

## EXTERNAL REVIEW

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Sustainability Quality of the Social Assets Portfolio  
Preston Hollow Community Capital  
22 February 2023

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### VERIFICATION PARAMETERS

Type(s) of instruments contemplated	<ul style="list-style-type: none"><li>▪ Social Impact Certificates<sup>1</sup></li></ul>
Relevant standards	<ul style="list-style-type: none"><li>▪ Social Bond Principles (SBP) as administered by the ICMA (as of June 2020)</li></ul>
Scope of verification	<ul style="list-style-type: none"><li>▪ Preston Hollow Community Capital Social Impact Finance Framework (as of May 2021)</li><li>▪ Preston Hollow Community Capital Social Bond Assets Portfolio (as of February 7, 2023)</li></ul>
Lifecycle	<ul style="list-style-type: none"><li>▪ Post-issuance external review</li></ul>
Validity	<ul style="list-style-type: none"><li>▪ Valid as long as the cited Framework and Assets Portfolio remain unchanged</li></ul>

<sup>1</sup> The Social Bonds will be securitized as Social Impact Certificates, totaling U.S 372,758,098, issued by the Public Finance Authority, with distribution dates February 1 and August 1, commencing August 1, 2023, with a maturity date of July 1, 2059.

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## Scope of work<sup>2</sup>

Preston Hollow Community Capital ('PHCC' or 'the Issuer') commissioned ISS Corporate Solutions (ICS) to provide an External Review on its Social Assets Portfolio ('the Portfolio') by assessing:

1. The Portfolio alignment with the Issuer's Social Impact Finance Framework and management of the environmental and social risks – whether the assets are aligned with the Use of Proceeds Categories proposed by the Issuer's Social Impact Finance Framework (May 28, 2021), and how the Issuer performs against proprietary issuance-specific key performance indicators (KPIs) (see Annex 2)<sup>3</sup>.
2. SDG assessment focusing on the categories covered by the Portfolio – whether the project categories contribute positively to the UN SDGs (see Annex 2).
3. Linking the transaction to PHCC's overall ESG Profile and whether PHCC is exposed to any ESG controversies.

## PRESTON HOLLOW COMMUNITY CAPITAL BUSINESS OVERVIEW

Preston Hollow Community Capital is a nonbank financial institution offering customized lending solutions to municipal clients. The company focusses predominantly on real estate, assisted living, education, and other public infrastructure.

<sup>2</sup> As of May 28, 2021, ISS concluded that Preston Hollow Community Capital's Social Impact Finance Framework is aligned with the four core components of the Social Bond Principles. The Second Party Opinion can be found on [ISS Corporate Solutions' website](https://www.isscorporatesolutions.com/spo). No update on the alignment of the Framework with the principles was provided in this External Review report.

<sup>3</sup> No limited or reasonable assurance has been provided through our assessment. The review of the Portfolio has solely been conducted against the criteria outlined in the underlying Framework and based on the information shared by the issuer.

## ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION <sup>4</sup>
<b>Sustainability quality of the Assets Portfolio</b>	<p>The Social Impact Certificates are (re-)financing eligible asset categories including Socioeconomic advancement and empowerment (Projects that expand the reach and improving the quality of education), Access to essential services (Public hospitals, clinics, healthcare centers, health networks, etc. that serve the target vulnerable populations identified as “Target Population” services), Affordable basic infrastructure (Sanitation and sewer treatment facilities, and Mass transit rail) and Employment Generation (Construction or expansion of all project types).</p> <p>We were not able to map c. USD 62.5 million of assets as they relate to bonds aiming to finance various projects that might be mapped to various Use of Proceeds categories.</p> <p>The assets mapped to the Socioeconomic advancement and empowerment and Access to essential services and Affordable basic infrastructure use of proceeds categories have a significant contribution to SDG 3 “Good Health and Well-Being”, SDG 4 “Quality Education” and SDG 6 “Clean Water and Sanitation”, limited contribution to SDG 7 “Affordable and Clean Energy”, SDG 10 “Reduced Inequality” and SDG 13 “Climate Action”. The assets mapped to Employment generation are assessed as having no net impact.</p> <p>The environmental and social risks associated with those use of proceeds categories have been well managed.</p>	<b>Moderate</b>
<b>Linking the transaction(s) to PHC’s overall ESG profile</b>	<p>This section was assessed in the Preston Hollow Community Capital’s Social Financing SPO (as of May 28, 2021) and can be found on <a href="#">ISS Corporate Solutions' website</a>.</p> <p>We also underwent a controversy screening at PHCC level on February 7, 2023.</p>	<b>Positive</b>

<sup>4</sup> The evaluation is based on the analysed Assets Portfolio as received on February 7, 2023 and on the Preston Hollow Community Capital Social Impact Finance Framework (October 2021 version).

## EXTERNAL REVIEW ASSESSMENT

### I. SUSTAINABILITY QUALITY OF THE PORTFOLIO

#### A. ALIGNMENT WITH THE ISSUER'S SOCIAL IMPACT FINANCE FRAMEWORK AND MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISKS

ISS reviewed a total volume of USD 371.6 million of new Social Assets financed between 2015 and 2022.

Based on our assessment, USD 309.1 million comply with the following Use of Proceeds categories listed in the Issuer's Social Impact Finance Framework:

- (i) Socioeconomic advancement and empowerment - Projects that expand the reach and improving the quality of education (USD 106.3 million)
- (ii) Access to essential services - Public hospitals, clinics, healthcare centers, health networks, etc. that serve the target vulnerable populations identified as "Target Population"<sup>5</sup> services (USD 98.1 million)
- (iii) Affordable basic infrastructure - Sanitation and sewer treatment facilities (USD 25.1 million)
- (iv) Employment Generation - Construction or expansion of all project types (USD 79.6 million)<sup>6</sup>

The remaining proceeds (USD 62.5 million) are used to purchase bonds aiming to finance various projects that might be mapped to various Use of Proceeds categories such as Affordable basic infrastructure (Sanitation and sewer treatment facilities), Affordable basic infrastructure (Mass transit Rail), or Employment Generation (Roadway improvements). However, there is limited information available on the exact share of PHC's social certificates proceeds that will be dedicated to each sub-project. Thus, we were not able to map exactly those assets, and, more generally, PHC's social impact certificates proceeds to the Use of Proceeds categories listed in the Issuer's Social Impact Finance Framework<sup>7</sup>.

<sup>5</sup> Population identified in the bond documents include underserved population and aging population.

<sup>6</sup> The four assets (bonds) identified within this category are expected to (re)finance various projects including hotels, parking improvements and sport infrastructures which, according to the publicly available bond documentations, mainly aim at promoting economic deployment and generating new jobs in the regions.

<sup>7</sup> PHC is using the social impact certificates proceeds to finance respectively 83%, 79%, and 42% of the Hunters Ridge CDD, Avenir CDD, and Cherry Hill CDA (Potomac Shores) bonds. Details about those three bonds proceeds are provided in the publicly available bond documentations and we observed that Hunters Ridge CDD and Avenir CDD are respectively dedicating c. 42% and c. 72% of the proceeds to wastewater collection, water drainage and distribution projects, and that Cherry Hill CDA is dedicating 60% of their proceeds to a Mass transit railway station and adjacent on-site parking garage. Still, those three entities will also respectively dedicate c. 26% to Road Construction, c. 15% to Roadway Improvements and c. 22% to State Route Improvement Plan. However, there are limited information available on the exact share of PHC's social certificates proceeds that will be dedicated to each sub-project.

The table below evaluates the Assets Portfolio against issuance specific KPIs. All the assets are located in the United States.

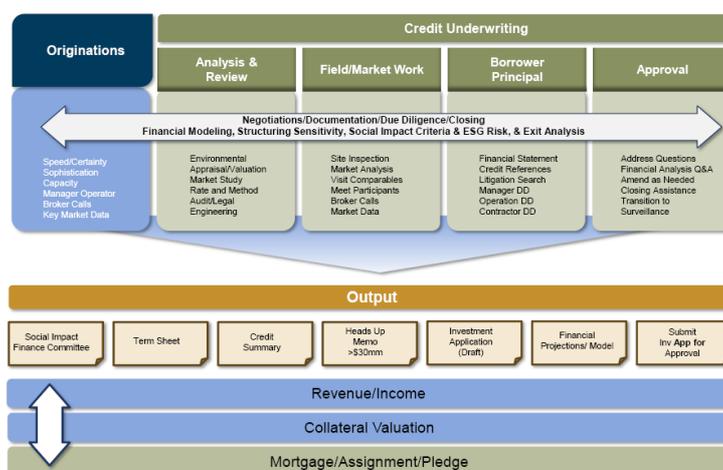
The management of the environmental and social risks is as follows:

## ASSESSMENT AGAINST KPIs

### ESG guidelines into financing process

The Issuer has a Social Impact Finance Committee to evaluate if the projects would meet the ESG criteria within the Issuer’s Framework. The process begins after the public purpose of the project is clearly identified and meets the tax-exempt treatment under federal and state law. The Issuer will communicate with the borrower’s representatives and intermediaries regularly to evaluate the intended use of proceeds against the borrower’s priorities and the Issuer’s Social Impact project categories. This process is ongoing throughout the transaction diligence process (see image of the diligence process below).

When an ESG risk is identified, the Issuer will communicate with the borrower to identify and evaluate solutions to mitigate the risks. Mitigation methods varies according to the borrower and project type and can include actions such as onboarding third-party expert or reallocating project proceeds toward identified mitigants. If the Committee concludes there is a significant likelihood that an identified material ESG risk will occur despite mitigation efforts, the Issuer will withdraw from the project.



### Labour, Health, and Safety

- ✓ The Issuer confirms that all assets are located in the United States of America, an Equator Principles Designated country (countries deemed to have robust environmental and social governance, legislation systems and institutional capacity designed to protect their people and the natural environment)<sup>8</sup>.

### Biodiversity and Community dialogue

- ✓ The Issuer confirms that all assets are in the United States of America, an Equator Principles Designated country (countries deemed to have robust environmental and social governance, legislation systems and institutional capacity designed to protect their people and the natural environment).

<sup>8</sup> [The Equator Principles - Equator Principles Association \(equator-principles.com\)](http://www.equator-principles.com)

### Inclusion<sup>9</sup>



The Issuers states that all of its tax-exempt assets<sup>10</sup> are either public municipal assets or assets that will provide a public benefit. Organizations benefited by these assets are commonly referred to as charitable organizations<sup>11</sup>. While organizations in this group might offer subsidized cost and full cost coverage to essential services (i.e. healthcare and education), access to such services might remain complicated to vulnerable or disadvantaged population due to the high associated cost.

### Responsible treatment of customers with debt repayment problems



The Issuer does not have any policy in place regarding debt restructuring processes with non-detrimental conditions. The Issuer engages with the borrowers regularly during the term of financing transactions and update covenants calculations continuously to limit indebtedness. In addition, the Issuer provides financial support to borrowers that face financial challenges such as sometimes paying for consulting studies or to determine and make recommendations regarding financial and operational improvements.

### Exclusion criteria

PHCC apply exclusion criteria at their Social Impact Finance Framework level, excluding borrowers that derive more than 5% of their revenue from conventional weapons and firearms, tobacco production, gambling or adult entertainment. The Issuer does not have an exclusion policy at group level.

<sup>9</sup> Please note this KPI is only relevant for the following use of proceed categories: Socioeconomic advancement and empowerment, Access to essential services and Affordable basic infrastructure

<sup>10</sup> Internal Revenue Service, Exempt Purposes—Internal Revenue Code Section 501 (c)(3), <https://www.irs.gov/charities-non-profits/charitable-organizations/exempt-purposes-internal-revenue-code-section-501c3>

<sup>11</sup> Internal Revenue Service, Exempt Requirements – 501 (c)(3) Organizations, <https://www.irs.gov/charities-non-profits/charitable-organizations/exemption-requirements-501c3-organizations>

## B. CONTRIBUTION OF THE ASSETS PORTFOLIO TO THE UN SDGS

Companies can contribute to the achievement of the SDGs by providing specific services/products which help address global sustainability challenges, and by being responsible corporate actors, working to minimize negative externalities in their operations along the entire value chain.

The assessment of social assets for (re)financing in products and services is based on a variety of internal and external sources, such as the ISS ESG SDG Solutions Assessment (SDGA), a proprietary methodology designed to assess the impact of an Issuer's products or services on the UN SDGs, as well as other ESG benchmarks (the EU Taxonomy Climate Delegated Acts, the ICMA Green and/or Social Bond Principles and other regional taxonomies, standards and sustainability criteria).

The assessment of Assets Portfolio for (re)financing specific products and services is displayed on 5-point scale (see Annex 1 for methodology):

<b>Significant Obstruction</b>	<b>Limited Obstruction</b>	<b>No Net Impact</b>	<b>Limited Contribution</b>	<b>Significant Contribution</b>
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Each of the Assets Portfolio's Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

ASSETS PORTFOLIO'S USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION <sup>12</sup>	SUSTAINABLE DEVELOPMENT GOALS
<b>Socioeconomic advancement and empowerment</b> <ul style="list-style-type: none"> <li>Projects that expand the reach and improving the quality of education</li> </ul>	<b>Significant contribution</b>	
	<b>Limited Contribution</b>	
<b>Access to essential services</b> <ul style="list-style-type: none"> <li>Public hospitals, clinics, healthcare centers, health networks, etc. that serve the target vulnerable populations identified as "Target Population" services</li> </ul>	<b>Significant Contribution</b>	
	<b>Limited Contribution</b>	
<b>Affordable basic infrastructure</b> <ul style="list-style-type: none"> <li>Sanitation and sewer treatment facilities<sup>13</sup></li> </ul>	<b>Significant Contribution</b>	

<sup>12</sup> As mentioned in section I.A "Alignment with the issuer's social impact finance framework and management of environmental and social risks", there is limited information on the exact share of PHC's social certificates proceeds that will be dedicated to each category.

<sup>13</sup> Please note that there is one asset (bond) which proceeds are fully dedicated to this category while there are two additional assets (bonds) which proceeds are partially financing water related projects (please see section I.A of this report).

	Limited Contribution	 
<b>Employment Generation</b> <ul style="list-style-type: none"> <li>Construction or expansion of all project types<sup>14</sup></li> </ul>	No Net Impact	
<b>Affordable basic infrastructure</b> <ul style="list-style-type: none"> <li>Mass transit rail<sup>15</sup></li> </ul>	Limited Contribution	 

<sup>14</sup> The four assets (bonds) identified within this category are expected to (re)finance various projects including hotels, parking improvements and sport infrastructures which, according to the publicly available bond documentations, mainly aim at promoting economic deployment and generating new jobs in the regions.

<sup>15</sup> Please note that there is one asset (bond) which proceeds are partially dedicated to this category (please see section I.A of this report).

## **II. LINKING THE TRANSACTIONS TO PHCC'S OVERALL ESG PROFILE**

This section was assessed in the Preston Hollow Community Capital's Social Financing SPO (as of May 28, 2021) and can be found on [ISS Corporate Solutions' website](#).

We also underwent a controversy screening at PHC level on February 7, 2023.

## DISCLAIMER

1. Validity of the External Review (“External Review”): Valid as long as the cited Framework and Assets Portfolio remain unchanged
2. ISS Corporate Solutions, Inc. (“ICS”), a wholly-owned subsidiary of Institutional Shareholder Services Inc. (“ISS”), sells/distributes External Reviews which are prepared and issued by ISS ESG, the responsible investment arm of ISS, on the basis of ISS ESG’s proprietary methodology. In doing so, ISS adheres to standardized procedures to ensure consistent quality of responsibility research worldwide. Information on ISS’s methodology is available upon request.
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## ANNEX 1: Alignment of the framework with the Social Bond Principles

As of May 28, 2021, ISS concluded that Preston Hollow Community Capital's Social Impact Finance Framework is aligned with the four core components of the Social Bond Principles. The Second Party Opinion can be found on [ISS Corporate Solutions' website](https://www.isscorporatesolutions.com/spo).

## ANNEX 2: Methodology

### Social KPIs

The Social Bond KPIs serve as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of Preston Hollow Community Capital’s Social Impact Finance Framework.

It comprises firstly the definition of the use of proceeds category offering added social and/or environmental value, and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance of the assets can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the assets, and which can also be used for reporting. If a majority of assets fulfill the requirement of an indicator, this indicator is then assessed positively. Those indicators may be tailor-made to capture the context-specific environmental and social risks.

### Environmental and social risks assessment methodology

The Environmental and social risks assessment evaluates whether the assets included in the assets portfolio match the eligible project category and criteria listed in the Social Bond KPIs.

All percentages refer to the amount of assets within one category (e.g. wind power). Additionally, the assessment “no or limited information is available” either indicates that no information was made available or that the information provided did not fulfil the requirements of the Social Bond KPIs.

The evaluation was carried out using information and documents provided on a confidential basis by Preston Hollow Community Capital (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by the Issuer.

### Assessment of the contribution and association to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, the extent to which Preston Hollow Community Capital’s social bonds contribute to related SDGs has been identified.

## About this SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

For more information on SPO services, please contact: [SPOsales@isscorporatesolutions.com](mailto:SPOsales@isscorporatesolutions.com)

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### Project team

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