

Signatory to:



Operating Principles for
Impact Management

IMPACT PRINCIPLES DISCLOSURE STATEMENT

May 2023

ARCANO



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DISCLOSURE STATEMENT 2023

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 (or the "Impact Principles"). As of the publication of this statement, the total commitments raised by the Fund, managed in alignment with the Impact Principles, stand at EUR 263 million⁽¹⁾.



JOSÉ LUIS DEL RÍO
Managing Partner
CEO Arcano Capital



(1) c.289 million USD – 1€/1.1002\$ exchange rate as of April 24, 2023

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 prides itself in being the first Spanish alternatives asset manager to have become a United Nations Principles for Responsible Investment (“UN PRI”) signatory in 2009. Since then, Arcano's commitment to responsible and sustainable investing has evolved significantly through the launch of targeted investment products. In 2020 the Firm launched its first impact private equity fund of funds, Arcano Impact Private Equity Fund, which seeks to positively impact society and the planet by investing in thematic and profit with purpose private equity managers across Europe and North America. AIPEF targets four main impact themes that Arcano believes to be essential in providing solutions to the most urgent environmental and socio-economic challenges threatening current and future generations. These include: energy transition, health and wellbeing, food and agriculture, and quality education, which in turn are aligned with the United Nations Sustainable Development Goals (“SDGs”).

As a fund of funds, Arcano is not ultimately responsible for the management of underlying portfolio companies and, consequently, the initial impact analysis is essential to ensure the manager's ability to select impactful companies by establishing appropriate impact KPIs in conjunction with the underlying company management teams.

In order to ensure impact performance is achieved, Arcano has developed an internal impact management and measurement process aligned with the Impact Principles. It thoroughly assesses a manager's impact intentionality at the pre-investment stage and monitors both, the correct implementation of impact strategies during the investment life cycle as well as the achievement of impact performance through the annual measurement of impact KPIs. This methodology allows Arcano to integrate best practices when constructing the portfolio.



Adopt urgent measures to fight against the effects of climate change



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



Ensure quality education and reduce gender inequalities



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

Technological Disruption

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

AIPEF has translated its investment strategy into a theory of change by establishing clear impact objectives and KPIs for each of its elements. This allows for a better understanding of the effectiveness of the investments in terms of impact and the measurement of the impact generated. Arcano believes that impact is embedded in a process that must be managed and reported, in addition to being measured. As such, the Firm ensures through the inclusion of specific clauses in legal documentation that managers implement frameworks to both manage and measure the impact of underlying investments and report ESG and impact information at the portfolio company level on an annual basis.

Arcano has developed an internal impact management and measurement ("IMM") process that thoroughly assesses a manager's impact intentionality at the pre-investment stage and monitors both, the correct implementation of impact strategies during the investment life cycle as well as the achievement of impact performance through the annual measurement of impact KPIs:

i. 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.

Arcano is currently working on the alignment of staff incentives with impact achievement, studying the best way to implement it.

ii. Measurement

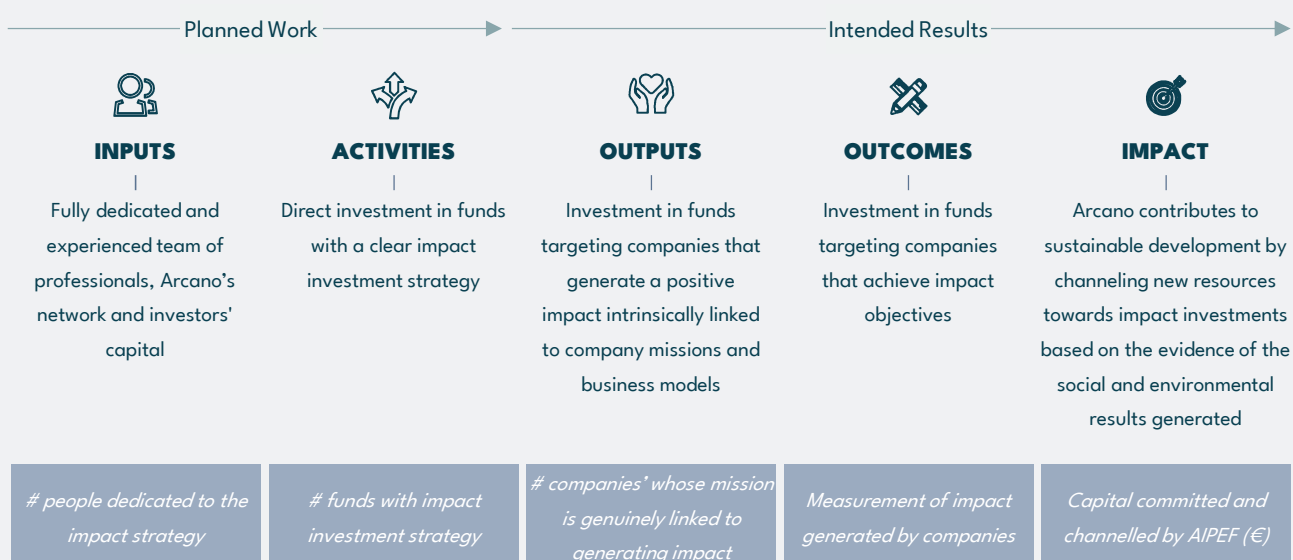
Arcano will annually measure the achievement of impact objectives as a percentage of a previously established baseline. Impact measurement is performed in accordance with Arcano's IMM process and based on the information reported by managers as well as international measurement standards.

iii. Reporting

Arcano reports impact data at both underlying company and fund level on an annual basis.

In order to successfully execute the investment strategy, Arcano has built a dedicated team, which has been trained on systemic change, impact management and measurement, as well as various thematic courses in order to understand social realities (i.e. implications of climate change on the future of investments, equality, health and wellbeing, among other issues).

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 to the achievement of impact at AIPEF's level

Arcano has established a governance structure that relies on the Investment Committee to monitor investment's impact objectives. In addition, the Firm has assembled an impact team, which is responsible for measuring the impact generated by underlying companies and reporting all impact-related issues to the Investment Committee.

Furthermore, Arcano is supported by an ESG and CSR team at the Firm level whose Head has extensive experience of working with social development programs and managing, measuring and conducting impact assessments for different multilateral organizations, corporations and NGOs. Moreover, she was originally part of the Private Equity investment team at Arcano a few years ago, thus, she 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.

Regarding AIPEF's impact generation, Arcano believes that rigorously measuring its contribution remains a complex and costly task, as it requires a complete isolation of the latter, that of the underlying funds, as well as of additional external factors (government policies, contributions of other fund managers 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, this method will not be accurate, but will rather serve as an approximation. As a result, AIPEF's additionality or contribution will be measured as follows: the difference between AIPEF's total value in the underlying company (value arising from the investments made) and AIPEF's total invested capital (capital allocated to impact investments).

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

Arcano is concerned about managers being fully involved in the management and measurement of the company's impact. To this end, Arcano reviews the following:

- 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 at exit
- iii. Management team's expertise in terms of impact (i.e. whether it has staff, in-house or external, who are qualified and experienced 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's IMM is the internal framework integrating the highest standards in regards to impact decision making in both fund selection and monitoring. At the portfolio company level, Arcano's IMM leverages on industry leading third-party frameworks which allow the team to ensure the companies' impact angle is being assessed on a holistic basis. Arcano follows the Impact

Management Project ("IMP"), IRIS+ and the Sustainable Development Goals ("SDGs") to understand, process and measure the impact performance of underlying companies. These frameworks help the team to confirm or identify material social and environmental metrics pertinent to each underlying portfolio company.

IMPACT MANAGEMENT PROJECT

At the portfolio company level, the Impact Management Project sets out the basis and structure used by Arcano's IMM to define, categorise and monitor underlying companies according to their impact angle.

Arcano's Impact Methodology will assess underlying companies based on the five following impact dimensions:



WHAT?

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



WHO?

Beneficiaries of the impact generated by the company



HOW MUCH?

Performance indicator that is being achieved through the company's intervention and potentially linked to the IRIS+



RISK

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



CONTRIBUTION

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

IRIS+ platform provides a broad catalogue of impact KPIs across different impact investment themes, as well as variety of information on the different risks and contributions of investing in these impact themes



Arcano's IMM includes an assessment on how every underlying portfolio company is addressing the Sustainable Development Goals and targets throughout the company's business model. SDGs allow us to have a macro-level vision of how AIPEF is contributing, through its investments, to globally-agreed impact goals

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

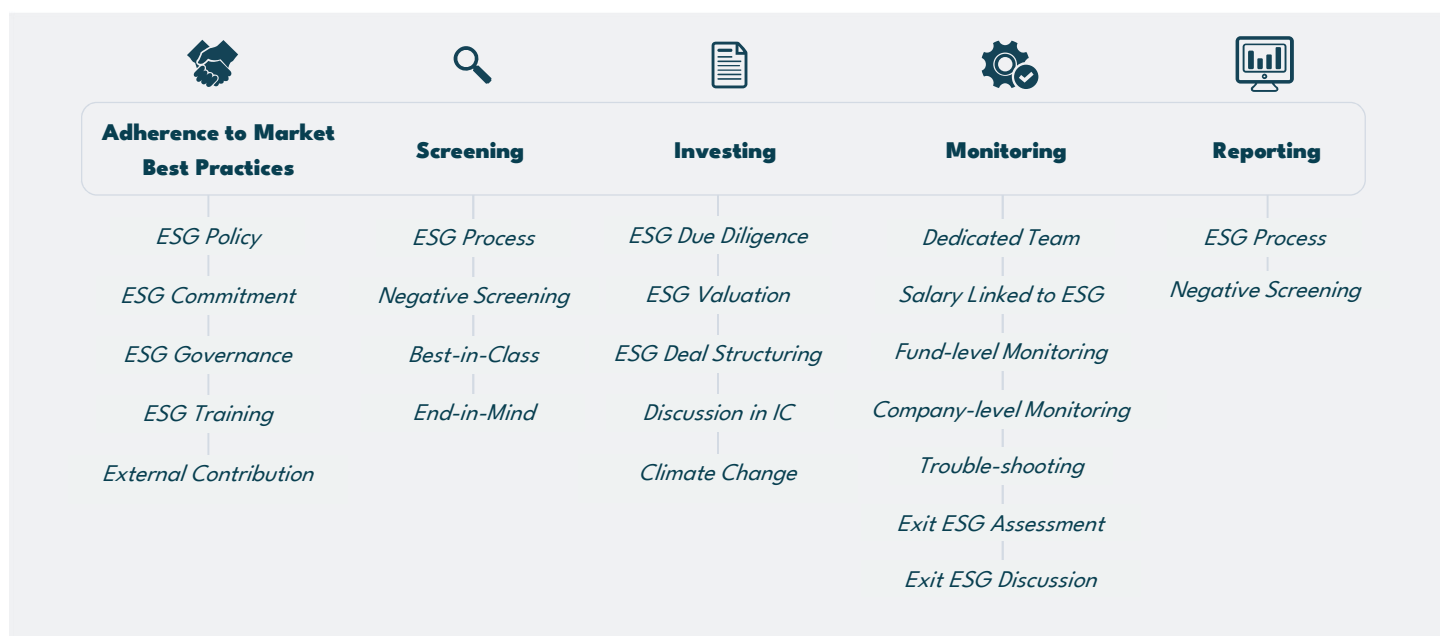
Arcano is committed to considering, assessing, monitoring and improving ESG management in portfolio funds as part of its responsible investment policy throughout the entire investment and monitoring process. To this end, Arcano has developed an in-house methodology – Arcano ESG Dashboard – to assess underlying funds based on 23 ESG-related matters inspired by the best practices of some of the most recognized industry standards such as UNPRI. Arcano will use the ESG Dashboard to conduct a tailored ESG assessment based on quantitative and qualitative criteria. Arcano 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. This assessment aims to understand the manager's ESG commitment and verify how effectively ESG considerations are integrated throughout the entire investment process.

This evaluation is led by the investment team, and is conducted 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. The results obtained on the ESG analysis will be included in the materials presented to the Investment Committee and will be a relevant topic of discussion among its members.

Once commitments have been formalized, Arcano will monitor its investments 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. Arcano oversees the ESG aspects of portfolio companies through an alert system provided by third parties. Additionally, 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. In addition, AIEF's annual impact report includes an ESG assessment comprising a yearly update of the underlying GPs' ESG Dashboard ratings relative to the baseline rating obtained during the final due diligence, in order to monitor the annual evolution of the different KPIs rated within the ESG Dashboard.

Please find our general Responsible Investment Policy in the following webpage:
<https://arcanopartners.com/en/responsabilidad>



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

AIPEF's investment team is responsible for gathering all the information related to underlying companies' impact and will attempt to consolidate it, to the extent possible, by vertical or impact theme in an effort to quantify the impact generated at the Fund level. This task will be carried out once a year. The team will rely on Arcano IMM's three different industry 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. Arcano will conduct a thorough impact due diligence of the manager prior to completing the investment leveraging on in-house tools – the IMPACT Dashboard – which will in turn be reviewed annually for in order to monitor the impact developments relative to the initial rating obtained during due diligence.

The output of the annual impact assessment will be consolidated in an annual impact report which will be made available to AIPEF's LPs.

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 effectively manage AIPEF's impact, the team monitors underlying companies to ensure baselines and impact targets are established. Monitoring is also conducted across portfolio companies in order to verify their compliance with established activities and long-term outcomes (as 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 best practice 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 underlying funds towards incorporating best market practices. Arcano also collaborates with several institutions, impact managers and other key players across the ecosystem to share lessons learned in order to improve 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 commits to providing and publicly disclosing a disclosure statement of its impact management system with the Impact Principles annually. Arcano engaged an external organization to conduct independent verification of AIPEF's compliance with the Operating

Principles for Impact Management in 2021. The first independent verification was conducted in 2022 and is publicly available on the Impact Principles website. The external verification will be provided every 3 years.