



Community Development Venture Capital

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Agenda

- ★ **The CDVC model**
- ★ **Statistical overview of the industry**
- ★ **Industry trends**
- ★ **Financial and social returns**

The CDVC Model

The Double Bottom Line

- ✿ Pursue market rates of return for investors
- ✿ Pursue social returns by creating good entry-level employment and economic activity in underinvested areas

Markets

- ★ Rapidly growing businesses with proprietary technologies or other competitive advantages
 - ★ Where in the new economy are good jobs being created?
- ★ Rural and inner-city markets where other VCs do not compete
 - ★ Proprietary deal flow with lower valuations
- ★ Smaller companies in industries not typically served by traditional VCs
 - ★ Diversity and lower beta

Management

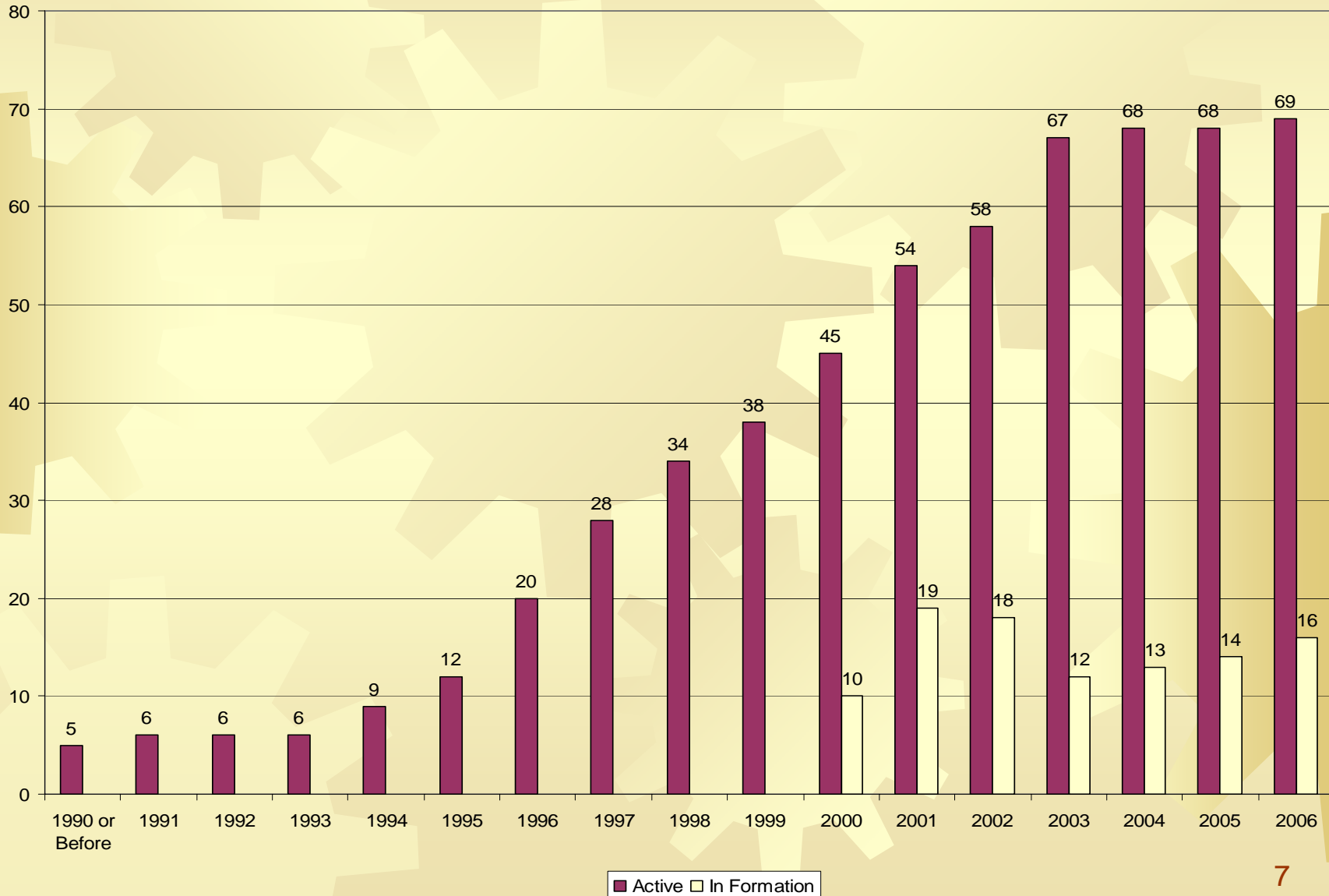
- ★ Experienced venture capitalists and economic development professionals
 - ★ Strong roots in and understanding of local markets
 - ★ Experts in inner-city and rural businesses
 - ★ Experts in growing companies with large entry-level workforces
 - ★ Relationships with economic development agencies and government
 - ★ Access to resources other VCs don't have
- ★ Volunteer VCs on investment committees and business people who provide entrepreneurial mentoring

A Small but Rapidly Growing Industry

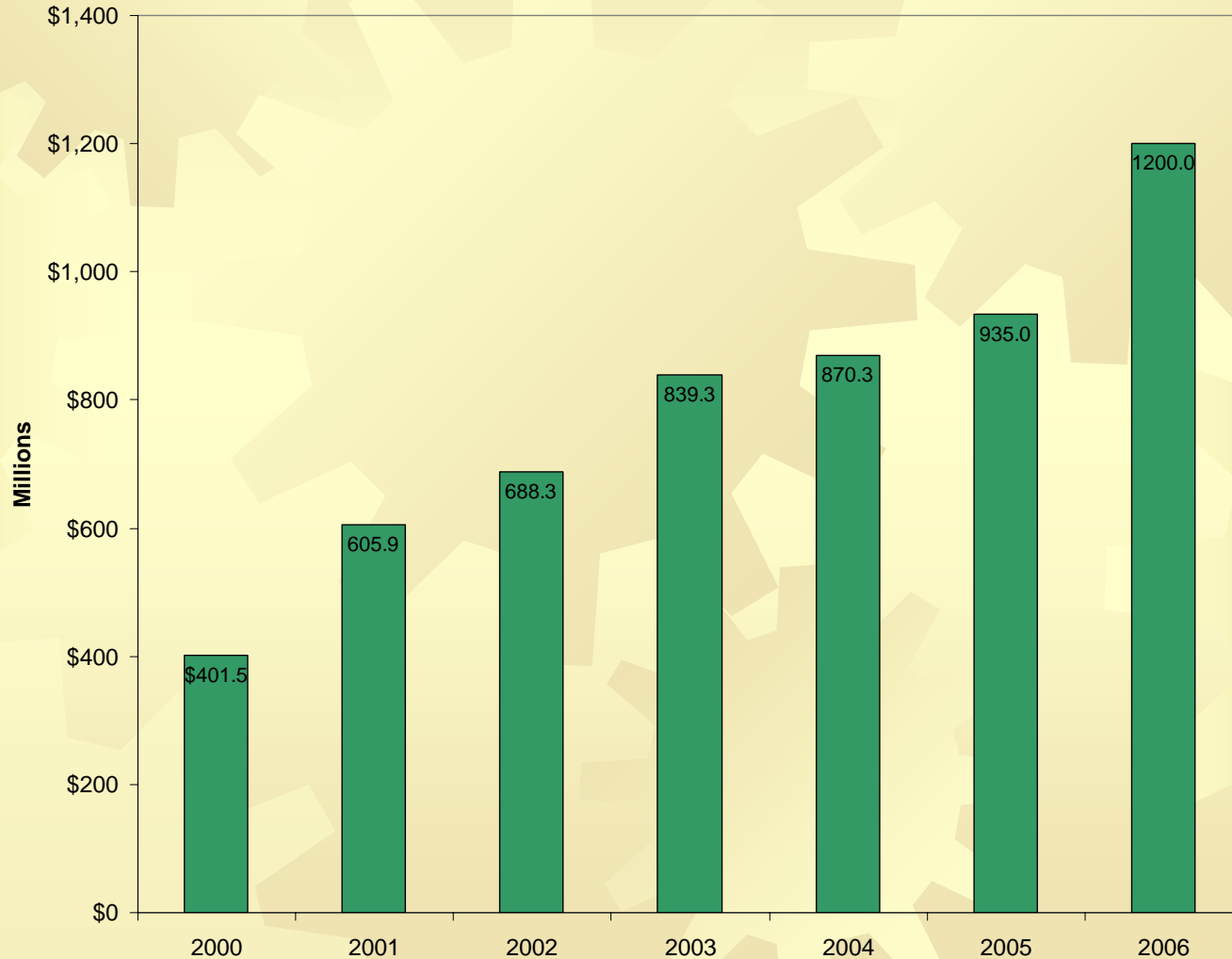
- ★ 69 funds in the United States, with others forming throughout the world
- ★ \$1.2 billion under management domestically

Growth of Industry

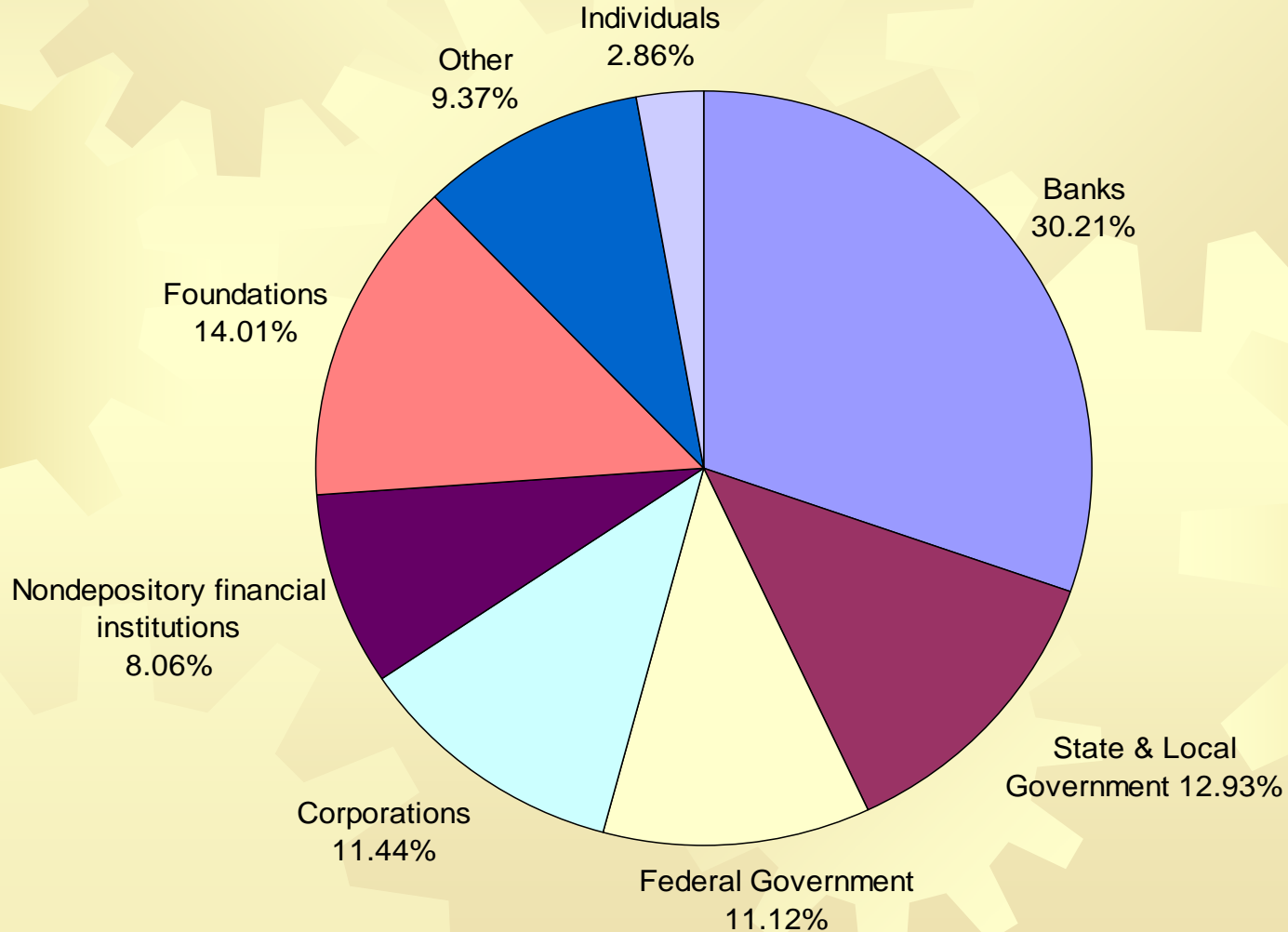
Number of Funds Active or In Formation



Growth in CDVC Capital Under Management



Sources of Capital for CDVC Funds



Fund and Investment Size

- ☀ Fund Size of newer funds:

- ☀ \$25 – 75 MM

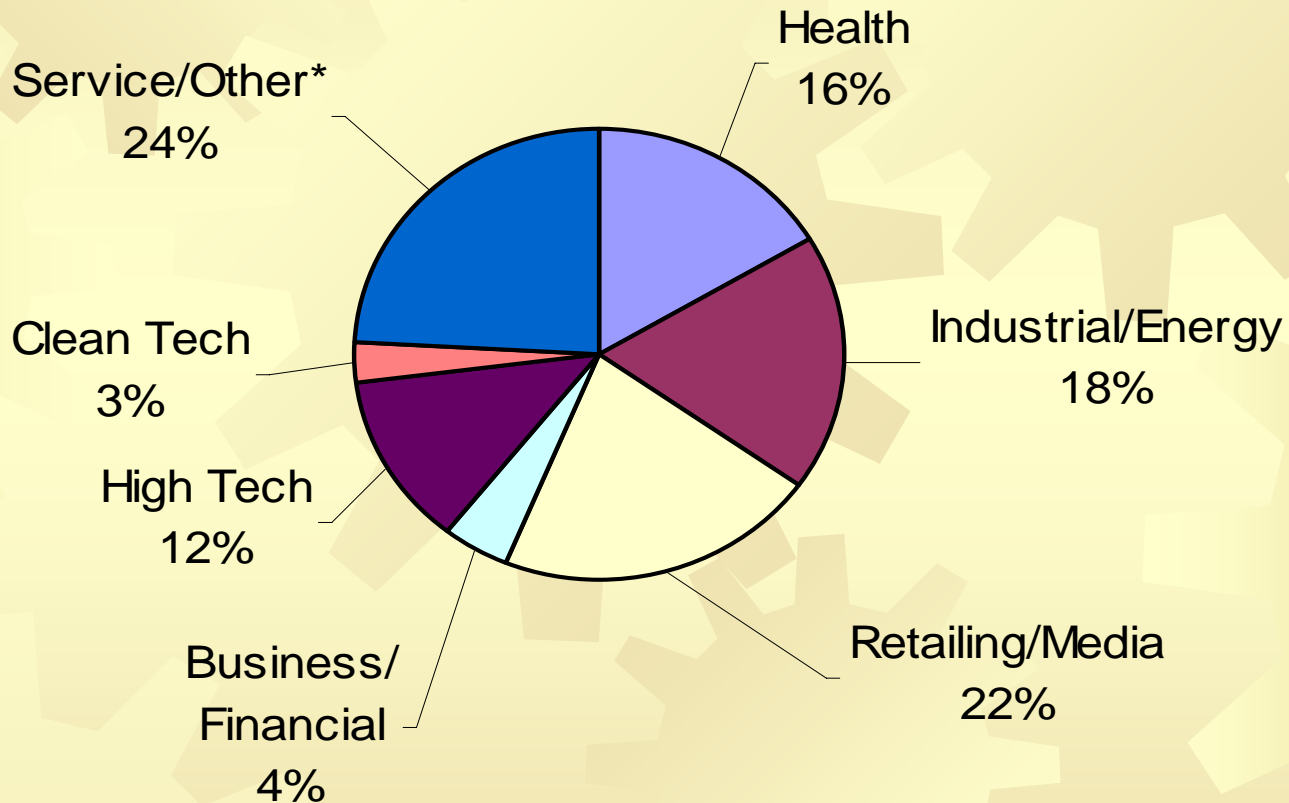
- ☀ Investment Size

- ☀ \$500,000 - \$5 MM

Structure

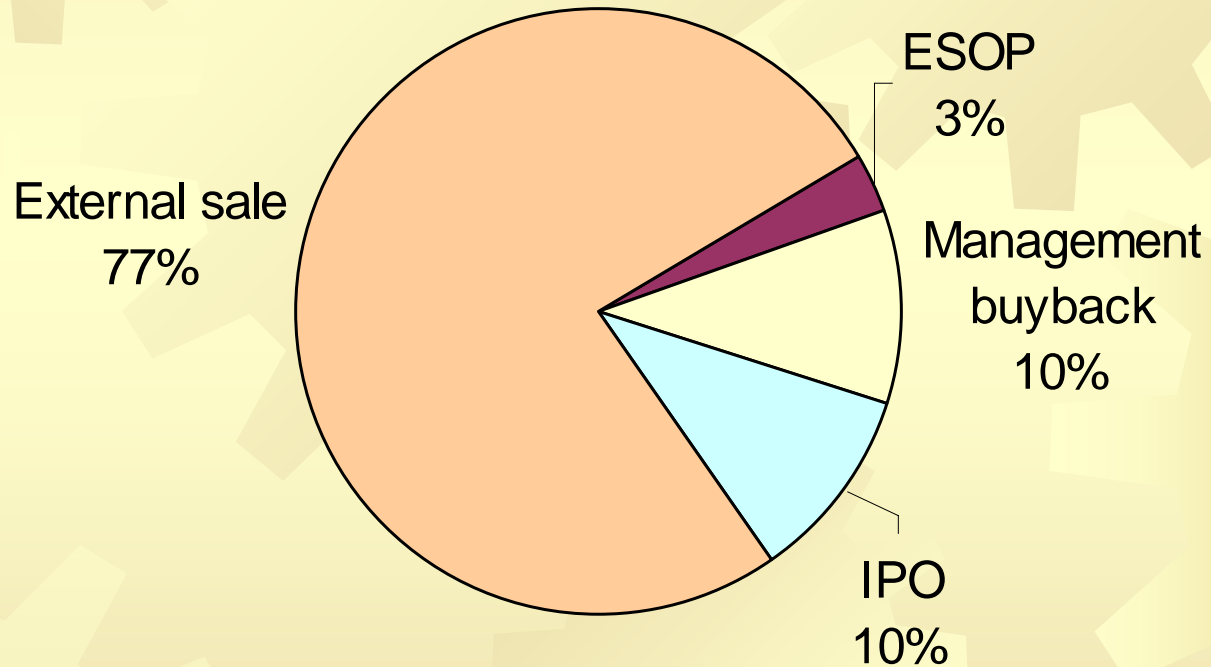
- Most new CDVC funds are being structured like traditional VC funds
 - 10-year partnerships
 - Management company managing multiple funds
 - Management fee and carried interest
- Some CDVC funds are organized as not-for-profit corporations

CDVC Investment Industries (% of investments outstanding)



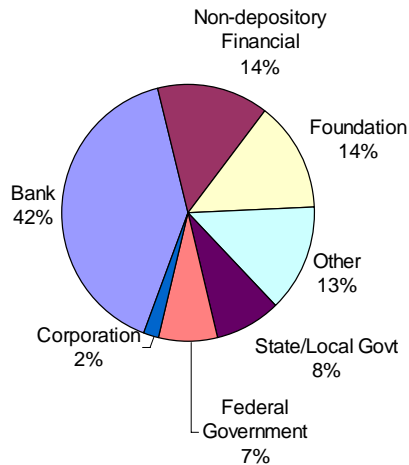
* Five are related to employment training or education, and six are related to the natural foods industry

CDVC Exits

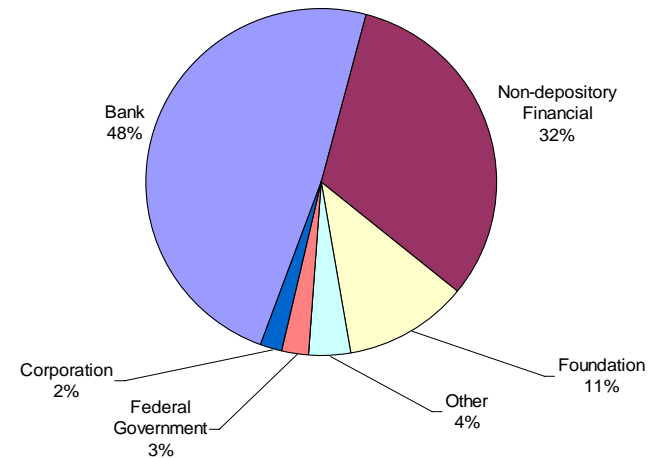


Trends: Predominance of Financial Investors

Capital Outstanding as of 2003

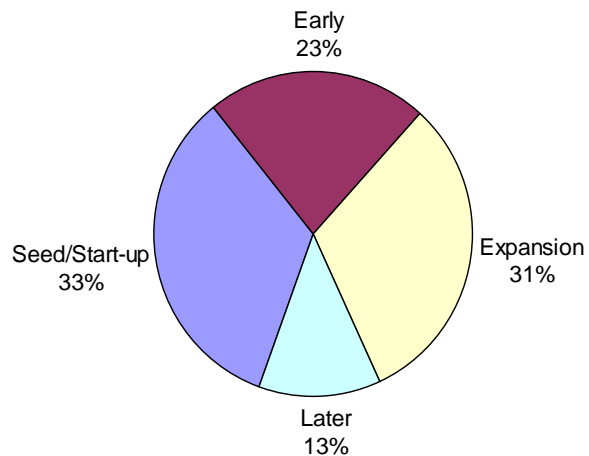


Capital Committed in 2003

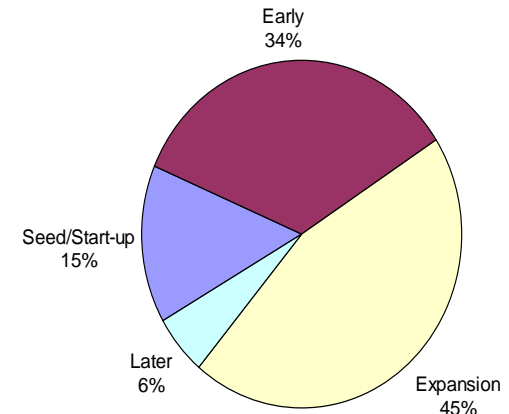


Trends: More Expansion Stage Investment

**CDVC Investments
Outstanding in 2003**



**CDVC Investments
Made in 2003**



Financial Performance

- ☀ Young industry, cash on cash return information is not yet available
- ☀ Only two failures so far
- ☀ Early progress looks promising
- ☀ Look at two funds CDVCA's fund of funds is currently doing due diligence on as examples

Financial Returns

2001 Vintage	IRR	Total Value to Paid-in Capital	Distribution to Paid-in Capital	Residual Value to Paid-in Capital
CDVC Fund II	8.73%	1.38	0.24	1.15
Top Quartile	9.60%	1.37	0.44	0.94
Average	3.10%	1.12	0.30	0.81
Pooled Average	3.00%	1.12	0.32	0.80
Median	0.70%	1.02	0.21	0.80

Financial Returns

CDVC Fund I	Performance
Fund I Gross Realized Deal IRR	69%
Fund I Gross Realized Levered Deal IRR	114%
Fund I Gross GAAP Realized/Unrealized Deal IRR	21.2%
Fund I Net IRR at GAAP Value	2.53%
Fund I Net IRR at Current Fair Market Value	20.63%
Vintage 2003 Top Quartile IRR	12.58%
Vintage 2003 Mean IRR	-2.51%

Social Returns

- ✿ Measurable social returns
 - ✿ Job creation, particularly for entry-level workers with lesser economic opportunity
 - ✿ Quality employment
 - ✿ Living wage
 - ✿ Medical benefits
 - ✿ Opportunities for training and advancement
 - ✿ Opportunities for employee ownership and wealth-building
 - ✿ Measure social impact rigorously for investors and to improve performance

Additional Social Impacts

- ★ Women and minority ownership
- ★ Cleantech
- ★ Products useful to communities
- ★ Good employment practices

