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Community Development Investing - An Investor's Perspective



Overview of JPMC's Community Development Investing Activities*

- An leading and active investor in community development investment funds since the mid to late 1990's
- Portfolio includes 50+ relationships using a fund-of-funds approach with total commitments exceeding \$175 million (and growing)
- Current investment activities aimed at balancing the need for attractive risk-adjusted returns with the firm's long term mission of being a leader in community development
 - Historical criteria vs. existing criteria
 - Risk vs. return vs. impact
- Market presence includes three regions (Northeast, Midwest, and Southwest)
- Product mix includes funds that invest in venture capital (later stage), private equity, and real estate funds

*Does not include the firm's activities in LHFC and NMFC investments




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Our investment criteria reflects lessons learned and the extremely selective nature of our business

In 2005, we will invest in a select number of community development investment funds. While not a comprehensive criteria, a good benchmark involves the following criteria:

- A primary mission of community development (investing in LMI communities or benefiting LMI individuals)
- Private equity / venture capital teams with strong track records
 - 10+ years of investment experience
 - Realized exits with cash returns to investors
 - Consistency in strategy and execution
- Acceptable structure
 - Funds providing a return OF capital beginning within 5 years (final return of capital within 10 years)
 - Financial and legal terms that are consistent with the mainstream market
- An expected return ON capital (IRR) of at least 10 %+ per year for the life of the investment



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Our Perspective of the Current Fundraising Market

- In 2005, we anticipate fundraising activity to be flat (vs. 2003 - 2004) to down (vs. 1999 - 2001)
- As a result of lessons learned from the vintage 1999 - 2001 funds (when many first time community development funds were launched)
 - Most investors have changed their criteria
 - Some investors are out of the market entirely
- Source of capital has shifted in the past 2 - 3 years
 - Traditional investors are more selective / restrictive
 - Fundraising market for community development funds are more fragmented than ever (banks, PRI-investors, Endowments, pensions, individuals, quasi-gov't agencies, educational institutions, etc)
 - New class of investors are more active in "underserved markets" but not necessarily in community development funds
- Scale is a core issue
 - Minimum fund size of \$30 MM
 - Management TEAMS, not individuals
 - As a result, repeat funds have a competitive advantage to first time funds
- Consequences due to the mainstream VC and Private Equity markets and due to the SBIC Program

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Suggestions for 1st Time Fund Managers

- Consider whether an equity fund is the optimal vehicle
 1. Equity capital is not suitable in all transactions
 2. An equity fund is not suitable for all organizations
- Appreciate how the market has changed over the past 3, 5, and 10 years
- Learn from the successes and failures of predecessors
- (Before fundraising) put your investment strategy to the test and refine it
- Build a management TEAM that can execute the strategy
- Can you attract a critical mass of investors?
- Understand the start-up costs
 1. Time - allocate 18 - 24 months
 2. Budget adequate fundraising resources (both human and financial)

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Suggestions for 2nd and 3rd Time Fund Managers

- Is now the right time?
 - "But our current fund's investment period is ending soon"
 - "And our investors told us to raise another fund after we've had exits and we just realized an exit"
 - "Plus, there are so many good deals that we'd like to do"
- Be honest in identifying lessons learned and address them before fundraising
 - Hypothetical vs. actual investment strategy
 - Weakness in execution
 - Need for management team changes
- Are your fund terms - both financial and legal - consistent with the (mainstream) market?
- Prepare for a 12 - 18 month process (it gets a little bit easier but not much)
- Recognize what is at stake - the cost of failure (for us all) and the opportunities when you're successful (for us all)

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Thank you!

Questions?

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