Operating Principles for Impact Management

Disclosure Statement

May 2024

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) and the Global Fund for Coral Reefs (GFCR) (the “Covered Assets”). Total Covered Assets under Management are approximately USD 110M as of May 16, 2024.

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 health, climate-smart agriculture and the blue economy, our investment themes and strategies are based on the long-term value creation that offer scale and depth of environmental and social impact.

Pegasus Capital is the investment manager of the Subnational Climate Fund (SCF), a blended finance initiative to invest in climate-resilient infrastructure and agriculture projects at the subnational level, and the Global Fund for Coral Reefs (GFCR), a coalition with a blended finance approach to enhance the resilience of coral reef ecosystems and the communities that depend on them.

**SCF Investment Strategy**

SCF aims to invest in and scale mid-sized climate resilient, low-carbon infrastructure and sustainable agriculture in emerging markets and developing countries with the objective to:

- mitigate climate change and strengthen adaptive capacities (SDG 13)
- improve livelihoods and enhance prosperity in emerging markets and developing countries (SDG 8)
- transform lives in local economies and promote inclusion by promoting women's economic empowerment (SDG 11 & 5)

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. As part of its investment strategy and sector allocation, four main sectors were identified that can significantly contribute to the desired SDG impacts: 1) Sustainable Energy Solutions, 2) Waste & Water Management, 3) Urban Development Solutions, 4) Sustainable Agriculture.
In addition, SCF has specific outcome and impact targets to achieve its impact vision with measurable KPIs at fund and investee level (e.g. mitigated CO2e emissions and number of jobs). Furthermore, SCF is the first certified impact fund under Gold Standard’s piloting of requirements for impact funds and bond issuers. This includes compliance with Gold Standard’s rigorous requirements for stakeholder inclusivity, impacts linked to SDGs with approved methodology, safeguards to avoid unintended negative effects and the mandatory third-party audit to assure investors that impact is achieved in the real economy.

**GFCR Investment Strategy**

GFCR aims to enhance climate resilience, protect coastal habitats, preserve biodiversity, and support local communities by investing into climate-smart solutions and transition communities away from practices that degrade marine habitats, particularly in the Global South. The main objectives of the GFCR are:

- Promote the sustainable use of marine resources and reduce the environmental footprint of it (SDG 14)
- Enhance the resilience coastal communities and promote climate change mitigation and adaptation strategies (SDG 13)
- Facilitate the transition to a circular economy and reduce pollution (SDG 12);
- Increase Food Security (SDG 2)
- Create livelihoods and jobs for coastal communities in emerging markets and developing countries (SDG 8)

The investment strategy is in line with the impact objectives to reduce pressure on reef ecosystems from local stressors such as pollution and overfishing by investing into 1) Sustainable Fishing and Aquaculture, 2) Sustainable Tourism, 3) Circular Economy and pollution management, 4) Enabling Technologies.

GFCR has determined specific outcome and impact targets to achieve its impact vision with measurable KPIs at fund and investee level (e.g. number of hectares of high-value seascape, job creation, etc.). The Monitoring and Evaluation (M&E) Framework was developed with support from scientists and UN partners such as UNEP to ensure that monitoring, evaluation, and reporting systems are in place to assess the outcomes of investments, and ensure that GFCR safeguards are adhered to, mitigating the risk of un-intended impacts.

**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 the investment themes and to ensure that the investment opportunity is not on the fund’s 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 Capital is committed to rigorous qualitative and quantitative measurement of the sustainability outcomes and impact that we have with our investments. 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 of SCF, we use Gold Standard approved methodologies to quantify avoided or mitigated carbon emissions. For GFCR, we work with scientists and UNEP to credibly measure our impact.

➔ 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 seeks 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 dedicated Technical Assistance that both SCF and GFCR feature, 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 Capital 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 fund-specific and include, for example, carbon emissions avoided or mitigated, hectares of high-value seascape, 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.

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

<table>
<thead>
<tr>
<th>Impact Dimension</th>
<th>Impact Questions</th>
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</thead>
<tbody>
<tr>
<td><strong>What</strong></td>
<td><em>What are we addressing and what is the impact?</em></td>
</tr>
<tr>
<td></td>
<td>Defines the investee’s degree of targeted impact, outcome, output, and how the business model creates value.</td>
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<td><strong>Who</strong></td>
<td><em>Who is affected and / or benefitting from the impact?</em></td>
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<td></td>
<td>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.</td>
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<td><strong>How</strong></td>
<td><em>How large is the impact?</em></td>
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<td></td>
<td>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).</td>
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<tr>
<td><strong>Contribution</strong></td>
<td><em>What is our contribution and what have we changed?</em></td>
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<td></td>
<td>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.).</td>
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<tr>
<td><strong>Risk</strong></td>
<td><em>What is the risk that we don’t achieve the desired impact?</em></td>
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<td></td>
<td>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.</td>
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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 and GFCR only invest 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 Capital 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.

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 the independent verifier Tameo (Location: Rue de l'Arquebuse 12, 1204 Genève, Switzerland) to verify the alignment of our impact management practices with the Impact Principles for the Subnational Climate Fund. Tameo is a Swiss impact investing specialist providing independent expert solutions to the financial industry. Tameo guides fund
managers, catalytic investors, and institutional investors through the entire impact investing journey, offering comprehensive data and benchmarks on private asset impact funds, customized analyses, and independent verifications. Tameo's database includes all Signatories to the Operating Principles for Impact Management (Impact Principles) and analyzes over 500 disclosure statements published since 2019. Leveraging this data, Tameo developed a rigorous methodology to assess Signatories' alignment with the Impact Principles. Tameo also has experience in evaluating fund managers' adherence to the Sustainability Bond Guidelines, Orange Bond Principles, and Gold Standard Fund Requirements.

The Verifier Statement is published here 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.
Notice to Recipients

The Disclosure Statement ("Statement") is for information purposes only and may not be reproduced or distributed under any circumstances without our prior written consent. This Statement is intended to summarize Pegasus' impact management approach for the Subnational Climate Fund in implementing environmental, social and governance ("ESG") principles and impact strategies into its investment process and the ongoing management of the portfolio companies. Pegasus makes no representation or warranty regarding the information set forth in this Statement, including, but not limited to, the accuracy or completeness of the information or that Pegasus will successfully identify or mitigate any particular ESG-related risk or capitalize on any ESG-related opportunity.

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