

# **Bond Case Briefs**

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## **For Greenification in Munis, Try SMI.**

With sustainability a prime focus that's here to stay for many asset allocators and investors, more fund issuers are looking for ways to meet this growing demand.

The vast fixed income market is fertile ground for green fund innovation. Some of that innovation is already arriving. Consider the case of the VanEck HIP Sustainable Muni ETF (SMI), which debuted last September as the first exchange traded fund dedicated to green municipal bonds.

The actively managed SMI is managed by HIP Investments — a pioneer in the green municipal bond space. HIP Investments' pedigree is relevant to investors because for many income investors, munis are a staple asset class, but most aren't yet acquainted with green muni bonds.

"HIP Investor Ratings are data-driven, evidence-based, and research-linked. Specifically, HIP Ratings incorporate research that shows which variables are key to improving outcomes. Then, HIP tracks data and metrics related to evidence-based targets and goal," said HIP Investors founder and CEO Paul Herman in a recent note.

SMI, which sports a 30-day SEC yield of 1.27%, holds just 44 municipal bonds. That's the result of a high bar for entry created by HIP Investor's stringent investment criteria and the newness of green municipal bonds. None of the ETF's holdings exceed a weight of 4.77%.

"HIP Investor's methodology, which precedes the term 'ESG' by several years, uses five pillars based on Maslow's hierarchy of needs. These five pillars — Health, Wealth, Earth, Equality, and Trust - can be mapped to ESG as well," adds Herman.

Additionally, the HIP's methodology features a dual-pronged approach that focuses on sustainability and education. As a result, some of the fund's holdings are issued by transportation authorities and other typical muni issuers while others are issued by education entities, including colleges and school districts.

"In SMI, HIP Ratings also track the UN Sustainable Development Goals (SDG) framework,<sup>2</sup> as well as a Climate Threat Resilience score," notes Herman. "To value areas that need access to education, HIP tracks the number of opportunity zones that are served by the geography covered by the school district."

California and New York municipal bonds combine for 60.6% of the ETF's weight. SMI has an effective duration of 5.77 years, and 84% of its holdings carry investment-grade ratings.

ETF TRENDS

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