

# Commonwealth Capital LP

## A Fund of Funds for Community Investment Funds

### Background

As part of the growing movement to re-direct money from Wall Street to Main Street in order to energize and uplift local economies, local community investment funds (CIFs) play a key role.

The document [Community Investment Funds: A How-To Guide for Building Local Wealth, Equity, and Justice](#)<sup>1</sup> provides information on key issues and approaches related to establishing a CIF.

### Challenge

One thing that will likely characterize most, if not all such CIF efforts, is the difficulty of securing its first investments (seed funding).<sup>2</sup> This problem is almost universal with new grass-roots enterprises, whether a small business startup, a local non-profit or a community investment fund.

One solution is to establish a global fund whose purpose is to provide seed funding to any group wishing to establish a CIF. If a community group can demonstrate a viable business model and ability to execute on that strategy, a global fund could help them overcome the most difficult step in launching their local investment program by providing them with seed funding. Such a fund would be characterized as a fund of funds, (FOF).<sup>3, 4</sup> i.e., a pooled investment fund that invests in other types of funds — in this case CIFs.

### Our Fund of Funds

The FOF described herein is being organized as a limited partnership by the [Sustainable Communities Institute](#),<sup>5</sup> (the Institute) a project (subsidiary) of the [National Commonwealth Group, Inc.](#) (NCG),<sup>6</sup> a Delaware 501(c)(3) non-profit corporation based in Ohio. This FOF will be named [Commonwealth Capital LP](#),<sup>7</sup> where the Institute will be the general partner of the fund and its investors will be limited partners.

**The Institute is associated with an NCG program called the [Sustainable Communities Framework \(SCF\)](#),<sup>8</sup> a development program that comprehensively addresses regional economic, environmental and social issues,<sup>9</sup> in a fashion resembling the proposed [Green New Deal \(GND\)](#).<sup>10</sup> However, unlike the GND, the SCF would not be funded with a national currency but rather is based on the issuance of a local [complementary currency](#).<sup>11</sup>**

NCG is piloting the [SCF](#) concept in [Puerto Rico](#)<sup>12</sup> and its success will serve as an example for other places with similar development needs around the world. The full scope of the SCF pilot program in Puerto Rico is explored in this document [Rebuilding Puerto Rico](#).<sup>13</sup> The Institute will oversee and manage the SCF program in Puerto Rico as its pilot implementation. Commonwealth Capital will play a key part in facilitating the replication of the SCF worldwide.

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*A significant portion of the SCF program can be funded with the complementary currency, including a program designed to make existing small and medium sized for profit businesses substantially more profitable, as described in this document [Prosperity for Puerto Rico](#).<sup>14</sup> But there remains a substantial need for conventional investment funds in the form of a national currency (e.g., U.S. dollars) and that is where a local CIF comes in.*

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As part of its SCF program, NCG is organizing a CIF in Puerto Rico, as explored in the document [Nurturing Small Business with Puerto Rico Economic Development Companies](#).<sup>15</sup> This effort entails establishing a [benefit corporation](#)<sup>16</sup> as the corporate vehicle to serve as the CIF. The choice of a benefit corporation structure is to reinforce the overall goal of this CIF, which is to serve the community as a whole and not just investors.

This CIF will be organized as a Section 3(b)(2) holding company, as defined in the U.S. Investment Company Act of 1940 and corresponds to the type of CIF described on page 66 of the above Community Investment Funds how-to guide. It will also serve as the preferred model for the CIFs supported by Commonwealth Capital.

## Enhancing Liquidity

A further nuance of this model entails turning these holding company CIFs into [publicly traded](#)<sup>17</sup> entities, thereby accomplishing two key goals:

- Providing [liquidity](#)<sup>18</sup> for all investors.
- Allowing *anyone* to be an investor in the holding company, not just [accredited investors](#),<sup>19</sup> thereby opening it up to *all* residents in the community.

Because this form of CIF is focused on investing in and acquiring small and medium sized enterprises (SMEs), we call it a [Small Business Holding Company](#) (SBHC).<sup>20</sup>

Commonwealth Capital will primarily focus on investing in SBHC-structured CIFs. The Institute will provide communities interested in establishing this kind of CIF with a full templated instruction set on its setup and administration, along with instructions on raising additional funds and registering the CIF as a public company with the SEC. The template will also include the provision that the SBHC CIF be organized as an [externally managed fund](#)<sup>21</sup> wherein a separate group will manage all the investment and acquisition activities and receive both a [management fee](#)<sup>22</sup> and a [performance fee](#)<sup>23</sup> for those services.

In keeping with the overall community benefit represented by the use of a benefit corporation structure, Commonwealth Capital will give priority to local groups who use a non-profit organization to

manage the investments of their CIF. That way the management fees and performance fees will primarily inure to the benefit of the whole community and not just fund managers interested in making money for themselves.

Likewise, those CIFs will be encouraged to retain all the profits generated by the companies the CIF invests in and/or acquires rather than providing investors with dividends, which would extract profits. Under our SBHC CIF model, investors should realize considerable capital appreciation, which, by virtue of the public trading status, allows them to realize profit through the sale of their ownership interest.

## A Complete Program

Finally, even though a local CIF that adopts our model can be quite successful without the benefit of a parallel local SCF program, the goal of uplifting the entire local economy is greatly enhanced by the implementation of an SCF program. Doing so will likely lead to greater success and profitability of the CIF in the process, due to the mutual benefits that each program will realize.

Thus, Commonwealth Capital will prioritize communities that adopt the SCF program to complement their CIF. The Institute will provide comprehensive instructions for implementing the SCF along with guidance on establishing, operating and growing it in order to provide a more complete development program for the community. As a condition of that support, the local SCF program must be established and run as a non-profit. It is recommended that the non-profit be the same entity that manages the in-

vestment portfolio for the CIF, as the fees from that management service can then be applied to other elements of the SCF program.

## Initial Investment

Commonwealth Capital will target a larger investment in funds that are coupled with the SCF, e.g., in the \$10 million range vs the \$5 million range for CIFs that don't implement the SCF.

If the former, the fund will be encouraged to take approximately \$1 million of that investment to pay for the establishment and initial running of the SCF. If that effort entails the implementation of the SME program described in the above *Prosperity for Puerto Rico* document, the program stands a very good chance of becoming self-funding thereafter. Nonetheless, additional fundraising in the form of grants and donations to the SCF effort will accelerate and enhance its benefit to the community.

## UNIEX – a Trading Platform

Finally, since CIFs are intended to be publicly traded SBHCs, they could benefit from having a common trading platform wherein investors can buy and sell their ownership interests. Most will issue securitized tokens to represent ownership interests, as described in [this fund](#)<sup>24</sup> being established on Puerto Rico. Those tokens are based on blockchain technology and so can be traded on a platform resembling a cryptocurrency exchange. The Institute plans to form such a trading platform, to be called UNIEX, short for UNiversal EXchange.

To learn more, contact Michael Sauvante, Executive Director of NCG and the Institute, at [msauvante@commonwealthgroup.net](mailto:msauvante@commonwealthgroup.net), (805) 757-1085.

## Endnotes

1. [scf.green/doc/CommunityInvestmentFunds.pdf](http://scf.green/doc/CommunityInvestmentFunds.pdf)
2. [en.wikipedia.org/wiki/Seed\\_money](http://en.wikipedia.org/wiki/Seed_money)
3. [www.investopedia.com/terms/f/fundsoffunds.asp](http://www.investopedia.com/terms/f/fundsoffunds.asp)
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### CONTACT:

Michael Sauvante, 805 757 1085

[msauvante@commonwealthgroup.net](mailto:msauvante@commonwealthgroup.net)