

NINE TRENDS DRIVING THE EXPANSION OF WOMEN IN PRIVATE EQUITY

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Over the past several years, there has been a renewed discussion about the dearth of women in private equity firms and a new energy for making change. Private equity firms recognize that in the shifting landscape of new limited partner players, evolving target company leadership and focus, and a shifting role of women generally in the U.S. economy, long-term success hinges on the recruitment, advancement and retention of women in private equity. Although the portion of executive-level women in private equity has grown steadily in recent years — with Preqin reporting that women populate 9.4 percent of the upper echelon positions as of 2017¹ — the progress has not been fast enough for many stakeholders and further improvement seems to be nearly universally desired.

Despite this merely modest expansion of women in private equity, the nine phenomena discussed in this article, and many more trends emerging now, seem to ensure continued growth in the success of women in private equity.

1. Changes in PE Fund Recruitment and Retention Programs

Driven by a variety of factors, private equity funds increasingly focus on recruiting, promoting and retaining women. Some firms are introducing new programs aimed at retaining women who want vibrant careers as well as families. From wide-ranging childcare assistance programs, such as nannies to travel with female professionals, to offering more extended and flexible parental leaves,² these firms are making efforts to help female professionals balance competing concerns. For example, KKR publicly touted its financial coverage for women looking to freeze their eggs, and it pays for breast milk shipments during business trips.³

Additionally, firms more actively track the advancement of women in this sector and create recruitment tools, such as mentorship and internship programs geared toward attracting and retaining women, separate and apart from work-family balance issues. The Carlyle Group focused on increasing its women leadership, particularly on the investment side, through mentorship and recruiting efforts,⁴ and Blackstone formalized its networking initiative through the firm's BX WIN program offered to new female analysts and associates.⁵ Such programs focus more directly on professional achievement and identifying champions within the firms to support women's advancement.

2. Growth of Women-Owned Private Equity Firms

We are also pleased to see that the number of female-owned firms has risen during the past few years, with Forerunner Ventures and BBG Ventures representing just a few examples of firms founded by women. Recently, Aspect Ventures raised \$181 million for its second fund, even landing an investment from Melinda Gates, a vocal advocate for greater investment in female-led firms and businesses.⁶ Gates also contributed this year to the early-stage fund, Female Founders Fund (F3), during its 2018

¹ *Special Report: Women in Alternative Assets*, PREQIN (Oct. 2017), <http://docs.preqin.com/reports/Preqin-Special-Report-Women-in-Alternative-Assets-October-2017.pdf>.

² Tara Lachapelle, *Private Equity Has an Incentive to Prioritize Women*, BLOOMBERG (Mar. 8, 2018), <https://www.wsj.com/articles/high-finance-and-family-friendly-kr-is-trying-1474623001>.

³ *Id.*

⁴ *Corporate Citizenship Report 2017*, THE CARLYLE GROUP, <https://www.carlyle.com/sites/default/files/reports/carlyleccr2017.pdf>.

⁵ Press Release, The Blackstone Group, BX WIN Leadership in Their Own Words (Dec. 19, 2014) (available at <https://www.blackstone.com/media/press-releases/article/bx-win-leadership-in-their-own-words>).

⁶ Alex Konrad, *Aspect Ventures Raises \$181 Million Second Fund from Investors Including Melinda Gates*, FORBES (Jan. 23, 2018), <https://www.forbes.com/sites/alexkonrad/2018/01/23/aspect-ventures-raises-181-million-second-fund/#3730755e6828>.

highly successful \$27 million sophomore fundraising.⁷ But here's the deal: These are all venture capital firms, and private equity firms have been slower at creating opportunities for female leaders. Luminate Capital Partners, raising more than \$265 million in capital for its initial fund by 2017,⁸ is one of only a few existing private equity firms founded by women.

Beyond the solely female-founded firms are an increasing number of impressive female co-founders, such as Laura Leichtman of Levine Leichtman Capital Partners, Carolyn Galiette of Ironwood Capital, Mary Tolen of Chicago Pacific Founders, and Sarah Bradley of Kainos Capital, among others.

We've seen similar growth in firms not necessarily founded by women, but now predominantly owned by woman. According to Fairview Capital, which reports collectively on women- and minority-owned PE firms (defined as institutional-quality VC and PE firms owned greater than 50 percent by women or ethnic minorities based in the U.S.), the total number of such firms was just over 150 at the end of 2015, over 180 at the end of 2016 and 240 at the end of 2017.⁹ Further, Fairview observed not just an increase in the sheer number of firms, but an increase in fundraising activity by these firms, from 65 active in the market in 2015, to 66 active in 2016, to 114 in 2017.¹⁰ Although the active fundraising firms accounted for just roughly 7 percent of all PE firms in the market in 2015 and 2016, and less than 10 percent in 2017,¹¹ this is another trend that we find intriguing and encouraging.

3. Refreshed Business School Recruitment and Placement Focus

Private equity, investment banking and other firms in the financial sector looking to increase the number of women they employ, promote and retain, begin by connecting with women while they are in undergraduate and graduate business school. At the same time, many schools are fostering an environment where more women MBA candidates seek positions in these sectors. This works well with initiatives coming from school administrators, recruiting officers and the student body, as well as scholarships aimed at female MBA participants.

One successful approach is for schools to establish meaningful women affinity groups to further these goals. A recruiter at a regional Midwest business school described its "women and diversity days" that run throughout the year, with workshops and seminars on a variety of topics including women leadership. Often, private equity and other financial firms participate in these affinity groups and activities on campus to demonstrate their commitment to attracting women candidates to their firms. The percentage of women MBA candidates in U.S. business schools has increased in recent years to roughly 47 percent,¹² so there are a number of women to try to recruit.

For another effective way to recruit more women in the field while they are still in school, consider the work of the women of the MBA Class of 2017 at Washington University in St. Louis' Olin Business School. This group challenged the school's administrators and leadership to ask themselves this question: How can we attract even more women here? They decided to complement the work of the

⁷ Polina Marinova, *Female Founders Fund Partners Discuss Fundraising, Melinda Gates, and Startup Diversity*, FORTUNE (May 23, 2018), <http://fortune.com/2018/05/23/female-founders-fund-gap/>.

⁸ Demitri Diakantonis, *Hollie Moore Haynes, Former Silver Lake Partner, Closes Inaugural Fund for Luminate Capital*, MERGERS & ACQUISITIONS (Jun. 21, 2017), <https://www.themiddlemarket.com/news/hollie-moore-haynes-former-silver-lake-partner-closes-inaugural-fund-for-luminate-capital>.

⁹ *2017 Market Review of Woman and Minority-Owned Private Equity Firms*, FAIRVIEW CAPITAL (2018), <http://www.fairviewcapital.com/our-view/fairview-capitals-2017-market-review-of-woman-and-minority-owned-private-equity-firms>.

¹⁰ *Id.*

¹¹ *Id.*

¹² <https://www.mba.com/mbas-and-business-masters/articles/women-in-business/why-women-are-applying>

school's admissions office, calling women accepted but undecided for the next incoming MBA class, to explain peer-to-peer why the school, program and opportunities are so accommodating for women. The school praises the efforts of this women's group as a primary reason why the Olin MBA program ranked No. 4 in the world for women, according to a *Financial Times* analysis released in March — placing it behind only Stanford and the University of California, Berkeley, among U.S. universities, and China's Shanghai Jiao Tong, but just ahead of Harvard.¹³

Similarly, the Och Initiative for Women in Finance at University of Michigan's Ross School of Business aims to increase awareness of and access to careers for women in finance. The initiative provides curricular and co-curricular experiences that nurture and cultivate interest in finance careers with courses on topics such as valuation and private equity. The research of this initiative shows that many of the world's most influential business schools recognize that gender imbalance among students may have contributed to the problem.

The good news is, more schools recognize they can play a positive role in addressing the imbalance so women don't opt out of private equity and related fields before they even begin their college education.¹⁴

4. Emergence of Networking and Mentorship Programs Focused on Women in Private Equity

The emergence of female-centric networking programs and associations continues to grow within the private equity and finance industries — in size as well as scope. In addition to launching the [McGuireWoods Women in Private Equity and Finance program](#), we have been inspired by and have engaged with several impressive organizations across the U.S., including the Kayo Conference Series, and the Women's Association of Venture and Equity (WAVE), among others. A common theme across these programs is that they strive to use their networks and platforms to bring together women — at all levels of industry experience — to connect.

In a recent study published by *Harvard Business Review*, based on a survey of 2,100 women who attended the Conference for Women programs across several U.S. states, 71 percent reported feeling more connected to others after attending and 78 percent reported feeling “more optimistic about the future” after attending. Notably, research also showed that connecting with peers at the Conference for Women doubled attendees' likelihood of a promotion. From professional development opportunities to connecting on potential business and deal opportunities, many of these groups succeed in bringing women together by committing to finding ways group members can empower and advance one another economically and intellectually.

5. Funds Focused on Female-Oriented Products and Services

Increasingly, PE funds seek investment opportunities in companies that provide products or services specifically aimed at female consumers. Certain industries — such as food, health and wellness, beauty, and apparel — are overwhelmingly dominated by women consumers.¹⁵ Yet women also complain that their unique needs of balancing many roles and responsibilities are not met, and that they

¹³ <https://source.wustl.edu/2018/07/banner-days-for-women-in-olins-mba/>

¹⁴ <https://www.ft.com/content/f711c898-69a6-11e8-ae1-39f3459514fd>

¹⁵ *The Female Economy*, HARVARD BUSINESS REVIEW, <https://hbr.org/2009/09/the-female-economy>.

feel underserved and undervalued in these industries.¹⁶ This response illustrates the great growth potential that female-led innovation is particularly well-suited to address. PE investors understand these well-publicized trends and are increasingly interested in backing products and services geared toward powerful female consumers.

Taking this focus one step further, Portfolia Funds was founded in 2014 by Trish Costello with a series of early-stage funds and a goal of attracting female investors by focusing on companies of special interest to women.¹⁷ Most recently, it launched its sixth fund focused on FemTech — investing exclusively in emerging technologies, products and services focused on improving women's health and wellness — with an estimate that FemTech will be a \$50 billion market by 2025.¹⁸ Similarly, BBG Ventures concentrates its portfolio on internet and mobile startups that address the daily needs of female consumers.¹⁹ These funds are committed to supporting women directly as entrepreneurs and indirectly as consumers.

6. Funds Focused on Female-Led Companies

After years of well-publicized gulfs between funding for female-led companies — in the VC world, less than 5 percent, even in 2017, as reported by many commentators — as opposed to funding for male-led companies, several emerging funds focus particularly on investments in companies with female founders or CEOs. Many firms, such as Belle Capital USA, require their portfolio companies to have at least one female founder,²⁰ and others, such as Merian Ventures, emphasize funding startups that are women-founded and support women-led innovation.²¹ The recently launched WomensVCFund II requires its West Coast-based partners to include men and women in senior-level positions on their management teams.²²

Nonprofits have emerged with similar missions. Through donations, SheEO provides startup capital to companies run by women through no-interest loans,²³ and All Raise is creating a community and forum to support its objective of increasing the number of women in senior-ranked positions at venture capital firms.²⁴

This focus is not simply a matter of corporate social responsibility. While certainly not a universal experience, many investors have found that investments in female-founded companies perform better than other investments. For example, First Round Capital reported that its investment in female-founded companies performed 63 percent better than investments in male-founded teams.²⁵

¹⁶ *Id.*

¹⁷ *How Portfolia Works*, Portfolia, <https://www.portfolia.com/FAQ.html> [hereinafter Portfolia].

¹⁸ *Silicon Valley's Portfolia Launches Nation's First FemTech Fund*, PR Newswire (Jun. 5, 2018), <https://www.prnewswire.com/news-releases/silicon-valleys-portfolia-launches-nations-first-femtech-fund-300660559.html>.

¹⁹ *See generally Our Portfolio*, BBG VENTURES, <http://www.bbgventures.com/portfolio/>.

²⁰ Portfolia, *supra* note 14; BELLE CAPITAL USA, <http://bellevc.com/index.html>.

²¹ *See generally Methodology*, MERIAN VENTURES, <https://www.merianventures.com/methodology>.

²² *Investment Criteria*, WOMENSVCFUND II, <https://www.womensvcfund.com/about/our-investment-criteria/>.

²³ Susan Adams, *Vicki Saunders Started SheEO to Support Women Entrepreneurs with \$1 Billion in Interest-Free Loans*, FORBES (Dec. 10, 2017), <https://www.forbes.com/sites/forbestreptalks/2017/12/10/vicki-saunders-started-sheeo-to-support-women-entrepreneurs-with-1-billion-in-interest-free-loans/#56224d1058c3>.

²⁴ *See generally Mission*, ALL RAISE, <https://www.allraise.org/women-in-venture/>.

²⁵ *10 Year Project*, First Round Capital (2015), <http://10years.firstround.com/>.

The world beyond private equity is shifting in this direction as well, and PE investors are watching. As discussed in [AMEX's 2018 State of Women-Owned Businesses report](#), four of every 10 businesses (40 percent) in the United States are now women-owned.

7. Limited Partners' Increasing Interest in Diversity in Management and Investments

Today, women comprise a small minority of senior executives in private equity, and female representation varies widely by geography, size and strategy of firm. However, because many leaders in this field continue to explore best practices and industry initiatives to advance gender diversity, there is a bright outlook for women to continue to move into leadership roles at their firms.

A World Economic Forum study shows that three in five LPs believe that private equity firms benefit from having gender-diverse teams and, of those, the vast majority believe team interaction and quality are the elements most likely to benefit.²⁶ Very often, the firms best-positioned to pull ahead in the ranks are those with a clear commitment by senior leadership to enact the necessary behavioral and cultural changes to attract and retain top female talent.

While larger private equity firms have greater capacity, resources and industry clout to take the lead on gender diversity efforts, there has been a significant, swift movement of new firm formation by experienced women, bringing competition for coveted LPs. Some established institutional investors recognize this trend as an opportunity and look for ways to be more inclusive of diverse leaders in their portfolios, such as including public pension plans with active or pending mandates that target women- and minority-owned firms.²⁷

While increased diversity in management is not a “magic bullet,” certain LPs increasingly believe that more gender-balanced teams in private equity would yield certain gains, including diversification and an expanded talent pool. They're beginning to base investment choices more noticeably on such factors.²⁸

8. Advance of Women Into Senior Leadership Positions at PE Firms

The advancement of women into senior leadership positions within the private equity industry traditionally has lagged, with a 2017 Preqin report stating that just 4.1 percent of private equity firm directors were female. Today's firms are focusing a more critical lens on gender diversity — within their funds and with their investments and portfolio companies. Recently, Atlantic Street Capital, a private-equity firm with \$325 million under management, [hired Susan Stautberg](#), founder and former CEO of WomenCorporateDirectors, to recruit more women to serve on boards of Atlantic Street's portfolio companies. This announcement preceded California's recent measure requiring at least one female director on corporate boards of publicly traded companies based in the state.

We interviewed and profiled many impressive and senior women in private equity over the past year. Many shared unique insights related to the importance of women pursuing careers in this field. Several shared the importance of having women represented in deal-making ranks, given the increase in women-owned and -led businesses. Others noted that, in their experience, women bring different

²⁶ https://www.sib.wa.gov/information/pr/wef_paper.pdf

²⁷ www.fairviewcapital.com/our-view/woman-and-minority-owned-private-equity

²⁸ https://www.sib.wa.gov/information/pr/wef_paper.pdf

centers of influence to the table, and can attract more investment in women-owned businesses and drive selection toward more women-led management teams.

9. Increase of Private Wealth Held by Women

According to the Boston Consulting Group, from 2010 to 2015, private wealth held by women grew from \$34 trillion to \$51 trillion. Women’s wealth also rose as a share of all private wealth, though less spectacularly, from 28 percent to 30 percent. By 2020, women are expected to hold \$72 trillion, 32 percent of the total. And most of the private wealth that changes hands in the coming decades is likely to go to women. Women are becoming increasingly savvy and discriminating with that money, demanding investments that suit their personal goals and are consistent with their social conscience.

Many of the ancillary trends discussed in this article emanate from this basic evolution of wealth, which McGuireWoods partner Andrea Chomakos describes as “expected.” She elaborated: “While historically the wealth in the hands of women generated from inheritances from spouses or family, more women are occupying executive and leadership positions in corporate organizations and firms, with commensurate earnings, so their wealth now is earned. And female executives and entrepreneurs have a different view of their wealth than many of their male counterparts — it not only represents their success, it provides financial security and independence. In my experience, women who control the finances in their household bring a different perspective to traditional asset allocation and investment discussions — they are aware of social trends, as well as consumer and industry trends, as they also are the primary purchasers of household goods and products.”

Although private equity as an industry has a long way to go to ensure the diverse views and experiences of women are harnessed for the good of the firms and the companies in which they invest, these trends give us great hope for this continuing evolution. We look eagerly ahead at the evolution to come!