

# Diverse fund managers ‘change the narrative’ in venture capital

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Diverse fund managers can “change the narrative” for Wisconsin’s competitiveness in venture capital while making money and inspiring social change, according to a panel of investors.

Wisconsin investors came together this week in a virtual event hosted by the Wisconsin Technology Council to make the case for emerging and diverse fund managers.

An emerging manager’s fund is usually capped at \$1 billion, explained Rep. Jason Fields, D-Milwaukee, and founder of Dark Knight Capital Ventures, LLC. He defined a diverse manager as coming from a demographic that’s not heavily funded in the venture capital space, citing as examples people of color, women and veterans.

“When we look at founders, money managers, entrepreneurs, we see that number one, there is a lack of underrepresented capital or managers in these spaces, whether that’s the venture capital space, whether that’s the private equity space, whether that’s the opportunity zones funds space,” he said.

Fields said less than 3 percent of venture capital goes to African Americans and Latinos. He also noted a “huge discrepancy” between male and female founders.

“The assumption too often is that emerging managers and minority managers or diverse managers underperform their peer counterparts,” said Cory Nettles, founder

of Generation Growth Capital, Inc. “If you actually look at the data, the exact opposite is true. Emerging managers and diverse managers substantially outperform their nondiverse counterparts.”

“We are not the ‘Black funds,’ we are funds who have the same objective goals as a lot of funds: make money, have a social impact, change the narrative, and so I don’t want us to be put in this box,” Fields added.

Nettles said when there’s discussion about adding diverse managers to his firm’s portfolio, someone on the investor committee raises the issue of fiduciary duty.

“It’s my contention that when we look at this outperformance by diverse managers, we’re actually in violation of our fiduciary duty if we don’t work harder to get these managers into our portfolio,” he said.

Nettles said the major theories of why emerging and diverse managers outperform their peers is because the funds can be smaller, the managers are usually younger and hungrier with greater tolerance for risk, and they are looking for deals where others may not be looking.

“For most, this is about inefficiencies: underserved markets, underserved entrepreneurs, and these are communities that have just been ignored,” he said. “I’m fishing in a different pond as a general rule than everybody else is, and that means that I’m able to exploit inefficiency that others aren’t.”

Fields said the perspective of emerging and diverse managers can change that narrative if funds implement emerging and diverse management programs.

“We’re leaving money on a table by not having diverse and emerging managers in a Wisconsin portfolio,” he said. “Cultivate the next generation. Provide access to capital for underserved communities.”

Erik Iverson, CEO of the Wisconsin Alumni Research Foundation, said WARF has a small sleeve within its portfolio for emerging managers, which he added doesn’t mean diverse managers.

“Our emerging managers fund is very small, focused on venture capital, but I’m going to go back to my board and have a chat about whether we need to carve out some component for diverse managers,” he said.

However, Iverson said WARF needs an emerging manager to have a solid background for the foundation to feel comfortable putting money into his or her fund — either experience as a successful entrepreneur or someone who has had mentoring and built relationships.

“We owe it to a group of people to begin mentoring them,” he said, adding that he wants to put in a stronger program to mentor diverse entrepreneurs to create a pipeline for the new emerging managers to invest in.

But while Wisconsin is home to “a lot” of entrepreneurs, Iverson said there is a disconnect of entrepreneurs who are technology focused.

“I think the STEM community is woeful in being represented by people of color and women. We know the STEM fields have been lack those individuals. But those are the technologies that the venture funds are looking to invest in,” he said. “I do think we have a lot of work to do in mentoring and growing entrepreneurs generally, but then even more so growing and mentoring entrepreneurs in the tech fields so those

venture funds have people to invest in locally.”

Nettles agreed with Iverson, but sounded the headwind that women and minority entrepreneurs in technology have “a terrible time” getting capital.

“Even when we have the ... entrepreneurs in technology spaces, both African American men and women, they all still have the same challenges about access to capital,” he said.

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