COMMUNITY CAPITAL MANAGEMENT

Top Five Trends in Impact and ESG Investing in 2022

Our final perspective of the year highlights our thoughts on the top five trends in impact and environmental, social, and governance (ESG) investing in 2022.

Anti-ESG Crusade:

We are happy to report that the so-called anti-ESG "movement" or anti-"woke capitalism" movement did not translate into fewer ESG assets in 2022. In fact, the opposite occurred. While the media may have found it worthy of stories, impact and ESG investing data proves otherwise. The Global Impact Investing Network's (GIINs) 2022 report, *Sizing the Impact Investing Market: 2022*, estimates the size of the worldwide impact investing market to be USD 1.164 trillion, marking the first time that the organization's widely cited estimate has topped the USD 1 trillion mark. Witold Henisz, vice dean and faculty director of Wharton's ESG Initiative, stated it well in his opinion piece on confronting the anti-ESG campaign: "The anti-ESG or anti-woke investment movement is following the classic playbook of disinformation and propaganda by creating a false equivalence between the ESG movement and its opponents."[1] We believe that this is another opportunity for education and have been vocal in discrediting those straying from the facts about impact and ESG investing.

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>
> — **Witold Henisz,**
> Vice Dean and Faculty Director
> of Wharton's ESG Initiative

Diversity, Equity, and Inclusion (DEI):

How impact and ESG investing firms incorporate DEI into their organizations and how they look at DEI in their investments appeared to be a sizable area of focus in 2022. We noticed a significant increase in questionnaires surrounding this topic in addition to inquiries on how our strategies/funds invest to support DEI. Earlier this year, the United Nations (UN) Principles for Responsible Investment (PRI) released a paper urging investors to integrate DEI into investment *and* ownership decisions. It called on investment firms to "lead by example" and address DEI within their own organizations. We anticipate this to be an ongoing trend in 2023 and beyond.

Climate Solutions:

Finding climate investments supporting clean energy solutions remained a hot topic in 2022. Barron's reported in November that investors who care about the climate and the transition to a low-carbon economy now have more ways than ever to put their portfolios to work along green themes. The number of mutual funds and exchange-traded funds with a climate-related mandate rose to a record 1,140 globally at the end of September, according to a report by Morningstar.[2] About 180 new climate-themed funds launched globally in the first nine months of this year, while another 100, mainly in Europe, switched mandates to adopt a climate-focused strategy or added emission-reduction targets aligned with the 2015 Paris climate accord, the report said.[3] The timing of this growth in climate-related strategies couldn't come sooner — Russia's invasion of Ukraine and the corresponding disruption to the global energy markets, particularly in Europe, provides yet another reason why swift and sustainable action is needed to move us further from reliance on fossil fuels. We anticipate this to continue being a huge impact area of focus.

Positive Impact vs. Negative Screening:

This may not have been a huge media topic in 2022 but we noticed a shift where investors are first and foremost looking for positive impact in their portfolios vs. negative screening, which historically was an easy entry point into socially responsible investing. Institutional investors are realizing that their organizations can play a critical role in addressing societal issues by activating their balance sheet for impact. With issues like racial equity at the forefront of national conversation — corporations, foundations, endowments, and pensions — have an opportunity to leverage their balance sheet to support these vital community activities. As we continue to see more groups forming to support this endeavor, like the GIIN's Corporate Impact Investing Initiative, we believe the list of organizations not activating their balance sheets for impact will decline significantly.

More Clarity on the Regulation of ESG Funds:

Earlier this year, the SEC came out with new rule proposals for sustainable funds aimed at standardizing ESG disclosures. While it is true much of the impact and ESG investing space remains difficult to compare given various impact metrics and lack of standardization, the SEC's proposals look to provide greater transparency and comparability amongst funds labeled "ESG." We will not be surprised if this remains an ongoing issue moving into next year. Our 2022 Impact and ESG Investing Survey asks a question about the challenging issues with regards to impact investing and number one this year and in year's past, continues to be "lack of standardized reporting". One survey response to this question stated: "Lack of clarity around the different approaches to impact investing and the term ESG applying to all sorts of investment styles results in confusion within the market." We concur and continuously look to be as transparent as possible with our impact data, outcomes, and reports.

Community Capital Management, LLC

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 billion in assets. The firm's mission seeks to deliver superior risk-adjusted returns through investment strategies that contribute to positive environmental and social outcomes. For more information, please visit: www.ccminvests.com.

[1] *https://knowledge.wharton.upenn.edu/article/how-to-confront-the-anti-esg-campaign*
[2] *https://www.barrons.com/articles/climate-funds-green-investing-51668627615*
[3] *Ibid*