

DEI Dilemma at AFT Capital

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Ryan Stevens is staring down a decision that could define his legacy. At the helm of AFT Capital's inaugural fund, he's got one shot left—one final investment that could determine not just the fund's performance, but his future in venture capital. The stakes? Immense. With investors watching closely, and with AFT's DEI promises etched into its identity, Ryan is caught in a high-stakes tug-of-war. SecureChain looks like a grand slam—technologically robust, market-ready, and led by a proven team. But its leadership lacks diversity, a detail that's impossible to ignore. The two alternative startups boast minority founders and strong DEI alignment, yet their financial trajectories are riskier. Ryan is wrestling with the hardest question of his career: does he chase the clearest path to returns—or invest in the change he claims to believe in?

Keywords: diversity, equity, and inclusion (DEI), ethical decision-making, venture capital, leadership legacy, Financial Technology (FinTech), investment strategy, stakeholder management, risk assessment, portfolio management

AFT CAPITAL BACKGROUND

AFT Capital is a \$150 million venture capital fund based in San Diego, California, with a focus on investing in financial technology (fintech) companies. Established as a seven-year fund, AFT Capital aims to deploy its \$150 million capital across various fintech startups and exit all its investments within the fund's lifespan, returning the (hopefully) significant profits to its limited partners.

The firm was created with an investment strategy centering around identifying and backing early-stage fintech companies that possess unique technologies and innovative solutions. AFT Capital seeks out companies with experienced management teams that have demonstrated proven track records in their respective fields, recognizing the importance of strong leadership in driving success. Its investor base consists of seven institutional investors and three family offices. Notably, the majority (five) of these investors have emphasized the significance of diversity, equity, and inclusion (DEI) principles and have repeatedly and vocally expressed their desire for AFT Capital to incorporate DEI considerations into its investment decision-making processes.

In response to this strong investor sentiment, AFT Capital has stated its commitment to DEI principles within the firm and in both its prospectus and marketing materials. By embracing DEI, AFT Capital aims to foster an inclusive and diverse portfolio, recognizing the value that diverse perspectives and backgrounds can bring to the fintech industry.

AFT Capital is currently in its second year of operation, and has made eight investments in various fintech companies, deploying a significant portion of its capital. However, as AFT Capital approaches the final stages of its initial investment cycle, the firm needs one more company to invest its remaining \$10 million.

While it is still relatively early to assess the performance of AFT Capital's investments, Ryan Stevens, the managing partner at AFT Capital, is worried about the overall health of the firm's existing investment portfolio. Two of the portfolio companies are teetering on the brink of bankruptcy, raising concerns about significant losses of invested capital. And none of the fintech firms in AFT Capital's portfolio have experienced a significant increase in valuation since the initial investment.

As the firm approaches the final stages of its investment cycle, Ryan senses that the selection of the last portfolio company will play a crucial role in determining the success of AFT Capital's inaugural fund. Yet, he also wants AFT Capital to remain committed to its investment strategy by continuing to actively seek out promising fintech companies that align with its criteria of possessing unique technologies, experienced management teams, and adherence to diversity, equity, and inclusion (DEI) principles.

Ryan Steven's Background

Ryan Stevens brings a wealth of knowledge and experience in the venture capital industry spanning over 15 years to his newly minted role as the managing partner at AFT Capital. Ryan built on his undergraduate degree from the University of California, San Diego, by earning an MBA at the Haas School of Business at the University of California, Berkeley. Known for being academically gifted and for his conscientiousness while pulling all-nighters studying, he prepared for a career as a VC by studying finance, entrepreneurship, and strategic management.

Prior to his current role at AFT Capital, Ryan cut his teeth learning the industry by spending several years as a junior partner at Spellman Capital, a well-established venture capital firm. During his tenure at Spellman Capital, he played an instrumental role in identifying, nurturing, and successfully exiting eight investments for the firm, bringing to Spellman the same hard work, effort, persistence, and talent he brought to his academic pursuits. Ryan's contributions were pivotal in enabling Spellman Capital to deliver an eightfold return to its investors, cementing his reputation as a highly skilled venture capitalist.

AFT Capital is Ryan's big chance to demonstrate his ability to be a managing partner of a venture capital firm. Every day he feels the pride at being given this opportunity, and also the significant weight and responsibility that comes with the role. He knows that the success of AFT Capital's inaugural fund will have a profound impact on his future prospects within the industry. There's no way around it, given the highly competitive nature of the venture capital landscape, a successful performance at AFT Capital is critical for his career trajectory. If he fails to deliver strong returns for the firm's investors, Ryan knows it would be highly unlikely for him to secure another managing partner position at a reputable venture capital firm in the future.

With his extensive experience, educational background, and proven track record of identifying and nurturing successful investments, Ryan feels well-positioned to lead AFT Capital towards success. However, the "heat is on" for him to capitalize on this opportunity and demonstrate his ability to navigate the challenges of managing a fund.

Dilemma

As he approaches the final stages of investing the \$150 million fund, Ryan knows he is facing a critical investment decision. With capital remaining for one last investment, Ryan and his team have narrowed down the options to three potential companies, each presenting its own set of challenges, considerations, and what at times feels like agonizing decision-making tradeoffs.

The first company under consideration meets all of AFT Capital's traditional criteria for investment. It has a unique technology, a tested product with significant market potential, and an experienced management team with a proven track record. However, it falls frustratingly short when it comes to DEI representation within its leadership and workforce.

The other two companies under consideration have founders from diverse backgrounds, which provide strong alignment with AFT Capital's stated DEI goals. However, while their products show promise, their management teams lack the extensive experience and proven track records that AFT Capital typically seeks in its investments.

Additionally, the market opportunities for their products don't seem to be as significant as the first company's offering.

Ryan finds himself completely split on which way to go with this decision. Should he invest in the first firm yielding potentially higher returns - but go against the firm's stated DEI principles? Or should he invest in one of the other two companies, providing a comfortable alignment with AFT Capital's DEI goals - but bringing higher risks due to less experienced management teams and smaller market opportunities?

As the managing partner, Ryan knows he must navigate this delicate situation carefully, weighing the potential financial implications of each investment opportunity against the firm's commitment to DEI and the expectations of its investors. The decision he makes will not only shape his relationships with his investors, but also the performance of AFT Capital's inaugural fund with far-reaching consequences for the firm's reputation and Ryan's own future prospects in the venture capital industry.

COMPANIES

SecureChain

SecureChain is a pioneering company that has developed a groundbreaking product designed to enhance the security and efficiency of blockchain transactions for financial institutions. The company's cutting-edge solution leverages advanced cryptography and distributed ledger technology to create a secure and transparent ecosystem for making financial transactions more efficient and more secure.

The product has garnered significant attention within the financial services industry, as it addresses critical challenges related to data security, transaction speed, and regulatory compliance. By seamlessly integrating with existing financial infrastructure, SecureChain platform enables institutions to benefit from the advantages of blockchain technology while mitigating potential risks and meeting stringent compliance requirements. With the rapid growth of blockchain adoption across various sectors, particularly in finance, SecureChain's product has the potential to become a multibillion-dollar solution, positioning the company as a key player in the rapidly evolving fintech landscape. Furthermore, AFT capital is excited about the "moat" that SecureChain has built. Their technology is truly unique and would be very difficult for any competitor to match.

The founding team at SecureChain boasts extensive experience and a proven track record of success. The founder, a seasoned entrepreneur, has previously founded and successfully grown four other technology companies, ultimately exiting each with a handsome return for its investors. This experience has equipped the founder with invaluable insights into navigating the challenges of scaling a technology startup and delivering value to stakeholders.

However, despite its strong product offering and experienced leadership, SecureChain Solutions falls short in terms of diversity within its ranks. The company's leadership team and workforce are composed of white males, mirroring the lack of diversity present in the other firms within AFT Capital's existing portfolio. While SecureChain Solutions ticks many boxes in terms of traditional investment criteria, its lack of diversity could potentially conflict with AFT Capital's stated DEI goals and the expectations of its investors.

Fintech Nexus

The second company AFT could invest in, Fintech Nexus, is a technology services company that provides backend support solutions specifically tailored for fintech firms. Led by an African American founder, the company has carved out a niche for itself in the rapidly growing fintech ecosystem by offering reliable and efficient backend services.

The company's core offering revolves around managing and maintaining the technological infrastructure that underpins the operations of fintech companies. This includes tasks such as server management, database administration, cloud computing services, and cybersecurity solutions. By outsourcing these critical backend functions to Fintech Nexus, fintech firms can focus their resources on developing and enhancing their core products and services. While Fintech Nexus has established a solid reputation for delivering quality services and has secured a loyal customer base within the fintech community, Ryan Stevens, the managing partner of AFT Capital, recognizes that the company's growth prospects may be inherently limited by the nature of its business model. As a service provider, Fintech Nexus is likely to experience steady and consistent revenue streams, but its

ability to scale exponentially or achieve the kind of explosive growth typically sought after by venture capitalists is limited; the company's focus on backend support services, while valuable, may not present the same level of disruptive potential as cutting-edge fintech products or platforms.

Furthermore, Ryan has concerns regarding the founder's lack of extensive experience in the technology and financial services industries. While the founder's entrepreneurial spirit and dedication are commendable, the absence of a proven track record in navigating the complexities of scaling a technology business could be viewed as a potential risk factor for AFT Capital's investment criteria. Despite these concerns, Fintech Nexus aligns with AFT Capital's commitment to diversity, equity, and inclusion (DEI), as the company is led by an African American founder. This aspect could potentially offset some of the reservations about the company's growth potential and the founder's relative inexperience.

As Ryan weighs the investment decision, he must carefully consider the tradeoffs between Fintech Nexus's potential for profitability and sustainability, its limited growth prospects, the founder's lack of extensive experience, and the company's alignment with AFT Capital's DEI goals.

Despite these concerns, Fintech Nexus aligns with AFT Capital's commitment to diversity, equity, and inclusion (DEI), as the company is led by an African American founder. This aspect could potentially offset some of the reservations about the company's growth potential and the founder's relative inexperience. As Ryan weighs the investment decision, he must carefully consider the tradeoffs between Fintech Nexus's potential for profitability and sustainability, its limited growth prospects, the founder's lack of extensive experience, and the company's alignment with AFT Capital's DEI goals.

Bankedge

The third potential investment, Bankedge, is an innovative fintech company that has developed a cutting-edge platform aimed at modernizing and streamlining the banking software used by small and medium-sized financial institutions. The company's solution has the potential to disrupt the traditional banking software market, positioning itself as the new operating platform for this segment of the industry.

The platform offers a comprehensive suite of features and tools designed to enhance the efficiency, security, and user experience of banking software. It leverages advanced technologies such as cloud computing, artificial intelligence, and data analytics to provide financial institutions with a seamless and intuitive interface for managing their operations, customer interactions, and regulatory compliance. One of the key strengths of Bankedge's platform is its scalability and adaptability. The solution can be easily customized and integrated with existing systems, allowing financial institutions to gradually transition to the new platform without disrupting their ongoing operations. Additionally, the platform's modular design enables institutions to adopt specific features or modules based on their unique requirements, ensuring a tailored and cost-effective implementation.

The potential market opportunity for Bankedge's platform is immense. With a significant portion of small and medium-sized banks still relying on outdated and legacy software systems, the demand for a modern and agile solution is high. If Bankedge's platform gains widespread adoption, the company could potentially become the new standard for banking software in this sector, positioning it for substantial growth and potentially reaching a valuation in the tens of billions of dollars.

Bankedge aligns with AFT Capital's diversity, equity, and inclusion (DEI) initiative, as the company is founded and led by a Latina female entrepreneur. However, both the founder and her team lack extensive experience in the financial services industry, and there are concerns about their business acumen and ability to navigate the complexities of scaling a technology company in this highly regulated and competitive sector. As Ryan evaluates Bankedge as a potential investment opportunity, he must carefully weigh the company's promising product and market potential against the risks associated with the management team's relative inexperience and perceived lack of business expertise. Additionally, Ryan must consider how Bankedge's alignment with AFT Capital's DEI goals factors into the overall investment decision.

CONCLUSION

As Ryan grapples with the investment decision for AFT Capital's final \$10 million allocation, he finds himself at a crossroads, navigating the delicate balance between his commitment to diversity, equity, and inclusion (DEI) and the firm's need for outstanding performance.

Incorporating DEI into the fund's portfolio has proven challenging, as less than 5% of fintech companies are founded by minority entrepreneurs. Despite this hurdle, Ryan's personal conviction and his investors' expectations demand a concerted effort to uphold DEI principles. One of the key reasons his institutional and family office investors entrusted their capital with AFT Capital was Ryan's stated commitment to promoting diversity and inclusion in the firm's investment decisions.

However, Ryan cannot lose sight of the paramount importance of delivering strong returns for the fund. As a first-time managing partner, the pressure to generate outstanding performance is immense. A lackluster outcome could potentially derail Ryan's aspirations of securing future managing partner roles at reputable venture capital firms. Conversely, if AFT Capital's investments yield substantial returns, Ryan's prospects of being offered a managing director position at a larger, more established fund would be significantly enhanced.

Ultimately, this is the heart of Ryan's crossroads. In the broader perspective, this is more than just a call to strike a delicate balance between core DEI principles and the need to ensure performance. Indeed, this could be – no, in fact it already is – a tipping point that can affect both the career of Ryan, and quite possibly, the investor landscape. This could shake the current culture, the way investment decisions are made, perhaps even the way governance decisions will eventually be made. And Ryan can ignite the spark.

Or, it could lean to ruin at worst, and at best, mediocre financial performance that would land Ryan, his career, and his firm on a perpetual plateau that in time, may go unnoticed, and even forgotten and irrelevant.

At this pivotal moment, Ryan stands on the edge of something far greater than a single investment decision. He holds the power to not only shape the future of AFT Capital but to challenge the norms of an entire industry. Will he ignite a new path for inclusive innovation, or will he fall back on the traditional playbook of predictable profit? His choice could set a precedent, altering the expectations of venture capitalists for a generation. In making this final call, Ryan doesn't just bet on a company—he stakes his values, his vision, and his very legacy.

CASE QUESTIONS

1. Given AFT Capital's commitment to diversity, equity, and inclusion (DEI), what should be Ryan's decision criteria in evaluating the three investment opportunities? What should be the extent of the weight or impact of the various factors such as DEI, growth potential, management experience, anticipated risks, etc.?
2. What is your assessment or evaluation each investment option given the criteria you have formulated?
3. Given your assessment, which decision option would be the most suitable, and what kind of strategies and tactics should be in place to ensure that the desired outcomes of the decision are achieved?
4. What strategies could Ryan and AFT Capital implement to increase the pipeline of diverse founders and companies in their investment considerations for future funds?
5. If the outcomes are achieved, how do you see this impacting Ryan's career and the future of AFT Capital?

TEACHING NOTE FOR AFT CAPITAL CASE

Synopsis of the Case

The case revolves around AFT Capital, a \$150 million venture capital fund based in San Diego, California, that specializes in investing in financial technology (fintech) startups. Established as a seven-year fund, AFT Capital has so far made eight investments and is in the process of selecting its final investment with \$10 million remaining. The firm is at a critical juncture, balancing its commitment to Diversity, Equity, and Inclusion (DEI) with the need to deliver strong returns to its investors. Ryan Stevens, the managing partner, faces a dilemma between investing in a company with strong financial prospects but weak DEI credentials and two other companies that align with DEI goals but come with higher risks due to less experienced management and uncertain growth

potential. The decision will not only impact the success of AFT Capital's inaugural fund but also shape Ryan's future career prospects.

Target Group

This case is designed for postgraduate students, particularly those enrolled in courses on venture capital, entrepreneurship, strategic management, or finance. It can also be used in executive education programs focusing on leadership, decision-making, and investment strategies. Students should have a basic understanding of venture capital, investment analysis, and the role of DEI in business.

Prerequisite Learning:

- Basics of venture capital and fund management
- Understanding of DEI principles in business
- Fundamentals of financial analysis and risk assessment

This session would be best positioned in a module on venture capital strategy, either after an introduction to venture capital or as part of a discussion on ethical investing.

LEARNING OBJECTIVES AND KEY ISSUES

Learning Objectives:

1. To evaluate the trade-offs between financial performance and social responsibility in venture capital investments.
2. To understand the challenges of incorporating DEI principles into investment decision-making.
3. To explore strategic decision-making under pressure and uncertainty in the context of a venture capital firm.
4. To assess the potential career implications of high-stakes decisions for investment professionals.

Key Issues:

- Balancing DEI commitments with traditional financial performance metrics.
- Evaluating the potential risks and rewards of different investment opportunities.
- Understanding the implications of investment decisions on the firm's reputation and the managing partner's career.
- Developing strategies for increasing the diversity of investment pipelines.

TEACHING STRATEGY

Session Plan:

1. Opening Discussion (15 minutes):

- **Trigger Question:** "What are the potential benefits and challenges of incorporating DEI into a venture capital firm's investment strategy?"
- Encourage students to discuss the role of DEI in investment decisions and its impact on long-term success.

2. Group Work (30 minutes):

- Divide the class into three groups, each representing one of the companies under consideration (SecureChain, Fintech Nexus, Bankedge).
- Each group should analyze the strengths and weaknesses of their assigned company and prepare arguments for why AFT Capital should or should not invest in it.
- Focus areas: financial potential, alignment with DEI goals, management experience, and market opportunity.

3. *Case Discussion (30 minutes):*
 - Groups present their findings.
 - Facilitate a discussion on the trade-offs involved in each investment opportunity.
 - **Key Question:** "How should Ryan prioritize DEI considerations against traditional investment criteria?"
4. *Consolidation and Debrief (15 minutes):*
 - Summarize the main points discussed.
 - Discuss the broader implications of Ryan's decision for his career and AFT Capital's future.
 - Introduce real-world examples where similar decisions have been made and their outcomes.
5. *Closing Thoughts (10 minutes):*
 - Reflect on the importance of DEI in modern investment strategies.
 - Discuss how students might approach similar dilemmas in their future careers.

Technical Requirements:

- Whiteboard for mapping out discussion points.
- Access to financial and market data sources if students need to do further analysis.

Alternate Use:

- The case can be adapted for online or hybrid learning by using breakout rooms for group discussions and online polls to gauge student opinions on the investment options.

QUESTIONS FOR DISCUSSION

1. **Considering AFT Capital's commitment to diversity, equity, and inclusion (DEI), how should Ryan prioritize the various factors (DEI, growth potential, management experience, etc.) when evaluating the three investment opportunities?**

Ryan should consider both the short-term and long-term impacts of his decision. While growth potential and management experience are critical for ensuring the financial success of AFT Capital, the firm's commitment to DEI cannot be overlooked. Prioritizing DEI might mean accepting a potentially lower immediate return but could lead to long-term benefits such as stronger relationships with investors who value DEI and a more diverse and innovative portfolio. Ryan needs to strike a balance that aligns with both the firm's financial goals and its DEI commitments, potentially by selecting a company that offers a reasonable compromise on these fronts.

2. **What are the potential risks and rewards of investing in SecureChain given its strong product and experienced team but lack of diversity within the leadership?**

Investing in SecureChain presents the reward of potentially high returns due to the company's strong product offering and experienced management team, which has a proven track record of success. However, the lack of diversity within SecureChain's leadership poses risks, particularly in relation to AFT Capital's commitment to DEI. This could lead to tension with investors who prioritize DEI, potentially harming the firm's reputation and future fundraising efforts. Additionally, missing the opportunity to diversify the portfolio could limit AFT Capital's ability to capitalize on the broader benefits of diversity, such as innovation and market insight.

3. **Given the potential conflicts between traditional investment criteria and DEI goals, how can Ryan balance these competing priorities to make the best decision for AFT Capital's final investment?**

Ryan could consider a weighted decision-making approach, where both financial and DEI considerations are scored based on their importance to AFT Capital's long-term strategy. Engaging with the firm's investors to clarify their priorities could also help guide his decision. Moreover, Ryan might explore ways to mitigate

the risks associated with the less experienced teams in the DEI-aligned companies, such as providing additional support or mentoring. Ultimately, the decision should align with AFT Capital's mission to deliver strong returns while upholding its DEI commitments.

4. What strategies could Ryan and AFT Capital implement to increase the pipeline of diverse founders and companies in their investment considerations for future funds?

AFT Capital could establish partnerships with organizations that support diverse entrepreneurs, create mentorship programs for minority-led startups, and actively participate in networks that promote diversity in fintech. Additionally, the firm could adjust its scouting process to seek out underrepresented founders earlier in their development stages. By expanding its definition of investment readiness and providing resources to help diverse companies meet those criteria, AFT Capital could build a more diverse pipeline for future investments.

5. How might the outcome of this investment decision impact Ryan's future career prospects and ability to secure managing partner roles at other venture capital firms?

The decision Ryan makes will be a pivotal point in his career. A successful investment that balances financial returns with DEI commitments could enhance his reputation as a thoughtful and strategic leader, opening doors to future opportunities. Conversely, if the investment underperforms or if he is seen as neglecting DEI, it could harm his prospects. In the highly competitive venture capital industry, being perceived as a leader who can navigate complex decisions while maintaining strong ethical standards will be crucial for Ryan's future success.

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APPENDIX 1: EXPERIENCE OF USING THE CASE

In previous sessions, students have engaged deeply with the tension between DEI goals and financial returns. The discussion often gravitates towards the practical challenges of implementing DEI in a venture capital setting, leading to rich debates. One point of focus has been the role of investor expectations in shaping decision-making. Students have responded positively to the real-world applicability of the dilemma, although some have struggled with balancing the competing priorities. Encouraging students to consider long-term implications for both the firm and Ryan's career has been effective in pushing them to think beyond immediate financial returns.

1. Given AFT Capital's commitment to diversity, equity, and inclusion (DEI), what should be Ryan's decision criteria in evaluating the three investment opportunities? What would the extent of the weight or impact of the various factors such as DEI, growth potential, management experience, anticipated risks, etc.?

Ryan should take into consideration the following criteria:

- a) DEI Compliance
- b) Fund Performance Potential
- c) Risk
- d) Management Experience
- e) Others

It is encouraged to assign relative weights to each criteria, ensuring that DEI Compliance and Fund Performance get equal weights.

2. What is your assessment or evaluation each investment option given the criteria you have formulated? Each company should be evaluated given the weighted criteria developed above, and numerically rated and perhaps a weighted score be generated. Consider a rating range of 1 to 4, with 4 being the highest.
3. Given your assessment, which decision option would be the most suitable, and what kind of strategies and tactics should be in place to ensure that the desired outcomes of the decision are achieved? Use the same recommend answers above for Number 4.
4. If the outcomes are achieved, how do you see this impacting Ryan's career and the future of AFT Capital

This could potentially impact Ryan positively, and put AFT Capital not only on the VC map, but also on the DEI map, and in the broader context of sustainability.