

Investment in Community Development and Emerging Domestic Markets

by Michael Swack

Boston Federal Reserve Bank

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Community Development Investments (Emerging Domestic Markets)

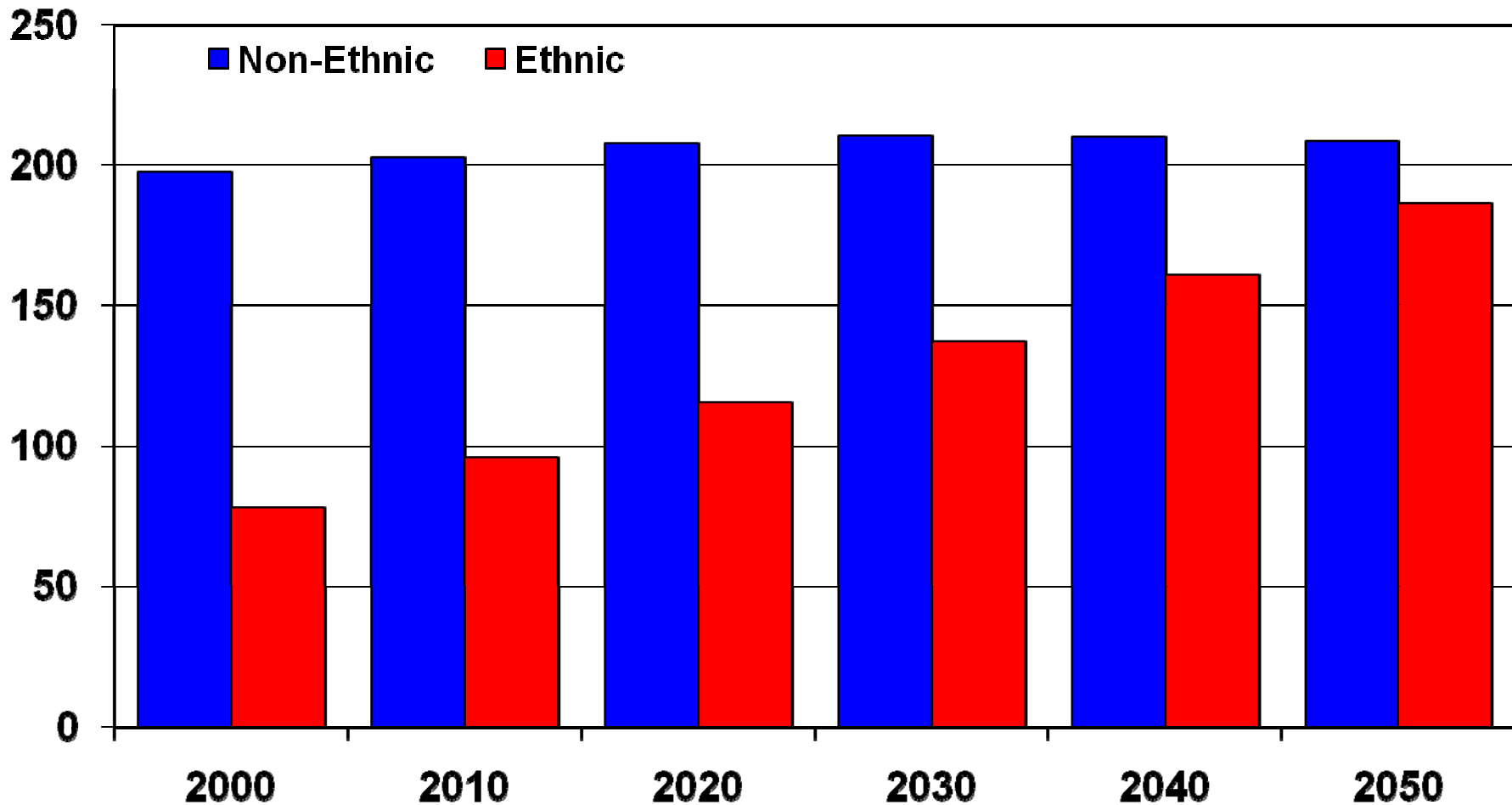
- People, places, projects or enterprises that face capital constraints as a result of imperfect market information (and/or high transaction costs)
- Over the past 25 years, proven track record of performance – demonstrated ability to assess and manage risk while producing returns to investors.

Examples of CD investment

- Companies serving low-to-moderate-income populations
- Affordable housing
- Cooperative and worker-owned businesses
- Companies that create jobs for target areas or populations
- Microfinance
- Ethnic, minority and women-owned firms

Future Population Growth Due to Ethnic Population

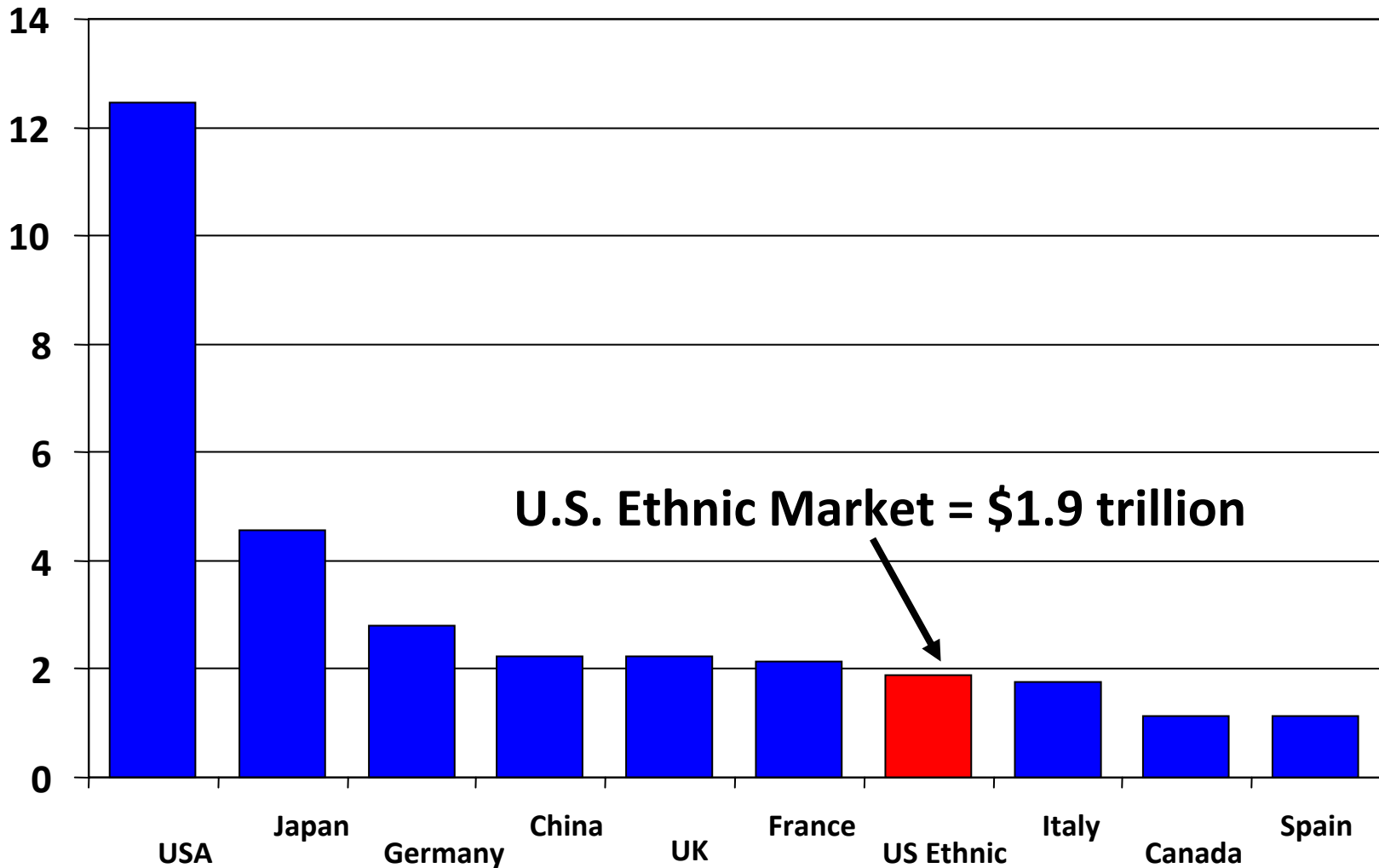
Population, Millions



U.S. Ethnic Market

World's 7th Largest Economy in 2005

GDP (Trillions of US\$)



EDM vs. International Market Opportunities

- The U.S. Hispanic consumer market is estimated to be greater than \$860 billion in 2007, about the same size as Mexico's entire economy.



- The African American consumer market is similar, approximated at \$845 billion.

- Asian Americans' buying power totals \$459 billion in 2007.

Challenges to Accessing Capital

- Lack of loan performance data
- Size & scale (amounts needed are often too small and thus incur high information and transaction costs)
- Non-standard investments (one of a kind)
- Fewer professional and social networks
- Lack of a viable secondary market

What is Active Community Development/EDM Investing?

- Investments which provide benefits to investors and state and regional economies
 - Increased Jobs
 - Business Growth
 - Economic Development
- Risk-adjusted market rate of return commensurate to rates of return on alternate investments with similar risk characteristics
- Fits with overall portfolio goals such as return, diversification, liquidity and investment policy

EDM Investment Opportunities

Across Asset Classes

- Public Equities
- Fixed Income
- Alternative Investments
 - Real Estate
 - Private Equity
- Cash

Continuum of Community Investments

				Cash	Fixed Income	Public Equity	Alternative Assets
			Community Development Venture Capital	<ul style="list-style-type: none"> • Deposits 	<ul style="list-style-type: none"> • Bonds • Bond Funds • Asset-Backed Securities 	<ul style="list-style-type: none"> • Direct Public Equity • Screened Funds 	<ul style="list-style-type: none"> • Direct Private Equity • Private Equity Funds • VC Funds • Urban Real Estate • Fund of Funds • Buyout Funds
Grants	Recoverable Grants/ Guarantees	Loans					

Philanthropic Return

Financial Return

Fixed Income

- Lower risk market-rate investments
- Spectrum of investments include simple products, such as government bonds, to more complex products, like collateralized debt obligations
- Targeted mutual funds provide capital to communities and firms that have been underserved by traditional financial markets

Targeted Private Equity

- Risk-adjusted market rate of return
- Direct investments in businesses located in or meeting needs (e.g., jobs, products and services) of geographic areas or underserved communities
- Investing is long-term; matches long-term investment focus of institutional investors
- Public Equity (Heron)

Real Estate

- Investments in real estate located in underdeveloped areas (e.g., urban cores and rural regions)
- Includes housing, commercial and industrial construction investments
- May generate multiplier effects, attracting additional investments

Cash

- Deposits in community development banks or credit unions, or minority-owned banks

Returns on Community Development /EDM Investments

- Fixed Income
 - Access Capital Strategies Community Investment Fund, Inc.
Annualized return since inception = 5.06%
- Private Equity
 - Minority-Focused Venture Capital Funds:
One study found that VC funds specializing in financing minority businesses earned a weighted average IRR of 15.4% through 2003.
- Real Estate
 - CalPERS' California Urban Real Estate (CURE):
Annualized return since inception = 20.2%

Rest of day

- F.B. Heron Foundation's experience
- Review of investment opportunities across asset classes.