



UNION HERITAGE

Who We Are

Union Heritage is a majority African American- and woman-owned venture capital firm headquartered in Michigan. We are a Michigan-first investor and take a generalist approach with focus on the Consumer, Technology, Life Sciences, Mobility, Clean Energy/Climate Tech, Media and Entertainment, and Advanced Manufacturing sectors.

What We Do

We invest in founders from all backgrounds but have a strong emphasis on underrepresented founders (which we define as women, racial and ethnic minorities, LGBTQ+, Veterans, and those from rural communities) who are solving problems that have a definitive, positive impact on underrepresented communities.

Our Impact

Union Heritage's ultimate goal is to build Michigan into an entrepreneur-friendly environment where founders – especially underrepresented founders – feel and are supported in building and growing their businesses.

Over the last 12 years, Union Heritage general partners have invested in 35+ startups.

- **81% of those companies have underrepresented founders** (Racial and Ethnic minority – 40%, Female – 54%, Veterans – 3%, and LGTBQ+ – 3%).
- When broken down by the amount of capital deployed, **94% of the capital deployed has been into underrepresented founders** (Racial and Ethnic minority – 74%, Female – 14%, Veterans – 11%, and LGTBQ+ – 2%)

For more information, please visit UnionHeritage.com



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May 14, 2024

Dear Chairman Hoskins and Members of the House Committee on Economic Development and Small Business,

We want to thank Chairman Hoskins, Representative Farhat, and Representative VanWoerkom for your engagement on the issue of Michigan's Innovation Ecosystem, and for inviting us to be a part of this thoughtful process as you continue to work to pass Michigan HB 5651-5653.

Union Heritage Ventures is a majority African-American and woman-owned venture capital firm headquartered in Michigan. We are a Michigan-first investor and take a generalist approach, focusing on the Consumer, Technology, Life Sciences, Mobility, Clean Energy/Climate Tech, Media and Entertainment, and Advanced Manufacturing sectors—some of the fastest-growing sectors nationally where Michigan has a unique competitive advantage.

We invest in founders from all backgrounds but have a strong emphasis on underrepresented founders (which we define as women, racial and ethnic minorities, LGBTQ+, Veterans, and those from rural communities), who are solving problems that have a definitive, positive impact on underrepresented communities — and our team is representative of this diversity.

Union Heritage Capital, our affiliated investment management firm, was founded 35 years ago with the specific intent to outperform the market over multiple investment cycles. To that end, we have outperformed the benchmarks over the past 120 cumulative quarters, generating nearly \$300MM in net investment gains for our investors. This success has been achieved through the implementation of a very disciplined investment process.

For the last 12 years our venture firm's General Partners have collectively invested in companies from Pre-Seed through Series D stages — including many companies here in Michigan. When Union Heritage decided to formally launch a venture capital line of business, we were relatively quiet because we felt that in order to make a meaningful and differentiated contribution, we first had to spend some time listening to the ecosystem. This has helped us identify opportunities to accelerate innovation across the state that we would like to offer today.

While the legislation, Michigan HB 5651-5653, as drafted, does not include firms like ours, we would like to share some reasons why we believe our venture model makes a vital contribution to the early-stage startup ecosystem here in Michigan.

Analysis of Venture Capital in Michigan

Michigan is well positioned for the new frontier of future growth trends. Five of the top eight fastest-growing industries nationally are sectors of competitive advantage for Michigan. We believe that Michigan has a unique opportunity to build a more robust start-up ecosystem, but two of the most significant impediments are **(1) the concentrated number of capital allocators and the lack of**

allocator diversity, and (2) Michigan is over-indexed on non-profit capital allocators at the earliest stage.

Thus far, no state in the Midwest has won at the earliest stages — the entire region still represents only 5% of all pre-seed capital invested nationally.¹ But we believe that with positive adjustments, Michigan can deepen its investment in the early stage startup ecosystem and unlock this opportunity to become the Midwest's center for innovation and population growth over the coming decades.

1. Concentrated Number of Capital Allocators and A Lack of Allocator Diversity:

Programs being funded by the State of Michigan to support high-growth startup companies should include emerging managers. Currently, there is a lack of inclusion for emerging managers (managers who are in their first, second, or third formal fund) in existing and new programs. Emerging managers are critical for increasing the velocity of capital investment, as well as Michigan's long-term economic competitiveness.

Data overwhelmingly shows that emerging investors disproportionately outperform the market. According to the Federal Reserve, first-time funds average 3% greater returns over multiple years compared to more established funds.² Moreover, venture capital firms with female partners (rare among established funds) have 9.7% more profitable exits, and 1.5% higher returns compared to all-male teams.³

Additionally, emerging managers, — who tend to be from underrepresented backgrounds — are more likely to invest in and support overlooked populations of entrepreneurs. For example, Black investors are 3x more likely to invest in diverse founders,⁴ and research shows that the historical underinvestment in African-American and Latino founders across Michigan has only been exacerbated by the existing venture model.⁵

Without more diverse investors in Michigan, who bring unique perspectives and new networks, supporting a robust venture ecosystem for a 21st-century economy is difficult.

2. Over Indexed on Non-Profit Capital Allocators When Compared to the Most Successful Venture Ecosystems (California, Massachusetts, New York):

As drafted, the legislation and model for funding early stage investment firms in Michigan disproportionately rely on non-profit organizations that are heavily incentivized to measure success with short-term economic development metrics. Solely focusing on economic development metrics can be challenging, because it often comes at the expense of supporting critical long-term growth metrics, by over-prioritizing short-term job growth and physical footprint milestones.

¹Walker, P. (2024, May 10). State of Pre-Seed: Q1 2024. Carta. <https://carta.com/blog/state-of-pre-seed-q1-2024/>

²Aladangady, A., & Forde, A. (2021, October 22). Wealth inequality and the racial wealth gap. <https://www.federalreserve.gov/econres/notes/feds-notes/wealth-inequality-and-the-racial-wealth-gap-20211022.html>

³Lyons-Padilla, S., Markus, H. R., Monk, A., Radhakrishna, S., Shah, R., Dodson, N. A., & Eberhardt, J. L. (2019). Race influences professional investors' financial judgments. *Proceedings of the National Academy of Sciences of the United States of America*, 116(35), 17225–17230. <https://doi.org/10.1073/pnas.1822052116>

⁴ Kauffman Fellows, MaC Venture Capital. (2020). Deconstructing the pipeline myth and the case for more diverse fund managers. <https://www.kauffmanfellows.org/journal/the-pipeline-myth-ethnicity-fund-managers>

⁵MVCA Research Report Committee. (2023). 2023 Impact Report. MVCA. <https://bluetoad.com/publication/?i=799651&pre=1>

Across the country, ecosystems with a high number of “unicorn” companies (those with a valuation >\$1 billion) have done so with for-profit investments alongside non-profit. Many companies that have achieved “unicorn” status did so as a result of early-stage investment from for-profit venture capital firms, who prioritize supporting a company’s long-term scalability and growth. For example, recent “unicorns” in Michigan like Acrisure, Duo Security, and Our Next Energy did not have any pre-seed investors from non-profits on their cap table.

Including for-profit investors in the drafted legislation will start to refocus our ecosystem towards market-based metrics and create more incentives for venture capitalists from across the country to deploy their resources into Michigan-based companies.


Union Heritage Ask


In closing, our firm would like to thank the Chair for his thoughtful leadership on an important issue that will make Michigan more economically competitive and prosperous. In order to help Michigan grow into a more robust entrepreneurial ecosystem, we suggest that venture capital legislation moving forward be inclusive of:

1. Emerging managers with 3 to 5 years of experience investing in early-stage companies; and deployment of \$2 Million in capital (including personal or private capital).
2. For-profit venture investors; as a complement to the existing non-profit models.

The General Partners of Union Heritage Ventures appreciate the committee’s dedication to an inclusive process that will provide opportunities for emerging managers and for-profit venture capital funds to participate in creating a more mature environment for startups across Michigan.

Respectfully,

DocuSigned by:

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