An S&P Global Second Party Opinion (SPO) includes S&P Global Ratings’ opinion on whether the documentation of a sustainable finance instrument, framework, or program, or a financing transaction aligns with certain third-party published sustainable finance principles. Certain SPOs may also provide our opinion on how the issuer’s most material sustainability factors are addressed by the financing. An SPO provides a point-in-time opinion, reflecting the information provided to us at the time the SPO was created and published, and is not surveilled. We assume no obligation to update or supplement the SPO to reflect any facts or circumstances that may come to our attention in the future. An SPO is not a credit rating, and does not consider credit quality or factor into our credit ratings. See Analytical Approach: Second Party Opinions.

Second Party Opinion

Capital Impact Partners' $200 Million Investment Notes Prospectus

March 1, 2024

Location: United States  Sector: Non-bank Financial Institution

Alignment With Principles

Aligned = ✔ Conceptually aligned = ⬜ Not aligned = ✗

✔ Social Bond Principles, ICMA, 2023
✔ Social Loan Principles, LMA/LSTA/APLMA, 2023

See Alignment Assessment for more detail.

Strengths

Capital Impact Partners (CIP) has been certified as a CDFI by the U.S. Department of the Treasury CDFI Fund since 2011. Community development financial institutions (CDFIs) have specific requirements to utilize funds for community development initiatives, lending strength to CIP’s mission and ensuring oversight of the use of proceeds.

CIP has a strong social license to operate in the communities it serves. CIP began its nonprofit lending in 1982, and since then has disbursed over $2.9 billion in funds aimed toward low-income and underserved populations. Its partnerships with other community-based institutions amplifies its impact in mission-focused lending.

Weaknesses

Reporting of social impact metrics is limited and reported only on an aggregate level. Impact reports are available upon request from bondholders and are not made publicly available except at the aggregate level across all projects. We view project-level public reporting as a best practice.

Areas to watch

In certain areas of the U.S., some projects that CIP invests in are prone to extreme weather events, the physical impacts of climate change (such as wildfires, droughts, extreme temperatures, and floods), and earthquake risks. We note that CIP does not explicitly address these risks during its deal selection process. However, all real estate assets meet state building codes, which may include natural disaster mitigation plans.

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Issuer Sustainability Context

This section provides an analysis of the issuer’s sustainability management and the embeddedness of the financing framework within its overall strategy.

Company Description

CIP is a 501(c)(3) nonprofit CDFI based in Arlington, Va. CIP provides loans, lines of credit, equity investments, and technical support to underserved borrowers in the affordable housing, health care, education, economic development, and healthy food sectors. CIP has over $500 million in total assets and has disbursed over $2.9 billion in loans since 1982 with current lending activities in nine states and the District of Columbia.

We are providing a second party opinion on CIP’s capital impact investment notes prospectus dated Aug. 31, 2023. Under the prospectus, CIP can raise up to $200 million in notes from investors.

Material Sustainability Factors

Access and affordability

Nonbanking financial institutions (NBFIs) enable access to financial services for individuals and businesses. While banks may offer financial services as a package deal, NBFIs usually unbundle these services, tailoring their offerings to particular groups with a specific purpose. CDFIs’ impact on society and the economy stems from their role in providing essential services for the communities they serve, including but not limited to infrastructure, housing, education, transportation, public safety, and recreation. An important component of accessibility is ensuring services are affordable, particularly for more vulnerable populations. The specific services and their relative affordability can vary greatly within and between communities.

Impact on communities

NBFIs can affect a wide range of community issues by providing access to essential services for economically vulnerable groups, as doing so not only has the potential to alleviate income inequality but also foster upward social mobility. Realizing this objective hinges on the responsible lending practices of NBFIs, which include transparent contractual terms, financial education programs, and support for borrowers encountering financial hardships. In contrast, when loan terms are obscured or predatory lending practices persist, these issues can exacerbate existing socioeconomic disparities in the customer base. By actively addressing these concerns, NBFIs can access new markets, achieve better financial performance, reduce their cost of capital, attract top talent, and mitigate their reputational and regulatory risk.

Customer health and safety

NBFIs may invest in health care and the provision of healthy food; both are considered essential services and are closely linked to the health and safety of the populations served. Health care services can introduce risk for patients if improperly managed, as well as provide substantial benefits for communities that are underserved by traditional hospitals and clinics. Following health care regulation and best practices can mitigate this risk. Likewise, food services are an essential component of a healthy community, particularly in underserved areas, while food safety is a material concern as incidents could result in acute illness. Following proper food safety protocols can help alleviate this risk.

Physical climate risk

The geographically fixed nature of real estate assets exposes them to physical climate risks. While varying by location, these can include acute risks (such as wildfires, floods, and storms), which are becoming more frequent and severe, as well as chronic risks (such as long-term changes in temperature and precipitation patterns and rising sea levels). Acute and chronic risks could damage properties or place the health and safety of tenants at risk. These challenges can also require investments to manage
their potential effect and, in severe cases, to relocate the tenants. While the aggregate impact is moderate—the type, number, and magnitude of these risks varies by region—highly exposed regions may be subject to material physical climate risks. Most participants have some insurance coverage, though it could become more difficult to secure insurance for the most-exposed assets absent adaptation.

Issuer And Context Analysis

Through its lending in the affordable housing, health care, education, and healthy food sectors, CIP directly affects access and affordability, communities, and health and safety, which we view as material sustainability factors for the issuer.

We believe CIP strengthens underserved and low-income communities by financing projects in the health care, education, affordable housing, and healthy food sectors, which are fundamental attributes of a healthy community. CIP’s mission is to build inclusive and equitable communities by providing capital and technical assistance to various entities, including community development organizations, CDFIs, and community-focused nonprofits aligned with CIP’s social mission. By targeting the key factors that influence the health, well-being, and quality of life for individuals, CIP believes its strategy can advance the socioeconomic standing and stability of communities traditionally impaired by limited access to essential services and limited economic opportunities.

In our view, CIP's projects directly address the issues of affordability and accessibility of essential services. CIP provides capital to community development organizations and borrowers underserved by traditional financial markets, enabling them to bring essential services to populations that have been underserved or underfunded by government and private institutions. CIP’s borrowers typically target low-income households, moderate-income households, people of color, people with disabilities, children and youth, women, and veterans.

CIP seeks to improve health outcomes of low-income and underserved populations by addressing food security, investing in community health centers, and building age-friendly communities. To date, CIP has provided over $200 million to healthy food retailers and wholesalers to address food deserts and low-access areas, and more than $1 billion deployed to Federally Qualified Health Centers and other community-based health care providers, affecting an estimated 3.7 million patients. Importantly, many projects that CIP invests in are led by organizations sponsored by city and state governments, adding to the project’s legitimacy, impact, and protection against health and safety risks. For example, for projects involving food security, which have inherent customer health and safety risks of food contamination and food-borne illnesses, CIP helps finance appropriate infrastructure and trainings to ensure food safety at borrower’s facilities.

Some of CIP’s borrowers' investments in real estate in states such as California, New York, and Texas are susceptible to acute and chronic climate risks, such as wildfires, storms, rising sea levels, and extreme temperatures. These events could harm a building’s structural integrity and functionality, potentially undermining the intended social outcomes and the safety of those in the community. CIP’s borrowers must comply with state building codes, and many state regulations where the issuer operates contain stringent provisions for flood standards, wildfire mitigation, and stormwater management, which abate this risk.
Alignment Assessment

This section provides an analysis of the framework’s alignment to Social Bond/Loan principles.

Alignment With Principles

Aligned = ✔  Conceptually aligned = ⭕  Not aligned = ✗

✔ Social Bond Principles, ICMA, 2023
✔ Social Loan Principles, LMA/LSTA/APLMA, 2023

✔ Use of proceeds

All of the issuer’s social project categories are considered aligned with the principles. The issuer commits to allocate the net proceeds issued under the prospectus to eligible uses, primarily to fund social projects in the affordable housing, education, health care, and food security sectors and to projects that advance their social mission. Some proceeds may be used to support operating costs of the issuer, which we believe is an eligible use of proceeds as CIP exclusively funds social projects. Please refer to the Analysis of Eligible Projects section for more information on our analysis of the social benefits of the expected use of proceeds.

✔ Process for project evaluation and selection

The prospectus communicates how CIP identifies eligible projects and how projects benefit low-income or disadvantaged populations, increase access to goods and services in underserved communities, develop infrastructure to support commerce, drive further development and density within targeted areas, and support CIP’s core principles of equity and inclusion.

CIP’s credit committee evaluates prospective loans to determine the fit with CIP’s overall strategy and mission within a given geography. The committee ensures all prospective projects benefit low-income or disadvantaged populations, increase access to resources in underserved communities, develop needed infrastructure, and more. Members of the committee have expertise in relevant fields including community development, affordable housing, and health care. During the deal selection process, the credit committee and other decision makers identify and mitigate perceived social risks that could arise from financed projects. We note that the issuer, as part of its due diligence, requires borrowers to abide by relevant regulations, such as environmental assessments for real estate and construction loans and compliance with regulations on affordable housing.

✔ Management of proceeds

Proceeds from the notes are placed temporarily in the issuer’s operating account, where any distributions to fund the issuer’s pipeline of eligible social projects are tracked. Proceeds may be temporarily invested in money market funds, whereby all proceeds are returned to CIP to support its operations. We note that the issuer does not have a separate account for issuance proceeds, which we consider a best practice.

✔ Reporting

As a certified CDFI, CIP is required to submit allocation reporting annually to ensure adherence to regulation. CIP also provides annual impact reports that include allocations to its broader impact categories, as well as select impact metrics. Impact metrics include the number of full-time jobs created, the percentage of low-income beneficiaries in health care, the lending percentage in low to moderate income (LMI) census tracts, the square feet financed or renovated, housing units financed, affordable assisted living units financed, and uninsured patients served.
Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects considered to have clear social benefits and to address or mitigate a key social issue.

CIP expects to allocate the majority of net proceeds of note issuances under the prospectus to new projects within its eligible categories, including affordable housing, economic development, healthy food, health care, and education. For each project category, we note that target populations are intentionally broadly defined in the prospectus to accommodate CIP's lending in different localities where the characteristics of target populations may vary. Additionally, some proceeds may fund general corporate expenses that support CIP's mission.

Social project categories

<table>
<thead>
<tr>
<th>Access to Essential Services</th>
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<tbody>
<tr>
<td>Provision of services including health care, education, and vocational training, to underserved populations and communities.</td>
</tr>
</tbody>
</table>

Analytical considerations

- In our view, lending to community health centers and elderly care facilities provides essential health care to people who face barriers that prevent or limit their access to needed health care. These barriers can include lack of transportation, insurance, or income. People with lower incomes are often uninsured, and underserved groups in the U.S. account for more than half of uninsured population.

- Access to affordable health care is associated with improved economic stability, community well-being, quality of life, and other benefits. For many, particularly low-income and underserved groups, community health centers are the only available option. According to the U.S. Department of Health and Human Services, one in 11 people rely on such centers for their comprehensive medical, oral, mental health, and substance abuse services. Similarly, age-friendly communities for low-income people provide an alternative to traditional institutions that provide health care, appropriate housing, transportation, healthy meals, and social activity that lead to higher quality of life and health.

- Lending to charter schools can improve education outcomes, particularly for students from low-income and underserved backgrounds where public school systems may underperform. Charter school educators often have more freedom to innovate and tailor their pedagogy to the specific needs of their community and students.

- We believe CIP's established track record in providing access to essential services ensures that both the perceived and realized social risks associated with its eligible projects are appropriately identified, managed, and mitigated.

<table>
<thead>
<tr>
<th>Affordable Housing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction and operation of affordable housing and mixed-use real estate.</td>
</tr>
</tbody>
</table>

Analytical considerations

- The preservation and creation of affordable housing units is integral to maintaining the social fabric of the communities CIP operates in. CIP-funded affordable housing projects generally restrict occupancy to those below stated area median income (AMI) brackets, a metric utilized by the U.S. Department of Housing and Urban Development (HUD). CIP's affordable housing projects mitigate income-segregation risk by ensuring all properties house individuals across a range of AMI bands that depend on where a project is located.

- Affordable housing projects that CIP and its partners develop may support different types of homes (single-family, multifamily, and mixed-use) and address different target populations. For example, CIP partnered with Washington D.C.'s Department of Housing and Community Development (DHCD) to finance multifamily housing projects where 50% of the units must be occupied by families up to 80% AMI. In Detroit, CIP financed multifamily rental housing and mixed-use real estate
Second Party Opinion: Capital Impact Partners’ $200 Million Investment Notes Prospectus

developments that required at least 20% of the residential units to be offered to residents below 50% AMI, at least 50% to residents below 80% AMI, and all units offered to residents below 120% AMI. CIP has a long track record of partnering with affordable housing developers that are committed to social impact with projects that follow best practices of incorporating a broad range of AMI brackets.

Food Security

Provision of funding to mission-driven organizations and joint ventures focused on providing healthy, nutritious, and accessible food to communities. Funding instruments, such as loans, are used for acquisition, construction, equipment purchasing, and working capital.

Analytical considerations

- In our view, lending to healthy food projects effectively improves access to fresh nutritious foods for underserved communities. More than 20 million Americans live in food deserts, which is characterized by limited access to affordable healthy food or areas without supermarkets or other means to access healthy food. CIP’s lending products work to eliminate food deserts by building and investing in local food retailers after assessing local conditions and needs.

- Low-income and underserved populations are often do not have access to affordable healthy food, which is associated with the health, well-being, and quality of life of community residents. By investing in food retailers in low-income neighborhoods in cities like Washington, Detroit, Los Angeles, and New Orleans, CIP is improving food access for underserved populations.

- We believe CIP’s successful track record in providing grants, loans, and technical assistance to organizations focused on providing safe, healthy, and affordable food to underserved communities ensures that both perceived and realized social risks associated with the eligible projects are appropriately identified, managed, and mitigated. CIP’s expertise includes working with retail operators, kitchen incubators, co-ops, and innovative food distribution models aimed at increasing access to fresh and healthy foods. As of 2023, CIP has disbursed over $200 million to healthy food retailers and wholesalers.
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