



Fixed Income Impact Investing

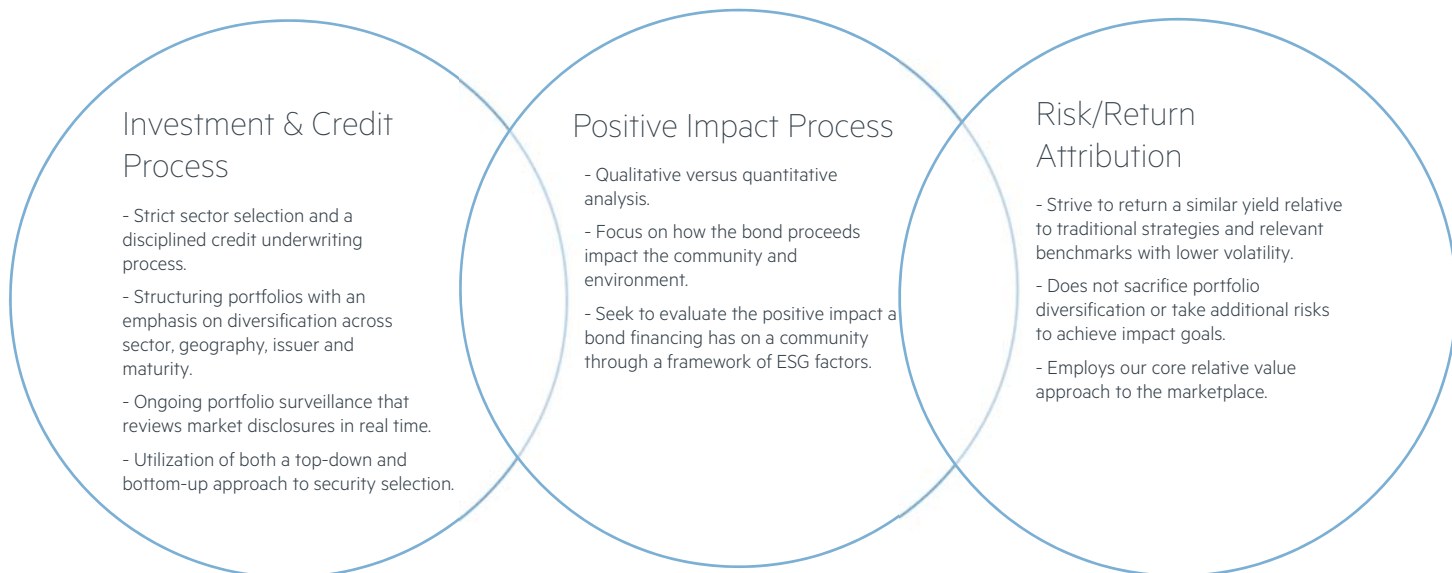
A Proceeds Based Approach

September 2018

There are many derivations of the term “Impact Investing” in the marketplace, these days. Many of them stem from the Socially Responsible Investing (SRI) world and the more contemporary, Environmental, Social and Governance (ESG) refinement. The principles underpinning SRI and ESG have evolved into what we now call **Positive Impact**. Descriptions vary, but at its core, **Positive Impact investments are made with the intention of generating a positive social and/or environmental impact, alongside financial return.** This statement is powerful because today’s highly-engaged investors will not accept an investment just because it has a buzzword attached to it, like “Green” or “ESG.” Oftentimes, these “Green” and “ESG” labels can be deceptive and lead to uninformed investors putting money into projects that, by most standards, would not be considered to be impact investing. This is why it is of the utmost importance to establish a clear definition of positive impact, as well as to establish an unbiased approach as to what constitutes a positive impact investment. Impact investors want to make a difference with their dollars, but also demand investment prudence and rigorous analysis that is designed to provide competitive returns. They will not tolerate poor investment results in pursuit of their non-investment goals. Thus, impact investing, for asset managers, now means combining the attributes of SRI/ESG with a performing investment vehicle. Wasmer Schroeder (WS) believes that the most relevant approach is through an innovative investment process that we describe as **Proceeds Based Investing**

The Wasmer Schroeder Difference

WS has long been involved with SRI and ESG mandates. What we learned over the years is that the positive attributes of these styles are already key components of how we invest broadly for all of our clients. More concisely, many of the bonds that we have purchased over the years have exhibited ESG/SRI attributes. This experience has evolved into our disciplined **Proceeds Based Investing** approach. All issuers must first pass through our standard, rigorous investment, credit and valuation process. For Positive Impact portfolios, we take the additional step of analyzing the proceeds of any bond issue so that we can be assured that the funds are directed toward projects or purposes that embody the goals of Positive Impact investing. Through this process, we eliminate much of the subjectivity that is inherent in other types of screening and numerical rating approaches.



From Theory to Practice – Portfolio Implementation

Examples of our Proceeds Based approach can be found in all sectors of the fixed income market that we include in our Positive Impact portfolios. For example, Denver, Colorado is a high quality municipal issuer. The issuer was not included in our Positive Impact portfolios on its own—however, when the issuer came to market with a deal to fund conversion of their bus fleet from diesel to natural gas, that specific financing passed our proceeds-based approach process and was included in portfolios. Likewise, we have been involved in multiple state and local municipal financings (both taxable and tax exempt, depending on the type of investor) that have funded wind and solar projects, public education, clean water and affordable housing. In fact, much of the positive impact spending has occurred in the public sector through the issuance of municipal bonds.

As previously stated, “Green” and “ESG” labels can be misleading—there are several cases where we have decided not to participate in deals that are designated as “Green,” as they do not fit into Wasmer Schroeder’s definition of positive impact. Examples include golf courses, parking garages and coal plants. While the issuers do a good job of promoting these projects as green, we believe that at their core, these types of projects are not positive impact.

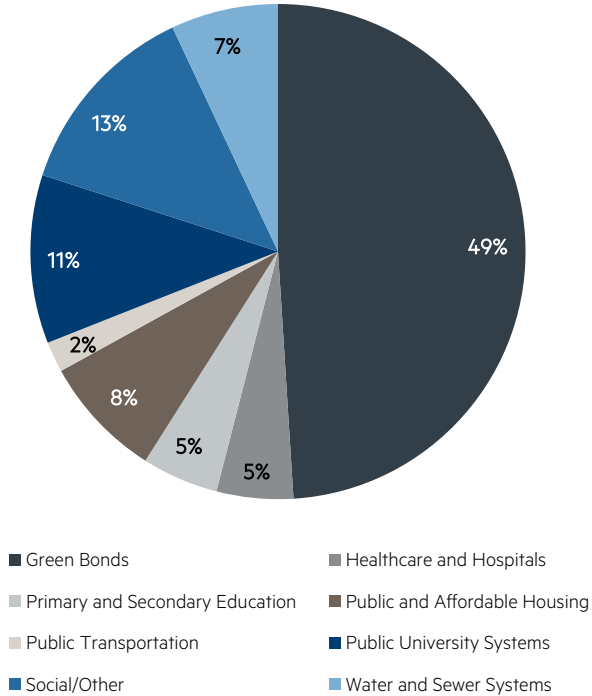
In the supranational sector, we have been involved in deals to fund Green-related projects, globally, through the World Bank Green Bond program. Other deals included those issued by the African Development Bank to fund clean water and poverty eradication on the African continent. Others have been issued by the International Finance Corp, targeted directly to social causes, like lending to female-owned businesses, biodiversity initiatives and resource management in developing economies. In the corporate market, we target financings that are used to make facilities more energy efficient to offset their carbon footprint or to support direct investments in alternative energy production, like those issued by Apple, Vornado Realty and others.

In Summary

The concept of SRI/ESG and Positive Impact will continue to be a focus for institutional and individual investors who are interested in using their resources to support their views and goals. We, here at WS, feel distinctively qualified to act as those investors’ advocate in the marketplace, supported by our Proceeds Based investment approach. Using this process, we strive to remove as much subjectivity as possible, which we believe provides the biggest bang for the impact dollar.

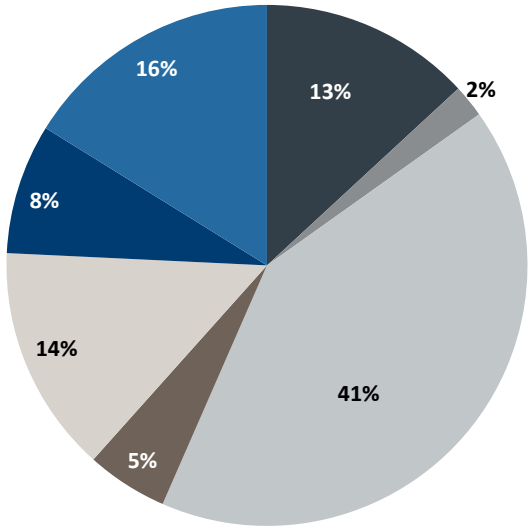
Positive Impact Use of Proceeds

Taxable Portfolios*



Positive Impact Use of Proceeds

Tax Exempt Portfolios*



*The charts above are based on securities held in the respective composites that meet the positive impact criteria.



JOHN MAJOROS

Director of Taxable Portfolio Management

John Majoros holds the positions of Managing Director, and the Director of Taxable Portfolio Management. He is responsible for the oversight of all taxable strategies at Wasmer Schroeder (WS).

Mr. Majoros earned his B.B.A. in Finance from Cleveland State University and his M.B.A. in Finance from Fordham University. He is a member of the Firm's Executive, Investment, Credit and Portfolio Management committees.

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About the Firm: More than 30 years ago, Wasmer Schroeder was founded on the principles of an unwavering commitment to service and a dedication to managing fixed income the right way. From its beginning, the firm has held steadfast in its spirit of collaboration—doing what's right for the advisors, investors, and institutions for whom we manage money. We do right by doing right by them—knowing their businesses, understanding their goals, and consistently finding solutions to meet their needs. As an active fixed income manager with a team of investment professionals across tax exempt and taxable strategies, we are dependable, collaborative, and insightful in our approach. Backed by research and emboldened by technology, our hands-on team is a true partner to the advisors, investors, and institutions who give us their trust.