CHALLENGE
Communities in the U.S. have been left behind by economic growth

Key:
- Low Income Communities (poverty rates ≥ 20%)

Source: CDFI Fund data, displayed by Policy Map (2018)
OPPORTUNITY

Established small businesses create jobs and enable community resiliency

Small businesses create 62% of net new private sector jobs

Jobs build communities through...

- Raising living standards
- Increasing productivity
- Fostering social cohesion

OPPORTUNITY
Search fund model is proven vehicle to invest in and grow small businesses

<table>
<thead>
<tr>
<th>“Searcher”</th>
<th>Fundraise</th>
<th>Search</th>
<th>Acquire</th>
<th>Operate</th>
<th>Exit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Raises funds to operate a “search” period</td>
<td>Spends 1-2 years sourcing and diligencing targets</td>
<td>Raises capital to acquire business, from initial search investors (pro-rated), seller, and bank</td>
<td>Operates business for 4 - 7 years, working to create additional value</td>
<td>Sells business to strategic or financial buyer</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>258 “Searchers” since 1983</th>
</tr>
</thead>
<tbody>
<tr>
<td>Success Rate</td>
</tr>
<tr>
<td>73% of searchers made acquisitions</td>
</tr>
</tbody>
</table>

Source: Stanford Graduate School of Business, Center for Entrepreneurial Studies, Analysis of qualifying search funds (2016)
OPPORTUNITY

Recent legislation incentivizes investment in low-income Opportunity Zones

<table>
<thead>
<tr>
<th>Tax Cuts and Jobs Act of 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investors hold $2 Trillion of unrealized capital gains in the U.S.</td>
</tr>
<tr>
<td>Investors re-invest capital gains into Opportunity Funds which deploy capital in designated low-income Opportunity Zones</td>
</tr>
<tr>
<td>If underlying investments held for 5 - 10 years, Tax Reductions and Exemptions of capital gains are returned to investors</td>
</tr>
</tbody>
</table>

Source: Enterprise Community Partners, “Policy Focus: Opportunity Zones Program” (January 2018)
The fund of searchers provides capital and resources to grow durable businesses and provide good jobs in urban, low-income communities.
Each searcher acquires and grows a single business in an Opportunity Zone

<table>
<thead>
<tr>
<th>Searcher characteristics</th>
<th>Business characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 12+ years experience</td>
<td>• <strong>EBITDA:</strong> $750k - $1.5M</td>
</tr>
<tr>
<td>• Demonstrated operational and managerial competence</td>
<td>• <strong>Purchase multiple:</strong> 3-5x EBITDA</td>
</tr>
<tr>
<td>• <strong>Transitioning milestone</strong> (e.g. career pivot)</td>
<td>• Owner seeking to exit</td>
</tr>
<tr>
<td>• Vision for business-community impact</td>
<td>• <strong>Low asset-intensity business</strong> with recurring revenues</td>
</tr>
<tr>
<td></td>
<td>• <strong>High employment generation</strong></td>
</tr>
<tr>
<td></td>
<td>• <strong>Footprint in community</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sample searchers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Chris:</strong> 18 years experience, Navy operations, asset management, and executive MBA</td>
</tr>
<tr>
<td><strong>Jules:</strong> 12 years experience, Amazon management, P&amp;L responsibility in retail sector, and MBA</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sample sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business services:</strong> call centers, inspection, property management</td>
</tr>
<tr>
<td><strong>Healthcare services:</strong> geriatric home care, health aides</td>
</tr>
<tr>
<td><strong>Light manufacturing:</strong> food, plastics</td>
</tr>
</tbody>
</table>
FUND STRUCTURE
The $16.4M fund unlocks public and private capital...

Key
- Equity
- Debt
- Grant
- Blended
- Searcher
FUND STRUCTURE
...generating 25% IRR for impact investors over the 10 year fund term

Fund GPs raise equity
$1M minimum investments

Target Investors:
Family offices, foundations, HNWIs, anchor institutions

Fee Structure:
2.6% annual management fee
30% carry
  20% to searcher
  10% to GP
$80k deal fee per acquisition

Target IRR: 25%
Net management fees
FUND STRUCTURE

Searchers acquire the company via equity, SBA guaranteed loan, and seller note.

- **Preferred Equity**
- **Operating Loan**
- **Technical Assistance Facility**

**Portfolio Company Level**
- **Gov't Loan**
- **Local Seller Note**

Searchers raise debt at deal close.

**Target Leverage:** 50%
- 25% SBA guaranteed loan
- 25% Local seller note

**Portfolio Company**
- **Northeast**
  - Portfolio Company #1
  - Portfolio Company #2
  - Portfolio Company #3
  - Portfolio Company #4
- **South**
  - Portfolio Company #5
  - Portfolio Company #6
  - Portfolio Company #7
  - Portfolio Company #8

**Avg. EBITDA:** $1M

**Avg. Purchase Price:** $4M
- $2M Equity
- $2M Debt
FUND STRUCTURE
Fund expenses covered by management fee and operating loan in early years, and supplemented by grant-backed Technical Assistance Facility

Operating Loan used in early years:
Start-up costs and searcher expenses

Grant-backed TAF:
FTE and budget to train and support searchers with Good Jobs strategy

Management fee:
Fund operating expenses (GPs, rent)
SOCIAL RETURNS

Value creation activities enable the impact theory for business, employee, and community resiliency

Value creation activities
- Invest in growth initiatives
- Introduce operational excellence
- Invest in employees
- Involve community partners

Long-term outcomes
- Durable businesses
  - Sales growth
  - EBTIDA expansion
  - Good jobs roadmap
- Empowered employees
  - Training hours
  - Employee satisfaction
- Improved livelihoods
  - Jobs
  - Wage growth
  - Minimum wage multiple
- Resilient communities
  - New investment capital
  - Partners engaged

Short-term metrics (IRIS aligned)
- Sales growth
- EBTIDA expansion
- Good jobs roadmap
- Training hours
- Employee satisfaction
- Jobs
- Wage growth
- Minimum wage multiple
- New investment capital
- Partners engaged
EXECUTION
Fund I builds the foundation for subsequent funds and a robust ecosystem

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
<th>13</th>
<th>14</th>
<th>15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Launch</td>
<td>Finalize opportunity zone targets and certify fund</td>
<td></td>
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<td></td>
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<tr>
<td></td>
<td></td>
<td>Initiate community networks</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Fundraise</td>
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<tr>
<td></td>
<td></td>
<td>Engage legal for launch and future acquisitions</td>
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<td></td>
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</tr>
<tr>
<td>Fund I</td>
<td>Recruit searchers</td>
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</tr>
<tr>
<td></td>
<td>Continue community &amp; public stakeholder engagement</td>
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</tr>
<tr>
<td></td>
<td>Searcher diligence, acquisitions, and operations</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Fund II</td>
<td>Assess progress of Fund I with LPs, searchers, and community networks</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>Fundraise with support of community networks</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>Launch Fund II</td>
<td></td>
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<td></td>
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<td></td>
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</tr>
<tr>
<td>Ecosystem</td>
<td>Participate in market building (search fund events, community investing conferences)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Engage third party for case study / impact assessment</td>
<td></td>
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<td></td>
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</tr>
</tbody>
</table>

Key: ⭐ First searcher acquisition  ⭐ Final searcher exit
EQUITY OF OPPORTUNITY FUND
Our team is committed to the hard path ahead…

Julie Ann Haldeman
- Spoken with 50+ searchers, search investors, and brokers about search funds
- Worked in 4th generation family-run business in Opportunity Zone
- Trained engineer and data scientist with technical expertise for deal evaluation in Light Manufacturing and Business Services

Megan Larcom
- Serving as advisor for good jobs transformation at large, family-run business
- Designed impact framework for an $8.8M first-time fund
- Led due diligence engagements for private equity clients in East Africa
- Served as Fellow to the Boston Planning and Development Agency to support small business development and financing
- Interviewed 20+ founders, managers, and investors on topic of talent gap in underserved markets

…and thanks to contributors and mentors to date!

Pieter Joubert, CrossBoundary
Bruce Katz, The New Localism
Chris Nielson, Spruce Lake Partners

Luke Seidl, Veris Wealth Partners
Sarmed Rashid, Small Business Administration
David Wood, Initiative for Responsible Investment

Royce Yudkoff, ABRY Partners, Guide to Buying a Small Business

16
APPENDIX
Illustrative models, investors, and partners

<table>
<thead>
<tr>
<th>Models to learn from...</th>
<th>...and stakeholders to engage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funds of searchers</td>
<td>Investors</td>
</tr>
<tr>
<td>Fund startup grants</td>
<td>Community partners</td>
</tr>
<tr>
<td>Technical assistance</td>
<td></td>
</tr>
<tr>
<td>facilities</td>
<td></td>
</tr>
</tbody>
</table>

- Alpine Investors
- Broadtree Partners
- OPIC
- Search Fund Accelerator
- Shell Foundation
- Echoing Green
- AAF
- TAF
- The City of Boston
- Omidyar Network
- Ceniartha
- The Kresge Foundation
- Veris
- Ford Foundation
- The Caprock Group
- Good Jobs Institute
- LISC
- SBA
### APPENDIX

#### Search fund acquisition examples

<table>
<thead>
<tr>
<th>Searcher Profile</th>
<th>Average Transaction</th>
<th>Pet Food Production</th>
<th>Building Services</th>
<th>Home Nursing</th>
</tr>
</thead>
</table>
| • 32 years median age  
  • 12% of searchers have 4-7 years experience after MBA  
  • 5% of searchers are female | • 12 years experience investment banking, entrepreneurship, and MBA | • 7 years experience U.S. Army and Boston Consulting Group, MBA | • 8 years experience, investment banking, real estate, MPP and MBA |

<table>
<thead>
<tr>
<th>Time to Acquisition</th>
<th>Average</th>
<th>&lt; 24 months</th>
<th>14 months</th>
<th>10 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 19 months average</td>
<td>$9.5M average</td>
<td>$7.6M average</td>
<td>$10.3M</td>
<td>$4.6M</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EBITDA or FCF</th>
<th>$1.8M average EBITDA (22.9% margin)</th>
<th>$0.25M FCF</th>
<th>$2.9M EBITDA (28.2% margin)</th>
<th>$0.83M EBITDA (17.9% margin)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees at Acquisition</td>
<td>45 average</td>
<td>20</td>
<td>50</td>
<td>130</td>
</tr>
</tbody>
</table>

| Purchase Price | $9.5M average  
  $5.3X EBITDA | $1.2M plus 1% earn-out of annual sales  
  4.9X FCF | $12.3M  
  4.25X EBITDA | $3.6M  
  4.3X EBITDA |
|----------------|-----------------|-----------------|-----------------|-----------------|

Source: Stanford Graduate School of Business, Center for Entrepreneurial Studies, Analysis of qualifying search funds (2016)
### APPENDIX

**Fund provides proprietary resources at each stage of the investment process**

<table>
<thead>
<tr>
<th>Stage</th>
<th>Resources</th>
</tr>
</thead>
</table>
| Sourcing| • Deal flow from cultivated community network  
          • Diligence support and efficiencies from searcher network                                 |
| Financing| • Fund equity  
            • Debt with guarantees from government partners (e.g. SBA)  
            • Structure support for favorable seller notes                                          |
| Operations| • Hands-on support for diagnostics and implementation of Good Jobs Strategy                   |
| Exit    | • Introductions to aligned mid-market funds  
          • Resources to structure employee ownership options at exit                               |
Impact framework encourages short-term measurement and long-term assessment

<table>
<thead>
<tr>
<th>Related IRIS No.</th>
<th>Metrics</th>
<th>Targets</th>
<th>Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>FP4761</td>
<td>Sales growth**</td>
<td>0 - 20%</td>
<td>Durable Businesses</td>
</tr>
<tr>
<td>FP7897</td>
<td>EBITDA expansion**</td>
<td>0 – 0.5%</td>
<td></td>
</tr>
<tr>
<td>N/A</td>
<td>Good jobs roadmaps**</td>
<td>Qualitative milestones</td>
<td></td>
</tr>
<tr>
<td>OI7877</td>
<td>Training hours*</td>
<td>19,200 – 32,000</td>
<td>Empowered Employees</td>
</tr>
<tr>
<td>OI3601</td>
<td>Employee satisfaction**</td>
<td>Progress vs. baseline</td>
<td></td>
</tr>
<tr>
<td>PI2251</td>
<td>Jobs*</td>
<td>1,200 – 2,000</td>
<td>Improved Livelihoods</td>
</tr>
<tr>
<td>N/A</td>
<td>Wage growth**</td>
<td>0 – 20%</td>
<td></td>
</tr>
<tr>
<td>OI6176</td>
<td>Minimum wage multiple**</td>
<td>2.0x</td>
<td></td>
</tr>
<tr>
<td>FP8293</td>
<td>New investment capital*</td>
<td>$10 M</td>
<td>Resilient Communities</td>
</tr>
<tr>
<td>N/A</td>
<td>Partners engaged*</td>
<td>Qualitative milestones</td>
<td></td>
</tr>
</tbody>
</table>

Key
* Fund level measurement
** Portfolio company level measurement
## Risk assessment and mitigation

<table>
<thead>
<tr>
<th>Pillar of Fund</th>
<th>Risks</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Incentive of Place</strong></td>
<td>Implementation uncertainty of Jobs Act</td>
<td>Model financial returns without Opportunity Zone tax incentives</td>
</tr>
<tr>
<td></td>
<td>Availability of deal flow in target communities</td>
<td>Select target communities based on population and business density</td>
</tr>
<tr>
<td><strong>Investment in People</strong></td>
<td>Recruitment of committed and aligned searchers</td>
<td>Align searcher incentives (carry) and select best Opportunity Zones</td>
</tr>
<tr>
<td></td>
<td>Implementation of Good Jobs Toolkit</td>
<td>Include operational experts, not just investors, as advisors</td>
</tr>
<tr>
<td><strong>Inclusionary Process</strong></td>
<td>Management of acquired companies by searchers</td>
<td>Secure favorable advisory period from seller after acquisition</td>
</tr>
<tr>
<td></td>
<td>Varying motives between community partners and investors</td>
<td>Build formal feedback loops for community partners and Fund to balance motives</td>
</tr>
</tbody>
</table>
APPENDIX

Key assumptions for projection of fund performance

**Fund level assumptions**

**Searcher expenses:**
- 10 recruited searchers
- 80% of searchers acquire within 1.5 years
- Searcher salary and benefits: $96k/yr
- Searcher travel costs: $15k/yr

**Fund expenses:**
- *Operating Loan:* Ramp-up costs in years 0-4, including searcher salaries (above) and legal startup costs
- *Management Fee for core fund operating costs:*
  - Salary of 2 Fund FTE: $168k/yr each
  - Fund overhead: $64k/yr
- *Technical Assistance Facility for:*
  - Salary of 2 additional FTE: $120k/yr each
  - Resources for good jobs implementation
  - 16% towards fund operating costs

**Portfolio company assumptions**

**At acquisition:**
- Average annual revenue: $5M
- EBITDA margin: 20%
- EBITDA purchase multiple: 4x
- Acquisition costs: $100k
- Deal fee to Fund: $80k

**During operations:**
- Annual revenue growth: 10%
- Annual EBITDA margin expansion: 0.25%
- EBITDA exit multiple: 4x
### Opportunity Zones Program targeted for implementation by Q1 2019

#### Implementation Milestone

<table>
<thead>
<tr>
<th>Implementation Milestone</th>
<th>Timeline</th>
</tr>
</thead>
<tbody>
<tr>
<td>State governments designate &quot;Opportunity Zones&quot; – up to 25% of low-income communities</td>
<td>May 2018</td>
</tr>
<tr>
<td>Department of Treasury certifies “Opportunity Funds” – so long as a minimum of 90 percent of assets are invested in Opportunity Zones</td>
<td>Q4 2018 / Q1 2019</td>
</tr>
<tr>
<td>Expiry of Opportunity Zone program designations planned for ten years</td>
<td>Q1 2029</td>
</tr>
</tbody>
</table>

#### Investment Length & Benefits Received

<table>
<thead>
<tr>
<th>Investment Length</th>
<th>Benefits Received</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fewer than 5 years</td>
<td>Deferred payment of existing capital gains until the date that the Opportunity Fund investment is sold or exchanged</td>
</tr>
<tr>
<td>5 – 7 years</td>
<td>Benefits above + 10% of tax on existing capital gain is canceled</td>
</tr>
<tr>
<td>7 – 10 years</td>
<td>Deferred payment of existing capital gains until December 31, 2026 or the date that the Opportunity Fund investment is sold or exchanged (whichever comes first) + 15% of tax on existing capital gain is canceled</td>
</tr>
<tr>
<td>Greater than 10 years</td>
<td>Benefits of 7 - 10 year investment + investors pay no capital gains tax on the Opportunity Fund investment (investments are exempt from any capital gains beyond those which were previously deferred)</td>
</tr>
</tbody>
</table>

Source: New Markets Support Community (2018); Enterprise Community Partners, “Policy Focus: Opportunity Zones Program” (January 2018); Economic Innovation Group (March 2018)
APPENDIX

Good jobs are part of the value creation strategy across portfolio

Theory of Value Creation

Operate Excellently

Need returns from operational excellence to...

Invest in People

Need capable, motivated people to...

Good Jobs Strategy

Focus & Simplify. Know what problems you solve for customers and make strategic trade-offs consistent with that focus. Simplify operations in a way that maximizes value for customers and improves employee productivity and motivation.

Standardize & Empower. Standardize routine processes—with employee input—and also empower their employees to improve those standards. Make decisions that improve customer service and reduce cost.

Prioritize People. Invest in people in a way that combines with operations to create a virtuous cycle: recruiting, training, establishing clear career paths, creating high performance standards, and offering fair wages and predictable schedules.

Embrace Values. Recognize employees as most important resource, and treat them with dignity and respect. Involve workforce in a culture of continuous improvement.

Source: Good Jobs Institute
APPENDIX

A good job meets employees’ basic and higher needs – and treats people with dignity and respect

WORK MEETS HIGHER NEEDS

MEANINGFULNESS
Work itself and significance to customer

PERSONAL GROWTH
Learning, creativity, problem solving

BELONGING
Team, pride for working at the company, mutual respect

ACHIEVEMENT
Have autonomy, tools, time and resources to do great work

RECOGNITION
High expectations, feedback from others and job

WORK PROVIDES BASIC NEEDS

PAY & BENEFITS
Fair for the work and compared to others, meets needs

SCHEDULES
Stable and predictable schedules, adequate hours

CAREER PATH
Clear and fair advancement to higher pay

SECURITY & SAFETY
Keep job if perform well, safe conditions

Source: Good Jobs Institute
APPENDIX

EQUALITY vs EQUITY

Photo Credit: Steemit Beta
“Although we have paper ownership of $7 trillion of deferred wages in the form of U.S. pension fund assets, this fact has not altered financial market operations in any significant way. All too often, investments made with our savings yield short-term gains at the expense of working Americans and their families. The challenge for labor is to find ways that align workers’ savings with workers’ values. We need to invest our deferred wages in companies that provide good jobs in stable, strong communities. The current operation of financial markets undermines the very workers whose savings they deploy.”

-- Leo Gerard, International President of the United Steel Workers