

THE STATE OF AAPI IN VENTURE CAPITAL

OVERLOOKED CHALLENGES FACING AAPIS IN VENTURE CAPITAL





aaaim

Berkeley
SCET

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A Message From AAAIM

aaaim

AAPIs are a powerful workforce behind the tech industry and venture capital, but our recent research quantifies, for the first time, the degree of AAPI underrepresentation in venture capital.


For many years, reports have reinforced the fact that the U.S. venture capital (VC) industry is overwhelmingly white and male. While white men make up 30% of the U.S. population, this group represents 58% of investors in VC firms and 93% of the industry's assets under management (AUM). There is reason to continue to be concerned about the lack of diversity in the VC sector.

Although there have been a number of studies related to the systemic imbalance faced by women and diverse communities, there has been limited research related to the Asian American and Pacific Islander (AAPI) community in VC. We wanted to see what the latest representation looks like, so we partnered with DECODE and UC Berkeley to dig into the data. Even more importantly, we want to ensure that AAPIs are part of the broader Diversity, Equity and Inclusion (DEI) dialogue, particularly as AAPIs strive to achieve full participation across many aspects of our society. When it comes to investment in entrepreneurship, it is especially important to have representation in those economic sectors where AAPIs have become notable innovators and represent a major segment of the workforce.

While AAPIs currently comprise a representative proportion of VC positions and the technology workforce, AAPI-owned VCs continue to face proportionally low AUM numbers. The mismatch of capital allocation to AAPI VCs becomes even more pronounced when you see data that shows the performance of AAPI-owned VCs to be especially high-performing. In fact, a 2023 study by AAAIM/Bella Private Markets reported that 52.6% of AAPI-owned funds delivered top-quartile performance, compared to 24.1% for non-AAPI funds of the same vintage year and strategy.

The low levels of AUM share for AAPI-owned VC firms indicates that our community are largely part of the support-level investment workforce. At best, they might be partners in firms founded by others, yet are often not among the check-writers at VC firms. Indeed, AAPI participation falls far short of the benchmark when we consider their representation among decision-makers and owners. After all, it is the founders of VC firms who set the business objectives and gain most of the wealth that is created.¹

¹ Ivashina, Victoria, and Josh Lerner. "Pay now or pay later." *Journal of Financial Economics*. 2019.



AAPIs in the VC industry certainly include success stories such as Khosla Ventures, Venrock and Intel Capital. Several of Silicon Valley's earliest VCs such as Mayfield, Sierra and Lightspeed also now include AAPI leaders. While these gains are encouraging and should be celebrated, this new research quantifies how much the overall numbers continue to be disheartening. **Even with fund outperformance, a stellar human capital pipeline and multiple investment successes, AAPIs by-and-large face systemic challenges in raising significant amounts of capital for their own funds.**

As academic research has shown, the majority of the gains in VC/PE firms go to firm founders² – a group that is still overwhelmingly male and white. For AAPIs and other underrepresented groups to achieve full representation in the VC industry, systemic change must occur. In particular, we are advocating for fair and open access to capital, particularly for deserving AAPI-founded VC firms.

There is reason to be encouraged by programs like those run by many state pension funds, which operate emerging manager programs and dedicate a portion of their capital to underrepresented and early-stage fund managers. However, even these programs are not immune to bias against AAPI inclusion. We have found several examples of these programs explicitly overlooking or excluding AAPI-owned funds.

These alarming facts about underrepresentation (despite stellar fund performance) along with explicit exclusion, led to a conversation with Shuo Chen, faculty member at UC Berkeley, and Jerel Lim, the leader of the talented team behind this research. Collectively, we worked to shed light on this imbalance and better understand the systemic challenges to achieving full participation by AAPIs and other underrepresented communities. Our goals were to educate LPs and the VC industry about issues of representation and access, and encourage open dialogue based on current data and facts to drive greater participation for diverse managers. AAAIM is truly grateful for the work by Shuo Chen, Jerel Lim, Teen Fong Seng and countless other students and researchers who worked on this important project. To all those who worked directly on data collection and VCs within AAAIM's network who set aside time for the survey and dialogue with us, we owe you an enormous debt of gratitude for helping to shed light on this critical topic. Finally, we thank Morrison Foerster and Banc of California for their generous financial support that allowed AAAIM to commission this important research.

2 Ivashina, Victoria, and Josh Lerner. "Pay now or pay later." *Journal of Financial Economics*. 2019.

Introduction

The importance of Diversity, Equity and Inclusion (DEI) in the workplace has never been more critical in today's public discourse. There has been increased awareness of structural discrimination on grounds of gender, ethnic, religious and socioeconomic background, age, disability, among others. This social and economic push has catalyzed a collective initiative to address structural and cultural barriers for the diverse members of society from various backgrounds. Yet, much more work remains to be done to promote diverse communities, improve access to resources and create inclusive environments for members of society that belong to various minority or disadvantaged groups.

DECODE's mission is to democratize knowledge and opportunities around the future of work in tech and entrepreneurship, and we firmly believe that DEI will be an integral aspect of the next generation workplace. Beyond the notion of promoting fairness, plenty of studies have already suggested that promoting diversity carries tangible competitive advantages. Diverse teams at work have been suggested to outperform homogeneous teams in various ways, from cultural dynamism, sense of belonging, innovativeness, and even observed financial outperformance.³ Businesses and investors alike are placing greater emphasis on DEI when building teams or evaluating opportunities. Such practical considerations aside, promoting DEI is a laudable ideal and empathetic end that we strongly stand for.

While it is heartening that various organizations' collective push for greater DEI efforts has progressed towards raising awareness and engendering social change, proportionally greater attention has been paid to gender diversity and diversity for Black and Latinx members, while rarely does the Asian American and Pacific Islanders (AAPI) community get included in that dialogue. For instance, when Crunchbase released its diversity spotlight feature in 2020 as part of the company's ongoing commitment to promote DEI, its accompanying report focused on Black and Latinx startup founders, highlighting key statistics of and challenges faced when raising funding.⁴ However, AAPIs have been notably excluded from these important DEI studies and reporting.

3 Gompers, P & Kovvali, S., "The Other Diversity Dividend.", 2018, *Harvard Business Review*, <https://hbr.org/2018/07/the-other-diversity-dividend>. Accessed February 2, 2023.

4 Crunchbase, "2020 Crunchbase Diversity Spotlight Report", 2020, <https://About.crunchbase.com/2020-Diversity-Spotlight-Report>. Accessed January 10, 2023.

We consistently witness the relative lack of attention paid to the representation of AAPIs not just in the various professional settings where structural barriers and unconscious discrimination may occur, but within DEI discourse and initiatives themselves. **Even though AAPI professionals face many similar challenges to other minority groups, AAPI has unfortunately garnered relatively less attention within DEI initiatives.**

Our purpose is not to discount existing DEI efforts and the importance of focusing on Black and Latinx communities. We celebrate those critical initiatives. However, we are worried when AAPI representation is missing from the discussion. Even further, it is alarming when AAPI participation is explicitly excluded from DEI efforts. Our goal is to bring forth the importance of full inclusion in discussions about diversity in this country. We need to ensure that voices from the AAPI community are heard, and make known their struggles within the advancement of a wider DEI agenda. With this partnership with DECODE, Asian American Association for Investment Managers (AAAIM) and UC Berkeley Sutardja Center for Entrepreneurship and Technology (SCET), we set out to conduct a deeper study on the state of AAPI representation in venture capital (VC).

We found that **despite the strong representation of AAPIs in VC by headcount, AAPI may still be underrepresented and face structural barriers** in career progression and fundraising from Limited Partners (LPs), through other less obvious ways. Our report aims to shed more light on the state of AAPI in VC in a more nuanced manner than previously done, by investigating the lived and personal experiences of AAPI in VC. We believe that this approach to the research would yield revealing insights on the real challenges that AAPI face on the ground, concerning equity of opportunity and inclusion at the workplace.

Through this report, we hope to provide a more inclusive perspective: that AAPI is and should be acknowledged as an underrepresented minority group to be included in the DEI agenda for VC, and certainly beyond VC.

Literature Review

The promotion of gender diversity and racial diversity within the venture capital industry has been present in mainstream media and researched in academic fields, too. **However, quantitative research on AAPI representation in VC is still relatively nascent.**

Existing research on gender diversity within venture capital firms primarily focuses on two areas: the influence of gender diversity on the success of a firm and the impact of gender gaps. One prominent study by the Kauffman Fellows indicated that the venture capital industry is overwhelmingly male, which impacts pre-existing relationships that provide an important link between entrepreneurs and venture capitalists.⁵ Such studies on female investment managers' influence in venture capital have suggested that gender diversity within VC firms has increased women-led startups' access to capital and fundraising success. Studies have also spotlighted notable incidents that led to major public shifts in treatment of gender diversity in VC. For instance, Wang, Gompers & Sweeney found that there was a dramatic increase in hiring of female venture capital investors in 2015, up by **50%**, positing that this phenomenon is in part due to the prolific case of the Pao vs Kleiner Perkins discrimination lawsuit.⁶ Studies like these highlight the ongoing push for greater gender diversity in the VC industry.

Meanwhile, the majority of research done on racial diversity in VC firms is centered around the disparity of representation between the number of Black and Latinx VC professionals and those of white ethnic background. In recent years, more Black VC funds have been established, and the number of Black partners has increased. However, despite rising numbers, the percentage of Black partners in the industry remains stagnant.⁷ In comparison to their non-Black counterparts, Black fund managers are known to often encounter challenges in fundraising.

Other existing research pertaining to AAPI representation in VC attempts to show that AAPI professionals are not underrepresented in headcount in VC. These studies look across roles, from junior staff to the leadership level. Prominently, the 2021 report from the NVCA-Deloitte human capital survey⁸ showed healthy and growing AAPI representation in VC by headcount. AAPI VCs have even shown good investment

5 Kauffman Fellows, "Deconstructing the Pipeline Myth and the Case for More Diverse Fund Managers", 2020, https://www.kauffmanfellows.org/journal_posts/the-pipeline-myth-ethnicity-fund-managers. Accessed January 10, 2023.

6 Gompers, P. & Wang, S., "Diversity in Innovation.", 2017, *National Bureau of Economic Research Working Paper Series, No. 23082*. <https://doi.org/10.3386/w23082>. Accessed February 2, 2023.

7 BLCK VC, "State of Black Venture", 2022, <https://www.blckvc.org/state-black-venture>. Accessed January 10, 2023.

8 National Venture Capital Association & Deloitte, "VC Human Capital Survey, Third Edition", 2021, <https://nvcalegacyprod.wpengine.com/wp-content/uploads/2022/08/vc-human-capital-survey-3rd-edition-2021.pdf>. Accessed January 10, 2023.

AAPI representation by headcount (2021):

18% Of Total Workforce

19% Of VC Investment Professionals

25% Of Junior Level VC Investors

15% Of Partner Level VC Investors

databy: **nvca** **Deloitte**

performance, and produced many examples of professionals who forged stellar career paths in VC.

However, our own investigation of the data paints a different picture. We found that research that reports the apparent successes of AAPI professionals in VC have likely obscured the unique challenges faced by the typical AAPI professional at work. These challenges may include the difficulty of being

promoted to partner, as well as fundraising - especially as an emerging manager. According to a 2023 study by AAAIM, AAPI was still underrepresented in the wider asset management industry and in VC. Overall, AAPI assets under management (AUM) remained low relative to AAPI headcount in VC despite strong AAPI-managed funds' performance. Although **AAPIs make up ~6.1% of the total U.S. population, and AAPI-managed VC funds outperform their non-AAPI counterparts in TVPI, the study found that only 3.3% of funds in VC are AAPI-owned, and they represent only 2.9% of all AUM in VC.**⁹ In another study by Fairview Capital, it was also found that while the majority of Asian American owned firms could raise subsequent funds after their first institution fund, the **median target fund size remained in line with the broader universe of woman and minority-owned firms, standing at \$100 million.**¹⁰

The results of the earlier AAAIM study suggest a significant disparity between market perceptions of AAPI representation in VC, and what is actually happening on the ground. Because of the wide misperception that AAPI professionals are doing well in the VC sector, there remains a significant literature gap pertaining to AAPI representation and unique issues confronting the community. While most existing research on AAPI in VC has been centered around reported data through surveys, a study that focuses on the lived experiences of AAPI professionals in VC will help provide more detailed perspectives in the field. We combined the use of observed quantitative data and primary qualitative data. When viewed in tandem with existing research, our report hopes to paint a clearer picture of the state of AAPI in VC from both a high-level and a ground-up perspective, and contribute previously undiscovered insights about AAPI in VC to the existing body of literature.

9 AAAIM, "AAPI Representation in Asset Management" September, 2022, <https://aaaim.org/wp-content/uploads/2021/01/AAA-IM-Bella-Research.pdf>. Accessed June 22, 2023.

10 Fairview Capital, "2021 Market Review of Woman and Minority-Owned Private Equity and Venture Capital Firms", 2021, https://fairview.cdn.prismic.io/fairview/397ab706-dc64-4c31-981b-9ded2e43c788_FairviewCapital_2021_MarketReview.pdf. Accessed June 22, 2023

Executive Summary

- Despite the increasing AAPI representation by headcount peaking in 2014, AAPIs seem to **face difficulties getting promoted to leadership roles in VC and experience career stagnation**, with many ending up starting their own funds. Proportionally more AAPI partners with junior VC experience started their own fund (**16.6%**) compared to their non-AAPI (**13.7%**) counterparts, and they take on average **41%** longer to do so.
- AAPI emerging fund managers are experiencing **greater difficulties fundraising** compared to non-AAPI counterparts. Many mentioned that they face stereotyping and unconscious bias from LPs. Proportionally fewer AAPI partners (**16.7%**) without prior VC experience started their own funds compared to their non-AAPI (**22.3%**) counterparts.
- There is a misperception that AAPI professionals are doing well in VC, resulting in the **exclusion of AAPIs from diversity initiatives**. To that end, while 49% of the top 100 LPs in VC publicize diversity programs, only **9% of them explicitly include AAPI professionals**.

Methodology

In this report, we focus on the investment partners – the check-writers and decision makers for investments made by their respective VC firms. We further classified investment partners into 3 (largely exhaustive) categories: 'Hired', 'Promoted' and 'Founding', based on how they first became a partner of a fund in their careers:

- **'Hired'** - They were hired as a partner by a VC firm from a non-VC role.
- **'Promoted'** - They were promoted to partner from a junior VC role (i.e., investment roles including 'Analyst', 'Associate', 'Principal', etc.) at a VC firm, or moved from a junior VC role in one firm to a partner role at another.
- **'Founding'** - They founded their own VC firm and became its partner. Such partners may or may not have prior experience in junior VC roles.

We conducted semi-structured interviews with over 60 AAPI fund managers in VC. We asked them to share rich details about their experiences as an AAPI professional in VC - for instance, how salient their AAPI identity is in performing their professional roles, as well as their personal stories on their strengths and challenges faced.

We collected and collated the online business profiles of over 2,000 VC professionals from over 600 VC firms in the U.S., presenting AAPI and various other ethnic groups. We mapped out each of their career journeys leading up to VC to find out their paths, and how long it took for them to attain a role as a partner in their respective firms.

We gathered information from the top 100 LPs in the U.S. (according to Preqin) about their incorporation of DEI into their investment criteria.

Results from our interviews and data collected proves to be fascinating and opens up many new avenues for further research and work in the wider DEI agenda.

part

1

AAPI

**Representation in VC:
A Closer Look**



Data At A Glance

AAPI has seen no shortage of successful venture capitalists in the past two decades. In the 2022 edition of the Forbes Midas list, 6 of the top 10 ranked investors globally are AAPI, with 4 of East Asian descent and 2 of South Asian descent. 4 out of the 6 named are based in the U.S. Several veteran AAPI VCs have been featured on the Midas List numerous times throughout the history of its publication.

For instance, as of 2022, AAPI fund managers **Vinod Khosla** of Khosla Ventures and **Navin Chadda** of Mayfield Fund have each been featured over 14 times in the Forbes Midas List's 21-year history.¹¹



Vinod Khosla
Khosla Ventures



Navin Chadda
Mayfield Fund

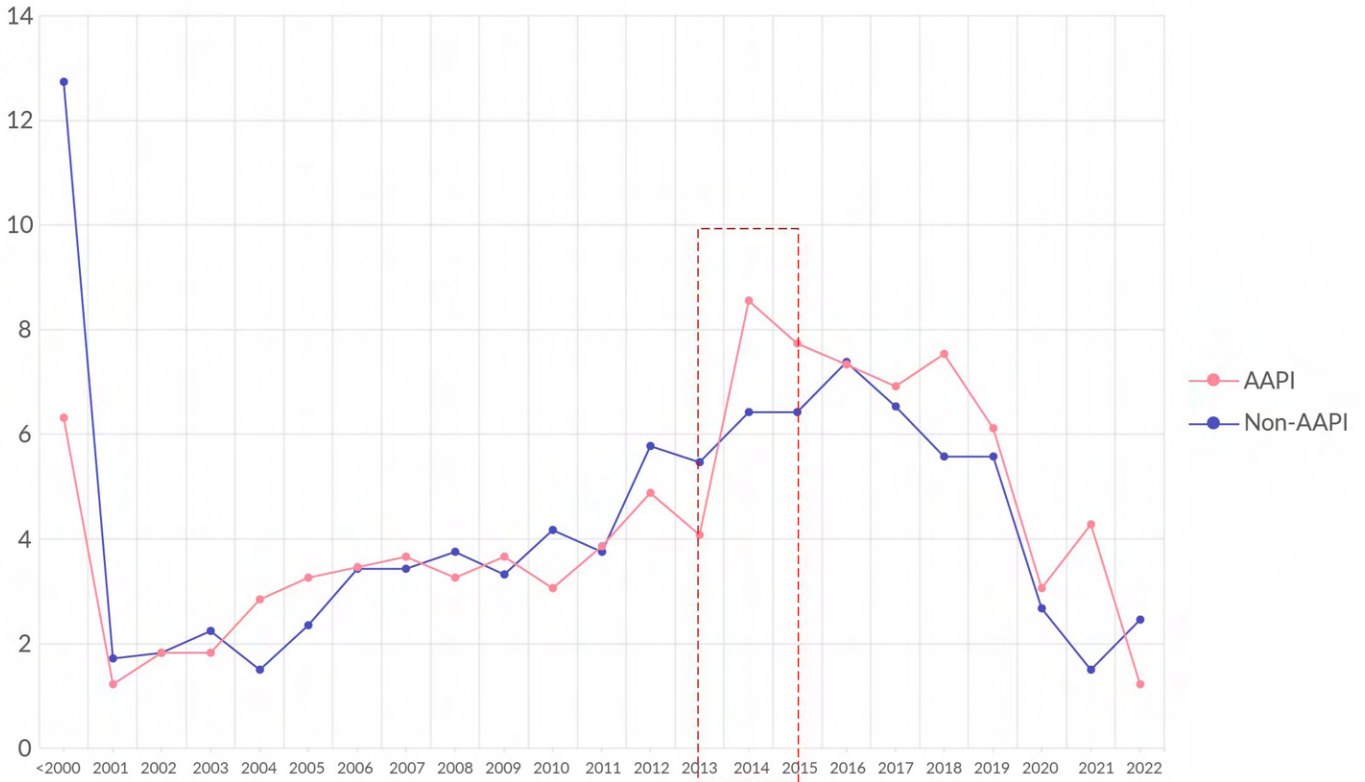
Looking at such examples of exceptional AAPI VC fund managers, it may be tempting to conclude that the average AAPI VC professional is well-represented and has equitable access to opportunities in career advancement and funding. However, it is prudent to keep in mind that such success stories usually obscure the challenges of racial bias and structural inequity that most AAPI investors face in reality.

We wanted to know what the state of AAPI representation in VC looks like as a whole, beyond the notable exceptional performers. Here is a first look at our data:

11 Forbes & Truebridge Capital Partners, "The Midas List", 2022, <https://www.forbes.com/midas>. Accessed March 1, 2023.

Starting Year in VC for Current Fund Managers

Percentage of Fund Managers (%)



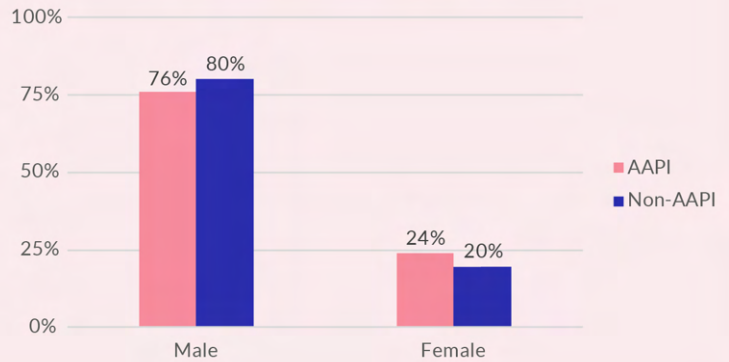
AAPI is a relatively young segment in VC. While **12.7% of current non-AAPI managers started before the year 2000**, only **6.3% of current AAPI managers started before 2000**.

At its peak, **8.6% of current AAPI managers started their careers in VC in 2014 alone**. That is a larger proportion than all active AAPI managers who started before 2000.

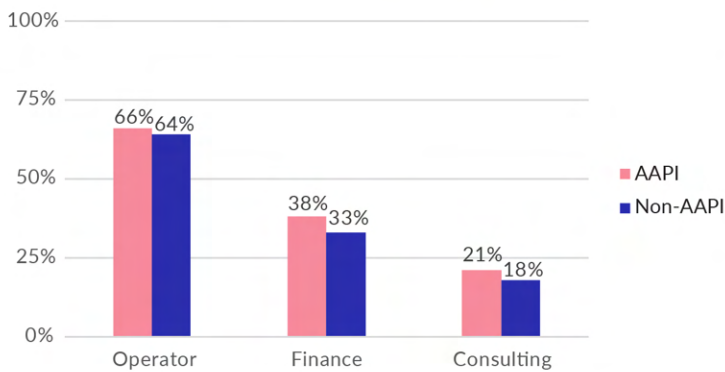
Comparatively, **7.4% of current non-AAPI managers started in 2016** at its peak, but this is a much smaller proportion than all active non-AAPI managers who started before 2000.

Gender of Fund Managers

AAPI fund managers have higher female representation (24%) than Non-AAPI managers (20%).



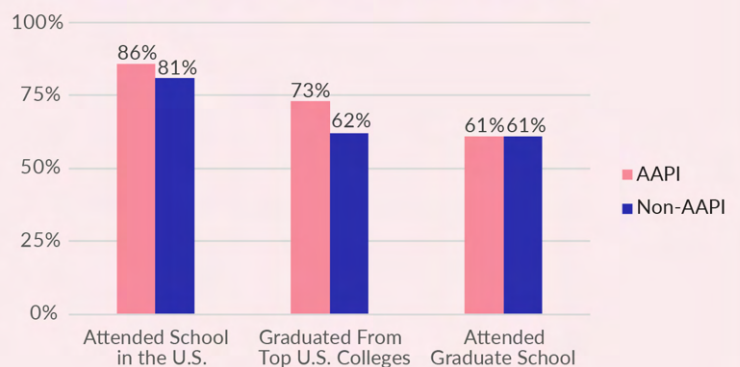
Top 3 Experiences Prior to VC



Most fund managers were operators, in finance or in consulting before joining VC. A larger percentage of AAPI Partners came from one or more of these backgrounds, compared to Non-AAPI.

Education Backgrounds of Fund Managers

Majority of AAPI fund managers attended college in the U.S. (86%) and graduated from top U.S. colleges (73%), greater proportions than that of Non-AAPI.



The AAPI Road to Partner

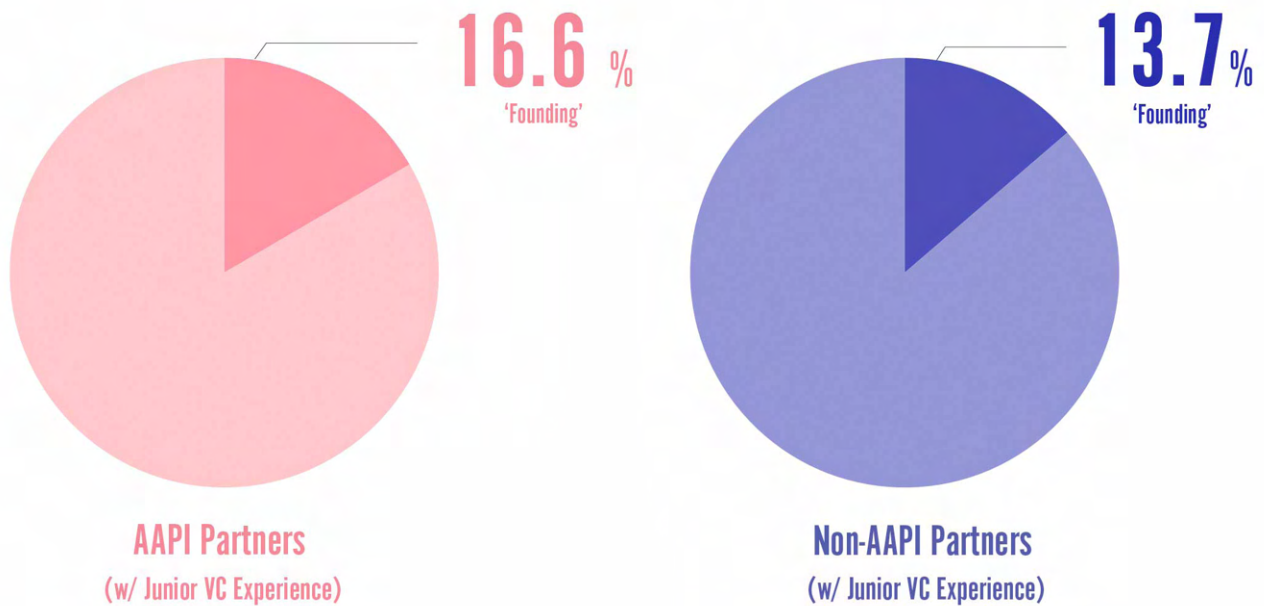
From previous research and corroborating with experiences shared by our interviewees, it is highly likely that AAPI VCs in junior VC roles are facing a 'Bamboo Ceiling.' In order to investigate the presence of this 'Bamboo Ceiling' in VC, we mapped out the AAPI 'Roads to Partner', by comparing the average times taken for individual investment managers to make partner between different segments of the dataset.

Our findings show that compared to non-AAPI:

- **Proportionally more AAPI partners with junior VC experience started their own funds.**
- **AAPI 'Founding' partners spend relatively more time in junior VC roles.**
- **AAPI partners are proportionally less likely to have VC-only careers.**

These findings suggest that AAPI VCs have a longer journey to senior positions, fewer promotion prospects, face career stagnation and have a higher tendency to join VC only after acquiring expertise from other industries or professions.

Proportionally More AAPI Partners with Junior VC Experience Started Their Own Funds



We examined the proportion of 'Founding' partners out of the segments of partners with experience in junior VC roles, for AAPI and non-AAPI partners respectively.

Notably, for both AAPI and non-AAPI partners, minority are 'Founding' partners - the vast majority are 'Promoted' partners in both instances.

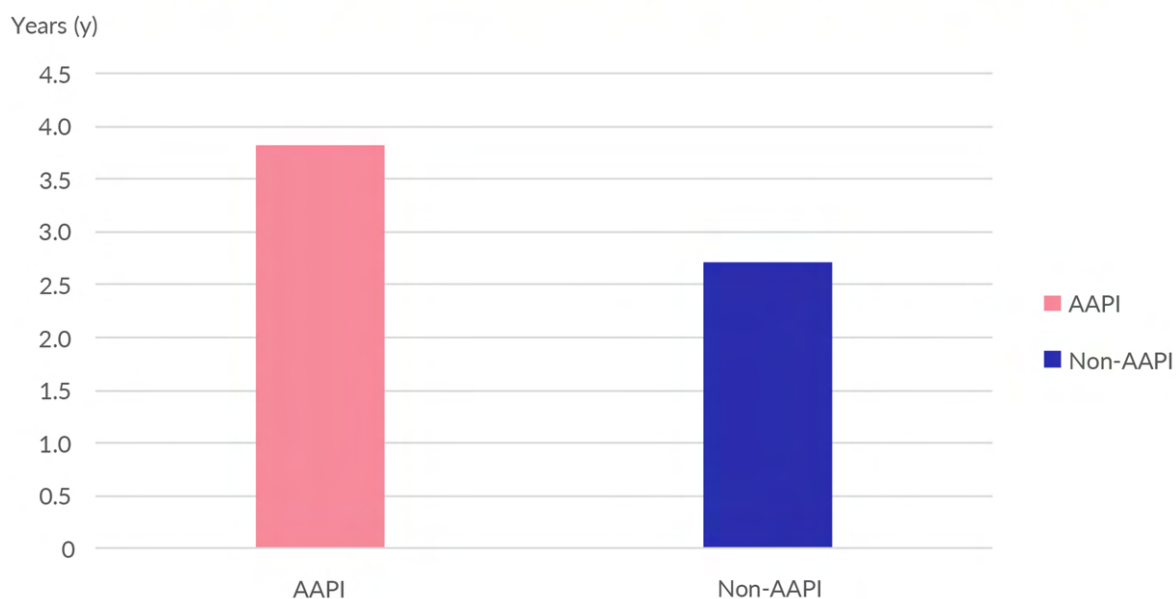
Out of AAPI partners in this segment, **16.6% are 'Founding' partners**. In comparison, only **13.7%** of non-AAPI partners in this segment are **'Founding' partners**.

The data reflects a greater likelihood for AAPI in junior VC roles to eventually start their own VC firms, compared to non-AAPI.

This trend suggests that AAPI junior VCs may have relatively fewer prospects for promotion within their existing VC roles, hence leaving their positions in existing firms and becoming partners by starting their own funds.

AAPI Founding Partners Spend Relatively More Time in Junior VC Roles

Average Years To Become 'Founding' Partner (Partners w/ Junior Experience)



We examined the segment of all VC partners who have had experience in junior VC roles. Within this segment, we compared the time to partner between AAPI and non-AAPI VCs.

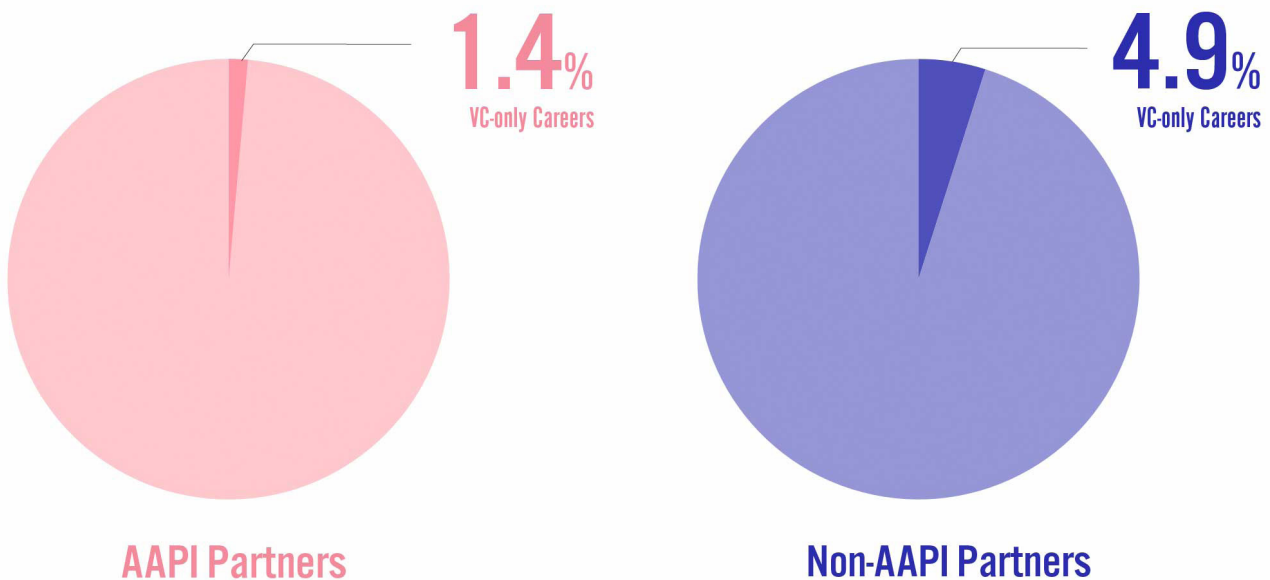
We found that on average, **AAPI 'Founding' partners spent 3 years 10 months in junior VC roles before getting to partner**, compared to their non-AAPI 'Founding' Partners at **2 years 9 months**.

AAPI 'Founding' partners in this segment on average took **41% longer to get to partner**, compared to non-AAPI.

This observation suggests that after spending a longer time working as a junior VC, AAPI VC professionals have become motivated to strike out on their own rather than advance within their existing firms.

Further, AAPI 'Founding' partners having more VC experience than non-AAPI 'Founding' partners when becoming a partner. This additional experience suggests a possible reason for findings in the recent 2023 study by AAAIM/Bella Private Markets, where proportionally more AAPI-owned funds delivered top-quartile performance compared with other funds of the same vintage year and strategy.

AAPI Partners Are Proportionally Less Likely to Have VC-Only Careers



We examined the proportion of partners who had VC-only careers out of all AAPI and non-AAPI partners respectively. In general, only a minority of all partners had VC-only careers.

We found that there are proportionally **3x as many non-AAPI partners with VC-only careers** as AAPI, at **4.9%** and **1.4%** respectively.

This observation indicates that VC partners are typically recruited for their professional expertise beyond VC, prioritizing broader backgrounds over specific skill sets acquired within the VC industry.

Furthermore, it implies that AAPI VCs who begin their VC careers in entry-level positions may face fewer opportunities for progression to partner roles compared to their non-AAPI counterparts.

A possible explanation for this is that VC firms may exhibit unintended bias that limit opportunities for AAPI VC professionals. This could suggest that structural barriers at the entry level of VC may be present and that added focus needs to be made for supporting AAPI mid-level managers.

Observations in the data corroborate themes discovered through the interviews with AAPI fund managers pertaining to the difficulties with career progression at the leadership level.

Respondents noted AAPI leadership is currently the exception, rather than the norm. Many alluded to a 'Bamboo Ceiling' effect, highlighting that many AAPI VC professionals tend to leave their junior roles in VC and become partner by launching their own fund. Furthermore, some interviewees find that mentorship, which is vital for advancing one's career in VC, is often less accessible for minority groups, including AAPI. It makes matters worse that DEI statistics often lump AAPI with majority groups, which downplays the imbalance and leads to inconsistent representation of AAPIs within DEI initiatives.

Here's what our interviewees had to say:

“

“The ‘Bamboo Ceiling’ effect has caused AAPI managers to lack leadership opportunities. People tend to promote others who look like themselves, so it is harder to stand out and be promoted since most people in the space are white.”

“There are more AAPI analysts than AAPI leaders. Some AAPI managers started doing their own funds and we see people getting to the partner level that way.”

”

Our interviews point to a trend: despite strong representation in headcount and having many examples of success stories in VC, the average AAPI VC professional is still facing structural challenges in reaching leadership roles in a VC firm. A significant proportion of AAPI professionals, after hitting the 'Bamboo Ceiling', more often leave to start their own funds compared to their non-AAPI counterparts. Those that do make the move face the added challenges of raising funds as an AAPI emerging manager, who are often excluded from DEI or emerging manager programs.

Fundraising as an Emerging AAPI Manager

According to a Morgan Stanley VC survey report, a funding gap for startups led by women and multicultural founders still exists, and pressure from LPs may be the factor that tips the scales closing the funding gap.¹² Unfortunately, only **54%** of VCs reported that investing in companies with women and/or multicultural founders is a priority for their LPs, leaving nearly half of VC firms who are not witnessing the commitment from LPs that prioritize DEI-minded investments. The Morgan Stanley report highlights the reality that more can be done by LPs to improve access to funding for startups led by founders from diverse backgrounds. Consequently, it also merits investigating whether there is room for LPs to invest in more VCs led by diverse managers.

In our research, raising money has been identified as a key challenge, likely owing to risk-mitigating strategies related to startup funds and biases facing diverse managers. Even if diversity initiatives are in place, LPs may tend to prefer investing with long standing managers with strong track records. One manager we spoke with remarked:

“

“There are diversity pushes but capital is given to old managers, and not new managers who fall under the diversity initiative.”

”

To further investigate, we looked for trends within our data that illustrate such difficulties of fundraising for AAPI VCs.

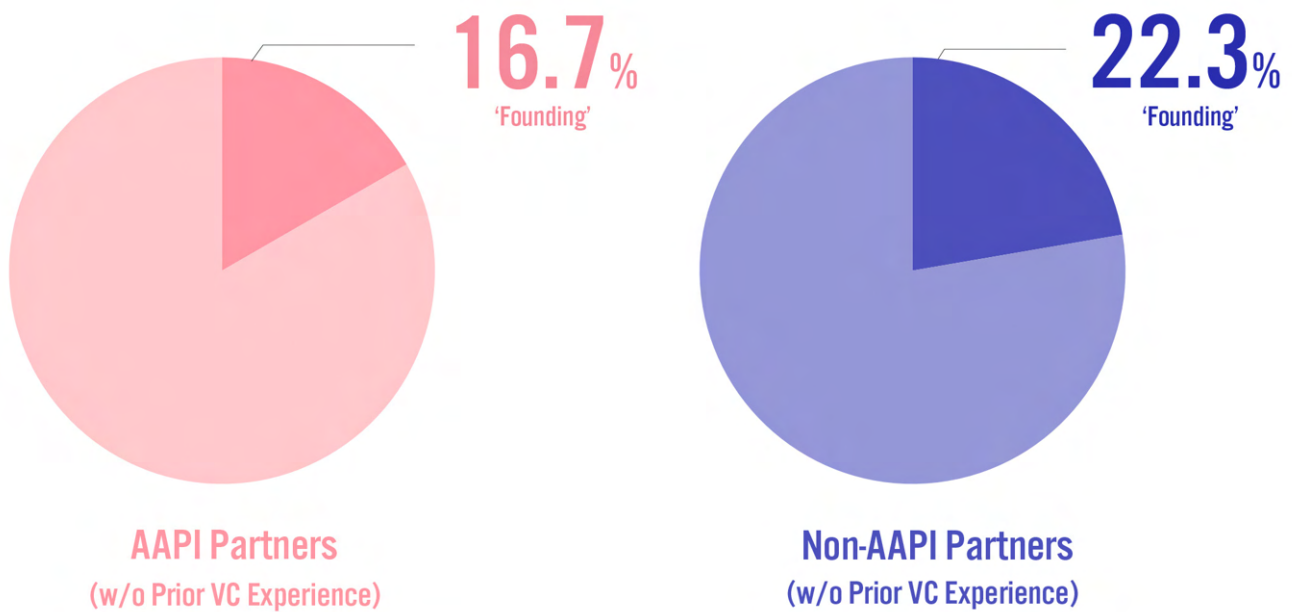
Our findings show that:

- **Proportionally fewer AAPI partners started their own funds without prior VC experience.**
- **AAPI is not well represented in diversity initiatives by Limited Partners.**
- **Homophily drives bias and impedes progression.**

These findings suggest additional hurdles to raising funds for AAPI VCs. For fund managers with no prior VC experience, AAPI managers find it relatively more difficult than their non-AAPI counterparts to raise their first fund. There is also much room for improvement around LP education for DEI initiatives, particularly for AAPI managers.

12 Morgan Stanley, “Beyond the VC Funding Gap”, October 23, 2019, https://www.morganstanley.com/content/dam/msdotcom/mcil/Morgan_Stanley_Beyond_the_VC_Funding_Gap_2019_Report.pdf. Accessed March 1, 2023.

Proportionally Fewer AAPI Partners Started Their Own Funds Without Prior VC Experience.



We examined the proportion of 'Founding' partners out of the segments of partners without prior VC experience, for AAPI and non-AAPI respectively. Only a minority of all such VC partners started their own funds, with the majority being brought into an existing firm.

16.7% of AAPI partners in this segment are 'Founding' partners while 22.3% of non-AAPI partners in this segment are 'Founding' partners. Proportionally fewer AAPI professionals started their own funds with no experience in VC compared to their non-AAPI counterparts.

This suggests it is more difficult to start a fund without prior VC experience for AAPIs compared to non-AAPIs.

One possible explanation is that AAPI professionals without prior VC experience have less robust LP networks, making it more difficult for AAPI emerging managers to raise their first funds. Our earlier observation that AAPI Founding Partners spend longer times in junior VC roles seems to support this hypothesis - they simply take longer before raising their first fund.

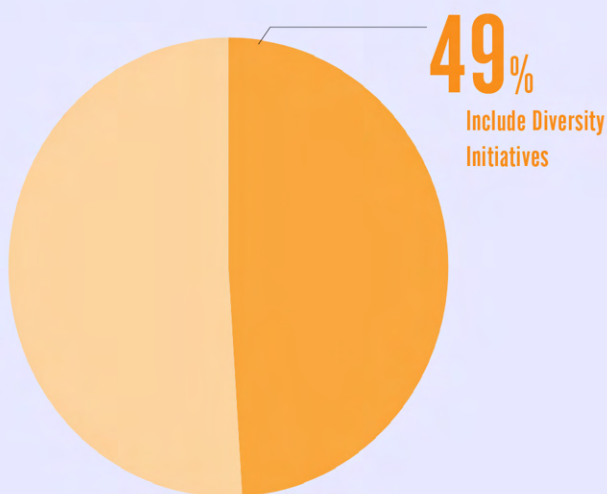
AAPI is Not Well Represented in Diversity Initiatives by Limited Partners

We gathered information from 100 of the most prominent LPs in VCs according to Preqin’s Special Report, Venture Capital Top 100.¹³ Our investigation inquired on whether these top 100 LPs publicized diversity initiatives, and whether AAPI is included in their diversity initiatives.

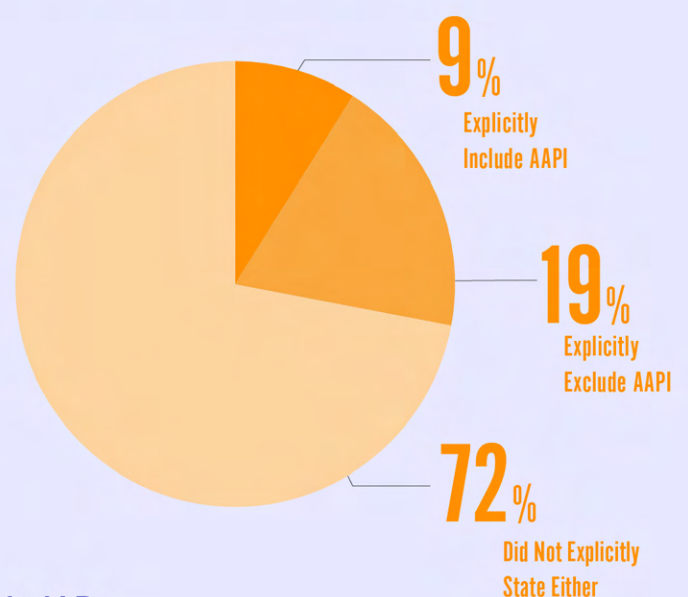
We found that only **49% of the top 100 LPs publicize diversity initiatives on their websites**. Additionally, none of them specify if AAPI is included. Upon further in-depth inquiry of their DEI investment policies among the top 100 LPs, we confirmed that only **9 explicitly include AAPI managers in their diversity initiatives**. Meanwhile, 19 confirmed the exclusion of AAPI, while the remaining majority (72) did not explicitly state either. This observation suggests an opportunity for more LP education to include AAPI-managed funds in their investment portfolios.

13 Preqin, “Preqin Special Report: Venture Capital Top 100.”, 2017, <https://docs.preqin.com/reports/Preqin-Special-Report-Venture-Capital-Top-100-Report.pdf>. Accessed February 5, 2023.

Less than 1 in 2 LPs publicize their diversity initiatives.



Only 9% explicitly include AAPI in their diversity initiatives.



Top 100 Venture Capital LPs

Homophily Drives Bias and Impedes Progress

A recurring theme that emerged through our research is: **Homophily as a key factor that drives unconscious bias and structural barriers.**

Homophily refers to the human tendency to like or work with others of similar background, a phenomenon that has been studied to be of notable consequence in the workplace. Existing research has suggested that homophily in areas such as education, past working experience and ethnicity affects the probability of forming teams¹⁴ and tendencies pertaining to the selection of leaders in diverse settings.¹⁵

In our interviews, respondents cited that homophily in ethnicity has presented obstacles to the advancement of their agendas at the workplace. Whether it is working with LPs or founders, AAPI VCs have often found it harder to secure deals with non-AAPI.

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“White founders typically go for white investors, especially with the branding and image of a white VC. LPs have a preconceived view over what best management is like, and it is usually from white managers.”

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On the flip side, the AAPI investment community has had to lean into working with allocators with similar experiences and backgrounds who understood their cultural upbringing and career path. In some cases, AAPI VCs have indicated that fee structure dialogues have been more difficult with Asian LPs.

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“Some Chinese LPs ... try to bargain on fees 1-10 instead of 2-20, or ask for other benefits that they would not tend to ask a non-Chinese GP.”

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14 Gompers, P., Huang, K. & Wang, S., “Homophily in Entrepreneurial Team Formation.”, 2017, *National Bureau of Economic Research Working Paper Series*, No. 23459, <https://doi.org/10.3386/w23459>. Accessed February 2, 2023

15 Lu, J. G. (2022). A social network perspective on the Bamboo Ceiling: Ethnic homophily explains why East Asians but not South Asians are underrepresented in leadership in multiethnic environments. *Journal of Personality and Social Psychology*, 122(6), 959–982. <https://doi.org/10.1037/pspa0000292>. Accessed February 5, 2023.

part **2**

**How to Succeed
as an AAPI in Venture
Capital**



To many, succeeding as an AAPI VC professional is an uphill battle. AAPIs in VC continue to face challenges in their professional lives.

Most significantly, they continue to deal with age-old stereotypes such as being good at technical work while lacking leadership capabilities, reflecting that the common myth of AAPI being a 'Model Minority' is still present today.

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“Asians are tagged as quiet, hardworking, and behind the scenes.”

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Through our interviews, we uncovered that these experiences present major obstacles to AAPI professionals pursuing leadership in VC. While AAPI professionals identify themselves as part of the minority group, they are often not perceived as such by other market participants. Many DEI initiatives and discourse tend to overlook the challenges faced by AAPI professionals.

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“It’s interesting being an Asian male and feeling like we are a minority but not being considered one in any way. I don’t want to sound like it’s a gripe, it’s just a reality. I am basically the equivalent of a white male when it comes to fundraising, which is kind of hilarious. That’s the way I feel, when you walk into a room and I’m looked at as no different than a white male.”

”

In this section, we will explore how AAPI professionals overcome said challenges and implicit biases, and how their identity and background has helped them succeed in performing their role as a VC.

The AAPI Advantage

Including diverse members in an investment team has many practical advantages that can improve the performance of a fund.¹⁶ For example, for AAPI VCs, the AAPI cultural identity resonates heavily with their job.

Cultural awareness helps an AAPI VC professional identify market opportunities and product needs that VCs from other cultures may not fully appreciate. AAPI VCs also leverage existing AAPI networks to access parts of the startup and LP ecosystem with a strong affinity to Asia.

AAPI Identity's Influence on Professional Roles

Some respondents believe that their AAPI identity has given them a unique perspective in the context of a diverse investment team, as well as the cultural context required to empathize with a certain demographic of founders and markets. They report that this added context enables them to see opportunities where others may not.



"I was looking at a company when there was a point of contention with another investor: he didn't want to invest because the founder's two biggest investors were her brother and her father - the family connection is problematic to him. But I had a totally different take: it was when family is involved that you have the most to prove (as a South Asian woman founder) - to me, that is interesting. When you can see the same characteristic but interpret it in different ways - that's where my filter as an Asian American woman investor would come up."

As I've become an investor and tried to think about what makes me really differentiated and unique, I realized I'm drawing back to my identity. This is how I approach the world, and another investor doesn't see it that way. I try to draw out that uniqueness and the differentiating factor - that's where I'm starting to see why my background and identity is really starting to actually make me a unique asset."

"I think self-acceptance is something that you don't necessarily see when we think about challenges or disadvantages or even just around people's perception of us. It's so true that so much of it is just being confident in yourself and being accepting of who you are first."



16 Gompers, P & Kovvali, S., "The Other Diversity Dividend.", 2018, *Harvard Business Review*, <https://hbr.org/2018/07/the-other-diversity-dividend> (accessed February 2, 2023).



Tapping Into AAPI Networks

The strength of AAPI networks should not be discounted as well. AAPI managers that we interviewed appreciate that they can tap into a strong AAPI network and culture in the VC and startup space. Many alluded to the ease of doing business between individuals or groups that have a shared identity.



“As with all networks, there’s some element of your identity that allows you to participate. A good number of the folks in my network are Asian, and it probably has to do with the fact that I’m Asian.”

“Getting deal flow from Asian and immigrant founders is easier. LPs for their first fund are mostly international. It is slightly easier as international LPs don’t have access to U.S. dealflow, and they feel more comfortable with management of similar race and ethnicity.”



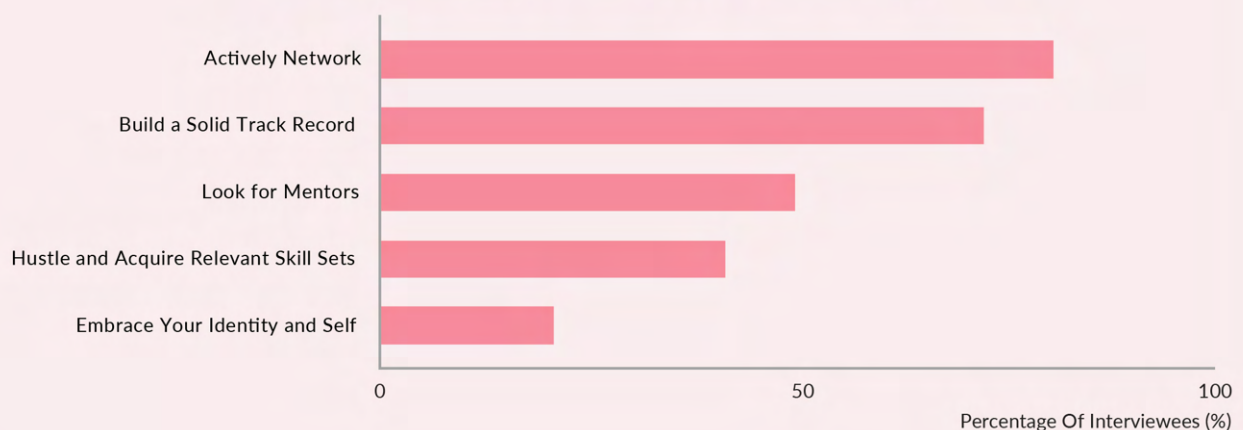
Advice for Young AAPI Professionals

We asked our interviewees to share with us their biggest words of advice and suggestions for younger AAPI professionals in VC or looking to get into VC.

Amongst all our interviewees, the following 5 themes we found were the most commonly raised in their advice:

1. **Actively Network (78%)**
2. **Build a Solid Track Record (70%)**
3. **Look for Mentors (48%)**
4. **Hustle and Acquire Relevant Skill Sets (40%)**
5. **Embrace Your Identity and Self (20%)**

Most Common Advice for AAPI Emerging Fund Managers





Plan Your Journey with Intent:

“Try to map the course in 2-year increments - what are the skills and resources I need to be able to be an investor in 5 to 10 years? If you’re starting your own fund or if you’re coming in at the partner level, there is a commitment. There’s a financial resource that you must be able to draw from. What’s the path there? What are the skills needed?”

Network Hard, Get Involved:

“Build continuity with a few friends who you have a lot of respect for, who are at a similar stage in their early careers. I have friends who have gone on to be reliable friends and contacts in their own trajectories, as CEOs of big companies or big funds and collaborators with me.”

Seek Out The Right Mentors:

“It is key to find the right mentor and partner to pull you up, and find a firm that has no bias for AAPI leadership because of pattern matching.”

Embrace Your Identity, Have Confidence:

“The more I was myself, the more I let myself show through. It was really helpful for me to know that I didn’t have to turn into somebody I wasn’t in order to successfully fundraise. And in fact, I think especially in this current climate, people want to know what you are and what’s unique about you.”

Stay Informed and Have an Opinion:

“I recommend doing a little more focused opinion building - something I felt I could have done more when I was an angel - and have opinions about specific areas or companies that are in the news. For example, everyone’s excited about Web3, but what are the specific things about Web3 that you think are opportunities or challenges, and what are the companies at the forefront.”

Permission to Be Under-qualified:

“Give yourself permission to be under-qualified. If you just devote yourself, put enough energy and the right sort of attitude into your efforts, then that will compound much like any investment can compound.”



Future Research

As a counterpoint to our research and regarding recommendations for future research, we found that the sentiment for increased AAPI representation in VC through DEI is as diverse as the AAPI community itself. Some respondents highlighted that the definition of AAPI in itself was very diverse - indicating that our research has only scratched the surface truly understanding the broad lived experiences of a very diverse AAPI community. Others pointed to the significant advantage AAPI community has in terms of expertise, education, and global reach, and the high impact in terms of value creation and investment returns, and suggest that DEI efforts should focus on other underrepresented communities facing larger structural challenges.

Internally Diverse

Through our research, some interviewees expressed concerns that 'AAPI' as an ethnic category in itself does not account for the sheer diversity that exists within AAPI, which combines people from vastly different cultural and socio-economic backgrounds into one group. Many respondents remarked that the internal diversity of AAPI must be taken into account.



"You have people who have immigrated at various times, and you have people coming from very different regions in Asia with very different levels of access to resources. It's something that is confusing for me because I am both Chinese and Southeast Asian - I have ties to both places and I can see the disparity across different groups. It's something that is a little bit puzzling for me as an organizing principle. But I can see the way that people have collapsed the category sometimes for convenience."

"There's the immigrant experience, there's the third generation, there's different cultural context - I'm just really happy to see that there's more attention being paid to this, and more realizations about how different life experiences benefit this kind of work because what you're really doing is pattern matching, understanding people and behaviors."



More work has to be done to ensure that the voices of people from various ethnic subgroups within the AAPI umbrella are acknowledged and continue to be heard. One striking avenue for future research is to investigate if there are specific subgroups within AAPI which experience greater or unique challenges in VC.

Diverse Views on Priorities for AAPIs Among Broader DEI Initiatives

While there is work to be done to improve AAPI representation in VC, some interviewees felt that issues that plague other ethnic and gender demographic groups are more salient and deserve more attention. In fact, they noted that there is likely room for better AAPI representation in other industries because of the impact that AAPI VCs are already having on our industry. When asked why that is, one interviewee simply explained: there are ample examples of successful AAPI VCs to aspire to.

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“I think if you are thinking about other areas like Hollywood, there is definitely an issue with AAPI representation, but in VC, if you even take a look at the Midas List, it is jam packed with AAPI. I think it is really hard to say that there aren't role models or representation, and that there is a 'Bamboo Ceiling'.”

“It's hard when you don't have role models, but I think there are plenty of Asian investor role models out there. And so I think that that's probably what influences me, my feeling like we're not super underrepresented.”

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Instead of focusing on the DEI agenda, some AAPI VCs prefer to attribute success highly towards VCs' individual abilities to carry out their role, create value and generate returns for their LPs. Just as DEI initiatives are important for many to overcome structural racism to create impact, there are also AAPI partners who are able to create huge impact by carrying an attitude that values professionalism and have confidence in their abilities - regardless of external factors. As one respondent put it:

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“If you are trying to prove a hypothesis that there is some sort of impediment for AAPI venture capitalists to be successful, I think you're gonna have a tough time.”

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Such counter perspectives have been invaluable in our research as well, and help us push for diversity, equity and inclusion for AAPI in a much more thoughtful and nuanced manner.

Recommendations for Future Research

- Our data has suggested that it is more difficult for AAPI emerging fund managers to raise their first funds. However, these observations are far from conclusive as we have only relied on observed quantitative data thus far. More qualitative interviews can be conducted with both AAPI and non-AAPI 'Founding' partners to further investigate the challenges experienced raising their first funds between both groups.
- Our data collapses career trajectories of VC partners into three categories: 'Hired', 'Promoted' and 'Founding', but these broad categories may fail to account for the nuances of each individual career path in VC. Further qualitative interviews with partners about their journey into VC will be useful to employ more thoughtful methods of classification in future studies, as well as uncover trends that may have been missed in our initial analysis.
- We strongly note that our data collection approach is subject to survivor's bias – we heavily focused on collecting and interpreting data from VC professionals that have already become partners. Further data collection and research on VC professionals who are presently in junior VC roles will be critical to understand the full picture.

Conclusion

With the conclusion of our first research report focusing on the state of AAPI in the Venture Capital industry, we have uncovered richer insights that have been traditionally overlooked. Most significantly, our approach revealed that the AAPI underrepresentation story is much more nuanced than mere representation by headcount or AUM, leaving us with even more conviction to further our research here.

At first glance, the prevailing assumption is that AAPI are indeed well represented and performing well at the leadership levels in VC, suggesting that the 'Bamboo Ceiling' may not define AAPI experience in VC. However, our data showed that, from a ground-up perspective, there is a much different and more nuanced story. Structural biases against AAPI in the form of the 'Bamboo Ceiling,' the 'Model Minority' myth, and other common AAPI stereotypes are still very present today. Even AAPI professionals already in VC leadership roles are not necessarily immune – many AAPI partners told about the uphill battles they faced against implicit biases on the ground before making it where they are today.

As we work to advance AAPI inclusion in the DEI agenda, we note that it is important to consider the internal diversity of AAPI in itself. Future research on the various sub-populations in AAPI is essential to keep the spirit of promoting diversity in voice intact. As one respondent aptly remarked:

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“I think probably the most important skill is empathy. And so, if AAPI as a whole becomes less and less one big anonymous group and becomes more and more human and diverse and more difficult to describe as one entity, that’s a good thing.”

”

An organization’s culture is heavily influenced by establishing precedents that define future norms. To that end, we believe that to see greater inclusivity and representation in VC – among AAPIs and all minorities – leaders in their firms should take the deliberate first, bold step to build an inclusive culture. Drawing upon the example of a firm one interviewee previously worked for, they noted:

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“This company is an example of a good firm - it is very diverse, largely due to its long history and its culture. There are many Asian partners that climbed up, which sets an uncommon precedent. Most funds rely heavily on pattern matching, where they do what was previously done and effective. Taking the first step and having precedence in diversity is key.”

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About DECODE



DECODE is the largest student focused entrepreneurship community with roots from UC Berkeley and Stanford. Our mission as a 501 (c)(3) non-profit is to democratize knowledge and opportunities around tech entrepreneurship for students and alumni. We aim to provide curated support for students and alumni to transform their initial entrepreneurial passions into fundable startups and successful careers.

About AAAIM



The Association of Asian American Investment Managers (AAAIM) is a national 501 (c)(3) non-profit organization dedicated to increasing diversity and inclusion in the investment management industry, serving as a powerful voice for the Asian American and Pacific Islander (AAPI) community. Our goal is to elevate underrepresented groups through education, networking, and empowerment. AAAIM is recognized as the national voice of AAPI investment managers and the only national organization dedicated to supporting the growth of AAPI investment managers. Our coalition of seasoned and rising investment managers is committed to mentorship, promoting access to capital, and educating the industry and public at large about prejudice experienced by AAPI.

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Research Lead

Shuo Chen
Jerel Lim

Research Team

Seng Teen Fong
Zijie Zhao
Catherine Davodi
Neoli Das
Jason Tang
Angel Meng
Ethan Zhang
Alex Zhang
David Cayuela
Maggie Lau
Samantha Lee
Darren Kuo

Design by

Seng Teen Fong
Catherine Davodi
Serena Zhang

