School Improvement Partnership Report

Social Bond Verifications

Do Municipal Market Participants Value 2nd Party Opinions?

SCHOOL IMPROVEMENT PARTNERSHIP

Investors Value 2nd Party Opinions

- "When bonds are ESG-Labeled (Green, Social, Sustainability) by the issuers without an independent certification, there tends to be less confidence that industry standards are being met." ***Goldman Sachs Asset Management***[1]
- "GSS (Green, Social, and Sustainability) labeled bonds with independent reviews tend to offer the most transparency, information about use of proceeds, and post-issuance reporting to investors, and we see independent reviews as a best practice", ***PIMCO***[2]
- "We continue to note the increase in the use of independent certification which we believe will promote the growth of disclosure and reporting standardization among issuers and in the market, in general", ***MacKay Municipal Managers***[3]
- "(we) Prefer that every bond issue has a third-party opinion on the merits of an ESG/Green bond designation", ***1919 Investment Counsel***[4]

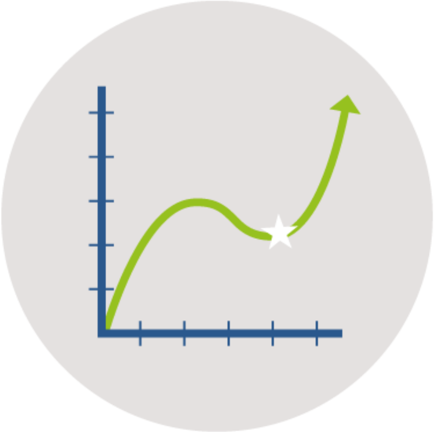
1,2,3,4 See Appendix I for citations

Other Market Participants Prefer 2nd Party Opinions Too

- “Many of the ESG approaches permit self-certification that the municipal issuer is in compliance with ESG standards. This raises lots of questions about how rigorous the self-examination is and whether the reporting is sufficient”, ***AGVP Advisory***[5]
- “ICE supports industry best practices in the further use and development of these labels to ensure a degree of standardization and understanding of the assets. This also supports the important aspect of independent verification of these labels by a third party, something which is increasingly important to prevent the perception and reality of greenwashing”, ***ICE***[6]
- “The number one systemic risk to the municipal securities market is “greenwash” defined as the loss of market confidence due to the lack of evidence-based verification of specific conformance to self-declared requirements, accepted industry standards or compliance with official government regulations for pre- as well as post-issuance of Muni ESG Bonds”, ***First Environment***[7]
- *“*voluntary reporting does not set mandatory performance standards nor require that issuers adhere to tracking, measuring, and reporting any metrics regarding the ESG-Labeled Bonds…this phenomenon has the potential to create risks for investors if an ESG-Labeled Bond reflects inadequate or insufficient attention to the measurement and reporting of performance indicators aligned with the ESG designation”, ***Public Finance Initiative***[8]

5,6,7,8 See Appendix I for citations

Growing Evidence of Pricing Benefit



- "On taxable bond issuances, the ***SFPUC has observed an estimated 3-5 basis points of savings for its green bonds versus non-green bonds.*** Additionally, the SFPUC has received multiple awards for its ESG leadership generating **reputational benefits**. Rating agencies and investors increasingly view our investments in resilient infrastructure and also in our community's resilience as a credit strength. Lastly, green bonds have enabled the SFPUC to **broaden its investor base** and enable deeper engagement with bondholders.", San Francisco Public Utilities Commission[9]
- "This (Oberlin College) issue illustrates the savings from going green. The two tranches of bonds are nearly identical in structure — both are taxable and have a 30-year tenure, both are unsecured general obligation bonds. ***The $80 million in green bonds carry an interest rate of 2.87%, while the traditional bonds carry a 2.92% rate. That's a greenium***", Climate Capital and Media[10]
- Boston's green bonds in 2020 carried a 3-basis point premium over similarly structured non-green bonds priced issued at the same time: "According to Bank of America, ***the pricing strategy…resulted in the widest green bond pricing benefit on the 5% green bonds (3 basis points) in the US municipal market to date***.", Environmental Finance.[11]

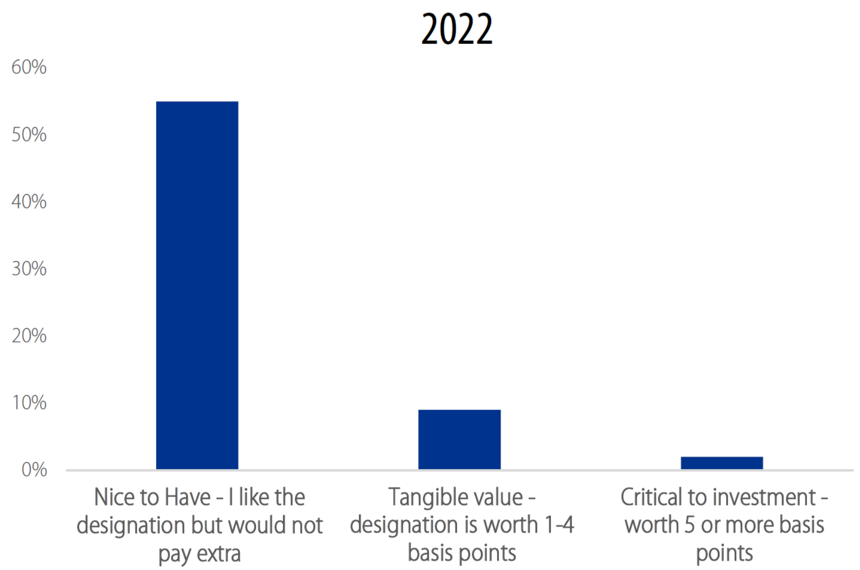
9,10,11 See Appendix I for citations

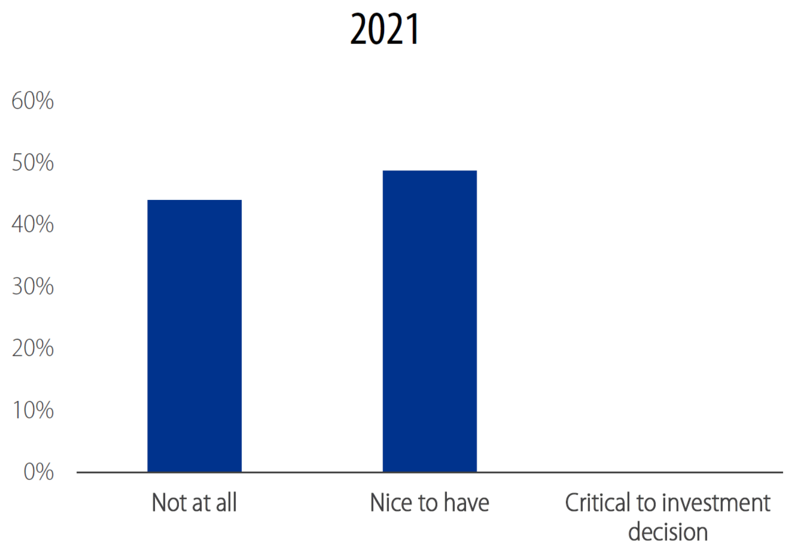
Growing Evidence of Pricing Benefit

A 2022 survey by Hilltop shows a remarkable shift this year in the value placed on labeled bonds and the willingness to pay a premium

How important is the green bond designation to your investment in a High Yield credit? (Choose One)

This is a question that showed movement between surveys. In 2022, almost 60% responded that the designation is nice to have, 10% responded that the designation has a tangible value of 1-4 basis points and 2% said the designation is critical and worth 1-5 basis points. To compare, in the 2021 survey, 45% of responders stated that they do not consider the Green bond designation in their decisions, 45% said it is nice to have, and no respondent reported that it was critical to their investment decision. As we reflect upon this change in sentiment, the cause could be attributed to the proliferation of bonds with an ESG designation or the widening of spread that we have seen over the last six months which has allowed for better investor economics.





School Improvement Partnership Social Bond Verification

Social Bond Verifications for Charter Schools

School Improvement Partnership is the only provider of social bond verifications that specializes in the charter school sector.

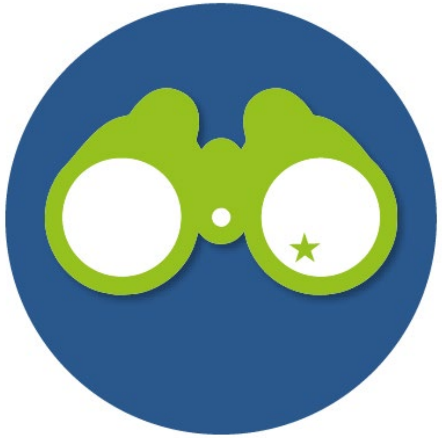
- We are the first to combine:
  - Rigorous research-based, practice-informed measurement of social impact developed by the charter school industry’s leading experts;
  - Alignment with globally recognized frameworks including U.N. Sustainable Development Goals (UNSDG) and the International Capital Markets Association’s (ICMA) social bond principles; and
  - The opportunity for investors to track the social impact of charter school bonds over time

Social Bond Verifications for Charter Schools

Alignment with global frameworks

- International Capital Markets Association (ICMA) Social Bond Principles
  - Use of proceeds
  - Process for project evaluation and selection
  - Management of proceeds
  - Reporting
- United Nations Sustainable Development Goals (UN SDG)
  - UN SDG #4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
  - UN SDG #8: Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all
  - UN SDG #10: Reduce inequality within and among countries

Data-Driven But Flexible Process



Social impact is multifaceted; there are many ways to demonstrate high social impact.

- Our second party opinion focuses on measures and practices most relevant for each school, aligned with globally recognized frameworks
    - We use publicly available data to set a baseline of consistent measurement, supplemented by the school's policies and practices, and critical context provided by management
    - The school determines the most relevant UN SDG(s) and provides only the data not already available from public sources
- Easy-to-use drag and drop fillable questionnaire
- Same drag and drop annual surveillance process; prior year data pre-filled

Appendix I - Citations

Citations

1. Goldman Sachs Asset Management, March 2022 response to MSRB RFI
2. PIMCO, March 4, 2022, response to MSRB RFI
3. MacKay Municipal Managers, March 2022 response to MSRB RFI
4. 1919 Investment Counsel, March 2022 response to MSRB RFI
5. AGVP Advisory, Jan. 18, 2022, response to MSRB RFI
6. Intercontinental Exchange (ICE), March 14, 2022, response to MSRB RFI
7. First Environment, March 2022 response to MSRB RFI
8. Public Finance Initiative, March 8, 2022, response to MSRB RFI
9. San Francisco Public Utilities Commission, response to MSRB RFI
10. Green Bonds Put College on Fast Track to Net Zero, Climate Capital and Media, Aug. 13, 2021
11. Environmental Finance, Lead Manager of the Year Awards (Boston green bond case study), 2020

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