

Slow Money Vermont Institute

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Day 1

Welcome and Introductions

Woody gave introductory remarks and framed the institute in the overall process of launching Slow Money.

Slow Money workshops have been held for the past several years, involving a few hundred leaders in food systems from across the United States. In 2008, the decision was made to formally establish a new organization, in order to bring the Slow Money vision to market and to finalize strategies for aggregating and deploying a first Slow Money fund in 2009.

Tom Stearns, CEO of High Mowing Organic Seeds, explained his interest in Slow Money as a new way of looking at money and using money to heal the broken food system and build a new, healthier economy.

Tom sees the potential of Slow Money to focus on, assist and connect regions across the country. People are beginning to act in a meta-economic way, i.e. shopping at farmers market. However a concerted, deliberate effort is needed to create greater connectivity between players across the board.

He stated, “Here is the big ship going through the water. There are little stones being thrown at it. But the ship is not changing direction fast enough. By coordinating in strategic ways, we can change the ship’s direction.”

Slow Money Portfolio Model

Amy Dickie, of California Environmental Associates, introduced the portfolio model for investment in Vermont. The model includes investment in small, sustainable food enterprises, or “SFEs”, timberland and farmland. Riskier and more variable returns from enterprise investment would be offset by more predictable returns from land investment.

Appropriate Scale

Within a general discussion of “slow” and “local,” the issue of appropriate scale surfaced repeatedly during initial explorations of investment strategy. Tom Gilbert asked how Slow Money would handle a home-run investment, one that grows to national scale. Mateo Kehler pointed out that too much focus on small would be inappropriate. Tom Stearns added that “while small is beautiful, medium is pretty good.” Edward Delhagen added that nature provides models for sorting out issues of appropriate scale and network design.

Appropriate Return on Investment

Tom Willits noted that change is happening in philanthropy: the line between social investing and philanthropy is blurring.

Woody stated that Slow Money will not be afraid to design new ways for foundations to do more effective mission-related investing, even looking at such radical design possibilities as negative return

investing. “We may need different buckets: perhaps a low-return venture bucket, that delivers, as per our model, a 5% return, but perhaps also a negative return bucket, if that turns out to be a way that foundations can most effectively use some of their capital.”

Tom Stearns added food and agriculture are inherently limited: they can only have so much of a return and yield. “If your aim is to maximize financial return, your mission is always one of the first things to go,” he stated.

Rian Fried said that most of the high-net-worth investors he advises are not interested in maximizing financial return and are quite eager to put money to work in new, more impactful ways, even if they have low returns.

Cathy Berry pointed out that there is a whole community of foundations that want to fund rural development and that Slow Money has significant potential simply when viewed through the lens of rural development.

Network Design

Woody stated, “Our effectiveness going to market and aggregating capital will depend upon our ability to build effective stakeholder relationships in each region. I’m very heartened by the quality of the food system networks that are emerging in regions across the country, and by the potential for Slow Money to bring some seed capital from outside the regions and then find ways to help folks accelerate what they are already trying to do. We are not trying to reinvent the wheel, or to build an outside funding entity that drops in some capital and then transfers investment returns to endowments outside the region. We are trying to catalyze what is going on inside the region, in collaboration with regional stakeholders.”

There was strong consensus that local food systems were already in development across Vermont, and that there was significant potential for Slow Money to bring to the table catalyzing investment and strategic relationships from outside the region.

Day 2

Introduction

Responding to the desire of attendees, the opening session of Day 2 explored 25-year visions for the Vermont food system.

Some of the discussion of the potential roles for Slow Money included:

- **Organizing Communities:** Using Slow Money's vision to nurture existing networking within the state and bring networking relationships with external communities
- **Farmers Banks:** Local banks are shipping their dollars elsewhere. Could we bring back farmers banks, local financial institutions built around the capital of farmers and food systems stakeholders?
- **Affordable Food:** "There are hungry people in Hardwick."
- **Food Independence and Resilience:** "We need diversified agriculture for communities to be resilient."
- **Business Incubation and Innovation Hubs:** "The role of Slow Money is to create and manage conversations and structure deals. It's not just about capital."

Case Study: High Mowing Seeds Financing

Tom Stearns gave an overview of his recent fundraising for High Mowing Seeds. The \$800,000 round was structured as a 5 year convertible loan with an end of term option to convert or term it out with a balloon payment of interest and principal. If all the investors converted to equity, Tom would have sold 26% of his company. Critical to Tom's capital raising was the PRI from Castanea, which came in on the same terms as the other investors.

Several investors in High Mowing were in attendance: Tim Storrow of Castanea Foundation, private investor Carl Etnier, and Rian Fried of Clean Yield. Each made brief presentations of the rationale behind their participation in High Mowing. Rian Fried commented from his experience with the High Mowing Offering that "it built a great deal of loyalty between our clients and us. Our clientele are progressive thinkers and they are really looking for this kind of strong social return opportunity." Fried explained, however, that his firm was not really set up for the kind of intensive due diligence that a deal of this sort required, which is one of many reasons that he is enthusiastic about Slow Money.

The discussion indicated that there was a need for pump priming that could catalyze others to make this kind of investment. Jay Healy asked, "How do we make this something that works for more than just a group of insiders?"

Entrepreneurial Solutions: Perspectives from Michael Rozyne, Founder of Equal Exchange and Red Tomato

Michael Rozyne presented an overview of his decades of innovative work in sustainable agriculture. He commented that from Equal Exchange to the different models of Red Tomato, a pattern has emerged that his businesses have featured a diminishing gross margin: coffee offers a much higher gross margin than the marketing of locally produced eco apples and produce, which only have a gross margin of \$2 on a \$50 box. Michael's presentation focused in great detail on the challenges posed by the increasing consolidation of food distributors and the competitive environment of centralized packers and shippers.

Cathy Berry commented that the increasing commoditization and low prices of food goes all the way back to the Depression and policy shifts to make food affordable. Big farms are heavily subsidized. The full costs are higher than the price to the consumer. "It is an entrenched part of the Farm Bill. They are discouraging a sustainable food system with subsidies."

Sustainable Food Enterprises

Mateo Kehler, Jasper Hill Farms

Jasper Hill Farms has become one of the first new farms in Greensboro in recent years. Mateo noted that cheese makers in Vermont are either very rich or quite poor. He added, "If we are going to define the terroir of Vermont which is an economy rooted in a landscape, we need to figure out how to look at the value chain and chip it up into bite size bits that dairy farmers could manage in a way that is viable."

Jasper Hill's philosophy of cheese making is about creating quality cheeses that compete on flavor and quality and are clearly differentiated from industrial producers. Nor do they attempt to strictly imitate and replicate cheese from other parts of the world. He asserted, "We are looking for variation and quality. Flavor sells. If we can experience variations within this narrow band of high quality, we can celebrate."

Jasper Hill Farms is currently working with 11 cheese makers and is seeking to increase this number to over 30.

Chris Bailey, Vermont Smoke and Cure

This regional meat processor has experienced rapid growth in the last few years, with strong demand and a run rate approaching \$2 million in annual revenue and profitability. Vermont Smoke & Cure is currently preparing to raise its first outside equity.

Capital Raised and Seeking Capital

A survey of the room assessed the capital needs of these Vermont sustainable food enterprises:

Enterprises	Raised (in millions of \$)	Seeking (in millions of \$)
Jasper Hill	1.2	2.5
VT Smoke		1.2
VT Soy	0.75*	1
VT Natural Coatings		1
Hardwick Restaurant	0.3	0.1
VT Mystic Pie		1.5
Food Enterprise Center		1
VT Livestock slaughter		0.6
Total		8.9

includes both dollar amount raised for VT Natural Coatings and VT Soy

Nonprofits	Raised (in millions of \$)	Seeking (in millions of \$)
Intervale	1.5	
VIAC		3
VT Sust. Jobs	1.9	
VT Fresh		0.1
Merck		0.8

It was estimated that this deal flow represented from 33%-50% of the sustainable food enterprises currently raising capital in Vermont.

Sustainable Food Investors and Funders

Jeff Rosen, Solidago Foundation

Solidago funds grass-roots organizing: \$40 million in assets, lots of PRIs. Solidago would be interested in investing through an intermediary such as Slow Money.

Tom Willits, Lydia B. Stokes Foundation

Tom noted that the Stokes Foundation began to disengage from the traditional investment world and invest in local systems. They are moving towards 25% of their entire portfolio in PRIs. They invest \$25k – \$50k in companies like High Mowing. They already work with Clean Yield and have a strong interest in the kind of intermediation and social change represented by Slow Money.

Farmland: New Strategies for Intermediation

The Slow Money portfolio model explored using a regional fund to purchase small farms in areas most at risk from development. The funds would be deployed in close partnership with regional NGOs, which will be critical in identifying new organic farmers to take over these farms, and land trusts, which can purchase development rights over time in order to make possible the ultimate purchase of these farms by the farmers.

Gil Livingston, President of the Vermont Land Trust, noted that these investments are risky from a management perspective but some good news is that there is some infrastructure to build from in Vermont, including the Intervale Center. Other than the Vermont Land Trust, there is unlikely anyone else buying farm development rights in Vermont. There is a shared equity tool in Massachusetts that was started under the leadership of Jay Healy.

Tim Storrow at the Castanea Foundation would welcome more money to come into this arena. He says it is challenging to put the deals together, but has done 12 of these projects over the last three years. (It was noted that in California, Farmlink helps arrange land financing for farmers.)

Will Raap Presentation

During the discussion of farmland investing, the question of ecosystem services arose, and Will Raap, founder of Gardener's Supply and Intervale, shared his considerable experience in this area.

Carbon emission allowances trade for around \$4/metric ton in Chicago and \$16/metric ton in Europe. Quantification of the value of total global ecosystems services from the natural world is \$30-60 trillion. The natural economy is generating income of about the same as the human economy. Sulfur dioxide is also trading in the US. Wetlands and forest and other ecosystem reclamation could sequester half the carbon in the atmosphere.

Issues with the carbon markets include:

1. The framework is still young and depends on government policy.
2. Questions about where the carbon credits will ultimately lie: tied to the land or to the project.

3. The market is more developed in Europe, where future developments could influence the shape of carbon markets in the US.

It was noted that companies like Carbon Farmers of America, a Vermont company, are very early players in attempts to build markets for carbon payments to farmers who build the organic matter in their soil.

Conclusion

Janice St. Onge, from Sustainable Jobs Fund in Vermont, indicated that they are thinking of raising a new fund, but they are not interested in taking equity positions in businesses. In her view, Slow Money could partner with an existing fund such as theirs, bringing additional scale and an outside perspective. "Here amongst our existing network, we have the tendency to group think more than we like to admit," she observed.

Jay Healy worried that if Slow Money pursued both financing and mentoring it might spread itself too thin.

Cathy Berry commented, "In addition to aggregating capital and bringing it into the region, Slow Money needs to also be involved in organizing. Convening and network building is something we can help with, as this meeting demonstrates. Work on social capital is key."

Eric Becker commented that in designing Slow Money vehicles, it is critical that we have a great deal of flexibility, in terms of scale, types of security and points of intervention.

Ed Delhagen suggested a need for transparency and emphasized the centrality of networking principles.

Tim Storrow commented, "You get it already. You understand the issues that are important. Slow Money can play a very instrumental role in bringing capital and can also help as a catalyst."

Woody concluded, "The compost pile is definitely heating up."