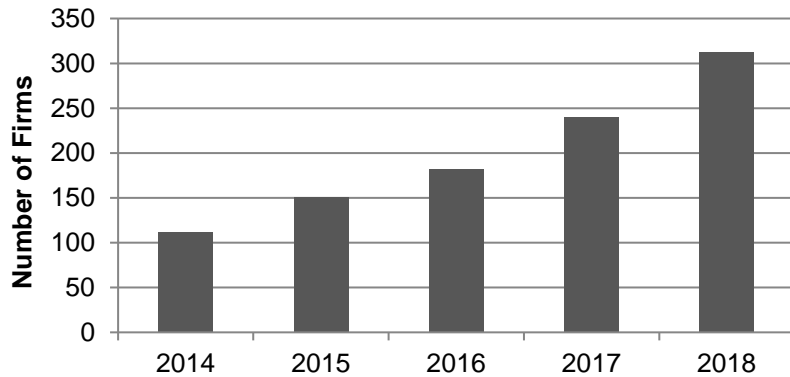


Fairview Capital’s Market Review of Woman and Minority-Owned Private Equity Firms

The universe of woman and minority-owned private equity firms grew and evolved significantly in 2018, rising to 312 at year-end, up from 240 at the end of 2017. The increase represented the largest ever in a one-year period since Fairview began tracking data on diverse firms. The universe has more than doubled since 2015.

The criteria for classifying a private equity firm as woman and/or minority-owned often varies. In this market review, we only consider institutional quality private equity and venture capital firms that are majority owned (>50%) by women and/or ethnic minorities. The firms must be based in, and primarily investing in, the United States.*

Exhibit 1: Universe of Woman and Minority-Owned Private Equity Firms



Data: Fairview Capital Proprietary Database of Woman and Minority-Owned Firms as of December 31, 2018

We identified 131 woman and minority-owned firms actively raising capital in 2018. In aggregate, these firms represented less than 10% of all private equity firms in the market during the year.¹ As one of the most active investors in diverse managers, Fairview conducted due diligence on virtually every institutional quality woman and minority-owned firm in the market in 2018, providing the Firm a unique vantage point.

New Firm Formation Is Robust

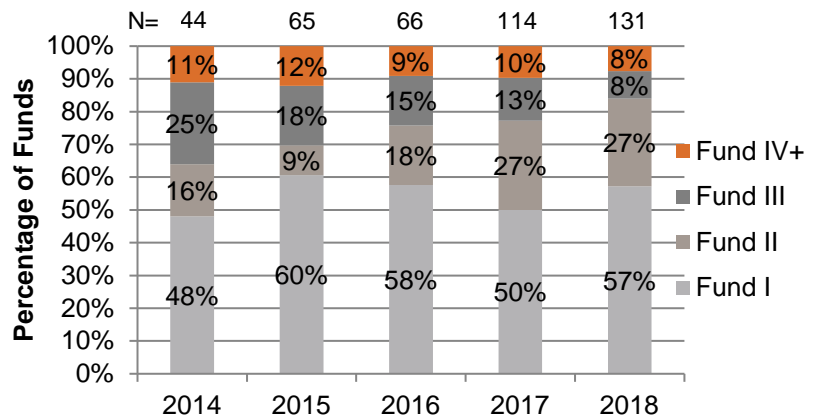
This past year, we observed an acceleration of new firm formation as experienced women and minorities launched firms at a record pace. Newer woman and minority-owned firms often feature different networks, relationships and approaches than established firms. In an industry that is characterized by change, we find that these differentiating factors can represent significant competitive advantages in sourcing, conducting due diligence, securing financing, making operating enhancements and exiting. Many of the new firms are “millennial-friendly” and are more reflective of, and relatable to, the entrepreneurs and markets in which they invest.

* Defined by the U.S. Census Bureau as American Indian or Alaska Native, Asian American, Black or African American, Hispanic or Latino, and Native Hawaiian or Other Pacific Islander

¹ Fairview Capital data and analysis, Preqin Q3 2018 Private Capital Fundraising Update

The majority of the opportunity set over the past five years has been comprised of first-time funds being raised by new firms. In 2018, 57% of woman and minority-owned firms in the market, 75 firms, were raising first-time funds, an all-time record. On an absolute basis, we have observed a long-term increase in new woman and minority-owned firms, as demonstrated by a 37% compound annual growth rate in first-time funds in the market since 2014.

Exhibit 2: Fund Sequence of Woman and Minority-Owned Firms in the Market



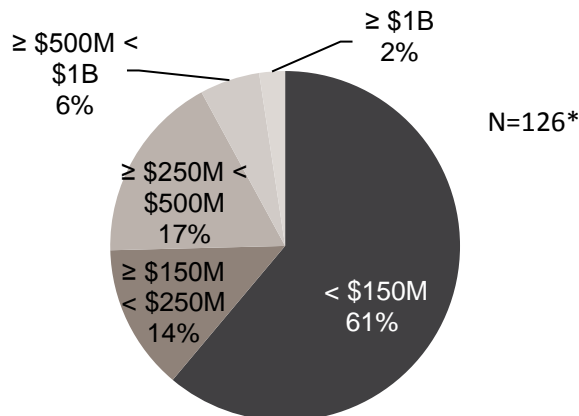
Data: Fairview Capital Proprietary Database of Woman and Minority-Owned Firms as of December 31, 2018

Additionally, firms that are raising second-time funds represented 27% of the opportunity set in 2018. These are firms reentering the market after successfully deploying a first-time fund. Typically, these firms are seeking to broaden their institutional limited partner base. Despite a preponderance of young firms, the majority of woman and minority-owned firms in the market feature experienced investors with track records developed at larger, more well-established firms. Many woman and minority-firms have established themselves as leaders in their respective categories within private equity and many more are poised to follow suit.

Woman and Minority-Owned Firms Target Smaller Fund Sizes

In general, expected fund sizes for most woman and minority-owned funds are correlated to fund sequence and strategy, reflective of trends in the broader private equity market. However, fund sizes are typically smaller than average. The average expected fund size

Exhibit 3: Fund Size of Woman- and Minority-Owned Firms in the Market



Data: Fairview Capital Proprietary Database of Woman and Minority-Owned Firms as of December 31, 2018
*Excludes five funds due to undisclosed fund sizes.

for woman and minority-owned funds in the market in 2018 was \$177 million, down from \$223 million in 2017. These declines could be partly due to new firm formation, as first-time funds often have smaller fund sizes than follow-on funds.

The broader private equity industry featured an average target fund size of over \$394 million through the third quarter of the year, an average increase of approximately \$20 million over 2017. Noteworthy is that

capital concentration is higher than ever before — funds of \$1 billion or more secured 63% of capital raised in the first three quarters of 2018, a category where woman and minority-owned firms are the most significantly underrepresented.² Again, part of the disparity in average fund size can be explained by the fact that the majority of woman and minority-owned firms are raising first-time funds which are typically smaller than average. Also, within the buyout segment, there are very few women or minorities leading large and mega buyout firms – whose funds drive up the overall industry average. Smaller than average fund sizes also explain why diverse managers are often below the radar of many institutional investors and their consultants.

Woman and Minority-Owned Firms Remain Underrepresented Despite Growth

Awareness of the diverse manager opportunity set continued to grow in 2018, with increased social awareness, advocacy, and numerous studies and events designed to highlight the opportunity set. Despite these efforts, women and minority-owned funds continue to be significantly underrepresented in the portfolios of institutional investors, and traditional capital allocation processes remain challenged when it comes to inclusion. Aside from smaller fund sizes, most diverse firms remain below the radar of institutional investors given the often non-traditional fundraising approaches many managers take.

Since the start of the decade, only 18% of public pension plan commitments have gone to first and second-time funds, down from nearly 30% in the decade prior. Other investors, such as private pensions, insurance companies and foundations, have followed a similar trendline. This shift has come in the face of an increase in commitments to funds greater than \$5 billion in size. Over the past decade, commitments to such funds have increased from 20% to nearly 30% for public pension plans.³ The primary driver typically cited for this trend is broad-based efficiency. The trend has come to the detriment of newer firms, smaller funds and woman and minority-owned firms since they feature smaller fund sizes.

Nonetheless, as diversity becomes increasingly critical in private equity and venture capital, many sophisticated institutional investors have recognized that this segment of the market has been too often overlooked by their traditional capital allocation processes and have been proactive about change. Fairview has found that institutions implementing a deliberate, programmatic approach are the most effective in achieving portfolios featuring more diversity. Given the high rate of new firm formation by diverse managers, even a “next generation” manager program targeting new firms and small funds will inherently feature significantly more diversity than the broader private equity portfolios of institutional investors.

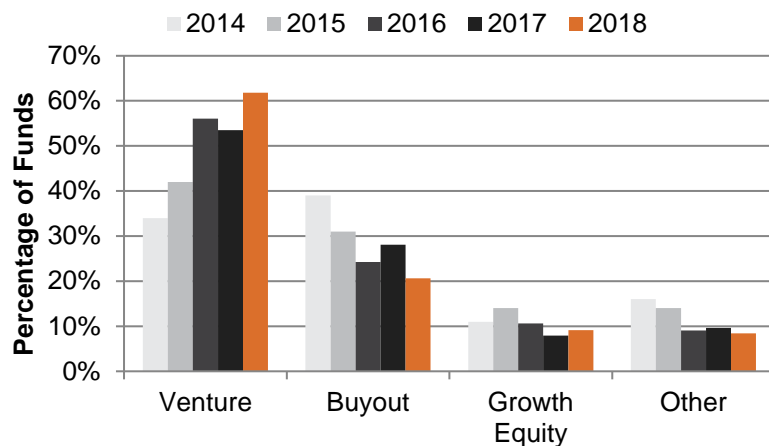
² Fairview Capital data and Preqin Q3 2018 Private Capital Fundraising Update

³ Cobalt GP “Will GPs be squeezed by LP consolidation in 2019?”

Venture Capital Remains the Leading Strategy Targeted by Woman and Minority-Owned Firms

We have observed the most growth in woman and minority-owned firms that pursue venture capital strategies. In fact, 62% of woman and minority-owned private equity funds in the market in 2018 were pursuing venture capital investments. This figure is up from 54% in 2017 – a trend buoyed by a high rate of new firm formation. Venture capital funds are typically smaller (most seed and early-stage strategies can be executed with funds smaller than \$150 million), which make them less daunting to raise for newer firms.

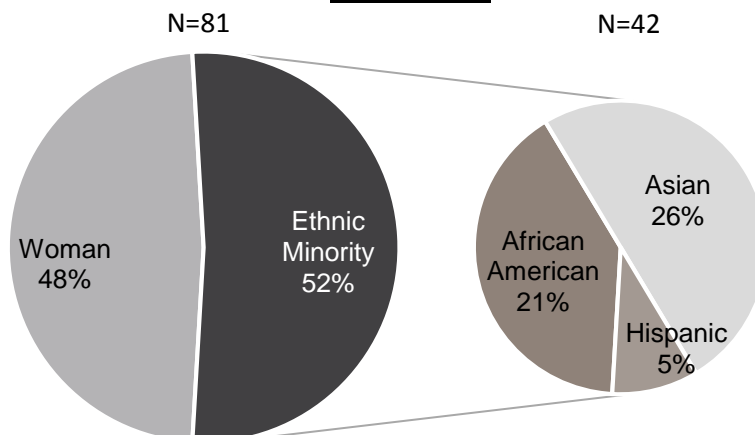
Exhibit 4: Fund Strategy of Woman and Minority-Owned Firms in the Market



Data: Fairview Capital Proprietary Database of Woman and Minority-Owned Firms as of December 31, 2018

The subgroups of woman and minority-owned firms were nearly evenly split with women representing 48% of the funds in the venture capital market with the remainder attributed to minority-owned firms. The number of woman-owned venture capital firms has been a particularly strong area of growth. This is against a backdrop of activism and advocacy for gender equality across multiple dimensions in the technology and venture capital industries. Experienced women finding it difficult to obtain senior positions with tenured

Exhibit 5: Fund Strategy of Woman and Minority-Owned Venture Capital Firms in the Market



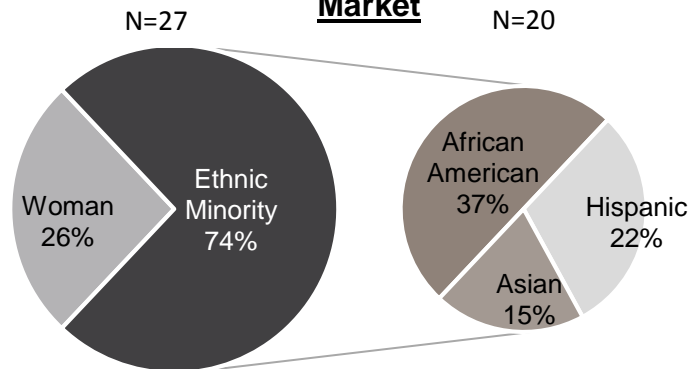
Data: Fairview Capital Proprietary Database of Woman and Minority-Owned Firms as of December 31, 2018

firms and those with novel investment approaches are increasingly launching new firms. This is particularly evident at the seed and early stage, where fund sizes are typically smaller. The 39 woman-owned venture capital firms in the market in 2018 were collectively raising less than \$2 billion or approximately \$66 million per fund, a number below the screens of most institutional investors, particularly those that do not invest with seed or early-stage firms.

The Buyout Segment Remains Underpenetrated by Woman and Minority-Owned Firms

Just over 25% of woman and minority-owned firms in the private equity market in 2018 targeted buyout investments, the largest segment of the broader private equity universe regarding the number of firms and dollars invested. African American owned firms made up the majority of woman and minority-owned firms in the market in 2018. On an absolute basis, the number of woman and minority-owned buyout firms continues to grow at a measured rate.

Exhibit 6: Fund Strategy of Woman and Minority-Owned Buyout Firms in the Market



Data: Fairview Capital Proprietary Database of Woman and Minority-Owned Firms as of December 31, 2018

The vast majority of woman and minority-owned buyout funds in the market in 2018 featured teams with track records of working together and in many cases teams spun-out of larger buyout firms. Sophisticated limited partners recognize that woman and minority-owned firms, as well as other newer and smaller firms, offer differentiated networks, smaller fund sizes, lower middle market strategies, and unique access to deals at attractive valuations. For newer buyout firms, we have observed many executing deals as fundless sponsors to generate track records, even after spinning out from top firms before raising a fund. Nearly the entire woman and minority-owned universe is raising funds less than \$1 billion.

Ethnic and Gender Diversity Is Constantly Evolving

The ethnic and gender diversity mix within the set of woman and minority-owned firms has constantly been evolving over the past few years. The major notable trend has been the rise in woman-owned firms. In 2014, woman-owned firms comprised just 18% of all woman and minority-owned firms in the market. In 2018, that figure had jumped to 41% or 54 woman-owned firms.

Fairview's data reflects the primary diversity characteristic of each firm and fund. Recognizing that gender and ethnic diversity are not mutually exclusive, additional analysis shows that close to one-third of woman-owned firms feature additional ethnic diversity amongst partners. The reverse is also true – African American, Hispanic and Asian-owned firms are much more likely to feature women partners on the team.

African American, Asian and Hispanic managers together narrowly comprise the majority of funds being raised by ethnic minority-owned firms. Minority-owned firms represented 59% of the 131 woman and minority-owned firms actively raising capital in 2018.

Reversing a trend from 2017, we observed a decline in the proportion of Asian-owned firms in the market. In 2018, 35 Asian-owned firms were actively fundraising compared to 40 in 2017.

However, there has been an increase in the absolute number of African American owned firms in the market. Of the 31 African American-owned firms in the market, 17 were venture capital firms, a new record.

Summary

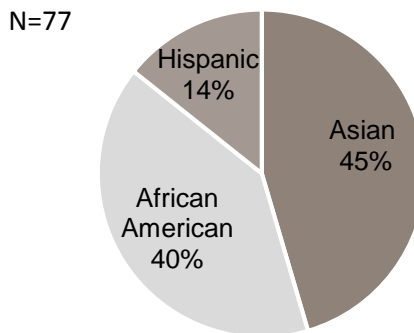
The woman and minority-owned segment of the private equity industry continued to expand at a disproportionately higher rate relative to the overall private equity market in 2018. New firm formation among woman and minority-owned firms continues to accelerate as experienced women and minorities leverage their networks and expertise accumulated throughout their careers. The universe is likely to continue to expand for the foreseeable future as woman and minority managers find themselves in leadership positions at tenured firms and continue to launch their own firms.

Despite the continued expansion of the universe and efforts by some institutional investors to be more inclusive of woman and minority managers, these firms continue to face significant challenges in raising capital and building their organizations. Too often, these managers are not on the radar of larger institutional investors and their consultants or are erroneously perceived to have higher levels of risk. As has been stated in this report, there is a larger opportunity set of diverse managers, and many of these are quite experienced.

From a performance perspective, Fairview has ample experience building programs in the space that have outperformed the broader private equity programs of large institutional investors. These programs have helped larger institutional investors efficiently access the opportunity set which, in addition to being overlooked, tends to feature smaller funds that are more challenging for larger institutions to access. Further, given the characteristics, the opportunity set features a higher dispersion of returns, meaning manager selection is critical. We also continue to observe a more diversified set of limited partner types interested in accessing woman and minority-owned firms and expect that there will be less reliance on any one limited partner category in the future. Fairview is confident that opportunities to invest with high-quality woman and minority managers will continue to be plentiful and rewarding.

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Exhibit 7: Total Minority-Owned Firms In the Market Mix



Data: Fairview Capital Proprietary Database of Woman and Minority-Owned Firms as of December 31, 2018
Note: Percentages do not sum to 100% due to rounding.