WHY INVESTING IN WOMEN IS JUST GOOD BUSINESS

A growing body of evidence shows that institutional investors should consider female fund managers to improve their investment outcomes. The evidence suggest that women-led funds perform better, in part because they are more likely to invest in women-founded companies.

STARTUPS FOUNDED BY WOMEN EXIT FASTER AND MAKE MORE MONEY.

"Women-owned startups are a better bet."
– *Boston Consulting Group* i.

"Startups founded and cofounded by women return 78 cents per dollar invested versus male-founded startups, which return 31 cents per dollar invested." -BCG i.

"The number of exits for female-founded companies is growing at a faster rate [year-over-year] than exits for companies with all-male founding teams." – *Pitchbook and Allraise.* Pitchbook found in a 2019 study that female-founded startups exit faster than male-founded startups. From 2009 to 2019, startups founded by all-male teams exited on an average of 7.4 years. That average exit time has remained roughly flat since 2009. Female-founded startups exited on an average of 6.4 years. – *Pitchbook and AllRaise 2019* ii.

A 2019 Pitchbook analysis found that all-female founding teams received just 2.8% of capital invested across the U.S. startup ecosystem. TechCrunch hailed this number as "an all-time high" for women. – *TechCrunch* iii.

Women entrepreneurs are gaining ground despite entrenched gender biases in venture capital, not because of growing progressivism. Venture capital remains one of the least diverse industries in the United States. ii.

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WOMEN ARE STARTING BUSINESSES AT HIGHER RATES THAN MEN.

"Women now own 4 out of every 10 businesses in the U.S. From 2007 to 2018, the number of women-owned businesses surged 58 percent, while all businesses increased only 12 percent. Women of color founded 64 percent of new women-owned businesses launched in 2018."– 2018 State of Women-Owned Businesses, American Express iv.

Women launching VC-backed businesses are still a small share of all businesses started by women, but even those are on the rise. According to Pitchbook, the proportion of VC capital invested in companies with at least one female founder has increased from less than 10% of VC dollars in 2009 to 17.9% in 2019. The gains for women are most dramatic in biotech and life sciences, and in cities like Los Angeles and New York City. In 2019, 27.3% of VC deals went to pharma and biotech companies with at least female founder.
– *Pitchbook and All Raise 2019* ii.

FEMALE INVESTMENT PARTNERS PERFORM BETTER. WHY? THEY INVEST IN WOMEN

Venture capital firms with women partners are twice as likely to invest in companies with at least one female founder, and three times as likely to invest in a company with a female CEO. – The Diana Report: Women Entrepreneurs 2014. *Babson College Center for Women's Entrepreneurial Leadership.* v.

A recent study from Paul Gompers and Silpa Kovvali highlighted that when VCs increased the percentage of female partners at their firms by 10%, they saw an increase in 1.5% in the overall fund returns each year and had 9.7% more profitable exists, which is particularly notable because on average only a third of venture capital investments are profitable. vi.

Despite this, only 8.6% of senior venture capitalists are women at the 71 biggest U.S. VC firms. Minority groups fare even worse. Just 1.3% of senior venture capitalists identify as Hispanic, and less than 1% as Black. – *Bella Private Markets* vii.

While women invest more in women, there is a dearth of female asset managers available to help move the needle. A 2019 study by the Knight Foundation showed that only 1.3% of the total $469 trillion in assets are overseen by women or minority owned businesses in the US asset management industry. vii.

FIRST-TIME FUNDS OFTEN OUT-PERFORM ESTABLISHED FUNDS.

Institutional investors are risk averse. This gives established and successful venture capital funds an advantage, particularly as the majority of venture capital is controlled by firms with $250 million or more. viii.

The dominance of the established few venture capital firms crowds out first-time funds – whose managers and owners are more likely to be women and minorities. First-time funds are most often relatively small ($100 million or less) and 90% of all women-led funds are considered emerging managers. If institutional investors were more willing to invest in first-time funds, they would find more women and minority-run firms, and so more women and minority-founded startups seeking venture capital. More competition might also encourage established firms to take diversity amongst their ranks more seriously particularly if institutional investors make diversity targets a requirement.

Institutional investors should be more willing to consider first-time fund managers, particularly as they deliver comparable, and sometimes better performance than established fund managers. According to Preqin data, “first-time funds not only deliver returns comparable to established GPs, but many times they outperform experienced managers (not based on risk-adjusted returns).” xi.

LOOKING FORWARD – HOW ASSET ALLOCATORS CAN WIN

We want to unlock institutional capital to bridge this funding gap, as this will lead to better returns for investors and increased innovation for the general public. Investing in women isn’t philanthropy - it is good business.

To tackle this issue, asset managers must strengthen the hiring and recruitment of women into established funds as LPs and GPs, and in particular move beyond a narrow definition of “track record” when considering applicants. An article published by TechCrunch argues that smaller venture capital firms attract a more diverse pool of leaders as they are “driven by a desire to fill funding gaps...often related to gender and ethnicity.” Venture capital firms should also elevate women LPs and GPs as role models. It is critical for younger women to see women in leadership positions at LP funds and VC firms. Studies show that exposure to role models is important for growing applicant pools in male-dominated industries. xiii. xiv.

Finally, institutional investors should hold themselves accountable to investing with diverse fund managers, even if that means looking beyond the largest funds.

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