

Third Quarter 2019

Quote of the Quarter

"You are never too old to set a new goal, or to dream a new dream."

— C.S. Lewis

Market Commentary – These are Good Times

Overview

- *The U.S. economy continues to outperform its peers*
- *Tax benefit of Opportunity Zone structure is powerful (400-500 bps)*
- *Clean Growth V closed on Sept 4th and is already 20% invested*

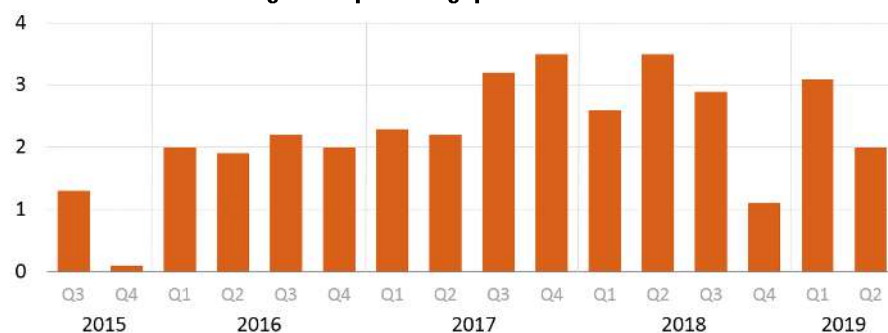
These are Good Times

Strong Economy Continues

The recent U.S. economic data is quite good, and we are optimistic about the near-term here at home. Of course, the rest of the world is a basket case—China's economy is slowing, there is unrest in Venezuela, France, Italy, Iran posting yielding debt, mortgages and "savings" accounts, etc. Global issues are holding us back a bit in the USA but, despite these headwinds, domestic growth continues. During the last few weeks, we learned the following:

- Real GDP growth has averaged 2.7% for the last eight quarters. In four of those quarters, growth was more than 3% (including two quarters at 3.5%).ⁱ

Real GDP: Percent change from preceding quarter



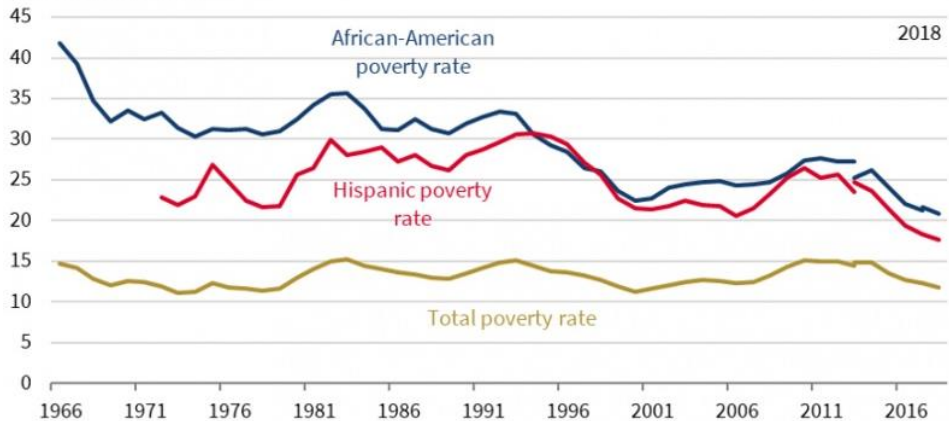
U.S. Bureau of Economic Analysis

Seasonally adjusted at annual rates

- Median income has risen to over \$63,000, the highest in nearly 20 years.ⁱⁱ
- More jobs. According to the Council of Economic Advisers, "there were 2.3 million more full-time, year-round workers in 2018 than in 2017, of which 1.6 million were women."ⁱⁱⁱ
- As incomes have risen, poverty rates have fallen, most notably among African-Americans and Hispanics. The poverty rate dropped in America for the 4th year in a row. Further, the poverty rate in 2018 was the lowest it has been in 11 years.ⁱⁱ That is great news.

Poverty Rates by Race and Ethnicity, 1966-2018

Poverty rate (percent)



Source U.S. Census Bureau and the Council of Economic Advisers.

Note: The data for 2013 and beyond reflect redesigned income questions.

- Consumer spending is up. According to Reuters on August 30: “Consumer spending, which accounts for more than two-thirds of U.S. economic activity, rose 0.6% last month after an unrevised 0.3% gain in June [latest report available] Consumer spending is being driven by a strong labor market, which is marked by the lowest unemployment rate in nearly 50 years, and better job security.”ⁱⁱⁱ
- The stock market is near all-time highs.
- Inflation remains in check. Per Fed Chairman Jay Powell’s public statements on September 18: “Over the 12 months through July, total PCE inflation was 1.4% and core inflation, which excludes volatile food and energy prices, was 1.6%.”^{iv}

But no economy is perfect. We still have 38 million people living in poverty.^v Both college and healthcare are too expensive (although the venture capital community and other free market forces are beginning to bring solutions to market). Our national debt is nearly \$23 trillion and still climbing.^{vi} Interest rates remain unusually low and while that is good for new home buyers, it is bad for savers/retirees. Yet, overall, this seems to be a great time of peace and prosperity. Let’s allow ourselves to enjoy it just a little bit and then push forward again to make this economy work for everyone.

Tax Benefit of OZ Structure is Powerful

We are excited about the sustainable infrastructure opportunities we are seeing lately, including solar, hydro, waste-to-value and energy storage projects. We are evaluating numerous projects within Opportunity Zones because there are tremendous tax benefits available for such investments that boost the return for taxable investors. Based on our preliminary analysis, a properly structured Opportunity Zone fund might outperform a traditional infrastructure fund by 400-500 bps. Our analysis used the following primary assumptions: a Minnesota investor who has capital gains available to roll into a new investment, Minnesota’s 9.8% capital gains tax, the 23.8% federal capital gains tax and the same gross IRR was used at the project level for both funds. Note that investors from states with the highest state capital gains taxes fair better in this analysis. California, Hawaii, New Jersey, Oregon, Minnesota, New York, Vermont, Iowa, Wisconsin and Maine are the top 10 in this category and are listed here from highest (13.3%) to lowest (7.15%).

Opportunity Zones were created with taxable investors in mind but non-taxable investors like community foundations also choose to participate given the societal benefits.

Real estate developers created the first funds to take advantage of the new Opportunity Zone rules. Many of these funds focus on gentrification. This sounds good but may result in bulldozing low cost housing and displacing the poor. That seems inconsistent with the intent of the new regulations. We believe an investment strategy that creates local jobs and improves the lives of people currently living in Opportunity Zones is a better path. We have been contacted by several community foundations seeking to be catalytic capital within these zones, even though they cannot utilize the tax benefits. If you part of such an organization, please contact Gretchen Postula to learn more.

Clean Growth V Final Closing at \$220 Million

We held a final closing on September 4 for Clean Growth V, with \$220 million of total commitments. This is our third impact secondaries fund and investments are off to a great start. We have deployed 20% of the fund so far and already have had several significant exits, such as Bare Snacks (dried fruit snacks) and TPI Composites (wind blades, Ticker: TPIC). We have a robust pipeline of additional investment opportunities under review, each ranging in size from \$5 million to \$70 million.

Clean Growth V is focused on making secondary investments in impact-oriented funds. This is a market we pioneered in 2013, and we are still enjoying a first-mover advantage. We are building a diversified portfolio that will span numerous industry sectors. Currently, the fund has exposure to numerous sectors, including those shown below. We are humbled by the substantial interest in this fund and grateful for the support and enthusiasm for our shared journey. Thank you to everyone who invested in Clean Growth V.



Upcoming Events

We are regular speakers and attendees at key industry events. We hope to see you at these upcoming events:

- Oct. 2-3 **Global Impact Investor Network Impact Investor Forum,**
Amsterdam, The Netherlands
thegiin.org/
- Oct. 7-9 **Sustainatopia 2019,** Washington, DC
dc2019.sustainatopia.com/
- Oct. 22-25 **SOCAP,** San Francisco, CA
socialcapitalmarkets.net/
- Oct. 29-30 **Family Office Exchange Fall Forum,** Chicago, IL
www.familyoffice.com

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ⁱ U.S. Bureau of Economic Analysis: Gross Domestic Product, Q1 2019 (Third Estimate)
<https://www.bea.gov/news/2019/gross-domestic-product-first-quarter-2019-third-estimate-corporate-profits-first-quarter>

ⁱⁱ The White House <https://www.whitehouse.gov/articles/president-trumps-policies-continue-benefit-americans-especially-disadvantaged/>

ⁱⁱⁱ Reuters: <https://www.reuters.com/article/us-usa-economy-consumers/strong-consumer-spending-propping-up-u-s-economy-idUSKCN1VK1JW>

^{iv} Federal Reserve Chairman Jay Powell, September 18
<https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20190918.pdf>

^v Food Research & Action Center <https://www.frac.org/news/millions-of-americans-continue-to-struggle-against-poverty>

^{vi} CNBC <https://www.cnbc.com/2019/09/09/real-us-debt-levels-could-be-a-shocking-2000percent-of-gdp-report-suggests.html>

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