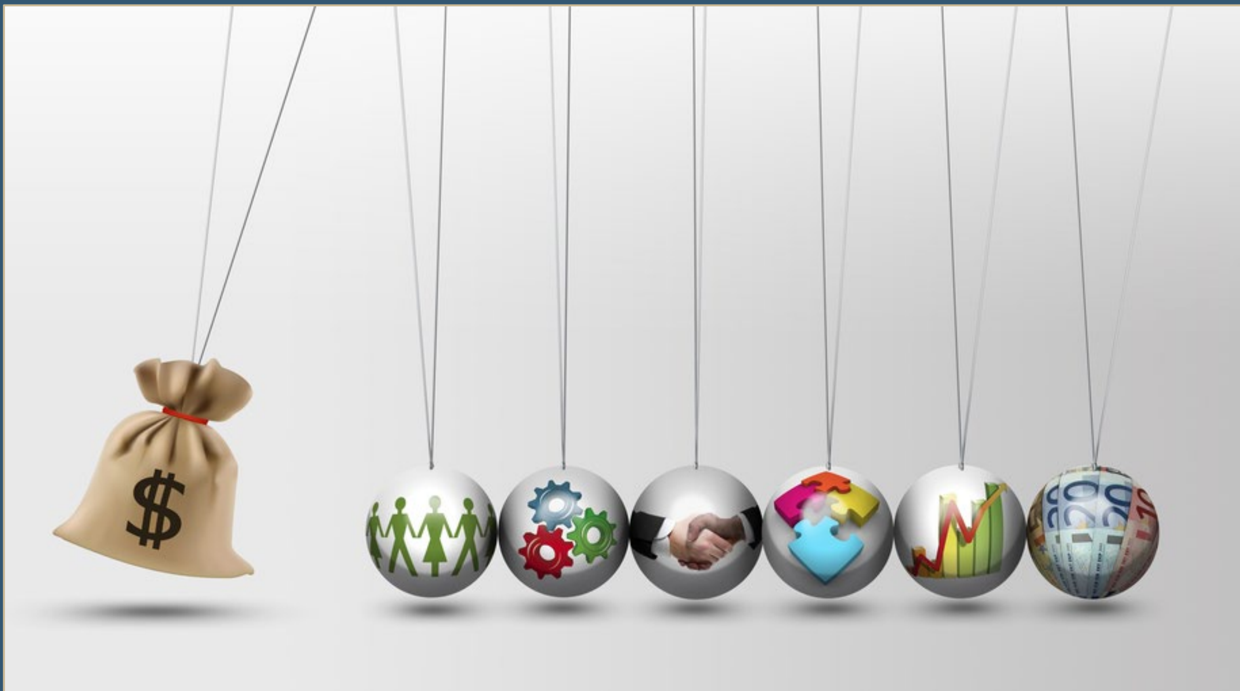
Global Thematic Research

Investing Cash for Impact

A Guide for Asset Owners



There are numerous opportunities to generate positive impact while maintaining the liquidity, convenience and low risk of cash and cash alternatives. This primer provides a concise overview of the opportunities and showcases some of the organizations seeking to grow impact-seeking deposits.

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With special thanks to Michael Geraghty for his contributions to this report.

> The earliest banks in the United States formed to meet a public demand for capital that in turn became the catalyst for our then-emerging national economy. For the first African American banks, it was not only about serving as a source of credit for businesses and consumers, but also about providing training opportunities and jobs for African Americans, supporting economic development and, importantly, pride. These banks played a significant role in the fight for economic independence and opportunity.
>
> *—Esther L. George, President and Chief Executive Officer, Federal Reserve Bank of Kansas City*

Introduction

Most impact investors focus their energy on identifying opportunities in public and private equity, alternatives, fixed income and direct investments, giving little thought to where they keep their cash. Yet there are myriad opportunities to generate positive impact with cash while preserving the liquidity, convenience and low risk of this asset class. Whether in a retirement portfolio, an institutional endowment or pension fund, or in a family's everyday checking and savings account, investors can relatively easily deploy their most liquid holdings to support local communities and underserved populations – and disrupt the flow of capital to financial institutions that may not share their values.

Cash with a Purpose

While there is an all-time high of $14 trillion in deposits sitting in U.S. banks — including $5 trillion in money market accounts and $3 trillion in savings accounts — estimates suggest that less than 1% of those funds are in socially impactful options, such as minority depository institutions[1]. (Indeed, for impact investors, it is concerning that minority-owned banks were more plentiful just a few years ago than they are today; in 2019, according to Black Enterprise, there were 22 Black-owned banks as compared to 48 in 2001.)

Meanwhile, community development financial institutions (CDFIs) have grown exponentially, though deposits in CDFIs still represent a fraction of total cash assets. CDFIs are private financial institutions that are 100% dedicated to delivering responsible, affordable lending to low-income, low-wealth and other disadvantaged people and communities. The first CDFI was launched in 1973 with the formation of the South Shore Bank in Chicago. Spurred on by the Community Reinvestment Act (CRA) of 1977, the CDFI field has grown to more than $222 billion in assets deployed by more than 1,100 institutions. According to the CDFI industry association Opportunity Finance Network, over the years CDFIs have helped to:

- Create or maintain more than 1.5 million jobs,
- Start or expand more than 419,000 businesses and microenterprises, and
- Support the development or rehabilitation of more than 2.1 million housing units and 1,583 community facility projects[2].

An Alternative to Big Banks

Values-aligned investors have come to realize that many of the traditional entities that hold their cash assets pursue business activities which work against those values. For example, some banks use their massive balance sheets to finance coal-fired power plants or mining projects that lead to deforestation and climate change. In fact, a 2020 report showed that U.S. banks have financed fossil fuels with $2.7 trillion since the Paris Agreement was adopted (2016-19), with financing on the rise each year[3]. While some large institutions have taken steps to decrease funding of controversial sectors, their efforts pale in comparison to the scale of the investments.

Also, an array of large financial institutions have acquired local banks over the years, contributing to disinvestment in local businesses, in particular businesses in low-income communities. This is especially true in neighborhoods with large BIPOC (Black, indigenous, and people of color) populations.

Further, the consolidation in the financial services industry has led to a concentration of power that favors investment in large businesses: Companies with the resources to meet the demands of big financial institutions are much better positioned to get loans than smaller enterprises that sometimes lack the balance sheets, or relationships, that are used to determine creditworthiness.

In This Report

In this report we provide an overview of the institutions that offer cash and cash alternatives. We also highlight the key characteristics of each vehicle and their potential for positive impact. We have included brief case studies to help bring to life the possibilities for investors to include cash in their impact toolkits. *Please note these examples are provided for illustrative purposes and are not intended as investment recommendations.*

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Investing Cash for Impact: Entities

Community development financial institutions (CDFIs) are the primary entities for cash investing with impact. However, they are not alone. In response to an increase in demand, various for-profit and nonprofit organizations have shown an increasing interest in investing cash impactfully. In the following section we outline some of the types of entities that support investing cash alternatives and cash equivalents.

Community Development Financial Institutions

CDFIs include mission-driven banks, credit unions, loan funds, and venture capital providers. Through the efforts of CDFIs, billions of dollars have been leveraged for investment in marginalized or low-income communities with limited access to the affordable credit and capital needed to start and grow a business or purchase a home.

CDFIs are certified by the U.S. Treasury Department, and most banks supported by community investments are certified CDFIs. There are over 1,000 CDFIs; they can be found in every state and the District of Columbia, serving both rural and urban communities. As of 2019, certified CDFIs held $136 billion in assets[4].

Although CDFIs share a common mission of community development, their organizational structures and lending goals vary. Each type of CDFI offers different investment opportunities as well as differing financial products and services for their customers. There are four basic types of CDFIs: 1) banks, 2) credit unions, 3) loan funds, and 4) venture capital funds. The characteristics of each are summarized in Figure 1, followed by more detail and examples of each.

Figure 1: CDFIs at a Glance

<table>
<tr><th>CDFI Type</th><th>For Profit?</th><th>Regulated?</th><th>Main Focus</th><th>Potential Impacts</th><th>Investment Tool</th></tr>
<tr><td>Bank</td><td>Yes</td><td>Yes</td><td rowspan="2">▪ Financial services
▪ Home, business & consumer lending</td><td rowspan="2">• Local investment
• Reaching the unbanked or underbanked</td><td rowspan="2">Cash deposit, CD</td></tr>
<tr><td>Credit Union</td><td>No</td><td>Yes</td></tr>
<tr><td rowspan="3">Loan Fund</td><td rowspan="3">Usually no</td><td rowspan="3">No</td><td>▪ Microloans and small-business financing</td><td>• Local investment
• Jobs/business creation, sometimes in targeted demographics</td><td rowspan="3">Term loans</td></tr>
<tr><td>▪ Affordable housing finance</td><td>• Local investment
• Home ownership for the economically disadvantaged
• Affordable rentals
• Targeted demographic focus</td></tr>
<tr><td>▪ Community facility financing</td><td>• Local investment
• Buildings for childcare, schools, health centers, recreation, community</td></tr>
<tr><td>Venture Capital Fund</td><td>Yes</td><td>Yes</td><td>▪ Equity financing for growth companies</td><td>• Sometimes local investment
• Job/business creation</td><td>Equity share</td></tr>
</table>

Source: Pathstone

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Community Development Banks

CDFI-certified banks are for-profit corporations with an economic development mission and community representation on their board of directors. These federally insured banks are organized like traditional banks but are required to have at least 60% of their financing activities targeted to low- and moderate-income communities.

Native American Bank

As the only Native American financial institution owned by multiple tribes, Native American Bank (NAB) plays a pivotal role in serving Native communities across the country. NAB makes 95% of its loans in Indian Country and has issued roughly $150 million in loans over the past five years. The CDFI has provided funding for affordable housing and childcare facilities, projects that deliver access to healthy foods, and non-gaming hospitality ventures. NAB also offers loans to Native American individuals, and operates a financial skills initiative aimed at youth.

One example of their work is a project to finance a retail complex with an anchor grocery store on the reservation of the Red Lake Band of Chippewa Indians. This rural northern Minnesota community previously faced a 60-mile round trip to purchase groceries. The complex, opened in August 2019, features the grocery store as well as bakery, expanding the selection of healthy options for local residents. It also created dozens of jobs. The financing approach commingled funds from federal sources and involved a consortium of partners that served as co-lenders or guarantors. Given the complexities of financing a venture on land where there is no private ownership (the Red Lake reservation is held in trust for the tribe), NAB's unique position and knowledge were critical to the project's success.

Community Development Credit Unions

CDFI-certified credit unions are federally insured financial cooperatives that are designed to provide financial services to individual members of the credit union. The National Credit Union Administration (NCUA) charters, supervises and insures federal credit unions. The deposits in these institutions are insured by the NCUA up to the maximum allowed by law. Many CDFI-certified credit unions have also received designation as "low-income" credit unions by NCUA. This designation allows these institutions to accept non-member deposits and secondary capital.

Self-Help Credit Union

Self-Help Credit Union seeks to create and protect economic opportunity for all, particularly communities not well served by traditional lenders. It provides financial products and services to underbanked populations such as African-Americans, migrant farmworkers, immigrants, and rural residents. It also supports projects that meet certain impact criteria. For instance, Self-Help considers combating climate change as part of its mission, and invests in sustainable development projects in communities typically overlooked by commercial developers. Other workstreams include sustainable food systems, revitalizing downtown areas, and boosting the availability of affordable housing and home ownership. A few data points illustrating the impact of cash assets placed with Self-Help:

- The organization has invested more than $175 million in solar development companies, providing access to clean energy as well as economic opportunity to rural communities.
- Self-Help invests in portfolios of home energy loans, which finance energy-efficiency upgrades for low- to moderate-income homeowners. It has invested $41.6 million in partnership with a local nonprofit lender, helping homeowners in the Pacific Northwest.
- Self-Help develops and manages commercial real estate projects targeting the revitalization of downtown communities. Just in its headquarters city of Durham, North Carolina, Self-Help has loaned or provided project financing in excess of $130 million.

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Community Development Loan Funds

CDFI-certified loan funds provide lending to build local businesses, affordable housing, and community facilities. Loan funds' borrowers are small businesses, nonprofit organizations, charter schools, individuals, and organizations involved in community development projects. Loan funds also provide financial counseling to individual and business borrowers.

Calvert Impact Capital Community Investment Notes

Anyone living in the U.S. with $20 and a bank account can invest with Calvert Impact Capital. The nonprofit organization invests in communities around the world through its Community Investment Note. Their strategy is to invest through and alongside intermediaries such as CDFIs to facilitate the flow of capital toward underserved communities. The organizations in which they invest focus on community development, small business, environmental sustainability, health, education and affordable housing. In terms of impact, Calvert's initiatives include gender equity investing, local investing, support for the aging, and engaging immigrant and faith-based communities in their efforts.

In the 25 years since the launch of Calvert's Community Investment Note, cumulative note sales have exceeded $2 billion, and the organization has made nearly 1,000 loans and investments across more than 100 countries, with a 100% investor repayment rate.

Community Development Venture Capital Funds

CDFI-certified venture capital funds pool investor money to make equity investments in private operating companies that yield financial returns while accomplishing community development goals. They also provide equity and management expertise to often minority-owned small businesses that have the potential for rapid growth. CDFI loan funds and venture capital funds are not federally insured and not subject to federal banking regulations.

LaunchNY

LaunchNY's mission is to "catalyze the entrepreneurial ecosystem" in upstate New York. This nonprofit venture capital fund is based in Buffalo and focuses on the state's 27 westernmost counties, which have experienced economic decline and population loss. LaunchNY supports entrepreneurs with funding and tools such as templates for creating business plans, financial projections and pitch decks, as well as mentoring and networking resources.

To date the organization has helped launch 66 companies, 33% of which are women-owned and 28% minority-owned. Portfolio companies span a range of industries, with a heavy concentration on IT, health IT, and cleantech. More than 4,000 jobs have been created. Moreover, LaunchNY's mentor network has served 1,140 companies.

Accredited investors can join LaunchNY's investor network for a minimum of $10,000, which offers access to their pipeline of deals. There is also an Opportunity Fund, which enables investors to place their capital gains in regional opportunity zone investments, and a Limited Partner Fund, which enables participation in a pooled, for-profit fund focused on regional startups. This fund partners with the nonprofit Launch NY Seed Fund, which is funded through grants and donations and also provides seed capital to regional startups.

Minority Depository Institutions

A minority depository institution (MDI) is any depository institution (a bank, organization, or institution that holds securities and assists in the trading of securities) where 51% or more of the stock is owned by one or more "socially and economically disadvantaged individuals." Further, if a majority of an institution's Board is considered 'minority' and the community that the institution serves is predominantly minority, the institution can also qualify as an MDI. Institutions that are not already identified as MDIs can request the designation by certifying that they meet the above definition. The FDIC monitors MDIs and defines "minority" as "Black American, Asian American, Hispanic American or Native American." (Native American Bank, highlighted on page 5, is an MDI as well as a community development bank.)

Many investors hold cash with their primary banks or custodians who trade cash assets through depository institutions. Impact investors who wish to help build the supply of capital that is managed by people of color can ask their bank or broker if they have an option for investing through MDIs.

Dreyfus Government Securities Cash Management

This money market strategy with a long history seeks a high level of current income that is consistent with the preservation of capital and maintenance of liquidity. What is interesting about this fund is that as of November 2019 the firm began to shift trades to diverse broker/dealers in order to provide some positive impact for investors. As of January 31, 2021, the fund places approximately 53% of its purchase with MDIs.

This shift is just one example of how "conventional" money managers and depository institutions are beginning to incorporate depositing funds with Minority Depository Institutions.

Nonprofit Organizations and Companies Investing in Cash

A small but growing number of nonprofit organizations that are not CDFIs are developing impact investing strategies. In some cases, these organizations offer investment options for Donor Advised Fund (DAF) holders. Other nonprofits have created innovative solutions to support cash investments through pooled funds of community investment notes. Similarly, investment firms of all sizes have begun to recognize the growing demand for cash solutions that provide a positive impact and have added new products in the cash asset class.

Impact Assets: Liquid Impact Portfolio

ImpactAssets is a DAF that spun off from Calvert Impact Capital in 2010. It has become the leader in the facilitation of impact investing via DAFs, having gathered $1 billion in DAF assets. The organization has created a number of impact investment funds as well as facilitating direct impact investments. Among their fund options is a Liquid Impact Portfolio, which invests in CDs, money market deposits and a small amount of private debt. The portfolio is tilted toward domestic social impact.

Investing Cash for Impact: Instruments

Cash and cash alternatives are an important allocation in most investors' portfolios. They are used to diversify a portfolio and serve in a defensive position relative to equities and other asset classes. Cash allocations also provide liquidity and protection for spending needs. Most cash is held in money market funds or CDs, which are typically insured by the federal government and have very little risk exposure. Today there is a wide array of instruments that provide liquidity and a hedge against risk while also providing significant social, economic and environmental impact.

The key differences between cash and cash alternatives are:

- **Cash** instruments – checking and savings accounts – offer high liquidity and strong safety of principal. (For the purposes of this report we omit physical currency.)

- **Cash alternatives** offer varying degrees of liquidity and, in some instances, potential risk to principal. Cash alternatives with an impact focus are usually designed to support low-income, BIPOC, women, veteran, and other communities that historically have had limited access to capital. They can also be used to promote positive environmental impact.

Most cash and cash alternative instruments that provide positive impact are variations on the traditional vehicles. In this section we outline the basic components relevant to each available instrument and discuss the more impactful alternative.

Figure 2: Cash and Cash Alternatives Overview

	Issuer	Risk	Returns	Guarantor	Minimum	Fee	Liquidity
Checking Account	Bank/credit union	Low	Little to no interest	FDIC/NCUA	Small opening minimum	Sometimes	Immediate
Savings Account	Bank/credit union	Low	Varies with the market	FDIC/NCUA	Small opening minimum	Sometimes	Immediate
Money Market Account	Bank/credit union	Low	Varies but generally > savings account	FDIC/NCUA	Can be large	Sometimes	Immediate
Money Market Mutual Fund	Mutual fund co.	Low	Varies but generally > savings account	SIPC in some cases	Can be large	Expense ratio	One to two days
Certificate of Deposit	Bank/credit union	Low	Varies but generally > savings or money market	FDIC/NCUA + CDARS	Can be large	Early withdrawal penalty	Locked in for fixed period
Treasury Bill	U.S. Gov't	Market-driven prior to maturity	Varies based on maturity	U.S. Gov't	$100	Platform trading fees	Market-driven
Community Investment/ Development Note	CDFI	Low	Varies based on term	None	Varies	No management fees	One to 15 years depending on term
Ultra-Short Bond Fund	Mutual fund company	Medium	> Money market	None	Can be large	Expense ratio	One to two days

Checking and Savings Accounts

Checking and savings accounts are generally characterized by low yields and high liquidity. Both may incur a monthly fee based on account balance, among other factors. Both may also offer interest, though minimum holdings may be required. The main difference between them relates to restrictions on certain transactions:

- Checking accounts allow individuals to access their money when and where they need it via checks and debit cards.
- Savings accounts limit the number of third-party transfers per month (six), but not on withdrawals by the account holder who can use an ATM or visit a bank. (The third-party transfer limit has been temporarily suspended by the Federal Reserve during the COVID-19 crisis.) Savings accounts are designed to hold money over a long period; as money stays in the account, it accrues interest.

The Federal Deposit Insurance Corporation (FDIC) guarantees checking and savings accounts for banks; it covers the depositors of a failed FDIC-insured depository institution dollar-for-dollar, principal plus any interest (either accrued or due to the depositor), through the date of default, up to $250,000. The National Credit Union Association (NCUA) provides similar insurance for checking and savings accounts at federal credit unions.

Figure 3: Checking and Savings Accounts — Key Characteristics

	Checking Account	Savings Account
Issuer	Bank/credit union	Bank/credit union
Risk	Low	Low
Returns	Little to none	Varies with the market
Guarantor	FDIC/NCUA	FDIC/NCUA
Minimum	Small opening minimum	Small opening minimum
Fee	Sometimes	Sometimes
Liquidity	Immediate	Immediate

Impact Potential

The best way to achieve impact with a checking or savings accounts is to bank with community, minority, or other impact-focused banks that use their balance sheets to support specific communities and issues.

Money Market Accounts and Money Market Mutual Funds

A money market account is a deposit account that pays interest based on rates in the money markets, which deal in short-term loans. It is similar to a savings account. Both are FDIC- or NCUA-insured, and both permit a limited number of monthly third-party transactions (this limit has been temporarily suspended by the Federal Reserve during the COVID-19 crisis).

Money market accounts should not be confused with **money market mutual funds.** The latter are securities available for purchase from a mutual fund family or brokerage. They are not insured by the FDIC. Money market mutual funds are relatively liquid; an investor has to sell shares of the fund to retrieve their investment, which typically settles the same day.

Money market fund investments can provide access to a high-quality, diversified portfolio of money market instruments under professional management. Securities eligible for inclusion in taxable money market mutual funds include U.S. Treasury and other government and agency securities, as well as commercial paper. A key aspect of money market-eligible securities is their short-term maturities, typically three months or less.

Money market mutual funds can be categorized into three groups: Prime, Government and Tax-free. Prime money market funds are typically invested in short-term corporate and bank debt securities. Government money market funds have at least 99.5% invested in government-backed securities. Tax-free money market funds are invested primarily in debt obligations issued by municipalities or other entities whose interest is federally tax-exempt.

By law, a money market mutual fund that is made available to individual retail investors must seek to maintain a stable price of $1.00 per share. (The $1.00 Net Asset Value or "NAV" is maintained through the declaration of dividends to shareholders, typically daily, at an amount equal to the fund's net income.) Although unlikely, there is no guarantee that a money market mutual fund will actually be able to maintain a $1.00 per share price. That said, while money market mutual funds do not have the benefit of FDIC insurance protection, if an account is held at a broker-dealer it is subject to SIPC protection in the event of a failure of the broker-dealer.

Figure 4: Money Market Accounts and Money Market Mutual Funds — Key Characteristics

	MM Account	MM Mutual Fund
Issuer	Bank/Credit Union	Mutual Fund Company
Risk	Low	Low
Returns	Varies but generally > savings account	Varies but generally > savings account
Guarantor	FDIC/NCUA	SIPC in some cases
Minimum	Can be large	Can be large
Fee	Sometimes	Expense Ratio
Liquidity	Immediate	Immediate

Source: Pathstone

Impact Examples

- Money market account screened for corporate bonds with positive ESG practices in addition to Treasury Bills.
- Money market fund available to Donor Advised Fund investors supporting affordable housing, small business, and community facilities.

Certificates of Deposit

A Certificate of Deposit (CD) is a fixed income product that pays a set rate of interest over a fixed period. The interest rate is determined by money market conditions and the period of investment. CDs can pay higher interest rates than savings and money market accounts because funds are left on deposit for a set amount of time. The most common terms are 3, 6, 12 or 18 months.

CDs are typically offered by banks and credit unions, which establish a minimum opening deposit. Sometimes they will set a minimum deposit policy across all CD terms, while other times they will offer rate tiers, providing higher rates to investors with larger deposit amounts. In general, CDs cannot be withdrawn prior to maturity; in some cases, early withdrawals are possible (this will usually involve a penalty).

CD balances in banks and credit unions are subject, respectively, to FDIC and NCUA insurance protection up to applicable limits. For institutional investors depositing larger amounts of cash at banks, CDs can be insured up to $50 million through Certificates of Deposit Account Registry Service (**CDARS**) and Insured Cash Sweep (**ICS**) programs. These vehicles allow for liquid FDIC-insured cash deposits in excess of the $250,000 limit, because they distribute their assets to other financial institutions in $250,000 increments to maintain FDIC coverage. Investors receive an interest rate and daily liquidity.

Figure 5: Certificates of Deposit — Key Characteristics

Issuer	Bank/Credit Union
Risk	Low
Returns	Varies but generally > savings or money market
Guarantor	FDIC/NCUA + CDARS
Minimum	Can be large
Fee	Early withdrawal penalty
Liquidity	Locked in for fixed period

Source: Pathstone

Impact Potential

Investors can purchase CDs from place-based or mission-aligned financial institutions to ensure the desired impact with their assets. Banks, credit unions and community development financial institutions all offer CDs. Native American Bank and Self-Help Credit Union are two well-known institutions that offer CDs with assets supporting Native American communities and lower-wealth families.

Impact-oriented CDARS and ICS programs allow investors to channel their funds only to community or regional banks. Some programs add a charitable component, encouraging the institutions that receive deposits to donate to vetted local nonprofits, and donating a portion of their earned income to the same organizations.

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Treasury Bills

Treasury bills (T-bills) are U.S. Government debt obligations backed by the U.S. Treasury, so there is virtually no risk of default. Treasury bills have maturities of one year or less and are generally regarded as liquid.

Prior to maturity, this type of investment is subject to price fluctuations driven by interest rates, demand and supply factors, and other market variables. Because T-bills are traded in the secondary market at prices either above or below face value, investors can lose money. Most investors do not purchase individual Treasury bills, but rather hold them via a fund.

Figure 6: Treasury Bills — Key Characteristics

Issuer	U.S. Government
Risk	Market-driven prior to maturity
Returns	<CD or Money Market Mutual Fund
Guarantor	U.S. Treasury
Minimum	$100
Fee	Platform trading fees
Liquidity	Market-driven

Source: Pathstone

Impact Potential

Treasury Bills can potentially have a positive impact if they are bought and sold through a minority-owned broker-dealer.

Community Investment and Community Development Notes

Community investment and community development notes (these terms are used interchangeably in the industry) provide investors with highly impactful and often very targeted investment opportunities. These notes are structured like a CD, with varying maturities and listed interest rates; however, they are not insured. Community investment/development notes provide investors with the ability to make targeted investments with a relatively low risk while receiving some interest.

Some community investment/development notes are unsecured. However, the notes are pooled together and many CDFIs that issue them have sophisticated underwriting processes and solid balance sheets to absorb losses; this means a typical investor is unlikely to sustain any losses. A community investment note may mature in three years and have a fixed return rate of 1-1.5%[5].

Figure 7: Community Investment/Development Notes — Key Characteristics

Issuer	CDFI
Risk	Low
Returns	Varies based on term
Guarantor	None
Minimum	Varies
Fee	No management fees
Liquidity	One to 15 years

Source: Pathstone

Impact Potential

Community investment/development notes are designed for impact, and so there are numerous opportunities. For example, investors can support:

- Loans to affordable housing initiatives in a specific geographic community
- Loans for women entrepreneurs
- Loans to small-scale farmers
- Investments in local Black-owned businesses

Ultra-Short Bond Funds

Ultra-short bond funds are mutual funds that invest only in fixed-income instruments with very short-term maturities, typically around one year. These return-seeking funds invest in a wide range of securities, including corporate debt, government securities, mortgage-backed securities, and other asset-backed securities. Ultra-short bond funds are not guaranteed or insured by any government agency.

Ultra-short bond funds tend to have higher risks than money market funds and CDs. They typically pursue higher yields by investing in securities with higher risks. The level of risk associated with a particular ultra-short bond fund will depend on factors such as the credit quality of the fund's investments. In addition, unlike money market mutual funds, ultra-short bond funds are not required to seek a stable price of $1.00 per share. As a result, the price per share of an ultra-short bond fund can fluctuate, and investors could experience losses on their investments.

Consideration of credit quality is key when analyzing short-duration bond funds. If a fund's yield seems outsized, it might be a red flag that the fund manager is taking on more risk than is prudent.

Figure 8: Ultra-Short Bond Funds — Key Characteristics

Issuer	Mutual Fund Company
Risk	Medium
Returns	> Money Market or CD
Guarantor	None
Minimum	Can be large
Fee	Expense ratio
Liquidity	One to two days

Source: Pathstone

Impact Potential

Many of the ESG/impact options in this asset class are exchange traded funds (ETFs), though there are other vehicles available. These funds track ultra-short duration fixed income benchmarks (e.g. MSCI ESG Investment Grade Ultrashort) and are traded frequently to try to ensure that performance is similar to the benchmark.

- ETF short-term bond fund with investment grade, short-duration bonds from issuers with MSCI ESG ratings BBB or higher. The fund excludes companies with activities involved in controversial weapons, nuclear weapons, firearms, tobacco, adult entertainment, alcohol, gambling, genetically modified organisms, oil sands and thermal coal.
- ETF short-term bond fund focusing on capital preservation and liquidity with a focus on socially conscious companies, especially with a focus on environmental sustainability.
- Commingled fund investing in high quality, short-duration (0-3 years) sovereign and multilateral debt and applying deep sustainability and credit analysis.

For More Information

The Opportunity Finance Network (OFN) is the national association of more than 300 community development financial institutions. Their website (https://ofn.org) offers a list of member organizations.

If you would like to explore the potential to invest cash for impact, please speak with your Pathstone advisor to learn about our approved strategies.

Endnotes

[1] https://www.confluencephilanthropy.org/Cash-For-Impact
[2] https://ofn.org/impact-performance
[3] http://priceofoil.org/content/uploads/2020/03/Banking_on_Climate_Change_2020.pdf
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Disclosures