Future Returns: Upstart Co-Lab to Create Inclusive Creative Economy Fund

The Barron's Daily

A morning briefing on what you need to know in the day ahead, including exclusive commentary from Barron's and MarketWatch writers.

Paskho has founded "maker pods" in underserved communities in the U.S. to sew its "community-made" garments. This group is in Boykin, Ala.

Courtesy of Upstart Co-Lab

Impact investors soon will have an opportunity to invest in the first private fund focused on U.S. businesses dedicated to arts and culture and social impact.

Upstart Co-Lab, a 6-year-old nonprofit organization in New York focused on the “creative economy” is aiming for a first close to an Inclusive Creative Economy fund this fall with capital raised by foundations and donor-advised funds (DAFs).
“We think charitable capital will understand the importance of proving the potential here, in the same way they’ve proved other firsts in impact investing,” says Laura Callanan, Upstart’s founding partner.

The nonprofit, which is a sponsored project of Rockefeller Philanthropy Advisors, will build its creativity-economy fund based on its experience advising and collaborating with individual impact investors, private foundations, and endowed cultural institutions with about US$1 billion in investment capacity. Since 2020, this 11-member community has invested about US$9 million in 12 creative businesses and funds that invest in the creative economy and that Upstart has sourced and reviewed.

Penta recently spoke with Callanan about how Upstart Co-Lab has fulfilled its mission so far of “disrupting the way creativity gets funded,” and its plans for the future.

What is the Creative Economy?

The kinds of businesses that fit Upstart’s criteria are wide-ranging, from food, to fashion, dance, design, and visual arts. According to the nonprofit, states and regions across the U.S. have defined the creative economy to include 145 specific industries that combined are valued at US$920 billion.

Upstart has grouped these industries into five categories, including ethical fashion, sustainable food, and social impact media. A fourth category, “other creative businesses,” includes immersive experiences, toy and game makers, and other “art, design, culture, and heritage industries that drive social impact.” A fifth is “creative places,” which refers to real estate projects that support creative industries.

The nonprofit has also placed emphasis on creating social impact through these investments by supporting women and diverse entrepreneurs, providing high-paying quality jobs, and investing in businesses that support local communities.

These lenses have led Upstart to companies such as Paskho, a New York-based environmentally sustainable Black-owned apparel firm and Upriver Studios, a women-owned film and TV production company creating jobs in New York’s Hudson Valley.

But it also advised its members to invest in funds, such as Community Investment Management, or CIM, an institutional impact investing fund that provides debt funding, focusing on small businesses with diverse owners and underserved communities. About 24% of CIM’s lending portfolio is to creative industries.

Investing Alongside the Crowd
One of the investment opportunities it identified for members in 2020 was Honeycomb Credit, a Pittsburgh-based crowdfunding and fintech platform that enables local businesses to secure small business loans.

Last week, Upstart announced it had partnered with Honeycomb to create a loan participation fund, or LPF, that will allow three foundations to participate in crowdfunding campaigns.

The Jessie Ball duPont Fund, the A.L. Mailman Family Foundation, and the Souls Grown Deep Foundation and Community Partnership—organizations that have been part of Upstart’s member community—are investing a total US$600,000 in the LPF. However, their funds—$10,000 per loan campaign—won’t be deployed until each business seeking a loan raises a designated threshold through crowdfunding, Callanan says.

“The crowd has to get the campaign to its minimum or the foundation’s money isn’t triggered,” she says. “It’s filling a gap that community banks used to play.”

The average loan size on Honeycomb’s platform was US$70,000 in 2020, with about half going to borrowers that can’t get financing through traditional loans from banks and community development financial institutions.

The LPF is structured so that each foundation can dial into the geographic area they care about and the type of impact they want to achieve, Callanan says. The Jessie Ball duPont Fund will focus on entrepreneurs in seven northeast Florida counties, prioritizing borrowers who are low-income, women, or people of color, while Souls Grown Deep and the A.L. Mailman Family foundations are zeroing in on Black-led companies in nine southern states.

**An Inclusive Creative Economy Fund**

Funds specifically designed to fund capital to creative businesses exist elsewhere in the U.K., Europe, Africa, and Latin America, but none have popped up so far in the U.S., Callanan says.

Over the last 18 months, Upstart’s members have selected opportunities brought to them by the nonprofit, with one or more diving into each. For its next chapter, Upstart is shifting gears to raise a pool of capital that it will control and “can deploy against a clear and specific strategy,” Callanan says.

By taking this approach Upstart can prove that financing the creative economy can result in both financial returns and “a comprehensive measure of impact,” she says.

The goal is to raise US$100 million, beginning with a first close of about US$20 million in program-related investments this fall. For its initial fundraising Upstart is partnering with Impact Assets, a Maryland-based firm with a US$2.3 billion DAF platform focused on impact investing.
In January, it will expand its fundraising efforts to include a wider range of investors. The pool of investments that the fund has to choose from includes more than 250 funds, companies, and real estate projects that are raising US$2 billion in impact capital, according to Upstart’s 2021 impact report.

Callanan says the nonprofit has had conversations “with quite a few foundations and DAFs,” but what’s interesting is “we have some investors who want to allocate private capital,” she says. “That’s a huge vote of confidence in what we are trying to do.”