



Impact Principles Disclosure Statement

May 2021

Signatory to:



Operating Principles for
Impact Management

ARCANO

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Operating Principles for Impact Management

Arcano Impact Private Equity Fund

May 2021

Disclosure Statement

On April 12, 2019, the International Finance Corporation, together with a core group of external stakeholders, launched the Operating Principles for Impact Management. By managing investments for impact, this effort aims to establish a market standard for impact investing.

Arcano is proud to be a signatory to the Operating Principles for Impact Management. The following Disclosure Statement hereby affirms that **Arcano Impact Private Equity Fund** (“AIPEF” or the “Fund”) is managed in accordance with the Operating Principles for Impact Management (the “Impact Principles”). As of the publication of this statement, the total commitments raised by the Fund, managed in alignment with the Operating Principles, stand at EUR 200 million⁽¹⁾. The Fund continues its fundraising process with a target fund size of EUR 300 million⁽²⁾.



José Luis Del Rio
Managing Partner, CEO Arcano Asset Management
May 2021

(1) c.245 million USD – 1€/1,22\$ exchange rate as of May 25, 2021

(2) c.367 million USD – 1€/1,22\$ exchange rate as of May 25, 2021

Introduction

Arcano Partners (the “Firm”) is a leading independent financial advisory and alternative asset management group founded in 2003 with offices in Madrid, Barcelona, Valencia, New York and Los Angeles. The Firm currently employs a fully committed team of over 200 professionals across three business areas: investment banking, alternative asset management and wealth management.

The asset management division was established in 2006, with the launch of the private equity strategy. Since inception, Arcano has managed and advised over €7.0 billion of assets across different alternative asset classes, including private equity, venture capital, credit, sustainable infrastructure and real estate. Each division has a dedicated team of professionals, which in total include 80 employees.

Summary of Operating Principles for Impact Management

STRATEGIC INTENT

- 1** Define strategic impact objective(s), consistent with the investment strategy
- 2** Manage strategic impact on a portfolio basis

ORIGINATION & STRUCTURING

- 3** Establish the Manager's contribution to the achievement of impact
- 4** Assess the expected impact of each investment, based on a systemic approach
- 5** Assess, address, monitor, and manage potential negative impacts of each investment

PORTFOLIO MANAGEMENT

- 6** Monitor the progress of each investment in achieving impact against expectations and respond appropriately

IMPACT AT EXIT

- 7** Conducts exits considering the effect on sustained impact
- 8** Review, document, and improve decisions and processes based on the achievement of impact and lessons learned

Independent Verification

- 9** Publicly disclose alignment with the Principles and provide regular independent verification of the alignment

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.

Arcano became a pioneer in Spain with regards to responsible investment more than eleven years ago, when it became the first independent alternative asset manager to adhere to the United Nations Principles for Responsible Investment (“UNPRI”). Today, Arcano is proud to have obtained the highest rating, A+, on the latest UNPRI assessment report, across all investment strategies. During this time, Arcano has enhanced its responsible investment policy, defining the necessary tools to incorporate a systematic analysis of social, environmental and governance (“ESG”) aspects into its investment decision-making process. Additionally, Arcano has also strengthened its ESG team, adding dedicated professionals as a result of the Firm commitment to responsible investing.

In April 2020, Arcano launched **Arcano Impact Private Equity Fund (“AIPEF” or the “Fund”)**, which aims to invest in impact private equity funds with a social and/or environmental focus.

Arcano has defined four impact verticals to primarily support: energy transition, health and wellbeing, agri-food and agribusiness and education & equality, which in turn are aligned with the following Sustainable Development Goals: 1,2,3,4,5,6,7,8,10,11,12,13.

Arcano believes its success generating a positive impact alongside an attractive financial return will depend on selecting the best quality impact private equity managers, which combine an attractive impact strategy with the operational capabilities needed to build profitable impact companies.

Given the relevant changes the world is currently undergoing, led by structural trends, in some cases accelerated by the COVID-19 pandemic, an increasing number of attractive investment opportunities are arising related to solving some of the world's most pressing issues. Through its strategy, AIPEF can directly contribute to generate a positive social and environmental impact, while also generating attractive returns for investors.

ENERGY TRANSITION



Adopt urgent measures to fight against the effects of climate change

HEALTH & WELLBEING



Promote the well-being of all people at all ages, in order to build a prosperous society

FOOD & AGROINDUSTRY



Ensure global food security and support the sustainable management of land, water and natural resources to meet the needs of present and future generations

QUALITY EDUCATION



Ensure quality education and reduce gender inequalities



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

Arcano seeks to positively impact society and the planet by investing in the best private equity impact managers in Europe and North America. To this end, AIPEF has translated its investment strategy into a theory of change by landing clear impact objectives and KPI indicators in each element of this theory of change. This will allow the Fund to better understand the effectiveness of its investments in terms of impact and to facilitate the measurement of the impact generated.

As well as being measured, Arcano believes that impact is part of a process that has to be managed and reported. Through the legal documentation, Arcano makes sure the managers implement frameworks for managing and measuring impact of the underlying investments and to report annual ESG and impact related information at the portfolio company level.

Management

Arcano systematically monitors the underlying companies' theories of change in order to understand how managers and companies develop their social or environmental goals.

Although interaction with managers is continuous, this monitoring process is made at least on a quarterly basis.

Measurement

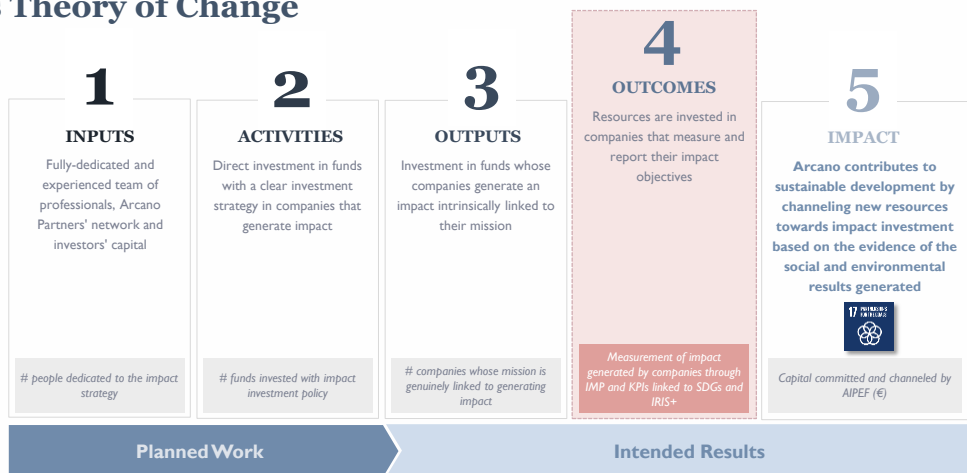
Arcano measures the percentage of achievement of the impact goal on an annual basis against a previously established baseline. This impact measurement is made based on the information reported by the managers and international measurement standards.

Reporting

Arcano reports impact data at the underlying company and fund levels on an annual basis.

To implement the investment strategy, Arcano has established a dedicated team, which has received training on systemic change, impact management and measurement, and different thematic courses to understand social realities such as climate change implications on the future of investments, equality, health and wellbeing, among other matters.

AIPEF's Theory of Change



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.

A | Establish the Manager's contribution at AIPEF's level to the achievement of impact

Concerning the integration of impact targets in the investment process, Arcano has established a governance structure that relies on the Investment Committee to supervise the investments' impact targets. Arcano has also established an impact team, which is responsible for measuring the impact generated by the underlying companies and notifying the Investment Committee of all impact-related issues.

Additionally, at the Firm level, Arcano has professionals within the team with experience in impact measurement and management. Furthermore, the Head of ESG and CSR at Arcano has more than ten years of experience working with social development programs and in the management, measurement, and performance, of impact evaluations for different multilateral organizations, corporations, and NGOs. Furthermore, she was originally part of the Private Equity investment team at Arcano several years ago, and as a result, has significant knowledge of the alternative asset management industry.

As the Fund is invested, Arcano will consider incorporating additional resources to monitor, consolidate and report impact variables over the investments' life, if deemed necessary.

With regards to AIPEF's generation of impact, Arcano believes that rigorously measuring its contribution is still a complex and costly task, as it requires a complete isolation of AIPEF's contribution, the underlying funds' contribution as well as additional external factors (government policies, other fund managers contributions to the company, etc.). In this regard, Arcano will be attributed part of the impact generated only when improvements are identified at the underlying companies' level. However, given AIPEF's indirect investment in the company, it is aware that this method will not be exact; it will rather serve as a proxy. For AIPEF, additionality or contribution will therefore be measured as follows: the difference between AIPEF's total value of the underlying company (value arising from the investments made) and AIPEF's total capital invested (capital allocated to impact investments).

B | Establish the Manager's contribution at Fund Investments level to the achievement of impact

Arcano ensures that managers are fully involved in the management and measurement of the company's impact. To this purpose, Arcano reviews that:

(i) The manager has systematic procedures to select and analyze how the companies in which they invest implement their mission, purpose and/or social and impact objectives.

More specifically:

- ✓ If the manager effectively establishes impact objectives and associated ex-ante metrics in the potential investment, minimum thresholds of what they consider an impact outcome as well as whether they will be able to monitor these metrics ex-post
- ✓ If the manager identifies the target audience, who will experience the impact outcomes
- ✓ If the manager can determine their contribution (might even be done through a proxy)
- ✓ If the manager has a risk management system in place to recognize positive and negative impacts

- ✓ If the manager verifies the impact achieved by an independent third party

(ii) The governance of the fund in terms of impact

- ✓ If impact targets are systematically monitored by the Investment Committee
- ✓ If the manager links the carried interest to the achievement of impact targets
- ✓ If the manager plans to safeguard the impact achieved on exit

(iii) The management team's experience in terms of impact, i.e. whether it has internally or externally qualified and experienced staff to manage and measure impact

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, align with industry standards and follow best practice.

Arcano uses the theory of change as a fundamental tool to understand how funds and portfolio companies implement their social and/or environmental objectives throughout the investment life cycle. Furthermore, to quantify and verify the fulfillment of this impact in portfolio companies, Arcano takes as a reference the five dimensions of impact established in the Impact Management Project (IMP) as a reference to understanding and measuring impact in a company. In addition, from the moment the investment is completed,

Arcano requests that the manager provides at least one impact indicator per company. Indicators are based on a baseline that the manager must establish at the time of investment, on the business plan and the best operations envisaged.

Arcano tries to use indicators linked to IRIS+ (to seek a certain standardization and to simplify data aggregation and subsequent reporting preparation). Arcano also links the underlying company's purpose with the Sustainable Development Goals' goals (SDGs).



WHAT?

Definition of the company's mission and impact strategy, which are linked to the impact angles of AIPEF



ENERGY TRANSITION



HEALTH & WELLBEING



QUALITY EDUCATION



FOOD & AGROINDUSTRY



WHO?

Beneficiaries of the impact generated by the company



People

People at risk of social exclusion
Women
Children and youth
Seniors
People with disabilities
...



Planet

Waste and pollution
Ecosystems and biodiversity
Earth, air, oceans
Climate
...



HOW MUCH?

Performance indicator that is being achieved through the company's intervention and alignment with the SDGs



Activity indicator



Result indicator



Change indicator

Indicator	Unit	Target	Actual	Weight
Renewable energy production	MWh	1000	800	10%
CO2 emissions	tonnes	500	600	15%
Water consumption	m3	2000	1800	10%
Waste recycling	tonnes	100	120	5%
Employee training	hours	5000	4500	10%
Gender diversity	%	30	25	10%
Community investment	€	100000	90000	5%



CONTRIBUTION

Determine the contribution to the generation of impact as a result of the investment in the project

Investing in impact companies through funds

Portfolio Manager

Value and impact creation plan in each company as a result of the financial and operational resources allocated to impact investment

AIPEF

Total value (value arising from the investment made)

-

Total capital invested (capital allocated to impact investments)



RISK FACTORS

Identify, assess and mitigate material risk factors, thereby increasing the consistency between real and expected impact



Evidence risk
Probability that insufficient high-quality data exists to know what impact is occurring

Execution risk
Probability that the activities are not delivered as planned and do not result in the desired outcomes

Drop-off risk
Probability that positive impact does not endure and/or that negative impact is no longer mitigated

External Risk
Probability that external factors disrupt our ability to deliver the impact
...

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, 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.

Arcano is committed to assess, monitor and improve, to the extent possible, the commitment and management of ESG criteria of the funds in which it invests. To this end, Arcano has developed an in-house ESG methodology based on the best practices established by some of the most recognized standards in the responsible investment industry, such as UNPRI or GRESB. The ESG analysis is considered throughout the entire investment and monitoring process.

Due Diligence

Arcano has defined a well-structured ESG evaluation process. It uses a comprehensive and broad approach to identify ESG risks and opportunities, providing a rating for each of the underlying managers, which allows for them to be classified according to a scale or benchmark. The objective of the evaluation is: (i) to understand what the managers' ESG commitment is; (ii) verify how effectively ESG considerations are integrated throughout the entire investment process; (iii) assess the ESG monitoring processes that the manager has put in place; and (iv) assess the manager's degree of transparency in communicating ESG information to its investors.

This evaluation is led by the investment team, in parallel to the investment due diligence, following a tailored ESG questionnaire for each manager. The questionnaires' answers will be processed and analyzed via conference calls / meetings with the managers and verified through different external sources specific for each evaluation criterion.

Monitoring

Arcano monitors its investments, throughout its life, through continuous communication with the managers. If a severe ESG incident is detected in any of the portfolio companies, Arcano will contact the manager immediately to properly understand the causes of the event.

Reporting

Arcano oversees the ESG aspects of portfolio companies through an alert system provided by third parties

Arcano encourages managers to disclose two types of indicators: (i) specific and material to each of the portfolio companies according to the sector they operate in; and (ii) common indicators to all industries and sectors.

ESG FUND ANALYSIS FRAMEWORK

Manager's commitment to responsible investing

Understanding the GP commitment to ESG through tangible actions

Commitment to ESG initiatives / RI Governance Structure / Dedicated resources to ESG training / RI white papers published

Screening— Understanding how the GPs integrates the ESG analysis into the screening process

Implementation of Negative Screening / "Best-in-class" / Implementation of an active ESG screening with an "end-in-mind".

Investing — Understanding how each GP analyzes ESG risks and opportunities in the potential investments during due diligence.

Identification and valuation of material ESG risks in investment decisions / Integrating ESG-related considerations into transaction documentation / IC supervision of material ESG risks and opportunities in potential investments / Integration of ESG aspects into investment

Monitoring— Understanding if a Manager is an active owner through activities revisiting ESG guidelines and targets

Assignment of professionals to monitor ESG progress / KPIs and Performance Evaluation to a portfolio company/asset / Plan of Actions and monitoring systems implemented / Troubleshooting measures to ESG related problems / Evaluation of ESG-related competencies of the portfolio company's management team / Value creation as a result of ESG initiative / Safeguarding ESG improvements after the manager's holding period of the company/asset

Reporting — Understanding if a Manager's level of transparency

Reporting and communication of ESG related information to LPs / Reporting and communication of ESG related information to LPs

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.

Once the investment has been completed, APEF's investment team will be responsible for gathering information on the impact generated by the underlying companies and will try to consolidate, to the extent possible, impact information by vertical or impact theme in order to measure the impact generated at the Fund level. For this task, the team will rely on three different frameworks: the IMP, IRIS+ and the SDGs. At Arcano, we believe that the combination of these three frameworks

allows the team to elaborate an accurate impact profile of the fund's underlying companies. Additionally, when analyzing companies with the five dimensions of the IMP, the investment team identifies the different risk factors of an investment. These risk factors will be monitored, and if any negative impact arises, the Arcano team will assess this with the manager.

Principle 7

Conducts 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.

As a fund of funds, Arcano does not have direct access to the management of the underlying companies nor their exit processes. However, to preserve the total impact generated through the investment's life, Arcano will consider the manager's capacity to safeguard the impact of the companies at exit as an essential point during the impact due diligence performed prior to investment.

The manager's experience on exits and exit plans for potential portfolio companies are addressed during the due diligence process in order to confirm that the manager assesses potential exit options, from both an impact and a commercial perspective.

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.

In order to manage AIPEF's impact, the team monitors underlying companies to ensure they establish baselines and impact targets. The team will also monitor if they're complying with the established activities and long-term results (defined in their respective theories of change). Arcano reviews and follows the development of this impact and compares it against the baseline defined at the time of the investment. The development and achievement of the company's social and/or environmental objectives is also reported to investors. Additionally, Arcano will maintain an active dialogue with the underlying managers and will assess any issue that relates to portfolio companies' not meeting their objectives.

Arcano is continuously implementing improvements by incorporating best practices to better manage, measure and report on the impact generated. As a fund of funds, AIPEF will have exposure to many different impact measurement methodologies and will seek to influence the underlying funds to incorporate best market practices. Arcano also collaborates with several institutions, impact managers, and other key players in the ecosystem to share lessons learned in aims of improving impact measurement.

Principle 9

Publicly disclose alignment with the 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 an 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.

Arcano will engage an external organization to conduct independent verification of AIPEF's compliance with the Impact Management Operating Principles. Arcano will publish its Statement by the end of 2021.