Principles and Practices of Gap-Closing Investing

by

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ABSTRACT

This thesis examines the principles and practices of gap-closing investing, a distinctive model of early-stage venture capital investing that seeks to close gaps in access, opportunity, and outcomes for low-income communities and communities of color. Developed by Dr. Freada Kapor Klein and Mitchell Kapor through Kapor Capital, gap-closing investing integrates social impact objectives with a performance-driven investment strategy. The thesis combines historical analysis of socially responsible investing and impact investing with case studies of venture-backed startups to situate gap-closing investing within a broader tradition of values-based finance. It traces the ethical roots of impact investing to religious traditions, the emergence of socially responsible investing funds in the 1970s, and the formalization of impact investing terminology in the late 2000s. Gap-closing investing is distinguished by a developmental approach to startup growth, a redefinition of founder selection criteria emphasizing “distance traveled” over pedigree, and a focus on mitigating structural barriers through capital allocation. The thesis critically compares gap-closing investing to Corporate Social Responsibility (CSR) and Environmental, Social, and Governance (ESG) frameworks, arguing that gap-closing uniquely centers systemic impact as a core investment goal rather than a secondary consideration. The findings challenge the perception that impact investing is inherently concessionary, using performance data from Kapor Capital’s portfolio to demonstrate that intentional, equity-focused investing can produce both superior financial returns and measurable social outcomes. Gap-closing investing is presented as both a pragmatic investment strategy and a model for using venture capital to drive systemic change toward a more inclusive economy.

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Introduction

In its relatively brief history, impact investing has given rise to a variety of approaches and sparked significant controversies. This thesis provides an account of a specific instance of the genre, namely gap-closing investing, which has been developed and practiced by Dr. Freada Kapor Klein and her husband, the author, through the venture capital firm Kapor Capital, beginning in 2011. Gap-closing investing identifies tech startups which close gaps of access, opportunity or outcome for low-income communities or communities of color with the aim of producing top quartile financial returns along with social impact. Kapor Capital has focused on early (seed stage and pre-seed) companies.

Parts I and II provide contexts that illuminate the history of impact investing and gap-closing investing specifically, one personal, one historical.

Part I traces the personal journeys of Freada and myself to creating a new genre in impact investing.

In Part II the thesis traces the origins and evolution of impact investing from its religious roots to faith-based investing initiatives in the 18th and 19th centuries, socially responsible investing (SRI) funds in the 1970s, and self-designated impact investing funds since 2007.

Part III examines how gap-closing investing takes a developmental perspective on the startup lifecycle, with each stage having specific developmental goals which must be achieved in order to pass on successfully to the next stage. Seed stage companies in particular must move from inspiration and ideation to demonstration of value for real users of a real, "minimally viable" product.

Equally important, gap-closing investing recognizes the persistence of structural barriers in society that limit access to education, employment, credit, healthcare, housing and other features of a stable daily life. It seeks to mitigate those structural barriers by investing in companies that can close those gaps and thus stands as a pragmatic investment strategy aimed at unlocking value in overlooked places and people.

Part IV focuses on how gap-closing systematically rethinks talent. Early stage venture capital has always recognized the importance of founder selection, not just the strength of the business plan. Does the founder (or founding team) have the qualities needed for success? Gap-closing discounts the value of pedigree, e.g., degree from an elite university or work experience at a prestigious firm, but looks carefully at a measure. "distance traveled", as a success factor. This different view of talent seeks to eliminate biases or preferences based on unearned advantages and has given rise to distinctive practices in the investment process.

Part V addresses present-day critical issues in gap-closing investing: First, we will describe how gap-closing investing approaches the issue of diversity. This is a very timely issue, given the extreme pushback against DEI (Diversity, Equity, Inclusion) in the current environment. We will see that a gap-closing portfolio winds up being composed of founders from very diverse backgrounds by focusing on the intended outcomes of businesses invested in, and is thus accomplished without making the identity of the founder (gender, race, etc.) an explicit selection criterion.

Second, we will look at measurement and assessment of impact, another topic on which practitioners have yet to reach a consensus. In the gap-closing model, impact is measured quantitatively on a sector-by-sector basis, i.e., in EdTech it's relevant to consider how many students in Title I (low-income) schools are being served, whereas in FinTech, the most relevant measure might be how many individuals with sub-threshold credit scores are being uplifted. There is, at least of now, no single impact index spanning all sectors which is meaningful. Attempts to reduce a wide variety of types of impacts to a single score have usually dumbed down the inquiry so that diverting significant tons of textiles from a landfill might garner sufficient points to overlook not paying employees a living wage.

The third and final current issue is whether impact investing is concessionary. The idea that if impact is taken into account, returns must necessarily be sacrificed, remains a central dogma in many if not most quarters of the investment world. Mainstream investors often argue that "values" ought to be left out of investing and only financial results should be pursued. Obviously, this is itself the assertion of a set of values including that obtaining superior financial returns is all that matters without any regard to how those returns were made or who might have been harmed in the process. The results of Kapor Capital, as documented in its 2019 Impact Report, are an existence proof this is not so.

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Part I: Personal Journeys

The 1970s and 1980s were formative decades in the professional lives of both co-founders of Kapor Capital—Dr. Freada Kapor Klein and myself—and the experiences we accumulated during those years laid the foundations for what we came to call gap-closing investing.

I had the good fortune to enter the tech world in its nascent stage, during the advent of personal computing. As a nascent entrepreneur in the 1980s my personal values, shaped by the civil rights, anti-Viet Nam war, environmental and feminist social movements of the 1960s were put to the test while raising venture capital for the first time as I anticipated (or, more likely, over-estimated) conflict between my values of treating employees well and fairly and the expectations of investors to maximize business outcomes at all costs.

Rather than kick this particular can down the road, I chose to raise it at the outset adding the following to the original Lotus business plan. If it meant not getting funded I thought, so be it.

> "While I am keenly aware of the Leo Durocher theory of management "nice guys finish last", **I am unwilling to operate a priori in an overaggressive, profit-only centered style**, nor would I like to see the company as a whole begin to run that way. Rather, I am

> committed to trying to live with and work out as best as possible the contradictions involved in running a profitable enterprise with my other values, such as the notion that **it's better to treat people well as an end in itself, rather than only as a means of improving productivity**. I bring all this up to state my concerns for the record, as it were, and to indicate that this issue will be important to me in any future expansion of our activities or active investors." (emphasis added)[1]

Fortunately, Ben Rosen, co-founder of the venture firm Sevin Rosen Partners, was not deterred from making the investment in Lotus. To be honest, I am not sure the extent to which he noticed it when I threw down the gauntlet. But nonetheless I was on record.

My early success came with the founding of Lotus Development Corporation and the launch of Lotus 1-2-3, the spreadsheet application that would become the "killer app" for the IBM PC.[2] Lotus emerged as one of the defining hypergrowth software companies of its time. With the company's rapid ascent came an opportunity that felt deeply personal: to build an organization where outsiders like me—socially awkward, younger than my peers, and often on the margins—could feel not only welcome but valued. It

[1] Sahlman, William A. *Lotus Development Corporation*. Harvard Business School Case 9-285-094. Boston: Harvard Business School Publishing, 1997, p. 14

[2] Today in Media History: Lotus 1-2-3 was the Killer App of 1983, retrieved May 3, 2025

was in that spirit that we sought to design Lotus as a workplace that would break from the corporate mold. That aspiration is what led to the hiring of Dr. Freada Kapor Klein.

Freada's long track record as a social activist began during her middle school years in the 1960s when she joined a picket line as part of a nationwide campaign to persuade consumers to refuse to purchase table grapes in support of demands to improve wages, working conditions and overall treatment of farm workers, particularly Filipino and Mexican American grape pickers in California being organized by the United FarmWorkers under Cesar Chavez.

By 1984 Freada had become a nationally recognized expert in workplace equity and a trailblazer in the field of sexual harassment prevention for nearly a decade.[3] She had just completed her PhD in Social Policy and Research at the Heller School at Brandeis and was recruited to join Lotus with a bold and unconventional job description: to make the company the most progressive employer in America. Her approach was pioneering—establishing confidential channels for raising concerns, using anonymous surveys to evaluate managerial accountability, and introducing systemic

[3] Interview with Freada Kapor Klein and Mitch Kapor, retrieved May 3, 2025

frameworks to identify and mitigate bias across lines of race, gender, and class.

After several years of fruitful collaboration at Lotus, Freada left to found Klein Associates, a global consulting firm that specialized in workplace equity and bias reduction. I, in turn, exited Lotus in the late 1980s and transitioned into angel investing, applying what I had learned about technology and scale to help grow promising startups.

We reconnected personally in the mid-1990s, and our shared professional values soon became the basis of a personal partnership. We married in 1999. Over time, Freada's work—rooted in a deep understanding of systemic injustice—came to influence my own thinking more profoundly than I initially expected. The framework of gap-closing investing is, in every sense, a joint creation: it synthesizes my experience in technology and entrepreneurship with Freada's decades of work in social science, equity, and movement building. The result is a model where the whole is unquestionably greater than the sum of its parts.

A pivotal moment in that synthesis came through Freada's work with the IDEAL Scholars program at UC Berkeley, which she co-founded following the passage of Proposition 209, California's ban on affirmative action in public institutions. The program provided underrepresented students of color—

admitted without racial preference but often lacking support as the first in their families to be college-bound—with financial assistance (replacing all student loans and work-study), computers, mentoring/tutoring, community, and guidance. [4] The program was designed to give low income kids many of the benefits that kids from privileged backgrounds just assumed—not working during the academic year so that one could fully participate in campus life, having a laptop, having a peer group, access to tutoring if you needed it. As I got to know these students, I experienced a kind of revelation. Despite the differences in race, age, and socioeconomic status, I saw myself in them. Like me, they simply wanted a fair shot to explore their curiosities and talents and to prove themselves. I had grown up as an awkward, skipped-a-grade kid who didn't fit in socially—an outsider in a different way. But the shared yearning for dignity and opportunity felt universal.

That insight crystallized into a guiding belief: *Talent is evenly distributed, but opportunity is not.* This has since become a central organizing principle in my life, work, and philanthropy—and it is at the very heart of gap-closing investing.

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[4] IDEAL scholars praise program's support for learning, diversity, retrieved May 3, 2025

In the late 2000s, Freada challenged me to align my investment strategy with my values. She asked a deceptively simple question: what if we put capital to work in ways that supported people like those students—people with enormous potential but limited access? At first, I was skeptical. Like many in tech, I had internalized the notion that impact came at the expense of returns. But Freada's challenge stuck with me. And soon enough, I said yes.

That decision marked the birth of gap-closing investing. Since then, we've built a venture model that is unapologetically impact-driven and performance-proven. It reflects not just a theory of change but a lived journey—one rooted in parallel trajectories that intersected at the right moment, with the right question, and an unshakable commitment to equity.

Part II: Origins of Impact Investing

Jewish Roots

As a term of art, impact investing—the practice of deploying capital not only for financial return but also for social benefit—is less than two decades old but its ethical foundations stretch back millennia.

Jewish tradition treats economic life as a moral arena[5] in which justice (*tzedek*), compassion, and responsibility are non-negotiable. Economic activity that exploits, deceives, or endangers others is impermissible. Specifically, Leviticus 19:14's prohibition on "placing a stumbling block" extends to modern practices like predatory lending or environmentally destructive ventures.

Investors share moral responsibility for the actions of enterprises they fund. Talmudic and later rulings hold capital owners liable for indirect harm, challenging the notion of shareholder neutrality.

The tradition broadens ethics from isolated transactions to systemic impact, demanding that capital allocation actively advance human dignity and avoid reinforcing injustice. Markets exist to serve social equity as well as financial returns.

While I did not enjoy a formal Jewish education making these values explicit, they were implicit in the way I was brought up and by the example of the way my father conducted himself in his own small business in his role as a parent and in his personal life. I remember, for instance, his insistence he would close down his business before he would pay bribes to corrupt union officials to cease harassing him and the business. Fortunately, it did not

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[5] Jewish Views on Economic Justice, retrieved May 3, 2025

come to that, but it left a lasting impression on me that sometimes the right thing to do involves standing up and putting things one holds dear at risk. The thing that connects Leviticus to Lotus was not a straight line. It was more atmospheric. It also reflects the commonality of values expressed in Leviticus with the social and racial justice movements of the 1960s and 70s in the U.S. Taken together they speak to creating and operating in a culture of integrity — where the strong don't prey on the weak, and where fairness trumps profit-at-any-cost thinking. It means taking responsibility for the impact of actions, especially when others are vulnerable or unaware.

Faith-Based Ethical Investing (18th-19th Centuries)

The modern historical roots of impact investing in Western society can be traced most directly to Protestant Christian movements in the 18th and 19th centuries, particularly among Quakers and Methodists in the United States and United Kingdom. In 1774, the Quaker Philadelphia Yearly Meeting explicitly prohibited members from participating in the slave trade—buying or selling humans—marking one of the first documented instances of a religious community establishing clear ethical restrictions on financial activities.[6] This action represented a significant milestone in the evolution of

[6] Quakers Address the Problem of Slavery, Retrieved May 3, 2025

ethical investing, as it demonstrated a formal community commitment to aligning financial decisions with moral values.

John Wesley (1703-1791), one of Methodism's founders, articulated some of the earliest formal principles of socially responsible investing in his sermon "The Use of Money"[7]. Wesley outlined basic tenets that included not harming one's neighbor through business practices and avoiding industries like tanning and chemical production that could harm workers' health. Methodist investment principles expanded to eschew involvement in the slave trade, smuggling, and conspicuous consumption, while also avoiding investments in companies manufacturing liquor or tobacco products or promoting gambling. These principles represented an early form of exclusionary screening that would become a hallmark of early socially responsible investing.

The Quakers established similar restrictions on investments in industries they deemed harmful or immoral. Beyond their opposition to slavery, Quakers also avoided industries related to warfare, such as weapons manufacturing, due to their pacifist beliefs. This approach culminated in the establishment of the Pioneer Fund in 1928 in Boston, which invested only in sectors Quakers deemed morally acceptable.[8] The Pioneer Fund represents

[7] The Sermons of John Wesley - Sermon 50, Retrieved May 3, 2025

[8] A Brief History of Impact Investing in The United States, Retrieved May 3, 2025

one of the earliest formal investment vehicles explicitly designed to align financial activities with ethical principles, demonstrating the institutionalization of values-based investing principles that had been developing for centuries.

1970's: The Emergence of Socially Responsible Investing

The religious foundations of ethical investing gradually expanded into broader social concerns through the 19th and early 20th centuries. What began as primarily faith-based restrictions evolved to incorporate wider societal concerns, especially as industrialization created new ethical challenges related to labor practices, environmental impacts, and consumer safety. The common thread among these early approaches was the avoidance of investments in so-called "sin stocks"—companies involved in alcohol, tobacco, gambling, sex-related businesses, and weapons production. This exclusionary approach represented the dominant model of ethical investing through the first half of the 20th century.

Socially responsible investing (SRI) as a formalized practice began to take shape in the 1970s, though its philosophical roots ran much deeper. The Vietnam War, the civil rights movement, the women's movement and the rise of environmental consciousness converged to spark a growing demand for investment vehicles that reflected ethical and social values. Investors increasingly wanted to align their portfolios with their principles — to ensure their capital wasn't financing war, racial injustice, unfair labor practices or environmental degradation. The earliest SRI funds emerged as both a response to that demand and a catalyst for the movement's growth.[9]

The **Pax World Fund**, founded in 1971, is widely recognized as the first modern SRI mutual fund in the United States[10]. Its founders, Luther Tyson and Jack Corbett, were Methodist ministers and peace activists who had worked on disarmament and social justice issues. Motivated by the desire to offer a financial alternative to those who opposed the Vietnam War and the military-industrial complex, they built the fund on a principle of **avoidance**: no investments in weapons manufacturers, military contractors, or companies with poor records on labor and the environment. For Tyson and Corbett, investing was an extension of moral responsibility — a form of peacemaking through finance.

The following year, the **Dreyfus Third Century Fund** launched with a more mainstream orientation but similarly grounded in ethical criteria[11]. Sponsored by the Dreyfus Corporation, it aimed to demonstrate that

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[9] Schueth, S. Socially Responsible Investing in the United States. *Journal of Business Ethics* 43, 189–194 (2003). https://doi.org/10.1023/A:1022981828869

[10] Jack Corbett Remembered, Mourned by Pax World Family, Retrieved May 3, 2025

[11] The Dreyfus Premier Third Century Fund, Inc., Retrieved May 3, 2025

investors could prioritize both financial performance and social contribution. The fund avoided companies involved in alcohol, tobacco, gambling, or defense, while favoring those that supported positive labor relations, community development, and environmental stewardship. Its very name — “Third Century” — was a nod to American bicentennial optimism, envisioning a future in which capitalism served the common good.

Although it came a decade later, the **New Alternatives Fund**, launched in 1982, represented a natural outgrowth of the 1970s movement, pushing SRI more explicitly into the realm of environmental sustainability. It focused on clean energy, conservation, and climate-friendly technologies, pioneering what would later evolve into the “green investing” space.[12]

Across these early funds, a few shared principles defined what it meant to invest responsibly:

- **Negative screening**, or the exclusion of companies deemed harmful to society (e.g., weapons, fossil fuels, tobacco).

- **Moral alignment**, particularly with religious or ethical worldviews rooted in peace, justice, and stewardship.

[12] New Alternatives Fund, Inc., Retrieved May 3, 2025

- **Positive social impact**, often loosely defined, but increasingly tied to labor practices, civil rights, and environmental care.

What’s striking about these early funds is how they redefined the purpose of capital. Investment wasn’t just about return on equity — it was also about return on values. In many ways, the SRI movement of the 1970s was laying the groundwork for the broader fields of ESG (Environmental, Social, Governance) and impact investing that would come to prominence in the decades that followed.

Late 20th Century: Maturation of Socially Responsible Investing

In the late 20th century, socially responsible investing (SRI) began to take on a more structured and institutionalized form, thanks in large part to the pioneering efforts of Amy Domini[13] and the Calvert Group[14]. These early innovators helped transform SRI from a niche, values-driven movement into a credible and influential segment of the broader investment landscape.

Amy Domini’s contribution was particularly significant with the creation of the Domini Social Index in 1990. Modeled on the S&P 500, the index was

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[13] Domini, Amy. *Socially Responsible Investing: Making a Difference and Making Money*. Chicago: Dearborn Trade, 2001.

[14] Calvert Investments, Inc., Retrieved May 3, 2025

one of the first to track the performance of companies screened for social and environmental responsibility. It provided a critical proof of concept: that investing according to ethical values could be done systematically, and without necessarily sacrificing financial returns. The Domini Social Equity Fund, based on this index, offered a concrete way for investors to align their portfolios with their social values, making socially responsible investing accessible to a much wider public.

The Calvert Group, meanwhile, had already laid important groundwork with the launch of the Calvert Social Investment Fund in 1982. This fund was among the first to explicitly integrate non-financial criteria into its investment process. Calvert used both negative screens—excluding companies involved in activities like tobacco production, weapons manufacturing, and environmental degradation—and positive screens that sought out companies demonstrating leadership in areas such as diversity, environmental stewardship, and community development.

What set both Domini and Calvert apart was their insistence that responsible investing could be both ethically grounded and financially viable. They also helped institutionalize the practice of shareholder activism. Rather than merely avoiding harmful companies, they advocated for using shareholder influence to press for improved corporate behavior. Calvert was especially active in filing shareholder resolutions and engaging directly with company management, pushing for changes in corporate governance, labor practices, and environmental impact. This approach laid the foundation for what would later be known as active ownership—an essential pillar of impact investing today.

Just as importantly, both Domini and Calvert helped bring socially responsible investing into the mainstream. By structuring their funds as mutual funds available to the general public, they democratized access to values-based investing, which had previously been the preserve of religious organizations, mission-driven endowments, or high-net-worth individuals.

These early efforts also contributed to the development of frameworks and metrics for assessing corporate social performance. While the methodologies were initially rudimentary, they helped catalyze a broader movement toward standardizing environmental, social, and governance (ESG) metrics, a development that would gain tremendous momentum in the decades to follow.

Many approaches to ESG have subsequently been developed on the basis of the United Nations Sustainable Development Goals (SDGs) which originated in 2012 in Rio de Janeiro at the Conference on Sustainable Development.[15]

[15] The 17 Goals, Retrieved May 3, 2025

These universal goals were designed to meet urgent environmental, political and economic challenges of our time, but their very number has often meant following some of them can end up violating others.

Together, Amy Domini and the Calvert Group redefined what it meant to be an investor. They helped shift the paradigm from one in which investors were seen as passive holders of capital to one in which they could be active agents of social and environmental change. Their innovations were instrumental in transforming SRI from a values-driven sideline into a precursor to today's expansive and increasingly data-driven field of impact investing.

"Impact Investing" is Born (2007–2008)

While forms of socially conscious and mission-aligned investing had existed for decades under labels such as socially responsible investing (SRI), mission-related investing, and double or triple bottom line investing, the terminology surrounding these practices lacked coherence. It was not until the late 2000s that the term *impact investing* emerged to provide a unifying identity for a growing, but fragmented, set of investment strategies aimed at achieving measurable social and environmental outcomes alongside financial returns.

The term *impact investing* was formally coined in 2007 during a gathering convened by the Rockefeller Foundation at its Bellagio Center in Italy[16]. The convening brought together a diverse group of investors, philanthropists, and thought leaders who shared a common goal: to explore new ways to harness private capital to address global social and environmental challenges. Participants in the meeting recognized the need for a term that could describe investments made with the explicit intention of generating positive, measurable impact without necessarily sacrificing financial performance. The phrase *impact investing* was adopted to fill that conceptual gap.

Rockefeller's influence extended far beyond terminology. Following the Bellagio convening, the Foundation played a catalytic role in shaping the field's infrastructure and legitimacy. In 2008–2009, it supported the creation of the Global Impact Investing Network (GIIN)[17], which became a central coordinating body for practitioners and a platform for knowledge-sharing and field-building. It also funded the development of IRIS (Impact Reporting and

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[16] Global Impact Investing Network (GIIN)

[17] Global Impact Investing Network, Retrieved May 3, 2025

Investment Standards)[18], one of the first attempts to standardize the measurement of social and environmental outcomes across diverse asset classes and sectors.

Additionally, Rockefeller commissioned and disseminated early research to articulate the size, potential, and challenges of the emerging field. One such publication, *Investing for Social and Environmental Impact*[19] laid the groundwork for understanding impact investing not merely as an extension of philanthropy or a subcategory of SRI, but as a distinct investment discipline with its own tools, expectations, and ambitions.

The timing of this effort was also significant. In the wake of the 2008 global financial crisis, there was a growing appetite for alternatives to traditional investment approaches, and an increasing awareness of the social and environmental consequences of capital markets. Framing impact investing as both a moral and market-based strategy helped appeal to a broader coalition of actors, including private equity firms, development finance institutions, foundations, and family offices.

The introduction of the term *impact investing* thus marked a pivotal moment in the field's evolution. It did not create a new practice ex nihilo, but it

[18] IRIS+, Retrieved May 3, 2025

[19] INVESTING FOR Social & Environmental IMPACT, Retrieved May 3, 2025

offered a language and structure that made it possible to recognize, coordinate, and scale a wide range of investment activities previously seen as one-off, siloed or peripheral. As a result, *impact investing* quickly became the dominant term used to describe intentional, performance-oriented investments aimed at solving social and environmental problems.

Parallel Trajectories: SRI and Venture Capital in the Late 20th Century

The 1970s and 1980s witnessed the rise of two significant but largely disconnected forces within the investment world: Socially Responsible Investing (SRI) and venture capital (VC). Each developed within its own intellectual, institutional, and financial ecosystem. While both can be seen as responses to broader social and economic shifts—such as post-industrial globalization, technological transformation, and increasing concern over corporate (ir)responsibility—their early trajectories reveal little evidence of direct interaction or mutual influence.

As we have seen, SRI, emerging out of the civil rights era and the anti-war, environmental and women's movements of the 1960s, took shape primarily through ethical exclusionary strategies in public equity markets. Institutional investors such as faith-based organizations, union pension funds**,** and early socially conscious mutual funds sought to align investment practices with moral values. This meant avoiding companies involved in South Africa under apartheid, tobacco, weapons manufacturing, or environmental degradation. The founding of the Pax World Fund in 1971 and Calvert Investments in 1976 marked the early institutionalization of SRI principles. These funds, and the communities that supported them, were often oriented around advocacy, regulatory reform, and long-term stewardship of capital. Their tools of influence were public disclosure, shareholder resolutions, and divestment campaigns—primarily within publicly traded companies.

In contrast, the venture capital industry during the same period was developing along its own distinct path, characterized by its focus on private markets, technological innovation, and high-growth, entrepreneur-led companies.[20] The early VC firms that rose to prominence—Kleiner Perkins and Sequoia Capital, both founded in 1972—were instrumental in financing the nascent technology ecosystem in Silicon Valley. Their investments in companies such as Apple, Atari, Genentech, and Sun Microsystems helped define the contours of what would become a dominant investment model: one that prioritized scalability, intellectual property, and disruptive potential. The ethos of early venture capital was not one of values-driven investing,

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[20] Mallaby, Sebastian. *The Power Law: Venture Capital and the Making of the New Future*. New York: Penguin Press, 2022

but rather one of high-risk experimentation in pursuit of extraordinary financial returns.

These firms operated largely outside the purview of the emerging SRI community. There is little historical evidence to suggest that early venture capitalists were influenced by, or even in conversation with, the principles or proponents of socially responsible investing. The two movements existed in parallel, largely separate universes, divided by asset class, institutional culture, and strategic intent. SRI was deeply embedded in the frameworks of fiduciary responsibility and shareholder activism, with its locus in public equities and collective action. Venture capital, on the other hand, was shaped by a culture of individualism, secrecy, and speculative innovation, often backed by elite academic networks and military research offshoots.

To be sure, some early VC-backed companies—such as Genentech, which contributed to the biotech revolution—delivered significant public benefit. Yet these outcomes were typically framed in market terms rather than ethical ones. Disruption was prized whether it resulted in positive or negative impacts. Social impact, when it occurred, was often incidental rather than intentional. There were no formal frameworks or metrics within the VC world during this period for assessing social or environmental outcomes.

It was not until the early 2000s that meaningful bridges between SRI and venture capital began to form. The rise of impact investing, defined by the dual intention to generate both financial return and measurable social or environmental benefit, marked a turning point. New institutions and frameworks emerged—such as GIIRS ratings[21], B Lab certification[22], and the Global Impact Investing Network (GIIN)—which borrowed from the moral and measurement philosophies of SRI while adapting them to private capital markets. At the same time, a new wave of venture funds—including DBL Partners, Acumen, and Kapor Capital—began to integrate impact goals into their investment theses, sometimes supported by limited partners aligned with SRI principles.

Thus, while venture capital and socially responsible investing began in separate spheres during the 1970s and 1980s, their eventual convergence in the impact investing movement underscores the evolving nature of capital markets. It reflects a growing recognition that the values once confined to public market activism can—and perhaps must—be integrated into the private, entrepreneurial world of venture capital.

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[21] IRIS+ and GIIRS, Retrieved May 3, 2025

[22] About B Corp Certification: Measuring a company's entire social and environmental impact, Retrieved May 3, 2025

Part III: Core Dynamics of Gap-Closing Investing

A Developmental Perspective on Building Startups

A developmental model that conceptualizes startup growth as a series of distinct stages offers a valuable framework for both founders and investors.[23] Each stage—typically encompassing ideation, product development, early traction, scaling, and maturation—presents its own set of objectives and challenges that must be addressed before a startup can progress to the next phase. For example, during the ideation stage, the primary goal is to validate a problem-solution fit, often through customer discovery and rapid prototyping. As Steve Blank famously put it, "No plan survives first contact with customers." [24] In contrast, the scaling stage focuses on systems-building, talent acquisition, and market expansion.

This stage-based perspective is particularly important because startup resources—capital, time, talent—are almost always constrained. It is therefore critical that these scarce resources be allocated in ways that are aligned with the current stage's developmental priorities. Attempting to

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[23] Steve Blank, *The Startup Owner's Manual: The Step-by-Step Guide for Building a Great Company* (Pescadero, CA: K&S Ranch Press, 2012)

[24] Steve Blank, *The Startup Owner's Manual*

optimize for scale before establishing a viable business model, for instance, can result in wasted investment and premature burn. Similarly, overinvesting in branding or infrastructure during the product development stage may detract from more urgent needs such as refining the value proposition or achieving product-market fit.

For investors, this framework helps inform due diligence, expectations, and support strategies. Evaluating a seed-stage company through the lens of a later-stage growth company leads to mismatched benchmarks and unhelpful feedback. Conversely, recognizing a startup's current stage enables more appropriate assessments—such as focusing on user engagement metrics rather than revenue in the pre-revenue phase—and more targeted support, including stage-relevant introductions, capital deployment, or milestone planning.[25]

By aligning strategy and resources with the developmental stage of the startup, both entrepreneurs and investors can avoid common pitfalls and more effectively shepherd companies along the path from inception to realization.

[25] Bill Aulet, *Disciplined Entrepreneurship: 24 Steps to a Successful Startup* (Hoboken, NJ: Wiley, 2013).

Best Practices in Seed Stage VC

Before examining how an impact-oriented fund like Kapor Capital approaches seed-stage investing with a focus on gap-closing it is important first to understand the foundational best practices that define high-quality seed-stage venture investing more broadly. While impact may be a distinguishing feature of certain funds, the discipline of identifying and backing promising early-stage startups rests on a shared set of principles that successful investors—whether traditional or impact-driven—adhere to.

At its core, the seed stage is defined by uncertainty. There is no history of financial performance to rely on for guidance. It is far too early. The product is still taking shape, the market is often unproven, and many of the critical assumptions underlying the business model have yet to be validated. For investors, this stage is less about finding fully-formed companies and more about backing founding teams that can navigate ambiguity and execute with focus, speed, and discipline. As such, effective seed-stage investing is built around a few key requirements—criteria that signal a startup is ready to enter the seed stage and capable of progressing toward a Series A investment round

1. Strong Founder-Market Fit

At the earliest stages, the caliber and alignment of the founding team are paramount. Investors look for founders who they believe possess deep insight into the problem they are solving. This concept of founder-market fit reflects a belief that early-stage success is driven as much by the quality of the insight and motivation behind the idea as by the idea itself.

2. A Focused Hypothesis and Minimum Viable Product

Drawing on the methodology as codified by Eric Ries in *The Lean Startup*[26] seed-stage companies should have a clear and testable value hypothesis—a proposition about what product or service will demonstrably solve a specific problem for a specific group of people. To test this hypothesis, they must develop a Minimum Viable Product (MVP): not a polished offering, but a version of the product with just enough critical features that enables real-world learning from customers. The goal is not perfection, but validated learning—the core currency of early-stage progress.

3. Evidence of Problem-Solution Fit

While full product-market fit is not yet expected, successful seed-stage startups must show signs of problem-solution fit. This may be reflected in

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[26] Eric Ries, *The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses* (New York: Crown Business, 2011).

user engagement, willingness to pay, qualitative customer feedback, or data indicating a strong unmet need. Investors seek indications that the team is learning from the market and adjusting accordingly—what Ries calls navigating the build-measure-learn feedback loop.

4. Lean Operations and Iterative Execution

Seed-stage companies must be able to operate with agility and discipline. Investors look for teams that embrace a lean approach: rapid iteration, careful resource allocation, and a willingness to pivot when necessary. This mindset enables startups to run efficient experiments, refine their core offering, and make progress with limited capital.

5. A Roadmap to Series A Readiness

Finally, even at the seed stage, companies are evaluated in light of the milestones they will need to reach in order to raise a successful Series A. These include progress toward product-market fit, early traction in customer acquisition, and the emergence of promising unit economics. Importantly, this stage also marks the transition from hypothesis testing to building a repeatable and scalable business model.

In sum, effective seed-stage investing is not simply about taking risks on bold ideas; it is about recognizing the markers of early-stage discipline, learning, and momentum. These principles have been refined by years of practitioner experience and codified in frameworks like *The Lean Startup.* While they form the baseline from which any serious seed investor operates, best investing practices must continue to evolve in order to adapt to disruptive changes in the tech ecosystem, e.g., the ongoing AI revolution.

Mitigating Structural Barriers

The theory and practice of impact investing are rooted in the recognition that capital, left to flow through conventional channels, often reinforces patterns of inequality. Nowhere is this more evident than in the persistent structural barriers that shape access to education, employment, healthcare, housing, entrepreneurship, and civic life. These barriers—systemic, institutional, and historically entrenched—operate not merely as background conditions, but as primary drivers of exclusion and inefficiency**.** They limit who gets access to opportunity and who receives the benefits of economic growth. Gap-closing investing emerges from this analysis, not only as a moral imperative but as a pragmatic investment strategy aimed at unlocking value in overlooked places and people.

At the heart of gap-closing investing is the belief that structural inequality produces market inefficiencies—missed opportunities to discover talent, fund innovation, and serve large underserved markets. Kapor Capital, one of the most influential firms in this space, defines its mission as backing companies that "close gaps of access, opportunity, and outcomes for low-income communities and communities of color."[27] This approach contrasts sharply with conventional investment strategies that prioritize short-term, risk-adjusted returns while largely believing that the system is meritocratic so that successful founders are the best and the brightest. Rather than seeing marginalized communities as charity recipients or high-risk ventures, gap-closing investors recognize them as under-tapped markets and sources of innovation.

Structural barriers in education, for instance, are not only a civil rights issue—they are an investment problem. The U.S. school system, shaped by unequal funding formulas and resource disparities, underprepares large segments of the population for higher education and high-growth careers. Students from low-income or historically marginalized communities often attend underfunded schools with limited access to AP courses, college counseling, or technology infrastructure. These inequities are compounded by testing and admissions systems that privilege cultural capital and legacy advantages. As I have put it, "Genius is evenly distributed across zip codes, but opportunity is not."[28] Impact investors focused on education technology,

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[27] Kapor Capital, "Investment Thesis", Retrieved April 26, 2025
[28] Genius is evenly distributed, opportunity is not, Retrieved May 3, 2025

alternative credentialing, and equitable learning platforms are directly intervening in this misallocation of talent.

For instance, Numerade, a company in the Kapor Capital portfolio, exemplifies a gap-closing company by leveraging technology to democratize access to high-quality STEM education, particularly for students from underserved communities. While traditional private tutoring can be prohibitively expensive, often exceeding $50 per hour and often going as high as $300/hour, making it inaccessible for many students, Numerade offers a subscription-based model that provides unlimited access to a vast library of short-form, educator-created videos covering over 6,000 STEM textbooks. A student struggling with a problem set in their homework, can most likely find an explanation of how to solve it, not just the right answer.

Employment markets reveal a parallel structure of exclusion. Hiring processes that prioritize elite degrees or insider referrals systematically overlook nontraditional candidates with high potential. Resume filters and algorithmic tools often replicate human biases, further reducing the visibility of diverse talent. Gap-closing investors respond to this by funding platforms that promote skills-based hiring, support formerly incarcerated individuals, or use behavioral science to de-bias the hiring process. The goal is not only fairness—it is efficiency: to expand the talent pipeline and reduce friction in labor markets.

As an example, another company in the Kapor Capital portfolio, Interviewing.io, conducts fully anonymous technical interviews, removing identifiers like names, resumes, and voices. This approach ensures that candidates are evaluated solely on their skills, mitigating unconscious and conscious biases related to gender, race, age, or educational background. By focusing on actual performance rather than perceived pedigree, the platform creates a more equitable hiring environment.

Healthcare is another domain where structural barriers suppress both equity and efficiency. The lack of access to affordable, culturally competent care for millions of Americans—especially those in rural areas, low-income urban centers, or immigrant communities—creates massive disparities in health outcomes and long-term costs. Investors who deploy capital into community-based clinics, telehealth innovations, or maternal health services for Black and Indigenous women are addressing both a public health failure and a market gap.

Zócalo Health exemplifies a gap-closing company by delivering culturally tailored, accessible, and comprehensive healthcare services that address both medical and social needs of the Latino community.

Even within the venture capital industry itself, structural exclusion is acute. Requiring or relying on warm introductions (where an investor only takes a pitch from an entrepreneur who was introduced by someone in their network whom they respect), pedigree-based screening, and geographic concentration reinforce a narrow founder archetype—typically white, male, and Ivy League educated. In light of this it is not surprising that in 2022, Black and Latino founders received only 1 percent and 1.5 percent respectively of total US venture capital (VC) funding. Women-founded teams received 1.9 percent of VC funds, and only 0.1 percent of VC funds went to Black and Latino women[29], despite data showing that diverse founding teams often outperform on several dimensions.[30] Gap-closing firms like Kapor Capital have rejected warm intros and instead built inclusive pipelines, sourcing deals from founder communities that have historically been locked out. Anyone who feels their startup meets Kapor Capital's gap-closing investment criteria is welcome to submit their pitch deck via the website[31].

Housing and criminal justice further illustrate how structural inequities translate into distorted markets. Redlining, exclusionary zoning, and mass incarceration have produced patterns of spatial and racial segregation that compound economic inequality. Impact investors in affordable housing, fair-

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[29] Underestimated start-up founders: The untapped opportunity, Retrieved May 3, 2025

[30] Why diversity matters, Retrieved May 3, 2025

[31] Pitch Us, Retrieved May 3, 2025

chance hiring, or reentry services are confronting these patterns directly—not with charity, but with strategies to build stable communities, reduce recidivism, and generate long-term returns. Impact investing generally and gap-closing investing specifically can help correct the legacy of inequality that has shaped who gets to live where, and on what terms.

Gap-closing investing thus offers a powerful reframing of both the problem and the opportunity. It views exclusion not as the result of weeding out less "qualified" founders or investors, or an unfortunate byproduct of market forces, but as a signal of where markets have failed to allocate capital effectively and existing systems have failed to identify talent and potential. It seeks out solutions that close racial, gender, economic, and geographic gaps—and in doing so, reclaims value from the inefficiencies baked into traditional investing paradigms. Impact investing's role is to disrupt systems that generate exclusion and inequity, not just patch them.

In this sense, gap-closing investing is not a niche within the broader field of impact investing—it is a critique of business-as-usual finance and a strategic response to structural injustice. It is premised on the idea that equity and return are not in tension, but often mutually reinforcing, when capital is directed toward the places of greatest need and possibility. Structural barriers may be formidable, but they are also investment signals—revealing the fault lines of a system in need of repair, and the pathways to a more just and resilient economy.

Using Capital to Drive Social Change

As the previous section has shown, structural barriers distort access to opportunity across education, employment, healthcare, housing, transportation and entrepreneurship. Traditional investing models either ignore these distortions or treat them as background noise—at best, a risk to be hedged, and at worst, an externality to be ignored. Gap-closing investing, by contrast, centers its entire strategy around the identification and dismantling of these barriers. It seeks to generate outsized financial and social returns by investing where capital has historically failed to reach proportionally to the opportunity.

Yet in a landscape filled with mission statements, sustainability metrics, and social pledges, it is important to draw sharp distinctions between gap-closing investing and other widely used frameworks, especially Corporate Social Responsibility (CSR) and Environmental, Social, and Governance (ESG) investing. These models all sit under the broader tent of socially aware investment, but they diverge significantly in how they define impact, how they structure incentives, and whose voices are prioritized.

CSR emerged first, largely as a reputational strategy to insulate corporations from public criticism or regulatory scrutiny. Its initiatives—often philanthropic in nature—are typically housed in separate foundations or departments and evaluated by the size of donations rather than by measurable changes in structural conditions.

ESG investing came next, evolving primarily as a risk mitigation tool for institutional investors. It integrates social and environmental factors into financial analysis but remains fundamentally focused on how these factors affect shareholder value, not on how companies impact the lives of historically excluded populations. While ESG brings greater analytical rigor than CSR, it frequently stops short of engaging with the root causes of inequality.

Gap-closing investing, by contrast, is explicitly redistributive in its logic, not in the sense of charity, but in the sense of capital reallocation toward people, places, and problems that conventional markets overlook. It does not simply screen out harm; it seeks out transformative potential—where financial returns are tied to measurable social progress for those historically excluded.

The table below summarizes these distinctions:

Comparative Framework—CSR vs. ESG vs. Gap-Closing Investing

Dimension	CSR	ESG	Gap-Closing Investing
Primary Goal	Reputational goodwill; mitigate social backlash	Manage material risks and long-term sustainability	Dismantle structural barriers; generate social + financial returns
Integration with Business	Separate from core operations; often philanthropic	Integrated into investment analysis and corporate reporting	Core to business model and investment thesis
Primary Stakeholder Focus	General public, consumers	Shareholders and investors	Underserved communities, overlooked entrepreneurs
Impact Philosophy	"Do no harm"; compensate for harm elsewhere	"Mitigate risk"; reward sustainable behavior	"Close gaps"; address root causes of inequality
Examples of Action	Donating to education nonprofits	Divesting from polluters; favoring companies with diverse boards	Investing in edtech that improves outcomes in low-income schools

Measurement Focus	Inputs (dollars donated, hours volunteered)	Corporate-level ESG metrics (e.g., emissions, board diversity)	Community-level outcomes (e.g., jobs created, gaps narrowed)
Capital Flow Model	Mostly grant-based or siloed budgets	Public markets and ESG-screened portfolios	Direct investment in startups or funds serving marginalized groups
Typical Critiques	Superficial; lacks accountability	Inconsistent metrics; insufficient to address equity	Requires active sourcing, deep diligence, and intentionality
Agency of Affected Groups	Passive recipients of goodwill	Considered in risk analysis	Active co-creators (as founders, leaders, or customers)
Example Organizations	Coca-Cola Foundation, Microsoft Philanthropies	BlackRock ESG Funds, MSCI ESG Indexes	Kapor Capital, Reach Capital, Achieve Partners

This comparative framework reveals a powerful insight: while CSR and ESG approaches often layer social considerations onto conventional investment logic, gap-closing investing inverts the logic altogether. It begins with the recognition that the exclusion of marginalized communities is not only unjust but economically irrational. The undervaluation of talent, the undercapitalization of diverse founders, and the systemic disinvestment in communities of color represent failures of the market—failures that smart, mission-driven capital can address.

In this sense, gap-closing investing aligns more closely with a theory of structural opportunity than with a theory of corporate ethics. It is less concerned with how a company *appears* to stakeholders and more with how it *performs* in relation to long-standing inequities. It is not content to "do less harm" but seeks to produce net benefit, measured in both returns and redistributive outcomes. Its metrics are not just ESG checklists, but questions such as: Who got funded? Whose lives got better? What barriers were broken? Was anyone left behind? Did the gap between haves and have nots widen or shrink?

The rise of this approach suggests a broader shift in investment thinking: from extractive finance to inclusive finance, from risk-avoidance to gap-closing, from top-down evaluation to bottom-up empowerment.

Part IV: Rethinking Talent

The Myth of Meritocracy

The "myth of meritocracy," as originally articulated by Dr. Freada Kapor Klein[32], refers to the widely-held but flawed belief that professional success—particularly in technology and venture capital—is purely a result of individual merit, talent, and hard work. Klein argues that this belief overlooks systemic inequities, implicit biases, and structural barriers faced by marginalized groups.

According to Klein, this myth perpetuates inequality by:

1. **Assuming a Level Playing Field:**

   It ignores that not everyone starts with equal access to resources, opportunities, and networks crucial for professional success.

2. **Ignoring Systemic Bias:**

   It dismisses the significant impact of implicit bias and discrimination in hiring, promotions, funding decisions, and resource allocation.

[32] Ellen Pao and the Myth of Meritocracy, Retrieved May 3, 2025

3. **Favoring Privilege over Potential:**

   Traditional definitions of "merit" often equate pedigree (elite education, prior affiliations) with potential, reinforcing privilege rather than genuinely assessing talent and capability.

4. **Masking Inequality:**

   By attributing success entirely to personal merit, systemic and institutional inequalities are made invisible, further entrenching inequity.

To counter this myth, one emphasizes evaluating individuals based on their "distance traveled,"[33] meaning how far a person has progressed given their starting point in life and barriers overcome—highlighting resilience, determination, and resourcefulness as true markers of merit.

Using this framework we see that in conventional venture capital practice talent is too often judged with reference to elite proxies— valuing degrees from top-tier colleges and graduate schools like Stanford, MIT and Harvard Business School, glowing references from well-known professors or business leaders, or prior access to capital over actual capability or prior achievements. This perpetuates inequality while overlooking non-pedigreed talent with huge potential by disproportionately favoring those already

[33] Freada Kapor Klein and Mitch Kapor, Closing the Equity Gap: Creating Wealth and Fostering Justice in Startup Investing (New York: Harper Collins, 2023), p. 96.

privileged. Further, people from historically marginalized groups are often evaluated differently, with biases leading to underestimation of their skills, potential, and abilities. Thus, even supposed "objective" assessments of talent are frequently biased.

But what happens when innovation is driven not by those born inside these systems, but by those who have fought their way in from the margins? Kapor Capital's investment strategy answers that question with a bold reimagining of talent assessment. Rather than prioritize pedigree, the firm values "distance traveled," believing that the lived experiences of underestimated founders often fuel the most visionary businesses.

The Distance Traveled Framework

In contrast to VC norms that favor those with Stanford degrees, Y Combinator badges, or ex-Facebook credentials, Kapor Capital evaluates founders through a lens of lived experience and problem-market fit. They prioritize "distance traveled"—a measure of how far someone has come in life.

"Distance traveled" takes into account the hurdles and barriers already overcome by virtue of one's own efforts —whether that's overcoming poverty, racism, immigration barriers, rural isolation or social or other kind of exclusion. Rather than see these as deficits and hindrances, Kapor Capital views challenges already met as the source of insight, grit, and commitment that power long-term success.

Business plans of startups must of necessity evolve and change in the face of developing a product or service and bringing it to market. The business that actually results from an investment often bears small resemblance to the business the investors thought they were funding. The character and commitment of the founder(s), on the other hand, are less subject to change, so identifying founders with the passion and persistence to see their vision through to realization is a better component of an investment strategy, and assessing the distance traveled of a founder is a strong indicator of their potential.

Those closest to the problem are often closest to the solution. This philosophy leads Kapor Capital to seek out founders whose businesses are not only gap-closing in purpose but whose personal journeys give them a unique lens on the challenges they aim to solve.

Founders who have personally faced the inequities they aim to solve are seen as uniquely positioned to build for communities too often ignored by Silicon Valley. This approach rejects the myth of the purely meritocratic founder (defined largely by accomplishments fueled by privilege and proximity) and re-centers venture capital around empathy, authenticity, and resilience.

One of the clearest illustrations of this approach is the story of Ruben Harris[34], co-founder of Career Karma. Ruben didn't arrive in Silicon Valley through the traditional feeder paths of Ivy League campuses or tech internships. He came from Atlanta, Georgia, a world away from the social and cultural capital that typically drives startup success. When he first entered the tech world, he didn't know anyone—except for people he met on Twitter.

His college degree had nothing to do with computer science, and his early adult years were more defined by nightclubs than by hackathons. Yet he possessed something far rarer than technical prowess: clarity of mission and lived insight into the barriers to breaking into tech. Ruben's firsthand experience navigating those barriers shaped his first business idea—Career Karma—which helped aspiring tech workers from nontraditional backgrounds find training, community, and support.

To truly understand the users Career Karma aimed to serve, Ruben even trained as a home health care aide while working in sales in a company that matched families with aides, and later co-launched the *Breaking Into*

[34] Kapor Klein and Kapor, Closing the Equity Gap, pp. 95-118.

Startups podcast to democratize access to insider knowledge. Kapor Capital didn't invest in him despite his lack of pedigree; they invested because of the vision and determination born from his journey.

> *"No one else could have founded Career Karma or helped it grow into a company that has lifted tens of thousands into new lives." —Closing the Equity Gap, p. 115*

This illustrates a core tenet of Kapor's assessment model: entrepreneurial passion rooted in personal experience is more than a narrative device. It is a strategic advantage.

Lived Experience as a Venture Asset

Kapor Capital doesn't simply accept "lived experience" as a nice-to-have—it's central to their due diligence. Traditional VCs often look for "founder-market fit" via metrics like domain expertise or previous startup experience. Kapor looks instead for what Freada Kapor Klein calls "entrepreneurial outrage"—the burning sense of injustice that motivates someone to start a company in the first place.

This is a deliberate break from Silicon Valley's meritocracy myth, which often masks systemic bias behind the illusion of objectivity. For founders like Ruben, whose charisma and drive might be coded as "too much" in traditional circles, Kapor Capital sees strength and alignment. They recognize that success isn't always about polish. Sometimes it's about hunger—and insight from having been shut out.

The Power of "Distance Traveled'

Distance traveled is proving to be a memorable and powerful concept, one which is gaining traction not just in venture capital but in other contexts as well.

The venture capitalist and author Ryan Craig has extensively discussed the concept of "distance traveled" as a more equitable metric for assessing talent, more broadly particularly in college admissions. This approach evaluates applicants based on the challenges they've overcome relative to their achievements, rather than solely on absolute accomplishments like test scores or extracurricular activities.

In his 2017 article for *Inside Higher Ed*[35], Craig critiques the traditional admissions process for favoring students from affluent backgrounds, noting that such metrics often reflect access to resources more than innate ability. He advocates for a "distance-traveled" model that considers factors like

[35] A 'Distance-Traveled' Model for College Admissions, Retrieved May 3, 2025

socioeconomic status, family responsibilities, and personal adversity to better identify students with resilience and potential.

Craig further elaborates on this idea in a 2020 piece, suggesting that institutions should implement a quantified measure of distance traveled in admissions decisions. He argues that this shift would help combat elitism and promote socioeconomic mobility by recognizing the efforts of students who have made significant progress despite systemic barriers.

Additionally, Craig has highlighted the relevance of the distance-traveled concept in employment contexts. He points out that UK employers, such as Ernst & Young, have adopted hiring practices that prioritize candidates' life experiences and resilience over traditional academic credentials, leading to more diverse and effective workforces.

Overall, Craig's advocacy for the distance-traveled metric aims to create more inclusive systems in both education and employment by valuing personal growth and perseverance alongside traditional measures of achievement. He credits Freada Kapor Klein for introducing him to the concept.

No Warm Intros

Another important way in which Kapor Capital has differentiated itself in its approach to talent is by its rejection of reliance on warm intros.[36]

Warm introductions are personal referrals made by someone already known to the venture capital (VC) firm—often another founder, investor, advisor, or someone within the VC's network—on behalf of a startup founder. Instead of cold-emailing or submitting an application through a public form, a founder is "introduced" via a trusted intermediary.

Example: If a founder wants to pitch to a VC, they might ask for a mutual connection to send a recommendation email or set up a meeting with that VC.

In traditional venture capital, the practice of requiring or preferring a "warm introduction"—a referral from a trusted intermediary—is often justified by several assumptions. First, many VCs view a warm introduction as a preliminary signal of vetting. When a founder is introduced by someone already known and trusted within the investor's network, that introduction acts as a soft form of due diligence. It may signal that the founder is credible, capable, or otherwise worthy of serious attention.

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[36] Kapor Klein and Kapor, Closing the Equity Gap, p, 252.

Second, warm introductions serve a functional purpose in triaging the overwhelming number of inbound inquiries venture capitalists receive. In an environment where a single VC firm may receive thousands of pitches annually, warm intros are used to prioritize which entrepreneurs merit a closer look. From the investor's perspective, this helps manage time and attention more efficiently.

Third, venture capital remains a highly relationship-driven industry. Warm introductions are embedded in a system of network trust—social capital that is often treated as a proxy for reliability. VCs may believe that founders with strong networks will have an easier time with other essential tasks such as customer acquisition, recruiting key hires, and raising subsequent rounds of capital. In this view, navigating networks effectively is considered an early indicator of entrepreneurial aptitude.

In addition, by accepting a warm introduction from an influential VC, one is building their own network as well as accumulating favors to be called in when needed. These small practices of introductions and then co-investments creates an industry with insiders who believe they attract the best talent as employees and founders, and further reinforce an exclusionary system.

However, these justifications for warm introductions are increasingly being challenged, especially by firms that aim to address inequity in startup funding. Critics argue that reliance on warm intros reproduces barriers for talented founders who are outside traditional VC circles. This includes women, Black and Latinx entrepreneurs, first-time founders, and those based outside major technology hubs like Silicon Valley or New York. Because warm intros depend on access to elite networks—which are themselves homogenous and exclusionary—the practice tends to reinforce the existing racial, gender, and class imbalances in the venture ecosystem. In effect, a process ostensibly designed for efficiency ends up privileging the well-connected rather than the most promising or resilient founders.

Kapor Capital has been at the forefront of this critique. For more than a decade, the firm has adopted and maintained a formal policy against requiring warm introductions. Instead, they invite all founders to submit pitches directly through an open online portal. This policy reflects a deliberate rejection of network-based gatekeeping. As co-founder Freada Kapor Klein has explained, “Warm intros reflect privilege more than merit. They exclude the very founders who’ve had to hustle the hardest.”

Everyone who submits an online pitch answers the same set of tailored questions as part of a preliminary qualification process. No one gets to jump to the head of the line because of their connections, and everyone is measured by the same yardstick.

Kapor Capital's model has helped inspire a broader movement of emerging firms committed to more equitable startup financing. Backstage Capital, founded by Arlan Hamilton, also accepts open submissions and explicitly focuses on funding underrepresented founders.[37] Hustle Fund, led by Elizabeth Yin, has similarly embraced radical transparency in its pitch process.[38] Other firms—including Precursor Ventures and Collab Capital—have also adopted non-gated submission practices with an explicit aim to serve Black, Latinx, immigrant, and female founders.

Collectively, these efforts are redefining what venture capital looks like when true merit such as the most compelling idea for a startup, not access, becomes the primary criterion for investment. By dismantling the warm intro barrier, these firms are pushing the industry toward a more inclusive, impact-driven model.

The Founders' Commitment: A Blueprint for Inclusive Growth

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[37] Our Summer in VC at Backstage Capital, Retrieved May 3 , 2025

[38] Hustle Fund, Retrieved May 3, 2025

Introduced in 2016, the Founders' Commitment[39] is a signature innovation. It was co-designed with a group of Kapor Capital portfolio CEOs who wanted to make sure that they could attract top talent who were committed to building companies with positive social impact; they were looking for the impact equivalent of the Good Housekeeping Seal of Approval as they put it. They also believed inclusive culture should be built early—not retrofitted later. As initially laid out, the commitment consists of four parts:

1. Establish diversity and inclusion goals that are appropriate for the company's funding stage, employee size, customer base, and core business. Include progress on diversity and inclusion in your quarterly investor updates.
2. Invest in tools, training programs, and/or resources that assist with mitigating bias in recruiting, hiring, and employment.
3. Organize volunteer opportunities for employees to engage with underrepresented communities, especially those that reflect the company's customer base.
4. Participate in diversity and inclusion sessions to learn about what works and what doesn't. These sessions will be hosted by Kapor Capital and will be made available for virtual participation as needed.

This requirement is not symbolic—it's written into term sheets and monitored post-investment.

[39] Announcing the Kapor Capital Founders' Commitment, Retrieved May 3, 2025

The Founders' Commitment imposes no quotas or requirements by investors. Kapor Capital's role is to help founders create and implement tailored plans appropriate to their business, much as with any other strategic business initiative and then helping with recruiting too. A core example is to encourage founders to set goals of having their employees mirror the demographics of their customers–arguably a smart business strategy for everyone.

Kapor Capital links its decision to participate in future rounds of financing of a company to the results achieved in acting on the Founder's Commitment. The firm has declined to make a follow-on investment in more than one case when it felt the company had not made significant effort to follow through. While at first glance, this has seemed harsh to some, it is no more so than if a founder commits to certain business goals but does not make an effort to reach them. What is unusual is that as an investor Kapor Capital takes these non-financial goals as seriously as the financial ones.

Part V: Topics

Diversity and Gap-Closing

Inequities in funding distribution

Diversity (or its lack) is perennially one of the most charged subjects in tech. The 2010 CB Insights report revealed that only 1% of venture-backed startup founders were Black, and 83% of founding teams were all-white.[40] The Babson College 2014 Diana Project revealed that only 2.7% of venture-backed companies had a woman CEO[41]. Richard Kerby, then (2015) at Venrock, found that Black investors comprised only 1.5% to 1.7% of the venture capital workforce, while Hispanic or Latino investors made up about 1%.[42]

Despite increased awareness and initiatives aimed at promoting equity, the venture capital (VC) ecosystem continues to exhibit profound disparities in the distribution of funding, putting women and founders from underrepresented racial and ethnic backgrounds at a particular

[40] Venture Capital Report Examines Who Gets Funded, Retrieved May 3, 2025
[41] Diana Project Executive summary 2014, p. 8., Retrieved May 3, 2025
[42] Where Did You Go To School, Retrieved May 3, 2025

disadvantage. In 2023, startups founded solely by women of all backgrounds attracted a mere 2% of total venture capital funding in the United States.[43]

Founders from Black and Latino communities experienced similarly pronounced disadvantages. Black-founded startups secured less than 0.5% of total VC funding in 2023[44], amounting to approximately $705 million—a sharp decline from prior years, highlighting both persistent systemic barriers and volatile investor support. Latino founders encountered marginally better, though still deeply inequitable, circumstances, receiving roughly 1.5% of total venture funding. Particularly concerning is the situation faced by Black and Latina women founders, who collectively garnered only 0.1% of total venture capital funding, illuminating a critical intersectional gap in the venture funding landscape.

The current proliferation of "anti-woke" sentiments, led by prominent conservative and libertarian investors and founders, which emerged in reaction to efforts aimed at promoting diversity, equity, and inclusion (DEI) in hiring and funding practices has further chilled efforts to mitigate the lack of diversity in the venture ecosystem, as have Trump II-era executive orders on DEI. Some firms have scaled back or deprioritized diversity-focused

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[43] Women founders and venture capital – some 2023 snapshots, Retrieved May 3, 2025
[44] Black Founders Received Less Than 0.5% Of All VC Funding In 2023, Retrieved May 3, 2025

investing and hiring. Founders and funders aligned with DEI goals face increased scrutiny or marginalization in networks influenced by anti-woke sentiment.

Kapor Capital's track record stands in notable contrast. Across all three Kapor Capital funds (2015, 2018 and 2021 vintages) 70% of founders come from underrepresented backgrounds in portfolios consisting entirely of gap-closing companies.[45] By "underrepresented," Kapor Capital means groups that have traditionally not had access to venture capital including Black, Latino, and Native American founders, as well as LGBTQ and immigrant founders and women of all backgrounds. In each successive fund, a greater proportion of founders have come from underrepresented backgrounds: 55%, 74% and 82% respectively[46], yet the firm's investment criteria makes no reference to founders' group identity, much less express a preference for their membership or identification in or with a particular group or groups. Gap-closing focuses on business outcomes, not founder identity.

Gap-closing focuses on outcomes not demographics

Participants in the tech ecosystem (entrepreneurs, investors, others) often refer candidate deals to Kapor Capital because the founder(s) is/are people

[45] Kapor Capital Impact Report, p. 8, Retrieved May 3, 2025
[46] ibid.

of color, and the referrer assumes that Kapor Capital would naturally be interested in taking a look exactly because the founder comes from an underrepresented group in terms of VC investment.

This is not really the case, and it is an ongoing source of confusion and misunderstanding. The high degree of diversity among founders in the Kapor Capital portfolio is not a result of a process that gives preference to women and people of color founders. The high degree of diversity is a by-product of taking a gap-closing approach to investing.

The gap-closing approach focuses on business outcomes. It asks: if this business is successful will it close a gap (e.g. of access or opportunity or outcome) for a marginalized group? It asks: will it have a disproportionate benefit to people and communities on the bottom rungs of society's ladder?

A diversity-focused approach, on the other hand, puts the group identity of the founder(s) first without regard necessarily to the nature and expected impact of the business, which may or may not be gap-closing. So, for instance, in a story which is often repeated at Kapor Capital, there was a startup with two Black founders that developed a robot bartender. Corner stores and bodegas selling liquor in low income communities could use the product to furnish mixed drinks. Ben Jealous, a Kapor Capital partner at the time, and the ex-President of the NAACP, exclaimed: the last thing Black communities need is a product that makes alcohol more available and more attractive. The robot bartender idea was turned down as being gap-widening in its impact. The race of the founders was irrelevant in this light. In contrast, if two founders of any background pitched an effective way to provide those neighborhood stores with fresh produce at an affordable price, that would have been more warmly welcomed.

As another example of this disconnect, Kapor Capital receives many pitches from women-led startups creating high-end health and beauty products aimed at affluent consumers like themselves. These are gapwidening, not gap-closing, and are turned down. Frequently those entrepreneurs are offended. They say: I am a female founder, and we are dramatically underfunded as a group. How can you NOT support me?

The converse is also true. On the one hand, there are businesses led by white, male founders which are gap-closing, and on the other, there are some funds that have strict demographic criteria, e.g., ones dedicated entirely to investing in teams of women founders.

Kapor Capital made an investment in a company some years ago led by a white male founder which developed a wearable device to monitor the health of a pregnant woman and fetus to reduce instances of premature birth, a condition which disproportionately affects low income women of color. The company had met major milestones and was raising additional capital, but was turned down by a women's health fund because the founder was the wrong gender. It is quite ironic, to say the least, that a fund which is supposed to be about promoting women's health won't invest in a company that has an effective, proven method to improve maternal health.

A Diverse Investment Team Leads to a Diverse Investment Portfolio

While Kapor Capital's investment thesis centers on gap-closing, it has from its inception in 2011 followed the cardinal principle of what became its Founders Commitment in 2016 to build a diverse team and an inclusive workplace culture. Its team has always been composed of a majority of underrepresented people of color, has had gender balance and it is the diversity of the team which has contributed to diversity in the portfolio.

In the wake of the murder of George Floyd in 2021 and subsequent national protests many venture capital firms belatedly came to recognize the lack of diversity in their portfolios and reached out to Kapor Capital for help in finding Back founders to fund. Brian Dixon, the Co-Managing Partner at Kapor Capital wrote a blog post[47] to make the point to VCs if you want more Black founders, diversify your own team.

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[47] So You Want to Fund Black Founders, Retrieved May 3, 2025

A diverse investment team significantly increases the likelihood of building a diverse investment portfolio because who makes investment decisions influences which opportunities are sourced, how they are evaluated, and who is ultimately funded. This dynamic operates across three major dimensions:

1. Network Effects: Broadening the Top of the Funnel

Investment opportunities often arise from personal and professional networks. Diverse investors tend to have more varied and inclusive networks, which means they are more likely to encounter—and be approached by—founders from underrepresented backgrounds. A homogeneous investment team, by contrast, often sources deals through similarly homogeneous networks, limiting exposure to diverse entrepreneurs.

- Example: A Latinx investor may be more connected to Latinx founder networks or accelerators. A woman investor may hear pitches from women entrepreneurs who otherwise would not have had access to traditional VC circles.

Thus, diverse teams expand the pool of founders considered for investment in ways that homogeneous teams might not even realize are missing.

2. Pattern Recognition vs. Pattern Breaking

Venture capitalists often rely on “pattern recognition” to assess opportunities—seeking traits that mirror past successes (e.g., Ivy League degrees, Silicon Valley internships, typical startup archetypes).

Diverse teams challenge conventional patterns by bringing different lived experiences and perspectives to the evaluation process. They are more likely to recognize nontraditional signals of entrepreneurial potential, such as resilience, “distance traveled,” or market insight drawn from lived experience.

Diverse investors spot overlooked value because they understand different contexts and can better judge founders whose strengths don’t conform to traditional proxies like pedigree or network prestige.

3. Bias Reduction in Investment Decision-Making

Research shows that group homogeneity can amplify bias, leading teams to unconsciously favor founders who look, sound, and operate like them. A diverse investment team introduces cognitive diversity that helps counteract bias at the decision-making table.

- In a mixed team, assumptions get challenged.
- There’s more discussion around what constitutes “promise,” “readiness,” and “scalability.”
- There’s greater recognition of the size of often overlooked markets.
- Different lenses applied to risk assessment help ensure a broader, more equitable evaluation of talent and potential.

Thus, diverse teams not only find more diverse founders—they are also more likely to fund them, because the criteria for evaluation are themselves more inclusive.

Assessing Impact using a Gap-closing Framework

Kapor Capital's impact assessment is rooted in its "gap-closing" investment thesis—a deliberate focus on closing equity gaps in education, health, work, finance, and justice, especially for communities of color and low-income communities at each stage of the process of investment sourcing, decision-making and support. Unlike many firms that assess impact separately from financial performance, Kapor Capital embeds impact into the core business model of the companies it invests in.

It looks for businesses that:

- Reduce disparities in access, opportunity, or outcomes for historically excluded communities
- Have products or services with *built-in impact*—impact isn't just a side effect or CSR initiative

An edtech tool that improves college retention for first-generation students is considered impactful only if it demonstrably narrows the gap in outcomes between first-gen and continuing-gen students.

Before investing, Kapor Capital evaluates:

- Who benefits from the product or service
- Whether the benefit is meaningful and measurable
- Whether impact scales as the company scales (i.e., "positive unit impact" like Reach Capital also uses)

Kapor Capital integrates impact metrics directly into the reports it receives from portfolio companies

- Companies are required to report on *impact KPIs* alongside financial KPIs in regular updates to Kapor Capital.
  Metrics vary depending on the company's model, but often include:
- Demographics of end users (e.g., income level, race/ethnicity, geographic reach)
- Access or outcomes data (e.g., wage increases, educational attainment, health improvements).

This reflects the belief that financial performance and social impact are not separate—they are intertwined.

Post-Investment Kapor Capital tracks impact over time through:

- Quarterly impact data collection
- Annual assessments of user demographics and outcomes
- Narratives from founders to contextualize data (especially relevant for startups in early stages)

Companies are encouraged to share stories that highlight the "distance traveled" by founders and users—how far someone has come in overcoming barriers, not just where they ended up.

Kapor Capital periodically publishes impact reports[48] detailing:

- Portfolio-wide metrics (e.g., % of founders of color, % of companies with DEI hiring goals)
- Sectoral impact (education, health, justice tech, etc.)

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[48] Impact Reports, Retrieved May 3, 2025

- Lessons learned and calls to action for the VC industry

They also work with other impact investors to push for standards that incorporate equity metrics, not just generalized ESG.

Comparing Impact Assessment at Kapor Capital and Reach Capital

As impact investing matures, different venture capital firms have developed their own frameworks for evaluating the success of their investments beyond financial return. Kapor Capital and Reach Capital, a leading EdTech investor, can fairly be called leaders in this space and stand out for their explicit commitments to closing racial, socioeconomic, and educational gaps through technology-driven innovation. Both firms share a common ethos—prioritizing equity, scale, and measurable outcomes; Both firms collect and analyze demographic and outcome data over the course of their investments, and both publish impact reports that reflect portfolio-wide trends. Their theories of change, measurement strategies, and organizational commitments perhaps reveal distinctions more in emphasis and the manner in which they describe what they do than in the substance of how they assess impact.

Kapor Capital's Gap-Closing Model Integrates Stories and Data

Kapor Capital grounds its impact methodology in a theory of gap-closing. This means that at every stage of the investment process—from sourcing to diligence to exit—the central question is whether a company meaningfully reduces disparities in access, opportunity, or outcomes for communities of color or low-income communities.

Kapor Capital’s approach is also distinguished by its attention to who is doing the work. Kapor Capital explicitly evaluates the background and lived experience of founders as a lens on their capacity to generate meaningful impact.

Kapor emphasizes qualitative storytelling alongside quantitative tracking, encouraging companies to provide narratives about the communities they serve and the systemic barriers they’re addressing.

Reach Capital's Model Includes Scaling Impact Over time

Reach Capital’s framework is organized around three pillars: Access, Scale and Quality.[49] Similar to Kapor Capital, they want to reduce barriers to education and economic mobility especially those faced by underserved

[49] From Idea to Impact, Retrieved May 3, 2025

communities. They explicitly want to reach the greatest number of people possible and do so with proven solutions backed by rigorous evidence.

Reach’s primary unit of impact is product efficacy, not founder identity or internal team structure. For Reach, what matters most is whether the product demonstrably helps people learn, persist, graduate, or get a job.

As companies mature, Reach often relies on third-party evaluations, user analytics, and outcomes data (e.g., course completion, job placement rates) to assess progress. Its impact reports highlight scale—how many students or workers have been reached—and efficacy—how those users are better off. Reach has demonstrated leadership in the field through its development of a quantitative impact metric that integrates factors such as scale over time. There is an opportunity for Kapor Capital to explicitly add this methodology to its gap-closing framework.

Is Impact Investing Concessionary?

A persistent critique of impact investing is that it requires a trade-off between financial return and social good. This belief—that impact investing is inherently 'concessionary'—has shaped mainstream skepticism about allocating capital to ventures with explicit social missions. Yet emerging data from a new generation of equity-focused venture capital funds calls this assumption into question. Firms like Kapor Capital and Reach Capital have demonstrated that impact-driven investing not only need not sacrifice returns but may, in some cases, outperform traditional benchmarks. This thesis section explores the financial performance of these funds and examines the implications for the ongoing debate around whether impact investing can be both equitable and profitable.

Kapor Capital: Gap-Closing and Outperforming

Kapor Capital provides one of the most compelling examples of a non-concessionary impact investment strategy. Founded on a 'gap-closing' thesis, the firm invests exclusively in startups that reduce disparities in access, opportunity, or outcomes for underserved communities. Importantly, this includes both who gets funded—over 60% of Kapor Capital's portfolio companies are led by women or people of color—and how impact is embedded into a company's core product or service.

According to public data and accounts by the firm's founders, Kapor Capital's first fund, launched in 2011 as measured in 2018, achieved top-quartile returns among its early-stage venture peers. Its internal rate of return (IRR) exceeded industry benchmarks such as those published by Cambridge

Associates, while its DPI and TVPI metrics suggest strong realized and unrealized gains.[50]

Kapor Capital's IRR was 29.02% compared with 75th percentile IRR's of 25.96% (Pitchbook) and 26.50% (Cambridge Associates). Kapor Capital's TVPI was 3.0, compared with 2.39 (Pitchbook) and 1.86 (Cambridge Associates).[51]

Reach Capital: Educational Equity and Market Returns

Reach Capital, which focuses on education and workforce technology, has also shown that deep social impact can coexist with strong financial performance. Reach's investment thesis centers on products that improve learning outcomes and economic mobility for underserved learners. Like Kapor Capital, Reach Capital targets underrepresented founders and underserved markets. Reach has reported multiple successful exits, including ClassDojo and Handshake, and has raised four funds with increasing LP confidence. While exact IRR figures are not publicly disclosed, the fund's strong performance has enabled it to attract blue-chip limited partners and continue scaling. Its success offers further evidence that

[50] Kapor Capital Impact Report, May 2019, Retrieved May 3, 2025
[51] Ibid., pp. 9-10

returns and impact can be mutually reinforcing, particularly when addressing large, underserved markets.

Implications for the Concessionary Debate

These two firms—Kapor Capital, Reach Capital–offer powerful counterexamples to the notion that impact investing must come at a financial cost. Rather than accept lower returns in exchange for social good, these funds are demonstrating that equity-focused investing can tap into overlooked markets, harness diverse talent, and build high-growth companies. Moreover, their performance highlights that the perception of concessionary outcomes may itself be rooted in systemic bias: an undervaluation of markets and entrepreneurs that do not conform to traditional venture norms.

Rather than being concessionary, David Blood and former Vice President Al Gore, cofounders of Generation Investment Management, make the case that investing with impact and for sustainability is properly regarded as part of the fiduciary duty of asset managers to act in the best interests of their clients.[52]

By reframing impact not as a sacrifice but as a source of strategic advantage, these firms are shifting the narrative. Their success suggests

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[52] The Business Care for Green Energy, Retrieved May 3, 2025

that concessionary capital is not an inherent feature of impact investing, but a design choice that varies by context, thesis, and execution. As a result, they challenge both investors and academics to reconsider what constitutes value—and for whom—in the world of venture capital. Standing up for impact investing is a way to demonstrate leadership above the political fray of this moment.

While Kapor Capital and Reach Capital offer encouraging evidence and signs that gap closing, as a species of impact investing, can be non-concessionary in its returns, it is also the case that venture investing is a highly complicated process and there are many variables contributing to success or failure, so the evidence at hand is suggestive, not conclusive. More studies need to be done but this thesis shows there is good reason and data to question the conventional wisdom that there is a necessary tradeoff between positive impact and uncompromised returns.