

## Message from the CEO

It is hard to believe that Acumen Fund is five years old. Established just months before 9-11, we have witnessed a world fast becoming—a world becoming increasingly more complex, more interconnected and more interdependent. It is also a world where solutions to some of the most intractable problems on earth are in our collective hands. In a global environment too often dominated by fear, it is easy to forget that there is also a lot of good news. Innovation is on the rise, and we have the knowledge, skills and resources to solve problems of poverty. And if we can, we must.

Today, Acumen Fund sits at the crossroads of two of the most important forces of our time. On the one hand, private initiative is effectively beginning to address major public problems. On the other, there is a growing sense that we are one world; we are starting to realize that our individual dignity depends on our collective dignity.

Acumen Fund's philosophy is based on a fusion of pragmatic, market-driven solutions with the moral imagination needed to understand who people are rather than who we think they should be. The results of the past five years have served to reinforce this set of values, bringing millions of dollars, as well as new technologies, skills and tools, to underserved markets so that people can make their own decisions. We are still experimenting, still learning—but we are on our way.

No idea comes to life without nurturing—sometimes pushing and prodding—from myriad individuals and organizations. The Acumen Fund community is remarkable in this respect. Our investors hail from North America and Europe, India and Pakistan. They not only provide financial support, but give of themselves and their time. We are deeply grateful. The entrepreneurs and enterprises we support teach us, stretch us, share our commitment to change, and our work would be nothing without them. We are lucky to partner with extraordinary companies, foundations and organizations. The individuals on Acumen Fund's team of professionals around the world each shape our evolving vision, in ways both big and small, through relentless hours of work and commitment. Mostly, we learn from the ultimate consumers of basic goods and services we are trying to reach. To all members of our community and friends, thank you.

In the following pages, we lay out our history and some of the lessons we've learned, and hope to provide a snapshot of where we've been, where we are and where we are going. We look forward to sharing the journey with you.

Sincerely,



**Jacqueline Novogratz**



## Message from the Chairman



**A**s Board Chair, I congratulate Acumen Fund on its first half-decade.

In five years, Acumen Fund has evolved from an inspired idea into a dynamic organization doing creative and difficult work in challenging, far-flung places. It is still pursuing that inspired, but now more refined, idea.

It started with a handful of supporters who believed in the power of markets to effect change, in the clear need to alter the traditional philanthropic model and in the extraordinary talent of founder Jacqueline Novogratz. Since then, Acumen Fund has built a large, growing community of individuals and organizations with a commitment to finding solutions to problems of poverty that encompass profound respect for people and their cultures.

The Acumen community is supported by the superb members of the Acumen team, whose abilities, intellect, energy and dedication impress and amaze me.

Acumen Fund is now having significant impact in more than a dozen communities in South Asia and Africa. Acumen's ability to identify, fund and support local entrepreneurs has meant that millions of lives have been improved already through better access to health services, housing and water.

I attribute Acumen's success to four distinct traits: it is highly flexible and quick to learn lessons; it has attracted and maintained farsighted, engaged donors; and its bigger-than-life dreams are followed with professionalism and rigorous standards. Finally, extraordinary leadership has created a special culture that unites the team, its investees and its donor community.

Acumen Fund now has a powerful voice: it is changing lives and changing the ways people think about and approach economic development and philanthropy. I am proud to be a partner in Acumen and to share its special vision.

Congratulations for these five amazing years. I am eager and impatient to see what the next half-decade will bring on this important journey!

A handwritten signature in black ink that reads "Margo Alexander". The signature is written in a cursive, flowing style.

**Margo Alexander**



## The Acumen Fund Story

**W**e started Acumen Fund in 2001, intending to demonstrate that small amounts of philanthropic capital, combined with large doses of business acumen, can build thriving enterprises that serve vast numbers of the poor. We would foster a culture of experimentation and learning and, especially, listening. And we would commit to sharing our knowledge about what worked—and what didn't—with the wider world.

The results are beginning to show. Our investments have enabled millions to access basic goods and services in Africa and South Asia. We have helped transfer

new technologies to poor communities. By the end of 2006, we will have brought \$20 million in new capital to underserved markets, mostly in equity and loans. The companies we have supported have created thousands of jobs along the way. And we have begun to extract important lessons for how best to reach the poor.

How does Acumen Fund work? Over the past five years, we have collected charitable donations from people across the world. We've then turned around and invested equity and loans in both for-profit and nonprofit enterprises that have the ambition and capacity to reach at least a million people over time. Any money returned comes back to Acumen Fund for re-investment, and our investors reap the social returns. They see the impact of their contributions through individuals served and systems changed, and they see their money leveraged many times over, as we re-invest their funds and as our involvement catalyzes other funding. The work could not be more challenging or joyful.

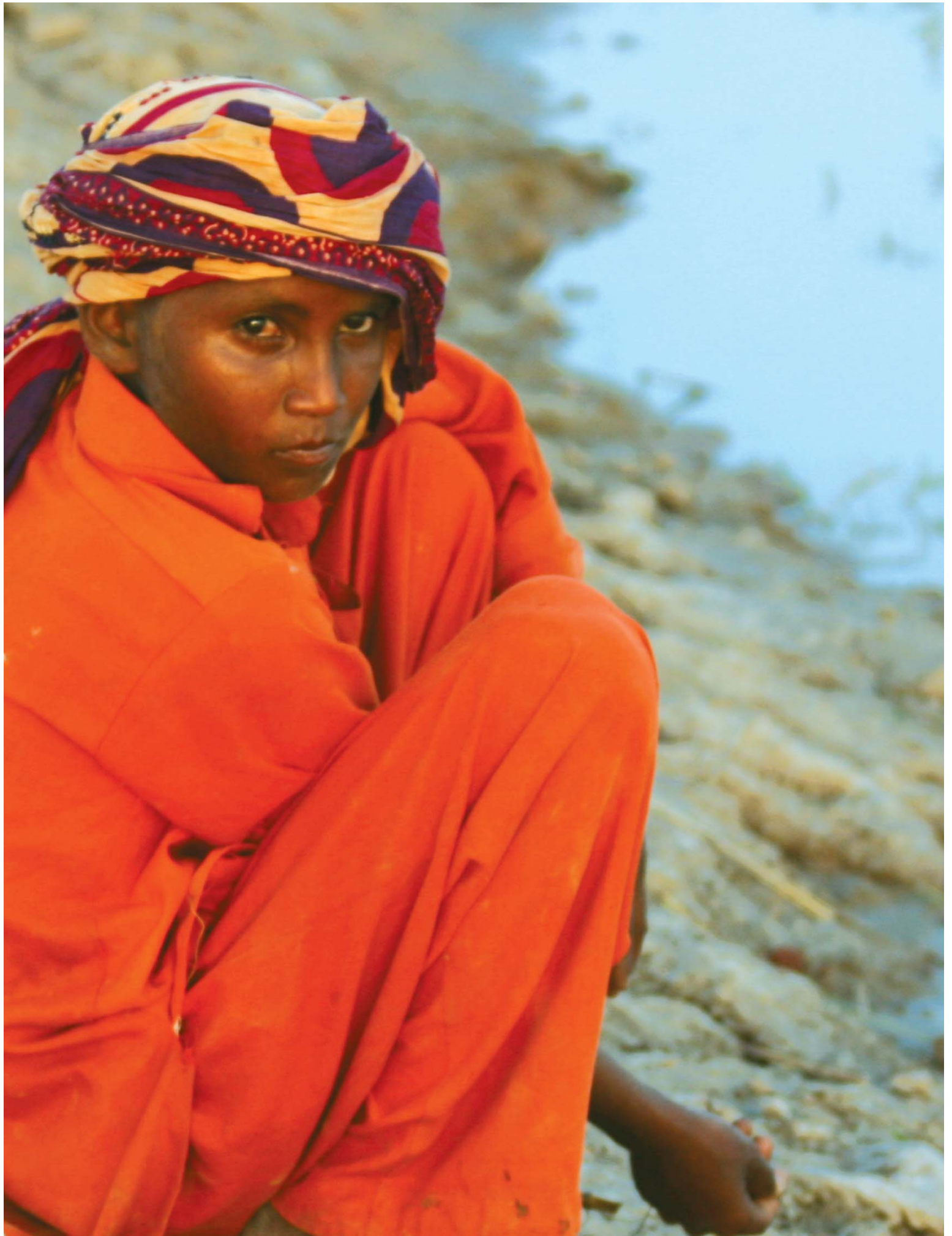
### THE POOR AS CONSUMERS

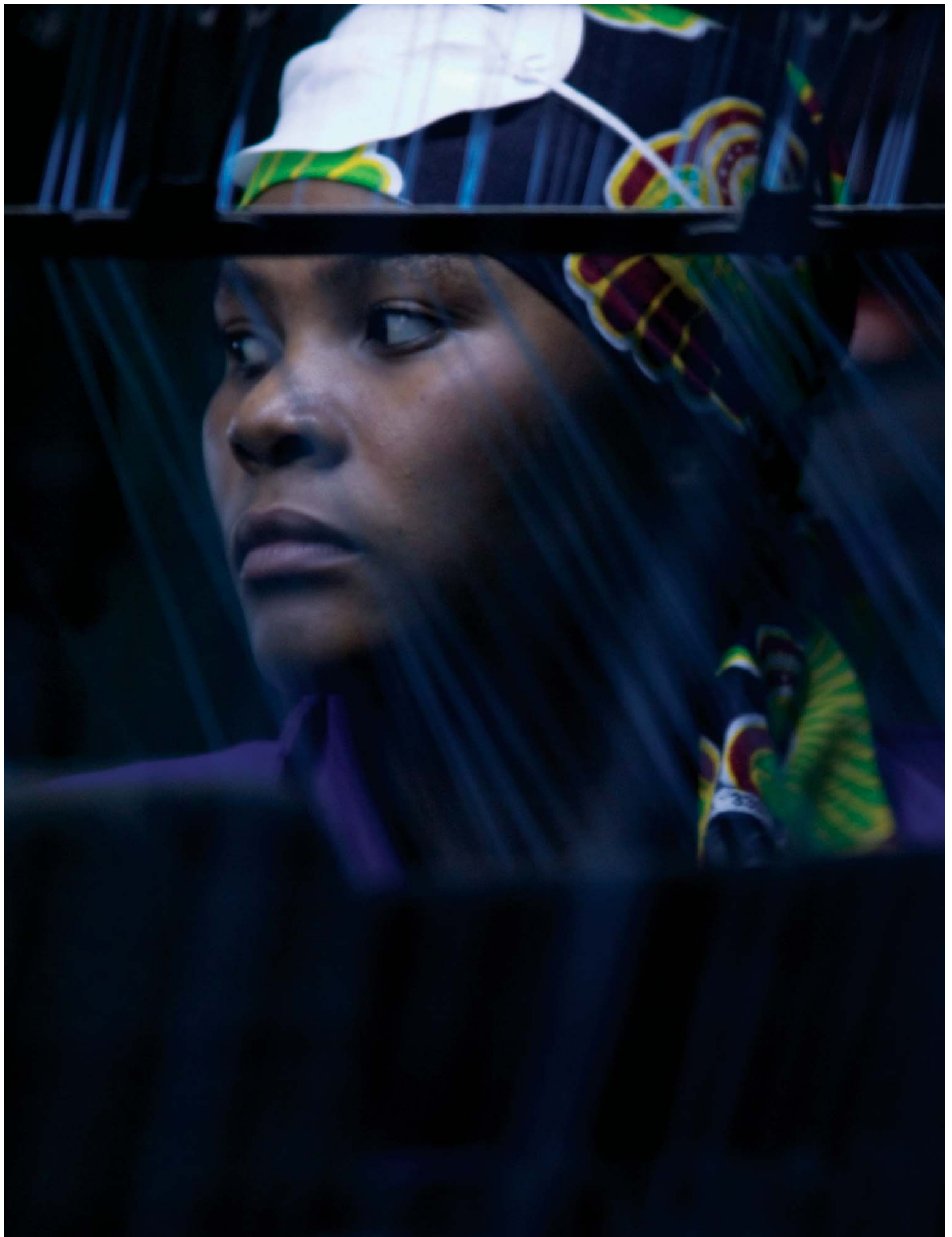
Two-thirds of all people on earth—four billion—live on less than \$4 a day. Most of these individuals work. They want access to the opportunities of the global economy, and they often pay much more for basic services—health, water and housing—than their wealthier counterparts.

### WHERE DOES OUR MONEY GO?

Philanthropic funds are our most flexible capital, enabling us to support ventures with high financial risk and likely low financial returns in the short term, but very high social returns over time. This capital is critical for building the kinds of ventures that bring technologies, services and knowledge to the four billion people in the world who earn less than \$4 a day.

Young village boy at site of Saiban II housing development near Lahore, Pakistan







# 2001

## Reaching out in a changing world

- Partners: 22
- New investments: 3
- Staff: 8
- Interns: 2

**W**ith seed capital from the Rockefeller Foundation, Cisco Systems Foundation and three extraordinary individuals, we began to build Acumen Fund in the summer of 2001. Our first-year goals were to put together a team, to invest in at least two health technology enterprises and to raise \$2 million from visionary philanthropists to begin road-testing our model.

Our initial challenge was finding viable enterprises to support. In the first few months of operations, we sifted through more than 700 possible leads from around the world. Most fell short either because we could see no path to long-term sustainability or because they had little chance of serving more than a few thousand people. Our model would only work if we could find organizations that had strong and visionary leadership, the ability to reach major scale, and a way, over time, for revenues to cover costs.

We made our first investments—then in the form of grants—to support three early-stage innovations: a low-cost hearing aid; an electro-magnetic immunosensor for inexpensive, early detection of diseases; and a handheld

device for gathering and disseminating health information quickly and affordably. Each of these seemed specifically designed to meet the needs of the poor and could lead to better health globally. We also focused on building the community of Acumen Fund founding partners, and identified our new office space, just south of the World Trade Center. We were scheduled to move on September 11, 2001.

Facing the terror of that day, we understood the temptation for many Americans to focus solely on domestic issues—although we believed we should reach out rather than pull inside ourselves. We had temporarily lost our offices, but our resolve was strengthened. To us, that event had underscored the urgent need to include all people around the world in the opportunities of a global economy, to give dignity and hope to individuals. If we *could* do something, we *had to* do something. By year's end, Acumen Fund had raised \$1 million to start work in Pakistan and Egypt.

Acumen Fund helped facilitate the transfer of long-lasting bednet production technology to A to Z Textile Mills in Arusha, Tanzania (Susan Meiselas/Magnum)



“Entrepreneurs do things that other people will not. They don’t take the status quo for granted; they question it, and then they make a vision and pursue that vision no matter what. Acumen Fund itself is an entrepreneur.”

Charly Kleissner, Co-Founder, KL Felicitas Foundation

## WHAT CAN MARKETS TEACH US?

Language matters; intention matters more. In 2005, I gave a speech to the 21st Century Businessmen’s Association in Pakistan about Acumen Fund’s most recent work in housing and finance.

After a number of polite questions, a human rights advocate in the crowd stood up: “You call our people poor,” he said, “and I would submit that they are not poor; that, indeed, you Americans are far poorer spiritually than we Pakistanis will ever be. Moreover, I wonder if you ever even talk to poor Pakistanis—and then you tell us how to solve their problems.”

The air had gone out of the room. It was a moment of clarity for me. I took a deep breath and looked at the man. “I cannot argue with you,” I said, “as to whether Americans are more or less spiritually poor than Pakistanis, and you may indeed be right. What I am saying is that 80 percent of people in this country earn less than two dollars a day. I believe we have to face truth and then take an unsentimental approach to making real change. We have to talk about poor people and what their needs, aspirations and realities are. I cannot back away from that.” I paused and then went on, “No agency or organization can talk to as many people as needed to know what kinds of solutions might work. This is why markets are so powerful. By affixing price to the delivery of critical services like housing, finance, water and health, they allow a person and a community to tell us so much about what they want, need and can pay for. Markets reveal information, including where the market itself fails people. I would submit that this way of listening—if we really do that—could be extremely powerful as a way of teaching us to effect real change.” (Jacqueline Novogratz, CEO)





(top) Production of the Olyset bednet has led to 3,000 new jobs—mostly for women—at A to Z's factory in Arusha, Tanzania (Susan Meiselas/Magnum)



(right) Scojo Foundation's vision entrepreneurs offer clients low-cost eyeglasses in rural India



# 2002

## Focusing on new business models

- Partners: 46
- New investments: 5
- Staff: 9
- Interns: 6

In 2002—our first full year at Acumen Fund—we expanded our health portfolio and launched our work in Pakistan and Egypt. In health, we made a grant to India’s exemplary Aravind Hospital. It is the world’s most productive eye care facility, providing cataract surgery to more than 200,000 patients each year through a highly efficient use of resources, and priced on a sliding scale so that wealthier patients subsidize the two-thirds who can pay nothing or very little. Aravind would use our funds to establish a telemedicine eye unit, utilizing technology that could extend hospital diagnostic services to rural people across a wide region in India.

Later that year, we also approved a technology transfer loan to an anti-malarial bednet manufacturer in Tanzania, part of a partnership to promote large-scale African production of long-lasting insecticide-treated nets. The project team was a unique coalition of partners, each bringing a special skill to the table: Sumitomo owned the technology; the World Health Organization (WHO) set the standards and ensured the efficacy of the nets; UNICEF purchased the nets using public funds; ExxonMobil provided the resin for the nets; and Population Services International used its expertise in social marketing to help raise awareness of the product. A to Z Textile Mills is now the largest long-lasting bednet manufacturer in Africa and one of the largest employers in Tanzania.

In Pakistan, we made a grant to Saiban, a community housing program for low-income squatters in Karachi, and a loan to Kashf, a local microfinance institution. The Saiban business model was built from the

### THE RISK OF OVER-EMPATHY

In establishing social enterprises, common mistakes are unclear expectations and a soft approach to accountability. At the beginning, some of Kashf’s microfinance borrowers would intentionally fall behind, testing to see if it was really a bank or more of a charity. Kashf’s operation in Pakistan has learned the importance of building a strict financial relationship with its clients. Kashf’s CEO, Sadaffe Abid, says, “We tell the borrowers we’ll just wait for repayment. Sometimes we sit with them, even up until 10 or 11 o’clock at night, and finally, always, they end up finding the money.”

Cataract patients being transported from Aravind Eye Hospital in Madurai, India (Susan Meiselas/Magnum)



“Acumen’s partnership with Kashf has been a source of continuing energy and vitality for bringing greater innovation and creativity within the fold of our operations.”

Roshaneh Zafar, President, Kashf Foundation

ground up. Tasneem Siddiqui, its founder, understood that poor people want access not only to land but to safety and community. Through building a platform of a safe, structured neighborhood, Saiban made it possible for schools, clinics and utilities to enter. Kashf, with its objective to “delight the customer,” has

expanded its number of families served to more than 100,000, touching nearly half a million individuals. Though a non-profit bank, Kashf is now Pakistan’s most profitable financial institution.

As our portfolio grew, the work began to teach us. In healthcare, well-designed,



affordable technologies cannot be effective without appropriate distribution channels to deliver the goods to users. For example, while one of our entrepreneurs was able to design a \$42 hearing aid that tested as well as \$3,000 models, the major constraint to success was distribution. Acumen Fund's focus turned increasingly to business

models that could make technologies affordable and accessible to the millions of people who need them.

(left) Medicine Shoppe India provides rural customers with access to affordable, high-quality healthcare goods and services  
(right) The late Dr. Venkataswamy, legendary founder of Aravind Eye Hospital in Madurai, India







# 2003

## Measuring change

- Partners: 67
- New investments: 3
- Staff: 10
- Interns: 7

**W**ith a portfolio of investments delivering healthcare, housing and finance products to the poor, in 2003 we expanded the scope of our work to another basic sector: water. One in five people on earth has never had a glass of clean water. While policy debates are stuck between water as a human right versus the need for privatization, we decided to look for market-based solutions that could teach us a great deal about on-the-ground realities. The truth is that the poor—especially the urban poor—already pay 30-40 times what their middle-class counterparts pay for water. There was much to learn about access and about developing sustainable models for poor people.

### DESIGNING PRODUCTS FOR OUR TARGET MARKET

IDEI created drip irrigation for the poor following these fundamental design principles: products must be inexpensive, have a quick return on investment and be infinitely expandable. In this way, a farmer earning \$1 a day can invest in a \$15 system and water his eighth-of-an-acre plot. In one harvest, he might double or triple his income so that he can then buy a second system to further expand his productivity.

Acumen Fund initially backed two small companies: Mytry works with the Indian government to sell subsidized water filters to the poor in areas where too much fluoride in the groundwater is poisoning millions; International Development Enterprise India (IDEI), offers a simple, affordable drip irrigation system to poor farmers, enabling many to triple their incomes in a single harvest.

For 15 years, IDEI had been a non-profit striving to bring affordable water-management technology to the poor. With a seed grant from Acumen Fund, IDEI was able to provide deposits to manufacturers for larger orders that lowered prices and increased the likelihood that the business would succeed. With financial sustainability in their sights, IDEI's management established a for-profit company connected to the non-profit, providing a growing distribution network for affordable drip irrigation that can help many more thousands of Indian farmers.

IDEI India's drip irrigation products allow crops to grow in the driest conditions  
(Susan Meiselas/Magnum)



“Acumen Fund is providing a leadership role in showing how social and economic development can be done from the ground up by investing in entrepreneurial individuals within a community.”

Michael Yutrzenka, Executive Director, Cisco Systems Foundation

## HOW DO WE MEASURE PROGRESS?

Measuring the capital returned to Acumen Fund from our investments (and we expect all capital returned) is easy. Quantifying social returns is a different matter altogether. For one thing, social change takes time and we find ourselves often facing a “lost year”—that first year (or two or more) when enterprises are working their way through difficult, often corrupt bureaucracies to build systems that work for the poor. Moreover, what change really comes down to is expanded choice for people whose lives are circumscribed by poverty. Our approach is to measure how many individuals have access to a particular product or service, the financial viability of the enterprise providing it, and whether that enterprise has the means and capabilities to serve the poor on an ongoing basis. It is a start—and an important one.

Acumen Fund's lens for metrics? Measuring results must be inexpensive, understandable and, most importantly, useful. We will choose milestones against which Acumen Fund and the organization can evaluate success over time. These metrics are a powerful tool to promote smart discussions about what is going right and what needs help. If tracking agreed-upon metrics exceeds the capacity of an enterprise's existing infrastructure, we work with the entrepreneur to build appropriate management systems. We view our focus on quarterly reporting and strengthening management systems as a step towards the requirements of more mainstream institutions—and a key part of Acumen Fund's role as a financial intermediary.

Longer term, we are also beginning to quantify how much it costs Acumen Fund to support an enterprise to deliver a basic good or service to the poor, and to compare that to the cost-effectiveness of supporting other charitable options delivering the same product or service. Simply put, we want to know whether there is another group in the charitable marketplace that can deliver this product or service more cost-effectively. To work this out, we have developed the Best Available Charitable Option (BACO) method. By comparing each of our investments with a real or hypothetical charitable option, Acumen Fund seeks to quantify, at least to an order of magnitude, how our social impact, for each net dollar invested, compares with that of other philanthropic options.

As our portfolio continued to grow and initial investments started to mature, we worked with McKinsey & Co. to formalize metrics as part of everything we do. We quantify what works and what does not, and collect financial and operational data from our investee enterprises on a regular basis.

Our focus on metrics enabled us to prepare our investees to tap into more traditional sources of capital. In 2003, we decided to shift away from grants altogether. We realized that grants do not offer the financial discipline needed to move enterprises to more mainstream capital—and that one of our own metrics is how much money we are able to bring to underserved markets. We also realized that Acumen Fund's real value lies in the management assistance that we bring, the way we measure social and financial returns, and our support in structuring financial products that will help attract additional capital. We therefore determined to provide only equity and loans, charge near-market interest rates, and use local loan or investment agreements whenever possible. The lesson? Set the bar high with strict financial goals while providing the management support to help these enterprises realize their objectives.

Farmer who has increased his income dramatically by purchasing a drip irrigation system from IDE India





# 2004

## Building systems

- Partners: 77
- New investments: 2
- Staff: 15
- Interns: 18

The year 2004 was one of systems-building. We put metrics into action, formalized our due diligence processes and created a forced-ranking system to evaluate what makes a true Acumen Fund investment. We'd learned how easy it was to spend too much time helping struggling organizations that had no real chance of sustainability and growth. Under the new system, the team ranks all investments based on where we think we will have the most impact. We then focus our attention and resources accordingly.

Acumen Fund began building more extensive local networks, giving us a deeper knowledge of opportunities—as well as how to manage constraints—in the countries in which we work. Thanks to the success of our work with Karachi squatters (in partnership with Saiban's Tasneem Siddiqui), we were able to partner with the National Bank of Pakistan (NBP)—one of the region's largest, serving ten million depositors—to develop the country's first commercial mortgage program for low-income people. We used \$1.25 million in charitable donations and

leveraged it three times by arranging a \$3.75 million guarantee from the Overseas Private Investment Corporation (OPIC). To make sure efficient loan-collection systems were in place, Acumen Fund hired ShoreCap Advisory Services to help conduct an internal process audit at NBP. The \$5 million total was then pledged as a partial guarantee, against which NBP would lend up to \$50 million of its own resources to individuals earning less than \$4 per day—effectively leveraging our initial investment 40 times. In so doing, we and NBP hope to prove that poor people not only are bankable but will take on—and repay—debt to become homeowners.

Residents of Saiban's housing development near Karachi, Pakistan, have started cottage industries such as kite-making



“Acumen Fund has been with us right from the word ‘go’, and it is really our champion in terms of what we do. Most of the partners we have today are because of the work Acumen Fund has done for us and the word that Acumen has spread about us.”

Arunesh Singh, India Country Director, Scojo Foundation

The mortgage guarantee already has led to new thinking in other areas of banking in Pakistan. And we have also used it to model guarantee programs in other countries where Acumen Fund uses its philanthropic capital to leverage significant local resources into underserved markets. Such system-changing investments can have dramatic ramifications in poor countries, but they take a long time to structure and implement. At this writing,

this complex transaction has been approved by the Board of the National Bank of Pakistan and is in the final stages of documentation.

(left) Tasneem Siddiqui (in blue shirt) talks with a family constructing its new home near Karachi, Pakistan

(right) A single house at Saiban II outside of Lahore, Pakistan—500 more to go









# 2005

## Growing our community

- Partners: 104
- New investments: 6
- Staff: 21
- Interns: 15

Our fifth year marked our transition from relying primarily on individual investors to building other institutional partnerships. Two important institutions joined our early supporters: Google.org provided Acumen Fund with a \$5 million operational grant, and the Bill & Melinda Gates Foundation gave us \$3.9 million to aid our work in water. Both partners, along with Cisco, are challenging

and expanding our own operations—and pushing the model of partnership in exciting directions. At the same time, Acumen Fund began to integrate a greater focus on risk management in all investments, addressing issues of franchise, reputation, and financial and credit risk. Acumen Fund was evolving into a hybrid institution that, on one hand, operates like an investment fund with a rigorous due diligence process, financial controls and clear reporting, and, on the other, provides management assistance, measures social returns and shares breakthrough insights with the world. It is this integration of our direct investment work with a hands-on, knowledge-sharing approach to innovation and change that we hope will make Acumen Fund unique.

By 2005, we were developing a keener understanding of what makes enterprises work: design, pricing, marketing, distribution and financing—calibrating how to adapt private-sector mechanisms to the preferences

### RETURNS ON YOUR INVESTMENT

We maximize a dollar contributed to Acumen Fund in four ways. First, a dollar contributed is used to support an enterprise we believe can sustain its operations and bring needed services to significant numbers of poor people. Our partners are given quarterly updates on the direct impact of our investments—the number of goods distributed, individuals reached, etc. Second, because we invest only loans and equity, our funds are recycled—this year we will receive \$667,000 from outstanding investments. Third, contributions leverage other financial support—whether through bank guarantees or by strengthening organizations enough to encourage other institutions and individuals to want to follow suit. For example, in the case of Pakistan mortgages, our \$1.25 million in charitable funds is catalyzing a \$50 million facility for the poor. Finally, our metrics enable breakthrough insights about business models that work for the poor—examples of effective design, pricing, marketing, distribution and financing mechanisms—that we hope will further the work of the field and encourage imitation.

In rural Kenya, SHEF community health workers provide medical advice, along with basic drugs and other goods



“Acumen Fund’s circle of people has grown from one to two to many individuals, foundations and organizations; and with each new person the idea has gotten better.”

Stuart Davidson, Managing Partner, Labrador Ventures

## BUILD ON WHAT'S WORKING

Too many well-intentioned non-profits try to distribute a single product or service through individual retailers who cannot earn enough income from sales to make the enterprise sustainable. With Acumen Fund’s support, Scojo Foundation is using a model in India that establishes its own network of retail outlets while also developing significant partnerships with other organizations that have much larger distribution systems in place. When Scojo began to partner with enterprises such as Acumen Fund investees Drishtee Dot Com and Medicine Shoppe, partner sales more than tripled those of their individual distributors. The result? A franchise model is now core to Scojo’s operations so that existing retailers for the poor can now own a Scojo franchise for a given territory, offering Scojo products and services through their own networks of retail outlets.

of the poor and to local contexts. Thanks to assistance from Rockefeller Foundation, we were able to bring all Acumen Fund entrepreneurs to Bellagio, Italy, for a five-day gathering focused on serving the poor through market approaches. IDEO worked with us to design and execute a process that resulted in three significant insights. First, the most important factor to success is the entrepreneur, which means that the social sector may have it wrong when it insists on replicating effective models by directly imposing them in other contexts. Instead, bringing proven ideas from one context to proven entrepreneurs in another—even if those entrepreneurs work in different sectors—may present a more enduring approach.

Second, entrepreneurs, when given the opportunity, will find ways to use one another to expand distribution across sectors and geographies. A number of our investees are now in conversation with one another and piggybacking their services. Finally, as is true for most leaders, entrepreneurs focused on building socially oriented businesses have few opportunities to discuss problems with peers. Now they have become a network.

On the investment front, we continued our commitment to health. One important 2005 investment was in BroadReach Healthcare, a third-party healthcare delivery company based in Washington, DC, and Cape Town, South Africa. BroadReach recognized that while there is a dearth of public healthcare workers across Africa, there is overcapacity among some private healthcare providers. After securing large government contracts to supply HIV/AIDS treatment to the poor, BroadReach then subcontracts with private healthcare providers to administer the care; this way, even the poorest patients are afforded the dignity of having their own doctor. We are hoping to see BroadReach pioneer a new approach in Africa to bringing needed healthcare to people with limited ability to pay.



(above) In South Africa, HIV/AIDS patients receive training before they begin treatment through BroadReach's network of healthcare providers

(left) Drishtee entrepreneurs offer a wide variety of Internet-based services to rural villagers in India



# 2006

## Becoming a global organization

- Partners: 120
- New investments: 5
- Staff: 31
- Interns: 16

The value of on-the-ground presence of local staff cannot be overstated. They enable the building of stronger relationships with our investment companies, foster an active community of local advisors, identify new pipeline opportunities and bring forth important ideas from the field. In 2006, we opened offices in Karachi, Pakistan, and Hyderabad, India. We plan to open our first African office in Nairobi in 2007.

With the understanding that, in the end, change comes down to people, we launched the Acumen Fund Fellows Program in 2006, with support from Katzenbach Partners LLC. The year-long program is designed to help support the creation and training of a bench of talented

entrepreneurial individuals with the skill, will and imagination to help manage and strengthen enterprises that effectively reach poor individuals; and who can eventually become leaders in the field of social enterprise. Through the Fellows Program, Acumen Fund also hopes to inspire other young people to consider a career in building well-designed business models that can help solve problems of poverty.

Our partner community has grown from eighteen individuals and four foundations in our first year to more than 100 individuals, foundations and corporations from the worlds of entrepreneurship, finance, media, technology, journalism and other industries. In addition to supporting Acumen Fund financially, our partners work directly with investments, mentor staff and fellows, offer needed guidance through our Board and Advisory Council, serve on our Investment Committee, provide research support, host presentations and other events, and reach out to new supporters. They are a global

### ACUMEN FUND DNA

Nothing predicts success like the right entrepreneur: a commitment to designing solutions from the perspective of the poor; aspirations to reach at least a million people; an intent focus on financial sustainability; and openness to learning and change. Curiosity, a good sense of humor and endless energy go without saying. The Acumen Fund team, fellows and partners also embody these characteristics.

Women and children in India often wait for hours, or even days, for the trucks that deliver water  
(Susan Meiselas/Magnum)



“Acumen Fund is changing the way we think about the poor and their place in the global community.”

Michael Novogratz, Principal, Fortress Investment Group LLC

community of smart, committed, knowledge-seeking individuals who, together, can help Acumen Fund re-create the way the world approaches development.

We also have raised significant funds from partners in Pakistan and India and intend to do so in every country where we work. Local “buy-in” and ownership are key not only to our values, but also to our own goal of building an enduring global institution rooted in local environments.

Acumen Fund has significantly increased both the size and number of investments that it is actively managing. We recently invested \$1.6 million in Drishtee Dot Com, an e-kiosk company bringing health services to the poor in rural India. Drishtee hopes to grow from 1,000 current locations to 30,000 in five years. Two of the newest additions to our portfolio, Medicine Shoppe (\$1.1 million) and Scojo Foundation (\$500,000), are also focused on providing high quality, affordable healthcare products and services—the former in pharmaceuticals, the latter in eyeglasses—to low-income consumers in rural India.

Some of our investments are resulting in major returns already. Thanks in part to a recent significant capital injection from a U.S.-

based multinational corporation, WaterHealth International—which establishes community-level water treatment systems—is now expanding to 33 additional sites, each of which will serve 6,500 rural Indians, most of whom live below the poverty line. A to Z, the malaria bednet factory in Tanzania, now produces three million nets per year, protecting six million lives; its annual capacity will rise to seven million nets in 2007. BroadReach Healthcare has delivered more than 350,000 antiretroviral treatments to HIV/AIDS patients. At the end of the year, Acumen Fund will have \$20 million under management. In total, our enterprises have been able to bring basic products to more than ten million individuals while creating thousands of jobs. This year, we will see \$667,000 in principal and interest returned to Acumen Fund, and this money will be recycled through investing in the years to come. All our investments are current on interest and loan repayments, and our equity stakes are valued at or above their book value. This is a strong platform on which to build.

Young girl going to collect clean water from a WHI community water system in India







## Imagining a World: Acumen Fund in the next five years

**W**e embarked on this journey betting that the markets would teach us better ways of delivering basic goods and services to the poor. We also wanted to help reinvent philanthropy—to widen its definition beyond simply giving money. To do this, we needed a model that would not only show results but also convince individuals and institutions alike that there are powerful ways of using relatively small amounts of capital and private initiative to address big public problems. Five years, later, we are still experimenting and still learning, and we are convinced that this is the right path.

In the next five years, we will expand our operations to bring at least \$100 million into underserved markets, and help build ten or

more proven models for effectively delivering basic goods or services to poor people. We will continue to raise philanthropic funds to enable us to seek and support innovation and opportunities in the countries where we work, and offer world-class financial solutions to help enterprises grow. We will build a cadre of entrepreneurial leaders—through our investees, our team, our fellows and our partners. We will contribute to a culture of greater accountability through generating and sharing insights. And we will work with others to catalyze a much-needed movement around market-driven approaches to social change.

If you do it, you can.

In a world of growing disparity and too much fear, we can learn to build thriving enterprises that serve poor people so that they can ultimately make their own decisions, find work, enhance their lives and access the opportunities of a global economy. We will let the work teach us and maintain a sense of urgency for change. If we can imagine it, we can make it real. We invite you to join us.

### CO-INVESTING

By doing the due diligence required before making an investment, structuring fair deals and working closely with management teams to ensure success, Acumen Fund provides other investors with significant risk mitigation. This encourages other organizations to partner or co-invest with Acumen Fund. We currently co-invest with a broad range of institutions, including international agencies and national banks of the countries where we invest, resulting in our philanthropic capital being leveraged four to forty times. Over time, we intend to pioneer a new way of working directly with capital markets, not only to expand the amount of risk capital available for developing countries, but also to bring forth new and better financial instruments for companies working in underserved markets.

Young cowherds on the site of A to Z's new factory outside Arusha, Tanzania, which will have the capacity to produce 7 million bednets per year

# Our Community



(clockwise from top left) Acumen Fund partners visit an IDE India drip irrigation dealership; Tim Brown, Jacqueline Novogratz and Chris Anderson with Amitabha Sadangi, founder of IDE India; staff, advisors and entrepreneurs at the Bellagio Conference Center; Acumen Fund partner Kashif Zafar at Saiban in Pakistan

We live in an era of celebrity, when too much focus is placed on the individual. Acumen Fund is evolving into an enduring institution because of the hard work, focus and financial resources of an entire community of people. It is this collective commitment to leadership and contribution for which we not only are deeply grateful but without which we would not be able to realize our dreams.

## OUR PARTNERS

### Leadership Circle (\$1,000,000+)

Blood Family Foundation  
C. Hunter and Pamela T. Boll\*  
Cisco Systems Foundation\*  
Andrea Soros Colombel and  
Eric Colombel\*  
Bill & Melinda Gates Foundation  
Google.org  
Raj Rajaratnam  
The Rockefeller Foundation\*  
The Sapling Foundation\*

### Keystone Partners (\$500,000+)

Anonymous\*  
Catherine S. Muther\*  
Phalarope Foundation\*  
Amy and Larry Robbins  
Skoll Foundation  
W.K. Kellogg Foundation\*  
Woodcock Foundation

### Sustaining Partners (\$250,000+)

Anonymous  
The Alexander Family Foundation\*  
Apex Foundation\*  
Diana Barrett  
Peter and Devon Briger Foundation  
Cisco Systems, Inc.  
Michael Novogratz and Sukey Caceres\*  
The Sigrid Rausing Trust\*  
John L. Thornton  
Nike Foundation  
TOSA Foundation\*  
George W. and Patricia A. Wellde\*

### Senior Partners (\$100,000+)

Anonymous (2)  
Herb Allen III  
Jeffrey and Deborah Brewer  
Peter Cain  
The Coca-Cola Company  
Jerry Hirsch\*  
Tim Hodgson and Linda Netten

Charles and Roberta Katz Family  
Foundation\*  
David and Anita Keller Foundation  
KL Felicitas Foundation  
Jill and Ken Iscol  
Alison Lawton  
William E. Mayer  
Sheryl S. Leach and Howard Rosenfeld  
William E. Mayer  
Jennifer R. McCann\*  
The MCJ Foundation  
Miles Morland  
Lindsay and Brian Shea\*  
Jay Walker  
William H. A. Wright II\*

### Associate Partners (\$50,000+)

Anonymous (2)  
Sherry Agar  
William W. Allen  
AOL Time Warner Foundation  
Syed Babar Ali  
Karin Helene Bauer  
Nina Brown  
Jennifer Cast and Elizabeth Franklin  
Zia Chishti  
The Clara Fund  
CloudView Foundation  
The Cohn Family  
The Corrigan Foundation  
Simone and Tench Coxé  
DCD Capital  
Matthew Dontzin  
Mr. and Mrs. Wesley R. Edens  
Liz and Ed Ellers  
Sandra Frazier  
Ann and Thomas L. Friedman  
Frederick Garonzik  
Shamaya Gilo  
Goldman, Sachs & Co.  
Charles and Susan Harris  
Alan Hassenfeld  
James Hornthal  
Indo-American Arts Council  
JP Morgan Chase Foundation  
Maggie Kaplan

Peter Kellner  
Paul Klingenstein and Kathy Bole  
Dr. Anjali Gupta and Rajan Kundra  
Frederick and Elena Kyle  
Laura and Gary Lauder\*  
Leon Lowenstein Foundation  
Sean McGowan  
Howard Lee Morgan  
Harriet Mouchly-Weiss  
The Philip D. and Tammy S. Murphy  
Foundation  
Joe and Amy Novogratz  
Liebe and Bill Patterson  
Michael and Sarah Peterson  
Marcie Polier  
Tino Puri  
David Ring and Stuart Harrison  
The Shelley and Donald Rubin  
Foundation, Inc.  
Marc A. Spilker  
The Sycamore Fund  
Kashif Zafar

### Development Partners (\$10,000+)

Anonymous  
Judith Aidoo  
Atticus Trust  
David and Keira Barry  
Rod Berens  
Bruce Campbell  
Leslie Gimbel  
The globalislocal Fund  
Lesley Goldwasser and Jonathan Plutzik  
Geraldine Laybourne  
Peter F. Moore  
Amy Nauiokas  
John and Tina Novogratz  
Omidyar Network Enzyme Program  
Walter Raquet  
Rory Riggs  
Gary Rindner  
William Rosenzweig and Carla Fracchia  
Jonathan and Jennifer Soros  
Susquehanna Foundation

\* founding partner



## BOARD OF DIRECTORS



**Margo Alexander, Chair**  
*The Alexander  
Family Foundation*



**Angela Glover Blackwell**  
*Founder and CEO  
PolicyLink*



**David Blood**  
*Managing Partner  
Generation Investment  
Management*



**C. Hunter Boll**  
*Chief Operating Officer  
Source Audio LLC*



**Andrea Soros Colombel**  
*Founder and President  
Trace Foundation*



**Stuart Davidson**  
*Managing Partner  
Labrador Ventures*



**Catherine S. Muther**  
*Founder and President  
Three Guineas Fund*



**Jacqueline Novogratz**  
*Founder and CEO  
Acumen Fund*

## ACUMEN FUND ADVISORY COUNCIL

**The Honorable Bill Bradley**

Chair, Acumen Fund Advisory Council

**Margo Alexander**

Chair, Acumen Fund Board of Directors

**Syed Babar Ali**

Lahore University of Management  
Sciences, Pakistan

**Chris Anderson**

The Sapling Foundation

**Diana Barrett**

The Fledgling Fund

**Carol Bellamy**

World Learning

**Seth Berkley**

International AIDS Vaccine Initiative

**David Blood**

Generation Investment Management LLP

**C. Hunter Boll**

Source Audio LLC

**Louis Boorstin**

Bill & Melinda Gates Foundation

**Peter Briger**

Fortress Investment Group LLC

**Tim Brown**

IDEO

**Andrea Soros Colombel**

Trace Foundation

**Stuart Davidson**

Labrador Ventures

**Bill Drayton**

Ashoka

**Jed Emerson**

Generation Foundation, Generation  
Investment Management LLP

**Seth Godin**

Author

**Peter Goldmark**

Environmental Defense Fund

**Allen Grossman**

Harvard Business School

**Allen Hammond**

World Resources Institute

**Jill Iscol**

IF Hummingbird Foundation

**Dr. G.K. Jayaram**

Institute of Leadership and Institutional  
Development

**Charly Kleissner**

KL Felicitas Foundation

**Geraldine Laybourne**

Oxygen Media LLC

**Susan Meiselas**

Magnum Photographer

**Catherine S. Muther**

Three Guineas Fund

**Rohini Nilekani**

Akshara Foundation and Arghyam Trust

**Michael Novogratz**

Fortress Investment Group LLC

**Dean Ornish, M.D.**

Preventive Medicine Research Institute

**Sally Osberg**

Skoll Foundation

**Jan Piercy**

ShoreBank Corporation

**Tino Puri**

Management Advisor

**Walter Raquet**

W.R. Capital Management, LP

**Dr. Anji Reddy**

Dr. Reddy Laboratories Limited

**Tom Reis**

W.K. Kellogg Foundation

**Amy Robbins**

Glenview Capital

**Anna Deavere Smith**

Actor

**Gayle Smith**

Center for American Progress

**Craig Stewart**

Apex Foundation

**John L. Thornton**

Tsinghua University, Beijing, China

**Daniel R. Toole**

Office of Emergency Programmes, UNICEF

**George Wellde**

Goldman Sachs & Co.

**Tae Yoo**

Corporate Philanthropy, Cisco Systems, Inc.

## ACKNOWLEDGMENTS

We would like to thank the following firms for the extraordinary levels of legal support they have provided to Acumen Fund:

**Cadwalader, Wickersham & Taft LLP**

**Cleary Gottlieb Stein & Hamilton LLP**

**White & Case LLP**

We also want to acknowledge the following individuals and organizations, who have given so generously of their time and expertise:

**Sunny Bates**

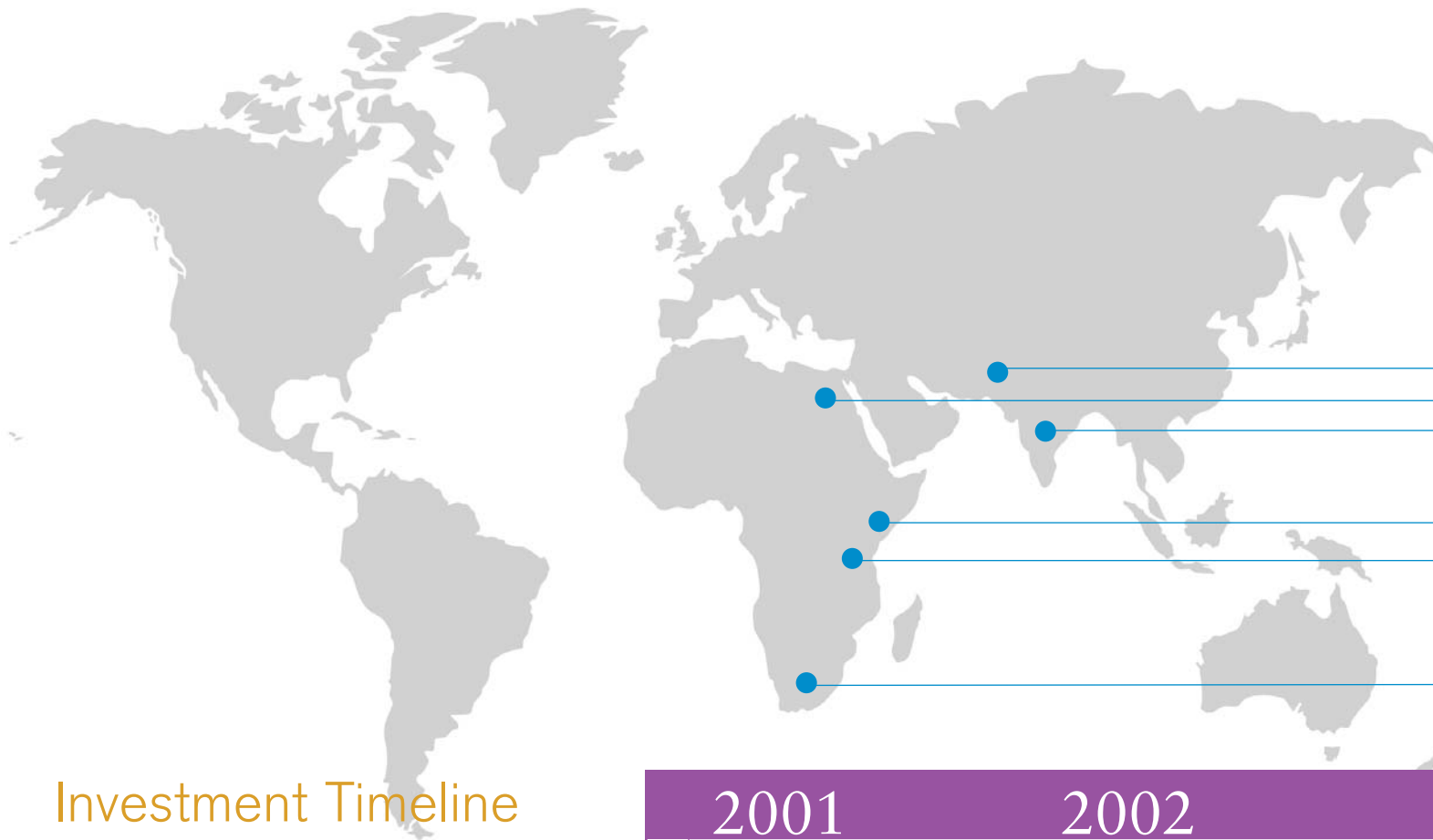
**IDEO**

**Katzenbach Partners LLC**

**Chazz Levi**

**Monitor Institute**

**Cyndi Stivers**



## Investment Timeline

Our professional investment processes, on-the-ground presence and growing networks are translating into a robust and expanding portfolio of larger investments and an ever-stronger pipeline. We are now positioned for significant growth and project \$100 million in investments under management—affecting millions of lives—by 2011.

	2001	2002
<b>NEW INVESTMENTS</b>	<ul style="list-style-type: none"> <li>• <b>Affordable Hearing Aid Project / Project Impact</b> - low-cost hearing aids (India)</li> <li>• <b>ImmunoSensor / Sustainable Sciences Institute</b> - portable disease diagnostic tool (global)</li> <li>• <b>Satellife</b> - handheld disease management devices (East Africa)</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Aravind Eye Hospitals</b> - telemedicine for eyecare (India)</li> <li>• <b>A to Z Textile Mills</b> - long-lasting anti-malaria bednets (Tanzania)</li> <li>• <b>Kashf</b> - micro-lending for women (Pakistan)</li> <li>• <b>Saiban</b> - housing development for urban squatters (Pakistan)</li> <li>• <b>Sekem</b> - smallholder organic farming cooperative (Egypt)</li> </ul>
<b>AWARD HIGHLIGHTS</b>	<ul style="list-style-type: none"> <li>• <b>Schwab Awards for Outstanding Social Enterprise</b> - David Green, Project Impact (Affordable Hearing Aids)</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Ashoka Fellow</b> - David Green, Project Impact</li> <li>• <b>Grameen Foundation Pioneer and Excellence Award</b> - Kashf Foundation</li> <li>• <b>Stockholm Challenge Award</b> - Satellife</li> </ul>



Kashf's clients meet to repay micro-loans, Pakistan



Farmers at Sekem's organic farming cooperative, Egypt



WHI customer transporting clean water, India



SHEF entrepreneur in her shop, Kenya



Children protected by Olyset bednet, Tanzania



HIV/AIDS patient reading BroadReach treatment manual, South Africa

## 2003

- **Care With Love** - home healthcare training and employment (Egypt)
- **International Development Enterprises India (IDEI)** - affordable drip irrigation (India)
- **Mytry** - fluoride removal filter (India)

- **Ashoka Fellow** - Magda Iskander, Care with Love
- **Right Livelihood Award ("Alternative Nobel Prize")** - Sekem

## 2004

- **Nadim** - furniture-making training and employment (Egypt)
- **WaterHealth International (WHI)** - community-level systems for safe drinking water (India)

- **Schwab Awards for Outstanding Social Enterprise** - Roshaneh Zafar, Kashf Foundation; Ibrahim and Helmy Abouleish, Sekem

## 2005

- **A to Z Textile Mills II** - follow-on investment (Tanzania)
- **BroadReach Healthcare** - efficient healthcare distribution (South Africa)
- **Heritage Livelihood Services Provider** - clean water distribution (India)
- **Saiban II** - follow-on investment (Pakistan)
- **Sustainable Healthcare Enterprises Foundation (SHEF)** - micro-franchise rural drug distribution (Kenya)
- **Voxiva** - remote healthcare communications (global)

- **Ashoka / Changemakers Innovation Award** - SHEF
- **Global Philanthropy Forum Marketplace** - SHEF; WHI (finalists)
- **Schwab Awards for Outstanding Social Enterprise** - Tasneem Siddiqui, Saiban; Dr. Govindappa Venkataswamy and Thulasiraj D. Ravilla, Aravind Eye Hospital
- **Skoll Awards for Social Entrepreneurship** - IDEI

## 2006

- **Drishtee Dot Com** - e-kiosks for rural healthcare services (India)
- **Medicine Shoppe** - high-quality rural health centers (India)
- **National Bank of Pakistan** - commercial mortgage program for the poor (Pakistan)
- **Scojo Foundation** - low-cost reading glasses
- **WaterHealth International II** - follow-on investment (India)

- **Ashoka / Changemakers Innovation Award** - SHEF; Aravind Eye Care System; Scojo Foundation (finalists)
- **Fast Company / Monitor Group Social Capitalist Awards** - Scojo Foundation (finalist)
- **Red Herring's "100 Hottest Startups in Asia"** - Drishtee Dot Com

# Acumen Fund, Inc. and Subsidiary

## Statement of Financial Position

December 31, 2005 (Consolidated) and 2004

	2005			2004	
	Unrestricted		Temporarily Restricted (Note 2c)	Total	Total
	Undesignated	Board Designated Portfolio Reserves (Note 2b)			
<b>ASSETS</b>					
Cash and cash equivalents (Notes 1c and 3)					
Unrestricted	\$ 8,004,528	\$ -	\$ -	\$ 8,004,528	\$ 3,086,712
Restricted or designated for portfolio activity	-	472,693	4,152,766	4,625,459	4,087,962
Restricted for future program activity	-	-	205,600	205,600	300,000
	8,004,528	472,693	4,358,366	12,835,587	7,474,674
Investments in marketable securities (Notes 1d and 4)	1,181,033	-	-	1,181,033	1,226,261
Pledges receivable (Notes 1e and 5)					
Unrestricted	240,444	-	-	240,444	16,000
Restricted for portfolio grants	-	-	1,962,210	1,962,210	241,668
Restricted for future program activity	-	-	500,000	500,000	-
Prepaid expenses and other current assets	111,786	-	125,000	236,786	47,761
Program related portfolio loans receivable (Notes 3 and 6)	-	2,838,079	-	2,838,079	975,000
Program related portfolio equity investments (Notes 3 and 7)	-	1,375,000	-	1,375,000	775,000
Property and equipment, at cost (net accumulated depreciation) (Notes 1f and 8)	138,338	-	-	138,338	101,785
Security deposits	58,675	-	-	58,675	58,675
<b>Total Assets</b>	<b>\$ 9,734,804</b>	<b>\$4,685,772</b>	<b>\$ 6,945,576</b>	<b>\$21,366,152</b>	<b>\$10,916,824</b>
<b>LIABILITIES AND NET ASSETS</b>					
Liabilities					
Accounts payable and accrued expenses	\$ 46,275	\$ -	\$ -	\$ 46,275	\$ 93,610
Salaries payable and accrued vacation	74,303	-	-	74,303	98,898
Deferred rent (Notes 1g)	7,240	-	-	7,240	20,681
Total Liabilities	127,818	-	-	127,818	213,189
Commitments and Contingencies (Notes 9 and 10)					
Net Assets (Note 2)					
Unrestricted					
Board designated portfolio reserves	-	4,685,772	-	4,685,772	1,913,161
Undesignated	9,606,986	-	-	9,606,986	4,324,005
	9,606,986	4,685,772	-	14,292,758	6,237,166
Temporarily restricted	-	-	6,945,576	6,945,576	4,466,469
Total Net Assets	9,606,986	4,685,772	6,945,576	21,238,334	10,703,635
<b>Total Liabilities and Net Assets</b>	<b>\$ 9,734,804</b>	<b>\$4,685,772</b>	<b>\$ 6,945,576</b>	<b>\$21,366,152</b>	<b>\$10,916,824</b>

See notes to financial statements on page 40.

Note: This information is excerpted from Acumen Fund's audited financial statements, a complete copy of which is available from the organization.



# Acumen Fund, Inc. and Subsidiary

## Statement of Activities

Year ended December 31, 2005 (Consolidated) and 2004

	2005	2004
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
Revenue, Gains and Other Support		
Contributions - operating	\$ 7,227,622	\$ 2,459,994
Donated services	416,631	167,135
Interest income - program-related portfolio loans	61,700	18,072
Investment income (Note 4)	146,754	75,920
Other income	18,872	11,625
	<u>7,871,579</u>	<u>2,732,746</u>
Net assets released from restrictions		
Satisfaction of program restrictions	828,768	1,160,041
Total Unrestricted Revenue, Gains and Other Support	<u>8,700,347</u>	<u>3,892,787</u>
Expenses		
Program Services		
Portfolio expenses	2,040,485	1,577,134
Education and Outreach	306,963	360,037
Metrics	285,846	201,379
Total Program Services	<u>2,633,294</u>	<u>2,138,550</u>
Supporting Services		
Management and general	325,898	484,158
Fundraising	355,513	437,993
Total Supporting Services	<u>681,411</u>	<u>922,151</u>
Total Expenses	<u>3,314,705</u>	<u>3,060,701</u>
Increase in unrestricted net assets before portfolio loan and investment activity	5,385,642	832,086
Net assets released from restriction		
Satisfaction of program restrictions - new loans and investments made	2,708,334	1,175,000
Exchange loss on foreign currency portfolio loans receivable	(38,384)	-
Increase in Unrestricted Net Assets	<u>8,055,592</u>	<u>2,007,086</u>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions		
Portfolio grants	5,266,209	2,799,835
Restricted grants	750,000	180,000
Net assets released from restrictions	(3,537,102)	(2,335,041)
Increase in Temporarily Restricted Net Assets	<u>2,479,107</u>	<u>644,794</u>
Increase in net assets	10,534,699	2,651,880
Net assets, beginning of year	<u>10,703,635</u>	<u>8,051,755</u>
<b>Net Assets, End of Year</b>	<u>\$21,238,334</u>	<u>\$10,703,635</u>

See notes to financial statements on page 40.

Note: This information is excerpted from Acumen Fund's audited financial statements, a complete copy of which is available from the organization.

# Acumen Fund, Inc. and Subsidiary • Notes to Financial Statements • December 31, 2005 (Consolidated) and 2004

## Note 1 - Organization and Summary of Significant Accounting Policies

### c - Cash and Cash Equivalents

For purposes of the statement of cash flows, Acumen Fund considers all highly liquid debt instruments, purchased with a maturity of three months or less, to be cash equivalents.

### d - Investment in Marketable Securities

Acumen Fund reflects investments at fair value in the statement of financial position. Unrealized gains and losses on investments are reflected in the statement of activities as increases and decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

### e - Contributions and Pledges Receivable

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets.

Acumen Fund uses the allowance method to determine uncollectible promises to give. Such allowance is based on prior years' experience and management's analysis of specific pledges made.

### f - Property and Equipment

Property and equipment acquired are recorded at cost and are being depreciated using the straight-line method over the estimated useful life of the asset.

### g - Rent Expense

Acumen Fund records rent expense associated with its office on a straight-line basis over the remaining life of the lease. The difference between the straight-line amount and the amount actually paid during the year is recorded as a liability and an expense in the accompanying financial statements.

## NOTE 2 - RESTRICTIONS ON ASSETS

### a - Net Assets

Net assets at December 31 are summarized as follows:

	2005				2004
	Unrestricted	Board-Designated	Temporarily Restricted	Total	Total
Unrestricted-Operating	\$9,606,986	\$ -	\$ -	\$ 9,606,986	\$ 4,324,005
Portfolio Activities					
Health Technology	-	-	100,000	100,000	1,375,414
Housing and Finance	-	-	629,401	629,401	668,815
Water Innovations	-	-	738,173	738,173	648,100
Water-Gates Foundation	-	-	3,741,191	3,741,191	-
Spectrum Fund	-	-	1,031,211	1,031,211	1,474,140
Portfolio Reserves	-	4,685,772	-	4,685,772	1,913,161
	-	4,685,772	6,239,976	10,925,748	6,079,630
Program Activities	-	-	705,600	705,600	300,000
	\$9,606,986	\$4,685,772	\$6,945,576	\$21,238,334	\$10,703,635

### b - Board Designated Portfolio Reserves

Acumen Fund has established reserves with the intention to fund future portfolio activities subject to meeting the obligations of its current operations. These reserves consist of the following: (i) interest income earned on restricted portfolio cash balances, (ii) interest earned and received on portfolio loans receivable and (iii) outstanding portfolio loans and equity investments pending repayment.

### c - Temporarily Restricted Net Assets

Temporarily restricted net assets consist of grants and contributions restricted portfolio activities and future programs in accordance with donor designations.

### Note 3 - Concentration and Credit Risk

Acumen Fund maintains its cash and cash equivalents at two financial institutions. The cash balances at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000.

Program related portfolio loans receivable and equity investments (see Notes 6 and 7) are associated with projects based in developing countries. As such, the projects and related investments are subject to various uncertainties including, but not limited to, political, commercial and currency risk.

### Note 4 - Investments in Marketable Securities

The investments consist of the following at December 31:

	2005		2004	
	Fair Market Value	Cost	Fair Market Value	Cost
Government bonds and U.S. Treasury Notes	\$1,181,033	\$1,192,527	\$1,166,534	\$1,174,269
Corporate stock and options	-	-	59,727	59,727
	\$1,181,033	\$1,192,527	\$1,226,261	\$1,233,996

Investment income for the years ended December 31, 2005 and 2004 consists of the following:

	2005	2004
Interest income	\$152,223	\$ 85,987
Realized loss on securities	(1,710)	(115)
Unrealized loss on securities	(3,759)	(9,952)
	\$146,754	\$ 75,920

Note: This information is excerpted from Acumen Fund's audited financial statements, a complete copy of which is available from the organization.

## Note 5 - Pledges Receivable

Pledges receivable to give are due as follows:

	2005			2004
	Unrestricted	Restricted for Portfolio Activity	Restricted for Future Program Activity	Total
Due in less than one year	\$125,000	\$ 201,019	\$500,000	\$ 826,019
Due in one to five years	125,000	1,965,690	-	2,090,690
	250,000	2,166,709	500,000	2,916,709
Less: Discount	(9,556)	(204,499)	-	(214,055)
	\$240,444	\$1,962,210	\$500,000	\$2,702,654
				\$257,668

In addition to these promises to give reflected as pledges receivable in the statement of financial position, numerous donors have expressed intentions to give to Acumen Fund, totaling approximately \$2,800,000. Although it is Acumen Fund's expectation that it will receive these contributions in the future, these intentions have not been expressed as unconditional promises to give and accordingly, have not been recorded in the accompanying financial statements.

## Note 6 - Program Related Portfolio Loans Receivable

Program related portfolio loans receivable consist of loans advanced to projects located throughout the developing world related to Acumen Fund's portfolio activities. Each loan is analyzed for significant risk factors and appropriate interest rates (currently ranging from 4.5% to 11%) are charged. Repayment terms differ for each loan. One loan outstanding as of December 31, 2005 is in the form of a zero coupon convertible debenture and accordingly bears no interest and another loan is in the form of a convertible promissory note purchase agreement and bears no current interest.

Expected repayment

(exclusive of provisions for conversion to equity positions in the project) is as follows:

Year ending December 31, 2006	\$ 666,942
2007	217,898
2008	368,152
2009	261,484
2010	370,526
Thereafter, through December 31, 2012	953,077
	\$2,838,079

## Note 7 - Program Related Portfolio Equity Investments

Program related portfolio equity investments consist of funds invested for equity position in business enterprises in connection with Acumen Fund's portfolio activities.

Investments are reflected at the lower of cost or net realizable value, as determined based on various factors, including the enterprise's cash flow from operations and other pertinent factors related to the enterprise's operations and ability to attract additional capital from other investors.

## Note 8 - Property and Equipment

Property and equipment at December 31 consist of the following:

Computer equipment and website development	3 years	\$306,249	\$210,251
Leasehold improvements and equipment	5 years	114,824	114,174
Furniture	5 years	29,864	27,349
		450,937	351,774
Less: Accumulated depreciation		(312,599)	(249,989)
		\$138,338	\$101,785

Depreciation expense for the years ended December 31, 2005 and 2004 was \$62,610 and \$73,615, respectively.

## Note 9 - 401(K) Plan

Acumen Fund maintains a 401(K) plan covering eligible employees. The employees make voluntary contributions to the plan and Acumen Fund makes a mandatory contribution 3% of the employees' compensation. Acumen Fund may also make additional discretionary contributions to the plan. Acumen Fund made contributions to the plan totaling \$37,124 and \$38,094 for the years ended December 31, 2005 and 2004.

## Note 10 - Commitments and Contingencies

### a - Leases

Acumen Fund occupies office space under leases which provides for minimum annual rental payments as follows:

Year ending December 31, 2006	\$84,283
Year ending December 31, 2007	23,194
Year ending December 31, 2008	25,721
January 1, 2009 through February 28, 2009	2,498

Rent expense for the years ended December 31, 2005 and 2004 was \$123,248 and \$116,598, respectively.

### b - Program Grants, Portfolio Loans and Investments

The following summarizes Acumen Fund's portfolio disbursements for the years ended December 31:

	2005	2004
Program grants	\$ 293,000	\$ 487,500
Portfolio loans	2,108,334	400,000
Portfolio equity investments	600,000	775,000
Technical assistance	472,100	90,016
	\$3,048,544	\$1,752,516

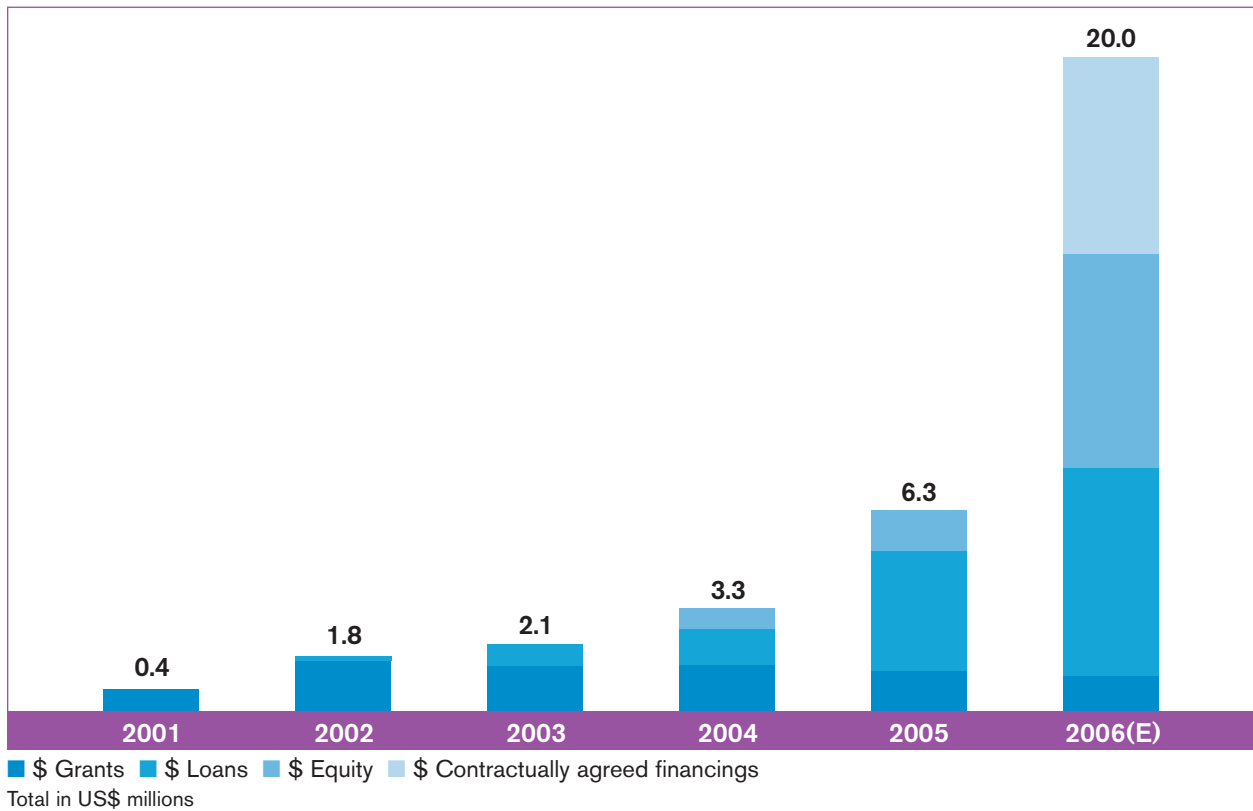
At December 31, 2005, approximately \$1,000,000 in program disbursements has been committed and remains contingent upon the approval of interim progress reports and statements. Subsequent disbursements are to be made upon Acumen Fund's satisfaction that recipients have demonstrated progress towards the stated objectives of the disbursements.

### c - Letter of Credit

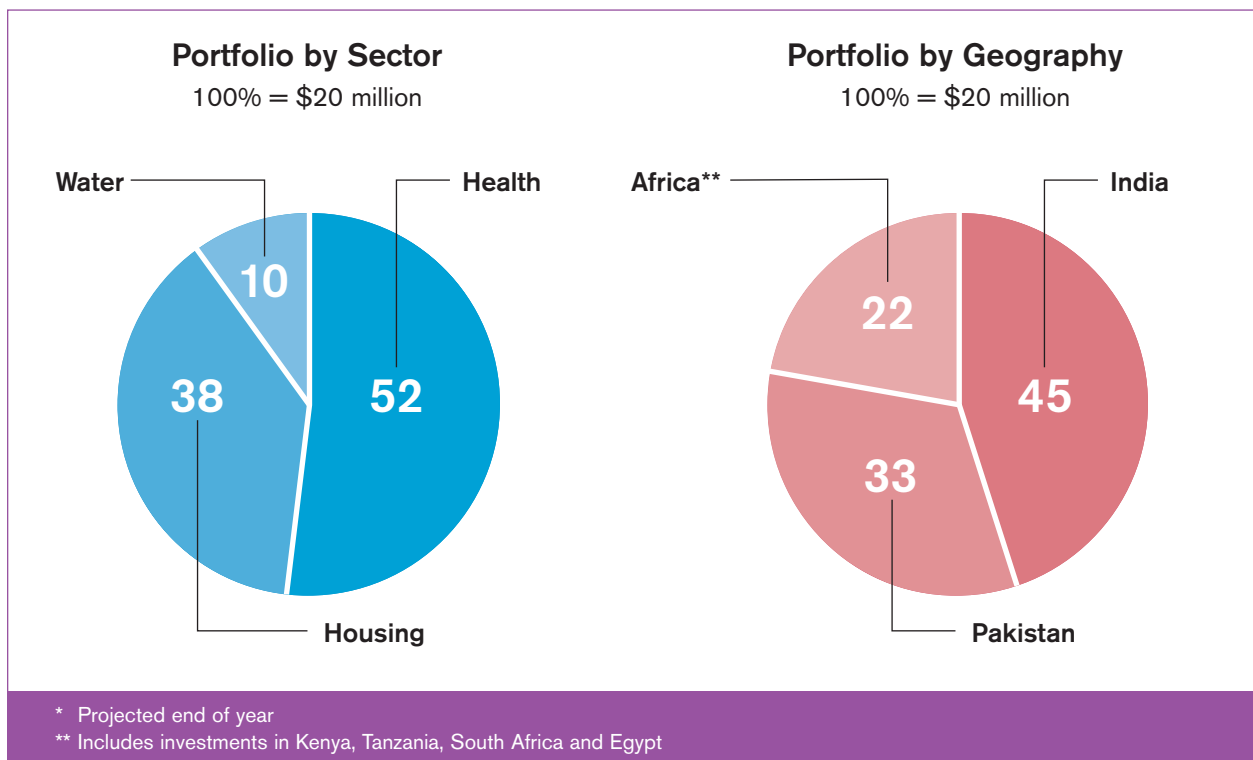
Acumen Fund has issued a letter of credit in the amount of \$110,000 as a guarantee for a portfolio company which operates a lending facility in India. The letter of credit was issued in lieu of a direct portfolio loan disbursement.

## Investments under Management 2001 - 2006

100% = \$20 million



## Acumen Fund's 2006 portfolio\*



Acumen Fund is a nonprofit venture fund. We seek to prove that small amounts of philanthropic capital, combined with large doses of business acumen, can build thriving enterprises that serve vast numbers of the poor. Our investments focus on delivering affordable, critical goods and services—like health, water and housing—through innovative, market-oriented approaches.

[www.acumenfund.org](http://www.acumenfund.org)



**Acumen Fund, Inc.**

76 Ninth Avenue, Suite 315 New York, NY 10011

Tel: 212.566.8821 Fax: 212.566.8817

(address as of December 18, 2006)