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ABSTRACT

Growing retail participation in private markets causes private fundraising to shift from relationship-based to arm's length. Focusing on venture capital funds, we study a 2013 policy—the 506(c) exemption—permitting public advertising in private markets. 506(c) funds have more retail investors and managers with weaker networks, yet do not underperform. Advertising reduces search costs and enables more catering to investor preferences. Nonetheless, 506(c) take-up is limited because arm's length fundraising depends on hard information, but few managers establish a track record without developing a strong network. Institutional investors also consider 506(c) a negative signal because they avoid co-investing with retail.

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"*The key to closing a first fund is to build credibility through social validation. First-time fund managers started with their first-degree connections, collecting checks from high-trust relationships regardless of check size. From there, they expanded their network through referrals from committed LPs.*"
– Founders of Weekend Fund (Hoover and Jain, 2022)

The past two decades have seen growing interest in the democratization of private capital markets. On one side of these markets, retail investor access to private capital markets is poised to dramatically increase, in part because of a recent regulatory push to permit 401(k) retirement plans to invest in private markets (U.S. DOL, 2026). On the other side of the markets, there are efforts to enable the entry of new and traditionally underrepresented fund managers in what is otherwise a relatively homogeneous, elite sector.[1] From a broader economic perspective, who becomes a manager affects what types of projects and innovation are funded and commercialized. This paper examines what happens when private capital markets become arm's length, permitting both retail participation and the entry of new types of managers. These changes are the subject of considerable controversy[2] and reflect the key tension in securities regulation: protecting investors while enabling broad and inclusive capital formation.

In public markets, investor protection primarily takes the form of mandated disclosure. A distinguishing feature of private markets is the lack of public information about issuers and their assets. Instead, U.S. securities regulators historically relied on two tools to protect investors in private markets: (a) enforcing relationship-based fundraising by prohibiting public advertisement (i.e., "general solicitation"); and (b) restricting the eligible investor base to sophisticated or wealthy individuals and institutions—i.e., accredited investors. In this policy context, relationship networks—connections an individual has, including through work experiences, education, or family background—become a prerequisite to fund management. The logic is that such networks provide signals of quality based on soft information, which investors can use to overcome the severe information asymmetry inherent in private markets. When fundraising targets retail investors, who in general do not have relationships with issuers, it must become arm's length, and signals must take the form of hard information, especially about the manager's track record.

The mechanism for U.S. private fundraising has long been the Regulation D Rule 506(b) exemption from securities registration. This exemption, which private equity, venture capital (VC), hedge funds, and direct issuers such as startups rely upon, has in recent years accounted for substantially more fundraising than all public equity and debt offerings combined in the U.S. (Bauguess et al., 2018). In 2013, the U.S. Congress introduced Regulation D 506(c) in order to increase access to private markets. Both 506(b) and (c) require investors to meet "accreditation" requirements. Unlike 506(b), 506(c) permits public advertising. These 506(c) funds have been a main mechanism for retail investors to access private equity, especially VC funds. In this paper, we focus on the role

[1] See SEC (2013); Zeidel (2016), and Calder-Wang and Gompers (2021); Garfinkel et al. (2021); Cassel et al. (2022).
[2] See Bates (2025); McGee and Binnie (2025); Macias (2025).

of networks in private markets, using the introduction of 506(c) as a laboratory.

We focus on VC fundraising because it features intense information asymmetry and managers who are even less diverse than startup founders (Wang et al., 2023). VC managers (i.e., General Partners or GPs) are the gatekeepers determining which innovations move forward in the economy, and VC-backed startups are perhaps the most important source of innovation and productivity growth in the post-WWII U.S. (Kortum and Lerner, 2000; Gornall and Strebulaev, 2021). We construct a novel dataset of U.S. VC funds by linking Pitchbook to Form D regulatory filings, which contain the fund's exemption type (i.e., 506(b) or (c)). Nearly all VC funds use Regulation D, and they must file a Form D within 15 days of the first securities sale. Pitchbook funds represent the best proxy for the universe of legitimate, economically relevant VC funds that have raised a meaningful amount of capital. We supplement the Pitchbook data with information collected from managers' LinkedIn pages and with surveys of VCs, their lawyers, and their Limited Partner (LP) investors.

We document that only 8.4% of VC funds have used 506(c) across the 10 years from its introduction. This rate has grown somewhat over time, to about 11% in 2025. 506(c) rates are similar for other asset classes, including PE funds, hedge funds, and REITs, at 4% to 10%. Direct issuers such as startups use it at somewhat higher rates of 10-15%.

Consistent with 506(c) being a useful laboratory to study retail access to VC markets, 506(c) funds more often target individual LPs—i.e., the "crowd": they tend to have more LPs, higher fractions of non-pension and individual LPs, and a much smaller average check size per investor than 506(b) funds. We also show that 506(c) funds are relatively constrained by a limit on the number of investors who may participate in a private fund. A 2018 deregulation that raised the investor cap from 100 to 250 for small VC funds (AUM $\leq$ \$10M) significantly increased the take-up of 506(c) and shifted bunching from 100 to 250. Overall, we confirm that 506(c) funds are primarily used to raise small amounts of capital from a large group of arm's length investors.

Next, our analysis presumes that since the traditional 506(b) exemption required a pre-existing relationship with fund investors, managers with weak networks should more often use 506(c). To validate this in the data, we identify proxies for network strength. The first two are the number of co-directors a manager has sat on boards with in the past ("board network") and being a first-time manager. We further consider three characteristics that the literature has associated with weaker networks in the entrepreneurial ecosystem: whether the manager is female, Black/Hispanic, or attended a non-elite school.[3] We verify that all three are associated with a weaker board network.

We show that across all these measures, managers with weaker networks are more likely to use 506(c) than 506(b). For example, after including state-year fixed effects to control for geographic

[3]VCs are overwhelmingly male, White, and graduates of elite schools, and this composition creates network barriers for underrepresented fund managers and entrepreneurs (Ewens and Townsend, 2020; Calder-Wang and Gompers, 2021; Garfinkel et al., 2021; Cassel et al., 2022; Howell and Nanda, 2024).

clustering and macroeconomic shocks, 506(c) managers have 39% fewer past board connections relative to the mean. The shares of first-time, female, Black or Hispanic, and non-elite school managers are 27%, 39%, 86%, and 8% higher in 506(c) than in 506(b), relative to their respective means. We confirm the importance of relationship networks in a survey of fund managers and their lawyers. Among fund managers who have only used 506(b), almost 90% of respondents report sometimes or frequently using their personal network to raise funds. In contrast, 40% of 506(c) users report that they used 506(c) because they lacked a personal network. Although this type of survey has limitations, such as possible motivated response bias, the descriptive results together indicate that managers with weaker networks benefit more from the ability to publicly advertise.

Arm's length fundraising also permits fundraising to untether from local geographies, since relationship networks tend to be local (Granovetter, 2018; Small and Adler, 2019; Kuchler and Stroebel, 2021). This shift allows fund managers to escape the constraints of their local economy. Consistent with this, we find that 506(b) fundraising is sensitive to local wealth shocks, but 506(c) is not. We further find that 506(c) funds are more likely to be in non-hub cities. These results suggest that arm's length fundraising can potentially reduce regional inequality in venture capital.

What is the implication of arm's length fundraising for retail investors? We explore two hypotheses. The first is that a manager's network may be correlated with her investment ability. For example, deal sourcing connections may go along with relationships with the institutional investors and ultra-wealthy individuals who are traditional LPs. In this case, the entry of managers through 506(c) who have weak networks with traditional LPs will lead to lower returns for retail investors. To test this, we directly compare the returns of 506(c) and 506(b) funds. We do not find that 506(c) funds underperform, a result that is robust to a variety of specifications that account for fund vintage, interim returns, and potential under-reporting of returns. In fact, they are more likely to be in the top quartile of the return distributions and enjoy more portfolio company exits. We show that 506(c) managers appear to overcome network constraints through broader deal sourcing, looking outside their geography, alumni network, and to portfolio companies which themselves use 506(c). In sum, these results suggest that the relationship requirement serves as a barrier to efficient entry rather than as a proxy for quality.

The second hypothesis is that public advertising lowers search costs, enabling more efficient matching between LPs and GPs. 506(c) managers adopt different fund strategies to cater to investors with different preferences, and use public advertising to find the right investors for their strategy. We show that 506(c) funds have shorter average portfolio company holding periods and are more diversified across industries and deal sizes, consistent with catering to retail preferences for shorter horizon returns and lower risk (Li et al., 2026; Goetzmann and Kumar, 2008; Barber and Odean, 2011). We also find that 506(c) funds are more likely to have impact objectives, targeting female or minority business owners. These non-pecuniary objectives match well with the preference of 506(c) funds' investors, who are more likely to be female or minority themselves.

If 506(c) funds benefit less well-networked managers, do not underperform, and enable better GP-LP matching, why aren't more managers using 506(c)? Recall that take-up of 506(c) is quite low, at 8.4%. As a result, the introduction of 506(c) has not significantly moved the "needle" for emerging managers.[4] The low take-up is surprising, since one might expect that, all else equal, having the *option* to publicly advertise—which includes, for example, the ability to mention fundraising at a conference—ought to be valuable.

We identify two mechanisms that help explain low take-up. The starting point is that 506(c) requires the issuer to take a step to determine investor accreditation, whereas under 506(b), issuers can take investors at their word. Many of the SEC's "safe harbor" steps for determining accreditation under 506(c)—such as an email from another investor, advisor, or lawyer—are not onerous. Nonetheless, even a small investor verification cost implies that a manager with zero or trivial interest in public advertising would choose 506(b). Managers who successfully fundraise with 506(c) must select into paying the cost because they have weak networks with traditional LPs, yet must also have the ability to project hard information about their quality at a distance. This naturally leads to two mechanisms. First, in the absence of soft information via personal relationships, LPs employ hard information—most importantly, the manager's track record—as a substitute. Therefore, public advertising in 506(c) should increase LPs' reliance on the manager's prior successful exits, funds, and financial sector experience. Yet managers with these accomplishments typically developed a network along the way. In other words, network and track record are usually coincident. We term this first channel the "Track Record Paradox."

We illustrate the Track Record Paradox by plotting track record against network strength for the two exemptions. Relative to 506(b), the distribution of 506(c) managers is more heavily weighted towards stronger track records. Among the managers with above-median network strength but below-median track records, 98% raise using relationships through 506(b). In contrast, 35% of managers with weaker networks but stronger track records use 506(c). Yet this group with the right profile for 506(c) composes just 7% of all funds. Also, we show that fundraising success, measured as actual fund size relative to the manager's target, is much more sensitive to track record among 506(c) funds. In sum, the opportunity to fundraise at arm's length in private markets will be most valuable for managers with weaker networks, yet may not be widely used or enable inclusive entry because only people with established track records can convey quality at a distance.

We also hypothesize that using 506(c) may send a negative signal. If investment ability as a fund manager is correlated with network strength, then paying the small verification cost—admitting an inadequate network—may send a negative signal. Alternatively, using 506(c) may signal that the investor base includes retail, which could affect institutional interest. About 75% of fund managers in our survey identified the time and money required to verify investors' accreditation status as

[4]For example, the share of Black and Hispanic managers in our overall Regulation D data increased from about 3% in the four years before the policy change in 2013 to about 6% in the five years ending in 2023, far from their 26% share among college graduates.

having at least some influence on their decision to use 506(b) rather than (c). About 60% reported that the negative signal of 506(c) had at least some influence. This suggests that verification costs and their accompanying signaling problems might help explain low take-up of general solicitation.

However, negative signaling grounded in manager ability is at odds with our finding about returns. To directly test for a signal, we conduct an audit study of LPs, including both institutional and individual investors. The results, which have causal interpretation and should not suffer from motivated response bias, indicate that any negative signaling is *de minimis* and is far less important than a manager's track record in explaining investors' inferences about fund quality. However, when we subsequently asked LPs explicitly about negative signaling, 38% reported a negative signal. An analysis of their comments reveals why: Institutional LPs prefer not to co-invest with retail LPs, because they have different approaches to fund governance. This points to a future with a mostly segmented market, in which institutional and retail LPs tend to invest in different funds.[5] We find no evidence that 506(c) signals an inability to source deals, consistent with our finding that 506(c) funds do not underperform.

The contrast between 506(b) and (c) goes to the heart of the key tension in securities regulation between protecting investors and enabling broad capital formation. In studying these regulations, this paper offers two insights that are broadly relevant to securities regulation and to financial intermediation. First, efforts to protect investors from fraud—for example, by capping the number of investors or installing verification requirements—can come at the expense of higher barriers to entry for issuers. Second, track record matters at arm's length while strong networks matter in relationship financing, so public advertising on its own is only helpful to the small fraction of prospective issuers with a strong track record but weak networks.

We contribute to several strands of the literature. The first is economic analysis of securities regulation, which has focused on incentives for disclosure and agency problems (Admati and Pfleiderer, 2000; La Porta et al., 2006; Zingales, 2009; Jackson and Roe, 2009). Disclosure requirements are associated with financial development and economic growth (Rajan and Zingales, 1998; La Porta et al., 2002; Shleifer and Wolfenzon, 2002; Greenstone et al., 2006; Christensen et al., 2016). However, regulation can also impose burdensome costs and favor special interests (Mahoney, 2003; Chhaochharia and Grinstein, 2007; Mulherin, 2007; Hochberg et al., 2009; Iliev, 2010; Ewens et al., 2024). This literature focuses on public equity, with little work on private capital markets, where information asymmetry is more severe. Several exceptions are Ewens and Farre-Mensa (2020), who study the 1996 deregulation of private capital markets, and Lindsey and Stein (2019) and Xu (2023), who show how a 2011 policy change that raised the bar for investor accreditation affected angel markets. As policymakers seek to increase access to private markets,[6] our paper informs regulatory

[5]There is weaker evidence that 506(c) indicates a manager's existing network is not willing to invest or that the manager cannot raise enough capital to form a fund.

[6]Beyond the US, countries such as Australia, UK, Brazil, and Japan are also actively considering allowing public advertising in private markets to broaden access.

design, in particular the trade-off between investor protection and broader capital formation.

Our paper joins research on arm's length versus relationship-based financing. The literature emphasizes the benefits of information and monitoring in relationship lending, but also the benefits of *ex-ante* contracting in arm's length financing (Rajan, 1992; Chemmanur and Fulghieri, 1994). In choosing between private placement and public issuance, firms trade off the costs and benefits of control, privacy, capital market depth, and regulatory oversight (Kaplan, 1989; Eckbo et al., 2007; Lim et al., 2021). Such a choice has not been studied in the context of the GP-LP relationship. General solicitation in fundraising is related to but distinct from the rise of marketplace financing, or "crowdfunding."[7]

Mandating relationship-based fundraising creates concern that startups and LPs who lack the right connections or who are not in the right locations or demographics are disadvantaged in the capital markets, to the detriment of the economy (Lerner and Nanda, 2020; Fairlie et al., 2022; Ewens, 2023). Research on the importance of networks in VC (Hochberg et al., 2007, 2010) has not studied implications for underrepresented managers. Investment in startups relies on trust, face-to-face due diligence, and reputation (Bernstein et al., 2016; Hu and Ma, 2021; Huang et al., 2023). Less is known about the GP-LP relationship; exceptions include Goyal et al. (2021), Cassel et al. (2022), Abuzov et al. (2022), and Goyal et al. (2023). More broadly, research has focused on information frictions between startups and VCs, with less work on such frictions between GPs and LPs.[8] While startups and their investors tend to be co-located (Sorenson and Stuart, 2001), there is little work on how the GP's location and fundraising method matters for geographic diversity.

Finally, we contribute to the emerging literature on retail access to private markets, which exists today on a spectrum ranging from vehicles available only to wealthy and sophisticated investors to vehicles that target middle class retirement accounts. While the investors differ in sophistication and the degree to which they encounter funds through financial advisors or direct marketing, a commonality across all retail access is arm's length fundraising, which is the focus of our paper.[9] Balloch et al. (2025) find that wealthy individual investors in drawdown PE funds earn similar returns as institutions. Studying registered interval and tender offer funds, Ewens and Faber (2026) show that these vehicles underperform institutional drawdown peers and have limited exposure to

[7]While general solicitation is a necessary condition for crowdfunding, it encompasses a much broader range, including, for example, simply announcing to a small gathering of institutional investors that one is fundraising. The literature on crowdfunding and marketplace lending (Agrawal et al., 2015; Iyer et al., 2016; Xu, 2019; Tang, 2019; Vallee and Zeng, 2019) has not addressed financial intermediaries raising capital. Nevertheless, our findings are relevant for designing policies for marketplace financing.

[8]For example, Howell (2020) shows how venture competitions mitigate information frictions between startups and investors. Sørensen (2007) shows that experienced VCs tend to fund higher quality companies in part because of selection. Bernstein et al. (2017) study what information about startups matters to angel investors. Notable exceptions are Cain et al. (2020), who study intermediation by placement agents in PE fundraising, and Colonnelli et al. (2024) who study the role government of affiliation in GP-LP matching.

[9]Note that wealth managers and registered financial advisors typically do not themselves have personal relationships with fund managers; today, they typically recommend registered PE vehicles to investors, which can advertise and have more straightforward compliance (Romeo, 2024).

actual PE (zero in the case of VC vehicles).[10] Bates (2026) also finds lower returns for registered funds targeting retail investors. Gocmen et al. (2024) show that varying access to private markets contributes to rising inequality in the US. To our knowledge, our paper is the first to study arm's length fundraising in private markets; we shed new light on broadening access both for retail investors and for emerging fund managers.

1 Regulatory Background and Economic Context

Information asymmetry creates regulatory pressure to protect investors from fraud and conflicts of interest, for example between sales intermediaries and their clients (Bolton et al., 2007; Bergstresser et al., 2008; Inderst and Ottaviani, 2009). U.S. securities laws have long struggled with the need to balance protecting retail investors with supporting capital formation. On the one hand, giving retail investors access to a wider scope of opportunities may expose them to deception or excessive risks. On the other hand, the ability to make investments in risky enterprises or alternative assets is both core to the U.S. economic engine and an important source of wealth creation, especially since the U.S. tax structure favors capital gains. In this section, we describe the regulatory infrastructure that has grown over time in the face of this trade-off.

Securities regulation in the U.S. primarily takes the form of mandating disclosure of material information, especially of financial positions. It is widely believed that left to their own devices, issuers will suboptimally disclose and deception-plagued markets will be illiquid and inefficient (Admati and Pfleiderer, 2000). Securities regulation helps to resolve commitment, agency, self-dealing, and other problems that arise naturally in the private market (Zingales, 2009). Requiring substantial disclosure, alongside other private and public enforcement regimes, has been shown to be central to the success of U.S. capital markets, which in turn is tied to financial development and economic growth.[11]

However, these same regulations can also create burdensome costs for issuers, a point emphasized following new disclosure mandates in the 2002 Sarbanes-Oxley Act.[12] A dimmer view of securities regulation—going back to Stigler (1964)—emphasizes the costs and special interests that are often behind particular rules (Posner, 1974; Easterbrook and Fischel, 1984; Mulherin, 2007). For example, Mahoney (2003) explores the origins of state blue-sky laws, the earliest form of securities regulation in the U.S., and shows that they were primarily motivated by small banks that sought

[10] Distribution of these evergreen, semi-liquid vehicles, while technically open to retail investors, was historically limited to advisor channels serving high-net-worth clients. Recent regulatory changes have lowered compliance and suitability frictions. As direct marketing expands, retail investors in these vehicles may face information and screening challenges similar to those in 506(c), relying largely on manager reputation, track record, and asset fit.

[11] See Rajan and Zingales (1998), Reese Jr and Weisbach (2002), La Porta et al. (2002), Shleifer and Wolfenzon (2002), La Porta et al. (2006), Jackson and Roe (2009), and Christensen et al. (2016). Most empirical literature finds positive effects of mandatory disclosure, such as Greenstone et al. (2006) and Christensen et al. (2016).

[12] See Chhaochharia and Grinstein (2007), Doidge et al. (2009), Hochberg et al. (2009), Iliev (2010), and Ewens et al. (2024).

to erect barriers to competition.

Context for Regulation D. The longstanding compromise in private capital markets, codified in the Securities Act of 1933, requires that any offer or sale of a security must either be registered with the SEC or rely on an exemption. Registering securities involves a large amount of regular disclosure, obligations to investors, and legal costs. Private capital markets, by definition, avoid this disclosure and its accompanying costs by relying on various exemptions. The relevant exemption from the 1933 Act is Section 4(a)(2), which allows issuers to conduct small, non-public offerings.[13] The law does not define these terms, which initially left private placements using this exemption to rely on convoluted suggestions from case law. To address the regulatory uncertainty and encourage small business capital formation, the SEC adopted Regulation D in 1982 (SEC, 1982).

The Baseline Exemption under Regulation D: Rule 506(b). Regulation D's key element is paragraph (or Rule) 506(b), which offers a "safe harbor" under Section 4(a)(2) for private securities to be sold with no limit on the offering amount or the number of investors, so long as three conditions are met. First, there must be no general solicitation (i.e., public advertising, which we discuss further below). Second, resale of the securities is restricted, unlike registered equity such as publicly traded stocks.[14] Third, only accredited investors—who meet thresholds for income, wealth, or financial expertise—may invest.[15] Investors may self-certify that they meet accreditation standards. If they falsely self-certify, the issuer is not liable. Also, since 1982, a 506(b) offering may have as many as 35 unaccredited investors. Restricting eligibility departs from most securities regulation in the U.S., which seeks to protect investors by mandating disclosure.

In 1996, Regulation D became applicable to state laws, allowing issuers to file a single form in order to comply with federal and any state securities regulations (i.e., blue sky laws).[16] Once Regulation D preempted state securities laws, it became the dominant exemption. This is because if the manager does not use Regulation D and wishes to raise a fund backed by U.S. investors, she and her investors must typically all reside in the same state, in which case they can comply only with that state's securities laws (a Section 3(a)(11) offering), though these laws are often more onerous than Regulation D.

[13] VC funds also comply with the Investment Company Act of 1940 either by registering as investment advisors or, more commonly, by making use of the Act's exemptions 3(c)(1) or 3(c)(7), which are carveouts for VC and PE funds that exempt them if they meet certain conditions. See Appendix B.2.

[14] Resale is governed by Rule 144, which requires among other things that resale has to meet certain requirements such as volume limitations and a minimum holding period.

[15] Briefly, the key standards are either income of $200,000 or non-housing net worth of at least $1 million; Appendix B.3 provides details on the definition of accredited investors.

[16] The 1996 change was part of the National Securities Markets Improvement Act (NSMIA), which also created a new category of private funds under Section 3(c)7 of the Investment Company Act that may exceed the 100-investor limit if all investors are "qualified purchasers" (natural persons who own at least $5 million in investments or institutions that own at least $25 million). See Appendix B.2 for details.

Regulation D is the basis for the enormous private capital industry; the asset classes of PE, VC, real estate, and hedge funds rely on it, as do many large companies, startups, and small businesses.[17] In recent years, the amount raised through Regulation D offerings substantially exceeds combined U.S. public equity and debt offerings (Bauguess et al., 2018). The disparity between public and private markets has grown over time, as public equity fundraising has modestly declined and public debt has not grown as fast as private capital. Moreover, nearly all Regulation D capital is raised by investment vehicles such as VC, PE, and hedge funds. By our calculations, investment vehicles raised $1.38 trillion in 2023, compared to $88 billion for non-financial issuers.

Regulation D requires that issuers file a Form D with the SEC within two weeks of completing the offering (Rule 503). The Form D is not a disclosure document, but rather notifies the SEC that the offering is occurring, who is conducting it and for what general purpose (e.g., to raise a VC fund), and when. Issuers must also provide investors some sort of disclosure through a private placement memorandum, but this is not audited by the SEC and is typically far less comprehensive than for a registered offering. Issuers do not always comply with the requirement to file a Form D, since the forms become publicly available (Hanley and Yu, 2023; Ewens and Malenko, 2020), though such non-filing rate is much lower among funds than among startups (see Footnote 25 below). This comes with some risk, however, as Rule 507 (in its modern form) threatens that issuers who fail to file Form D will lose their Regulation D rights in the future (CFR, 1989).

Allowing General Solicitation: Rule 506(c). The focus of this paper is an amendment to Rule 506—the introduction of 506(c)—that allowed issuers to generally solicit their offering (i.e., publicly advertise). General solicitation includes activities such as posting on a public website, making a statement at an event where strangers are present, or reaching out to someone with whom the manager does not already have a relationship. Figure A.1 provides examples of general solicitation by a 506(c) fund through social media and fund websites. To avoid generally soliciting, a manager must have a pre-existing, substantive relationship with the prospective investor, either directly or through intermediary.[18] Therefore, 506(b) is likely to entrench well-networked incumbents, creating barriers to retail investor participation and for emerging and less well-networked managers.

The JOBS Act of 2012 created Rule 506(c) to reduce this incumbency benefit and expand capital formation to support more small businesses (SEC, 2013; Zeidel, 2016).[19] Other than general

[17] There are several exemptions besides Regulation D (see Appendix B.4), but they exclude investment companies, and therefore are not relevant to VC funds.

[18] A registered investment adviser may, in some circumstances, intermediate the required pre-existing, substantive relationship with its own clients, but only if that adviser is actually part of the offering channel and the relationship predates the adviser's participation in the offering. In this case, the pre-existing relationship requirement shifts from direct fund-LP ties to ties between the fund and existing advisers or placement networks. Such intermediation shifts the network constraint but does not eliminate it.

[19] As an example of Congress' motivation, a letter from the Senate to the SEC emphasized that the Senate believed general solicitation "provide opportunities to raise capital from investors that can afford to take risk." (McHenry and Garrett, 2013)

solicitation, there are two other differences from 506(b). First, issuers could only raise from accredited investors, while 506(b) permits a maximum of 35 unaccredited investors. Second, issuers using 506(c) would need to "take reasonable steps to verify that purchasers of the securities are accredited investors, using such methods as determined by the Commission" (112th Congress, 2012). This contrasts with the ability to self-certify under the ongoing 506(b).

Based on this legislation, the SEC developed Rule 506(c). It became effective on September 23, 2013, at which point the pre-existing exemption that had been termed 506 became 506(b). The current full text of Rule 506 is in Appendix B.1. The additional verification burden imposed by 506(c) on issuers is not *prima facie* very high (Harrison, 2022). The issuer need not represent that the investor is actually accredited. If the investor turns out not to be, any test would focus on whether the issuer's verification passed the "reasonable steps" standard.[20] The SEC offers a list of "reasonable steps", which are either a "safe harbor" or reflect a "principles-based" method. The safe harbors include written confirmation from a broker-dealer, investment adviser, licensed attorney, certified public accountant, investor in a prior 506(b) offering, or previously verified investor (SEC, 2013). For example, if the manager obtains an email from a verified investor confirming a new investor is wealthy enough to be accredited, the manager is in the clear from a legal perspective. The "principles-based" method ranges from inferences about wealth based on past interactions to asking for tax filings. In March 2025, the SEC further simplified the verification process through a no-action letter, which allows written self-certification from the investor so long as the minimum investment is at least $200,000 for natural persons or $1 million for entities.

Take-up of General Solicitation In Figure 1, we show the count and volume of Regulation D VC funds.[21] The figure highlights how the overall VC industry has grown as an asset class in recent decades, and shows that take-up of 506(c) is low on both a count and volume basis, relative to 506(b). In the initial years following the policy's 2013 introduction, 506(c) composed about 5% of funds by count basis and around 2% by volume. During the Covid-19 pandemic, the 506(c) share expanded substantially, but declined again in 2024 and 2025; it is now roughly 11% of funds by count and volume, with the latter statistic being quite volatile, as the presence of a few very large funds can swing the balance substantially year to year.

This paper focuses on VC fundraising, but we also explore whether 506(c) has made greater inroads in other assets. In Figure A.2, we show that the share of 506(c) among all VC (not just Pitchbook-matched funds), PE funds, hedge funds, and REITs is similar, at between 4% and 10%, with some growth over time.[22] The somewhat lower use of 506(c) by PE than VC funds could reflect higher reliance on personal networks among PE managers, or higher information asymmetry about

[20] See CDI 260.06 here: `https://www.sec.gov/corpfin/securities-act-rules`.

[21] Below, we will explain how this sample is constructed.

[22] In Table A.1 we show that this pattern also holds in the complete Regulation D VC universe, not only in the Pitchbook-matched sample. For example, 506(c) accounts for 7.5% of all filings.

PE managers due to lower performance persistence than VC (Kaplan and Schoar, 2005; Harris et al., 2020). Among operating companies (such as private startups), the share is not much higher, growing from 10% in 2014 to 15% in 2023. We also matched Regulation D data to VC-backed startups on Pitchbook, and found that use of 506(c) in this sample is about 6%. Therefore, low VC take-up of 506(c) does not reflect startups using 506(c) to raise directly from angels and circumventing VC funds. In sum, take-up of 506(c) across all private asset classes has been low albeit growing slowly, pointing toward some general frictions constraining its use.

2 Conceptual Framework

We are interested in using 506(c) as a laboratory to study the implication of broader retail investor access to private markets. Relative to historical private market performance, will retail investors be well-served or get a raw deal? The connection to 506(c) is that any meaningful retail access must be arm's length, and thus involve some degree of general solicitation. In particular, unlike the traditional regulatory compromise described in Section 1, it will not rely on relationship networks with fund managers. In this section, we outline a set of hypotheses to guide our exploration of the implications of 506(c) for retail investors and fund manager entry and composition.

Setting the Stage First, our proposition that 506(c) is a useful laboratory to study retail access to VC markets predicts that 506(c) funds should more often target individual LPs—i.e., the "crowd". These retail-type investments will naturally be much smaller on average than the typical institutional investment. Therefore, 506(c) funds should benefit from the ability to raise from more people. Second, our motivation requires that managers with weaker networks should more often use 506(c). This is not obvious; while the traditional 506(b) exemption required a relationship with fund investors, it may be that the skills or experience required to successfully fundraise through 506(c) are also correlated with a strong network.

Implications for Retail Investors We offer two hypotheses that are crucial for investor welfare in arm's length fundraising. The first examines whether relationship network strength is a signal of quality or represents an entry barrier. If a manager's network is correlated with her investment ability, the entry of managers without strong networks with LPs likely means that retail investors will not receive the same returns that VC LPs have traditionally enjoyed. For example, deal sourcing connections may come alongside relationships with traditional LPs (institutional investors and ultra-wealthy individuals). Alternatively, it may be that LP relationship networks serve as an inefficient entry friction that keeps low-network but capable managers out.

The second hypothesis is that public advertising may reduce search costs, enabling more efficient matching between LPs and GPs, a phenomenon that is agnostic about performance differ-

ences. 506(c) managers may adopt different investment or portfolio strategies to cater to investors with different preferences. Arm's length fundraising can help managers find the right investors for their strategy.

Mechanisms for Low Use of 506(c) Funds. At the end of Section 1, we documented that 506(c) has not enjoyed broad take-up. Our null hypothesis is that network strength is highly correlated with investment ability. In this case, low-quality managers will sort into 506(c), leading it to generate a negative signal, which in turn will cause managers—even those who would benefit from 506(c)—to pool into 506(b). Alternatively, network strength may be independent of performance. Most people do not have relationships (or even distant connections) with institutional investors such as endowment managers or ultra-high-net-worth individuals, so there may be some fund managers with investment ability who lack strong networks with investors. In this case, and given 506(c)'s lower search costs, we face a puzzle: Why hasn't there been more take-up of 506(c), and what can we learn about broader retail entry?

An important starting point is the investor verification costs to using 506(c) (see Section 1). Even though the costs are small, if a manager has no need whatsoever to publicly advertise, she would choose 506(b). Managers who select into 506(c) and successfully fundraise must have a weaker network with traditional investors, while also being able to project hard information about their quality at a distance. This yields two mechanisms to explain low take-up, which are not mutually exclusive.

The first is what we call the "Track Record Paradox." Arm's length financing makes information asymmetry between prospective fund managers and their targeted investors a greater challenge. In the absence of soft information produced from personal relationships, investors must rely on hard information. The most relevant hard information is the track record of the GP firm and manager. Since the primary benefit of 506(c)—public advertising—is arm's length financing, success in 506(c) fundraising should depend more heavily on a strong track record. *When a person develops a track record, they typically develop a network at the same time.* There are few managers who have a track record but a weak network, which may limit take-up of 506(c).

The second mechanism is negative signaling. One hypothesis is that investors infer—correctly or incorrectly—low quality after observing 506(c). This could reflect one or more of the following beliefs about 506(c) managers: (i) their existing networks are unwilling to invest; (ii) they lack networks for sourcing good deals; or (iii) they will struggle to raise enough money to form a fund. Alternatively, 506(c) may be a signal about LP composition. If institutional LPs have a different agenda from retail LPs, they may not wish to mix with them, creating a more segmented market. For GPs, institutional LPs are more valuable because they have lower fixed costs to administer, are less likely to withdraw, and are more likely to commit to follow-on funds. This could help explain why experienced GPs with excess demand might sort into 506(b).

In principle, general solicitation, whether through 506(c) or another pathway, should allow poorly networked managers to match with retail investors, who also generally have weak networks compared to ultra-wealthy and institutional investors. This implies that the advent of 506(c) should enable entry by traditionally underrepresented managers, such as those without elite college degrees or who are female. Yet the Track Record Paradox could constrain this entry, since new managers lack a track record to convey quality at a distance. In the remainder of the paper, we explore each of the hypotheses presented in this section in turn, and conclude with policy implications for broadening access to private capital, from the perspectives of both retail investors and new or underrepresented managers.

3 Data Sources & Network Measures

In this section, we describe our core data and variables. Ancillary sources are introduced where they appear in analysis.

Form D Data. All electronically filed Regulation D filings (Form D) are publicly available. Our Form D data begins in 2008, when electronic filing was optional, and becomes comprehensive from March 2009, at which point all filings were electronic.[23] We obtain filings under the 506(b) and (c) exemptions in which the filer has identified themselves as a VC fund, which is one option within the pooled investment fund category. We drop amendments, leaving a dataset of about 37,000 initial Regulation D filings between 2008 and 2023.[24] Although our data goes until the end of 2025, we stop our sample at 2023 to allow a few years to trace fund returns.

Pitchbook Data. To capture the universe of legitimate angel and VC funds and to observe fund characteristics, we focus on a match between Form D and Pitchbook funds. Pitchbook is the leading commercial provider of data on private capital markets, and we believe it offers the most comprehensive venture universe, including funds that raise from individual investors. Indeed, existing on Pitchbook is an important credibility signal for future fundraising and deal sourcing. This incentivizes fund managers to report basic information. Matching to Pitchbook ensures that we examine funds that have successfully raised capital and launched. However, this creates an

[23]The filings can be accessed here: `https://www.sec.gov/dera/data/form-d`. From September 15, 2008 to March 15, 2009 there was a transition period where both paper and electronic filings were permitted. From March 16, 2009 onward, everything was electronic. We only use electronic data, so coverage before March 2009 is partial, though some issuers do file retroactively.

[24]We do not observe 506(c) take-up for a small number of funds that never filed a Form D. As discussed in Section 3, the non-filing rate is only 13% among VC funds, much lower than the 58% non-filing rate among startups (Hanley and Yu, 2023). Hanley and Yu (2023) show that the main reason for not filing a Form D is privacy. Since 506(c) funds are publicly advertising, they should have much less incentive not to file than 506(b) funds. Thus, including any such missing funds would likely only lower the 506(c) take-up rate.

important selection on quality in our dataset. That is, funds which tried to raise but failed will not be in our sample.

In Table A.2, we describe the matching process. We can match 9,005 unique funds to Pitchbook's VC universe, which includes angel funds, venture general, venture early stage, and venture later stage. Nearly all the unmatched filings are in various categories that make them irrelevant to our analysis, such as those matching other PB deal types, duplicate funds, funds that are not based in the U.S., or REITs. After excluding these, there are 4,862 funds that we do not match, most of which likely have not successfully raised funding.[25]

We collect from Pitchbook information on fund characteristics, LPs, and managers. For a subset of the funds, Pitchbook provides returns data in the form of Internal Rate of Return (IRR) and Total Value to Paid-In (TVPI, or multiple). We also collect information about portfolio company characteristics, which we aggregate to the fund level. We identify the top five industries and top ten cities across all portfolio companies in our data.[26] Summary statistics, discussed in more detail below, are presented in Table 1. We also gather fund size from Pitchbook. Figure A.3a shows that 506(b) funds tend to be larger than 506(c) funds across most of the size distribution except the very right tail.[27] The median 506(b) fund size in our sample is almost $30 million, compared to $8.7 million for 506(c) funds (Table 1 Panel B). The median 506(c) fund is much smaller than the median 506(b) fund, but there is a long right tail causing the mean 506(c) fund to be larger.

Form ADV. Pitchbook does not cover all LPs of a fund, in particular smaller or individual LPs. In order to have a complete and direct measure of the number of LPs a fund has, we turn to Form ADV filings (Easton et al., 2024; Gaver et al., 2023). These yearly filings are required for both Registered Investment Advisors (RIAs) that manage more than $110 million in assets and Exempt Investment Advisors (ERAs) that manage more than $25 million in assets. If an RIA or ERA advises a private fund, they are directed to fill out Schedule D for each fund. On this Schedule, they are required to answer Section 7B, Question 13, which concerns the "approximate number of beneficial owners", i.e., the number of LPs for the fund. In addition, the Advisor identifies each private fund with its associated Form D file number, which allows for direct mapping to our Form D data. As these are sourced from yearly updated filings, we take the most recently updated number for each fund. In total, we have Form ADV LP count data for 59% of the Form D filings.

[25]There are also some funds in Pitchbook that are not in our Form D data. Many of these funds either do not use Reg D 506 exemption, are not real VC funds (e.g., CVC, non-profit), or are old funds that filed before electronic Form D data were available. After removing these funds, the unmatched rate is 13%, which is much lower than the 58% non-filing rate of Form D among startups documented in Hanley and Yu (2023). See Table A.3 for details.

[26]The top industries are Software, Commercial Services, Pharma and Biotech, Media, and Healthcare Tech. The top cities are San Francisco, New York City, Boston, Los Angeles, Chicago, Austin, Denver, Seattle, DC, and Atlanta.

[27]We use Pitchbook data to measure fund size. In practice, the raised amounts in Form D filings are almost always lower than those in Pitchbook, because the former reflect the amount raised as of the filing, rather than final fund size. This suggests that using Form D filings to summarize private capital raising (e.g., Bauguess et al. (2018)) may suffer from downward bias.

Network and Demographic Variables. It is challenging to measure relationship networks because they do not leave an obvious data trail. We develop a network measure appropriate for our context, but also use traditional variables that the literature has shown to be correlated with network, and allow us to explore the implications of 506(c) for traditionally underrepresented groups. First, following Fracassi and Tate (2012), we measure managers' networks using their past board co-directorships. For each person, Pitchbook provides board membership data by company and tenure. With this information, we count the number of unique co-directors a fund manager has shared boards with in the past. This includes boards of established companies, startups, VC firms, LPs, and other organizations (e.g. venture capital associations).[28] Because these boards contain a variety of professionals, our measure is broader than the syndication-based network measure in Hochberg et al. (2007). We specifically exclude from the measure board memberships for the GP of the focal fund (i.e. sitting on your own firm's board). We construct this measure as of the point in time that a fund raised capital by limiting to board positions that started prior to the fund closing date. This eliminates the concern that success in the focal fund will enable the managers to develop a larger network in the future. Out of 13,857 manager-fund observations, 73% have at least one board co-director, with an overall mean (median) of 30 (12). Conditional on having at least one co-director, the mean (median) is 43 (27).

Second, we use traditionally underrepresented groups as proxies for network strength. Gompers and Wang (2017) show that women compose fewer than 9% of active VCs between 2010 and 2015, contrasting with their almost even share in the overall labor force and 34% share among investment bankers. Black and Hispanic managers are also highly underrepresented, at 1% and 2% of GPs during the same period, respectively, with each group accounting for more than 10% of the overall labor force. Lerner and Nanda (2020) show that among top VC GPs, 91% are men and 75% attended a top school. These groups are also underrepresented among investors and entrepreneurs.[29] Since homophily is known to be widespread—including in the networking context—we expect underrepresentation among LPs to translate to networking barriers for these groups among managers (McPherson et al., 2001; Currarini et al., 2009; Ewens, 2023; Howell and Nanda, 2024; Garfinkel et al., 2021; Cook et al., 2022; Hebert, 2023; Cullen and Perez-Truglia, 2023).

We use Pitchbook's gender indicator for investors and founders. To identify education, we use data from Pitchbook and LinkedIn. We classify the top 10 U.S. universities that LPs in Pitchbook attended as the most relevant for manager networks, and call them "elite schools."[30] To identify

[28]This measure is similar to a first-order approximation of Google's PageRank algorithm, which Pitchbook has implemented to calculate GP networks in internal research reports. They use inter-GP connections identified through their co-investments in the same deal. However, Pitchbook does not calculate this at the individual fund manager level nor do they publish their GP level calculations. When we go through the computationally intensive process to implement PageRank on our data, we obtain a correlation of 84% with our count-based measure.

[29]See Ibarra (1993), Bennett and Robinson (2023), Han et al. (2021), Lu et al. (2022), and Lagaras et al. (2022).

[30]These are: University of California, Berkeley, University of Chicago, Columbia University, Cornell University, Harvard University, University of Michigan, New York University, University of Pennsylvania, Stanford University, and Yale University.

Hispanic managers, we use surname distributions. To identify Black managers, we use LinkedIn pictures because surname and geography-based algorithms perform poorly in this group (Greenwald et al., 2024).[31] We validate in Table A.4 that these demographic proxies correlate with the board network measure at both the fund and the manager levels. For example, female and Black/Hispanic managers have 50% fewer past board connections than male and White managers, while elite school managers have 49% more board connections than managers from non-elite schools. Fund managers outside hub cities and first-time managers also have fewer board relationships.

4 Validating 506(c) as a Laboratory

Since 506(c) enables public advertising, it is thought to be most useful for managers seeking to raise from a large number of small-time retail investors.[32] Access to the "crowd" is especially important for less well-networked GPs who lack connections with traditional LPs. From the investor side, retail investors who lack connections to traditional VC funds will be more responsive to public advertisement; they also tend to invest smaller amounts. Lawyers for VC funds also told us that institutional and very wealthy LPs are almost always directly solicited and generally do not look for public advertisements. This leaves the accredited retail investor as the most obvious audience for 506(c) fundraising. If 506(c) is a good laboratory to study retail access, we expect that 506(c) managers should more often raise from individual LPs and should benefit from the ability to raise from more people. In this section, we consider these hypotheses.

The Investor Base. Table 2 Panel A shows that 506(c) has a different investor base than 506(b). Consistent with raising from the "crowd", 506(c) funds have on average 28 more investors, a 49% difference (column 1). This difference also appears in the overall distribution of investor count, as shown in Figure A.4. This is accompanied by a lower minimum investment requirement, shown in Figure A.3b, where the average for 506(b) is \$708k compared to \$160k for 506(c). Each LP contributes a smaller amount, with the average investment 46% ($=e^{-0.62}$) smaller (Table 2 Panel A column 2). Consistent with a more retail-oriented base, 506(c) funds have a 14% higher share of non-pension LPs and an 88% higher share of individual LPs relative to the mean (columns 3-4). 506(c) funds are about three times more likely to use an intermediary to fundraise (column 5), consistent with arm's length relationships (Yimfor, 2021). Finally, the managers are less likely to have a connection through shared undergraduate or graduate education with LPs, indicating that they reach outside their network for fundraising (column 6). These patterns are robust to controlling for fund size (Table A.5).

[31] A native-born American clerically coded each picture as Black or not Black. For portfolio company leadership, we only use gender because there are too many individuals to gather data on pictures.

[32] For example, one law firm explains that "Rule 506(c) offerings can allow you to collect small sums from a huge number of investors, which add up to a larger capital raise." (Moschetti, 2023; Turbine, 2023) This point is also based on author conversations with practitioners, including investors and lawyers.

Causal Evidence from Investor Cap Raise The Investment Company Act of 1940 restricts 3(c)(1) funds, which most smaller VCs fall under, to no more than 100 investors.[33] If 506(c) funds require retail investors, this could constrain the use of 506(c). A policy change permits us to test this hypothesis. On May 25, 2018, the SEC raised the cap from 100 investors to 250 investors for VC funds managing less than $10 million, while keeping the cap at 100 for larger VC funds. The goal was to allow small funds without access to institutional or very wealthy LPs to raise from many smaller investors. Consistent with the investor cap constraining 506(c) take-up, 506(c) funds exhibited more bunching below 100 investors before 2018 (Figure A.4a). This bunching diminished and shifted to 250 investors after 2018 (Figure A.4b).

We formally examine the impact of the 2018 investor cap increase on 506(c) take-up using an event study design. Treated funds are below the $10 million cutoff, while funds larger than $10 million are the control group. We compare the use of 506(c) for each group from three years before to three years after the second quarter of 2018, using the following difference-in-differences (DID) model at the fund level:

$$\mathbb{1}(506(c))_{i,t} = \alpha_{s,y} + \beta \times \mathbb{1}(\text{Fund}<\$10\text{m})_{i,t} \times \mathbb{1}(\text{Post Policy})_t + \theta \times \mathbb{1}(\text{Fund}<\$10\text{M})_{i,t} + \epsilon_{i,t}. \quad (1)$$

Here, $\mathbb{1}$(Fund<$10m) indicates funds less than $10 million, $\mathbb{1}$(Post Policy) indicates filing dates after 2018Q2, and $\alpha_{s,y}$ indicates state $\times$ event-year fixed effects, where event year is the number of years relative to 2018Q2.

Table 2 Panel B presents the results. We find that after the 2018 policy, smaller VC funds below the $10 million regulatory cutoff are much more likely to use 506(c) instead of 506(b), relative to funds larger than $10 million. Column 1 shows that 506(c) share for treated funds increased by 7.6 p.p., or 60% of the mean. To test the identification assumption, we estimate a dynamic DID model. The results are plotted in Figure 2. There are parallel trends before the policy shock and significant effects afterwards. In sum, the 100 investor cap was a much more binding constraint for 506(c) funds than 506(b) funds, so relaxing this constraint led to large increases in 506(c) take-up. Furthermore, note that the estimated treatment effect is for funds below $10 million. The investor cap is likely even more constraining for larger funds, because they tend to have more investors.[34]

Column 2 of Table 2 Panel B conducts a placebo test using an artificial cutoff of $20 million within the sample of funds larger than $10 million. We find an insignificant, near-zero effect around the placebo cutoff, suggesting that our result in column 1 is not driven by unobserved differential trends between larger and smaller funds. Rather, the response is specific to the $10 million regulatory threshold. In sum, these results provide causal evidence that 506(c) benefits from the ability to raise from the "crowd".

[33] See Appendix B.2 for the SEC's definition of a VC fund.

[34] In the Pitchbook data, the number of LPs and log fund size have a correlation coefficient of 0.395 with a significance at the sub 1% level.

5 Relationship Networks in General Solicitation

Thus far, we have shown that 506(c) managers tend to depend more on a retail investor base, consistent with arm's length fundraising. In this section, we turn to the manager side: we expect that managers who rely on arm's length fundraising by using 506(c) will tend to have weaker networks and rely less on networks to fundraise; we also expect these managers to rely more on retail investors. To assess this, we examine our data and conduct a survey.

5.1 Descriptive Evidence

Managers of 506(c) funds have weaker networks across all our proxy variables. First, consider the raw data in Table 1. Using our primary measure of board co-directorships, there is a striking difference: 506(c) fund managers' network is only half of the size of 506(b) managers'. To identify a fund as being managed by individuals from a particular group, we use the majority ($\geq$50%) so that large funds do not contaminate the statistics. For example, we define a fund as "Female" if the majority of the managers are female. There is a significant difference in 506(c) take-up for Black and Hispanic managers relative to their majority counterparts, though all the groups that we expect to be less well-networked have higher means in 506(c). Table A.6 compares the investor base across the networked and non-networked groups. Across all network measures, managers with a weaker network have a smaller average LP check size and are more likely to raise from non-pension or individual LPs, suggesting a greater reliance on the "crowd."

Next, we use regressions to control for two sources of bias in the relationship between manager network and 506(c) take-up. First, the share of underrepresented managers has generally grown over time, and 506(c) take-up has also grown over time. Second, 506(c) tends to be used outside of hub states, but underrepresented managers tend to be in hubs. Meanwhile, there has been an increase in geographic diversity of VC funds over time. Finally, the VC industry is generally sensitive to macroeconomic trends and clusters in a small set of cities. Therefore, to study take-up of 506(c) while partially controlling for these factors, we use regressions that condition on state-year fixed effects. Note, however, that these controls do not imply the regression identifies a causal relationship. Instead, we are studying associations while holding certain factors fixed.

The results are in Table 3. In Panel A, outcome variables are continuous values or shares within the fund team. Column 1 shows that 506(c) fund managers have 39% fewer past board connections than 506(b) fund managers, indicating a much weaker network. Further, 506(c) funds have a 5.7 percentage point (p.p.) higher share of female managers and a 5.1 p.p. higher share of minority (i.e. Black or Hispanic) managers, representing 39% and 86% of their respective means (columns 2-3). 506(c) funds also have a lower share of managers from elite schools (8% of mean) and a higher share of first-time managers (27% of mean) (columns 4-5). These results persist using

the majority indicators (Panel B). These results are not driven by angel funds, as they are similar when angel funds are excluded (Table A.7).

Managers with weaker networks to investors depend more on the crowd to access capital. Table A.6 provided descriptive evidence for this. We further establish this causally in columns 3 and 4 of Table 2 Panel B, where we consider the heterogeneity in the response to the 2018 investor cap raise. We divide the managers into those with high (top quartile) versus low (bottom three quartiles) board networks. We find that 506(c) take-up by managers with weaker networks increased by 61% relative to the pre-policy mean (column 3), but did not increase at all for those with stronger networks (column 4). This is consistent with less well-networked managers relying more on retail investors, hence benefiting more from the investor cap raise. We find similar heterogeneity in Table A.8 when dividing 506(c) take-up by whether the team has demographically underrepresented managers or elite schooling. Relative to pre-policy means, 506(c) take-up increased by 91% (84%) among underrepresented (non-elite school) managers, but only by 41% (50%) among White male (elite school) managers. Therefore, the marginal users of 506(c) tend to be low-network managers when the retailization constraint is relaxed.

5.2 GP and Lawyer Surveys

To gather direct evidence about GP networks across the two exemptions, we conducted two surveys. (There is a third survey that we will introduce later in the paper.) The first targets VC fund managers who appear in our sample. After a common first page, the survey branches to ask different questions depending on whether the respondent indicated that their funds have used 506(b), (c), or both. We asked 506(b)-only users to explain why they did not use 506(c) in an open-ended question and then using nine non-mutually exclusive possible reasons. We also asked them how they sourced investors and to provide their opinion about a series of statements concerning 506(c). We asked 506(c) users some of the same questions, but further explored who handled verification.

The second survey targeted lawyers who support VC funds. Many funds rely on lawyers to determine which exemption to use; indeed, some managers told us that they did not know which exemption they used and advised us to ask their counsel. In addition to being experts in securities law, lawyers usually work for many VC firms and thus have a broader understanding of the market. We asked lawyers the same opinion question as the fund managers. We also asked them about when 506(c) is appropriate for a fund and whether 506(c) requires more work (i.e. billable hours) than 506(b).

We sent 4,112 emails to VC fund managers that did not bounce, and obtained responses from 103 unique funds, for a response rate of 2.5%.[35] Similarly, we sent 2,335 emails to lawyers that did not bounce, and obtained 49 responses, for a response rate of 2.1%. As we did not wish to unduly

[35]This survey did not require IRB approval because it was directed at funds and firms.

spam, we sent no reminders. Therefore, these response rates are somewhat lower than existing survey literature where much more effort was made to obtain responses (e.g., Graham and Harvey (2001) at 8.9% for CFOs, and Da Rin and Phalippou (2017) at 13.8% for LPs).[36]

We asked fund managers how they source LPs. Almost 90% of 506(b) managers report sometimes or frequently using their network to raise funds, and over 80% report that investors in their previous funds are a source (Figure 3 Panel A). In contrast, 40% of 506(c) managers report using 506(c) because they frequently or sometimes lacked a network, and 55% have some network but are using 506(c) to find new investors (Figure 3 Panel B). Note that managers may have been unwilling to admit that they lacked a network, despite the anonymity and online setting (Stantcheva, 2023). This could mean the true share is higher, supporting our conclusion that 506(c) is more often used by managers who lack a network. To confirm this, we split the sample by board network strength in Figure A.5. Notably, Panel B shows that over 50% of managers with weaker networks reported using 506(c) because they lacked an extensive network, while *none* of the networked managers reported this to be the case. This heterogeneity also validates our board network measure. In sum, the surveys indicate that networks are crucial to private fundraising, and 506(c) tends to be more useful for managers who seek to expand their network.

5.3 Geographic Implications

Public advertising shifts fundraising from local to national, partly because it no longer relies on relationship networks, which tend to be local (Granovetter, 2018; Small and Adler, 2019; Kuchler and Stroebel, 2021; Gocmen et al., 2024). This suggests that arm's length fundraising allows fund managers to escape the constraints of their local economy. In this section, we explore these geographic implications in more detail.

First, 506(c) funds are more geographically dispersed. Panel A of Table 4 shows that 506(c) funds are 47% more likely to be outside a top-10 city, and 30% more likely to be outside the top-3 hub cities (i.e., SF, NYC, Boston) (columns 1 and 2, note we exclude state fixed effects here). We plot this in the raw data in Figure A.6, which plots for each hub city, the share of 506(b) and (c) funds located in that city. Most hubs—notably the largest, San Francisco—have higher shares within 506(b) than (c), indicated by these cities locating below the 45-degree reference line. These results are robust to excluding the COVID period.[37]

[36] Table A.9 shows respondent counts by fund exemption type. It also compares survey respondents to the overall emailed sample, and shows that fund manager respondents are equally likely to be female, more likely to come from elite universities, and have smaller funds (though the difference is driven by outlier large funds in the full sample). The lawyer respondents come from largely the same set of top law firms as the overall emailed sample.

[37] Figure A.7 plots the geographic distribution of all the funds in our sample. Larger circles indicate higher volumes while more intense orange indicates higher 506(c) share. While offerings under both exemptions are concentrated in the major hubs, 506(c) is more so. The large 506(c) cluster in Manchester, New Hampshire reflects Alumni Ventures, which uses 506(c) to raise from many small retail investors—alumni of elite schools. Figure A.8 shows the geographic distribution of portfolio companies.

By reducing reliance on local wealthy networks, arm's length fundraising could also reduce the sensitivity of fund formation to local conditions, potentially mitigating regional disparities in venture capital. Specifically, we expect 506(b) fundraising to be more sensitive to local wealth supply, since personal networks tend to be local (Granovetter, 2018; Small and Adler, 2019; Kuchler and Stroebel, 2021; Gocmen et al., 2024). To study this, we construct a proxy for local wealth shocks using county-level stock market participation interacted with lagged stock returns, following Crane et al. (2024). Stock wealth is the key large, liquid, and risky asset for most accredited investors and is more easily deployed for private fund investment than other sources of wealth. To serve as the dependent variable, we also construct the change in the log number of 506(b) or 506(c) funds in a county-quarter relative to the previous quarter (i.e., log growth rate). We report the main results in Panel B of Table 4. It shows that a one standard deviation higher local wealth shock increases 506(b) volume growth by 1.5 p.p., while the impact on 506(c) is small or negative. Furthermore, male and White fund managers drive the 506(b) sensitivity, consistent with them having better local connections with wealthy investors (Table A.10). Appendix C provides more details on this analysis.

6 Returns and Matching: Implications for Retail Investors

Thus far, we have established the importance of networks for arm's length fundraising and shown that 506(c) helps to untether managers from the major tech hubs and from their local networks. We now turn to implications for retail investors. First, we compare financial returns across 506(b) and (c). Second, we explore how 506(c) managers operate differently in sourcing deals and in catering fund strategy to a more retail investor base.

6.1 Manager Quality and Fund Performance

Recall from Section 2 that if network strength is well correlated with investment ability, then retail investor financial returns may suffer from selective exposure to managers with weaker networks. To test this, we examine the subset of VC funds for which we observe financial returns. We first present the distribution of returns in Figure 4a. For both performance measures—IRR and TVPI—the distribution of returns in 506(c) funds is right-shifted relative to 506(b), suggesting 506(c) performs better. Figure 4b describes the interim returns of 506(c) vs (b) funds, holding constant vintage year. We again see outperformance of 506(c) funds over most horizons. We document this using regressions in Table 5. Panel A employs an indicator for top-quartile returns within a vintage year, which accounts for the highly skewed and cyclical nature of VC fund returns. The coefficients are positive and significant. Table A.11 Panel A shows that these results are robust to controlling for fund size, to using continuous return measures, to using year fixed effects only rather than state-year fixed effects, and to restricting to vintage years before 2019.

These data are subject to selection concerns. As an initial matter, note that our main interest is in comparing 506(b) and 506(c) funds, and it is not obvious why they would be differentially selected. Panel B of Table A.11 shows that 506(c) funds are not less likely to report returns than 506(b) funds. Nonetheless, to confirm that selection does not explain the result, we use two alternative broadly observable measures. First, we show that 506(c) funds also outperform using the metric of portfolio company exit outcomes. This is reported in Panel B of Table 5. Second, we document that roughly the same share of 506(b) and (c) managers fail to raise a follow-on fund (see "To None" columns in Table A.12).

In Figure 4c, we plot TVPI against the board network measure, and see no relationship (see Figure A.9a for IRR). We also plot returns against the demographic network index (Figure A.9b). Here, there is a slight upward slope, which we expect since homophily implies that people who attend elite colleges or who are White and male will have better opportunities along many dimensions, as introduced in Section 3.

In sum, there is no evidence that low-quality managers systematically select into 506(c), and while 506(c) managers have weaker networks with investors, that weakness is largely independent of their financial performance. Therefore, relationship networks in fundraising appear to represent an inefficient entry barrier rather than enabling efficient selection on quality.

6.2 Distinctive Deal Sourcing and Catering to LP Preferences

Deal Sourcing. How do 506(c) managers—despite their weaker network—find promising deals in order to achieve strong financial performance? To be successful, 506(c) managers with weak LP networks must find alternative ways to connect with startup founders. We show in Table 6 that they cast a wider net in sourcing deals. 506(c) funds are 11% more likely to fund startups outside the top five industries (column 1). They are also 16% more likely to invest outside of their own city and 7% more likely to invest outside of their own state (columns 2-3).[38] Further, 506(c) funds are 55% more likely to meet their portfolio companies through the latter's use of 506(c), suggesting that 506(c) managers tend to search for deals outside their network (column 4). To test this channel more explicitly, we construct an H-Index representing the overlap between managers' universities and portfolio company founders' universities. We find that 506(c) funds tend to invest in entrepreneurs who are outside of their school network, a 57% effect relative to the mean (column 5). Overall, these results indicate that 506(c) managers source deals more broadly, potentially finding "diamonds in the rough" that conventional managers miss.

One implication of the results thus far is that there are GPs who are constrained in their ability to access LPs via relationship networks, yet have competitive investment opportunities. The

[38]This result suggests that 506(c) funds are not about lifting local entrepreneurship. Table A.13 further shows that neither hub or non-hub 506(c) funds are more likely to invest locally than their 506(b) counterparts.

distinction between deal sourcing and fundraising capabilities is one rationale for 506(c). While it is difficult to distinguish these networks in the data, we attempt to do so by splitting our board network into ties with potential founders versus potential LPs.[39] The correlation between the two networks is 0.85, which is high but leaves some independent variation. Thus, there are managers with weaker LP networks but stronger deal sourcing networks. In Table A.14, we show that a weaker LP network, but not a weaker founder network, predicts using 506(c) (column 1). In contrast, a weaker founder network, but not a weaker LP network, predicts meeting portfolio companies through 506(c) (column 2). Overall, our evidence suggests that 506(c) managers, despite being network-constrained, are not necessarily constrained in deal sourcing.

Catering to LP Preferences. The second hypothesis is that public advertising should reduce search costs, enabling more efficient matching between LPs and GPs. This could allow 506(c) managers to adopt fund strategies that cater to their investors' distinct preferences. Also, arm's length fundraising can help a 506(c) manager find appropriate investors for her fund strategy. This hypothesis is independent of any performance differences. Supporting this hypothesis, Panel A of Table 7 finds that 506(c) funds have a roughly 8% shorter holding period for their portfolio companies (columns 1-2). They construct more diversified fund portfolios, as measured by a 21% lower industry HHI and 18% lower deal size HHI (columns 3-6). These results are consistent with 506(c) catering to retail investors' shorter horizon, higher liquidity needs, and limited diversification within their own portfolios (Li et al., 2026; Goetzmann and Kumar, 2008; Barber and Odean, 2011).

506(c) funds also appear to cater to non-pecuniary objectives. Table 7 Panel B shows that they are more likely to have impact goals and to target companies with female or minority business owners (columns 1-2). These objectives may be related to the fact that 506(c) funds' LPs are more likely to be female or minorities themselves (column 3). Consistent with this, a positive interaction between 506(c) and LP female/minority share suggests that 506(c) funds are more likely than 506(b) funds to cater to female/minority LPs' preferences by targeting impact or female/minority-owned startup (columns 4-5). Finally, 506(c) funds are more likely to cater to investors' home bias by investing in portfolio companies in the same locations as the LPs (column 6).

7 Puzzle of Low 506(c) Take-up and Market Implications

We have shown that 506(c) funds do not underperform relative to traditional funds and appear to enable better matching with investor preferences. This leaves us with a puzzle: Why hasn't there been more take-up of 506(c), and what can we learn from this about broader retail entry?

[39] We define potential founders as those who were, are, or later become, founders. These individuals need not directly receive investment from the focal manager, but can also introduce the manager to the founder community. We define the rest of the co-board individuals as potential LPs, who are either wealthy individuals themselves or can introduce managers to institutional investors.

Recall from Section 1 that take-up is quite low: in our sample, 8.4% of VC funds use 506(c). This is surprising, since one might expect that the *option* to publicly advertise—which includes, for example, the ability to mention fundraising at a conference—ought to be valuable.

One hypothesis is that there are not enough accredited investors for 506(c) to be useful; that is, there is no "crowd" of potential individual LPs. As an initial matter, the accreditation thresholds are not especially high. In 2023, about 19% of U.S. households were eligible (U.S. SEC, 2023). Therefore, there is a large swathe of retail investors who lack access to private markets and might be targets for 506(c) funds. Further, we can test this hypothesis using a 2020 expansion of the definition of accredited investors to include those with professional finance experience, even if they do not meet the wealth thresholds. If the supply of accredited investors is a constraint in general solicitation, we should observe higher take-up of 506(c) after the reform. In an event study design, we show in Appendix D that there was no effect of the 2020 policy on 506(c) take-up. This suggests that low 506(c) take-up is not driven by low supply of accredited investors.

In the remainder of the section, we explore two alternative hypotheses. They are both grounded in the other difference between 506(c) and (b) besides general solicitation: a higher verification burden in 506(c) (Section 7.1). This creates a small cost wedge between the two options, which gives rise to two channels for low take-up: the Track Record Paradox (Section 7.2) and the possibility of negative signaling (Section 7.3). Finally, we consider implications for entry among emerging and underrepresented managers (Section 7.4).

7.1 Survey Evidence about Verification Costs

If 506(c) were identical to 506(b) except for permitting general solicitation, we would expect broad take-up of the free option. However, 506(c) requires the issuer to take "reasonable steps" to verify investor accreditation, instead of investor self-verification in 506(b). As explained in Section 1, compliance is simple and the steps are not onerous. Nonetheless, any new regulatory burden could deter managers who do not have a pressing need to use the new exemption. Some managers may feel awkward asking investors for personal financial information. Making investors go through an extra step may also risk alienating some investors. Finally, when the policy was new, legal uncertainty may have had a chilling effect.

The GP and lawyer survey introduced in Section 5 sheds light on whether, in practice, the verification costs are relevant. First, Figure 5 shows that, when asked about why they do not use 506(c), nearly 80% of fund managers cited the time and money required to verify investors' accreditation status as having major or some influence on their decision. Legal risk was the second-most prevalent. When asked for their opinions about 506(c), the majority of fund managers, especially those who do not use 506(c), agree that investor verification is burdensome and creates risks (Figure A.10a). There is also some agreement about verification rules being unclear. We observe similar

opinions from VC lawyers (Figure A.10b). Further survey evidence about verification is in Figure A.11. Panel A shows that the majority of 506(c) funds perform investor verification in-house or through a fund administrator, rather than outsourcing it to third parties. Panels B and C show that the majority of VC fund lawyers report that 506(c) takes more legal work than 506(b), and that this is due to more complex compliance and greater legal risks of 506(c). In sum, 506(c) is perceived to create some additional legal costs and risks.

7.2 Track Record Paradox

These investor verification costs imply that a manager who has zero or trivial interest in public advertisement would choose 506(b). Managers who do successfully fundraise with 506(c) must select into paying these costs—because they have a weak network with traditional investors—yet must also have the ability to project hard information about their quality at a distance. As we introduced in Section 2, the Track Record Paradox means that there are few fund managers with the ideal profile for 506(c): a weak network but a strong track record. It also implies that the fundraising success of 506(c) should be more sensitive to track record than that of 506(b) funds.

To test whether the Paradox appears in the data, we plot funds in a space defined by network strength and track record, shown in Figure 6. The y-axis is a measure of network strength: the board index in Panel A, and the demographic index in Panel B (specifically, the sum of the fractions of the team that are male, White, and elite school graduates). For the x-axis, we create a track record index that is the sum of the fund team's average number of prior successful portfolio company exits plus the fraction of the team with financial sector experience.[40] The red lines represent the midpoint of each index, creating four quadrants. In each scatterplot, orange dots indicate 506(c) funds and blue dots 506(b) funds. We also note the fraction of 506(c) funds within each quadrant and the weight of the quadrant among all funds.

Consistent with arm's length financing requiring a track record, the distribution of 506(c) users is more weighted towards the right-hand quadrants. 506(c) funds also tend to have lower values of the network proxy, as shown earlier. 506(c) take-up is highest in the bottom-right quadrant. Focusing on Panel A, within the bottom-right quadrant 36% of all funds are 506(c). However, only 7% of all funds are in this quadrant, supporting the idea that 506(c) attracts the small fraction of managers who have weak networks but who possess, typically via their firm, a track record strong enough to overcome information asymmetry in arm's length financing. In contrast, those with a strong network but a weak track record (top-left) raise predominantly via 506(b) based on their

[40] All of our track record variables are observed as of the time the focal fund is raised. We do not use returns as fund success measure as return data are sparse. We define exits as acquisitions or IPOs valued at more than $200 million. We define financial sector as including PE, investment banking, asset management, etc. This information is from LinkedIn based on the individual's career, while the firm-level measures are from Pitchbook. To facilitate comparison, we standardize each component before summing them up and shift the minimum to zero. Each index is winsorized at the 1% level.

relationships, with only 2% of funds using 506(c) in this quadrant. The results are similar in Panel B, where we measure network using a demographic and elite college index. Overall, these figures support the Track Record Paradox as an explanation for low 506(c) take-up.

To test the second prediction, we use regressions to assess whether fundraising success is more sensitive to track record among 506(c) funds. We measure fundraising success as the ultimate fund size (we do not observe funds that failed to launch), conditioning on initially targeted size. Therefore, this is an intensive margin analysis. The results are in Table 8. Column 1 shows that a one standard deviation increase in prior exits is associated with a 4.3% increase in the amount raised in 506(b), but an 8.9% increase in 506(c)—or 2.1 times more.[41] The difference is 2.3 times when we use the number of prior funds as an alternative track record measure (column 2). The next column uses prior financial sector experience as the measure. We find that funds with one standard deviation more finance experience raise 9.1% more relative to their targets in 506(c), while there is no significant relationship in 506(b). These results show that fundraising success is significantly more sensitive to track record for 506(c) funds.

7.3 Negative Signaling

Since 506(c) creates additional legal costs, its use could send a negative signal, either because prospective investors perceive it to be correlated with weak investment ability, or because it indicates a more retail investor base, which may be unappealing to institutional investors. In turn, beliefs about such signaling on the part of managers, even if inaccurate or irrational, could lead to suboptimal pooling on 506(b).

Signaling from the GP and Lawyer Perspective. The fund managers in our survey generally agreed with the proposition that 506(c) sends a negative signal. Figure 5 shows that more than 70% of 506(b) users chose not to use 506(c) in part because it sends a negative signal. The influence of the perceived negative signal is stronger among managers with weaker networks (Figure A.12).[42] These results from the GP and lawyer survey are informative about manager perceptions, which will shape their entry and exemption decisions. However, their perceptions may be inaccurate.

Signaling from the LP Perspective. To directly assess whether or not 506(c) sends a negative signal, we looked to the LPs themselves. We conducted an audit study that asked LPs to rate three funds, "in terms of how interested you would be in learning more and potentially investing, supposing that your fund was making new VC investments." Respondents provided "a rating for

[41] We standardize all three track record variables in this regression by subtracting the mean and dividing by the standard deviation, so that the interpretation is an effect of one standard deviation.

[42] Similarly, the majority of managers and lawyers who do not use 506(c) agreed that 506(c) sends a negative signal (Figure A.10).

each fund on a scale of 1 to 5, where 1 indicates you would definitely not be interested in investing, while 5 indicates you are potentially very interested." The three funds assigned to each LP were randomly drawn from a set of 12 fictitious funds, which are shown in Table A.15. Each fund features randomized fundraising type (i.e., 506(c) vs 506(b)), track record, fund manager name, manager school, and fund location. We surveyed 887 investors, and received 61 responses and 183 fund ratings, for a response rate of 6.9%. Of the respondents, 27% were individual investors and 73% were institutional investors. These and other statistics are reported in Table A.16.

The benefit of the audit study is twofold. First, we capture any negative signaling as it would occur in the market, alongside other basic information about the fund. This largely obviates concerns about motivated response bias. Second, since the fund characteristics were randomly assigned, we can infer causality from the results, following best practice in the survey literature (Bertrand and Mullainathan, 2004; Bernstein et al., 2017; Colonnelli et al., 2024; Iyer and Schoar, 2024).

The results indicate that there may be a small amount of negative signaling, but it is much less important than track record in determining investor beliefs about fund quality. The other randomized fund characteristics did not lead to significant rating differences, as expected. Figure 7 Panel A compares the relative importance of 506(c) and track record in LPs' ratings of funds. Each bar shows the score of funds with a certain characteristic. The average score of 506(b) funds is 2.5, slightly higher than the 2.3 for 506(c) funds. In contrast, the average score rises dramatically with track record, ranging from 1.7 for funds whose managers had no track record to 2.9 for funds whose managers had two prior funds and five past exits. Another way to interpret the results is that funds with a high track record were 41 pp more likely to receive a high score (>2.5 out of 5) than low track record funds, while this difference was 10 pp between 506(b) and 506(c).

Following the approaches in other audit studies (e.g., Colonnelli et al. (2024)), we use regressions with respondent fixed effects to confirm these findings. The results are reported in Table 9. When track record is included as a control, there is no effect of 506(c) on fund score (columns 1, 2, and 5). While the coefficients are negative, they are much smaller than those for track record. When considered in isolation, 506(c) funds have a 14% lower rating relative to the mean (column 3). This is smaller than the effects of a high track record (59%) or a medium track record (37%) (column 5). Individual LPs respond more negatively to 506(c) than institutional LPs do (columns 2 and 4), though the difference is not statistically significant.

Conditional on receiving audit study results, we followed up to ask the investor explicitly about signaling: "Holding all else equal, would learning that a fund uses 506(c) affect your investment decision? If so, why?" A large minority—38%—of respondents said "Yes". To explore the channel among those investors who reported that 506(c) was a negative signal, we examined the response free text. Recall from Section 2 that general solicitation could send a signal about manager quality, LP composition, or both. Regarding manager quality, investors might view 506(c) as a signal about (i) an inability to source deals, (ii) unwillingness of the existing network to invest, or (iii) inability

to raise enough money. We queried three LLMs about whether the responses agree with these channels. The results are reported in Figure 7 Panel B.[43] The graph documents clear disagreement with the proposition that 506(c) signals poor deal sourcing. This is comforting, as it is consistent with the findings above that 506(c) funds do not underperform and tend to source deals and deploy strategies that satisfy the preferences of their investors.

The channel that received the highest rating from all three LLMs is unwillingness of institutional LPs to invest. Institutional LPs reported that they did not want to mix with retail LPs, whom they believe have different approaches to fund governance. Managers with a larger retail base may make decisions unfavorable to the institutional investors, or may face capital call challenges that undermine fund integrity. Quotes highlight this channel. First, Matthew Botein, a Managing Partner at Gallatin Point Capital and former CIO of BlackRock Alternative Investors, noted that "to the extent [506(c)] indicates a less institutional orientation and clientele, I would view that negatively." Similarly, Rick Slocum, the CIO for the Harvard Management Corporation, explained that "If the fund is dominated by retail investors, it is very unlikely that we will invest, as we would worry about fund governance not aligning with our investment objectives." As a third example, Charles Kennedy, the CIO of the Carnegie Mellon University Endowment, explained that "We want to make sure (as best we can) that the other LPs are thinking like we are thinking. We are long-term, overall-return oriented. We get discouraged when other LPs put pressure on GPs for premature liquidity, slowing cap call pace during times of illiquidity, and other poor decisions, many of which are more behavioral-based and not rational." Finally, Jon-Michael Consalvo, CIO of Carnegie Corporation, said "We prefer to invest alongside institutional investors who are better aligned with our investment mandate and who have resources to hold the GP accountable should something negative arise during the fund life."

Note that any signaling from 506(c) reflects information frictions: if investors could perfectly observe manager quality, they would not need to use 506(c) as a proxy. This suggests that managers without hard information to convey should be most concerned about negative signaling. Indeed, we observe in the GP survey results that first-time managers are much more likely to worry about negative signaling from 506(c) (Figure A.12 Panel B). In sum, 506(c) creates a small negative signal, affecting institutional LPs who do not wish to mix with retail investors.

[43] We prompted Claude (claude-haiku-4-5-20251001), Gemini (gemini-pro-2.5), and OpenAI (gpt-5.1) models with "Please rate the following text on the four categories below based on how much the text agrees with the concept. The ratings should be from 1 to 5, with 1 being the lowest and 5 being the highest. The four categories are 1. Signals existing network not willing to invest, 2. Signals inability to source deals, 3. Signals inability to raise enough money to form a fund, and 4. Institutional LPs not willing to co-invest with retail LPs. Please respond only with the category and the rating in JSON format."

7.4 The Challenge for Emerging Managers

Our focus thus far has been on the implications of arm's length fundraising through 506(c) for investors. There are also implications for who gets to be a VC, an important gatekeeper function that helps determine which ideas move forward and are commercialized in the economy. In the previous section of this paper, we documented the importance of track record for arm's length fundraising. New and traditionally underrepresented fund managers on average have weaker track records than their majority counterparts (Table A.6), and so may not be able to take advantage of the potential of 506(c) to overcome their relatively weaker networks. A key policy objective of securities regulations is to enable broad and inclusive capital formation. To what extent has general solicitation achieved this? In this section, we evaluate whether the introduction of general solicitation has moved the needle for new and underrepresented fund managers.

Figure 8 shows how the shares of managers in different demographic categories have changed since the start of our data in 2009. When viewed as a percent change relative to 2009, there has been substantial growth in some categories, with for example the Black/Hispanic share rising 60%, and the female share rising about 100% (Panel A). The non-elite school share also increased by 50% from 2009. In contrast, the non-top 10 city share has declined, while the shares of first-time and non-board networked managers have been stable. While the data do not permit an event study with causal interpretation, it seems possible that the benefits for non-elite school, female, and Black/Hispanic managers began mainly after the implementation of 506(c) in late 2013.

When viewed as levels in Figure 8 Panel B, a somewhat different picture emerges. There is progress for managers with weaker board networks, particularly after 2016.[44] However, there is little evidence of economically meaningful change for the other groups. For example, non-elite school managers have increased from 40% to 60%, yet 96% of recent college graduates are from non-elite schools. Similarly, female managers have increased from 9% in 2009 to 19%, yet the female share among recent college and MBA graduates is 58% and 43%, respectively. The limited progress is perhaps not surprising given the low take-up rate of 506(c).

While the share of 506(c) is low, it might serve as a gateway to subsequent 506(b) funds. To explore this, we examine manager transitions between exemption types across funds. The resulting matrix is in Table A.12, with all funds in the left columns and funds with pre-2021 vintages in the right columns (giving more time to observe transitions). Managers tend to stick with their initial exemption; focusing on funds raised before 2021, about 50% of managers in both 506(b) and (c)

[44] For each group, we propose a supply benchmark following Gompers and Wang (2017), denoted by the horizontal line. For the board measure, we define non-networked as < 2 board connections (median in sample). In the broader Pitchbook population of all professionals, 87% have below two board connections. Hence, we use 87% as the benchmark for the fraction of non-networked. Black/Hispanic and female shares among college graduates are from National Center for Education Statistics (NCES) based on 2019-2021 data. Their shares among MBA graduates are from Graduate Management Admission Council (GMAC). The non-elite school share is from various university alumni pages and total degree holders from the US Census.

transition to the same fund type in the follow-on fund. Among 506(c) managers, 13% transition to 506(b), which is much higher than the 2% of 506(b) managers who transition to 506(c).[45] The remaining 45% of 506(b) and 40% of 506(c) managers do not raise a follow-on fund. There is no meaningful difference for managers with weaker networks (Panels B-C).

In sum, while less well-networked managers are more likely to use 506(c) and 506(c) can serve as a gateway to relationship-based fundraising, low take-up has limited the degree to which the new policy is "moving the needle." This connects to policies that broadly look to foster inclusive access to capital formation. The Track Record Paradox means it is difficult to require both hard information about past performance and also permit new managers to enter. For example, the SBA's Small Business Investment Company (SBIC) licensing explicitly requires investment experience.[46] This might help explain why SBICs outperform comparable peer funds (Brown et al., 2026) and exhibit more diversity and more propensity to invest in relatively underserved areas (Paglia et al., 2016).

8 Conclusion

With around $15 trillion in private capital assets under management, the issue of who can participate as managers and investors and how they meet is economically important—especially in a context where public company fundraising is declining, leading more of the profits from economic growth to accrue to private funds (Ewens and Farre-Mensa, 2020; McKinsey, 2024). Within private markets, fund sizes have increased and the benefits of strong networks with institutional and high-net worth LPs have grown stronger (Carmean et al., 2024). This is especially true in VC, which features acute information asymmetry between GPs and LPs. Finally, retail investors' interaction with private markets must be at arm's length. All of this implies that there is much to learn from the experience so far of 506(c) funds, which have been a central mechanism for private funds to avoid disclosure while reaching a more retail investor base.

In this paper, we study the introduction of 506(c), which sought to address the barriers to entry imposed by the traditional exemption to securities registration that requires managers in private capital markets to fundraise on the basis of relationships. Implemented in 2013, it permitted public advertisement (i.e., general solicitation, or 506(c)). We show that the policy is disproportionately used by less well-networked managers who tend to raise from retail investors. 506(c) funds do not underperform relationship-based 506(b) funds, partly because they source deals more widely. The policy also made fundraising less sensitive to local conditions. Despite these promises, the overall take-up of 506(c), however, has been low.

We make two key contributions that connect to the tradeoff regulators face between capital

[45] The small number of (b)-to-(c) managers are those who wish to scale beyond their network. Indeed, we see a much larger increase in fund size when they switch from 506(b) to 506(c) than continuing with 506(b).

[46] See `https://www.sba.gov/partners/sbics/apply-be-sbic`.

formation and investor protection. First, the outperformance of 506(c) funds relative to 506(b) suggests that the additional verification costs may lead to suboptimal entry; that is, less capital formation than might be accomplished in the absence of these costs. Second, we show that hard information in the form of a strong track record matters at arm's length for successful general solicitation. When it works, public advertising enables better matching between manager strategies and investor preferences. Yet the VC fund ecosystem remains dominated by networked LPs and managers who use their relationships to find a networked counterparty. These findings imply that policymakers might be cautious about broad retail investor access if retail investors are believed to be less sophisticated than past accredited 506(c) investors and fail to value manager track record. At the same time, if we assume track record continues to be important, simply allowing retail investors to participate is unlikely to enable broad entry for traditionally underrepresented managers—such as those who did not attend elite schools—because they need to come up through elite networks to enter the industry and establish a track record. Instead, other policy tools would be necessary.

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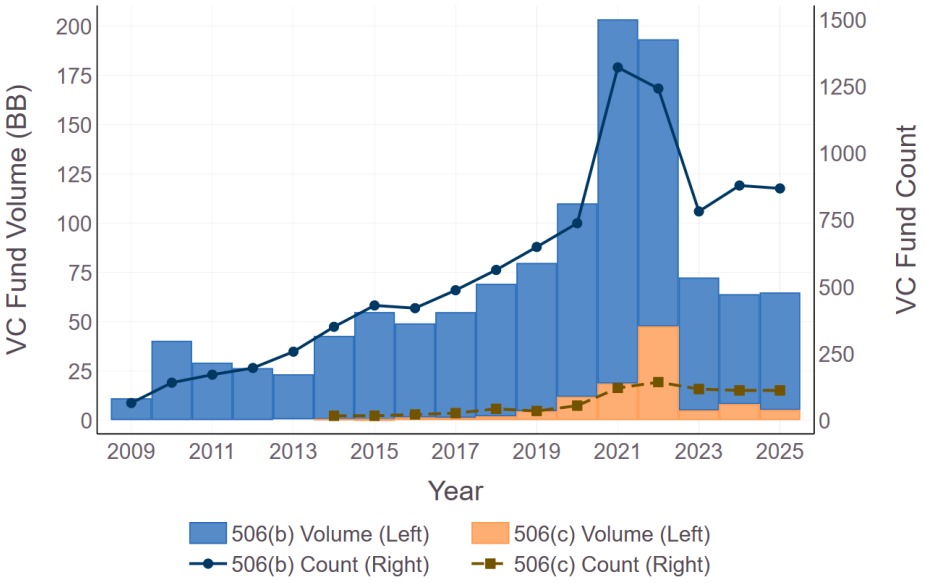
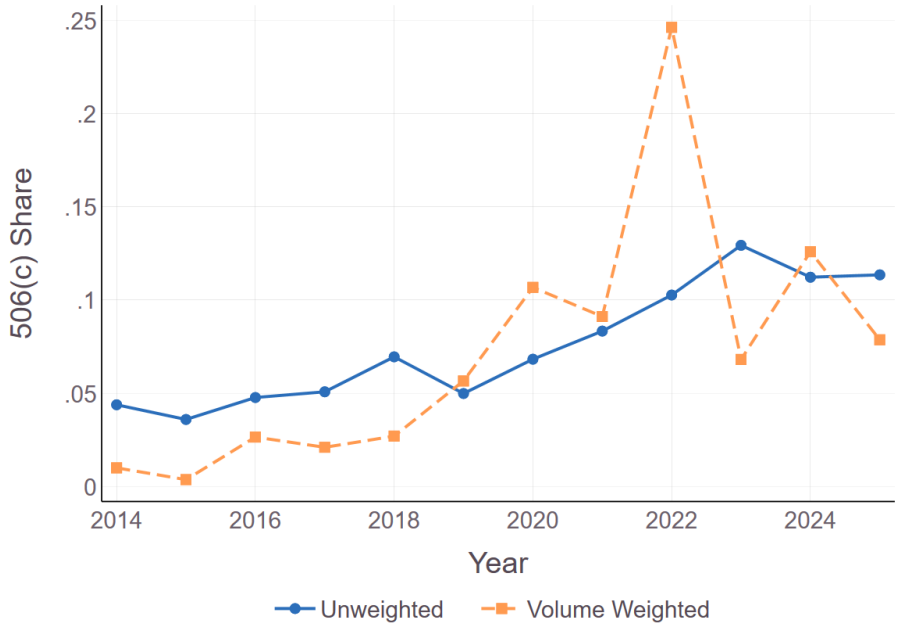
Figure 1: VC Funds by Vintage Year and Exemption

(a) Fund Count and Volume

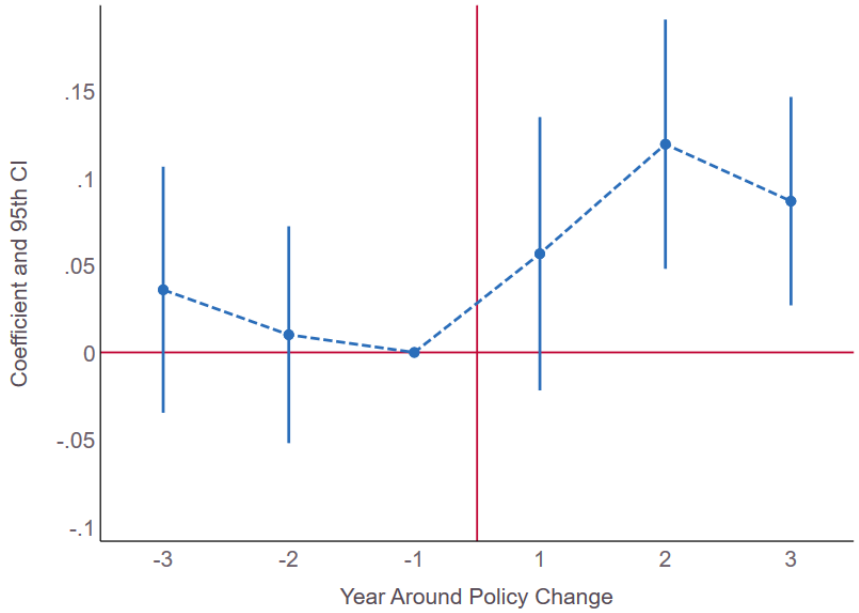


(b) Share of Funds using General Solicitation



Note: This figure describes VC fundraising over the period 2009-2025, separated into the 506(c) exemption (permitting general solicitation) and the conventional 506(b) exemption (which requires managers to fundraise only via pre-existing personal relationships). Panel A shows the number and total volume (in 2017 US$) of VC funds that used 506(b) or 506(c) exemptions. Panel B shows the share of VC funds using 506(c), in terms of the number of funds or dollar volume. The sample includes all VC funds in the Form D data that can be matched to Pitchbook.

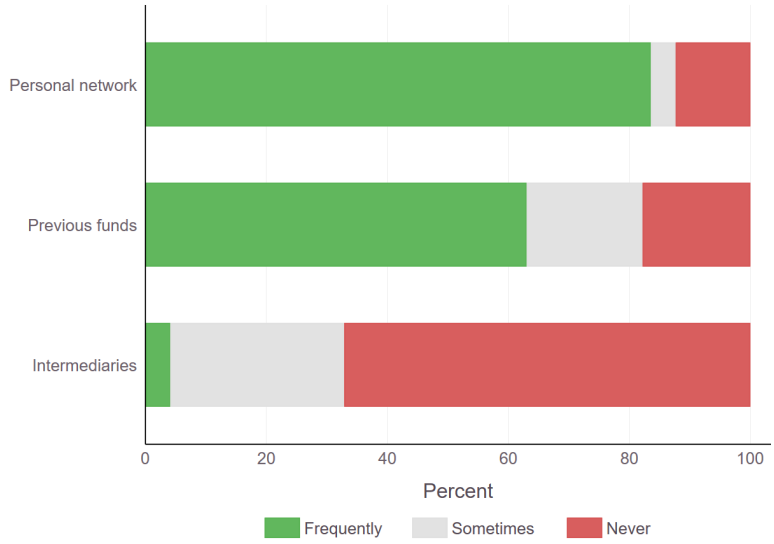
Figure 2: Impact of the 2018 Investor Cap Raise on 506(c) Take-up



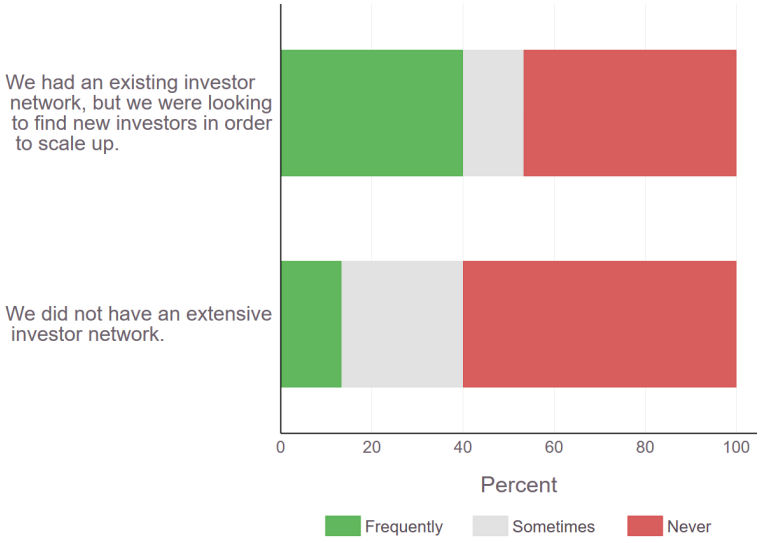
Note: This figure plots the event study graph for Column 1 of Table 2, Panel B. On May 25, 2018, the SEC raised the investor cap for small VC funds below $10m from 100 investors to 250 investors, while keeping the investor cap for VC funds larger than $10m unchanged at 100. The specification follows Equation 1 and is a fund-level difference-in-differences, where we regress 506(c) take-up on the interaction between an indicator for fund size<$10m and indicators for event years, where event year is the number of years from June 2018. We focus on the event window from 3 years before to 3 years after June 2018. Event year -1 is omitted as the base year.

Figure 3: Survey Evidence on Role of Personal Networks in Fundraising

(a) 506(b) Fund Manager Source of Investors



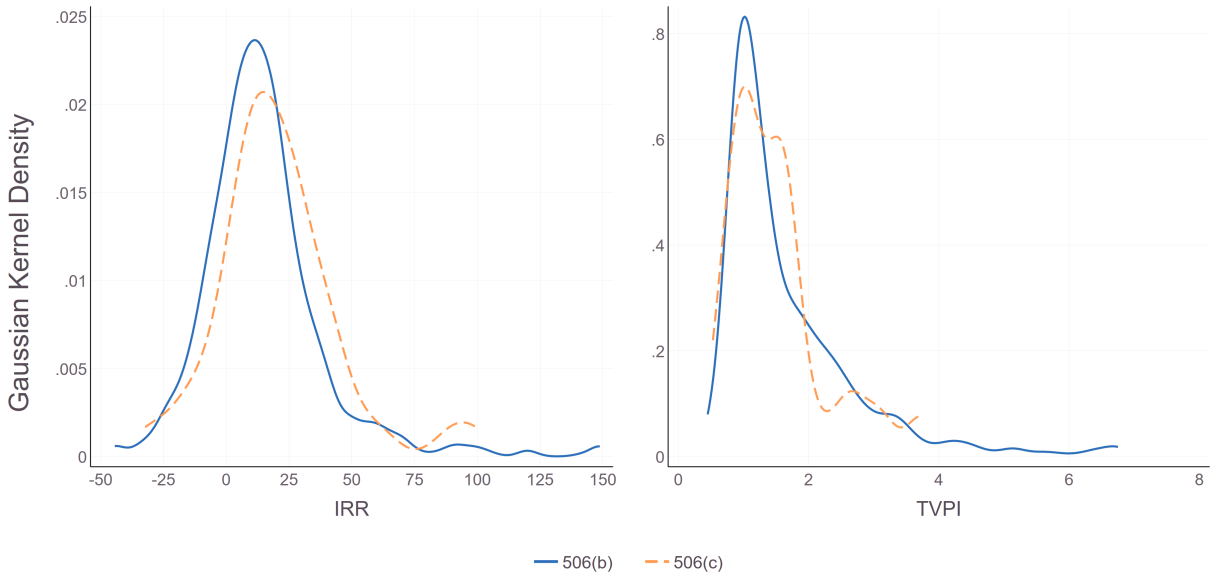
(b) 506(c) Fund Managers on Personal Networks as Reason for Using 506(c)



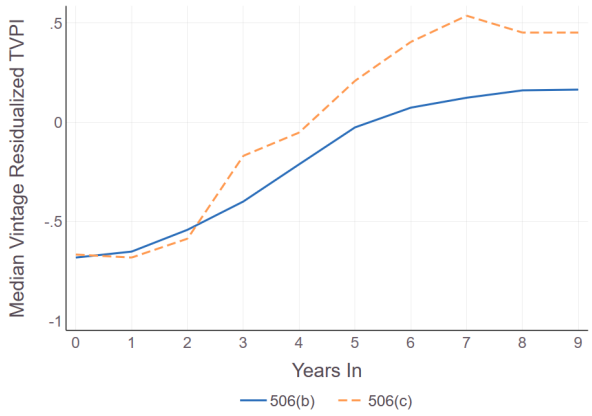
Note: These figures describe survey responses of fund managers. Panel A shows responses among fund managers who have used only 506(b). They were asked how they have sourced investors in general across the funds they have been involved in fundraising, and were given three non-mutually exclusive options. Panel B shows responses to Question 2 within the set of fund managers who have ever used 506(c). They were asked whether or not having an existing investor network influenced their choice to use 506(c). 506(b) $N = 73$, 506(c) $N = 30$.

Figure 4: Distribution of Fund Returns

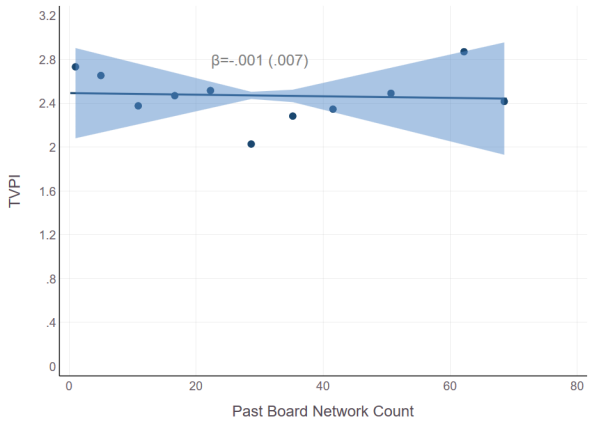
(a) Distributions of IRR and TVPI



(b) Dynamics of TVPI Over Fund Life

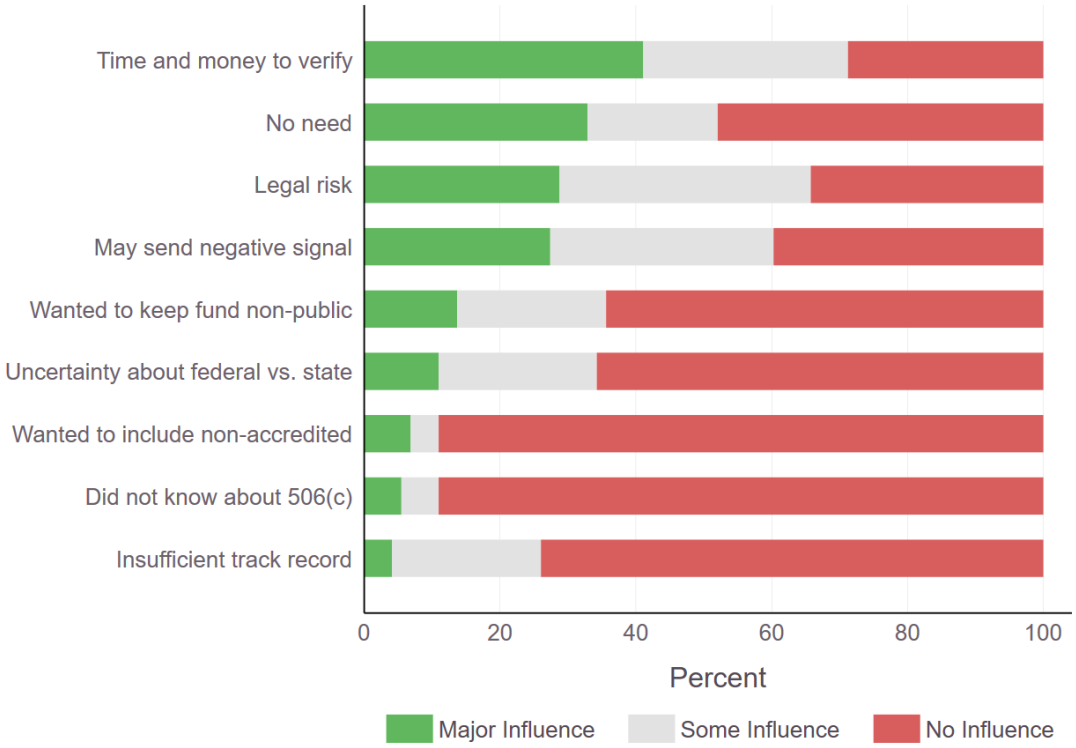


(c) TVPI vs Manager Network (vintage year<2019)



Note: This figure compares the returns of 506(c) and 506(b) funds. Panel A compares the density distributions of realized IRR and TVPI of 506(c) and 506(b) funds. Panel B compares the dynamics of TVPI multiple over fund life, removed of fund vintage year fixed effects. The graph compares 506(c) and 506(b) funds launched in the same year and traces their TVPI forward at each horizon after fund launch. Panel C shows the binned scatter plot of the relationship between funds' TVPI and managers' board network, focusing on funds launched before 2019 to mitigate potential truncation in returns. β indicates the coefficient of the regression line with the standard error in parentheses (clustered by vintage year).

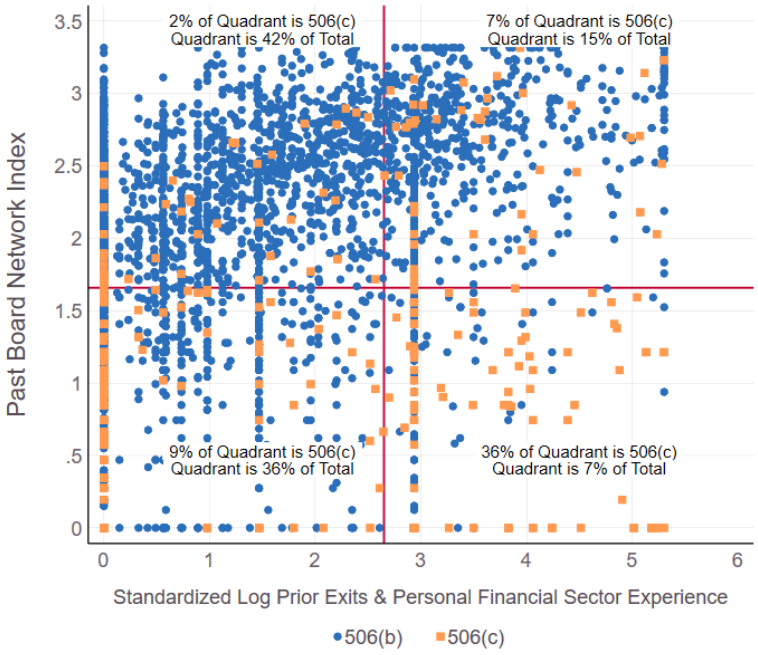
Figure 5: 506(b) Fund Managers' Reasons for Not Using 506(c)



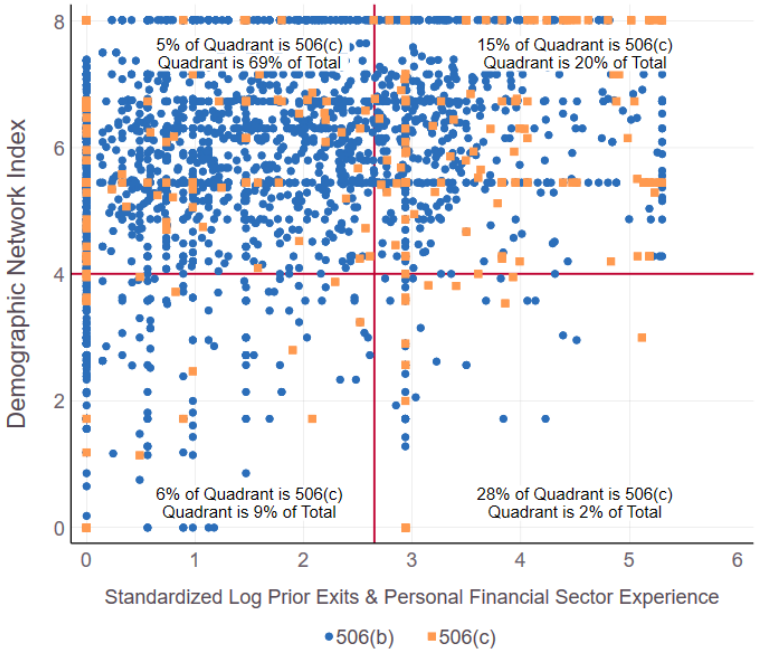
Note: This figure describes survey responses within the set of fund managers who have used only 506(b). Fund managers were asked whether any of the non-mutually exclusive options listed on the y-axes had no influence, some influence, or major influence on their choice to not use 506(c). $N = 73$.

Figure 6: Joint Distribution of Track Record and Network

(a) Board Network



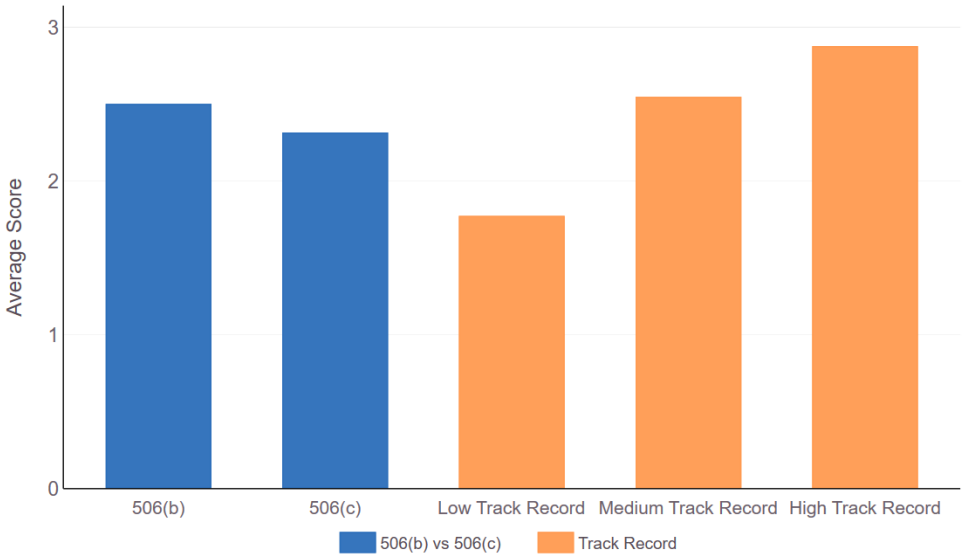
(b) Demographic-Based Network



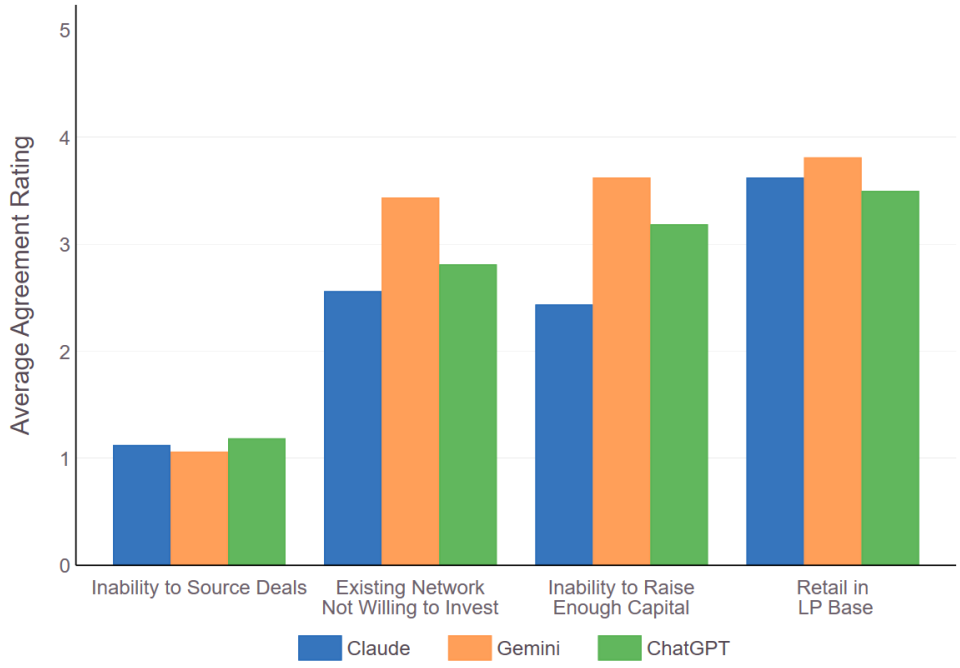
Note: This figure shows the location of funds in the distribution of network (y-axis) and track record (x-axis), with red lines at the midpoints of each distribution. Each fund is represented as a point. Panel A uses a network index based on the number of past co-directors of the fund's team. Panel B uses a network index based on gender, race, and elite school attendance. In both panels, track record is the sum of the standardized log prior successful exits and fraction of fund team members with finance sector experience. We report the fraction of funds in each quadrant that are 506(c), as well as the share of all funds in each quadrant.

Figure 7: LP Audit Study Results

(a) Fund Rating by 506(c) and Track Record



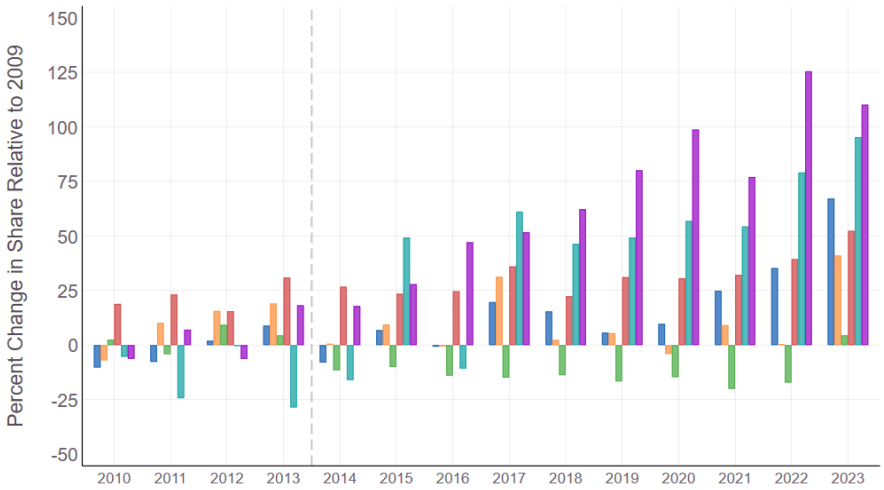
(b) Textual Analysis of Reasons for 506(c) Negative Signaling



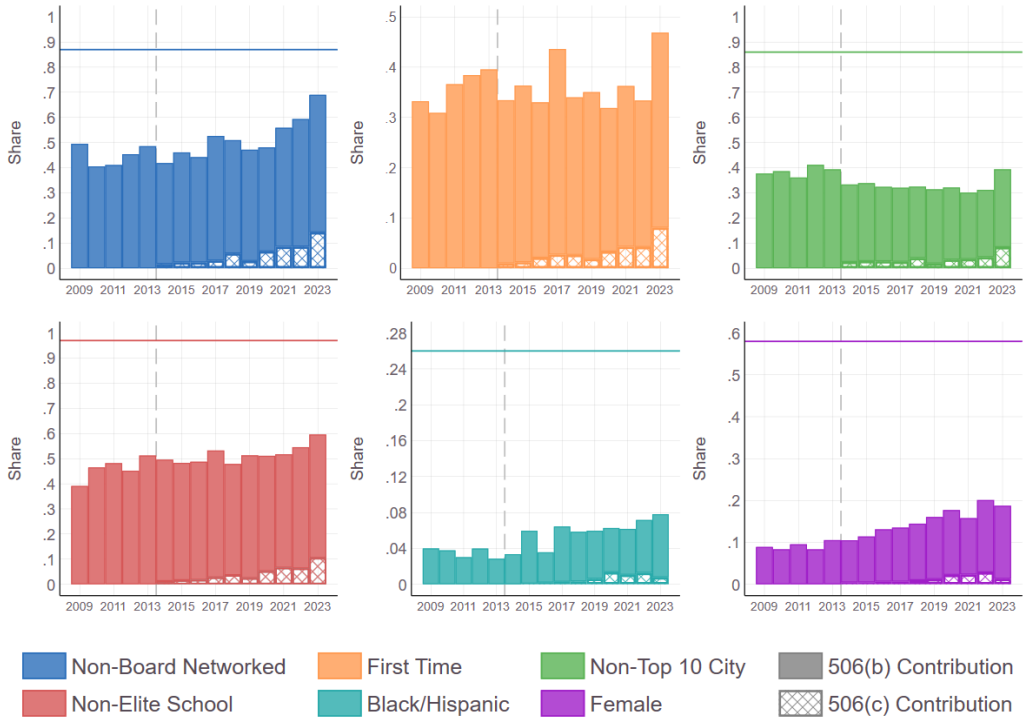
Note: In Panel A, the bars show the average rating of funds by LPs in our audit study, partitioned fund characteristics. The rating ranges from 1 to 5, with 5 being most likely to invest. The two blue bars indicate 506(b) and 506(c) funds respectively, and the three orange bars indicate funds with low, medium, and high track records, respectively. $N = 183$ funds from 61 respondents. In Panel B, the bars show the average agreement rating assigned by LLMs to the reasons LPs perceive 506(c) as a negative signal, based on their free-text responses. Each model was asked to rate its agreement with each of the four reasons on a 1-5 scale, with 1 being low agreement and 5 being high agreement. $N = 16$ respondents.

Figure 8: Fund Manager Characteristics Over Time and Compared to Benchmarks

(a) Changes Relative to 2009



(b) Levels Compared to Population Benchmarks



Note: This figure describes the dynamics of fund manager demographics and key characteristics, with the vertical dashed line representing 506(c) implementation. Panel A shows the percent change in the share of fund managers with each characteristic among all filers in a year relative to 2009. Panel B shows the level of the share for each year and includes horizontal lines representing a relevant benchmark for potential supply. The benchmark for the first graph is 87%, the percentile of the median fund manager's board network in the broader Pitchbook population. The benchmarks for the last four graphs (described in more detail in Section 7.4) are the shares of: non-top 10 city new firms, non-elite graduates relative to total graduates, university graduates for Black/Hispanic, and university graduates for Female.

Table 1: Comparison of 506(b) vs 506(c) Funds

Panel A. Total Counts and Volumes

	506(b)	506(c)	506(c) Share
Count of Filings	7440	685	0.084
Offering Amount (Bill $)	574.335	45.109	0.073
Amount Sold, Initial (Bill $)	257.010	22.783	0.081
Amount Sold, with Amendments (Bill $)	377.264	53.665	0.125
Fund Volume (Pitchbook, Bill $)	832.681	98.290	0.106

Panel B. Fund Characteristics

Fund	**506(b)**	**506(c)**	**506(c) - 506(b)**	**N**
Mean Fund Size (Mill $)	120.484	158.793	38.309	7530
Median Fund Size (Mill $)	29.694	8.654	-21.040***	7530
Fund Outside Top 10 City	0.312	0.469	0.157***	8125
Fund Outside Top 3 City	0.500	0.658	0.158***	8125
Uses Broker	0.004	0.142	0.137***	8125
Impact Fund	0.032	0.067	0.035***	8125
MWBE Fund	0.014	0.029	0.015**	8125
Fund LP				
Number of LPs	56.280	79.968	23.688***	4676
Average Log Check Size	0.283	-1	-1.283***	4418
Non-Pension Share	0.671	0.739	0.068**	2248
Individual Share	0.045	0.079	0.034*	2248
LP Female/Minority Share	0.347	0.385	0.038*	2142
LP-Manager Co-Education	0.091	0.008	-0.083***	1556
LP-Portco Co-Location	7.635	11.260	3.625*	1626
Fund Return				
Mean IRR	14.856	19.482	4.625	1122
Mean TVPI	1.698	1.506	-0.192*	1169
Has M&A Exit	0.139	0.092	-0.046***	5286
Has IPO Exit	0.025	0.017	-0.008	5286
Fund Manager				
Female Share	0.144	0.169	0.024	4155
Black/Hispanic Share	0.056	0.082	0.026*	4156
Black Share (Picture)	0.014	0.030	0.016*	4155
Hispanic Share (Name)	0.043	0.053	0.010	4155
Elite School Share	0.466	0.470	0.004	3987
First Time Share	0.395	0.417	0.021	4156
Mean Number Past Board Co-Directors	26.423	13.010	-13.413***	4156
Above Med. Past Board Co-Directors Share	0.465	0.217	-0.248***	4156
Finance Experience Share	0.176	0.458	0.282***	4155
Mean Number Prior Large Exits	5.961	6.231	0.270	4155
Mean Number Prior Funds	1.848	4.299	2.451***	4156
Portfolio Company				
Non-Top 5 Industry Share	0.355	0.384	0.029**	4889
Same City as Fund Share	0.135	0.087	-0.048***	4890
Same State as Fund Share	0.356	0.248	-0.108***	4890
Company Filed 506(c) Share	0.005	0.007	0.002	4890
GP-Portco Co-Education	0.131	0.122	-0.008	3839
Time in Deal	2.833	2.372	-0.460***	2307
Deal Industry HHI	52.803	59.325	6.522***	4890
Deal Size HHI	42.794	44.243	1.449	562

Note: This table provides summary statistics comparing 506(b) and 506(c) VC funds in our main analysis sample of Reg D filings matched to Pitchbook between 2014 and 2023 (i.e., post 506(c) implementation). Panel A shows total filing counts and measures of total fundraising volume. The first two columns show the total for each exemption type, and the third column shows the 506(c) share. Panel B compares various characteristics across 506(b) and 506(c) funds. It uses robust standard errors to test differences in sample means between 506(b) and 506(c), while median comparisons are conducted using quantile regression. * indicates statistical significance at the 10% level, ** at the 5% level, and *** at the 1% level. All $ are 2017 US Dollars.

Table 2: The Investor Base of 506(b) vs 506(c) Funds

Panel A. Investor Base

Dependent Variable:	Number of LPs (1)	Average Log Check Size (2)	Share of LPs: Non-Pension (3)	Share of LPs: Individual (4)	Uses Broker (5)	LP-Manager Co-Education (6)
$\mathbb{1}$(506(c))	28.102***	-0.619***	0.095**	0.043*	0.060*	-0.102***
	(9.638)	(0.169)	(0.043)	(0.022)	(0.035)	(0.031)
State × Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	4586	4330	2176	2176	8041	1469
R^2	0.049	0.173	0.113	0.062	0.409	0.040
Outcome Mean	58.162	0.204	0.669	0.045	0.016	0.082

Panel B. Impact of Investor Cap Raise

Dependent Variable:	$\mathbb{1}$(506(c)) (1)	$\mathbb{1}$(506(c)) (2)	$\mathbb{1}$(Low Network 506(c)) (3)	$\mathbb{1}$(High Network 506(c)) (4)
$\mathbb{1}$(Fund size<\$10m)	-0.016		-0.013	-0.003***
	(0.013)		(0.012)	(0.001)
$\mathbb{1}$(Fund size<\$10m) × $\mathbb{1}$(PostPolicy)	0.076***		0.076***	-0.000
	(0.023)		(0.022)	(0.001)
$\mathbb{1}$(Fund size<\$20m)		0.049		
		(0.043)		
$\mathbb{1}$(Fund size<\$20m) × $\mathbb{1}$(PostPolicy)		0.016		
		(0.074)		
State × Event Year FE	Yes	Yes	Yes	Yes
N	2597	2115	2597	2597
R^2	0.309	0.186	0.358	0.030
Outcome Mean (Funds <\$10m)	0.127	0.118	0.125	0.002

Note: Panel A compares 506(b) and 506(c) VC funds in terms of investor base. The independent variable is an indicator for using the 506(c) exemption as opposed to 506(b). "Uses Broker" in Column 5 indicates the fund's use of a commissioned broker in Form D. All columns include state × fund year fixed effects. Panel B examines the impact of the 2018 investor cap raise on fund-level 506(c) take-up. On May 25, 2018, the SEC raised the investor cap from 100 investors to 250 investors for VC funds below \$10m, while keeping the cap unchanged at 100 for VC funds larger than \$10m. Column 1 shows the baseline DID results. The specification is a fund-level DID where we regress 506(c) take-up on the interaction between an indicator for fund size<\$10m and a post-2018Q2 dummy. Column 2 shows the DID results around the placebo threshold of \$20m, conditional on funds larger than \$10m. Columns 3 and 4 split the dependent variable by whether the fund has a high network (i.e., top quartile board network). All columns include state-event-year fixed effects, where event year is the number of years from 2018Q2. We use an event window from 3 years before to 3 years after 2018Q2. Standard errors are clustered at the state level and are reported in parentheses. * indicates statistical significance at the 10% level, ** at the 5% level, and *** at the 1% level.

Table 3: Network Strength of Fund Managers

Panel A. Continuous Measures of Fund Teams

Dependent Variable:	Mean Past Co-Directors	Share of Fund Team			
		Female	Black/Hispanic	Elite School	First Time
	(1)	(2)	(3)	(4)	(5)
$\mathbb{1}$(506(c))	-9.865***	0.057*	0.051***	-0.038*	0.108***
	(2.982)	(0.031)	(0.019)	(0.023)	(0.040)
State × Year FE	Yes	Yes	Yes	Yes	Yes
N	4068	4067	4068	3897	4068
R^2	0.105	0.068	0.060	0.122	0.098
Outcome Mean	25.560	0.146	0.059	0.471	0.396

Panel B. Majority Measures of Fund Teams

Dependent Variable:	Majority of Fund Team				
	>Med. Past Co-Directors	Female	Black/Hispanic	Elite School	First Time
	(1)	(2)	(3)	(4)	(5)
$\mathbb{1}$(506(c))	-0.166***	0.051**	0.041***	-0.021	0.107**
	(0.038)	(0.022)	(0.014)	(0.029)	(0.051)
State × Year FE	Yes	Yes	Yes	Yes	Yes
N	4068	4067	4068	3897	4068
R^2	0.100	0.067	0.055	0.102	0.094
Outcome Mean	0.401	0.075	0.028	0.405	0.341

Note: This table compares 506(b) and 506(c) VC fund managers' network strength. Panel A examines continuous measures of the fund team, with the first column using the average and the remainder using the share of managers on a fund team in each category. Panel B examines indicators for a given group representing at least half of the fund team. All columns include state × fund year fixed effects. Standard errors are clustered at the state level and are reported in parentheses. * indicates statistical significance at the 10% level, ** at the 5% level, and *** at the 1% level.

Table 4: The Geography of 506(b) vs 506(c) Funds

Panel A. Fund Location

	Fund Outside	
Dependent Variable:	Top-3 cities	Top-10 cities
	(1)	(2)
$\mathbb{1}$(506(c))	0.154***	0.153***
	(0.016)	(0.021)
Year FE	Yes	Yes
N	8125	8125
R^2	0.009	0.011
Outcome Mean	0.513	0.325

Panel B. Impact of Local Wealth Shocks on Fund Formation

Dependent Variable:	ΔLn(# 506(b) Funds)	ΔLn(# 506(c) Funds)	506(c) Share
	(1)	(2)	(3)
Local Wealth Shock	0.015**	-0.005*	-0.008*
	(0.007)	(0.003)	(0.004)
County FE	Yes	Yes	Yes
Year-Quarter FE	Yes	Yes	Yes
N	7640	7640	1989
R^2	0.016	0.006	0.351
Outcome Mean	0.001	0.001	0.080

Note: This table compares the geographies of 506(b) and 506(c) VC funds. Panel A examines whether the fund is located outside a top hub city. Panel B examines the sensitivity of new funds formation to local wealth shocks, where *Local Wealth Shock = Local Dividend Share* $\times$ *Stock Return*. Following Crane et al. (2024), we use the interaction between local stock market participation and quarterly S&P 500 returns as shocks to local wealth (see Appendix C for details). The sample is at the county-quarter level from 2014 to 2023. The dependent variables are log changes in the number of issuing funds in a county-quarter relative to the previous quarter, except in Column 3 where the outcome is the share of 506(c) funds. Standard errors are clustered at the state level and are reported in parentheses. * indicates statistical significance at the 10% level, ** at the 5% level, and *** at the 1% level.

Table 5: Fund Performance

Panel A. Fund Returns

	Above 75th Percentile			
Dependent Variable:	IRR	IRR	TVPI	TVPI
	(1)	(2)	(3)	(4)
$\mathbb{1}$(506(c))	0.222***	0.238***	0.228***	0.229***
	(0.069)	(0.055)	(0.036)	(0.037)
Log Fund Size		-0.039***		-0.037***
		(0.009)		(0.009)
Fund Sequence Number		-0.002		0.000
		(0.002)		(0.001)
State × Year FE	Yes	Yes	Yes	Yes
N	1045	1032	1090	1070
R^2	0.120	0.148	0.126	0.145
Outcome Mean	0.251	0.248	0.245	0.243

Panel B. Fund Portfolio Company Exits

Dependent Variable:	Has M&A		Has IPO	
	(1)	(2)	(3)	(4)
$\mathbb{1}$(506(c))	0.022**	0.037***	0.006	0.014**
	(0.010)	(0.010)	(0.005)	(0.006)
Log Fund Size		0.021***		0.010***
		(0.001)		(0.001)
Fund Sequence Number		-0.001		-0.000***
		(0.000)		(0.000)
State × Year FE	Yes	Yes	Yes	Yes
N	5203	4937	5203	4937
R^2	0.243	0.258	0.054	0.070
Outcome Mean	0.135	0.140	0.025	0.026

Note: This table compares the performance of 506(b) and 506(c) VC funds. Panel A examines indicators for fund returns (measured by IRR and TVPI) being above the 75th percentile within the vintage year. Panel B examines portfolio company exit outcomes, where the dependent variables are indicators for any successful M&A or IPO among the fund's portfolio. All regressions control for fund size and fund sequence number. Standard errors are clustered at the state level and are reported in parentheses. * indicates statistical significance at the 10% level, ** at the 5% level, and *** at the 1% level.

Table 6: Deal Sourcing

Dependent Variable:	Share not in top 5 Industry (1)	Share in same City (2)	Share in same State (3)	Share filed 506(c) (4)	GP-Portco Co-Education (5)
$\mathbb{1}$(506(c))	0.041***	-0.021**	-0.023*	0.003**	-0.075***
	(0.010)	(0.009)	(0.013)	(0.001)	(0.026)
State × Year FE	Yes	Yes	Yes	Yes	Yes
N	4802	4803	4803	4803	3743
R^2	0.081	0.116	0.256	0.068	0.038
Outcome Mean	0.357	0.132	0.349	0.005	0.132

Note: This table compares how 506(b) and 506(c) VC funds source deals. The dependent variables in Columns 1-4 are shares of portfolio companies of each category. The dependent variable in Column 5 is the overlap between fund managers' and portfolio company founders' school networks, measured by a Herfindahl-Hirschman Index (HHI), $\sum_k p_k^2$, where p_k is the share of manager-founder pairs that graduated from the same university k. A lower value indicates less school overlap. Standard errors are clustered at the state level and are reported in parentheses. * indicates statistical significance at the 10% level, ** at the 5% level, and *** at the 1% level.

Table 7: Catering to LPs' Preferences

Panel A: Catering to Retail LPs' Preferences

Dependent Variable:	Deal Holding Period		Deal Industry HHI		Deal Size HHI	
	(1)	(2)	(3)	(4)	(5)	(6)
$\mathbb{1}$(506(c))	-0.199*	-0.217**	-10.345***	-10.926***	-10.548***	-9.002**
	(0.105)	(0.105)	(2.075)	(2.070)	(3.063)	(3.532)
Log(Fund Size)		-0.027*		-1.005***		-3.788***
		(0.014)		(0.260)		(0.552)
State × Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	2153	2153	4589	4589	452	452
R^2	0.251	0.252	0.148	0.152	0.362	0.404
Outcome Mean	2.802	2.802	-52.715	-52.715	-44.222	-44.222

Panel B: Catering to LPs' Non-Pecuniary Objectives

Dependent Variable:	$\mathbb{1}$(Impact Fund)	$\mathbb{1}$(MWBE Fund)	LP Female/Minority Share	$\mathbb{1}$(Impact Fund)	$\mathbb{1}$(MWBE Fund)	LP-Portco Co-Location
	(1)	(2)	(3)	(4)	(5)	(6)
$\mathbb{1}$(506(c))	0.048***	0.024***	0.039**	-0.020	-0.019	0.035*
	(0.011)	(0.006)	(0.017)	(0.047)	(0.039)	(0.019)
LP Female/Minority Share				0.124***	0.057***	
				(0.028)	(0.015)	
$\mathbb{1}$(506(c)) × LP Female/Minority Share				0.240***	0.152*	
				(0.079)	(0.089)	
State × Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	8041	8041	2070	2070	2070	1536
R^2	0.064	0.063	0.091	0.165	0.170	0.218
Outcome Mean	0.036	0.015	0.351	0.067	0.027	0.077

Note: This table examines how 506(c) VC funds adjust its investment strategies to cater to their LPs' preferences, using 506(b) funds as a benchmark. Panel A examines fund portfolio strategies that may cater to retail LPs' preferences for shorter holding period (columns 1 and 2) and greater diversification across industries and deals (columns 3 through 6). Panel B examines 506(c) funds' catering to LPs' non-pecuniary objectives such as impact or home bias. Columns 1-5 examine funds' impact objectives. *LP Female/Minority Share* is the share of individual LPs or LP senior financial executives (for institutional LPs) that are female, Black, or Hispanic. Column 5 examines catering to LP's home bias, measured by the share of LP-portfolio-company pairs that are in the same city. Standard errors are clustered at the state level and are reported in parentheses. * indicates statistical significance at the 10% level, ** at the 5% level, and *** at the 1% level.

Table 8: The Role of Track Record in 506(c)

Dependent Variable:	Ln(Fund Size)		
	(1)	(2)	(3)
$\mathbb{1}$(506(c))	-0.530***	-0.532***	-0.304**
	(0.071)	(0.071)	(0.138)
Prior Exits	0.043***		
	(0.012)		
Prior Exits × $\mathbb{1}$(506(c))	0.046***		
	(0.011)		
Prior Funds		0.045***	
		(0.012)	
Prior Funds × $\mathbb{1}$(506(c))		0.059**	
		(0.023)	
Finance Experience Share			-0.002
			(0.014)
Finance Experience Share × $\mathbb{1}$(506(c))			0.091*
			(0.048)
Ln(Fund Target Size)	0.979***	0.982***	0.992***
	(0.018)	(0.017)	(0.011)
State × Year FE	Yes	Yes	Yes
N	5713	5713	3183
R^2	0.831	0.831	0.850
Outcome Mean	3.246	3.246	3.781

Note: This table shows how the sensitivity of fundraising success to track record differs by exemption type. The dependent variable is log fund size. We control for log fundraising target size. The coefficient of interest is the interaction between using the 506(c) exemption and fund managers' track record, measured by prior successful portfolio company exits, prior funds, or past finance experience, each standardized to mean zero and variance one. Specifically, the track record measures are the average number of past M&A and IPOs larger than $200M across fund managers (column 1), the average number of prior funds raised across fund managers (column 2), and the share of fund managers with finance experience (column 3). Standard errors are clustered by state and are reported in parentheses. * indicates statistical significance at the 10% level, ** at the 5% level, and *** at the 1% level.

Table 9: LP Audit Study Results

Dependent Variable:	Fund Rating				
	(1)	(2)	(3)	(4)	(5)
$\mathbb{1}$(506(c))	-0.380	-0.351	-0.352**	-0.205	
	(0.483)	(0.485)	(0.175)	(0.205)	
$\mathbb{1}$(506(c))×$\mathbb{1}$(Retail LP)		-0.451		-0.531	
		(0.341)		(0.385)	
$\mathbb{1}$(Medium Track Record)	0.837**	0.894***			0.918***
	(0.320)	(0.313)			(0.217)
$\mathbb{1}$(High Track Record)	1.041***	1.021***			1.439***
	(0.369)	(0.372)			(0.219)
Respondent FE	Yes	Yes	Yes	Yes	Yes
Other Controls	Yes	Yes	No	No	No
N	183	183	183	183	183
R^2	0.638	0.644	0.484	0.492	0.611
Dependent Variable Mean	2.413	2.413	2.413	2.413	2.413

Note: This table shows the results of the randomized survey experiment on LPs. In the experiment, we randomly highlight whether a prospective fund uses 506(c) or 506(b); we also randomly vary the manager's track record, name, school, and fund location. The dependent variable is the score rating given by the respondent to each fund, ranging from 1 to 5. All columns include respondent fixed effects. "Other Controls" include indicators for fund manager name, fund manager's alma mater, and fund city. Robust standard errors are reported in brackets. * indicates statistical significance at the 10% level, ** at the 5% level, and *** at the 1% level.

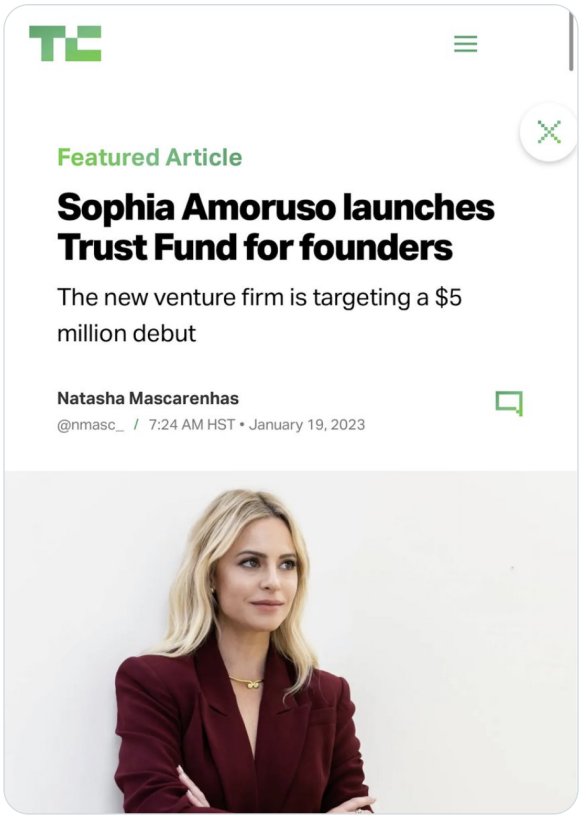
Online Appendix

Appendix A: Figures and Tables

Figure A.1: Examples of General Solicitation by a 506(c) Fund

(a) Advertising on Social Media, Part 1

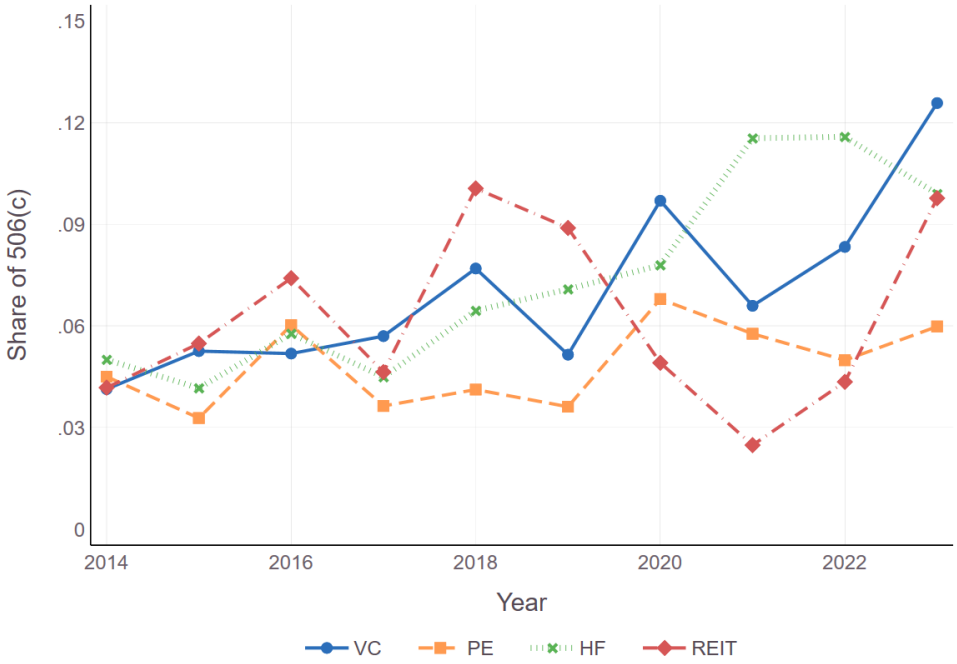
(b) Advertising on Social Media, Part 2



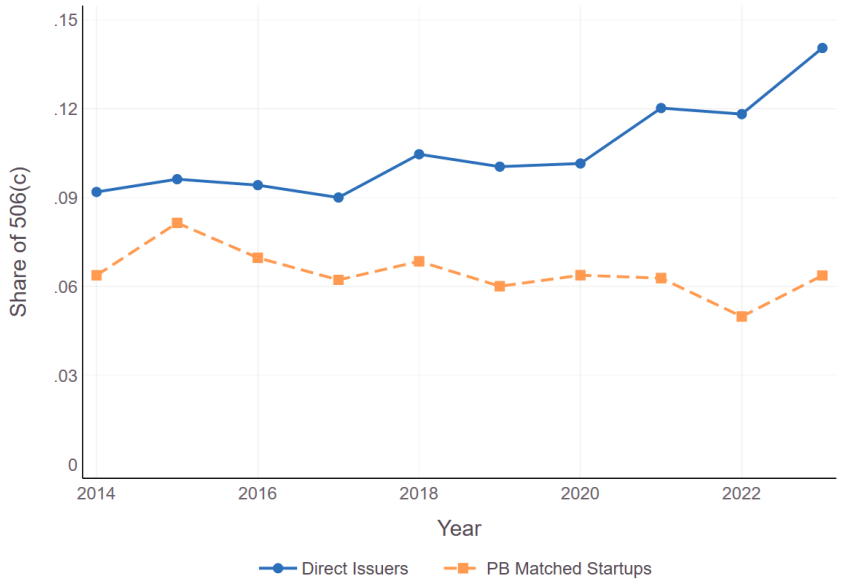
Note: This figure gives an example of public advertising by a 506(c) VC fund—"Trust Fund". Panel A is a screenshot of the fund manager Sophia Amoruso publicly promoting her 506(c) fund on Twitter (`https://x.com/sophiaamoruso/status/1616151140340752384`). Panel B is the screenshot attached to the Twitter post showing press coverage from TechCrunch about the fundraise (`https://techcrunch.com/2023/01/19/sophia-amoruso-enters-venture-with-her-trust-fund-nasty-gal-girlboss/`).

Figure A.2: Shares of 506(c) Among Other Investment Funds and Non-Investment Companies

(a) Panel B. Investment Funds



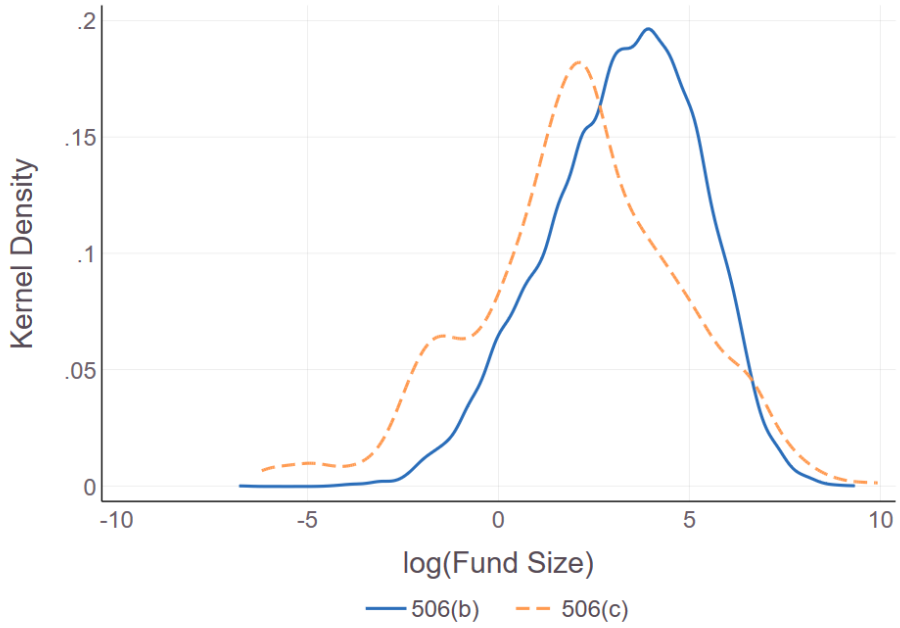
(b) Panel A. Non-Investment Companies



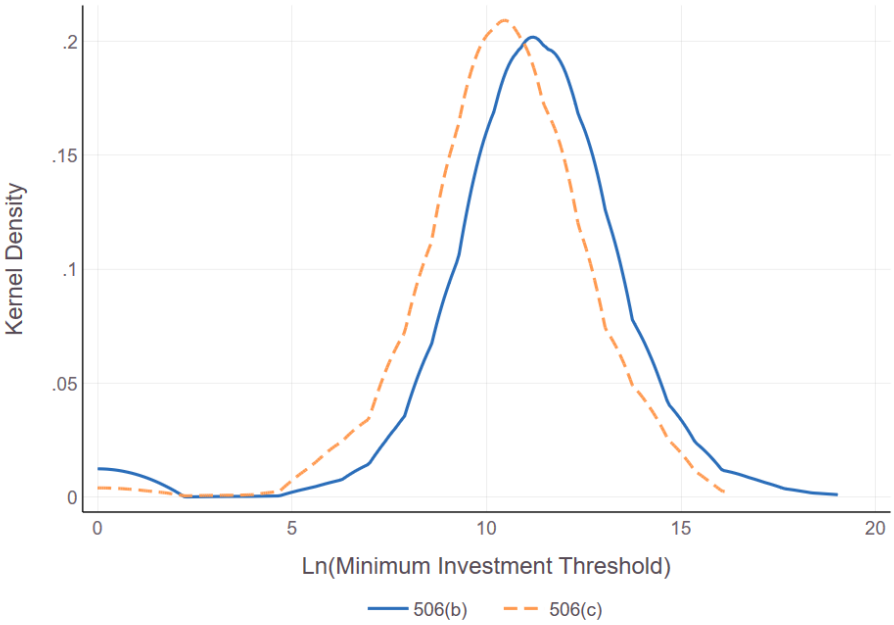
Note: These figures show the relative take-up of 506(c) among other entity types. Panel A shows the share of 506(c) among VC funds, PE funds, hedge funds, and REITs. Panel B shows the share of 506(c) among sub-categories of non-investment funds. REIT is combined from "REITS and Finance" and "Other Real Estate" in Form D. "Direct Issuers" are other Form D filings that are not listed as any type of investment company. "PB Matched Startups" are filings that are matched by CIK or company name to PitchBook companies.

Figure A.3: Fund Size and Minimum Investment Threshold for 506(b) vs 506(c) Funds

(a) Fund Size Distribution



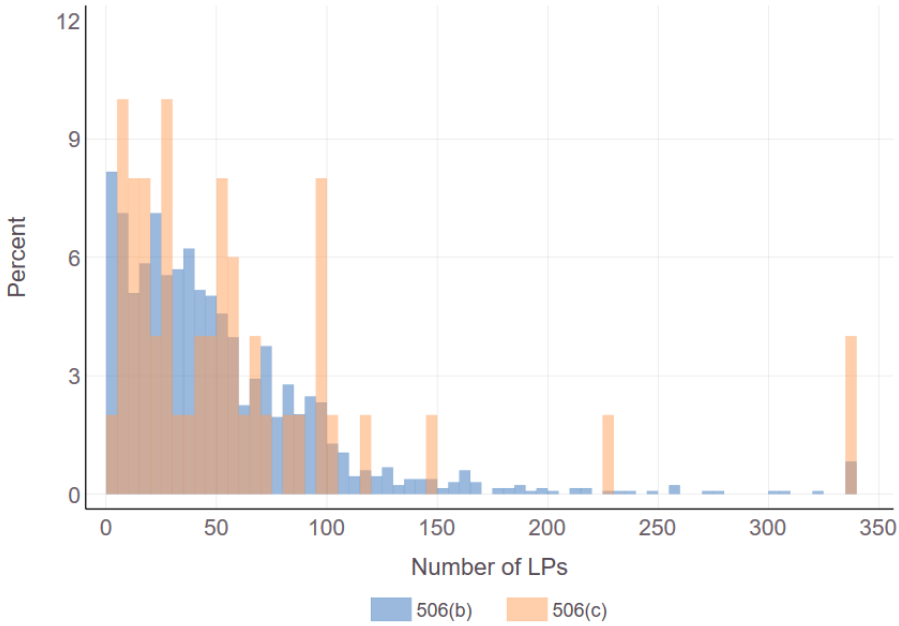
(b) Minimum Investment Threshold



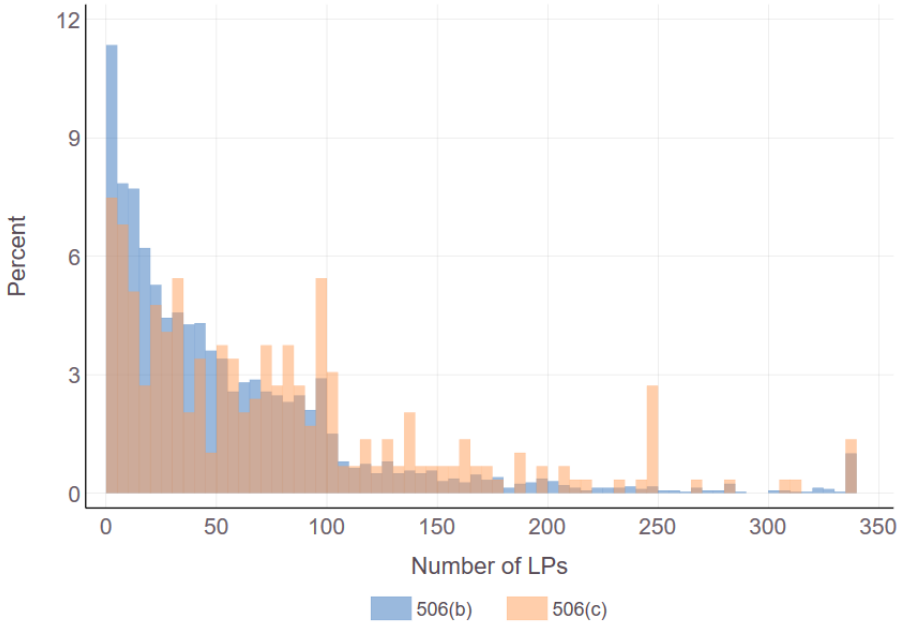
Note: Panel A compares the kernel density distribution of fund size for 506(b) and 506(c) funds. Panel B compares the kernel density distribution of minimum investment threshold reported in Form D for 506(b) and 506(c) funds.

Figure A.4: Number of LPs Based on Owners Listed on Form ADV

(a) Before 2018 Policy Change



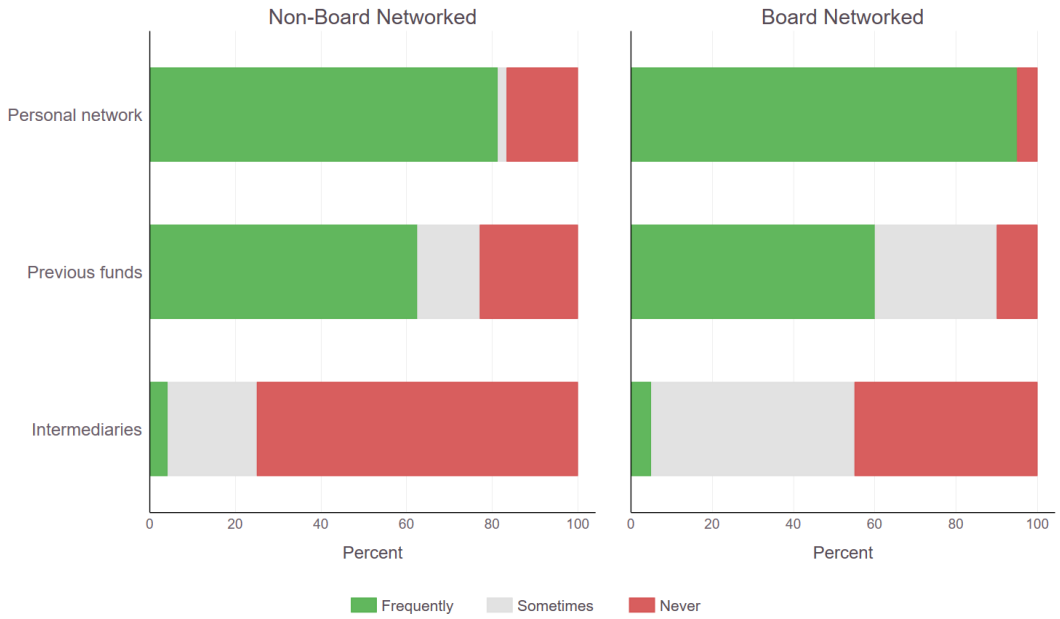
(b) After 2018 Policy Change



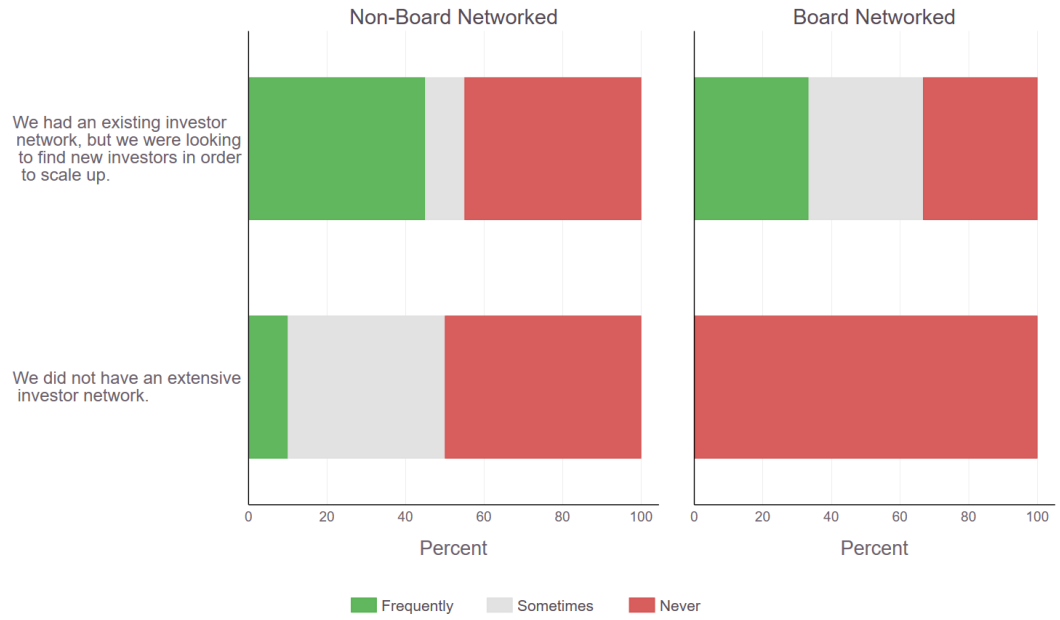
Note: This figure shows the distribution of funds' number of LPs reported on Form ADV. Specifically, this information is in Schedule D, Section 7B1, Question 13 of Form ADV. The investors are as of the most recent filing made by the fund. On May 25, 2018, the SEC raised the cap from 100 investors to 250 investors for VC funds with less than $10 million assets, while keeping the cap unchanged at 100 for VC funds larger than $10 million. In Panel A, the funds are Form D VC funds matched to Pitchbook filed over 2014-2018Q2, and in Panel B, the funds are from 2018Q3-2023. The overall distribution is winsorized at the 99% level for display purpose.

Figure A.5: Survey Evidence on Role of Personal Networks in Fundraising, Split by Board-Network Measure

(a) 506(b) Fund Manager Source of Investors

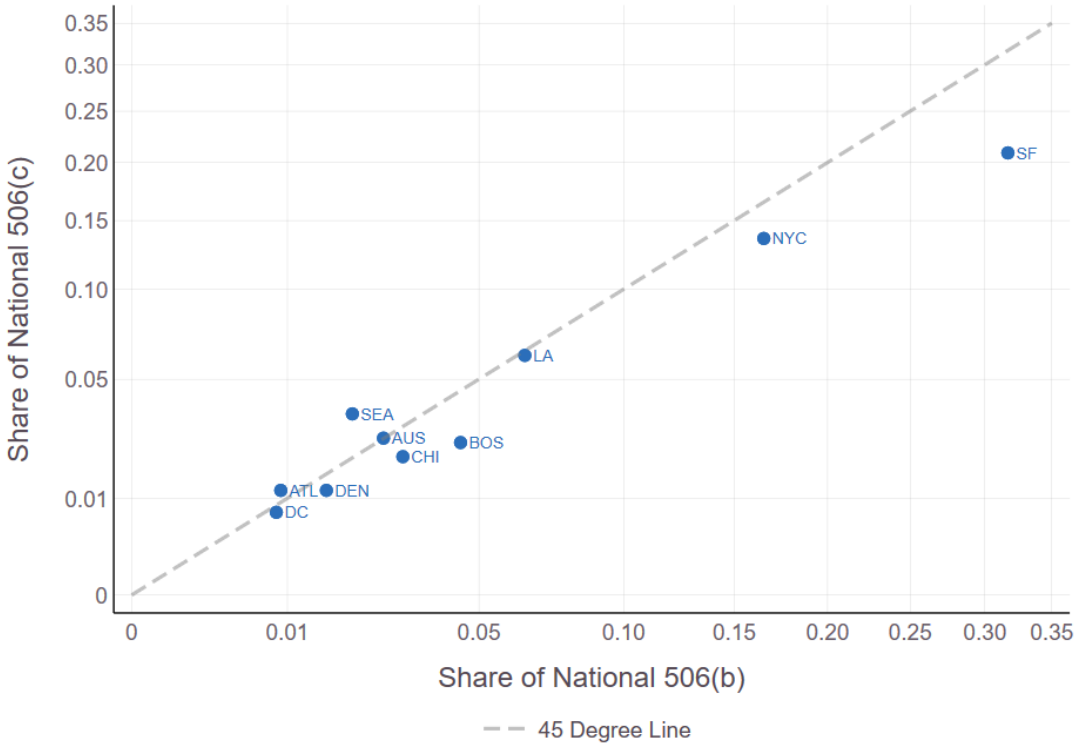


(b) 506(c) Fund Managers on Personal Networks as Reason for Using 506(c)



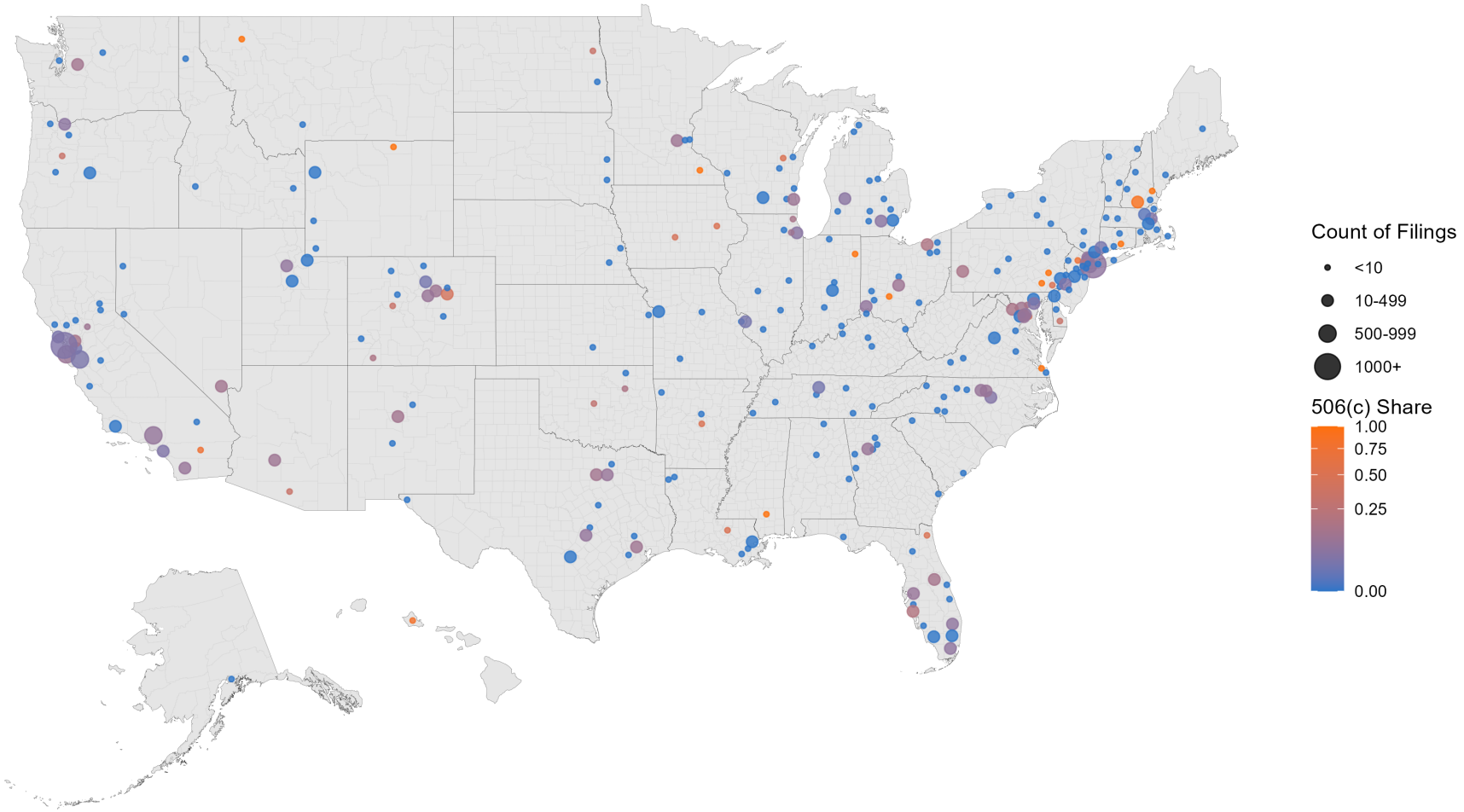
Note: These figures shows the survey responses from fund managers regarding the various reasons for avoiding using 506(c), split by the network strength of their fund. Board-Networked is defined as the top quartile of board network among survey respondents. $N = 68$ in Panel A. $N = 23$ in Panel B.

Figure A.6: Representation of 506(b) and 506(c) Funds in Hub Cities



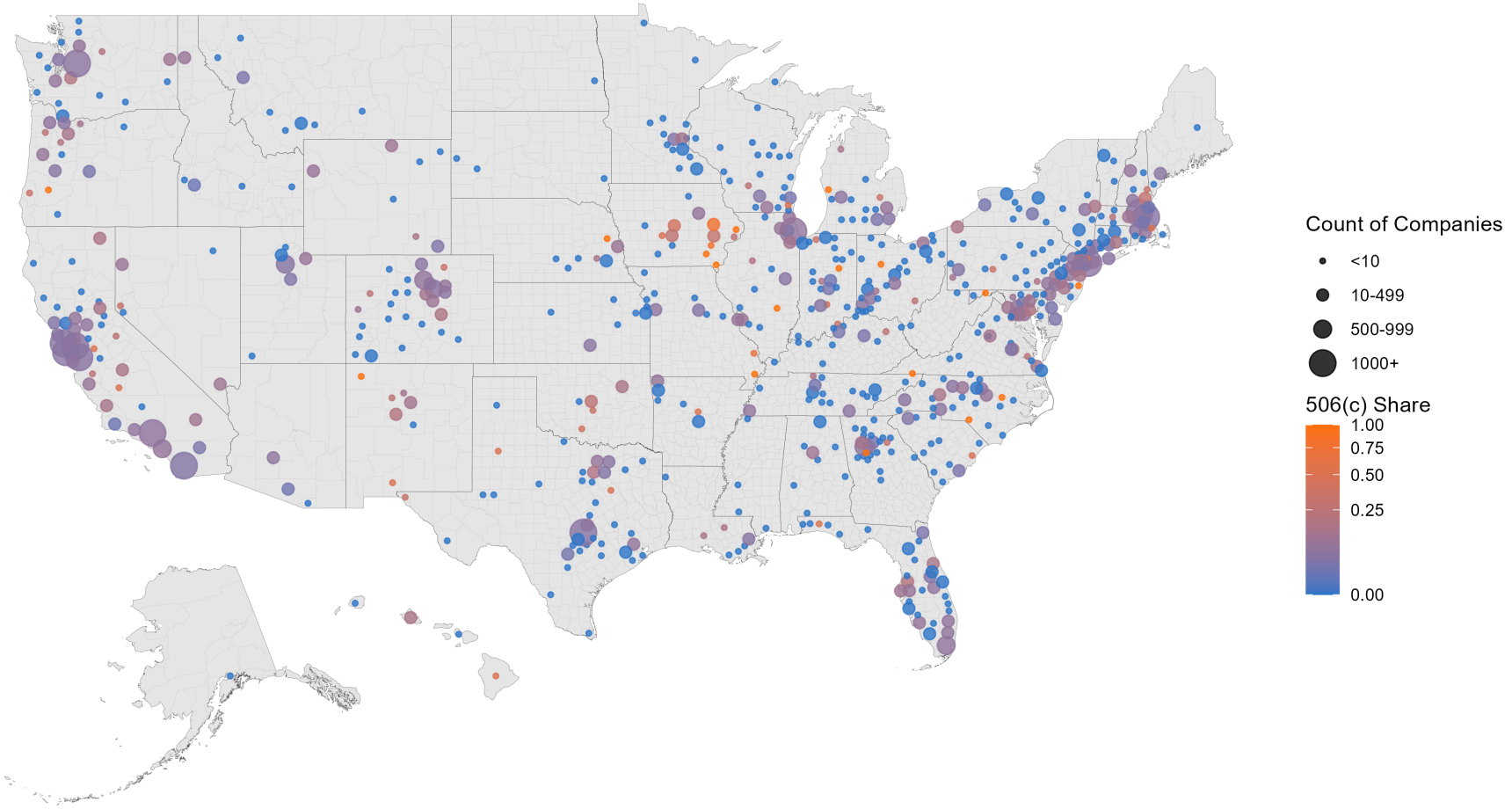
Note: This figure shows that 506(c) funds are more underrepresented in hub cities relative to 506(b) funds. Specifically, it plots the share of national 506(c) volume (y-axis) in each hub city against the share of national 506(b) volume (x-axis) in that city. It also plots the 45-degree line, which represents even relative shares of 506(b) and 506(c) in cities.

Figure A.7: Geographic Distribution of VC Funds



Note: This figure shows the geographic distribution of VC funds in our analysis sample (2014-2023). We aggregate fund location to the county level. The color represents the 506(c) share and the bubble size indicates the number of filings.

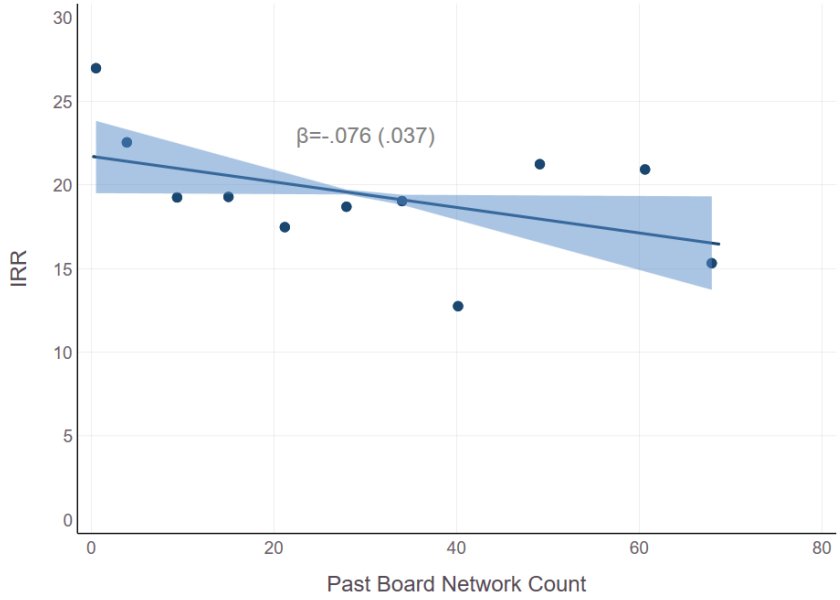
Figure A.8: Geographic Distribution of VC Fund Portfolio Companies



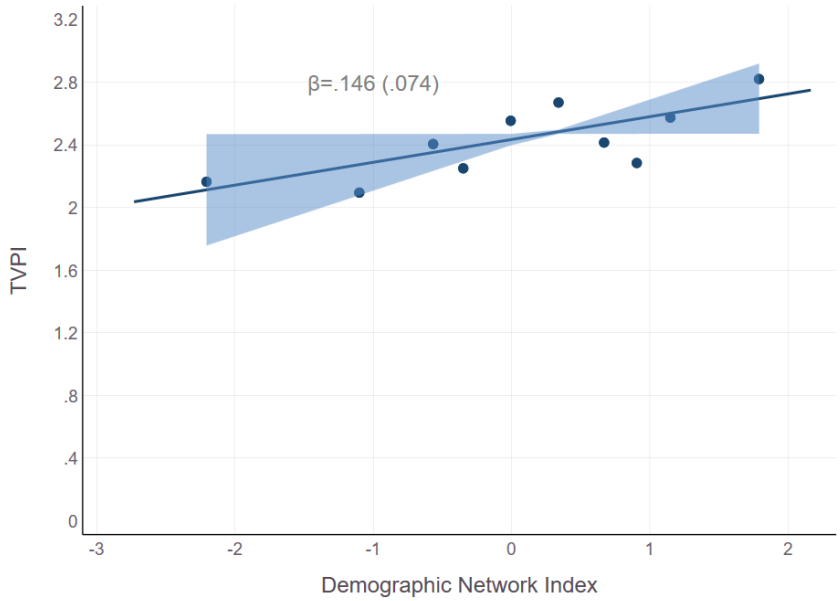
Note: This figure shows the geographic distribution of VC fund portfolio companies in our analysis sample (2014-2023). We aggregate portfolio company location to the county level. The color represents the share of portfolio companies of 506(c) funds and the bubble size indicates the number of portfolio companies.

Figure A.9: Correlations Between Fund Manager Network and Fund Returns

(a) IRR vs Manager Network (vintage year<2019)



(b) TVPI vs Demographic-Based Network (vintage year<2019)

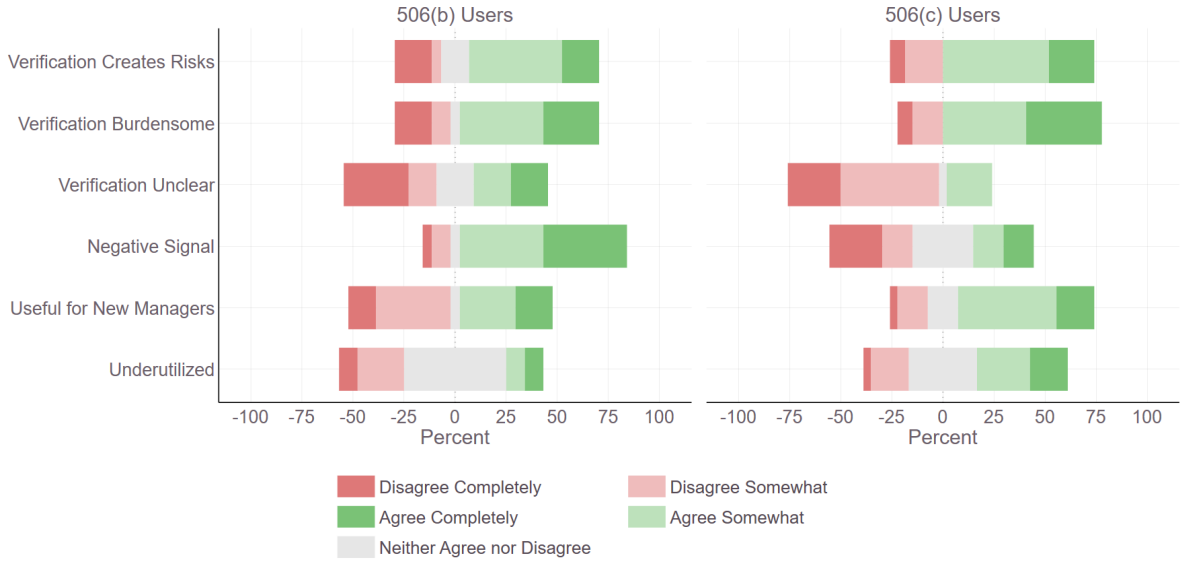


Note: These binned scatter plots shows the correlation between fund returns and manager network, as a robustness to Panel C of Figure 4. Panel A measures return by IRR instead of TVPI, while Panel B measures manager network with demographic-based index rather than board network. Both panels focus on funds launched before 2019 to address potential truncation in returns. The coefficient of the regression line and standard error in parentheses (clustered by vintage year) are displayed.

Figure A.10: Fund Manager and Lawyer Opinions about 506(c)

(a) VC Fund Managers

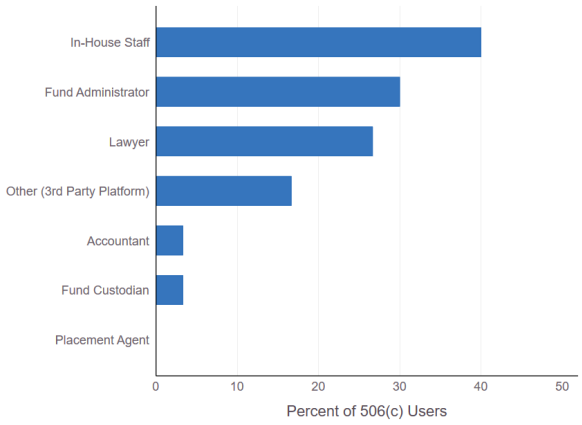
(b) VC Lawyers



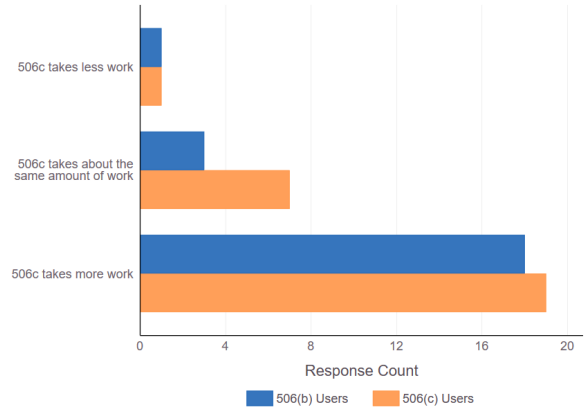
Note: These figures describe survey respondent's opinions about 506(c), with VC fund managers in Panel A and lawyers to VC firms in Panel B. Respondents were asked whether they agreed with a series of statements about 506(c), which are summarized on the y-axis. The statements, in order, are: The 506(c) investor accreditation verification requirements create legal risks for the GP; It is burdensome to verify investor accreditation status for 506(c); The 506(c) investor accreditation verification requirements are unclear; The 506(c) exemption sends a negative signal about quality/ability; In principle, the 506(c) exemption should be useful for new fund managers who do not have a pre-existing network of investors (i.e. LPs); The 506(c) exemption is underutilized. See Section 3 for a description of the survey and responses. In Panel A, 506(b) $N = 73$, 506(c) $N = 30$. In Panel B, 506(b) $N = 22$, 506(c) $N = 27$.

Figure A.11: Investor Verification Burden for 506(c) Funds

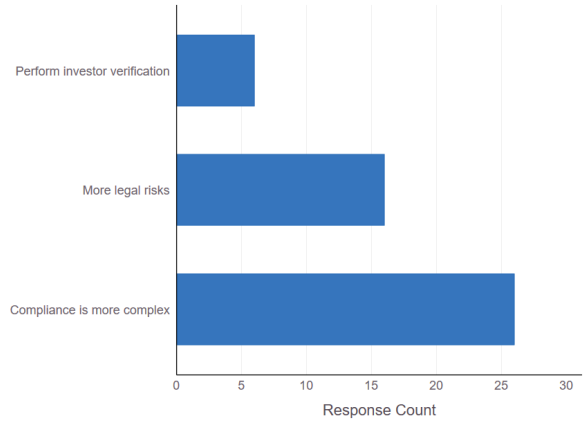
(a) Verification Method for 506(c) (Manager Responses)



(b) Amount of Legal Work Required for 506(c) (Lawyer Responses)



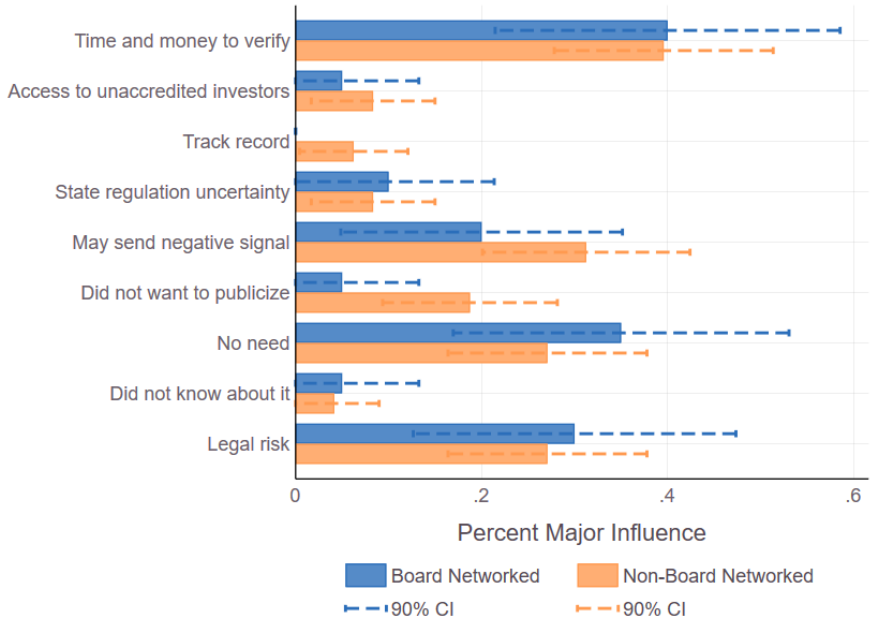
(c) Reason for More Legal Work for 506(c) (Lawyer Responses)



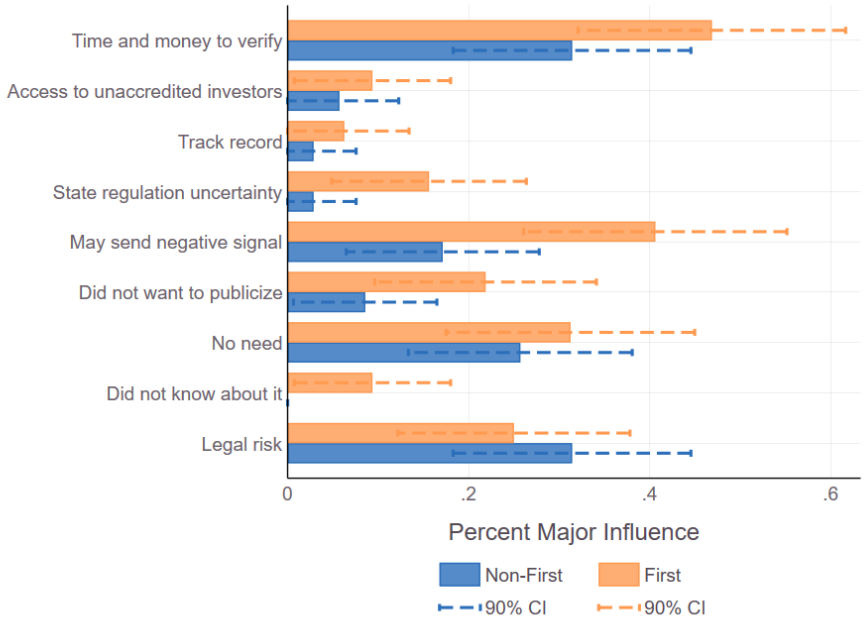
Note: Panel A shows responses among 506(c) fund managers regarding how they verify accreditation status of prospective investors. Respondents were allowed to select multiple options. Panels B and C show lawyers' responses about the amount of legal work (i.e. billable hours) required to verify that investors are accredited. Lawyers were first asked if 506(c) required more work. If they said it did, then they were asked why.

Figure A.12: 506(b) Fund Manager Reasons for not using 506(c) Across Fund Characteristics

(a) Board-Networked vs. Non-Board Networked



(b) First-Time vs Non-First-Time



Note: This figure shows the survey responses on how often fund managers reference various reasons for avoiding using 506(c), split by the characteristics of the fund. Board-Networked is the top quartile of board network among survey respondents. For Panel A, Non-Board Networked $N = 48$, Board Networked $N = 20$. For Panel B, First-time $N = 32$, Non-first-time $N = 35$.

Table A.1: Fundraising Volume of 506(b) and 506(c), All Filings, 2014-2023

	506(b)	506(c)	506(c) Share
Count of Filings	11314	923	0.075
Offering Amount (Bill $)	619.154	38.728	0.059
Amount Sold, Initial (Bill $)	277.600	17.545	0.059
Amount Sold, with Amendments (Bill $)	397.685	49.075	0.110

Note: This table shows total filing counts and measures of total fundraising volume over 2014 to 2023 across 506(b) and 506(c) based on all Form D filings (removed of filings deemed irrelevant as shown in Table A.2). All dollar volumes are in 2017 US Dollars.

Table A.2: Matching Between Form D Filings and Pitchbook

	# of Funds
Reg D 506(b)/(c) VC Funds Matched to PB	9,005
Final Unmatched Reg D 506(b)/(c) VC Funds	4,862
Matching Process Waterfall:	
All Reg D 506(b)/(c) VC Funds	37,869
Unmatched 506(b)/(c) Filings	28,864
- Less Matched to other PB Fund Types	27,057
- Less Matched to duplicates of PB Funds	24,770
- Less Multiple Filings of Same Fund	14,981
- Less Funds with Address Outside US	14,150
- Less Funds with Cayman Islands in Name	14,140
- Less Other International Funds	14,067
- Less Parallel Funds	14,045
- Less Sidecar Funds	14,023
- Less Feeder Funds	13,997
- Less Rollup Funds	5,495
- Less REITs	5,491
- Less Blocker Funds	5,487
- Less Co-Invest Funds	5,295
- Less Microventure Funds	5,282
- Less Belltower Rollup Funds	5,095
- Less Fundersclub Funds	4,862

Note: This table summarizes the numbers in the matching process between Form D filings and PitchBook between 2009 and 2023. The matching process follows three steps. First, we acquire the CIK numbers for funds listed in PitchBook. Second, we match based on CIK to the Form D filings. In the case of multiple filings per CIK, we default to the earliest one ordered by accession number and file number. Third, if there is no CIK match, we try a text-based matching between cleaned versions of the fund name. Again, in the case of multiple matches, we default to the earliest one. Among the matched sample, 94% are matched based on the CIK code. The upper panel shows the final matched sample number and how many funds remain unmatched from Form D following a paring process. This process is shown in the lower panel, in which we show how many filings survive an iterative process of removing filings that are either duplicates of matched filings or filings outside the scope of US VC funds.

Table A.3: PitchBook Funds Unmatched to Form D Filings

	# of Funds
PB US VC Funds Matched to Reg D with Populated Fund Size	8,400
Final Unmatched PB US VC Funds with Populated Fund Size	1,384
All PB US VC Funds with Populated Fund Size	10,704
Unmatched PB US VC Funds with Populated Fund Size	2,304
- Less Matched to 506 Reg D Amendment Only Filings	2,253
- Less Matched to Non-506 Reg D Filings	2,067
- Less Matched to Form C	2,066
- Less Matched to Old Reg D Filings (REGDEX)	2,041
- Less Funds by Corporate Venture Capital	1,653
- Less Funds by Asset Managers and Fund of Funds	1,507
- Less Funds by Governments and Universities	1,470
- Less Funds by Non-Profits	1,414
- Less Funds with 2024 Vintage	1,385
- Less Funds with Pre-1992 Vintage	1,384

Note: This table summarizes the numbers in the matching process between PitchBook and Form D, focusing on PitchBook funds unmatched to Form D. We start with all PitchBook funds located in the US classified as Venture Capital that have non-missing fund sizes. From there, the funds not matched to initial Reg D filings are identified and pared by various additional criteria to explain why a filing might not exist.

Table A.4: Correlation between Network and Underrepresentation Measures

Panel A. Fund Level

Dependent Variable:	Ln(# Previous Co-Directors)				
	(1)	(2)	(3)	(4)	(5)
Female Share	-0.350***				
	(0.058)				
Black/Hispanic Share		-0.910***			
		(0.179)			
Elite School Share			0.530***		
			(0.113)		
First Time Share				-1.556***	
				(0.113)	
𝟙(Non-Hub Fund)					-0.401***
					(0.126)
N	4155	4156	3987	4156	4155
Outcome Mean	2.48	2.48	2.56	2.48	2.48

Panel B. Fund Manager level

Dependent Variable:	Ln(# Previous Co-Directors)				
	(1)	(2)	(3)	(4)	(5)
𝟙(Female)	-0.792***				
	(0.051)				
𝟙(Black/Hispanic)		-0.683***			
		(0.108)			
𝟙(Elite School)			0.410***		
			(0.058)		
𝟙(First Time)				-1.781***	
				(0.101)	
𝟙(Non-Hub Fund)					-0.356***
					(0.119)
N	13857	13857	12730	13857	13857
Outcome Mean	2.33	2.33	2.46	2.33	2.33

Note: This table shows the correlations between fund manager demographics and co-director network measure at the fund level (Panel A) and at the fund manager level (Panel B). The dependent variable is the logarithm average number of previous unique co-board members of the fund's managers in Panel A, and is the logarithm number of previous unique co-board members of the individual fund manager in Panel B. The coefficients are OLS estimates and use data from 2014-2023. Standard errors are reported in parentheses and are clustered by fund state. * indicates statistical significance at the 10% level, ** at the 5% level, and *** at the 1% level.

Table A.5: 506(b) vs 506(c): Fund Characteristics with Fund Size Control

Panel A. Fund Characteristics

Dependent Variable:	Number of LPs (1)	Average Log Check Size (2)	Share of LPs: Non-Pension (3)	Share of LPs: Individual (4)	Uses Broker (5)	LP-Manager Co-Education (6)	Fund Outside: Top-3 cities (7)	Fund Outside: Top 10 cities (8)
$\mathbb{1}$(506(c))	26.755**	0.147	0.083**	0.038*	0.057*	-0.001***	0.088***	0.103***
	(11.511)	(1.110)	(0.034)	(0.022)	(0.034)	(0.000)	(0.025)	(0.021)
Log Fund Size	14.546***	3.279***	-0.075***	-0.020***	-0.000	-0.000***	-0.055***	-0.042***
	(1.951)	(0.451)	(0.010)	(0.003)	(0.001)	(0.000)	(0.004)	(0.004)
Year FE	No	No	No	No	No	No	Yes	Yes
State × Year FE	Yes	Yes	Yes	Yes	Yes	Yes	No	No
N	4353	4330	2119	2119	7445	1443	7530	7530
R^2	0.159	0.086	0.189	0.088	0.412	0.067	0.059	0.045
Outcome Mean	57.960	6.277	0.670	0.045	0.015	0.001	0.517	0.324

Panel B. Manager Characteristics

Dependent Variable:	Mean Past Co-Directors (1)	Share of Fund Team: Female (2)	Share of Fund Team: Black/Hispanic (3)	Share of Fund Team: Elite School (4)	Share of Fund Team: First Time (5)
$\mathbb{1}$(506(c))	-5.994**	0.050*	0.054**	-0.026	0.071*
	(2.722)	(0.028)	(0.021)	(0.026)	(0.040)
Log Fund Size	7.078***	-0.003	-0.009***	0.029***	-0.066***
	(0.411)	(0.003)	(0.002)	(0.004)	(0.004)
Year FE	No	No	No	No	No
State × Year FE	Yes	Yes	Yes	Yes	Yes
N	3913	3912	3913	3752	3913
R^2	0.249	0.069	0.068	0.135	0.170
Outcome Mean	25.742	0.146	0.059	0.470	0.394

Note: This table demonstrates the robustness of Tables 2 to 4 Panels A to controlling for fund size. Fund size is defined in logged 2017 US Dollars. Standard errors are clustered at the state level and are reported in parentheses. * indicates statistical significance at the 10% level, ** at the 5% level, and *** at the 1% level.

Table A.6: Comparing High- vs Low-Network Funds

Board Network	Non-Board Networked	Board Networked	Networked - Non-Networked	N
Number of LPs	62.984	74.473	11.489***	2698
Average Log Check Size	0.040	1.197	1.156***	2611
Non-Pension Share	0.787	0.561	-0.226***	1654
Individual Share	0.070	0.017	-0.053***	1654
Mean IRR	19.852	13.670	-6.182***	817
Mean TVPI	1.930	1.729	-0.201**	829
Mean Number Prior Large Exits	1.750	23.249	21.499***	4156
Finance Experience Share	0.201	0.187	-0.015	4155

Gender	Male	Female	Female - Male	N
Number of LPs	66.663	65.291	-1.372	2698
Average Log Check Size	0.430	0.009	-0.421***	2611
Non-Pension Share	0.688	0.802	0.115***	1654
Individual Share	0.045	0.094	0.050**	1654
Mean IRR	17.115	15.230	-1.885	817
Mean TVPI	1.850	1.597	-0.254	829
Mean Number Prior Large Exits	7.434	3.355	-4.079***	4155
Finance Experience Share	0.199	0.177	-0.022	4155

Race	Non-Minority	Minority	Minority - Non-Minority	N
Number of LPs	66.650	62.396	-4.254	2698
Average Log Check Size	0.414	-0.244	-0.658***	2611
Non-Pension Share	0.691	0.983	0.292***	1654
Individual Share	0.048	0.056	0.008	1654
Mean IRR	17.017	15.770	-1.247	817
Mean TVPI	1.835	1.902	0.068	829
Mean Number Prior Large Exits	7.300	0.876	-6.423***	4156
Finance Experience Share	0.198	0.200	0.002	4155

Education	Non-Elite	Elite	Elite - Non-Elite	N
Number of LPs	67.932	65.445	-2.488	2623
Average Log Check Size	0.259	0.607	0.348***	2541
Non-Pension Share	0.742	0.643	-0.099***	1623
Individual Share	0.050	0.041	-0.009	1623
Mean IRR	17.349	16.071	-1.278	809
Mean TVPI	1.825	1.835	0.009	822
Mean Number Prior Large Exits	4.247	11.890	7.643***	3987
Finance Experience Share	0.197	0.210	0.013	3987

First-time	Non-FT	FT	FT - Non-FT	N
Number of LPs	69.907	57.657	-12.250***	2698
Average Log Check Size	0.541	0.031	-0.510***	2611
Non-Pension Share	0.649	0.854	0.206***	1654
Individual Share	0.035	0.092	0.057***	1654
Mean IRR	14.785	25.785	10.999***	817
Mean TVPI	1.756	2.170	0.414***	829
Mean Number Prior Large Exits	10.674	0.256	-10.418***	4156
Finance Experience Share	0.215	0.163	-0.052***	4155

Note: This table compares fund LPs, returns, and manager track records across funds led by high- vs low-network funds, where network is measured by board network, gender, race, education, and whether managers are first time. Board Networked is an indicator for whether the fund team has a top quartile average past co-directors among all funds. Female is an indicator for whether the fund had a majority of female managers at the time of filing. Black/Hispanic is an indicator for whether the fund had a majority of Black or Hispanic managers involved with the fund at the time of filing. Elite School is an indicator for whether the fund had a majority of elite school educated managers (as defined in the main text) at the time of filing. First time (FT) is an indicator for whether the fund had a majority of first time fund managers (with no prior funds) at the time of filing. The third column uses robust standard errors in conducting a t-test of the sample mean differences between categories. * indicates statistical significance at the 10% level, ** at the 5% level, and *** at the 1% level.

Table A.7: 506(b) vs 506(c): Fund Manager Characteristics, Excluding Angel Funds

Panel A. Share of Fund Team

	Mean	Share of Fund Team			
Dependent Variable:	Past Co-Directors	Female	Black/Hispanic	Elite School	First Time
	(1)	(2)	(3)	(4)	(5)
$\mathbb{1}$(506(c))	-9.891***	0.057*	0.051**	-0.038*	0.108***
	(2.991)	(0.031)	(0.019)	(0.023)	(0.040)
State × Year FE	Yes	Yes	Yes	Yes	Yes
N	4043	4042	4043	3874	4043
R^2	0.105	0.065	0.061	0.121	0.098
Outcome Mean	25.676	0.146	0.060	0.472	0.396

Panel B. Indicator for Majority of Fund Team

	Majority of Fund Team				
Dependent Variable:	>Med. Past Co-Directors	Female	Black/Hispanic	Elite School	First Time
	(1)	(2)	(3)	(4)	(5)
$\mathbb{1}$(506(c))	-0.166***	0.052**	0.041***	-0.022	0.107**
	(0.038)	(0.022)	(0.014)	(0.029)	(0.050)
State × Year FE	Yes	Yes	Yes	Yes	Yes
N	4043	4042	4043	3874	4043
R^2	0.099	0.066	0.056	0.102	0.094
Outcome Mean	0.403	0.075	0.028	0.406	0.340

Note: This table shows the robustness of Table 3 to excluding angel funds. Panel A regresses the share of fund managers in levels against an indicator for if the filing used 506(c). Panel B regresses an indicator for if the given group represents at least half of the fund team against the same indicator. Standard errors are clustered at the state level and are reported in parentheses. * indicates statistical significance at the 10% level, ** at the 5% level, and *** at the 1% level.

Table A.8: Fund Investor Cap and 506(c) Take-up: Evidence from the 2018 Policy Change

Panel A: Baseline DID

Dependent Variable:	506(c)	506(c), Underrepresented		506(c), Elite School	
	All	With	Without	Without	With
	(1)	(2)	(3)	(4)	(5)
𝟙(Fund size<$10m)	-0.016	-0.013	-0.003	-0.009	-0.007
	(0.013)	(0.008)	(0.009)	(0.013)	(0.004)
𝟙(Fund size<$10m) × 𝟙(PostPolicy)	0.076***	0.041**	0.034*	0.058**	0.033
	(0.023)	(0.018)	(0.019)	(0.022)	(0.021)
State × Event Year FE	Yes	Yes	Yes	Yes	Yes
N	2597	2597	2597	2517	2517
R^2	0.309	0.119	0.290	0.172	0.237
Outcome Mean for Size<$10m	0.127	0.045	0.082	0.069	0.066

Panel B: Placebo DID Around $20m Conditional on Fund Size>$10m

Dependent Variable:	506(c)	506(c), Underrepresented		506(c), Elite School	
	All	With	Without	Without	With
	(1)	(2)	(3)	(4)	(5)
𝟙(Fund size<$20m)	0.049	0.025	0.024	0.037	0.011
	(0.043)	(0.016)	(0.028)	(0.039)	(0.008)
𝟙(Fund size<$20m) × 𝟙(PostPolicy)	0.016	-0.001	0.016	0.017	-0.002
	(0.074)	(0.032)	(0.045)	(0.051)	(0.027)
State × Event Year FE	Yes	Yes	Yes	Yes	Yes
N	2115	2115	2115	2067	2067
R^2	0.186	0.130	0.174	0.148	0.170
Outcome Mean for Size<$20m	0.118	0.046	0.071	0.070	0.048

Note: This table examines the impact of the 2018 investor cap raise on fund-level 506(c) take-up. On May 25, 2018, the SEC raised the investor cap from 100 investors to 250 investors for VC funds below $10m, while keeping the cap unchanged at 100 for VC funds larger than $10m. Panel A shows the baseline DID results. The specification is a fund-level DID, where we regress 506(c) take-up on the interaction between an indicator for fund size<$10m and a post-2018Q2 dummy. Column 1 examines overall take-up. Other columns decompose the outcome by manager type: *With Underrepresented* (*With Elite School*) indicates at least one female or Black/Hispanic manager (at least one elite school graduated manager). All columns include state-event-year fixed effects, where event year is the number of years from 2018Q2. We use an event window from 3 years before to 3 years after 2018Q2. Panel B presents the DID results around the placebo threshold $20m, conditional on funds larger than $10m. Standard errors are clustered by state and are reported in brackets. * indicates statistical significance at the 10% level, ** at the 5% level, and *** at the 1% level.

Table A.9: Survey Respondent GPs and Law Firms Compared to Population

Panel A: Respondent Exemption Type Usage

Exemption Types	GPs	Lawyers
Only 506(b)	73	22
Only 506(c)	13	2
Both 506(b) and 506(c)	17	25

Panel B: VC Firms

Variable	Population	Respondents
Fund Size (MM)	122.19	57.95
Pct Female Fund Managers	0.12	0.12
Pct Minority Fund Managers	0.07	0.03
Pct Elite University Fund Managers	0.32	0.47

Panel C: Law Firms

	Population		Respondents	
Rank	Firm	Count	Firm	Count
1	DLA Piper	287	Cooley	9
2	Kirkland & Ellis	281	Latham & Watkins	5
3	Goodwin Procter	250	Gunderson Dettmer	4
4	Latham & Watkins	249	DLA Piper	3
5	Sidley Austin	183	Perkins Coie	3
6	King & Spalding	168	Sidley Austin	3
7	Gottlieb Steen & Hamilton	157	Foley & Lardner	2
8	Cooley	156	Goodwin Procter	2
9	Ropes & Gray	144	K&L Gates	2
10	Hogan Lovells	123	Kirkland & Ellis	2

Note: This table compares the composition of survey respondents to the overall population in Pitchbook. Panel A shows the counts of exemption type usage among respondents. Panel B shows characteristics of the population of VC firms and respondent VC firms. Panel C shows the top 10 law firms in the population and among the respondents.

Table A.10: Sensitivity of Fund Entry to Local Wealth Shocks By Exemption Type and Manager Characteristic

Panel A. 506(b) Funds by Manager Characteristic

Dependent Variable:	ΔLn(# 506(b) Funds) by			
	Female	Male	Black/Hispanic	White
	(1)	(2)	(3)	(4)
Local Wealth Shock	0.005	0.018***	-0.003	0.020***
	(0.004)	(0.005)	(0.003)	(0.005)
P-Value of difference	.07		.00	
County FE	Yes	Yes	Yes	Yes
Year-Quarter FE	Yes	Yes	Yes	Yes
N	7640	7640	7640	7640
R^2	0.005	0.019	0.008	0.018
Outcome Mean	-0.000	-0.002	0.000	-0.002

Panel B: 506(c) Funds by Manager Characteristic

Dependent Variable:	ΔLn(# 506(c) Funds) by			
	Female	Male	Black/Hispanic	White
	(1)	(2)	(3)	(4)
Local Wealth Shock	0.002	-0.003	0.001	-0.002
	(0.002)	(0.002)	(0.002)	(0.002)
P-Value of difference	.43		.39	
County FE	Yes	Yes	Yes	Yes
Year-Quarter FE	Yes	Yes	Yes	Yes
N	7640	7640	7640	7640
R^2	0.007	0.007	0.004	0.006
Outcome Mean	0.000	-0.000	0.000	-0.000

Note: This table examines the sensitivity of new fund formation to local wealth shocks, where new funds are partitioned by manager type. *Local Wealth Shock* = *Local Dividend Share* × *Stock Return*. Following Crane et al. (2024), we use the interaction between local stock market participation and quarterly S&P 500 returns as shocks to local wealth (see Appendix C for details). The sample is at the county-quarter level from 2014 to 2023. The dependent variables are log changes in the number of issuing funds in a county-quarter relative to the previous quarter. Panel A (B) examines sensitivity of 506(b) (506(c)) fund raises by fund manager characteristic subgroups. All RHS variables are lagged by one quarter relative to the dependent variables. All regressions include controls for the levels of *Dividend Share* and *Stock Return*, county fixed effects, and year-quarter fixed effects. Standard errors are clustered by county and are reported in parentheses. * indicates statistical significance at the 10% level, ** at the 5% level, and *** at the 1% level.

Table A.11: 506(b) vs 506(c): Fund Return Robustness and Reporting Rate

Panel A. Fund Return Robustness

	Continuous				Above 75th Percentile				Portco exits	
Dependent Variable:	IRR	IRR	TVPI	TVPI	IRR	IRR	TVPI	TVPI	M&A Ratio	IPO Ratio
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
$\mathbb{1}$(506(c))	9.104***	8.279***	0.125	0.736***	0.253***	0.236***	0.161**	0.222*	-0.002	-0.001
	(3.369)	(2.152)	(0.093)	(0.164)	(0.077)	(0.070)	(0.070)	(0.120)	(0.001)	(0.001)
Log Fund Size	-2.189***	-1.809***	-0.051**	-0.026	-0.042***	-0.053***	-0.034***	-0.048***	0.001***	0.000*
	(0.558)	(0.487)	(0.022)	(0.048)	(0.009)	(0.007)	(0.009)	(0.012)	(0.000)	(0.000)
Fund Sequence Number	-0.084**	-0.069	-0.002	-0.008**	-0.001	-0.001	-0.001	-0.002**	0.000	-0.000
	(0.038)	(0.045)	(0.001)	(0.004)	(0.001)	(0.002)	(0.001)	(0.001)	(0.000)	(0.000)
Year FE	Yes	No	Yes	No	Yes	No	Yes	No	–	–
State × Year FE	No	Yes	No	Yes	No	Yes	No	Yes	Yes	Yes
Sample	Whole	<2019	Whole	<2019	Whole	<2019	Whole	<2019	Whole	Whole
N	977	435	1028	454	977	435	1028	454	4937	4937
R^2	0.152	0.161	0.234	0.128	0.049	0.147	0.037	0.163	0.111	0.035
Outcome Mean	14.977	21.053	1.698	2.279	0.245	0.244	0.239	0.264	0.011	0.002

Panel B. Fund Return Reporting Rate

Dependent Variable:	$\mathbb{1}$(Reported IRR)		$\mathbb{1}$(Reported TVPI)	
	(1)	(2)	(3)	(4)
$\mathbb{1}$(506(c))	0.006	0.007	0.063	0.056
	(0.015)	(0.023)	(0.041)	(0.040)
Log Fund Size	0.048***	0.053***	0.066***	0.071***
	(0.003)	(0.004)	(0.004)	(0.004)
State × Year FE	Yes	Yes	Yes	Yes
Sample	Whole	Whole	<2019	<2019
N	7445	7445	2427	2427
R^2	0.164	0.177	0.177	0.193
Outcome Mean	0.131	0.137	0.193	0.201

Note: This table presents robustness results for Table 5. Panel A shows specifications with year fixed effects only or for funds launched before 2019. Panel B compares the return reporting rate for 506(c) vs 506(b) funds, where the dependent variable is whether a fund has reported any IRR or TVPI. Standard errors are clustered at the state level and are reported in parentheses. * indicates statistical significance at the 10% level, ** at the 5% level, and *** at the 1% level.

Table A.12: Transition of Fund Managers Between Exemptions

	All Funds			Funds Before 2021		
	To 506(b)	To 506(c)	To None	To 506(b)	To 506(c)	To None
From 506(b)	0.44	0.01	0.55	0.53	0.02	0.45
From 506(c)	0.09	0.36	0.56	0.13	0.47	0.40

Note: This table shows the transition probabilities of fund managers between 506(b) and 506(c) funds. The rows are the current fund exemption, and each column is the next fund exemption or "None" if the fund manager has no following funds. Each row sums to 1. Funds are ordered temporally by their Form D filing date (the probabilities are nearly identical if we instead use the Pitchbook provided fund open date). The sample in the first three columns of each panel is all matched VC funds between 2014 and 2023, while the sample is limited to 2014-2020 in the last three columns to allow time for the next fund.

Table A.13: Portco Location by Funds in Hub vs non-Hub Cities

Dependent Variable:	Share of Portcos in Same City as the Fund			
	(1)	(2)	(3)	(4)
$\mathbb{1}$(506(c))	-0.021**	0.011	0.009	-0.052**
	(0.009)	(0.015)	(0.015)	(0.008)
Top-3 City Fund		0.101***		
		(0.005)		
$\mathbb{1}$(506(c)) × Top-3 City Fund		-0.063***		
		(0.014)		
State × Year FE	Yes	Yes	Yes	Yes
Sample	All	All	Non-Top-3-City	Top-3-City
N	4803	4803	2348	2451
R^2	0.116	0.139	0.216	0.048
Outcome Mean	0.132	0.132	0.100	0.163

Note: This table decomposes the result in column 2 of Table 6 by whether the fund is in a hub city or not. Column 2 uses interaction while columns 3 and 4 use split samples. Standard errors are clustered at the state level and are reported in parentheses. * indicates statistical significance at the 10% level, ** at the 5% level, and *** at the 1% level.

Table A.14: Split Network

Dependent Variable:	Fundraise Through 506(c) (1)	Share of Portcos Using 506(c) (2)
𝟙(Below Median Founder Network)	0.016	0.003*
	(0.015)	(0.002)
𝟙(Below Median LP Network)	0.016**	-0.002
	(0.008)	(0.002)
State × Year FE	Yes	Yes
N	4068	3859
R^2	0.292	0.096
Outcome Mean	0.077	0.006

Note: This table shows the independent effects of deal sourcing network (i.e., founder network) and fundraising network (i.e., LP network). We decompose board network into ties to potential founders and potential LPs. We then define below median indicators to arrive at our two regressors in this table. We define potential founders as those who were, are, or later become, founders. These individuals need not directly receive investment from the focal manager, but can also introduce the manager to the founder community. We define the rest of the co-board individuals as potential LPs, who are either wealthy individuals themselves or can introduce managers to institutional investors. The dependent variable is a fund raising through 506(c) in column 1, and is the share of a fund's portfolio companies met through the portco's use of 506(c) in column 2. Standard errors are clustered at the state level and are reported in parentheses. * indicates statistical significance at the 10% level, ** at the 5% level, and *** at the 1% level.

Table A.15: LP Survey Profiles

Profiles 1-6

Thesis	The fund targets early-stage technology companies poised to benefit from network effects and scalable platform dynamics, with a focus on marketplaces, AI-enabled software, and vertical SaaS solutions. The firm typically leads or co-leads initial investments of $5-$15 million and maintains substantial reserves to support portfolio companies through later rounds. The team partners closely with founders to help build durable competitive advantages through ecosystem development, product strategy, and scalable operations.
Securities Exemption	{506(b) (No General Solicitation), 506(c) (Allow General Solicitation)}
Lead Manager Name	Jeremy Cass
Highest Degree	MBA, Harvard University
Manager's Prior Funds & Past Exits	{(First-time Fund, No realized exits to date), (1, 2), (2, 5)}
Fund Target Size	$350 million
Location	Chicago
Industry Focus	Generalist Technology
Impact Mandate	None

Profiles 7-12

Thesis	The fund backs exceptional founder-led teams in large, rapidly evolving markets, primarily at the Series A stage. It builds a concentrated portfolio-15 to 20 companies-where it leads rounds and takes board seats to provide deep operational support.Follow-on reserves allow meaningful ownership as companies progress toward growth rounds.
Securities Exemption	{506(b) (No General Solicitation), 506(c) (Allow General Solicitation)}
Lead Manager Name	Jack Dennett
Highest Degree	MBA, Stanford University
Manager's Prior Funds & Past Exits	{(First-time Fund, No realized exits to date), (1, 2), (2, 5)}
Fund Target Size	$350 million
Location	Boston
Industry Focus	Generalist Technology
Impact Mandate	None

Profiles 13-18

Thesis	The fund targets Series A-C opportunities in sectors undergoing structural transformation-such as cloud infrastructure, digital health, and climate tech. It looks for companies with strong early traction and clear pathways to scale, typically investing $6-$8 million in each initial round. The strategy pairs thematic research with hands-on assistance in scaling sales, operations, and finance.
Securities Exemption	{506(b) (No General Solicitation), 506(c) (Allow General Solicitation)}
Lead Manager Name	David Weinstein
Highest Degree	MBA, Wharton
Manager's Prior Funds & Past Exits	{(First-time Fund, No realized exits to date), (1, 2), (2, 5)}
Fund Target Size	$350 million
Location	San Francisco
Industry Focus	Generalist Technology
Impact Mandate	None

Note: This table shows the fund profiles provided to LPs in the survey. Some values are written in set notation to indicate randomization across those values.

Table A.16: LP Survey Summary Statistics

Observation Level Variables (N = 183)	
Variable	Mean
𝟙(506(c))	0.470
𝟙(Low Track Record)	0.312
𝟙(Medium Track Record)	0.361
𝟙(High Track Record)	0.328
𝟙(Jeremy Cass)	0.339
𝟙(Jack Dennett)	0.333
𝟙(David Weinstein)	0.322
𝟙(Harvard Alumnus)	0.333
𝟙(Stanford Alumnus)	0.333
𝟙(Wharton Alumnus)	0.333
𝟙(Chicago Located)	0.301
𝟙(Boston Located)	0.377
𝟙(San Francisco Located)	0.322

Respondent Level Variables	
Variable	Mean (N)
𝟙(Negative Signal)	0.354 (48)
𝟙(Respondent is Angel)	0.279 (61)

Note: This table shows summary statistics for the LP survey. The top panel shows statistics at the observation level (3 funds per respondent), while the bottom panel shows statistics at the respondent level.

Table A.17: Sensitivity of Fund Entry to Local Wealth Shocks: Drop GPs without Individual LPs

Panel A. All Funds

Dependent Variable:	ΔLn(# 506(b) Funds)	ΔLn(# 506(c) Funds)	506(c) Share
	(1)	(2)	(3)
Local Wealth Shock	0.014**	-0.004	-0.005
	(0.006)	(0.002)	(0.004)
County FE	Yes	Yes	Yes
Year-Quarter FE	Yes	Yes	Yes
N	7040	7040	1744
R^2	0.017	0.007	0.366
Outcome Mean	0.003	0.001	0.083

Panel B. 506(b) Funds by Manager Characteristic

Dependent Variable:	ΔLn(# 506(b) Funds) by			
	Female	Male	Black/Hispanic	White
	(1)	(2)	(3)	(4)
Local Wealth Shock	0.002	0.021***	-0.002	0.022***
	(0.004)	(0.005)	(0.003)	(0.005)
P-Value of difference	.00		.00	
County FE	Yes	Yes	Yes	Yes
Year-Quarter FE	Yes	Yes	Yes	Yes
N	7040	7040	7040	7040
R^2	0.005	0.019	0.007	0.018
Outcome Mean	-0.000	-0.001	0.000	-0.001

Panel C: 506(c) Funds by Manager Characteristic

Dependent Variable:	ΔLn(# 506(c) Funds) by			
	Female	Male	Black/Hispanic	White
	(1)	(2)	(3)	(4)
Local Wealth Shock	0.002	-0.002	0.001	-0.002
	(0.001)	(0.002)	(0.002)	(0.002)
P-Value of difference	.81		.83	
County FE	Yes	Yes	Yes	Yes
Year-Quarter FE	Yes	Yes	Yes	Yes
N	7040	7040	7040	7040
R^2	0.010	0.008	0.005	0.008
Outcome Mean	0.000	-0.000	0.000	-0.000

Note: This table examines the robustness of Panel B of Table 4 and Table A.10 to excluding GP firms without individual LPs. The independent variable *Local Wealth Shock = Local Dividend Share × Stock Return*. The sample is at the county-quarter level from 2014 to 2023. Panel A examines all funds. The dependent variables are log changes in the number of issuing funds in a county-quarter relative to the previous quarter, except in column 3 where the outcome is the share of 506(c) funds relative to all funds. Panel B (C) examines sensitivity of 506(b) (506(c)) fund raises by fund manager demographic subgroups. Following Crane et al. (2024), we use the interaction between local stock market participation and quarterly S&P 500 returns as shocks to local wealth. All RHS variables are lagged by one quarter relative the dependent variables. All regressions include the levels of *Dividend Share* and *Stock Return*, county fixed effects, and year-quarter fixed effects. Standard errors are clustered by county and are reported in parentheses. * indicates statistical significance at the 10% level, ** at the 5% level, and *** at the 1% level.

Table A.18: Sensitivity of Firm Entry to Local Wealth Shocks

Dependent Variable:	ΔLn(# new firms)	ΔLn(# new DE firms)	ΔLn(# new incorporated firms)
	(1)	(2)	(3)
Local Wealth Shock	0.001	0.002	0.003
	(0.002)	(0.008)	(0.003)
County FE	Yes	Yes	Yes
Year-Quarter FE	Yes	Yes	Yes
N	2800	2800	2800
R^2	0.723	0.063	0.375
Outcome Mean	0.018	-0.004	0.003

Note: This table examines sensitivity of firm entry to one-quarter-lagged local wealth shocks, where *Local Wealth Shock* = *Local Dividend Share* × *Stock Return*. The specification follows Table 4 Panel B. The sample is at the county-quarter level from 2014 to 2023. It covers the county-quarters in Table 4 Panel B that overlap with the 10 states in the StartupCartography data (AK, CA, CO, CT, FL, GA, KY, NY, TN, TX; these 10 states cover 71% of the funds in our sample). The dependent variables are log changes in the number of new firms (column 1), the number of Delaware registered firms (column 2), and the number of incorporated firms (column 3), in a county-quarter relative to the previous quarter. Following Crane et al. (2024), we use the interaction between local stock market participation and quarterly S&P 500 returns as shocks to local wealth. All RHS variables are lagged by one quarter relative to the dependent variables. All regressions include the levels of *Dividend Share* and *Stock Return*, county fixed effects, and year-quarter fixed effects . Standard errors are clustered by county and are reported in brackets. * indicates statistical significance at the 10% level, ** at the 5% level, and *** at the 1% level.

Appendix B Regulations and Institutional Details

B.1 Complete Rule 506 Text

Below, we copy the entire Rule 506 from the Code of Federal Regulations.[47] We omit the "bad actor" disqualification material at the end, which essentially bars issuers who have previously done something illegal from relying on the exemptions identified in Rule 506.

§230.506 Exemption for limited offers and sales without regard to dollar amount of offering.

(a) Exemption. Offers and sales of securities by an issuer that satisfy the conditions in paragraph (b) or (c) of this section shall be deemed to be transactions not involving any public offering within the meaning of section 4(a)(2) of the Act.

(b) Conditions to be met in offerings subject to limitation on manner of offering

(1) General conditions. To qualify for an exemption under this section, offers and sales must satisfy all the terms and conditions of §§230.501 and 230.502.

(2) Specific conditions:

(i) Limitation on number of purchasers. There are no more than, or the issuer reasonably believes that there are no more than, 35 purchasers of securities from the issuer in offerings under this section in any 90-calendar-day period.

Note to paragraph (b)(2)(i): See §230.501(e) for the calculation of the number of purchasers and §230.502(a) for what may or may not constitute an offering under paragraph (b) of this section.

(ii) Nature of purchasers. Each purchaser who is not an accredited investor either alone or with his purchaser representative(s) has such knowledge and experience in financial and business matters that he is capable of evaluating the merits and risks of the prospective investment, or the issuer reasonably believes immediately prior to making any sale that such purchaser comes within this description.

(c) Conditions to be met in offerings not subject to limitation on manner of offering

(1) General conditions. To qualify for exemption under this section, sales must satisfy all the terms and conditions of §§230.501 and 230.502(a) and (d).

(2) Specific conditions:

(i) Nature of purchasers. All purchasers of securities sold in any offering under paragraph (c) of this section are accredited investors.

(ii) Verification of accredited investor status. The issuer shall take reasonable steps to verify that purchasers of securities sold in any offering under paragraph (c) of this section are accredited investors. The issuer shall be deemed to take reasonable steps to verify if the issuer uses, at its

[47] Available here: https://www.ecfr.gov/current/title-17/chapter-II/part-230/subject-group-ECFR6e651a4c86c0174

option, one of the following non-exclusive and non-mandatory methods of verifying that a natural person who purchases securities in such offering is an accredited investor; provided, however, that the issuer does not have knowledge that such person is not an accredited investor:

(A) In regard to whether the purchaser is an accredited investor on the basis of income, reviewing any Internal Revenue Service form that reports the purchaser's income for the two most recent years (including, but not limited to, Form W-2, Form 1099, Schedule K-1 to Form 1065, and Form 1040) and obtaining a written representation from the purchaser that he or she has a reasonable expectation of reaching the income level necessary to qualify as an accredited investor during the current year;

(B) In regard to whether the purchaser is an accredited investor on the basis of net worth, reviewing one or more of the following types of documentation dated within the prior three months and obtaining a written representation from the purchaser that all liabilities necessary to make a determination of net worth have been disclosed:

(1) With respect to assets: Bank statements, brokerage statements and other statements of securities holdings, certificates of deposit, tax assessments, and appraisal reports issued by independent third parties; and

(2) With respect to liabilities: A consumer report from at least one of the nationwide consumer reporting agencies;

(C) Obtaining a written confirmation from one of the following persons or entities that such person or entity has taken reasonable steps to verify that the purchaser is an accredited investor within the prior three months and has determined that such purchaser is an accredited investor:

(1) A registered broker-dealer;

(2) An investment adviser registered with the Securities and Exchange Commission;

(3) A licensed attorney who is in good standing under the laws of the jurisdictions in which he or she is admitted to practice law; or

(4) A certified public accountant who is duly registered and in good standing under the laws of the place of his or her residence or principal office;

(D) In regard to any person who purchased securities in an issuer's Rule 506(b) offering as an accredited investor prior to September 23, 2013 and continues to hold such securities, for the same issuer's Rule 506(c) offering, obtaining a certification by such person at the time of sale that he or she qualifies as an accredited investor; or

(E) In regard to any person that the issuer previously took reasonable steps to verify as an accredited investor in accordance with this paragraph (c)(2)(ii), so long as the issuer is not aware of information to the contrary, obtaining a written representation from such person at the time of sale that he or she qualifies as an accredited investor. A written representation under this method of verification will satisfy the issuer's obligation to verify the person's accredited investor status for a period of five years from the date the person was previously verified as an accredited investor.

Instructions to paragraph (c)(2)(ii): of this section.

1. The issuer is not required to use any of these methods in verifying the accredited investor status of natural persons who are purchasers. These methods are examples of the types of non-exclusive and non-mandatory methods that satisfy the verification requirement in §230.506(c)(2)(ii).

2. In the case of a person who qualifies as an accredited investor based on joint income with that person's spouse, the issuer would be deemed to satisfy the verification requirement in §230.506(c)(2)(ii)(A) by reviewing copies of Internal Revenue Service forms that report income for the two most recent years in regard to, and obtaining written representations from, both the person and the spouse.

3. In the case of a person who qualifies as an accredited investor based on joint net worth with that person's spouse, the issuer would be deemed to satisfy the verification requirement in §230.506(c)(2)(ii)(B) by reviewing such documentation in regard to, and obtaining written representations from, both the person and the spouse.

B.2 Private Fund Categories under the 1940 Investment Company Act

Private Fund Categories Private funds are not required to be registered or regulated as investment companies under the federal securities laws. Private funds are structured to qualify for one of the following exclusions from the definition of investment company:[48]

1. Traditional 3(c)(1) funds: Any fund not publicly offered with fewer than 100 beneficial owners who are all accredited investors
2. Qualifying venture capital 3(c)(1) funds: venture capital funds managing less than $10M with fewer than 250 beneficial owners (fewer than 100 beneficial owners before May, 2018).
3. 3(c)(7) funds: Any fund not publicly offered whose investors are qualified purchasers. The fund is limited to 1,999 investors to avoid SEC registration under the Securities Exchange Act of 1934. Most qualified purchasers are directly solicited by the fund sponsors and thus would fall under 506(b).

A qualified purchaser is an investor that meets certain financial and sophistication standards, as defined in the Investment Company Act and its rules. For example, an individual may be a qualified purchaser if the investor owns $5 million or more in investments, and an entity may qualify if it owns and invests on a discretionary basis at least $25 million in investments. Note that qualified purchase is much higher bar than accredited investors.

Definition of venture capital funds The 1940 Act defines a fund as venture capital fund if it satisfies the following criteria:

1. Does not invest more than 20% of the fund's committed capital in non-qualifying investments, such as debt, secondaries, public issuances, fund-of-fund investments, or digital assets.
2. Restricts borrowing and all other leverage to 15% of the fund size, and repays any leveraged debts within 120 days.

[48] See `https://www.sec.gov/education/capitalraising/building-blocks/private-fund` for details.

3. Limits LP redemption rights (their ability to cash out of the fund) to "extraordinary circumstances".
4. Represents to investors and potential investors that it pursues a venture capital strategy.

B.3 Definition of Accredited Investors

Accreditation standards stem from a Supreme Court interpretation of the law decreeing that investors who can "fend for themselves" do not need the protection of mandated disclosure through registered securities (see SEC v. Ralston Purina; 346 U.S. 119 (1953)). The SEC rules therefore restrict exempt offerings to investors who are "presumed to possess sufficient financial sophistication and ability to sustain the risk of loss of their investment or to fend for themselves to render the protections of the Securities Act's registration process unnecessary" (SEC, 2019). Accredited investors traditionally had to satisfy one of the following: (a) individuals with income of at least $200,000 or joint marital income of at least $300,000 in each of the last two years who reasonably expect to meet this income threshold in the current year; (b) individuals with net a worth of at least $1 million outside their primary residence; or (c) institutions with at least $5 million in assets. In 2020, the SEC expanded accreditation standards to include individuals with financial expertise, measured through a professional license such as FINRA's Series 7 credential to sell securities.

B.4 Other Exemptions for Private Issuance

There are several exemptions besides Regulation D, but they exclude investment companies, and therefore are not relevant to VC funds. For example, both Rule 504 under Section 3(b) of the Securities Act as well as Regulation A allow companies to raise up to $10 million and $50 million, respectively, within a 12-month period if they meet certain requirements, which include not being an investment company. Another is Regulation S for offerings outside the U.S. A third is 3(a)(11), which requires all issuers and investors to be in the same state and to comply with that state's securities laws. The JOBS Act also created Regulation Crowdfunding, effective starting in May 2016, which allows non-investment companies to raise up to $5 million through an SEC-registered crowdfunding intermediary.

In addition to federal exemptions, issuers must separately comply with state-level securities laws, commonly known as "blue sky laws." Even under Regulation D, issuers must file a copy of Form D with each state in which securities are sold and pay the relevant filing fees. However, because VC funds raise capital almost exclusively under Rule 506—for which NSMIA preempts state registration and merit review requirements—blue sky compliance is largely a procedural formality for VC funds rather than a binding regulatory constraint.

Appendix C Causal Evidence for the Role of Local Networks in 506(b) vs. 506(c)

A large literature has shown that personal networks tend to be local (Granovetter, 2018; Small and Adler, 2019; Kuchler and Stroebel, 2021; Gocmen et al., 2024). Geographic proximity facilitates soft information production that helps overcome information asymmetry, especially in financial contracting and VC.[49] Gocmen et al. (2024) show that high-net worth individual investors are much more likely than institutional investors to invest in local VC and PE funds. They report that 48% of investments by high-net worth individuals are in-state, and 30% are in-state even after excluding CA, MA, and NY.[50] Private fundraising may thus be particularly sensitive to local wealth shocks, which could contribute to regional inequality and the geographic clustering of wealth. General solicitation has the potential to change this by making it easier to raise funds from LPs nationwide, reducing the need to rely on a local wealthy network. We expect that sensitivity to local conditions is stronger for relatively better-networked managers.

To test this hypothesis, we follow Crane et al. (2024) and proxy for local wealth shocks using the interaction of the local dividend share, which proxies for local stock market participation, and lagged stock returns. We focus on stock wealth because it is the key large, liquid, and risky asset for most accredited investors. Among families in the top decile of net worth in 2022, 56% owned stocks, with the median family in the top decile holding $309,000 in stock accounts (Board of Governors, 2023). Relative to housing wealth, stock wealth can be more easily deployed for private fund investment. Stocks are also more volatile than other assets, such as bonds, money market funds, or bank savings. Finally, local stock market wealth shocks affect both individual investors and also local family offices and pensions, whose funding is often from local households.

For the period from 2010 to 2022, we obtain county-level local dividend shares from the IRS and quarterly stock returns from the S&P 500 index. For counties with at least one wage earner in a given year, we calculate the sum of dividends, qualified dividends, and capital gains as a fraction of the adjusted gross income (AGI) of residents of the county.[51] This ratio, Local Dividend Share$_{c,q-1}$, proxies for local exposure to stock market fluctuations via allocation to public equity. We estimate the following model at the county-quarter level:

$$\begin{aligned}\Delta\text{Fundraising}_{c,q-1\to q} = \alpha_c + \beta_q + \theta \times \text{Local Dividend Share}_{c,q-1} \times \text{Stock Return}_{q-1} \\ + \delta \times \text{Local Dividend Share}_{c,q-1} + \epsilon_{c,q}.\end{aligned} \tag{2}$$

Here, α_c represents county fixed effects and β_q year-quarter fixed effects. The dependent variable is the change in log number of 506(b) or 506(c) funds in a county-quarter relative to the previous quarter (i.e., log growth rate). The independent variables are lagged by one quarter.

[49] See Sorenson (2005), Gertler and Levitte (2005), Agarwal and Hauswald (2010), Chen et al. (2010), Knyazeva and Knyazeva (2012), Bellucci et al. (2013), and Hollander and Verriest (2016).

[50] In the Pitchbook data, 48% of funds have at least one LP in the same state, and 21% in the same city (these are likely an undercount as Pitchbook has poor coverage of individual LPs).

[51] For missing county-years, we back-fill and forward-fill using the nearest non-missing observation, as the ratios are stable temporally (specifically, they have an autocorrelation of 0.89).

The results are in Panel B of Table 4. For brevity, we label Local Dividend Share$_{c,q-1}$ × Stock Return$_{q-1}$ as *Local Wealth Shock*. In Panel A, we find that positive local wealth shocks significantly increase the local volume of 506(b) funds. A one standard deviation higher local wealth shock increases 506(b) volume growth by 1.5 p.p. (column 1). In contrast, the impact is reversed for 506(c) funds: a one standard deviation higher local wealth shock decreases 506(c) volume growth by 0.5 p.p. (Column 2). This suggests that 506(b) fundraising depends on local networks, while 506(c) fundraising is more arm's length. Indeed the negative result even suggests some substitution between 506(b) and (c) depending on local wealth. A one standard deviation increase in local wealth reduces the 506(c) share by 10% relative to the mean (Column 3). These results imply that general solicitation may have the potential to reduce the importance of local conditions for fundraising, thereby reducing regional fundraising disparities.

We next show in Table A.10 that this sensitivity varies with our proxies for local network strength. For 506(b) funds (Panel A), male or White fund managers benefit more from local wealth increases than female or Black/Hispanic mangers (Columns 1-4). We first consider gender in Columns 1-2; here, "Male" in the column header indicates funds whose team is majority male. The 506(b) fundraising sensitivity to local wealth is 3.6 times higher for male funds than female funds, with the latter being near-zero. The difference between the two coefficients is statistically significant, as shown in the p-value below the two columns. We see a more dramatic difference for race, where the sensitivity is high for White funds but zero for Black/Hispanic funds, a difference that is significant at the 1% level. These results are consistent with the majority groups having stronger local networks when raising through 506(b). In Panel B, we show that arm's length fundraising through 506(c) eliminates the sensitivity and the gaps across groups; there are no effects for any group.[52]

These results do not reflect a startup entry channel in which local wealth shocks increase deal supply by relaxing financial constraints for entrepreneurs. We show this by testing whether new business registrations respond to the lagged quarterly wealth shocks. We use business registration data from StartupCartography (Fazio et al., 2019).[53] Table A.18 shows the results, following the same specification as Table 4 Panel B. We find no measurable effect of quarterly local wealth shocks on new firm entry in the next quarter, whether using all new firms, firms registered in Delaware, or incorporated firms as the outcome (the latter two capturing firms with higher growth potential). Also, note that deal-side channels should be delayed by several years, since the typical seed round (series A) happens 0.5-2 years (1.5-3 years) after firm birth, and there is a further lag from fundraising to fund deployment.

Overall, these results suggest that underrepresented groups benefit less from local wealth and that general solicitation helps to level the playing field, to the degree that it is used. General solicitation could, therefore, reduce the geographic concentration of private capital, spreading out the benefits of the asset class across space. To the degree that general solicitation can help fund managers

[52] In a robustness test, we obtain similar results after omitting funds for which we do not observe any individual LPs (Table A.17).

[53] We are grateful to Jorge Guzman for providing these data. They include 10 states through 2023 (AK, CA, CO, CT, FL, GA, KY, NY, TN, TX). These 10 states cover 71% of the funds in our sample. We cannot do this analysis with Pitchbook firm data because we only observe firms' birth year, not birth date or month, so we cannot measure entry at quarterly level.

escape the limitations of their own geography, it may lower entry barriers for underrepresented fund managers from non-hub areas.

Appendix D Supply of Accredited Investors and 506(c) Take-up

A possible channel for low 506(c) take-up is that there are not enough accredited investors for 506(c) to be useful; that is, there is no "crowd" of potential individual LPs. To test this hypothesis, we exploit the December 2020 SEC reform that expanded the definition of accredited investors to include those with professional experience or qualifications, in addition to the traditional income/net worth-based definition. If the supply of accredited investors is a constraint in general solicitation, we should observe higher take-up of 506(c) after the reform. We conduct an event study comparing changes in the volume of 506(c) and 506(b) funds around the 2020 reform. To make sure the results are not contaminated by the 2018 investor cap change for small VC funds, we restrict to funds above $10 million, though the results are similar including them. We use the following dynamic DID at the state-year-exemption-type level, with state-exemption-type and state-year fixed effects.

$$\text{Ln(no. of funds)}_{s,y,c} = \alpha_{s,c} + \beta_{s,y} + \sum_{\tau=2017}^{2023} \theta_\tau \times \mathbb{1}(c = 506(\text{c})) \times \mathbb{1}(y = \tau) + \epsilon_{s,y,c}. \tag{3}$$

Here s, y, and c indicate state, year, and exemption type, respectively. The dependent variable is the log number of funds. Since the reform happened in December 2020, we omit 2020 as the base year. Figure D.13 plots the event study results. We find a null effect of the accreditation rule change on 506(c) take-up; if anything, there is a slight decrease in 506(c) usage two years after the reform. This suggests that low 506(c) take-up is not driven by low supply of accredited investors.

Figure D.13: Impact of the 2020 Investor Accreditation Rule Change on 506(c) Take-up