KPMG

Breaking away

The path forward for women in alternatives

September 2015

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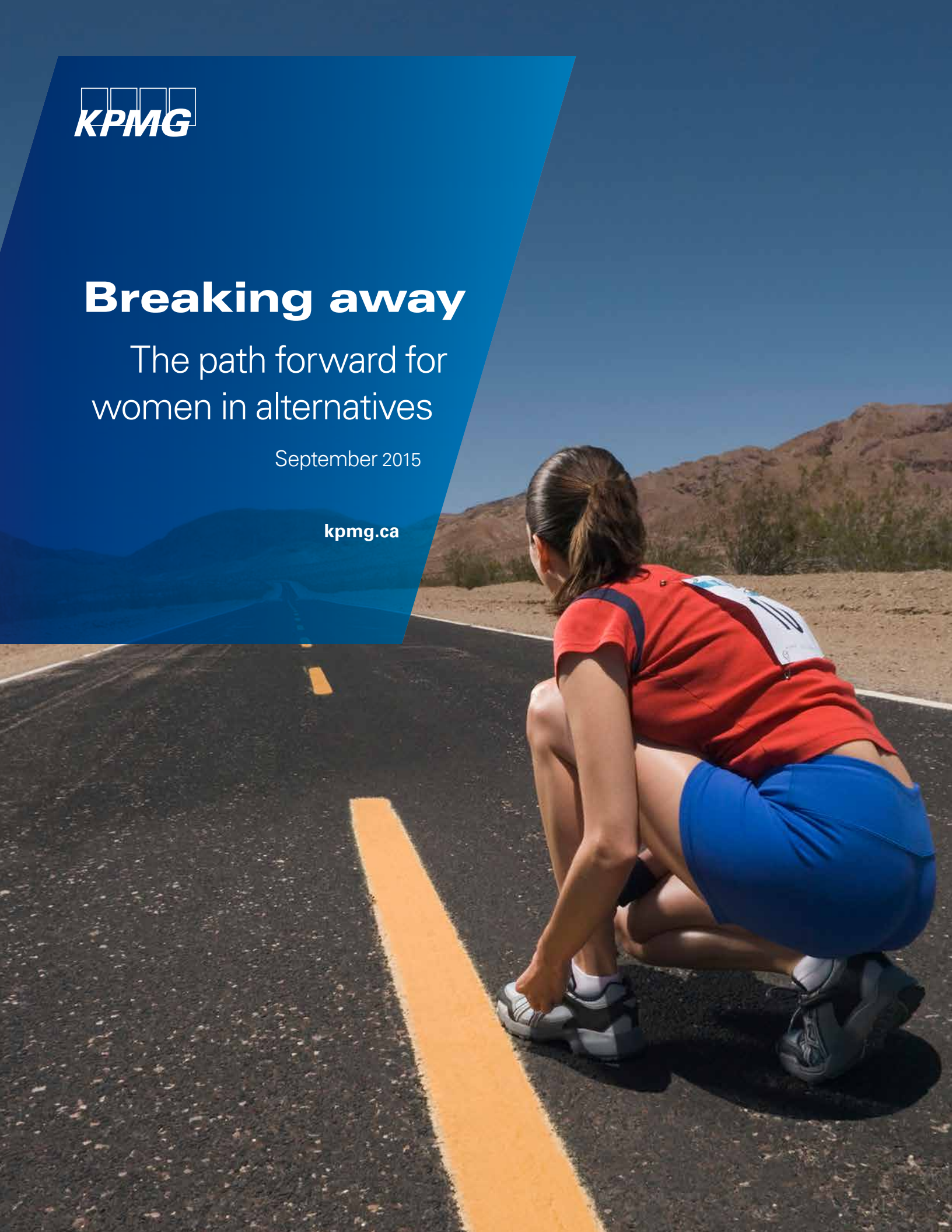

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Introduction

In the fourth annual "Women in Alternative Investments Report" (WAI Report), KPMG LLP (KPMG) highlights the successes and insights of women in alternatives while fostering a dialogue about the unique issues, such as capital-raising, which confront women in the industry.

In addition, this year, KPMG had the privilege of working with Hedge Fund Research Inc. (HFR) the established global leader in indexation, analysis and research of global hedge fund performance, to sponsor the creation of the the HFRI Women Index, the premier global performance index of funds owned or managed by women. As the HFRI Women Index shows, women-owned and -managed hedge funds have outperformed industry-standard HFR indices nearly every year since 2007, when HFR first introduced indices tracking the performance of diversity managers.

"KPMG is thrilled to author the fourth annual Women in Alternative Investments Report and continue the important work started by Rothstein Kass in 2011. The exposure and reach of the KPMG network of global firms enable us to elevate the discussion about the challenges and opportunities facing female executives in our industry. And, as our seminal 2015 KPMG Women's Leadership Report demonstrates, the need for discussion about diversity and gender-based issues is not isolated to alternative investments but is critical across all industries."

—**Kelly Easterling**, *KPMG partner, Alternative Investments*

Against the backdrop of the HFRI Women Index as well as other research indicating the outperformance of women-owned or -managed funds throughout alternatives, it is interesting to note that the women who responded to this year's WAI survey continue to believe, as in years past, that it is harder for women-owned or -managed funds to obtain capital than it is for their male-run peers.

However, the HFRI Women Index underscores the benefits of allocations to women-owned or -managed funds. It is our hope that the Index will lead to increased allocations to women-owned or -managed hedge funds and other alternative funds, as more investors see them as valuable additions to their portfolios.

We hope this year's WAI Report will continue to serve as a catalyst for further dialogue around industry outlook and opportunities, the evolving role of women in alternatives and the path to future successes for women in the industry. We encourage you to contact us directly with questions or for a more in-depth discussion of our findings.

Sincerely,

James Suglia

Executive summary

As prior KPMG research and this year's Women in Alternative Investments Report (WAI Report or Report) shows, the alternatives industry is in a state of transformation. Fund managers have become more focused than ever on improving operational effectiveness, transparency, and alignment of interests. With the overwhelming majority of industry professionals expecting increased competition for capital and the growing influence of institutional investors, many funds plan to introduce new strategies, more customized products, and changes in fee structures. The larger funds are getting bigger, attracting the lion's share of available capital, while mid-sized and smaller funds fight for remaining capital.

Women-run funds may find capital-raising more challenging than their male peers, according to many of our survey respondents. This finding is rather striking given that the HFRI Women Index shows that women-owned or -managed hedge funds outperform the industry as a whole. In light of this disconnect, this Report seeks to spotlight both women's successes and their challenges in order to further the dialogue about women in alternatives and to hopefully continue to move the needle.

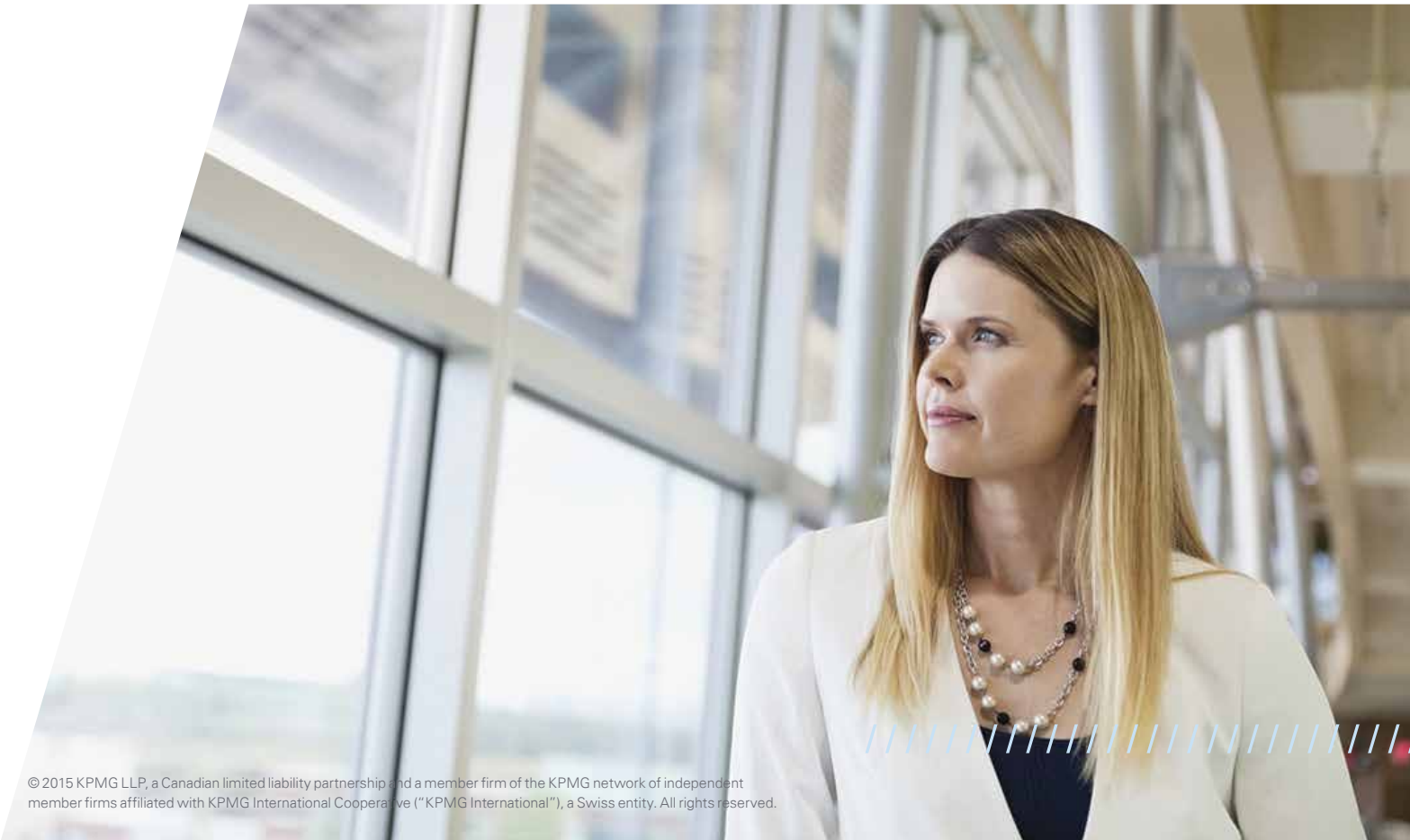
Our Report incorporates insights from 328 female alternative investment fund managers, investors, and other professionals in the alternative investment industry who responded to an online survey. From their responses, several key themes emerged:

- The majority of fund and investor respondents expect investment opportunities for alternative investment firms will increase in the next 18 months, but they also expect it will take longer for investment positions to yield positive returns.
- Most fund and investor respondents expect fund launches will increase in the next 18 months.
- Expected performance for hedge funds is more optimistic than that of private equity and venture capital funds over the next 18 months, with 44 percent of fund and investor respondents expecting hedge fund performance will improve but only 37 percent expecting improved performance for private equity and only 34 percent expecting improved venture capital performance.
- Capital-raising is the most pressing concern for our fund respondents across sectors, more so than core investment functions.
- Eighty-eight percent of hedge fund respondents and 64 percent of private equity and venture capital respondents plan to be on the fundraising trail in the next 18 months.
- Hedge fund respondents (at 32 percent) were more likely than their private equity and venture capital counterparts (at 14 percent) to have pursued emerging manager mandates. Of these groups, only 7 percent obtained funding.
- One-third of investor respondents, including fund of funds, have an emerging manager program or fund, and 4 percent plan to implement one in the next 18 months.
- Seven percent of investors, including fund of fund respondents, have specific mandates for women-owned or -managed funds. Women-owned or -managed funds represent a small portion of surveyed investors' portfolios, with 67 percent of investors allocating one-tenth or less to women-owned or -managed funds.

- None of the investors surveyed expect a decrease in their allocations to women-owned or -managed funds, and 26 percent expect an increase.
- Seventy-two percent of investors surveyed say the greatest barrier to investing in women-owned or -managed funds is lack of supply of such funds.
- Women are most often seen in C-level positions in compliance, marketing, and financial roles at alternative investment funds, and they represent 14 percent of CEOs and 21 percent of CIO/Portfolio Manager roles in the firms represented in our survey.
- Eighteen percent of fund respondents plan to be managing their own fund in the next five years, and 11 percent plan to launch a new fund.

In addition, this Report includes the first publication of Hedge Fund Research's HFRI Women Index, the premier global performance index of funds owned or managed by women.

- Women-owned and -managed hedge funds have outperformed both the HFRI and HFRX composites of hedge fund performance nearly every year since 2007, the first year HFR launched diversity indices. Since 2007, the annualized returns of the HFRI Women Index were 5.64 percent, whereas the HFRI Fund Weighted Composite ("FWC") Index had an annualized return of 3.75 percent and the HFRX Global Hedge Fund Index of negative 0.39 percent.
  - Since 2007, the annualized returns of the HFRI Women Index were 5.64 percent whereas the HFRI FWC Index had an annualized return of 3.75 percent and the HFRX Global Hedge Fund Index had an annualized return of negative 0.39 percent.
  - Since 2007, the HFRI Women Index had a total return of 59.43 percent, whereas the HFRI FWC Index had a total return of 36.69 and the HFRX Global Hedge Fund Index had a total return of negative 3.28.



About the research

KPMG's 2015 Women in Alternative Investments Report incorporates insights from a diverse group of industry professionals. Through an online survey, 328 female respondents, including fund managers and other fund professionals, investors in alternatives, and service providers, shared their views on industry trends, as well as the opportunities for women's advancement within the industry. This Report also benefited from a series of interviews with leading fund managers and investors who provided further in-depth insights into issues probed in our survey. The online survey was conducted in March and April 2015, and interviews were conducted in May through September 2015.

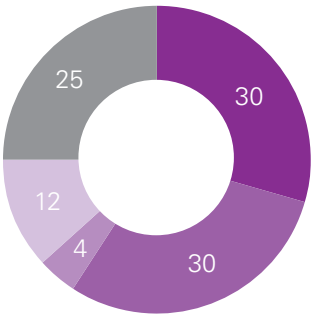
We would like to thank all of the women who participated in the survey and our external contributors who shared their insights. Their views were invaluable in shaping this Report.

Survey population and report terminology

Professionals at hedge fund firms (a group comprising hedge funds, fund of funds, and commodity trading advisors, collectively referred to as "hedge fund respondents") represented 30 percent of our survey population. Professionals at private equity and venture capital firms (together, referred to as "private equity respondents" and comprising private equity and venture capital funds and funds of funds and private equity fundless sponsors) also represented 30 percent of respondents. Private real estate non-REIT funds (including real estate fund of funds) represented 4 percent of our survey population. Together, these groups are referred to as "fund respondents" throughout this Report.

Investors (excluding fund of funds) represented 12 percent of survey respondents. Where noted in the Report, investors include fund of fund respondents from the hedge fund, private equity, venture capital, and real estate sectors. Our investor group, when combined with our fund of fund respondents, is dominated by fund of funds, followed by pension funds and endowments. Family offices, high net worth individuals, and foundations round out the list.

"Other," including service providers, represented 25 percent of our survey population.



Key

- Hedge funds/Fund of funds and commodity trading advisors
- Private equity/Venture capital funds and fund of funds
- Private real estate funds/ real estate fund of funds
- Investor (e.g., pension fund, family office, foundation/endowment)
- Other (including service providers)

Throughout this Report, some statistics have been impacted by rounding.

The women represented in our survey are an experienced and well-credentialed group. More than a quarter of respondents have more than 20 years of experience in financial services and almost half have 11 to 20 years. Of our fund respondents, about a quarter sit on the investment committee of their firm, and a little less than a fifth sit on public or private corporate boards.

Twelve percent of our fund respondents come from women-owned or -managed firms.

Slightly more than three-quarters of fund respondents are at stand-alone investment firms, and the remainder are at funds within larger institutions. Investors, including fund of fund respondents, are more likely to be at stand-alone entities (at 62 percent) than within larger institutions.

Many of the funds and investors represented in our survey population have an international presence. Nearly all have offices in North America (at 95 percent), and many have offices in the United Kingdom (34 percent), Asia Pacific (28 percent), Europe outside of the United Kingdom (19 percent), South America (12 percent), and the Middle East or Africa (5 and 3 percent, respectively).

Large funds are well represented in our survey population, with 36 percent of fund respondents hailing from firms with $5 billion or more in assets under management (AUM) and 25 percent at firms with $1 to $5 billion AUM. Only 18 percent of fund respondents come from smaller firms of $150 million AUM or less.

Investors, including fund of fund respondents, similarly tend to be at larger entities, with 59 percent having $5 billion or more AUM and 18 percent at firms with between $1 to $5 billion AUM. Only 12 percent of investors are at firms with under $150 million AUM.

The majority of fund respondents (61 percent) come from firms with long tenures of 11 years or more, while only 12 percent come from firms that have been in operation less than three years. Investor entities, including fund of funds, also have considerable longevity with nearly three-quarters of them in operation for 11 years or more and only seven percent in operation for less than three years.

Top geographic areas of investment focus were shared by fund respondents across all sectors, as well as investors, with North American investment dominating, followed by European and Asian investment.

HFRI Women Index

The HFRI Women Index is a global, equal-weighted index of over 60 single-manager funds owned by women or managed by women that report to the HFR Database. Constituent funds report monthly performance, net of all fees, and have a minimum of $50 million under management or a 12-month track record of active performance. Average Assets Under Management for funds in the Index is $290 million. The HFRI Women Index is designed to be representative of the overall composition of the women-owned and -managed hedge fund universe. The Index tracks performance of these funds since 2007, the first year that HFR began tracking the performance of diversity managers.

Women's leadership within alternative investment firms

Women are most often seen in C-level positions in compliance, marketing, and financial roles at the funds represented in our survey but are less often seen in CEO or portfolio manager/CIO roles. These trends have remained relatively consistent since 2012, the first year the WAI Report tracked women's presence in these roles, although we have seen a slight uptick in the percentage of women holding C-level positions in risk and compliance.

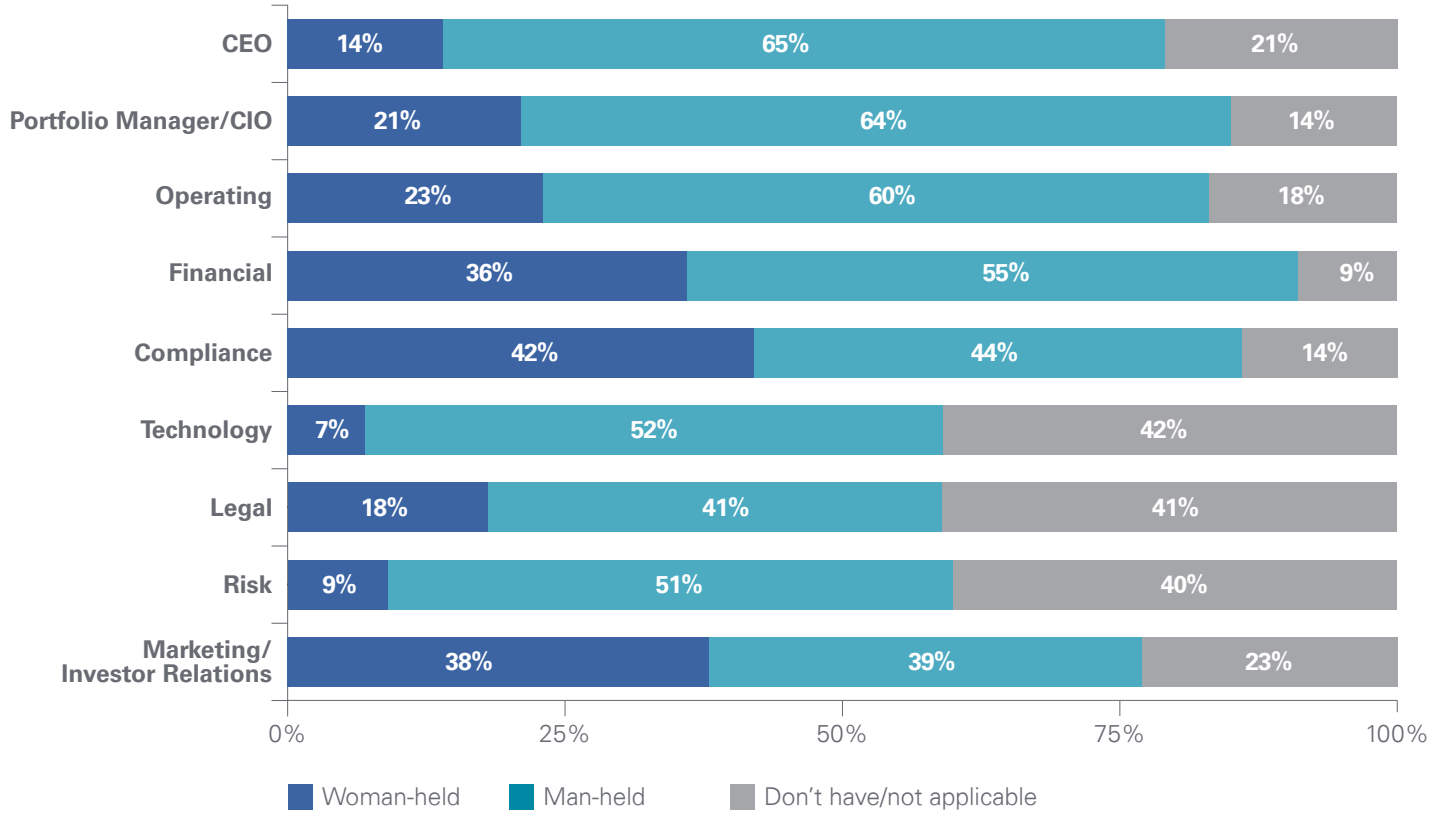
In our 2015 Report, women hold the highest number of C-level positions in compliance at 42 percent, followed closely by C-level marketing/investor relations and financial roles at 38 and 36 percent respectively. Fourteen percent of the funds represented have women CEOs, and 21 percent have women CIOs or portfolio managers.

"Since the inaugural WAI Report in 2011, we have sought to examine the status of and prospects for women's leadership in the industry," said Camille Asaro, KPMG partner, Alternative Investments. "As in prior years, we continue to see women predominantly in the roles of COO, CFO, and Investor Relations, all extraordinarily important roles, but we see women less frequently in investment decision-making roles. In order for women to continue to progress in alternatives, we need to see greater numbers in investment roles."

As in prior years, hedge funds fared better than their private equity and venture capital peers in terms of women's representation at the CEO and CIO/portfolio manager levels at firms represented in our survey population. This year, women represented 18 percent of CEOs at hedge fund firms versus 10 percent of CEOs at private equity and venture capital firms, and they represented 23 percent of CIOs/portfolio managers at hedge fund firms versus only 16 percent at private equity/venture capital firms represented in our survey group.

Thirty-nine percent of firms represented in our survey population have no women on their investment committee, and 40 percent have no women in general partner roles. Women represent the majority of investment committee roles at 7 percent of funds and the general partner roles at 8 percent of funds. The breakdown of women's representation in these roles is roughly the same across sectors.

Women in C-level positions at funds



Women-owned or-managed hedge funds: Breaking away from the pack

As the HFRI Women Index shows, women-owned and -managed hedgefunds have outperformed the sector in nearly every year HFR has tracked the performance of diversity managers.

Since 2007, the annualized returns of the HFRI Women Index were 5.64 percent whereas the HFRI FWC Index had an annualized return of 3.75 percent and the HFRX Global Hedge Fund Index had an annualized return of negative 0.39 percent for the same time period.

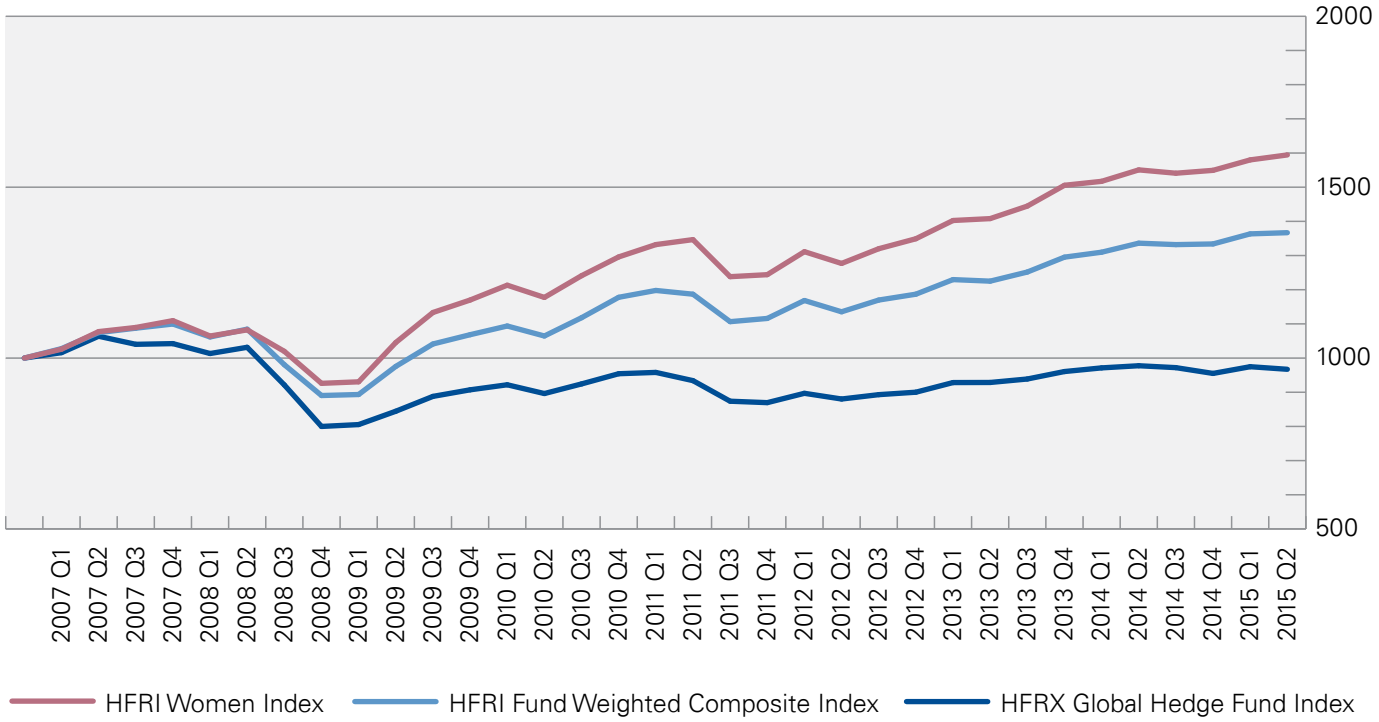
Since its inception in 2007, the HFRI Women Index had a total return of 59.43 percent, whereas the HFRI FWC Index had a total return of 36.69 percent and the HFRX Global Hedge Fund Index had a total return of negative 3.28 percent. The HFRI Women Index also exhibited a higher percentage of positive months (63 percent) than the HFRX Global Index (positive 56 percent of the time) and a lower percentage of negative months at 37 percent for the HFRI Women Index versus 44 percent for the HFRX Global Index.

"This year, KPMG had the privilege of working with Hedge Fund Research, the established global leader in the area of indexation, analysis, and research of hedge fund performance, to create and launch the HFRI Women Index, the premier global performance index of funds owned or managed by women. Every year the WAI Report has been conducted, respondents have said they believe it's harder for women-owned or -managed funds to obtain capital than it is for their male-run peers. One possible explanation for this is that women-run funds may not have the same level of visibility and investor access. In light of this, it was important for us to sponsor this Index to showcase the outperformance of women-owned and -managed funds and to increase their visibility. Hopefully, the HFRI Women Index will encourage more investors to allocate to women-owned and -managed funds."

—**Kelly Easterling**, *KPMG partner, Alternative Investments*

> “HFR is pleased to expand our family of hedge fund indices derived from HFR’s Diversity Universe—that is, our indices of minority-owned funds—to now include a composite of hedge funds managed by leading women in the hedge fund industry. The HFRI Women Index, released in conjunction with KPMG’s annual Women in Alternative Investments Report, is a watershed milestone in creating a sense of awareness and recognition of the accomplishments of women hedge fund managers, including strong performance dynamics and specialized, uncorrelated exposures through sophisticated hedge fund strategies. The HFRI Women Index will serve as a powerful, robust benchmark for performance measurement of women-owned or -managed hedge funds and will be recognized as the institutional industry standard for the benefit of investors and the growth of this social demographic in coming years.”
>
> —**Ken Heinz**, *President, Hedge Fund Research Inc.*

HFRI Women Index, Quarterly performance against industry benchmarks, 2007 through June 2015



Source: HFR, HFRI Women Index, June 2015.

HFRI Women Index, Statistics versus benchmarks*

As of June 2015	HFRI Women Index	HFRI Fund Weighted Composite Index	HFRX Global Hedge Fund Index
Annual Return			
1-year	2.82	2.30	(1.06)
3-year	7.68	6.38	3.19
5-year	6.25	5.13	1.54
Since January 2007			
Total Return	**59.43**	**36.69**	**(3.28)**
Annualized Return	5.64	3.75	(0.39)
Annualized Volatility	7.12	6.49	6.20

*** Through Q2 2015**

HFRI Women Index, monthly performance, January 2007 through June 2015

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2007	1.83	0.39	0.36	2.78	1.74	0.44	(0.98)	(0.10)	2.22	2.80	(1.36)	0.43	**10.95**
2008	(2.04)	(0.20)	(1.86)	2.20	2.04	(2.50)	(0.25)	0.37	(5.92)	(7.53)	(3.68)	1.97	**(16.54)**
2009	(1.31)	(1.03)	2.87	5.72	4.42	1.78	4.14	1.50	2.54	(0.03)	1.32	1.91	**26.32**
2010	(0.65)	1.40	2.95	1.85	(3.22)	(1.54)	1.99	(1.11)	4.50	1.36	0.65	2.36	**10.78**
2011	0.45	1.48	0.83	1.24	(0.58)	0.44	(0.07)	(3.90)	(4.26)	3.27	(1.82)	(0.91)	**(4.01)**
2012	3.14	2.44	(0.23)	(0.01)	(3.12)	0.52	0.58	1.10	1.65	0.28	0.68	1.23	**8.45**
2013	2.80	0.11	1.01	0.69	0.94	(1.22)	1.71	(0.59)	1.47	1.66	1.42	1.08	**11.60**
2014	(0.71)	1.79	(0.30)	(0.72)	1.52	1.41	(0.76)	1.44	(1.29)	(0.00)	0.67	(0.11)	**2.90**
2015	(0.13)	1.70	0.40	1.53	0.67	(1.26)							**2.91**

The HFRI Indices are broad composite indices which are comprised of over 2,000 hedge funds that report to the HFR Database. HFRI Indices are fund-weighted indices. Constituent funds report monthly performance, net of all fees, and have a minimum of $50 million under management or a 12-month track record of active performance. The HFRI Fund Weighted Composite Index does not include Funds of Hedge Funds.

The HFRX Indices are hedge fund indices designed to be investable indices. HFRX Indices are asset-weighted based on the distribution of assets in the hedge fund industry. HFRX Indices utilize a rigorous statistical methodology that selects the most representative hedge funds from each strategy. The number of constituents of the HFRX Global Hedge Fund Index ranges between 40 and 70 managers. Constituent funds report monthly performance, net of all fees, and have a minimum of $50 million under management and a 24-month track record of active performance.

Women-owned or -managed private equity funds

Research has shown that diverse private equity funds frequently exceed the returns of the broader private equity market. For example, in a September 2012 study "Recognizing the Results," which was compiled by KPMG, the National Association of Investment Companies (NAIC) showed that a representative sample of "diverse" private equity firms (that is, those firms where at least 50 percent of the owners or investment professionals were ethnic minorities or women) and those focused on the emerging domestic market (EDM) produced superior investment returns over a sustained period (from 1998 to 2011) benchmarked against the general private equity industry, including the buyout subset.

Thomson Reuters

Year-end benchmarks	Metric	Capital Weighted	Median	Upper Quartile
All U.S. Private Equity	Net IRR	6.5%	3.7%	11.8%
	Net MOIC	1.24x	1.11%	1.42x
	DPI	52.2%	29.0%	67.1%
U.S. Buyout	Net IRR	8.3%	7.1%	14.7%
	Net MOIC	1.34x	1.32x	1.59x
	DPI	61.6%	51.8%	89.1%
NAIC Firms	Net IRR	27.5%	15.2%	20.9%
	Net MOIC	1.88x	1.52x	1.99x
	DPI	107.9%	70.2%	160.0%

Source: Recognizing the Results, The Financial Returns of NAIC Firms: Minority and Diverse Private Equity Managers and Funds Focused on the U.S. Emerging Domestic Market, September 2012; Thomson Reuters, August 2012, Net Returns since fund inception, U.S. (1998–2011) vintages (excluding 2002).

According to the NAIC study, "minorities" owned 79 percent of the firms represented in the study and 69 percent of the firms had investment operations with at least 50 percent women or minority investment professionals. Although the sample size was small (with 14 firms represented), according to the NAIC, the study captured a representative sample of the larger sector of diverse private equity firms and those focused on the EDM.

Looking forward to 2016: Performance expectations

Alternative investments continue to grow in popularity and, as of the first quarter, assets under management were valued at $7.1 trillion. In 2014 alone, industry AUM increased by $648 billion.
—2015 Preqin Alternative Assets Performance Monitor

Outlook for the alternatives industry over the next 18 months is optimistic according to fund and investor respondents, with 61 percent of them expecting investment opportunities will improve. However, a majority of those surveyed expect it will take longer for investment positions to yield positive returns.

Respondents are closely divided regarding whether fund closures within the industry will increase over the next 18 months versus the prior 18 months, but most agree fund launches will increase.

Looking at expected performance for each sector over the next 18 months, fund and investor respondents are most optimistic about hedge fund performance, with 44 percent expecting it will improve. Private equity and venture capital prospects are seen as slightly weaker, with 37 and 34 percent of respondents expecting improved performance for the sectors, respectively.

Both monetary policy and market conditions are particularly favorable to hedge funds over the near term. "Historically speaking, hedge funds have outperformed the market when interest rates are rising. This has been the case not just for beta, but for alpha," noted Afsaneh Beschloss, president and CEO of the Rock Creek Group. "Given the likelihood that the Federal Reserve will begin to raise rates in the second half of 2015, I expect that hedge funds will outperform a 50 percent equity/50 percent bond portfolio in a rising rate environment."

For private equity and venture capital, a more pessimistic outlook may reflect the outperformance of the sectors in 2014, as well as high levels of dry powder which have increased competition for deals. In addition, as our survey findings demonstrate, a majority of fund respondents believe companies are overvalued, which further limits the pool of potential investments.

However, as Kate Mitchell, co-founder and partner of Scale Venture Partners noted, company fundamentals are still quite strong. "I don't think we are in a bubble, but we are in a boom, especially in terms of pricing and exits. I expect we'll see a correction in value, as well as pullback in the availability of late stage capital, but we will have continued fundamental revenue growth to support companies going forward, which is different from where we were in 2000."

Hedge fund performance through 2016: Brighter days ahead

Coming off a difficult 2014, hedge funds forecast brighter days ahead. The majority of fund respondents (61 percent) expect investment opportunities will improve through next year.

Investors, including fund of fund respondents, are slightly more measured in their expectations but still positive, with about half thinking both performance and investment opportunities for the sector will improve. Few investors believe performance or investment opportunities will worsen.

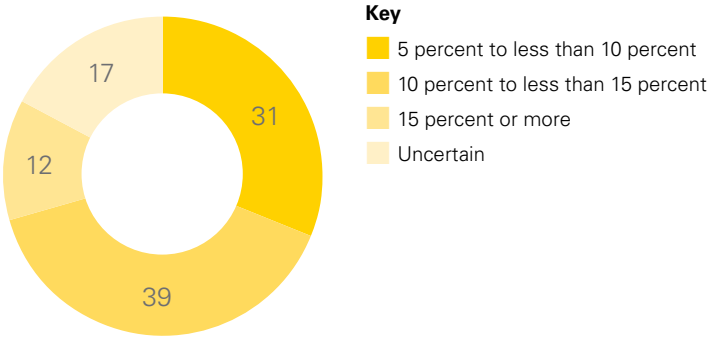
This optimistic outlook makes sense, explained Ms. Hunter. "There's more volatility in all kinds of markets—in foreign exchange, equities, and especially in the bond markets as the Fed begins to raise rates and we see the normalization of the yield curve in the United States. In this environment, hedge funds that can properly manage risk and be on the right side of market moves have scope to outperform their long-only peers."

"I think it's a great time to be trading, with lots of opportunities," said Betsy O'Farrell, Portfolio Manager and Equities Trader, Gemina Capital Partners, LLC. "Many smart managers are investing smaller amounts now while the market remains choppy, and they are holding on to larger amounts of cash, which they will put to work once the market settles down a bit. I think the market will likely turn around soon but continue with some choppiness over the near term."

"The return environment over the next 18 months will likely be choppy and with increased volatility," added Ms. Beschloss. "Certain hedge fund strategies, such as macro and event-driven, could benefit from this environment."

Hedge fund respondents were also optimistic about the expected performance of their own funds in 2015, with 51 percent targeting returns of 10 percent or more.

Targeted hedge fund returns for 2015



Private equity and venture capital performance through 2016: Maintaining momentum

Following the strong deal volume and fundraising of 2014, outlook for private equity and venture capital performance is less optimistic, with fewer than 40 percent of fund respondents and investors expecting performance for either sector will improve through next year.

Despite the availability of over $1.3 trillion in capital for private equity investments as of September 2015 according to research by Preqin, only 39 percent of our private equity and venture capital respondents expect deal flow will improve over the next 18 months and less than half expect it will remain about the same. These findings are not surprising given that the surplus of dry powder and unattractive buy-side valuations mean increased competition for deals, as many respondents indicated.

"Global firms are looking to grow revenues and market presence in 2015, and, as KPMG's 2015 CEO Report ["Setting the Course for Growth: CEO Perspectives"] shows, acquisition of market share is a dominant strategy to achieve this growth. In light of this, sale of portfolio companies will continue to be a viable exit strategy," said Ms. Hunter. "In terms of macro factors, volatility will not be conducive to public market exit strategies, but in terms of pure economic conditions, these are still bolstered by accommodative monetary policies in the United States, Europe, Japan, and some emerging markets. This backdrop means that, although the Fed may begin to normalize rates, there are still fertile conditions for equity market outperformance."

"Although we may see private equity returns decreasing overall because of the abundance of capital in the system, I still think the top quartile GPs will continue to outperform the market," said Sandra Horbach, Managing Director of The Carlyle Group.

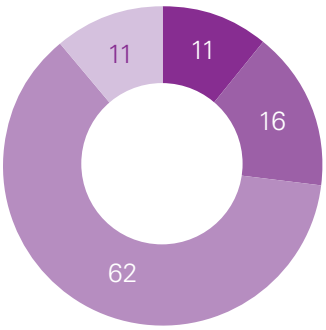
Certain areas within private equity and venture capital hold particular potential.

"Consumer and healthcare will continue to provide good opportunities for investment within private equity, as will certain segments within technology," Ms. Horbach noted.

"In tech, deal flow is as strong as ever, both in terms of the quality and number of companies," said Ms. Mitchell. "Mobile is still growing dramatically so there's considerable opportunity there. Other sectors, such as cloud computing and machine learning, are in their early days and experiencing significant growth which translates into great opportunities for tech investors."

Private equity and venture capital fund respondents are optimistic about the expected performance for their own funds, with 62 percent targeting returns of 15 percent or more this year.

Targeted PE/VC Returns for 2015



Key

- 5 percent to less than 10 percent
- 10 percent to less than 15 percent
- 15 percent or more
- Uncertain

2016 capital expectations: Sector outlook

Hedge funds

Fears about investor withdrawals on the heels of very high-profile investor exits from hedge funds over the past year did not materialize. To the contrary, in the second quarter of 2015, investors allocated $21.5 billion in net new capital to hedge funds, which brought total hedge fund assets to nearly $2.97 trillion globally by quarter-end, according to HFR's July 20, 2015 Global Hedge Fund Industry Report.

Despite this influx of new capital, two-thirds of hedge fund and investor respondents believe competition for capital will increase through next year while only 3 percent believe competition will decrease.

The impact of the AIFMD

Sixty percent of hedge fund respondents and 40 percent of private equity and venture capital respondents agree that the AIFMD's impact on the alternative investment industry has been negative, and less than 10 percent believe its impact has been positive. Given the additional costs of doing business under the AIFMD, many funds represented in our survey have decided not to market in the European Union. One respondent explained, "The AIFMD is here to stay, but I think it will be to the detriment of EU-based investors who are seeking to employ talented managers in niche and diversified strategies who cannot contend with the barriers to entry in the market."

Private equity

"Although we saw slowdowns in private equity fundraising in early 2015, investors remain interested in increasing allocations to the asset class," said Christopher Elvin, Head of Private Equity Products – Preqin. "However, investments tend to be concentrated among a smaller number of large firms, with just 7 percent of aggregate capital raised by first-time managers in 2014. Venture capital firms continue to face a difficult fundraising environment as investors remain wary of the asset class given the overall disappointing returns since the dot-com crash, even though venture's strong 2014 returns were the highest of all private equity strategies."

Our survey findings underscore the impact of these trends, with the overwhelming majority (73 percent) of private equity/venture capital fund and investor respondents indicating competition for investor capital will increase over the next 18 months.

"I agree that we may see a retraction of some of the capital in venture over the near term," said Ms. Mitchell. "While capital inflows have increased over the last few years, we are still at one-tenth of where it was at the peak of the bubble, which is a good thing since too much capital can ruin a market."

"In private equity, I don't believe we'll see a retraction of capital because the sector has generally outperformed the markets over the past five to 10 years, and investors recognize there's a tremendous amount of opportunity with the best managers," noted Ms. Horbach.

> "The global regulatory environment will continue to be more costly and complex for managers both large and small. It is critical that managers of all sizes plan for this and communicate to investors about how they are managing their regulatory risk across the matrix of reporting requirements implemented by global regulators. At a time when investors are demanding more transparency at every turn and more frequent reporting, the relationships that managers build with their investors are more critical than ever."
>
> —**D. Brooke Harlow**, *Executive Vice President and Managing Director, Managed Funds Association*

Hitting the fundraising trail

As in prior years of the WAI Report, capital-raising, and not performance, is the most pressing concern for our fund respondents across the sectors. Hedge fund respondents are considerably more concerned about capital-raising than their private equity and venture capital peers, with 71 percent of hedge fund respondents but only 50 percent of private equity/venture capital respondents ranking capital-raising as a top concern.

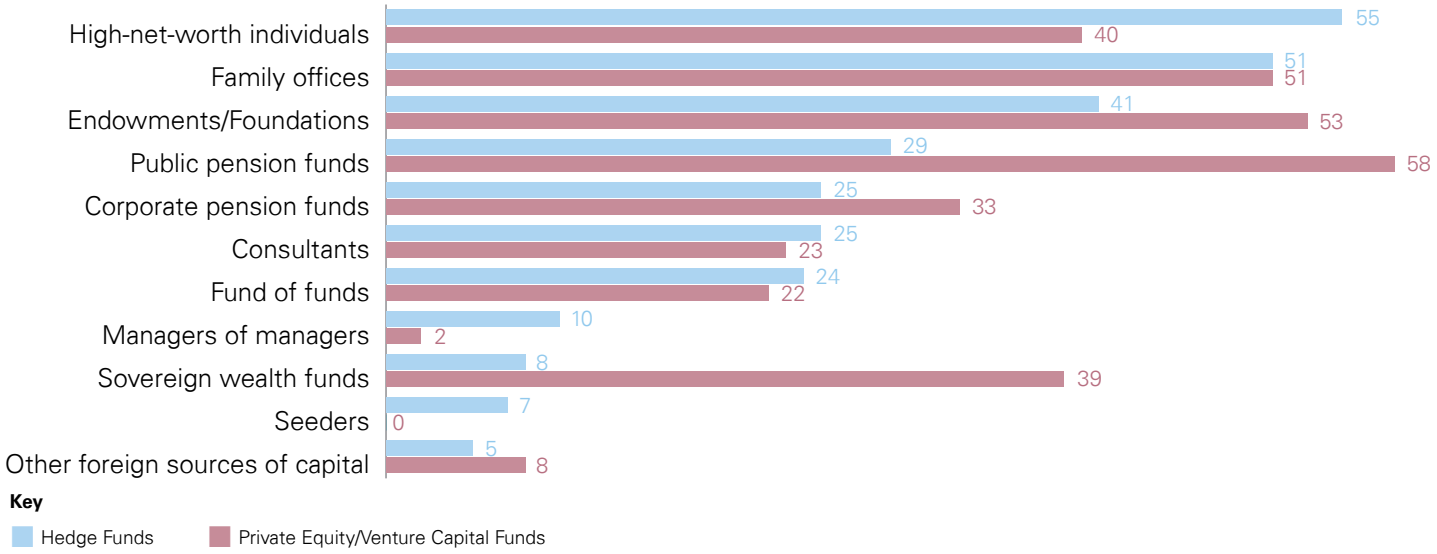
Concerns about fundraising likely reflect the fact that most funds plan to be on the fundraising trail in the near future, with 88 percent of hedge fund and 64 percent of private equity and venture capital respondents planning to raise new capital in the next 18 months. Private equity and venture capital firms were more likely (at 55 percent) than their hedge fund peers (at 48 percent) to have plans to launch a new fund in the same time period.

For the hedge funds represented in our survey population, high-net-worth individuals, family offices, and endowment/foundations are their top capital-raising sources, with public pension funds trailing behind.

However, the private equity and venture capital firms in our survey group rank public pension funds as their top fundraising source, followed closely by endowments/foundations and family offices.

In response to the increasingly competitive environment expected over the next 18 months, the majority of fund respondents plan to change fund strategies or fees to attract new capital.

Most useful capital-raising sources



"As we saw earlier this year in our Global Hedge Fund Survey ["Growing Up: A New Environment for Hedge Funds"], many hedge funds are transitioning from high-net-worth and family offices to institutional investors, which is causing many fund managers to alter strategies and fees to attract new investor types and demographics," said Ms. Asaro. "This trend is particularly pronounced among medium-sized fund managers who, looking forward, see more opportunities to attract institutional investor capital."

Consistent with the findings of our 2015 Global Hedge Fund Survey, WAI hedge fund respondents are most likely to use customized solutions (such as managed accounts or fund of one, cited by 59 percent of our WAI respondents) and specialized incentive and management fee structures (cited by 44 and 41 percent of WAI respondents, respectively) to attract new capital. Few hedge funds (21 percent in our WAI survey) plan to increase liquidity options.

Private equity and venture capital firms in our survey population are most likely to merge with other asset managers (75 percent), utilize first loss provisions (34 percent), provide customized solutions for investors (31 percent), and/or use specialized incentive fee structures (23 percent).

"The increasingly competitive market and related investor efforts to reduce fees have intensified the focus within the industry on both management and performance fees," said Debbie Messemer, KPMG's San Francisco office managing partner.

"Throughout the AI industry, we are seeing more clients change fund strategies, utilizing separate accounts, launching new products in the case of hedge funds, pursing coinvestment in private equity or utilizing specialized fee structures to attract new investors," Ms. Messemer added. "Fund managers are likely to consider these and other approaches as they try to attract institutional investors."

The rise of liquid alternatives

Although most hedge fund respondents (79 percent) and investors, including fund of fund respondents (84 percent) believe investment in liquid alternatives will increase over the next five years, the majority of hedge fund respondents (62 percent) do not currently have and are not planning to roll out liquid alternatives within the next 18 months. Many cite increased resources needed for rollout (48 percent of respondents), regulatory considerations (35 percent), and cannibalization of current investment strategy (32 percent) as the primary barriers to rollout.

"Liquid alternative products are certainly a growing area of the market," noted Deanna Flores, principal, Washington National Tax practice, KPMG. "However, as our findings show, not all funds are able or willing to add them to their current product mix."

"Established firms are more likely to launch retail products with liquid alternative strategies because liquid alts allow them both access to new investor capital and the ability to maintain current AUM, particularly if they rely on distribution wholesalers and registered advisors," explained Ms. Flores.

"As Main Street seeks Wall Street returns and Wall Street seeks Main Street capital, we expect more funds will adopt liquid alternatives in the coming years, even if over the short term the barriers to rollout could be prohibitive," she added.

Looking forward to 2020: The future of fundraising

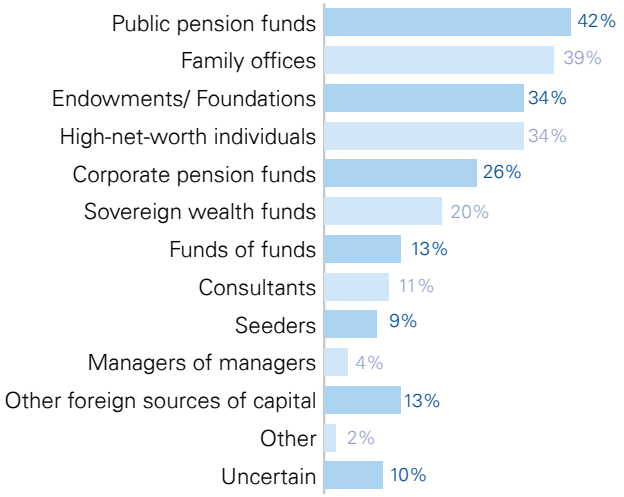
As our research shows, throughout alternatives, institutional investors are assuming a more significant role in capital-raising, and fund managers expect this trend to continue through 2020.

Hedge fund capital-raising in 2020: The rise of institutional investors

By 2020, nearly 60 percent of hedge fund respondents expect capital inflows to improve. Less than 10 percent expect inflows to worsen.

Hedge fund respondents believe public pension funds will dominate inflows to the sector, followed closely by family offices, endowments/foundations, and high-net-worth individuals. Investors, including fund of fund respondents, agree that public pension funds will lead capital sources, but they believe sovereign wealth funds will have a much greater influence than fund managers expect.

Top sources of HF capital over the next five years according to HF respondents:



Jane Buchan, managing director and chief executive officer of PAAMCO, agrees that pensions and sovereign wealth funds will be dominant players in the next five years. "The largest pools of available capital are pension funds, followed by sovereign wealth funds, so a small move by either of these players translates into large dollar flow," she noted. "We are seeing sovereign wealth funds increase their hedge fund assets so they will have a significant role in terms of future inflows."

However, as our survey findings show, not all hedge fund professionals agree. Meredith Jenkins, co-chief investment officer of Carnegie Corporation of New York, believes, as many fund respondents do, that family offices, endowments/foundations, and high-net-worth investors will remain the most prominent sources of capital for hedge funds over the next five years. "The larger investors such as pension funds and sovereign wealth funds seem to be coming to the realization that it's difficult to get the exposure hedge funds provide at their larger scale. I hear many of them talking about more liquid, less expensive ways to access this type of exposure which I think inevitably cuts out the more traditional hedge funds."

Regardless, given their significant pools of capital, large institutional investors will continue to play a dominant role in hedge fund capital-raising which, in turn, will put more pressure on fund managers.

"Certainly, over the past few years, we've seen more hedge funds turn to institutional investors for capital," said Ms. Asaro. "As this trend continues, fund managers will have to further evolve processes and operations, particularly back-office and infrastructure functions. Many midsize funds have already done this, recognizing that they need to enhance these functions if they want to be competitive."

Private equity and venture capital fund-raising in 2020: The shift toward sovereign wealth

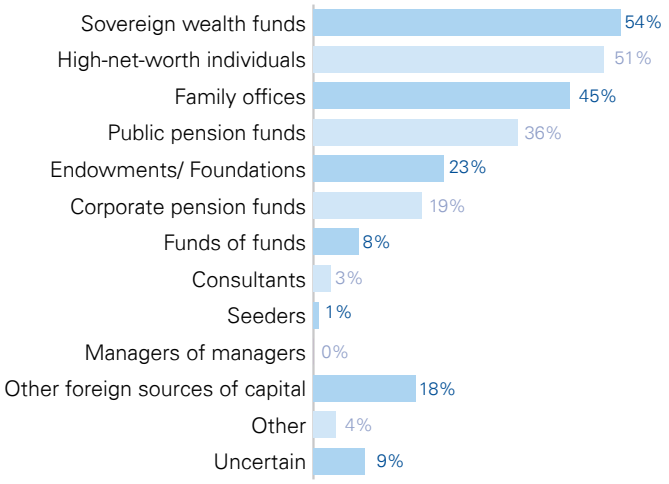
Private equity and venture capital fund respondents are more closely split about expected capital inflows to the sectors by 2020, with 51 percent expecting them to improve and 41 percent expecting them to remain about the same. This lack of consensus may reflect uncertainty regarding the extent to which investors will seek alternative methods of accessing the asset class in the future.

"Increasingly, we hear of private equity investors pursuing opportunities that look more like direct private investing—increasing the amount of coinvestment capacity allocated to existing managers or pursuing one-off investments, either done on their own or in partnership with private equity firms or operating companies," Ms. Jenkins noted.

"The nature of private equity seems to be morphing, but I'm not sure many investors have set up the internal resources to do it well yet," added Ms. Jenkins. "In the next five years, I think more investors may pursue direct investment opportunities while a subset continues to invest through a more traditional fund structure."

In terms of the source of future inflows, private equity and venture capital fund respondents believe sovereign wealth funds and high-net-worth individuals will dominate, followed by family offices and public pension funds. Investors, including fund of fund respondents, share the belief that sovereign wealth funds will dominate future inflows but believe other sources will be less influential.

Top sources of PE/VC capital over next five years according to PE/VC fund respondents:

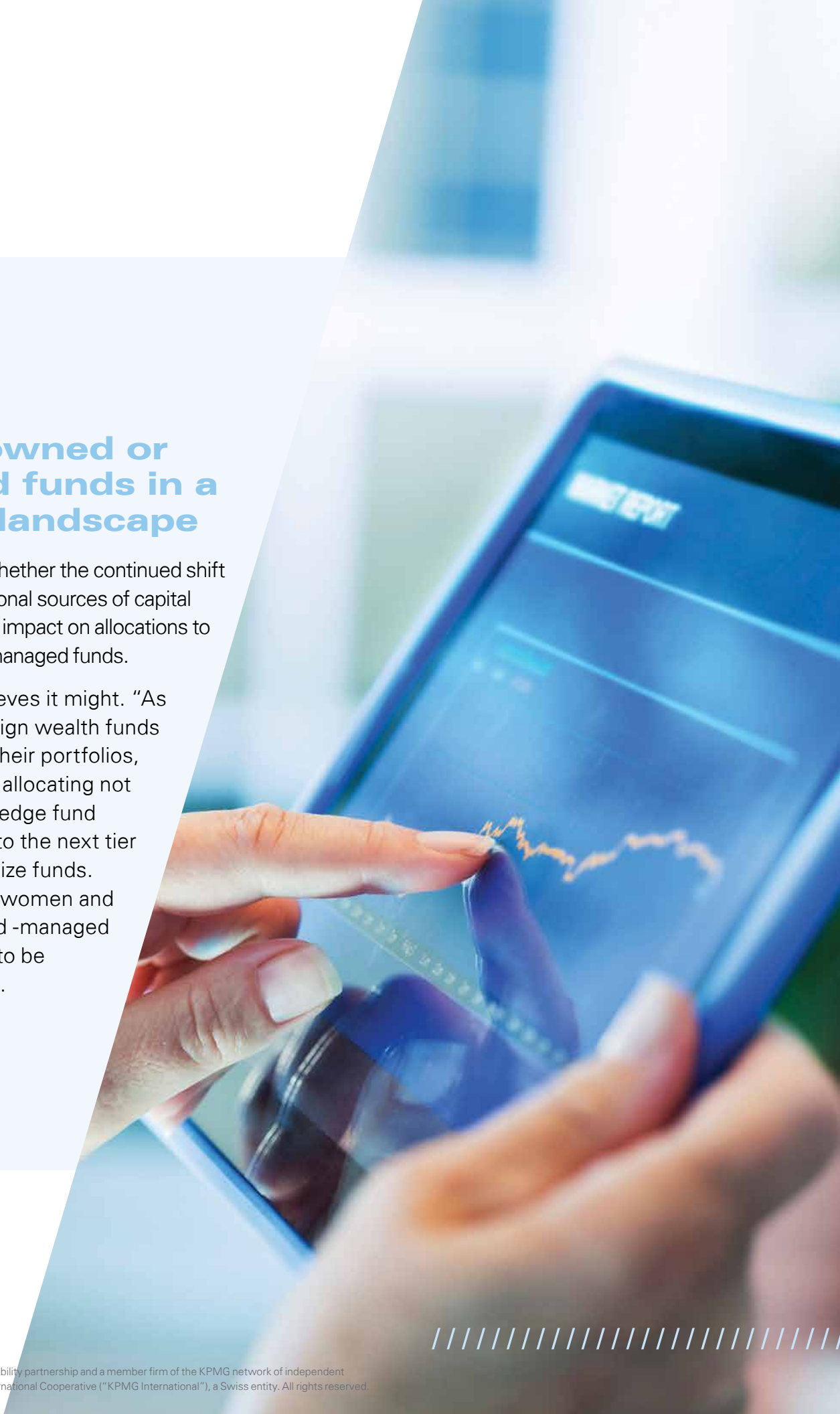


> "Pensions will still play a large role in private equity and venture, but I believe the increasing number of defined contribution versus defined benefit plans will constrain pensions' allocations to the asset class because of the illiquidity. Meanwhile, sovereign wealth, foundations and family offices will likely assume a larger share of the asset class. As always, I think it's important for fund managers to thoughtfully diversify their sources of capital."
>
> —**Kate Mitchell**, *Cofounder and partner, Scale Venture Partners*

Women-owned or -managed funds in a changed landscape

It is too early to tell whether the continued shift toward more institutional sources of capital will have a significant impact on allocations to women-owned or -managed funds.

Ms. Beschloss believes it might. "As pension and sovereign wealth funds continue to add to their portfolios, they likely will start allocating not just to the largest hedge fund managers but also to the next tier of smaller and midsize funds. This shift may help women and minority-owned and -managed funds as they tend to be smaller," she noted.



The untapped potential of emerging manager mandates

In each year the WAI Report has been conducted, many respondents have said they believe it is more difficult for women fund managers to raise capital than their male counterparts. In light of this, we have sought to better understand the specific capital-raising challenges faced by women in alternatives. This year, we turned our focus to emerging manager mandates to identify their potential, as well as their challenges.

Total assets in emerging manager programs were estimated at $19.1 billion as of January 2015.
—Emerging Manager Monthly

Many within alternatives hoped that emerging manager mandates would usher in a new era of opportunities for women-owned and -managed firms: capital would start flowing to these generally smaller, younger firms, and investors would begin to reap the benefits of investing in younger funds with strong returns. However, according to many respondents, women-owned and -managed funds are still waiting to reap the benefits of mandates.

To pursue or not to pursue?

Very few funds in our survey population have pursued mandates. Hedge fund respondents (at 32 percent) more frequently pursued mandates than their private equity and venture capital counterparts (at 14 percent), and of these, only 7 percent of either group obtained funding.

Comparing successes across the sectors, private equity and venture capital respondents had a much higher success rate (at 58 percent) than their hedge fund peers (at 24 percent) in obtaining such funds.

One possible explanation for the divergent success rates may be the size of emerging manager assets across the sectors. As Ms. Beschloss notes, "According to Rock Creek estimates, out of the $2.7 trillion in total hedge fund assets, only $5 billion of institutional assets are invested in emerging managers. Institutions have historically allocated significantly more assets to long-only and PE emerging managers."

For the small number of respondents who have obtained emerging manager funds, public pensions represented the overwhelming majority of funds received, followed by fund of funds. Across both groups, these mandates were most often run directly by the ultimate investor or by a fund of funds, not a manager of managers or third-party consultant.

Progress report

One-third of our investor respondents, including fund of funds, have an emerging manager program or fund, and 4 percent plan to implement such a program or fund in the next 18 months.

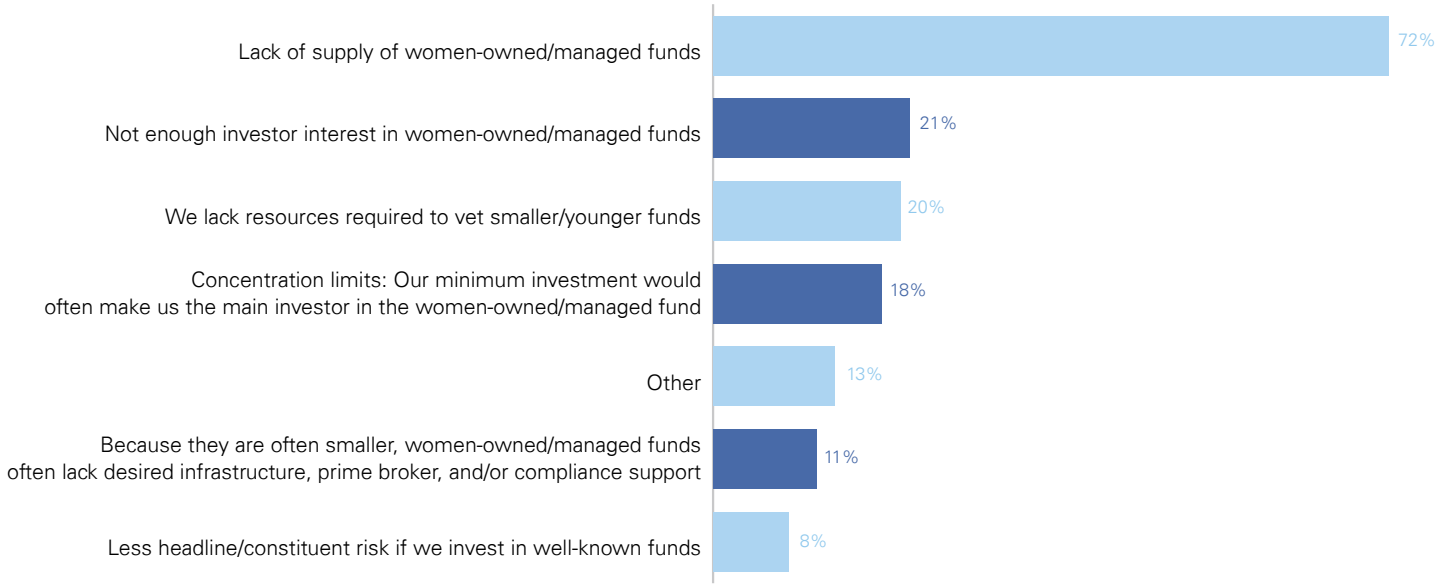
In terms of women-owned or -managed mandates, only a handful of investors (7 percent) have them. Although this number is low, it represents an improvement since the 2013 WAI Report in which only 2 percent of respondents had such mandates.

"I think the 'lack of supply of women-owned or -managed funds' argument is both ridiculous and completely understandable," said Ms. Mitchell. "There are a lot of excellent women out there who warrant capital and already have proven performance. But there's a dearth of women being developed through the talent pipeline so there simply aren't as many women-owned or -managed funds yet."

Despite the existence of emerging manager or women-owned or -managed mandates, women-owned or -managed funds represent a very small portion of investors' portfolios, with slightly over two-thirds (67 percent) of our investor respondents, including fund of funds, allocating one-tenth or less of their portfolios to women-owned or -managed funds.

The lack of supply of talent is the greatest barrier to allocations to women-owned or -managed funds, according to 72 percent of the investors represented in our survey. Several investors cited the supply problem, indicating, as one did, their firm "just does not know the right women managers." A fund of fund respondent echoed this sentiment, noting, "we just haven't seen many funds that are women-led."

What are the greatest barriers to your firm investing in women-owned/managed firms?



"Supply is certainly one important factor," noted Ms. Beschloss, "because women run only a small portion of fund management assets. In addition, for hedge funds, investments in the sector have become increasingly concentrated, with the largest 5 percent of funds controlling 90 percent of the sector's assets. In general, women-run firms are not found in the largest 5 percent," she noted.

Will demand for women-owned or -managed funds increase?

Many respondents (43 percent) are uncertain whether the existence of mandates will increase the demand for women-owned or -managed funds in the next 12 to 18 months. Investors are slightly more positive than fund respondents about the impact of mandates, with 38 percent of investors but only 31 percent of fund professionals believing mandates will increase demand.

Looking forward

None of the investors surveyed expect a decrease in their allocations to women-owned or -managed funds, and 26 percent expect an increase.

Investments in women-owned or -managed funds

Sixty-five percent of all survey respondents are generally in favor of investments in women-owned or -managed funds, and only 2 percent are not. When asked whether they support investments in women-owned or -managed funds, the remainder was more noncommittal, saying, "it depends." Interestingly, there is no significant difference between our investor and fund respondents on this topic.

When discussing mandates in particular, many explained they have mixed feelings about women-owned or -managed mandates because of the perceived stigma attached to winning such a mandate. "On the one hand, I think mandates are necessary and a good chance to build out the pool of experienced, institutional quality managers," explained Ms. Jenkins. "But, on the other hand, I think they risk creating a stigma for these firms. To oversimplify, I worry that people assume successful women managers get capital because they are women rather than because they are a good manager."

"Unfortunately, firms are often seen as 'women-led' rather than 'just a good firm,'" said Ms. Buchan. "People sometimes think because a firm is women-owned or -led that it hasn't succeeded on its own merits."

Many comments received in the survey seemed to reflect this concern, emphasizing that women-owned or -managed firms should be judged by the same performance and organizational standards as their male peers. As one investor candidly said, "I don't believe women-owned funds should be given any special treatment. They should compete on their merits." It was a sentiment echoed by numerous respondents.

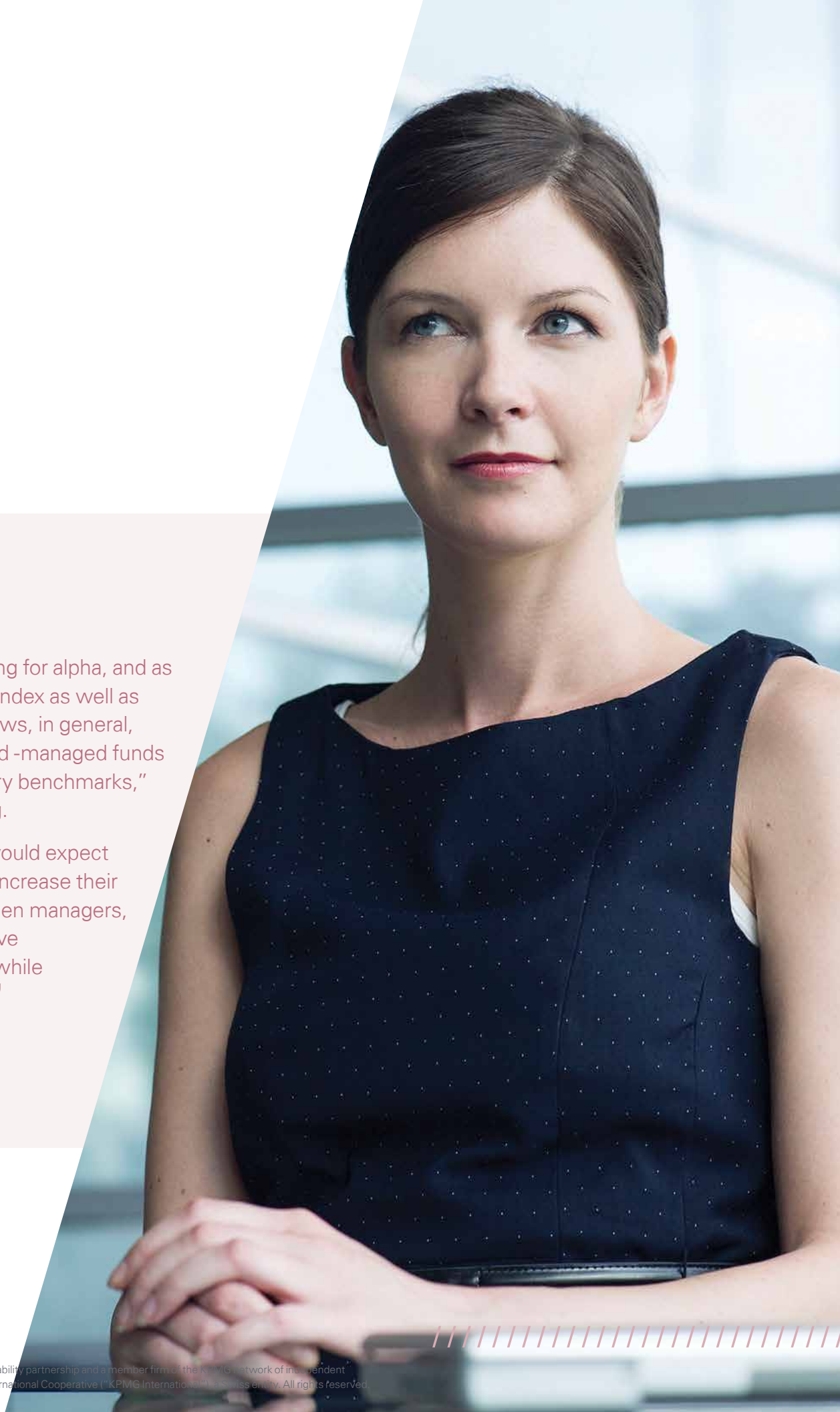
"I think most of us agree that women fund managers aren't asking for special treatment," said Ms. Easterling. "They want to be held to the same standards as their peers, whether male or female."

"To that end, as we've seen in our survey, it's evident that, in general, many believe that women-owned and -managed funds lack investor access and visibility, despite the fact that, as the HFRI Women Index shows for hedge funds, women's performance is better than the industry at large," Ms. Easterling explained. "There's a considerable disconnect between outperformance and access to capital for women-owned and -managed funds."

Despite that outperformance, in both hedge funds and across finance overall, "Women-managed investment vehicles often experience lower inflows than those run by their male counterparts regardless of investment characteristics, performance or risk-adjustments," explained Ms. Beschloss. "Even when controlling for all fund characteristics—such as performance, risk, or style—recent research from Germany's University of Mannheim by Alexandra Niessen-Ruenzi and Stefan Ruenzi ("Sex Matters: Gender Bias in the Mutual Fund Industry") has shown that a fund run by a woman receives a third less capital than one run by a man."

"At the end of the day, investors need to believe that diversity is an important contributor to the success of their managers," added Ms. Horbach. "Research shows that a more diverse team makes better investment decisions, but until LPs start to opt out of funds that aren't diverse, it will be really difficult to move the needle."

> "If more investors focused on conducting broadly inclusive manager searches, ensuring that each search includes a diverse slate where women are proving themselves against a broader group, we could really expand the pool of experienced, institutional quality managers," recommended Ms. Jenkins. "In addition, people would be less likely to think that successful women managers have gotten capital because they are women rather than because they are a good manager."



"Investors are looking for alpha, and as the HFRI Women Index as well as other research shows, in general, women-owned and -managed funds outperform industry benchmarks," said Ms. Easterling.

"Given that, one would expect more investors to increase their allocations to women managers, which could improve portfolio diversity while generating alpha."

Women at AI funds: The secrets to their success

As in prior years, "having a strong professional network" is the factor fund respondents cite as most critical to their success. Strong personal/support networks and strategic career planning followed closely behind. Strong mentoring relationships and willingness to take risk were also cited by significant numbers of respondents.

In terms of future aspirations, 18 percent of fund respondents plan to manage their own fund and 11 percent plan to launch a new fund in the next five years. These percentages have remained relatively consistent since our 2012 WAI Report, with a small jump in the portion of women planning to launch a new fund from eight percent in 2013 to 11 percent this year.

For those respondents who plan to be managing their own fund within five years, respondents indicated there were several things that need to be in place for that to happen. An extensive network of potential investors was cited as the most important factor (33 percent), followed by access to seed capital (29 percent) and a portable track record (24 percent).

Both investor and fund respondents recommended that women fund managers increase their professional visibility and further develop and expand their networks, especially if they are seeking or plan to seek capital. Yet only 2 percent of our fund respondents sit on a public corporate board and only 16 percent sit on a private corporate board, both important visibility-raising and network-building opportunities. A full 58 percent don't sit on any boards—corporate or nonprofit.

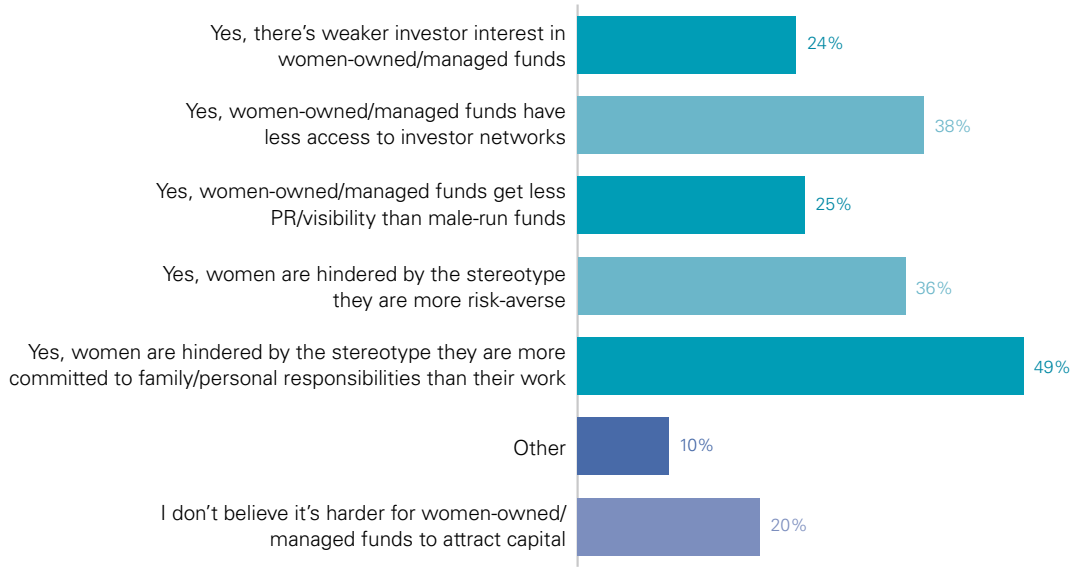
"Over the past several years, there have been various efforts throughout corporate America directed at helping women obtain corporate board positions, and yet, among the highly credentialed and abundantly qualified group of our fund respondents, we see very few corporate board seats. Clearly, more must be done to increase the percentage of women on boards and in executive ranks," said Ms. Messemer. "At KPMG, we remain focused on helping women build their careers and advance in the workplace. To support our efforts, we are conducting 'On Board Bootcamps' to help equip women with the information they need to obtain a board seat and be a successful board member."

Women in AI: The path forward

As in prior years, the majority of respondents believe the number of women in the industry will increase over the next 18 months. However, most (79 percent) continue to believe it remains harder for women to succeed in the industry. A little less than half believe the next 18 months will see an increase in women-owned or -managed fund launches.

Most respondents believe it is harder for women-owned or -managed funds to raise capital, with nearly half citing stereotypes regarding women's commitment to family and personal responsibilities as a top barrier. Lack of access to investor networks and stereotypes that women are more risk-averse were also cited as significant barriers.

Is it harder for women-owned or managed funds to attract capital?



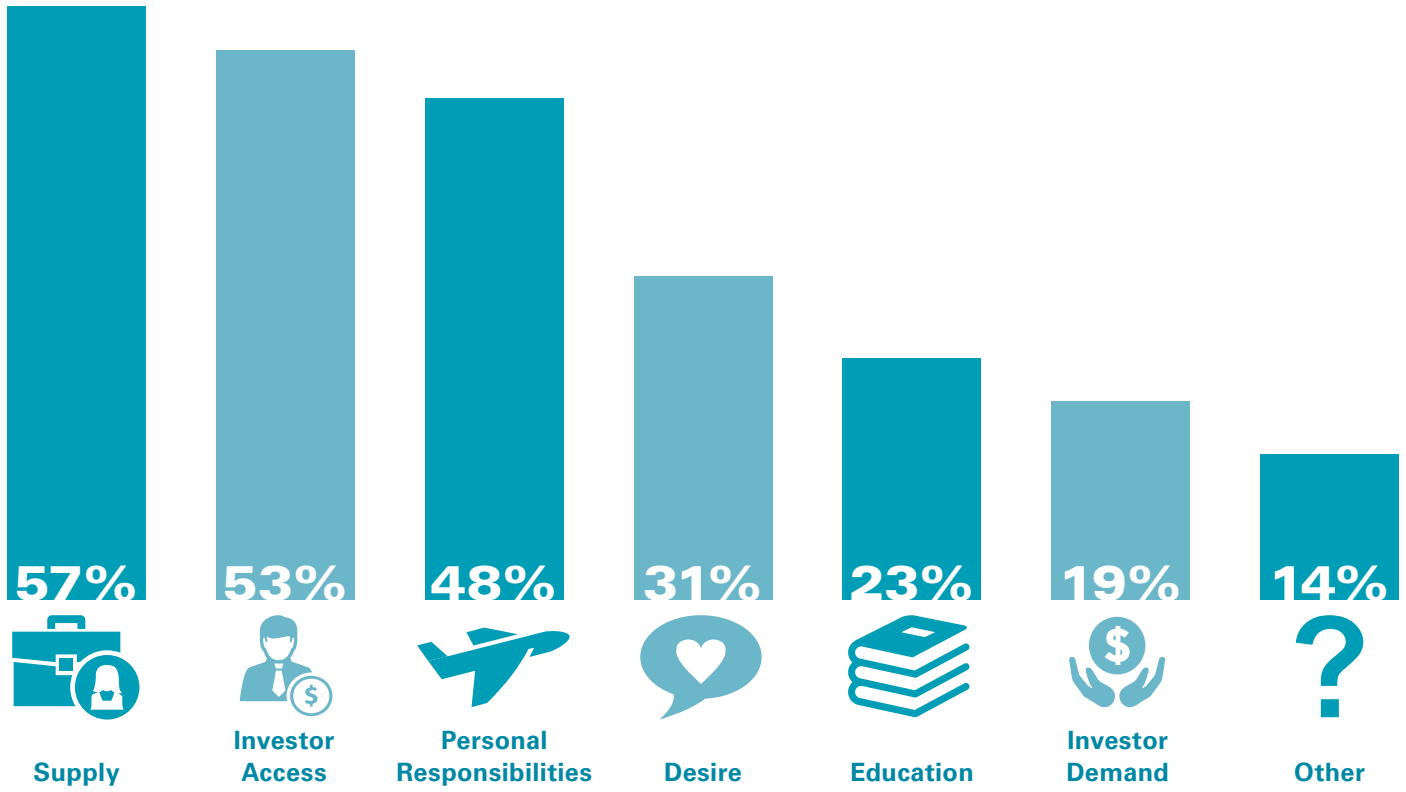
"Hopefully, dialogue about capital raising for women-owned or -managed funds coupled with data, such as the HFRI Women Index, on the outperformance of such funds can begin to shift this dynamic and encourage increased allocations to women-owned or -managed funds," said Ms. Asaro.

Growing the Pipeline

To improve women's representation in the industry, growing the pipeline is an essential step. Our respondents believe that the shortage of women in alternatives is primarily due to supply (lack of positions for women where they can build a track record), lack of investor/capital access, and the fact that the hours and/or travel required make the industry less attractive to women.

"If a greater number of firms proactively compiled diverse candidate slates to interview for positions at funds, we could really move the needle," noted Ms. Mitchell.

"It's not about quotas or mandates," she explained. "Firms simply adjust their recruiting practices to include female candidates. Not only will this benefit diversity but we'll increase the pipeline of great candidates. It's a best practice that can be applied throughout alternative assets."



> "We need to show younger women that they can have a career path in this industry," said Ms. Horbach." Within alternatives, we've seen women perform extremely well and yet there are still not a lot of women interested in entering the industry. Given many firms are finally focusing on increasing diversity, I believe there's never been a better time for women to enter and succeed in this business."

In addition, the need for more senior women role models within the industry was emphasized by many respondents.

"We need to build the pipeline of women in the industry and actively promote and publicize the women who do succeed," suggests Ms. Jenkins.

Ms. Mitchell agrees. "Like many of my peers, I always wanted to be recognized as the best at what I do, and not as a 'female fund manager' so I've worked hard not to let my gender define me. However, I've come to realize that we need senior women to speak out about their experiences in the industry, to acknowledge the challenges and opportunities they've faced, to serve as role models and mentors for younger women, and to promote the positive bottom line impact of having more women in the industry."

Conclusion: Looking forward

As our 2015 WAI Report shows, there are reasons to be optimistic about the path forward for women in alternatives. Roughly a quarter of our investor respondents plan to increase their allocations to women-owned or -managed funds over the next 18 months, and mandates continue to provide women-run funds with needed capital.

Although many respondents believe, as in years past, it is more challenging for women fund managers to raise capital than it is for their male peers, it is our hope that the HFRI Women Index, as well as other research about the performance of women-run funds throughout alternatives, will encourage more investors to allocate to women-owned and -managed funds.

In addition, we are hopeful that the pipeline of women entering the industry will continue to grow, aided by the recommendations of our respondents and our external contributors.

As this year's WAI Report shows, women in alternatives have charted their own paths to success, and we hope the next generation of women entering and rising through the ranks within the industry will follow in their footsteps.

Our external contributors

We would like to thank the following external contributors who offered their invaluable insights for this Report:

- Afsaneh Beschloss, President and CEO, the Rock Creek Group
- Jane Buchan, Managing Director and CEO, PAAMCO
- Christopher Elvin, Head of Private Equity Products, Preqin
- D. Brooke Harlow, Executive Vice President and Managing Director, Managed Funds Association
- Kenneth J. Heinz, President, Hedge Fund Research, Inc.
- Sandra Horbach, Managing Director, The Carlyle Group
- Meredith Jenkins, Co-Chief Investment Officer of Carnegie Corporation of New York
- Kate Mitchell, Co-Founder and Partner, Scale Venture Partners
- Betsy O'Farrell, Portfolio Manager and Equities Trader, Gemina Capital Partners, LLC

Our distribution partners

We would like to thank the following organizations and their members for supporting and contributing to this Report. Your commitment to fostering the growth and empowerment of women leaders has inspired many to break away and carve their path forward. We sincerely thank you:

- 100 Women in Hedge Funds www.100womeninhedgefunds.org
- Falk Marques Group www.falkmarquesgroup.com
- High Water Women www.highwaterwomen.org
- Managed Funds Association www.managedfunds.org
- Texas Wall Street Women www.txwsw.com
- Women in Derivatives www.womeninderivatives.org
- Women in ETFs www.womeninetfs.com

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Based in New York City, Camille is an audit partner at KPMG in the Alternative Investment Management practice. She has more than 24 years of experience of audit, accounting, and strategic planning in the financial services industry. She is responsible for audit engagements of hedge funds, private equity funds, funds of funds, and investment advisors.

Kelly Easterling, *Partner*
Based in New York City, Kelly is an audit partner within the Alternative Investment Management practice. She specializes in serving clients across the hedge fund industry including domestic and offshore funds, commodity pools, and funds of funds. She advises clients on initial organizational structure and documentation, supervises audits, and consults with management regarding various operations and audit matters.

Constance Hunter, *Chief Economist*
Based in New York City, Constance focuses on the global economy and its impact on the firm and our clients. She analyzes how economic developments and inflection points impact asset prices and businesses. Constance specializes in identifying linkages between developed and emerging markets and paradigm shifts brought about by disruptive technologies and mega trends.

Deanna J. Flores, *Principal*
Based in San Diego, Deanna is KPMG's National Tax Leader for Public Investment Management, responsible for KPMG's client service delivery, business development, and overall practice management for registered funds and their advisors. She is also a Principal in KPMG's Washington National Tax Financial Institutions and Products Group. Deanna has more than 24 years of experience providing tax advice to investment management industry participants, including on matters related to U.S. and non-U.S. investment alternatives, cross-border financial products transactions, and investor opportunities.

Deborah M. Messemer, *Partner*
Based in San Francisco, Debbie is the Managing Partner of KPMG San Francisco. Her responsibilities include overseeing market strategy and execution, client service, and talent acquisition and retention. She has spent a significant portion of her career serving financial services organizations, including private equity, venture capital, and other alternative investment clients.

Key external contributor

Melissa McClenaghan Martin, *President, M3 Strategic Alliances LLC*
Melissa advises firms on the creation of business development, thought leadership and women's initiative opportunities that increase firms' visibility, reach and revenue. She is a frequent speaker on issues related to women's advancement and is a former columnist on gender diversity issues. Melissa was involved in the creation of the first WAI Report.

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