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## INVESTING IN SUSTAINABLE AGRICULTURE

### COMMUNITY CAPITAL MANAGEMENT (CCM) TO INVEST \$50 MILLION IN INVESTMENTS FINANCING SUSTAINABLE AGRICULTURE

#### Introduction

Local food, organic, cooperatives – what do they all have in common? Today, consumers are seeking healthier alternatives. The sustainable agriculture movement is growing and as a result, impact investors are increasingly able to add it to a menu of mission choices that align with their social and financial objectives.

Investment vehicles, both market-rate and program-related, across the investment spectrum, are addressing sustainable agriculture. CCM invests in high credit quality fixed income securities that seek to provide market rates of return and whose proceeds are designed to positively impact communities nationwide. While still relatively new, there are opportunities for market-rate investors to direct capital to opportunities that support and nurture a local, sustainable agricultural economy. To date, Community Capital Management has invested over \$6.3 billion in community development nationwide which includes approximately \$8 million in high credit quality bonds that directly support sustainable agriculture and family farms. CCM is committed to investing \$50 million in bonds that support sustainable agriculture.

#### What is Sustainable Agriculture?

“Sustainable agriculture” as legally defined in U.S. Code Title 7, Section 3103 means an integrated system of plant and animal production practices having a site-specific application that will over the long term:

- Satisfy human food and fiber needs;
- Enhance environmental quality and the natural resource base upon which the agricultural economy depends;
- Make the most efficient use of nonrenewable resources and on-farm resources and integrate, where appropriate, natural biological cycles and controls;
- Sustain the economic viability of farm operations; and
- Enhance the quality of life for farmers and society as a whole.

The basic goals of sustainable agriculture are environmental health, economic profitability, and social and economic equity. This includes stewardship on both natural resources and human resources. According to the Agricultural Sustainability Institute at the University of California, Davis, stewardship of human resources includes consideration of social responsibilities such as working and living conditions of laborers, the needs of rural communities, and consumer health and safety both in the present and the future. Stewardship of land and natural resources involves maintaining or enhancing this vital resource base for the long term.

#### Local Food

Sustainable approaches are those that are the least toxic and least energy intensive that maintain

productivity and profitability. Local food provides one solution to lowering the carbon footprint of food production. According to the National Sustainable Agriculture Information Service, approximately 80% of the energy used in the U.S. food system goes to processing, packaging, transporting, storing and preparing food. On average, produce in the United States travels between 1,300 and 2,000 miles between the farm and the consumer. Local food systems reduce the transportation and energy costs of food production. It links consumers and local farmers, contributing to individual and community health. In addition, food dollars are more likely to stay within the local economies.

**Family Farms**

In 1900, the United States had 6 million farms and farmers comprised 38% of the workforce. By 2007, there were only 2 million farms and farmers comprised less than 2% of the workforce. From 1982 to 2010, over 24 million acres in agricultural use (the size of Indiana and Rhode Island combined) were converted from farmland to developed land. The Farmland Information

Center reported that between 2007 and 2010, in the U.S. nearly an acre (.84) of agricultural land was converted per minute, or more than 50 acres an hour. Financing small scale farm activities is one way to ensure sustainable local farms.

**Investment Approach**

Sustainable fixed income investing employs a positive screening approach to identifying bonds that finance or support a variety of environmentally sustainable initiatives, including agriculturally sustainable initiatives. Engaging in sustainable fixed income investing through a variety of styles enables investors the opportunity to meet their financial goals while helping to create a more sustainable economy. Fixed income is typically seen as a safe, low-risk asset class with lower volatility than other sustainable investment options (see Table 1: Financial Considerations).

As with any investment strategy, fixed income securities should be thoroughly evaluated and researched prior to making an investment. Given that the range of sustainable products is expanding, it is important for investors to

Table 1: Financial Considerations

	Fixed Income	Equities	Private Equity	Real Estate
Capital Preservation	Good	Good	Poor to Low	Poor to Low
Time Horizon	Moderate	Moderate	Long	Long
Liquidity	High	Moderate to High	Low	Low to Moderate
Return Potential	Moderate	Moderate	High	Moderate to High
Volatility	Low	Low	High	Moderate to High

*The table portrays some of the financial considerations of the major asset classes and is the opinion of Community Capital Management.*

understand and be comfortable with the portfolio managers' experience, investment process, risk/reward trade-off, and sustainable reporting capabilities.

### ***Municipal Bonds***

Municipal bonds are issued by state or local governments to raise capital and often have the advantage of being exempt from federal taxation. Alternatively, taxable municipal bonds are taxable debt obligations of a state or local government entity, an outgrowth of the tax reform act of 1976 (which restricted the issuance of traditional tax-exempt securities.) Taxable municipal bonds are subject to federal taxes, but in some instances are exempt from state and local taxes.

State and local governments may also issue general obligation bonds, a municipal bond backed by the credit and taxing power of the issuing jurisdiction, which fund general activities of the issuing body such as water conservation, ecosystem health, recycling, and sustainable resource management.

### **Investment Examples:**

#### **Industrial Development Authority of Pulaski County, Virginia**

The Industrial Development Authority of Pulaski County, Virginia used funds as part of the development of the New River Valley Commerce Park. Red Sun Farms, LLC is New River Valley Commerce Park's first anchor tenant and is investing \$30 million to establish its first U.S.

high-technology greenhouse production operation in Dublin, Virginia. The company will build climate controlled greenhouses on 45 acres of land within the New River Valley Commerce Park. The project represents strategic growth for the region and is expected to create 205 new jobs.

Red Sun Farms, headquartered in Michoacan, Mexico, looks to use its new hydroponic greenhouse facility to grow an organic line of vegetables for its U.S. customers in a locally grown setting, minimizing the food miles between the farm and table. This is Red Sun Farm's first U.S. based greenhouse operation and the location for their first organic crop. For four consecutive years, Red Sun Farms has been awarded the Socially Responsible Company Award, presented by the Mexican government, for exceeding the standards of social responsibilities in all interactions with employees and their community. The company recycles water and fertilizers, is conscious of soil erosion, and uses biodegradable growing mediums and packaging materials. No pesticides are used in the production of the greenhouse vegetables and 100% of their seeds consist of non-GMO varieties.

#### **Minnesota Rural Finance Authority**

The Minnesota Rural Finance Authority (RFA) is the state's main agricultural lending arm. It was established by the legislature during the farm credit crisis of the 1980s to help eligible farmers restructure mounting debt. The RFA is directed to "develop the state's agricultural resources by extending credit on terms and conditions not

otherwise available from other credit sources.” Financing helped the RFA provide affordable credit to eligible farmers including the Beginning Farmer Loan Program, the Seller-Sponsored Loan Program, the Agricultural Improvement Program, the Livestock Expansion Loan Program and the Restructure Loan Program.

- The *Beginning Farmer Loan Program* is designed for younger individuals who intend, over time, to become full time farmers. The program’s purpose is to enable the beginning farmer to purchase farm real estate.
- The *Seller-Sponsored Loan Program* is very similar to the Beginning Farmer program with one exception. This program is designed to permit the sellers of a farm to fund a portion of the financing essential to the completion of the sale.
- The *Agricultural Improvement Program* creates affordable financing for new, state-of-the-art improvements for agriculture production.
- The *Restructured Loan Program* allows the RFA works with local lenders to help farmers restructure their debt. The program is aimed at farmers who are in good credit standing with their local lenders, but who are having cash flow troubles. Only debt of an agricultural nature is eligible.
- The *Livestock Expansion Program* is similar to the Agricultural Improvement program, but only for livestock related needs.

### ***Government-Related Securities***

When the government provides credit to private individuals through the capital markets and guarantees the loans against any default, it is considered a government guaranteed loan. These programs are typically intended for people who would otherwise not qualify for loans from banks and other lending institutions. Government-related securities are securities issued by U.S. government agencies such as United States Department of Agriculture (USDA) and the Small Business Administration (SBA).

*The SBA 7(a) Loan Guaranty Program: Authorized under section 7(a) of the Small Business Act (15 U.S.C. § 636 (a)), the SBA 7(a) program was established to serve small business borrowers that cannot otherwise obtain private sector financing under suitable terms and conditions. The SBA 7(a) program is SBA’s primary vehicle for providing small businesses with access to credit, whereby SBA provides partial guarantees of loans made by SBA-approved private sector lenders. One requirement to obtain a 7(a) loan guarantee, which is backed by the full faith and credit of the U.S. government, is that a lender must document that the prospective borrower was unable to obtain financing under reasonable terms and conditions through normal business channels.*

*United States Department of Agriculture Farm Service Agency (FSA): Guaranteed loans provide lenders (e.g., banks, Farm Credit System institutions, credit unions) with a guarantee of up to 95 percent of the loss of principal and interest on a loan. Farmers and ranchers apply to an agricultural lender, which then arranges for the guarantee. The FSA guarantee permits lenders to make agricultural credit available to farmers who do not meet the lender’s normal underwriting criteria.*

**Investment Examples:**

**Firefly Farms**

Firefly Farms is an award-winning goat cheese producer in Accident, Maryland. The cheese is produced using agriculturally sustainable, locally-sourced fresh goat's milk. Firefly Farms sources fresh goat milk from family farms, all within a 30-mile radius of the creamery. The farmers have committed to humane animal husbandry and contracted to restrict the use of antibiotics, hormones, and animal feeds that have been treated with chemical or synthetic fertilizers. All leftovers are productively used to support neighbor agribusinesses. The creamery has a special second drainage system to capture the sweet-whey by-product of cheese making. This protein-rich, bio-active liquid is not dumped into public sewer or septic; it is captured, refrigerated, picked up by local farmers and fed to local livestock.

**Rooster Valley Farm School**

Rooster Valley Farm School is a pre-school in King County, Washington. Rooster Valley Farm School is unique among preschools in the Snoqualmie Valley because it is the only school in which the students interact daily with farm animals and actively work and play in a productive garden. Rooster Valley Farm School offers a farm-based state-licensed program for children ages 2 ½ to 5.

Its curriculum includes:

- A balance of child-directed and teacher-directed activities including individual, small and whole group work;
- Thematic farm-based curriculum that provides opportunities for children to nurture all of the learning intelligences through multiple modes of expression;
- Learning stations including art, science, math, reading, blocks, puzzles, manipulatives, writing and dramatic play; and
- Classroom cooking, including butter, jam, applesauce and ice cream, allowing each child to experience how food is created.

Its outdoor experiences include:

- Planting and harvesting- the life cycle of plants is taught through such activities as planting bulbs, cultivating vegetables, and harvesting crops. In the process, children learn about farming, soil, water and plants. Many of these foods are incorporated into daily snacks and weekly cookout meals.
- Farm animals and farm chores- Feeding the farm animals, walking the goat, collecting eggs, and shearing the sheep teach children about life cycles, as well as persistence, empathy, and respect.

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