

INVESTORS' CIRCLE



Venture Capital for a Sustainable Future

Mission-Related Investing:
Strategies for Philanthropic Institutions

May, 2001

A Report for the Northwest Area Foundation

Prepared by Investors' Circle

Edward Tasch, Chairman and CEO
Brian Dunn, Director

Executive Summary

Mission-related investing describes particular approaches to social investing that are appropriate for foundations.

In the general investment community, social investing – also known as socially responsible investing or “SRI” – has experienced strong growth over the past decade. Social investing requires investment managers to perform their traditional quantitative analyses of profit potential, but to overlay these with separate qualitative analyses of corporate policies, practices, and social and environmental impacts. Social investing is also often referred to as double-bottom-line investing (“doing well while doing good”) or triple-bottom-line investing (financial returns, social returns, environmental returns).

The 1990s saw dramatic growth not only in the public equities social investment arena, but in the area of social venture capital and community development venture capital.

For foundations, mission-related investing offers particular opportunities and challenges to utilize the investment management process, in addition to grantmaking, as a tool for pursuing philanthropic purpose. An increasing number of foundations are beginning the process of examining the relationship between investing and grantmaking. The most common initiatives in this regard, to date, have been the voting of proxies and the deployment of social and environmental screens for a portion of public equity portfolios. However, a number of foundations have allocated assets to mission-related venture capital portfolios.

This paper will provide a brief history of social investing. We will then discuss the mission-related investment options available to foundations: screened investment portfolios, shareholder advocacy and venture capital/private equity, focusing primarily on the latter. Finally, we will provide background on the general debate over “doing well while doing good,” which raises questions about fiduciary responsibility that foundation investment committees must consider in this regard.

We will conclude with some remarks targeted to the Northwest Area Foundation.

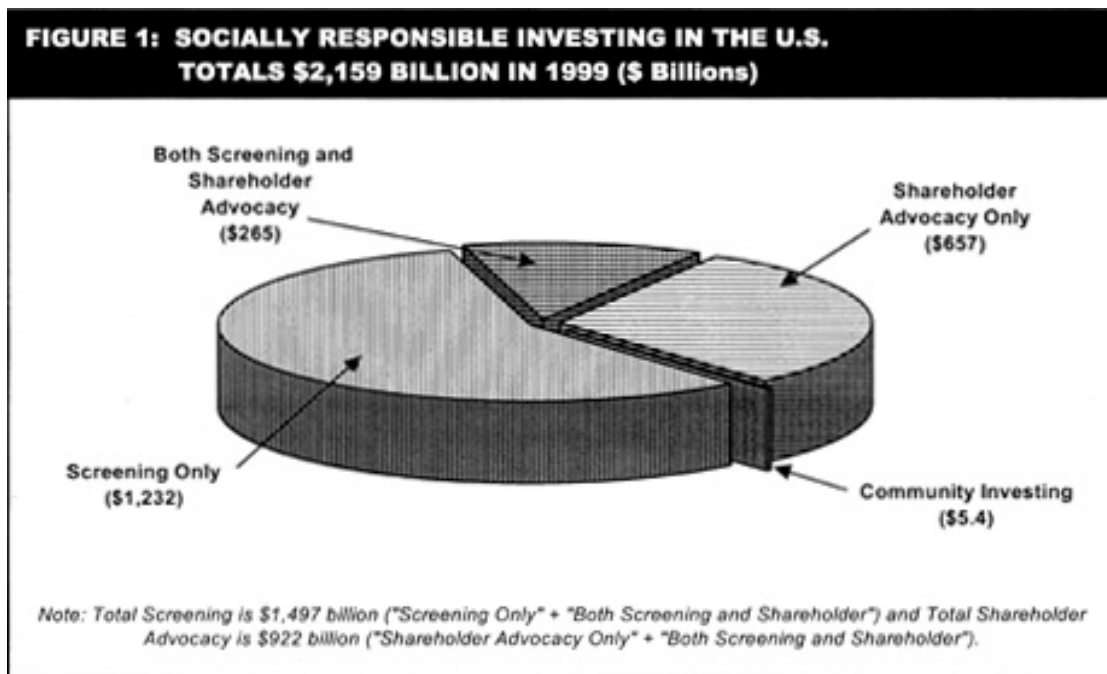
TABLE OF CONTENTS

1. A Snapshot of Social Investment	4
2. The History of Social Investment.	5
3. Foundations and Mission-Related Investment.	11
4. The Social Venture Capital Field.	16
5. Financial Returns.	21
6. Conclusions	26

Appendix (CDVCA Industry Report, under separate cover)

1. A Snapshot of Social Investment

***The social investment field is growing.** By some estimates, social investing has reached over \$2 trillion, or 13% of professionally managed money in the United States. Figure 1 shows how these dollars are distributed among the various vehicles of social investing.



***Investors include** individuals, businesses, universities, hospitals, foundations, pension funds, religious institutions and other non-profit organizations. The portfolios of churches, colleges and pension funds are among the largest sources of capital involved with SRI.

***Detractors** of social investment state that "the social responsibility of a business is to increase its profits" and that by forcing companies to address long-term social and environmental factors you will do "both" poorly: that is, you will hurt the financial health of the company and address ineffectively social and environmental concerns that are best left to the public sector and philanthropy.

***Proponents** of social investment claim that you can do well and do good: social investors can achieve their financial goals while working to build a more just and sustainable society. On the practical level, they point to the records of the Domini Index and the Citizens Index, where screened portfolios outpaced their respective benchmarks during the 1990s. Longer term, they argue that narrow definitions of corporate responsibility were highly effective in promoting economic growth over the

past century, but are inappropriate for the challenge of reorienting from *growth* to *sustainable development* during the next century.

2. The History of Social Investment

"We have always known that heedless self-interest was bad morals;
we know now that it is [also] bad economics."

Franklin D. Roosevelt (1882 – 1945)

The origins of socially responsible investing are ancient, but the movement has only come full stride in the last twenty years. In biblical times, Jewish laws laid down directives on how to invest according to ethical values. In the U.S., Quakers practiced socially responsible investing as early as the 16th century, based on their beliefs in human equality and nonviolence. The turning point for social investment in this century came with the campaign to divest financial holdings in South Africa in an effort to eliminate the institutionalized racial discrimination of apartheid. The success of the divestment movement paved the way for a wide array of social investment issues.

Roots of Mission-Related Investment

Jewish law regarding business ethics and practices is extensive. It regulates conduct between a businessman and his customer (for example, not to use false weights and measures, not to do wrong in buying and selling, not to charge interest) and between a business man and his employee (to pay wages promptly, to allow a worker in the field to eat the produce he is harvesting, and not to take produce other than what you can eat from the employer while harvesting). These practices translated into investment practices as well.

In America, Quakers have been influential beyond what their numbers would suggest in many areas: promotion of world peace, abolition of slavery, fair treatment of Native Americans, universal suffrage, prison reform and improvement in mental hospitals. Quakers believe that there exists an element of God's spirit in every human soul. Thus, all persons have inherent worth, independent of their gender, race, age, nationality, religion, and sexual orientation. Their opposition to sexism, racism, religious intolerance, warfare and the death penalty has been quietly reflected in their investments throughout their history in America.

Many other religions and codes of conduct formed the bedrock of American attitudes towards socially responsible business practices. However, socially responsible

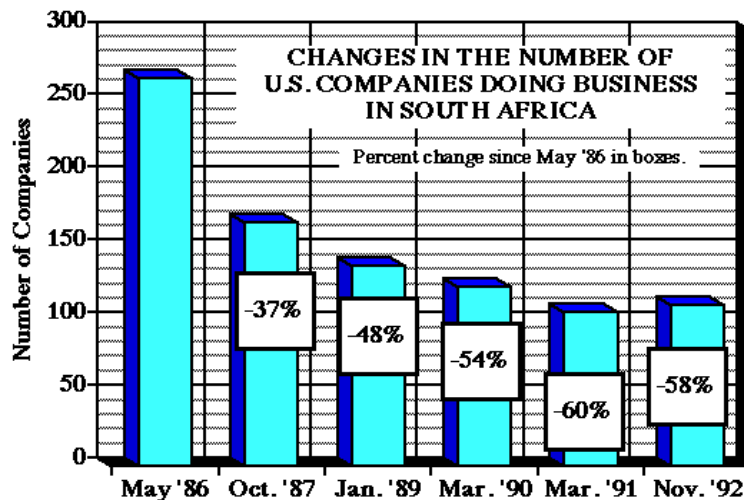
investment's move into the mainstream was catalyzed in the late 1970's by mass divestment in companies that were doing business in South Africa.

Divestment from South Africa

Beginning in the late 1970s and picking up speed throughout the 1980s, the anti-apartheid campaign resulted in scores of major U.S. corporations ending or withdrawing operations in South Africa, and institutions divesting their holdings of stocks in corporations that continued to do business under the then-racist regime. In 1977, Reverend Leon Sullivan introduced a set of guidelines for companies doing business in South Africa. However, as few companies reacted to this document over the following 10 years, Sullivan called for companies to withdraw completely from South Africa in 1987.

During this period, political pressure and social activism caused numerous public pension plans to put restrictions on or divest completely of their South Africa holdings. California banned investment in South Africa in 1986. By the end of 1990, the plans had sold \$11 billion in stocks and bonds, representing about 10 percent of the portfolio.¹ New Jersey banned investments in 1985 and sold \$4 billion or 15 percent of its total holdings.²

In total, 209 U.S. companies were prompted to sell or close their operations in South Africa between 1985 and 1990. More than 30 states, 400 universities and scores of cities divested their pension funds from U.S. banks and companies that were doing business with the apartheid regime.³ This widespread divestiture marked the 20th century's first mass movement of international capital in response to a non-financial, social issue.



Source: <http://www.goodmoney.com/srihist.htm>

¹ Schnitt, 1994.

² Price and Schramm, 1991.

³ Good Money website (www.goodmoney.com).

After South Africa

South Africa provided an opportunity for some investors to grow comfortable with the concept of social screening. It also provided money managers with screening tools that could be applied in a similar way with new criteria after the 1993 freedom of Nelson Mandela and re-investment in South Africa.

Tobacco has been the most public of these post-South Africa divestment movements. Today, 97% of managers who identify themselves as running screened portfolios avoid investing in tobacco companies.

In addition, screens have moved from simple avoidance to proactive searches for investments that meet the investor's social criteria. In recent years, there are a plethora of environmental and social concerns for socially responsible investors to rally around. The Exxon Valdez oil spill, the Bhopal Union Carbide plant disaster; repeated warnings about toxic waste, global warming, and other environmental threats: all have prompted different constituencies of investors to modify their portfolios.

According to the Social Investment Forum, more than \$2 trillion in assets are involved in socially and environmentally responsible investing in the United States, up from \$40 billion in 1984.⁴ These figures give a substantially inflated impression of the reach of social investing in the financial community, however.

If we adjust the shareholder advocacy totals to reflect the fact that the \$657 billion accounted for by "institutions that are involved in shareholder advocacy but do not screen" is tied to shareholder activity on corporate governance (issues of executive compensation and Board tenure as they affect shareholder value, with no involvement in social and environmental issues), we diminish substantially the overall social investment tally. Further, screening practices vary widely among mutual funds, and a substantial portion of the growth in screened fund assets was accounted for by tobacco-related divestment – up from \$6.6 billion in 1995 to over \$157 billion in 1997. It is probable that the majority of this movement is due to the market-timing of stock pickers, rather than the adoption of social screens as a matter of principle.

Nevertheless, there has been significant growth in recent years in the number of screened mutual funds and shareholder resolutions filed by social investors.

\$265 billion is under management by institutions that both screen and conduct shareholder advocacy. Shareholder resolutions "on issues of concern to socially aware shareholders" rose from 144 to 303 between 1994 and 1996. The following table illustrates some shareholder actions undertaken in 2000.

⁴ Social Investment Forum, "1999 Report on Socially Responsible Investment Trends in the United States," December, 1999.

Company	Goal
Kraft McDonald's Kroger Archer Daniels Midland	Explore the health and safety issues surrounding genetic engineering
Dun and Bradstreet TJ Maxx Bell Atlantic	Implement the MacBride Principles for fair employment in northern Ireland
Exxon Southwest General Electric	Implement sexual orientation non-discrimination policies
Amoco Chevron General Motors Ford	Report on carbon emissions; Disclose affiliations with associations working against pollution control
Kmart Wal-mart	Stop sweatshop labor by paying living wages and enforcing compliance by vendors
Huffy	Freeze executive pay when the company lays off a significant number of employees
Unocal	Withdraw operations from Burma

Source: Social Investment Forum, "1999 Report on Socially Responsible Investing Trends in the United States," December, 1999.

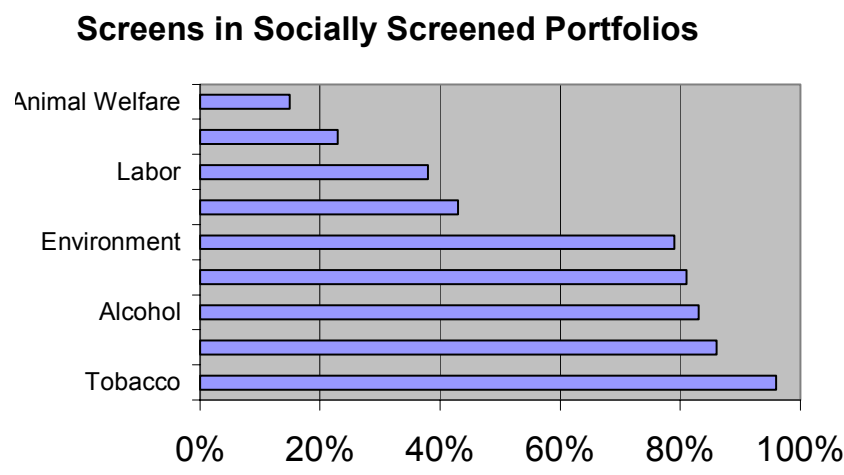
The number of screened mutual funds grew from 55 to 144 from 1995 to 1997, alone. The Domini Social Equity Fund grew from inception in 1991 to over \$1.3 billion in assets in 2001.

The following table provides an overview of the top ten mutual funds to date that have been formed with specific social screens (ranked by assets under management).

	Inception date	Assets \$ millions
Domestic Equity Funds as of 3/31/01		
Domini Social Equity Fund	Jun-91	1279.6
Dreyfus Third Century	Mar-72	957.2
Citizens Core Growth Fund	Mar-95	446.9
Ariel Appreciation	Dec-89	390.6
Parnassus Fund	May-85	362.7
Ariel Fund	Nov-86	321.9
IPS Millennium	Jan-95	319.6
Citizens Emerging Growth	Feb-94	274.4
Calvert Social Equity(A)	Aug-87	228.5
MMA Praxis Growth	Jan-94	146.8

Source: Social Investment Forum website (www.socialinvest.org)

Nine out of ten SRI money managers indicate that they apply three or more screens to the funds with which they are entrusted by their clients.



Source: Social Investment Forum, "1999 Report on Socially Responsible Investing Trends in the United States," December, 1999.

In the 1980s, the primary emphasis started shifting from simple avoidance of "sin" to the use of "positive" criteria in an effort to encourage changes in the policies and practices of corporations.

It should be noted that the influencing of corporate behavior via screened investment portfolios is a very indirect process, since goals of various social screens can contradict one another. A company that manufactures weapons might be a strong advocate of employee empowerment. A company that manufactures organic food products may have problematic labor practices. Further, screened mutual funds have differing positions regarding their degree of involvement. Some hold petroleum companies that they consider to be "best of class" in environmental issues, while all extraction companies represent anathema for others. Finally, the extent to which a company's behavior is impacted by its exclusion from a screened portfolio is unclear; to what extent this creates a public relations issue or, ultimately, affects the company's share price, may be difficult to assess.

3. Foundations and Mission-Related Investment

Foundations have traditionally maintained an “iron curtain” between those making the money (investment committees, financial officers) and those giving the money away (program officers and staff). Since greater income from assets provides for larger grantmaking budgets, the traditional orientation of money managers to exclude any non-financial factors from their decision-making seemed, until relatively recently, axiomatic within foundations.

In the 1990s, however, as social investing became more recognized among the financial community as a whole, discussions of the relationship between asset management and philanthropic purpose began at a number of foundations. Quickly, it became apparent that foundations interested in exploring the potential of social investment to enhance their pursuit of mission had three options: screening their public equity portfolios, shareholder advocacy (voting proxies and otherwise using their voices as shareholders to advocate for corporate policies in keeping with the foundation’s programs) and mission-related venture capital/private equity.

Screening. The Council on Foundation’s Management Survey suggests that fewer than 10 percent of foundations presently screen their portfolios; however, this data is based on self-reporting and it is impossible to draw from it firm conclusions about the foundation universe as a whole. Much of the screening may reflect a singular concern, such as tobacco, which is quite prevalent among health funders. An informal survey of environmental grantmakers done by the Noyes Foundation and the Interfaith Center on Corporate Responsibility (ICCR) in 1995 suggests that perhaps as many as 25 percent of these foundations screen at least some portion of their portfolios.

The following foundations have applied social screens to some portion of their portfolios in the last three years: Atkinson Foundation (Canada), Boston Foundation, Bullitt Foundation, California Wellness Foundation, Compton Foundation, Henry J. Kaiser Family Foundation, Needmor Fund, Jessie Smith Noyes Foundation, Weeden Foundation, and Robert Wood Johnson Foundation.

Shareholder Activities. Data on proxy voting are not available. However, during the 1999 proxy season, two foundations filed shareholder resolutions and ten foundations co-filed. They were all family foundations. The first foundation-initiated shareholder resolution was filed in 1994 by the Noyes Foundation. In 1996, Noyes collaborated with ICCR to create The Foundation Partnership on Corporate Responsibility, an initiative aimed at facilitating collaboration among foundations with respect to proxy voting and filing of resolutions, similar to the services that ICCR had been offering for decades to religious pension funds.

Mission-Related Venture Capital. In the early 1990s, the John D. and Catherine T. MacArthur Foundation instituted an initiative called “Investments Related to Program,” exploring the efficacy of making private equity and venture capital investments that were consistent with the foundation’s programmatic interests. At roughly the same time, the Jessie Smith Noyes Foundation instituted a new Investment Policy that

stipulated a much more systemic change: to the extent possible, Noyes set out to deploy all of its assets in investments that helped promote the foundation's mission. In the late 1990s, the Rockefeller Foundation created ProVenEx, a small venture capital portfolio dedicated to deals that were consistent with the foundation's mission.

Case Study: The Noyes Foundation

The Jessie Smith Noyes Foundation is committed to protecting and restoring Earth's natural systems and promoting a sustainable society by strengthening individuals, institutions, and communities pledged to pursuing those goals. The foundation currently has assets of approximately \$95 million.

In the early 1990s, one of the foundation's senior Board members articulated what became a fundamental concern. "Does it make sense for us to own stock in Monsanto, on the one hand," she asked, "while we are supporting with our grants community organizations that are working to promote sustainable agriculture, in general, and which are in some cases actively engaged in advocacy against Monsanto products, in particular?" In the years that followed, the foundation engaged in a systematic examination of the "dissonance," in the words of then President Stephen Viederman, between its investments and its grants, determined to do whatever possible to reduce the dissonance. For Noyes, this process of "dissonance reduction" became the cornerstone of a new understanding of its fiduciary responsibility as a philanthropic institution. Noyes' Statement of Responsibility states:

We believe that in light of the social, environmental and economic challenges of our time, fiduciary responsibility in the coming decades will dictate the integration of prudent financial management practices with principles of environmental stewardship, concern for community, and corporate accountability to shareholders and stakeholders alike. Foundations have a particular role to play in this process, by coming to understand mission not only in terms of the uses of income to fund programs, but also in terms of the ends toward which endowment assets are managed.⁵

The first steps which the foundation took towards mission-related investing was to place its public equities portfolio in screened instruments. The foundation was the first institutional investor in the Domini Social Equity Fund, a screened index. The foundation made equity allocations to an environmental stock manager, a screened international equities manager and to an active manager specializing in social investment portfolios. Over time, the foundation interacted with its bond manager, as well, to screen out bonds of corporations whose practices were problematic with respect to the foundation's mission.

Noyes then allocated approximately 15% of its assets to venture capital and private equity, including some 5% (or \$3.5 million) to mission-related companies and venture funds.

- Chelsea Green Publishing publisher of sustainable living trade books

⁵ For a full statement of Noyes' Investment Policy, see www.noyes.org.

- Natural Chemistry manufacturer of enzyme-based pool and spa products
- Real Goods retailer of renewable energy products and services
- Intelligent Controls leak detection systems for underground storage tanks
- Stonyfield Farms manufacturer of organic yogurt

Despite its very small scale, Noyes also invested in a tiny “fund of funds” of social venture capital funds, including funds committed to community development (Coastal Ventures), women entrepreneurs (Women’s Growth Capital Fund), renewable energy (Liberty Environmental Partners), and sustainable timber management (Lyme Timber/Vermont Forest Conservation Fund), as well as two funds that pursued non-industry-specific double bottom line strategies (Calvert Social Ventures and Solstice Capital). [It should be noted that the Noyes venture capital portfolio also included a substantial allocation to several later-stage, non-screened private equity partnerships. The aim of this strategy was to balance higher risk, smaller, early-stage mission-related investments with larger, later-stage, non-screened, mezzanine portfolios.]

Finally, during the mid-1990s, Noyes engaged in an active shareholder dialogue with Intel Corporation, in support of one of its grantees, the Southwest Organizing Project, which had challenged Intel with respect to such issues as community right to know, water usage and hiring practices. Because Intel consistently is ranked among the best in its class by various social investment screens, this engagement was particularly interesting, and included remarks by both the foundation’s President and Treasurer at Intel shareholder meetings, as well as numerous meetings between Intel management and Noyes. Ultimately, the foundation’s activities led Intel to revise its policies and procedures with respect to community accountability, and the foundation deemed its intervention to have substantially enhanced the efforts of its grantee.

Other Examples: MacArthur, Rockefeller, Hewlett, REDF

The MacArthur and Rockefeller Foundations have each undertaken initiatives that use venture capital investing to create new relationships between asset management and philanthropic purpose. Hewlett is exploring social entrepreneurship and double bottom line investing. The Roberts Enterprise Development Fund is a leading practitioner of a broad set of initiatives that is loosely being grouped under the general banner of “venture philanthropy.”

MacArthur’s “IRPs”. Early in the 1990s, the John D. and Catherine T. MacArthur began exploring an area of private investing that might deploy a portion of the corpus in support of mission. Unlike “PRIs” (program related investments, which must meet strict IRS guidelines regarding specific program ties and charitable intent in order to be counted as part of the foundation’s grantmaking pay-out), so-called “IRPs”, or investments related to program, were envisioned as investments that would complement the PRI portfolio but allow the foundation, freed of the specific requirements of PRIs, to more flexibly deploy assets in pursuit of mission. One of the investments made through this initiative was a venture capital investment in

EcoTimber, an early-stage company that imports sustainably harvested hardwoods from developing countries.

Rockefeller's ProVenEx. In the late 1990s, the Rockefeller Foundation organized ProVenEx, a venture capital fund that invests in companies whose businesses further the foundation's charitable goals. Investments are made from the foundation's grants budget and, "depending on the situation, may be structured as program-related investments that are considered as qualifying distributions or straight financial investments."⁶ To date, ProVenEx has invested \$8.1 million in four privately-held companies, and is in the process of trying to develop frameworks for measuring social returns on its investments. Companies invested in include a developer of a microbicide product for use by women against sexually transmitted diseases, a developer of an HIV vaccine and an inner-city employer.

The William and Flora Hewlett Foundation. On May 1, 2001, the Hewlett Foundation, in collaboration with the Rockefeller Foundation, hosted a meeting on "The Art of Double Bottom Line Investing." Invited were a number of practitioners to assist Hewlett's President, Chief Investment Officer and other senior staff in their active dialogue about the relationship between grantmaking and investing, the boundaries between venture capital, venture philanthropy and social entrepreneurship, and the concept of "Social Return on Investment," as articulated by Jed Emerson, former President of the Roberts Enterprise Development Fund (see below). There was an emerging consensus at this meeting that the dynamic activity at the intersection of investing and philanthropy – from community development venture capital to venture philanthropy to social enterprise – may well constitute the beginning of a new phase in the history of philanthropy, leading to significant innovation that changes the face of both traditional philanthropy and traditional investing. It is likely that Hewlett's continuing interest in these issues will lead to new program and investment initiatives in the coming months and years.

The Roberts Enterprise Development Fund. A program of the Roberts Foundation, REDF's portfolio consists of non-profit corporations operating market-based businesses employing formerly homeless and low-income individuals in the San Francisco Bay Area. Investees receive a core, annual investment of \$125,000, have access to REDF's Business Analyst, MBA Interns and Partners-for-Profit, a working group of business executives who assist in advising portfolio business managers. In 2000, REDF's portfolio consisted of over 22 businesses employing 550+ individuals and grossing over \$20 million in sales. REDF manages relations with its portfolio through convening monthly "venture committee" meetings at which all interested parties share operating and performance information as well as discuss operating problems and needs. REDF has developed a methodology for measuring the Social Return on Investment of its portfolio investees.⁷

⁶ As described in, "Social Intent and Returns," presented on May 1, 2001 by Jed Emerson at the William and Flora Hewlett Foundation.

⁷ For detailed information on both the portfolio and the SROI methodology, see "SROI Reports" published by The Roberts Enterprise Development Fund, www.redf.org.

Foundations and Fiduciary Responsibility

The question of social investing and fiduciary responsibility is one that must be addressed by any institutional investor.

In 1998, the United States Department of Labor's Office of Regulations and Interpretations issued a letter that stated that socially screened mutual funds could be included in retirement plans that qualify under section 404c of the Employment Retirement Income Security Act (ERISA). The letter stated that screened mutual funds could be included as long as the fiduciary determined that the mutual fund is expected to provide a return similar to other investments having similar risk characteristics. This clarification helped spur the use of socially screened funds in retirement plans. It also helped provide a greater level of comfort for trustees and fiduciaries to make use of social screens for other types of institutional investments – provided that the screens in question did not negatively affect the fund's expected performance.

With respect to foundations, a more proactive definition of fiduciary responsibility is not only possible, but, according to some legal experts, necessary.

Attorneys Solomon and Coe conclude that under either the business care rule or prudent investor standard, integrating mission and investment decision-making does not constitute a breach of fiduciary responsibility. They state that “under business care, social considerations are relevant to the extent that they affect the overall purposes and goals of the entity as well as its financial health. A decision to divest a particular security could be justified under the business care rule on the grounds that it defeats or severely impairs the purposes of the entity.”⁸

Attorney William McKeown, formerly of Patterson, Belknap, concludes that if non-profit corporations do *not* look at the consequences of their investments with respect to their mission, they may not be fulfilling their fiduciary responsibility. “To fulfill their responsibility that the corporation meets its charitable purposes, they may have a duty to consider whether their investment decisions will further those charitable purposes or at least not run counter to them.”^{9,10}

⁸ Cited from Lewis Solomon and Karen Coe, “The Legal Aspects of Social Investing for Non-Profit Fiduciaries,” *Journal of Investing*, Winter, 1997. (Adapted from University of Missouri, Kansas City, Law Journal, Winter, 1997).

⁹ William McKeown, “On Being True to Mission: Social Investments for Endowments,” *Journal of Investing*, Winter, 1997.

¹⁰ Thanks to Stephen Viederman for his review of this section of the report.

4. The Social Venture Capital Field

The social venture capital field was born during the 1990s.

At the decade's inception, the first generation of double bottom line venture funds was launched, including Calvert Social Venture Partners, Sand County Partners and Highland Financial Group. The financial returns of these early efforts were disappointing. However, they were followed by a next wave of entrants who fared better: Solstice Capital, Women's Growth Capital, Coastal Ventures and Northeast Ventures. At the same time, the dynamism of the field spawned Social Venture Network, Investors' Circle and the Community Development Venture Capital Alliance, supporting and emerging out of the continuing evolution of the market of social venture deals and funders.

Recently, a second generation of social venture capital funds and community development venture funds has come to market, including Solstice Capital II, Women's Growth Capital II, Sustainable Jobs Fund, Coastal Ventures II and Urban Environment Fund. The field is maturing, building more seasoned management, yielding more predictable investment vehicles and continuing to improve the sophistication with which social benefits are measured.

In addition to the maturation of social venture funds, the recent emergence of sustainable timber investment funds offers institutional investors another private equity asset class through which investors concerned with sustainable development can both achieve competitive financial returns and generate long-term social and environmental benefits.

Funds and organizations mentioned below are highlighted for illustrative purposes only, intended to offer an overview of the types of entities that exist in each category.

Social Venture Capital Funds

Social venture capital refers, as a category, to funds that explicitly seek to generate both financial and social returns on their investments. The language by which such funds describe themselves is not standardized; nor is there any agreed upon methodology for measuring social returns.

Solstice Capital. Solstice was founded in 1995 as a \$23 million seed and early stage venture capital fund, describing itself as a “socially responsive venture fund,” employing a “clean” screen (50% of all deals) for companies in information technology and a “green” screen for companies in alternative energy, education, environment and life sciences/medical. Based on the successful performance of its first fund, which has invested in 21 companies, four of which have completed initial public offerings and three of which have been acquired, Solstice is currently in the market raising a second fund of \$75 million.

Women’s Growth Capital. The Women's Growth Capital Fund was established in 1997 to make equity investments primarily in early and expansion stage women-owned and/or managed businesses. The Fund has \$30 million under management. The Fund has more than 70 individual and institutional investors; 70% of the individual investors are women. The Fund is the largest venture capital fund in the Eastern United States that focuses its investments on women-owned and/or managed businesses, and is also one of only three women-focused funds licensed as a Small Business Investment Company (SBIC) by the U.S. Small Business Administration.

Commons Capital. Commons Capital is a \$13 million fund formed in 2001 to invest in early and expansion stage double-bottom-line companies which offer market solutions to significant social and environmental problems. The fund’s Investment Committee and Advisory Board include a number of the most experienced venture capitalists within Investors’ Circle, and IC participates in the carried interest of the fund. The fund’s investors include 25 IC members, five members of Social Venture Network and several institutional investors, including the Jessie Smith Noyes Foundation, The General Service Foundation of Colorado and Calvert Social Ventures.

Urban Environment Fund. Managed by Brownfields Recovery Corporation, a five-year old firm that specializes in the acquisition, remediation and redevelopment of environmentally impaired urban properties (“brownfields”), Urban Environment Fund is currently raising \$100 million to promote sustainable community development in new brownfields investment opportunities. Fund management includes seasoned real estate developers and leading environmental management and regulatory experts. The General Partners have invested \$30 million in seven such projects over the past four years.

Community Development Venture Capital Funds

Generally speaking, what distinguishes community development venture capital funds from other social venture capital funds is geographical and economic targeting: CDVC funds are dedicated to specifically defined economically disadvantaged regions and

populations. This targeting impacts deal flow and creates the need in many cases for greater technical assistance from the fund to portfolio companies.

Coastal Ventures. Coastal Ventures is a five-year-old, \$5.5 million fund managed by Coastal Enterprises, Inc, a private, non-profit community development corporation founded in 1977. CEI directs economic and human resources to help people and communities in Maine, particularly those with low incomes, to reach an adequate and equitable standard of living while working in harmony with the natural environment. Coastal Ventures' has invested \$3.6 million in 17 companies, three of which have been exited. Portfolio companies have added 195 jobs. Coastal is currently in the market raising a \$20 million second fund.

Northeast Ventures. Northeast Ventures Corporation, formed in 1989, is a private community development venture capital firm focusing its investment activity primarily in the seven counties of northeastern Minnesota. Together with its non-profit affiliate, Iron Range Ventures, Northeast Ventures seeks to promote a diverse regional economy through sound investments in growing businesses, simultaneously providing employment opportunities to the people of northeastern Minnesota and opportunities for business ownership at the local level. The firms have a combined capitalization of approximately \$15 million and have invested in 28 companies. Northeast's Chairman, Nick Smith, is also Chairman of the Community Development Venture Capital Alliance (see below).

Sustainable Jobs Fund. Capitalized in 2000 with \$17 million, the Sustainable Jobs Fund invests in enterprises whose rapid growth provides quality entry-level employment and whose products and services are sustainable -- meeting the social and environmental needs of the present without compromising the future. SJF investors include Bank of America, CDFI Fund of the U.S. Treasury Department, Citibank, Dakota Foundation, Deutsche Bank, First Union Corporation, The John D. and Catherine T. MacArthur Foundation, MBNA America Bank (Delaware), and the Metropolitan Life Insurance Company. Sustainable Jobs defines its region as the eastern U.S.

Sustainable Timber Investment Funds

While timber investment management organizations have been part of institutional investors' private equity asset allocation choices for decades, the 1990s saw the first such entities dedicated to sustainable timber management. A number of factors are converging to create attractive opportunities for sustainable timber investing, including: the globalization of forest products markets, corporate restructuring and divestitures, the growth of institutional timberland ownership, decreased harvests on public lands, increased regulation of private lands, and increased public/private funding for conservation projects.

Forestland Group. Formed in 1995, Forestland Group currently has \$366 million under management in three funds, dedicated to principles of sustainable forestry, including maintaining

soil productivity, water quality, species diversity, wildlife habitat and sites with significant biological, historical or archeological value. These objectives are pursued while generating competitive timberland financial rates of returns. Forestland investors include 40 institutions and family offices.

LymeTimber/Vermont Conservation Fund. The Lyme Timber Company, created in 1976, distinguished itself in the use of strategic cooperation with federal and state governments to minimize development and environmental impacts. Lyme has approximately \$65 million in assets under management. In 1998, Lyme launched the Vermont Forest Conservation Fund to focus on sustainable timberland investments with important land conservation attributes in the state of Vermont. The Fund will yield returns derived from sustainably harvested timber receipts, sale of conservation easements and the tax-deferred re-investment of the sale proceeds generated by the successful marketing of conservation easement encumbered timberland. The Lyme Timber Company has completed 50 conservation investments during the last 15 years with non-profit conservation groups such as The Nature Conservancy, The Trust for Public Land, The Vermont Land Trust, Maine Coast Heritage Trust, Western Pennsylvania Conservancy and many others.

Pacific Forest Trust. The Pacific Forest Trust was founded in 1993 to assemble public, philanthropic and private capital for the acquisition, conservation and sustainable management of forestland. The non-profit organization works to enhance, restore, and preserve the private productive forests of California, Oregon, and Washington, and is pioneering solutions on private forestry issues of national significance. Currently holding easements on over 25,000 acres, the Pacific Forest Trust is a problem-solving conservation organization that collaborates with landowners, forest managers, public agencies, local communities and other to sustain private forests for the wealth of goods and services they provide. PFT works to keep forests healthy and whole, and help landowners derive financial returns from forest conservation and stewardship.

Social Venture NGOs

Paralleling the growth of social investment and social venture capital, the 1990s also saw the emergence of a number of national NGOs dedicated to supporting the transition to a more sustainable economy.

Investors' Circle. Investors' Circle is a non-profit network of individual or so-called "angel" investors dedicated to "venture capital for a sustainable future." Since 1992, IC has facilitated the flow of roughly \$80 million to some 125 deals, including early stage companies and small, double-bottom-line venture funds. IC's services include the monthly distribution of deal summaries to its members, who number 130 at present. The Circle manages one-day venture fairs and a two-day national conference each year. In 2001, IC helped launch Commons Capital (described above). Companies receiving funding through IC are diversified in terms of industry, including organic

food, renewable energy, community development, education and healthcare. Individual investments have ranged in size from \$10,000 to \$5 million.¹¹

CDVCA. The Community Development Venture Capital Alliance is the trade association for community development venture capital funds. Growing out of early funding efforts by the Ford and MacArthur Foundations of several CDVC funds in the early 1990s, the Alliance today has approximately 100 members, including more than 50 funds that are either actively investing or in formation. The domestic CDVC industry is currently capitalized at approximately \$300 million, with median fund size of around \$10 million. Funding for CDVCs has come from banks and financial institutions (34%), foundations (22%) and the federal government (19%). As of the end of 1999, CDVC funds had invested a total of \$104 million in their portfolio companies, with the annual rate of investing increasing rapidly in recent years: from over \$4 million in 1996 to almost \$11 million in 1999. Roughly half of all equity investments made by CDVC funds go to manufacturing companies, with only a third going to technology companies; this contrasts sharply with the venture capital industry as a whole, which made 90% of its investments in 1999 in technology companies. The average CDVC per round investment is under \$200,000 and per company is under \$400,000; this, too, contrasts sharply with the venture capital industry as a whole, whose investments average roughly \$14 million per round. While traditional venture capital is concentrated in Silicon Valley, Route 128 and New York City, CDVC investments are found primarily in low and moderate income areas, such as West Oakland, CA and Roxbury, MA, as well as in such rural areas as Appalachian Kentucky, the Mississippi Delta, northeastern Minnesota and mid-coastal Maine. (An industry report sponsored by CDVCA is attached under separate cover.)

SVN. The Social Venture Network was organized in 1990, with the intention of creating a small, progressive venture capital fund for individuals who wanted to fund “the next Ben & Jerry’s.” The network’s membership is comprised of the CEO’s of early stage double-bottom-line companies, high net worth individuals and non-profit social entrepreneurs; current membership stands at approximately 350. SVN hosts two conferences each year, which bring together political, academic and business leaders to consider topics ranging from growing a values-based business to issues of spirituality and money. A great many collaborative initiatives have emerged from the personal relationships nurtured at SVN. One of the more notable is Business for Social Responsibility, which since its birth in the early 1990s has grown into a mature association of major corporations collaborating on best practices of social corporate responsibility.

CERES. CERES is a non-profit coalition of environmental groups, public and religious pension funds and social investment firms dedicated to improving corporate environmental accountability. Over 50 companies, from Sunoco, Ford Motor Company and Bank of America to Aveda, Timberland and the Body Shop, have endorsed the CERES Principles, which state a code of environmental accountability and commit endorsing companies to a process of annual environmental reporting. Since its founding in 1989, CERES has emerged as a worldwide leader in standardized corporate environmental reporting and

¹¹ For a full description of Investors’ Circle, see www.investorscircle.net.

promoting the transformation of environmental management within firms. (While CERES is not generally involved at the venture capital stage of a company's development, its emergence during the 1990s is further evidence of the dynamism of the double-bottom-line business marketplace.)

5. Financial Returns

Mutual funds have provided the clearest data to study the effects of social criteria on investment returns. While there is insufficient data from the social venture capital field to generate meaningful comparisons with the venture capital field as a whole, experience to date can be broadly assessed.

Mutual Funds

In this section we will lay out the three major hypotheses that have been proposed to explain how social screening affects portfolio return:

- There is a **negative effect**, because screening reduces the investment universe.
- There is a **positive effect**, because companies' financial performance is enhanced by socially responsive factors.
- There is **no effect**, either because these effects cancel out or because neither theory is valid.

The main argument against social screening relies on the Capital Asset Pricing Model (CAPM) theory of market analysis, which states that the market portfolio will outperform all subsets of itself if markets are efficient. Proponents of CAPM argue that by imposing social screens, the investor decreases the universe of potential investments, hence limiting his or her ability to select profitable stocks and effectively "tying their own hands". This decrease of selectable investments creates a block to diversification, and imposes a "diversification cost" on the portfolio, which lessens return.

Empirically speaking, socially screened funds follow similar trends in their portfolio diversification:

- Lower average capitalization
- Higher price/book ratios
- Higher price/earnings ratios
- Significant industry bets

The performance impact of these factors is unclear. For example, high price/book and price/earnings ratios are historically negative indicators for fund performance. However, over the last ten years, socially screened portfolios have incurred high P/E and P/B ratios because they owned a large proportion of technology stocks, which produced exemplary returns. Indeed, while the CAPM theory argues quite logically for a diversification cost to social screening, the empirical data to date has not proven this theory out. While performance of individual funds varies, the industry as a whole has shown statistically equal performance to benchmark indexes.¹²

A different argument proposes a "socially responsible factor" which leads directly to increased success for a company, and hence increased wealth for shareholders. Proponents argue that by improving employee relations, companies have fewer turnovers and a more productive work force, or that by treading cautiously on the environment, they do not come face-to-face with expensive lawsuits and government regulations down the road. As Prahalad and Hamel [1994] state, corporations do not operate in a vacuum, and social responsibility can help them to improve employee relations with constituencies important to their future success. Innovest Strategic Value Advisors, which provides sophisticated environmental screens linked to financial performance, has demonstrated outperformance by environmentally screened portfolios. It is hypothesized that some of this outperformance is attributable to the

¹² Hamilton, S., H. Jo, and M. Statman. "Doing Well While Doing Good? The Investment Performance of Socially Responsible Mutual Funds." *Financial Analysts Journal*, November/December 1993.

fact that proactive management with respect to environmental matters may also be a proxy for good overall management.

There is some empirical data to suggest that social screens provide a financial benefit. In June of 2000, Morningstar published a focus report on socially responsible mutual funds. They noted that 21% of SRI funds in their database have a five-star (highest) rating, whereas only 10% of the overall fund universe can boast this rating. This could be attributed to their focus on growth stocks. However, Morningstar also noted that fully one-quarter of the SRI funds attain top ratings when compared to funds *in their own category*.¹³ Lipper Analytical Service shows similar ratings for SRI funds.

However, most attempts to directly measure an “SRI effect” have failed. In 1993, a study by professors Meir Statman, Hoje Jo, and Sally Hamilton appeared in the *Financial Analysts Journal*. While the study was generally positive on social investing, it made a case against the “SRI effect” by noting that “social factors have no effect on expected stock returns or companies’ cost of capital.”¹⁴ Similarly, researcher Dan DeBartolomeo, in a speech to the New York Society of Security Analysts, found that the positive returns of the Domini Social Index (a socially screened index) are fully explained by the fund’s industry exposure, likewise suggesting the absence of a social factor.¹⁵

A review of the studies to date suggests that social screening imposes neither a cost nor a boon to the portfolio: there is no statistical difference between returns of screened and unscreened portfolios.

Phoebus J. Drymes, from Columbia University finds that “in the aggregate there are not perceptible and consistent differences in the (expected or mean) rates of return between firms which are deemed to be socially responsible vis-à-vis the entire universe investigated.”¹⁶ And though the Domini Social Index has nominally outperformed the S&P 500 since its inception in 1990, DiBartolomeo finds that after adjusting for active risk exposures (such as significant industry bets) its performance advantage disappears.¹⁷

These findings are true both for individual funds (such as Domini) and in the study of screened portfolios as a group. John Guerard, formerly of Vantage Global Advisors, examined the comparative returns of Vantage’s 1300 unscreened stocks and the subset of 950 screened stocks during the 1987-1994 period. He found that “returns in socially screened and unscreened universes do not differ significantly.”¹⁸ Finally, J. David Diltz from the University of Texas studied 14 socially screened stock portfolios vs. 14 unscreened stock portfolios generated from a universe of 159 securities during the 1989-1991 period. He found no statistical difference, and concluded, “Equity markets

¹³ <http://www.news.morningstar.com/doc/article/0,1,3,179,00.html>.

¹⁴ Ibid.

¹⁵ DiBartolomeo, Dan. "Explaining and Controlling the Returns of Socially Screened Portfolios." speech to New York Society of Security Analysts, September 10, 1996.

¹⁶ Dhrymes, Phoebus J. "Socially Responsible Investment: Is It Profitable?" *The Investment Research Guide to Socially Responsible Investing*, The Colloquium on Socially Responsible Investing, 1998.

¹⁷ Ibid.

¹⁸ Guerard, John B. "Is There a Cost to Being Socially Responsible in Investing?" *Journal of Investing*, Summer 1997.

are sufficiently large, liquid and efficient to make social screening irrelevant to portfolio performance.”¹⁹

In addition, performance ultimately depends on the portfolio manager who can flexibly fit the investors’ needs. Steve Viederman, in his 1998 President’s Essay for the Noyes Foundation, refers to one of his investment managers who stated, “If there is something in the portfolio that you don’t like, let me know. There are many options, so I can respond to differing needs, taking into account your level of risk, need for diversification, and other factors.”²⁰ And John Guerard, formerly of Vantage Global Advisors notes, “What truly affects returns is a manager’s ability to select attractive stocks. An insightful portfolio manager will perform well in both screened and unscreened universes.”

Venture Capital Funds

To apply the word “explosive” to the last several years of the venture capital industry would be an understatement. While annual venture capital invested (both by institutional investors into funds and by funds into portfolio companies) generally ran at the level of a few billion dollars through the 1980s and early 1990s, the late 1990s saw the numbers skyrocket to about \$60 billion flowing into venture funds in 1999 and about \$100 billion in 2000. Some internet-dedicated venture partnerships reported internal rates of return of 100% prior to the “shake-out.” Of course, events of the past twelve months are bringing returns back down to earth. The rapidity and severity of this turbulence clouds the issue of returns.

It would probably be prudent, therefore, in analyzing venture capital returns, to look back over the history of the industry prior to the last several years.

From 1979 to 1997, capital under management by professional venture capital firms grew from \$1 billion to \$46 billion. In 1997 alone, institutional investors committed over \$10 billion to venture capital funds, three times what was raised by venture firms in 1987 and over 25 times what was raised in 1980. The number of venture capital firms rose from 71 in 1980 to 371 in 1997, with the total number of professional venture capitalists employed by those firms rising from 551 in 1980 to 1,969 in 1997. In 1997, 34 firms had \$10 million or less under management. 132 firms had more than \$100 million under management. Capital under management per venture capital professional was \$4.9 million in 1977, \$13.8 million in 1989 and \$23.2 million in 1997. Professional venture capitalists invested more than \$13 billion in portfolio companies in 1997, compared to less than \$1 billion in 1980.

As the data would suggest, the average size of venture capital deals has increased dramatically. According to Venture One, the average size of a venture capital investment almost doubled from 1992 to 1997, alone, from \$3.5 million to \$6.5 million. The average total amount of venture capital raised by a company increased from \$9.5 million to \$21.5 million during the same period.

¹⁹ Diltz, J. David. "Does Social Screening Affect Portfolio Performance?" *Journal of Investing*, Spring 1995.

²⁰ Jessie Smith Noyes Foundation, Annual Report 1998.

In 1997, 26 percent of all venture capital investments were categorized as Early Stage, with the remainder going to Expansion, Later Stage and Buyout/Acquisition. Twenty-two percent of all 1997 venture investments went to non-high-technology companies.

Virtually all of professionally managed venture capital investment that flows to early stage companies goes to capital-intensive technology companies that have the potential to grow within a few years into companies with a market capitalization exceeding \$100 million.

Even early in the venture capital industry's growth, during the mid-1980s, it had become very difficult for a small, non-high-tech company to attract professionally managed venture capital. Consider the following examples, which describe actual situations:

Company A was a neuroscience start-up, with world-class scientists conducting research and development for Alzheimer's and Parkinson's pharmaceuticals. It sought \$20 million in venture capital and its business plan showed no sales within five years.

Company B, located one mile away from Company A in a major metropolitan area, provided alternative site mental health services for emotionally disturbed adolescents, had been in business for more than five years, and grew on \$10,000 of founder's equity and \$300,000 of bank debt to \$6.5 million in sales. Its business was low-margin and non-proprietary, but it provided cost-effective, high-quality, innovative services to a large, predictable market. It sought \$750,000 to grow over five years to \$15 million in sales.

Company A raised its capital in a few months, at a valuation approaching \$40 million. Company B needed almost a year to raise its capital, at a valuation of less than \$3 million. Company B reached \$14 million in sales in three years and was acquired by a public company, tripling its venture capital investments.

Accompanying the increasing *scale* of deals that has characterized the venture capital industry's maturation has been increasing *speed*. The average holding period for venture capital investments declined from 1994 to 1996, alone, from 4.8 years to 3.8 years.²¹

Meanwhile, the maturation of the venture capital industry has been leaving most seed investing to the so-called "informal" venture capital industry: friends, neighbors and local individuals of wealth, or "angels," who either had a high level of trust in the entrepreneur or a particular insight into the business or market. It is estimated that more than \$30 billion per annum is invested via this informal venture industry. This should not be surprising in and of itself, when one recognizes that more than 500,000 corporations are created in the United States each year, of which only about 2,000 meet the narrow criteria of professional venture capitalists. Bill Wetzel of the University of New Hampshire estimated in the late 1980s that some 50,000 start-ups each year were "high potential," possessing the opportunity to grow to over \$20 million in sales in five years.

As to returns, the 1997 Annual Report of the National Venture Capital Association reported that the net internal rate of return to venture capital

²¹ As reported by Venture Strategy Partners.

investors over the previous two decades was approximately 15 percent. The report noted that analysis of returns over this period were already beginning to be impacted by the growing bull IPO market. For instance, net IRR to venture investors for the three years leading up to 1997 were over 41 percent. The Venture Economics 1995 Investment Benchmarks Report showed, in contrast, that of 15 fully-liquidated early stage seed funds studied, the average internal rate of return was 9.1 percent, as compared with overall returns of 11.1 percent yielded by the total universe of 48 fully-liquidated venture funds.

It should also be noted that the overall returns of a traditional venture capital portfolio are driven by one or two “home-runs.” Typically, a venture capitalist might require that each deal in the portfolio has the potential to deliver a 10 times return in five years, expecting that the majority of deals will return little or nothing.

The difficulty in assessing whether social venture capital funds yield competitive returns is tied to two factors: 1) there is insufficient data on the performance of social venture capital funds, due to the youth and scale of the industry; and, 2) it is necessary to disaggregate the performance data of the traditional venture capital industry, by stage, at least, and, perhaps by type of company (e.g., technology, manufacturing, service).

Is it reasonable to use a 15% or 20% venture capital benchmark to assess the competitiveness of a portfolio of community-based manufacturing and non-high-technology companies? While “community development venture capital” and “venture capital” share part of their name, is what CDVC firms do readily comparable to the business of their counterparts in Silicon Valley?

For discussion purposes, the following schema might be useful in exploring appropriate investor expectations:

Community Development Venture Capital	5% - 10%+
Social Venture Capital	10% - 15%+
Traditional Venture Capital	15% - 20%+

Experience seems to suggest that CDVC and social venture capital might not be expected to be competitive with the traditional venture capital industry, but that is not because they are “sacrificing return,” but rather because they are undertaking a qualitatively different kind of investing.

CDVC and social venture capital are sufficiently different from traditional venture capital as to warrant different financial benchmarks for determining their success. The task of measuring, or quantifying, the difference in financial returns, and attempting to attribute this difference directly to a “social return on investment,” is a task that is only just beginning.

A Note on Risk

Some fiduciaries have observed that venture capital needs to offer a return premium over the returns available from public equities due not so much to the increased risk connected with venture investing, so much as to the illiquidity of a venture capital portfolio.

As alluded to above, venture capitalists reduce the risks associated with any one investment by building a portfolio of 15-20 investments. With respect to any individual investment decision that a venture capitalist makes, perhaps the most effective risk minimization strategy – given the inherent risks related to technology development, rapidly evolving markets and, more generally, the uncertainties related to building a new business -- is a focus on the track record of management: Do they have deep experience in the industry? Have they successfully built related enterprises?

In turn, institutional investors can effectively minimize risk by building a diversified portfolio of venture capital partnerships across industries and investment stage. Similarly, their most effective risk minimization tool with respect to each investment will be an assessment of the track record of the fund's management team.

As the industry has matured over the past decade, the risk profile of social venture capital funds and community development venture capital funds has, arguably, been reduced. Management teams can begin to be assessed based on their performance in previous funds. The field is beginning to attract more experienced fund managers, as well, creating new entrants that may qualify as investment grade as compared with some of the pioneering partnerships that led the first wave of funds in the field.

Brinson Partners has had some experience with a minority fund of funds that suggests that diversification can effectively mitigate risk in this asset sub-class as it has in other sub-classes.

The relative risk of social venture capital and community development venture capital as compared to traditional venture capital, and the extent to which such risk can be minimized via portfolio diversification, is a topic for further discussion.

6. Conclusions

**** The screening of equity portfolios is an appropriate means of helping reduce dissonance in a general sense, and is effective if evaluated in terms of its minimal requirements in terms of staff time.** Screening portfolios has no demonstrable negative impact on financial returns. Screening is a relatively blunt instrument for the pursuit of philanthropic purpose, however, since its impact on the corporate behavior of a specific company is extremely indirect.

**** Shareholder activities can be extremely effective in supporting the efforts of grantees; however, they can be, if undertaken directly, relatively time-consuming, requiring a high level of staff commitment.** Shareholder activities such as co-filing and proxy voting, however, can be undertaken in collaboration with others and do not necessarily require intensive staff involvement.

**** Mission-related venture capital can be highly effective in supporting for-profit social entrepreneurs whose businesses further the foundation's charitable purpose.** More generally, double-bottom-line entrepreneurial companies can play a leadership role in promoting the transition to a more sustainable economy. The social venture capital field continues to evolve rapidly, and opportunities for investing in mission-related venture capital funds are growing.

Given Northwest Area Foundation's targeted approach to community grantmaking, shareholder activities and community development venture capital appear promising as new tools for pursuit of the foundation's objectives.

One could envision circumstances in which the foundation might wish to seek to influence, utilizing its voice as a shareholder, and in collaboration with one or more of its grantees, the behavior of a public company located in one of the targeted communities. Given the highly targeted nature of the intervention, however, the foundation would most likely find itself leading such an initiative, which would require substantial staff time, at least in the early going. An assessment of the costs and benefits of such interventions would have to be undertaken on a case by case basis.

One could also envision the establishment of a dedicated community development venture capital fund targeted at one or more of the foundation's grantee communities. The establishment of such a fund would appear to be feasible with respect to scale (in terms of fund size and asset allocation). How such a fund would complement the foundation's grantmaking is beyond the scope of this document, but given the power of community development venture capital to create jobs, promote entrepreneurship and build local wealth, the potential synergies might be extremely productive. Of course, the creation of such a dedicated fund would require significant staff and Board time.

Therefore, the foundation may wish to consider the following next steps:

1. Analyze the public companies operating in grantee communities, in order to determine the potential of undertaking shareholder action in concert with one or more grantees.
2. Assess the potential of establishing a captive community development venture capital fund, designed and funded by NAAF in order to complement grantmaking in one or more targeted communities.
3. Consider making an investment in one or more existing community development venture capital funds within the regions of your program concern.
4. Consider making an asset allocation to social venture capital funds outside the region, as a means of creating a diversified, double-bottom-line venture capital portfolio that will promote, more generally, the foundation's interest in sustainable development.