



Lessons From the Early Years of Mission-Related Investing at Knight Foundation

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Overview

Knight Foundation employs a variety of tools to support informed and engaged communities. In addition to traditional grantmaking, Knight Foundation dedicates a portion of its endowment to mission-related investments through the Knight Enterprise Fund. This report highlights the work of the fund.

Two of the foundation's core grant investment areas—journalism and media innovation—have undergone massive technological changes over the past 10 years. The result is a new landscape of companies, a mix of digital media startups and other enterprises, seeking to carve a niche for themselves in the evolving news and information ecosystem. In an effort to understand this new marketplace, enhance the impact of Knight's funding and inform its broader grantmaking in these areas, the fund was launched in 2011 with an allocation of \$10 million from the foundation's endowment. Specifically, the Knight Enterprise Fund invests in early-stage companies¹ innovating in media and technology that improve people's access to quality information because the foundation believes this leads to healthier, more informed, and increasingly engaged communities.

Measuring social return on impact investment is still in its infancy, and that fact is more pronounced when looking at its application to the media sector. Early investors in specific impact investing sectors often play a founding role in developing shared models for impact measurement across that field. This has been the case in more established social impact investment sectors such as health, education and microfinance. This report represents Knight's framework for understanding the social returns of the fund.

¹ Young companies doing business in the U.S. that range from "seed stage," (i.e. companies raising their first round of funding to develop and launch a new product) to "Series B" (i.e. companies in their third or fourth round of funding, looking to scale a product that has found market acceptance).

Three key findings emerged from this analysis:

- **Evidence of Social Impact:** Fund companies are making significant contributions to meeting people's information needs, informing tens of millions of users and in a few cases becoming new industry standard tools for audiences and publishers.
- **Learning Outcomes Mixed:** While the fund adds a welcome market perspective to Knight Foundation work and helps program staff cast a broader net in finding innovation, a more substantial impact on grantmaking strategy was not reported.
- **Knight Provides Strong Added Value:** Knight is amplifying the impact of the fund companies by providing a variety of non-monetary assistance to help strengthen investments and provide value to its network.

Based in part on these initial social results, the foundation increased its allocation by \$10 million to the fund in early 2016. Although it is still early to assess the full extent of social impact being made by these companies, the foundation hopes that it furthers the conversation around understanding social impact investing in philanthropy. Much like the startup companies in which the fund invests, the foundation seeks to learn from and iterate on these early experiments.

METHODOLOGY

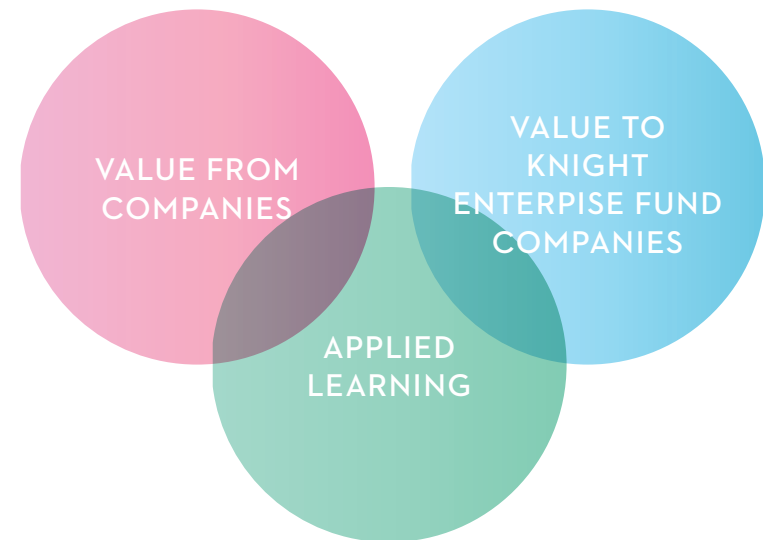
The foundation hired Avivar Capital to conduct an assessment of the Knight Enterprise Fund's effectiveness in meeting its social impact-related goals. The review was conducted using both quantitative and qualitative methods, including an analysis of portfolio data, surveys of portfolio companies and Knight staff, and individual interviews. The following report represents highlights from a more in-depth study.

Portfolio Social Impact

FRAMEWORK

The social impact evaluation was centered on the fund's three social impact goals, defined at the outset of the fund. Several key questions illuminate the impact the portfolio is seeking to achieve:

- **Portfolio Social Impact:** Are portfolio companies increasing access to information and quality journalism; advancing innovation and sustainability among media organizations; and helping people become informed and engaged?
- **Value to Knight Enterprise Fund Companies:** Do companies derive value from being part of Knight's network and from the non-monetary support offered by the fund?
- **Applied Learning:** What kind of learning has the fund precipitated, both among Knight Foundation staff and the broader field?



This section describes the social impact of the Knight Enterprise Fund. It explains the context for Knight's investments and desired impact, and highlights some key outcomes. Importantly, the report focused on outcomes that could be measured across a variety of companies, which were necessarily quantitative and limited in scope. Knight will continue to build upon this framework as it enters the next phase of the fund.

CONTEXT AND MEASURES FOR SOCIAL IMPACT

The impact investing field has grown considerably in recent years, with Global Impact Investing Network and J.P. Morgan reporting \$12.2 billion in new impact investments planned for 2015². Of that sum, very little is dedicated to media and information products and services. The Knight Enterprise Fund is playing a pioneering role as an impact investor in the media innovation space. As other investors in social impact sectors such as health, education and microfinance have shown, first players in specific impact investing sectors often play a founding role in developing shared models for impact measurement.

² "Eyes on the Horizon: The Impact Investor Survey," Global Impact Investing Network (GIIN) and J.P. Morgan, May 2015.

The 40 portfolio companies, representing \$7.2 million invested, span four broad investment segments related to Knight’s social goals (see Figure 1):

- **Revenue Tools:** Technologies that generate new income for news publishers and journalists (nine companies)
- **New Media:** News sources that reinvent traditional publishing (seven companies)
- **Publishing Tools:** Tools that help news publishers collect, present and distribute information (17 companies)
- **Open Systems:** Peer-to-peer information tools (seven companies)

The metrics used to evaluate the social impact of the fund are detailed in Figure 1. They comprise measures of adoption, revenue generation, audience size and active users.

Figure 1
Key Metrics by Segment

REVENUE TOOLS
Adoption
Revenue generated
Revenue/publisher
NEW MEDIA
Adoption
Monthly audience
PUBLISHING TOOLS
Adoption
Active enterprise users
OPEN SYSTEMS
Active monthly users

KEY RESULTS

A review of portfolio companies shows that overall performance is in line with social impact objectives and that specific investments are driving key desired outcomes.

Portfolio companies are generating growing impact. Based on data available from Q4 2013 to Q1 2015, portfolio companies are achieving demonstrated traction in the market and delivering targeted value to their customers. Figure 2 summarizes the fund's impact metrics for six quarters, illustrating multiples of growth in each portfolio segment over the period. As of Q1 2015, fund companies were reaching an audience of nearly 60 million users; generating yearly revenue of \$40 million for publishers; and developing a growing user base for its tools among journalists and media companies.

Figure 2
Knight Enterprise Fund Impact Metrics Summary Q4 2013 through Q1 2015

	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	GROWTH MULTIPLE
REVENUE TOOLS							
# of Publishers Using	4,624	5,213	8,017	9,492	14,496	17,190	3.72x
\$ to Publishers	\$4,570,494	\$6,731,832	\$6,503,800	\$9,008,999	\$20,397,343	\$16,282,594	3.56x
\$/per Publisher	\$988	\$1,291	\$811	\$949	\$1,407	\$947	0.96x
NEW MEDIA							
Audience Size	20,995,000	70,965,000	68,885,000	66,514,000	61,160,032	58,885,716	2.80x
PUBLISHING TOOLS							
# of Storytellers Using	181,439	202,049	113,250	233,149	74,723	132,343	0.73x
# of Journalists Using	5,588	9,150	13,286	16,429	19,769	25,589	4.58x
# of Media Cos Using	336	461	617	683	681	733	2.18x
Total Users	187,363	211,660	127,153	250,261	95,173	158,665	0.85x
OPEN SYSTEMS							
People Using	55,023,133	65,508,153	75,685,142	80,890,479	86,182,484	96,182,465	1.75x

A few of the fund’s companies account for a large majority of the social impact outputs. In each of the portfolio segments, the majority of impact is driven by a small subset of companies (see Figure 3). Within the New Media and Revenue Tools segments, for example, most of the social returns are generated by just a quarter of the higher-performing portfolio companies.

This pattern is similar to the financial returns typically exhibited by venture capital funds. Research by William Sahlman at the Harvard Business School shows that a typical venture capital fund follows the 80/20 rule, meaning that 80 percent of a typical venture capital fund’s returns are generated by just 20 percent of its investments.³ The quantitative analysis of the specific segments provides evidence of growing penetration, driven by one or two companies within each segment.

Figure 3
Impact Concentration

PORTFOLIO SEGMENT	PERCENT IMPACT WITHIN SEGMENT	PERCENT OF INVESTMENTS WITHIN SEGMENT
Revenue Tools	91.1%	25.0%
New Media	77.2%	28.6%
Publishing Tools	92.5%	13.3%
Open Systems	98.8%	16.7%
<i>Venture Capital Financial Returns</i>	80.0%	20.0%

³ Source: <https://blog.wealthfront.com/venture-capital-economics/>

Qualitative reports also suggest that several companies are demonstrating meaningful inroads into supporting informed and engaged communities. Within the portfolio are several companies that illustrate the potential to advance Knight's social goals, often to wider recognition and acclaim. Specific examples of impact include:

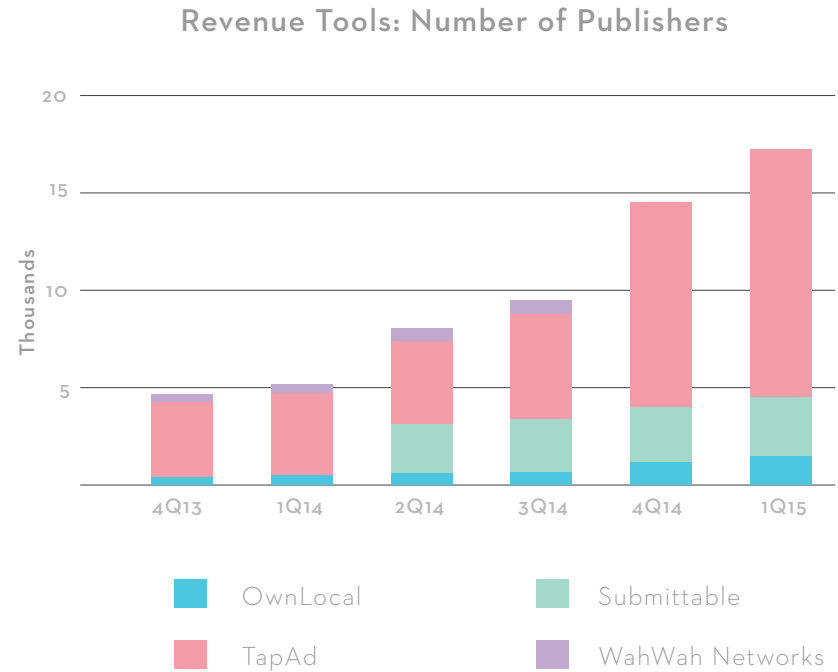
- **Reaching New Audiences:** Mic.com has become the leading news site for college-educated young people. It has had steady growth over the past two years with a monthly audience base in excess of 20 million users.
- **Supporting Revenue Innovation:** Multiple investments are providing publishers with new opportunities to generate revenue. Interviews suggest that OwnLocal is beginning to acquire status as a gold standard for the industry, generating millions of dollars in incremental revenue for publishers. See case study below for additional examples.
- **Catalyzing Engagement:** Change.org's far-reaching petition platform boasted 27.2 million users as of Q1 2015, and the organization announced integration with We the People, the White House's official petition system.

**CASE STUDY:
PROVIDING NEW REVENUE TO
MEDIA COMPANIES**

A closer analysis of the Revenue Tools segment – portfolio companies with products designed to generate revenue for media organizations – demonstrates the traction of several leading companies in terms of publishers using the tool and revenues generated. TapAd (a tool to serve ads to the same users across devices) represents the largest proportion of publisher use as well as the most significant growth (see Figure 4). Within this segment, 91.1 percent of publishers using the tools are attributable to TapAd and Submittable (which enables publishers to collect, review and charge for audience-generated content).

TapAd is also the largest generator of dollars to publishers in the aggregate. However, OwnLocal (a digital media services for small and medium businesses in partnership with local news publishers) exceeds TapAd’s performance on a dollar per publisher basis. In terms of segment growth, the Revenue Tools segment posted the strongest growth from Q4 2013 to Q1 2015 with a 3.7x increase in the number of users (growing from 4,624 to 17,190) and a 3.6x increase in the revenue accrued to publishers using the tools (growing from \$4.6 million to \$16.3 million). Overall, revenue per publisher within the segment declined slightly from \$988 in Q4 2014 to \$947 in Q1 2015.

Figure 4



Value Added to Portfolio Companies

Surveys and interviews showed that Knight Foundation is perceived as adding substantial value to portfolio companies, both through reputational capital and by putting a strong network to work in the service of investments.

The Knight Foundation brand was perceived as validating investments and building support. Surveyed companies ranked the “halo effect” of the Knight brand (87 percent of respondents) to be one of the most valuable forms of non-monetary support offered by the fund. In fact, several companies indicated that the credibility afforded by the Knight brand bolstered perceptions among target audiences and amplified the value of introductions made. Said a leader of one portfolio company, “I really can’t overstate how important it is to sell to publications when you are a Knight Company, when you are affiliated with them. That’s really super valuable. Any journalist knows Knight, so . . . it’s a stamp of approval.” Another company leader added, “They’ve been super helpful getting us plugged in because people trust them and there’s some skepticism in the industry about digital media ventures.”

Access to Knight’s network provided key inroads for portfolio companies to the marketplace. Respondents cited the diverse networking opportunities via key industry events (74 percent) and introductions (71 percent) as useful conduits to building their customer bases. As one company principal underscored:

“Knight has been able to loop us into events . . . sponsoring demos at the Investigative Reporters and Editors Conference this past month or sending us to Newsfoo (Newsgeist) meetings every year or facilitating our presence at the Online News Association Conference, the American Library Association Conference—those are all places where we like to be present and Knight is our only investor who has relationships there.”

Value was perceived as highest in early stages, and declined over time.

More than three-quarters of portfolio companies highly ranked the advice on strategy from fund staff (84 percent) as beneficial to their business. Although several companies said that the fund's focus on early-stage companies was significant because the stage was particularly underserved, the non-monetary supports such strategy consulting provided unique value to the investment fund⁴. The positive effect of this supports, however, declined in relative terms as a portfolio company grew and gained greater access to financing, customers, and other networks and services.

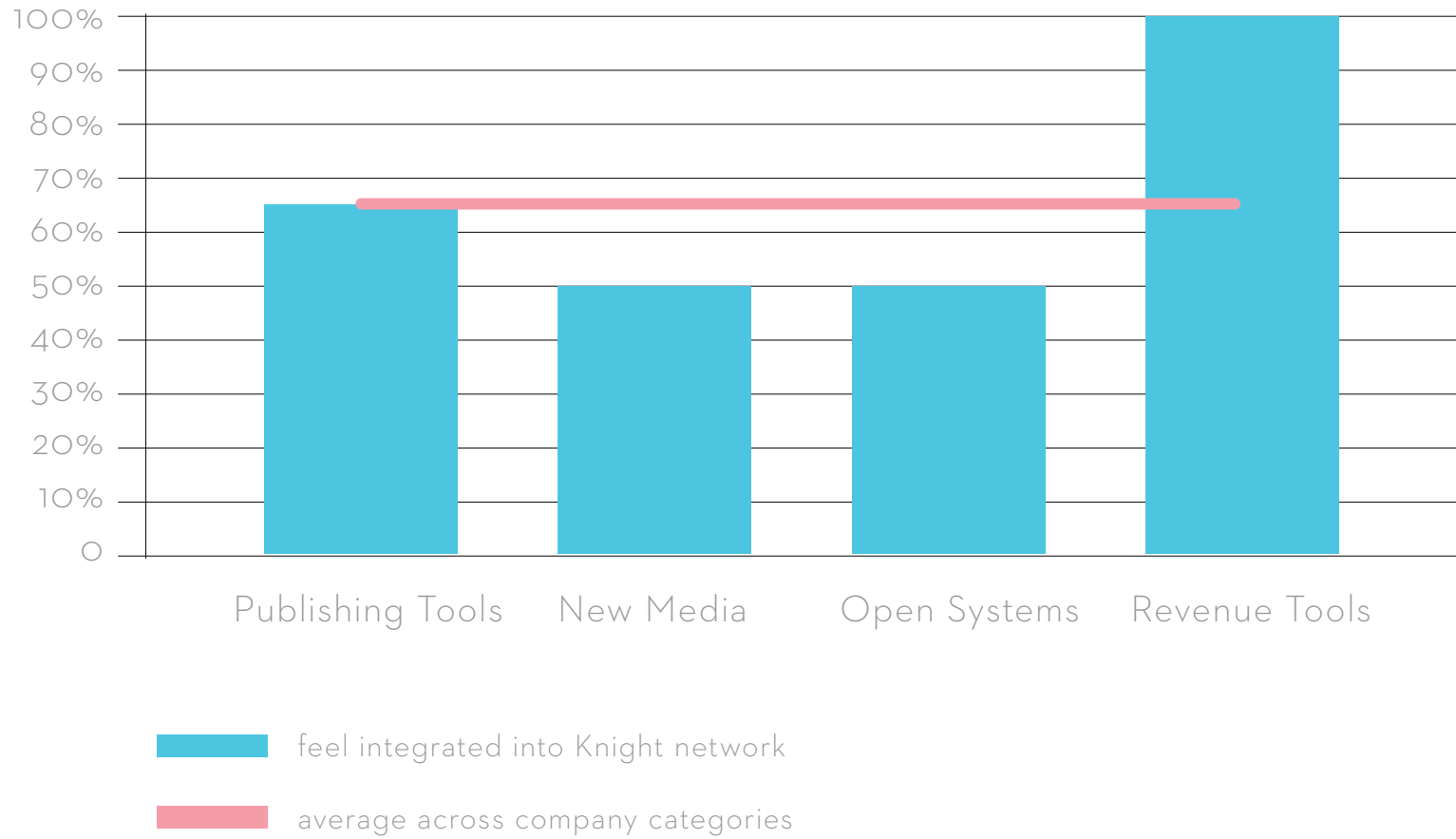
Some portfolio segments find greater value in the non-monetary supports.

While all segments of the portfolio generally rated Knight support favorably, intensity was not consistent across the portfolio. As highlighted in Figure 5, the Revenue and Publishing Tools segments had the highest percentage of portfolio companies reporting that they felt integrated into the Knight network: 100 percent of the companies in the Revenue Tools segment and more than 60 percent of the companies in the Publishing Tools segment. Approximately 50 percent of portfolio companies in the New Media and Open Systems segments reported that they felt integrated. This suggests that Knight's network may be strongest in terms of its connections to media companies, from which the Publishing and Revenue Tools segments benefit the most. Portfolio companies reported that the fund has provided less value in terms of access to journalistic talent and public relations/communications support (areas where segments such as New Media find higher value), perhaps pointing to potential areas of future focus.

⁴ "Eyes on the Horizon," GINN and J.P. Morgan. According to their survey of 146 impact investors, only 9 percent of assets under management are made to early-stage companies. Two-thirds of investments are made to growth-stage or mature companies.

Figure 5

Knight Network Integration



Applied Learning

This final section examines learning across the fund, Knight Foundation, and the field from the fund's investments and approach. Avivar interviewed nine Knight staff members to understand how lessons from the portfolio may have informed the foundation's philanthropic practice. Overall, reports regarding learning were inconsistent, with some areas in which knowledge transfer was pronounced, but others that remain underdeveloped.

The fund used Knight's grantmaking and network to generate investments. The fund has benefited from the foundation's pipeline, given that historically more than half of the fund's deal flow has come via program staff, challenges and Knight grantees.

Knight staff benefited from exposure to an investment-oriented vehicle. Interviews with staff indicate that staff members found value in working with the fund because it helped to bring a more rigorous business and investment perspective to their work.

Programmatic staff did not report substantial influence on their grantmaking. Interviews suggest that the portfolio companies' body of work is not well known or understood throughout the foundation, thereby limiting the fund's impact on Knight's philanthropy.

The interviews also suggested that institutional structure may pose barriers to broader learning within Knight's programs. Each program has specific goals and objectives and is responsible for managing their budgets to deliver on those commitments, potentially incentivizing silos rather than cross-programmatic learning.

The fund's experiences are largely not shared with the field at large.

In addition to questions about the flow of learning from the fund across the foundation, some also voiced concerns about the lack of external dissemination of the learning from within the fund. Specifically, some saw the opportunity to move from tactical communications coverage of the fund to positioning the foundation as a thought leader in this newer impact investment media sector.

Looking Ahead

Based on these findings from the initial social impact review, the foundation is considering several opportunities in the fund's next stage:

1. **Remain focused on early-stage investments with a continued focus on value-added supports.** In the prevailing market environment, capital is readily available to companies with a proven track record. The greater effect of the fund's added value to early-stage companies—in both financial and nonfinancial support—indicates that the fund should remain focused on early-stage investments. The Knight Enterprise Fund's investment decision should more explicitly consider not only the company's alignment with the fund's impact objectives but also its potential to provide value through financial and nonfinancial support.

While Avivar's analysis confirms that the fund is providing significant value, the investment process could be more explicit in evaluating prospective companies for fit to identify those that would gain maximum additional value from a Knight Enterprise Fund investment. Investment memos, for example, could provide a more direct assessment of how the company would benefit from the fund's engagement. Finally, the fund is also considering the right staffing configuration necessary to provide value-added support as its portfolio grows.

2. **Be strategic and consistent about what to measure.** The fund is already collecting significant data on portfolio company activities and short-term outcomes, focusing on data that are gathered in each company's normal course of business. The fund's performance measurement could be enhanced through development of a basic "logic model" for each investee. The logic model would indicate the desired activities, outputs, short-term outcomes and longer-term outcomes, articulated in a streamlined format. However, given the emphasis on early-stage investments, some of the most successful companies may exit the fund before longer-term outcomes can be easily tracked and measured.

3. **Take a leadership role in contributing to field knowledge.** As the fund builds its financial and impact track record, there is an opportunity for the foundation to play a more proactive role in disseminating the experiences and learning from its work and that of the fund's portfolio companies. Other foundations active in impact investing have shared knowledge externally about their impact portfolios through a variety of activities including case studies, white papers and speaking at conferences. These are all activities the fund can increasingly consider engaging in as the portfolio matures. This report represents its first substantive external communication of both the framework and progress of its work.

CONCLUSION

This summary report sought to highlight key findings from an in-depth assessment of the Knight Enterprise Fund's social impact. Both the full assessment and this document were based on a range of inputs, including a review of portfolio companies, interviews and survey tools. The assessment was focused on the direct social impact enabled by the fund, how the fund added value to its portfolio and the kind of learning supported by the fund.

Overall, the assessment found that social impacts, while at an early stage, were notable, that portfolio companies perceived and enjoyed substantial benefit from the Knight Foundation brand and network, and that learning opportunities remained inconsistently exploited.

Over time, further analysis of the fund, its performance and its integration with the broader Knight Foundation and the field can shed light on how future directions and strategy affect these outcomes.

Knight Foundation

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