Minding the Gap: A Look at Gender Balance in Private Equity

RECENT STATISTICS SHOW WOMEN NOW CONTROL THE MAJORITY OF PRIVATE WEALTH IN THE UNITED STATES. THIS SESSION FOCUSES ON THE IMPACT OF THESE STATISTICS AND THE MOVEMENT TOWARD GENDER BALANCE AS THEY RELATE TO PRIVATE EQUITY INVESTMENTS.

Women Who Count
2019 NATIONAL CONFERENCE
Presented by The Accounting & Financial Women's Alliance

1

Teri Sowder, CPA, Tax Partner, DHG Jacksonville

- Tax partner in Jacksonville – With DHG for six years, over 20 years of experience in Tax

- Married to my husband for 2 years, but met when we were 13 years old

- Landry, my step son is 10, our son Byron is 5 and our daughter Emry is 2.

- We love to boat, travel, going to musicals, trying new restaurants, home improvement projects and cooking when we can…

2

Startling Statistics

- A Bloomberg analysis found that women fill only 8% of senior investment roles globally at the 10 largest firms that use debt to buy companies.

- Of the 289 private equity professionals surveyed, 50% of the women said they would consider leaving the industry, while just 22% of men answered yes to the same question.

- In addition, 29% of the women said they had become less satisfied with their career over the past year, while just 12% of the men responding felt the same.

- Just 2.6% of active US private equity firms are led by females. And that has remained largely unchanged since the turn of the century, with the percentage never eclipsing 3% or dipping below 1.4%.

3

Why the need for change?

- Recent research suggests that women may soon control the majority of US household wealth

- 67% of female investors feel their wealth manager or private banker misunderstand their goals or cannot empathize with their lifestyle

- Widowhood – Women's longer life spans mean that they take on additional financial responsibilities comparatively late in life

- 62% of women are willing to consider switching to another wealth manager compared with 44% of men

- Between 2010 and 2015 private wealth held by women grew from $34trn to $51trn. By 2020 they are expected to hold $72trn, 32% of the total. And most of the private wealth that changes hands in the coming decades is likely to go to women.

- A showed that women outperformed men in the market by one percentage point a year. The main reason, they argued, was that men were much more likely to be overconfident than women, and hence to carry out

- Between 2007 and 2018, the growth rate of women-owned businesses generating revenues of more than $1 million outpaced the rate of businesses in general: 46% compared to 12% respectively, according to American Express 2018 State of Women-Owned Businesses

4

Gender Role and how we see the world - As society's caregivers, being socially responsible is second nature to women. As a result, they are more likely to want to make a positive social impact on the world, take action and be satisfied with what they have done

- They are more likely to build wealth to be philanthropic: 86% compared to 73% of male business owners and 72% for all wealthy people.

- Women business owners have taken deliberate steps to use wealth as intended: 52% compared to 39% of male business owners and 43% of all high-net-worth individuals.

- Women business owners get it done! They are more likely to have taken action to achieve their goal of making the world a better place: 71% compared to 62% male business owners and 60% of all high-net-worth individuals.

- Companies owned by women are also more likely to take responsibility for their impact on the environment and social wellbeing: 80% compared to 71% of companies owned by men.

- No surprise that women business owners are more fully satisfied with what they have done to help others: 52% compared to 39% of male business owners and 31% of all high-net-worth individuals.

- Women business owners are far more likely to have taken life's lemons and have turned them into lemonade: 42% experienced personal hardships that had a "positive effect" on reaching their goals, compared to 18% of male business owners and 19% of all high-net-worth individuals.

5

Nine Trends driving the expansion of women in private equity

1. Changes in PE Fund Recruitment and Retention Programs

Driven by a variety of factors, private equity funds increasingly focus on recruiting, promoting and retaining women. Some firms are introducing new programs aimed at retaining women who want vibrant careers as well as families. From wide-ranging childcare assistance programs, such as nannies to travel with female professionals, to offering more extended and flexible parental leaves, these firms are making efforts to help female professionals balance competing concerns. For example, KKR publicly touted its financial coverage for women looking to freeze their eggs, and it pays for breast milk shipments during business trips.

Additionally, firms more actively track the advancement of women in this sector and create recruitment tools, such as mentorship and internship programs geared toward attracting and retaining women, separate and apart from work-family balance issues. The Carlyle Group focused on increasing its women leadership, particularly on the investment side, through mentorship and recruiting efforts, and Blackstone formalized its networking initiative through the firm's BX WIN program offered to new female analysts and associates. Such programs focus more directly on professional achievement and identifying champions within the firms to support women's advancement.

6

Nine Trends driving the expansion of women in private equity

2. Growth of Women-Owned Private Equity Firms

We are also pleased to see that the number of female-owned firms has risen during the past few years, with Forerunner Ventures and BBG Ventures representing just a few examples of firms founded by women. Recently, Aspect Ventures raised $181 million for its second fund, even landing an investment from Melinda Gates, a vocal advocate for greater investment in female-led firms and businesses. Gates also contributed this year to the early-stage fund, Female Founders Fund (F3), during its 2018 highly successful $27 million sophomore fundraising. But here's the deal: These are all venture capital firms, and private equity firms have been slower at creating opportunities for female leaders. Luminate Capital Partners, raising more than $265 million in capital for its initial fund by 2017, is one of only a few existing private equity firms founded by women.

Beyond the solely female-founded firms are an increasing number of impressive female co-founders, such as Laura Leichtman of Levine Leichtman Capital Partners, Carolyn Galiette of Ironwood Capital, Mary Tolen of Chicago Pacific Founders, and Sarah Bradley of Kainos Capital, among others.

We've seen similar growth in firms not necessarily founded by women, but now predominantly owned by woman. According to Fairview Capital, which reports collectively on women- and minority-owned PE firms (defined as institutional-quality VC and PE firms owned greater than 50 percent by women or ethnic minorities based in the U.S.), the total number of such firms was just over 150 at the end of 2015, over 180 at the end of 2016 and 240 at the end of 2017. Further, Fairview observed not just an increase in the sheer number of firms, but an increase in fundraising activity by these firms, from 65 active in the market in 2015, to 66 active in 2016, to 114 in 2017. Although the active fundraising firms accounted for just roughly 7 percent of all PE firms in the market in 2015 and 2016, and less than 10 percent in 2017, this is another trend that we find intriguing and encouraging.

7

Nine Trends driving the expansion of women in private equity

3. Refreshed Business School Recruitment and Placement Focus

Private equity, investment banking and other firms in the financial sector looking to increase the number of women they employ, promote and retain, begin by connecting with women while they are in undergraduate and graduate business school. At the same time, many schools are fostering an environment where more women MBA candidates seek positions in these sectors. This works well with initiatives coming from school administrators, recruiting officers and the student body, as well as scholarships aimed at female MBA participants.

One successful approach is for schools to establish meaningful women affinity groups to further these goals. A recruiter at a regional Midwest business school described its "women and diversity days" that run throughout the year, with workshops and seminars on a variety of topics including women leadership. Often, private equity and other financial firms participate in these affinity groups and activities on campus to demonstrate their commitment to attracting women candidates to their firms. The percentage of women MBA candidates in U.S. business schools has increased in recent years to roughly 47 percent, so there are a number of women to try to recruit.

For another effective way to recruit more women in the field while they are still in school, consider the work of the women of the MBA Class of 2017 at Washington University in St. Louis' Olin Business School. This group challenged the school's administrators and leadership to ask themselves this question: How can we attract even more women here? They decided to complement the work of the school's admissions office, calling women accepted but undecided for the next incoming MBA class, to explain peer-to-peer why the school, program and opportunities are so accommodating for women. The school praises the efforts of this women's group as a primary reason why the Olin MBA program ranked No. 4 in the world for women, according to a Financial Times analysis released in March -- placing it behind only Stanford and the University of California, Berkeley, among U.S. universities, and China's Shanghai Jiao Tong, but just ahead of Harvard.

Similarly, the Och Initiative for Women in Finance at University of Michigan's Ross School of Business aims to increase awareness of and access to careers for women in finance. The initiative provides curricular and co-curricular experiences that nurture and cultivate interest in finance careers with courses on topics such as valuation and private equity. The research of this initiative shows that many of the world's most influential business schools recognize that gender imbalance among students may have contributed to the problem.

The good news is, more schools recognize they can play a positive role in addressing the imbalance so women don't opt out of private equity and related fields before they even begin their college education.

8

Nine Trends driving the expansion of women in private equity

4. Emergence of Networking and Mentorship Programs Focused on Private Equity

The emergence of female-centric networking programs and associations continues to grow within the private equity and finance industries -- in size as well as scope. In addition to launching the McGuireWoods Women in Private Equity and Finance program, we have been inspired by and have engaged with several impressive organizations across the U.S., including the Kayo Conference Series, and the Women's Association of Venture and Equity (WAVE), among others. A common theme across these programs is that they strive to use their networks and platforms to bring together women -- at all levels of industry experience -- to connect.

In a recent study published by Harvard Business Review, based on a survey of 2,100 women who attended the Conference for Women programs across several U.S. states, 71 percent reported feeling more connected to others after attending and 78 percent reported feeling "more optimistic about the future" after attending. Notably, research also showed that connecting with peers at the Conference for Women doubled attendees' likelihood of a promotion. From professional development opportunities to connecting on potential business and deal opportunities, many of these groups succeed in bringing women together by committing to finding ways group members can empower and advance one another economically and intellectually.

9

Nine Trends driving the expansion of women in private equity

5. Funds Focused on Female-Oriented Products and Services

Increasingly, PE funds seek investment opportunities in companies that provide products or services specifically aimed at female consumers. Certain industries -- such as food, health and wellness, beauty, and apparel -- are overwhelmingly dominated by women consumers. Yet women also complain that their unique needs of balancing many roles and responsibilities are not met, and that they feel underserved and undervalued in these industries. This response illustrates the great growth potential that female-led innovation is particularly well-suited to address. PE investors understand these well-publicized trends and are increasingly interested in backing products and services geared toward powerful female consumers.

Taking this focus one step further, Portfolia Funds was founded in 2014 by Trish Costello with a series of early-stage funds and a goal of attracting female investors by focusing on companies of special interest to women. Most recently, it launched its sixth fund focused on FemTech -- investing exclusively in emerging technologies, products and services focused on improving women's health and wellness -- with an estimate that FemTech will be a $50 billion market by 2025. Similarly, BBG Ventures concentrates its portfolio on internet and mobile startups that address the daily needs of female consumers. These funds are committed to supporting women directly as entrepreneurs and indirectly as consumers.

10

Nine Trends driving the expansion of women in private equity

6. Funds Focused on Female-Led Companies

After years of well-publicized gulfs between funding for female-led companies -- in the VC world, less than 5 percent, even in 2017, as reported by many commentators -- as opposed to funding for male-led companies, several emerging funds focus particularly on investments in companies with female founders or CEOs. Many firms, such as Belle Capital USA, require their portfolio companies to have at least one female founder, and others, such as Merian Ventures, emphasize funding startups that are women-founded and support women-led innovation. The recently launched WomensVCFund II requires its West Coast-based partners to include men and women in senior-level positions on their management teams.

Nonprofits have emerged with similar missions. Through donations, SheEO provides startup capital to companies run by women through no-interest loans, and All Raise is creating a community and forum to support its objective of increasing the number of women in senior-ranked positions at venture capital firms.

This focus is not simply a matter of corporate social responsibility. While certainly not a universal experience, many investors have found that investments in female-founded companies perform better than other investments. For example, First Round Capital reported that its investment in female founded companies performed 63 percent better than investments in male-founded teams.

The world beyond private equity is shifting in this direction as well, and PE investors are watching. As discussed in AMEX's 2018 State of Women-Owned Businesses report, four of every 10 businesses (40 percent) in the United States are now women-owned.

11

Nine Trends driving the expansion of women in private equity

7. Limited Partners' Increasing Interest in Diversity in Management and Investments

Today, women comprise a small minority of senior executives in private equity, and female representation varies widely by geography, size and strategy of firm. However, because many leaders in this field continue to explore best practices and industry initiatives to advance gender diversity, there is a bright outlook for women to continue to move into leadership roles at their firms.

A World Economic Forum study shows that three in five LPs believe that private equity firms benefit from having gender-diverse teams and, of those, the vast majority believe team interaction and quality are the elements most likely to benefit. Very often, the firms best-positioned to pull ahead in the ranks are those with a clear commitment by senior leadership to enact the necessary behavioral and cultural changes to attract and retain top female talent.

While larger private equity firms have greater capacity, resources and industry clout to take the lead on gender diversity efforts, there has been a significant, swift movement of new firm formation by experienced women, bringing competition for coveted LPs. Some established institutional investors recognize this trend as an opportunity and look for ways to be more inclusive of diverse leaders in their portfolios, such as including public pension plans with active or pending mandates that target womenand minority-owned firms.

While increased diversity in management is not a "magic bullet," certain LPs increasingly believe that more gender-balanced teams in private equity would yield certain gains, including diversification and an expanded talent pool. They're beginning to base investment choices more noticeably on such factors.

12

Nine Trends driving the expansion of women in private equity

8. Advance of Women into Senior Leadership Positions at PE Firms

The advancement of women into senior leadership positions within the private equity industry traditionally has lagged, with a 2017 Preqin report stating that just 4.1 percent of private equity firm directors were female. Today's firms are focusing a more critical lens on gender diversity -- within their funds and with their investments and portfolio companies. Recently, Atlantic Street Capital, a private-equity firm with $325 million under management, hired Susan Stautberg, founder and former CEO of WomenCorporateDirectors, to recruit more women to serve on boards of Atlantic Street's portfolio companies. This announcement preceded California's recent measure requiring at least one female director on corporate boards of publicly traded companies based in the state.

We interviewed and profiled many impressive and senior women in private equity over the past year. Many shared unique insights related to the importance of women pursuing careers in this field. Several shared the importance of having women represented in deal-making ranks, given the increase in women-owned and -led businesses. Others noted that, in their experience, women bring different

13

Nine Trends driving the expansion of women in private equity

9. Increase of Private Wealth Held by Women

According to the Boston Consulting Group, from 2010 to 2015, private wealth held by women grew from $34 trillion to $51 trillion. Women's wealth also rose as a share of all private wealth, though less spectacularly, from 28 percent to 30 percent. By 2020, women are expected to hold $72 trillion, 32 percent of the total. And most of the private wealth that changes hands in the coming decades is likely to go to women. Women are becoming increasingly savvy and discriminating with that money, demanding investments that suit their personal goals and are consistent with their social conscience. Many of the ancillary trends discussed in this article emanate from this basic evolution of wealth, which McGuireWoods partner Andrea Chomakos describes as "expected." She elaborated: "While historically the wealth in the hands of women generated from inheritances from spouses or family, more women are occupying executive and leadership positions in corporate organizations and firms, with commensurate earnings, so their wealth now is earned. And female executives and entrepreneurs have a different view of their wealth than many of their male counterparts -- it not only represents their success, it provides financial security and independence. In my experience, women who control the finances in their household bring a different perspective to traditional asset allocation and investment discussions -- they are aware of social trends, as well as consumer and industry trends, as they also are the primary purchasers of household goods and products."

14

Ways to connect

- Private Equity Women Investor Network (PEWIN) – The pre-eminent organization for senior-level women investment professionals in private equity

- Private Equity Women's Initiative

- SEO (Seizing Every Opportunity)

- Toigo Foundation

- WAVE (Women's Association of Venture & Equity)

- Level 20 – Women in Private Equity

- The 13th Annual Women's Private Equity Summit – March 11-13, 2020 Monarch Beach Resort, CA

- Women in Private eQuity Forum – November 5-6, 2019 in London

- Local Organizations – TX Wall Street Women

15

General Overview of Tax Treatment - Asset

- Income tax liabilities remain with Seller – mix of ordinary and capital gains
- Non-income tax items generally to attach to the business
- sales and use taxes; property taxes; payroll taxes; franchise/gross receipts taxes; mandatory income tax withholdings on pass-thru owners
- Due diligence generally focuses on non-income tax areas
- Buyer receives a "step up" in value of the purchased assets to fair market value at the time of the transaction
- Assumed liabilities can be selected
- Buyers and Sellers have adverse interests in allocating the purchase price among the assets sold. Tax rules set forth a method for allocating purchase price among seven classes of assets under §1060.

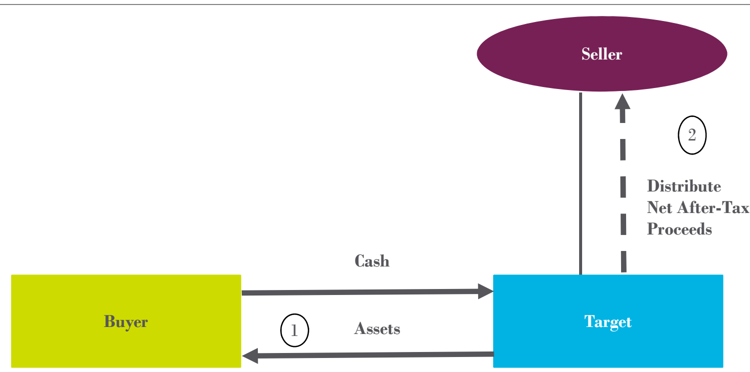
16

General Overview of Tax Treatment - Stock

- Buyer inherits potential tax exposures and liabilities of the Seller (successor liabilities). More thorough due diligence is required
- Tax basis in assets and liabilities carryover to Buyer. Unlike ASC 805, there is no mark-to-market for tax in stock acquisitions. This results in opening balance sheet deferred assets and liabilities
- Tax attributes are often inherited but may have limitations (e.g. net operating losses, possibly resulting in an IRC 382 limitation)
- Purchase price premium (goodwill) is not deductible
- Favorable to seller – Typically capital gains treatment

17

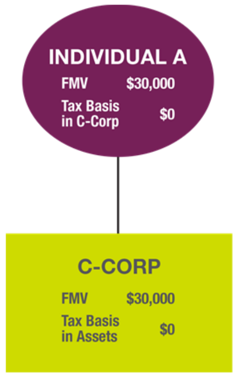
Taxable Asset Purchase – Basic Strucutre



18

18

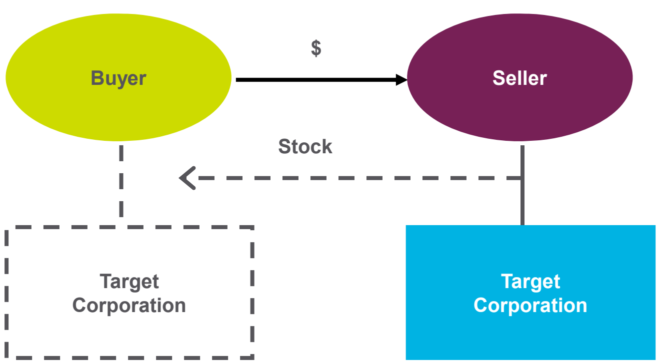
Taxable Asset Sale Example – Sellers Perspective



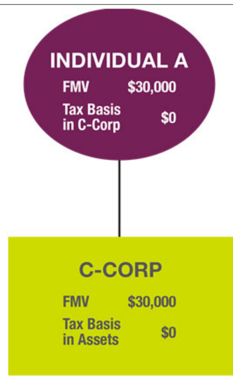
	Sale of Assets
Purchase Price	30,000
Target's Tax Basis in Assets	0
Taxable Gain to Target	30,000
Corporate Level Tax at 21%	**6,300**
After Tax Proceeds for Distribution	23,700
Shareholder's Tax Basis in Stock	N/A
Shareholder Level Tax at 23.8%*	**5,641**
After-Tax Cash to Shareholders	**18,059**
Effective Tax Rate	**39.8%**

* Assuming all of the gain is capital and there is no recapture, also assuming 3.8% NIIT applies.

Taxable Stock Acquisition – Basic Structure



Taxable Stock Sale Example – Seller's Perspective



	Sale of Assets	Sale of Stock
Purchase Price	30,000	30,000
Target's Tax Basis in Assets	0	N/A
Taxable Gain to Target	30,000	N/A
Corporate Level Tax at 21%	**6,300**	N/A
After Tax Proceeds for Distribution	23,700	30,000
Shareholder's Tax Basis in Stock	N/A	0
Shareholder Level Tax at 23.8%*	**5,641**	**7,140**
After-Tax Cash to Shareholders	**18,059**	**22,860**
Effective Tax Rate	**39.8%**	**23.8%**

* Assuming all of the gain is capital and there is no recapture.
Also assuming 3.8% NIIT is applicable..

21

Tax Reform – Brief Summary

- New Rates
  - C-Corp – 21% down from 35%
  - Individuals – 37% down from 39.6%
- Flow Through Deduction
  - 20% on Qualified Business Income (QBI)
  - QBI – ordinary income (excludes investment income and other certain items).
  - Limited to 50% of Wages or 25% of Wages + 2.5% of unadjusted basis of tangible assets. Limit is not applied at lower income amounts ($315K for MFJ / $157.5K for others).
  - Not eligible for Personal Service Corporations with the exception of engineers, architects and investment brokers.
    - Interest deduction limited – 30% of adjusted taxable income. Essentially EBIT.
      - Gross receipts test ($25MM or more). Also PSC's excluded.
      - Floor plan interest excluded (auto dealerships).
      - Election out for Real Estate Professional Activities but depreciation on any assets over ADS life (40 years).
    - NOL's – no carryback claims, unlimited carryover, with limitation on application. Excess business losses limited.
    - Carried interest – ordinary if holding period under 3 years.

22