Diversity in Venture Capital:

How Race and Gender Impact Venture Capital Fundraising

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Date: Fall 2023

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Introduction

Google searches about venture capital investments in founders of color produce headlines such as "Venture Capital for Black Entrepreneurs Plummeted 45% in 2022" or "Black Founders Still Raised Just 1% of all VC Funds in 2022." However, searches about investments in venture capital fund managers of color returned the same headlines, which talked about how much entrepreneurs of color raised from venture capitalists, not how much venture capital fund managers of color raised from their investors.

In writing my book, *Inclusive Investing: Realizing the Power of Entrepreneurs of Color*, it quickly became clear that the vast majority of sources, research, and articles focused on entrepreneurs of color, and there was little focus on venture capital fund managers of color and the challenges they face. In response, I embarked on a primary research project to gather more information on how race and gender impact venture capital fundraising.

In collaboration with Gayle Jennings-O'Byrne and Colleen Bataille of Wocstar Capital and Ally Capital Collab and researcher Brian Hathaway, Ph.D., I produced this whitepaper to contribute new insights, data, and research about the challenges fund managers of color and female fund managers face in the venture capital industry overall and fundraising, in particular.

In the whitepaper, we set the context by examining the lack of race and gender diversity in the venture capital industry, both among investment professionals and in the lack of investments in founders of color. Next, we present research on the case for investing in venture capital fund managers of color and female fund managers, including higher investment returns. Then, we analyze the fundraising barriers these fund managers face and present our research findings.

Our survey is still live, and we continue to collect data to enhance future analysis. If you are a venture capitalist who has recently or is currently raising capital, we ask you to please complete the survey by going to allycollab.com and clicking "Take the Survey."

Executive Summary

There is an evident lack of diversity in the venture capital industry, where the majority of partners are White men and Blacks, Hispanics/Latinos, and women are significantly under-represented. White men account for 58% of venture capital partners, while women only account for 19%, Blacks only 3%, and Hispanic/Latino partners only 1%. Furthermore, White men control 93% of the industry's investment dollars.

Homogeneity in venture capital is perpetuated because the smaller investment team size and low turnover result in positions only opening up, on average, every two to four years. And when venture capitalists do hire, the research shows they have a strong tendency to hire people who look like them, namely White men. The research further indicates that not only do these venture capitalists hire people who look like them, but they also invest in companies whose founders look like them. This cycle is exacerbated by the homogeneity of venture capitalists' networks, which are essential for deal sourcing and hiring.

However, the venture capital industry is missing an opportunity because the research shows that more diverse venture capital firms produce better returns. Harvard Business School Professor Paul A. Gompers, a leading researcher in diversity in venture capital, found that venture capitalists having a shared race/ethnicity lowered an investment's expected success rate from 32.2% to 26.4%. Gompers also found that venture capital firms that increased their percentage of female hiring by 10% realized a 1.5% higher annual fund return and had a 9.7% higher likelihood of a profitable exit via acquisition or IPO on each investment.

Venture capital firms with diverse investment partners are more likely to invest in startups with diverse founding teams. Research by Kauffman fellows showed that portfolio companies with diverse founders and a successful exit returned 30% more cash to venture capital investors.

Given the lack of diversity at the partner level, the best path to partner for venture capitalists of color is often to launch their own fund. The most critical factor in successfully launching a fund is the ability to raise capital. However, fund managers of color, particularly Black and Hispanic/Latino, face significant fundraising barriers.

The majority (86%) of venture capital funds raised went to experienced fund managers, creating a barrier for emerging fund managers of color looking to raise capital for their first-time funds. These barriers result in smaller funds, and the effect is magnified for first-time fund managers of color. For example, first-time Black fund managers' funds were, on average, 46% smaller than all first-time fund managers. The smaller size limits how many investments they can make, the average check size per investment, and the ability to invest in later rounds, and results in lower management fees, which hinders their ability to build their firm.

Below are highlights from our research findings:

- 81% of White and Asian fund managers felt their race had a neutral impact on their fundraising. In comparison, 43% of Black and Hispanic fund managers felt their race had a major or somewhat negative impact on their fundraising.
- 50% of Black and Hispanic fund managers felt it took longer to raise their first $1 million compared to their peers, while 46% of White and Asian fund managers thought it took a shorter period of time than their peers.
- 71% of Black fund managers felt it was somewhat easier to access capital since the racial injustice events of 2020. By contrast, only 25% of Hispanic/Latino fund managers thought it was easier, and no Asian fund managers felt it was easier.
- 41% of fund managers of color disagreed that it was getting increasingly easier for fund managers of their race to access capital. Specifically, 50% of Asian and Black fund managers disagreed that it was easier to access capital.
- 74% of males believe their gender did not impact their fundraising efforts. By contrast, 38% of females felt their gender had a negative impact. Interestingly, more women felt their gender had a negative impact compared to men (38% vs. 11%), but more women also thought it had a positive impact (23% vs. 15%).
- 48% of men felt it took them a shorter period of time to raise their first $1 million compared to their peers. By contrast, 46% of women thought raising their first $1 million took them longer.

- 58% of women disagreed that it is becoming increasingly easier for fund managers of color of their race and gender to access capital. By contrast, 50% of men neither agreed nor disagreed that it was becoming easier, while 30% agreed that it was becoming easier.
- There was a strong recognition of the need to level the race and gender playing field in venture capital, with 80% agreeing with the statement, 20% neutral, and none disagreeing. From a race perspective, 93% of Black and Hispanic fund managers agreed, while 73% of White and Asian fund managers agreed. From a gender perspective, 92% of women and 74% of men agreed.
- Black and Hispanic/Latino fund managers thought it was very important to invest in DEI with 100% and 67%, respectively, compared to 22% for White fund managers, while 61% thought it was important. From a gender perspective, 85% of women thought it was very important, compared to 22% of men.

There are numerous actions venture capital firms can take to increase diversity in the industry and increase investments in entrepreneurs of color. Some of these include:

- Venture capitalists should intentionally diversify their personal/professional networks.
- Venture capital firms should establish relationships with recruiting firms that specialize in finding and placing candidates of color and women candidates.
- Venture capital firms should set specific, quantifiable, and measurable goals for investing in entrepreneurs of color and hiring diverse teams.
- Venture capital firms should publicly report on their DEI metrics.
- Venture capital firms should use their investment ownership and board positions to hold their portfolio companies accountable for also achieving diversity through DEI policies.
- Venture capital firms should proactively and intentionally recruit diverse limited partners to invest in their funds.
- Limited partners should exert pressure on the general partners of the venture capital funds they invest to diversify both their investment professionals on staff and their investments.
- Individual venture capitalists who believe in diversity as a personal priority should take a more active role in advocating for increasing diversity as a firm-wide priority.
- Venture capital firms should create more funds specifically to invest in entrepreneurs of color.
- Venture capitalists should provide constructive feedback to entrepreneurs of color to help strengthen their pitch, even if they do not invest in them.
- Venture capitalists should attend conferences, events, and demo days specifically focused on women and entrepreneurs of color to increase their exposure to potential investment deals.
- Venture capital firms should re-evaluate/expand their investment criteria to include attractive opportunities to invest in founders of color who may not fit traditional criteria.

Lack of Diversity in the Venture Capital Industry

Today's venture capital industry demonstrates a striking lack of diversity from a race/ethnic and gender perspective. The majority of investment professionals and partners are White males, while Blacks, Hispanics/Latinos, and women are significantly under-represented. At the firm level, small investment teams and low employee turnover create challenges for diversifying the industry.

Venture Capitalists commonly obtain an MBA degree and have prior experience in consulting or investment banking. However, Blacks, Hispanics/Latinos, and women demonstrated strong growth in receiving their MBA degree and had higher job entry rates in consulting and investment banking compared to venture capital. These factors strongly argue against a supply-side argument that their under-representation is due to a shortage of qualified candidates.

Investment partners tend to hire people who look like them, have an MBA degree from the same school, or have worked at the same consulting or investment banking firm. The homogeneity of their networks, which are essential for deal sourcing and portfolio company hiring, perpetuates the status quo, making diversification in the venture capital industry even harder.

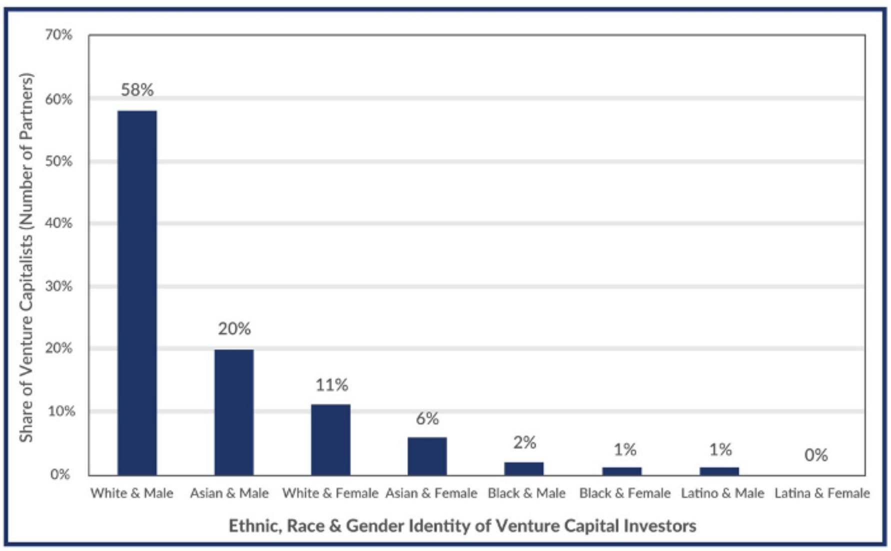
White male venture capital partners control almost the entire share of venture capital investment dollars. Thus, it is unsurprising that the vast majority of venture capital investment dollars are in companies with all-White founding teams. Black and Hispanic/Latino founders with venture capital funding are significantly under-represented compared to their share of employer-owned firms and the U.S. population.

For early-stage companies seeking venture funding, little historical data is typically available. Instead, founders are assessed more on subjective criteria, which can lead to racial bias and discrimination in the investment decision-making process.

Homogeneity Among Venture Capital Investment Professionals

Homogeneity in the venture capital industry is observed by looking at the composition of their partners (figure 1). White partners account for 69% of total venture capital partners, Asians for 26%, Blacks for only 3%, and Hispanic/Latino for only 1%. From a gender perspective, 81% of venture capital partners were men, while only 19% were women. Black females only accounted for 1% of venture capital partners.[1]

Figure 1: Share of U.S. Venture Capital Partners by Race/Ethnicity & Gender



Source: Forbes

In a survey by Deloitte, Venture Forward, and the National Venture Capital Association (NVCA) of almost 400 venture capital firms, the vast majority reported having no Black or Hispanic/Latino partners, and none had two or more partners (table 1). For example, 89% had no Black investment partners, and 11% had one Black partner. Similarly, 86% had no Hispanic/Latino

1. Elizabeth Edwards, "Check Your Stats: The Lack of Diversity in Venture Capital Is Worse Than It Looks," Forbes, February 25, 2021, https://www.forbes.com/sites/elizabethedwards/2021/02/24/check-your-stats-the-lack-of-diversity-in-venture-capital-is-worse-than-it-looks/?sh=567b4b06185d.

investment partners, and 14% had one Hispanic/Latino partner. Of survey respondents, 57% had no female investment partners, 27% had one female partner, and 15% reported having two or more female partners.[2]

Table 1: Share of Venture Capital Firm's Partners by Gender & Race/Ethnicity

Percent of Venture Capital Firms with:	No Investment Partners	1 Investment Partner	2 or More Investment Partners
Female Investment Partners	57%	27%	16%
Black Investment Partners	89%	11%	0%
Hispanic/Latino Investment Partners	86%	14%	0%

Source: Deloitte, Venture Forward, National Venture Capital Association (NVCA)

Women, Black, and Hispanic/Latino employees comprise a small percentage of investment partners with senior decision-making responsibilities. These responsibilities include originating deals, holding board seats of portfolio companies, and serving on investment committees. As a result, not only do women, Blacks, and Hispanics/Latinos have a more challenging time breaking into the venture capital industry, but they also have a harder time achieving positions that allow them to influence which investments the firms decide to pursue.

Factors Behind the Lack of Diversity in Venture Capital

Venture Capitalists commonly obtain an MBA degree and typically have prior experience in consulting or investment banking. Harvard Business School's Paul A. Gompers and Harvard University's Sophie Q. Wang analyzed venture capitalists' educational degrees and relevant background experience to see if these were potential explanations for the industry's lack of diversity.

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2. Deloitte, Venture Forward, and National Venture Capital Association (NVCA), "VC Human Capital Survey, Third Edition, March 2021," March 2021, https://www2.deloitte.com/content/dam/Deloitte/us/Documents/audit/vc-human-capital-survey-3rd-edition-2021.pdf.

They found a significant increase in the share of MBA degrees obtained by Blacks, Hispanics/Latinos, and women from 1992 to 2013 (table 2). Gompers and Wang also found that the entry rate for Blacks, Hispanics/Latinos, and women into the venture capital workforce was significantly lower than consulting or banking (table 3). [3]

[3]. Paul A. Gompers and Sophie Q. Wang, "Diversity in Innovation ," Harvard Business School, January 2017, https://www.hbs.edu/ris/Publication%20Files/17-067_b5578676-e44c-40aa-a9d8-9e72c287afe8.pdf.

Table 2: Growth in MBA Degrees

Change in MBA Obtainment	Black	Hispanic/Latino	Women
% with MBA (1992)	7%	3%	36%
% with MBA (2013)	14%	7%	48%
% Growth (2013 vs 1992)	100%	117%	33%

Source: Paul A. Gompers and Sophie Q. Wang

Table 3: Job Entry Participation Rates for Selected Financial Services Industries

Entry Participation Rates (2015)	Black	Hispanic/Latino	Women
% Entering Venture Capital	0.7%	3.2%	8.8%
% Entering Investment Banking	6.9%	5.8%	34.1%
% Entering Consulting	8.8%	4.9%	44.1%

Source: Paul A. Gompers and Sophie Q. Wang

Gompers and Wang conclude that the growth in women, Blacks, and Hispanics/Latinos receiving an MBA degree, as well as the fact that these demographics had higher entry participation rates in consulting and investment banking compared to venture capital, strongly argues against a supply-side argument that their under-representation is due to a shortage of qualified candidates.[4]

Venture capital firms are typically very small, with an average of five senior investment professionals. Not only are there a small number of positions at each firm, but most investment professionals tend to stay for a relatively long time. An investment professional job opening at a venture capital firm only becomes open, on average, every two to four years. These factors show how much every hire matters in the venture capital industry.[5]

4. Gompers and Wang, "Diversity in Innovation."

5. Paul Gompers et al., "How Venture Capitalists Make Decisions," Harvard Business Review, April 2021, https://hbr.org/2021/03/how-venture-capitalists-make-decisions?registration=success; Paul Gompers and Steven Kovvali, "The Other Diversity Dividend," Harvard Business School, August 2018, https://hbr.org/2018/07/the-other-diversity-dividend.

Forty-three percent of venture capitalists obtain their degrees from Harvard Business School, Stanford University, or the Wharton School at the University of Pennsylvania. This data shows a propensity for venture capitalists to hire candidates from their alma mater. The small number of venture capitalist investment professionals at each firm enables this concentration of schools to remain high.[6]

The concentration of MBA schools in venture capital raises the broader question of the effect of a venture capital partner's network on hiring and investment decisions. Networking in venture capital is a major driving force in sourcing deals and hiring for both venture capital firms and their portfolio companies. Research shows the networks of venture capitalists are just as homogeneous as their investment teams. Most of their network consists of people with the same race, gender, or educational background as themselves. Homogeneous networks make diversifying the venture capital industry even more difficult since one of the key steps to changing the composition of a network is to engage with more diverse groups of people.[7]

Lack of Diversity in Venture Capital Portfolios

White male venture capital partners control 93% of venture capital dollars invested (figure 2). Thus, it is unsurprising that the vast majority of venture capital investment dollars are made in companies with White founding teams. In an analysis of investments made in 4,475 companies with 9,874 founders by the 135 most active venture capital firms, only 1% of the founders were Black, 1.8% were Latino, and 77% were White (figure 3). In addition, only 9% of founders were female

[6]. Sophie Calder-Wang, Paul A. Gompers, Kanyuan (Kevin) Huang, and William Levinson, "Diversity in Venture Capital," The Palgrave Encyclopedia of Private Equity, 2023, April 8, 2023, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4419639.

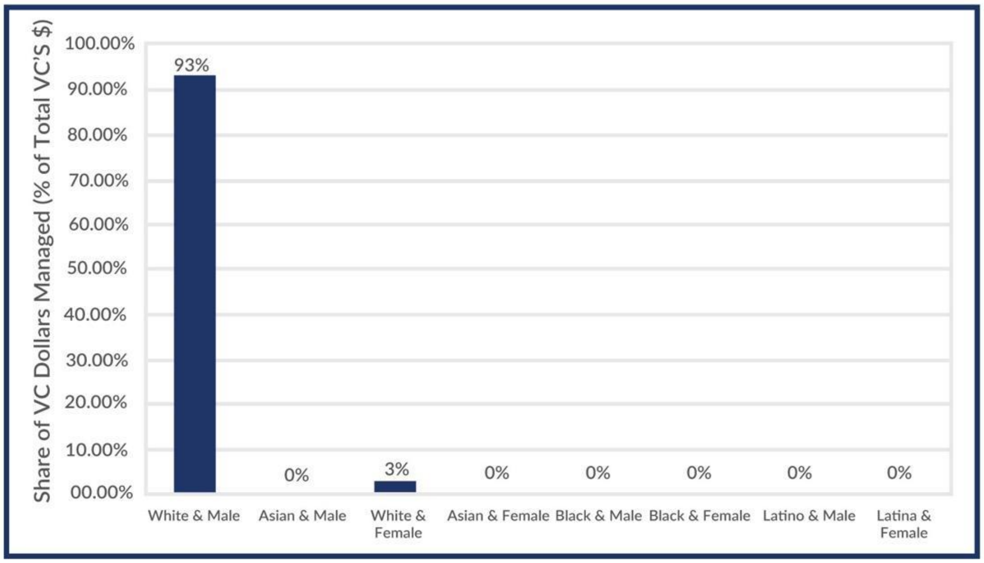
[7]. Gompers and Kovvali, "The Other Diversity Dividend."

compared to 91% male.[8] Another analysis of $87.3 billion invested by the venture capital industry showed only $2.3 billion, or 2.6%, was invested in companies with a Black or Hispanic/Latino founder.[9]

[8]. RateMyInvestor and Diversity VC, "Diversity in U.S. Startups," 2018, https://www.ratemyinvestor.com/DiversityVCReport_Final.pdf.

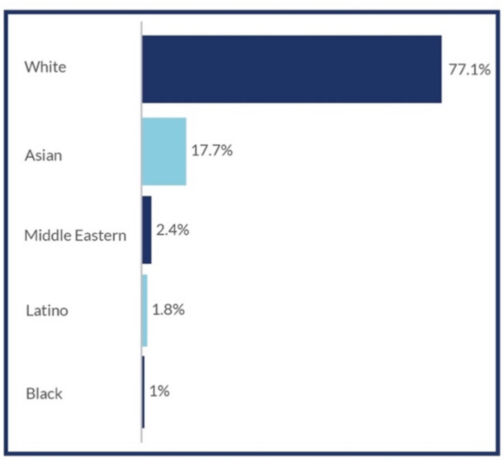
[9]. CrunchBase, "Crunchbase Diversity Spotlight 2020: Funding to Black & Latinx Founders," 2020, http://about.crunchbase.com/wp-content/uploads/2020/10/2020_crunchbase_diversity_report.pdf.

Figure 2: Share of Venture Capital Dollars Managed by Race/Ethnicity & Gender



Source: Forbes, James L. Knight Foundation

Figure 3 – Founders of Venture-Backed Companies by Race and Ethnicity



Source: Diversity VC, RateMyInvestor

Black and Hispanic/Latino founders with venture capital funding are significantly under-represented compared to their share of employer-owned firms and the U.S. population (table 4). For example, Black founders represented 1.0% of all venture capital-backed founders, compared to Black-owned employer firms representing 2.4% of all employer firms and Black people accounting for 6.3% of the population. Similarly, Hispanic/Latino founders represented 1.8% of venture-backed founders, compared to 6.5% of employer firms and 19.1% of the U.S. population.[10]

Table 4 – Founders of Venture-Backed Companies by Race and Ethnicity

Demographic	VCs Investments	Employer-Owned Firms	Population
White	77.1%	79.6%	58.9%
Asian	17.7%	10.6%	6.3%
Hispanic/Latino	1.8%	6.5%	19.1%
Black	1.0%	2.4%	6.3%
Other	2.4%	0.9%	9.4%
Total	100%	100%	100%

Source: RateMyInvestor & Diversity VC, Census Bureau

According to one research report, the typical founding team was a two-person, male, White, college-educated team residing in Silicon Valley. The report states, "This information shows a staggering amount of selection bias for decision-making in U.S. VC's. These investors are largely from the same gender, educational, ethnic, and location background as the founders they choose to invest in." [11]

The reason for such inequity is multifaceted. However, two co-founders, Ivan Alo and LaDante McMillion, of venture capital firm New Age Capital, which explicitly invests in Black and Hispanic/Latino founders, have an explanation. For young companies seeking early-stage venture funding, little historical data is typically available. "This is the stage where metrics matter less, and founders are assessed more on subjective criteria," Alo and McMillion said. "Black and Latinx founders often experience rejection from investors because they do not fit a certain profile." A

[10]. Census Bureau, "Census Bureau Releases New Data on Minority-Owned, Veteran and Women-Owned Businesses," November 10, 2022, https://www.census.gov/newsroom/press-releases/2022/annual-business-survey-characteristics.html; Census Bureau, "Quick Facts," 2022, https://www.census.gov/quickfacts/fact/table/US/PST045222.

[11]. RateMyInvestor and Diversity VC, "Diversity in U.S. Startups."

Crunchbase data evangelist, Gene Teare, says this rejection, "Is often linked to racial bias and discrimination with the venture capital space that can have a long-term impact on a founder's success." [12]

The Case for Investing in VC Fund Managers of Color

We have established that a lack of diversity in the venture capital industry clearly exists, as reflected in investment professionals, partners, and the founders in which they invest. However, the research shows that the more homogeneous the venture capital investment decision-makers are, the worse their investment performance is against all dimensions measured. This outcome was supported across educational degrees, race/ethnicity, and gender homogeneity.

In addition, more diverse venture capital firms are more likely to invest in diverse founders. Research also supports that investing in diverse founders and executive teams produces better returns than investing in homogenous ones. In summary, there is clear and compelling evidence that increased diversity at venture capital firms leads to better returns at the individual portfolio-company level and overall fund returns.

Diverse Venture Capital Firms Produce Better Returns

Harvard Business School's Paul A. Gompers has analyzed the decisions of thousands of venture capitalists and the tens of thousands of venture investments they made over several years. Gompers found that being a part of the same racial group increased venture capitalists' propensity to work together by over 39%. Similarly, having a degree from the same institution increased the propensity by over 34%.[13]

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[12]. CrunchBase, "Crunchbase Diversity Spotlight 2020."

[13]. Gompers and Kovvali, "The Other Diversity Dividend."

The more homogeneous a group of venture capitalists was, the worse their overall investment performance was—across every dimension measured. The average probability of having a successful acquisition or initial public offering (IPO) was 11.5% lower for investments made by partners with shared school backgrounds than those with varying alma matters. The benefit of diverse races and ethnicities was even stronger than for education. Venture capitalists having a shared race/ethnicity lowered an investment's expected success rate from 32.2% to 26.4%.[14]

The effects on investment performance were just as convincing for gender diversity. Venture capital firms that increased their percentage of female partner hires by just 10% realized a 1.5% jump in overall fund annual returns. In addition, these firms had a 9.7% higher likelihood of a profitable exit via acquisition or IPO on each investment. This 9.7% increased probability is significant, considering only 28.8% of venture capital investments end in a profitable exit.[15]

Homogenous and diverse partner teams picked equally promising projects when they invested. However, over time, the companies selected by the diverse teams performed better than those chosen by the homogenous teams. These differences widened when venture capitalists started helping their portfolio companies determine strategy, recruit for key management positions, and make other important decisions. For startups to survive and thrive in the ultra-competitive landscape for early-stage businesses requires the ability to think creatively and outside the box, and venture capital firms with diverse partners are better suited to deliver this thinking to their portfolio companies.

The research analyzed how similar or different the primary investment decision-makers at venture capital firms are and compared their investments' performance (table 5). Gompers and Kovvali firmly conclude, "The evidence is clear: Diversity significantly improves financial

14. Ibid.

15. Ibid.

performance on measures such as profitable investments at the individual portfolio-company level and overall fund returns." [16]

[16]. Ibid.

Table 5: Homogeneity Impact on the Venture Capital Industry

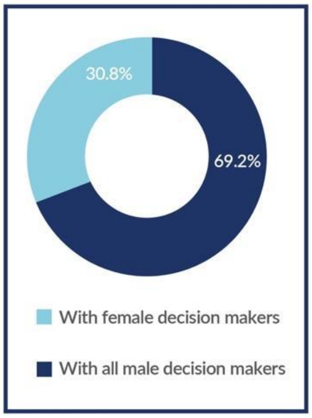
Homogeneity Factor	Homogeneity Impact
Educational Homogeneity	Venture capital investment partners are 34.4% more likely to collaborate with partners having a degree from the same school
Educational Homogeneity	The success rate of acquisitions and IPOs was 11.5% lower, on average, for investments made by venture capital partners with shared school backgrounds
Race/Ethnicity Homogeneity	Venture capital investment partners belonging to the same racial groups increase the propensity to work together by 39.2%
Race/Ethnicity Homogeneity	The success rate of acquisitions and IPOs was 26.4% lower, on average, for investments made by venture capital partners with shared ethnic backgrounds
Gender Homogeneity	Venture capital firms that increased their proportion of female partner hires by 10% had, on average, a 1.5% spike in overall fund returns each year
Gender Homogeneity	Venture capital firms that increased their proportion of female partner hires by 10% had, on average, 9.7% more profitable exits (acquisitions and IPOs)

Source: Gompers and Kovvali

There is additional quantitative evidence that gender diversity results in better performance. One analysis found that 69% of venture capital funds in the top quartile of investment performance had at least one female decision-maker, while only 31% had all male decision-makers (figure 4).[17]

Figure 4: U.S. Top Quartile Funds (#) by GP Leadership Gender (2019)

[17]. PitchBook and All Raise, "All In: Women in the VC Ecosystem," PitchBook and All Raise, November 2, 2022, https://www.allraise.org/assets/pitchbook_all_raise_2019_all_in_women_in_the_vc_ecosystem.pdf?ftag=YHFa5b931b



Source: Pitchbook and All Raise

Diverse Venture Capital Firms Invest More in Diverse Founders

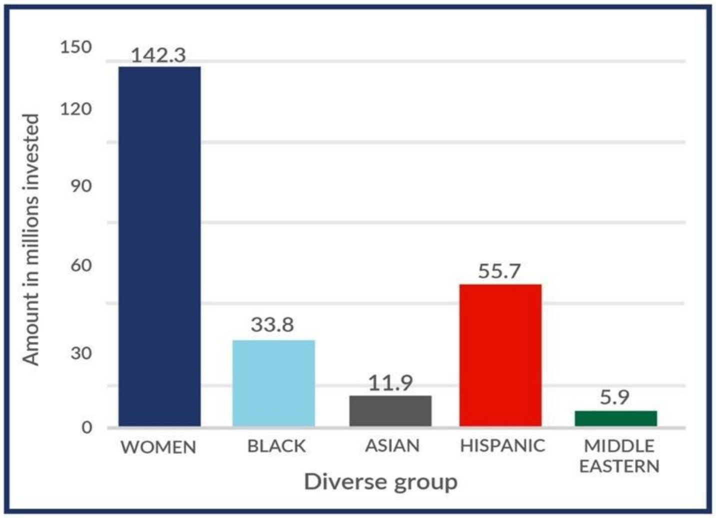
Venture capital firms with diverse investment partners are more likely to invest in startups with diverse founding teams, and those diverse founders are more likely to hire diverse executive teams, management, and employees. One research study by the consulting firm Accenture found that Black venture capital investors had a three times higher probability of investing in companies with Black founders.[18]

Other studies like this one show that women venture capitalists and venture capitalists of color are more likely to invest in deals led by women and founders/business owners of color. BLCK VC analyzed 113 different Black venture capital investors and concluded that there was a strong correlation between the presence of a Black investor at a venture capital firm and that firm's likelihood to invest in diverse founders. The analysis also found that Black investors were much more likely to invest in women, Black, and Hispanic/Latino founders (figure 5). Specifically, Black venture capitalists invested $142 million in women founders, $34 million in Black founders, and $56 million in Hispanic/Latino founders.[19]

[18]. Accenture, "Bridging the Black Founders Venture Capital Gap: Time for a Great Correction," Accenture, February 16, 2022, https://www.accenture.com/us-en/insights/technology/black-founders.

[19]. BLCK VC and SVB, "State of Black Venture Report: A Comprehensive Study of the Black Venture Ecosystem, 2023 Edition," BLCK VC and SVB, 2023, https://www.blckvc.org/sbvr2023.

Figure 5: Black Venture Capital Investors Funding by Diverse Founder Groups

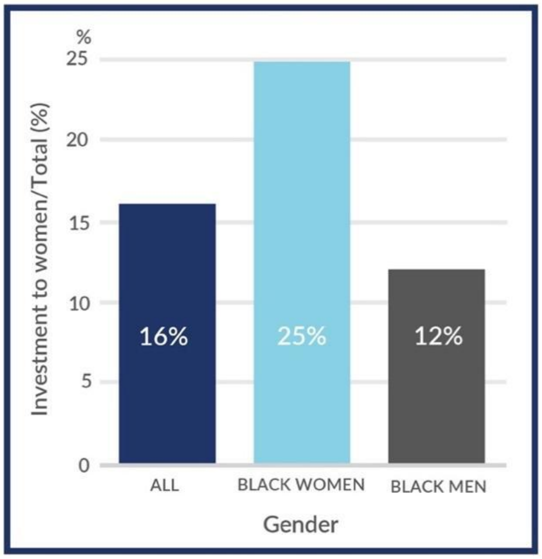


Source: BLCK VC, Crunchbase

BLCK VC also found that Black women venture capitalists were more likely to have funded female founders (figure 6). Specifically, 25% of the investments made by Black female venture capital investors were in companies with female founders, compared to Black male venture capital investors, with only 12%.[20]

Figure 6: Black Venture Capital Investors Funding of Black Founders by Gender (2023)

[20]. BLCK VC and SVB, "State of Black Venture Report: A Comprehensive Study of the Black Venture Ecosystem, 2023 Edition."



Source: BLCK VC, Crunchbase

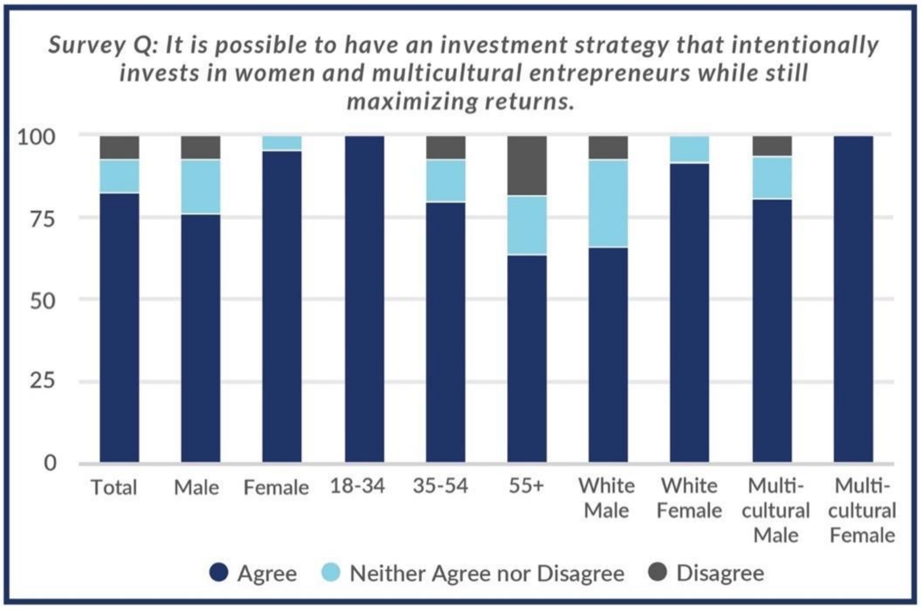
An investment banking firm, Morgan Stanley, found that the venture capital industry has not prioritized investing in women founders and founders of color, even though they acknowledge they could be missing opportunities. Of almost 200 U.S. venture capitalists surveyed, 60% admitted their portfolios had too few investments in women founders and founders of color. Interestingly, the vast majority, 83% of these same venture capitalists, indicate they have the ability to prioritize these investments to maximize returns.[21]

For the survey question, "It is possible to have an investment strategy that intentionally invests in women and multicultural entrepreneurs while still maximizing returns," they found different views depending on the demographic (figure 7). For example, 100% of female founders of color agreed with this statement, whereas only 67% of White males agreed, with 7% outright disagreeing. Generally, female founders were more likely to agree with the statement than male

[21]. Morgan Stanley, "Beyond the VC Funding Gap," Morgan Stanley, October 23, 2019, https://www.morganstanley.com/ideas/venture-capital-funding-gap

founders. This survey showed that the more diverse the venture capital partners are, the less likely they are to view intentional investments into diverse founders as a threat to their returns.[22]

Figure 7: Venture Capitalists' Views of Investing in Women/Founders of Color (2019)



Source: Morgan Stanley

Morgan Stanley also found that 71% of venture capitalists who had purposefully hired or had more diversity in fund managers, partners, limited investors, or board members viewed it as a "very effective" method of increasing the diversity of founders and investments in their portfolios.[23]

Investing in Diverse Founders Produces Better Returns for VCs

In 2020, the Kauffman Fellows analyzed differences in returns between investments in companies with founding teams of people of color and White founding teams. The study looked at

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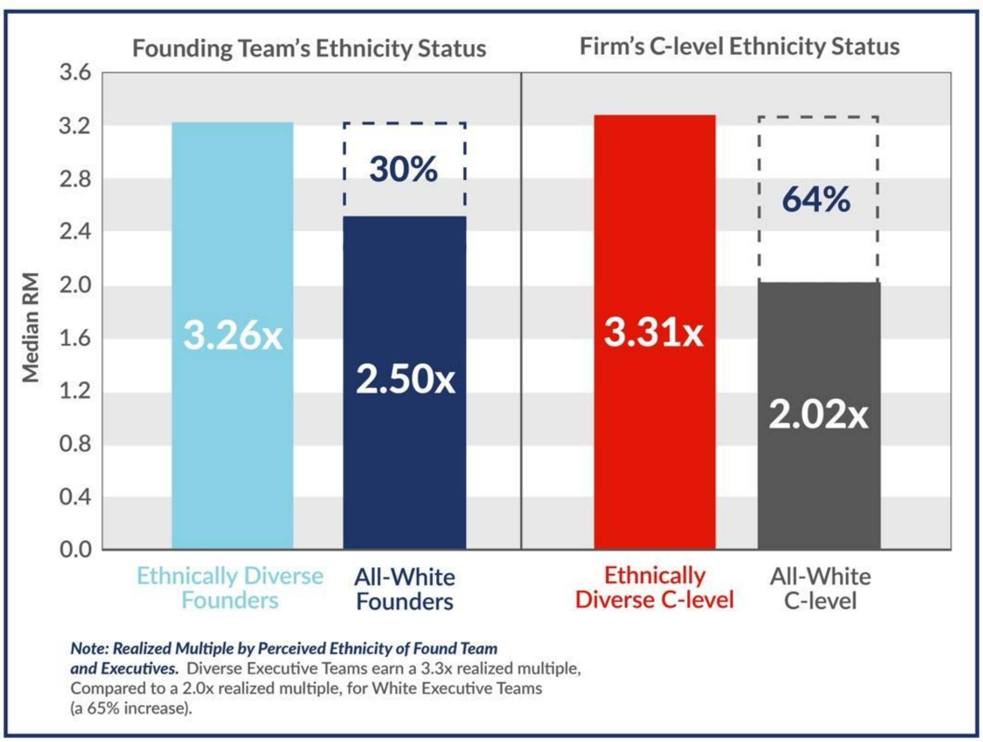
[22]. Morgan Stanley, "Beyond the VC Funding Gap."

[23]. Ibid.

both founding teams, which included solo and co-founders who turned an idea into a company, and executive teams, which included directors, vice presidents, or C-level executives.

Kauffman Fellows concluded that diverse founding teams provided higher returns when cash was returned to investors (figure 8). Kaufmann Fellows calculated that companies with racially/ethnically diverse founders and a successful exit via acquisition or an initial public offering returned a median of 3.26 times the venture capital firm's original investment. In contrast, companies with White founders and a successful exit returned a median of 2.5 times the venture capital firm's original investment. Thus, startups with ethnically diverse founders *returned 30% more cash* to venture capital investors than startups with White founders.[24]

Figure 8: Realized Returns to Investors from Startup Acquisitions and IPOs



Source: Kauffman Fellows Research Center

24. Kauffman Fellows, "Deconstructing the Pipeline Myth and the Case for More Diverse Fund Managers," Kauffman Fellows, February 4, 2020, https://www.kauffmanfellows.org/journal/the-pipeline-myth-ethnicity-fund-managers.

Kauffman Fellows found that the diversity of the C-level executive teams played an even more significant factor in influencing the median realized multiples. Companies with ethnically diverse C-level executive teams and a successful exit had a median realized multiple of 3.31, whereas those with White C-level teams had a 2.02 multiple. Thus, startups with ethnically diverse C-level executive teams *returned 64% more cash* than White C-level teams. Therefore, not only is it important to have a founding team composed of ethnically diverse people, but having an ethnically diverse executive team can be even more advantageous.[25]

The Kauffman Fellow's research found that despite ethnically diverse startups having higher returns, they still struggled with access to capital. They further found that perceived ethnicity significantly impacts fundraising, with White founding and executive teams successfully raising venture capital more frequently. In contrast, diverse founding teams had much more limited access to venture capital funding.

According to Pitchbook, the time it takes for women-founded startups to achieve a successful exit through acquisition or IPO is significantly less than the time it takes for all startups (figure 9). Specifically, companies with at least one female founder had a median time to exit of 6.9 years, 14% faster than the median time to exit for all companies of 7.4 years.[26]

Figure 9: Median Exit Time (Years) in Companies with 1 or More Female Founders

[25]. Kauffman Fellows, "Deconstructing the Pipeline Myth and the Case for More Diverse Fund Managers."

[26]. PitchBook and All Raise, "All In: Women in the VC Ecosystem,"

Source: Pitchbook and All Raise

The research is critically important because it shows that companies with diversity benefit from superior business and financial results, and the investors who provide the capital to these diverse startups also realize the benefits of superior returns on their investments.

How Race and Gender Influence Venture Capital Fundraising

Numerous factors, both firm/fund specific and external, impact a fund manager's ability to raise capital for a new fund. In addition, we presented evidence that Black fund managers encounter race-specific barriers and challenges in raising new funds. However, starting a new fund is often the best opportunity for Black venture capitalists to become partners, given the inherent lack of diversity at the partner level of existing firms.

Given the critical importance of capital raising for fund managers attempting to raise their first fund, we gathered data and analyzed the influence of race and gender in the venture capital fundraising process. While they are only two of many factors that impact the fundraising outcome, they are critically important to the fund managers of color and female fund managers who face race and gender-specific challenges in the process.

Overall, our primary research supports the findings that Black, Hispanic/Latino, and female fund managers feel that their race and gender hinder their ability to raise capital, while White and

Asian fund managers think those factors are more neutral. *While this finding is not surprising, the results provide new information that quantifies the degree to which race and gender influence venture capital fundraising.*

Factors That Impact Venture Capital Fundraising

Numerous factors impact a fund manager's ability to raise capital for a new fund (table 6).

Table 6: Factors That Impact Venture Capital Fund Raising

VC Firm's Track Record	Fund's Investment Strategy	Environmental Factors
Proven track record	Compelling investment thesis	VC fundraising trends
High-profile successful exits	Target stage (Early to Late)	Market conditions
VC's firm's reputation	Geographic focus	Economic conditions
Experienced management team	Industry/sector focus	Regulatory environment

First, there is the track record and reputation of the venture capital firm, past funds, and the fund manager/team. A proven track record of success and strong returns presents a compelling case for raising a new fund. High-profile, successful exits via IPO or acquisition can significantly enhance a venture capital firm's reputation, making it easier to raise future funds. A management team with deep industry knowledge and prior success as venture capitalists or entrepreneurs also helps.

Second, there is the investment strategy of the new fund. A clear and compelling investment thesis can attract like-minded investors. The stage the fund targets, from early to late-stage rounds, and geographic focus, such as domestic vs. international, can make a new fund more or less attractive to different types of investors. The investment strategy's industry focus can be an important factor in fundraising, with a focus on "hot sectors" making it easier to raise capital.

Beyond these fund-specific factors, a range of external factors can have an important impact on venture capital fundraising. The current venture capital fundraising trends and conditions play a role, with declining trends in capital raising making it harder to raise funds. Market conditions, including the stock and IPO markets, also have an impact. Economic variables, such as interest rates, inflation, economic growth, or contraction, are out of fund managers' control but can materially help or hinder the fundraising process. The regulatory environment can impact fundraising, including whether the current political administration is increasing or decreasing regulatory requirements.

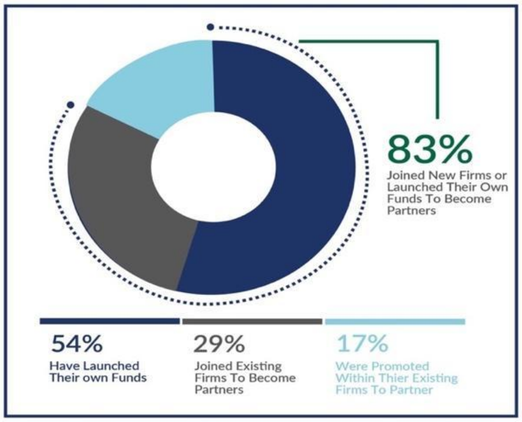
In looking at how race and gender influence venture capital fundraising, we examined the question independent of the other fundraising variables described above. The research focused on isolating the impact of race and gender apart from the other variables.

Black Fund Managers' Capital Raising Challenges

There has been some attention in the media on the limited share of venture capital funding for founders of color. However, there is almost no mention of how little institutional money is invested in venture capital firms *led* by people of color. Increasing diversity among investment partners is challenging because of the limited number of openings and low turnover. A 2022 survey by BLCK VC analyzed the path to partner for Black venture capital investment professionals (figure 10). They found that only 17% of Black venture capital partners were promoted to partner with their existing firm, while another 29% joined another firm to become a partner. Meanwhile, 54% of Black partners launched their own fund. The most critical factor in launching a new fund is the ability to raise capital; however, Black venture capitalists face significant barriers to fundraising.[27]

[27]. BLCK VC and Silicon Valley Bank, "State of Black Venture: A Comprehensive Study of the Black Venture Ecosystem, 2022 Edition," BLCK VC, 2022, https://www.blckvc.org/state-black-venture-2022.

Figure 10: Path to Partner for Black Venture Capital Investment Professionals

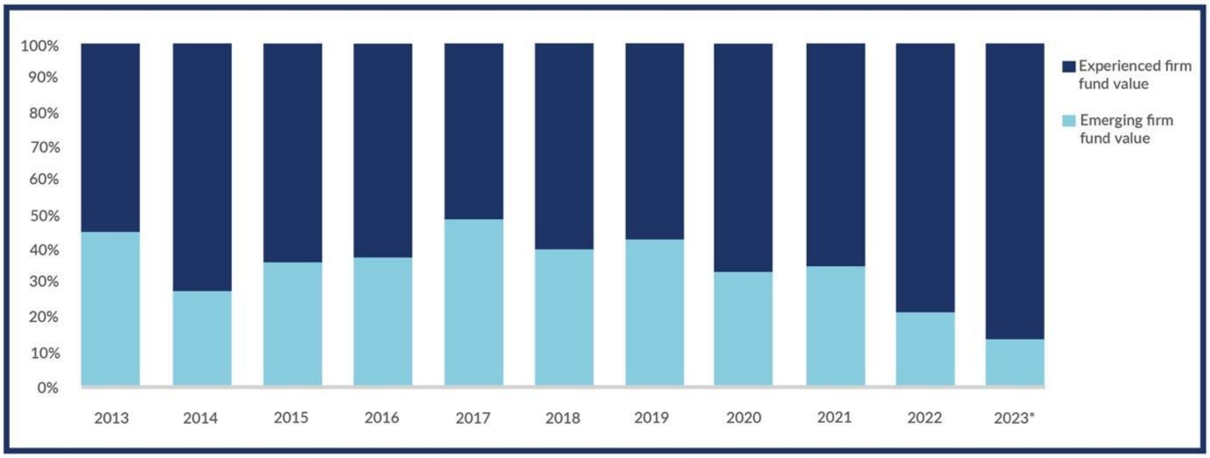


Source: BLCK VC

One challenge for people of color raising first-time funds is that the venture capital industry trend shows that most capital raised goes to experienced fund managers (figure 11). According to PitchBook and NVCA's Q1-2023 report, *Venture Monitor,* 86% of Q1-2023 capital raised by venture capital firms was allocated to experienced fund managers, up significantly from 57% in 2019.[28] This trend creates a barrier for emerging venture fund managers of color looking to raise capital for their first-time funds.

Figure 11: Share of U.S. Venture Capital Raised by Emerging vs. Experienced Managers

[28]. PitchBook and National Venture Capital Monitor (NVCA), "Q1 2023 Venture Monitor," PitchBook and NVCA, April 13, 2023, https://nvca.org/sdm_downloads/q1-2023-venture-monitor-report-pdf/



Source: PitchBook, National Venture Capital Association (NVCA)

First-time fund manager capital-raising challenges often result in smaller-sized funds, and this effect is magnified for first-time Black fund managers, whose funds are, on average, 46% smaller than all first-time fund managers ($30.5 million vs. $57 million) (figure 12). Smaller fund sizes create barriers to success for these Black fund managers. The smaller fund size limits how many investments they can make and the average check size for each investment. As a result, Black fund managers have a more challenging time building wealth through returns on their investments. In addition, smaller-sized funds generate lower management fees, typically 2-3% of assets under management, resulting in Black fund managers having less funding to build their firms.[29]

Figure 12: Average Size of First-Time Venture Funds

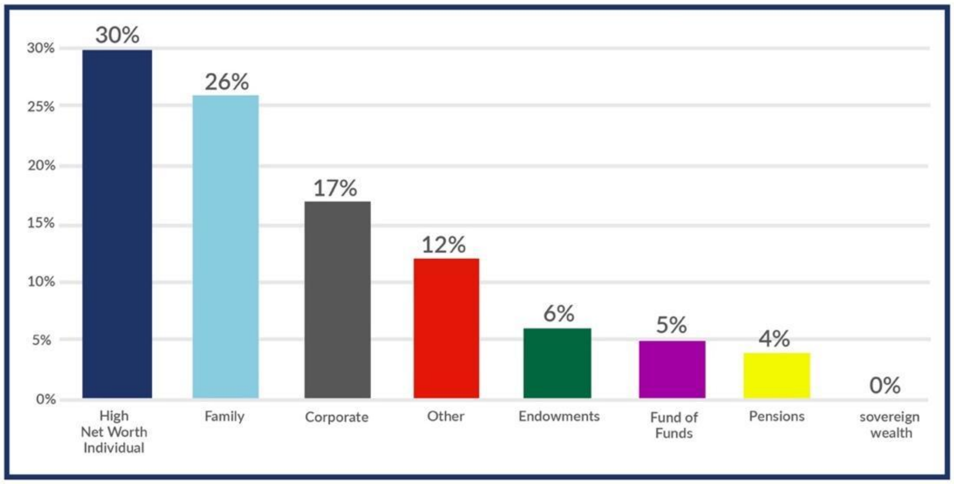
[29]. BLCK VC and Silicon Valley Bank, "State of Black Venture: A Comprehensive Study of the Black Venture Ecosystem, 2022 Edition."

Source: BLCK VC

Black fund managers' smaller fund size can be attributed to their primarily raising capital from smaller limited partners (figure 13). Black fund managers' primary sources of capital come from high-net-worth individuals and family offices, which have less capital available and thus invest smaller amounts. By contrast, large institutional investors, which have the ability to invest more significant amounts, represent a smaller percentage of their limited partners.[30]

[30]. Ibid.

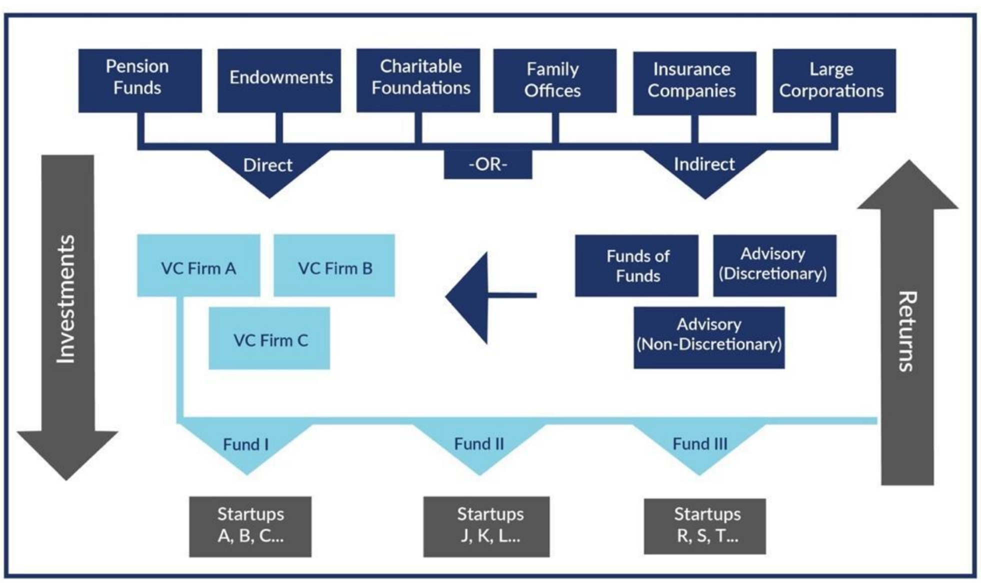
Figure 13: Average Percentage Make-up of LPs in Black-led Venture Capital Funds (2023)



Source: BLCK VC

Just as the venture capital industry controls the flow of capital to startups, institutional investors control the flow of capital to venture capital firms (figure 14). Most of the money established venture capital firms use to fund their portfolio companies comes from capital they fundraise from large institutional investors. These institutional investors are often large pension funds, endowments, and charitable foundations.

Figure 14: The Venture Capital Industry's Capital Flow Model



Source: Nextview

There must be a fundamental change in the flow of capital from the large institutional investors in order to capitalize on the opportunity to invest in fund managers of color and realize better-expected returns.

Research Methodology

We designed an in-depth 30-question survey targeted at venture capital fund managers who had recently or were in the process of raising capital. First, we asked identifying questions, including the survey respondents' names, firms, titles, and locations. Second, we asked profile questions, such as assets under management (AUM), the composition of limited partners, their educational degrees, and how many years they worked in the venture capital industry. Third, we asked fundraising questions, such as when they started fundraising, how long it took to raise the first $1 million, and barriers to fundraising encountered. Fourth, we asked questions about the firm's approach to diversity, equity, and inclusion (DEI), such as how much they promote DEI as part of their investment strategy, how important it is to invest in DEI, and how well their firm has done at investing in DEI. Fifth, we asked a series of questions designed to assess the degree to which they feel their race and gender influenced their capital raising process (either positively, negatively, or with no impact). Finally, we asked survey respondents to self-identify their race/ethnicity and gender.

The survey was created and administered using Qualtrics' survey software and tools. The survey went live in October 2022, and results were recorded over nine months, from October 2022 to July 2023. The first survey was completed on 10/27/22, and the last on 7/18/23.

Over that period, we invited 434 individual venture capitalists to participate in the survey and recorded 40 completed surveys, resulting in a 9.2% response rate. Forty-eight survey respondents started the survey, so the 40 completed surveys represent an 83% completion rate. To put the number of completed surveys in context, 2,771 venture capital funds raised capital from 2021 through the second quarter of 2023.[31] So, the 40 completed surveys represent approximately 1.4% of the funds that raised capital during that time period.

We recognize that the number of surveys represents a smaller sample size, and thus, we must be cautious in interpreting and extrapolating the results. The descriptive statistics are presented by looking at the independent variables (race, gender) against a series of dependent variables represented by the survey questions. We present our initial thoughts on the correlation and causation of the independent and dependent variables, recognizing that additional surveys are needed to draw conclusions. We hope that publishing this whitepaper now with our initial findings will serve as a catalyst for discussion and lead to additional completed surveys. *For this reason, we are leaving the survey live and will continue to market to and solicit respondents to complete the survey.*

Qualtrics captured the survey data, and statistical analysis was performed using IBM's SPSS software and Excel. In presenting the results of the survey questions, we look at the responses to the dependent variables by the independent variables of race and gender. Regarding race, the results are presented for White, Asian, Black, and Hispanic/Latino. In the venture capital industry, Whites and Asians are overrepresented compared to the workforce and population, while Blacks and Hispanics/Latinos are under-represented. For this reason, we also present the results with Blacks and Hispanics/Latinos combined and Whites and Asians combined as another point of comparison for the data.

Our survey is still live, and we continue to collect data to enhance future analysis. If you are a venture capitalist who has recently or is currently

[31]. PitchBook Data, Inc and National Venture Capital Association (NVCA), "Venture Monitor (Q2-2023)," nvca.org, July 2023, https://nvca.org/wp-content/uploads/2023/07/Q2-1.pdf.

raising capital, please complete the survey by going to allycollab.com and clicking "Take the Survey" in the upper right corner.

Demographics of Survey Respondents

We analyzed the demographics data of the forty survey respondents (table 7). For gender, 33% of respondents were female and 68% were male. For race, 45% were White, and 55% were people of color, with 20% Asian, 20% Black, and 15% Hispanic. The respondents represented a range of fund sizes, as measured by assets under management (AUM), with 50% smaller (<$50 million AUM), 28% medium ($50 - $500 million AUM), and 23% larger (>$500 million AUM).

They also represented a wide range of experience in the venture capital industry. The question asked for the number of years of experience in venture capital and did not represent the time in a role they were responsible for fundraising. Of the respondents, 18% had less than five years, 30% had 5 to 10 years, 23% had 11 to 20 years, and 30% had >20 years. The majority of the respondents (78%) were founders of their firm/fund, while 23% were in charge of fundraising but were not the founders. Lastly, all respondents had an educational degree, with 23% having a bachelor's degree and 78% having a graduate degree.

Table 7 – Profiles of Survey Respondents

Gender	% of Total
Female	32.5%
Male	67.5%

Race	% of Total
White	45.0%
Asian	20.0%
Black	20.0%
Hispanic	15.0%

Years in VC	% of Total
< 5 years	17.5%
5 - 10 years	30.0%
11 - 20 years	22.5%
> 20 years	30.0%

Founder Status	% of Total
Non-Founder	22.5%
Founder	77.5%

AUM	% of Total
< $50 million	50.0%
$50 - $500 million	27.5%
> $500 million	22.5%

Education	% of Total
Bachelors Degree	22.5%
Graduate Degree	77.5%

The Impact of Race on Venture Capital Fund Raising

<u>Survey Question</u>: "What impact do you think your race has had on your fund's ability to raise capital?"

We look at race as the independent variable against dependent variables measured by survey question responses. For race, respondents were categorized as White, Asian, Black, or Hispanic based on answers to self-identifying questions. The first question asked respondents to assess the perceived impact race has had on their fundraising efforts (table 8, figure 15).

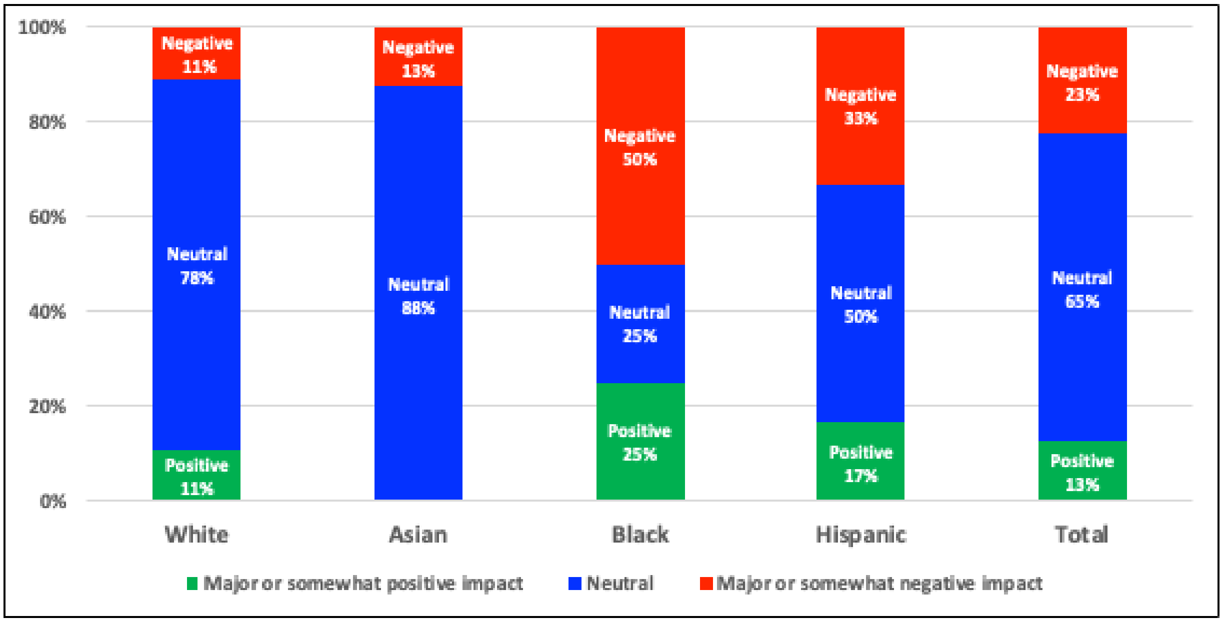
The responses for White and Asian races were similar, with 78% and 88%, respectively, feeling race had no impact on their fundraising and only 11% and 13%, respectively, feeling it had a negative impact. By contrast, 51% of Black respondents felt their race had a negative impact (13% major negative and 38% somewhat negative), while only 25% felt their race had a positive impact (25% somewhat positive and 0% major positive). Hispanic respondents fell in between, with 50% feeling it had a neutral impact, 33% a somewhat negative impact, and 17% a major positive impact.

<u>Summary Finding</u> - 81% of White and Asian fund managers felt their race had a neutral impact on their fundraising. In comparison, 43% of Black and Hispanic fund managers felt their race had a major or somewhat negative impact on their fundraising.

Table 8 - What impact do you think your race has had on your fund's ability to raise capital?

	White	Asian	Black	Hispanic	Total
Major positive impact	0%	0%	0%	17%	3%
Somewhat positive impact	11%	0%	25%	0%	10%
Neutral	78%	88%	25%	50%	65%
Somewhat negative impact	11%	13%	38%	33%	20%
Major negative impact	0%	0%	13%	0%	3%
Total	100%	100%	100%	100%	100%

Figure 15 - What impact do you think your race has had on your fund's ability to raise capital?



<u>Survey Question</u>: How do you feel this length of time compared to your peers? (Length of time refers to how long it took to fundraise their first $1 million.)

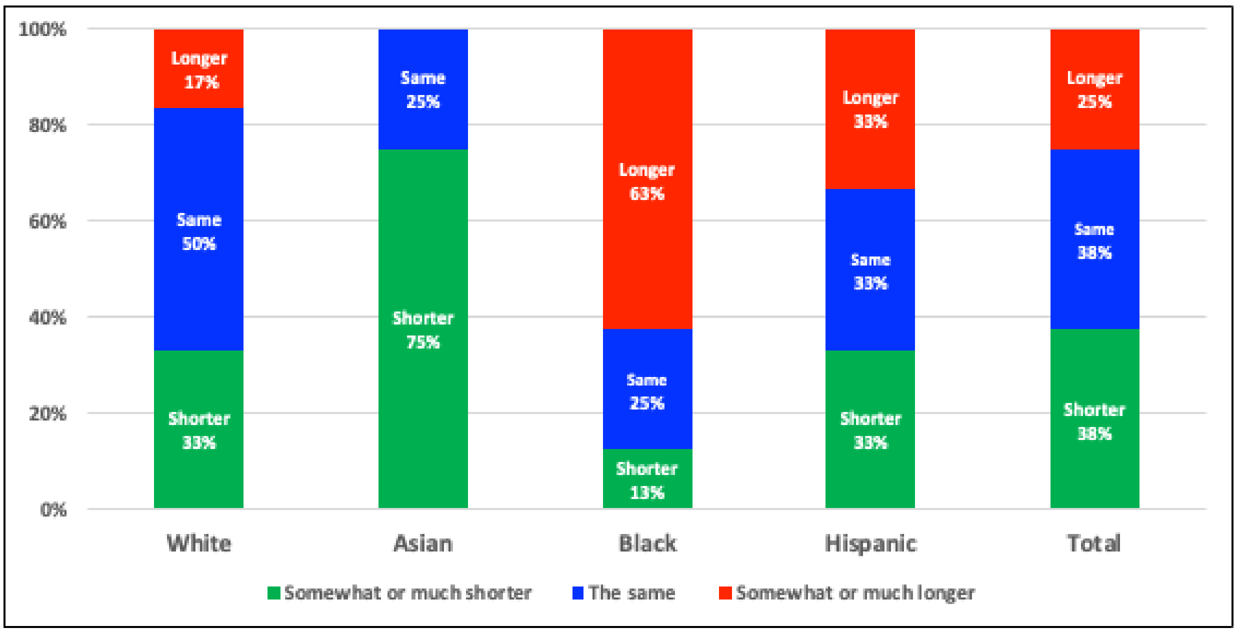
The survey question asked respondents how they felt the length of time to fundraise their first $1 million compared to their peers (table 9, figure 16). Thirty-three percent of White fund managers thought they raised funds faster, 50% felt it was the same, and 17% thought it was longer. Asian fund managers felt they raised funds even faster, with 75% feeling it was a shorter period of time and 25% the same. Conversely, 63% of Black fund managers thought it took much longer than their peers, while only 13% felt it took shorter. Hispanic fund managers were evenly split, with 33% feeling it took shorter, 33% longer, and 33% the same.

<u>Summary Finding</u> – 50% of Black and Hispanic fund managers felt it took longer to raise their first $1 million compared to their peers, while 46% of White and Asian fund managers thought it took a shorter period of time than their peers.

Table 9 - Length of time (to fundraise the first $1M) compared to peers

	White	Asian	Black	Hispanic	Total
Much shorter	22%	63%	13%	33%	30%
Somewhat shorter	11%	13%	0%	0%	8%
The same	50%	25%	25%	33%	38%
Somewhat longer	17%	0%	0%	17%	10%
Much longer	0%	0%	63%	17%	15%
Total	100%	100%	100%	100%	100%

Figure 16 - Length of time (to fundraise the first $1M) compared to peers



<u>Survey Question</u>: How much easier/harder has it been for your fund to access capital since the racial injustice events of 2020?

Next, we look at whether the racial injustice events of 2020 have made it easier for fund managers of color to access capital (table 10, figure 18). We asked respondents to assess whether they think their access to capital has gotten easier, harder, or not impacted since those events of 2020. Since we are specifically looking at the impact on fund managers of color, respondents who self-identified as White were not shown this question.

All 100% of Asian respondents felt there had been no change in their ability to access capital since the racial injustice events of 2020. Hispanic/Latino fund managers were more evenly split, with 25% saying it was somewhat easier, 50% saying there was no change, and 25% saying it was somewhat harder. Of Black fund managers, 71% said it was somewhat easier, and 29% said there was no change.

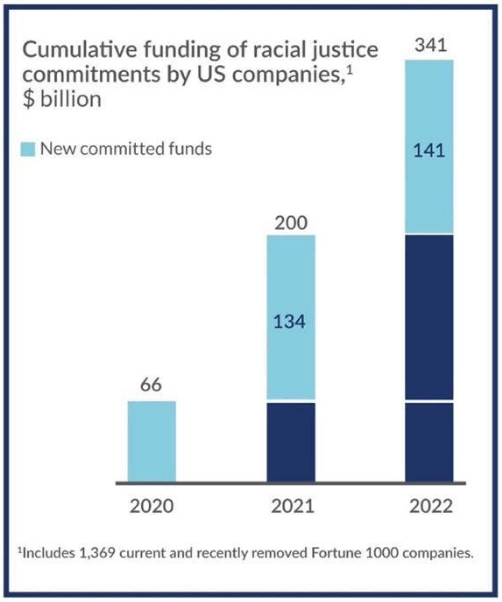
Fortune 1000 companies combined to pledge *over $340 billion* to racial equity between May 2020 and October 2022 (figure 17).[32] The pledges covered a wide range of initiatives, including affordable housing, small and medium enterprise development, financial inclusion, policy advocacy, education, civic engagement, job training, and public infrastructure.[33] The Washington Post analyzed the initial pledges by America's 50 largest public companies and uncovered that $1.7 billion of the $49.5 billion, representing only 3.4% of the total, had actually been disbursed in the 17 months following George Floyd's murder.[34] With the wide range of target initiatives and lack of follow-through, it is not surprising that we did not see more of an impact in our survey results.

Figure 17: Fortune 1000 Commitments to Racial Equity Initiatives (2020 – 2022)

[32]. Megan Armstrong, Eathyn Edwards, and Duwain Pinder, "Corporate Commitments to Racial Justice: An Update," McKinsey & Company, February 21, 2023, https://www.mckinsey.com/bem/our-insights/corporate-commitments-to-racial-justice-an-update.

[33]. McKinsey & Company, "It's a Start: Fortune 1000 Companies Commit $66 Billion to Racial-Equity Initiatives," McKinsey & Company, December 4, 2020, https://www.mckinsey.com/featured-insights/sustainable-inclusive-growth/chart-of-the-day/its-a-start-fortune-1000-companies-commit-66-billion-to-racial-equity-initiatives.

[34]. Jena McGregor, Tracy Jan, and Meghan Hoyer, "Corporate America's $50 Billion Promise," The Washington Post, August 23, 2021, https://www.washingtonpost.com/business/interactive/2021/george-floyd-corporate-america-racial-justice/.



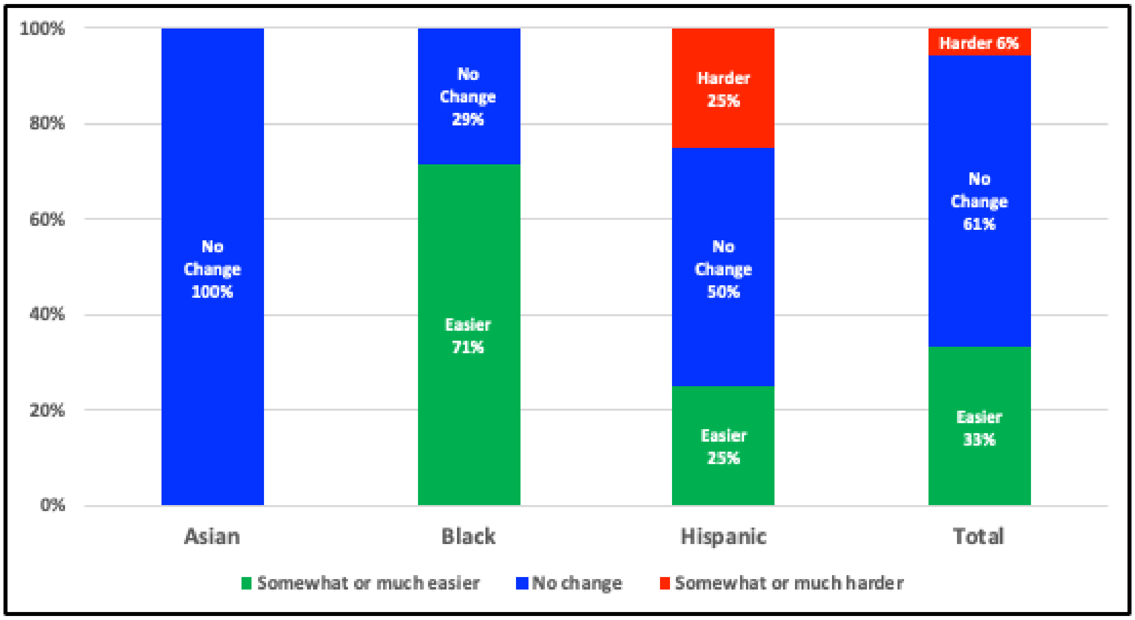
Source: McKinsey & Company

<u>Summary Finding</u> – 71% of Black fund managers felt it was somewhat easier to access capital since the racial injustice events of 2020. By contrast, only 25% of Hispanic/Latino fund managers thought it was easier, and no Asian fund managers felt it was easier.

Table 10 - How much easier/harder has it been for your fund to access capital since the racial injustice events of 2020? (Question not asked of White fund managers)

	Asian	Black	Hispanic	Total
Much easier	0%	0%	0%	0%
Somewhat easier	0%	71%	25%	33%
No change	100%	29%	50%	61%
Somewhat harder	0%	0%	25%	6%
Much harder	0%	0%	0%	0%
Total	100%	100%	100%	100%

Figure 18 - How much easier/harder has it been for your fund to access capital since the racial injustice events of 2020? (Question not asked of White fund managers)



100%
80%
60%
40%
20%
0%
No Change 100%
No Change 29%
Easier 71%
Harder 25%
No Change 50%
Easier 25%
Harder 6%
No Change 61%
Easier 33%
Asian
Black
Hispanic
Total
Somewhat or much easier
No change
Somewhat or much harder

<u>Survey Question</u>: In general, would you agree that it is becoming increasingly easier for funds owned by people of your race and gender to access capital?

The previous question looked specifically at the perceived change in access to capital during the time period from May 2020 to the present. Next, we looked at fund managers of color's perception of whether, in general, it's becoming easier for fund managers of their race to access capital in the current environment (table 11, figure 19). Specifically, we asked respondents, "In general, would you agree that it is becoming increasingly easier for funds owned by people of your race and gender to access capital?" Since we are specifically looking at the impact on fund managers of color, respondents who self-identified as White were also not shown this question.

Asian fund managers generally disagreed that it was getting easier, with 50% saying they somewhat disagreed, while 38% said they neither disagreed nor agreed, and 13% said they strongly agreed. Similarly, 50% of Black fund managers said they disagreed that it was getting easier (38% somewhat disagreed and 13% strongly disagreed), while 25% neither agreed or disagreed, and 25% somewhat agreed. By contrast, only 17% of Hispanic/Latino fund managers disagreed, with 50% neither agreeing nor disagreeing and 34% agreeing that it's getting easier (17% somewhat agreed and 17% strongly agreed).

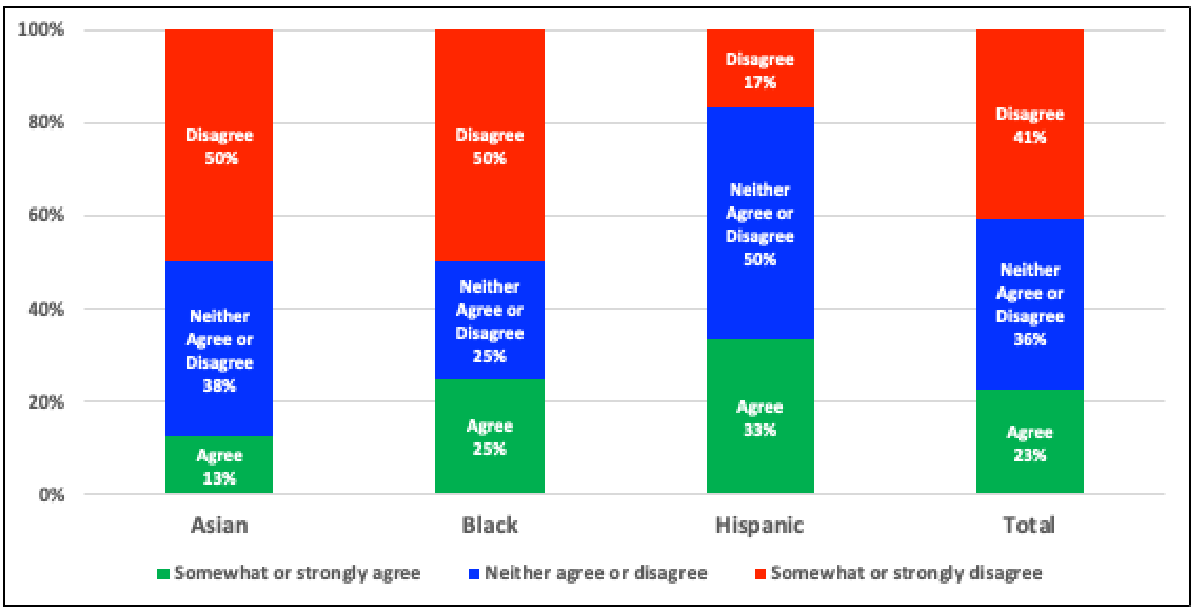
While 71% of Black fund managers felt that access to capital was easier since the racial injustice events of 2020, only 25% felt that in the current environment, it was becoming increasingly easier for fund managers of their race to access capital. The decline may reflect a slowing momentum and lack of follow-through on Corporate America's racial equity initiatives.

<u>Summary Finding</u> – 41% of fund managers of color disagreed that it was getting increasingly easier for fund managers of their race to access capital. Specifically, 50% of Asian and Black fund managers disagreed that it was easier to access capital.

Table 11 - In general, would you agree that it is becoming increasingly easier for funds owned by people of your race and gender to access capital? (Question not asked of White fund managers)

	Asian	Black	Hispanic	Total
Strongly agree	13%	0%	17%	9%
Somewhat agree	0%	25%	17%	14%
Neither agree nor disagree	38%	25%	50%	36%
Somewhat disagree	50%	38%	17%	36%
Strongly disagree	0%	13%	0%	5%
Total	100%	100%	100%	100%

Figure 19 - In general, would you agree that it is becoming increasingly easier for funds owned by people of your race and gender to access capital? (Question not asked of White fund managers)



The Impact of Gender on Venture Capital Fund Raising

Survey Question: What impact do you think your gender has had on your fund's ability to raise capital?

We now look at gender as the independent variable against dependent variables measured by certain survey question responses. For gender, respondents were categorized as female or male based on answers to self-identifying questions. Respondents were given the option to select a different gender (e.g., non-binary) or complete a self-description, but no respondents selected these options. The first question asked respondents to assess the perceived impact their gender has had on their fundraising efforts (table 12, figure 20).

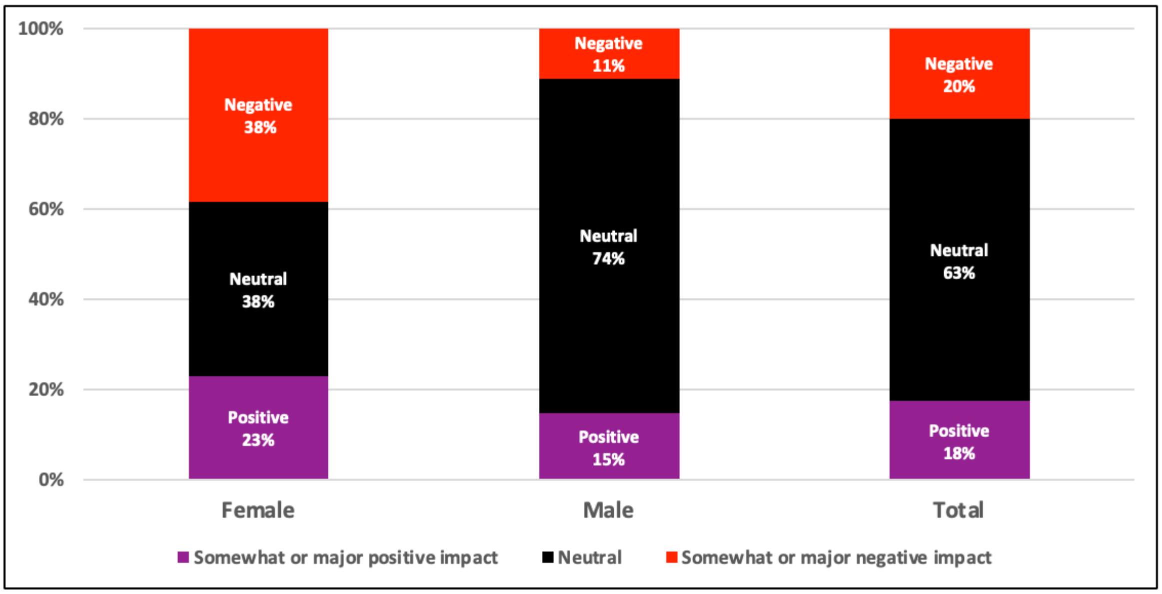
There was a clear distinction in the perceived impact on capital raising between females and males. Males viewed their gender as not impacting their fundraising, with 74% selecting neutral in the survey. The remaining respondents were split, with 15% indicating their gender had a somewhat positive impact and 11% indicating it had a somewhat negative impact. By contrast, a significantly higher percentage of females felt their gender had a negative impact, with 38% indicating a somewhat negative impact (23%) or major negative impact (15%). For the rest of the female respondents, 38% indicated their gender had no impact, and 23% felt it was a positive. Interestingly, more women felt their gender had a negative impact than men, but more women also thought it was a positive.

Summary Finding – 74% of males believe their gender did not impact their fundraising efforts. By contrast, 38% of females felt their gender had a negative impact. Interestingly, more women felt their gender had a negative impact compared to men (38% vs. 11%), but more women also thought it had a positive impact (23% vs. 15%).

Table 12 - What impact do you think your gender has had on your fund's ability to raise capital?

	Female	Male	Total
Major positive impact	8%	0%	3%
Somewhat positive impact	15%	15%	15%
Neutral	38%	74%	63%
Somewhat negative impact	23%	11%	15%
Major negative impact	15%	0%	5%
Total	100%	100%	100%

Figure 20 - What impact do you think your gender has had on your fund's ability to raise capital?



<u>Survey Question</u>: How do you feel this length of time compared to your peers? (Length of time refers to how long it took to fundraise their first $1 million.)

The survey question asked respondents how they felt the length of time to fundraise their first $1 million compared to their peers, and we looked at the responses by gender (table 13, figure 21). Overall, 48% of men felt it took less time to raise their first $1 million than their peers, with 37% much shorter and 11% somewhat shorter. By contrast, only 15% of females felt it took less time than their peers.

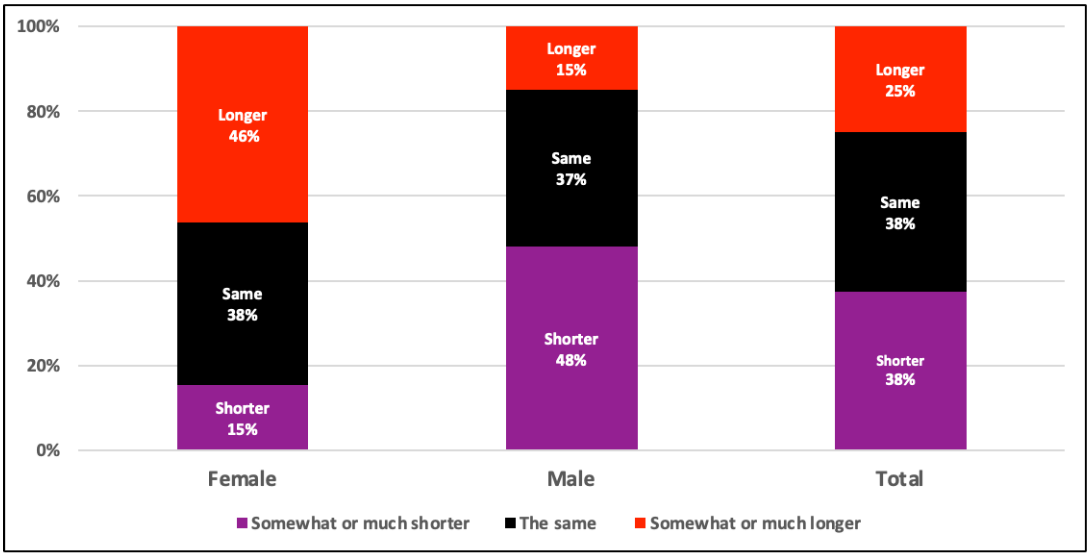
The percentage of respondents who felt they took the same amount of time to fundraise their first $1 million was equivalent for men (37%) and women (38%). However, significantly more women (46%) felt it took them longer (8% somewhat longer and 38% much longer), compared to 15% of men who thought it took longer (11% somewhat longer and 4% much longer).

<u>Summary Findings</u> – the majority of men (48%) felt it took them a shorter period of time to raise their first $1 million compared to their peers. By contrast, the majority of women (46%) felt that it took them a longer period of time to raise their first $1 million.

Table 13 - Length of time (to fundraise the first $1M) compared to peers

	Female	Male	Total
Much shorter	15%	37%	30%
Somewhat Shorter	0%	11%	8%
The same	38%	37%	38%
Somewhat Longer	8%	11%	10%
Much longer	38%	4%	15%
Total	100%	100%	100%

Figure 21 - Length of time (to fundraise the first $1M) compared to peers



<u>Survey Question</u>: In general, would you agree that it is becoming increasingly easier for funds owned by people of your race and gender to access capital?

This question asked survey respondents to assess if, in the current environment, they thought it was easier for fund managers of their race and gender to access capital (table 14, figure 22). In the previous section, we analyzed the responses by race, so now we will look at the responses isolating for gender.

Since we were specifically looking at the impact of race and gender on fund managers of color, respondents who self-identified as White were also not shown this question.

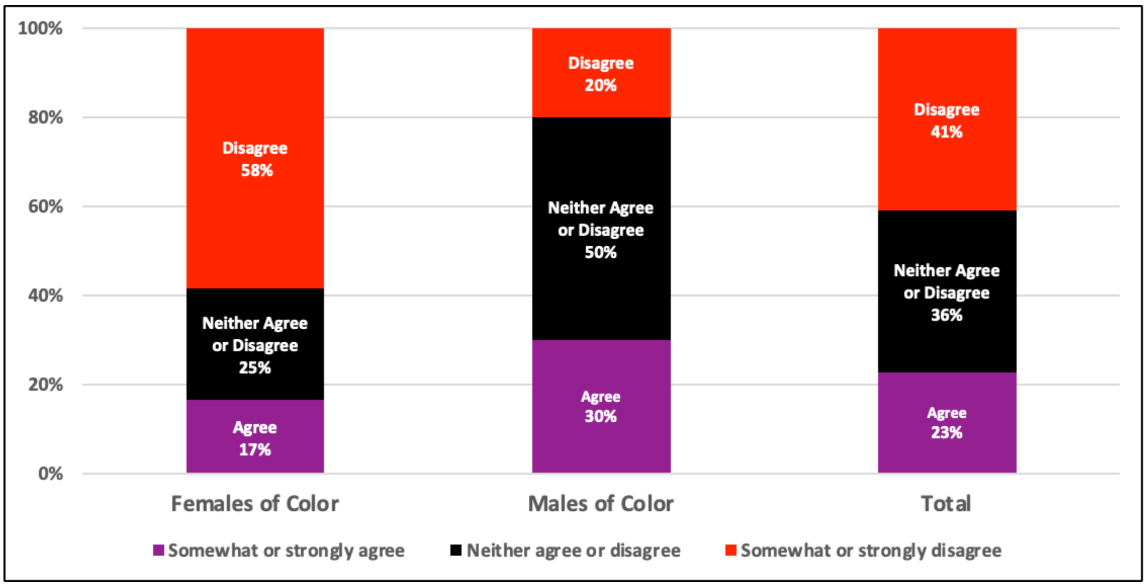
For male fund managers of color, 30% agreed it was becoming increasingly easier to access capital (10% strongly agreed and 20% somewhat agreed). Half (50%) neither agreed nor disagreed, and 20% disagreed (10% strongly disagreed and 10% somewhat disagreed). By contrast, the majority of women fund managers of color (58%) disagreed that it was becoming increasingly easier to access capital (0% strongly disagreed, and 58% somewhat disagreed). Only 17% of women agreed it was becoming easier to access capital, and 25% neither agreed nor disagreed.

Summary findings – 58% of women disagreed that it is becoming increasingly easier for fund managers of color of their race and gender to access capital. By contrast, 50% of men neither agreed nor disagreed that it was becoming easier, while 30% agreed that it was becoming easier.

Table 14 – Agree that it is becoming easier for fund managers of their race and gender to access capital

	Females of Color	Males of Color	Total
Strongly agree	8%	10%	9%
Somewhat agree	8%	20%	14%
Neither agree nor disagree	25%	50%	36%
Somewhat disagree	58%	10%	36%
Strongly disagree	0%	10%	5%
Total	100%	100%	100%

Figure 22 - Agree that it is becoming easier for fund managers of their race and gender to access capital



Diversity, Equity, and Inclusion Survey Results

<u>Survey Question</u>: Do you agree that the venture capital industry as a whole needs to do a better job leveling the playing field for managers of all races and genders?

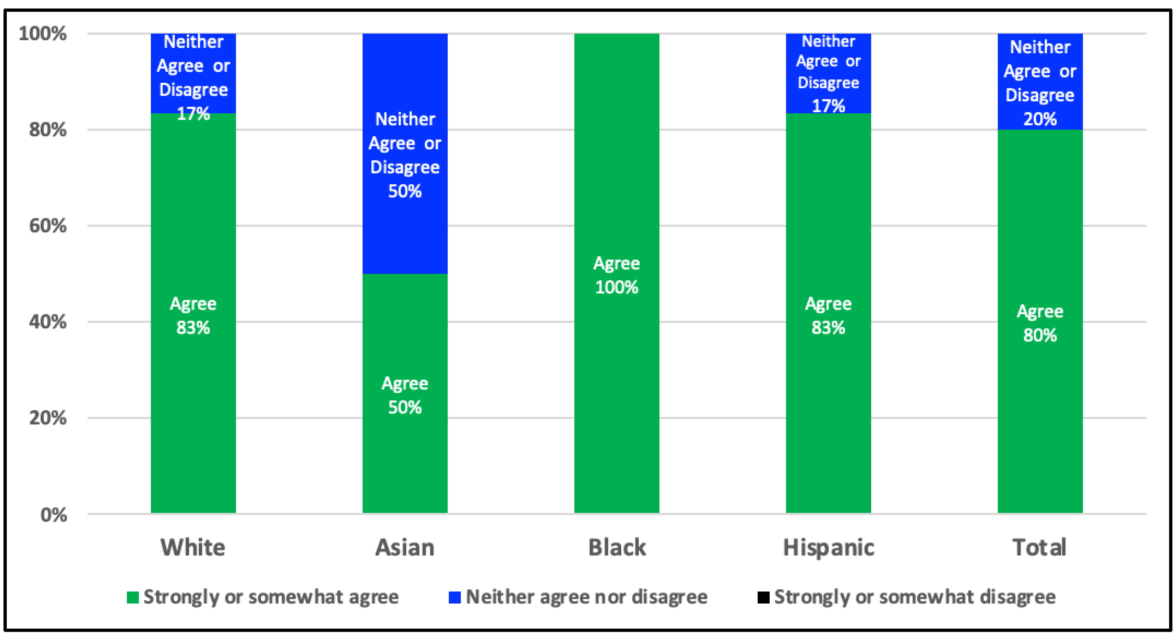
There was strong recognition of the need to level the playing field in venture capital, with 80% of all survey respondents agreeing with the survey question (53% strongly agreed and 28% somewhat agreed). Only 20% of respondents neither disagreed nor agreed with the statement, and no respondents disagreed with the need to level the playing field.

From a race perspective, 83% of White respondents agreed with the statement (50% strongly agreed and 33% somewhat agreed), 17% were neutral, and none disagreed with the need to level the playing field (table 15, figure 23). Hispanic/Latino respondents had identical results, with 83% agreeing with the statement (50% strongly agreed and 33% somewhat agreed), 17% neutral, and none disagreeing. 100% of Black respondents strongly agreed with the statement. Asian respondents were more evenly split, with 50% agreeing with the statement and 50% neutral.

Table 15 – Do you agree that the Venture Capital Industry needs to do a better job leveling the playing for managers of all races and genders?

	White	Asian	Black	Hispanic	Total
Strongly agree	50%	13%	100%	50%	53%
Somewhat agree	33%	38%	0%	33%	28%
Neither agree nor disagree	17%	50%	0%	17%	20%
Somewhat disagree	0%	0%	0%	0%	0%
Strongly disagree	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%

Figure 23 - Do you agree that the Venture Capital Industry needs to do a better job leveling the playing for managers of all races and genders?

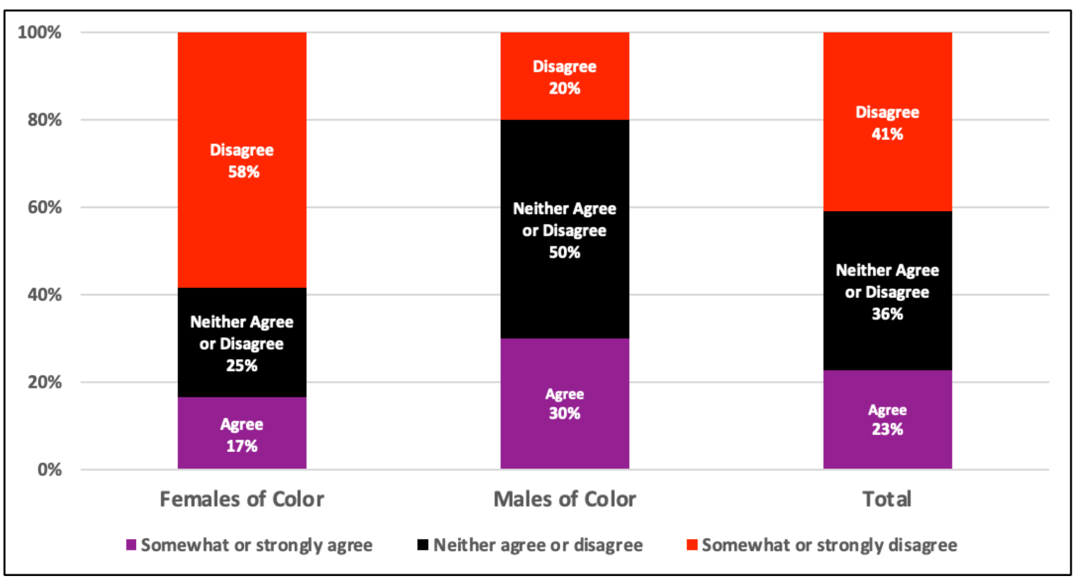


Looking at the same survey question from a gender perspective, both men and women agreed with the statement, but women expressed a stronger sentiment (table 16, figure 24). Of the female respondents, 92% agreed (85% strongly agreed and 8% somewhat agreed) compared to 74% of men who agreed (37% strongly agreed and 37% somewhat agreed). The balance of men and women neither agreed nor disagreed with the statement, and no survey respondents disagreed.

Table 16 – Do you agree that the Venture Capital Industry needs to do a better job leveling the playing for managers of all races and genders?

	Female	Male	Total
Strongly agree	85%	37%	53%
Somewhat agree	8%	37%	28%
Neither agree nor disagree	8%	26%	20%
Somewhat disagree	0%	0%	0%
Strongly disagree	0%	0%	0%
Total	100%	100%	100%

Figure 24 - Do you agree that the Venture Capital Industry needs to do a better job leveling the playing for managers of all races and genders?



<u>Summary Findings</u> - There was a strong recognition of the need to level the race and gender playing field in venture capital, with 80% agreeing with the statement, 20% neutral, and none disagreeing. From a race perspective, 93% of Black and Hispanic fund managers agreed, while 73% of White and Asian fund managers agreed. From a gender perspective, 92% of women and 74% of men agreed.

<u>Survey Question</u>: How important do you believe it is to invest in diversity, equity, and inclusion (DEI)?

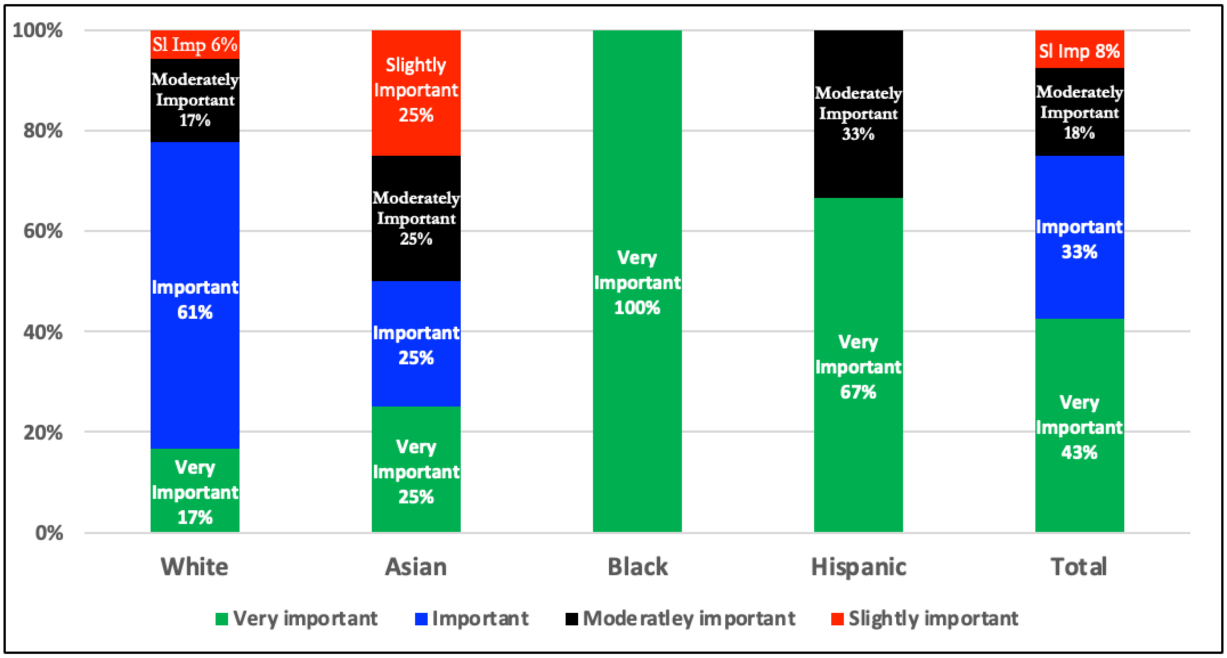
As we felt it would be more unlikely that survey respondents would say that investing in DEI was not important, we designed the question to quantify the degree of importance (very important, important, moderately important, or slightly important) assigned by the respondents (table 17, figure 25). In total, 43% of respondents indicated investing in DEI was very important, 33% important, 18% moderately important, and 8% said it was only slightly important.

From a race perspective, 17% of White fund managers said investing in DEI was very important, 61% important, 17% moderately important, and 6% slightly important. All 100% of Black fund managers said it was very important. 67% of Hispanic/Latino fund managers said it was very important, with the other 33% saying it was moderately important. Asian fund managers were equally distributed, with 25% responding to each of the four classifications of importance.

Table 17 – How important do you believe it is to invest in diversity, equity, and inclusion?

	White	Asian	Black	Hispanic	Total
Very important	17%	25%	100%	67%	43%
Important	61%	25%	0%	0%	33%
Moderatley important	17%	25%	0%	33%	18%
Slightly important	6%	25%	0%	0%	8%
Total	100%	100%	100%	100%	100%

Figure 25 - How important do you believe it is to invest in diversity, equity, and inclusion?

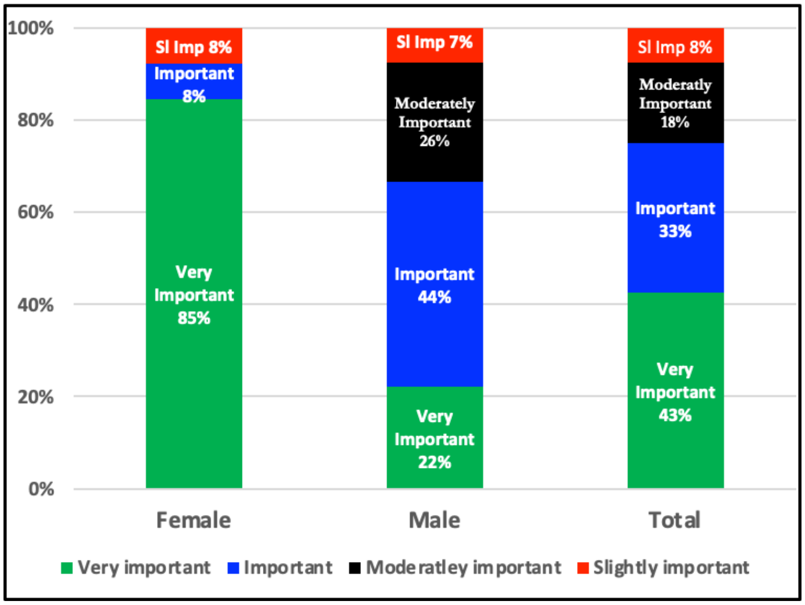


From a gender perspective, females placed more importance on investing in DEI than males, with 85% of women saying it was very important compared to 22% of men (table 18, figure 26). For the other important classifications, the remaining men were more evenly distributed, with 44% saying it was important, 26% moderately important, and 7% slightly important. For the remaining women, 8% said it was important, and 8% slightly important.

Table 18 – How important do you believe it is to invest in diversity, equity, and inclusion?

	Female	Male	Total
Very important	85%	22%	43%
Important	8%	44%	33%
Moderatley important	0%	26%	18%
Slightly important	8%	7%	8%
Total	100%	100%	100%

Figure 26 - How important do you believe it is to invest in diversity, equity, and inclusion?



<u>Summary Findings</u> **– Black and Hispanic/Latino fund managers thought it was very important to invest in DEI with 100% and 67%, respectively, compared to 22% for White fund managers, while 61% thought it was important. From a gender perspective, 85% of women thought it was very important, compared to 22% of men.**

Fundraising Barriers Discussed

From a qualitative perspective, we asked fund managers an open-ended question, "What were the biggest barriers to raising funds for their fund?" The respondents identified numerous barriers, with some relating to race and gender and some unrelated. We will discuss race and gender-related barriers. One barrier identified is that the fund manager invests globally, as diverse founders are global, but found that diversity-focused limited partners do not invest in funds investing internationally. Another respondent highlighted their belief that limited partners do not understand or believe a diversity investment strategy can produce higher returns.

One female fund manager highlighted her desire to have more women limited partners but is challenged by the fact that men control most of the investment dollars. Even among potential high-net-worth limited partners, her experience is that women can write investment checks for $10 thousand, while men in the same household write investment checks for $100 thousand to $250 thousand. She also highlighted the challenge not in raising the first $1 million but the total amount of the fund, where you have to move past friends, family, and primary contacts to second and third-tier contacts.

For female fund managers and fund managers of color, the challenges of being an emerging, first-time fund manager were highlighted, consistent with the research presented earlier. In particular, investors did not appreciate and understand the transferability of experience for first-time managers. For example, one fund manager cited that their expertise and track record in real estate does not seem to transfer over venture capital with potential investors.

One fund manager of color felt that investors put too much emphasis on past performance, which is not indicative of future performance. Diverse emerging fund managers typically haven't had the opportunities to work at institutional firms to build a track record or have the wealth/capital to invest in angel/venture companies. Ultimately, track records are used to filter out diverse emerging fund managers instead of talent, potential, vision, and investment strategy prevailing. The fund manager believes the industry needs a different lens to evaluate diverse, emerging fund managers.

Recommendations to Increase Diversity in Venture Capital

Actions To Diversify the Venture Capital Industry and Increase Investments in Entrepreneurs of Color
1) Venture capital firms should build diversity into their hiring practices from the beginning, as it is much harder to diversify an established firm.
2) Venture capitalists should proactively and intentionally diversify their personal and professional networks to increase their exposure to diverse deal flow and hiring candidates.
3) Venture capital firms should establish relationships with recruiting firms specializing in diverse hiring to increase the sourcing of diverse job candidates.
4) Venture capital firms should set quantifiable and measurable goals for diverse hiring and investing in entrepreneurs of color to increase accountability.
5) Venture capital firms should voluntarily publicly report their diversity metrics to create visibility, awareness, and accountability for achieving diversity goals.
6) Venture capital firms should use their ownership and board positions to hold their portfolio companies accountable for achieving diversity.
7) Venture capital firms should proactively and intentionally recruit diverse limited partners to invest in their funds, increasing the number of diverse perspectives.
8) Limited partners should exert pressure on the venture capital funds in which they invest to diversify the VC firm's investment professionals and increase investments in entrepreneurs of color.
9) Venture capitalists who believe in diversity as a personal priority should take a more active role in advocating for increasing diversity as a firm-wide priority.
10) Venture capital firms should track financial returns on their investments in founders of color relative to their overall portfolio to validate and re-enforce their strategy.
11) Existing venture capital firms should consider adding new funds to invest in entrepreneurs of color as part of their investment strategy.
12) Venture capitalists should provide constructive feedback to entrepreneurs of color to help strengthen their pitch, even if they don't invest in them.
13) Venture capitalists should attend pitch days, conferences, events, and demo days specifically focused on women and entrepreneurs to color to increase their exposure to potential investment deals.
14) Venture capital firms should re-evaluate and expand their criteria for evaluating investments to remove implicit bias and capture new opportunities represented by entrepreneurs of color.
15) Venture capital firms should consider adopting a diversity inclusion rider, which includes the intention to add an additional investor of color to a deal, thus increasing access for diverse investors, founders, and the venture capital firm.

There are numerous actions venture capital firms can take to increase diversity in the industry and increase investments in entrepreneurs of color:

1. **Startup venture capital firms should build diversity into their hiring practices from inception.** It is much easier to build a diverse venture capital firm from the start than to diversify an established firm. This dynamic is especially true given the small number of employees in a typical venture capital firm, and these firms only hire, on average, an investment professional every two to four years.[35]
2. **Venture capitalists should proactively and intentionally diversify their personal and professional networks.** These networks are essential in hiring, referrals, and deal sourcing for venture capitalists. Increased social contact with professionals with different backgrounds than their own has been shown to decrease bias. Social interactions can result in people establishing commonalities with someone beyond demographic factors, such as race and ethnicity. Research also shows that the benefits of these diverse social interactions carry over to the workplace, where expanded networks and broadened perspectives can improve both individual and firm performance.[36]
3. **Venture capital firms should establish relationships with recruiting firms that specialize in finding and placing candidates of color and women candidates.** Venture capitalists traditionally rely heavily on their network for sourcing job candidates for their firm hiring and portfolio companies. However, since their networks tend to be homogenous, the candidates they consider also tend to be homogenous.
4. **Venture capital firms should set specific, quantifiable, and measurable goals for investing in entrepreneurs of color and hiring diverse teams.** In this way, whether a

[35]. Gompers and Kovvali, "The Other Diversity Dividend."

[36]. Ibid.

venture capital firm is meeting its diversity goals should be clear because it's a binary outcome in which the venture capital firm either met or failed to meet the quantified goal. The more specific diversity targets a venture capital has, the more likely it is to initiate real change in its investment behavior. In addition, the goals should be realistic and sustainable so the firm is setting itself up for success.

5. **Venture capital firms should publicly report on their diversity, equity, and inclusion (DEI) metrics.** These metrics include (1) a breakdown of the venture capital firm's employees by gender, race, and ethnicity, (2) a breakdown of their portfolio companies' employees by gender, race, and ethnicity, (3) the number of companies with founders of color they evaluate for an investment, and (4) the number of companies with founders of color in which they actually invest. Since venture capital firms are mostly all private companies, they do not have the same disclosure requirements as public companies. However, firms voluntarily releasing DEI metrics are leading the way toward better diversity in their field. These disclosures can create more visibility and awareness of the importance of tracking the metrics and create more accountability for achieving them.
6. **Venture capital firms should use their investment ownership and board positions to hold their portfolio companies accountable for also achieving diversity through DEI policies.** Venture capitalists should even be willing to reduce their investment in portfolio companies that are not sufficiently diverse. According to the 2020 Morgan Stanley venture capital survey, only 12% of venture capitalists said they would be willing to reduce their investment in portfolio companies that lack diversity, and only 36% said they hold their portfolio firms accountable for achieving diversity.[37] While these numbers are low, they also

[37]. Morgan Stanley, "Can VCs Turn New Focus on Race and Inequality into Long-Term Impact?," Morgan Stanley, November 19, 2020, https://www.morganstanley.com/ideas/vc-progress-toward-racial-equality-2020-report.

show the upside opportunity if more venture capitalists are willing to embrace such actions.

7. **Venture capital firms should proactively and intentionally recruit diverse limited partners to invest in their funds.** The concept that a diverse group of people with different perspectives results in better performance also applies to having a diverse group of limited partners. The diversity of viewpoints, worldviews, and belief systems can improve the guidance and input the limited partners provide to the venture capital firm.
8. **Limited partners should exert pressure on the general partners of the venture capital funds they invest to diversify both their investment professionals on staff and their investments.** Limited partners with significant influence over investment decision-making in the venture capital ecosystem can help shift industry priorities to invest in more diverse entrepreneurs.
9. **Individual venture capitalists who believe in diversity as a personal priority should take a more active role in advocating for increasing diversity as a firm-wide priority.** In the Morgan Stanley survey, the percentage of venture capitalists who said finding opportunities to invest in entrepreneurs of color was a personal priority remained the same versus the prior year at 45%. Meanwhile, those saying it was a top priority for the firm increased by ten percentage points, from 33% to 43%.[38] This increase as a firm-wide top priority indicates some progress, but with less than 50%, ample room exists for improvement.
10. **Venture capital firms should track the financial returns of their investments in entrepreneurs of color relative to their overall portfolio.** In the Morgan Stanley survey, almost all venture capitalists who tracked these returns reported that the entrepreneurs of color-owned companies' returns were performing at or above the overview portfolio, consistent with existing research. Receiving confirmation of achieving excess returns from

[38]. Morgan Stanley, "Can VCs Turn New Focus on Race and Inequality into Long-Term Impact?"

investing in entrepreneurs of color will validate and reinforce the venture capital firm's strategy in this area.

11. **Venture capital firms should create more funds specifically to invest in entrepreneurs of color.** Most venture capital funds that invest in entrepreneurs of color as a core part of their investment strategy are owned and led by venture capitalists of color. However, there is an opportunity for larger, established venture capital firms that lack diversity amongst their partners to launch new funds focused on investing in entrepreneurs of color. Adding these new funds will also create opportunities to hire investment professionals of color in the funds.
12. **Venture capitalists should provide constructive feedback to entrepreneurs of color to help strengthen their pitch, even if they do not invest in them.** Venture capitalists who hear pitches from diverse founders may have legitimate reasons for not investing. However, providing these entrepreneurs with information, feedback, and guidance can improve their chances in future pitches.
13. **Venture capitalists should attend conferences, events, and demo days specifically focused on women and entrepreneurs of color to increase their exposure to potential investment deals.** Numerous opportunities to invest in diverse founders exist; however, venture capitalists must proactively and intentionally seek out and identify them. In addition, venture capital firms should also hold pitch days specifically for women and entrepreneurs of color to increase their exposure to potential deals. Firms could partner with nonprofit organizations or associations dedicated to advancing under-represented groups.
14. **Venture capital firms should re-evaluate and expand their criteria for evaluating investment opportunities.** A firm's existing screening criteria likely reflect some level of bias, whether implicit or explicit. For example, evaluating an entrepreneur based on the prestige of their university degrees would eliminate qualified entrepreneurs who could not afford to

attend a prestigious university. Instead, venture capitalists should consider factors such as the caliber of their ideas and understanding of and access to unique markets and consumers that could provide the venture capital firm with opportunities outside their traditional focus.[39]

15. **Venture capital firms could implement the concept of a diversity inclusion rider.** The rider includes the intention that every term sheet for an investment includes at least one additional outside investor of color. As a result, diverse investors gain access to deals and networks from which they were previously excluded. Founders of color gain access to new and diverse networks and funding sources. Venture capital firms writing the term sheet benefit from better performance and financial results that come with increased diversity.

[39]. Morgan Stanley, "The Trillion-Dollar Blind Spot," Morgan Stanley, December 11, 2018, https://www.morganstanley.com/ideas/trillion-dollar-blind-spot-infographic.

About Justin Huebner

Named by *South Bay Magazine* as one of nine "Faces of the Future," Justin Huebner is an 18-year-old high school senior from Los Angeles, California. Justin has worked to advance racial equity in the venture capital industry for the past three years. Justin works as an intern at Wocstar Fund, an early-stage venture capital fund that invests in women of color entrepreneurs and diverse teams. Justin has taken finance and social justice courses through programs at Columbia University, The Wharton School of the University of Pennsylvania, and Harvard University.

Justin recently authored and published a research-based book, *Inclusive Investing: Realizing the Power of Entrepreneurs of Color, The Imperative for Racial Equity in Venture Capital Raising*. In the book, he sheds light on the under-representation of business owners of color in the U.S., highlighting the barriers they encounter when seeking capital. He demonstrates many benefits of fixing these disparities, including enhanced investment returns, job creation, amplified innovation, economic growth, and narrowing the racial wealth gap.

About Ally Capital Collab

Ally Capital Collab is a public charity that provides resources to venture capital funds investing in inclusive entrepreneurs. Ally Capital Collab's mission is to solve the problem of underinvestment in BIPOC companies by changing WHO and HOW we invest in PEOPLE.

Ally Capital Collab mobilizes and activates a cross-section of stakeholders who are allies—individuals, prominent CEOs, business and political leaders, communities, local leaders, corporations, and foundations—to advocate for change through grassroots community-building methods. They seek to redesign the fundraising process and ecosystem to make it easier for limited partners to invest in venture capital fund managers of color.

Endnotes