DRAFT

The Underrepresentation of Women in Equity Finance

Executive Summary

The case for increasing women in the investment industry is not only based on being equitable, it is based on equity. A recent Credit Suisse report showed that companies with more women have higher returns on equity and higher valuations. A Dow Jones report that followed VC-backed companies for 15 years found that companies with more female VP's and directors had higher odds of success.

While they are often making the important purse decisions at home, they are not getting the finance jobs.

Women are closing in on half of the investing decisions. U.S. women control $11.2 trillion (39 percent) of the $28.6 trillion investable assets. And they are investing not only for profit, but truly for our collective future. Research found that women have a stronger desire (76 percent) than men (62 percent) to invest in companies that promote social well-being, and companies with a diverse leadership. If women fully harness their investment power, they will drive progress in education, environment, poverty reduction, and corporate diversity. Women not only have the financial power, they also have an edge in investing. Research has also shown that women investors make fewer bad decisions and are associated with lower losses of net returns.

However, women continue to be underrepresented in angel investing, venture capital and the private equity industry and even fewer women are partners and senior managers. Women angels accounted for only 19.4 percent of the angel market in 2013; 6 percent of partners in venture capital firms were women, a decline from 10 percent in 1999; and in the ten largest private equity firms, an average 10.9 percent of senior managers were women. The gender imbalance disincentives women entrepreneurs to pitch and submit proposals.

This paper identifies several challenges facing women investors that may explain their underrepresentation in the equity finance industry. These challenges include: a high turnover rate, the lack of a robust network, and limited previous experience to start or lead a company.

Solutions of course have to start with recognizing and owning the problems. SBA is currently conducting research on its private-partnership long term capital program, Small Business Investment Company or SBIC to evaluate female participation in investments and entrepreneurship in the program. SBA can also solicit feedback from a group of champions for women investors (senior private equity leaders, investor perspectives and mid-career women professionals) and be a champion for this group. At SBA's InnovateHER Summit 2016, SBA could assist in linking women to investors' networks and launch a campaign for increasing women in investing. Women entrepreneurs in partnerships with equity-based crowdfunding platforms such as Portfolia, CircleUp and Crowdfunder should also be encouraged to invest in equity crowdfunding. Private equity firms need to engage with female college students, support internal female networking groups, support mentoring programs women, and offering extended maternity leave. And institutional investors need to continue to concentrate on emerging managers (women and minority led firms) in their funds.

Some solutions are already in the works. At the recent White House Demo Day, the venture capital industry made several new commitments through the National Venture Capital Association to foster inclusive entrepreneurship, including contributing regularly as faculty for educational programs and organizations that serve women and minorities such as Kauffman Fellows and the Toigo Fellowship. Echoing this public-private partnership commitment to inclusive entrepreneurship, the SBA will create a challenge to existing programs such as the Toigo Fellowship, Sponsors for Educational Opportunity, Gateway to Leadership, Management Leadership for Tomorrow, Pipeline Fellowship, The Consortium, and Kauffman Fellows to bring in a robust talent pipeline of women investors.

The Economic Case for Gender Diversity in Finance

The stereotypical view of the "Behind the Music" story for a successful company might go something like this. A couple of nerdy guys with a great idea get a loan from a man at the bank that sponsored their Little League baseball and Pee Wee football. Those guys then sell a small stake in the company to a couple of rich uncles. The rich uncles go to the suits on Wall Street to take the company public. The problem with this story is that of course it is entirely man dominated to the point of being misogynist.

Putting fairness to the side, the numbers alone don't suggest that this story should be the norm. BLS reports that women represent 47 percent of the workers and 40 percent of the self-employed (non-farm, unincorporated). In addition, Catalyst reports that women earn 37 percent of the MBAs in the U.S. but represent only 17 percent of the executive officers in Fortune 500 finance and insurance industries.[1]

Holding back women doesn't just hold back women, it holds back our economy. Research continues to show that gender diversity benefits companies, stakeholders, investors and the larger economy. A 2014 report by Credit Suisse Research Institute, which tracked over 3,000 companies across 40 countries in all major sectors, found that companies with more women have higher returns on equity, higher valuations, and higher payout ratios. Since 2005, companies with more than one woman on the board had compound returns 3.7 percent over those male-only companies.[2] The Dow Jones report *Women at the Wheel* published in 2012 demonstrated the value of having more female executives at a company. By tracking the performance of 20,194 VC-backed companies between 1997 and 2011, the report found that the overall median proportion of female executives was 7.1 percent for successful firms and 3.1 percent for unsuccessful firms.[3] Companies with more female VP's and directors are statistically associated with higher chances of success.

U.S. women create and control a vast and growing amount of wealth. Women control $11.2 trillion, or 39 percent of the country's $28.6 trillion investable assets.[4] Recent surveys also found that women have a much stronger desire to promote social well-being with their money invested: over 76 percent of U.S. women want to invest in companies that improve gender equality, environment, education and poverty, compared to 62 percent among male investors. And 52 percent of U.S. women surveyed want to invest in companies with a diverse leadership team, compared to 42 percent among men.[5] If women fully invest their wealth and harness their financial power, the society will see more progress in education, environment, poverty reduction, and more diverse companies in the marketplace.

Women not only have the wealth to invest, they also have an edge in investing. Evidence also shows that women are more risk averse, loss averse and make fewer bad investment decisions. A study that analyzed gender differences in investing behavior in two decades found that men trade 45 percent more than women, and that trading reduces men's net returns by 2.65 percentage points annually as compared to 1.72 percentage points for women. Women's organized investment behavior suggests that women professionals in investing can make good investment decisions and bring high returns.[6]

---

1 Catalyst, "Women in Financial Services," accessed on Aug. 13, 2015, http://www.catalyst.org/knowledge/women-financial-services.

2 Credit Suisse Research Institute, "The Credit Suisse 3000: Women in Senior Management", accessed July 1, 2015 at https://publications.credit-suisse.com/tasks/render/file/index.cfm?fileid=8128F3C0-99BC-22E6-838E2A5B1E4366DF.

3 Dow Jones, "Women at the Wheel: Do Female Executives Drive Start-up Success?" accessed July 1, 2015 at http://www.dowjones.com/collateral/files/womenpe_report_final.pdf. In this report, "successful" is defined as: exited through an initial public offering (IPO), is in IPO registration, is privately-held and consistently profitable or has been acquired for an amount greater than its total venture investment (i.e. had an exit ratio greater than one). "Unsuccessful companies" refer to those that are still private and independent but not yet successful; or have ceased operations, gone bankrupt, or exited with a valuation lower than the venture capital received.

4 Andrea Turner Moffitt, "Harness the Power of the Purse: Winning Women Investors", Los Angeles, CA: A Vireo Book, 2015.

5 Ibid.

Dearth of Women Investment Professionals

Despite the growing financial power of women, the gender imbalance in the equity finance industry is a persistent problem. We continue to see very few women investment professionals and especially few women partners across all venture capital and private equity firms. In 2014, only 6 percent of partners in venture capital firms were women, a significant decline from 10 percent in 1999.[7] In 2014, 139 of all the venture capital firms had women partners. In the ten largest private equity firms, an average 10.9 percent of senior managers are women, up from 8.1 percent in 2012. Research also found that women are underrepresented in the angel investment field. In 2013, women angels accounted for only 19.4 percent of the angel market, slightly lower than 2012 (21.8 percent).[8]

The low participation of women in investing means that women rarely influence investment decisions, and it has consequences on women's impact in the entrepreneurial world and the economy. With few women occupying decision-making roles in the industry, women entrepreneurs have few points of access to gatekeepers. Women entrepreneurs are hard to get to the negotiating table and obtain equity funding required for growth-oriented ventures. For investment institutions, the homogeneity of investors' background and the lack of gender diversity are also not conducive to making good investment decisions.

The Challenges Facing Women in Investment

Few women are in senior management positions at investment firms, making it more difficult for them to influence investment decision-making process. This can be attributed to a complex set of factors including the high turnover rate of women investors, the lack of a robust network, and insufficient previous experience to start or lead a company.

Only about one quarter of venture capital partnerships have women on managerial tracks. The Diana Project following venture capital firms from 1995 to 2000 found that only 25 percent of venture capital partnerships had women on their managerial tracks in 2000, a decline from 27 percent in 1995.[9] Nearly 70 percent of firms with women as managers in 2000 had just one senior woman. Senior women in venture capital firms are in the minority and might lack the support in decision-making process.

The majority of women managers in the venture capital industry are in low-level and mid-level positions and are not likely to influence final decisions. In 1995, women VC managers were three times more likely to be in entry-level positions than men (24 percent versus 7 percent). In the same time period, 70 percent of male managers were in such top-level positions as chairman/CEO, director, executive director, or general partner, while the number was 40 percent for women managers.

High turnover rate – women managers are almost twice as likely to exit the industry as their male counterparts. Few women make their way to senior roles and become highly visible in the industry. Studies have identified very different career paths of women versus men in the venture capital industry. The Diana Project following

6 Barber, Brad M., and Terrance Odean. "Boys will be boys: Gender, overconfidence, and common stock investment." *Quarterly journal of Economics (2001):* 261-292.

7 Candida G. Brush, Patricia G. Greene, Lakshmi Balachandra, and Amy E. Davis, 2014, "Women Entrepreneurs 2014: Bridging the Gender Gap in Venture Capital", *The Diana Project,* executive summary accessed June 10, 2015 at http://www.babson.edu/Academics/centers/blank-center/global-research/diana/Documents/diana-project-executive-summary-2014.pdf. "Partners" here include only those listed as "Partner," "General Partner," or "Limited Partner", typical decision-makers.

8 Jeffrey Sohl, 2013. "The Angel Investor Market In 2013: A Return to Seed Investing*", Center for Venture Research*, accessed June 10, 2015 at https://paulcollege.unh.edu/sites/paulcollege.unh.edu/files/2013%20Analysis%20Report%20FINAL.pdf

9 Candida Brush, Nancy Carter, Elizabeth Gatewood, Patricia Greene, Myra Hart, 2004, "Gatekeepers of Venture Growth: A Diana Project Report on the Role and Participation of Women in the Venture Capital Industry", *The Diana Project,* accessed June 10, 2015 at http://ssrn.com/abstract=1260385.

VC managers from 1995 to 2000 found that 64 percent of women left the industry by the end of the five-year period compared to 33 percent of men. Only 32 percent of women stayed in the same company, compared to 59 percent of men.[10] This suggests that women investors do not stay in the company long enough to get promoted or influence decision making. The lack of accumulation of investment experience also helps to explain why few women attain high visibility in the venture capital industry.

Women investors lack the networks to launch and further their career and learn about investing opportunities. It has been widely discussed that the investors' network is closely knit and overwhelmingly male. This has several negative implications for women in the industry. In the male-dominated venture capital industry, women often lack direct connections with the gatekeepers who make the hiring and promoting decisions. Studies found that venture capital firms with women managers are more likely to add women at the top-decision level while male-managed partnerships are more likely to put women at mid-decision levels.[11] Women might also lack the network to learn about investment opportunities. Investors learn about potential deals from a direct network or a trusted colleague. If the small, closely knit investors' network rarely includes women, women investors might miss investment opportunities.

The lack of inclusion and mentorship for women in the male-dominated industry may be responsible for the performance gap in investment outcomes. Studies found that female venture capitalists benefit less from having good colleagues than their male counterparts. Some female venture capitalists reported that they received less feedback and mentorship from senior staff than their male colleagues, and were excluded from informal networking events.[12]

Venture capital industry has such high qualifications as previous start-up experience, wealth and a robust network which women sometimes lack. Part of the barrier to entering the industry comes from women investors' lack of previous business experience. Most angel investors and venture capitalists had a successful career as entrepreneurs or senior managers of high-growth ventures before entering the investment industry. Women have yet to reach parity in corporate and entrepreneurial world, especially in the high-tech industry. We need to have more female entrepreneurs, especially in the high-tech field, in order to have more female angels and venture capitalists.

Lack of experience also poses barriers to becoming more active, senior investors. A 2007 survey of women angel groups found that the main reasons why women angels are making fewer investments than men are women angels' lack of early-stage investment experience, and a lack of experience in pricing and structuring the investment.[13] This requires women investors to spend time accumulating human capital and experience, through education, training and development.

<u>Women Decision-makers and Women Entrepreneurs' Access to Capital</u>

Increasing the supply of women investors would encourage greater participation of women entrepreneurs in the high-growth industries. The gender makeup of venture capital firms often matters for funding women entrepreneurs. Venture capital firms with at least one women partner are more than twice as likely to invest in companies with women on the executive team (34 percent of firms with a woman partner and 13 percent of firms without a woman partner) and more than three times as likely to invest in companies with women CEOs (58 percent of firms with women partners versus 15 percent of firms without women partners).[14]

---

10 Brush, Greene, Balachandra, and Davis, "Women Entrepreneurs 2014: Bridging the Gender Gap in Venture Capital."
11 Ibid.
12 Gompers, Paul A. and Mukharlyamov, Vladimir and Weisburst, Emily and Xuan, Yuhai, "Gender Effects in Venture Capital", available at SSRN: http://ssrn.com/abstract=2445497 or http://dx.doi.org/10.2139/ssrn.2445497
13 Sohl, Jeffrey E., and Hill, Laura. "Women Business Angels: Insights from Angel Groups." *Venture Capital* 9.3 (2007): 207-222.
14 Brush, Carter, Gatewood, Greene, and Hart, "Gatekeepers of Venture Growth: A Diana Project Report on the Role and Participation of Women in the Venture Capital Industry."

Women entrepreneurs are more likely to seek angel capital from women angels**.** A Center for Venture Research study from 2000 to 2004 to all angel portals found women-owned businesses are more than twice as likely to submit their proposal to an angel portal with high proportion of women as a portal comprised primarily of men. A 2007 survey of women angel groups confirms this finding, noting that the percentage of women entrepreneurs seeking funds from women angel groups to be double that of male-dominated angel groups."[15]

Innovative Initiatives & Best Practices

Private Equity Firms Internal Strategies

While the gender imbalance in the investment industry is largely acknowledged, not many firms have implemented diversity initiatives to support women. But changes are taking place as over 40 leading venture capital firms have pledged at the recent White House Demo Day to adopt new HR policies and share best practices that encourage women and minorities to thrive in the industry. In addition, below are some examples of existing best practices to help recruit and retain women.

Early engagement with female college students. To encourage a greater number of applications from women and diversify the candidate pool, private equity firms Hamilton Lane and Blackstone have senior women employees visit college campuses, including liberal arts and women's colleges that are not the traditional recruiting targets.[16] Some companies like Warburg Pincus start to recruit outside of traditional feeder industries, and hire women from other paths such as consulting.[17] Blackstone Group also has a Future Women Leaders Program that targets college women interested in a career in the financial industry, and gives them early exposure to the industry through seminars, networking, skills-building and one-on-one mentoring sessions in the company. Paige Muggeridge, past program participant and current full-time employer, noted that keeping the connection to senior employees and soliciting advice from them had helped her in the later recruitment process.[18]

Internal networking groups and mentoring programs. Some private equity firms have established their internal networks that connect women employees, or working parents throughout the firms or across the globe. Those networks provide women with a platform to solicit and share advice on furthering their career and navigating work-life balance. Some firms specifically support a network of incoming women at the analyst and associate level. Those entry-level women professionals are provided with strategic mentorship with senior-level sponsors and mentors, who meet them regularly to provide career planning and industry advice.

Extended paid maternity leave. Mounting evidence suggests that paid maternity leave policy helps a company's recruitment and retention of women. In recent years, firms in such industries as banking and consulting, where work-life balance is not easy to maintain for women, have extended their paid maternity leave. While most private equity firms offer about 12 weeks' paid maternity leave, Blackstone Group recently extended its paid maternity leave from 12 weeks to 16 weeks. This policy could help working mothers integrate their responsibilities at home and at the workplace.

Women Investment Groups and Angel Investing Bootcamps for Women

---

15 Sohl, and Hill. "Women Business Angels: Insights from Angel Groups."
16 See The Hamilton Lane Website at http://www.hamiltonlane.com/Customer-Content/WWW/News/PDFs/FundFire_Blackstone_Hamilton_Lane_Push_to_Add_Women_to_Ranks.pdf
17 Madeline McMahon, and Devin Banerjee, "Private Equity has arrived and left its women behind," *Bloomberg,* Accessed June 20, 2015 at http://www.bloomberg.com/news/articles/2015-04-27/private-equity-has-arrived-and-left-its-women-behind.
18 See the Blackstone Group Website at http://www.blackstone.com/news-views/blackstone-blog/blog-details/future-women-leaders-program-a-first-hand-testimonial.

Women themselves are taking the lead to increase female participation in investing, by starting their own angel groups and building investment bootcamps targeting at women.

Broadway Angels, Belle Capital, Golden Seeds and 37 Angels are among the angel groups and venture funds started by women and have a significant portion of female membership. Women that start and form those investment groups are or have been senior executives of technology companies and general partners of venture capital firms. Those investment groups create a network of women investors and maximize the financial and human capital of senior women investment leaders. Golden Seeds and Belle Capital in particular invest solely in women-led companies. Those early-stage investment firms make it their investment criteria that applicants must have female founder or CEO and/or women in C-level positions. Golden Seeds, for example, has invested over $70 million in more than 65 women-led companies from across sectors, including life sciences, technology and financial services. Women investors in those groups often go on to take board seats or become advisory committee members of the companies that they finance. The experiences as board members or advisors make women more valuable investors, and also give mentorship to women in the portfolio companies. Whether exclusively investing in women-led companies or not, investment groups founded by women are more open to women-led companies and improves the capital access of women entrepreneurs.

There is also a new focus on education and training for women investors. Pipeline Fellowship is a six-month angel investing bootcamp for women committed to social ventures. Since April 2011, the program has produced more than 100 women graduates. Over 15 women-led for-profit social enterprises have attained funding, and one of those ventures has exited in under five years. Women investors who graduated from the program unleash their capital and strengthen the female investing ecosystem by investing in startups, joining angel networks, and creating their own angel groups. Pipeline Fellowship currently operates in various geographical areas including Albuquerque, Ann Arbor, Atlanta, Austin, Boston, Boulder, Chicago, Denver, Detroit, LA, Memphis, Miami, NYC, Philadelphia, Phoenix, Pittsburgh, Portland, San Diego, San Francisco, Seattle, Silicon Valley, St. Louis, Vegas, and the District of Columbia.

Equity Crowdfunding

Equity crowdfunding can be an entry point for novice women investors and an effective way of raising capital for women entrepreneurs.[19] Portfolia is an equity crowdfunding platform that lowers risks of investment and appeals to a wide audience including women. Portfolia encourages women to share, learn about and collaboratively invest in innovative products. Investors can be connected to experienced angels or join an investors' circle to invest as a group. Before making decisions, investors can meet entrepreneurs and companies, review their products, and invite friends and colleagues to evaluate the investment together. Portfolia also provides a variety of learning resources including national and local meetings, investment webinars, learning programs covering from investment basics to serving as board of directors, and success stories of other investors. Another advantage is the low capital requirement – an investment can be made starting at $2,500 to fund a company. Crowdfunding platforms like Portfolia leverage women's purchasing power to influence innovation and market growth.[20]

Emerging Managers

There has also been increasing interest "Emerging Managers" or women or minority led hedge funds by institutional investors such as state pension funds. Illinois has even mandated a minimum percentage of pension investments through emerging managers while a plethora of states such as California, Maryland, New York and Texas are encouraging the use of emerging managers.

---

19 Brush, Greene, Balachandra, and Davis, "Women Entrepreneurs 2014: Bridging the Gender Gap in Venture Capital."
20 See Portfolia Website at http://www.portfolia.com/.

Recommendations

Policy

The SBA is researching female participation in the Small Business Investment Company (SBIC) program. The study will focus on various aspects of the 57-year-old, $24 billion AUM, 300-fund program and its economic impact investing in small businesses across the land with patient capital. The study will explore SBIC Fund Management Diversity, and determine the overall impact of minority and women SBIC ownership and/or management and to assess their tendency, if any, to 1) invest in underserved areas and 2) their performance relative to other SBICs. The analysis will attempt to answer the following two questions:

a) Whether SBICs with minority and women managers provide more financings to women- and minority-owned or -managed companies or companies in low and moderate income (LMI) areas; and
b) Whether such funds performed any differently than other funds, particularly other SBICs and other private-equity funds, in their peer group.

Outreach

Solicit feedback from a group of champions for women investors, comprised of senior private equity leaders, investor perspectives and mid-career women professionals. The SBA will follow up with the investing leaders in the previous White House conversation, and reach out to newly-identified investing leaders. This group of champions would provide feedback and input to validate the challenges and best practices that have been identified, shape the next steps, including business challenges and future programs.

Sponsor forums to link women investors to investors' network and entrepreneurs. The SBA could structure the networking forums into existing entrepreneurial programs and competitions such as InnovateHER women's business challenge. Create the forum of diversity in investment in InnovateHER Summit in March, 2016 to discuss diversity in investment and connect women making investment decisions to participatory women entrepreneurs.

Encourage investing in equity crowdfunding by women entrepreneurs in partnerships with equity crowdfunding platforms such as Portfolia, CircleUp and Crowdfunder. The SBA can spread information about equity crowdfunding among women entrepreneurs in the 2016 InnovateHER Summit and investment diversity networking forum. Representatives from equity crowdfunding platforms such as Portfolia, CircleUp and Crowdfunder can be invited to present in front of women investors and women entrepreneurs who want to start investing. The SBA could also host a webinar on crowdfunding and showcase success stories on the above-mentioned equity crowdfunding platforms.

Launch a marketing campaign on the economic case for increasing women in investing. Gender diversity benefits not only women in the industry, but also shareholders, companies, investors and the economy. There is a need to increase awareness of the economic case for increasing women representation in investment, especially among the investment industry themselves. The SBA could publicize such findings with success stories on the webpage and through email list distribution. The SBA could also host an interactive social media conversation and engage both men and women investors in the conversation.

Partnerships

Create a challenge to existing programs such as the Toigo Fellowship, Sponsors for Educational Opportunity (SEO), Gateway to Leadership (GTL), Management Leadership for Tomorrow (MLT), Pipeline Fellowship, The Consortium, and Kauffman Fellows to bring in a talent pipeline of women investors. Innovative programs like Toigo[21], SEO[22], GTL[23], MLT[24], Pipeline Fellowship[25], The Consortium[26] and Kauffman Fellows[27] work to increase diversity in the business and financial services industry through providing training, coaching opportunities and direct industry exposure to women and minorities traditionally underrepresented in those industries.

In the recent White House Demo Day announcement, over 40 leading venture capital firms made several new commitments through the National Venture Capital Association to fostering inclusive entrepreneurship. Their commitments include contributing regularly as faculty for educational programs and organizations that serve women and minorities such as Kauffman Fellows and Toigo Fellowship. To further advance opportunities for women and minorities in the entrepreneurial ecosystem, the SBA will partner with the programs and organizations identified above and build a robust talent pipeline by connecting qualified, aspiring professionals from traditionally underrepresented background to principal investment firms. Those may include firms that are licensed by the SBA as Small Business Investment Companies (SBICs).This talent development program will use two effective strategies to achieve meaningful results:

a) The Grassroots Approach, targeting the entry level employee (high school/summer college interns). The SBA can connect SBIC fund managers who are seeking summer interns (or entry level career employees) to students or alumnus from the above-mentioned programs. Currently 300 SBICs all across the country manage about $24.2 billion funds. Though not all of them would be large enough to warrant a summer intern, some could and may already have talent development programs that include internships.
b) The Laddering Approach, targeting the mid-level career employee. SBA will host a webinar targeted specifically to alumni from the above-mentioned programs scattered across a wide range of investment firms who may be interested in starting their own fund. The webinar intends to provide program alumni with exposure to SBICs as well as contacts within the SBA's Office of Investment and Innovation with which to confer and explore. The webinar will also develop a network of mid-level employees who are interested in starting their own fund which may naturally lead to alumni to collaborate and start their own SBICs.

21 See the Toigo MBA Fellowship Website http://www.toigofoundation.org/Toigo-Fellowship.
22 See the SEO Alternative Investments Program Website http://www.seoaltinvestments.org/.
23 See the GTL Website http://gatewayleaders.org/.
24 See the MLT Website http://www.ml4t.org/program-overview/.
25 See the Pipeline Fellowship Website http://www.pipelinefellowship.com/.
26 See the Consortium Website http://www.cgsm.org/.
27 See the Kauffman Fellows Website http://www.kauffmanfellows.org/.