



## Social impact plus return on investment

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January 08, 2021

Impact America Fund brings equity to world of venture capital

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*Kesha Cash (far left) and members of the Impact America Fund team.*

“Venture capital should be about challenging the status quo and embracing big, paradigm-shifting innovations. Our industry has prided itself on its ability to accelerate the way toward, and past, the next frontier. The venture capital community must harness that same energy and urgency toward community-focused investments.”

*Kesha Cash, founder, Impact America Fund*

### “What Venture Capital Owes America”

Impact America Fund is changing the way venture capital investing is done. Its investing strategy focuses on inherent impact, which invests in startup companies that generate both positive return on investment and social impact. With a founder, Kesha Cash, and staff who predominantly are women of color, Impact America Fund also is changing the way the venture capital field views diversity. As the U.S. grapples with social justice, economic equity and improving diversity and inclusion, Cash and Impact America Fund are examples of what can be done by diverse individuals in spaces that traditionally are not diverse.

### Why is diversity such a problem in venture capital?

Accessing venture capital is a longtime challenge for entrepreneurs of color and white female founders. A [report](#) by Rate My Investor analyzes venture investment from 2013-17 and finds only 1% of Black startups, 1.8% of Latino startups and 9% of women startups received venture-backed funds. In discussions about why this occurs, some of the issues cited were pattern matching and a lack of diversity among staffs of venture firms.

According to [Venture Beat](#), pattern matching is, "... a simple approach used by VCs (venture capitalists), who see hundreds of companies a year and naturally evaluate startups and entrepreneurs based upon what has worked before." Pattern matching is an exclusionary process that occurs because very few prior investments were made in startups founded by people of color and white women, and, as a result, past exclusion of these groups reinforces funders' current and future exclusions.

The challenges of pattern matching are reinforced by a lack of diversity among venture fund managers and employees. According to a 2019 Entrepreneur.com article titled “[How We Can Beat Venture Capital’s Diversity Problem](#),” “A recent [analysis](#) by The Journal Blog of venture capital diversity statistics found that 70 percent of venture capital firms’ personnel are white ... Further about [three-quarters](#) of U.S. venture capital firms still have zero women partners.”

The diversity of management and employees at venture funds is seen as important. A diverse staff can help disrupt the challenges caused by pattern matching. It also improves venture fund return on investment. According to a 2018 article in the *Harvard Business Review* titled “[The Other Diversity Dividend](#),” “... the success rate of acquisitions and IPOs was 11.5% lower, on average, for investments by partners with shared school backgrounds than for those by partners from different schools. The effect of shared ethnicity was even stronger, reducing an investment’s comparative success rate by 26.4% to 32.2%.”

While many data points show the value of inclusive investing and staffing of venture capital funds, the field still has been slow to change. This lag is what makes the Impact America Fund unique both in terms of investment philosophy and organizational structure.

### **‘Inherent impact’ investment philosophy sets this firm apart**

The very first thing my MBA finance professor told our class was, “Corporations exist to maximize shareholder value.” As such, investor return is dominant, almost to the exclusion of any other views of investment. This makes it difficult for the industry to approach venture capital investments from alternative lenses that can add additional short- and long-run value to both the investor and the community.

One alternative view of investing, practiced by Impact America Fund, is based on the concept of inherent impact. A 2018 [article](#) by the Asset Management Study Association shared Impact America’s two guiding principles of inherent impact:

- 1 Tremendous opportunity exists in communities and sectors that have been traditionally overlooked and undervalued.
- 2 Businesses can be designed to create shared value for consumers, workers, suppliers, investors, and other stakeholders.

When done right, this “inherent impact” drives a lasting competitive advantage and the enduring health of the community.

Inherent impact takes a broader view of venture capital investing. It is centered on leveraging the unique advantages of community building and social impact. By doing so, it creates a competitive advantage for the startup and thus greater long-run return.

This philosophy views startup investing from a wider lens. Inherent impact still seeks to drive return through opportunities for market growth. However, this philosophy views market growth mainly through the lens of underserved communities and the

unique market opportunities they present for startups. When a social impact orientation is added, not only does the underserved community create a strong growth market, but the community itself is strengthened, providing an even more durable market and an increased competitive advantage.

The question then becomes, “Can this strategy work?” Can a venture capitalist simultaneously achieve return on investment, while achieving social impact? The early success of Impact America Fund suggests it can.

### **What is the effect of Impact America Fund?**

When the COVID-19 pandemic hit and the economic fallout began to escalate, I convened a workgroup from across the Federal Reserve System that focused on small business owners of color. One objective was to learn from external stakeholders, so that community development staff nationwide would be able to better support small business owners of color.

Based on my exchanges with Cash - we met in 2018 at South by Southwest, where we both were presenters - I knew I wanted her and her team to join us on our first external stakeholder call. The Impact America Fund team did not disappoint. They told us about Impact America’s focus and portfolio. More importantly, they shared how the fund was proving the concept of inherent impact. Here are some high points:

- **Investment focus** - Impact America Fund is a \$65 million venture capital firm that focuses on impact investing. To be considered for investment, firms need to demonstrate a commitment to the community and social impact and focus on diversity and equity.
- **Investment diversity** - Their portfolio is overindexed with firms of color. Ninety percent of founders in their second fund are people of color. Impact America is not, however, exclusively investing in founders that are people of color. Rather, they invest based on whether the founder has the cultural competency and industry experience to start and scale a company that offers outsized benefits to low- and moderate-income communities.
- **Investment impact** - Two firms that exhibit investment impact are Mayvenn and Camino Financial.
  - Mayvenn is a firm that addresses a market gap in the Black hair care industry. To date, Mayvenn has generated revenue of more than \$120 million. The 7,500 stylists in its network have generated commissions of more than \$20 million.
  - Camino Financial created a credit marketplace that serves primarily a LatinX market. It has distributed \$60 million through 3,500 loans, with 91% of them going to Hispanic borrowers.

Three things make Cash and Impact America Fund a positive disruptive force for diversity and economic equity in the venture capital field.

First is the diversity of Impact America Fund’s founder. The venture capital field is led mainly by white males. As a fund founder who is an African American female, Cash herself is a unique force for disruption and a role model for other fund

founders of color. She also signals that talent exists outside the current narrow demographic group of venture capital fund founders.

Secondly, the diversity of Impact America Fund's staff is disruptive. Including Cash, the fund has a staff of six. The demographic composition is 83% people of color and 83% women. This is rare in a field that has very little diverse representation overall.

Finally, showing proof of concept that the inherent impact investment philosophy works is disruptive. By focusing on underserved communities and social impact, while simultaneously achieving a sufficient return on investment, the firm expands the view of venture capital investing.

### **More About Impact America Fund**

- To learn more about [Impact America](#)
  - [What Venture Capital Owes America](#)
  - Columbia Business School: [Kesha Cash on Her Journey to “Conscious Capitalism”](#)
  - Columbia Business School: [Kesha Cash: A World of Opportunities Hidden in Plain Sight](#)
  - Startup Columbia: [Kesha Cash Founder of Impact America Fund](#)
  - Download the Federal Reserve Bank of Kansas City’s [Ecosystem Building in Communities of Color Guide](#)
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