

SUSTAINABILITY-RELATED DISCLOSURES - Global Fund for Coral Reefs (“Fund”)

Website disclosure for Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (SFDR)

(a) Summary

(b) No significant harm to the sustainable investment objective: Pegasus seeks to assess whether investments made by the Fund do not significantly harm any sustainable investment objectives during pre-investment diligence and on an ongoing basis during ownership. At the pre-investment stage, in line with its Environmental and Social Management System (“ESMS”), Pegasus asks questions in respect of the principal adverse sustainability indicators (“PAIs”) and the alignment of the investee company’s processes, policies and procedures in respect of minimum social safeguards as part of the ESG legal diligence process. The factors listed in Table 1 and additional indicators in Tables 2 and 3 of Annex 1 of the Regulatory Technical Standards¹ (or (“RTS”) form part of this diligence.

Pegasus seeks to address any PAIs and may engage with the portfolio companies on development of documentation in respect of minimum social safeguards as part of post-closing implementation plans.

(c) Sustainable investment objective of the financial product: The Fund aims to enhance the resilience and adaptive capacity of coastal ecosystems, communities, and coral reef habitats in emerging markets and developing countries, promote climate mitigation and adaptation strategies, support sustainable use and protection of marine resources, facilitate the transition to a circular economy, support sustainable and inclusive communities in underserved markets by providing improved livelihoods, access to basic economic infrastructure and food, the creation and preservation of decent jobs, and promote gender equality.

(d) Investment strategy: Reducing local threats to coral reefs can help them cope with the impacts of climate change. The Fund targets investments that have the opportunity to reduce these threats through their inherent business models or their ability to drive change in supply chains or ecosystems, and in addition focuses on those reefs that have the highest likelihood to survive such stressors, and given relief can recover and thrive in the face of climate change. The Fund therefore targets the three main investment sectors that impact nearshore marine habitat and coral reefs: ocean production, hospitality and coastal development, and pollution and waste management.

In respect of good governance, the Fund’s policy to assess good governance practices is to incorporate a review of legal issues relating to sound management structures, remuneration of staff, employee relations and tax compliance into the pre-investment and legal diligence process.

(e) Proportion of investments: 70% of the Fund’s investments will target the sustainable investment objective which is to make investments in businesses that the General Partner believes

¹ Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022 supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of ‘do no significant harm’, specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports.

will have a positive climate impact (largely in the form of climate change mitigation and adaptation), and 30% of the Fund's investments will target the sustainable investment objective to have a positive social impact.

(f) Monitoring of the sustainable investment objective: The Fund monitors the achievement of the sustainable investment objective by reviewing the achievement in respect of bespoke sustainability indicators tied to the climate and/or impact objectives of the relevant investment. The Fund will have a dedicated Environmental and Social Impact Manager whose role is to ensure conformity with the ESMS.

(g) Methodologies: The Fund's environmental and social impact objectives are translated into measurable targets in respect of which it will measure progress over the lifetime of the Fund, which include 30,000 ha of reef protected/reef resilience improved, 12,000+ direct employment opportunities created in sustainable businesses for communities dependent on coral reef ecosystems (including fisheries, aquaculture, tourism, waste management), 380,000+ households benefiting from investments aimed at the adoption of diversified, climate resilient livelihood options (including fisheries, aquaculture, tourism, waste management), and over 20 million indirect beneficiaries, based on the population that is dependent on reefs for protection from climatic events and for economic outputs. In addition, the Fund also aims to enhance women's economic and gender equality by reference to the 2X Challenge Criteria.

(h) Data sources and processing: A number of data sources are used to attain the sustainable investment objective, including responses from investee companies as part of ongoing engagement, together with independent research on impact assessment and outcomes. PAI data is specifically requested directly from investee companies. A number of measures are taken to ensure data quality, including the data being reviewed and interrogated and the use of independent, third party sources to ensure robustness and credibility. Components of that estimation are grounded in actual data from the investee companies. Other portions may be estimated.

(i) Limitations to methodologies and data: Limitations to the methodologies and data primarily arise because of a lack of available data from investee companies and/or a lack of infrastructure in place for the collection and processing of relevant data from investee companies. In some cases, investments are made in early or growth-stage businesses, which have not yet developed adequate data collection processes. Pegasus does not anticipate that these limitations will be significant enough to affect the attainment of the sustainable investment objectives over time.

(j) Due diligence: Due diligence on the underlying assets is carried out by the Fund and external advisors. This involves the development and assessment of a research-based, positive impact thesis for each potential investee during sourcing, and also takes into account analysis of the potential foreseeable negative externalities that may outweigh the expected benefits of the investment. Legal diligence performed on the underlying assets supplements ESG and impact due diligence, which includes collecting data on PAIs, minimum social safeguards and good governance practices as well as any ESG-related risks and liabilities.

(k) Engagement policies: The Fund may add value to portfolio companies through engagement on impact. Through analytics, research, and impact advice, the Fund engages with portfolio companies on early-stage setup, processes and policies, new product development, and other areas collinear with impact and business growth.

(l) Attainment of the sustainable investment objective: The Fund does not rely on an EU Climate Transition Benchmark or EU Paris-aligned Benchmark and does not seek to align with the

methodological requirements set out in Delegated Regulation (EU) 2020/1818. The Fund seeks to invest in businesses with a positive climate impact or lower carbon emissions in view of achieving the long-term global temperature goals and objectives of the Paris Agreement.

(b) No significant harm to the sustainable investment objective

Pegasus Capital Advisors (“Pegasus”) seeks to ensure that investments made by the Fund do not significantly harm any sustainable investment objectives during pre-investment diligence and on an ongoing basis during ownership. As a result of this diligence and monitoring, Pegasus seeks to implement specific actions to mitigate the risk of significant harm to any of the sustainable investment objectives. The Fund implements its ESMS throughout the lifecycle of its investments, in order to actively monitor and ensure that the investments do not significantly harm any sustainable investment objectives.

The framework of the ESMS includes:

- E&S Policy
- Procedures, which are fully integrated with the Fund’s overall investment cycle
- Transaction screening (including an Exclusion List)
- Risk categorization
- Responsibilities
- Environmental and social safeguards standards and indicators
- Environmental and Social Impact Assessment / ESG due diligence tools
- Monitoring and Evaluation (M&E) and Reporting framework with guidance materials, impact methodologies, and reporting protocols.

Pre-investment diligence

During pre-investment diligence, the PAIs and a list of questions relating to the alignment of the investee company’s processes, policies and procedures with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights (“minimum social safeguards”) are incorporated into the ESG legal diligence process.

The PAIs in Table 1 of Annex 1 of the RTS and additional indicators in Tables 2 and 3 of Annex 1 of the RTS, that Pegasus considers in its discretion to be relevant, are incorporated into an information request that is shared with the investee company.

During ownership

Pegasus, together with other advisors, as needed, engage with investee companies to collect and report data, and baseline and benchmark their performance in relation to ESG issues, which will include consideration of the PAIs and minimum social safeguards at least on an annual basis.

(c) Sustainable investment objective of the financial product

The Fund seeks to:

- enhance the resilience and adaptive capacity of coastal ecosystems, communities, and coral reef habitats in emerging markets and developing countries,

- promote climate mitigation and adaptation strategies,
- support sustainable use and protection of marine resources,
- facilitate the transition to a circular economy,
- support sustainable and inclusive communities in underserved markets by providing improved livelihoods, access to basic economic infrastructure and food, the creation and preservation of decent jobs, and
- promote gender equality.

(d) Investment strategy

Investment strategy used to attain sustainable investment objective

Reducing local threats to coral reefs can help them cope with the impacts of climate change. The Fund targets investments that have the opportunity to reduce these threats through their inherent business models or their ability to drive change in supply chains or ecosystems, and in addition focuses on those reefs that have the highest likelihood to survive such stressors, and given relief can recover and thrive in the face of climate change. The Fund therefore targets the three main investment sectors that impact nearshore marine habitat and coral reefs: ocean production, hospitality and coastal development, and pollution and waste management.

A critical part of the Fund's strategy is to take a holistic ecosystem's approach and make investments to steer communities away from practices that degrade reef habitats, while providing social, environmental and economic benefits in coastal societies. By improving the chances of reef survival, the Fund helps sustain the critical ecosystem services coral reefs provide to local communities, including coastal protection, fish stocks for subsistence and income, and livelihood opportunities.

Good governance practices

The Fund's policy to assess good governance practices is to incorporate a review of legal issues relating to sound management structures, remuneration of staff, employee relations and tax compliance into the pre-investment and legal diligence process. In accordance with the implementation of the ESMS, the Fund will assess the good governance practices of investee companies in a number of ways, including through:

- Pre-investment screening for alignment with IFC Performance Standards.
- Pre-investment legal and/or ESG due diligence relating to good governance practices, as applicable, including employee relations and labor standards, corporate governance matters and tax compliance.
- ESG corrective action plans that address the gaps identified in the ESG due diligence.
- Ongoing screening and monitoring of ESG and impact data.

(e) Proportion of investments

70% of the Fund's investments will target the sustainable investment objective, that is, the Fund will seek to make investments in businesses that the General Partner believes will have a positive climate impact (largely in the form of climate change mitigation and adaptation). 30% of the Fund's investments are expected to be sustainable investments in support of the sustainable investment objective of creating positive social impact.

(f) Monitoring of the sustainable investment objective

The Fund monitors the achievement of the sustainable investment objective over the holding period through regular engagement with investee companies, and other advisors, as needed, in respect of the targets set by the Fund (for details of which, see “*Methodologies*”).

To better identify and manage sector specific environmental and social related risks, the Fund has developed investment principles and criteria for each target sector in alignment with international standards and frameworks. The principles aim to be sector-specific and will complement the environmental and social safeguards standards. They will be integrated into the screening and due diligence phase, inform measures and the action plan, and monitored throughout the holding period.

As part of its commitment to sound environmental and social risk management, responsible operations and sustainable development, the Fund will operate an Environmental and Social Management System (“ESMS”) in conformity with the requirements and standards of Development Finance Institutions (“DFIs”) and in particular those of the Green Climate Fund and IFC Performance Standards. The Fund has a dedicated Environmental and Social Impact Manager whose role is to ensure conformity with the ESMS.

The Fund is committed to maintaining, implementing and improving its ESMS to ensure the implementation of this policy throughout the value chain (investment identification, development, investment, monitoring and reporting). The ESMS includes an environmental and social (“E&S”) categorization system that is consistent with the equivalent practices of the International Finance Corporation (“IFC”) and other Development Finance Institutions.

The full set of procedures that will be followed begins with a process for screening potential investments against the Exclusion List prior to a Go/No Go decision, to ensure that no investment is made in projects or companies that are operating with excluded activities. The screening process permits the provisional categorization of proposed projects into higher, medium and lower risk (Category A, B or C, respectively) projects and that then determines the level of environmental and social due diligence required and the actions to be taken to minimize potential impacts.

(g) Methodologies

The Fund’s environmental and social impact objectives are translated into measurable targets in respect of which it will measure progress over the lifetime of the Fund, which include:

- 30,000 ha of reef protected/reef resilience improved. The value of such reefs ranges from \$4B-\$38B, depending on their ultimate use;
- 12,000+ direct employment opportunities created in sustainable businesses for communities dependent on coral reef ecosystems (including fisheries, aquaculture, tourism, waste management);
- 380,000+ households benefiting from investments aimed at the adoption of diversified, climate resilient livelihood options (including fisheries, aquaculture, tourism, waste management);
- Over 20 million indirect beneficiaries, based on the population that is dependent on reefs for protection from climatic events and for economic outputs (including fisheries, aquaculture, tourism, waste management).

In addition, the Fund also aims to enhance women’s economic and gender equality by meeting at least one of 2X Challenge criteria:

- 51% women ownership or business founded by women;
- 30% women in senior leadership or on the Board or Investment Committee;
- 30-50% share of women in the workforce and one “quality” indicator beyond compliance; and
- Product/service specifically or disproportionately benefit women.

Several tools have been developed to support the implementation of the M&E framework and to measure outcomes of investments against the impact targets, relying on various existing methodologies such as ISO Guidelines, MSC Fisheries Standards, FAO’s International Code of Conduct on Sustainable Use and Management of Fertilizers and United Nations World Tourism Organisation (UNWTO). Ongoing monitoring, reporting, and verification enable corrective action to be taken in a timely and appropriate manner.

(h) Data sources and processing

Data sources used to attain the sustainable investment objective of the financial product

A number of data sources may be used to attain the sustainable investment objective, which may include:

- Responses from investee companies during pre-investment diligence (see section on “*Due Diligence*” of this disclosure for further details).
- PAI data is specifically requested directly from investee companies.
- Independent research on impact assessment and outcomes (see section on “*Methodologies*” of this disclosure for further details).
- Responses to the screening questionnaire.
- Ongoing engagement between portfolio companies and Pegasus and/or other advisors (as required).

Measures taken to ensure data quality

A number of measures are taken to ensure data quality, including:

- During pre-investment diligence, information provided by potential investee companies is interrogated by Pegasus or other third party advisors and, where applicable, third party technical experts.
- Research on impact assessment and outcomes is selected from independent, third party sources to ensure robustness and credibility.

Data processing

Data is processed by Pegasus and/or other advisors, as appropriate.

Proportion of data estimated

- Actual data provided by investee companies will be used, where available. Where no data is available, estimates may be used.

(i) Limitations to methodologies and data

Limitations to the methodologies and data primarily arise because of a lack of available data from investee companies and/or a lack of infrastructure in place for the collection and processes of relevant

data from investee companies. In some cases, investments are made in early or growth-stage businesses, which have not yet developed adequate data collection processes. Pegasus does not anticipate that these limitations will be significant enough to affect the attainment of the sustainable investment objective over time.

(j) Due diligence

Pre-Investment Screening: First, the team reviews whether the company's output fits sector-specific priorities—positively contributing to long-term outcomes. The team develops and assesses a research-based, positive climate impact thesis for each potential investee during sourcing, also taking into account analysis of the potential for foreseeable negative externalities that may outweigh the expected benefits of the investment. This includes a review of the investee's ESG practices. Due diligence on the underlying assets is carried out by Pegasus and/or external advisors including, where necessary, third-party technical consultants.

Due diligence: During the more comprehensive due diligence, the Portfolio Manager and/ or ESG and Impact Manager assesses sustainability risks and impact opportunities in more detail and identify the baseline and appropriate methodology and set of indicators to quantify the impact in accordance with the M&E framework and environmental and social safeguards.

Investment Decision Stage: Information in respect of the contribution by the investment in respect of the Fund's sustainable targets and how they can be obtained should inform the investment decision. If a quantitative statement cannot be made at this stage, a qualitative assessment should be comprehensive enough to make an informed decision.

Investment Agreement Stage: Impact considerations should be included in the legal investment agreement(s), as appropriate.

(k) Engagement policies

The Fund may add value to investee companies through engagement on positive climate impact. Through analytics, research, and impact advisory, the Fund engages with portfolio companies on early-stage setup, processes and policies, new product development, and other areas collinear with impact and business growth. The Fund has a process in place to engage with investee companies in order to align impact with the operating success of every investment. The Fund seeks to hold majority equity positions with board control whenever possible to help ensure the required autonomy in defining strategic and operational value-creation measures. Where appropriate, the Fund also actively engages with local governments and communities in accordance with consultation and engagement guidelines that correspond to internationally recognized standards.

(l) Attainment of the sustainable investment objective

The Fund does not rely on an EU Climate Transition Benchmark or EU Paris-aligned Benchmark and does not seek to align with the methodological requirements set out in Delegated Regulation (EU) 2020/1818.

The Fund seeks to invest in businesses with a positive climate impact or lower carbon emissions in view of achieving the long-term global temperature goals and objectives of the Paris Agreement.