

## Woman and Minority-Owned Private Equity Firms

*A market update and review of woman and minority-owned private equity firms actively raising capital in the first half of 2017 based on data collected by Fairview Capital*

July 2017

The information set forth in this document shall not constitute an offer, solicitation or recommendation to sell or an offer to purchase any securities, investment products or investment advisory services. Such an offer may be made only to qualified investors by means of delivery of a confidential private placement memorandum or similar materials that contain a description of the material terms of such investment.

Any information contained herein has been supplied for informational purposes only and is not intended to be and does not constitute investment advice or an opinion regarding appropriateness of an investment in any Fairview fund. While Fairview has not independently verified the accuracy of any statistical information contained herein, all such information is obtained from sources believed to be reliable.

Fairview Capital Partners, Inc. • West Hartford, CT • San Francisco, CA • (860) 674-8066

[www.fairviewcapital.com](http://www.fairviewcapital.com)

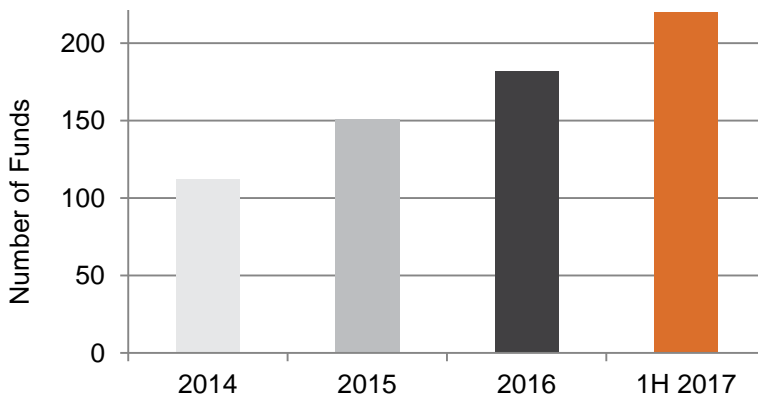
# Fairview Capital's Market Review of Woman and Minority-Owned Private Equity Firms

*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 firms that are majority owned (>50%) by women and/or ethnic minorities<sup>1</sup>. The firms must be based in, and primarily investing in, the United States.*

The universe of woman and minority-owned private equity firms continued to grow and evolve in the first half of 2017. The number of woman and minority-owned private equity firms had risen to 220 at mid-year, up from approximately 185 at the end of 2016. The increase represented the largest ever in a six-month period since Fairview began tracking data on diverse firms. We observed 85 of these firms actively raising capital in the market in the first six months of the year. This is up from the end of 2016 when approximately 65 firms were in the market. In aggregate, these firms represented approximately 7% of all private equity firms in the market through the first half of 2017.<sup>2</sup> While still significantly underrepresented, this group of firms continues to expand in size and scope – upholding a trend of covering a wider range of strategies, industries, and geographies than ever before.

A significant development has been the persistently high rate of new firm formation in recent years as experienced women and minorities launch new firms at an accelerated pace. At the same time, there are more established woman and minority-owned firms than ever before. Both of these trends were evident in the first half of 2017. The group of diverse managers is highly competitive with the broader private equity industry. In fact, many of the woman and minority-owned firms in the market feature strong track records, compelling strategies, truly differentiated approaches, and meaningful

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



competitive advantages. Further, these firms feature a much greater diversity of thought than the average private equity firm, a characteristic that has been linked by numerous studies to better decision-making and performance.<sup>3</sup>

Many sophisticated institutional investors have recognized that this segment of the market has been too often overlooked by

traditional capital allocation processes. As

Data: Fairview Capital Proprietary Database of Woman and Minority-Owned Firms as of June 30, 2017

<sup>1</sup> 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

<sup>2</sup> Fairview Capital data and Preqin Q2 2017 Private Capital Fundraising Update

<sup>3</sup> See Fairview Capital's report on the Value of Ethnic and Gender Diversity in Private Equity and Venture Capital

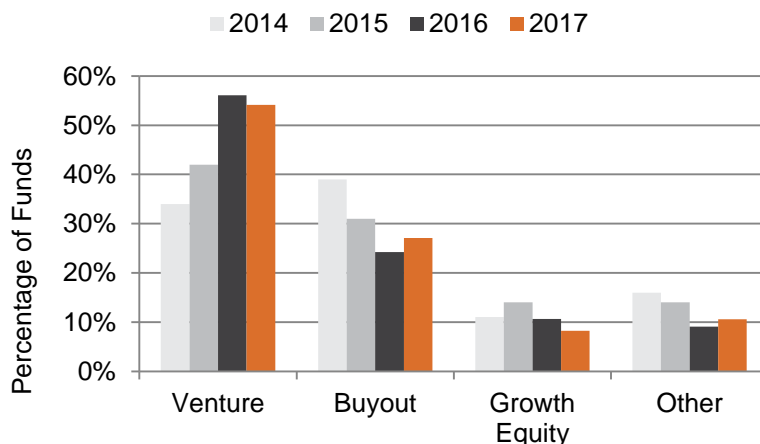
diversity becomes increasingly critical in private equity and venture capital, limited partners play a uniquely influential role. Through various means, efforts are increasingly being made to be more inclusive of diverse managers in private equity portfolios. This includes numerous public pensions plans with active or pending mandates that include or target woman and minority-owned firms.

Fairview was the first private equity investment management firm to broadly articulate the investment opportunity with diverse managers and remains one of the most active firms investing with diverse managers today. Currently, Fairview manages several mandates that include a focus on woman and minority-owned firms for public pension plans across the country. Often, the managers targeted by these programs are below the radar of larger institutional investors. The goal of all of these programs is to leverage Fairview’s expertise and relationships to invest with select managers and achieve outperformance relative to the larger private equity universe.

Given the firm’s level of activity and involvement in the space, Fairview maintains one of the largest databases on woman and minority-owned firms in the industry. The 85 woman and minority-owned firms Fairview observed actively raising capital in the first half of 2017 are a strong representative cross-section of the state of the market for woman and minority-owned firms. The following report is a summary of the characteristics of the universe today based on data from this set of funds.

Regarding strategy, 54% of woman and minority-owned funds in the market in the first half of 2017 were pursuing venture capital investments. This figure is down slightly from 2016 but still comports with a continuing trend in venture capital – a high rate of new firm formation, particularly by diverse managers. Venture capital funds are typically smaller (most seed and early stage strategies can be executed with funds smaller than \$150 million), which makes them less daunting to raise for newer firms. In many cases, these new firms are formed through spinouts or team-ups of managers from more tenured venture capital firms. Many of the new firms are “millennial-friendly” and are more reflective of, and relatable to, the entrepreneurs and markets in which they invest. The rise in woman and minority-owned firms in venture capital has also occurred against the backdrop of continued advocacy for increased gender and ethnic diversity in venture capital as well as in the technology industry broadly.

### **Exhibit 2: Fund Strategy**



Data: Fairview Capital Proprietary Database of Woman and Minority-Owned Firms as of June 30, 2017

A major storyline in venture capital has been the issue of sexual harassment and sexism towards women – particularly company founders but also other investment professionals. The revelation of sexual harassment and sexism by some venture capitalists has led to the upheaval of firms and brought a longstanding issue to the forefront. Limited partners play a critical role by way of their capital allocation processes and influence. Lack of diligence in this area or willingness to ignore the issue should not be tolerated. Further, there is ample opportunity to back firms that feature gender diversity. In the face of these issues, there has been a rapid rise in the number of woman-owned venture capital firms. In the first half of the year, there were 18 woman-owned venture capital firms in the market raising capital, 12 of which were first-time funds.

In general, newer venture capital firms tend to be significantly more diverse and, in turn, are much more likely to back diverse entrepreneurs. In 2016 Fairview conducted a review of the portfolios of woman and minority-owned venture capital firms recently committed to and found that between 55% and 65% of investments were with companies featuring women and/or ethnic minority founders or co-founders. It remains clear that one way in which institutional investors can support diversity in the technology sector is supporting woman and minority-owned venture capital firms.

Just over 27% of woman and minority-owned firms in the market in the first half of 2017 targeted buyout investments, the largest segment of the broader private equity universe in terms of the number of firms and dollars invested. Buyout investing can benefit as much from transactional experience as relationships. This can make the transition to private equity for new diverse managers with relevant backgrounds, such as investment banking, more appealing. The vast majority of woman and minority-owned buyout funds are targeting small and middle-market opportunities. There was again a notable increase in new buyout firm formation. In fact, nearly half of the woman and minority-owned buyout firms in the market in the first half of 2017 were first-time funds, five of which were woman-owned firms.

### **Exhibit 3: Fund Sequence**

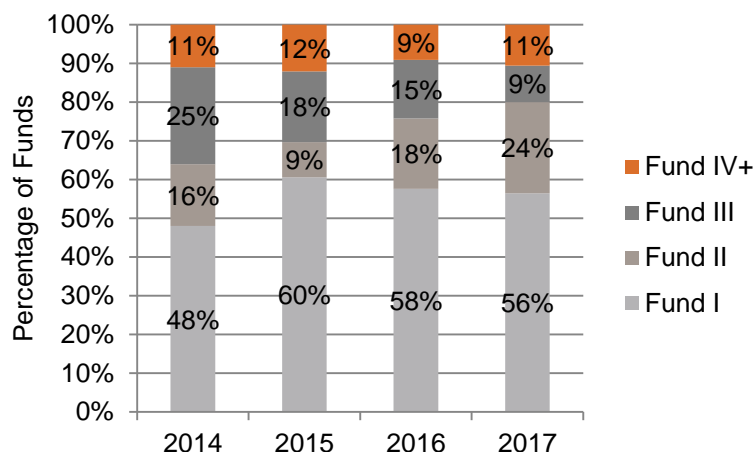
established buyout firms have been slow to increase diversity amongst their leadership ranks, and as a result, we find a much greater proportion of new buyout firms to be led by women and minorities.

Growth in the woman and minority-owned firm market is directly correlated to new firm formation. The majority of the opportunity set over the past few years

Data: Fairview Capital Proprietary Database of Woman and Minority-Owned Firms as of Ju

has been comprised of first-time funds

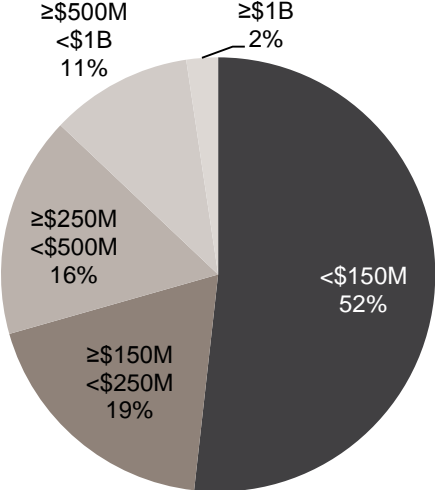
Similarly, to what we have seen on the venture side, larger, more



being raised by new firms. In the first half of 2017, 56% of woman and minority-owned firms in the market, 48 firms, were raising first-time funds, up 30% from the end of 2016. This high rate of new firm formation is a positive sign for the industry as it indicates confidence on the part of women and minorities in their ability to attract institutional capital. Managers have been encouraged and motivated to form new firms amid what has been a relatively strong fundraising environment that has featured more receptivity towards new firms and funds. Diversity in the industry has been building for some time, and many women and minority investment professionals have now advanced their careers to the point they are comfortable striking out on their own. The vast majority of new firms in the market feature experienced investors with track records developed at larger, more well-established firms. In addition, there are more tenured firms in existence than ever before. In the first half of 2017, there was a comparable proportion of tenured woman and minority-owned firms in the market relative to 2016. However, the increasing size of the universe means that in absolute terms the number of tenured diverse firms is growing. Institutional investors seeking to invest with diverse firms can now link diversity with experience.

In general, expected fund sizes for most woman and minority-owned funds are correlated to fund sequence and strategy, reflective of observations in the broader private equity market. The average expected fund size for woman and minority-owned funds in the market in the first half of 2017 was \$215 million, up from \$191 million at the end of 2016. In aggregate, these funds were targeting \$18.3 billion in capital. The broader private equity industry featured an average target fund size of over \$260 million in the first half of the year.<sup>4</sup> 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 managers leading large and mega buyout firms – whose funds drive up the overall industry average.

**Exhibit 4: Fund Size**

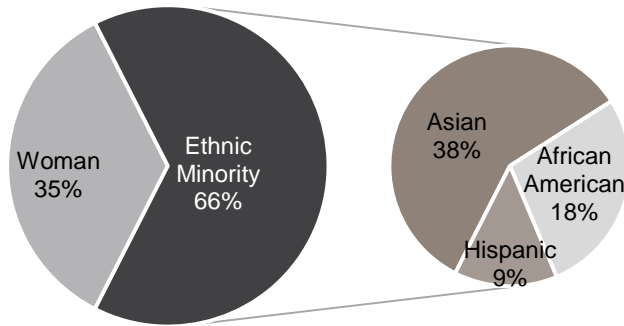


Data: Fairview Capital Proprietary Database of Woman and Minority-Owned Firms as of June 30, 2017

The ethnic and gender diversity mix within the set of woman and minority-owned firms has constantly been changing over the past few years. One 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 the first half of 2017, that figure had jumped to 35%.

<sup>4</sup> Fairview Capital data and Preqin Q2 2017 Private Capital Fundraising Update

**Exhibit 5: Ethnic and Gender Diversity**



Data: Fairview Capital Proprietary Database of Woman and Minority-Owned Firms as of June 30, 2017

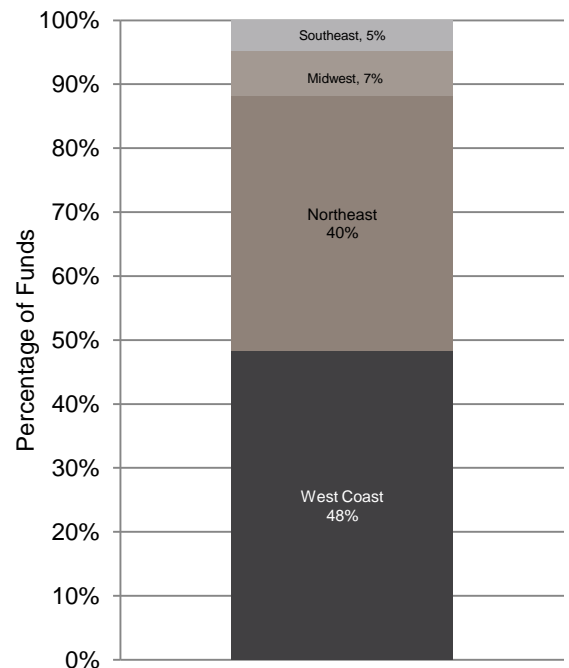
African American, Asian American and Hispanic managers together tend to comprise the majority of funds being raised by ethnic minority-owned firms. Continuing a trend from 2016, we have observed an increase in the proportion of Asian American-owned firms in the market. There has also been an increase in the absolute number of African American and Hispanic-owned firms, though these firms tend to be more concentrated in the buyout and growth equity segments. However, we see

early signs of growth in the venture capital space – in particular, there were five African-American-owned venture capital firms in the market in the first half of 2017, more than any other previous six-month period.

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.

Geographically, as with the broader private equity universe, woman and minority-owned private equity firms continue to tend to be headquartered in the nation’s financial hubs. In recent years, there has been an increase in the number of woman and minority-owned firms being formed in the San Francisco Bay Area. The vast majority of these firms are pursuing venture capital investments. In the Northeast, New York is home to a large proportion woman and minority-owned firms – not a surprise given the diversity of the city itself, as well as the resources, mentorship, and accessibility to financial firms available to woman and minority-owned firms. New York-based firms tend to be diverse in terms of strategy, featuring a strong mix of buyout, venture, growth, and debt-focused firms. Boston and Washington, D.C. typically come in behind New York in terms of the number of women and minority-owned

**Exhibit 6: Firm Geography**



Data: Fairview Capital Proprietary Database of Woman and Minority-Owned Firms as of June 30, 2017



firms.

In the Midwest, woman and minority-owned firms in the tend to be based in Chicago, and most focus on buyout and buyout-related investments – in line with the competitive advantages afforded by Chicago’s financial ecosystem.

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 the first half of 2017. 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 on the part of 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 associated with higher levels of risk. As has been indicated in this report, these managers certainly do not lack experience.

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 these larger institutions to deploy capital into. Given its history and the experiences of its team, Fairview is confident that opportunities to invest with high-quality woman and minority managers will continue to be plentiful and rewarding. We remain optimistic that these opportunities will continue to be recognized more broadly and that institutional investors will find ways to participate in this dynamic and promising segment of the private equity and venture capital market.

Copyright © 2017 by Fairview Capital Partners, Inc. All rights reserved. This publication may not be reproduced without the written consent of Fairview Capital Partners, Inc. This document is for informational purposes only and is not an offer to sell or a solicitation of any offer to buy any security or other financial instrument and may not be used for legal, tax or investment advice.