

Prospectus: The Food Forward Impact Fund

The Issue – Opportunity: For many people in the United States access to healthy food is a challenge. According to the USDA, approximately 23.5 million low-income individuals, including approximately 6.5 million children, live more than a mile from a supermarket and have limited access to a vehicle or public transit, qualifying these areas as food deserts. USDA estimates a total of 6,529 food-desert census tracts in the continental United States. Roughly 75 percent of these food-desert tracts are urban, while the remaining 25 percent are rural. Evidence suggests that lack of access can be associated with diabetes, obesity and heart disease. According to the latest estimates, 47.8 million of Americans receive food stamps (SNAP) benefits, and an average recipient receives \$133/month.

At the same time the number of farmers markets and CSAs (community supported agriculture) has been growing dramatically. While the majority of farming conducted in the United States focuses upon large-scale production of commodities, smaller multi-crop retail farmers have been making a resurgence. The USDA estimates there are currently 7,864 farmers markets around the country, an increase of 9.6% since last year. Meanwhile, there are an estimated 13,000 CSA's, which are similarly growing in number quite rapidly. The past few years have seen a proliferation of models aimed at solving the lack of access to healthy food, in large part owing to the Healthy Food Financing Initiative launched by the Obama Administration. However, the emerging enterprises are often small, lacking potential for scale, and hence are not viable investment projects. But drawing on the experience of these local initiatives, the Food Forward Impact Fund (FFIF) is a comprehensive, large-scale, sustainable, and profitable investment vehicle.

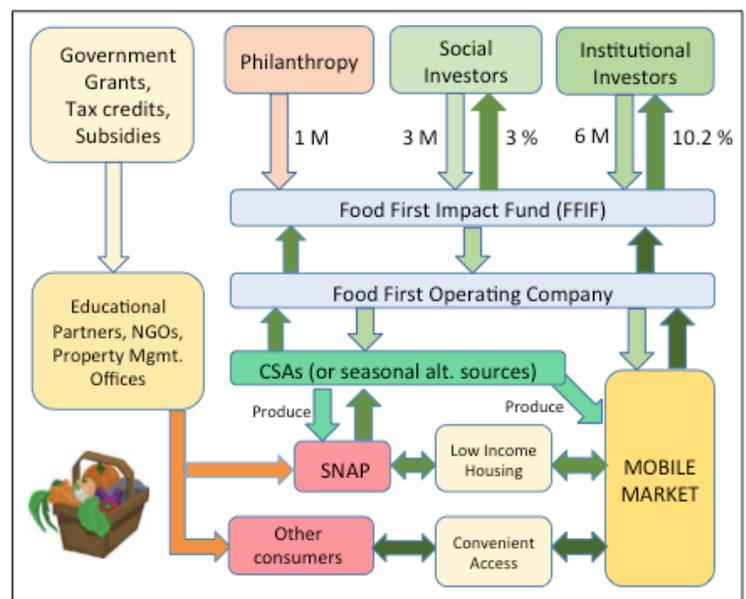
The Food First Impact Fund: FFIF is a layered capital investment fund comprised of philanthropic support, social investors, and institutional investors. By using proven financial instruments, such as commercial leasing and consumer lending, the Fund provides low-income individuals with access to affordable, nutritious food; promotes healthy eating choices; and increases the demand for local agriculture. The leasing and lending models used ensure stable cash flow for the investment. Funds flow to FFIF via its partner organization, the Food First Operating Company (FFOC), which provides administrative services, overseeing mobile market operations and CSA financing.

Mobile Food Units: Many current retail farms are limited by the number of locations in which they can directly market their products. Meanwhile some entrepreneurs have developed innovative mobile market models, but typically using old buses or trucks that are not ideal for the use. FFOC purchases and retrofits food trucks each designed to serve as an ideal mobile market. The vehicles are then leased to existing CSA's, farmers, or healthy food focused entrepreneurs. These entrepreneurs will operate in low income areas where they provide healthy food access at a reduced rate, but will also leverage their investment by selling in traditional higher margin, higher income areas.

CSA (Community Supported Agriculture) Financing: Purchasing shares in a CSA is a valuable and cost-effective mechanism for many people to obtain healthy food. For low-income individuals, however, it is difficult to access local CSA's, and pay the upfront cost of \$300 to \$500. For SNAP users, prepayment for a CSA is literally impossible, as benefits are only received on a monthly basis. FFOC solves this timing issue by purchasing CSA shares in advance and collecting monthly payments from consumers, ultimately earning a 10% premium over the course of the season. Farms can expand their production through the availability of more share purchases, which can be delivered via mobile market locations or direct central hub distribution.

FFOC Administrative Services: FFOC offers entrepreneurs a comprehensive and flexible strategy to maximize returns. It provides connection with local partners such as community organizations promoting access to fresh food, property management offices at affordable housing complexes, local health organizations, and local farms and other food providers. Such organizations will help by identifying points of sale, making shopping for healthy food a community event, and participating in education campaigns. FFOC also sets up administrative infrastructure for entrepreneurs, including processing of food stamp benefits as well as other forms of payment. Working with enterprises such as Wholesome Wave, FFOC will offer double value coupons to shoppers using federal nutrition benefits, essentially doubling the amount of healthy foods that many low-income individuals can afford.

Figure 1 - Fund Process Overview



Geographic Target Area: Phase 1 of the project, lasting five years, will focus upon 40 main urban hubs along the Eastern Seaboard, ranging from Maine to Ohio to North Carolina. A GIS (Geographical Information System) analysis of food stamp usage¹, low-income housing locations², and proximity to CSA³ farms helped to identify priority target markets. In each central hub, FFIF aims to convert 10% of food stamp users to become healthy food consumers.

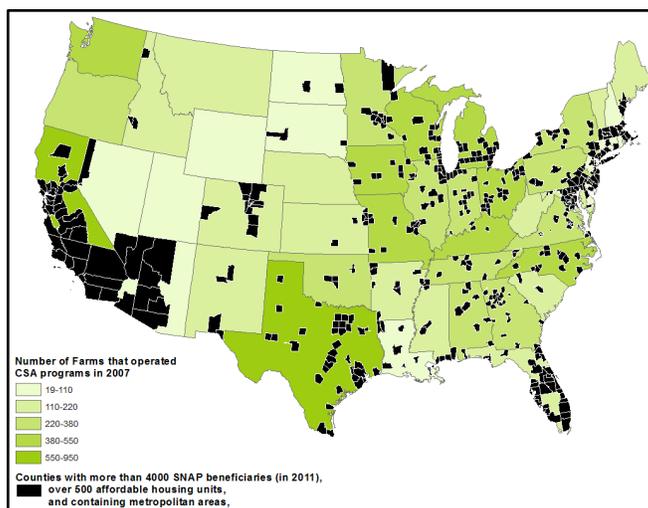
Building Scale: FFIF will work with 20 mobile market, and 5 CSA delivery units in its first year, building to 100 mobile market and 25 CSA delivery units in year 5. FFIF will then either sell the leased vehicles to individual entrepreneurs, or sell the existing lease contracts to investors as asset backed securities. Combining this residual income with profits from past operations will provide returns to initial fund investors. Having demonstrated its financing model, FFIF will then move on to Phase 2, raising a larger fund of \$100 million in order to expand its impact and operations both within its existing territory and to other areas of the country. In Phase 2 and later 3, FFOC expects to capture around 4.7 million low-income clients (10% of the market). The requirements for capital will grow quickly as the purchase of vehicles and 5 month funding cycle for financing CSA shares both require substantial reserves and leveraging of additional funds. At its larger scale, assuming 25% of customers engage in the CSA financing program, FFIF will require \$400 million to fund CSA shares, before it recoups those funds and \$40 million in profit, later in the year.

Financial Model: Mobile markets are purchased for \$100,000 and leased for \$18,000 per year. Maintenance reserves increase with each year of operation. CSA delivery vehicles meanwhile are purchased and leased in a similar model. CSA shares are financed at \$400/share at the beginning of the growing season and repayments over the course of the year total \$440. Overall vehicle capital costs are \$10.5 million. Short-term leverage is employed in later years to partially fund the financing of CSA shares. Annual operating cash flows range from \$0.5 million in year 1 to \$2.2 million in year 5. The residual lease value to be sold or securitized in year 5 is \$6.3 million.

Investor Returns: FFIF will initially raise \$10 million in a layered capital fund with a 5-year lifespan. Philanthropic investors with a commitment to providing healthy food access, will provide \$1 million primarily to further the FFIF's education and CSA financing initiatives. The next \$3 million will be raised from socially focused investors and PRI partners, who will receive a moderate 3% annualized rate of return. The final tranche of capital, providing market level returns, will be available to institutional investors. The profitability of the fund, combined with the leverage of the philanthropic and social investments, will provide institutional investors with an expected IRR of 10.16%. While other investment vehicles may offer higher returns, the structure of FFIF is attractive both for its social returns and because of its limited downside risk, given the collateralized cash flows. The majority of funds will be used to purchase tangible assets, mobile markets in the case of leasing or food in the case of CSA financing, which can be sold if needed.

Social Impact: FFIF will monitor and measure impact based on both IRIS and GIIRS frameworks, using the following indicators: number of client individuals served (by income segments); number of low-income communities served; client retention rate; number of local suppliers supported and volumes sold. In the first 5 years, approximately 367,000 people living in low-income communities will be served and an additional 300,000 people will have bought food distributed by entrepreneurs working with FFOC. Later phases will serve around 4.7 million people. Wider impact from the project, while not easily quantifiable, will include a reduction in the risk of health issues associated with lack of access to healthy food. Studies have shown that healthier meals lead to better educational outcomes for children and better attendance connected to stronger health. It will also lead to savings in healthcare for individuals and the government, improvement in people's awareness of healthy food options and food security, and growth in the number of farmer-suppliers incentivized by the increased demand for fresh products.

Figure 2 - Map of Target Areas



Key Risks	Mitigation Strategies
<i>Low customer demand</i>	Growth and sustainability are ensured by educational efforts and focus on communities.
<i>Entrepreneurs may fail to replicate the model</i>	FFOC oversees the vetting process, providing technical and financial assistance.
<i>Mobile markets default risk</i>	Because the majority of cash flows are linked tangible assets, if individual entrepreneurs default, overall returns to the fund should only be marginally impacted.
<i>Low income individual's nonpayment risk</i>	If some individuals elect not to pay for the food pre-purchased as CSA shares, then the food can be sold through other outlets, albeit at a reduced price.
<i>Reduced government support of SNAP</i>	The program is exempt from the sequester and other such measures, so regulatory risk is minimal.

¹<http://www.ers.usda.gov/data-products/supplemental-nutrition-assistance-program-%28snap%29-data-system.aspx>

²<http://www.huduser.org/portal/datasets/lihtc.html>

³<http://www.nal.usda.gov/afsic/pubs/csa/csa.shtml>