

U.S. SECURITIES AND EXCHANGE COMMISSION

MEETING OF THE SMALL BUSINESS CAPITAL
FORMATION ADVISORY COMMITTEE

Tuesday, February 4, 2020

9:32 a.m.

U.S. Securities and Exchange Commission
100 F Street N.E., Multipurpose Room, LL006
Washington, D.C.

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1 PARTICIPANTS:

2

3 JAY CLAYTON, Chairman

4 HESTER PEIRCE, Commissioner

5 ELAD ROISMAN, Commissioner

6 ALLISON HERREN LEE, Commissioner

7 CARLA GARRETT

8 JEFFREY SOLOMON

9 GREGORY YADLEY

10 YOUNGRO LEE

11 GREG DEAN

12 ROBERT FOX

13 STEPHEN GRAHAM

14 SARAH HANKS

15 BRIAN LEVEY (by phone)

16 SAPNA MEHTA

17 MARTHA LEGG MILLER

18 KAREN MILLS

19 CATHERINE MOTT (by phone)

20 POORVI PATODIA

21 MICHAEL PIECIAK (by phone)

22 JASON SEATS

23 MARC OORLOFF SHARMA

24 JOSEPH SHEPHERD

25 HANK TORBERT (by phone)

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1 PARTICIPANTS: (cont'd)

2

3 JAMES GELFER

4 PAMELA GIBBS

5 DARCY HOWE

6 JOHN C. McILWRAITH

7 DARNELL SMITH

8 MATTHEW COOK

9 MELANIE LUBIN

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11 Advisors

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14 Venture Analyst, PitchBook

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22 Darnell Smith

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1 PROCEEDINGS

2 MS. GARRETT: Good morning. I hereby call the

3 February 4th Small Business Capital Formation Advisory

4 Committee to order.

5 I would like to thank everybody that is here

6 today, and we have some members that are participating via

7 phone and web, and I wanted to acknowledge who those people

8 are. I believe that we have Hank Torbert, Brian Levey,

9 Catherine Mott, and Mike Pieciak. Can we confirm that?

10 MR. LEVEY: Yes. Brian is here.

11 MS. MOTT: Yes. Catherine is here.

12 MS. GARRETT: Hank and Mike?

13 (No response.)

14 MS. GARRETT: Okay. And, additionally, Poorvi

15 Patodia will be joining by call or video later this morning.

16 She is another Committee member.

17 Julie, is there a quorum for the meeting?

18 MS. DAVIS: Yes, we have a quorum.

19 MS. GARRETT: Great. Thank you very much.

20 Thank you, Chairman Clayton, and Commissioner

21 Peirce, and all the Committee members for being here this

22 morning. We have a very interesting agenda lined up for

23 today where we are going to learn and discuss about funding

24 gaps in terms of that -- with respect to areas that may

25 impede capital formation for small businesses, which, you

1 know, given our Committee's agenda, should be a very good
2 core way to learn about some of the underlying issues that
3 affect small businesses.

4 We hope that through today's meeting we raise
5 awareness of these funding gaps for the Committee and for
6 the Commission, and we want to consider those today, and
7 also consider those at future meetings.

8 I'd like to welcome Chairman Clayton and
9 Commissioner Peirce for being here today, and we also will
10 have Commissioner -- we believe Commissioner Roisman will be
11 joining us later in the meeting. And Commissioner Lee will
12 be in the SEC's Denver office, and she hopes to join by
13 videoconference later this morning.

14 Chairman Clayton, would you like to speak?

15 MR. CLAYTON: Yes. Thank you. Thank you, Carla.
16 Nice to see all of you. Thank you for your service. It's
17 good to be here with you.

18 And I'm very happy that you're dedicating this
19 morning to take a deeper look at small business capital
20 formation. It's timely as we at the Commission continue to
21 explore potential regulatory changes to facilitate capital
22 formation in this space. I also want to thank Martha and
23 the Office of the Advocate for Small Business Capital
24 Formation for their comprehensive first annual report.

25 I would encourage all market participants and

1 and small- and medium-sized businesses through qualifying
2 venture capital funds. I recognize that venture financing
3 is less readily available between the coasts, and this
4 provision could allow regional banking entities to more
5 effectively support entrepreneurship in local areas that
6 they know so well. I would be very interested in your
7 thoughts on whether this is going to have a positive effect
8 or not.

9 In addition, as part of our efforts to promote
10 small business capital formation, we should continue to
11 think of ways we can promote breadth and diversity and
12 opportunity, including by supporting America's minority and
13 women-owned businesses.

14 I am grateful that Pam Gibbs, the Director of our
15 Office of Minority and Women Inclusion, will be here today
16 to talk about ways in which we can collaborate to expand
17 investment and other opportunities.

18 Robert Marchman, who recently joined Pam's office
19 as a Senior Policy Advisor on diversity inclusion, will
20 continue this great work as he focuses on working with the
21 Commission's divisions, offices, advisory committees,
22 et cetera, to promote diversity inclusion.

23 Let me say that one way in which Pam's office and
24 our Office of Acquisitions reaches out to businesses in
25 different communities, including small businesses, is by

1 anyone interested in these important issues to read the
2 report. It provides an overview of the state of small
3 business capital formation, including: one, how businesses
4 are actually raising capital; and, two, where the capital
5 raising is taking place across the United States.

6 The report also illustrates challenges small
7 businesses throughout the country face, including for women
8 and minority entrepreneurs. Some of these challenges appear
9 to be connected to the reduction of bank financing for small
10 businesses, limited access to early-stage debt, and a
11 decline in startup activity in certain areas in recent
12 decades.

13 The report shows that we need to focus on
14 addressing the geographic imbalance in capital formation and
15 the availability of capital more generally for small
16 businesses throughout the United States.

17 I understand that you will also be hearing about
18 the role of funds in supporting small businesses during
19 critical capital-raising milestones. I encourage you, to
20 the extent you have not already done so, to take a look at
21 the recent amendments that the SEC and our fellow financial
22 regulators proposed to the regulation commonly known as the
23 Volcker Rule, the covered funds aspect of the Volcker Rule.

24 In particular, one provision of the proposed
25 amendments is intended to promote the financing of startups

1 conducting educational events on how to navigate the federal
2 procurement landscape. Not an easy thing.

3 I'm proud to say that here at the SEC over
4 30 percent of our contract dollars went to minority and
5 women-owned businesses, many of them small businesses, in
6 fiscal year 2018.

7 Thank you for your continued thoughtful and
8 pragmatic exploration of our rules, regulations, and
9 policies, and in particular how they impact small business.
10 I look forward to a productive discussion today.

11 MS. GARRETT: Thank you very much, Chairman.
12 Commissioner Peirce, would you like to speak?

13 COMMISSIONER PEIRCE: Sure. Just want to welcome
14 everyone here, and thank you again for taking the time to be
15 here today.

16 I want to congratulate Martha on a very successful
17 first year. You have accomplished a lot, and I think
18 putting together this Committee was a really big piece of
19 it, and the work that you all have already done is really
20 important. I think today's discussion will be really
21 helpful to provide us some data to think about these issues,
22 so this will be useful to me, and I hope to you as well.

23 And also, I am very happy that you will have
24 someone talking about the Midwest later today. In fact, I
25 believe he attended my alma mater, Case Western Reserve

1 University. So always happy to have a little Ohio
 2 connection here. Looking forward to the discussion.
 3 MS. GARRETT: Thank you very much.
 4 Next, I'd like to introduce Jenny Riegel, who is
 5 the Special Counsel in the SEC's Office for Advocate for
 6 Small Business Capital Formation. Jenny is going to provide
 7 an overview of the annual report from the SEC's Office of
 8 the Advocate for Small Business Capital Formation that was
 9 released in December 2019.
 10 If you have not read this annual report, I highly
 11 recommend it. It's very interesting and has put together an
 12 amazing amount of data, and the office did a fantastic job.
 13 I will also just say that the conference call that
 14 you put together a couple of weeks ago going through this
 15 report was fantastic, so thank you very much.
 16 Jenny, we look forward to listening to your
 17 overview of this report.
 18 MS. RIEGEL: Thank you so much, and thank you for
 19 having me there. And since I'm the first staff member to
 20 speak today, I get to give the disclaimer for everyone that
 21 the views we express today are our own and do not
 22 necessarily reflect the views of any other staff member on
 23 the Commission or any Commissioner.
 24 So, with that fun disclaimer, let's get started.
 25 So thank you again for having me, and happy to do

1 a high-level overview of the report. I'm going to have to
 2 try and talk and press buttons at the same time, which I can
 3 do, but work with me.
 4 So to download a copy of the report, we have the
 5 QR code as well as the link, and we highly encourage you to
 6 look at it. We will do a very high-level overview today,
 7 but please check it out if you have not yet.
 8 Just wanted to highlight, while we're going to
 9 focus on data today, I wanted to just highlight a few brief
 10 things that we did in our first year of operations and
 11 places we engaged with people, learned about small business
 12 capital formation, and just other initiatives.
 13 We sought to in this slide highlight in three to
 14 five minutes a rulemaking that impacts small businesses, to
 15 give a teaser, to -- a lot of people don't have time in
 16 their day to read every release that comes out of the
 17 Commission, and we wanted to highlight those that impact
 18 small businesses and give them an avenue to start to engage
 19 with us.
 20 Turning to that, we're going to really focus most
 21 of the day on the data. And I love data, so this is an
 22 excellent start to my morning. So data sources. And so
 23 what we did is we wanted to take data from our economists
 24 here at the SEC and supplement it with other data and
 25 sources in the market, wanting to provide that complete

1 picture of capital-raising to give a full perspective on the
 2 market.
 3 So turning first to the different regulatory
 4 options that are available. So these are the regulatory
 5 options that are available for investment capital-raising.
 6 And as you can tell, historically and continues in present
 7 day, the two primary front runners are private placements
 8 under 506(b), as well as registered public offerings. Other
 9 newer offering types, such as Rule 506(c), or crowdfunding
 10 that came about after the JOBS Act in 2012, have not yet
 11 caught up in prominence.
 12 For those interested in industry data, what we did
 13 is we took the top six industries by the amount of capital
 14 raised, and we took the top three types of regulatory
 15 offerings and we put it on a graph, essentially showing that
 16 a significant amount of capital is raised using registered
 17 public offerings, followed by Reg D, private placements, and
 18 then Reg A.
 19 And for this analysis -- and you'll notice kind of
 20 a slight change from the prior graph -- we omitted pooled
 21 funds because we wanted to focus on those operating
 22 companies.
 23 And then geographic differences are very important
 24 to understand not only where capital is being raised but how
 25 it is across each of the different exemptions, across the

1 United States, including in the U.S. territories. And so we
 2 wanted to look at where people are finding success as well
 3 as facing challenges across the United States.
 4 The next few slides are going to go based on life
 5 cycle of a company. So we're going to start with the early
 6 stage small business, and this goes to why we need to
 7 provide -- to look at all different data sources. And so
 8 when looking at investor capital in a vacuum, it doesn't
 9 tell the whole story as to how small businesses are
 10 accessing capital.
 11 And one notable thing about this slide is if you
 12 look at the top two ways that companies are accessing
 13 capital, it's personal funds and retained business earnings.
 14 And these -- you essentially need to have either more
 15 established companies that have that retained earnings, or
 16 you need to have a high net worth individual.
 17 And as our Chairman mentioned, community banking
 18 trends, so historically, as many of you know, for early
 19 stage businesses community banks have played a key role for
 20 accessing the market for early stage businesses. And we
 21 have all heard the statistics about the decline in community
 22 banks, and we continue to hear that businesses, particularly
 23 those in rural communities, are facing challenges in
 24 accessing capital when their bank down the street is no
 25 longer an option.

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1 Continuing with early stage businesses, angel
 2 investors play a key role in providing equity to these
 3 companies. And while individually the dollar amounts are
 4 dwarfed by the public markets, in aggregate angel investors
 5 play a major role in supporting early stage companies.
 6 So bringing together kind of that idea of angel
 7 investors and a regulatory framework, angel investors are
 8 essentially accredited investors. And these accredited
 9 investors for individuals has historically been defined as
 10 high net worth or high income persons.
 11 In December, the Commission proposed changes to
 12 the accredited investor definition. And what the -- in
 13 large part what the changes do is add in alternative means
 14 of qualifying for individuals with financial expertise; in
 15 other words, those persons who are making investment
 16 decisions for other people professionally.
 17 And we encourage everyone to comment on this
 18 proposal as well as any other proposal that impacts your
 19 business, but check it out if you have not yet.
 20 Turning now to the next stage, mature and later
 21 stage businesses, as this slide illustrates, venture capital
 22 is critical to the pipeline of the future public companies.
 23 And, similarly, private equity plays a similar role for
 24 many companies who will one day go public.
 25 So what the prior two slides was looking at was

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1 retrospective data, and what this slide does is looks ahead,
 2 and this says what analysts expect: the number of IPOs from
 3 companies backed by private equity and late stage venture
 4 capital to become the next generation of public companies.
 5 So on the public company side, we care about the
 6 number of companies entering our public markets. And while
 7 the numbers on this slide are often discussed, we wanted to
 8 point out an interesting observation on the graph.
 9 So the green shaded area is the market cap of
 10 publicly traded companies over time in current day dollars.
 11 And while everyone is aware that the number -- the
 12 individual number of listed companies has declined, we have
 13 seen a significant increase in individual market cap of
 14 public companies, indicating that there is still significant
 15 value and growth in the public markets.
 16 It is important to look at both figures as we
 17 examine the trends in the marketplace. 2019 was a big year
 18 for IPOs and companies entering our public markets. It's
 19 important to keep in mind that many smaller companies are
 20 struggling in the public markets due to a variety of
 21 factors, one of which we have heard from many companies is
 22 the lack of research coverage, which directly impacts
 23 liquidity.
 24 As many of you know, our office pays attention to
 25 unique challenges and variables affecting diverse founders,

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1 whether across racial, gender, or geographic lines. It is
 2 important that we understand the impacts of the market and
 3 how it is affecting every business, so they -- every
 4 business can play with the tools in the tool book.
 5 For women-owned businesses, women founders are on
 6 the rise in numbers, but they lag their male colleagues in
 7 the amount of capital that is used at startup.
 8 When women go out and pitch for investments,
 9 statistics show that they are yielding fewer investment
 10 dollars than the baseline. In other words, women are not
 11 finding as much success as attracting investors. Relatedly,
 12 women are underrepresented as investors in smaller
 13 companies, whether as angel investors or in the VC industry.
 14 For minority-owned businesses, there is a great
 15 diversity of founders. Similarly, with women-owned
 16 businesses, the numbers of minority-owned businesses are
 17 increasing. However, those businesses are typically
 18 starting with significantly less capital than their white or
 19 majority-owned counterparts.
 20 When minority entrepreneurs go out and pitch for
 21 investments, statistics show that they are yielding close to
 22 the baseline rate of investment dollars. In other words,
 23 when minority entrepreneurs do seek capital, many are
 24 finding success. However, similar to women investors, the
 25 representation of minority investors still lags and is not

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1 representative of the general population.
 2 So switching gears to specific regions of the
 3 country, we analyzed this -- we analyzed how businesses in
 4 areas affected by natural disasters are raising capital
 5 across various exemptions. Compared to the affected
 6 population, businesses in natural disaster areas tend to
 7 raise less capital relative to the rest of the country, with
 8 one notable exception: crowdfunding.
 9 Looking at rural areas of the country, the picture
 10 is more stark. While approximately 19 percent of the U.S.
 11 population lives in rural areas, the capital-raising
 12 activity in those areas is significantly less than the rest
 13 of the country.
 14 So quickly turning to policy recommendations. So
 15 our report contained five policy recommendations that I
 16 encourage you to explore in much more further detail. I'm
 17 going to give a very high-level point now.
 18 Now, when pulling together these policy
 19 recommendations, we took into account the feedback we had
 20 received from hundreds of entrepreneurs, founders,
 21 investors, and other marketplace participants about the pain
 22 points they were seeing both across the coast, from startup
 23 to small public companies. We just -- we wanted to bring in
 24 that feedback and hear where the pain points were.
 25 We were also looking for pragmatic and principles-

1 based solutions that would address the most serious issues
 2 that were raised with our office. We also -- in any
 3 solution, you have to make sure that there -- that you are
 4 considering both investor perspectives as well as company
 5 perspectives. So we really sought to bring together both
 6 perspectives in our recommendations.
 7 So, without further ado, the five policy
 8 recommendations. So the first is harmonization, and so
 9 harmonization is short for the harmonization of the exempt
 10 offering framework, which essentially means the way in which
 11 companies are raising capital, investment capital, outside
 12 of a registered public offering.
 13 The second is investor participation in private
 14 offerings, and this really brings up two sets of issues.
 15 One is the accredited investor definition, and the second is
 16 pooled investment vehicles, otherwise known as funds.
 17 So the third recommendation relates to how
 18 investors and companies are connecting with each other
 19 through the engagement of finders.
 20 The third relates to feedback on ways to improve
 21 the crowdfunding rules.
 22 And the fifth relates to -- or the recommendation
 23 encourages continued scaling of the obligations of smaller
 24 and less complex reporting companies.
 25 And I, again, encourage everyone to download the

1 report. Hopefully, I enticed your -- intrigued your
 2 interest in wanting to learn more. There is lots more
 3 information and tons more data, so I encourage you explore
 4 it.
 5 Happy to answer any questions.
 6 MS. MILLER: I do. If I can, I want to jump in
 7 and just thank you, Jenny, for providing an overview. Jenny
 8 had the lovely task of tackling what is significantly more
 9 information than you could possibly digest. I mean, some of
 10 these visuals, these are pulled directly from our report.
 11 And it's only a handful of the data points and areas that
 12 are covered, so I do encourage you to check it out. Let us
 13 know what you think.
 14 If you spot things that you think that we should
 15 cover next year, we want this to be something that we
 16 annually update and it becomes the compendium resource that
 17 pulls together information on trends, so that we are not
 18 only talking about stories, but we are backing that up with
 19 what the data shows about capital formation, because
 20 particularly if you look at maps of the states -- and what
 21 we did is they are color-shaded, they are heat-mapped, by
 22 how much capital is raised there, but we also put the number
 23 of each type of offering on the state.
 24 And it's really shocking to see in a lot of states
 25 the number is actually zero for certain offering types, that

1 there has actually been no -- we have no data on certain
 2 activities happening, and that occurs across many regions.
 3 And that is something that there is no amount of heuristics
 4 that actually can compare to seeing the number zero on a
 5 state and realizing that there are some real challenges.
 6 And so encourage you to share feedback with us,
 7 positive and negative. The negative is what helps us learn
 8 what we need to change, so I absolutely welcome it, and I
 9 just -- I thank you, Jenny. And one more time, just to give
 10 a shout-out to our team, to Julie, Jessica, Jenny, Colin,
 11 who is in the audience, Malika, who is upstairs, and others
 12 who have helped us over this first year.
 13 Friday marked 365 days of our office, and we would
 14 not have been able to get everything done without the
 15 support of many. So thank you all.
 16 MS. GARRETT: Thank you, Jenny, very much. I
 17 mean, that was a great overview of a very large report, and
 18 I really appreciate it.
 19 And thank you, Martha, for -- and Julie and
 20 Jessica for all of your help on this. This is great.
 21 I am now going to turn it over to Jeff, the Vice
 22 Chair, and he is going to continue with the next phase of
 23 the meeting.
 24 MR. SOLOMON: Thanks, Carla. I just want to
 25 highlight one thing that I think is particularly telling

1 about the report that you -- that we see at Cowen. So of
 2 the 4,400 public companies we have in the United States, 400
 3 of those companies are healthcare companies that have come
 4 public in the last seven years since the JOBS Act.
 5 And I think it is particularly relevant because
 6 many of these -- 300 of those are biotech companies, which
 7 is a really interesting statistic, particularly when you
 8 think about small companies that have been huge users of
 9 public capital in order to fund their businesses. It is
 10 good news/bad news, right? It has worked really well for
 11 that particular sector, which is a capital-intensive sector,
 12 but it also highlights that it's a lot of the -- of the
 13 capital formation of the public markets has occurred in a
 14 relatively small geographic area.
 15 I just looked at our stats from last year at
 16 Cowen. The top two states we financed businesses in in the
 17 public markets are California and Massachusetts, again,
 18 echoing some of the things that we talked about in our first
 19 three meetings.
 20 So for as much progress has happened in the public
 21 markets, and as great as the JOBS Act has been for creating
 22 a forum for small companies to get access to capital, we
 23 still have a lot of work to do. And I just thought before
 24 we go on with the formal part of the program that it might
 25 be just good to highlight that we are not done yet. We

1 still have a long ways to go.

2 MR. CLAYTON: Yeah. Do you mind if I echo that?

3 You know, I love that you've been diving into this data and,

4 you know, we're -- the country is not the same. Varies

5 greatly from state to state. Varies greatly from industry

6 to industry. Varies from offering type of -- can you just -

7 - can you flip back to the public -- I just want to make a

8 point that I think echoes what Jeff is saying about our

9 public markets and how our public markets are being used.

10 He had a wonderful slide about the number of

11 companies, but also the aggregate market cap. And, yeah, it

12 -- but, you know, it's kind of -- like that one. Yeah. So

13 I think I have these numbers directionally correct.

14 So we've got the number of public companies going

15 down. We've got the aggregate market cap of our public

16 markets going up. But I think if we take the top 500 names

17 or use the S&P 500 as a proxy for that, of that 31 trillion,

18 it's like 26 trillion are 500 of those names. So the other

19 4,000 companies don't make up much that -- we have to -- we

20 have to understand that not all public companies are the

21 same. The large caps are much different.

22 And it also goes to that liquidity issue, like how

23 are we looking at our public capital markets, so that the

24 companies that are becoming public are served in the way --

25 or at least somewhat close to the way our very large cap

1 companies are served. And that is a -- that is another

2 challenge that we face.

3 Lastly, on your recommendations, our agenda is

4 public. Many of your recommendations are on it, so I'm glad

5 we are kind of linking up there. So wanted to say that.

6 Thanks.

7 MR. SOLOMON: Thank you, Chairman. It's actually

8 -- so, again, these are great forums for us to have these

9 kinds of conversations, and I think it's -- you know, many

10 of us spend most of our time talking about these issues

11 privately with clients or amongst ourselves.

12 And the fact that the Commission has created a

13 forum where we can have this conversation and open really

14 raise some of the challenges and identify them. You know,

15 it gives -- it gives us a lot of fodder and things that we

16 can think about as we constructively try to address some of

17 these gaps in funding, which really is I think our next --

18 our next area.

19 So, as we were preparing --

20 MS. MILLER: Before we punt, can I make one more

21 comment about --

22 MR. SOLOMON: Sure.

23 MS. MILLER: -- this slide? And it's another --

24 MR. SOLOMON: You can make as many comments as

25 you'd like.

1 MS. MILLER: This is a shocker. This is another

2 plug for you to look at our report. We have additional data

3 in there around what we think of for the pathway to

4 companies becoming public is that they actually list as

5 their own company, not that they get acquired by a public

6 company, who -- many of which -- there is some interesting

7 data, some of which we have in our report, some of which we

8 did not put in there, where you have many of these large

9 public companies that now are functionally aggregators of

10 many smaller different companies and divisions.

11 And so we still do see many companies entering the

12 public market, albeit in a very different path than we used

13 to see years ago, which I think is part of the numbers. We

14 have some statistics that we have been looking at around the

15 inquisitive activity of public companies where you don't see

16 the IPO. They don't have a ticker themselves.

17 They are wrapped in, and, you know, the big

18 question is whether or not they are a part of the

19 consolidated financials or not of the public companies that

20 many already hold. So that is -- those are trends that we

21 are looking at and are very interested in as well. I just

22 thought I would flag that because it's very relevant to this

23 slide.

24 This slide has a lot. We could talk about this

25 slide I think for an entire day, so you'd better put it down

1 because I love this slide. It's -- I said it's my favorite

2 graph of the entire chart because I think there is so much

3 in here.

4 MR. SOLOMON: I mean, this is the chart, frankly,

5 that got us all started a bunch of years ago working on the

6 JOBS Act, if you look at that -- the front end of that, and

7 you can see sort of the decline from 8,000. It's really --

8 I will speak personally, it's -- I had no idea -- I've been

9 in this business for 30 years. I had been in the business

10 for 20-some-odd years and hadn't realized that that had

11 happened, and it was really -- seeing that graph for the

12 first time in 2011 was the first time I realized, uh-oh,

13 we've got a problem.

14 And so it's good to see that we've started on that

15 path of fixing that problem, but, you know, obviously, we've

16 got a lot of work to do still. So -- all right.

17 So as we discussed at the last couple of meetings,

18 there has been -- currently an active rulemaking agenda at

19 the Commission that includes seeking feedback on ways to

20 simplify, harmonize, and improve the exempt offering

21 framework, and expand investment opportunities.

22 As this effort is underway at the Commission, the

23 Committee has provided specific recommendations on the

24 accredited investor definition, regulation crowdfunding, and

25 general principles on harmonization that we encourage the

1 Commission to keep in mind.

2 The Committee has also had broader discussions

3 about areas where many of us see challenges or gaps in

4 access to funding -- geography, demographics, growth stage,

5 industries, gender, race. Today I'd like us to consider a

6 recommendation that memorializes the gaps that we identify.

7 Each of us has our own experiences, and by identifying and

8 relaying the trends and gaps in which -- in where capital is

9 flowing, we as a group are well-positioned to recognize and

10 can provide strategic guidance to the Commission on topics

11 that rulemaking teams should consider and address.

12 The Committee has expressed a continuous thirst

13 for data, as we just witnessed, to help the Committee and

14 the Commission better recognize and evaluate these gaps in

15 access to the capital landscape.

16 So this meeting will be a little bit different

17 than the ones that we have been doing. Where we have been

18 presented with rulemaking that is already in progress, this

19 is a chance for us to flex our creative muscles, and bring

20 to fore some of the challenges that we see.

21 We'll get a chance to listen to some speakers over

22 the course of the day who are going to present things that

23 they see. And hopefully by the end of the day we'll be able

24 to coalesce around a couple of really strong recommendations

25 that would encourage the Commission to go forth and find --

1 help us to find opportunities to address some of the issues

2 we raise.

3 So I'm going to introduce now James Gelfer, who is

4 the senior strategist and lead venture analyst at PitchBook.

5 PitchBook is a financial data provider that collects and

6 analyzes detailed data on the venture capital, private

7 equity, and M&E landscape, including public and private

8 companies, investors, funds, investments, exits, and people.

9 James launched PitchBook's VC coverage in 2012 and

10 currently leads PitchBook's research initiatives in private

11 equity venture and emerging technologies.

12 Welcome, James, and thank you for joining today.

13 Really appreciate it.

14 MR. GELFER: Thank you very much for having me.

15 So before I get started, just a little bit of background on

16 PitchBook. So we're obviously a data provider focused on

17 the private market. So all the data that you see here today

18 has been gathered either through public filings, through

19 information that is available through the internet or other

20 sources, and then also primary research.

21 We reach out to investors, service providers, and

22 companies that are actually raising capital. So it's a

23 combination of all those things that are going into the data

24 points that you're going to be seeing today.

25 So starting off with just an overview of the

1 landscape of venture capital, I have some definitions here

2 for you on the right. As most people are probably aware,

3 these are fairly ambiguous in the industry. A lot of people

4 will call something a seed deal that for all intents and

5 purposes looks like a Series A deal.

6 So we do our best to kind of classify things in a

7 consistent manner, but just knowing that those definitions

8 are very much in flux. And this slide right here kind of

9 illustrates how the landscape has changed over the last

10 decade. As you can see here, an early stage deal in 2009,

11 the characteristics of it now look much like a seed deal

12 happening in 2019.

13 Similarly, a late stage deal in 2009 looks like an

14 early stage deal today. And so the industry has really

15 shifted. You'll hear, as you look at the venture capital

16 space, you know, Series A is the new Series B, and you can

17 kind of go through all of the series and make that argument.

18 And so one of the things that when we look at the

19 data is happening is as everything is kind of getting bigger

20 is it's creating gaps particularly at the very early stages

21 of the market. So as you can see here, see now, minimum

22 viable product is typically what the companies have.

23 Oftentimes what we're hearing is that actually at the seed

24 stage it's just a business plan.

25 And people who have connections in the industry,

1 have already raised capital, are often able to go out and

2 raise a VC round at a \$20 million valuation with literally

3 nothing but a piece of paper that says what they're planning

4 to do. And so that's one of the things that I'll touch on a

5 little bit here as we kind of go through the ecosystem and

6 how it has been evolving.

7 So just to kind of start off on a very high level,

8 VC deal activity, as you can see here, the last two years

9 have been out and away the two highest years on record, in

10 terms of capital invested. We're still gathering

11 information from the end of 2019, so we think that number

12 will be able 140 billion when it's all said and done at the

13 end of this year.

14 And kind of similarly to some of the trends that

15 we're seeing in public markets, in private markets, a lot of

16 this deal activity is heavily weighted towards large

17 transactions. So we refer to megadeals as rounds of \$100

18 million or more. Some people refer to those as private

19 IPOs, but obviously a lot of capital being raised from

20 private markets.

21 We saw 250 of those transactions this year. That

22 accounted for \$60 billion of the deal value. So nearly half

23 of the deal value that you see here is coming from 250

24 transactions.

25 You can see this kind of breakdown by stage

1 activity. Unsurprisingly, the capital is dominated by late
2 stage deal-making. About two-thirds of the capital invested
3 comes at the late stage. But increasingly we are seeing
4 those large financings happen at the early stage as well.
5 So of those 250 megadeals that I mentioned earlier, 100 of
6 those actually happened at the Series A or Series B round.

7 So, once again, these are companies oftentimes
8 three, three years old, sometimes just a little bit of
9 revenue, off and on profitable raising \$100 million in
10 private markets.

11 A PARTICIPANT: In some parts of the country.

12 MR. GELFER: I was going to say, some parts of the
13 country, but it's interesting, you will find little pockets.
14 So of those 250 deals, I was in Florida last week, and they
15 have actually raised five of those megadeals in the last
16 year as well. So there is some variation, heavily
17 concentrated in Silicon Valley, but we are seeing these
18 deals really drive deal-making across the country.

19 In terms or regional activity, it is a little hard
20 to see it on the screen here, but you can see in your
21 printout obviously the west coast is the main driver of deal
22 activity, but we are slowly starting to see that shift.

23 One thing was that the capital and funds remains
24 highly concentrated there. So right now we are showing
25 around \$100 billion of capital available to be invested

1 \$100,000 that is, you know, available from local investors
2 to invest in those companies.

3 There is definitely movement in terms of concerted
4 efforts to get more capital to those places. Actually, just
5 last week on Friday there was a big summit in Utah called
6 Silicon Slopes, as they are trying to brand their own
7 version of Silicon Valley. And so DOMO, for those of you
8 who know the company, it is a billion dollar VC-backed
9 company. So the founder of that company, a couple of other
10 local companies, are raising a VC fund. And they kind of
11 had a big stage show explicitly saying, "We are doing this
12 for capital in the area."

13 But, you know, I travel around to a lot of places
14 in the country. And I was in Florida last week, for
15 instance, which comes up here in one of the least funded
16 ecosystems. There has only been one local VC fund raised
17 there in the last two years.

18 And so when they actually had the panel of VCs
19 investing in Florida, it was one VC who raised a fund three
20 years ago in Florida, and then a VC from Atlanta and a VC
21 from Raleigh, and a whole bunch of people who were from the
22 region but weren't actually based in Florida.

23 You know, one area that we're looking at in terms
24 of underfunded businesses is female founders. We don't
25 currently have the ability to look at minority groups or

1 dedicated to VC funds that has yet to be deployed. About
2 two-thirds of that is held in funds in Silicon Valley.

3 This is one of the more interesting chart I think
4 in terms of just geography and where capital availability
5 is. As you can see, late stage activity has always been an
6 area where companies typically have to travel a good
7 distance to be able to raise capital. But what we've seen
8 in recent years is as those early stage deals have gotten
9 larger, companies are having to travel further now in order
10 to raise those national Series A/Series B rounds.

11 So this chart right here, we did an analysis
12 showing, based on CSAs, combined statistical areas, which is
13 essentially taking a whole bunch of different MSA groups on
14 a bureau map and putting them together into clusters that
15 kind of make sense in terms of funding and, you know, an
16 economic system.

17 What we found, obviously, is that the capital
18 availability is, you know, several times higher in
19 California than it is in most other places. So in San
20 Francisco, for instance, for companies that have already
21 raised capital, there is \$12 million available for each one
22 of those from locally based investors.

23 When you go out to the rest of the country, what
24 you can see is that those numbers drop pretty starkly. In
25 the least-funded ecosystems, oftentimes there's only

1 anything of that demographic, but we can break it down by
2 gender. You know, similar to the stats that were shown in
3 the prior presentation, obviously a big gap there in terms
4 of funding.

5 One thing I want to know in terms of the deal
6 count and the capital raised by female founders is that we
7 are seeing a pretty strong and consistent uptick in the
8 number -- or the percentage of rounds that are going to
9 female founders. But what hasn't come along is the capital
10 raised by female founders. And so obviously there are kind
11 of some structural reasons, you know, for why this has
12 happened, but one thing to note is that in these VC
13 ecosystems as companies raise -- go through raising early-
14 to-late stage rounds, the numbers naturally get bigger.

15 And so when we look at female founders, a lot of
16 this deal activity that has happened more recently is
17 concentrated very much on the seed in the early stage
18 rounds. And so while those numbers are smaller if you look
19 at, you know, the average late stage round for a female
20 founder vis-a-vis a male founder it is going to be smaller.

21 But a lot of the aggregate numbers that you see is dictated
22 by the fact that there just has been categorical
23 underfunding for a long time, and it is going to take
24 several years before some of those female-founded companies
25 are raising big rounds.

1 We have started to see that more with Glossier,
2 Away, and some of these companies that have been around for
3 three to four years, but I think that that's a number that
4 you will kind of see tick up naturally as there has been
5 more funding for the earlier stage companies.

6 One thing that isn't talked about much in terms of
7 the venture capital kind of media but is a big area of the
8 market and is only growing is venture debt. And so this for
9 our definitions is essentially supplying debt to companies
10 that are VC backed or in lieu of VC backing. I have a
11 breakdown for you here of kind of how we think about it.
12 There is also a link to an analyst note that we have done
13 that goes into more depth about the sources for capital and
14 the rationale behind raising them.

15 But what is interesting in this space is that
16 there are a handful of lenders, primarily Silicon Valley
17 Bank, that really dominate, you know, two-thirds to three-
18 quarters of all lending that happens here. And typically
19 what the kind of relationship is between these venture
20 lenders and the VC-backed companies is when they supply a
21 loan, the venture-backed company then moves all of their
22 banking to that bank.

23 And oftentimes, you know, these Silicon Valley
24 banks -- Bridge Bank is another big one -- they have
25 longstanding relationships with VC investors. And given

1 that it's a relationship business and a VC investor might
2 have dozens of companies that are all doing their banking
3 there, what you hear is that the default rates are actually
4 very low, because the VCs do not want to ruin the
5 relationship. And so oftentimes in these situations the VC
6 is kind of an implicit backstop for the company.

7 Another thing that is happening here is, as a lot
8 of software companies have moved to assess software as a
9 service model, they get in contracts for 12, 24 months, that
10 can then be collateralized. And also, if you're doing all
11 of your banking there, the bank has a direct line to the
12 bank account, so they know exactly how much revenue is
13 coming in and they can underwrite loans in that way.

14 And so we're seeing companies increasingly use
15 this both at the early stage to avoid dilution, and
16 increasingly at the late stage as well. So oftentimes when
17 you see in the market a company raise \$500 million in
18 venture capital, a good chunk of that, if not the majority,
19 is now becoming venture debt. And so that's something to be
20 aware of in the market. And, you know, from the founder
21 side of it, particularly as more money is being raised in
22 private markets, it is just a way to kind of mitigate some
23 of the dilution that is naturally occurring.

24 It also --

25 MS. GARRETT: And, James, may I ask a question

1 real quick?

2 MR. GELFER: Yes, please.

3 MS. GARRETT: So just to point out that that
4 venture debt is, though, going to companies that have
5 already raised venture capital financing.

6 MR. GELFER: Yes. So it's going to companies that
7 have already raised venture financing, and then we also have
8 a few firms in our database -- Lighter Capital is a good
9 example -- that explicitly brands themselves as an
10 alternative to venture financing. And so we count those
11 companies as well that, you know, are essentially being
12 targeted by VCs and a debt lender at the same time.

13 So we have certain entities in our database that
14 automatically, if you are lending from them, you are a
15 venture debt.

16 MS. GARRETT: So it's almost like a company that
17 has already raised funding through venture capital then
18 gives access to funding through a bank.

19 MR. GELFER: Yes. That's typically how it
20 happens, but increasingly we're seeing companies raise the
21 vendor debt in lieu of venture funding.

22 MS. GARRETT: Oh, okay. Thank you.

23 A PARTICIPANT: *11:58:16

24 MR. GELFER: So we combined angel and seed
25 activity, but there obviously are some very kind of stark

1 differences between the two that I will go into a little
2 bit. One thing, obviously, that stands out on this chart is
3 that the deal count has been roughly flat for the last four
4 to five years while the capital invested in these companies
5 has shot up significantly.

6 So one of the things that we obviously hear,
7 especially outside of Silicon Valley, is that it is very
8 hard to raise these initial angel and seed rounds.

9 As you can see here, the deal sizes have been flat
10 on the -- kind of the median and the bottom quartile level,
11 and then risen precipitously at that kind of upper quartile,
12 while valuations have gone up across the board and so,
13 obviously, creating a more founder-friendly environment.

14 One thing that I want to point out here in terms
15 of the angel activity is I think that this is one spot
16 where, really, there can be a lot of movement in terms of
17 underfunded activity.

18 One of the best examples of this is Hashtag
19 Angels, which is a group of women and minority investors who
20 came out of Twitter initially doing angel investing and now
21 have started to raise funds specifically to invest in
22 female-founded companies and minority-owned businesses.

23 And so particularly in the last three to four
24 years as we've seen a lot of big exits and, you know, other
25 people besides the founders being registered to these

1 companies, I think that those angel networks are kind of
2 explicitly going out and seeing themselves as kind of
3 torchbearers in terms of spreading the capital more broadly.

4
5 And so as I mentioned earlier, it's obviously the
6 early stages before you see that kind of percolate into
7 later stage, but a lot of these networks have had success
8 raising hundred million dollar funds, which, obviously,
9 lawyers for venture capital explicitly going after kind of
10 minority and female-owned businesses.

11 One thing that really stands out in the data when
12 we look at these kind of early rounds are the background of
13 the person who is raising the capital. And so we did an
14 analysis that looked at serial entrepreneurs, which we
15 describe as someone who has founded a VC-backed company and
16 had a successful exit. We also have what we call unproven
17 entrepreneurs, who have launched at least one VC-backed
18 company without an exit, and then novices.

19 And consistently throughout the data what you see
20 is that serial entrepreneurs are able to raise more capital
21 earlier in the funds' life cycle at a higher valuation.
22 Oftentimes they take a little bit more dilution, but then
23 what you see is that they, throughout the funding life
24 cycle, are able to get bigger valuation step-ups in between
25 their rounds and get higher, you know, absolute valuations

1 and I think that that is kind of indicative of where people
2 see gaps in terms of financing. So one of the things that
3 has popped up lately is a term called "pre-seed." So now
4 that seed rounds have become, you know, \$2 million on
5 average, people think that that's too big, and so they are
6 trying to launch their own strategy.

7 Whether or not that is actually a strategy I think
8 is left to be determined, but I think it is just very
9 emblematic of where people see financing gaps. Some people
10 are referring to it as "dirt stage," and so basically trying
11 to go as early as they can to differentiate themselves as
12 these VC funds get bigger and there is more kind of pushback
13 of, are you actually doing VC at this point, or is this now
14 a fundamentally different strategy?

15 The breakdown by sector here you're going to
16 notice is fairly consistent as you go across angel, early
17 stage, and late stage. Where we do see some differences,
18 though, is in this vertical activity. And so we have
19 industries on the previous slide that we show are kind of
20 what you would think about in public markets, and then we
21 have what we refer to as emerging verticals which are much
22 more focused on what's happening typically in early stage
23 private market companies.

24 As you can see here, artificial intelligence and
25 machine learning, the AI/ML, has broken out significantly

1 either at exit or the last round of financing that we have.

2 And so we think that, you know, that obviously is
3 one area of the market that there is a strong bias towards
4 particularly when it comes to the valley and finding ways to
5 kind of access capital for people who maybe don't have the
6 relationships or the know-how to go through that venture
7 financing ecosystem.

8 One other thing to note here in terms of serial
9 entrepreneurs and that angel kind of investing, for the
10 serial entrepreneurs that we have in our database, we have
11 at least five percent of them who have gone on to become
12 angels. We think that number is probably higher because a
13 lot of people are hesitant to advertise their angel
14 investments, but, you know, one out of 20 successful
15 founders who is becoming an angel, we think that that is
16 kind of a natural route for people to go, and, obviously,
17 ways to kind of encourage that as well.

18 And then, you know, one than one percent of these
19 serial entrepreneurs launch their own VC fund eventually,
20 too, and so there definitely is evidence that people who
21 have been through the VC funding life cycle both kind of
22 have the knowledge of how to do it and are more inclined to
23 do it as well.

24 As the space has evolved, oftentimes people think
25 that the kind of current nomenclature isn't adequate enough,

1 since 2016. And as I go through kind of the rest of these
2 slides, what you'll notice is that AI/ML line, the breakout
3 comes later and later in terms of early stage/late stage,
4 and I think that is just kind of a good illustration of how
5 these VC ecosystems take a little bit of time in terms of
6 financing, whether it's new types of founders, new types of
7 companies, new regions, it just takes a while before
8 everything kind of grows from that first baseline.

9 In terms of early stage deal activity, you know,
10 much the same story that we have seen, angel seed and across
11 the whole ecosystem, in terms of growth at the top range,
12 record-making deal activity over the last two years. Again
13 here, kind of a similar story, both in terms of deal sizes
14 and valuations.

15 You can see on the bottom end those deal sizes
16 have remained relatively stagnant, whereas the valuations
17 have seen an uptick across the board, once again just
18 pointing to kind of more founder-friendly conditions in
19 terms of financing. People are able to raise more capital
20 now or the same amount of capital at a more attractive
21 valuation, obviously taking less dilution.

22 And so people have the ability to kind of play
23 around with those metrics how they want, so people can raise
24 more capital at a bigger valuation, less dilution. They can
25 raise less capital. You know, there's essentially the three

1 metrics that go into how these financings work.
 2 Again, by sector here, what we're starting to see
 3 at the early and the late stage is that software,
 4 traditional software, is kind of falling off, and there has
 5 been more investment into traditional consumer services,
 6 consumer packaged goods, and that VC is really expanding
 7 beyond just traditional software plays.
 8 Obviously, in this day and age, every company is
 9 somewhat tech-enabled, but what we're seeing is that there
 10 is more focus now on businesses where their core business is
 11 not necessarily technology and they are using technology to
 12 create greater efficiencies.
 13 Again, like I mentioned on the angel and seed
 14 side, you can see here that AI/ML line, the breakout really
 15 doesn't occur until 2018, and so, once again, just
 16 indicative of how it takes usually, you know, 18 to 24
 17 months before we see kind of that early stage financing
 18 start to go into the bigger rounds in the early and late
 19 stage.
 20 Finally, at the late stage here, once again, as
 21 you can see up and to the right, record-making deal
 22 activity. One thing that kind of stands out at the late
 23 stage is just the sheer size of the valuation. So on the
 24 right-hand side there, you can see that the top quartile
 25 valuation now is \$260 million for a late stage company.

1 And so, obviously, thinking about those private
 2 market companies who aren't going public anymore, we're
 3 seeing kind of unprecedented size in private markets as
 4 these companies continue to grow.
 5 As I mentioned kind of a slow shift away from
 6 software, we are seeing that in the late stage as well. And
 7 here I think like the AI/ML trend kind of comes into view
 8 where it's not even the top sector at the late stage yet.
 9 We still see life sciences there. And I thought it was an
 10 interesting comment in the previous presentation about
 11 healthcare IPOs, because that's definitely something that we
 12 have seen in our data.
 13 When we look at VC-backed IPOs, healthcare IPOs
 14 have gone from about 20 percent of the IPOs at the time of
 15 the JOBS Act to almost half today. As you can see here,
 16 life sciences has consistent been one of the areas in terms
 17 of late stage financing where there have been investors.
 18 And what we see in health care is that just given
 19 the nature of, you know, drug trials and the capital
 20 intensity that you mentioned, that typically as companies
 21 get to this stage they are either looking to be acquired or
 22 go public and there isn't that mechanism to kind of, you
 23 know, provide \$250 million on a hope and a prayer.
 24 And just the financing in health care tends to be
 25 categorically different than what we see in a lot of the VC

1 space. A lot of the analysis that we do is actually a
 2 binary cut of health care, and then everything else. So
 3 that's definitely something that is coming through in our
 4 data as well.
 5 MS. MILLER: James, can I ask a question?
 6 MR. GELFER: Yes.
 7 MS. MILLER: As you talk about the top quartile --
 8 and we've seen this trend on a couple of different slides,
 9 where the top quartile, the average, when you factor that
 10 in, skews the rest of the data. Have you correlated where
 11 that top quartile, those valuations and the deal activity,
 12 is happening in the country?
 13 MR. GELFER: Yes. In terms of regional activity,
 14 we do have that data available as well. I kind of cut it
 15 off at like 60 slides. So if you want any of this stuff,
 16 I'm more than happy to provide that to you.
 17 MS. MILLER: I think it would be really
 18 interesting to see, because that's something that we see
 19 when we're out doing outreach. People talk about the very
 20 different valuation their company would have based on where
 21 they are currently located versus where there is pressure
 22 for them to relocate.
 23 MR. GELFER: Yeah. And there's a couple of
 24 different things that go into play there. Uniformly, when
 25 you go across the country, that's the story that you hear.

1 Even in places like Chicago where the cost of living,
 2 frankly, isn't that much different, you will hear that a
 3 company is getting a, you know, 40 percent valuation cut.
 4 You know, part of that, quite frankly, is in
 5 certain areas there is a cost of living adjustment. You can
 6 raise the business, you know, on just less capital. But I
 7 think, quite frankly, there is kind of that bias outside.
 8 One thing that's interesting is you mentioned, you
 9 know, at the state level we even find differences when we go
 10 down a little bit more granularity to the MSA or the CSA
 11 level. And that's one of the reasons why we use that as
 12 well, so we've done different ecosystem kind of analyses
 13 looking at both the state level, the MSA level, which is
 14 extremely granular, and the CSA level. So we have all of
 15 that data available if you're interested.
 16 MS. MILLER: Very interested. Thank you.
 17 MR. GELFER: Absolutely.
 18 So now I'm going to talk a little bit about growth
 19 in PE activity. What we define as "growth" is -- I have the
 20 definition up here for you -- is typically a non-DC-backed
 21 business that is receiving a minority strategic investment.
 22 And I have also included here private equity buyout deals
 23 for companies that have valuations of less than \$250
 24 million.
 25 Kind of different to VC, you can see that the

1 activity here has been fairly stable on a capital basis over
2 the last several years. Part of that is it's just a
3 different set of investors, but increasing what we're seeing
4 is that these traditional -- what we call them, private
5 equity growth investors -- they have been fairly active in
6 places like energy and other kind of Old World industrial
7 sectors.

8 Manufacturing, as you can see on the chart here on
9 the right, particularly that has started to shift in recent
10 years, and they are increasingly going into more of the VC
11 realm of technology companies and software companies. And
12 there is a few reasons why PE firms have been attractive for
13 them.

14 One of the things I mentioned earlier is that SAS
15 business model with the recurring revenues. And so a lot of
16 PE firms who are -- kind of came to put that on the company
17 have shied away from technology businesses because they
18 don't have a lot of assets that can be collateralized. Now
19 that you have a revenue stream that a lot of banks are
20 willing to underwrite, that has kind of unlocked kind of
21 software tech for a traditional PE crowd.

22 The other thing that we're seeing is VC firms, as
23 they raise bigger and bigger funds, it's not uncommon now to
24 see a 2 billion, \$3 billion venture fund that claims that
25 they are going to do early stage deals, but quite frankly,

1 12 percent.

2 And then, again, over the last 10 years, you've
3 seen a kind of bull market in just about every asset class.
4 So their whole pie has grown as well. And so you have
5 these allocators of capital now who have a bigger pie, who
6 are applying a bigger percentage of it to VC, and who are
7 getting more money back from VC than they can put in.

8 And so all of three of those dynamics we think are
9 contributing to, you know, a kind of sustained level of
10 fund-raising that is unlikely to go away anytime soon.

11 One thing that is hard to capture in the data is
12 that a lot of these entities are doing direct investments
13 themselves now, and so oftentimes instead of committing
14 capital to a fund they will just be investing off their own
15 balance sheet or off of a committed pool within themselves,
16 which is obviously difficult to quantify. But I think it
17 just all points to capital flooding the space.

18 MR. SEATS: Hey, James?

19 MR. GELFER: Yes.

20 MR. SEATS: As you are going through this section,
21 something that's on my mind just sort of watching the
22 presentation, I mean, the sort of purpose of this Committee
23 and the thing we are really focused on in many ways, like
24 the earliest stages here, those initial stages, and there is
25 a dynamic that I think is echoed even in that public equity

1 it's not possible to pool that much capital, so they are
2 increasingly doing these kind of growth late stage rounds,
3 oftentimes for companies that haven't been through
4 traditional financing. Maybe they were owner-backed for a
5 while, but they'll infuse now \$200 million as the first
6 investment into those businesses.

7 In terms of fund-raising, obviously, the first
8 kind of stage of venture financing in terms of capital being
9 allocated to new funds, what we can see here is that there
10 was a slight down-take this year, but overall fund-raising
11 has been very strong, and there is a few things that are
12 contributing to this.

13 One is that -- the net cash flows from venture
14 funds. So when we look at the capital that is actually
15 being, you know, allocated from new LPs as opposed to the
16 capital that is being returned to them, they have had more
17 capital returned to them each year since 2012 than they have
18 put into new funds.

19 And so what that means is that essentially they
20 have to continually allocate to new vehicles in order to
21 just maintain their allocation. At the same time, we have
22 seen almost across the board, regardless of whether it's
23 sovereign wealth funds, pensions, endowments, foundations,
24 almost every entity type is increasing their allocation to
25 VC. So going from five to eight percent, going from 10 to

1 chart, I mean, that shows sort of basically the
2 concentration of capital towards larger companies, and that
3 dynamic is playing out in venture as well.

4 And so as you walk through this section, I would
5 love to sort of have you pull out any things that sort of
6 echo that, because the narrative to me, like our perspective
7 is that as venture funds are -- that there is an alignment
8 in the market.

9 Some of it is regulatorily influenced, but a lot
10 of it is just the market dynamics, whereas funds are
11 strongly incentivized to raise larger and larger vehicles,
12 and they are deploying those vehicles in effectively the
13 same number of companies, which means you are, by
14 definition, moving later stage and writing bigger checks and
15 sort of -- that dynamic is capital starving, the earliest
16 stage.

17 And so, to me, that's the narrative sort of
18 underpinning those -- you could agree or disagree, but as
19 you walk through the slides, would love to sort of have your
20 contextual reaction to that framing.

21 MR. GELFER: Yeah. Absolutely. So I think there
22 is a couple of things that are kind of pertinent to that.
23 One is that as these funds are getting bigger, what you are
24 seeing is a lot of the successful firms are often raising
25 not just one fund, but they are raising two or three funds,

1 oftentimes explicitly for these either follow-on or growth
 2 financing rounds.
 3 So a good example is Andreessen Horowitz, which is,
 4 you know, one of the most prominent investors in Silicon
 5 Valley. They have just raised explicitly \$2.2 billion just
 6 for late stage deals, in addition to all of the other funds
 7 that they have. Founders Fund, Peter Thiel's fund, is in a
 8 similar situation where they are raising \$1.5 billion just
 9 for growth equity.
 10 And so I think one way that these firms are trying
 11 to kind of adapt to say, "Hey, we have this separate pool of
 12 capital that is exclusively for these late stage deals, but
 13 we're still going to do early stage." But kind of to your
 14 point, you know, there is a lot of kind of pushback from
 15 traditional what -- they'll call themselves early stage
 16 investors who are investing out of a \$50 million fund that
 17 will say, "You call yourself early stage, but you are a
 18 billion dollars." And so how much can one of these early
 19 stage deals actually move things for you?
 20 MR. SEATS: Yeah. Because in those two examples,
 21 even though -- I guess my point would be, however many
 22 billions of extra dollars that is equals no new company
 23 formation.
 24 MR. GELFER: Yeah.
 25 MR. SEATS: That's into the existing portfolio

1 that they have of --
 2 MR. GELFER: What's interesting is that you'll see
 3 Andreessen Horowitz -- they actually will participate in a
 4 seed round for a company that is its first financing. But,
 5 you know, the size of it often is, you know, 5-, \$10
 6 million.
 7 Interestingly, as this has happened, as these
 8 funds have gotten bigger, you'll see teams who say, "I don't
 9 want to be investing in this sort of strategy. I'm going to
 10 spin out and start my own fund." But even then, those
 11 first-time funds now, the average size last year has been
 12 \$100 million. So that's an average, right?
 13 The median is going to be a little bit lower, but
 14 even these people now who are going out and launching their
 15 own first time fund, oftentimes it's orders of magnitude
 16 bigger than what we would have seen 10 years ago from a
 17 successful firm who has been doing it for a long time.
 18 So, you know, quite frankly, that is something
 19 that we are seeing. One of our predictions for this year is
 20 that, you know, the median fund size is going to crest 100
 21 million this year, just because those first-time funds, as
 22 they are coming out to market, oftentimes it's, you know,
 23 hitting that nine-figure mark on the first fund.
 24 So, frankly, I think that that is a kind of huge
 25 gap in financing. I don't know how you kind of adjust it,

1 just because the incentives for a VC firm is you get paid on
 2 a management fee and carry, so the bigger your fund is, the
 3 bigger your management fee is. And so I don't know in terms
 4 of, you know, how you change the dynamic to incentivize
 5 people to want to raise less capital because everyone is
 6 going to want to earn more money.
 7 In terms of dry powder here, as you can see,
 8 obviously, there has been a big buildup because of these
 9 funds. But what's interesting, just with all of these
 10 deals, is that we have actually seen like the dry powder
 11 that is available to be invested based on current investment
 12 levels actually hasn't gone up all that much, just given the
 13 record-making deal activity that we have seen.
 14 Obviously, that means, though, that there is that
 15 gap at the smaller end of the market.
 16 I mentioned briefly non-traditional investors who
 17 are investing in VC directly and not through the funds
 18 themselves. We break them down into a few different
 19 categories here, so corporate venture capital is going to be
 20 any kind of corporation that is investing either off of
 21 their balance sheet or has raised a dedicated fund to
 22 invest.
 23 This last year we actually saw 21, you know,
 24 registered with the SEC, pooled investment vehicles raised
 25 by corporations to invest into venture capital. And one of

1 the things I think that is important about that is the last
 2 time there was a recession, one of the groups that you saw
 3 pull back most quickly was CVCs.
 4 So now you're starting to see these firms not only
 5 build in-house teams but also have dedicated pools of
 6 capital that will, you know, not be able to be pulled back,
 7 if and when there is a recession.
 8 We include private equity investors here, so
 9 increasingly we are seeing big buyout firms, as I mentioned,
 10 kind of move downstream and invest in these early stage
 11 companies. Asset managers as well, so big mutual funds like
 12 Fidelity, T. Rowe, and then hedge funds increasingly as
 13 companies are staying private for longer. They don't want
 14 to wait until a company IPOs, and they are coming in into
 15 these late stage rounds in order to get access, you know,
 16 one, for returns, and also, quite frankly, for a mutual
 17 fund. I think it's an advertising point to be able to say,
 18 "Hey, we are one of the only people where you can invest in
 19 Airbnb," or whatever the company might be, "before it goes
 20 public."
 21 Some of these hedge funds have actually just
 22 launched dedicated venture capital funds in the last few
 23 weeks, which I think is kind of an interesting move. Two
 24 Sigma, which is a quantitative hedge fund, you think about
 25 just crunching numbers, they have actually raised a VC fund.

1 So I think there is evidence that, you know, there
 2 is appetite in the market, and everyone who can raise a
 3 vehicle for it is doing so at the time.

4 And then the last one I'm going to mention is
 5 governments and sovereign wealth funds. Particularly, what
 6 we see here is foreign sovereign wealth funds have become
 7 increasingly active in the direct investment space. Some
 8 have even set up offices in Silicon Valley to have more
 9 direct access to the companies that they are investing in.

10 This chart here is showing you --

11 MS. MOTT: This is Catherine. Can I ask a
 12 question, please?

13 MR. GELFER: Yes.

14 MS. MOTT: Can I ask a question, please? Thank
 15 you. One of the things we are seeing a lot of is family
 16 offices. Do you track -- can you track family office
 17 activity and where they play? I mean, you're naming these
 18 other entities or these other categories.

19 MR. GELFER: Yes. So --

20 MS. MOTT: We're seeing a lot of family offices as
 21 well.

22 MR. GELFER: Yeah. I apologize. We include
 23 family offices under that asset manager category. So we do
 24 track them to the extent that we can get data on them.
 25 Unsurprisingly, they are some of the most secretive entities

1 out there, so kind of similar to angels, we track them to
 2 the extent that we can. But, you know, we can't compel
 3 people to provide us information, so they're definitely
 4 included in the data that you see here.

5 MS. MOTT: In that aspect. Okay. Thank you.

6 MR. GELFER: Yeah. So this chart here, what we're
 7 showing is the percentage of deal value that these investors
 8 participate in. And so when there is a, you know, deal for
 9 \$100 million per se, and there's five different investors,
 10 we will always know the percentage they contributed. So we
 11 just look at the aggregate deal value and whether a CVC or
 12 an asset manager was present.

13 As you can see here, over half the deal value last
 14 year had a CVC investor associated with it. And you can see
 15 those numbers, you know, obviously add up to more than 100
 16 because there was a lot of club deals, but essentially every
 17 major financing has one of these non-traditional investors
 18 typically underpinning it.

19 You know, I'll point out the sovereign wealth
 20 funds again, just because they have been increasingly
 21 prominent in the marketplace. You can see that they've gone
 22 from about one to two percent of, you know, participation in
 23 capital to six percent in recent years.

24 Obviously, less active on the deal account side
 25 than the capital side, so, you know, it's these non-

1 traditional investors that typically are more involved in
 2 these late stage rounds, not so much supporting the early
 3 stages of investment.

4 In terms of exits, last year was far and away the
 5 record year in terms of exit activity driven by big IPOs, by
 6 Uber, Lyft, and a handful of other unicorn companies. What
 7 really stands out and I think is going to be interesting
 8 here is this is the dichotomy between the capital that has
 9 exited and the number of exits.

10 And so as you can see here, over the last several
 11 years in particular, the either plurality or majority of
 12 capital has been exited via the IPO market. And so what you
 13 find is, you know, an Uber, for instance, there is maybe two
 14 or three potential acquirers that could even, you know,
 15 manage a price tag like that, and the only real option for
 16 them to is to go public.

17 And so what you can see here is that less than
 18 10 percent of exits happen through IPOs, but it's the vast
 19 majority of the capital. And so, really, it is the
 20 companies that have no choice but to go public that are
 21 choosing to go public now, or, as I mentioned, the
 22 healthcare companies which kind of stand out as an anomaly
 23 with, you know, almost half of them now choosing the IPO
 24 market.

25 But I think that it's really interesting just in

1 terms of the capital availability, which I'll go into a
 2 little bit more after this. But, really, companies are only
 3 -- are primarily looking to get acquired when they are
 4 VC-backed.

5 The other thing I'll point out here is that T-line
 6 on top, on the right-hand side of private equity firms being
 7 acquirers, they have gone from 10 percent of acquirers of
 8 VC-backed companies to 20 percent over the last decade. I
 9 mentioned some of the drivers behind that a little bit
 10 earlier, but that's another trend that we expect only to
 11 kind of continue going forward.

12 And then, lastly, what I want to touch on a little
 13 bit here is the secondary market and direct listings,
 14 because I think that there is a couple things that are
 15 happening in these areas that are really kind of driving a
 16 lot of the IPO trends that we're seeing in the VC space.

17 So the first is -- this is the median amount
 18 raised by companies at the time that they go public. And so
 19 what you can see here is that companies now are raising, you
 20 know -- half the companies are raising \$160 million or more
 21 in private markets before they go public. And so it really
 22 is not a matter of needing the capital. What this is
 23 showing here is the offer size of the IPO divided by the
 24 pre-money valuation.

25 And so you can see we're at at least decade, if

1 not all-time low, in terms of just the amount of capital
 2 that is being raised relative to how big the companies are.
 3 And so, obviously, the capital availability is there in
 4 private markets for companies who want it. And so what
 5 we'll see is companies raise as much capital as they
 6 possibly can in private markets before they go public.
 7 I think Postmates probably provides one of the
 8 best examples of this. They filed in -- officially, it
 9 became public in early 2019 that they were going to go
 10 public. That was just a few months after they raised \$300
 11 million, and they went on to raise about \$400 million
 12 throughout the course of 2019, while their filing was still
 13 out there.
 14 And so with the market knowing that they are going
 15 public, that they can raise capital that way, they decided
 16 to raise money in private markets instead, which I think is
 17 kind of an interesting, you know, way that the markets are
 18 working.
 19 Just yesterday, Casper actually announced that
 20 they were going to raise money publicly instead of privately
 21 because they couldn't in private markets, which is one of
 22 the first times that you've kind of, you know, even heard
 23 that concept. So it's definitely a shift in terms of, you
 24 know, where companies see the ability to raise the capital.
 25 One thing that we think is really driving the move

1 towards companies staying private for longer is the
 2 secondary market. And so traditionally one of the big
 3 impetuses for an exit, whether via IPO or acquisition, was
 4 to provide liquidity to both early investors and to
 5 employees.
 6 Now we've seen a growth in the secondary market
 7 where people can sell their shares in private companies back
 8 and forth. One of the things that we think has enabled this
 9 actually is the JOBS Act. So it used to be that you could
 10 only have 500 shareholders before you could go public. Now
 11 you can have 2,000 shareholders before you can go public.
 12 And, you know, at the time the JOBS Act, Facebook,
 13 was ready to list -- and they actually said that they would
 14 have stayed private for longer if they could have had 2,000
 15 shareholders.
 16 And so, increasingly, what we are seeing is these
 17 companies now can expand their shareholder base and it is
 18 allowing them, we think, to stay private for longer as they
 19 are able to get liquidity for both early investors and
 20 employees.
 21 Yes.
 22 A PARTICIPANT: *12:22:31
 23 MR. GELFER: Yes. So I think that those dynamics
 24 are definitely at play. Like I mentioned the asset
 25 managers, T. Rowe, Fidelity, the hedge funds, they know,

1 obviously, you are better off investing earlier before the
 2 IPO market goes up.
 3 So I think it's kind of hard to disentangle
 4 because there are so many different constituents here. Like
 5 there is the founders who have, you know, different
 6 motivations sometimes than -- depending on where they are in
 7 the funding life cycle, but I think that is definitely
 8 something that is at play.
 9 And so one of the developments that we think is
 10 kind of one of the best illustrations of everything that is
 11 going on in private markets is direct listings. And so this
 12 is essentially a mechanism for companies to move into public
 13 markets without actually raising capital.
 14 And so, you know, going back to that kind of
 15 consistent theme of companies not actually needing the
 16 capital when they go into public markets -- Slack and
 17 Spotify have both done this in recent years, and there was a
 18 lot of consternation about whether there would be volatility
 19 or how these companies' after-market performance would be.
 20 What we found is that the volatility has been
 21 relatively similar. The companies have traded down a little
 22 bit, but it has not been different than how their peer
 23 groups have traded it in public markets. There has really
 24 been a push by venture capitalists, particularly in Silicon
 25 Valley, who think that the IPO process is broken, that it

1 kind of just enriches bankers. There is no need to do a
 2 roadshow. We have technology now that opens markets every
 3 day with an auction. Why can't we just do that for our
 4 shares?
 5 And so one of our predictions for this year is
 6 that there is going to be at least three more direct
 7 listings. We actually think that number might be a little
 8 bit low, just based on some of the bankers who have been
 9 involved in early deals and are advising.
 10 But we think that this is an interesting trend in
 11 the VC space, just particularly as VCs are kind of keen to
 12 be innovative and disrupt things. And also, we think that
 13 there just is a dynamic in the market. Right now we're --
 14 maybe that traditional IPO path isn't as needed as it once
 15 was for private companies.
 16 And that's the end of my prepared remarks, but I'm
 17 happy to take any questions that you all may have.
 18 MR. LEE: I have one question. So one of the
 19 FESIS and topics that has been a discussion of this
 20 Committee, including the Commissioners, was we also want to
 21 create more opportunities for our retail investors to
 22 responsibly, obviously, participate in this asset class.
 23 And I'm making some assumptions, but it seems to me that the
 24 vast majority of gains that you were describing in your
 25 presentation -- obviously, as realized by wealthy or

1 institutional investors, not even, you know, wealthy,
2 accredited investors.

3 So I was wondering if you can comment on that
4 topic, of if you were -- knowing all of the data you have,
5 given that this issue is very politicized, a lot of investor
6 protection advocates, and so on, claim that the reason why
7 retail investors shouldn't participate in this asset class,
8 it's very risky, and it's dangerous, and so on.

9 And yet the data that you're describing seems to
10 be the opposite. It's very lucrative, which is why
11 everybody with money is trying to get into the space.

12 So if you were -- you're not on the policy side,
13 but if you were on the policy side, how would you balance
14 those, you know, valid claims, right? I mean, clearly,
15 investment protection is an issue. But, clearly, this is an
16 asset class that is not open to them and a lot of people
17 have resources, are realizing a lot of gains.

18 MR. GELFER: So I think that one thing that is
19 important to point out in venture is, basically, however you
20 slice it, it is one of the most risky asset classes to
21 invest in. So when you look at the returns, oftentimes it
22 is biased towards the companies that have succeeded, the
23 firms that have been investing for a long time. And so
24 that's one thing I do want to note is that the level of kind
25 of variability that we see in terms of returns is very, very

1 high.

2 So the average fund does not beat the market. The
3 top quartile of venture funds typically does not beat the
4 market. Oftentimes you have to be in that top decile of
5 venture funds in order to actually beat the market. And so
6 I think that's one of the challenging things for retail
7 investors is a retail investor in public markets can go buy
8 an S&P 500 index fund. They can buy an MSCI World index
9 fund and get a little bit of exposure to everything.

10 If you actually look at an index of venture
11 capital, it does not perform very well. The whole strategy
12 is predicated on being in some of these companies that are
13 driving, as I mentioned, that top quartile, that top decile
14 of returns.

15 And so I think that that's the real challenge for
16 a retail investor is, how do you give them a mechanism that
17 is going to allow them to exit -- access the exit -- access
18 the asset class, excuse me, while taking into consideration
19 that it really is kind of predicated on access and being
20 able to get into that top, you know, small percentage of
21 deals and that indexing really isn't a viable option.

22 MR. SOLOMON: So there are some proposals that are
23 in front of the Commission to change direct listing rules so
24 that companies can raise capital. Have you been hearing
25 more around that from VCs? And do you expect to see

1 companies trying to do that, you know, at some point in the
2 not-too-distant future?

3 MR. GELFER: Absolutely. So they are actually
4 working with the Chairwoman of the NYSE right now trying to
5 get that kind of through to be able to do it. We think
6 that, you know, there is a concerted effort, particularly
7 from kind of the most prominent VCs in the space, and they
8 are working with some of the best bankers, and so, you know,
9 given everything that we have heard, there is a strong
10 believe that the entry market is fundamentally broken.

11 So we don't think that any of the VCs are going to
12 stop kind of trying to do this. And from what we have
13 heard, that kind of being able to raise capital at the same
14 time of direct listing is kind of the -- what you would need
15 for it to become mainstream in terms of that space.

16 MS. GARRETT: One of the slides that I found
17 interesting was early on where you talked about that for
18 companies that have already raised capital, I think you said
19 the average second deal size was 12 million for people in
20 Silicon Valley, and 100,000 for people in Florida.

21 MR. GELFER: So that was capital availability. So
22 when you look at the total amount of capital that's held in
23 local VC funds, and just divide that by the number of
24 companies there.

25 So like if every company was to go out and raise

1 an equal amount of capital from all of the local VC
2 investors, how much would there be available?

3 MS. GARRETT: But I guess to me there were a
4 couple of points there. One, obviously, there is the
5 disparity in regions; and, two, these are also for companies
6 that have already raised money, as you said. So where do
7 you see the VCs? Are they angel, you know, investors
8 raising money in the first round? Where are those dollars
9 coming from? And what does that allocation look like?

10 MR. GELFER: So most of the first rounds that we
11 see in our database are coming either from angel or for seed
12 investors. What we do notice is when you go outside of
13 Silicon Valley, the proportion of companies that either
14 raise a grant or some sort of crowdfunding, definitely goes
15 up in terms of having to raise additional capital outside of
16 those routes.

17 And then friends and family, which is obviously
18 hard to quantify, we actually have a piece of research that
19 will be published next week that is looking at what we are
20 calling alternative venture sources of financing of these
21 very early stages of where companies are going.

22 But, in Silicon Valley, I would say almost all of
23 the startups that we track are raising, you know, sizeable
24 seeds. But then when you go outside of there, you are
25 seeing more grant financing and more kind of support either,

1 you know, from some sort of government-based entity or a
2 non-traditional kind of VC route.

3 MS. GARRETT: And then would those companies
4 outside of the Silicon Valley area be able to get a venture
5 capital financing raise as their second raise of capital?

6 MR. GELFER: So typically what you hear from
7 companies outside of Silicon Valley -- and this is not true
8 just in the U.S. I was actually in Manchester, and it was
9 the same story there, that when you are raising your Series
10 A or Series B, you have to get a big Silicon Valley fund to
11 anchor it.

12 So, like, it's not even in the U.S., it's halfway
13 around the world, where people are saying, "Yeah. Like when
14 you get to the Series A/Series B round, you kind of have to
15 have connections in Silicon Valley."

16 MR. SEATS: James? Over here. Sorry. So what
17 are -- one of the other big pieces of market data that I
18 know PitchBook also tracks is LP data.

19 MR. GELFER: Yep.

20 MR. SEATS: And, in particular, public LPs who
21 have to disclose and publish, you know, sort of how they are
22 allocating money. And so I'll frame another narrative,
23 would love to have you sort of react to it. But in a lot of
24 markets, in a lot of the states, Martha, where there are
25 zeroes, types of -- you know, for some of these financing

1 types, there are large public vehicles that have an
2 increasing allocation to venture capital. However, none of
3 that money is flowing to funds that are formed to invest in
4 those local markets.

5 And so would love to hear about sort of -- we have
6 -- you paint a picture about sort of where deal activity is,
7 and we can go look at sort of the map, and it's obvious that
8 New York and Boston and Bay Area are -- you know, that's the
9 -- that's the majority of venture investing. That's where
10 the funds are.

11 But it's interesting that the dynamic in many
12 cases is the money -- the original source of the money is in
13 the rest of the country, and then the screaming need for the
14 capital is in those same markets. But the capital -- the
15 capital allocators are incentivized and/or structurally
16 aligned to move that money to the coasts, away from their
17 local markets.

18 And so I would love to have you maybe talk about
19 that a little bit or react to if you agree with that or not.

20 MR. GELFER: Yes. So I'd say that that is
21 definitely accurate. One thing to note is just given that a
22 pension system has ongoing liabilities, and VC is a very
23 illiquid asset class, we tend to see a smaller allocation
24 from pension systems than we do from something like an
25 endowment or foundation that theoretically has an indefinite

1 investment timeline.

2 But in terms of the pensions that do invest, we
3 have seen them start to invest a little bit more, and part
4 of the reason was a lot of the most prominent VCs have
5 traditionally been hesitant to invest -- receive investment
6 from public pensions because of FOIA requests and the fact
7 that we can go ask someone what their VC returns are if they
8 have a public pension system.

9 Sequoia just about 18 months ago actually took
10 public testimony for the first time in about 25 years
11 because they have kind of said, "We're at the size now where
12 we're fine taking public pension system money." So I think
13 that one of the things, quite frankly, what these --

14 MR. SEATS: Don't just lock in on pension, though.
15 I mean, include in -- like any large capital allocator.
16 Same dynamic.

17 MR. GELFER: Okay. Any large capital allocator.
18 So you definitely see that. I think one thing that drives
19 it is for a lot of these institutions, like I mentioned,
20 it's hard to get your VC allocation. And so if you're going
21 to go invest in 25-, \$50 million funds, and you're, you
22 know, a pension system or an endowment, right, that has
23 billions of dollars, it is just hard to move the needle on
24 your allocation.

25 So I think, frankly, that's one of the things that

1 drives people to Silicon Valley. One thing that we have
2 seen is a lot of kind of local initiatives where a -- you
3 know, the pension system or a foundation will -- this
4 actually was just happening in Florida. They started the
5 Florida Growth Fund that works with some local angels and
6 VCs to kind of bring in deals and supply some capital as
7 well.

8 So that's I think the model that is going to have
9 to be implemented, if it is going to work is, you know, that
10 funding being provided from sort of a local entity that is
11 seeding an angel group, or something else, that kind of is
12 targeted towards an explicit purpose.

13 I think one area where this probably makes the
14 most sense is impact capital, which is something that has
15 really been getting traction lately, particularly as there
16 has been a push to fund things outside of Silicon Valley.
17 So I think like for a lot of these -- whether it's
18 endowments, foundations, public pension systems that have
19 kind of an explicit purpose behind them as well, that's kind
20 of a natural avenue to team up with local investors who are
21 operating from a similar mindset.

22 MR. DEAN: You mentioned as part of your
23 discussion of public pension funds that some are doing their
24 own direct investments rather than going through funds.
25 Could you explore that a little bit?

1 MR. GELFER: Sure. So public pensions are some of
2 the ones that we see kind of, you know, least likely to be
3 doing this, just given how their liabilities are. But
4 sovereign wealth funds in particular, like I mentioned,
5 because they are big pools of capital, because they
6 essentially have an indefinite investment timeline, they are
7 not worried about the liquidity in venture capital.

8 And, you know, sovereign wealth funds are several
9 billions of dollars, if not a trillion in some cases, and so
10 they can't allocate to those VC funds. And so what they
11 have done is actually built in-house venture capital teams
12 themselves.

13 In private equity, this was referred to as the
14 Canada Model because a lot of the big Canadian pensions have
15 actually gone and started their own private equity systems.

16 And so what we're seeing is a lot of sovereign wealth
17 funds. Quite frankly, the most active ones are the ones from
18 the Middle East who are coming and actually setting up
19 offices in Silicon Valley to be doing direct deals
20 themselves, you know, one, just because they can get bigger
21 allocations that way, and it lowers the fees.

22 But I think there is a variety of things that are
23 kind of pushing entities towards doing the deals themselves
24 rather than having to go through an intermediary and a fund.

25 MR. DEAN: So not U.S. public pension funds,

1 different. And so it's pretty easy for us in terms of
2 analysis to be able to kind of lop off that kind of, you
3 know, top little portion of what Soft Bank is doing and say
4 they are a completely different sort of entity.

5 So we have included their deals here, but when we
6 look at the aggregate and kind of strip them out, it doesn't
7 tend to change the numbers so much, just given how big the
8 sample size is.

9 MS. GARRETT: My question is related to that. You
10 have a slide about U.S. VC deal activity by year. And, in
11 2019, you know, obviously, we -- it has gone up a lot, but I
12 kind of wondered how much of that amount is skewed by really
13 large transactions.

14 MR. GELFER: Yeah. So --

15 MS. GARRETT: And, therefore, what would be the
16 kind of more average or median transactions?

17 MR. GELFER: Yeah. So it really is going to
18 depend by stage. So like the early angel stages, likely can
19 look at the deal counts and kind of break it down there. I
20 think probably the most helpful metric to know is that from
21 the kind of top line deal-making activity there was 250
22 deals roughly of 100 million or more that contributed about
23 \$60 billion of the total capital invested last year.

24 MS. GARRETT: And then how many -- I mean, if you
25 have the numbers, how many deals would be -- would there be

1 per se, or --

2 MR. GELFER: So I did pool U.S. public pension
3 fund data. The level of direct investment from them is
4 actually very, very low. And like I mentioned, there's a
5 few reasons for that in terms of FOIA requests and people
6 just being hesitant to, you know, receive that capital.

7 MR. DEAN: Okay. Thank you.

8 MS. MEHTA: Hi. This is really, really
9 insightful, very helpful. I'm just wondering if any of
10 these valuation sizes and deal sizes, how much, if you know,
11 is skewed by like Soft Bank, for example, that, you know,
12 flooded the market with capital and kind of skewed the data
13 a certain way?

14 MR. GELFER: So, as you saw, we have about 10,000
15 deals for the last year. We get valuations for about
16 three-quarters of them. And so if you look at an average,
17 it's going to be skewed a little bit, but we think like, by
18 and large, when you look at those kind of quartile
19 distributions, that Soft Bank effect probably isn't as big
20 as you might think.

21 Another thing just to point out with Soft Bank and
22 the market is it really is an outlier in terms of, you know,
23 the financings that they are doing. Even, you know, Sequoia
24 and Kleiner Perkins, these firms that have \$8 billion funds,
25 the type of financings they are doing look fundamentally

1 that were smaller? And then what would that average be, if
2 you took that?

3 MR. GELFER: Let me just run back --

4 MR. SEATS: I think Slide 18 is the one to look
5 at. I mean, it's declining deal count at seed and angel
6 stage.

7 So you could -- I mean, so the aggregate market
8 charts are interesting, but in very real teams, I mean,
9 think about how much the U.S. economy has grown and changed
10 in five years from 2015. And there is a -- what is that?
11 15 percent decrease in effectively new company formation in
12 this category, right?

13 MR. GELFER: And then I do have this proportional
14 slide here, too, that might be helpful if you're just
15 wondering in terms of the breakdown between the stages.

16 So the chart on the left is showing the count of
17 deals proportionally stacked, and then the chart on the
18 right is the capital invested proportionally stacked.

19 MR. LEE: I think -- so, I mean, kind of within
20 the same theme, exactly because of the regime, one of the
21 recommendations actually this Committee adopted is to kind
22 of balance the investment protection issue that we talked
23 about, allowing non-credit investors to participate in the
24 same pooled vehicle as a professionally managed capital
25 manager.

1 But if you could maybe touch on the dynamics of --
2 you put it greatly -- the incentives of the managers
3 themselves, because even if we had that law, I can't imagine
4 Andreesen Horowitz, for example, being, all right, we'll
5 take 1,000 investors.

6 So, but I think a lot of the Florida managers
7 would because they would love to invest a million dollars
8 into their community. So have you -- do you have these
9 discussions with the actual fund manager or analyze the
10 growth or the incentives of the professional fund manager
11 themselves? Because, you know, as an example, in the last
12 meeting we had, we had the General Counsel of Blackstone,
13 for example, talk about this, which is, again, very
14 different from the small capital investments.

15 So I was wondering if you can kind of touch on
16 that basis of, if we had that kind of rule, could that
17 actually change the dynamics of increasing capital to small
18 sizes and middle of the country?

19 MR. GELFER: Yeah. To your point, Andreesen
20 Horowitz is not going to entertain an individual investor
21 who is trying to write a \$100,000 check to them.

22 So I think that, you know, obviously, they are not
23 at the same scale as -- you know, of BlackRock or Blackstone
24 that is trying to do the same thing, but I think that the
25 answer is similar in terms of you're going to have to find

1 the desire to invest in a specific part of the country that
2 is just not getting it because of structural reasons?

3 MR. GELFER: Yeah. So I think that you definitely
4 can set up a regional fund-to-funds. And there are actually
5 angel funds that we have in our database where it is
6 essentially 50 individuals who have gone out and said, "We
7 are going to pool our capital together to make investments."

8 And then oftentimes what they will do is they will
9 serve as what are called "scouts" for venture funds. And so
10 that fund of, you know, obviously not retail investors, but
11 people who are more like-minded to be going and finding
12 local investments, they will essentially work with more
13 prominent VC firms to help them find deal flow outside of
14 their local market and use that as a way into venture funds.

15 And so, you know, quite frankly, I think it's
16 going to be really hard for like a one-off individual, a
17 retail investor, to find a way to effectively invest in
18 these markets, and, you know, how you would want someone to
19 be well-informed and being able to do it. I think like you
20 have to have some sort of, you know, pooling of knowledge at
21 the local level if you're going to be going it at any sort
22 of scale.

23 MR. SOLOMON: So I have a couple questions to just
24 -- just looking at some of the data. First of all, I think
25 it would be really helpful -- and, obviously, you can't do

1 what we refer to as a fund-to-funds vehicle, so something
2 where a whole bunch of retail investors can put their
3 capital together and then go and commit as a single entity
4 into a VC fund.

5 And so I know that Hamilton Lane and a couple of
6 others have been looking at kind of pension plans, how do
7 you do that with a 401(k) where you can allocate capital
8 together to pool up, because even small institutions, quite
9 frankly, small endowments and foundations, they don't have
10 the ability to write a check big enough to get into some of
11 the big VC firms.

12 So I think like in terms of a retail investor, the
13 only way to kind of make it a kind of viable option, even
14 for something like a small Florida fund, would be to have
15 some kind of fund-to-funds mechanism where you could pull
16 those endowments together.

17 MR. LEE: I'm saying, is it not possible to
18 separate -- because I think what you're saying, yeah, you're
19 going non-credit investors access to the asset class by
20 giving them the funds and then they can go into Andreesen,
21 or whatever, but I think the point is, no, they actually
22 want to invest in their community, right?

23 So the fund-to-funds is not likely going to
24 allocate to a \$5 million angel fund in Florida. So, I mean,
25 does that make sense? Like how do we align the capital to

1 it now, but it would be great to see if there is a way to
2 bifurcate by industry. And I think, you know, you highlight
3 a few slides in here about, you know, health care versus
4 non-health care. I think that actually tells a very
5 different story. We do the same analysis.

6 I also think SAS and software, if you look at that
7 versus some other areas, that will tell a very different
8 story. And that we'd love to see the data with some of
9 those sets, some of those bigger sets that are probably
10 skewing medians, because it will probably be a little more
11 granular for this Committee to be able to see if there are
12 ways to maybe develop other vehicles or focus on other
13 vehicles that maybe aren't going after the same industries.

14 And I think if we look regionally, you know, there
15 are certain industries that are -- that are more well-
16 equipped to sort of be in various regions of the United
17 States, and we never get to really see that data. So I'm
18 curious to see if you have -- you know, there is a big
19 category in here for -- I was just looking through this on -
20 - there is a section called "Other."

21 MR. GELFER: Yeah.

22 MR. SOLOMON: Like, all right, that's probably the
23 largest allocation. Love to know what's in that "other."

24 MR. GELFER: Yeah, absolutely. I tried to
25 aggregate things as much as I could for this conversation.

1 We actually have a team of analysts --
2 MR. SOLOMON: That was on page 27 for everybody
3 that is --

4 MR. GELFER: We actually have a team of analysts
5 at PitchBook on the emerging technology team that -- it's
6 about eight people who are solely focused on different areas
7 of the market, whether it be artificial intelligence,
8 mobility, so, you know, automotives, fin tech. And so I'd
9 be happy to share that breakout with you as well as, you
10 know, if there are specific areas that you want to look at.
11 We have a lot of different ways that we can slice
12 companies, either, you know, by vertical or by traditional -
13 -

14 MR. SOLOMON: So I would say there are two vectors
15 that I would love to see is -- the regional breakdown by
16 industry. So it would be really interesting I think to see
17 if there are pockets of activity happening regionally that
18 maybe we, as a Committee, and maybe the SEC, can explore why
19 that is happening in that area, and if there are some
20 dynamics in that area that are really driving capital flows,
21 then maybe we need to expand to other areas of the U.S. I
22 think that would be one.

23 And then I have just a different question on
24 page 9. So looking at this data, up until about 2014,
25 people didn't have to travel so far to get early VC

1 investments. What happened in 2014?

2 MR. GELFER: So as I mentioned, over the last
3 several years we have seen activity move out of Silicon
4 Valley. And so while there is kind of, you know, under
5 investment throughout the rest of the country, we actually
6 have seen a pretty big uptick in other areas as well. And
7 so I think that's one of the reasons why you have seen that
8 number drive up so much.

9 Like I mentioned, I was just in Florida last week,
10 and there hasn't been a late stage round that -- or an early
11 stage round led by a local investor there, you know, in
12 months. And so I think like as you just see these
13 ecosystems develop across the country, the fact that, you
14 know, most of the capital still is in Silicon Valley is that
15 you are seeing that metric kind of just move up as those
16 Silicon Valley investors are going further and further
17 afield across the country.

18 MR. SOLOMON: Okay. So that's interesting. So
19 what would be interesting to lay off across -- because it
20 tells -- what you just said tells a very different story
21 than what I was maybe intuiting. It would be great to see
22 if there is an increase in the number of investments
23 regionally that then have to travel.

24 That's a very different dynamic than, you know, if
25 there has been a significant increase in the number of small

1 companies being formed in regions, that then actually go
2 somewhere, that's a very different story than I think the
3 one I intuited from this, which is, wow, the capital just
4 moved out of those regions and into the coasts, and that's
5 why people have to travel further.

6 MR. GELFER: Yeah. No, definitely --

7 MR. DEAN: You almost want to see --

8 MR. GELFER: -- more capital --

9 MR. DEAN: -- that chart that -- it's like three
10 different markets versus the rest of the country.

11 MR. SOLOMON: Right.

12 MR. DEAN: Like what's the California version of
13 that chart? What's the New York/Boston version of that
14 chart? What's the rest of the U.S., excluding those three
15 markets, version of that chart?

16 Because what I think the narrative -- the
17 explanation I think is that it is actually capital becoming
18 more available to the rest of the country. Is that right?

19 MR. SOLOMON: Yeah.

20 MR. GELFER: So there is actually a fund right now
21 called the Rise of the Rest Fund, which --

22 A PARTICIPANT: She's right here.

23 MR. GELFER: But if you think about that fund and
24 this chart, right, like we have a single location for the
25 fund. And if you make an investment on two opposite ends of

1 the country, all of a sudden that metric goes up a lot, too.
2 So I think like it is indicative of, you know, more capital
3 being spread a little bit more thinly, but just, you know,
4 any individual data point is going to pull up that number.

5 MR. FOX: You know, Jeff, that's -- while I was
6 sitting here reflecting -- and I think your point on
7 industry is I'm trying to get a handle on -- is the question
8 where the money is? Or, you know, is it where the ideas and
9 the concepts really are, right? Because, I mean, you know,
10 from my viewpoint, and, you know, on the accounting side, we
11 don't necessarily always -- at least in my firm, we always
12 deal with the early stage, right?

13 But we -- you know, it seems to me that the world
14 is a wash in capital to a certain extent, and good ideas,
15 you know, I'm not saying they always get funded, but, yeah,
16 I've seen a lot of examples where somebody has a good idea,
17 and with the right contacts, you know, you can get funding
18 easier than I could -- than I saw 10, 15, 20 years ago.

19 But, you know, when I started looking at this, I
20 look at things like in Silicon Valley you also have alumni
21 of a lot of those companies that were successful that come
22 out and they know how to -- you know, they have ideas, they
23 have seen how things actually get transformed, they know how
24 to run that sort of stuff. You have a lot of research
25 institutions.

1 I look at even like some of the other things
 2 around here, like Minneapolis, you've got 3M, Medtronic,
 3 you've got all of those alumni, you've got a big history of
 4 a lot of startups there. You know, and so you've kind of
 5 got pockets where you actually have, you know, idea creation
 6 going on.
 7 And so I kind of wonder if the issue is, is like,
 8 are the other factual questions that are causing where
 9 funding is happening and startup creation is happening
 10 versus, say, where the capital is located? Because, I mean,
 11 I've got to tell you, I mean, my experience is is whether a
 12 venture fund/capital fund is located in San Jose or, you
 13 know, New York or Chicago or Miami, they get on planes and
 14 travel all the time, right?
 15 And I don't know that they have a bias towards it
 16 being in one particular location, you know. Now you've got
 17 to have the right connections to connect you to those funds,
 18 so I'm not saying it's not a problem.
 19 But I'm also wondering if it's truly just where
 20 the funds are versus, you know, for the companies that are
 21 looking to go upwards, and then there is another subset of
 22 the -- you know, the companies that aren't going to have
 23 this massive upward trajectory that are just the small
 24 businesses looking for capital that are going to probably
 25 stay small over time, and are they struggling because of the

1 flight of capital to the coasts? And is that two separate
 2 issues that we're talking about here?
 3 MR. SOLOMON: Well, on that, so do you track the
 4 movement of companies? So is there a data that -- just like
 5 what Robert had mentioned, you know, companies who got to a
 6 certain size, got funding, moved to the coast. Like how
 7 many of those happened? Because that would be something
 8 that I think would help to -- help us to understand that
 9 narrative a little bit better. Or is it not happening? I
 10 don't know.
 11 MS. GARRETT: Just to add on that point, I mean,
 12 we've heard that -- may not in this room right now, but
 13 we've heard that some companies are forced to then move.
 14 MR. GELFER: Yeah.
 15 MS. GARRETT: So they might be located in Florida
 16 or Missouri, but then once they get funding from their
 17 venture capitalist in these coastal regions, they are forced
 18 to move their headquarters to a Silicon Valley or a New York
 19 or a Boston. Are you seeing that?
 20 MR. GELFER: So we definitely hear that as well
 21 kind of qualitatively. It is very difficult for us to
 22 quantify that because a lot of companies when they raise
 23 startup capital will open an office in the Valley, and we
 24 don't know whether it's their headquarters or not, so we
 25 haven't been able to actually pin down how many are actually

1 being forced to move, but we do have data on, you know,
 2 companies that, you know, have a headquarters elsewhere, and
 3 then also have an office in Silicon Valley as well.
 4 MR. SEATS: Can you react to Robert's question,
 5 though, on -- you know, I don't know if there is a succinct
 6 reframing, just to refresh the question. But, you know, do
 7 VCs travel?
 8 MR. FOX: Yeah. Do VCs travel or not? I mean,
 9 I'm just curious.
 10 MR. GELFER: So the answer is --
 11 MR. SEATS: And do they have preferences where
 12 they travel, or are all places equal?
 13 MR. GELFER: So the answer is, yes, they travel,
 14 but I feel like the bar for traveling is pretty high. And
 15 you mentioned connection several times, so I think, like, if
 16 you're a VC, and you're going to fly out to Denver, like
 17 what is going to actually compel you to go out to Denver?
 18 Probably because you know that founder or some other founder
 19 has recommended them to you.
 20 I think it's really hard if, you know, you're
 21 starting from scratch in Kansas City or something like that,
 22 and it's like, hey, I'm just going to, you know, attract
 23 investment here. I think that that's one of the big
 24 barriers, like you mentioned connections, that just -- it
 25 can't be overstated in the metrics space.

1 MS. MILLER: I also think it's telling to look at
 2 Slide 9, which is the chart that he put up early on in the
 3 presentation about the median distance between the investor
 4 and the target by stage, because you see that the number of
 5 miles is correlated to how much money they can deploy and
 6 make that flight worthwhile. They are not -- it doesn't
 7 look like the flights are happening, or if they are, they
 8 are not factoring into the averages or the median quite with
 9 the effect that you might hope. But early stage still
 10 remains the local metrics, whether you talk about it as a
 11 car ride that's an hour or two away, but those numbers I
 12 think are really interesting to the question that you were
 13 asking, Bert.
 14 MR. GELFER: The other thing to point out here,
 15 too, is, you know, while VCs will be willing to invest
 16 outside of their local area, if you have -- you know, a VC
 17 fund typically has -- we'll call it 25 portfolio companies,
 18 there is obviously a limit on how many you don't want -- you
 19 want to have to go on a plane to, right?
 20 So I think that that's another factor as well is
 21 like, out of a portfolio of 25 companies, you know, we can
 22 all think, how many of those are you actually going to be
 23 wanting to visit multiple times a month, having to go on a
 24 plane?
 25 MS. MEHTA: Yeah. In addition, I mean, a lot of

1 these VCs that we're talking about take, you know, a
2 controlling position or, you know, a big stake of the
3 company, and they often take a board seat. And so when you
4 imagine, then, like having to travel for board meetings, and
5 you're very -- you know, they tend to be very involved with
6 the company, and it's just harder to do when there's more
7 distance.

8 I mean, we're a different kind of fund because we
9 don't take -- we typically don't take board seats. And we
10 like to, you know, spread money around to a lot of different
11 companies, and we like to be catalytic capital and
12 encourage, you know, some of the regional funds as well to
13 invest in those companies in their own backyards. And so,
14 but I think we're a very different model than most.

15 MR. YADLEY: I think the information you have --

16 MS. MOTT: This is Catherine. Can I -- one of the
17 things I can speak to is like more testimonial, is that what
18 we see is that a lot of our big companies that have been
19 well funded, like Argo out of Pittsburgh, it's a spin-out of
20 a CMU, they have to locate to California.

21 I'm invested in another company where -- it's one
22 of Peter Thiel's funds. Peter Thiel will not travel to
23 Pittsburgh for a board meeting, but everybody else on the
24 board has to travel to Peter Thiel's office.

25 So there is a dynamic that I see locally, which I

1 trying to bring capital into the community, talk about their
2 plans for creating these fly-in days, and their strategy is
3 not around mobilization necessarily of local capital. They
4 would love to see that happen.

5 But much of the energy is focused on figuring out,
6 how do you get people on airplanes and buy them plane
7 tickets to get there? That is what a lot of communities are
8 thinking that's -- this is the ticket. This is how we get
9 our companies funded is we start buying plane tickets for
10 venture capitalists, and we fly them in together, and we put
11 on these roadshows and try to show off our community.

12 And we have heard it again and again, that the
13 strategy has moved away. In some ways, they have realized
14 maybe the local mobilization is more challenging than buying
15 plane tickets for those that we know already have a fund set
16 up and capital that they are looking to deploy.

17 And I just think that's a very interesting
18 dynamic, particularly in light of last week. So we were
19 hearing all of that at the same time that the Volcker Rule
20 proposals came out, which I know that Chairman Clayton
21 highlighted earlier. I would encourage anybody who is
22 interested in that topic to look at it and provide comments
23 and feedback on the proposed changes to the rules that would
24 have the effect of allowing community banks to invest and
25 support venture capital funds.

1 don't think you can identify in your data, but I think for
2 this group to think about is what we see as the reason
3 companies are getting funded by the California companies
4 locally, and then of course having to locate, like Sapna was
5 saying, because they have to locate to the west coast
6 because they want to be close to the C suite.

7 The dynamic is that the reason our companies are
8 getting funded in California is because a lot of those folks
9 are CMU grads that from the previous companies are partners
10 in those funds. So there is a personal connection to those
11 funding situations.

12 So if you have -- so, you know, again, I see a
13 fact, a dynamic, again, which we can't track because this is
14 -- this dynamic is all about connections. If you don't have
15 those connections to Silicon Valley, how likely will your
16 company be even looked at? Thanks.

17 MS. MILLER: Catherine, I think further to that
18 observation, one thing that we have heard -- and last week
19 we heard it a couple of different times -- we were away from
20 D.C., engaged in outreach, and particularly focused on
21 Latin X and Hispanic business owners.

22 And we were talking about where are the sources of
23 capital coming from, and we heard the narrative that we've
24 heard before, which is, when you talk about their strategy,
25 the people who are kind of the community mobilizers that are

1 It's something that we have heard a lot of people
2 anecdotally talk about, the changes the Volcker and how that
3 impacted community banks' ability to support companies
4 locally to be the lead anchor in a local fund, but encourage
5 people to take a look at it. Most people if you hear
6 "Volcker" and "updates," you might not think, okay, small
7 business capital formation; I plan to pull that out and look
8 at it.

9 But I do want to just give a plug for anytime we
10 put out something for comment -- and that is jointly with
11 other regulatory agencies -- it is critical that we actually
12 get feedback on whether or not you think this does something
13 good, whether or not you think we need to make further
14 changes to it, and so there is a lot in there, but encourage
15 you to take a look at that because that is a very relevant
16 topic.

17 As we look at the interplay with the topics that
18 we are talking about today, I can't stop thinking about all
19 of the other moving pieces of what we have going on here in
20 the agency.

21 MR. YADLEY: James, thank you very much for being
22 here. This has been really helpful. A couple of things
23 you've said -- critically, the fact that most venture
24 investments don't work out, which people have to remember.
25 And the travel time and the energy it takes to make an

1 investment I think focus on keeping the connection between
2 local money/local companies is important because it takes
3 slugs of money.

4 And Silicon Valley, you have this network of
5 people who know each other, alumni of companies who can put
6 together 300-, 400-, \$500,000 through half a dozen people,
7 and if it doesn't work and there is no promise, that's that.

8 But there are successive rounds there. So sort of the pre-
9 seed and seed rounds -- on the west coast of Florida we have
10 tons of small companies, and they are raising money all the
11 time from local people.

12 You can fly an investor in to look at these
13 companies, but without a connection and a company that fits
14 a platform that the VCs are constructing, it's just another
15 company with a business plan and a good idea in a sector
16 that's hot. And how do you make those investments?

17 So I think the pooled vehicles definitely is
18 something that we're going to talk about because
19 diversification for the investor side -- for the companies,
20 the match -- making that match is always important. It's
21 going to take contacts.

22 But at some point along the way, there has to be
23 traction or you're not going to get beyond those smaller
24 funds. I mean, to get some of the name-brand funds, they
25 are not going to invest \$20 million and there is no need for

1 will happen is you'll get angels who will band together and
2 do one of those initial kind of 500,000, \$1 million rounds,
3 and they will, in those rounds, you know, essentially get
4 into the cap table. And then, for subsequent financings,
5 they will have the ability to invest at a pro rata rate.

6 And as those rounds get bigger and bigger,
7 typically the angels will reach a threshold where they say,
8 "I actually don't have the capital. I like this company. I
9 want to stay invested." And that's when they will team up
10 with a venture firm who can provide more capital going
11 forward.

12 MS. GARRETT: Okay. So, at that point, the
13 venture capital company is actually investing directly into
14 the company.

15 MR. GELFER: Yes. Yes.

16 MS. GARRETT: Okay.

17 MS. MOTT: This is Catherine. We have quarterly
18 calls -- well, first of all -- angel groups syndicate deals,
19 and we're still around, so you'll get three or four angel
20 groups that will syndicate and go around. But also, I mean,
21 we have learned to have these -- to build these
22 relationships with VCs, and we have quarterly calls with a
23 set of VCs, and we're meeting new VCs all the time, but it's
24 because we have to, if we want our company -- our company to
25 be successful.

1 them to invest \$1 million, because there is nothing proven
2 yet and there is no distinguishing factor.

3 MR. GELFER: I definitely agree with that. And,
4 you know, I think the Utah example that I pointed out
5 earlier of just, you know, you need those successful exits
6 where you're going to have someone in the ecosystem who
7 knows how to do it.

8 And, you know, one thing that we've been hearing a
9 lot more, I mentioned a little bit earlier, is scouts. So
10 essentially that is angel investors who have relationships
11 with existing VC funds and are helping them to find deal
12 flow, typically for areas outside of Silicon Valley.

13 I think that's an area that sounds, you know,
14 particularly promising in terms of identifying new
15 opportunities.

16 MS. GARRETT: This is to follow up on what Greg
17 just said, and also what Youngro said a little bit earlier,
18 and you -- you mentioned, which was that you're seeing small
19 angel -- and what you've just mentioned right now, small
20 angel investors pool together at the local level to invest
21 in local companies.

22 But what you also said is that often that those --
23 those funds need to actually tap into larger VC funds. Is
24 that what I understood?

25 MR. GELFER: So typically the model there, what

1 Oftentimes, though, that does mean they move out
2 of town, rather than stay locally and create the jobs here
3 where there is talent, by the way.

4 MR. SOLOMON: When you visited some of these areas
5 like in Florida, have there been any suggestions that have
6 been surfaced, have some of these dialogues about how to
7 foster, you know, more capital formation locally, than just
8 -- other than, you know, private-public partnerships and the
9 things that I think we have all seen. But has there been
10 anybody that you have heard who has identified some
11 impediment that maybe we should be considering?

12 MR. GELFER: Frankly, I haven't heard anything
13 specific. I think, you know, we've kind of touched on a lot
14 of big ones. You know, in Florida, I thought it was
15 interesting there was a big \$1.5 billion exit, and they were
16 asking, you know, a panelist of seven VCs what they thought
17 was going to be like the key to growth, and almost every
18 single one of them said, "Well, hopefully, some people from
19 that exit will go off and start, you know, angel syndicates
20 and start investing here locally."

21 So I think that, you know, there is kind of a
22 playbook, and there are certain areas I think -- you know,
23 Utah, like I mentioned, is when you look at the activity, it
24 is definitely disproportionate in terms of how many people
25 are there. And I think like it's just -- they have two

1 strong research universities. They have a very
2 entrepreneurial kind of mindset.

3 They have some local successes that have been able
4 to recycle money, and so I think, you know, I typically hold
5 that up as like one of the examples of, you know, an area
6 that you typically wouldn't think of having a good VC
7 ecosystem and kind of like laying forth a blueprint for how
8 to do it.

9 MR. SOLOMON: It's interesting, you know, we've
10 talked a little bit about this. So there are definitely
11 pockets of capital in a region that -- in regions that are
12 actually looking to the coasts to invest, which is -- it's
13 sort of you get capital flagged. Have people talked about
14 that also?

15 MR. GELFER: I don't hear as much as about that,
16 but where you do start to hear it is the larger funds that
17 are coming into play. So, for instance, in Seattle, I think
18 -- where I'm from it's a good example of a going venture
19 ecosystem.

20 And a few of the bigger funds now that have been
21 around for 20, 25 years, increasingly when you look at the
22 deals that they are doing they are actually going down to
23 Silicon Valley, even though, you know, Seattle is up on that
24 list of underfunded, and so there's Portland in between us,
25 but, you know, those bigger funds are increasingly, to your

1 point, kind of going to Silicon Valley to fund those big
2 deals as they get bigger.

3 MS. GARRETT: Do people have more questions for
4 James?

5 MR. SEATS: Jeff, were you asking about that, or
6 were you asking about LP capital?

7 MR. SOLOMON: Well, no. So I've just been -- I've
8 noticed that there are big pockets of capital in the middle
9 of the country.

10 MR. SEATS: Right.

11 MR. SOLOMON: They just don't seem to invest
12 necessarily meaningful amounts of capital in the middle of
13 the country. So if you think about the cities we have
14 mentioned, they have significant capital resources, many of
15 them, that would be more than enough to fund, you know,
16 Series A rounds for companies and their own areas, but they
17 are not.

18 And I just -- I'm not exactly sure whether there
19 is an incentive structure for them to do it, but, you know,
20 in many instances these organizations, the opportunity set
21 is right underneath their noses and they don't seem to be
22 necessarily doing it.

23 So I'll just -- you know, again, I'm not -- I
24 don't want to pick on names, but there are -- you know, in
25 my hometown, which is Pittsburgh, there's a lot of capital

1 in Pittsburgh, and there's -- there are folks -- and I know
2 Catherine and I have talked about this -- there is huge
3 pockets of capital that is dedicated to doing some venture
4 financing. Oftentimes they are investing, you know, this
5 old family money or some of the universities are investing
6 in other areas.

7 MR. SEATS: Right.

8 MR. SOLOMON: I think there is a hope that by
9 investing in other areas they can bring some of those areas
10 back to the community, but there is no -- there is not
11 necessarily a tie-in. You mentioned -- somebody mentioned
12 Minneapolis. There is tons of family offices and great
13 wealth that has been created in the Minneapolis area.

14 Yet I look here on some of your statistics, and
15 Pittsburgh and Minneapolis are at the bottom of the -- at
16 the bottom of the ecosystem in terms of the amount of
17 venture dollars, as you define them, dedicated to those
18 communities.

19 And I'm just -- I'm just wondering if there is a
20 functional impediment that we can address, you know, that
21 would foster that kind of collaboration where these pockets
22 of capital are pooling money from the coasts, or is it just
23 not on their radar screen? Are they only, you know, ROE or
24 IRR focused? I just -- I don't know.

25 I mean, because it would seem to me, you know,

1 we're trying to solve it from a -- you know, from where we
2 sit, but there is all this data that we're gathering that
3 suggests there is capital there, there is companies there
4 that probably need to get access to that capital, and they
5 are not necessarily seeing each other when -- and I think
6 that those pockets of capital could easily be drawing
7 capital from the coasts, because, you know, I will tell you,
8 you know, when we go to raise money, guess where we go to
9 raise money? The middle of the country, because there is a
10 lot of money there.

11 MR. SEATS: That's right.

12 MR. SOLOMON: Right? And then we take it to the
13 coasts, right? That's what happens, and so --

14 MR. SEATS: Yeah. That's what I thought you were
15 asking. I mean, that was the dynamic I was sort of framing
16 earlier.

17 And maybe I'll just draw -- pull a thread through
18 a couple of these things. I mean, I think to -- Bert, to
19 your point, like the existence of the scouts by that type of
20 program I think is evidence that there is belief in the
21 venture industry that the talent is distributed across the
22 country, like there is -- there is meaningful effort to go
23 source the talent.

24 It's clear you can go measure -- the capital
25 exists in those markets, and then you combine with that that

1 it's a highly volatile underlying asset, very -- extreme
2 variability on return profile, and which makes it
3 potentially inappropriate for some investors. And I think
4 all of that points to the right mechanisms are
5 intermediaries and pooled vehicles that help bring the
6 variability down and that help connect the capital
7 allocators to local markets.

8 And then, in addition, sort of the -- that -- you
9 know, this graph we've been looking at on the earliest
10 stages need to be funded effectively by nearby capital. And
11 so I think there's a lot of market dynamics that you can't
12 change, like bigger funds make more profit, like you can't
13 change that, right?

14 But I think the things that we can think about are
15 anything that can make it easier for pooled capital
16 formation, whatever that -- whatever form that would take in
17 local markets, I think that's the thing. That's the ticket
18 in my opinion.

19 MR. FOX: I agree with that, but the only devil's
20 advocate thing I will throw out there is, I was sitting here
21 thinking about him talking about South Florida, and there is
22 a lot of hedge funds, there's a lot of private equity that
23 sits in South Florida. So there is actually already a lot
24 of capital allocators sitting there, and yet no one sat
25 there and said, "Let's come up with a venture capital fund."

1 And so, to me, either there is -- somebody has
2 determined the ROI isn't there, or there is some other
3 structural impediment because there is a lot of other people
4 that are allocating capital in that same marketplace and,
5 you know, getting it probably from all over the country or
6 the middle of the country there, too.

7 So it does kind of make me kind of curious, you
8 know, what, you know --

9 MR. SEATS: My reaction to that -- and I think
10 we'll hear some of the -- some anecdotes later from our
11 guests, but the -- when you're managing \$25 billion, and you
12 decide you're going to put whatever -- five percent towards
13 venture, there is only so many relationships you can manage.

14 There is only so many fund managers you even want
15 to talk to, and so you self-select into the largest funds,
16 which are not any of the ones that are in these ecosystems
17 that are starting from zero.

18 And so if you're going to go raise a \$50 million
19 fund, or a \$25 million fund, that would be catalytic for a
20 local market, you sometimes -- these people won't even --
21 there is just a disconnect. And it doesn't have anything to
22 do with the return profile. It has to do with the required
23 check size, which is 100 percent a side effect of just the
24 macro construction -- you know, construction of how these
25 capital markets are honed together.

1 And so if you have to write a \$50 million minimum
2 check into a fund, what size funds are you going to talk to?
3 Talk to billion dollar funds, right?

4 MR. YADLEY: There is also in places like Florida
5 a real competing asset class, which is real estate, which a
6 lot of people feel they can touch it and see it, and there
7 is a momentum that is putting a lot of dollars there.
8 Again, that's a very incomplete answer, but it's easy for
9 people who are not already a veteran of an entrepreneurial
10 company and has had an exit and wants to be an angel. They
11 are just wealthy families, and that's right in front of
12 their noses.

13 MR. GELFER: The other thing I'll mention --
14 sorry. Go ahead.

15 MS. MEHTA: Oh, sorry. Just to build on that, I
16 mean, anecdotally, we have seen this in a few of our
17 markets, you know, Dallas, some places in Florida where they
18 are not used to venture as an asset class.

19 And so when I negotiate with them, you know, they
20 are giving me like private equity-type term sheets and deal
21 documents, and it's like making my head explode because I'm
22 like, this is not a venture. This is not -- these are not
23 venture documents, like you -- clearly, there is a
24 disconnect between, you know, your risk profile between what
25 you want to do and what you are actually doing.

1 And so we definitely see that where it's --
2 venture is just a different beast, but --

3 MR. GELFER: One thing I'll mention about Florida,
4 too, when I was there is a lot of the investors who, you
5 know, were not based in Florida but were investing would
6 say, "I'm going to do my Florida trip because I have to hit
7 Miami and Jacksonville, and all of these other places." And
8 I think, you know, that's one of the reasons I like using
9 the CSA framework as opposed to the state framework.

10 Ohio is another good example where it's like when
11 you just look at statewide activity, like if you're a
12 venture investor there, you can't cover the whole state in a
13 way that you would be able to somewhere up in northeast
14 where the states are just geographically smaller, too. So I
15 think that's something that is at play in a lot of places
16 where you would think that there's a lot of activity.

17 Chicago is another one where it's like the
18 ecosystem there actually goes all the way to South Bend in
19 Indiana, and there is like actually a much bigger geographic
20 footprint than you would think in terms of the venture
21 ecosystem. So I think that's just another thing to
22 consider.

23 MS. GARRETT: Does anybody have any further
24 questions for James? If not, then I'm going to thank him
25 very much for all of the very interesting data that you

1 provided, and thank you so much for coming to our Committee
2 meeting today. It has been very eye-opening for all of us,
3 so thank you very much.

4 For the Committee members, I have -- I think if
5 we'd like to continue to discuss some of these issues that
6 James has risen. We have until 11:50 to discuss these
7 issues. So thank you, James, very much.

8 MR. GELFER: Thank you very much. Thanks for
9 having me. And like I mentioned, if you all need any more
10 data or any other follow-up, please let me know.

11 MS. GARRETT: Thank you.
12 Youngro?

13 MR. LEE: Yeah. I was going to -- just since we
14 have more time, I do want to kind of put this idea. This is
15 more of a rhetorical comment, but I think we're all -- even
16 this conversation, we're really talking about basically,
17 okay, like we know there is people with money or firms with
18 money, and so how do we get those money to invest in local
19 markets? Which is definitely a critical part of this
20 discussion.

21 But I think the obvious question in my mind is,
22 okay, well, besides that, what else is there? And,
23 obviously, the other question is, okay, who are the people
24 that are willing to invest in it and allow them to invest?
25 And I think the whole point of this exercise is that there

1 is laws in place and there's structures in place that
2 literally prohibit the people that do want to invest in that
3 small town to not be able to invest because of rules and
4 regulations.

5 So, I mean, and it's just a thought that I wanted
6 to present, whether in this session or otherwise. There is
7 very systematic things that went on here that we'll talk
8 about, but how do we actually change? Like we talked about
9 the regulation crowdfunding or Reg A or fund vehicles,
10 because the people that are going to invest in Pittsburgh,
11 and are happy to invest \$50,000, \$100,000, those people,
12 like, there is zero possibility of them doing it even if
13 they want to.

14 So I just want -- my reaction to this discussion
15 earlier, it has been much more -- like there is clearly a
16 systematic issue, but I think maybe where we as a committee
17 can add more value is the other side of it, which is the
18 people that are just not even covered in this discussion
19 today, and that are people that really, really care about
20 that community and are willing to invest in that community,
21 understanding the risks, understanding that of course it's
22 risky and they might lose money, but they do have the desire
23 to do so if only they could.

24 MR. SOLOMON: So I guess my question is, is that a
25 function of, you know, a regulatory impediment? Or is it

1 just a function of fund slows? And so when I think about
2 how money gets raised, you know, there is many pathways. We
3 have discussed most of them, right? Harmonization is geared
4 towards streamlining that, and that's a great step in the
5 right direction.

6 But, again, if I were sitting in a spot where I
7 wanted -- and it was in my best -- it was in my best
8 interest to reinvest in the community in which I lived, or
9 to foster economic development in the community in which I
10 lived, is there an impediment or a reason why I might not
11 form a vehicle that included individuals or included, you
12 know, local -- other local pockets of capital to invest?

13 And I don't know. Like that's what I'm asking. I
14 think I -- we know what we know, we know what we don't know.
15 I just don't know if -- if someone said, "Well, I'd really
16 like to do this, except, God, there is this rule which kind
17 of is in my way." Or have they just not thought about it
18 yet? And, if so, you know, maybe we should have them think
19 about it, and then if there is a way for us to be doing some
20 things here that help to make that easier, great. But I
21 just -- I'm worried that I'm not sure they've actually
22 thought about that as a viable way to get reinvested. If
23 anybody has any thoughts on that, it might be helpful.

24 MR. LEE: Just on that, I mean, so the answer -- I
25 don't want to oversimplify it, but it's absolutely, yes.

1 And I think the accredited investment -- I think there is a
2 prime example of that -- that limit, right? So I think it
3 was the last session when Ross Baird talked about African
4 American professionals in Baltimore that had whatever legal
5 degrees, MBAs, whatever. They literally want to invest in
6 whatever, their neighborhood coffee shop. They can't. By
7 law, they cannot invest in that company because they're not
8 accredited investors.

9 So that's a prime example of if the SEC's proposal
10 is adopted and made into law, I think there is definitely
11 some barrier that gets removed for people that are willing
12 to invest in their community.

13 And I think the other example, which Jason talked
14 about, and he has more experience than most, is the issue of
15 intermediaries and influence, because like funds like what
16 Jason is working on and what Sapna is working on, they are
17 doing that, but they have no mechanism to accept money from
18 people who are willing to then invest in those areas that
19 they are focused on.

20 MS. MILLER: Can I just jump in because this is a
21 prime moment for me to plug providing a comment letter? If
22 you have thoughts on the accredited investor definition, we
23 put out a proposal, and just so that you know, we do say
24 that the comment period has an end date, but that doesn't
25 mean that we shut down the mailbox. Things still come in

1 after the fact.
 2 Please share your feedback on whether you think
 3 the rule works as it is proposed, what changes you think
 4 need to be made, because we very much so value that. So I
 5 just want to make it -- just to reiterate as much as -- and
 6 I know that the Committee did provide a recommendation to
 7 the Commission on that topic. But it is critical that we
 8 have feedback, so just, again, as just a reminder that that
 9 is something that we have on the agenda.

10 We are very transparent with what we're working
 11 on, thanks to a congressional mandate, as well as just how
 12 we run as an agency. And it is something that is on the
 13 short-term agenda. So please do provide feedback on that
 14 topic, because it is one that we are actively seeking market
 15 input on.

16 MR. FOX: Well, just on a fact point, can I ask
 17 the staff to refresh us on some facts from that meeting? I
 18 mean, I definitely remember the conversation about the
 19 lawyers in Baltimore that are all securities attorneys that
 20 would like to invest.

21 And at a micro level, I don't doubt that there are
 22 people who want to reinvest in the community, but I also
 23 thought we heard a lot of facts about when you look at the
 24 definition of accredited investors, and if you change that
 25 definition, there -- I'm not sure it actually moved the

1 local businesses when they clearly have better knowledge on
 2 how to invest than I do.

3 And there is really no reason why I can invest
 4 because I'm accredited and they can't. It just -- it makes
 5 no sense to me. They are probably more qualified than I am,
 6 just based on their proximity. So I think that's one thing
 7 that we discussed.

8 But I was sort of more thinking of, look, what do
 9 individual investors -- actually, what do most institutional
 10 investors want? They want to partner with people who have a
 11 better screening mechanism, or with institutions that have a
 12 better screening mechanism. That's really what they want to
 13 do for the most part.

14 And it actually dovetails really well with
 15 investor protection, because what do we want? I mean, if
 16 I'm -- if we're advising the SEC, like I really don't want
 17 people making investments with their hard-earned dollars
 18 that -- where there is not some other entity in the room
 19 that actually is accredited and knowledgeable. There is
 20 enough risk in these investments as it is anyway. We
 21 certainly want some screening mechanism.

22 I think we should be focusing in on a mechanism
 23 where if there is an institution -- local institution where
 24 they are willing to establish a vehicle to invest locally,
 25 out of their endowment, out of their pension fund, out of

1 needle that much.

2 And if I just think about the general retail
 3 investor having a lot of their money in 401(k)'s, having a
 4 lot of not necessarily excess cash to invest, and that sort
 5 of stuff, I guess I'm just not sure -- and, Jeff, back to
 6 your question -- I'm not sure if you take your average
 7 retail investor that, a) they are going to have that much
 8 excess cash, and if they do, they are going to sit there and
 9 say, "Hey, I want to invest in my community," or am I going
 10 to pick the highest ranking fund based on Morningstar or
 11 whatever else.

12 I'm not -- I mean, some of them will make those
 13 choices. I'm just curious whether it's going to be enough
 14 to truly move the needle one way or another.

15 MR. SOLOMON: Well, so let me -- so we tried to
 16 solve a few things in our discussions, and, again, I go back
 17 to market forces. So I don't -- I think Youngro brings up a
 18 good point. I mean, there are definitely some structural
 19 impediments for individuals investing in things they know
 20 more about because they are not accredited.

21 And we I think provided some good guidance last
 22 time for how we should make exceptions to accredited
 23 investors, so that people who have a knowledge qualifier can
 24 get exempted relatively easy. That's an easy fix for people
 25 who want to invest some of their hard-earned dollars in

1 their family office, or whatever it is, that they should be
 2 feeling like they can add incremental dollars to that pooled
 3 vehicle from local investors, because I think there is an
 4 attraction on the part of local investors to partner with
 5 local knowledgeable folks.

6 I think the impediment to that, if I'm sitting in
 7 their shoes, is I don't want the -- I don't want the
 8 liability. Like I don't -- I'm happy to give you the
 9 opportunity, but I really don't want to open myself up to,
 10 you know, being criticized, because a bunch of these things
 11 are probably going to fail.

12 And I don't know how to -- I don't know how to
 13 bridge that gap. I would think that a big part of the
 14 reason why people don't want to individual investors as a
 15 part of their pooled investment vehicles is because there is
 16 liability associated with that. And we know there is going
 17 to be failure.

18 And, I mean, we see it in public markets all the
 19 time. Every time there is a -- you know, an IPO or
 20 something that goes awry, you know, everybody shows up
 21 looking for where the fraud is. And most of the time there
 22 isn't fraud. It's just, I don't know, bad management, right?
 23 That happens in these earlier stage investments.

24 And so I'm just trying to figure out, how do we
 25 create some new structure in which we can have a

1 sophisticated individual, family office, institution, who is
2 incentivized to invest locally and take other accredited
3 investors, and that might actually be -- I don't know if
4 that's a new vehicle or if there is rules that allow for
5 that that -- some mechanism where we can create that because
6 it's more obvious to have locals invest locally I guess is
7 my point.

8 MS. MOTT: This is Catherine. Can I say a few
9 words, please?

10 MS. GARRETT: Catherine, real quick. We have a --
11 Catherine, this is Carla. We have a speaker from the
12 audience who has been wanting to ask a question, so let's
13 let her go first, okay? Thank you.

14 MS. MOTT: Okay.

15 A PARTICIPANT: *13:23:15

16 A PARTICIPANT: Thank you. You'll hear from us
17 this afternoon, but one thing that hasn't been mentioned is
18 not just venture funds who have this problem, but also he
19 mentioned debt funds. There are now revenue-type funds.
20 There is a lot of funds dealing -- looking for markets that
21 are beyond venture, because venture is just a small, small
22 set.

23 So we're talking about venture here, but that's
24 like five percent or less of the total companies. And that
25 structural problem is, we all are limited to 99 investors in

1 our funds.

2 So even if we had someone who wanted to invest
3 \$50,000 in my regional fund, I can't take them because if I
4 want to build a fund that's of the size that I need two
5 people on my team, we've got to build to a certain size,
6 I've got to fund those guys, I can't even afford PitchBook
7 actually because our tiny little fund needs people, you
8 know, to manage the fund.

9 So we can't take a 50- or \$100,000 investor
10 because the math doesn't work for 99 investors.

11 MR. LEE: I agree.

12 MS. GARRETT: Catherine?

13 MS. MOTT: I agree with that point as well. Thank
14 you. Thank you. I agree with that point that was just
15 made, and I think that could move the needle locally as
16 well, if we -- like right now, the legislation expanded back
17 to I think it's 250 LPs, but they capped it at 10 million.
18 So that doesn't work.

19 But I think there's a lot of things we can -- that
20 are going to happen here that will move the needle. That
21 was the question is that, if you looked at angel investors,
22 they are small in number but they're moving a needle. They
23 are getting companies off the ground.

24 And the more you can grow that pool, whether it's
25 through, you know, changing accreditation or even looking

1 at, you know, being able to make it easier for finders, one
2 of the things -- that entrepreneurs don't have the network
3 to find people, to fund their companies. They are not
4 running in those circles.

5 So I think if we would take a look at finders, I
6 think the Volcker Rule will make a difference. I think all
7 of this together will move the needle, and I -- I just want
8 to make -- I am just replying to someone who had the
9 question of whether or not this would all move the needle.

10 If we looked at, again, we have to provide I think
11 the harmonization and other things to make sure that we are
12 -- we have new company creations happening, and it has been
13 falling off for a number of years. And this is a pretty
14 critical point.

15 So nothing starts out big. It starts out small,
16 and a lot of these small things are going to make a
17 difference and move the needle.

18 That's my two cents.

19 MS. GARRETT: Thank you.

20 Martha, can I ask you a question? Can you give us
21 a little bit of background, or Julie, on the 99 investors
22 for maybe those of us that aren't quite as familiar with it?

23 MS. MILLER: Happy to. There is a limit on the
24 number of investors that you can have in a venture fund,
25 which is 99. There is a small fund exception that allows

1 you, as she was mentioning, to have up to 250 investors in a
2 fund, but the size of the fund is capped at \$10 million.

3 MS. DAVIS: And just to follow up on that, because
4 I know we will hear some jargon this afternoon, there is two
5 different ways to be a -- and I should really let Jessica do
6 this, since it's more her area than mine. But you can be a
7 3(c)(1) fund, and that's where that 99 cap comes in. And in
8 that fund, it's usually almost always accredited investors.

9 You can also have a 3(c)(7) fund, which has
10 qualified purchasers, which is a higher level. That's like
11 a \$5 million inventory. And those are the big funds, are
12 usually 3(c)(7), and there is an unlimited number there but
13 they do have to be qualified purchasers, which is a much
14 higher threshold than accredited investor, which is the --
15 so that's where the 99 -- you start to hear about the 99
16 investor, and that's in those funds that have accredited
17 investors, not qualified purchasers.

18 MS. GARRETT: Thank you.

19 MR. SEATS: I'm going to react to Jeff's question,
20 which is I think a good one, which is, really, I would
21 recharacterize as, how much -- how much opportunity is there
22 to iterate on the regulations versus it's some other issue?

23 And it is in many -- I think the driving factors are a lot
24 of the "some other issue" things, and it's worth sort of
25 talking about them and understanding what they are.

1 And venture capital is often described as an
2 apprenticeship business, and so I think the phenomena that
3 you -- that was described in Utah, the reason why that
4 happens, it's not that the talent is not there, but if
5 someone has not been exposed to how it works, it is a
6 knowledge gap.

7 And so I think -- I think that's actually a big,
8 big factor in cases where the regulations are not preventing
9 pooling of capital, they are not preventing this flow of
10 money, but the knowledge of how to do it is what is a
11 barrier. And I don't know what the -- I'm not sure what our
12 role is to play in that, but it certainly is the dynamic in
13 many markets.

14 An example, I mean, I was an entrepreneur. I sold
15 my business to a company based in San Antonio, Texas. When
16 I moved to San Antonio, it was already the eighth biggest
17 city in the U.S. or something, and at that moment in time it
18 had two venture-backed companies in the whole city, and zero
19 professional investors and no VCs.

20 I would even say if your definition of "angel
21 investor" is someone who has made more than one angel
22 investment, it had zero angel investors. And so there was
23 no organized capital of any type.

24 And when TechStars opened an office there, like we
25 were an example. The people got to see what it looked like.

1 It demystified it, and now there are funds that are there.
2 They are small funds, but like the way to picture the
3 progression is people go raise \$5 million funds, \$10 million
4 funds. They could use their qualified venture capital
5 definition to go raise those small funds. I think it is
6 valid for sort of that level.

7 And I think the thing that maybe we could think
8 about is what are the -- how do we decrease the barrier to
9 those types of funds, because that's how people cut their
10 teeth, get comfortable with the asset, and start to walk
11 that chain and they build -- they raise larger funds and
12 larger funds. But it is very, very unlikely that someone
13 will start from zero with no experience and understand how
14 to navigate all of this stuff and go raise a fund using a
15 3(c)(7) exemption. Like that is never ever going to happen.

16 Like you have to -- you have to be in the world, right?

17 MR. SOLOMON: So later on today we are going to
18 talk a little bit about some of the exemptions for venture,
19 and then that's a big part of what we're going to talk
20 about. And so maybe I'll just put a marker down.

21 You know, there is -- in order to register the
22 exemption, the 20 percent for venture fund registration, you
23 know, maybe we should be looking at parts of the portfolio
24 that are, you know, meant to be invested locally or outside
25 of the major metropolitan areas as a way to get in -- like

1 maybe those investments don't count towards your 20 percent
2 exemption, or maybe investments -- I know we're going to
3 talk about investing in other funds locally, but there
4 should be some mechanism where we can incentivize it,
5 because this is what I see happening, right?

6 If we were to launch a venture fund, or anybody
7 launched a venture fund, and they go to the big pot of
8 capital that is sitting in the middle of the country,
9 generally, the conversations are happening like, we're happy
10 to take your, you know, money. We've got a track record.

11 So, you know, the pension funds and the family
12 offices and the endowments are falling all over themselves
13 again in Fund 4 or Fund 5, right?

14 But then those very same assets -- okay. Maybe
15 you're aware of some of the best companies that sit in their
16 region, but I'm not -- there's certainly no mechanism for
17 them to really show those companies into their venture
18 funds. I mean, it's sort of -- the venture fund will see
19 anything, but there's no -- and it's sort of like, yeah,
20 show me what you've got.

21 But there is no mechanism there for the capital
22 then to track back to those places, and that's why -- I'm
23 just trying to think it through because, you know, again,
24 hard to -- that's just a market function. That's not a
25 regulatory impediment. It's just a market function.

1 MR. SEATS: Right. But I think -- I don't know
2 that you'd want to color that capital would have to sort of
3 restrict that -- you know, to -- I'm not sure that that's
4 exactly the mechanism, because Rise of the Rest is a totally
5 different structure and I -- where the actual fund is
6 somewhere -- is here and you're seeding funds that are in
7 local markets.

8 And I think maybe more the phenomena to lean into
9 is the scout phenomena, like -- and a way to think about
10 funds and funds investing is it's just a formalization of
11 that, right? Instead of having an angel investor have to
12 get to a level where they are making a significant enough
13 investment to have pro rata that I am interested in tracking
14 and whatever else, like you're giving that person a million
15 dollars to invest in a diversified way in a local market,
16 and enough of -- a vote of confidence that other local
17 investors are willing to put their capital alongside you.

18 And then you are also, in effect, mentoring them
19 because now you are -- you can teach them how this industry
20 works, and that's the way to sort of genetically spread the
21 coastal understanding of how this works into those markets.

22 MR. LEE: And I think, Jeff, just to add to that
23 because I think -- I mean, I agree with both of you guys.
24 There is clearly a macro dynamic that we can't change,
25 right? It is what it is. But I think what Jason is saying

1 is even if you build that ecosystem of mentorship and
2 leadership, I think the point is, even if you get to that
3 point it's going to be hard to find capital for that, let's
4 say, \$500 fund because the people with capital as -- for all
5 of the reasons discussed, like literally is not going to
6 talk to you, right?

7 So you have to find the capital from other people,
8 and I think in that context the regulations can absolutely
9 make a huge difference, right? To I think Catherine's
10 point, yeah, and Robert, of course, it's not going to change
11 everything overnight, but, you know, I think even if it
12 makes incremental change, that's critical to show progress.

13 You know, as another example, we just talked about
14 venture capital exemption. So, I mean, we are assuming this
15 local capital is equal then to venture capital and it's not.
16 I think the lady previously talked about venture capital is
17 very, very specific. In fact, the venture capital exemption
18 that the SEC is talking about, it limits what capital you
19 can actually deploy into.

20 So if you're relying on the venture capital
21 exemption, you cannot invest in debt. You cannot invest in
22 anything that is not intended to be this growth capital in
23 the traditional sense of venture capital. So if we're
24 talking about local businesses, we all know they are not
25 going to be kind of ventures to high-growth companies. They

1 might literally be restaurants and bars and gyms, and so on.

2 So all of that is to say I think we should
3 separate the definition, at least the understanding of
4 venture capital, with let's just call it local businesses,
5 because under the common-sense understanding they are not
6 going to be the same type of capital.

7 However, I think there are ways that we can
8 absolutely improve and organize the laws to facilitate
9 better capital formation once these macro trends you're
10 talking about has been addressed in the form of mentorship
11 and guidance and knowledge based on this, and so on and so
12 forth.

13 MR. YADLEY: And just to pick up -- Jeff, you were
14 asking about the accredited investor. I mean, the funds and
15 the pooled vehicles, that is very promising and we're going
16 to spend the afternoon talking about that. Accredited
17 investor definition is part of Reg D, which works -- the
18 slide that has the two big circles, right? 506(b) and
19 registered offerings. I think the purpose is great. I'm
20 glad the Commission moved forward with this initiative.

21 Add more people. Keep the limits the way they
22 are, add for sophistication and knowledge of a particular
23 deal, because a lot of the local business is -- Youngro, and
24 we all know this -- and whether I hadn't heard the -- Jeff's
25 term "scout," but I'm working on a deal now with a serial

1 entrepreneur who has successfully taken companies public.
2 He has plenty of money. He is an investor in a venture
3 capital fund. This happens all the time. Venture capital
4 fund said, "We've looked at this company. It looks pretty
5 good. Too small for us. Too early for us. They need 4-
6 \$500,000."

7 You may want to look at it. It is small enough
8 that he is -- my client is going to do it himself. He is
9 thinking that in 18 months it will be enough to do a real
10 round. But these deals are small enough that, sure, he can
11 ask one of his friends, "Do you want to put in \$100,000
12 here?"

13 But, structurally, creating an environment for a
14 fund that's going to have a bunch of people invest \$10,000,
15 the company is moving too fast for that kind of money. I
16 mean, these are angel investments, but I think one thing we
17 can do is look at the staging of this, and can we get sort
18 of aggregates of investors, which could even under some
19 circumstances include unaccredited investors, earlier in the
20 process. But at the very beginning, savvy people, people
21 who are known, I don't think we need a ton of structural
22 changes to help those companies sort of see what they can
23 do.

24 And at the high end, the information that James
25 provided, there is plenty of money. But there are two or

1 three stages along the way where the small investments from
2 people -- I agree with what Catherine said -- of course,
3 finders, it's just that's something whose time came a long
4 time ago and we need to move on that.

5 MR. SOLOMON: So we're going to actually bring
6 this -- did you --

7 A PARTICIPANT: *13:37:26

8 MR. SOLOMON: All right. So we -- very robust
9 conversation. You know, Carla and I were looking at it. We
10 thought, oh gosh, maybe we might not be able to fill all the
11 time between, you know, 10:30 and 11:50. Obviously not the
12 case with this group, which is awesome.

13 There is just -- there is a lot to take away from
14 this, and I think some of it will continue into the
15 afternoon session. But now I believe we've got Commissioner
16 Lee. So I'm going to turn this back over to Carla who will
17 do the introduction.

18 MS. GARRETT: Yes. Hi. I think we have
19 Commissioner Lee, who is joining us now by video conference,
20 and she is in the SEC's Denver office. And she'd like to
21 provide some brief remarks to the Committee, and thank you
22 very much for being here.

23 COMMISSIONER LEE: Thank you. Thank you, Martha,
24 and thank you to Carla and the Committee for having me
25 today. I'm sorry I'm not able to be there in person, but I

1 am glad to be able to participate by video. So thanks to
 2 the staff for helping arrange that.

3 I will be very, brief, but I didn't want to miss
 4 the opportunity to commend this Committee for its important
 5 work. I have been here for most of the discussion this
 6 morning, and it has been profoundly interesting. I
 7 particularly appreciate the real-world experience and
 8 expertise that each of you brings to the issues that are
 9 faced by small businesses, and I very much respect the
 10 balanced approach I have seen in your thoughtful
 11 recommendations.

12 For example, I, and many others, support your
 13 recommendation regarding the accredited investor definition
 14 to index the wealth to thresholds for inflation going
 15 forward. And I also think that it may make some sense, as
 16 you have discussed, to expand that definition to include
 17 certain types of finance professionals.

18 This Committee's thoughtful approach is also
 19 reflected in today's agenda. As I said, I've been listening
 20 in on the informative discussion -- first the data, and then
 21 the discussion. I was especially intrigued by the in-depth
 22 exploration of how to drive capital into the lesser-served
 23 and local markets outside of the coasts, and I encourage you
 24 to continue that as I know you will. That's a worthy cause.

25 So I will also mention that the discussion brought

1 to mind a past proposal by the Commission to make some
 2 adjustments to Form D in order to increase our visibility
 3 into these private markets. And we haven't completed that
 4 rulemaking, but I'd be very interested in your views on
 5 this, should you decide to take a look at that, and on other
 6 ways that the Commission might help make more data available
 7 to inform our approach to small business capital formation.

8 And then, finally, I am very pleased to see that
 9 you are going to be hearing from Pam Gibbs from the Office
 10 of Minority and Women Inclusion after lunch. We know that
 11 efforts to increase capital must also address the structural
 12 issues faced by minority and women-owned businesses. We saw
 13 some data on that this morning. We know there is still work
 14 to be done, so I'm very glad to see the Committee
 15 recognizing those challenges.

16 So I want to thank each of you for your time and
 17 your expertise. Please know that it's valued and
 18 appreciated. And with that, I will let you get back to your
 19 busy agenda, so thank you.

20 MS. GARRETT: Thank you very much for joining. We
 21 very much appreciate your comments.

22 At this point in time, I think we can go ahead and
 23 break for lunch. We will reconvene the meeting at 1:15. If
 24 you are participate by webcast or phone, please note that it
 25 will be stopped during lunch and it will start again at

1 1:15.

2 So thank you.

3 (Whereupon, at 11:54 a.m., a lunch recess was
 4 taken.)

5 AFTERNOON SESSION

6 MS. GARRETT: Welcome back from lunch. I hereby
 7 call the committee meeting back to order. I am pleased to
 8 recognize that we have the Maryland securities commissioner,
 9 Melanie Lubin, here with us today. She is here from NASAA,
 10 which is the North American Securities Administrative
 11 Association. And, Melanie, we are very glad to have you
 12 visiting with us today. Thank you.

13 The first thing we are going to do is we are going
 14 to kick off with I would like to introduce Pam Gibbs, who
 15 is the director of SEC's Office of Minority and Women
 16 Inclusion. The SEC's Office of Minority and Women Inclusion
 17 is sometimes called OMWI. And it heads up the agency's
 18 efforts on all matters related to diversity and management
 19 employment and business activities at the SEC. Pam was
 20 named the SEC's first OMWI director in January of 2012. And
 21 prior to the SEC, Pam was the director of the Office of
 22 Diversity and Inclusion at the Commodity Futures Trading
 23 Commission. Before that, she spent 18 years at the U.S.
 24 Department of Labor, where she started as the trial attorney
 25 in the Civil Rights Division and was later acting deputy

1 director for program operation in the Office of Federal
 2 Contract Compliance Programs and director of the Equal
 3 Employment Opportunity Unit in the Employment Standards
 4 Administration. We are very happy to have her today. And
 5 welcome to the meeting, Pam.

6 MS. GIBBS: Thank you very much for inviting me.
 7 I see I need to edit my bio and take 18 years out.

8 (Laughter.)

9 MS. GIBBS: Somehow that makes me feel very old
 10 now that I hear that.

11 But no. Thank you again for inviting me. You
 12 know, I have been OMWI director for a while. And, just as
 13 way of background, these offices, there are 22 of them in
 14 the financial regulatory agencies that oversee diversity.
 15 And they were established by the Dodd-Frank Act. And I like
 16 to describe my office, really, as three buckets and which I
 17 have added a fourth bucket just so that you guys can sort of
 18 understand generally what we do as an office.

19 So, basically, the three prongs of what we do is
 20 workforce diversity, suppliers diversity, and diversity as
 21 it relates to our regulating entities. The fourth bucket
 22 that I will talk a little bit about a little bit later that
 23 connects me, I believe my office function and mission to the
 24 Small Business Advisory Committee, is integrating diversity
 25 into all aspects of the SEC's mission and operations.

1 So, first, workforce, just a little bit about
2 workforce. The SEC is we are making much progress as it
3 relates to diversity, demographically, age, generations. We
4 are diverse. We do a targeted research, targeted
5 recruitment strategy in terms of outreach to engage around
6 occupations that the SEC hires.

7 And we have a very good I think the biggest
8 asset that we have relating to workforce diversity is our
9 affinity groups. We have nine affinity groups at the SEC,
10 and they are very active. In fact, I just came from a book
11 discussion in advance of this meeting on Just Mercy by Bryan
12 Stephenson and where the chairman of the agency and many
13 senior officers were there. So we have a big community
14 around our affinity groups.

15 And then there is your targeted outreach that we
16 do. And that is where sometimes we partner with offices and
17 we do advertisements. So I am not going to go into the
18 weeds on our workforce.

19 The next component is supplier diversity. That is
20 where the statute says that the SEC has to increase its
21 utilization of minority- and women-owned businesses in its
22 operations.

23 So when I started at the SEC, so we contracted
24 about a half billion dollars of our spend is around a
25 half billion dollars in the use of contractors. Of course,

1 the biggest spend is related to IT. So when I got here, we
2 spent probably we are spending maybe 21 percent on
3 minority- and women-owned businesses. And with the
4 combination of the partnership between my office and the
5 Office of Acquisitions, I am pleased to say that that has
6 ranged over the last couple of years from 30 percent to 34
7 percent. So that has been a big win for us at the SEC in
8 terms of how we utilize minority- and women-owned
9 businesses.

10 The third prong are our engagement with our
11 regulated entities. So I am sure all of you guys know that
12 we have a large percentage of regulated entities. We
13 regulate probably in excess of 25,000 entities.

14 So what is the role of my office in how we engage
15 externally? So the statute is fairly specific in terms of
16 what it says. It says that my office is to develop
17 standards to assess their diversity practices. And I am
18 pleased to say that over the last two years, my office, the
19 SEC, has been collecting diversity data from our regulated
20 entities. So we started with the largest entities that we
21 regulate. Those are entities in excess of 1,000 individuals
22 where we collect their best practices. And so if you get an
23 opportunity, you can go out to our website and look at the
24 diversity assessment report. Basically, it is asking our
25 entities to assess themselves. Do you have a chief

1 diversity officer? Do you hold your managers accountable?
2 Is it tied to bonus pay? How much spend do you use with
3 minority- and women-owned businesses? Are you transparent?
4 And then we ask them to provide some demographical
5 information.

6 So we have done this two years along with the
7 other FIRREA agencies. And we are making progress. So the
8 first year we received probably out of 250, 300 assessment
9 reports that were sent to our entities, we received roughly
10 16 back. But those 16s are your big entities. So they
11 represented 47 percent of the workforce in the regulated
12 entity space. So we are continuing.

13 That is the hardest part because, you know, the
14 statute never mandated for us to do this piece. So it is
15 all voluntary, and it is not part of our examination
16 process. But I think that we are making progress in how we
17 relate to our regulated entities. And if, at best, we get
18 out of this process, not their form but, rather, them
19 complying and using this form as a template to assess
20 themselves, then I think most of the OMWI directors would be
21 satisfied.

22 So now let me talk a little bit about the fourth
23 box. And that is how I work with Martha, who has been so
24 excellent. She in herself has transformed the agency. She
25 has high standards. She makes us all comply with these high

1 creative standards around engagement in outreach. So it has
2 been a complete pleasure to welcome Martha to the agency.
3 And so she and I, our office, from day one have partnered on
4 outreach events. I am particularly looking at minority and
5 women entrepreneurs, particularly those that may not be as
6 sophisticated and understand all of the components about
7 what you guys do. So we have teamed up in New York. We
8 have teamed up in Omaha. We have teamed up a couple of
9 other places, but we have done some really great events
10 targeted specifically to minorities and woman. And it has
11 been really good as an education process.

12 You know, when I think about how does diversity
13 embed itself into this committee, I think the biggest thing
14 is about education. You know, you cannot educate enough
15 small businesses around capital formation. I think so many
16 businesses still do not understand completely access to
17 capital, the rules around access to capital, particularly
18 those that I think about that I engage as part of the
19 contracting process that are government contractors. So
20 this is an area that I continue to want to work with Martha
21 on in terms of conducting outreach from middle America to
22 southern America to north, wherever we can reach people to
23 educate them about the rules and regulations and the good
24 things that the SEC is doing around capital formation. So
25 that is really in a nutshell.

1 And we do work with one of and that fourth
 2 bucket is the bucket that really is trying to integrate
 3 diversity into all of our components. So, in addition to
 4 teaming up with offices like Martha's office, to engage
 5 small businesses, we team up with the investor advocates'
 6 office and the Office of Investor Education to do financial
 7 literacy and education. We have a great program that we are
 8 hosting hopefully sometime in April out at one of the mega
 9 churches in Prince George's County, where we will be hosting
 10 two panels. One will be on financial education. The second
 11 panel will provide small businesses information about
 12 Martha's office and access to capital. So we really are
 13 looking forward to that presentation that will take place in
 14 April out in Prince George's County.

15 So I think going forward, one of the things, you
 16 know, you can tell me how you would like for me to be
 17 helpful. I think if there is a way that I can be helpful, I
 18 want to continue to work with Martha's office to really
 19 pierce down and drive down diversity and access to capital,
 20 reaching truly small businesses that are minorities- and
 21 women-owned around access to capital, explaining to these
 22 businesses what that actually means.

23 MS. GARRETT: Thank you very much. We really
 24 appreciate you being here today.

25 MS. GIBBS: Do you have any questions?

1 MS. MILLER: Can I add in one note before we go to
 2 questions? And one thing that I think is so important about
 3 how we have partnered together and I appreciate you
 4 coming and joining us today, especially with everything that
 5 I know you have going on right now. As we talk about and
 6 we have had a lot of conversations with our OMWI colleagues
 7 about general when you look at workforce, it is a lot of
 8 the same dynamics that we look at and reflective of the data
 9 that we were talking about this morning about capital being
 10 concentrated with repeat players. And the investors tend to
 11 be those who have already had a successful exit. And that
 12 creates really interesting challenges across demographic
 13 lines that our office is very focused on. And I know it is
 14 also a focus of Pam's office making sure that those
 15 opportunities exist, whether it is a supplier that needs
 16 capital to scale to get to the point where they could
 17 actually take on a contract with an agency like ours or
 18 potential workforce and those who have the experience and
 19 skillset that could ultimately join our agency and bring
 20 wonderful perspectives.

21 So a lot happens behind the scenes that most
 22 people don't get a chance to see outside of the agency. And
 23 so this is just a wonderful opportunity to shine a light on
 24 the wonderful work that you are doing. So thank you very
 25 much for being here.

1 MS. GIBBS: Thank you. And I think the thing that
 2 cannot go unnoticed and this is what I have to deal with
 3 workforce and supplier diversity is also acknowledging
 4 that barriers exist in trying to figure out ways to address
 5 those barriers that may impede, you know, certain groups
 6 getting jobs at the SEC, certain vendors being blocked from
 7 getting contracts here, the same way as small businesses
 8 being blocked to access to capital. So, you know, as we
 9 think about our work, I think it is also important to think
 10 about, are there ways that we can address adequately the
 11 barriers that may be blocking access to capital, other
 12 issues, too?

13 MR. SOLOMON: Is there an easy way to get the best
 14 practices? I mean, I know I am just surfing the page. And
 15 I am embarrassed to say that I never surfed the page before.
 16 But it looks like you got a lot of information since the
 17 Dodd-Frank era. I assume you have. But have you put out,
 18 you know, best practices or if regulated entities or maybe
 19 some of our constituents want to access, you know, the
 20 information, is there an easy way to do that?

21 MS. GIBBS: It should be on sec.gov. We report
 22 each year at the end of March our annual report to Congress.
 23 So that is where we report on all of the agency's actions,
 24 from workforce, supplier diversity, mission-related work,
 25 and information related to our regulated entities. In

1 addition, on the OMWI, Office of Minority and Women
 2 Inclusion, page, you should find a diversity assessment
 3 report. Have you seen

4 MR. SOLOMON: Yes, I see that. I just didn't know
 5 if I see the actual form to fill out.

6 MS. GIBBS: Yes. Right. So usually we compile
 7 the data in aggregate form in our annual report to Congress.

8 MR. SOLOMON: Okay.

9 MS. GIBBS: So that is where we report out each
 10 year the results of our survey, the findings that we see and
 11 the trends that we see in the industry.

12 MR. SOLOMON: But you didn't publish a best
 13 practices or basically since you see all of this data, have
 14 you given advice on maybe ways for regulated entities and
 15 other constituents to really make positive differences in
 16 their own enterprise?

17 MS. GIBBS: We try to. When I say, "we," the
 18 other FIRREA agencies. We have hosted two financial
 19 diversity summits, one in New York and one in Chicago, where
 20 we invite all entities collectively to come in and talk
 21 about diversity. We talk about the form. We answer
 22 questions from our regulated entities. And we provide them
 23 with some base information about how we are doing in
 24 aggregate. So we are trying to host these forums throughout
 25 the United States where entities can come in and ask the

1 regulator, you know, "What can I do better? How can I do
2 better?"

3 MS. GARRETT: Yes, Steve?

4 MR. GRAHAM: Thank you, Pamela. Just a couple of
5 things. One, in terms of what you do in the overall, you
6 know, set of objectives that your office has, could you tell
7 us how you measure success? And, then, you know, sometimes
8 diversity is in the eyes of the beholder. I guess one way
9 this might manifest itself is oftentimes when we talk about
10 diversity, it is just women and minorities or women and
11 people of color. And people of color kind of encompasses a
12 lot of people. And my question is, what do you do to
13 differentiate between women and African American, et cetera,
14 because, as we know, the problems and issues confronting
15 these groups are not always the same? And one size doesn't
16 necessarily fit all. So how do you address that?

17 MS. GIBBS: So what we try to do is develop
18 benchmarks. So we use different benchmarks to measure, you
19 know, are we moving in the right direction? So what I have
20 tried to do is set two benchmarks for the SEC. One is the
21 civilian labor force data of 2010. That is the census data.
22 That is the broadest that one can be in terms of trying to
23 reach the data because it includes everyone. And then we
24 come back down to look at the more specific data. And that
25 would be the federal benchmarks. What do the other

1 government agencies look like demographically? So that if
2 everybody is above those benchmarks, that means we are doing
3 well. If they are not, if there is one group, two groups,
4 what we try to do is be targeted in our outreach to make
5 sure that we are fair in terms of providing access to
6 everyone.

7 But you are right. It is not always easy in terms
8 of particularly with an office name like mine. You know, if
9 someone had said, "Well, Pam, I dream of Jeannie. What
10 could you want?" I want my name, the office name, to be
11 changed because we are very inclusive here at the SEC. We
12 define diversity very generally and broadly, which means
13 that we go beyond just race and ethnicity and gender. So
14 the way that we define it is much broader than maybe the
15 name of my office would give us credit for.

16 And you asked about performance metrics. So over
17 the years that I have been here, we have gone back and
18 forth. We have a base of some small performance metrics.
19 You know, are we conducting outreach? How many people from
20 the outreach actually got jobs? So we do have a set of
21 performance metrics that we use internally with the
22 different offices to measure our success overall and for me
23 as a director, you know, to determine, is this the best way
24 forward for the agency. I am pleased to say that right now,
25 we will be developing and issuing hopefully in the next

1 month the first SEC-wide strategic plan on diversity and
2 inclusion. And I think we are at the right place, meaning
3 that I have been here for a while, but we have never been at
4 this right place where everybody was on board or supported
5 having a strategic plan. And so now everyone will
6 understand the message going forward as it relates to
7 diversity and inclusion.

8 Did I answer all of your questions?

9 MR. GRAHAM: You did. We can have a broader
10 conversation, but we don't want to take up the afternoon.

11 MR. SEATS: I guess one I guess quick comment or
12 maybe question, the so I am a venture investor managing
13 funds. And so a lot of the way I look at the world is
14 through that lens, but when I think about diversity and
15 inclusion sort of in the startup world and entrepreneur
16 side, it feels like there is a and this was a little bit
17 in the PitchBook data that we saw earlier. It feels like
18 there is a little bit of a demonstrated link between the
19 diversity and the people making the investment decisions
20 relative to who gets funded. I don't know if you are
21 tracking that, I mean, the regulated entities of the three
22 things that you are tracking. You know, is there work done
23 to track sort of the decision-makers who are allocating
24 capital towards startups and small businesses?

25 MS. GIBBS: So the short answer is no, but it is

1 an area that I would put into that fourth bucket. I am
2 pleased that we brought on Robert Marchman, who is our
3 senior adviser on diversity and inclusion, who spent I will
4 just say over 30 years at FINRA, to help us look at
5 diversity asset managers and to work with the office, the
6 Division of Investment Management, so that we can figure out
7 how we can pierce into that space because I go to a lot of
8 events, one in particular, the National Association of
9 Securities Professionals, which is a minority group of asset
10 managers. And they are always talking about the barriers
11 that they face in terms of being I guess an allocator, a
12 consultant. And so one of the things that under Chairman
13 Clayton's leadership that we want to focus on is to get OMWI
14 more embedded into some of the activities that IM is doing
15 related in this space.

16 So I think I answered your question. So we are
17 getting there. We are not there yet. I don't collect that
18 type of information yet.

19 MS. HANKS: What resources or networks are you
20 using in order to identify who are the minority and women
21 entrepreneurs who need to be made aware of the opportunities
22 that exist here?

23 MS. GIBBS: So we have what I call vendor
24 outreach, open house. So we have two things. One, we
25 develop a calendar each year of specific areas where we want

1 to go in terms of targeting particular vendors and
 2 particular organizations that we want to educate about the
 3 contracting opportunities at the SEC. But then we have an
 4 open house once a month here at the SEC where I think it
 5 is posted to sec.gov all vendors are invited to come into
 6 the SEC to learn more about our operations, what contracts
 7 are up for bid. They can tell us about themselves so when
 8 we go back to do market and we store that information to
 9 a database so that my office along with the Office of
 10 Acquisitions can sort of partner around. That is more open,
 11 meaning that it is not just about being a minority- and
 12 women-owned business. It is about being a disabled veteran-
 13 owned business. It is about being an 8(a) contractor. So
 14 it is a little bit more broader than just being a minority-
 15 and women-owned business.

16 MS. HANKS: I was thinking more in terms of the
 17 entrepreneurs who use the rules that Martha is an advocate
 18 for, you know, how to find a small business who might need
 19 to raise money doing crowdfunding or something else but
 20 doesn't know that is even a thing.

21 MS. GIBBS: So we are working with Martha. We
 22 follow Martha's lead. And we tell her what the concern is.
 23 And Martha helps us to identify places. And, then, I have
 24 a great staff that has a little bit more expertise than I do
 25 in the VC space. And so they are always extremely helpful

1 in identifying how to get us to that grassroots type of VC.
 2 MS. MILLER: I will say, just piggybacking on
 3 that, when we talk about when she says we work together,
 4 just to give some example of that, OMWI has a fantastic
 5 reputation and network through a lot of the outreach that
 6 they have been doing for years. And so some of the things
 7 that we will do are saying, you know, for example, "We are
 8 going to go to Atlanta. We have this idea. What do you
 9 think about doing an event that reaches, you know, alumni of
 10 HBCUs at the Atlanta University Center around homecoming,
 11 where we know they are going to come back in town?"

12 And then we work together. And we bring our
 13 respective strengths to the table, and we put on events.
 14 And we collaborate in ways that make it where we could reach
 15 far more people using our different strengths because our
 16 office is uniquely focused on capital formation. And they
 17 have a lot of different other focus areas. And so I think
 18 that our partnership is what makes those types of outreach
 19 really successful, but that is just an example of how we go
 20 about approaching that.

21 MS. GARRETT: Thank you very much.

22 MS. GIBBS: Thank you for inviting me.

23 MS. GARRETT: I would also like to welcome
 24 Commissioner Roisman, who has joined the meeting. Thank you
 25 for coming today.

1 COMMISSIONER ROISMAN: Thanks. Well, I apologize
 2 for not being able to make the earlier sessions. I really
 3 do appreciate all of the people who come in and obviously on
 4 the phone as well and to Pam as well for all of her great
 5 work on this. I look forward to following up more on
 6 today's morning conversation and look forward to this next
 7 panel. Thanks again for having me.

8 MS. GARRETT: Thank you for being here.

9 Jeff, would you like to introduce our next set of
 10 speakers?

11 MR. SOLOMON: Yes. Great. Thank you, Carla. It
 12 is good to see you, Commissioner Roisman. Thanks for
 13 joining us. And thanks, Pam. Really very helpful.

14 So as we move to the next topic today, I just want
 15 to remind everybody that we are in creative thinking mode.
 16 We had a great conversation this morning that really allowed
 17 us to exercise our creative muscles. I think this
 18 afternoon, we are going to focus a little bit more on local
 19 capital availability for early-stage companies in the role
 20 of regional funds.

21 Matt Cook, I want to acknowledge a few SEC staff
 22 who also joined this discussion. Matt Cook, our senior
 23 counsel at the SEC, Investment Advisory Regulation Office,
 24 Division of Investment Management. And to the extent the
 25 committee discusses funds, Matt can provide some technical

1 clarifications on questions about the Investment Advisers
 2 Act and exemptions from the Investment Company Act or SEC-
 3 related rules.

4 The discussion this afternoon will delve further
 5 into a few of the funding gaps the committee has discussed,
 6 challenges faced by businesses in different sectors,
 7 availability of funding from the hotspots on the coast, and
 8 challenges from minority-owned businesses and access to
 9 capital.

10 I am going to introduce the speakers. And
 11 hopefully you have had a chance to read a little something
 12 about them, but they are all quite distinguished about
 13 taking some time to make sure that you understand who they
 14 are. So first is Darnell Smith, who is the founder and CEO
 15 of MOJO. MOJO is a creative consultancy firm that
 16 specializes in digital transformations, bringing creative
 17 marketing, marketing technology, and operations, product
 18 development, and strategic communications solutions to a
 19 long list of big-name clients. The company has offices in
 20 New York, San Francisco, and Cincinnati.

21 Darnell has over two decades of experience in
 22 marketing and strategic brand management. Prior to founding
 23 MOJO in 2014, he was a senior principal at Infosys serving
 24 as part of the core digital transformation practice
 25 leadership team in multiple areas. Darnell will share his

1 perspectives on seeking capital as an entrepreneur and how
2 he ultimately built a company without investor capital.

3 Darcy Howe is the founder and managing director of
4 KCRise Fund, LLC, based in Kansas City. Congratulations.

5 MS. HOWE: Thank you.

6 MR. SOLOMON: Kind of miss that. Good for you
7 guys. Yes. She will be doing the first co-branded deal
8 with Patrick Mahomes.

9 (Laughter.)

10 MR. SOLOMON: Again, we are all in. Just I know
11 we are not supposed to say that here. Sorry. We are not.
12 We will talk later.

13 (Laughter.)

14 MR. SOLOMON: Based in Kansas City, KCRise Fund is
15 a co-investment fund, which invests with institutional VC
16 partners in the early-stage companies with a significant
17 presence in the western half of Missouri or in the entire
18 State of Kansas. Launched in 2016, KCRise's first fund of
19 \$19 million is invested in 20 companies in the region.
20 Prior to her current role, Darcy was a founding member of
21 Merrill Lynch Private Banking and Investment Group of
22 Merrill Lynch in Kansas City. She is a 20-year veteran
23 angel investor and has been a regional leader in the
24 entrepreneurial ecosystem developing connectivity between
25 funders, entrepreneurs, and advisers.

1 John, I am going to make sure I get your name
2 right. Sorry. McIlwraith? Did I get it right?

3 MR. McILWRAITH: Perfect.

4 MR. SOLOMON: Okay. Good. John McIlwraith is the
5 cofounder and managing director of Allos Ventures. Allos is
6 a VC firm with offices in Indianapolis and Cincinnati and
7 focus on investments in early-stage technology companies in
8 the Midwest. Allos raised its first fund in 2009 and just
9 announced the closing of its third fund at \$52 million.
10 John started his career as a lawyer representing VC firms.
11 He moved into investing and has since been involved in a
12 variety of early-stage venture initiatives throughout the
13 Midwest.

14 And, then, I want to also announce that
15 participating by phone is Poorvi Patodia, who is so
16 before turning it over to this panel, I wanted to ask Poorvi
17 if she can actually share some of her experiences here.
18 They are particularly relevant as a minority female who has
19 successfully raised capital for her plant protein snack food
20 startup in the Boston area. And then we will go back to the
21 panel.

22 So, Poorvi, thank you for dialing in. And we look
23 forward to hearing from you. You are on.

24 MS. PATODIA: Sure. Hey there. Yes. So I think
25 I have met some of you guys via the phone, but I am the

1 founder of Biena Snacks, and I am on the committee. And
2 Carla and the team had asked me to speak a little bit about
3 the challenges I faced in raising money for my company,
4 Biena.

5 So to give you a little bit of context, I have
6 raised just over north of \$15 million for the business. It
7 has been raised across 3 major rounds, starting with the
8 seed round that I did in 2015. Then I did a Series A
9 financing in 2017. And most recently, in August of '19, we
10 did our Series B financing. So I think some of the things
11 that the committee has been talking about today certainly
12 rang home for me and were some of the challenges that I
13 faced.

14 In thinking through the three financing rounds
15 that I have done, I do think the number one challenge that
16 is common across all three of them is who should I be
17 talking to or who can I connect with. And, you know, that
18 is speaking for that fundamental challenge that we spent a
19 lot of time talking about, which was connecting the
20 entrepreneur to a potential group of VCs or angel investors.

21
22 But just to talk you through a few of the
23 different challenges that I faced in the different financing
24 realms, starting with the seed round, as I am sure many of
25 you know or may be aware, during seed round, especially as a

1 first-time entrepreneur or founder, I was starting from
2 scratch. I knew nothing. And now when I talk to other
3 entrepreneurs and founders who are looking to raise capital
4 for the first time and they are coming to me asking for
5 advice, you know, one thing I talk about is to ask and
6 understand the answers for your business to really, really
7 basic questions of I call them the five W's, the why.
8 Why is really your why as a business but relating that also
9 to the VC or the angel investor talking about the type of
10 opportunity or business, how you are approaching the market,
11 what is unique about your offering. Going on to the who,
12 which is, as I mentioned, who should I be talking to; the
13 what, what should I be talking about, how should I position
14 myself and my company to the angel investor/VC; the when;
15 and then the what. And the when and the what is all about,
16 you know, when do I need these dollars? Why am I out here
17 raising money? And what are these dollars going to be used
18 for? What milestone am I at today? And what milestone is
19 this going to take me to in terms of scaling the business?

20 And so, you know, the seed round for me was really
21 about learning how to fundraise and what that really meant.
22 I very quickly also realized being based in the Boston area
23 and today we spent a lot of time talking about the
24 challenges of geography as it relates to fundraising. And I
25 know Boston is frequently mentioned. And, you know, I saw

1 it in the numbers. There is a lot of capital raising that
 2 happens in the Boston area. But leading a natural food
 3 company, I quickly realized that all the people you know,
 4 there are many, many investors in the Boston area, but I
 5 basically realized that, you know, a very, very, very small
 6 percentage of those people were relevant to my business.
 7 So, you know, I am fortunate to know many
 8 different types of investors in the Boston area. And I went
 9 out and I set up meetings with different people. And I
 10 quickly realized that if you are a tech investor or you are
 11 a consumer investor, you are investing in a consumer space,
 12 but you are focused on B to C. You know, these businesses
 13 are just very different than my business. And so a tech
 14 investor may not feel comfortable with realizing that he is
 15 talking to a company. Here she is talking to a company that
 16 carries physical inventory or goes, you know, sells its
 17 product through wholesale and distributors, which is
 18 fundamentally a different business model than technology.
 19 And so I think for me, what I quickly realized is that I can
 20 certainly spend a lot of time networking in the Boston area.
 21 And, as you guys know, there is a lot of money to be raised
 22 and available capital in the Boston area, but I basically
 23 learned that what really mattered was the sector that I was
 24 in and being able to find people that really understood
 25 natural food and beverage and that were willing to make that

1 more excited about that space.
 2 And then it was also when I first connected with
 3 my legal team that I still work with today. And I ended up
 4 working with a boutique law firm based out of New York that
 5 really specializes and focuses in natural food and beverage.
 6 And that was probably one of the best moves I made, even
 7 though I didn't realize it at the time. And, you know, I
 8 did weigh it quite a bit because as an entrepreneur who was
 9 self-funding the business, I went out and raised that seed
 10 round. You know, even just looking at the hourly rates,
 11 what my lawyer charges made me think, you know, three times
 12 about it. And but it was actually the right move. And now
 13 I advise founders that this is an area that you should not
 14 skimp dollars on because it is so critical to understand
 15 terms and get all of your documents right.
 16 So that was just a little bit about the seed
 17 round. I mean, I think Series A and Series B financing
 18 obviously, you know, is very different than raising your
 19 first seed funding or angel funding. I think what
 20 characterizes those is that you have I think for me
 21 especially, I have had a real business by then. We were
 22 generating revenue. We were starting to become well-known
 23 within our industry within certain groups of people. And so
 24 I had some of that credibility. I had also started to build
 25 out a board around me and around my company that was full of

1 people that were heavily connected within the industry. I
 2 heard somebody earlier today talking about that, about just
 3 how much of fundraising today is based on connections. That
 4 is definitely reflective of my experience, both in the
 5 Series A financing and the Series B financing.
 6 So I will just stop there, but I am happy to share
 7 more at another time as well.
 8 MS. GARRETT: Thank you, Poorvi. This is Carla.
 9 What would you say was a couple of your biggest
 10 challenges that you faced in maybe getting your seed round
 11 or the Series A? Finding the investors? The time it took?
 12 What were a couple of the big challenges you faced?
 13 MS. PATODIA: Yes. I mean, I do think finding the
 14 investors was the number one challenge across the board for
 15 every round that I have done. And, again, some of it is
 16 about sector. Some of it is about I do think the biggest
 17 thing is the sector and the focus and then alignment between
 18 the investor and the company, whether it be about the
 19 mission or whether it be about the industry and the
 20 category, et cetera. So, I mean, right there, I knew. I
 21 sat down with an investor. And I was explaining really
 22 basic things to them about how a natural food business
 23 works. I learned over time that that conversation probably
 24 could be cut short for the benefit of both parties. So I do
 25 think that.

1 And, then, I think the second piece is from the
 2 entrepreneur's perspective, I do think once you get deeper
 3 into the fundraise process so let's say that you have got
 4 a number of interested parties and you are having various
 5 stages of discussion. I do think the legal aspect of things
 6 is another area that I had to learn very quickly. And,
 7 again, thankfully I ended up working with an incredible
 8 legal team, but going through my first term sheet and really
 9 understanding what are the terms and what are the rights
 10 that I am giving away seeing one way, but as you read into
 11 it, you realize or you need somebody to kind of play out
 12 scenarios for you as to what can happen when these different
 13 terms go into play. So I think those are probably two of
 14 the biggest challenges.
 15 MR. YADLEY: Poorvi, this is Greg Yadley. Thanks
 16 for joining the meeting today.
 17 Just picking up on what you were just talking
 18 about your legal team and as a lawyer, thanks for the
 19 advertisement do you recall any specific securities law
 20 impediments that you had in any of those rounds, things that
 21 your lawyer said, "Ah. We can't really do that because"?
 22 MS. PATODIA: I mean, I will tell you the biggest
 23 one being the accredited investor. And, again, I know that
 24 that is something that this committee has spent some time
 25 thinking about and talking about. You know, there are

1 people that want to invest in the business. Maybe there is
2 something about food that everybody can relate to it, but I
3 think the accredited-investor piece has come up multiple
4 times for me at different rounds. So one way it has come up
5 is exactly as you would think right? which is that the
6 definition is preventing certain people from investing in
7 the business but otherwise would love to be able to invest
8 in business.

9 But the second way that it came up that I did not
10 expect because of a number of other rules, which is that as
11 the leader of Biena, I firmly believe that all of our full-
12 time employees should have equity in the business. And it
13 is a philosophy I have about how I run the business. It is
14 about alignment. It is about getting everyone to think like
15 an owner.

16 So we have also had employees that wanted to
17 participate in our round, our fundraisers. And it is
18 because they believe in the business and what we are doing
19 in there on the inside. And they see the potential. And so
20 multiple times I got back to our legal team and said, "Is
21 there any way I can get these team members into the round
22 because they really want to participate?" Again, it really
23 came back to that definition of the accredited investor. So
24 that might be another way that it it was just kind of a
25 different way that it impacted us that I didn't expect.

1 MR. YADLEY: Thank you.

2 MR. SOLOMON: Thanks, Poorvi.

3 I want to make sure we give our panelists a
4 chance. I am going to ask you to try to keep your comments,
5 at least initially, to five to seven minutes so we can
6 foster a conversation. We will start with Darnell. I know,
7 so full disclosure, Darnell and I work together. We are one
8 of the companies that Darnell has really been helping a lot
9 with our communications and digital footprint.

10 I know you and I have talked, both professionally
11 and personally. You want to be known as the best digital
12 company, not just the best minority-owned digital company.
13 And I think that there is a lot in that statement. Yet, you
14 have faced some unique challenges as a minority business.
15 And I look forward to hearing your thoughts.

16 MR. SMITH: Yes. So I will be quick so we can
17 have a but thank you to the members of the committee for
18 having me, obviously honored to be here as part of this
19 panel in hopes of sharing my story will have a positive
20 impact on the dialogue needed to inspire continuing
21 evolution of policy as it relates to small business and
22 their capital.

23 So to help frame this story, I think you need to
24 know a little bit about me and my company. I was born and
25 raised in Milwaukee, Wisconsin. I grew up in a blue-collar

1 family. While we had our fair share of struggles, like
2 anyone else, we were solidly middle class.

3 As I reflect back on it, I now realize my parents
4 probably basically worked themselves to death to provide for
5 my brother and I. So it is not lost on me today as to why I
6 am sitting here. So I want to give a quick shoutout to Alex
7 and Elvira Smith, who I guarantee you before today had never
8 logged on to the SEC website but are now there.

9 (Laughter.)

10 MR. SMITH: So both my grandfather and my dad were
11 small business owners. They scraped together whatever they
12 could find, and they opened up a couple of neighborhood bars
13 right in Milwaukee, Wisconsin. My dad had a full-time job
14 as an activity therapist and, seemingly, somehow worked both
15 second and third shift right? to keep the business
16 afloat for the better part of 30 years. And I remember when
17 I got old enough to recognize kind of the toll it took on
18 him, I said to myself, "Gosh, there has to be a better way
19 to do this."

20 So as I sit here today in this forum discussing
21 this, essentially the same challenges are here as 30 years
22 ago. I recognize that I have lived a charmed life and I
23 have carried this brute-force mentality with me throughout
24 my career, which has served me quite well and why we have
25 been able to kind of do this in lieu of being able to raise

1 capital.

2 So I was lucky enough to have had the opportunity
3 to attend the University of Notre Dame. I had to sneak that
4 in there. Go, Irish! And, like many of my peers, I was
5 exposed to a whole new world.

6 After school, my career path took me all around
7 the world working in marketing and advertising, technology,
8 consulting, and corporate strategy. And it was this path
9 that really culminated in me having the idea to start MOJO.
10 I firsthand saw the struggles that companies were having,
11 both large and small, that ultimately impeded innovation and
12 growth, kind of what I referred to as like a graveyard of
13 ideas. So I knew there was an opportunity for a more
14 intimate approach to solving these challenges, and that led
15 to the birth of MOJO, which quickly became a family affair
16 as my amazing wife, Stephanie, is a cofounder. And so it
17 truly is something that I live and breathe 24 hours a day.

18 We define MOJO as a creative consultancy. You
19 might ask, what is that? We basically exist to unlock value
20 within organizations as it relates to delivering what we
21 consider irresistible experiences, products, and services to
22 both external and internal audiences, which is a point that
23 I will get to in a second. As you can see by the map, we
24 have offices in New York, California, Cincinnati. And,
25 then, we have remote employees who work in the great State

1 of Kentucky, North Carolina, and Massachusetts. So we had
2 the pull of the coast, but we also recognize talent is very
3 prevalent in all parts of the country.

4 So in order to do what we do, we bring together a
5 multi-disciplinary team of SMEs that are equipped to handle
6 these kind of big and hairy challenges that get presented to
7 us. And a lot of times, much larger organizations have
8 spent a lot of time trying to figure out stuff. But what
9 you realize is through the red tape of all of that, like a
10 lot of times solutions get buried under process. And what
11 we try to bring to the table is a small group of highly
12 functioning individuals that are really adept at taking big
13 problems and distilling them into simple solutions, so
14 strategists, creators, designers, technologists,
15 ethnographers. The list goes on. But we bring together
16 these teams to really try to solve problems.

17 We are organized around three verticals, and this
18 is important to understand so you can see the breadth of how
19 we see things. We have a creative and design organization.
20 Right? And we have consulting and business services, and
21 we have ventures. Our creative vertical really focuses on
22 helping organizations take a customer-centric approach to
23 creating and communicating their offerings. This spans from
24 helping large financial services firms educate and transact
25 on retirement products all the way down to helping the

1 to the same resources; and obviously the early-stage
2 company. And we have done it for a nice list of clients
3 that most of my peers would kill me over.

4 All of this we have done with zero dollars, not
5 one penny of outside capital. And, you know, for us, we had
6 to take something that was a frustration and basically turn
7 it into a badge of honor. Right? Like we took the fact
8 that we were having such a hard time raising capital and we
9 had to flip that and say, "You know what? We don't need
10 capital. We are going to do this on our own." And I think
11 about my peers in other businesses that go through this and
12 how hard it is to make it through that and how many of them
13 don't ever make it that far because they cannot access
14 capital.

15 So we are part of the statistics. We are part of
16 that 83 percent I think the number was mentioned this
17 morning, right? that has not had access to formal
18 capital. Four out of five businesses I think it is. That
19 is us.

20 So now that you know a bit about me and my
21 company, let me dive into the areas that I have experienced,
22 the greatest challenge when it comes to access to capital as
23 a small business owner. No doubt you have talked
24 extensively about these things. But hopefully my experience
25 will be additive to that.

1 fastest-growing bourbon in the United States commercialize,
2 so everything in between. So we see a lot of different
3 things across many different industries.

4 Our business services and consulting arm is really
5 what we consider is focused on the plumbing of company and
6 what we consider the people process in technology. And this
7 is where effectiveness and efficiency really come into play
8 and how can we help companies operate in a way that they
9 continue to be growth engines and they thrive in this
10 hypercompetitive landscape.

11 Last but not least, our ventures arm leverages all
12 of these learnings we get out on the playing field. And we
13 use our skillset in support of very early-stage ventures,
14 primarily women and minorities. And this is where I journey
15 along with the stories of others, crystalize the challenges
16 that are real and present for small business entrepreneurs
17 today.

18 Really quick, just to crystalize that, there are
19 three types of funds we work with: multinationals that are
20 trying to adopt a rapid prototype, fast-fill mentality, and
21 they want to be the disrupter and not the disruptee. So it
22 could be a ventures arm. I know we talked about that
23 earlier this morning. A lot of these Fortune 500 companies
24 have very specific venture arms that they stand up. We also
25 work with mid-tier challenger firms, who don't have access

1 The first thing is the sector, right? The fact
2 that the core of our business is service-based essentially
3 rules out VCs. I think my co-panelists will agree that in
4 order to survive in their space, there is a very narrow
5 playing field which they have to adhere to. And if you are
6 not I heard the word "unicorny" thrown around this
7 morning. Good luck with that. Right? So that really
8 limits our playing field to the private markets and banks.

9 And, you know, one of the lines I always love
10 hearing from a VC is, "I think you are amazing, and I would
11 love to invest in what you are doing if you could only bring
12 me" X. Right? And I have heard that so many times it's
13 like I finish the sentence, you know, for the VC.

14 So that leads us, again, like I said, to the
15 private market and banks, which are really our only options.
16 And these sources know the limited opportunities we have in
17 this sector. So, as you can imagine, this is clearly
18 reflected in the quality of offers right? they are
19 willing to put on the table. And knowledge of any
20 alternative sources to capital is certainly not readily
21 available to an entrepreneur and proactively communicated to
22 the larger and small business community. So sectors is one.

23 The second piece is the minority and women angle
24 of this. Right? Several published reports that were well-
25 documented, additional challenges that businesses of our

1 type face. So, for the sake of time, I won't rehash that
 2 except to say that as both a minority- and woman-owned
 3 business, we are certainly not immune to any of this, even
 4 despite our success.

5 I always tell the story I had a recent situation
 6 with a peer who has a similar business, who happened to a
 7 nonminority. And we had a potential source of capital in
 8 common. What was told to that person versus what was told
 9 to me was so vastly different that it made me wonder like,
 10 do these folks think that we don't talk as an
 11 entrepreneurial community? Right? Kudos to this peer,
 12 right? He actually secured funding from this place but
 13 decided to go in a different direction as not to support
 14 that way of doing business, right? And this is just one of
 15 many stories that I could tell you from myself and peers who
 16 have come across this.

17 So last, but not least, and kind of tying it back
 18 to the local and regional aspect of what we are doing,
 19 geography has certainly been a huge challenge for us. I can
 20 best sum this up by a quote a youth basketball coach once
 21 said to me, like in order to grab a rebound, it is probably
 22 best that you are in the paint. And that is really true, at
 23 least from our perception, right? Everything is set up
 24 perfectly for me to live in Cincinnati. My wife's family is
 25 from there. We have an office there. We have clients

1 there. And yet and still, the tug of the coasts is so
 2 prevalent that we still kind of refuse to move in that
 3 direction, just because we know proximity is super hard to
 4 have access to capital in the first place. So to move
 5 somewhere where it is even harder seems very daunting.

6 So the good news is that living in San Francisco,
 7 I have seen peers that are starting companies that are
 8 starting to migrate right? to the areas that we have
 9 talked about, the Denvers; the Chicagos; the Austins; and
 10 even to some extent, you know, the areas that my co-
 11 panelists represent. But, yet and still, there is still
 12 this tug of being on the coast that is hard to overcome,
 13 especially if you want to have proximity to things that, you
 14 know, could potentially change your business.

15 So, in closing, I am inspired to see this
 16 committee foster meaningful discourse around the subject of
 17 access. While I am no policy genius, I do know that the
 18 complexity of regulations and prohibitive costs of trying to
 19 gain an understanding of what is possible is, again, very
 20 daunting. And it is something that as an entrepreneur, you
 21 are more focused on keeping your business alive on a day-to-
 22 day basis than you are trying to become an expert in policy.

23 So I am glad that I have a chance, some area to step back
 24 and actually try to think about things that could help the
 25 situation.

1 You know, I hear things of crowdfunding and
 2 creating asset classes that will close a gap in terms of
 3 between debt and equity and redefining accredited investors,
 4 but I have to tell you for most entrepreneurs, that
 5 discussion, you know, kind of goes over their head. Right?
 6 Again, they are worried mere about, how do I keep my
 7 business afloat on a day-to-day basis. Right? Especially
 8 when you have employees that you are responsible for,
 9 families that you feel responsible for, the anxiety of that
 10 alone will give you many sleepless nights. And so worrying
 11 about capital is almost secondary. You have to adopt this
 12 brute-force mentality that "I am going to get it done, no
 13 matter what" because people are depending on me. And that
 14 really changes the playing field and the ability to scale as
 15 a small business.

16 So I will shut up now, but, you know, thank you
 17 for having me and, again, look forward to continuing being a
 18 part of the conversation.

19 MR. SOLOMON: Thank you, Darnell.
 20 Darcy?

21 MS. HOWE: I think an interesting thing that we
 22 found out over the lunch break is that because I asked
 23 Darnell. I said, "I just talked to a VC, who said on the
 24 West Coast, that they had 100 percent turnover in their
 25 technology team in 1 year. In Kansas City, we don't have

1 that. People really stick around." And Darnell said he had
 2 the same problem. So it is interesting that there is a
 3 talent, we are seeing talent coming from your part of the
 4 world back to KC. We literally have a backtokc.org bringing
 5 that talent back to our region. Okay.

6 I will be quick. So why are we activating the
 7 untapped potential of the region? Because I have been an
 8 angel investor for many decades. I have been an asset
 9 manager for many decades. So I know well-to-do people. And
 10 I understand early-stage investing pattern recognition.

11 So in my retirement from Merrill Lynch, I said,
 12 "Okay. Well, I will do something for our very slow economy
 13 in Kansas City," where we weren't growing as fast as even
 14 cities like Indianapolis, where John is; Nashville; Denver;
 15 et cetera. And so we are just connecting the dots between
 16 investors and companies created in the region, which, by the
 17 way, our average founder is over 40 years old, slightly over
 18 40. So these are people who want to stay in the region.
 19 Their kids are in school there. Their employees' kids were
 20 in school there. They don't necessarily want to move
 21 somewhere else. And 80 percent of all of the jobs, as it
 22 shows on my screen here, in our region is because somebody
 23 who is already living there creates a business.

24 This gives you an idea of our fund metrics. This
 25 is a combination of Fund I and Fund II. But mostly I want

1 to show you what our investor group looks like. In Fund I,
 2 you will see it is 18 percent corporate, 45 percent high net
 3 worth, 24 percent family offices, and 12 percent donor
 4 advice fund.

5 Interestingly, our local community foundation
 6 allowed their donor-advised families to say, "Yes. You
 7 could use the KCRise Fund, instead of the S&P Fund or your
 8 pooled funds or whatever else." And that is actually our
 9 largest investor because five of our families chose to use
 10 the donor advice fund. But you can see how little that is,
 11 how little capital we have raised. And I am a venture fund.
 12 So people, they don't know how to pattern-recognize venture
 13 very well in our region, but they know how to pattern-
 14 recognize debt funds. And there are now funds that have
 15 come up that are revenue models and other debts. So that
 16 would actually provide capital to a broader group of
 17 entrepreneurs, not just high-growth technology-type
 18 companies, which is, by the way, why Darnell he is a
 19 service-based company for the most part. And that is not
 20 the model for venture. So there has got to be capital in
 21 other ways.

22 For us to try and build a larger fund because it
 23 is really clear we were only 2.2 percent of each of the
 24 virtual companies in Fund I, we are trying top be more like
 25 5 percent because, again, venture math is you want each one

1 of your companies to try and return the fund. So you can't
 2 do that unless you have a little bit larger pot. But for us
 3 to get a larger pot, we are not getting the institutional
 4 money yet on endowments. So we can go through some of the
 5 systemic challenges of that in a moment or after we speak.

6 So my way of trying to do the math so that we
 7 could create a larger fund was to go to corporations. So
 8 you saw from PitchBook, you can see in Fund 2, corporations
 9 now are a much larger percentage. We are seeing this out at
 10 our market. The S&P 500 companies are out in the Midwest.
 11 Where are the customers for all of these entrepreneurial
 12 companies? They are out in the Midwest. So it would make
 13 sense to be born out here. It would also make sense for the
 14 corporations to invest in that technology and innovation
 15 that is happening in their own backyard.

16 And this is our most interesting statistic I
 17 think. So our funds have only invested \$12 million at this
 18 point. And, yet, since KCRise Fund has been in these 23
 19 companies, they have raised \$282 million, of which 76
 20 percent of it is from out of the market. So we are actually
 21 net capital importers, a very important function for our
 22 region, not just our little fund but that we are bringing
 23 capital so that those entrepreneurs who want to build their
 24 business and raise their families, that our community can do
 25 that.

1 And, frankly, I am kind of agnostic because in
 2 Kansas City, this is not the way most families of wealth
 3 have made their money. They have made their money in more
 4 industrial ways. And so we are going to import the capital
 5 from places, which is why Rise of the Rest Fund is such a
 6 great partner to us because they are very good fundraisers.

7 We are birdogging the deal flow for all of these venture
 8 funds around the country. We are by design created as a co-
 9 investment model so we don't have local bias on I might love
 10 that particular online auto auction company, but until Rise
 11 of the Rest decides they want to invest in it because they
 12 have seen all of the others that are out there, that that is
 13 a win-win that we are bringing in that smart capital who
 14 have seen other deals in other parts of the country.

15 This just shows you we have co-invested with 41
 16 firms. Look at that, even the coast. What do you know? I
 17 have got to say when I do LinkedIn things, that \$282
 18 million, I posted that on LinkedIn. I had 23,000 views.
 19 And the least number of views were from California. I
 20 believe California still doesn't add it for the most part.

21 And this just gives you an idea of where our
 22 sectors are in the Midwest we are seeing. It makes sense.
 23 Transportation logistics. We are in the middle of the
 24 country. Right? We have got Sprint there, IOT, Big Data.
 25 GulfTech is interesting that that is becoming more prevalent

1 in our region, trying to move it here.

2 A PARTICIPANT: That is your last slide.

3 MS. HOWE: Oh, was that my last slide? Oh, there
 4 you go. I will stop there.

5 MR. SOLOMON: That is super helpful. You are
 6 allowed to if you need to get out early today to get back
 7 for the kingdom parade.

8 MS. HOWE: Thank God it is tomorrow or you may not
 9 have seen me here today.

10 MR. SOLOMON: Oh, I know. I said if you need to
 11 leave early to get back to Kansas City, don't miss that.
 12 So, anyway, John?

13 MR. McILWRAITH: Yes. And I will be even shorter.
 14 So I am a VC. Obviously if the bio was correct, I have
 15 been in the business through Jones Day in a prior fund and
 16 now Allos for 35 years, all in the Midwest. So I have got a
 17 pretty good window on what has happened over the years, in
 18 particular what has happened to try and solve capital
 19 formation, capital availability for startups and funds. In
 20 fact, in 2001, Michigan was a backwater. And some people
 21 there that had small funds asked me to join what was created
 22 called the Michigan Venture Capital Association to solve the
 23 problem in Michigan. I was the outside board member from
 24 Ohio because Ohio had a huge amount of capital funds. We
 25 had Primus and Morgenthaler. They said, "We want to be like

1 Ohio. Please come to Michigan and help us." Twenty years
2 later, almost 20 years later, Ohio is a backwater. Michigan
3 is a shining example. And just they keep trading places.
4 Indiana is now up and coming. We have a new fund of funds,
5 the next-level fund, but the same thing. It is Groundhog
6 Day to a certain degree over the last 35 years. And I have
7 watched it.

8 A couple of things, observations, from this
9 morning, which was super helpful. It is like a firehose.
10 We sat back there listening to this thing. We have
11 thoughts.

12 The Volcker rule change that you are about to
13 make, fabulous. What happened, the Volcker rule came out.
14 It gutted Midwest Funds because a lot of the local funds in
15 Ohio and elsewhere had banks. Was HR part of their capital
16 structure? And when they went away, they are like, "Oh, it
17 is hard enough to raise the fund. Now you have just taken a
18 third or half of my capital away? I'm done." And so you
19 saw a lot of firms exit the market. So bringing that back
20 is hugely important.

21 The other thing, data is fabulous. And I think
22 the SEC report that was reviewed this morning, that is
23 awesome. PitchBook data is generally good, but everything
24 is local. Venture capital is local and whether it is in
25 definitional terms or things like in Ohio, I will look and

1 say, "Well, Ohio has got a lot of capital." There are two
2 funds that have got a billion dollars of capital. So, all
3 of a sudden, the numbers have changed dramatically. In one
4 fund, they might make three or four or five investments in
5 Ohio. They are a national firm. There are a number of
6 companies in Ohio and the Midwest that need capital, a
7 number in the five, six, seven hundred, right? So

8 MR. SOLOMON: John, can you hold on real quick?

9 MR. McILWRAITH: Yes. Sorry.

10 MR. SOLOMON: The mike isn't

11 MR. McILWRAITH: Sorry about that.

12 So when you have got this data, you have got to be
13 careful, watch things that skew the data and to make sure
14 the data is really capturing what is happening locally. We
15 have seen that over the years. In Michigan, we created the
16 Michigan venture capital report. You can see it online at
17 the MVCA, wonderful wealth of knowledge for what is really
18 happening in Michigan. We did the same thing. I was the
19 founding chair of Venture Ohio. Straight out of the gate,
20 we said, "Let's get the data and make sure we can complement
21 what PitchBook and Pricewaterhouse put out."

22 A little bit about Allos. And let's see. I've
23 got the clicker here. Yes. I am not going to go through
24 the whole slide, but that is Allos at a glance, 3 funds,
25 over \$100 million of committed capital. And, like Darcy's

1 fund, we have capitalized over \$600 million of co-investment
2 in those companies. We only invest in the Midwest. We are
3 an early-stage-focused fund. That means

4 MS. HOWE: There is a reason in the Midwest, by
5 the way, John. We have got to talk.

6 MR. McILWRAITH: Part of the Midwest I think it
7 says up there. And the way we chose our space, early stage
8 is very hands-on. It is hard for coastal firms to do early-
9 stage because they don't want to fly out for board meetings.

10 They can't meet with the companies in between board
11 meetings. We chose that region that is our map
12 because it was places we could drive to in about four hours.

13 And we could meet with those companies whenever they needed
14 attention.

15 And, by the way, back in 2009, when we formed
16 Allos, Don Aquilano and I looked around and said, "There's a
17 wealth, there's an increasing number of startups being
18 formed in this region through public-private partnerships
19 and angel activity, lots of things happening." And,
20 meanwhile, the early-stage venture funds that existed in the
21 early 2000s are going away. They have either gone on to be
22 growth equity funds, like Primus or River Cities, or they
23 have gone out of business because of the Volcker rule and
24 other things that impact the funds. So there is a shortage
25 of early-stage capital. We saw it back in 2009. And we

1 started Allos to try and address that shortage.

2 And, Darnell, we focus on non-unicorns, companies
3 that sell at \$100 million. We will make a fine return, and
4 our OPs will be very happy with Midwestern companies that
5 sell for \$100 or \$200 million. We have had several of those
6 exits. We like unicorns, but we realize they are not going
7 to be the norm in the Midwest typically, at least until we
8 get the flywheel spinning.

9 Let's see. Other things. We are one of the most
10 active funds in the region. We have recognized that Indiana
11 is the most active fund the last two years. And it is a

12 MS. HOWE: We are the most active fund in Kansas.

13 MR. McILWRAITH: Perfect.

14 MS. HOWE: Yes. There you go.

15 MR. McILWRAITH: Yes. We should co-invest.

16 Next slide. So we thought this would be helpful
17 to the observations I have in terms of challenges. Allos I
18 2009 and 2010 fund. It actually was a \$22 million fund. I
19 will get to that in a moment. But you can see the vast
20 majority of our money came from individuals. And that is
21 because we were too small for institutions. Institutions
22 want fewer managers. They want to put \$20 or \$30 or \$50
23 million to work, but they can't be more than about 20
24 percent of the fund. So if you are trying to raise a \$20,
25 \$30, \$40, \$50 million fund, you won't get general

1 institutional money. You might get fund to funds that have
 2 a mandate to invest in your region. You might get an
 3 endowment that wants to help support the community. But the
 4 core of institutional investors are probably not going to
 5 invest in a \$25 to \$50 million fund. And that was our
 6 experience. And so we raised it mostly from individuals.
 7 And you can see most of those individuals committed less
 8 than a half a million dollars. The 99-investor rule will
 9 come up. I will talk about that in a moment. The
 10 progression once we get a track record and once we had some
 11 exits and had something we could show, you can see we
 12 started to move more down the institutional path. But
 13 individual investors for now a \$50 million fund, our most
 14 recent fund, that is a key part of our capital base. And
 15 there are things we can do I think, the SEC can do to
 16 improve the availability of capital for funds like ours and
 17 smaller funds, which are important to the ecosystem.
 18 This just shows these corporations at the top are
 19 not those are not LPs, but people within those
 20 organizations are LPs. And they are the ones that are
 21 investing \$250,000, \$300,000, \$400,000. And it is a
 22 wonderful resource for our companies because we get to
 23 access those corporations in terms of potential customers,
 24 due diligence, and the like. You can also see through our
 25 representative co-investors we have pulled capital from the

1 coasts, Sequoia, Benchmark. Again, they will eventually
 2 come to the Midwest, but they want the companies to be de-
 3 risked. They want them to be a little larger. And they
 4 really don't want to come to more than four board meetings a
 5 year and sometimes less than that. So they welcome a local
 6 presence that can be the lead investor or the co-lead
 7 investor in Indianapolis or Cincinnati or the like.
 8 And, then, finally, just a list of our portfolio
 9 companies. We are B2B software. So, to Darnell's point, we
 10 don't do service investments. We don't do consumer. We
 11 don't do food. We are very focused, as most funds are, B2B
 12 software for enterprise. And what that means is we need
 13 more venture funds, more diversity of venture funds, to fund
 14 the kind of companies that are service companies or food
 15 companies or consumer product companies. And that is
 16 coming, but we need to find a way to have the regulation
 17 support that capital formation.
 18 And, then, finally, the two big issues we see
 19 and I think it has been talked about a little bit before
 20 the 99-investor rule is a big deal. We could have raised
 21 for this recent fund, the \$52 million fund, probably another
 22 \$10 million if we could have gone beyond 99. I mean, we had
 23 lots of interest, people who wanted to invest \$100,000 in
 24 the fund. We turned them away because we said eventually we
 25 are going to have a numbers problem. And so we just said,

1 no, we have got to keep to our \$250,000 minimum. So that is
 2 an issue.
 3 And the other issue that we should talk about a
 4 bit is general solicitation. In these ecosystems, there is
 5 lots of interest from folks who want to invest in funds or
 6 in startups. There is a lot of confusion about what a
 7 general solicitation is, particularly now that you have the
 8 internet and social media and a way to disseminate
 9 information in a way that feels general. But in our case,
 10 we went to our lawyer for our last fund and said, "Hey, we
 11 would like to send an email out to the 3,000 people in our
 12 database that we have. They are friends of ours."
 13 And the lawyer said, "Oh, if it was like 200, that
 14 is probably okay, but 3,000, that feels like it is wrong."
 15 MR. SOLOMON: It is all in the feel, right?
 16 MR. McILWRAITH: What is that?
 17 MR. SOLOMON: It is all in the feel
 18 MR. McILWRAITH: Yes.
 19 MR. SOLOMON: because there is no
 20 MR. McILWRAITH: Right. And so she convinced we
 21 couldn't do it. And, meanwhile, I am a lawyer. So I
 22 understand it and can have the debate. My two partners are
 23 going crazy, saying, "Wait a minute. I'm sending other
 24 funds sending these emails out, posting things on LinkedIn,
 25 articles in the newspaper. And, yet, you are holding us to

1 a higher standard."
 2 And I said, "Well, it is because it is uncertain,
 3 and we are going to be conservative when it comes to things
 4 that might bump up against what could be considered a
 5 general solicitation." And, much like the rule that changed
 6 the 99 number to 248, it limits you to \$10 million in
 7 capital. That is really not a help to the venture funds.
 8 Nobody really wants to have a \$10 million fund. It is just
 9 there is not enough income to support one person, let alone
 10 a team.
 11 When it comes to general solicitation, 506(c)
 12 helped, but the other problem is and there is some
 13 confusion about this, and Julie and I talked about this
 14 most of the lawyers out there thing that you have to get
 15 that tax under 506(c), you can do general solicitation
 16 through credit investors, but you can't rely on self-
 17 certification. So you can't rely on the subscription
 18 agreement. You have got to go get a balance sheet or a tax
 19 return or something. The likelihood that we are going to
 20 and we chose not to pursue that because it is hard enough
 21 to get the investors engaged. If you said, "Oh, now, by the
 22 way, we are not going to rely on your signature. We need to
 23 see some financial statements"
 24 MS. HOWE: "I don't trust you enough," yes. It is
 25 a relationship business, "I don't trust you enough. I need

1 to see your bank statement."
 2 MR. McILWRAITH: That is friction. And so we
 3 said, "No. We are not going to do a general solicitation."
 4 And I checked before coming here today. That is a big
 5 deal. There is a lot of confusion. And most people are not
 6 using it because they are afraid, either because of their
 7 lawyers or friends or whatever, to use it.
 8 And this business, much like the startup-financing
 9 world, is very inefficient. It is very hard to there are
 10 investors out there. They want to invest. They want to
 11 find product. Connecting with them is very much a one-off
 12 process because you can't do things that might start to look
 13 like a general solicitation.
 14 MR. SEATS: John, have you thought about doing a
 15 parallel 337 fund to separate out any of the
 16 MR. McILWRAITH: Yes. We did that.
 17 MR. SEATS: Oh, you already did that?
 18 MR. McILWRAITH: Oh, yes.
 19 MR. SEATS: Okay.
 20 MR. McILWRAITH: So if you think about it
 21 MR. SOLOMON: So just so everybody understands
 22 what you are saying, you know, you can create parallel
 23 feeder funds where you have qualified purchasers, which gets
 24 you around the 99 limitation, and you have a parallel fund
 25 that is actually for credit investors so you can aggregate

1 more than 99 investors, you just keep your accredited
 2 investors to the 99. You have got a parallel fund that
 3 makes co-investments alongside of your accredited investor
 4 fund. That is
 5 MR. McILWRAITH: Absolutely.
 6 MR. SEATS: And, I mean, I am aware of
 7 MR. SOLOMON: We do that all of the time, by the
 8 way. It is for the same exact reason when we are raising
 9 money.
 10 MR. SEATS: I am aware of a vehicle that has got a
 11 I won't say the name of it, but it is a big investor
 12 group. And most of their membership are people who have
 13 over \$5 million in invested assets. So they are all QPs.
 14 But they raised a venture fund that is over \$100 million
 15 with like 500-plus LPs or something.
 16 MR. McILWRAITH: Those are QPs.
 17 MR. SEATS: Because they are all QPs, yes.
 18 MR. McILWRAITH: Yes.
 19 MR. SEATS: So it is a different, a totally
 20 different, dynamic.
 21 MR. McILWRAITH: QPs, they aren't quite unicorns,
 22 but those are a little harder to find, particularly in the
 23 Midwest.
 24 MR. SEATS: Yes.
 25 MR. McILWRAITH: They are out there.

1 MR. SEATS: Yes.
 2 MR. McILWRAITH: And, again, without things that
 3 are
 4 MR. SEATS: It is hard to find them.
 5 MR. McILWRAITH: Yes. And the thing about our
 6 fund, we had lots of again, we had a lot of \$250,000
 7 investors come in. We knew there were more out there, but
 8 we also knew we were going to have a numbers problem in the
 9 accredited-investor fund.
 10 One last quick example. I talked to somebody on
 11 the flight in or before the flight today. Somebody in the
 12 Midwest about to raise a new fund desperately needed
 13 unbelievable contacts that they are very well connected in a
 14 region that needs a fund. And I am talking to the person
 15 that is helping them because he has been in the industry as
 16 long as I have. And he says, "Wait a minute. General
 17 solicitation and 99. Okay. Those are two things."
 18 They were about to they knew they couldn't put
 19 something in the newspaper saying, "Hey, we are about to
 20 raise a fund" because that is probably a no-no, thought we
 21 ought to talk about that. So they said, "So we are going to
 22 do an email out to our network."
 23 Their network is probably 8,000 people, right?
 24 And they are all people that want to support this
 25 organization. And I said, "You had better go talk to your

1 lawyer about that because that is a gray area."
 2 He goes, "I am glad I talked to you. Now I am
 3 frustrated. And please let me know how your conversation
 4 this afternoon goes."
 5 MR. SOLOMON: Tell them you came to watch it until
 6 you got it all fixed.
 7 MR. McILWRAITH: Yes, exactly. I said, "It may be
 8 a little slower than that."
 9 MR. SOLOMON: I want to just first of all, I
 10 want to thank you all. We are going to have a little bit
 11 more discussion, but I want to make sure we are we have
 12 one more presentation to listen to, but before we get to
 13 that, we want to make sure we have some dialogue about it
 14 and some questions and answers, again mindful of time. So
 15 we are probably going to leave this section to maybe 10
 16 minutes, 10-15 minutes because at the end, we have got to
 17 wrap up and make sure that we actually do some recommending.
 18 So we want to make sure we leave enough time for that.
 19 So any questions for the panelists or discussion
 20 points or if you have got some other things you want to say?
 21 MS. GARRETT: Bert?
 22 MR. FOX: Well, I wanted to go back to a point,
 23 well, I guess both to John and Darcy, but I think Darcy
 24 brought it up, you know, first on this co-investment idea
 25 and bringing in folks. You know, this morning we heard on

1 the PitchBook data miles from investment and that sort of
2 stuff. Yes, I guess I am curious. How hard is it to get
3 the money to come in from the coast if you guys are actually
4 providing introduction or not? Can you talk a little bit
5 more or both of you about that?

6 MS. HOWE: Well, our model is we can't invest
7 unless there is because we don't lead rounds. I would
8 say the West Coast is the hardest because they believe they
9 know everything is out there. But I think it hasn't been
10 difficult. If the entrepreneur is raising, let's say, in
11 the \$4, \$5, \$6 million range, the hard part is getting to
12 that part. Where they need capital in our part of the
13 world, frankly, you could do really well on a million
14 dollars. We have got to fund entrepreneurs have raised
15 only a million or two million dollars who already have a
16 million dollars of revenue. That is unheard of. They laugh
17 about that on the West Coast. They are like, "Well, we have
18 got a \$50 million valuation on \$1 million." So I think the
19 bigger challenge in the Midwest or noncoastal places is
20 those early dollars.

21 And what we found as a co-investment model, we are
22 co-investing more with fewer brand-name VCs because they are
23 writing smaller checks. The big brand VCs can't write
24 smaller checks. And the Midwestern entrepreneurs need
25 somewhere between, let's say, \$100,000 and a million for

1 their seed A. And those checks are mostly in other small
2 funds. So we will bring in and we believe that good
3 governance is you get institutional money and sooner because
4 the angels are wonderful investors, but they are not that
5 great at good governance. So, you know, they price internal
6 rounds, and they do stuff that is really dumb for companies
7 long-term. So by bringing in other institutional investors
8 who write small checks, that is I think the key. And that
9 is where I think the coastal guys just can't do it because
10 their math doesn't work on writing small checks.

11 MR. McILWRAITH: And they don't want to fly out to
12 Indianapolis for a million-dollar investment. And so we
13 invest in Series A rounds typically. Two million dollars is
14 part of a \$3 to \$5 million round. West Coast firms just
15 aren't going to do that. There are some exceptions, and we
16 have seen it. ExactTarget, which was founded and launched
17 and successful in India, the founder of that, Scott Dorsey,
18 can pull people in Indianapolis through his brand. But,
19 generally speaking, the funds on the West Coast and the East
20 Coast want to wait until a company gets to about \$4 or \$5
21 million in revenue. And the round size is north of \$5
22 million and usually closer to \$10 million because then they
23 can get enough money to work to justify taking one of their
24 precious slots and their board seats and putting time into
25 it.

1 MS. HOWE: And to speak to your other problem,
2 which is the not problem but the opportunity where folks
3 in a region want to invest in a region and it is not just
4 the \$50-\$100 thousand checks, it is actually the
5 institutional people who want to. But if they have an
6 unnamed Boston consultant who is their consultant who says
7 you don't know who that is, do you? who says, "No.
8 They are a first-time fund" or "They are not a \$100
9 million." And I get it because they spend the time to do
10 the diligence. They need inventory to spread out amongst
11 their clients.

12 And so our land grant institutions who want to
13 invest in our fund or others locally or big endowments who
14 want to invest in our fund, their consultant is telling
15 them, "No. You can't do that."

16 MR. McILWRAITH: So IE Foundation is an investor
17 in our fund. We may be one of their only or few investments
18 in the Midwest. And they are reducing the number of
19 managers and focusing more on the coast and more the big
20 funds recommended by this unnamed Boston firm. But they
21 invested in us because of our track record and because they
22 believed in us. And they have now committed our most recent
23 fund in a larger amount. But that is almost unheard of
24 because of what you just said. You know, their investment
25 amount is about half of what they normally commit and maybe

1 a quarter. And they really don't want a lot of managers.
2 They just like funds, want fewer investments. The LPs, the
3 institutional investor, want fewer managers.

4 MR. SOLOMON: So I think there is something in
5 here that we should probably consider also that you
6 mentioned, which is really first-time funds and first-time
7 fund managers. That is not necessarily an impediment that
8 is specific to regional funds. It is actually specific to
9 any fund that gets formed. And it creates, really, a moat
10 or a fortress around capital. So those who have been
11 successful just get more money because they have shown
12 successful track records. It makes sense logically, but it
13 also adds to some of the problems I think we are seeing
14 around the free form of capital.

15 We just did a fund that is not a venture fund. I
16 hope by saying this and putting it into the record, I am not
17 violating the general solicitation rules, by the way, but we
18 just did a fund that closed on \$208 million. It took us 18
19 months to do it because first-time fund and in an area of
20 ESG sustainability, not well-known. So it was almost like
21 first-time fund. We want to put money in this area, but we
22 actually don't know how to put money in this area. And the
23 two anchor investors in there don't write checks that small.
24 So we had, really, three major impediments, and it took us
25 you know, we are big, and we can throw a fair amount of

1 money at it relative to both entrepreneurs. And it still
2 took us 18 months to raise the money because of some
3 impediments.

4 I just think we should draw a distinction here a
5 little bit between what we can do to facilitate it, but
6 sometimes first-time funds are just facing impediments that
7 have nothing to do with the regulatory framework. It is
8 just the challenge of advisers or consultants who might be
9 doing that.

10 MR. McILWRAITH: Well, I guess the only exception
11 I would say is and, again, I look at J. D. Vance is
12 raising a first-time fund. He has been a manager before,
13 but this is his first fund. And he basically acts as West
14 Coast capital and others. And he has already had a

15 MR. SOLOMON: So I guess if you have a New York
16 Times bestseller, that might be the exception.

17 MR. McILWRAITH: Exactly, or Mark Kvamme with
18 Drive. But in the Midwest, if you are not Mark Kvamme and
19 you

20 MR. SEATS: Well, they are first-time funds, not
21 first-time managers. That is the

22 MR. McILWRAITH: Yes. Yes.

23 MR. SEATS: yes, because they can be double.

24 I want to emphasize this because you hit this
25 point, I think, but it is a big one to me, which is that

1 your explanation of, okay, well, \$5 million in revenue or
2 above is sort of the you know, because they want to write
3 a check that is this big because they want to yadda yadda,
4 and it is because they want to guard their slots.

5 MR. McILWRAITH: Right.

6 MR. SEATS: Right? And so what that is a
7 reference to is the portfolio construction of these
8 investors, which is 100 percent dictated by how much time
9 the partners have as individuals, which is the dynamic which
10 is driving why as these funds raise more and more capital,
11 they don't increase the number of investments. And when you
12 can't increase the number of investments, the only thing you
13 can increase is how much you invest, which pushes you to
14 later stage and bigger checks and oversized rounds and
15 whatever else.

16 And so that is the dynamic that is playing out in the
17 capital stack, which is why when you look at the market
18 numbers, more capital doesn't equal more on-the-ground
19 innovation of ownership, whatever else.

20 And so, you know, I think for us just to have
21 really crisp focus on it, my belief is that if you are not
22 creating new fund managers, you are not changing that
23 dynamic.

24 MR. McILWRAITH: Absolutely.

25 MR. SEATS: Because a fund itself is effectively

1 investing in a static number of companies in variance of how
2 much money they are managing.

3 MR. McILWRAITH: Just a quick example in that we

4
5 MS. MOTT: This is Catherine. Can I comment
6 something?

7 MR. SOLOMON: Sure. Go ahead, Catherine.

8 MS. MOTT: May I comment on something?

9 MR. SOLOMON: Yes. Go ahead.

10 MS. MOTT: Every year, I am invited to the
11 Grosvenor emerging manager conference and to the Texas
12 teachers emerging manager conference. They define emerging
13 manger as someone who is raising \$250 million and worked
14 something like 4 to 8 years with a major fund. So when we
15 think about how major institutional investors look at
16 emerging managers, it is very difficult. They are from
17 Kansas or from Cincinnati or from Louisville, Kentucky, you
18 know, where you are focused regionally. It is very, very
19 challenging to meet that definition.

20 And when you also think about those who raise big
21 funds in I think somebody brought this up earlier in
22 California or Boston, it is people who are cast out think
23 Marc Andreessen cast out and get kind of and he has
24 got a \$400 million name, you know. So what we need to
25 address is, how can we modernize our rules so that the

1 middle of the country can successfully raise money in a way
2 that they can spread their risk across several companies,
3 protect their pro rata share to the point they can, and be
4 able to prove their worth to raise another fund and get to
5 the point where when they go to Grosvenor, they are an
6 emerging manager and they will get \$20 to \$30 million. But
7 in the meantime, we are not addressing this problem of how
8 do we address the middle, that, you know, this is it, the
9 flyover state. That is the key thing here.

10 MR. McILWRAITH: So two things, not quick but two
11 things you could do. On the 99, the rule you passed that
12 allowed you to go to 249, that take 10 million to 100. I
13 don't know. Ten is just not relevant. I mean, maybe there
14 is some relevance in how that became to be, but if you talk
15 to people in the industry, they are like, "Nope. Nobody
16 wants a \$10 million fund. So it is not going to help." So
17 100 might be I mean, I don't know how you pick 10, but if
18 you made it 50 or 100 million, that would allow these funds
19 that want to grow to be 25, 30, 40 million to not worry
20 about the 99 rule. And that will remove friction.

21 And on the general solicitation, if you could find
22 a way to take 506(c) and go back to what you know, there
23 is this concept of principal. You either have the hard
24 evidence of their accredited-investor status or there is a
25 principal process where you know the person and say, "Well,

1 I think he is worth \$5 million or whatever," if you could
2 find a way to just go back to self-certification and say,
3 you know, somebody says, "Signs make the paperwork more
4 stringent in terms of what they fill out," but if they sign
5 and say, "I am accredited based on these definitions" and
6 make that the standard for 506(c) and allow that level of
7 general solicitation, that would improve not only
8 fundraising for funds. The startups have the same problem
9 because they are worried.

10 Like demo days, I mean, people go to demo days.
11 They don't know those people. And they are told, "Oops.
12 You cannot talk about fundraising at demo day" when that
13 audience is sitting there saying

14 MS. HOWE: They have got checkbooks. They have
15 got checkbooks.

16 MR. McILWRAITH: Yes. And most of those people
17 are accredited and they want to invest, but there is a
18 mismatch.

19 MS. HOWE: And the last solution I would have is
20 on the fund-to-funds side. If I don't know what the
21 impediments are for fund-to-funds, I don't see very many of
22 them very interested in what we are doing. I don't believe
23 it is in the investors' best interest for us to raise \$100
24 million fund on a highly focused geography, but I think that
25 is our special sauce is we know that deal flow in that

1 region better than anybody. So whatever the impediments are
2 for fund-to-funds, I think that would help a lot. It would
3 help the institutions. Our own land grant Kansas State says
4 \$75 million is our minimum. And they recognize that because
5 the fund has to be a little bit larger, they are missing the
6 kinds of things that are being built in the State of Kansas
7 that would help them to have economic prosperity, you could
8 have more students there. They would like to, but they
9 can't because of their size restrictions as well. So I
10 think fund-to-funds could really help.

11 MR. McILWRAITH: That ties to the 20 percent rule,
12 which I think is part of the that is another thing that
13 could help for sure.

14 MS. MEHTA: Is that a good segue?

15 MS. GARRETT: Yes, that is a great segue.

16 Thank you very much. I mean, I just want to kind
17 of it sounds like there are funds out there, a lot of
18 funds. So you are not having a problem actually getting
19 money into your funds. It is problems on caps that are
20 restricting the amount that you can get, would you say?

21 MR. McILWRAITH: Yes. But it is also increasing
22 awareness. So you think about this general solicitation.
23 Had we been able to send comfortably, we can send an email
24 to the people we know, the 2,500 people in our database, and
25 not worry about that being a general solicitation, I know we

1 would have gotten a bunch more \$250,000 investors from that.
2 And, you know, think about it. Ten of those is \$2.5
3 million.

4 I mean, our partner, we sat around and said, "We
5 know they are out there, but the way we find them is through
6 one-off introductions because it is a very inefficient
7 market."

8 MS. HOWE: And it will take me a year and a half
9 to raise \$20 or \$30 million. It takes

10 MR. SEATS: That is on the accredited-fund side.
11 For the QP parallel fund, that is the dollar size, the
12 mismatch with the LP base.

13 MR. McILWRAITH: But we can't do a general
14 solicitation of QPs.

15 MR. SEATS: Yes. Right. Yes.

16 MR. SOLOMON: I mean, general solicitation rules
17 are murky. So I think that is an area where we could
18 probably address that. They are definitely murky like, you
19 know, we looked at LinkedIn posts.

20 MR. SEATS: Yes.

21 MR. SOLOMON: So I want to announce that, you
22 know, when we did our first close on an ESG fund because
23 that was a pretty remarkable thing to say, people were like,
24 "Oh, no, no, no, no. You cannot announce that at all."

25 MR. McELWRAITH: And just real quick, the

1 challenge we face, most funds have a first closing, and then
2 there are 12 or 18 months to your final closing.

3 MR. SEATS: That is also true

4 MR. McELWRAITH: The moment you have a first
5 closing, you want to put out news of your closing so you get
6 deal flow, not LPs. You just want to be able to tell the
7 world, "I have funds to invest."

8 Talk about a sticky process because now the press
9 wants to talk to you about your fundraising they read your
10 Reg D file. And you are like, "I can't talk about that."
11 And then you run the risk that they might say something that
12 you didn't say to them.

13 MR. SOLOMON: So we are publicly traded. Say, "We
14 are publicly traded." And so I would like to tell our
15 shareholders that we closed on a \$208 million venture fund
16 or a \$208 million fund, first closing. It is still opened."

17
18 Today is probably the first day I can talk about
19 it because it made its first investment. Literally as we
20 were sitting here, we pushed a press release. And people
21 were like, "Oh. Oh. Wait a minute. They actually raised
22 the fund, and they are making investments? When did that
23 happen?"

24 MR. McILWRAITH: Right.

25 MR. SOLOMON: And it is all because we didn't want

1 to be in a position where we blew the general solicitation
2 rules. I totally agree with you.

3 MR. McILWRAITH: Great. Great.

4 MS. HOWE: Carla, it is really hard to raise money
5 out of our

6 MS. GARRETT: Okay. I understand.

7 MS. HOWE: It is really hard.

8 MS. GARRETT: The money is there. It is hard to
9 get it.

10 MR. McILWRAITH: Right. Right.

11 MS. HOWE: Yes. It takes a long time. And you
12 are just

13 MR. McILWRAITH: Very inefficient.

14 MS. GARRETT: That was the point I wanted to
15 clarify. I think

16 MR. McILWRAITH: Or in Darnell's case, the money,
17 really, it wasn't there. Right?

18 MS. GARRETT: Well, Commissioner Roisman would
19 like to talk real quick.

20 COMMISSIONER ROISMAN: I'm sorry. And I know my
21 comments are going to be far less valuable than Sapna's, but
22 I do just want to take a moment to recognize I really thank
23 you very much, all of you and Poorvi on the phone as well,
24 for providing this like insight. I think this is a great
25 example of why this committee is so incredible. There are

1 so many people rooting for exactly what we are trying to
2 accomplish here, which is provide answers and clarity for
3 businesses going through the process. I think you are a
4 great example of explaining a situation that was, as you
5 said, your badge of honor. Yet, you have been successful.

6 I think everything we talked about is actually
7 through the lifecycle of pretty much any business. You have
8 started your own shop. You raised your own capital. We
9 have the next stage, which is the venture capital, right?

10 You guys are saying we should expand and, you know, help it
11 out because that needs more oxygen in the fire. Then you
12 would have discussions of public companies and what they
13 need to do. But it is important to remember that everyone
14 goes through this cycle right? and to help those that
15 had come after you that have the same struggles that you
16 did.

17 So your funds, which are great, doing an
18 incredible job in the Midwest, think about companies such as
19 Darnell's and Poorvi's, how they can benefit from your
20 wisdom from potentially long-term your investments, even
21 though they may not be the size that you want right now.

22 And also think about new asset managers. I mean,
23 this is a point that Jason makes. I think that is a very
24 valid point. You know, there is a limitation on the ability
25 of managers to take the time and provide their insights and

1 expertise to these companies. We have to somehow fill that
2 gap.

3 But these are all important points. And I don't
4 want it to become paralytic because there is a confluence of
5 different things that have led to the current situation.

6 But you have identified some helpful points for us to take
7 back what we as the SEC can do in order to potentially help
8 grow the funds that you guys have access to capital and
9 hopefully push down some of these barriers. There may be

10 things that we just don't have control but we should know
11 about. Maybe we can partner up with other agencies and
12 things like that to, you know, have Martha and her team kind

13 of follow up on. But I think it is really important to
14 continue this dialogue and after today's session provide us
15 three or four things that are issues and three or four
16 solutions. At least from my perspective, I think that would
17 be particularly helpful.

18 But, again, I really do appreciate all of your
19 insights and your help on this. And to the extent that you
20 guys want to submit comments on things that we are currently
21 doing, I will certainly find that when I review. Thank you.

22 MS. GARRETT: Sapna, we would love to hear your
23 story of Revolution's Rise of the Rest. And we would love
24 to hear how

25 MS. MEHTA: Happy to. And it dovetails very well

1 with discussions that have been happening after lunch and
2 even before lunch. So, as you all probably know, we have
3 Steve Case. We have a series of funds in different stages
4 of a company's lifecycle. And our youngest one is our seed
5 fund, Rise of the Rest Seed Fund. It's a \$150 million seed
6 fund, you know, raised with relative ease because it was a
7 great mission that people could get behind. And we had
8 already laid the foundation through these bus tours that we
9 do throughout the country.

10 So I know you know members of our team. And a
11 part of our competitive advantage is that we know managers
12 like you guys. And so a lot of coastal VCs like don't
13 really know how to go about finding gems that are not near
14 them, like in middle America, or they are not willing or
15 able to put behind the resources needed to do that.

16 So we raised this fund pretty quickly, and we
17 deployed the money faster than we had thought we would. And
18 we are getting around to raising our next fund. And what we
19 wanted to do is have a hybrid fund where we could do fund-
20 to-fund investments and direct investments because in our
21 view, like we saw that after making these, you know,
22 deploying two-thirds of the \$150 million, leaving the rest
23 for reserves, but after deploying that money, to really get
24 the flywheel effect going, we need those regional money
25 managers as regional funds to invest in the companies in

1 their own backyards. Like they know the people. They know
2 those entrepreneurs well. They know the network. They know
3 the community. They know those industries. They are the
4 ones with the deepest roots in those communities. And we
5 rely on people like you to source a lot of these deals for
6 us. So it is a mutually beneficial relationship.

7 And we didn't want to compete with what you do.
8 We wanted to piggyback off of what you do. And so that was
9 the thinking, that we were going to deploy maybe over half
10 the fund and funds like yours and then reserve a smaller
11 percentage for direct investments.

12 However, when we started going down the path of
13 how we would do that, we knew the constraints. But when we
14 really started doing the math and thinking of what it would
15 mean for our organization to do that, we ran into some
16 hiccups.

17 So just as background, with Dodd-Frank, there came
18 an exemption for venture capital. So everyone else has to
19 become a registered investment adviser, so private equity
20 funds, hedge funds, but there is this VC exemption.
21 However, if you are over \$150 million of assets under
22 management, there is a multipronged test that you have to
23 satisfy in order to be an exempt reporting adviser.

24 I am going to go past this because I think
25 everyone sort of this is just some background. And some

1 That eliminates any investment in a public company and a
2 few other ones that we won't delve into here.

3 Just to rewind a bit, so a lot of people are like,
4 "Well, then, why don't you just register? If you want to
5 pursue these strategies, then what is the harm in
6 registering?" So we had these numbers that NVCA had
7 provided. And they did a study. And they came to the
8 conclusion that it could cost eight times as much for a fund
9 to become a registered investment adviser, rather than being
10 an exempt reporting adviser. And so when we started going
11 down this path of what it would mean for Revolution to
12 become an RIA so we have 137 portfolio companies in our
13 first fund.

14 So that is a \$150 fund. We write small checks.
15 We tend not to lead or take board positions. And a lot of
16 these are very early-stage companies. So when we were first
17 talking to our auditor, they did not even want to do it
18 because it is not worth their time. It just becomes
19 something. It is very impractical. So what we ended up
20 doing is we do income tax-based accounting for this fund.
21 So we do not do GAAP accounting. If we were to become an
22 RIA, we would have to do GAAP accounting. And so we would
23 have to go back and all 137 of those companies, we would
24 have to you know, we worked it out finally with our
25 auditor. And they gave us an estimate. And it would be

1 of the policy reasons I think for creating the venture
2 capital exemption is because SEC and Congress wanted this
3 money to go directly to the companies, rather than towards
4 compliance costs. And so that is something to keep in mind.
5 So when you are looking at potentially having to be an RIA
6 or if you want to be an exempt reporting adviser, there are
7 certain things you have to do. So you have to represent
8 yourself as pursuing a venture capital strategy.

9 There are certain leverage limitations. So,
10 really, you know, it knocks out a lot of like LBO
11 strategies. You cannot offer your investors redemption or
12 similar liquidity rates. So that eliminates most hedge
13 funds.

14 And the other prong that I want to talk about is
15 that you can hold no more than 20 percent of your total
16 capital commitments in nonqualifying investments.

17 Yes, I have different talking points than slides.
18 Yes.

19 And so in talking about that 20 percent prong, so
20 what are nonqualifying investments? So these are things
21 such as secondary transactions. So in order to make let
22 me say the inverse of it. So 80 percent of your investments
23 have to be in qualifying investments, which are direct
24 investments in private companies. So that eliminates fund-
25 to-fund strategies. That eliminates secondary transactions.

1 three times more expensive to do our annual audit.

2 And that is just the annual audit piece because
3 then you have the other compliance components. So we would
4 probably have had to hire two more people on our team to
5 manage the ongoing compliance regime that is associated with
6 being an RIA.

7 And then you have to hire outside vendors and
8 software programs. So there is like the custodian issues
9 that you would have to comply with. There are various
10 outfits that help you become an RIA. And one of the more
11 we haven't discussed it here, but one of the biggest
12 barriers was the advertising rule. So, I mean, we are a
13 marketing machine and not being able to talk about our
14 investments, I mean, we were on 60 Minutes and touting a few
15 of our investments. What we were trying to do is shine a
16 spotlight on these companies to draw interest to these
17 companies and to these areas. And with the advertising
18 rule, we would not be able to do that. So we would not be
19 able to really tweet about any of these companies. You
20 know, maybe it is okay to say something very factual, but
21 like with no color attached to it.

22 And so these things and the other thing about
23 this rule is that if one fund becomes an RIA, you have to
24 look at the integration rules and then all of your family of
25 funds. So our other Revolution funds would also have had to

1 register. It is one thing to say that and then the cost
 2 that it will be, but if you really think about it, some of
 3 it would come out of your management fee, like if you are
 4 hiring additional staff, but a lot of these are going to be
 5 fund expenses.
 6 And our LPs don't want this. They were fine our
 7 accounting. They are fine with the level of reporting we
 8 provide them. They would rather us show a higher IRR. They
 9 would rather us put this money towards our investments in
 10 these companies. And so, really, it didn't make sense for
 11 us to do.
 12 And so we could have done it with the 20 percent.
 13 We could have just restricted ourselves to doing 20 percent
 14 of the fund. But we just felt like it would send wrong
 15 signaling because then it is like, well, which funds are you
 16 selecting for that 20 percent basket? It wasn't worth the
 17 headache involved.
 18 You know, it does get a little complicated doing a
 19 hybrid fund, but we had managed to work through a lot of
 20 those issues around fees and carry and all of that
 21 structure. But it really was the legal impediment, which is
 22 why we did not pursue that strategy.
 23 MS. GARRETT: Sapna, just to be clear
 24 MS. MEHTA: Yes?
 25 MS. GARRETT: the strategy you did not pursue

1 was creating a fund that would have invested in regional
 2 funds?
 3 MS. MEHTA: Correct.
 4 A PARTICIPANT: As well as
 5 MS. HOWE: And all of the regional funds that were
 6 associated with them were begging because we knew Steve Case
 7 is a marketing machine who can go out and raise money. And
 8 we were having a hard time raising money. None of us who
 9 went to his summits had ever raised more than \$30 million 3
 10 years ago, when he first started doing that. So we were
 11 really hoping and disappointed, frankly, when they didn't do
 12
 13 MR. FOX: I guess I want to be
 14 MR. SEATS: Also, the thing just to point out is
 15 that, in essence, what you are talking about here is pooling
 16 small regional funds so that the capital allocators can
 17 write bigger checks to people who are better at raising
 18 money. I think of it like sort of connecting the dots of
 19 the system. Right?
 20 MR. FOX: So I just want to make sure I
 21 understand, not an attorney. So is it purely from the 20
 22 percent rule? Is it that you couldn't do direct investments
 23 and the fund-to-funds or you can't do the fund-to-funds,
 24 period?
 25 MS. MEHTA: We could do up to 20 percent of our

1 total capital commitments. So if we have a \$100 million
 2 fund, we could do up to 20 million of that in fund
 3 investments. But that 20 percent basket, you have to keep
 4 in mind also covers any secondary transactions. So you
 5 would want to leave room in there for
 6 MR. SOLOMON: As well as any public investment?
 7 MS. MEHTA: Yes.
 8 MR. FOX: So you couldn't have just a fund-to-
 9 fund, period?
 10 MR. SOLOMON: No. You have to be a registered
 11 investment adviser.
 12 MR. FOX: Okay.
 13 MR. SOLOMON: Right.
 14 A PARTICIPANT: Can I say something else?
 15 MR. SOLOMON: Matthew is actually the expert on
 16 this.
 17 MR. COOK: I am a staff member on this. I
 18 wouldn't say expert.
 19 MR. SOLOMON: In this room, you might be the
 20 expert.
 21 MR. COOK: Maybe. Just to conceptually the way
 22 you started off is great. I mean, the first slide, in
 23 particular, sort of showed the context in which the venture
 24 capital exemption arose, which was their prior exemption in
 25 Congress for basically all private fund advisers. And then

1 Congress in Dodd-Frank said, "No, We want all advisers to
 2 register, but we don't want venture capital advisers to have
 3 to register. So we are going to create an exemption for
 4 them." That exemption then became a question of, what does
 5 it mean to be a venture capital fund and a venture capital
 6 fund adviser. And so the SEC came up with a definition that
 7 showed. And part of the decision there really if you read
 8 the release, which you may not want to do, back in 2011 was
 9 basically saying for venture purposes, the SEC was
 10 interpreting Congress' intent or what Congress intended to
 11 get at by saying the goal here was to get funds from the
 12 investors into one fund and then the fund direct investment
 13 equity issued directly by a portfolio company, that they
 14 interpreted the exemption to mean. And so the idea was to
 15 be a venture capital fund, at least 80 percent would have to
 16 be that activity.
 17 And then there were a bunch of comments. And the
 18 proposal was slightly different from what was ultimately
 19 adopted. But the basic premise was 80 percent is to be that
 20 and 20 percent is for any other piece of strategy you want
 21 to do, which would include the fund-to-funds and would
 22 include secondaries. But every time the Commission
 23 considered a potential tweak to the overall definition,
 24 rather than do it on an individual or piece-by-piece basis
 25 throughout the general approach, was look to the 20 percent

1 basket and if that be everything that doesn't meet what we
 2 thought Congress meant by being a venture capital
 3 investment.
 4 MR. LEE: Just clarifying, the 20 percent also
 5 includes nonequity investment, so debt investments, revenue-
 6 share agreements. You mentioned like, for example, where if
 7 you don't know after all the show that you went through, you
 8 don't want to sell equity. You just need a million-dollar
 9 credit line. You know you are going to pay it back in a
 10 year. These venture funds could not meet that financing to
 11 you.
 12 MR. McILWRAITH: They could make it within the 20
 13 percent, but the 20 percent
 14 MR. LEE: But for all of the reasons and even for
 15 your do any of
 16 MR. McILWRAITH: So no. But Indianapolis, so High
 17 Alpha, the guy that founded ExactTarget created a venture
 18 student. Now he is a \$100 million venture fund, big fund
 19 for the Midwest, wonderful asset for Indianapolis. I think
 20 one, maybe two of his investors are out-of-state coastal
 21 firms that put money in his fund. So they used part of
 22 their 20 percent. And they are now spending time on a
 23 regular basis in Indianapolis looking at the portfolio
 24 companies that this fund, High Alpha, has invested in.
 25 So it works. It is not something we would do. We

1 are too small. We would be a recipient, and you would be a
 2 recipient. But the impact on the Midwest it could be
 3 anywhere, but we come from the Midwest is dramatic
 4 because now, all of a sudden, those coastal firms say, "Hey,
 5 I do want to spend time in the Midwest because I have my
 6 local firms, and I have got to look through one." And the
 7 20 percent just inhibits that.
 8 MS. MEHTA: That is exactly right. And it is also
 9 that we talked earlier about coastal funds not wanting to do
 10 a lot of direct investments because of the time
 11 MR. McILWRAITH: Right.
 12 MS. MEHTA: and attention it takes. However,
 13 if you find a good manger, you don't have to put in the time
 14 and attention because you are entrusting this fund to do
 15 that for you. They are sourcing the deals, and they are
 16 doing that for you.
 17 MR. McILWRAITH: Then they come in with larger.
 18 So when those companies grow, they need that growth capital
 19 around. Now these funds are teed up. They know the
 20 companies well. And they come along and say, "Terrific.
 21 Now I am bringing \$10, \$15, \$20 million to the table in
 22 rocket fuel for these companies." So it is a big issue.
 23 And the secondary piece is a big issue, too,
 24 because you have got these companies that know there is
 25 investors or at least early investors that want to get out.

1 And the big funds would like to take them out. If I am a
 2 big fund and I want to put \$20 million to work and the
 3 company only needs \$10, I am either going to figure out
 4 another way to get \$10 million to work or I am going to walk
 5 away.
 6 Now, if I am the company, I might say, "Well, I
 7 have got some of my early-stage investors." They would sell
 8 out at five times or three times the return. The 20 percent
 9 rule impedes these bigger funds from putting more capital to
 10 work in Midwestern companies. And so they stay on the
 11 sidelines because they just can't get enough capital to
 12 work.
 13 MR. SOLOMON: So I want to make sure. There are a
 14 couple of things in here. First of all, I want to make sure
 15 the committee understands that a lot of these
 16 recommendations are actually recommendations from a broader
 17 report that the NVCA put out. So while they represent a lot
 18 of what Sapna and Jason have experienced in their own funds,
 19 this is not just them coming with ideas.
 20 This is actually a subsection of a recommendation
 21 from a white paper that came out from the NVCA, which I
 22 would encourage the committee to look at. This is the
 23 relevant parts. I think we discussed this. This is the
 24 relevant parts for this committee, but there are some other
 25 things in here as well the NVCA is arguing for.

1 One of the things we talked about, though, is
 2 because you can't invest, as a venture fund, you can't
 3 invest, in public companies other than through this 20
 4 percent exemption. In the last seven years since the SEC
 5 has guidance around this, what has really fueled the growth
 6 of biotech investing is actually something that we don't
 7 talk a lot about because it is a market convention. And
 8 that is partnership.
 9 So in 2011, 2010, let's be really clear. It isn't
 10 like the venture community and the public investors really
 11 were having much conversation. They weren't. They didn't
 12 really like each other that much because there's always
 13 arguments over what these things are worth. And so you
 14 would have the venture community saying like, "I'm not going
 15 to let the biotech cabal price my portfolio."
 16 And you would have the public market investor
 17 saying, "Well, we are not going to let you sell everything
 18 to us at an IPO" at some value and then we get left holding
 19 the bag.
 20 And so a bunch of us got together in the industry
 21 and just started fostering communication and dialogue. And
 22 out of those dialogues came the concept of crossover
 23 investing. Particularly I think crossover investing in
 24 biotech is very unique relative to the other crossover
 25 investing we have seen. And that is where public company

1 funds, mutual fund companies, by and large, and other hedge
 2 funds, '40 Act registered companies, are investing in
 3 private securities in a round just before the companies are
 4 likely to go public and and it is an "and" statement
 5 the venture funds are also investing at the IPO additional
 6 capital. That combination of having public market
 7 traditional public market investors investing privately
 8 allows them to get access to value creation for their
 9 shareholders, which, by the way, most of which are retail
 10 and individual shareholders. So that the venture capital
 11 firms are giving up a little bit of value to introduce their
 12 longer-term shareholders. And then at the next round of
 13 financing, which is the public round, and in many subsequent
 14 follow-on rounds, the venture funds are putting up
 15 incremental capital because they recognize there is still
 16 value to be created from the companies. They are using that
 17 exemption to do that in many instances. And it is chewing
 18 up a lot of their because these companies, if you go from
 19 a \$200 million company to \$400 million company to an \$800
 20 million to a billion, 2, which is what you like to see, you
 21 almost by definition have to be polluted. You may want to
 22 own more of those companies.

23 And so one of the things that NVCA is advocating
 24 for is the ability for public investments, particularly in
 25 biotech, where there has been some success, to be exempted

1 from this 20 percent bucket provided that the venture firm
 2 has actually made a prior investment where the companies
 3 were private.

4 And I would just say, you know, we talk a lot
 5 about what in regulation doesn't work. This is actually one
 6 place where the market figured out how to actually
 7 collaborate and cooperate. And it has really been in
 8 addition to the JOBS Act, I think the number one reason why
 9 we have seen so much capital flow to these companies is
 10 because there has been a partner I am not saying they
 11 always get along, but they get along a heck of a lot better
 12 now when both are putting money at the same time. And we
 13 just want to make sure that that gets recognized in some of
 14 these exemptions.

15 MS. GARRETT: I would like to thank our speakers
 16 very much for coming today. I would like to use the rest of
 17 this time, actually, for the committee members to discuss
 18 what we have heard and what we have heard from the speakers
 19 and also think about how we would like to have our next
 20 committee meetings follow up on a lot of the points that
 21 were raised today because we have raised a lot of different
 22 issues that are all great. And I think they dovetail great
 23 into the next committee meetings. So thank you very much
 24 for coming. Thank you. We really appreciate having you
 25 here.

1 MR. FOX: Hold on, Carla, real quick, before Darcy
 2 and John leave.

3 MS. GARRETT: Okay.

4 MR. FOX: Would you echo the thoughts on the cost
 5 of becoming RIA? That is a nonstarter for you as well.

6 MR. McILWRAITH: If we were I mean, we know
 7 about that. And yes, you

8 MR. FOX: Okay. Just want to touch.

9 MR. McILWRAITH: your registered investment
 10 adviser.

11 MR. FOX: Just want to confirm it.

12 MR. McILWRAITH: Okay.

13 MS. HOWE: Having come from Merrill Lynch, also I
 14 know there was a fund-to-funds. A lot of folks thought that
 15 was expensive. You are ripping off the retail investor and
 16 all of that. Actually, in this case, I think it is helping
 17 the retail investor to be able to invest because otherwise
 18 they can't invest in our funds in a small amount.

19 MR. FOX: Okay.

20 MS. GARRETT: Thank you very much.

21 And I would like to now open it up to the
 22 committee. And we have 15 minutes. So I think this is a
 23 great time to put on the table some of the different ideas
 24 that we have discussed today, topics that you would like to
 25 see on the agenda for upcoming meetings. Sapna and I know

1 we -- you know, you talked about the venture capital
 2 operating exemption. If we don't come down to a
 3 recommendation today, which maybe we all need to digest all
 4 of the information that we have received today because we
 5 have received a lot of information, if we come up with
 6 agenda topics for the future, that would be useful.

7 MR. LEE: I would make a suggestion. I was
 8 wondering if it is possible next time if we can really try
 9 to focus on the most pertinent. Like the most direct
 10 problem is probably the best way to phrase it, which is
 11 still basically how do we ensure more capital to Darnell or
 12 Darcy or John, right? I think that is an easy way to kind
 13 of think about today's discussion.

14 I think the PitchBook was great. And I think
 15 somebody mentioned maybe there is a better way to slice that
 16 data to get more specific data on regional funds and
 17 regional investment. I think that might be really helpful
 18 to focus specifically on, really, how do we get more capital
 19 to the Darcys and the Johns of the world because I think
 20 when we look at like when we step back too far, the
 21 problems become really big. It is kind of difficult to kind
 22 of equate the problems that Darcy and Darnell is having
 23 versus the Blackstones of the world that have different
 24 problems that they are trying to solve.

25 MR. SEATS: Just to explicitly sort of connect

1 those dots, I mean, this is not a recommendation. I think
2 Jeff was correct in framing what shared was a subset of some
3 of the NVCA's recommendations on the VC modernization. But
4 these three things that are left on the screen, that is as
5 close to what a recommendation is out of the sort of content
6 there. And to be explicit, that first item would directly
7 impact John and Darcy. That is basically the formalizing of
8 the Scout program to allow large coastal firms to put
9 capital into small, regional funds for deal-flow purposes,
10 that is a behavior that they already want to do but are
11 averse to because it hits against the 20 percent

12 MR. SOLOMON: I would go even further than that,
13 which is to say I just don't see a difference between if you
14 are a venture firm that only invests in other venture firms,
15 I just don't see why that doesn't qualify you as a venture
16 firm.

17 We can definitely do the exemption bucket. We
18 should do that. I think that is a good recommendation
19 because we certainly want to if we are solving for this
20 idea we have capital at the coast and knowledge regionally.
21 And we can create a transmission mechanism but for the fact
22 we have some, you know, I don't want to say arbitrary but
23 some regulatory constraint. I believe it was there for good
24 reason, but we can now say 10 years hence almost that it
25 maybe is doing something that it wasn't intended to do.

1 Certainly like we saw at Dodd-Frank, it hadn't
2 even dawned on me until you mentioned it, John, that, of
3 course, Dodd-Frank decimated the middle of the country as it
4 relates to venture because it stopped all the banks from
5 being investment managers. You know, again, we talk a lot
6 about the law of unintended consequences when it comes to
7 brute-force regulation. I am not opposed to Dodd-Frank and
8 its concept. I think it was a necessary thing that had to
9 happen here, but let's face it. Legislation is not a
10 nuanced tool.

11 And here with regulation, we can use regulation
12 and maybe amend regulation to get to what we want to get to
13 and I would say go a step further after hearing today. No
14 reason why we can't have maybe if you are just a venture
15 fund to invest in other venture funds, why are you not
16 considered to be a venture fund? And, you know, maybe start
17 from that and then and see where we go from there.

18 MR. FOX: I guess I like Matthew's take on that
19 because I can imagine if I am a fund complex and I invest in
20 I have a venture capital arm and a private equity arm and
21 maybe just a hedge fund arm and, you know, I am like, "Well,
22 gee, let me raise some more money" and I invest in some
23 other hedge, you know, venture funds, fund-to-funds. And I
24 go into the SEC and say, "Well, gee, now 51 percent of my
25 activities are investing in venture funds. Maybe I should

1 qualify and I shouldn't be an RIA, even though a sizeable
2 part of my business is not in venture funds." You know, it
3 just seems like there is some does it have to be 100
4 percent? Does it have to be I don't know.

5 MS. MEHTA: I mean, let's get

6 MR. FOX: Yes.

7 MS. MEHTA: Yes. There are still other prongs to
8 the test to leverage.

9 MR. FOX: Yes, I know, but

10 MS. MEHTA: So I do agree. And, I mean, going
11 back and reflecting on Jeff's point, I get the idea that we
12 want these dollars to go directly into companies, but now
13 that we have had time to assess what the impact of that has
14 been and how the money is staying on the coasts and it is
15 all part of an ecosystem. So you have to have the
16 companies, the entrepreneurs. You have to have the funds
17 that are going to invest in those entrepreneurs. You need
18 the investors that are going to invest in those funds in
19 order to make the whole thing go.

20 And so I agree that there should be some change in
21 whether it is exempting it altogether, exempting the fund-
22 to-funds investments altogether, or putting some parameters
23 around it. You know, I am open to whatever ideas other
24 people have, but I do think we need to take a more holistic
25 approach and see the whole ecosystem for what it is and be

1 able to address the issues that are affecting a lot of
2 middle America.

3 MR. SOLOMON: So one of the frameworks I would say
4 and I don't know if we want to work this into some of our
5 recommendations, but I see this framework happen all of the
6 time where we just have a problem, a market convention
7 problem, where the bigger people are, the bigger they have
8 to look at investments. That is something we have heard
9 today, right? Kansas, State of Kansas, can't invest in a
10 local fund because the pension fund is too small. Right?

11 We face this problem all of the time in the public
12 markets, too. Right? We now have multi-trillion-dollar
13 asset managers who can't look at small cap stocks because
14 you can't invest enough in them. This is a problem. So
15 what have we done? What has the market done? Market has
16 actually figured out how to allocate capital to capital
17 allocators. Right?

18 So I would argue today's biotech investor
19 again, we look at that as something we know a lot about at
20 Cowen, but it is also a good example of how a market figures
21 it out. A lot of the bigger funds today are investing in
22 management teams that they can then allocate capital to
23 various clinical programs. You know, historically biotechs
24 invested in one clinical program. Now they invest in 10 o
25 20. Why? Because investment managers have to allocate that

1 capital to somebody who can better select them. It is a
 2 very similar analogy here.
 3 So venture firms would like to allocate money to
 4 people who are better at allocating it regionally with more
 5 specificity. And they would do it if they could. So we
 6 have, again, other market conventions in which very large
 7 asset aggregators are figuring out ways to get to smaller,
 8 more purposeful investments that are venture-oriented. We
 9 should use that rubric as a way to think about designing
 10 regulation to foster that same move. It is always helpful
 11 to see that markets do figure this out and capital actually
 12 does flow that way when it is unimpeded. And I hope that is
 13 helpful as a framework maybe as an analogy or a way to think
 14 about it.

15 MS. GARRETT: I thought that was very helpful. Do
 16 other people have items or are you

17 MR. FOX: Well, that makes sense to me. It also
 18 struck me that today was the multiple times in the meetings
 19 so far that the you know, this rule around solicitation,
 20 general solicitation, has also come up as well. And so
 21 maybe we can ask the staff to have, you know, maybe some of
 22 the attorneys here maybe help provide some more background
 23 on the background of that, how the staff here actually
 24 thinks about it and maybe some background on how we got to
 25 there and maybe for the next meeting as well.

1 MS. MEHTA: How many hours do you have?

2 MR. SEATS: But even more accurately, the thing
 3 that I heard wasn't the fact that we are limited in
 4 solicitation, but we are uncertain

5 MR. FOX: Right.

6 MR. SEATS: -- about how we are limited.

7 MR. FOX: Yeah.

8 MR. SEATS: So even if it was a higher restriction
 9 but more precise --

10 MR. FOX: Right.

11 MR. SEATS: -- it would probably help the market.

12 MR. FOX: Yes.

13 MR. YADLEY: Well, there is definitionally and
 14 then also the American Bar Association comment letter on
 15 general solicitation and the deregulation of offers and that
 16 whole thing. There are different ways to go at it, but
 17 certainly the lack of a definition now. But how meaningful
 18 does it need to be as we try and harmonize the exemptive
 19 schemes?

20 MR. McILWRAITH: Can I just add one thing to that?

21 Sorry. I agree with that. But the thing about -- you --
 22 under 506(c) you allow a full-blown general solicitation,
 23 right? I know a fund out there that is advertising, like,
 24 because it can. Because it's going through the step of
 25 getting the documentation to show they're accredited. To me

1 it's not trying to define general solicitation. It's
 2 figuring out how to better define what you're trying to --
 3 you know, why you need that extra step to prove they're an
 4 accredited investor. Because if you know they're an
 5 accredited investor, you can sell them as many as you want,
 6 subject to the 99 Rule. And you can do it through general
 7 solicitation, right? Is that -- I think that's the way that
 8 the rule works. So what struck me as odd is you know, I got
 9 to go through all this friction to get a tax return, when I
 10 know this person is an accredited investor. So I -- I don't
 11 know that I'd focus on trying to define general
 12 solicitation. Because I think that's -- you said it. How
 13 many hours do you have? Is there a way to make it more tied
 14 to the traditional rules on an accredited investor?

15 MS. MILLER: And so I also want to point to I
 16 know we talked about this a little bit with the
 17 harmonization concept release, as the committee. And there
 18 was a lot -- we had a lot of really thoughtful comment
 19 letters in the file about this very topic. And so it is
 20 something that we have heard really good feedback on. And I
 21 know that the committee, the subcommittee that had met
 22 previously talked a good bit about the issue.

23 I actually wanted to bring up one thing as we get
 24 close to time for adjournment. I know that folks have
 25 travel reservations. And that is a topic that we touched on

1 a little bit, which is around the size and scale of funds
 2 and being able to cover. You know, somebody mentioned that
 3 \$10 million will cover one person's salary I think was
 4 something that someone said earlier if you are a fund. And
 5 I just wanted to highlight a great program that EDA, the
 6 Economic Development Administration, has. And they teased
 7 it publicly last week at an event that I was attending. And
 8 I asked the director of the Office of Innovation and
 9 Entrepreneurship, Craig Buerstatte, over there, if it was
 10 okay if I mentioned it today. And he said, "Please do"
 11 because they want people to know about it. And that is a
 12 grant that supports operating expenses for smaller and
 13 regional VC funds, in particular, are very attractive
 14 candidates. So I flagged that because there are resources
 15 and programs like that that are available. That will be
 16 something that launches very soon.

17 So if you are silent for email blasts and make
 18 sure that you are looking for it, that is the type of thing
 19 that can really help. But it is only helpful if you know to
 20 apply. So I bring that up because it is germane to this
 21 discussion and wanted to make sure that I flagged that that
 22 was something coming.

23 MS. GARRETT: Any other items that people would
 24 like to discuss?

25 MS. MOTT: This is a question, if I could, please?

1 MS. GARRETT: Sure, Catherine.
 2 MS. MOTT: The 99-investor, 250-investor rule is
 3 in legislation. Is there anything we can do here as a group
 4 to you know, can we send a letter to Congress or is that
 5 totally inappropriate considering that we identified the
 6 issues that this creates for the middle of the country,
 7 where the capital is needed the most.
 8 To address it I know that, you know, I did not get
 9 a chance to mention it when I testified before the Senate
 10 Finance Committee last March. I was limited in stump
 11 minutes, but I think it is a big issue for middle America
 12 and I just want to know if there is anything we can do as a
 13 committee.
 14 MR. YADLEY: I think we are an advisory committee
 15 to the Commission and the advocate probably, although we
 16 talked about at the last advisory committee. And we went on
 17 record saying some of the same.
 18 MR. SOLOMON: Well, I certainly think that
 19 everybody can do this. So whether or not we can speak as a
 20 committee, I am not sure. I don't know what the rules are
 21 around that. There is always that funny stuff between the
 22 Executive Branch and the Legislative Branch that I don't
 23 profess to understand. But each of us has carried with us
 24 in our bios the fact that we are members of this committee.
 25 When we show up on Capitol Hill for our times, we will see

1 members of the House Financial Services Committee and Senate
 2 Banking and Finance. And they will know that we are there
 3 and our involvement here. So I would strongly suggest that
 4 if as part of your routine, you are seeing these members of
 5 Congress, that you advocate for that.
 6 They are absolutely looking for interesting ways
 7 to improve capital formation. I mean, the push for JOBS Act
 8 2.0 and JOBS Act 3.0 because of the success of JOBS Act 1.0,
 9 they are open and listening. And I think there is a handful
 10 of things in here, if they require legislative action, we
 11 can certainly get our heads around it, even if it is not a
 12 formal part of this committee.
 13 MS. MOTT: Thanks. I didn't think there was. I
 14 was just asking. I was just curious. Thank you.
 15 MS. GARRETT: Thank you for the question. And I
 16 think that
 17 MR. SOLOMON: I just have one question, actually,
 18 for you, Carla
 19 MS. GARRETT: Okay.
 20 MR. SOLOMON: which is just, you know, last
 21 time when we were going to put forth formal recommendations,
 22 we kind of circulated them to the committee. And then we
 23 had a committee call. Is that sort of you know, we are
 24 not going to get a chance to draft anything formal today?
 25 Is the idea that, you know, we should all think about these

1 things and then maybe we will circulate some food for
 2 thought and then get this group back together again, see if
 3 there is anything formal that comes off the back of it?
 4 MS. GARRETT: I think that what we have done today
 5 in terms of brainstorming and coming up with what the issues
 6 are has been very useful. You guys could tell me if you
 7 disagree. But at our next committee, we could do as Youngro
 8 suggested, which is start to figure out how to get the money
 9 to Darnell and the other people, Darcy and John, and maybe
 10 come up with recommendations at the next meeting so that
 11 everybody has time to digest everything that they learned
 12 today if the committee is on board with that.
 13 MR. LEE: Yes. I just meant specifically because
 14 I think some I mean, I love this committee and what it is
 15 doing, but when we have really, really big examples, it is
 16 hard to focus on the small application. I think that is our
 17 job, right? We are the Small Business Capital Formation. I
 18 think we can literally talk about Darcy's circumstance for
 19 three hours if you want to, still not get the so, if
 20 possible, if that is maybe a focus of the future meetings to
 21 really hone in on the issues of let's just call it small
 22 funds or small businesses because I think when you bring in
 23 necessarily big, big money managers or big investors, it
 24 does have a different framework. That was my personal
 25 opinion. Obviously I am not the only voice here.

1 MS. GARRETT: Stephen?
 2 MR. GRAHAM: Yes. I would be kind of inclined to
 3 go in the direction that you seem to be describing. I think
 4 it has been a great discussion. I think we have learned a
 5 lot. I think there are a lot of things now that we are just
 6 kind of thinking about. And I think we would go away and
 7 kind of let things kind of percolate some more. But it
 8 probably makes sense for you guys to begin to formulate what
 9 the recommendation might look like and, you know, have those
 10 drafts and kind of the supporting discussion of bullet
 11 points to basically serve as a way to facilitate formulating
 12 and considering a recommendation for the next meeting.
 13 MS. GARRETT: Okay. Thank you. The next meeting
 14 is May 8th. It is in Boston. And I think that is a great
 15 idea that we can work on that. And we can talk about these
 16 issues at the next meeting.
 17 So, on that, I will say thank you very much. And
 18 the meeting is now adjourned.
 19 (Whereupon, at 3:31 p.m., the meeting was
 20 adjourned.)
 21 * * * * *

PROOFREADER'S CERTIFICATE

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In the Matter of: SMALL BUSINESS ADVISORY COMMITTEE
MEETING
File Number: OS-0204
Date: Tuesday, February 4, 2020
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
investigative testimony.

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I, Beth Roots, reporter, hereby certify that the foregoing
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the matter indicated, held on 2/4/2020, at
Washington, D.C., in the matter of:
SMALL BUSINESS ADVISORY COMMITTEE MEETING.
I further certify that this proceeding was recorded by me,
and that the foregoing transcript has been prepared under my
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Date: 2/4/2020
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