

**Committee on Small Business Subcommittee on Economic Growth, Tax, and Capital
Access Hearing**

A Review of the SBIC Program

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Introduction

I appreciate this opportunity to testify before the Committee on Small Business Subcommittee on Economic Growth, Tax, and Capital Access Hearing. I dedicate lots of time and effort to expanding economic growth and capital access. I founded 2045 ventures in 2020 to fill persistent gaps in the market for underrepresented founders and invest in sectors that will drive our future, including climate tech, fintech, and health tech. I serve on the National Venture Capital Association (NVCA) board of directors and am a founding board member of LatinxVC. As a founding board member at LatinxVC, I focus on creating opportunities for Emerging Fund Managers.

I will share my personal story, along with my experience as an Emerging Fund Manager and my thoughts on how women and minority fund managers are critical to the ongoing success of our venture capital industry and our economy.

I was born and raised in San Diego, California, and moved to Los Angeles to study economics at the University of Southern California. I spent 15 years at Dimensional Fund Advisors, a global asset management firm, and gained a deep appreciation for capital markets. I left Dimensional in 2011 to pursue an Executive MBA at Berkeley Haas. There I was immersed in venture capital and startups and recognized the industry's increasing importance to our economy.

After graduating from Berkeley Haas in 2014, I wanted to launch a fund to invest in underrepresented founders. I was too early. The ecosystem supporting women and underrepresented founders and Emerging Managers wasn't as robust as it is today, so instead, I joined two business partners and launched a venture capital fund, an accelerator, and an innovation lab to invest in hardware technology startups. Our venture capital firm reached entrepreneurs in 70 countries and 33 states. We invested in 22 startups across various sectors and industries through our first fund, including companies building EdTech, Digital Therapeutics, Climate Tech, Immersive Computing, Advanced Manufacturing, and Space Tech. Some of our startups were beneficiaries of government grants for R&D and scale-up manufacturing.

In October 2020, I launched 2045 Capital to fill gaps in the market. 2045's thesis is that diverse teams outperform, a view supported by data. The data show that startups with ethnic teams return 30% more capital to investors, and startups with at least one female founder outperform all-male teams by 63%. 2045's objective is to invest in startups where at least one founder is a

woman, an immigrant, or a founder of color. I have a successful track record of reaching this audience through personal investments and fund investments: 63% have a founder of color, 41% have at least one female founder, and an immigrant founder founded 60%.

Current State of Venture Capital

Pitchbook and the NVCA's Venture Monitor¹ reports on the state of the, industry including capital investments, exit values, and new fundraises. The most recent third-quarter 2021 report shows that venture capital backed startups are at the top of the public markets. VC-backed IPOs also accounted for more than two-thirds of the total US listings year-to-date. In addition, 2021 is on track for another record-breaking year for venture investment, exit activity, and fundraising with a total of \$238.7 billion invested year-to-date.

Underrepresentation

The venture capital ecosystem is thriving for most, but women and minorities are underrepresented. This inequity is unsustainable when you consider the changing demographics of our nation. The census predicts that by 2045 there will not be a racial majority in the United States, which is the case in five states today. Already there is not a racial majority for youth under 18. And 25% of Gen Z are Latinx.

In Los Angeles, where I reside, 45% of the population is Latinx. And 35% of the University of California's student population is Latinx. Los Angeles's venture ecosystem is thriving and the third largest in deal count and value behind the Bay Area and New York. But in Los Angeles, women and underrepresented founders are lagging in funding. PledgeLA, where I am on the advisory board was launched by the Mayor's Office and the Annenberg Foundation to foster an inclusive startup and venture capital ecosystem. The organization measures and reports venture capital allocation across gender and race. From January 2016 to December 31, 2020, PledgeLA reports that Latina founders received 2% of venture capital investment and Black female founders received 3% of venture capital investment.²

Furthermore, there is a lack of female checkwriters in Los Angeles, the third largest technology ecosystem in the US. [According to All Raise and Crunchbase only .61% of female checkwriters are based in Los Angeles.](#)

SBIC

Programs such as the SBIC can help women and underrepresented fund managers grow their presence, activate more investment into startups, and generate other benefits to society. For example, women and minority fund managers are more likely to invest in women and underrepresented founders based on their networks and sourcing methods.

Why Now: the growing gap and founders seeking diverse investors

¹ Q3_2021_PitchBook-NVCA_Venture_Monitor, available at https://nvca.org/wp-content/uploads/2021/10/Q3_2021_PitchBook-NVCA_Venture_Monitor.pdf

² ■ 6. PledgeLA 2021 VC Portfolio Diversity by Race & Gender.pdf

All Raise analysis of 2020 data shows that the pandemic year precipitated a backslide for female founders' access to funding — as well as those writing the checks.³ All Raise also reports that 64% of VC firms in the US with more than \$25M in assets under management have zero female checkwriters. And of the women that became investors in 2020⁴ only one self-reporting as African American and zero as Latinx.

Furthermore, there is a growing trend of founders recognizing the benefit of having women and minority investors. [The Cap Table Coalition](#), of which I am a member, has successfully deployed \$16 million into high tech startups in partnership with entrepreneurs seeking female and minority investors.

Program Recommendations

If our goal is to build back better, we need to quickly empower talented women and other socially disadvantaged managers to deploy capital, including firms with solo emerging managers.

Women and Emerging Managers have many resources at their reach to help them grow their firms, get advice, and source opportunities. These include nonprofit organizations such as All Raise (established in 2017), Women in VC (established in 2015), Transact (established in 2018), LatinxVC (established in 2019), BLCK VC (established in 2018), Venture Forward (established in 2020). And data exist to support the [outperformance of female managers](#) and [first time managers](#).

Solo Emerging Managers do not present a greater risk to investors and should not be excluded from programs meant to jump-start innovation. The market has embraced Solo Managers for many reasons, including their unique geographies, networks, diverse backgrounds, and ability to move quickly. Furthermore, fund formation documents address the succession of Managers should the case arise. Excluding Solo, Managers would eliminate qualified women and minority managers. And according to Rob Freelen, Head of VC Relationships at Silicon Valley Bank, [Solo General partners are raising funds larger than some established funds](#).

Conclusion

I am grateful for this committee's attention to the SBIC program. Venture capital is and will continue to fund transformative startups. Government programs such as the SBIC can play a critical role in closing persistent gaps in venture capital and accelerating the inclusion of women and minorities. The beneficiary of this increased inclusion at the investor level will fuel more jobs and accelerate pay equity for all Americans.

³ 2020 Was a Tough Year for Female and Non-Binary Founders & Funders
<https://medium.com/allraise/2020-was-a-tough-year-for-female-and-non-binary-founders-funders-87b6876a4a0d>

⁴ <https://allraise.org/assets/all-raise-annual-report-2020.pdf>

When we build back better, we must focus on outcomes that close persistent gaps in the underrepresentation of women and minorities. Building an inclusive ecosystem starts with greater representation at the investor level. With outcomes in mind we can build startups that are rooted in Diversity, Equity, and Inclusion.

Government programs such as the Micro SIBC and Emerging Manager Program, should have the broadest aperture and should be built to drive a more inclusive ecosystem for an ever-increasingly multicultural society.