FAIRVIEW

Woman and Minority-Owned Private Equity and Venture Capital Firms

2023 MARKET REVIEW

www.fairviewcapital.com

Introduction and Methodology

Fairview 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 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 2023 – 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 that 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.

Executive Summary

In 2023, Fairview found that the universe of woman and minority-owned firms grew to 907 firms, up from 760 firms at the end of 2022. Fairview observed a record 417 woman and minority-owned firms in the market raising capital during the year, up from 346 firms raising capital in 2022. The growth in diverse managers continued despite the significant economic volatility and uncertainty prevalent throughout 2023. Despite continued growth, woman and minority-owned firms remain significantly underrepresented in the market, seeking just 6% of the capital targeted by the private equity industry in 2023.

Based on the data in this report, it is clear that the opportunity set of diverse firms is significant and dynamic. In addition to broader data and market characteristics, we also share breakouts of our data by ethnicity and gender, as well as more data on the multiplier effect that 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:

417

Woman and minority-owned firms in market raising capital

Fairview observed a record 417 woman and minority-owned firms in the market raising capital during the year, up from 346 firms in 2022.

230

First-time woman and minority-owned funds

230 first-time woman and minority-owned funds were in the market raising capital, representing 55% of the firms in the market.

$100M

Median fund size target

The median fund size target for woman and minority-owned firms in the market in 2023 was $100 million, unchanged from 2022.

72%

Woman and minority- owned firms raising venture capital

In 2023, 72% of woman and minority-owned firms were raising venture capital funds.

Woman and Minority-Owned Firms Entering a New Era

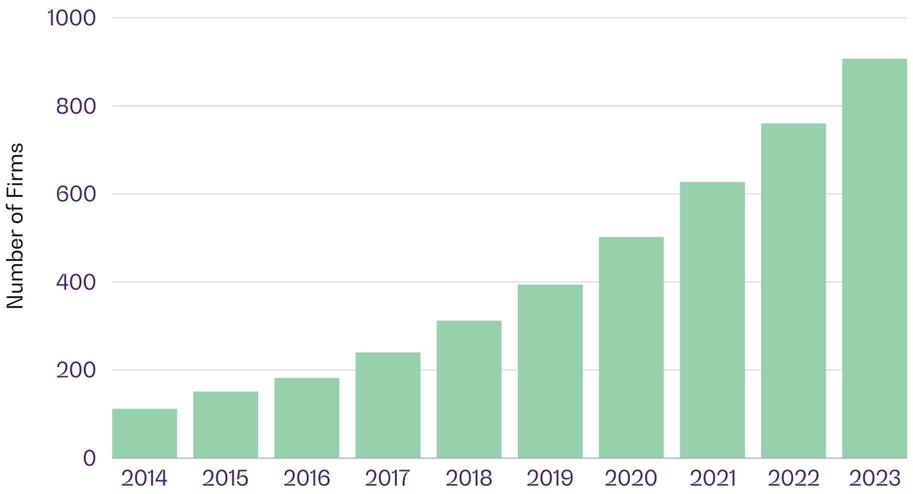
As indicated in prior reports, we had seen momentum for diverse and emerging managers accelerate in 2020, resulting in more capital allocated to the category as well as record levels of talented managers starting new firms. While the level of talent and number of quality of firms continues to grow, the backdrop has changed significantly. Starting in 2022 and into 2023, a market correction firmly took hold, driven by the end of the low interest rate environment. Managers and allocators were also forced to navigate a banking crisis and the fallout from geopolitical conflicts. Further, attacks on diversity, equity and inclusion initiatives adversely affected woman and minority-owned firms – some directly but most indirectly, by perpetuating misperceptions and obfuscating realities about access to capital.

We have observed a flight to perceived safety on the part of limited partners to larger and more tenured firms. Further, we expect a drop off in emerging manager programs and investments, which the data in this report will make clear are important for woman and minority-owned firms. While the community of woman and minority-owned firms has been through several challenging market cycles, this cycle is particularly difficult for these firms. Lessons have been, and will be learned, and some firms may struggle or fail, but collectively, as the data in this report indicates, the opportunity remains vast, dynamic, and resilient.

The universe of woman and minority-owned firms is doubling approximately every 3 - 4 Years

Exhibit 1:

Universe of Woman and Minority-Owned Private Equity Firms



26%

Compound Annual Growth Rate

Data:
Fairview Capital Proprietary Database of Woman and Minority-Owned Firms as of December 31, 2023

In 2023, the universe of woman and minority-owned firms grew to 907 firms, up from 760 in 2022. In 2014, when Fairview first began reporting this data, there were just over 100 woman and minority-owned firms in the industry, meaning the universe has grown nearly 9x in size in nine years. The universe of woman and minority-owned firms has been growing at a substantial 26% compound annual growth rate over that timeframe.

The growth in the universe of woman and minority-owned firms continues because of an increasing amount of diverse talent in the industry. Many managers build the conviction to start their own firm after facing limited opportunities to advance careers at tenured firms, or to take advantage of opportunities best accessed through fresh platforms. Notably, the quality of new diverse firms willing to brave the current environment is higher despite reduced capital availability in the marketplace. Managers continue to demonstrate a desire to help reshape the industry by building new diverse firms, often grounded in the awareness that cultures which truly embrace diversity, equity, and inclusion can outperform.

Support systems such as advice, mentorship, and other knowledge-sharing platforms are increasingly accessible, as are firm-building resources and services. Additionally, the revival of in-person meetings, conferences, and collaborations following the COVID-19 pandemic has also bolstered relationship-building and sharing of best practices among diverse firms.

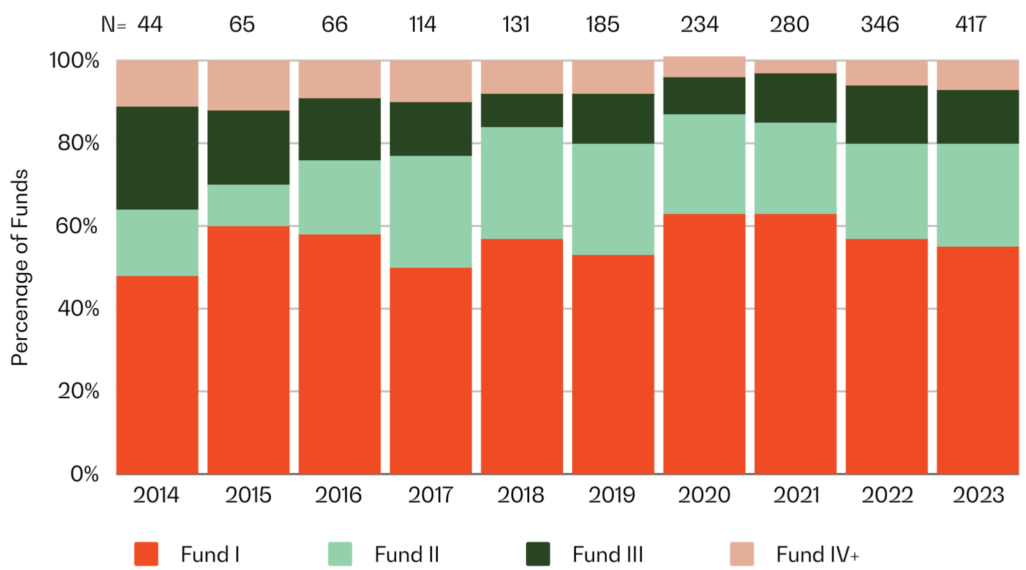
The universe of woman and minority-owned firms has grown by nearly 9x in nine years

Most diverse managers are raising a first-time fund, but an increasing proportion are raising a subsequent fund

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, 2023



In the last five years, the number of woman and minority-owned firms has increased by at least 20% annually. Growth 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 2023, a record 230 first-time woman and minority-owned firms were in the market raising capital, representing 55% of the 417 woman and minority-owned firms in the market. This is significant as the total number of first-time funds tracks near the total number of diverse firms raising capital (234) only three years ago. Although an increase in the absolute number of first-time funds, this is a decrease on a relative basis over the prior year, as the spread between first-time funds and successor funds narrows.

In 2023, we observed approximately 50% of the funds in the market continuing fundraises that started in 2022. Approximately, 51% of these firms were raising first-time funds and 49% were raising successor funds, an indication that fundraising processes have elongated. First-time fundraises are known to be challenging and time-consuming, particularly for diverse managers in adverse market conditions.

These firms typically do not pursue traditional approaches to fundraising. As a result, many fall below the radar of larger institutional investors and intermediaries (e.g. consulting firms and registered investment advisors). While investors often associate first-time funds with a 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. Against that backdrop, 2023 also featured more experienced diverse managers in the market raising a subsequent fund 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 target small fund sizes

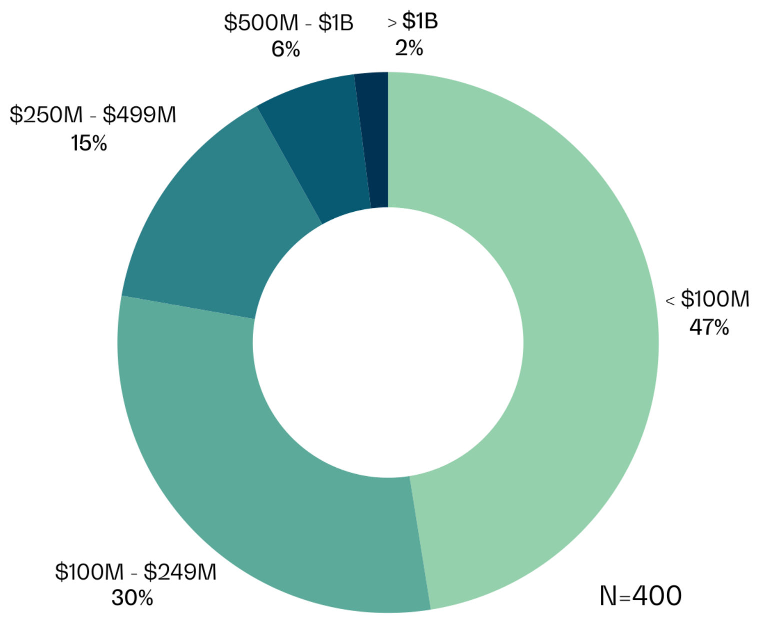
The median fund size target for woman and minority-owned firms in the market in 2023 was $100 million, consistent with the prior two years. This compares to the industry-wide median of $229 million[1] for funds raised during the year, reflecting a clear gap between diverse and non-diverse firms. This gap grew over 250% in 2023 as limited partners quickly shifted allocations to larger, more established firms.

In 2023, we also observed the same median target for first-time funds and subsequent funds, indicating that woman and minority-owned firms were not stepping up their target fund sizes. Fund size step-ups can be important when growing a franchise as it allows for key investments in talent, infrastructure, and operations, all tenets for persistent institutional investor backing. Smaller fund sizes also result in narrower fundraising processes and contribute to why diverse managers are often below the radar of many institutional investors and their intermediaries. Further, smaller managers often do not meet minimum size parameters implemented by institutional investors, including for many emerging manager programs.

Exhibit 3:

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

Data: Fairview Capital Proprietary Database of Woman and Minority-Owned Firms as of December 31, 2023 (Excludes 17 funds due to undisclosed fund sizes.)



[1]Pitchbook as of September 30, 2023

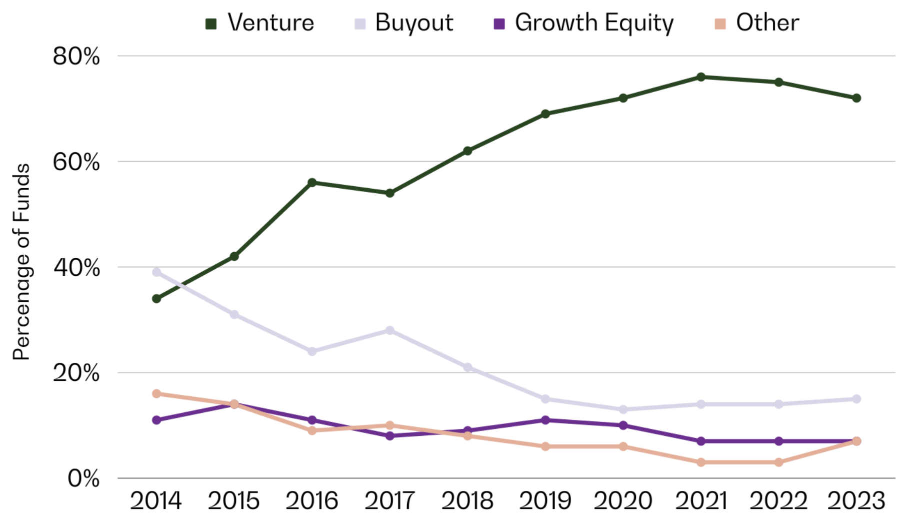
2023 featured more experienced diverse managers in the market raising a subsequent fund than ever before

The investment opportunity with diverse managers remains primarily in venture capital

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, 2023



72% of woman and minority-owned firms were raising a venture capital fund in 2023

The investment opportunity with woman and minority-owned firms continues to be dominated by venture capital. In 2023, 72% of woman and minority-owned firms were raising a venture capital fund, down slightly from 75% in the prior year. Within venture capital, the opportunity set skews early, as 88% of diverse managers were raising an early stage fund, 7% were raising a multi-stage fund, and 5% were raising a mid-late stage fund during the year. The year 2023 marked the first multi-year decline in the proportion of woman and minority-owned firms pursuing venture capital strategies since Fairview began reporting this data. We observed incremental growth in buyouts, growth equity, and other related investment strategies (namely private credit).

Despite a minor relative decline in recent years, venture capital has now represented the majority of the diverse manager opportunity set for the better part of a decade. It remains abundantly clear that investors interested in investing with 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 deal flow and manager selection.

The number of diverse managers pursuing growth equity and buyout strategies is growing, but at a slower rate

Barriers to entry are higher for diverse growth equity and buyout managers

Amongst diverse managers, growth equity and buyout strategies remain underrepresented relative to venture capital. Barriers to entry are higher than venture capital, as growth equity and buyout funds often raise larger funds, write larger checks, and generally require significant infrastructure investment and talent investment up front. Additionally, track records can be harder to generate because one must often rise to a senior role at an established firm. Conversely, in venture capital, we have observed track records developed through smaller "proof of concept" venture capital funds and angel investments, both of which have lower barriers to entry.

In 2023, buyout funds represented 15% of the funds sponsored in market by diverse managers, the highest proportion since 2019 and the highest absolute number (64), a new record. Since 2014, the number of buyout funds in market annually has grown (3.7x) lagging the broader growth in diverse managers in market (9.4x) and lagging the growth in venture capital (16.7x) over the same period. During the year, 59% of buyout funds were raising a first-time fund and 41% were raising a successor fund. Noteworthy is that 65% of the $500M+ funds were buyout funds and 25% of buyout funds are raising a third fund or beyond.

In 2023, growth equity funds comprised 8% of the funds sponsored in market by diverse managers, slightly below the five-year average of 9%. However, the absolute number of growth equity funds is 48% higher than the previous 2022 all-time high. Since 2014, the number of growth equity funds in market has grown 7x (albeit from a low base), which lags the broader growth in diverse managers (9.4x), and lags the growth in venture capital (16.7x) over the same period.

The investment opportunity with woman and minority-owned firms continues to be dominated by venture capital

A growing proportion of African-American-owned firms are raising subsequent funds

There were 154 African-American-owned firms in the market during the year, a 26% increase over 2022. Approximately 69% of African-American-owned firms in the market were raising a first-time fund. Although an overwhelming majority, this figure is down from 75% in the prior year, and the third consecutive year that more African Americans were raising a subsequent fund, an early indication of the emergence of more enduring African-American-owned firms.

Of the 154 African-American-owned firms raising capital during the year, 70% were raising venture capital funds, down from 75% in 2022. Buyout strategies represented 16% of African-American-owned firms in the market, generally consistent with the prior year. The remainder were raising growth equity funds and other related investment strategies. Regarding fund sizes, African-American-owned firms were targeting a median fund size of $75 million, up from $65 million in 2022.

Most Asian-American-owned firms face challenges in scaling despite success in establishing funds

In 2023, there were 61 first-time Asian-American-owned firms in the market, a record, and a 9% increase from the prior year. However, 53% of Asian-American-owned firms in the market were raising a subsequent fund, and notably 26% were raising a third institutional fund or higher. Despite the majority of Asian-American-owned firms in market in 2023 raising a subsequent fund, the median target fund size was just $100 million, down from $115 million in the prior year, and in line with the broader universe of woman and minority-owned firms, reflecting similar challenges other profiled demographics face in growing firms and accessing capital.

Approximately 76% of Asian-American-led firms were raising venture strategies. Buyouts represented 14% of the Asian American-owned firms in the market, with the balance attributed to growth equity and other strategies.

Latinx firms are severely underrepresented, but are more often raising a subsequent fund

In 2023, we observed 52 Latinx-owned firms in the market during the year. This is a 21% increase compared to the prior year. Notably, 44% of Latinx firms in the market were raising a subsequent fund, indicating continued development of firms. Some Latinx-owned firms have adopted broader Latin American and cross-border strategies to double down on the large and growing Latinx and Hispanic consumer market where they often have unique insights and access.

Of the Latinx firms raising capital during the year, 69% were raising venture capital funds, down from 72% in the prior year. Buyout strategies represented 23% of the Latinx firms in the market, up from 14% in the prior year, a meaningful increase. The remainder were raising growth equity funds and other related investment strategies. Regarding fund sizes, Latinx-owned firms are targeting a median fund size of $100 million, in line with the broader universe of woman and minority-owned firms.

The number of woman-owned firms has been a particularly strong area of growth

While Woman-Owned Firms Continue to Grow, Minority Woman-Owned Firms Face Significant Challenges

The number of woman-owned firms has been a particularly strong area of growth. It was a record year for women-led firms, with 167 in the market, an 11% increase compared to the prior year.

Non-Minority Women

In 2023, 72% of non-minority women owned firms were pursuing a venture strategy, down from 74% in the prior year. Growth equity and buyout strategies each represented 11% of the total strategies pursued. Firm formation is robust, as 42% of non-minority woman-owned firms were raising first-time funds, in line with 2022. Most non-minority women were in market raising a successor fund. Notably, 54% were raising a second or third-time fund, an early indication of franchise building. The median target fund size for non-minority women was $100 million in 2023, unchanged from the prior year.

African American Women

The number of African American woman-owned firms in market decreased 1% over the prior year. Approximately 79% of African American woman-led firms were raising first-time funds, down from 86% in 2022 as more were raising second-time funds. Regarding fund strategy, 84% of African American woman-owned firms were raising a venture capital fund down from 86% in the prior year. African American woman-owned firms were targeting a $50 million fund size, unchanged from last year.

Asian American Woman

The number of Asian American woman-owned firms in market decreased 5% over the prior year. Half of the Asian American woman-owned firms in the market were raising a first-time fund. Venture capital was the dominant strategy representing 85% of Asian American women-owned firms in the market. Noteworthy is the median target fund size for Asian American woman-owned firms was $93 million, down from $100 million in 2022.

African American Women and Latinas are often raising the smallest funds

Latinas

Latinas are the most underrepresented group as measured by the number of firms in the market. All were raising a venture capital fund and half were raising a first-time fund. Latina-owned firms were targeting a $35 million fund size, down from $40 million in the prior year. Noteworthy is that 64% were continuing a fundraise that started in 2022.

Diverse Managers Feature a Natural Diverse Multiplier Effect at the Portfolio Company Level

Fairview has amassed a unique set of data on diverse managers and their underlying 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, 68% of the 437 portfolio companies in a Fairview fund-of-funds featured woman or minority executives. In another portfolio, 73% of the 249 portfolio companies in the program featured woman or minority executives. Lastly, in one more portfolio, 74% of the 81 portfolio companies in the program featured woman or minority executives.

None of these Fairview vehicles, nor the sub-funds in the vehicles, have an explicit strategy of investing in woman and diverse entrepreneurs. These managers are organically 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.

At an Unprecedented Scale and Growing, the Universe of Woman And Minority-Owned Firms both Features more Vulnerability and Promise Than Ever Before

While this is the 10th year Fairview has been publishing data on woman and minority-owned firms, we have been active investors for 30 years. Over that time, we have seen this segment of the market experience several cycles, often tied to economic and private market industry cycles, social sentiment, or both. Given the characteristics of woman and minority-owned firms, many of which have been shared in this report, these firms tend to be impacted more swiftly and for longer when market sentiment turns. Again, a majority, 55%, of the opportunity set primarily lies with new firms raising first-time funds, and with a median fund size of $100 million, the opportunity set skews towards smaller funds. In uncertain times, limited partners tend to take a flight to perceived safety in larger and more tenured firms. It appears that this time is no different. However, with the size of the woman and minority-owned firm market now several orders of magnitude larger than it has been in the past, how general partners and limited partners react will have significant consequences.

Most general partners should expect fundraises to take longer, especially those who are in the process of institutionalizing their limited partner bases and looking to add new investors. In addition to existing sources of capital drying up, emerging manager programs, which are often critical sources of capital, may not be as active and new programs are much less likely to launch. Generally, motivated firms with team cohesion and true advantages on the investment front are best positioned. In times like these, continuing to learn and build while maintaining a long-term perspective usually leads to the building of stronger, more enduring firms.

Fundamentally, private market investing is a relationship business where talented people who have advantages in identifying and accessing new opportunities can leverage informational arbitrage or market inefficiencies. There are more talented women and minority managers than ever before, and they continue to see and access a unique set of opportunities, as indicated by the data in this report. In Fairview's experience, consistent deployment of capital is typically the optimal approach for most limited partners, particularly in the emerging manager category. Being informed about the opportunity set is an important starting point for developing a strategy for identifying the best approaches and managers. We continue to believe institutional investors who establish and maintain an authentic, programmatic approach to investing with diverse managers can benefit from the powerful combination of meaningful outperformance and long-term strategic value for their private equity portfolios.