Sustainability Disclosures

Pegasus Capital Advisors, L.P. (the “Firm” and “Pegasus”) makes the following disclosures in accordance with Articles 3(1), 4(1)(a) and 5(1) of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial sector (the “SFDR”).

Sustainability risk policies

For the purposes of the SFDR, a sustainability risk is an environmental, social or governance (ESG) event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of an investment.

Pegasus is committed to integrating ESG principles throughout its investment processes and has established comprehensive Environmental and Social Management Systems (ESMS) for each of its current investment funds, which include guidelines on ESG integration at each stage of the investment cycle, which can be found at https://www.pcalp.com/impact/. The firm does not maintain an ESMS for funds that were fully deployed before the SFDR took effect.

Each ESMS is guided by adherence to applicable local and national laws at the Firm and Investee levels; the International Finance Corporation’s (“IFC”) Performance Standards on Environmental & Social Sustainability; relevant Environmental, Health, and Safety (EHS) Guidelines of the World Bank, and the Equator Principles to prevent, mitigate and manage potential adverse environmental and social impacts of investments. To better identify and manage sector-specific environmental and social related risks, additional tools and resources may be referred to, as applicable. Pegasus works with its Investees to align their strategies with the United Nations Sustainable Development Goals (“SDGs”).

Remuneration policy

Pegasus’ approach to remuneration takes into account a range of criteria, including adherence to due diligence procedures that are designed to identify and mitigate the risks inherent in each of the investments, including, among other factors, sustainability and other ESG or impact related risks identified.

Adverse Sustainability Impacts Statement

Due diligence policies with respect to the principal adverse impacts of investment decisions

Pegasus considers the principal adverse impacts of investment decisions on sustainability factors in the manner prescribed by Article 4 of the SFDR. Pegasus does this principally through integrating the consideration of the principal adverse impact considerations into its due diligence process as outlined in the applicable ESMS.

Policies on the identification and prioritization of principal adverse sustainability impacts and indicators

Before an investment decision is made on behalf of any funds that Pegasus manages, Pegasus will complete a process that seeks to identify the material principal adverse sustainability impacts associated
with each proposed investment; these will include relevant and material principal adverse sustainability impacts which will be disclosed to the investment committee.

During the screening and due diligence phase of each proposed investment, principal adverse sustainability impacts are identified and assessed based on the nature and characteristics of the investment opportunity, and the magnitude and significance of impacts. Principal adverse sustainability impacts are continuously identified, assessed, monitored, and reported on.

Principal adverse sustainability impacts

Given the nature of the investments made by the funds managed by Pegasus, the principal adverse sustainability impacts of its investment decisions will typically vary depending on the sector and industry of the contemplated target investment. However, the principal adverse impact indicators are consistent with the majority of IFC Performance Standards and Equator Principles, which are part of the Pegasus-managed funds’ environmental and social safeguards standards.

List of PAI indicators applied to the Subnational Climate Fund and Global Fund for Coral Reefs:

- GHG emissions (Scope 1, 2, 3 and total)
- Carbon footprint
- GHG intensity of investee companies
- Exposure to companies active in the fossil fuel sector
- Share of non-renewable energy consumption and production
- Energy consumption intensity per high impact climate sector
- Activities negatively affecting biodiversity sensitive areas
- Emissions to water
- Hazardous waste ratio
- Breakdown of energy consumption by type of non-renewable sources of energy
- Non-recycled waste ratio
- Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises
- Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises
- Unadjusted gender pay gap
- Board gender diversity
- Exposure to controversial weapons (antipersonnel mines, cluster munitions, chemical weapons and biological weapons)
- Rate of accidents
- Incidents of discrimination
Pegasus strives to take a number of actions throughout the entire investment cycle to seek to address these adverse impacts:

- **Screening Stage:** Investment opportunities are screened against the relevant ESG and impact criteria for the applicable fund to identify the potential investment’s principal adverse sustainability impacts. This includes exclusion and eligibility criteria based on do no significant harm principles. Pegasus will only invest in projects or companies that are risk category B or lower in alignment with IFC risk categorization:
  - Risk category B: business activities with potential limited principal adverse sustainability 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 principal adverse sustainability impacts.

- **Due Diligence Stage:** During due diligence, principal adverse sustainability impacts are assessed in more detail. For all category B projects, Pegasus requires an environmental and social impact assessment and/or an ESG due diligence report against the environmental and social safeguards standards to identify and assess any principal adverse sustainability impacts associated with the investment and to mitigate those impacts according to the do no harm principle and to improve the investment’s environmental and social capabilities. For all category C projects, a limited analysis shall be sufficient. Any circumstances and material findings will be identified and recorded to inform the investment decision. Material principal adverse sustainability impacts will be identified, and specific short term and long-term recommendations will be made to close ESG performance gaps, mitigate risks, enhance ESG practices, and track positive impacts.

- **Investment Decision Stage:** Prior to making a final investment decision, the investment committee will be provided with all material information on principal adverse sustainability impacts. If a quantitative statement cannot be made at this stage, a qualitative assessment should be comprehensive enough to make an informed decision. The investment committee assesses all the identified risks, including principal adverse sustainability impacts alongside other relevant factors. Following its assessment, the investment committee makes investment decisions having regard to the relevant fund's objectives.

- **Investment Agreement Stage:** ESG and impact performance requirements should be included into the legal investment agreement(s) to the extent applicable.

- **Holding, Monitoring & Reporting Stage:** Pegasus will monitor ESG performance and impact contribution of investments. Information in this respect will be included in the quarterly or annual reports, as appropriate. In addition, engagement with the investee companies on principal adverse sustainability impacts aims to lead to enhanced ESG and impact performance by identifying and agreeing on appropriate measures.
Adherence to business conduct codes and internationally recognized standards

The Subnational Climate Fund and Global Fund for Coral Reefs are part of Pegasus’ climate mitigation and adaptation investment strategy and take into account the effects of investment activities on climate action, and support pathways towards decarbonization and climate resilience in line with the Paris Agreement to keep the increase of the global average temperature well below 2°C above pre-industrial levels, with the aim of keeping the increase of the global average temperature to 1.5°C (United Nations, 2015).

Pegasus is a signatory to the United Nations-supported Principles for Responsible Investment Initiative (PRI) and commits to ESG integration into its policies and practices, reporting on activities and advancements within the firm and portfolio-level, and promoting responsible investment practices throughout the investment management industry. Pegasus continuously maintains and aligns its investment approach with various international conventions, standards and guidelines, and adheres to the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, among others.