The Growth of Impact Corporate Bonds

April 2022

CCM COMMUNITY CAPITAL MANAGEMENT

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CCM began managing its core fixed income impact investing strategy in 1999, long before the terms “impact investing,” “sustainable investing,” “green bonds,” and “ESG investing” were coined. The strategy historically did not invest in the corporate bond sector given the limited data and metrics available on the use of proceeds, issuer-specific impact- and mission-driven goals, and sustainability-linked outcomes, but that has changed in recent years with the growth of **impact corporate bonds**.

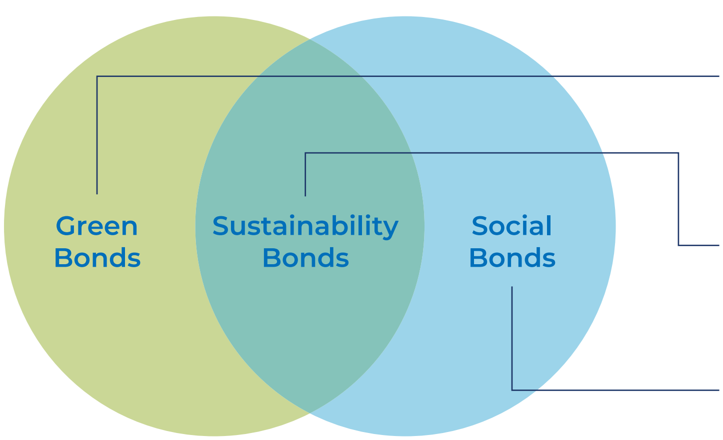
The Growth of Impact Corporate Bonds

About Corporate Bonds

Companies issue corporate bonds (or corporates) to raise money for capital expenditures, operations, debt refinancing, expansions, and acquisitions. Corporate bonds are generally rated by one or more of the three primary ratings agencies: Standard & Poor's, Moody's, and/or Fitch. These firms base their ratings on the bond issuer's financial health and likely ability to make interest payments and return the bondholders' principal. Rated bonds fall into one of two categories: investment grade or non-investment grade (also known as high yield). Investment grade bonds are considered lower risk and, therefore, generally pay lower interest rates than non-investment grade bonds, though some are more highly rated than others within the category. Non-investment grade bonds are considered higher risk or speculative investments.[1] The five main classes of issuers, representing various sectors that issue corporate bonds, are: (1) public utilities; (2) transportation companies; (3) industrial corporations; (4) financial services companies; and (5) conglomerates. Such issuers may be U.S. companies or non-U.S. companies. Non-U.S. governments are also frequent issuers in the U.S. markets.[2]

Impact Corporate Bonds

In recent years, the number of issuers coming to market with corporate debt offerings that look to have environmental and/or social impact outcomes has significantly increased. Sometimes labeled as green bonds, sustainability bonds, or social bonds, these issues may fit within investors’ requirements for impact alignment.



Green Bonds
Use of proceed bonds where funds are allocated exclusively for activities with a clear environmental benefit

Sustainability Bonds
Use of proceed bonds with a mix of environmental and social projects

Social Bonds
Use of proceed bonds where funds are allocated exclusively for projects with positive social impacts

Source: Sustainalytics

SLBs are forward-looking performance-based instruments with flexible structures. Entities that issue SLBs can set key performance indicators (KPIs) that are aligned with their sustainability strategies. It allows the issuer to set more general, overarching sustainability goals, rather than being tied to financing specific projects like solar power plants or green buildings.[3]

More recently, another category has been added to impact corporate bonds called **sustainability-linked bonds (SLBs)**, which is any type of instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined sustainability objectives.

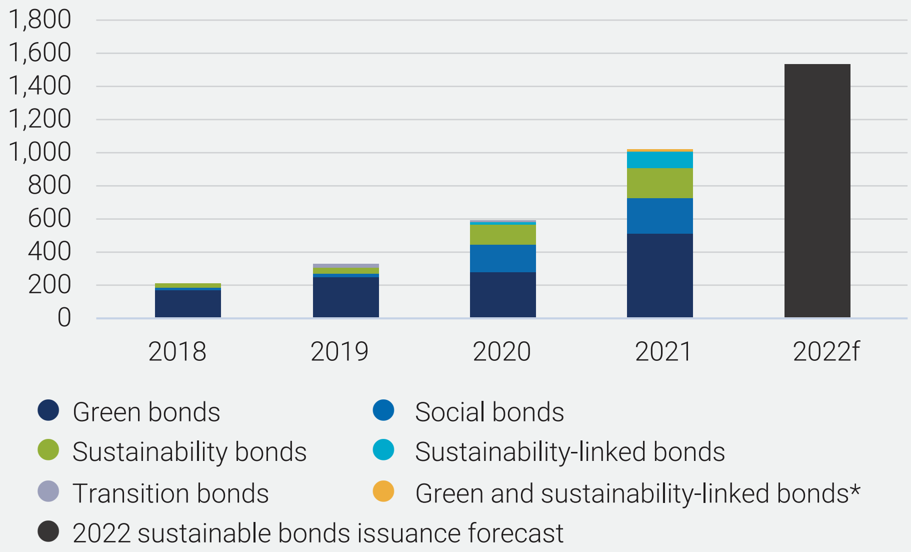
The purpose of sustainability-linked bonds (SLB), according to the International Capital Market Association (ICMA), is to enhance the role that bond markets can play in financing and encouraging the social and environmental responsibility of corporate stakeholders, and thereby contributing to sustainability.

Global Issuance of Impact Corporate Bonds

A recent report from S&P Global Ratings shows that global issuance of sustainable bonds — including green, social, sustainability, and sustainability-linked bonds — will surpass $1.5 trillion in 2022.[4]

Global Sustainable Bond Issuance Set to Surpass $1.5T in 2022

Annual issuance in sustainable bonds by instrument type, in $Billions



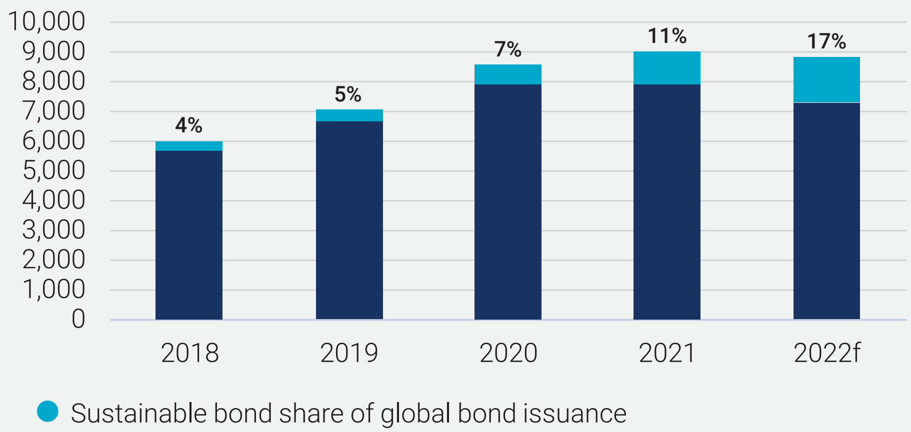
Green and sustainability-linked bonds have both use of proceeds and sustainability-linked features. f = forecast. Sources: Enivornmental Finance Bond Database, S&P Global Ratings.

Source: Standard and Poor's Financial Services LLC.

Even though this newer category of corporate bonds still makes up a relatively small part of global bond issuance, it continues to increase rapidly. And despite stagnating global issuance volumes, it is expected to continue to grow in 2022.

Sustainable Bonds Continue to Grow Despite Stagnating Global Bond Issuance Market

Sustainable bond share of global bond issuance, in $Billions



**2022 global issuance data are a full-year forecast as of January 31, 2022. Source: Green Street Advisors, Refinitiv, Enivornmental Finance Bond Database, S&P Global Ratings. f = forecast*

Source: Standard and Poor's Financial Services LLC.

An unfortunate recent side effect of impact investing has given way to the term “greenwashing” — the process of conveying a false impression or providing misleading information about how a company’s products are more environmentally sound.

For more information on greenwashing, read our perspective, [Due Diligence is Key in Identifying Greenwashing](#).

Impact Evaluation

Just as due diligence is critical when evaluating any type of security, the same applies for evaluating an impact corporate bond. Effective research and examination can help set apart impact corporate debt and assist in evaluating if it truly aligns with an investors’ impact and financial objectives.

With expectations rising for more information around environmental and social impacts, issuers should anticipate more scrutiny on their Environmental, Social, and Governance (ESG) reporting and disclosures, including how sustainability offerings tie into the company’s ESG strategy, according to a PWC report, “Financing your ESG strategy: What you need to know about sustainable bonds.”

Asset managers are additionally looking to strengthen transparency and reporting of impact corporate bonds.

Companies should aim to align the bond impact metrics and their existing ESG metrics, commitments, and targets.[5] The report goes on to discuss some of the steps issuers can take to increase confidence in their offering and demonstrate transparency to stakeholders prior to issuance and over the term of the bond. These include:

The mission of ICMA is to promote resilient well-functioning international and globally coherent cross-border debt securities markets, which are essential to fund sustainable economic growth and development.[6]

International Capital Markets Association (ICMA)

The GBP seek to support issuers in financing environmentally sound and sustainable projects that foster a net-zero emissions economy and protect the environment. The GBP are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Green Bond market by clarifying the approach for issuance of a Green Bond.[7]

The SBG promote the integrity of the Sustainability Bond market through recommendations for transparency, disclosure, and reporting. They outline a clear process and disclosure for issuers, including which investors, banks, underwriters, placement agents, and others may use to understand the characteristics of any given Sustainability Bond. The evaluation of the use of proceeds represents the core of the Sustainability Bond Guidelines. They must exclusively apply to finance or refinance a combination of both green and social projects. The Sustainability Bond Guidelines are based on a combination of the Green Bond Guidelines and the Social Bond Guidelines of the International Capital Market Association.[8]

The Green Bond Principles (GBP), together with the Social Bond Principles (SBP), the Sustainability Bond Guidelines (SBG) and the Sustainability-Linked Bond Principles (SLBP), are published under the governance of the Principles. The Principles are a collection of voluntary frameworks with the stated mission and vision of promoting the role that global debt capital markets can play in financing progress toward environmental and social sustainability.

The SBP seek to support issuers in financing socially sound and sustainable projects that achieve greater social benefits.[9]

The SLBP provide guidelines that recommend structuring features, disclosure, and reporting. They are intended for use by market participants and are designed to drive the provision of information needed to increase capital allocation to such financial products. The SLBP are applicable to all types of issuers and any type of financial capital market instruments.[10]

The Principles

The Principles outline best practices when issuing bonds serving social and/or environmental purposes through global guidelines and recommendations that promote transparency and disclosure, thereby underpinning the integrity of the market. The Principles also raise awareness of the importance of environmental and social impact among financial market participants, which ultimately aims to attract more capital to support sustainable development.[11]

The Sustainability-Linked Bond Principles

The Green Bond Principles | The Social Bond Principles | The Sustainability Bond Guidelines

Financial Instrument Guidance

General Purposes*
Sustainability-Linked Bonds ("SLBs")

Core Components:

1. Selection of Key Performance Indicators (KPIs)
2. Calibration of Sustainability Performance Targets (SPTs)
3. Bond Characteristics
4. Reporting
5. Verification

Use of Proceeds*
Green, Social, Sustainability Bonds ("GSS" or "UoP")

Core Components:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

Key Recommendations:

1. Bond Frameworks
2. External Reviews

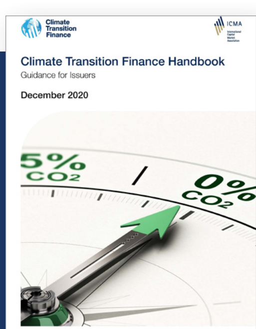
Thematic Guidance

Climate Transition Finance

Climate Transition Finance Handbook (CTFH)
(Guidance may be applied to GSS/UoP Bonds or SLBs)

**Under the GBP, SBP and SBG, an amount equal to the net bond proceeds is dedicated to financing eligible projects (Use of Proceeds Bonds) while under the SLBP, proceeds are primarily for the general purposes of an issuer in pursuit of identified KPIs and SPTs (Sustainability-Linked Bonds). A bond that combines SLB and Use of Proceeds features should apply guidance for both types of bonds.*

Source: ICMA



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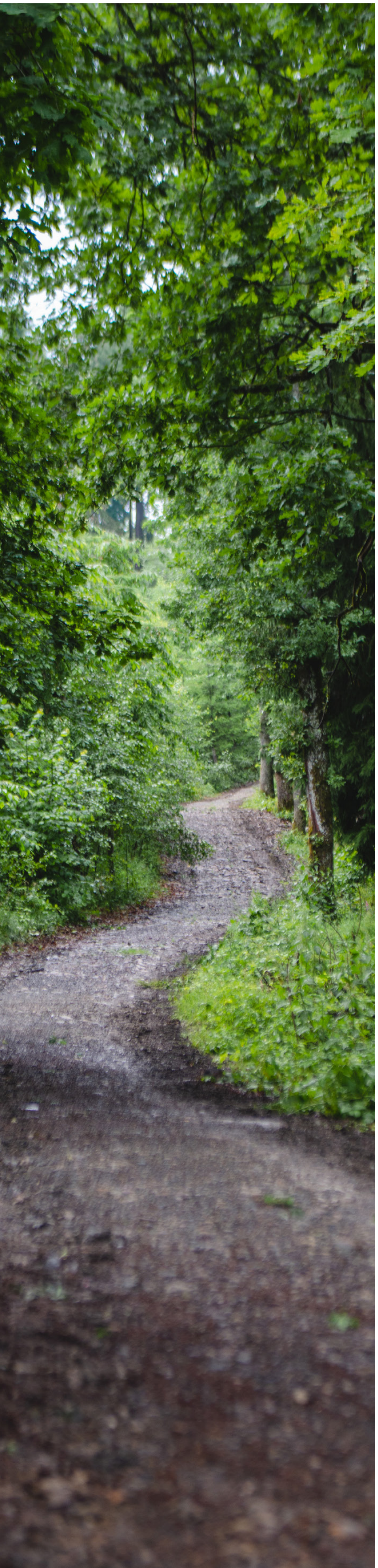
The Climate Transition Finance Handbook acts as additional guidance for issuers seeking to utilize green bonds, sustainability bonds, or sustainability-linked bonds toward the achievement of their climate transition strategy. When raising funds for climate transition-related purposes, issuers are encouraged to reference the recommendations outlined in the Climate Transition Finance Handbook in their reporting.[12]



Sustainalytics

- **Second-Party Opinions (SPO)**: When issuers (e.g., companies, governments, municipalities) decide to issue a green, social, or sustainability bond, many choose to have the bond framework verified with an SPO from an independent external sustainability expert such as Sustainalytics. The SPO provides potential investors with assurance that the use of proceeds for the bond, as set out in the framework, are aligned to market practices.[13]
- **Annual Review**: An annual review is a third party assessment demonstrating that the projects financed are aligned with the intended use of proceeds as set out in the bond framework.[14]

UN Sustainable Development Goals (SDGs)

The SDGs are a call for action by all countries — poor, rich, and middle-income — to promote prosperity while protecting the planet. They recognize that ending poverty goes hand in hand with strategies that build economic growth and address a range of social needs, including education, health, social protection, and job opportunities, while tackling climate change and environmental protection. More important than ever, the goals provide a critical framework for COVID-19 recovery.[15] Many impact corporate bonds will include details on how the investment aims to align with the SDGs noting specifically how many goals and which ones.

Sustainable Finance/Impact and ESG Committees

Many issuers have created internal committees on impact, ESG, and sustainability to evaluate projects and their use of proceeds, monitor alignment with frameworks and principles, and oversee ongoing reporting that includes impact metrics, outcomes, and case studies.

Impact and ESG Reporting

Many companies issuing impact corporate bonds are publishing impact and/or sustainability bond reports annually (or as stated in the offering). These reports can include a variety of impact and ESG updates, including impact metrics, use of proceeds details (if applicable), alignment with frameworks and principles, and examples of social assets financed, in addition to other data and information as determined by the company.

We recently included sustainability-linked bonds in our impact and ESG policy given its growth and alignment with our mission. As of the distribution of this report, we have not purchased this type of bond but believe we may see an opportunity to do so in the future.

CCM's full impact and ESG investing policy is available here.

CCM's Evaluation of Impact Corporate Bonds

For over two decades, CCM has adhered to its strict impact underwriting procedures for positive impact bonds. Our impact criteria include positive impact bonds driven primarily by an analysis on the bonds' use of proceeds and how it supports our impact themes, a rigorous evaluation of the issuer and its impact and/or mission-driven goals, and sustainability-linked performance targets. This includes:

Use of Proceeds Due Diligence

Impact bonds where the capital is financing positive environmental and/or social outcomes at time of issuance, the investment team must have a high degree of confidence with:

- The use of proceeds and how it is supporting one or more of CCM's impact themes
- The use of proceeds and how it is having positive environmental and/or societal outcomes to people and communities

Impact bonds where the capital is financing positive environmental and/or social outcomes tied to future projects, the investment team must have a high degree of confidence with:

- The use-of-proceeds intent and how it supports one or more of CCM's impact themes
- The project selection criteria and process
- The use of proceeds meeting its original intent and that the issuing entity is reporting in the stated time frame

Issuer Due Diligence

Prior to purchasing a bond issued by an entity with impact and/or mission-driven goals, the investment team must have a high degree of confidence with:

- The issuer and its track record
- The issuer reporting and/or any supplemental third party impact and ESG research
- How the entity supports one or more of CCM's impact themes

Sustainability-Linked Due Diligence

Prior to purchasing a sustainability-linked bond, the investment team must have a high degree of confidence with:

- The objectives and how they are linked to sustainability initiatives that support one or more of CCM's impact themes.
- The issuing entity, its track record, and reporting goals will be met within the stated time frame.

As of the release of this report, we have not purchased impact corporate bonds in the transportation and conglomerate sectors.

CCM Case Studies: Impact Corporate Bonds

Included below are examples of the types of impact corporate debt we have purchased by sector and how each bond meets our impact and ESG investing criteria.

Sector: Public Utilities

TVA TENNESSEE VALLEY AUTHORITY

Tennessee Valley Authority[16] | Green Global Power Bonds

The Tennessee Valley Authority (TVA) is a federally owned utility company that operates the largest public power system in the United States, supplying electricity to nearly 10 million people in seven southeastern states. TVA also provides flood control, year-round navigation, and land management for the Tennessee River system.

The "Three Es": Energy, Environment, and Economic Development

The Tennessee Valley Authority (TVA) was created by the U.S. Congress in 1933 in response to a proposal by President Franklin D. Roosevelt. TVA was given a unique mission of service: To improve the quality of life in a seven-state region through integrated management of the region's resources. The new agency was charged with improving navigation on the Tennessee River, reducing the damage from destructive flood waters within the Tennessee River system and downstream on the lower Ohio and Mississippi Rivers, furthering the economic development of TVA's service area in the southeastern United States, and selling the electricity generated at the facilities TVA operates.

Today, TVA works with what it calls the "three Es" to serve the people of the Tennessee Valley: energy, environment, and economic development.

- **Energy**: TVA seeks to generate safe, clean, dependable, and affordable power for the region's homes and businesses, working with local power companies to keep services steady and dependable.
- **Environment**: TVA's mission of service includes being stewards of the region's natural resources, including its waterways and surrounding lands. TVA manages the Tennessee River, its tributaries, and certain shorelines to provide year-round navigation and reduce flood damage. TVA also manages the river system to provide recreational opportunities, adequate water supply, improved water quality, natural resource protection, and economic development.
- **Economic development**: TVA works with partners across the region to help bring new investments and good jobs to the region and keep them there.

TVA was established in 1933 under the Tennessee Valley Authority Act to meet urgent needs for energy production, job creation, and environmental stewardship during the Great Depression. Historically TVA has produced power from sources, including hydroelectric dams, coal-burning power plants, nuclear facilities, and natural gas facilities. In line with its sustainability mission, TVA has undertaken a process of reducing its carbon-based power production and transitioning toward clean and renewable energy sources. The agency has set a goal to reach net-zero carbon emissions by 2050, with interim targets to reduce its carbon emissions by 70% by 2030 and by 80% by 2035.

To fund this continued transition to net-zero carbon emissions, in September 2021, TVA issued its first Green Bond, a $500 million offering to finance projects in renewable energy, energy efficiency, climate change adaptation, and green innovation. The issuance is a key part of TVA's plan to become a sustainable, net-zero carbon entity by 2050 while still providing reliable, low-cost electricity to customers. Proceeds will fund projects that meet these criteria:

Renewable energy	• Development, construction, and operation of facilities that generate solar energy or wind energy, as well as transmission infrastructure to support those facilities. • Aligns with U.N. Sustainable Development Goals (SDGs) 7: Affordable and Clean Energy, and 13: Climate Action.
Energy efficiency	• Distributed battery storage and related grid assets. • Aligns with U.N. SDGs 7: Affordable and Clean Energy, and 13: Climate Action.
Climate change adaptation	• Investments in transmission infrastructure designed to increase system resiliency and improve customer reliability due to impacts of climate change, such as severe weather events. • Aligns with U.N. SDG 13: Climate Action.
Green innovation	• Research and development expenditures related to the deployment of carbon-free and/or energy efficient solutions and other innovations. • Aligns with U.N. SDG 9: Industry, Innovation, and Infrastructure.

TVA intends for the notes to align with the Green Bond Principles as published by the ICMA and has obtained a second-party opinion from Sustainalytics that confirms the alignment.

TVA Clean Power Sustainability Goals

On its path toward net-zero carbon emissions, TVA is moving away from coal-based production toward cleaner forms of power generation. In 2005, TVA produced 57% of its electricity from coal-fired plants; by 2020, it had reduced that amount to 14%. TVA currently offers community solar power to more than one million customers and is conducting environmental and cultural due diligence investigations in anticipation of building its first utility-scale solar project.

TVA's sustainability goals include:

- Adding 10,000 MW of solar by 2035, including solar driven by local power companies and customers participating through Green Invest program
- Paving the way for more than 200,000 electric vehicles on Valley roads by 2028
- Innovating utility-scale battery storage for renewable energy
- Building the integrated and reliable energy grid of tomorrow
- Enhancing climate adaptation to improve overall resiliency for the Valley
- Enhancing supplier diversity program support for women-owned, minority-owned, and veteran-owned businesses
- Improving integrated environmental footprint (air, water, waste, land, biodiversity)
- Protecting the Tennessee River System's natural habitats and biodiversity
- Supporting $12 billion in sustainable recreational activities on public lands and waters
- Partnering with communities and conservation partners to plant one million trees
- Prioritizing environmental justice improvements for impacted communities
- Accelerating impact of inclusion with diversity within TVA and the communities it serves

Impact themes this investment helped support:

- Enterprise Development and Jobs
- Environmental Sustainability
- Rural Community Development

Project Selection and Reporting

TVA capital projects are approved through its business planning process, which provides oversight for project evaluation and selection through a capital planning function. TVA's Treasury department will evaluate capital expenditures that are aligned with the criteria above, and TVA's Financial Operations and Performance department will oversee project evaluation and selection through its capital planning process. Within one year of the issuance of the Green Bond, TVA intends to provide information on its website about the allocation of the proceeds, to be updated at least annually until all proceeds have been allocated. When feasible, the report may include qualitative and quantitative environmental performance indicators.

This investment is part of CCM's **Minority CARES** initiative.

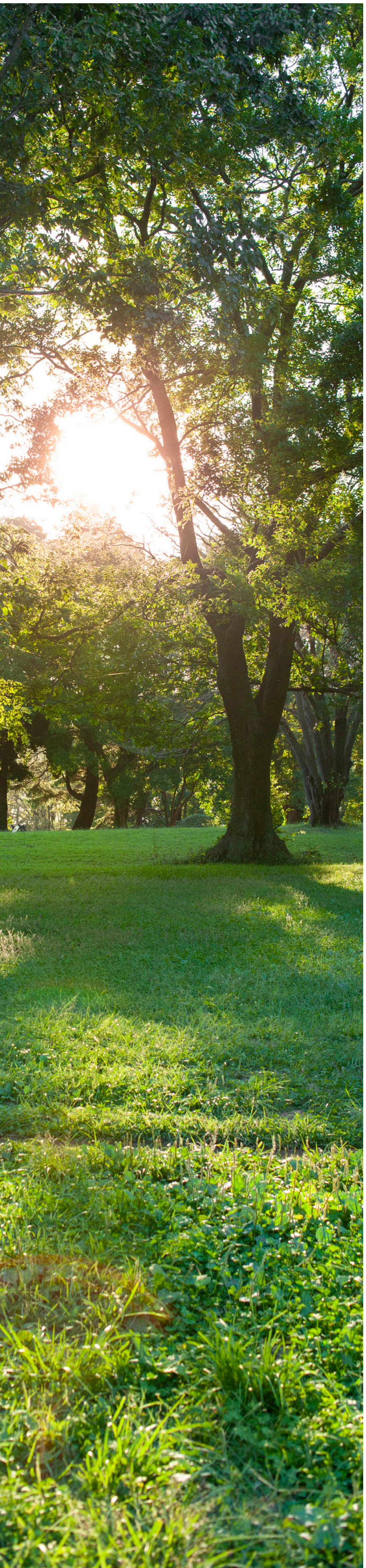
Sector: Industrials

Salesforce[17] | Sustainability Bond

Salesforce.com, Inc., is a global leader in enterprise software with a focus on customer relationship management (CRM) technology. It was founded in 1999 and is headquartered in San Francisco, California. The company holds the largest share of the CRM market and remains the fastest-growing enterprise software company in the world, even at its scale. Salesforce connects customer data across systems, apps, and devices to help companies sell, service, market, and conduct commerce.

In 2021, Salesforce issued a sustainability bond to finance innovative projects that address global environmental and social challenges. Proceeds will be used to finance new and existing projects in these categories:

1. **Technology for Climate Action**: Investments related to technologies and solutions that enable or amplify environmental impact. Expenditures may include:
    - Research and development, distribution, and maintenance of a sustainability information system built on the Salesforce platform, such as the Salesforce Sustainability Cloud. The cloud enables customers to measure and manage their environmental impact, such as greenhouse gas emissions from offices, data centers, business travel, and employee commuting.
2. **Green Buildings**: Expenditures related to the acquisition, design, development, construction, certification, furnishing, equipping, leasing, or maintaining of Salesforce office facilities. Example projects may include:
    - Offices that are owned or leased for 10 years or longer and that have received, or are expected to receive, third party sustainable certifications, such as International Living Future Institute Zero Carbon and LEED Gold or Platinum certifications.
3. **Renewable Energy**: Expenditures related to the construction, development, acquisition, maintenance, and operation of renewable energy projects with direct emissions of less than 100g CO2 e/kWh that are long term and new to the grid, such as solar and wind. Example projects may include:
    - Installation of on-site renewable energy generation
    - Utility renewable energy offerings
    - Virtual power purchase agreements and power purchase agreements entered into before commercial operation began at the renewable project and that meet the company's additional objective of bringing new renewable energy sources to the grid



4 **Pollution Prevention and Control**: Expenditures related to carbon credits for projects that are designed to reduce or sequester greenhouse gas emissions. These may include:

- Clean cook stoves and the restoration of natural ecosystems, in each case with third party verification such as by the Gold Standard or an equivalent standard.

5 **Nature-Based Solutions**: Expenditures related to projects designed to support and mobilize the conservation, restoration, and growth of natural ecosystems, such as forests, in an ecologically and socially responsible manner, adhering to the IUCN's Global Standard for Nature-Based Solutions and in line with Together With Nature. Expenditures may include:

- Environmentally sustainable forestry, including afforestation or reforestation, and preservation or restoration of natural landscapes.

6 **Sustainable Water Management**: Expenditures related to sustainable water management, such as water reuse and recycling, efficiency, conservation, restoration, and water quality projects that are expected to improve Salesforce's water impact. Expenditures may include:

- Water restoration projects
- Greywater and blackwater recycling systems
- Green roofs
- Low flow fixtures and appliances
- Dry cooling systems

7 **Technology for Social Good**: Expenditures related to technologies and solutions that enable or amplify social impact. Expenditures may include:

- Research and development, distribution and maintenance of information systems, or solutions built on the Salesforce platform designed to enable customers, non-profits, and higher education institutions to measure and manage their social impact programs and philanthropy goals, including the Salesforce Non-Profit Cloud, Salesforce Philanthropy Cloud, and Salesforce Education Cloud

8 **Commitment to Racial Equality**: Expenditures focused on advancing economic opportunity and equity for underrepresented communities as well as promoting greater diversity and inclusion. Expenditures may include:

- Procurement of products and services from certified or classified diverse suppliers, using the company's market position to boost economic opportunities for entrepreneurs from underrepresented populations
- Increasing access for Black and other underrepresented communities, including workforce development programs, training and education, inclusive hiring initiatives, and diversity recruiting efforts dedicated to sourcing talent from underrepresented communities

9 **Socioeconomic Advancement and Empowerment**: Expenditures related to widening access to the technology industry for all, including workforce development programs dedicated to upskilling, training, and hiring for the jobs of tomorrow, developing, and promoting products and solutions that improve learning outcomes, and promoting digital inclusion. Expenditures may include:

- Workforce development and empowerment programs to support access, retention, belonging, and fairness at every stage of the employee journey; targeting women, veterans, and other underrepresented communities, including mentorship programs, executive coaching initiatives, equal pay, and/or other employee advocacy resources
- Opportunities for veterans and the military community to participate in professional development and upskilling programs, gain high demand technology skills, and enable successful career transitions as well as providing the company's partners with a diverse and trained talent pipeline
- Building and maintaining a technology platform and support infrastructure and providing unemployed and underemployed individuals with access to education, training, mentors, and other professional resources, either within the Salesforce ecosystem or elsewhere in their communities

Impact themes this investment helped support:

- Enterprise Development and Jobs
- Environmental Sustainability
- Gender Lens
- Minority Advancement

Salesforce provided assurance that it will not intentionally allocate proceeds from the notes to the following projects or industries:

- Activities related to the exploration, production, or transportation of fossil fuels (e.g., coal, oil, and gas)
- Consumption of fossil fuels to generate power
- Activities that exploit human rights or that involve modern slavery (e.g., forced labor or human trafficking) or child labor
- Companies that produce weapons, ammunitions, or tobacco
- Other activity that Salesforce determines is ineligible to receive proceeds

Project Selection and Reporting

Salesforce has established a committee made up of representatives from its Treasury, Finance, Sustainability, and Legal teams that will assess and select projects eligible to receive proceeds from the sustainability notes. The committee will ensure that projects align with the company's Sustainable Bond Framework, prioritizing projects with demonstratable and measurable environmental or social benefit and that align with Salesforce values.

Each year until all proceeds have been allocated, Salesforce will publish a report that will include how much of the proceeds have been allocated, the categories to which proceeds have been allocated, expected impact metrics, and the outstanding amount of proceeds yet to be allocated. The report will be accompanied by a report from an independent accounting firm that has examined the company's assertions of how proceeds were allocated.

Salesforce intends for the sustainability notes to align with the Green Bond Principles (2021), the Social Bond Principles (2021), and the Sustainability Bond Guidelines (2021) as promulgated by the ICMA.

Traditional and Non-traditional Issuers

The Financials sector can include traditional and non-traditional issuers. Over the last few years, we have seen new companies issue corporate bonds financing positive environmental and societal outcomes. Examples include but are not limited to Community Development Financial Institutions (CDFI), foundations, non-profits, and housing corporations.

At CCM, we adhere to our impact and ESG policy, which looks for affirmative, bottom-up expressions of impact and ESG qualifications. We additionally adhere to our strict impact underwriting procedures for positive impact bonds by looking at the use of proceeds and the issuer and how they support one or more of our 18 impact themes.

BANK OF AMERICA

Sector: Financials

Traditional: **Bank of America[18]** | **Social and Green Bond**

In 2020, Bank of America Corporation issued a $2 billion combined social and green bond that it calls an equality progress sustainability bond, its eighth bond offering with an ESG focus. Proceeds are intended to help advance racial equality, economic opportunity, and environmental sustainability. The equality progress sustainability bond is the first of its kind in the financial services industry, according to Bank of America, with its dual social and environmental purpose: to reduce inequalities for Black and Hispanic communities in the U.S. and to promote a transition to a low-carbon economy. Proceeds will fund a variety of projects under the umbrellas of affordable housing, socioeconomic advancement and empowerment, renewable energy, and clean transportation. An equal amount of the proceeds will be allocated between the social and environmental projects.

Minority CARES

This investment is part of CCM's **Minority CARES** initiative.

1 Affordable Housing

- **a** Mortgage lending to purchase, construct, or renovate single and multifamily housing
- **b** Construction loans and equity investments in affordable housing projects that qualify for Low Income Housing Tax Credits (LIHTC)

For both categories above, the loans or investments must qualify under the Community Reinvestment Act (CRA) of 1977, under which financial institutions must help meet the credit needs of the communities in which they do business, including low- and moderate-income neighborhoods (LMI). Additionally, the borrowers must be self-identifying as Black or Hispanic, or the property must be in a census tract where the proportion of Black and Hispanic populations is greater than that of any other single racial demographic group.

Impact themes this investment helped support:

- Affordable Health and Rehabilitation Care
- Affordable Housing
- Economic Inclusion
- Enterprise Development and Jobs
- Environmental Sustainability
- Gender Lens
- Minority Advancement

2 Socioeconomic Advancement and Empowerment

a Financing for medical professionals to create or expand medical, dental, and veterinary practices that qualify under the CRA when those practices are in U.S. census tracts where the proportion of Black and Hispanic populations is greater than that of any other single racial demographic group.

b Supply chain finance (SCF) facilities offered directly to businesses identified by SCF buyers as minority-owned business enterprises.

c Deposits invested in Black and Hispanic minority depository institutions with a commitment to maintain the deposits for a minimum period of three years.

d Equity investments in Black and Hispanic minority depository institutions.

e Equity investments in Black- and Hispanic-owned/operated certified minority businesses.

f Equity investments in venture capital funds and private equity funds that have a focus on investing in Black- and Hispanic-owned/operated businesses or supporting Black and Hispanic entrepreneurs.

For the categories above, a Black and Hispanic minority depository intuition is one that is included on the FDIC's published list of insured minority depository institutions and that has a minority status of either Black, African American, or Hispanic American and has been certified by the U.S. Treasury Department as a community development financial institution (CDFI) in recognition of its provision of financial services to low-income communities and to people who lack access to financing.

3 Renewable Energy

a Financing, leasing, and investments to build, acquire, maintain, and operate:

- Wind and solar energy projects
- Infrastructure to store, transmit, or distribute electricity from wind and solar energy

4 Clean Transportation

a Financing, leasing, and investments to build, acquire, maintain, and operate:

- Zero direct emissions vehicles, including cars, trucks, and buses
- Charging stations and other infrastructure and equipment dedicated to electrified passenger transportation

Project Selection and Reporting

Projects will be evaluated by representatives of Bank of America's Global ESG Group, its Global Sustainable Finance Group, and its Corporate Treasury Group. The ESG Group and the Global Sustainable Finance Group will evaluate projects with an eye to the potential for the proceeds to positively impact access to financing for excluded, marginalized, or underserved minority communities, particularly Black and Hispanic communities. Assets allocated may include assets originated or committed by the bank up to three years before the issuance of the notes. The bank anticipates that it will fully allocate the proceeds within two years. Within one year, the bank will publish a report on a designated website. The report will be updated at least annually while the notes remain outstanding and may include impact metrics and case studies of projects when confidentiality considerations allow.

Impact metrics may include:

- Estimated greenhouse gas emissions avoided
- Water use avoided
- Waste avoided
- Number of housing units financed for LMI families
- Number of minority-owned business enterprises benefitted
- Number of medical practices financed

Where feasible and subject to confidentiality considerations, the bank intends to provide qualitative and quantitative information describing how it believes its allocation of proceeds improves access to financing for Black and Hispanic communities and small business enterprises owned or operated by Black and Hispanic people. The report will be accompanied by assertions by Bank of America management of the amounts allocated to the eligible asset categories and an assurance report from a qualified independent reviewer who examined those allocations.

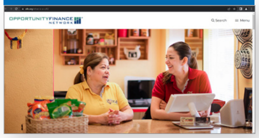
Bank of America believes this bond aligns with the Social Bond Principles, the Green Bond Principles, and the Sustainability Bond Guidelines of the ICMA.

LISC
LOCAL INITIATIVES SUPPORT CORPORATION

Non-Traditional: **Local Initiatives Support Corporation (LISC)**[19] | **Impact Notes**

Community Development Financial Institutions (CDFIs) are private financial institutions that are 100% dedicated to delivering responsible, affordable lending to help low-income, low-wealth, and other disadvantaged people and communities join the economic mainstream

View ▶



LISC is a national non-profit Community Development Financial Institution (CDFI) certified by the U.S. Department of the Treasury to provide financial products and services for under-resourced communities and populations. In 2021, LISC issued LISC Impact Notes to finance community and economic development across the U.S. and to help revitalize underserved communities, build economic opportunity, and bridge the racial wealth gap. It will use proceeds to refinance existing debt and to further its mission to support neighborhood and community development organizations and businesses that foster improvement of economic conditions; develop affordable housing and other physical facilities; provide amenities and services; and other activities that help revitalize disinvested communities and benefit low-wealth individuals and families.

LISC is dedicating $10 million from the proceeds during the 2021 to 2022 offering period to support Project 10X, a $1 billion LISC initiative through which it is investing in building equity and wealth for Black, indigenous, and people of color (BIPOC). Project 10X may include investments in homeownership and small business ownership, investing in community assets and well-being, and supporting quality jobs with good wages and benefits. This project is part of LISC's efforts to help close the racial health, wealth, and opportunity gaps in the U.S. LISC also dedicated $10 million of the proceeds from the sale of its impact notes during the 2020 to 2021 offering period to Project 10X.

LISC will also use proceeds to offer a variety of loan products to non-profit organizations, mission-aligned for-profit businesses, and small businesses operating in or supporting affordable housing, health, education, community and recreational facilities, commercial facilities, the creative economy, employment, and other projects that seek to forge resilient and inclusive communities across the U.S. and/or benefit low-wealth individuals and families.

LISC's Mission

Together with residents and partners, LISC forges resilient and inclusive communities of opportunity across America, seeking to help build great places to live, work, visit, do business, and raise families. It is headquartered in New York but is locally focused, with full-service program offices in 37 cities in the U.S. LISC also maintains a national rural development effort that touches more than 2,400 counties across 49 states as well as Guam, Puerto Rico, and the U.S. Virgin Islands. LISC has made investments in all 50 states.

LISC carries out its mission by encouraging growth of, and providing support to, neighborhood and community development organizations that foster improvement of economic conditions; development of housing and other physical facilities; provision of amenities and services; and other activities that help to revitalize distressed communities.

LISC Impact Notes align with the Social Bond Principles as promulgated by the ICMA and aim to align with UN Sustainable Development Goals (SDGs), specifically: SDG 1: No poverty; SDG 2: Zero hunger; SDG 3: Good health and well-being; SDG 4: Quality education; SDG 7: Affordable and clean energy;

SDG 8: Decent work and economic growth; SDG 9: Industry, innovation, and infrastructure; SDG 10: Reduced inequalities; SDG 11: Sustainable cities and communities; and SDG 12: Responsible consumption and production.

LISC has made concessions to borrowers in the form of fee waivers, maturity extensions, and payment relief with proof of COVID-19 impact. As of June 30, 2021, 51 loans with a total principal amount of $69.9 million were on payment deferral, and 49 of these loans with a principal amount of $63.6 million were making monthly payments. LISC has been in close contact with borrowers in an effort to understand their ongoing needs and assess their financial condition. As of June 30, 2021, LISC has not experienced a material increase in delinquencies or loan losses.

Impact themes this investment helped support:

- Arts, Culture, and the Creative Economy
- Affordable Health and Rehabilitation Care
- Affordable Housing
- Disaster Recovery, Resilience, and Remediation
- Economic Inclusion
- Education and Childcare
- Enterprise Development and Jobs
- Healthy Communities
- Human Empowerment
- Minority Advancement
- Poverty Alleviation
- Neighborhood Revitalization
- Rural Community Development

LISC and COVID-19 Relief Efforts

COVID-19 RELIEF

Minority CARES

This investment is part of CCM's **COVID-19 Relief** and **Minority CARES** initiatives.

LISC made COVID-19 relief efforts a key priority in 2020, and it continues to be a key priority in 2021. As a trusted community development intermediary, LISC leveraged its community investment model to mobilize support to the people and communities hit hardest by the COVID-19 pandemic. LISC's COVID-19 relief and recovery activities have included:

- Providing grants to small businesses that are the backbone of local economies
- Providing Paycheck Protection Program (PPP) loans to nonprofits and small businesses
- Supporting community-based organizations that serve clients in need
- Delivering technical support and infrastructure to help residents and enterprises access work, school, commerce, and social connection

As of June 30, 2021, LISC's COVID-19 relief efforts have raised over $161.4 million in new funding and other resources for LISC in the form of private grants, loans, and credit enhancement.

Conclusion

Throughout CCM's first decade in impact and ESG investing, the firm had a policy of only investing in issues that allowed for a detailed and transparent analysis of a transaction's specific use-of-proceeds. The investment universe during those years excluded corporate bonds. In recent years, structural changes in the availability of impact-related debt have prompted CCM to own certain corporate issues. The advent of impact corporate bonds has created an entirely new sector for CCM client portfolios and the way we evaluate their impact. Many issuers have pledged to issue use-of-proceeds and progress reports while others have stated impact and ESG goals and objectives that fit with CCM's impact themes but do not tie specific bond proceeds to specific actions. We see great growth ahead in the availability of issues that will require a 360° evaluation of the issuer, the stated purposes of the issue in question, and the post-trade progress of the issuer in meeting its objectives. Our clients want us to have the flexibility to invest in impact-debt issues and to reject ones that have attractive superficial qualities but don't survive our impact and financial analysis. We are excited to be expanding our liquid opportunity set of impact and ESG investments and to continuously adapt and improve our impact and ESG policy in alignment with our stated mission and impact goals as the universe grows.

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 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.

[1] https://www.fidelity.com/fixed-income-bonds/individual-bonds/corporate-bonds/overview

[2] https://www2.investinginbonds.com/learnmore.asp?catid=5&subcatid=18&id=176w

[3] https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-Principles-June-2020-171120.pdf

[4] https://www.spglobal.com/ratings/en/research/articles/220207-global-sustainable-bond-issuance-to-surpass-1-5-trillion-in-2022-12262243

[5] https://www.pwc.com/us/en/services/esg/library/sustainable-bonds-esg-strategy.html

[6] https://www.icmagroup.org/About-ICMA/mission/

[7] https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/green-bond-principles-gbp/

[8] https://sustainable-infrastructure-tools.org/tools/sustainability-bond-guidelines/

[9] https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/social-bond-principles-sbp/

[10] https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/sustainability-linked-bond-principles-slbp/

[11] https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Sustainability-Bond-Guidelines-June-2021-140621.pdf

[12] https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/climate-transition-finance-handbook/

[13] https://connect.sustainalytics.com/hubfs/SFS/Sustainalytics%20SPO%20and%20Annual%20Review%20Brochure.pdf

[14] Ibid

[15] https://www.un.org/sustainabledevelopment/

[16] https://www.tva.com/

[17] https://www.salesforce.com/

[18] https://www.bankofamerica.com/

[19] https://www.lisc.org/

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