

DAF Sponsor Due Diligence Package

Civic Engine Guaranty Fund LLC

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Prepared By: Arnold Development Group

Standardized due diligence submission for DAF sponsors evaluating the Fund as a PRI investment option

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1. Cover Letter Template

Customize for each DAF sponsor.

Dear [Impact Investment Team / Name],

We are writing to request that the Civic Engine Guaranty Fund LLC be evaluated as an approved Program-Related Investment (PRI) option for your donor community.

The Fund is a Treasury-backed guarantee facility --- initially \$30 million, scaling to \$200 million at full deployment --- that enables affordable housing development in Kansas City, Missouri. The structure is specifically designed for charitable investors: 100% U.S. Treasury collateral, ~4.35% net annualized return, PRI-eligible under IRC Section 4944(c), with measurable social and environmental impact.

We believe the Fund's risk/return profile is well-suited for [Sponsor Name]'s donors who seek fixed-income impact options with principal protection. Enclosed please find our due diligence package for your review.

The Fund's first guarantee deployment --- a \$10 million backstop for Historic Northeast Lofts (\$451M, 395 units, under construction) --- is limited to JPMC's SPE capitalization requirement, with closing targeted for June 2026. This provides near-term, real-world validation of the guarantee model.

We are available to present to your investment committee, provide additional materials, or arrange a site visit to our projects in Kansas City at your convenience.

Respectfully,

Jonathan Arnold
Managing Partner

Arnold Development Group
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 (816) 529-7010

2. Fund Overview

2.1 Fund Summary

Term	Value
Fund Name	Civic Engine Guaranty Fund LLC
Structure	Delaware Limited Liability Company
Manager	Civic Engine Fund Management LLC (100% owned by Arnold Holdings LLC)
Initial Fund Size	\$30,000,000
Target Fund Size	\$200,000,000
Net Investor Return	~4.35% annualized (retained, compounding)
Effective Investor Cost	~0.15% (cost-recovery management fee; excess returned to Fund)
Guarantee Fee	0.25% paid by projects to Manager; contributed to Fund as capital
Collateral	100% U.S. Treasury securities
Leverage Ratio	5.75:1 (guarantees to equity)
Fund Term	15 years + 2 two-year extensions
Minimum Investment	\$1,000,000
Carried Interest	None
PRI Eligible	Yes
Securities Exemption	Regulation D, Rule 506(c)
Distributions	Retained and compounding; distributed at termination

2.2 Investment Strategy

The Fund invests 100% of capital in U.S. Treasury securities. The Treasury portfolio serves as collateral for construction loan guarantees at 50% of project principal, enabling affordable housing development at institutional scale.

Capital flow:

1. Investor capital → U.S. Treasuries → Treasury interest compounds (~4.35% net)
2. Treasury portfolio → collateral for construction loan guarantees
3. Projects get built → guarantees release as buildings stabilize → capital recycles
4. At termination → investor capital + compounded interest distributed

Key characteristic: Investor capital is never deployed into projects. It remains in Treasuries. The guarantee is what creates the development --- the capital itself stays safe.

2.3 Fee Structure (Three-Component, Capital Contribution Model)

Component	Rate	Source	Destination
Management Fee	0.25% per annum	Fund assets	Manager (cost-recovery; excess returned)
Guarantee Fee	0.25% per annum	Projects pay Manager	Manager contributes to Fund as equity
CF Contribution	20% after-debt project cash flow	Arnold Holdings project distributions	Arnold Holdings contributes to Fund as subordinate equity

Net effect: Investors bear ~0.15% in actual expenses. Fund growth is accelerated by guarantee fees and Arnold Holdings' cash flow contributions. Arnold Holdings builds equity in the fund through capital contributions, aligning long-term incentives.

3. PRI Qualification Analysis**3.1 Statutory Framework**

Under IRC Section 4944(c), a program-related investment must satisfy four tests:

3.2 Test-by-Test Analysis

#	PRI Requirement	Fund Characteristic	Assessment
1	Primary purpose is charitable	Enables construction of ~1,600 affordable housing units (30--80% AMI), reduces CO2 by ~8,000 tons/year, delivers \$4.8M/year in energy savings to low-income residents, provides wraparound services (childcare, healthcare, food, transportation)	Satisfied
2	No significant purpose of income or property appreciation	~4.35% net return is well below market for comparable development finance risk (direct lending: 8--12%, equity: 15--25%). The Fund's collateral sits in Treasuries, which are the lowest-risk asset class. Effective investor cost is ~0.15%	Satisfied
3	No lobbying purpose	The Fund engages in no lobbying activities	Satisfied
4	No political campaign purpose	The Fund engages in no political campaign activities	Satisfied

3.3 Supporting Legal Authority

- **IRC Section 4944(c):** Statutory definition of PRI
- **Treasury Regulation Section 53.4944-3:** Implementing regulations
- **Revenue Ruling 74-587:** Housing for the poor qualifies as charitable
- **2016 PRI Regulations Update:** PRIs may be made to for-profit entities and may earn market-rate returns if the other tests are satisfied
- **Revenue Ruling 2016-13 (proposed):** Environmental protection as charitable purpose

3.4 Full Analysis Available

A comprehensive PRI Qualification Opinion Template (Document 1.9) has been prepared for tax counsel review. This 300+ line memorandum provides detailed statutory analysis, regulatory citations, and comparison to PRI precedent. Available upon request.

4. Impact Metrics

4.1 Project Overview

The Fund enables two developments in Kansas City:

North Loop	Crossroads	Combined	
Location	Downtown KC CBD	Crossroads Arts District	Two districts
Total Units	2,000	~2,000	~4,000
Affordable Units (LIHTC)	800	~800	~1,600
Construction Standard	Passive House	Passive House	All Passive House
Energy System	52 MW TEN + geothermal	~52 MW TEN + geothermal	~104 MW
Annual Energy Savings	\$2.4M	~\$2.4M	~\$4.8M
Annual CO2 Avoided	~4,000 tons	~4,000 tons	~8,000 tons
Development Cost	\$552M	~\$600M	~\$1.15B

4.2 Impact Measurement Framework

Core Impact (Conservative, Third-Party Verifiable --- 11.4% Blended IRR):

Impact Stream	Annual Value	Methodology
Rent savings (vs. market)	\$9.6M	HUD FMR comparison
Energy savings (Passive House + geothermal)	\$4.8M	Third-party energy audit
Carbon avoidance	\$0.4M	EPA social cost of carbon
Treasury yield to investors	\$8.7M	Direct financial return
Total core impact	\$23.5M	

Blended core IRR: $\$23.5M / \$200M = 11.4\%$ (4.35% financial + 7.05% social)

Illustrative Community Value (~16.2% Blended IRR):

Including childcare savings, healthcare access value, transportation savings, food access value, and economic opportunity savings --- modeled from peer-reviewed studies and disclosed separately from auditable metrics.

4.3 Impact Reporting

The Fund provides:

- **Quarterly:** Portfolio summary, guarantee status, Treasury performance
- **Annually:** Full impact report with IRIS+ metrics, third-party energy audits, carbon accounting
- **For PRI investors:** Expenditure responsibility reports per IRC 4945(h) requirements

5. Risk Analysis

5.1 Principal Risk

Assessment: Low. Investor capital is invested 100% in U.S. Treasuries. The guarantee structure creates contingent liability, not deployed capital. Even if a partial guarantee draw occurs, the Fund retains its Treasury portfolio with subrogation rights against the project.

5.2 Guarantee Draw Risk

Assessment: Low. Risk mitigants include:

- Guaranteed Maximum Price (GMP) contracts on all construction
- Payment and performance bonds from rated sureties
- 5%/10% construction contingency reserves
- State housing agency oversight on all LIHTC projects
- Third-party market studies before commitment
- Cash flow recovery mechanism (Treasury-rate interest on any draw)

5.3 Developer Risk

Assessment: Moderate, mitigated by track record. Arnold Development Group has a 27-year track record: Mayo Mill (\$14M) → Second & Delaware (\$109M, world's largest Passive House) → Historic Northeast Lofts (\$451M, under construction). Each project larger and more complex than the last.

5.4 Market Risk

Assessment: Moderate. Kansas City's housing market fundamentals are strong (20,000+ unit affordable housing gap). The fund's projects address documented demand. LIHTC units have historically maintained 95%+ occupancy in the Kansas City metro.

6. Management Team

6.1 Arnold Development Group

ADG is a Kansas City-based development firm with 27 years of experience in mission-driven real estate. Arnold Holdings LLC is the 100% owner of Civic Engine Fund Management LLC, the Fund's manager.

6.2 Key Personnel

Jonathan Arnold --- Managing Partner, Arnold Development Group. 27 years of development experience. Led Mayo Mill, Second & Delaware, and Historic Northeast Lofts. B.Arch., Cornell University; M.S., Real Estate Development, Columbia University.

Advisory Board:

- Jeremy Whiteford (ADG-affiliated)
- Danny Roberson (ADG-affiliated)
- Jeff Mott (ADG-affiliated)
- Tom McDonnell (Way Home-affiliated; former CEO, DST Realty)
- Ashok Gupta (Independent)
- William Becker (Independent)

7. Due Diligence Document Index

The following documents are available for your review:

#	Document	Description
1	One-Page Fund Summary (2.1)	Overview of fund structure, terms, and impact
2	Fee Schedule (2.2)	Detailed breakdown of three-component fee structure
3	Private Placement Memorandum (1.1)	Full legal offering document
4	Operating Agreement (1.2)	Fund governance and member rights
5	PRI Qualification Opinion Template (1.9)	Detailed IRC 4944(c) analysis for tax counsel
6	Impact Methodology & Calculation Framework (2.4)	Full methodology for impact claims
7	Impact Summary Table (2.3)	Summary of impact metrics
8	Market Comparables Memo (2.5)	Positioning vs. comparable impact funds
9	Due Diligence Q&A (4.1)	Comprehensive investor FAQ
10	Entity Structure Memo (3.1)	Legal entity and governance structure
11	Team Biographies (4.5)	Management and advisory team backgrounds
12	UBTI Tax Analysis	Tax treatment for exempt investors
13	Expenditure Responsibility Report Template (6.4)	Sample annual reporting for PRI compliance

All documents available upon request. Please indicate which materials your investment committee requires and we will prepare a customized submission.

8. DAF-Specific Considerations

8.1 How DAF PRIs Work with This Fund

1. **Donor contributes** to their DAF at [Sponsor Name]. Donor receives immediate tax deduction.

2. **Donor advises** [Sponsor Name] to invest a portion of their DAF in the Civic Engine Guaranty Fund as a PRI.
3. **[Sponsor Name] reviews** the PRI against its investment policy and IRC 4944(c) criteria.
4. **If approved**, [Sponsor Name] subscribes to the Fund on behalf of the DAF account.
5. **Fund earns ~4.35%** on the invested amount, compounding within the Fund.
6. **At termination**, principal + compounded returns are distributed back to [Sponsor Name] and credited to the donor's DAF account.
7. **Donor can then advise** the DAF to reinvest, grant to other charities, or hold.

8.2 UBTI Considerations for Tax-Exempt Investors

Under the Fund's current structure --- investing solely in U.S. Treasury securities --- tax-exempt investors should have **no UBTI exposure**:

- Treasury interest income is excluded under IRC 512(b)(1)
- No fund-level leverage creates debt-financed income risk under IRC 514
- Pass-through LLC treatment preserves the character of income exclusions

A full UBTI analysis is available upon request.

8.3 Why This Fund Suits DAF Investors

DAF Objective	How Fund Delivers
Preserve charitable capital	100% Treasury-backed; principal returned at term
Generate impact	~1,600 affordable units, \$4.8M/year energy savings, 8,000 tons CO2
Earn returns to grow grant capacity	~4.35% compounding grows DAF balance
Satisfy PRI criteria	All four IRC 4944(c) tests satisfied
Minimize UBTI risk	Treasury interest excluded under IRC 512(b)(1)
Receive impact reporting	Quarterly + annual IRIS+ reporting, expenditure responsibility reports

9. Contact and Next Steps

To request materials or schedule a presentation:

Jonathan Arnold

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(816) 529-7010

We are happy to:

- Present to your investment committee (in-person or virtual)
- Provide any documents from the index above
- Coordinate with your legal counsel on PRI qualification
- Arrange a site visit to Historic Northeast Lofts (under construction, Kansas City)

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