

## SECOND PARTY OPINION (SPO)

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Sustainability Quality of the Issuer and Social Impact Finance Framework

Preston Hollow Community Capital  
May 28, 2021

### VERIFICATION PARAMETERS

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Type(s) of instruments contemplated	<ul style="list-style-type: none"><li>• Social Financing</li></ul>
Relevant standards	<ul style="list-style-type: none"><li>• SBPs</li></ul>
Scope of verification	<ul style="list-style-type: none"><li>• Preston Hollow Community Capital's Social Impact Finance (as of May 2021)</li></ul>
Lifecycle	<ul style="list-style-type: none"><li>• Pre-issuance verification</li></ul>
Validity	<ul style="list-style-type: none"><li>• As long as no material changes are made to Preston Hollow's Social Impact Finance Framework and Selection Criteria</li></ul>

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## Scope of work

Preston Hollow Community Capital commissioned ISS ESG to assist with its Social Financing by assessing three core elements to determine the sustainability quality of the instrument:

1. Social Financing link to Preston Hollow Community Capital's sustainability strategy – drawing on Preston Hollow Community Capital's overall sustainability profile and issuance-specific Use of Proceeds categories.
2. Preston Hollow Community Capital's Social Impact Finance Framework (May 2021 version) – benchmarked against the International Capital Market Association's (ICMA) Social Bond Principles (SBPs).
3. The Selection Criteria – whether the projects contribute positively to the UN SDGs and perform against ISS ESG's issue-specific key performance indicators (KPIs) (See Annex 2).

The company is planning an equity capital raise that will facilitate financings under this framework. ISS ESG assessed the framework and Selection Criteria in compliance with the SBPs, as these principles reflect the best market practices for impact and transparency relating to social impact financing.

## ISS ESG ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION <sup>1</sup>
<p><b>Part 1:</b></p> <p><b>Social Financing link to issuer's sustainability strategy</b></p>	<p>Preston Hollow Community Capital is a market leader in providing specialized financing solutions for projects of significant social and economic importance to local communities in the United States. Local governments, institutions of higher education, not-for-profit entities, and other borrowers use the financing PHCC provides to fund the development of infrastructure, education, healthcare, and other projects that renew and improve local communities or support sustainable economic growth.</p> <p>The Use of Proceeds financed through this strategy are consistent with the issuer's sustainability strategy and material ESG topics for the Specialized Finance industry. The rationale for issuing social financing is clearly described by the issuer.</p>	<p><b>Consistent with issuer's sustainability strategy</b></p>
<p><b>Part 2:</b></p> <p><b>Alignment with SBPs</b></p>	<p>The issuer has defined a formal concept for its Social financing regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the SBPs.</p>	<p><b>Aligned</b></p>
<p><b>Part 3:</b></p> <p><b>Sustainability quality of the Selection Criteria</b></p>	<p>The overall sustainability quality of the Selection Criteria in terms of sustainability benefits, risk avoidance and minimization is good based upon the ISS ESG assessment. The Social Financing will (re-)finance eligible asset categories which include: affordable basic infrastructure, access to essential services, affordable housing, employment generation, and socioeconomic advancement and empowerment</p> <p>Those use of proceeds categories have a significant contribution to SDGs 3 'Good health and well-being', 6 'Clean water and sanitation', and 10 'Reduced inequalities', and a limited contribution to SDG 4 'Quality education'. The environmental and social risks associated with those use of proceeds categories have been well managed.</p>	<p><b>Positive</b></p>

<sup>1</sup> ISS ESG's evaluation is based on the Preston Hollow Community Capital's Social Impact Finance Framework (May 2021 version), on the analysed Selection Criteria, and on the ISS ESG Indicative Corporate Rating applicable at the SPO delivery date (May 2021).

## ISS ESG SPO ASSESSMENT

### PART I: SOCIAL FINANCING LINK TO PRESTON HOLLOW COMMUNITY CAPITAL'S SUSTAINABILITY STRATEGY

#### A. ASSESSMENT OF PRESTON HOLLOW COMMUNITY CAPITAL'S INDICATIVE SUSTAINABILITY PROFILE

*Methodological note:* Please note that Preston Hollow Community Capital is not part of the ISS ESG Corporate Rating Universe. Thus, the below sustainability profile is an assessment conducted by the analyst in charge of the 'Specialized Finance' sector, based primarily on publicly available information. No direct communication between the issuer and the analyst has taken place during the process. The below is not based on an ISS ESG Corporate Rating, but considers ISS ESG Research's methodology.

**Industry classification:** Specialized Finance

**Key Issues of the industry:**

1. Sustainability impacts of lending and other financial services/products
2. Customer and product responsibility
3. Products and services with social and environmental benefits
4. Labor standards and working conditions

**Indicative ESG risk and performance assessment:**

Preston Hollow Community Capital is a nonbank financial institution offering customized lending solutions to municipal clients. The company focuses predominantly on real estate, assisted living, education, and other public infrastructure. It does no consumer lending.

As a financial services company, Preston Hollow Community Capital faces sustainability risks with respect to sustainability impacts of the assets financed, but also customer and product responsibility, and its own staff. With respect to financed assets, the company has in place procedures for social risk and impact assessments, monitoring and supervision. Furthermore, some social exclusion criteria are defined. It appears, that these measures and criteria cover the majority of the portfolio. Clearly defined environmental and social minimum standards for borrowers appear to be missing. Further, the company does not present any management approach with respect to customer and product responsibility by e.g., committing to responsible sales and marketing practices, or setting up an information security management system. Staff related risks, such as mental health, work life balance and diversity remain equally unaddressed. However, the company's workforce is placed in the US, which has high regulatory standards with respect to diversity and health and safety. Due to the focus on public sector projects, Preston Hollow Community Capital has an increased risk exposure with respect to business ethics. The company's code of conduct addresses most relevant topics in varying degrees of detail, while the company's compliance procedures do not seem to include measures beyond business ethics awareness measures and non-compliance reporting mechanisms.

### *Sustainability impact of products and services portfolio*

- **Social impact of the product portfolio:**

Based on limited information on the loan and investment portfolio of Preston Hollow Capital, it is estimated that shares of these portfolios are related to the financing of education, healthcare, and affordable housing. 87% of the company's portfolio is comprised of tax-exempt revenue bonds issued by local governments and not-for-profit organizations. This implies that those investments advance community priorities of the issuers, which may include economic development and public infrastructure. Moreover, the use of proceeds categories in the company's Social Impact Finance Framework represent its product portfolio. These categories have been assessed as having positive impacts toward good health and well-being, clean water and sanitation, reduced inequalities, and quality education.<sup>2</sup>

- **Environmental impact of the product portfolio:**

Based on the company's business model it could have a positive environmental impact by financing energy efficient buildings. However, no such information is available, which is why the environmental impact is considered neutral.

### *Breaches of international norms and ESG controversies*

Based on a review of controversies in the period of 1 January 2019 – 19 May 2021, the greatest risk reported against companies operating in the Specialized Finance industry relate to activities that may have adverse impacts on the human rights and environment. This is closely followed by activities related to business malpractice. The top three issues that have been reported against companies within the industry are as follows: alleged failure to respect consumers' rights, failure to assess environmental impacts and deceptive misleading and fraudulent practices. This is closely followed by alleged failure to mitigate climate change impacts, failure to respect the right to an adequate standard of living and failure to prevent bribery. No controversies of this nature have been identified for Preston Hollow Community Capital.

## **B. CONSISTENCY OF SOCIAL FINANCING WITH PRESTON HOLLOW COMMUNITY CAPITAL'S STRATEGY**

### *Key sustainability objectives and priorities defined by the issuer*

Preston Hollow Community Capital has been providing specialized financing solutions for projects of significant social and economic importance to local communities in the United States.

Preston Hollow's origination process focuses on opportunities to finance projects with the potential to create measurable social benefits, characterized by the following pillars:

- Be Active and Intentional
- Use Impact Data in our Origination and Underwriting Process
- Monitor Impact Performance
- Invest Across Asset Classes

<sup>2</sup> The social impact assessment of the use of proceeds categories in Preston Hollow Community Capital's Social Impact Finance Framework was conducted as part of the SPO. This assessment was not conducted by the ISS ESG Corporate Rating division.

Its borrowers aim to solve societal problems and address local needs and opportunities. In order to design their investment practices, Preston Hollow’s community impact origination and underwriting process uses evidence and data where available. In order to ensure transparency and accountability, they work with the borrowers to develop measures of impact performance and monitor them throughout the life of the investment

In order to ensure the robustness of its commitment, it might benefit Preston Hollow Community Capital to set specific and quantified targets to match their vision.

*Rationale for Issuance*

Preston Hollow Community Capital focuses on community impact investing across a broad range of asset classes, including economic development, infrastructure, healthcare, education, and affordable housing. This allows for diversification of their portfolio while enabling them to deliver expertise in impact financing to a wide range of local governments, institutions of higher education, and nonprofit borrowers. Their Social Impact Finance Framework will allow them to raise financing for all eligible projects across

- Affordable basic infrastructure
- Access to essential services
- Affordable housing
- Employment generation
- Socioeconomic advancement and empowerment

*Contribution of Use of Proceeds categories to sustainability objectives and priorities*

ISS ESG mapped the Use of Proceeds categories financed under this Social Financing with the sustainability objectives defined by the issuer, and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the Specialized Finance sector. Key ESG industry challenges are key issues that are highly relevant for a respective industry to tackle when it comes to sustainability, e.g. climate change and energy efficiency in the buildings sector. From this mapping, ISS ESG derived a level of contribution to the strategy of each Use of Proceeds category.

USE OF PROCEEDS CATEGORY	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
<b>Affordable basic infrastructure</b>	✓	✓	Contribution to a material objective
<b>Access to essential services</b>	✓	✓	Contribution to a material objective
<b>Affordable housing</b>	✓	✓	Contribution to a material objective
<b>Employment generation</b>	✓	✓	Contribution to a material objective

<b>Socioeconomic advancement and empowerment</b>	✓	✓	Contribution to a material objective
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**Opinion:** *ISS ESG finds that the Use of Proceeds financed through this strategy are consistent with the issuer’s sustainability strategy and material ESG topics for the issuer’s industry. The rationale for developing the Social Impact Finance Framework is clearly described by the issuer.*

## PART II: ALIGNMENT WITH THE SOCIAL BOND PRINCIPLES

### 1. Use of Proceeds

Preston Hollow Community Capital will finance eligible Social Projects, in whole or in part, that address or mitigate specific social issues and seek to achieve positive social outcomes. The cornerstone of the Social Impact Finance investment is the utilization of the net proceeds for Social Projects. All proceeds will be allocated to the financing and refinancing of Social Projects as defined in this Framework. A representative list of Social Project categories that we will consider is shown below:

SBP Category <sup>3</sup>	Eligible Projects	Target Population
Affordable basic infrastructure	<ul style="list-style-type: none"> <li>▪ Mass transit rail</li> <li>▪ Residential, commercial, industrial and mixed-use development public infrastructure – streets, water, sewer, storm management, etc</li> <li>▪ Sanitation and sewer treatment facilities</li> <li>▪ Aquifers and other groundwater projects that deliver water to underserved areas</li> <li>▪ Telephone, internet, and other digital infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>▪ Living below the poverty line</li> <li>▪ Excluded and/or marginalized populations and /or communities</li> <li>▪ People with disabilities</li> <li>▪ Underserved, owing to a lack of quality access to essential goods and services</li> <li>▪ Aging populations and vulnerable youth</li> </ul>
Access to essential services	<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”</li> <li>▪ CCRC, senior living, assisted living and memory care facilities</li> <li>▪ Educational and vocational training centers for medical, public health and emergency response professionals</li> <li>▪ Residential and mixed-use communities with “healthy living” themes such as improved pedestrian and bike opportunities; increased mobility and traffic safety; increased safety and security; and improved access to health care.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Living below the poverty line</li> <li>▪ Excluded and/or marginalized populations and /or communities</li> <li>▪ People with disabilities</li> <li>▪ Migrants and /or displaced persons</li> <li>▪ Underserved, owing to a lack of quality access to essential goods and services</li> <li>▪ Aging populations and vulnerable youth</li> </ul>
Affordable housing	<ul style="list-style-type: none"> <li>▪ Workforce housing</li> </ul>	<ul style="list-style-type: none"> <li>▪ Living below the poverty line</li> </ul>

<sup>3</sup> For the SBP categories defined in this table, PHCC will finance the design and construction, and refurbishing of projects that focus on the defined SBP categories.

	<ul style="list-style-type: none"> <li>▪ Affordable housing projects (Section 42, LIHTC)</li> <li>▪ CCRC, senior living, assisted living and memory care facilities</li> </ul>	<ul style="list-style-type: none"> <li>▪ Excluded and/or marginalized populations and /or communities</li> <li>▪ People with disabilities</li> <li>▪ Migrants and /or displaced persons</li> <li>▪ Underserved, owing to a lack of quality access to essential goods and services</li> <li>▪ Unemployed</li> <li>▪ Aging populations and vulnerable youth</li> <li>▪ Other vulnerable groups, including as a result of natural disasters</li> </ul>
<p>Employment generation</p>	<ul style="list-style-type: none"> <li>▪ Projects that foster quality job creation for the target population and business growth in underserved and undercapitalized communities, such as LMI or LMI-adjacent census tracts <ul style="list-style-type: none"> <li>○ Mixed-use developments</li> <li>○ Industrial development</li> <li>○ Retail centers</li> </ul> </li> <li>▪ Construction or expansion of all project types</li> </ul>	<ul style="list-style-type: none"> <li>▪ Living below the poverty line</li> <li>▪ Excluded and/or marginalized populations and /or communities</li> <li>▪ People with disabilities</li> <li>▪ Undereducated</li> <li>▪ Underserved, owing to a lack of quality access to essential goods and services</li> <li>▪ Unemployed</li> </ul>
<p>Socioeconomic advancement and empowerment</p>	<ul style="list-style-type: none"> <li>▪ Projects that expand the reach and improving the quality of education <ul style="list-style-type: none"> <li>○ Schools, Charter Schools, Colleges, Universities</li> <li>○ Teaching Hospitals</li> </ul> </li> <li>▪ Affordable Student and Faculty Housing</li> </ul>	<ul style="list-style-type: none"> <li>▪ Living below the poverty line</li> <li>▪ Excluded and/or marginalized populations and /or communities</li> <li>▪ People with disabilities</li> <li>▪ Undereducated</li> <li>▪ Underserved, owing to a lack of quality access to essential goods and services</li> <li>▪ Unemployed</li> <li>▪ Women and/or sexual and gender minorities</li> <li>▪ Aging populations and vulnerable youth</li> </ul>

As per ICMA guidelines, Preston Hollow Community Capital will identify and manage potential material and social risks associated with the eligible projects outlined in the Framework.

Under our exclusion criteria, we will not intentionally invest in borrowers that derive more than 5% of their revenue from conventional weapons and firearms, tobacco production, gambling or adult entertainment. These exclusion criteria may evolve over time

**Opinion:** *ISS ESG considers the Use of Proceeds description provided by Preston Hollow Community Capital's Social Impact Finance Framework as aligned with the SBPs. The projects selected show alignment with the sustainability strategy of the issuer. Moreover, the issuer has defined an exclusion criteria for this framework, which is considered best market practice.*

## 2. Process for Project Evaluation and Selection

Projects financed through the net proceeds of the Social Impact Finance instruments issued under this Framework are evaluated and selected based on compliance with the Social Impact Finance eligibility criteria outlined above. Preston Hollow Community Capital has established an inter-departmental Social Impact Finance Committee (the "Committee") which is responsible to oversee the selection, evaluation and monitor of Eligible Social Projects. The Committee is chaired by Preston Hollow's Head of Fixed Income and its members are our Chief Financial Officer, our Head of Corporate Development, our Co-Heads of Origination, and our Co-Heads of Credit.

The Committee will be responsible to ensure project eligibility and will manage the allocation of proceeds to Eligible Social Projects. The Committee will monitor the Eligible Social Project Portfolio and will exclude projects that no longer comply with the eligibility criteria or have been disposed of and will replace them in the ordinary course of our business on a best-efforts basis. An independent auditor or accredited verifier will review the alignment of financed projects with the eligibility criteria of this Framework.

In accordance with ICMA guidelines, Preston Hollow Community Capital will be transparent about projects with partial eligibility and disclose whether, and to what extent, we accept partial eligibility.

**Opinion:** *ISS ESG considers the Process for Project Evaluation and Selection description provided by Preston Hollow Community Capital's Social Impact Finance Framework as aligned with the SBPs. A formal Social Impact Finance Committee is in place with relevant and diversified stakeholders, and responsibilities have been clearly outlined.*

## 3. Management of Proceeds

Preston Hollow Community Capital intends deploy the proceeds of Social Impact Finance transactions to finance or refinance Eligible Social Projects, selected in accordance with the eligibility criteria, and using the evaluation and selection process outlined above.

Preston Hollow Community Capital will set up an internal process to earmark and track the allocation of outstanding Social Impact Finance net proceeds to Eligible Social Projects. The Social Project Portfolio will be reviewed by the Social Impact Finance Committee and will be updated at least annually. On a best-efforts basis, Preston Hollow Community Capital intends to replace projects that no longer comply with the Eligibility Criteria or otherwise exits Preston Hollow Community Capital's

portfolio. Preston Hollow Community Capital strives to maintain an amount of Eligible Social Assets at least equal to the total net proceeds of all social impact financings outstanding.

The net proceeds of all Social Impact Finance transactions will directly fund the Social Projects. Preston Hollow Community Capital will not intentionally invest unallocated capital in projects or activities which are incompatible with the Social Impact Finance mission of Preston Hollow Community Capital or which are directly or indirectly generating significant adverse social impacts.

**Opinion:** *ISS ESG finds that Management of Proceeds proposed by Preston Hollow Community Capital’s Social Impact Finance Framework is well aligned with the SBPs. The proceeds are appropriately tracked, and the temporary investments are disclosed.*

#### 4. Reporting

Preston Hollow Community Capital is committed to be as transparent as possible and is committed to publish relevant information and documents regarding our Social Impact Finance activities. Preston Hollow Community Capital will provide an Allocation Report to inform about the allocation of proceeds as well as an Impact Report to communicate the positive impact of financed social projects. Both reports will be made available within one year from the issuance of any Social Impact Finance instrument and will be updated annually in perpetuity. [The reporting will be available on Preston Hollow Community Capital’s homepage: <https://phcllc.com/>]

##### Allocation reporting

- Total amount of outstanding Social Impact Finance investments
- Details of financed projects
- Share of proceeds used for financing or refinancing social assets
- Balance of unallocated net proceeds

##### Impact reporting

On a best-efforts basis, Preston Hollow Community Capital intends to report on the social impacts achieved by Eligible Social Projects funded. The impact reporting will include a description of Eligible Social Projects and relevant impact metrics such as listed below. Where relevant, information may be provided on data reporting and impact assessment methodologies to increase transparency.

Project Category	KPI
Affordable basic infrastructure and access to essential services	Potential Populations/Geographies Served <ul style="list-style-type: none"> <li>▪ Low- or moderate-income geographies</li> <li>▪ Designated disaster areas</li> <li>▪ Opportunity Zones</li> <li>▪ Low- or moderate-income individuals or families</li> <li>▪ Persons with disabilities</li> <li>▪ Senior citizens</li> <li>▪ Historically disadvantaged groups</li> </ul>

	<ul style="list-style-type: none"> <li>▪ Veterans</li> </ul> <p>Potential Impact Indicators</p> <ul style="list-style-type: none"> <li>▪ Number of patients reached (health care)</li> <li>▪ Hospital bed density (health care)</li> <li>▪ Ridership (transportation)</li> <li>▪ Number of beneficiaries served by water, sewer, sanitation systems</li> </ul>
Affordable housing	<p>Potential Populations/Geographies Served</p> <ul style="list-style-type: none"> <li>▪ Low- or moderate-income geographies</li> <li>▪ Low- or moderate-income individuals or families</li> <li>▪ Opportunity Zones</li> <li>▪ Persons with disabilities</li> <li>▪ Senior citizens</li> <li>▪ Historically disadvantaged groups</li> <li>▪ Veterans</li> </ul> <p>Potential Impact Indicators</p> <ul style="list-style-type: none"> <li>▪ Number of projects</li> <li>▪ Number of housing units created or rehabilitated</li> <li>▪ Number and demography of tenants</li> <li>▪ Construction and full-time jobs created</li> <li>▪ Number of units set aside for special needs populations</li> </ul>
Employment generation	<p>Potential Populations/Geographies Served</p> <ul style="list-style-type: none"> <li>▪ Low- or moderate-income individuals or families</li> <li>▪ Persons with disabilities</li> <li>▪ Senior citizens</li> <li>▪ Historically disadvantaged groups</li> <li>▪ Veterans</li> </ul> <p>Potential Impact Indicators</p> <ul style="list-style-type: none"> <li>▪ Number of full-time equivalent jobs created</li> <li>▪ Number of part-time jobs created</li> <li>▪ Number of employed project beneficiaries</li> </ul>
Socioeconomic advancement and empowerment	<p>Potential Populations/Geographies Served</p> <ul style="list-style-type: none"> <li>▪ Low- or moderate-income individuals or families</li> <li>▪ Persons with disabilities</li> </ul>

	<ul style="list-style-type: none"> <li>▪ Senior citizens</li> <li>▪ Historically disadvantaged groups</li> <li>▪ Veterans</li> </ul> <p>Potential Impact Indicators</p> <ul style="list-style-type: none"> <li>▪ Number of students from target populations reached</li> <li>▪ Number of women in higher education (as a proportion of total in higher education)</li> </ul>
Affordable basic infrastructure and access to essential services	<p>Potential Populations/Geographies Served</p> <ul style="list-style-type: none"> <li>▪ Low- or moderate-income geographies</li> <li>▪ Designated disaster areas</li> <li>▪ Opportunity Zones</li> <li>▪ Low- or moderate-income individuals or families</li> <li>▪ Persons with disabilities</li> <li>▪ Senior citizens</li> <li>▪ Historically disadvantaged groups</li> <li>▪ Veterans</li> </ul> <p>Potential Impact Indicators</p> <ul style="list-style-type: none"> <li>▪ Number of patients reached (health care)</li> <li>▪ Hospital bed density (health care)</li> <li>▪ Ridership (transportation)</li> <li>▪ Number of beneficiaries served by water, sewer, sanitation systems</li> </ul>
Affordable housing	<p>Potential Populations/Geographies Served</p> <ul style="list-style-type: none"> <li>▪ Low- or moderate-income geographies</li> <li>▪ Low- or moderate-income individuals or families</li> <li>▪ Opportunity Zones</li> <li>▪ Persons with disabilities</li> <li>▪ Senior citizens</li> <li>▪ Historically disadvantaged groups</li> <li>▪ Veterans</li> </ul> <p>Potential Impact Indicators</p> <ul style="list-style-type: none"> <li>▪ Number of projects</li> <li>▪ Number of housing units created or rehabilitated</li> <li>▪ Number and demography of tenants</li> <li>▪ Construction and full-time jobs created</li> </ul>

	<ul style="list-style-type: none"> <li>▪ Number of units set aside for special needs populations</li> </ul>
Employment generation	<p>Potential Populations/Geographies Served</p> <ul style="list-style-type: none"> <li>▪ Low- or moderate-income individuals or families</li> <li>▪ Persons with disabilities</li> <li>▪ Senior citizens</li> <li>▪ Historically disadvantaged groups</li> <li>▪ Veterans</li> </ul> <p>Potential Impact Indicators</p> <ul style="list-style-type: none"> <li>▪ Number of full-time equivalent jobs created</li> <li>▪ Number of part-time jobs created</li> <li>▪ Number of employed project beneficiaries</li> </ul>
Socioeconomic advancement and empowerment	<p>Potential Populations/Geographies Served</p> <ul style="list-style-type: none"> <li>▪ Low- or moderate-income individuals or families</li> <li>▪ Persons with disabilities</li> <li>▪ Senior citizens</li> <li>▪ Historically disadvantaged groups</li> <li>▪ Veterans</li> </ul> <p>Potential Impact Indicators</p> <ul style="list-style-type: none"> <li>▪ Number of students from target populations reached</li> <li>▪ Number of women in higher education (as a proportion of total in higher education)</li> </ul>

**Opinion:** ISS ESG finds that the reporting proposed by Preston Hollow Community Capital’s Social Impact Finance Framework is aligned with the SBPs. The issuer has clearly defined the scope and level of reporting.

**External review**

Preston Hollow Community Capital has engaged ISS ESG, an external verifier, to review the Social Impact Finance Framework. The independent Second Party Opinion on the Framework’s social impact credentials and its alignment with the Social Bond Principles has been received from ISS ESG. The document will be available on Preston Hollow Community Capital’s website [<https://phcllc.com/>].

On an annual basis, a consultant with recognized social impact expertise will review the proceeds allocation from our Social Impact Finance issuance, the project selection process, and allocations in accordance with the Social Bond Framework.

## PART III: SUSTAINABILITY QUALITY OF THE ISSUANCE

### A. CONTRIBUTION OF THE SOCIAL FINANCING TO THE UN SDGs

Based on the assessment of the sustainability quality of the Social Financing Selection Criteria and using a proprietary methodology, ISS ESG assessed the contribution of the Preston Hollow Community Capital's Social Financing to the Sustainable Development Goals defined by the United Nations (UN SDGs).

This assessment is displayed on 5-point scale (see Annex 2 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 Social Financing's Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<b>Affordable basic infrastructure</b> <ul style="list-style-type: none"> <li>Mass transit rail</li> </ul>	<b>Significant Contribution</b>	
<b>Affordable basic infrastructure</b> <ul style="list-style-type: none"> <li>Residential, commercial, industrial and mixed-use development public infrastructure – streets, water, sewer, storm management, etc</li> </ul>	<b>Significant Contribution</b>	 
<b>Affordable basic infrastructure</b> <ul style="list-style-type: none"> <li>Sanitation and sewer treatment facilities</li> <li>Aquifers and other groundwater projects that deliver water to underserved areas</li> </ul>	<b>Significant Contribution</b>	 
	<b>Limited Contribution</b>	
<b>Affordable basic infrastructure</b> <ul style="list-style-type: none"> <li>Telephone, internet, and other digital infrastructure</li> </ul>	<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"</li> </ul>	<b>Significant Contribution</b>	 

<p><b>Access to essential services</b></p> <ul style="list-style-type: none"> <li>• <i>CCCR, senior living, assisted living and memory care facilities</i></li> </ul>	<p><b>Limited Contribution</b></p>	
<p><b>Access to essential services</b></p> <ul style="list-style-type: none"> <li>• <i>Educational and vocational training centers for medical, public health and emergency response professionals</i></li> </ul>	<p><b>Limited Contribution</b></p>	
<p><b>Access to essential services</b></p> <ul style="list-style-type: none"> <li>• <i>Residential and mixed-use communities with “healthy living” themes such as improved pedestrian and bike opportunities; increased mobility and traffic safety; increased safety and security; and improved access to health care.</i></li> </ul>	<p><b>Limited Contribution</b></p>	
<p><b>Affordable housing</b></p> <ul style="list-style-type: none"> <li>• <i>Provision of affordable housing</i></li> </ul>	<p><b>Significant Contribution</b></p>	
<p><b>Socioeconomic advancement and empowerment</b></p> <ul style="list-style-type: none"> <li>• <i>Project finance for educational infrastructure</i></li> </ul>	<p><b>Significant Contribution</b></p>	
<p><b>Socioeconomic advancement and empowerment</b></p> <ul style="list-style-type: none"> <li>• <i>Affordable student and faculty housing</i></li> </ul>	<p><b>Limited Contribution</b></p>	

## B. MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISKS ASSOCIATED WITH THE SELECTION CRITERIA

The ISS ESG KPI ensures that environmental and social risks attached to the projects financed are taken into consideration and have been minimized. This assessment is based on the issuer's policies and strategy regarding ESG risks minimization in its assets selection process.

### ASSESSMENT AGAINST ISS ESG KPI

#### KPIs RELEVANT FOR ALL USE OF PROCEEDS CATEGORIES

##### Impact of operations on biodiversity

- ✓ For all investments involving security interests in real property, PHCC requires Environmental Site Assessments completed by qualified firms and reviewed by PHCC's environmental consultant. Critical remedial actions are incorporated into the contractual provisions of the documents governing the transaction.

##### Labor and Health & Safety

- ✓ PHCC investments involving construction can be found nationwide, and applicable state and local labor laws may vary considerably. Project due diligence includes investigation into local labor market conditions, unionization, "right to work" laws, and the commitment of the Sponsor and construction contractor to fair hiring and employment practices, within the context of prevailing employment practices in the area. Standards for the management and operation of the operating businesses attendant to PHCC's investments include manager/operator compliance with all state, federal and local employment laws, including the Civil Rights Act, the Fair Labor Standards Act, the Americans with Disabilities Act, ERISA, the Equal Pay Act and the National Labor Relations Act.

##### Inclusion

- ✓ PHCC's significant investments include debt supporting an HBCU (Howard University) and Roosevelt University, founded in 1945 on basic principles of inclusion and social justice. Any type of housing PHCC invests in will adhere to all Federal Fair Housing and non-discrimination laws and applicable state and local regulations prohibiting discrimination based on age, color, disability, gender identity or expression, genetic information, marital status, national origin, political affiliation, race, religion, sex, sexual orientation, veteran status or any other factor prohibited by law. PHCC will endeavor to require that contracts governing the construction and operation of projects or entities in which it invests target or require minority- and women-owned businesses for consideration and selection.

### ASSESSMENT AGAINST ISS ESG KPI

#### KPIs RELEVANT FOR SOME USE OF PROCEEDS CATEGORY ONLY

##### Dialogue with local communities

- The company completes an Environmental Impact Statements for all proposed projects and investments. This assessment includes dialogue with local communities (e.g.

community meetings, public requests for comments, meetings with local leaders). PHCC's investment approach emphasizes projects that encompass "good neighbor" community impact and that provide important services and utility to existing constituencies, such as affordable and workforce housing. However, some relevant aspects (e.g. scope, duration and frequency of assessment, processes and tools) are not covered.

#### **Waste management & pollution prevention**

- PHCC uniformly requires that all projects in which it invests meet applicable federal, state and local codes with respect to waste management and pollution prevention. PHCC typically completes site inspections of all real property collateral at least 1x every year, with any indicated violations of these standards followed up promptly thereafter.

#### **Safety of building users**

- ✓ All assets financed are located in the United States. National legislations ensure operational safety (e.g. emergency and safety measures, exits, fire sprinklers, fire alarm systems).

#### **Water use minimization in buildings**

- PHCC guidelines for any transaction stipulate adherence to federal, state and local laws and regulations with respect to water management and resources, with objectives that include the effective utilization of water resources, elimination or avoidance of pollution, drinking water quality and facilitation of adequate water supply for residential and commercial use and fire protection.

## DISCLAIMER

1. Validity of the SPO: As long as no material changes are made to Preston Hollow's Social Impact Finance Framework and Selection Criteria.
2. ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
3. We would, however, point out that we do not warrant that the information presented in this SPO is complete, accurate or up to date. Any liability on the part of ISS ESG in connection with the use of these SPO, the information provided in them and the use thereof shall be excluded. In particular, we point out that the verification of the compliance with the selection criteria is based solely on random samples and documents submitted by the issuer.
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## ANNEX 1: Methodology

### ISS ESG Social KPIs

The ISS ESG 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 Financing.

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.

To review the KPIs used in this SPO, please contact Federico Pezzolato (details below) who will send them directly to you.

### Environmental and social risks assessment methodology

ISS ESG evaluates whether the assets included in the asset pool 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 to ISS ESG or that the information provided did not fulfil the requirements of the ISS ESG Social Bond KPIs.

The evaluation was carried out using information and documents provided to ISS ESG 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, ISS ESG identifies the extent to which Preston Hollow Community Capital’s Social Financing contributes to related SDGs.

## ANNEX 2: Quality management processes

### SCOPE

Preston Hollow Community Capital commissioned ISS ESG to compile a Social Financing SPO. The Second Party Opinion process includes verifying whether the Social Impact Finance Framework aligns with the SBPs and to assess the sustainability credentials of its Social Financing Selection Criteria, as well as the issuer's sustainability strategy.

### CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA SBPs
- ISS ESG KPI set

### ISSUER'S RESPONSIBILITY

Preston Hollow Community Capital's responsibility was to provide information and documentation on:

- Framework
- Asset pool / Eligibility criteria
- Documentation of ESG risks management at the asset level

### ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

ISS ESG has conducted this independent Second Party Opinion of the Preston Hollow Community Capital's Social Impact Finance Framework based on ISS ESG methodology and in line with the ICMA SBPs.

The engagement with Preston Hollow Community Capital took place in April – May 2021.

### ISS ESG'S BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behaviour and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

## About ISS ESG 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.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

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 Information about SPO services, contact:

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