May 2022

COMMUNITY CAPITAL MANAGEMENT

Impact and ESG Investing Backlash

The Good, The Bad, and The Reality

In the early days of "impact investing" and "environmental, social, and governance (ESG) investing," there wasn't much press, good or bad. There were occasional articles about a niche practice called socially responsible investing, primarily being undertaken by religious groups and/or socially conscious people. By the dawn of the 21st century, things changed. The media took notice and stories on the topic soared. Now in the acceptance stage, journalistic attention to impact and ESG investing has entered the dilemma of being given credit, or blame, for everything.

NOUN: **Impact investments** are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return[1]

ESG criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments. **Environmental** criteria consider how a company performs as a steward of nature. **Social** criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. **Governance** deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.[2]

The Good

The non-stop chatter about impact and ESG investing is a catch-22. While even a decade ago far less attention was given to this space, it seems every week we are reading a new story about impact and ESG investing. Often times, stories cite its advancement, growth, and positive approach, and sometimes, they cite its lack of depth, flaws, and failures. It's an easy target for scapegoating, but it's also important to look at facts and data. Yes, there are gray areas of impact and ESG investing – just as there are gray areas of traditional investing – but just like any asset class that has its difficulties, you are making investments. And investments have risk – whether impact and ESG or not. The good news is that the growth of the space is huge, and it doesn't appear that impact investors are going anywhere anytime soon. The phrase "all press is good press" can be the takeaway irrespective of its cynics.

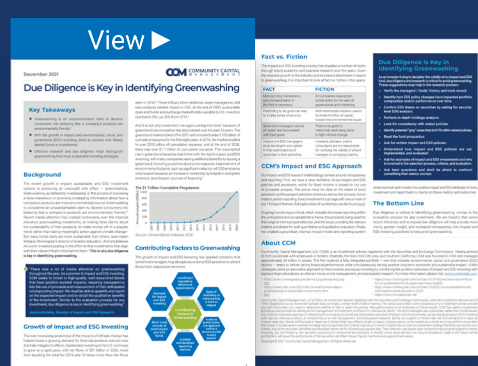
The Bad

A reminder for critics of impact and ESG investing – let's stay rigorous with our labeling, descriptions, and broad statements. Negative screening, impact investing, sustainable investing, these are all terms of art that refer to different segments of our industry and let's not forget about variety amongst asset classes. Others may lump them all together, but it is important to make distinctions and clarifications. Transparency is key in explaining impact and ESG investing strategies and how they may be mission-aligned. Much of the backlash seems to be targeted at equity funds. But what about fixed income funds investing in bonds financing community and economic development and neighborhood revitalization initiatives? What about real estate funds financing affordable homeownership? What about private equity funds investing in environmentally sustainable companies and creating jobs? Due diligence is critical in identifying impact and ESG investing products, similar to the evaluation process for any investment. Let's take a step back from this broad criticism and take a closer look at what is really having a positive impact in our portfolios and what kind of returns they are providing.

The Reality

Impact and ESG investing supporters, practitioners, and investors should embrace the criticism as a sign of acceptance. Investors are challenging the status quo and want more transparency. The path to global harmony will continue to be rocky as returns will vary according to the current cycles and various viewpoints. Even while some disapproval might be warranted, condemning ESG in broader terms as a worthless vanity exercise shows a lack of understanding of what it is and there to achieve[3]. Weathering underperformance and being in occasionally out-of-favor sectors come with the territory – of *any* investment strategy. An investor with a well-constructed, mission-aligned portfolio understands and accepts that they will experience market downturns in an environment favoring oil and gas companies. That isn't a bug in impact and ESG investing, it's a feature. Impact Investing looks to generate financial returns while also investing for a better world. There will always be dissenting voices, but by making a concerted effort to better explain the terminology and creating clear product choices, we can put the impact and ESG backlash back in its box.[4]

Our December 2021 perspective, "[Due Diligence is Key in Identifying Greenwashing]", shares more details on how effective research helps distinguish greenwashing from truly sustainable investing strategies.



About CCM: Community Capital Management, LLC (CCM) is an investment adviser registered with the Securities and Exchange Commission. CCM was founded in 1998 and manages over $4 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 outcomes. 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.

1 *https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing*
2 *https://www.investopedia.com/terms/e/environmental-social-and-governance-esg-criteria.asp*
3 *https://www.avivainvestors.com/en-us/views/aiq-investment-thinking/2022/03/esg-backlash/*
4 *Ibid*