HACK/Fund
by Hackers / Founders

HACKFund
[redacted]

July 2, 2021

Ms. Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

Re: Nasdaq Proposed Rule Change to Adopt Listing Rules Related to Board Diversity, Release No. 34-90574, File No. SR-NASDAQ-2020-081

Dear Ms. Countryman,

HACKFund appreciates the opportunity to submit feedback in response to the Securities and Exchange Commission's request for comments on The Nasdaq Stock Market LLC proposed Rule 5605(f) related to board diversity.

Hackers/Founders (H/F) began as a small group of nerdy technology entrepreneurs and grew into one of the world's largest networking events. In the last decade, H/F events occurred in over 200 cities and more than 350,000 tech founders attended.

HACKFund is H/F's venture capital arm with 75 portfolio companies in four VC funds. We are raising our fifth fund and simultaneously launching HF Capital, which helps small and medium-sized technology companies to raise capital via IPO on growth stock exchanges such as the London, Euronext, and Toronto exchanges.

Evaluation of potential investments is as bias-free as possible. When we receive an application for funding, a pool of technologists and business professionals review it. However, we withhold founder names, ages, genders, and educational backgrounds during the review process to encourage investment based on merit. As a result, over 75% of our portfolio companies include a woman, Hispanic, Black, or LGBTQ founder. The Obama administration officially recognized our commitment to a more diverse Silicon Valley.

Accordingly, HACKFund enthusiastically supports Nasdaq's proposed rule change related to board diversity. In our experience, which is corroborated by academic research, diverse boards actually boost fiscal performance. Board monocultures often perpetuate a "groupthink" dynamic: an echo chamber of similar voices and perspectives that prevents decision makers from identifying blindspots in their business models.

It is our strong opinion that additional reporting requirements will promote board diversity and improve investor outcomes. Aside from the clear business case for encouraging board diversity, it is simply the right thing to do.

The release of the Chevy Nova in 1962 epitomizes the unintended consequences that can be caused by a monocultural board. To an English speaker, the name "nova" summons the image of a bright, new star, but to a Spanish speaker, "no va" translates roughly to "won't go." By not taking into account alternative translations or perspectives on the "Nova" name, Chevy not only missed the opportunity to effectively market to a significant demographic of people in the US and abroad, they made it clear that Spanish-speaking buyers were not even a consideration in how they marketed their cars, alienating customers. Chevy shareholders also suffered losses. Post-Nova, automakers put comprehensive marketing strategies into place when releasing products to a multilingual market.

In the world of venture capital (VC), a lack of previously excluded groups has had a significant impact on which founders receive funding. VC is an extremely network-driven space with very little cultural, gender, educational, and ethnic variance. According to a 2018 article in the *Harvard Business Review* entitled "The Other Diversity Dividend," only 8% of investors are women. People of minority descent make up even less of the investor pool; only about 2% are Hispanic, and 1% are Black.

Lack of diversity limits the returns of venture investments. According to the same *Harvard Business Review* article, the success rate of acquisitions/IPOs from companies whose founders share similar educational backgrounds was an average of 11.5% lower than that of companies whose founders attended different universities. The impact of founders' shared ethnicity was even more obvious, reducing an investment's returns by 26.4% to 32.2%.

According to PricewaterhouseCoopers, "2019 Corporate Director's Annual Survey", 87% of board directors said diversity enhances board performance and 76% agree that diversity improves company performance. Additionally, a 2017 McKinsey dataset demonstrated that companies scoring in the top 25% of board gender inclusion have a 21% likelihood of outperforming their industry peers. One could argue that board diversity is a fiduciary responsibility.

HACKFund's portfolio of startups illustrates how board inclusion encourages more innovation and agility in business development, and opens up new markets for product delivery. Our team is taking steps to ensure a larger portion of our portfolio companies have inclusive founder groups as well, due to the manifold positive outcomes that are the proven result of inclusion in a company's decision makers.

Requiring reporting, and therefore accountability, around board composition limits potential corporate liability, increases investment outcomes, and improves profit margins.

We hope that in addition to the clear moral case for including previously excluded voices in corporate decision making, we have helped illustrate the extremely compelling financial argument to be made for inclusion and accountability. We applaud NASDAQ's efforts to require board composition reporting as a first step in shifting corporate governance trends in a productive, and profitable, direction.

Thank you for the opportunity to submit comments on this proposal.

Sincerely,

Jonathan Nelson
Managing Partner, HACKFund
CEO, Hackers/Founders
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