture at UC Berkeley's Law School, where I teach a course on venture capital funds. So I'm very excited to be here.

MR. CAVANAGH: Excellent. Thanks very much, Rita. Thank you to you all. I am also very excited for our conversation.

So now before we dive into the rest of our session, I did want to set the stage a little bit. By all accounts it's been a tough capital raising environment since last summer, thereabouts anyway, both for funds seeking LP capital and for entrepreneurs seeking investment from those funds or other investors.

Now over the course of our conversation, we hope to cover how the investment environment has changed since last summer and how smaller and emerging funds, particularly those focused on investing outside the traditional VC hubs, are weathering the storm

So Rita, maybe will start with you. VC was dealing over the past several years with deal value and deal count reaching historic heights in 2021 in the first half of 2022. How has the market shifted since last summer and how have venture capital firms, and in particular the smaller venture capital firms that you work with, faring?

MS. ASTOOR: Yeah, that's a great question. The market has noticeably shifted, in particular relative to those record peaks. Based on Carta's data which we can look at, VC investment in every stage in absolute dollars is smaller. So the decline is impacting valuations at every round and in particular, hitting the late-stage companies most significantly.

We're also seeing as a result, investors that used to focus on those later stages through growth equity, kind of shifting some of their strategies to the earlier rounds when it comes to investing. And on top of that we see the absolute volume or number of deals happening also shrinking

So what does that mean for our newer managers? We're just seeing less managers enter the field. We're seeing them enter the field with much more moderate, modest fund sizes than they may have targeting even a year ago. We're also seeing the time it takes to complete a fund raise, so the amount of time you're out looking for a capital for your fund, also get extended.

We really see this as a reflection of what the general consensus has been in the market. And that is, institutional LPs generally have kind of concentrated a lot of their effort on the larger funds -- places that they've made safer bets -- rather than focusing on the emerging managers segment as a result of, you know, correction or a reaction to what's happening in the public markets.

We also see that a lot of the investment activity is happening at bridge rounds. And so what does that mean for managers, especially managers who may not have managed capital during downtrends? A lot of the focus and time and attention will be placed on how to manage your own cash balances and budget accordingly, because now you have to balance both supporting the portfolio companies you've already invested in, in addition to looking for new investments.

I also want to flag that it's not even just the equity markets that are impacted. We're also seeing the squeeze in the credit market, right? And so post-SVV and the continued iteration of reactions to the banking markets is going to further exacerbate the challenge for emerging managers.

I do want to point out that there are some glimmers of hope and so it's not all doom and gloom. We've already seen a slight bump in valuations from this quarter over the last, which is always a good sign. We see angel investors continuing to write checks.

So the size of the checks may have gotten slightly smaller but they're still out there and they're still making investments in companies.

And we do see that there are certain industries where valuations and even volume is just less impacted. So think gaming, think energy.

We also see the South continuing to increase its dominance in the markets and like activity there.

And so I think it's really important that even in this like real, you know, different market or environment, there are still places where we're continuing to see improvements.

MR. CAVANAGH: Thank you. Thank you for providing, you know, an upbeat note and thank you for the robust answer.

I suspect too, based on what you said that -- and maybe we can dig into this a little bit later on -- that for emerging fund managers that perhaps had a different -- a different LP based in some of the larger VC firms, you know, the way they go through this downturn -- for lack of a better term -- may be a little bit different.

I don't know, but perhaps we'll dig into it a little bit.

So I actually do want to continue this conversation with a related question for you Dana but before I do so, I want to give others a chance to weigh in if they like.

Jay, Dana, if you have any other thoughts that you wanted to add to Rita's the floor is yours, otherwise, I'll move on.

MR. BOCKHAUS: Yeah. As Rita mentioned, fundraising levels are down across the board and that has been consistent with what we've witnessed in rural areas as well. I'll give a quick anecdote. I think risk tolerance has significantly declined, but that doesn't mean that there's a lack of investment into more secure, better deals.

So we have two portfolio businesses in rural Colorado, both with very strong growth prospects. The one that has contracted volume to support its projection and growth is having no trouble raising its bridge around.

Whereas, the other business that also has extremely good prospects -- but it's just not signed on paper yet -- is having quite a challenge

So I think there's been a trend overall to take risk off. And as you noted, many of our, in terms of our fundraising investor base, tends to be high net worth and family offices, typically using excess gains from other areas in the market to invest in more of the emerging category.

And so with those gains not being there, anything that has sort of a lower history of a relationship set or a higher risk profile, tends to go off first

So yes, it is a less upbeat note. It is challenging there but I will say that good deals are still getting funded.

MR. CAVANAGH: And the gains aren't there because a) valuations are down and b) I guess, probably other firms are slower to distribute --

MR. BOCKHAUS: And a good portion of those portfolios tend to be in the public markets, which obviously had a very tough year last year.

MR. CAVANAGH: Right. Well, thanks for the background, Jay. Dana, the next question is actually yours but if you'd like to weigh in here as well, go for it.

MS. GUTHRIE: Sure. The only -- the only little bit of glimmer that I'll -- that I'll just add on to the prior comments is the fact that for those funds that fund managers who did have an opportunity to close a fund just before all of this activity, you know, the slowdown in the markets occurred, you're in a position of opportunity right now, right? Because the valuations are dropping.

For firms that do have dry powder set aside and do have, you know, capital that's accessible, they will be able to get into interesting deals in the coming months and even you know years.

MR. CAVANAGH: Okay. I mean, that's great to hear. You know, I did have a note to myself right now to alert the participants, the viewers, to look at our chat feature. But it's too good a segue, based on what Dana just said, so I'm going to move on to the next question. But do take a look at the chat feature if you do have questions.

So Dana, there's a persistent narrative that the most promising investment opportunities are to be found in hubs like New York, Boston, Silicon Valley; perhaps emerging hubs, maybe Austin and some other places. Now you're fund is located in the middle of the country, as you mentioned -- in Milwaukee to be precise -- with an investment mandate focused on investing in pre-revenue start-ups that both a) positively impact low- to moderate-income communities and b) that are located in Wisconsin.

MS. GUTHRIE: Correct.

MR. CAVANAGH: So I've got a two-part question coming up. I'll lay out both and then we can return to the first question. So first, what's your reaction to that narrative? And then secondly, what successes and/or challenges have you grappled with an investing outside the traditional VC hubs?

So again, the first question, what's your reaction to the narrative that the most promising investment opportunities are on the coast or the traditional hubs?

MS. GUTHRIE: Yes. And John, I think historically that's been very true. A large part of the venture capital dollars deployed have been very much concentrated in those areas, the Silicone Valleys of the world, the Bostons of the world and otherwise. But I do think that in recent years we've seen some momentum shifting, where people are finding other areas. And I think this is due to a number of different reasons.

As an investor you're always trying to seek how you get higher output for your investors, right? And I think that there's this awareness that's occurring within the ecosystem where people are realizing that, you know, while the Midwest is historically considered a flyover country, there's actually a little bit of attractiveness to it because the cost of living is lower. Therefore operating expenses for a business owner are lower, and therefore allowing you to extend your runways, you know? So, you know, that being an opportunity.

Valuations tend to be somewhat better in, you know, these areas that are considered flyover because you don't have the flood or the excess capital being deployed in the areas. Things like Covid, for example. While Covid was a very unfortunate situation, it did for force start-ups to kind of geographically disburse, you know. So the talent isn't just sitting in Silicon Valley anymore. They may be in the state of Wisconsin, right? Your technology cofounder may also be in the state of Wisconsin

So I think all of -- all of those things. You know, the cost of living, you know, start-ups, team being geographically disbursed, and then Mark and conditions, right? So to Rita's point earlier, start-ups are having to get smart about, you know strategically raising bridge rounds and you know, really taking a hard look at their burn rate every month and how do we lower that

Actually being present and operating out of states like the state of Wisconsin allows for you to do that effectively and still continue to manage your business as well. So we're saying some good activity here. I mean, if you look at areas like Chicago. Minneapolis is seeing some good activity entrepreneurial ship VC. Indianapolis and Cincinnati are seeing some good momentum there as well.

MR. CAVANAGH: Well, I'm glad to hear that. It did occur to me that perhaps as we become even more and enmeshed in technology -- as you mentioned, perhaps accelerated by the pandemic -- that there might be a democratization of investment opportunities out there. I don't know, merely speculation. But, you know, I'm interested to hear what you all have to think about that

Well, so I did mention that this was a two-part question. I'm feeling a little spontaneous though, and so maybe I'll take this opportunity to open up this first question to the other panelists and then will come back to the second question just to keep the flow.

So Jay or Rita, do you happen to have any reactions to that narrative that Dana just spoke to? So again, the narrative that the most promising investment opportunities are in the traditional hubs? Would love to hear your thoughts if you have any.

MR. BOCKHAUS: I can go first. So ideas have always existed all across the country and in all corners. I think the traditional model, particular with early capital, was to draw those ideas to certain hubs because the capital was there and, you know, people wanted to go to board meetings down the road, not jump on a plane. And then the network effect of those areas also allowed those great ideas to scale at a faster pace. So that has definitely been true historically.

I think, you know, the pandemic was very tough in many ways but one of the benefits and a tail wind to rural has been its entering main stream acceptance for remote working. So it's gotten a lot easier both to do business development networking but also to get investors' heads around how you can build a scalable business in a more remote or smaller population area of the country.

So it's not that you -- and you actually can attract great engineers. You know, to Dana's point, the quality of life is often much better at a lower cost and many of the areas where we work so there has been that ability to attract talent. But if you run into an HR roadblock, you can always access that talent through a remote team

So it just gets much, much easier to understand from an investment thesis standpoint, how you can build a scalable, very meaningful business, even in a small town in the U.S.

MR. CAVANAGH: Great. Rita, do you have any thoughts? Fantastic?

MS. ASTOOR: Yeah.

MR. CAVANAGH: Okay.

MS. ASTOOR: I'll just reflect that what we see from the data, it's less -- at least from what I see -- a conscious decision for investors to specifically not look in certain areas. What we actually see from the data is that the average distance between a lead investor and a C-stage or a Series A company is about 40 miles. So that just means that people are making investments where they having to be.

And so I think the question for us is going to be so how do we cultivate investors to be in all the places where we thing there are good ideas, and not just in these larger coastal or metropolitan cities.

MR. CAVANAGH: It's also a plug for yesterday's forum topic which perhaps, you know, folks can watch on repeat at their convenience. But we talked about building entrepreneurial ecosystems, whether it's investors or start-ups or other folks in the ecosystem. And maybe we can touch on that in a little bit more depth later on

All right, so it was a two part question. I am now going to go back to the second question. So Dana, back into your court here. So you mentioned some of the successes that you've seen in investing in Wisconsin. If there are other successes that you'd love to talk on, great. Also if there have been any challenges that you've grappled with, you know, sort of outside the traditional hubs, the floor is yours.

MS. GUTHRIE: Yeah, absolutely. I'll speak to some of the challenges because I want to be, you know, speaking full transparency here. There are absolutely challenging -- challenges, when you think about just narrowing your focus, right?

So for Gateway Capital, because we focus on specifically the state of Wisconsin, you know, that means that there are maybe deals outside of my peripheral where I am unable to participate in, right? And that in and of itself is a challenge.

The other thing is risk tolerance. So I always say -- you know, I got the question often around like, "Well what does it take for Wisconsin or any Midwest state to kind of put themselves on the map in terms of VC?" When the answer is, "A large, large success story." The second you have a really large success story, then the rest of the country hears about it and then all of a sudden you have this, you know, gravitational pull to that area.

In addition to that, when you have a really large success story -- a company goes -- a big company goes public or sells for gigantic, you know, acquisition value -- there are operators within that company, maybe it was the second in charge or some of the C-level that spin off and do their own new thing, right? Started a new company. You kind of have this spiral effect.

(Audio interference.) main challenges that I see in investing outside of the traditional VC hub is just know when you -- when I had to go through the fundraising, you know, phase of getting Gateway Capital off of the ground, a lot of the LPs, their risk tolerance, right, is lower than I would say investors, you know, in those traditional hubs, right? So there was a certain level of not only education, but just transparency on how venture capital works that needed to be there.

So that was probably I would say, you know, one of the largest challenges. And I think that if you -- for entrepreneurs that are operating in kind of these flyover cities and states, they would say the same thing. Like the fundraising phase for them is a much harder, much longer process than if, you know -- you know, if they were in the traditional VC hub.

MR. CAVANAGH: Yeah, that's really harkens back to what Rita had to say earlier too. Jay, what about you? Similar to Dana's fund, your funds focus on investment opportunities outside these hubs. You mentioned it up front, I think I mentioned it as well.

But in particular, you've been focused on investing in rural areas often underserved by traditional VC firms. You had mentioned as well some of the successes earlier. If there are others, great. If there are any challenges that you wanted to highlight though, please.

MR. BOCKHAUS: Yeah. I will echo Dana's points with a slightly different focus so I agree with everything you said, Dana. So traditionally, local investors within rural areas have not been focused on scalable tact businesses. So when you come to those investor sources with an opportunity, often they're uncomfortable with the diligence process around this type of business. They're used to more manufacturing, sort of direct capital investment-type diligence processes. That's one of the areas where I feel we can add value.

We're a very small fund but we're familiar with technology and the technology diligence process. So being able to catalyze that local capital and get them comfortable with something that is less asset heavy but potentially higher return, I think, is interesting. So, you know, that's one that I would focus on

You know, obviously the other piece is follow-on funding. We tend to invest at a relatively early stage of business -- post revenue but pretty early post revenue -- so finding that next round of capital can be challenging.

Just to put some numbers to it, roughly 15 percent of the U.S, population lives in rural areas and around 2 percent of U.S. venture capital goes to rural areas, so there's a big gap in funding available. So what we're doing at the early stages, I think, is some of the, you know, the biggest gap. But highlighting the success stories as Dana mentioned and getting people comfortable with the ability for these companies to scale without relocating, I think is important.

MR. CAVANAGH: Great. Well, I appreciate the further context. You know, this actually is congruent with some of the results of the informal poll that we held with participants at the beginning of this call in our other discussion today. And folks mentioned that they believe that access to a network of investors is the greatest challenges facing emerging and regional fund managers.

Actually, for what it's worth, we also asked where folks expect to find those investors or investment opportunities and most folks said that -- it was actually a tie between their local community and then within their broader geographic area, so something that you all are grappling with.

Okay. So without all said, I'm going to shift gears a little bit. We've discussed some of the successes and challenges that you all seem to be seeing in the market of late. Once LP commitments have been secured, we understand that emerging fund managers with funds often smaller than those of more established VC firms, are more likely to invest in a more diverse pool of entrepreneurs, including businesses located in geographical areas not traditionally served by more established fund managers. So something that you all are seeing first-hand.

So Jay, Dana, I'll start with you. Without naming any company, would you mind sharing one or two success stories that you've seen related to supporting entrepreneurs who otherwise may not have received funding? Dana, I'll start with you.

MS. GUTHRIE: Sure. You know, and I can share specifically, you know, we invested an a digital health company founded by an African-American woman. She was pre-revenue at the time. You know, our job at Gateway Capital is not only to provide the financial backing but also the resources, connections all of those kind of intangibles, to help get this company from pre-revenue to revenue-generating in hopes that they go onto raise future larger rounds at higher valuations. And we've been able to see that occurring within our portfolio.

More broadly, I think that, you know, when you look at how the larger VC firms tend to deploy capital, they tend to write larger check size and therefore, they require a greater amount of traction to be proved, right? To warrant that check size. The really cool thing about what we do is getting in early enough to be a true partner with the founder and with the entrepreneur.

So yes, the access to capital is very important and we are really intentional about that. We're really intentional about making sure that we're seeking diverse founders, that we're investing in low- to moderate-income communities and all those things.

But the funding without all the other wraparound that we provide actually ultimately would harm those demographics even further if we didn't provide the access to first customer, the opening up of networks. Traditionally, VC has been very black box and I don't think that that's intentional. I think that's just you know when you think about investing dollars, a lot of it is based on trust and therefore, you tend to trust the people who are in your innermost circle.

And so if you've never come up in a low- to moderate-income community or you never grew up in a rural community, your likelihood of wanting and feeling comfortable and investing dollars in those communities is -- the probability is a little bit lower.

So I think finding those fund managers who have those connections to those demographics and can open up a network of future investments, you know, future advice and connections and that sort of thing is really the key to ensuring that these folks who are traditionally overlooked aren't just injected with capital and then we watch them fail over the course of the next 18 months, but are truly supported such that they do go on, raise additional capital and ultimately reach some point of acquisition or IPO.

MR. CAVANAGH: Right.

MS. GUTHRIE: Which -- be supported such that they do go on, raise additional capital, and ultimately reach some point of acquisition or IPO.

MR. CAVANAGH: That does make me think of an anecdote. Before I get there though, maybe I'll throw the ball over to Jay and then maybe I can tie it together.

MR. BOCKHAUS: Sure. I will try not to not slip up on naming names. But we invested in a tech business and rural North Carolina and the gentleman who founded that business used to run an auto service center. And he thought that the customer experience in the back-end of the office was sorely underserved from a technological standpoint.

He was able to partner with a former tech executive who had semi-retired to the area, and they created a technology business for auto service centers, both products that are customer-facing and then make the back office of the operation and the auto technicians themselves more efficient.

There is a dearth of labor for this industry right now. There's a real shortage. So anything that improves the efficiency of the operations has gotten a lot of attention from general managers. They've made a ton of progress. They were able to raise another round at a significant step up from our initial valuation.

I think that business would not necessarily have gotten funded without our focus on rural tech and it's exactly the scenario that we want to promote, somebody who has really deep industry knowledge finding a technology solution that solves a pressing problem. That's sort of our poster child.

MR. CAVANAGH: Rita, if you have thoughts, great. We will get to you first the next question though. They, Dana and Jay's, responses made me think and actually now that we -- as a matter of fact, Julie is sitting here as well, you know, ready to take over with the Q & A in a little bit.

But Julie and I, we actually attended an event about a year ago at a large university that was facilitating or rather was hosting an entrepreneurial program. And your answers made me think about this program because what at least I learned from going there and discussing, you know, some of the materials we have for those folks, is that, you know, the universe of people starting businesses is so broad, right?

And sometimes when we think of founders, we think of the big splashy names that are, you know, all of the newspapers. But it is -- it's incredible what people are doing. So anyway, perhaps neither here nor there but it made me think of it so I just thought I'd mention it

You know, now these success stories are also consistent with the results of the informal poll that I had mentioned earlier, where most people did note that they felt that emerging fund managers are more likely than other fund managers to invest in women- and minority-owned businesses. So there are very clear resulting effects of, you know, fostering, you know, emerging fund -- or fostering an ecosystem that supports emerging fund managers.

All right, so we're going to move onto our third topic. This is probably our last, you know, question for this part of the conversation before we move over to the Q&A. Rita, heads up. I'm going to start with you here.

So emerging fund managers, as I just mentioned you all have provided plenty of testament to, are critical to our entrepreneurial ecosystems. So following this panel, the audience will have an opportunity to prioritize recommendations on capital raising that will be delivered to Congress and the Commission. What should policy-makers keep in mind to further support emerging fund managers? Rita, if you have thoughts, great. Otherwise --

MS. ASTOOR: Yeah, absolutely. And I'll put them in -- I'll go over just a few that I think are top of mind for me. But broadly in this bucket of how do we increase the ability for emerging managers to get access to capital themselves in order for them to be able to invest on the lines that you just mentioned on, which is we see them investing and more diverse founders, more diverse geographies, and different industries.

So I think first is some of the policy restrictions around what counts as venture capital investments, right? So we know that qualified venture capital funds have certain limits in terms of the types of investment they can make in; mainly -- restricting it mainly to, you know, equity investments in like private companies.

One way emerging managers can raise money is from other funds, so funds -- or funds who are looking to deploy capital, especially in this environment where we have so much capital concentrated at these larger funds. One way for them to increase access geographically across like different asset classes is by themselves investing in venture capital funds. This limits restrictability for these funds of funds investments.

So I think that's one moderate way that we can increase a bit of capital from and more institutional LP for the emerging managers to then have more capital to invest in our local communities.

Related to that is also kind of who gets to invest in a fund. So I know the SEC in recent years has modestly expanded accredited investor definitions. But continuing to think about what it means for someone to be able by policy to be investing in a fund. So one piece of that is whether we can build additional on-ramps for folks based on sophistication, financial literacy, or other types of tests -- like the certifications we now have for various license holders -- to be able to, you know, choose to invest their money in this asset class

And the other is, when it comes to these wealth-based tests and not discussing, you know, how we use that as a metric for sophistication, but what it means to have a flat number for what we were talking about in this discussion, which is cost of living being so varied and different from city to city and, you know, flat numbers not reflecting that. And so can we think about the cost of living in different areas or geographic impacts of where people are when I comes to things like wealth-based metrics for accredited investor tests.

And the last thing I'll just touch up on for now is, you know, beyond all the actual policy recommendations, I think the education piece is so important. You know, the Small Business Advocacy Group does so much work in terms of putting out investment education materials. And I think it is key because these policies, regardless of all the things we come across, are just not easy.

There are so many overlapping rules that fit in with one another like a puzzle. And to have and want to support emerging managers to enter this space, I think making it as easy as possible for them to understand exactly what they need to do to comply and be able to get off the ground is going to continue to be so important.

MR. CAVANAGH: Well, that's only consistent with what we've heard with respect to trying to understand the securities laws. We understand they're complex. Hopefully, toward the end of our conversation today we might have the opportunity to show you all, the participants that is, the folks watching, some of the resources that are on the SEC's website to help at least get you acclimated with some of the -- some of the larger concepts that you may come across.

I think there's also no doubt that Rita is a funds lawyer and not only a funds lawyer but -- or at least experienced as a funds lawyer -- but a lecturer at Berkeley law, because that was super thorough and robust so thank you very much, Rita, for that response.

Dana, Jay, if you have anything to add, great. Otherwise, we can move forward.

MS. GUTHRIE: The only thing that I'll add is, you know, looking at policies that incentivize more early-stage investment, either through financial or tax incentives, to get more people interested in the space. Especially, you know, to Jay's point earlier, when we're trying to get them more comfortable with the concept of investing in a somewhat different asset class.

And then the only other thing that I'll add is, you know, I think that we do things how we've always done. I don't think that we just unintentionally stumble upon diversification. And so I think there really needs to be thought by policymakers around intentionality to make sure that you are getting diversity in all aspects; geographically, you know, race, all of that -- sex, everything, gender. everything.

MR. BOCKHAUS: One quick note. When we're dealing with fund sizes that -- you know, we're very small funds -- legal expenses tend to be a non-insignificant expense and hurdle for raising the fund. So simplification of the regulatory process has a direct result of making it easier to stand up a fund, because of the potential reduction in and legal expenses.

MR. CAVANAGH: Well, we're not done quite yet but we're done with this portion of the conversation. So let me thank you again for participating. It was a really great discussion. I'm now going to hand it off to Julie, who is sitting to my left -- you can't see her but you will soon -- who is going to moderate some of the Q&A. But thank you again.

MR. BOCKHAUS: Thanks, John.

Q&A DISCUSSION

MS. ZELMAN DAVIS: Well, thank you, John. Yeah, thank you all. This has been really riveting. I realized I was sitting here with my feet up just listening, you know? It was like, "Oh yeah, I guess I may be on camera."

So anyway, I really appreciate what you have to say and if folks listening were as riveted as I am, maybe you can pop out of that and just think about if you have any questions for folks, to drop them in the chat.

Rita, we got one from Simon for you. He's in the audience and said he'd love to hear some about fund governance. So maybe this is another potential law student or one who's already gone through it. But anyway, maybe you could share some general best practices or cautionary advice?

MS. ASTOOR: Sure. And I would also love to hear from Jay and Dana, from their practical experience of what that's resulted or looked like for them. So practical advice for fund governance.

I certainly think one of the overlooked aspects is this cash management and budget piece, which is if you raise, say a $10 million fund, you may not actually have $10 million to invest in companies. There are fees or other expenses that come out of it.

And so then when you think about how to work backwards from that into what your ultimate strategy should be -- how many companies you should invest in, what size of checks you should be writing at each stage -- there are helpful tools online that can help you kind of map that out or understand how all of it is inter-related. But I think in terms of governance, when it comes to your budget and operations, that is probably one thing I would highlight.

The second is probably -- from the governance perspective, is probably know your documents. Understand -- and maybe this is the lawyer in me speaking -- but understand what the limits, the obligations, the promises that you're making to investors in terms of what your fund is intended to do and how you're going to relate or what information you're going to provide your own limited partners in the fund. And therefore, how that impacts the types of deals you can and can't pursue.

And so I'd say like those govern legally your obligations and so understanding how that distills into your strategy and then being thoughtful about how to implement our strategy there. I think cash management and the legal aspects are probably to the two I would live highlight here.

MR. CAVANAGH: You know, I would be remiss if I didn't also highlight that -- and thank you very much for that, Rita. That on our website, on the Small

Business Capital Raising hub, we do -- one of the building blocks -- it's a type of, you know, material that we provide. One of the building blocks does cover the various types of -- at least in part -- the various types of documents that are involved with, you know, with respect to fund governance. So I just wanted to highlight that. Back over to you, Julie.

MS. ZELMAN DAVIS: Well, Jay or Dana, did you have anything to add on fund governance or tips you've learned along the way?

MR. BOCKHAUS: As a resource-constrained fund, we have created an advisory board, which I think is very helpful from a both fund operation and governance standpoint. Having that extended network and group of individuals to rely upon to get a broader respective, I think, is a good practice.

MS. GUTHRIE: Likewise, I'd echo that. You know, I have both an investment committee that sees deals that we are sourcing and doing diligence on, as well as an advisory committee that kind of just -- the day-to-day operations of a portfolio companies. If we need to tap into an extended network, they're there for that.

MS. ZELMAN DAVIS: Great. Great. No, that seems like good advice. So Rita's Point about knowing your docs actually ties in really well to something that we -- we got a lot of questions about this during our registration process, with folks asking about the regulations involved when forming a private fund or some of the core terminology that emerging managers deal with when they form their fund that may not be familiar in the beginning.

And that same goes for your deal docs, if you're a company when you're signing on, you know, to understand what dilution is and different terms that are not something you probably grew up with but that are very key to understanding what you're getting into.

So maybe this is a good opportunity for John to share -- John, if you're willing over there -- to share your screen and show some of the resources that we have. You may even want to show that building block you were just mentioning with the pieces about the funds.

MR. CAVANAGH: Yeah. It looks like I jumped the gun a little bit. Okay. So this is sec.gov, hopefully easy enough to remember. Typically there is a banner up here. My screen is shortened a little bit so it's over here I believe. Oh, no, I've got -- oh, here we go. Can everybody see it now? Okay, great. You know, we've got a lot of screens here and I was clicking on a picture, a picture of my screen.

All right, so in any event, if you go -- so sec.gov, if you go down to one of these tabs, Education, Small Business Capital Raising, this is the Small Business Capital Raising hub. We have a wealth of material on here for folks going through the capital raising process, with a particular focus on, you know, the securities laws. We are the SEC after all

So I certainly won't go through all of this because I do want to take it back to our panelists, but I did just want to highlight -- because it came up -- the building blocks. Think of these as sort of one-pagers on a handful of topics that -- or concepts that you may come across during the capital raising process.

So we break it up into a few different categories and down here, probably most relevant to our conversation today, we have two on private funds. So one is, "How do I start a private fund?" And so again I won't go through it all but it's just a high-level overview of, you know, of this process, right?

So up here, "When do investors provide capital?" And we segment between VC, PE, and hedge funds just because those are, you know, pretty common types of investment funds. "In who do they invest?" And "How do they interact with their portfolio companies?"

And then this is what I was mentioning earlier. So "What else to I need to consider as I start my private fund?" And we have information on legal structure, documentation, different considerations with regard to investment advisor, status, et cetera.

And then I would only also highlight this building block, and maybe I should have started with this. This is a bit of a high level, you know, like what is a fund? How is it distinct from, you know, the investment advisor itself where you have an investment advisor that advises a private fund? So what's the distinction? And then we also have a section here that, you know, discusses, you know, the various securities laws with respect to the actual capital raise, right?

So you have an advisor. It advises a fund. But that fund has to raise to raise money from -- or it doesn't have to -- but, you know, it raises money often from outside LPs and so what's the -- you know, what are the considerations from a securities law perspective on that?

So in any event, again, I don't want to take up too much time but I just wanted to highlight those few building blocks. Folks can also take a look at, you know, topics that are certainly relevant to our conversation. The role of an accredited investor. What is general solicitation? And so these are concepts that are relevant, not just to funds bringing in investors, but also to start-ups or other companies that are bringing in outside investors themselves.

So oftentimes the -- you know the -- you know the exemption pathway that you rely on is conditioned -- more conditional upon, you know, who you're bringing in. So are they cried accredited investors or not? And then the means by which are communicating with them. So whether or not you are "generally soliciting" or not. In any event, folks I'll take a look at these at their convenience.

MS. ZELMAN DAVIS: Great. Thank you, John. We got a question from Keith in the chat for our panel. Keith asked what are VC investors looking for when determining whether to fund start-ups? So recognizing this is often decided case by case, maybe y'all can share some of the general frameworks you use when evaluating a potential investment opportunity?

MR. BOCKHAUS: Yeah, dive in. I think one of the most important aspects is the management team. So when you're dealing with a very early stage start-up, usually the business plan and the concepts pivot over time but the constant tends to be the founder and the surrounding team.

So having that team have an extremely deep knowledge set of the industry and, you know, obviously a good work ethic and desire to make the business succeed, that's probably the most important element from our perspective.

And beyond that, having some sort of important problem that you're solving that is applicable to a group of folks who would need a solution. And then having some sort of competitive mode that as you grow and scale the business, you'll be able to defend over time. Those are some of the key ingredients that we look for.

MS. GUTHRIE: Yeah. I will agree with everything that Jay just said and then I will also just add that you know, size of -- size of, you know, market opportunity and market size. They're real key in venture capital when you take a look at the numbers, especially and when you're investing at the earliest stages.

We all know that many of the companies actually won't make it so for the ones that do go on and have a successful exit of some sort, the size of that company has to be such that it makes up for some of the losses that you've had within your portfolio

So I think that, you know, a lot of times when

I'm talking to entrepreneurs that's something that I try to educate them on or communicate with them. It's, you know, if I give you a dollar I don't just need two dollars back, right? I need more than that. So just this -- just market opportunity management team is definitely one of the more important factors that we look at.

And then Jay references, you know, very in-depth understanding of the problem and I think that that can come in multiple ways. I think that can be through the traditional just educational pact. So you have gone to school and have a deep understanding of this particular industry.

But I also think that -- and this is, you know, why I ideally like to look in low- to moderate-income communities.

But people who are truly impacted by that problem, and therefore they have a very unique and deep understanding of the value that solving the problem could present. That's something that I also look for as well.

MS. ZELMAN DAVIS: I love that answer, both of your answers. Rita, do you have anything to add here? Yeah, I know this is more for the fund managers.

Well, we're getting -- questions are coming in and there's probably more than we can get to but -- so maybe we should just close out this with a lightening round for all of you which is, give us one suggestion that if you could leave, you know, a piece of wisdom for our -- whether it be for founders or potential LPs or investors or emerging fund managers in the audience, what's one suggestion you'd like to leave us with as a parting gift?

MR. BOCKHAUS: I would say for investors, please consider the importance of adding impact to your overall mission, so double bottom line. I would encourage that thinking.

For aspiring fund managers I would (video interference.) Do a lot of networking. And for founders I would say please consider rural locations. The cost of doing business and the standard of living is fantastic.

MS. ZELMAN DAVIS: Sorry, just had to add in.

MS. GUTHRIE: I'll add to that and mine is probably the same whether speaking to a founder or aspiring fund manager.

It's really to just continue to be resilient and have kind of tenacity and grit behind you because -- so entrepreneurs you know, don't get too high of high and don't get too low of low because you're going to hear, "No," all the time, right?

During my fundraising cycle as a fund manager I heard a lot more no's than I heard yeses and if I let that get to me it could've ultimately impacted the outcome of the fund. And it's the same for founders.

And then the other thing that I would say is just in order to build up this bridge where there's trust between founders and fund managers, I think there needs to be a little bit of empathy. I think that some of the better fund managers are those who were -- historically are, you know, previously founders. And so they can empathize with what that -- what that -- what that journey looks like looks like.

And the same for founders, right? Understanding that the fund manager has to think about economics of an entire portfolio, not just a single company

So when they tell you, "No," it's not anything personal against yourself or against your company. They still probably are really rooting for you to be successful.

It's just that, you know, there wasn't a match of some sort. There was some sort of misalignment.

So those would be my suggestions; the resiliency, the being empathetic for the other founder or the aspiring fund manager and that.

MS. ZELMAN DAVIS: I feel like that's good advice for whatever you do in life, empathy and resilience? I mean, wonderful words. Rita?

MS. ASTOOR: Yeah. And I totally agree with an echo everything you're both just said. I guess I'd just drill down on one of the aspects which is, I think Jay mentioned the networking piece.

Never miss an opportunity to meet people, even though it may not -- like the conversation is centered around the market having shifted and things being in a downturn

I think always building out your network is going to be helpful, whether today or tomorrow or some point in the future.

And I think it's always just helpful to remind herself that markets go through cycles and this is the cycle that we're in right now but the work that you do today will be relevant and support you tomorrow.

MS. ZELMAN DAVIS: Fantastic. Well, you all have had such a great pearls of wisdom and I think it's been a wonderful discussion today. I want to encourage folks -- we've had a lot of policy ideas come in and they're in our recommendations.

So if you've heard things today or maybe you came in today already knowing policy changes that you wanted, I really want to encourage folks to vote down on the -- I think it's on the right-hand side of your panel, for those of tuned in.

And then in addition to prioritizing policy recs, I want to make sure that folks give us feedback on the event.

So if you look to the left-hand side of your screen, there's a survey, just for -- I think it says, "Feedback," which takes you to a survey.

So please let us know your thoughts. I know everyone's going to have wonderful things to say about this panel because I don't know how they couldn't. But, you know, Jay, Dana, Rita, we've just so enjoyed having you and really appreciate your taking time today. This has been great.

MR. BOCKHAUS: Thanks for having us.

MS. GUTHRIE: Thank you.

MS. ASTOOR: Thank you.

MS. ZELMAN DAVIS: Great. Well, I appreciate everyone tuning in. And now I'll turn it over to Lizzie on our Small Business Advocacy team for some final closing remarks.

CLOSING REMARKS

MS. SUKUT: Hi. I'm Lizzie Sukut from the

SEC's Small Business Advocacy Team. Thank you for joining us today to discuss the successes and challenges facing smaller funds and their managers as they invest in small businesses.

I also want to take our panelists, Rita Astoor, Jay Bockhaus, and Dana A. Guthrie, for sharing their perspectives with us today.

Don't forget to join us tomorrow at 1:00 p.m. Eastern, for a discussion about smaller companies accessing the public markets.

We now invite you to review the policy recommendations I've been submitted and vote to prioritize the recommendations that are most important to you. You'll find those just follow me on the event platform. Thanks so much for being part of the forum.

(Whereupon, at 2:09 p.m., the meeting was adjourned.)

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PROOFREADER'S CERTIFICATE

In the Matter of: CERTAIN POSSIBLY MANIPULATIVE TRADING PRACTICES

Witness: Irwin Zalcberg

File No: C-08833-A

Date: Wednesday, April 26, 2023

Location: Chicago, Illinois

This is to certify that I, Christine Boyce, (the undersigned), do hereby certify that the foregoing transcript is a complete, true and accurate transcription of all matters contained on the recorded proceedings of the meeting.

________________________ ________________________

(Proofreader's Name) 5-3-2023

REPORTER'S CERTIFICATE

I, Lisa Sirard, reporter, hereby certify that the foregoing transcript is a complete, true, and accurate transcript of the meeting indicated, held on Wednesday, April 26, 2023, in the matter of SMALL BUSINESS FORUM.

I further certify that this proceeding was recorded by me, and the foregoing transcript has been prepared under my direction.

5-3-2023