

Woman and Minority-Owned Private Equity and Venture Capital Firms

Introduction and Methodology

Fairview Capital has published its Market Review of Woman and Minority-Owned Private Equity and Venture Capital Firms annually since 2014. We have actively invested with diverse managers in partnership with many of the nation's leading institutional investors for nearly 30 years. As a leader in the category, we aspire to see every institutional quality woman and minority-owned firm in the market every year. As a result, we believe we have built the most comprehensive database of diverse managers in the country. This proprietary database serves as the data source for this Market Review.

In the Review, we provide data on the universe of woman and minority-owned firms, particularly those actively raising capital in 2021 – representing the most current opportunity set for investors seeking to invest with diverse firms. The criteria for classifying private equity or venture capital firms 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 also be based in, and primarily investing in, the United States.

Investing with a prepared mind is critical to success in the private markets. In a market that can often be opaque, reliable data on the diverse manager market is often difficult to access. We believe that the data shared in this Market Review can continue to serve as a valuable tool to investors seeking to invest with diverse managers meaningfully. Fairview Capital provides the data in this Market Review openly to the public.

Should you utilize any of the statistics presented, please cite the source as Fairview Capital Partners, Inc.

About Fairview Capital

Fairview Capital is a leading investment management firm with expertise in the most innovative segments of the private markets. The Firm builds portfolios targeting venture capital, diverse and emerging managers, and direct co-investments. Founded nearly 30 years ago by Laurence C. Morse, Ph.D., and JoAnn Price, Fairview Capital is one of the largest minority-owned investment companies in the United States with over \$10 billion in aggregate fund capitalization since inception. The firm invests on behalf of institutional investors, including the world's leading foundations, endowments, pension plans, and family offices. Fairview Capital is renowned for its entrepreneurial spirit, diverse leadership team, inclusive investment approach, and deep expertise that continues to shape the industry. Headquartered in West Hartford, CT, Fairview Capital also has an office in San Francisco. **For more information, visit fairviewcapital.com.**

Executive Summary

In 2021, Fairview found that the universe of woman and minority-owned firms grew to 627 firms, up from 502 firms in 2020, representing an increase of 25% over the prior year. Fairview observed a record 280 woman and minority-owned firms in market raising capital during the year, up from 234 firms in 2020. In a year that featured record levels of capital inflows into the private markets, woman and minority-owned firms targeted 6% of the capital estimated to be raised by the private equity industry in 2021, up just modestly from 4% in 2020.

Based on the data in this year's report, it is clear that the opportunity set of diverse firms is large and dynamic. In addition to broader data and market characteristics, we share segmentations of our data by ethnicity and gender. We also present data on the multiplier effect – the higher levels of diversity typically found in the portfolio companies of diverse managers. This often occurs organically as a result of diverse managers being more inclusive of diverse founders and portfolio company leadership.

The findings in this report include the following:

280

woman and minority-owned firms in market raising capital

Fairview observed a record 280 woman and minority-owned firms in market raising capital during the year, up from 234 firms in 2020.

175

first-time woman and minority-owned funds

In 2021, a record 175 first-time woman and minority-owned funds were in market raising capital, representing 63% of the opportunity set.

\$100_M

median target fund size

With a median fund size of \$100 million, the woman and minority-owned fund opportunity set significantly skews towards smaller funds.

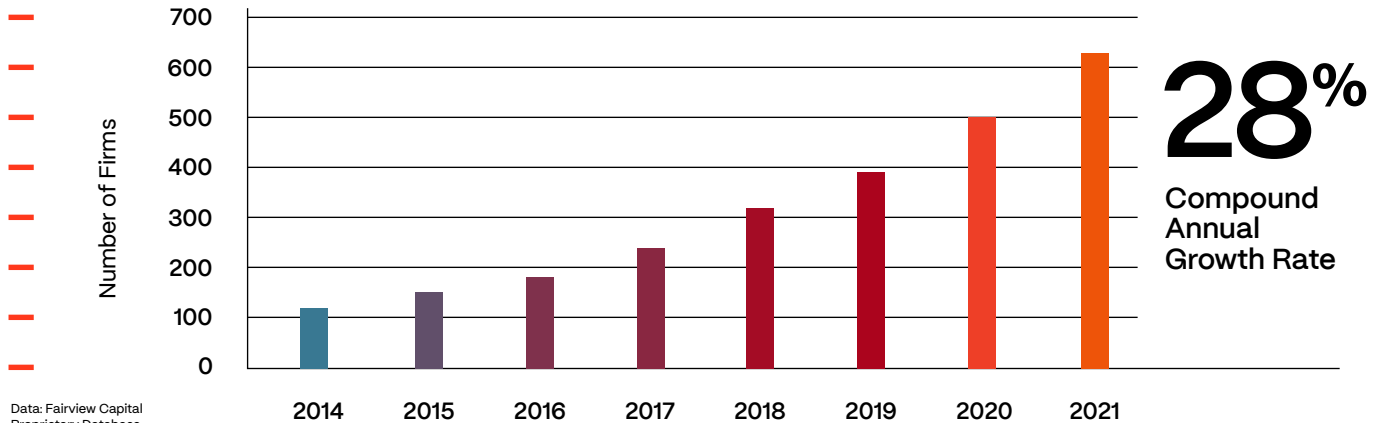
76%

of woman and minority-owned firms were raising venture capital funds

The diverse manager investment opportunity is increasingly found in venture capital, with 76% of woman and minority-owned firms raising venture capital funds during the year, up from 72% in 2020.

The universe of woman and minority-owned firms continues to grow rapidly

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, 2021

At the end of 2021, the universe of woman and minority-owned firms grew to 627 firms, up from 502 in 2020, a 25% increase. In 2014, there were just over 100 woman and minority-owned firms in the industry, meaning the universe has grown approximately 6x in size in seven years. The universe of woman and minority-owned firms has been growing at a substantial 28% compound annual growth rate over that timeframe.

The growth in the universe of woman and minority-owned firms continues to be reflective of the increasing level of diverse talent in the industry, many with the conviction to build their own firms. Motivation often comes from limited opportunities to advance careers at

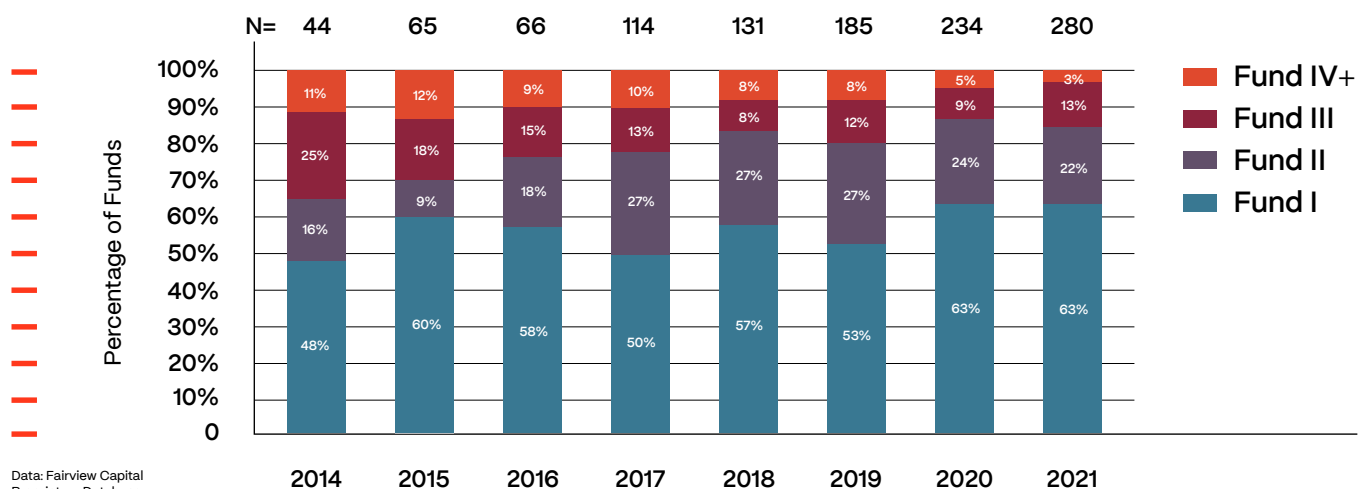
tenured firms, and the desire to help reshape the industry by building a diverse firm from the ground-up with a culture that truly embraces diversity. Ironically, the pandemic disproportionately impacted new and diverse firms since new firms became more difficult for most limited partners to diligence as processes shifted to virtual formats. Additionally, backing new managers was one of the first activities put on pause by limited partners, given the high level of market uncertainty. The persistent growth in the universe, despite the hurdles, is indicative of the strength of the motivation driving many diverse managers. Additionally, support systems such as advice and mentorship are increasingly accessible, as are firm-building resources and services.

The universe
of woman &
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has grown
approximately
6x in just 7
years.

The bottom right corner of the slide features a decorative graphic consisting of several thin, light-colored lines that intersect to form a series of overlapping triangles and quadrilaterals, creating a modern, abstract geometric pattern.

The vast majority of diverse managers are raising first-time funds

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, 2021

Growth in the universe of woman and minority-owned firms is driven by new firm formation, which is reflected in the number and proportion of first-time woman and minority-owned firms in the market. In 2021, a record 175 first-time woman and minority-owned firms were in market raising capital, representing 63% of the opportunity set. There has been a notable increase in first-time funds in market over the past two years, consistent with aforementioned trends.

First-time fundraises are known to be challenging and time-consuming, particularly for diverse managers. Moreover, these firms typically don't pursue traditional approaches to fundraising, meaning many fall below the radar of larger institutional investors and consulting firms. While investors often associate first-time funds with lack of experience or track records, Fairview has observed a notable rise in the quality of track records and experience of first-time funds in recent years.

Additionally, the number of experienced woman and minority-owned firms has never been greater. The year 2021 featured more experienced diverse managers in market than ever before, meaning ample opportunity exists to invest with diverse managers for investors who are not comfortable taking first-time fund risk.

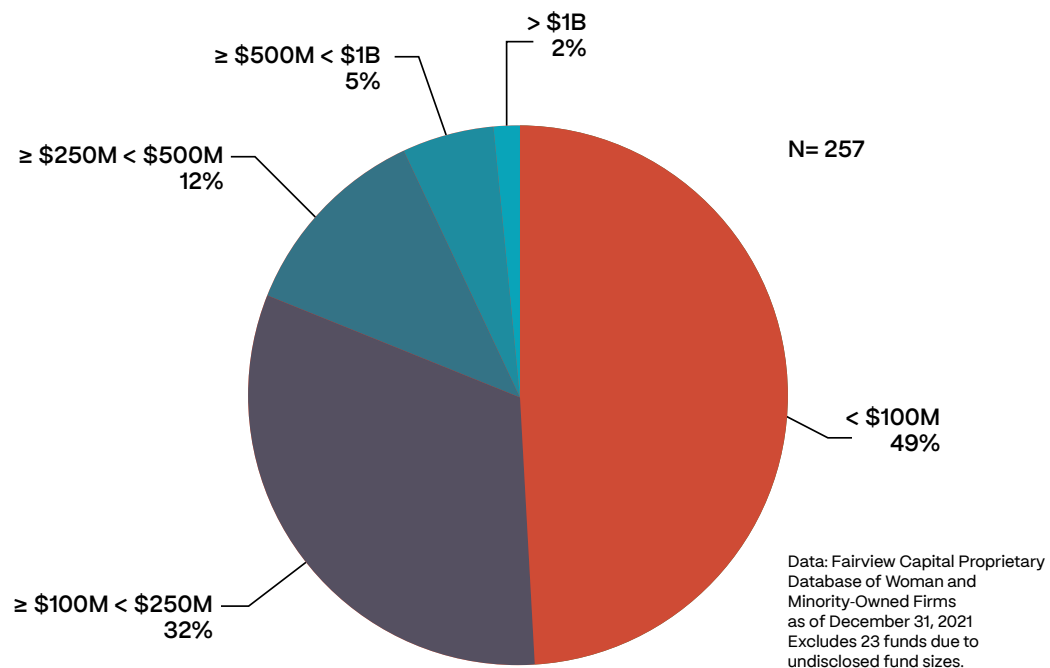
Diverse firms raise smaller funds

The median fund size for woman and minority-owned firms in the market in 2021 was \$100 million, up from \$75 million in 2020. In what was a record year for private equity fundraising, the median fund size industry-wide was \$170 million¹, demonstrating a distinguishable gap between diverse and non-diverse firms. Smaller fund sizes is one reason why diverse managers are often below the radar of many institutional investors and their consultants. Smaller fund sizes result in narrower fundraising processes and diverse managers often do not meet minimum size parameters implemented by institutional investors, including for emerging manager programs.


¹ Pitchbook as of September 30, 2021

Exhibit 3:

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



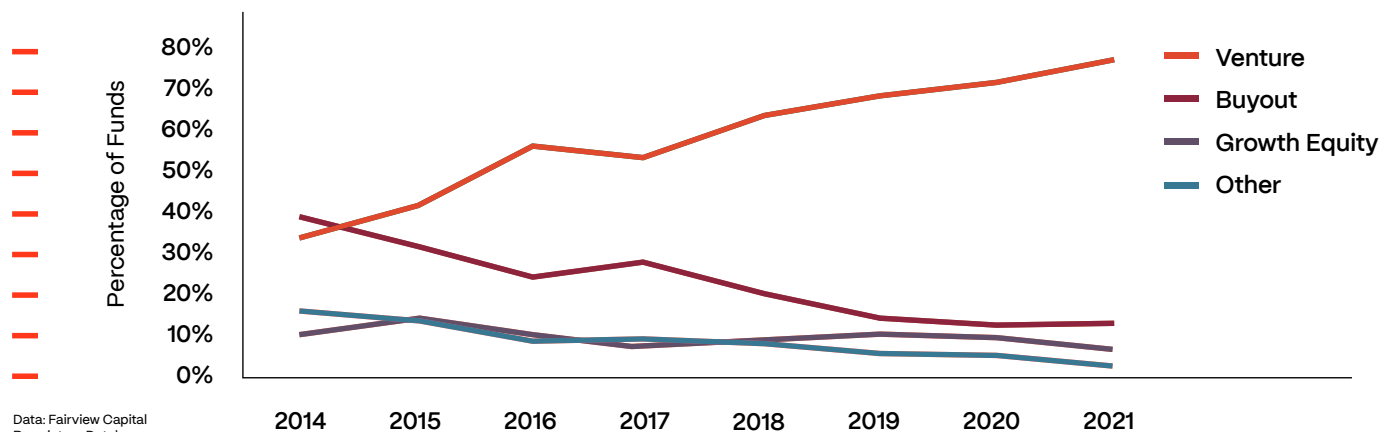
New
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New diverse firms are primarily launching venture capital funds

In a continuation of a multi-year trend, the investment opportunity with woman and minority-owned firms is increasingly found in venture capital. In 2021, 76% of woman and minority-owned firms were raising venture capital funds, up from 72% in 2020. With venture capital representing the majority of the diverse manager opportunity set for the better part of a decade, it is clear that investors interested in allocating to diverse managers must be positioned well to invest in venture capital. Venture capital funds can be more challenging to evaluate than buyout and growth funds, and venture capital funds typically feature a higher dispersion of returns, placing even more importance on the quality of manager selection. Further, most woman and minority-owned firms raising venture capital funds are focused on early-stage strategies, often investing at the seed or pre-seed stage, offering potential investors the highest risks, but also the highest return potential. In 2021 there was a notable rise in woman and minority-owned firms focused on later stage venture capital opportunities. Founders of high-growth, later-stage technology companies are increasingly seeking diversity on their boards and in their cap tables.

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, 2021

A few diverse firms have built initiatives and funds around this trend, helping to diversify the boards and teams of these companies, while providing investors with access to highly sought-after investment opportunities. Sometimes, these firms will also allocate a portion of carried interest to support diversity-related causes. Notable examples of such funds raised in 2021 include the [Acrew DCF Fund](#) and the [Base10 HBCU Advancement Initiative](#).

A majority of African-American owned firms are raising first-time funds

As the first anniversary of the racial justice movement sparked by the deaths of George Floyd, Breonna Taylor, and others passed, the market continued to spotlight African-American-owned firms in 2021. Many of these firms remain poised to leverage capital and market dynamics to be a positive force of change. **It was a record year for African-American-led firms, with 84 African-American owned firms in the market during the year, a 25% increase compared to the prior year. Also 87% of African-American firms in the market were raising a first-time fund.** Many African-American investment professionals embraced entrepreneurship by launching new franchises during the year, the highest of any other demographic.

Of the 84 African-American-owned firms raising capital during the year, 75% were raising venture capital funds, approximately in line with the universe of woman and minority-

owned firms generally. Buyout strategies represented 15% of the African American firms in the market. The remainder were raising growth equity funds and other related investment strategies.

We have observed a growing proportion of African-American-led firms exclusively targeting traditionally underrepresented entrepreneurs, and often African-American entrepreneurs specifically, in order to accelerate their goals of growing a more equitable ecosystem. Most also invest at the early stage. However, we are also beginning to see more firms emerge with similar targeted strategies at the growth and buyout stages. Across the industry, African-American firms and professionals are also tapping into the power of community by leveraging professional networks like [BLCK VC](#) for mentorship, coaching, training, and relationship building.

A record
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Hispanic-owned firms are severely underrepresented but have had greater success closing first-time funds

Hispanic-led firms, which comprise 15% of all woman and minority-owned firms, remain significantly underrepresented. Approximately 71% were raising venture capital funds, and 17% of Hispanic-owned firms were raising capital for a buyout strategy, above the 14% rate for the broader universe of woman and minority-owned firms. We observed many Hispanic-owned firms investing in fragmented lower middle market industries, often partnering with Hispanic entrepreneurs, executing roll-up strategies, and growing companies into platform leaders. Target industries include consumer, healthcare, and industrials with technology as a value creation lever across legacy businesses. Hispanic-owned firms are showing early indications that, compared to other demographics, they have greater success closing first-time funds. Although the universe of Hispanic-owned firms is proportionally small, approximately 44% were in market raising a subsequent fund. Despite these trends, Hispanic-owned firms (across all strategies) were only targeting a \$100 million median fund size in 2021.

The subset of Hispanic-owned venture capital firms were targeting a median fund size of \$50 million, and approximately half were raising first-time funds. Although Hispanic investors are significantly underrepresented in the venture capital industry, we observed more experienced talent in the market this year than ever before, including over a dozen second and third-time funds. Many Hispanic-owned firms have adopted broader Latin American and cross-border strategies to double down on the large and growing Hispanic consumer market where they often have unique insights and access.

Most Asian-American- owned firms were in market with a successor fund

Approximately 76% of Asian-American-owned firms were raising venture strategies with buyout and growth strategies each representing at least 10% of the Asian-American-owned firms in the market. The majority of Asian-American-owned firms in market in 2021 were raising a subsequent fund (non-first-time institutional fund). In fact, 30% of these firms were raising their second institutional fund and 25% were raising a third institutional fund or higher. This trend reflects the historical success rate of first-time Asian-American-owned firms. Despite the majority of Asian-American-owned firms in market in 2021 raising a subsequent fund, the median target fund size remained in line with the broader universe of woman and minority-owned firms at \$100 million.

The rate of new Asian-American-owned firm formation also remained high, consistent with the broader universe of woman and minority-owned firms. In 2021, there were 40 first-time Asian-American-owned firm in the market. Approximately one-third of these first-time funds were targeting buyout or growth strategies, a slightly higher proportion than subsequent Asian-American-owned firms in the market.


Woman-Owned firms often raise small early-stage funds focused on technology-enabled consumer and healthcare strategies

The number of woman-owned venture capital and private equity firms has been a particularly strong area of growth. This comes with the support of activism and advocacy for gender equality across multiple dimensions in the industry. Experienced women investment professionals finding it difficult to obtain senior positions with tenured firms and those with novel investment approaches are increasingly launching new firms. This is particularly evident at the seed and early stage. From a sector perspective, tech-enabled consumer and healthcare, inclusive of women's health, are often targeted. Early stage venture funds have smaller fund sizes, a key contributor to the aggregate median fund size of \$75 million.

In 2021, non-minority woman owned firms comprised 58% of woman-owned firms in the market, 81% of which were pursuing venture strategies, the highest amongst the demographics profiled. Firm

formation is robust, as 58% of non-minority woman-owned firms were also raising first-time funds. During the year, Asian-American-woman owned firms comprised 20% of woman-owned firms in the market. Interestingly, the majority of Asian-American woman owned firms were raising a subsequent fund, a positive trend. The number of African American woman-led firms remains low, with only five more firms in market than 2020. Approximately 94% of African American woman-led firms were raising first-time venture capital funds. Further, African American woman-owned firms were targeting a \$30 million median fund size, well below the \$100 million median fund size for the broader universe of woman and minority-owned firms and the broader industry. Hispanic woman-owned firms were almost exclusively raising venture capital strategies. Most were raising a first-time fund and none was raising a buyout fund.

The opportunity set of woman and minority-owned private equity and venture capital firms in 2021 continues to make clear that intentionality on the part of investors is critical.

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Diverse managers feature a diverse multiplier effect at the portfolio company level, while at the same time, firms explicitly targeting woman and minority entrepreneurs are at an all-time high

Fairview has amassed a unique set of data on diverse managers and their portfolio companies. In its active funds-of-funds focused exclusively on investing in funds sponsored by woman and minority-owned private equity and venture capital firms, Fairview observes a natural diverse multiplier effect at the portfolio company level. In one example, 65% of 180+ portfolio companies featured woman or minority executives. In another younger portfolio, 73% of the nearly 50 portfolio companies in the program featured woman or minority executives. None of these Fairview vehicles, nor the sub-funds, have an explicit strategy of investing in woman and

diverse entrepreneurs. Organically, these managers are tapping into their differentiated networks and are explicitly or implicitly presenting themselves to entrepreneurs as less biased and relatable. The results lead to differentiated deal flow, more access to next generation entrepreneurs, and attractive deals and valuations given the proprietary nature of some of these opportunities. We expect to see more deliberate approaches to investing in diverse entrepreneurs in the future as more firms take advantage of this overlooked opportunity set.

The opportunity to back woman and minority-owned firms **has never been greater**

The opportunity set of woman and minority-owned private equity and venture capital firms in 2021 exhibited significant growth and dynamism. The characteristics of the firms in market continued to make clear that intentionality on the part of investors interested in the opportunity set is critical. A growing majority, 63%, of the opportunity set lies with new firms raising first-time funds. With a median fund size of \$100 million, the opportunity set skews towards smaller funds. This is against a roster of established tenured firms in the market with increasingly larger fund sizes across all stages. Diverse managers feature fundraising scopes that may be narrower and approaches that are significantly different from larger and more tenured firms. Additionally, a majority and growing proportion of the opportunity set is in venture capital, an asset class that features a high dispersion of returns and favors those investors with specialized networks and knowledge of the category. Fairview is confident that opportunities will continue to be plentiful and rewarding for the institutions that take the time and effort to invest with woman and minority managers.

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