

# NOW Podcast

EPISODE 13 TRANSCRIPT

## Venture Capital and Racial Equality

Host: Keith Stone

Guests: Charles Hudson, Founder and Managing Partner, Precursor Ventures

Richard Kerby: Co-founder and General Partner, Equal Ventures

Monique Woodard: Founder, Cake Ventures

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Ken Stuzin: Hello, this is Ken Stuzin. I'm a partner at Brown Advisory. Welcome to our NOW 2020 podcast. NOW stands for Navigating Our World. We are simply trying to understand the world better, to navigate some of the most pressing questions that are shaping our lives, our culture and our investment challenges.

We are committed to sharing the views of CEOs and other leaders so that we can all learn from their perspectives on how to navigate the future. We want to hear from you too. We invite you to complete the short questionnaire on the NOW website. And if you would like to hear about future podcasts, please take a moment to fill out the form on the NOW website so that we can be in touch with you.

As we look to the future, whether we agree or disagree with each other, the one thing we know for sure is that none of us can figure this out on our own. At Brown Advisory, we are focused on raising the future, and we hope these NOW conversations will help us do just that.

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Keith Stone: We're in the midst of a national moment of reckoning around the history and ongoing legacy and impact of racism, inequality and white supremacy in our country. One component of this conversation is the importance of representation, and the unfortunate lack thereof across all aspects of our society, from fashion and entertainment, to finance, technology and investing.

In this episode, we'll reflect on the state of the venture capital industry today, where less than 1% of venture capital goes to Black entrepreneurs and less than 0.2% goes to Black women entrepreneurs.

Venture capitalists can make a difference. While the ultimate success of companies is driven by the entrepreneurs that build them, venture capitalists provide the financing and support for innovators to get their companies off the ground.

When only a tiny fraction of venture funding goes to Black entrepreneurs, what are we missing? What problems could have been solved? What impact is the lack of access to capital have on innovation? I'm Keith Stone. I'm a partner at Brown Advisory, and I lead our venture capital investing effort.

I am thrilled to welcome to the podcast three successful investors who are deeply thoughtful about how to improve upon the lack of representation in the venture industry. Charles Hudson is the founder of Precursor Ventures, Monique Woodard is the founder of Cake Ventures and Richard Kerby is a founder of Equal Ventures.

Charles, Monique and Richard were friends long before they joined us on the podcast, and so it is a special treat to be able to facilitate this conversation. One note about this episode -- you will hear Charles, Monique, Richard and me refer to GPs and LPs. In case you're less familiar with the venture industry, GPs, or general partners, are the partners in venture capital firms. They manage the firms, raise money, make investment decisions and guide the portfolio companies.

LPs, or limited partners, invest in venture funds to provide capital for new ideas and benefit if and when the companies in the fund grow successfully and are acquired or go public. As we come to the end of this season of the NOW Podcast, it is interesting to reflect on how the conversation with Charles, Monique and Richard echoes previous episodes.

John Meacham, on the importance of truth telling, Doug Baker, the CEO of Ecolab, and Lynelle Cameron of Autodesk on how business can drive systemic change. And Joel Flory, the CEO of VSCO on the benefits of culture, adds diverse perspectives. Monique, Richard, Charles, it's great to have you hear with us -- let's jump right in. Let's start with how did we get here? What are some of the structural issues that contribute to where we are today in the venture industry? Richard, why don't you kick us off?

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Richard Kerby: I think historically, venture started off as an industry that started in a time frame where there weren't many African Americans in tech or in finance in general. And so when LPs were giving dollars to GPs, the only option were predominantly white men. And that just kind of became a self-sustaining thing -- for many, many years, it kept rolling.

And that just became what LPs started to look for, because the only folks they saw succeeding were predominantly white men, so that was the kind of pattern matching in their mind that they were thinking through and going through.

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Keith Stone: Charles, anything you'd like to add?

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Charles Hudson: What I'd add is historically, the two best ways to become a venture capitalist are to be an operator who has a huge exit with your company through the venture-funded channel, which means you were able to get access to venture capital in the first place, or to have been a partner at an established venture capital firm.

And if you look at both of those channels, starting with the first one, in order to be a founder who had an exit for a venture-backed company, you had to get venture capital in the first

place. So the flip side too is a lot of the industry was focused on funding people that were already in their network, people who went to the same university, people who'd worked with them at a previous company, people who maybe they had a social relationship with.

And so it was a very network-driven decision about who got funded. And as you can imagine, those networks didn't include a lot of Black and brown faces. And second, most venture firms historically have hired from a very small pool of universities and companies, and those universities and companies aren't terribly diverse either.

And so what you end up with is the two fastest paths to becoming a venture capitalist, whether it's as a contributing member or as the leader of an organization, was to have raised the money or been at a venture firm. And when those two paths look the way they did, it's not surprising to me that we've had relatively few Black and brown VCs break through.

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Keith Stone: What are your thoughts, Monique?

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Monique Woodard: You know, venture capital is an industry in which you get there by being apprenticed by someone, right? So someone sort of gives you the nod, and they teach you the business. And typically, networks are not particularly diverse; they are actually incredibly homogenous.

And so you would have an older, usually male venture capitalist who's known the business and learned the business and was probably brought into the business by someone who was older than him and also male. And then they bring in someone who is younger and male, often from the same networks, often from the same schools. And so it's a very cyclical environment, and it's very difficult to break in and have any sort of diversity in that.

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Keith Stone: Richard, you wrote a piece about the lack of diversity in venture capital that's probably a couple years old at this point, but can you share the main take-aways from that?

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Richard Kerby: Yeah, sure. So a couple of years ago, I put out some data on the lack of diversity in venture capital, and, you know, the outcomes were quite glaring. Roughly, African Americans make up about 2% of the industry, Latinx was roughly about the same thing, slightly lower than African Americans, and the industry was 70%-plus white, whether it's male and female combined there. So that was glaring.

And then on top of that, from an education standpoint, Monique mentioned, and so did Charles, mentioned that people kind of pull from their known networks. And the data suggested that 40% of folks in the industry went to Stanford or Harvard, oftentimes both institutions.

And so when you're pulling from the same crowd, it's no surprise that the industry looks a certain way. So I'm actually in the process of updating that data now. And, unfortunately, not much has changed in that dataset. The biggest change in the two-year time frame has been an increase in women in venture, which is great.

Predominantly, it's been an increase in white women, as well as Asian women. So that's been the predominant jump that we've seen, but the rest of the demographics look mostly the same from my updates so far. So some change, but not nearly enough change -- I think everyone on this call and everybody in the audience would hope for.

00:08:01 Keith Stone: So what advice do you give to other VCs that may approach you about how to source companies that are led by diverse founders?

00:08:06 Monique Woodard: I mean, the first thing that I recommend when another GP, usually white male GP, comes and asks me how to diversify their pipeline of founders is hire a person who is not a white male. You know, that's not always possible. In a year, you may not be hiring; you're only going to usually hire around fund cycles.

But that is the number one way to get more diversity is to hire someone who doesn't look like the rest of the firm and who has a different network than the rest of the firm. And so barring that, I've seen a lot of funds lately start to make commitments as carve-outs to invest in emerging managers. And I think that's a really interesting strategy for them to get closer to emerging GPs, and specifically, get closer to emerging GPs who are Black and Latinx.

00:08:57 Keith Stone: How do you advise VCs to find diverse candidates? Charles, let's start with you on this one.

00:09:03 Charles Hudson: So we have an all-Black team at Precursor. There's three of us, me and two really talented Black women on the team. And we were hiring our analyst. Internally, my associate and I, between the two of us, have a Duke degree, a Berkeley degree and two Stanford degrees.

And I said -- I think we have big Bay Area schools covered, and it would have been really easy to just say we're going to send an email to Stanford, and we're going to post it there, and we'll get a bunch of really talented people, and we'll do the same at a couple of schools.

And we just said, let's try a different experiment. Let's try to do the opposite of what most venture funds do. Let's try to push our analyst job spec out as far and wide as we can on the internet. Let's try to get it, like, in front of as many different people as we can.

So we ended up getting 400 applicants, and we're not a big firm -- we're not Sequoia or Lightspeed, some big brand-name firm. And we whittled that down to basically a group of 10 candidates, and the person we hired literally couldn't have been further outside of our network.

She went to a school where neither my associate nor I had any contacts. She had spent most of her career on Wall Street. She was a native New Yorker. She hadn't worked in tech before. She was just different. And I think other than hiring my associate, it's, like, the best decision we've made on the hiring front at the firm, because she brought, what I would describe, as, like, a healthy skepticism about tech and venture, because she isn't from here.

I think what ends up happening is when you're embedded in some of these markets and businesses, you start to internalize all of the logic that's sort of common knowledge. And she just brought a refreshingly good outside perspective. And I've told other people, like, you can do this. This is not hard. But part of it requires you being open to the idea that the person that finishes at the end of your process will look different than the people that you normally have at the end of your process.

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Monique Woodard: Yes. And I think in order to do that work, you really have to see this as mission critical to the growth of your firm. And what is mission critical to the growth of your firm is continuing to find new opportunities in areas that you may not have looked at before, or areas where there is something new happening or areas where other VCs are not going to be as competitive.

You're looking for alpha. And so every person on your team has to be different enough so that you're constantly widening the aperture of what you're seeing on a regular basis and finding the best deals and the best founders and the best opportunities and the best industries. And I think the more diverse you can make your table, the more diverse a table you can set for your firm, the better you're going to be at doing that.

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Keith Stone: Venture partnerships are by definition small. What is the right amount, or what is enough diversity within a firm? And how do you think about diversity beyond race and gender?

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Richard Kerby: Yeah, I don't know what the right number is, or if there is a particular right number. But I think in general, any firm should reflect the society in which the firm operates in, right? And so, are there -- is the United States composed of 2% of Black people? No, it's not -- it's like 13%, right?

And so, that in and of itself I think is a good barometer or starting point for any firm to think about their organization. But even furthermore, I would think about we are supposedly investing in the future, whatever, investing within technology, and so I would think even furthermore.

And so, what does the United States look like 10, 15 years from now? To make the right bets to win in that environment, your team should reflect what the country would look like at that point in time. And so I think that's the kind of benchmark that I think about from a demographic perspective -- I think that's just only one aspect.

I think, Keith, you mentioned before, diversity is not just gender, it's just not race; there's other things, whether it be personal background, whether it be career backgrounds are different. We, in this, like, venture capital bubble, tend not to be as equipped to understand what's happening in non-Bay Area, non-New York City. And so the middle of the country, other parts of the country that are massive to massive swaths of the economy, are generally ignored.

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Monique Woodard: Yeah, I don't know what the number is, but it's not one. I would just like to be clear that it's not one. It's not like, well, we did that, thank goodness, we're finished.

And I've seen that happen even with firms that hired women partners, feeling that they hired one and that was good enough. And so now we can -- we're satisfied with our performance there.

And I think I would push people to think beyond, like, the tokenism. Right? You don't want people to be a token in your firm. You actually want them to be part of a team and part of a broader strategy and inclusive thought process around how you're building that team out.

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Charles Hudson: I would also just say to Monique's point, if every firm had one, it would be a gigantic accomplishment and a huge improvement over where we are at the moment. And so one is not the right answer, but one would also be marked improvement.

The only thing I can add is, I think it's not just about hiring people; it's about giving them space to be successful and, like, giving them room to be themselves and not offloading all responsibility for all diversity onto your one Black partner.

Like, that person's job shouldn't be to be the sole person who's responsible for meeting with and interacting with Black founders. Like, that should become a firmwide thing. And I worry that sometimes firms hire one Black partner or one Black individual, and then you layer this person up with this unpaid work of being the firm's diversity ambassador. That doesn't seem to me to be a good policy.

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Richard Kerby: Yeah, one thing I'd just add there, one is hard to do too, because who wants to be the only or first Black person at any particular firm or first woman at any particular firm? That's a really tall task for anyone to ask because you're throwing them in an environment that, like, already skittish about and not excited about and not comfortable in.

And so people often talk about cultural fit, but I think it's cultural add. You think through that lens, you're more comfortable figuring out who to bring on your team, and it doesn't need to be just one. And if you can add more than one person -- it doesn't have to be 16 Black people -- but you know, a Black person, a woman, a Latinx investor.

All of these things combined make for a more inclusive environment that folks can feel like, you know what? Yeah, these people are all very different from me, but I feel like I could be comfortable in this environment, and they really care about the things that I care about, and I care what they care about.

And that goes to the retention point that Charles mentioned, which is that's the environment that you want to have to allow yourself to be able to not only hire one, but have a plethora of people that want to come and work in your organization. And the folks that can create that environment, I think, are the folks that are going to win long term.

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Keith Stone: The three of you are in kind of different phases of starting up firms. Just what has that experience been like, and what's it like finding LPs? What are some of the things that people are looking for, and I guess, just curious how those conversations have gone?

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Charles Hudson: I will be the first to recognize that I have a very atypical experience fundraising as a Black GP. I've been a partner at another fund before when I left. So that box was checked. I made investments under my own name and had a track record, like, that box was checked.

It was still very difficult to raise our first fund. And one of the things I've certainly seen from talking to other female fund managers I'm friends with and other managers of color is you never know how much of your own experience was like your fund model and your process or other factors, like racial discrimination or sexism.

You just don't know. No one really tells you that that's why they're not investing in your fund. I thought our first fundraise would take a year; it took more like two years, and we raised a grand total of \$15 million. And it still felt almost impossibly hard to get fund one done, which makes me think how much harder must it be for the Black and brown GPs who have none of those advantages, who haven't worked at an institutional VC fund, who don't know a ton of LPs, who don't know the language and don't know, sort of, the logic of how to pitch and build a portfolio construction.

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Richard Kerby: We raised our first fund past this year. It took us about 18 months to do it, so also quite a while. Had some advantages, like Charles had, not the same. Had worked at two previous funds before that I would say were funds that are quite well-known in the venture industry, so brought some cachet on that team page and background page.

That someone on the LP side can say okay, yeah, I know those names, I trust that he or she knows what they're doing. And so that was great. Nonetheless, still had challenges. You know, you definitely, to Charles' point on understanding did I not get it because my strategy didn't fit or did I not get it because they didn't want to invest in a Black GP?

And you can get some hints of that. I know I was in a room with a well-known LP -- I'm sure everyone on this podcast -- and you always want to hear about that question about differentiation. So how are you different from fund X, Y or Z, or just any seed-stage fund? Really easy question to ask.

But the way the question was asked to us was -- hey, Richard, how is your fund different from this other Black GP's fund? Out of all the funds on the planet to think about or to compare one to, no one wants to be compared to the other Black fund that's fundraising right now. That is a question that doesn't actually happen in every room, and so that starts to get you the hints that some of the things that are harder to do in the fundraise process.

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Monique Woodard: I think everyone comes with a little bit of privilege. And so I think, it's a very little bit. My little bit of privilege was having name recognition, right? So people know who I am, and that opened a lot of doors with LPs. But then it got me in the door; it doesn't always necessarily end up being, like, a check closing thing.

And there isn't as good or as deep data as the data that Kerby referenced at the top. But anecdotally, there are very few Black women GPs who have raised, you know, in fund one,

over \$25 million. Most of those funds for fund one led by a Black woman GP come in at like \$3 million to \$5 million, actually. Very small fund sizes.

That has certainly been a challenge that is incredibly, like, **gender based**. And I think that's a few things. You know, there are very few Black women GPs who were previously at big institutional funds. I was at 500 startups before, and I scout invested for Lightspeed. But people read that differently. Every LP will read that experience very differently.

I had one LP who I actually really, really liked -- but when I was meeting with them for the first time, it was sort of in the midst of a lot of venture funds hiring their first woman partner. And I did my pitch around Cake Ventures, and I told them what I invest in.

And they said -- well, why are you here? You could probably go to any large venture fund, and you're Black and a woman, and just, like, walk in there and get a partner role. And you know, I was sort of like -- that is a great question, because if you just look at the data around how much money Black women GPs raise and how many of us are out there and how many of us have been able to do it successfully, you would think that it is a fool's errand to think that you're going to go out and raise a fund of any significant size.

So I think that while the bias cuts against color lines for sure, there's also the bias that cuts against gender lines. And those two things combined make it exponentially difficult in a lot of cases for Black women fund managers to succeed in the space.

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Keith Stone: **There are so many unknowns when you're investing in venture**. And so this idea of pattern matching is a widely accepted methodology when evaluating new opportunities. And by the way, this applies not just to VCs that are looking at founders but also LPs that are investing in venture capital firms.

People tend to look for things that are familiar to them or that remind them of prior successful investments. And the reality is, there are a lot of firms and there are a lot of LPs that have been successful despite having, I think what we would all agree, is a pretty appalling lack of diversity in their portfolios. But those folks might not see the need to change, given their prior success. **What are people missing if that's their mindset?**

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Richard Kerby: Yeah, so the first thought on my mind there, as you said, Keith, is yeah, that **there's plenty of very nondiverse funds and teams that have been very successful at deploying capital and returning lots and lots of capital to their LPs.**

**There's also many, many more nondiverse fund managers that have returned horrible results to their LPs, lost money for their LPs.** I think the issue there is that the opportunity for having Black, Latinx, other GPs to have the chance to put those returns up just hasn't been there historically.

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Keith Stone: So venture capital is all about finding the next big thing, right? And from a cultural perspective, that next big thing is often created by or influenced by or driven by Black people. So can you touch on what investors are missing out on by not investing in Black founders?



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Charles Hudson: I think sometimes as venture capitalists, we say things -- we've been saying things for a long time that I think to me feel cringe-worthy now. And I think for a lot of firms, there's this notion that, like, well, how can I invest in a company where I'm not the customer?

Or, how can I invest in a company where I don't understand the customer, which to me has always been code for, like, if I wouldn't use it or it doesn't work for my family, I'm probably not going to invest. And if you think about like where venture capitalists come from socioeconomically, there's just a lot of problems that, like, as a group, we probably don't identify with, if we apply that lens.

I'd argue most venture capitalists I've talked to don't know nearly as much as they think they do about AI, ML, deep tech, some of these, like, technical areas. But it's been okay to say I will invest in new technology areas where I maybe don't yet have expertise and I'll learn along the way.

But it hasn't been as comfortable to invest in new audience groups or in new types of people that are not like the firm. But I find it very liberating to say that, like, my investment criteria do not require me personally identifying with the problem that this company is solving in order to say yes.

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Monique Woodard: And I think that firms are going to have to start to move away from thinking that the things that got them where they are today are the things that are going to get them to where they need to be tomorrow. So they may have had multiple years of great returns, but the fact is that I invest in demographic change, and the fact is that the internet user base is changing rapidly.

And people of color are on track to become the majority in the United States. If you look at young generations that drive internet adoption and drive technology adoption, those generations, Gen Z and the upcoming Gen Alpha, are already majority minority generations.

And so, so many VCs are obsessed with Gen Z but fail to, like, take the next step in their thinking and say, oh, wait, that's actually a majority minority generation that is making TikTok explode. That's actually a majority minority nation that is driving usage and driving conversation on a platform like Twitter.

And these things can be extrapolated across many different categories of technology. And if you are going to be a firm that continues to deliver returns in the way that you have been, you're going to have to start to invest in these products that touch communities that you don't know very much about. And if you're looking for opportunities, you're going to start to have to figure out ways to look for them in other categories or focused on other user groups that you may not have a lot of experience with.

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Keith Stone: Maybe we can shift a little bit and talk about the LP side of things and what we can and should be doing. You know, right now, there's a lot of focus around backing diverse managers -- that often translates to LPs that are looking for a perfect double whammy in

terms of a Black or Latinx or female GP who also has a stated strategy of investing in women or people of color. Can you talk about some of the pros and cons of that approach?

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Monique Woodard: So I've certainly seen a lot of LPs, and these are generally well-meaning LPs who want to fulfill double and sort of triple bottom-line opportunities. And so they often say well, we want to invest in emerging fund managers of color.

And then we also want those emerging fund managers of color to be investing in majority founders of color. And then we want those founders of color to also be building companies that can be described as impact companies.

And so by the time you, like, slice and dice it three different ways, you're really sort of hamstringing GPs in a lot of ways to only do this very finite sliver of something that you believe is really important to you and you probably believe is good for the GP, but that leaves so many people out of what would normally be a qualifier.

And so I think it's really important to be able to say, look, as a GP walks in the door, and they are working on investing in artificial intelligence companies, and there's no social impact focus, and there is no racial focus, they should be able to do that. I think limiting the scope and professional dreams and professional acumen of GPs is actually the opposite of what I think LPs should be trying to do.

I think the real conversation you need to be having is with funds led by white male GPs. And telling them, and looking at the makeup of their portfolios, and saying, okay, well, why are there no women in your portfolio, or why are there very few Black founders in your portfolio?

You need to be doing the same sort of curation of their portfolio and of their focus that you're trying to do with fund managers of color. But I think trying to do that is actually incredibly detrimental, and it gets you the opposite of what you actually are trying to optimize for.

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Keith Stone: So, as an extension of that, does part of the change also need to be more diversity on the LP side of the world?

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Monique Woodard: It doesn't solve all of the problem -- all of the issue. Because I think that often the person who is making the decisions within an institution, for example, is making those decisions and trying to set those guardrails around fund managers of color because that is what the institution wants. It's not necessarily that a Black person in the LPC is going to give you a different outcome; it's really about changing the thinking of the LP base as a whole.

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Richard Kerby: You know, one thing I think I'd add there, on Monique's point, is that it goes back to what Charles said on the GP side. Which is, that for LPs as an entity, they need to care rather than hiring an individual, hiring the one Black person, the one Latinx person on their team. Because then that one Black person or Latinx person is then tasked with go find me Black and brown GPs.

Then that comes back into their investment committee. And they're like, oh, here's Richard again, he's going to bring another Black GP in here or Latinx GP in here. And then it becomes almost, like, not an afterthought, but that it's dynamic internally within the LP itself.

And so yes, more diverse teams at LPs is helpful, but I think it needs to be done correctly so that it's not seen as just, like, adversarial thing like every time Richard or Charles pitches a GP, it's going to be that same exact person over and over again.

And another point I'd make is that I think more and more capital targeting diverse managers is great. The one dilemma is that when there's these multiple buckets at these LP institutions where you've got this diverse manager pool, and then this main pool, and automatically I come in the room, and, like, okay, Richard, cool, we're talking about you at the diverse pool, and our diverse pool checks are half a million to a million.

And I'm like, okay, but then, like, the main pool checks are like five to 10 million. And so why is it an or rather than an and? And if structured correctly as an and rather than an or, that I think does a better service in solving the problem that that diverse fund mandate is supposed to solve in the first place.

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Charles Hudson: My sense is that part of the reason we got such a rapid change -- it's still not enough, but a rapid change in the female representation in venture firms -- is that behind the scenes, LPs use their social capital, their financial capital and applied pressure to firms, and said, as of now, this is unacceptable. Like you need to address this and, like, you will address this and, like, this is an important thing.

And they, whether it was, like, explicit or implicit, pressure was applied, and it was effective. Because you look at a lot of firms that had never had a female GP before, who had every excuse in the book about why it was simply impossible. Bang, suddenly they had this amazing female GP on their team. It turns out that she's amazing and, like, the talent was sitting there all the time.

I worry that not as many LPs are willing to apply the same level of pressure and social capital when it comes to questions of racial equity. And I don't think it's -- I don't say this cynically -- I do think the industry has not done a good job of cultivating Black talent. And what I'd argue, there's been tons of female executive talent in the Valley for a long time.

So finding female executives or angel investors who could become great VCs, it was really, like, negligence that they weren't in the industry. Like, the talent was, like, literally right there. And I'd say socially, these people were already connected. Like, I know GPs who've had female managers, worked for a female CEO. I don't know that many VCs who've ever worked for a Black person, period, in any managerial capacity.

Maybe if you are at a large company and you happen to be in a division that was run by a Black professional -- maybe. But I think we'll see. But it's never happened. And part of me feels like, I don't want to say it was easy, but, like, you could apply confident pressure around gender, because you could point to many, many candidates that were worth recruiting.

I sometimes get the sense when I talk to LPs one on one that there's some hesitation. That, well, what if I push this firm to bring on a Black investor and they can't find one? I'd argue, shame on that firm for not having a network that includes talent from Black people. And so I really would encourage LPs who feel comfortable doing so to push mainstream firms harder on this issue.

00:33:39 Keith Stone: So maybe just kind of open it up. I don't know if there's anything that we didn't touch on that anyone wants to talk about.

00:33:45 Charles Hudson: I really want to make sure we don't lose the thread about what Monique said about LP expectations for Black GPs. I think this is, like, the one thing, going to her earlier question about -- my first fundraising experience. The number of times I walked in and people said, oh, this is great, so you're doing a diversity fund. And I'm like, I don't even know what those words mean. Like, I literally don't know what those words mean. But you said that before I even opened my mouth, which tells me a lot about the assumptions you're bringing into this conversation about, like, our fund strategy and the kind of founders that we're going to back.

And I think one of the oddest things I've learned as a GP is I think it has been easier for us to construct a portfolio that I'm really proud of in terms of racial and gender diversity lines by not explicitly saying that we're a diversity fund, whatever that means, and just saying we're a fund that cares about funding a broad number of people. And if we fall below certain thresholds, I will feel like we failed as a fund.

I feel like it's been easier to get mainstream LPs excited about our strategy, even if the outcome of that is similar to what it would have been if were a -- quote unquote -- "diversity fund." And I've just found as a Black GP the number of times I've walked into rooms and people have either had that assumption, or when I've told them that's not our plan, they've been almost offended that it's not our plan. They're like, but you're a Black GP, isn't that what you should want to do?

I'm like, look, the industry needs a couple of things. We need role model funds that are Black GPs that are focused exclusively on Black and brown founders because they're underfunded as a group. I think we also need a class of Black GPs who are just amazing investors and sourcers of talent and can win competitive deals, and give people a wider canvas of what like Black venture can look like.

00:35:39 Monique Woodard: Yes, I mean, it happens possibly every other LP meeting that I go into, where I finish telling them about the fund, and they say, okay, so you mostly -- you invest in underrepresented founders. And I go, well, yes, but not exclusively. And then they sort of, like, have a moment where they process that, and then there are a lot of questions.

And for some people, they are not interested in Black GPs who don't exclusively invest in Black and brown founders. And I think that is extremely limiting. Look, I think non-Black founders also need Black fund managers to invest in them. Because if you look at sort of Silicon Valley especially -- I'm going to talk specifically about Silicon Valley -- over the last

few years, so many of the issues that trip up otherwise successful companies have been and will continue to be issues around inclusion or diversity or something related to that.

So anything from sexual harassment, to racial harassment, to wage disparity, to -- all of these things will, have been and will continue to be major issues as companies scale and get bigger. And the more diverse voices you can have on your cap table when you are dealing with some of these issues, the better.

00:37:14

Charles Hudson: And just to add one thing to that, it's really become obvious to me sort of recently that many founders that I've met, not just ones in our portfolio, they've never had, like, a meaningful professional experience with a Black person in a position of authority relative to them. So they have almost, like, no concept for what it's like to work with a Black professional who's in, like, a position of authority.

And one of the things that I think is pretty interesting is, like, having Black GPs that work with founders of a wide variety of, like, racial and ethnic backgrounds is for some of these people -- it's going to be their first time having a really meaningful professional relationship with a Black person.

And I have to believe that that will also change the way they think about hiring and staffing in their own company if they have a positive experience with a Black GP who gives them good advice, who is supportive, who adds value to their company.

I'd like to think that the spillover effect of that is that they'll be more positively inclined. And I've just been surprised by the number of people who when I've asked them, like, how often do you have meaningful professional or social interactions with Black people, the answer is -- especially in the Peninsula in the Bay Area -- you could live in Atherton or Woodside and work on Sand Hill Road, and you might never encounter someone like me for weeks at a time.

And I'm not saying that is, like, actively racist or anything like that, but I have to believe it has some kind of subtle impact on how you think about your relationships with Black people if you don't have any meaningful professional or social interactions with them for long stretches of time. I don't think anybody on this call has long stretches of a period of time where they don't have meaningful, significant interactions with people of other races.

00:38:58

Richard Kerby: I guess just a couple of things to add on my end. You know, on the LP front, you don't have to just invest in one Black manager or one female manager either. What that kind of breeds is then competitions, like, man, should I make Charles an introduction to this firm, because I know they're only going to invest in one Black manager and therefore, it's going to be me or Charles.

Or, man, will Monique compete with another woman just because this fund wants to invest only in one women fund? And so that bar shouldn't be one investment equals I now invest in diverse managers from the LP standpoint.

And then I guess two, just thoughts on just how nondiverse funds lead to nondiverse portfolio companies. Our team up until recently was an all-male team. Look at our first few

investments, we've like, we've only invested in male CEOs with male co-founders. And we're like man, that's terrible.

So our very next hire was a woman, and we are -- we're definitely seeing more and more women-led companies, or at least more and more women co-founding teams. And that's making a big impact in our pipeline. And so we're not 100% right in what we do. We kind of see our flaws and make changes to them.

And we are a really, really young fund, and we were able to solve -- not solve it completely, but make strides to solving that problem. That should be happening in every single firm if you just look internally.

And more to the point that I think Monique alluded to earlier is that as I'm updating my data on the lack of diversity in venture, what we're doing is correlating that to the lack of diversity amongst the venture portfolio. And so oh, surprise, you have an all-male team. You have zero Black founders, zero female founders in your portfolio. That's through direct correlation right there.

And so if you want to have that far-founding impact of reaching diverse customer bases and diverse employee base of companies, you got to start at top, because that's how you'll filter down the rest of the way because it's a clear correlation between the makeup of a venture fund and the makeup of their portfolio.

00:41:05

Keith Stone: What are some of the things you're seeing in the venture industry that give you hope, and what changes do you ultimately hope to see?

00:41:11

Richard Kerby: What I am encouraged in seeing is that one, folks are putting dollars to work. So you've seen announcements from Google, SoftBank, Netflix and others -- I think all of that is positive. But one thing you could knock on them is that those dollars appeared in about, like, five seconds, which meant they could have done that whenever they wanted to.

Which either meant one, they didn't care, which I don't necessarily believe that necessarily, or two, it's just neglect and weren't even thinking about it, didn't even cross their mind. That, man, as I walk through the halls of my company, I never see a Black person, and that was okay then.

So that's something that, I think, in the back of minds, but great to see the initiatives and dollars that are now flowing in that capacity. I think it's great to see funds, whether publicly or privately, doing their best to make sure that their future hires are more diverse employees.

You know, I for one make myself available to anybody who needs help recruiting, needs help thinking about initiatives. I'm an open door and happy to discuss anything. I think any initiative is positive, and I'm happy to give myself as a sounding board to anyone and work on those initiatives in that capacity.

You know, lastly, I do think there are LPs that are saying, man, we've done a really bad job of this, and we need to do better, because we think we should do better for X, Y, Z reasons. Some of them may be just pure altruism; some of them is pure profit. Whatever the reason is, I think it's all positive. And so I'm glad to see some of that happening in that dimension. So I think all of those things are working in our favor.

00:42:43

Charles Hudson: Yeah, I guess for me the goal is simple -- I just want to normalize Blackness in venture capital and startups. I think now, like any time a Black venture capitalist does something, it's amazingly noteworthy because it's so rare.

And I look forward to the day where it's just not rare. It's not rare for you as a founder to walk into a pitch meeting and see a Black venture capitalist face across the table, it's not rare to see multiple Black venture firms at a cap table.

It's not rare for a limited partner to meet with a new fund started by a Black -- I just want it to become normal. And I look at, in a short period -- I don't think it has to take a long time -- in a fairly short period of time, we've made a lot of progress in normalizing women-led startups and female venture partners.

We still have a long way to go, but I think it's, like, becoming -- it's not shocking to me if I walk into a room and, like, see two or three female venture capitalists. That's like okay, yeah, that happens more often than not.

And like, my real hope is we can get there with Black people. And I think it's going to take leadership in our industry. Like, I actually think to me Lightspeed hiring two more people, and General Kettles has got a handful of folks, I think -- it's more of these bigger firms show that it's possible. It takes away the excuse that like, well, no one can do it, right? Only the Black firms can hire Black people, and so we're not one of those, so we can't.

I think it's more firms, like, break through that wall and make their first and second and third hires, the firms that don't do it are going to be conspicuous in their actions. And like, I hope that we get to a point in the same way I think most firms are like, wow, we don't want to be perceived as the firm that's hostile to female founders because we value their contributions to the ecosystem and we think they're an important part of our portfolio.

So let's not do things, whether it's with our team construction or the gender breakdown of the founders we back. Let's not do anything that might signal to them that we're anything other than open to their ideas and talents. So that's really my hope is that like we can get to a place where this is like -- like the three of us are, like, less remarkable as people.

00:44:56

Monique Woodard: Yeah, and I hope we get to a place where LPs have expanded their vision of what a fundable fund manager actually looks like. And that that includes Black fund managers and specifically, that that includes Black women fund managers.

I want us to get to a place where Black women fund managers can raise sizable funds that are sustainable. And that there are LPs who are willing to back these funds and willing to

take a chance on a fund one or fund two of a lot of these great fund managers who are coming to market.

And I think those things are good for the industry as a whole. I think that they're obviously good for fund managers, obviously good for LPs, also really good for founders. And so I really want people to start to understand what the value of having great Black investors actually looks like and how that changes and improves the industry for the long term.

- 00:46:02 Keith Stone: Monique, Richard, Charles -- this has been a fantastic conversation. We are really grateful for your time and your insights. Thank you so much for being here with us.
- 00:46:10 Richard Kerby: Thank you.
- 00:46:10 Monique Woodard: Thank you. This was fun.
- 00:46:12 Charles Hudson: Thanks for having us.
- 00:46:17 Ken Stuzin: Thank you for joining us these last several months for our NOW podcast series as we have sought insights to help understand our rapidly evolving world. We have learned a lot from these conversations, and we hope you have as well. If you would like to stay up to date about future podcast, please fill out the form on the NOW website. We look forward to being in touch. Until then, be well and stay safe.