



Redefining Finance: Innovation Insights of the Future Economy Lab[™]

END-OF-YEAR REPORT 2023



Foreword

By Natalia Arjomand

Senior Director, SecondMuse Capital

As I sit down to reflect on 2023, I am amazed at the extraordinary journey we have embarked on together at the Future Economy Lab™. This year, globally, we weathered challenges that shook the foundations of our world—events that resonated deeply in our lives and in the lives of those closest to us. Against this backdrop, coming together to write our very first end-of-year report feels like a small but significant moment for our lab.

Our journey began in late 2019, grounded in a fundamental belief: The purpose of economies should extend beyond merely generating financial gain for a select few. They must contribute positively to the human race, fortify the social fabric of communities, and champion the cause of environmental stewardship.

This belief, ever relevant, has continued to fuel our journey, guiding us through 2023, a year that highlighted the importance of our mission and the transformative potential it possesses.

We started the Future Economy Lab as an experiment; building off of more than a decade of work conducted by SecondMuse. We asked: what would it look like to collaboratively design financial mechanisms, bringing together a diverse group of stakeholders to envision the future of their economies? We imagined hosting multiple two-day in-person workshops globally, facilitating these vital conversations. However, as we all know, 2020 brought about a sudden global transformation. I vividly recall thinking that our work would be sidelined, as we were all in survival mode. For nearly three weeks, the financial world seemed to stand still, with investors pulling out of deals and doing what they could to keep their portfolio companies afloat while awaiting government response.

Like all organizations, we had to revisit our work and think critically about what was next. It was in one of the

weekly meetings with our inaugural lab partners, **The J.W. McConnell Family Foundation, La Maison d'innovation sociale, and Real Ventures**, where we recognized that we had a unique opportunity. We were at an inflection point where we could reshape our economies while rebuilding those affected and influencing the design of future ones. Capital flows play a central role in every economy and are vital for transformation, so we thought, “let’s expand our strategic and thought partners by inviting them to explore how capital can support the development of an inclusive and resilient economy in our first virtual workshop.” Since then, we have conducted 18 workshops with 332 participants across seven labs in various regions, from the United States and Canada to South and Southeast Asia. I extend my deepest gratitude to this group whose belief in and instrumental backing of our work laid the foundation for the Future Economy Lab. Their early vision not only shaped our accomplishments to date but also paved the way for the transformative work detailed in this report.

This report is not simply a summary of the year’s work; it’s a glimpse into the incredible journey we’re on together. So, as you turn these pages, we hope you feel as inspired and energized as we are. None of this work would have been possible without the support and collaboration of our core lab partners this past year, including **Goldman Sachs, Grantmakers for Girls of Color, National Cooperative Bank, One Project, Pivotal Ventures, Silver Lining, Visa Foundation, Wells Fargo, and Zebras Unite**. Your belief in us reinforced the notion that transformative ideas thrive through collaboration and a shared vision.

As we look ahead, we are only beginning to uncover what’s possible. Here’s to more breakthroughs, stronger collaborations, and future economies that we can all champion.

Happy reading!

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SECTION 01

About the Future Economy Lab™

As a company, SecondMuse Capital is committed to activating, resourcing, and accelerating economies that are both robust and inclusive. One of the ways we accomplish this is through processes like the Future Economy Lab™ (FEL) that actively involve a wide variety of local stakeholders, including investors, government entities, entrepreneurs, and community members. In today's world, economies that should be the pillars of our communities are often hampered by ingrained biases and policies favoring certain groups at the expense of others. The FEL is committed to challenging this status quo.

We hold a firm belief that economies can and should provide more than financial returns for a select few. We envision future economies that safeguard our planet, uplift all cultures and communities, and drive innovation.

In our approach we draw upon SecondMuse Group's deep, collaborative networks across a variety of sectors and industries that enhance our lab's work through technical assistance, mentorship, ecosystem partnerships, and access to additional capital. Our designs can range from debt-like to equity-like instruments and include credit enhancement, impact bonds, revenue-based financing, and more. We incorporate our design principles for financial mechanism design in all of our labs and evaluate the impact of all aspects of the investment strategy -including management, governance, area of focus and geography. We believe that the most effective impact investing solutions need to focus on *HOW* we invest as much as *WHAT* we invest in.

The FEL Process



Envision

Key Deliverable: Preliminary Landscape Map

During the envision phase, the FEL team and our partners align on the lab's scope, assign roles and responsibilities, identify stakeholders that we want to collectively engage, and kickstart our process together.



Define

Key Deliverable: Summary of Findings Report

In the define phase, we use various research tools—such as desk research, interviews, and landscape mapping—to understand the ecosystem's needs and challenges. We synthesize the data during sense-making sessions with partners and begin creating initial models of potential solutions. These are then shared with a wider stakeholder group in an interactive workshop.



Design

Key Deliverable: Investment Strategy Guide

In designing the financial mechanism, we engage with both the supply and demand sides. This strategy ensures that the designed product(s) are tailored to meet the specific needs of the diverse stakeholders with whom we collaborate. We develop an investment strategy, establish a risk framework, construct a financial model, and identify a sample pipeline of investments and potential collaborators.



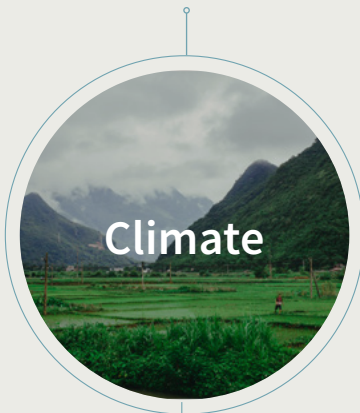
Launch

Key Deliverable: Pitch deck and other fundraising collateral

Lastly, we prepare the solution for launch. This includes creating essential collateral for fundraising, including a pitch deck, a term sheet, and a data room outline. We have several strategies for launching the product: we may partner with organizations, identify a party that has been involved in the process, or generate a Request for Proposal to pinpoint the most suitable group to bring the idea to market.

The FEL team has a wealth of diverse and seasoned experience that converges at the intersection of **impact investing, systems innovation, and sustainable development**. Below is a closer look at different areas of thematic expertise that our labs have focused on.

Our Thematic Expertise



Climate

Impactful climate solutions enable all industries to shift toward circularity and serve people most affected by climate change.

Whether to advance our goals on reduction of carbon emissions to attain a net-zero carbon economy, or to grow circular economies, we design mechanisms to address an array of climate financing gaps and projects, including early stage venture capital and blended finance.



Equitable Growth

Societies and economies will be more resilient when all humans have equitable opportunities to bring their unique brilliance into our collective future.

Whether it is to advance racial, gender and/or age equity, we work to support individuals and communities who have faced the most substantial challenges because they face more complex, systemic obstacles to success. In our work, we also prioritize solutions that are designed and led by individuals with the most lived experience of the challenges we are trying to address.



Entrepreneur Support

Entrepreneurs and small business owners are the backbone of our economies, representing vital sources of innovation, employment, and economic growth.

We specialize in designing financing instruments that are responsive to their unique financing needs, development stage, and impact objectives. This work involves the identification of risk mitigation strategies and design of innovative models across the return continuum to close financing gaps.

Design Principles

for Financial Mechanism Design

1

Design in service of demand to build resilience on the ground.

Have a demand-driven approach to financial design that is rooted on and understands the need as experienced by people and the planet. Dive in and explore assets within a community/region both prior to design and continuously throughout the life of the financial mechanism.

2

Learn relentlessly; be flexible and adaptive in design to incorporate learnings along the way.

Embrace experimentation and learning. Include and integrate a phased approach to allow for learning along the way and seek feedback constantly from our partners, investors, and businesses and projects we serve.

3

Understand and commit to inclusive participation.

Sustainable economies and innovation require participation of inclusive and diverse perspectives. Understand who is and isn't at the table and reflect on the history of this representation; design critically to include and increase participation of groups; act responsibly and with humility.

4

Incubate ideas, people, and entire ecosystems, not just businesses.

Focus on creating an enabling environment for innovations and businesses to thrive. Design in ways that support the long-term health of the whole society and the environment – not just one-off businesses.

5

Shift from a competitive to a collaborative and regenerative mindset.

In building economies, we go further together. We recognize the interdependencies of an economy and that collaboration increases innovation and decreases risk.

6

Commit to good governance models that counter traditional power dynamics.

Ensure strong governance principles are implemented at all levels. We believe that novel governance models can foster inclusivity and encourage multidirectional accountability and learning – resulting in greater resilience for businesses, funds, economies, and people.

Note: While we strive to create robust financial mechanisms, we recognize that these tools continue to evolve once they leave the lab. The following sections reflect these mechanisms at the end of our involvement and may not fully capture subsequent adaptations. We cannot be held accountable for changes made post-engagement, viewing such evolution as a testament to the flexibility and potential of the mechanisms we design.



SECTION 02

Our Numbers at a Glance

To Date, Across Our 7 Labs

The figures in this section shed light on various aspects of our FEL process. It is crucial to prevent potential misinterpretation by stressing that these numbers, while valuable, provide only a limited glimpse of the process and are not intended to quantify our impact.



4

**FINANCIAL MECHANISMS FULLY
DESIGNED AND IN THEIR LAUNCH
PHASE, TARGETING USD**

\$144M IN CAPITAL
UNDER MANAGEMENT



18

WORKSHOPS
FACILITATED



332

PARTICIPANTS
IN WORKSHOPS



148

DIFFERENT ORGANIZATIONS
INTERVIEWED



275+

SOURCES OF **SECONDARY**
RESEARCH REVIEWED



31

FINANCIAL MECHANISM
CONCEPTS GENERATED



6

PUBLIC REPORTS



594

SURVEY RESPONSES
ACROSS THREE SURVEYS

6

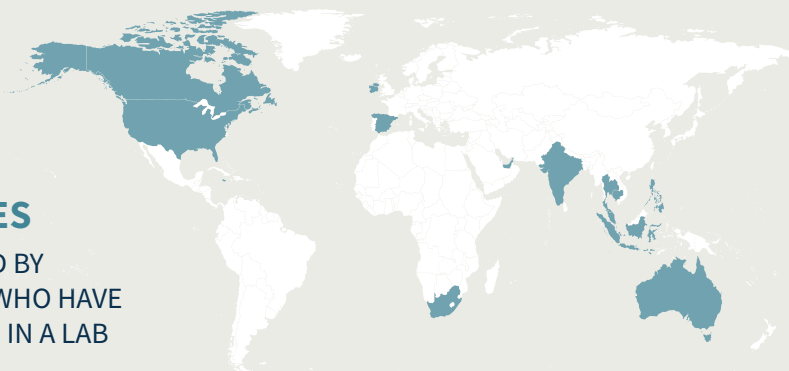
DIFFERENT TYPES OF
ECOSYSTEM ACTORS
WHO ENGAGED
ACROSS WORK
(not mutually exclusive)

Academic institutions; financial
institutions and investment entities;
small business owners; Government
entities; girls, femmes, and gender
expansive youth of color; foundations
and other philanthropic organizations

15

COUNTRIES

REPRESENTED BY
INDIVIDUALS WHO HAVE
PARTICIPATED IN A LAB



Australia	Philippines
Cambodia	Spain
Canada	Singapore
Cayman Islands	South Africa
Hong Kong	Thailand
India	UAE
Indonesia	U.S.
Ireland	

SECTION 03

Insights We Have Gained

INSIGHT 01



Humility is Essential

INSIGHT 02



Creating Learning Loops

INSIGHT 03



Designing with Community

This report serves as a testament to our collective endeavor in redefining finance over the past three years, with a specific focus on the insights gained from the four labs conducted in 2023. The FEL is a collaborative venture, and we are deeply grateful to the various communities that have accompanied us on this path. Despite the challenges, the rewards of a collaborative, community-centric approach are immense, leading to solutions that are not only financially sound but also socially equitable and sustainable. The solutions we've launched, refined, and implemented with the support and collaboration of a diverse set of stakeholders are testaments to this.

Our labs are each dedicated to specific domains, actively engaging with distinct groups of stakeholders to not only enhance our comprehension of diverse economies but also to design innovative financial mechanisms.

While each lab has a unique focus, our collective work has revealed a wealth of shared insights and commonalities that we have adeptly harnessed while concurrently running multiple labs.

Before delving into the specifics of the labs we conducted in 2023, we would like to highlight three pivotal insights that have profoundly influenced our strategic approach.

Insight 01: Humility is Essential

In our approach, we recognize that economies are dynamic systems that evolve with every project or initiative. Rather than imposing existing, traditional financial models, we prioritize meaningful engagement with stakeholders from across the system, seeking to understand their real-world experiences when attempting to deploy or receive capital in local markets. Our team's expertise and experience are starting points; we value real-world feedback and approach our work with humility and an openness to being proven wrong.

This principle is particularly important during the transition from the Define to the Design phase, where we test our prototypes in interactive workshops with a diverse group of stakeholders. To bring ideas from paper to markets, we create a safe space for experimentation and failure, ensuring that our designs don't remain theoretical.

We've also learned more about how feedback varies depending on how and when it is shared. We have often seen that some individuals offer insights openly in large groups, while others prefer small group or one-on-one conversations. We've adapted by creating multiple environments and diverse channels to receive candid feedback.

Embracing experimentation and a willingness to fail is crucial. Without it, creativity is stifled and we risk reverting to conventional solutions.

Insight 02: Creating Learning Loops

Continuous learning is at the core of our lab's ethos. At each major milestone, the FEL team and our partners assess what worked, what didn't, and where improvements can be made. These feedback loops drive process enhancements and foster an innovative culture both within our company and with our partners. This involves dedicated reflection time and processes for capturing and applying our learnings in subsequent labs. Running multiple labs concurrently allows us to implement these lessons rapidly while continuing to experiment.

For instance, our initial assumption was that providing extensive pre-reads and information prior to our workshops would overwhelm participants. However, we quickly realized that participants felt underinformed, leading us to adapt our processes. Sharing more comprehensive details ahead of workshops leveled the playing field for participants with varying financial knowledge, enabling them to engage more actively in workshop discussions. This not only enhances the workshops' engagement but also maximizes participant feedback while reducing the space our team's voice occupies, allowing us to hear more from the community.

Ultimately, creating learning loops allows us to stay relevant by adapting to varying contexts while remaining true to our proven core framework, fostering continuous improvement, and enhancing collaboration with communities.



Insight 03: Designing with Community

Embracing a community-centric approach to financial mechanism design is the cornerstone of our work. When we refer to 'communities,' we understand the flexibility and context-dependence of this term; it encompasses a wide array of groups, from geographically-bound communities to communities of interest bound by shared needs, goals, or challenges. It may include individuals, organizations, companies, investors, policy-makers, and others. The definition of 'community' evolves depending on the specific lab in focus.

Incorporating communities, however they are defined, into the FEL process leads to more effective and sustainable financial solutions. This approach values the unique perspectives, insights, and lived experiences that these communities contribute while taking into consideration existing financial terms and regulations. Each perspective is essential for creating financial mechanisms that are not only effective but also equitable and responsive to real-world needs.

Yet, engaging diverse stakeholders and ensuring effective collaboration poses challenges, such as overcoming communication barriers, building trust, and managing conflicting interests. Cultural differences and norms add complexity when designing financial mechanisms for diverse communities. To address these challenges, we prioritize cultural sensitivity and inclusivity to ensure our designs are respectful and considerate of the communities we serve, while also ensuring that financial institutions and other funders can realistically adopt these new mechanisms.

SECTION 04

A Closer Look at Our 2023 Labs

A photograph of two women in a professional setting. The woman on the left is wearing a red turban, glasses, and a green blazer, and is writing on a document with a pen. The woman on the right is wearing a light blue hijab and a light blue blazer, and is pointing at the document. They are both smiling and looking at the document. The background is a blurred office environment with wooden walls and a whiteboard.

FUTURE ECONOMY LAB:

Collective Ownership

ABOUT

Collective Ownership

Partners National Cooperative Bank, One Project, Zebras Unite
Active March 2022 to January 2023 (Completed)

We joined One Project, National Cooperative Bank, and Zebras Unite Co-op to better understand the opportunities for and limitations to growth and investment in collective ownership business models. Collectively-owned organizations, which include entities like mutuals, credit unions, cooperatives, and employee stock ownership plans, often encounter distinct difficulties when looking to raise capital due to their unique ownership structure. The challenge for us was discovering how to unlock greater access to capital and technical support while both reducing barriers and influencing existing systems to support and scale collectively-owned organizations.

Our objective was clear: To create an environment where all collectively-owned organizations could access affordable and ample capital, regardless of their size, industry, or stage.

Our research highlighted a notable mismatch between the supply and demand of capital in this sector. Collectively-owned organizations, particularly those with non-asset-heavy business models, found it challenging to secure debt capital due to the requirement of active cash flow or collateral, as well as an inability to provide personal or corporate guarantees. On the other hand, investors reported a lack of suitable demand for their products. Beyond financing, we identified a range of needs pivotal to the success of collectively-owned organizations, including legal support, education, policy shifts, cross-marketing support, technical assistance, and ecosystem infrastructure coordination.



For more information about our research specific to this lab, check out our **Summary of Findings Report.**

[Read Report >](#)

WHAT FEL DESIGNED

A Cooperative Deal Syndication Network

As we went through the design process, we wanted to make sure that what we were designing was additive to the ecosystem and met the needs of both the supply side and the demand side. What emerged from our process was not at all what we had initially anticipated or started to design.

We started the design process by proposing three ideas: a credit enhancement for existing loan funds, an early-stage-focused alternative debt fund, and a large cooperative

fund that pools capital from established players in the cooperative sector to seed and scale the next generation of cooperatives.

In our design workshops, we quickly saw that there wasn't alignment among the group as to which idea would be the "most transformative." In smaller group working sessions we started to model out the credit enhancement facility, which seemed to have the most traction out of the three,

and what we quickly saw was that for this to be viable, there would need to be an influx of concessionary capital. More importantly, what we heard from the existing Community Development Financial Institutions (CDFIs) was that this would actually not enable them to give out more loans or to fund businesses that aren't already in their pipeline. This solution wasn't attractive enough to cause a shift in behavior.

After several workshops, many one-on-one conversations, and weekly small group meetings, we concluded that the best solution was to grow the sector by supporting the

next generation of cooperatives through a mechanism that stimulates demand for cooperative financing and creates circular flows between the established cooperatives and the next generation. We proposed the creation of [P6 Capital Cooperative](#), which established a Cooperative Deal Syndication Network to mobilize capital for U.S.-based cooperatives.



Concept

Centering [International Cooperative Alliance's](#) Cooperative Principle 6, "Collaboration among Cooperatives," P6 Capital creates an infrastructure for more established cooperatives and other investors to collectively support the capitalization and growth of the U.S. cooperative economy. The mission is to ensure that cooperatives receive the financing they need to grow and thrive. Deals can be submitted by capital providers, cooperative development institutions, and established cooperatives that have joined the P6 network. When a deal is posted, it will be shared with a broad network of cooperative capital suppliers looking to invest. By sharing investment preferences, investors can increase their deal flow by receiving inbound funding requests.



Benefits

The result is both an increase in the supply of debt capital to the cooperatives in the ecosystem, as well as the formation of a new cooperative-lender relationship, intermediated by P6 Capital Cooperative.



Problems it Addresses

P6 Capital Cooperative serves as a bridge between cooperatives and financial institutions in the U.S., providing insight into the needs and risk appetites of both parties. It was established to address the challenges identified by capital suppliers and seekers—lack of investable deals and difficulties in raising substantial capital, respectively. By fostering direct connections, the network aims to enhance the efficiency and scale of cooperative funding.



Mechanism's Parameters

The P6 network seeks to fund growth and conversion capital for member-owned businesses. The minimum raise amount is \$100,000, and a business is considered member-owned if it is majority-owned and controlled by its members. The loan will be serviced by the originating partner who shares the deal with the network or the lead investor.



Stakeholders

Capital suppliers, cooperatives across all business life cycles, and industries



Market

U.S. cooperatives



Sector(s)

Sector-agnostic



Structure



REFLECTIONS ON THE JOURNEY SINCE THE FEL'S COMPLETION

- | | |
|--|--|
| <p>1 Entrepreneurial Desire
There's a strong appetite among entrepreneurs to identify suitable capital sources, but a lack of clarity persists about available funds.</p> <p>2 Streamlined Process
Entrepreneurs are seeking a simplified capital-raising process that allows for selectivity in partnerships.</p> <p>3 Matching USD \$35M in Deals
Over \$35 million in submissions have been processed; however, drawing a clear link to completed investments remains a challenge.</p> | <p>4 Capital Discrepancies
Differences exist between the type of capital requested and provided, suggesting a need for a more robust matching system.</p> <p>5 Revenue Model
The network currently operates without a revenue model due to broker-dealer licensing requirements.</p> <p>6 Collaborative Momentum
There's strong energy around funds working together to scale existing funds, indicating a promising future for cooperative capital mobilization.</p> |
|--|--|

To learn more about learnings from P6's first quarter of operations, [read their insights report on cooperative financing](#).

A photograph of a man and a woman in a warehouse or storage room. The woman, on the left, has dark curly hair and wears glasses and a blue denim shirt. She is sitting on a white folding chair and smiling. The man, on the right, has grey hair and wears glasses and a light blue button-down shirt. He is standing behind her, leaning on her shoulder, and smiling. In the background, there are stacks of cardboard boxes and industrial shelving. A teal text box is overlaid on the bottom half of the image.

FUTURE ECONOMY LAB:

Property Ownership for Small Businesses

ABOUT

Property Ownership for Small Businesses

Partners Silver Lining, with the support of Wells Fargo

Date May 2022 to July 2023 (Completed)

With the support of Wells Fargo, we partnered with Silver Lining and a group of industry experts and small business owners to co-create a financial instrument to mobilize financial capital and other resources to small business owners so they can purchase property.

This lab began as a proactive response to the challenges faced by Small and Medium-sized Business (SMB) owners in their quest for property ownership.

The act of purchasing property is a pivotal strategic move for many SMBs, yet it is riddled with numerous hurdles. Property ownership provides SMBs with the possibility of enhanced control and stability, and, importantly, positions them as key drivers of local economic growth. However, the path to securing market-rate mortgages is onerous, marked by burdensome bureaucracy, substantial down-payment requirements, and discriminatory lending practices. Further compounding these issues is the deep-rooted mistrust of traditional lenders, a significant challenge uncovered through our comprehensive research.



For more information about our research specific to this lab, **check out our summary of findings report.**

[Read Report >](#)

WHAT FEL DESIGNED

A Collective Investment Fund

Our design phase began with six potential ideas shared in an interactive workshop with a diverse group of stakeholders and a survey for SMBs. The outcome was a clear preference not for a single idea, but instead for a blend of them all. Most importantly, SMBs became passionate about a key proposed innovation in the form of collective property ownership. They spoke decisively about their desire to own properties within their communities, but they wanted terms that allowed flexibility, ensured reasonable costs, and met their unique business needs. In addition, they cared about investing in other small businesses so that they could also realize their property ownership dreams.

Facing the challenge of structuring a multi-faceted solution, we shifted our approach, opting for one-on-one

conversations that fostered a more comfortable space for stakeholders to share their thoughts and expertise. This direct feedback was instrumental in crafting a blueprint term sheet: a document that mirrored the collective wisdom and needs of our stakeholders.

The outcome of this iterative process was a financial mechanism and a governance model for a Collective Investment Fund (“CIF”), structured as a two-fund model, offering blended terms to SMBs. The final financial product—one that is flexible, adaptable, and collectively governed—is a testament to our SMB-centric approach. Their trust in us was the cornerstone of this innovative financial model.



Concept

A two-fund structure coupled with technical assistance that provides a lease-to-own product for property ownership. Investors have the option to participate in either or both funds, and they receive their annual returns in alignment with each fund's underlying risk. SMBs, on the other hand, obtain a blended package of terms when they become property owners, consisting of a 5% fixed rate, 30-year amortization, and obligations to contribute to CIF's reserve for maintenance.



Problems it Addresses

SMBs' barriers to property purchase include a lack of trust, support, and guidance from traditional lenders and investors before, during, and after initial property acquisition. SMBs are already challenged by the day-to-day operations of their businesses. Adding the burden of additional knowledge and capacity required to identify, negotiate, and financially support a real estate transaction was one of the main reasons SMBs walked away from property ownership, despite its many benefits. Our solution addressed this key problem by:

- a) Offering a lease-to-own product that enables SMBs to gradually immerse themselves in property ownership, with an ability to revert back to renting the space of their choice, if so desired; and
- b) Incorporating technical assistance to support SMBs throughout their journey of property acquisition and ownership.

At the same time, investors were reluctant to allocate capital to debt products for first-time property owners because they believed the inherent risk was too high. The proposed two-fund structure enabled us to balance out the investors' need for market-rate returns with the SMBs' requirement for flexible loan terms.



Benefits

The vision behind CIF is for SMBs to join a collective alongside investors, and for all stakeholders to share both the risks and rewards. At the same time, we structured the model to be scalable so that the CIF could be self-sustainable without a heavy reliance on grant funding.



Other Components

Silver Lining pledged to design comprehensive technical assistance to guide SMBs on their property ownership journey. This support will be integrated into their existing [Silver Lining Action Plan](#) (SLAP™) program, ensuring SMBs have the necessary assistance at every step of their property ownership journey.



Stakeholders

SMB owners, Silver Lining Capital, Silver Lining's community of SMBs, partners and advocates, foundations, and accredited investors.



Market

U.S. pilot and eventually global



Sector(s)

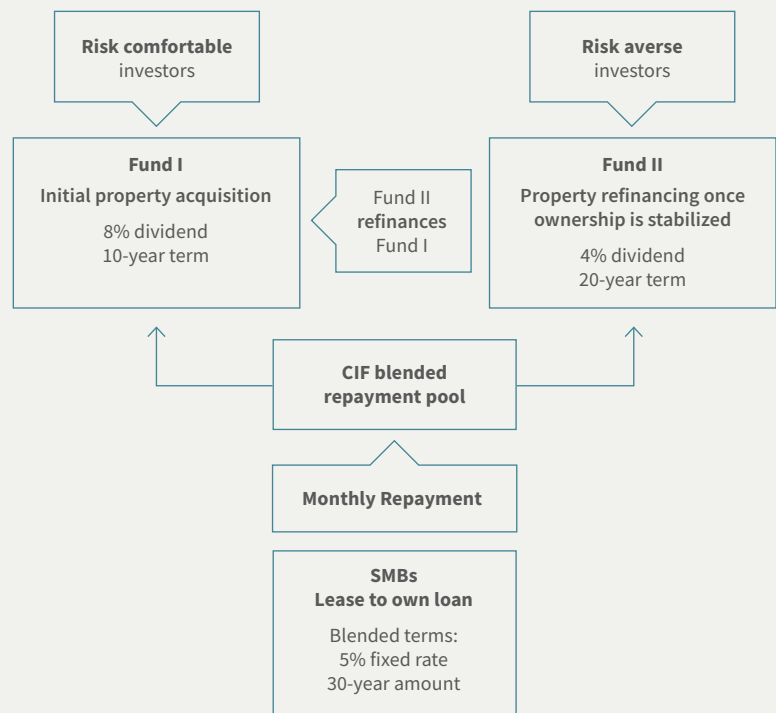
Residential (for business purposes) and commercial properties



Mechanism's Parameters

Fund I requires a 10-20% down payment on the property and offers investors a 10-year term with an 8% annual dividend rate, in line with a quasi-equity product. Investors would consider these properties riskier because of the SMBs' inexperience in property ownership, rather than the quality of the real estate itself. As the SMBs reach a necessary comfort level with property ownership, their property would be transferred into Fund II.

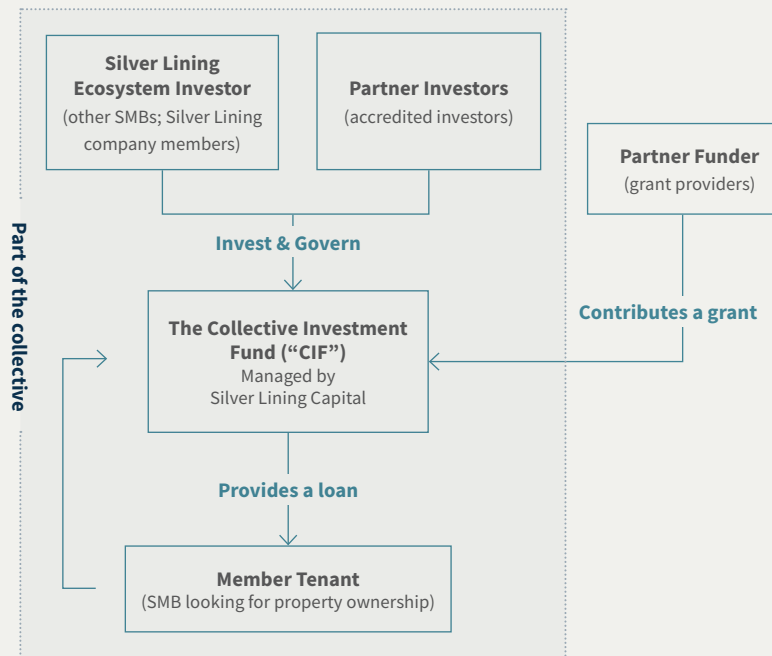
Fund II serves SMBs that have reached key milestones like a stabilized business cash flow and consistent monthly payments of both principal and interest. This fund offers investors a 20-year term and 4% dividend rate, in line with a fixed-income product, as all the properties are considered lower risk.



Structure

FEL Property Ownership Product

Residential (for business purposes) and commercial properties



Traditional vs. FEL Commercial Mortgage

	Traditional Commercial Mortgage	VS	Collective Investment Fund
Personal guarantee for a full amount of the mortgage	Required		Waived since SMBs are part of the collective and are committed to the ownership's success
Personal credit score	Required		Waived
Interest rate	Between 5% and 8%, depending on the amount of down payment		5% for everyone
Amortization	30 years		30 years
Down payment	20%		Between 10% and 20%
Maintenance	Responsibility of the owner		Responsibility of the collective

REFLECTIONS ON THE JOURNEY SINCE THE FEL'S COMPLETION

Since the FEL, Silver Lining has not faced any real roadblock challenges, and they continue to hold themselves accountable to their SMB network. This includes ensuring they can roll out the property loan product and integrate it into their company's core functions. They are also in tune with the needs of different investors they aim to include in the launched mechanism—including Silver Lining investors, accredited investors, and impact investors.

Currently, Silver Lining is finalizing its SLAP™ behavior-based algorithm used to qualify their SMBs (or SLAPsters) for property loans. This will include changes to Silver Lining's term loan algorithm, including a longer length of time in the SLAP program and the completion of required technical assistance to ensure SMBs both want and can handle the realities of property ownership.

Additionally, Silver Lining is working on finalizing legal and compliance advisors to properly set up the Silver Lining Capital corporate structure to be able to take creative and multi-faceted investments into the property loans product. After modeling an amortization table on both funds with a 10% down payment, Silver Lining found that when the management fee is extracted from the SLAPster payment and is paid by the investor, the fund is operational.

Some Other Highlights to Note:

- Silver Lining is aiming to pre-qualify and launch a pilot with 2 to 5 SLAPsters and friendly investors to test the model and the product in early 2024. Using those learnings, they will then update the approval algorithm, technical assistance design, and financial model.
- Silver Lining has already transformed key findings from the FEL process into updates for their term loan product.



FUTURE ECONOMY LAB:

Abundantly Investing in Girls, Femmes, and Gender Expansive Youth of Color



ABOUT

Abundantly Investing in Girls, Femmes, and Gender Expansive Youth of Color

Partners Grantmakers for Girls of Color, with the support of Goldman Sachs and Pivotal Ventures

Active October 2021 to December 2023 (Ongoing)

We partnered with Grantmakers for Girls of Color (G4GC), with the support of Goldman Sachs and Pivotal Ventures, to redefine investment for an abundant future for girls, femmes, and gender expansive youth of Color across the United States and territories. These remarkable individuals navigate a complex intersection of sexism, racism, and various forms of oppression that erect structural barriers hindering their full participation in our economy and democracy.

The overarching goal of this lab was to create a more inclusive and equitable future for these young leaders.

To begin, we wanted to deeply understand, from the perspective of girls, femmes, and gender expansive youth of Color, what an abundant future looks like. We worked with a group of 39 youth who created a North Star vision which stated that “an abundant future is where we are consistently thriving in a tranquil world, surrounded by a sustainable society built on communal love reimagined, that is inclusive of all of us and our cultures.”

This vision set the foundation for our work going forward. We wanted to have greater clarity into what elements need to be shifted in order for us to achieve this future state. To answer this, we conducted a Catalytic Factor Analysis, where 473 young people helped identify what factors are the most catalytic for change. This helped us get a very nuanced understanding on what was needed in the system to arrive at the North Star, based on the perspectives of the young people.

In the initial scan of the current investment landscape, we confirmed our initial hypothesis that current mechanisms underinvest in young girls, femmes, and gender expansive youth of Color. In addition, current systems and institutions use deficit-based language and framing when referencing these young people.



For more information about our research specific to this lab, **check out our summary of findings report.**

[Read Report >](#)



WHAT FEL DESIGNED

Early Stage Venture Capital Fund

As a first step in our design phase, our team worked alongside the young people who had been actively involved in the lab to cluster and translate the catalytic factors we identified into investable sectors. We landed on eight sectors that, if invested in, would help us achieve the abundant future they described. In addition to identifying these sectors, the youth helped add specificity to our desired outcomes; for example, when talking about more mental health investment, they are specifically looking for more BIPOC practitioners who can provide culturally sensitive and appropriate care. Having this level of detail coming from youth gave us confidence that what we were designing would help meet their vision.

SECTORS OF FOCUS



An essential aspect of our approach to designing and launching this financial mechanism has been our commitment to amplify the voices and fresh perspectives of those directly affected by the Fund's investments. To ensure this, the Fund's advisory committee and governance will include participation of girls, femmes, and gender expansive youth of Color. These young members bring vibrant insights and a deep understanding of the opportunities that await, ensuring our strategies remain agile and responsive. By incorporating these innovative components into the financial product design and strategy, we reaffirm our dedication to fostering abundance in the lives of girls, femmes, and gender expansive youth of Color.



Concept

A venture capital fund that will directly support early-stage organizations started by or serving girls, femmes, and gender expansive youth of Color. We've integrated young people into the core of the fund's governance structure. This inclusion embodies the spirit of abundance, where every voice holds value and contributes to the collective vision. It ensures that the needs and aspirations of the youth we aim to serve remain the driving force behind our actions.

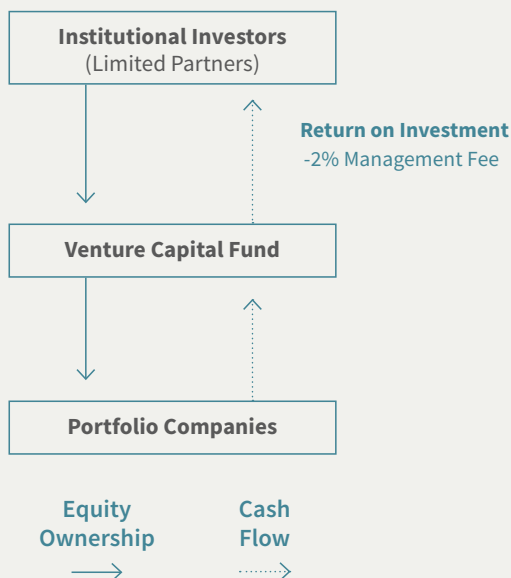


Benefits

This strategic initiative will not only help infuse capital into solutions that influence the youth's collective vision for an abundant future, but it will also nurture a wealth of talent and ingenuity. A direct investment strategy also allows us to have a closer impact on the ground by being able to set the terms and conditions of how investments will flow.



Structure



Problems it Addresses

While the impact investing market at large has grown to a considerable size, investments flowing directly to finance the vision of young people and their communities are limited. This fund helps fill the gap by opening opportunities for direct investment serving young people of Color and helping to catalyze new entrepreneurial activity that impacts them and their communities directly.



Stakeholders

Girls, femmes, and gender expansive youth of Color and racialized entrepreneurs, other social entrepreneurs, impact investors including institutional ones, foundations, and family offices.



Market

U.S. and tribal nations; with regional prioritization to reach underserved regions to strengthen local economies and opportunities.



Sector(s)

Creative Industries, Healthcare and Mental Health, Education, Sustainability and Circular Economy

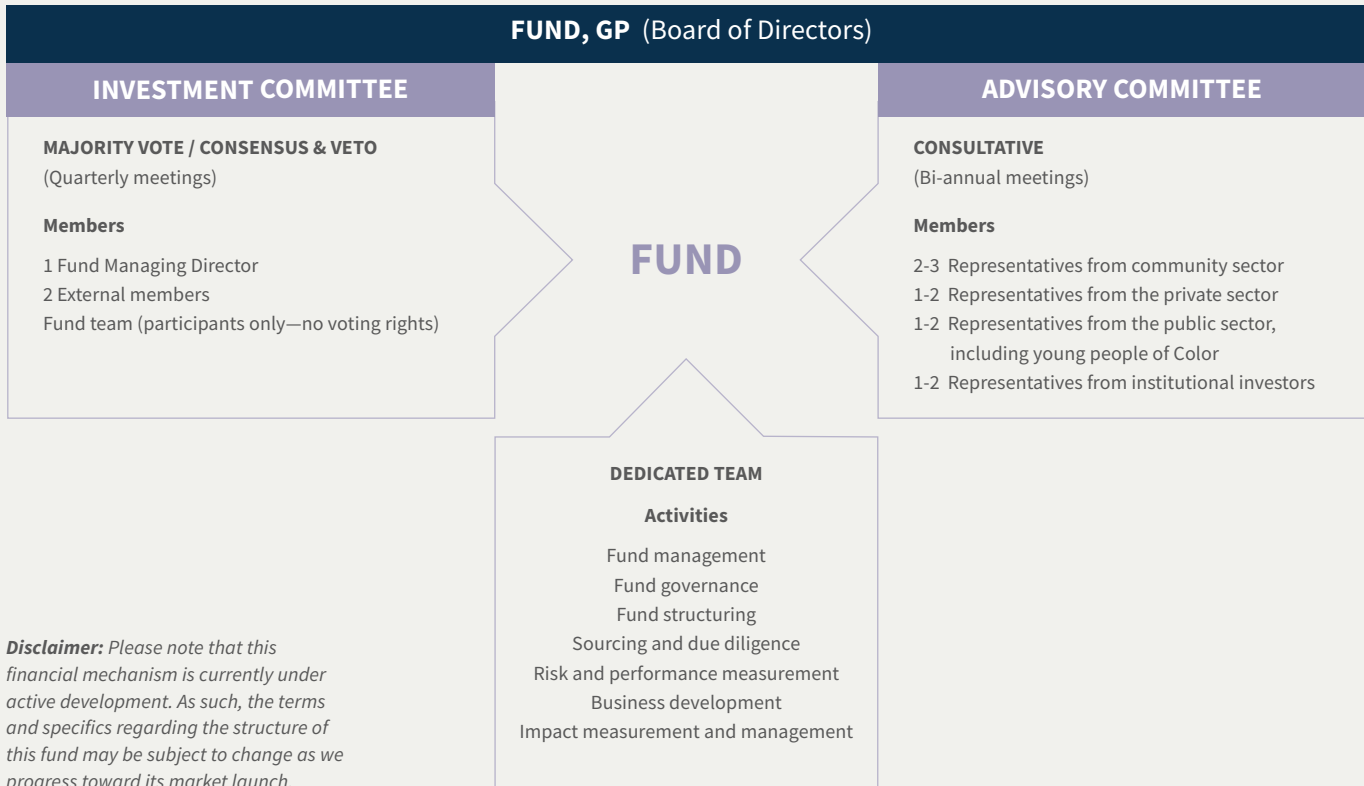


Mechanism's Parameters

A \$35 million early-stage venture capital fund. Investing in approximately 26 pre-seed, seed, and pre-series A ventures. 2% management fee with a 20% carry. 10-year duration plus a 2-year extension. Seeking opportunities to invest in organizations with low capital expenditure requirements.

GOVERNANCE

We bring experts to support our investment decisions and have an open and collaborative relationship with our partners.



REFLECTIONS ON THE JOURNEY SINCE THE FEL'S COMPLETION

As we are writing this report, our team is actively working to finalize the design of the financial mechanism, formalizing its impact model, and preparing for the launch phase.

Throughout our research, we have continued to see prolonged underinvestment in girls, femmes, and gender expansive youth of Color.

We came across this when doing our first market-sizing exercise to better understand how much capital was flowing to this population, and we found minimal investment vehicles that explicitly called out young people of Color. Therefore, our team had to make certain inferences based on the available data to derive the best path forward.

Additionally, the lack of comprehensive data made it challenging to accurately model an investment fund. Information gaps persist in understanding the investment landscape for this demographic, further hindering the development of effective strategies. One of the reasons for the apparent lack of targeted investments is the dissonance between the broad terms used by institutions, such as environmental, social, and governance (ESG) impact or the United Nations' Sustainable Development Goals, which often mean the capital ends up with intermediaries that are far removed from the actual target market. The lack of data underscores the pressing need for a dedicated direct investment fund to recognize and rectify the compounded financial disparities experienced at the intersection of gender and race, helping individuals thrive and contribute their full potential to society.

A photograph of three tea plantation workers in a lush green field. They are wearing traditional conical hats and carrying large woven baskets on their backs. The background shows a steep hillside covered in tea bushes under a blue sky with scattered clouds.

Financing Gender-Smart Climate Businesses in Asia

FUTURE ECONOMY LAB:

ABOUT

Financing Gender-Smart Climate Businesses in Asia

Partners Visa Foundation and Asian Venture Philanthropy Network (AVPN)

Date May 2023 to April 2024 (Ongoing)

In the face of escalating climate change, the need for effective climate solutions in South and Southeast Asia is more pressing and urgent than ever. To address this, Visa Foundation and Asian Venture Philanthropy Network (AVPN) are supporting our work to develop a financial mechanism that will mobilize more accessible financial capital to scale gender-smart climate solutions to Micro, Small, and Medium-sized Enterprises (MSMEs) in South and Southeast Asia. At a time when climate change mitigation and adaptation investments are critical to the resilience of economies worldwide and present enormous opportunities to investors, MSMEs in South and Southeast Asia are struggling to obtain the financing they need to sustain or scale their climate solutions. This is especially true for women small business owners.

This ongoing lab is dedicated to reducing the size of this ‘missing middle’ in Asia, a gap where businesses striving to grow beyond small-scale pilots without resorting to large equity investments often find themselves.

These enterprises, due to their innovative business models and smaller ticket sizes, find it challenging to secure capital because of perceived high risk and substantial transaction costs. This issue is further exacerbated for women business owners who face additional structural and cultural barriers that limit their full economic participation.

From the onset, we recognized that navigating such a broad and complex landscape would necessitate a robust generative research process, ensuring the perspective of a diverse range of stakeholders.



For more information about our research specific to this lab, check out our **summary of findings report**.

[Read Report >](#)



REFLECTIONS ON THIS FEL'S JOURNEY TO DATE

Our ongoing engagement with key stakeholders, encompassing both supply and demand perspectives, continues to sharpen our understanding of potential solutions. By involving these stakeholders in the lab's journey, we ensure a steady stream of timely and relevant feedback, fostering a culture of continuous learning. These stakeholders included foundations and family offices, development finance institutions (DFIs), venture capital firms, ecosystem builders such as accelerators and incubators, NGOs and multilateral organizations, and MSMEs themselves, among others.

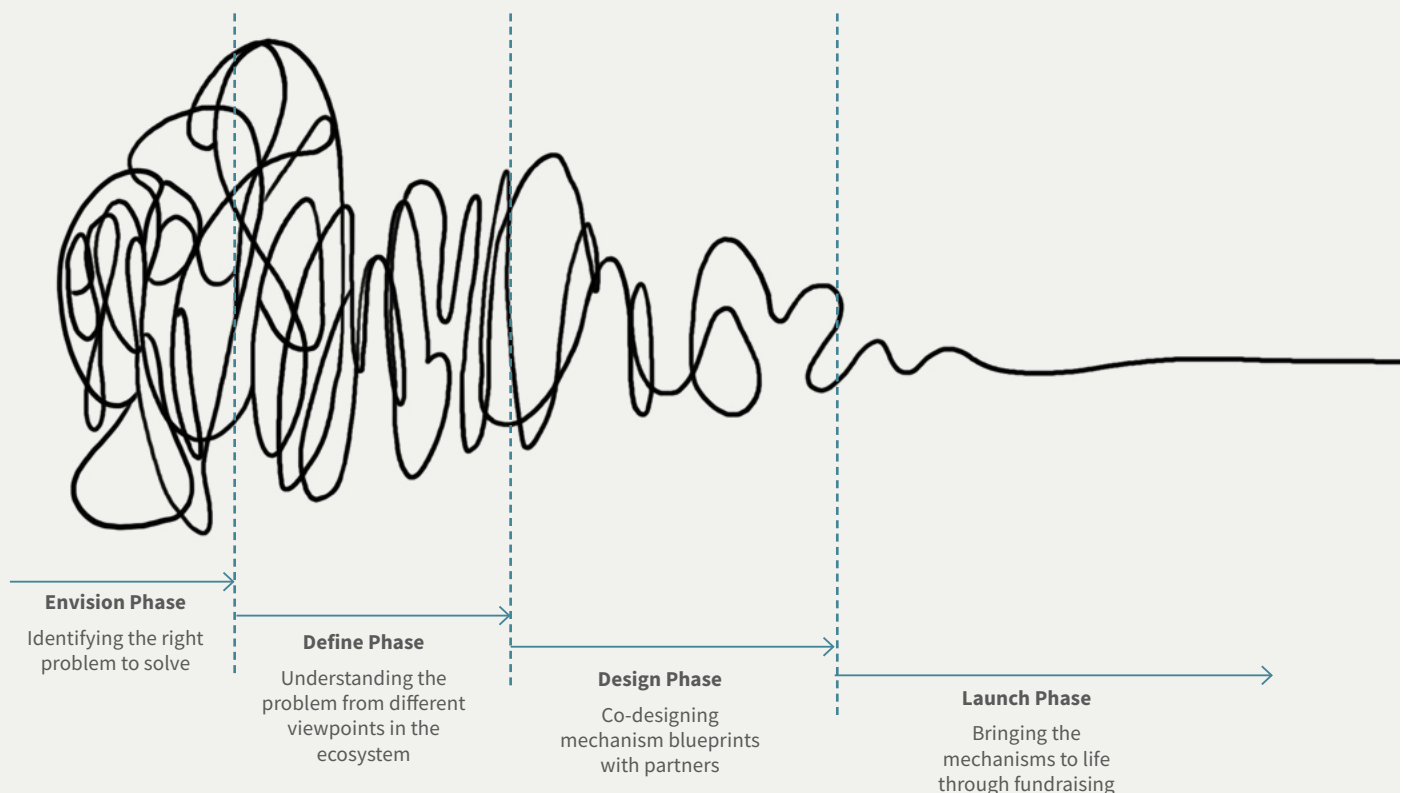
To facilitate meaningful stakeholder participation, it was crucial to share the design thinking process early on, clearly communicating our expectations for participation in each phase. As demonstrated by our adaptation of the "Process of Design Squiggle" figure, our work is far from

linear, requiring a certain degree of comfort with ambiguity throughout each phase of the lab.

This approach proves particularly effective when stakeholders originate from disparate parts of the ecosystem and possess varying levels of familiarity with the concept of design thinking.

By sharing this perspective upfront, we alleviated participant concerns about the uncertain nature of the process, emphasizing that we are not seeking exact solutions in the initial stages. The visual representation of our process allowed participants to understand that iterative conversations are an integral part of the journey rather than a hindrance, thus fostering a more open and dynamic dialogue.

The FEL Process Mapped Against *The Process of Design Squiggle*¹

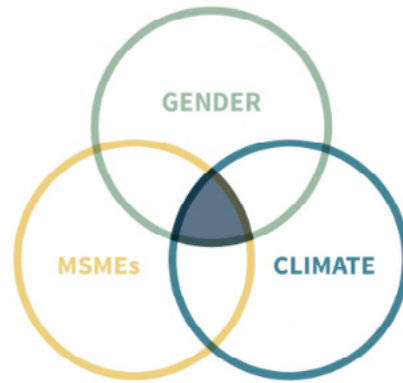


¹: *The Process of Design Squiggle* by Damien Newman

In our in-depth exploration of the ‘missing middle,’ we uncovered a significant gap: While there is an abundance of capital providers and funders focused on either climate or gender, very few focus on the intersection of the two. This key finding has opened a new avenue for further lab exploration: how to effectively advocate for systemic change in tandem with our lab’s process.

In 2024, our lab’s mission is to not only develop financial mechanisms, but also strategically utilize our process and its outputs to attract more funders to this underrepresented area, with the ultimate goal of increasing the accessibility of capital needed to scale gender-smart climate MSMEs. As we transition into the detailed co-design of one to two high-potential financial mechanisms identified by our key

stakeholders, this remains a primary focus, and we aim to engage more potential partners to amplify the impact of these solutions, driving tangible change.



SECTION 05

Closing Out the Year and What's Next

As we turn the final pages of this report, it's more than a moment to reflect; it's an opportunity to consider what's next. We've navigated through a year of profound learning, growth, and unforeseen challenges that have continually refined our approach to addressing financing gaps for different communities and sectors.

In this journey of continuous improvement, we recognize the power of shared knowledge and the importance of documenting and sharing our learnings more frequently. This commitment ensures that our processes and financial product designs remain relevant and effective, and that they continually evolve to guide us on our mission to create more equitable and resilient economies.

At SecondMuse Capital, we prioritize measuring our impact, understanding that this may look different from other organizations and manifest differently over time. We acknowledge that the outcomes of our work will unfold over an extended timeline—two, five, or even 15 years into the future. Our unwavering commitment to long-term, transformative change is supported by these extended horizons.

We understand that for many partners, metrics are the simplest way to communicate impact and understand the value of their investments of time, money, and relational wealth. That said, we are in a stage of continuous exploration and refinement of our methodologies, including how we measure our impact. Our primary objective is to design for the future, with the understanding that the full implications of our work today will not be captured within a set of impact metrics or the narrative of an annual report.

While not every concept progresses to the stage of full development, complete with risk frameworks, pitch decks, and other comprehensive components, they serve as a rich repository of inspiration and insight for future endeavors. Furthermore, these concepts represent an open invitation to potential partners who may wish to collaborate with us in our pursuit of transformative change.

As we enter 2024, we will continue our work to bring some of the mechanisms listed in this report to market while also exploring two areas with the potential for new FELs: accelerating 10x breakthroughs and adolescent youth wellbeing.

The world is in a state of flux, and the economies of the future need architects who are willing to think beyond traditional blueprints. They require solutions that are as compassionate as they are innovative, ensuring that prosperity isn't just for a select few but is instead in service of a shared global legacy.

To learn more about any of these labs or how you can engage in a new lab with our team, don't hesitate to reach out to future.economy.lab@secondmuse.com.

WHAT'S NEXT

Accelerating 10x Breakthroughs

The world already has the knowledge and talent it needs to solve our biggest problems. We're simply not exploring and developing big ideas quickly enough – i.e., those with the potential to unlock a solution that's 10x better (not just incrementally better) than today's approaches.

This is especially true of big ideas that

- 1 are pointed at systemic change rather than, say, bringing a new piece of technology to market, and
- 2 prioritize impact over or alongside the maximization of return to investors.

This suggests we may need to rethink parts of the innovation system itself – both funding mechanisms and technical assistance for innovators – if we hope to turn a trickle of 10x innovations into a torrent.

We'll engage innovators, investors, philanthropies, accelerators and incubators, and other leaders who help bridge the chasm from bright idea to real-world impact, and we hope to illuminate a path to new forms of patient, purpose-built funding for the early, exploratory, high-risk stages of the innovator's journey. Audacity doesn't need to be expensive; it needs new forms of capitalization and new systems of thinking.



WHAT'S NEXT

Youth Wellbeing

Young people are the future of our society and investing in their wellbeing benefits not only them but also the wider community and economy in the long term. At the same time, the U.S. is in the midst of an adolescent mental health crisis, with [1 in 6 young people](#) experiencing a mental health disorder each year. Digital spaces have tremendous potential to advance the wellbeing of youth given the amount of time young people spend in these spaces.

A growing market of digital tools and services—sitting at the intersection of health technology, education technology, and wellness tech—is emerging in response to this opportunity.

For the last several years, our colleagues at SecondMuse have been working to address this challenge via the [Headstream program](#) and have uncovered critical financing gaps for youth wellbeing innovations that are throttling the growth and impact of this market at a time when these innovations are needed most.

They have produced a [report](#) about capital allocators funding digital innovations where some of their insights include:

- Misaligned growth expectations
- Lack of investor focus on youth wellbeing
- Customer acquisition hurdles
- Complex procurement systems
- Regulatory hurdles

Possible Models to Explore

While a full lab process is needed to uncover which solutions would be most fruitful in the market, we have started to brainstorm a few possible solutions, including:

- A revenue-based financing mechanism enabling investors to get a certain percentage of revenue in exchange for capital invested
- A credit enhancement facility created using philanthropic capital to de-risk return-seeking capital
- A Medicaid reimbursement loan program enabling quicker reimbursement for customers using Medicaid to procure new technologies
- A PRI-funded mechanism to purchase solutions on behalf of school districts to short circuit long procurement cycles
- Shared sales and marketing infrastructure to facilitate efficient business development and customer acquisition



We extend a big thank you to the organizations who have worked with us in 2023



About



secondmusecapital.com

SecondMuse Capital is the impact investing firm of the SecondMuse Group.

SecondMuse has built a global network of world-class engineers, designers, scientists, marketers, investors and entrepreneurs who collaborate to build inclusive, resilient communities and markets that address the root causes of some of the most pressing problems facing humanity.

SecondMuse Capital strategically deploys capital to amplify this impact—identifying, incubating, and investing in opportunities for a more just and sustainable world. With its unique combination of capabilities in impact investing, innovation, and sustainable development, SecondMuse Capital manages funds and provides impact investing advisory and fund design services.



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