Sustainability-Related Disclosure

ArcTern Ventures Fund III

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The following sustainability-related disclosure has been structured as per the European Commission delegated regulation (EU) 2022/1288 that supplements the Sustainable Finance Disclosure Regulation (SFDR) as regulatory technical standards (SFDR RTS).

Summary

(SFDR RTS Article 38)

ArcTern Ventures Fund III ('Fund') has a sustainable investment objective, namely, to support the objectives of the Paris Agreement by primarily investing in portfolio companies that contribute to the reduction in greenhouse gas (GHG) emissions, as well as other environmental objectives. Therefore, the Fund will invest 100% in sustainable investments. To ensure that the sustainable investments do not significantly harm any other environmental or social objectives ArcTern assesses the principal adverse impact (PAI) indicators. Furthermore, all investee companies are screened on compliance with international standards and ArcTern will assess a company's most critical governance practices such as tax compliance, remuneration of employees, relationship with staff and management structures, as part of the due diligence pre-investment.

The primary investment focus of the Fund is to seek attractive financial returns through a portfolio of privately negotiated equity, equity-related or equity-like investments in Earthtech startup companies primarily focused on developing breakthrough solutions for solving climate change and sustainability. The Fund will make venture capital-related investments in Earthtech companies. The Fund will principally focus its investment activities in the following sectors that reduce GHG emissions or have other positive environmental benefits:

(a) electricity and energy (production, use, transport);
(b) clean industry;
(c) transportation and mobility;

(d) food systems; and
(e) nature (other environmental or climate resiliency benefits).

Before an investment is made ArcTern performs a thorough due diligence consisting of the following steps:

- Investment screening and execution;
- Due diligence process;
- Investment Committee process

Post-investment, ArcTern monitors and reports ESG metrics and sustainability indicators across the portfolio in an annual Impact Report. The data sources used to assess whether an investment fulfills the investment objective are a combination of peer-reviewed literature, publicly available data, and data obtained directly from portfolio companies. Limitations to the methodologies and data sources used to measure the attainment of the sustainable investment objective are that ArcTern invests in early-stage companies where future impact is uncertain and required data sources may not be readily available. Though data availability is limited, ArcTern's data collection and assessment is on a best-efforts basis.

ArcTern considers a portfolio company's intention towards ESG and impact a priority and is assessed during investment screening and due diligence phases. Simplicity/ease of reporting for the portfolio company is one of ArcTern's Guiding Principles to encourage participation. This is done by leveraging ArcTern's internal ESG expertise to support portfolio companies with their ESG and impact reporting.

ArcTern does not have an index designated EU Climate Transition Benchmark or EU Paris-aligned Benchmark defined for its environmental impact quantitative framework. This is due to Carbon abatement ("scope 4") being a more relevant metric to assess whether investments have the potential to make a valuable contribution to the Paris Agreement rather than scope 1, 2 and 3 emissions which are the focus of the EU Climate Transition and EU Paris-aligned Benchmarks. ArcTern is continuously looking to improve its GHG abatement model framework and will look to incorporate elements of the EU Climate Transition Benchmark or EU Paris-aligned Benchmark where applicable. A summary of ArcTern's current quantitative framework for environmental impact is outlined in ArcTern's Impact Report.

No significant harm to the sustainable investment objective

(SFDR RTS Article 39)

The Principal Adverse Impact Indicators as defined in Table 1 of Annex I to the SFDR RTS [Regulation (EU) 2022/1288] are considered during ArcTern's due diligence phase.

As part of the confirmatory due diligence, ArcTern will request information from the target company on the indicators for adverse impacts. ArcTern extracts the indicators from Table 1 of Annex I, and the relevant additional indicators from Tables 2 and 3 of Annex I and shows the impact of the sustainable investments against those indicators, proving through appropriate values that the sustainable investments do not significantly harm any environmental or social objectives.

In the future, ArcTern may set thresholds for the different indicators. It is expected that these thresholds will differ from case to case and need to consider the positive environmental impact for that specific company. In any case, ArcTern expects that for certain PAI indicators, the threshold will be very low to be in accordance with its investment strategy and principles (for instance PAI numbers 4, 7, 8, 9, 10, 14).

ArcTern will annually request an update from portfolio companies on Principal Adverse Impact Indicators and make these available to investors in the annual Impact Report.

Through the due diligence process of potential investments, ArcTern will assess whether the target company complies with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights.

Sustainable investment objective of the financial product

(SFDR RTS Article 40)

The sustainable investment objective of the Fund is to support the objectives of the Paris Agreement by primarily investing in portfolio companies that contribute to the reduction in greenhouse gas (GHG) emissions, as well as other environmental objectives.

Investment strategy

(SFDR RTS Article 41)

The Fund's primary investment focus is to seek attractive financial returns through a portfolio of privately negotiated equity, equity-related or equity-like investments in

Earthtech startup companies primarily focussed on developing breakthrough solutions for solving climate change and sustainability. The Fund will make venture capital-related investments in Earthtech companies. Earthtech companies refer to companies whose business is primarily focused on developing solutions that mitigate the environmental footprint of commercial, industrial and consumer activities and/or support adaptation and resilience to climate change. Within the Earthtech space, the Fund will principally focus its investment activities in the following sectors that reduce GHG emissions or have other positive environmental benefits (e.g., reduction of waste, pollution, and toxins; protection of ecosystems and biodiversity):

(a) electricity and energy (production, use, transport);
(b) clean industry;
(c) transportation and mobility;
(d) food systems; and
(e) nature (other environmental or climate resiliency benefits).

To ensure that the Fund's investments support the objectives of the Paris Agreement, ArcTern will target investments that meet one or more of the following criteria:

- The investment has an annual environmental total addressable market of more than 200 Megatonnes of GHG emissions per year (i.e., the potential to reduce GHG emissions by more than 200 megatons per year if the company achieved 100% market share. This number should be seen as a long-term potential for the technology i.e., in a 2050 timeframe). While not every company in the portfolio will meet the GHG emission reduction threshold, it is a valuable benchmark against which the team can judge the climate impact of a proposed opportunity.

- Although the Fund's investment criteria primarily focus on addressing climate change and GHG emissions, ArcTern also reviews investments with other positive environmental impacts, such as harmful waste reduction and biodiversity protection, as well as investments that address climate change resiliency and adaptation (managing the physical and economic impacts of climate change). Such investments may include, inter alia, investments that contribute to the prevention or reduction of waste, toxins, and pollution or to biodiversity, sustainable marine practices, or climate resiliency. For such investments, positive environmental impact will be assessed in terms of, inter alia, tons of waste or toxins reduced, percent of biodiversity loss prevented, hectares of land protected, and/or protection of people or assets.

The Fund will not invest in transitional solutions that decrease the impact of highly emissive industries where decarbonization pathways already exist (e.g., fossil fuels and beef production).

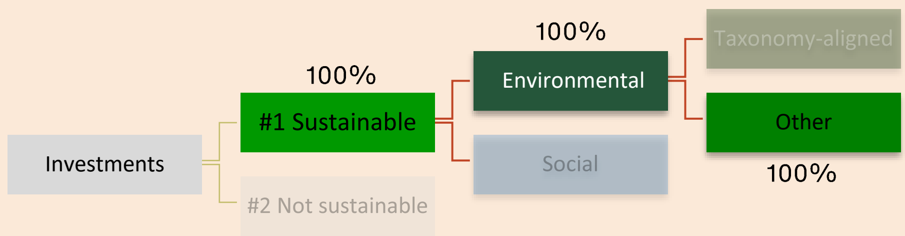
ArcTern will assess a company's most critical governance practices such as tax compliance, remuneration of employees, relationship with staff and management structures, as part of the due diligence pre-investment. Good governance practices are followed up through board representation where applicable, and otherwise through appropriate forums including direct communication with the company if ArcTern sees deviations from good governance practices.

Proportion of investments

(SFDR RTS Article 42)

The Fund invests 100% in sustainable investments with an environmental objective, which are not necessarily environmentally sustainable economic activities as defined in the EU Taxonomy. The main reason for this is that the investee companies the Fund expects to invest in will not be obligated to publicly disclose the degree of their alignment with the EU Taxonomy, either due to size or due to the investee companies not being within the EU/EEA area. ArcTern is not in a position to require investee companies to disclose such information or otherwise obtain information on the degree of investee companies' Taxonomy-alignment directly from the investee companies as these are early-stage venture companies. As part of the Fund's periodic reporting, ArcTern will request data on the EU Taxonomy alignment of the portfolio companies and, where available, will disclose the results annually.

ArcTern will seek investments in line with the IPCC (Intergovernmental Panel on Climate Change) scenario, actively reallocating capital to green or renewable activities. The type of portfolio companies pursued by the Fund are early growth (Series A and B) investments within North America and Europe.



#1 Sustainable covers sustainable investments with environmental or social objectives.

#2 Not sustainable includes investments which do not qualify as sustainable investments.

Figure 1 Asset allocation and the minimum share of sustainable investments as per Annex III of Regulation (EU) 2022/1288

Monitoring of sustainable investment objective

(SFDR RTS Article 43)

Post-investment, ArcTern monitors and reports ESG metrics across the portfolio in an annual Impact Report as part of the SFDR Article 11 period reporting process. ArcTern's ESG Manager oversees the impact measurement and reporting of the portfolio companies. Where available, this includes collecting data on PAI Indicators and EU Taxonomy alignment to monitor the sustainability risks and opportunities of the investment. Given the primary focus on reducing GHG emissions, the portfolio company's GHG emission reduction performance is monitored and included in the Impact Report. The Impact Report also covers secondary environmental metrics (e.g., waste reduction) and social and governance metrics (e.g., women in C-*suite* and on board, BIPOC in C-suite and on board). Compliance with the Fund's sustainability investment objective and investment strategy is followed up through the governance system of ArcTern.

Methodologies

(SFDR RTS Article 44)

The attainment of the sustainable investment objective is measured via the following indicators throughout the Fund's periodic reviewing and post-transaction monitoring of investments:

- Review of non-compliance in relation to all mandatory PAI indicators set out in Table 1 of Annex 1 of the SFDR Regulatory Technical Standards Reg (EU) 2022/1288

- Review of non-compliance in relation to optional PAI indicators set out in Table 2 and Table 3 of Annex 1 of the SFDR Regulatory Technical Standards Reg (EU) 2022/1288. Optional PAI indicators selected by ArcTern for Fund III include:
  - Breakdown of energy consumption by type of non-renewable sources of energy (Table 2)
  - Investments in companies without workplace accident prevention policies (Table 3)
- EU Taxonomy alignment criteria
- The reduction in CO_2eq by the portfolio companies in which the Fund has invested. For each company in the portfolio, ArcTern Fund III will report annually on the gross CO_2eq emissions abated and the share of these emissions attributable to ArcTern's investments
- Waste, toxin, pollution reduction: Quantified in terms of tons of a given material diverted from landfills, the environment, or oceans
- Biodiversity: Quantified in terms of land protection or changes in land use from the reduction of a given activity, inter alia, farming, livestock, urban sprawl, or the release of toxins and other pollution
- Climate resiliency: Quantified in terms of assets (e.g., homes) protected from the effects of climate change

Data sources and processing

(SFDR RTS Article 45)

The data sources used to assess whether an investment fulfills the investment objective are a combination of peer-reviewed literature, publicly available data, and data obtained directly from portfolio companies. ArcTern does an internal assessment of the data quality in each individual case. Though data availability is limited especially for early-stage companies, ArcTern's data collection and assessment is on a best-efforts basis. Estimates are used only as a supplementary measure where data is not otherwise readily available. ArcTern works closely with portfolio companies and ESG consultancy providers during the data collection and assessment to ensure the highest possible data quality, consistency, traceability, and transparency.

Limitations to methodologies and data

(SFDR RTS Article 46)

Limitations to ArcTern's methodologies and data sources used to measure the attainment of the sustainable investment objective are that ArcTern invests in early-stage companies where future impact is uncertain and required data sources may not be readily available. However, ArcTern always links impact to a metric of traction/revenue that is thoroughly assessed in the due diligence processes. Although for each individual company the impact might not reach the expected forecasts, the risk of attainment of the sustainability investment objective is reduced on a fund basis as ArcTern looks at an aggregated impact.

Due diligence

(SFDR RTS Article 47)

ArcTern follows the following due diligence process:

- Investment screening and execution: ArcTern uses a structured set of deal criteria to make consistent and efficient decisions. This set of criteria is used from the point in time a deal is moved into the "Deeper Analysis" stage and all through to approval of the investment in the Investment Committee (IC). ESG metrics assessed in this phase include evaluating at a high level the target company's impact potential, reviewing the EU Taxonomy eligibility of the target company, and ensuring the target company's alignment with ArcTern's target sectors and at least one UN SDG.

- Due diligence process: ArcTern runs a thorough due diligence process, with a focus on primary research with customers, experts, competitors, and partners. This also includes spending time with company management and key personnel in deep-dive company sessions on relevant topics, extensive financial modelling focused on developing five-year base/upside/downside cases, and third-party market research. ESG metrics assessed at this phase include conducting a deeper analysis into the target company's impact potential using ArcTern's Quantitative Framework for Environmental Impact and assessing the target company's compliance with PAI Indicators and EU Taxonomy alignment, where sufficient data is available.

- Investment Committee process: ArcTern has developed a robust investment decision-making process overseen by an Investment Committee.

Engagement policies

(SFDR RTS Article 48)

ArcTern considers a portfolio company's intention towards ESG and impact a priority and is assessed during investment screening and due diligence phases. Post investment, ArcTern offers to host an Impact Workshop together with a portfolio company to identify impact key performance indicators, targets, and risks. Should ArcTern discover any existing or potential sustainability risks associated with the portfolio company, ArcTern will collaborate with the portfolio company in question to explore the root cause of the risk and possible mitigation strategies.

One of ArcTern's guiding principles is simplicity/ease of reporting, whereby measuring, reporting, and tracking are made as easy as possible for portfolio companies to encourage participation by leveraging ArcTern's internal ESG expertise.

Attainment of the sustainable investment objective

(SFDR RTS Article 49)

As the reduction of carbon emissions is the main objective of ArcTern's fund, it is a requirement to address whether an index has been designated as a reference benchmark or whether the EU Climate Transition Benchmark or EU Paris-aligned Benchmark has been defined.

ArcTern seeks investments in line with the IPCC scenario, actively reallocating capital to green or renewable activities. Carbon abatement ("scope 4") is a more relevant metric to assess whether investments have the potential to make a valuable contribution to the Paris Agreement. Scope 3 carbon reductions are not considered as relevant as Scope 4, and Scope 3 emissions data availability is limited especially for early-stage companies. EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks focus on reduction in scope 1, 2 and 3 GHG emissions and do not account for abatement technologies. On this basis, ArcTern does not consider EU Climate Transition Benchmarks or EU Paris-aligned Benchmarks to be applicable or appropriate to apply to the Fund's investment strategy or to assess the contribution of the Fund's investments to the Paris Agreement. Consequently, the Fund is currently not managed in accordance with an EU Climate Transition Benchmark or an EU Paris-aligned Benchmark. ArcTern is continuously looking to improve its GHG abatement model framework and will look to incorporate elements of the EU Climate Transition Benchmark or EU Paris-aligned Benchmark where applicable.