Keys to Designing an Antipoverty Fund

Dr. Timothy S. Mech
Grove City College

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1. Introduction

Americans have accumulated $13 trillion in retirement assets. While we work, we neither spend this money nor use it directly for the benefit of others. We hope that our retirement accounts will grow so that we can retire comfortably someday. But is our wealth accomplishing all that it could in the meantime?

While we sit on stockpiles of wealth waiting for retirement, almost half of the world’s inhabitants struggle to survive. Many of these people are hardworking and entrepreneurial, but they cannot get the financing they need to get ahead economically. This leads to a pressing question: Is there a way to use our retirement assets to help the destitute? Is there a way that comparatively wealthy Americans can earn acceptable rates of return on their retirement accounts, while making substantial funds available to third world entrepreneurs on humane terms?

The answer is, “Yes!” If U.S. retirement accounts invested even a tiny fraction of their assets in microfinance institutions and other enterprises that create economic opportunities for the poor, millions of jobs would be created each year. The purpose of this paper is to explore how to accomplish this goal.

The paper is organized as follows: The next section provides the necessary background about microfinance and U.S. retirement markets. Section 3 discusses the practical questions that need to be settled in establishing an antipoverty retirement fund and suggests some viable approaches. Section 4 demonstrates how an antipoverty fund is likely to perform from both an investment perspective and a humanitarian viewpoint. In Section 5, I describe how investment executives have responded to my proposal of an antipoverty fund and discuss some common concerns that they raised. The paper concludes with Section 6.
2. Background

2.1. Microfinance and poverty

We begin by defining and discussing microfinance, because this is one of the primary ways that the antipoverty fund would fight poverty. Microfinance is simply the provision of financial services on a very small scale, especially to very poor households. While microfinance can also include savings accounts and insurance, one of its most important elements is microlending, which is the extension of very small loans. These loans, typically ranging from $50 to $1,000, enable very poor people to start businesses by giving them the means to buy productive assets. Examples are as diverse as the poor entrepreneurs who seek the loans. They range from simple hand tools to pumps for irrigation, from scales to weigh produce to solar panels that bring electricity to remote areas. What these loans have in common is that they are for productive purposes, so that borrowers will be able to repay the loans and improve their quality of life.

Virtually all major humanitarian organizations recognize that microlending is an indispensable tool in the war against poverty. There are several very good reasons for this:

- Maimonides taught that the highest form of charity equips people to provide for themselves so that they no longer need charity. This is the goal of microlending: to provide a permanent solution, not a one-time handout.

- Microlending channels money into the hands of people who need it, rather than into the coffers of governments that may or may not use it for the benefit of the poor.

- Microlending fosters the specialization that fuels economic growth. Rather than the poor competing with each other for undifferentiated menial work, they can specialize in businesses such as welding, carpentry, bicycle repair or hairstyling. This improves the quality of life and the economic climate of the entire community.
Microlending gives the poor an opportunity to understand and to enjoy the fruits of business activity, when otherwise they would be locked out. This leads to more stable societies.

Finally, microlending equips people for citizenship. Through running their own businesses, people learn to manage money and see how to work with other organizations. These skills enable them to take leadership roles in their communities.
2.2. *The poverty fighting potential of U.S. retirement funds*

Figure 1 shows the magnitude of the needs of the poor and the potential resources to meet these needs. Approximately 2.5 billion people — about 40 percent of the world’s population — live on less than $2 per day.\(^2\) Citigroup estimates that there are about 500 million low-income entrepreneurs in the world.\(^3\) Given adequate funds, these entrepreneurs could expand their businesses and earn enough to provide for their families — and possibly hire other people as well. Clearly this would make a huge impact on poverty.

Unfortunately, only a small proportion of these entrepreneurs have adequate access to financial services. Citigroup estimates that only 5 percent of low-income entrepreneurs have adequate access.\(^4\) Jennifer Meehan estimates that less than 18 percent of the world’s poorest households have access to financial services.\(^5\) Whatever the exact number, it is clear that the great majority of poor entrepreneurs are impeded by the inability to borrow or to save securely or to get insurance.

In aggregate, there are about $30 billion in loans to entrepreneurs and small businesses in low-income nations.\(^6\) Vijay Mahajan has estimated that the potential size of this market is about $500 billion.\(^7\) Where will this additional financing come from? U.S. retirement plans are one plausible source. There are three major types of plans: traditional defined benefit pension plans, defined contribution plans such as 401(k) and 403(b) retirement plans, and individual retirement plans such as IRAs.
These markets are enormous. In fact, CalPERS and CalSTRS, the two major public pensions for the state of California, have combined assets of $300 billion — more than half the potential size of the entire microfinance market. Figure 1 shows the amount invested in each of the major types of retirement plans. As a whole, U.S. retirement markets have assets of more than $13 trillion. Millions of people would benefit if even a tiny fraction of these funds were used to provide financial services to the poor. But in order for this to happen, there must be investment products that meet the financial objectives of U.S. investors. These must be products that can be held legally in retirement accounts. They must earn acceptable returns with reasonable risk, and they must be profitable to the investment firms that offer them. The next section examines how a product such as this could be created.

3. Design elements of an antipoverty investment product

3.1. Methodology

Yogi Berra is reputed to have said, “In theory there’s no difference between theory and practice. But in practice, there is.” There is no field in which this statement is truer than investments involving developing nations. In theory, capital should flow where it receives the highest risk-adjusted return. In practice, there are regulatory and institutional constraints and information asymmetries that impede the allocation of capital. To uncover these real-world difficulties, I held dozens of private conversations with investment executives at leading investment companies. I spoke to people at every level, ranging from CEO to stockbroker. To strengthen my understanding of legal issues, I had numerous discussions with three securities lawyers, including two who held very responsible positions in one of the best law firms in this field. Finally, I spoke with managers at five leading microfinance investment firms. Because of the private and frank nature of these conversations, it would be inappropriate for me to give the names of individuals and firms. In fact, some individuals expressly asked me not to divulge this information.

This process opened my eyes to the limitations of conducting applied research as a disinterested observer. When I spoke about establishing an antipoverty fund from a general perspective, most executives offered a few words of upbeat advice. But when I followed up by
asking them to start such a fund, they would raise additional concerns and issues. I learned from this that action-oriented executives give their best feedback when you come alongside them and discuss how to accomplish something together. This section summarizes what I learned about the design of an antipoverty fund, from the perspective of people who are in the position to make it a reality.

3.2. Design elements

In Figure 2, I summarize design questions that must be settled before an antipoverty fund can be established. The first three questions need to be addressed for any financial product; the fourth pertains to the objective of this particular investment.

<table>
<thead>
<tr>
<th>Design questions</th>
<th>Specific issues</th>
</tr>
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<tbody>
<tr>
<td>Distribution strategy:</td>
<td>Will it be sold through brokers, to pension plans, to defined contribution plans, or directly to investors?</td>
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<tr>
<td>How will the product be sold?</td>
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<tr>
<td>Legal structure:</td>
<td>Will it be a mutual fund, an ETF, a separate account or some type of trust?</td>
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<tr>
<td>What type of product will be offered?</td>
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<tr>
<td>Portfolio strategy:</td>
<td>Will the product invest only in poverty fighting securities, or also in conventional stocks and bonds? Will it be actively or passively managed?</td>
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<tr>
<td>What securities will be held and how will they be managed?</td>
<td></td>
</tr>
<tr>
<td>Antipoverty strategy:</td>
<td>Will it invest in micro loans, SME loans or in infrastructure investments?</td>
</tr>
<tr>
<td>How will the product fight poverty?</td>
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</table>

These four questions are closely interrelated. The portfolio strategy must be appropriate for the investors targeted by the distribution strategy. The legal structure must be chosen with an understanding of regulations that restrict the types of investors and securities that the fund can hold. It is worthwhile to look at these issues in greater depth.
3.3. Distribution strategy

When considering new investment products, the distribution strategy is foremost in the minds of mainstream investment managers. Before they will even consider offering a new product they want to be very clear about who will buy it and how it will be sold. It is very expensive to offer registered investment products, and managers want to make sure the proposed fund will be large enough to cover fixed expenses and earn a profit. Major mutual fund companies will not even consider a new product unless it has initial assets of $50 million and is likely to attract several hundred million dollars in additional assets within a reasonably short period. One financial executive told me that he wouldn’t start a fund without at least a billion dollars in assets.\(^\text{10}\)

The distribution plan will have a major impact on the costs of marketing the fund and on the fund’s breakeven size. It is costly, for example, to market a product to defined contribution (DC) plans. With the typical DC plan, an employer (the plan “sponsor”) chooses what investment options to include, and individual employees decide which of these investments to hold in their accounts. To successfully sell a product to this market, it is necessary to sell the idea first to the investment company that manages the plan, then to the plan sponsor, and then to the employees who participate. This three stage marketing is costly and yields uncertain results.

When financial products are sold by brokers or financial planners, marketing and distribution costs are usually charged to the investor in the form of loads and 12b-1 fees. Loads typically range from 1 to 5 percent. The 12b-1 fee is typically 25 basis points (or 0.25 percent) per year, divided between the sales person and the broker-dealer.

Some companies, such as Vanguard, have established valuable reputations for their no-load funds. Because Vanguard doesn’t pay sales commissions, it must rely on its reputation for quality and low costs to attract investors. This is something that most startup funds cannot do, unless they have some sort of niche or ready-made clientele.

Sometimes a fund can be marketed to members of a specific group or organization. For example, DWS Scudder offers a special class of shares for members of AARP, a huge organization of retired people. DWS Scudder pays AARP a fee of seven basis points (0.07
percent) of the first $6 billion in net assets, six basis points for the next $10 billion, and five basis points thereafter. The availability of such a large network greatly reduces the distribution costs and the risks of launching a fund, reducing its breakeven size to $150 or $200 million.

3.4. Legal structure

When people think of retirement products, they often think of mutual funds, but there are many other ways to structure investment products, such as separate accounts, collective trusts, closed-end funds and exchange traded funds (ETFs). Within some of these categories there are further distinctions. Some ETFs are structured as closed-end funds, others as unit investment trusts or grantor trusts. Each type of product has unique characteristics and regulations.

To the novice, the regulations are baffling. Some products are regulated as securities, others as banking products, and others as insurance products. These regulations are not necessarily consistent. For example, a collective trust is a cost-effective way to structure a product for 401(k) plans, but it cannot be held by 403(b) plans, which are the nonprofit equivalents of the 401(k).

The first question to decide is whether the new fund will be registered with the Securities and Exchange Commission (SEC). Except for specific exemptions, it is illegal to sell securities without registering them first. Exemptions include certain securities issued by government entities, banks, insurance companies and nonprofit organizations. In addition, there are exemptions for private placements and offerings to accredited investors. For practical purposes, accredited investors include financial firms and individuals with either a million dollars in net worth or income of $200,000 or more.

Realistically, it would be difficult to market a security to large numbers of unaccredited investors without SEC registration. Unfortunately, registered investments have become much more expensive in recent years due to industry scandals and regulations. There are higher auditing fees, compliance program costs and costs imposed by the Sarbanes-Oxley Act. Outside trustees have more responsibilities than before. These higher costs are the reason for the large sizes these funds need in order to break even. On the positive side, registered securities offer much more flexibility than alternative legal structures such as separate accounts or common
trusts. Here is a brief description of the types of structures that would be most suitable for an antipoverty retirement product:

Open-end mutual funds are the most popular registered investment vehicle. Mutual funds offer shares to the public continuously and redeem shares from investors on demand. There are two complications related to fund redemptions. First, it is necessary to compute the net asset value (NAV) of the fund each day to set a price at which to sell and to redeem shares. Second, no more than 15 percent of a mutual fund’s portfolio may be invested in illiquid assets. It would be difficult to offer an antipoverty mutual fund that meets these conditions, because the poverty fighting portion of the portfolio consists of loans and securities that are neither liquid nor easily valued. At some point, there will be active secondary markets for securitized microloans and other poverty fighting securities, which would provide liquidity and simplify valuation. Until this happens, though, mutual funds probably aren’t a good alternative.

Closed-end funds are similar to mutual funds in that they hold portfolios of assets. Rather than selling and redeeming shares daily, though, closed-end funds typically offer a fixed number of shares. Subsequently, investors buy or sell the shares on the secondary market. Because they do not redeem shares, closed-end funds are not bound by the 15 percent limit on illiquid investments. The main difficulty is that secondary market prices for closed-end funds can vary substantially from their NAVs. Secondary markets might not be liquid enough for investors to buy or sell large numbers of shares at reasonable prices. Unsophisticated investors could get burned by paying too much for the shares on the secondary market, or by selling at too low a price. Furthermore, there is no automatic mechanism for closed-end funds to grow.

Interval funds are closed-end funds that can repurchase shares at quarterly or monthly intervals. This gives investors an opportunity to redeem their shares at a fair price. In addition, interval funds can offer shares continuously to the public, so they can continue growing. Interval funds are not subject to the 15 percent illiquidity limit, but they do need to compute NAVs for the daily sales and periodic repurchases. A valuation committee would be required to estimate the value of the illiquid antipoverty investments in the fund. Until poverty-fighting investments become more liquid, interval funds may be the best way to structure an antipoverty investment.
From an investment perspective, there is another major benefit of the interval fund structure. Because of the 15 percent illiquidity limit, mutual funds invest almost exclusively in publicly traded securities. A growing number of companies, however, are choosing to remain or to become private. Because an interval fund is not subject to the 15 percent limit, it could invest in the equity of attractive private companies that are off limits to traditional mutual funds.

3.5. Portfolio strategy

When thinking about the design of an antipoverty fund, my first inclination was to create some sort of bond fund that would provide loans to microlenders. Similar funds exist already, but none with the depth, liquidity and legal structure to be sold in large quantities in the United States. After further study, I have concluded that it would be more useful to introduce a balanced retirement product that invests only 25 or 30 percent of its portfolio in antipoverty investments. There are four reasons for this:

1. As we have seen, it is important for a fund to attract several hundred million dollars in assets reasonably soon after it is introduced. Altruistic investors can invest a larger fraction of their assets in a balanced fund than in a specialized fund. By increasing the average account size, the fund would achieve breakeven size more quickly.

2. There is a trend in retirement products toward simplicity. Unsophisticated investors don’t want to figure out how much of their retirement savings to invest in various funds; they want single funds that take care of the allocation for them. A balanced antipoverty fund would be a simple, effective choice for investors.

3. A balanced fund prevents charitable investors from hurting themselves by investing too much of their wealth in antipoverty investments. Even people who invest 100 percent of their assets in a balanced antipoverty fund are unlikely to lose very much if the antipoverty investments in the fund perform badly.

4. To fight poverty effectively, it may be necessary for the fund to accept below market returns on the antipoverty portion of the portfolio. If this is only 25 to 30 percent of
the total, then cost savings in fund management can effectively mitigate the opportunity cost to investors.

The portfolio strategy should also address whether the fund will be actively or passively managed, and whether it will try to outperform or match the market. To keep costs down, a passive management style is probably best. The distribution strategy will influence the portfolio strategy, because the customers the fund seeks to attract may have their own preferences about the management of the fund. If the fund is marketed to members of a particular organization, such as AARP, then the organization might be concerned about damaging its reputation by being associated with a fund that significantly underperforms the market. In this case, it might be better to follow the market by indexing rather than trying to beat the market and risk failing. Indexing could be accomplished by investing in individual securities, in exchange traded funds, or in other index products. It also would be possible to create a synthetic index portfolio with index futures, creating more space in the portfolio for antipoverty bonds.

3.6. Antipoverty strategy

Over the past few years, microfinance institutions (MFIs) have received considerable attention for their roles in fighting poverty. As a result, the largest MFIs have access to the financing they need. In order for the antipoverty fund to fulfill its promise of reducing poverty, it will need to provide funds where they might not be available otherwise. This includes investments in second tier MFIs, trade finance loans and small business loans in low-income nations. The fund could also make debt or equity investments in specific infrastructure projects, such as toll bridges, airports, railways or utilities. This could be done in conjunction with major banks, which already routinely evaluate individual projects on a number of social and environmental criteria, including their effects on disadvantaged or vulnerable groups of people.12

If the antipoverty portion of the fund were to experience significant losses, investors might shun antipoverty investments in the future. To avoid this, it would be better for the antipoverty investments to earn a low predictable return than to risk heavy losses in the pursuit of higher returns. To identify investments and manage risks, the antipoverty fund will probably need the help of an experienced partner. This partner could provide expertise and diversification
and could shoulder the first losses in exchange for higher returns. International financial firms such as Citigroup and Deutsche Bank, and more specialized firms such as Blue Orchard and Microvest, could effectively provide this service. In addition, an experienced partner would be very helpful in estimating the net asset value of the antipoverty portions of the fund.

3.7. Implications of the discussion of design questions

There are numerous ways to design an antipoverty fund, but some are much more practical than others. Based on the above discussion, an antipoverty fund with the following characteristics should be viable:

- It would be structured as an interval fund and registered with the SEC.
- The fund would aim to attract at least several hundred million dollars in assets within the first two years.
- The fund would be affiliated with a large humanitarian or religious organization and marketed directly to the members of that organization.
- It would be a balanced retirement product. About 70 percent of the portfolio would be passively managed to track the stock market.
- The fund would invest indirectly in microloans and other poverty fighting securities, through a financial intermediary that would manage these assets and shoulder most of the risk.

But how would such a fund perform, both from an investment and a humanitarian perspective? That is the focus of the next section.

4. The performance and benefits of antipoverty investing

To illustrate how antipoverty portfolios can be created and how they are likely to perform, two sample antipoverty portfolios were constructed. To keep the strategy simple, both of these sample portfolios invest passively in stocks and antipoverty securities. For this
illustration, the antipoverty securities include the Dexia Micro-Credit Fund, which extends credit to established microlending organizations, and Oikocredit Global Community Notes, which invests in the less profitable but very important regional microfinance and small business sectors. Figure 3 gives brief description of the portfolios.

<table>
<thead>
<tr>
<th>Antipoverty I</th>
<th>Antipoverty II</th>
</tr>
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<tbody>
<tr>
<td>This portfolio achieves a moderate asset allocation by investing 70 percent of its assets in an all-equity global index and the rest in Dexia and Oikocredit securities.</td>
<td>Antipoverty II allocates the same fraction of assets to domestic and foreign stocks as the average comprehensive retirement fund, keeps 5 percent in cash for redemptions, and invests the rest with Dexia and Oikocredit.</td>
</tr>
<tr>
<td>Holdings:</td>
<td>Holdings:</td>
</tr>
<tr>
<td>70% Dow Jones Global Aggressive Relative Risk Index</td>
<td>57% Vanguard Total Stock Market Index</td>
</tr>
<tr>
<td>15% Dexia Micro-Credit Fund</td>
<td>14% Vanguard Total Int’l Stock Index</td>
</tr>
<tr>
<td>15% Oikocredit Global Community Notes</td>
<td>12% Dexia Micro-Credit Fund</td>
</tr>
<tr>
<td></td>
<td>12% Oikocredit Global Community Notes</td>
</tr>
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<td></td>
<td>5% Cash</td>
</tr>
</tbody>
</table>
4.1. Investment Performance

Both portfolios were back tested against the S&P 500 and the Dow Jones Global Moderate Relative Risk Index, starting with 1997, the first complete year for the Vanguard total market funds. Figure 4 shows that Antipoverty I closely followed the Dow Jones Moderate Index through this period. Antipoverty II is more highly correlated with the S&P 500 and consistently earns returns between those of the S&P 500 and the Dow Jones Moderate Index.

The statistics in Figure 5 provide additional evidence that antipoverty investing can yield reasonable returns. Both antipoverty portfolios are slightly riskier than the Dow Jones Moderate Index and significantly less risky than the S&P 500. Both have long-term returns that are between the S&P 500 and the Dow Jones Moderate Index.
4.2. Humanitarian Benefits

Ordinary Americans can make an immense difference by investing part of their retirement assets in an antipoverty portfolio. To illustrate, assume that a one-year $500 loan to an antipoverty organization will create a single job in a low-income nation. Figure 6 looks at the job creation that could be achieved by two middle-income people, assuming that both people:

- Earn a real return of 6 percent per year;
- Receive inflation-adjusted salary increases of 2 percent per year;
- Contribute 9 percent of their earnings to retirement, including their employer match;
- Invest 50 percent of their retirement assets in the Antipoverty I portfolio.

<table>
<thead>
<tr>
<th>Figure 6</th>
<th>Illustration of the humanitarian benefits</th>
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</thead>
<tbody>
<tr>
<td><strong>Example No. 1:</strong></td>
<td><strong>Example No. 2:</strong></td>
</tr>
<tr>
<td>Age: 22</td>
<td>Age: 45</td>
</tr>
<tr>
<td>Retirement savings: $0</td>
<td>Retirement savings: $150,000</td>
</tr>
<tr>
<td>Current annual salary: $30,000</td>
<td>Current annual salary: $45,000</td>
</tr>
<tr>
<td>Years until retirement: 43 years</td>
<td>Years until retirement: 20 years</td>
</tr>
<tr>
<td>Jobs created before retirement: 2,638</td>
<td>Jobs created before retirement: 2,087</td>
</tr>
</tbody>
</table>

In each example, investors with average incomes would create well over 2,000 jobs. In addition, these new jobs would help people to support their families and to provide valuable services to their communities.
5. Opinions and concerns

Even after working through the basic design issues, I received a mixed response from executives whom I asked to start the fund. Some investment companies are simply not interested in offering an antipoverty fund. Others believe it is a worthwhile idea but don’t want to be the first to try it. Some executives suggested a pilot fund started on a small scale. On the other hand, one major investment firm offered to manage a fund if it could be branded by a well-known humanitarian organization. Other firms are still open to the idea but haven’t committed.

Executives who were not interested in starting the fund raised a number of concerns. Here are the most common:

1. The first concern is that there are already funds that invest in microlending, so it is unnecessary to develop a new one. This is a misconception circulated unwittingly by the press and unintentionally by the marketing efforts of existing microfinance investments. In reality, there are a few U.S. funds that invest in microloans or other antipoverty investments, but these are typically unregistered, illiquid and uncompetitive. There is no fund that can raise large amounts of money from unaccredited U.S. investors. Notice also that the proposed fund differs from the typical socially responsible fund, which merely tries to avoid industries that it deems harmful. The proposed fund takes a positive approach by financing job creation and infrastructure improvement.

2. Another concern is that the fund would not be able to determine its net asset value (NAV) each day because some of the assets in the fund — the notes backed by microloans and the infrastructure loans in particular — don’t have daily market prices. Computing a daily NAV would be necessary if the fund were to offer shares to the public each day. But it is not necessary to have market prices to compute NAVs. It is common practice for a fund to establish a valuation committee that is responsible for estimating values of loans and other assets that are not actively traded.\(^\text{13}\)

3. A third concern is that the demand for microfinance investment now outstrips the supply of quality investments. This is a half-truth. Since I began this project, microfinance has received a great deal of publicity, culminating in the selection of Muhammed Yunus, a
pioneer in microfinance, for the Nobel Peace Prize. Funds from foundations and pensions are flowing into microfinance investments. The supply of quality microfinance bonds is limited. Notwithstanding, I believe that an antipoverty fund is feasible and desirable. In spite of the growing demand for microfinance bonds, a consortium of microfinance investment firms would be capable of supplying sufficient bonds to provide the 25 percent poverty alleviating investments for a $500 million or $1 billion fund. Furthermore, the microfinance industry is growing, and the supply of investments will grow to meet demand. Finally, the antipoverty fund would be able to invest in a variety of loans that provide services to the poor, not just loans to microfinance institutions.

4. A final concern is that the fund’s assets wouldn’t have sufficient liquidity to cover potential withdrawals. This concern is sometimes stated from the perspective of the investor and sometimes from the perspective of the investment company that manages the fund, so I will address this from both perspectives.

- Investors won't care much about the liquidity of the microloans within the portfolio if we provide them with liquidity for the fund as a whole by repurchasing shares each month. (Real Estate Investment Trusts are popular even though their underlying assets are not liquid.) Selling shares monthly rather than daily is a minor cost compared to the satisfaction that many investors will get from making the world a better place.

- The fund company has no reason to be concerned about liquidity, because (1) more than 70 percent of the portfolio will be in liquid securities, so it can handle fund repurchases, and (2) the microloans could have staggered two-year terms with one-eighth of them maturing each quarter.

Hearing these concerns helped me to improve my recommendations for the antipoverty fund. None of these issues would reduce the benefits of the fund or make it infeasible.
6. Conclusion

This paper has explored the rationale for an antipoverty retirement fund and examined what a viable fund would look like in terms of its size and distribution, legal structure and portfolio strategy. Discussions with investment managers provide the basis for a feasible product. Simulations indicate that a fund such as this would offer reasonable returns and allow ordinary Americans to have a huge impact on world poverty. The time has come for investment firms to offer an antipoverty fund.

References


4 Ibid.


10 Perhaps investment managers use these high numbers because of the risk of entering an unknown market or to compensate for optimism on the part of the people who propose new funds.


The Eaton Vance Advisers Senior Floating-Rate Fund (EAFRX) is a good example of an interval fund that uses a valuation committee to price illiquid assets. The recent prospectus is available online at http://www.eatonvance.com/alexandria/ASFRP.pdf. Page 1 of the prospectus describes the interval fund. Page 13 describes valuation policies.