SUSTAINABLE
INVESTORS
FUND

bridging gaps in impact investing

REFLECTIONS ON SIF'S
INVESTMENT APPROACH
+ INVESTEE STORIES

executive summary

CAPRICORN
INVESTMENTGROUP

SUSTAINABLE INVESTORS FUND

Executive Summary

At Capricorn Investment Group ("Capricorn"), our mission to address pressing global challenges has been at the core of our investment strategy for over two decades. We take pride in being pioneers in the field of impact investing, and we are encouraged to see this approach gaining traction in the broader investment community.

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 forefront 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.

In 2019, Capricorn formed the Sustainable Investors Fund (SIF) with a mission to close this gap by **catalyzing investments in asset management firms with innovative approaches to addressing the most pressing global issues.**

To guide our investments, we identified four key themes, centered around some of the biggest challenges facing humanity: **Climate Solutions, Inclusive Capitalism, Sustainable Markets,** and **Health and Wellness.**

As of 2022, SIF has made 13 investments across three of these themes. It is our hope that these firms will provide examples of successful business models that will have long-term systemic impact in the sectors in which they operate. In our latest impact report, we share updates on how each of these investments are progressing against their impact goals.

Climate Solutions

1. Ecofin U.S. Renewables Trust
2. Kepos Capital
3. Respira

Inclusive Capitalism

1. Aristata
2. Center Creek Capital
3. Community Investment Management
4. Lafayette Square
5. MSquared

Sustainable Markets

1. Inherent Group
2. Norselab
3. Osmosis

Climate Solutions

1 Ecofin U.S. Renewables Infrastructure Trust (RNEW)

Relative to other real asset investments, renewable infrastructure remains a nascent asset class. Large renewable energy projects can garner the right mix of capital investment, but small and mid-sized projects still face meaningful gaps in financing. The sector has yet to develop investment vehicles to allow for smaller check sizes, leaving many impact-oriented investors unable to deploy their capital directly in renewable infrastructure projects.

RNEW seeks to solve this gap in renewable energy by providing an investment vehicle designed around investors who provide smaller investment amounts, invest over shorter periods, and might require more liquidity than do traditional investors. RNEW caters to these investors by creating a diversified portfolio of renewables projects, then bundles these projects into larger pools of investments.

In 2022, RNEW provided $15 million of investments in renewable energy products, and has invested over $130 million[1] since inception. RNEW generated 335 GWh of clean energy, enough for a total of 31,400 households. In the process, it abated 203,500 tCO_2 equivalent emissions and saved 42,300 million liters of water.

2 Kepos Capital

Despite the expansion of cap and trade programs across the United States and Europe, current carbon credit prices are not high enough to encourage companies to shift towards carbon reduction in all markets.

Kepos Capital works to address the mispricing of carbon by developing products that bring more capital to carbon allowance markets. Kepos believes that diversified exposure and active portfolio management underlie its ability to provide attractive risk-adjusted returns, and that the financial outperformance of its funds will provide a roadmap for other investors to move into tradeable carbon markets.

Today, Kepos actively trades $292 million in carbon allowances.

1. This value does not consider leverage used for investment at the subsidiaries of RNEW.

3 Respira

Respira

Respira was one of the first organizations to develop a long-term financing solution for the developers of nature-based carbon removal and avoidance projects. Respira's product design offers advantages to project developers, credit purchasers, and local communities. The company enters into long-term offtake agreements with the developers of nature-based projects, by managing a portfolio of carbon credits on its own balance sheet. This provides developers with long-term guaranteed income streams to unlock development capital, and enables corporations to secure future supply.

Respira has a total of 12 projects under contract, representing 23 metric tons (MT) of CO_2e offtake. Projects provide profit sharing with local communities, typically 25%–50% of value above the floor price.[2] All credits are certified by leading independent third-party certification bodies such as Verra and Gold Standard.

Inclusive Capitalism

1 Aristata

ARISTATA

Aristata identifies and funds legal cases that have the potential to achieve positive and measurable environmental and social impact. Through this funding, Aristata ensures claimants directly impacted by the wrongdoing of large companies have the resources and support required to see the case through, helping to ensure corporations pay the true cost of the damage caused by their business activity.

Aristata has achieved a successful outcome from its first investment, holding retail employers to account for failing to pay low-wage workers even their contractual minimum. The victory unlocked compensation for 2,750 workers; the fund received 100% of its capital and agreed return, which was repaid from the law firm's cost recovery, not from the compensation paid to the claimants.

Aristata is actively funding four investments with significant direct and systemic impact opportunity, including:

- *Legal action against a shipping operator that failed to pay fees for use of the claimants' landing facilities. Recovery of the unpaid fees will enable the building of facilities (housing, schools, hospitals) to improve the lives of remote communities.*
- *Claims by current and former military personnel against their employer for harm caused by the prescription of an anti-malarial drug that was later found to have known and serious mental health side effects.*
- *Claims by individuals against a major extractive company for human rights and other serious abuses*

2. Removal offsets account for 44% of these projects, while avoidance projects account for 56%.

2 Center Creek Capital Group

CENTER CREEK
CAPITAL GROUP

In the United States, many families that are feeling the rent burden are working Americans who earn too much to qualify for low-income housing tax credits or Section 8 federal assistance, but not enough to keep up with the rising costs of housing. They are often referred to as the "missing middle" in housing.

Center Creek's investment funds buy distressed/dilapidated single-family properties, make renovations, and create quality affordable rentals. Center Creek also develops and acquires newly constructed homes that can be maintained as affordable housing units. Center Creek seeks to increase the stock of affordable single-family rental units, allowing tenants to move into neighborhood homes with more space for their families than they could otherwise afford, while also giving tenants a suite of support services such as credit counseling, financial literacy workshops, and a path to purchasing a home.

Center Creek has renovated and/or built over 500 homes and has a portfolio of 360 rented homes. At present, 90% of Center Creek's houses are affordable at 80% of area median income, and 90% of residents are Black and/or Latinx. About two-thirds of Center Creek's investment capital has gone into low-to-moderate income census tracts, and the vast majority has gone into majority-minority census tracts.

3 Community Investment Management (CIM)

Community Investment Management CIM

Small- and mid-size enterprises (SMEs) play a critical role in improving livelihoods and supporting economic growth. Despite their importance, SMEs across the world are chronically underfunded as a result of financial hurdles encountered by entrepreneurs. These barriers are especially prevalent in businesses run by women and members of low-income communities, leading to subscale businesses and increased likelihood of failure due to lack of financing.

To help address the undercapitalization of underserved SMEs and entrepreneurs, CIM identifies and invests in technology-enabled financial solutions, specifically providing financial technology companies (fintechs) with debt capital to scale their lending to underserved SMEs and low-income communities. CIM also partners directly with each of their lending partners to ensure their products and practices are responsible, transparent, and customer-centric.

CIM's investments and partnerships are driving significant impact for underserved SMEs and low-income communities in the U.S. and emerging markets. In the U.S. in 2022, CIM helped unlock $759 million in loan financing, reaching 376k borrowers. In emerging markets, CIM helped unlock $970 million in loan financing, reaching 3.1 million borrowers.

4 Lafayette Square

Lafayette Square

Lafayette Square seeks to provide financing to address some of the key challenges hindering middle-market firms in the United States.

First, Lafayette Square provides senior secured loans and other flexible capital solutions, helping middle-market companies grow while minimizing dilution. The firm invests primarily in geographies and companies overlooked by traditional investors, focusing mainly on low-to-moderate income (LMI) areas or companies with significant numbers of LMI workers.

Secondly, Lafayette Square partners with its portfolio companies to offer Worker Solutions, a services platform that seeks to improve the retention, wellbeing, and productivity of the employees of these companies by connecting them with third-party service providers that deliver workplace benefits and/or advisory support. By incentivizing and coordinating the delivery of supportive services to employees, Lafayette aims to help middle-market businesses implement more effective benefits that support workers and provide services currently not available to them.

To date, Lafayette Square portfolio companies are made up of 66% LMI employees, and 40% of the companies are headquartered or have substantial operations in underserved areas. 40% of the portfolio companies have been conn-ected to external services and/or advisory support. Services include mental wellness education, financial coaching, no-interest small-dollar loans, pathway to credit building, and more.

5 MSquared

MSquared

MSquared is focused on creating mixed-income, mixed-use projects that promote affordability, diversity, and sustainability. By building and funding new mixed-income developments, MSquared is addressing the housing shortage and bridging social divides in the United States. Combining affordable with market-rate units provides a more equitable and inclusive approach to housing development, giving all households access to the same set of community resources and high-quality housing.

As a women-owned and -led firm, MSquared is working to make the industry more inclusive, seeking out partnerships with women and minority-led development firms that have long been left out of the real- estate ecosystem, yet are well positioned to influence the broader sector in ways that ultimately pay dividends for those most affected by the housing crisis.

MSquared has nine new housing projects underway. When completed, the firm will have helped to create a total of 3,358 units, including market-rate, affordable, and public housing replacement units.

- *New York, NY: 698 units (40% affordable)*[3]
- *Lynnwood, WA: 200 units (50% affordable)*
- *Philadelphia, PA: 1,000 units (58% affordable)*
- *New Haven, CT: 200 units (20% affordable)*
- *Dallas, TX: 219 units (50% affordable)*
- *Buffalo, NY: 367 units (70% affordable*
- *Newark, NJ: 78 units (100% affordable)*
- *Bronx, NY: 278 units (100% affordable)*
- *Queens, NY: 318 units (100% affordable*

Seven of the nine projects have a women-led developer or co-developer.

3. 2022 Realtor.com research.

Sustainable Markets

1 Inherent Group Credit Strategy

Inherent

Research into the probability of default and loss in the event of default is essential for successful credit investing. However, ESG factors, which can be a power analytical tool for identifying material risks and opportunities, are often overlooked or only superficially considered.

At Inherent, bottom-up, internally driven ESG analysis is central to idea sourcing, underwriting, and dialogue with core positions. Through policy advocacy, positive value creation with corporates on ESG and other matters, and discussions with rating agencies, Inherent seeks to further influence capital allocation decisions.

Inherent makes credit investments that are driven by ESG analysis that provides valuable investment insights and is expected to drive long-term value creation. Inherent generally focuses on issuers that fall into one of two categories: *1) climate-solution companies whose products and/or services materially address environmental objectives and 2) low carbon emissions investments.*

Besides incorporating analysis of financially material ESG considerations to attempt to better identify risks, Inherent uses such analysis to identify underappreciated positive externalities.

2 Norselab

Norselab

Global industries are core to some of our most pressing sustainability challenges. To disrupt the status quo, Norselab has built an impact investing platform designed to back companies with a novel product, service, or business model that can challenge existing solutions and practices. The platform provides a range of financing, including growth equity, structured equity, and credit, ensuring that companies can access the right form of capital for their needs.

Norselab continues to grow the size and range of capital provided to innovative companies that are upending outdated and inefficient ways of working in global industries. There are now four impact funds on the platform. Examples of impactful companies Norselab is helping to scale include:

- ***Ava Ocean*** *has developed a unique method for harvesting bottom-dwelling species without disrupting the seabed or harming surrounding ecosystems. The technology opens up opportunities for sustainable fishing around the world, helping to close the food gap while protecting ocean biodiversity and preserving invaluable carbon sinks in the ocean.*
- ***Antec*** *delivers biogas plants of any size, anywhere in the world. Its patented biogas technology radically improves the efficiency and profitability of biogas production, helping reduce global energy-related emissions and organic waste, and increasing local energy security. The technology has greater efficiency than traditional installations and the company has been awarded the Bioenergy Innovation Award.*

3 Osmosis Investment Management

Expanding population and consumption growth are exerting increasing pressure on the earth's resources and contributing to the harmful impacts of climate change. Listed companies around the world have a significant role to play in this resource depletion; however, publicly available corporate environmental data is largely unstructured, lacks clarity, and is difficult to contextualize. Investors seeking to factor such measures of corporate sustainability into due diligence practices lack the data and tools for doing so.

Through its proprietary dataset and model, Osmosis assesses the resource efficiency of public companies and constructs portfolios that overweigh efficient firms and short inefficient ones. Such portfolios have quantifiably fewer GHG emissions, and less water usage and waste generation compared with peer portfolios and indexes. Osmosis also encourages company management to disclose environmental data on carbon emissions, water consumption, and waste generation.

As of the end of 2022, Osmosis strategies have saved an average, relative to benchmarks, of 57% in Co2 equivalent emissions, 59% in water consumption, and 73% in waste generation. In the last year, the firm has almost tripled its assets under management, to $9.4 billion at the end of March 2023 compared with $3.5 billion a year prior.

In addition to the investments covered in this section, SIF invested in two SPACs designed to support global net zero goals.

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Diversity, Equity & Inclusion

At Capricorn and SIF, we want to create a workplace where everyone feels empowered, regardless of their backgrounds. This philosophy is reflected in our approach to hiring and training, which help us promote an inclusive environment.

We also believe that diversity is an important aspect of responsible decision making in asset management. To that end, we have integrated sustainability and diversity assessment into our investment processes. We analyze investments and engage with potential investees on these topics, to ensure that we are partnering with firms that are aligned with our values. This is an area of ongoing engagement and improvement at SIF, and we are eager to share our continued work over the next few years.

Our commitment to diversity extends to the belief that it is necessary not only to have diverse leadership in investment firms but also for this leadership to have direct experience with, or close ties to, the issue areas or communities concerned in a particular investment. We view this as an important differentiator that enables them to understand challenges and create effective solutions.

On the next page we show diversity metrics for gender and race for SIF and our U.S.-based portfolio firms, as well as gender diversity metrics for portfolio firms in other countries. Our current focus is on gender and race as dimensions of diversity due to the historical and persistent underrepresentation of women globally, and of people of color in the U.S. We collect demographic data for staff across four levels: **investment key decision maker**, **investment team**, **non-investment team**, and **investee ownership**.

By presenting these metrics, we hope to encourage transparency and accountability for ourselves and others in the investment community.

NOTES: For ethnic or racial diversity, the data (both industry benchmark and SIF data) only looks at Canadian and US offices.

In the case where third-party firms have ownership in SIF portfolio firms, we have excluded the third party firms from calculations of ownership diversity due to lack of data.

To calculate average ownership for SIF investees, we averaged the ownership percentages across all firms (i.e., we did not weight each firm by assets under management (AUM)). Given the range in asset class and fund size, weighting by AUM would obscure the ownership mix of most SIF investees. Most industry benchmarks are weighted by AUM, creating an imperfect proxy. As such, we did not include a quantitative comparison between SIF investees and industry benchmarks, although most datapoints suggest SIF investees have more diverse ownership compared to the rest of the industry. The Knight Foundation's 2021 Diversity of Asset Managers found that diverse-owned firms (i.e., those with more than 30% ownership by women or by those identifying as racial minorities) made up only 1.4% of US-based AUM.

SOURCES: The primary industry benchmark used for this analysis is McKinsey & Company's "The state of diversity in global private markets: 2022." The report focuses on gender and ethnic or racial diversity within PE firms, and is one of the largest studies of gender, racial and ethnic diversity in global private markets. This study uses a representative set of funds which are comparable to SIF's own portfolio of funds.

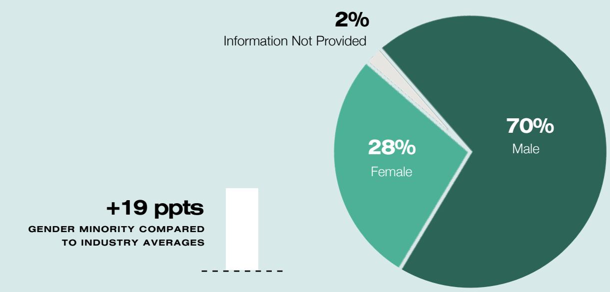
In all cases, we cross-checked these findings against other industry estimates of gender, racial and ethnic diversity in private markets, including the Knight Foundation's "Diversity of Asset Managers Research Series," the Diversity Project's "Diversity in Investment Management Benchmarking Study," the BVCA/Level 20 "Diversity and Inclusion Survey 2021," the National Association of Investment Companies' "The Financial Returns of Diverse Private Equity Firms 2021," and the Investment Company Institute (ICI) & Independent Directors Council (IDC)'s Directors Practices Study. Each of these studies provide directionally similar estimates.

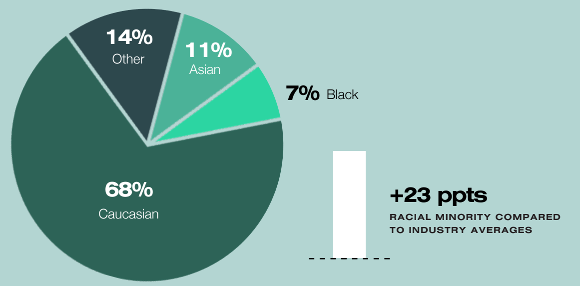
Definition of terms: Investment decision makers refers to individuals on the investment committee i.e., a subgroup of investing leaders that makes firm-wide strategic decisions for PE funds. This group is typically made up of C-level executives, fund heads, managing directors, and partners. Industry standard definitions of investment roles and non-investment roles were used elsewhere.

Breakdown of staff and ownership by **gender**

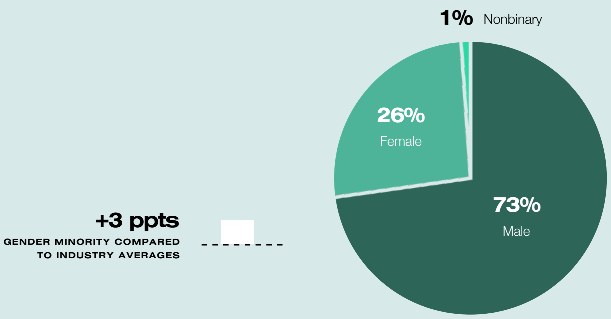
Breakdown of staff and ownership by **ethnicity**

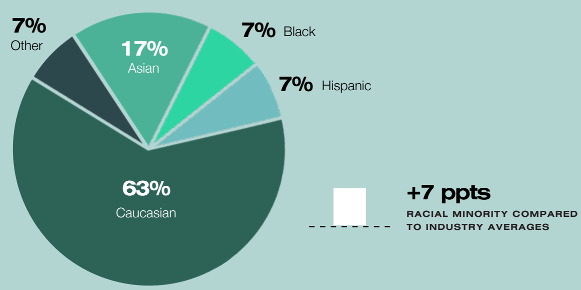
Investment Decision Makers



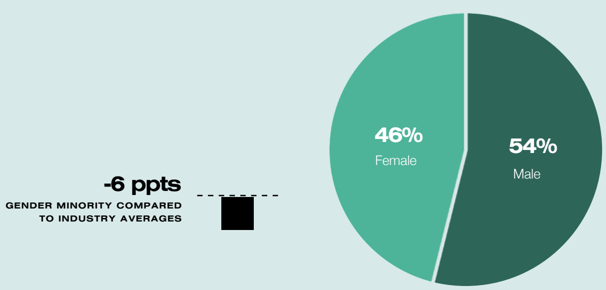


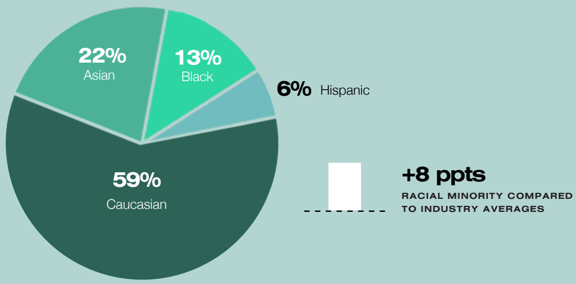
Investment Team



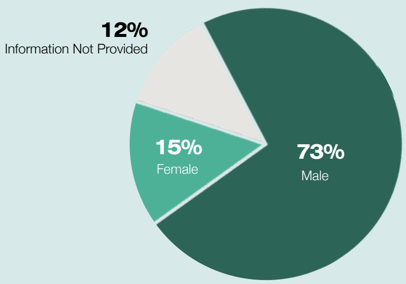


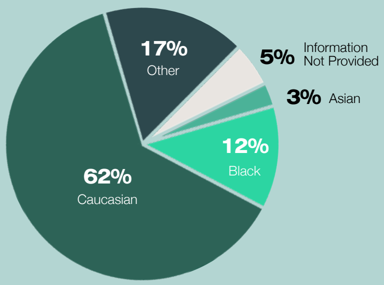
Non-Investment Team





Average Ownership





- Men
- Women
- Nonbinary
- Information Not Provided

- Caucasian
- Asian
- Black
- Hispanic
- Other
- Information Not Provided

Our Future

Although many of SIF's investments are still in their early stages, we are starting to see signs that some have the potential to drive transformative change and inspire other fund managers and investors to adopt similar approaches.

We approach our work with humility and awareness of the magnitude of the challenges we aim to address. We understand that effecting meaningful change will require a combination of visionary policy, philanthropy, public-private partnerships, and investment capital. The SIF team is dedicated to identifying emerging asset management firms that share our vision and values. We strive to leverage our talent and resources to support these firms in achieving their missions. As we partner with these firms, we expect to gain valuable insights into what it takes to be an effective partner. We are excited to share these learnings in the coming years. Together with our investors, partners, portfolio firms, and friends and colleagues, we hope to drive progress towards a more sustainable and equitable future.

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