

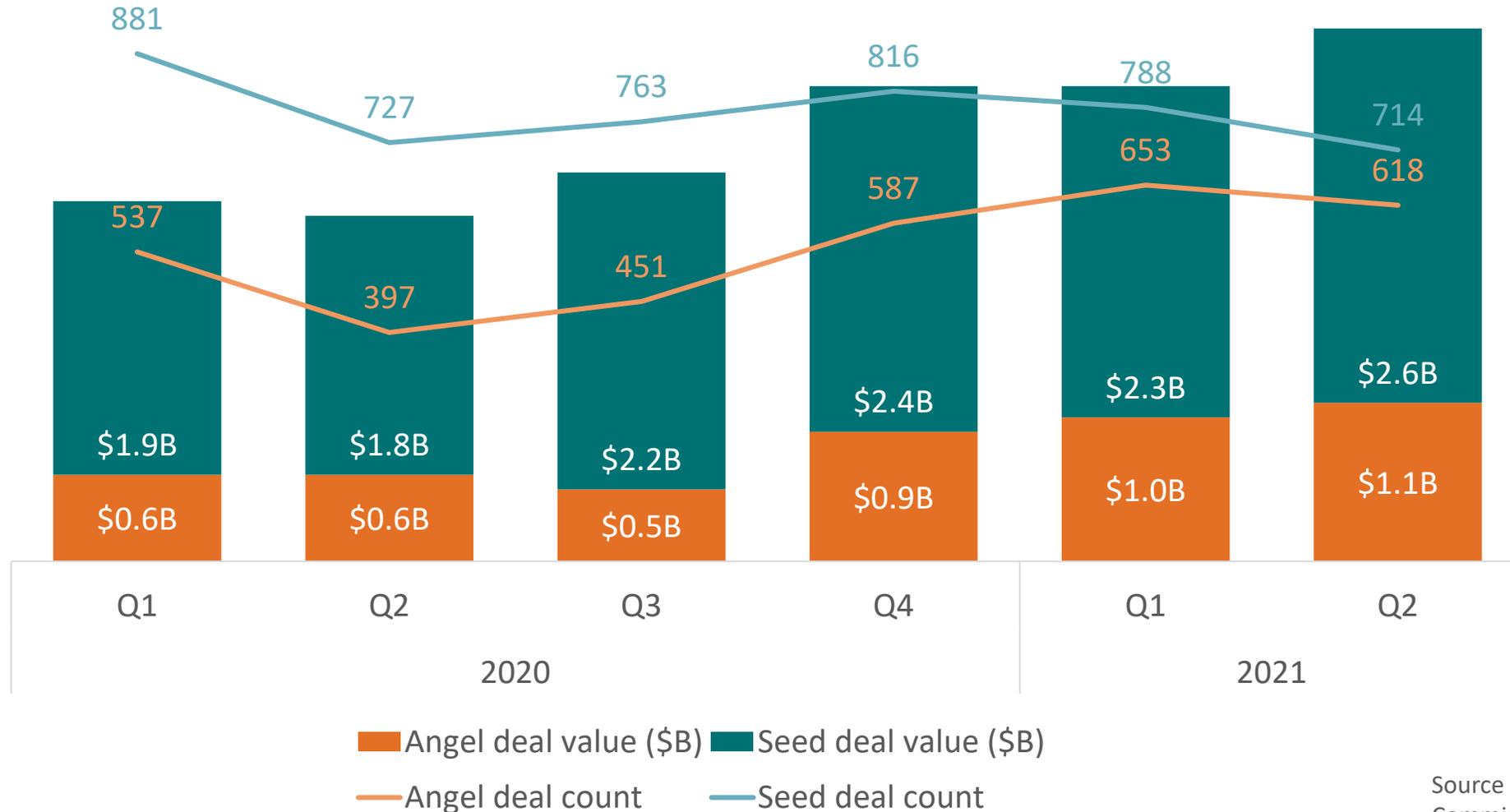
CAPITAL ECOSYSTEMS

Seeding Smaller and Regional Funds to Increase Opportunity

Notable Trends

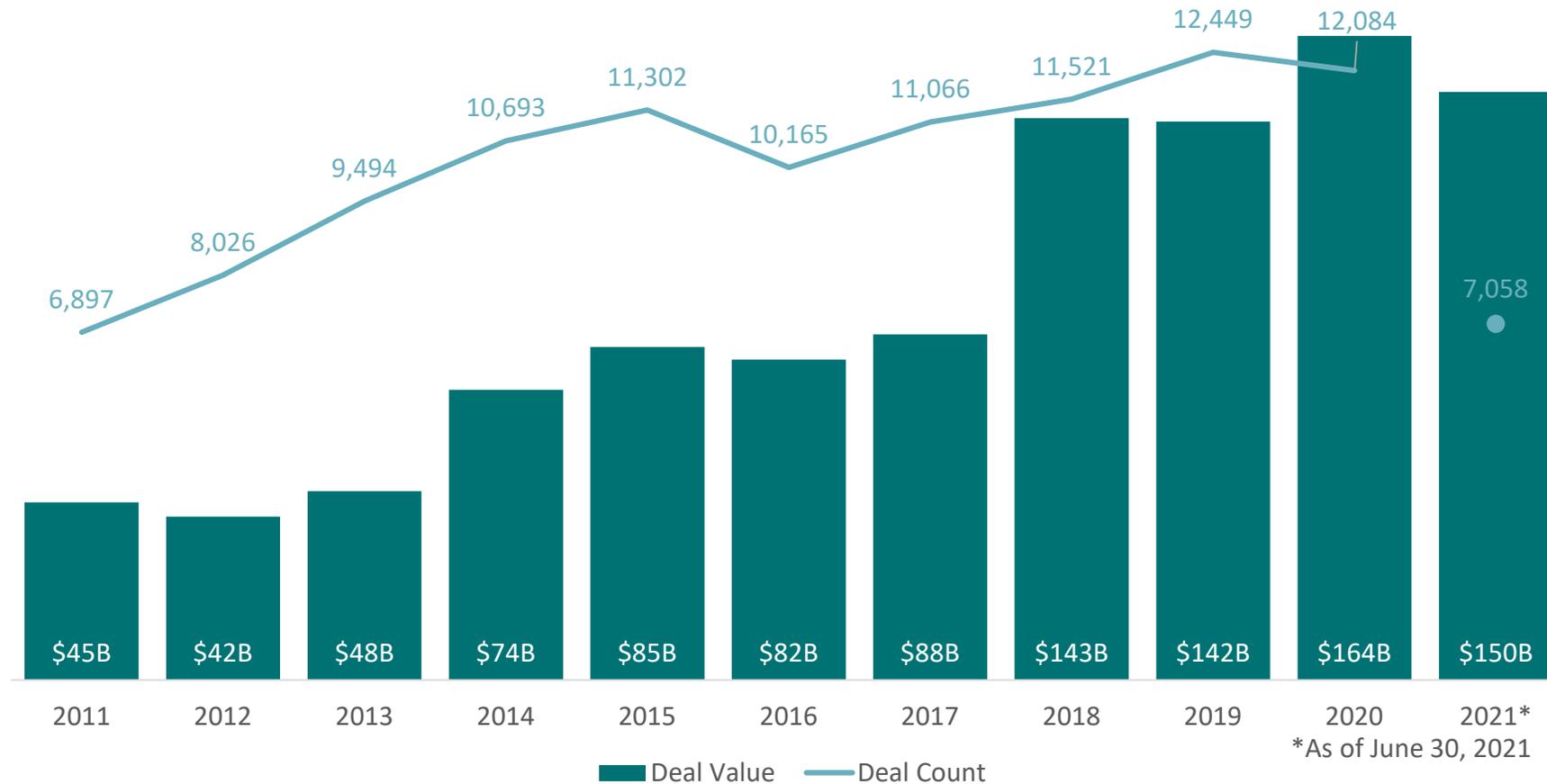
- 2021 was a record breaking year for venture capital (VC) fundraising, investments, valuations, and IPO activity; however, the headlines don't tell the full story.
- Early access to capital remains highly localized. Those located outside of top tier funding hubs continue to face capital raising challenges.
- Underrepresented entrepreneurs—especially women and minorities—raised record nominal amounts last year, but lower proportionate amounts of capital.

Angel and seed activity was on the rise in 2020 and 2021.

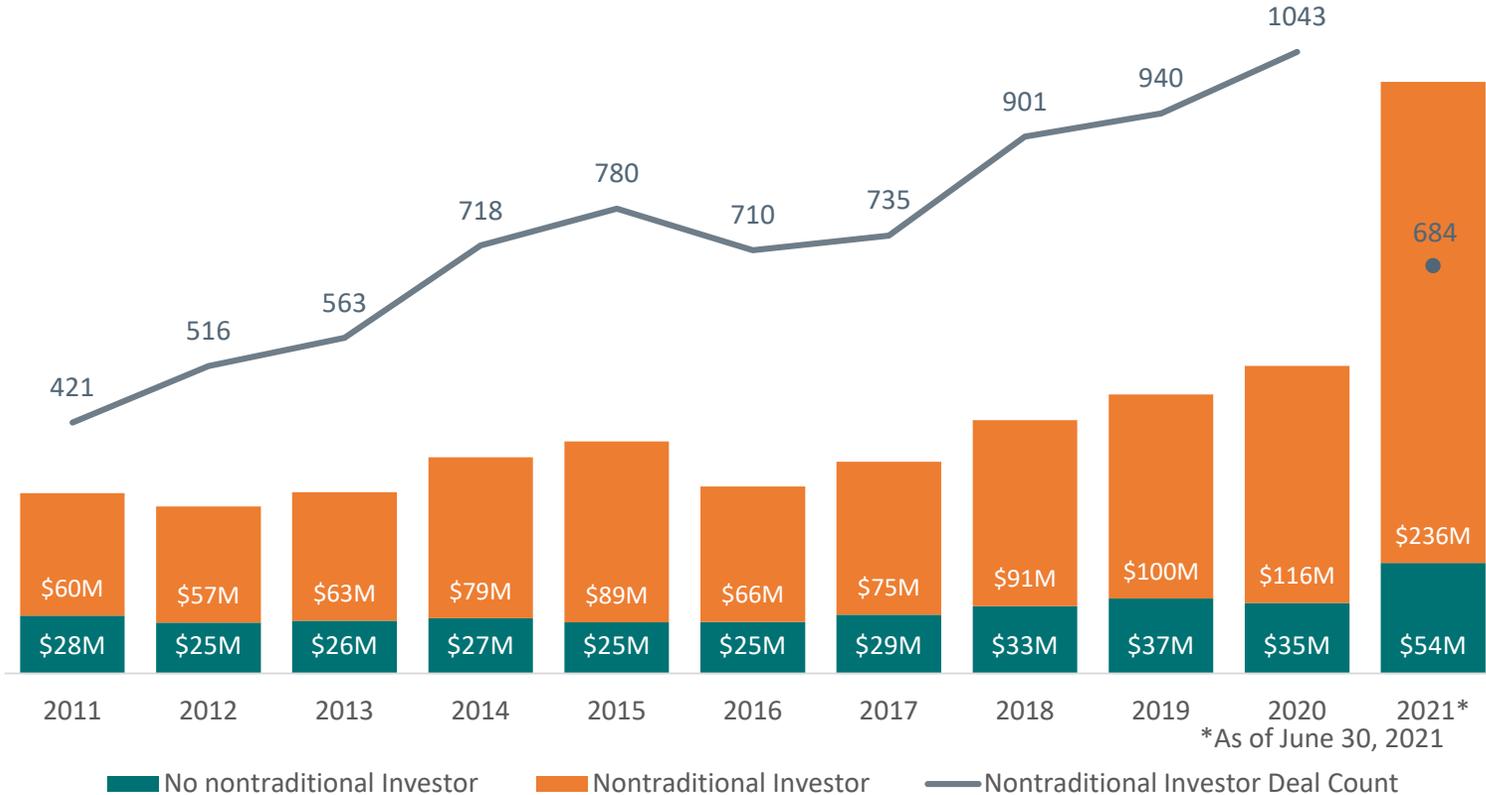


Source U.S. Securities and Exchange Commission OASB (2021) as cited in and Pitchbook and NVCA (2021)

Similarly, VC deal value has surged in recent years, breaking records in 2021.



Nontraditional investors are driving many of these shifts in valuations and deal size.



Nontraditional VC investors have increasingly crossed over from the public markets to also invest in mature and later-stage financing rounds, often with dramatic impacts on company valuation and deal size.

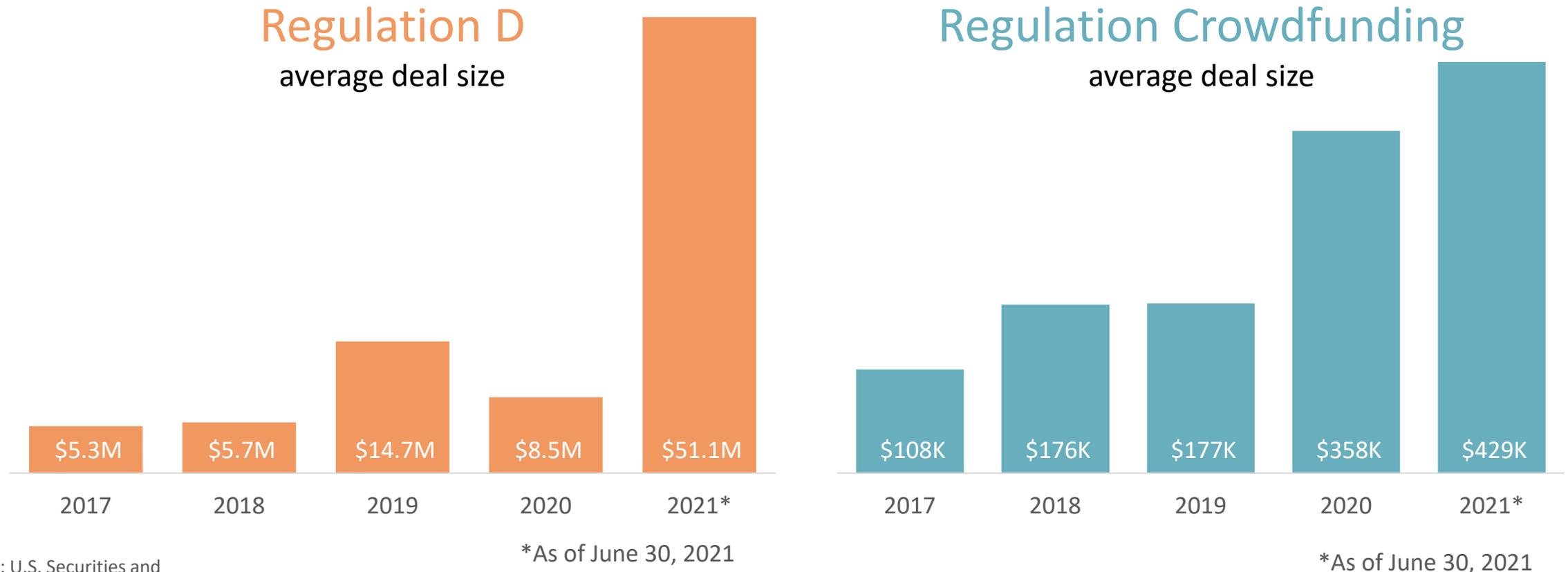
Nontraditional investors may include private equity funds, corporate venture investors, hedge funds, mutual funds, and other asset managers.

U.S. Securities and Exchange Commission OASB (2021) as cited in Pitchbook, Affinity, and Plug and Play Ventures (2021)

Early stage capital remains highly localized, underscoring the need for regional capital.

- Both individual angels and angel groups tend to focus on their local communities. The distance between lead investors and the target company averages only 37 miles (U.S. Securities and Exchange Commission OASB (2021) as cited in PitchBook & NVCA, 2021).
- The location of early-stage/angel investment activity is closely correlated with the areas with the highest later-stage VC activity (U.S. Securities and Exchange Commission OASB (2021) as cited in Stanford, 2020).
- However, more than 1/3 of angel and seed deals occurred in areas other than the top 10 funding hubs (U.S. Securities and Exchange Commission OASB (2021) as cited in PitchBook & NVCA, 2021).

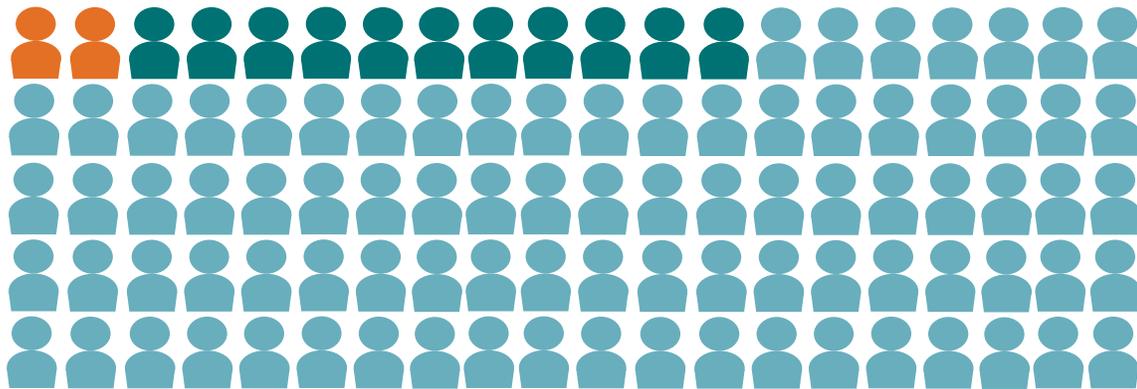
While rural capital raising still lags metro areas, rural businesses who do seek funding are raising larger amounts of investment capital.





While VC soared to record heights in 2021, underrepresented founders raised a smaller proportion of venture dollars.

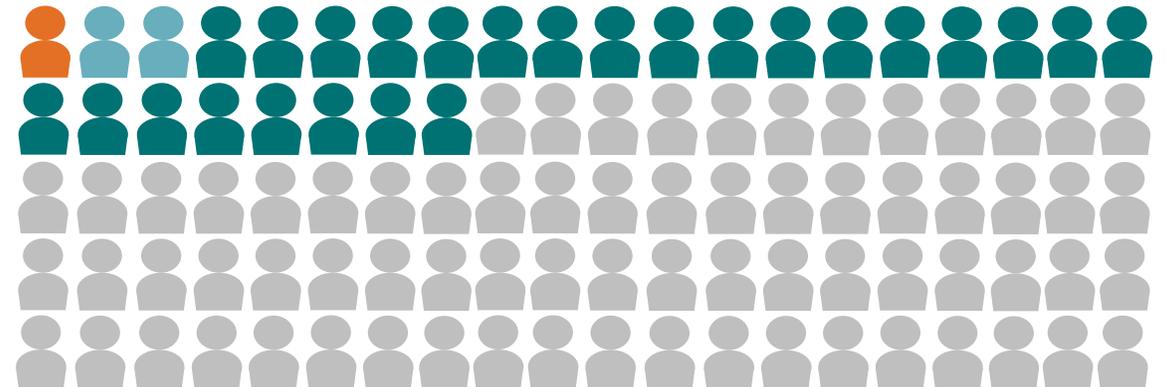
Women-Founded Companies



2.3%

of venture dollars went to women-only founding teams in 2020 (down from 3.3% in 2019), and **10.8%** went to women men co-founding teams (down from 11.9% in 2019).

Minority-Founded Companies



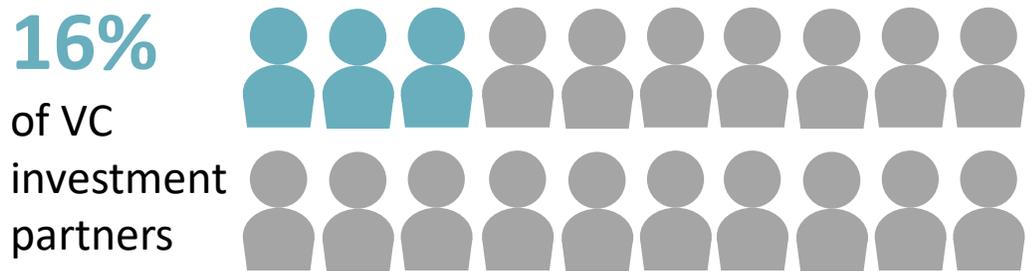
28%

of VC-baked founders are **Hispanic/Latino (1.3%)**, **African American/Black (1.7%)** or **Asian American/Pacific Islander (25.2%)**, an aggregated increase from 23% in 2017.

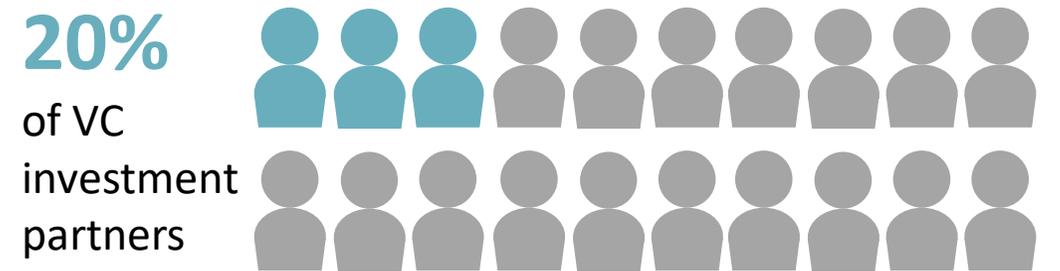
Source: U.S. Securities and Exchange Commission OASB (2021) as cited in Glasner (2021)

...this investment activity largely reflects the composition investment decision-makers, where women and minorities remain underrepresented.

Women Investors



Minority Investors



Sources: U.S. Securities and Exchange Commission OASB (2021) as cited in Marcec (2021), NVCA & Deloitte (2021), and Sohl (2021)

Changing trends in who receives funding requires examining trends in who allocates funding, including:

- Increasing diversity of investment decision-makers across existing players.
- Supporting creation of smaller regional funds with local investing strategies.
- Encouraging emerging fund managers, who bring new perspective to potential targets.



Martha Legg Miller

Director, U.S. Securities and Exchange Commission, Office of the Advocate for Small Business Capital Formation

Martha serves as the SEC's first Director of the Office, where she leads a team of passionate advocates working on solutions to address the capital raising challenges faced by small businesses and their investors from startup to small cap. Prior to joining the SEC in January 2019, Martha was a partner a law firm practicing in corporate and securities.

In December 2021, the Office delivered a report to Congress outlining the state of capital raising activity and policy recommendations.

EXPERT INSIGHT

2021 was a banner year for capital raising, whether looking at the venture capital dollars invested into growth companies, the exit activity of later stage companies into the public markets, or the reinvestment of investors' returns back into new funds that will support the companies of tomorrow. However, those headlines only tell part of the story: that of the companies who beat the odds and make the headlines.

To bridge the gaps that exist for entrepreneurs who still struggle to raise investor capital:

1. Entrepreneurs need support navigating complex securities laws. Entrepreneurial insight is not correlated with fluency in securities legalese, and the playbook must become more accessible.
2. Founders need bridges from their personal networks to savvy investors. The wealth and investment sophistication of your personal network should not dictate the success of your capital raise.
3. Diversifying capital allocators requires supporting emerging fund managers. Policy solutions are needed to address challenges in raising smaller, regional funds, as well as to address limitations on larger coastal funds feeding capital as a fund-of-funds to emerging players.