

U.S. SECURITIES AND EXCHANGE COMMISSION

40TH ANNUAL SMALL BUSINESS FORUM

Tuesday, May 25, 2021

1:00 p.m.

U.S. Securities and Exchange Commission  
100 F Street, N.E., Washington, D.C. 20549  
Via Eventbrite

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## 1 P R O C E E D I N G S

2 MR. BRAZIER: Hi. I'm Dean Brazier from the  
3 SEC Small Business Advocacy Team. Thank you for joining  
4 us today to hear from a panel of thought leaders  
5 including Grace Rains from Arkansas Angel Alliance, Eli  
6 Velasquez from the Investors of Color Network, and  
7 Elizabeth Yin from Hustle Fund on how savvy, early-stage  
8 investors build diversified portfolios. Without further  
9 ado, let's get today's session started.

10 MS. MILLER: Thank you, Dean, and welcome  
11 everyone to Day 2 of the Small Business Forum. For  
12 those who joined us yesterday, we are thrilled that you  
13 are back with us today, and for those who missed Day 1  
14 of the SEC's 40th Small Business Forum, we heard from  
15 wonderful speakers on topics including how to raise your  
16 first dollars, how to leverage your networks and  
17 platforms to support others, and how we at the  
18 Commission should be thinking about inclusionary access  
19 to early-stage capital.

20 Yesterday, we heard opening remarks from Chair  
21 Gensler and Commissioner Peirce, and today I am pleased  
22 to welcome Elad Roisman for some welcoming remarks.  
23 I'll also add the disclaimer that the views expressed  
24 today by participants in the forum are those of the  
25 individuals and not the organizations they represent.

1           Commissioner Roisman, I'll pass the unmute  
2 button over to you.

3           COMMISSIONER ROISMAN: Hi. I'm pleased to  
4 welcome you to Day 2 of the 40th Annual SEC Small  
5 Business Forum. While we are all looking forward to the  
6 day we can hold such events in person again, I hope that  
7 this format enables more people to attend without the  
8 cost or hassle of travel to us here in Washington.

9           Regardless of our location, I must still give  
10 my disclaimer which is that my remarks reflect my views  
11 alone and not necessarily the views of the Commission or  
12 my fellow commissioners.

13           The fact that this forum has convened now for  
14 four decades speaks to the evergreen nature of small  
15 issuer and investor concerns. Although we at the SEC  
16 have made some strides towards increasing our awareness  
17 of and focus on this important group, not least of which  
18 has been selecting our first advocate for small business  
19 capital formation, Martha Legg Miller, there is clearly  
20 still work to be done.

21           As an SEC commissioner, my duty is to promote  
22 and further the SEC's mission which includes  
23 facilitating capital formation. At an absolute minimum,  
24 this means that I must ensure that our rules do not  
25 unduly and unjustly prevent capital formation. I worry,

1    however, that many of our existing rules do exactly  
2    that.  At a recent meeting of the SEC's Small Business  
3    Capital Formal Advisory Committee, the committee members  
4    took up for the second time the concerns of  
5    underrepresented founders.

6            The message that comes through loud and clear  
7    is that founders get funded by their networks and  
8    regulatory barriers that prevent founders from obtaining  
9    capital from their existing networks may result in those  
10   ideas not getting off the ground.  That is, if we are  
11   concerned, and I am, that the difference between a good  
12   idea getting funded or not getting funded is the  
13   difference between whether a person has friends who are  
14   wealthy are not, we need to look at how we can open up  
15   investment opportunities to more communities throughout  
16   our country.

17           Capital raising is obviously of interest to  
18   founders and small business owners, but investment  
19   opportunity also effects would-be investors.  For years,  
20   it has been clear that one of the greatest opportunities  
21   for wealth building has been in the private markets.  
22   Many nonpublic companies have been growing in value and  
23   are going public or have not gone public at all.  When  
24   we look at underrepresented groups, we must also look at  
25   the networks of would-be investors and whether we are

1 unjustly preventing many Americans from building the  
2 kind of wealth that establishes intergenerational  
3 stability and a firm footing in the middle and upper  
4 class.

5 I also have a duty to protect investors. And  
6 I have no interest in tearing down valuable protections.  
7 I do however have a strong interest in finding ways to  
8 ensure our markets are not only deep, liquid, and  
9 transparent, but also inclusive in the opportunities  
10 they provide. This may mean expanding the definition of  
11 accredited investor opening the way for the development  
12 of funds that would permit retail investors to invest  
13 alongside and on equal terms with institutional or  
14 accredited investors or other structures we have not yet  
15 considered.

16 I know many of you are in the trenches dealing  
17 with these questions of how to fund your businesses and  
18 how to reach more investors. My door, virtually for  
19 now, is open, and I welcome any insights you can  
20 provide.

21 Thank you for being with us today. I hope we  
22 can work together to solve some of these evergreen  
23 problems, especially as small businesses recover from  
24 the difficulties of the last year.

25 MS. MILLER: Thank you very much, Commissioner

1 Roisman. I appreciate those opening remarks recognizing  
2 the importance of personal networks and looking at  
3 inclusive capital markets.

4 I am pleased to be stepping away and getting  
5 out of the spotlight so that we can turn things over to  
6 our wonderful panelists who are joining us today. But  
7 before I do so, I want to give you a framework for how  
8 you can engage with us because that is what makes the  
9 forum different than a webinar. A forum is an  
10 opportunity where we're engaging with one another.  
11 You're not just passively listening. So make sure that  
12 you're sharing your feedback in the polling questions  
13 that are live right now because we want to learn a  
14 little bit more about you and the perspective that you  
15 bring.

16 If you have questions that you would like to  
17 ask of our speakers, I want to encourage you to start  
18 adding those to the Q&A now and throughout the event so  
19 that we can have them queued up to ask them towards the  
20 end of the panel discussion. If you want to ask us a  
21 live question via video, you are welcome to chat your  
22 interest in doing so over to the team.

23 I also want to thank you for your thoughtful  
24 advance submission of policy priorities and  
25 recommendations submitted before the event started. If



1 you think of additional policy suggestions relevant to  
2 today's topic, I encourage you to share those with our  
3 team in the chat so that we can add them.

4 After the panel and the Q&A, you're going to  
5 get a chance to vote to prioritize the recommendations  
6 that the audience members have submitted and send those  
7 over in a report to Congress and the Commission. The  
8 poll is currently visible in Recommendations right now  
9 for reference only and it will open up for voting once  
10 we've had a chance to add in any tweets or edits that  
11 have come in from you.

12 We love learning about you. We love having  
13 you here today, and I appreciate you spending time with  
14 us. It is now my pleasure to turn things over to my  
15 colleague and friend, John Moses, from the SEC's Office  
16 of Investor Education and Advocacy to lead our panel on  
17 Doing Your Diligence: How Savvy Early-Stage Investors  
18 Build Diversified Portfolios. John, take it away for  
19 us.

20 MR. MOSES: Thank you so much, Martha. It's  
21 an honor to be here with you and especially with our  
22 panelists and everybody joining from around the country  
23 today.

24 So as Martha said, I am with the Office of  
25 Investor Education and Advocacy, and we're thrilled to

1 fulfill part of the SEC's mission around protecting  
2 investors by doing outreach and education around topics  
3 that are really important to investing and building  
4 wealth over the long term. Please check out our website  
5 investor.gov. Investor.gov has information on  
6 foundational principles like diversification and  
7 minimizing fees and also information on updated topics  
8 that you might be hearing about in the news.

9           Also if you have a community organization, a  
10 student group, or a faith group, for example, and you'd  
11 like us to connect with you to talk about investing,  
12 please send us a note at outreach@sec.gov. So  
13 investor.gov and outreach@sec.gov.

14           So that was my pitch, everybody. We're going  
15 to be hearing from Elizabeth and others who have heard  
16 many thousands of pitches. That's my pitch about OIEA.

17           But today we're going to be talking about  
18 successfully investing in early-stage companies. As we  
19 all know, unlike mature businesses with established  
20 track records and income, many early-stage businesses  
21 are pre-revenue and they're building products or  
22 services that may or may not be successful.

23           We hear in the news a lot about success  
24 stories of startups. We know that savvy early-stage  
25 investors will make some successful investments and some

1 investments that don't turn out well. And so these  
2 investors have to balance the risk of loss in any single  
3 investment across what is hopefully a diversified  
4 portfolio.

5 Today, we're going to talk with three  
6 investors about how they conduct diligence on early-  
7 stage companies to balance the risks and potential  
8 rewards of investing in startups.

9 Another quick plug for audience questions.  
10 Around 1:45 Eastern, we'll be moving to audience  
11 questions, so please put your questions in the chat or  
12 let us know if you want to ask one live. You can also  
13 send an email to [eventsupport@secsmallbusinessforum.com](mailto:eventsupport@secsmallbusinessforum.com).

14 And so now, let's get to the panelists.  
15 First, I'd like to introduce Grace Rains. She is  
16 executive director of the Ark Angel Alliance, and Grace  
17 leads the initiatives focused on new member recruitment,  
18 deal vetting, and due diligence in this Arkansas-based  
19 group. The organization, I think, last year, Grace,  
20 expanded its scope and rebranded from Central Arkansas  
21 Angel Network to Ark Angel Alliance. Get it? It took  
22 me a second. And she's also serving entrepreneurs  
23 throughout the state through her work as director of  
24 operations at Conductor, which supports entrepreneurs  
25 with education, networking, and other work including

1 specific outreach to rural entrepreneurs in 11 Arkansas  
2 counties.

3 So Grace, one of the questions I want to ask  
4 you and each of our panelists as we start is what is  
5 your typical check size at Ark Angel or in your other  
6 work through Conductor? What do you typically see?

7 MS. RAINS: That's a great question. So you  
8 know, as I mentioned before we even got started, you  
9 know, we're a pretty young angel network. We have about  
10 three portfolio companies. Working on a fourth right  
11 now. So from an average perspective, we don't have a  
12 good set of data, but so far we've seen anything between  
13 \$5,000 and \$150,000 from our investors.

14 MR. MOSES: Excellent. Thanks so much for  
15 sharing. I know people like to hear dollars. And next,  
16 I'd like to introduce Eli Velasquez. He's the cofounder  
17 and managing director at Investors of Color Network.  
18 He's also a board member of the Angel Capital  
19 Association, which I think he's called his unpaid  
20 fulltime job. I'm sure you do great work and service  
21 for angel investors throughout the country through that,  
22 Eli.

23 Through Investors of Color Network, he's  
24 focused on introducing more minority accredited  
25 investors to startup investing and helping connect them

1 with entrepreneurs to back including underrepresented  
2 entrepreneurs. One of his influential experiences he  
3 shared that I really found compelling was his work on an  
4 investing team in a border community that had a high  
5 concentration of Latinx population, but very few  
6 entrepreneurs were actually backed. And I know that was  
7 part of, you know, your reasoning for launching your  
8 group Investors of Color. So we'd love to hear more  
9 about that or other insights and how you're using your  
10 connections in your network to help change that.

11 In your network, Eli, what's a typical check  
12 size?

13 MR. VELASQUEZ: Yeah, so John, thanks for  
14 having us. So our membership really encompasses  
15 everything from the individual angel all the way to late  
16 stage VC. And so we're looking at deals that start as  
17 early as an individual who can write a \$5,000 check all  
18 the way to maybe a later stage venture funds and family  
19 offices that are looking at deals in the million dollar  
20 plus. So we cover a pretty wide gamut of the kind of  
21 deals that we look at and can invest in.

22 MR. MOSES: Great. That is a wide range and  
23 I'm sure will be of interest to a lot of listeners.

24 And finally, I'd like to introduce Elizabeth  
25 Yin. She is cofounder and general partner at Hustle

1 Fund, which besides being a great name also backs a huge  
2 number of early-stage startups. She's a previous  
3 startup founder and CEO herself and has supported  
4 entrepreneurs through 500 startups. I mentioned during  
5 my pitch for investor.gov -- there it is again. I think  
6 you're supposed to weave it in whenever you can -- that  
7 she has heard over 20,000 startup pitches. That is  
8 amazing and maybe just a little bit scary, but through  
9 all of these pitches, when you back company, Elizabeth,  
10 what do you typically see through Hustle Fund or the  
11 affiliated angel group in terms of check size?

12 MS. YIN: Yeah. So with Hustle Fund, we are  
13 investing \$25,000 checks. At Hustle Fund, we've been  
14 around for three years and we have backed over 260  
15 software companies. With that being said, I think, you  
16 know, most people are not excited about raising only 25K  
17 these days. So we do actually help the companies raise  
18 a lot more money with co-investors, whether they're  
19 angels or other VCs.

20 MR. MOSES: Great. That is fascinating and  
21 what a huge number of companies to be connected to. So  
22 diving into the questions now, Elizabeth, maybe we can  
23 stick with you and talk a little bit more about the  
24 Hustle Fund. On your website, you say that you invest  
25 in hilariously early startups. So what is so funny

1 about these startups? What's hilariously early for you  
2 and why do you invest in such early companies?

3 MS. YIN: Yeah. Well, I mean, I think  
4 honestly the hardest part is just getting started. You  
5 know, once you're going and you have momentum, of course  
6 a lot of investors are interested. It's -- you know,  
7 you've got your traction and it's kind of clear what  
8 trajectory you're on, but in those early days when  
9 you're just getting off the ground and you don't have  
10 any customers, you don't have any revenue, you need a  
11 lot of investors to have leads, and that's when it's  
12 really hard to fundraise at what I would call pre-seed.  
13 That's kind of the nomenclature these days. And so we  
14 felt like well, you know, there's a real opportunity to  
15 help a lot of startups just kind of get off the ground.  
16 And if you don't have like a rich uncle or something to  
17 help you with your friends or family around, you know,  
18 then you hear stories about founders taking out a lot of  
19 debt on their credit cards or, you know, working 20 jobs  
20 or whatever. And so that's kind of the stage where we  
21 play. It's past the idea stage. You've kind of gotten  
22 a little bit of validation qualitatively from potential  
23 customers, but you don't necessarily have revenue. And  
24 that's what we mean by that.

25 MR. MOSES: Great. Thanks for sharing.

1 Again, I think that context combined with some of the  
2 information you each graciously provided around what  
3 you're seeing on typical check sizes is practical and  
4 useful. So thank you.

5 Eli, you have, as I mentioned in the intro,  
6 significant experience investing in underrepresented  
7 founders. So whether that's your -- you know, through  
8 your own investment group or with Angel Capital  
9 Association, there's been some work, and I know you  
10 maybe even just recently, if I remember correctly, have  
11 been working to sort of refine these processes around  
12 doing diligence to develop a playbook of sorts. What  
13 kind of characteristics or considerations are you seeing  
14 or that you think would be useful when finding and  
15 deciding to back or not underrepresented entrepreneurs?

16 MR. VELASQUEZ: Yeah. I love that question,  
17 John, because it helps us kind of rethink of the  
18 investor entrepreneur relationship, right. For so long,  
19 it's always been this notion of the entrepreneur comes  
20 with hat in hand to the investor and kind of makes a  
21 plea and a pitch. Maybe says oh, great and mighty  
22 investor, please hand me some coins so that I can go  
23 build my business. But what we're really seeing now is  
24 really savvy, sophisticated, you know, investors. You  
25 know, Elizabeth's model is -- I love that model because



1 it's nimble, right? And so investors that are  
2 interested in getting to the space of diversifying their  
3 portfolio with founders of color has to be a very, very  
4 active approach, and you have to go to them as well as  
5 them trying to find you.

6           So one of the things I say is, you know, if  
7 you're out there looking for founders of color, put on  
8 your LinkedIn that you're looking for founders of color,  
9 right. Go actively seek them out, send them messages,  
10 reach out to them. You know, there's colleagues in our  
11 network that have literally been outreached by some  
12 posts that they put on Twitter. And so those investors  
13 found them and they actively went out and sought them  
14 out.

15           Now, when you do engage with them, I think one  
16 of the first starting points is definitely understanding  
17 what that founder's story is. Before understanding what  
18 the whole business model is, the market, the problem,  
19 just listen to how they got to where they got to and the  
20 challenges that they had to overcome to get to your  
21 doorstep, right. When you start to understand the story  
22 of the founder of color or underrepresented individual,  
23 you start to see that common ground between you and the  
24 investor that so many investors say I invest in the  
25 team, right, that's really trying to understand what

1 that personality fit really is. And so you're trying to  
2 understand what that individual's shared experience  
3 might be with yours even if you think it might be  
4 completely different, you might find something there  
5 that links you up to them.

6 So I would say those are two key practical  
7 points to undertake from both the investor side and the  
8 founder side. Don't be afraid to tell your story, you  
9 know, as you're starting at those early dialogs with the  
10 investors as well.

11 MR. MOSES: Great. Thanks, thanks for sharing  
12 that, Eli.

13 Grace, so you're I think maybe the only or one  
14 of the very few active angel groups in Arkansas; is that  
15 right?

16 MS. RAINS: Yes, it is.

17 MR. MOSES: So what are you targeting through  
18 your angel group? What types of opportunities are you  
19 targeting and what are you sort of seeing happen in the  
20 Arkansas entrepreneurial and early-stage investment  
21 space?

22 MS. RAINS: So we are mainly focusing on those  
23 pre-seed companies that Elizabeth mentioned, seed, and  
24 then some Series A deals, you know. So pretty early-  
25 stage ventures. Some pre-revenue, some post-revenue.

1 You know, we're seeing a trend of more and more capital  
2 going to later-stage deals. We're focused on the more  
3 early-stage deals that feed the pipeline to those later-  
4 stage companies. All of our companies that we looked at  
5 are Arkansas based. So you know, only about ten percent  
6 of venture capital goes to heartland companies. And so  
7 we're trying to change that. You know, a lot of the  
8 investors are outside of the heartland, you know, a lot  
9 of VC companies are outside of the heartland, and that's  
10 why that capital is going to those places is because,  
11 you know, investors invest about a 100-mile radius  
12 around where they're at. And so us growing investors in  
13 Arkansas is important so that we can make sure that  
14 we're funding Arkansas based deals. You know, it's  
15 important to us to grow that capital locally.

16 And then from a vertical perspective, we don't  
17 really give a preference to verticals, but you know, in  
18 Arkansas we see a lot of supply chain, especially up in  
19 the northwest Arkansas area because, you know, it's  
20 Tyson up there, Walmart, and then we see some fintech in  
21 healthcare here in the central Arkansas area with FIS  
22 and a little bit of data from Axiom standpoint. And of  
23 course agri tech because we're in the south and we see a  
24 lot of agriculture down here.

25 But those are the main companies we're looking

1 at. But like I said, we don't give a preference to  
2 vertical. That's just what we tend to see when we're  
3 looking at Arkansas based companies.

4 MR. MOSES: That's interesting. So you gave  
5 some data about, you know, where VC and early-stage  
6 dollars are flowing. There's some -- for the audience,  
7 there's some great information in the SEC small business  
8 offices annual report. So some data on that about where  
9 the money is coming from, where it's flowing, and some  
10 great graphics as well. So I encourage you to check  
11 that out.

12 A follow-up actually for you, Grace. So I  
13 think you recently hosted a conference with other  
14 investors, and one of the things that you were focused  
15 on is how to locate and vet entrepreneurs. Did you have  
16 any takeaways from that gathering that you can share  
17 with the audience today?

18 MS. RAINS: Yeah. So our -- one of the main  
19 focuses of our group, since we're one of the only groups  
20 in Arkansas doing angel investment. So a lot of our  
21 investors have participated in funds before, so done a  
22 little angel investing. But some are completely to the  
23 angel investing game. So you know, we want to provide a  
24 lot of educational opportunities for our investors, you  
25 know, just to strengthen and make them more comfortable

1 with investments. So we did host a due diligence  
2 session with, actually, Barbara Clarke from Astia  
3 Angels. She did the session with us and so, you know,  
4 my probably three takeaways that I came back with, you  
5 know, the first thing she said was, you know, the devil  
6 is in the details. So she really gets into the details  
7 of the company she's looking at, everything from  
8 governance documents, you know, to specifically where --  
9 you know, who is holding their IP and things like that  
10 that you might assume are all kind of taken care of, but  
11 when she's kind of peeled behind the surface might not  
12 completely be as shored up as you would like them to be.  
13 So that was one of her takeaways.

14           And then also just building a diverse due  
15 diligence team. So just making sure from our membership  
16 that we have the right people at the table. So you  
17 know, we recently have brought on an IP attorney to  
18 actually be on our board, and so she's able to give us a  
19 lot of insight there and we saw that as a gap. We  
20 didn't have a lot of people in our group. And so, you  
21 know, identifying those gaps and making sure we're  
22 bringing the right people in so they can weigh in on the  
23 conversation as well as looking at deals.

24           And then also she said sometimes it's more  
25 important the way an entrepreneur answers a question

1 than the answer itself. So you know, their confidence  
2 level, if there's hesitations, you know, sometimes it's  
3 less about what they're saying than how they're saying  
4 it. And so I thought that was just so, so insightful  
5 because it's so true. You know, as we look at these  
6 investors, a lot of times, you know, we're asking  
7 questions just to kind of hear their confidence level  
8 and how quickly they're able to answer or not answer, if  
9 they stumble, so.

10 MR. MOSES: Thank you again. A lot of  
11 actionable insights there. Thanks for sharing.

12 Eli, Grace was just talking about gaps on  
13 their due diligence, you know, capability that they were  
14 looking to fill in Ark Angel Alliance. You've thought a  
15 lot about gaps between where the need is, where the  
16 dollars are, both in terms of regions -- feel free to  
17 share some stories about Texas -- and then also in terms  
18 of demographics nationally. Where do you see the  
19 biggest gaps in terms of connecting entrepreneurs and  
20 investors from your perspective at Investors of Color  
21 Network?

22 MR. VELASQUEZ: That's a laundry list, John.  
23 Those are the issues that are literally going to take a  
24 generation or more to solve. But I would say that  
25 there's a couple of key ones. And I'll approach it from

1 both the investor side and the entrepreneur side.

2           On the investor side, you know, we're seeing  
3 just a swell, a groundswell of new fund managers of  
4 color, angel investors like, of color and looking  
5 specifically to look to find those founders. In 2020  
6 alone, there were nine that we identified within the  
7 first half of the year and some started literally on the  
8 day that we locked down, right.

9           And so you can imagine the challenges that  
10 those investors have had to face over the course of the  
11 last year. By the end of the year, there was over 25  
12 that we had identified despite a pandemic, right. So  
13 there's a groundswell of new investors coming on by.  
14 And so they're also learning and trying to navigate the  
15 pathway, trying to understand what their ecosystem is,  
16 and also start, you know, fundraising at the same time.  
17 So there's a lot of activity in the Investors of Color  
18 Network that still is -- we're looking to figure out how  
19 we start to coalesce the community and organize it.

20           So that can lead to a lot of confusion for  
21 founders of color as well, right. And so as they're  
22 trying to navigate their way through, as they're trying  
23 to figure out is this the right network, have they  
24 identified a thesis, and so one of the key challenges  
25 and one of the things I really encourage both investors

1 and entrepreneurs to do is to really hone in on their  
2 investment thesis. What is the specific activities that  
3 you're going to be focused on, but not just an  
4 investment thesis, an impact thesis as well. Why are  
5 you investing in this particular space or vertical or  
6 individual and what is the impact that you hope to  
7 accomplish.

8           So for us, we start pretty broad, you know, we  
9 want business models that positively impact the  
10 education, the health, wealth, and social mobility of  
11 communities of color, right, anywhere from C -- to  
12 Series C type of deals to certs that narrow down the  
13 focus and then we set -- identify verticals. And as  
14 entrepreneurs are out actively doing their research  
15 online, they can start figuring out what that thesis  
16 alignment might be and also the value alignment. Is  
17 this the kind of investor that I ultimately want to  
18 partner with for the next three, five, or ten years? Do  
19 they share the same values that I share as well.

20           So I would -- I like to really push that  
21 investors to find a thesis and entrepreneurs look for  
22 investors whose thesis aligns with their business model  
23 and see if you can start building those linkages there.  
24 That'll help make the research a little bit more  
25 efficient.



1           MR. MOSES: That sounds like a great way to  
2 ground yourself when there's so many, you know,  
3 opportunities and increasingly people are looking  
4 nationally and even internationally especially I know in  
5 Elizabeth's case at Hustle Fund.

6           Elizabeth, you have this very wide funnel --  
7 we talked about that at the beginning. It's a -- you  
8 know, just a very large number of companies that you've  
9 backed. And so you've seen a lot of different things in  
10 terms of entrepreneurs and, you know, what you've seen  
11 working and not working. Also on your website though,  
12 you have these great things, right. So you talked about  
13 hilariously early. Another item that stood out to me on  
14 Hustle Fund's core principles list is blunt feedback.  
15 So that can be jarring. Maybe it can also sometimes be  
16 hilarious. We'll try to stay positive. It can be  
17 jarring, but really potentially quite productive for  
18 entrepreneurs even when you decline to invest.

19           In fact, and maybe we'll time to get to this,  
20 I saw you giving some very blunt feedback on network  
21 building on Twitter in the last day or two. So if we  
22 don't get to it, everybody should check out Elizabeth's  
23 Twitter handle to review that.

24           But could you give us some examples or common  
25 themes in the blunt feedback that you've shared with

1 entrepreneurs as a result of the diligence process at  
2 Hustle Fund?

3 MS. YIN: Sure. Thanks, John. I think it's  
4 very helpful actually to kind of understand a bit of  
5 context, you know. I previously was an entrepreneur and  
6 I pitched so many VCs myself for my startup. And often  
7 what would happen is these VCs would just totally ghost  
8 on you or maybe they would say this is not for me, which  
9 is, fine, but it's completely not helpful.

10 And so I felt like well, now that I'm on the  
11 other side of the table, you know, even if I cannot get  
12 involved in the company, at least I want sort of the  
13 entrepreneur to A, understand where I'm coming from.  
14 They may or may not agree and that's fine, and B, also  
15 get sort of a piece of feedback or at least another  
16 perspective whether it's useful or not.

17 And so one of the things that I try to leave  
18 with every founder, whether we get involved or not, is  
19 some of that feedback. And often it's very tactical  
20 around customer acquisition. You know, I've been an  
21 entrepreneur before. My mindset is entirely about  
22 customer acquisition. When you're investing in software  
23 businesses, frankly speaking, there's not a lot of IP  
24 these days, and it's completely competitive. So how are  
25 you going to get a foothold in getting traction?

1                   And so I think a lot about, okay, what is the  
2 cost to acquire customer in all of these different  
3 channels? Is it completely crowded? And that's the  
4 kind of feedback I'll give founders. It's like, you  
5 know, your go to market, it seems like actually, you  
6 know, you're entering this foray of SDO, but like, there  
7 are 20 other companies that do exactly what you do, how  
8 are you going to differentiate? So things like that are  
9 the things that I think about and the things that I kind  
10 of relay to founders whether they agree or not. And I  
11 always frame it as this is just my two cents, my  
12 perspective for whatever it's worth.

13                   MR. MOSES: Thanks for sharing that. So I'm  
14 going to call a little bit of an audible here and Grace  
15 or Eli, did you have a follow-up for Elizabeth? She  
16 sees this huge funnel of companies and all of these  
17 connections. Anything around diligence or feedback that  
18 you'd want to share or ask of Elizabeth?

19                   MR. VELASQUEZ: Yeah. One of the things that  
20 -- and I love what you said, Elizabeth, I agree 100  
21 percent -- is one of things I also like to leave with is  
22 don't tell the entrepreneur you're too early. Tell them  
23 specifically what -- why they're too early for you and  
24 then, two, the other thing that I like to do is say  
25 here's another way that we could help. So maybe here's

1 an introduction or here's something else. So when we do  
2 our deliberations with our investors, we say are you  
3 interesting, yes or no. If you're not interested,  
4 that's okay, but can you help in other ways? And what  
5 generally happens is investors want to help, right.  
6 They naturally want to say, you know, let me see how --  
7 they've been through that process of working with  
8 entrepreneurs before. Generally what that means is they  
9 might have the ability to open their network and so that  
10 helps maybe lead in some different directions.

11 We had a case, investor was not interested,  
12 but actually helped the founder get a customer. I was  
13 like that's just as good, man, like, that helps you move  
14 that business forward. So you know, don't just turn the  
15 close the door on the entrepreneur. Leave them with  
16 something, you know, so that -- because they shared  
17 something of value with you, which is their business  
18 idea, so you leave something of value with them even if  
19 it's not just money. So that's my two cents on that.

20 MR. MOSES: Great, great. So any questions or  
21 follow up on these points around --

22 MS. RAINS: Yeah, no, I think -- I completely  
23 agree with what Elizabeth and Eli both said. I mean, I  
24 think that helping -- there's a lot of ways you can help  
25 a founder. You know, we've -- because we're an angel

1 network and our investors make individual investment  
2 decisions, we have had some legal recommendations that  
3 we don't provide direct feedback as to why we didn't  
4 choose a company only because we're an aggregated group  
5 decision not a fund making a decision necessarily with  
6 an investor committee. But there's a lot of ways that  
7 we can support and provide feedback to entrepreneurs.  
8 And a lot of time that's referring them back out into  
9 the ESO community, or the entrepreneur support  
10 organization community, and say, you know, you might  
11 work with this organization to help you with X. Or you  
12 know, here's a resource that could directly help you.  
13 Or let me help you make the strategic connection here,  
14 you know, even though I don't provide any dollars, how  
15 else can we support? So that's a great way. But you  
16 can have a soft no but still support the entrepreneur.

17 MR. MOSES: This is one of my favorite  
18 insights from this conversation so far. Thanks for  
19 these specifics. And it does lead to something that I  
20 was referring to before, Elizabeth, about your  
21 recommendations around really sort of playing the long  
22 game when it comes to your network. And maybe there's a  
23 bit of -- at least a thematic tie in to diligence when  
24 we're talking about very early-stage companies that are  
25 potentially pre-revenue or likely, it sounds like in

1 many of these cases, pre-revenue, a lot of it is about  
2 the team and how they handle difficult situations and  
3 their own relationships with their network. Can you  
4 sort of speak to the comments you've made on that  
5 briefly in terms of building your network?

6 MS. YIN: Sure. So I think, you know, there  
7 are many different angles we can go with this, but you  
8 know, one that comes to mind is I think often a lot of  
9 investors in the ecosystem feel like, oh, well, if I  
10 give people blunt feedback then maybe they won't come  
11 back to me or whatever, but I've actually found the  
12 opposite where there have been oftentimes where I have  
13 mentioned to the founder, you know, hey, I really am  
14 impressed by you. I don't have conviction around the  
15 customer acquisition or go to market of whatever it is  
16 they're doing. And then they come back. They're like,  
17 you know, you're right. I ended up doing more  
18 experiments around these things and it didn't quite  
19 work, and so I ended up pivoting into this other idea or  
20 this other angle or whatever. And I think, you know,  
21 for Hustle Fund we counted something like ten times out  
22 of the 260 plus companies we backed, they were because  
23 of some back and forth with the founder where we  
24 initially said no and gave them specific reasons why it  
25 was a no, founder took that feedback, went and did

1 something different, came back, and said, you know, hey,  
2 I want to get your thoughts around this. So it's -- I  
3 think a lot of the times people think, oh, it's sort of  
4 a one and done transaction, but that's not the case at  
5 all, like, this is just one example of -- sometimes  
6 there a bit of back and forth, and it may be on this  
7 venture, it may be on a subsequent venture, it may be  
8 years later, but that I think is really the long term  
9 game that I'm talking about where, you know, you build a  
10 relationship with people and it may go somewhere, like,  
11 at some point.

12 MR. MOSES: Great. Thanks, Elizabeth. So  
13 let's talk a little bit about liquidity. So we often  
14 year that companies are more likely to succeed in  
15 getting larger, later stage investments than early-stage  
16 and something we haven't talked about today, but happy  
17 to hear any comment on is sort of the sort of  
18 everchanging range of what is a seed or a pre-seed or  
19 Series A round, but there's lots of reasons that people  
20 might be more interested in larger, later stage rounds,  
21 but one might be liquidity at least the idea that that  
22 could happen a little bit sooner.

23 So Grace, when your -- in your network,  
24 whether it's, you know, through the two main  
25 organizations that you work with or just what you've

1 discovered through your relationships with investors and  
2 entrepreneurs, what is the role of time horizon and  
3 liquidity and decision making for early-stage investors?  
4 Is that a driving force or how do people think about  
5 that when trying to determine what investment to make?

6 MS. RAINS: That's a great question, John. I  
7 think it's a big enigma in angel investing, you know,  
8 when you start talking about the exit strategy. You  
9 know, what is that exit, you know, and especially when  
10 you look at those really early-stage companies, you  
11 know, a lot of times the way that they answer that  
12 question and looking at, you know, the way they answer  
13 that question specifically is a lot more important than  
14 necessarily what they have to say.

15 But you know, angel investing is high risk,  
16 high reward. You know, you mentioned earlier, you know,  
17 you're talking generally about a pretty illiquid asset  
18 class. And so I don't think anybody that's in the angel  
19 investing realm is going to lie to you about high risk,  
20 illiquid. I mean, nobody's trying to hide that that's  
21 the kind of asset class we're talking about. But it's a  
22 part of the whole portfolio, like what you mentioned at  
23 the beginning, you know, it's a part of an overall  
24 investing strategy. It's an asset class that you bring  
25 into your portfolio, you know. It may take years for



1 you to see an exit on an investment you make, and you  
2 might not see an exit at all, you know. You may not see  
3 any dollars come back. But the key there is building  
4 that diversified portfolio with companies that cross  
5 verticals, that cross stages to mitigate that risk and  
6 then, you know, understanding on the front end that it's  
7 a long play, you know. So you're looking at, you know,  
8 one, maybe two X, five X, ten X, 20 X return to make up  
9 for some of those ones that maybe aren't going to make  
10 as much money.

11 And so, you know, putting together that  
12 investment portfolio is kind of like, key to being a  
13 successful angel investor, and that's a hard nut to  
14 crack, and we've done a lot of education with our  
15 investors around what that looks like, you know, how do  
16 you diversify your portfolio. But that's why you see  
17 such a focus from angel investors on that exit strategy.

18 So you know, a lot of companies that we look  
19 at especially in pre-seed, seed, you know, IPO is not a  
20 viable exit strategy for those companies. It's not what  
21 we want to hear. We want to talk about who are your  
22 potential acquirers, you know, what is the relationship  
23 there, do you have a relationship, you know. Even  
24 better, are those potential acquirers on your cap table?  
25 Have they invested in you? Do you they have some

1 dollars in play that they want to see you succeed  
2 because they see you as a potential acquisition someday.

3           And so, you know, and if not, how do they plan  
4 on engaging those potential acquirers to either, you  
5 know, get them in as a strategic partner or just start  
6 having those conversations and building the  
7 relationship. So you know, in order to mitigate kind of  
8 that liquidity issue, we, you know, try and talk early  
9 about what is that exit strategy, what does that look  
10 like, and you know, what is the founder's idea there too  
11 because not all founders are exit focused and, you know,  
12 it's important to see do they see this as a long-term  
13 company for them or is it an exit play for them, and  
14 that can help you understand too how long they see this  
15 investment, you know, is this investment taking.

16           MR. MOSES: That's a great actionable question  
17 there, right. So if you think that a given, you know,  
18 potential acquirer is out there, you know, are they  
19 investing and they on your cap table.

20           Eli and Elizabeth, what about you? I mean,  
21 you're looking at possibly a few more deals, but  
22 Elizabeth, all of yours I think you mentioned are in the  
23 software space. How do you think about building a  
24 portfolio and eventual liquidity when you're dealing  
25 with such early-stage companies?

1 MS. YIN: Yeah, it's funny because I would  
2 almost say almost the exact opposite of what Grace  
3 mentioned for software. And here's why. I think one of  
4 the key things about the software VC market is that  
5 there is a lot of liquidity in the secondary markets  
6 these days. So even though it's taking companies longer  
7 to go IPO and when they do go IPO, it's at sort of  
8 outrageous market caps these days, what a lot of people  
9 don't necessarily see is even as early as the Series A  
10 investors can often get out because there's just, you  
11 know, there's just so many more investors interested in  
12 the private markets these days.

13 For us, actually though from our portfolio  
14 construction, we really like the high risk, high return  
15 and that's why we also have a large portfolio to kind  
16 of, as Grace mentioned, diversify, and that's something  
17 that I completely agree with her on. And you know, it's  
18 really important for an early-stage investor. If you  
19 end up getting like, an Uber in your portfolio, you put  
20 5K into it, if you had held onto to the IPO, that would  
21 be worth 25 million, right. And so you want to grab  
22 onto things that will have product market fit and if  
23 they do, then you just ride it out until the end is my  
24 general philosophy.

25 But there are the secondary markets if you

1 need liquidity earlier and certainly for angels that may  
2 be a consideration. And so that's one of the things  
3 that I really love these days, just, there is -- there  
4 are a lot more options to get out for pretty much  
5 anybody whether you're an angel or (audio drop).

6 MR. MOSES: Great. Thank you. Eli, any  
7 thoughts on this, on the portfolio, building a portfolio  
8 and liquidity?

9 MR. VELASQUEZ: Yeah. This is the narrative  
10 that I hope we -- we see a paradigm shift and we're  
11 starting to see trends in this area where, you know, for  
12 many founders of color and maybe because of cultural  
13 reasons, we don't want to exit. We want to hold onto  
14 the company. We want to build a legacy business that we  
15 pass on to our children and our families, right.

16 And so one of the issues here is how can  
17 investors begin to think of liquidity in a different  
18 way, right. And this goes back down to the thesis, is  
19 where do you want to and how do you want to get your  
20 money out and how do you want to get your money back.  
21 Because if the types of companies and the type of  
22 portfolio that you're building is not leading to exits  
23 and there's no comps in that space, then what are the  
24 alternatives?

25 Well, the alternatives are alternative

1 investment instruments, right. So how do we set up a  
2 structured exit where once you raise the next capital,  
3 you then get your money back and then some. Do you do a  
4 revenue based financing option? Do you do a dividend  
5 returns? Do you do some form of royalty or license  
6 where you then say look, I want to ride with the company  
7 for a certain period of time and then let you loose and  
8 let you ride the next wave that you want to go, and I  
9 get my liquidity out of that investment opportunity.

10 So I think one of the key elements of where  
11 we're going to be seeing your trends is angel investors,  
12 venture investors have to start broadening the scope of  
13 what an exit looks like, right. We're always focused on  
14 the IPO and we're focused on the acquisition, but as we  
15 see more businesses of color coming in the space, we  
16 have to have those cultural considerations. So one of  
17 the key elements is cultural intelligence in investing  
18 understand what the mechanisms of those kinds of  
19 founders and the kind of businesses that they're  
20 building and what the liquidity event means for you has  
21 to be some sort of give in play ebb and flow over the  
22 course of the next several years. So I'm really anxious  
23 to see how that's going to evolve in time, you know, so  
24 that's something for investors and entrepreneurs to also  
25 be on the lookout for.

1           MR. MOSES: That, Eli, sounds like a book or  
2 at least a long article. A really important topic and  
3 so many ways that that might play out including on the,  
4 you know, eventual future investing side, right. So  
5 Elizabeth has said she's, you know, an exited startup  
6 CEO and founder who's now an investor, right. And so  
7 we're talking about this in terms of liquidity for the  
8 investors, but also the entrepreneur, backing future  
9 entrepreneurs is an element there as well and bringing  
10 in diverse perspectives and diverse goals that might be  
11 tightly tied to different communities in the U.S. is  
12 important and fascinating, and thanks for raising that  
13 topic that way.

14           So we're just about to get to questions here  
15 in a minute or two. So again, if you have something  
16 you'd like to share, send an email or put a question in  
17 the chat and then Martha's going to take us through  
18 asking those questions of our great panelists.

19           Maybe we can get towards that with something  
20 really positive. So I'll ask of you to think of an  
21 upside surprise. So maybe a deal that you either  
22 invested in or wished you had -- you don't have to name  
23 a company if that's not appropriate. But a time where  
24 you did some diligence and you really underestimated  
25 what was possible. Could be one of your deals or

1 something you've seen. So maybe I'll just put that out  
2 to the three of you. Can any of you think of an upside  
3 surprise where you did your diligence and you just got  
4 it wrong and it ended up wildly outperforming your  
5 expectations? Have you seen that, Elizabeth?

6 MS. YIN: Many times. It's hard to think of  
7 just one. But I mean, I think, you know, I'll give you  
8 an example of a company that we actually -- we did  
9 invest in. The company is called Mejuri, and it's a  
10 jewelry company, personalized jewelry company, and  
11 actually, you know, a lot of investors turned them down  
12 initially, even after they had traction. Even after  
13 they were selling because just nothing really about the  
14 business kind of fit the stereotypical mold of Silicon  
15 Valley company. Actually, founder is from Canada, solo  
16 female founder, minority, like, in jewelry business,  
17 which is, you know, kind of considered to be, quote, a  
18 woman's business. So I think a lot of investors felt  
19 like this cannot become that big. But you know, as it  
20 turns out, jewelry is a big business. And so she really  
21 struggled. She couldn't raise very much money at all.  
22 And actually, it worked out well for her because she  
23 couldn't raise money, she got to keep more of the  
24 business and she got to actually really high stages and,  
25 you know, NEA, which is a pretty famous VC firm, ended

1 up, you know, leaving this large round of, you know, in  
2 the last couple of years, they're doing incredibly well.  
3 This is what we call, I think, a unicorn business in  
4 Silicon Valley, like, billion dollar valuation or  
5 thereabout, and she's going to -- she has more upside  
6 ahead of her. So good for her. Everyone underestimated  
7 her, and you know, I feel so fortunate that she let us  
8 join.

9 MR. MOSES: That's great. And I think I've  
10 seen them. What about you, Grace? Have you seen  
11 anything in your network where maybe people didn't quite  
12 understand the business, and especially in Arkansas, you  
13 know, maybe there's not as much pattern matching, right,  
14 because we don't have as many firms in some of the  
15 sectors that you mentioned earlier. Are there any  
16 examples of startups that did much better than your  
17 diligence would have suggested?

18 MS. RAINS: We actually had a company that we  
19 recently looked at. It was a founder and was a veteran  
20 and a minority. They were a medical device company, and  
21 medical device companies can be tough, you know. A lot  
22 of times they stay pre-revenue for a lot longer than you  
23 want them to because they're just tied up in FDA  
24 regulations and things like that. The IP can be tough  
25 to get through. They require a lot of capital to get



1 them there. And so, you know, initially (audio drop)  
2 medical device company.

3           So we looked at them and actually once we dug  
4 a little bit deeper. The team was great. They were  
5 well poised for success. They had some really great  
6 strategic partnerships in place that were fantastic.  
7 The IP was all where we wanted it to be, and they had  
8 made a lot of -- they had gotten a lot of traction here  
9 recently and actually got to know really -- some really  
10 positive news around that. We were going through due  
11 diligence and so our group is actually going to make a  
12 pretty significant investment in them now because of  
13 that. And so that was an exciting one that I really  
14 didn't see on the frontend going anywhere. And then it  
15 ended up turning out to be one of the most interesting  
16 things that we've seen this year so far. So that was  
17 exciting.

18           MR. MOSES: Thanks. That's a great example of  
19 why this space is so important, you know, for investors,  
20 for entrepreneurs, maybe for the economy and country  
21 overall. Who knows what that firm will be able to do  
22 eventually with this backing.

23           Eli, I'd love to hear an example from you, but  
24 maybe, especially as we run up right on time here to go  
25 to audience Q&A, can you discuss another

1 underrepresented entrepreneur that presented a challenge  
2 in terms of getting to the investment and you ended up  
3 getting there and making the investment?

4 MR. VELASQUEZ: Yeah. So one of our, like,  
5 great success stories is Marcus Bullock with Flikshop.  
6 You know, he has issued his story openly, right. He was  
7 previously incarcerated when he was a teenager, and  
8 later he served his time, right, and he went on to form  
9 a company called Flikshop which enables families to send  
10 photos and messages in postcard form to incarcerated  
11 family members.

12 And so when we met him, he was pretty much  
13 just tired, tired of the whole, you know, ringer that he  
14 was being put through with, you know, so much criticism  
15 and trying to find the right investor. And so we said  
16 look, man, we're not here to waste your time. We want  
17 to get down to the business side of it. We understand  
18 your story. That's in the past. This is going to help,  
19 you know, millions of family members so let's get to it,  
20 right.

21 And so as we started getting the diligence,  
22 this guy had his deal room, I mean, squeaky clean,  
23 because he had been through -- he had been put through  
24 the ringer, right. And so by this point, we said  
25 Marcus, this thing, I've never seen anything as good as

1 this, right. And he says you can look under every rock,  
2 you won't find a thing, right. And so we were able to  
3 really make that process much more efficient. He  
4 secured an investment from somebody in our network.  
5 He's gone on to do some great things, you know. Look  
6 him up. Flikshop. He recently signed a contract with  
7 Boeing, a partnership with the Boeing Company, you know,  
8 as part of their corporate social responsibility.

9 But it's one of those things where it goes  
10 back to what I said earlier, you have to understand the  
11 story of the founder to figure out where that alignment  
12 is going to be for you as an investor to determine where  
13 you can add the most value beyond just the money.

14 And so definitely look up his story. It's  
15 really inspiring, you know. It's one that we love to  
16 share with our network as well.

17 MR. MOSES: Thank you, Eli. And thank you  
18 Elizabeth and Grace. Really interesting and appreciate  
19 you so openly sharing your stories and those of your  
20 fellow investors and entrepreneurs that you're backing.  
21 So thanks for answering my questions. Now, I'd like to  
22 turn it back over to Martha Miller to help us connect  
23 with audience questions that have come up during our  
24 chat. Thanks again.

25 MS. MILLER: Yeah, happy to do so. Thank you,

1 John, and Eli, Elizabeth, and Grace. I have loved the  
2 discussion so far. We have some questions that have  
3 come in from the audience. I'm actually going to take  
4 the first one because it's a wonderful opportunity to  
5 plug a resource that just went live from our office  
6 today. We've got some questions on educational  
7 resources that investors or entrepreneurs could use.

8 John, I know you're very familiar with  
9 investor.gov. We always point investors towards that.  
10 But if you are curious about some of the lingo that was  
11 used today by our speakers, we have a cutting through  
12 the jargon glossary that is available on our website.  
13 The link is being chatted in by our team members, but it  
14 is sec.gov/oasb which is our office's lovely acronym.  
15 But that helps break down in plain language what some of  
16 the lingo is that's used. So that was the first  
17 question. I'm taking that one for the team, and I'll  
18 open up the first question for one of you. Eli, I'm  
19 going to point this one to you.

20 Looking at the opening poll from our audience  
21 when asked about the number one source of investment  
22 opportunities, you all flagged network referrals.  
23 That's directly from our audience today. We've got a  
24 question from Faith in New York about the role of  
25 finders or people who help bridge personal networks.

1 Curious if you have used finders or any experience with  
2 people that help connect sophisticated investors like  
3 yourself with potential investment opportunities that  
4 are outside of your personal network?

5 MR. VELASQUEZ: I love that question. And so  
6 one of the fundamental values that we share is do the  
7 founder no harm. Or do the startup no harm. And so  
8 when we're looking at, you know, the role of finders is  
9 we do want to understand specifically what is that  
10 relationship that you would have with the founder and  
11 how was that set up, you know, to begin with, and is  
12 there something, again, additional to just that building  
13 of personal relationships or network relationships.

14 So in the past, we have not had good  
15 experiences with finders. And so we tend to kind of  
16 have a little bit of a gut reaction initially when we  
17 hear that there's a finder that's in between that  
18 relationship. So that causes us a little bit of pause,  
19 and it adds maybe an added layer of due diligence. We  
20 also understand the finder has to, you know, walk that  
21 balance of potential broker dealer, and so that's just  
22 an added layer of work that's on us. If we can avoid  
23 that, it's probably going to make the process a little  
24 bit more efficient, you know, if we can find a warm  
25 referral or a warm introduction from somebody that's

1 already in our network, you know, this is where that  
2 hustle has to come from both sides of the table. And so  
3 you know, when you are -- if you're looking to work with  
4 finders, do your due diligence as well to understand  
5 what's that relationship looking like, how long is that  
6 engagement going to be for, you know. Get under the  
7 hood of understanding what that really means for you  
8 because that's yet another individual that is coming in  
9 between you and the founder or the investor. And so  
10 take a look at that very carefully.

11 MS. MILLER: Absolutely. And I think that's  
12 great advice, Eli, because it is not always clear what  
13 the role is of a finder and whether or not they're  
14 acting as a broker dealer or they're doing something  
15 that's less than that, and the last thing that you need  
16 is somebody who is in the middle of your deal that might  
17 trigger some sort of a recessionary ride or something  
18 that could be potentially even predatory on your  
19 company. So great advice for companies.

20 We also got a question from Nelson. I'm  
21 actually going to answer this one because this is the --  
22 what do you do if you believe you might have been the  
23 victim of a scheme or a fraud. And I want to make sure  
24 that everyone knows that you should go to sec.gov and  
25 you'll see a box to submit a tip or file a complaint

1 because I think as each of our panelists can say, if  
2 it's something that sounds too good to be true, it  
3 probably is. So make sure if there is something, and  
4 particularly if it's something that's particularly  
5 egregious, I encourage you to reach out to us and share  
6 it so that we can work to investigate that on your  
7 behalf.

8 Our second question for you, I want to send  
9 over to you, Grace. Ken from Vermont asked a question  
10 about the participation of nonaccredited investors in  
11 investment opportunities. And I know that this is  
12 something that matters a lot to you being from Arkansas  
13 where there are fewer accredited investors than you  
14 might see in other areas of the country. Talk to me  
15 about the considerations that you have and that you look  
16 at when there are companies with an opportunity to take  
17 investments from nonaccredited investors or there are  
18 nonaccredited investors who are interested in  
19 participating but the company says you know what, this  
20 one is limited to just accredited investors because of  
21 the offering exemption we're using.

22 MS. RAINS: Absolutely. And Martha, we've had  
23 some conversations around this so you know some of my  
24 feelings on nonaccredited investors and accredited  
25 investor standards. You know, you always have to follow

1 security law. So I would say that's the number one  
2 thing there. But you know, there are some opportunities  
3 for, if founders so choose, to take on nonaccredited  
4 investors and there's some way to do that by also  
5 mitigating that risk. So there's some risk in taking on  
6 nonaccredited investors for the founders and that can  
7 also be limiting for them later on as they continue to  
8 raise. And so some of the ways you can do that, there's  
9 a platform -- there's a few platforms out there that  
10 will allow you to take the equity in a company as a  
11 nonaccredited investor and allow founders to take on  
12 investment from nonaccredited investors and also give an  
13 equity stake. And so, you know, Republic is a platform  
14 that you can use to do that. Wefunder is another  
15 platform. And so, you know, I would say if you're  
16 interested in investing in some companies and dipping  
17 your toe in the water, those are some great ways to do  
18 that as a nonaccredited investor and to see some of  
19 these terms as they're used. Make sure you're  
20 diversifying your portfolio like any accredited investor  
21 would do, and then, you know, keep in mind this is a  
22 high risk investment. So it's part of an overall  
23 portfolio, so that's going to be my stipulations there.  
24 But those are some -- there's some platforms out there  
25 too that the founders can also utilize to raise capital



1 from a nonaccredited investor standpoint, so.

2 MS. MILLER: I'll as a follow-up question, and  
3 Elizabeth, Eli, I'd love your thoughts on this from a  
4 different perspective. You know, we've got a pathway,  
5 and the data shows that we have an opportunity where  
6 nonaccredited investors can participate. You can have a  
7 few of them under -- 35 or under in your deal under our  
8 Rule 506(b) which we try not to speak in regulatory  
9 jargon, but here we are at an SEC event, so we're doing  
10 it anyways.

11 How often do you see transactions where there  
12 are actually are nonaccredited investors? You know, the  
13 data that we see shows that it's very few, around five,  
14 maybe six percent of deals actually have nonaccredited  
15 investors participating. Curious if you've ever come  
16 across deals where you see nonaccredited investors on  
17 the cap table who have come through in offering  
18 exemption like that.

19 MS. YIN: Yeah, I think at least for me it's a  
20 really small percentage. And as Grace mentioned,  
21 largely through these sites such as Republic where we  
22 invest alongside. But I think there are a couple of  
23 reasons for it. Everyone has kind of been scared up the  
24 wazoo to not take nonaccredited investors. And so I  
25 think may founders feel like, oh, it's just too much

1 risk, you know, I don't want to cause extra issues or  
2 logistical challenges. And I think that's probably  
3 where that stems from. So I think, you know, my plug to  
4 the SEC would be, you know, the more that we can do to  
5 make that easier and, you know, obviously there are  
6 guardrails that need to happen. You know, I think  
7 actually there would be that demand from nonaccredited  
8 investors to be able to invest alongside VCs. Because,  
9 you know, I think frankly speaking a lot of those, you  
10 know, some of the best deals in VCs, they don't actually  
11 necessarily end up going to those platforms, at least  
12 today, most of the time.

13 MS. MILLER: Yeah. And that is something that  
14 we hear about often, the opportunity to have more of a  
15 syndicate model where you have the ability to  
16 participate on parity with the terms that really  
17 sophisticated venture capitalists are getting, or  
18 sophisticated angel investors, not something where  
19 you're out having to fend for yourself and get in on a  
20 deal that you may not have access to.

21 So I think that this actually bridges in with  
22 another interesting topic. We got a question from Joan  
23 in Tennessee about micro offerings, and there is no  
24 micro offering exemptions. So that term is all  
25 relative. Sometimes we hear people talk about micro

1 offerings and what they mean is something under \$100,000  
2 which while a large amount of money is relative in the  
3 capital raising world, a small check size.

4 Talk to me a little bit about recommendations  
5 you have for founders looking for some dollars. Grace,  
6 you were highlighting the potential for crowdfunding  
7 earlier. Curious if you have any recommendations for  
8 founders who are looking for relatively a small amount  
9 before they would be approaching more of an angel group  
10 like yours, Eli, or a fund, Elizabeth.

11 MS. RAINS: I would say, you know, there's  
12 crowdfunding platforms, Kickstarter, where as in  
13 Kickstarter, you know, you don't take an equity stake  
14 with those. And so if you're looking at a crowdfunding  
15 platform or from a Republic or a Wefunder standpoint,  
16 the investors can take equity, but there is some costs  
17 associated with that on the founder side. And so that  
18 can be a barrier because there's some upfront costs that  
19 can be a pretty big barrier for some entrepreneurs,  
20 especially when you're looking for a little bit of  
21 capital. There's kind of base layer there.

22 But another great funding opportunity is  
23 through Kiva loan platform. That's a crowdfunding loan  
24 platform. And a lot of times there are organizations  
25 like -- and others in other areas that will actual

1 match, so you can crowdfund a certain portion of your  
2 loan and then another organization will match those  
3 dollars. But again, you're not getting an equity stake,  
4 and there's no -- those are zero, one percent interest  
5 loan, but those that are lending the money from a  
6 crowdfunding standpoint are not getting any of that  
7 money back. So you're kind of doing it out of the  
8 kindness of your heart to support entrepreneurs, which  
9 is actually fantastic. But I would, from an SEC  
10 regulation standpoint, I would love to look at more  
11 opportunities for those that are giving the funds,  
12 either loaning them or, you know, giving equity back for  
13 them to be a way for there to be free that they be  
14 reciprocated without having the barriers of a platform  
15 like Republic. You know, that barrier is there because  
16 they've gone through the hoops that they need to make it  
17 where they can take on that crowdfunding equity stake.  
18 So those are my recommendations. I would love to hear  
19 from Eli and also Elizabeth.

20 MR. VELASQUEZ: I would say, you know, to the  
21 extent that you can try to get as much non-diluted  
22 capital, you know, up to that 50 to \$100,000 range as  
23 you can, you know, look at federal programs, state  
24 programs, local programs that might be able to give you  
25 grants. I recall Max yesterday saying that she just

1 went on a business plan competition circuit, you know,  
2 and raised a lot of non-diluted capital because she  
3 couldn't coalesce that friends of the family. And if  
4 you are going to take on friends and family, please make  
5 sure that you've put all of that in writing and make  
6 sure that that cap table looks really clean and it's --  
7 and you have to have that hard conversation with your  
8 aunt and your uncle and say this is the investment and  
9 this is how we're going to get it back. And then you  
10 may not be carried forth in future rounds, right. So  
11 you want to make sure and have that honest discussion  
12 with friends and family because once that starts to show  
13 up where you see a lot of the same last names on the cap  
14 table, in those later rounds, that starts to raise more  
15 red flags for later-stage investors.

16 MS. YIN: And I think the last thing I would  
17 add to this is ironically, even though I'm the VC of the  
18 group, we probably write the smallest check. We write  
19 25K checks and there are a number of VCs these days that  
20 are writing really small angel-like checks. And if  
21 you're trying to get up to let's say 100K, they can help  
22 you raise, you know, from other angels here and there,  
23 5K, 10K. It's actually really interesting. A lot of  
24 people think to be an angel investor or a fund you need  
25 to be writing these large checks. But I'm seeing a lot

1 of angels in Silicon Valley writing \$1,000 checks, like,  
2 that's a very common thing these days, and it's actually  
3 just a lot more accessible for people to get to angel  
4 investing as well.

5 So the small dollars are technically out  
6 there. It's just more about, I think, pitching anybody  
7 and everybody.

8 MS. MILLER: And I think, Elizabeth, to that  
9 point, those are people who are recognizing that it's  
10 about making a lot of smaller plays so that you can have  
11 that diversified portfolio because as you mentioned  
12 about that \$5,000 early investment that might one day  
13 turn into 25 million, that is the rare find. And so  
14 it's important that you really do balance out your  
15 portfolio.

16 I think that's the perfect note to end on  
17 because it circles right back to the title of today's  
18 panel. Before we move into voting to prioritize  
19 submissions, I want to thank each of you for spending  
20 time with us today and bringing the different  
21 perspectives that each of you have on different areas of  
22 the market to bear as we talk about these important  
23 topics.

24 So Eli, Elizabeth, and Grace, thank you very  
25 much. This was an informative and wonderful discussion

1 with you today.

2           One of the hallmarks of the forum for our  
3 participants is that you have the opportunity to  
4 influence capital raising policies. So the polls that  
5 you are seeing here give you a chance to weigh in and  
6 share with us what are you thinking about in terms of  
7 the most impactful policy areas that Congress and the  
8 Commission should be considering. The poll that you see  
9 is showing feedback that was submitted by you in advance  
10 as well as during today's event in which our team is  
11 consolidated and presented in a format that hopefully  
12 makes it very easy and accessible for you to engage.

13           As a reminder from yesterday for those who are  
14 new, based upon your feedback from prior years, we  
15 changed the recommendations process from an open floor  
16 where we heard voices one at a time to something that is  
17 more inclusive and equitable as well as efficient with  
18 your time where you get a chance to submit things in  
19 advance and we avoid the bandwagon or halo effects.

20           So using the polling module on the right, we  
21 would love for you to rank your top five recommendations  
22 with one being the most important. The topics will  
23 change each day based upon the focus of the discussion.  
24 So join us again tomorrow as well as Thursday for the  
25 final two days to vote on different topics.

1           Before we switch into pure voting mode as well  
2 as closing remarks from Julie Zelman Davis on our team,  
3 I want to flag the poll will remain open after the live  
4 video stream wraps for an additional 30 minutes so that  
5 you have ample time to submit your recommendations. The  
6 final policy recommendations will be sent in a report to  
7 Congress later this summer. And as a registered  
8 attendee, you will automatically receive an emailed  
9 copy.

10           Let's get started with voting. I look forward  
11 to seeing you tomorrow and thank you for choosing to  
12 spend time with us today focused on capital raising  
13 policy. Bye-bye.

14           MS. ZELMAN DAVIS: Hi.

15           I'm Julie Zelman Davis from the SEC's Small  
16 Business Advocacy Team. Thank you for spending time  
17 with us today focused on policy affecting early-stage  
18 investors.

19           I want to give a special thanks to our  
20 panelists, Grace, Eli, and Elizabeth for sharing their  
21 valuable insights with us.

22           Join us tomorrow for a discussion with Samir  
23 Kaji of Allocate, Gayle Jennings-O'Byrne of WOCstar  
24 Fund, and Commission Mike Pieciak from the North  
25 American Securities Administrator Association about



1 diversity among important capital allocators, emerging  
2 and smaller fund managers.

3 (Whereupon, at 2:09 p.m., the forum was  
4 adjourned.)

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PROOFREADER'S CERTIFICATE

In the Matter of: 40th Annual Small Business Forum  
Date: Tuesday, May 25, 2021  
Location: Washington, D.C.

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 forum.

\_\_\_\_\_ 6-2-2021

REPORTER'S CERTIFICATE

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I, Beth Roots, reporter, hereby certify that the foregoing transcript is a complete, true and accurate transcript of the forum indicated, held on 5-25-21, at Washington, D.C., in the matter of:  
40TH ANNUAL SMALL BUSINESS FORUM.

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

6-2-2021

