

# MAYCOMB CAPITAL COMMUNITY OUTCOMES FUND II

An Outcomes-Based Financing Investment Option Available on the ImpactAssets Investment Platform



## Outcomes-based financing increasing access to health equity, workforce development and early childhood services in the U.S.

The United States faces a paradox as it has some of the highest levels of government and philanthropic spending in the world, but also pervasive economic and social inequality. State and local governments spend roughly \$860B on public welfare annually, representing nearly a quarter of general expenditures.<sup>1</sup> Meanwhile, an estimated 54% of American children do not receive early childhood education and nearly half of all U.S. families do not earn enough income to cover basic expenses.<sup>2</sup> Notably, these access gaps are not the result of too little spend, rather that the funding is not leading to meaningful outcomes. Compared with similar nations, the U.S. spends more per capita, and achieves less across several key metrics for well-being.



Photos courtesy of Maycomb Capital

These enduring inequality gaps have driven policy experts, investors and philanthropists to reconsider how dollars are currently allocated. Among the alternative mechanisms that have gained traction is outcomes-based financing. Also referred to as pay for success initiatives or social impact bonds, outcomes-based financing directs public funding towards the most effective activities to optimize outcomes in the communities they aim to serve. These models aim to improve government effectiveness and service delivery by predefining desired results and providing payment based on the achievement of those outcomes. The approach emerged roughly a decade ago in the UK and has since grown to approximately 250 contracts across 40 countries.

Maycomb Capital “Maycomb” is an impact investment firm on a mission to improve the lives of Americans from low-income communities. Through its Community Outcomes Fund, Maycomb lends against outcomes-based financing contracts with the goal of better aligning key stakeholders, optimizing funding towards evidence-based interventions, and ensuring communities in need receive more consistent and high-quality care.

**Examples of impact from Community Outcomes Fund I include supporting nearly 2,000 direct care workers in California with cash incentives, increasing average earnings of new Americans in Massachusetts by \$20,000, and improving pre-literacy skills in 4 year olds in Tennessee, such that 71% were “on track” (compared to 60% nationwide average).**

<sup>1</sup>Urban Institute

<sup>2</sup>The Brookings Institution & Annie E. Casey Foundation

## INVESTMENT EXAMPLE: HELLO FAMILY

Hello Family is a coalition of local organizations working to improve prenatal and early childhood outcomes in Spartanburg, SC.

With a goal of reversing Spartanburg’s trend of child poverty, the coalition seeks to create an overarching culture of health and improve birth, health, learning and child welfare outcomes for all children living in the city, prenatal through age five.

Maycomb’s financing supports Hello Family’s continuum of evidence-based prenatal and early childhood services and has so far supported 4,000 children and families through home visits – including community doulas and lighter-touch nurse home visits – parenting classes and coaching, and childcare provider capacity building.

Maycomb is currently raising \$100MM to pursue this strategy via Community Outcomes Fund II, which will promote economic well-being and livelihood through investment in three key areas: early childhood, health equity and workforce development. Maycomb will invest across 20-25 experienced program providers nationally.

This fund may be an attractive opportunity for investors pursuing a moderate-risk strategy who are comfortable with a 10-year lockup (albeit with the potential for cash flows during the later years of the fund life) and who wish to generate meaningful health, childcare and workforce outcomes for low-income communities in the U.S.

Maycomb has been at the helm of outcomes-based financing projects within the U.S. and has extensive connections across local and national governments. This network and credibility enable Maycomb to identify robust and actionable deal flow and uniquely positions Maycomb to effectively garner local financial and political support.

## About Maycomb Capital

Maycomb Capital is a women-owned and led New York based impact investment firm focused on driving long-term change in disadvantaged and low-income communities across the U.S. Since its inception in 2016, Maycomb has specialized in providing flexible, mission-aligned debt to social service providers via outcomes-based financing contracts. By prioritizing achievements at the onset and fostering alignment between key stakeholders, Maycomb seeks to close the performance gap in service delivery and drive greater alignment and results in government spending.

## About the Venture Impact Program (VIP)

VIP is an innovative way for MCF donors to engage in impact investing through philanthropy. Via a partnership with ImpactAssets – a market leader in impact investing – VIP enables philanthropic dollars to be directed towards both non-profit and for-profit companies that are seeking to make positive social or environmental impact. For further information, contact Safia Kryger-Nelson at MCF, 415.464.2515 or [skryger-nelson@marincf.org](mailto:skryger-nelson@marincf.org)

## SUSTAINABLE DEVELOPMENT GOALS

1 NO POVERTY



8 DECENT WORK AND ECONOMIC GROWTH



3 GOOD HEALTH AND WELL-BEING



10 REDUCED INEQUALITIES



4 QUALITY EDUCATION



## Risk Return Matrix

The Risk Return Matrix is a risk calculator determined solely by ImpactAssets.

RISK LEVEL	HIGH			
	MODERATE		✓	
	LOW			
		NON-MARKET RATE	NEAR-MARKET RATE	MARKET RATE
RELATIVE RETURN				

## Offering Summary\*

<b>ASSET CLASS</b>	Private Debt; LP interest is in a 10-year fund that will use proceeds to make debt investments. The fund has a unique investment structure with elements typical of both debt and equity funds. The risk/return profile reflects a debt fund, mirroring the underlying investments. The fund term and investor repayment schedule resemble an equity fund: Maycomb does not have a specified cadence for investor cash flows but intends to begin returning investor capital in the second half of the 10-year fund, though the timing of those fund flows will depend on the investment deployment schedule.
<b>TARGET FUND SIZE</b>	\$100MM (\$65.5MM closed as of October 2024)
<b>TERM</b>	10 years (with optional two 1-year extensions)
<b>TARGET RETURN</b>	6.5% net IRR
<b>REGION</b>	U.S.
<b>IMPACT AREAS</b>	Early Childhood, Health Equity and Workforce Development Services
<b>INVESTMENT FEES</b>	This investment recommendation will incur an additional fee of 0.40%
<b>INVESTMENT THESIS</b>	Lends against outcomes-based financing contracts to channel funding towards the most effective solutions for underserved communities. By prioritizing achievements at the onset and fostering alignment between key stakeholders, Maycomb's investments ensure that communities in need receive access to high-quality services.
<b>IMPACT THESIS</b>	Due to the Outcomes-Based Financing model, Maycomb's impact thesis is inextricably linked to the investment thesis in prioritizing investments in organizations that have a proven track record of providing high quality social services within three thematic areas to target communities.
<b>STRENGTHS</b>	<ul style="list-style-type: none"> <li>• Maycomb's investments are directly tied to ensuring communities receive high-quality care, leading to measurable, defined and meaningful impact in sectors vital for social and economic mobility. Due to the linkages between outcomes and repayment, investors have strong visibility on the direct impact their dollars create.</li> <li>• Maycomb has evolved into a leader in the outcomes-based financing sector, backed by a well-rounded, cohesive and passionate team committed to transforming the landscape of social service delivery.</li> <li>• Maycomb's comprehensive and flexible approach to investment structuring mitigates investor downside risk while promoting cross collaboration among partners.</li> </ul>
<b>RISKS</b>	<ul style="list-style-type: none"> <li>• Maycomb anticipates Fund I delivering on its gross return target of 8%, however the projected net return of 2% is below the target of 5%. The gap between gross and net returns is a result of slow investment pacing at the Fund's onset which was compounded by the COVID-19 pandemic. The slow pacing ultimately resulted in a drag on net performance as there were not investor returns to offset management fees. The Manager aims to improve the net return profile for Fund II primarily by deploying capital at a more consistent pace and thus generating cash flows and returns earlier in the Fund life.</li> <li>• Challenges in strategy expansion are typical of outcomes-based financing and community-level projects due to unique needs of each investment. Building on the deployment of its first fund, natural evolutions in Maycomb's model that address scaling challenges include no fund-level guarantee, an expansion of impact themes and a more diverse set of partners, including payors and service providers.</li> <li>• Maycomb is reliant on current government regulations to carry out its strategy, and while relatively well-insulated, significant policy changes could impact the strategy.</li> </ul>

## An Introduction to Outcomes-Based Financing (also known as Pay For Success or Social Impact Bonds)

Outcomes-based financing, also referred to as pay for success initiatives or social impact bonds, directs public funding towards the most effective activities to optimize outcomes in the communities they aim to serve. These models aim to improve service delivery and government effectiveness by predefining desired results and providing payment based on the achievement of those results. The approach emerged roughly a decade ago in the United Kingdom and has since grown to approximately 250 contracts across 40 countries.<sup>3</sup>

The key players for outcomes-based financing strategies include service providers, payors, and the investor. Despite the wide array of investment structures, the mechanics of an outcomes-based financing deal are generally consistent. The transaction flow chart below simulates the various flows of capital taking place throughout the course of a project. The process begins as the three parties agree at the onset on a specified list of impact outcomes that must be achieved for investment repayment. An investor such as Maycomb Capital provides working capital to an organization to carry out the programming. As the service provider reaches key outcome milestones, the payor, typically the government, will provide payment to the service provider, which is used to repay the investor. Unique and core to the approach is ensuring shared alignment, and thus engagement and investment, across all three parties.

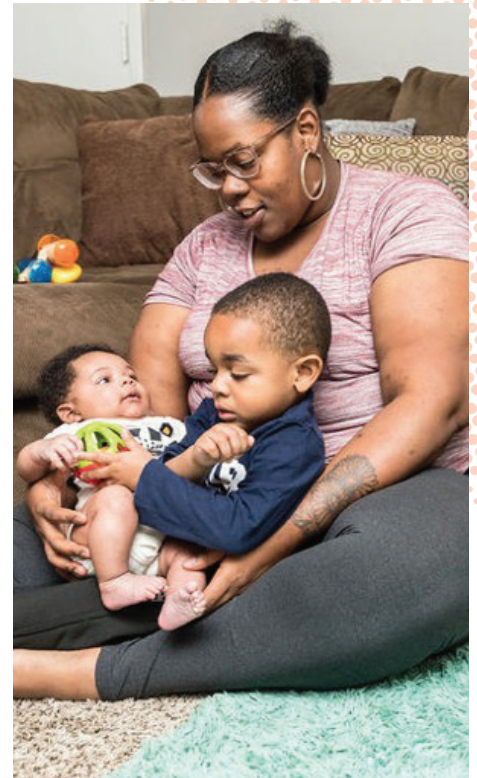


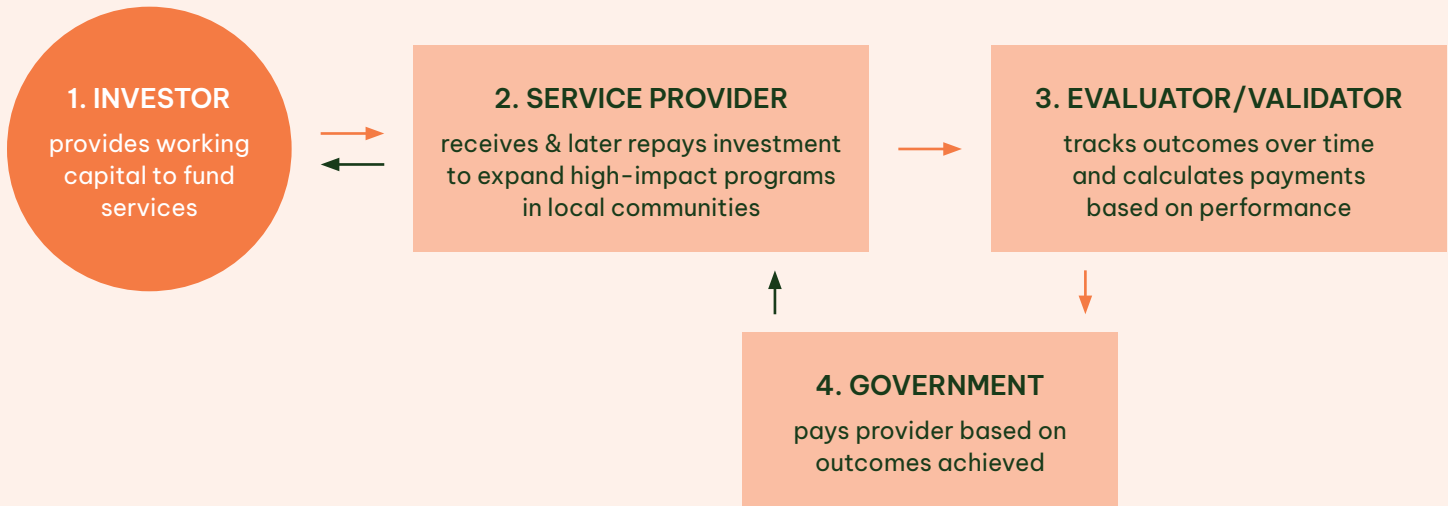
Photo courtesy of Maycomb Capital

### HOW IT WORKS: MAYCOMB CAPITAL'S APPROACH TO OUTCOMES-BASED FINANCING, IN PRACTICE

At the onset of the investment, in conjunction with the project partners and other subject matter experts, Maycomb clearly defines the project's outcome metrics, payment rates, and external targets that are ultimately agreed upon by all stakeholders. When determining outcomes, Maycomb typically engages a range of stakeholders to ensure impact validity, rigor and feasibility of the target outcomes. Impact outcomes for each individual project vary as the team diligences impact on a case-by-case basis to ensure that metrics tie to best practices, including focusing on evidence-based achievements. Oftentimes, service providers will already have a standardized tracking methodology in place and Maycomb will leverage the existing list of outcomes metrics when drafting the terms of an agreement. In the project documents, Maycomb and the project partners detail the specific metrics that will be tracked, how those metrics must be validated, and how the metrics will be collected and reported on each quarter. At regular intervals, typically every three to six months in Maycomb's case, the payor will release payment to Maycomb in accordance with impact achievements to date. Unique to Maycomb's model, there are multiple pathways to repayment based on diversified pool of metrics that provide flexibility to pivot or double down where service providers are or are not demonstrating success.

<sup>3</sup>Brookings Institute Global Impact Bonds Database (2024)

## SAMPLE TRANSACTION FLOWCHART



\*There is no guarantee that any projection, forecast or opinion around any given investment will be realized with respect to impact, performance or liquidity. Past performance does not guarantee future results.

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The information contained herein (the "Information") regarding Maycomb Outcomes LLC ("Maycomb") is solely designed to provide current investors in an MCF sponsored donor-advised fund ("DAF") with information about potential or existing investment opportunities for the DAF. Nothing contained herein is intended to, or should be viewed as, an offer of securities by Maycomb or an opportunity to invest directly or independently in any Maycomb product. The Information is being made available solely to existing investors of the DAF and no copying or distribution of the Information is permitted.