

Senate Committee on Finance Hearing

July 11, 2007

“Carried Interest”

Testimony of:

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Introduction

Chairman Baucus, Ranking Member Grassley, and members of the Committee, my name is Kate Mitchell and I am a managing director at Scale Venture Partners, a venture capital firm based in Foster City, California which is focused on investing in young, emerging technology and healthcare companies, primarily in the United States. I am also a member of the Board of Directors of the National Venture Capital Association based in Arlington, VA. It is my privilege to be here today to share with you the role of venture capital investment in emerging growth companies – and how that role intersects with the economics of carried interest and profit allocation within a venture capital partnership. Our asset class is unique in many ways – in terms of our micro- and macro-economic contribution and our risk/reward model. We appreciate the opportunity to offer a transparent view into our world and answer any questions the Committee might have.

Founded in 1995, Scale Venture Partners consists of 15 investing professionals in total. During this time, we have funded 111 companies of which 20 have gone public, 26 have been acquired, and 53 are still active. We are currently investing a \$400 million dollar fund into companies that have promising innovations in industry sectors such as hardware and software, semiconductors, wireless communications, business services, biotechnology, medical devices and healthcare services and therapeutics. We are also exploring opportunities in the clean tech and alternative energy spaces. Scale employs a hands-on, thesis-based investment approach, working side by side with our portfolio companies to help them accelerate their growth and reach their market goals. In this regard, we are emblematic of venture capital firms around the country.

For the last four decades, the venture capital community has served as a founder and builder of companies, a creator of jobs, and a catalyst for innovation in the United States. This contribution has been achieved through high-risk, long-term investment of considerable time and dollars into small, emerging growth companies across the country and across industry sectors. According to a study conducted by econometrics firm Global Insight, companies that were started with venture capital since 1970 accounted for 10.4 million jobs and \$2.3 trillion in revenues in the United States in 2006 and include historic innovators such as Genentech, Intel, FedEx, Microsoft, and Apple and rising stars such as Google, eBay, and Kyphon. Venture capital has differentiated the US economy from all others across the globe. In doing so, our industry has collectively earned above average returns for our country's pre-eminent institutional investors and their beneficiaries including public pension funds, university scholarship endowments, and charitable foundations. My partners and I are extremely proud of the work that we do each day because we are creating long term value for our investors, our companies, their employees, and the communities in which our companies operate.

Yet despite the tremendous value generated by the venture capital industry, our ecosystem is a small and fragile one that requires consistency to thrive. To date, Congress has demonstrated a strong understanding of the necessary environmental factors required to foster a stable venture capital environment. Today we are asking you to continue to support this consistency and continue to recognize carried interest attributable to long term venture capital investment as it has been viewed historically— as a true capital gain. Congress has a right and duty to examine tax policy and in this case you are asking very legitimate questions. We believe an examination of the economics of carried interest will demonstrate not only that it is consistent with the spirit of long-standing tax policy but also that a tax change affecting the venture industry would be incongruous with the spirit of ongoing innovation that Congress has historically supported.

Venture Capital's Economic Value and Contribution to Innovation

Every day venture capitalists seek out the most promising and innovative ideas, technologies, and processes that our country's entrepreneurs have to offer. More often than not, we become involved at the earliest stages of a company's formation. In some cases, we have founded the company ourselves and sought entrepreneurs to help us build them. While our sector expertise and investment strategies differ based on overall firm approach, the venture industry's criteria is

simple: we are looking for the most compelling business models that promise to improve the way we live or work and we are looking for the brightest entrepreneurs that have the tenacity and drive to partner with us for the long-term to build these new businesses and, if successful, create substantial value.

This formula has resulted in thousands of successful companies that have pioneered new frontiers. According to Global Insight, revenues from venture backed companies represented 17.6 percent of US GDP and 9.1 percent of private sector employment in 2006. As a whole, these companies grew jobs 2 ½ times faster than their non-ventured counterparts from 2003 – 2006 and outperformed in job and revenue growth for every industry sector measured.

These statistics stand to reason as venture capitalists have been recognized as the pioneers of entire industries such as the biotech sector, where venture-backed companies accounted for 54 percent of jobs and 60 percent of revenues in 2006. And this phenomenon is not unique to life sciences. Venture backed companies accounted for 77 percent of all semiconductor jobs, 88 percent of all software jobs and 94 percent of all computer and peripheral jobs in 2006.

And despite popular belief that our industry only resides in Silicon Valley, venture capital is a national phenomenon with investment going to all 50 states each year. While certain regions of the country – such as Northern California and New England have successfully established thriving venture-backed communities, others such as Seattle, Southern California, Texas, Washington DC, New York and Utah have grown substantially in the last five years. Still others such as Pennsylvania, Wisconsin, Colorado, Florida, Indiana, and Michigan are pursuing economic development strategies that seek to bring more venture capital investment to their states. Political leaders in these areas are seeking to do for their states what venture backed companies such as Dell have done for Austin or Medtronic for Minneapolis. The positive economic impact of a successful venture backed company headquartered in a region can be measured not only in jobs and revenues of *that* particular company but also by the spinouts of companies that inevitably emerge. A culture of entrepreneurship feeds on itself and can organically grow if the environment is properly nurtured. To this end, at Scale Venture Partners, we have investments in promising regions such as Utah, Arizona, Georgia, and Florida as well as along the entire West Coast from Seattle to San Diego.

It is important to recognize that despite the ever growing value created by venture capital, we are still a cottage industry in terms of size and aspirations. In 2006, the venture industry invested just \$26 billion – representing only 0.2 percent of GDP. We currently have approximately \$236 billion under management compared to the buyout or private equity industry which manages approximately \$689 billion and the hedge fund industry which manages \$1.5 trillion. And while venture investment numbers seem like a very small number relative to other areas of private equity, there are some in our industry who will argue that even this amount of investment is still too high. We recognize that there are a finite number of innovative companies that will return capital and that we as investors have a finite amount of time to nurture them. As an industry, we have no aspirations to scale much further than where we are today – and certainly wish to avoid the irrational exuberance that plagued our asset class in early 2000. We realize that our small investment goes a long, long way.

It cannot be emphasized enough that venture capital is all about risking time, effort and capital to create new companies that quite simply would not exist if this capital were not available. We do not rely on leverage; we do not rely on financial engineering nor do we buy and sell publicly traded securities. Instead, we help entrepreneurs create new companies and sometimes new industries, with all the jobs and the economic growth that come with them.

Venture capital has been behind such technology innovations as search engines (Google), operating systems (Microsoft), online video sharing (YouTube), and online auctions (eBay). We have supported business model innovations such as superstores (Home Depot and Staples), quality food chains (Whole Foods), and coffee houses (Starbucks). And venture capitalists have invested in life saving medical innovations (pacemakers, Integrillin, Herceptin, ENBREL, and Ultrasound). While these companies and innovations are household names today, they were at one time just ideas put forth by unknown entrepreneurs who had little experience in growing a business. The infusion of venture capital dollars and expertise moved their products to market and, in doing so, these companies created new markets that have made our lives easier, better and more productive.

Our quest for innovation is perpetual. Within the last year, our industry has set its sights on innovating in the cleantech space – alternative energy, biofuels, recycling, clean power supplies, and conservation. If precedent holds true, some of the most exciting companies in this space are being funded by venture capitalists today. To find out – stay tuned until 2020. And yes – I really

mean thirteen years from now. That is a typical investment horizon; it is often that long until we know whether our companies will succeed or fail. To this point, I would now like to spend some time on how a typical venture capital firm works.

The Fundamentals of Venture Capital Investing, Compensation and Partnerships

The Venture Capital Investing Process

Venture capital funds typically are organized as partnerships. Although as VCs we invest significant portions of our personal savings in start-up companies, the capital needed by the emerging growth sector far outpaces our individual assets. For this reason, institutional investors such as pension funds, universities and endowments, and private foundations typically provide between 95 to 99 percent of the capital for the VC fund. Venture capitalists provide the remaining amount of capital from our personal assets. The VCs and institutions join together in a VC fund as the general partner (GP) and limited partners (LPs), respectively.

Once the venture fund is formed, our job is to research markets that have the potential to grow exponentially with application of new ideas and risk capital. We then work to identify and nurture promising, innovative companies within these new markets. This nurturing takes the form of money and strategic management, including intangible guidance and goodwill – all equally important to the company’s ultimate success. When we cannot find a suitable company within a target sector, we can and have founded the company ourselves and recruited a set of entrepreneurs who will partner with us to develop this new start-up.

Our job is not unlike raising a child from infancy to early adulthood. At some point in the future we hope the company reaches maturity and can go public or become acquired. But you can not just throw money at a company and expect it to succeed. As part of our investment, we take an active seat on the board of directors and provide strategic guidance for management based on our expertise. From time to time, we may also step in to help with certain management roles while the team is being built. Venture capitalists often have advanced science degrees and operational start-up expertise so our activities run the gamut from providing input on prototypes to implementing business development strategies to protecting intellectual property rights. We also instill and insist on formal corporate governance procedures including the development of formal committees and standard reporting procedures.

In addition, we make valuable intangible contributions to the companies through our knowledge of business processes, personal contacts and networks with customers, suppliers, distributors, and potential key hires. The strong reputation and goodwill established by our firm is often the key to continuously open doors which would otherwise remain closed to a start-up company throughout its life cycle. For example, consider a company such as Intel that is looking to purchase new technologies to fabricate their semiconductor chips. Given the sophistication and risk involved in the fabrication process, Intel would be unlikely to purchase a technology from a stand alone start-up company. But if that start-up had the financial backing and support of my venture firm or one of my colleague's venture firms, the start-up's product could be considered. For example, I have 3 partners with electrical engineering degrees, including the former Chief Marketing Officer of AMD, who spent most of their professional lives building products in the semiconductor industry. Additionally, our firm has sold companies to Intel, Cypress Semiconductor and JDSU.

All of this broad industry experience adds significantly to the entrepreneur's calling card when they are building their business. This is the venture capital industry's good housekeeping seal of approval and it is how start-ups break into markets that have entrenched suppliers. In this regard, our contacts and goodwill are the lifeblood of venture-backed companies. This is why entrepreneurs actively seek out venture investors who can add value to their companies.

Our sweat equity goes well beyond contacts and reputation. I typically connect with each of my company's management teams 3 to 4 times per week. Because of the level of involvement with our portfolio companies, individual VCs typically sit on no more than 5-7 boards at any one time. Currently, I personally sit on 3 boards and back up newer partners on more than a dozen. My partners have a similar threshold with an average of 6 boards per person among us. On average, we spend 70 percent of our time working with existing portfolio companies and only 10 percent making investment decisions. We spend another 20 percent of our time with professors, entrepreneurs and technology experts in order to identify and analyze the next emerging market like clean tech and then look to find the best team within that market to invest in. The network and knowledge base that we build during our investigative phase is one of the assets we bring to a start-up when we join the board.

Venture capitalists invest in companies for anywhere from 5 to 10 years, often longer and rarely less, with the ultimate goal for the company being an initial public offering or acquisition, generating a long-term capital gain. Because we focus on high-risk technological advances, many VC-backed companies fail. In fact, a venture industry analysis we recently conducted found that on average, 40 percent of all venture investments lose some or all of the invested money. The next 40 percent generate a modest profit that returns the total capital invested and repays the fund for all of our operating expenses over the life of the fund. Only 20 percent of venture investments achieve realizable and meaningful gains. It is this last 20 percent that carries the returns for most venture funds. This is the nature of our business. We dig many dry wells – the cost of which is delicately balanced by gains earned from our successful investments. This balance is critical for us to maintain support for our entire portfolio of hopeful start-ups.

Compensation Arrangements of VC Funds

For the work that we do, the venture capital firm typically receives two types of income – a 2 percent annual management fee and a 20 percent share of the VC fund’s cumulative net profits. This 20 percent entrepreneurial profit share is typically referred to as the “carried interest.” The management fee is guaranteed; the carried interest is entirely contingent upon a profitable fund.

While there are deviations from the norm, 2 percent and 20 percent have been consistent industry standards since the inception of the modern venture capital era, typically viewed as beginning in the 1970s when the Department of Labor’s ERISA rules were revised so as to permit pension funds to invest in the asset class. Practically, this means that thirty years ago when Bob Swanson, the founder of Genentech, was looking for and found venture capital, the same carried interest structure was in place as exists today. It has worked and continues to work very well.

The 2 percent management fee is calculated annually as a percentage of the fund’s total capital committed by its investors and typically declines over the life of the fund. It is used to pay for our business operations, office space and systems, technical experts, research, travel expenses to meet with companies, as well as the entire firm’s salaries including administrative and operations personnel. The management fee, including the salaries that we and our staff receive, is taxed as ordinary income.

The 20 percent carried interest is negotiated between GP and their LP's as *partners* and, in the venture capital world, is dependent on the fund's cumulative net profits, as calculated over the life of the fund. Gains and losses and usually expenses are netted for purposes of determining the 20 percent profit share. In non-tax parlance, this means that our partnership must have earned a profit over and above the contributed capital, including the management fee and expenses over the life of the fund, and across the entire basket of portfolio companies nurtured by our fund before we are entitled to our entrepreneurial profit share. In this regard, there is full *alignment of interests* between the GP and the LPs to maximize the value in all of the underlying portfolio companies.

This structure results in relatively straightforward partnership taxation. In its early years, the VC fund makes investments in portfolio companies and pays expenses, so the VC fund likely will only generate a net loss from expenses. These cumulative losses generally are allocated to all partners in proportion to their capital contributions. When portfolio companies are sold at a gain, the net profit typically first "reverses" the net losses previously allocated. Thereafter, the cumulative net profit typically is allocated 20 percent to the GP and 80 percent to all limited partners in proportion to their capital contributions.

Because the ultimate net profits of a VC fund are not determinable until the end of the fund's term which is typically well over 10 years, distributions of the carried interest to the GP are typically delayed until the LPs' capital contribution has been returned to them. These contributions include capital used to purchase companies that have not yet been sold *and* capital used to pay expenses, including the GP's management fee. The return of this capital typically will not begin to be achieved until 7 years into a fund. Only then is the carried interest shared with GPs.

The VCs must pay tax on their carried interest as soon as the VC fund is cumulatively net profitable, which typically occurs in years 3-4. Because the GP carried interest distributions typically are delayed until all capital and accumulated expenses have been returned, which typically occurs in years 6-8, a type of "reverse deferral" (an acceleration of tax) is created. This requires the GP to negotiate to receive "tax distributions" from the VC fund. Like an advance or a "sales draw," these tax distributions will reduce the amount of carried interest later paid to the GP.

Carried interest is never guaranteed but it is taxed on a flow-through basis, determined by the character of income earned by the partnership. Given the early-stage nature of venture-backed companies, dividends are rare. Debt investments that might give rise to interest income, other than bridge loans, are also uncommon. Because the primary economic benefit in a VC fund arises from the value created in a pool of long-term investments, most of the VC fund's income that flows through to its partners (including the GP) is characterized as a long-term capital gain which Congress has determined to tax at a preferential tax rate. A VC's effective tax rate is often higher than the long-term capital gains rate, however, since the share of a VC fund's expenses (including the management fee) that flow through the VC fund to a VC generally are limited in deductibility or not deductible at all.

The Value of Sweat Equity and Intangibles

Consistent with current partnership tax laws, the VC fund structure encourages the pooling of labor and capital by allowing the partners to divide the profits from the enterprise – whether created by the VCs' labor or the combination of the VC and LPs' capital – in whatever manner they determine best rewards the long-term, entrepreneurial risk taken by each partner. This flexibility is essential to creating efficient and productive businesses and to attract new talent to the venture industry.

As venture investors, we assert that it is appropriate to reward investors of sweat equity with the same long-term capital gain tax benefits that investors of financial equity receive. Both will only succeed if the business builds in value – so both are subject to the same entrepreneurial risk and our interests are aligned. In fact, if only financial investors were to receive this tax benefit, then only those with existing financial wealth would be “subsidized” by the government for their investment. But if the VCs' contributions of time, effort and counsel – as well as the intangible contributions made by VCs in the form of customer and supplier contacts, business process know-how, and value-building and reputation – are as valuable to the success of the business as contributions of financial capital, and if the VCs do not receive their share of that value until after the financial investor receives its share, then both should be subject to the same tax treatment.

Venture capitalists often work with scientists and professors, who have made their discoveries in government-sponsored labs and universities, but need additional support to bring their innovations to market. By enabling the commercialization of these products, we often help the

government realize further their investments in basic R&D. This is especially true in the life sciences sector where, following the doubling of the NIH budget, the VC industry now invests at least one third of all our dollars getting these innovations out of the labs and into the hands of actual patients. We operate in a similar manner in computer technologies and intend to work with government sponsored researchers to commercialize innovative clean technologies during the next decade.

Often the most brilliant scientist, doctor, or professor lacks the business experience to build the company that will ultimately bring their products to the public. In these cases, venture capitalists serve as the business minds that, when combined with the science, create the successful commercial enterprise. For instance, in our portfolio we have a hardware components company which was founded by a very intelligent and talented scientist. While the product was extremely promising, the founder had never started, let alone run a business before. He had other financing options but chose venture capital because of what we brought to the table. After we made our initial investment, we stepped in and supported this founder through such critical activities as developing a long term business plan and budget, identifying and connecting with business partners, writing job specifications for the sales and marketing positions, and helping to line up subsequent financing. Without this intangible contribution, his technology would still be just as exciting and as promising – but that’s *all* it would be – just a promise. In giving these innovations a life, we are also creating a viable, sustainable company that will go on to innovate again and again -- well beyond their initial product.

I realize you may have further questions regarding venture capital carried interest. First, you might ask why my carried interest is different from an option. One reason is that I don’t have the choice to walk away. My investors require that I contribute a significant portion of my own personal savings to the VC fund, so if the companies perform poorly, I will *lose* money. Second, as an actual equity owner of the VC fund, I am subject to all of the partnership tax rules which apply, not to mention legal fiduciary obligations to my partners. I must report some combination of income, gain, loss and expense of the VC fund on an annual basis on my tax return. Because my economic arrangement is determined over the life of the VC fund, but I have to report and pay taxes annually, I can *lose* money that I’ve paid in taxes simply because of my status as a partner. For example, if there are early gains and later losses in the VC fund, I might have to pay tax on my carried interest share of the early gains, but if later losses offset those gains, I might never be entitled to the economic benefit of that carried interest upon which I paid tax. Since later,

offsetting losses, generally can only be deducted against future capital gains, if I do not earn any capital gains in the future, I will lose the tax benefit associated with those losses. With an option there is only an upside. With carried interest there are two sides – up and down.

You might also ask why my carried interest is different from compensation received by other service providers. As mentioned, my carried interest is *contingent* upon value being built in the entire portfolio of companies that I work with. Other service providers such as consultants receive *guaranteed* payments – similar to my management fees. Even if a portion of their compensation is performance-based, that compensation typically is based on *annual* performance whereas my carried interest (in order to get the tax benefits of long-term capital gain) is attributable to value built up in my portfolio companies over many years. Furthermore, when performance-based compensation is paid to other service providers, it depletes the assets of the business, thereby depleting its value. When I receive carried interest, that means that the business was sold and a third party has paid me, leaving the assets and value inside the business. Other performance-based compensation, whether paid by a company to its executives or paid to a lawyer as a contingency fee upon winning a case, does not involve the sale of a capital asset – a condition currently and historically required to receive capital gain treatment. My carried interest, on the other hand, is only afforded long-term capital gain treatment if my VC fund sells a business, a capital asset, in which value has been created.

My carried interest is very similar to founder’s stock or a sole proprietor’s interest in his business. When founders start a company, they typically receive common stock in the company in exchange for their ideas and labor. At some time, the company may issue preferred stock to a financial investor in exchange for what is presumably far more financial capital than the founder invested. If the company is successful and is sold or goes public, the founder will be permitted to sell the founder’s stock and receive long-term capital gains tax treatment. Even company executives or employees who receive “restricted stock” after the start-up has received venture financing can receive long-term capital gains treatment when they later sell their stock. The only distinction is that if the executives pay less than fair market value for the stock upon receipt, they will recognize ordinary income for the difference upon receipt. But all of the later “upside” is eligible for long-term capital gains treatment.

Carried interest is like the stock received by the founder of a start-up company because we both receive equity interests in our businesses that are disproportionate to the financial capital invested

in those businesses. The same might exist for a sole proprietor who borrows financial capital from a lender. Each of us, however, invests time, energy and money in the hopes of building value in our businesses. As a result, we all should (and currently do) receive capital gain tax treatment when we sell our businesses and that value is realized.

Consider the scenario in which two friends come together to form a business. One friend has the time and passion to run the enterprise on a daily basis; the other has the financial capital to allow the business to set up shop and open its doors. Historically, if that business is successful at the end of the day, the partners determine how to share the profits, even if they determine to do so in a manner that is not pro-rata to the financial capital each committed at the outset. The ecosystem of the entrepreneur, venture capitalist and limited partners is analogous: all contribute different components in hopes of making the start-up profitable but the limited partners have decided to split their part of that potential profit in a non-pro-rata manner in order to reward both the entrepreneur and the VCs. At the VC fund level, the limited partners have essentially made the decision that if the fund is cumulatively profitable, balancing all the portfolio company investments, then they are willing to give an extra profit incentive to the venture capital partner in exchange for the value they have created from actively working with portfolio companies.

If sweat equity or intangibles are not recognized as having long term value associated with them, then venture capitalists may as well be passive investors. This scenario would be potentially devastating to the entrepreneurial community that actively seeks venture capital for the intangible value of expertise and networks they receive alongside the financial investment. They are not in the market for high risk credit – which is what venture capital would become without the sweat equity. For the entrepreneur’s sake, we don’t believe that Congress wishes to change the venture capital value proposition – our investment and sweat equity create value long term together. This is the spirit in which capital gains tax policy was enacted – and it has fostered the environment needed for a thriving entrepreneurial community here in the United States.

Venture Capital Needs Consistent Policy Conducive to Investment

The National Venture Capital Association represents over 480 venture capital firms, investing in multiple industries and multiple regions across the United States. Across this diversity lies one commonality for innovation and entrepreneurship to succeed: a consistent alignment of critical investment drivers including robust capital markets, access to talent, and a regulatory and tax

environment that supports risk-taking and allows failure. Despite the value and economic strength created by venture capital investment, we are still a small and fragile industry. Our investing dynamics are highly susceptible to changes in our ecosystem. In 1979, the creation of the prudent man rule by the Department of Labor which permitted pension funds to invest in venture capital fundamentally changed our asset class for the better. Changing the tax law around carried interest and capital gains could have the same size impact – but for the worse.

My peers and I are regularly asked by state economic development leaders from across the country what they can do to increase venture investment in their region. Our answer is consistent. You must foster an environment that 1) feeds the innovation pipeline with basic R&D funding, 2) attracts and retains entrepreneurs through opportunities to grow their businesses and 3) encourages venture capital investment and long term risk taking through favorable tax and capital formation policies. The same advice holds true at the national level. The United States is home to the world's most innovative and entrepreneurial minds. But these minds need venture capital investment and expertise to bring their innovations to market. Otherwise, the ideas are stuck in the labs, garages, and computers, awaiting funding and know how.

Since the 1970s, the US entrepreneurial system has been the envy of the world. Uniquely, our system not only leveraged the attributes listed above, but also consistently fostered an environment that allowed entrepreneurs to take a risk, start a company, access capital and to succeed *or* fail. Just as we have seen the emergence of a global economy in almost every sector of society, in the last several years we have begun to see the US venture capital model exported to other developing countries such as India, Israel and China. Not only are US venture capitalists investing in foreign companies but some are actually leaving the United States to set up funds domiciled in these regions.

Perhaps more significant, those countries, which now have expanding internal markets and participate in the global economy in a more comprehensive manner, are also fostering indigenous venture capital markets. Foreign born nationals who have been educated in the US, and perhaps have started companies here, now have a viable option to return home and become part of the local venture base, whether in Israel, India or China. This was not the case just five years ago. Also many foreign countries have witnessed how venture capital has benefited the US economy and are becoming very aggressive in attracting these talents to their shores. We have seen this with the burgeoning semiconductor business in China, with the biotech industry in Singapore, and

in the large and growing software market in India, all of which are being led by foreign nationals who began their careers in the US. Even in Europe where considerable pressure is being placed on the private equity industry, government officials are simultaneously affirming support for venture investment in small start-ups. Given the opportunity, these foreign economies would be all too happy to grab the brass ring from the United States. The game is ours to lose.

To continue to foster an environment of venture investment and entrepreneurial success in the US, we need public policy makers to continue to embrace a consistent, long-term perspective as it relates to capital formation policies, including taxes. As an industry, we are eager to continue to invest in entrepreneurs with the same enthusiasm and commitment that we have put forth in the past, but we do require your support. Our limited partners (and their beneficiaries such as public pension fund holders, university endowment beneficiaries, and private charitable foundation grant recipients) must be assured that their costs of investing in venture funds will not increase because the balance of partnership income is suddenly thrown off kilter. And the next generation of talent – faced with the option of following in my path or choosing a less risky career with a shorter payout horizon– needs the incentive to become a venture capitalist in search of the next Google. We are already competing with more lucrative and more guaranteed career paths – we do not need additional hurdles to continue to attract the best and brightest minds to our asset class.

America has always rewarded risk takers from its earliest days until now. Through our capital markets, our tax laws and our regulatory structures, the government has made it possible for those with a promising idea to take the leap of faith and set out on a risky but potentially rewarding path. And while we have moved a long way from the early settlers betting their lives for a better way of life, this spirit lives on today in the entrepreneurs that are taking respective risks to make life better for all of us. We believe that Congress has understood well the venture capital value contribution to this process and has enacted and maintained tax policies that promote our activities. We are hopeful you will continue supporting this legacy of innovation so that the US can maintain its leadership for years to come.

Thank you for the opportunity to speak with you today.