

# CCM's Unique Sector Opportunity Set within its Core Fixed Income Portfolio

Most investors look to the core fixed income segment of their portfolio for liquidity, income, stability, and total return and have a variety of options to choose from when implementing a strategy that meets their desired risk/return objective. One important component to evaluate is sector allocation, more specifically what fixed income sectors are used and their weightings. In the case of our core fixed income strategy, we allocate within a sector opportunity set that is distinct from other core fixed income managers, providing an alternative way to actively manage to a fixed income portfolio's risk/return objective. Our strategy's sector opportunity set is the result of our pioneering approach to security selection that includes both impact and financial criteria.

## Criteria for Security Selection

**Impact:** We only purchase bonds where we have a high degree of confidence that the proceeds raised through the bond issue will finance positive environmental and/or social outcomes.

**Financial:** We thoroughly research those bonds to reduce the possibility of negative ratings migration or default and ensure they are liquid enough so that the portfolio can be actively managed to enhance value and minimize risk.

Below is an overview of the strategy's sectors and how each contributes to the portfolio's impact and financial objectives:

## Agency Commercial Mortgage-Backed Securities (CMBS)

Agency CMBS are pools of mortgages that can include properties for low- and moderate-income (LMI) multifamily dwellings, elderly housing, and/or mental health facilities. It is a liquid sector with a variety of market participants, including but not limited to insurance companies, money managers, commercial banks, and state and local governments. This sector is guaranteed by the U.S. government and its agencies, therefore carrying credit ratings similar to U.S. Treasuries. It has predictable cashflows because of its stated final maturities and prepayment protections, and it has historically provided higher yields relative to similarly rated U.S. Treasuries.

## Agency MBS

Agency MBS are pools of single-family mortgages that we custom create with a focus on LMI borrowers. This sector is very liquid as it represents approximately 1/3 of the Bloomberg Barclays Aggregate Index and is, therefore, widely utilized by most taxable investment-grade core managers. Our customized process of selecting the underlying loans within a pool allows us to create more stringent financial criteria than what mortgage underwriters use, providing us with an additional tool when actively managing the portfolio.

## Taxable Municipals

Taxable municipals are typically revenue bonds of state or local governments financing projects that benefit communities and the environment. Like the corporate bond sector, taxable municipals trade with a spread over U.S. Treasury. This sector has historically delivered corporate-like returns without the higher correlation to stocks usually seen in the corporate sector.

## Asset-Backed Securities (ABS)

ABS are investments backed by a loan, lease, or receivables against assets other than real estate or MBS. They can finance affordable loans, jobs, environmental sustainability initiatives, and other positive social causes. For example, Small Business Administration (SBA) loans can contribute to enterprise development and job creation/retention and are federal government guaranteed. Consumer loans can provide economic opportunity to those who need credit history or can help finance energy efficiency programs for homes. The variety of loan term options in this sector (fixed vs. floating, senior vs. subordinate tranches) is vast, which not only attracts many types of investors but also provides additional flexibility for the portfolio when managing yield curve structure and credit risk.

## Corporate Bonds

In our strategy, corporate bonds include those where the issuer (a) has specifically identified the use of the bond proceeds or (b) where the primary purpose of the issuing company aligns with one or more of our impact themes. Well-known examples include green bonds where companies are raising money for environmentally sustainable projects or where the company that is issuing the debt exists solely to help those in need. This part of the corporate bond market is relatively small compared to the rest of the corporate bond market; however, because both types of corporate bonds are general obligations of their respective issuers, they are similar in terms of liquidity and market participants.

Continued on Page 2

Figure 1 shows the annual new issuance and overall market size of each sector relative to the largest investment grade sector, U.S. Treasurys.

Figure 2 shows key risk and return characteristics for the primary investment grade sectors from 1/1/2010 to 12/31/2020, including a comparison of our flagship CCM Community Impact Bond Fund\* and the Morningstar Intermediate Core Peer Group.

Figure 1 Depth of Market (\$Billions)

Sector	Annual New Issuance <sup>1</sup>	Amount Outstanding <sup>2</sup> (as of 12/31/20)
Agency CMBS	180	230,925
Agency MBS	2,130	6,322,770
Taxable Municipal	80	131,010
ABS	350	81,172
Corporate	1,390	5,884,288
U.S. Treasury	3,170	8,556,978

Investment Grade Sector <sup>3</sup> /Portfolio	Contribution to Potential Return Spread-to-U.S. Treasurys <sup>4</sup>	Risk			Weightings <sup>4</sup>	
		Correlation <sup>5</sup> to stocks <sup>6</sup>	Volatility <sup>5</sup>	Performance 2/20/20 – 3/23/20 when stocks declined 35%	CCM Community Impact Bond Fund*	Morningstar Intermediate Core Bond
Agency CMBS <sup>7</sup>	.55%	-.06	3.28%	.01%	40.4%	9.08%
Agency MBS	.40%	-.19	2.07%	1.16%	30.8%	17.7%
Taxable Municipal	1.39%	-.10	2.69%	1.42%	18.4%	.9%
ABS	.57%	+.05	1.55%	-2.01%	4.8%	5.08%
Corporate	1.38%	+.37	5.08%	-12.28%	1.2%	30.7%
U.S. Treasury	–	-.42	3.60%	5.40%	.5%	22.7%
<b>CCM Community Impact Bond Fund*</b>		<b>-.18</b>	<b>2.29%</b>	<b>-.82%</b>	–	–
<b>Morningstar Intermediate Core Bond</b>		<b>+1.18</b>	<b>3.01%</b>	<b>-3.52%</b>	–	–

\*Effective March 1, 2021 the Fund's name changed from CRA Qualified Investment Fund to CCM Community Impact Bond Fund

Table Highlights

- Agency CMBS carried comparable credit quality to U.S. Treasurys yet received a spread over U.S. Treasurys and delivered a less volatile return pattern.
- The taxable municipal sector has offered comparable spreads to the U.S. investment grade corporate bond sector, illustrating its ability to deliver competitive yield and prospective long-term performance.
- The taxable municipal sector has behaved differently from the corporate sector when stocks declined, showcasing its opportunity to provide portfolio ballast when needed most.
- Core bond managers preferred the corporate sector as illustrated by the 30.7% average weighting in the Morningstar Intermediate Core Bond category.
- Corporate bonds have tended to strongly correlate to stocks. With the peer group's large corporate weighting, it too has carried a strong positive stock correlation, contributing to its 3.52% decline in the 20 trading days in Q120 when stocks declined by 35%.

## Conclusion

Investors can choose from a variety of investment strategies for the core fixed income segment of their portfolio. The sector opportunity set of our Core Fixed Income strategy has proven to be a meaningful contributor to the strategy's historically lower correlation to stocks and better overall portfolio diversification, as evidenced by its peer-beating returns in the volatile first quarter of 2020. In addition to its attractive risk profile, the combination of these sectors can deliver the yield necessary for competitive total return and the liquidity required when seeking the benefits of active portfolio management.

## About CCM

Community Capital Management, Inc. (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 over \$3 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 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> Annual Issuance: Average annual issuance between 2018-2020 Source: SIFMA

<sup>2</sup> Amount Outstanding: Source: Bloomberg Barclays LIVE

<sup>3</sup> As measured by the sectors found within the Bloomberg Barclays Aggregate Index and Bloomberg Barclays Intermediate Taxable Index

<sup>4</sup> Average of quarter-end levels over the trailing 10-year period Source: Bloomberg Barclays LIVE, Morningstar Direct

<sup>5</sup> Based on 10 years of monthly returns Source: Bloomberg Barclays LIVE, Morningstar Direct

<sup>6</sup> Russell 3000 Index, Source Russell

<sup>7</sup> Agency CMBS data is based on quarterly weights/spreads and monthly returns over the period since its inception into the Bloomberg Barclays Aggregate Index on 5/1/2014

Community Capital Management, Inc. (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. The firm's strategies are customized, rather than model-based, and utilize an innovative approach to fixed income and equity investing 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 which incorporates impact investing and/or ESG criteria may take into consideration factors beyond traditional financial information to select securities, which could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. Further, ESG strategies may rely on certain values-based criteria to eliminate exposures found in similar strategies or broad market benchmarks, which could also result in relative investment performance deviating.

**Performance quoted is past performance. Past performance does not guarantee future results. Current performance may be lower or higher than the performance data quoted. An investor's investment return and principal value will fluctuate, so that your shares when redeemed may be worth more or less than your initial cost. For most recent month-end performance, call 877-272-1977.**

The CCM Community Impact Bond Fund is distributed by SEI Investments Distribution Co. (SIDCO), 1 Freedom Valley Drive, Oaks, PA, which is not affiliated with Community Capital Management, Inc. Investing involves risk, including possible loss of principal. Bonds and bond funds will decrease in value as interest rates rise. The Fund is not diversified. There is no guarantee the objective of the Fund will be achieved. The investment objectives of the Fund will differ from these goals. Current and future holdings are subject to risk. Carefully consider the Fund's investment objectives, risks, charges, and expenses. This and other information can be found in the Fund's prospectus, which can be obtained by calling 866-202-3573. Please read it carefully before investing.