

## OVERVIEW

An extraordinary opportunity exists to work in new and different ways to meet society's most vexing and longstanding social problems. This opportunity is the result of a convergence of: 1) an unprecedented creation of wealth of the New Economy, 2) a sea change in philanthropic giving and 3) an Internet-enabled transformation in organizational effectiveness.

In response to this opportunity and based on extensive research, the Morino Institute, working with a core set of business and community leaders, has created Venture Philanthropy Partners, Inc. (VPP). Its purpose is to demonstrate venture philanthropy as a new approach to bringing resources to the nonprofit sector. Venture philanthropy adapts strategic investment management practices to the nonprofit sector to build organizations that are able to generate high social rates of return on the investments made in them. This approach to philanthropy is based on long-term partnerships and strategic management assistance to leverage and augment financial investments.

Venture Philanthropy Partners is committed to helping develop and define the process of venture philanthropy to increase the level and effectiveness of giving in the National Capital region. Its mission is to apply strategic investment management practices to build stronger, more effective, sustainable organizations serving children. Investments will be made with two purposes in mind: first and foremost, to have a significant impact on the organizations in which it invests; and second, to learn how the venture philanthropy process can work most effectively so it can be shared with others nationally.

Venture Philanthropy Partners also hopes to engage New Economy philanthropists by providing an alternative channel through which to tap both their wealth and knowledge. Ultimately, it seeks to be a catalyst in the rethinking of philanthropy in America by successfully demonstrating venture philanthropy as a means to increase the level and effectiveness of giving.

## INVESTMENT FOCUS

Venture Philanthropy Partners plans to manage a series of funds. These funds will make investments to build stronger, highly effective organizations that provide resources for children in low-income areas in the National Capital region of the District of Columbia, Northern Virginia and adjacent Suburban Maryland. The improved resources provided by these organizations will help children develop into responsible young adults who make positive contributions in their lives and the communities as fully functioning workers, parents and citizens. Investments will be exclusively focused on developing organizational capacity.

The first fund, The Children's Learning Fund for the National Capital Region, will make investments starting in 2001 in organizations that seek to improve the lives of children through development, learning and education. An additional base of capital will be raised to fund the Philanthropic Innovation Fund for the National Capital Region. This fund will enable Venture Philanthropy Partners, starting as early as 2002, to invest in funds focused on areas other than development, learning and education and to advance innovation in venture philanthropy.

Venture Philanthropy Partners will focus its investments on building stronger organizations that have the increased capacity to grow to scale within their mission, significantly enhance the value they bring to the community and establish financial sustainability.

## VALUE PROPOSITION

The integration of six investment principles will provide a unique value proposition to the organizations serving children in which Venture Philanthropy Partners invests (investment partners).

1. Investments will be made *exclusively* in building the organizational capacity, focusing on leadership and management development, human resources and technology deployment.
2. Investments will include both financing and active, ongoing strategic management support and assistance.
3. Investments will be multi-year and substantial. The relationship with investment partners will be long-term (four to six years). All investments, however, will have performance standards which must be achieved to be fully funded.
4. Exit strategies will be developed with and by each investment partner, signified by their achievement of strategic objectives and financial sustainability.
5. Investment partners will be selected and supported to achieve a leadership position in the development of effective approaches to the problems facing children.
6. Investment partners will establish outcomes to drive their own continuous improvement management while providing an accountability to investors for their social return on investment.

## STRATEGIC MANAGEMENT ASSISTANCE

Believing there is no substitute for spending time to understand the key issues facing management, Venture Philanthropy Partners will limit the number of investments that it makes each year to ensure that sufficient time can be spent with each investment partner.

Venture Philanthropy Partners will systematically assemble a mosaic of complementary skills within the organizations it funds. Its management staff, advisors and partners will include former operating executives, consultants, leaders in community and youth programs, as well as advisors and associates focused on children's issues. Venture Philanthropy Partners will also have in-house experts assisting its investment partners in financial matters, marketing and communications and outcome determination and metrics.

It is important to emphasize that while Venture Philanthropy Partners will be actively involved with its investment partners, it will not be an intrusive or directive group. Instead, Venture Philanthropy Partners will work to assist management in implementing its agenda and view itself as a resource to the entire senior management team of an organization. Venture Philanthropy Partners' key motivation is to build successful organizations to improve the services for children in the region.

Drawing on the experience and expertise of the partners and management team, Venture Philanthropy Partners will provide assistance to its investment partners on an ongoing basis in the following areas:

- Addressing organizational issues;
- Helping to attract and retain key management and board members;
- Assisting in the development of distribution and strategic alliances;
- Developing and executing a development/expansion strategy;
- Developing financial plans, improving funds development and helping to develop new revenue sources;
- Developing the use and application of the Internet and information technology to strengthen the organization and magnify its reach and effectiveness; and
- Providing access to industry experts and knowledgeable advisors.

## BENEFITS

- **To investment partners** – stronger, more effective, sustainable organizations with increased capacity to significantly grow and improve their services to children.
- **To investors** – an improved social rate of return on their giving and a learning experience that will affect their level and effectiveness in ongoing and future giving.
- **To the philanthropic community, government services and nonprofit sector** – a catalyst to demonstrate venture philanthropy as an alternative and complementary approach to traditional philanthropy to bring greater resources to communities and acceptance of the importance of building organizational capacity.

## MEASURES OF SUCCESS

- Venture Philanthropy Partners will have created highly effective, built-to-last, financially sustainable organizations that much more substantially achieve their missions.
- Venture Philanthropy Partners will be a preeminent, highly sought partner as a strategic investor in organizations serving children and as a co-investor and collaborator with the foundations, corporations and nonprofits supporting these organizations.
- Investors in Venture Philanthropy Partners will maintain and increase their support of Venture Philanthropy Partners, while advocating and adopting the concept as their preferred method for strategic philanthropy, therefore, increasing and making more effective their overall charitable giving.

## FUND CAPITALIZATION AND DEPLOYMENT

Venture Philanthropy Partners will capitalize the Children's Learning Fund with a minimum of \$35M and an expected goal of \$50M. These funds will be deployed through investments (grants) over the life of the fund, with three to five new strategic investments per year, each of a multi-year nature. Venture Philanthropy Partners plans to select only two to three organizations to fund during 2001. Also in the first year, it will seek organizations that are established (at least two years old), then broaden to be stage-independent. It envisions that its strategic investments will be leveraged, in some cases, through joint venture and co-investments with other foundations and private givers. It may also elect to fund promising organizations with planning grants to enable them to develop a strategic plan that incorporates the opportunity for which Venture Philanthropy Partners would consider investment. Venture Philanthropy Partners may also make small investments in organizations to enable them to develop their organizations to be able to absorb and effectively enter into a long-term investment relationships with Venture Philanthropy Partners.

The Philanthropy Innovation Fund will be funded from ongoing contributions that are in addition to the capital for the Children's Learning Fund. A primary source of capital may be realized through the giving of private and public equity by the existing and emerging New Economy entrepreneurs and businesses in the National Capital region. The growth of this fund would come from the long-term appreciated value of contributed private equity over subsequent years.

The Morino Institute is funding the formation and initial operational costs through fiscal year ending March 31, 2001. It also plans to fund the operational costs for the succeeding two fiscal years through March 31, 2003 to ensure that Venture Philanthropy Partners can invest in building its management team without having to draw down on its investment capital. It is anticipated that the return on investment from the prudent financial management of the fund's capital will provide funding to cover operational costs through for the subsequent two years through March 31, 2005.

## FORMATION AND OPERATION

Venture Philanthropy Partners is incorporated as a nonprofit organization, functioning as a Support Organization to the Community Foundation for the National Capital Region. The Morino Institute led its creation, in conjunction with New Economy business leaders and in partnership with the Community Foundation and Community Wealth Ventures. It is governed by a Board of Directors and is staffed as an investment organization, led by a Managing Partner with a team of Partners and Associates. In the year 2000, the focus is on formation, closing the Children's Learning Fund, developing the investment management team and selecting the organizations for Venture Philanthropy Partners' first investments, targeted for Q1 2001.