How to Fund a Cure

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Our work at the Kraft Precision Medicine Accelerator at Harvard Business School is driven by the mission of accelerating cures for cancer and other diseases. After studying many cure-seeking organizations—both nonprofit and for-profit—we have concluded that the key success factors include an organization's strategy, leadership, and funding.

In our two previous HBR pieces, *"How Medical Nonprofits Set Winning Strategy"* and *"How to Lead Toward a Cure,"* we focused on how cure-focused organizations must craft an effective strategy, assemble a capable leadership team, and move the strategy forward. But even outstanding strategies and capable leaders can't produce treatments and cures without significant funding.

The Funding Imperative

Significant capital is needed to exploit the opportunities presented by precision medicine. That's because research to develop a new treatment and bring a new drug to market is extremely expensive, requiring hundreds of millions or billions of dollars. New funding models are required because traditional approaches are not adequate.

Traditionally, funding innovative startups has been the domain of venture capitalists (VCs). VCs have great track records, which gives them the ability to raise and invest large amounts of capital. But their business model requires them to avoid concentration risk or making multiple bets on any one disease

This is where nonprofits can play a critical leadership role in catalyzing investment. On their own, nonprofits can't fund cures because they don't raise enough money. But with the right strategy and leadership—and with enough money—they can coax the system to ensure that their disease is getting enough funding

Since nonprofits are narrowly focused in one particular disease area, they know about the relevant research and science taking place, know about promising entrepreneurial activity, and can help attract attention and funding to companies with the greatest potential for treatments.

Innovative Funding Models

Through our work, we have spoken with and learned from innovators that are raising significant amounts of capital and developing sustainable funding models. Three approaches to highlight are:

1. **Monetize everything (appropriately)**. With research costing so much, we see some nonprofits adopting a creative mindset to develop new revenue streams. Their intent is to recoup their costs in order to make their research activities sustainable on an ongoing basis.

   An example of an appropriate monetization activity that fits within an organization's mission is building terms into grants that provide the nonprofit with milestone payments or equity based on the intellectual property realized and the size of the investment. Other organizations are looking to cooperative investment models to support the high costs of biobanks, registries, and databanks. This could be done via a subscription model or a pre-competitive consortium. Still others may secure payment from clinical research organizations (CROs) and industry for identifying appropriate patients for clinical trials.

The idea is for nonprofits to have more of a business orientation by looking for appropriate opportunities to leverage the organization's resources to try to recoup some of the costs to help sustain the organization's research efforts.

2. **Venture philanthropy**. Venture philanthropy is still philanthropy, where a donor gives money to a nonprofit and receives a tax deduction. But with *venture* philanthropy, a donor's contribution is earmarked by the organization to invest in for-profit ventures, typically early investments in startups seeking capital where a non-profit can provide value in adding its expertise, and where other funding may be harder to secure. For multiple reasons—including management attention, governance, and fundraising focus—it is often appropriate for a nonprofit to set up a separate venture philanthropy fund to make these investments. Any investment returns that are generated are recycled to the fund for additional investments.

   Pursuing a strategy of venture philanthropy requires donors who understand that cures often come from entrepreneurial for-profit companies. These individuals embrace the idea of making donations that will be used for investments in for-profit ventures aimed at treating or curing a disease, and they aren't looking for a financial return on their philanthropy.

   Examples include the Juvenile Diabetes Research Foundation (JDRF) and the Multiple Myeloma Research Foundation (MMRF). JDRF raised $78 million to launch the T1D Fund. To date, T1D has invested in 12 companies focused on type 1 diabetes, which had been an area neglected by researchers and companies. Importantly, T1D's efforts have sparked far greater interest in type 1 diabetes research and have served to catalyze increasing investment in this area.

   More recently launched, MMRF's venture philanthropy fund expects to raise $50 million in its first five years and has already made several initial investments. Through its venture philanthropy activities, MMRF has learned that its involvement in deals provides more value to a portfolio company than just money. MMRF has a biobank, data assets, a clinical network, access to patients, and deep expertise related to multiple myeloma. By partnering with an early-stage company, MMRF intends to help the company go further, faster.

   In both cases, these cure-seeking organizations have raised money that allows them to partner with venture capital funds and make sure that the funding ecosystem is providing capital to their disease.

3. **Impact funds**. When the science for a disease is far enough along, we are seeing investment funds created to earn market-rate returns. Several impact funds such as the Oncology Impact Fund and the Dementia Discovery Fund (DDF) have raised significant capital from sophisticated investors.

   The Oncology Impact Fund is a $476 million fund created by multinational bank UBS to appeal to high net worth clients, who each invest $500,000 to $1 million. Venture capital firm MPM then leverages its domain expertise in oncology to invest these funds in private and public companies, with a goal of generating market-rate returns.

   DDF, focused on investments for treatments in dementia and Alzheimer's, has raised $350 million from seven leading pharmaceutical companies, AARP, and Bill Gates. DDF is working with SV Health,

a venture capital firm with offices in Boston and London with domain expertise that is managing and investing this fund.

In both examples, significant capital was raised, is being managed and invested by experts, and is being invested in a highly focused way to take multiple shots on goal to cure a specific disease, while seeking to achieve market-rate returns. Both MPM and SV Health have track records in backing early-stage ventures as well as in seeding and creating companies of their own.

With each of these approaches it is important to bring onboard scientific and venture capital experts who can lead the organization in identifying and structuring investment opportunities.

Picking the Right Approach

Which of these approaches is right for your organization and how do you decide? The answer: it depends.

The right answer for your organization depends on the maturity of the science for the disease you are trying to cure. It also depends on the number of companies in the space, the maturity of the ecosystem, and the mindset of the organization's board and donors, as well as the ability to attract top talent.

If the science is early and immature, the organization may be best served through grantmaking and working to embed creative contract terms to try to create new revenue streams to recoup some of the organization's research-related costs.

If the science is more mature, with early-stage companies in the field, venture philanthropy may be the best approach. If your organization is ready for venture philanthropy, you need support among donors and need the right team and organizational capabilities to be a credible partner for these ventures.

And, if the science is further along, with multiple credible companies and an ecosystem focused on the disease, the best approach may be to raise significant capital for an impact fund focused on pursuing market-rate returns. An impact fund may be appropriate for an umbrella organization that brings together several similar diseases and may also be appropriate for a scientific platform that could apply to multiple diseases.

Venture philanthropy and impact funds aren't easy and they require the right teams, but we see innovative organizations making real progress and generating real results.

Combining Strategy, Leadership, and Innovative Funding

With the fundamental elements discussed in this series—a comprehensive strategy, capable leadership, and innovative funding models—organizations will have the foundation that is necessary to leverage scientific breakthroughs from precision medicine to drive treatments and cures.

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