

The lack of diversity in venture capitalism is shocking: 92% of the senior investment teams at top-tier venture capital firms are male and 78% are white. These numbers are worse than the diversity breakdown at major tech companies for instance, where 23% of leadership teams are female and 77% male. Only 8% of all firms' full-time investing partners are women. These facts are not only bad for women's representation, they're bad for business. In 2019, a McKinsey case study found that companies that were in the top-quartile for **ethnic and cultural diversity outperformed** those in the fourth quartile by **36% in profitability**. Furthermore, companies that were in the top-quartile for **gender diversity** were **25%** more likely to have **above-average profitability** than companies in the fourth quartile. We want to take an active role in helping level the playing field and offer a commitment to increasing minority representation within a firm's portfolio companies and board level.

1. Business Case

- ❖ **Diverse companies outperform non-diverse companies.** McKinsey found that companies in the top quartile of racial/ethnic diversity were 35 percent more likely to have those above-average returns.
- ❖ **Diverse teams help startups reach the customers of tomorrow.** By 2055, the U.S. will have no racial or ethnic majority group. Companies will need to have a diverse employee base who can come up with the products of tomorrow that will benefit people with different needs.
- ❖ **Modern consumers support diverse, socially aware companies.** Younger generations want to see brands paying attention to and supporting social issues.

2. The Ask

- Westly Group is committed to including the below term sheet addendum to encourage company leadership to make diversity, equity and inclusion a priority by:
 - Increasing the hiring of individuals from underrepresented groups
 - Increasing the number of individuals from underrepresented groups that serve in a board capacity

3. Term Sheet Addendum

"To advance equity efforts in leadership and boards, the lead investor mandates that [Company X] will make every attempt to ensure that the appropriate percentage of new hires from this financing round will come from underrepresented groups including, but not limited to, Women, Black, LatinX, LGBTQ+. Additionally, the company will commit to a renewed focus on equal opportunity in the search process for additional board roles."

4. Suggested Benchmarks

1. **Commit that new hires will come from underrepresented groups will match the industry standard and local geographic area.** This goal will enable companies to think about their employee composite at every stage of growth and ensure that the applicant pool is more competitive with candidates from all backgrounds.
2. **Commit to increased board representation from underrepresented groups:**
 - i. In the event of adding a board seat for a non-investor or co-founder, companies commit evaluating equal opportunity in the search process.
 - ii. In the event of adding an observer/advisor role, venture capital firms commit that percentage new board seats will come from underrepresented minority groups.

Facts and Figures

Venture funding under-utilizes female talent:

- VCs are writing smaller checks for female founders. The average deal size for a woman-led company in 2017 was just over \$5 million. For a man-led company, that number is a little less than \$12 million.
- Even though male founders have been given a headstart in the world of entrepreneurship (almost \$1 million more), female founders pull ahead by making more revenue per dollar funded. According to the Boston Consulting Group, female startups made 78 cents per dollar funded while male-founded companies only made 31 cents.
- Investors tend to ask male entrepreneurs promotion-focused questions and female entrepreneurs prevention-focused questions, and that entrepreneurs tend to respond with matching regulatory focus.

Female founders represent a better ROI than male founders:

- First Round Capital reported in 2015 that the female-founded companies in its portfolio outperformed male-founded companies by 63% (as measured by returns for investors)
- VC firms that increased their proportion of female partner hires by 10% saw, on average, a 1.5% spike in overall fund returns each year and had 9.7% more profitable exits (an impressive figure given that only 28.8% of all VC investments have a profitable exit)

Diversity is good for business and inclusion is essential for innovation:

- Decisions executed by diverse teams delivered 60% better results.
- Close to half of fortune 500 companies were co-founded by an immigrant.
- The success rate of acquisitions and IPOs was 11.5% lower, on average, for investments by partners with shared school backgrounds than for those by partners from different schools. The effect of shared ethnicity was even stronger, reducing an investment's comparative success rate by 26.4% to 32.2%.
- Immigrants represent 27.5% of entrepreneurs despite being only 13% of the population.