UNITED STATES SECURITIES AND EXCHANGE COMMISSION

43rd ANNUAL SMALL BUSINESS FORUM

OPENING THE DIALOGUE ON INVESTING

Wednesday, April 17, 2024
1:03 p.m.

U.S. Securities and Exchange Commission
100 F Street, N.E., Washington, D.C.

PARTICIPANTS:

Caroline Crenshaw, SEC Commissioner
Mark Uyeda, SEC Commissioner

Sarah Kenyon, SEC
Julie Davis, SEC
Angela Lee, Professor, Columbia Business School and Founder, 37 Angels
Sheen Munshi, SEC
Julie Davis, SEC
Trish Costello, CEO & Founder, Portfolia and CEO
Emeritus, Kauffman Fellows
Beto Pallares, President and CEO, Joseph Advisory Services, LLC and General Partner, Audaz Capital Fund
Jenny Riegel, SEC
Kim Dinwoodie

P R O C E E D I N G S

MS. KENYON: Hi, I'm Sarah Kenyon from the SEC's Small Business Advocacy Team. Thank you for joining us today for day two of the Small Business Forum. Yesterday, we heard from founders and funders who shared their successes and challenges in early stage capital raising. Today, we will hear about ways to support smaller funds and their managers, and other investors as they support small businesses in various ecosystems. While I'll have your attention, I want to make clear that the views expressed today are the speaker's 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. DAVIS: Thank you, Sarah. I'm Julie Davis from the SEC's Small Business Advocacy Office, and I will be the MC for today's event. While our office takes the laboring oar in pulling together the forum, we're grateful to have the support of the full Commission. Yesterday, we heard remarks from Chair Gensler. Tomorrow, we will have Commissioners Pierce and Lizarraga. And so today, it is my pleasure to introduce Commissioners Crenshaw and Uyeda. We'll hear first from Commissioner Crenshaw.

MS. CRENSHAW: Welcome, everyone. This is a fantastic event, and I want to thank the staff of the Office of the Advocate for Small Business Capital Formation for all the work they do to make it so productive. They also prepare the Small Business Forum report, which I know I refer to again and again, year after year. So, a big thank you to that office. I also want to thank everyone who's taken the time away from their work and other obligations to participate in the annual Small Business Forum. I appreciate that you're here today, and I'm looking forward to the discussion.

As our new Director of the Office of the Advocate for Small Business Capital Formation, Stacey has pointed out an important part of her office's and the Commission's work is to be a bridge, or facilitate connections, an exchange of ideas between small businesses and the various divisions and offices within the SEC. And the purpose of that communication is to ensure that capital formation is happening across all regions of the country, and is accessible for all those who have projects that need to tap into our capital markets. I take that duty seriously, and I welcome continued conversations, not just today, but throughout the year. Please just email my staff anytime, and I look forward to an ongoing discussion.

Now, this will be the fourth time I have provided remarks at this event. One thing I've noticed from years past about the conversations that happen outside of this annual forum, and inside the so-called Washington, DC Beltway, is that there's often a false dichotomy, either expressly stated or implied. Thoughtful conversations are stripped down to an oversimplified view that any regulatory action to further investor protection standards would be done at the expense of capital access, or particularly, capital access for early stage companies and entrepreneurs from underrepresented communities.

These two goals, however, are not in tension with one another. Capital raising and investor protection go hand in hand. Protections increase market integrity, which in turn increases capital raising and investment opportunities. Further, I know that staff of the SEC, and entrepreneurs, innovators, and business individuals understand that decision making, including policy decision making, can be thoughtful and precise all at the same time. It can reconcile and balance multiple equities or concerns, and can still produce meaningful results. In other words, policy can further investor protection concerns and facilitate access to capital for early stage businesses.

For example, the SEC could rework our safe harbors for registration exemptions to better calibrate them for use by small, medium, or early stage businesses, and require more disclosure from the largest private companies that rival the size of many S&P 500 companies and take advantage of the exempt offering framework. The SEC has already implemented that concept in the public markets, where a scaled or tiered disclosure system is tailored based upon the size of the company and the attendant costs and benefits of reduced and enhanced disclosures.

It's a fair observation that the securities law framework can be technical and intricate at times. However, the staff here at the SEC are adept at administering that framework, and we want to facilitate good faith compliance. We're not playing "gotcha." If achieving that good faith compliance is a challenge, please provide feedback on the ways that the SEC can put out useful and clear information, especially to early stage entrepreneurs. Stacey and her team do this extremely well, but if it isn't working, please let us know.

I'm looking forward, again, to the discussion today and tomorrow, and to the annual forum report, and to speaking with all of you throughout the year.

MS. DAVIS: Thank you, Commissioner Crenshaw. We appreciate your kind words about our office, and, especially relevant for our audience today is your call for feedback if there are ways the SEC can improve the information we put out. Next up, we have Commissioner Mark Uyeda. Commissioner Uyeda?

MR. UYEDA: Well, good afternoon, everyone. It's my pleasure to participate in this year's Small Business Forum. I recall attending my first forum 19 years ago in San Francisco, when I was serving then as the Chief Advisor to the California Corporations Commissioner. The year was 2005, and it was held in -- (break in audio) -- and returned to having an in-person forum held throughout the country.

Our capital markets and the regulatory environment have changed significantly since that time. Public companies have more disclosure obligations, and private companies have more ways to raise capital. The number of public companies, though, has declined significantly over the last couple of decades. Smaller companies have accounted for the vast majority of this decline. The retreat by smaller companies from the public markets highlights the importance of the private markets as a source of capital.

For early stage startup companies, these sources might be angel investors and individuals who have a preexisting relationship with the founders. Given the increasing role of angel investors and others who might invest in the friends and family round, the Commission should create an ecosystem where founders can be easily connected with knowledgeable individuals who have the ability to assess the risks and rewards of making investments in startup companies.

One way to create this environment is to make the Commission's capital raising rules for early stage companies more understandable, and reduce the need for lawyers charging $1,000 or more per hour. The Office of the Advocate for Small Business Capital Formation has an online resource to aid entrepreneurs. The Commission staff has also participated in events hosted to help founders and others at startup companies better understand the Commission's rules and educational resources. However, the complexity of our regulatory regime remains a challenge, and this is a concern that should be addressed. Not only is capital formation part of the Commission's mission, but Congress has specifically directed the Commission to advance the interests of small business through the SEC Small Business Advocate Act of 2016.

Another way that the Commission can build a vibrant ecosystem for raising startup capital is by ensuring that its rules focus on opportunity. Paternalistic rules issued in the name of investor protection can limit individuals from investing in early stage companies, but such rules often fail to consider the risk tolerance of perspective investors and their ability to analyze such investments. That type of a regulatory regime can make it more difficult for entrepreneurs to raise capital without the attendant investor protections. Instead, regulations should focus on creating opportunities, and avoid a broad, paternalistic approach.

Finally, a third way that the Commission can create a healthy ecosystem for entrepreneurs and investors is to encourage a growing private market for capital. Promoting economic growth, innovation, and jobs creation requires the side by side existence of both a vibrant public and private market. The Commission's rules should not discourage companies from remaining private, especially if the rationale for such rules is that less disclosure necessarily equates to more fraud. Bad actors appear in both public and private companies, and the Commission has anti-fraud rules and enforcement authority to address such behavior in both markets.

The Commission's regulatory regime should not lose sight of its purpose of encouraging good actors to start businesses and allowing them to receive capital from willing investors. These are three approaches for building a healthy ecosystem to better serve entrepreneurs and investors. I know that there are many more. And that's why I'm looking forward to the ideas that will come from this afternoon's fireside chat with Professor Angela Lee and the later panel with Trish Costello and Beto Pallares. So, thank you very much. I do look forward to the results of your work today.

MS. DAVIS: Thank you, Commissioner Uyeda. Forum attendees from prior years, maybe even as far back as 19 years ago, when Commissioner Uyeda first attended, continue to let us know how much they appreciate hearing our commissioner's views, and knowing of your support for small businesses and their investors. So we really appreciate you and

Commissioner Crenshaw being here today.

On the topic of input from attendees, we encourage everyone watching on the platform to answer the polling questions that you'll find just below the video. After folks have had a chance to respond, we'll share the results live, so we can all have a sense of who is tuning in. I'll note, if you're watching the webcast on sec.gov, you won't see the features like this polling, nor will you have the ability to vote on policy recommendations. So, if you'd like to be able to participate in the polling, and in voting to prioritize recommendations, we encourage you to register for the event, so you can get a link to participate on the platform.

Now, moving into our programming, my colleague Sheen Munshi had an opportunity to sit down for a virtual fireside chat with Angela Lee, who is a professor at Columbia Business School in New York, and is also an enthusiastic and experienced angel and VC investor. Let's listen to what Angela had to share.

MS. MUNSHI: Welcome everyone. My name is Sheen Munshi, and I work for the Office of the Advocate for Small Business. Angela, I'm excited to have you here today as we explore the multifaceted relationship between investors and entrepreneurs.

But, rather than hearing from me, I'd love if you could tell us a bit about your background, including how you got involved in angel investing, as well as teaching about entrepreneurship and investing.

MS. LEE: Thank you so much for having me. So, as Sheen mentioned, my name is Angela Lee, and I wear two hats. I'm a professor at Columbia Business School where I mainly teach venture capital courses. And I'm also the founder of 37 Angels. It's an angel investing network that, over the last decade, has looked at 20,000 startups, and invested in over 100. And I'm also a former founder. So I've been on the other side of this as well, and started several startups, and I've now hopped over to the other side.

MS. MUNSHI: Wonderful. Thank you for sharing. So, as a thought leader and acclaimed professor at Columbia Business School, you founded four startups and 37 Angels as an investor. You just mentioned you evaluated a number of startups and activated new investors through a startup investment bootcamp at 37 Angels. What would you tell someone, or what advice would you offer someone who wants to become an angel investor? The good, the bad, the ugly. What should someone know before they invest, particularly in early stage companies?

MS. LEE: Yeah. So I'll start with the good stuff, which is, it's just a tremendous amount of fun. I think that if you are somebody who loves reading about innovative new companies, if you love watching Shark Tank, if you love thinking about what the future is going to look like in the next 10, 20, 50 years, it is a really, really fun way to look at the world. And it's a great way to learn. I learn something every single day from my students, from the companies that I invest in, and from my fellow investors. So it gets me jazzed. And so I think that it is a really, really fun way to spend your time.

On the, maybe, other side of things, I think it is a very, very risky asset class to invest in. And so something to be aware of is that, if you write ten checks, you are not going to get your money back in half of them. And I think it's a very different type of investing, and a very different type of risk appetite than maybe investing in the public markets or investing in real estate. So I think that stomach for risk is something that people don't tend to talk about. Again, when we're reading the headlines, watching Shark Tank, we only think about the upside. But I think people really need to go in with their eyes wide open about how risky it is to invest in the space.

MS. MUNSHI: Great. Switching over to the company perspective, what are investors looking for, or perhaps, what should investors be looking for in companies before they invest? And with that in mind, what advice do you have for an entrepreneur that is considering taking capital from an investor or seeking capital from an investor?

MS. LEE: Yeah. So, in terms of what investors look for -- I like alliterations, so I like to break it down into the four Ps of people, problem, progress and price. So, people is, of course, the people starting the company. Do they have relevant domain expertise? Does their team structure make sense? And do they have that kind of magical "it" factor? If the idea is a good one, I've probably been pitched it ten times that month. And so I have to believe, looking in these founders' eyes, that they're going to beat the other ten companies that are doing the exact same thing. So that's on the people side.

On the problem side, investors are looking for a large market to invest in, because we need to make outsized returns in order to compensate for all of that risk. So, a large market with a really attractive, competitive landscape. And the reason why it's called "problem" is, the founder really needs to understand the problem they're solving for their customers. And so that's literally a question we ask in diligence. What is the problem for yourself and for customers?

On the progress side, of course, we want the founder to ideally have some traction. So, some customers, ideally some revenue. And it's really important for that revenue or customer acquisition to be repeatable. I think a mistake that I sometimes see founders make is, it's a little bit of a flash in the pan. They have one Instagram ad video go viral, or one TikTok video go viral -- and while that's great, we want to see a repeatable customer acquisition process. So when we talk about progress, it's less about the absolute number of customers, or the absolute amount of revenue, and more, have you built a customer acquisition machine?

And then finally, price. The deal terms have to be fair, both to the investors, as well as to the founders. So when I talk to founders about advice, obviously, making sure that you have your ducks in a row of the four P's. And what I would say is that -- kind of common mistakes I see people make -- I think on the people side, really making sure that you have a complimentary team, that founder A is great at this thing, and founder B is great at this other thing, and that people are really self-aware about what they're good at and what they're not so good at. So we're always going to ask, who is your next hire? And we're looking for people who know what it's going to take to bring this company to the next level.

On the problem side, I think a mistake that founders make is not thinking about indirect competitors, and overly focusing on direct, and then, of course, making sure the deal terms are fair.

MS. MUNSHI: Wonderful. Thank you for sharing your insight. So we've heard a bit about getting ready to invest, and getting our company ready for investors. How do they find each other? How do the investors find companies, and how do companies find investors?

MS. LEE: So, unfortunately, 80 to 85% of all investments that are made are through networking, meaning that the founder knows the angel or VC, or they can be introduced through somebody. And that is, unfortunately, how the vast majority of deals are done. This is a very network driven environment. So for folks who are saying, well, I don't actually know angels, I don't know VCs, there are a couple of things that you can do. A, there are some open platforms. So, one is openvc.app. They actually list VCs by what they invest in, where they invest, and how much they invest. That's openvc.app. Another resource is Angel List. Angel List is like LinkedIn for angel investors. And so you can go on there and say, I want to find an angel in my neighborhood who invests in this space. And so those are some open spaces.

Beyond that, I also tell founders to literally hop onto LinkedIn, find investors at firms that you're attracted to or, you know, angel investors you want to be introduced to. and find who you have that's a second degree connection. I promise that even if you don't know angels and VCs directly, you definitely know people who know angels and VCs. And so find those people and then reach out to the people in your network and say, hey, you know so and so. Can you send them my pitch deck? Here's an email with three great things about me. Can you send that over? And that way it will make it easier for your network to help to make introductions.

MS. MUNSHI: Great. Thank you. Something we've heard quite a bit about related to mentorship, as you just mentioned, in networking -- we know that investors can add value beyond just a check, such as mentorship, connections, business advice. What role can angel investors play in providing guidance or value beyond just to the funds they provide the company?

MS. LEE: Yeah. So, the number one thing we get asked for is introductions. So, introductions to people they can hire, introductions to strategic partners, introductions to potential acquirers, customers, other investors. And so, really building out your network of thinking about, who do I know that can also help founders, and really bringing the power of your network to help your portfolio companies will make you a better investor. And that's typically what I would say angels get asked for.

Beyond that, I would also say playing the role of therapist. I think that, you know, being a founder is really lonely, it's really tiring, and being a empathetic shoulder for them to lean on, and really developing that relationship. Oftentimes angels are the first check, and so you have that personal relationship. I would say those are the two things. Introductions and playing therapist sometimes.

MS. MUNSHI: Great insight. Switching over to policy -- you -- broadly about investing and entrepreneurship. Are there any regulatory changes you think could be beneficial in terms of investor protection or improving capital formation? For example, what are your thoughts on potential changes to the existing and -- accredited investor definition that would increase the income and net worth qualification threshold?

MS. LEE: Yeah. So, there have been a lot of regulatory changes over the last few years, and the majority of them have been increasing access to this asset class, right? So, you just mentioned one, which is that the definition of who is allowed to invest in this asset class, that expanded several years ago, whereas it used to be that you had to have $1 million of investable assets or $200,000 in income. Now you can be what's called a qualified financial professional and pass an exam to say, I am equipped to invest in this space.

Another one is that 401(k)s are now allowed to invest in VC funds. Another rule is, some of the solicitation rules have been expanded to make it easier for VCs to fundraise, and for founders to fundraise. And so, in general, a lot of the regulation that's happened in recent years has been to allow more people to invest. Now, the positive of that is, that's great. More people can now create wealth in this space that has the potential for really high returns. The drawback is, as I said, this is a really risky space, and so my fear is that some people are investing who don't necessarily know what they're getting themselves into. And so a rule of thumb is, I would say that no more than 5 to 10% of your investable portfolio should be in this space.

That is not a legal requirement. So, I have friends who are 60% in angel investing and 40% in crypto. And I am concerned that people don't know how much risk they're taking on, but so long as you're doing it in an educated way, I think it's a great way to expand your portfolio.

MS. MUNSHI: Wonderful. Thank you for sharing your insight. This has been such a great conversation. I have a bunch more questions I could ask you, but I'll wrap it up by asking you for a takeaway that you want to leave our audience with today.

MS. LEE: I would say my takeaway is, whether you are a founder, whether you're an investor, or whether you are somebody who's generally interested in this space, is to find your tribe. The startup ecosystem is huge, and there are so many different ways that you can play in this space. And so finding other people who either are interested in the same sector as you, the same stage, the same geography, maybe they want to support a certain founder demographic -- find your tribe. I think that it can feel scary to walk into this ecosystem if you don't have other people who are like-minded. But if you find like-minded folks, then it's a really fun space to explore and to learn in.

MS. MUNSHI: Thank you so much, Angela. That is great advice. And thank you so much for being here today.

MS. LEE: Thank you.

MS. DAVIS: Thank you so much, Sheen and Angela. It was really interesting to hear Angela's perspectives, and it will be interesting to compare her experiences on networking, entrepreneurship, and investing, with the experiences of our speakers coming up in just a minute. For folks who are interested in what Angela had to say about how individuals can qualify as an accredited investor, Sarah on our team is going to pop an educational resource into the chat. We often get questions on, what are the income and net worth thresholds? What are the certificates or credentials that allow certain professionals to qualify as accredited? So, I just didn't want to waste this opportunity to put in a shameless plug for our educational resources. You can find them at www.sec.gov/capitalraising.

I'm now super excited to move into our panel. Front and center in our thinking about ways to improve access to capital are the underrepresented entrepreneurs that may not fit into the mold that larger established investors have traditionally backed. So we're excited today to feature two esteemed speakers who have forged novel paths to help sophisticated investors invest in operating companies that they think will succeed in the marketplace. I'm happy to welcome to the screen Trish Costello, who is founder and CEO of Portfolia, and Beto Pallares, President and CEO of Joseph Advisory Services and General Partner of Audaz Capital Fund. Hello.

MS. COSTELLO: Hello.

MS. DAVIS: For those who are watching on the platform, if you scroll down below the agenda, you can see Trish and Beto's bios. They're both filled with passion for their work, and I think it'll be contagious today. Trish and Beto, can you just share a little bit about your background, and your experiences, and an initial overview of your current pursuits? Trish, you want to go first?

MS. COSTELLO: Yes, I would love to. It's wonderful to be here with you today, and to see Angela, an old friend of mine, speaking on the topic as well. So, I started out in the entrepreneurial world, so I have been both a venture backed entrepreneur, as well as a venture capitalist, and an angel investor in between. So, many of us have actually had all of those roles, and have really enjoyed being a part of the entrepreneurial ecosystem. I began as a venture backed entrepreneur in the healthcare space. I then had the opportunity to become a part of the Kauffman Foundation at the start of its work supporting entrepreneurs almost 30 years ago now. And the Kauffman Foundation was the first foundation to see supporting entrepreneurs as a charitable endeavor to educate them.

And we created the Kauffman Fellows, which was the training program, the first training program ever for venture capitalists. And we also did a lot of education for those entrepreneurs seeking money as well. So, Kauffman Fellows now -- and I led it for the first 12 years. Today, almost 30 years later, it has, you know, over 800 venture capitalist partners in their firms, and founders of their firms in over 50 countries around the world. So, that's where my background and my experience comes from.

About seven years ago, I created Portfolia. And Portfolia is really creating a vision of what we could build if we were able to activate sophisticated women's money in the venture capital world. How could we expand it? How could we rethink it? What companies could we back? What solutions could we bring to the world if women really became involved and led in the venture capital space?

MS. DAVIS: Wow. Thank you so much. I'm looking forward to hearing more. Beto?

MR. PALLARES: Good afternoon, everyone. I'm so proud and happy to be here, and to join such a distinguished group. Trish and I have known each other for years and I hold her in great, great esteem. My background -- I also started as an entrepreneur. I -- after graduating college in the Northeast, I worked as a management consultant and as a strategy consultant. I then got the entrepreneurial bug and started a software consultancy with a partner. And I regret to say that we did not know how to raise capital. We had no idea. And consequently, for the last 25 years, it's been a part of my personal mission to understand that with greater depth, and share it with folks, not just in my region, but on a broader scale.

I've worked in telecom overseas, overlooking technology deployments in various countries. I've worked off of Wall Street as well for tech companies. And I've held traditional job roles -- like, I've been a restaurateur. And I'm also an academic. I spent five years as an endowed chair teaching entrepreneurship at a Hispanic serving institution. I taught entrepreneurial mindset, entrepreneurial finance, and strategy. And I've been very fortunate to have gotten the opportunity to advise families on investing in technology companies, both in funds and direct, and have advised or invested directly in over 160 investments. And I have overseen the M&A of a couple of deals, and also seen an IPO, and rang the bell in the NASDAQ. And that was a very proud and humbling moment.

And I'm also a proud Kauffman fellow. And now what I do is, I spend time both teaching students at the undergraduate and graduate level how to get into careers in alternative asset classes like venture capital -- we created a program in partnership with New Mexico State University. We call it FIRE Venture

Fellows, FIRE standing for Fourth Industrial Revolution Economy. So this sort of opens up the eyes of undergraduates and graduates of this career field. And they start very early to understand how to engage in that.

And then separately, I also manage an early stage fund called Audaz Capital. Why Audaz? Audaz is Spanish for audacious. It's audacious to say we need to create more pools of capital in areas that are underserved, and -- really happy to be here and happy to contribute to the panel.

MS. DAVIS: Thank you. We are very happy to have you. So, if folks have questions for Trish and Beto, please drop them in the chat. We're going to save time at the end for audience questions and answers. So, Commissioner Uyeda mentioned the importance of ecosystems. And when you hear about VC ecosystems, people may think of geographic regions, specifically Silicon Valley, Boston, New York. But each of you are passionately working to expand ecosystems outside of the traditional VC markets, whether by geographic base or investor base.

Beto, you're from El Paso. And you've said you're interested in seeing more institutional capital flow into early stage investments in the vast and important region that stretches from, you know, across Texas and through the Borderplex, into the southwestern states. Could you give us some color on what's happening in that region, and what untapped opportunities you see there, and maybe ways to move the needle to get more of that capital flowing?

MR. PALLARES: Absolutely. You know, I moved back to the region about 20 years ago. And I wanted to start a software company. And there weren't a lot of resources to help get that going. And so, in the absence of those resources, we decided to create them over the course of time. And one of the things that we engages with in collaboration with corporations here in town, high net worth individuals, and the universities was, let's create some coding academies, let's start creating other programs that the different population sets can start engaging in. And that started to bring a sense of comfort that we don't necessarily have to emulate everything we see in another community. There are attributes in each community that are strengths and competitive advantages you can build on.

So, one of the competitive advantages of this particular region is its workforce. And the workforce over indexes in terms of productivity in many areas. And we have a highly educated population. The University of Texas at El Paso graduates hundreds of students with -- with computer science degrees. And between the universities here, there's a lot of engineering talent. And so companies have discovered that. They start to move in this region.

And then we find that we have one or two of the elements that we need to build a strong knowledge economy. And it takes three things. It takes a good idea -- and it doesn't have to be the world's best, but it needs to be a good idea. It takes some money -- and you don't need all the money in the world, but you need some money. But you absolutely need a committed management and entrepreneurial talent team. And that we have in spades. So with -- between the good ideas and the managerial skill sets that we have, we're now starting to attract capital.

I'll give you an example. One of the things we did a couple of years ago -- we started hosting hackathons, especially when AI became super popular. We hosted some hackathons in partnership with Microsoft. And from those hackathons, companies started to emerge -- AI driven companies in strengths of this region, like logistics, and edtech, and fintech. And it became so popular that now Microsoft has underwritten a number of hackathons taking place throughout the year, and other companies are supporting that as well.

Now, when you start having entrepreneurs that say, well, I want to build stuff, and I want to build it and remain in my hometown, or hire talent in this town, then you have ideas, and you have talent, and then capital starts to find its way there. And that's what we're seeing. We now have at least three venture capitalists based here in El Paso, working with the various universities, teaching courses at the universities, so that the students then begin to think, hey, maybe I want to get a job, or maybe I want to start a company, right, and do things that are a little more -- you know, perceived risky, but, you know, certainly risk is relative to the skill sets you bring to tackle those new challenges.

So, really what it takes is an ecosystem approach. And for us, it's super important to work very closely with the universities, to work very closely with the different partnerships that maybe understand the economy in a different way, and become users of these new tools that our local entrepreneurs are building. So that's one way to tackle accessing capital and developing the ecosystem further.

MS. DAVIS: That's wonderful. I appreciate that. I'm from Texas and I know that, you know, El Paso is a long way from Austin and some of the other larger cities. So, really appreciate what you're undertaking there. It's super important. Trish, you're close to the Bay Area, a location well known for -- as a VC hotspot. Yet your work is focusing beyond that -- you know, what -- that existing ecosystem that's already there, with hopes of broadening how women can get involved in startup investing. Can you share a bit about the approach you're taking with Portfolia to bring in new investors to early stage companies?

MS. COSTELLO: Yes. I think it is -- it's so important, when we look at who's participating, and who is making the decisions in allocating capital to entrepreneurs, and to the solutions they're bringing to the world. You know, still it's -- 85 to 90% of the partners making the decisions in venture capital are men. And that's why I believe that so many solutions that we would like to see in the world as women don't get the kind of funding that they -- you know, that they need.

And Portfolia was really created because of that issue. Years ago, I took an idea -- I had been doing a lot of angel investing, and I was seeing more and more companies that were creating solutions that I know that I wanted, and my friends would want in the market. And I took a company that had a menopause solution -- great growth, great opportunity in the space, super team. And I took it to a number of my venture capital friends in healthcare, all men. And every one of them said, a version of, ugh, menopause, really? I mean, I can't even take that to my partners. Is that a thing? Would there be solutions? Is that really a problem for anyone?

And what I found over and over again is that these huge markets were going untapped with solutions, because the people that were impacted by the problem were never at the table to make investments. So, you know, fast forward to today, where menopause is -- (break in audio) -- dollar, you know, market, and opportunity worldwide, because we'll either die young or we will go into menopause, if you're a woman. So, really what we look to do, then, is to expand and bring in sophisticated women, in as venture capital limited partners, and more women partners running our venture funds.

Today we have -- 46 to 47 partners in my fund portfolio are women. And we almost single handedly created that venture capital market for women's health. We were the first venture capital fund in women's health in 2018. We've now invested in 46 companies in women's health. We're the largest investor in the space, arguably in the world. And we've really broken it open in all kinds of areas. Portfolia alone has two companies worth over $1 billion in the women's health space. And it wasn't even considered a space or an investing area, you know, just a few years ago. So that's what women can do.

Our fund is focused on those women-limited partners investing in funds or investing as angels directly through portfolio. We're now in 46 states and in 18 countries around the world. And we've made over $65.7 million of direct investing in those companies we want in the world.

MS. DAVIS: Wow. Well, I just find this fascinating what you've been able to do in a short amount of time. And I know it's rarely a good idea to go into regulatory citations in a public forum, and people like my mom will quickly tune out, but Portfolia is making use of a tool that Congress recently created in 2018 with the goal of fostering small VC funds. And that relatively new creation is known as the Qualifying Venture Capital Fund. And I think it's worth going down into the weeds of it to hear how it's working for you. I'll quickly --

MS. COSTELLO: Yes.

MS. DAVIS: I can level set or maybe you can just tell us -- I see I have a big green dot over me right now. I think I did the quotation marks, which set off some kind of thing -- so I would love to just turn it back to Trish, and maybe you could share with us how Portfolia's fund structure is allowing up to 250 beneficial owners per fund.

MS. COSTELLO: Yes. I'm happy to do that. And I think that was supposed to be a balloon that was going to pop up there.

MS. DAVIS: Well, you know, balloons are fun.

MS. COSTELLO: That's right. This -- it was a celebration. And in 2018, when the new regulation went in, enabling venture funds to have up to 249 people -- limited partners in the fund -- and it had to be capped. It still has to be capped at $10 million. But we were the very first venture fund to take advantage of that. And that was our -- the first women's health fund ever. And we had 249 in. And that's really what launched this. It's so important, because it enables us to go out to a large number -- so, you know, you can have a few -- and a typical venture fund will have a few investors that put really large checks in, multi million dollars, you know, or more, checks in those funds. And so maybe you'd have 10 or 15 limited partners that make up all the money.

On the other side of that is how Portfolia does it, where every fund is made up of, you know, up to 250 investors in that fund. And they can come in for as small as $10,000. And that's that ability to dip your toe in, start to understand how venture capital works, and collectively -- you know, as I said, collectively, even with $10,000 or $15,000 checks, you know, that total amount can become a major impact in the world. So we were the first to use that in FemTech. Now that's the case in all of our funds. We've created 16 venture capital funds since that ruling went into effect.

And we do women's health. We do activation and longevity. We do green and sustainability, food and ag tech. And we back -- we have funds that back people of color. So you really can make a difference. Now, it's a different type of approach because, you know, when you have thousands of limited partners like that, you -- you know, you have a lot of overhead.

But we're able to do it in a really sustainable and scalable way. And that's how we're bringing change, you know, to this industry.

MS. DAVIS: Wow. Well, it's super impressive. And I'd be curious if those -- you know, have the regulatory caps that you mentioned impacted the check sizes that you can take?

MS. COSTELLO: Yes. So, you know, you do have to stop at that -- you know, that 250, or below 250. So, you know, it doesn't really -- the amount of checks we do, you know, take a minimum of 10,000. But I have, you know, million dollar investors as well. And it doesn't preclude you from taking qualified purchasers. So, you know, people that have $5 million dollars of investment capital. So you can take the large investors as well as the smaller ones. And it just -- you know, what it does for us is, it enables us to create a community of limited partner investors -- those investors into the funds that add huge value to the investing process.

So, to give you just a quick example, in the women's health fund, the first one, about 40% are actually healthcare professionals. They're OB gynecologists and anesthesiologists and nurse practitioners. And so, think about the difference that you have when you bring real strength and real knowledge and expertise in your underlying investors. And those people are all across the country. So if you're looking at a company that has to do with -- you know, with anything in women's health, you have a built-in expert network right there in your investors. And that's something that you rarely have, you know, in a typical venture fund.

MS. DAVIS: That's fantastic. Beto, I'd love to hear from you. And, you know, we're talking a little bit about check sizes and investor numbers. I'd like to hear kind of, what size investments or the LPs you work with looking to put into a venture fund? And it'd be also interesting to hear about the size of investments that companies in the Borderplex are seeking.

MR. PALLARES: Sure, sure. So I should say that I also helped launch a university venture fund for New Mexico State University. And it became, by CB Insights and Pitchbook, the most active and interesting venture fund in the entire state of New Mexico for two years. And from there, we had institutional capital from the state itself, from the foundation of the university, and then from alumni who hadn't heretofore participated in supporting university ecosystems, or even the state ecosystem, other than some contributions they had made.

And so this -- this created an opportunity of folks to invest behind a returns-driven fund that also aligned with their desire to incentivize and promote entrepreneurship in the ecosystem they were familiar with. And those check sizes were roughly about $25,000 for the alumni that participated. So that's an accessible amount -- since you're not deploying $25,000 at one time, the capital calls are annual or quarterly, and they're stratified. So, roughly 15 to 20% of that capital commitment goes out per year.

In Audaz capital, we do have other investors that are participating with larger amounts. They're more seasoned investors that have more experience. The fund is larger. So we're trying to create a larger pool of capital so they can write larger checks. And larger checks are probably in line with the measure of activity in the region, and the expense base that you could kind of stratify from the region.

So I'll give you an example. 15 years ago or so -- you know, I've been doing this for almost 18 years, but 15 years ago, you could probably write a check for $1 million out of a venture fund, and you can somewhat count that the company -- if it was a software company, that that million dollars would last them a year to maybe 18 months. Okay? That doesn't happen anymore. People that work in software companies or in tech companies require salaries that are different, because their skill sets are different. And you know, everything costs a lot more. Sure, the cost of computing and cloud computing has come down, but the cost of personnel, the cost of travel, the cost of so many other things has risen.

And so $1 million might not buy you 12 months or 18 months of runway. It might get you six months. $1 million in the Southwest still gets you 12 to 18, in some cases 24 months, of runway because the cost of living is more accessible. The talent base is comparable to other talent bases. I could tell you that we've written checks for as small as $200,000, and the companies that have received that funding, you know, made it last six or ten months. And we're able to deliver a product in that amount of time, which is now a higher bar. Before, maybe you were funding an idea, you know, and then you went back to the market and say, we're almost done creating the idea or bringing it to fruition, but we don't -- we're not product ready yet, and now we need to test it, so we need more capital.

The market is very different now. You need to have your idea well gelled, you need to have your product definition well scoped, and you need to have a market fit that's closer, so that the sources of funding are able to write you a check. And so in some, in the Southwest as well as other regions, money goes further. And you have comparable talent that you would. In fact, we have a lot of companies that might have a presence in Silicon Valley or New York or other places, but hire here -- and start to hire here from the talent base of the universities and the various industrial complexes that exist here. And people are very happy working at a comparable, you know, level, in terms of productivity, and a cost basis that's not as -- as strenuous as it might be if they lived elsewhere.

So LPs are writing checks, still, you know, of a -- of size for our fund that's, you know, 250, half a million, into the fund. And we're writing checks of 250 to half a million, 750 in some cases, for companies. We're usually syndicating it with other investors that we've built strong relationships with. But let me add that one of the important dynamics is to have angel groups also participate.

They're really a first line of defense, if you will, for mentorship and activity with startups, and also for that small amount of money that, you know, an entrepreneur might need just to test out a product or an idea, and then bring it to scale before they take on larger checks. And the angel groups can participate with, you know, funding sizes that are even smaller: 25,000, 50,000, 100,000. That in the Southwest goes a long, long way.

MS. DAVIS: All right. Well, thank you. And this is a relevant point, probably, to bring in some of the initial results from our audience polling. For the question, "Where do you expect to find most investment opportunities," the most common answer was, "With your local community." And that was at 47%. And the runner up so far is "across the country," with 27%. So that's a pretty big difference. The results tell us there'll be some interest, I think, in the next topic, which is on expanding networks. As you both know well, networks and connections are critical for companies looking to access capital. So I would be curious what advice you have for entrepreneurs who are looking for investors. And relatedly, do you have suggestions on ways to help broaden inclusivity, and support the making of those connections for entrepreneurs from diverse backgrounds and industries? Beto, we'll let you go first.

MR. PALLARES: Thank you. No, absolutely. So the quick advice is, start early. Particularly if you've come from a community that the ecosystem and innovation is not as developed, you might not have a ready access to the pools of capital that might exist there. So, start early by attending events that might not necessarily be in your comfort zone. Join a Chamber of Commerce. Go to conferences that are hosted in your community. Begin to network by inviting people out for lunch. Go to the university discussions that are held. Follow people you admire who are on social media. There are numerous anecdotal evidence of entrepreneurs that began to follow a venture capitalist or funder, and, you know, take a liking to the comments that they're making, and then build the relationship, even just through the platform known as X or LinkedIn. People -- we in general want to be helpful to one another. And when you approach it with humility, I think people are very willing to open up the rolodex. So start building those relationships early.

Now, in the case of -- let's say you're an underrepresented entrepreneur that happens to be

Latino, you know, there's a wonderful program at Stanford known as Stanford Latino Entrepreneurship Initiative. They just launched their first cohort for acceleration of early stage companies. And they have a wonderful cadre of folks going through that. That group itself has hundreds and hundreds of advisors and volunteers that give up their time to help you think about how to make those connections.

The other thing I would say is, get to know the bankers in your community. You know, banking is still an important pillar of access to capital. And even if you're not bank ready, a banker's job is also to network with other sources of capital that correspond to, you know, that particular community. So, in sum, I would say, start very early, get out of your comfort zone, network with people. Let's say you have an idea in the medical space or the health IT space, get to know doctors, get feedback from them, get validation that this is important. And, you never know, I've seen -- I've seen moments when people begin to do this. And, you know, someone would say, this is interesting. I want to get you off the ground, and I'll write you the first check. And that begins to build the trust in a community so that others can take interest in what you're building.

MS. DAVIS: Okay. Well, Trish, I'd love to get your advice, and hear what you have to say on how entrepreneurs and investors can find one another. We've been hearing in the chat that members in the audience are particularly interested in learning about how to connect with angel investors. So -- hear what you have to say.

MS. COSTELLO: Yes. Like -- I think -- I agree with everything that Beto said, and that's, you know, really critical, getting into those networks. What I would add is, become the expert in your space. So -- and make -- and write -- you know, use social media, do both short form, you know, both proactive -- proactively addressing issues that are happening in that space, or opportunities, new innovations in the spaces, as well as long form. You know, create a white paper, and position yourself as the expert in that space in your local community, in your region, nationally as possible. And there's so many areas now that are just really taking off.

And so, read everything in it, know everything in it, know who the experts are in your specific space, so that you're at the forefront, and you're meeting the others that are working in the area. You know, we still have an issue with homophily. So, oftentimes with women that are looking for money, I recommend that they don't only go to women, but that they look to -- especially if the product has anything to do with women, that they look to women as investors. And more and more angel networks now have women in them. And that was not the case just even 10 years ago. So look for people that will use your product, that know -- that, you know, have the pain point, you know, that your product is going to address. Find ways to -- if you don't get your product out -- to suggest product market fit, so that you can start to move into those spaces with people that understand those areas. It's just really critical to show that you know and understand, and that you're a leader in these spaces. And that will get the kind of opening that you want when you start contacting people.

MS. DAVIS: Well, that's great advice from both of you. So obviously, from our conversation, you're both focused in different areas of the market, but I'm guessing there are broad geopolitical and market dynamics that affect capital raising for both of you, and certainly across the board. So, for example, we've received a lot of questions during the registration for the forum about the recent litigation involving Fearless Fund over their grant program for black women entrepreneurs and the impact that other diversity-related litigation is having on diversity-focused VCs and organizations. A number of registrants also raised questions about the longer term impacts of the 2023 collapse of Silicon Valley Bank and how that's impacting debt financing.

So, Beto, starting with you again, how are current market dynamics affecting you and your network? For example, have you seen investors or institutions react to diversity-related litigation in investment decisions or strategies?

MR. PALLARES: Yeah, thank you for that question. It's really very important to consider it. I'll start by saying that we focus on investing behind entrepreneurs that are building tools and companies that advance and enhance the wealth creation for themselves, their employees, and their communities. And that is something that ought to be done broadly across the United States, regardless of ethnicity or origin. And in situations where that hasn't necessarily happened in some communities, I think there ought to be an intent for that, because that's good policy and that's good business for the entire country. Right? The backbone of our US economy is our middle class. As we invest in the middle class, and the middle class does well, the overall economy is going to do well. And there are pockets of our communities that are not receiving attention, probably because there's some disconnect there.

So we have kept track of some of those items. For us, it's so important to be familiar with these topics, but it's also more important to just do what's right for our community, where we have a very large population. El Paso is 82% Hispanic. Texas, New Mexico, Arizona, have large populations of Hispanics, and Arizona and New Mexico in particular have a large population set of Native Americans. Those two communities are not necessarily widely known for developing into the innovation economy.

So it makes sense to support it, because one, they're heavy consumers of it. Two, they live in a strategic place, in terms of trade, with our largest trading partner, which is Mexico. And number three, they will continue to be an important part of the overall economy. So for me, it just makes sense to invest in these communities, which are communities I have, you know, an affinity with. And I also believe that, you know, as a trained economist, you know, I always thought, well, doesn't it make sense to move resources into areas that perhaps are not taking advantage of those resources at a given time, so that we elevate the contributions of that portion of the population to the overall economy?

So, that's how we think about it. That's our passion. I think, again, it makes good policy sense and good business sense to do this. I cannot speak about the motivations of, you know, questioning those activities, but I think that's an important dialogue as well, right? Because, you know, as a country, we need to be looking out for the, you know, overall best case for the entire country.

MS. DAVIS: And -- FTX and Theranos have impacted early stage investing. So, Trish, back on the broader, you know, geopolitical market, forces -- you have such a broad perspective, given your work prior to Portfolio, with endowment funds, and, of course, your current work. Are there broader market dynamics that you see impacting early stage investing, or that are on ivnestors' minds?

MS. COSTELLO: I think the -- you know, the -- venture capital is a cyclical business, and we have been in a down cycle for the last couple of years. And that's been particularly difficult for entrepreneurs. You know, 60 -- over 60% of venture capitalists last year, in 2023, made no investments at all. So over 60% made no investments at all. We made 27 investments last year. So there are still venture funds that are out there investing, but many of the funds just, you know, took a little bit of a break. And that -- you know, that has impacted, you know, the ability to go out and get -- to get investment. Many other venture funds invested only in additional money into companies that they had -- where they had already made an investment, so their portfolio companies.

So when you have a downturn, things do slow down. And then the value -- the value that you're getting for your company often goes down as well. So it's a -- you know, the last couple of years have been difficult for entrepreneurs. You know, the problems with the banks last year cause just a lot of halt, also, in the limited partners coming into the business. So -- you know, making additional investments. And then in the larger economy, the fact that the interest rates have gone up, you know, there are other alternatives to make not as high of returns, but safer -- you know, some safer places to park your money.

So, all of those have caused a little bit of a hesitation in the venture space. What we're seeing now, though, is a real, you know, return. Usually those downturns last for, you know, a couple of years -- and we're seeing a return to venture. This is the best time to be investing, when those companies are disciplined. You know, I think oftentimes in the companies that both Beto and I invest in, they have to be capital efficient. You know, nobody is showering them with, you know, 20 and $30 million, you know, for an idea. These are companies that are resilient. They have to be efficient. They have to be really thoughtful that their dollars are going in places that are going to stimulate growth and later returns. So, you know, that's one of the positives that this environment brings to us.

Overall, you know, just to kind of respond to the issue with Fearless Fund, you know, I've said a few times, and shared on social that during all these decades where women and people of color were almost systematically precluded from getting venture, I wish I would have known it would have been as easy as just going to litigation, you know, to bring that up. I think it's really terrible that, when women are finally starting to break in, and people of color are starting to break in to be able to get equity, that there's that kind of, you know, backlash to it.

That being said, with Portfolia and many others -- and what I recommend to people -- Portfolia is designed for women. 85% of our investors are women, but it's inclusive to all. So, men are as welcome to come in as an investor to Portfolia. And in the same way, when we invest -- when we invest, 75% of our CEOs are women, but we don't preclude men as CEOs, and 25% of our companies are led by men. If a man is going to cure breast cancer, I am going to be first in line to back him. You know, so we're looking for the right solutions that are going to enhance our lives and create -- you know, create venture level returns.

MS. DAVIS: Well, that's amazing. And I mentioned up front that both of you have passion that's contagious, and it's definitely clear right here. So really just so appreciative of all that you're working on. I'm going to ask one more question before we move to audience question and answer. And it's focusing in a little bit on the SEC's jurisdiction, which is -- we've been a little broader up to this point. The Commission's role making agenda includes looking at potential amendments to who qualifies as an accredited investor. I'm not going to use my air quotes this time.

And we heard Angela Lee talk about that earlier. The accredited investor definition is key for determining who's eligible to invest in certain private deals. And there's financial thresholds for qualifying, based on an individual's income or net worth. I'll start with you this time, Trish. Do you have thoughts on whether that definition should be amended, or if it is set up to best protect investors and facilitate capital formation? Or, if not, on that definition, you have suggestions of other things policy makers should keep in mind to facilitate capital formation for underrepresented founders, or to support early stage investors and emerging fund managers?

MS. COSTELLO: Well, I was -- I was really excited to hear the Commissioner's position on this, you know, talking about, you know, staying away from the more paternalistic types of rules. We're able to get women and people of color in as investors because of, you know, changes in the rules that allowed more people. And, if anything, what I would like to see is that a lot of those regulations, you know, be removed, especially the financial ones. The level of sophistication, or the ability to make good decisions about investments, are not based on your wealth. And

I know that that's, you know, set up so that you can afford to lose that amount of money. But too often times what it does is preclude us from being able to invest in, you know, instruments that can provide a higher level of return when done well.

And so I'd like to see a loosening of some of the regulation, and opening of the regulation, perhaps with testing and other types of approaches, that continue to protect people or make sure that they understand the risks, but that these arbitrary rules should -- you know, could be loosened so that more people can be a part of, you know, investing in the entrepreneurial community and benefiting from the entrepreneurial community.

MS. DAVIS: Great, thank you. Beto, any thoughts?

MR. PALLARES: Yes, absolutely. I think that Trish certainly hits it on the nail in terms of -- you know, wealth is not necessarily an indicator of, you know, you know -- (break in audio) -- when you're looking at an investment. A program that I'm very proud of that -- Inicio Ventures, which works in the Latinx space, is doing in partnership with the Angeles Investors, to create what's called Angel Path, where they take young people and take them through an angel investment platform. They've done it in partnership with WeFunder, which is a well-known funding platform. And the purpose of this is really to train investment acumen at the early stage, and people in their -- primarily in their 20s, right, who may not have the affluence yet to be an accredited investor, but they're certainly building up the skill sets.

I mentioned earlier that I've worked with universities to train students to understand a little bit about venture capital as a career path. And I've worked also with HBCUVC, which works with HBCUs in terms of providing that same training. When we started this particular training called FIRE Fellows that I mentioned earlier, I had a sophomore participate in the spring of 2020. He graduated top 10 from UTEP in engineering. And now he works for me full time. And I trust his acumen in terms of what questions he's asking, and the level of detail that he goes into into co-developing investment memos with me. And so -- he's 23 years old. He might not have the affluence yet to be an accredited investor, but I definitely rely on his acumen and his ability to take data and information and ask very proper questions.

So I think there's a space to build that capability. Whether that's a structured class or a certification, I don't know. I think, you know, it requires a deeper conversation. But at least in the Southwest, we're spending time working with students so that -- imagine if this student -- by the way, his name is Maximo. Maximo now is the executive director of the San Cruces Angel Group. Right? So when people are looking to join an angel group and saying, well, who's responsible for understanding some of these mechanisms about this particular investment, and who can I safely ask questions from, there's already someone who's being trained to understand this on a deeper level, even if he can't write the $100,000 check at this point.

MS. COSTELLO: That's so -- I so agree with that. I just want to jump on with this. Even in our venture funds, any member of our venture funds can come on each month and watch companies pitch. And then those companies leave. This is -- those are set -- these are set up years in advance. And those companies then leave, and you hear the five partners of the fund analyze the company and go deep into the evaluation of the company. And any -- any investor in that fund can sit in and basically learn about the investing process right there. And it is really learning how to invest live. And that's a critical piece of it when we're looking at -- you know, I think new entrants, women and people of color especially, but everybody that has an opportunity to really become involved in the process and learn about how it works. We put too much mystique around this. And Sandhill Road is -- you know, really has valued from this idea that only wizards are able to invest in venture. And that's not the case.

MR. PALLARES: I'll add the statement that you don't learn to swim by reading a book. You have to get into the water. And so the sooner you provide mechanisms to give people that experience, the more they'll develop muscle memory on how to do things well.

MS. COSTELLO: Mm-hmm.

MS. DAVIS: Well, I love the mentorship opportunities that you two are creating and delivering in real time in this area. I just -- I feel like we could talk forever about the various things you're doing, but I want to wrap up so we can get to audience Q and A. And I also just want to quickly encourage our audience to stick around after the Q and A to vote on prioritizing the various policy recommendations that have come in. We've talked about accredited investor today. We've talked about qualified venture capital fund, lots of different policies, all of which are very important in this space. So with that, I'm just going to thank you both so much for this conversation. And I'm going to welcome my colleague Jenny Regal onto the screen. She's a deputy director in our office and she's been monitoring the chat throughout, and we'll bring in questions from the audience. Hi, Jenny.

MS. RIEGEL: Thank you so much, Julie. And Trish, Beto, this has been a phenomenal conversation. Thank you so much for joining, sharing your expertise. All of your candid insights have been really just a pleasure to listen to. I can tell from the chat online, everyone else is also very much enjoying this conversation. There has been so many different questions and ideas -- and chat started. So I wanted to bring those into our conversation today. One thing that had come up is about sharing different resources in the chat, and someone had asked about SEC resources. And in addition to the capital raising hub that Sarah shared, I wanted to flag investor.gov. So if you haven't had an opportunity to check it out, please do.

With that, I wanted to actually turn it to a question kind of on starting. And this is something that we got several times over, questions via email and people registering, indicating that people were thinking about starting their own fund. Can you guys talk about quickly, what weighs into a decision to launch a fund? What advice do you have for those considering this pathway?

MR. PALLARES: I'll start -- I'll start with kind of a parallel. I used to be a restaurateur, and the number of people who would come into my restaurant and say, I want to start a restaurant too, because I cook well -- and it's usually not the reason why you want to start a restaurant. It's so much more complicated than that. It's a real business. So now let's go to a venture capital fund. I believe there are three things you need to have an effective fund. You need to know how to fund raise. And you need to do that -- you need to do that well, because without fund raising, you can't deploy capital. The deployment of capital is not just, hey, I know how to pick deals. Things happen in companies. They don't go up and to the right consistently. There's -- (audio interference) -- issues, there's financial acumen, there's HR policies, there's sometimes regulatory issues.

So you have to understand as much as that as possible, because every company needs strategy. Whether you're a startup or whether you're a public company, you need to understand the strategy you're executing, and you need to understand governance. And governance is doing things the way they ought to be done, so that, you know, you're on an SEC panel for good reasons, not for wrong reasons, right? So you need to understand the middle part of that sandwich, which is how to invest and how to manage that money. And then the third thing is, you need to know how to exit the deal. So you need to know how to fund raise, how to execute on the investment, and how to exit. And you need to do all those three things really, really well, so that you get to do it all over again, per company or per fund.

And I've met very few people who can do all three things well by themselves. So the likely thing is you'll need a partner or partners with skill sets and shared values about why you're doing things and how you want to move forward.

MS. COSTELLO: Yeah, I would say you need -- and if you're going to invest other people's money, you need a track record.

MR. PALLARES: Yeah.

MS. COSTELLO: And you can do that by being a very active angel investor and keeping, you know, a record of all of the investments that you've reviewed, the ones you've passed on, the ones you've made, and why you made those, you know, even if they're not completely exited yet -- so there's ways to do that. But I would say, join a fund first, you know -- if you either have that track record, join a fund, be in angel groups, you know, and do that for a little bit of time --

MR. PALLARES: Yes.

MS. COSTELLO: -- before you -- before you look at starting your own fund. Even if you can fundraise, what I tell people is, fundraising is step one of a 20 mile journey.

MR. PALLARES: That is correct.

MS. COSTELLO: And -- because getting to -- because the -- the outcome is -- is providing returns back to your investors, right, like Beto was saying, so it is a complicated business. We do need more people in it with different mindsets and directions, and coming from different communities. But you want to prepare yourself. And I have a number of partners that came in in my funds and led a fund or two with me, and are now going out completely independent. And every one of those are a huge success for us. So, find people like myself and Beto that will mentor you in that way, and let you learn, because you want to understand the business before you get into it.

MS. DAVIS: What great advice. I am going to sneak in a real quick sharing of my screen, if that's okay. Because there's -- when we're talking about forming a fund, I think it's -- we have a -- we have a number of resources on our website -- but just -- if you go to sec.gov and do the drop down under "Education," we have a whole small business capital raising hub. And you'll see here, we have a glossary. Lots of different options, but with the glossary of terms, you know, a number of the things we've talked about today -- I think we talked about 3(c)1 funds. We talked about accredited investors, angel investors. We have a lot of terms in the glossary for folks who are starting out or getting -- you know, who just want to understand a little more can start here.

So like, for example, under 3(c)1, there's a link to a building block. Those are our one pagers on private funds. And this can talk about the laws that apply to a private fund. And just -- it's just an overview. It's not meant to, you know, supplant getting a lawyer, but it does help you. It can help folks who are interested in starting a fund just to see that various rules and laws that apply so that you -- kind of to Beto's point, you end up on the right side of talking to the SEC. So we know folks who attend the forum, you know, generally want to be folks who want to comply, who want to understand the rules, we hope these resources are helpful. So, sorry, just -- just had to put in a -- put in the shameless plug.

MR. PALLARES: Very useful.

MS. RIEGEL: I love the shameless plug. Thank you, Julie. And Trish, your answer kind of reminded me of another question that came up in the chat from Joe, which -- he raised a question about what kind or degree of disclosure and transparency you require as investors from your portfolio company. You had talked about kind of that history of investing. So, you know, talking -- and he was looking at it as a way to de-risk investing, but are there -- like, I guess, what can -- what do you want to say about kind of that degree of disclosure, looking at kind of your different investments?

MS. COSTELLO: So, the due diligence process is the critical piece of decision making, and it is everything. So, you know, when you're a younger -- you know, if you're a really early, early startup company, you may not have as much information. But we're looking, then, at your thought process, the product, who the team is. It's really deep -- you know, there's data saying that it takes at least 45 hours of research that needs to be done to make the decisions. So -- at an early stage.

For later stage companies -- and we do later stage as well -- you know, we'll have a deal room of, you know, hundreds, if not thousands of pages, you know, of data. And we know only the parts that we're most interested in, but yes, the due diligence, the details about what you're creating, how you're addressing the market, how you're predicting your financial performance -- all of those are really critical to decision making. And even with us where we did 20 -- 27 investments last year -- and, you know, typically we would do 35 or more a year. We do significant diligence on every one of those options. And many companies, of course, don't make it, you know, to an investment, because we're seeing things that we're not quite ready yet to -- you know, the risk is too high. So we may wait on those. But yes, diligence is important.

MR. PALLARES: I -- (audio interference) -- it's very important. And to me, another factor that's important as well is the relationship I'm building with that young management team. We want to have a camaraderie where we can have tough conversations. The way I look at it is, you know, some of these investments last 10 or 12 years. So I am frontloading the time it takes to get to know you, so that we can have a successful 10, 12, 15 year relationship or beyond.

MS. RIEGEL: Absolutely. Fantastic advice. And I'm going to ask for one last piece of advice in a lightning round -- is, what last piece of advice do you want to share with our audience to kind of close out today's event?

MS. COSTELLO: So if you -- so, two things, if you're thinking about investing and you haven't, I want to go back to what Beto said, which is, you can't learn to swim from a book. Jump in, even with a small amount of money, even if you're -- if you're an entrepreneur, the best way to understand how to fundraise is by sitting in and actually being on the other side of it. And so, if you can invest, if you're accredited and you haven't yet, do invest, even if it's a small amount of money. If you're an entrepreneur, my best piece of advice is, do not let anybody dampen your dream, go for it. I see people that, you know, from the outside would look like regular people who have created amazing companies and solutions with great success. So, go for it, and change the world.

MR. PALLARES: Great advice. And I would add that, first of all, this is still the greatest -- the greatest country to be innovative in. It's still a very unique environment for innovation. The innovation that is birthed here benefits not just us, but the entire world. And we have the right set -- albeit, maybe imperfect -- the right set of capital and regulatory environment and incentives to let people take those risks. And risk is something that you can measure, right? And you measure risk based on the amount of data and information you gather to make better decisions.

And even if you fail, you need to understand that, you know, at least in this context, you know, failure is not a nail in the coffin. It is a learning opportunity to go back to the drawing board and do it better the next time. This is still a great place to do that. And we need more people who have that DNA, if you will, that we believe Americans still value.

MS. RIEGEL: Thank you so much for sharing your expertise and thought leadership today. We very much appreciate it. I'm going to wrap it up. I'm going to turn it over to Kim Dinwoodie to close out today.s event.

MS. DINWOODIE: Hi, I'm Kim Dinwoodie from the SEC Small Business Advocacy Team. Thank you for joining us today to discuss the successes and challenges that early stage investors and smaller fund managers face as they invest in small businesses. I also want to thank our speakers, Angela Lee, and our panelists, Trish Costello and Beto Pallares, for sharing their perspectives with us. Join us tomorrow at 1 p.m. Eastern for discussions with Davina Kaile and Trent Ward about smaller companies entering and accessing the public markets.

We now invite you to review the policy recommendations that have been submitted on today's topics and vote to prioritize the recommendations that are most important to you. You'll find those just below me on the event platform where the polling questions appeared earlier. If you weren't able to join us yesterday, you can still vote to prioritize yesterday's recommendations by clicking on the agenda tab on the left, here, on the platform, and then clicking through to yesterday's watch page where you'll find those recommendations in the same voting window. Thanks for being part of the forum.

(Music plays.)

(Whereupon, at 2:27 p.m., the session was concluded.)

* * * * *

PROOFREADER'S CERTIFICATE

In The Matter of: SMALL BUSINESS FORUM
File Number: OS-0001
Date: Wednesday, April 17, 2024
Location: Washington, D.C.

This is to certify that I, Maria E. Paulsen, (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 investigative testimony.

______________________ ______________________
(Proofreader's Name) (Date)

REPORTER'S CERTIFICATE

I, NATE RIVENESS, reporter, hereby certify that the foregoing transcript of 66 pages is a complete, true and accurate transcript of the testimony indicated, held on April 17, 2024, at Washington, D.C. in the matter of:

SMALL BUSINESS FORUM.

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

Date:________________________

Official Reporter:________________________

Diversified Reporting Services, Inc.