

# Women-focused Capital Funds

---

*Unlocking the Power of Women Entrepreneurs*

# FEMININE CAPITAL



**Barbara Orser** *and* **Catherine Elliott**



This learning aid is designed to help you understand women-focused capital funds (WFCFs), including fund mandates, types of financial instruments and illustrative organizations. Questions to help YOU assess the merits of WFCFs are also presented.

### **Rationales**

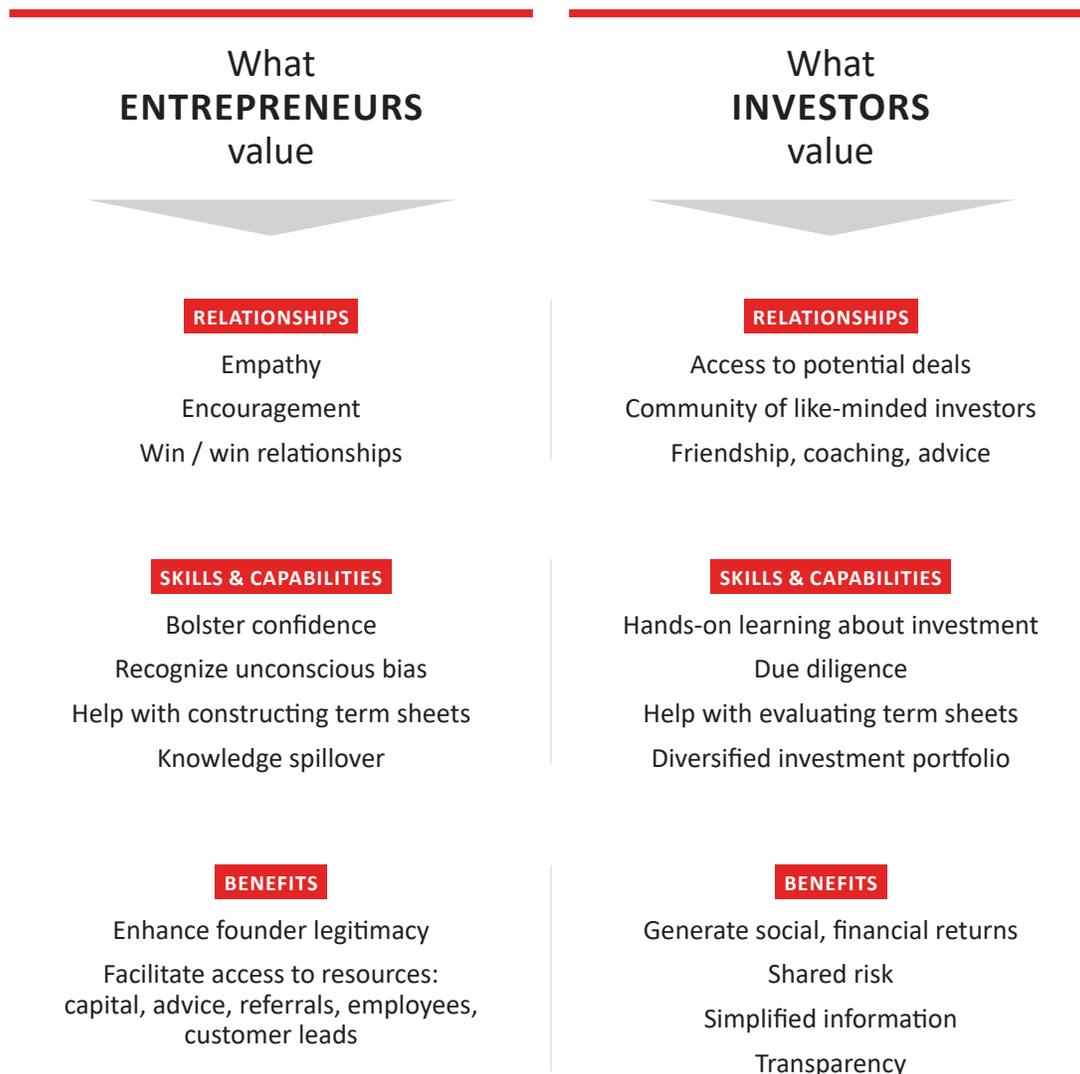
WFCFs are typically either ‘for women, by women’ pools of capital or portfolios of publicly-traded securities that employ a gender lens to invest in women-led businesses.

The goals of WFCFs vary and can include:

- ✓ Increasing women entrepreneurs’ access to financial capital
- ✓ Educating women about investment
- ✓ Mobilizing expertise to support early-stage founders and technology
- ✓ Creating communities of like-minded investors and entrepreneurs
- ✓ Leveraging competitive advantages of diverse executive teams
- ✓ Addressing the shortcomings of traditional investment firms
- ✓ Recognizing the value of women-led businesses
- ✓ Countering unconscious biases and gender role stereotypes
- ✓ Deploying women’s ‘untapped’ economic wealth

Why might women-focused capital funds (WFCFs) appeal to YOU? Chart 1 summarises what women entrepreneurs and investors value about WFCF.<sup>1,2</sup> How important is each factor in YOUR decision to seek capital or invest in a business?

Chart 1. What entrepreneurs and investors value about WFCFs



Bolstered by online marketing, women-focused capital funds (WFCFs) are evolving quickly. Most funds target growth-oriented start-ups or novice investors and make reference to women or females. Other funds are more gender-inclusive<sup>3</sup> in their approach. Some support under-represented individuals such as *Gaingels*, a LGBTQ-focused angel group.

Management expertise varies considerably among WFCFs. Some WFCF management teams boast decades of experience helping small firms thrive. Others retain professionals with track records that include securing multiple rounds of capital, and managing initial public offerings and market exits.

WFCFs are also differentiated by legal form, type of capital, target businesses (e.g., non-tech or high tech, early or later stage ventures), criteria for investing, timing and exit methods. Eight common categories of WFCFs are described below.

Chart 2: Common strategies of women-focused capital funds

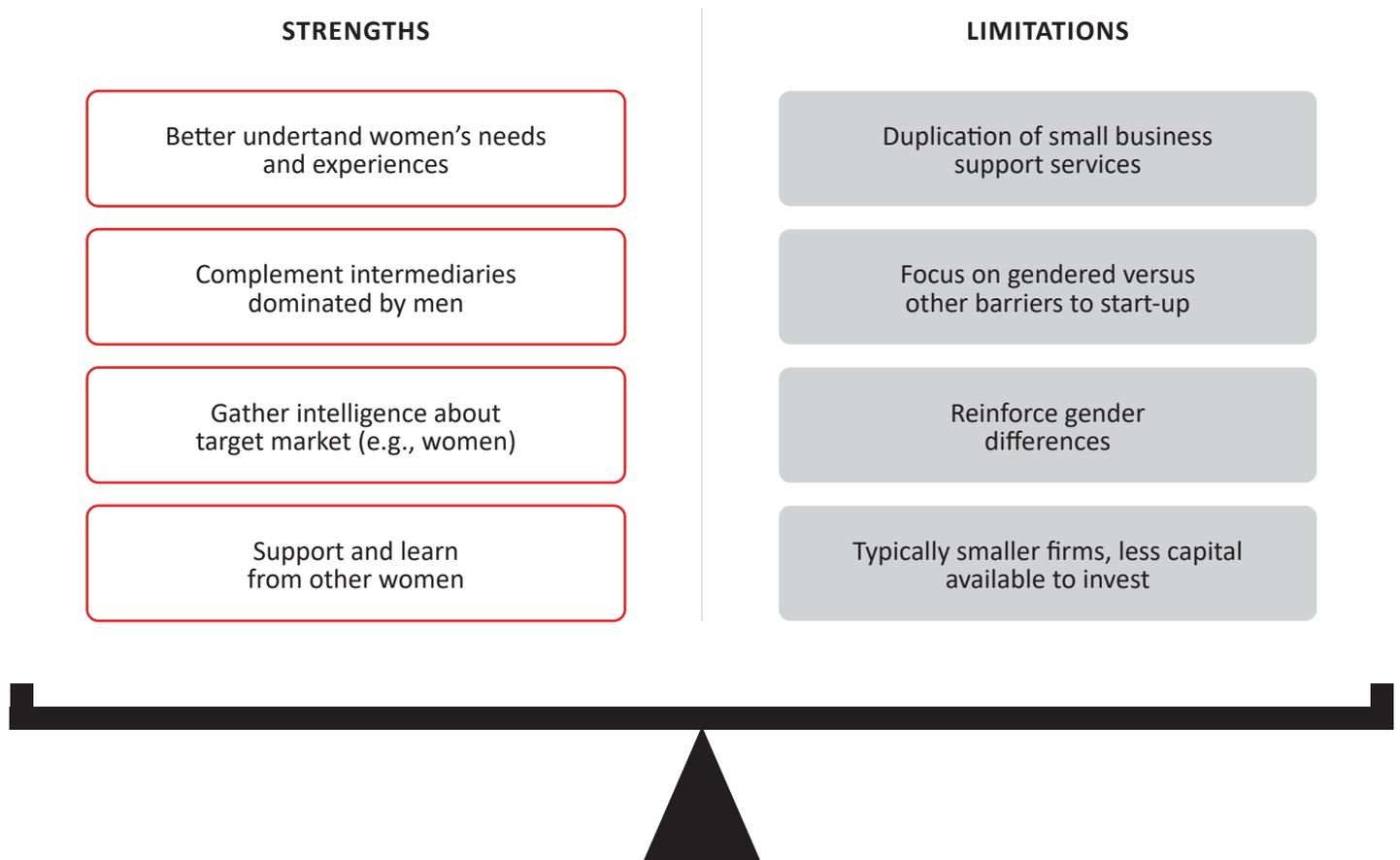
<b>GRANTS</b>	<b>COLLECTIVES</b>	Short-term, fee-based schemes that support cohorts of women business owners with raising capital while providing auxiliary supports, such as referrals, mentoring or advice.
	<b>PHILANTHROPIC</b>	Foundations or not-for-profit organizations that aggregate donations into grants or loans. Some also seek non-financial support, such as a willingness to purchase goods, referrals or acting as a lead customer.
	<b>GOVERNMENT-SPONSORED</b>	Grants are typically used for scale-up and market expansion. Most are industry-specific, targeting such sectors as clean technology, AI and health sciences.
<b>DEBT</b>	<b>LENDING CIRCLES</b>	Peer-to-peer lending circles provide small amounts of debt with a low, fixed-rate of interest. Borrowers share and pay back capital over an agreed upon period of time.
<b>DEBT / EQUITY</b>	<b>ANGEL SYNDICATES</b>	Syndicates comprise both novice and seasoned investors who pool their personal capital, share knowledge and experience, undertake due diligence, build investor communities, and fund growth-oriented women-owned enterprises while seeking a fair return on investment.
	<b>WOMEN-FOUNDED VC FUNDS</b>	Venture capitalists (VCs) invest third-party funds in early-stage enterprises. Investments prioritize high growth potential enterprises that are founded, led or managed by women.
<b>PUBLICLY-TRADED SECURITIES</b>	<b>MANAGED MUTUAL FUNDS</b>	Women-focused and managed mutual funds provide investment opportunities based on the premise that firms managed by diverse teams outperform competitors. Portfolios comprise corporations in which women represent a high proportion of the executive team or Board of Directors.
	<b>ROBO-ADVISOR INVESTMENT PLATFORMS</b>	Claiming to be women-friendly, these online platforms provide financial training coupled with guided investments in portfolios of publicly-traded securities. Portfolios can include index funds, mutual funds and individual securities. Private wealth managers and access to financial planners and coaches are available.

Source: Adopted from Orser, B., Coleman, S. & Li, Y. (2019). Progress or pinkwashing: Who benefits from digital women-focused capital funds?, *Small Business Economics*.

**Strengths and limitations**

While social justice, the business case, and the need for gender-inclusive investment training fuel many WFCFs, the funds and parent organizations are not without criticism. Chart 3 presents an inventory of perceived strengths and limitations of WFCFs.<sup>4</sup> To what extent do you agree or disagree with these points?

Chart 3: Strengths and limitations of women-focused capital funds



**Assessing women-focused capital funds**

Like all investments, it is important to undertake due diligence to determine if the source and type of capital, or the investment opportunity, is right for you. Begin the assessment process by asking yourself:

- Why am I interested in capital or investments that employ a gender lens?
- How (if at all) do my views about women’s economic empowerment influence my investment strategy?
- Do I want to invest my capital to help empower women-identified entrepreneurs?
- Is my objective to maximize return on investment? To what extent might this be accomplished by leveraging the benefits associated with diversity?
- Is the investment or type of financing the right choice at this stage of my investment lifecycle or business?

Assessing the social and economic impact of WFCFs is challenging. At this time there are no established metrics or sources of reliable data that employ a gender lens to assess WFCFs.

The following tables present (a) investors and (b) business owners who seek capital with additional questions to assess the merits of WFCFs or their respective parent organizations. These questions may also help to avoid supporting *pinkwashing*, financial services marketed as ‘for women or by women’ when such claims lack substance and legitimacy.<sup>5</sup>

**Criteria for investors to assess women-focused capital funds****Eligibility**

- Do I meet province/state-specific “accredited investor” criteria?
- What are the minimum investment requirements (e.g., dollar amount, time invested, other commitments of support such as acting as a lead customer)?
- What are the criteria for inclusion (e.g., majority or minority women-owned; number of women on the executive team or Board of Directors: just one woman or more substantive representation of diverse women leaders)?
- Does the fund target a specific sector or technology with which I am comfortable or knowledgeable, such as e-commerce, artificial intelligence, medical devices, healthcare, social enterprise, clean tech?
- Are the investment performance criteria clear?

**Governance**

- Is the fund’s and parent organization’s legal status and ownership structure clear? If a ‘hybrid’ organization, are for-profit and non-profit entities transparent and differentiated?
- Financial transparency: to what extent do I have ready access to the fund’s and parent organization’s financial information (e.g., audited financial statements, expense ratios)?
- Accountability: to what extent is the parent organization responsible for the performance of the fund? To what extent does the parent organization report on fund performance?
- Does the fund and parent organization profile the representation of women in leadership roles, such as on the investment committee, Board of Directors or executive team?
- Is the fund an ‘add-on’ product or is it central to the parent organization’s mission?
- Does the fund fit within my wealth management and investment strategies?
- How experienced are the members of the investment team?
- Are the investors and investees at arm’s length?

**Fund performance**

- What is the fund’s track record?
- What are the number of businesses funded? Are all funded businesses listed online?
- Does the fund have a trade-off strategy for early versus established businesses?
- What is the longevity, type and range in the amount of funding provided?
- Has there been a recent change in the management of the fund or parent organization’s management team?
- Do the assessment criteria include social impact as well as financial performance?
- To what extent is my investment liquid, that is, how easily can I sell or withdraw my capital?

**Criteria for entrepreneurs seeking capital****Eligibility**

- Are the eligibility criteria clearly specified? Does my business meet most of the criteria (e.g., majority women-owned; women on the firm's executive team)?
- Does the fund target a specific industry or technology that is relevant to my business (e.g., e-commerce, artificial intelligence, medical devices, clean tech)?
- Does the fund specialize in a stage of firm or technology maturation (e.g., early versus later-stage development)?

**Adjudication**

- Is the applicant assessment process transparent?
- Is there a likelihood of political influence or interference in the adjudication process?
- Do assessment criteria include social impact? If so, what criteria determine social impact?
- Are all funded businesses listed? Consider speaking with the founder(s) of funded businesses about their experiences with respect to due diligence and value-added support.
- What is the fund's financial track record?
- How many businesses have or will be funded? What are the firm's success rates with respect to securing subsequent rounds of capital, initial public offering and market exists?

**Terms of capital**

- What are the minimum and maximum amounts of capital provided?
- What are the longevity and types of funding (debt, equity, both)?
- What is the cost of capital (e.g., interest rate, required rate of return, ownership rights, collateral, other conditions)?
- What is the expected post-investment financial oversight (e.g., monitoring of performance)?
- What are the milestones of performance?

**Post-investment value-add<sup>6,7</sup>**

- Will management act as a sounding board for ideas?
- Does management expect to play an advisory or operational role in the business?
- To what extent will funders help refine the firm's product(s) and business model(s)?
- What are other added-value contributions, such as offering strategic guidance, connections to other investors, referrals, and identifying potential board members and employees?

Chart 4: Illustrative women-focused support organizations

	Women-focused investment training	Women-focused small business training	Grants, contribution agreements	Debt: term or operating loans	Equity: angels, syndicates	Equity: venture capital	Managed mutual or indexed funds
 <b>Disruption Ventures</b> is Canada’s first private women-founded VC fund for women entrepreneurs.	\$					\$	
 <b>Ellevest</b> an online platform that hosts investment funds, magazine, private wealth management and financial planners.	\$						\$
 <b>Female Funders:</b> educational investor accelerator that provides curated investment opportunities.	\$	\$			\$		
 <b>Fierce Founders</b> provides women entrepreneurs matching funds, shared workspace, mentorship and software.		\$	\$	\$			
 <b>Gaingels</b> is the first VC investment vehicle for LGBT gay founders, executives and infinity investors.	\$				\$		
 <b>Next Wave Impact:</b> fund is comprised of 99 seasoned and novice investors that build portfolios of investments in early-stage women-led firms.	\$				\$		
 <b>PARO Centre for Women’s Enterprise:</b> peer loans of \$1,000–\$5,000, matching grants of \$500–\$1,000.		\$	\$	\$			
 <b>Pipeline Angels:</b> investor training, funding of women, non-binary and ‘femme’ social entrepreneurs.	\$				\$		
 <b>Portfolio:</b> a minimum \$10,000 member investment in sector-specific funds supporting early-stage firms.	\$				\$		
 <b>RAISE Collective:</b> cohort model of women-led ventures seeking to raise capital, learn from each other.	\$	\$		\$	\$		
 <b>SheEO:</b> firms receive 0% interest loans paid back over 5 years. Adjudication based on group decisions.		\$	\$	\$			
 <b>Smart Money for Her:</b> gender-based goals, investments, indexed portfolio of funds.	\$						\$
 <b>Springboard Enterprises:</b> source, coach, research support investors and founders of women-led firms.	\$	\$					
 <b>Women’s Enterprise Initiative:</b> women-focused SME centres providing loans, training, advisory services.		\$	\$	\$			

 Based in the U.S.     Based in Canada

**Related resources**

*SPDR® SSGA Gender Diversity ETF SHE Overview*: “SSGA Gender Diversity Index, which tracks U.S. companies that are leaders in advancing women through gender diversity on their boards of directors and in management”

The Women’s Leadership in Entrepreneurial Ventures (WLEV) Index “is a web-based tool designed to equip investors, entrepreneurs and researchers with data driven analytics on the composition of VC portfolios using a gender equity lens approach.”

1. Coleman, S. & Robb, A.M. (2018). Executive forum: Linking women’s growth-oriented entrepreneurship policy and practice: Results from the Rising Tide Angel Training Program. *Venture Capital*, 20(2), 211-231.
2. Orser, B., Coleman, S., & Li, Y. (2019). Progress or pinkwashing: Who benefits from digital women-focused capital funds?” *Small Business Economics*.
3. Gender identity includes man and woman, androgynous, fluid, multiple, no gender or different genders outside of the woman—man spectrum. Status of Women Canada (2019).
4. Orser, B. & Elliot, C. (2015). *Feminine Capital. Unlocking the Power of Women Entrepreneurs*. Stanford University Press.
5. Orser, B., Coleman, S., & Li, Y. (2019). Progress or pinkwashing: Who benefits from digital women-focused capital funds?” *Small Business Economics*.
6. Berglund, H., Hellström, T., & Sjölander, S. (2007). Entrepreneurial learning and the role of venture capitalists. *Venture Capital*, 9(3) 165-181.
7. Gompers, P. A., Gornall, W., Kaplan, S., & Ilya A. Strebulaev, I.A., (2016). *How Do Venture Capitalists Make Decisions?* NBER Working Paper Series, No. 22587, September 2016.

*Participation in The Scotiabank Women Initiative or any program-related event does not constitute advice or an offer or commitment by Scotiabank to provide any financial products or services. The contents of this material are for informational purposes only. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this material or its contents.*

---