

FISCAL JUSTICE MUNICIPAL STRATEGY

Investment Case



SUMMARY

A fixed income portfolio of public purpose debt vital to the health and economic well-being of Black communities in the United States that primarily focuses on general obligation municipal bonds, and may also include school districts and Historically Black Colleges & Universities (HBCU) bonds, CDFI notes, SBA debentures, and sustainable energy notes, among others. The strategy aims to advance racial and economic justice by making much-needed capital available to fiscally sound and under-resourced Black communities while also providing transformational capital to Black communities with significant fiscal justice opportunities.

STRATEGY

The strategy primarily invests in issue areas that we believe will deliver a positive social and environmental impact, with a focus on underserved and low socioeconomic status communities, predominantly Black municipalities or cities with a large Black population. Accordingly, our investment strategy will primarily invest in two types of communities to create a high-quality, intermediate portfolio, with the ability to invest strategically in lower-rated bonds.



STRATEGY (CONTINUED)

SUB-STRATEGY A (SUB-A): FISCALLY SOUND & UNDER- RESOURCED COMMUNITIES

Sub-A communities we believe to be fiscally sound, but under-resourced, Black communities. Investments in Sub-A are primarily general obligation investment-grade bonds in locations without a need for extensive engagement and policy strategy. We seek to provide these communities with much needed capital to support continued positive fiscal outcomes. From our analysis, Black communities may pay more for debt across a range of criteria. Specifically, in comparison to bonds from non-Black cities in major indexes, we observe a discount in investment-grade bonds in Black cities not based on ratings or underlying financials, therefore suggesting racial bias. This is similar to the findings in Casey Dougal and Pengjie Gao's 2019 study, "What's in a (School) Name? Racial Discrimination in Higher Education Bond Markets." Using financial research and policy analysis, we will identify and invest in a subset of communities with a greater perceived risk, and which may offer higher yields to investors.

SUB-STRATEGY B (SUB-B): COMMUNITIES WITH FISCAL JUSTICE OPPORTUNITIES

Sub-B communities are characterized by having material (which we define as comprising at least 5% of general fund revenues or expenses) fiscal justice deficiencies, such as lost revenue to tax abatements, police misconduct settlements, or public health underinvestment. When combined with an active citizenry and receptive leadership, these communities have the potential to be engaged around fiscal justice issues to unlock financial value at the municipal level. Within these communities, we aim to invest where a deep engagement strategy already exists with strong local and national organizing and advocacy partnerships that can support better fiscal practices, such as decarceration and alternatives to police, to improve outcomes for the citizens. Lessons from Sub-B cities will allow for scaling the investment strategy to additional jurisdictions in the same states or other locations with similar profiles..

The strategy seeks to provide a moderate level of current income consistent with preservation of capital through investment in municipal and public purpose bonds. The strategy's composition is market value weighted and with characteristics that generally reflect those of the S&P Municipal Bond Local General Obligation Index. At least 70% of the assets will be held in investment-grade bonds and may also hold high-yield bonds for up to 30% of the portfolio. Duration objective is set through a dynamic investment process that allocates investments across positions of flexible maturity, with a target average duration of approximately 5 years. Fundamental credit analysis is used to seek out municipalities whose financial condition gives them greater value relative to others in the market, providing potential for capital appreciation. The strategy invests primarily in secondary market purchases, with judicious consideration of new issues.

VALUES-ALIGNED INDIVIDUALS, FAMILIES & INSTITUTIONS

Financial and social return on investment can coexist and thrive together. This strategy is designed to deliver on both - it allows investors to align money and values, but does not require giving up financial return. Investing directly in predominantly Black communities supports racial justice by infusing these communities with much-needed capital for funding long-term positive fiscal outcomes. At the same time, Black communities' ability to obtain impact capital may create value, reduce racial discrimination, undoing the outsized risk premium placed on Black communities in the municipal bond asset class.

"Investing directly in predominantly Black communities supports racial justice by infusing these communities with much-needed capital for funding long-term positive fiscal outcomes."

Top-down solutions often result in extractive investment relationships with impacted communities. This is frequently the result of impact strategies that rely solely on academic research or corporate financial analysis. Our strategy is driven by data collected by progressive, reputable community organizations and partners embedded in the communities we intend to impact, which ensures that the investment relationship remains collaborative and regenerative within each community.

We believe the Fiscal Justice Municipal Strategy is appropriate for high-net-worth investors who are passionate about the intersection of racial and economic justice and are able to prudently assume the risks associated with significant investment in a concentrated bond portfolio. Investors should have a time horizon of 5 years or longer with low to moderate income needs.

FOUNDATIONS & PHILANTHROPIC INSTITUTIONS

"Foundations are uniquely qualified to help communities reshape their futures by engaging in a productive and action-oriented dialogue with financial systems."

Many foundations hold investments in their endowments that do not align with, or are in direct opposition to, the stated mission of the organization. Often this occurs as a result of allocation to traditional investment managers that promote values-aligned or socially conscious strategies. While well-intended, these strategies are from traditional financial industry firms using industry standard methods that are ultimately unable to meet the needs of progressive foundations with missions aimed at alleviating some of the most urgent social issues of our time - namely, systemic racial injustice and its roots in unjust economic systems.

Foundations are uniquely qualified to help communities reshape their futures by engaging in a productive and action-oriented dialogue with financial systems. This strategy serves as a platform by which foundation investors and social justice movements, at the most fundamental municipal level, can join forces to become agents of meaningful social change.

The Fiscal Justice Municipal Strategy is appropriate for progressive foundations seeking diverse managers and high community impact, particularly in service of racial and economic justice. Investors should be able to prudently assume the risks associated with significant investment in a concentrated bond portfolio, have a time horizon of 5 years or more, and low to moderate income expectations.

KEY PARTNERS



Adasina Social Capital (formerly Robasciotti & Philipson), is a registered investment advisor providing portfolio management services for the strategy. A seasoned investment advisor since 2004, the firm is Black-owned and majority-owned and operated by women, people of color, and members of the LGBTQ+ community. As an investment and financial activism firm, Adasina serves as a critical bridge between financial markets and social justice movements for the benefit of people and our planet. Adasina uses four interlocking levers to enact long-term, systemic change: People, Investments, Campaigns, and Education.

We believe that transformed systems are best created by people outside of traditional power structures who carry new perspectives. By building a diverse team that reflects the communities for which we seek justice, we created a new kind of investing based on the needs of those most impacted by our existing inequitable systems. In partnership with social justice organizations within these communities, we define the criteria that guide our investments. We use this community-sourced wisdom to educate and mobilize other investors with campaigns that amplify the needs, perspectives, and voices of impacted communities throughout the financial system.



Activest is a voice for fiscal justice. We define fiscal justice as the equity of municipal budgets. We believe that communities that treat their residents fairly realize stronger fiscal outcomes. A Black-owned investment research and consulting firm since 2016, our approach blends economic modeling, financial analysis, and social policy research to advance racial justice in municipal finance.

II INVESTMENT DETAILS



Minimum Investment:

\$1,000,000 USD

Available Date: August 2020

Fees: Available upon request.

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Offering: This investment strategy is offered via Adasina Social Capital, a registered investment advisor. Investor accounts held at Charles Schwab & Co.

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