ArcTern Global Inc. Sustainable Finance Disclosures

Overview of Sustainable Finance Disclosure Regulation (SFDR)

In response to the recommendations of the EU's High-Level Expert Group on sustainable finance (HLEG), the United Nations Sustainable Development Goals (UN SDGs), and the Paris Agreement, the European Commission initiated the Sustainable Finance Action Plan in March 2018. This action plan supports the goal of the EU Green Deal to reach climate neutrality in Europe and includes ten key actions that can be split into three categories:

1. Reorienting capital flows towards a more sustainable economy
2. Mainstreaming sustainability into risk management
3. Fostering transparency and long-termism

The Sustainable Finance Disclosure Regulation (SFDR) [Regulation (EU) 2019/2088] is the 7th action of the Sustainable Finance Action Plan with the purpose of providing clarity to asset managers and institutional investors' duties regarding sustainability. The EU Taxonomy, which will also be referenced throughout this disclosure, is the 1st action in the Sustainable Finance Action Plan which acts as a classification system for sustainable activities and supplements the SFDR.

SFDR aims to improve transparency, prevent greenwashing, and create a common language among Financial Market Participants around sustainable investing. Reporting under the SFDR is mandatory based on the status of a financial market participant, as outlined in the SFDR itself and applies to financial market participants whose products are marketed in the EU.

Every investor must disclose to what extent they consider sustainability in their investment decisions, and then report accordingly. Each fund needs to disclose whether they are an Article 6, 8, or 9 fund, where:

- An Article 6 (grey) fund makes no claim of promoting sustainability in their investment strategy
- An Article 8 (light green) fund promotes environmental and social characteristics

- An Article 9 (dark green) fund has sustainable investment as its core investment objective

Each fund needs to make reporting available on a website (website disclosures), to prospective investors when raising capital (pre-contractual disclosure), and to existing investors through annual reporting on the Fund's performance against its commitment (periodic disclosure), which includes a Principle Adverse Impacts (PAI) Statement. Further details and templates for these reporting requirements are outlined in the European commission delegated regulation EU 2022/1288 which supplements the SFDR as regulatory technical standards (SFDR RTS).

The SFDR provides an opportunity for investee companies to qualify as a 'sustainable investment' and unlock funding from a growing group of Article 8 and 9 funds, which can strengthen fundraising pitches by outlining measurable evidence of impact contribution (either an environmental or social objective), that the business doesn't have any adverse impacts (using the Principle Adverse Impacts (PAI) indicators), and good governance.

A 'sustainable investment' means an investment in an economic activity that can contribute to an environmental objective or social objective, provided the investment does not significantly harm any of those objectives and investee companies follow good governance practices.

ArcTern SFDR Requirements

As a Fund Manager not marketed in the EU, ArcTern Global Inc. ('ArcTern') is not required to publish entity-level disclosures as outlined by the SFDR. However, to enable investors to make informed decisions on sustainable investments and to act as a guide to non-EU funds who are not yet exposed to mandatory sustainability disclosures alike the requirements of the EU Sustainable Finance Action Plan, ArcTern has decided to provide entity-level transparency as per the SFDR. This includes ArcTern's sustainability risk policies, considerations for adverse impacts, and transparency of remuneration policies in relation to sustainability risks. These disclosures are outlined in the following sections.

At a product level, **ArcTern Ventures Fund III** ('Fund III', 'Fund') has been voluntarily classified as an Article 9 (dark green) fund under the SFDR where the fund has sustainable investment as its core investment objective. As such, the regulatory obligations of the SFDR have been followed at a product level for Fund III.

Entity-level Disclosures

Transparency of sustainability risk policies

(SFDR Article 3)

As per the SFDR, Sustainability Risk means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment. ArcTern assesses sustainability risks as part of the investment screening and due diligence investment stages. As ArcTern's investment objective is primarily investing in companies that contribute to climate change mitigation by reducing greenhouse gas (GHG) emissions, all deals are screened for alignment with our 200MT GHG emissions reduction TAM target. Where available, the Principal Adverse Impact (PAI) Indicators as defined in Table 1 of Annex I to Commission Delegated Regulation (EU) 2022/1288 are also considered during the due diligence phase to indicate any potential climate, environmental, social, or employee matter risks. As part of the confirmatory due diligence, ArcTern conducts background checks on founders and key executives for all investments to assess any governance risks.

Post-investment, as part of the period reporting process, data on PAI Indicators and EU Taxonomy alignment are gathered annually to monitor the sustainability risks and opportunities of ArcTern's Fund III. This data will be made available in the Fund III Impact Reports. Company GHG emission reduction performance using ArcTern's Quantitative Framework for Environmental Impact, secondary environmental metrics (e.g., waste reduction) and additional social and governance metrics (e.g., women in C-*suite* and on board, BIPOC in C-suite and on board) are also monitored on an annual basis and included in the Impact Reports.

ArcTern's ESG Manager oversees the Fund's ESG risk assessments and impact reporting, including modelling the GHG emissions abatement. As ArcTern is a fund with a sustainable objective, ESG oversight and implementation are integrated into all staff members' roles and responsibilities. ESG is top of mind for all staff and considered in all investment and board management duties. Negative sustainability risks are managed at the board level, where ArcTern leverages governance influence to promote the adoption of best practices.

No consideration of adverse impacts of investment decisions on sustainability factors

(SFDR Article 4)

As per the SFDR, Fund Managers at an entity level must disclose whether they consider principal adverse impacts (PAI) of their investment decisions on sustainability factors. To consider PAI, a statement must be published outlining the indicators set out in Table 1 of Annex 1 of the SFDR RTS [Regulation (EU) 2022/1288], as well as optional indicators from Table 2 and Table 3.

At an entity level, ArcTern does not consider the adverse impacts of investment decisions on sustainability factors. This decision has been made as ArcTern does not exceed the average number of 500 employees on the balance sheet and therefore chooses to not consider adverse impacts of investment decisions on sustainability factors at the entity level. This decision is also influenced by the nature of ArcTern's investments being early-stage venture companies which do not have sufficient data to meet the requirements of the PAI indicators currently. Should sufficient data be made available in future, ArcTern will reevaluate this option to consider the adverse impacts of its investment decisions.

At a product level, the PAI Indicators are utilized during ArcTern's due diligence phase. Where possible, as part of the confirmatory due diligence, ArcTern will request information from the target company on the PAI indicators and consider them when making investment decisions. ArcTern will also annually request an update from the portfolio companies on PAI Indicators as part of the post-investment monitoring & support phase and disclose the results annually in the ArcTern Impact Report.

Transparency of remuneration policies in relation to the integration of sustainability risks

(SFDR Article 5)

ArcTern's remuneration policy is structured to incentivize sustainable growth within investments and discourages uncontrolled risk-taking regarding sustainability risks.

ArcTern receives a fixed management fee for all its investment products as a Fund Manager. Additionally, ArcTern's remuneration policy includes a carry plan that is based on fund performance, which reflects the sustainability performance of the investment.