EVPA KNOWLEDGE CENTRE

A GUIDE TO VENTURE PHILANTHROPY

FOR VENTURE CAPITAL AND PRIVATE EQUITY INVESTORS

ASHLEY METZ CUMMINGS AND LISA HEHENBERGER

JUNE 2011

CONTENTS

Published by the European Venture Philanthropy Association

This edition June 2011

Email : info@evpa.eu.com

Website : www.evpa.eu.com

ISBN 0-9553659-8-8

Authors: Ashley Metz Cummings and Dr Lisa Hehenberger

Typeset in Myriad

Design and typesetting by: Transform, 115B Warwick Street, Leamington Spa CV32 4QZ, UK

Printed and bound by: Drukkerij Atlanta, Diestsebaan 39, 3290 Schaffen-Diest, Belgium

This book is printed on FSC approved paper.

FSC

Mixed Sources
Product group from well-managed forests and other controlled sources

Cert no. SA-COC-001530
www.fsc.org
© 1996 Forest Stewardship Council

A GUIDE TO VENTURE PHILANTHROPY
FOR VENTURE CAPITAL AND PRIVATE EQUITY INVESTORS

The EVPA Knowledge Centre is kindly sponsored by Natixis Private Equity

EVPA is extremely grateful to Fondazione CRT, Impetus Trust Invest for Children and Noaber Foundation for their generous support

EVPA is kindly sponsored by 3i Group PLC, Barclays Private Equity and Pantheon Ventures (UK) PLC

ASHLEY METZ CUMMINGS AND LISA HEHENBERGER JUNE 2011

LETTER FROM SERGE RAICHER, EVPA CHAIRMAN

"THE FIRST DAY (OF THE REST OF YOUR LIFE)"

This is the title of a song written in the late 90s. For me this title also symbolises how, at a certain time, philanthropic engagement can become an integral part of one's life.

I wonder when the "first day of the rest of my life" might have been.

Could it be when Doug Miller talked me into co-founding EVPA? Or when, on the eve of my 45th birthday, I moved on from 20 years of private equity (PE) investing to focus on philanthropy? Or was it perhaps much earlier, when, on the back of a personal tragedy, I realised that there was more to life than increasing one's spending power?

Certainly, philanthropic engagement is more than a reflection of where we stand on Maslow's pyramid of needs. In the venture capital and private equity industry, I have met many people whose societal conscience is worthy of admiration, irrespective of their age and achievements.

In fact, when we started EVPA I was immediately struck by the wholehearted support we received from the financial community at large, and the PE industry in particular. From my partners at Pantheon to our friends at Barclays, 3i, Natixis, or KPMG, many lined up alongside the co-founders with start-up money for EVPA. From the European and national venture capital (VC) associations to a wide range of PE firms, we received vital and comforting moral support, as well as genuine interest for our endeavour.

There are many reasons why VC or PE professionals are engaging in social investing and venture philanthropy. Among them three stand out:

Giving back: The awareness of being blessed with access to higher level education, and first class careers which are extremely rewarding, leaves many of us feeling like we should "give back" for causes which we deem appropriate.

Applying our skills to the social sector: Support to entrepreneurs is the foundation of success in VC and PE. Venture philanthropy applies many of the principles that we use in our professional life, such as investing in people, building value or focusing on medium-term results.

Leading and federating: Most private equity firms are referred to as partnerships, which they are. Some have funded in-house charitable vehicles involving the whole team, from junior to senior professionals. It is relatively usual to see such a vehicle share a project with a portfolio company, or with the "grant arm" of a foundation that is also a limited partner of the fund.

There are many reasons why you might want to engage in philanthropy, and when doing so you may consider many ways to do it. EVPA is here to give you access to the networks and provide a platform to share our experiences.

You have taken the time to read these lines. This might be a sign that you, too, have had "the first day (of the rest of your life)".

So let us now focus on action.

Serge Raicher, EVPA Chairman

EXECUTIVE SUMMARY

The philanthropy and social investment sectors are undergoing profound changes. These changes are occurring as new stakeholders, such as the venture capital (VC) and private equity (PE) community, approach philanthropy more actively, and existing stakeholders, including foundations and wealthy individuals, investigate new strategies. Venture capitalists and others from the business world have begun to take a more engaged interest in philanthropy, bringing along skills and techniques, contributing to the development of new models of giving and using the term 'venture philanthropy' (VP) to describe them. The number of grant-making bodies[1] run by the largest private equity firms in Europe has more than doubled in the past five years.[2, 3] Additionally, individuals from the PE community have started many[4] of the existing European VP organisations.

The European Venture Philanthropy Association (EVPA) defines **venture philanthropy as a methodology that works to build stronger social purpose organisations by providing them with both financial and non-financial support in order to increase their societal impact.** As venture philanthropy spreads globally, specific practices may be adapted to local conditions, yet it maintains a set of widely accepted, key characteristics. These are: high engagement, tailored financing, multi-year support, non-financial support, organisational capacity-building and performance measurement. Venture philanthropy can support many types of social purpose organisations (SPOs), from charities and non-profit organisations to socially driven businesses.

The objective of this paper is to provide a practical guide for individuals and firms in the PE industry to get involved in VP. It could also be a useful resource for VP professionals and organisations seeking partners in the PE industry. The paper is a compilation of insights from numerous interviews and email questionnaires with executives from PE firms and VP organisations, as well as comprehensive desk research. The paper is structured in four parts. It begins with an introduction, including the purpose of the document, an overview of venture philanthropy, and how VC and PE are similar to, yet different from venture philanthropy. Then we go through each of the three models we have identified for firms engaging in VP, using examples of PE firms employing each strategy. Finally, we provide some general considerations for PE firms regarding getting involved in venture philanthropy before concluding the paper.

Motivation to become involved in philanthropy

Three main motivations for PE firms to become involved in philanthropy are altruism, staff motivation and development, and public and investor perceptions.[5]

Altruism – Many firms and individuals feel the desire to give back to their communities. Active financial and in-kind support are ways to do this in line with in-house resources and capabilities.

Staff motivation and development – Working with Social Purpose Organisations can help employees develop skills like judgment, resilience and social competences and may foment a better working atmosphere within the PE firm.

Public and investor perceptions – Consumers and investors increasingly pay attention to environmental and social factors when choosing service providers. Involvement in VP can establish PE firms as positive social actors.

"IN OUR COLLECTIVE RESPONSIBILITY TO GIVE BACK, WE SHOULD APPLY THE SAME BUSINESS PRINCIPLES THAT DRIVE PRIVATE EQUITY ITSELF: HARD WORK, VALUE-ADD TO ENTREPRENEURS AND LONG-TERM ENGAGEMENT."

JEREMY COLLER, FOUNDER AND PARTNER, COLLER CAPITAL[6]

[1] *Defined in terms of funds raised in the last 10 years.*

[2] *Lewis, T. (2009) "Philanthropy climbs higher up private equity agenda", Private Equity News.*

[3] *The first four include 3i Group, Charterhouse, Doughty Hanson and Terra Firma. The new five include Bridgepoint, Apax Partners, Cinven, Permira and IK Investment Partners.*

[4] *Around 17% according to a survey by JPA Europe Limited, Existing Venture Philanthropy Funds Characteristics: A Preliminary Overview (2008).*

[5] *Motivations have been altered to fit the VP context. They originally appeared in a list of 10 motivations and drivers for change from the report "The Role of Private Equity in Social and Sustainable Development," The Young Foundation & Arbor Square Associates, March 2008.*

[6] *Coller, J., Founder and Partner, Coller Capital (March 25, 2011), Email to EVPA.*

EXECUTIVE SUMMARY

VENTURE PHILANTHROPY AND VENTURE CAPITAL/PRIVATE EQUITY

In addition to the general motivations to become involved in philanthropy, PE firms are particularly attracted to the VP approach because of similarities with the way they work within a for-profit context. They are convinced that the VP approach is the best way to make the biggest societal impact. Venture philanthropy shares a number of similarities with commercial venture capital. Traditional VC methodologies can be applicable in a VP context, particularly to investments in revenue-generating social enterprises and socially driven businesses. However, differences remain in several key areas:

- **Expectations of Returns:** VP investments are assessed primarily in terms of societal returns
- **Incentives aligned with societal focus:** Social impact is often the driver of compensation for VP executives
- **Deal Selection:** Investee organisations supported are often less prepared than in a VC investment
- **Risk:** The financial risk is often higher than in PE funds
- **Novelty of concept:** VP entails a higher degree of flexibility in dealing with unforeseen issues and longer timeframes of support
- **Culture, perspectives and language differ:** Social sector reality is different and the VC approach cannot be directly applied
- **Exit:** Approach to exit varies depending on funding instrument used but is related to financial and operational resilience rather than achievement of financial return
- **Governance differences:** Reliance on mutual respect and trust rather than legal rights
- **General context:** Empathy is necessary and focus on enhancing social impact

The degree of willingness to adapt to VP should be in line with the model of involvement in VP chosen. A PE firm should think realistically about the amount of time and effort they are able to devote to getting involved in philanthropy and choose a model that helps them fulfil their goals without overextension.

MODELS OF ENGAGEMENT

Throughout the paper, we use short case studies of PE firms from different European countries to illustrate how firms can engage in the VP methodology. Our research allowed us to identify three general models used by PE firms to engage in venture philanthropy. Within each model, there are significant variations and opportunities to tailor the choice to a firm's context. We will discuss their appropriate uses and limitations throughout the document. The models identified are:

1. Directly support Social Purpose Organisations (SPOs) through hands-on engagement

This engagement model means that the **PE firm itself supports selected social purpose organisations with financial resources and/or non-financial support**, employing some form of the VP methodology. This strategy can be used when the firm wishes to establish stronger ties with the local community, and when the firm is better able to leverage intellectual and social capital as opposed to financial capital. To make the strategy work, it helps to have passionate individuals in local offices that can spearhead involvement, as well as senior management support. The strategy requires a certain amount of organisation and initiative on the part of the firm. 3i is an example of a PE firm using this strategy.

2. Invest in or co-invest with a Venture Philanthropy Organisation (VPO) through financial or in-kind support

PE firms can **invest money and human capital in a VPO** that assures that resources are allocated efficiently and effectively with a reduction in management costs, and time and resources spent on due diligence of SPOs and transaction costs. Many VPOs rely on assistance from professional services firms and offer a convenient and rewarding way for PE firms to get involved. This engagement model is appropriate for firms lacking in-house social sector knowledge, wishing to support the VP concept without investing the resources in setting up their own initiative, or as a first step towards setting up a separate entity. Examples of PE firms using this strategy are Natixis Private Equity and CVC Capital Partners. The vehicle for investment may be a separate foundation. Apax Partners is an example of a firm that invests directly in VPOs through its foundation, and TowerBrook Foundation co-invests with a VPO.

3. Found or co-found a separate VPO to address an unmet need

Setting up a new VPO is an appropriate strategy for firms that are able to make a **significant commitment of time and resources**, including full-time staff dedicated to VP, and for firms that are looking to do something bigger with unique visibility involving the firm as a team. When adding a VP arm to the PE firm, care should be taken to make a clear separation between mission, remuneration schemes, return expectations and investment process of both entities. Investindustrial, Permira, IK Investment Partners and Ferd are examples of PE firms that have set up separate VPOs, either independently or in partnership with others. BonVenture, Bridges, Business Angels des Cités, Citizen Capital, Oltre Venture and Noaber Foundation are examples of initiatives that include venture capital funds with a social mission.

"SUPPORTING SOCIAL ENTREPRENEURS IS A NATURAL FOLLOW UP OF WHAT I HAVE BEEN DOING FOR THE PAST 30 YEARS. USING OUR SKILL-SET TO CREATE POSITIVE SOCIETAL IMPACT IS PRIVATE EQUITY'S COLLECTIVE RESPONSIBILITY"

GONZAGUE DE BLIGNIÈRES, CHAIRMAN, BARCLAYS PRIVATE EQUITY[7]

[7] *de Blignières, G., Chairman, Barclays Private Equity (March 21, 2011), Email to EVPA.*

EXECUTIVE SUMMARY

"I THINK THE PRIVATE EQUITY INDUSTRY HAS THE SKILLS AND THE RESOURCES TO TURN SOCIAL ENTREPRENEURSHIP INTO A MAINSTREAM ACTIVITY AND SOCIAL INVESTMENT INTO AN ASSET".

SIR RONALD COHEN, CO-FOUNDER OF APAX PARTNERS, CHAIRMAN OF BRIDGES VENTURES [8]

The table below summarises the engagement models identified in the study:

Model of engagement	When	Why	How	PE firm examples
1. Directly support SPOs	Firm would like to **work locally**, and is unable to contribute much capital - can help more with **pro bono services**	Proximity to charities offers **in-kind benefits** and can **attract other funders**, increasing impact and sharing financial costs	Tap firm's **social capital/ professional network** and identify **local champions** at regional offices	3i, Permira
2. Invest in or co-invest with a VPO	Firm is **lacking** in-house **social sector knowledge** and prefers to use a **trusted intermediary** using a VP approach	Contribute resources **without** incurring **management costs**, while **reducing risk** and transaction costs	Choose VPO based on firm's **criteria** and develop a **longer-term partnership**, contributing financial resources and pro-bono support	Natixis, CVC, TowerBrook Foundation
3. Found or co-found a separate VPO	Firm is able to make a **significant commitment** of time and resources, such as full-time staff, investment in social sector knowledge and a long-term plan	Focus new VPO on areas of importance not adequately addressed elsewhere with a focus on **societal issues**	Add a **dedicated VP arm** to PE firm to complement existing business or **pool resources** in a new initiative to draw diverse resources and achieve greater scale	Investindustrial, Permira, IK Investment Partners

[8] *Cohen, Sir Ronald, Private Equity News, via Ashoka Arab World: http://ashokaarabworld.wordpress.com/2009/09/17/social-entrepreneurship-and-private-equity-should-it-always-sound-like-an-oxymoron/ (Accessed February 2011).*

PART 1

INTRODUCTION

"The fact that our system takes care of its economic and financial consequences, but not its social consequences means that there is a massive need for a powerful social sector to operate alongside the government. Unless we can create that, maintaining social cohesion and the sense of equity in our society is going to be extremely difficult."
– Sir Ronald Cohen, Co-Founder of Apax Partners, Chairman of Bridges Ventures[9]

PURPOSE OF THE DOCUMENT

Today, the philanthropy and social investment sectors are undergoing profound changes. These changes are occurring as new stakeholders, such as the VC and PE community, approach philanthropy more actively, and existing stakeholders, including foundations and wealthy individuals, investigate new strategies. Venture capitalists and others from the business world have begun to take a more engaged interest in philanthropy, bringing along skills and techniques, contributing to the development of new models of giving and using the term VP to describe them. The number of grant-making bodies[10] run by the largest PE firms in Europe has more than doubled in the past five years.[11, 12] Additionally, individuals from the PE community have started many[13] of the existing European venture philanthropy (VP) organisations.

The European Venture Philanthropy Association (EVPA) defines **venture philanthropy as a methodology that works to build stronger social purpose organisations by providing them with both financial and non-financial support in order to increase their societal impact.** EVPA purposely uses the word societal because the impact may be **social**, **environmental** or **artistic**. As venture philanthropy spreads globally, specific practices may be adapted to local conditions, yet it maintains a set of widely accepted, key characteristics. These are: high engagement, tailored financing, multi-year support, non-financial support, organisational capacity-building and performance measurement. Venture philanthropy can support many types of social purpose organisations (SPOs), from charities and non-profit organisations through to socially driven businesses.

To enable the development of venture philanthropy in Europe, five individuals from the private equity community established the European Venture Philanthropy Association in 2004: Luciano Balbo, Stephen Dawson, Michiel de Haan, Doug Miller and Serge Raicher. The original sponsors were all from this field as well: 3i, Barclays Private Equity, KPMG, Pantheon Ventures and Natixis Private Equity. The association supported new and emerging VP organisations and had 124 members as of March 2011. EVPA is now working to establish standards and guidelines to define the industry and further support its development.

As this industry takes shape, information-sharing across sectors is vital to the development of all components of the social investment landscape. The EVPA Knowledge Centre aims to provide practical information for those wishing to learn more about the venture philanthropy practices that may be applicable to their organisations.

This paper is the third of a three-part series from the EVPA Knowledge Centre. The first aimed to capture practical insights for those wishing to set up a venture philanthropy

"THE VENTURE CAPITAL INDUSTRY HAS BUILT ITS SUCCESS ON INVESTING IN ENTREPRENEURS, SHARING VALUES AND HARD WORK. IT IS NORMAL THAT VENTURE PHILANTHROPY RESONATES TO US."

JEAN BERNARD SCHMIDT, FOUNDER, SOFINNOVA PARTNERS[14]

[9] *Cohen, Sir Ronald, EVPA Annual Conference 2010 Luxembourg, EVPA Interview.*

[10] *Defined in terms of funds raised in the last 10 years.*

[11] *Lewis, T. (2009) "Philanthropy climbs higher up private equity agenda", Private Equity News.*

[12] *The first four include 3i Group, Charterhouse, Doughty Hanson and Terra Firma. The new five include Bridgepoint, Apax Partners, Cinven, Permira and IK Investment Partners.*

[13] *Around 17% according to a survey by JPA Europe Limited, Existing Venture Philanthropy Funds Characteristics: A Preliminary Overview (2008).*

[14] *Schmidt, J-B., Founder, Sofinnova Partners, (April 11, 2011), Email to EVPA.*

PART 1: INTRODUCTION

organisation[15]. The second was directed at foundations wishing to incorporate VP practices or learn more about how other foundations are using venture philanthropy[16]. This third paper attempts to categorise different strategies for PE firms to become involved in VP. We would like to thank the firms that participated in this study, for taking the time to answer our questions and reviewing the final text. We are also ever grateful to David Carrington, James Mawson, Doug Miller and Nat Sloane for providing helpful comments.

The objective of this paper is to provide a practical guide for individuals and firms in the PE industry to get involved in VP. It could also be a useful resource for VP professionals and organisations seeking partners in the PE industry. The paper is a compilation of insights from numerous interviews and email questionnaires with executives from PE firms and VP organisations, as well as comprehensive desk research. The paper is structured in four parts. It begins with an introduction, including the purpose of the document, an overview of venture philanthropy, and how VC and PE are similar, yet different from venture philanthropy. Then we go through each of the three models we have identified for firms engaging in VP, using examples of PE firms employing each strategy. Finally, we provide some general considerations for PE firms regarding getting involved in venture philanthropy before concluding the paper.

"Private equity firms that back us find it rewarding to apply their commercial skills for social and environmental purposes, and that they consider it rewarding for their teams both to know that their firm is supporting Bridges Ventures, and to get involved with our portfolio companies or help us think through strategic questions that we face. It is interesting to note that the private equity firms that have supported us from the outside are also showing leadership in responsible investment within their own activities, and we hope that their involvement with us complements that activity."[17] *– Michele Giddens, one of Bridges Ventures' Executive Directors*

ESSENCE AND ROLE OF VENTURE PHILANTHROPY[18]

Venture philanthropy (VP) provides a blend of performance-based development finance and professional services to social purpose organisations, helping them to expand their societal impact. This is a high-engagement, partnership approach, analogous to the practices of venture capital in building the commercial value of young companies. VP in its modern form developed originally in the US in the mid-1990s, took hold in the UK from 2002 and has since expanded into continental Europe[19]. Presently, the venture philanthropy movement is being expanded into Asia with the formation of the Asian Venture Philanthropy Network which will be headquartered in Singapore.

[15] *Balbo, L., Hehenberger, L., Mortell, D., & Oostlander, P. (2010), "Establishing a Venture Philanthropy Organisation in Europe", EVPA Knowledge Centre Research Paper.*

[16] *Metz Cummings, A. and Hehenberger, L. (2010), "Strategies for Foundations: When, why and how to use Venture Philanthropy", EVPA Knowledge Centre Research Paper*

[17] *Giddens, Michele, Executive Director, Bridges Ventures (February 7, 2011), Email to EVPA.*

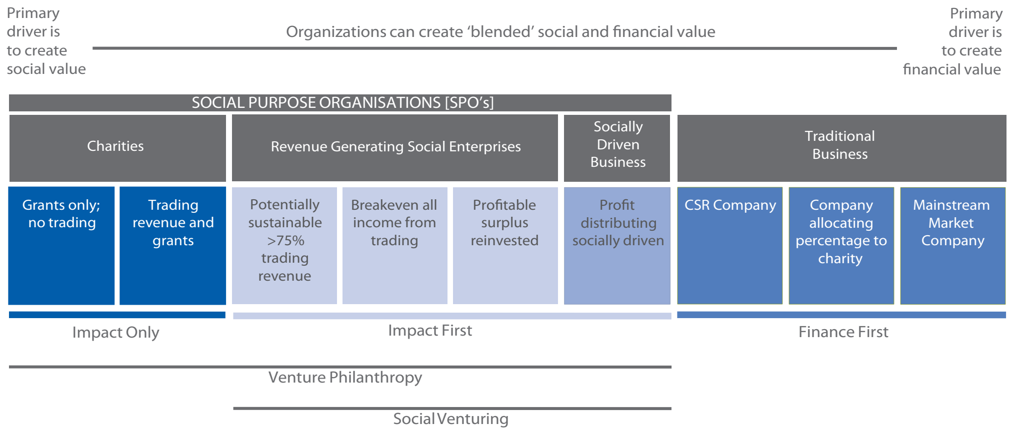
[18] *Balbo, L., Hehenberger, L., Mortell, D., & Oostlander, P. (2010), "Establishing a Venture Philanthropy Organisation in Europe", EVPA Knowledge Centre Research Paper.*

[19] *John, R. (2006) "Venture Philanthropy: the evolution of high engagement philanthropy in Europe", Skoll Centre for Social Entrepreneurship, Said Business School, University of Oxford.*

Definition of Venture Philanthropy

The definition adopted by EVPA is set out below:

Venture philanthropy works to build stronger social purpose organisations by providing them with both financial and non-financial support in order to increase their societal impact. EVPA purposely uses the word **societal** because the impact may be **social, environmental** or **artistic**. Venture philanthropy can operate across a spectrum of organisational types, from charities and non-profit organisations through to socially driven business. The diagram below sets out the range of organisational types that may have a social mission in one form or another. Those that are typically considered for investment by VP organisations will generally fall into the Charities, Revenue Generating Social Enterprise and Socially Driven Business categories, collectively referred to as Social Purpose Organisations (SPOs) in this paper:[20]



EVPA's definition of social investment refers to funding that may generate a financial return, but where the societal impact comes first; so-called **Impact First** strategies. **Grant funding** on the other hand is defined by EVPA as the provision of non-repayable donations to the social purpose organisation supported; an **Impact Only** strategy.

Venture philanthropy is not appropriate for all SPOs, just as venture capital is not the best form of financing for commercial businesses at all stages of their lifecycle. In general, VP is best suited to SPOs that require an injection of capital to achieve a 'step change' in their operations. For some, this may mean providing financial support which enables the SPO to replicate their operating model in a new, or much more broadly defined, target market. For other more established SPOs, VP funding may be appropriate in instances where the organisation is under-performing and seeking to re-design its core strategy or restructure operations.

As venture philanthropy spreads globally, specific practices may be adapted to local conditions, yet it maintains a set of widely accepted, key characteristics. These are:

- **High engagement:** venture philanthropists have a close hands-on relationship with the social purpose organisation they support, driving innovative and scalable models of social change. Some may take board seats at these organisations, and all are more intimately involved at strategic and operational levels than in many other forms of

"EVCA WELCOMES THE RISE OF VENTURE PHILANTHROPY AND THE INCREASED INVOLVEMENT OF VENTURE CAPITAL AND PRIVATE EQUITY PROFESSIONALS AT ALL LEVELS OF SENIORITY. THE EVCA BOARD HAS FORMALLY ENDORSED EVPA'S WORK SINCE INCEPTION AND WISHES THE ASSOCIATION WELL"

DÖRTE HÖPPNER, SECRETARY GENERAL, EVCA[21]

[20] *Adapted from John Kingston, CAF Venturesome, by Pieter Oostlander, Shaerpa*

[21] *Höppner, D., Secretary General, European Private Equity and Venture Capital Association (April 4, 2011), Email to EVPA.*

PART 1: INTRODUCTION

Social Purpose Organisations[22]

The following types of organisation will fall under the banner of SPOs:

- Charity, non-profit, not-for-profit, foundation, association, company limited by guarantee, (having no trading activities, or where trading is of marginal importance)
- Social enterprise, Community Interest Company, (having trading as a significant or exclusive part of their operations). Some do not make any financial returns to investors (or cap returns), but reinvest surpluses into the organisation. Even within social enterprise there are several different models.
- Socially driven business – profit distributing businesses, but with clear and stated social objectives

The term SPO captures the entire spectrum of organisations whose primary purpose is to create societal value, rather than shareholder value, including non-profit organisations and social enterprises. The terminology for these different kinds of organisations varies enormously across countries and jurisdictions.

philanthropy, significantly reducing the number of organisations supported to around 10-15 for the average VP organisation.

- **Tailored financing:** as in venture capital, venture philanthropists take an investment approach to determine the most appropriate financing for each organisation. Depending on their own missions and the ventures they choose to support, venture philanthropists can operate across the spectrum of investment returns. Some offer non-returnable grants (and thus accept a purely social return), while others use loans, equity, mezzanine or quasi-equity finance (thus blending risk-adjusted financial and social returns).
- **Multi-year support:** venture philanthropists provide substantial and sustained financial support to a limited number of organisations. Support typically lasts three to five years, although timescales may become longer as VP in Europe develops. The VPO's objectives will include helping the organisation to become financially self-sustaining by the end of the funding period.
- **Non-financial support:** in addition to financial support, venture philanthropists provide value-added services such as strategic planning, marketing and communications, executive coaching, human resource advice and access to other networks and potential funders.
- **Organisational capacity-building:** venture philanthropists focus on building the operational capacity and long-term viability of the organisations in their portfolios, rather than funding individual projects or programmes. They recognise the importance of funding core operating costs to help these organisations achieve greater social impact and operational efficiency.
- **Performance measurement:** venture philanthropy investment is performance-based, placing emphasis on good business planning, measurable outcomes, achievement of milestones, and high levels of financial accountability and management competence.

Origins and European Expansion[23]

The term 'venture philanthropy' can be traced back as far as the 1960s in the US, but it was only during the 1990s that the term gained popularity and stimulated a debate on new forms of highly engaged grant making by foundations. An influential Harvard Business Review paper by Letts, Ryan and Grossman[24] challenged foundations to employ tools from venture capital to invest in the organisational, rather than the programmatic, needs of social purpose organisations. In the UK, considerable interest in innovations in social investment, including high engagement models, began to develop in 2001.

While there were several historical examples of VP-like activity, it was not until 2002 that the UK's first VP Organisation (VPO), Impetus Trust, was launched. In continental Europe, there has been a slow, but steady arousal of interest in social investment and high-engagement models of philanthropy, but it is only in the last four or five years that new organisations or models have emerged. EVPA, formed in 2004, is the primary vehicle for encouraging the development of the VP model throughout Europe.

[22] *Balbo, L., Hehenberger, L., Mortell, D., & Oostlander, P. (2010), "Establishing a Venture Philanthropy Organisation in Europe", EVPA Knowledge Centre Research Paper.*

[23] *IBID*

[24] *Letts, C., Ryan, W. and Grossman, A. (1997), "Virtuous Capital: What Foundations Can Learn from Venture Capitalists", Harvard Business Review.*

Venture philanthropy in Europe has strong links to the private equity community, giving it opportunities to influence the corporate social responsibility of a set of major players in Europe's financial services industry. The hedge fund industry also has a number of initiatives including ARK and the Children's Investment Fund Foundation in Europe and the Robin Hood Foundation in the US. Meanwhile, foundations are increasingly interested in the VP approach as an additional tool in their philanthropy toolbox. VPOs can benefit from foundations' extensive social sector knowledge by co-investing and collaborating, an example being the Reducing Reoffending initiative that involves Impetus Trust and Esmee Fairbairn Foundation among others.[25] VP in its current form is evolving at the intersection between the for-profit and the non-profit sector involving professionals and practices mainly from private equity, philanthropy and the corporate sector.

"UNDERSTANDING THE IMPACT OF SOCIAL ORGANISATIONS IS A KEY FACTOR TO PHILANTHROPIC GIVING. THE RESULT-DRIVEN PRIVATE EQUITY MINDSET IS CONSISTENT WITH THIS. THIS IS ONE OF THE REASONS BEHIND CHARITY RATING WHICH I LAUNCHED IN 2005."

MIKAEL AHLSTRÖM, FOUNDING PARTNER, PROCURITAS[29]

VENTURE PHILANTHROPY AND VENTURE CAPITAL/PRIVATE EQUITY

Areas of overlap between VP and VC/PE[26, 27]

- Proactive, high quality management
- Identification and coaching of managers
- Clear objectives and targets with regular reporting
- Performance culture
- Optimising leverage
- Search for synergies and access to partners including lawyers, auditors, etc.
- Long-term engagement
- Research and negotiating partnerships

"I think actually it's more the mindset and the approach than the activity that is being referred to when one says the two [venture philanthropy and venture capital] are similar... So the inspiration came from the venture capital industry, which said that just giving money to organisations that are trying to grow, whether business or social organisations, is less effective than providing them with a combination of money and managerial talent. So I am not just being philanthropic in the sense of giving money away, I am investing time and effort in making sure that organisations like Bridges Ventures and Social Finance and the Portland Trust actually develop scale and sustainability and social impact. In that sense the inspiration of venture philanthropy is indeed very deeply rooted in the hands-on approach of venture capitalists." – *Sir Ronald Cohen, Co-Founder of Apax Partners, Chairman of Bridges Ventures*[28]

Venture philanthropy shares a number of similarities with commercial venture capital. Some VC methodologies can be applicable in a VP context, particularly to investments in revenue-generating social enterprises and socially driven businesses. Thus, for a PE firm,

[25] Metz Cummings, A. and Hehenberger, L. (2010), "Strategies for Foundations: When, why and how to use Venture Philanthropy", EVPA Knowledge Centre Research Paper.

[26] Thauron, X., Directeur des Risques, Natixis Private Equity (2010), "NPE et la Venture Philanthropy", PowerPoint Presentation, EVPA Petit déjeuner.

[27] Dunne, P., Group Communications Director, 3i. (March 11, 2011), Email to EVPA.

[28] Cohen, Sir Ronald, Interview at EVPA Annual Conference, (2010), Luxembourg.

[29] Ahlström, M., Founding Partner, Procuritas (March 21, 2011), Email to EVPA.

PART 1: INTRODUCTION

"EVPA'S HIGH PROFILE EVENTS AND MEMBERS, AND THEIR PASSION FOR SOCIAL IMPACT, HAVE INSPIRED OUR THINKING AND ENGAGEMENT IN PHILANTHROPY. EVPA STIMULATED OUR FIRST INVESTMENT IN A SOCIAL VENTURE INITIATIVE".

PAUL DE RIDDER, PARTNER, HALDER[30]

the VP approach is in line with PE experience and values; and a good fit for sponsorship money. However, several important distinctions remain:

- **Expectations of returns:** VP investments are assessed primarily in terms of **societal return** (financial return will invariably be either zero or below-market) – this is inherently a more difficult indicator to quantify and assess.[31] In cases where financial return is expected, the societal return should always be the main motivation.
- **Incentives aligned with social return to maintain social focus:** In some cases, investment proposals include social impact indicators or milestones that are targeted by the company. If the SPO management reach the target, some VPOs apply carried interest. Investors are also rewarded when social goals are met in order to preserve the social focus of the VPO.
- **Deal selection:** VC firms have a different approach to deal selection than a VP organisation would. VCs spend a great deal of time looking for high quality teams with proven business models. However, VPs often need to support a young SPO prior to investment, including training management and helping with business plans, which are often incomplete or insufficient.[32] The VP approach may take longer and include more constraints for a much smaller investment size than in VC/PE.
- **Risk:** VPOs investing in revenue-generating social enterprises or socially driven businesses tend to have a **higher appetite for financial risk** than PE funds.
- **Relatively new concept:** Since the VP approach is still relatively new (especially from an SPO perspective), VPOs should incorporate a higher degree of flexibility and a longer timeframe into their investment decision-making processes than their VC counterparts. However, more mature VPOs need not necessarily take more time than a VC.
- **Culture and language differ** across the two environments. Although venture philanthropists have imported many terms from VC to the social sector – including investee, portfolio management, etc. – other terms need to reflect the reality of the social sector. The mix of professionals from the for-profit and non-profit sectors in VP has created a unique culture that includes ingredients from both.
- **Exit** clearly has **fundamentally different connotations** for VP investments.[33] The approach to exit will vary based on the funding instrument used (grants versus other funding instruments), and the extent to which the SPO is financially self-sustaining. Financial exit by the VPO can create uncertainty, particularly for SPOs with little or no earned income, or for those that have undergone significant growth during the period of the VPO's investment. Depending on the profile of the next investor in line, issues such as potential social mission drift of the investee have to be taken into account. An exit in VP can imply providing the SPO with the necessary fundraising capabilities to be able to continue working towards its social mission without further VPO involvement.
- **Governance differences:** Although VPOs often seek board representation in the SPOs they invest in, the relationship is subtly different - governance rules and traditions require **greater reliance on mutual respect and trust than legal rights**.

[30] De Ridder, P., Partner, Halder (March 28, 2011), Email to EVPA.

[31] Balbo, L., Hehenberger, L., Mortell, D., & Oostlander, P. (2010), "Establishing a Venture Philanthropy Organisation in Europe", EVPA Knowledge Centre Research Paper.

[32] Blokhuis, Matthijs, Investment Manager, Noaber Ventures. (February 4, 2011), EVPA Interview.

[33] Balbo, L., Hehenberger, L., Mortell, D., & Oostlander, P. (2010), "Establishing a Venture Philanthropy Organisation in Europe", EVPA Knowledge Centre Research Paper.

- **Different context:** The social purpose organisations supported often operate in **difficult conditions** and their success or failure **may have implications on the lives and well-being of thousands of beneficiaries**. VPOs must have empathy and consider that the ultimate goal of their activity is to generate social impact.

> "The fact is that you are working differently [in venture philanthropy rather than VC]. Fees applied in VC funds cannot be applied in social investments. A typical management fee is 2-3% for VC, which is not sufficient for VP. You have to invest a lot of time and sometimes hire external experts even before you make the investment. You have to put in much more effort for less money, and a lower capital contribution. Per euro contribution, your costs are much higher. If you can only apply a 2-3% management fee, you can't work that way. You'd turn into a VC fund, picking the good deal flow because you can't afford the time and cost required to help the initiatives that really can make a difference, but need your support to do that." – *Matthijs Blokhuis, Investment Manager, Noaber Ventures*[34]

It is evident; therefore, that VC skills, systems and processes require a degree of adaptation in order to be applied within the social sector. Therefore, the degree of willingness to adapt to VP should be in line with the model of involvement in VP chosen. A firm should think realistically about the amount of time and effort they are able to devote to getting involved in philanthropy, and choose a model that helps them fulfil their goals without over-extension. Miscalculation could be detrimental for the social sector organisations involved if support has to be withdrawn.

[34] *Blokhuis, Matthijs, Investment Manager, Noaber Ventures. (February 4, 2011), EVPA Interview.*

PART 2:

PE FIRMS' VP ENGAGEMENT

VC/PE FIRMS AND PHILANTHROPY

A report by the Young Foundation and Arbor Square Associates recommends for private equity firms to, "Work with the Venture Philanthropy sector to evaluate what models and methods could be applied to achieve social impact. Private equity skills and resources are highly valued within the charitable sector and there is a desire to collaborate to develop new initiatives and innovative approaches."[35]

"There have always been a number of individuals in the private equity world who give generously, but the process is now beginning to become institutionalised. The behaviour of the generous individuals is now being reflected by the firms they work for." – *Susan Mackenzie, Philanthropy UK*[36]

Many private equity and venture capital firms have a history of involvement in philanthropy whether through organizing charity events, fundraisers or financially supporting social purpose organisations and foundations. With the increasing attention to venture philanthropy in recent times this involvement is changing. Charity events are increasingly supporting venture philanthropy organisations and firms are bringing their PE ideology to their engagement in philanthropic projects. PE firm Campbell Lutyens has enjoyed organising marathons and other long distance running events as a vehicle for raising money, principally for children's causes. In 2000, the Island Race on 4,200km of UK coastline raised £1.25m. The 2010 issue of the Marathon of Marathons drew together 250 PE professionals and raised £1.7m for children's charities including The Private Equity Foundation and Impetus Trust, both VPOs in the UK.[37] John Campbell, a Senior Partner at Campbell-Lutyens noted, "So much investment activity today takes into account obligations of social responsibility. It has been really heart-warming to see this translated into serious charitable giving, and perhaps even more importantly, into an engagement between the manager of the money and the underlying companies in which the manager invests."[38] Campbell also highlights the growing interest of PE firms in matching their core investments to social responsibility.

The EVPA founders had been involved in numerous charity events before deciding to start actively facilitating this type of growth in venture philanthropy by starting an association. In fact they made the decision while on a charity fundraising trip: "In January 2001, my wife and I led a group of 27 men and women, primarily from the private equity industry, on a bike trek through Vietnam. We raised money for a variety of charities, but particularly for the Mines Advisory Group, a Nobel prize-winning, UK-based charity that clears landmines and unexploded ordnance in countries such as Vietnam, Cambodia, Iraq and Angola. Among the group was Luciano Balbo, founder of B&S Electra Italy and Serge Raicher, former secretary general of EVCA and a partner at Pantheon Ventures. Throughout the trek, we had numerous discussions about our experiences with charities, and about more effective ways of giving. It was during this time that we came up with the idea of a European Venture Philanthropy Association (EVPA). Those conversations have now borne fruit – EVPA became a reality this summer. Its founders include Michiel de Haan, founder of Atlas Venture, Luciano Balbo, Serge Raicher, Stephen Dawson, former

"VP AS A TOOL WAS APPEALING TO THE BUSINESS COMMUNITY. IT COULD ATTRACT NEW MONEY TO PHILANTHROPY AND IMPROVE THE IMPACT OF SOME OF THE EXISTING FUNDING."

SERGE RAICHER, CHAIRMAN, EVPA[39]

[35] *The Young Foundation & Arbor Square Associates. (2008), "The Role of Private Equity in Social and Sustainable Development."*

[36] *Dey, I. and Pfeifer, S. (2006), "The Low-Key Rise of the Smart Trousered Philanthropist", The Telegraph.*

[37] *Marathon of Marathons website: http://www.marathonofmarathons.org/home.aspx (Accessed January 2011).*

[38] *Campbell, J., Senior Partner, Campbell-Lutyens, (February 7, 2011), Email to EVPA.*

[39] *Raicher, S., EVPA Chairman, (April 18, 2011), EVPA Newsletter.*

PART 2: PE FIRMS' VP ENGAGEMENT

"ALL OF US AND ALL COMPANIES SHOULD HAVE THE ABILITY TO DONATE 1% OF OUR NET INCOME TO CHARITY. IF ON TOP THAT IS DONE IN A PROFESSIONAL WAY, THE INDUSTRY WILL BENEFIT GREATLY. IT IS THE DUTY AND RESPONSIBILITY OF OUR GENERATION TO MAKE THIS HAPPEN."

CARLO U. BONOMI, FOUNDER, INVESTINDUSTRIAL ADVISORS[40]

partner of ECI UK, and me. We are all involved with a European venture philanthropy (VP) fund – each with a different mission and geographic focus." – *Doug Miller, co-founder and first Chairman of EVPA*[41]

Other firms such as MVision, Apax Partners and LDC have organised similar fundraisers for charity, some of which are focused on the venture philanthropy approach, such as the Apax Foundation's support of Ashoka, Bridges Social Entrepreneurs' Fund and INSEAD Social Entrepreneurship Initiative. Another new initiative is that of EVPA member Wellington Partners, a pan-European venture capital company, which has started an Air Miles programme where individuals can donate air miles to social entrepreneurs around the world so they can attend trainings in Europe. The programme is an easy way to invest in the education of these entrepreneurs, helping to build strong social sector managers. An interesting initiative is the 1% Club, promoted by Invest for Children, a Foundation established by private equity firm Investindustrial.[42] They believe that the success of PE firms and portfolio companies comes with social obligations and propose that all participants (including sponsors, management teams and portfolio companies) in the 1% Club donate:

- Industrial Companies: 1% of net profit
- Financial Companies: 1% of capital and profit gains
- Private Individuals: 1% of net income per annum

Additionally, social and environmental issues have attracted increasing attention from private equity and venture capital communities over the past decade[43]. During this time, the concept of social businesses offering sustainable solutions to social problems has grown - a model which attracts the private equity skill set and experience.

From our research, we found three main motivations for PE firms to become involved in philanthropy, including altruism, staff motivation and development, and public and investor perceptions.[44] Firstly, many firms and individuals feel a desire to give back to their communities. Financial and in-kind support are options for this which fit well with in-house resources and capabilities. Secondly, working with Social Purpose Organisations (SPOs) can help employees develop skills like judgment, resilience and social skills[45]. Another motivation for engaging in venture philanthropy is that consumers and investors increasingly look for attention to environmental and social factors in choosing service providers. Involvement in VP can establish PE firms as positive social actors. We will develop these motivations further in the conclusion of the paper. In addition to these more general reasons to engage in philanthropy, many PE firms and professionals get involved in VP specifically because they see the VP approach as the most efficient way to make the biggest social impact on a cause they feel strongly about.

[40] Bonomi, C., Founder, Investindustrial Advisors, (March 29, 2011), Email to EVPA.

[41] Miller, D. (2003), "Give something back", Real Deals.

[42] Understanding Diversity and Working Toward Integration" Invest4Children, PowerPoint available online: http://www.investforchildren.org/powerpoint.asp, (Accessed December 2010).

[43] The Young Foundation & Arbor Square Associates. (2008), "The Role of Private Equity in Social and Sustainable Development."

[44] IBID.

[45] IBID.

MODELS OF ENGAGEMENT IN VENTURE PHILANTHROPY

In what follows we will provide an overview of three models we have identified for PE/VC firms to engage in venture philanthropy. Throughout the paper, we use short case examples of PE firms from different European countries to illustrate how firms can engage in the VP methodology. We have selected these cases to serve as examples, though there are many other firms contributing in different ways to venture philanthropy and other forms of philanthropy. Within each engagement model, there are significant variations and opportunities to tailor the choice to a firm's particular context. We will discuss their appropriate uses and limitations throughout the document. The models we have identified are:

1. **Directly support Social Purpose Organisations** through hands-on engagement from PE firm

2. **Invest in or co-invest with a Venture Philanthropy Organisation (VPO)** through financial or in-kind support

3. **Found or co-found a separate VPO** to address an un-met need

EVPA resources that can facilitate your engagement in venture philanthropy

- Review publications on VP at the EVPA Knowledge Centre on www.evpa.eu.com to familiarize your firm with the concepts
- Meet other PEs and VPOs working directly with SPOs, in order to develop understanding of process. EVPA resources and events facilitate networking and knowledge sharing www.evpa.eu.com
- Search EVPA members on www.evpa.eu.com to find VPOs in your area
- Contact VPOs directly or email info@evpa.eu.com for help with engaging with a VPO

MODEL 1: DIRECTLY SUPPORT SOCIAL PURPOSE ORGANISATIONS

One way to engage in venture philanthropy is to directly support social purpose organisations through hands-on engagement from the PE firm. This approach involves acting as a VPO directly and employing some or many of the characteristics of VP: high engagement, tailored financing, multi-year support, non-financial support, organisational capacity-building and performance measurement. It can be a longer-term and involved approach or one-off collaboration with a local SPO, depending on the strategy of the firm and the needs of its partner SPOs. Many firms donate money to local charities, but few have a close working relationship with them.

a) Invest directly in SPOs from PE firm level

SPOTLIGHT: 3i[46]

3i is an international investor with over 400 employees in 12 countries, over 60 years of experience and £13 billion in assets under management.[47] They are also active corporate citizens with a corporate and social responsibility programme and several charitable engagements including the Enterprise Education Trust (EET), a charity focused on increasing young people's knowledge of business. 3i not only had the idea for this charity

[46] *Dunne, P., Group Communications Director, 3i (January, 28, 2011), EVPA Interview.*

[47] *3i Website: http://www.3i.com/about3i.html, http://www.3i.com/about3i/key-facts.html (Accessed December 2010).*

PART 2: PE FIRMS' VP ENGAGEMENT

3i VP Engagement[48, 49]

- Supports selected charities with a VP approach on the basis of their impact and effectiveness
- Encourages staff to individually become involved in charities and social enterprises and make use of 3i resources, knowledge and networks to increase impact
- Focused on young people, education and the disadvantaged in the communities near local offices
- Funding: £407,490 in charitable giving for the year to 31 March 2010
- Financial Strategy: Invest in specific projects; match employees' fundraising
- Funding comes from budget as 3i is a listed company.

but has provided funding for over thirty years. Additionally, 3i was a founding investor in Bridges Ventures (a VPO and social investor), and a founding member of the European Venture Philanthropy Association and the Asian Venture Philanthropy Network.[50] With philanthropy, 3i takes an active and engaged approach to supporting charities in proximity to local offices. They currently support The Passage, Goonj, Community Links and Historic Royal Palaces. For these organisations, the firm uses a venture philanthropy approach including multi-year support, non-financial support, organisational capacity-building and performance measurement.

As a **publicly listed company**, 3i had to be cautious about the scale of their charitable support. They are not able to establish a foundation and donate a percentage of income, as other PE firms may be. Instead, they use this constraint to define their strategy. The budget is funnelled to support SPOs in select communities near 3i offices, which makes in-kind support of skills and office space convenient. 3i also harnesses its vast network to help charities increase their reach and raise funds from others. 3i has supported most of its charity partners with marketing support, helping to bring their names to a wider audience and the attention of more donors and pro bono helpers in the business community. Of 3i's involvement with EET, Patrick Dunne, Group Communications Director of 3i, said: "On top of providing funding every year since formation, we have helped with branding and networking; a number of 3i people were involved."[51]

Of another charitable involvement with In Kind Direct, which re-distributes donated products to third sector organisations, Dunne added: "We have a guy from 3i on the fundraising committee; we helped them build their website and we provide support and strategic input."[52]

3i plan to continue working directly with SPOs and supporting other philanthropic efforts. When asked about any interest in a finance-first social fund, 3i commented that backing Bridges Ventures was their way of backing the concept. "**That's what 3i people do – find talented people with a good business and back them**," said Dunne.

CONCLUSION FROM MODEL 1

For firms looking to become involved in venture philanthropy, engaging directly with an SPO can be a useful way to establish ties with the local community. This is an especially good option for firms that may like to leverage intellectual and social capital more heavily than financial capital, such as publicly listed firms with less freedom of action. To make the partnership work, it helps to have passionate individuals in local offices that can spearhead involvement. This model does require a certain amount of organisation and initiative on the part of the PE firm, which will need to be encouraged by senior management in order to flourish.

[48] *3i Corporate Responsibility Report (2010).*

[49] *Dunne, P., Group Communications Director, 3i (January, 28, 2011), EVPA Interview.*

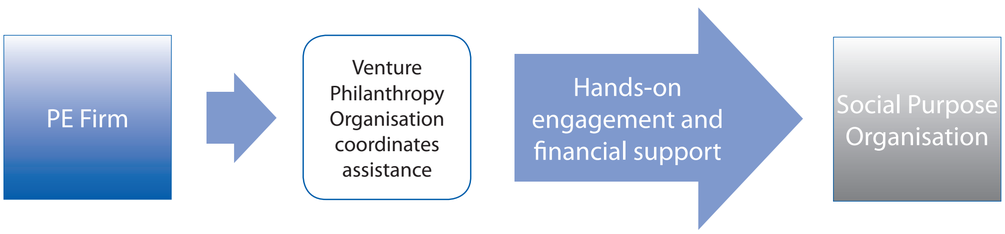
[50] *3i Website: http://www.3i.com/about3i.html, http://www.3i.com/about3i/key-facts.html (Accessed December 2010).*

[51] *Dunne, P., Group Communications Director, 3i (January, 28, 2011), EVPA Interview.*

[52] *IBID.*

Model 1: Directly support Social Purpose Organisations		
When	Why	How
Firm would like to **work locally**, potentially developing a long-term relationship with SPO in community, or potentially because no VPOs exist in the area	**Proximity to charities** offers in-kind benefits like use of office space, which can also make up for financial constraints	Tap firm's **social capital – or professional network** for providers of pro bono and financial support
Firm **unable to contribute much capital**, such as publicly listed firm, can help more with pro bono services and other proximity advantages	Direct involvement from firm can **attract other funders**, increasing impact and sharing financial costs	Identify **local champions** at regional offices who are passionate about local issues, and encourage **philanthropy as a personal choice**, maintaining an informal structure

MODEL 2: INVEST IN OR CO-INVEST WITH A VPO



Investing in a VPO involves offering professional services and potentially financial support to VPOs to help them conduct their operations. These relationships are typically ongoing and VPOs rely on PE firms as partners to conduct due diligence, advise portfolio SPOs on strategic issues, or conduct other related tasks. VPOs such as Impetus Trust have reported positive feedback from employees of partner PE firms, noting that pro bono projects are sometimes highly sought after and used as reward for high performance employees.[53]

To formalise involvement in philanthropy, a firm may wish to establish a foundation and specify a percentage of profit to finance the foundation each year. The foundation can be used to invest in VPOs, or co-invest in SPOs with VPOs. This model allows the PE firm to be more connected to the initiative they are funding and enables them to participate in the investment process if they wish, while outsourcing due diligence and administration to a VPO. Many firms have set up foundations including Apax Foundation, Doughty Hanson & Co., TowerBrook Foundation, Terra Firma Charitable Trust and Cinven Foundation.

Additionally, PE firms may find supporting VPOs through financial support to be a good

"I AM DELIGHTED THAT MY PERSONAL COMMITMENT TO PHILANTHROPY IS SHARED THROUGHOUT OUR FIRM. DOUGHTY HANSON'S PHILANTHROPIC ENGAGEMENT STARTED MORE THAN TEN YEARS AGO WITH THE CREATION OF OUR CHARITABLE FOUNDATION AND CONTINUES THROUGH MANY OTHER INITIATIVES INCLUDING IN THE FIELD OF EDUCATION, SOCIAL INVESTMENT."

NIGEL DOUGHTY, CO-FOUNDER AND CO-CHAIRMAN, DOUGHTY HANSON & CO.[54]

An Example: Apax Foundation invests in VPOs[55, 56]

- Formal channel for Apax Partners to support VP and VP-related projects
- Financial strategy: Receives a percentage of the firm's profits and carried interest
- Funding: The foundation donated nearly £1m in 2009 and has over £20m in assets (2011)
- Funds VPOs Ashoka and Bridges Social Entrepreneurs Fund, Impetus Trust & The Private Equity Foundation
- Also makes grants to related initiatives and SPOs
- Matches employee donations 2:1

[53] *"Do pro bono consultants care less about their work than paid partners?" (June 2010), Session Notes, EVPA Site Visit to Impetus Trust.*

[54] *Doughty, N., co Founder and co Chairman, Doughty Hanson &co (March 21, 2011), Email to EVPA.*

[55] *Apax Foundation website: http://www.apax.com/en/1717.html , (Accessed December 2010).*

[56] *Englander, P., Chief Executive, Apax Partners (February 11, 2011), Email to EVPA.*

PART 2: PE FIRMS' VP ENGAGEMENT

Natixis PE VP Engagement

- Natixis PE is a founding sponsor of EVPA
- First institutional shareholder of PhiTrust Partenaires, a VPO in France: First shareholder with 28 per cent of capital with the BPCE Group (Natixis, Banques Populaires, Crédit Coopératif and Caisses d'Epargne)

fit with their beliefs and interests. PE firms looking to make a monetary donation may be attracted to VPOs as the money will be used to build resilient social purpose organisations. First, we present the cases of two PE firms that invest directly in VPOs, Natixis Private Equity and CVC Capital Partners and their experiences with the VPOs PhiTrust and Impetus Trust, respectively. Next is the case of TowerBrook Foundation co-investing with the Private Equity Foundation. Finally, we present the case of NESsT as an example of a venture philanthropy organisation with formal PE firm engagement.

a) Invest directly in VPOs

SPOTLIGHT: Natixis Private Equity –France/International[57]

Natixis Private Equity (NPE) is an international private equity firm focused on the French market, but with solid presence in key geographies across the world. Upon learning of venture philanthropy, NPE conducted a survey of VP in France in 2007 to learn more. The concept was, and still is, very young in France with companies and charities on opposite ends of a seldom-converging spectrum. NPE learned about PhiTrust, a venture philanthropy organisation, and was interested in its approach of using private equity techniques in philanthropy. PhiTrust is the only French player to our knowledge with a process of capital investment and investments selected strictly for social purpose.[58] Natixis decided to become its first institutional investor, with a €500,000 investment, which was **instrumental in drawing other investors** to the young concept. NPE now serves as shareholder, member of the board and participates in the investment committee, **helping with due diligence** and providing help for legal issues. They also provide expertise and voluntary involvement in PhiTrust's activities. As a supporter of EVPA and a local champion of VP, NPE is trying to help grow the sector and has already played a key role in establishing both PhiTrust and EVPA.

Natixis has undergone large strategic changes, but find that their support of venture philanthropy is a key priority going forward. The group sees their current involvement as a way to learn more about VP before considering establishing their own VPO. In the future, they may look to make a plan for VP, but for now the relationship with PhiTrust and their financial support fulfil their goals and they continue to contribute to the growth of the sector through their support of EVPA. NPE also intends to sign the **Principles of Responsible Investing** (PRI) in 2011 as a way to integrate these issues better with day-to-day business. In the future, Xavier Thauron, Directeur des Risques at NPE, believes charity and business will come closer with more models in between, as are already seen in other countries. The French government has passed a law for employee savings accounts (épargne salarial) whereby 5-10% of the profits should go to social businesses. The law went into effect in 2008, and the money is starting to accumulate, but no plans have been made to spend it. The money is thus available, but not organised, providing an opportunity for social investment. Xavier Thauron sees the **lack of social businesses** in France as a **major hurdle** to overcome. He believes this new type of company is necessary in France to bring business and charity closer together and more investors are needed to fuel this area.

[57] *Thauron, X., Directeur des Risques, Natixis Private Equity, (December 20, 2010), EVPA Interview.*

[58] *"Le marché de la Venture Philanthropy", (November 2010), Natixis Private Equity., Novembre 2010.*

SPOTLIGHT: PhiTrust[59, 60, 61]

France-based PhiTrust allows investors to choose between backing private projects on a for-profit or non-profit basis. PhiTrust encourages **social and environmental responsibility** at listed companies. The asset management unit, PhiTrust Active Investors, manages €50m for shareholder engagement at public companies through four funds in order to promote better environmental and social practices. The unit works with local companies, such as yoghurt maker Danone or industrial group Schneider Electric, listed on the main CAC40 stock market index encouraging them to think about social business development.

On the venture philanthropy side, PhiTrust created PhiTrust Partenaires, a social investment fund and the PhiTrust Foundation. The foundation previously housed at the Institut de France granted €500,000 to €800,000 each year. PhiTrust Partenaires has raised €8m to **finance charities and social enterprises**. Olivier de Guerre, president of Phitrust and former founder of GT/Cristal Finance in 1987, said it had been slower to gain investors for its venture philanthropy activity than for its asset management unit. De Guerre said[62] "Investors over the past five years have shown a very strong interest in philanthropy – making money themselves and then giving it away. In Europe there is not very much discussion and a reluctance to do venture philanthropy. It has taken longer than anticipated to grow PhiTrust Partenaires. One issue has been that family offices and banks act as consultants to investors but 99 per cent of them do not understand venture philanthropy and are cautious. This means they give €100,000 rather than €5m to €10m to a for-profit venture philanthropy fund." By contrast, de Guerre said after initial reluctance there was **increased interest in venture philanthropy among the social projects**. He said: "The response has been an enormous change from the projects themselves. When we started, social enterprises were afraid we would take power and change their goals to gain profits. Now, over the past five years, they realise we are not 'financial predators' mainly because younger professionals, who understand the venture philanthropy model, are entering the sector."

PhiTrust is known for its **commitment to engage with management** in order to reach sustainability and maximize social and/or environmental impact. The range of experience and the hands on approach expected of each member of PhiTrust's Investment Committee enables a **solution tailored to the needs of each social entrepreneur**. Be it scaling a local project, enabling access to major industry clients, determining further ways to impact a community or assessing the best growth strategy for international expansion PhiTrust has worked through the issues most important to their projects' sustainability and success. PhiTrust is currently invested in 17 different impact investments that operate in over 45 countries.

PhiTrust

- Founded in 2004
- Fund size- PhiTrust Partenaires: €7m, ISF Solidaire: €1m
- Funds for Fonds de Dotation (French endowment fund) currently being raised
- The asset management unit, PhiTrust Active Investors, manages €50m for shareholder engagement at public companies through four funds
- Focus: Development and housing, Environment, Health, Cleantech, Microfinance, Employment
- Worldwide geographic focus
- Invested in 17 social purpose organisations to date
- Annual expenditure on VP: €1.5m

SPOTLIGHT: CVC Capital Partners – UK/Global

Founded in 1981, CVC Capital Partners is a global private equity firm with 260 people across Europe, Asia and the United States and €13.5 billion in investment capital.[63] Owned by its partners since 1993, the firm's philanthropic budget is determined by its own employees and board. Due to a strong interest in philanthropy, the **firm has supported two VPOs and is looking to expand its efforts by establishing a foundation**.

[59] *De Guerre, O., President, PhiTrust, (January, 2011), EVPA Newsletter*

[60] *Blondes, D., Analyst, PhiTrust, (May, 2011), Email to EVPA.*

[61] *European Venture Philanthropy Directory (2010/2011), EVPA Publication.*

[62] *De Guerre, O., President, PhiTrust, (January, 2011), EVPA Newsletter.*

[63] *CVC Capital Partners website: http://www.cvc.com/Content/EN/OurApproach/OurFunds.aspx (Accessed December 2010).*

PART 2: PE FIRMS' VP ENGAGEMENT

CVC's Choice of Supporting VPO Impetus Trust [64]

- Professionally run portfolio charities
- Social sector focus aligned with interests
- VPO's record of success and strong reputation
- Parallel processes – a VPO operates much like a PE firm
- Professionally run VPO with successful processes and individuals
- Opportunity to offer hands-on non-financial support

Impetus Trust Key Statistics

- Founded in 2002
- Fund size: £18m
- Focus: economic disadvantage, with outcomes around greater access to education, skills and jobs
- Invested in 19 UK charities to date
- Helping over 250,000 people to break the cycle of poverty
- 2009/10 results: portfolio charities increased their income by an average of 31% a year (more than eight times the sector average) and the number of people they are able to help by an average of 40% a year
- For every £1 given to its charities, Impetus is able to leverage an additional £4 in co-investment and the value of pro bono expertise
- Pool of 150 pro bono experts
- Over 20 corporate partners

Through common networks they got in touch with VPO Impetus Trust and learned about the VP methodology. CVC quickly identified with the way Impetus conducted due diligence on charities, assessed business plans, provided expertise and financial support and released funds based on pre-determined Key Performance Indicators (KPIs). Before committing to support the VPO, the firm reviewed Impetus as it might review a portfolio company. They reviewed its charities' results and spoke with investee management about their work and involvement in VP. Pleased with the professionalism at the charities and by Impetus' **track record and management**, the firm began a relationship with Impetus, providing both financial and non-financial support to its portfolio charities. In discussing their choice to work with Impetus, Mark Grizzelle, Partner and Chief Financial Officer at CVC, noted: "We get value for money for the contributions we make - either expertise or financial [contributions]."[65] CVC committed to support Impetus Trust with a total of over $600,000 over the years 2010-2012[66]. Also, CVC personnel took places on the Impetus Audit and Budget committee and provided input to their investment assessment process.

Though the firm now plans to structure a pro bono programme in 2011, they have already been supporting Impetus charities in various ways. They encourage individual donations by offering employees a 2x donation-matching programme. Also, a charity trip up (and safely down) Kilimanjaro with 15 people raised £740,000.

Grizzelle identified the two most important resources for a successful philanthropic engagement: **support from the top level and enthusiastic employees eager to get involved**. In the case of CVC, individuals spearheading the initiative are the leaders of the firm who are able to coordinate efforts across the firm and ensure pro bono support is encouraged and individuals have an incentive to donate given the generous matching programme. So far, employees are positive about getting more involved.

SPOTLIGHT: Impetus Trust[67]

"The big problem Impetus is here to solve is social and economic disadvantage. We know that these problems are complex and persistent. We break this cycle by scaling up high potential charities that are delivering long-term solutions to these issues – but are often limited in their impact by their size or reach. Good intentions and a kind heart are not enough. We address this big problem with method, discipline and resources. We use **venture philanthropy.**" *– Daniela Barone Soares, Chief Executive, describes Impetus Trust*[68]

Impetus Trust was established in 2002 as one of the pioneer venture philanthropy organisations in Europe. The Impetus approach to venture philanthropy involves providing a **distinctive combination of strategic funding and expertise to enable charities to scale up rapidly and effectively**. Impetus exists to break the cycle of underachievement by scaling up charities and social enterprises that intervene at critical points to allow their beneficiaries to break out of this vicious cycle of disadvantage.

Impetus is known for its rigour of the charity selection, due diligence and monitoring. Out of over 1,000 applications, Impetus had made 19 investments at the beginning of 2011. Impetus conducts monthly monitoring and quarterly reporting of impact. In general,

[64] *Grizzelle, M., Partner and CFO and Howard, J., Marketing and Investor Relations Manager, CVC Capital Partners. (January 20, 2011), EVPA Interview.*

[65] *IBID.*

[66] *Impetus Trust Newsletter, (June 2010).*

[67] *Stillman, A., Director of Communications, Impetus Trust (March 3, 2011), Email to EVPA.*

[68] *IBID.*

Impetus' charities achieve an average revenue growth of 31 per cent a year, which is more than **eight times the average in the social sector**. Growth in the number of people helped by their programmes has increased by an average of 40 per cent a year, which translates into over 250,000 people in 2010.

How the PE community can engage

"The reason why Impetus stood out for me was first of all because it's such a good fit with the way we work in private equity, and secondly because it has such a direct impact on the effectiveness of a whole range of charities, and on the difference they can make in their chosen field." *– Wol Kolade, ISIS Equity Partners and former BVCA Chairman. Impetus corporate donor.*

There are several ways to contribute to Impetus work, including **contributing money, volunteering expertise, introducing Impetus** to interested philanthropists and taking part in a **sponsored event** for Impetus. In terms of volunteer expertise, Impetus provides PE and consulting firms with an umbrella relationship under which they can manage the flow of pro-bono projects. There's a big benefit to many firms of having a bit more of a "pipeline management" of their charitable pro-bono work, where they can manage the timing of when they are able to do such projects. Firms offering pro-bono support need flexibility to balance the charity's requirements against what the firms are able to deliver and when they have availability to actually deploy teams.

"WHEN I SET UP IMPETUS WITH MY CO-FOUNDER, STEPHEN DAWSON, IN 2002 THE IDEA WAS TO PILOT AND PIONEER VENTURE PHILANTHROPY IN THE UK. WE WANTED TO PROVIDE LONG-TERM STRATEGIC EXPERTISE AND FUNDING TO SMALL AND MEDIUM-SIZED CHARITIES, SUPPORTING THE WHOLE ORGANISATION RATHER THAN INDIVIDUAL PROJECTS."

NAT SLOANE IMPETUS CO-FOUNDER AND VICE-CHAIR IN AN INTERVIEW TO DIRECTOR MAGAZINE[74]

b) Co-invest with VPOs in SPOs

SPOTLIGHT: TowerBrook Foundation co-invests with Private Equity Foundation[69, 70]

"It is just as bad to waste money giving it away as it is to waste money by choosing the wrong investment. So if you think of giving money away with the same rigor as you think of investing money, I can guarantee you will be far more successful in your giving. But people really need to do it to understand it [...] Actually executing is quite hard. You have to understand the business model of the charity. Is it sustainable? Where's the funding coming from? How can it survive through several cycles? What are its objectives? How's the governance set up? All that … and people don't spend enough time on it." *– Filippo Cardini, Managing Director and Chief Operating Officer, TowerBrook*[71]

TowerBrook Capital Partners is an international private equity firm with $5 billion under management, investing in Europe and the USA.[72] TowerBrook established the TowerBrook Foundation in 2006. The TowerBrook Foundation provides a **formal channel through which they move financial and intellectual capital**. TowerBrook works extensively with The Private Equity Foundation to support specific causes. The foundation has three goals: to give back to the community, to invest in the firm's culture and to build relationships with management partners and portfolio companies.[73] By bringing people together for work with its investee charities, the **foundation helps the firm's culture of teamwork**.

[69] *Cardini, F., Chief Operating Officer, General Counsel, Senior Managing Director, TowerBrook Capital Partners, LLP. (February 2, 2011), EVPA Interview.*

[70] *Fairbairn, A., TowerBrook Capital Partners, LLP, (February 2, 2011), Email to EVPA.*

[71] *Cardini, F., Chief Operating Officer, General Counsel, Senior Managing Director, TowerBrook Capital Partners, LLP. (February 2, 2011), EVPA Interview.*

[72] *TowerBrook website: http://www.towerbrook.com/about/ (Accessed January 2011).*

[73] *TowerBrook Foundation website: http://www.towerbrook.com/foundation/ (Accessed January 2011).*

[74] *Stillman, A., Director of Communications, Impetus Trust (March 3, 2011), Email to EVPA.*

PART 2: PE FIRMS' VP ENGAGEMENT

TowerBrook Foundation

- A percentage of the group's carried interest and management fee on every one of its transactions goes to the foundation
- Also matches employees' donations threefold[75]
- £300,000 pledged to Tomorrow's People, which works with young people in Hammersmith and Fulham, £420,000 pledged to UK startup of US youth volunteering scheme, City Year via Private Equity Foundation (PEF)
- Pro bono support to Tomorrow's People includes providing temporary office space & joining PEF on the Founding Committee

Co-investing with Private Equity Foundation

For the TowerBrook Foundation, co-investing with The Private Equity Foundation is an ideal way to meet their goals. Through this collaboration, TowerBrook can focus on providing financial and intellectual assistance as needed. Meanwhile, PEF conducts due diligence, spending months looking for the right partners and works closely with the SPOs through the investment process, applying their unique social sector knowledge.

The parallel between the venture philanthropy approach and the firm's regular business is strong. Cardini said: "Finding a good investment for us, a good company to back, making sure the business plan works and there is a successful company there is what we do and we think is hard to do and we spend a lot of time and research doing it." Fittingly, TowerBrook has decided to outsource this process to PEF through co-investment rather than strike out as a VPO. Cardini noted: "If you really want to make sure you're not wasting money, that you're doing the best possible job, then why wouldn't you co-invest with someone who's got the infrastructure to do what you want to do? Why do you want to reinvent the wheel? If you want to reinvent the wheel that's fine, but you have to treat it as your full time job. PEF is staffed by professionals… **It's smarter to co-invest with someone who has the infrastructure** -- and pay them something-- the money you give them to do what they do is far more well spent than you getting it wrong and doing something on your own."[76]

Words of Advice

The TowerBrook Foundation felt particularly strongly about the importance of **choosing an investment focus**. The foundation chose children in the UK and specifically "NEETS" as their focus. With many employees raising families, children were a focus that **everyone could relate to**. Just as with a regular investment, choosing a focus allows the foundation to establish guidelines or a framework in which to operate. They found this made it easier to narrow down the choices from the many worthwhile causes in need of support.

At TowerBrook, interested employees volunteer personal time to offer pro bono services to partner charities. Involvement varies from a few hours a week to every month or once or twice a year at organised events. Once or twice a year the firm allows a **half-day charity event** and has given an extra full day's holiday to those who participated. Pro bono work is typically project-based and bespoke, but some employees also serve regularly as members of committees or trustees or on boards. Filippo Cardini, COO, is a trustee of City Year UK and co-head of its Development Board.

The Private Equity Foundation

"The Private Equity Foundation (PEF) is more than just corporate social responsibility, it's about the whole industry clubbing together to create social good. It's about giving something back in a collective way. We help charities raise more than money – we also spread the gospel about what they do," said *Nikos Stathopoulos, managing partner of BC Partners and member of the PEF board of trustees,* when speaking to Unquote" late last year. He continues: "All private equity firms should engage in charitable work and contribute – the industry has a set of skills that are very transferable to the charity world."[77]

[75] *"I want to lose a fortune", (September 2007), Intelligent Life, http://moreintelligentlife.com/node/182*

[76] *Cardini, F., Chief Operating Officer, General Counsel, Senior Managing Director, TowerBrook Capital Partners, LLP. (February 2, 2011), EVPA Interview.*

[77] *Private Equity Foundation website: http://www.privateequityfoundation.org/about-us/our-goals/ (Accessed December 2010).*

"We had the privilege to work closely together with a London-based community regeneration charity running a variety of highly innovative support schemes benefiting NEETs among others. Our input initially consisted in reviewing the PEF-orchestrated due diligence efforts. After attending one of their sessions with young people, we helped the charity's team re-draft their business plan to more clearly articulate the unique differentiating features of their programme offering and potential impact thereof." – *Eric Machiels and Ying Tao from Terra Firma explain their involvement in PEF's due diligence*[78]

"IT HAS BEEN VERY IMPORTANT THAT THE PRIVATE EQUITY INDUSTRY HAS UNITED BEHIND PEF AS A JOINT EFFORT ON VENTURE PHILANTHROPY"

RAMEZ SOUSOU, FOUNDER AND CO-CEO, TOWERBROOK CAPITAL PARTNERS[82]

Established in 2006, The Private Equity Foundation is a venture philanthropy fund that **invests in charities to empower young people to reach their full potential** and to help the private equity community reach its full potential.[79] PEF was set up with the **support of an investor pool of PE firms** and also **relies on the PE firm network of service providers**. They focus specifically on NEETs (young people not in education, employment or training) with the goal of becoming experts on the issue and making a significant impact. The foundation uses **financial and intellectual capital from PE firms** to provide support to charities using the venture philanthropy approach, particularly strategic planning, change and business management and growth planning. Firms also co-invest with PEF in initiatives they are particularly interested in. PEF helps firms with effective philanthropic giving by facilitating the transfer of resources with minimal transaction cost.

Private Equity Foundation Key Statistics[83]

- €3.7m (up to July 2009) annual expenditure in VP
- €587,000 average investment size
- Funded by a group of PE firms – now involves 32 firms
- Provides intellectual capital from partner firms
- 40,000 children's lives touched so far
- Over £20m raised
- 13 UK portfolio charities
- 15,000 hours of pro bono expertise provided
- Targets medium sized high-potential charities

PE Involvement: intellectual, financial and social capital

Fundraising for PEF can take many forms. PEF represents a 'club' model where many PE firms and their advisors can make annual payments. In addition, The PEF website also lists the myriad ways a firm or individual can contribute financially including diverse options like sports events for charity, regular giving and joining the 1% Club by committing to give 1% of salary, bonus, carried interest or fees to PEF. Likewise, individuals and firms can provide **Intellectual Capital by**:

- Helping a charity with its business plan
- Providing resources identified by a SWOT[80] Team
- Mentoring charity senior management team
- Participating in a SWOT team
- Advising a charity on its marketing and positioning

In a case study, David Evans, partner in Deloitte's Private Equity Transaction Support team, describes how Deloitte's work with PEF was different from other efforts, "Providing support through PEF is different. It enables firms and their people to fully engage with individual charities and their management teams over the three year investment period and see the real and tangible benefits that applying simple business disciplines can have on a charity's ability to deliver against its charitable objectives."[81] PE firms also bring a lot of social capital to PEF and its SPOs. Consequently, with a **network of 32 professional firms and high-level contacts across the professional services industry** in Europe, PEF is in a unique position to offer its portfolio charities unprecedented connections to those

[78] *Private Equity Foundation website: http://privateequityfoundation.org/newsletters/november-2008/case-study-a-deal-team-with-a-difference/ (Accessed December 2010).*

[79] *European Venture Philanthropy Directory (2010/2011), EVPA Publication.*

[80] *SWOT means Strengths, Weaknesses, Opportunities and Threats.*

[81] *Private Equity Foundation website: http://privateequityfoundation.org/newsletter/july-2008/putting-something-back-pro-bono-case-study/ (Accessed December 2010).*

[82] *Sousou, R. Founder and co-CEO, TowerBrook Capital Partners. (March 22, 2011), Email to EVPA.*

[83] *Private Equity Foundation website: http://www.privateequityfoundation.org/about-us/our-goals/ (Accessed December 2010)*

PART 2: PE FIRMS' VP ENGAGEMENT

NESsT Portfolio[84]

- NESsT founded in 1997, Portfolio founded in 2001
- €943,000 in NESsT Portfolio
- Provides capacity building, mentoring, loans, equity and grants to SPOs
- Over 2,600 investee SPOs since 2001
- US$4 million in financial and capacity support provided since 2001
- Business Advisory Network matches business talent with SPOs

who can support them. Each new firm's support is thus leveraged against a wealth of high-level collaboration.

c) A VPO with a structured PE support system

SPOTLIGHT: NESsT Portfolio and Private Equity Shares[85]

NESsT is an international venture philanthropy organisation, which provides capacity-building in the form of group trainings and one-on-one mentoring, as well as financial support in the form of loans, grants and equity financing to social purpose organisations in Europe and Latin America[86]. NESsT's mission is to invest in sustainable social enterprises that resolve critical social problems in emerging market countries. To date, they have worked with over 2,600 social enterprises, providing more than $4m in financial and capacity support since their founding in 2001.

As a venture philanthropy organisation, NESsT offers additional programmes. This includes practical tools and resources for social enterprises and consulting services to global clients on sustainability issues and social enterprise development.

In addition to these initiatives, NESsT **offers the private equity community a convenient and effective way to get involved in philanthropy**. One of their programmes, Private Equity Shares, is a vehicle through which private equity firms can support a portfolio of high-impact social enterprises with financial or intellectual capital.[87]

PE Engagement via Private Equity Shares

Private Equity Shares (www.privateequityshares.org) aims to make philanthropic giving easy and effective for the PE industry. Over 50 private equity funds and advisory firms have contributed over $1m to date and over 200 PE professionals have connected with SPOs in Central Europe. Private equity firms provide **financial and intellectual capital, as well as access to personal and professional networks**.

- **Financial capital:** private equity firms 'invest' in the social sector in emerging markets in a way that is closely aligned with the private equity approach of building portfolio companies. NESsT provides a vehicle through which private equity firms can support high-impact social enterprises - ensuring money is well managed, well spent, and creates financially sustainable economic and social benefits.
- **Intellectual capital:** private equity professionals apply their skills to support portfolio SPOs. Individual volunteers can fulfil their Business advisory roles in several ways. They can be sent feasibility studies and business plans developed by the portfolio and provide feedback using a scorecard methodology. They are also invited to lead NESsT portfolio trainings and mentor social enterprises on an individual basis. Advisors can also provide direct input to social enterprises and identify potential funding sources or even supply the funding themselves at Investor Circles meetings facilitated by NESsT.

[84] *European Venture Philanthropy Directory (2010/2011), EVPA Publication.*

[85] *Comolli, L. Director of Client & Investor Relations, NESsT. (February 1, 2011), Email to EVPA.*

[86] *European Venture Philanthropy Directory (2010/2011), EVPA Publication..*

[87] *NESsT website: http://www.nesst.org/privateequityshares/ (Accessed January 2010).*

- **Social capital:** private equity professionals leverage their personal and professional networks to obtain pro-bono advice and in-kind gifts for SPOs and NESsT itself. For example, every year NESsT leverages pro-bono legal support from Squire Sanders & Dempsey's Private Equity practice in Central Europe.

Resources & Involvement

Firms typically provide in-kind support to NESsT, including volunteer time, office space, and back-end office support. Time and resource commitment varies depending on individuals' availability and private equity firm policy. Private equity professionals spend an average of two to three days of pro-bono work with SPOs per year.

A Growing NESsT

NESsT plans to double their portfolio by focusing on the five countries where they are present in Central Europe: Croatia, Czech Republic, Hungary, Slovakia and Romania. NESsT is also piloting new financial tools: in the past 12 months they have moved beyond engaged grant giving, providing asset-backed loans, bridge loan guarantees and equity investments to four social enterprises. They are now developing new types of financial tools that respond to the needs of their portfolio. These new developments have at least partly been enabled by the involvement of PE firms.

CONCLUSION FROM MODEL 2

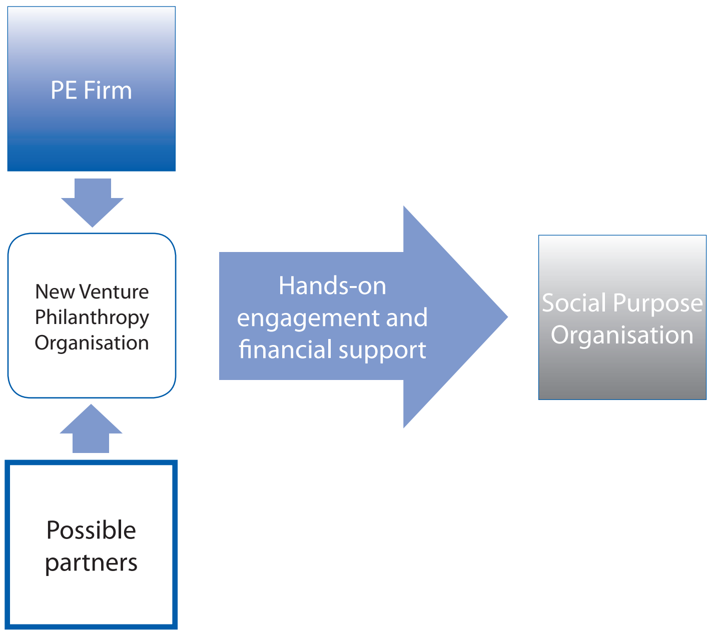
For PE firms looking to engage in philanthropy, investing money and human capital in a VPO can assure resources are allocated efficiently and effectively, with a reduction in transaction costs. Many VPOs rely on assistance from professional services firms and offer a convenient and rewarding way for firms to get involved. NESsT has developed an interesting structure to facilitate PE firm engagement. Natixis Private Equity has played a very important role in helping to establish both PhiTrust and EVPA, thus helping to grow the industry. For other firms looking to support the VP concept without investing the resources in setting up their own initiative, this path may be appropriate.

For CVC, working with Impetus introduced them to the concept of venture philanthropy and helped them learn more about the way a VPO engages with its portfolio charities. Now, CVC is looking to institutionalise their philanthropy by establishing a foundation and a more structured pro bono support programme. Starting a foundation can be a good way to formalise giving into the culture of a firm. Setting aside a certain percentage of income, carried interest and/or management fees ensures the foundation runs from year to year in comparison to the firm's performance. Some firms have felt strongly that starting a foundation helped create a common effort for philanthropy within the firm, helping to unite employees. TowerBrook Foundation is an example of a foundation that co-invests with a VPO, the Private Equity Foundation.

PART 2: PE FIRMS' VP ENGAGEMENT

Model 2: Invest in or co-invest with a VPO		
When	**Why**	**How**
Firm is **lacking in-house social sector knowledge** and prefers to use a **trusted intermediary** using a VP approach	Contribute resources **without incurring management costs**, while **reducing risk** and transaction costs	Choose VPO based on firm's **criteria** and **develop a longer-term partnership** with a VPO, contributing financial resources and pro-bono support
Co-invest with VPO when the firm wants **greater freedom** in terms of choosing which **SPOs to invest** in, although outsourcing main processes to VPO partner	**Flexibility** to outsource bulk of work to VPO, an expert on the subject, if desired, or to invest directly	**Determine criteria** for VPOs or social sector focus for SPOs to invest in
Set up foundation when firm does not trade publicly, or is able to **earmark** a certain percentage of income per year, formalising giving	Standardises and **institutionalises philanthropy** at the firm, providing legitimacy to firm's philanthropic efforts	Decide **how to finance** the foundation (% of profits, including external funders, etc), taking into account **tax and legal** issues

MODEL 3: FOUND OR CO-FOUND A SEPARATE VPO



"You have to be aware what it means to be impact first. It's not copying what you do in VC into social initiatives. It's a whole different way of working. It's a whole different field, with a whole different deal flow, network of co-investors, and way of structuring investments. Set it up separately, not under the same name, with dedicated investment management team, different fee structure, in the sense of management fees as well as how you structure carried interest, probably with a different investor base as well."[88] – *Matthijs Blokhuis, Investment Manager, Noaber Ventures*

For an institutionalised and more involved commitment to philanthropy, a PE firm may wish to found its own VPO or to group together with others to found one. Co-founding may be a good option to make use of various skilled partners and **pool resources** to work on a greater scale. The Private Equity Foundation is a pooled VPO started by PE firms and NESsT pools resources from the private equity community, as discussed previously. Investindustrial in Spain, Permira and IK Investment Partners in the UK, and Ferd in Norway are examples of **PE firms that have set up separate VPOs**. This section also includes some examples of innovative initiatives that provide models for PE firms to consider. Bridges in the UK, Business Angels des Cités and Citizen Capital in France are all examples of **venture funds that provide financial returns** to investors while focusing on a social mission. BonVenture in Germany, Oltre Venture in Italy and Noaber Foundation in the Netherlands all combine a **social venture fund with a philanthropic foundation**, using a VP approach across the entities. Spotlights are provided on Investindustrial's VPO, Permira's VPOs, IK's VPO, Bridges and Noaber Foundation. It is important to note that in most cases founding a VPO requires independent **full-time staff, social sector knowledge and a long term plan**.

a) Develop a separate VPO

SPOTLIGHT: Investindustrial's dedicated VPO: Invest 4 Children – Spain/ International[89]

Investindustrial, with €2bn of combined assets under management, has a team of more than 40 people in locations throughout Europe.[90] In 2000, ten years after Investindustrial was founded, the firm established its corporate foundation, Invest for Children (I4C). I4C is a highly-engaged entity which provides much more than financial support. The foundation's mission is to help differently-abled children and young adults achieve a better quality of life.[91] Investindustrial is also a full member and yearly supporter of the Private Equity Foundation and invests both financial and intellectual capital. Carlo Bonomi, Senior Principal of Investindustrial is a Board Member of PEF and was Director of EVPA. Invest for Children also supports EVPA's Knowledge Centre.

A dedicated foundation

By establishing a foundation, Investindustrial (II) formalized its philanthropic activity. With I4C, II's resources are dedicated to a particular social sector that is meaningful to the firm. The foundation receives 1% of II's net profit in addition to sponsorship money from corporations and fundraising through special events. Therefore, the budget varies from year to year. The foundation also ensures a dedicated strategy is set for VP initiatives. I4C

Invest 4 Children Foundation

- Operates in Europe with a special focus on Southern Europe (Spain, Italy, Portugal and Switzerland)[92]
- €720,000 spent on VP annually[93]
- €2 million funding available
- €35,000 VP average investment size
- Receives 1% of the Net profit of Investindustrial, a PE firm
- Receives sponsorship money from corporations
- Fundraises through special events such as concerts

[88] *Blokhuis, M., Investment Manager, Noaber Ventures. (February 4, 2011), EVPA Interview.*

[89] *Gropello, U., Director, Invest for Children. (December 13, 2010), EVPA Interview.*

[90] *Investindustrial website: http://www.investindustrial.com/en/about-us/southern-european-leader-with-a-global-footprint, (Accessed December 2010).*

[91] *"Understanding Diversity and Working Toward Integration" Invest4Children PowerPoint available online: http://www.investforchildren.org/powerpoint.asp, (Accessed December 2010).*

[92] *IBID*

[93] *European Venture Philanthropy Directory (2010/2011), EVPA Publication.*

PART 2: PE FIRMS' VP ENGAGEMENT

Breakthrough[94]

- Breakthrough I launched in 2005 by the social enterprise CAN and the private equity firm Permira and invested in Green-Works, Law for all, Timebank and Training for Life
- Breakthrough II was launched in 2007, funded by Permira and SVG Capital and invested in FareShare, Speaking Up, Teach First, Law for All
- Average investment size is €160,000 over 2 years
- Breakthrough provides strategic support and growth capital
- Since its establishment in 2005, the financial turnover of the portfolio organisations has increased, on average, by 20% per year since 2005, whilst the social impact has grown, on average, by 30% a year

foundation has been a **key contributor to the development and thought-leadership in the VP field** in addition to supporting many social sector organisations.

I4C's various projects are all conducted with a strong focus on social impact and financial sustainability. However, they favour a project approach rather than supporting the core costs of social enterprises and non-profit organisations. I4C implements many parts of the VP methodology including multi-year support, quarterly reporting on social impact and non-financial support where value-added services can be provided, especially in terms of marketing, fundraising and creating financing vehicles for the supported organisations. In most cases, I4C provides grants to organisations to develop specific projects and in other cases, I4C sets up its own project. Working together with Caja Navarra, a large Spanish savings bank and with the **input of Investindustrial's financial experts**, I4C has developed a new financial product that can be sold as a savings plan for people with Down syndrome. The foundation has supported a number of other projects. One of I4C's main projects is to encourage companies to hire people with Down syndrome. This activity is proving to generate a **high social return** both for the people with Down syndrome who find employment, gain independence and manage to improve their condition in many cases, but also for the companies that often report that the morale and working atmosphere greatly improves when someone with Down syndrome works there.

b) Co-develop VPO with partners

SPOTLIGHT: Permira co-developed the VPO Breakthrough with social sector partner CAN[95, 96, 97]

"The aim is to provide strategic support and growth capital to selected social enterprises to help them scale up significantly their business and thereby maximise their social impact." – *Permira*[98]

"We feel we have a responsibility to engage in society in ways that create leverage and Breakthrough has provided us with a great opportunity to give money, time and the expertise we have. We have found that there is absolutely no difference between the CEOs of Permira, portfolio companies and the social entrepreneurs we work with at Breakthrough; they're passionate, ambitious and aggressive." – *Damon Buffini, Managing Partner at Permira*[99]

Founded in 1985, Permira is an international private equity firm with over 30 partners in offices across the globe. Long-term sustainability is at the centre of their investment focus in the way they consider social, environmental and governance factors in traditional investments.[100] Though many individuals at the firm had been involved in philanthropy, Permira decided to do something as a firm. Led by Damon Buffini, then managing partner of Permira, they co-founded Breakthrough I with CAN, a leading support agency for social enterprise, providing business support, capital and space exclusively to social sector organisations.[101] As a strategic partner of the Cabinet Office advising on social enterprise,

[94] *European Venture Philanthropy Directory (2010/2011), EVPA Publication.*

[95] *de Andia, N., Media Relations, Permira, (February 8, 2011), EVPA Interview.*

[96] *Markey, K., Deputy Chief Executive, CAN & CAN Mezzanine, (March 11, 2011), Email to EVPA.*

[97] *Please note that Rob John is developing a more detailed case study of Breakthrough in the Skoll Centre working paper series.*

[98] *Permira website: http://www.permira.it/chi-siamo/investimenti-breakthrough, (Accessed January 2011).*

[99] *"Permira Doubles Investment in Charity Fund", Private Equity Online, http://www.can-online.org.uk/data/files/pages/private_equity_online.pdf.*

[100] *Permira website: http://www.permira.com/about-us (Accessed January 2011).*

[101] *CAN Website: http://www.can-online.org.uk/pages/about_us.html, (Accessed December 2010).*

CAN's significant sector expertise, reach and pipeline complemented Permira's commercial knowledge. Damon Buffini commented at the launch of Breakthrough I: "We believe CAN to be a real authority in understanding the issues facing social enterprises. For us, they are a window onto the social enterprise sector."[102]

Employees from CAN and Permira provide ongoing business support to these social enterprises. Breakthrough has been run as a fund, with a joint CAN and Permira advisory panel reviewing social enterprises and selecting them for funding. Permira staff engage with the portfolio of social enterprises on a weekly basis. CAN provides the due diligence, social impact measurement, investment reporting, as well as mobilising additional expertise from other corporate partners in its network.

"Undoubtedly, Breakthrough helped pioneer the approach of matching grants with high-impact management intervention to enable ambitious social enterprises to achieve real scale and impact. As the social investment market develops, CAN continues to lever skills and funds to support the sector as a trusted social venture intermediary." – *Andrew Croft, Chief Executive of CAN*[103]

In Breakthrough, CAN and Permira support the social enterprises prior to the investment decision and thereafter according to the investment and growth plan. **Permira employees with a particular interest or knowledge in a social enterprise's business volunteer** to provide regular advice and support. A recent example of ongoing support is when Breakthrough assisted Speaking Up with their merger with Advocacy Partners, helping them conduct due diligence and manage most aspects of the merger, including financial, legal and communication matters.[104] Mergers are rare in the social sector largely because non-profit CEOs have little incentive.[105] About the merger, Jonathan Senker, CEO of Advocacy Partners, said: "Bringing together two strong sector leading organisations and sharing our expertise, will mean that we are able to exert a greater force for positive change."

After the success of the first fund, Breakthrough I, CAN and Permira raised a second fund, Breakthrough II, with SVG Capital. However, they soon realised that their work was limited to the skills and resources at CAN and Permira and looked for ways to get other business partners onboard to increase the impact of the programme. By that time Breakthrough was so strongly linked with both CAN and Permira that it proved difficult to attract other firms, post launch. Therefore, Permira started another initiative, the Social Business Trust, while CAN continued its work with Breakthrough.

Breakthrough continues its six-year track record of **high-impact intervention** with CAN funding all management costs and matching funds from new partners added to its existing corporate network. Final dispersal of existing funds has been agreed and the next post-Permira investment is planned for July 2011 as part of a consortium totalling £450,000.

The Social Business Trust

- Launched December 2010
- Co-founded by Bain & Company, Clifford Chance, Credit Suisse, Ernst & Young, Permira and Thomson Reuters
- Brings wider network of skills and financial resources
- Looks for businesses with:
  - A robust business model
  - A proven track record
  - Ambitious growth plans
  - A willingness to change
  - A well-defined need for the support that they offer

"WE FEEL WE HAVE A RESPONSIBILITY TO ENGAGE IN SOCIETY IN WAYS THAT CREATE LEVERAGE."

DAMON BUFFINI, MANAGING PARTNER AT PERMIRA[106]

[102] *Buffini, Damon, (July, 2006), Launch of Breakthrough I.*

[103] *Markey, K., Deputy Chief Executive, CAN & CAN Mezzanine, (March 11, 2011), Email to EVPA.*

[104] *Permira website: http://www.permira.com/media-centre/permira-news/2010/feb/15/breakthrough-investment-update (Accessed January 2011).*

[105] *Giotis, C., "Two CEOs and zero incentives don't make a merger, conference warned", (November 4, 2009), http://www.socialenterpriselive.com/section/news/management/20091104/two-ceos-and-zero-incentives-don%E2%80%99t-make-merger-conference-warned.*

[106] *"Permira Doubles Investment in Charity Fund", Private Equity Online, http://www.can-online.org.uk/data/files/pages/private_equity_online.pdf.*

PART 2: PE FIRMS' VP ENGAGEMENT

IKARE Key Facts

- No paid employees; Director and IK Senior Advisor Anne Holm Rannaleet works pro bono and other IK staff provide services (accounting, communication, IT)
- IK Investment Partners donates money necessary for budget, which has been fixed the past four years
- Began as a solution to a problem, grew into a VPO

SPOTLIGHT: Permira co-developed The Social Business Trust with for-profit sector partners[107]

Having learnt from the Breakthrough experience, Permira co-founded the **Social Business Trust** in 2010. This was set up by and launched with five partner firms, each contributing capital as well as valuable and **diverse business skills**: Bain & Company, Clifford Chance, Credit Suisse, Ernst & Young and Thomson Reuters.[108] This new venture philanthropy organisation draws from **high-level talent across many business functions** to provide its portfolio charities with both the funding and business skills they need to scale successful business models. Adele Blakebrough, the former Chief Executive and Co-Founder of CAN, is CEO of the fund. This new fund was set up as an independent charity (rather than a joint venture), which gives it good scope to **evolve and attract new partners**.

SPOTLIGHT: IK co-developed IKARE together with portfolio company and with integral government and academic partners[109]

Established in 1989 in London as a subsidiary of the Swedish bank SEB, IK became independent in 1993 and is today a pan-European mid-market private equity firm with around 65 employees. Though IK had been involved in philanthropic efforts before, its involvement in venture philanthropy and subsequent founding of its own VPO, was born from an emergency situation. In 2006, IK's French portfolio company Ceva Santé Animale (CEVA) alerted IK to the rising sleeping sickness epidemic in northern Uganda. Sixty million people in sub-Saharan Africa are at risk for the disease, killing about 100 people every day. The disease has two gruesome forms: one leads to death within six months, the other wreaks neurological damage before resulting in death after a few years. At this time, the two strains were at risk of converging in Uganda, the only country unfortunate to host both. A meeting of the World Health Organisation in 2005 concluded that a solution could be the mass treatment of cattle, acting as reservoirs for the disease which is spread by the bite of the tsetse fly. The Ugandan government, acutely aware of the problem, lacked the funds and resources to undertake the intervention.

To combat the lack of funding and resources, **many parties came together**. The Veterinary faculty at the Makerere University in Kampala, Uganda offered to make its final year students available for the intervention and the University of Edinburgh's Centre for Tropical Veterinary Medicine agreed to undertake the sampling and monitoring necessary to have reliable data on the prevalence of the sleeping sickness parasite in cattle pre and post treatment. CEVA decided to donate the necessary drugs and insecticides. Gardena, a leading gardening company, and also an **IK Portfolio company** at the time, provided pump sprayers necessary for administering the insecticide. Kwintet, another IK portfolio company, provided protective boots to the graduate students involved in the field activities.

IK decided to **create a separate vehicle**, IK Aid & Relief Enterprise Ltd (IKARE), with funds donated by IK for addressing the issue and provide the necessary funding. First, IK looked into the project and conducted due diligence – taking much the same approach as with their typical financial investments. At the time, it was unclear how the project would take shape, but IK decided it was important to separate it from normal investment activity. IKARE also funded an educational and awareness campaign in addition to the administration of the treatments.

[107] de Andia, N., Permira, Media Relations, (February 8, 2011), EVPA Interview.

[108] Social Business Trust website: http://www.socialbusinesstrust.org/about-us/our-partners/, (Accessed February 2011).

[109] Holm Rannaleet, A., Director, IK Aid and Relief Enterprise Ltd. (December 20, 2010), EVPA Interview.

IKARE launched into the project with their **private equity toolkit**, getting involved in planning and budgeting. The first activity was to treat cows in several districts of Northern Uganda. Through the emergency response process, IKARE identified additional challenges in making the solution sustainable – the need to educate farmers and to provide consistent access to the drugs and insecticides. They felt these needs could be addressed commercially and locally for the best long-term effect; once awareness had been raised, farmers would be prepared to pay for products in order to protect their cattle and families.

The Uganda initiative was heavily focused on educating the farmers and local communities about the disease and its prevention to create **a self-sustainable solution**. Today, IKARE continues to work toward the sustainability of disease control, including exploring ways to involve microfinance providers to fund entrepreneurs selling spraying services to farmers. IKARE, together with CEVA and local entrepreneur High Heights Services (HHS), began to train local vets to establish veterinary practices and provided start-up financing. IKARE and CEVA also funded and supported HHS for capacity building. The investments in five vets turned into five profitable businesses, each of which in turn found 15-20 spray persons to become entrepreneurs in their own right. These entrepreneurs invest in pumps and insecticides, and offered their spraying services on a commercial basis to local farmers. The partners are now doubling the area covered and "older" vets are training newer ones, thus spreading the model and greatly leveraging the initial investment. IKARE **used their network to identify an individual who could train these vets in business skills**, an INSEAD MBA who taught them the business basics necessary to run a successful business: understanding a Profit & Loss account, cash flow and inventory management. "It would lower our risk, so it was a natural investment to do," said Anne Holm Rannaleet[110].

Resources and Involvement

The project itself consists of diverse mutually complementing and independent components – the Ugandan government, the portfolio company CEVA, as well as academic institutions and veterinary students. The latter partners had more than20 years of experience in sleeping sickness in Uganda and helped integrate IKARE into the local environment, facilitating much-needed cross-sector collaboration. **All parts were necessary components of the project bringing together necessary local and scientific knowledge, as well as product, and marketing know-how**. IKARE in turn, in addition to providing the necessary funding challenged its partners for budgets and work plans and helped solve logistical problems. IKARE's board has five members from IK including three partners. Anne Holm Rannaleet, today IK Senior Advisor and 20-year IK veteran, spearheaded the initiative in 2006 and agreed to remain in charge when, two years later, she stepped down as Partner and left her operational responsibilities at the firm. She spends around 20 per cent of her time working pro bono for IKARE. IKARE regularly uses accounting, communications and IT assistance from IK as needed, both for itself as well as for the SOS initiative.

"WE HAVE, OVER THE LAST FEW YEARS, TRIED TO TAKE A MORE FORMALISED, CONSIDERED APPROACH [TO PHILANTHROPY], BUT IT WAS THE EMERGENCY SITUATION IN UGANDA THAT REALLY FOCUSED OUR EFFORTS."

ANNE HOLM RANNALEET, THEN PARTNER, NOW SENIOR ADVISOR, IK INVESTMENT PARTNERS[111]

[110] *Holm Rannaleet, A., Director, IK Aid and Relief Enterprise Ltd. (December 20, 2010), EVPA Interview.*

[111] *IBID.*

PART 2: PE FIRMS' VP ENGAGEMENT

Looking forward

Eventually, IKARE is interested in pursuing other causes in addition to Stamping out Sleeping Sickness. This will require more resources. Anne Rannaleet noted that as more IK partners retire in the future, they may have time to take a more active role in IKARE and they might also consider hiring someone in the future if they decide to broaden into other initiatives.

e) VPO structures to consider for PE firms starting a VPO

(i) Set up a venture fund with a social mission

Bridges Ventures in the UK, Business Angels des Cités (BAC) and Citizen Capital in France are examples of venture funds that provide financial returns to investors while focusing on a social mission. BAC invests in companies created by entrepreneurs coming from the deprived areas of France or in companies creating employment in these areas. Citizen Capital is a social venture fund financing small companies with limited access to equity and networks due to their location in deprived areas or due to the profile of the entrepreneur.

SPOTLIGHT: Bridges Ventures[112, 113]

Bridges Ventures has three types of funds totalling over £150m: Bridges Venture Funds I & II, the Bridges Sustainable Property Fund and the Bridges Social Entrepreneurs Fund. Originally founded by Apax Partners, 3i, Doughty Hanson and Tom Singh in 2002, the company is now majority owned by its Directors and minority owned by the Bridges Charitable Trust. The original founders continue to support the firm through the Board and Investment Committee, providing strategic input and contributing pro bono expertise as well as access to their networks.

The funds have **separate teams, each with unique skill-sets**. The Sustainable Property Team, for example, has extensive property backgrounds. The Ventures team is comprised of people who have run successful growth businesses combined with others from a corporate finance or investment background. Antony Ross, who has over 20 years of private equity investment experience, including having managed two 3i offices and led their healthcare team, heads the Social Entrepreneurs Fund. "What we hope all members of our team have in common is a sense of mission about their work and a desire to use investment to make a difference through whichever fund they are working on," said Michele Giddens, one of Bridges Ventures' Executive Directors.[114]

Synergies Across Funds

The main **synergies between funds come from deal flow**. For example, "if a social enterprise wanted to buy a property, the Sustainable Property Fund team could provide extremely useful advice to the Social Entrepreneurs Fund team," said Giddens. The Bridges Sustainable Property and Bridges Ventures Funds share a **common investment focus** across the themes of under-served areas, education & skills, environment and health & well-being and the group and these have the potential to overlap with the Social Entrepreneurs Fund in meaningful ways as well.

Each Fund has a **management fee** calculated as a percentage of Funds under

Bridges Venture Funds I & II Key Facts

- A financial first approach
- Social and/or environmental requirements for investment
- Fund investors include banks, pension funds and HNWIs
- First fund of £40m raised in 2002
- Second fund of £75m raised in 2007; beat £50 million target and oversubscribed
- Require portfolio companies to have intrinsic social/environmental impact as a sustainable business in the sectors of under-served areas (located in the most deprived 25% of the UK as measured using the Government's Index of Multiple Deprivation - IMD) and/or, education & skills, environment, health & well-being

Bridges Social Entrepreneurs Fund Key Facts

- An impact first approach
- Aims to address funding gap faced by fast growing social enterprises looking to scale
- Raised from individuals, institutions, foundations and the government
- Funds raised in part as donations, in part as investments
- Plan to transition to raising funds from investors only once track record proven
- Investments made through equity or quasi-equity structures
- Invests with a venture philanthropy approach
- 2011: final close of almost £12m

[112] Giddens, Michele, Executive Director, Bridges Ventures (February 7, 2011), Email to EVPA.

[113] "Investing for Impact: Case Studies Across Asset Classes," Bridges Ventures.

[114] Giddens, Michele, Executive Director, Bridges Ventures (February 7, 2011), Email to EVPA.

management per year. All the investment teams donate 10 per cent or more of their own carry to the Bridges Charitable Trust.

For Bridges Ventures, the general approach to investing is with a **goal to deliver financial, social and environmental benefits**. To them, having a Social Entrepreneurs Fund is not a CSR initiative, but an interwoven component in a broader strategy.

(ii) Establish mixed structure including social VC fund and VP foundation

In general, when the primary activity of the VP organisation is to provide grants to social purpose organisations, "grant financing", it tends to be set up as a foundation. If the VP organisation mainly invests in social purpose organisations, "social investment" (using a spectrum of financing mechanisms, the primary goal being to generate social return), it is usually set up as a fund (or fund-like). Some VP organisations have mixed structures that include both funds and foundations. Examples of mixed structures include Noaber Foundation in the Netherlands, BonVenture in Germany and Oltre Venture in Italy.

SPOTLIGHT: Noaber Foundation[115, 116]

Founded in 2000[117], Noaber Foundation is a venture philanthropy organisation and forms a two-part structure, which allows the group to invest across the grant to equity spectrum. Founded by Paul Baan, co-founder of Baan Company, a software company[118], the foundation was set up to use a business-like approach to philanthropy. Paul Baan was inspired by the idea of blending charitable and entrepreneurial approaches, which he later identified as venture philanthropy. Noaber Foundation is composed of Noaber Philanthropy, using a purely non-profit approach that seeks a pure social return (impact only), and Noaber Ventures, which in turn consists of George Avenue LLP and Höchst Investments Ltd. George Avenue LLP is a Social Venture Fund that seeks a blended social and financial return (impact first). Höchst Investments is a venture capital fund seeking financial returns (financial first). The foundation chose to invest its endowment in venture capital and social investment. Also, when the organisation was started, the founder had some investments that did not fit into the charitable vision, which helped shape the structure.

Bridges Sustainable Property Fund Key Facts

- Invests in properties in regeneration areas and buildings showing environmental leadership
- Funded by banks, pension funds, trusts and endowments
- 2010: final close of £28m

Noaber Foundation Key Facts

- Spending vehicle for an endowment fund,
- Invests with grants using VP approach
- Average investment size €10,000 - €1 million for donation projects[119]
- Duration of support for donation projects: 1-5 years

Noaber Ventures Key Facts

- Spending vehicle for both social and for-profit investments[120]
- Consists of George Avenue LLP and Höchst Investments
- Both funded by the endowment fund

[115] *Blokhuis, M., Investment Manager, Noaber Ventures. (February 4, 2011), EVPA Interview.*

[116] *Oostlander, P., Director Noaber Foundation. (February 7, 2011), Email to EVPA.*

[117] *European Venture Philanthropy Directory (2010/2011), EVPA Publication.*

[118] *Baker, S., Spiro, M., & Hamm, S. (August 14, 2000), "The Fall of Baan" (int'l edition), BusinessWeek, (August 14, 2000) ISSUE. By: Stephen Baker in Paris, with Menno Spiro in Barneveld and Steve Hamm in New York.*

[119] *European Venture Philanthropy Directory (2010/2011), EVPA Publication.*

[120] *Noaber Foundation and Noaber Ventures website: http://www.fbn-i.org/summit/09.nsf/doclu/socialent?OpenDocument , (Accessed December 2010).*

PART 2: PE FIRMS' VP ENGAGEMENT

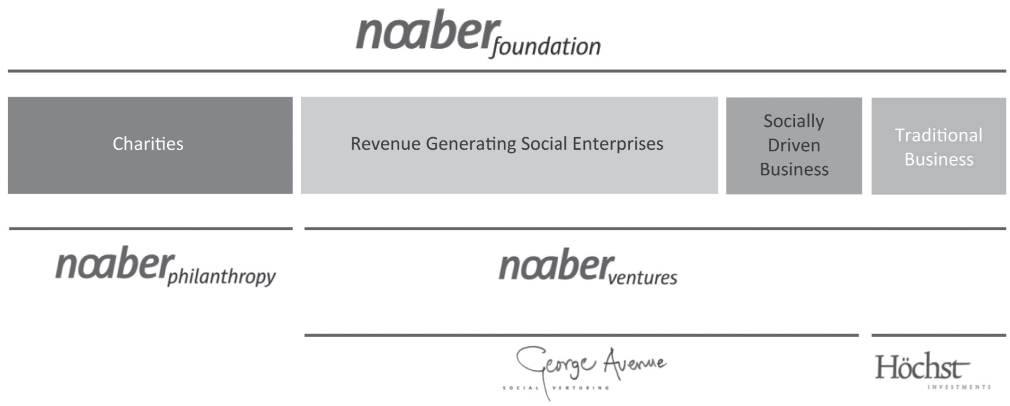
George Avenue LLP Key Facts

- Makes social investments using venture philanthropy approach
- Seeks measurable societal impact with the ambition to generate financial return to ensure that the investees become economically sustainable
- Average investment size €100,000 - €3m for social investments
- Duration of support for Social Investments: 5-10 years till e.g. exit

Höchst Investments Ltd. Key Facts

- Makes commercial investments with traditional venture capital approach
- Seeks primarily financial returns
- Minority of Noaber Ventures activities
- Establish synergy and gives up-to-date hands-on experience in investing

The current structure can be seen in the diagram below[121]



The group invests in healthcare, technology, and education and community.[122] The common sectors across the investment spectrum were intended to allow Noaber Foundation to find synergies between portfolio companies across the spectrum.

VC & VP Under One Roof

The unique structure of Noaber Foundation allows the group to offer social enterprises and nonprofits tailored assistance at various stages. In some cases, they have **identified market opportunities** where organisations had not considered them, and due to their help, organisations have been able to commercialise parts of their work, increasing their sustainability. However, the foundation also noticed that the way of working between socially driven and financially driven investees was compelled by very **different motivations and work processes**. Therefore, Noaber Foundation has decided to disband its for-profit investment arm and not allocate more funding to Höchst.

For private equity and venture capital firms, the foundation and ventures structure of Noaber Foundation is an interesting example of **different corporate structures**. PE firms that are interested in philanthropy and considering establishing their own venture philanthropy organisation may be interested to learn how this group determined that venture philanthropy and venture capital must be kept separated with different strategies, staff and investors.

Flow between VC & VP

In the social venturing fund, there are two types of companies; (i) those with societal impact in their DNA but that will never grow into a company that could attract mainstream funding and will always depend on impact investors during any stage of their lifetime, and (ii) new ideas that are not interesting to VCs at present because of their risk-to-return ratios, lacking proof of concept, full team, or the like, but could eventually grow up to create significant financial value. Noaber Foundation presumed that they could move investees in the second category after a few years from the social venture to

[121] *Oostlander, P. (November 2010), Non-Member Session Presentation, EVPA Conference 2010 Luxembourg.*

[122] *Noaber Foundation and Noaber Ventures http://www.fbn-i.org/summit/09.nsf/doclu/socialent?OpenDocument (Accessed December 2010).*

the venture capital fund. However, in practice this didn't work for two reasons:

1. Noaber Foundation realised the need to ensure that their social ventures keep their focus on the social mission. This involved building in **remuneration schemes that would link any financial return to investors to the social impact achieved** by a portfolio social venture. If the company doesn't meet its impact targets it is not allowed to pay dividends to its shareholders. This also applies to other incentive schemes for e.g. the management, etc. Because of this stricter rule, organisations that started as impact-first, were designed to stay that way, lest they incur mission drift. To change, they would have to alter their shareholder agreements.

2. As Noaber Foundation had decided the main focus was on social venturing, they were **committed to using greater amounts of capital for social investments rather than financial ones**.

A Different Business

Though the firm's employees worked on portfolio organisations across the spectrum, the culture and motivation were still different and hard to manage under one umbrella. From a marketing perspective, it became confusing. The social sector distrusted the profitable motives from the VC arm and financial investors were wary of the social side, which could be perceived to compromise financial return although hosted in a separate entity. Likewise, deal flow on the VC side suffered, as the firm was perceived as a social investor only. Noaber Foundation's experience shows that though mechanisms can be put in place to ensure missions are safeguarded, the benefits of portfolio synergies and fundraising do not easily outweigh the downsides.

CONCLUSIONS FROM MODEL 3

Founding or co-founding a new VPO is an ambitious and exciting model for engaging in venture philanthropy, providing significant benefit to the underserved social sector. VPOs provide unique value, helping social enterprises achieve greater scale and instigate step changes in their operations. As discussed previously, individuals or firms from the private equity industry founded many VPOs. The similarities and differences between the two were also addressed. From the case studies, it is clear that establishing a new organisation is no small task. Care should be taken when establishing the organisation under the firm's general structure. Though the skill set of PE is extremely valuable to SPOs, different motivations, investment processes and remuneration schemes make it difficult to do in-house without additional staff and a clear division between the firm and the VPO.

"THE PE EXPERIENCE AND MAINLY THE VC SIDE WAS MY GREAT INSPIRATION IN STARTING UP OLTRE AS A SOCIAL VENTURE CAPITAL FUND. THE VC METHODOLOGY IS VERY POWERFUL IN SUPPORTING INNOVATION AND ENTREPRENEURSHIP, SO MY IDEA, FOLLOWING THE FIRST STEP OF VP HAS BEEN TO USE THIS POWERFUL TOOL TO PROMOTE INNOVATION FOR THE SOCIAL AND COLLECTIVE NEEDS."

LUCIANO BALBO, FOUNDER, OLTRE VENTURE[123]

[123] *Balbo, L., Founder, Oltre Venture (April 13, 2011), Email to EVPA*

PART 2: PE FIRMS' VP ENGAGEMENT

Model 3: Found or co-found a separate VPO		
When	**Where**	**Why**
Firm is able to make a **significant commitment** of time and resources, such as full-time staff, investment in social sector knowledge and a long-term plan	Looking to do **something bigger**, with unique visibility, involving the firm as a team	Add a **dedicated VP arm** to PE firm to complement existing business taking care to make **clear separations** between mission, remuneration schemes, return expectations and investment process of both entities
Firm has a **corporate culture** that will be conducive to larger scale involvement	**Grow the VP market** through hands-on philanthropy engagement - leveraging financial and intellectual resources of PE sector	**Pool resources** in a new initiative to draw diverse resources and achieve greater scale
Firm has or is looking to obtain **partners** – from the social sector and other firms	Focus fund on areas of importance not adequately addressed elsewhere with a focus on **societal issues**	Partner with social purpose organisations and professional service firms for maximum **societal impact**

PART 3:

GENERAL CONSIDERATIONS

In the following section, we discuss general considerations that we identified across the firms studied. Considerations may apply to different models in different ways.

I) CHOOSING SPOS & SECTORS

For firms looking to get involved in SPOs, either directly, through VPOs or through their own VPO, it often helps to identify a sector in which to invest. While some firms choose to support the VP model and invest in those VPOs or venture philanthropy support structures, other firms find that a sector choice can focus attention and enable the firm to decline other requests. This choice also helps unify firm employees toward a common cause. Additionally, aligning the firm's charitable sector with its investment sectors allows for potential synergies between portfolio companies and charities and can make greater use of the firm's network.

The TowerBrook Foundation felt particularly strongly about the importance of **choosing an investment focus**.[124] The foundation chose children as their focus. With many employees raising families, children were a focus that **everyone could relate** to. Just as with a regular investment, choosing a focus allows the foundation to establish guidelines or a framework in which to operate. They found this made it easier to narrow down the choices from the many worthwhile causes in need of support.

In one case, a **VP investee helped a VC portfolio company** due to synergies found due to sector alignment. The Noaber Foundation in the Netherlands has a strong healthcare focus.[125] One of their portfolio companies, EarlySense sold healthcare monitors to hospitals. Through a charitable health network, they were able to connect with and access hospitals they wouldn't have otherwise met and were able to start a pilot project to see how the product would apply in Europe. The charity had no financial objective, but it was able to connect the portfolio company with additional business.

Bridges Ventures also helps create synergies between its components. The Bridges Sustainable Property and Bridges Venture Funds share a **common investment focus** across the themes of under-served areas, education & skills, environment and health & well-being, and those sectors are also important for the Social Entrepreneurs Fund. According to one of Bridges Executive Directors, Michele Giddens: "There are marketing synergies and other cross-learnings shared, especially in relation to deal flow contacts for example, if a social enterprise wanted to buy a property, the Sustainable Property Fund team could provide extremely useful advice to the Social Entrepreneurs Fund team." [126]

II) CHOOSING GEOGRAPHIES

A European firm can **work locally with charities in its community**, or may look to start **projects with offices around the world**, where the culture, politics and economies might be different. International private equity firm 3i began with a locally-focused philanthropic approach, working directly with people in need close to their offices.[127] This allowed the firm to leverage its network and physical assets. One example is The Passage, an organisation for the homeless near the London HQ, which they provided with marketing, branding, fundraising, networking and financial support, as well as office space for events.

"THE VISION TO APPLY THE VENTURE CAPITAL PHILOSOPHY AND ITS TECHNIQUES IN THE PHILANTHROPY SECTOR WAS AWESOME AND IN MY MIND OPENED UP A NEW VENUE OF THINKING ON ENTREPRENEURIAL OPPORTUNITY AND WEALTH CREATION IN ECONOMICALLY UNDERDEVELOPED COUNTRIES".

MICHIEL DE HAAN, FOUNDER OF AESCAP AND ATLAS VENTURE[128]

[124] Cardini, F., Chief Operating Officer, General Counsel, Senior Managing Director, Towerbrook Capital Partners, LLP. (February 2, 2011), EVPA Interview.

[125] Blokhuis, Matthijs, Investment Manager, Noaber Ventures. (February 4, 2011), EVPA Interview.

[126] Giddens, Michele, Executive Director, Bridges Ventures (February 7, 2011), Email to EVPA.

[127] Dunne, P., Group Communications Director, 3i, and Chairman, Leap confronting conflict. (January 28, 2011), EVPA Interview.

[128] de Haan, M., Founder of Aescap and Atlas Venture, co-founder EVPA (April 18, 2011), EVPA Newsletter.

PART 3: GENERAL CONSIDERATIONS

"FROM THE CREATION OF THE SOCIAL ENTREPRENEURSHIP INCUBATOR SOCIAL IMPACT INTERNATIONAL TO MY DIRECT SOCIAL INVESTMENTS IN INDIA, I HAVE ALWAYS CONSIDERED MY SOCIAL ENGAGEMENT AS A NATURAL COMPLEMENT TO MY PROFESSIONAL CAREER AS AN IT ENTREPRENEUR AND THEN AS A VENTURE CAPITALIST".

ERIC ARCHAMBEAU, GENERAL PARTNER, WELLINGTON[129]

Branching their philanthropic efforts outside the UK, 3i looked for charities in countries where they felt their help would go the farthest. They identified Goonj Community Links, an SPO in Mumbai, India that works in the nearby Dharavi slum. Patrick Dunne noted, "**The culture of giving is different around the world**." In Europe, more social services tend to be provided for, so there is less of a culture of philanthropy. 3i decided to support an SPO near their Mumbai office, where they felt the impact would be greater than in another European country. To establish a charitable relationship, they looked to 3i offices for **local champions** to support the efforts nearby. "You need the right attitude … someone who really believes in it. You want massive advocates, good at enlisting support," said Dunne.[130]

CVC has a large geographic spread and is looking to **engage with its global branches** for its long-term philanthropic programme. In England, they support VPO Impetus Trust and were looking for other VPOs around the world to support and co-invest with. They discovered German venture philanthropy organisation Active Philanthropy through the Private Equity Foundation and have now donated to it through PEF with the goal of expanding giving to VPOs in other European countries. Spurred by its search for VPOs in other geographies, CVC is hoping to use its foundation to help **incubate VPOs in new markets**. To this end, they have also became a founder sponsor of the Asian Venture Philanthropy Network, EVPA's sister organisation in Asia.[131]

Another approach is that of PE firm Permira. It found that different offices had different needs and resources, so they let regional offices determine their own philanthropic engagement. In addition to the UK office, the German and Italian offices work with local charities. To the firm this approach is in line with Permira's overall flat culture and decentralised structure.[132]

III) PROVIDING FINANCIAL CAPITAL

Financing Social Initiatives

The firms we interviewed used one or more of the following financing strategies:

- Funding from a budget
- Foundation receives a percentage of the firm's profits, management fee and/or carried interest
- Match employee donations, typically through an established foundation
- Host fundraising events and volunteer days
- Partner with others to provide additional funding

[129] Archambeau, E., General Partner, Wellington, (March 22, 2011), Email to EVPA.

[130] Dunne, P., Group Communications Director, 3i, and Chairman, Leap confronting conflict. (January 28, 2011), EVPA Interview.

[131] Grizzelle, M., Partner and CFO and Howard, J., Marketing and Investor Relations Manager, CVC Capital Partners. (January 20, 2011), EVPA Interview.

[132] de Andia, N., Media Relations, Permira, (February 8, 2011), EVPA Interview.

IV) PROVIDING INTELLECTUAL CAPITAL

"You can solve all logistical problems if you care. You just make the time."[133] – *Patrick Dunne, Communications Director, 3i*

Key Processes Where PE Professionals Can Help

- Due diligence
- Leverage marketing, IT, legal departments
- Draft business plans
- Serve on investment committee, board, etc
- Mentoring charity management
- Aiding in the event of a merger or acquisition

Whether working directly for social purpose organisations, through venture philanthropy organisations or foundations, PE firm provision of intellectual capital can be of tremendous value. Firms find methods of engagement that work for them ranging from informal to more structured programmes.

Anne Holm Rannaleet, Director, IK Aid and Relief Enterprise Ltd noted that the skill set and networks IK brought to the project made the biggest impact for sustainability, rather than the funding. Helping the local entrepreneurs, supporting the organisation, assisting with project management skills and corporate governance practices helped create a sustainable solution. This was a key difference between other types of more passive philanthropy the firm had engaged in before.[134]

"The Private Equity Foundation and TowerBrook … are not just supplying start-up funding but have provided access to practical help to get the charity off the ground. It's that combination of money and 'add on' pro bono expertise and practical help, ranging from legal and financial assistance to management support, which has been so invaluable to us..." *– Sophie Livingstone, Chief Executive of City Year London*[135]

Informal Engagement

With high workload at PE firms, it is difficult to structure pro bono efforts, but this may be an advantage for the firm's employees and the charities they support. Because of the limited staff at 3i – they have around 400 employees - and the fast-paced and high-pressure nature of the business, Dunne noted, "It's very hard to commit a Thursday a week, for example." Instead, pro bono efforts are largely fluid and **informal** at the firm. Dunne noted that this actually encourages their adoption and growth. "These things can sometimes be killed if there is too much process around them," he said, "There is a degree of freedom, which people welcome." If employees meet their objectives, they are

[133] de Andia, N., Media Relations, Permira, (February 8, 2011), EVPA Interview.

[134] Holm Rannaleet, A., Director, IK Aid and Relief Enterprise Ltd. (December 20, 2010), EVPA Interview.

[135] "PEF and TowerBrook invest in youth capital", PEF website: http://www.privateequityfoundation.org/press/press-releases/pef-and-towerbrook-invest-in-youth-capital/ (Accessed January 2011).

PART 3: GENERAL CONSIDERATIONS

given freedom to engage in projects as they like. This flexibility is a welcome break from a structured and rigorous job, and is an employee's own choice rather than a top-down responsibility.

Dunne noted that informal engagement also helped focus efforts where they count. Employees and charity management first identify how 3i can help a charity increase its impact, and then employees focus on those aspects, without involving themselves in the organisation's operations unless asked to. This helps to avoid a risk that the firm might become overbearing on a charity.

3i also noted that taking roles such as **trustees or sitting on committees** are ways employees get involved in their personal time.

Pro bono work is necessarily a **personal choice**. Dunne noted that, "Most do philanthropic work in the evenings, or may take a morning off to visit a charity, but will likely make up that morning at another time."[136] With demanding work schedules, personal commitment is necessary, though those who commit have found it highly rewarding.

Natixis Private Equity also takes an informal approach to its pro bono work. They host an office breakfast once per month where PhiTrust, a VPO, presents portfolio charities to NPE staff and PhiTrust investors. These breakfasts offer a chance for partners to get more involved in specific issues and to determine what is needed and who has the right skills to help.[137]

At TowerBrook Capital Partners, interested employees volunteer personal time to offer pro bono services to partner charities. Involvement varies by a few hours a week to every month or once or twice a year at organised events. Once or twice a year the firm allows a **half-day charity event** and have given an extra half-day holiday to those who participated. Pro bono work is typically project-based and bespoke, but some employees also serve regularly as members of committees or trustees or on boards.[138] Filippo Cardini, COO, is a trustee and Vice Chairman of one of the charities.

A More Structured Approach

Natixis Private Equity works with PhiTrust on an ad hoc basis, **matching employees to issues for specific meetings or tasks**. For each new investment, they endeavour to provide due diligence and legal support. In 8-10 investments, they have performed reporting and evaluation services. Time for the partners is a major hurdle. Xavier Thauron, Directeur des Risques at NPE, noted that, "it's not easy because the right skills may not be free at the moment."[139] With 200 people at the local office, dedicated and highly involved with work, it can be difficult for them to make time for other activities.

In the coming year, CVC aims to establish a more **structured pro bono arrangement** with Impetus Trust. "Unlike professional firms in accounting, law or consulting, we have a varied workload – crisis and deal related, so it's difficult to assign people for any particular length of time," Mark Grizzelle noted[140]. To combat this issue, the firm aims to first **map out particular expertise** of individuals at the firm who are interested in volunteering. Then they will liaise with the VPO and, as Mark Grizzelle explained, "Say, we have this range of expertise, have a look at your portfolio and try and identify where this expertise can be of benefit, then we will try to match the individual with the requirement."

[136] Dunne, P., Group Communications Director, 3i, and Chairman, Leap confronting conflict. (January 28, 2011), EVPA Interview.

[137] Thauron, X., Directeur des Risques, Natixis Private Equity, (December 20, 2010), EVPA Interview.

[138] Cardini, F., Chief Operating Officer, General Counsel, Senior Managing Director, TowerBrook Capital Partners, LLP. (February 2, 2011), EVPA Interview.

[139] Thauron, X., Directeur des Risques, Natixis Private Equity, (December 20, 2010), EVPA Interview.

[140] Grizzelle, M., Partner and CFO and Howard, J., Marketing and Investor Relations Manager, CVC Capital Partners. (January 20, 2011), EVPA Interview.

The firm has also executed events matching firm expertise with SPO needs, via the VPO Impetus Trust.[140] Jane Howard, Marketing and Investor Relations Manager at CVC, set up a workshop for Impetus Trust portfolio CEOs on structuring and presenting pitches. The firm's Head of IT aided a specific charity with guidance on their IT system. Other CVC employees have sat on the investment committee and input in the charity screening process. So far employees have positively reviewed philanthropic efforts at the firm.

"This was my first project of this kind. Impetus projects are highly sought after, so I was really pleased to be chosen for one. They are completely different, and give everyone a chance to put the principles we apply all the time in our corporate work, to use in a charity. It's really exciting because there, it's not about how to make money, but how to use what you've got most effectively, which is quite a different way of looking at things."[142] *– Vicky Walton, an OC&C strategy consultant, worked on a review of Impetus portfolio charity IntoUniversity.*

At Permira, a more structured approach with its partner VPO works fluidly. Permira co-founded its own VPO and staff serve on the Investment Committee of the VPO, currently Breakthrough.[143] During the investment process, 1-2 employees are called upon for their relevant skills or knowledge and paired with an organisation. These individuals then **work with the charity through the process, providing a few hours a week in assistance**. For the charity FairShare, which recycles food waste from large retailers and redistributes it to those in need, the person heading investment in Permira portfolio company Birds Eye Foods was paired for her familiarity with the food industry. The firm also provides IT, communications and legal support. After a successful two VPO funds, Permira decided to launch a new initiative with five co-founding professional services firms in order to bring its partner SPOs a broader spectrum of expertise.

A note of caution

Patrick Dunne of 3i also noted that social awareness is also important throughout pro bono support, "You need to understand the world that charity might operate in, otherwise you might alienate people in that environment."[144]

V) PROVIDING SOCIAL CAPITAL

Providing social capital, or tapping into vast professional networks, including strategic advisory companies, accountants and attorneys, can in some cases be one of the biggest ways of assisting philanthropic or charity partners.

"We can add value - the network concept – **is there any synergy between portfolio companies?** We control 50 companies globally. Some of those firms themselves have their own charity and philanthropy programmes. Can we use that network? Is there any benefit or overlap?"[145] *– Mark Grizzelle, CVC Capital Partners*

"FOR THE PAST SEVEN TO EIGHT YEARS, I HAVE SEEN THE INTEREST FOR VENTURE PHILANTHROPY GROW DRAMATICALLY WITHIN THE VC AND PE COMMUNITY ACROSS EUROPE. THIS IS NOT ONLY A TESTIMONY OF OUR SOCIETAL CONSCIENCE, IT IS A CLEAR DEEP TREND OF AN EVOLVING MINDSET"

JAVIER ECHARRI, FORMER SECRETARY GENERAL, EVCA[146]

[141] *Grizzelle, M., Partner and CFO and Howard, J., Marketing and Investor Relations Manager, CVC Capital Partners. (January 20, 2011), EVPA Interview.*

[142] *Stillman, A., Director of Communications, Impetus Trust (March 3, 2011), Email to EVPA.*

[143] *de Andia, N., Media Relations, Permira, (February 8, 2011), EVPA Interview.*

[144] *Dunne, P., Group Communications Director, 3i, and Chairman, Leap confronting conflict. (January 28, 2011), EVPA Interview.*

[145] *Grizzelle, M., Partner and CFO and Howard, J., Marketing and Investor Relations Manager, CVC Capital Partners. (January 20, 2011), EVPA Interview.*

[146] *Echarri, J., Former Secretary General, European Private Equity and Venture Capital Association (March 24, 2011), Email to EVPA.*

PART 3: GENERAL CONSIDERATIONS

Aside from supporting venture philanthropy organisations in their work through financial or pro bono support CVC believes that a crucial benefit PE firms can bring to the social sector is their immense networks. A PE firm has a wide network of professional services firms as well as its own portfolio companies across the world. CVC has already introduced investment banks to Impetus Trust's operations. With time, this involvement has the potential to blossom into important synergies across sectors. Mark noted **that facilitating could be an enormous role** in addition to direct financial and non-financial support.

3i also harnesses its vast network to help charities increase their reach and raise funds from others. 3i's social purpose organisation, Education Trust (EET), is a social purpose organisation that works in schools to increase children's knowledge of business. A staff member identified this need and founded EET over 30 years, securing funding from 3i and organising fellow business people to volunteer their skills and speak in schools. 3i has supported EET every year since its founding and used its network to encourage other companies like Shell and Ernst & Young to contribute. Now over 100,000 children go through the programme each year. From the beginning, EET was organised with a VP approach using the PE firm's network.

Investindustrial **influences its portfolio companies**. An example is its work with portfolio company Portaventura, a theme park located in Spain. Investindustrial encouraged Portaventura to start its own foundation and has introduced the 1% club concept. From each ticket sold €1 is set aside for the foundation, which will develop its projects with this funding.[147]

With its commitment to the initiative to Stamp out Sleeping Sickness, IKARE, the VPO started by IK Investment Partners, was one of several key players. The project itself was brought to their attention by then **portfolio company** CEVA, which donated the drugs and insecticides for the initiative. Gardena, a leading gardening company, and also an IK portfolio company at the time, provided pump sprayers necessary for administering the insecticide and Kwintet, another portfolio company, provided protective boots to all graduating veterinarians who had taken part in the in-field treatment.[148] The firm also **used its network** to identify an individual who could train the young graduated veterinarians with business skills in order to set up and successfully run their own veterinary practices and drug shops.

[147] *Gropello, U., Director, Invest for Children. (March 3, 2011), Email to EVPA.*

[148] *Holm Rannaleet, A., Director, IK Aid and Relief Enterprise Ltd. (December 20, 2010), EVPA Interview.*

PART 4:

CONCLUSION

A. MOTIVATION

From our research, we find that three general motivations for PE firms to become involved in venture philanthropy are:

1. Altruism – Many firms and individuals feel a desire to give back to their communities and financial and in-kind support are ways to do so that fit with in-house resources and capabilities. Some firms choose to work with organisations near their offices so they can use their resources for positive impact on the local community. With demanding work schedules, **personal commitment is necessary**, though those who commit have found it **highly rewarding**. Patrick Dunne, Group Communications Director of 3i said, "It's tremendously rewarding. It costs money and time, but in terms of sitting down at Christmas and thinking what the year was like, you find yourself thinking of those [volunteering projects] things."[149]

2. Staff motivation and development – Working with SPOs can **help employees develop skills** like judgment, resilience and social skills. Firms have reported high employee satisfaction with institutionalised processes for donating time and skills. Also, for firms in offices across national borders and with international staff, **working together on a common project can be a unifier**. For example, Natixis Private Equity was drawn to its partnership for the potential impact on firm employee cohesion[150]. As a firm with teams across buildings and countries, working with VPO PhiTrust and being involved in a common philanthropic project had the potential to stimulate a community feel.

"It's rewarding to share your business skills with people who work in a field that positively transforms people's lives. It broadens your horizon, you get to meet a broad range of varied and interesting people and many of us get an additional sense of purpose from it."[151] – *Noemie de Andia, Media Relations, Permira*

Of employees who work on venture philanthropy projects, Patrick Dunne noted: "They are probably more motivated, and sometimes more incisive. If you spend a morning with a charity that's tight on funding and really focused on an important social issue and you come back to the office you might then go in a meeting that might take more time and where the content might be given a higher weighting than perhaps it should do in the context of what really matters then you cut through the crap pretty quickly."[152]

3. Public and investor perceptions – Consumers and investors increasingly look for attention to environmental and social factors in choosing service providers and involvement in VP can **establish PE firms as positive social actors**. For example, Natixis Private Equity felt involvement would be good for the image of PE, demonstrating that the techniques from the profession could be used for social purposes.[153] NPE was attracted to the idea of growing this young industry and spreading awareness among other firms, and has so served as a founding sponsor of EVPA and of PhiTrust, providing needed legitimacy and funding to the sector.

"MANY PROFESSIONALS IN THE PRIVATE EQUITY INDUSTRY ENGAGE IN PHILANTHROPIC ACTIVITIES AND I REGARD IT AS AN ESSENTIAL WAY OF GIVING BACK. PANTHEON HAS LONG SUPPORTED THE VENTURE PHILANTHROPIC MOVEMENT IN EUROPE AND ENCOURAGES THE COMMUNITY ENGAGEMENT OF ALL OF ITS STAFF."

ALASTAIR BRUCE, MANAGING PARTNER, PANTHEON[154]

[149] *Dunne, P., Group Communications Director, 3i, and Chairman, Leap confronting conflict. (January 28, 2011), EVPA Interview.*

[150] *Thauron, X., Directeur des Risques, Natixis Private Equity, (December 20, 2010), EVPA Interview.*

[151] *de Andia, N., Media Relations, Permira, (February 8, 2011), EVPA Interview.*

[152] *Dunne, P., Group Communications Director, 3i, and Chairman, Leap confronting conflict. (January 28, 2011), EVPA Interview.*

[153] *"NPE et la Venture Philanthropy", PowerPoint Presentation, EVPA Petit déjeuner, France (June 2010). 152 www.avpn.asia*

[154] *Bruce, A., Managing Partner, Pantheon, (March 21, 2011), Email to EVPA.*

PART 4: CONCLUSION

B) ENGAGEMENT MODELS

In this paper, we identified three main ways that PE firms can engage in venture philanthropy.

1. Directly support Social Purpose Organisations (SPO) through hands-on engagement

This engagement model means that the **PE firm itself supports selected social purpose organisations with financial resources and/or non-financial support**, employing some form of the VP methodology. This strategy can be used when the firm wishes to establish stronger ties with the local community, and when the firm is better able to leverage intellectual and social capital as opposed to financial capital. To make the strategy work, it helps to have **passionate individuals in local offices that can spearhead involvement, as well as senior management support**, and the strategy requires a certain amount of organisation and initiative on the part of the firm. 3i is an example of a PE firm using this strategy.

2. Invest in or co-invest with a Venture Philanthropy Organisation (VPO) through financial or in-kind support

PE firms can **invest money and human capital in a VPO** that assures that **resources are allocated efficiently and effectively**, with a reduction in management costs and time and resources spent on due diligence of SPOs and transaction costs. Many VPOs rely on assistance from professional services firms and offer a convenient and rewarding way for PE firms to get involved. This engagement model is appropriate for firms lacking in-house social sector knowledge, wishing to support the VP concept without investing the resources in setting up their own initiative, or as a first step towards setting up a separate entity. Examples of PE firms using this strategy are Natixis Private Equity and CVC Capital Partners.

The vehicle for investment may be a separate foundation. Starting a foundation can be a good way to **formalise giving into the culture of the firm**. Through the foundation, firms can invest in VPOs or co-invest with them in SPOs if the firm wants greater freedom in terms of choosing which SPOs to invest in, while outsourcing the investment process to the VPO. A separate foundation may be a favourable strategy for tax and legal reasons, and when seeking to gain legitimacy of the firm's philanthropy efforts. Apax Partners is an example of a firm that invests directly in VPOs through its foundation, and TowerBrook Foundation co-invests with a VPO.

3. Found or co-found a separate VPO to address an unmet need

Setting up a new VPO is an appropriate strategy for firms that are able to make a **significant commitment of time and resources**, including full-time staff dedicated to VP, and for firms that are looking to do something bigger, with unique visibility, involving the firm as a team. When adding a VP arm to the PE firm, care should be taken to make a clear separation between mission, remuneration schemes, return expectations and investment process of both entities. Investindustrial, Permira, IK Investment Partners and Ferd are examples of PE firms that have set up separate VPOs, either independently or in partnership with others. BonVenture, Bridges, Business Angels des Cités, Citizen Capital, Oltre Venture and Noaber Foundation are examples of initiatives that include venture capital funds with a social mission.

The table below summarises the engagement models identified in the study:

Model of engagement	When	Why	How	PE firm examples
1. Directly support SPOs	Firm would like to **work locally**, and is unable to contribute much capital - can help more with **pro bono services**	Proximity to charities offers **in-kind benefits** and can **attract other funders**, increasing impact and sharing financial costs	Tap firm's **social capital/ professional network** and identify **local champions** at regional offices	3i, Permira
2. Invest in or co-invest with a VPO	Firm is **lacking** in-house **social sector knowledge** and prefers to use a **trusted intermediary** using a VP approach	Contribute resources **without** incurring **management costs**, while **reducing risk** and transaction costs	Choose VPO based on firm's **criteria** and develop a **longer-term partnership**, contributing financial resources and pro-bono support	Natixis, CVC, TowerBrook Foundation
3. Found or co-found a separate VPO	Firm is able to make a **significant commitment** of time and resources, such as full-time staff, investment in social sector knowledge and a long-term plan	Focus new VPO on areas of importance not adequately addressed elsewhere with a focus on **societal issues**	Add a **dedicated VP arm** to PE firm to complement existing business or **pool resources** in a new initiative to draw diverse resources and achieve greater scale	Investindustrial, Permira, IK Investment Partners

C) FINAL WORDS

The private equity community has much to offer the social sector in financial, intellectual and social resources, with much to be gained in return. For every firm's available resources and unique plans, there is a way to get involved, whether through supporting social purpose organisations directly, by investing in or with a VP organisation, and co-founding or founding a VP organisation. Venture philanthropy is as yet a nascent industry; some say it is where the venture capital and private industry was 20-30 years ago. EVPA and partner network AVPN[155] (Asian Venture Philanthropy Network) are working across continents to help build the industry and bring new methods of financing and non-financial assistance for a stronger social sector. PE firms have a major role to play in the development of this industry - the ultimate aim being to contribute to improving the society we live in. EVPA hopes this paper will inform and assist firms in analyzing the options and planning their philanthropic engagements.

More information available at **http://evpa.eu.com**

[155] *www.avpn.asia*

SOURCES

3i Corporate Responsibility Report (2010).

3i Website: http://www.3i.com/about3i.html, http://www.3i.com/about3i/key-facts.html (Accessed December 2010).

Apax Foundation website: http://www.apax.com/en/1717.html , (Accessed December 2010).

Baker, S., Spiro, M., & Hamm, S. (August 14, 2000), "The Fall of Baan" (int'l edition), BusinessWeek, (August 14, 2000).

Balbo, L., Hehenberger, L., Mortell, D., & Oostlander, P. (2010), "Establishing a Venture Philanthropy Organisation in Europe", EVPA Knowledge Centre Research Paper.

Buffini, Damon, (July, 2006), Launch of Breakthrough I

CAN Website: http://www.can-online.org.uk/pages/about_us.html, (Accessed December 2010).

Cohen, Sir Ronald, Private Equity News, via Ashoka Arab World: http://ashokaarabworld.wordpress.com/2009/09/17/social-entrepreneurship-and-private-equity-should-it-always-sound-like-an-oxymoron/ (Accessed February 2011).

Cohen, Sir Ronald, EVPA Annual Conference. (2010), Luxembourg, EVPA Interview.

CVC Capital Partners website: http://www.cvc.com/Content/EN/OurApproach/OurFunds.aspx (Accessed December 2010).

De Guerre, O., President, PhiTrust, (January, 2011), EVPA Newsletter

de Haan, M., Founder of Aescap and Atlas Venture, co-founder EVPA (April 18, 2011), EVPA Newsletter.

Dey, I. and Pfeifer, S. "The Low-Key Rise of the Smart Trousered Philanthropist", (October 22 2006), The Telegraph.

"Do pro bono consultants care less about their work than paid partners?" (June 2010), Session Notes, EVPA Site Visit to Impetus Trust.

European Venture Philanthropy Directory (2010/2011), EVPA Publication.

Goebel, M. (March 26, 2010), "Private Equity to Philanthropy: Taking Responsibility", Unquote: http://www.unquote.com/unquote/analysis/1598507/private-equity-philanthropy-taking-responsibility

Giotis, C., "Two CEOs and zero incentives don't make a merger, conference warned", (November 4, 2009), http://www.socialenterpriselive.com/section/news/management/20091104/two-ceos-and-zero-incentives-don%E2%80%99t-make-merger-conference-warned

Impetus Trust Newsletter, (June 2010).

InvestIndustrial website: http://www.investindustrial.com/en/about-us/southern-european-leader-with-a-global-footprint, (Accessed December 2010).

"Investing for Impact: Case Studies Across Asset Classes," Bridges Ventures.

"I want to lose a fortune", (September 2007), Intelligent Life, http://moreintelligentlife.com/node/182

John, R.,"Venture Philanthropy: the evolution of high engagement philanthropy in Europe," (2006), Skoll Centre for Social Entrepreneurship, Said Business School, University of Oxford.

JPA Survey (2008), "Existing Venture Philanthropy Funds Characteristics: A Preliminary Overview"

SOURCES

"Le marché de la Venture Philanthropy", (November 2010), Natixis Private Equity.

Letts, C., Ryan, W. and Grossman, A. (1997), "Virtuous Capital: What Foundations Can Learn from Venture Capitalists", Harvard Business Review

Lewis, T. (2009) "Philanthropy climbs higher up private equity agenda", Private Equity News, September 2009

Marathon of Marathons website: http://www.marathonofmarathons.org/home.aspx (Accessed January 2011).

Maretich, M. and Bolton, M. (2010), "Social Enterprise: From definitions to developments inpractice", EVPA Knowledge Centre Research Paper.

Metz Cummings, A. and Hehenberger, L. (2010), "Strategies for Foundations: When, why and how to use Venture Philanthropy", EVPA Knowledge Centre Research Paper.

Miller, D. (2003), "Give something back", Real Deals.

NESsT website: http://www.nesst.org/privateequityshares/ (Accessed January 2010)

"NPE et la Venture Philanthropy", PowerPoint Presentation, EVPA Petit déjeuner, France (June 2010).

Noaber Foundation and Noaber Ventures website: http://www.fbn-i.org/summit/09.nsf/doclu/socialent?OpenDocument, (Accessed December 2010).

Oostlander, P. (November 2010), Non-Member Session Presentation, EVPA Conference 2010 Luxembourg.

"PEF and TowerBrook invest in youth capital", PEF website: http://www.privateequityfoundation.org/press/press-releases/pef-and-towerbrook-invest-in-youth-capital/ (Accessed January 2011).

"Permira Doubles Investment in Charity Fund", Private Equity Online, http://www.can-online.org.uk/data/files/pages/private_equity_online.pdf

Permira website: http://www.permira.it/chi-siamo/investimenti-breakthrough, (Accessed January 2011).

Permira website: http://www.permira.com/about-us (Accessed January 2011).

Permira website: http://www.permira.com/media-centre/permira-news/2010/feb/15/breakthrough-investment-update (Accessed January 2011).

Porter, M.E. and Kramer, M.R. (1999) "Philanthropy's New Agenda: Creating Value", Harvard Business Review.

Private Equity Foundation website: http://www.privateequityfoundation.org/about-us/our-goals/ (Accessed December 2010)

Private Equity Foundation website: http://privatequityfoundation.org/newsletter/july-2008/putting-something-back-pro-bono-case-study/ (Accessed December 2010).

Private Equity Foundation website: http://privateequityfoundation.org/newsletters/november-2008/case-study-a-deal-team-with-a-difference/ (Accessed December 2010)

Raicher, S., EVPA Chairman, (April 18, 2011), EVPA Newsletter

Social Business Trust website: http://www.socialbusinesstrust.org/about-us/our-partners/, (Accessed February 2011).

Social Capital Market News Briefs: http://archive.constantcontact.com/fs047/1101902708153/archive/1102202652518.html

Thauron, X., Directeur des Risques, Natixis Private Equity (2010), "NPE et la Venture Philanthropy", PowerPoint Presentation, EVPA Petit déjeuner.

The Young Foundation & Arbor Square Associates, (March 2008), "The Role of Private Equity in Social and Sustainable Development".

Towerbrook website: http://www.towerbrook.com/about/ (Accessed January 2011).

TowerBrook Foundation website: http://www.towerbrook.com/foundation/ (Accessed January 2011).

"Understanding Diversity and Working Toward Integration" Invest4Children, PowerPoint available online: http://www.investforchildren.org/powerpoint.asp, (Accessed December 2010).

www.avpn.asia

Interviews/Emails

Ahlström, M., Founding Partner, Procuritas (March 21, 2011), Email to EVPA.

Archambeau, E., General Partner, Wellington, (March 22, 2011), Email to EVPA.

Balbo, L., Founder, Oltre Venture (April 13, 2011), Email to EVPA

Blokhuis, M., Investment Manager, Noaber Ventures, (February 4, 2011), EVPA Interview.

Bonomi, C., Founder, Investindustrial Advisors, (March 29, 2011), Email to EVPA.

Bruce, A., Managing Partner, Pantheon, (March 21, 2011), Email to EVPA.

Campbell, J., Senior Partner, Campbell-Lutyens, (February 7, 2011), Email to EVPA.

Cardini, F., Chief Operating Officer, General Counsel, Senior Managing Director, Towerbrook Capital Partners, LLP. (February 2, 2011), EVPA Interview.

Coller, J., Founder and Partner, Coller Capital (March 25, 2011), Email to EVPA.

Comoli, L. Director of Client & Investor Relations, NESsT. (February 1, 2011), Email to EVPA.

de Andia, N., Permira, Media Relations. (February 8, 2011), EVPA Interview.

de Blignières, G., Chairman, Barclays Private Equity (March 21, 2011), Email to EVPA.

De Ridder, P., Partner, Halder (March 28, 2011), Email to EVPA.

Doughty, N., co-Founder and co-Chairman, Doughty Hanson &co (March 21, 2011), Email to EVPA.

Dunne, P., Group Communications Director, 3i, and Chairman, Leap confronting conflict. (January 28, 2011), EVPA Interview.

Dunne, P., Group Communications Director, 3i, and Chairman, Leap confronting conflict. (March 11, 2011), Email to EVPA.

Echarri, J., Former Secretary General, European Private Equity and Venture Capital Association (March 24, 2011), Email to EVPA

SOURCES

Englander, P., Chief Executive, Apax Partners (February 11, 2011), Email to EVPA.

Fairbairn, A., Towerbrook Capital Partners, LLP, (February 2, 2011), Email to EVPA.

Giddens, M., Executive Director, Bridges Ventures (February 7, 2011), Email to EVPA.

Grizzelle, M., Partner and CFO and Howard, J., Marketing and Investor Relations Manager, CVC Capital Partners. (January 20, 2011), EVPA Interview.

Gropello, U., Director, Invest for Children. (February 2, 2011), Email to EVPA.

Gropello, U., Director, Invest for Children. (December 13, 2010), EVPA Interview.

Gropello, U., Director, Invest for Children. (March 3, 2011), Email to EVPA.

Holm Rannaleet, A., Director, IK Aid and Relief Enterprise Ltd. (December 20, 2010), EVPA Interview.

Höppner, D., Secretary General, European Private Equity and Venture Capital Association (April 4, 2011), Email to EVPA.

Markey, K., Deputy Chief Executive, CAN & CAN Mezzanine. (March 11, 2011), Email to EVPA.

Oostlander, P. Director, Noaber Foundation. (February 5, 2011), Email to EVPA.

Schmidt, J-B., Founder, Sofinnova Partners, (April 11, 2011), Email to EVPA.

Sousou, R. Founder and co-CEO, TowerBrook Capital Partners. (March 22, 2011), Email to EVPA.

Stillman, A., Director of Communications, Impetus Trust (March 3, 2011), Email to EVPA.

Thauron, X., Directeur des Risques, Natixis Private Equity, (December 20, 2010), EVPA Interview.

EVPA is a fast-growing membership association supporting and promoting venture philanthropy across Europe. EVPA supports its members by providing a forum for mutual learning, data and research on venture philanthropy, and training programmes on topics relevant to all stages and activities of a venture fund.

The EVPA Knowledge Centre is the hub for European knowledge and thought leadership on venture philanthropy. Its mission is to:

1. Provide EVPA members with resources and knowledge to assist them in the development of strategy and best practice .
2. Provide EVPA / VP field with legitimacy to:
    - Inspire professionals and attract funding;
    - Enable academic research;
    - Engage in public information.
3. Connect practitioners, academics and advisors around field know-how.

EVPA is kindly sponsored by 3i Group PLC, Barclays Private Equity and Pantheon Ventures (UK) PLC

European Venture Philanthropy Association
78 Avenue de la Toison d'Or
1060 Brussels
Belgium

www.evpa.eu.com

The EVPA Knowledge Centre is kindly sponsored by Natixis Private Equity

EVPA is extremely grateful to Fondazione CRT, Impetus Trust Invest for Children and Noaber Foundation for their generous support

ISBN: 0-9553659-8-8

€20.00

VENTURE PHILANTHROPY