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If Gordon Gekko Had a Good Heart, This Is How He Might Have Done It

By REBECCA BUCKMAN
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When J.B. Schramm founded a charity called College Summit in 1993 to help low-income kids go to college, the group had trouble staying afloat. Mr. Schramm and his board often scrounged for cash and struggled to balance the interests of well-meaning donors who sometimes attached strings to their money.

Poised for Growth

These nonprofits are tapping Wall Street pros to raise "growth capital" to expand.

- **College Summit,** Washington, D.C. Group that helps low-income kids apply to college raised $15 million last year.
- **Teach for America,** New York Sends recent college graduates to teach in urban and rural public schools. Now raising $25 million in growth capital as part of a larger, $60 million campaign.
- **Jumpstart for Young Children,** Boston Plans to raise $17 million to expand operations. Group pairs adults with at-risk preschoolers for one-on-one interaction.

Last year, College Summit hit upon a solution: Get funding the Wall Street way. With help from retired **Goldman Sachs Group** Inc. investment banker Chuck Harris, College Summit fashioned a sophisticated growth plan and a "term sheet" to show potential donors. The lingo was familiar to the target philanthropists, most of whom are big shots at investment banks, hedge funds and private-equity firms.

The strategy worked. By November, 10 wealthy donors had agreed to give between $200,000 and $6 million to College Summit, for a total of $15 million -- more than the charity's annual budget of about $9 million in its last fiscal year. All of the donors signed onto the term sheet's common goals and didn't make any extra demands. Mr. Schramm hopes to use this pool of money, known as "growth capital," to roughly quadruple the number of high-school students College Summit serves in the next four years, to nearly 23,000 from more than 5,500 today. The money will fund projects geared to long-term growth, not current operations.

"We sold a spreadsheet," says Mr. Schramm, who calls the process "very efficient."

The vast wealth generated recently by Wall Street firms and "private money" -- hedge funds, venture-capital firms and buyout shops -- is now having a noticeable impact on philanthropy. Retired bankers like Mr. Harris, as well as still-working financial whizzes like Art Samberg, founder and chief executive of hedge fund Pequot Asset Management, and Mark Nunnelly, a managing director at private-equity firm Bain Capital LLC, are becoming more active in their charitable giving. Unlike some previous U.S. philanthropists, who waited until their 60s or 70s to start giving away their fortunes, many of the new donors say they want to be involved in philanthropy during their working lives.

The result: Many of the donors -- accustomed to the fast-paced world of building, selling and restructuring companies -- are now using their Wall Street skills to help promising nonprofit groups raise donations more efficiently and plan for long-term growth.

One way is to raise "growth capital," money solicited under a strict business plan with stated goals to invest in future projects. Often, as is the case with College Summit, officials of nonprofit groups update donors about progress through regular, businesslike conference calls. College Summit also sends donors detailed progress reports three times a year.

An emphasis on measurable results means that some charities aren't good candidates for the growth-capital model. For instance, protection of human rights is difficult to quantify, says Katherine Fulton, head of philanthropy research and consulting at Monitor Group, a consulting group in Cambridge, Mass.

Among recent growth-capital campaigns, Mr. Samberg of Pequot was a major donor to College Summit and helped to bring in other givers. Mr. Nunnelly, who sits on the board of Boston charity Jumpstart for Young Children, is helping Jumpstart embark on a growth-capital campaign to raise $17 million. Meanwhile, Mr. Harris and former Goldman vice chairman Robert K. Steel are helping charity Teach for America raise $25 million in growth capital as part of a larger $60 million campaign.

"We spent our whole careers thinking about outcomes and investing and sustainability and competitive advantages," says Mr. Steel, who adds that he is impressed by charities with solid management teams, good governance and financial transparency. "It would seem logical to me that we'd take the same lens to our philanthropy."

A more businesslike approach to philanthropy isn't new. During the dot-com boom, the hot trend was "venture philanthropy," through which donors actively managed their donations in small charities, often by sitting on boards of directors -- much as venture capitalists manage investments in start-up companies.

Though several successful venture-philanthropy funds are still around, some projects took a hit when tech stocks tanked in 2000 and wiped out billions of dollars in stock-market wealth. Megadonors like **Microsoft** Corp. co-founder Bill Gates have also become more influential, though Mr. Gates's foundation is focused on solving global problems like malaria and HIV/AIDS.

Today, many wealthy financial-industry executives are focusing on larger nonprofit groups that already have a track record of success -- but need more capital, not intense management hand-holding, to grow.

Jumpstart's chief executive, Robert Waldron, says the organization is serving 30% more children each year but says he needs more capital to invest in new infrastructure such as technology systems and for expansion into new cities. Jumpstart pairs at-risk preschoolers with adults for tutoring and interaction, then measures increases in the children's language, literacy and social skills.

College Summit's recent fund-raising campaign could serve as a model for Jumpstart. Mr. Harris, who retired from Goldman in 2002, began serving as the group's interim development director two years ago. He often flew his private jet from his home in Darien, Conn., to College Summit's Washington headquarters, where he saw firsthand the piecemeal way in which the group received funding.

College Summit primarily got money through separate grants from a slew of donors, many of whom required separate accounting and reporting for their money. Many groups targeted different goals: One might want to boost achievement for high-school girls, while another wanted to help only Latinos in California. Though all donations were appreciated, Mr. Harris wondered if he could streamline the process: "How would you do this if you were in the corporate world?" he thought.

Mr. Harris helped Mr. Schramm prepare a 15-page "offering memorandum," similar to what companies do when raising money through a private placement. It included pie charts showing College Summit's target market, graphs depicting national college-enrollment rates and a detailed spreadsheet outlining concrete goals for sending more kids to college. Mr. Schramm then went on a mini-roadshow, meeting with potential donors at venues like the Harvard Club in New York. At one dinner, Mr. Harris and Pequot's Mr. Samberg introduced him to three wealthy couples, including two hedge-fund executives, all of whom committed to seven-figure donations within a few days.

The money will help low-income high schools like San Jose High Academy in San Jose, Calif., which this year put all 200 of its seniors through a College Summit program. A handful of students went to a four-day "boot camp" last summer to learn how to fill out college applications, including instruction on writing application essays. Anthony Alvarez was one of them. Last year, "I had a feeling I was going to go to college, but I didn't know how to get there until College Summit showed me," says the 17-year-old senior. He plans to attend San Jose City College.

Write to Rebecca Buckman at rebecca.buckman@wsj.com

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