SUSTAINABLE INVESTORS FUND

OPERATING PRINCIPLES FOR IMPACT MANAGEMENT

DISCLOSURE STATEMENT

2023

CAPRICORN
INVESTMENTGROUP

DISCLOSURE STATEMENT

Capricorn Investment Group ("Capricorn", the "Signatory") herby affirms its status as a Signatory to the Operating Principles for Impact Management (the "Principles").

This Disclosure Statement applies to Capricorn's Sustainable Investors Fund ("SIF") and affirms that SIF is managed in alignment with the Principles as of 6/30/2023.

The total value of the Sustainable Investors Fund in alignment with the Principles is approximately US $365 million, representing SIF's committed capital as of 6/30/2023.

Eric Techel
CHIEF FINANCIAL OFFICER | CAPRICORN INVESTMENT GROUP

OVERVIEW

Sustainable Investors Fund

Our earth and humanity are at a crossroads: climate change, inequality, and rampant resource use pose immediate threats to our future. We face catastrophic wildfires, famine, rising oceans, epidemic disease, increasingly frequent and violent mega-storms, habitat destruction, and species loss. The United Nations predicts that by 2030, rising global temperatures will be beyond our control, and by 2050, we will need the equivalent of three earths to support our population at the current rate of resource use.[1 2]

While it will be immensely difficult to create the kind of change needed, more can be done to direct significant capital toward meeting these challenges. Capital markets are making some progress as more financial assets are being allocated to impact (the impact investing market topped $500 billion in 2018[3]), but two major challenges remain. There is trillions of dollars of shortfall in financing required to meet the UN Sustainable Development Goals and asset managers that have built impact/ESG funds have often done so through “greenwashing,” creating products with little real impact. Many banks that have made commitments to sustainability still invest considerably more in fossil fuels than in sustainable finance and just one hundred companies contribute to approximately 70 percent of global greenhouse gas emissions. **Shifting this behavior is critical. The next decade will be a decisive moment in economic history; if we can better price sustainability into capital markets, we may avert a full crisis.**

At Capricorn, we see the potential for significant economic disruption due to the risks associated with resource scarcity, climate change, and economic inequality. **The mission of the Sustainable Investors Fund is to move the asset management industry towards innovative, large-scale capital market solutions to pressing environmental and social challenges. SIF seeds and catalyzes investment into funds that seek to disrupt the status quo and create rigorous, high-impact options in new sustainable asset classes.**

SIF invests across public and private asset classes, equity and debt strategies, impact focus areas, geography, and stages of development. **The common thread of these investments is the potential for outsized industry leadership and influence by scaling high impact solutions or demonstrating proof of concept for uniquely innovative approaches.** SIF provides startup capital, supports asset managers in developing and refining fund impact theses, takes an active role in enhancing governance, structure, HR, operations, and risk management aspects of the business, and leverages Capricorn‘s influence to raise the profile of funds, and the public and policy discourse on sustainability.

We envision a world where the cost of capital for sustainable, inclusive businesses will start to become lower than those reliant on extractive, resource intensive approaches and that will, in turn, change corporate behavior and create a more sustainable future for us all.

1. World Wildlife Fund, Living Planet Report, 2019
2. World Resources Institute, The New Climate Economy, 2018
3. Global Impact Investing Network, Sizing the Impact Investing Market, 2018

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.

Capricorn Investment Group (Capricorn) is one of the largest mission-aligned investment firms in the world, managing approximately $9 billion in multi asset class portfolios for institutional investors, foundations endowments and family offices. Capricorn integrates institutional quality portfolio management with long term sustainability and impact considerations.

Over the past two decades, Capricorn has pursued investment results by leveraging market forces and to scale solutions to global problems. We seek entrepreneurs and asset managers with scalable and sustainable solutions to such urgent challenges as climate change, resource scarcity, and economic inequality.

Despite the growing interest in impact investing, a significant gap remains in the allocation of capital to address the world's most pressing issues. The majority of impact investments are channeled through established, traditional investors, while emerging fund managers—who are often at the cutting edge of developing innovative impact approaches—are frequently overlooked. This imbalance in capital allocation has resulted in certain sectors and regions receiving a disproportionate share of investment, while others are left underserved. Consequently, these underserved areas have to rely on philanthropy, government funding, and development finance institutions—sources of support that, while valuable, are insufficient to fully address the challenges at hand.

At SIF, we are committed to break this cycle by identifying and investing in innovative investment models that hold the promise of delivering substantial environmental or social impact. Capricorn created SIF in 2019 to support and scale early-stage asset management firms with potential for industry leadership and influence, helping them promote change by scaling high-impact solutions or producing proof of concept for innovative approaches.

SIF's focus is on strategies that provide capital market solutions to pressing global challenges, with a primary focus on the climate solutions, inclusive capitalism, sustainable markets, and health & wellness. SIF seeks solutions that can revolutionize how capital is invested to address such urgent challenges as climate change, resource scarcity, and economic inequality, and is committed to investing in strategies that advance the UN Sustainable Development Goals. To help guide the implementation of this strategy, SIF has identified four key characteristics that constitute an attractive asset management firm:

1. Its investment thesis addresses environmental or social issues, such as climate change or inequality.
2. It goes beyond advancing proven interventions, backing innovative solutions that may not be proven yet.
3. There is an opportunity for impact at scale or system-wide change.
4. The management team sees SIF as more than just a provider of capital but also as an added value partner that will bring its expertise and networks to bear.

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.

The Sustainable Investors Fund considers impact at all stages of the investment process, from sourcing investments, through diligence, investment structuring, ongoing monitoring, and active ownership.

Given the breadth of SIF's investment mandate, and its focus on investing in new asset management firms that incorporate sustainability as a driver of investment performance, we are frequently evaluating diverse opportunities that span a range of geographies, asset classes, and sectors. The firms in which SIF invests encompass a variety of promising paths to impact: for example, providing long-term price guarantees for carbon credits so that carbon offset project developers gain better access to private capital; demonstrating and scaling fintech innovation in lending for underserved communities; or using litigation finance as a tool to address injustice.

Given that our portfolio represents a diverse set of investment firms, aggregating impact data is of limited usefulness. There is more value in understanding the details and metrics of each investment in the portfolio; this firm-level data is what we use to guide our conversations with portfolio firms and identify gaps in the marketplace.

To embed impact at the center of our investment process, we utilize a tailored investment diligence tool (additional information on this is shared in our response to Principle 4).

SIF invests in firms with impact and sustainability as key drivers of financial performance; therefore, our staff incentives are fully aligned with pursuit of impact targets.

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.

Central to SIF's investment approach is seeking out and investing in asset management firms that have innovative approaches to addressing the world's most pressing challenges. These firms typically have new, entrepreneurial models that SIF can catalyze and support in developing into the next generation of market-leading asset management firms while keeping environmental or social impact at their core.

SIF is not only an early investor, backing innovative investment models which may be too risky for other investors, but also a key partner to help asset management firms scale their impact. SIF has a network both in the United States and internationally that it leverages to help new asset management firms attract additional limited partnership capital. We introduce potential investors to the management teams in which SIF has itself invested, and help facilitate connections at conferences, panels, and forums. We also help firms communicate to potential LP investors the way in which their activities are unlocking environmental or social impact.

Recognizing that management teams have unique needs at different stages, SIF is committed to continuous, tailored engagement with management teams on their strategy. A new firm may need help with such initial steps as hiring staff and setting up legal structures. A more established firm may benefit from access to global networks or advice on strategic positioning. In addition to tapping its own expertise and connections, SIF works to help portfolio firms clarify their impact strategy or establish a robust impact framework to guide investment decisions.

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.

SIF invests in innovative firms that have the potential to transform the asset management industry with sustainability and impact at their core. To reach this ambitious objective, SIF utilizes a proprietary impact assessment framework, which aligns closely with the Impact Management Project's 5 Dimensions of impact. SIF has developed a scoring rubric to guide due diligence and investment committee discussions on each of the five dimensions.

When considering potential investments, SIF starts by understanding the firm's investment strategy: What is the impact the firm aspires to have? Is the investment strategy likely to be successful in the pursuit of this aspiration?

Next, SIF evaluates firms against five key metrics. To be considered for investment, an asset management firm should demonstrate high impact across the following dimensions:

1. **Management:** SIF considers the firm's management team, evaluating its track record of commitment to impact and its potential for outsized industry leadership and influence. To be considered for investment, SIF should believe in the manager or team's ability to achieve impact and influence the asset management industry.
2. **What outcomes are intended? Who benefits?** SIF evaluates which social or environmental challenge the firm seeks to address, evaluating if the firm makes direct contribution to a UN SDG. Given SIF's focus on both environmental and social impact, funds can be focused on a variety of SDGs; for example, SDG 10 (*reducing inequalities*) or 13 (*climate action*).
3. **How much intensity or scale?** SIF evaluates each firm to see how much its work contributes to a UN SDG. To be considered for an investment, a firm would need to demonstrate its ability to profoundly impact individuals (*intensity*) or an industry or system (*scale*).
4. **Innovation and Contribution:** SIF then considers whether there is potential for outsized impact by scaling solutions or demonstrating proof of concept for uniquely innovative approaches. To be considered for investment, a firm should contribute to outcomes that are better than what would have occurred otherwise. SIF considers investments that are either a completely new model or a substantial update or upgrade to an existing one.
5. **Risk of negative externalities.** SIF then determines the likelihood that the fund's work would contribute to unintended consequences and the probability of those risks materializing. SIF considers investments where the potential risk of unintended consequences is low.

Details on evaluation criteria and SIF's value creation strategy can be found in our impact report Bridging Gaps in Impact Investing.

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.

SIF aims to be a catalytic investor in order to create examples of asset management companies that address environmental or social challenges while generating superior risk-adjusted financial returns. As such, SIF seeks firms with innovate ideas for impact at scale, and measures both positive impact as well as the risk of unintended consequences.

To be considered for investment, the firm is assessed for potential negative externalities or unintended consequences, and investment only proceeds if the assessed risks are characterized as low probability. SIF has developed a list of possible impact-related risks to enable this evaluation. Impact risks include evidence risk, external risk, stakeholder participation risk, drop-off risk, efficiency risk, execution risk, alignment risk, endurance risk, and unexpected impact risk.

During diligence, SIF will also assess the governance practices of the investees' company, and leverage our expertise to evaluate their management structures, employee relations, remuneration of staff and tax compliance, to ensure these are sound and responsible.

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 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.

SIF works with the firms it invests in to identify the right set of quantitative metrics that will illustrate their realized impact and ensure they are committed to reporting on these metrics. SIF believes that effectively tracking progress on key performance indicators and sharing examples of how investments have achieved outcomes increases their ability to inspire transformation within the asset management industry. However, SIF is also conscious that we are investing in new firms that aim for long term transformational impact. As such we work with each of our firms to identify both near-term trackable performance indicators, and longer-term measures of success that indicate market-shifting changes based on their transformational strategies.

We then work with our investees to monitor these KPIs on an annual basis and provide focused support as needed to help ensure investees make progress against these goals. In the case progress falls off track, we are prepared to provide more intensive action. Our goal is to identify metrics not just for reporting purposes, but to gain measurable and comparable insight for improving our investees’ offerings and outcomes.

Annual KPI estimates are made available to SIF investors through impact reports or other channels.

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.

When evaluating the merits of a potential investment, SIF will incorporate sustainability and impact considerations, and seek to safeguard performance on these dimensions into the future. Because SIF invest in firms and technologies with sustainability and impact as key drivers of investment outperformance, we anticipate that our investees will be well positioned to continue to grow impact under subsequent owners, with that impact core to the firms' financial success. SIF has developed a set of impact continuity criteria to guide exit discussions.

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.

SIF recently released its second impact report, Bridging Gaps in Impact Investing, which details SIF's vision, investment approach, evolution of its impact framework, current investees and their impact. We are committed to periodically reflecting on our investment strategy and identifying key learnings from our pursuit of impact that can help enhance our own investment strategy. We want to hold ourselves accountable for ensuring that our investments go beyond financial returns and have a multiplier effect that spurs broader behavioral changes. We also want to share our learnings with the field, and work with our partners, investors, friends, and colleagues to continue innovating together in the pursuit of a financial sector that centers environmental and social impact alongside financial returns.

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 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 affirms the alignment of SIF's impact management systems with the Principles and will be updated annually.

We plan to complete independent verification by August 31, 2023. We expect to update verification once every two years.