Venture Philanthropy:
Untapped Potential or Unintended Consequences? Exploring Venture Capital Approaches in the Philanthropic Space
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Welcome

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Traditional Philanthropy

Inspired by donor intent, informed by the tax code, achieved primarily via grantmaking

IRS Section 501(c)(3) Exempt Purposes:
Charitable, religious, educational, scientific, literary, testing for public safety, fostering national or international amateur sports competition, and the prevention of cruelty to children or animals.

Charitable Purposes:
Relief of the poor, the distressed, or the underprivileged; advancement of religion; advancement of education or science; erection or maintenance of public buildings, monuments, or works; lessening the burdens of government; lessening neighborhood tensions; eliminating prejudice and discrimination; defending human and civil rights secured by law; and combating community deterioration and juvenile delinquency
Disruptive Forces

Inspired by donor *urgency*, informed by the tax code, achieved via an expanded toolkit that leverages financial and other resources to accelerate change.

- **Grantmaking & Program Delivery**
- **Convening & Patient Engagement/User-Centered Design**
- **Advocacy**
- **Innovation**
- **Investing**
- **Communications**
“If we wanted to get therapies to patients faster, we needed to be partnering with the industry that actually brings those drugs to patients.”

– Louis J. DeGennaro, CEO Leukemia & Lymphoma Society

Disrupting traditional philanthropic models to accelerate progress.
Venture philanthropy (VP) may be best thought of as an evolving practice of the application of aspects of venture capital or business practice to the undertaking of philanthropy.¹

Both the providers and users of philanthropic capital are evolving under this approach:

- Venture philanthropies may invest to commercialize and scale solutions; engage in other public-private partnerships to accelerate commercialization; and diversify revenue through investment gains and monetization of data from research.
- Nonprofit organizations may evolve into social enterprises that seek earned revenue.

While there is no single definition of venture philanthropy, characteristics that many venture philanthropy efforts share include:

- Strategic framing which coordinates targeted resources (grants and/or investments), so that collectively they create systemic change
- Scales of intervention that address systems and sectors, rather than individual organizations or projects
- Sector focuses that tend to be cross-sectoral, engaging civil society, markets, and/or governments as needed
- Funding mechanisms that blend grants and investments, as appropriate to the theory of change
- Engagement styles that are more hands-on, using extended interactions with and sometimes between grantees
- Engagement periods that reflect the goal of systems changes, often five to ten years rather than one to two years
- Culture and capabilities that are focused on innovation and experimentation
- Monitoring and evaluation that allows quick adaptation and focuses on outcomes and impacts.
Venture philanthropists may practice impact investing—one of several investment approaches that seek to drive positive social change.

Social Investing
SRI: Sustainable, Responsible & Impact Investing
ESG: Environmental, Social & Governance Criteria

Active Ownership
Screening Shareholder Activism
Impact Investing
Proactive Investing
Why are philanthropies making impact investments?

- Global Capital Markets: $294 Trillion
- US Budget: $4.5 Trillion
- US Foundation Assets: $868 Billion
- Global Impact Investing Market: $502 Billion
- Annual US Foundation Giving: $76 Billion
- 2018 Impact Investing: $35 Billion

<table>
<thead>
<tr>
<th>INVESTORS</th>
<th>INVESTEES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Align Resources</td>
<td>Capacity/ Leverage</td>
</tr>
<tr>
<td>Expand Resources</td>
<td>Managerial Discipline</td>
</tr>
<tr>
<td>Expand Impact</td>
<td>Sustainability &amp; Scale</td>
</tr>
</tbody>
</table>

1. Deutsche Bank estimates, 2014
2. As of 2019
3. Foundation Center, 2015
4. GIIN 2019 Annual Impact Investor Survey
5. Nonprofit Philanthropic Trust, 2018
Impact investing is defined as...

Investing into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return.¹

- Any asset class or structure (cash, fixed income, equity, etc.)
- Any expected financial return (interest rate, dividend, capital gain)
- Same fiduciary care as any institutional investment

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**PROGRAM-RELATED INVESTMENTS (PRIs)**

*Concessionary Rate Investments*²

Higher Risk → Lower Risk

- Grants & Recoverable Grants
- Alternatives & Novel Structures
- Fixed Income
- Cash

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**MISSION-RELATED INVESTMENTS (MRIs)**

*Market-Rate Investments*

Lower Risk → Higher Risk

- Cash
- Fixed Income
- Public Equities
- Alternatives

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¹ Source: Global Impact Investing Network (GIIN)
² Adapted from the F.B. Heron Foundation Mission-Related Investing Continuum.
Innovation in the capital markets is supported by complementary civic and policy efforts.
Venture philanthropy and impact investing can better work together to accelerate solutions

Venture Philanthropy
- Deep content/sector knowledge to formulate change strategy
- Lead investor capacity
- Long-term, cross-sectoral partnerships to reinforce change agenda, including through advocacy
- Coordination of innovation and patient care/beneficiary services

Impact Investing
- Interest in venture capitalist’s pipeline
- Ability to identify additional aligned investors
- Potential complementary investment activities that benefit venture philanthropy’s target population(s)
- Commitment to benefitting underserved populations
- Potential complementary grant resources
"Change has always been achieved between the private, philanthropic, public, and commercial sectors."

—Katherina Rosqueta, Executive Director
University of Pennsylvania Center for High Impact Philanthropy

Venture Philanthropy brings the financial and management resources to bear on solving philanthropic problems.