ada ventures

Women in UK Venture Capital

DIVERSITY VC Google Cloud TOTALDATA SERVICES mnAi

Contents

Foreword

There has been increasing scrutiny of venture capital, growth and private equity funds and the diversity of their teams and practices in the last few years. Not only are reports by non-profit organisations like Diversity VC, European Women in VC and Level 20 raising awareness, but there has also been institutional change with the introduction of the Investing in Women Code by the UK Treasury. The latter is a voluntary code which mandates that funds collect and report pipeline data on the gender of founding teams that pitch them.[1] There has been good take-up of the Investing in Women Code with over 200 signatories. Most recently, the Financial Conduct Authority (FCA) has published a comprehensive recommendation that all financial services firms improve their diversity, equity and inclusion (DE&I) practices.[2] All of these organisations recognise the clear benefits in terms of fund performance and positive impact on wider society that a more diverse venture capital and technology industry will drive.[3]

According to 2023 data from European Women in VC, the financial performance of European VC funds increases with higher representation of women in senior management teams. VC funds managed by mixed teams also show a higher annual internal rate of return (IRR). Management teams mostly composed of women outperform men-only teams by 9.3 percentage points.[4]

Initiatives like the Investing in Women Code are tackling an urgent problem. Despite the compelling logic for investing in more diverse founders, the 2019 British Business Bank study "UK VC and Female Founders"[5] reported that 89p in every £1 invested went to all-male teams. Entrepreneurs with disabilities were 400 times less likely to receive VC funding.[6] In 2022, funding for Black founders fell by 45%.[7]

At Ada Ventures, we passionately believe that more inclusion in venture capital will help us find better breakthrough ideas for the hardest problems we face. Inclusive strategies lead to better returns. According to a Kauffman Fellows 2020 report, founders with greater diversity in terms of gender and ethnicity achieve 30% higher returns for investors upon exit than their white male counterparts.[8] Having diverse investors at the VC level leads to funding more diverse teams and founders.[9]

But while VC firm Code signatories have to provide data on the companies in which they invest, there is no similar requirement for the investors in venture capital funds, known as "limited partners" (LPs). LPs include pension funds, university endowments, government-backed funds like the British Business Bank and private investors (such as family offices). Venture capital funds—and therefore LPs—are responsible for funding seven of the ten most valuable companies in the world. Products built by venture (and therefore LP) backed companies reach billions of people every day.[10]

1 *Investing in Women Code*
2 *FCA, December 12, 2022*
3 *Harvard Business Review, July 2018*
4 *European Women in VC, September 2023*
5 *UK VC & Female Founders Report 2019, British Business Bank*
6 *Access2Funding*
7 *CNBC, February 2, 2023*
8 *Kauffman Fellows, February 4, 2020*
9 *Investing in Women Code Annual Report 2023*
10 *BusinessPlus, June 12, 2022*

At the moment there is a lack of transparency. We currently do not know the following about LPs:

- What proportion of their capital goes towards funds with diverse investment decision-making teams.
- What they classify as a diverse team (diverse in terms of ownership of the general partnership, the carry etc).
- Whether they include diversity, equity, and inclusion in their investment decisions and how much weight this has.
- How diverse their own investment committees are and whether they track this diversity.
- Whether they are taking any actions to improve their pipelines.
- Whether they mandate that the investment committees of funds they invest in must have at least one member who is not a white man.
- Whether they provide funding for subsequent funds if those funds have not built diverse teams and inclusive cultures.[11]

The removal of the pension cost cap (announced by Chancellor Jeremy Hunt in June 2023) means the UK is likely to direct significantly more pension funding towards venture capital. It is estimated that an additional £10-50bn will flow into venture capital funds.[12]

Currently, the UK and Europe are less developed VC ecosystems than the US. The Institutional Limited Partner Association (ILPA), which has over 600 member institutions, most of which are domiciled and focused on the US, has been working to create more resources for LPs to track and report diversity metrics through their Diversity in Action initiative. We need to see much more of that happening in the UK and Europe. It is critical that we know the answer to these questions now, before more money exacerbates the situation.

Our limited data collection methods only allow us to examine one dimension of diversity: binary gender. This is frustrating. We are acutely aware that this misses a huge swathe of the disadvantages faced by people from minoritised groups, or those with disabilities, or those who face other types of discrimination. Looking at gender does however give us some sense of the disparity in access to funding for underrepresented groups more broadly. We are also aware that our data set is imperfect because it is not fully inclusive of all genders including non-binary, and is based on perceived gender as set out in the methodology.

This report is the first of its kind to examine where LP capital has been invested in the years between 2017-2023 in the UK: whether it has been invested into all-female, mixed-gender or all-male teams. The report looks at the 156 UK-domiciled VC funds held a “first close” of LP funds between 2017 and 2023, collectively raising over £6.6bn and the different fund sizes raised by these teams. The conclusions are sobering. All-men-owned management companies raised around ten times more capital than all-women-owned management companies and five times more than mixed-ownership management companies. Just 7p in every pound raised in the last six years has gone to all-women-led funds; 17p in every pound has gone to mixed-gender-led funds; and the remainder, 76p, has gone to all-men-led funds. This lack of gender diversity has consequences for the whole pipeline; it has a direct impact on the likelihood of diverse teams, particularly women-led teams, getting funded.

11 *VentureESG White Paper 2023*
12 *HM Treasury, July 10, 2023*

This report also highlights an important “diversity washing” tactic to enhance the appearance of senior women in funds. We have studied the difference between the number of individuals who are named as “senior” and those that have ownership of the management company (and therefore access the significant economics in the fund and have the majority of the power to make decisions). Of the 487 individuals (men or women) who have a senior title (Managing Partner, Founder Partner, General Partner or Partner), only 27% have significant ownership of the management company (more than 25%). Women are underrepresented in this group. Of the 130 people that own significant proportions of management companies, just 23 are women (17.7%).

So, what are we proposing? The LP community needs to be far more transparent. Particularly LPs that are publicly funded. LPs should report the gender breakdown of the funds where their capital is being invested themselves - regularly and openly. They should sign the Investing in Women Code which has proven to be effective in getting more funding to diverse founders since it launched in 2019.[13] Capturing data can make a seismic difference and influence policy to catalyse action and move billions of pounds in capital. At Ada Ventures, we are a fund 50% owned by women. We have recently launched Inclusive Alpha® our manifesto describing our approach to generating best in class returns by investing in an inclusive way. We hope that this report further catalyses change in the VC industry and encourages more LPs to subscribe to the Inclusive Alpha® approach.

This report would not have been possible without the work of a small, passionate team of volunteers. Thank you so much to Sam Ettelaie, Jemima Maunder-Taylor, Christian John Rojo, Diarra Smith, David Haughton, Ladi Greenstreet, Sarah Millar and the Diversity VC team. Thank you also to our partners Google Cloud, MNAI, Total Data Services and all the contributors who provided us with comments and feedback.

Check Warner
Co-founding Partner, Ada Ventures

13 *Investing in Women Code Annual Report 2023, British Business Bank*

Industry Perspectives

Deepali Nangia
Partner, Speedinvest

“As allocators of capital, we at Speedinvest understand our fiduciary responsibility to our LPs. We set up our MicroGP investment program to both fund the 'best and the brightest' emerging managers and to help change the current GP/LP landscape; making a commitment to invest 50% of our capital into woman and diverse emerging managers. Our MicroGP approach is no different than our direct investment strategy. We set very specific KPIs to ensure we are seeing and investing in the most promising woman & diverse talent.”

Kinga Stanislawska
Founder, European Women in VC

“Women manage only 9% of VC assets in Europe and yet every piece of research conducted in any part of the world confirms that diverse and mixed teams outperform on both financial returns and impact metrics. A major win is the number of diverse emerging managers coming to market, diversity is developing bottom up. In order to reach parity and open access to capital for all, we must accelerate the speed of change. Benefits are numerous: from products and services coming to market that address the needs of a broader population to tackling the world’s biggest challenges thanks to diverse experiences and viewpoints. European Women in VC is working hard to speed up reaching parity in VC asset management to build an open and inclusive society for all.”

Tilly Franklin
CEO and Chief Investment Officer,
University Of Cambridge

“Despite clearly having a very long way to go, it’s possible that VC may be more progressive than other areas of the investment landscape and could potentially become a beacon for the industry more generally. In order to achieve this goal, however, it is essential that LPs challenge GPs to invest significantly more time in recruiting, developing and retaining diverse talent.”

Anne Boden
Founder, Starling Bank
Chair of the government taskforce for high-growth women-led companies

"A lot more still needs to be done to make sure the next generation of women entrepreneurs embrace the opportunities that lie ahead and take a major role in building the high growth businesses that will transform all of our lives over the next decade and beyond. This report highlights the role that Limited Partners can play in that and the importance of women at the most senior, and ownership levels of VC funds."

Sophie Winwood
Co-founder, WVC:E

"To be able to implement change within the venture capital industry, we first need to have the data to understand the state of the issue. That's why we are very excited to see more data being collected on the flow of capital from LPs to GPs. Although the data is quite sobering, with just 7p in every £1 going to all woman management companies, it highlights the need for more initiatives that increase the success of diverse investors. While we are starting to see some great moves from LPs (e.g. German LP KfW Capital launching a €200m emerging managers facility to boost diversity in VC and EIF's Empowering Equity Event), we know that we have a long way to go. At WVC:E, supporting women in their career path to GP, as well as emerging managers, is a big part of our focus and we look forward to continue to collaborate with driven industry players like Diversity VC and Ada to implement change."

Saloni Bhojwani
Co-founder and Partner,
Pink Salt Ventures

"The challenges for emerging managers don't just come from gender - there are other areas of intersectionality to be considered. Most prominent perhaps is socio-economic background, which correlates then with educational background. If you don't already have a network of high-net-worths and family offices (the majority of investors in first time/emerging funds) then building that network takes time. Economic privilege also dictates how much runway you have as an EM to actually raise your fund - and this often deters potentially incredible fund managers from ever going on the journey.

"Other measures of diversity also play into this - ethnicity, your accent, sexuality, and other areas of diversity. It's a complex issue to unpack, but we're excited to work with funds like Ada to help build a more inclusive venture capital ecosystem."

From Our Collaborators

DIVERSITY VC

In today's interconnected world, diversity is our pathway to innovative thinking and progress. The insights and data presented herein offer a comprehensive exploration of gender diversity within the UK's venture capital ecosystem, with a specific focus on limited partnerships. As I contemplate these findings, it becomes abundantly clear that the lack of transparency and accountability in driving diversity within this sector has reached a critical juncture.

This report stands as one of the most illuminating reviews of LP capital allocation in the country. Regrettably, it corroborates what many have already sensed – a gender imbalance in funding and equity within this industry. Inequity trickles down from the top echelons, impacting the lives of every individual and impeding the UK economy.

Venture capital isn't just a numbers game. It's a set of beliefs woven into the fabric of company building. As an industry, we understand that inclusivity is the key to unlocking human potential and diversity can amplify returns. However, we seem to grapple with cognitive dissonance, championing noble values while our actions tell a different tale. It's time we came together as a community and committed to correcting this.

One must applaud the commendable efforts of Ada Ventures. Their ability to spot and nurture talent, along with their innovative solutions to pressing challenges, is nothing short of inspirational. Their diverse portfolio, spanning areas from climate equity to healthcare, underscores the efficacy of a resolute, thesis-driven strategy.

Furthermore, it's crucial to highlight the progressive work of firms like MNAI, harnessing advanced technology to refine research and due diligence. Here at Diversity VC, we remain steadfast advocates for a transparent and unbiased VC industry.

The UK's venture capital landscape transcends monetary returns; it's a convergence of diverse individuals, visionary aspirations, and an unwavering pursuit of an inclusive future. These are the cornerstones upon which our economy stands, and this profound analysis of our current state serves as a catalyst for our continued dedication to authentic diversity and representation in venture capital.

Ladi Greenstreet
Chief Executive Officer, Diversity VC

From Our Sponsor

Google Cloud

In the fast-paced world of venture capital and private equity, where innovation and disruption are celebrated, it's essential to reflect on a different kind of innovation: diversity, equity, and inclusion. Prioritising these values isn't just about social responsibility; it's a recognition of the immense value diverse perspectives bring to the innovation and investment landscape.

The need for change is underscored by organisations like Diversity VC, Level 20, and reports like the "Female Founders and VCs" study by the British Business Bank. Initiatives like the Women in Finance Charter and the Investing in Women Code, introduced by the UK Treasury, aim to encourage transparency and diversity in the finance industry. Despite these efforts, only 1% of VC funds go to Black founders, a 45% decrease in 2022, highlighting the additional challenges faced by some women, particularly Black women, in accessing venture capital.

At Google Cloud, we believe fostering inclusion in venture capitalism is both a moral imperative and a strategic necessity. Inclusive strategies not only reflect our values but also yield superior returns, as confirmed by a 2023 McKinsey & Company report. The report shows that founders from underrepresented groups achieve 30% higher returns for investors upon exit. Having a diverse investor base at the VC level translates into greater support for diverse teams and founders, ultimately enhancing the success of all stakeholders.

While this report focuses on gender diversity, we recognise that success narrows disparities for all underrepresented groups. Alongside Ada Ventures and Diversity VC, we are dedicated to expanding data collection to include factors like ethnicity, educational background, and socio-economic background in future studies.

This report is the first to examine where Limited Partner Capital has been invested in the UK between 2017-2023 with a specific focus on gender. It explores capital allocation to all-women, mixed-gender, and all-male teams, revealing stark disparities in capital allocation. We also acknowledge that only collecting data along binary gender lines has known limitations, and we continue to focus on including all under-represented genders. All-male-owned management companies raised significantly more capital than their all-women counterparts, perpetuating a cycle of inequality.

The report also uncovers a "diversity washing" tactic that gives the appearance of diversity without addressing the underlying issues. The difference between individuals with senior titles and those with ownership of the management company highlights the need for genuine representation and inclusion in VC firms.

In conclusion, as the UK and Europe's venture capital ecosystem continues to grow, transparency and a commitment to diversity and inclusion are crucial. Google Cloud remains committed to supporting organisations that are collecting data that can drive policy change and catalyse actions that increase capital flow to diverse and inclusive teams. Together, we can drive meaningful change in the venture capital industry, fostering inclusivity and equity.

Oksana Stowe
UK&I Head of VC and Startup Ecosystem
at Google Cloud

Executive Summary

- **This report is the first of its kind to examine where limited partner capital has been invested in the years between 2017-2023 in the UK.** The aim was to produce data on the gender diversity within the venture capital firms—and the ownership makeup of the management company vehicles—that receive funding from LPs. We are looked at UK-domiciled VCs which raised a fund between 2017-2023.

- **The report examines data from publicly available data sources.** The fund's websites, LinkedIn profiles and Companies House records were scraped to collect information about team members associated with the identified 156 VC funds who had held a first close raising over £6.6bn in total. This data was then audited by our team of volunteers and industry professionals to check for errors.

- **The total VC workforce is 38% women.** While there are more women than men at junior and non-investment levels, senior and leadership levels show a far higher percentage of male representation at over 70%. These findings support those in previous reports by Diversity VC and the British Business Bank.

- **22% of individuals with a leadership title in a VC firm are women.** These leadership titles include 'Partner', 'Founder', 'General Partner', Managing Partner' etc.

- **Women make up only 17.7% of those with significant ownership of VC firms.** Using the precedent set by Companies House, we categorise significant ownership as owning more than 25% of the management company.

- **Just 7p in every pound raised goes to all-women-owned management companies;** 17p in every pound goes to mixed-ownership management companies; and the remainder (76p) goes to all-men-owned management companies.

- **All-men-owned management companies raised c.8x more funds between 2017-2023 compared to all-women-owned.**

- **All-men-owned management companies raised c.10.3x more capital than all-women-owned management companies** and c.4.5x more than mixed-ownership management companies.

- **Ownership diversity has consequences for the gender balance within the VC firm.** Mixed and all-women-owned funds both have around 35% female representation at leadership level. All-men-owned funds have 19% female representation at leadership level.

- **We still know little about what proportion of LP capital goes towards funds with diverse teams, how LPs classify diversity in teams and whether LPs include diversity, equity and inclusion (DE&I) in their investment decisions.**

- **This report highlights the often hidden world of LP investing** and calls for more accountability and visibility on where LP capital—particularly public money—is going. Public commitments to investing in diverse-led funds and transparent practices are more standard in the US than in the UK or Europe, but there is similarly limited transparency on where the capital is actually being invested.

- **It is critical that we know the answer to these questions now, while the UK and Europe are still in the early stages of the growth of the venture capital ecosystem.** More money flowing into the industry (particularly pension fund capital) might exacerbate the situation.

- **We recommend that LPs make public commitments to invest in a more diverse set of managers and sign the Investing in Women Code.**

Background

Data collection on gender and other protected characteristics

Data collection on gender in VC and general partners (GPs) has been greatly advanced in the last few years by organisations like Diversity VC, the British Business Bank, European Women in VC, Level 20 and the BVCA. These organisations have published studies highlighting the number of women at junior, mid and senior levels in the industry. Increasingly LPs are asking for this data in their due diligence questionnaires when evaluating investing in funds. The Women in Finance Charter and the Investing in Women Code have both been important in encouraging more transparency and accountability in terms of diversity of the investment firms and of the companies being funded. The Investing in Women Code was established in 2019 and has now grown to over 230 signatories. Initially, it only focused on direct providers of finance to entrepreneurs and has since grown to incorporate more players in the investment ecosystem including LPs.

A crucial part of the Investing in Women Code is a commitment to increasing the transparency of financial services firms' data concerning support for woman entrepreneurs. This data allows us to know more about the gender and now ethnicity of founders and teams getting VC funding. Signatories to the Code are asked to make three commitments to investment in woman entrepreneurship:

1. Nominating a senior person responsible for supporting equality.
2. Sharing anonymised gender disaggregated investment data with the British Business Bank to be aggregated and published in an annual report.
3. Committing to adopting internal practices to improve women's access to finance.

The data also shows that firms that are signatories to the Investing in Women Code tend to invest in more diverse founders. According to the British Business Bank's 2023 report,[14] more VC deals made by Code signatories feature at least one woman founder (35%) in comparison to the wider market (27%). In fact, signatories have outperformed the VC market in terms of investing in female founders for the third year running.

As of yet, only two LPs have signed the Investing in Women Code - British Patient Capital and Funding London. This means there is little data on LPs and the gender balance of the VC funds they invest in. Since summer 2023, building the community of LP signatories has been a priority for the Code and specific guidance is currently being worked on to support more LPs to sign it.

However, it is important to note that while data exists in regards to gender, diversity is multi-faceted. There is no standard for collecting intersectional data on protected characteristics such as ethnicity, educational background, socio-economic background, sexuality and other measures of diversity. We are also aware that our data set is imperfect because it is not fully inclusive of all genders including non-binary. We have used the terms 'women' and 'female' to denote gender identity in this report. We are conscious that the term 'female' refers to biological sex, the term 'woman' refers to gender and is a more inclusive term. In this report we have generally aimed to use 'woman' as the more inclusive term where possible. In some cases we have used women as a noun and female as an adjective. The data collection approach did not enable us to examine non-binary gender in this report.

These are major shortcomings of this report. We are limited by the data collection techniques that we have access to and in future studies we hope to be able to examine the ownership of firms disaggregated by other characteristics beyond gender, and how the different characteristics interact with one another.

14 *Investing in Women Code Annual Report 2023*

Structure of venture capital firms and why this matters

Management entity

VC funds are traditionally formed as close-ended LP structures. The VC firm managing the operational functions associated with running a VC fund(s) will have its own management entity typically referred to as the management company. In the UK, these management companies will typically be limited liability partnerships or limited companies.

In the UK, these VC firms typically employ a small number of people. Leadership and staff are often very busy and work semi-autonomously; high-level strategic thinking on DE&I can be challenging. According to our dataset, on average there are 11 employees per firm, although the size can vary from one individual to upwards of a 100. Usually, two-thirds of employees in VC firms are in investment-related roles.

The title "Partner" can be confusing. Partners can be owners, members of the investment committees, or neither. It is the "General Partners" who tend to be the significant owners of the firms. Partner-level individuals will look for ownership in the management entity for a variety of reasons. Primarily, this is due to management entities receiving the fund management fees from LPs for running VC funds. Those with ownership are entitled to a profit share of the carried interest.

By highlighting the difference between "partners" and "owners", this report seeks to provide more granular detail about the gender balance in VC at all levels including ownership which we know has implications for investment decision-making.

Carried interest

An individual with significant ownership of the management entity would be expected to receive a significant proportion of carried interest.

Carried interest (carry) is the percentage of profits from the VC fund that will go to the GPs. It is how GPs are incentivised when LPs receive profits (that are realised returns) above their initial investment and an agreed return on this (e.g. 8% p.a.). Typically carry is 20% however there are some instances where funds will receive super carry (30% when a fund is greater than three times the investment, and that is only common in Fund IV+).

We see carried interest as a fundamental mechanism which underpins the incentivisation for those who are involved in a venture capital fund, be that the day-to-day team, advisors, venture partners or third-party entities. If women are not significant owners of the management entity and therefore not significant beneficiaries of this interest, then they lack incentivisation as well as the opportunity to benefit from the wealth creation that venture capital can offer.

Typically, venture capital funds are long-term vehicles and may not pay out any carried interest for over 10 years. There are numerous VC funds which do not make a positive return and hence no carry is available to be distributed to those who may have worked on the day-to-day management of the fund for over 10 years.

Due to VC typically providing a below-market salary and bonus scheme comparative to other related financial industries such as large-cap PE and investment banking, there is a clear opportunity cost to working in the VC industry for many women. If carry is fairly and equitably allocated to women, this can bring individuals to parity in reward; however, if women are not able to participate meaningfully in the carried interest they are effectively working for below-market compensation.

This also influences who gets the opportunity to "spin out" and raise their own funds, further compounding the issue. There is an expectation from LPs that fund managers provide 2-10% of the capital of the fund (typically a six or seven figure sum) as their "GP Commit". Without access to the financial upside of the carried interest in their previous funds, women fund managers will struggle to raise their GP Commits to enable them to raise future funds.

Carried Interest Example

An LP invests £1m in a fund that charges 20% carried interest. The fund is a success and is a 3x multiple return fund. The GP will receive 20% of the amount the LP earns after their initial commitment is paid back (£3m - £1m = £2m). The GP earns £400k (20% * £2m). The LP receives £1.6m of profit and their initial investment of £1m, so comes away with £2.6m.[15]

Investment committees

The ownership of firms also impacts who is on the investment committees. Understandably, LPs want the people with the maximum financial incentive to be the people making the investment committee decisions. Whilst we haven't explicitly examined who is on the investment committee in these funds, it is typical that the managing partners with significant ownership would make up the investment committee.

According to the Investing in Women Code Annual Report 2023, when investment teams and committees have 50% or more women, compared to when 50% or more men are present, it more than doubles the percentage of all-female teams that are funded.[16]

15 Note that this does not account for fees, recycling or a hurdle. This is a simplified example for illustrative purposes.

16 *Investing in Women Code Annual Report 2023, British Business Bank*

The link between diversity and performance

Beyond the fact that we know that diverse teams generally drive better financial performance, there is also specific evidence that more gender diverse financial services firms outperform the market.[17] The Other Diversity Dividend makes a clear case that "diversity significantly improves financial performance on measures such as profitable investments at the individual portfolio-company level and overall fund returns."[18] A 2019 study by Rock Creek Group showed that gender diverse teams on average have 20% better net IRRs.[19]

The European context

Silicon Valley is seen as VC's beating heart but recent data shows that better returns are potentially found in Europe. According to data from investment firm Cambridge Associates, published by European-focused venture capital firm Atomico, European venture capital investment returns have exceeded similar investments in the US for the past two decades.[20]

Invest Europe's 2022 report, using the same dataset, highlighted that European VC funds created the strongest multiple of invested capital returns for investors, at 2.53x, compared with 2.39x for North American funds.[21]

The UK & European VC market is maturing. In 2021, Europe saw a record number of VCs raise new funds, nearly twice the number of funds raised just five years ago.[22]

The gender fund gap persists in Europe. The European Women in VC Study (2022) stated that of the 303 European venture funds and 122 VC respondents of funds over €25M AUM, 85% of VC GPs were men, with just 15% women.[23]

The study also finds a similar conclusion about women being underrepresented in the ownership of funds. Across the European funds the report examined, 91% of male GPs had access to carried interest, compared to 70% of the women GPs. This indicates that the "General Partner" title is not clearly defined. Similarly, the study found that women's underrepresentation in leading funds is compounded by having significantly smaller assets under management than their male counterparts.

Pension reforms provide further opportunity

Compared to pension funds in Canada, US and Australia, UK pension funds are underperforming in terms of their exposure to technology companies.[24] They are not investing in the UK's fastest growing and most innovative companies, a point highlighted by Chancellor Jeremy Hunt in his Mansion House Speech where he announced that 5% of Defined Contribution Pension Funds would be invested in unlisted equities by 2030.[25]

If the UK Pension Cost Cap is lifted, it is estimated that an additional £10-50bn will flow into venture capital funds.[26] This money will come from "ordinary" people representing all parts of the population. It is therefore vital to ensure that capital is allocated fairly and in a way that reflects the beneficiaries of the pension funds themselves.

17 *McKinsey & Company, May 2020*
18 *Harvard Business Review, July 2018*
19 *RockCreek and International Finance Corporation, 2019*
20 *State of European Tech 2022*
21 *Investing in Europe: Private Equity Activity 2022*
22 *State of European Tech 2022*
23 *IDC European Women in VC Study, 2022*
24 *Financial Times, April 19, 2023*
25 *Mansion House, 2023*
26 *HM Treasury, July 20*

FCA encourages firms to embrace DE&I

The FCA is consulting on proposals to introduce a new regulatory framework on DE&I in the financial sector.[27] These include developing a diversity and inclusion strategy with objectives and goals; reporting on and disclosing data against certain characteristics; and setting targets to address under-representation. We welcome this focus and hope that this will drive faster adoption of the recommendations in this report.

The Americans are coming

10 top tier Silicon Valley funds have opened London offices in the last three years. 42% of 2023 funding raised by European startups has come from US-based investors according to data from Dealroom.co.[28]

In many ways, the US is ahead of the UK and Europe regarding regulation on diversity and data collection for both VC firms and LPs.

Some states are pushing through their own legislation; California will require VC firms to report founder diversity statistics.[29]

Many LPs, including the $91.9 billion fund Massachusetts Pension Reserves Investment Management, the $41.7 billion Connecticut Retirement Plans and Trust Funds as well as the $254.1 billion New York State Common Retirement Fund, have initiated their own programmes to direct capital to diverse managers.[30] Newer venture firms with a focus on diversity are also emerging, including Backstage Capital, Collide Capital, WOCSTAR and Recast Capital.[31]

There are also US-wide initiatives. The Institutional Limited Partners Association (ILPA) has 600 member institutions (with the vast majority being US) representing more than two trillion USD of private equity assets under management. ILPA has a Diversity in Action (DIA) initiative bringing together LPs and GPs sharing a commitment to advancing DE&I in the private equity industry. It has also published a code bringing together best practices and resources for GPs and LPs to consider at each stage of the development and implementation of their own DEI programs. Venture-Forward is the DEI-focused non-profit that is part of the NVCA and All Raise is another non-profit advocating for more female representation in VC.

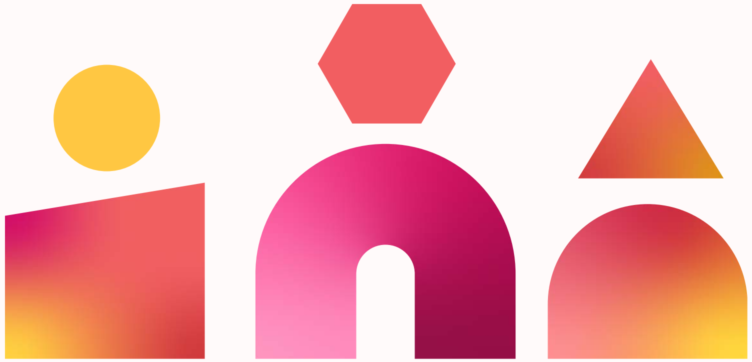
27 *FCA, September 25, 2023*
28 *Sifted, August 18, 2023*
29 *TechCrunch, October 9, 2023*
30 *New Private Markets, June 22, 2023*
31 *Venture Capital Journal, June 30, 2021*

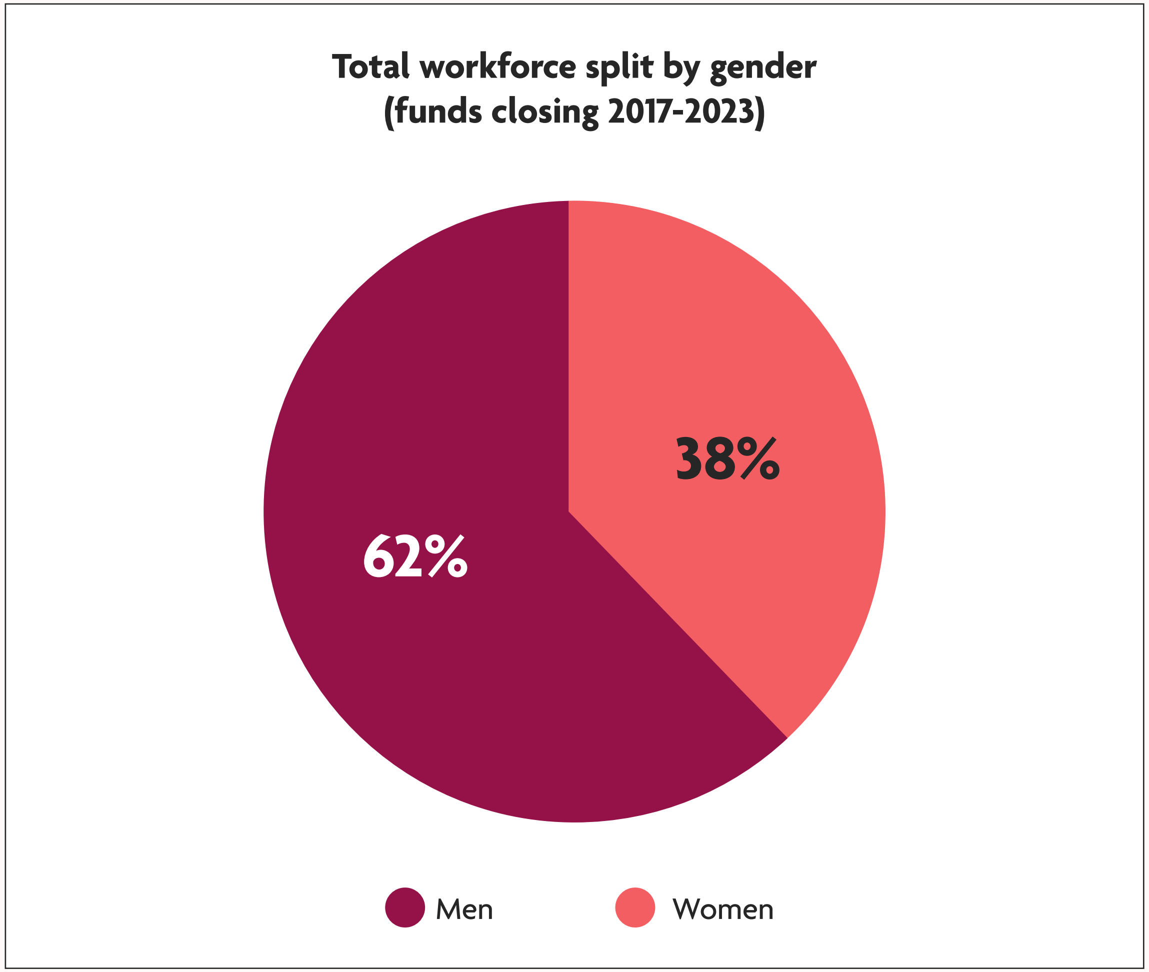
Key Findings

1 Who works in VC?

38% of the total VC labour force are women.

Of the 1759 individuals working at UK-domiciled VC funds raised between 2017-2023, 38% are women.

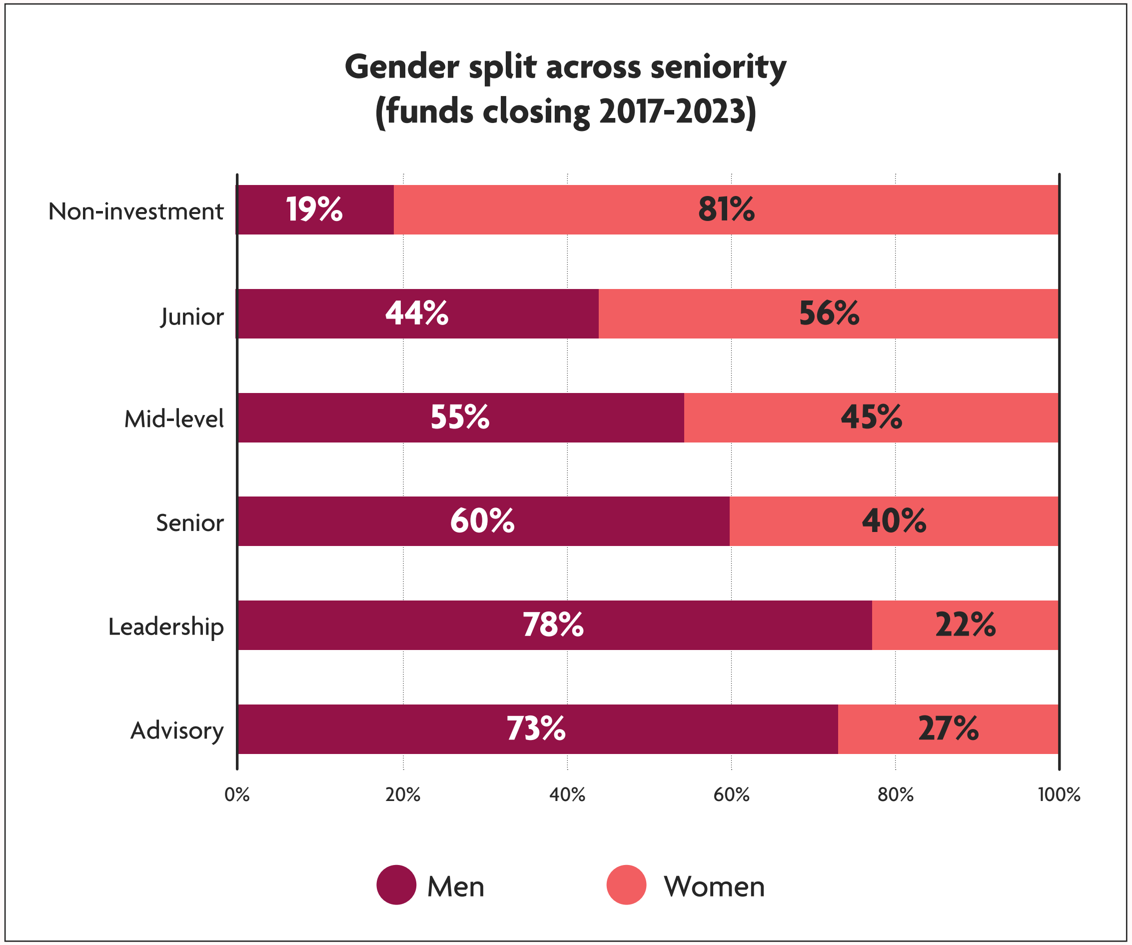


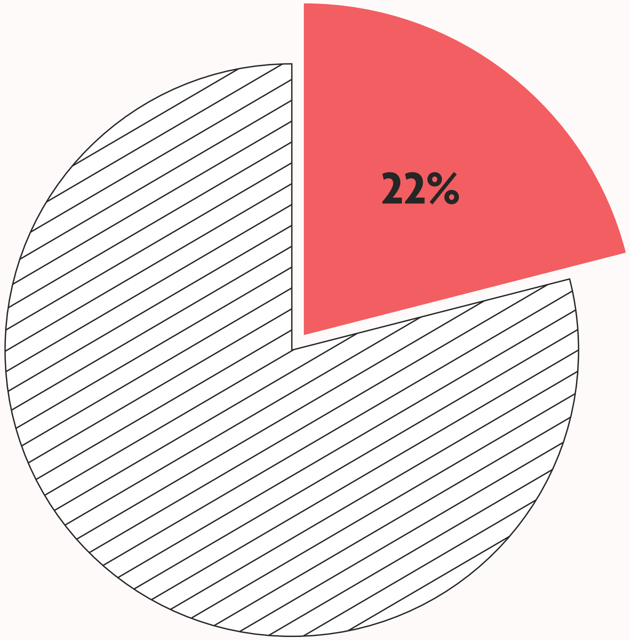


81% of individuals in non-investment roles are women.

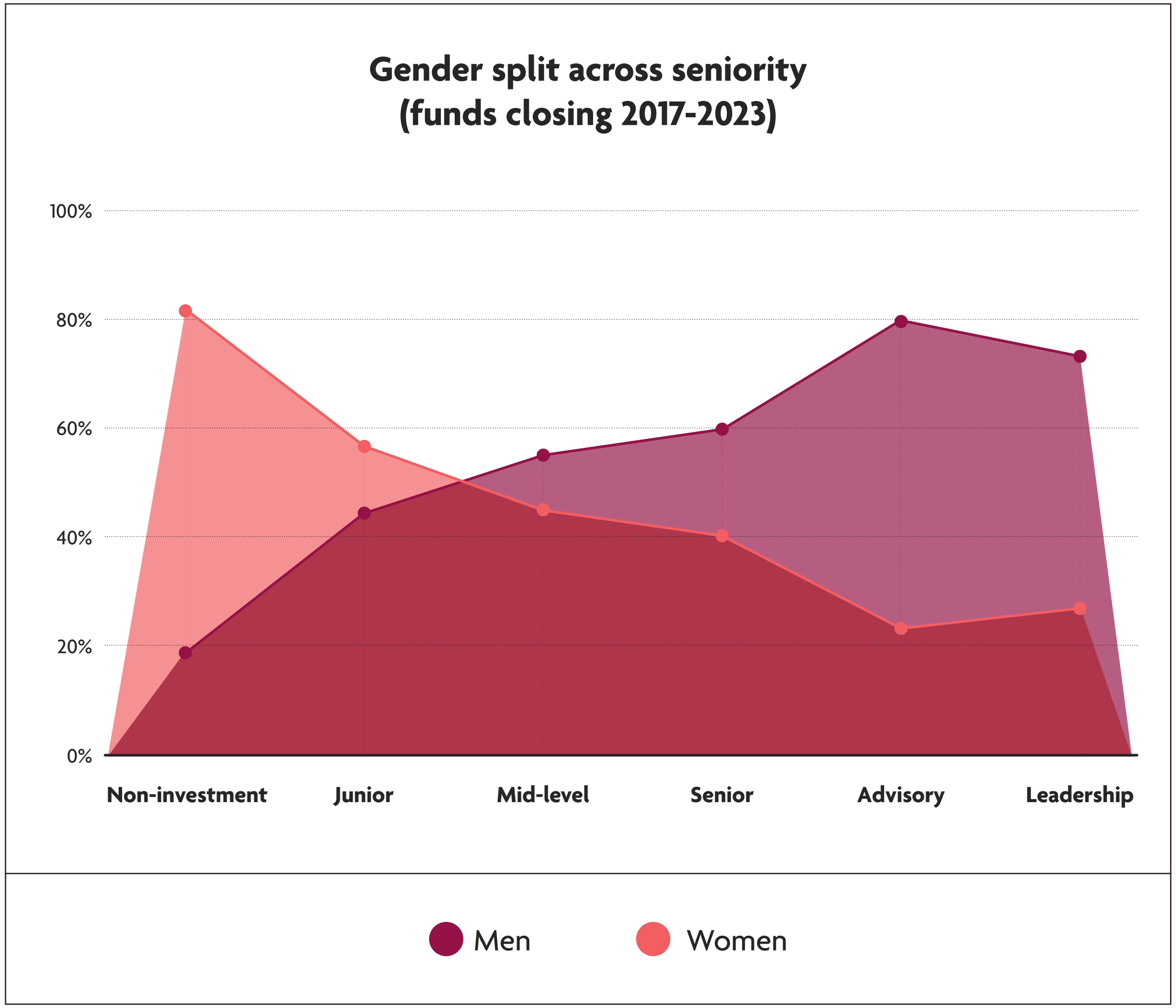
The gender split at middle-level tends to be more balanced.

- **Junior titles** = analyst, associate, deal execution / origination
- **Mid-level titles** = senior associate, manager, portfolio roles, investment professional / executive
- **Senior titles** = director, senior manager, head of, lead, vice-president, controller, principal
- **Leadership titles** = partner, chairman, venture partner, C-suite
- **Advisory titles** = non-exec director, advisor
- **Non-investment titles** = legal, marketing, HR, compliance, operations, IT, assistants





22% of individuals with a leadership title (‘Partner’, ‘Founder’, ‘General Partner’, Managing Partner’ etc.) are women.

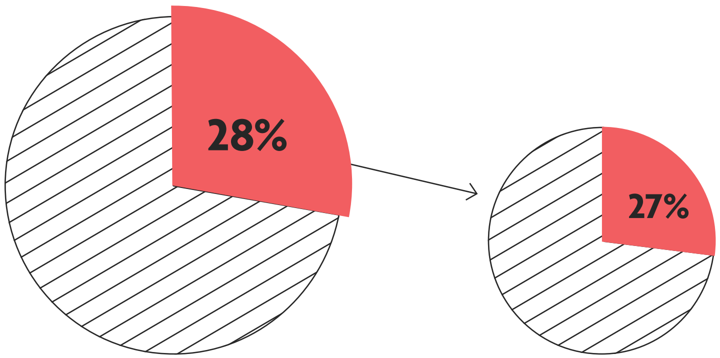


2 Who owns the VC firms?

Of the 487 men and women with a leadership title, only 27% have significant ownership of the management company.

We categorise significant ownership as owning more than 25% of the management company.

Leadership titles and significant ownership (funds closing 2017-2023)

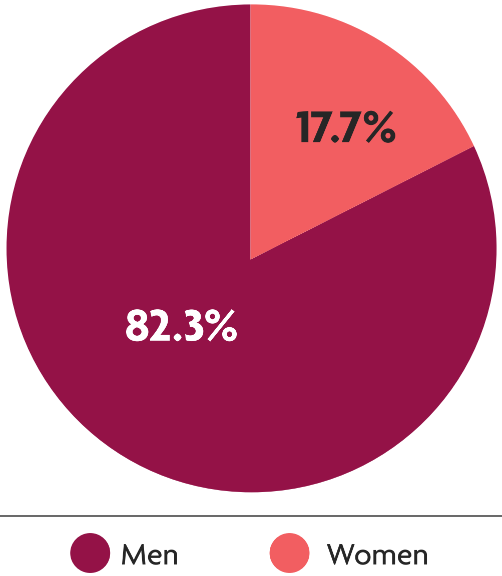


28% of the total workforce have a leadership title.

27% of those with a leadership title have significant ownership.

17.7% of the individuals with significant ownership of the management company are women.

Significant ownership split by gender (funds closing 2017-2023)



3 What does this mean for the firms and funds?

Of over £6.6bn raised, just 7p in every pound raised goes to all-women-owned management companies;

17p in every pound goes to mixed-ownership management companies; and the remainder (76p) goes to all-men-owned management companies.

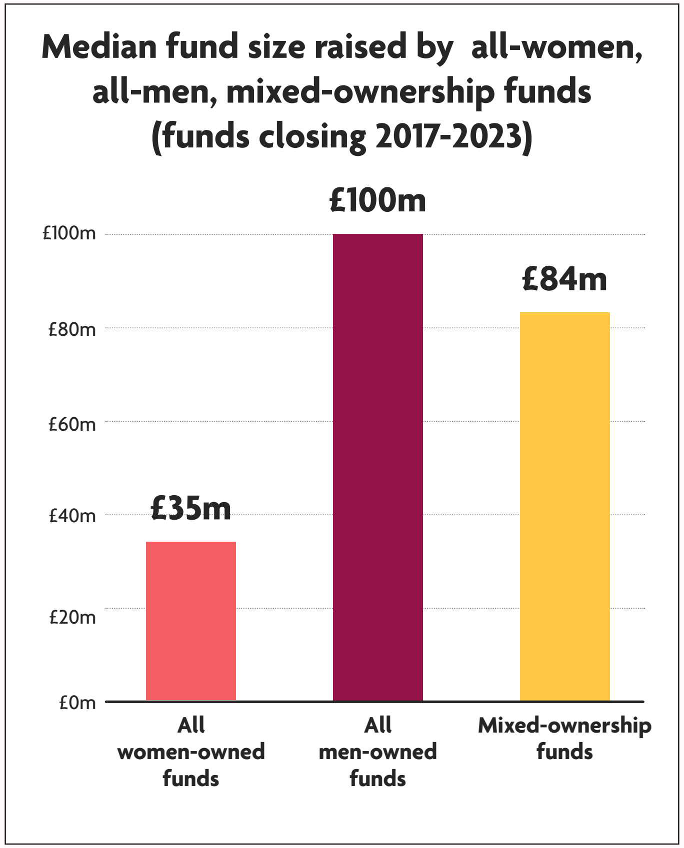
All-men-owned management companies raised 8x as many funds between 2017-2023 as all-women-owned counterparts.

All-men-owned management companies raised 10.3p for every 1p raised by all-women-owned management companies.

All-men-owned management companies raised 4.5p for every 1p raised by mixed-ownership management companies.

Job titles don't always convey the same access to ownership and economics in a fund between women and men.

Women are less likely to be a significant owner of a fund despite having a job title that would imply she did (i.e General Partner, Founding Partner or Partner). This finding is supported by the 2022 European Women in VC Study that shows that 91% of man GPs have access to carried interest, yet only 70% of woman GPs do.[32]



32 *European Women in VC, May 2022*

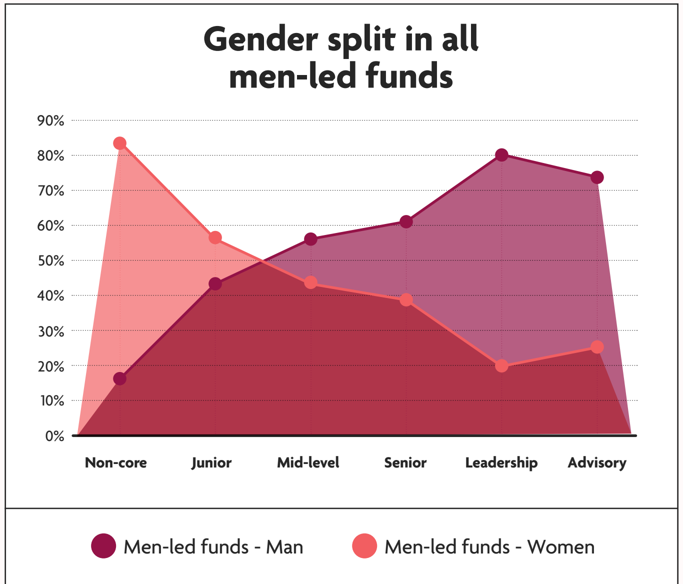
Women with significant ownership stand to receive a fraction of the financial proceeds of their male counterparts as the funds that they own or co-own are on average 5-10x smaller.

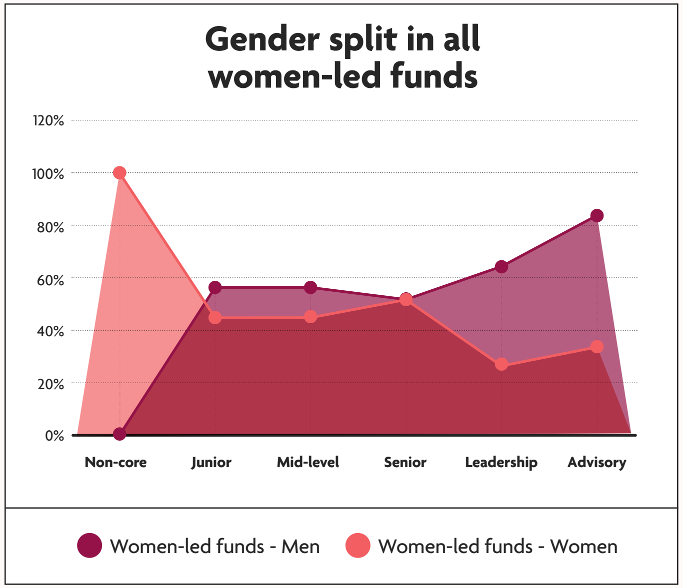
Ownership diversity has consequences for the gender balance within the VC firm.

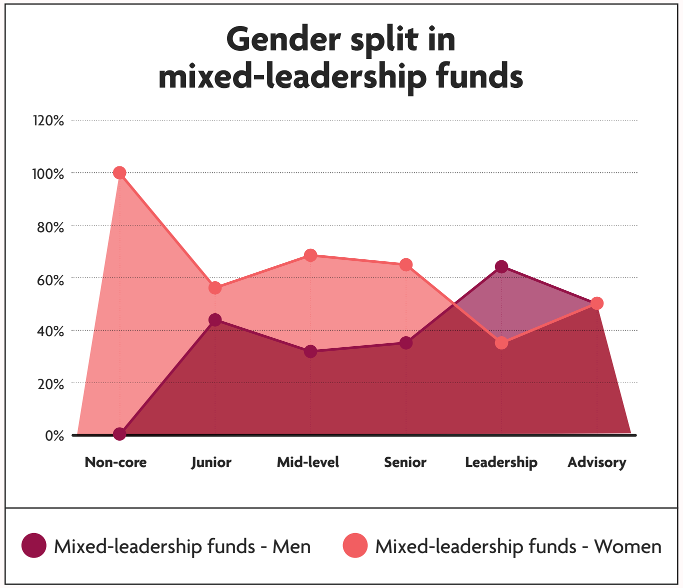
At senior and leadership levels, mixed-led and all-female funds consistently outperform all-male funds at getting a higher percentage of female representation.

i. At senior level, mixed-led funds have 65% female representation, all-female funds 50%. At leadership level, both have around 35% female representation.

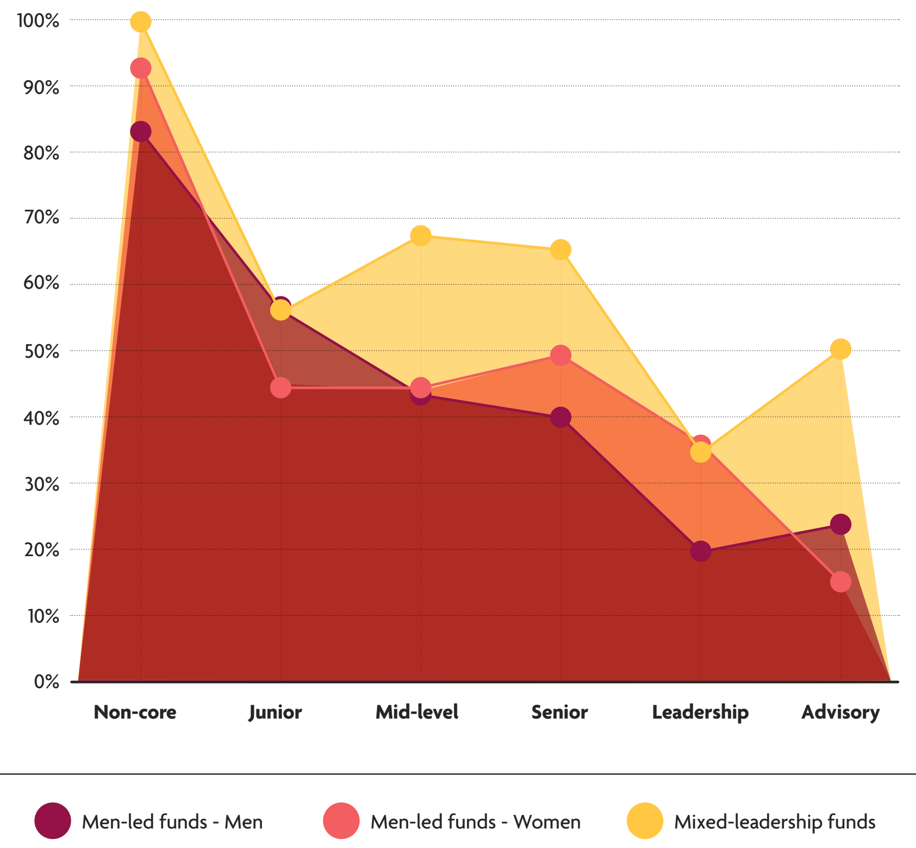
ii. All-male funds perform almost half as well – with only 39% female representation at senior level and 19% at leadership level.



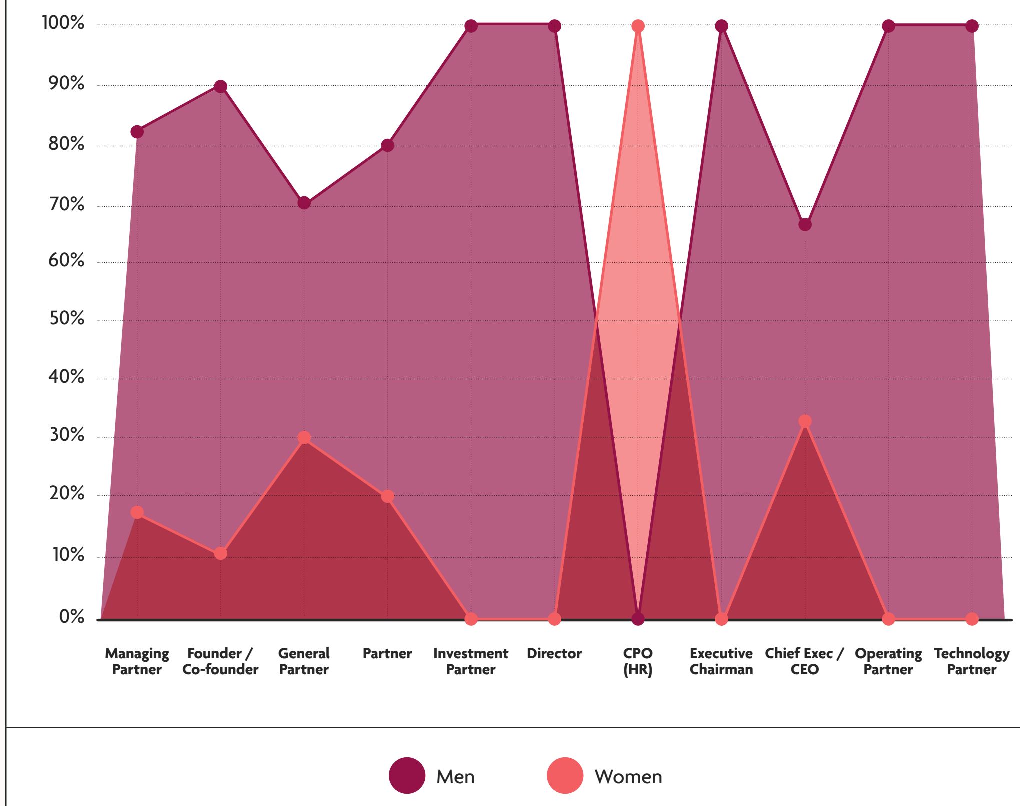




Woman % in workforce across different-led funds



Gender split in ownership of funds by title



Findings

1

Women make up 38% of the VC workforce.

2

Women make up 22% of those with a leadership title (‘Partner’, ‘Founder’, ‘General Partner’, Managing Partner’).

3

Only 23 women have significant ownership in management companies that raised a fund between 2017-2023 (17.7%).

4

In mixed-led and women-led funds, women are better represented at senior roles.

5

Funds raised by all-women-owned management companies were 3x smaller than all-men-owned management companies between 2017-2023.

6

All-men-owned management companies raised 10.3x more capital than all-women-owned management companies between 2017-2023.

7

Just 7p in every pound raised goes to all-women-owned management companies.

Industry Perspectives

Stephen Muers
CEO, Big Society Capital

"The findings of this report are profound and highlight the need to tackle the gender imbalance in venture capital. Reducing inequality is at the core of our activity; through the use of our capital, building the social impact investment market and through our people.

We are committed to bringing greater transparency and building inclusive practices across our investment strategy, processes and portfolio management. We have taken steps towards this through collecting and publishing our portfolio data and developing tools such as a diversity and inclusion due diligence framework. But we know there is more we can do. This report brings to light new areas for us to consider and we are in the process of signing up to the Investing in Women Code."

Dr. Catherine Martin
VP of Corporate Services,
University of Edinburgh

"In highlighting the stark inequity of capital invested in woman-owned VC funds compared with others, this important report reveals the scale of the challenge we must address. We recognise that universities have a critical role to play in enabling the advancement of women in venture capital and entrepreneurship, as detailed in Pathways: A New Approach for Women in Entrepreneurship. As a Limited Partner with a responsibility and a strong ambition to support the woman investors and entrepreneurs of the future, the University of Edinburgh welcomes this research and looks forward to the forthcoming Investing in Women Code LP initiative."

Katariina Helaniemi
Head of Impact, Illusian Group Oy

"If we want to have a diverse ecosystem for founders we need more Limited Partners investing more of their capital into a more diverse group of fund mangers. This report clearly shows the impact that diversity at the decision-making level has on the underlying companies that get funded."

Andrea Young

Head of Investment, Old College Capital, University of Edinburgh

"As the University of Edinburgh's venture investment team, Old College Capital welcomes the report Woman Representation in UK Venture Capital. We are well aware of the strengths that diversity of leadership brings to the investment ecosystem, and recognise that there is so much more to do to improve gender equality in this space. The insights captured by this research will help to catalyse much-needed change."

Caroline English

Director, Policy and Strategy, British Business Bank

"Transforming the future of investment begins with a commitment to equity. The Investing in Women Code already has more than 230 signatories, but very few of them are from the LP community. By signing the Investing in Women Code, LPs are making a commitment to breaking down structural barriers to empower the advancement of woman entrepreneurship in the UK and improving woman entrepreneurs' access to finance in the venture capital sector."

Dom Hallas

Executive Director, The Startup Coalition

"The gender disparity in venture investment is oft-discussed but rarely combatted head on. This report doesn't shy away from the challenge. Improving the transparency of data is vital, while the Investing in Women LP code is also a critical tool. Ada's report fires the starting gun on meaningful action to fund the underfunded, starting with where investment is coming from."

Recommendations

1

LPs should sign up to the Investing in Women Code and make concrete commitments (ideally in the form of goals) to fund more diverse GPs. In addition, more funding and resources should be allocated to support the development and expansion of the Investing in Women Code.

2

LPs should take actions to improve the diversity of their pipelines to ensure they are seeing more diverse managers in the future. For example, designing, supporting or funding a diverse fund manager accelerator programme.

3

LPs should implement a gender pay and carried interest benchmarking exercise where GPs are asked to share their gender and ethnicity pay and carried interest gaps. This data should be reviewed by LPs and GPs when deciding on future fund investments. Those firms with persistent gaps in gender pay and carried interest should not receive future funding.

4

LPs should ask specific due diligence questions about the ownership of funds split by gender - the management company, the carried interest and the investment committee.

5

LPs should consider removing or reducing the need for the "GP Commit" of 2-10% of capital for diverse fund managers.

6

The FCA and the Treasury should set a target that the venture capital industry should have at least 25% female representation in significant ownership positions and on investment committees by 2030.

7

The Department for Business and Trade and The Treasury should explore allocating an additional £500m in funding to the British Business Bank to design an appropriate intervention to address the lack of diversity in VC fund management.

8

The Department for Business and Trade and The Treasury should mandate that any Defined Contribution Pension funding going to VC funds has a minimum allocation to diverse fund managers.

Recommendation for The Department for Business and Trade and The Treasury in Partnership with the British Business Bank:

"British Business Bank's Regional Angels programme helps address regional imbalances in early-stage equity. This programme can invest in funds that are £10m or less and has a different risk profile to the organisation's other LP programmes. I recommend the launch of a Diverse GPs in VC Programme using the Regional Angels programmes framework. This programme would focus on promoting diversity within the VC sector by reducing the entry barriers for diverse GPs.

"Canada and Germany have led the way in establishing Funds of Funds that are explicitly investing in funds that are owned and controlled by woman fund managers. Most recently KfW Capital in Germany has allocated 200m EUR to funds with management teams that are 1/3rd woman / non binary, 40% of the senior investment team and investment committee are woman / non-binary.[33] I believe that a similar fund should exist in the UK."

Check Warner
Co-founding Partner, Ada Ventures

33 *KfW Capital, October 20, 2023*

Conclusion

Numerous studies have shown that the more diverse an investment firm, the better its performance. This is the case for startups and businesses with a more balanced gender workforce.[34]

Our research shows that mixed-led and women-led funds build more diverse teams as well as investing in more diverse founders. LPs need to make a commitment to investing in those types of teams. That starts with transparency.

As the UK and European market matures, it will have to catch up with with the USA in terms of commitment to goals and targets for diversity and inclusion, where these types of measures are becoming standard practice.

As more money will flow into UK venture capital funds, we need to know who exactly gets that money. And it is up to LPs to make that clear. This is a call to action for LPs to make public commitments to invest in a more diverse set of managers and act on the recommendations listed here. We are at a critical inflection point in the UK venture capital industry. More must be done to ensure that funding is allocated fairly and equitably to build the technology ecosystem that truly reflects the country as a whole.

34 *Boston Consulting Group, June 6, 2018*

Scope, methodology and terms of reference

This study aims to provide insights into the opportunities for LPs of investing in UK venture capital, highlighting the potential for strong returns. Additionally, it seeks to address transparency and accountability concerns within the LP investing landscape, particularly focusing on the allocation of public funds with a focus on potential pension fund and tax payer capital. The study further encourages LPs to make public commitments to diversify their investment portfolio and sign the Investing in Women Code.

Methodology:

1 Selection of limited partnership universe

a. The study focused on UK domiciled limited partnerships registered between January 1st 2017 and July 20th 2023. The initial dataset comprised 4263 limited partnerships.

2 Identification of vehicles with external LPs

a. From the initial dataset, the study identified limited partnerships which had emitted at least one external limited partner, indicating external investment. This narrowed down the universe to limited partnerships that had actively held at least a first close of their vehicle.

3 Isolation for venture capital funds

a. The data was further refined to focus solely on venture capital funds. This step resulted in a universe of 156 funds that had achieved at least a first close of their VC fund vehicle by securing external LP capital.

4 Data collection on team members

a. Publicly available data sources such as the funds website, LinkedIn profiles and Companies House records were scraped to collect information about team members associated with the identified VC funds (1760 team members).

5 Focus on job titles

a. Following the data collection of individuals who worked at VC firms, we identified the job titles associated with each individual

b. This data collection process was then aimed to focus on individuals with titles such as Founding Partner, General Partner, Partner etc., as these individuals are most likely to hold a significant stake in the fund's economics (carry).

6 Application of gender

a. Gender attribution was applied for each individual associated with the venture capital funds. The process began with the application of artificial intelligence tools to predict the likely gender of each team member based on their names and other available data. This was followed by a four-eyed checking process which involved human reviewers who assessed the assumed gender for each individual.

7 Cross-referencing with management companies

a. For each limited partnership, we used Companies House to obtain information about the management company responsible for that limited partnership. The data collected in Step 6, including gender and job titles of team members, was cross-referenced with the management companies.

This process created a comprehensive picture of gender diversity within UK domiciled limited partnerships and UK management companies in the venture capital space. This analysis helped shed light on the composition of the workforce within these firms and provided insights into the gender distribution at different levels of the organisational hierarchy, from the individual team members to the ownership of the management companies.

Terms of Reference:

Scope
UK-based limited partnerships registered between 1st January 2017 and July 20th 2023.

Data Collection
Publicly available sources (Websites, LinkedIn, Companies House)

Diversity Consideration
The study identifies the significance of gender diversity in fund management teams and intends to highlight the value of embracing a more diverse range of managers. The concept of diverse-led funds encompasses funds led by individuals from underrepresented backgrounds, including but not limited to gender, ethnicity, socioeconomic status.

Accountability
Encourage visibility in where public funding is being allocated. Encourage LPs to sign the Investing in Women Code.

About

Ada Ventures

Ada Ventures is the inclusive venture firm.

Ada Ventures finds and funds extraordinary talent building breakthrough ideas for the hardest problems we face. They are a pre-seed and seed investor with over £100m under management.

Ada is a thesis-driven investor typically investing £250,000 - £1.5m in UK technology companies across climate equity, economic empowerment and healthcare & ageing. Ada Ventures portfolio includes Huboo, SideQuest, Boundless, Materials Nexus, Greenworkx, MultiOmic Health, Micrographia Bio and OMP.

The firm is backed by a range of exceptional aligned institutions and individuals including Arlan Hamilton (Backstage Capital), British Business Bank, Big Society Capital, Atomico, University of Edinburgh, Molten Ventures, Taavet Hinrikus (Wise) and Sten Tamkivi (Skype), First Close Partners and the co-founders of Supercell.

MNAI

mnAI is a multi-award-winning data, insight and analytics platform that uses proprietary technology to supply enhanced research, analytics and due diligence on all UK companies. Utilising cutting-edge algorithms, it specialises in building hard-to-obtain datasets on private companies including ESG and Relational Networks.

Diversity VC

Diversity VC is a 501(c3) founded by venture capital professionals who are dedicated to working with entrepreneurs, investors and universities to create an industry that is free from bias. Diversity VC's reports exist to bring transparency to government and allocators of capital using original data and with thought leadership on diversity and inclusion in VC and tech, and to empower communities with tools and resources to promote it. Diversity VC's core initiatives include benchmarking for diversity, equity and inclusion (DEI) best practices (The Standard), industry reporting and guidance (Resources), career development for underrepresented candidates (Pathways), and a diverse learning network for VC professionals (Community). For more information on Diversity VC, visit *diversity.vc*.

Total Data Sevices

Situated in London, Total Data Services excels in sourcing, verifying, and aggregating premium company data. They specialise in a vast array of data types, including business information, demographics, firmographics, and chronographics. Their approach combines automated solutions with a manual enrichment and verification layer, ensuring the highest level of accuracy. Committed to unparalleled quality, Total Data Services guarantees that their clients receive precise and trustworthy data. For more information, visit *totaldataservices.co*.

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