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U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Re: Request for Information—State Small Business Credit Initiative (SSBCI) Technical Assistance Funds

Venture Forward is a 501(c)(3) supporting organization to the National Venture Capital Association (NVCA), with a mission is to diversify, educate, and empower the venture capital (VC) investor class to advance the industry and maximize impact and returns. We provide education, resources, and connections to drive intersectional diversity within the VC community. We enable emerging investors to become VC investors by creating opportunities and opening doors that might otherwise have been closed to them. For VC investors and firms, we represent a "square one" resource to help them implement meaningful diversity, equity, and inclusion (DEI) practices.

Our key initiatives include:

- **VC University:** A certificate course co-led with NVCA and UC Berkeley, that democratizes access to VC education. Venture Forward also provides full scholarships and a dedicated mentorship program.
- **LP Office Hours:** Highly curated half-day workshops where underrepresented emerging managers receive guidance from limited partners (LPs) and experienced VCs about fundraising best practices.
- **VC Human Capital Survey:** Every two years, we conduct a survey of VC firm workforce demographics and talent management strategies to measure the industry's DEI progress.

Venture Forward is also part of the SSBCI Venture Collaborative (SSBCIVC), which includes experienced VC investors, economic developers, emerging managers, advocates, and national leaders working to ensure SSBCI accomplishes its goals, including increasing access to capital for socially or economically disadvantaged individuals (SEDI) fund managers and entrepreneurs.

Background on Venture Capital

VC investors create funds structured as limited partnerships, where the fund investors are LPs (i.e., pension funds, endowments, foundations, family offices, and others) and the VC firm itself as the general partner (GP). Securing capital from LPs is oftentimes difficult, especially for VC investors who may not have financial security, personal wealth, connections to wealth, or existing relationships with LPs. During the lifetime of the VC fund, the GP also receives a management fee from the LP (typically 2% of the fund size) for general fund operations and expenses. For smaller funds, many of which are managed by underrepresented investors, management fees can be insufficient.

VC investors make high-risk, long-term equity investments in innovative young companies. These are generally partnerships that last ten to fifteen years, building investments far longer than any other asset class. VC investors generally provide minority equity investment across multiple financing rounds, supporting startups from just an idea to the growth and expansion of a successful business. This capital is used to conduct research, expand workforces, build out new facilities, and generally focus on growth activities that create long-term value.[1]

Far from merely cutting a check, VC investors actively strive to develop startups into successful companies—working alongside the entrepreneurs by taking board seats, providing strategic advice and counsel, opening contact networks, and offering broad-spectrum assistance aimed at turning ideas into reality.[2] Companies backed by venture capital predominantly focus on technological innovation, including IT hardware and software, biotechnology, medical devices, blockchain, and climate and sustainability technology. A successful company that generates value and completes a liquidity event then generates financial returns for not only the company (including is founder and employees) but also the VC fund and its LPs. The financial return can take ten years or more to realize.

Economic Impact of Venture Capital

VC-backed startups have had an outsized positive impact on our economy, jobs, innovation, and value creation. Venture-backed companies constitute approximately 50% of companies that go public each year and are responsible for developing around half of new FDA-approved drugs.[3] Public companies originally built with VC financing account for an astounding 92% of R&D spending undertaken by all public companies founded within the last fifty years.[4] Companies that received VC funding in their incipient stages include notable companies like

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[1] *Venture Capital at Work*, NVCA, available at https://nvca.org/venture-capital-investment-at-work

[2] *See* NVCA, *What is Venture Capital?*, https://nvca.org/about-us/what-is-vc/#toggle-id-1 (last visited Apr. 4, 2022).

[3] *Trends in Healthcare Investments and Exits 2019*, Silicon Valley Bank, available at https://www.svb.com/globalassets/library/managedassets/pdfs/healthcare-report-2019-midyear.pdf

[4] Gornall, Will and Strebulaev, Ilya A., *The Economic Impact of Venture Capital: Evidence from Public Companies* (June 2021). Available at SSRN: https://ssrn.com/abstract=2681841 or http://dx.doi.org/10.2139/ssrn.2681841

Apple, Microsoft, Amazon, Alphabet, Facebook, and Tesla—some of the largest U.S. companies by market capitalization.[5] Venture capital also backed companies like Moderna and Zoom that were invaluable during the COVID-19 pandemic.[6]

In addition to innovation and economic growth, venture capital has a massive impact on the U.S. workforce. Recent research found that employment at VC-backed companies between 1990 and 2020 grew 960%, whereas total private sector employment during that same period grew only 40%. These jobs are distributed broadly across the entire U.S. with 62.5% of jobs at VC-backed companies located outside the states of California, Massachusetts, and New York.[7]

Diversity, Equity & Inclusion in Venture Capital

While the VC industry has had a tremendous positive impact over the past 50 years, women, people of color, and other marginalized communities remain underrepresented in the ecosystem. According to our latest *VC Human Capital Survey* that collected data as of June 30, 2020, females constituted 16% of investment partners, and Black or Hispanic professionals represented 3% and 4%, respectively, of investment partners.[8] Venture Forward's mission is to increase representation among these demographics in the startup ecosystem.

Our programs and initiatives, including our involvement with SSBCIVC, provide us with a unique perspective into the challenges and barriers many underrepresented fund managers face when raising capital and managing their VC funds.

SSBCI Technical Assistance (TA) Funding

Venture Forward appreciates the opportunity to respond to this Request for Information from the Department of Treasury on State Small Business Credit Initiative Technical Assistance Funds. Small VC funds in regions outside the historically-dominant venture investment hubs, as well as SEDI-managed funds, face unique economic considerations. VC fund managers rely solely on management fees, equal to approximately 2% of the fund, to cover fund operating costs until successful portfolio outcomes are achieved later in a fund's ten-to-fifteen-year lifecycle.[9] **Management fees are often insufficient, disproportionately straining small funds and emerging SEDI managers who are less likely to have the resources to operate for years without sufficient financial resources. Emerging managers also frequently forgo compensation in the early years of a fund.**

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[5] Gornall, Will and Strebulaev, Ilya A., *The Economic Impact of Venture Capital: Evidence from Public Companies* (June 2021). Available at SSRN: https://ssrn.com/abstract=2681841 or http://dx.doi.org/10.2139/ssrn.2681841

[6] Bobby Franklin & Gregory Brown, *Numbers Don't Lie: America's Most Resilient Jobs Are Venture-Backed*, The Hill (Feb. 24, 2022), https://thehill.com/opinion/finance/595509-numbers-dont-lie-americas-most-resilient-jobs-are-venture-backed/

[7] *An Analysis of Employment Dynamics at Venture-Backed Companies Between 1990 and 2020*, NVCA, Venture Forward, and the University of North Carolina Kenan Institute of Private Enterprise (February 2022), at https://nvca.org/wp-content/uploads/2022/02/Employment-Dynamics-at-Venture-Backed-Companies_FINAL.pdf

[8] *VC Human Capital Survey*, powered by NVCA, Venture Forward, and Deloitte https://www2.deloitte.com/us/en/pages/audit/articles/diversity-venture-capital-human-capital-survey.html

[9] For context, the median VC fund size outside California, Massachusetts, and New York in 2021 was $29 million. Source: *NVCA 2022 Yearbook*, https://nvca.org/research/nvca-yearbook

Back-office operations including accounting, administration, financial, legal, compliance, and reporting represent significant costs for small and SEDI-managed VC funds. VC fund managers adhering to SSBCI reporting requirements face additional costs and administrative burdens. Treasury should utilize TA resources to support fund operations and administration costs of SEDI-managed funds.

Allowing broader utilization of TA resources can serve as a critical bridge for emerging managers early in their fund's lifecycle, and advance lawmakers' objectives in revitalizing SSBCI.

Conclusion

Venture Forward thanks the Department of Treasury for taking into account our views. We hope that the opinions expressed in this filing serve to offer a unique perspective as the Department implements SSBCI technical assistance funding.