

# Ygrene Energy Fund Inc.

**Type of Engagement:** Green Bond Pre-Issuance Review

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## Introduction

In March 2022, Ygrene Energy Fund Inc. (“Ygrene”) developed the GoodGreen 2022-1 Private Placement Memorandum and included language specific to green bonds (the “Framework”, see Appendix 1). Under the Framework, green bonds may be issued that will be securitized by a portfolio of eligible Property Assessed Clean Energy (PACE) loans to finance renewable energy, energy efficiency, water conservation, seismic retrofits, and storm hardening upgrades in California<sup>1</sup> and Florida<sup>2</sup> (see Appendix 2).<sup>3</sup> Sustainalytics provided a Second Party Opinion on the Framework and its alignment with the Green Bond Principles 2021 in the same month.

In March 2022, Ygrene engaged Sustainalytics to review a portfolio of eligible PACE projects (the “2022-1 Ygrene Portfolio”) that will be funded through the GoodGreen 2022-1 LLC issuance of ABS<sup>4</sup> notes (herein referred to as the “2022-1 Green Bond Issuance”)<sup>5</sup> by GoodGreen 2022-1 and provide an assessment as to whether the projects in the portfolio comply with the use of proceeds, project selection, and management of proceeds criteria defined in the Framework.

## Evaluation Criteria

Sustainalytics evaluated the underlying projects that will be funded through the 2022-1 Green Bond Issuance for compliance based on whether:

1. The projects in the 2022-1 Ygrene Portfolio are aligned with the Use of Proceeds Eligibility Criteria outlined in the Framework; and
2. The commitments to select projects and manage proceeds in order to ensure that these commitments are aligned with the ones described in the Framework.

The projects funded by the 2022-1 Green Bond Issuance is summarized in Appendix 3 and Sustainalytics’ findings are summarized in Appendix 4.

## Issuing Entity’s Responsibility

Ygrene is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including a description of the eligible projects in the 2022-1 Ygrene Portfolio. This information was provided to Sustainalytics to support its review. Ygrene is also responsible for confirming to Sustainalytics that processes for project selection and management of proceeds for the 2022 issuance will remain aligned with the commitments described in the Framework.

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<sup>1</sup> Ygrene website, “California PACE Programs”, at: <https://ygrene.com/government-california>

<sup>2</sup> Ygrene website, “Florida PACE Programs”, at: <https://ygrene.com/government-florida>

<sup>3</sup> PACE programs were established by state legislation and approved by local governments in the US as a mechanism to provide low-cost financing for energy-efficiency retrofits, and renewable energy generation, water conservation, and storm resilience upgrades for residential and commercial properties in select states, including California and Florida. More information at: <https://www.energy.gov/eere/slsc/property-assessedclean-energy-programs>

<sup>4</sup> Asset-backed securities

<sup>5</sup> Ygrene has communicated to Sustainalytics that the 2022-1 Green Bond Issuance will be based on the green bond language included in the GoodGreen 2022-1 Private Placement Memorandum (excerpted in Appendix 1).

### **Independence and Quality Control**

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of the 2022-1 Green Bond Issuance. The work undertaken as part of this engagement included verification of the 2022-1 Ygrene Portfolio and confirmation from relevant employees of Ygrene that the use of proceeds, processes for project selection, and management of proceeds for the upcoming green bond issuance will remain aligned with the commitments described in the Framework.

Sustainalytics has relied on the information and the facts presented by Ygrene with respect to the 2022-1 Ygrene Portfolio. Sustainalytics is not responsible, nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by Ygrene.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the pre-issuance review.

### **Conclusion**

Based on the limited assurance procedures conducted,<sup>6</sup> nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the 2022-1 Green Bond Issuance is not aligned with the Framework.

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<sup>6</sup> Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

## Appendix 1: Ygrene's Use of Proceeds Eligibility Criteria (excerpted from the GoodGreen 2022-1 Private Placement Memorandum)

Under the Green Bond Principles, as most recently updated in June 2021 (the "GBP"), issued by the International Capital Market Association (the "ICMA"), Green Bonds are deemed to be "any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible Green Projects . . . and which are aligned with the four core components of the GBP." The four components of the GBP are (1) use of proceeds, (2) process for project evaluation and selection, (3) management of proceeds and (4) reporting. The ICMA does not certify bonds as "Green Bonds" and no regulatory body has made such a certification as to the Notes. However, Ygrene has engaged Sustainalytics US Inc. ("Sustainalytics") to review the PACE Programs and the structure and use of proceeds of securities such as the Notes to determine their conformity to the GBP.

The GBP state that the proceeds of a Green Bond should be used to provide clear environmentally sustainable benefits in categories including, but not limited to, renewable energy, energy efficiency (including efficient buildings), climate change adaptation and sustainable water management. The issuance of the Notes enables Ygrene to fund renewable energy, energy efficiency, climate change adaptation and water conservation improvements to residential and commercial properties in jurisdictions with PACE Programs. The Hearing Reports, Program Handbooks and Program Guidelines, which are available upon request, demonstrate that PACE Assets are authorized only to the extent the proceeds thereof are used for improvements that clearly satisfy these goals.

The GBP also suggest that the issuer of a Green Bond outline the decision-making process it follows in determining the eligibility of products, its decision making criteria and the related environmental sustainability objectives. Ygrene originates only PACE assets that have met legislative requirements established by state statutes and that are approved by cities and counties for inclusion in PACE Programs. Ygrene addresses environmental and social risks by ensuring compliance with the local and state permitting codes, health and safety standards, and the minimum product specifications and installation quality requirements mandated by the respective PACE programs. As set forth in the Hearing Reports and Program Guidelines each of the California Local Agencies and Green Corridor District provides consumers, contractors and service providers detailed guidance on their funding approval process, project eligibility criteria, project completion certification requirements (conditions to disbursement of funds) and the related environmental objectives. The GBP also encourage issuers to have their selection and evaluation processes reviewed by a third party.

Under the GBP, issuers are guided to manage the proceeds of Green Bonds by receiving them into dedicated sub-accounts for disbursement on eligible products. Because the issuance of the Notes constitutes a "refinancing" or "replenishment," the principle does not directly apply to the Issuer. However, the Issuer believes that this application of proceeds of Notes is the type of refinancing transaction that complies with the principles and purposes behind this GBP, since the proceeds of the Notes will be used as part of a program to finance individual eligible projects directly through the sponsoring governmental agency for further disbursement to contractors installing the related improvements. Ygrene's project proceeds relate to renewable energy, energy efficiency improvements, water efficiency improvements and climate adaptation, which includes disaster resiliency upgrades, which are recognized by the GBP as eligible project categories. The financing of renewable energy has a direct impact on lowering consumption of central power utility-based energy production and consumption.

Lastly, the GBP state that issuers should report at least annually a list of projects to which Green Bond proceeds have been allocated. The GBP also encourage issuers to report qualitative indicators and measures of the expected environmental sustainability impact of specific investments (e.g., reductions in greenhouse gas emissions, the number of people provided with access to clean power, a reduction in the number of cars required, etc.)

Due to privacy concerns and difficulty in obtaining reporting from property owners, the Issuer does not track on an individual project level the post-installation energy production, energy efficiency or water conservation performance of individual funded projects. However, Ygrene does calculate the aggregate environmental impact of the projects utilizing a proprietary impact model that estimates the energy and water savings and

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aggregate emission reductions from the projects funded by the PACE Assets underlying the Notes. Ygrene prepares an annual report for distribution to interested parties.

## Appendix 2: Eligible projects as defined by the GoodGreen 2022-1 Private Placement Memorandum

### California Authorized Improvements

California Authorized Improvements associated with the PACE Assets must qualify as eligible based on criteria established by each California Local Agency in the related California Program documents and in accordance with the Mello-Roos Act (see “ELIGIBILITY CRITERIA AND UNDERWRITING PROCEDURES” below). California Authorized Improvements are constructed or installed by licensed contractors that are authorized by the California Program Administrator, enrolled in the YgreneAuthorized or, in the case of residential properties, either YgrenePro or YgreneDirect contractor programs, and selected by the property owners. Costs of the California Authorized Improvements are negotiated directly between the property owners and the contractors. While infrequent, a property owner may elect to construct the improvements on a “do-it-yourself” basis, in which case the cost of the materials, but not labor, is eligible for funding under the related PACE Program. California Authorized Improvements are required to be affixed permanently to the Participating Parcels. Prior to the payment of the contractor (or the property owner) by the applicable California Local Agency, the California Local Agency (through its California Program Administrator) confirms that the materials and/or the work on the California Authorized Improvements relating to such payment to the contractor has been delivered and/or is complete by obtaining a certificate of completion that is signed by the property owner and the contractor, and, except in the case of certain types of projects or contractors that meet certain prerequisites, if the California Authorized Improvements required a city or county permit, obtains a copy of the permit or verifies the permit. The term of the Special Tax obligation may be elected by the property owner but does not exceed the average useful life of the related improvement.

### Florida Authorized Improvements

“Florida Authorized Improvements” under the Florida PACE Program include (i) any energy conservation and efficiency improvement, which is a measure to reduce consumption through conservation or a more efficient use of electricity, natural gas, propane, or other forms of energy on the property, including, but not limited to, air sealing; installation of insulation; installation of energy-efficient heating, cooling, or ventilation systems; building modifications to increase the use of daylight; replacement of windows; installation of energy controls or energy recovery systems; installation of electric vehicle charging equipment; and installation of efficient lighting equipment, (ii) any renewable energy improvement, which is the installation of any system in which the electrical, mechanical, or thermal energy is produced from a method that uses one or more of the following fuels or energy sources: hydrogen, solar energy, geothermal energy, bioenergy, and wind energy, (iii) wind resistance improvement, which includes, but is not limited to, improving the strength of the roof deck attachment, creating a secondary water barrier to prevent water intrusion, installing wind-resistant shingles, installing gable-end bracing, reinforcing roof-to-wall connections, installing storm shutters, or installing opening protections.

Florida Authorized Improvements must qualify as eligible based on criteria established by the Green Corridor District in the Florida Program documents, and in accordance with the Florida PACE Act (see “ELIGIBILITY CRITERIA AND UNDERWRITING PROCEDURES” below). To the extent required by applicable law or the Florida Program documents, Florida Authorized Improvements are constructed or installed by licensed contractors that are properly authorized and selected by the property owners. Costs of the Florida Authorized Improvements are negotiated directly between the property owners and the contractors. Florida Authorized Improvements are required to be affixed permanently to the participating parcels. Prior to the payment of the contractor (or the property owner), the Green Corridor District (through the Florida Program Administrator) confirms that the work on the Florida Authorized Improvements relating to such payment to the contractor is complete by obtaining a certificate of completion that is signed by the property owner and the contractor, and, except in the case of certain types of projects or contractors that meet certain prerequisites, if the Florida Authorized Improvements required a city or county permit, obtains a copy of the permit or verifies the permit. The term of the Florida PACE Assessment may be elected by the property owner but does not exceed the average useful life of the associated Florida Authorized Improvement.

## Appendix 3: Statistical breakdown of the 2022-1 Ygrene Portfolio<sup>7</sup>

### Efficiency type:

Improvement type	UPB (USD)	% of UPB <sup>8</sup>
Wind Resistant Measures	157,490,923.39	63.07
Solar	25,524,245.65	10.22
Building Envelope	24,700,378.56	9.89
HVAC	22,478,291.24	9.00
Windows, Doors, Skylights	8,499,639.10	3.40
Outdoor Water Efficiency	3,638,587.37	1.46
Indoor Water Efficiency	2,637,594.36	1.06
High-Efficiency Water Heating	1,749,519.27	0.70
Alternative Energy	1,255,263.07	0.50
High-Efficiency Lighting, Appliances	1,095,454.04	0.44
Seismic	420,263.90	0.17
Others	231,850.59	0.09
<b>Grand Total</b>	<b>249,722,010.55</b>	<b>100</b>

*Note: UPB – Unpaid Principal Balance*

### Geographic location:

State	UPB (USD)	% of UPB
CA	198,481,253.92	79.48
FL	51,240,756.63	20.52
<b>Total</b>	<b>249,722,010.55</b>	<b>100</b>

<sup>7</sup> This data is based on the loan tape shared with Sustainalytics as of January 7, 2022. The final composition of the portfolio may be adjusted prior to close.

<sup>8</sup> Sustainalytics notes that around 10% of the portfolio may include fossil fuel-powered upgrades. Refer to Sustainalytics' Second-Party Opinion on such proportion of deviation in the portfolio, which Ygrene will make available to the investors upon request.

## Appendix 4: Sustainalytics' Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
<b>Use of Proceeds Criteria</b>	Verification of the 2022-1 Ygrene Portfolio funded by the 2022-1 Green Bond Issuance (Appendix 3) to determine if the projects in the portfolio aligned with the Use of Proceeds eligibility criteria outlined in the Framework (Appendix 1).	All projects in the 2022-1 Ygrene Portfolio reviewed (Appendix 3) complied with the Use of Proceeds eligibility criteria.	None
<b>Project Selection and Management of Proceeds Criteria</b>	Verification of the 2022-1 Ygrene Portfolio funded by the 2022-1 Green Bond Issuance to determine if the commitments under processes for project selection, and management of proceeds were consistent with the Framework.	Ygrene has also confirmed to Sustainalytics that the processes for project selection and management of proceeds for the 2022 issuance are consistent with the commitments described in the Framework.	None

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