

“Sophistication or Discrimination?”

How the Accredited Investor Definition Unfairly Limits Investment Access for the Non-wealthy and the Need for Reform.”

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Chair Wagner, Ranking Member Sherman, and distinguished members of the Subcommittee on Capital Markets, my name is David Olivencia. I am a senior technology executive, early-stage investor, co-founder of national leadership organizations, and currently CEO of Angeles Investors. As CEO of Angeles Investors, I have the honor to represent and serve close to 200 members and amazing partners with a mission to find, fund, and grow the most promising Hispanic and LatinX ventures. In addition to my role at Angeles Investors, I serve on the board of Notre Dame affiliated IrishAngels and am a Board Advisor to Detroit based Commune Angels, who have a focus on diversity and expanding access to angel investing.

My life and career journey, as well as my success in early-stage investing, was not easy and only could have happened in America. My parents and grandparents came to the Southeast Side of Chicago in the late 1940s from Puerto Rico. They had minimal to zero resources. My grandmothers were cooks in a Puerto Rican restaurant. My father dropped out of high school to support my grandmother and later earned his GED in the Army. I was the first in my extended family to graduate from college and went on to pursue a successful career in the rapidly growing technology industry.

In my career, I saw the amazing impact that technology was having on the world. While earning my MBA at Notre Dame, I learned about startups and how they were leveraging technology to scale. I also learned about early-stage investments, which were largely a secret space or club. It was a space that the wealthy were investing in. There were amazing companies, like Google, Amazon, YouTube, Uber, and others that were leveraging technology to grow rapidly. Early investors were making outsized returns and reinvesting those returns in the next successful set of startups. Like those early-stage investors, I wanted to get involved. Although I had carefully studied this asset class while earning an MBA from a top school, I sadly could not participate because I did not meet the income or net worth requirements to qualify as an accredited investor. I also unfortunately did not have any inherited family wealth.

A few years after I graduated, I qualified as an accredited investor, and joined IrishAngels, where I began my angel investing journey. I have since built a portfolio of approximately 70 companies. As I learned more about the angel investing industry, I saw very few Hispanic, Black or female investors investing alongside me. Furthermore, I learned that less than 2% of the venture funds went to Hispanic founders, despite the fact that roughly 20%-30% of the US population is Hispanic and that this community contributes \$3 trillion to US GDP. (and our community is a major funder to the pension funds that fund many of these venture capital firms). Women and Black startup founders each also receive only about 2% of all venture funding.

Rather than complaining about the issue, in 2020, I joined forces with visionary leaders, co-founders and founding members to create and build Angeles Investors. At Angeles Investors, we are one of the largest

and fastest growing angel groups in the world. In partnership with the Angel Capital Association and others, we provide training and education to enable our members and investors to learn more about this asset class and better evaluate start-up companies.

I often hear from non-accredited leaders in our community who express a desire to invest in the companies that we invest in, but cannot due to the accredited investor standard. To emphasize my point, I will tell a true story about Carlos, a young professional from Southern California who earned an MBA from a leading university. As Angeles Investors was preparing to invest in the seed round of Canela Media, he approached and passionately asked if he could invest. I asked him if he qualified as an accredited investor and he sadly said “no.” He asked, “is there another way? I really believe in the company, the CEO, and understand their business model through my MBA studies.” I said, “sadly you can’t.”

In the time since our investment, Canela Media’s revenue has grown substantially, and they now employ more than one hundred employees. They have received numerous awards, and its CEO was recently recognized as Ernst & Young’s Entrepreneur of the year. Every time I see another award or growth milestone for Canela Media, I scratch my head and ask why Carlos was not able to invest in this great company.

I am committed to working with others to improve the accredited investor definition and increase investment access for a wider range of potential investors. I look forward to partnering with each of you for reforms that allow thousands of younger versions of Carlos and myself to participate in this asset class.

Sources:

<https://techcrunch.com/2023/01/18/women-founded-startups-raised-1-9-of-all-vc-funds-in-2022-adrop-from-2021/>

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