

# Compounder Strategy: CCM's Equity Strategies

While many investors know CCM as a fixed income impact investing manager, we also manage equity impact mutual funds. Similar to our fixed income approach, we evaluate equities from an impact and financial perspective. In this perspective, our equity impact process as well as our compounders approach to equity selection is provided.

## Background

CCM's equity business started in 2018 when the company became the advisor to what is known today as the [CCM Small/Mid-Cap Impact Value Fund](#) and the [CCM Core Impact Equity Fund](#). CCM expanded this business after establishing a track record managing the equity sleeve of the CCM Alternative Income Fund, launched in 2013. When CCM assumed management of the funds, the portfolio management team implemented a strategy in the CCM Core Impact Equity Fund designed to find and own the highest quality companies that the team believed would outperform the market. This strategy/philosophy was later named the "compounders" strategy, and in May 2021, the team decided to apply a similar philosophy to small and medium market capitalization companies in the CCM Small/Mid-Cap Impact Value Fund.

## What are "Compounders"?

The compounder strategy was designed to own best-in-class companies, at attractive valuations. This means owning quality stocks hopefully for long periods of time. With potential increases in capital gains tax rates, a buy and hold approach means we look to avoid paying taxes today, and instead use deferred gains which will generate more gains. In short, we believe this could work out to be an extremely tax conscious strategy.

CCM has developed a proprietary list of equity names called Compounders – those we consider the highest quality stocks. In general, high quality stocks exhibit certain characteristics such as a strong track record of earnings per share (EPS) growth, a solid balance sheet, low capital intensity, high returns on equity/assets, solid free cash flow, organic revenue growth, recession resistance, and strong management teams. We avoid secular decliners and capital-intensive companies, which tend to underperform the market over longer periods of time.

While we have identified a list of roughly 200 names that fit these stringent requirements, we do not necessarily buy them all for our mutual funds. Entry point requires that we attempt to purchase these stocks generally when they trade cheap to their fundamentals and historical trading patterns.

The disadvantage of a compounder strategy is that it generally avoids IPO's, SPAC's, and start-up names. "Disruptors" are a popular investing strategy, and we generally will not find many of these fitting into our portfolios. Simply put, we are not managing venture capital/seed capital funds. This means we may "miss" the next Google, but the probability of finding these names is quite low anyway. There are probably hundreds of failed businesses for every Google that comes along. Facebook was the 11th social media product to hit the market, not the first.

Often companies with great track records can experience negative changes. Sometimes, compounders can become non-compounders for a variety of reasons (e.g., low interest rates, management change, government regulation, or via acquisitions). However, with over 25 years of professional investing experience from our equities team, we constantly monitor each name for changing market dynamics and will sell stocks that no longer fit into our compounding criterion.

### Compounders

- Above market EPS growth
- Strong growth prospects
- High returns on equity
- Low capital requirements
- Conservative balance sheets

### Negative Screening (securities not eligible for investment)

#### Examples include:

- Fossil fuel involvement<sup>1</sup>
- Tobacco
- Defense
- Weapons
- Prison management

### Idea Generation

CCM's equities investment team

Stock screener for securities that meet the Compounders criteria

Model with indicators for entry and exit points

### Security Analysis

Model company's financials

Evaluate qualitative characteristics

Develop conclusions and communicate recommendations

## Impact and ESG Investing

Similar to our approach in fixed income, we evaluate equity securities from an impact and financial perspective. Both of our equity strategies incorporate impact and ESG into their investment process. CCM supplements its in-house research with third-party data to determine where potential holdings fall in the following four categories:

- **Strong Positive Impact:** Companies that we believe are significant contributors to society such as those that generate more than 50% of their revenue from a product or service and that align with one or more of our 18 impact themes.
- **Moderate Positive Impact:** Companies which have characteristics that align with one or more of our 18 impact themes and that we believe are a net benefit to society.
- **Neutral Impact:** Companies that do not fall within the two categories above but where there exists the potential to be included in the two categories in the future.
- **Negative Impact:** Companies with excessive ESG-related risk such as fossil fuel exploration and production or any activity related to coal, tobacco, chemical manufacturing, weapons, and prison management, among others. These securities are not eligible for investment.

For additional details on our impact and ESG policy including fossil fuel free criteria and proxy voting guidelines, visit:

<https://www.ccminvests.com/impact/impact-esg-policy/>

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## About CCM

Community Capital Management, LLC (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 approximately \$4.2 billion in assets. The firm believes a fully integrated portfolio — one that includes environmental, social, and governance (ESG) factors — seeks to 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](http://www.ccminvests.com).

<sup>1</sup> See CCM's Fossil Fuel Free Policy Criteria in its Impact and ESG Policy: <https://www.ccminvests.com/impact/impact-esg-policy/>

*Free Cash Flow (FCF): FCF is the cash a company generates after taking into consideration cash outflows that support its operations and maintain its capital assets.*

*Return on Equity (ROE): ROE is a measure of financial performance calculated by dividing net income by shareholders' equity.*

*Community Capital Management, LLC (CCM) is an investment adviser registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. Registration as an investment adviser does not imply a certain level of skill or training. The verbal and written communications of an investment adviser provide you with information you need to determine whether to hire or retain the adviser. Past performance is not indicative of future results. CCM has distinct investment processes and procedures relating to the management of investment portfolios for institutional clients. The firm's strategies are customized, rather than model-based, and utilize an innovative approach to fixed income and equity by combining the positive outcomes of impact and environmental, social, and governance (ESG) investing with rigorous financial analysis, an inherent focus on risk management, and transparent research. Bonds are subject to interest rate risk and will decline in value as interest rates rise. Stocks will fluctuate in response to factors that may affect a single company, industry, sector, or the market as a whole and may perform worse than the market. A sustainable investment strategy that incorporates ESG criteria may result in lower or higher returns than an investment strategy that does not include such criteria. Any of the securities identified and described herein are for illustrative purposes only. Their selection was based upon nonperformance-based objective criteria, including, but not limited to, the security's social and/or environmental attributes. It should not be assumed that the recommendations made in the future will be profitable or will equal the performance of the securities identified. Impact figures mentioned are approximate values.*

*Fund holdings, sector allocations, and asset allocations are subject to change and are not recommendations to buy or sell any security.*

*Important Information:*

*There's no guarantee that a strategy will be successful. Mutual fund investing involves risk including the possible loss of principal. There is no guarantee that a strategy will be successful. Impact/ESG investing is qualitative and subjective by nature. There is no guarantee that Impact/ESG criteria used by the Adviser will reflect beliefs or values of any particular investor. Common stock risks include the financial risk or selecting individual companies that do not perform as anticipated, the risk that the stock markets in which the Fund invests may experience periods of turbulence and instability, and the general risk that domestic and global economies may go through period of decline and cyclical change. Recent Market Events Risk – The effects of COVID-19 may lead to a substantial economic downturn or recession in the U.S. and global economies, the recovery from which is uncertain and may last for an extended period of time. As a result of this significant volatility, many of the risks discussed herein associated with an investment in the Fund may be increased.*

**Consider a fund's investment objectives, risks, charges, and expenses carefully before investing. The Statutory, and where available, the Summary Prospectuses contain this and other important information and are available for download at [www.ccminvests.com](http://www.ccminvests.com) or by calling 800.220.8888. Read carefully before investing.**

*The CCM Equity Funds are distributed by Foreside Fund Services, LLC.*

*Effective October 28, 2020, the Fund's name changed from Quaker Impact Growth Fund to CCM Core Impact Equity Fund.*

*A full list of regulatory disclosures for Community Capital Management, LLC. are available by visiting: [www.ccminvests.com/regulatory-disclosures](http://www.ccminvests.com/regulatory-disclosures).*

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