



COMMUNITY
CAPITAL
MANAGEMENT
Revitalizing America

Green Bond Investment Opportunities

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Introduction

A lot has changed in the green bond space since our last report, *A Case for Sustainable Fixed Income Investments*, published in 2011. Perhaps most notably was the creation of the Green Bond Principles (GBP), drafted by a consortium of investment banks, which outline the process for issuers to designate specific green projects. 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.¹

A primary component of the GBP is “Use of Proceeds” with several broad categories of potential eligible green projects listed. Who is to decide, though, if a green bond meets these categories? For some, a bond financing resource efficiency improvements is green and for others, it’s not. Thus, it is difficult to put green bonds in a yes/no category. It is a gray area where guidelines help set the stage, but it is ultimately based on the investor’s goals and beliefs.

While the GBP are a step in the right direction for issuance clarity, the green bond nomenclature still runs far and wide with a variety of differing opinions. Generally speaking, and for purposes of this report, green bonds are broadly defined as fixed income securities that raise capital for a project with specific environmental benefits.

The GBP include guidelines for:

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

The GBP recognize several broad categories of potential eligible Green Projects for the use of proceeds including but not limited to:

- Renewable energy;
- Energy efficiency (including efficient buildings);
- Sustainable waste management;
- Sustainable land use (including sustainable forestry and agriculture);
- Biodiversity conservation;
- Clean transportation; and
- Clean water and/or drinking water.

Another noteworthy change in the green bond space was the announcement in July 2014 that Barclays and MSCI Inc. launched a new Green Bond Index, expanding on their Environmental, Social and Governance (ESG) fixed income benchmark index family launched in June 2013. The Green Bond Index is intended to reflect the fixed income market funding projects and initiatives with direct environmental benefits.

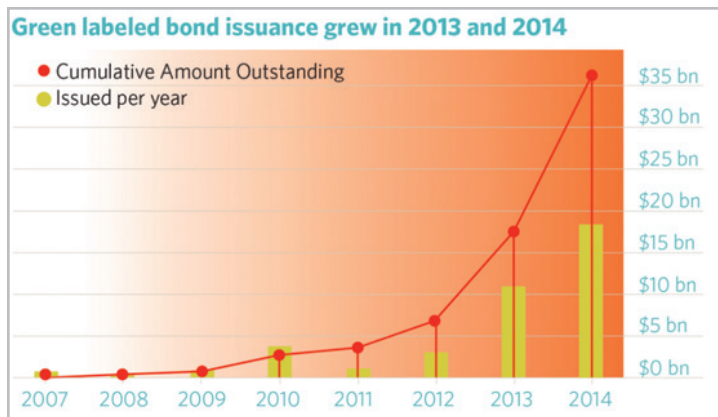
¹ <http://www.ceres.org/resources/reports/green-bond-principles-2014-voluntary-process-guidelines-for-issuing-green-bonds>

Just as we all have our own opinions of what constitutes a diversified portfolio, we all have diverging views of what constitutes the “green” in a green bond.

The exciting part is that investors are looking and asking for these types of securities in their portfolios, guidelines are being created by some of the largest banks in the world, and issuance has increased.

Just as we all have our own opinions of what constitutes a diversified portfolio, we all have diverging views of what constitutes the “green” in a green bond.

In 2013, green bond issuance was approximately \$11 billion. The chart below shows green labeled bond issuance growth from 2007 to 2014.



Source: Climate Bonds Initiative

By year-end, that number is expected to be \$40 billion. The Climate Bonds Initiative expects 2015 issuance to reach \$100 billion.²



² <http://www.climatebonds.net/files/files/-CB-HSBC-15July2014-A4-final.pdf>

The entrance of self-labeled green corporate bonds – bonds issued by corporations with proceeds specified for green investments – has opened up a new source of capital for the market as has the emergence of innovative asset-backed securities.

Government entities issued \$910 million in green bonds in 2013 as a number of new programs and issuers came to market. As of June 2, 2014, \$1.3 billion has been issued.³

According to a 2014 report on bonds and climate change from The Climate Bonds Initiative, the outlook for green bonds includes rapid growth, improved steps to validate green, the role of the public sector, growth of green securitization, and sovereign/city green bonds.

According to The Climate Bond Initiative 2014 report, the three key roles of the public sector in the outlook for green bonds includes:

- Kickstarting markets with cornerstone issuance, for example through development banks.
- Risk-bridging activities. Given the novelty, scale and policy risk involved in growing low-carbon solutions, public sector support is needed to lift investment ratings to levels that are attractive to investors. This will include guarantees, credit enhancement, subsidies and tax incentives.
- Planning and regulatory steps to support the generation of investment opportunities. Most investment will depend on enabling and supportive policy and regulation ranging from energy market management to financial regulation.

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Today, there are many opportunities to invest in green bonds and this report details some of those options. Just as investors analyze their investment portfolios from a financial perspective (e.g., asset allocation mix, risk-reward trade-off and portfolio characteristics) they are also increasingly looking at the impact of those securities and in the case of green bonds, their environmental benefit(s).

Similar to any investment decision, green bonds should be thoroughly evaluated and researched prior to making a purchase to ensure they meet an investor's financial and environmental criteria.

³ <http://about.bnef.com/white-papers/green-bonds-market-outlook-2014/>

We believe that for investors interested in green investing, fixed income is a great place to start. It is typically seen as a lower-risk asset class than other green investment options (see below: Financial Considerations by Asset Class). Additionally, fixed income securities are designed to positively encourage sustainability, as opposed to employing negative screens. As a result, fixed income investors can evaluate the sustainability or green component of the project(s) being funded.

Given that the range of sustainable fixed income products is expanding, it is important for investors to understand and be comfortable with screening, green impact, portfolio managers' experience, impact reporting capabilities, and more. In today's market, transparency is a key factor in the decision-making process. This is duly noted in the launch of the GBP given that one of their four main components is "Use of Proceeds" guidelines.

We believe that for investors interested in green investing, fixed income is a great place to start.

This report breaks down green bonds into six categories: agency mortgage-backed securities, municipals, U.S. government-related securities, supranational/international, corporates, and asset-backed securities. Included in each section is an overview of the category along with a few examples of green bonds issued and/or green programs created in the last few years.

Financial Considerations by Asset Class

	Cash	Fixed Income	Equities	Alternatives	Real Estate
Capital Preservation	High	Moderate to High	Low to Moderate	Low	Low
Time Horizon	Short to Intermediate	Intermediate	Intermediate	Long	Long
Liquidity	Moderate to High	Moderate to High	Moderate to High	Low to Moderate	Low to Moderate
Return Potential	Low	Low to Moderate	Moderate to High	Moderate to High	Moderate to High
Volatility	Low	Low	Moderate to High	Moderate to 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.

Green Bond Investment Opportunities

Agency Mortgage-Backed Securities (MBS)

Today, many multifamily properties are incorporating sustainable features into their development or re-development. These include the adaptive reuse of historic or existing structures, solar panels, water conservation plans and transit-oriented development (TOD).

The development of TOD – areas designed to maximize accessibility and use of public transit – has grown substantially and is beneficial to the environment. According to a 2013 EPA report, urban sprawl and highway construction harm ecosystems like wetlands and streams, which provide homes to important species and benefits like clean water and recreational activities to people living nearby. Encouraging development in urban areas is a major advantage of TOD.⁴

Over the past decade, green building strategies have become increasingly integrated into the nearly 100,000 units constructed annually under the Low Income Housing Tax Credit (LIHTC) program, and significant strides have been made toward producing higher quality, more efficient dwellings that mitigate negative environmental impacts. Green affordable housing projects also help revitalize communities by considering proximity to transportation, infrastructure, jobs and services.⁵

Additionally, governmental agencies are incorporating green programs into their loan products, such as Fannie Mae's Green

Preservation Plus (formerly known as Green Refinance Plus) and the Federal Housing Administration's (FHA) PowerSaver Loan. Fannie Mae and Freddie Mac are government-backed mortgage finance entities and carry an implicit government guarantee of credit worthiness.

Agency MBS are a great opportunity for investors looking for high quality, fixed income securities that can be targeted by region. For example, if an investor wants to target green affordable housing in California, they could seek an experienced investment manager to research agency MBS for that mandate.

Residents and the environment both benefit from improved transit:

- Drivers face less congestion as fewer cars are on the road.
- All residents, especially those with respiratory health concerns, benefit from improved air quality.
- Fewer greenhouse gases from vehicle fuel combustion enter the atmosphere, aiding in the fight against climate change.
- An extended transit network creates quick and reliable ways for those already living in suburban communities to commute to work or experience the city without depending on a car, saving them money on gas and time in traffic.

⁴ <http://www.epa.gov/smartgrowth/built.htm>

⁵ http://www.globalgreen.org/i/2012QAP_Final.pdf

Fannie Mae Green Preservation Plus

Fannie Mae's Green Preservation Plus Program, created in partnership with the U.S. Department of Housing and Urban Development (HUD), provides funding for the refinance, preservation and energy-efficient retrofits of older multi-family housing properties, including those that are currently in Fannie Mae's or FHA's portfolio.

Benefits: Green Preservation Plus

- 4-5% more loan proceeds than a typical Multifamily Affordable Housing loan.
- Additional proceeds provide funding for renovations that will reduce energy and water consumption.
- Competitive pricing and rate for Multifamily Affordable Housing transactions.
- Certainty and speed of execution.

The Program allows for lower debt service coverage and higher loan to value ratios, to generate extra loan proceeds for property rehab and energy-efficient retrofits.

Eligibility requirements include Multifamily Affordable Housing (MAH) properties that are 10 years or older and meet MAH income and rent restrictions during the loan term. To verify reductions in energy and water consumption, borrowers must track total energy and water usage and costs using ENERGY STAR portfolio manager starting in year one.⁶

FHA PowerSaver Loan

In 2011, a new pilot program was implemented which offers borrowers low-cost loans to make energy-savings improvements to their homes. Backed by the FHA, these PowerSaver loans offer homeowners up to \$25,000 to make energy-efficient improvements of their choices, including the installation of insulation, duct sealing, doors and windows, HVAC systems, water heaters, solar panels, and geothermal systems.

The Program was authorized by the Energy Innovation Fund of the 2010 Appropriations Act, which directs HUD to conduct an Energy Efficient Mortgage Innovation pilot program targeted to the single family housing market. The Program has since been extended for an additional two years until 2015.⁷

Key loan requirements for PowerSaver loans include:

- Minimum credit score: 660
- Maximum total debt-to-income ratio: 45%
- Maximum combined loan-to-value: 100%
- Property type: one-unit, owner-occupied, principal residence properties only.
- Appraisal requirement: exterior-only inspection residential appraiser or other FHA accepted method of property valuation.
- PowerSaver insures a lien positioned in first place, or second place, and also insures loans without a lien, as long as the loan amount is less than \$7,500.

⁶ https://www.fanniemae.com/content/fact_sheet/grnrefiplus.pdf

⁷ <https://www.federalregister.gov/articles/2013/02/12/2013-03205/federal-housing-administration-fha-powersaver-home-energy-retrofit-loan-pilot-program-extension-of>

Municipals

Municipal bonds are issued by state or local governments to raise capital and often have the advantage of being exempt from federal taxation. State and local governments may issue revenue bonds (backed by the revenues generated from the projects) to fund particular undertakings that incorporate sustainable features or fund environmentally friendly projects. They 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.

Over the last year, there has been an increase in green bond municipal issuance. A growing trend among municipal issuers is that green bonds have attracted a whole new set of institutions, helping to diversify their investor base.

With continued green municipal bond issuance, interest from investment managers is expected to intensify. It is also anticipated that with the publication of the GBP, municipalities will be encouraged to lead the growth of green bonds.

For investors looking for green bonds that target specific geographies, municipal bonds can be a great opportunity. A few examples of green municipal bonds are included below.

A growing trend among municipal issuers is that green bonds have attributed a whole new set of institutions, helping to diversify their investor base.

Commonwealth of Massachusetts

Drawing on inspiration from the World Bank, the Commonwealth of Massachusetts developed its own Green Bond Program and in June 2013, became the first state in the nation to

The Commonwealth's Green Bonds are grouped into four categories:

- Land acquisition, open space protection and environmental remediation projects;
- River revitalization and habitat restoration projects;
- Energy efficiency and conservation projects in state buildings; and
- Clean water and drinking water projects.

offer a \$100 million tax-exempt investment option that directly funds environmentally sound infrastructure projects. The goal of the Green Bonds financing is to offer securities that meet the growing investor demand for highly-rated, fixed income investments that are linked to capital projects that improve the environment. Developing the Green Bonds was an opportunity to attract new investors, increase demand from existing bondholders, and diversify the state's investor base.⁸

The Green Bonds are general obligations (GO) of the Commonwealth and are assigned the state's AA+/Aa1/AA+ (S&P/Moody's/Fitch) rating ranking pari-passu to other Massachusetts GO debt. Additionally, holders of the Green Bonds do not assume any specific project risk related to

⁸ <http://www.massbondholder.com/sites/default/files/files/QE%20August%202014%20Green%20Report%281%29.pdf>

any of the funded green projects. The bonds have a 20-year maturity with coupons ranging from 3.75% to 5.00%.

In August 2013, the Commonwealth launched its first “Green Bonds Investor Impact Report.” The report enhances investor disclosure efforts and details the impact that bond proceeds had on the Massachusetts environment. The Commonwealth anticipates a second round sale of \$250 million Green Bonds in September 2014.

New York State Environmental Facilities Corporation

The mission of the New York State Environmental Facilities Corporation (N.Y.S. EFC) is to provide low-cost capital and expert technical assistance for environmental projects in New York State. Since 1990, the EFC has provided over \$17 billion in low-cost financing and grants for over 3,000 water and sewer infrastructure projects spanning New York State.⁹

In June 2014, the N.Y.S. EFC issued \$213 million in green bonds. They are the first green bonds to be issued under the GBP. Bond proceeds are to be used to finance 128 drinking

water and wastewater infrastructure projects across New York State, with the help of EFC equity.

This is the largest combination of bond proceeds and equity funds ever offered at one time in the history of the EFC. Thanks to the Corporation’s exceptional bond ratings AAA/Aaa/AAA (S&P/Moody’s/Fitch), the bond proceeds will provide local governments with funds at the best available rates, saving millions of dollars statewide.

**The N.Y.S. EFC green bonds are the first
green bonds to be issued under the
Green Bond Principles.**

⁹ <http://www.efc.ny.gov/Default.aspx?tabid=81>

U.S. Government-Related Securities

U.S. government-related securities typically revolve around providing credit to critical sectors of the economy, such as housing, education, small businesses and the environment.

They may be issued by the government itself or by one of the government agencies, such as the Department of Housing and Urban Development (HUD), Small Business Administration (SBA), United States Department of Agriculture (USDA), and others. These securities are considered low risk, since they are backed by the U.S. government. Many of these agencies issue debt through programs that impact the environment in a positive and proactive way. Some examples are included below.

Community Development Block Grant (CDBG) Program

CDBG is a multi-faceted federal program that allows for activities addressing one of three national objectives:

- (1) benefiting low- and moderate-income persons;
- (2) prevention or elimination of slum and blight, or
- (3) an urgent need.

Section 108 is the loan guarantee provision of the CDBG program and provides communities with a source of financing for economic development, housing rehabilitation, and large-scale physical development projects. It is a powerful public investment tool that HUD offers to local governments allowing them to transform a small portion of their CDBG funds into federally guaranteed loans large enough to pursue physical and economic revitalization projects that can renew entire neighborhoods.

HUD further assists local governments through the competitive award of Brownfields Economic Development Initiative (BEDI) funds, which are approved in conjunction with Section 108 financing for development projects that need environmental remediation caused by contamination. BEDI is designed to assist cities with the redevelopment of abandoned, idled and underused industrial and commercial facilities where expansion and redevelopment is burdened by real or potential contamination.

Many U.S. government agencies issue debt through programs that impact the environment in a positive and proactive way.

USDA

The USDA's Farm Service Agency (FSA) makes direct and guaranteed farm ownership and operating loans to family-size farmers and ranchers who cannot obtain commercial credit from a bank, Farm Credit System institution, or other lenders.

FSA loans can be used for a variety of purposes including, but not limited to, purchasing land, constructing buildings, and making farm improvements such as soil and water conservation efforts and other sustainable practices.

FSA guaranteed loans provide conventional agricultural lenders with up to a 95 percent guarantee of the principal loan amount. The lender is responsible for servicing a borrower's account for the life of the loan. All loans must meet certain qualifying criteria to be eligible for guarantees and FSA has the right and responsibility to monitor the lender's servicing activities.

SBA's 504 Program

The SBA was founded in 1953 and delivers millions of loans, loan guarantees, and other forms of assistance to small businesses. Many of the loans issued through the SBA may finance sustainable businesses or those incorporating sustainable business practices, such as energy efficiency, water conservation, and recycling programs. An amendment to the Small Business Investment Act allows the SBA to in-

clude three energy efficiency public policy goals in its 504 Fixed Asset Financing Loan Program:

- Reduction of energy consumption by at least 10 percent;
- Increased use of sustainable design, including designs that reduce the use of greenhouse gas emitting fossil fuels, or low-impact design to produce buildings that reduce the use of non-renewable resources and minimize environmental impact; or
- Plant, equipment and process upgrades of renewable energy sources, such as the small-scale production of energy for individual buildings or communities consumption, commonly known as micropower, or renewable fuels producers including biodiesel and ethanol producers.

In 1958, Congress passed the Small Business Investment Act which allowed the SBA to license private SBICs to help with financing and managing small entrepreneurial businesses in the United States. The Act today is known as the Certified Development Company Economic Development Loan Program or the SBA 504 loan. The SBA 504 loan is designed to assist entrepreneurs in obtaining financing for investments in their own facilities, expansion, and creating new jobs.

Supranational/International

In 2007, the European Investment Bank (EIB) became the first bank to issue an environmental-themed bond – the Climate Awareness Bond (CAB). The funds were earmarked to match disbursements to EIB lending projects contributing to climate action.

Since that time, there has been growth in green bond issuance by other banks, including those described below. Banks are increasingly interested in structuring green bond deals as investor awareness and demand continue to spread.

Bank green bonds are a great fit for investors looking for high quality, fixed income products that meet their financial needs and support environmental initiatives worldwide.

However, for investors looking to target by green impact or geography, there are limitations. For example, if an investor wants bonds that only finance wind farms, then green bank bonds may not be the best option. Likewise, an investor will need to look elsewhere for green bonds only financing environmental initiatives in the United States.

Banks are increasingly interested in structuring green bond deals as investor awareness and demand continues to spread.

World Bank Green Bonds

The World Bank is an international organization created in 1944. Its purpose is to end extreme poverty and promote shared prosperity in a sustainable manner.

The World Bank Green Bonds raise funds from fixed income investors to support World Bank lending for eligible projects that seek to mitigate climate change or help affected people adapt to it. Since 2008, the World Bank has issued over \$6.3 billion in green bonds through 66 transactions and 17 currencies. For investors, World Bank Green Bonds are an opportunity to invest in climate solutions through a triple-A rated fixed income product.¹⁰

World Bank Green Bonds Examples of Eligible Mitigation Projects

- Solar and wind installations;
- Funding for new technologies that permit significant reduction in greenhouse gas (GHG) emissions;
- Rehabilitation of power plants and transmission facilities to reduce GHG emissions;
- Greater efficiency in transportation, including fuel switching and mass transport;
- Waste management (methane emissions) and construction of energy-efficient buildings; and
- Carbon reduction through reforestation and avoided deforestation.

¹⁰ <http://treasury.worldbank.org/cmd/htm/WorldBankGreenBonds.html>

To come up with criteria for eligible projects, the World Bank worked with investors and recommended key project types or criteria that would support low-carbon development. The criteria then underwent an independent third party review by the Center for International Climate and Environmental Research at the University of Oslo (CICERO).

African Development Bank

Founded in 1964, the African Development Bank (AfDB) Group is comprised of 53 African or regional member countries (RMCs) and 26 non-African countries whose overarching objective is to spur sustainable economic development and social progress in its regional member countries, thus contributing to poverty reduction. AfDB is rated Aaa/AAA/AAA (Moody's/S&P/Fitch) by all major credit rating agencies, carries a 0% risk weighting under Basel II, and is Tier 1 under Basel III.

In October 2013, AfDB launched its first-ever \$500 million green bond. Proceeds are being used to finance renewable energy generation, energy efficiency, solid waste management, water supply and access, and other projects. The projects are selected based on AfDB's own methodology and environmental strategy.¹¹

African Development Bank Green Bonds Examples of Eligible Mitigation and Adaptation Projects

- Renewable energy generation;
- Energy efficiency;
- Vehicle energy efficiency fleet retrofit or urban transport modal change;
- Biosphere conservation projects;
- Solid waste management;
- Fugitive emissions and carbon capture;
- Urban development;
- Water supply and access; and
- Low carbon transport.

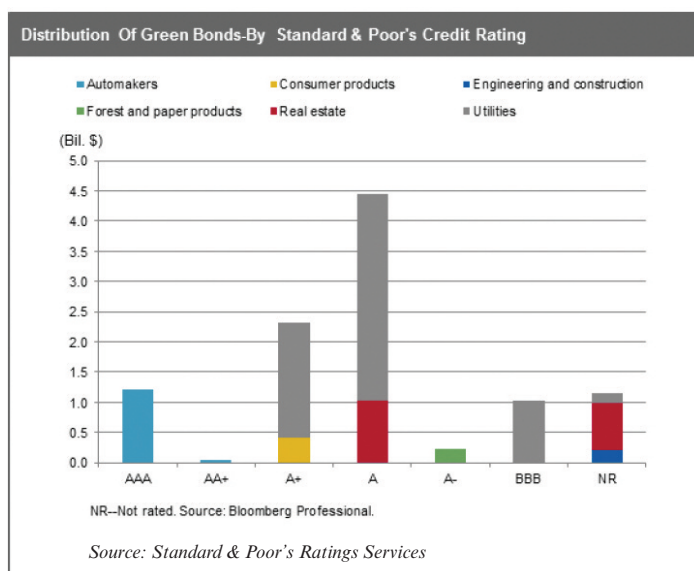
¹¹ http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Green_Bonds_Newsletter_-_Issue_N_1_-_May_2014.pdf

Corporates

Corporations can issue green bonds with proceeds specifically earmarked to financing projects addressing environmentally sustainable initiatives.

According to a May 2014 Standard & Poor's Ratings Services report on corporate green bonds, the annual market will double this year, reaching \$20 billion. This increase shows the rising importance of green bonds as a source of capital, driven by both the needs of the corporates, as well as the desire by investors to allocate capital to socially responsible and environmentally sustainable investments.¹² While corporate green bonds issued so far have been from well-known and higher-rated ESG names in the market, they could help pave the way for other corporate entities.

The report also mentions that ratings for corporate green bond issuers are spread over the investment grade spectrum from 'AAA' to 'BBB' with the majority at 'A+' or 'A'.



The corporate green bond examples mentioned in this report include a few issued over the last year. Hopefully, these corporations will encourage other companies to use green bonds to finance environmental initiatives, thus spurring more investors to purchase them.

Similar to the bank green bonds, targeting is limited with corporate green bonds. The projects are typically multiple in scope and may span the globe. As is the case with any corporate bond – green or not – there are risk factors to consider, such as credit, interest rate, duration and default.

Bank of America Green Bond

In November 2013, Bank of America Corporation announced the issuance of a three-year, fixed-rated \$500 million green bond whose proceeds finance green investments such as renewable energy and energy efficiency projects. The Baa2/A- (Moody's/S&P) senior notes mature in 2016 and have a 1.350% fixed coupon.

The proceeds from this offering will be used to further Bank of America's 10-year, \$50 billion environmental business initiative to help address climate change, reduce demands on natural resources and advance lower-carbon economic solutions.¹³

According to a May 2014 Standard & Poor's Ratings Services report on green bonds, the annual market for corporate green bonds will double this year, reaching \$20 billion.

¹² http://twitdoc.com/upload/lisa_nugent/green-bond.pdf

¹³ <http://investor.bankofamerica.com/phoenix.zhtml?c=71595&p=irolnewsArticle&ID=1879109#fbid=IuSBJdzfYEB>

Unilever Green Bond

In March 2014, Unilever announced the issuance of a \$416 million green bond whose proceeds will be used to clean up the company's manufacturing operations and cut waste. The A+/A1 (S&P/Moody's) rated bond offers a 2% fixed interest rate and has a 4-year tenor.

Unilever's current pipeline of projects in which the green bond proceeds will be invested include, but are not limited to — a laundry powder facility in Sichuan, China; an ice cream factory in Johannesburg, South Africa; and the expansion of a spreads factory in Kansas, United States.

Unilever worked with DNV GL, an independent leading environmental consultancy, to develop a Green Sustainability Bond framework, based on the GBP.¹⁴

Green Building Corporate Bonds

The recent issuance of green building bonds presents a new opportunity for investors looking to finance green building. In May 2014, Regency Centers, an owner, operator and developer of grocery anchored neighborhood and community shopping centers, completed the sale of \$250 million of green building bonds. These are the first ever Real Estate Investment Trust (REIT) green bonds with proceeds being used to fund eligible green building projects, including the acquisition, construction, development or re-development of projects that will pursue Leadership in Energy & Environmental Design (LEED) certification.

In June 2014, on the heels of the Regency REIT green bond, Vornado Realty became the second US REIT to issue a corporate green bond. In June 2014, the Climate Bonds Green Property Working Group of international experts published proposed rules as to what buildings can be used to issue Certified Climate Bonds. The goal of the new rules is to help investors better understand the low carbon integrity of green building investments.

¹⁴ <http://www.unilever.com/images/DNVGLOpinion05March2014tcm13384846.pdf>

Asset-Backed Securities (ABS)

Asset-Backed Securities, or ABS, are financial securities backed by a loan, lease or receivables against assets other than real estate and mortgage-backed securities. For many investors, ABS are an alternative to investing in corporate debt.

Over the last couple years, there has been an increase in green ABS issuance. They are another way to draw in new capital to environmentally sustainable investments.

For green ABS, the receivables are associated with environmentally sustainable initiatives. For investors looking to diversify their green holdings, the ABS market looks to be an opportunistic place, especially as it continues to grow. Included below are a few examples of green ABS.

Toyota Financial Services Green Bond

In March 2014, Toyota announced the issuance of a \$1.75 billion green bond, the first from an auto finance company in the asset-backed securities market. The deal includes three classes of notes rated AAA/Aaa (S&P/Moody's): a \$560 million A-2 tranche with a coupon of 0.41%; a \$480 million A-3 tranche with a coupon of 0.67%; and a \$165.25 million A-4 tranche with a coupon of 1.18%.

Over the last couple years, there has been an increase in green ABS issuance. They are another way to draw in new capital to environmentally sustainable investments.

Toyota will use the net proceeds to acquire retail installment sale contracts and lease contracts to finance new Toyota and

For investors looking to diversify their green holdings, the ABS market looks to be an opportunistic place, especially as it continues to grow.

Lexus gas-electric hybrid or alternative fuel powertrain vehicles that meet certain specific criteria. There are currently nine vehicles in the Toyota and Lexus portfolio of green vehicles that qualify.¹⁵

Hannon Armstrong Sustainable Infrastructure

In 2013, Hannon Armstrong Sustainable Infrastructure issued a \$100 million ABS backed by the cash flows of over 100 wind, solar and energy efficiency projects at 20 properties. The coupon on the transaction is 2.79% and the company describes the bonds as investment grade.

The objective of the bond proceeds is greenhouse gas mitigation.¹⁶

¹⁵ <http://www.pressroom.toyota.com/releases/tfs+issues+asset+backed+auto+industry+green+bond.htm>

¹⁶ <http://www.greentechmedia.com/articles/read/The-100-Million-Green-Bond-From-Hannon-Armstrong>

SolarCity

In November 2013, SolarCity completed the industry's first securitization of distributed solar energy assets in a \$54.4 million offering. The notes were sold through a private placement and are secured by the cash flows associated with the solar arrays installed by SolarCity. The notes are rated BBB+ (S&P) with a 4.80% coupon. In April 2014, the company issued a second ABS valued at \$70.2 million and in July 2014, the company issued \$201.5 million in its third debt offering.

These deals should help forge a path for other solar issuers, especially as investors search for yield and other potential issuers look to replace a finite funding source.

These deals should help forge a path for other solar issuers, especially as investors search for yield and other potential issuers look to replace a finite funding source.

Conclusion

As the green bond market continues to grow, so too will green bond nomenclature. It is difficult to state as one color – there are various shades – and the analysis of “green” components and benefits will be left to investors to define.

The investments mentioned in this report are not all-inclusive of green bonds, but rather a representation of some opportunities in the green fixed income market.

At Community Capital Management (CCM), we use a combination of proprietary research augmented by the use of third-party standards from Global Green USA¹⁷ to screen our portfolios ensuring bonds purchased support one or more of the following goals:

- **Smart Growth**, including adaptive reuse of structures, proximity to services and transit, urban infill, brownfield redevelopment, revitalization plans, and wetlands and floodplain preservation.
- **Energy Efficiency**, including efficient products, ENERGY STAR appliances, insulation standards, meeting energy codes, photovoltaics and the production of renewable energy sources such as wind farms.
- **Resource Conservation**, including water conservation, storm water protection, renewable and reused materials, and construction and demolition recycling.
- **Health Protection**, including environmental assessments, hazard abatement, indoor air quality (IAQ) ventilation, hazard proximity, and IAQ paint, formaldehyde and carpet.

Global Green USA is the American affiliate of Green Cross International. It was founded to foster a global value shift toward a sustainable and secure future.

For nearly 20 years, Global Green USA has been a national leader in advocating for smart solutions to global warming, including green building for affordable housing, schools, cities and communities that save money, improve health and create green jobs.

As the green bond market continues to grow, so too will green bond nomenclature. It is difficult to state as one color – there are various shades – and the analysis of “green” components and benefits will be left to investors to define.

¹⁷ http://www.globalgreen.org/i/2012QAP_Final.pdf

CCM actively manages sustainable fixed income portfolios, which seek to provide investors with above-average, risk-adjusted returns and to finance environmental initiatives and programs.

We focus upon the ultimate use of proceeds for all impact investments, green bonds included. For us, a threshold declaration of green intent by an issuer is a starting point. We need to be able to identify, record and track the underlying economic activity that the transaction will support. We believe that impact reporting is critical and should be well-defined on use of bond proceeds. The initial wave of green bonds offered investors little information on ultimate use of proceeds. We are optimistic that future issuers will provide investors with more data.

Just as the definition of green can vary, so too can the type of green bond portfolio. There is no magic blueprint. CCM prides itself on offering investors the ability to customize a green bond portfolio to align with the clients investment goals, investment policy statement and environmental impact.

The initial wave of green bonds offered investors little information on ultimate use of proceeds. We are optimistic that future issuers will provide investors with more data.

A key takeaway is that green bonds are changing the landscape of available investment products, helping to address solutions to global environmental challenges, and there are a variety of options to choose from for institutional and individual investors. We believe this will continue to grow in the future as investors, in particular millennials, look to make a positive impact in their communities and worldwide via their investment portfolios.

Millennials

- In North America alone, baby boomers will pass \$30 trillion in financial and non-financial assets to their heirs.¹⁸
- 45 percent of wealthy millennials want to use their wealth to help others and consider social responsibility a factor when making investment decisions.¹⁹
- The millennial generation expect to “do well” and “do good.” They believe that funding a social enterprise rather than making a charitable contribution may be a more effective way to achieve social benefits. They are showing great interest in incorporating socially responsible investments in their personal investment portfolios and customizing the portfolios of their families’ charitable foundations to be environmentally and socially impactful.²⁰

We believe these are telltale signs that the green bond market will grow exponentially in the coming years.

¹⁸ <http://www.accenture.com/SiteCollectionDocuments/PDF/Accenture-CM-AWAMS-Wealth-Transfer-Final-June2012-Web-Version.pdf>

¹⁹ http://spectrem.com/Content_Press/May-28-2013-Press-Release.aspx

²⁰ <https://www.northerntrust.com/insights-research/wealth-management-research/philanthropy/philanthropy-insights>

About Community Capital Management, Inc.

Community Capital Management, Inc. (CCM) is an independently owned, client-focused, registered investment adviser. Headquartered in Ft. Lauderdale, Florida with offices in Charlotte, North Carolina and Boston, Massachusetts, the firm was founded in 1998 and manages approximately \$2 billion in assets (as of 6/30/14) in a variety of strategies including intermediate fixed income, alternative income, tax-exempt fixed income, and short duration.

CCM specializes in managing fixed income impact investing strategies that can be customized based on specific impact themes (e.g., environmental sustainability, affordable housing, and job creation) or targeted geographies.

For more information, please visit www.ccmfixedincome.com or call 877-272-1977.

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