Diversity in Venture Capital

Challenges and Opportunities for New York City

2023 Report

POWERED BY

NYC EDC

VENTURENEER
BUILDING SUCCESSFUL ENTERPRISES WITH HEART

WOCSTAR

COREWOMAN

Contents

Foreword

As Deputy Mayor, I recognize the size and value of the tech sector in New York City's economy. New York's tech sector, ranging from "big tech" to the one-person startup, creates jobs, powers economic growth and provides opportunities for upward mobility that are accessible to countless New Yorkers. Just in the last decade, the tech ecosystem accounted for a quarter of the city's new job growth and today employs over 350,000 New Yorkers. New York is a global center of gravity for tech, and one of our greatest assets is our people and how the tech sector here largely reflects the skills, diversity and knowledge of the people of the City of New York; more than 20 percent of tech workers are Black and Latinx New Yorkers, representing a more diverse tech workforce than the Bay Area and Boston combined.

Diversity in Venture Capital: Challenges and Opportunities for New York City underscores the significance of our growing tech and venture communities, and it provides a clear call to action for investors and tech leaders to embrace diversity as a strategy for increasing innovation, economic production and growth. By investing in diverse founders and cultivating diverse teams, we can create a more equitable and prosperous future for all New Yorkers and become the world's most inclusive innovation ecosystem.

We have a unique opportunity to ensure that our tech and venture landscape continues to thrive in a way that benefits all New Yorkers. I encourage everyone to join in this important effort.

Maria Torres-Springer, Deputy Mayor for Economic and Workforce Development

---

New York City is a global leader in technology, with investments pouring in and our startup ecosystem now valued at an astounding $147 billion. We've fostered a dynamic environment for innovation, with over 25,000 tech-enabled startups, supported by more than 200 coworking spaces and 100 accelerators and incubators. Our tech workforce is diverse, representing the strength of our city's vibrant communities.

Diversity in Venture Capital: Challenges and Opportunities for New York City is a report that not only magnifies the vital role of the tech and venture sectors but shines a spotlight on how we can turbo-charge our City's economy by driving venture capital to diverse founders. Diversity practices are key to unlocking capital for underfunded founders and early-stage companies and diverse founders consistently outperform. This report clearly demonstrates that diversity isn't just a value, it's a bona fide strength.

Andrew Kimball, President & CEO, New York City Economic Development Corporation

Foreword

As venture capitalists, we understand the transformative potential of investing in innovation and entrepreneurs to reshape our economy. We also firmly believe that New York City's diversity presents its greatest strength and an opportunity to further expand our tech and venture ecosystem.

That is why we are honored to Co-Chair the Venture Access Alliance, a new coalition of investors who will work together with NYCEDC to achieve diversity throughout the startup value chain and build the world's best, most inclusive innovation ecosystem in New York City. The Alliance, introduced within this report, offers a unique opportunity for investors to join together to improve diversity in our industry's investments and workforce, while also creating a more equitable and prosperous future for all New Yorkers.

The findings within these pages paint a clear picture: Diverse founders outperform, and diverse teams drive innovation. Let's seize this moment to make a lasting impact, harnessing the city's diversity as our superpower. By uniting, we can create a tech and venture landscape that celebrates and amplifies the rich diversity of New York City—benefiting founders, investors, and the city's economy as a whole.

Venture Access Alliance Co-Chairs Jarrid Tingle, Partner, Harlem Capital Partners and Fred Wilson, Partner, Union Square Ventures

Executive Summary

Diversity remains a vital and largely untapped resource for the venture capital (VC) industry.

Diversity practices are key to unlocking capital for underfunded founders and early-stage companies. By backing innovations from Black, Indigenous, People of Color (BIPOC) and female founders, the VC community can play an even bigger role in creating jobs and wealth, increasing fair competition, and helping grow the economy.

New York City Economic Development Corporation (NYCEDC) is building new collaboration opportunities for diverse founders by establishing more direct access to capital. This includes fostering meaningful partnerships between diverse emerging fund managers, company founders, and other VCs to help level the playing field.

The Venture Access Alliance—a coalition of startup investors who believe diversity is New York's greatest strength and leading source of growth—provides new ways for stakeholders to collectively work towards making the city the world's most attractive and inclusive venture ecosystem.

This report, *Diversity in Venture Capital: Challenges and Opportunities for New York City*, examines the state of diversity in NYC compared to other venture hubs and national numbers, from leadership and workforces to company funding. The report provides insights on the many ways that venture capitalists and company founders can connect with each other and harness one of the city's superpowers: The diversity of its workers and entrepreneurs.

Paving the Way for More Triumphs in Venture Capital

Venture capital is essential to innovation. Yet, most VC firms are not taking advantage of diversity—a powerful business engine that can reignite industries, spark innovation, and fuel economic growth.

One glaring statistic from the report's research: Even though white men represent just 38.1 percent of the US population, they oversee more than 98 percent of VC assets under management (AUM), according to Diversity VC's *The Equity Record* report.

At the same time, only a fraction of VC investments go to BIPOC and female founders. This trend excludes many talented diverse founders from receiving much-needed funding and perpetuates existing disparities.

Last year, for example, only a small share of New York VC dollars went to teams with at least one diverse founder, data from PitchBook and Crunchbase shows. Female (co-)founded companies in NYC received 19 percent of VC funding, while Black and Latinx (co-)founded companies in NYC each received just 2.9 percent of VC funding.

A primary reason is the lack of diversity among VC partners in NYC. Further research shows that 17.8 percent are women investment decision makers and only 1.2 percent are Black investment decision makers, according to PitchBook and Crunchbase. Because many VC firms lack diverse teams, they also often lack the networks to effectively source diverse founders. As a result, many New York-based VCs are missing out on high-performing startups with diverse founders.

Diverse founders have been found to perform better, overall. Companies with female founders in First Round Capital's portfolio, for example, did 63 percent better on investments than all-male founding teams, while diverse founding teams did 30 percent better on their median realized multiple on initial public offerings (IPOs) and acquisitions than white founding teams, according to Kauffman Fellows' *A New Platform For Emerging Managers*.

Diversifying VC investment in NYC is a long-term goal. But there are several things established VCs can do in the meantime to identify diverse founders with high potential. One important step for VCs is to collaborate with small, diverse, emerging managers.

Emerging manager funds accounted for 72 percent of the top returning firms between 2004 and 2016, per Cambridge Associates. Yet, funding to emerging managers dropped from 43.2 percent in 2019 to 19.1 percent in 2023. Emerging manager funds are more likely to have diverse investment partners, which are essential to boosting diversity in VC investments.

Finding Untapped Opportunities for Future Growth

As one of the most diverse cities in the world, New York City and its venture community have an unparalleled opportunity to thrive. Diversity practices are a driver of outperformance. By leveraging them, the city's VCs can tap into higher returns, access large and growing markets, and help fuel innovative products—all while making a significant social impact.

From 2019 to 2022, for example, NYC-based VCs provided the second-highest amount of funding to companies in their metropolitan statistical areas (MSA) next to San Francisco. In 2022, NYC VCs invested $18.2 billion in local companies compared to San Francisco's $33 billion. Opportunities for future growth are immense.

The purpose of *Diversity in Venture Capital: Challenges and Opportunities for New York City* is to bolster members of the VC community that are committed to improving the diversity of their workforces and the companies they fund. This report provides benchmark data about diversity in the industry as well as best practices and resources for the city's VC community.

NYCEDC's goal is to increase tech investment opportunities and ensure a brighter future for all. Diverse founders bring unique perspectives to the VC landscape. They create innovative products that often meet the needs of underserved markets, build customer-centric businesses, and drive outsized returns.

Are you a startup investor? Join the Venture Access Alliance so you too can benefit from connections and best practices in using diversity to drive outperformance. For more information and to join our community, visit edc.nyc/venture-access-alliance.

Introduction

Diversity in Venture Capital: Challenges and Opportunities for New York City **examines the current state of the venture capital (VC) sector regarding the diversity of its workforce and the companies it funds in New York City and nationally. The report also provides best practices and resources to help ecosystem stakeholders connect with each other and harness one of NYC's superpowers—the diversity of its workforce and entrepreneurs.**

Diversity Is an Economic Engine

Diversity practices are a driver of outperformance in venture capital in New York City and key to unlocking capital for underfunded founders. By funding early-stage companies, VC firms help create jobs and wealth, increase competition, and diversify and grow the US economy.

Venture capital is essential to innovation. However, most VC firms are not taking advantage of diversity—a powerful tool for performance enhancement.

Today, only a fraction of VC investments go to Black, Indigenous, People of Color (BIPOC), and female founders. This trend excludes many talented diverse founders from receiving much-needed funding and perpetuates existing disparities.

Diversity strategies in venture capital started in the aughts as a light step towards leveling the playing field. During the #MeToo and Black Lives Matter movements, diversity, equity, and inclusion (DEI) had a much deeper social impact and proved to be a business imperative. Investors who embrace diversity today are reaping direct financial rewards.

This strategy:

- Creates new markets and industries
- Gives VCS an early-mover advantage
- Diversifies funds' portfolios, which mitigates risk
- May lead to more favorable investment terms and valuations

The opportunity is immense, but so are the challenges. As the world's second-largest tech and venture hub, NYC is well-positioned to provide well-paying jobs, be a leader in innovation, and leverage its diversity as a source of competitive advantage.

Today, even though white men represent only 38.1 percent of the US population, they manage over 98 percent of assets under management (AUM).

A similar lack of diversity is reflected among founders that receive venture capital funding. While companies with both male and female co-founders have seen increased VC investments, companies founded solely by women receive around 2 percent of VC dollars. This number has stayed relatively constant over the last decade, even though venture-backed companies founded by women, on average, deliver more than twice as much revenue per dollar invested. Meanwhile, Black and Latinx founders continue to receive investment in the low single digits even though Black and Latinx Americans represent a third of the total US population.

Emerging Managers Open Doors to High Performers

In this report, we share how some VC firms are diversifying their pipelines and adjusting due diligence processes, and how these efforts have helped improve returns. We also examine the roles of small, emerging managers—VC fund managers whose AUM are less than $100 million with fewer than three funds raised—who are more likely to be members of underrepresented groups.

Working with small and diverse emerging managers can give established VCs access to a vetted network of diverse founders. Yet, as highlighted in this report, emerging managers had difficulty raising capital in 2022, even though they are consistently among the top performers in the VC asset class.

We also introduce the Venture Access Alliance, an initiative of New York City Economic Development Corporation (NYCEDC) designed to build a more diverse and inclusive ecosystem in NYC for startup founders and investors. The Alliance offers VC firms in New York City an opportunity to join a coalition of investors committed to increasing diversity in venture through meaningful collaboration, sharing best practices and progress on DEI measures, tapping into pipelines of diverse entrepreneurs and talent, and supporting impactful diversity-focused actions.

Working together, investors can make a difference that will have a lasting impact on the city's venture and tech community, unlock even higher rewards for diverse and underrepresented founders, and foster an environment of inclusion. This report showcases how innovation, technology, and DEI go hand-in-hand in creating a better future for New York City.

This report offers numerous opportunities to increase diversity and improve outcomes for underrepresented founders, but it is by no means exhaustive. We also suggest ways that VCs can support and invest in more diverse fund managers, who are more likely to invest in diverse founding teams, as well as share data-driven best practices and resources to help accelerate the diversification of the venture capital workforce, investment pipeline, and due diligence practices.

Dissecting the Data

Venture capitalists who invest in diversity are investing in their own success. By using data and analytics to measure diversity progress, VCs can zero in on key areas for business improvement and develop targeted solutions.

In turn, VCs who apply the same rigorous analysis to managing diversity in their workforce and portfolio companies as they do to building and managing their portfolio performance will reap the rewards of having more informed, innovative, and successful teams. Diverse teams are better equipped to understand and solve complex problems, which can lead to increased innovation and better decision making.

This can lead to stronger investment portfolios and higher returns, enabling VCs to be more competitive, mobilize capital to historically underserved founders, and promote better products.

Cities like Los Angeles and Chicago have blazed the trail in creating initiatives that benchmark and track diversity within their venture communities and engage local firms to help build a more diverse tech sector.

We tip our hat to PledgeLA and Chicago:Blend for leading the way and working to create measurable change in their respective cities.

This report uses data from a variety of sources, including Crunchbase; Deloitte, Venture Forward, NVCA's *VC Human Capital Survey*; Diversity VC's *Equity Report*; *ARI HALO Report*; Morgan Stanley's *Venture Capital and Social Equity*; and PitchBook, as well as numerous articles. Definitions of terms can vary from source to source or even within a source. This data helps indicate how VC firms are progressing in their DEI efforts and identifies where challenges persist. The research further confirms that investing in diversity significantly improves financial performance at the individual portfolio-company level and boosts overall fund returns.

Nevertheless, this report also demonstrates the need for improved tracking of diversity outcomes within New York City's venture community. Data around diversity in VC hiring and other information is based on national US statistics, as no verifiable local market data is yet available.

The State of the US Venture Capital Industry

From 2011 to 2020, venture capital investment in the US rose steadily. In 2021, investment skyrocketed to a record $347.5 billion across 18,990 deals,[1] fueled by a surge in equities, higher liquidity, and increased interest in sectors that benefited from the COVID-19 pandemic. These sectors include healthcare, fintech, cybersecurity, and e-commerce. By 2022, VC investment started to decline, driven by rising interest rates, an economic slowdown, and a decline in companies going public.

2022: VC Investment Dips But Remains Historically High

VC investment in the US dramatically slowed in the second half of 2022 due to heightened economic and political uncertainties. A sudden flurry of pressures—from inflation and rising interest rates to global supply chain setbacks—sparked recession fears.[2]

During this time, initial public offerings (IPOs) and acquisitions dried up as nontraditional investors pumped the brakes on their venture capital dealings. Many corporate VCs (CVCs) and financial institutions—including investment banks, private equity (PE) firms, sovereign wealth funds, hedge funds, and pension funds—returned to less-risky investments.[3] Still, investments in US venture capital totaled $246.5 billion, marking the second-highest annual amount in history.[4]

In the first half of 2023, experienced firms raised over 80.9 percent of VC dollars, and the share raised by emerging firm funds had sunk to less than 19.1 percent. This concentration reinforces a persistent trend in which smaller-sized funds, where most diverse-led funds are concentrated, are finding it harder to raise capital. As a result, far fewer new VC firms launched funds in 2022 than in 2021.[5]

PitchBook reports that in recent months, VCs have held back on investing the capital they have raised over the past two years. As of the second half of 2023, US firms still had nearly $280 billion in unspent cash reserves and highly liquid securities, or "dry powder."[6]

The State of the US Venture Capital Industry

Slow Start for VC Firms in 2023

The record level of dry powder with which VC firms ended 2022 may cushion the low fundraising levels of the last two quarters.

US venture capital firms invested $85.6 billion in the first half of 2023—the lowest VC investment level since 2021.[7] VCs have retreated from investing in new companies and seem focused on supporting their existing portfolio companies. With few companies going public or being acquired, limited partners (LPs) that invest in venture funds face pressure to rebalance their portfolios and decrease their investments in illiquid venture capital.[8]

The failures of Silicon Valley Bank (SVB), Signature Bank, and First Republic Bank further shook VC firms and their portfolio companies in the first half of 2023. Nearly half of all US venture-backed technology and life science companies banked with SVB.[9]

These banks provided venture debt to venture-backed companies, giving them longer cash runways and reducing the need for equity financing, which raises capital by selling shares in the company but dilutes the stakes of founders and shareholders. At a time when venture capital is harder to raise, venture debt is, too.

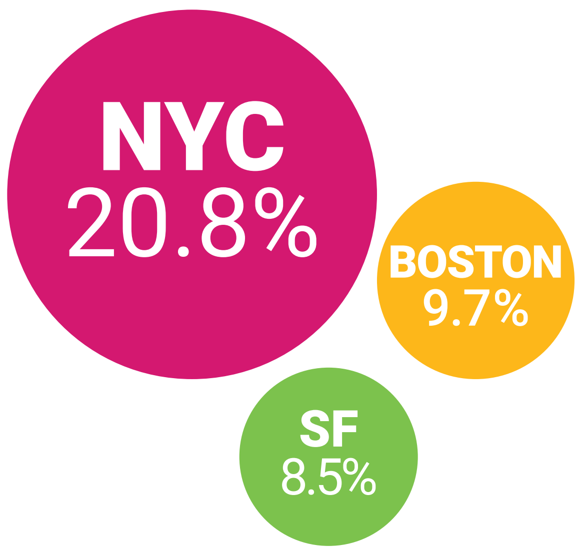
As VCs have become more cautious, company valuations have declined. Lower valuations benefit investors with a long-term horizon, but hurt early-stage companies because they need the extra money higher valuations bring to grow.

Exploring NYC's Venture Capital Ecosystem

New York City is home to the second-largest startup ecosystem in the world, tied with London and behind Silicon Valley, according to Startup Genome, the leading policy advisory and research organization focused on global startup ecosystems. The city's thriving startup ecosystem is valued at around $147 billion, with more than 25,000 tech-enabled startups supported by over 200 coworking spaces and 100 accelerators and incubators. The city ranks third among U.S. states in foreign direct investment jobs, and received high scores from Startup Genome in performance, funding, and talent and experience.[10]

NYC'S TECH WORKFORCE IS MORE DIVERSE

Share of Black + Latinx Workers



In the last decade, the tech ecosystem accounted for a quarter of the city's new job growth. The 369,000 tech jobs across the five boroughs represent 7 percent of the city's entire workforce.[11] New York City also has a more diverse tech workforce than its peers: 20.8 percent identify as Black and Latinx, compared to 8.5 percent in the San Francisco Bay Area and 9.7 percent in Boston.[12]

Exploring NYC's Venture Capital Ecosystem

Venture Capital in NYC: Unlocking Opportunity Through Diversity

New York City is uniquely positioned within the venture capital community. Despite recent layoffs that have impacted tech hubs globally, the tech sector in the city has experienced significant growth in the past decade as both startups and Big Tech companies, including Amazon, Apple, Google, Meta, and Microsoft, have increased their footprints. In 2023, Manhattan surpassed San Francisco in having the largest number of early-stage startups in the US for the first time, according to data from Carta, a San Francisco-based firm that develops software to help companies manage their ownership and equity.[13]

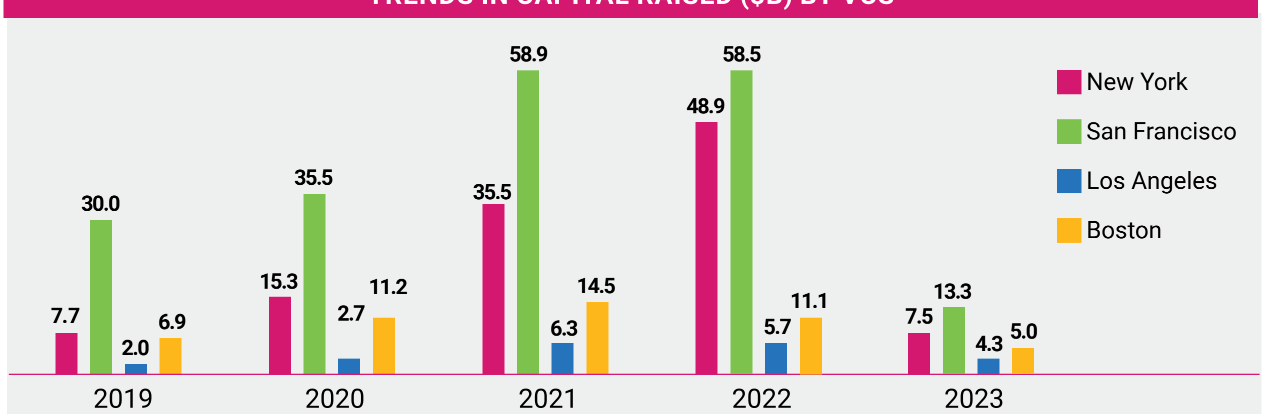
NYC is home to a growing community of venture capital firms. These include homegrown teams such as AlleyCorp, Greycroft, Insight, Primary, Thrive, Two Sigma, and Union Square Ventures. Well-known VC firms based outside of New York City are also opening new offices or expanding their teams in the city. These firms include Andreessen Horowitz (a16z), Index Ventures, Lightspeed, and Sequoia Capital. According to PitchBook, there were over 1,200 venture capital firms in NYC with at least one investment in 2022, a notable increase from previous estimates.

State-led efforts are also supporting the growth of the local venture industry. New York State has devoted $100 million to a direct investment venture capital fund that is actively deploying capital, with an additional $35 million in Small Business Credit Initiative funding. New York Ventures also manages three fully deployed venture capital legacy funds, including nine partner funds, that invested in seed and early-stage companies across the state.[14]

The wide variety of industries that make up New York City's economy further positions it to capitalize on the opportunities created by emerging technologies. From finance and media to advanced manufacturing, applied sciences research, food production, logistics hubs, and real estate, NYC is at the forefront of an ever-evolving landscape where traditional industries are being transformed by technology. This dynamism creates enormous opportunities for VC firms and some of the country's most innovative startups, many founded by underrepresented entrepreneurs.

From 2019 to 2022, VCs headquartered in NYC raised the second-highest amount of funding next to San Francisco. In 2022, NYC VCs raised $48.9 billion next to San Francisco's $58.5 billion. During that period, NYC's VC fundraising growth rate was far higher (6.4 times) than the next highest, Los Angeles (2.9 times). However, while VC fundraising dropped for all Metropolitan Statistical Areas (MSAs) nationwide in the first half of 2023, NYC VCs experienced the greatest drop in fundraising.

TRENDS IN CAPITAL RAISED ($B) BY VCS

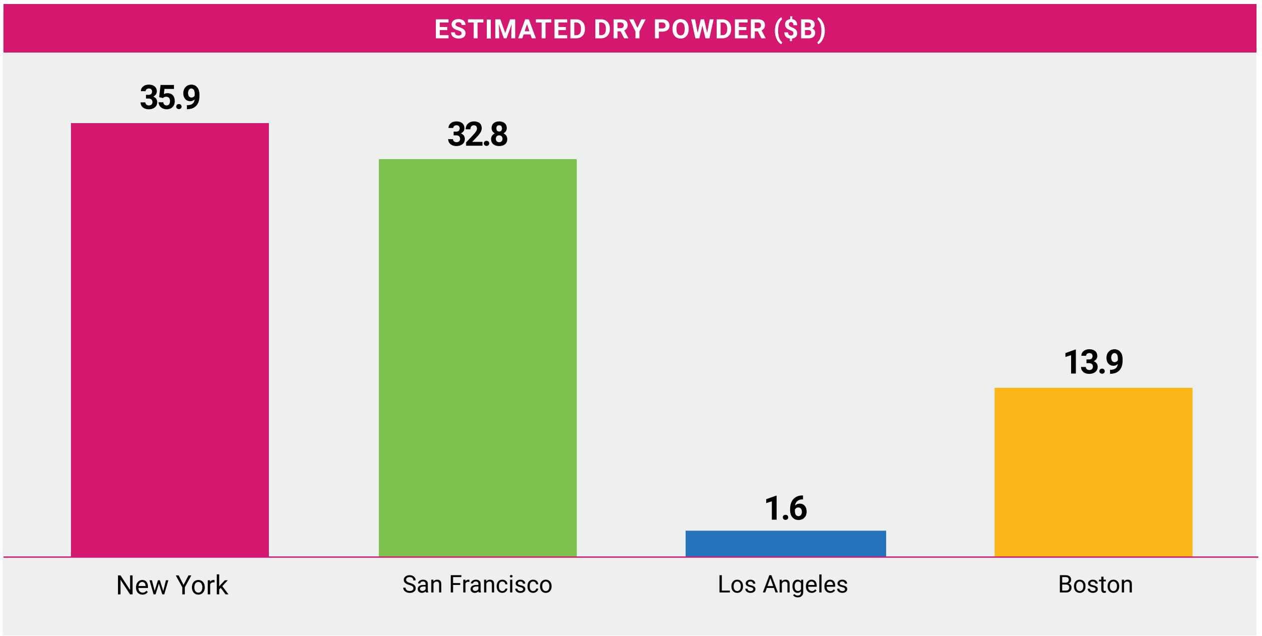


Source: Pitchbook as of August 15, 2023.

Exploring NYC's Venture Capital Ecosystem

Dry Powder to Fuel Future Growth

Dry powder refers to cash reserves and highly liquid securities that venture capital firms can deploy when an opportunity arises. VC fundraising dropped precipitously in the second half of 2022—especially among NYC firms. While fundraising was off for NYC, it still has the most dry powder of any city. These cash reserves may provide the city's VCs the flexibility to tap into new investment opportunities in the near future, both within NYC and beyond.



Source: PitchBook as of June 08, 2023.

Exploring NYC's Venture Capital Ecosystem

Two Years of Turbulence for NYC Companies Raising Capital

2021: A Record-Breaking Year in NYC Venture Activity

NYC's venture activity has experienced dramatic shifts over the past few years. Fueled by lower interest rates, 2021 was record breaking for VC investments, including NYC: $54.9 billion was invested in the combined statistical area (CSA).[15, 16]

In 2021, cash-flush VC firms poured money into NYC-based companies. While San Francisco still dominated overall, its share of the US venture capital pie decreased as NYC's share increased.

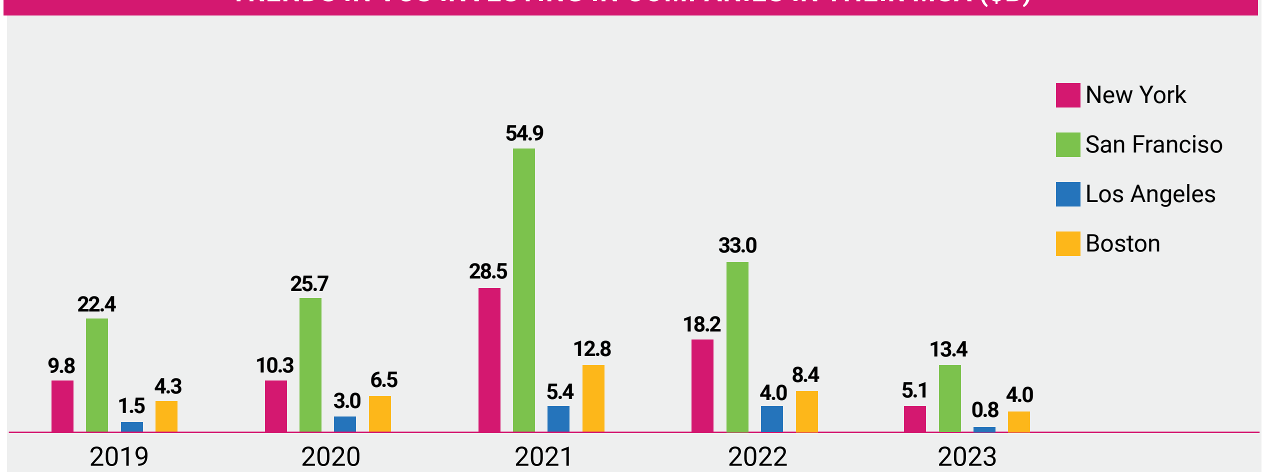
Although investments by NYC VCs in local companies had reached record levels in 2020, they nearly tripled in 2021 to $28.5 billion invested across 1,306 deals. That represents an annual growth of 176 percent in deal value and 64.5 percent in deal count. In 2021, NYC also welcomed 67 venture-backed unicorns—private companies valued at $1 billion or more—representing about a fifth of all unicorns in the US.[17] In addition, 2021 saw two of the largest traditional IPOs by deal size for NYC venture-backed companies in the last decade: UiPath and Oscar Health.[18]

2022: NYC VC Investment Starts to Contract But Remains Historically High

As interest rates rose and exits dried up, venture capital investment in NYC slowed dramatically. US venture investments in 2022 dropped 29% compared to 2021. NYC CSA reflected the contraction, too. NYC companies raised $33.7 billion in 2022,[19, 20] the city's second-highest amount of US venture capital. Even so, this represented a 38.6 percent decrease from 2021, which exceeded the 29 percent average drop that the US overall experienced in the same period. The number of new unicorns in NYC dropped from 67 in 2021 to five in 2022.[21, 22]

NYC VCs' due diligence became more extended and more rigorous, resulting in lower valuations. Local companies raised $18.2 billion from NYC VC in 2022, a drop of 36 percent. The number of deals completed was 1,160. A drop of 11.2 percent compared to 2021–far less than the drop in dollars invested.

TRENDS IN VCS INVESTING IN COMPANIES IN THEIR MSA ($B)



Source: PitchBook as of August 15, 2023.

Diversity in the Venture Capital Industry

Diversity is a proven competitive advantage for organizations. Yet, the venture capital industry is making slow and uneven progress in diversifying its workforces and founders of its portfolio companies. The following section sheds light on the state of diversity in the VC industry at large and in NYC.

Diversity Improves Performance

Studies indicate that teams with racial and gender diversity are more successful than non-diverse teams in improving "financial performance measures such as profitable investments at the individual portfolio company level and overall fund returns."[23] The range of perspectives offered by diverse leadership teams improves innovation, financial performance, and adaptability.[24]

The Kauffman Fellows Research Center estimates that companies with ethnically diverse founders outperform all-white founding teams by 30 percent when they go public or are acquired.[25]

Research has found that female-founded companies outperform their male counterparts on several metrics:[26]

- Businesses founded by women delivered higher revenue—more than twice as much per dollar invested—than those founded by men, making women-owned companies better investments for financial backers.[27]
- Venture-backed companies led by women are more capital-efficient, achieving 35 percent higher ROI, and 12 percent higher revenue than startups run by men.[28]
- Women-founded companies in one VC firm's portfolio outperformed companies founded by men by 63 percent.[29]

ETHNICALLY DIVERSE FOUNDERS
OUTPERFORM
ALL-WHITE FOUNDING TEAMS BY
30%
WHEN THEY GO PUBLIC OR ARE ACQUIRED

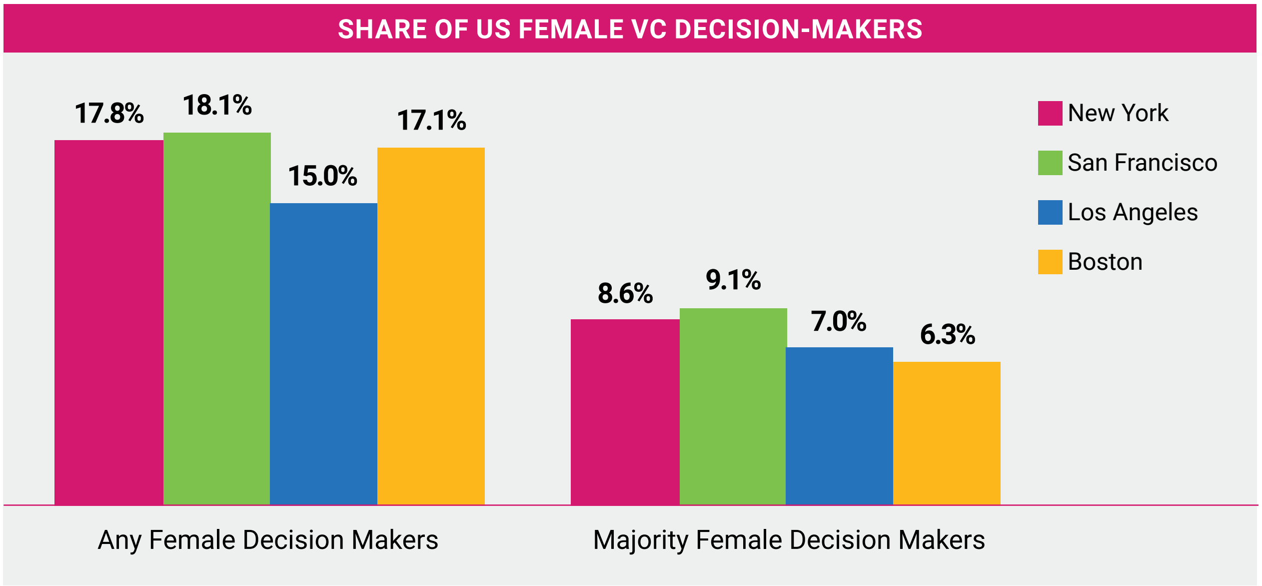
WOMEN-FOUNDED COMPANIES IN FIRST ROUND CAPITAL'S PORTFOLIO
OUTPERFORM
MEN-FOUNDED COMPANIES BY
63%

Diversity in the Venture Capital Industry

A Homogeneous Industry

Since its inception in the 1950s, decision-making in the VC industry has been dominated by white men, a trend that continues today. In 2022, even though white men represented 38.1 percent of the US population,[30] they oversaw 98 percent of assets under management.[31] Meanwhile, white women comprise more than 38.7 percent of the US population,[32] but hold just 16.1 percent of VC decision-making positions.[33] Black individuals represent 13.1 percent of the US population,[34] but only 4 percent of VC decision-makers.[35] And Hispanic/Latinx people make up 17.2 percent of the US population,[36] but just 5 percent of partner-level VC investment professionals.[37]

New York City, San Francisco, Los Angeles, and Boston outperformed national numbers for the share of female VC decision-makers (16.1 percent) and the majority of female VC decision-makers (4.5 percent).[38] NYC ranked second (17.8 percent and 8.6 percent, respectively) after San Francisco (18.1 percent and 9.1 percent, respectively).

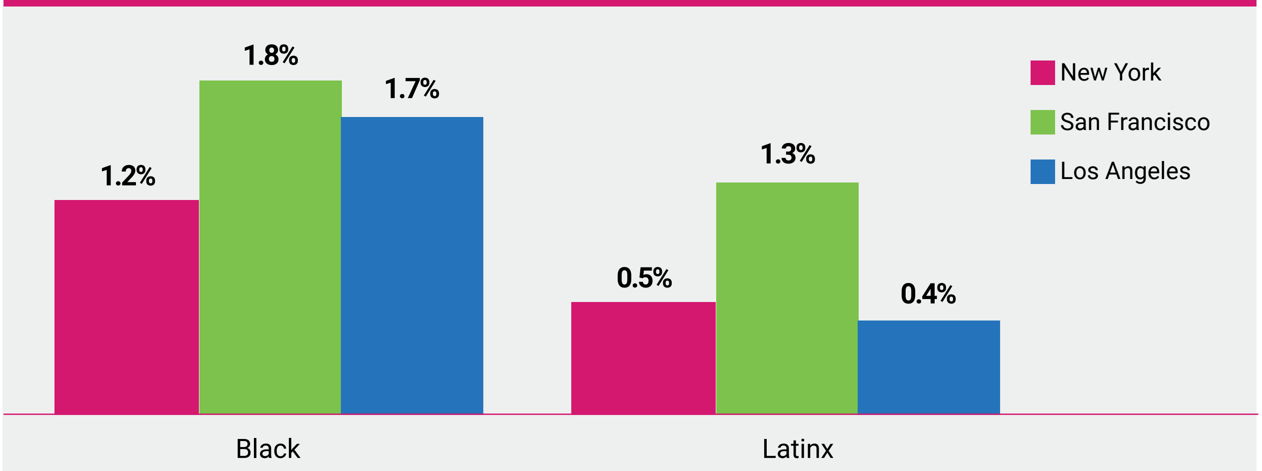


Source: PitchBook as of June 16, 2023.

Diversity in the Venture Capital Industry

Black and Latinx individuals represent a very small share of the nation's VC investors. San Francisco has the highest share of Black VCs (1.8 percent) followed by LA (1.7 percent) and then NYC (1.2 percent). San Francisco has the highest share of Latinx VCs (1.3 percent), followed by NYC (0.5 percent).

SHARE OF US VC DECISION-MAKERS



Source: 2022 Crunchbase Diversity Spotlight.[39] Notes: Crunchbase reports local data by city not MSA. Boston and Asian VC numbers were excluded due to fluctuations in the numbers.

This lack of diversity has been shown to adversely impact the industry as a whole, leading to less innovation and funding for promising companies, particularly those led by diverse founders.[40] In the first eight months of 2023, all-female-founded companies raised only 2.1 percent of all VC funds in the US, down from 2.6 percent in 2019.[41]

Despite female-founded companies outperforming their male counterparts,[42] they raise a much smaller slice of venture activity compared to men:

- Nearly 80 percent of funding and nearly 75 percent of deals went to all-male founder teams. However, the share of deals going to female founders in 2023, at 7.3 percent, was the most ever. Unfortunately, this indicates that female-founder-only teams are raising even less money per deal than their male counterparts.[43]
- The picture is slightly better for companies with both male and female founders. Their share of venture investment has been on a slow upward trajectory, reaching a high of 17.8 percent in 2022. The percentage of deals has slowly risen, too, reaching its height of 20.7 percent in 2021.[44]

Meanwhile, Black founders raised around 1 percent of all venture capital allocated in Q1 2023.[45] And in 2022, Black founders only raised around 1.1 percent of all VC funds,[46] a drop of more than 50 percent from the previous year, while deal count dropped from 419 in 2021 to 206 in 2022.[47]

A key reason for the lack of diversity in the venture ecosystem is the role of unconscious bias among decision-makers. Investors are more likely to work with people with whom they share characteristics such as gender, race, educational background, and previous employer, a tendency called homophily.[48] Research also suggests the presence of a considerable "investor bias" which leads investors to have less of a tolerance for poor performance or failure at minority-owned funds.[49]

The question becomes: How can VC firms be encouraged to invest in more companies founded by BIPOC, women, and other underrepresented groups? A growing community of funders and founders, many from underrepresented groups, believe that the most effective way is to increase the number of people from diverse backgrounds working as LPs, fund managers, VC advisory boards, or corporate boards of directors.[50]

Diversity in the Venture Capital Industry

Though Uneven, Progress Is Being Made

The increasing consciousness of racial inequity spurred by movements like Black Lives Matter (BLM) brought attention to DEI initiatives. LPs and large corporations across the country promised to invest more in funds that are diverse and invest in DEI efforts.

Morgan Stanley's 2021–2022 Venture Capital and Social Equity survey showed that there have in fact been signs of progress:[51]

- Forty-two percent of US VCs made public diversity pledges over the last 12 months, and more than eight in 10 had followed through with all or most of their commitments.
- The share of US VC firms that hired or worked with more women or BIPOC fund managers, partners, LPs, or board members continued to trend upward, with a seven-percentage-point increase from 2019.

Although some VC firms have made progress in diversifying their workforce with DEI-focused recruitment programs, investment decisions are still mainly made by white men.[52] The Morgan Stanley survey found that white male VCs are still less likely than women or nonwhite VCs to see the value of investing in companies founded by diverse entrepreneurs.[53]

The lack of diversity among the people making investment decisions contributes to diverse-founded firms not receiving the same funding levels as non-diverse companies. According to the *2022 Equity Record* by Diversity VC, in the US, only 1.9 percent of the $31.8 billion overall assets under management by survey respondents were allocated to companies with DEI investments.[54]

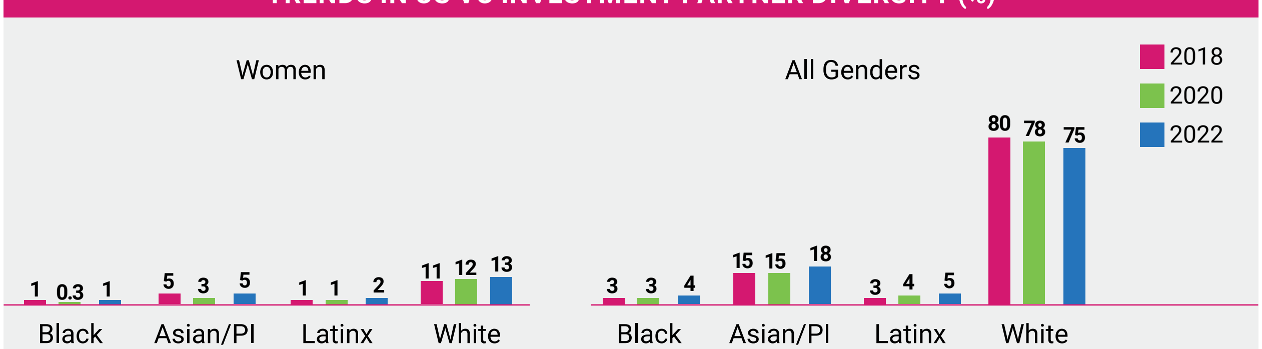
The Diversity VC report indicates that systemic change is beginning to take hold, however. Brand-name institutional investors and VCs are carving out money to invest in small, diverse, emerging manager funds or, as in the case of VCs, starting funds focused on investing in diverse founders.[55]

Deloitte, Venture Forward, and NVCA's *VC Human Capital Survey 2022* found that VC firms are slowly progressing in achieving greater diversity by race, ethnicity, and gender. More VC firms are assigning staff to promote diversity and inclusion within their companies; monitoring DEI among their portfolio companies; and seeing interest from LPs in DEI data.[56]

But the pace of promoting and hiring of Black and Latinx VC partners is still slow and uneven.

While the venture industry is broadly supportive of improving DEI practices and outcomes, there have been recent setbacks, including some companies eliminating chief diversity officer positions and boycotting companies that take strong stands. In August 2023, Fearless Fund, which provides venture capital and grant funding to women of color, was sued over its grant program for Black-women-owned small businesses by the same organization that earlier this year sued to overturn affirmative action during the college admission process. If the suit succeeds, it could have an impact on how DEI practices in the venture ecosystem evolve and halt efforts to address disparities in venture capital.

TRENDS IN US VC INVESTMENT PARTNER DIVERSITY (%)



Source: 2023 Deloitte-Venture Forward-NVCA VC Human Capital Survey.

Diversity in the Venture Capital Industry

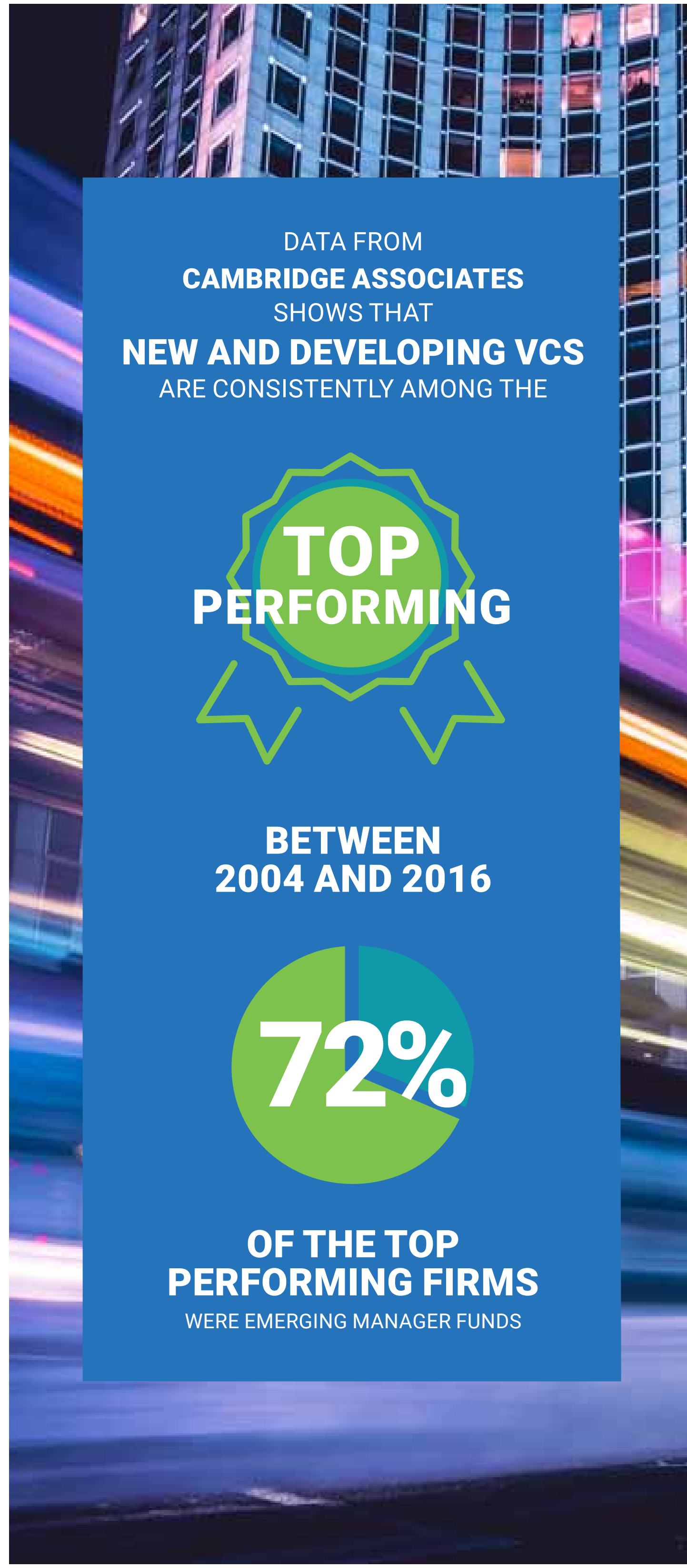
Why Small, Diverse Emerging Managers Are Gaining Prominence

One investor category has recently gained prominence: small, diverse, emerging managers. The definition of an emerging manager varies widely. This report defines someone who manages funds of $100 million or less, and has raised fewer than three funds as an emerging manager.

Emerging managers tend to invest in early-stage companies in which the potential return on investment is often greater than in later-stage companies. They are also likelier to belong to minority groups, contributing to the more diverse perspectives correlated with higher returns.[57] In recent years, these managers have focused on new industries such as fintech (emphasizing financial inclusion), healthtech, women's health, biotech (mainly due to COVID), and clean energy technology.

In addition, emerging managers typically have access to a more diversified pool of startups than established firms have access to.[58] They often focus on companies with diverse founders catering to underrepresented groups' specific needs. For example, Harlem Capital Partners aims to invest in 1,000 diverse founders over 20 years.[59] The smaller size of emerging manager funds allows them to be more agile, react more efficiently to market changes, and exploit new opportunities, contributing to their high performance.[60]

An analysis by Cambridge Associates found that emerging manager funds are consistently high performers in venture capital, accounting for 72 percent of the top returning firms between 2004–2016.[61] Yet, in the first half of 2023, emerging managers raised just $6.4 billion in commitments, or about 19.1 percent of the total capital raised by US fund managers.[62] The share of funding going to emerging manager funds had steadily dropped since 2019, when it was 43.2 percent.[63]



Diversity in the Venture Capital Industry

After a decade of rising investment, the VC sector is contracting and recalibrating. During 2022's increased market volatility, many institutional LPs focused their investments on what they considered to be safer bets rather than on emerging managers. They are focusing on late-stage companies headed for a liquidity event, such as an IPO or an acquisition, and allocating less to early-stage small, diverse, emerging manager funds and founders leading early-stage companies.

As a result, raising capital became more difficult for first-time BIPOC and women fund managers to close their funds or launch new ones, even though US venture capital firms had raised nearly $150.9 billion by September 2022. Only 100 first-time funds launched successfully in 2022, compared to 307 in 2021.[64] Some investors claim that the fundraising downturn of 2022 may be a return to a slower pace of investment in which only the most talented and determined emerging managers will remain.[65]

Emerging managers tend to raise a smaller proportion of the target value of their funds compared to more established firms: In 2020, for example, they raised, on average, only 30 percent of their funds' target.[66] And since small, diverse, emerging managers rely on accredited investors who write smaller checks, they need to raise capital from many more LPs than larger, more established funds, which can take much longer.

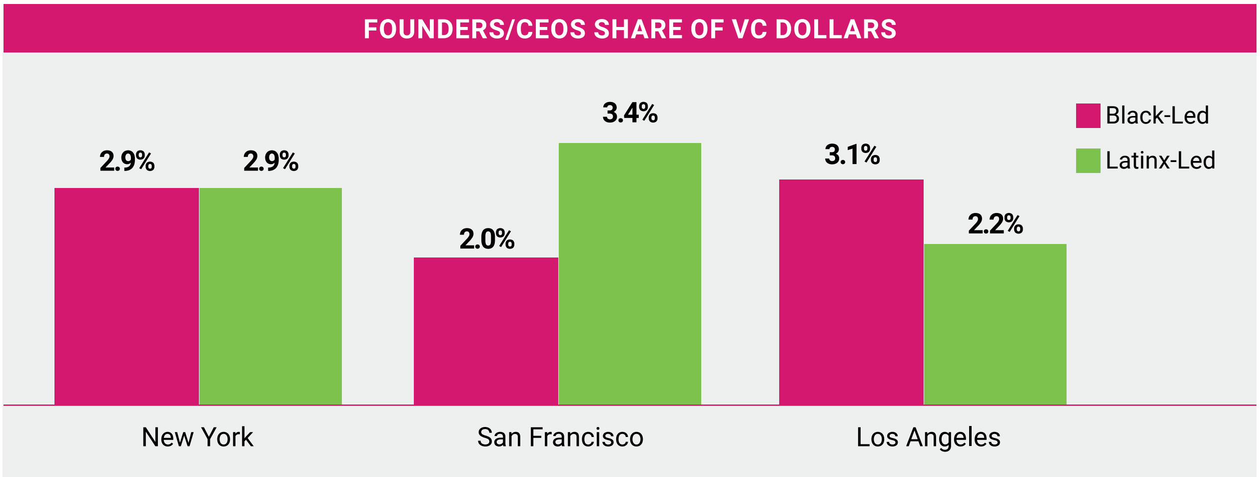
Institutional investors, such as pension funds, regularly write checks for hundreds of millions of dollars. Many find it inefficient to write checks to small funds, given the overall size of their portfolios and the amount of capital they need to put to work.[67]

Pension funds, endowments, and family offices, often set limits on the percentage of their portfolios that can be invested in venture capital funds or individual funds. This practice is part of their portfolio diversification strategy and risk management approach. However, some institutional investors have developed emerging manager programs that invest in small, diverse, emerging manager funds.

Diversity in the Venture Capital Industry

Diversity in NYC'S VC Ecosystem

In 2022, 2.9 percent of all venture funding invested in NYC companies went to Black entrepreneurs and 2.9 percent went to Latinx entrepreneurs. In both cases, NYC ranked number two.



Source: 2022 Crunchbase Diversity Spotlight. Notes: Crunchbase reports local data by city, not MSA. Boston and Asian Founders' numbers were excluded due to fluctuations in the numbers.

Harlem Capital Partners' 2022 Diverse Founder Report found that about 18.4 percent of the more than 1,000 Black and Latinx founders in the US that have raised over $1 million in venture funding are based in New York State. New York placed second after California (39.1 percent) and ahead of Florida (7.1 percent).[68]

The outlook is brighter for angel investments, private investors that use their own net worth to finance ventures in exchange for equity. The 2022 HALO Report, which analyzes data about angel investments in the US[69], found that:

- Asian/South Asian CEOs raised the highest percentage of capital in California (25.3 percent) followed by NYC (17.8 percent) and Texas (11.2 percent).
- Black CEOs raised the highest percentage of capital in Texas (3.1 percent) followed by California (1.8 percent) and NYC (0.8 percent).
- Latinx CEOs raised the highest percentage of capital in Texas (5.1 percent), followed by California (3.5 percent) and New York (2.3 percent).
- Latinx CEOs represented 20.9 percent of companies raising capital from angel investors in New York, behind California (30.5 percent) and ahead of Texas (19.4 percent).

While limited city-level data exists on venture capital investments to racially and ethnically diverse founding teams, the VC industry has been measuring gender outcomes for decades. It has made more progress there than for race and ethnicity.

In 2022, women represented 16.1 percent of investment decision-makers at US venture capital firms.[70] Meanwhile, in the first seven months of 2023, 19.8 percent of all VC dollars and nearly 26.2 percent of VC deals in the US went to companies with at least one female founder.[71]

However, the numbers are less promising among US companies founded solely by women. Female-founder only companies received just 2.1 percent of VC dollars and 7.3 percent of VC deals invested in US startups in the first seven months of 2023. This represents a decline from 2019, when female-founded companies raised 2.6 percent of all VC dollars.[71]

Diversity in the Venture Capital Industry

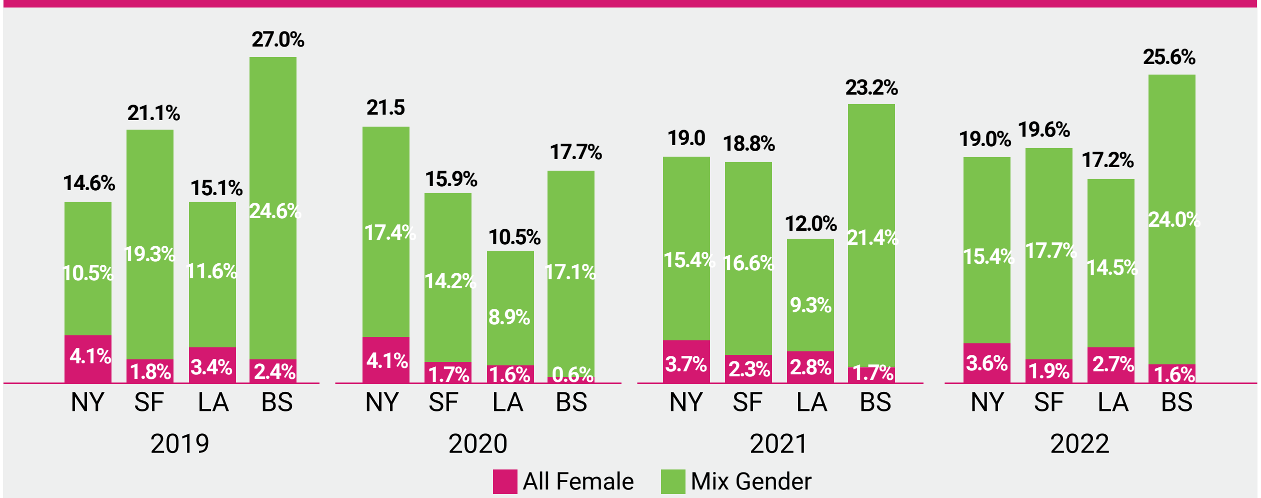
NYC ranked highest in the US over the past four years for the proportion of investment dollars going to exclusively female-founded companies, though only in the single digits. Female-founded companies achieved their highest share of investment dollars (4.1 percent) in 2019 and 2020. Their share dropped to 3.6 percent in 2022.

Female-founded teams in NYC have an even better story for the share of VC deals they received, breaking into the low double digits in recent years. Their share reached 10.6 percent in 2021 and 2022.

NYC's performance for mixed-gender founder teams and those with at least one female founder is less consistent when it comes to VC dollars. Only in 2020 did the city top the list for investment dollars. In 2022, NYC ranked third for mixed-gender teams (15.4 percent) and for those with any female founders (19 percent).

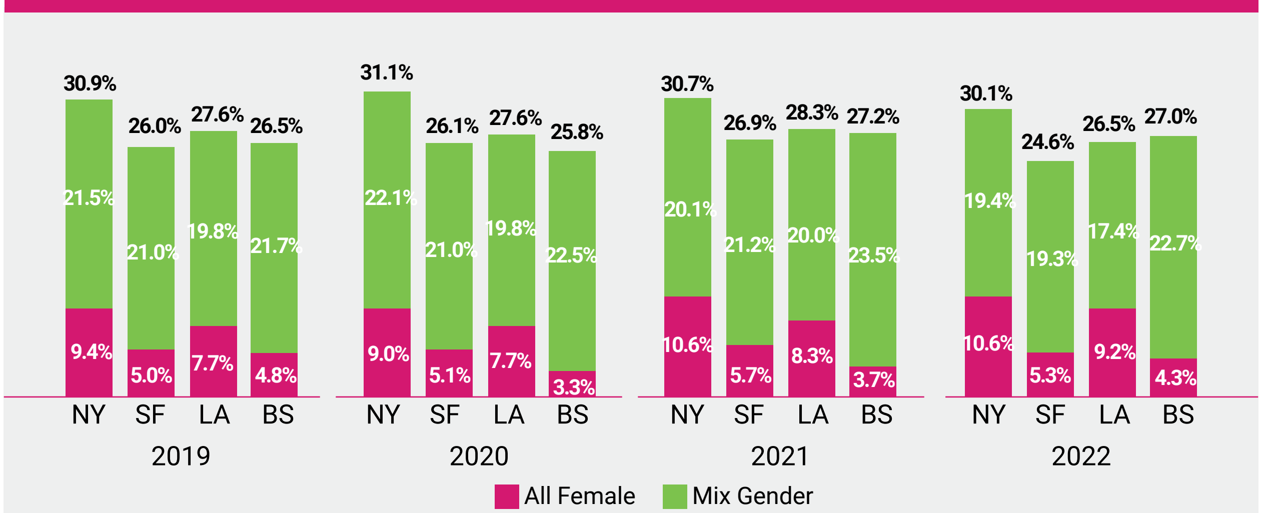
The city has a better story when it comes to deals. In 2022, NYC ranked second-highest for its proportion of mixed-gender founder teams. Though its share has dropped in 2022 to 30.1 percent from a high of 31.1 percent in 2020, NYC has ranked number two for three of the past four years.

FEMALE FOUNDERS' SHARE OF VC DOLLARS



Source: PitchBook

FEMALE FOUNDERS' SHARE OF VC DEALS



Source: PitchBook

According to the 2022 HALO Report, which analyzed data about angels sourced from the Angel Resource Institute and augmented data from PitchBook, 26.4 percent of CEOs in New York State raising capital from angels were women, followed by California (18.6 percent) and (Texas 17.3 percent).[72] Studies indicate that women consistently experience bias, whether intended or unintended, and have fewer connections to VCs.[73]

Diversity in the Venture Capital Industry

Diverse Founders Focus on Specific Industries

The unique life experiences and perspectives of female and ethnically diverse founders play a significant role in shaping the industries they choose to found companies in. These experiences influence their motivations, the problems they identify, their approach to them, and the markets they target. Geography can also significantly affect a founder's ability to raise venture capital. In the US, funding is concentrated in the venture hubs, including San Francisco, New York City, and Los Angeles.

An analysis of several industries revealed that female founders with venture-backed companies are likely to focus on consumer goods, health, education, sustainability, and food and beverage industries. NYC has the highest concentration of female founders in e-commerce among the cities studied, as well as high concentrations in consumer goods, education, and sustainability-focused industries.

SHARE OF VC DOLLARS FOR WOMEN FOUNDERS/CEOS

Industries	New York	San Francisco	Los Angeles
Consumer Goods	34%	35%	35%
E-Commerce	25%	16%	18%
Education	24%	11%	45%
FinTech	9%	11%	20%
Food and Beverage	15%	15%	35%
Health Care	21%	26%	42%
Software	12%	10%	18%
Sustainability	21%	25%	8%

Source: 2022 Crunchbase Diversity Spotlight. Notes: Crunchbase does not include data on Metropolitan Statistical Areas. City data was used instead. Boston and Asian Founders' numbers were excluded due to fluctuations in the numbers. For the most part, BIPOC founders represented a very small percentage of founders in most industries in 2022.

The analysis also shows that Black and Latinx founders of venture-backed companies are likely to focus on education, fintech, and consumer goods industries. In NYC, Black and Latinx founders had the highest concentration in education (15 percent and 3 percent) and fintech (7 percent and 6 percent). San Francisco has higher representation, especially for education.

SHARE OF VC DOLLARS BY RACE AND ETHNICITY OF FOUNDERS/CEOS

	New York		San Francisco		Los Angeles	
Industries	Black	Latinx	Black	Latinx	Black	Latinx
Consumer Goods	6%	0%	20%	7%	0%	0%
E-Commerce	2%	3%	2%	1%	0%	0%
Education	15%	3%	19%	20%	0%	20%
FinTech	7%	6%	4%	10%	2%	0%
Food and Beverage	0%	0%	1%	5%	0%	0%
Health Care	2%	3%	1%	4%	11%	5%
Software	2%	3%	2%	4%	3%	2%
Sustainability	3%	0%	12%	12%	0%	0%

Source: 2022 Crunchbase Diversity Spotlight. Notes: Crunchbase does not include data on Metropolitan Statistical Areas. City data was used instead. Boston and Asian Founders' numbers were excluded due to fluctuations in the numbers.

Best Practices for Increasing Diversity in the VC Industry

DEI matters for many reasons. It has been proven to enhance investment decision making and financial performance in VC firms, boost company reputation, improve talent recruitment and retention, and increase employee engagement and productivity. Inclusive workplaces also maximize talent and innovation, which are critical for success in today's business environment.[74]

In compiling the data for this report, little research was found on the impact of workforce diversity practices on the VC ecosystem. One reason is that research on workforce diversity practices usually focuses on midsize and large companies because they have the resources to develop human resources (HR) policies.[75] Small organizations with more limited resources often lack formal HR policies.[76] When available, the report cited VC-specific research, but in most cases, the research cited was about general business practices.

Lack of Data Impedes Measurement of Diversity in VC Firms

What gets measured gets managed.

Transparency and accountability are critical to diversifying the venture community because they help promote a more level playing field and ensure that decisions about where investment funds are allocated are fair and unbiased. Tracking diversity metrics can help identify areas where there is underrepresentation and allow for targeted efforts to address it. By measuring diversity in terms of gender, race, ethnicity, and other factors, VC firms can better understand their own biases and take steps to ensure a more diverse talent pool.

With better diversity, VC firms can increase their chances of investing in successful companies, because they draw from a wider range of experiences and perspectives. There is a strong need for more data on diversity, whether that data is for public consumption or simply to improve internal efforts. One problem in measuring the diversity of the VC workforce or the companies they invest in is the lack of data on diversity, particularly race and ethnicity. Diversity data collection is limited by the lack of consistent and standard metrics for measuring DEI within organizations and the low levels of DEI disclosure, particularly regarding ethnic and racial diversity.[77]

Moreover, the lack of demographic data in venture makes accurate tracking difficult. Founders and investors are not required to report demographic data such as gender, race, and ethnicity of their teams, and LPs are not required or encouraged to make public their investments in venture capital firms. While data providers like PitchBook and Crunchbase use online sources, software technology, self-reporting, and other techniques to determine gender and other demographic information, it is more difficult to determine race and ethnicity.

Data was compiled from many sources in the preparation of this report. As a result, while this report provides a starting point for comparison, it also encourages the VC community to improve reporting of gender, race, and ethnicity. The data companies, LPs, VCs, accelerators and other support organizations, and startups, could:

- Develop methodologies that accurately and cost-efficiently measure race and ethnicity.
- Measure and track VC pipeline and portfolio diversity internally.
- Compare the diversity of portfolio investments by VC size and age.
- Prepare reports on the diversity of portfolio companies' teams for external distribution.

Best Practices for Increasing Diversity in the VC Industry

There are models for collecting data about diversity in the industry. In 2020, the Kresge Foundation and the MacArthur Foundation partnered with financial technology firm Lenox Park Solutions to survey and assess the racial and gender diversity makeup of the US asset management firms that invest a combined $10.8 billion on their behalf.[78]

The Knight Foundation tracks endowments' AUM for 55 of the largest foundations. While their data is not specifically focused on venture capital, it shows the power of measurement in moving a segment of the industry. In 2022, diverse-owned firms managed 18.1 percent of $78.9 billion in AUM at US foundations, up from 16.6 percent in 2021. These foundations exceed the industry standard of 1.4 percent invested with diverse owned firms.[79]

Several organizations have created resources to help firms measure the impact of their diversity efforts:

- Diversity in Action: Sharing Our Progress (Institutional Limited Partners Association)
- How to Measure Inclusion at Your Organization (Diversio)
- Measuring the Impact of Skills-Based Talent Practices (Multiple Pathways Initiative)

Best Practices for Increasing Diversity in the VC Industry

Improving Diverse Talent Acquisition, Retention, and Development in VC Firms

Here are some steps that VC firms can take to improve the diversity of their workforce.

PROVIDE MENTORSHIP PROGRAMS: These programs connect more experienced team members with employees who want to expand their skills or knowledge. They have been proven to boost satisfaction rates and increase retention.[80] A study for the American Sociological Review found that mentoring programs increased minority representation among managers from 9 percent to 24 percent.[81] According to a Cornell University study, mentoring programs can increase minority representation in management positions by up to 24 percent, more than other corporate tactics.[82] By addressing professional development and personal growth, mentorship programs within VC firms can help create a more inclusive and diverse organizational culture.

SEND UP-AND-COMING DIVERSE TALENT TO VC TRAINING PROGRAMS: Various training programs are available for people interested in becoming venture capitalists. One of the most prominent is Kauffman Fellows, a two-year program that has trained nearly 900 fellows from 58 countries, representing 765 venture firms. Forty two percent of fellows are women and 55 percent are BIPOC.[83] Other programs include RBL1 Intro to VC Training, Angel & Venture Capital Investor Training Programs, Venture Deals, Going VC, VC Unlocked, Venture University, and VC University.

HIRE DIVERSE INTERNS: Internships allow students or recent graduates to gain practical work experience and develop professional organizational skills. Internships are essential for bridging the gap between education and employment. They offer hands-on experience and help people make informed career decisions. They also benefit organizations by creating a talent pipeline.[84] Diversity VC's research found that with exposure to venture capital as a career option, individuals less represented in the industry would pursue it. Diversity VC also created a program that includes weekly master classes before students become interns.[85]

Best Practices for Increasing Diversity in the VC Industry

Improving Diverse Talent Acquisition, Retention, and Development in VC Firms

Another example is HBCU VC, which, in partnership with PledgeLA, offers a training and a 10-week, full-time paid summer experiential learning internship with some of the top VC firms in Los Angeles.[86]

A third example of a firm that has implemented its principles is Kapor Capital, which has a long-standing commitment to diversity and inclusion.[87] In 2022, firm founders Freada and Mitch Kapor turned over the firm's leadership to two diverse leaders who came up through Kapor Capital's internal talent development programs.[88]

CAPITALIZE AND SUPPORT AN NYC-STUDENT-MANAGED FUND: Some colleges give students hands-on experience managing a venture capital fund. They learn the steps of sourcing deals, conducting due diligence, and ultimately making investment decisions. In addition to learning skills that can help them land a job at a venture firm after graduation, for diverse students, student-managed funds can change the perception that a career in venture capital isn't available to people from underrepresented backgrounds.

For example, Simon Business School at the University of Rochester has a $2 million student-run venture fund managed by MBA students. An alumni advisory board that consists of VCs, successful entrepreneurs, and accomplished professionals in finance, law, and other disciplines, guides minority and female master's students about investing and entering the VC industry. The program has built a team of over 33 analysts and associates, of whom 52 percent are women and 29 percent are underrepresented minorities.[89]

The Peter T. Paul College of Business and Economics at the University of New Hampshire (UNH) launched a program for undergraduate students that has created a pipeline of women with the skills and interest to become venture capitalists. A longtime UNH donor—Mel Rines, a former investment banker—donated the capital for the student-run investment fund. Thanks to the program, several female students have gone on to get high-level internships and jobs.[90]

Best Practices for Increasing Diversity in the VC Industry

Incorporate DEI Goals and Strategies into VC Organizational Policies

VC firms can promote and improve workforce diversity, equity, and inclusion by incorporating DEI goals and strategies into their organizational policies. Through internal education and higher transparency regarding the organization's diversity, VCs can develop a DEI-oriented culture that applies to their portfolio companies.[91] However, small, resource-constrained firms may face some limits in the policies they can implement.

Some successful practices for incorporating DEI strategies into policies include:[92,93,94,95]

ESTABLISH SYSTEMS AND TRAINING TO REMOVE BIAS FROM HIRING PROCESSES: Implementing unbiased hiring practices helps organizations build diverse teams by promoting fairness and equal opportunity for candidates. Such practices may include structured interviews, anonymous resume reviews, and training for recruiters to recognize and combat unconscious bias.[96]

DEVELOP FLEXIBLE WORK POLICIES: Family leave, returnship programs, and work-life balance initiatives promote a more inclusive environment by supporting employees' needs outside of work. These policies can also help attract and retain diverse talent.[97]

OFFER BACKUP CHILDCARE AND ELDERCARE: Providing caregiver support promotes an inclusive workplace and helps to reduce stress and absenteeism, contributing to employee satisfaction and retention. Support can be provided through a dependent care assistance plan, an employee benefit plan that helps employees pay for the care of a qualifying dependent.[98]

CONDUCT AN EQUAL PAY ANALYSIS: Ensuring pay equity across an organization can help mitigate pay gaps and promote a more diverse and inclusive workplace. Regular pay audits can identify disparities and guide corrective actions.[99]

EVALUATE ORGANIZATIONAL CULTURE: Regularly assessing the workplace climate and providing an anonymous reporting platform allows organizations to identify areas for improvement and address DEI concerns more effectively. Implementing employee surveys and anonymous reporting systems to gather feedback on DEI can help identify areas for improvement.

TRACK AND REPORT DIVERSITY DEMOGRAPHICS: Monitoring and sharing data on workforce diversity helps identify trends and measure progress toward diversity goals.[100] Companies can interview employees they've recruited or promoted, as well as people who have left, to identify trends and red flags. Other metrics include job satisfaction and the headcount of job titles, including investment decision makers.

DEVELOP AND PUBLICIZE A DIVERSE AND INCLUSIVE CULTURE: Communicating the firm's commitment to DEI can enhance its reputation as an inclusive employer and attract diverse talent.[101]

RESOURCES

VC WORKFORCE & CULTURE

- *Better Venture: Improving Diversity, Innovation, and Profitability in Venture Capital and Startups*
- *Guidance and Best Practice Examples for VCs and Institutional Investors*
- *How to get a job in VC: Resources curated by Diversity VC*
- *Transforming Venture Capital & Private Equity Through Diversity, Equity, and Inclusion (DEI)*
- *Building Diverse Leaders and Equitable Workspaces*

VC COMPANY PIPELINE

- *How We Invest (Kapor Capital)*
- *VC due diligence processes*
- *Smarter Systems: How tweaking your diligence process can unlock overlooked opportunities*
- *Emerging Managers Due Diligence, How is it Different?*

VC, STARTUP, AND LP INTERNSHIPS

- *The Ultimate Guide To Early Talent Recruiting*
- *Employer Best Practices Playbook: Integrating Young Talent Into Your Workplace*
- *The Internship Playbook*

STARTUPS

- *Better Venture: Improving Diversity, Innovation, & Profitability in Venture Capital and Startups*
- *A DEI Playbook for Early-Stage Startups*

COMPANY BOARDS

- *Board Diversity Playbook: Four Critical Steps to Build Transformative Boards*

Best Practices for Increasing Diversity in the VC Industry

Best Practices for Improving Diversity in the Portfolio Company Pipeline

Some venture capital firms are working to diversify their portfolios by investing in a broader range of companies. For example, Kapor Capital invests in companies working to create a more inclusive and equitable tech industry. Other companies are investing in small, diverse, emerging managers.

VC firms are also working to address diversity in their startup pipeline. For example, Andreessen Horowitz (a16z) has created an accelerator program to support diverse and underserved founders. Softbank designated $100 million to invest in Black, Latinx, and Native American founders.[102]

Here are some best practices for improving the diversity of the startup pipeline:

INVEST IN DIVERSE FOUNDERS

While this may seem obvious, VC firms should make every effort to seek out and consider investing in companies founded by female or BIPOC founders. As mentioned earlier, these companies often outperform more non-diverse startups. One way to find diverse founders in New York City seeking investment opportunities is through the range of accelerator and incubator programs that serve diverse founders. Accelerators provide startups with training to help them grow faster and increase their chances of attracting potential investors. They also provide funding and offer mentorship to their participants.[103,104] Programs include:

- NYCEDC's Venture Access Founder Fellowship
- Accelerate Techstars: Techstars and J.P. Morgan Accelerator Programs
- BK-XL Accelerator
- Communitas Ventures Accelerator
- Google for Startups Founders Funds
- McKinsey Inclusive Business Accelerator
- MetaBronx
- Morgan Stanley Inclusive Ventures Lab
- Primary NYC Founders Fellowship
- Project W
- Springboard Enterprise
- Techstars NYC
- XRC Ventures

INVEST IN SMALL, DIVERSE, EMERGING MANAGER FUNDS

Major VC firms invest in small, diverse, emerging manager funds to diversify their portfolios and tap into unique investment opportunities that may not otherwise be available to them. These funds often achieve higher returns, partly due to their ability to identify and invest in high-potential companies before they become widely known. It is also a way for larger VC firms to promote diversity within the industry and support underrepresented groups.

For example, VCs like Anthemis, Lux Capital, and Union Square Ventures invested in the Springbank Collective, which invests in funds focused on serving the overlooked needs of women and working families.[105] Many of the companies Springbank invests in are founded by diverse teams. Read more on small, diverse, emerging manager funds on page 32.

CO-INVEST WITH SMALL, DIVERSE, EMERGING MANAGER FUNDS

Because these managers are well networked in diverse founder communities, they have excellent deal flow and provide an initial vetting of diverse startups. Larger, more established funds can invest simultaneously with small, diverse, emerging manager funds or when the startup needs additional funding.

Best Practices for Increasing Diversity in the VC Industry

PROVIDE FOLLOW-ON FUNDING TO HIGH-PERFORMING SMALL, DIVERSE, EMERGING MANAGERS' PORTFOLIO COMPANIES

Often, small funds don't have the capital for follow-on investments in their portfolio companies. These companies represent an investment opportunity for mid-sized and major VCs.

TAKE A NEW APPROACH TO EVALUATING PORTFOLIO COMPANIES

Village Capital conducted a controlled experiment to show that using three simple steps to change the due diligence process for women-led startups can increase funding opportunities for these companies up to fivefold. The steps are:

1. Decide in advance what factors are most important when evaluating a company's investment potential.
2. Structure assessments of startups to better evaluate risks and opportunities for growth.
3. Consider the founding team's potential by analyzing their past performance using more metrics.

The steps make no reference to gender, which ensures that evaluations are consistent, comprehensive, and data-driven.[106]

Other practices to increase diversity within portfolio companies include:[107,108,109]

- Use women and BIPOC scouts. Accel, Lightspeed, and Sequoia are known for their scout programs. Scouts identify promising early-stage diverse founders and are compensated if the larger, more established firm invests. Having additional revenue streams is vital to small, diverse, emerging managers whose management fees alone cannot sustain them for the first few years of their existence. It's also a learning experience for those contemplating becoming a VC.[110]
- Look for technology tools that go beyond analyzing traditional VC due diligence metrics. For example, VC firm CapitalT from the Netherlands developed a proprietary computerized model that enables investors to eliminate biases when evaluating founder teams.[111]

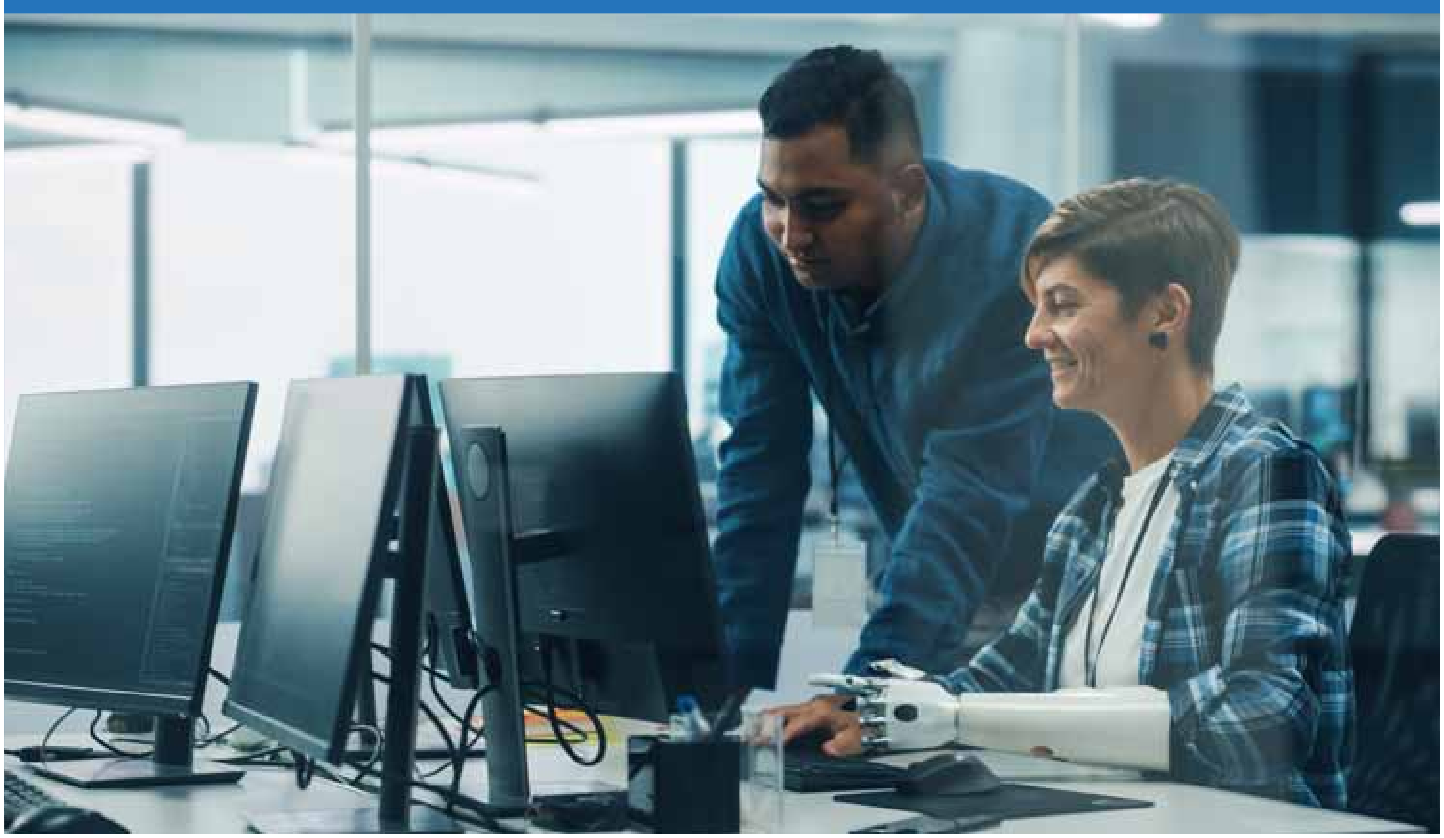
Best Practices for Increasing Diversity in the VC Industry

Growing the Number and Size of Small, Diverse, Emerging Managers

First-time fund managers are more likely than established managers to struggle to close their funds at their intended size. Emerging managers are more likely to raise money from accredited investors who write smaller checks than institutional investors. As a result, it takes them longer to raise money, and they have more investors in their funds.

Working with and supporting small, diverse, emerging managers is one way to improve the pipeline of companies for established VCs and grow the number of diverse VCs. Despite their proven outperformance as the industry recalibrates due to uncertain market conditions, small, diverse, emerging managers find it much more difficult to close their funds and launch new ones.

Other suggestions include VCs establishing inclusive internship programs, mentoring diverse up-and-coming talent, and funding or mentoring college student-managed funds. Service providers like accounting and law firms, banks, equity management platforms, and insurance companies might consider providing scholarships or sponsorship to VC support organizations such as BLCK VC, Recast, and VCFamilia.



Best Practices for Increasing Diversity in the VC Industry

What Small, Diverse, Emerging Fund Managers Can Do to Increase Funding—and Diversity

At the same time, experienced VC firms can successfully raise capital for large new funds. Still, most other VCs are struggling, particularly small, diverse, emerging managers funds.[112] This fundraising disparity isn't good news for high-net-worth investors (HNWI), either. The minimum to invest in sizable venture funds is more than most HNWI want to invest in any vehicle.

Here are some strategies that small, diverse, emerging fund managers can take to increase investments in their funds, as well as the diversity of investors and portfolio companies:

CONSIDER USING SPECIAL PURPOSE VEHICLES (SPVs) AS A TOOL FOR FUNDRAISING

SPVs are another way for small fund managers to raise capital.[113] SPVs have lower fees than venture funds, do deals faster, and distribute returns more quickly, making them attractive to fund managers and investors.[114]

SPVs usually have lower investment commitments than venture funds. This lower financial commitment may attract HWNI not currently investing in startups. According to *How Women (and Men) Invest in Startups*, nearly three-quarters of accredited investors (in other words, HNWI) would invest $25,000.[115] Small funds like The Venture Collective are using SPVs to test their investment theses and raise follow-on investments for portfolio companies from their LPs.[116] Others, like Springbank, have used SPVs to test their investment thesis before launching their fund.[117]

ADVOCATE FOR ACCREDITED INVESTOR RULE CHANGES

Investing in startups as an asset class for accredited investors is nascent—only a tiny proportion of people who can invest do so. If investing in private companies becomes more accessible to accredited investors, particularly BIPOC and women, it can become a significant source of capital for small fund managers who care about inclusivity.

In New York City, this capital pool has the potential to grow the city's economy and create jobs while creating a fairer, more innovative, robust, resilient, competitive, and inclusive economy.

High investment requirements by most venture funds exclude most accredited investors, perpetuating the perception that this is an investment class for the ultra-wealthy. Small funds are more flexible on check size. Nearly three-quarters of male and female investors would write a check for $25,000 to invest in startups directly or as LPs in a venture fund.[118]

The check size isn't the only reason accredited investors don't invest in venture funds. Most funds are limited to having only 99 accredited investors. As of 2018, Congress approved an exemption that permitted venture funds of $10 million or less to increase the number of accredited investors from 99 to 249. Based on the new law's success,[119] small, diverse, emerging managers could expand the number of investors and increase their fund's value. Some VCs are advocating to Congress for expansion of the exemption.[120]

As of 2018, Congress approved an exemption that permitted venture funds of $10 million or less to increase the number of accredited investors from 99 to 249.

Best Practices for Increasing Diversity in the VC Industry

CONSIDER USING THE SBIC INVESTMENT DIVERSIFICATION AND GROWTH (IDG) RULE TO RAISE MONEY

As of August 17, 2023, the SBA Small Business Investment Company (SBIC) Diversification and Growth Final Rule is now in effect, allowing greater access to private equity and debt capital for underserved small businesses, startups, critical technologies, diverse fund managers, and innovative investments. The new rule features two new licenses—the Accrual SBIC and the Reinvestor (Fund-of-Funds) SBIC—designed to reduce applicants' financial burden and expand the reach of SBA financing.

PARTICIPATE IN A PEER-SUPPORT ORGANIZATION

Small, diverse, emerging managers can benefit from shared spaces with people with common experiences or capabilities.[121] Peer-support groups might help accelerate professional and personal growth by sharing knowledge, finding solutions for common management challenges, and exploring new perspectives or practices that may have succeeded in other environments or businesses.[122]

WATCH FOR OPPORTUNITIES ARISING FROM THE INFLATION REDUCTION ACT (IRA)

The IRA could be a game-changer for NYC's venture community, providing tax credits and grants to help diverse-founded businesses, clean energy projects, and small businesses access much-needed capital while simplifying the regulatory environment. This could create a more inclusive and innovative VC ecosystem in which everyone has an equal chance of success.

No One-Size-Fits-All Solution for Improving Diversity

From a diversity standpoint, the ownership and investment decision-making of established VC firms haven't changed much over the past several decades.[123] But when considering the demographic composition of the US today—and where it's headed—diversity isn't just nice to have. It's a strategic imperative:

- More diversity among investment partner teams can on average lead to better investment decision making, while investing in diverse-led companies can lead to increased returns on investment.
- People with different backgrounds, experiences, and perspectives founding VC firms and startups can help established VCs identify opportunities in emerging markets.
- A diverse venture workforce can foster innovation, creativity, and various perspectives, leading to better problem-solving, decision-making, and overall business success.
- A lack of diversity can result in missed opportunities for growth.

While established VC firms are slowly starting to diversify their ranks and funding diverse founders, and more BIPOC and female investors are launching venture capital firms, the venture community still has much more work ahead to achieve equity.

New York City's superpower—its diversity—can help committed investors unlock even higher rewards. Given the city's resources, networks, and industries, NYC's venture community has a unique opportunity—and a responsibility—to ensure forward-thinking, diverse venture and tech ecosystems and create an environment where all talent has a chance to succeed.

This report offers a range of best practices that NYC VC firms can implement, depending on organizational size, resources, and culture, to better leverage the city's diversity, tech talent, and strengths as a financial powerhouse.

The report also encourages VCs to improve and standardize measuring diversity in their firms and the companies they fund. These insights can be used to make data-driven decisions and communicate impact to stakeholders.

Join the Venture Alliance Today

The Venture Access Alliance is a new coalition of startup investors who believe NYC's diversity is its greatest strength and an opportunity for growth. The Alliance aims to strengthen innovation sectors and support venture firms in their quest to diversify their workforces and portfolios.

NYC venture firms are invited to join the Venture Access Alliance today to work together towards these outcomes and drive change that truly makes a difference.

The Alliance is part of Venture Access NYC, an NYCEDC initiative to build a more diverse and equitable tech ecosystem in NYC for startup founders and funders. It is inspired by successful public-private initiatives like PledgeLA, an initiative launched by the Annenberg Foundation and the City of Los Angeles. The Alliance is co-chaired by Fred Wilson of Union Square Ventures and Jarrid Tingle of Harlem Capital Partners and is supported by the Ford Foundation and Annenberg Foundation.

The Alliance brings together venture firms and relevant partners to build the world's best, most inclusive tech and venture ecosystem in NYC.
It is centered around:

- Tracking diversity: The Alliance collects data on diversity in NYC's venture industry and publishes a report with best practices and benchmarks for startup investors.
- Setting targets: The Alliance sets ambitious yet feasible targets to improve diversity among NYC venture investments and decision-makers.
- Committing to action: The Alliance commits investors to develop, fund, and implement actions and collaborative programs that work toward the diversity targets in NYC.

As members of this community, investors will play an integral role in improving diversity throughout the startup value chain, from developing diverse workforces to sourcing deals from BIPOC and female founders, rethinking due diligence practices, and mentoring founders.

The Alliance offers members an invaluable opportunity to access diverse talent pools, invest in underrepresented founders, learn best practices, and build thought leadership on diversity-focused efforts.

By setting ambitious yet achievable targets and taking collective action, investors can make a difference that will have a lasting impact on New York City's technology and venture capital sector.

Requirements to join the Alliance include:

- Being an active investor: Firms must actively invest in tech and tech-enabled companies, with at least one such investment made in the last 12 months.
- Having a NYC presence: Firms must be headquartered or have partner-level presence in NYC with active operations.
- Commitment: Firms must agree to fulfill the following responsibilities on an annual basis:
  - Complete a brief annual survey to share measures taken to improve DEI in their firms and portfolio companies.
  - Regularly update their firm's data on platforms such as PitchBook and Crunchbase to ensure NYC has up-to-date diversity metrics.
  - Introduce new VCs, LPs, angels, banks, and other startup investors to the Alliance.
  - Participate in the Alliance community by exchanging new ideas and best practices on improving diversity within NYC's venture community.

More than 70 firms have joined the Alliance as members to date.
To find out more and join this growing community,
edc.nyc/venture-access-alliance

Additional Tech Diversity Initiatives

In addition to the Venture Access Alliance, NYCEDC is helping to build a more diverse and inclusive tech sector through a number of initiatives, often in close partnership with the venture community.

VENTURE ACCESS FOUNDER FELLOWSHIP

A startup program designed to improve access to capital and networks for underrepresented founders across all tech-enabled sectors. The Fellowship supports diverse cohorts of founders building tech and tech-enabled businesses with access to networks, fundraising, mentorship, business development, and other opportunities necessary to build and grow in NYC.

In 2023, NYCEDC partnered with five startup operators to support 100 diverse-led startup teams, with two thirds of teams having at least one female founder, and 80 percent having at least one Black, Latinx and/or Asian founder. Fellow teams collectively raised over $12 million and hired 79 full-time employees during the program. The Fellowship is part of Venture Access NYC, an NYCEDC initiative to build a more diverse and equitable tech ecosystem in NYC for startup founders and funders.

edc.nyc/founder-fellowship

NEW YORK CITY CATALYST FUND

NYCEDC launched the NYC Catalyst Fund, which will initially be capitalized by $40 million. These monies will be invested in funds that align with the financial and impact goals of the Program. With the initial allocation, NYCEDC plans to invest in 10-15 private credit and private equity funds managed by external investment fund managers, with investments ranging from $1 million to $7 million each. NYCEDC is interested in funds operating in the following impact areas: diverse entrepreneurship, community development, and emerging sectors.

edc.nyc/nyc-catalyst-fund-request-applications

XSEED AWARD

The XSeed Award provides seed funding for New York City-based early-stage life sciences entrepreneurs, prioritizing founders from groups historically underrepresented in the life sciences. The Award aims to address a critical funding gap, bringing promising translational research to the marketplace and to commercial success. Two awards of up to $250,000 are provided each year to teams with women and BIPOC founders leading novel drug development projects and startup companies. The Award is granted by healthcare investment firm Deerfield Management, which has created a $30 million endowment for health and life sciences talent in partnership NYCEDC's LifeSci NYC initiative, made possible through New York City Industrial Development Agency support of Deerfield's 300,000 square foot sciences campus on Park Avenue South, the Cure.

xseedaward.com

Glossary

Accelerator: A program that provides startups with mentorship, resources, and often capital in exchange for equity to accelerate their growth and development.

Accredited Investors: Individuals or entities that meet at least one of criteria set by the U.S. Securities and Exchange Commission (SEC), allowing them to invest in private securities offerings. These criteria include:

- Net worth of at least $1 million.
- Income of at least $200,000 (or $300,000 if married).
- Credentials indicating that the individual is a "knowledgeable employee" of certain investment funds or holds a valid Series 7, 65, or 82 license.

Assets Under Management (AUM): The total market value of investments managed by a financial institution, such as a VC firm, on behalf of clients, including LPs.

Big Tech: Large and dominant technology companies, such as Amazon, Google, Facebook, Apple, and Microsoft, known for their influence and market power.

Black, Indigenous, and People of Color (BIPOC): Individuals from non-white racial or ethnic backgrounds.

Diverse Founder: An entrepreneur from an underrepresented group, including women, BIPOC, LGBTQ+, or persons with disabilities, who establishes and leads a startup.

Diverse Talent: Individuals from various backgrounds, including different racial, ethnic, gender, and socio-economic groups

Diversity, Equity, and Inclusion (DEI): Policies, practices, and initiatives designed to ensure fair treatment, equal opportunity, and representation of diverse groups within organizations.

Emerging Managers: Venture capital fund managers whose assets under management (AUM) are less than $100 million and who have typically raised fewer than three funds.

Family Offices: Private wealth management firms that provide investment, estate, and financial planning services for high-net-worth families.

Fund of Funds (FoF): An investment strategy where a fund invests in multiple VC or PE funds, aiming to diversify risk and gain exposure to a broader range of investments.

Incubator: A support organization that helps early-stage startups develop by providing resources, mentorship, and sometimes workspace, without taking an equity stake.

Initial Public Offering (IPO): The process by which a private company becomes publicly traded on a stock exchange, allowing it to raise capital from public investors.

Institutional investors: Organizations that invest large amounts of capital, including VCs, pension funds, insurance companies, and endowments.

Limited Partners (LPs): Investors who contribute capital to VC or PE funds but have limited involvement in the fund's management and limited liability for the fund's debts.

Microfunds: Smaller venture capital funds that, for the purpose of this report, manage assets under $100 million, focusing on early-stage investments in startups with lower capital requirements.

Nontraditional Investor: An investor who does not fit the standard profile of institutional investors, such as individual angel investors, crowdfunding platforms, or impact investors.

Portfolio Companies: Companies where a VC or PE firm has invested and holds an equity stake.

Private Equity (PE): Investment firms that acquire or invest in established companies, often using leveraged buyouts, to improve operations and financial performance.

Return on Investment (ROI): A financial performance metric that measures the profitability of an investment, calculated as the net gain or loss divided by the original investment amount.

Special Purpose Vehicle (SPV): Separate legal entities created to hold specific assets or investments, often used to isolate financial risk and simplify investment structures in VC or PE deals for tax or liability reasons.

Startup: A newly established business, often focused on innovation and growth in industries such as technology, healthcare, or finance.

Unicorn: A privately-held startup valued at over $1 billion, reflecting its potential for significant growth and success.

Venture Capital Firms (VCs): Companies that invest in high-potential startups in exchange for equity, aiming to generate significant returns upon a successful exit.

Methodology

To understand the importance of diversity in the venture community, industry market conditions, and their impact on New York City, and find resources to help the VC industry improve its diversity, surveys, scholarly articles, books, and other relevant sources were reviewed and summarized.

To establish performance benchmarks for venture activity, Crunchbase and PitchBook were used.

Using the Crunchbase API, relevant data were extracted for both venture capitalists (VCs) and portfolio companies (PCs) within four key US cities: New York City, San Francisco, Los Angeles, and Boston. Crunchbase's Diversity Spotlight was used to measure VCs' diversity by gender, race (Asian, Black), and ethnicity (Hispanic).

Crunchbase uses a combination of self-reporting and internet scraping techniques to collect demographic information. The advantage of this technique is that it is relatively simple to do and at a low cost. The disadvantage is that the data collected may be less reliable.

For portfolio companies and VCs diversity data, Diversity Spotlight was used to analyze women, Asian, Black, and Latinx populations. Gender, race, and ethnicity data is self-reported. The industry analysis included e-commerce, consumer goods, education, fintech, food and beverage, healthcare, software, and sustainability. Based on the literature review and anecdotal evidence, these sectors and industries were chosen because they likely had a high concentration of diverse founders.

Using PitchBook's Venture Monitor, Female Founder Dashboard, and direct downloads, deal activity trends nationally, by city, and gender were analyzed. PitchBook uses proprietary techniques to capture gender.

To understand VC workforce diversity and set benchmarks, reports from Diversity VC, VC Human Capital Survey, and Venture Capital and Social Equity were summarized.

Venture Access Alliance Members

CO-CHAIRS

Harlem Capital

USV

PARTNERS

Ford Foundation

Annenberg Foundation / AnnenbergTech

PledgeLA

tech:nyc

MEMBERS

Able Partners
AlleyCorp
Alpaca VC
Aspira Capital
BBG Ventures
BK-XL Accelerator
Blisce
Bloomberg Beta
Bowery Capital
BoxGroup
BoxOne
Cathay Innovation
Centre Street Partners
Charge VC
Chloe Capital
Citi Impact Fund
City Light Capital
CityRock Venture Partners
Collaborative Fund
Company Ventures
Diversity VC
ERA
Everywhere Ventures
Fairbridge Park
FirstMark Capital
FullCircle
Funnder
Gold House Ventures
Goodlight Capital
H/L Ventures
Halogen Ventures
Harlem Capital Partners
Infinity Capital
Lair East Labs
Level Up Ventures (a Hearst company)
LGBT+VC
Lockstep Ventures
M13
Max Ventures
MetaProp Ventures
New System Ventures
NY Ventures (Empire State Development)
Open Opportunity Fund
Partnership Fund for NYC
Planeteer Capital
Primary Ventures
Rebalance Capital
Red Bike Capital
Reign Ventures
Rethink Education
RRE Ventures
Samvid Ventures
Seed to Harvest
Soundboard Venture
Springbank Collective
Story Ventures
Streetlife Ventures
TechStars NYC
The 22 Fund
The 98
The Pearl Fund
The Venture Collective
Third Sphere
Thomson Reuters Ventures
Union Square Ventures
Vamos Ventures
Visible Hands
Vita Vera Ventures
Waterpoint Lane
Watershed VC
Wocstar Capital
Zeal Capital Partners

As of October 13, 2023

Endnotes

1 "The Q2 2023 PitchBook-NVCA Venture Monitor," PitchBook, July 12, 2023. https://pitchbook.com/news/reports/q2-2023-pitchbook-nvca-venture-monitor.

2 Huddleston, Tom. "Startup Funding Has Tanked over the Past Year-and Recession Fears Are to Blame," CNBC, January 12, 2023. https://www.cnbc.com/2023/01/12/startup-investment-fell-in-late-2022-amid-recession-fear-crunchbase.html.

3 "The Q4 2022 PitchBook-NVCA Venture Monitor," PitchBook, January 11, 2023. https://pitchbook.com/news/reports/q4-2022-pitchbook-nvca-venture-monitor.

4 "The Q2 2023 PitchBook-NVCA Venture Monitor," PitchBook, July 12, 2023. https://pitchbook.com/news/reports/q2-2023-pitchbook-nvca-venture-monitor.

5 Ibid.

6 Ibid.

7 Ibid.

8 "The Q1 2023 PitchBook-NVCA Venture Monitor," PrichBook, April 12, 2023, 2023. https://pitchbook.com/news/reports/q1-2023-pitchbook-nvca-venture-monitor.

9 Armstrong, Annalee, Max Bayer, Gabrielle Masson. "SVB failure triggers shock waves across biotech industry," fiercebiotech.com, March 10, 2023. https://www.fiercebiotech.com/biotech/biotech-bank-svbs-capital-crunch-sparks-bank-run-companies-huddle-consider-exposure.

10 "The Global Startup Ecosystem Report 2022," Startup Genome, June 15, 2023. https://startupgenome.com/report/gser2023.

11 David, Greg. "NYC Tech Industry Booms but Diversity of Employees and Locations Remains Elusive, Study Finds," The City, November 15, 2022. https://www.thecity.nyc/work/2022/11/15/23458986/nyc-tech-industry-jobs-amazon-google-cornell#.

12 Richling, Billy with Jonathan Bowles. "NEW YORK'S NEW JOBS ENGINE," Center for an Urban Future, July 2022. https://nycfuture.org/research/new-yorks-new-jobs-engine.

13 Eisenpress, Cara. "For the first time, Manhattan edges out San Francisco in new early-stage startups," Crain's New York Business, May 22, 2023. https://www.crainsnewyork.com/technology/manhattan-edges-out-san-francisco-new-early-stage-startups-first-time.

14 "New York Ventures: Venture Capital Investment in New York State," Empire State Development, 2023.

15 The Q2 2023 PitchBook-NVCA Venture Monitor," PitchBook, July 12, 2023. https://pitchbook.com/news/reports/q2-2023-pitchbook-nvca-venturemonitor.

16 Lopatto, Elizabeth, "Less money and more fear: what's going on with tech," verge.com, February 15, 2023. https://www.theverge.com/23598517/interest-rates-tech-vc-sea-change.

17 "The meteoric rise of US unicorns in 2021," PitchBook, January 6, 2022. https://pitchbook.com/news/articles/us-unicorns-2021-venture-capital-valuations.

18 "The Global Startup Ecosystem Report 2022," Startup Genome. Accessed February 26, 2023. https://startupgenome.com/reports/gser2022.

19 "The Q2 2023 PitchBook-NVCA Venture Monitor," PitchBook, July 12, 2023. https://pitchbook.com/news/reports/q2-2023-pitchbook-nvca-venturemonitor.

20 "The Q2 2023 PitchBook-NVCA Venture Monitor," PitchBook, July 12, 2023. https://pitchbook.com/news/reports/q2-2023-pitchbook-nvca-venture-monitor.

21 Rafieyan, Darius. "174 US Tech Startups Have Achieved Unicorn Status This Year despite the Downturn. Here's the Full List," Business Insider, December 20, 2022.

22 Rodriguez, Abel. "These 5 NYC Companies Become Tech Unicorns in 2022," builtinnyc.com, December 25, 2022. https://www.builtinnyc.com/2022/12/27/new-york-tech-unicorns-2022.

23 Gompers , Paul, and Silpa Kovvali. "Finally, Evidence That Diversity Improves Financial Performance," Harvard Business Review, July 2018. https://hbr.org/2018/07/the-other-diversity-dividend.

24 Lorenzo, Rocio, Nicole Voigt, Miki Tsusaka, Matt Krentz, and Katie Abouzahr. "How Diverse Leadership Teams Boost Innovation," BCG, January 22, 2018. https://www.bcg.com/publications/2018/how-diverse-leadership-teams-boost-innovation.

25 "Deconstructing the Pipeline Myth and the Case for More Diverse Fund Managers," Kauffman Fellows, February 4, 2020. https://www.kauffmanfellows.org/journal/the-pipeline-myth-ethnicity-fund-managers. Based on Median Realized Multiple of 3.26x for diverse founding teams compared to 2.50x for white founding teams.

26 Abouzahr, Katie, Matt Krentz, John Harthorne, and Frances Brooks Taplett. "Why Women-Owned Startups Are a Better Bet," BCG, August 9, 2018. https://www.bcg.com/publications/2018/why-women-owned-startups-are-better-bet.

27 Ibid.

28 Garaizar, Juliana, "The Rising Tide: A 'Learning-By-Investing' Initiative to Bridge the Gender Gap," Kauffman Fellows, May 16 2016. https://www.kauffmanfellows.org/journal_posts/the-rising-tide-a-learning-by-investing-initiative-to-bridge-the-gender-gap.

29 "Less than 2 percent of venture dollars are invested in women, representing a significant opportunity," H. Ventures, accessed February 27, 2023. https://h.ventures/female-founders#.

30 "National Population by Characteristics: 2020-2022, Sex, Race, and Hispanic Origin," United States Census Bureau, March 31, 2023. https://www.census.gov/data/datasets/time-series/demo/popest/2020s-national-detail.html.

31 Subtracted 1.87 percent total DEI investments from 100 percent. Source: Diversity VC. "The Equity RecordReport," Diversity VC, 2022. https://diversity.vc/diversity-vc-report-2022-usa/.

32 "National Population by Characteristics: 2020-2022, Sex, Race, and Hispanic Origin," United States Census Bureau, March 31, 2023. https://www.census.gov/data/datasets/time-series/demo/popest/2020s-national-detail.html.

33 "2022 All In: Female Founders in the US VC Ecosystem," PitchBook, November 2, 2022. https://pitchbook.

Endnotes

com/news/reports/2022-all-in-female-founders-in-the-us-vc-ecosystem.

34 "National Population by Characteristics: 2020-2022, Sex, Race, and Hispanic Origin," United States Census Bureau, March 31, 2023. https://www.census.gov/data/datasets/time-series/demo/popest/2020s-national-detail.html.

35 "VC Human Capital Survey, 2023," Deloitte, Venture Forward, and NVCA, April 2023. https://ventureforward.org/programs-initiatives/vc-human-capital-survey/.

36 "National Population by Characteristics: 2020-2022, Sex, Race, and Hispanic Origin," United States Census Bureau, March 31, 2023. https://www.census.gov/data/datasets/time-series/demo/popest/2020s-national-detail.html.

37 "VC Human Capital Survey, 2023," Deloitte, Venture Forward, and NVCA, April 2023. https://ventureforward.org/programs-initiatives/vc-human-capital-survey/.

38 "All In: Female Founders in the US VC Ecosystem, PitchBook, November 2, 2022. https://pitchbook.com/news/reports/2022-all-in-female-founders-in-the-us-vc-ecosystem.

39 Please note that national data is available on page 19, but it is from another source. The data is not comparable and should not be compared.

40 Gompers, Paul, and Silpa Kovvali. "Finally, Evidence That Diversity Improves Financial Performance," Harvard Business Review, July 2018. https://hbr.org/2018/07/the-other-diversity-dividend.

41 "US VC Female Founders Dashboard," PitchBook, data through August 31, 2023, September 8, 2023. https://pitchbook.com/news/articles/the-vc-female-founders-dashboard.

42 Abouzahr, Katie, Matt Krentz, John Harthorne, and Frances Brooks Taplett. "Why Women-Owned Startups Are a Better Bet," BCG Global. BCG, August 9, 2018. https://www.bcg.com/publications/2018/why-women-owned-startups-are-better-bet.

43 "US VC Female Founders Dashboard," PitchBook, data through August 31, 2023, September 8, 2023. https://pitchbook.com/news/articles/the-vc-female-founders-dashboard.

44 Ibid.

45 Davis, Dominic-Madori. "Black Founders Still Raised Just 1 percent of All VC Funds in 2022," TechCrunch, January 6, 2023. https://techcrunch.com/2023/01/06/black-founders-still-raised-just-1-of-all-vc-funds-in-2022/.

46 Ibid.

47 Metinko, Chris. "Special Series: VC Dollars to Black Startup Founders Fell More than 50 percent in 2022," Crunchbase News, February 22, 2023. https://news.crunchbase.com/diversity/venture-funding-black-startups-2022/.

48 Gompers , Paul, and Silpa Kovvali. "Finally, Evidence That Diversity Improves Financial Performance," Harvard Business Review, July 2018. https://hbr.org/2018/07/the-other-diversity-dividend.

49 Hamlin, Jessica. "Minority-Owned Managers in PE and Venture Capital Face Barriers in Raising Their First Funds. Researchers Explore Why," Institutional Investor, September 29, 2022. https://www.institutionalinvestor.com/article/b200762f52yskf/Minority-Owned-Managers-in-PE-and-Venture-Capital-Face-Barriers-in-Raising-Their-First-Funds-Researchers-Explore-Why.

50 Inclusive Ventures Group. "VC Report: Social Equity and Funding Gap," Morgan Stanley, December 27, 2022. https://www.morganstanley.com/ideas/vc-funding-diverse-startups-2022-survey.

51 Ibid.

52 Pardes, Arielle. "VC Pledged to 'Do Better' on Diversity. It's Barely Changed," Wired. Conde Nast, June 10, 2021. https://www.wired.com/story/vc-pledged-better-diversity-its-barely-changed/.

53 "New VC Focus on Race & Inequality," Morgan Stanley, November 19, 2020. https://www.morganstanley.com/ideas/vc-progress-toward-racial-equality-2020-report.

54 "The Equity RecordReport," Diversity VC, November 9, 2022. https://diversity.vc/diversity-vc-report-2022-usa/.

55 Ibid.

56 "VC Human Capital Survey, 2023," Deloitte, Venture Forward, and NVCA, April 2023. https://ventureforward.org/programs-initiatives/vc-human-capital-survey/.

57 Stutts, Jordan. "Data Snapshot: Diverse Managers Grow in Amount and Performance," New Private Markets, March 15, 2022. https://www.newprivatemarkets.com/data-snapshot-diverse-managers-by-number-and-performance/.

58 Hartnett, Heather. "When Public Markets Experience Volatility, Experts Say to Invest in Emerging Managers," forbes.com, September 12, 2022. https://www.forbes.com/sites/heatherhartnett1/2022/09/12/when-public-markets-experience-volatility-experts-say-to-invest-in-emerging-managers/.

59 Hahm, Melody. "The Harlem Capital Team's Personal Mission Statement," Harlem Capital. https://harlem.capital/the-harlem-capital-teams-personal-mission-statements/.

60 Rowland, Michael. "Emerging and Diverse Manager Programs: Worth Doing Well," Commonfund, August 5, 2019. https://www.commonfund.org/blog/emerging-and-diverse-manager-programs#_ftn1.

61 Zullo, Rick. "The unaddressed opportunity in emerging managers," Venture Capital Journal, November 10, 2022. https://www.venturecapitaljournal.com/the-unaddressed-opportunity-in-emerging-managers/.

62 "The Q2 2023 PitchBook-NVCA Venture Monitor," July 12, 2023. https://files.pitchbook.com/website/files/pdf/Q2_2023_PitchBook-NVCA_Venture_Monitor.pdf.

63 "The Q1 2023 PitchBook-NVCA Venture Monitor," April 12, 2023. https://pitchbook.com/news/reports/q1-2023-pitchbook-nvca-venture-monitor.

64 Cai, Kenrick. "Emerging Vcs Struggle to Raise Funds as Nervous Investors Park Their Money in Big-Name Firms," forbes.com, November 11, 2022. https://www.forbes.com/sites/kenrickcai/2022/11/11/emerging-funds-venture-capital-downturn/.

65 Lewis, Adam. "Emerging VCs Adjust to a New Fundraising Reality," Carta, August 18, 2022. https://carta.com/blog/emerging-managers-vc-fundraising-q2-2022/.

66 "FIRST-TIME FUND MANAGERS," Private Equity & Venture Capital Spotlight, February 2017. https://docs.preqin.com/newsletters/pe/Preqin-PESL-Feb-17-First-Time-Fund-Managers.pdf.

Endnotes

67 "A New Platform For Emerging Managers," Kauffman Fellows, June 25, 2020. https://www.kauffmanfellows.org/journal/a-new-platform-for-emerging-managers.

68 "2022 Diverse Founder Report," Harlem Capital Partners, February, 2022. https://harlem.capital/wp-content/uploads/2023/02/2022-Diverse-Founder-Report-vFinal.pdf

69 "2022 ARI HALO Report," Angel Resource Institute, 2023. https://angelresourceinstitute.org/research/report.php?report=121&name=2022%20ARI%20HALO%20Report.php.

70 "2022 All In: Female Founders in the US VC Ecosystem," PitchBook, November 2, 2022. https://pitchbook.com/news/reports/2022-all-in-female-founders-in-the-us-vc-ecosystem.

71 "US VC Female Founders Dashboard," PitchBook, September 8, 2023. https://pitchbook.com/news/articles/the-vc-female-founders-dashboard.

72 "2022 ARI HALO Report," Angel Resource Institute, 2023. https://angelresourceinstitute.org/research/report.php?.

73 Gompers, Paul A., Sophie Q. Wang, "Diversity in Innovation," National Bureau of Economic Research, January 2017. http://www.nber.org/papers/w23082.

74 "Why Diversity and Inclusion Matter (Quick Take)." Catalyst, June 24, 2020. https://www.catalyst.org/research/why-diversity-and-inclusion-matter/.

75 Sequeira, Jennifer M. "Making the Case for Diversity as a Strategic Business Tool in Small Firm Survival and Success," Journal of Small Business Strategy 28, no. 3 (2018): 31–47. ISSN: 2380-1751.

76 Dobbin, Frank, and Alexandra Kalev. "Why Diversity Programs Fail," Harvard Business Review, August 13, 2016. https://hbr.org/2016/07/why-diversity-programs-fail.

77 Phillips, Yoshie. "Tackling the diversity data challenge," February 22, 2022. https://russellinvestments.com/uk/blog/diversity-data-challenge.

78 "Foundations Partner to Improve Racial, Gender Diversity and Transparency in Investment Industry," Press Release, Novembeer 10, 2020. https://www.macfound.org/press/press-releases/foundations-partner-improve-racial-gender-diversity-and-transparency-investment-industry.

79 "a study on the degree to which the endowments of the country's wealthiest philanthropic foundations are hiring asset management firms owned by women and racial or ethnic minorities," Knight Foundation, December 16, 2022. https://knightfoundation.org/reports/kdamphilanthropy2022/.

80 Smith, Ania. "Driving Employee Retention Through Mentorship," forbes.com, July 14, 2022.https://www.forbes.com/sites/forbesbusinesscouncil/2022/07/14/driving-employee-retention-through-mentorship/.

81 Schnieders, Amanda. "4 Ways Mentoring Can Empower Your Diversity and Inclusion Initiatives: ATD," ATD, August 18, 2020. https://www.td.org/insights/4-ways-mentoring-can-empower-your-diversity-and-inclusion-initiatives.

82 Beheshti, Naz. "Improve Workplace Culture With A Strong Mentoring Program," forbes.com, January 23, 2019. https://www.forbes.com/sites/nazbeheshti/2019/01/23/improve-workplace-culture-with-a-strong-mentoring-program/.

83 "Kauffman Fellows Welcomes Class 28," June 6, 2023. Kauffman Fellows. https://www.kauffmanfellows.org/journal/class-28.

84 Rockwood, Kate. "Should You Create an Internship Program?," SHRM, February 27, 2020. https://www.shrm.org/hr-today/news/hr-magazine/spring2020/pages/benefits-of-creating-an-internship-program.aspx.

85 "Why we set up an internship programme to fix VC's diversity problem," Diversity VC, November 19, 2021. https://diversity.vc/blog/learning-more-about-future-of-vc/.

86 "PledgeLA 2022 Summer VC Internship," https://pledgela.org/vc-internship/.

87 "Kapor Fellow Venture Capital Program," Kapor Center. https://kaporfellows.kaporcenter.org/.

88 "New leadership at Kapor Capital doubles down on diversity and impact,"alphaimpact.com, June 6, 2022. https://impactalpha.com/with-new-leadership-and-proven-returns-kapor-capital-counters-the-backlash-against-woke-capitalism-podcast/.

89 Webster, Riley. "This MBA Student-Run Fund Is a Template for Improving VC Diversity," Yahoo! Finance. Yahoo!, February 27, 2021. https://finance.yahoo.com/news/mba-student-run-fund-template-183639239.html.

90 Stengel, Geri. "University Of New Hampshire Creates Pipeline Of Women Venture Capitalists," forbes.com, May 19, 2021. https://www.forbes.com/sites/geristengel/2021/05/19/university-of-new-hampshire-creates-pipeline-of-women-venture-capitalists/.

91 Sequeira, Jennifer M. "Making the Case for Diversity as a Strategic Business Tool in Small Firm Survival and Success," Journal of Small Business Strategy. 2018. https://core.ac.uk/download/pdf/236084128.pdf.

92 Valloppillil, Sindhya, and Chip Hazard. "How to Blitzscale Solutions for Diversity in VC Funding," Crunchbase News, April 15, 2021. https://news.crunchbase.com/diversity/how-to-blitzscale-solutions-for-diversity-in-vc-funding/.

93 Lang, Ilene H., and Reggie Van Lee. "Institutional Investors Must Help Close the Race and Gender Gaps in Venture Capital," Harvard Business Review, August 17, 2020. https://hbr.org/2020/08/institutional-investors-must-help-close-the-race-and-gender-gaps-in-venture-capital.

94 Valloppillil, Sindhya, and Chip Hazard. "How to Blitzscale Solutions for Diversity in VC Funding," Crunchbase News, April 15, 2021. https://news.crunchbase.com/diversity/how-to-blitzscale-solutions-for-diversity-in-v-funding/.

95 Lang, Ilene H., and Reggie Van Lee. "Institutional Investors Must Help Close the Race and Gender Gaps in Venture Capital." Harvard Business Review, August 17, 2020. https://hbr.org/2020/08/institutional-investors-must-help-close-the-race-and-gender-gaps-in-venture-capital.

96 Knight, Rebecca. "7 Practical Ways to Reduce Bias in Your Hiring Process," Harvard Business Review, July 24, 2018. https://hbr.org/2017/06/7-practical-ways-to-reduce-bias-in-your-hiring-process.

Endnotes

97 Fuhl, Jessica. "12 Ways to Support a Better Work-Life Balance for Your Employees," Sage, February 3, 2023. https://www.sage.com/en-gb/blog/hr-support-better-work-life-balance-workplace/.

98 "What Is a Dependent Care Assistance Plan (DCAP)?," SHRM. Accessed March 29, 2023. https://www.shrm.org/resourcesandtools/tools-and-samples/hr-qa/pages/dependentcareassistanceplan.aspx.

99 Gautier, Kate, and Lalith Munasinghe. "Your Company's Pay Gap Is About More than Money," Harvard Business Review, March 31, 2021. https://hbr.org/2021/03/your-companys-pay-gap-is-about-more-than-money.

100 Ibid.

101 Yoon, Julie. "What Is the Role of Communication in Workplace Diversity?" DDI, September 2, 2020. https://www.ddiworld.com/blog/what-is-the-role-of-communication-in-promoting-diversity.

102 Pardes, Arielle. "VC Pledged to 'Do Better' on Diversity. It's Barely Changed," Wired. Conde Nast, June 10, 2021. https://www.wired.com/story/vc-pledged-better-diversity-its-barely-changed/.

103 "Techstars Seattle Diversity Update: Failing, Frustrated + Asking for Help," Crash Dev, February 2, 2017. https://crashdev.com/2017/02/techstars-seattle-diversity-update-failing-frustrated-asking-for-help/.

104 Abello, Oscar Perry. "Tech's Lack of Diversity Isn't Just a Pipeline Problem," Next City, June 3, 2016. https://nextcity.org/urbanist-news/report-high-tech-diversity-incubators-accelerators.

105 Stengel, Geri. "$1 Trillion Market Tapped By Female VCs Focused On Women's Work," forbes.com, June 22, 2023. https://www.forbes.com/sites/geristengel/2023/06/22/1-trillion-market-tapped-by-female-vcs-focused-on-womens-work/.

106 Avery, Charles. "Friday Letter: Three Steps to Reducing VC's Gender Funding Gap," Venture Capital Journal, March 8, 2023. https://www.venturecapitaljournal.com/friday-letter-three-steps-to-reducing-vcs-gender-funding-gap/.

107 Valloppillil, Sindhya, and Chip Hazard. "How to Blitzscale Solutions for Diversity in VC Funding," Crunchbase News, April 15, 2021. https://news.crunchbase.com/diversity/how-to-blitzscale-solutions-for-diversity-in-vc-funding/.

108 Lang, Ilene H., and Reggie Van Lee. "Institutional Investors Must Help Close the Race and Gender Gaps in Venture Capital," Harvard Business Review, August 17, 2020. https://hbr.org/2020/08/institutional-investors-must-help-close-the-race-and-gender-gaps-in-venture-capital.

109 "Guidance and Best Practice Examples for VCs, Private Equity and Institutional Investors," Diversity VC & Diversi , February 2021. https://diversio.com/assets/Rose_Review_Report.pdf.

110 Renbarger, Madeline, "Inside the Secretive World of Venture-Capital 'Scouts'," businessinsider.com, November 2, 2021. https://www.businessinsider.com/heres-what-its-like-being-a-venture-capital-scout-in-this-hot-market-2021-10.

111 Stengel, Geri. "Is The Next Big Thing In Venture Capital Human Capital," forbes.com, November 27, 2019. https://www.forbes.com/sites/geristengel/2019/11/27/is-the-next-big-thing-in-venture-capital-human-capital/

112 Cai, Kenrick. "Emerging VCs Struggle To Raise Funds As Nervous Investors Park Their Money In Big-Name Firms," forbes.com.com, November 11, 2022. https://www.forbes.com/sites/kenrickcai/2022/11/11/emerging-funds-venture-capital-downturn/.

113 SPVs are also used by venture capitalists to consolidate a pool of capital to invest in a startup.

114 Stengel, Geri. "SPVs a Tool for Women-Led VCs Angel Groups, And Investors," forbes.com.com, July 20, 2022. https://www.forbes.com/sites/geristengel/2022/07/20/spvs-a-tool-for-women-led-vcs-angel-groups-and-investors/.

115 "How Women (and Men) Invest in Startups," Ventureneer and CoreWoman, October 4, 2022. https://www.howwomeninvest.com/investresearchstudypublic.

116 Stengel, Geri. "VC Aligns LPs Values With Underrepresented Founders Solving The World's Greatest Challenges," forbes.com.com, March 29, 2023. https://www.forbes.com/sites/geristengel/2023/03/29/vc-aligns-lps-values-with-underrepresented-founders-solving-the-worlds-greatest-challenges/.

117 Stengel, Geri. "$1 Trillion Market Tapped By Female VCs Focused On Women's Work," forbes.com, June 22, 2023. https://www.forbes.com/sites/geristengel/2023/06/22/1-trillion-market-tapped-by-female-vcs-focused-on-womens-work/.

118 "How Women (and Men) Invest in Startups," Ventureneer and CoreWoman, October 4, 2022. https://www.howwomeninvest.com/investresearchstudypublic

119 Leslie Feinzaig. 2020. "New data shows the number of women-led VC funds is exploding," Fast Company, October, 22, 2020. https://www.fastcompany.com/90567387/women-in-vc-growth.

120 Rao, Sameer. "Watch Mac Conwell champion better capital access for small businesses, funds before Congress," technical.ly, February 9, 2023. https://technical.ly/civic-news/mac-conwell-congress-testimony-capital-access/.

121 Lindenberger, Judith. "Peer Support Groups: A Golden Opportunity for Your Managers and Your Organization" March 2007. https://lindenbergergroup.com/peer-support-groups-a-golden-opportunity-for-your-managers-and-your-organization/.

122 "7 ways that peer learning groups develop managers". Accessed February 27, 2023. https://peerlearninginstitute.com/7-ways-that-peer-learning-groups-develop-managers/.

123 Edwards, Elizabeth. "Check Your Stats: The Lack Of Diversity In Venture Capital Is Worse Than It Looks," forbes.com.com, February, 24, 2021. https://www.forbes.com/sites/elizabethedwards/2021/02/24/check-your-stats-the-lack-of-diversity-in-venture-capital-is-worse-than-it-looks/.

124 Crunchbase's Diversity Spotlight is a feature designed to centralize and highlight data about companies with diverse leadership and the investors who fund them. It allows users to view and search by diversity data on Crunchbase, enabling entrepreneurs to highlight diversity in their company profiles and investors to create visibility into the diversity of their portfolios and their teams.

POWERED BY

NYC / EDC

About NYCEDC

New York City Economic Development Corporation is a mission-driven, nonprofit organization that works for a vibrant, inclusive, and globally competitive economy for all New Yorkers. We take a comprehensive approach, through four main strategies: strengthen confidence in NYC as a great place to do business; grow innovative sectors with a focus on equity, build neighborhoods as places to live, learn, work, and play; and deliver sustainable infrastructure for communities and the city's future economy.

For more information about NYCEDC's Venture Access NYC initiative, visit:
https://edc.nyc/program/venture-access-nyc

Contact us:
techinfo@edc.nyc

Follow us:
@nycedc

VENTURENEER BUILDING SUCCESSFUL ENTERPRISES WITH HEART

WOCSTAR★

COREWOMAN

Release date October 18, 2023.