

VPP: A Summary of Our First Five Years

Venture Philanthropy Partners Series



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■ An Acknowledgment from VPP's Co-Founders and Leaders


VPP is deeply indebted to our founding investors for making all of this possible; to our board, executive committee, in-house team of professionals, our network, and advisors for your guidance and support; and to our nonprofit investment partners, their leaders, boards, and staffs for what they have done for the future of children and for their willingness to work with us to demonstrate a different way to invest in and build high-performing nonprofit institutions.

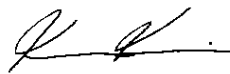
A very special acknowledgment to those who came together as VPP's founding investors.


Peter and Adrienne Barris	William Gibson	Phillip and Caren DeWitt Merrick
Katherine and David Bradley	Miles Gilburne and Nina Zolt	Mario Morino
John Burton	Richard Hanlon	Kenneth J. Novack
Art Bushkin	Richard A. Kay	Russ Ramsey and Norma C. Ramsey
Kathy Bushkin	George Kettle	Joe Robert
Jean and Steve Case	Jeong H. Kim	John Sidgmore (now deceased)
Jack Davies	Jim Kimsey	Doug and Gabriela A. Smith
Steve Denning and Roberta D. Bowman	Len Leader	Mark R. Warner
William Dunbar and Denise Dunbar	Ted Leonsis	The Surdna Foundation (institutional investor)
Raul J. Fernandez	Art Marks	
Joshua M. Freeman	Bill and Patricia Smith Melton	

These individuals and their families set aside individual recognition to invest in a bold experiment in social innovation to demonstrate that a different way of investing in nonprofits would generate demonstrably superior outcomes to drive change in philanthropy, the nonprofit sector, and the effectiveness of both public and private funding and support. The ultimate judgment of their faith and investment in Venture Philanthropy Partners will not be known for years, but we conservatively project that by 2010, 80,000 children and youth will be served with quality programs in the National Capital Region by a core of high-performing nonprofit institutions. What's more, their efforts will have triggered ongoing change at multiple levels for children and youth, the National Capital Region, a community of high net worth donors, and the fields of philanthropy, private and public funding, and nonprofits.

To our founding investors, our investment partners, our team, board, advisors and all who have been a part of turning the VPP concept into a reality, our sincerest appreciation and thanks.


Raul J. Fernandez
VPP Co-Founder


Mario Morino
VPP Co-Founder


Governor Mark R. Warner
VPP Co-Founder


Carol Thompson Cole
VPP Managing Partner


Jack Davies
VPP Founding Investor



The Story

“VPP is on the right side of history. As a practitioner of high-engagement philanthropy, VPP has established itself at the leading edge of philanthropy.”

- Ralph Smith, Senior Vice President, Annie E. Casey Foundation

■ What We Set Out To Do

In June 2000, Venture Philanthropy Partners (VPP) was created. Our co-founders—Raul Fernandez, Mark Warner, and Mario Morino—recruited 26 other technology and business leaders and several foundations to join together and contribute more than \$30 million to capitalize VPP’s first investment fund. The Morino Institute, led by Mario Morino, provided separate funding to create, incubate, and build the organization and its capacity. These 29 founding investors united behind a bold vision to alter the status quo for children in need of opportunity and, at the same time, create a different, innovative approach to philanthropy.

We believed we could adapt the relevant principles of private investment and apply them for investing in the nonprofit sector. **The goal: Build truly high-performing nonprofit institutions that demonstrably improve the lives of low-income children.** By helping these organizations and their leaders generate this superior social return, we believed our way of investing could help trigger a long-term reallocation of capital, talent, and other resources to those high-performing organizations making the biggest impact.

VPP’s investment successes not only would help its high net worth investors be more effective with their own philanthropy but would also encourage them to use their significant political, social, and financial influence to drive lasting change in the field. And, as our nonprofit partners grew stronger, our investors got more engaged, and we developed our web of relationships with foundations, businesses, and government agencies, VPP would be in a position to significantly leverage the effectiveness and impact of all.

A SUMMARY OF VPP’S FIRST FIVE YEARS

Thanks to the efforts of many, the early results of VPP’s first five years include:

- An investment approach for nonprofits that’s working.
 - Twelve nonprofits becoming stronger, more effective organizations.
 - More children and youth being served with better outcomes, with even greater gains in the years to come.
 - An emerging community of high net worth individuals and families.
 - Reinforcing the region’s social fabric.
 - A new regional capacity and asset for the National Capital Region.
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Armed with these goals, we set about the task. We targeted our investing to improve the lives of children of low-income families—the working poor and those in poverty. Our investments focused on meeting the core educational, learning, and healthy developmental needs of children and youth, so they would have the opportunity to grow into adults leading productive, healthy lives. And we targeted our efforts on the National Capital Region—Washington, DC, and its surrounding suburban areas in Maryland and Northern Virginia.

Today, VPP is a bold vision that is working. We've partnered with 12 good nonprofit leaders, helping them build stronger, more effective organizations serving more children better. We've created an organization that is becoming a key asset and resource while meeting a critical need in the region. And we are proving a model that can be applied to assist other regions and metropolitan areas.

The core set of competencies VPP's developed is making us a catalyst for change in the region: we have the knowledge and ability to navigate the political, bureaucratic, and other systems that often impede new initiatives; we have the capacity and network to raise and invest large amounts of capital; and we have the expertise and access to resources necessary to manage complex investments, lead organizational transformation, and solve difficult problems facing organizations, funders, and others in the sector.

■ What We've Accomplished So Far

“With the unprecedented allocation of \$28 million to 12 nonprofit partners in just five years, the needle has measurably begun to move for children in the Washington region and is projected to register even greater gains in the years ahead.”

- Billy Shore, Founder, Share Our Strength, and VPP Board Member

Early Results

We and our investment partners are turning VPP's initial vision into a reality—with tangible, compelling results and a clearer understanding of the truly formidable nature of this undertaking. Even though many of our investments are just a few years old, here are some of the early achievements and ways a sample of our nonprofit partners are positioning themselves for much greater impact for children and youth:

- **Boys & Girls Clubs of Greater Washington:** BGC-GW is a leader in after-school activities for children and youth. During the past 18 months, BGCGW's energized board ensured that 36,000 children in the region were served without interruption while working through a complex merger, an intense planning process, and a highly successful CEO leadership transition. Today, this organization, led by its new CEO with the support of its board, is committed to increased program quality and effectiveness and focused on transforming the organization to demonstrably change outcomes for 36,000 children.
- **Center for Multicultural Human Services:** CMHS, which provides mental health, educational, and social services to refugees and immigrants, nearly tripled the number of children served over four years, growing

from 582 to 1559. They expanded to provide new coverage in the District of Columbia through a well-established partner, Covenant House. And, at a time when immigration is radically changing the region's demographics, CMHS is meeting a critical need by training 9,000 people since 2002 to provide more effective mental and health services to children and families from different cultures, many of them recent immigrants from war zones.

- **College Summit:** In other parts of the country, College Summit is using a proven model to give thousands of students—those smart enough but who are not going to college—the tools and guidance needed to get there. Now they are building out their organization and implementing their model to serve students in the National Capital Region and have already created partnerships with five universities and ten high schools. In a very short time, College Summit has doubled (to 900) the number of young adults it reaches in the region and, as a result of what it has already achieved, is projecting to reach the initial goal of helping 4,000 students by 2010 from low-income families across the region make it into college.



- **Friendship Public Charter School:** FPCS is demonstrating a successful model for urban education. Today it serves 3,600 children, and Friendship has already expanded its enrollment by acquiring the public charter school, Southeast Academy of Scholastic Excellence. A rigorous business planning effort provided the blueprint for growth and innovation. FPCS is positioned to grow to serve 5,000 children on seven campuses that are aligned academically pre-K through grade 12, and it plans to implement a K-12 International Baccalaureate School that will be one of the most rigorous academic programs in the nation and a Career Technical School (CTE) that will prepare students for careers in information technology, health-care, and environmental sciences.
- **Heads Up:** Heads Up, a leading after-school provider of programs for at-risk kids, is a substantially stronger organization serving more children with better results. It more than doubled the number of students served daily over four years, expanded its hours of service by 70 percent, and substantially improved its curriculum. These changes helped boost average reading levels by 1.1 grades and garner a parental approval rating of 94 percent.
- **See Forever Foundation:** SFF is giving young people who have not succeeded in traditional schools—many of whom were involved in the juvenile justice system—a better chance to succeed in school. It operates two charter schools; has nearly tripled the number of students served over three years, growing from 85 to 230; created a precedent-setting partnership with DC Public Schools; and had a graduation rate of 92% in

2005. It has delivered improved instruction and curriculum and has been recommended for a seven-year accreditation, the maximum allowed, from the Middle States Coalition of Secondary Schools. SFF is delivering on an educational model that can raise the expectations nationally for helping these students to reach their potential.

- **The Latin American Youth Center:** The LAYC is quickly becoming a regional leader not only in delivering multicultural services to underserved youth, but in responding to the changing regional demographics and the supply/demand challenge this poses for social services in the region. The LAYC completed a research-based planning process that used demographic analysis to identify service gaps in a changing region. It has already acted on that plan, establishing three new centers in Montgomery and Prince George's Counties (MD) that will serve thousands more youth and, in so doing, entered into partnership with the Archdiocese of Washington.

The early results of these organizations are impressive and we are proud to have contributed to what they achieved. **But the real gains from these investment partnerships in changing outcomes for children, nonprofits, and the region will take place over the next four to six years.** In the private investment world, the return on investment in a single organization takes four to seven years and the total return of a venture capital fund takes at least seven to ten years to be fully realized. Similarly, for VPP's first investment fund, the total social return will be fully realized in the 2010 to 2012 time period.



We are confident of these future gains for a number of reasons: our nonprofit partners have had significant early successes; they continue to take important steps to make their organizations stronger and more effective (actions that will pay dividends for children and youth in the years ahead); nearly half our first fund investments are less than two years old; and to date we have deployed only 41% of the \$28 million in investment capital to our nonprofit partners.

As a result, **by 2010, our investment partners conservatively estimate they will be serving more than 80,000 children in the region—up from 53,000 today—with improved programs and services** and are projecting demonstrably superior outcomes to change the lives of these children.

Flow of Funding as an Indicator of Success

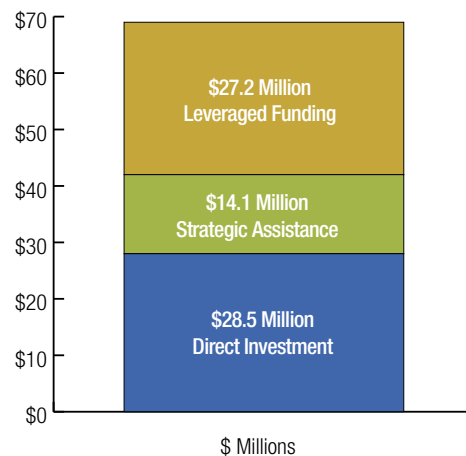
When we first started five years ago, one of the measures of success that we set for ourselves was whether VPP would become a preferred partner for other investors, and if our efforts resulted in more funding for the region. In fact, we were warned that traditional funding would flow out of organizations we were investing in.

What we've experienced to date, however, is just the opposite and validates our initial premise. Although a few of our investment partners have seen the loss of some small grants, by and large, millions more dollars in traditional and new sources of capital flow in when investors see organizations with well-thought-through business plans, strong leadership, engaged boards, and demonstrated results.

Other funders are beginning to place a value on VPP's due diligence, knowing that VPP's capital and strategic assistance increases the nonprofit's chances for success, while mitigating the risk for co-investors.

In fact, when you combine VPP's capital and strategic assistance with the value our nonprofit partners have leveraged from other sources due to VPP's original investment, **nearly \$70 million of capital or its equivalent is flowing to VPP's investment partners and the region's nonprofit sector.**

Nearly \$70 Million into Nonprofits



An Investment Approach that's Working

We began with the idea that we could apply a venture capital approach that would generate a superior return by investing to build stronger, high-performing nonprofit institutions. Along the way, we refined this approach grounded in the principles of private investment practices, by blending it with the understanding of and the time-proven lessons learned from foundations and nonprofits.

VPP helps a nonprofit's bold aspirations become reality. Focusing exclusively on the National Capital Region, we target investment in organizations with strong track records, good programs, effective leadership, and those poised for the next level of impact.

We then work closely with these nonprofit leaders to help them plan, define, measure, and reach these “next level” goals of impact for children. In addition to providing them with large amounts of growth capital, VPP's team of seasoned in-house executives—each with organizational building know-how and domain expertise—provides strategic assistance to these leaders, including management and executive development, helping recruit high-level talent, brokering relationships, opening up new doors and contacts for additional sources of funding, and more.

VPP'S INVESTMENT APPROACH

- We invest in nonprofits making a difference in the lives of children and youth of low-income families.
 - We work with and support their strong leaders—those we believe can significantly scale their impact to build institutional strength as the key to lasting change.
 - We provide large amounts of scarce growth capital over multiple years.
 - We are strategic, highly engaged, and work as a trusted advisor with the nonprofits in which we invest.
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As Bob Templin, President of Northern Virginia Community College and an advisor to VPP, said, *“In VPP I find some of the most talented and strategic philanthropic and management thought leaders anywhere on the issue of how promising not-for-profit organizations (including my own) can become sustainable high-performing organizations impacting the lives of children and youth. If breakthrough approaches to strategic investing for the significant benefit of children and youth are to be developed and demonstrated, VPP is the most likely place to see that happen.”*



Twelve Nonprofits Becoming Stronger, More Effective Organizations

Remember VPP’s initial premise: invest in already effective nonprofits and help them achieve a significantly higher level of impact on children. By doing so, and showing demonstrably superior outcomes for children, we would be able to start influencing a “reallocation of resources”—public and private funding, talent, and other resources—to those organizations having the most impact.

And even at this early stage, we are already seeing VPP investments help these organizations become stronger, think differently, be more rigorous, and deliver more meaningful programs for children.

Of the seven nonprofits well into multi-year partnerships, five have significantly strengthened their organizations and effectiveness, while two others have made incremental, but solid progress.

The three early-stage investment partnerships have made solid achievements and laid the groundwork for significant gains in years ahead—with one already achieving early transformational change.

Finally, our two beginning-stage investment partnerships have recently completed business planning and are developing the expectations and milestones that will guide their future impact and success.

The increased organizational capacity and effectiveness starts with what our investment partners have done to build stronger senior management and better boards. They have successfully hired and integrated into their organizations more than 30 senior executives and recruited more than 20 new members to their boards who are highly committed and bring specific expertise, added influence, and improved access to funding to these nonprofit organizations.

In addition, these improvements are happening because our investment partners are moving beyond “technical assistance” to institution building. They are thinking differently about their organizations, are more rigorous in their planning and decision-making, and tackling tough issues of organizational change. Their expectations for their organizations and for themselves have changed. They are cultivating performance-driven cultures that can only come from demonstrated performance while holding true to mission.

VPP Timeline of Nonprofit Investments

7 Mid- to Later-Stage Partnerships

- Heads Up (July 2001)
- CFNC (December 2001)
- CMHS (December 2001)
- See Forever Foundation (July 2002)
- Asian American LEAD (October 2002)
- CentroNía (November 2002)
- Latin American Youth Center (March 2003)

3 Early-Stage Partnerships

- Boys & Girls Clubs (March 2004)
- Mary’s Center (April 2004)
- College Summit (December 2004)

2 Beginning-Stage Partnerships

- Friendship Public Charter School (May 2005)
- The SEED Foundation (June 2005)

2001

2006



More Children and Youth Being Served with Better Outcomes—and Even Greater Gains in the Years Ahead

VPP's investment partners are serving 53,000 children and youth with improved programs and services, and conservatively forecasted to grow to more than 80,000 children and youth in 2010. And much of the early growth was achieved during one of the more difficult economic periods for nonprofits and while they were transforming their organizations.

“Seeing VPP operate and watching its own progress has caused us (the Hanlon Foundation) to be more precise with our own activities. It has also helped us to think and plan in a longer-term framework than we did at first. We’ve learned that, in the nonprofit world, things simply take longer.”

Richard Hanlon, Former Senior Vice President, Investor Relations, AOL Time Warner Inc.

“VPP has taught me the importance of due diligence, growing strong organizations, and outcomes management vs. process management—all things I wished I knew 10 years ago when I was just starting out in philanthropy!”

Josh Freeman, President and CEO, Carl M. Freeman Associates, and VPP Board Member

In addition, these nonprofits now serve children at 11 more places in the region (a 25% increase) as well as expanding the delivery of their services in 12 new communities to meet the needs of the region's changing demographics.

But the greater significance goes beyond “counts” and instead lies in how these organizations are improving the quality and delivery of their programs and placing greater emphasis on increasing how well they improve life outcomes for children—and some are already showing real gains in higher graduation rates and improved test scores.

An Emerging Community of High Net Worth Individuals and Families

VPP seeks to coalesce our founding investors and other like-minded individuals into a force for change through the capital they provide and the influence they can deliver. To date, the efforts of VPP investors—individually and through VPP—are prompting degrees of change in how funders are approaching their own philanthropy and working with nonprofit organizations.

The best example of this is VPP founding investor Jack Davies who describes his philanthropy as being heavily influenced by VPP. Jack serves on the boards of two VPP investment partners. He is regularly “in the trenches” with the leadership of these organizations, doing everything from orchestrating partnerships, providing strategic management counsel, aiding recruitment efforts, and spearheading fundraising initiatives, to enthusiastically encouraging his friends from the business world to get involved in the social sector.



Reinforcing the Region's Social Fabric

The efforts of the VPP organization and those of our investment partners are helping reinforce the region's social fabric. In a region known for its fragmentation and disconnectedness, we are helping create new and innovative partnerships; increasing executive talent flow; building bridges across the public, private and nonprofit sectors; and building a platform for new investment opportunities and greater collaboration. All of this, combined with the significant growth capital from our first fund, is helping reinforce the social fabric of the region. In addition, the real potential for making this a stronger region is three-fold: 1) Our nonprofit partners and their leaders will have greater impact and play an expanded role; 2) VPP's role as a regional connector and trusted agent will continue to grow. Our ties to business, government, nonprofits, philanthropy and, most importantly, to the region's new wealth put us in a unique position to coalesce capital, expertise, and other resources to solve complex problems and seize important opportunities; and 3) New opportunities will result when the investment partners work collectively to take on major regional challenges.

“VPP is successfully creating long-term needed change and thousands of children are better off because of VPP's work. VPP is the only organization in the area that provides this kind of support to nonprofits.”

Gabriela Smith, Joint Founder, The Amanter Fund, and VPP Board Member

“VPP has significantly influenced nonprofits and funders (at least in the National Capital region) to consider seriously the importance of strategic action, strategic investing, and, most particularly, the role of strategic assistance whether from VPP and its affiliated advisors and organizations, or from other resources...It has made and continues to make a positive impact on both fields of practice.”

Bob Templin, President, Northern Virginia Community College and Advisor to VPP

Ultimately it is VPP's access to our investors and their networks, coupled with the web of relationships we and our nonprofit partners are developing with foundations, businesses, and government agencies, that will place VPP in a position to significantly leverage the effectiveness and impact of all involved.

A New Regional Capacity and Asset for the National Capital Region

VPP as an organization has emerged as a catalyst for change and key asset and resource for the region—having the knowledge and ability to navigate the political, bureaucratic, and other systems that often impede new initiatives; the capacity and network to raise and invest large amounts of capital; and the expertise and access to resources necessary to manage complex investments, lead organizational transformation, and solve difficult problems facing organizations, funders, and others in the sector. VPP's collective capacity includes:

- **A pool of growth capital, the scarcest form of funding in the field.** Having the capacity and mission to invest several million dollars into a nonprofit organization for the exclusive purpose of helping build a stronger, more effective, high-performing institution places VPP within a remarkable few set of funders in the nation.
- **A field-tested investment approach** that incorporates the strategy, rigor, and analysis of private equity investment firms and applies it in a way that responds to the uniqueness of nonprofit organizations. This approach is ingrained in the VPP organization and codified in a suite of systems and tools that are continually improved through an ongoing knowledge capture and learning process.



- **An in-house team of professionals made up of individuals with executive experience** who understand how to build organizations, possess relevant domain expertise, and are directed by strong leadership anchored in Managing Partner Carol Thompson Cole and Chairman Mario Morino.
- **A high-powered network** of regional and national contacts from multiple sectors helps open up new opportunities for our nonprofit partners, introduces them to new circles of influence and support and ways to leverage their organization and resources, and increases their access to the talent, tools, information, and perspectives they need.
- **A growing knowledge base** of the experience, achievements, and lessons learned by VPP, our nonprofit partners, and investors has been systematically captured and contributes to the continuous improvement of our organization and investment approach. This knowledge base represents a growing, important asset to be shared with the field for broader impact beyond our investment partners.
- **A brand that is earning credibility in the region,** clearly benefiting the investment partners, helping to attract top talent and providers, and starting to impact the field as VPP is increasingly invited into important regional and national venues and initiatives. And, our demonstrated performance and growing brand are helping us emerge as a preferred advisor, partner, broker, and co-investor for foundations, individual donors, and more.

What made all this possible was the creation of the VPP organization and the investment in its own capacity. Separate from the \$30+ million from our founding investors, an additional significant investment was used to build the VPP organization, attract and develop its team of in-house professionals, define and codify its investment analysis and approach, and develop the resulting systems and tools, establish a knowledge capture and transfer capability, and build the surrounding web of relationships and brand.

The Morino Institute took the lead in providing the capital to create and build VPP, and this was augmented by additional strategic in-kind support from McKinsey & Co., Community Wealth Ventures, and The Community Foundation for the National Capital Region.

As Ed Skloot, Executive Director of the Surdna Foundation, said, *“VPP is an innovative, determined investment hybrid that brings high net worth people to the table to significantly improve the lot of human service deliverers and the people they assist.”*

■ What We Learned and How We Applied It

From the start, we understood that before we could expect to influence others—the philanthropists of this new wealth, nonprofits, traditional foundations, or the field at large—our beliefs had to be put into practice and produce compelling results that would capture the interests of those actors who could drive change.

Our first five years have produced positive results. But one of the greatest assets to date may well be what we've learned and how we've applied it to build our organization and better serve our investment partners, investors, and others affiliated with VPP. The insights, adjustments, and lessons we've gained and made since our beginning to today include:

- **Refocusing for greater impact:** Originally, we primarily targeted our investing to support younger, entrepreneurial social innovators—leaders with workable solutions who wanted to grow their organizations serving children and youth. We later shifted our focus to include more established nonprofits—those with the potential for transformational change and the need to sustain, improve, or scale their organizations—because it would have a greater impact on the region.
- **More money over a longer period:** We rightly understood the importance of providing large investments of growth capital and being long-term in our approach but realize now that achieving substantive, lasting change and growth in the nonprofit sector requires even more capital and more time than we envisioned.
- **Trusted advisor:** We knew that to maximize the value of our investment approach, it was critical to establish a relationship as a trusted advisor with those in which we invested. However, we were initially naïve in understanding what that really required, the time it would take, and the less-than-obvious impediments to overcome. A successful relationship is based on respect, transparency, shared learning, and mutually aligned expectations and accountability.

- **Unexpected importance of a regional focus:**

We gained a much better appreciation of the region's formal and informal systems—political, social, economic, regulatory, and educational—and the importance of being able to understand and navigate these systems. We unexpectedly came to realize that one of our greatest assets was our understanding of the need to build relationships, strengthen the social fabric of the region, and help our investment partners navigate the complexities of the National Capital Region—circumventing impediments, spanning boundaries, expanding into new areas of the region, forming precedent-setting partnerships, and forging cross-sector partnerships and new relationships.

- **Learning from our mistakes:** We learned from and compensated for our early mistakes, which led to changes in how we built our organization, the seasoned executive-level experience and skill required by our approach, the way we conducted ourselves, and a new respect we developed for the accomplishments of those in the nonprofit and philanthropy sectors who came before us and laid the groundwork for our approach.

“VPP's biggest accomplishment has been the bringing together of a team comprised of highly successful private sector individuals and nonprofits, getting them to think as one and move forward to take on the challenges of changing the status quo and how we view our educational system and community. There were setbacks but we learned from them—VPP was not afraid to take calculated chances, and to make a difference you have to risk something.”

Brig Owens, Partner, Bennett & Owens

This learning not only makes VPP a better organization today, but it also has greatly influenced what we will do going forward and the kind of impact we believe we can have on the nonprofits, children, the region, and the field.



■ VPP's Future Impact: Next Steps

VPP was created to be an inspiration for change and a catalyst for social innovation. By demonstrating a different way of investing through a series of funds, we believed we could influence those of emerging wealth to have more impact with their philanthropy and to alter the norms of the nonprofit field.

And though we've had early successes in our first five years, in reality, we are just scratching the surface of what needs to be done for our nonprofit partners and to drive change in the field to succeed in the long run. Significant changes—both inside and outside the field—need to occur to make sure that breakthrough organizations continue to grow, thrive, and become sustainable over time.

VPP is ready to make an even larger impact in the areas of education, learning, and development. We have the leadership, organization, and track record to move Venture Philanthropy Partners to a higher level in helping our investment partners change the fate for children, certainly for those here in the National Capital Region, and just maybe, someday, across America.



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