

Episode 34

Leaders Series: Economic inclusion & advancement

Bernadette Bridy:

Welcome back to FireSide, a podcast from FS Investments. This is Bernadette Bridy, Head of Marketing here at FS. On this episode of FireSide, we're sharing a live recording of our quarterly Chairman's Reception, which featured a panel discussion on the topics of inclusion and the advancement of minority owned businesses. The panel included three esteemed Philadelphia business leaders: Della Clark, President of The Enterprise Center, Damien Dwin, CEO of Lafayette Square, & Jeff Hornstein, Executive Director of the Economy League of Greater Philadelphia. We're so grateful to each of these panelists for sharing their stories with us, and we hope you enjoy this engaging conversation as much as we did.

Michael Forman:

Good afternoon, everybody. It's great to get everybody together. Feels like old times a little bit. This is quite an exciting day and we have a great panel here. I want to thank my colleague, Mike Gerber for helping to put this together and the rest of the inclusion group for making this happen. It's an important day for us. I'm going to introduce Damien Dwin. Damien founded a business called Brightwood, which is a platform for diverse managers, which is a way for him to express his investing acumen in a diverse environment. I'm on the board and not only is it 50% diverse, but it's 50% female, which is just amazing in our business to build that kind of business. And I'm really proud of what Damien has accomplished and proud to call him my friend. Damien will be one of our panelists, and Chris and Lara are going to introduce the other panelists.

Chris Condelles (00:02:48):

Thanks, Michael. So I'm excited to introduce Della Clark. I've had the pleasure of getting to know Della over the past two and a half years as part of being an advisor to the Innovate Capital Growth Fund. I'm sure Della is going to tell you more about it, but it was really conceived by Della to address a need in minority led businesses, where you found that the early stages, all they could get was really expensive debt as a leverage guy like that, but for a small business, equity's really what they need. The best way for me to introduce Della is by a quote from Larry Plat, when he interviewed her, he described Della as a force of nature. And I think when you think of the impact Della's had on the community, I think that's the right way to describe her. She's president and CEO of The Enterprise Center since 1992. In that time they've helped 1000+ small businesses through alliances and partnerships. She's procured over \$631 million in contracts to help those businesses, made 110 loans. And with the Innovate Capital Growth Fund, she's taking it to the next level for these entrepreneurs. So I'm excited you're going to get to hear from her, and I'm really appreciative of Mike and Michael for letting me be part of that. So thank you.

Lara Rhame (00:04:14):

Hi, my name is Lara and I am proud to serve on the board of the Economy League of Greater Philadelphia. I have been on that board for the last five years, thanks to FS Investments, which

has given me that opportunity. So thank you, Mike and Michael, for that. Jeff Hornstein joined us as the director soon after I joined the board and he just has had an incredible impact, but I work closely with the Policy Hub Initiative. Jeff describes it as the goal of creating policy with actual data underlying it. So it's just one of these dreams that we share. And then of course coordinating with other cities across the U.S. to understand what they're doing, how they're doing it and how really as economies grow and as cities grow, we can really create a rising tide that lifts all ships. So Jeff really cares very deeply about trying to improve job quality, quality of living and standard of living across the entire city. So he's a great neighbor and has been a really powerful executive director of the Economy League over this time.

Michael Gerber:

As Michael said, it's really a pleasure to finally have an opportunity to be together and be in person. It's my pleasure to be able to host this today and ask questions of our guests. All three of whom are good friends of mine and are doing amazing things that I think you're really going to enjoy hearing about, as Michael match. And I'm going to start with Damien. Damien's also on the board of FS Holding. So not only is Michael on Damien's board, which is now called Lafayette Square, but Damien is on our board and then we'll just go down the line to start off. So if you all would, and hopefully your mics are working. Just spend a couple of minutes before we get into the actual work you're doing talk about your backgrounds and how you came up professionally to get you to the point where you are today.

Damien Dwin (00:07:50):

It is great to be with everybody. I'm Damien Dwin, born and raised in Washington, DC. I'm 46 year years old. My son is in the corner here, Connor. Senior in high school just got into Georgetown. So I'm very happy. My daughter is on spring break in Miami, living her best life.

Damien Dwin (00:08:17):

And listen, I'm the son of a bus driver. My dad was born in a small town in East Texas called Port Arthur, and he decided to go party after the military. Met a girl in DC, they got married and I'm their only child. My mom retired after 40 years in the federal government. She was one of seven kids, Southeast DC. Her brothers both went to boarding school actually is a part of desegregating Southern boarding schools in the '60s. And so I followed my uncles to the same prep school. And while there had a classmate, who's a son of an investment banker. Very famous investment banker called Urshkin Bulls. He founded a boutique called Bulls Hollowell, and I met Urshkin toward his prime as a banker in 1990. And I was curious about what differ living because he had a jet that led me to ask questions and the headmaster of the school happened to be a road scholar in Harvard Business School alum.

Damien Dwin (00:09:22):

And it sort of set me on this path. I got an internship at Georgetown and Lehman Brothers. I worked in their DC office. Lehman actually employed me my entire sophomore year at Georgetown, if you can imagine. Went to New York as part of the SEO program. Something that most people of color, it's hard not to have a connection to SEO or INROADS. If you are particularly black or Hispanic and have survived in finance more than a few years. And so, I was a very proud 1995 SEO participant. I graduated college '97. Worked for a year at Somers Brothers in their sales and trading business, and then moved to Goldman Sachs as a second year analyst. That was the year that Goldman pulled the IPO. So I joined the firm before the IPO and spent six years in New York and law working for that firm in the leverage finance business as a bank loan trader in 2004, I joined credit SW and had a nice six year run at that firm.

Damien Dwin (00:10:26):

Actually, co-founded the special opportunities business for Credit Suisse. But interestingly, my son very astutely pointed out and there's a comment I'm about to make about being black. My son, very astutely pointed out, being smart and working hard was a necessary ingredient to whatever success I've had, but there's a third piece that was present every time something really good happened for me and that was a crisis. And so the financial crisis for me, although it as painful as it was for everybody resulted in me being able to buy my business from Credit Suisse. And the firm actually seller financed the purchase. Credit Suisse did not do it because I'm black. Credit Suisse not do it because they're trying to do me a favor. They were desperate to get risk weighted assets off their balance sheet. I just happened to know enough about out this game, that if I could buy something at 65 cents a dollar, it was 77.5% leverage at 3%, I should do it.

Damien Dwin (00:11:29):

And so I quit my job, bought the assets. It was obviously in retrospect, a liquidity crisis, not a credit crisis. I wound up selling all the assets apart. I made \$13 million after tax in my early 30s. And so with that liquidity, I started a business named after the neighborhood in DC, where I grew up, Brightwood. I was a 50-50 partner in this business, named it after my child at home, 10 years ago by we invested eight and a half billion in 170 companies, average Gibida \$40 million. I met a guy in Philadelphia called Michael Forman along the way.

Damien Dwin (00:12:05):

So my story is I would argue in many respects, your story. FS was born out of a series of events where nobody really saw this house coming. Look at who we are. Look at what we have produced. And FS sits apart from the rest of the industry. This business does not look like any of its direct competitors and nobody can recreate what we are and what we do. I think there are things that rhyme with what it is to be a person of color and finance, with some of that dynamic. And I cannot be more proud to represent each of you in this great brand. I love the management team and what the place aspires to be as much as what we have accomplished. So appreciate the opportunity to be here today.

Speaker 4 (00:12:55):

Thank you, Damien. That was great. Jeff.

Jeff Hornstein (00:12:57):

Wow. My name's Jeff Hornstein. My parents, I guess I'll start origin, but go a little bit quicker, because not that much interesting stuff happened after that. My parents did the white flight thing out of Brooklyn when I was a kid, grew up in a town on the Jersey shore, which I left at 18 and I've never spent more than two consecutive days in since. At 10 years old, I got very lucky to be taken under the wing of a former Cooper Union professor who inspired me to go to MIT, the first person in the 300 year history of my town to go. I got my ass handed to me when I was there, which a very humbling experience being the smartest kid for Madeline Regional High School does not mean you can cut it at MIT, but I managed to survive and graduate. Ended up at Penn for Graduate School, which is what brought me to Philadelphia.

Jeff Hornstein (00:13:49):

I was there at 1990. I was a bouncer at Smokey Joe's and then he went to Penn. Part of the job in 1990 was walking students home when the bar closed, because it was such a dangerous neighborhood. So Fort Dallas started transforming things over there. But it was an interesting time to be in Philadelphia. My college buddies were all in New York and San Francisco getting in on early on tech. And one of my friends, "You should buy stock and Microsoft." It's like what a dumb idea that is. I came to Philly a few weeks before the Meridian Bank building burned down.

Watched it burn from the window of my fraternity house 34th and Walnut, where I was a resident advisor. And it was quite an experience. At Penn was the first time I ever really was around super rich people. I was in a, in a very waspy fraternity, but they paid for me to go to Penn, which was great.

Jeff Hornstein (00:14:43):

Fast forward. I got a PhD. Spent 10 years as a history professor, wrote a book about the real estate industry called "The Nation of Realtors", which is still in print 15 years later. So for some unknown reason, but it generates about a \$50 royalty check a year that I just enough to buy a bottle of good whiskey, which I do. And after spending about 10 years in academia, I realized it wasn't really a good personality fit for me. So I joined the labor of movement and came back to Philly in 2001 to organize the teaching assistants at the University of Pennsylvania, an amazing \$2 million campaign that went nowhere because the great liberals who run Penn used the Bush labor board to make sure that the election that we won was never certified. The ballots are still mulled in a way in some box in DC, probably not far from where you grew up Damien.

Jeff Hornstein (00:15:37):

And then I had the great experience of joining the janitors union, SEIU now 32BJ. Back then it was Local 36. It's been almost a decade organizing janitors and security officers and food service workers. And when you see the economy from that point of view, like I grew up pretty modestly. My parents were always on the verge of bankruptcy, but I'm an elite now, right? I went to MIT, went to Penn, like... I'm not trying to claim I'm not, but I saw the economy from a very different level. It transformed me in ways that are still very deep. And that's where I got to meet this guy, Gerber, because he was a state rep FAN. Then we were trying to organize about 5,000 janitors who cleaned all the commercial office buildings in the suburbs. And Mike was incredibly supportive of our work and we used to run protests out of his office.

Jeff Hornstein (00:16:19):

It was great. We shut down Conshohocken traffic exchange. And it's an amazing, amazing experience. We organized about 10,000 workers when I was with SEIU raising wages for minimum wage to 15 or 20 bucks an hour. Huge impact tens of millions of new dollars long into some of the lowest income neighborhoods in the region. But I realized that wasn't going to solve the bigger problems, right? As good as we were at organizing. And we were the best, we could organize 100,000 workers and it wasn't going to move the needle on poverty. I remember having this amazing experience standing on a porch in West Philly, 54th and Christian and a magnificent old mansion had been carved up in the like seven or eight little apartments. And we were organizing workers from Aramark who cleaned planes, right? Planes are cleaned late at night.

Jeff Hornstein (00:17:14):

People wear essentially fifth helmets with little lights on them. They were making \$7 and a quarter an hour at the time are unconscionably low. Penn tucky minimum wage. And I went to house visit this group of workers, and they're five adults living in a house because they just couldn't afford to live better. And my foot fell through the porch. And as I was pulling my foot out of this rotted porch, I saw the Comcast, the heavily subsidized Comcast tower in the distance. And I was like, there's something really wrong with this picture with the society. So I quit the labor movement to run for city council, 2011. I lost due to an electrician who's going to be going to jail soon home. And I'm really known for point punches. So you'll get to know that. And that pivoted me into public policy and joined the controller's office.

Jeff Hornstein (00:18:09):

And while I was at the controller's office, we kind of stumbled across an economic development strategy that's grown into page Philadelphia anchors for growth and equity, an attempt to leverage the purchasing power of our big institutions here to create jobs for growth. And we'll talk a lot more about that, but that's what brought me here. I got asked to apply for the Economy League executive director job just about four or years ago. Somehow, they chose a union organizer to run a business organization. Everyone was kind of confused. The business journal was very confused about this, but one of the first days I was there, Mike Gerber called me down here and said, "We all got to work together," and here I am.

Speaker 4 (00:18:47):

Thank you, Jeff. Della.

Della Clark (00:18:49):

Well, Damien, I'm a Texan. So we got some DNA that's similar, but I'm from a family of seven kids. And I was a disruptor in my household and you would've thought... People thought my mother worked in the principal's office because she was always there because I was in trouble. And I learned in fourth grade that I really had leadership because I convinced the entire class in my fourth grade teacher who was very boring, that when she came back from lunch break, that we would all have our heads on the desk. And when she came in, she said, "Who got everyone to do this?" And everyone pointed to me. And of course my mother had to come to the school and I stayed in trouble. My whole childhood and in my 12th grade of high school was my first year of experience in integration and racial inequity.

Della Clark (00:19:44):

And I had heard about it from my parents, but I myself had never experienced it. So I convinced my 12th grade class asked that we would walk out of high school. And so I got kicked out of high school and it took a federal judge and the US department of education civil rights to get me back in school so I could graduate. And when I walked across the stage, the US department of education told my mother and my father that this young lady should lead the State of Texas. And they helped me get a scholarship to Washington DC, to American University. And that's when I recognized I got talent. I just need to put it to some good use now. Right? And I was very fortunate because I was at the right place, the right time when I entered American University and I majored in Accounting and there wasn't many women to major in accounting.

Della Clark (00:20:35):

And so I was offered two jobs. Keep in mind, I never applied to college. I filled out an application for American because that was already pretty much preset for me. And when I graduated, I had two job offers. One from General Electric and one from Lockheed Martin and General Electric was here in Philadelphia. So I came to Philadelphia and I said, I can't move to this city. So I took the job with Martin Marietta, which is now Lockheed Martin. But that's the Maryland. And I spent 10 years with them. And it wasn't a career for me. It really was to learn size and scale because I knew that what destined for me was something much bigger and larger. And I wanted to work at a major corporation and learn the size and scale. And I did that and I stayed 10 years. And on my 10th anniversary that day, I resigned and they immediately sent me to a psychiatrist because they figured I had lost my mind because I had moved up in the corporate world.

Della Clark (00:21:34):

But one of the things I learned about the corporate world is that if you're not careful, you can be judged by the size of your paycheck, the size of your office, the number of people that report to you. And I didn't want that. I wanted my value to be judged by my contributions. And so I was home tooling my thumbs after I left the enterprise center. And one of my friends called me up

and said, "There's a nonprofit in west Philadelphia to have your name all on it." I'm like, "I'm not a nonprofit person. I'm a for-profit person." And I didn't want to take it. And my husband said, "Well, nobody else is calling. So I ended up taking the job and I celebrate 30 years this year. And..."

Della Clark (00:22:21):

Just can't imagine doing anything else. I have come to realize that all that I did in my life was preparing me for this. Which is, this is my calling; bridging the gap and the inequities around small businesses that are people that look like me. And I've been doing this for a long time. And so where I am now is that I'm not moving out of the enterprise center, but I'm moving over. And I've decided to put my voice now to capital. I put my voice for 30 years to minority enterprises, the growth and development of these companies. And now I'm going to put my voice to the capital issue. And so I am pleased to announce that we were licensed for SEIC, Damien. Okay, I'm going to follow in your footsteps. All right. And we are having our press announcement April 11th, for this fund.

Della Clark (00:23:10):

And I'm absolutely excited. And this is fund 1. My goal is to put my voice to this issue and take it across America. Because when you look at minorities who are from what I call low wealth communities, whose families are low wealth, which means that founder CEO is low wealth and that path to get to equity or the path to size and scale is fundamentally different than someone who comes from a prosperous community and from a prosperous family. I don't know if any, many of you are following the Elizabeth Holmes story of Theranos. She got \$6 million from her family. I've never had in my 30 years, a minority company or enterprise or founder to walk in and say, "I got \$6 million from my family to launch this business." It just does not happen. And so when you look at what she did, there's no minority that's ever been given that kind of opportunity to do that.

Della Clark (00:24:08):

And I want to break that down and keep the door open for not only other minority led organizations to start a SEIC or get into the fund world because Damien, we haven't done a good enough job in that area to bridge that capital gap. And so I feel that's my next journey and where I'm going to put my voice to it. So I always remember Katie Winos who got me the biggest spanking at the fourth grade level from my mother for acting up. But see, these days kids don't get spankings, but I got spankings. I did.

Jeff Hornstein (00:24:44):

Fourth grade was so like pivotal-

Jeff Hornstein (00:24:45):

[inaudible 00:24:45]

Speaker 4 (00:24:45):

Thank you. Thank you Della. And I think what's evident is with all their successes, such different backgrounds and in different ways in which they've landed where they are now. And that is running organizations that in one way or another are focused on helping minority-run businesses. And so I'd like to transition and you helped with the segue, Della, too. What you guys are doing now and how your work is hopefully going to have that kind of impact. Jeff, how about we start with you?

Jeff Hornstein (00:25:16):

Sure. I took the helm at the Economy League four years ago. I walked in the door during the interview process and interestingly, they didn't call me back for second interview the first time because the search consultant was like, "You're too radical for them," but they got over that. I walked in the door with a proposition that I would come to work for the Economy League, which is an amazing organization. Venerable has been around for 113 years great brand, but really in my view, underperforming. So I've come to learn from the search process. It was really the first job I ever actually applied for. Long story, but at 50 years old... But I realized that there was this incredible brand, incredible group of people around the table. The economy board at the time had about 40 companies on it. Now it has 65.

Jeff Hornstein (00:26:04):

I'm going to grow out to 76 before I put a cap on it. But they're... Penn, Drexel, CHOP, Jefferson, FS, all the big banks, all the specifically involved law firms. I said, "These are all the right people sort of organized in a coalition of the willing right to do something different." So I said, "I've got Penn, CHOP, Drexel, Jefferson, and Temple, all teed up to do what we were calling at the time, the anchor procurement initiative." And I learned a lot known Della for 10 years or so. And I learned a lot from Della as we were trying to put together this table initially of procurement directors, right? How can you spend your money differently? So we've done a foundational study when I was in the controller's office, identified five and a half billion dollars worth of stuff.

Jeff Hornstein (00:26:52):

And that's a technical term. That the SEDS institutions buy on an annual basis. And that's just the hospitals and universities, right? So we went to them, we said, "Share your data with us. We want to understand how you spend your money." Because everyone was at the time everyone was running the streets, all my progressive friends, we need pilots payments in lieu of taxation. We need the hospitals and universities to pay for their fair share of taxes, property taxes. They said, "Okay, so you get pen to pay 10 million in property taxes." What does that do for anybody to \$5 billion city budgets? Nothing. They spend a billion dollars a year on stuff and that's just the university hospital spends another billion, right? That's real money. And if we change their spending patterns and get them to spend more money with local diverse businesses, then we can actually create some sustainable growth.

Jeff Hornstein (00:27:42):

And I'm an old economic historian by training. So if anybody here knows what import substitution economics is, is basically the way pretty much every developing country is developed. You use your local demand to increase the capacity of your local suppliers and ultimately get them to import dollars from somewhere else. Right? So the best example we have is someone who Della's worked a lot with as well. MSKO scientific [inaudible 00:28:09], great black-owned lab supply company been around forever, had really hit a plateau. A new group of leaders came into the company and they were really trying to break into the EDS and meds lab supply business, which completely dominated by one company, Thermo Fisher. Nothing against Thermo Fisher. They're hyper efficient. It's great for Penn to be able to sign one contract with one company, they can get them everything they need globally, but they also have a...

Jeff Hornstein (00:28:39):

Penn also has responsibility to spend its money in a way that promotes growth and equity in its own community. So through a lot of haranguing and luck with Harold AB coming in his commerce director and really making this his mission, we were able to convince Penn to say to Thermo Fisher, "If you want to keep our 25 million lab contract, you're going to have a joint venture with a local diverse firm that's going to be value-add. And it's now that MCO has tripled

or quadrupled its revenue because once Penn signed that contract, now all the other institutions like, "Why aren't we doing business with EMSCO?" Jefferson, Temple, Drexel, all doing business with EMSCO. And EMSCO is now building a \$20 million facility in West Parkside, which is going to be cryogenic storage. And as their founder, as the CEO, Lynn Thomas likes to say, "My goal here is to bring in dollars from other places and employ Philadelphians with somebody else's dollars. That's growth."

Jeff Hornstein (00:29:37):

So we started PAGE at the Economy League, set it up and it's grown tremendously, especially under my colleague, Janelle Lawrence's leadership in the past couple of years. Janelle has a long background supplier diversity from the corporate world. Very lucky to be able to be able to hire her. We just actually promoted her to deputy executive director. So a little round of applause for her leadership.

Jeff Hornstein (00:30:02):

We've raised a million dollars in from philanthropy this year. Bank of America, Foundation Barra, Lendfest, the federal EA. So we've set up this really interesting structure. It's a kind of a three-legged stool. We have a firm that kind of does the research, right? We have such great relationships with the anchor institution. If they give us their data, we have a dedicated person who analyzes. It tries to understand where the opportunities are for diversifying and localizing spend. That's not enough.

Jeff Hornstein (00:30:31):

So we've set up an arm called PAGE Capital, which is all of the impact investors in the region. We partner with social venture circle. Dallas folks are, are part of this. So a business comes and says, Hey, we've got an opportunity to, for a big contract. How do we finance it very early stage? But obviously once Della gets innovate completely up and running, this is going to be a huge engine for, for growth. We'll map the opportunities and hopefully Della will finance it businesses. And then the third piece is what we're calling PAGE prep, which is putting together a sort of a pool of high end consultants who will give these minority businesses, many of whom have hit revenue plateaus, the kinds of really high quality consulting services at majority firms general, they have access to when they're scaling up. So it's an integrated approach. Very proud of it. It's a lot of fun, a lot of hard work, and 2022 is going to be the real takeoff year for PAGE.

Speaker 4 (00:31:35):

Well, congratulations. It really is great work and congratulations to you for the work and the promotion. That's exciting. Della, you mentioned the enterprise center, but I think maybe if you spend a few minutes just explaining what the enterprise center is and what it's done under your leadership, I think would be helpful background. And certainly I think we'll help explain the shift to Innovate Capital.

Della Clark (00:32:00):

Well, the enterprise center is a nonprofit and it has three pillars that it sits on. The first one is entrepreneurship, which is 32 years old. I am not the founder. I joined the organization two years after its existence. It was founded by the University of Pennsylvania, the Wharton small business development center, which is non-existent and we still around. So the second pillar is capital. And then the third one is community. We have a CDC or community development corporation, which is looking at ISOs layers of poverty in West Philadelphia and trying to remove that layer of poverty. And so we currently on seven sites, and we've learned in the real estate and economic development business is that if you don't control the site, you just have an

opinion. And so we don't want to be in the real estate business, but we have to control the site and try to revitalize it and then flip it over to an entrepreneurial who can take it over from there because they don't have the balance sheet and can't bring the connections and network of the capital.

Della Clark (00:33:04):

And so it is through that work that we have come to realize that many of our clients and the ones that Jeff is alluding to under the PAGE program really don't have capital to support a \$25 million contract are being a joint venture with a thermal. They just don't have it. And so that's where we want to work with page and other entities in Philadelphia to be the intersection between supply diversity contracts and opportunities. I would say the biggest area where we bring the most amount of value to eliminate what we call pain points for our businesses is around connections, expediency to those connections. So I try to get out here and meet as many people as I possibly can so that when an entrepreneur have a pain point, I can pick up the telephone and I can call someone and help eliminate that. I will tell you beside me putting my voice to capital, the next role I play in the enterprise center is that I'm a professional bay, right? I pick pockets.

Della Clark (00:34:03):

Okay. I pick pockets. So all of you need to run when I leave this stage because I pick pockets. Right now I am probably trying to raise for 52nd street about \$150 million for innovate. I am trying to raise about another 30 million for a real estate project that we are doing on market street. I'm trying to raise another 50 million for that. So that is all I do is bring capital. And everything that I mentioned for that fundraising is at the end of the day, minority enterprises. We will not do a project from a real estate perspective that is not 100% participated by minorities from architect, engineers all the way.

Della Clark (00:34:51):

We also own a commercial kitchen. So we are in the food business and we put out food entrepreneurs that we can put in these retail spaces. And so that is a big part of our business as well. Construction, food technology, and then all other falls into that category. We have a lot of professional services. So I'm proud to announce the paradigm award, which is by the form of executive women. And the chamber is awarding one of our entrepreneur, Donna Ali on Thursday. And I get to introduce her and it's like a mom introducing her baby. So I am very excited. She is now \$24 million, 600 employees. And I remember when she herself was cleaning houses.

Speaker 4 (00:35:41):

That's an amazing story.

Jeff Hornstein (00:35:47):

Also on the economy of work.

Speaker 4 (00:35:47):

Damien, I think certainly folks here will, will be able to relate to the work that you did at Brightwood, but you've made a pretty significant shift with Lafayette Square. You want to spend a couple minutes just describing what Brightwood was and how you built that up, and then what inspired you to make the shift and start Lafayette Square?

Damien Dwin (00:36:07):

Sure. So Brightwood Capital at its peak was about four billion AUM, 40 employees doing non-sponsored recommending. So everybody in the room understands exactly what the business

was. We tried to avoid private equity firms and lend directly to families, founders and entrepreneurs [inaudible 00:36:26] in the 40 million range. Big LPs were state of New York city of New York, Morgan Stanley, private wealth. And interestingly through a series of conversations with Michael Forman in December of 19, January, February, and March of '20 we're in quarantine and a shared friend and mentor for me. And Michael said to me, really prescient words in April, he said, in any negotiation, the key is leverage. And the source of leverage is alternatives. If you're having a conversation, you don't have alternatives, you do not have leverage things. Aren't really going to go your way. And he hung up the phone as he is prone to do. I internalize that in April and called foreman and said, I actually think I've been thinking about this whole thing incorrectly.

Damien Dwin (00:37:27):

I think there's an opportunity created Novo investment management firm that focuses exclusively on impact. And I think if we align permanent capital BDC like structures in pursuit of making impact, we can be there on the other side of this one in 100 year event, this pandemic and capture a whole wave of ESG and impact momentum, which clearly has to get bigger once we get through this thing. And so, Michael and I just start talking about it daily. And by November 2020, we capitalized the business \$100 million dollars from Morgan Stanley. I put in personal cash. Michael agreed to sit on the board. And we created this new entity called Lafayette Square, whose mission is to invest in low moderate income places, underserved, overlooked, communities, maintaining the exact same credit standards, but driving capital and services where they're needed.

Damien Dwin (00:38:29):

The BDC industry today is very coastal. Most of the money goes to rich communities. In fact, 20 states get 80% of the money from BDCs. So if you just, you understand why there's resentment when you come from the heart of the country and people refer to you as flyover states, it's because you literally are treated as a flyover state. And so we cooked up this crazy idea to create 10 regionally specific BDCs. Each part of the country gets its own BDC and do proper regular way middle market lending. Just make it about place. I would also point out you, I sit on the board of children's hospital, Philadelphia and I've voiced my grave concerns to Madeline and our CIO at CHOP that these large institutions in Philly and EDS and meds town, you remove EDS, meds and the government. You don't really have an economy in this place.

Damien Dwin (00:39:36):

So THE Eds and meds don't pay taxes. They're net-extractive. They like to be patted on the back and told how special they are because they kick in their services. But the reality is they take more than they give, in my view. I say that somebody who sits on the board of a major hospital in town. And it just occurs, these organizations have huge endowments, which they export from this place to Silicon Valley and New York. So that import export thing, I use that all the time, because I feel the exact same way.

Damien Dwin (00:40:15):

And I'm convinced five or 10 years from now, big places like CHOP will be held to account to explain the place exposure they have in their portfolio. And just to level set for people. 20 years ago, if you talked to a CIO of an endowment foundation, they wouldn't be able to tell you the allocation to private equity, growth, VC buyout. It was just private stuff, which they maybe didn't even track. I'm convinced in a future state, all of us will have to start tracking and measuring where our money goes. And I say that as Ukraine is under attack and everyone around the world realizes supply chains are being disrupted and we got to build back American industry because we can't keep exporting our stuff.

Jeff Hornstein (00:41:10):

Yeah. I agree. I mean, it's fascinating. I worked when I was in the controller's office, I used to advise Alan Buckowitz on the pension fund city. We would go in and ask, do you know where your money's being invested? And most people even on the board didn't really know where their money was. I remember running for city council and going to the AFSCME district council endorsement, which ironically was in Atlantic city for Philadelphia. But anyway, that's another story. And I said, "How many of you," and this was the trustees, "How many of you know where your pension fund is invested?" None of them knew. And I said, congratulations, you created a lot of jobs in Brazil last year, but almost none in Philly.

Speaker 4 (00:41:53):

So Jeff and Damien spoke about the timing of his setting up Lafayette Square. And you mentioned COVID and I know a big part of it too was after May 25th, George Floyd, and that had a lot to do with and shaping, you were thinking throughout that summer, leading into when you capitalized in November. Could you guys comment a little bit on how things are different now for your organizations or how your focus has changed because of what we've learned through COVID and what was brought to light after George Floyd and with black lives matters. And the other discussions that we had in sitting around board rooms with leaders and others, I know both of you have made some shifts in that regard. Could you speak about that and tell if he would start?

Della Clark (00:42:40):

Yeah. I actually thank George Floyd every day. Okay. His death really meant a lot to America because if it had not been for him with that knee on his neck, calling for his mother, I don't think the labor/light bulb would've gone off in America. And so we're, I'm fortunate that I witnessed that. I'm sure all of you do too, because it woke us up. And I look at the uprising that occurred in America also was a historic moment because it was a time where things needed to change. The racial inequities did bubble up. And so the question is what are we all going to do about it? And the changes we going to make, because we can allow things to remain the same. It has not been a fair system. If you just look at the city of Philadelphia as an example, which is among most cities, we have a certification process where if, as a minority, I have to get certified, but if you are non-minority, it doesn't even come up.

Della Clark (00:43:37):

You don't have to get certified. So we've always had a unfair system as it relates to capital growing your business, supply diversity, that we shouldn't have to have a supply diversity program. We shouldn't have to have certification. We just need a just economy. We need fair and equitable economy. If we do that, if you have a competitive price, you know how to bid and you know how to do your service with quality, then you compete and get the business. And if you don't, it's not based on the color of your skin. So I'm all far removing all these barriers that we've had in holding back Amer American minority businesses, just like now we still have size and standard. You can only grow to a certain level and receive federal contracts and opportunities. It shouldn't be that way should not. So I'm focused on those things, Mike, and I'm putting my voice to it now to bring about the change. I'm now unscripted. Okay.

Speaker 4 (00:44:33):

I think you were ever scripted.

Damien Dwin (00:44:36):

But more so now, because I think with the George Floyd death, it just brought to light so many things and we cannot afford not to. I say he died a king. Okay. He died a king. He did not die in vain. And so we have to make sure of that.

Speaker 4 (00:44:51):

That's terrific, Jeff.

Jeff Hornstein (00:44:54):

Yeah. I mean, I learned from Della how not to be unscripted, I think. But I mean, for us, it just solidified under us. A couple things happened because of the racial unrest. And this is so for me, having worked for SEIU for so long, like I didn't particularly learn anything new from COVID or from the racial uprising. These are the same things. I think just America and the rest of the world was kind of woken up in a way that they haven't been before. And that's a good thing. Foundation started to come around to supporting this. And everybody makes their 50 billion commitments. We see how much of that stuff actually comes out the gate. That's always a problem. People like to pontificate in the heat of the moment, but will they have staying power. So we really are trying to take advantage of this moment.

Jeff Hornstein (00:45:45):

Couple other amazing things happen, right? Obviously every organization had to pivot heavily because of COVID and because of race uprising. But we really invested in creating a board that looks more like the city of Philadelphia. We have 22 black board members on our board now, which is I challenge you to find a nonprofit that's not strictly a minority nonprofit that has our level of diversity that, and now it's sort of the politics of wallpaper, right? Is one of my mentors used to say, our board looks diverse, but are we leveraging that diversity? Our staff is now half black, which was totally different than the Economy League of five, 10 years ago.

Jeff Hornstein (00:46:23):

Another amazing thing that happened. And I saw that my friend, Dan Hillford just walked in who Mike Gerber introduced me two years ago. We got really tied in with the blues and independence in particular really started to invest heavily in health equity. So we got to run an innovation tournament for blue cross two years ago called the well city challenge, which ended up with funding for some minority entrepreneurs who had some great ideas about solving a major problem. How many in this room are 40 or younger?

Della Clark (00:46:55):

Everyone.

Speaker 4 (00:46:57):

So our board member.

Jeff Hornstein (00:47:00):

Blue Cross taught us that millennials have some particularly specific health problems that are going to be really expensive and tragic. And so we were tasked by independence with coming up with some community driven solutions. And I'm thrilled to announce that in a couple of weeks, we're going to be launching the next well city challenge, thanks to a large, another large grant from Dan's successor, Greg Devons, to focus on maternal health equity. Philadelphia has perhaps the worst outcomes for black and brown women in maternal health. I mean, we're kind of third world. So we're going to be running an innovation tournament with Penn medicine and the rest of the health systems to try and move the needle on that. And Blue Cross is really, going to invest heavily in that. We're identifying social entrepreneurs who we can then, Damien can invest in and scale help them scale and solve these problems.

Damien Dwin (00:47:56):

Yeah. It's interesting what you say, social determinants of health, and I'm talking about place-based determinants of capitalism. You get it? And it's interesting. We all have to really internalize it. If you take race out of it, which as a thought experiment, I really encourage people to do on occasion. Just ignore race for a second. If you've never visited Raj Chetty's website, go on the internet. If you've never heard of Raj Chetty Google him, Harvard professor. Using publicly available data, he can predict life outcomes based on the zip code of where you were born. Probably if you going to jail, probably if you having a spouse college education. Place matters and it drives so many things, including health and wellness.

Jeff Hornstein (00:48:48):

Absolutely.

Damien Dwin (00:48:48):

And access to capital. And if you actually study FS's portfolio, you very quickly realize the tens of billions of dollars that we have invested as a firm is going to rich communities. We're recycling money in the same places. It's deep. And you sort of say, well, it's not my problem. I got to make dinner tonight. I got something to do. We have incredible amounts of agency.

Damien Dwin (00:49:17):

What we've observed over the last 24 months is when we act, particularly when we act in unison, we can make change. We can affect change. I believe that's the intention of management here at FS. And I believe there's workforce is quietly calling for it. People feel inspired and would rather be at a place that has a mission and puts all this human capital to good use.

Speaker 4 (00:49:40):

How bout a round of applause for our three panelists.

Thank you guys very much. Thank you for what you're doing. And thank you for spending time with us to share your stories and all the great work that you're doing. And thank you to all of you. Michael, thanks for hosting this and bringing all together. It's really great to be with people again and not be wearing masks. So hopefully, hopefully we can do this again soon. And we welcome everyone over to the cafeteria. If you'd like to spend some time with our panelists, with each other, we'd love to see you over there. Thank you.

Jeff Hornstein (01:05:33):

Thank you.