



RUTGERS—NEW BRUNSWICK

Institute for the Study of Employee
Ownership and Profit Sharing

School of Management and Labor Relations

CASE STUDY

Apis & Heritage Legacy Fund I

*Private credit fund invests in employee ownership
for essential workers*

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Summary

Can an employee-ownership buyout financing model align the interests of workers, business owners, companies, and investors—building equity for workers, delivering a fair price to exiting owners, supporting firms through ownership transition, and generating competitive returns for investors?

Apis & Heritage's Legacy Fund I is a \$58 million investment fund, launched in 2021, that finances the transition of companies to S-Corp ESOPs, focusing on essential industries and aiming to build wealth for hourly workers often locked out of such opportunities.

A&H's employee-led buy out (ELBO™) model underwrites like a traditional creditor but brings the additional flexibility and engagement of equity investors via seats on the board. The Fund invests deeply in ownership culture in portfolio companies, as a driver of company value and job quality and a risk mitigant for investors. This brief describes the model's key elements, its impact, and its evolution.

Company Name

Apis & Heritage Legacy Fund I

Industry

Financial Services (private credit fund)

Portfolio

Low- and moderate-wage essential industries

Size

10 Full-time staff

1,600+ workers in portfolio
companies

\$58 million in Fund I

Six deals with total invested capital
of \$40.83 million

Projected \$250 million in Fund II

Story

When Apis & Heritage founders Todd Leverette and Philip Reeves graduated from Morehouse College,

where they had become good friends, each pursued work in conventional finance at separate large investment firms. Anchored in faith and a strong ethic of service to the Black community, as their careers evolved, they were increasingly drawn to social impact-oriented work in small- and medium-sized businesses. Eventually, Leverette joined the staff of the national nonprofit Democracy at Work Institute (DAWI), whose mission is to expand worker ownership to people locked out of good jobs and ownership opportunities.

At DAWI, where he was reaching out to business owners to help them consider transitions to employee ownership, Leverette concluded that capital was a critical barrier to more transitions. In particular, he saw a need for capital that relieved retiring business owners of the responsibility to self-finance the transition to employee ownership by carrying a long and often large note covering the cost of the sale.

To address this fundamental barrier to employee ownership, DAWI raised grant funds to support a two-year planning process to develop an investment fund for employee ownership transitions. In 2019 Leverette recruited his longtime friend Phil Reeves to join him in the design process for Apis & Heritage. “I thought it was smart,” Reeves says about the ESOP model, which was relatively new to him. He elaborates:

“I had seen entrepreneurship work in my family and when I was working in D.C. and got connected with all the black business owners around the city. They had achieved remarkable success.... But to get where they are, they had to have something to start with... and they had to leverage everything they had and beat a

“From a financial perspective, we’re not playing hot potato with the company.”

– *Phil Reeves*

ton of odds to get there. Most normal people will never get that chance because they can't beat those odds. But employee ownership gives you a way to get at that same dream—by doing something we do daily, which is go to work.”

With Leverette and Reeves at the helm, the fund concept went through several iterations. Soon, with key support from the same philanthropic funders who had funded the design and incubation, the A&H team began raising capital for a closed-end investment fund.

The W.K. Kellogg Foundation—having already identified broad-based employee ownership as a promising lever for improving outcomes for low- and moderate-wage workers and having recently commissioned research on the topic—convened an initial group of foundations to hear a capital investment pitch.

Critically, many of the early philanthropic capital investors in Legacy Fund I also made accompanying grants to support DAWI to develop ownership cultures in the portfolio companies. DAWI focused on employee education, company-level systems for information-sharing and participation, and coaching managers to foster participation. It also measured impact.

As awareness grew, other impact investors began to reach out. A&H ultimately accepted checks of all sizes from over 90 investors, including several foundations. Legacy Fund I announced its first close of \$30 million in committed capital on Juneteenth 2021. Its final close came in late 2021 at \$58 million. Incubated entirely during the COVID-19 pandemic with all investor meetings on Zoom, the team nonetheless had to turn away interested parties to stay in the targeted range for capital.

After more than a year of prospecting and vetting companies in essential industries—working with business brokers and negotiating with selling owners—the expanding A&H team closed Legacy Fund I’s first company deals in May 2022. It welcomed Accent Landscaping and Apex Underground into the portfolio in the same week, followed by Blooming Nursery in December 2023, Sky Blue Builders in May 2024, Consolidated Construction Services in August 2024, and B&B Janitorial in September 2025. Together, these six ESOP companies employ over 1,600 workers.

With the success of Legacy Fund I, A&H began raising Fund II, announcing a first close on \$85 million on Juneteenth 2025, with a total goal of \$250 million. A new partnership with Calvert Impact will provide senior debt for future transactions.

Overview

A&H is a closed-end private credit fund that provides direct loans to enable lower-middle-market businesses to convert to up to 100% S-Corporation ESOPs, using capital raised from impact-oriented investors. Its ELBO™ model centers employee benefit, making investments in operational improvements and ownership culture, and seeks to build wealth for essential workers.

Definitions

Private credit fund: An investment vehicle that raises investor capital to make loans to private companies that are typically more flexible than credit offered by banks. These funds can provide investors with higher yields than public credit markets, but they are higher risk with less liquidity.

Closed-end fund: An investment fund that raises investor capital through an initial offering that “closes” and does not continuously offer new shares or redeem outstanding shares.

Senior debt: A standard bank loan. Senior debt is generally secured by collateral and comes with lower interest rates than other capital. It’s the highest priority—i.e., it must be paid off first.

Mezzanine capital: A hybrid form of financing that combines elements of both debt and equity, bridging the gap between senior debt and common stock (equity) in a company's capital structure. It is used to fund growth, acquisitions, or buyouts, and is structured as subordinated debt (with a higher interest rate), often with equity-like features such as warrants.

Warrants: Financial contracts that give the holder the right, but not the obligation, to buy or sell a company's stock at a set price by a certain date. They are similar to stock options but issued directly by the company and can provide “upside” to investors beyond the interest on a standard loan.

Lower middle market: A segment of the business economy made up of small- to medium-sized companies with annual revenues between \$5 million and \$100 million.

ELBO™ (Employee Led Buy Out) Model: The umbrella term for A&H’s approach, encompassing the 100% S Corp ESOP, premium placed on employee benefit, and investment in ownership culture.

100% S-Corp ESOP: A tax-advantaged employee stock ownership plan (ESOP) sponsored by an S corporation, a business entity with pass-through taxation, in which all of a company's stock is held by an ESOP trust for the benefit of the employees. A key benefit of this structure is that the ESOP trust is a tax-exempt shareholder, which can reduce or completely eliminate federal income tax on the company's profits.

Ownership culture: A set of practices, behaviors and beliefs that enable employees to think and act like owners through a sense of agency and responsibility for their company's success; this culture is reinforced by the reality that employees hold beneficial ownership in the company via an ESOP trust.

Key Elements of A&H Approach

A&H relies on critical design elements, resting atop a foundational belief that impact and financial return are not opposed but can and should be mutually reinforcing. These are the basic elements of Legacy Fund I.



Diversified Capital

Raise diversely sourced investment for a familiar vehicle doing transformative impact work and offering appropriate risk-adjusted returns

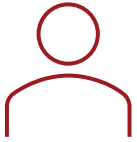
- **Philanthropic capital** seeded Fund I. These investors were drawn to the first-mover opportunity to de-risk a new and untested fund.
- The fund also attracted more conventional **impact investors** with risk-adjusted returns (targeted at 10-16 percent) in line with the private credit market.
- This **balance** will continue to shift, with proportionally less philanthropic investment and more from traditional private market capital raised for future funds.



Profitable Businesses with Frontline Workers

Find profitable businesses in essential industries with substantial low- and moderate-wage workforces

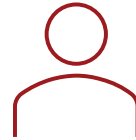
- **Size:** \$6-20M revenue and \$2-6M of EBITDA
- **Workforce:** 40 or more, primarily hourly
- **Wages:** 80% of Area Median Income (AMI)
- **Industry sectors:** essential services, manufacturing, construction, logistics, home care



ESOP Purchase

Finance the purchase of the business by an ESOP trust, which holds the equity on behalf of employees, and set up a tax-advantaged form

- **Underwrite** these deals like any private credit lender.
- **Partner with a senior lender** to complete the deal.
- **Pay the seller upfront** for a meaningful portion of the business value, while requiring the seller to hold a small note and a contract to stay for 12-18 months.
- **Set up a 100% S-Corporation ESOP**, securing a 100% tax break for the company, which offsets some of the costs of administering the ESOP.
- **Provide wealth-building** opportunities and security for employees.



Partnering for Long-Term Performance and Impact

Provide multi-year post-transaction support for operations, ownership culture and impact measurement.

- **Support succession planning** by the outgoing owner.
- **Keep senior management** and business processes intact, when possible.
- **Take two seats on the Board** and maintain regular contact with management to support strategy and operational improvements.
- **Support growth** that strengthens the company's profitability without demanding extraordinary growth.
- **Deploy Ownership Culture team** to execute a staged process to build company capacity for participatory ownership culture, including culturally competent multilingual employee training, systems upgrades, ESOP committee formation, coaching and training for managers to lead in an ownership culture setting using Open Book Management and coaching practices, support electing an employee rep to the board
- **Contract DAWI** to lead a robust annual impact measurement process that collects longitudinal data from company and employees
- **Partially subsidize** this work with philanthropic funding.



Repayment, Refinance, and Exit

Finance the purchase of the business by an ESOP trust, which holds the equity on behalf of employees, and set up a tax-advantaged form

- **Company makes regular payments** on the A&H and senior debt, with the option to elect Payment in Kind (PIK) on a portion of interest if repayment would present a hardship.
- **A&H holds warrants** that it can exercise. (Warrants allow their holder to purchase a fixed amount of stock in the company at the closing price and redeem it at the current price 5+ years later after stock value has risen.)
- **Refinance the A&H loan and warrants into a commercial senior loan** after 5 years. This creates an exit for A&H that keeps the company employee-owned and lowers the interest rate. Ideally, once this second loan is repaid, the company is debt-free and employee-owned.
- **Investors receive quarterly cash income** from interest payments from the portfolio and then a return of principal and upside from the refinance of the loan and warrants.



Refining the Model for Fund II

As it raises Fund II, A&H is using its learnings to refine a few dimensions of its model:

- **Larger Companies with larger workforces:** \$20-\$100M Revenue, \$4-10M EBITDA, 100+ workers
- **Unitranche financing:** A&H is able to provide both mezzanine debt and the senior debt that was previously provided by a banking partner. The unitranche model aims to truncate the deal timeline, making it more efficient; the simplified structure aims to reduce the operation burden on the companies.
- **Tax break:** As Fund II goes up market to deal with larger companies, the 100% S-Corporation ESOP tax benefit becomes increasingly powerful because the cash saved in larger companies will be substantial.
- **Refined model for organizational effectiveness and ownership culture:** What had been a relatively bespoke post-transaction engagement process in Fund I will become more templated in Fund II, with a greater emphasis on business systems. More distributed workforces will rely on videos, asynchronous learning, and peer cohorts for training.
- **Tailoring ESOP plans:** While still using the Department of Labor-approved template, A&H is working with experts in the field to explore amendments that meet the needs of lower-wage high-turnover and seasonal workforces. The goal is to make ESOP participation easier, faster and more durable, and to simplify and streamline administrative processes to the extent possible.

Spotlight: Blooming Nursery

Blooming Nursery, A&H's third portfolio company deal, is illustrative.

The CEO: motivated by care *and* insistent on sale price

Blooming Nursery's CEO and selling owner, Grace Dinsdale, built the company over more than 40 years, on her family's land in rural Oregon. She invested deeply in a culture of quality, innovation and respect, running a lean and rigorous operation with workers who stayed for decades, many working alongside their family members. Grace is a principled and shrewd businessperson who considered multiple offers and drove a hard bargain on sale price. She chose the ESOP, and A&H, because she wanted to take care of the workers, and she couldn't imagine outside investors running her nursery.

The deal structure: mezzanine and senior

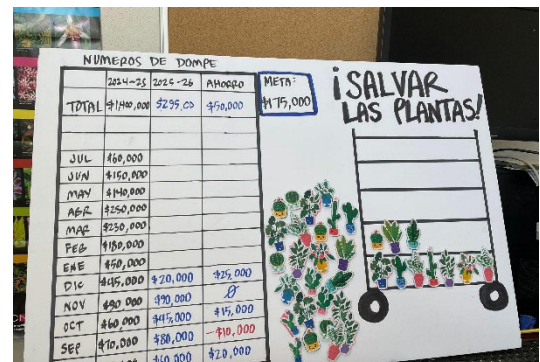
After working with local banks for the senior debt in their previous two transactions, and finding this method could potentially delay the Blooming transaction, A&H made the key decision to provide a single mezzanine financing tranche for the business sale. This decision, made out of necessity, proved prescient, as A&H's Fund II is now partnering with Calvert to provide a sidecar senior debt facility (a specialized, parallel investment vehicle managed by a general partner that allows select investors to participate in specific deals alongside a main fund) for similar deals going forward.

The ESOP plan: modified for workers' needs

Blooming Nursery's workforce is about half full-time year-round workers, and half regular returning seasonal workers, a portion of which come to Blooming on the H2A temporary agricultural worker visa program that allows U.S. employers to bring foreign nationals to the United States to fill seasonal or temporary agricultural jobs. A&H worked with Blooming and their ESOP attorney to amend the standard plan to accommodate as much of the seasonal workforce as possible: they reduced the eligibility requirement to roughly equal one season's hours, eliminated the requirement to be employed on 12/31 (this is the off-season, when many people are gone), and made plan entry retroactive to the first of the year in which requirements are completed, so that people realize the benefit immediately.

The culture work: from "don't distract them" to "we're saving money!"

Like a lot of selling owners, Grace was skeptical of newly introduced structures like the Board of Directors and insisted that any ownership culture training be minimally "distracting" for a workforce already working very long seasonal hours. Noticing that employees had driven a project to expand greenhouse capacity and, therefore, revenue, DAWI's ownership culture team sensed Blooming was ripe for building daily participatory structures, but it would have to be a very practical pitch.



Mock-up of plant-waste tracker at Blooming Nursery using demo numbers

The team worked with the newly hired general manager and the newly formed ESOP committee to develop a light-touch open book management project to track and report plant waste. This project in turn surfaced a need for a way for employees to identify issues and suggest improvements; the IT team set up a button on the tablets used in the field. These shifts helped management make small but critical adjustments in the organizational chart that solved some staffing issues they hadn't been able to address previously. After three months, the open book management project was revealing marked improvements from the previous year's waste, and the GM was sharing financials regularly with managers and workers.

A Radically Conventional Approach

An overarching distinguishing characteristic of the Legacy Fund approach is that it bridges two worlds: it is distinct from private credit and from private equity but with elements of both. To that end, it normalizes some relatively unconventional practices within a conventional investment vehicle that does not seem exotic to investors.

Structurally, the fund aims for returns that are competitive with private credit: it's benchmarked, makes disciplined loans, offers appropriate risk-adjusted returns, and exits by refinancing. Functionally, some of the risk the fund assumes is more like that of equity and it looks, feels and moves as such in many cases: it holds Board seats, invests in improving operations and culture, includes warrants in the deal, and can "act more like equity in the capital stack when the company needs it," according to Leverette – that is, if the company is facing financial pressures, A&H has the ability to provide flexibility for repayment.

As A&H describes it, they are a "highly involved" credit investor that has the downside protection of private credit, with some of the influence and upside opportunity of private equity. However, they are careful to emphasize that while they have borrowed some elements from private equity, their logic is entirely distinct: ownership of the company sits with the employees perpetually, and the model does not rely on extraordinary growth or deep cuts to succeed.

Phil Reeves explains: "From a financial perspective, we're not playing hot potato with the company [looking for the next buyer]. The long-term effect is that the companies refinance to a lower rate, then ultimately pay off that debt, and remain in the hands of the employees. From an impact perspective, it's perpetual employee ownership."

This perpetual employee ownership has deeper implications, ones that are safeguarded by the model's design. Whereas nearly half of all private equity-owned firms sell to another PE investor, transitioning a company to employee ownership takes it off that treadmill—not through good intentions and impact orientation alone, but by hard-coding into the financial model. This, in turn, relieves pressure on the business to become saleable to the next private equity buyer, and it also removes pressure from the portfolio overall.

Jacob Gray of Gray & Kim Capital Partners, which performs due diligence for investors, says of the fund model, "two things can be true—it's different (and better), and it's not that different." It is this quality that makes the model easy for sellers and investors to understand. As A&H scales its model into Fund II, this quality of different and not-different—it could be called *radically conventional*—becomes even more salient.

Challenges

A&H identifies some evergreen challenges for their ELBO™ model.

Leveraged ownership transition is fundamentally destabilizing. Most A&H portfolio companies have not had substantial debt prior to becoming an ESOP and managing that debt is a new experience for them. They must more carefully plan their operations and cash flow to ensure that they can pay it down because with debt comes risk of default and even bankruptcy. A&H takes seriously the responsibility of ensuring portfolio companies can handle their debt, the major reason they play such an active role in ensuring stability post-transaction.

The ESOP benefit must be “pulled forward” so that it's felt sooner by employees who operate primarily on a cash basis. ESOP participation is a retirement benefit that only realizes its true value with longevity, but targeted hourly wage industries often have high turnover or seasonal workers. Therefore, the ESOP needs to be a lever for other improvements that make a more immediate material difference for workers—improvements in wages and working conditions, better benefits, better quality of life at work. These improvements should consciously aim to improve retention, increasing the value of the long-term ESOP benefit. Only then will “ownership culture” be a lived reality that drives value in the business.

Field-building is bench-building. From the beginning, A&H was conscious that they were doing something novel that needed to be documented and shared. Communication has always been part of A&H’s financial and impact strategies to position employee ownership as a good investment. A secondary goal of awareness-raising has been to “build the bench” of early-career professionals who are now becoming service providers, financial analysts, ESOP CEOs, and other critical roles in the ecosystem.

In addition, scale and growth present new challenges for Apis & Heritage, including expansion of the investor base to the world of institutional capital, and a pool of possible investments that includes companies for which the “legacy” argument and ESOP tax breaks may both be less salient.

Private Equity in the Lower-Middle Market: Leveraged Buyouts

The lower-middle market is the “main street” tier of private equity, where a fund acquires small and mid-sized closely held companies—typically \$5 million to \$100 million in revenue—often by buying out business owners seeking to sell. In a typical leveraged buyout, the PE fund contributes some equity (cash raised from investors) and finances the rest of the purchase with debt (borrowed from private credit providers). After the acquisition, the company itself, not the PE fund, carries the debt and must repay it over time.

Once a business is acquired, PE funds often restructure the firm then resell it at a higher valuation. This conventional approach prioritizes efficiency and exit value, not worker outcomes; its primary purpose is to deliver financial returns to investors. The ELBO™ model, by contrast, puts workers at the center of the buyout purpose, while delivering appropriate market-rate returns for credit fund investors.

Outcome Data

- Just over three years into Fund I, A&H has clear impact data to share, collected from employee census documents, ESOP documents, annual employee surveys, and annual systems audits.
- Portfolio-wide as of December 2024:
 - Five portfolio companies with 500+ employees.
 - 100% of ownership held by employees via ESOP trusts.
 - 88% of beneficiaries are Low-and-Moderate Income workers.
 - Over \$416,000 in new wealth created for ESOP participants via their ESOP accounts.
- Company scores on job quality, ownership culture and employee health and well-being have consistently increased from baseline, using a multifaceted measurement system that includes employee sentiment surveys and annual audit of practices.
- As of December 31, 2025, A&H had six portfolio companies, comprising 1600+ employees with a projected average ESOP account balance of \$3,000+.

Why Important?

A&H's *radically conventional* ELBO™ approach aims to normalize employee ownership as a tool to reach an investable market of lower middle-market businesses with hourly workers. It also aims to accomplish multiple outcomes: business preservation and performance, job quality, and investor return. While it builds on the successes of other, similar models, it is truly novel in its cross-cutting thesis around essential industries and its focus on building wealth for low- and moderate-wage workers. Started by first-time fund managers, with multiple types of support from philanthropic investors, and in partnership with a nonprofit field-building organization, yet extremely clear about its market orientation, Legacy Fund I truly created something that had not existed before.

One of the more profound impacts of A&H's Legacy Fund I, then, may be as a demonstration project to help inspire and guide others. According to the Ownership Capital Lab's *Ownership Capital Roadmap*, in the last several years there has been an explosion of investment funds focused on or engaged with employee ownership, growing to over \$800 million invested in more than 29 funds as of October 2025.

When asked if and why interest might be growing, Jacob Gray of Gray & Kim affirms that, anecdotally, a greater percentage of investors seem to have curiosity about the ownership economy, particularly now that there are investable opportunities.

“Asset owners,” he says, “never express interest in funds that don't exist.”

Key Takeaways

- Apis & Heritage Legacy Fund I finances the transition of businesses to 100% employee ownership using a closed-end private credit fund model that is competitive in the market.
- They focus on the lower-middle market, a segment of the market that is relatively underattended to, with an impact thesis that centers equity for low- and moderate-wage workers in essential industries.
- Structurally, they underwrite like creditors, seeking well-run profitable companies in stable markets, and functionally, they offer some of the flexibility and engagement of equity investors via seats on the Board.
- They make a deep investment in ownership culture, via a partnership with Democracy at Work Institute. This is intended to mitigate investor risk, drive company value, build wealth, and create better jobs for workers.

Author

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A longtime employee ownership practitioner, Melissa Hoover is a Senior Fellow at the Rutgers Institute for the Study of Employee Ownership and Profit-Sharing and the Managing Director of Ownership Culture at Apis & Heritage. She was the founding Executive Director of Democracy at Work Institute, the former Executive Director of the US Federation of Worker Cooperatives, and worked as a cooperative developer with the Arizmendi Association of Cooperatives and a worker-owner at Inkworks Press in the Bay Area. She holds a B.A. in History from Stanford University, with a research focus on immigrant women's role in the mid-20th century cooperative movement on the Iron Range.