



# Inclusive Prosperity Capital Due Diligence Document

1.5°Climate Strategy Group: Due Diligence Instructions

## Executive Summary:

Inclusive Prosperity Capital (IPC) is a 501(c)3 not-for-profit investment platform for scaling energy financing solutions that channels investment capital to program partners in communities that need it most. IPC has delivered ~\$55M in investment across the U.S. and Territories since our inception and currently has a combined total pipeline of over \$100M. Approximately 50% of our investments are directly into low to moderate income communities and 60% into communities of color.

IPC is spearheading an effort to create a secondary market vehicle for clean energy loans focused on low-income households and/or in disadvantaged communities. Our project has the potential to bring additional capital into clean energy projects for both green banks with established clean energy lending programs for underserved markets as well as organizations with programs in development, such as credit unions and CDFIs with deep roots in Low-Income and Disadvantaged Communities (LI/DAC). At least a dozen of these organizations from diverse geographies and markets across the country have indicated interest in the potential for a secondary market to help them access additional liquidity. A secondary market vehicle will also create standardized lending terms for specific products, which will make it easier for lending organizations new to the clean energy sector to begin offering such loans. In combination with increased access to capital, this effort will expand the finance community's ability to ramp up clean energy investments in LI/DAC.

## Fundraising:

The total funding needed to stand up, launch, and operate a secondary market vehicle for the first year is \$5.6 million, which includes funding for credit enhancements for a \$20 million fund. \$1.5 million requires grant funding while \$4 million could be PRI or co-investment funding.

With these funds, we will be able to:

- Create at least one secondary market vehicle
- Develop standardized term sheets, underwriting standards, and contracts for two asset classes (single family homes and community/commercial solar)
- Develop platform and any associated IT needs for managing secondary market vehicle
- Be ready to begin accepting complying loans

The next \$170-200k in funding will help to fully fund the design and structuring phase of the project, funding the legal and analytical work needed to launch the secondary market vehicle.

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|---|--|-----------|-------------------|
| <b>Phase 2a - Design and Structuring (Duration 8-12 months)</b>               |  |           |                   |
| Funding for project participants  |  | \$        | 350,000           |
| Consultant and legal costs  |  | \$        | 385,000           |
| <b>Total Phase 2a</b>   |  | <b>\$</b> | <b>735,000</b>    |
| <b>Phase 2b - Launch and executing (Month 9 or later)</b>                     |  |           |                   |
| Operating costs   |  | \$        | 625,000           |
| Promotion and road show   |  | \$        | 100,000           |
| Closing costs and fees  |  | \$        | 100,000           |
| <b>Total Phase 2b</b>   |  | <b>\$</b> | <b>825,000</b>    |
| <b>Total needed for secondary market launch</b>                               |  | <b>\$</b> | <b>1,560,000</b>  |
| <i>(PRI/Co-investment funding will be sought separately)</i>                  |  |           |                   |
| <b>Funding received to date (11/28/2023)</b>                                  |  |           |                   |
| Tempest via NRDC  |  | \$        | 475,000           |
| Remaining for Phase 2a  |  |           | <b>\$ 260,000</b> |
| Additional Tempest funding that could serve as a match if add'l funds secured |  | \$        | 170,000           |
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## Theory of Change:

Clean energy lending institutions require a scalable capital strategy to fill existing gaps in their lending channels, especially for LI/DAC communities. By addressing these capital challenges, our organizations aim to make clean energy financing more accessible and prevalent within LMI communities.

Creating a secondary market fund helps this scaling process by addressing both the needs of originators (the lenders issuing the loans) as well as the end-consumer borrowers. For originators, a secondary market vehicle helps to create a readily accessible source of capital at flexible terms. Standardized products create a coherent, replicable strategy for capital markets investors, opening up a much bigger potential pool of capital. Finally, for originators that do not currently offer clean energy loans, standardization creates a simple and low risk way to enter the market. Borrowers benefit from the secondary market because this will help bring the cost of borrowing down. In addition, standardized products will mean that more financial entities will be able to offer loans for clean energy projects.

## Primary Influence Tactic:

IPC and its staff have deep expertise in building energy usage and underwriting. This enables the IPC to effectively structure renewable energy, energy efficiency, and energy resilience deals at a higher certainty compared to those without the expertise. One of IPC's core competencies is successfully underwriting and investing in projects while managing risks. In addition to specific investment-level risks, IPC's overall underwriting and risk analysis highlights macroeconomic risk factors that are likely to impact investments across the portfolio.

IPC leverages its unique market position and relationship network to achieve its vision and mission. IPC will continue to drive market transformation by providing a capital platform for direct investments in qualifying projects, scaling structures that reduce both actual and perceived risks, standardizing contracts and products to reduce transactional friction, and originating and funding projects through local channel partners. IPC's investment thesis includes four main pillars to drive market development.

- Foundation of Success: IPC staff and partners have contributed to \$2 billion of public and private capital deployed in Connecticut from 2012 – 2021. This includes \$500 million in investments in underserved markets.
- Data-Driven Performance: IPC uses a data-driven market approach that results in excellent portfolio performance, limited defaults, and measurable ESG impact through rigorous data collection.
- Productization & Standardization: As part of IPC's initial vision, product orientation, standardization, and replicability focus are driving operational efficiencies and scale. IPC continues to experience origination expansion through channel partners.
- Project Deployment & Risk-Adjusted Returns: IPC has navigated successful capitalization of underserved markets and credits from its blended capital approach and geographic diversification.

## Unique Strategy/Special Sauce:

IPC is a leader in developing financial products for clean energy projects that are attractive to and appropriate for low income and disadvantaged communities. IPC has worked at the forefront of this field and has strong relationships with all major green banks and a broad array of local community finance entities.

As part of this project, IPC is continuing its work with several project partners that have deep expertise in clean energy finance and are embedded in regional and national networks working to scale clean energy finance in LI/DAC communities, including on how to best use the GGFRF. These partners include: Opportunity Finance Network (OFN), a leading national network of more than 390 Community Development Financial Institutions (CDFIs) located across all 50 states that have invested nearly \$22 billion in capital in disinvested communities; Inclusiv, a certified CDFI intermediary, whose credit union members serve over 18 million residents of low income urban, rural, and reservation-based communities across the US; and the Natural Resources

Defense Council (NRDC), one of the largest environmental advocacy groups with deep experience and commitment to equitable investment in clean energy and climate, as well as relationships and credibility in both CDFI and the Green Bank communities.

Working in this collaborative manner has several strengths. First, this means that our secondary market project will be integrated into or linked to other ongoing national efforts. Second, while IPC is committed to standing up its own secondary market vehicle, it is likely that OFN and Inclusive will be able to leverage IPC's efforts and standardized documentation to be able to stand up their own secondary market vehicles for their members. This will greatly expand and amplify the impact of this project.

## Diversity, Equity, Inclusion (DEI) Statement:

- We will implement changes to the recruiting process for open job positions and commit to evolve the organizational culture to ensure Black, Indigenous, and People of Color (BIPOC) and diverse staff are not tokenized, are truly valued and are important members of the team.
  - We will post open job positions across a diverse group of universities and colleges, trade associations, and via like-minded organizations to help reach a more racially diverse set of candidates.
  - We will take advantage of internship programs as an opportunity to develop a robust pipeline from more diverse finance and environment programs and schools.
- To create an environment where all staff feel truly valued, we will create an inclusive culture that ensures all IPC employees feel a common sense of belonging within the organization.
  - We will implement initiatives to gauge employees' company engagement across different areas of the organization.
  - To ensure feedback and opinions are heard and accepted, we commit to having hard conversations with one another in safe spaces, including but not limited to team offsite meetings, monthly staff meetings, weekly team check-ins and one-on-ones.
- We will be intentional with our official partnerships. We will highlight what is possible but also learn from these key leaders and organizations around the country to inform and evolve our work.
- We will call out approaches and behaviors in our industry that are not in service to the markets we intend to serve, such as programs that have too much complexity and are too costly to be effective. We will use our voice to call attention to systemic barriers that need to be fixed.
- We will elevate the voices of other organizations, led by BIPOC and the communities we serve, already doing this work or similar work. Recognizing that we are not solving these systemic issues on our own, as individuals do not have these experiences.
- Using our voice and platform to tell the stories of what is possible for end customers focused on the true impact.

- We will do so by talking to our customers and telling their stories. Highlighting not only what challenges they face and what issues need to be solved, but also what the impact of our work means for them and their communities.
- We will implement impact reporting that captures our investment impacts on BIPOC communities and companies (e.g., diverse counterparties and diverse contractors that work on our investments), building on overall mission alignment.

## Leadership Team Roles + Board Members:

### **Kerry O'Neill – CEO**

As CEO, Kerry brings her experience with the kinds of institutional challenges – and opportunities – associated with clean energy investing for our communities that need it most and combines it with a passion for bringing the benefits of clean energy to underinvested neighborhoods and markets. With over 30 years of management experience in diverse sectors spanning financial services, direct marketing, e-commerce, and educational services helps to bring a broader perspective to this opportunity, Kerry was part of the Connecticut Green Bank team, deploying award winning products to low-to-moderate income communities, and was part of the team that has spun out into Inclusive Prosperity Capital to bring these products to a broader market.

### **Carmen Carson – Chief People and Culture Officer**

Carmen heads our People and Culture function with the goal of ensuring that IPC is the best place to work. Carmen brings over 15 years of experience leading training & development, talent acquisition, employee engagement, DEI strategy, and many other key functions across industries. Her commitment to enhance workplace cultures through equitable and inclusive leadership along with strategic process improvement is always evident.

### **Musa Collidge-Asad – Chief Investment Officer**

As Chief Investment Officer, Musa is a core member of IPC's leadership team, oversees the execution of all investment transactions, and plays a critical role in determining the strategic direction of the organization. Previously, Musa was a Senior Officer with the World Bank and Global Environment Facility and held several executive roles for U.S.-based clean energy ventures and environmental finance organizations.

### **Mark DeBonee – Chief Financial Officer**

Mark oversees the accounting, financial reporting, tax compliance, treasury, annual financial audit, and payroll functions of IPC and its affiliated entities. He holds a CPA Certificate in the State of Connecticut and his work experience includes public accounting auditing of non-profit and for-profit entities, as well as financial reporting and fund administration of private equity investment funds.

## **Michele Kunitz – General Counsel**

Michele directs the legal function for IPC. She brings her 20 years of experience in project and corporate finance, solar energy start-ups, operations, regulated industries, and general corporate work to focus on bringing capital to underserved markets.

## **James McIntyre – Chief Strategy Officer**

James oversees growth strategies and partnerships at IPC. He brings 18 years of municipal finance and affordable housing experience, first as a banker then in government, with a stop in technology in between. Throughout his career, James has focused on developing creative financing solutions and developing market leading structures and practices to help improve access to capital.

The Leadership Teams comprised of 6 members with the following diversity:

- Gender: 3 Female, 3 Male
- Race: 1 African American, 5 White
- LGBTQ Data not disclosed

## **Board of Directors:**

- Elizabeth Crum (Chair) is the Housing Director, Town of Snowmass Village, Colorado.
- Joe Evans is a portfolio manager, The Kresge Foundation's Social Investment Practice
- Bert Hunter is the Chief Investment Officer of the Connecticut Green Bank
- Douglass Sims is Senior Director of the Natural Resource Defense Council's (NRDC) Resilient Communities Division. NRDC is a core collaborating partner for this project.
- Kerry O'Neill leads Inclusive Prosperity Capital

Our board of Directors is comprised of 5 members with the following diversity:

- Gender: 2 Female, 3 Male
- Race: 2 African American, 3 White
- LGBTQ Data not disclosed

## **Organizations Structure & Overhead:**

Inclusive Prosperity Capital, Inc. is a 501(c)3 non-profit organization. IPC does not have multiple organizations with the same strategic mission. IPC's previous calendar year operating budget included \$2.85 million of total revenue and \$6.84 million of total expenses. The current calendar year operating budget includes \$5.65 million of total revenue and \$8.69 million of total expenses. It is important to note IPC was spun out of the Connecticut Green Bank in 2018. IPC has been focused on product standardization, scaling its team, and creating operational proficiency in anticipation of deploying GGRF on a national scale. IPC's operating budget reflects this upfront investment into the organization.

## Impact Reporting:

As a mission-driven organization, IPC is highly focused on collecting and tracking key environmental and social impact data for all its projects. IPC's comprehensive impact reporting and demonstrated track record help enable further investment into disadvantaged communities. IPC requires its projects to submit ongoing impact reporting and data over the life of the investment. IPC aggregates its individual investment impact metrics to provide a portfolio-wide view of IPC's collective impact.

- Annual cost savings (MMBtu)
- Private capital investment catalyzed
- Lifetime cost savings (dollars and MMBtu)
- Direct jobs and indirect jobs
- Census tracts, metropolitan statistical areas, Justice40 Disadvantaged Community, and NYSEDA Disadvantaged Community
- Property type (single- or multi-family housing, affordable housing, non-profit, community center, school, etc.)
- Area median income, percent in poverty, and percent of low-to-moderate income residents served
- Census tract's population percentage that identifies as a minority
- Projected and actual lifetime generation
- Number of total units and affordable units
- Annual GHG displaced including SO<sub>2</sub>, NO<sub>x</sub>, CO<sub>2</sub>, and PM<sub>2.5</sub>
- Annual avoided equivalency for carbon sequestered by acres of US forests
- Projected lifetime CO<sub>2</sub> avoided equivalency
- Annual GHG avoided equivalency for vehicles driven
- Projected annual VOCs avoided
- Projected annual NH<sub>3</sub> avoided

## Barriers/Risks:

There are several factors outside of our control that will impact this project:

- Interest rate environment: a rising interest rate environment can make the economics of launching a secondary market fund more challenging. Our early discussions with financing entities will help us understand the impacts of that environment early in the project, as well as implications for terms that we will need to flow to originators.
- GGRF uncertainty: the timing and outcomes related to the GGRF are still unknown at this time. However, it is our expectation that: 1) announcements regarding funding will be made in 2024; and 2) whatever secondary market vehicle we stand up will serve as critical infrastructure for the entities ultimately funded under the GGRF.

# Addendum:

## **Partnerships**

IPC is in discussions with dozens of green banks, state and local governments and financing agencies across all regions of the country to partner on bringing its products, platforms and strategies to new markets.

IPC was selected as one of three Lending Partners, along with LISC and Enterprise Community Partners, supporting originations and outreach for New York's Climate Friendly Homes Fund. The Community Preservation Corporation was selected to administer this new fund, which includes \$250 million in New York State funding, to decarbonize and electrify ~10,000 units in 5–50-unit buildings in New York State in LMI and/or disadvantaged communities. IPC will provide standardized underwriting and project origination on this exciting new venture.

## **IPC Business Lines**

IPC's overall portfolio of loans and investments includes several business lines such as multi-family and non-profit lending, single-family residential, solar debt and leases, and infrastructure. IPC's multi-family and non-profit lending segment provides pre-development as well as combined construction/term loans to achieve decarbonized, high performing, resilient buildings.

### *Smart-E*

IPC manages a unique, single-family home product called Smart-E, which connects homeowners to vetted contractors and lenders. The Smart-E program makes green energy home improvements more accessible to homeowners through local lenders and experienced contractors, supported by a tech-enabled platform.

The Smart-E program, IPC's flagship clean energy improvement loan program for single-family homeowners, has expanded into the Southwest through a partnership with Inclusiv with the support of a major bank foundation, bringing the total number of states in which Smart-E is operating up to four. With discussions underway in over 20 other states with partners interested in offering the program and in the wake of the passage of the Inflation Reduction Act, IPC is excited to ramp up Smart-E's national expansion.

### *Solar*

IPC's solar products provide platform solutions for underserved building types to benefit from utility cost savings. IPC's solar projects can provide a long-term path to solar asset ownership and alleviate maintenance and operation responsibilities from the building owner.

### *Infrastructure*



IPC's infrastructure loan business line focuses on grid-tied projects and financing for small-scale hydro, fuel cell, and anaerobic digestion projects.

#### *Navigator and Catalyst Loan Programs*

The Catalyst program provides construction and term loan debt for energy improvement projects for low- and moderate-income multifamily properties and community-based non-profit organizations.

The Navigator program provides short-term financing to design energy improvements, address related health and safety issues, and resolve other retrofit needs. The Navigator program supports pre-development costs for energy benchmarking, opportunity assessments, audits, design, engineering, and bidding work that can lead to construction and permanent financing opportunities in the Catalyst program. These programs are being integrated into a tech-enabled platform to support housing lenders all across the program to offer them.