



BII FUND II EXECUTIVE SUMMARY

OVERVIEW

About BII

Boston Impact Initiative Fund (BII) is a nonprofit impact investing fund working to build a future where entrepreneurs of color and their communities have the financial, social and political power to create a sustainable, inclusive and equitable economy for generations to come. We're also working to transform the impact investing field through field-building and education so that economic and racial justice becomes integral to any place-based investment strategy. As of July 31, 2022, BII Fund I has deployed \$7.7 million in total, with \$6.9 million in debt and equity investments into 50 enterprises, awarded \$860,000 in grants, and is on track to pay back all of its investors.

BII Fund II

BII is launching Fund II, a \$20 million debt fund that will invest integrated capital— primarily patient equity — into early stage social enterprises owned by entrepreneurs of color and community-controlled real estate in Massachusetts and the Northeast. We will build on BII's track record of innovation in integrated capital tools including debt and equity transactions, structured exits, impact covenants and integrated returns at the investment level. By using catalytic, integrated capital, we can help level the playing field for entrepreneurs of color, have an outsized impact on our portfolio and the broader community, and set a new standard for what impact equity investment looks like.

PROBLEM: RACIAL WEALTH GAP IS WIDENING

By 2045, communities of color (Black, Latino, Asian and Indigenous) will become the new majority of our country—our workforce, our electorate, and our economy. But each of those systems is still set up to work against those communities.

- In MA and the US, the average Black and Latino household owns only 15-20% as much net wealth as the average White family. (FRB)
- Blacks and Latinos make up more than a fifth of the MA population, but own just 3% of businesses with employees (2018 Census).
- Across New England, the top 1% of earners make 30 - 40 times more than the bottom 99% (EPI)

BII is reimagining those systems so our economy works for everyone.

NEED FOR INTEGRATED CAPITAL

The mismatch in capital supply and demand has created a large unmet need for equity financing for enterprises owned by entrepreneurs of color.

- Massachusetts Black & Latino entrepreneurs have an unmet capital demand of \$574M annually, 25% of which is for equity capital (Color of the Capital Gap Report)
- Venture capital accounts for 93% of early-stage equity investment, yet 2.4% of venture capital is invested in Black & Latino founders in the U.S. and only 0.4% went to Black owned startups in MA in 2021 (Crunchbase)
- Less than 2% of community-based funds (CDFIs and nonprofit lenders) offer equity financing or integrated capital (ThirdWay)

INVESTMENT STRATEGY

Fund Thesis

We believe we can build a future where entrepreneurs of color and their communities have the financial, social and political power to create a sustainable, inclusive and equitable economy. We will do this by investing integrated capital —primarily patient, non-extractive equity capital —in social enterprises and community-controlled real estate to increase wealth and asset-building opportunities for communities of color.

Integrated Capital Approach

The heart of our approach is the deployment of integrated capital—which we define as financial, social and political capital.

- In our investing strategy, integrated capital means blending investment types—grants, debt, equity—to meet entrepreneurs and their enterprises where they are.
- In our impact management, we measure integrated returns, recognizing that social, ecological and governance impact metrics are as critical as financial ones.
- In our field-building work, integrated capital includes knowledge, social and political capital for entrepreneurs and emerging fund managers.
- In our fund structure, integrated capital leverages multiple capital sources to allow for investment by accredited, non-accredited (community) and philanthropic investors.



Investment Criteria

- Ownership and leadership: people of color
- Stage: Pre-Seed to Series A (for equity deals)
- Impact: Builds financial, social and political power for communities of color
- Investment Size: \$100K - \$2M
- Location: Massachusetts and the Northeast

Investment Themes

Though BII Fund II is sector agnostic, the Fund will prioritize investments in the following for profit and nonprofit organizations and real estate projects:

Social Enterprises Owned by People of Color

Addresses an unmet need or issue affecting communities of color.

Builds climate resilience and expands clean energy products, services and solutions that help communities of color adapt to climate change

Grows worker or community power and voice, including co-ops, worker-owned and unionized businesses.

Community-Owned or Controlled Real Estate

Increases diverse ownership and control over buildings and land, while preventing displacement – both commercial and residential.

Adds tranches of community ownership in real estate.

Fund II seeks to challenge existing equity investment norms by expanding access to early-stage financing to entrepreneurs of color that are aligned with principles of the Solidarity Economy.

Our vital investment capital will help grow these businesses, while democratizing wealth and power, increasing sustainability, and driving racial equity. As a result, communities of color in Massachusetts will build intergenerational wealth and collective power through regenerative business ownership and real estate assets.

INVESTMENT MIX

	Small Business Equity	Small Business Debt	Real Estate Debt & Equity
Percentage of Portfolio	50%	15%	35%
Investment Type	Preferred Common Convertible Notes SAFEs	Secured Unsecured Lines of Credit Royalty	Equity Debt Bridge
Target # of Investments	25-30	10-15	7-10
Investment Size	\$100K - \$1M	\$100K - \$500K	\$500K - \$2M
Target Return	1.5 - 3x	5% - 7%	3% - 7% (Debt) 1.4% - 2x (Equity)

Impact Outcomes

We will measure the impact of our investments to determine progress towards:

- Increased wealth and asset-building opportunities for communities of color;
- Growing social and political power for workers and communities of color;
- Innovation in new sectors led by entrepreneurs of color;
- Climate resilience in communities of color and other vulnerable populations; and
- Growth of democratically-governed businesses.

Impact Criteria and Integrated Returns

As impact investors, we evaluate investments based on four impact criteria:



We also incorporate impact measurement and management at every stage of the investment cycle: impact criteria at due diligence, impact covenants in investment structuring, and impact measurement annually during the life of the investment.

Impact Covenants

In partnership with the entrepreneur, BII may use impact covenants in some investments to create incentives for companies to meet non-financial targets. These include targets for recruiting diverse and/or local employees, paying a living wage, procuring from local and diverse vendors, and mitigating environmental impact, among others.

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Fund II is offering three classes of notes:

Note Type	Interest Rate	Maturity Date	Seniority	Min/Max Investment	% of Fund
Community Notes (non-accredited investors)	5% at inception 7% at renewal	Initial: 12/31/2027 Renewal: 12/31/2032	1st	\$1,000 - \$25,000	5% or \$1M
Solidarity Notes* (accredited investors)	3%	12/31/2032	2nd	\$10,000 - \$3M	65% or \$13M
Philanthropic Notes (accredited investors)	1%	12/31/2032	3rd	\$10,000 - \$3M	30% or \$6M

* Solidarity Note interest rates subject to a 0.5% step down for closings in 2024 and 2025.

RECOVERABLE GRANTS: For investors who prefer to invest through a recoverable grant, BII Fund II can enter into a recoverable grant agreement on economic terms similar to the Philanthropic or Solidarity Notes or as agreed by the parties. Recoverable grants will be subordinated to the payment of all Notes.

TERM AND STRUCTURE: 10-Year closed end Fund with two 1-year extensions at option of BII. Fund II will be a separate legal entity owned and managed by BII.

DEPLOYMENT FEES PAID TO BII: 1% based on committed capital during years 1-5, then 0.5% for the remaining life of the Fund.

FUND SURPLUS: After payment of all notes and fund expenses, of remaining fund surplus, 50% will be allocated to BII, and 50% to a donor advised fund (DAF) that will distribute funds to local, charitable enterprises engaged in building the Massachusetts solidarity economy.

CLOSING DATES: Beginning October 2022, Fund II will raise capital on a rolling basis with monthly closes through March 31, 2023. The Fund will then shift to quarterly closings until a final close on December 31, 2023. BII will have the right to extend the final close through December 31, 2025.

FUND II INVESTMENTS

As of November 1, 2022, BII Fund II has made six investments totaling \$1,435,000. These investments include: CareAcademy, ChopValue, East Boston Neighborhood Trust, MathTalk, TrillFit and Valley Home Insulation.

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