

# What to do about ESG in venture and growth capital

---

We invest in great entrepreneurs  
We support outstanding companies

# Overview

# Who am I?



- ▶ ESG topics are human topics first and foremost
- ▶ Absent clear regulation and definitions our morals and principles remain key drivers of ESG activity
- ▶ I am a second generation immigrant with three children of whom two are daughters and care about
  - Gender diversity and equality
  - Carbon neutrality
  - Helping everyone access economic opportunities

# Who are AVP?

## Our mission

We believe that tech is the most powerful tool to address our world's challenges, so we give financial means to the best tech entrepreneurs to execute their visions

## Our KPIs

DIRECT INVESTMENT

**\$ 900M**

EARLY AND GROWTH

FUND OF FUNDS  
INVESTMENT

**\$ 400M**

FROM EARLY TO GROWTH

**3** OFFICES

- New York
- London
- Paris

**13**

LPs

**60+**

DIRECT  
INVESTMENTS

**40+**

FUND  
INVESTMENTS

**40+**

TEAM  
SIZE

**1** INDUSTRY

Tech

# Who are AVP?

## *Our job*

*We raise funds from investors on a global basis, our clients, and we invest them in private, young tech companies in Europe (incl. Israel) and in North America, and in tech funds, targeting a high level of return for our clients after 5 to 10 years*

1

\$1.3B venture capital firm backed by AXA and other LPs

2

AVP makes **direct investments** in Enterprise Software, Fintech/Insurtech, Digital Health and Consumer tech, and **fund investments** in tech-oriented GPs

3

AVP invests in **outstanding companies that impact their industries**, in seed and early-stage companies through AVP Early Stage, and in growth-stage companies through AVP Capital

4

AVP aims at leveraging their investments in **technologies to promote better environmental, societal and governance practices** via a proactive minority shareholder's influence, and has committed to numerous ESG initiatives

5

AVP's Fund of Funds practice invests in top tier early to late-stage funds globally. We also make secondary portfolio purchases and co-invest selectively alongside our fund managers

6

Experienced teams based in San Francisco, New York, London, and Paris. Representative office in Singapore

7

AVP has developed expertise in business development and business support for its portfolio companies. In particular, AVP has a proven track record of creating value by **developing business relationships** between its portfolio companies and its LPs

# Even firms driven by their values take a while to embed sustainability



## WE STRIVE FOR EXCELLENCE

Investment performance,  
Results, Meritocracy



## WE GET THINGS DONE

Bias for action, Think big,  
Entrepreneurial mindset



## WE ARE IN THIS TOGETHER

Firm first, Trust,  
Diversity & Inclusion



## WE SAY THINGS AS THEY ARE

Transparently, Honestly,  
Respectfully



## WE BUILD LONG TERM RELATIONSHIPS

Entrepreneurs, LPs,  
Stakeholders



## WE ACT WITH HUMILITY

Respect, Listening,  
Open-minded

# What do to about ESG – situation and key questions



ESG topics are (rightly) moving up the agenda of societies and investment funds around the world



Until governments price in externalities such as CO2 emissions optimising financial returns is insufficient to deliver ESG goals



Thus far most ESG activity has been characterised by the writing of reports without creating any real change in the economy, at best avoiding ‘bad activities’



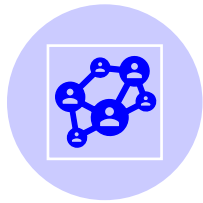
To make real change will add incremental cost and challenges to startups and therefore to venture and growth funds and their investors



Relative to mature public companies startups are mostly loss making and focused on not running out of cash, how can we impose ESG costs at this stage and should we?

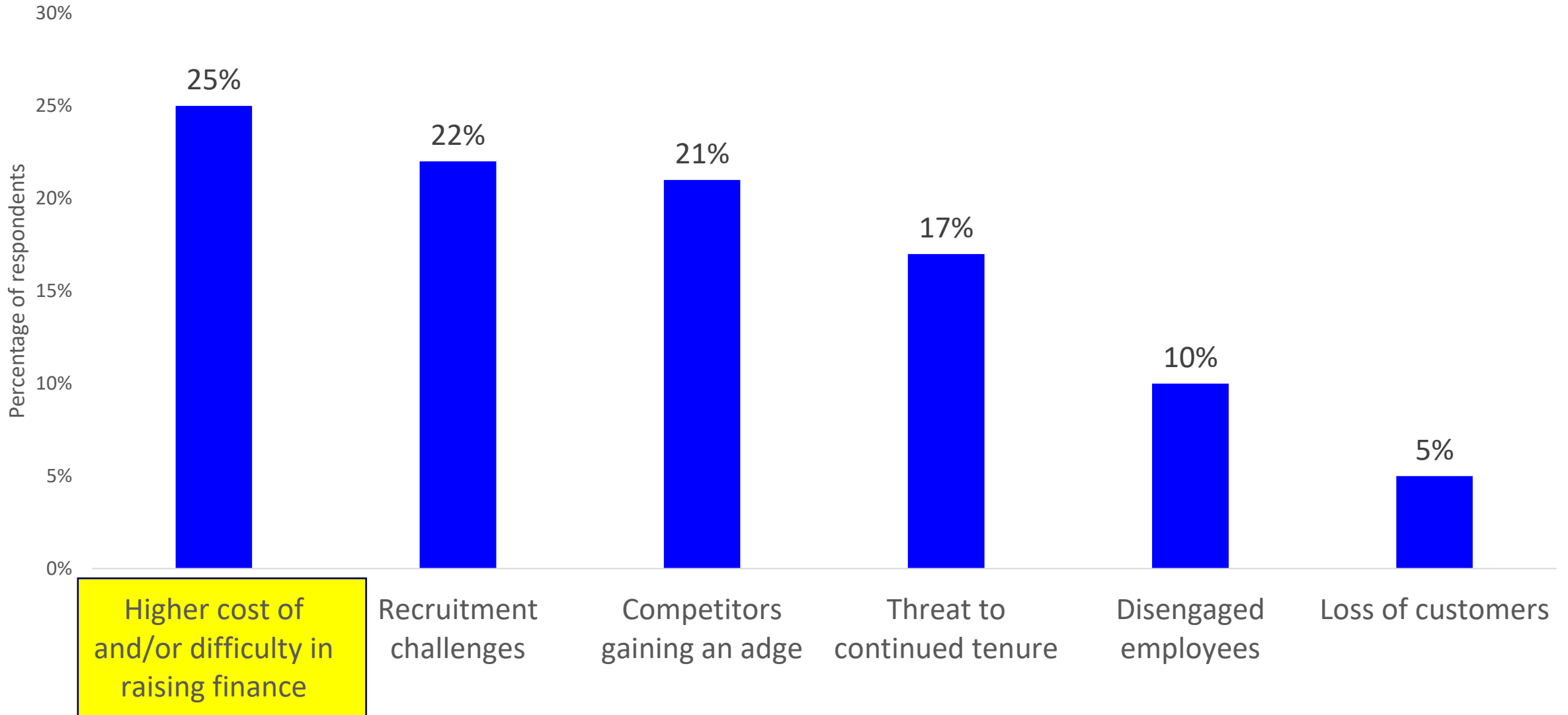


Finally, with SFDR increasing in importance how should GPs and LPs be factoring this into their fund practices and due diligence



**In today’s discussion we will focus on sustainability (really CO2) because of SFDR but there is at least as much to say about gender diversity**

# The downside of failing to meet ESG expectations according to CEOs – investors are key to driving change





# What is ESG?

UN Sustainable  
Development  
Goals?

Carbon  
neutrality by  
2050?

Gender  
Diversity?

Sustainable  
Finance Disclosure  
Regulations?

**Who decides on the priorities?**

# There are multiple constituents whose priorities need to be balanced

## ► Individuals

Many people care because they feel it's the right thing to do

## ► Limited Partners

In Europe have typically developed their own ESG criteria and want GPs to report on themselves and their portfolios against these

In the US more diversity than environmental focus

What about the LPs who are actively against ESG?

## ► General Partners

Have to balance the conflicting demands of their LPs and employees when minority investors, have to influence without being able to dictate

## ► Portfolio company CEOs

Trying not to run out of cash while building a growing business

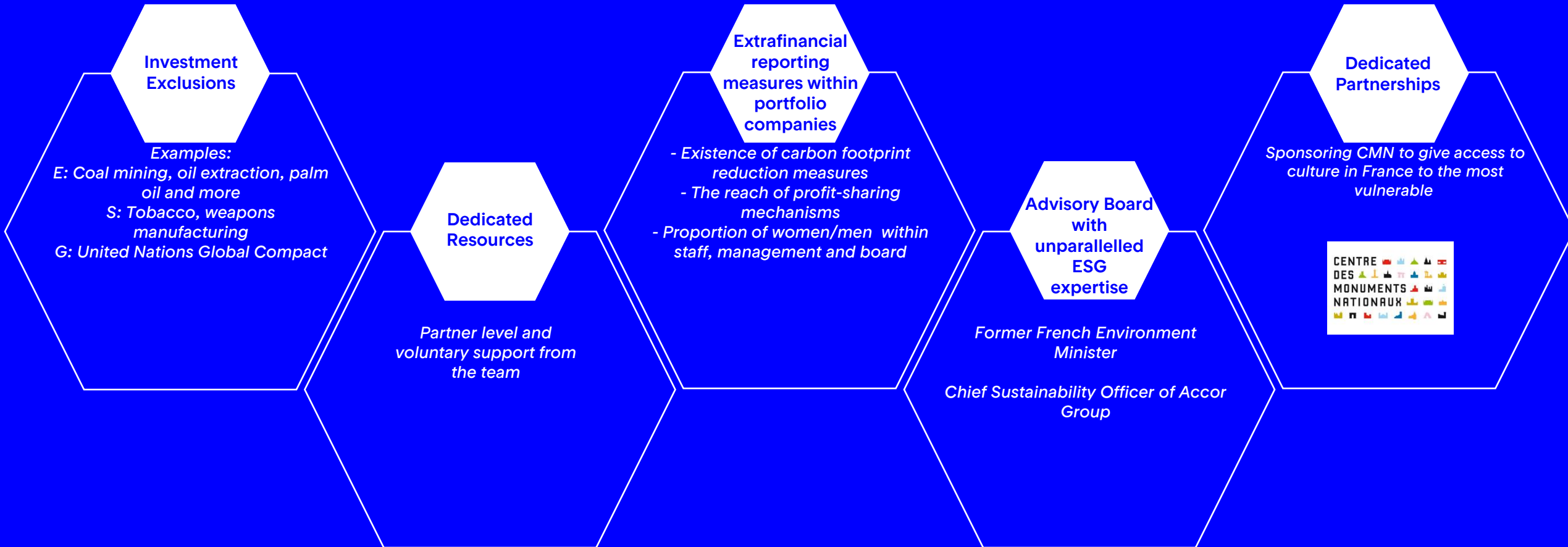
Balancing the demands of multiple shareholders and employees tend to prioritise actions over reporting and analysis



**What does this look like for a GP?**

---

# AVP developed an ESG approach based on multiple pillars



# ESG has to be integrated into investment analysis and decision making (1 of 2)

## IC challenges investment proposals on ESG matters

### Key deal terms

Term	Notes
Valuation	€104.9m pre-money, €148.9m€ post money valuation (14.9% stake post deal) (13.2% fully diluted)
Option pool	10.6% FD post-financing, with 5% newly issued and reserved for co-CEOs. Non attributed options are 8.1% FD
Shares	1x non-participating preferred, senior to existing classes of stock
Dividends	None
Board	6 members (2 one Founder, Balderton, Inis, AVP, BPi, one independent) AVP also has a board observer seat. Qualified Board decisions requires 2 out of 4 financial votes (Balderton, AVP, Inis, BPi)
Protective provisions	Standard, (75% of series C shares)
Redemption	None
Key person insurance	Standard
Pre-emption	Standard
Information rights	Standard (at least 4% of Preferred Stock and/or 3% of share capital)
Tag along	Standard
Drag along	Yes, with 65% of Share capital and investor majority and one active Founder
Anti-dilution	Standard veto right, except in case of an internal round (limited, though, to 1.2x over present)
Expenses	Up to €10k reimbursed to AVP
Exclusivity and expiry	Targeted close as soon as possible
BPi's veto right on sale to a foreigner	None, BPi only keeps the right to veto a transfer of the company HQ out of France.
Veto rights	Standard, plus 2x MAM criteria on a company sale for 24 months (see appendix)
ESG	Mandatory annual ESG report (30 days after annual closing Getcs), UNPRI investor commitment indicated in LPA

AXA  
Venture Partners

## AVP permanently monitors ESG priorities and action plans

AVP ESG Framework

Environment: Reduce and offset our emissions and carbon footprint; promote sustainable & responsible consumption, mobility and offices

0000 Implemented  
0000 Agreed on  
0000 For discussion

	Short-term
<b>Operations</b>	<p><b>Objective</b></p> <ol style="list-style-type: none"> <li>1. Assess carbon footprint in all offices, and fully offset emissions</li> <li>2. Reduce carbon footprint due to air travel</li> <li>3. Reduce plastic and non-recyclable waste</li> <li>4. Decrease energy consumption in each office</li> </ol> <p><b>Action plan</b></p> <ol style="list-style-type: none"> <li>1. Hire a consultant to make carbon footprint assessment in order to identify best reduction levers for AVP and get recommendations to offset CO2 emissions by 40% (over 5y) also identifying a few consultants + pricing</li> <li>2. Ask office managers to minimize environmental impact of daily activities (e.g. purchasing electric, biomass or glass bottles)</li> <li>3. Book an electric car when possible</li> </ol>
<b>Investment strategy</b>	<p><b>Objective</b></p> <ol style="list-style-type: none"> <li>1. Make environmentally sound investment decisions</li> </ol> <p><b>Action plan</b></p> <ol style="list-style-type: none"> <li>1. Avoid investments in highly carbon-intensive businesses (e.g. coal, natural gas, fossil fuels)</li> </ol>
<b>Portfolio</b>	<p><b>Objective</b></p> <ol style="list-style-type: none"> <li>1. Raise awareness in carbon footprint emissions</li> <li>2. Decrease carbon footprint emission due to board meetings</li> </ol> <p><b>Action plan</b></p> <ol style="list-style-type: none"> <li>1. Track KPIs agreed in our ESG policy, including existence of carbon footprint emissions</li> <li>2. Influence portfolio companies by encouraging holding 50% of board meetings virtual every year</li> </ol>

## AVP excludes sectors for ESG reasons

### Undertakings from AVP

AVP invests into innovative start-ups with a significant technology component, with particular focus on digital health, enterprise SaaS, fintech and consumer platforms. The software nature of these verticals shields AVP from most critically exposed sectors (ie coal, tobacco, distilled alcoholic beverages, controversial weapons and ammunition, palm oil and food commodity derivatives). AVP commits not to invest into a company exposed to one of those critically exposed sectors. AVP however also endeavors not to invest in entities involved in:

- Gambling
- Pornography

In order to comply with ESG principles, AVP undertakes to respect the following:

- Perform an ESG risk review as part of its investment process due diligence
- Seek appropriate disclosure on ESG issues by the portfolio companies (depending on development/maturity of business)
- Enhance effectiveness in implementing ESG principles.
- Report on activities and progress towards implementing ESG principles

### 2. AVP ESG Reporting Policy

In order to comply with laws and current regulatory frameworks, AVP informs investors on how ESG considerations are taken into account in the investment process. These considerations are normally clarified in each fund's LPA (when it is required).

Beyond AVP's investment process ESG risk review, AVP also aims to promote ESG improvements within its participations by focusing and reporting on specific indicators (when it is applicable):

via these processes, ESG criteria are live and active components of our investment and management decisions

# ESG has to be integrated into investment analysis and decision making (2 of 2)

▶ *ESG performance monitoring part of each quarterly portfolio review to ensure that each partner is properly challenged on financial and ESG criteria*

▶ *Systematically questioning portfolio companies on their own ESG rules and requesting regular monitoring of 3 extra-financial criteria*

The screenshot displays the AVP AXA Venture Partners dashboard for the company VIRTUO. The interface includes a search bar, a navigation menu on the left, and a main content area with two tables of ESG KPIs.

**Data Request Comments**

	FQ4 2021	FQ3 2021	FQ2 2021	FQ1 2021	FQ4 2020

**ESG KPIs**

	DEC 2021	SEP 2021	JUN 2021	MAR 2021
Has a carbon footprint reduction program in place	Yes	Yes	Yes	
% ESOP currently attributed to employees	9.1%	9.1%	9.1%	
% ESOP currently attributed for employees	9.1%	9.1%	9.1%	
% women among Board members	12.5%	12.5%	12.5%	
% women among Management team	40.0%	40.0%	40.0%	
% women among All team	30.00%		30.00%	

**ESG KPIs (Comments)**

	DEC 2021	SEP 2021	JUN 2021	MAR 2021
Has a carbon footprint redu...		Fleet electrification ratio (3.1% of bookings, 2.4% of fleet)	Fleet electrification ratio (% of bookings) : 30%	
% ESOP currently attributed ...				
% ESOP currently attributed ...				



**What does this look like for an LP?**

# AVP venture fund of funds

 **SFDR Article 8 compliant**  
A pioneering venture-focused fund  
investing vehicle

## AVP Diversified III

€300M

### › Primaries

*Barbell approach providing access to established firms & upside potential through emerging managers*

### › Secondaries

*Relationship-driven sourcing combined with data-driven pricing*

### › Co-Investments

*Selectively investing alongside our portfolio GPs in their 'best ideas'*

### Access to the best funds worldwide

- Deep networks and relationships
- Not only access, but also allocation

### Data-driven advantage

- Competitive advantage with our **proprietary internal database, Atlas**



### Active diversification

- Balance between established 'full-stack' firms and emerging 'boutique' firms
- Augmented capital deployment and return through combination of **primary commitments** and **secondaries / co-investments**
- Diversification as a **key driver of portfolio construction**



# Sustainable Finance Disclosure Regulations



Article 6	<ul style="list-style-type: none"><li>• “Transparency of the integration of sustainability risks”</li><li>• In this phase you should show you have identified, considered and tracked key metrics related to sustainability risks</li></ul>
Article 8	<ul style="list-style-type: none"><li>• “Transparency of the promotion of environmental or social characteristics in pre-contractual disclosures”</li><li>• Start to show how you will promote these objectives beyond just tracking the risks and identifying the benchmarks you measure yourself against</li></ul>
Article 9	<ul style="list-style-type: none"><li>• “Transparency of sustainable investments in pre-contractual disclosures”</li><li>• Need to show investment exclusions that make clear the difference from a non-ESG fund</li><li>• Non-financial objectives are often core</li></ul>

# How do you turn this into practice?



Discuss the topic with your portfolio/potential GPs as soon as possible – this is a multi-year and probably multi-fund initiative



Be clear about your objectives in this domain with your own stakeholders and investors and discuss the trade-offs with real examples



“First know thyself” – technology firms look a lot like investment firms and the lessons will apply elsewhere



Don't be shy of taking the first steps to improve the situation even if they don't solve it

# I am always interested to discuss these topics further



[HTTPS://WWW.LINKEDIN.COM/IN/GROWTHCAPITAL](https://www.linkedin.com/in/growthcapital)



TWITTER: IMRAN\_AKRAM



# AXA Venture Partners

[www.axavp.com](http://www.axavp.com)