



25
YEARS

Operating Principles for Impact Management

Disclosure Statement

May 2023

Pegasus Capital Advisors (the "Signatory") hereby affirms its status as a Signatory to the Operating Principles for Impact Management (the "Impact Principles"). The Disclosure Statement applies to the Subnational Climate Fund (SCF) (the "Covered Assets"). Total Covered Assets under Management are approximately USD 50M as of May 10th, 2023.

Craig Cogut

Founder & CEO at Pegasus Capital Advisors

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PRINCIPLE 1: Define strategic impact objective(s), consistent with the investment strategy.

The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

From green infrastructure to improved health and well-being, our investment themes and strategies are based on the long-term value creation that offer scale and depth of environmental and social impact.

In 2021, Pegasus launched the Subnational Climate Fund (SCF) together with a consortium of impact-focused partners. The global blended finance initiative aims to invest in and scale mid-sized climate resilient, low-carbon infrastructure and sustainable agriculture in developing countries.


Since decisions about water and sanitation, waste management, energy generation, and nature-based projects are mostly taken at local level, the SCF targets climate finance at the subnational level to foster employment, stimulate the economy, and create sustainable returns alongside social and environmental impacts.

Figure 1: Impact Vision of SCF



In alignment with its impact vision, SCF's investment strategy is focused on the creation of measurable positive impacts by investing into climate resilient infrastructure and improved ecosystems. Target sectors include: 1) Sustainable Energy Solutions, 2) Waste & Water Management, 3) Urban Development Solutions, 4) Sustainable Agriculture.

Figure 2: Impact thesis and SCF objectives¹

THE CHALLENGE	THE OPPORTUNITY	TARGET IMPACT	
50% carbon emissions need to be reduced by 2030 and to net-zero by 2050 ¹	 Sustainable Energy Solutions <ul style="list-style-type: none"> Solar photovoltaic farms Energy storage solutions Wind parks Biomass power plants Energy efficiency solutions 	<ul style="list-style-type: none"> Enable access to clean and affordable energy Reduce CO₂ emissions Create local jobs Support education and economic growth through reliable electricity 	
90% of waste in LICs is either disposed in unregulated dumps or openly burned, causing serious health and climate consequences ²	 Waste & Water Management <ul style="list-style-type: none"> Waste sorting, treatment, recycling facilities Composting facilities Proven conversion technologies Water & Sanitation 	<ul style="list-style-type: none"> Provide access to clean water Combat domestic and ambient pollution Support a circular economy and sustainable use of resources Improve health and well-being 	 
94% of urbanization expected to take place in developing countries ³	 Urban Development Solutions <ul style="list-style-type: none"> Climate infra and urban transport Digital infrastructure Smart city development Sustainable tourism infrastructure 	<ul style="list-style-type: none"> Enhance resilience and reduce vulnerability to drought, pests, diseases and other climate-related risks and shocks Improve urban livelihoods Reduce emissions and pollution 	
768 million people in the world faced hunger in 2020 ⁴ with food insecurity growing even larger due to COVID-19 and the war in Ukraine	 Sustainable Agriculture <ul style="list-style-type: none"> Sustainable high value crop agriculture Integrated food and agri value chains Agriculture technology or agritech Controlled environment agriculture 	<ul style="list-style-type: none"> Produce more and better food to improve nutrition security, increased resilience, and boost incomes Pursue lower emissions for food produced Provide human well-being and biodiversity benefits 	

¹ IPCC: Mitigation Pathways Compatible with 1.5°C in the Context of Sustainable Development (2018)
² World Bank Solid Waste Management (2020)
³ Urban Strategies (wfp.org/urban2030)
⁴ FAO, IFAD, UNICEF, WFP and WHO: 2020. The State of Food Security and Nutrition in the World 2021

In addition, SCF has specific outcome targets to achieve its impact vision. Furthermore, SCF seeks to be certified in accordance with Gold Standard fund requirements, safeguards, and methodologies to provide investors with assurance that outcomes have been achieved. Hence, SCF aims to measure, report and certify impact for both climate mitigation, adaptation and sustainability co-benefits (SDGs).

Figure 3: Impact targets for SCF²



¹ The fund periodically reviews and refines the impact thesis, investment strategy and portfolio level impact goals

² The fund periodically reviews and refines impact targets. There can be no guaranty that the impact targets will be achieved.

Strong focus is also given to stakeholder engagement, including local communities ensuring local acceptance. SCF seeks to align with Gold Standard's consultation and engagement requirement guidelines to perform stakeholder consultation.

Finally, SCF aims to integrate Nature-based Solutions components across their entire portfolio of investments in all target sectors and geographies. Nature-based Solutions are an important element to enhance climate infrastructure projects and spur long-term economic, social and environmental benefits. SCF's efforts are backed by IUCN's nature-related competencies and pioneering role in the establishment, promotion, and advancement of Nature-based Solutions as a sector.

PRINCIPLE 2: Manage strategic impact on a portfolio basis.

The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

Impact Management

Creating long-term value by considering our impact on the people and planet is the starting point of our investment philosophy. In selecting our investments, we seek measurable positive social, environmental, and economic impact. ESG and impact considerations are integrated throughout the entire investment cycle.

- **Screening Stage:** Every investment opportunity undergoes significant screening to identify how or whether it fits within SCF's investment themes and to ensure that the investment opportunity is not on the SCF exclusion list and complies with eligibility criteria.
- **Due Diligence Stage:** We conduct comprehensive due diligence on ESG risks and opportunities and potential impacts on sustainable development. Technical consultants may be engaged for additional expertise.
- **Investment Decision Stage:** Material findings from the screening and diligence stages help identify ESG performance gaps, enhance practices, and address positive and negative impacts which result in an ultimate investment decision.
- **Investment Agreement Stage:** Legal investment agreement(s) incorporate ESG and impact criteria, as appropriate. This can include ESG action plans to close ESG performance gaps, ESG and impact targets, and requirements to report on performance.
- **Holding, Monitoring & Reporting Stage:** We measure and monitor the investee's ESG and impact performance timely to gather insights, and report back to our investors on a regular basis. In addition, we engage with investee companies to improve their ESG and impact performance and drive the depth of impact even further.
- **Exit Stage:** We are convinced that assets which are optimized operationally, financially, as well as for ESG and impact aspects are more attractive to potential future owners and yield better exit results while also attracting a broader set of potential exit partners.

We will consider aligning staff incentives to sustainability outcomes as best practices emerge.

Impact Measurement

Pegasus is committed to rigorous qualitative and quantitative measurement of the sustainability outcomes and impact that we have with our investments. For SCF, we seek to measure, analyze, and report on the impacts of our investments transparently and consistently. We apply internationally recognized standards to our metrics.

Our impact targets are translated into concrete Key Performance Indicators (KPIs) and aim to be measured for each investment. For SDG impacts and particularly climate mitigation, we use Gold Standard approved methodologies to quantify avoided or mitigated carbon emissions.

➔ See also Principle 4

Stakeholder Engagement

Stakeholder engagement is critical to understanding the views and interests of different stakeholders such as affected people in surrounding communities. Our engagement approach and technical assistance seek to mitigate any ESG related risks and further accelerate impact initiatives to benefit local communities. We seek to help our partners and investee companies to consult and engage with stakeholders throughout the investment and project life cycle to identify and manage environmental and social impacts. This presents a vital element for promoting transparency, accountability, effective participation and inclusion. An ongoing feedback and grievance mechanism provides stakeholders the opportunity to submit any feedback or raise grievances at any time.

PRINCIPLE 3: Establish the Manager's contribution to the achievement of impact.

The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

Our focus on private equity investments allows us to take active ownership, proactive engagement, and enter into a collaborative and close relationship with entrepreneurs to grow the business together and drive impact. In addition, the Technical Assistance enables to initiate impact driven activities and capacity building on the ground.

We seek to contribute to the achievement of impact through financial additionality and value additionality (see also Principle 4). Therefore, we analyze the baseline and assess whether impact would occur without our investment and activities. Financial additionality addresses the scarcity of external funding in many developing countries, market failures, and lack of structuring capacities. Value additionality is focused on integrating impact into the business model and strategy, technical assistance, and capacity building to leverage ESG and impact.

The ESG and impact due diligence serves to better understand the scope and depth of impact contribution and additionality. Based on the results, an action plan is developed which specifies actions and initiatives to mitigate material ESG risks and create positive impact. Expected activities, resources and timelines shall be agreed upon and monitored during the holding period.

PRINCIPLE 4: Assess the expected impact of each investment, based on a systematic approach.

For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact? The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations. In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow best practice.

Pegasus applies its proprietary impact assessment strategy and framework to screen, diligence, invest and manage portfolio investments. The assessment helps ensure that investment opportunities include gender sensitivity and SDG impact pathways, mandatory stakeholder consultation, assessment of community Health, Safety and Working Conditions, and anti-corruption, among other criteria.

Our core impact targets and metrics are carbon emissions avoided or mitigated, jobs created, and number of beneficiaries. These criteria are also considered in the screening or due diligence phase, and if possible, a numerical or qualitative assessment is performed. In addition to our overarching impact KPIs, we define investment specific KPIs during due diligence which are sector and topic specific in accordance with internationally recognized standards and metrics.

Investee companies are expected to develop or have the ability to provide robust and reliable data on the indicators periodically. Analyzing performance based on the data allows corrective action to be taken to meet goals over time. An aggregated reporting across the portfolio is conducted on an annual basis.

Figure 4: ESG and Impact Measurement and KPIs³



³ KPIs presented here are for illustrative purposes only and may vary

In addition, Pegasus uses the IMP investment dimensions to understand the impact of each investment. Considerations are reported to the Investment Committee to support decision-making.

Impact Dimension	Impact Questions
What	<p><i>What are we addressing and what is the impact?</i></p> <p>Defines the investee's degree of targeted impact, outcome, output, and how the business model creates value.</p>
Who	<p><i>Who is affected and / or benefitting from the impact?</i></p> <p>Defines the affected stakeholders and their characteristics, and geographical scope. We aim to understand the context for local and affected communities throughout the investment and project life cycle to identify and manage environmental and social impacts.</p>
How	<p><i>How large is the impact?</i></p> <p>Defines the scale (the number of individuals experiencing the outcome and impact), the depth and reach (difference between baseline and the outcome in the period), and the duration (the period during which the stakeholder experiences the outcome).</p>
Contribution	<p><i>What is our contribution and what have we changed?</i></p> <p>Defines our contribution on the investee's social, environmental and economic impact that would not have occurred if the investee and our partnership had not existed. We differentiate between financial additionality (whether the investment would materialize without our investment and activities due to scarcity of external funding in many developing countries and market failures) and value additionality (whether impact would materialize without our investment and activities related to strategic priorities, value creation activities, technical assistance, capacity building, active stewardship, etc.).</p>
Risk	<p><i>What is the risk that we don't achieve the desired impact?</i></p> <p>Defines external risks to an investment and project such as climate-related risks (e.g. transition and physical risk), reputational risk, or business integrity risks.</p>

PRINCIPLE 5: Assess, address, monitor, and manage potential negative impacts of each investment.

For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

Our comprehensive Impact and ESG assessment process aims to identify, avoid, and mitigate impact and ESG risks during screening and due diligence phases of the investment process. The risk assessment is aligned with IFC's approach to environmental and social (E&S) categorization. SCF only invests in:

- Risk category B: business activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures;
- Risk category C: business activities with minimal or no adverse environmental or social risks and/or impacts.

For all category B projects, Pegasus requires an environmental and social impact assessment which is conducted in-house or by a third-party. The results are integrated into the Investment Committee's investment decision-making process, and ESG criteria are integrated into legal documentation where appropriate. This includes reporting requirements on ESG KPIs.

An action plan including measures, responsibilities, and timeline to mitigate ESG risks and enhance ESG performance on investee level shall be developed so that ESG issues can be properly managed. Performance and reports in accordance with the action plan are monitored on an ongoing basis to ensure that potential ESG or reputational issues are quickly identified and properly managed. Ongoing engagement with the investee company aims to address gaps through adequate measures and improve ESG KPIs and capacities over time.

Figure 5: Summary of impact & ESG integration throughout the investment cycle



PRINCIPLE 6: Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

The Manager shall use the results framework (referenced in Impact Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action. The Manager shall also seek to use the results framework to capture investment outcomes.

We collect, monitor, and report on ESG and impact data on an ongoing and regular basis with a standardized approach to track ESG and impact performance against targets and to take corrective measures in time. Investment teams and the ESG and impact manager are responsible for monitoring the progress of portfolio companies by receiving regular ESG data and updates, conduct site visits and engage proactively with the investee company to enhance ESG and impact performance, reporting, and the implementation of action plans and measures during the holding period. Reporting requirements and the format are agreed with investee companies and built into legal documents and investment agreements. Data is collected from investee companies directly. In addition, we provide annual performance reports to our investors, including ESG and impact related data at a portfolio level and updates on specific investments.

PRINCIPLE 7: Conduct exits considering the effect on sustained impact.

When conducting an exit, the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

Each investment opportunity is selected individually based on its value proposition for SDG impacts in the long-term and beyond exit. Potential exit opportunities shall be evaluated periodically on a strategic basis and opportunistically. In addition, our engagement approach with portfolio companies aims to develop ESG and impact capacity over time to prepare for enhanced capabilities at exit stage.

PRINCIPLE 8: Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

ESG and impact KPIs are collected on a regular basis and shared with investors and other stakeholders in annual reports. We review data and information to identify gaps and take corrective actions with the goal to achieve our impact targets. In addition, the assessment of KPIs build a critical part of our engagement approach with investee companies to discuss measures and actions to improve operational, strategic, and management processes and performance based on lessons learnt.

Furthermore, we engage with partners and peers and are actively involved in various industry leading initiatives to implement emerging best practices on IMM, ESG management and related investment decision-making as we continuously further refine our own practice. In addition to being a signatory of the Operating Principles and Principles for Responsible Investment (PRI) we are member of the Global Impact Investing Network (GIIN) and have

partnerships with the Green Climate Fund, IUCN, the Inter-American Institute for Cooperation on Agriculture (IICA), UN Multi-Partner Trust Fund Office, among others.

PRINCIPLE 9: Publicly disclose alignment with the Impact Principles and provide regular independent verification of the alignment.

The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Impact Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

This Disclosure Statement reaffirms the alignment of our policies and procedures with the Impact Principles and will be updated annually.

In 2023, we engaged a third-party to independently verify the alignment of our impact management practices with the Impact Principles for the Subnational Climate Fund. The Verifier Statement is published on our website.

Independent verification of our impact management systems will be conducted on a regular basis no later than at four-year intervals, or earlier if there is a significant change to our impact management systems.

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