CNote: Sustainable Growth Strategies in the Age of Millennials

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2018 SMEAL SUSTAINABILITY CASE COMPETITION
CNote needs a comprehensive strategy to meet growth goals

1. Financial products should not serve just the wealthy few
2. Financial prosperity doesn’t have to be zero-sum
CNote has a Variety of Options
Millennials are holding on to more cash

Millennial Investing vs Saving ($ T)

Reasons for holding cash:
- 6-month rule
- 5-year rule
- Recent stock market crashes

Best Investment Options:
- Bonds, Gold, Savings acct – 39%
- Real Estate – 32%
- Stocks/investments – 26%
- Other – 4%
Large sums of money are in low-return investments or idle cash.
Changing behavior and accessing idle money is the key.
Pension Funds and Millennials are the keys to CNote’s sustained success

**Pension Funds as Source of Investments**

**Short term (<1 yr):**
Seek and attract public pension funds to capture part of their investment portfolio

**Medium term (1-2 yrs):**
Improve referral program, implement mobile app, provide financial education programs and offer direct investment option

**Long term (>2 yr):**
Big Data Analysis to assess project risks and expected returns of selected projects for investing

**Attracting and retaining millennials**
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**Attracting and retaining millennials**

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**Data Collection and Improved Risk Assessment**
Public Pension Funds as Investors

Pension Funds

$976.5 billion

= $643.5B Govt’ sponsored funds

Market Share in 2017

5.4% California Public Employees’ Retirement System (CalPERS)

94.6% Other

3.8% California State Teacher’s Retirement System (CalSTRS)
## CalPERS Assets Allocation

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Current Allocation</th>
<th>New Interim Target Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Equity</td>
<td>48.3%</td>
<td>46.0%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>8.0%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Global Fixed Income</td>
<td>19.4%</td>
<td>20.0%</td>
</tr>
<tr>
<td>Real Assets</td>
<td>11.2%</td>
<td>13.0%</td>
</tr>
<tr>
<td>Liquidity</td>
<td>4.8%</td>
<td>4.0%</td>
</tr>
<tr>
<td><strong>Inflation Assets</strong></td>
<td><strong>7.8%</strong></td>
<td><strong>9.0%</strong></td>
</tr>
<tr>
<td>Total Plan Level</td>
<td>0.5%</td>
<td>--</td>
</tr>
<tr>
<td>TOTAL FUND</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

### Inflation Assets

- **Low risk asset classes**
- ~2.5% returns

- 7.8% → 9.0%
- **1.2%** new impact investments

- New Inflation Assets allocation
- **$4.2 billion**
- 1.2% of $350 bi
# CalSTRS Assets Allocation

<table>
<thead>
<tr>
<th>Assets</th>
<th>Actual</th>
<th>Current Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Equity</td>
<td>53.51%</td>
<td>54.0%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>12.17%</td>
<td>13.0%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>12.95%</td>
<td>12.0%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>8.11%</td>
<td>8.0%</td>
</tr>
<tr>
<td><strong>Cash/Liquidity</strong></td>
<td><strong>1.94%</strong></td>
<td><strong>2.0%</strong></td>
</tr>
<tr>
<td>Inflation Sensitive</td>
<td>1.81%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Risk Mitigating Strategies</td>
<td>8.89%</td>
<td>9.0%</td>
</tr>
<tr>
<td>Innovative Strategies</td>
<td>0.21%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Strategic Overlay</td>
<td>0.41%</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>TOTAL INVESTMENT ASSETS</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

**Cash/Liquidity asset classes ~2%**

1.94% → 2.0%

**0.06% new impact investments**

New Cash/Liquidity allocation

$140 million

0.06% of $235 bi
Public Pension Funds as Investors

CalPERS new allocation
$4.2 billion

CalSTRS new allocation
$140 million

$4.3 billion
New investments
Short-term
Pension Funds and Millennials are the keys to CNote’s sustained success

**Pension Funds as Source of Investments**

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**Attracting and retaining millennials**
Reconfigure Referral Program Structure

- Investors must **refer 3+ new investors** to receive a one-time **0.25% per annum bonus interest increase** on their outstanding principal amount.

- New investors must purchase **$1,000+ in principal of CNotes.**

- Investors can **refer 1 – 6 new investors** to receive a one-time **0.08% per annum bonus per referral interest increase** on outstanding principal amount.

-OR-
Millennial Purchase Preferences

- Prefer mobile apps: 58%
- Prefer other: 42%

Current Trends

Online Banking Mobile Applications

- 85% of Millennials wish they could do banking on smartphones.
- 81% of Millennials say it’s important that banks have a quality mobile app.
Millennials Need Financial Literacy Education

- 76% with no basic financial knowledge
- 30% are frequently overdrawing on their checking accounts
- 44% of college-educated carry multiple sources of outstanding long-term debt
- 41% of 25-34 year-olds had $0 in savings in 2017

Lack of trust in financial institutions, investments, or services
Current Competition in Financial Literacy Programming

**PwC Earn Your Future Program**
- Curriculum with Educators in Public School for grades 3-12
- Not for CNote’s adult Millennial market

**Capital One MoneyWise Program**
- Multilingual forums
- Advocacy programs to provide free materials
- Clinical and hard to find

**Acorns Grow Program**
- Practical stories and lessons like: Negotiating Your Phone Bill, What You Need to Know Before You Sign That Lease
- Blog stories and quick advice

**CNote**
- Target adult millennials
- Easy to understand, but more technical and robust content
- Topics like:
  - Understanding Interest
  - Optimizing Credit Score
- Include and highlight the social impact that can come from properly managed finances
Include a Direct Investment Option

Current Investment Structure

- OR -

Additional Investment Option

Monthly Featured Project will attract more investments and more customer engagement by allowing self-selection.

Monthly update and newsletter from community business will continue engagement.

Adding a “human” element will appeal to user’s need for connection.

Pool of Low-Risk Projects

Monthly Featured Community Project
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**Attracting and retaining millennials**
Transparency is needed to prevent ‘Impact Washing’

How to prevent ‘impact washing’ and gain credibility

<table>
<thead>
<tr>
<th>Percent of Respondents</th>
<th>80%</th>
<th>41%</th>
<th>31%</th>
<th>26%</th>
<th>21%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater Transparency</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>3rd Party Certification</td>
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<tr>
<td>Principles to govern investors</td>
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<td></td>
<td></td>
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<tr>
<td>Investor commitment to code-of-conduct</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Market risk mechanism</td>
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</tbody>
</table>

Millennials and young investors want to see where their money is being invested and have demonstrated a willingness to take on more risk in the past year.

CNote should work toward providing direct investment options in the future to appeal to more millennials.
Most Important Technology is Big Data Analysis

Importance of various technologies over next 3 years

- **Big Data Analysis**: 56% Very Important, 36% Somewhat Important, 7% Not Important
- **Automated data collection/analysis**: 47% Very Important, 45% Somewhat Important, 3% Not Important
- **Blockchain technology**: 55% Very Important, 29% Somewhat Important, 17% Not Important
- **Machine learning/AI**: 52% Very Important, 23% Somewhat Important, 25% Not Important
- **Algorithms for portfolio management**: 45% Very Important, 15% Somewhat Important, 40% Not Important
- **Augmented / VR technology**: 38% Very Important, 8% Somewhat Important, 54% Not Important

**Benefits of Big Data Analysis:**
- Risk Assessment
- Track & Measure Impact
- Trend Analysis
Big Data Analysis Provides Key Opportunities

**Risk Assessment**
- Further assessment can optimize financial returns for CNote and investors
- Can allow for direct investment option

**Track & Measure Impact**
- Measuring impact is an ongoing issue for most investment institutions
- Track towards UN SDGs
- Attract new investors

**Trend Analysis**
- Identify key markets with greatest impact/growth potential
- Provide more options in key markets with growing investor interest

**CNote**
- Collect data related to:
  - Investment opportunities
  - ROI
  - Before and after investment impact
  - Improvement in SDG related areas
- Use A.I. and third party platforms to begin analyzing big data
- Work with projects being funded to identify other opportunities
Risks & Other Considerations

**Risks:**
- Large up front costs to generate education material, application for mobile users and setting up data collection/management system
- There may be barriers to working with state pension funds
- Calculating riskiness of individual projects and their returns to investors may take time

**Other Considerations:**
- Need to ensure there is a steady stream of projects coming in from CDFI’s for direct investment option
- Need to maintain steady funding into current categories and specific projects
- Ensure that these efforts are not perceived as ‘impact washing’ by current investors
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“Success is not measured in the amount of dollars you make, but the amount of lives you impact.”

-CNote
Thank You!
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Develop Mobile Application
Millennials Need Financial Literacy Education

Current Competition in Financial Literacy Programming
Include a Direct Investment Option
Transparency is needed to prevent ‘Impact Washing’
Most Important Technology is Big Data Analysis
Big Data Analysis Provides Key Opportunities
Risks & Other Considerations
Additional Short Term Cash Flow
Impact Projections
Other Opportunities
Sources
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## Additional Short Term Cash Flow

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<thead>
<tr>
<th></th>
<th>Funds</th>
<th>Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Cnote Funds</td>
<td>$17,000,000</td>
<td>$68,000</td>
</tr>
<tr>
<td>ST Target Cnote Funds</td>
<td>$100,000,000</td>
<td>$400,000</td>
</tr>
<tr>
<td>LT Target Cnote Funds</td>
<td>$1,000,000,000</td>
<td>$4,000,000</td>
</tr>
<tr>
<td>Additional Cash Flow After 1 year</td>
<td>$ 332,000</td>
<td></td>
</tr>
</tbody>
</table>

Additional cash flows expected from increasing funds from $17M to $100M

$332,000

**Available for medium term developments: app and fin. Ed. Programs**
Other Opportunities

**Green Bonds**
- Partner with institutions with ‘green funds/bonds’

**Micro-investing**
- With Round-Ups and other forms of small amount investing
- Lowering minimum amount that user can invest

**Financial Advice**
- 24/7 Online Customer Support designed for financial advice
- Additional Paid service for individual advising