

Second-Party Opinion

The California Endowment Social Bond Framework



Evaluation Summary

Sustainalytics is of the opinion that The California Endowment Social Bond Framework aligns with the four core components of the Social Bond Principles 2020. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds – Power Building, Health Coverage, Health and Wellness, Health Workforce, Resilient Communities and Research and Evaluation – are aligned with those recognized by the Social Bond Principles, namely socioeconomic advancement and empowerment and access to essential services. Sustainalytics considers that the eligible categories will lead to positive social impacts and advance the UN Sustainable Development Goals, specifically SDGs 3, 4, 9, 10 and 17.



PROJECT EVALUATION / SELECTION The California Endowment’s leadership and program teams will be in charge of selecting the recipients of the Opportunity Investments. Prospective grantees will be evaluated to ensure they align with the Endowment’s mission and that they comply with all legal requirements. Sustainalytics considers the project selection process to be in line with market practice.



MANAGEMENT OF PROCEEDS The California Endowment will track net proceeds of the social bonds through a register which will be updated on an ongoing basis. The unallocated proceeds of the social bonds will be held in a segregated account at the Endowment’s custodian bank and will be transferred to an operating account for disbursement, on an as-needed basis. This is in line with market practice.



REPORTING The California Endowment intends to report on the allocation of proceeds on its website on a monthly basis, until full allocation, in line with the Endowment’s current grantmaking reporting. TCE also intends to include relevant impact metrics including recipients, location, subject area, and population served. Sustainalytics views the Endowment’s allocation and impact reporting as aligned with market practice.

Evaluation date January 12, 2021

Issuer Location Los Angeles, California, USA

Report Sections

Introduction.....	2
Sustainalytics’ Opinion.....	3
Appendices	10

For inquiries, contact the Sustainable Finance Solutions project team:

Ankita Shukla (New York)
Project Manager
ankita.shukla@sustainalytics.com
(+1) 617 603 3329

Hrithik Sharma (Toronto)
Project Support
hrithik.sharma@sustainalytics.com
(+1) 647 951 3309

Paramjot Kaur (New York)
Client Relations
susfinance.americas@sustainalytics.com
(+1) 646 518 9623

Introduction

The California Endowment (The “Endowment” or “TCE”), a California-based nonprofit public benefit corporation, is a statewide health foundation dedicated to expanding access to affordable, quality health care for underserved individuals and communities, and to promoting fundamental improvements in the health status of all Californians. The Endowment primarily provides grants to community-based organizations and institutions that benefit the health and well-being of Californians. As the largest healthcare foundation in the state of California, the Endowment has awarded more than 22,000 grants totaling over USD 2.9 billion to community-based organizations throughout California since its inception in 1996.¹

The Endowment is governed by a 17-member Board of Directors from California’s leading nonprofits, health organizations, educational institutions, businesses, and industries. The Board of Directors is diverse in race, ethnicity, gender, sexual orientation, community-based experience, region, and professional expertise and is designed to reflect a cross-section of California’s people and places.²

TCE has developed The California Endowment Social Bond Framework (the “Framework”) under which it intends to issue social bond(s) and use the proceeds to provide grant funding, over and above its normal grantmaking, to organizations, projects and programmes that are aligned with the Endowment’s program areas that support the movement for health equity and racial justice in California, with a focus on target population impacted by inequality. The Framework defines eligibility criteria in six areas:

1. Power Building
2. Health Coverage
3. Health and Wellness
4. Health Workforce
5. Resilient Communities
6. Research and Evaluation

TCE engaged Sustainalytics to review TCE’s Social Bond Framework, dated January 2021, and to provide a Second-Party Opinion on the Framework’s social credentials and its alignment with the Social Bond Principles 2020 (SBP).³ This Framework will be published in a separate document.⁴

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁵ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Social Bond Principles 2020, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.6, which is informed by market practice and Sustainalytics expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of TCE’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. TCE representatives have confirmed (1) they understand it is the sole responsibility of TCE to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and

¹ TCE website, “History”, at: <https://www.calendow.org/our-story/>

² TCE website, “Board of Directors”, at: <https://www.calendow.org/our-story/>

³ The Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

⁴ TCE’s Social Bond Framework will be available on The California Endowment’s website. at: <https://www.calendow.org/>

⁵ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

(3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and the Endowment.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the intended allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that TCE has made available to Sustainalytics for the purpose of this SPO.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on The California Endowment Social Bond Framework

Sustainalytics is of the opinion that The California Endowment Social Bond Framework is credible and impactful, and aligns with the four core components of the SBP. Sustainalytics highlights the following elements of TCE's Social Bond Framework:

- Use of Proceeds:
 - The eligible categories – Power Building, Health Coverage, Health and Wellness, Health Workforce, Resilient Communities and Research and Evaluation – are aligned with the categories recognized by the SBP, namely socioeconomic advancement and empowerment and access to essential services.
 - The proceeds from TCE's social bonds will fund Opportunity Investments which will be made in addition to the Endowment's normal grantmaking and will be directed to building resilience in the nonprofit sector and stabilizing and strengthening key nonprofit organizations (the "Opportunity Investments").
 - The COVID-19 pandemic, and the resultant control measures and socioeconomic impacts, have negatively impacted non-profits both operationally and financially. The Framework therefore makes eligible for Opportunity Investments those existing and prospective grantees and Program-Related Investment ("PRI") partners that are largely dependent on philanthropic funding and are particularly vulnerable. Sustainalytics views positively this intent to support organizations which have been most severely affected and to ensure continuing support for the communities they serve.
 - The Endowment operates grantmaking programs in primarily the following five focus areas that support the movement for health equity and racial justice in California with a focus on target populations impacted by inequality: Health Systems, Inclusive Community Development, Justice Reinvestment, Power Infrastructure, and Schools. Sustainalytics is of the opinion that by aligning the Opportunity Investments with the Endowment's existing program areas, the grants financed by bonds issued under the Framework will provide social benefits.

- Sustainalytics notes that full allocation of social bond proceeds for philanthropic purposes is not typically aligned with market practice. However, as TCE's operational model is entirely philanthropic, Sustainalytics views such allocation as an appropriate and beneficial exception.
- Project Evaluation and Selection:
 - The applications for Opportunity Investments will be evaluated by the Endowment's leadership and program teams. Grantees and PRI partners will undergo an application process that will be administered by program teams that are subject matter experts in their respective fields.
 - Opportunity Investment proposals will be reviewed against certain criteria including, but not limited to, (i) the issues their organization/project addresses, (ii) geographic focus and/or communities and populations their organization/project intends to support, (iii) long-term goals, (iv) existing revenue sources, (v) potential impact, (vi) prior experience, and (vii) diversity goals and efforts.
 - Based on the use of defined internal procedures, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
 - The Endowment will create a register to track the net proceeds of the social bonds on an ongoing basis and until full allocation. The register will be established and managed by the CFO and the Finance department staff to record the allocation of the net proceeds towards the Opportunity Investments.
 - Until disbursed, the net proceeds of the social bonds will be held in a segregated account at the Endowment's custodian bank. The bond proceeds will be transferred, as needed, to an operating account for disbursement.
 - The Endowment intends to fully allocate net bond proceeds within 2-3 years, while the use of a multi-year grant format will see full distribution of the proceeds in an additional 1-3 years.
 - Sustainalytics considers this process to be in line with market practice.
- Reporting:
 - TCE intends to report on the Opportunity Investments financed through the Bonds, along with its other grantmaking activities, and in line with its current reporting practices on the grantmaking by listing all its grants and grantees on its website on a monthly basis, as well as Form 990-PF tax filings, with ongoing updates on the work conducted in furtherance of its mission.
 - The Endowment also intends to include relevant impact metrics including recipients, location, subject area, and population served.
 - Based on TCE's reporting commitments, Sustainalytics considers this process to be in line with market practice.

Alignment with Social Bond Principles 2020

Sustainalytics has determined that The California Endowment Social Bond Framework aligns to the four core components of the SBP. For detailed information please refer to Appendix 1: Social Bond/Social Bond Programme External Review Form.

Section 2: Sustainability Performance of TCE

Contribution of Framework to The California Endowment's sustainability strategy

Sustainalytics is of the opinion that the Endowment demonstrates a strong commitment to sustainability with a focus on five key social areas: (i) health systems, (ii) inclusive community development, (iii) justice reinvestment, (iv) power infrastructure, and (v) schools.⁶

The Endowment actualizes this commitment through its operation of five regional grantmaking programs:

- Health Systems – This program aims to ensure that all Californians reside in communities with health systems that are accountable for achieving wellbeing and health, advance racial equity, prioritize prevention, address community conditions, strengthen resident governance and promote economic justice through a culturally competent workforce. As of December 2020, the Endowment

⁶ TCE website, "We Aim to Increase Social Justice and Health Equity in these Five Focus Areas", at: <https://www.calendow.org/focus-area-list/>

has cumulatively reported USD 1.1 billion worth of grants to 2,176 recipients in California, in support of health.⁷

- Inclusive Community Development – This program aims to ensure that California achieves significant, measurable progress towards democratizing community and economic development in support of the health and resiliency of people and communities by expanding community led housing, environmental and climate justice movements to ensure access to housing, clean air, land, and water for all.
- Justice Reinvestment – This program aims to ensure that California achieves substantial and measurable progress in divesting from incarceration and immigrant detention and reallocating those resources towards health, healing and wellbeing. For instance, in June 2020, the Endowment announced a ten-year, USD 225 million commitment in support of Black-led organizing, activism, and advocacy in California.⁸
- Power Infrastructure – This program aims to build and strengthen California’s power building (civic) ecosystem for advancing health, justice and racial equity through support for community organizing, developing youth and adult civic leadership, creation of new narratives that reflect diversity and the public good and fundamentally address structural racism across public systems.
- Schools – This program aims to ensure that every public-school student in California, regardless of race, income, identity or neighborhood, will be educated in a racially equitable, inclusive, healing centered, learning environment that meets the social emotional and physical needs of students and prepares them for lifelong health, wellbeing and civic leadership. As of December 2020, the Endowment has cumulatively reported USD 214.9 million worth of grants to 615 recipients in California, in support of education (includes education beyond schooling).⁹

Additionally, the Endowment envisions a “California for All” that leads the US as a powerful and conscientious voice for wellness, inclusion, and shared prosperity. In support of this, it intends to invest in the following “three bold ideas”¹⁰ in the decade to come:

- People Power – This initiative intends to develop young and adult leaders to work intergenerationally to raise up the voice of marginalized communities and promote greater civic activism as essential building blocks for an inclusive, equitably prosperous state.
- Reimagined Public Institutions – This initiative intends to transform California’s public institutions to become significant investors in, and champions of, racial and social equity, and in the healthy development and success of young people for generations to come.
- A 21st century “Health for All” System – This initiative aims to ensure prevention, community wellness, and access to quality health care for all Californians.

Along with its additional initiatives and programs, between FY 2010 and FY 2019, TCE funded nearly USD 1.8 billion in the Building Healthy Communities (BHC) initiative, with 10,615 distinct grant awards.¹¹ Sustainalytics is of the opinion that The California Endowment Social Bond Framework is aligned with the Endowment’s overall strategy and will further the Endowment’s action on its key social priorities, in addition to providing key support to its partners and grant recipients in the face of the impacts of the COVID-19 pandemic.

Well-positioned to address common social and environmental risks associated with the projects

While Sustainalytics recognizes that the net proceeds from the bond(s) issued under the Framework will be directed towards eligible projects that are recognized by the SBP to have positive social impact, Sustainalytics is aware that environmental and social risks still exist for such eligible projects. Some key risks associated with the eligible projects include risks of exacerbating health and racial inequity if funds are not well-managed or appropriately targeted to vulnerable populations; impacts on local communities and other stakeholders during program implementation; and risk of diversion of funds.

⁷ Candid, “Foundation Maps for the California Endowment”, at: <https://maps.foundationcenter.org/?acct=calendow>

⁸ PND by Candid, “California Endowment launches \$225 million racial equity effort”, at: <http://philanthropynewsdigest.org/news/california-endowment-launches-225-million-racial-equity-effort>

⁹ Candid, “Foundation Maps for the California Endowment”, at: <https://maps.foundationcenter.org/?acct=calendow>

¹⁰ TCE website, “Focus Area List”, at: <https://www.calendow.org/focus-area-list/>

¹¹ TCE report, “Toward Greater Transparency and Accountability” p4, at: https://www.calendow.org/app/uploads/2020/12/TCE-Demographic-Grant-Tracking-Report_Final.pdf

Sustainalytics is of the opinion that the Endowment is able to manage and/or mitigate potential risks through its invitation-based grantmaking process that requires final approval by the board. Each grant application goes through a multi-stage review process, for programmatic alignment, legal and fiscal due diligence and peer and management review and approval. The process is governed by TCE's Grant Maker Due Diligence policy through which the grant makers conduct due diligence for all types of grants, a process that occurs prior to the award of the grant and continues through the grant term. The due-diligence process addresses a series of issues including the Strategic Alignment Assessment that corroborates the programmatic fit of a project with TCE's charitable purpose and mission and External Perception Assessment, which addresses the potential social risks arising from the grantee's nature of project or operations. Furthermore, given the Endowment's expenditures are governed by its tax-exempt status under Section 501(c)(3) of the U.S. Internal Revenue Code (the "Code")¹², there are certain obligations related to disclosures and defined activities that will help TCE deliver on the intended use of proceeds categories mentioned in the Framework. TCE's grantmaking is guided by the "three bolds ideas": (i) people power, (ii) reimaging institutions and (iii) a 21st century health system for all. On its website, the Endowment clearly mentions its exclusion criteria for funding:

13

- Individuals
- Organizations that discriminate on the basis of race, color, religion, gender, gender identity and expression, national origin, citizenship status, age, disability, sexual orientation, or veteran status
- Organizations that require membership in a certain religion or that advance a particular religious faith
- Political campaigns, voter registration drives or lobbying for specific legislation

The Endowment has in place a board-appointed Audit Committee which advises the board on its external and internal auditor functions, financial reporting operations, effectiveness of internal controls, and its Whistle Blower Protection Process.¹⁴ The Endowment is guided by a strong set of core values through which it commits to transparency in all its dealings with grantees, partners, communities, among others. This commitment is complemented by the Endowment's Code of Ethics¹⁵ through which it commits to acting honestly, in accordance with external laws and regulations and internal policies while also committing take responsibility for its actions, and avoiding potential conflicts of interest.

Based on these policies, standards and assessments, Sustainalytics is of the opinion that the Endowment has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

Section 3: Impact of Use of Proceeds

All six use of proceeds categories are aligned with those recognized by the SBP. Sustainalytics has focused on where the impact is specifically relevant in the local context.

The importance of grant funding

With all sectors of the economy feeling the effects of the economic downturn caused by the control measures implemented to limit the spread of COVID-19,¹⁶ the non-profit sector is expected to be fundamentally upended and likely to receive diminished government and private-sector contributions. This situation has limited the ability of many non-profits to continue operating and fundraising effectively with many philanthropic organizations facing funding challenges compounded by the expected global economy contraction of 4.9% in 2020.¹⁷ This economic hardship has been estimated by the International Monetary Fund ("IMF") to be worse than that of the 2008-09 global financial crisis.¹⁸ This situation will bring financial strain to many organizations that depend on philanthropic donations.

A survey of 880 non-profit organizations from 122 countries found that 94% of the organizations reported being negatively impacted by the coronavirus global pandemic. Almost 15% of respondent organizations were

¹² IRS, "Exemption Requirements - 501(c)(3) Organizations", at: <https://www.irs.gov/charities-non-profits/charitable-organizations/exemptionrequirements-501c3-organizations>

¹³ TCE website, "We do not fund", at: <https://www.calendow.org/grants-and-impact-investing/>

¹⁴ TCE website, "Charter of The Audit Committee of The Board Of Directors", at:

<https://www.calendow.org/app/uploads/2020/09/AllBoardCommitteeCharters-7-27-16.pdf>

¹⁵ TCE website, "Code of Ethics", <https://www.calendow.org/app/uploads/2020/09/Code-of-Ethics.pdf>

¹⁶ WHO, "WHO Director-General's opening remarks at the media briefing on COVID-19", (2020), at: <https://www.who.int/dg/speeches/detail/whodirector-general-s-opening-remarks-at-the-media-briefing-on-covid-19--11-march-2020>.

¹⁷ IMF, "World Economic Outlook Update, June 2020", at: <https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020>

¹⁸ IMF, "An Early View of the Economic Impact of the Pandemic in 5 Charts", (April 2020), at: <https://blogs.imf.org/2020/04/06/an-early-view-of-the-economic-impact-of-the-pandemic-in-5-charts/>

forced to suspend their operations since their activities cannot be carried out remotely, and more than 60% had to eliminate or suspend some of their regular programs and services. In addition, 70% of organizations surveyed reported a significant reduction in the contributions they receive.¹⁹ Overcoming these issues, along with other challenges such as disrupted supply chains and staffing, will have long term impacts on their ability to continue to support vulnerable populations. Furthermore, organizations were asked to estimate the impact on their bottom lines, with half of the respondents foreseeing a decline of more than 20% in contributions within the next 12 months²⁰, straining financial resources for many organizations with some potentially shutting their doors permanently as a result.²¹ In the case of California, as of October 2020, the employment rate among workers in the bottom wage quartile decreased by 26.8% compared to the rate in January 2020, with specific decrease of 6.3% employment rate in the education and health services during the same period²². As of November 2020, the state also witnessed a dip of 28.3% in the small business revenues compared to January 2020, with small businesses in the education and health services facing 20.2% decrease in the revenues during the same period.²³

The Endowment's allocation of net bond proceeds, which will be allocated over and above TCE's normal grantmaking process, will help strengthen key nonprofit organizations and reduce funding inequality so that the Endowment and its grant recipients are in a better position to deliver an equitable recovery.

The importance of supporting the Endowment's major program areas: power building and health equity

TCE program areas of focus have all been affected by the ongoing pandemic. Grant funding is of particular importance to combat systematic inequalities, especially in the US where racial wealth gap is prevalent.²⁴ The barriers and disadvantages faced by communities of color in the U.S. are longstanding and entrenched in the social fabric of the nation. For instance, of Americans over the age of 25, 41% of the white population are employed in professional and management roles, the highest paying occupational category, compared to 31% of the Black/African American population.²⁵ Meanwhile, a poll conducted by National Public Radio in partnership with the Harvard School of Public Health, found that approximately 65% of the respondents from the Majority-native areas agree with the statement that the Native American people, where they live, are paid less than white people for equal work, just because they are Native, compared to just 33% of such respondents from the Non-majority Native areas.²⁶ Social inequality extends beyond the contours of the professional space and into individual and community wellbeing. A recent report by the Resource for the Future suggests that in terms of wildfire response, the federal government is more likely to extend support when the communities nearby are whiter or have higher than average incomes.²⁷ In the case of California, the racial disparities are quite perceptible and cut across most dimensions of the society. The latest annual report of California's Racial and Identity Profiling Advisory Board discloses that the relatively-low African American population in California (6.5%)²⁸ accounts for roughly 16% of all arrests made²⁹ by the state's eight largest law enforcement agencies, 26% of the state's probation population, and 29% of the prison population.³⁰ In the field of education, a study shows that while the majority of African-American Californians earn a college education, they are much less likely than whites to hold a four-year degree (or higher)—25% vs. 44%.³¹ The study is complemented by the

¹⁹ CAF Americas, "The Voice of Charities Facing Covid'19 Worldwide", Volume 2, (2020) at:

https://www.cafamerica.org/wpcontent/uploads/2_CV19_Report_VOL2.pdf

²⁰ The study was conducted in March 2020.

²¹ CAF Americas, "The Voice of Charities Facing Covid'19 Worldwide", Volume 2, (2020) at:

https://www.cafamerica.org/wpcontent/uploads/2_CV19_Report_VOL2.pdf

²² Opportunity Insights analysis (not seasonally adjusted), "Percentage Change in Employment", at: <https://tracktherecovery.org/>

²³ Opportunity Insights analysis, "Percent Change in Small Business Revenue", at: <https://tracktherecovery.org/>

²⁴ Market Watch report, "Opinion: The racial wealth gap is at the heart of America's inequality" (graphical datapoints on average family wealth and the gap between black and white homeownership rates), at: <https://www.marketwatch.com/story/the-racial-wealth-gap-is-at-the-heart-of-americas-inequality-2020-07-15>

²⁵ US Bureau of Labor Statistics, "Labour force characteristics by race and ethnicity" BLS Reports (October 2019), at:

[https://www.bls.gov/opub/reports/race-](https://www.bls.gov/opub/reports/race-andethnicity/2018/home.htm#:~:text=The%20employment%E2%80%93%20population%20ratio%20was,and%2063.2%20percent%20for%20Hispanic)

[andethnicity/2018/home.htm#:~:text=The%20employment%E2%80%93%20population%20ratio%20was,and%2063.2%20percent%20for%20Hispanic](https://www.bls.gov/opub/reports/race-andethnicity/2018/home.htm#:~:text=The%20employment%E2%80%93%20population%20ratio%20was,and%2063.2%20percent%20for%20Hispanic)

²⁶ NPR report, "As Native Americans Face Job Discrimination, A Tribe Works To Employ Its Own", at: <https://www.npr.org/2017/11/18/564807229/as-native-americans-face-job-discrimination-a-tribe-works-to-employ-its-own>

²⁷ The New York Times report, "Wealthier, Whiter Areas Are More Likely to Get Help After Fires, Data Show", at:

<https://www.nytimes.com/2020/12/16/climate/wildfires-minorities-aid.html>

²⁸ United States Census Bureau website, "Population estimates", at: <https://www.census.gov/quickfacts/CA>

²⁹ Between July 1, 2018 and December 31, 2018, by the eight largest agencies in California.

³⁰ Office of the Attorney Journal website, "Racial & Identity Profiling Advisory Board Annual Report 2020", at:

<https://oag.ca.gov/sites/all/files/agweb/pdfs/riipa/riipa-board-report-2020.pdf>

³¹ PPIC report, "Racial Disparities Are Widespread in California", at: <https://www.ppic.org/blog/racial-disparities-are-widespread-in-california/>

fact that the African American and Latino families in California account for only 12% of those with incomes above the 90th percentile, despite comprising 43% of all families in state.³²

In terms of access to healthcare, the Office of Minority Health and Health Equity in the U.S. states that achieving health equity requires valuing everyone equally with focused and ongoing societal efforts to address avoidable inequalities, historical and contemporary injustices, and the elimination of health and healthcare disparities.³³ Moreover, current data suggests that the economic and health impacts are disproportionately affecting minorities in the U.S.,³⁴ along with those in poor and marginalized communities due in part to (i) where they live, (ii) where they work, (iii) limited access to high-quality and affordable health services, and (v) limited savings and lack of access to insurance.³⁵ In the case of California, where about 7.5% of the population does not have access to health insurance³⁶, the ongoing pandemic has further aggravated the issue of racial health disparities.³⁷ As per the California Department of Public Health (“CDPH”), certain communities including the low-income, Black, Latino, Pacific Islander, and essential workers have been disproportionately impacted by the pandemic in terms of higher rates of infection, hospitalizations, and deaths.³⁸ In its latest Blueprint for a Safer Economy, the CDPH includes a health equity metric that measures these gaps, while also obligating the counties in California to demonstrate targeted investments “to eliminate disparities in levels of transmission” in case of non-performance on the equity metric.³⁹ While the targeted investments by the government seem promising, meeting the state-wide metrics is expected to require focused grant funding among other collaborative efforts.

TCE’s intention to fund Opportunity Investments over and above its normal grantmaking is expected to support the resiliency of organizations in the non-profit sector and to stabilize and strengthen key nonprofit organizations working to provide health equity and racial justice in California with a focus on target populations.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This social bond advances the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Power Building	4. Quality Education	4.4 By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship.
	10. Reduced Inequalities	10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.
Health Coverage	3. Good Health and Wellbeing	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all.
Health and Wellness		
Health Workforce		
Resilient Communities	9. Industry, Innovation and Infrastructure	9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and

³² PPIC report, “Income Inequality in California”, at: <https://www.ppic.org/publication/income-inequality-in-california/>

³³ Office of Minority Health and Health Equity report, “National Stakeholder Strategy for Achieving Health Equity” (p9), at: https://www.minorityhealth.hhs.gov/npa/files/Plans/NSS/NSS_05_Section1.pdf

³⁴ CDC, “Coronavirus Disease 2019: Racial & Minority Groups”, (April 2020), at: <https://www.cdc.gov/coronavirus/2019-ncov/need-extraprecautions/racial-ethnic-minorities.html>

³⁵ World Bank, “COVID-19 will hit the poor hardest. Here’s what we can do about it”, (April 2020), at: <https://blogs.worldbank.org/voices/covid-19-will-hit-poor-hardest-heres-what-we-can-do-about-it>

³⁶ Berkeley News report, “America’s health insurance gaps could speed spread of coronavirus”, at: <https://news.berkeley.edu/2020/03/10/americas-health-insurance-gaps-could-speed-spread-of-coronavirus/>

³⁷ UCSF report, “An Epidemic of Inequality”, at: <https://www.ucsf.edu/magazine/covid-inequality>

³⁸ CDPH website, “Blueprint for a Safer Economy – COVID-19 and Equity”, at: <https://www.cdph.ca.gov/Programs/CID/DCDC/Pages/COVID-19/CaliforniaHealthEquityMetric.aspx>

³⁹ CDPH website, “Blueprint for a Safer Economy – COVID-19 and Equity”, at: <https://www.cdph.ca.gov/Programs/CID/DCDC/Pages/COVID-19/CaliforniaHealthEquityMetric.aspx>

		transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all
Research and Evaluation	17. Partnerships for the Goals	17.17 Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships

Conclusion

TCE has developed The California Endowment Social Bond Framework under which it will issue social bonds and use the proceeds to finance grant funding, over and above its normal grantmaking, to organizations, projects, and programs meeting TCE’s grantmaking evaluation criteria or as investments consistent with its Program-Related Investment (“PRI”) process. Sustainalytics considers that the Opportunity Investments funded by the social bond proceeds are expected to provide positive social impact.

The Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Framework is aligned with the overall sustainability strategy of the Endowment and that the social use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 3, 4, 9, 10 and 17. Additionally, Sustainalytics is of the opinion that the Endowment has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Based on the above, Sustainalytics is confident that TCE is well-positioned to issue social bonds and that the Framework is robust, transparent, and in alignment with the core components of the Social Bond Principles 2020.

Appendix

Appendix 1: Social Bond/ Social Bond Programme -External Review Form

Section 1. Basic Information

Issuer name:	The California Endowment
Social Bond ISIN or Issuer Social Bond Framework Name, if applicable:	The California Endowment Social Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	January 15, 2021
Publication date of review publication:	

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the SBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (please specify): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW *(if applicable)*

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section *(if applicable)*:

The eligible categories for the use of proceeds, Power Building, Health Coverage, Health and Wellness, Health Workforce, Resilient Communities and Research and Evaluation are aligned with those recognized by the Social Bond Principles, namely socioeconomic advancement and empowerment and access to essential services. Sustainalytics considers that the eligible categories will lead to positive social impacts and advance the UN Sustainable Development Goals, specifically SDGs 3, 4, 9, 10 and 17.

Use of proceeds categories as per SBP:

- | | |
|---|---|
| <input type="checkbox"/> Affordable basic infrastructure | <input checked="" type="checkbox"/> Access to essential services |
| <input type="checkbox"/> Affordable housing | <input type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security | <input checked="" type="checkbox"/> Socioeconomic advancement and empowerment |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input type="checkbox"/> Other (please specify): |

If applicable please specify the social taxonomy, if other than SBP:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section *(if applicable)*:

The California Endowment's leadership and program teams will be in charge of selecting the recipients of the Opportunity Investments. Prospective grantees will be evaluated to ensure they align with the Endowment's mission and that they comply with all legal requirements. Sustainalytics considers the project selection process to be in line with market practice.

Evaluation and selection

- | | |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's social objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Social Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (please specify): |

Information on Responsibilities and Accountability

- Evaluation / Selection criteria subject to external advice or verification
 In-house assessment
- Other (please specify):

3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

The California Endowment will track net proceeds of the social bonds through a register which will be updated on an ongoing basis. The unallocated proceeds of the social bonds will be held in a segregated account at the Endowment's custodian bank and will be transferred to an operating account for disbursement, on an as-needed basis. This is in line with market practice.

Tracking of proceeds:

- Social Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (please specify):

Additional disclosure:

- Allocations to future investments only
 Allocations to both existing and future investments
- Allocation to individual disbursements
 Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds
 Other (please specify):

4. REPORTING

Overall comment on section (if applicable):

The California Endowment intends to report on the allocation of proceeds on its website on a monthly basis, until full allocation, in line with the Endowment's current grantmaking reporting. TCE also intends to include relevant impact metrics including recipients, location, subject area, and population served. Sustainalytics views the Endowment's allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

- Project-by-project
 On a project portfolio basis
- Linkage to individual bond(s)
 Other (please specify):

Information reported:

- Allocated amounts
- Social Bond financed share of total investment
- Other (please specify):

Frequency:

- Annual
- Semi-annual
- Other (please specify): Monthly

Impact reporting:

- Project-by-project
- On a project portfolio basis
- Linkage to individual bond(s)
- Other (please specify):

Information reported (expected or ex-post):

- Number of beneficiaries
- Target populations
- Other ESG indicators (*please specify: Recipients, location, and subject area*)

Frequency:

- Annual
- Semi-annual
- Other (please specify): Monthly

Means of Disclosure

- Information published in financial report
- Information published in sustainability report
- Information published in ad hoc documents
- Other (please specify): Online portal
- Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer’s documentation, etc.)

<https://www.calendow.org/grants-and-impact-investing/>

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE
Type(s) of Review provided:

- | | |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (please specify): | |

Review provider(s):
Date of publication:
ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE SBP

- i. **Second-Party Opinion:** An institution with social expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Social Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Social Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to social sustainability, and an evaluation of the social features of the type of projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or social criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Social Bond proceeds, statement of social impact or alignment of reporting with the SBP, may also be termed verification.
- iii. **Certification:** An issuer can have its Social Bond or associated Social Bond framework or Use of Proceeds certified against a recognised external social standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Social Bond Scoring/Rating:** An issuer can have its Social Bond, associated Social Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on social performance data, process relative to the SBP, or another benchmark. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material social risks.

Disclaimer

Copyright ©2021 Sustainalytics. All rights reserved.

The information, methodologies and opinions contained or reflected herein are proprietary of Sustainalytics and/or its third party suppliers (Third Party Data), and may be made available to third parties only in the form and format disclosed by Sustainalytics, or provided that appropriate citation and acknowledgement is ensured. They are provided for informational purposes only and (1) do not constitute an endorsement of any product or project; (2) do not constitute investment advice, financial advice or a prospectus; (3) cannot be interpreted as an offer or indication to buy or sell securities, to select a project or make any kind of business transactions; (4) do not represent an assessment of the issuer's economic performance, financial obligations nor of its creditworthiness; and/or (5) have not and cannot be incorporated into any offering disclosure.

These are based on information made available by the issuer and therefore are not warranted as to their merchantability, completeness, accuracy, up-to-dateness or fitness for a particular purpose. The information and data are provided "as is" and reflect Sustainalytics' opinion at the date of their elaboration and publication. Sustainalytics accepts no liability for damage arising from the use of the information, data or opinions contained herein, in any manner whatsoever, except where explicitly required by law. Any reference to third party names or Third Party Data is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner. A list of our third-party data providers and their respective terms of use is available on our website. For more information, visit <http://www.sustainalytics.com/legal-disclaimers>.

The issuer is fully responsible for certifying and ensuring the compliance with its commitments, for their implementation and monitoring.

In case of discrepancies between the English language and translated versions, the English language version shall prevail.

About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. The firm works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. The world's foremost issuers, from multinational corporations to financial institutions to governments, also rely on Sustainalytics for credible second-party opinions on green, social and sustainable bond frameworks. In 2020, Climate Bonds Initiative named Sustainalytics the "Largest Approved Verifier for Certified Climate Bonds" for the third consecutive year. The firm was also recognized by Environmental Finance as the "Largest External Reviewer" in 2020 for the second consecutive year. For more information, visit www.sustainalytics.com.



GlobalCapital
SRI Awards

Named

2015: Best SRI or Green Bond Research or Rating Firm
2017, 2018, 2019: Most Impressive Second Opinion Provider

