

Statement of McKeever E. Conwell, II
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before the U.S. House of Representatives Committee on Financial Services
Subcommittee on Capital Markets
“Empowering Entrepreneurs: Removing Barriers to Capital Access for Small Businesses”

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Chairman McHenry and Ranking Member Waters, thank you for the opportunity to testify today on the importance of creating better access to capital and removing barriers for both entrepreneurs and those who fund their amazing companies. My name is McKeever E. Conwell, II, and I am the Founder and Managing Partner at RareBreed Ventures (RareBreed) which I am representing today. RareBreed is a venture capital (VC) firm that invests in, and supports, innovative product and technology startups in the earliest stages of their business that are in locations typically overlooked by the majority of other VCs.

I want to first say that I am here to address the much-needed Improving Capital Allocation for Newcomers (ICAN) Act due to my personal experience in raising a fund and my expertise. I want to also clearly state that I am in full support of all seven bills being addressed today as they all address removing barriers to capital access for small businesses.

I am the American Dream

I’m the son of an Air Force veteran who became a postal worker and a bank teller. I went to college at Morgan State University, a Historically Black College and University, where I studied Computer Science and got an internship at the National Security Agency. I later dropped out of college to pursue a career as a government contractor supporting the Department of Defence to do my part for our amazing nation. In 2010 I would go on to start my entrepreneurial journey by founding two startups, the first of which exited by the sale of its intellectual property to a Fortune 100 company. In 2016 I began working for the Maryland Technology Development Corporation (TEDCO). TEDCO is a Maryland economic development corporation that is also the largest funder of early-stage startups in Maryland by volume. It was at TEDCO that I learned to be an investor and led the creation of, what was at the time, the first state-backed pre-seed

fund specifically for founders typically underrepresented in the world of venture-funded startups, today known as the Builder Fund.

Lack of Access to Capital Is Holding Back Founders of Color and Our Country

I launched RareBreed Ventures in late 2020 as a response to the lack of access to capital for founders of color and founders outside of the major investment hubs of Silicon Valley, New York, and Boston which account for 75% of all VC funding. As well as a response to the lack of cultural competency from many VCs when it came to investing in founders who didn't look like them or didn't come from a similar background.

A Real-World Example of How Lack of Access Manifest

These two issues came to the forefront for me in the form of an amazing entrepreneur who is the inspiration behind me creating RareBreed Ventures. A few years ago I met an amazing founder named Shawna Stepp-Jones, a single mom from my hometown of Baltimore. She told me she wanted to create a tumble dryer that could dry a wig or hair extension in 15 minutes with no heat. As someone who grew up around women with wigs and hair extensions, I knew just how big of a problem this was. Even today most women still wash their wigs and hang them up to dry overnight at home or professionally¹ at salons. I immediately got what she was trying to create and the impact of such an innovation but other investors didn't. Keeping in mind Shawna has an engineering degree from Morgan State University and a Master's from Johns Hopkins University and at the time was a patent examiner. Even still I watched for 3 years as she get nothing but no's from many folks who didn't look like her until she decided that the only way for her to get access to capital was to become a surrogate mother. Even knowing that Black women are three times more likely to die from a pregnancy-related cause¹. She was willing to take that risk in order to build a product that served her community and chase her dream.

How Being Creative with Current Regulations Got Us Here

Shawna and founders like her are the reason I founded RareBreed Ventures but there was a problem. When I decided to start RareBreed, even though I knew how to invest from my time

¹ CDC – Office of Minority Health & Health Equity (OMHHE) – <https://www.cdc.gov/healthequity/features/maternal-mortality/index.html> April 6, 2022.

working for the state of Maryland, I didn't have a network of wealthy folks to raise the fund from. That caused me to get creative with how I source the people who would invest in my fund and how I would go about building the fund. To do this I used 2 regulations. First, was Rule 506(c) of Regulation D which allows for the public solicitation of a funds offering but required that every investor in that fund to be an accredited investor. The second was the amendment to section 3(c)(1) of the Investment Company Act of 1940 (15 U.S.C. 80a-3(c)(1)) which allows for a fund of \$10,000,000 or less to have up to 250 investors.

With the first regulations, I was able to use social media, Twitter mainly, to meet with many potential investors. Thanks to my growing profile as someone who helps startups and shares a lot of knowledge on venture capital I was able to have 1,128 meetings in my first 90 days of fundraising. Eventually, I would have more than 4,000 meetings over 18 months to fully raise RareBreed Fund I. The second regulation allowed me to start off fundraising by allowing investors to invest as little as \$10,000 compared to the \$100,000 minimum investments most funds would have to ask for before the amendment. This led me to have 194 investors in RareBreed Ventures fund I. Of those investors, 65% invested \$25,000 or less, and 83.5% of which invested \$50,000 or less. Many of these investors are people of color and or first-time investors in a fund because they had never had access to make such an investment or couldn't risk the high minimum threshold for a fund. Keeping in mind all of these investors are accredited and with means but still need to be prudent with their investments and capital. This means that before I offered them this opportunity in RareBreed they were limited to investing in companies either directly where there is a much higher risk of losing all of their money or, investing in stocks of publicly traded companies which the average VC funds have historically outperformed.

“As of June 2020 the VC funds raised from 2007 to 2016 in the Burgiss Manager Universe had outperformed the Russell 2000 (a small-cap index) by 7% a year, on average, and the S&P 500 by nearly 5% a year. Almost 75% of those funds had beaten the Russell 2000, and roughly 60% had beaten the S&P 500.”²

² Paul Gompers, Will Gornall, Steven N. Kaplan, and Ilya A. Strebulaev, “How Venture Capitalists Make Decisions” (2021). Available at: <https://hbr.org/2021/03/how-venture-capitalists-make-decisions>

It has been incredible to see so many investors getting the opportunity to invest in this asset class. Now they are taking part in the engine that is generating wealth which they were once excluded from, and in many cases thanks to the work at RareBreed, helping drive innovation in the communities they care about.

What Got Us Here Isn't Enough and Excludes Many

This is such a great start but more is needed and that is why the Improving Capital Allocation for Newcomers (ICAN) Act is so important. Without the ICAN Act, almost all of those small dollar investors who make up 83.5% of the investors in RareBreed Ventures Fund I will not be able to invest in RareBreed Ventures fund II. That's 162 out of 194 investors. This is because RareBreed Ventures fund II has a goal of raising much more money, limiting us to 100 investors and forcing us to raise our minimum investment into the fund to \$100,000 - \$500,000 which is a far cry from the \$10,000 - \$50,000 from our first fund. Investors who are happy with the work RareBreed is doing and who would want to continue to invest in our fund will not be able to no matter how much they want to. Reducing the amount of money we could potentially raise for RareBreed's next fund.

The current rules basically price out many accredited investors from being able to participate in such an investment fund. Limiting the amount of capital and sources of capital for smaller and newer investment funds. Leading to less capital to help drive innovation, economic growth, and job creation. This is especially true when talking about companies started by founders of color because we know that in particular Black-led funds are four times more likely to invest in a Black-led company³. As an example, RareBreed Ventures does not have any diversity mandates for how we invest but of the 40 companies we have invested in to date 64% of our companies have an underrepresented founder, 44% of our companies have a founder of color, 38% of our companies have a Black founder, and 33% of our companies have a female founder. These numbers are far cries from the industry standards of less than 5% for each of those categories. Also keeping in mind that almost all of the Black-led venture funds in America

³ Barrios, John Manuel and Hochberg, Yael V., "Taxing Carried Interest as Ordinary Income and the Potential Impact on New Venture Fund Formation" Nov. 2021, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3939267.
Source: State of Black Venture Survey

would fit under the new rules in the ICAN Act because most of our funds are less than \$150,000,000.

This Is Why We Need the ICAN Act

With the ICAN Act, such limiting factors would be greatly reduced. First, this would allow accredited investors to not only have more opportunities to participate in the asset class of venture capital but also allow them to reduce their risk. With lower minimums for these newcomer funds, investors can now invest smaller amounts of money in more VC funds to spread out their risk and better diversify their investments. Secondly, this would allow investors to raise more capital in their early funds. Today many funds have to turn away investors who are willing to invest even more than \$100,000 because of the limit on the number of investors in a fund. This results in millions of dollars in potential funding for future innovation and job creation. While also, excluding these investors from being able to truly diversify their own investments and limiting their ability in wealth creation. While raising our first fund, we got enough interest to actually raise over \$30,000,000 but had to turn away most of it due to the limits of the current regulations. The idea that in a capitalist country where individuals who meet the accredited investor status are told they aren't able to make certain investments because they aren't wealthy enough seems wrong. Even more so, those who do have enough wealth to continue to participate in the venture asset class are almost exclusively from a non-diverse population. This only serves to further widen the racial and gender wealth gap in America and puts limits on the types of innovation we see in our country.

Conclusion

I am excited to see Congress working through issues that impact the access to capital that drive innovation. I appreciate that policymakers have to balance protecting the public from scammers and bad actors while reducing barriers to economic growth, job creation, and innovation to continue to make our country the best in the world. As someone who has spent my entire career in venture capital as an advocate for access to capital and reducing barriers, I look forward to being supportive and assisting this committee in any way possible. Thank you for this opportunity to testify today, I look forward to your questions.