Bay Area Impact Investing Initiative

BAIII Fixed Income portfolio **March 2018 Update**

The BAIII multi-manager fixed income portfolio seeks to match the Barclays Aggregate performance and risk profile while owning bonds that have a positive impact on the Bay Area's sustainability, prosperity and resilience.

The US bond market has traded in a fairly narrow, low range as interest rates have remained low from 2011 through the end of 2017. Over the last 5-7 years the dispersion in performance among fixed income managers has also been low. The BAIII fixed income portfolio modeled several managers with various styles and specialties whose combined returns would be in line or better than the Barclays Aggregate benchmark, and also would show alignment with the underlying mission of prosperity, sustainability and resilience in the Bay Area.

The BAIII Multi Manager Fixed Income strategy

Performance 2013-2017	Annualized Return	Comments
Community Capital/CRANX *Govt/agency bonds + Bay Area impact - CDFI*	1.5%	5 year annualized, net (UWBA performance report)
Breckinridge Capital *Int. Investment Grade + ESG* *Inception 7/1/2011*	1.77%	5 year annualized, gross
White Oak SF *Direct Lending to middle market cos.*	11.2%	5 yr net Since inception 2007 Annualized 7.7%
AFL-CIO Housing Inv. Trust *Housing bonds, union jobs*	2.27%	Represents 5 year return ending 1/31/18, gross
Barclays Aggregate index	2.25%	Broad based benchmark

**Note: In 2012, Community Capital Management and its institutional fund, CRANX, provided both a low risk return and mission alignment with UWBA's mission through its impact-earmarking process. It is used as a proxy for this portion of the model BAIII Fixed Income portfolio.*

BAIII Fixed Income multi-manager portfolio's performance, as a simple average of these 4 strategies over 5 years, would have been approximately 4.0%, beating the benchmark Barclays Aggregate performance of 2.25%

The municipal bond market is a true place-based impact investment. Institutional investors generally prefer the taxable versions of municipal bonds and we are also seeing more green bonds coming to market, both in the corporate and government space. Demand is high for green bonds globally and they will likely become more popular for investors who want to segregate municipal and corporate financings for specific purposes (and transparency). Investments for water infrastructure, renewable energies, transportation, and housing can be bond-like for a fixed income portfolio, or they may be part of some public-private partnerships with a complex capital stack.

Examples of Bay Area Taxable Municipal Bonds

The fixed Income portfolio would include a variety of Bay Area bonds that complement the strategies of the managers also listed below. These particular taxable bonds were issued in the first half of 2017 and are examples of the type and size of the bond market in the Bay Area. Mission alignment, investment grade criteria, and strong market-like performance can be found in this diversified portfolio.

- *California Housing Finance Agency*
  $278,240,000 Home Mortgage Revenue Bonds
  2017 Series A (A1/AA-)
  Proceeds of the bonds were used to refinance bonds previously issued to *finance homeownership opportunities for low-, moderate- and middle-income families* within California.

- *City & County of San Francisco*
  $28,320,000 Certificates of Participation (Hope SF)
  Series 2017A (Aa2/AA/AA)
  The proceeds of the Certificates were used to finance or refinance a portion of the costs of the acquisition, construction, installation or improvement to, or rehabilitation of, *mixed-use housing development in the City's HOPE SF – Hunters View project* in the Bayview-Hunters Point neighborhood of the City.

- *Successor Agency to the Redevelopment Agency of the City & County of San Francisco*
  $89,765,000 2017 Series A Taxable Third Lien Tax Allocation Bonds
  Affordable Housing Project (A)
  The Taxable Bonds were issued to provide funds to *finance the development and/or construction of affordable housing comprised of five multifamily rental housing*

developments dedicated to low-income families and low-income seniors in Candlestick Point (total 536 units)

- *San Francisco Bay Area Rapid Transit District*
  $28,400,000 2017 Series A-2 Green Bonds (Aaa/AAA)
  The 2017A Bonds are part of $3.5 billion of bonds for acquisition or improvement of the Bay Area Rapid Transit District, BART. The 2017 Bonds are "Climate Bond Certified". *BART's Series 2017 Green Bonds* are the first bond issuance to be certified in the Western US by a transit agency under the Climate Bonds Initiative's Low Carbon Land Transport Standard.

- *Successor Agency to the Redevelopment Agency of the City & County of San Francisco*
  $43,400,000 2017 Series C Taxable Subordinate Tax Allocation Bonds
  Mission Bay New Money and Refunding Housing Projects (A)
  A portion of the net proceeds from the sale of the 2017C Bonds were used to *finance predevelopment, development and construction of affordable housing in the Mission Bay South Project Area,(total 340 units)*

Breckinridge Capital   www.breckinridge.com

Breckinridge Capital initiated its Sustainable Intermediate Govt/Corp fund in July of 2011, shortly after the modeling started for the UWBA equity portfolio. While not concentrated in Bay Area bonds, it represents an intermediate term investment grade fund that incorporates ESG factors into its analysis, including bonds from government and corporate issuers in the Bay Area and California. Breckinridge is also engaging some bond issuers in discussions about future risks, particularly with municipalities with exposures to sea level rise. For the purposes of example, we are using its performance record (since inception 7/1/11) in the table below.

> Our fully integrated bottom-up fundamental credit and ESG research is a key driver in security selection. We offer both government credit, core government credit and tax-efficient sustainable strategies that selectively invest in corporate, municipal, supranational and agency issuers with above-average ESG profiles and bonds that fund essential environmental, social or economic development projects.
>
> Sustainable investing requires a more comprehensive and forward looking assessment of risk. It is supported by research that goes beyond financial statements to analyze material environmental, social and governance (ESG) factors that can impact present and future performance. At Breckinridge, we believe sustainability is a natural match for investment grade fixed income strategies. We have developed formal frameworks for analyzing issuer sustainability using rigorous processes, a seasoned investment team, and proprietary technology.
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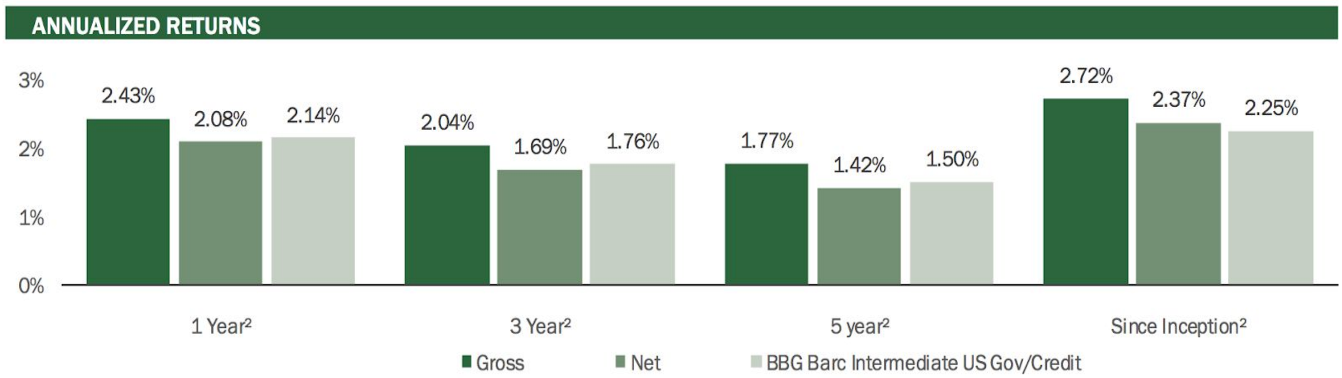
> Breckinridge's sustainable government credit strategies are designed for investors seeking to maximize risk-adjusted return and preserve capital while emphasizing environmental, social and governance (ESG) performance.
>
> Breckinridge Intermediate Sustainable Government Credit Strategy



White Oak Capital www.whiteoaksf.com

> At White Oak, we provide customized and efficient capital to support small and middle market businesses with their ever changing financing needs. We have financed over $7 billion in term loans, asset-based loans, equipment financings, factoring, working capital solutions and credit services. White Oak's Direct Lending Strategy is to lend directly to middle market companies who need financing for growth, expansion, acquisition, etc. to support long term growth.

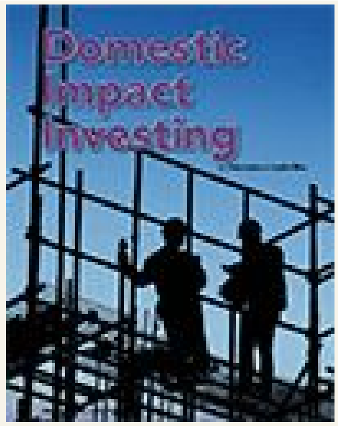
A variety of Bay Area and California loans can be identified in White Oak's institutional client portfolios. Term loans, asset-based lending, equipment lending, factoring, supply chain finance and trade finance are some of the products available to borrowers through White Oak, across multiple industries.

White Oak targets a 9-10% gross return and provided the FaceBook example in our introduction. For the Facebook loan, the servers were pledges as collateral for the loan. Other California based examples of direct loans include loans to companies in the LED lighting space, corporate restructurings and expansions, entertainment financing, and loans to med-tech and fin-tech developers here in the Bay Area. Since inception in 2007, the strategy has realized 7.7% net of all fees, which included the downturn, and has a 5 year annualized return of 15.1% gross, 11.2% net.

AFL-CIO Housing Trust www.aflcio-hit.com

Union funds (Taft Hartley and multi employer pension plans) have long invested in funds and projects that make strong returns and provide union jobs. The AFL-CIO Housing Investment Trust is such a fund whose performance and job-creating impact has been tracked.

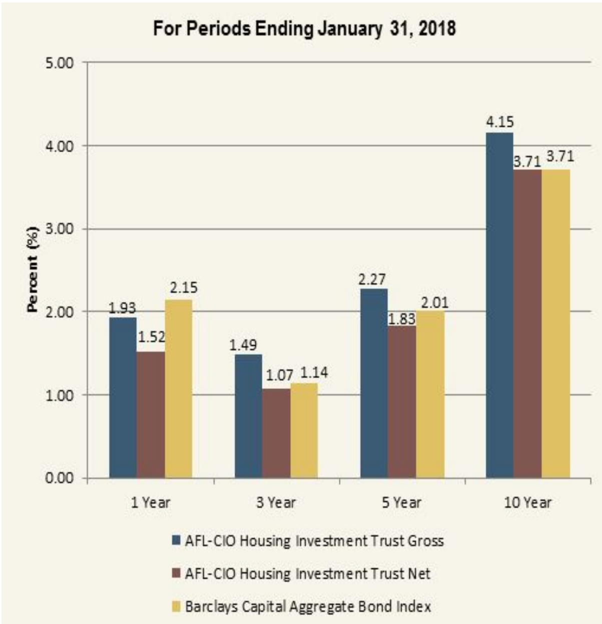
The HIT has distinguished itself as a fixed-income investment manager with a specialization in an important market niche — multifamily finance. This specialization along with focused management of its portfolio of mortgage backed securities provides important advantages for pension plans seeking the benefits of a fixed-income investment.



- Example of impact: http://www.aflcio-hit.com/wmspage.cfm?parm1=686

The AFL-CIO Housing Investment Trust (HIT) provided $16.8 million in financing for the $43.3 million rehabilitation of Gabilan Plaza Apartments, a multifamily development that has provided affordable housing to residents of Salinas, CA, for over 40 years. The all-union rehabilitation work is expected to generate more than 110 union jobs.

The HIT investment of union and public employee pension funds will help finance exterior and interior rehabilitation at the aging housing complex, which consists of 26 garden-style apartment buildings offering 200 rental units. All of the units are income restricted, with 10% designated for households earning up to 50% of the area median income and the rest reserved for families earning up to 60% of the area median income.



The HIT is committed to putting union capital to work in secure investments that produce competitive returns - its primary objective – at the same time:

- creating quality union construction jobs
- building affordable and workforce housing

The HIT's investments also:

- provide broader economic benefits that improve the lives of working people and their communities
- support environmentally responsible investing through investment in energy-efficient rehabilitation and retrofits of existing housing and financing new construction that meets the energy-saving requirements of LEED or other standards.