# KELLY POSENAU

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## EDUCATION

**University of Chicago Booth School of Business**
PhD in Finance, 2022 (anticipated)

**University of Pittsburgh**
BS in Economics (Summa Cum Laude), BA in Political Science (Summa Cum Laude), 2012

## RESEARCH INTERESTS

Empirical corporate finance, financial intermediation, public finance

## RESEARCH PAPERS

**Working Papers**

1. **"Debt and Water: Effects of Bondholder Protections on Public Goods"** (Job Market Paper)

   How do creditors influence the quality of local public goods through municipal debt contracts? I examine this question in the context of municipal water utility debt covenants. As utilities approach their covenant violation thresholds, they increase prices. But, utilities also reduce hiring growth and reduce manager pay. I also find that officials sequence their budget decisions according to a pecking order hierarchy: they raise revenues as much as possible, then cut spending. The incidence of cuts is first on water system expenses and then on administrative expenses. System problems and pipe breaks are most sensitive to distance to covenant thresholds for the most constrained utilities. These utilities respond on a per capita basis to a $1 move toward covenant thresholds by raising revenues $.26, cutting water system expenses $.19, and reducing administrative expenses $.13. I confirm the pecking order using a drought shock to water demand: covenant-constrained utilities raise prices 9% relative to unconstrained utilities following the shock. Local hostility to taxes imposes an additional friction on the revenue-raising process. After accounting for tax hostility following the drought shock, the overall effect of the rate covenant for an average covenant-constrained utility is a 9.5% reduction in water system expenses.

2. **"The Risk and Return of Impacting Investing Funds"** (with Jessica Jeffers and Tianshu Lyu)

   We provide the first analysis of the risk exposure and consequent risk-adjusted performance of impact investing funds, private market funds with dual financial and social goals. We introduce a new dataset of impact fund cash flows constructed from financial statements. When accounting for market risk exposure, impact funds underperform the market, though not more so that comparable private market strategies. We exploit known distortions in measures of VC performance to characterize the risk profile of impact funds. Impact funds have substantially lower market beta than VC funds, contradicting the idea of sustainability as a "luxury good." We find that impact fund cash flows do not exhibit positive correlation with a public market sustainability factor, consistent with the idea that private and public market sustainability strategies capture distinct exposures.

3. **"The Impact of the Shadow Banking Sector on Public Finance"** (with Chuck Boyer)

   Prior to 2016, money market mutual funds held about $250 billion in municipal government debt. These funds were an important source of short-term and low cost financing for state and local governments as well as other municipal entities in the United States. In response to the financial crisis of 2008, the SEC implemented a series of reforms in 2016 designed to make these funds more stable. We study the effects of the reforms on the U.S. municipal debt market. We use the negative shock to demand to explore the effects of frictions and asset-specific demand in this market. We show that tax-exempt fund holdings of municipal debt dropped precipitously around implementation of the reform. Issuers more exposed to the reform experienced a decrease in lending from funds, an increase in borrowing costs from funds, and an overall increase in borrowing costs for all new municipal debt issues. Our results suggest the reform may have increased borrowing costs for municipal entities that were more reliant on money markets for funding, and the effects were larger for smaller issuers. Our results demonstrate the importance of financial intermediaries, potential information frictions, and asset specific demand for municipal markets.

4. **"Liquidity Regulation and Investor Demand for Safe Asset"**

Can banking regulation induce convenience yields? Not always. I study how a 2016 change in the Federal Reserve's Liquidity Coverage Ratio (LCR) that allowed banks to hold certain types of municipal securities as high quality liquid assets (HQLA) affected secondary market yields for these securities. I exploit two institutional features to identify the effect of the regulation on bank demand in a differences-in-differences design: first, banks are marginal investors only in one segment of the municipal bond market, the bank-qualified segment; second, the LCR differentially treated only certain types of municipal securities as HQLA. I find no significant pricing effects around the implementation date and little change in covered banking organization holdings of municipal securities. I conclude that the HQLA designation is not enough to create a safe asset: haircuts and exclusion limits affect whether regulatory assets command convenience yields.

**Publications**

1. **"The Anatomy of Financial Vulnerabilities and Banking Crises"** (with Seung Jung Lee and Viktors Stebunovs), *Journal of Banking and Finance*, 112, 2020.

We extend the framework of Aikman et al. (2017) that maps vulnerabilities in the U.S. financial system to a broader set of financial vulnerabilities in 27 advanced and emerging economies. We capture a holistic view of the evolution of financial vulnerabilities before and after a banking crisis. We find that, before a banking crisis, pressures in asset valuations materialize first and then a build-up of imbalances in the external, financial, and nonfinancial sectors occurs. After a crisis, these vulnerabilities subside, but sovereign debt imbalances rise as governments try to mitigate the consequences of the crisis. Our main indexes, which aggregate these vulnerabilities, predicts banking crises better than the credit-to-GDP gap (CGG) or sector-specific vulnerability indexes, especially at long horizons. Our aggregate indexes also explain the variation in the severity of banking crises and the duration of recessions relatively well, as it incorporates possible spillover and amplification channels of financial vulnerabilities from one sector to another. Therefore, our framework is useful for macroprudential policy making and crisis management.

## CONFERENCES AND PRESENTATIONS

2021 Southern California PE Conference*; Workshop on Entrepreneurial Finance and Innovation*; Pre-WFA Early Career Women in Finance Conference*; UN PRI Academic Network Conference*; PERC Symposium (scheduled); NBER Entrepreneurship Working Group (scheduled); EUROFIDAI and ESSEC Business School Paris December Finance Meeting (scheduled)

2020 Brookings Municipal Finance Conference; Chicago-Area Entrepreneurship Workshop

2017 American Economic Association Annual Meeting Poster Session

** indicates presentation by coauthor*

## TEACHING EXPERIENCE

New Developments in Public Finance (PhD) 2021
TA for Peter Ganong, Joshua Gottlieb, Pascal Noel, Eric Zwick

Governance (EMBA) 2019
TA for Michael Gibbs

Financial Statement Analysis (MBA) 2019
TA for Abbie Smith

Corporate Finance (MBA) 2019
TA for Jessica Jeffers

## RESEARCH EXPERIENCE AND OTHER EMPLOYMENT

**University of Chicago Booth School of Business**
Research Assistant for Jessica Jeffers, 2019

**Federal Reserve Board of Governors Division of International Finance**
Research Assistant, 2014-2016

**Federal Reserve Board of Governors Division of Information Technology**
Financial Systems Analyst, 2012-2014

## AWARDS, FELLOWSHIPS, and GRANTS

**University of Chicago Booth School of Business**
John and Serena Liew Fellowship Data Grant, 2020
AFA Ph.D. Student Travel Grant, 2020
Liew Fama-Miller PhD Fellowship (Third Year Paper Award), 2019
Liew Fama-Miller PhD Fellowship (Second Year Paper Award), 2019
CRSP Summer Grant, 2017
University of Chicago Booth School of Business PhD Fellowship, 2016-present

**University of Pittsburgh**
University of Pittsburgh Department of Economics Outstanding Senior Award, 2012
University of Pittsburgh Honors College Full Tuition Scholarship

## AFFILIATIONS AND OTHER ACTIVITIES

Chicago Booth Standing Committee on PhD Climate, 2019-2021

## MISCELLANEOUS

Languages: English (native), French (advanced), Arabic (beginner)
Computing: Python, Stata, SAS, MATLAB, SQL, R, Splus
Special Interests: Bass guitar and music, running, traveling, U.S. presidential history