



ANGEL CAPITAL ASSOCIATION



ACA
ANGEL CAPITAL ASSOCIATION



DATA ANALYTICS & INSIGHTS

ACA Data Insights: What We Learned From Our Data

In support of ACA's Data Insights initiative, once a month we will be sharing charts illustrating useful learnings from analyzing data on angel investing and portfolio returns.

ETHNICALLY DIVERSE FOUNDERS PRODUCE BETTER RETURNS

Based on statistical research conducted by the ACA, we believe US angels who are part of the nation's innovation / venture capital ecosystems in areas like technology, life sciences and cleantech invested \$4B in 2020. A larger group of investors funded small businesses of every kind amounting to a total of approximately \$25B annually. The analysis in this data research note is based on the larger community of angel-like investors backing small businesses across the US. We believe that the behavior of "innovation angels" is substantially different from this larger group of funders of small business (the former, for example, invested a disproportionately larger share of dollars into female and minority-led businesses). Nevertheless, the overall trends in small business funding are quite important and are explored in greater detail in our analysis here.

According to the SEC Office of the Advocate for Small Business Capital Formation Annual Report for Fiscal Year 2020 ([click here](#)), 7% of 323, 365 active angel investors in 2019 were minorities (up from 2018's level of 5.3%).

Minority Investors



7% of angel investors in 2019 were minorities (up from 2018's level of 5.3%).¹⁷⁶

Source: OASB 2020 Annual Report from SEC

Yet only 7% of angel investors are minorities, leaving the U.S. with a little over 20,000 minority angel investors:

The fact that there are so few minority angel investors may be one of the main reasons funding to diverse founders significantly lags, with minorities consistently receiving less than 5% of angel and venture funding. This is a missed opportunity for angel investors, and angels must invest in diverse founders, but not for moral or ethical imperatives. There is a major financial upside for investing in minorities.

The SEC report goes on to note that companies with ethnically diverse leadership teams have higher realized return multiples than they do from companies with all-white leadership teams. For ethnically diverse team, the returns are 3.26X compared to 2.50X for all white teams; and companies with ethnically diverse C-suite leadership boast returns of 3.31X versus 2.02X for all white C-suite leadership teams:



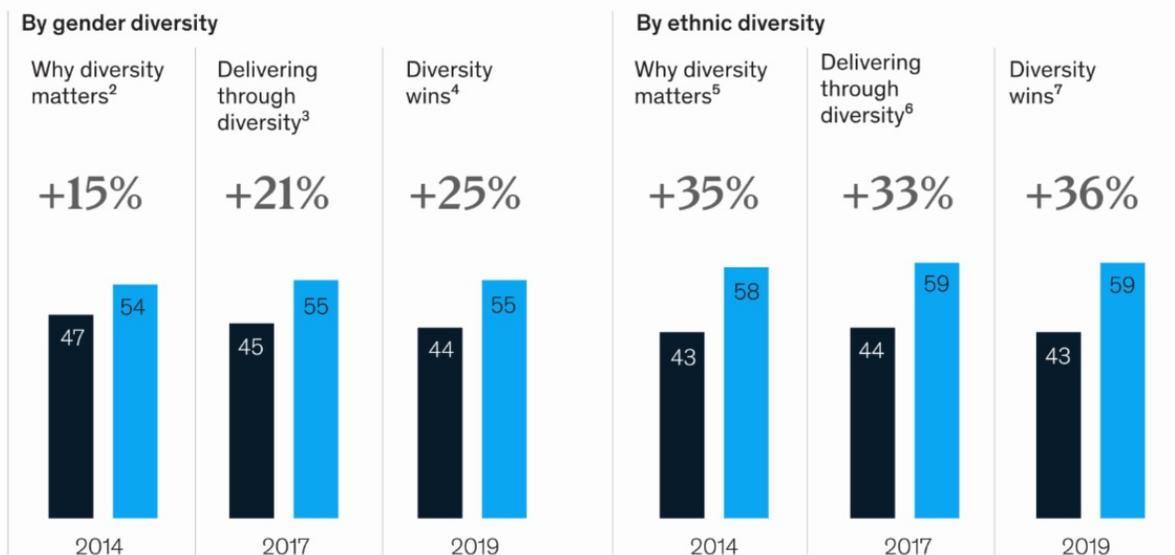
Source: OASB 2020 Annual Report from SEC

Further, in the 2020 [Diversity Wins](#) report by McKinsey they found that companies with ethnically and culturally diverse executive teams outperformed those without diverse teams by 36 percent in profitability:

The business case for diversity in executive teams remains strong.

Likelihood of financial outperformance,¹%

■ Bottom quartile ■ Top quartile



¹Likelihood of financial outperformance vs the national industry median; p-value <0.05, except 2014 data where p-value <0.1. ²n = 383; Latin America, UK, and US; earnings before interest and taxes (EBIT) margin 2010–13. ³n = 99; Australia, Brazil, France, Germany, India, Japan, Mexico, Nigeria, Singapore, South Africa, UK, and US; EBIT margin 2011–15. ⁴n = 1,039; 2017 companies for which gender data available in 2019, plus Denmark, Norway, and Sweden; EBIT margin 2014–18. ⁵n = 364; Latin America, UK, and US; EBIT margin 2010–13. ⁶n = 589; Brazil, Mexico, Singapore, South Africa, UK, and US; EBIT margin 2011–15. ⁷n = 533; Brazil, Mexico, Nigeria, Singapore, South Africa, UK, and US, where ethnicity data available in 2019; EBIT margin 2014–18. Source: Diversity Wins data set

For angel investors making an intentional, strategic approach to investing in diversity is smart investing. It will require more effort to engage with diverse founders and organizations, but the leg work will pay off. Here are 5 actionable insights angels can undertake in building a portfolio with minority founders and working with diverse organizations:

1. Partner

- a. Join their groups
- b. Create Shared-membership agreements
- c. Sponsor and attend their events
- d. Co-brand/Co-host your events
- e. Highlight their work, deals, and brand in your social media
- f. Advertise that you're looking for diverse/UR founders
- g. Plug/refer their founders into your programs
- h. Introduce them to your service providers
- i. Take the cold calls

2. Mentor

- a. Get to know the network or fund manager
- b. Get to know their inner circle
- c. Establish a regular cadence of check-in's, lunch, meet ups
- d. Share your cell number and take the call
- e. Bring them to your events as a special guest
- f. Coach them
- g. Vouch for them
- h. Introduce them to your network

3. Educate

- a. Create cross-group training programs
- b. Share educational materials and training events
- c. Share case studies
- d. Introduce them to your most prolific investor for learning
- e. Walk through Due Diligence, Negotiations, Term Sheets
- f. Run through Investment Structures
- g. Explain tax implications
- h. Discuss Exit scenarios

4. Advocate

- a. Learn about evolving policies with SEC, SSBCI, SBA, State, Local, etc.
- b. Discuss what investor gaps and issues exist in their groups & communities
- c. Co-author a policy guidance document
- d. Talk with your policy leaders, legislators, etc. together
- e. Introduce them to pertinent policy people

5. Co-Invest

- a. Share deals, bring deals, consider deals
- b. Establish a deal/venture scout program
- c. Leave room in the investment
- d. Share the Deal Memo
- e. Walk the group through the terms
- f. Introduce them to you LP's
- g. Invest in their funds
- h. Open an SPV; Lead if appropriate

THE TAKEAWAY

There are mounds of data and reports that repeatedly emphasize the outsized returns that diverse-led teams produce. These are returns that angels dream of, and thus, investing in diversity *is* the opportunity.

We hope you are enjoying these Monthly Data Insights. If you have an insight (chart with narrative) that you'd like to share in a future edition, please send us your submission to insight@angelcapitalassociation.org. Our goal is accelerate learning from each other.

[Read the ACA Investor Insights Report](#)

The Angel Capital Association is your authority on angel investment information! The [Angel Funders Report](#), powered by [Hockeystick](#), is the only official report from ACA for angel investment data in North America. Quality and accuracy are verified by collecting information directly from our member groups and then validated through the efforts of our data partner, [Hockeystick](#), ensuring the most reliable information in the market today.

[Read the Angel Funders Report 2021](#)



ANGEL CAPITAL ASSOCIATION

Connect with ACA

