Connecting the Dots:
The Intersection of Economic Equality, Racial Justice, and Sustainable Investing

October 2020

COMMUNITY CAPITAL MANAGEMENT

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We changed the term "green" to "sustainable" as it is more encompassing, addressing environmental issues but also speaking directly to creating an economic system that provides for a healthy quality of life.

Sustainable investing is known by many names. Among them: socially responsible, ethical, impact, and principles-based investing.

We have written many pieces over the last decade on green bonds and sustainable investing; in fact, our first white paper on the topic, "Green Fixed Income Investing," was published in 2009, only four years after the term Environmental, Social, and Governance (ESG) investing was coined. That was followed by our report "A Case for Sustainable Fixed Income Investments," in 2011, and "An Approach to Incorporating Sustainable Investing Within Your Bond Portfolio," in 2016. While definitions of the term sustainable investing differ, the concept remains the same — investing sustainably is directing capital into companies, organizations, and funds with the purpose of generating measurable environmental and social impact alongside a financial return. The impacts can span across diverse sectors, from renewable energy and climate change to health, safety, economic equality, and community development. Similarly, we have written over the years about the wealth gap, racial justice, the importance of economic development for social mobility, and the need to act now to right wrongs of the past.

Which brings us to 2020 — a year forever marked in history by a pandemic, multiple acts of racial injustice, historic unemployment rates, nationwide protests, and health inequalities. This year has shown tremendous social and economic strains on society. Underserved and minority communities and individuals have been hard hit and the impact of COVID-19 has spotlighted pre-existing financial and economic disparities faced by low-income communities, particularly communities of color. It all serves as a necessary reminder of an essential behavioral change needed in our society.

So how do we take 2020s seemingly insurmountable challenges and translate them into actionable investment ideas? We need to continue to promote and invest in:

- **Building resilient solutions for low- and moderate-income (LMI) and minority people in the face of climate change and related disasters**
- **Supporting the flow of capital toward safe, affordable, and sustainable housing**
- **Raising corporate awareness and using the voices of shareholders, consumers, and other stakeholders to drive home the importance of transparency and accountability**

There are never immediate solutions to long-standing problems, which is why as an impact and ESG manager with over 20 years of experience, we are deeply committed to finding ways to offer investors a way to complement their impact beyond donations and grants and use their investments to support critical issues like economic equality, racial justice, and sustainable investing.

— Alyssa Greenspan, CFA, president and COO

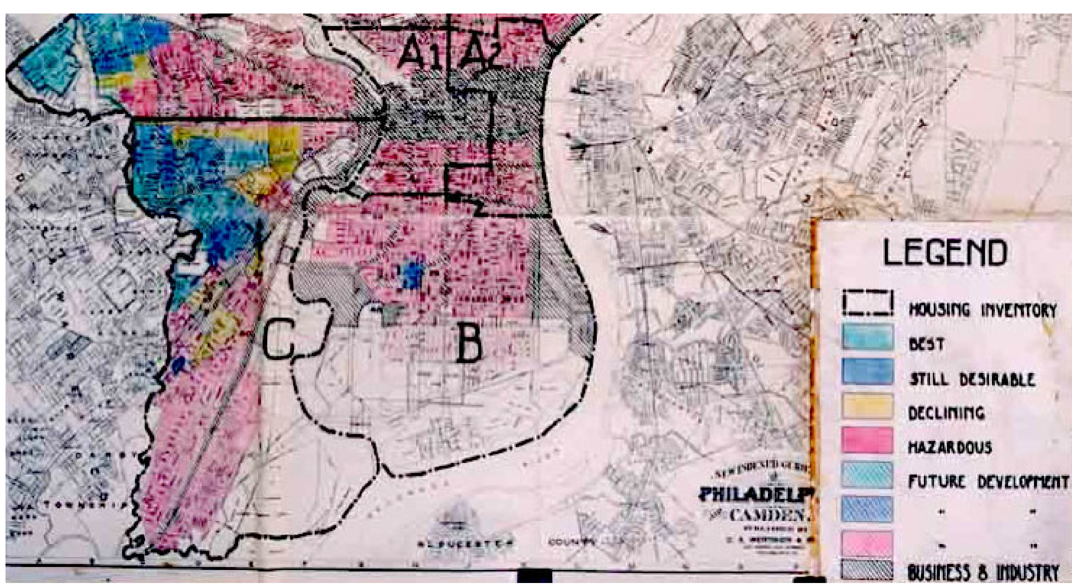
If we use the template of transformation of people's behaviors toward the environment, we will be able to continue to make progress on economic justice. The avenue is similar and the power of raising awareness and taking responsibility paramount.

This report goes into more detail on the areas mentioned above and how they all intersect with racial justice and economic equality. Hopefully, one of the positive outcomes from this somber year will be fundamental change in the fabric of our society and an increase in the proportion of our population that feels included and respected. Our culture must change but can do so only if citizens and institutions use all available tools. Creating and sustaining meaningful opportunities for all requires investment, legislation, and regulation — but it also requires more subtle societal changes in racial attitudes and awareness. We all have a role to play, and we all must do the work.

History of Economic Inequality and the Capital Markets

Our nation has a long history of economic inequality — in fact, we could write an entire report on this topic alone. The recent instances of systemic racism taking place in cities across the country have brought the history and current situation of this issue to the forefront of conversations. Repeated instances of police brutality recorded on mobile phones and the disproportionate harm that COVID-19 is wreaking on minority communities make visible deep-seated problems that have been hiding in plain sight for generations.

Since the 1930s and 1940s, government programs from the New Deal to the GI Bill systematically excluded minorities from housing and even education. This economic disincentive included "redlining" and is a primary contributor to the racial wealth gap in the United States today. Redlining is the practice of putting financial and other services out of reach for residents in certain areas based on race or ethnicity.



Source: Public Domain

The 1960s and 1970s saw some progressive legislation, including the passing of the Civil Rights Act in 1964, Fair Housing Act in 1968, and the Community Reinvestment Act (CRA), enacted in 1977. The Fair Housing Act prohibited discrimination concerning the sale, rental, and financing of housing based on race, religion, national origin, or sex and stands as the final great legislative achievement of the civil rights era. The CRA required the Federal Reserve and other federal banking regulators to encourage financial institutions to help meet the credit needs of the communities in which they do business, including LMI neighborhoods.

CCM's CRA Qualified Investment Fund was launched in 1999 specifically to help banks meet the requirements of the **CRA Investment Test**. The Fund's geographically targeted fixed income strategy helps financial institutions invest in underserved and, in many cases, formerly redlined communities in their service areas.

As it relates to the capital markets, it was not until the 1990s that the CRA investment test was created to incentivize banks to invest in LMI communities thereby bringing the power of the capital markets to historically underserved and underrepresented borrowers. If we look back even further in history, one of the first instances of socially responsible investing (SRI) dates back to the 1700s with John Wesley, one of the founders of Methodism. The Quakers and other faith-based investors followed in the 1800s and early 1900s by avoiding investing in businesses tied to war, slavery, tobacco, gambling, and other activities inconsistent with their faith-based values.

ESG investing was unveiled in 2004 in a landmark study entitled "Who Cares Wins,"[1] and in 2007, the term "impact investing" was coined by The Rockefeller Foundation, putting a name to investments made with the intention of generating both financial return and social and/or environmental impact.[2] Investing in racial economic equality has a long history and, unfortunately, still has a long way to go. It will take a village — figuratively and literally — to improve outcomes to the pervasive and systemic racism running deep throughout our nation. Investing in equity for all requires a holistic approach from the public sector to the private sector to supporting organizations, people, places, and activities making a difference.

Our firm and our clients are optimists. We believe that impact investing can help make our society work better and can be a ladder of opportunity for people who have been the victims of systemic racism and oppression. Many of the underpinnings of the practices and tools of our sector of the industry can be traced directly to the injustice of redlining in major American cities.

— David Sand, chief impact strategist

Economic Equality, Racial Justice, and Climate Change

Our country's history of social inequality (slavery, discrimination, unequal voting rights, etc.) has created a wealth divide that has compounded through the years. This inequality has been exacerbated over time given the repercussions of climate change and its impact on LMI and minority individuals and families and discussed more recently amid acts of racial injustice taking place across the United States. Today's reality is that the outcomes from such natural resource exploitation (climate change, regulation, scarcity of supply for clean water and safe, affordable housing, etc.) will likely continue to disproportionately affect LMI and minority communities.

A recent New York Times story, "How Decades of Racist Housing Policy Left Neighborhoods Sweltering," explains how a poor neighborhood in Richmond, Virginia, that has more residents of color can be 5 to 20 degrees Fahrenheit hotter in summer than wealthier, whiter parts of the same city.[3] And Richmond isn't alone — the same scenario rings true in other cities like Baltimore, Dallas, Denver, Miami, Portland, and New York. Growing evidence indicates that this is no coincidence. In the 20th century, local and federal officials, usually white, enacted redlining policies that reinforced racial segregation in cities and diverted investment away from minority neighborhoods in ways that created large disparities in the urban heat environment.

In over 100 cities, formerly redlined neighborhoods are today 5 degrees hotter in summer, on average, than areas once favored for housing loans, with some cities seeing differences as large as 12 degrees, according to a recent study by MDPI.[4]

With scientists certain that global temperatures will continue to rise for decades to come, these lower-income and predominantly minority communities become even more susceptible to the negative effects of climate change.

"We can see that racial equity and climate equity are inherently entwined, and we need to take that into account when we're building our capacity to prepare," said Alicia Zatcoff, Richmond's sustainability manager. "It's a new frontier in climate action planning and there aren't a lot of cities that have really done it yet."

A similar scenario takes place with regards to fracking; many communities act against fracking in order to protect their water and mitigate climate change impacts. A recent Bloomberg story, "A Texas Town Takes on Fracking as a Racial Justice Issue," details how proactive measures to elevate racial justice can affect outcomes in local decisions. The city council just took a controversial vote to reject a fracking permit for the Barnett Shale Gas field, which extends under Arlington, Texas. The drill site, which is in a higher-density working-class neighborhood, sits next to a daycare center, prompting concerns about nearby children's health. Fracking wells have landed far more frequently near neighborhoods with high populations of people of color, likely due in part to what Robert Bullard, an urban planning and environmental policy professor at Texas Southern University, calls the "path of least resistance" in fuel extraction companies choosing neighborhoods without enough political power to oppose them.[5]

As more and more cities, counties, and health departments examine health disparities and look at the link between environment and health, they will start to make those connections in terms of racial justice and racial equity and health outcomes.[6]

— Robert Bullard, The "father of environmental justice"

Another area at the intersection of racial injustice and climate change is devastation from natural disasters and how their long-term impact disproportionately falls on low-income communities of color. More than a decade ago, the federal government's response to the plight of low-income African Americans during Hurricane Katrina laid bare how poverty, economic inequality, and racial injustice impact the delivery of disaster relief.[7] Years later, we continue to witness countless natural disasters from hurricanes to fires to floods and their unfortunate impact to impoverished and predominantly minority communities. Interestingly, the inequality in who is impacted by a disaster persists in the recovery process. Kathy Payton, executive director of

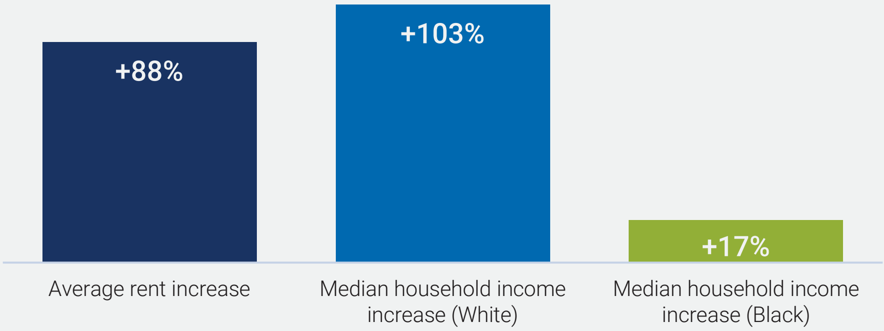
the Fifth Ward Community Redevelopment Corporation in Houston's historically Black community, discussed the disparities she witnessed during Hurricane Harvey's recovery in an interview with the Kinder Institute for Urban Research at Rice University. She observed that the reason why many of those hurt by Harvey were unable to qualify for FEMA assistance was because their properties did not meet its standards. "Because they had no access to resources — home improvement loans, homebuyer education, etc. — to make critical repairs in the past, they cannot qualify for most recovery programs today," Payton said.[8]

The issue might change, but the story remains the same — low-income and minority communities are disproportionately affected by climate change. As the saying goes, there is no time like the present. We can begin to address these inequities through our investments, grants, and donations. We can support an increase in the number of minorities on staff and in leadership roles at nongovernmental environmental organizations and foundations. We can recognize that those who are BIPOC (Black, Indigenous, and People of Color) face challenges great and small. Challenges that people from majority heritages and cultures cannot imagine. We always have ways to make an impact, even if we start small.

Economic Equality, Racial Justice, and Safe, Affordable, and Sustainable Housing

Neighborhoods across America are experiencing an affordable housing crisis. From high-cost, coastal cities like San Francisco, New York, and Los Angeles to smaller, land-locked cities like Phoenix, Denver, and Louisville, the same scenario rings true — a shortage of safe, decent, quality, and sustainable housing that is affordable exists for all nationalities, colors, and faiths. The situation is even more dire for minorities, though. A recent report, "The Impact of Racism on Affordable Housing in Charlottesville," published by the Charlottesville Low-Income Housing Coalition, shares details on the fight to preserve affordable housing and how it intertwines deeply with the pursuit of racial justice. With workers in Charlottesville receiving too little pay and the price of housing skyrocketing, affordable and decent housing remains out of reach for many residents, especially for Black communities.[9] The following chart shows the disparate impact of Charlottesville's growing housing costs in comparison to income.

Between 2000 and 2018, average rents in the City of Charlottesville far outpaced income growth for Black residents.



White households in Charlottesville saw their income rise alongside the rise in rents. At the same time, average incomes for Charlottesville's Black households have barely risen at all, creating a stark affordability gap.

Source: https://www.justice4all.org/wp-content/uploads/2020/03/Housing-Report-FINAL.pdf

Affordable housing is not only a roof over somebody's head. It allows kids to do better in school, for families to stay healthier, for workers to have shorter commutes.

— Garth Rieman, director of housing advocacy and strategic initiatives, National Council for State Housing Agencies

If we look from rental increases and income growth to homeownership across the country, we see a similar situation. The Black homeownership rate has persistently lagged behind that of white families, a gap that has widened since the Great Recession. In 2017, the Black homeownership rate (41.8 percent) was the lowest of all racial and ethnic groups. Between 2000 and 2017, the Black homeownership rate dropped 4.8 percentage points — a loss of about 770,000 Black homeowners — while the homeownership rates of other racial and ethnic groups either remained constant or increased.[10]

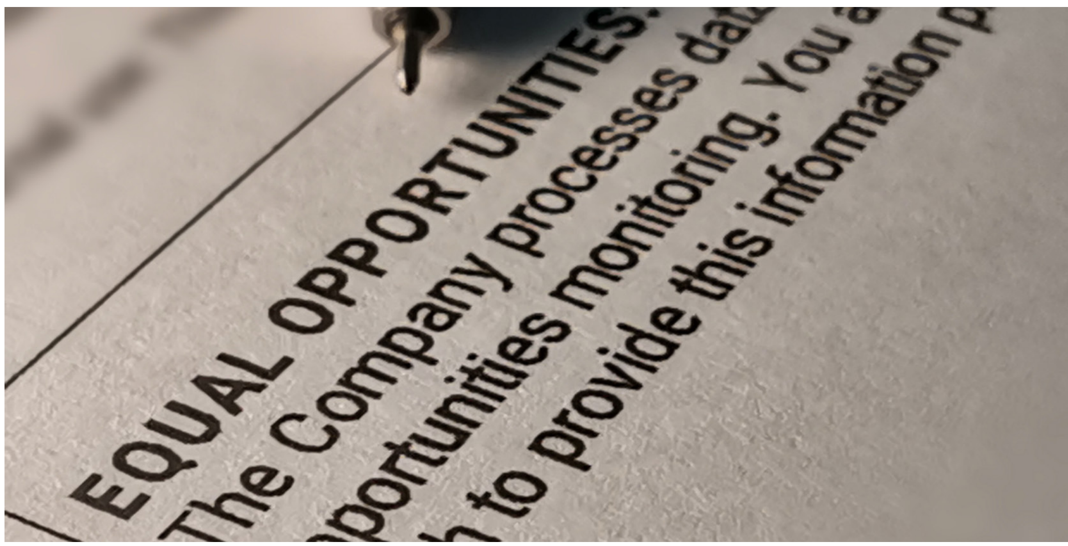
In 2017, our paper, "The Underlying Benefits of Affordable Housing Through Fixed Income Impact Investments," looked at the correlation of affordable housing with mental, physical, and academic well-being. Research has shown that the stability of an affordable mortgage or rent can have profound effects on childhood development, school performance, and health outcomes for families and individuals. In addition to providing families a roof over their heads, the development of affordable housing also yields positive outcomes at the community level by increasing spending and employment in the surrounding economy, thereby acting as an important source of revenue for local governments.[11] Owning a home can increase a family's financial security, but sadly, Black people and other minorities continue to lag behind white people considerably in homeownership rates, a major factor contributing to the racial wealth gap.[12]

If we look at affordable sustainable housing, we continue to see a disproportionate amount of people of color living in areas that are toxic, lack green space, and are brownfields instead of healthy living spaces. In fact, in the United States, your race is the single biggest factor that determines whether you live near a hazardous waste facility.[13] Sustainable and affordable housing can and should go hand in hand. Lower-income people are typically the ones that need affordable and sustainable housing the most. Even small sustainable initiatives can be a starting point and make a difference from low-VOC paint, low-flush toilets, and investments in energy efficiency.[14] The moral of the story here is that we need to invest even more in safe, decent, quality, and sustainable housing that is affordable. The benefit may finally be a just and fair society for all.

A **brownfield** is a property, the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant.

Economic Equality, Racial Justice, and Corporate Awareness

We have covered how a majority of people that are lower-income and minorities in the United States suffer more from climate change and lack of affordable housing than their white counterparts. Sadly, this scenario is also true for other socioeconomic outcomes in other aspects of their lives, including health, education, and career. If this status quo remains, and a majority of corporate stakeholders such as customers, employees, and suppliers continue to experience racial inequities, then businesses will suffer from a less productive workforce, missed market segments, and fewer suppliers from which to choose, according to a report by FSG, a mission-driven consulting firm.[15] It goes on to say that corporate America is missing out on one of the biggest opportunities of our time for driving innovation and growth: creating business value by advancing racial equity.



Some companies have recognized that doing the right thing can be good for business, good for employee morale and retention, and good for positive long-term brand awareness. NIKE made a deliberate choice to highlight Colin Kaepernick's commitment to racial justice. Numerous advertisers have put gay and interracial couples in spots as a way to signal their acceptance of modern mores. Dicks Sporting Goods halted certain gun sales after the tragedy of the Parkland School shootings. Many U.S. companies across a wide range of industries from software to agriculture to retail are also voluntarily pledging to reduce and ultimately eliminate their carbon footprints despite the U.S. withdrawal from the Paris Agreement. For example, Microsoft has a goal to reduce its carbon footprint by 75% by 2030 and has an internal carbon fee that it charges departments for carbon emissions to encourage them to be more eco-friendly; Walmart stores use 100% renewable energy sources, and the company even cut ties with suppliers that had manufacturing or distribution practices that added to carbon emissions; and John Deere aims to recycle 85% of materials and reduce carbon emissions on 90% of new products to create

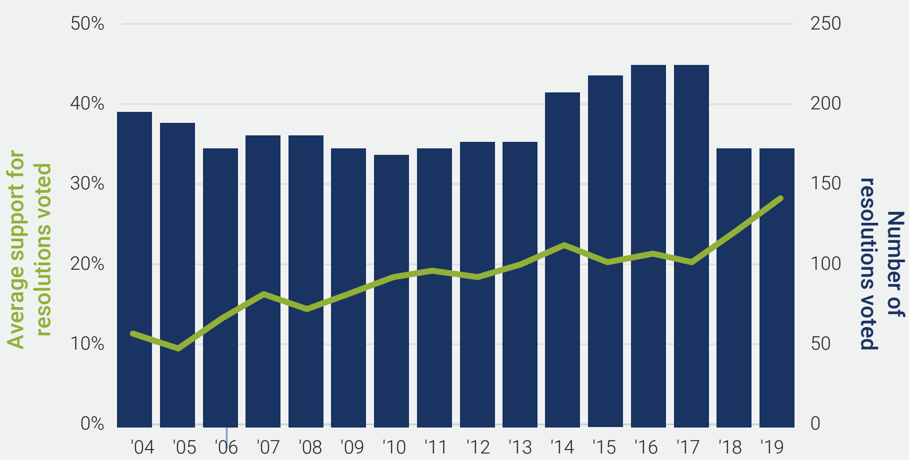
The Paris Agreement for the first time brings all nations into a common cause to undertake ambitious efforts to combat climate change and adapt to its effects, with enhanced support to assist developing countries to do so. As such, it charts a new course in the global climate effort.[16]

sustainable inventory.[17] In fact, virtually every large public corporation today has a formal policy regarding sustainable operations and alleviating their carbon footprint. Bank of America achieved its carbon neutrality goal a year ahead of schedule. Its goal was accomplished by reducing Scope 1 and 2 emissions from its facilities, purchasing 100 percent renewable electricity, and buying carbon offsets for its remaining unavoidable emissions.[18] In 2019, Amazon co-founded The Climate Pledge — a commitment to be net-zero carbon across its business by 2040, 10 years ahead of the Paris Agreement.[19] Amazon has even secured naming rights to the future home of Seattle's new NHL franchise, calling it Climate Pledge Arena rather than the name of the company.[20]

Certified B Corporations are businesses that meet the highest standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose. B Corps are accelerating a global culture shift to redefine success in business and build a more inclusive and sustainable economy.[21]

We also have seen over the last few decades the blossoming of an entirely new type of corporate entity: the mission-driven enterprise. The "buy one, give one" model of TOMS Shoes, Warby Parker, and many other corporations have established a direct connection between consumers, companies, and causes. Certified B Corporations have put mission into legal documents that were formerly the sole domain of legalese and profit motive. Shareholder resolutions were traditionally tools of social activists calling for corporate accountability. They were not expected to pass. Now, however, institutional investors review and think more broadly about the proxy issues and do not automatically vote with management. It is through active ownership that sustainable investors are helping companies understand and address environmental and social risks and over the past 16 years, the level of overall shareholder support of these measures has increased to 29% from 12%, according to a Morningstar article published in August of 2019.[22]

16-Year Trend in Average Support for Resolutions Addressing Environmental and Social Issues



Source: Morningstar's Proxy Voting Database. Data as of 7/21/2019.

With respect to public companies in the United States, a **shareholder resolution** is a proposal submitted by shareholders for a vote at the company's annual meeting. Typically, resolutions are opposed by the corporation's management, hence the insistence for a vote.

Shareholder resolutions also can be a vital method for investors to hold companies responsible for action on issues of social justice, racial diversity, and economic equality. In 2020, resolutions addressing racial discrimination and racial bias in companies' dealings with external stakeholders were included in a variety of ways, targeting issues such as:[23]

- Racial bias in vehicle and mortgage lending practices
- Hate speech and content enforcement policies on social media and online shopping platforms
- Application of facial recognition technologies
- The disproportionate concentration of pollution in communities of color
- Racial discrimination against farmers in food supply chains

We also are seeing support for economic equality and racial justice from corporations through their investments. In June, Netflix announced plans to start putting 2 percent of its cash holdings — initially up to $100 million — into financial institutions and organizations to "directly support Black communities in the United States." In September, Citi announced it will invest $1 billion in the Black community as part of its commitment to becoming an anti-racist institution. As the nation confronts its racist past, companies and organizations are examining their own role in institutional racism.[24]

Netflix's $100 Million Commitment

As the first step in Netflix's $100 million commitment, it will be holding $35 million of its cash in two vehicles:

- $25 million will be moved to a newly established fund called the Black Economic Development Initiative. It will be managed by the Local Initiatives Support Corporation (LISC), a non-profit with a track record of developing underinvested communities. It will invest the funds into Black financial institutions serving LMI communities and Black community development corporations in the United States.
- $10 million will go to Hope Credit Union in the form of a Transformational Deposit to fuel economic opportunity in underserved communities across the Deep South.

Changes in corporate behavior, actions, and accountability are encouraging, but the most important challenge lies ahead. Management, boards, and shareholders all face the duty of seeing how their actions, or inactions, do or do not work to further racial equality and address the wounds of systemic racism. Much will depend on how much investors judge companies on their progress in moving toward racial equality for their employees, communities, and other stakeholders.

Conclusion

Through this awareness of intersectionality, we strive for a better society, better planet, better future — for all. A United States that is more just, more inclusive, and has greater opportunities for everyone — regardless of race, faith, and gender.

Our hope is that institutions and individuals will find ways to invest, promote, and engage in the many initiatives mentioned throughout this report. The result may be an improved and even greater community development outcome and corporate awareness for all, including but not limited to:

- Increased extension of access to credit and capital to people of color who are entrepreneurs and business owners, which can lead directly to greater employment and economic vitality
- Climate change mitigation investments and alternative energy facilities, which can result in the macro benefits of reducing greenhouse gas emissions making neighborhoods cleaner and safer
- Growth of transit-oriented development (TOD), which can lead to better mobility, higher Walk Scores, reduced car traffic, reduced household spending on transportation, healthier lifestyles, lower pollution, higher foot-traffic for commercial businesses, and decreased suburban sprawl
- Better quality and quantity of job training, mentoring, nutrition counseling, supportive housing, and other services that can help recipients and their families and their overall communities
- Bigger actions and amplified resources from large and small corporations across America to racial equality, pay equity, living wages, and healthcare coverage for all, which can lead to greater long-term corporate profitability and a more equitable and sustainable society

Transit-Oriented Development, or TOD, is the creation of compact, walkable, pedestrian-oriented, mixed-use communities centered around high-quality train systems, making it possible to live a lower-stress life without complete dependence on a car for mobility and survival. TOD provides a solution to the serious and growing problems of climate change and global energy security by creating dense, walkable communities that greatly reduce the need for driving and energy consumption.[25]

Working for racial justice and reduction in income inequality and a more livable planet are not separate efforts — they are inextricably and forever linked. Impact investors operate at the vital intersection of most of the important issues and challenges of our times.

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About CCM

Community Capital Management, Inc. (CCM) is an investment adviser registered with the Securities and Exchange Commission. Headquartered in Fort Lauderdale with employees in Boston, Charlotte, the New York City area, and Southern California, CCM was founded in 1998 and manages $3 billion in assets. The firm believes a fully integrated portfolio – one that includes environmental, social, and governance (ESG) factors – can deliver strong financial performance while simultaneously having positive long-term economic and sustainable impact. CCM's strategies utilize an innovative approach to fixed income and equity investing by combining the positive outcomes of impact and ESG investing with rigorous financial analysis, an inherent focus on risk management, and transparent research. For more information, please visit: www.ccminvests.com.