The Matthew Henson HOPE VI Redevelopment Project in Phoenix, Arizona integrated various green features into the community providing environmental and economic benefits. Photo courtesy of McCormack Baron Salazar.
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I. EXECUTIVE SUMMARY

An increasing number of foundations, public funds, religious organizations and individual investors are actively pursuing the integration of green initiatives into their investment strategies. In fact, at more than $1.9 trillion in assets, socially and environmentally screened separate accounts managed for institutional investors and high net worth individual clients constituted the bulk of socially responsible investing (SRI) assets tracked in 2007, up 28 percent from $1.5 trillion identified in 2005. According to the World Wealth Report 2008, wealthy individuals upped their investment in green industries. Total investment in the clean technology sector rose by 41 percent from 2005 to $117 billion in 2007.

While green investing is growing considerably as more investors look to invest in green companies, wind farms, and clean technology sectors, green fixed income investing is still a fairly new concept but gaining ground. Green fixed income investing is a sub-set of green investing whereby investors utilize their fixed income portfolio towards investing in bonds that finance or support environmentally sustainable initiatives. These fixed income securities can include municipal bonds, corporate bonds, U.S. agency multifamily mortgage backed securities (MBS), securitized loans and government guaranteed loans, and other agency or government-related securities.

As with any investment strategy, it is important to keep in mind risk, market volatility, and the need to generate a competitive return. Given that the range of environmentally screened products is expanding, it is important for investors to be comfortable with the managers’ experience including: portfolio management, investment process, and reporting capabilities. In addition, investors should research the managers’ ability to customize green investment portfolios based on financial and environmental goals.

With a growing number of investors diversifying their portfolios by investing in green fixed income financial instruments, they are recognizing the benefits achieved through this strategy. These include: the environmental impact of putting their money where it can do good, the relative safety and diversification of fixed income investments, and the increased awareness, market demand, and opportunities for bonds that finance environmentally sustainable initiatives.

1 Source: Social Investment Forum Trends Report 2007
2 Source: World Wealth Report 2008 Released By Capgemini and Merrill Lynch
II. INTRODUCTION

This white paper provides an overview of green fixed income investing and outlines some of the research, best practices, and opportunities currently available in the green fixed income marketplace.

Green fixed income investing gained widespread attention in the United States in 2004, when an amendment to the American Jobs Creation Act of 2004 authorized the U.S. Treasury to issue $2 billion in bonds to finance the reclamation of contaminated industrial and commercial land. The "Green Bond" legislation, as the amendment has become known, contains strict requirements and is applicable only to revitalization projects of extraordinary size targeting brownfields.

Since 2004, initiatives of significantly smaller scale have become increasingly popular, offering fixed-income investors a variety of project types and sizes as well as numerous geographical locations in which to invest.

In recent years, green projects have multiplied throughout the United States as federal and state governments have embraced the mandate of energy efficiency. In December 2007, the Energy Independence and Security Act (EISA) of 2007 was signed, which responded to then-President Bush’s “Twenty in Ten” challenge to improve vehicle fuel economy and increase alternative fuels. Twenty in Ten has the goal of reducing U.S. gasoline usage by 20 percent in ten years (2007–2017). In 2009, the American Recovery and Reinvestment Act of 2009 (the “Act”) was signed into law. One of the environmental goals of the plan is reviving the renewable energy industry and providing the capital over the next three years to eventually double domestic renewable energy capacity.

The Act lays the foundation for a more robust and sustainable 21st century economy and it is anticipated that with the Act’s passing, opportunities for fixed income investments in green initiatives will rise. For example, the Act increases the allocation available for Clean Renewable Energy Bonds ("CREBs") and for Qualified Energy Conservation Bonds. CREBs are issued by state and local governments and provide tax credits to finance renewable energy projects. Qualified Energy Conservation Bonds are issued by state and local governments for projects which allow for energy improvement in public buildings, for green community projects including energy efficiency improvements in buildings and for renewable energy development and energy conservation projects. The Act also creates the new Build America Bond program which is intended to assist state and local governments in financing capital projects at lower borrowing costs to stimulate the economy and create jobs. Government initiatives like EISA and the Act should help increase bond production for green projects and provide investors with additional resources for investment in environmentally sustainable projects.

This white paper will:

• Discuss how green fixed income investments benefit the environment
• Review types of market-rate, fixed income securities that can positively impact the environment
• Provide an overview of how investors can incorporate green fixed income investments into their portfolios

### COMPOSITION OF STATE AND LOCAL RECOVERY ACT FUNDING

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Health</th>
<th>Education and Training</th>
<th>Transportation</th>
<th>Income Security</th>
<th>Community Development</th>
<th>Energy and Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>18%</td>
<td>8%</td>
<td>6%</td>
<td>3%</td>
<td>1%</td>
<td>64%</td>
</tr>
<tr>
<td>2012</td>
<td>17%</td>
<td>16%</td>
<td>17%</td>
<td>19%</td>
<td>19%</td>
<td>30%</td>
</tr>
</tbody>
</table>

"In Fiscal Year 2009, almost two-thirds of Recovery Act funding to states and localities will be in the health field; by FY 2012, the major portion of funding will shift to long-term economic growth opportunities in transportation, energy, and community development."

Data from U.S. Government Accountability Office (GAO)

Source: Recovery.org

1 Source: Recovery.org
III. ENVIRONMENTAL BENEFITS OF GREEN FIXED INCOME INVESTMENTS

The environmental benefits of green fixed income investing are quite subjective and can encompass a wide range of individual values. Given their nebulous nature, green fixed income investments may be evaluated on standards set forth by third party, independent environmental research firms such as Global Green USA and the U.S. Green Building Council.

According to the U.S. Green Building Council, green building principles benefit the environment, economy, human health, and community. Green building principles reduce the use of raw materials, overall energy consumption, and carbon dioxide emissions. The features of green building design include the use of renewable energy sources, effective insulation, and non-toxic materials, as well as water conservation and the reduction of waste. When it is feasible to do so, recycled materials are used to reduce the reliance upon raw materials.

Recently, the movement to incorporate green building principles in new building design and rehabilitation of existing buildings gained ground with the realization that buildings in the United States account for large percentages of energy consumption and greenhouse gas emissions. In the United States, buildings account for 39% of energy use and 72% of electricity consumption. 38% of all carbon dioxide emissions come from buildings, and 40% of raw materials are used in building construction.4

Green fixed income investments also benefit the environment through other channels. For example, bonds that finance neighborhood revitalization activities help strengthen cities. When urban areas have good schools, job opportunities, an adequate housing supply, safe and reliable transportation systems, and low crime rates, they become attractive places for families and businesses. Consequently, the revitalization of blighted urban neighborhoods contributes to more economically robust communities, which lowers development pressure on open space in outer suburbs and reduces the multiple environmental problems associated with sprawl.

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4 Source: U.S. Green Building Council

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GLOBAL GREEN USA’S GREEN CRITERIA

| Smart Growth | • Requiring Consistency with Community Revitalization Plans
| | • Rehabilitating Housing and Encouraging Adaptive Reuse
| | • Encouraging Proximity to Services and Employment
| | • Requiring Access to Transit
| | • Developing Brownfields
| | • Preserving Site Ecology

| Energy Efficiency | • Meeting Energy Codes
| | • Conforming to the Energy Star® Program
| | • Specifying Efficient Products and Systems
| | • Requiring Renewable Energy

| Resource Conservation | • Conserving Water
| | • Requiring Durable Building Materials
| | • Requiring Renewable, Reused, or Recycled Materials
| | • Minimizing Stormwater Impacts

| Health Protection | • Assessing the Environmental Condition of the Site
| | • Abating or Remediating Environmental Hazards
| | • Prohibiting Adjacent Hazards
| | • Ensuring Good Indoor Air Quality
NON-PROFITS SET GREEN STANDARDS

Research by such organizations as Global Green USA and the U.S. Green Building Council has led to a standardized guide for the development of green building projects, thereby increasing their potential for success and providing reassurance for investors. The LEED for Neighborhood Development Rating System provides fixed income investors in green building projects a proven vehicle for ensuring that their investments target projects with the greatest potential for positive impact on the environment.

Global Green USA, Making Affordable Housing Truly Affordable

Headquartered in Santa Monica, California, Global Green USA is the US-based arm of Green Cross International (GCI). For more than ten years, Global Green’s work has been primarily focused on reducing global warming by creating green buildings and cities.

In its 2006 report entitled Making Affordable Housing Truly Affordable: Advancing Tax Credit Incentives for Green Building and Healthier Communities, Global Green worked with its partners in community development organizations to develop policy recommendations for tax credit allocations. The report analyzes the federal low-income housing tax credit (LIHTC) programs for all fifty states, and identifies current green building requirements in affordable housing projects.

U.S. Green Building Council, LEED for Neighborhood Development Rating System

Launched by the U.S. Green Building Council (USGBC) in 2007, the Leadership in Energy and Environmental Design (LEED) for Neighborhood Development Rating System is the first national system for neighborhood design. A collaboration of the USGBC, the Congress for the New Urbanism, and the Natural Resources Defense Council, the LEED for Neighborhood Development Rating System provides third-party verification that a development’s location and design meet accepted levels of environmentally responsible and sustainable development.

As of February 2009, LEED initiatives exist in 44 states, 31 state governments, 12 federal agencies or departments, 15 public school jurisdictions, and 39 institutions of higher education.
IV. OVERVIEW OF MARKET-RATE, GREEN FIXED INCOME INVESTMENTS

Municipal Bonds

Municipal bonds are issued by state or local governments to raise capital. While municipal bonds generally provide lower yields than corporate bonds or Treasuries, often they 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. Taxable municipal bonds offer yields more comparable to those of other taxable sectors, such as corporate bonds or bonds issued by U.S. governmental agencies, than to those of tax-exempt municipal bonds. The volume of taxable municipal bond issuance peaked at over $41.1 billion in 2003, but has flattened in recent years. In 2008, taxable municipal issuance totaled $25.9 billion. With the passage of the Act which creates the new Build America Bonds, the taxable municipal landscape is changing. Through the end of May 2009, the number of new issues in the tax-free market has dropped 17% compared to the year-ago period. In the same period, the number of taxable issues has risen 32%.

Sample Taxable Municipal Bond Investment
Recipient: Xunlight Corporation in Toledo, Ohio

The Ohio Enterprise Bond Fund Program was created to promote economic development in Ohio by creating and retaining quality private sector jobs. The taxable municipal bond is financing the development of a 25 mega-watt production line to be used to produce thin film flexible photovoltaic solar cells upon the Project site. Founded as a technology spin-off from the University of Toledo, Xunlight manufactures lightweight and flexible thin film silicon solar modules. The company is expected to add hundreds of green manufacturing jobs in Toledo, a city where tens of thousands of citizens have lost their jobs in recent years. Xunlight’s presence in Toledo is also expected to attract other renewable energy initiatives to the city.

Corporate Bonds

Corporate bonds are debt obligations issued by companies to finance capital investment and operating cash flow. Corporate bonds usually offer higher yields than tax-exempt municipals or comparable-maturity government bonds or CDs, but include greater risks. When researching corporate bonds for a green impact, investors typically evaluate the underlying business to see if it is positively impacting the environment. Many companies in green businesses build solar panels or offer alternative energy technologies. Other companies may incorporate green practices into their business models, adding lines of environmentally friendly products or reducing the environmental impact of their operations.

Environmental Impact: The recent passage of the American Recovery and Reinvestment Tax Act of 2009 provides new tools for state and local governments to finance basic infrastructure which include green components. For example, the New Clean Renewable Energy Bonds can finance projects that include, but are not limited to: wind energy, geothermal, and solar energy facilities. As well, state and local governments may establish bond programs to support green initiatives such as energy efficiency, renewable energy, and water conservation.

Environmental Impact: When researching corporate bonds for a green impact, investors typically evaluate the underlying business to see if it is positively impacting the environment. Many companies in green businesses build solar panels or offer alternative energy technologies. Other companies may incorporate green practices into their business models, adding lines of environmentally friendly products or reducing the environmental impact of their operations.

5 Source: MuniNetGuide.com 6 Build America Bonds allow issuers to offer their debt in the taxable market 7 Source: The Bond Buyer
U.S. Agency Multifamily Mortgage-Backed Securities ("MBS")

U.S. agency multifamily MBS are collateralized by mortgages on multifamily residential properties (i.e., assisted living facilities, affordable rental housing complexes, or mental health facilities). U.S. agency multifamily MBS are generally considered to have the highest credit quality as they are issued by Ginnie Mae, a government agency backed by the full faith and credit of the United States, and Fannie Mae, a government sponsored enterprise (GSE) placed into conservatorship by the U.S. Treasury in 2008.

Environmental Impact: Many multifamily residential projects incorporate some of the core organizing principles of smart growth. This includes rehabilitating or adaptive reuse of historic buildings, encouraging growth in existing communities, promoting proximity to services, and requiring access to transit. Many of these projects include energy-efficient appliances, solar panels, and low-flow fixtures.

Sample U.S. Agency Multifamily MBS
Recipient: Matthew Henson Apartments, Phase III in Phoenix, Arizona

The Matthew Henson HOPE VI Redevelopment Project is located in Phoenix’s Central City South Neighborhood. The City of Phoenix received a $35 million HUD HOPE VI grant to rebuild the severely distressed housing project, which was originally constructed in the early 1940s. As a HOPE VI Project, Matthew Henson Apartments’ primary goal is to revitalize neighborhoods by creating a mixed-income community, helping residents move toward self-sufficiency through job training and placement services and creating long-term investments in the community. Various green building features have been integrated into the community providing environmental, economic and social benefits. Its green features include: Low-E glass, which reduces heat transfer from the sun while still allowing non-harmful light in; carpet made from recycled coke bottles, which saves landfill space and resists staining; 16 Seasonal Energy Efficiency Ratio ("SEER") HVAC systems at management and youth centers which save 15% to 20% per year on cooling costs; and 12 SEER heat pumps at all living units which save an average of 5% to 10% over normal 10 SEER apartment units.

Securitized Loan Pools

Securitized loan pools involves the pooling and repackaging of cash-flow producing financial assets into securities. Typically, the assets represent collateral on the security. For purposes of this report, this includes economic development loans, and other loans originated by community corporations or community-based, charitable, government and quasi-governmental lenders.

Environmental Impact: The Community Reinvestment Fund ("CRF") USA Community Reinvestment Revenue Notes is an example of a securitized pool that contains certain loans which may benefit the environment. Loan recipients can include not-for-profit and for-profit businesses located in Empowerment Zones and Targeted Disadvantaged Areas working to revitalize their communities, and encourage environmental sustainability. Many times, these businesses are located in economically distressed communities or among economically or socially disadvantaged groups.
Government Guaranteed Loans

Government guaranteed loans are one of the primary means by which the government provides credit to private individuals through the capital markets and guarantees the loans against any default. There are many types of government guaranteed loan programs offered in today’s funding arena. Typically, these programs are intended for those people who would otherwise not qualify for loans from banks and other lending institutions.

Environmental Impact: Government guaranteed loan programs that benefit the environment can include, but are not limited to, the Small Business Administration (“SBA”) loan programs. For example, the SBA 7(a) program which includes the Community Express Pilot Loan program and the Patriot Express Pilot Loan Initiative. Many of the businesses financed through these programs may be in the green industry or located in Historically Underutilized Business (HUB) Zones. On December 19, 2007, the Energy Independence and Security Act of 2007 was signed which contains a number of small business provisions. Some of these include: expanding the list of permissible uses for SBA Express Loans to include renewable energy and energy efficiency improvements; establishing a pilot program for reduced 7(a) fees for the purchase of energy-efficient technologies; and authorizing the Small Business Investment Companies to issue a new class of debentures, called Energy Saving debentures, for small businesses primarily engaged in products or services that reduce the use of consumption of non-renewable energy resources.

Sample Government Guaranteed Loan (SBA Loan) Recipient: Rabbit Run Farm in Fort Myers, Florida

Rabbit Run Farm is a half-acre urban farm specializing in pesticide-free fruits, herbs, and heirloom vegetables. It received a small business loan through the Small Business Administration 7(a) Program, the SBA’s primary vehicle for providing small businesses with access to credit. Rabbit Run Farm used the loan proceeds to purchase land, fund business start-up expenses, and provide operating capital. The farm now incorporates a number of environmentally-friendly features, including an automatic irrigation system which can be programmed to discharge precise amounts of water in a targeted area, which promotes water conservation. Among other features, plants sprout in trays stacked vertically, needing 1/10th of the amount of water of produce planted in the ground. The farm further reduces its carbon footprint by marketing produce to local consumers and restaurants, minimizing transportation-related carbon dioxide emissions and packing materials.

Agency or Government-Related Securities

Agency or government-related securities are securities issued by U.S. government agencies and by U.S. government-sponsored enterprises. These securities are widely considered to have among the bond market’s lowest default risk because they carry an explicit or implicit government guarantee.

Environmental Impact: Agency or government-related securities impact the environment through revitalization activities, housing redevelopment and reuse, elimination of blight in distressed areas, and brownfield redevelopment. This includes, but is not limited to, the Housing and Urban Development’s Community Development Block Grant Entitlement program.
V. INCORPORATING GREEN FIXED INCOME INVESTMENTS INTO YOUR PORTFOLIO

In recent years, there has been increasing interest on the part of institutional and individual investors to integrate environmentally responsible investments into their portfolios. In fact, the largest share of socially and environmentally screened investments belong to mutual funds, with $171.7 billion in total net assets invested in 173 different funds available in 358 different share classes.8

“In recent years, there has been increasing interest on the part of institutional and individual investors to integrate environmentally responsible investments into their portfolios.”

In the past, many investors avoided these products because of the misconstrued notion that they fail to produce competitive performance results. However, recent products have come to market designed specifically for investors seeking competitive investment performance while still achieving their environmental goals.

The institutional and individual investor can integrate environmentally screened investments by selecting the securities themselves or by hiring a manager to do it for them (via a mutual fund or separate account). Hiring a specialized manager will provide the investor with the skill set to research and evaluate green fixed income investments. It is still important that investors consider a variety of issues before hiring a green fixed income investment manager. This includes researching a manager’s investment process from both a financial and environmental perspective. What is the manager’s experience and track record? What is the manager’s financial and environmental investment strategy? What is the manager’s analytical and research capability?

Does the manager’s green approach incorporate what you believe to be an environmental benefit? These are all important questions to consider before allocating a percentage of your portfolio to a green strategy within any asset class.

For fixed income strategies, bonds issued to finance environmentally sustainable initiatives are often underwritten in smaller deal sizes, thus preventing them from being included in common benchmark indices used by traditional fixed income managers. Because many investors allocate their investments primarily to mainstream bond strategies that emphasize “index-eligible” securities, a green bond portfolio or green mutual fund can serve as a complement that offers increased diversification within a fixed income portfolio.

VI. CONCLUSION

As green fixed income investing becomes more mainstream, it becomes increasingly simple for individual and institutional investors to locate market-rate, green fixed income products. Simple economies of scale suggest that as more investors put their money into environmental projects, the subsequent reduction in costs associated with such ventures will drive the development of such projects and create more opportunities for green investment. As well, increased investor demand can spur new financing incentives which can lead to a greater issuance of green fixed income investments.

With the added incentives for renewable energy and green building projects included in the 2009 economic stimulus package, green fixed income investors should find an increasing range of attractive investment opportunities.
The New Mexico Mortgage Finance Authority (MFA) incorporates a number of green initiatives toward a goal of promoting efficient, healthy, and environmentally friendly building practices in affordable housing. These initiatives incorporate LEED benchmarks for the design, construction and operation of high-performance green buildings, as well as recommendations for energy efficiency from Energy Star, an EPA program.

The Housing Finance Authority (HFA) of Miami-Dade County, Florida introduced a Sustainable Building Initiative in 2007. Noting that families below the poverty line may spend as much as 19% of their total early income on utility costs, while in some areas of the United States as many as one-quarter of evictions of low-income renters are due to an inability to pay utility costs, the Initiative supports sustainable building practices that can reduce average energy costs by 25% to 65% while significantly increasing a property’s value.

The Virginia Housing Development Authority (VHDA) has helped create sustainable and environmentally friendly single and multi-family housing since 2003. At that time, VHDA put incentive points in the Tax Credit Program, which have since resulted in more than 60 multi-family developments achieving certification under the EarthCraft residential green building program. Since 2006, 3,661 green housing units have been added to Virginia’s stock of affordable housing for low- and moderate income citizens.

The U.S. Department of Housing and Urban Development’s (“HUD”) Mark-to-Market (“M2M”) Green Initiative was unveiled in July 2007 and encourages owners of multi-family housing to incorporate green building principles when undertaking property rehabilitation and developing plans for long-range operations. The initiative also offers financial incentives for adopting green technologies. The program is voluntary and is open to properties within HUD’s Section 8 portfolio, specifically those in the M2M program administered by HUD’s Office of Affordable Housing Preservation (“OAHP”).

The Small Business Administration’s (“SBA”) 504 Loan Program, also known as the Certified Development Company Economic Development Loan Program, is a long-term financing tool for economic development within a community. The 504 loan program recently expanded its eligibility requirements to include energy efficiency improvement projects for small businesses; construction of buildings with low environmental impact and sustainable and energy-efficient design; plant and process upgrade; and construction of renewable energy production.

The Federal Housing Administration (“FHA”) Energy Efficient Mortgage Loan Program helps current or potential homeowners significantly lower their monthly utility bills by providing financing for energy-efficient improvements to their new home or existing housing. For homeowners who are interested in making their home more energy efficient, the FHA program provides an alternative to taking out an additional mortgage loan to cover the cost of the improvements.
ABOUT COMMUNITY CAPITAL MANAGEMENT, INC.

Established in 1998, Weston, Florida-based Community Capital Management is a fixed income manager and a registered investment advisor with the SEC whose goal is to produce above-average, risk-adjusted returns capitalizing on its expertise within government-related subsectors of the bond market traditionally excluded from the major bond indices.

Clients may also elect to use one or more optional secondary screens designed to identify bonds that target: a predefined geographic area; a specific set of community and/or economic development initiatives (e.g. “green” or “sustainable design); and minority neighborhoods (defined by census tract data).

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

All expressions of opinion reflect the judgment of the firm at this date and are subject to change. Although the information and statistics contained herein are not guaranteed, they have been obtained from reliable sources and are believed to be accurate.