

NAHEFFA Fall 2022 Conference

ESG and Sustainable Debt Discussion

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Barry Fick
President, NAHEFFA

Laura K. Janke
Director
RBC Capital Markets, LLC
(612) 371-7864



Capital
Markets

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Overview of Topics

I. ESG Current Environment

II. Green/Social/Sustainable (GSS) Labeled Bonds

ESG Current Environment

Increased focus by issuers, rating agencies, and investors

Issuers/Borrowers

- **Environment** examples:
 - Sustainability goals and plans
 - Capital expenditures with focus on environmental quality
- **Social** examples:
 - Social responsibility goals and community benefit initiatives
 - Commitments to diversity, equity, and inclusion
- **Governance** examples:
 - Board and organizational structures
 - Risk management
 - Corporate culture
 - Compliance and reporting

Rating Agencies

- ESG commentary in every credit opinion
- Recent rollout of ESG-related scores
- Sector-specific commentary

Investors

- ESG-focused investing
- Issuer disclosures on ESG items

Rating Agency Focus on ESG



October 19, 2021

- Moody's ESG rating methodology assigns two types of ESG scores:
 - Issuer profile score (IPS) is an opinion of an issuer's or transaction's exposure to ESG risks and benefits.
 - Credit impact score (CIS) explains the impact of ESG considerations on the rating of an issuer or transaction. The CIS is based on a qualitative assessment of the impact of ESG considerations in the context of the issuer's other credit drivers that are material to a given rating.

October 27, 2021

- The coronavirus crisis has catapulted social financing to the forefront of sustainable debt markets.



May 9, 2022

- ESG Credit Indicators provide additional transparency on what's already incorporated into the credit rating analysis.
- ESG factors are incorporated into credit ratings when S&P believes they are material to creditworthiness and sufficiently visible.
- Market participants have increasingly been seeking more data and insights relating to ESG.

February 10, 2022

- The use of social and sustainability labels continues to grow, driven by affordable housing.



May 16, 2022

- ESG Relevance Scores communicate how ESG factors affect tax-supported and revenue-supported issuer ratings. They do not provide commentary on the ESG merit of issuers.
- Fitch expects US public finance issuers to be subject to greater demand for ESG disclosure from investors, particularly on climate risks.
- Cybersecurity breaches remain a significant risk.

ESG SPOTLIGHT 2022

How the buy-side has sparked major muni ESG growth

By [Lynne Funk, Jessica Lerner](#) June 28, 2022, 9:55 a.m. EDT 10 Min Read

Source: *Bond Buyer*. June 28, 2022.

WASHINGTON DC

GFOA identifies best practices for ESG and voluntary disclosure

By [Kelley R. Taylor](#) October 14, 2021, 8:42 a.m. EDT 5 Min Read

Source: *Bond Buyer*. October 14, 2021.

ESG

Bloomberg launches green, social and sustainability index

By [Lynne Funk](#) December 16, 2021, 3:18 p.m. EST 6 Min Read

Source: *Bond Buyer*. December 16, 2021.

MSRB

MSRB: ESG responses highlight need for clarity

By [Connor Hussey](#) August 10, 2022, 12:37 p.m. EDT 4 Min Read

Source: *Bond Buyer*. August 10, 2022.

The Big Read ESG investing

Green investing: the risk of a new mis-selling scandal

ESG funds are popular, but research has found the sector is rife with greenwashing. Lawyers warn a reckoning is coming

Source: *Financial Times*. February 20, 2022.

Proposed SEC Climate Disclosure Rule & Key Takeaways

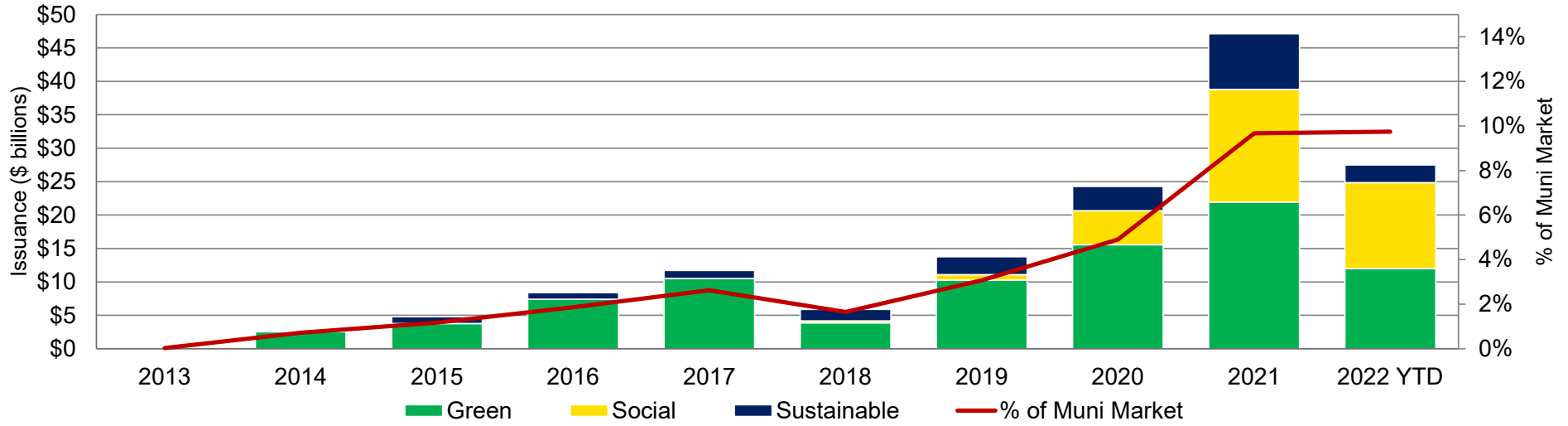
By [Sara Mahaffy, RBC Capital Markets, LLC](#)

Published March 28, 2022 | 2 min read

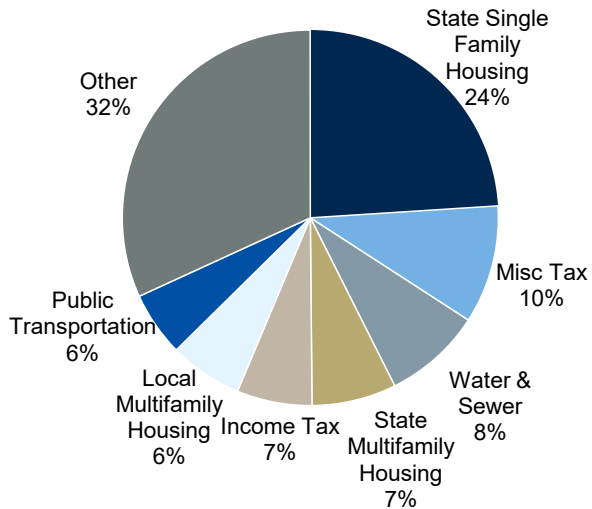
Source: *RBC*. March 28, 2022.

Growth of Green, Social, and Sustainable (GSS) Labeled Bonds

GSS Annual Municipal Volume Since 2013 (\$ billions)



2021 GSS Municipal Bonds by Sector



2021 GSS Municipal Issuance in Perspective

- Global sustainable debt issuance: \$1.7 trillion
- US municipal sustainable debt issuance: \$47 billion
- US higher education & healthcare sustainable debt issuance: \$3.3 billion

Source: Bloomberg. Data as of September 5, 2022. Includes issuer-labeled Green, Social, and Sustainability Bonds. Includes only municipal CUSIPs.

Considering Use of a GSS Designation

Potential Benefits

1 Large and Growing Asset Class

2 Investor Diversification

3 Funding Source Diversification

4 Emerging Pricing Benefits

5 Demonstration of Sustainability Commitments

Potential Considerations

1 Timing, Administrative Burden, and Cost of External Review (if utilized)

2 Disclosure and Follow-Through Risk

Best Practice Guidelines for Issuing GSS Bonds

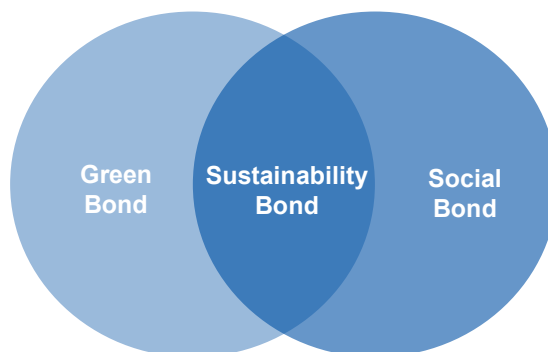
The ICMA Green and Social Bond Principles are voluntary process guidelines for issuance

GSS Bonds' Alignment with ICMA Principles

Green Bonds	Social Bonds	Sustainability Bonds
<ul style="list-style-type: none">▪ Aligned to the Green Bond Principles▪ Proceeds must be exclusively applied to green projects	<ul style="list-style-type: none">▪ Aligned to the Social Bond Principles▪ Proceeds must be exclusively applied to social projects	<ul style="list-style-type: none">▪ Aligned to the Sustainability Bond Guidelines▪ Proceeds must be exclusively applied to green and social projects
		

Four Key Components for Alignment with ICMA Principles

- 1 Use of Proceeds
- 2 Process for Project Evaluation and Selection
- 3 Management of Proceeds
- 4 Reporting



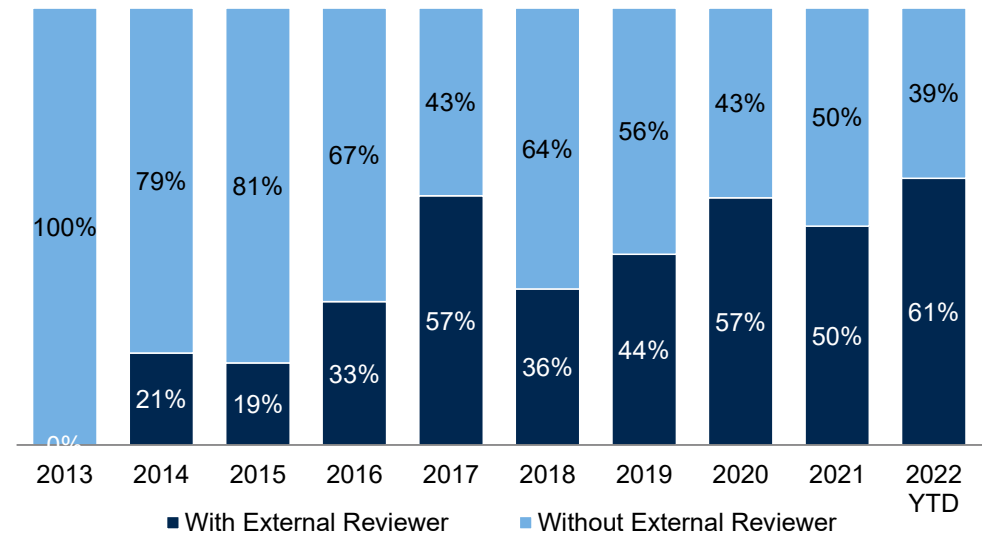
External Reviews: Pre-Issuance Second Party Opinions

Issuers can appoint an external reviewer to assess the alignment of the use of bond proceeds and framework to the ICMA Principles

Obtaining a Second Party Opinion (SPO)

- 1 Meeting Evolving Market and Investor Expectations
- 2 Independent Confirmation of Alignment with ICMA Principles
- 3 Cost and Availability of SPO Provider

GSS Municipal Market Use of External Reviewers



Examples of External Reviewers



Source: Bloomberg, International Capital Markets Association (ICMA)

Borrower Reporting on GSS Bonds

Borrowers are expected to report on the use of proceeds annually until proceeds are expended

Example: University of Minnesota – Sustainability Bonds (2021)

Additionally, in connection with the delivery of the Second Party Opinion, the University expects to voluntarily provide a separate, annual post-issuance report on the allocation of Series 2021C Bonds proceeds to eligible activities until all proceeds have been expended. This report will be posted on the Electronic Municipal Market Access System (“EMMA”) operated by the Municipal Securities Rulemaking Board (“MSRB”). This post-issuance report is in addition to and separate from the University’s continuing disclosure undertaking to be entered into in connection with the issuance of the Series 2021C Bonds. See “CONTINUING DISCLOSURE.” No failure by the University to comply with this post-issuance reporting requirement will constitute a default with respect to the Series 2021C Bonds or under its ongoing disclosure undertaking.

Example: Colorado Housing and Finance Authority – Social Bonds (2022)

Upon the expenditure of the proceeds of the Offered Bonds deposited into the 2022 Series EFG subaccount of the Acquisition Account, the Authority expects to prepare a report regarding the 2022EFG Mortgage Loans consisting of the information set forth in APPENDIX L – USE OF PROCEEDS REPORT.

USE OF PROCEEDS REPORT *			
The 2022 Series EFG Bond Proceeds Summary			
Total Proceeds Deposited In Acquisition Account	Proceeds Spent to Acquire 2022EFG Mortgage Loans	Proceeds Remaining	
\$	\$	\$	
2022EFG Mortgage Loans Originated By Borrower Income as a % of Area Median Income (“AMI”)†			
% of AMI:	\$ of Loans	# of Loans	% of Proceeds
<50%			
50% - 59%			
60% - 69%			
70% - 79%			
80% - 89%			
90% - 99%			
100%+			
Down Payment Assistance (“DPA”) Provided In Conjunction with 2022EFG Mortgage Loans			
			\$ / # / %
Total DPA Provided (\$)			
Total DPA Provided (#)			
% of Borrowers Receiving DPA (%)			
Average DPA Provided per Borrower (\$)			
Average DPA Provided (% of Purchase Price)			

Source: Official Statements

Potential Marketing and Pricing Benefits

- Tap new funding sources
 - New investors
 - New portfolios within existing investors
- Increase investor engagement
- Increase subscription levels
- Challenge in quantifying pricing benefit

Investors in GSS-Labeled Bonds



Example: Minnesota Housing Finance Agency | Series 2022C (Social Bonds)

Overview of Bond Issuance



MINNESOTA HOUSING

Minnesota Housing
Finance Agency
Residential Housing Finance
Bonds
Series 2022C (Social Bonds)

\$100,000,000

Senior Managing Underwriter



Use of Proceeds

- Proceeds from the bonds will be used to purchase Program Securities backed by loans made to qualified persons or families of low- and moderate-income to finance the purchase of single-family residences in Minnesota.
- Under its Start Up Program, the Agency has established the maximum gross income for eligible borrowers under the Program based upon applicable federal law and Agency policy objectives.
- Certain borrowers may be eligible for down payment and closing cost assistance.

Sustainability Bonds Designation

- Kestrel Verifiers designated the Series 2022C bonds as **“Social Bonds”**
- In Kestrel’s opinion, the bonds align with three Social Project categories identified in the Bond Principles:
 - Affordable Housing,
 - Access to Essential Services,
 - Socioeconomic Advancement and Empowerment.
- Target populations include low- and moderate-income persons living in Minnesota.



Example: Minnesota Housing Finance Agency | Series 2022C (Social Bonds)

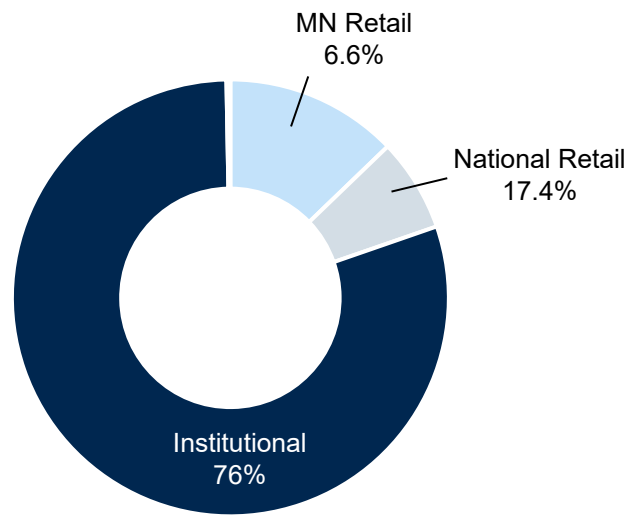
ESG Marketing Highlights

Strong diversified order book in challenging market

The issue generated \$301 million in orders (3.0x subscription) from 26 unique accounts, including several investors placing ESG-related orders

- Previous week saw the Ukraine invasion prompting a large market sell-off, rally, and then subsequent sell-off
- 26 institutional and professional retail investors on tax-exempt side
- \$77.5MM of orders with ESG indications from three accounts, two professional retail and one institutional

Order Book Investor Diversity



ESG Order Highlights

2023-2034 Serials (\$33.860mm total)

\$47.48mm ESG Orders

Subscription: 2.8 - 4.8x

07/01/2037 (\$9.735mm maturity)

\$9.735mm ESG Order

Subscription: 3.0x

07/01/2043 (\$20.245mm maturity)

\$20.245mm ESG Order

Subscription: 3.6x

Example: University of Minnesota | Series 2021C (Sustainability Bonds)

Overview of Bond Issuance



University of Minnesota
GO Series 2021C
(Sustainability Bonds)

\$36,875,000

Senior Managing Underwriter



Use of Proceeds

- Net proceeds are expected to be applied to fund costs of design, land acquisition, site preparation, and preconstruction services for a clinical research facility to be known as the **Health Discovery Hub**.
- The Health Discovery Hub will:
 - Contain new research clinics and space to accommodate patient participation in clinical research;
 - Establish a rural health clinical research network;
 - Include a medical device center to test new technologies to advance clinical research and care; and
 - Provide access to advanced treatments and state-of-the-art care for patients and their families.
- The University is home to Minnesota's only public medical school in addition to health science schools for dentistry, public health, pharmacy, nursing and veterinary medicine. More than 60% of the state's health professionals are educated at the University.

Sustainability Bonds Designation

- Kestrel Verifiers designated the Series 2021C bonds as **"Sustainability Bonds"**
- Per the ICMA, Sustainability Bonds are bonds for which the proceeds will be exclusively applied to finance or re-finance a combination of both **Green** and **Social** Projects.
- In Kestrel's opinion, the bonds will finance design and preconstruction costs of a facility that is designed to robust green building standards and that will sustain a high-performing academic health system, support healthcare services throughout the state of Minnesota, and promote statewide health equity to underserved populations.



Bond Buyer Article

GREEN BONDS

University of Minnesota offers sustainability-designated bonds

By [Yvette Shields](#) September 13, 2021, 3:46 p.m. EDT 4 Min Read

Example: University of St. Thomas | Series 2022A (Green Bonds)

Overview of Bond Issuance



**UNIVERSITY OF
St. Thomas**

Series 2022A (Green Bonds)
Series 2022B
Minnesota Higher Education
Facilities Authority
Revenue Bonds

\$131,000,000

Sole Managing Underwriter



Use of Proceeds

- Series 2022A proceeds are being used to finance a Science, Technology, Engineering, Arts, and Math (“STEAM”) building to be known as the Schoenecker Center.
- Slated to open in January 2024, the Schoenecker Center will provide world-class space to accommodate intentional enrollment and diversity growth in engineering, health and digital media fields, in close collaboration with arts and sciences programs.




Green Bonds Designation

- Kestrel Verifiers designated the Series 2022A bonds as “Green Bonds”
- In Kestrel’s opinion, the Schoenecker Center is an eligible project as defined by the ICMA Green Bonds Principles in the Green Buildings project category. The building is designed to achieve LEED Gold certification and incorporates a variety of green building features.
- The University aims to be carbon neutral by 2035. A Sustainability Strategic Plan outlines necessary actions to achieve this goal.



Example: University of St. Thomas | Series 2022A (Green Bonds)

Second Party Opinion (excerpt)



KESTREL
VERIFIERS™

Second Party Opinion

EXECUTIVE SUMMARY

ISSUER
University of St. Thomas

OPINION ON
Minnesota Higher Education Facilities Authority Revenue Bonds, Series 2022A (University of St. Thomas) (Green Bonds)

GREEN STANDARD AND CATEGORY



- Green Buildings

KEYWORDS
Low carbon buildings, LEED Gold, higher education, energy efficiency, Minnesota

EVALUATION DATE
April 28, 2022

SUMMARY
Kestrel Verifiers is of the opinion that the Minnesota Higher Education Facilities Authority Revenue Bonds, Series 2022A (University of St. Thomas) ("2022A Bonds") conform with the four core components of the Green Bond Principles 2021 as follows:

- Use of Proceeds**
The 2022A Bonds will finance design and construction of the Science, Technology, Engineering, Arts, and Math ("STEAM") building (to be known as the "Schoenecker Center" or the "Project"), fund capitalized interest, and pay costs of issuance. The building is designed to achieve LEED Gold certification and incorporates a variety of green building features. The Schoenecker Center is an eligible project as defined by the Green Bond Principles in the *Green Buildings* project category.
- Process for Project Evaluation and Selection**
The Schoenecker Center advances the University's goal to achieve carbon neutrality by 2035. The decision to pursue construction of the Schoenecker Center was informed by the University's 2025 Strategic Plan, Sustainability Strategic Plan, capital planning process, and the State of Minnesota's climate action objectives.
- Management of Proceeds**
Bond proceeds will fund design and construction of the Project on the University's Saint Paul campus, capitalized interest, and pay costs of issuance. Funds will be held in a separate construction account which the University Controller's Office will oversee and distribute.
- Reporting**
The University will post continuing disclosures to the Municipal Securities Rulemaking Board ("MSRB") annually through the Electronic Municipal Market Access ("EMMA") system. Updates on construction progress and schedule will be made publicly available on the University's website. In addition, and separate from the continuing disclosure undertaking, the University will provide annual post-issuance reports on the allocation of 2022A Bond proceeds until all proceeds have been spent. When available, the University will also confirm receipt of the LEED certification. These reports will be available on the University's EMMA page and the Minnesota Higher Education Facilities Authority's website.
- Impact and Alignment with United Nations Sustainable Development Goals**
By financing construction of a new academic building anticipated to achieve LEED Gold certification, the 2022A Bonds support and advance multiple UN SDGs, including Goals 4: *Quality Education*, 7: *Affordable and Clean Energy*, and 8: *Decent Work and Economic Growth*.

Source: Official Statement

Alignment with ICMA Principles:



Example: University of St. Thomas | Series 2022A (Green Bonds)

ESG Marketing Highlights

Successful pricing in a turbulent market

Despite significant market volatility, the issue generated \$259 million in orders (2.0x subscription) from 25 unique accounts, including investors expressing interest in the **Green Bonds**

- Series 2022A **Green Bonds** priced simultaneously with similarly sized Series 2022B without a GSS label

	Series 2022A	Series 2022B
	Green Bonds	No label
Par	\$60,720,000	\$70,280,000
Amortization	2025-2052	2025-2052

- While there was ultimately no pricing differential between the series:
 - Green Bonds** generated significant investor engagement and dialogue
 - Green Bonds** received 6 investor orders totaling \$32.6 million with specific preference for that series
 - Green Bonds** help to demonstrate the University’s commitment to sustainability

Source: IPREO

Questions and Discussion

