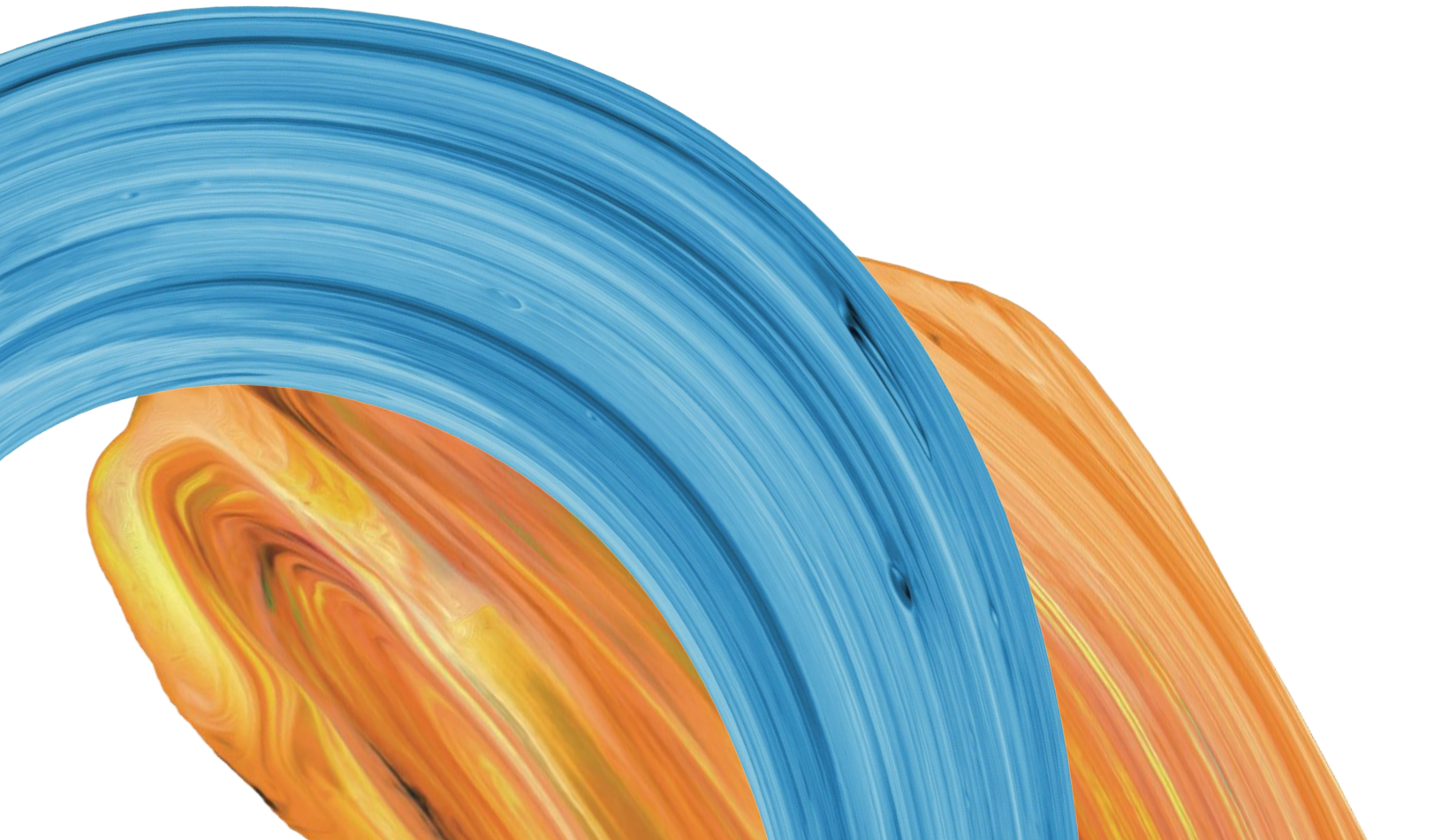


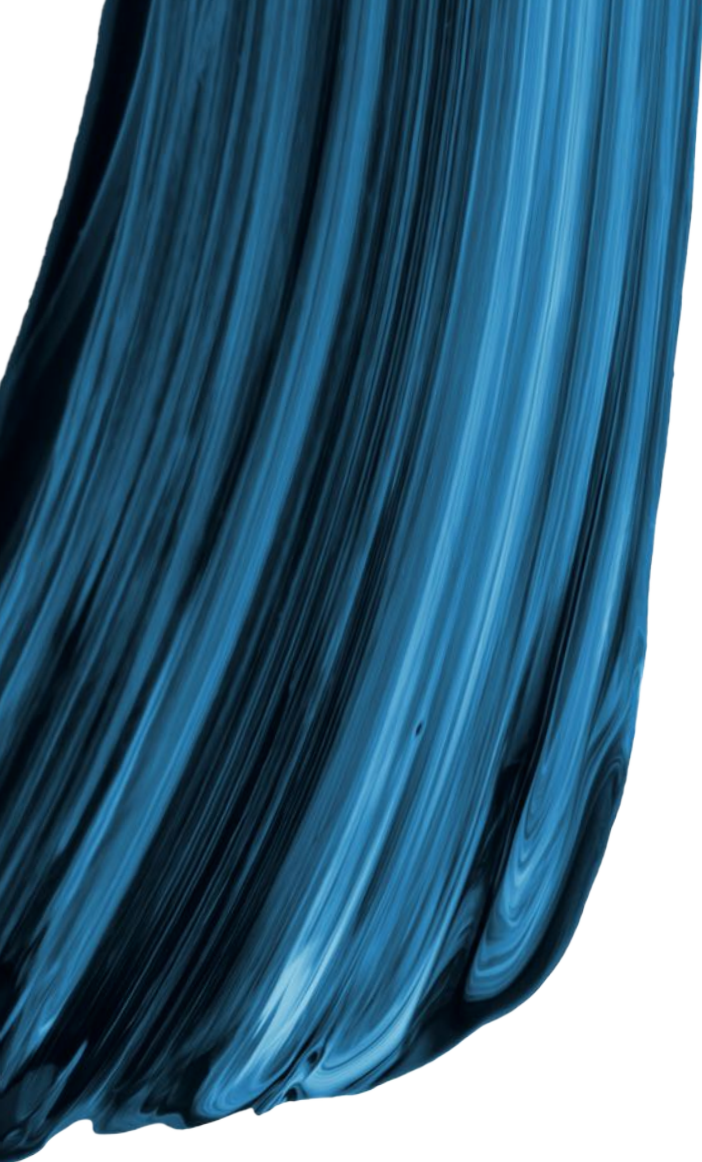


Unlocking  
Gender-Smart Capital  
At Scale

# A Guide to Investing in First-Time Women and Diverse Fund Managers

The XX Factor: Unlocking Opportunity,  
Impact and Alpha





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This publication was written by Laura Kemp-Pedersen, Founder, ImpactInc., Suzanne Biegel, Co-Founder, GenderSmart, and Kerry Dittmeier, Consultant, GenderSmart. Layout: Debbi Evans, GenderSmart.

To get in touch about this report, please [email us](#).

## About GenderSmart

GenderSmart is a global field building initiative dedicated to unlocking gender-smart capital at scale. We build the capacity and connectivity of gender finance investors and investment influencers to move more capital, more strategically, with more impact. Our work revolves around a clear bias for action, learning, and dialogue between a diverse set of perspectives, including those who speak for the needs of capital.

Find out more at [gendersmartinvesting.com](https://gendersmartinvesting.com)

# Foreword

The opportunity to use private equity (PE), venture capital (VC), and private debt vehicles to fuel solutions to the world's biggest challenges, identify opportunities, and to create value is tremendous. Hundreds of billions in capital move through these vehicles every year.

Whether an investor is motivated by impact or by financial returns, or both, these asset classes are a core component of many private as well as public finance portfolios. **However, there is a missing “XX factor” in much of that investing.** And that factor is gender and diversity. Not only are fund managers missing out, but the entrepreneurs that they then fail to fund, the innovative solutions that are overlooked, the increased risk in portfolios due to lack of diversity, resulting in blind spots, simply do not make sense in the 21st century. **If we are not tapping into the skills and knowledge of half of the population, investors and the world are missing out.**

Fiduciary duty is often cited as the reason why investors and investment advisors limit the universe of investable propositions to structures and managers that are familiar and considered established. And yet we know that a significant portion of the market – investment in women

setting up funds for the first-time – is currently being overlooked. Many of the most innovative funds are from emerging managers.

[Gender lens investing](#) (GLI) can be a key driver of economic growth and sustainable development. It can advance diverse fund managers, companies and value chains with gender balance, products and services that improve the lives of women and improve business, and environmental and social outcomes for all. Further, because women are [twice as likely](#) to invest in other women, **GLI funds have the potential to create a unique ecosystem of financing and opportunity that channels capital to under-developed parts of the market** where lack of access to finance for women or businesses that positively impact women's lives is entrenched by systemic bias.

We therefore believe that those investing in PE and VC, as well as other structured vehicles, are failing to reach their full potential by limiting the access and participation of women and diverse first-time fund managers who are investing with a gender lens. These funds represent a significant opportunity for investors to generate competitive return and impact, and influence the development of a more innovative and diverse financial system.

2020 saw an unprecedented level of capital raised within private markets, despite the global pandemic, and while Project Sage 3.0 and other key research points to the expansion in the number of women and diverse managers setting up funds for the first-time, limited information flows, perception of risk, and bias in decision-making continue to hold the entire investing ecosystem back from reaping the benefits of the innovative strategies and approaches dynamic new fund managers represent. Money is being left on the table.

We launched the First-Time (Women and Diverse) Fund Managers Investing with a Gender Lens Initiative in February 2020 to address the structural barriers that consistently prevent women-led and diverse teams from raising sufficient capital in support of their first funds. The Initiative focused on helping to advance and scale structural and market-based solutions that will increase the flow of capital. To date, more than 100 individuals from across the investment ecosystem, including Development Finance Institutions (DFIs), banks, foundations, large institutional investors, advisors and intermediaries, solutions providers (organisations bringing structural solutions to the market to address the challenges faced by first-time fund managers) and first-time women and diverse fund managers have contributed to this initiative as Steering Group and Working Group members, research participants, and contributors to this guide (see the appendix for a full list).

Through our overall initiative, many opportunities to shift the market were identified, from how we support these fund managers; how we increase their visibility; how we might shift public policy; how we might look at fund of funds, fund platforms, fund accelerators; and more. (If you are interested to learn more about our other work,

[get in touch.](#)) **But one request we heard consistently was: we need tools and resources for allocators, to help to demystify this opportunity, and better make the case.**

**This guide is meant to be a tool for asset allocators and advisors, as well as for fund managers, to help you make the case, be inspired by leading investors who are showing the way, understand the structural solutions to backing more of these funds and structured vehicles, find deal flow, and understand how to diligence and move capital into these innovative managers.**

**We want 2021 to be a tipping point for backing women and diverse managers investing with a gender lens.**

Women and diverse fund managers have the keys to the solutions we need to address the issues uncovered by the COVID crisis, the climate crisis, the racial equity crisis, the changing nature of work, the care economy, and shifting demographics. Many of the most innovative solutions are from first-time or emerging managers. Investing in first-time women and diverse fund managers contributes to a more sustainable world and is a source of alpha.

We hope that you will use this guide, give us feedback, and continue to help us to build on the evidence base demonstrating that this is a smart strategy. We can't wait to hear from you.



**Suzanne Biegel**

Co-Founder, GenderSmart  
and Catalyst at Large



**Laura Kemp-Pedersen**

Founder  
ImpactInc.

# Introduction

**Despite the massive economic upheaval unleashed in 2020, global [PE ended the year at approximately \\$582 billion](#), with funds investing in a record number of companies and businesses. In this same year, PE funds sat on an estimated \$1.7 trillion of dry powder.**

And yet for women and diverse teams launching PE and VC funds for the first time, accessing capital remained a largely uphill battle, with many experienced managers eventually giving up, talent being lost, and the opportunity to expand and diversify the field capped. Turnover rates for female fund managers across public and private market vehicles in 2020 were an [estimated 42% compared to 27% for males](#).

According to Preqin, the demographic profile of first-time fund managers still mirrors that of PE funds overall—about seven in 100 managing directors are female for both first-time funds and all PE funds. These numbers are predicated on the limited opportunity for women to secure senior leadership roles in PE firms or to successfully launch their own funds. We still only see an estimated 2 to 3% of total capital flowing to women fund managers across both PE and VC. This equates to approximately [0.9% of the world's \\$69 trillion in assets under management](#) managed by firms that are majority owned by women or people of colour and is reflective of lingering bias and systemic barriers to entry: the inherent tendency of a process to support particular outcomes.

Jim Casselberry, Chief Investment Officer at 4S Bay Partners LLC believes investors who fail to consider first-time women-led funds ignore their fiduciary duty. “We believe that there’s a normal distribution of talent within the investment industry, but if we only invest with the 5% of investors that get 95% of the allocations, we’re not taking advantage of that normal distribution. Do I believe that all talent resides in this 5%? If the answer is no, then we are not fulfilling our fiduciary duty to look outside that 5%.”

Evidence consistently demonstrates that first-time fund managers can deliver returns in-line and in some cases exceeding established GPs. Global Preqin research



Venture capital and private equity investors could be missing out on as much as [\\$4.4 trillion in value](#) by not investing in more diverse founders.

spanning 13 vintage years (2000-2012) found that [first-time funds have outperformed funds with established managers in every year except one](#). This outperformance is particularly apparent in quartile rankings: [32% of first-time funds achieved top-quartile performance \(all vintages combined\) compared with 24% for all other funds](#). [PitchBook data from March 2021](#) suggests that when comparing first-time funds to more established funds, first-time funds outperform by approximately one percentage point or less for IRRs across the bottom quartile, median, and top quartiles. The data maintains that first-time funds hold the performance edge in each IRR quartile, even compared with other funds under \$1 billion.

Numerous published studies point to the opportunity for alpha presented by women-led and diverse funds:

- ▶ Gender diverse fund management teams deliver an incremental 10-20% in net IRR returns compared to non-gender diverse teams ([IFC](#))
- ▶ VC firms that increased their proportion of female partner hires by 10% saw, on average, a 1.5% spike in overall fund returns each year and 9.7% more profitable exits (an impressive figure given that only 28.8% of all VC investments have a profitable exit) ([HBR Study by Gompers and Kovvali](#))

- ▶ 69% of venture firms in the top quartile (2009-2018) had women in decision-making roles (PitchBook-All Raise Report)

[\*Project Sage 3.0: Tracking Venture Capital, Private Equity, and Private Debt with a Gender Lens\*](#), an annual study by Wharton Social Impact Initiative and Catalyst at Large, found that 61% of the 138 funds deploying capital with a gender lens in the 2020 report - covering data through end of 2019 - were first-time funds. Women and diverse first-time fund managers investing with a gender lens represent a unique value creation opportunity, and can offer diversification of strategy, deal sourcing and impact.

PE, VC, and private debt funds have increased capital deployed for gender lens strategies from \$1.3 billion in 2017 to \$2.2 billion in 2018 and rising to more than \$4.8 billion in 2019, according to the Project Sage 3.0 report.



**Anne-Marie Lévesque**

Director, Gender and Impact Management, FinDev Canada

**“Investing in women and diverse fund managers should be key for investors whose impact strategy includes reaching more women entrepreneurs. As per [IFC research](#), women partners tend to invest twice more in women entrepreneurs than male partners, for example. The impact is even more amplified when there is a clear strategy to actively and intentionally reduce gender gaps. The women and diverse first-time fund managers we spoke with as part of our [Fund design: building for the underserved African market with a gender lens](#) workshop in November 2020 (hosted in collaboration with UN Women and Lelapa) all had clear gender lens investment strategies which were based on their deep understanding of the needs and preferences of the underserved segment of women SME owners in Africa. This dual gender lens can therefore help uncover innovative solutions and investment vehicles, designed by women, for women.”**

## The Initiative and Objectives

The First-time (Women and Gender-Diverse) Fund Managers Investing with a Gender Lens Initiative [“The Initiative”] brought together key stakeholders to share challenges and solutions, collaborate on approaches, and adopt new ways of thinking focused on transforming the ecosystem of investment in first-time women and diverse fund managers investing with a gender lens through private market vehicles.

This guide was developed based on 14 months of research and dialogue with key players across the investment ecosystem, uncovering the challenges of women fund managers in accessing capital, analysing key misconceptions and perceived barriers to investment, and learning from investors who are leading the field in backing first-time fund managers.

With this guide, we hope to begin to equip the field with the knowledge, resources, and tools needed to allocate scalable capital to more women and diverse fund managers, thereby moving the entire private markets investing ecosystem forward.

### Disclaimer

We recognise the GP/LP nomenclature is not appropriate for all vehicles and allocators that we’re referring to in this guide, but for shorthand, we refer to GPs in place of any fund manager or person managing a permanent capital vehicle and we reference LPs for any investment allocator that is placing investment capital into a vehicle.

We also recognise that the phrase “first-time fund manager” is laden with much baggage and can be misleading or reinforce a bias. We have used the phrase “first-time fund managers” throughout this guide and initiative, but many of these fund managers are highly experienced, either in holding senior roles in other funds, or with vast experience as entrepreneurs and then angel investors, or with deep sector or functional expertise in business or professional investment. Some would prefer that we use the term “pilot” funds. Some would prefer “emerging” or “pioneer.” “[Emerging](#)” has come to represent, in institutional capital circles since the 1980’s, a fund manager that manages under \$2 billion in capital,

and which may or not be diverse, although definitions vary widely. This is not a clear term for us and so we have chosen not to use “emerging” in this guide. But for some, it fits. We address this in other parts of the guide but wanted to point it out here.

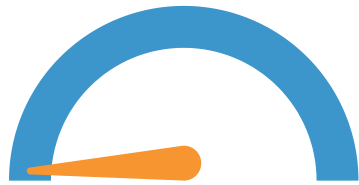
### What does ‘Diverse’ mean?

When GenderSmart launched this initiative, we were explicitly focused on gender diversity. However, in the course of our research, we came to realise the importance of being candid about the paucity of capital flowing to women of colour as a specific subset of the first-time manager category. When an allocator treats “women and minorities” or “women and racially diverse” as one category, women of colour are even more likely to miss out because of entrenched biases that encourage capital to flow to either racially/ethnically diverse men or white women.

We believe these things are intersectional, and encourage allocators who want to move more capital to female asset managers at first-time funds to be mindful of this additional layer of missed opportunity.

***We would love your feedback about language. What do you find useful? What gets in the way?***

# Making the Case for First-Time Women and Diverse Fund Managers



Firms owned by women and people of colour manage a mere **1.3%** of the investment industry's **\$69T** in assets

## Female Funders Are:

**2X** more likely to invest in startups with one female founder

**3X** more likely to invest in a female CEO



Missed value in the investment industry by not investing in more diverse founders

**200 Years**

to equal representation in asset management at the current rate of progress

Only **12%** of VC decision makers in the US are women



However, **69%** of the top-performing funds had female GPs

First-time funds have **higher median net IRRs** than non first-time funds



According to Preqin, **32%** of first-time funds achieved top-quartile performance (all vintages combined) compared with 24% for all other funds



Gender-diverse fund management teams deliver an **incremental 10-20%** in returns compared to non-gender diverse teams (IFC)

Sources: IFC, Preqin, Morgan Stanley, All Raise, HBR, Nielsen, Citywire, Bella Research Group, Knight Foundation



# Key Recommendations:

## Putting Capital to Work for First-Time Women and Gender-Diverse Funds

Throughout the more than 50 interviews conducted with a global ecosystem of capital allocators and other key players, we consistently encountered almost identical biases and risk-related concerns around backing first-time women-led and diverse funds investing with a gender lens. Below, we address those that are most systemic, and provide useful solutions, tools, and data to help investors overcome entrenched mindsets and ways of working.



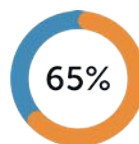
# Gaining Perspective on Diversity and Getting Started

Within PE and VC, homophily continues to create significant challenges around access to capital for women-led and gender-diverse first-time funds. Both VC and PE remain male dominated, with men comprising **90% and 85% of Investment Committee members respectively**. This creates a perpetual cycle of women being under-represented as fund managers, as allocators into funds, and as entrepreneurs.

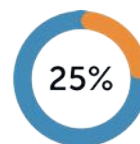
Aspirational statements of support for gender and diversity are not enough to induce action. Overcoming the status quo and entrenched groupthink rarely happens organically. The first step requires an explicit internal commitment by an organisation in terms of its investment activities. This should involve an analysis of your own organisation and external advisers, investment processes and potential biases. Importantly, this step provides more junior team members such as analysts and consultants permission to expand into newer investment areas, helping to overcome concerns around reputational risk.

Increasing the number of women within the base of Limited Partners (LPs) can play a key role in bringing diversity into perspective and ultimately stimulate a greater understanding of, and investment in, women and diverse founders. Setting targets and goals at an organisational level is key to measuring progress on behaviour change.

In recent years (2001 to 2018), **over 80% of all venture dollars were raised by all-male founding teams** (Figure 1, below). In fact, **there is not a single stage of VC fundraising where male founders closed less than 80% of the rounds**. Furthermore, the \$147 billion raised in 2018 by all-male founding teams exceeds the amount of VC dollars put into female founding teams for the last 19 years combined.



65%



25%



20%

**65% of LPs interviewed** view gender diversity of a firm's investment team as important.

Yet **only 25% of LPs ask about gender** during due diligence and **only 20% encourage GPs to improve gender diversity outcomes** as a condition of capital

Source: IFC, RockCreek and Oliver Wyman: Moving Towards Gender Balance in Private Equity and Venture Capital



**Rodrigo Garcia**

Deputy State  
Treasurer and Chief  
Investment Officer,  
Illinois Office of the  
Treasurer

**“When we do things that appear neutral or innocuous, yet result in disproportionate impact, we are inadvertently promoting prejudiced and biased systems.”**

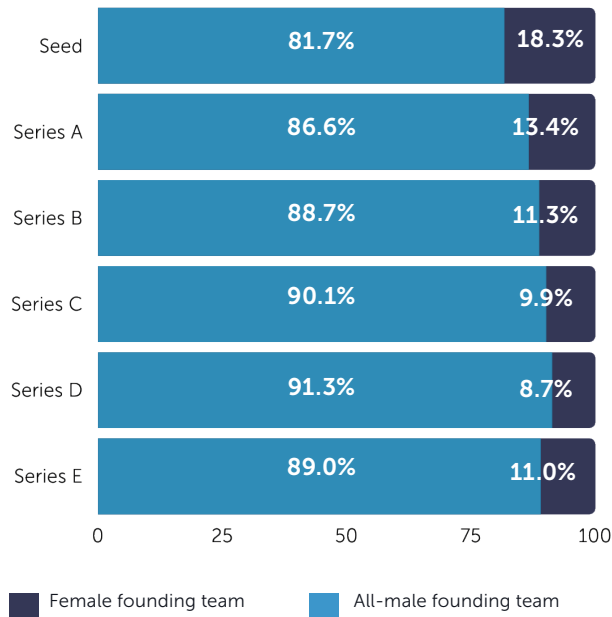
[Research from the National Association of Investment Companies](#) suggests **diverse funds may have a sustainable edge when it comes to investing and that diversity can be a source of excess return** and increase the probability of “success” in investing, while diverse deal flow can also be a driver of excess alpha. Diverse PE funds (represented by NAIC member funds in the NAIC Private Equity Index, and defined as either gender or ethnically diverse) performed better than the Burgiss Median Quartile in 78.6% of the vintage years studied.



**Jim Casselberry**  
Chief Investment  
Officer, 4S Bay  
Partners LLC

**“If women and founders of colour aren’t involved, then we are going to have results like we’ve previously had that continue to cause growing chasms and wealth gaps.”**

Figure 1: Venture capital raised, by gender of founding team. Source: Kauffman Fellows



**GETTING STARTED ▶**

- ▶ Define your goals: In addition to your other investment parameters, what are your organisational commitments to diversity and impact?
- ▶ What does your own investment team look like? Start with conducting an internal diversity audit to assess how you’re doing: what does diversity look like within your investment committee and how might that be mirrored in the way you’ve historically allocated capital?
- ▶ What does your investment deal flow look like? What sources do you rely on for gaining access to fund managers? What is the fund manager group you are diligencing? Is it homogeneous or is the composition a diverse group of managers who can bring greater diversity of deal sourcing and opportunity? How many of these funds are women-led and first-time?
- ▶ If your current selection process shows itself to be non-diverse, i.e., most of the funds backed are male-led and are with GPs you have invested in previously, consider whether your investment policy or mandate should be rewritten to include diversity and investment in both women-led and first-time funds
- ▶ What does your diligence process and questionnaire look like? Have you integrated diversity-focused questions and research into your process? Have you trained your team to listen for and analyse their own biases in assessing diverse managers?
- ▶ Are there ways you could incentivise gender diversity and other forms of diversity outcomes as conditions of capital commitment?
- ▶ How are you holding yourself accountable in moving forward on investing in women-led first-time funds? Is there a target number of these funds for review? How many or what percentage have made it through diligence and into your portfolio? Hold yourself accountable for change by setting commitment targets.

# Expand Networks to Access Opportunity

“We just aren’t seeing any women-led funds who meet our criteria” is a reason frequently cited by investors for failing to back women fund managers. Yet women-led funds face an exclusionary situation, with closed capital networks and investors continually returning to non-diversified sources of deal flow. Women and diverse fund managers are launching private market vehicles at an unprecedented scale; there has never been a better time to back women (and diverse teams).

PE and VC is being run globally through a largely (white) male lens; male asset managers control [98.7% of the investment industry’s \\$69 trillion in assets under management](#), according to a 2019 study from Bella Research Group and the John S. and James L. Knight Foundation. Because of this, there is a propensity to invest within the same closed networks, with people who went to the same schools, and move in the same social circles. This lack of diversification of LP networks perpetuates the cycle that leads to low representation of women and diverse first-time managers and – it can be argued – ignores fiduciary duty.

[Project Sage 3.0 findings](#) suggest that the number of women-led funds continues to grow significantly. Additionally, 61% of the 138 funds deploying capital with a gender lens identified for the 2019 report were first-time funds. According to Suzanne’s research at GenderSmart and Catalyst at Large, while new data for 2020 is not yet available, there are now more than 225 private market funds with a gender lens (many of which also have a



**Sagar Tandon**

Founding Member,  
Indonesia Women  
Empowerment Fund  
(IWEF)

**“Diverse first-time fund managers can identify new areas of opportunity and anticipate risks that might arise as global demographics shift. Investing in them will allow investors to experiment, building new investment theses, differentiating their portfolios, and developing innovative financing instruments and new fund structures.”**



**Laurie Spengler**

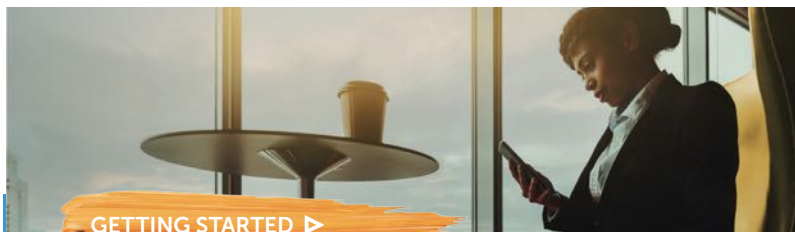
Founder and CEO,  
Courageous Capital  
Advisors

**“If you fish in the same pond you will catch the same fish. The forces of pattern recognition are strong and require intentional effort to break. The good news is that if you are willing to look beyond your organisation’s familiar comfort zone you will find a growing opportunity set across asset classes, investment strategies, and geographies. ”**

racial/ethnic diversity lens) and which have raised an estimated \$6 to \$9 billion, even with the headwinds of 2020.

There is now a mix of first-time fund managers as well as GPs with a number of previous vehicles, launching funds with a more explicit gender lens. The size ranges from the single digit millions to over \$500 million, and they span every geography and most sector/thematic areas of focus. Through [Capital Connect](#), the recent 'un-showcase' series produced in partnership with VC Include, GenderSmart has assessed more than 80 of those funds in the last 12 months.

In response to the need for increased visibility, key initiatives are emerging with innovative approaches to bringing together LPs and first-time women and diverse GPs. Organisations such as VC Include and Beyond the Billion are working to accelerate investment into diverse emerging managers by creating platforms that build out a deal flow of talented diverse managers and facilitate relationship-building and partnerships with LPs. LPs who open their networks to diverse first-time fund managers create a trickle-down effect of diversification of their entire portfolio – tapping into the unique deal flow these women bring by providing access to innovative companies and diverse entrepreneurs.



## Key Recommendations for Opening Your Capital Network and Deal Flow to Women and Diverse First-Time Fund Managers

- ▶ Accessing new managers means being open to fund applications and connections outside of your existing network. In response to the need to open access to women-led and diverse fund managers, numerous organisations have established innovative introduction and pre-qualification models to match LPs with prospective funds. See Appendix I for a non-exhaustive list
- ▶ Build your profile with first-time women and diverse fund managers by hosting or attending industry events. Many regional PE and VC organisations run first-time fund managers programmes and are thus an important source of deal flow
- ▶ Supplement these by holding open door days or pitch days via video conference, to gain access to those managers who may find the cost of attending events prohibitive as they focus capital on setting up their own funds
- ▶ Build relationships with other capital allocators already investing in first-time women and diverse managers and explore opportunities to co-invest or pass on potential investments
- ▶ Publish your intention to invest in first-time, women-led and diverse fund managers on your website. You will attract an instant deal flow of potential funds

# Contemporary Approaches to Evaluating First-Time Fund Managers

## Applying the same evaluation criteria to both established GPs and first-time managers sets women up to fail.

Current processes exacerbate the structural inequalities inherent in capital allocation while failing to incorporate the advantages diversity brings to the investment table. When investors apply traditional track record requirements used to evaluate investment in more mature funds, or in all-male teams who have left larger PE and VC firms to set up on their own, the perceived available universe of investee women first-time fund managers who can meet strict track record criteria rapidly diminishes. Limiting requirements include minimum criteria such as audited track records that can precisely measure net IRR; number of years previously managing funds; and a documented history of the new fund's management team, showing that they've already worked together.

According to the 10th edition of [Investec's Gender Partner Trends survey](#), none of the women working within a GP who were surveyed would like to start their own PE practice if they left their current firm (compared to 15% of men) down from 2.3% in 2019. This means that for the PE and VC industries to achieve real diversity, it will be important to consider backing women-led and diverse first-time fund managers whose experience may be non-traditional.

The label "first-time" is a misnomer and serves as a point of frustration. Many women setting up for the first time are deeply experienced in a range of ways, including as entrepreneurs building and acquiring businesses, as personal investors, and as private markets investors who were held back from achieving partnership or senior executive roles due to entrenched bias. Some of these fund managers may have deep industry experience, and some may have come from entrepreneurial backgrounds prior to investing in the sectors or business models they know – all alternative ways to evaluate them.



**Michael Pellman Rowland**

Partner and  
Head of Impact  
Investments,  
Alpenrose  
Wealth  
Management  
International

**"Past performance is no prediction of future performance. That disclaimer is on every strategy in the public markets, so why doesn't that apply to private funds or any other funds? I'm less concerned about performance track record, and more focused on what their thesis is – do they know what they are talking about and are they genuinely aligned with their mission? Is the fund structured and set up in a way that I think is intelligent and positioned for success? And if the answer is yes, now you just have execution risk, which I think everybody has, regardless of how well they've done in the past."**

## SPOTLIGHT INITIATIVE ▶

## Due Diligence 2.0

Over a dozen BIPOC (Black and Indigenous people of colour) managers in collaboration with the investment committee of a multi-billion dollar allocator created the [Due Diligence 2.0 Commitment](#) focused on making shifts in due diligence processes in order to catalyse movement of capital to BIPOC managers. The number one recommendation is to consider track record alternatives: “For newer strategies or products, instead of insisting on a specific minimum track record for the product, we will evaluate members of the investment and leadership team based on past experience, investment sourcing capabilities, domain expertise, as well as assess prior track records in related or relevant work, possibly including redacted representative separate account performance rather than requiring cost-prohibitive third-party assessments, as well as each individual’s role in achieving previous results. To the extent the manager is using partner firms to complement their skillsets, the relevant experience and track records of said partners will be evaluated.”



### Rodrigo Garcia

Deputy State Treasurer and Chief Investment Officer, Illinois Office of the Treasurer

“If we are looking for the same pedigree, experience, and skillset in an ecosystem that’s already significantly dilapidated and underrepresented when it comes to women and people of colour, we’re going to continue to see those same issues. If we continue to rely on that same model to increase output, then we’re going to get those same outcomes. The data shows that if you look at first-time managers in private equity and venture capital, they have a higher likelihood of being in the top quartile performance, as compared to subsequent managers. So, if you have a higher likelihood of return, higher likelihood of economic concession, and you’re able to shepherd them forward, I think it’s a win for everyone.”



### Erin Harkless Moore

Investment Director, Pivotal Ventures

“One thing I always look for with venture capital emerging managers in the absence of a long track record is strength of network and a clear, differentiated thesis/point of view. The question I’m trying to answer is, ‘Does the GP have access to talent and a differentiated perspective on a sector, etc. that will deliver outsized returns?’

A good example of this would be a GP I’m evaluating right now who does not have a long investment history (a few small angel/scout investments) but she does have a clear thesis and founders speak highly of her value-add – her access to talent and the overlay of the investment thesis gives her an ‘edge’ from my perspective.”

## GETTING STARTED ▶

- ▶ For women who bring previous investment experience to their own fund, track record in the form of a written attribution or letter outlining previous investment experience from a former employer should be a generally accepted form of track record validation
- ▶ Newer funds may bring together women where one or more partners have alternative experience. For these types of managers, be open to evaluating how previous experience contributes to their ability to manage investments. For example, is the manager a specialist/subject matter expert in a particular sector in which they have unique and deep insights and knowledge, connections, and a proprietary deal flow which give them an advantage?
- ▶ Many investors we spoke to use the investment thesis as an alternate approach to a long investment track record to evaluate new managers. Is their investment thesis unique and does it provide access to a new or emerging segment of the market that is untapped by more mature GPs?
- ▶ Investing in women-led and diverse first-time fund managers takes time. Getting to know the GP and understanding the GP/LP cultural fit is a critical step. Many first-time fund managers require more than just an investor who provides capital; they can benefit from a thought partner on their strategy, operational and regulatory approach. LPs willing to spend more time interacting with first-time fund managers and sit at the same table with them can gain strong insight into the fund team's capabilities. They are playing an important role in both supporting the GP and contributing their expertise to the expansion of the market
- ▶ Use deep reference checking to supplement for or as additive to any track record and in-particular to evaluate those managers who may have built up experience in non-traditional ways. Doing so can provide a clear picture of previous commercial success, quality of networks, and access to deal flow. Taking time to get to know a fund manager should not equate to dragging out decision making and slowing everything down
- ▶ COVID-19 has presented a severe challenge to first-time funds, with LPs doubling down on their commitments to their current portfolio. As a result, many women and diverse fund managers have raised money from family and friends, or self-funded their first investments in order to begin to generate a track record. Deals completed prior to launching a fund can provide important insight into the GP in terms of investment track record, fund team dynamics, and quality of deal flow, all of which are additive to the process of evaluating a first-time fund manager



# Fund Size as an Opportunity Instead of a Hurdle

## Size and assets under management (AUM) requirements create significant hurdles for first-time women and diverse fund managers.

Size in the form of minimum investment requirements for large investors, size in the form of not wanting to be (or, through a documented internal mandate, not able to be) more than 20% of a first-time fund, and the labour intensity required to due diligence smaller funds are consistently cited by investors as preventing them from considering backing first-time women-led fund managers.

Investors who have successfully invested in first-time women-led funds are balancing these perceived challenges with the opportunity. They see investment in first-time, women-led funds as presenting access to new markets and strategies, often unavailable from more established GPs, as well as offering an opportunity to get in with exciting funds early on, which will provide investment opportunities for fund two and beyond.

“When we’re talking about minimum check size, it’s about time. For example, looking at the amount of time you spend for a \$50 million check compared to a \$1 million check and considering the difference in value add. When there are good managers based on the size metric alone, and you’re not going to be able to take a chance on them by spending a few more hours, it’s ultimately hurting what could be an effective and successful partnership over the long term,” says Rodrigo Garcia, Deputy State Treasurer and Chief Investment Officer, Illinois Office of the Treasurer.

The reality is that size, when it comes to investing in a first-time fund manager, can be significantly advantageous, bringing opportunity, focus, and higher returns than funds two and beyond. Nearly every investor we spoke to currently backing or considering a first-time women-led fund cited first-time fund managers as being highly motivated and having increased skin in the game through committing their own capital and singularity of focus on one versus several funds, alongside a deep

commitment and drive to get their fund off the ground. Garcia further describes some GPs as tapping into their own 401ks and tying up entire life savings into their funds. “When a material portion of their wealth is already tied up, you know you have the GPs full commitment to this fund,” Garcia says.



### What is the typical size of a first-time fund?

**54% of the funds included in the Project Sage 3.0 study were in the \$20-\$100 million range and just under 22% were raising \$100 million plus. While this is not exclusively including first-time fund managers, it does demonstrate that there is good variation in size across funds investing with a gender lens. Almost two thirds (61%) of Sage 3.0 funds were first-time funds.**

## GETTING STARTED ▶

**This is where de-risking mechanisms come into play. De-risking mechanisms are instruments that can significantly reduce the specific type of risks that investors are most concerned about. Different approaches include providing grant capital, providing first-loss capital, technical assistance, and more.**

- ▶ Build an internal data case: establish a pilot pool of capital to invest in GLI funds led by first-time women and diverse fund managers. This will build a data-led case for investment over time which may address issues of the return versus time spent on assessment
  - ▶ Consider value for money beyond the actual investment opportunity. Investing in first-time funds is a way of building relationships with a new cohort of fund managers, opening preferential access as the firm raises later funds
  - ▶ Does the opportunity presented outweigh the extra hours required to conduct diligence? Consider access to a unique deal flow with niche opportunities in new and emerging investment sectors that may not be widely available through established GPs
  - ▶ Develop a due diligence strategy that is tailored towards evaluating first-time women-led funds, that builds in ways to evaluate alternative track records and the advantages diversity presents. Activating a clear and tailored diligence strategy will lead to increased efficiency in evaluation over time
- ▶ First-time funds present opportunities for co-investment and potentially the opportunity to avoid some fees that come from investing indirectly via the blind pool fund, something often not available from more established GPs
  - ▶ Consider using your capital to crowd in capital from other LPs ensuring your investee GP reaches first close and beyond: Massachusetts Mutual Life Insurance Company (MassMutual), for example, recently invested in Boston-based black- and women-led impact VC fund [Reinventure Capital](#) through its Emerging Manager program focused on supporting general partners (GPs) of investment funds led by underrepresented managers. MassMutual solidified a \$5M base investment and made a further commitment of up to \$5M as a catalytic matching challenge to other LPs

# Play a Key Role in Catalysing the Growth of the Investment Field

Many first-time women and diverse fund managers spend extensive time speaking with investors and fulfilling due diligence requests, only to either never hear back or receive little to no explanation as to why the investment isn't moving forward. An even more protracted issue is that of investors who continually move the goalposts, or change the requirements women-led first-time funds need to meet to access capital.

Providing constructive and honest feedback and support during both the due diligence and investment periods, as well as fostering an environment of mutual respect, ensures first-time women and diverse fund managers benefit from the support needed to contribute to their growth and success. "For any responsible investor, failure to respond in a timely manner with some degree of substantive feedback is the minimum level of responsible investment behavior. A single email saying 'Not a fit with our strategy' does not qualify as substantive feedback, says Laurie Spengler of Courageous Capital Advisors. 'As a sell-side advisor, representing many first-time fund managers in their capital raises, it is stunning to me



## Research has found that asset managers owned by women and BIPOC have to work 10X as hard for assets

Source: Bella Research Group and the John S. and James L. Knight Foundation

how many self-proclaimed responsible, impactful, sustainable investors fail to provide honest and constructive feedback. If we seek to grow and develop the field we have a responsibility to contribute a modicum of effort along the way. An idea might be to start publishing exit interviews and rankings about the investor experience when one is turned down."

### SPOTLIGHT INITIATIVES ►

## Catalyst and Emerging Manager Funds, MassMutual

For Liz Roberts, Impact Investing Director at MassMutual, one of the key goals of the Catalyst and Emerging Manager Funds she runs is creating a positive experience for the diverse managers that come to MassMutual seeking capital. "It has to be consultative because sometimes you're the first institutional capital they are seeking and sometimes there's coaching and follow-through needed. Sometimes it takes a different kind of consultative diligence to understand how best to invest." While finding the time is often a key barrier for providing detailed feedback, it's about coming up with a simple system that provides transparency, gets out answers as quickly as possible, and ultimately creates a respectful environment that ensures basic human decency.

## Public Investment Corporation (PIC)

[Public Investment Corporation](#) (PIC), the asset manager for South Africa's Government Employees Pension Fund, has approached investing in first-time gender and racially diverse fund managers in South Africa through a fund manager incubation programme. Allocating funds to incubate managers affords them the opportunity to build track records with which to attract funds from other institutions. A portfolio allocation from PIC is seen by the market as an endorsement that the incubation manager has skill and the potential to be successful. PIC also assists incubation managers by providing technical and administrative support. PIC's goal is for incubation managers to become successful mainstream portfolio managers.

## GETTING STARTED ▶

### Key Recommendations for Catalysing the Growth of the Investment Field By Backing Women-Led and Diverse Funds Investing With a Gender Lens

- ▶ Provide constructive feedback on why an investment is or isn't moving forward
- ▶ Consider convening group meetings in which managers can answer questions for multiple fund managers where they benefit from anonymized feedback
- ▶ Be clear what goalposts need to be achieved for investment. Stick to those versus continually adding additional criteria
- ▶ Be willing to spend time and effort on the engagement and consultative process. Dutch Good Growth Fund (DGGF) Seed Capital explains, "while some managers come up with a clear investment strategy, well-rounded team, and experience with target instruments/ticket sizes, the majority of the prospects would benefit from ad-hoc support to strengthen their proposition"
- ▶ Consider how your experience as an LP could be used to provide coaching on strategy, team, deal flow, and operations – whether you plan to invest, pass on the opportunity, or consider recommending another LP in your network



# Case Studies:

## Meet the LPs Backing Women-Led and Diverse Funds



**Jim Casselberry**  
Chief Investment Officer  
4S Bay Partners LLC

Jim has over 30 years of experience in investing, impact investing, investment management and investment consulting. Jim is currently the Chief Investment Officer at 4S Bay Partners, LLC, the Sarowitz Family Office based in Chicago with a focus on narrowing the gap between racial and social inequality, with a gender and sustainability lens. He has raised over \$4B in capital and deployed over \$50B into diverse fund managers over the course of his career. Most investments at 4S Bay are focused on women founders and founders of colour. Funds backed by 4S Bay Partners include Reinventure Capital, Ulu Ventures, and Obvious Ventures.

### Evaluating Track-Record

Regardless of asset class, we focus on a combination of talent, practice, and opportunity. I look for a track record of strategy implementation and a fund manager's overall ability to articulate and understand the foundational aspects of building a first-time fund, such as building infrastructure and vendors.

### Building a Pipeline of Talent

We need to pressure larger institutions to hire women and employees of colour, because if they don't, how will they learn or gain the experience needed to have this "track record" we're expecting of them.

### Be Willing to Go First

We must go where the opportunities are going to be in the future and that is with women and founders of colour. We might be early, and we might make mistakes, but these won't deter us from where we are going and will only allow us to be more efficient and productive in the future. We're not always looking for return of capital, sometimes we're just looking for metrics to prove out that we can then bring in other dollars to take different risk positions to scale these projects, and create models that will change the game.

### Top 3 Pieces of Advice for LPs Interested in Investing in Women-Led and Diverse Funds

- ▶ **Work as hard as you can to find advisors aligned with your mission** to invest in diverse fund managers and investing in diverse fund managers themselves. Seek out advisors who help you move forward instead of enabling you to do what you have always done
- ▶ **Find another investor who is already doing the work** – learn from what they have done and consider co-investing with them
- ▶ **Understand what risk is and what is just capricious and arbitrary.** We must better understand and break down risk in all its forms to make good investment decisions. Conflating these to standards for investment is what makes them capricious and arbitrary



## Rodrigo Garcia

**Deputy State Treasurer and Chief Investment Officer  
Illinois State Treasurer**

Rodrigo Garcia, CTP®, AIF® is the Deputy State Treasurer and Chief Investment Officer for Illinois State Treasurer Michael W. Frerichs. He directs the Illinois State Treasury's combined \$38 billion investment portfolios, \$275 billion in related banking operations and financial activities, and a \$3.2 billion agency budget and financial reporting unit. He is a frequent speaker and contributor on topics such as financial innovation, investment stewardship, the financial markets, corporate governance, inclusive capitalism, sustainable finance/ ESG, development finance, impact investing, public policy, leadership, and diversity & inclusion. He is a dedicated public servant, an investment platform innovator, an angel investor, and an economic systems architect battling the many challenges afflicting our communities.

## Investing in Women Increases Financial Returns

The whole notion of diversity is rooted in an ability to understand a product, service, consumer, constituency, or particular issue from different perspectives. So, by having women as GPs, executives, managers, members of the boardroom, you're ultimately optimising the way you are tackling an issue and increasing your ability to monetise a solution to a particular issue. By investing in women, you are positioning yourself to increase your investment aptitude, which ultimately increases your financial returns.

## Be Willing to Go Outside "The Norm:"

You must be willing to do things differently to create a framework or a system that allows you to take advantage of the opportunity investing in women presents. This includes how you recruit your managers and your staff, and how you prepare your investment teams to conduct due diligence, as well as stewardship of these managers. It's about integrating diversity into all facets of what you are doing and changing the systemic processes that often keep women and minorities from these opportunities.

## It Starts at the Top

Many of these issues have been outstanding for decades, even centuries, so it takes a structured framework to facilitate change in such deeply rooted social issues. It takes leadership, philosophy, policies and processes, cultural competency, ingenuity, accountability, and measuring and evaluating change. These are the critical dimensions needed to address the realities of today's disparities, and we must be willing to be the change we seek.



**Michael Pellman Rowland**  
**Partner, Head of Impact Investment**  
**Alpenrose Wealth Management**  
**International**

Michael previously worked as a Senior Vice President in wealth management for 15 years at Morgan Stanley in New York. He specialises in portfolio management, financial planning, and impact investing. Based in Switzerland, Alpenrose provides state-of-the-art investment advisory and private banking services to private clients and wealthy families.

### A New Perspective

While at Morgan Stanley I had the opportunity to help launch the company's first impact fund, which focused predominantly on investing in first-time managers. This was my first exposure to the data and I came to the recognition that first-time managers could be very successful. That has stuck with me throughout my career, and when I came to Alpenrose, I was excited to source

more first-time fund managers and identify investment opportunities that people couldn't find anywhere else. Because I was looking for these unique, bespoke, harder-to-find diamonds in the rough, it naturally made me more open to first-time managers. This mindset really allowed the process to be organic, and that openness led us to putting capital into several first-time funds. Female founders are also part of our impact mandate because backing female-led initiatives in and of itself is an impact investment. We know from looking at the data that diverse management teams tend to take on lower risk and thus have attractive risk-adjusted returns.

### Thinking About Track Record

I focus more on EQ than maybe some who rely entirely on the IQ, and that drives more of a willingness to look at non-traditional metrics. Ultimately, I'm looking for people who are mission-driven, have legitimate intangibles and value-add to the strategy, and can provide us with a unique exposure we don't already have represented in our client portfolios.

### First-Time Fund Returns

Generally speaking, what I've seen is that the performance numbers are better in a first-time fund compared to subsequent funds raised. While many of the first-time managers we've invested in haven't matured yet, so far the returns have been above expectations and top tier

compared to traditional investments. I think it's about not allowing the fact that it's a first-time fund to be a non-starter. That shouldn't be what makes it an automatic no. In fact, Morningstar data shows that if you chase returns by buying five-star rated funds and avoid low-star rated funds, you actually underperform. This is standard mean reversion.



You're always going to have risk whether the manager has a track record or not, so the key is to not get distracted by this metric. You should look at other indicators to determine if it's going to do well, and you have to have a bit more confidence in not relying on traditional frameworks.



## Helena Hasselmann

**Managing Director  
Stardust Equity**

Helena oversees all ESG and impact investment activities within Stardust, a forward-thinking family office led by the vision of Molly Gochman. Helena previously worked at LGT Impact (now Lightrock) and Goldman Sachs. Helena manages Stardust Equity, a mission-oriented private investment fund putting capital to work for competitive returns and positive social and environmental impact. Stardust's gender-focused investment approach prioritizes three main areas that have historically been ignored by the financial sector: 1) increasing access to capital for women managers and entrepreneurs; 2) working to accelerate workplace equity; and 3) supporting products, services, and solutions that benefit women and girls.

### Thinking About Risk & Track Record

We really try to get creative about how we are looking at track record and aren't afraid to look beyond the norm of experienced fund managers with an investment track record. One such manager we invested in, for example, had no investment track record, but they had deep issue expertise and a strong network of entrepreneurs that were creating innovations specifically around their investment theme. Even though they haven't been investors before, they have been so close to the issues they are trying to solve and to the entrepreneurs innovating in their space that they understand what it takes for them to succeed. Financial capital to invest is what many lack.

It's also important to us to focus on a first-time managers' overall strategy. We like to develop a strong understanding of whether their strategy aligns with our mission and if we have a strong cultural fit with the manager – this is actually something we focus on with all our funds, not just first-time managers.

### Pipeline Development Opportunity

Many first-time fund managers bring access to an ecosystem of opportunities and pipeline that more traditional GPs do not. We see more diversity in terms of founder profile (gender, age, educational background, and race), geographic location of the businesses, and business innovations. We also tend

to co-invest more often with first-time fund managers as we usually find stronger mission alignment in their mandates and because their smaller funds tend to limit the size of their checks thus creating more co-investment opportunities for LPs.

### Playing a Role Beyond Capital

We always try to figure out how we can be additive or catalytic in addition to the capital. Is there something we can bring to the table for these first-time GPs such as access to other networks, or if they are investing in a sector we've already invested in, how they can benefit from the knowledge and contacts we've built over time. We always try to think through how we can help them build their overall influence with founders, investors, industry, and government partners. We prioritise funds that are open to building a longer-term relationship with us because we ultimately want to provide a platform for these managers to launch from and support them along the way.





## Anne-Marie Lévesque

**Director, Gender and Impact Management**  
FinDev Canada

Anne-Marie Lévesque is Director, Gender and Impact Management at FinDev Canada, Canada's bilateral development finance institution (DFI), where she is responsible for the development and implementation of FinDev Canada's Gender Equality Strategy and Development Impact Framework. Her role is to ensure that a gender lens is applied to all transactions, and that investments bring leading approaches to women's economic empowerment and gender equality in private sector activities. Between August 2019 and July 2020, Anne-Marie served as the Chair of the 2X Challenge, an initiative of the G7 DFIs aiming to mobilize unprecedented amounts of capital to invest in women.

## Investment in First-Time Women-Led Funds

Women's economic empowerment is considered one of the guiding principles within the development impact framework and overall strategy of FinDev Canada. At the portfolio level, FinDev Canada evaluates transactions based on their potential to drive gender inclusion and increase women's access to economic opportunities, with a view to reach at least one of the following objectives: steer capital towards transactions with high impact on women's economic empowerment, and/or; support client companies to become more gender inclusive.

In November 2019, FinDev Canada announced an investment of CAD\$7.5 million in Alitheia IDF Fund (or AIF), a women-led fund supporting women-owned and -led businesses in Sub-Saharan Africa. While the fund's partners have extensive individual investment experience, AIF constitutes their first fund as a team, making them a first-time fund in the eyes of investors. FinDev Canada's investment in Alitheia IDF is a great example of a high-impact women's economic empowerment transaction given that it's not only an investment in a women-led fund, but the fund is also specifically focused on investing in and growing medium-sized enterprises (SMEs) led by gender-diverse teams.

## Overcoming Challenges

Exploring the use of catalytic capital focused on investment in first-time managers may be a useful tool for DFIs to overcome some of the more traditional requirements that prevent investment in these managers. A dedicated pool of capital – potentially using a mix of concessional and commercial instruments – could allow for a more customized evaluation experience for first-time managers, especially those who focus on the underserved SME segment, and increase DFI appetite for alternative fund models and structures. It would also provide an opportunity to demonstrate the returns these managers can generate and the overall opportunity that they represent.



**Liz Roberts**  
**Impact Investing Director**  
**MassMutual**

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Liz Roberts is Impact Investing Director at MassMutual, where she runs both their Catalyst and Emerging Managers Funds. The \$50M Catalyst Fund is focused on enabling the growth of technology- and sustainability-driven businesses in less-developed regions of Massachusetts as well as driving growth and capital for business expansion into financially underserved Black businesses. The Emerging Managers Fund is focused on investing in diverse emerging managers. Liz is a highly accomplished and mission-driven strategist, operator, entrepreneur, and investor with a proven history of identifying and growing profitable, impactful businesses and organisations.

## Why Invest in First-Time Managers?

Emerging managers tend to bring innovative approaches, processes, and investment theses to both mainstream markets and pathways to invest in unexplored markets. There is also tremendous evidence that smaller funds and diverse-led funds and companies outperform their larger and homogenous counterparts. Allocators working with emerging managers will build more insightful and responsive framework optimisations for due diligence and risk analysis, as well as have access to first movers in new markets.

## Advice for LPs

- ▶ Be open and curious to out-of-the-box thinking and markets
- ▶ Find ways to source and network with emerging managers beyond your current networks
- ▶ Show up and be authentic
- ▶ Evaluate if your process can accommodate emerging managers throughout the compliance and legal process, and how you will champion and support them through this. It's important to be willing to participate in a consultative process with emerging managers about thoughtful alternatives to due diligence and compliance benchmarks, track records, underwriting, and frameworks that are likely already in place and currently filtering these opportunities out.

# Resource Guide

## Investment Policy Statement

### The Investment Policy Statement or Investment Policy Strategy (“IPS”) is a living document and thus can evolve alongside an investor’s goals and commitments.

The IPS provides a key opportunity for capital allocators to outline their commitment to backing innovators prioritising investment in women-led and diverse funds, and gender lens investing more broadly, as well as incorporating the intention to back first-time funds. Gender positive intention in the purpose, priorities, and principles of the allocator’s investment strategy will ensure commitment turns to action.

Practical investment policy language from the Illinois Growth and Innovation Investment Policy follows, demonstrating the State of Illinois’s intention to be explicitly inclusive of women in their allocations, as well to back emerging funds. The full version can be found in the appendix, alongside other resources.

### Key excerpts from Illinois Growth and Innovation Fund Investment (ILGIF) Policy

ILGIF has three primary objectives: (i) investment performance; (ii) developing technology-enabled companies in Illinois; and (iii) fostering a more diverse and inclusive manager and entrepreneurial community in Illinois. The Treasurer also maintains a number of underlying objectives for the investment of monies from ILGIF in accordance with the Act, including the following:

- ▶ Diversification– In order to achieve ILGIF investment objectives, investments shall be diversified so as to minimize the risk of loss. A long-term focus on investment results, as well as prudent diversification and active oversight, will be the primary risk control mechanisms. Diversification shall chiefly be considered along the following lines: (1) strategy; (2) industry sector; (3) size of investment; (4) investment stage; (5) vintage year; (6) geographic location; (7) fund managers; (8) underlying portfolio companies; and (9) business model

- ▶ Diversity among Fund Managers – According to the Illinois State Treasurer Act, 15 ILCS 505/30 (c) it shall be the aspirational goal of the Treasurer to promote and encourage the use of businesses owned by or under the control of qualified veterans of the armed forces of the United States, qualified service-disabled veterans, minority persons, women, or persons with a disability (“MWVD Persons”) of not less than 25% of the total dollar amount of funds under management, purchases of investment securities, and other contracts to businesses owned by or under the control of MWVD Persons
- ▶ Diversity among Portfolio Companies – The Treasurer, the Advisory Council, and any contractors servicing ILGIF shall seek to identify, recruit, and recommend fund managers that have demonstrated experience and/or an express ability to invest in (a) portfolio companies that are more than 50% owned and/or managed by minorities, women, military veterans, or persons with a disability, and/or (b) portfolio companies geographically located in diverse communities or low-to moderate income (“LMI”) communities. A company is in an LMI area if it has an office in a census tract deemed “underserved,” with 20% or more of the population beneath the poverty line or earning a median family income of 80% or less than the metropolitan area’s median family income (per the standards of the Federal Financial Institutions Examination Council)
- ▶ Minimum Fund Size – ILGIF investments shall have a minimum fund size of \$5 million, although, the Treasurer reserves the ability to grant exceptions to funds that are below the \$5 million fund size minimum based on the fund’s ability to significantly exceed one or more of the investment objectives set forth in Section 4.0, above



The Los Angeles County Employees Retirement Association (LACERA) believes that effectively accessing and managing diverse talent— inclusive of varied backgrounds, age, experience, race, sexual orientation, gender, ethnicity, and culture—leads to improved outcomes. LACERA expects all its external asset managers and third-party providers to respect LACERA’s values of diversity and inclusion and to reflect them in their own organizations

Excerpt from [Los Angeles County Employees Retirement Association IPS](#)

# Due Diligence

“Traditional due-diligence and risk assessment frameworks in the asset-management industry have led to a system in which white, male asset managers control 98.7% of the investment industry’s \$69 trillion in assets under management,” says Rachel Robasciotti, Founder & CEO of Adasina Social Capital. “The problem isn’t due diligence itself; fiduciary and diligence considerations are absolutely necessary when taking care of money for clients. The problem lies in how the asset manager evaluation process exacerbates existing inequities in financial services while also failing to account for diversity outcomes.”

Capital allocators are developing new and innovative approaches to addressing traditional due diligence processes that are not inclusive of women or diverse managers. The Due Diligence 2.0 Commitment, for example, has emerged as a commitment from asset owners, consultants and financial intermediaries to utilise a substantially equivalent, but alternative due diligence process focused on increasing the flow of capital to Black, Indigenous and people of colour (BIPOC) (a largely North American expression) managers. The Due Diligence 2.0 Commitment has already been through a rigorous, multi-billion-dollar investment committee to ensure the recommended practices are able to be realistically implemented by allocators and focuses on ensuring investors and asset owners can commit to using an equally rigorous but less biased way to fulfill their fiduciary duty.

Others such as Stardust Equity and the Institutional Limited Partners Association (ILPA) have also developed more gender and diversity-focused due diligence questionnaires.

Stardust Equity, for example, understands that internal policies and practices play an important role in combating the unconscious biases that prevent women and BIPOC from achieving their full potential and utilize their due diligence questionnaire to understand the actions firms are taking to achieve equity. This includes questions such as:

- ▶ Who makes decisions within the firm?
- ▶ How is diversity brought into that process?

- ▶ How does the firm develop and promote diverse talent?
- ▶ How does your firm externally support diversity and inclusion?

The due diligence questionnaire developed by ILPA includes a template to measure the ethnic and gender diversity at GP firms as well as a set of questions to enhance understanding of a GP’s policies and procedures in areas such as hiring, promotions, family leave, mentoring, and harassment and discrimination.



## Sample Due Diligence Questionnaires

- ▶ Stardust Gender Smart Due Diligence Questionnaire (See appendix)
- ▶ [Due Diligence 2.0 Commitment](#)
- ▶ [ILPA Due Diligence Questionnaire](#) (While ILPA’s questionnaire does not address the question around diligencing first-time fund managers differently, it does address questions around gender and diversity)



# Finding the Right Advisor

**Jim Casselberry's number one recommendation to other capital allocators interested in investing in first-time women and diverse managers is to find advisors aligned with their own mission. In A Stanford Social Innovation Review article, ['How Foundations Fail Diverse Fund Managers and How to Fix It'](#), Tracy Gray, Founder and Managing Partner of The 22 Fund and Emilie Cortes, Chief Financial Advisor of Toniic, go as far as suggesting investors should be willing to fire resistant advisors, and find advisors or consultants who are committed to diversity.**

**Questions LPs can use to challenge their advisor's understanding and prioritisation of first-time women and diverse funds with a gender lens include:**

- ▶ What is the diversity within the advisory firm, and what are the commitments?
- ▶ What is the demographic of the advisory team who are identifying funds for investment? Is this homogenous or representative of women and diverse teams?
- ▶ What opportunity does the advisor see in investing in these funds?
- ▶ What women-led or diverse funds, and women-led first-time funds have investors backed to date based on the advisor's sourcing and recommendations?
- ▶ Does the advisor help clients in the construction of investment policy statements that are inclusive of women-led funds and gender lens investing more broadly?
- ▶ What role does investing in women-led and diverse first-time funds play in the advisor's recommendation of new funds to investors?
  - Are these funds recommended proactively?
  - Are these funds sourced only in response to a specific request from the investor?
- ▶ Where are funds sourced from and how many are they evaluating at any one time?
- ▶ How many first-time women and diverse funds did clients invest in, on the recommendation of the advisor, in the previous 12 months?
  - What year-over-year growth did this represent?

# Solution Provider Examples

**The issue of access to capital by women and diverse fund managers has given rise to new and innovative organisations creating structural solutions to tackle this issue head-on: fund platforms, fund of funds, fund accelerators, and more. The non-exhaustive list that follows is made up of solutions providers: organisations bringing structural solutions to the market to address the challenges faced by female, diverse and first-time fund managers. Most of these organisations participated in research in 2020 conducted by the Initiative.**

## **2X Pioneer GLI Funds Accelerator Facility (in design)**

[2X Collaborative](#), with the input of many in the GenderSmart ecosystem, is designing an Accelerator Facility that will offer support to pioneering female fund managers and gender lens funds in emerging markets.

This facility is aimed to bring down the cost of entry for new fund-managers (through shared services, low-cost working capital, and built-in warehousing support) and links them to LPs and a spectrum of investment capital to reduce the fundraising time burden in order to close the funding gap for emerging GLI and female fund managers.

## **[African Women Impact Fund \(AWIF\)](#)**

AWIF was established by the Economic Commission for Africa under the leadership of the Deputy Secretary-General of the United Nations and the Chairperson of the African Union. Its aim is to create a sustainable platform to accelerate the growth of women-owned and -operated companies in Africa.

Stanlib (part of Standard Bank) is running this initiative. The fund will support women-owned and run fund management companies, as well as women-focused impact funds, and invest capital and technical assistance financing using a platform to mentor and invest at scale.

## **[Beyond the Billion](#)**

A global consortium of almost 100 venture funds pledged to invest more into women-founded companies as well as LP investors committed to invest into such VCs. After mobilising over one billion dollars in pledges to be invested into women-founded companies through The Billion Dollar Fund for Women (TBDF), founders Sarah Chen and Shelly Porges and their team launched Beyond the Billion. Beyond the Billion has surveyed the progress toward pledge fulfillment by the TBDF pledgers and will publish a report in 2021.

## **[Capria](#)**

A global investment firm leading, partnering with, and funding the largest network of emerging market

fund managers collaborating to deliver superior returns and scaled impact. Capria brings venture capital innovation and global best practices to local venture capital, private equity and innovative debt funds, managed by local investment experts. Capria has over \$100M in AUM which it invests directly in India via Unitus Ventures, and in other markets via partners of the Capria Fund which takes anchor GP and LP positions.

## **[Collaborative for Frontier Finance \(CFF\)](#)**

A multi-stakeholder initiative that aims to increase access to capital for small and growing business ("SGBs") in emerging markets – a deficit estimated at \$930 billion. CFF works with diverse stakeholders – including local capital providers, institutional investors, development agencies, philanthropic funders, and field builder organizations – to accelerate financing solutions that target SGBs. CFF works in three ways: by building and empowering networks of these stakeholders, performing "actionable research," and undertaking market-based initiatives to address systemic

barriers, with a view to fostering a peer-to-peer learning environment and providing a platform for collective action.

### **Illumen Capital**

Leverages their power as investors to deliver capital combined with evidence-based bias-reduction training and coaching for a portfolio of fund managers. Illumen Capital works closely with managers over a 10-year period to better identify, evaluate and invest in entrepreneurs who have historically been overlooked and underestimated.

### **Launch with GS**

Goldman Sachs' \$1 billion investment strategy grounded in the belief that diverse teams drive strong returns. Through Launch With GS, Goldman Sachs aims to increase access to capital and facilitate connections for women, Black, Latinx and other diverse entrepreneurs and investors.

### **Moonshot Ventures**

A VC firm that addresses development challenges faced by emerging economies in Southeast Asia. They invest in disruptive innovations and mission-driven entrepreneurs in order to achieve large-scale impact. They also manage and incubate impact funds, and each fund focuses on a specific development problem. With every fund, they work alongside domain experts and partners across all sectors, who share a commitment to tackle the same distinct issue.

Moonshot Ventures combine the collaborative power of many, with the focus of one.

### **Portfolia**

Designs investment backing the innovative companies they want to see in the world, for returns and impact. Their Fund Partners, 95% of whom are women and 45% people of colour or first generation immigrants, source best in class companies and bring deep experience to each fund. They have 11 funds in market, and have invested in 70+ companies. It is the only venture fund in all three of the top women-founded private company financings of the past 12 months: Maven Clinic, Everlywell, and Madison Reed. Portfolia's FemTech I Fund is the first VC fund focused on women's health. Portfolia's Rising America Fund is the first VC fund led by five women of colour partners.

### **Project Pinklight**

Launched in 2017, Project Pinklight is an initiative within Private Equity Women Investor Network (PEWIN) to support and accelerate new, high-potential women-led PE firms by providing confidential, closed-door feedback on pitch presentations by senior-level institutional limited partners and successful female GP founders. As of May 2021, Project Pinklight has counseled 26 managers that have proceeded to raise \$1.8 billion in aggregate capital commitments across 16 funds. Pinklight managers have funded 127 women-led companies to date.

### **The Equality Fund**

A Canadian-led, international fund designed to support gender equality around the world. It is a totally new model, a multi-sector approach to supporting gender equality through philanthropy, grantmaking, and gender-lens investing, born of women's funds, investment mavens, and some of the world's bravest feminist philanthropists. In partnership with the Government of Canada, the Equality Fund is creating stimulus, at scale. They are starting with the substantial Government of Canada contribution, and will leverage that with philanthropic dollars, more investment capital, and in time, the strategy will bring \$1.4 billion CAD to the field of gender equality. They are now focusing on the initial allocation of capital to public markets investments and starting to advance their thinking regarding private markets and investing in fund and private capital managers. EF doesn't have first-time and emerging managers in their mandate at present, but are looking to see if they can make a case for it.

### **USAID CATALYZE**

A new capital grant mechanism will allow the USAID CATALYZE Women's Empowerment initiative, implemented by Palladium, to drive private sector investment capital towards closing the gender financing gap at scale in the near term. The grant is designed to influence the behaviour of investors, so that they invest in women-owned and women-led funds and SMEs, including first-time women fund



managers and women investors. The initiative will also provide critical insight into key learning questions about the gender financing gap.

### **USAID INVEST**

USAID INVEST is designed to address the challenges that make it difficult for USAID to work alongside the private sector, mobilizing private capital to drive inclusive growth in emerging markets. As part of a \$23 million portfolio of activities to advance gender lens investing and women's economic empowerment, INVEST has partnered with six gender-smart investment funds, including four first-time fund managers. Through the provision of catalytic funding from USAID, INVEST has supported these funds in a cumulative capital raise of approximately \$370 million.

### **VC Include**

Founded in 2018, VC Include is an exclusive ecosystem and fund platform designed for LPs to expand investment opportunities for women and diverse led early and mid-stage funds. It provides training and education and advisory services for LPs looking for diverse emerging managers in the public and private markets, and designs emerging manager programs around the themes of gender lens, climate, ESG/Impact, and first-time managers in Africa, Europe, and the U.S. The Include Ventures Fund of Funds was launched in 2021 to invest in exciting market opportunities, with a focus on inclusion and innovation.

### **Women in African Investments (WAI)**

Started in 2017, WAI is an influential collective of women investment professionals focused on investing in Africa. Beyond advocacy on a wide range of issues, WAI members support each other through networking, knowledge-sharing, and awareness-building to catalyse gender-equitable economic growth in Africa. Members include senior executives at DFIs, PE/VC funds, Philanthropic funds, FinTech intermediaries, Family Offices, and market development organizations. The WAI Group makes women fund managers visible, holds the industry accountable, and combats inequalities in access to capital.

### **Women of the World Endowment (WoWE)**

WoWE is the first 100% mission-aligned endowment investing capital in and through women for market-rate risk adjusted returns and deep impact. They build pathways to mainstream investing in and through women as the Changemakers who drive resilient and sustainable investment systems, communities and economies. They invite co-investing to expand the capital pool. Their returns are granted to organizations accelerating the opportunity of women addressing today's most pressing challenges through systems transformation. WoWE is creating a virtuous circle of capital that spans the entire investment spectrum and maximises outcomes for all.

# Moving Forward

**We hope that this guide has both inspired an openness to seeing women-led and diverse first-time fund managers as an important source of market opportunity, competitive returns and impact, and provided the resources, tools, and inspiration needed to shift thinking into action.**

While there is no one-size-fits-all approach, what exists are numerous options to move investors forward: from confronting bias, to co-investing with investors already doing the work, to utilising any of the many innovative solutions providers bringing managers and investors together. The most important step is to commit. We believe those investors who are willing to step forward now and back accomplished women setting up their own funds will be the beneficiaries of strong returns down the road and will have played a catalytic role in mainstreaming investing in women.



**Adesuwa  
Okunbo Rhodes**

Founder  
Aruwa Capital  
Management (one  
of the few women-  
owned funds in  
Africa)

**“Investing in women-led first-time funds is about putting more than just your capital to work. It’s actually addressing systemic issues in society and making money while you do so.”**

# Appendix 1: Additional Resources

## A non-exhaustive list of regional organisations, networks, and consultancies.

### Regional

#### [The African Private Equity and Venture Capital Association \(AVCA\)](#)

The pan-African industry body which promotes and enables private investment in Africa. AVCA plays a significant role as a champion and effective change agent for the industry, educating, equipping and connecting members, and stakeholders with independent industry research, best practice training programmes, and exceptional networking opportunities. With a global and growing member base, AVCA members span PE and VC firms, institutional investors, foundations and endowments, pension funds, international development finance institutions, professional service firms, academia, and other associations. This diverse membership is united by a common purpose: to be part of the Africa growth story.

#### [The Association for Private Capital Investment in Latin America \(LAVCA\)](#)

A not-for-profit membership organization dedicated to supporting the growth of private capital in Latin America and the Caribbean. LAVCA's membership is comprised of over 170 firms, from leading global investment firms active in the region and local fund managers to family offices, global sovereign wealth funds, corporate investors, and international pension plans. Member firms control assets in excess of US\$65B, directed at capitalizing and growing Latin American businesses.

#### [The British Private Equity & Venture Capital Association \(BVCA\)](#)

The industry body for the PE and VC industry in the UK. With more than 750 member firms – including over 325 fund managers and 125 institutional investors – it is BVCA's role to inform and engage, to demonstrate

the positive role of the industry in the UK economy and provide market intelligence, technical updates, specialist training, and more.

#### [The Southern African Venture Capital and Private Equity Association \(SAVCA\)](#)

A non-profit industry association representing 170 members in Southern Africa who collectively manage in excess of R185B in assets. SAVCA promotes Southern African PE and VC by engaging with regulators and legislators on a range of matters affecting the industry; providing relevant and insightful thought leadership and research on aspects that impact the industry; offering training and capacity building opportunities to stakeholders in the ecosystem; and by creating meaningful networking opportunities for industry players, investors and capital seekers.

### Networks and Consultancies

#### [All Raise](#)

All Raise aims to arm female founders and funders with access, guidance, and support to exponentially accelerate their success and propel the entire industry forward. In this venture-backed ecosystem, access is not the endgame, it's just the beginning. All Raise offers comprehensive resources for both founders and funders, as well as a variety of events focused on showing the power of the community at work.

#### [GenderSmart Capital Connect](#)

The first-ever global series of virtual gatherings with the goal of connecting gender-smart investors and fund managers with a gender lens. The programme offers the opportunity for investors and those raising capital into gender-smart private capital vehicles to connect, and to demonstrate that there is a high-quality investment

opportunity set, including highly experienced first-time fund managers as well as those with multiple funds behind them.

### [Global Impact Investing Network \(GIIN\)](#)

The global champion of impact investing, dedicated to increasing its scale and effectiveness around the world. By convening impact investors to facilitate knowledge exchange, highlighting innovative investment approaches, building the evidence base for the industry, and producing valuable tools and resources, the GIIN seeks to accelerate the industry's development through focused leadership and collective action. Ultimately, the GIIN focuses on reducing barriers to impact investment so more investors can allocate capital to fund solutions to the world's most intractable challenges. The GIIN does this by building critical infrastructure and developing activities, education, and research that help accelerate the development of a coherent impact investing industry.

### [Gratitude Railroad](#)

A community of investors inspired and dedicated to solving environmental and social problems through the profitable deployment of financial, intellectual, and human capital. They operate an alternative investment platform that allocates capital into businesses and investments that generate both authentic impact and superior risk-adjusted financial returns. Howard Fischer, a hedge fund CEO, and Eric Jacobsen, a tech entrepreneur and PE investor, developed Gratitude Railroad in 2013 to transform traditional capitalism into a force for solving critical environmental and social problems.

### [She-VC](#)

She-VC is a storytelling podcast of women GPs, LPs, and diverse fund managers around the world.

### [Tonic](#)

A global community of asset owners seeking deeper positive net impact across the spectrum of capital. Members consist of more than 400 high net worth individuals, family office, and foundation asset owners who are deepening their impact across the spectrum of

capital and personal resources in more than 25 countries around the world. Tonic facilitates peer gatherings, online community, and impact journey support.

### [VCI Fellowship for BIPOC First-Time Fund Managers](#)

A VC Include support network for BIPOC first-time fund managers. Founded in 2018, VC Include accelerates investment into diverse emerging managers—Black, Latinx, Indigenous individuals and Women—to drive economic justice and positive long-term impact. VCI created the Fellowship after recognizing an uptick in new BIPOC and women managers as well as an increase of fund managers in the VCI community that were facing challenges in closing their funds. To meet this need and bolster the success of underrepresented managers, VCI developed a Fellowship that will increase first-time manager's access to capital by helping them target key sources and provide education, community, and mental and emotional support.

### [Women in VC](#)

The world's largest global community for women in VC to connect, collaborate, and create new opportunities. The global women in VC community includes the Women in VC Directory and the Women in VC Slack Group. The Women in VC Directory includes 3,000+ members and is a powerful tool to identify qualified co-investors, talent recruits, new connections on business trips, market diligence, and more. The Women in VC Slack Group is a private platform for the members in the Women in VC community to engage on a daily basis across almost 100 different channels.

# Appendix 2

## Steering Co. and Working Group List

### Steering Committee Members

- ▶ **Rob Meloche**, Program Officer, VISA Foundation
- ▶ **Najada Kumbuli**, Head of Investments, VISA Foundation
- ▶ **Helena Hasselmann**, Managing Director, Stardust Equity
- ▶ **Jackie VanderBrug**, Managing Director, Head of Sustainable and Impact Investment Strategy, Bank of America
- ▶ **Anna Snider**, Head of Due Diligence, Global Wealth and Investment Management CIO Office, Bank of America
- ▶ **Rafique Decastro**, Alternative Investments Analyst, Bank of America
- ▶ **Jen Braswell**, Director, Value Creation Strategies, CDC Group
- ▶ **Sarah Mathies**, Head of PE Sector Funds, CDC Group
- ▶ **Jennifer Buckley**, Senior Managing Director, SEAF
- ▶ **Kelly Williams**, CEO, The Williams Legacy Foundation
- ▶ **Tracy Gray**, Founder & Managing Partner, The 22 Fund
- ▶ **Suzanne Biegel**, Co-Founder, GenderSmart
- ▶ **Laura Kemp-Pedersen**, Founder, ImpactInc.
- ▶ **Carey Bohjanen**, Sustainable Finance Advisory
- ▶ **James Soukamneuth**, Investing in Women (DFAT)
- ▶ **Kristy Graham**, DFAT
- ▶ **Amira Elmissiry**, AFDB
- ▶ **Dr. Tukiya Mabula**, African Women's Leadership Fund
- ▶ **Shelly Porges**, Beyond the Billion
- ▶ **Simba Marekera**, Bright Light Investments
- ▶ **Eliza Noyes & Di Tang**, Cambridge Associates
- ▶ **Uma Sekar**, Capria
- ▶ **Drew von Glahn & Sarah Johnson**, Collaborative for Frontier Finance (CFF)
- ▶ **Jake Cusak & Tunuka Gray**, Cross Boundary
- ▶ **Lauren Cochran**, Blue Haven Initiative
- ▶ **Kirsten Pfeiffer**, DAI Global LLC
- ▶ **Stephanie Kimber**, DFAT
- ▶ **Leslie Jump**, Different Funds
- ▶ **Loren Rodwin**, DFC
- ▶ **Tom Sanderson**, DFID
- ▶ **Joanne Yoo**, DPI
- ▶ **Bonnie Foley Wong**, The Equality Fund
- ▶ **Cathy Goddard**, FyreFem Fund Managers
- ▶ **Andia Laura Chakava**, Graca Machel Trust
- ▶ **Sukhvir Basran**, Hogan Lovells
- ▶ **Tom Schmittzehe, Sagar Tandon & Susli Lie**, Moonshot Ventures
- ▶ **Courtney Thompson**, Morgan Stanley
- ▶ **Kristina Van Liew**, Morgan Stanley-Graystone
- ▶ **Shuyin Tang**, Patamar Capital
- ▶ **Lisa Davis**, PGIM Real Estate Fund
- ▶ **Julianne Zimmerman**, Reinventure Capital
- ▶ **Raya Papp**, Sagana Capital
- ▶ **Lisa Thomas**, Samata Capital
- ▶ **Christine Looney & Gerry Pambo-Awich**, The Ford Foundation
- ▶ **Isabelle Toledano-Koutsouris**, UBS
- ▶ **Bahiyah Yasmeen Robinson**, VC Include
- ▶ **Zee de Gersigny**, Victus Global Capital and CFF
- ▶ **Farid Tadros**, We-Fi
- ▶ **Patience Marime-Ball**, Women of the World Endowment
- ▶ **Habiba Ben Barka**, United Nations Economic Commission for Africa

### Contributors

- ▶ **Lindsay Cammish**, Project Coordinator, GenderSmart
- ▶ **Kerry Dittmeier**, Consultant, GenderSmart
- ▶ **Clare Murray**, Co-Founding Partner, Blume Equity
- ▶ **Laila Charlton-Meyrick**, Executive Director, Coutts Family Office
- ▶ **Devon Tighe**, Consultant, Value for Women

### Working Group Members

- ▶ **Alexandra Daly**, AA Advisors
- ▶ **Alison Klein**, FMO

# Appendix 3: Data and Information Resource Library

## A non-exhaustive list of data and information on first-time fund managers

- ▶ [Asset Managers Owned By Women And Minorities Have To Work 10X As Hard For Assets](#)
- ▶ [Alpha Female 2020: Parity For Female Pms Is Almost 200 Years Away](#)
- ▶ [Catalytic Capital: An Essential Foundation Tool](#)
- ▶ [Delivering Through Diversity](#)
- ▶ [Due Diligence 2.0 Commitment](#)
- ▶ [Emerging & Diverse Manager Research Roundtable Discussions](#)
- ▶ [Examining the Returns | 2019 The Financial Returns Of Diverse Private Equity Firms](#)
- ▶ [Finance Expert: Minimize Charity, Maximize Gender Lens Investing](#)
- ▶ [Firms With More Female Executives 'Perform Better'](#)
- ▶ [First-time Funds: The Fundraising Environment Is Strong; The Fundraising Process Is Hard](#)
- ▶ [First-Time Funds: Veteran LPs discuss their appetites for emerging private equity fund managers](#)
- ▶ [First-Time PE Funds Overview: Examining performance and fundraising trends.](#)
- ▶ [Funding In The CEE Region Through The Lens Of Gender Diversity And Positive Impact](#)
- ▶ [Inclusive Investing: Impact Meets Diversity, Equity, and Inclusion](#)
- ▶ [How Diverse Leadership Teams Boost Innovation](#)
- ▶ [How Foundations Fail Diverse Fund Managers And How To Fix It](#)
- ▶ [How Policies Aimed at Female Founders and Investors Can Reignite the Economy and Close the Gap in Opportunity](#)
- ▶ [How Women And VCs Of Color Are Finding Impact Alpha With First-Time Funds](#)
- ▶ [IFC Report: Moving Toward Gender Balance In Private Equity And Venture Capital](#)
- ▶ [Investment Management Is Overwhelmingly Dominated By White Men—And It's Costing You Money](#)
- ▶ [Making The Case For First-Time Funds](#)
- ▶ [NAIC Performance Study Shows Diverse Asset Managers Continue To Beat Benchmarks](#)
- ▶ [Pitchbook-All Raise Report On Venture Financing In Female-Founded Startups Shows Progress, Yet Continued Gender Inequity](#)
- ▶ [Preqin Special Report: Making The Case For First-Time Funds](#)
- ▶ [Private Equity And Value Creation: A Fund Manager's Guide To Gender-Smart Investing](#)
- ▶ [Project Sage 3.0: Tracking Venture Capital, Private Equity, And Private Debt With A Gender Lens](#)
- ▶ [Q&A With The 22 Fund's Tracy Gray: Catalyzing Systemic Change In Impact Investing And Venture Capital](#)
- ▶ [Race Influences Professional Investors' Financial Judgments](#)
- ▶ [Report: Women-Owned Startups Deliver Twice As Much Per Dollar Invested As Those Founded By Men](#)
- ▶ [Sex Matters: Gender Bias In The Mutual Fund Industry](#)
- ▶ [The Case For Female Fund Managers: Building An Impact VC Fund](#)
- ▶ [The Comprehensive Case For Investing More VC Money In Women-Led Startups](#)
- ▶ [The Next Decade Will Bring More Venture Capital to Female Founders](#)
- ▶ [UK VC & Female Founders](#)
- ▶ [Venture Capital's Access Myth](#)
- ▶ [Venture Capital's Diversity Problem](#)
- ▶ [Venture Capital Positively Disrupts Intergenerational Investing](#)
- ▶ [What We Can Learn From Women-Led Funds That Outperform?](#)
- ▶ [When Will We See More Gender Equality In Investing?](#)
- ▶ [Why A First-Time Fund May Be What Your Portfolio Is Missing](#)
- ▶ [Why The World Needs More Female Fund Managers](#)
- ▶ [Women In VC: The Untapped Potential Of Women-Led Funds](#)
- ▶ [Women Vcs Invest In Up To 2x More Female Founders](#)
- ▶ [2018 Performance Monitor: First-Time Private Capital Fund Managers](#)

# Appendix 4



OFFICE OF THE ILLINOIS STATE TREASURER  
**MICHAEL W. FRERICHS**

## **Illinois Growth and Innovation Fund Investment Policy Statement**



*Effective* TBD

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**Office of the Illinois State Treasurer  
ILLINOIS GROWTH AND INNOVATION FUND  
INVESTMENT POLICY STATEMENT**

## **1.0 PURPOSE**

This document sets forth the investment policy (“Policy”) for the Illinois Growth and Innovation Fund (“ILGIF”) of the Office of the Illinois State Treasurer (“Treasurer”).

The purpose of the Policy is to ensure that the Treasurer, the ILGIF Advisory Council (“Advisory Council”), as well as any contractors the Treasurer retains to provide services related to ILGIF, take prudent, measured, effective actions while supporting ILGIF. Specifically, this Policy addresses the following key areas:

- a) The investment objectives and underlying investment strategy of ILGIF;
- b) General parameters for the investment of assets in ILGIF;
- c) The roles and responsibilities of the Treasurer and any contractors retained that provide services related to ILGIF; and
- d) The processes for the performance evaluation of contractors who provide investment, administrative, advisory, and/or reporting services to the Treasurer for ILGIF.

This Policy is designed to allow for sufficient flexibility in the management oversight process to take advantage of investment opportunities as they arise, while setting forth reasonable parameters to ensure prudence and care in the execution of ILGIF.

The Treasurer establishes and executes this Policy in accordance with applicable local, State, and federal laws.

## **2.0 ESTABLISHMENT AND AUTHORITY OF ENTITY**

In August of 2002, the Illinois General Assembly passed the Technology Development Act, 30 ILCS 265/1 *et seq.* (the “Act”), allowing the Treasurer to segregate up to 1% of the investment portfolio to invest in Illinois venture capital firms with a goal of investing in technology-enabled businesses seeking to locate, expand, or remain in Illinois. The Act established the Technology Development Account, which serves to support Illinois technology-enabled businesses, generate acceptable returns for the State of Illinois, and strengthen Illinois’ science, technology, agricultural, financial, and business communities.

In July 2011, the Act was amended to establish a second Technology Development Account. 30 ILCS 265/11 which for the purposes of this Policy and programmatic operations, shall be referred to as ILGIF. The 2011 legislation authorizes the Treasurer to segregate an additional portion of the investment portfolio to help attract, assist, and retain quality technology-enabled businesses in Illinois. An August 2018 amendment to the Act allows the Treasurer to segregate a portion of the Treasurer's investment portfolio, not to exceed 5% of the portfolio, in ILGIF. Assets in ILGIF may be invested by the Treasurer to provide venture capital to technology-enabled businesses, including co-investments, seeking to locate, expand, or remain in Illinois by placing money with Illinois venture capital firms for investment in technology-enabled businesses.

### 3.0 DEFINITIONS

- a) **"Illinois venture capital firm"** means an entity that:
1. has a majority of its employees in Illinois or that has at least one managing partner or principal domiciled in Illinois, and that provides equity financing for starting up or expanding a company, or related purposes such as financing for seed capital, research and development, introduction of a product or process into the marketplace, or similar needs requiring risk capital. ; or
  2. that has a "track record" of identifying, evaluating, and investing in Illinois companies and that provides equity financing for starting up or expanding a company, or related purposes such as financing for seed capital, research and development, introduction of a product or process into the marketplace, or similar needs requiring risk capital.
- b) **"Track record"** means having made, on average, at least one (1) investment in an Illinois company in each of its funds if the Illinois venture capital firm has multiple funds, or at least two (2) investments in Illinois companies if the Illinois venture capital firm has only one fund. The Treasurer's Office is authorized to invest up to 15% of ILGIF assets in venture capital firms headquartered outside of Illinois, but with a "track record" of investing in Illinois companies.
- c) **"Venture capital"** means equity financing that is provided for starting up, expanding, or relocating a company, or related purposes such as financing for seed capital, research and development, introduction of a product or process into the marketplace, or similar needs requiring risk capital. This includes, but is not limited to, financing classified as venture capital, mezzanine, buyout, or growth.
- d) **"Technology businesses"** means a company that has as its principal function the providing of services including computer, information transfer, communication, distribution, processing, administrative, laboratory, experimental, developmental, technical, or testing services; manufacture of goods or materials; the processing of

goods or materials by physical or chemical change; computer related activities; robotics, biological or pharmaceutical, industrial activities; or technology-oriented or emerging industrial activity.

- e) **“Illinois companies”** are companies that are headquartered or that otherwise have a significant presence in the State of Illinois at the time of initial or follow-on investment.
- f) **“Significant presence”** means at least one (1) physical office and one (1) full-time employee within the geographic borders of Illinois. A “physical office” may include a professional workplace, a co-working location, or a home office.

#### 4.0 INVESTMENT OBJECTIVES

ILGIF has three primary objectives: (i) investment performance; (ii) developing technology-enabled companies in Illinois; and (iii) fostering a more diverse and inclusive manager and entrepreneurial community in Illinois. The Treasurer also maintains a number of underlying objectives for the investment of monies from ILGIF in accordance with the Act, including the following:

- a) **Performance** – ILGIF will endeavor to make investments in Illinois venture capital firms in order to attract, assist, and retain quality technology-enabled businesses in Illinois. It is expected that the returns generated by ILGIF will be sufficient to compensate the Treasurer for the long-term and illiquid commitments associated with these investments.

Recognizing the long-term nature of these investments, this relative performance will be measured over a period of multiple market cycles. As a result, the Treasurer has adopted a long-term total return strategy for ILGIF investments. As such, ILGIF assets will be managed on a total return basis. While the Treasurer recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally remunerated with compensating returns in the long term.

To evaluate performance, the Treasurer will use a target Internal Rate of Return (“IRR”) and portfolio benchmarking. The goal will be to create and utilize a customized benchmark that incorporates benchmark data from the Cambridge All Private Equity (“PE”) benchmark service and Preqin. As ILGIF’s asset mix becomes apparent during the commitment period, a review shall be conducted to assess whether use of a blended benchmark is more appropriate for performance measurement purposes. Furthermore, the Investment Advisor shall perform and report benchmark comparisons against pertinent public market equivalents (“PMEs”).

- b) **Diversification** – In order to achieve ILGIF investment objectives, investments shall be diversified so as to minimize the risk of loss. A long-term focus on investment results, as well as prudent diversification and active oversight, will be the primary risk control mechanisms. Diversification shall chiefly be considered along the following lines: (1) strategy; (2) industry sector; (3) size of investment; (4) investment stage; (5) vintage year; (6) geographic location; (7) fund managers; (8) underlying portfolio companies; and (9) business model.
- c) **Strategy Classifications** – ILGIF investments may be classified by strategy, including, but not limited to the following:
1. Venture Capital;
  2. Private Credit - Mezzanine, Senior Credit, Distressed, Venture Debt;
  3. Buyout – Acquisition; and
  4. Growth.
- d) **Small Business Investment Companies** – There is a goal to invest monies in qualified fund managers that participate in the U.S. Small Business Administration’s (“SBA”) Small Business Investment Companies (“SBIC”) Program (15 U.S.C. 14B), because of the SBA’s commitment of up to \$2 of debt for every \$1 an SBIC raises from investors, subject to a cap of \$150 million.
- e) **Cost-Efficiency and Fee Transparency** – The Treasurer, the Advisory Council, and its contractors shall seek to minimize any fees or costs that diminish from the total assets or value of ILGIF. Furthermore, the Treasurer and its contractors shall strive to achieve full transparency by delineating fees and expenses.
- f) **Encouraging Additional Investments and Investor Focus in Illinois Technology-Enabled Businesses** – The Treasurer, the Advisory Council, and any contractors servicing ILGIF shall encourage the investment and philanthropic community to explore and monitor investment opportunities in Illinois technology-enabled businesses in tandem with the Treasurer. This may include hosting investor forums, facilitating meetings between investors and the Treasurer, or various other efforts.
- g) **Diversity among Fund Managers** – According to the Illinois State Treasurer Act, 15 ILCS 505/30 (c) it shall be the aspirational goal of the Treasurer to promote and encourage the use of businesses owned by or under the control of qualified veterans of the armed forces of the United States, qualified service-disabled veterans, minority persons, women, or persons with a disability (“MWVD Persons”) of not less than 25% of the total dollar amount of funds under management, purchases of investment securities, and other contracts to businesses owned by or under the control of MWVD Persons.

To the greatest extent feasible within the bounds of financial prudence, it shall be the policy of the Treasurer, the Advisory Council, and any contractors servicing ILGIF to identify, recruit, and recommend fund managers, and to remove any barriers to the full participation of fund managers, that are more than 50% owned by or under the control of qualified veterans of the armed forces of the United States, qualified service-disabled veterans, minority persons, women, or persons with a disability.

The terms "minority person", "woman", "person with a disability", "minority-owned business", "women-owned business", "business owned by a person with a disability" and "control", have the meanings provided in Section 2 of the Business Enterprise for Minorities, Women, and Persons with Disabilities Act (30 ILCS 575/2 (1)). The terms "veteran", "qualified veteran-owned small business", "qualified service-disabled veteran-owned small business", "qualified service-disabled veteran", and "armed forces of the United States" have the meanings provided in Article 45 of the Illinois Procurement Code (30 ILCS 500/45-57).

- h) **Diversity among Portfolio Companies** – The Treasurer, the Advisory Council, and any contractors servicing ILGIF shall seek to identify, recruit, and recommend fund managers that have demonstrated experience and/or an express ability to invest in (a) portfolio companies that are more than 50% owned and/or managed by minorities, women, military veterans, or persons with a disability, and/or (b) portfolio companies geographically located in diverse communities or low-to-moderate income (“LMI”) communities. A company is in an LMI area if it has an office in a census tract deemed “underserved,” with 20% or more of the population beneath the poverty line or earning a median family income of 80% or less than the metropolitan area’s median family income (per the standards of the Federal Financial Institutions Examination Council).
- i) **Green Technology Investments** – Within the stated investment objectives of this Policy, the Treasurer, the Advisory Council, and any contractors servicing ILGIF shall seek to identify, recruit, and recommend fund managers that have demonstrated experience and/or an express ability to invest in “green technology” businesses located in Illinois. “Green technology” means technology that (a) promotes clean energy, renewable energy, or energy efficiency; (b) reduces greenhouse gases or carbon emissions; or (c) involves the invention, design, and application of chemical products and processes to eliminate the use and generation of hazardous substances.
- j) **Opportunity Zone Investments** – The Treasurer, the Advisory Council, and any contractors servicing ILGIF shall seek to identify, recruit, and recommend qualified fund managers that invest in designated Opportunity Zones through Opportunity Zone Funds offered through the federal Tax Cuts and Job Act signed into law on December 22, 2017. An "Opportunity Zone Fund" is any investment vehicle organized as a partnership to invest in opportunity zones that holds at least 90% of its assets in opportunity zone assets.

- k) **Sustainability Factors** – Pursuant to the Illinois Sustainable Investing Act (30 ILCS 238/20), the Treasurer shall prudently integrate sustainability factors into its investment decision-making, investment analysis, portfolio construction, risk management, due diligence and investment ownership to maximize anticipated financial returns, minimize projected risk, and more effectively execute its duties.

Thus, consistent with achieving the investment objectives set forth herein, the Treasurer, the Investment Advisor, the Advisory Council, and any other contractors servicing ILGIF have a responsibility to recognize, evaluate, and integrate sustainability risk factors that may have a material and relevant financial impact on the safety and/or performance of ILGIF investments.

The sustainability analysis adds an additional layer of rigor to the fundamental analytical approach and can be used to evaluate past performance and for future planning and decision-making. As a complement to financial accounting, it provides a more complete view of an investment fund or portfolio company's performance on material factors likely to impact its long-term value.

Sustainability factors may include, but are not limited to, the following:

- (1) **Corporate governance and leadership factors**, such as the independence of boards and auditors, the expertise and competence of corporate boards and executives, systemic risk management practices, executive compensation structures, transparency and reporting, leadership diversity, regulatory and legal compliance, shareholder rights, and ethical conduct.
- (2) **Environmental factors** that may have an adverse or positive financial impact on investment performance, such as greenhouse gas emissions, air quality, energy management, water and wastewater management, waste and hazardous materials management, and ecological impacts.
- (3) **Social capital factors** that may have an adverse or positive impact on customers, local communities, the public, and/or government, which may impact investment performance. Social capital factors may include human rights, customer welfare, customer privacy, data security, access and affordability, selling practices and product labeling, community reinvestment, and community relations.
- (4) **Human capital factors** that recognize that the workforce is an important asset to delivering long-term value, including factors such as labor practices, responsible contractor and responsible bidder policies, employee health and safety, employee engagement, diversity and inclusion, and incentives and compensation.
- (5) **Business model and innovation factors** that reflect an ability to plan and forecast opportunities and risks, and whether a company can create long-term shareholder value, including factors such as supply chain management, materials sourcing and efficiency, business model resilience, product design, and life cycle management, and physical impacts of climate change.

Sustainability factors may be analyzed in a variety of ways, including, but not limited to: (1) direct financial impacts and risks; (2) legal, regulatory, and policy impacts and risks; (3) against industry norms, best practices, and competitive drivers; and (4) stakeholder engagement.

Sustainability factors shall be implemented within a framework predicated on the following:

1. Prudent integration of material sustainability factors as components of portfolio construction, investment decision-making, investment analysis and due diligence, prospective value proposition, risk management, and investment ownership given that these tangible and intangible factors may have material and substantive financial impacts as well as non-financial impacts;
2. Recurring evaluation of sustainability factors to ensure the factors are relevant to ILGIF and the evolving marketplace;
3. Attentive oversight of investment holdings to encourage the advancement of sustainability accounting and disclosure through engagement with entities, such as investment funds, investment holdings, portfolio companies, government bodies, and other organizations, and move the marketplace toward more prudent sustainability investment practices; and
4. Consideration of other relevant factors such as legal, regulatory, and reputational risks that enable an optimal risk management framework and supports long-term investment value.

## 5.0 INVESTMENT PARAMETERS

- a) **Commitment Amount** – No more than 5% of the balance of the State investment portfolio, which shall be calculated as: (1) the balance at the inception of the State’s fiscal year; or (2) the average balance in the immediately preceding 5 fiscal years, whichever number is greater (“TDA IIa account balance”), shall be invested in ILGIF.
- b) **Re-Investment of Distributions** – Distributions from ILGIF may be re-invested into ILGIF by the Treasurer without being counted against the 5% cap on monies invested in ILGIF. The re-investment does not need to occur in the same fund.
- c) **Portfolio Diversification Approach** – ILGIF investments shall be spread across multiple venture capital firms based in Illinois and/or venture capital firms with a track record of investing in Illinois companies.

- d) **85% in Illinois Venture Capital Firms** – At least 85% of ILGIF assets shall be invested in Illinois venture capital firms. The Treasurer is authorized to invest up to 15% of ILGIF in venture capital firms headquartered outside of Illinois, but with a track record of investing in Illinois companies.
- e) **Cap on the Amount Invested in Individual Funds** – No more than 15% of the total TDA IIa account balance shall be invested in any individual fund.
- f) **2x Investment from Venture Capital Fund Managers in Illinois Companies** – Any fund in which the Treasurer places money under ILGIF shall invest a minimum of twice the aggregate amount of investable capital that is received from the Treasurer in Illinois companies during the life of the fund. Investable capital is calculated as committed capital, as defined in the firm’s applicable fund’s governing documents, less related estimated fees and expenses to be incurred during the life of the fund. For instance, if the Treasurer invests \$5 million in an ILGIF recipient fund, the recipient fund must invest at least \$10 million in Illinois companies over the life of the fund.
1. **Non-Compliance** – If, as of the earlier to occur of (a) the fourth year of the investment period of any ILGIF recipient fund or (b) when that ILGIF recipient fund has drawn more than 60% of the investable capital of all limited partners, an ILGIF recipient fund has failed to invest the minimum amount required in Illinois companies, then the Treasurer shall provide written notice to the manager of that fund, seeking compliance with the minimum amount requirement. If, after 180 days of receipt of notice, the ILGIF recipient fund has still failed to invest the minimum amount required in Illinois companies, then the Treasurer may elect, in writing, to terminate any further commitment to make capital contributions to that fund.
- h) **Underlying Funds** – The following investment considerations apply to all underlying as well as prospective recipient funds:
1. Utilize reputable service providers in their administration of their legal, accounting, technology, and other various needs;
  2. Provide audited financials within 150 days of fiscal year-end; and
  3. Demonstrate a commitment to diversity, amongst their staff and their portfolio companies, their communities and their service providers.
- i) **Minimum Fund Size** – ILGIF investments shall have a minimum fund size of \$5 million, although, the Treasurer reserves the ability to grant exceptions to funds that are below the \$5 million fund size minimum based on the fund’s ability to significantly exceed one or more of the investment objectives set forth in Section 4.0, above.
- j) **Co-Investments** – The Act authorizes the Treasurer to invest in co-investments. This Policy authorizes the use of co-investments, or a minority investment in a tech-



enabled company made by investors alongside an Illinois venture capital firm in accordance therewith. Co-investments shall seek to be made on the same or better terms and conditions as provided to the partnership.

#### Treasurer

Co-investments are limited to investing in Illinois (the business activities of the co-investment must be primarily in the State of Illinois). Co-investments may take the form of equity, convertible preferred equity, or a comparable instrument which provides an equity-type of return. Funds in the co-investment fund shall be accounted for separate and apart from other fund investments.

## 6.0 INVESTMENT ROLES AND RESPONSIBILITIES

### a) Treasurer

The Treasurer exercises authority and control over the management of ILGIF by setting policy and procedures which the staff of the Treasurer executes either internally or through the use of contractors.

Key roles and responsibilities include, but are not limited to:

1. **Investment Policy** – The Treasurer is responsible for this Policy and shall review this Policy at least annually to ensure accuracy and continued relevance.
2. **Oversight** – The Treasurer is responsible for the direction of investments and administration of the assets of ILGIF.
3. **Contractors** – In order to properly carry out its responsibilities, the Treasurer may use one or more contractors to assist in the administration of ILGIF.
4. **Performance and Fee Monitoring** – The Treasurer will review the investment performance of each ILGIF recipient fund, as well as the fees, on a quarterly basis.
5. **Due Diligence** – The Treasurer will monitor investments and participate in operational due diligence activities in coordination with the contractors retained to assist in the administration of ILGIF.
6. **Accounting** – ILGIF assets must be kept and accounted for separately from moneys in the Treasurer. The Treasurer will execute investment valuation procedures in compliance with Statement No. 72, Fair Value Measurement and Application, February 2015 of the Governmental Accounting Standards

Board of the Financial Accounting Foundation, evaluating available inputs for investments to determine the input level most applicable.

The Treasurer maintains an Investment Policy Committee that is chaired by the Treasurer and includes the following members of the Treasurer's staff: Deputy Treasurer & Chief Investment Officer, Chief of Staff, Chief Financial Products Officer, Chief Legislative and Policy Officer, General Counsel, Director of State Investments and Banking, Director of Investment Analysis and Due Diligence, Director of Fiscal Operations, Director of IPTIP Investments, Director of ePAY and The Illinois Funds, the Portfolio Investments & Cash Management Officer, and anyone else deemed appropriate by the Treasurer. The Investment Policy Committee will perform oversight and advisory duties on behalf of the Treasurer to support ILGIF, including, but not limited to:

1. Monitoring and providing insight into the construction and overall strategy of the investment portfolio;
2. Reviewing and providing insight into the investment policies, objectives, parameters, responsibilities, benchmarks, or management structure as appropriate;
3. Monitoring investment performance results and associated costs/fees on a quarterly basis;
4. Providing guidance and feedback regarding the suitability of prospective investment funds that are recommended for receipt of ILGIF monies;
5. Monitoring and evaluating the performance and continuing appropriateness of each fund manager;
6. Assisting in the evaluation of the Investment Advisor, External Investment Consultant, and any other external parties hired to service ILGIF; and
7. Providing general commentary, perspective, and insights regarding market conditions in the venture capital and entrepreneurial community.

b) **Investment Advisor**

The Treasurer may use one or more Investment Advisors to assist in the administration of ILGIF. The services r may include, but not be limited to:

1. **Implementation of Investment Strategy** – The Investment Advisor shall implement, at the direction of the Treasurer, the investment strategy and portfolio allocation in accordance with this Policy.

2. **Evaluation of Recipient Funds** – The Investment Advisor may advise and provide fund evaluations to the Treasurer, taking into consideration the investment policy and objectives set forth in this Policy. This may include the screening of venture capital and private equity firms and their associated investment funds, including the screening of qualified fund managers that participate in the SBIC program. In addition, as outlined in Section 4.0 of this Policy, the Investment Advisor shall seek to identify, recruit, and recommended (a) qualified fund managers that are more than 50% owned and/or managed by minorities, women, military veterans, or persons with a disability, (b) qualified fund managers that have demonstrated experience and/or an express ability to invest in portfolio companies that are more than 50% owned and/or managed by minorities, women, military veterans, or persons with a disability or portfolio companies geographically located in diverse communities or LMI communities, (c) qualified fund managers that have demonstrated experience and/or an express ability to invest in “green technology” businesses located in Illinois, and (d) qualified fund managers that integrate sustainability factors into investment analysis, portfolio construction, and due diligence.

While the Investment Advisor will have the responsibility to seek, recruit, screen, evaluate, and recommend funds or venture capital firms for investment through ILGIF, the Treasurer reserves the right to reject recommendations to funds or venture capital firms.

3. **Due Diligence** – The Investment Advisor is responsible for fund manager due diligence, which includes, but is not limited to, research, financial analysis, and legal, accounting, and background investigations of fund managers. The Investment Advisor will undergo due diligence activities in coordination with the Treasurer and the External Investment Consultant.
4. **Fund Monitoring** – The Investment Advisor is responsible for monitoring the performance of ILGIF recipient funds, tracking the diversification of investments and the amounts invested by recipient funds, and reconciling all reporting and accounting requirements of portfolio companies and recipient funds.
5. **Benchmarking** – The Investment Advisor is responsible for establishing applicable investment benchmarks (including public market equivalents), measuring the performance of recipient funds against set benchmarks, and reviewing benchmarks.
6. **Reporting** – The Investment Advisor is responsible for administering all pertinent reporting and recordkeeping duties of this Policy and the Act.

7. **Quarterly Meetings** – The Treasurer and the Investment Advisor shall meet at least quarterly to review fund performance as compared to applicable benchmarks and peer group performance.
8. **Annual Report** – The Investment Advisor will prepare and provide the Treasurer with an annual report that (a) contains a summary of recipient fund performance, (b) outlines the impact on Illinois companies and the Illinois economy, (c) delineates percentages and amounts of investment options/returns, and (d) notes other pertinent reporting information that illustrates ILGIF impact and pertinent developments.
9. **Communication and Liaison Duties** – The Investment Advisor shall create and distribute program information to existing and prospective venture capital funds and portfolio companies.
10. **Encouraging Additional Investments and Investor Focus in Illinois Technology-Enabled Businesses** – The Investment Advisor, working independently as well as in active collaboration with the Treasurer, shall make a concerted effort to encourage the investment and philanthropic community to explore and monitor investment opportunities in Illinois technology-enabled businesses in tandem with the Treasurer. This may include hosting investor forums, facilitating meetings between investors and the Treasurer, or various other efforts.
11. **General Resource** – The Investment Advisor will serve as a general resource to the Treasurer and its consultants for information, guidance, and training regarding investment, reporting, fund vetting and management, portfolio company valuation, and marketing strategies.
12. **Other duties as assigned by the Treasurer** – In managing the investments of ILGIF and recipients' funds, the Investment Advisor shall act with the skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like objectives. Responsibilities are subject to contractual terms agreed upon between the Treasurer and the Investment Advisor.

c) **External Investment Consultant**

The Treasurer may engage an External Investment Consultant that will perform a number of advisory and reporting duties to support ILGIF, including, but not limited to the following:

1. Measuring investment performance results and associated costs/fees on a quarterly basis (at a minimum), evaluating the investment program, and

- advising the Treasurer as to the performance and continuing appropriateness of each investment manager;
2. Participating in quarterly due diligence meetings with the Treasurer;
  3. Recommending modifications to the investment policies, objectives, parameters, responsibilities, benchmarks, or management structure as appropriate;
  4. Assisting in the selection and evaluation of the Investment Advisor, including providing guidance in identifying and negotiating an acceptable fee structure;
  5. Assisting in the identification, selection, and evaluation of recipient funds and venture capital firms, applying a specific focus to identify funds and venture capital firms with a significant presence in Illinois and/or an ownership and/or management status regarding minority, woman, veteran, or disabled status; and
  6. Promptly informing the Treasurer about significant matters pertaining to ILGIF.

d) **ILGIF Advisory Council**

There is hereby established the ILGIF Advisory Council (“Advisory Council”), which shall consist of individuals that possess knowledge and expertise in the venture capital and private equity industry. The Treasurer shall serve as an ex officio member of the Advisory Council and may appoint additional designees from his office to serve on the Advisory Council on a temporary basis. All members of the Advisory Council shall serve at the pleasure of the Treasurer.

The Advisory Council will perform a number of consultative and outreach duties to support ILGIF, including, but not limited to:

1. **Identification of Potential Fund Managers** – The Advisory Council will assist in identifying and recruiting suitable fund managers for vetting, due diligence and review by the Investment Advisor;
2. **Review of Fund Recommendations** – The Advisory Council will provide insight and perspective to the Treasurer regarding the funds that the Treasurer has invested in;
3. **Portfolio Construction and Strategy** – The Advisory Council will provide feedback into the construction and overall strategy of the investment portfolio;

4. **Investment Performance and Market Conditions** – The Advisory Council will provide general commentary, perspective, and insights to the Treasurer in regard to the aggregate investment performance of ILGIF and market conditions in the venture capital and entrepreneurial community; and
5. **Outreach and Civic Engagement** – The Advisory Council will serve as a general resource to the entrepreneurial, venture capital, and technology-enabled business community, actively collaborating with the Treasurer and the Investment Advisor to provide stakeholders and members of the public with information on the purpose, operation, and impact of ILGIF.

Advisory Council members shall administer the affairs of the Advisory Council in good faith and will comply with all applicable laws, rules, agreements and policies pursuant to membership. This obligation includes but is not limited to any confidentiality agreements signed by ILGIF Advisory Council members.

Advisory Council members shall use their best efforts to avoid any actual or perceived conflict of interest as related to any recommendations or input provided to the Treasurer and its staff.

For all purposes, including compliance with the Open Meetings Act, 5 ILCS 120/1 et seq., five (5) members of the Advisory Council shall constitute a quorum.

## 7.0 REPORTING REQUIREMENTS

In accordance with the Act, the Treasurer is required to obtain reports with information from all ILGIF recipient funds on all investments. In order to fulfill these duties, the Investment Advisor shall track, aggregate, and report specific data and information to the Treasurer on a quarterly or annual basis, as determined by the Treasurer for all ILGIF investments. Not only is this intended to ensure compliance with pertinent statutes, but it will enable the Treasurer and the State of Illinois to obtain a more precise, comprehensive read on the outcomes and impact of ILGIF.

Key reporting components include, but are not limited to the following:

- a) The aggregate amount of capital that is invested in Illinois companies by ILGIF recipient funds during the life of the recipient fund (placed side-by-side with the amount of capital that is invested in the recipient fund from ILGIF to ensure the fund is meeting the 2x requirement by the sooner of four years, or when the fund has drawn more than 60% of the capital of all limited partners);
- b) The names of portfolio companies within recipient funds;
- c) The addresses of portfolio companies within recipient funds;

- d) The date of the initial and any follow-on investments;
- e) The cost of the investment, including all pertinent fees;
- f) The current fair market value of the investment;
- g) For Illinois companies within recipient funds, the number of Illinois employees on the investment date;
- h) For Illinois companies within recipient funds, the current number of Illinois employees;
- i) The annual revenue generated by portfolio companies within recipient funds;
- j) The annual State taxes paid by participating funds and portfolio companies; and
- k) The ownership and/or management status of recipient funds and portfolio companies with regard to minority, women, veteran, or disabled status.

The Investment Advisor will be required to ensure standardization of reporting across all recipient funds.

In order to maintain sound accounting and financial reporting processes in accordance with generally accepted accounting principles, ILGIF investments and disclosures must be tracked and reported at fair market value.

The Treasurer shall execute ILGIF investment valuation procedures in compliance with GASB Statement 72, completing and maintaining pertinent input level review documents.

The Investment Advisor shall provide quarterly reports to the Treasurer no later than one-hundred-and-twenty (120) days of the final day in the pertinent quarter.

The Investment Advisor shall provide fiscal year-end reports to the Treasurer no later than one-hundred-and-fifty (150) days of the final day in the pertinent year.

If feasible, the Investment Advisor shall provide an audited financial report covering all of the investments in ILGIF to the Treasurer annually.

Quarterly and annual financial statements from recipient funds shall follow Financial Accounting Standards Board (FASB) topics 820 and 946.

The Treasurer supports and has adopted the fee reporting template established by the Institutional Limited Partners Association into its reporting efforts.

Any written information prepared, owned, used or retained by the Treasurer with respect to an ILGIF Recipient Fund may be subject to disclosure pursuant to the Illinois Freedom of Information Act, 5 ILCS 140/1 *et seq.*

## 8.0 BEST PRACTICES

The Treasurer seeks transparency, good governance practices, and alignment of interests when investing ILGIF funds. Although the Treasurer will examine any and all fund terms on a case-by-case basis, the principles set forth in this section provide a general framework for discussing prospective fund partnership investments and are designed to improve the long-term benefits of the program. These principles are intended to promote thought-leadership, consistency, and equity in the development of partnership agreements and in the management of funds by aligning the interests of general partners with limited partners, improving fund governance, and increasing the transparency of fees. As such, best practices for consideration may include, but not be limited to the following:

- a) **Carried Interest:** There should be a strong alignment of interest between the General Partner (“GP”) and Limited Partners (“LPs”) such that carried interest should be the primary motivator for investment success and profit creation for the GP. ILGIF believes that the GP should be entitled to market-based carried interest after the return of contributed capital, including management fees and fund-level expenses. Preferred returns (net of profits) are an appropriate mechanism to ensure GPs are seeking to drive above market investment returns before generating carried interest.
- b) **Management Fees:** Management fees should be market-based and reflect the fund size, team size, and operation needs of a specific manager. Budget-based fees are a preferred mechanism of ensuring a strong alignment of interest between GP and LP and that carried interest is the primary means of profit generation for the GP. Management fees should follow the J-curve of a private equity fund and step down gradually over time as successor fund(s) are formed. Management fees should be inside the fund.
- c) **Expenses:** Placement agent fees and insurance expenses should be borne solely by the GP. Transaction fees and other fees (*e.g.*, monitoring, directors’ fees, advisory fees, etc.) should be offset 100% against management fees to ensure an alignment of interest between GP and LPs.
- d) **General Partner Commitment:** The GP should have a substantial equity interest in the fund to maintain a strong alignment of interest with the limited partners, and a high percentage of the amount should be in cash as opposed to being contributed through the waiver of management fees.
- e) **Standard for Multiple Product Firms:** Key-persons should devote substantially all their business time to the fund and its parallel vehicles. No GP or any principal may close or act as GP for a fund with substantially equivalent investment objectives and



policies until after the investment period ends, or the fund is invested, expended, committed, or reserved for investments and expenses. The GP should not invest in opportunities that are appropriate for the fund through other investment vehicles unless such investment is made on a pro-rata basis under pre-disclosed co-investment agreements established prior to the close of the fund.

## **9.0 EXCEPTIONS TO THIS POLICY**

The Treasurer may permit exceptions to this Policy. Such exceptions shall be reviewed to ensure activities remain relevant and appropriate with the intent of the Act, this Policy, and prudent investment standards.

## **10.0 POLICY REVIEW**

The Treasurer shall review this Policy at least once every year to ensure that it remains relevant and appropriate.

### **APPENDIX A:**

As of the date of approval of this Policy, the following firms have been retained and authorized:

Investment Advisor:	50 South Capital
Outside Legal Counsel:	Schiff Hardin, LLP
	Neal, Gerber, and Eisenberg, LLP

Law firm and other subcontractors providing services valued at \$50,000 or more will be required to receive approval from the Treasurer's Chief Procurement Officer.

# Appendix 5

## Sample Questions to Shape a New Inclusive Investing Process

Extracted from “Inclusive Investing: Impact Meets Diversity, Equity, and Inclusion (DEI)” by Julianne Zimmerman Edward Dugger, III Shijiro Ochirbat in [The Global Handbook of Impact Investing](#)

<b>Objectives</b>	<ul style="list-style-type: none"> <li>• What specific DEI-related (racial / social / gender / other) impacts, outcomes, or changes are intended?</li> </ul>
<b>Intensity and immediacy of impact</b>	<ul style="list-style-type: none"> <li>• What scope and timeframe are appropriate to those DEI-related (racial / social / gender / other) objectives?</li> <li>• What measurable outcomes are aligned with investor time horizons?</li> </ul>
<b>Impact risk</b>	<ul style="list-style-type: none"> <li>• How sensitive is the investor to combined financial and impact outcomes?</li> <li>• What kind of risk (reputational, legal, opportunity, operational, etc) is associated with either achieving or faltering on the intended impacts, outcomes, or changes?</li> </ul>
<b>Inventory</b>	<ul style="list-style-type: none"> <li>• What does the current portfolio actually contain?</li> <li>• Who is included, excluded, positively and negatively impacted by that current portfolio?</li> <li>• What risks are embedded as a result?</li> <li>• What impact opportunities or financial return potentials are suboptimal?</li> </ul>
<b>Gaps, conflicts, and obstacles</b>	<ul style="list-style-type: none"> <li>• How do the intended objectives and current portfolio/practices differ or conflict?</li> <li>• What obstacles are in the way of fulfilling the intended DEI-related impacts, outcomes, or changes?</li> </ul>
<b>Execution</b>	<ul style="list-style-type: none"> <li>• What new steps can be taken?</li> <li>• What existing practices can be altered?</li> </ul>
<b>Evaluation</b>	<ul style="list-style-type: none"> <li>• How will both impact and financial results be measured, tracked, evaluated, and reported?</li> </ul>
<b>Steady state</b>	<ul style="list-style-type: none"> <li>• How will impact and financial results inform future criteria, processes, and allocations?</li> </ul>

## Appendix 6

### STARDUST

# Equity Due Diligence

## **Internal Policies & Practices**

We believe that the best performing investment firms will be those that are approaching diversity as they would any other business priority. Internal policies and practices play an important role in combating the unconscious biases that prevent women and BIPOC from achieving their full potential and creating an organizational culture that equally values and promotes diverse talent. The questions in this section aim to understand the actions that firms are taking in order to achieve equity within their own ranks.

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## I. Decision Making

Who makes decisions within the firm and how is diversity brought into that process?

1. How many women are on the company's board?  
What percentage of the company's board is composed of women?
2. How many BIPOC<sup>i</sup> are on the company's board? What percentage of the company's board is composed of BIPOC?
3. Is the Board/IC Chairperson or equivalent position held by a woman or BIPOC?
4. Does the Firm consider itself a minority-owned or woman-owned business?

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## II. Team Composition

Diversity by level

1. What percentage of the firm's total employee base are women?
2. What percentage of the firm's employee base are women of color?
3. What percentage of investment professionals are women? What percentage of investment professionals are BIPOC?  
(by level, if available)

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## III. Compensation

What is total compensation by level by gender? (Total compensation includes salary, bonus, carry and equity compensation, if applicable)

1. Does your firm have a fair remuneration policy in place?
2. What percentage of the firm's top 10% compensated employees are women? What percentage of the firm's top 10% compensated employees are BIPOC?
3. What is the firm's mean gender pay gap? What is the firm's racial pay gap?
4. Did the firm ever perform an internal or external compensation audit to identify gender and/or race-based variations in pay? Please discuss the results.

<sup>i</sup> BIPOC: Black, Indigenous and people of color.

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## IV. Hiring

How does the firm view diversity in the context of hiring?

1. Does your firm have an equal opportunity policy in place? If so, please provide a copy.
2. Please describe the approach to gender and racial diversity and inclusion at the firm. Where does the firm want to be in this area in five years and how is it getting there?
3. What are the hiring practices used to ensure increased diversity? (e.g., removing gender-specific language from job descriptions, requiring a diverse slate of candidates to be presented to hiring manager, removing gender-specific names/words from CVs, using standard set of questions to avoid unconscious bias...)
4. What percentage of new hires in the last year were women? What percentage of new hires in the last year were BIPOC?

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## V. Retaining Talent

How well does the firm retain diverse talent?

1. What is the median tenure (in years) of the firm's female employees? What is the median tenure (in years) of the firm's male employees?
2. What is the median tenure (in years) of the firm's BIPOC employees? What is the median tenure (in years) of the firm's white employees?

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## VI. Developing and Promoting Talent

How does the firm develop and promote diverse talent?

1. What is your record of promotions by gender and race over the past three years?
2. Do you have formal or informal mentoring programs?

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## VII. Gender-Equal Workplace Policies

What workplace policies and practices are in place to promote gender equality?

1. Does the firm offer fully paid parental leave? How many weeks of fully paid primary/maternity and secondary/paternity leave does your firm offer? For those employees that returned from parental leave, what was the average number of weeks taken?
2. Does your firm provide family care benefits/services? (e.g., back-up care, care subsidy/family care, on-site child care, etc.)
  - a. If the firm provides on-site childcare, are all facility employees provided training/education related to Child Sexual Abuse prevention?
3. Does your firm offer an option to control and/or vary the start/end times of the workday or workweek (e.g., flextime), or the location (e.g., telecommuting)?
4. Does your firm offer insurance coverage for fertility services?
5. Does your firm have a sexual harassment policy in place and offer sexual harassment training? If not, please explain.

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## VIII. Implementation

What kinds of workplace policies are effectively implemented in your firm?

1. Does the firm require a gender and/or racially diverse slate of candidates for management roles?
2. Do senior managers have clear gender and racial diversity and inclusion goals included as part of their annual performance reviews?
3. Does the firm train managers on eliminating unconscious bias? Is this training mandatory?
4. Does the firm utilize an impartial third-party investigator to evaluate all sexual harassment allegations?
5. Does the firm prohibit inclusion of a confidentiality provision (or silencing agreement) in sexual harassment or discrimination settlement agreements?
6. Please complete the following chart regarding the Firm's workforce composition by gender and race/ethnicity, using definitions provided by the Equal Employment Opportunity Commission (EEO) for the Firm's US workforce.

Job Categories	Hispanic or Latino				Non-Hispanic or Latino																All																			
					Black or African American				Asian				Native Hawaiian or Other Pacific Islander				American Indian or Alaska Native				Two or More Races				White															
	Tot.	M	F	NB	Tot.	M	F	NB	Tot.	M	F	NB	Tot.	M	F	NB	Tot.	M	F	NB	Tot.	M	F	NB	Tot.	M	F	NB	Tot.	M	F	NB	Tot.	M	F	NB				
Board of Directors and CEO, CFO & COO																																								
Investment Professionals																																								
All other employees																																								

Diversity Categories:

- M: Male
- F: Female
- NB: Non-binary

Job Categories:

- Board of directors, and CEO, CFO & COO: Includes all members of the firm's highest governing board (or executive committee), as well as CEO, CFO, COO or equivalent positions.
- Investment professionals: Includes all professionals who have a role in investment decision making at the firm, such as portfolio managers, research analysts, and traders.
- All other employees: Includes all other full-time employees of the firm.

If an employee is both a member of the board of directors or occupies the position of CEO, CFO, or COO, as well as serves as a member of the investment staff, the individual may be counted in both rows.

## IX. Corporate Behavior

How does your firm externally support diversity and inclusion?

1. Is the firm a signatory to, or is the CEO/Chair a member of any organization(s) in which the primary mission is to advocate for gender and/or racial equality?



## Investment Approach

We believe that integrating a gender analysis into financial analysis leads to better investment outcomes. By simply incorporating a gender analysis in investment decision-making and portfolio management activities, investors have tremendous leverage to influence how systems of power value women. The questions in this section aim to understand the actions that firms are taking as investors, owners and operators to promote gender equality.

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## I. Investment Thesis/Strategy

1. What investment strategies within your firm focus on gender equality or have the ability to implement a “gender lens”?
2. How are you defining gender lens in the investment thesis and criteria?
  - Considering women entrepreneurs?
  - Gender balanced founding or leadership team?
  - Companies whose products/services directly support women/girls?
  - Companies directly aiming to disrupt human rights issues disproportionately affecting women/girls?
  - Other?

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## II. Screening and Diligence

1. Does your team have access to gender expertise in context of the investments?
2. Are you training/coaching/reinforcing gender lens investing awareness amongst your investment professionals?