

Fee Schedule

Civic Engine Guaranty Fund --- Fee Schedule & Economics

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Executive Summary

Effective investor cost: ~0.15%. No carried interest. No performance fee.

The developments --- not the investors --- pay for fund operations. The guarantee fee paid by each project (\$375,000/year net of tax at full deployment) exceeds the Fund's actual operating expenses (~\$300,000/year), making the net cost to investors effectively zero. Arnold Holdings contributes 20% of after-debt project cash flow back to the Fund as subordinate equity, aligning the developer's interests permanently with investor outcomes.

Metric	Value
Gross Treasury Yield	~4.50%
Actual Operating Expenses	~0.15%
Net Investor Return (Retained)	~4.35%
Carried Interest	None
Performance Fee	None

Fee Structure Overview

The Fund's fee structure has three components:

- 1. Management Fee (0.25%)** --- A cost-recovery fee covering third-party fund expenses. Any excess is returned to the Fund annually.
- 2. Guarantee Fee (0.25%)** --- Paid by each development project to the Manager for the guarantee service. The Manager contributes the net-of-tax proceeds to the Fund as additional capital.

3. **Project Cash Flow Contribution (20%)** --- Arnold Holdings contributes 20% of after-debt project cash flow (net of applicable taxes) to the Fund as additional capital.

This structure is uncommon in the impact space: most developers extract maximum fees; Arnold Holdings contributes its own income back to the Fund.

Management Fee

Element	Specification
Annual Fee Rate	0.25% of committed capital
Fee Basis	Total committed capital (not called capital or NAV)
Payment Timing	Quarterly in advance (0.0625% per quarter)
Fee Commencement	First close date
Fee Termination	Upon dissolution and final liquidation
Excess Return	Any management fee collected in excess of actual third-party expenses shall be returned to the Fund within 60 days of fiscal year end

Fee Calculation Example

Initial fund operations will be based on \$30,000,000; figures below illustrate full-scale deployment.

Based on target fund size of \$200,000,000:

Calculation	Amount
Committed Capital	\$200,000,000
Annual Management Fee (0.25%)	\$500,000
Quarterly Payment	\$125,000
Less: Estimated Annual Expenses	(\$225,000–\$350,000)
Excess Returned to Fund	\$150,000–\$275,000
Effective Net Cost to Investors	~\$300,000 (~0.15%)

Expenses Covered by Management Fee

The management fee covers the following third-party expenses on a cost-recovery basis:

Fund Administration

- Investor onboarding and subscription processing
- Capital call processing and confirmation
- Quarterly NAV calculation
- Terminal distribution processing and capital account administration
- Investor portal and reporting platform
- K-1 preparation and distribution

Annual Audit

- Annual financial statement audit by independent accounting firm
- Preparation of audited financial statements
- Audit committee coordination

Ongoing Legal & Compliance

- Annual Form D amendments (if required)
- State blue sky filings and renewals
- Ongoing regulatory compliance monitoring
- Routine legal matters (not including disputes or litigation)

Rating Agency (If Pursued)

- Initial rating agency engagement and analysis
- Annual surveillance fee
- Rating maintenance and reporting

Estimated Annual Expense Budget

The following represents estimated annual expenses to be covered by the management fee:

Expense Category	Low Estimate	High Estimate	Notes
Fund Administration	\$60,000	\$90,000	Third-party administrator
Annual Audit	\$40,000	\$60,000	Regional accounting firm
Legal & Compliance	\$30,000	\$50,000	Ongoing matters only
Rating Agency (optional)	\$50,000	\$75,000	KBRA or similar
Insurance (E&O, D&O)	\$15,000	\$25,000	Manager-level policies
Treasury Custody	\$10,000	\$15,000	Institutional custodian
Reporting & Technology	\$10,000	\$15,000	Investor portal, etc.
Miscellaneous	\$10,000	\$20,000	Travel, printing, etc.
Total Estimated Expenses	\$225,000	\$350,000	
Management Fee Revenue	\$500,000	\$500,000	At full fundraise
Excess Returned to Fund	\$150,000	\$275,000	

Cost-Recovery Mechanism

The management fee operates on a cost-recovery basis. The Manager collects 0.25% annually to fund third-party expenses. At fiscal year end, the Manager reconciles actual expenses against fee revenue and returns any surplus to the Fund. If actual expenses exceed the management fee in any year, the Manager absorbs the shortfall. This structure ensures investors pay only the actual cost of fund operations while the Manager bears overrun risk.

Guarantee Fee

Element	Specification
Annual Fee Rate	0.25% (25 basis points) of outstanding guaranteed amount
Payor	Each development project SPE
Payee	Civic Engine Fund Management LLC (the Manager)
Fee Basis	Outstanding guaranteed amount per project
Payment Timing	Capitalized into construction budget; payable quarterly during guarantee term
Duration	During the active guarantee period (construction through stabilization)
Use of Proceeds	Manager contributes net-of-tax guarantee fee revenue to the Fund as additional capital

Guarantee Fee Calculation

Based on \$200,000,000 in outstanding guarantees:

Calculation	Amount
Outstanding Guaranteed Amount	\$200,000,000
Annual Guarantee Fee (0.25%)	\$500,000
Less: Manager Applicable Taxes (~25%)	(\$125,000)
Net Contribution to Fund	\$375,000

Market Comparison — Guarantee and Insurance Fees

The Fund's 0.25% guarantee fee is substantially below comparable government and agency programs:

Program	Fee Rate	Notes
Civic Engine Guaranty Fund	0.25%	Capitalized into construction budget
FHA Mortgage Insurance Premium	0.50–1.75%	Annual MIP on outstanding balance
SBA 7(a) Guarantee Fee	2.00–3.75%	Upfront fee on guaranteed portion
Fannie Mae Guarantee Fee	0.25–0.75%	Annual fee on outstanding balance
USDA Rural Guarantee Fee	1.00% upfront + 0.50% annual	Combined upfront and annual

The Fund's guarantee fee is a fraction of what federal programs charge for comparable credit enhancement. Federal programs like FHA Mortgage Insurance (0.50-1.75%) and SBA guarantees (2.00-3.75%) have established that guarantee fees are a standard, accepted cost of development financing. The Civic Engine fee at 0.25% is 80% below FHA rates and more than 90% below SBA rates — yet it provides comparable credit enhancement to construction lenders. For projects, this translates to a negligible ~\$10 per unit per month, capitalized into the construction budget with zero cash flow impact during construction.

HNEL Guarantee Fee Example (First Deployment)

The Fund's first guarantee deployment illustrates the fee mechanics at a concrete scale:

Metric	HNEL Value
Guarantee amount	\$10,000,000
Annual guarantee fee (0.25%)	\$25,000
Less: Manager applicable taxes (~25%)	(\$6,250)
Net annual contribution to Fund	\$18,750
Guarantee duration (est.)	~3 years (construction through stabilization)
Total estimated guarantee fee contribution	~\$56,250

The HNEL guarantee fee is capitalized into the project's construction budget and does not create cash flow strain. At \$10M, the HNEL guarantee represents 5% of Fund capacity at full capitalization, demonstrating how individual project guarantees are sized conservatively relative to the overall portfolio.

Impact on Development Cost

Metric	Value
Guarantee fee per unit/year (~4,000 units)	~\$125
Guarantee fee per unit/month	~\$10.40
As % of total development cost	<0.05%
Treatment	Capitalized as soft cost in construction budget

The guarantee fee is capitalized into the construction loan budget and does not create cash flow strain during construction. At ~\$10/unit/month, the cost is negligible relative to total development costs.

Project Cash Flow Contribution

Element	Specification
Contribution Rate	20% of after-debt project cash flow
Contributor	Arnold Holdings LLC (via Manager)
Contribution Basis	After-debt cash flow net of applicable income taxes
Contribution Formula	$20\% \times \text{After-Debt CF} \times (1 - \text{Arnold Holdings Effective Tax Rate})$
Contribution Timing	Annually, following receipt of project cash distributions
Treatment in Fund	Additional capital contribution; Arnold Holdings receives Fund Units at current NAV
Duration	During the Fund term, beginning when projects generate operating cash flow

Cash Flow Contribution Calculation

At full project stabilization (~4,000 units, ~\$2,500/unit after-debt cash flow):

Calculation	Amount
Total After-Debt Cash Flow	\$10,000,000
Arnold Holdings Contribution Rate	20%
Gross Contribution	\$2,000,000
Less: Applicable Taxes (~25%)	(\$500,000)
Net Annual Contribution to Fund	\$1,500,000

Cash Flow Ramp

Project cash flow builds as construction phases stabilize:

Period	After-Debt CF	Net Contribution to Fund
Years 1–2 (construction)	\$0–\$1,000,000	\$0–\$150,000
Years 3–4 (early stabilization)	\$3,000,000–\$5,000,000	\$450,000–\$750,000
Years 5–6 (ramping)	\$7,000,000–\$9,000,000	\$1,050,000–\$1,350,000
Years 7–10 (fully stabilized)	\$10,000,000	\$1,500,000

Arnold Holdings' cash flow contributions represent a meaningful commitment of the developer's own economics to the Fund's long-term growth. By contributing 20% of after-debt cash flow (net of taxes), Arnold Holdings is investing in the Fund alongside its investors — building a subordinate equity position that only pays out after investors receive their full capital and compounded returns. This alignment of interests is uncommon in fund structures: most developers extract maximum fees; Arnold Holdings contributes its own income back to the Fund.

Capital Contribution Mechanics

Arnold Holdings' cash flow contributions are structured as capital contributions, not fund operating income:

1. **Arnold Holdings receives project cash flow** as developer and pays applicable income taxes.
2. **Arnold Holdings contributes 20% (net of taxes)** to the Fund as additional capital.
3. **The Fund issues Units to Arnold Holdings** at current NAV, reflecting Arnold Holdings' growing equity position.

4. **No income is allocated** to existing Fund investors from these contributions. Investors' capital accounts grow only from Treasury returns.
5. **Arnold Holdings' ownership percentage increases** over time as contributions accumulate. Investor ownership percentages decrease proportionally, but investor *absolute returns* are unaffected.

This structure avoids phantom income for Arnold Holdings (taxes paid before contribution), avoids UBTI for tax-exempt investors (contributions are equity, not income), and accelerates fund growth beyond Treasury returns.

Expenses Not Covered by Management Fee

The following expenses are the responsibility of parties other than the Fund and are not paid from the management fee:

Organizational Expenses (Manager Responsibility)

- Legal fees for fund formation and document drafting
- Entity formation filing fees
- Initial regulatory filings
- Marketing and fundraising costs

Note: The Manager (via Arnold Holdings) will bear all organizational expenses. These will not be charged to the Fund or capitalized.

Extraordinary Expenses (Fund Responsibility, if Incurred)

- Litigation costs and legal fees related to disputes
- Indemnification obligations
- Costs arising from guarantee defaults (from Fund assets)
- Extraordinary regulatory matters

Note: Extraordinary expenses, if any, would be paid from Fund assets and would reduce the capital base and terminal distributions to investors. The Manager has no obligation to advance these costs.

Impact on Investor Returns

The fee structure is designed to maximize investor net returns while enabling accelerated fund growth:

Line Item	Rate / Amount	Notes
Gross Treasury Yield	4.50%	Based on current rate environment
Less: Actual Fund Expenses	(~0.15%)	Cost-recovery; excess management fee returned
Net Investor Return (Retained)	~4.35%	Retained and compounding within Fund

Based on target fund size (initial fund operations based on \$30,000,000; figures below illustrate full-scale deployment):

Metric	Amount
Fund Size (Investor Capital)	\$200,000,000
Gross Treasury Income (4.50%)	\$9,000,000
Less: Actual Fund Expenses	(~\$300,000)
Net Return Retained in Fund	~\$8,700,000
Net Annualized Investor Return	~4.35%

Arnold Holdings Capital Contributions (Separate from Investor Returns)

In addition to investor Treasury returns, Arnold Holdings contributes capital to the Fund from two project-level sources. These contributions build Arnold Holdings' subordinate equity position — they do not increase investor returns, which remain ~4.35%.

Source	Annual Amount (at stabilization)	Beneficiary
Net Treasury Return (retained)	\$8,700,000	Investors (~4.35%)
Arnold Holdings Guarantee Fee Contribution (net of tax)	\$375,000	Arnold Holdings equity (subordinate)
Arnold Holdings Cash Flow Contribution (net of tax)	\$1,500,000	Arnold Holdings equity (subordinate)
Total Annual Fund Growth	\$10,575,000	

Arnold Holdings' contributions increase the Fund's total asset base and guarantee capacity over time, enabling additional development beyond the initial \$1 billion program. At termination, investor capital and compounded returns are distributed first (Priority 1 and 2); Arnold Holdings' contributed capital is subordinate (Priority 3 and 4).

Fee Adjustments and Special Circumstances

Partial Year Fee

For any partial year (initial year or termination year), the management fee will be prorated based on the number of days in the fee period divided by 365.

Fee During Extension Periods

The management fee rate (0.25%) remains unchanged during any extension periods. Arnold Holdings capital contributions continue during extensions.

Anchor Investor Fee Arrangements

Because the management fee is already structured on a cost-recovery basis, reduced fee arrangements for anchor investors are generally not applicable. The Manager may, in its discretion, offer other accommodations to anchor investors committing \$25 million or more, disclosed via side letter and subject to most-favored-nation provisions.

Fee Comparison to Market

The Fund's effective cost to investors compares favorably to all market alternatives:

Structure	Typical Fee	Notes
Civic Engine Guaranty Fund	~0.15% effective	Cost-recovery only; no surplus to Manager
Traditional PE/RE Fund	1.5–2.0% + 20% carry	Plus organizational expenses
CDFI Note Programs	0.75–1.25%	Often plus administrative costs
Impact Bond Funds	0.50–1.00%	Plus pass-through expenses
Money Market / Treasury Funds	0.10–0.40%	No impact component

The Fund's fee structure reflects a fundamental alignment of interests: the developments pay for fund operations through the guarantee fee, which more than covers actual expenses — meaning investors bear no net fee burden. The Manager is compensated through project-level guarantee fees (not investor capital), and both the Fund and Arnold Holdings benefit from project success through the cash flow contribution mechanism.

The result is an effective cost to investors that is competitive with passive index funds, a fee mechanism where the development projects (not investors) bear the actual cost, and a developer that contributes its own cash flow back to the Fund as subordinate equity.

Terminal Distribution Waterfall

At Fund termination, assets are distributed in the following priority:

Priority	Recipient	Description
1	Investors	Return of original capital contributions
2	Investors	Compounded net Treasury returns (retained during Fund term)
3	Arnold Holdings	Return of contributed capital (guarantee fees + CF contributions)
4	Arnold Holdings	Growth earned on Arnold Holdings' contributed capital

Investor capital and returns are senior to all Arnold Holdings contributed capital. Arnold Holdings' equity position is subordinate, ensuring investors receive their full expected returns before Arnold Holdings receives any distribution on its contributed capital.

This waterfall structure is designed to protect investor capital. Investors receive their original capital first (Priority 1), then compounded returns (Priority 2), before Arnold Holdings receives any distribution on its contributed capital (Priority 3 and 4). Arnold Holdings' position is fully subordinate, aligning the developer's incentives with investor outcomes.

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