



Zero Gap Fund

State of the Portfolio

Driving Impact at Scale

The past year has been a period of unprecedented challenge and dislocation around the globe, yet also a time of resilience and determination. Our collective response to the Covid-19 pandemic and its many ongoing shocks called for fortitude and creativity in the face of unexpected change. We saw that spirit across our partners in the Zero Gap Fund (ZGF or the Fund).

Launched in partnership with the John D. and Catherine T. MacArthur Foundation and its flagship Catalytic Capital Consortium (C3), ZGF's mandate is focused on financial innovation – namely, showing how new investment solutions can overcome traditional market barriers to channel critical financing to impact-driven investments at scale and unlock nascent market opportunities long ignored by private investors.

By design, the Fund channels private investment toward solutions addressing the world's most pressing challenges: climate change, inequalities of opportunity, access to critical healthcare, among others.

Through the targeted deployment of patient, risk-tolerant, flexible capital, ZGF focuses on supporting new investment products and mechanisms marrying deep impact with the potential for replication and growth.

ZGF portfolio companies were able to deliver on their impact mandates in 2020, despite the many adversities. The impact achieved in 2020 was a welcome reprieve for communities navigating the ongoing pandemic and shows promise for the future sustainability and scaling of ZGF portfolio companies.

Realized impact included:

- **LeapFrog** expanded its reach to emerging consumers by nearly 23% with investments in companies offering essential services like healthcare and insurance to 221 million people.
- **The Forest Resilience Bond (FRB)** completed 50% of its total restoration work despite Covid-19 restrictions and the largest forest fire season on record in the United States.
- **Sixup** emphasized resilience and proactively enrolled its student borrowers into a Covid deferment program, including access to additional support services.
- **The CRAFT fund** made its first investment into a solar hydro-panel company and as of December 2020, 5,552 panels were producing at least 1,222,675 liters of water across 48 different countries.
- **The Women's Livelihood Bond 2** directly impacted over 31,000 women, exceeding its target by over 20% and supported their borrowers to successfully navigate Covid-19 challenges.


The ZGF team looks to build off the resourcefulness and resilience of 2020 to identify and support new ways to improve the lives of vulnerable communities and ecosystems around the world. This impact report speaks to the driving motivation behind our work by highlighting the tangible ways the Fund's portfolio has enhanced lives and broadened opportunities, even in a year defined by uncertainty.

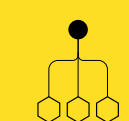
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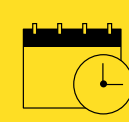
Maria Kozloski


Senior Vice President, Innovative Finance
The Rockefeller Foundation


Overview


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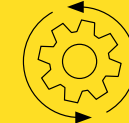
INVESTMENT TYPE
Multi-Asset Class
- 


PURPOSE
Addressing the SDG Financing Gap
- 

LAUNCHED
2019
- 

FUND SIZE
\$30M
- 

COMMITTED
\$18M
- 

PRIVATE CAPITAL MOBILIZED TO DATE*
\$521M+
- 

CATALYTIC LEVERAGE RATIO**
31x
- 

GEOGRAPHY
Global

* As of June 2021
** Catalytic Leverage Ratio = Additional Investment Capital Directly Mobilized (\$)/ZGF Investment (\$)

Zero Gap Fund

The Fund contains a portfolio of new investment solutions that address critical market failures and deliver measurable social, environmental, and economic benefits for vulnerable people and communities at scale.

The Rockefeller Foundation (RF) has long recognized the critical importance of engaging with the private sector to scale private dollars for social good. The Foundation led the impact investing industry into the mainstream in 2008. Through its grantmaking work under RF’s Innovative Finance program, the Foundation set out in 2015 to reimagine financial innovation as a tool for scaling impact. The Zero Gap program began by incubating innovative financial mechanisms with the potential to mobilize private capital at scale to address the Sustainable Development Goals (SDGs). These mechanisms offered a variety of innovations: a more efficient allocation of risk, a novel arrangement of stakeholders and shareholders, or a groundbreaking investment strategy. Today, RF’s Zero Gap grant portfolio stands at nearly 50 products and investment solutions across diverse geographies, sectors, and asset classes.

In 2019, The Rockefeller Foundation partnered with the John D. and Catherine T. MacArthur Foundation via the Catalytic Capital Consortium (C3) to create the Zero Gap Fund. Tapping opportunities in both the Zero Gap grant (ZGF) portfolio and the broader market, the Fund deploys catalytic capital into promising innovative financial mechanisms, providing essential investment financing to

promote their growth, development, and potential to boost large-scale private investment in the UN’s SDGs.

Over its 15-year tenor, the ZGF aims to mobilize billions in private capital to help meet the SDGs. In its second year of full operation, the Fund has succeeded in seeding cutting-edge financial innovation and in catalyzing crucial investment support for projects across diverse sectors and geographies, from low-income students in California to emerging consumers across Africa and Asia. Focused squarely on high-impact financial innovation, the Fund’s flexibility allows it to take nontraditional roles to diminish risk and disentangle impediments among a multitude of stakeholders.

Meeting the Challenge in 2020

ZGF’s investment period sits squarely against the backdrop of the global Covid-19 pandemic. The pandemic has uncovered and exacerbated inequalities, heightening the need to deploy more capital to organizations and business models geared toward solving these entrenched problems. ZGF combats those inequalities by expanding the boundaries of financial innovation for impact. To date, its deployment of \$18 million has catalyzed close to \$500M of additional capital through eight investments that will continue to scale and deliver impact well into the future.

The ZGF aims to unlock billions in private capital investment for SDG-aligned impact.

The Zero Gap Fund Portfolio

ORGANIZATION	INVESTMENT(S)	IMPACT
Apis & Heritage	Legacy Fund I	Enabling job preservation and asset ownership for low-income and minority workers in the United States through employee ownership.
Blue Forest Conservation	Forest Resilience Bond – Yuba	Restoring forests and assuring water quality for farmers and communities threatened by wildfires.
Founders First Capital Partners	Founders First Capital Partners	Providing revenue-based financing to underfunded and underrepresented entrepreneurs across the United States.
Impact Investment Exchange	Women’s Livelihood Bond 2	Providing capital and other assistance to women-owned businesses in Southeast Asia.
LeapFrog	Emerging Consumer Fund III	Assuring access to financial services and healthcare for emerging consumers in Africa and Asia.
Lightsmith Group	CRAFT Fund	Financing global solutions for climate resilience to improve the lives of underserved communities globally.
Sixup	Sixup PBC and Community Fund II	Providing student loans to high-performing, low-income students in the United States.

The Zero Gap Fund must answer the following questions on each of its investments:

- What are we trying to achieve?
- Who are we trying to reach?
- How much change do we expect to see, and how quickly?
- What is the investment’s contribution toward generating this change?
- What are the risks of unintended consequences?

5 Dimensions of Impact – Impact Management Project
<https://impactmanagementproject.com/impact-management/impact-management-norms/>





Investments Overview

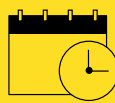




INVESTMENT TYPE
Intermediated Debt



PURPOSE
Climate Mitigation via Forest Restoration



YEAR OF INVESTMENT
2018



ZERO GAP FUND CATALYTIC INVESTMENT
\$1M



ROLE OF CATALYTIC CAPITAL
ZGF provided capital that enabled participation from a diverse mix of investors that were critical to the success and future scaling of the investment model.



PRIVATE CAPITAL MOBILIZED TO DATE
\$3M



LEVERAGE RATIO
3x



GEOGRAPHY
United States



Alongside 3 other SDGs

Forest Resilience Bond

A unique bond structure that addresses funding bottlenecks

Forests provide a host of financial, cultural, and environmental benefits that are increasingly under threat due to changing climate conditions. Last year alone, nearly 10,000 individual wildfires burned across 4.2 million acres in California. These 2020 wildfires impacted over more than 4% of land in the state, and efforts to control the blazes were made more difficult by the effects of the global COVID-19 pandemic, which led to shortages of both forestry technicians and firefighters. The sustainable management of forests—clearing of overgrowth, controlled burning, removal of invasive species, and the protection of rivers and streams—is crucial for the protection of both the public and the natural world.

At the landscape scale, however, forest restoration is a costly endeavor. Nearly half the 193 million acres managed by the United States Forest Service’s (USFS) requires restoration, at an estimated cost of over \$100 billion. At current levels of government spending, it will take over 200 years to complete this critical work. Blue Forest Conservation is meeting this challenge through the Forest Resilience Bond (FRB), an innovative debt financing tool that supports forest restoration efforts on the ground.

The FRB is structured to align the interests of all the parties who stand to benefit from well-managed forests and watersheds: federal, state, and local governments, as well as water suppliers, power companies and other public and private entities. Investors eager to invest in environmentally sound projects provide funds to pay for the work upfront. The principal and interest are repaid through contracted cost-share contributions by the various parties benefiting from the forest restoration work.

Despite the challenging year, the FRB model is succeeding. Blue Forest Conservation is developing future projects in both California and the Pacific Northwest, a new market with potential for both forest and wetlands restoration. In April 2021, Blue Forest Conservation launched fundraising for its second Forest Resilience Bond. The Yuba II FRB follows Blue Forest’s model of building on pilot FRBs with large-scale FRBs, targeting efficiency and leveraging stakeholder relationships to complete restoration not in an isolated area but across an entire landscape.

The Forest Resilience Bond (FRB) is a public-private partnership that enables private capital to finance much-needed forest restoration in the Western U.S. to reduce fire risk while protecting communities and habitats.

Impact Spotlight The Yuba River Project

Blue Forest’s restoration work within California’s Yuba River Watershed provides the ultimate proof of concept for turning investment-grade bonds into impact on the ground. Launched in partnership with the U.S. Forest Service, the project seeks to combat wildfires by managing thousands of acres of the Tahoe National Forest. It does so with the use of private capital in the form of a Forest Resilience Bond.

The Yuba Project started relatively small in 2018, with a few key partners and 15,000 acres under management. It has since expanded to a coalition of nine partners with an agreed scope of work encompassing 275,000 acres that will play out over the next two decades.

One of the project’s central partners and beneficiaries is the Yuba Water Agency, which manages water resources in Yuba County. Yuba Water manages a reservoir that provides water, power generation, irrigation, and other services to the community but is under threat from surrounding wildfires that could drop ash, mud, or debris into the reservoir. The Yuba Project’s benefits to the water agency and to residents will come from minimizing all risks to water quality, whether for farmers, boaters, fishermen or wildlife.

When the density of forests is managed, the risk of a catastrophic wildfire is reduced. Due to nearly a century of natural fire suppression in California and across the American West, a greater number of trees are competing for limited water resources in the forest. Removing some trees and reintroducing fire as an ecological process improves the overall health of the forest and makes it more resilient to disturbances like drought, wildfire, or pine beetle infestations.



This work also protects the infrastructure that Yuba Water Agency relies upon to provide services to the community. A major wildfire could cause thousands of tons of debris to clog the reservoir, requiring costly and complex forms of cleanup and remediation.

The other emerging benefit to Yuba Water Agency is the improved water quality—and quantity—that results from a well-managed forest. “If we can get the forest back to a more natural state, then that water can make its way into the aquifer and find its way into the reservoir,” says Willie Whittlesey, the agency’s general manager. “That can increase water yield. And if we have more water, that’s good for everyone.”

As a beneficiary of the work, the Yuba Water Agency pays into the project and assures the investors make a return. The agency is paying \$1.5 million over five years for the first project and is now committed to another \$6 million over 10 years for the next scope of work, which will cover 25,000 acres.

“This project is proving that the concept works and has real impact,” Whittlesey said. “We want the FRB to be used as a model that can be replicated across the West.”

Impact Measurement



WHAT
Long-term ecological restoration to reduce the frequency and severity of wildfires and increase forest health and resilience.



WHO
The pilot project improves the resilience of communities and forests in California, while testing a model to finance forest restoration throughout the U.S.



EXPECTATION/TIMING
Active restoration across 15,000 acres in North Yuba to be completed by 2023, additional restoration across 25,000 acres starting in 2022.



INVESTMENT CONTRIBUTION
Dollars leveraged directly and indirectly—\$1 million toward \$3 million in additional funding.



KEY IMPACT RISKS
Blue Forest Conservation, the investment team behind the FRB, has not yet achieved financial sustainability; U.S. Forest Service withdraws support; differences in regional regulatory rules may hinder replication; large fire in target region obscures impact.



INVESTMENT TYPE

Intermediated Debt



PURPOSE

Decent Work and Economic Growth, Gender Equality, Climate Action



YEAR OF INVESTMENT

2020



ZERO GAP FUND CATALYTIC INVESTMENT

\$1.5M



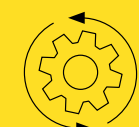
ROLE OF CATALYTIC CAPITAL

The ZGF was critical in supporting the initial close of WLB2, mobilizing senior investors via its subordinated role in the capital structure, and paving the path for replication.



PRIVATE CAPITAL MOBILIZED TO DATE

WLB 2 - \$10.5M, WLB 3 - 27.7M



LEVERAGE RATIO

25x



GEOGRAPHY

Asia



Alongside 7 other SDGs



IIX Women’s Livelihood Bond 2

A blended finance approach to launch the world’s first gender-lens impact investing security listed on a stock exchange

In much of Southeast Asia, woman entrepreneurs face multiple obstacles—with access to financing at the top of the list. The International Finance Corporation estimates that women-owned small businesses in developing countries face an annual financing gap of nearly \$1.5 trillion. Loan approval rates for women entrepreneurs are 15–20% lower than those of men. Small microfinance institutions, which often focus on the most remote and vulnerable populations—including a disproportionate focus on women—remain exceedingly underfunded. Furthermore, low-income women in developing countries tend to lack the resources to cope with worsening climate-related losses and shocks. As such, the key to building greater resilience for women and climate resilience for their communities is to empower them to become solutions to climate change through sustainable livelihoods

Singapore-based Impact Investment Exchange (IIX) stepped up to address this challenge by developing and launching the region’s first Women’s Livelihood Bond (WLB). The Bond leverages a blended finance structure and specialized approach to gender-lens investing to attract new sources of private sector capital, empowering underserved women in emerging markets to transition from subsistence to sustainable livelihoods while advancing 12 of the 17 United Nations Sustainable Development Goals.

In January 2020, IIX launched the second Women’s Livelihood Bond (WLB2), a \$12 million multi-country,

multi-sector social bond to support a group of women-focused, high-impact enterprises in Asia-Pacific.

Within a month of launch, WLB2 deployed its full \$12 million to women-focused microfinance institutions (MFIs) and small and medium enterprises (SMEs) in Cambodia, Indonesia, and Sri Lanka. Covid-19 struck shortly thereafter but did not slow the pace of IIX’s execution. WLB2 exceeded its impact target by more than 20% in the first year of operations (31,050 women directly impacted vs target of 25,650) and IIX launched the \$27.7M WLB3 in December with participation from institutional investors, impact investors, and family offices from across the world including the United States, Europe, Asia, and the Pacific. Most telling, WLB3 was launched with less subordinated capital than WLB2, demonstrating increased market confidence in IIX’s strategy and execution even in the uncertain and challenging Covid-19 context. IIX engages additional donors to provide subordinated capital for WLB3 and subsequent issuances through a next generation innovative finance instrument, the Women’s Catalyst Fund.

In July 2021, the WLB1 is expected to mature, establishing a critical track record to investors for the financial and social success of the world’s first public markets financial instrument for women. With all coupon payments made on time, even throughout the COVID-19 pandemic, the bond provided investors with an annual return of 5.65% from 2017-2021.

WLB2 generates deep impact through support of women-owned business in SE Asia, introducing a new investment structure to the market and highlighting Asian investor demand for impact products.



Impact Spotlight Cambodia’s Amru Rice

Covid-19 disrupted supply chains, made work more complicated and often led to wild swings in commodity prices. Through it all, Cambodia’s Amru Rice, and the women farmers in its supply chain, managed to prosper, in some cases because of the uncertainty.

A locally owned rice exporter, Amru Rice borrowed from the proceeds of IIX’s \$12 million second Women’s Livelihood Bond in 2020, just as the pandemic swept across Asia. The company, which just celebrated its 10th anniversary, sources sustainable rice from thousands of farming families, 70% of which have women as the lead farmer. Supply-chain disruptions helped drive up rice prices, but Amru Rice and its network of local farmers were unfazed.

Champeï is one smallholder farmer now working through Amru Rice’s nationwide sourcing network. Before she signed on with the company, Champei lacked a stable market to sell her rice and thus had to absorb wild swings in prices offered by middlemen. A climate-smart training program financed by the IIX WLB 2 bond improved her farming techniques, prompting a 20% increase in yield. At the same time, Champei has increased her income through fair pricing and access to market. She now earns premium prices for her organic products. The pandemic

also drove up prices for organic rice, further improving her bottom line. Her success illustrates how IIX’s Women’s Livelihood Bonds are helping empower women in underserved communities.

Amru Rice has implemented an ambitious training program across Cambodia to teach thousands of farmers on better water usage, thus increasing yield and reducing impact on the land.

The WLB2 proceeds are supporting women-focused SMEs like Amru Rice to push ahead on other innovations to lower its environmental profile. It has begun to experiment with more climate-resilient rice varieties that are capable of dealing with the impact of climate change, including swings of excessive rain and periods of drought. It is also rolling out solar panels to power some of its warehouses and other facilities to help with milling and drying while drawing less electricity from Cambodia’s often unreliable power grid.

This is fantastic testament to how investing in women’s economic resilience through products like the WLB can help create greener supply chains in emerging markets and builds food security across the world.



Impact Measurement



WHAT

The WLB2 brings a gender-focused capital markets product front and center by pooling a group of high impact enterprises focused on women empowerment and creating a portfolio that balances risk, return, and impact.



WHO

Women entrepreneurs from low-income, rural or marginalized communities in SE Asia.



EXPECTATION/TIMING

100,000 direct women beneficiaries and 250,000 total (direct and indirect) beneficiaries. WLB2 expects to generate a Social Return on Investment¹ of at least 3.0, or \$3 of social value for every \$1 of investment capital mobilized.



INVESTMENT CONTRIBUTION

Dollars leveraged directly and indirectly—\$1.5 million toward \$10.5 million in additional funding for WLB2.



KEY IMPACT RISKS

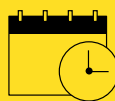
Underrepresentation/underservice of lower-income people.



INVESTMENT TYPE
Intermediated Equity



PURPOSE
Addressing Global Inequities & Expanding Access to Healthcare and Financial Services



YEAR OF INVESTMENT
2019



ZERO GAP FUND CATALYTIC INVESTMENT
\$3M



ROLE OF CATALYTIC CAPITAL
The ZGF leveraged its investment contribution through the creation of an innovative insurance product focused on addressing tail-end performance risks to mobilize additional private capital toward investment in low-income emerging consumers.



PRIVATE CAPITAL MOBILIZED TO DATE
\$270M



LEVERAGE RATIO
90x



GEOGRAPHY
Africa and Asia



SDGs

LeapFrog

Equity investment alongside the first of its kind blended finance insurance tool

In emerging markets, low-income consumers are largely deprived of essential services such as healthcare and access to financial services. For example, over two-thirds of adults in emerging markets do not have a bank account at a formal financial institution.² Without a formal bank account, individuals lack access to a broader range of services, such as savings accounts and insurance products, that provide critical safety nets to escape extreme poverty in case of financial or health shocks. Moreover, most of the health expenditure in emerging markets is driven by out-of-pocket spending, compared to just 13% in developed markets.³ As a consequence, there is enormous inequity in access to healthcare services, with the poor and vulnerable often deprived of meeting their essential needs.

LeapFrog’s Emerging Consumer Fund III—the largest-ever private equity fund by a dedicated impact fund manager—is focused on providing affordable products for the over two billion emerging, low-income consumers across Africa and Asia. The Fund focuses on scaling companies whose products and services improve productivity, enable future planning, and enhance the resilience of vulnerable populations in the face of financial and health shocks. In total, the Fund targets 70 million low-income consumers across Africa and Asia through the deployment of \$743 million in portfolio companies that deliver meaningful social impact.

LeapFrog’s Emerging Consumer Fund III invests in businesses that serve low-income individuals and communities across 149 countries. These companies offer crucial access to insurance, savings, credit, pensions, medicines, and healthcare services to 67.1 million people—most of whom earn less than \$2-10 a day and are often accessing these critical services for the first time.

The ZGF investment served as a catalyst for other investors to come in with significantly larger inputs, thereby leveraging our impact reach. The Covid-19 pandemic proved to be challenging across the region as economic and health pressures grew. Fund III portfolio companies have so far enabled over 17,000 quality jobs and delivered impact by scaling highly needed protection and empowerment amid the pandemic. The Fund made significant progress towards achieving its impact targets and collectively reached over 52 million underserved people and households across the financial and healthcare industry.

Over 2020, Emerging Consumer Fund III continued deploying and now stands with ten portfolio companies. The Fund’s best performing assets remained those focused on tech-enabled healthcare, insurance, and remittances, which have performed well as consumers move away from traditional business models, in the wake of Covid-19. The year saw good overall growth, with average local currency unit (LCU) compound annual growth rate (CAGR) growth rate of 12.8% in revenue⁴ and 22.9% in emerging consumers reached.

The Zero Gap Fund’s investment in LeapFrog Fund III targets tail-end risks of the traditional private equity fund model, unlocking \$270 million in institutional capital for high-impact enterprises serving low-income emerging consumers.



Impact Spotlight

Insurance in Indonesia and Genetic Testing in India

LeapFrog has a large roster of investments, but two stand out for showing strength and flexibility during a tough year—one in Indonesia, the other in India.

The Indonesian tech firm PasarPolis serves as a digital broker for insurance products across a wide swath of sectors in several countries. As an insurance broker, PasarPolis’s customers are its partners that distribute and sell its policies to consumers. Its business model is entirely digital, instant and simple: a system designed to expand access to insurance for all walks of life, including communities in remote and underprivileged areas.

Over the past year, PasarPolis developed a range of new offerings, including specific Covid-19 policies, that provided an enhanced safety net for consumers. These new products fit well with the company’s mission to offer first-time insurance buyers a diversity of micro insurance products and to revolutionize insurance so that protection can be accessed more easily, quickly, and on target by utilizing the latest technology. PasarPolis established itself in Indonesia in 2015, expanding in recent years into Vietnam and Thailand.

MedGenome, meanwhile, is India’s leading genetic diagnostics, research, and data company. The company has used that leadership perch and its various research partnerships to build the largest database of South Asian genetic variants.



In 2020, the company launched over 10 different genetic tests and rolled out a novel Covid-19 test to help combat the surge of cases in India. They have also developed a genetic screen to assess the risk for cardiovascular diseases, which are accelerating across India and will likely affect over 10% of the population.

MedGenome’s work carries huge potential for medical breakthroughs in all areas of health, from cancer treatment and diabetes to heart care and ophthalmology. At the same time, the company has established genome centers in several Indian cities to help patients increase awareness of health risks through personalized medical care.

LeapFrog has partnered with MedGenome with the ambition towards expanding affordable diagnostic services more widely across India, as well as further in Asia, the Middle East and Africa. The company has drawn investments globally and is now looking to raise another \$31 million in a new round of fundraising.

Impact Measurement



WHAT
Invest in businesses that provide affordable, high-impact healthcare and financial services for low-income consumers and communities in emerging markets.



WHO
“Emerging Consumers” in sub-Saharan Africa, South Asia, and Southeast Asia, whose daily per capita income is between \$2.72 and \$10.67 and MSMEs that employ between 5 and 100 people.



EXPECTATION/TIMING
Serve 70 million Emerging Consumers by 2029.



INVESTMENT CONTRIBUTION
Dollars leveraged directly and indirectly—\$3 million toward \$270 million in additional funding.



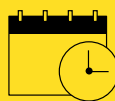
KEY IMPACT RISKS
Ensure the most vulnerable and low-income consumers gain access to key products and services.



INVESTMENT TYPE
Direct Equity & Intermediated Debt



PURPOSE
Education Financing Reducing Inequality



YEAR OF INVESTMENT
2018



ZERO GAP FUND CATALYTIC INVESTMENT
\$4M



ROLE OF CATALYTIC CAPITAL
Augmenting Sixup’s lending capacity and providing balance sheet capital to extend the company’s runway towards its next round of financing.



PRIVATE CAPITAL MOBILIZED TO DATE
\$26M



LEVERAGE RATIO
7x



GEOGRAPHY
United States



Sixup

Creating a new asset class that mobilizes institutional capital to an underserved market

High-achieving, low-income students often struggle to finance their college education. Without sufficient funding, pathways to the best colleges and to the economic opportunities that flow from a top college degree remain out of reach, even when these students qualify for traditional loans or other support. Access to finance remains the top barrier for low-income students seeking education. Federal data shows that around seven million high-achieving, low-income students get into college yet cannot afford the cost of tuition, room and board, even with assistance. One recent survey found that more than four in ten college students face food insecurity, while more than half struggle to afford housing. This out-of-pocket gap can range from \$5,000 to \$15,000 a year—resulting in a national tuition funding gap of around \$70 billion annually.⁵

Sixup, an online lending platform for high-achieving, low-income students, helps fill the financial gap students face when other forms of tuition assistance fall short and when traditional student loans are hard to acquire, often need a co-signer and do not cover all funding needs. Sixup disrupts current underwriting models by tapping into data analytics and a range of wraparound services to support a student’s education and early career through the entire

loan cycle. Sixup’s methodology of investing in students (“upfunding”) to attend better schools positions the student (“upmatching”) to achieve better outcomes. Data shows that when students choose their highest quality option, they have 6x lower default rates and 6x higher graduation rates.⁶

The multitude of Covid-19 challenges hit colleges and universities especially hard as their entire education model went remote, sending students home and further exposing deep inequities. Beyond adjusting to at-home learning, many students faced the grim reality of pending loan debt in a Covid-19 job market.

Low-income students, the core of Sixup’s business ethos, have proven resilient in the face of adversity and push to remote learning caused by Covid-19 restrictions. Thanks to a combination of student grit, and Sixup’s move to automatically enroll them in a temporary Covid-deferral program and access additional support services not offered by your typical lender, the students are in a stronger position to return to classes in person.

The company itself was not immune to the difficulties of the pandemic as they navigated fundraising headwinds. By the end of 2020, the team secured additional financing to continue to build out their operations and strengthen the team through 2021. Sixup’s expansion will lead to more loans for the next-generation of leaders while proving Sixup’s unique credit model of placing more value on academic achievement instead of FICO history.

With big-data analytics to facilitate underwriting and enhance loan performance, Sixup presents a financing model for funding high-achieving, low-income students who lack access to traditional credit.



Impact Spotlight

Providing a Bridge for the Resourceful Student

Hayley knew exactly what she wanted from her college education: a respected political science degree that would set her up for law school.

As a goal-oriented, high-achiever, she had one public school in mind that met all her needs. She got accepted, but soon faced another challenge: the school was in another state, and thus far more expensive.

Her parents’ offer to provide some support fell far short of what she would need for tuition and expenses. That left her one good option. She would crimp and work for her first year to prove herself financially independent and qualify for in-state tuition. She worked 30 hours a week in an on-campus job and obtained a Federal Stafford Loan. But that still would not cover her financial needs.

Her next step was to hunt for student loans. This is where things got still trickier, and where Sixup filled the gap.

Low-income students know that the financing space is littered with catch-22’s. Either you need a strong credit-history or a co-signer – which can both be impossible for a student requiring loans, given life circumstances or age. In Hayley’s case, she did not have that credit-history and a co-signer would make her ineligible for future in-state status.

Thanks to the magic of the digital age and a well-placed YouTube Ad, Hayley found Sixup.



“I applied to so many places for a loan – ones that said that ‘maybe, sometimes we don’t require a cosigner.’ But Sixup was the only place that approved me.”

Because Sixup was developed with low-income or self-reliant students like Hayley in mind, they do things a bit differently. They emphasize student achievement and take note of the wider contours of a student’s life rather than simply seeking a credit-history. And to Hayley’s distinct relief, they don’t require a co-signer.

Sixup gave her a loan that filled the necessary financial gap.

Now embarking on the third year of her studies, Hayley officially secured in-state tuition, is on track to graduate early with high marks, and still has her sights set on law school. Though it took tremendous time-management, coordination, and maneuvering to fund her dreams, Hayley is clear that she made the right choice and recognizes Sixup’s critical role in unlocking her future.

“Because I was able to get that student loan from Sixup, I was able to attend my university. Sixup was instrumental to be able to pursue my education.”

Impact Measurement



WHAT
Bridge the financing gap that prevents low-income students from attending four-year colleges by identifying, underwriting, and incubating undervalued students.



WHO
High-achieving, low-income students who are underserved and underfunded. Often first-generation students and students of color.



EXPECTATION/TIMING
Decrease the number of low-income students that are accepted but cannot afford to higher education and close the degree attainment gap between high- and low-income adults.



INVESTMENT CONTRIBUTION
Dollars leveraged directly and indirectly—\$3 million toward \$26 million in additional funding.



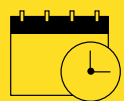
KEY IMPACT RISKS
Student over-indebtedness.
Sixup solvency.



INVESTMENT TYPE
Intermediated Equity



PURPOSE
Climate Adaptation



YEAR OF INVESTMENT
2019



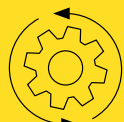
ZERO GAP FUND CATALYTIC INVESTMENT
\$4M



ROLE OF CATALYTIC CAPITAL
ZGF was the first private investor in the Fund and gave credibility to a new fund manager seeking to catalyze a novel strategy in impact-driven growth equity in climate adaptation.



PRIVATE CAPITAL MOBILIZED TO DATE
\$108M



LEVERAGE RATIO
26x



GEOGRAPHY
Global



CRAFT

Pioneering a new strategy in climate finance and scaling investment into global climate adaptation technologies

Efforts to combat climate change have spawned a multitude of investment opportunities and garnered global attention. Investments into climate adaptation and resilience, on the other hand, have received far less focus and funding. Despite widespread agreement that diminishing the harm wrought by climate change will be increasingly vital in the years ahead, climate adaptation efforts now receive just 6% of all climate finance flows—the vast majority of which comes from public sector funders.

In late 2019, the Zero Gap Fund teamed up with Lightsmith Group to address this funding imbalance. Together with other investors, they launched the first-ever private sector investment fund focused exclusively on climate adaptation. If successful, this financing vehicle—known by its acronym,

CRAFT— will help to open a new avenue for investing in a growing array of climate adaptation and resilience services companies. The chief insight of the CRAFT approach is that technologies to address climate change currently exist, presenting a compelling investment opportunity when expanded across developed and developing regions alike. CRAFT’s mission is to fund, facilitate, and steward this growth to maximize its potential for profit and public good.

CRAFT’s founders believe the fund will pave the way for similar strategies to flourish in the near future, without need for concessional funding. In 2020, UNEP estimated the costs of adapting to climate change to be up to \$300 billion per year in developing countries alone. The need for climate adaptation is greater than ever, and CRAFT is demonstrating one strategy to drive much-needed capital towards climate resilience globally. Despite COVID disrupting deployment, CRAFT continues to uncover a strong pipeline of climate adaptation investment opportunities, including software companies with digital mapping, risk analytics, and geospatial intelligence applications related to assessing climate impacts in agriculture, consumer goods, and shipping/logistics, and companies with physical products and services for more resilient water, energy, and food and agriculture.

In mid-2020, CRAFT closed its first investment into SOURCE Global, a renewably-powered water harvesting technology company and Public Benefit Corporation.

CRAFT, the first-ever private investment fund for climate adaptation, accelerates capital flows to a new generation of companies that build community resilience.



Impact Spotlight
Bringing Water to Navajo Nation

Pulling water from the air in one of the driest places in the world may sound like magic. Even more so when it’s done entirely with energy and heat from the sun.

That is what Arizona-based SOURCE Global is doing on the Navajo Nation for far-flung households that have never had access to clean and safe drinking water. Backed by a \$16 million investment from CRAFT, SOURCE’s breakthrough hydropanels have changed daily life for dozens of Navajo residents like Abbie Rose Nez, who lives alone in a small house on the vast reservation and has always had to bring water in from afar.

Hers is one of 506 homes in the community that will soon have access to reliable fresh water through compact panels designed to extract water from the air using solar power. A single panel can offset up to 54,750 plastic bottles over its 15-year lifetime.

Of the 175,000 or so people who live on the parched Navajo Nation, about 40% have no access to reliable water and must haul it by car. That is expensive, wasteful and carbon intensive. Once the panels are in place, the water from SOURCE’s hydropanels is none of those.

“This is an elegant solution to a lot of problems,” said Rob Bartrop, Chief Revenue Officer for SOURCE, Global, PBC. “This is an endlessly replenishable supply. We can pull pure water out of the air no matter how dry it is and no matter what the air quality.”

SOURCE’s panels are now in use in dozens of countries, supplying not just households but also businesses, schools, remote work locations, hospitals, and entire communities in water-challenged environments. In many communities, the onerous task of water gathering falls heaviest on women and girls, so this technology can liberate them for better uses of their time and energy.

“This technology is the sort of thing that illustrates the distinction between incremental change and a systemic transformational approach to the climate crisis,” said Lightsmith co-founder and managing director, Jay Koh.

SOURCE has made strides so far this year to bring clean water to underserved communities in the U.S. In addition to the Navajo project and many others, it has installed panels at a community center as a demonstration project in Allensworth, CA, a town originally settled by Black leaders in the early 1900s also facing water contamination exacerbated by climate change. It completed a similar project for a church in Florence, South Carolina.

On a far larger scale, SOURCE has recently completed a water farm of 200 panels to distribute water through a community dispenser to the Confederated Tribes of Warm Springs, Oregon. In addition to installing hydropanels on 50 homes located farther away from the community center.

Impact Measurement



WHAT
Global private equity fund focused on climate adaptation.



WHO
Direct and indirect impacts on poor and vulnerable populations through accelerated expansion and deployment of ‘climate resilience solutions.



EXPECTATION/TIMING
Focus on technologies that can be scaled rapidly.



INVESTMENT CONTRIBUTION
Dollars leveraged directly and indirectly—\$4 million mobilizing \$108 million in additional funding.



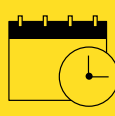
KEY IMPACT RISKS
Possibility of funding low- or negative-impact companies.



INVESTMENT TYPE
Direct Equity



PURPOSE
Increased access to funding for minority-owned businesses



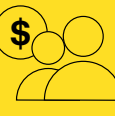
YEAR OF INVESTMENT
2020



ZERO GAP FUND CATALYTIC INVESTMENT
\$1.5M



ROLE OF CATALYTIC CAPITAL
Direct investment into an innovative revenue-based lending platform to provide an operational track record that demonstrates the credit model and mobilizes at least \$100M towards minority-led small and medium sized businesses in the United States.



PRIVATE CAPITAL MOBILIZED TO DATE
\$107.5M



LEVERAGE RATIO
72x



GEOGRAPHY
United States



Founders First

Enhancing bankability and access to capital for minority-led entrepreneurs with revenue-based financing

The Challenge

Access to capital is one of the primary barriers facing small businesses in the United States. More than 80% of entrepreneurs cannot access private capital during the startup phase of their business. Structural issues within the capital markets have left millions of small and medium sized enterprises (SMEs) woefully underfunded – an estimated funding gap of up to \$90 billion.⁷

For minority entrepreneurs, this paradigm creates a disproportionate challenge. Minority-owned businesses tend to pay higher interest rates compared to their non-minority counterparts, are less likely to receive bank credit or venture capital, and often forgo applying for loans for fear of rejection. A recent study found that new black-owned businesses start with almost three times less in terms of overall capital compared to new white-owned businesses – a gap that remains until a start-up’s seventh year of operation. Likewise, women have been shown to use significantly less capital at startup than men and are less likely to apply for bank loans, despite research showing nearly identical approval rates.⁸

Meeting the Challenge

In addressing this challenge, the small business funding landscape requires alternative credit models better suited to fit the operational needs and risk profile of typical SMEs.

Founders First is addressing this gap by offering businesses revenue-based financing, an innovative funding instrument that generally requires entrepreneurs to pay a fixed percentage of revenue up to a predetermined cap. This solution offers minority-owned small businesses an attractive alternative that aligns with business performance, self-liquidates, and avoids ownership dilution for small business proprietors.

Founder First funds service-based companies generating annual revenues of \$250K to \$5M that are led by women, military veterans, LGBTQ+ and BIPOC founders, offering them more flexible growth capital than traditional bank debt. The financing seeks to position businesses for scale and demonstrate the value proposition in supporting minority-led small businesses.

In addition to capital, Founders First pairs financing with hands-on technical assistance through its accelerator program, Founders First Community Development Corporation (CDC). From 2018 through August 2019 the Founders First CDC customers were 80% women; 70% people of color; 55% women of color; 20% veterans; 71% in low-to-moderate income areas; 85% under \$1 million annual revenues.

Scaling it Up

In November of 2019, Founders First closed on a \$100 million credit facility from Community Investment Management (CIM). With funding through the Zero Gap Fund, Founders First will have the necessary growth capital to build the operating capacity to execute the CIM credit line and expand the Company’s national footprint. The new funding will enable the Company to provide revenue-based lending to as many as 250 small businesses with an average transaction size of \$250,000.

Among the 400 companies that have gone through the Founders First accelerator programs, 83% reported increased revenues in 12 months and 53% reported increased revenues by 25% in 6 months. As of Summer 2021, 3 companies working with Founders First have been recognized by Inc. 5000 as among America’s fastest-growing private companies.



Impact Spotlight
**Onshore
Technology
& Cyber
Warfighters
Group**

Sometimes, success brings its own forms of hardship and challenge, as Valarie King-Bailey learned well last year. The chief executive officer of OnShore Technology Group, a black-owned Chicago-based consulting company, was experiencing such rapid growth in 2020 that she needed help to expand her staff.

So she turned to Founders First, who came through with a \$250,000 revenue-based loan that allowed her to hire the specialists she needed to test and validate corporate software systems. Onshore, recently recognized by Inc. 5000, has a large roster of clients in the life-science industry, including Moderna, so her business took off in the months after Covid-19 hit.

Companies racing to begin developing vaccines and other drugs turned to OnShore to get them through various regulatory approval steps.

“I was drinking from a firehose and was in desperate need of new staff,” Valerie said. “That investment from Founders First meant the world to me.” Her revenues doubled last year, to \$4 million, and are on track to top \$5 million this year. With follow-up funding from Founders First, Onshore will acquire a software platform that will help scale their solutions into the life science market. With this investment they will get access to \$1 million in growth capital.

Tahjar Roarmartinez turned to Founders First for quite different reasons. The founder of a company called Cyber Warfighters Group, which offers full-service digital security analysis and protection to all types of enterprises, was relatively new to the corporate world. She had spent 22 years as a communications officer in the U.S. Army, including four deployments to Iraq.

Launched in 2018, the company has grown well: She now has 15 fulltime employees, 25 contractors and clients that include banks, utilities, and hospitals. But Roarmartinez suspected her profit margins were too thin and she was not properly focused on the most lucrative aspects of what she did.

So, for nearly three months, she went through a series of Founders First accelerator classes at night, which culminated with her having to pitch her company to investors in a competition among other students. She came in third.

“The program gave me real applicable knowledge that I could implement right then and there,” Roarmartinez said. “It had me niche down, and really understand my strengths, so I could scale up.”

The Founders First program convinced her to switch sales approach to a subscription model, where clients would hire her indefinitely for a set fee per month. “They gave me some very practical tools to fine tune the strong things that I had in my business,” she said. “They helped me understand much better that I am a businessperson who happens to be an engineer, not an engineer trying to run a business.”

Impact Measurement



WHAT

Fill the funding gap for underserved businesses or business owned by underserved persons with flexible, non-dilutive, revenue-based lending.



WHO

Target 75% of loans to businesses led by women, ethnic minorities, military veterans, LGBTQ, or operate in low to moderate income areas, and lending to small businesses located outside major capital hubs with diverse founders.



EXPECTATION/TIMING

Serve up to 250 small and medium businesses that are underserved businesses or owned and operated by underserved persons by 2024.



INVESTMENT CONTRIBUTION

Dollars leveraged directly and indirectly—\$1.5 million toward \$100 million in additional funding.



KEY IMPACT RISKS

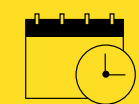
Various factors may impact growth of Founders First Capital Partners’ (FFCP) portfolio companies or their ability to execute.



INVESTMENT TYPE
Intermediated Debt



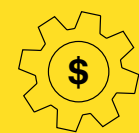
PURPOSE
BIPOC Wealth Creation



YEAR OF INVESTMENT
Juneteenth – 2021



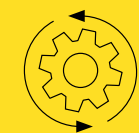
ZERO GAP FUND CATALYTIC INVESTMENT
\$3M



ROLE OF CATALYTIC CAPITAL
Anchor new A&H fund managers (majority BIPOC) and flagship Legacy 1 fund to send strong impact signal to the market and catalyze engagement from other tentative early partner, including reputable organizations with a history of addressing income and opportunity inequality.



PRIVATE CAPITAL MOBILIZED TO DATE
\$27M



LEVERAGE RATIO
9x



GEOGRAPHY
United States



New to The Zero Gap Fund in 2021



Apis & Heritage
Preserve jobs and build wealth among Black, Indigenous, People of Color (BIPOC) populations in the USA through employee ownership

The Challenge

The United States suffers from extraordinary inequality of income and wealth along racial lines. In 2019, the median white family had nearly eight times the wealth of the typical Black family, and five times the wealth of the typical Hispanic family.⁹ Furthermore, 60 percent of Black workers and 75 percent of Latinx workers retire with no retirement assets.¹⁰ The benefits of at least some wealth accumulation are dramatic across all fronts. Wealth enables housing security, stability through financial shocks, risk-taking in pursuit of upward mobility, and a more comfortable retirement.

Meeting the Challenge

Asset ownership is a key driver of wealth accumulation, helping decrease the racial wealth gap among Black, Indigenous, and People of Color (BIPOC) communities. There are two main ways to begin to build wealth in America - to own one’s home or to own one’s business. Apis & Heritage offers an innovative mechanism for business-asset ownership – the BIPOC-led private equity fund has developed an “employee-led buyout” (ELBO) model that gives retiring

owners a fair market price for their businesses, often with significant tax advantages, as employees become the employee/owners of the business with A&H’s assistance. The A&H Legacy Fund I implements a unique racial equity lens in their screening criteria to enable job preservation and asset transfer for low-income and BIPOC workers via employee stock ownership plan (ESOP) conversions. The employee ownership structure is designed to bring greater returns to workers, rather than concentrating equity appreciation among a few at the top. This strategy protects jobs at risk of being lost in a sale to a competitor or a private equity investor, provides stability and builds wealth for workers.

Resource constraints—of expertise as well as capital—prevent employee ownership from being used as an explicit racial equity strategy. The A&H model directly addresses these capital and technical assistance gaps by mobilizing the professional ESOP industry to specifically benefit the owners of color and BIPOC communities. A&H partners with advisers well versed in the world of employee ownership to help counsel new ownership teams on appropriate types of accounting and governance. Research suggests that these cultural and governance practices lead to companies that are more durable, earn higher profits, pay employee-owners higher wages, and retain staff for longer.

Scaling it up

Baby boomers (age 55+) own 2.3M US businesses and only 17% of those have succession plans. In what is often called the ‘Silver Tsunami,’ 60% of these businesses are expected to close or be sold before 2030. This creates a huge impact and investment opportunity for A&H over the next 20 years, potentially building wealth for tens of thousands of workers of color, their families and their communities. A&H’s streamlined process appeals to retiring owners looking for a complete exit and legacy preservation. Fund I is targeting a \$25-40 million launch fund, but given the success of its first close at \$25+ million with ZGF’s help, A&H now hopes to reach its maximum fund size of \$50 million, thus driving more wealth to BIPOC workers if successful.



Impact Spotlight

All Eyes on the Racial Wealth Gap

Before they founded Apis & Heritage Capital Partners (A&H) to address the racial wealth gap head on, Todd Leverette and Philip Reeves did many things: worked on Wall Street, advised investment firms, sold residential real estate, helped small businesses get underway. Nothing before, though, promises to have the impact of their current business plan, which will begin to show its first results later this year.

“These are life-changing, paradigm-shifting, wealth-changing things that we’re looking to do through this first fund,” said Todd, who is an A&H partner, along with Philip.

Both see A&H as the culmination of their many years in finance, but also a distillation of their thinking on what is really needed to address economic inequities in American society.

“Our idea is to use the tools of big finance and the tools of employee ownership to help businesses survive and thrive, but also to build wealth for the workers in those businesses,” said Phillip.

Using capital supplied by the ZGF and other investors, A&H aims to buy out at least eight company owners in its first five years, turning at least 500 workers at those

companies into owners. A&H is targeting companies where at least 40% of its workforce are workers of color. This investment is another instance of the ZGF seeking to support companies using innovative financial tools to advance racial equity and justice in the U.S.

The A&H model aims to help the workers in the companies it invests in build between \$70,000 and \$120,000 in their retirement accounts, not counting any savings assembled within a traditional 401k. At the start, A&H will target companies involved in sectors such as waste hauling, landscaping, elder care, commercial cleaning, and food processing, where the share of workers of color is high.

Todd and Philip first met as students at Morehouse College in Atlanta, the alma mater of Martin Luther King Jr. The idea for A&H began percolating when Todd was consulting for a nonprofit that focused on employee ownership as a racial equity tool, specifically in Detroit. He then went on to work for the Democracy at Work Institute, which helped incubate the fund.

“We then came to the conclusion that we needed to bring real capital to this space, if we actually want to scale it,” Todd said.

Aside from home ownership, owning a business or part of a business is one of the surest paths to long-term wealth creation not just for that owner, but for generations to come.



Impact Measurement



WHAT
Reduce the racial wealth gap by creating equity, engagement and security for BIPOC workers by investing in profitable small companies with meaningful BIPOC workforces and transitioning them to 100% employee-ownership.



WHO
Workers of color in essential services and other businesses that have large representation of workers of color.



EXPECTATION/TIMING
500+ workers over 10 years will own enterprises worth approximately \$35 million.



INVESTMENT CONTRIBUTION
Dollars leveraged directly and indirectly – \$3M toward \$35M in additional investment into the Apis & Heritage Legacy Fund I.



KEY IMPACT RISKS
Underperformance of enterprises owned by the workers of color and attendant lessening of value of their ESOP accounts.

The Rockefeller Foundation
Impact Investment Management

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Rockefellerfoundation.org

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Footnotes

- 1

SROI ratio calculated by dividing the discounted value of benefits by total investment <https://socialvalueuk.org/wp-content/uploads/2016/03/The%20Guide%20to%20Social%20Return%20on%20Investment%202015.pdf>
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- 3

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Includes companies held in the portfolio for 2+ years
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- 7

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Fairlie et al. (2017), using Kauffman Firm Survey data]
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SOURCE Global, PBC



The
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