Racial Diversity in Private Capital Fundraising

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Black- and Hispanic-owned funds control a very modest share of assets in the private capital industry. We find that the sensitivity of follow-on fundraising to fund performance is greater for minority-owned groups, particularly for underperforming groups. We find little support for a number of explanations for these patterns: that minority fund valuations are overstated, that minority funds encounter difficulties in hiring personnel, or that deploying capital is more difficult for these funds. We do find that the ability of minority groups to raise capital increases during periods of high racial awareness and when the chief investment officer of local public pension plans and endowments are minorities. Together, the results support the hypothesis that the modest representation of Black and Hispanic-owned firms in private capital stems at least partially from the nature of investor demand, rather than the supply of fund managers.