

Racial Diversity in Private Capital Fundraising

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Road Map

The Paper

My Comments

Final Remarks

The Paper in a Nutshell

Is it a supply-side or a demand-side story that we observe a lack of minority-owned private equity funds (Gompers and Wang (2017); Lerner et al. (2019))?

- Supply-side (~ statistical discrimination)
 - Skills of the fund managers;
 - Quality of the portfolio companies invested by the funds.
- Demand-side (~ taste-based discrimination)
 - Investors put less money in minority-owned funds regardless of the skills and quality.

It is very important to distinguish between the supply- and demand-side stories for intellectual, policy, and practical purposes (more in the paper).

Key Result 1 – Minority Ownership and Raising a Follow-on Fund

Negative sign before $Success \times Minority$: given the level of success, minority-owned funds are less likely to raise a follow-on fund.

Dependent Variable:	<u>I(Raised a follow-on fund)</u>			<u>Ln(New Fund Size + 1)</u>		
Success \times Minority Owned	-0.052** (0.022)	-0.052** (0.022)	-0.048** (0.020)	-0.349* (0.179)	-0.349* (0.181)	-0.332** (0.165)
Success	0.056*** (0.004)	0.054*** (0.004)	0.012*** (0.004)	0.308*** (0.029)	0.305*** (0.029)	0.124*** (0.023)
Minority owned	0.024 (0.024)	0.021 (0.024)	0.012 (0.022)	0.113 (0.155)	0.117 (0.156)	0.114 (0.151)
Observations	30,451	30,451	30,451	30,451	30,451	30,451
Adjusted R^2	0.032	0.034	0.072	0.049	0.053	0.106
Controls?			X			X
Ln(Current Fund Size)			X	X	X	X
Year FE?	X	X	X	X	X	X
State FE?		X	X		X	X

Key Result 2 – Minority Ownership, Performance, Racial Awareness, and Raising a Follow-on Fund

Positive sign before $Success \times Minority \times HRA$: given the sensitivity of fundraising to minority ownership, managers in state of HRA are likely to raise a follow-on fund.

Dependent Variable:	I(Raised a follow-on fund)			Ln(New Fund Size + 1)		
Success \times Minority Owned \times HRA	0.075* (0.039)	0.077* (0.039)	0.079* (0.043)	0.434** (0.198)	0.438** (0.198)	0.452** (0.218)
Success \times Minority Owned	-0.076*** (0.023)	-0.077*** (0.023)	-0.073*** (0.020)	-0.510*** (0.185)	-0.500*** (0.184)	-0.474*** (0.159)
Minority Owned \times HRA	-0.032 (0.045)	-0.039 (0.045)	-0.032 (0.045)	-0.209 (0.228)	-0.254 (0.225)	-0.173 (0.230)
Success \times HRA	-0.000 (0.006)	0.000 (0.006)	-0.003 (0.006)	0.018 (0.045)	0.022 (0.044)	-0.000 (0.038)
Success	0.056*** (0.005)	0.054*** (0.005)	0.013*** (0.004)	0.405*** (0.035)	0.390*** (0.035)	0.124*** (0.027)
Minority owned	0.042 (0.028)	0.042 (0.028)	0.031 (0.024)	0.342* (0.195)	0.351* (0.193)	0.215 (0.166)
HRA	0.006 (0.005)	0.001 (0.005)	0.001 (0.005)	0.090*** (0.029)	0.013 (0.026)	0.011 (0.026)
Observations	30,451	30,451	30,451	30,451	30,451	30,451
Adjusted R^2	0.032	0.034	0.072	0.049	0.053	0.106
Controls?			X			X
Year FE?	X	X	X	X	X	X
State FE?		X	X		X	X

Benchmark Result in the Literature (Kaplan and Schoar (2005))

Positive sign before *Size*: larger funds, higher performance

	Dependent Variable: PME (Public Market Equivalent)									
	Full Sample					VC Only			Buyout Only	
log(Size)	0.08 (0.03)	0.53 (0.11)		0.09 (0.03)	-0.14 (0.06)	0.30 (0.20)	0.46 (0.17)	-0.14 (0.08)	0.08 (0.06)	-0.11 (0.21)
log(Size) ²		-0.05 (0.01)				-0.05 (0.03)	-0.04 (0.02)		-0.01 (0.10)	
log(Sequence)	0.14 (0.06)	0.03 (0.01)	0.16 (0.08)		-0.37 (0.25)	-0.43 (0.28)	0.02 (0.18)	-0.18 (0.32)	0.19 (0.20)	-0.26 (0.39)
log(Sequence) ²		0.07 (0.09)				0.07 (0.12)	0.09 (0.11)		-0.06 (0.11)	
First Dummy				-0.10 (0.04)						
Size Spline 1			0.10 (0.07)							
Size Spline 2			0.36 (0.17)							
Size Spline 3			0.19 (0.15)							
Size Spline 4			-0.19 (0.07)							
VC Dummy	0.24 (0.09)	0.20 (0.09)	0.28 (0.09)	0.05 (0.24)	0.03 (0.23)					
Firm F.E.	No	No	No	No	Yes	Yes	No	Yes	No	Yes
Year F.E.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R ²	0.17	0.18	0.19	0.18	0.29	0.30	0.25	0.16	0.13	0.01
No. of Observations	746	746	746	746	398	398	577	577	169	169

Tons of similar results in mutual funds...

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Comment 1 – Channels

- High racial awareness, high fund flow sensitivity to performance \Rightarrow Racial barriers? Discrimination?
 - (In the paper) "LP behavior changes around periods of high racial awareness."
 - Alternative channel to discrimination – Window dressing

Suggestions

- Persistence and long-run effect?
- Political influence?
- The effect is driven by low-return or high-return funds?

Comment 2 – Direct Test/Control the Supply-Side

- Minority-owned funds invest in regions/startup owned by minority
- Control for manager skills
- Change of managers?
- Whether the investors see the manager? (manager race?)

Comment 2 – Direct Test/Control the Supply-Side

The authors is doing something,...

Dependent Variable:	Deal TVPI								
	All Deals			Exited Deals			Non-Exited Deals		
Minority owned	-0.371*** (0.083)	-0.366*** (0.085)	-0.460*** (0.098)	0.027 (0.290)	0.155 (0.315)	-0.154 (0.311)	-0.543*** (0.189)	-0.588*** (0.166)	-0.562*** (0.110)
Observations	22,059	22,059	20,954	10,815	10,815	10,576	11,244	11,244	10,378
Adjusted R^2	0.015	0.018	0.021	0.006	0.015	0.028	0.031	0.035	0.033
Controls?			X			X			X
Deal Year FE?	X	X	X	X	X	X	X	X	X
Group State FE?		X	X		X	X		X	X

Comment 3 – Refinement of the HRA and the Tests

Very interesting shock!

- Weight over the importance of the news source?
- HRA: an indicator that equals to one in which this measure is above the median – percentile rank?
- Control for other things (e.g. economic conditions, total news) in the state \times year unit.
- Placebo tests
- (Pre-trend) Without the increase of racial awareness, what would happen?

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Very interesting paper, a clear question, important topic, interesting shock.

- Very comprehensive data in PE – a lot of work!
- Contribution: underlying causes of less representation of minority-owned funds.

Minor comments

- No Asians (Machine learning analysis of the photos?)
- % of minority-owned funds is very low (matched sample of non-minorities to minorities?)

Good Luck!