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“Investment teams with at least one female member perform better and have a lower risk of failure than all-male teams.”

By Carmela Mendoza - 9 July 2019

HEC Paris and MVision Private Equity Advisers analysed nearly 2,500 buy-out deals executed by 51 GPs within 220 funds in North America and Europe. The research looked at the gender balance on investment committee teams across three metrics: alpha, total value to paid-in multiple and internal rate of return.

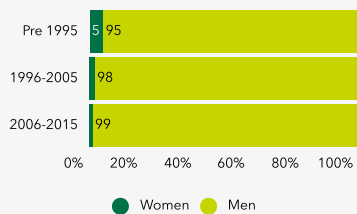
Based on the deals in the data set, the study simulated investment committees and found that **IC teams that are gender diverse - or that have at least one female member - delivered better returns than male-only teams.** Alpha, which is measured as annual outperformance compared with the MSCI All Countries Weighted Index, in such teams was 7 percentage points more. Meanwhile, TVPI outperformed by 0.52x and IRR was higher by 12 percentage points.

As an example, if an all-male simulated IC delivers a gross TVPI of 2.0x, a gender-diverse simulated IC would deliver a gross TVPI of 2.52x; and if an all-male simulated IC generates a gross IRR of 20 percent, a gender-diverse team would deliver a gross IRR of 32 percent.

TVPI and IRR were measured on a gross basis and excluded deductions for management fees, carried interest and other expenses shouldered by LPs.

CASE FOR CHANGE

Deal leaders by gender as % share of total



Having a gender-diverse IC team also reduced the failure rate or loss of capital by 8 percentage points, the study found. Failure rate was defined as the percentage count of deals with gross TVPI of less than 1.0x from the deals given within a year.

“Having a diverse group of people considering any decision naturally results in views from more varied standpoints being taken into account, thus reducing the margin for error,” Tanya McHale, a London-based managing director at MVision, told sister publication Private Equity International. The conclusions of the report strongly support that premise for ICs that are gender diverse, she added.

Helen Steers, partner at Pantheon and co-founder of Level 20, an advocacy group that seeks to increase the num-

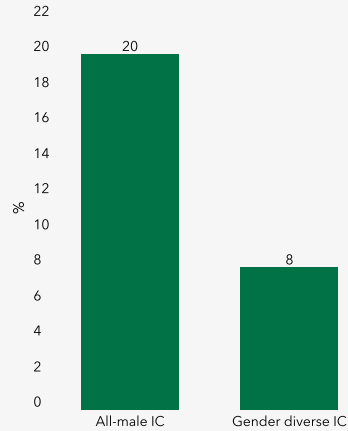
ber of women in senior roles in private equity, said she was **“not in the least surprised by the core findings of the study”**. She said she hoped it would provide firms **“with the impetus to embrace inclusivity”**.

Steers added that the study’s finding that fewer women have been leading deals in recent years chimed with certain findings in another study, conducted by the University of Cambridge Judge Business School on behalf of Level 20. That study found that family responsibility and work-family balance were among the most significant contributors to leaks in the pipeline of female talent in the private equity industry.

George Anson, chair of Level 20 and senior advisor to HarbourVest Partners, said the study formed part of a growing body of evidence that supported the advocacy group’s main objective of getting more senior investment-level women in private equity firms: **“Diversity should and could improve investment performance. This isn’t the only thing that could improve performance, but it certainly is a marker that having a more diverse team makes a difference.”**

The HEC and MVision study is at odds with a January study led by Harvard Business School professor Josh Lerner, which found that the performance of asset management firms owned by

Illustrative example of gender diversity contribution to reduction of capital loss



Source: HEC Paris and MVision Private Equity Advisers

women and minorities is not statistically different from the industry as a whole. The study, *Diversifying Investments: A Study of Ownership Diversity and Performance in the Asset Management Industry*, found no statistically significant difference in performance across asset classes, even after controlling for risk.

In the HEC and MVision study’s dataset, women led more buyout deals in IT and biotech, and fewer in business services, industrials and TMT industries. The report noted there was no evidence that such deals were “structurally better”.

Women occupy less than 10 percent of senior positions at private equity firms globally, according to the report.

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