

ESG Policy

Last Updated June 2018

Pegasus places a focus on Environmental, Social, and Governance (“ESG”) standards at the core of our investment thesis. Our principal investment theme is providing strategic growth capital to companies within the middle-market focused on sustainability and wellness. We believe that by investing in such industries and companies, we are not only poised to capitalize on global demographic and economic trends that have the potential to yield significant financial returns, but we are also contributing to sustainable solutions to global issues. In each investment, Pegasus seeks to create fundamental value through its creative investment structures while leveraging its operational expertise and deep industry knowledge. Furthermore, Pegasus believes that adherence to ESG principles can serve as a significant risk mitigant and potential value-enhancing approach for our investments, and that it has the potential to improve the bottom line for our investors.¹

Pegasus is committed to integrating ESG principles throughout its investment processes. As such, we are implementing a comprehensive ESG Management System (“ESG-MS”), which includes guidelines on ESG integration at each stage of the investment cycle.² The ESG-MS is guided by adherence to applicable local and national laws at the Firm and Investee levels; the International Finance Corporation’s (“IFC”) Performance Standards on Environmental & Social Sustainability; IFC’s Environmental, Health, and Safety (“EHS”) Guidelines, the Equator Principles; and, Pegasus’ Compliance Manual. Additional tools and resources may be referenced, as applicable, including, but not limited to, the Invest Europe ESG Due Diligence Questionnaire for Private Equity Investors and their Portfolio Companies, CDC ESG Toolkit for Fund Managers, International Standards Organization (“ISO”), the Global Reporting Initiative (“GRI”), the Sustainability Accounting Standards Board (“SASB”), and the Impact Reporting & Investment Standards (“IRIS”). As part of Pegasus’ mission to make a positive impact, the Firm works with its companies and investments to align their strategies with the United Nations Sustainable Development Goals (“SDGs”).

ESG activities throughout the investment cycle are summarized in the below stages:

- 1) **Screening Stage:** For every investment opportunity that is expected to undergo significant due diligence (e.g. concurrently with, or immediately before or after, the development of a non-binding term-sheet), Pegasus Investment Professionals will work with the ESG Manager and relevant Operating and Strategic Advisors to identify how or whether an investment opportunity fits within Pegasus’ investment themes and ensure that the investment opportunity is not on Pegasus’ Exclusion List. Additionally, this team will work to identify the potential investment’s ESG risks and opportunities. A “Screening Questionnaire” is completed with this information, and the team assigns an Environmental & Social (“E&S”) category based on its findings, as well as an ESG due diligence plan. Categorization is based upon the IFC’s methodology and EPs.³

¹ Past performance is no guaranty of future results. Investing in securities entails risks. There can be no guaranty Pegasus’ ESG Policy or its implementation thereof will mitigate any or all ESG or other risks, or lead to increased revenues.

² As of the May 2018 update to this ESG-MS, follow-on acquisitions by Investees in which Pegasus holds a controlling position will also undergo the ESG Screening, Due Diligence, Investment Decision, and Investment Agreement activities outlined in this Policy.

³ Category definitions as per Version III of the Equator Principles (2013) are the following and applied to all Pegasus investments:
Category A – Projects with potential significant adverse environmental and social risks and/or impacts that are diverse, irreversible or unprecedented;
Category B – Projects with potential limited adverse environmental and social risks and/or impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures; and
Category C – Projects with minimal or no adverse environmental and social risks and/or impacts.

- 2) **Due Diligence Stage:** Pegasus Investment Professionals will conduct due diligence on ESG risks and opportunities, engaging the ESG Manager and Operating and Strategic Advisors as appropriate. The depth of the due diligence procedures should be based upon the categorization of the investment opportunity and guided by the Invest Europe ESG Due Diligence Questionnaire for Private Equity Investors and their Portfolio Companies, the IFC Performance Standards, Equator Principles, and CDC ESG Toolkit (and as outlined in the Screening Questionnaire).⁴ Category A and B investment opportunities should undergo a more in-depth risk and impact assessment. Depending on the circumstances, technical consultants may be engaged for additional expertise. The capacity, commitment and track record of the management team should be assessed. Any circumstances that would result in a decision to not move forward into the investment decision stage should be identified and recorded. The ESG Manager should be in touch with the Investment Professionals throughout this process and support due diligence and a summary of material findings. This should also include a review of positive impacts to track. The potential Investee management team should also be briefed on Pegasus' ESG Standards and requirements of Investees.
- 3) **Investment Decision Stage:** The assigned Pegasus Investment Professional(s) and ESG Manager (as appropriate) will present the summary of material findings from the screening and diligence stages to the Investment Committee ("IC"). Material ESG risks and opportunities should be identified, and specific short-term and long-term recommendations should be made to close ESG performance gaps, enhance ESG practices, and track positive impacts. A portion of each investment memo for a new portfolio company acquisition (with the length depending on the level of risk identified) should be dedicated to this ESG and impact assessment.
- 4) **Investment Agreement Stage:** Pegasus' ESG Manager and the applicable Investment Professionals will negotiate ESG terms into the legal investment agreement(s), as appropriate; depending on the nature of the investment, ESG action plans with targeted timelines to close ESG performance gaps, set ESG and impact targets and requirements to report on performance may be included in the definitive documentation. Alternatively, Pegasus Investment Professionals, the ESG Manager, and Investee management may incorporate such action plans, targets, and reporting requirements into management's ongoing key performance indicators ("KPIs").
- 5) **Holding, Monitoring & Reporting Stage:** Pegasus Investment Professionals and ESG Manager will monitor the Investee's ESG Action Plan and compliance with applicable laws and standards, as well as opportunities for improvement. Capacity building support and guidance may be provided or retained for the management team, as needed. Investor reports (annually or more frequently, as appropriate and feasible) will seek to include ESG updates on an investment-by-investment basis, as appropriate, to inform Limited Partners of progress on ESG-related initiatives for each Investee. Additionally, nonconfidential ESG highlights are expected to be shared annually through a Sustainability Report available on Pegasus' public website. Pegasus will seek to ensure that each of its Investees have appropriate grievance procedures for their

⁴ Pegasus has selected GRI and IRIS (the latter where GRI does not cover certain positive impacts of our Investees) as its foundational reporting frameworks for the Holding, Monitoring, and Reporting Stage. Therefore, as a goal for 2018, and to increase the efficiency and usefulness of its ESG-MS, the Firm will seek to develop a GRI-based ESG due diligence questionnaire for potential Investees that incorporates guidance from other frameworks listed here. Through this approach, Pegasus should be able to collect standardized baseline data and set ESG and impact targets in the due diligence stage that can be systematically tracked throughout the holding period using the same data collection tool in each stage.

stakeholders, and maintains a grievance mechanism at the Firm level as part of its compliance program, as well.

It should be noted that at any point in time during the investment cycle, relevant Operating and/or Strategic Advisors with relevant E, S, or G experience, may be engaged.

On a regular and ongoing basis, Pegasus is committed to providing ESG training to all of its staff and Investees to ensure effective implementation of the ESG-MS. At times, Pegasus may procure additional external expertise to assist in such training and build internal capacity.

Pegasus' ESG-MS is managed by the Firm's ESG Manager, who is overseen by Pegasus' Sustainability Committee. The Sustainability Committee is comprised of senior Pegasus professionals and ESG Specialists, as well as the Firm's ESG Manager. Together, these parties will evaluate the adequacy and effectiveness of its ESG-MS on an annual basis. This process is expected to include annual approval and implementation of upgrades to the ESG-MS, including the training programs.

Pegasus is a Signatory to the United Nations Principles for Responsible Investment ("UN-PRI"), the Stockholm Declaration, and the We Are Still In campaign. The Firm also maintains membership in the Global Impact Investing Network ("GIIN"), Ceres Investor Network on Climate Risk ("INCR"), Confluence Philanthropy, Planet Pledge Alliance, the Intentional Endowments Network ("IEN"), Impact Capital Managers ("ICM"), the Impact Management Project ("IMP"). Additionally, Pegasus Chairs the Climate Finance Committee of the R20 Regions of Climate Action. More information on Pegasus and its activities related to ESG and impact investing may be found on Pegasus' website.

This ESG Policy may be updated from time to time.