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ESG in Venture Capital

A Knowledge Round-up for Israeli VCs and Startups

February 2022

With Support from:

SOCIAL FINANCE ISRAEL

PRI Principles for Responsible Investment

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Executive Summary

"Responsible investing is an approach whereby investors consider how changing environmental, social, and governance factors impact their investments"

We are bearing witness to a remarkable shift in the way companies are being valued and businesses operate and grow. Players across the market, from billion-dollar pension funds and insurance companies to pre-seed early-stage companies, are beginning to think critically about the positive and negative impacts their investments and operations are having on the world.

Responsible investing is an approach whereby investors consider how changing environmental, social, and governance factors impact their investments and, in turn, how their investments and operations affect environmental, social, and governance conditions. Responsible investors typically identify and track information on these impacts and commit to managing them through deliberate improvements.

At New Era Capital Partners, we are proud to be among the pioneers of responsible investing in venture capital, and the first venture capital fund manager in Israel to reframe our investment process in accordance with the Principles for Responsible Investment (PRI). The PRI is the leading UN-supported global standard for responsible investment. As a responsible investor, we integrate ESG considerations in our investment and management process as part of our core strategy.

Through this white paper, we provide a roundup of current knowledge and guidance for VC firms and share information about our own responsible investment journey. In releasing this paper, we seek to connect peers in Israel to the growing international community of VCs actively developing and defining the space for the benefit of the next generation of investors and companies. We hope the information in this white paper will prove useful and practical to those considering a similar path toward becoming responsible investors.

What is Responsible Investment?

Different from impact investing, which explicitly seeks to invest in products or services that deliver measurable social and/or environmental impacts, responsible investing, or environmental, social, and governance (ESG) investing as it is sometimes called, looks at operations and management practices that are likely to affect environmental, social, or governance matters.

ESG *opportunities* are thus environmental, social, or governance issues that can be harnessed **to create increased growth or value** for the company, its employees, clients, supply chains, and the wider community of stakeholders,[1] while ESG *risks* are environmental, social, or governance events which, if they would occur, **might cause an adverse material impact** on a company's operations, and/or by extension, its operating results.

We would also like to acknowledge our trusted ESG advisor Social Finance Israel and, in particular, the work of Gila Norich, Director of Impact Advisory Services, who has supported our work over the last two years and has been instrumental in developing and authoring this white paper.

[1] See B Corporation for more on companies' key stakeholder groups: https://kb.bimpactassessment.net/en/support/solutions/articles/43000574683-impact-areas-governance-workers-community-environment-and-customers

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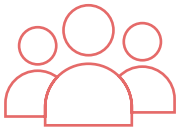
Examples of ESG issues include:

Environmental

- Management or contribution to climate - related risks
- How a company is affected by or contributes to natural resource depletion
- A company's impact on air quality
- Waste generation
- Pollution
- Energy use

Social



- Gender equality and diversity
- Working conditions and employee benefits
- Worker health and safety
- Product quality and safety
- Oversight of potential human rights issues in the supply chain

Governance

- Board diversity
- Executive pay
- Pay ratio
- Tax strategy
- Data protection and privacy
- Ethics
- Managing the regulatory environment
- Safeguards and processes to prevent corruption and bribery

The integration of ESG factors is a growing practice among investors. Public ESG assets topped $35 trillion in 2020 - up from $30.6 trillion in 2018 and $22.8 trillion in 2016.[2] The approach is fast on track to reaching a third of current total global assets under management, according to the Global Sustainable Investment Association.

While responsible investing is not new, a combination of factors contributes to the recent uptick. One explanation is an increasing desire on the part of younger generations to tackle social and environmental challenges through market-based solutions. According to a 2019 study by Morgan Stanley, 95% of millennials are interested in sustainable investing (a term encompassing ESG investment).[3] With regard to their job search, a recent LinkedIn survey found nearly 9 in 10 millennials would willingly take a pay cut to work at a company whose mission and values align with their own.[4]

95% of millenials are interested in sustainable investing

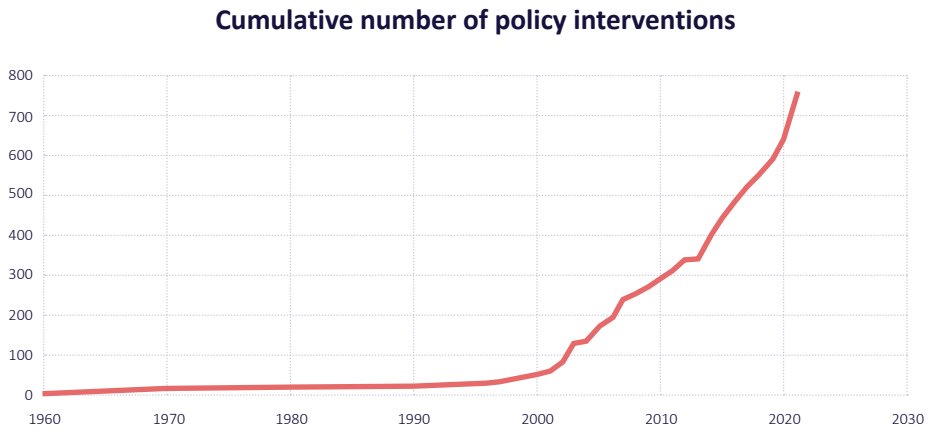
9 in 10 millenials would take a pay cut to work at a mission-aligned company

[2] http://www.gsi-alliance.org/
[3] Sustainable Signals. Morgan Stanley. https://www.morganstanley.com/pub/content/dam/msdotcom/infographics/sustainable-investing/Sustainable_Signals_Individual_Investor_White_Paper_Final.pdf
[4] https://www.cnbc.com/2018/06/27/nearly-9-out-of-10-millennials-would-consider-a-pay-cut-to-get-this.html

The events of the last few years - including living with a global pandemic - have also affected investor and shareholder behavior. Across the world, COVID-19 shed new light on social and economic inequalities and accelerated recognition of the current and future hazards posed by the climate crisis. These events have placed social and environmental issues – and the role of the private sector in recognizing and managing these issues – squarely in focus.

While skeptics of ESG abound, regulators and industry bodies are defying even the staunchest of naysayers. Half a decade ago, sustainable investing was introduced as a global imperative to meeting pressing social and environmental challenges. In 2015, governments across the world pledged unanimously to contribute to the achievement of the UN Sustainable Development Goals, a series of 17 overarching investment and policy priorities to be achieved by 2030. In the years since, countries have in addition also committed to decarbonizing their economies.

Thus, as seen increasingly in recent years, ESG integration and disclosure is becoming one of the tools regulators use to make good on these pronouncements. According to a recent update by the PRI, since the beginning of 2021 159 new or revised responsible investment policy instruments were established, more than all that existed in 2020.[5]



PRI, November 2021

The trend toward increased ESG regulation is not foreign to Israel. In the last year, the Tel Aviv Stock Exchange (TASE) joined the UN's Sustainable Stock Exchange (SSE) initiative affirming its "dedication to promoting corporate social responsibility."[6] In December of this year, the Bank of Israel's Banking Supervisor announced mandatory public ESG disclosures by Israeli banks, joining the Capital Markets, Insurance and Savings Authority in requiring ESG disclosures. According to the Banking Supervisor, the regulator's decision was part of an effort to "strengthen the banking system's contribution to the environment and to society, and to improve the sustainability of the banking system and the economy over the long term."[7]

[5] https://www.unpri.org/pri-blog/88-new-policies-added-to-pris-regulation-database/8532.article
[6] https://sseinitiative.org/all-news/un-sse-welcomes-tel-aviv-stock-exchange/
[7] https://en.globes.co.il/en/article-bank-of-israel-instructs-banks-to-disclose-esg-activities-1001393283

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Finally, just as this paper was going to print, the Israeli Innovation Authority, the support arm of the Israeli government charged with fostering the development of industrial R&D announced it would begin assessing ESG criteria among early stage companies applying for seed funding. This move by Israel's leading funder of R&D and innovation sends a clear signal to the market that adherence to sustainability and ethical standards is essential for building the next generation of successful tech companies.

ESG Meets Venture Capital

Until the past year, most guidance and information on ESG was primarily geared toward investors or companies in the public markets. This follows the logic that companies that employ a large workforce of at least several hundred people and generate a significant environmental footprint, and are more prone to incurring negative externalities – in other words, incurring harm to people, society and the planet. All this still being true, the conditions referenced in the sections above have prompted players in the private markets – venture capital investors and early-stage companies alike – to consider how they too can implement changes that make current and future sense to their investments and the companies they hope to grow and resource over the coming decade.

These days, VC investors, startups, and even industry organizations are beginning to re-fashion the mechanics of ESG. They are doing so in innovative and practical ways that are more applicable to early-stage tech companies helping portfolio companies avoid risks and other commercial pitfalls that could affect emerging or insufficiently scrutinized aspects of new technology - while also building companies that will bring measurable value to stakeholders.

"There are areas that companies can act on even at an early stage."

Many early-stage startups may in fact be too small to address many of the topics referenced in the table on page 4. However, this does not mean VCs and startups are off the hook. As our paper demonstrates, there are areas that companies can act on even at an early stage.

As multiple sectors within the economy are set to become increasingly tech-enabled, embedding ESG practices within early-stage companies may save time and resources compared to doing so at later stages of growth.

ESG as a Value Driver for Early-Stage Companies

In our view, it is precisely at the early stages of a company's growth that the opportunity to affect ESG practices lies. When you consider some of the leading academic and commercial voices on the topic, it is easy to see why ESG integration is so fitting.

George Serafeim, a professor at Harvard University, one of the leading academic voices on sustainability, warns about treating ESG integration as a mindless ticket box exercise. Instead, he encourages business leaders to use ESG as a core strategy and differentiator. In a 2020 Harvard Business Review article he writes:

> *The strategic challenge for corporate leaders is to be foresighted about the ESG themes that are emerging as important industry drivers—to identify them before their competitors do.. This requires leaders to conceptualize the various actors in the system, their incentives, and the interventions that could drive change.*[8]

This is precisely how a good ESG approach is formulated and when it should be considered; just as founders and investors are honing product-market fit, onboarding new clients, delivering services, and growing their teams. Unfortunately, too often we hear claims by early-stage companies and investors insisting they are too focused on sales growth or quality assurance. Why take ESG into account now, they ask. Is it just good business practice or do companies truly have something to gain.

Below we offer some convincing reasons to integrate ESG already now, even as your companies are still bringing in their initial revenues.

Regulation

Until this year, there was negligible regulation for private companies with below 250 employees – and at best, only scant industry guidance supporting venture firms or early-stage start-ups to disclose ESG policies and practices. With the EU's Sustainable Finance Disclosure (SFDR) caming into force, VCs are starting to understand that they too will soon be required to disclose ESG information. The new regulation appears to indicate the sector's direction of travel in the years ahead - with some in the industry convinced that further ESG regulation targeting VCs is on its way.

[8] https://hbr.org/2020/09/social-impact-efforts-that-create-real-value

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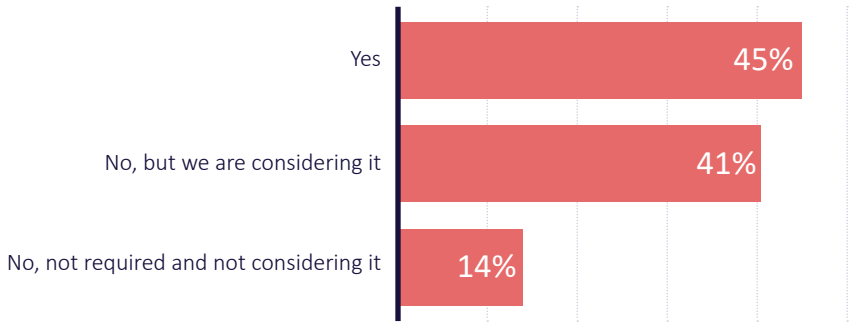
Access to Capital

In the last year alone, we in the financial markets have witnessed a significant increase in the supply of capital to ESG aligned businesses. Bloomberg reports that governments, corporations, and other groups raised $490 billion last year alone through the sale of green, social, and sustainable investment products.[10] As Sifted's coverage of this year's Atomico State of European Tech report cites, "more money is being pumped into planet positive startups than ever before."[11]

Do you require GPs to report on social and enviromental impact?



Atomico State of European Tech Report 2020

LPs are requesting ESG data at an increasing rate. According to Atomico's 2020 State of European Tech Report, 45% of LPs surveyed require their GPs to report on social and environmental impact, while 41% are considering implementing such practices.[12] This is already having a direct and perceptible effect on GPs and their portfolio companies, with more looking to understand the right way to introduce ESG practices to teams, know what data to track, and how to do so.

Companies providing tech enabled ESG solutions are also positioned to capitalize on increasing investor appetite. As reported in Angular Ventures' Enterprise and Deep Tech Weekly, Spanish software company Clarity AI recently raised $50M at a $450M valuation to scale its software platform that helps investors and organizations track the social and environmental impact of their portfolios. Plan A, a carbon accounting and ESG management platform, recently closed a $10M funding round.

[10] https://www.bloomberg.com/news/articles/2021-02-10/the-490-billion-boom-in-esg-shows-no-signs-of-slowing-green-insight
[11] https://sifted.eu/articles/european-tech-2021-atomico/
[12] https://www.slush.org/article/state-of-european-tech-2020-is-out-here-are-our-key-takeaways/

Long Term Financial Performance

With profound societal changes all around us, it is inevitable that environmental, social, and governance factors will impact businesses. Just as venture capital is charged with finding the most promising and cutting-edge technologies and the best teams and founders, the focus of the investment process can and should also be about finding companies who are well placed to excel in areas such as environmental protection, workplace diversity, and good governance.

For those not already doing so, it is important to know that reducing exposure to unforeseen material risks, ethical and moral hazards has been shown to boost long term financial performance. But "not all ESG activities are similar," reminds Serafeim. His research backs it up. According to a 2015 working paper written together with Mozaffar Kahn and Aron Yoon, the trio writes, "targeting the right issues, those that are most central and relevant to the company's core business, can bring financial benefits."[13] To identify the topics that are most sustainable, GPs and companies can look to the Sustainability Accounting Standards Board (SASB) Materiality Finder, which lays out which issues are material by industry and sub-industry. Efforts are also under way to develop materiality guidance that is more relevant for early stage companies employing frontier technologies and new business models.

Industry Leadership

Increasing flows of capital as well as new and impending regulations mean we are entering a new phase of market development. In this fast-moving space, industry guidance for VC has not yet caught up, affording unique opportunities for VCs to distinguish themselves by stepping up to the plate. With the lack of formal guidance, many investors are developing their own processes and appealing to peers to share their tools and approaches. This in turn is creating ripple effects fostering new communities of practice. Several ESG communities for VCs and their portfolio companies are mentioned in the annex at the end of this paper.

Attracting Top Talent

Finally, as discussed earlier, we are also witnessing a changing mindset among young investors accelerating the adoption of ESG metrics and principles. Investment firms and portfolio companies that implement ESG practices not only position themselves to attract top talent, but they are also likely to create valuable brand loyalty among savvy young consumers.

[13] https://dash.harvard.edu/bitstream/handle/1/14369106/15-073.pdf

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New Era Capital Partners' Journey to Responsible Investment

New Era Capital Partners was founded based on the core belief that technology has the power to create a better tomorrow. This is true both for the products our companies bring to market but also in the way the companies operate and are managed. With the rapid move toward digitalization in nearly every field, from health and wellness, all the way to mobility and logistics, current market conditions provide unusual opportunities to deploy capital in a thoughtful and deliberate manner to achieve outsized returns.

New Era invests in companies in their early growth phase. As we chart their growth, we work to ensure each of our portfolio companies operates, grows, and scales their operations according to the highest regulatory, professional, and ethical standards. Taking our commitment one step farther, we developed our Responsible Investment Policy in order to consistently and systematically consider potential environmental, social, and governance (ESG) issues in our investment analysis. We also committed ourselves to working with the companies directly post-investment to strengthen their ESG performance.

Even after two years of practice, our practices are still very much evolving. Because of all we've learned on this journey, we are adamant that fellow VCs and their portfolio companies have much to gain by integrating ESG standards. Here below we share 5 tips as well as insight we've learned along the way:

Step 1: Learn the Basics

New Era Capital Partners' ESG practice has largely been informed by the Principles of Responsible Investment (PRI) a series of 6 principles for responsible investment representing the leading standard for investors on ESG disclosure.

Launched in 2006 by the United Nations, the PRI represents one of the industry's gold standards for ESG and responsible investing. Whereas the PRI's target audience was initially asset owners, asset managers currently make up the largest signatory group, both by assets under management and by the number of signatories; 3,038 asset managers are signed up, representing an AUM of $103.4T, and 521 global asset owners representing $23.5T AUM.[14]

In September 2019 we became the first Israeli VC to sign the PRI and begin a process toward full and comprehensive ESG integration. Since then, additional Israeli and global VCs have chosen to become signatories. Increased engagement from early VC pioneers including New Era has prompted the PRI to begin evaluating its disclosure frameworks to ensure that guidance and disclosure are fit for the purposes of this asset class. In the coming months, the PRI will state to provide more support to fellow VCs looking to integrate ESG into their investment process. As an initial step, the PRI released a discussion paper examining the state of play of responsible investment within venture capital.

[14] https://www.unpri.org/

VCs signatories to the PRI are still few and far between. Because of our responsible investment mandate, we viewed joining the PRI and aligning to industry best practices as an essential first step in making good on our pledge to develop best in class companies. PRI- driven ESG integration places importance both on the **policies** and **practices** in place to manage and optimize ESG topics, as well as **on ongoing stewardship and engagement** vis-à-vis portfolio companies. This approach has been useful in conceptualizing and developing our own efforts, ensuring ESG risks and opportunities are screened and assessed during the pre-investment phase and mitigated, managed, or harnessed as opportunities post-investment. The chart below lists some of the activities we have implemented in line with the PRI's 6 principles.

Fund-Level ESG Activities

Principles for Responsible Investment (PRI)	Activity
PRINCIPLE 1 Incorporate ESG issues into investment analysis and decision making processes	• ESG Internal Gap Analysis (Post PRI Survey) • ESG DD Questionnaire • DD Risk and Opportunity Matrix
PRINCIPLE 2 Active owners and incorporate ESG issues into our ownership policies and practices	• Management Right Letter • ESG Workshops • Annual Action Plans, Metrics, Target-Setting
PRINCIPLE 3 Seek appropriate disclosure on ESG issues by the entities in which we invest	• Annual ESG Questionnaire • Ongoing engagement through Board Presence
PRINCIPLE 4 Promote acceptance and implementation of the principles within the investment industry	• ESG White Paper • Member of Industry Bodies: PRI, Power in Diversity
PRINCIPLE 5 Work together to enhance effectiveness to implement the principles	• Peer Learning: PRI, VentureESG • Release of ESG in VC White Paper
PRINCIPLE 6 We will report on our activities and progress towards implenting the principles	• Annual PRI Survey • ESG Report to LPs, New Era Board • Blogs and Features on Website

Another disclosure framework investors may wish to consult is the B-Impact Assessment. Structured by stakeholder categories (see topics below), the B-Impact Assessment provides a long list of ESG practices investors and enterprises can adopt and disclose. Additional resources are also listed in the annex of this report.

Governance **Social** **Community** **Environmental** **Customers**

Main Stakeholders: B-Impact Assessment

Step 2: Define Your Strategy

Once ESG concepts are clear, VCs may wish to start the process by defining their own ESG strategy. This includes detailing the fund's commitment to ESG integration, the issues it will seek to improve, and metrics that will be tracked on an annual or otherwise periodic basis.

Once these are in place, funds may decide to send a general ESG questionnaire to portfolio companies to gather existing baseline information and better assess needs, knowledge, and resource gaps.

For example, at the start of our first year as a PRI signatory, we distributed an ESG due diligence questionnaire to our portfolio companies to understand current practices around various ESG topics. Our questionnaire consisted of 41 questions on key environmental, social, and governance questions. This gave us a good idea of what policies were already in place and which would need further development, based on the industry in which the startup was operating and the size of the company.

Step 3: Implement

The next step is translating the ESG policy into actionable steps. A description of our work at pre and post investment helps illustrate how we gather and use ESG data to support our portfolio companies.

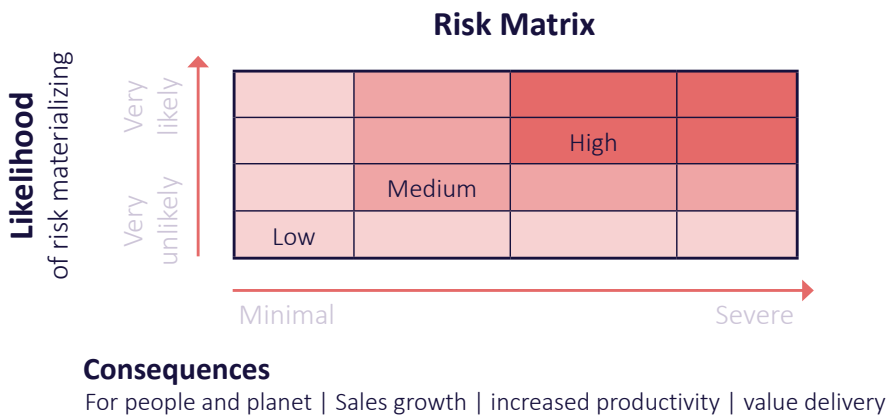
Pre-investment Due Diligence

Prior to investment, as mentioned above, New Era sends an ESG questionnaire to potential new portfolio companies to assess current practices. On top of the general list, we also ask sector-specific questions, drawing guidance from SASB's Materiality Map to identify material risks that could affect the company as it grows. This includes indentifying potential regulatory compliance issues that could affect a company given its size (revenues or number of employees) or headquarters. We also assess the company's alignment to the SDGs.

optibus	Optibus helps the world's leading public transit providers improve mass transportation by offering higher efficiency, better quality of service, cost reduction and streamlined operations. Optibus provides fleet management and operational optimization through advanced artificial intelligence algorithms. Its solution helps to decrease greenhouse gas emissions generated by public transit companies.	11 SUSTAINABLE CITIES AND COMMUNITIES	SDG 11.6 - By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management

We then list potential ESG issues (risks as well as opportunities for value creation). We map each issue according to stakeholder type, giving a ranking of low, high, or medium. We then map out these topics on a matrix guaging the risk's likelihood of materializing vs. consequences on the business. Based on this mapping we identify 2-3 priority areas and consider where and how New Era can add value.

	Stakeholder Group					
Risk	**Employees**	**Customers**	**Investors**	**Environment**	**Communities**	**Suppliers**
Fair labor standards in supply chain	High	High	High	Low	High	High
Energy use	Low	High	Medium	High	Low	Low



Investment Decisions and the First 100 Days Post Investment

Once a decision to invest has been reached, New Era requests that companies sign a Management Side Letter affirming their commitment to work with New Era to strengthen their ESG practices.

As a next step, New Era delivers a kick-off workshop to all new portfolio company teams to familiarize managers with key terms and practices related to ESG. The sessions also feature concrete examples and guidance on how ESG policies and practices can be applied strategically within the firm. Through the workshop, portfolio companies learn more about ESG topics and gain an understanding of how to perform their own risk analysis. At the end of the training series, portfolio companies are given a template to develop and disclose the relevant information.

One of the topics the company found most interesting was reviewing concrete examples and case studies of how early-stage startups develop internal strategies and mainstream ESG practices throughout their business. Some of these examples appear at the end of this document.

Step 4: Stewardship

Feedback loops and ongoing improvement are critical in any strategy, and ESG is no exception. New Era pursues active engagement to ensure that all companies across the portfolio comply with a common standard of practice by adopting a company code of conduct and an anti-harassment policy. We then use the ESG matrix developed for the company to work with its leadership team to manage performance and introduce a new ESG Action Plan each year.

Step 5: Oversight

It is critical that senior leadership and the board of directors be entrusted with overseeing the implementation and execution of the ESG strategy. At New Era ESG integration is led by the firm's partners, while additional members of the team support all activities. With a commitment to transparency, New Era completes annual PRI reporting and Sends our LPs an annual ESG report detailing our progress toward stated goals.

As signatories to the PRI, we are committed to strengthening our ESG compliance each year and will take steps to Set new targets at the portfolio level when existing aims are met.

ESG Topics for Early-Stage Companies

Reducing the carbon footprint: Through exchanges with industry peers, we are seeing an increasing number of GPs and portfolio companies take steps to limit their carbon footprint. Several online calculators allow companies and investors to input data related to office/home office energy use, travel distance, and mode of transportation to gather data and set targets for reduced energy consumption and CO2 emissions. Two of the best resources available to the industry are the guidance by Leaders for Climate Action and tool support provided by Plan A. Both organizations are mentioned in the Annex.

Support companies' efforts to recruit diverse talent: Several platforms and organizations work to promote diversity and inclusion in VC and tech by helping companies publish job ads that reach and are accessible to underserved groups. Fortunately, with the move to online work, geographical proximity poses less of a challenge for recruiting a diverse workforce than it once was.

In Israel, Power in Diversity is working to increase the representation and inclusion of women and minority groups in Israel. Power in Diversity Israel is a joint venture of over 60 Israeli VC firms and over 170 Israeli start-ups, coming together to promote diversity and inclusion in the Israeli tech industry. We believe that diversity is one of the key elements for innovation and ingenuity. For Israel to continue to serve as an international model for innovation, it is essential that the members of the Israeli tech industry reflect the diverse world we live in. As we increase diversity within our community, our companies – and society as a whole – we will achieve greater success.

Founded by Alan Feld, Funding Partner at Vintage Investment Partners, Power in Diversity (PID) is a joint venture of over 60 Israeli VC firms and over 170 start-ups who came together to promote diversity and inclusion within the Israeli tech industry. The organization sees diversity as one of the key elements of innovation and ingenuity. Members share the belief that for Israel to continue serving as an international model for innovation, it is essential that the Israeli tech industry to reflect the diverse world in which we live. They believe that as diversity increases within firms and portfolio companies, society as a whole will benefit and companies will achieve greater success.

In an effort to promote greater diversity, the initiative also promotes the development of an index that pertains to women, Orthodox Jews, Arabs, Ethiopian Jews, individuals with disabilities, and individuals on the autistic spectrum

Encourage ESG-informed project offerings: Knowing the topics covered by ESG can give VCs a competitive edge in selecting companies that provide solutions to increasingly commercial ESG concerns. For example, New Era invested Papaya Global, an HR management platform now worth over $3.7 billion USD. Papaya Global's offering simplifies global payroll and workforce management by helping companies expanding internationally hire, onboard, manage and pay foreign employees. Especially since the start of the pandemic, as more businesses have moved online, are employing people remotely, and seek to expand to new locations, Papaya Global helps companies establish their foreign legal, tax, and financial infrastructure.

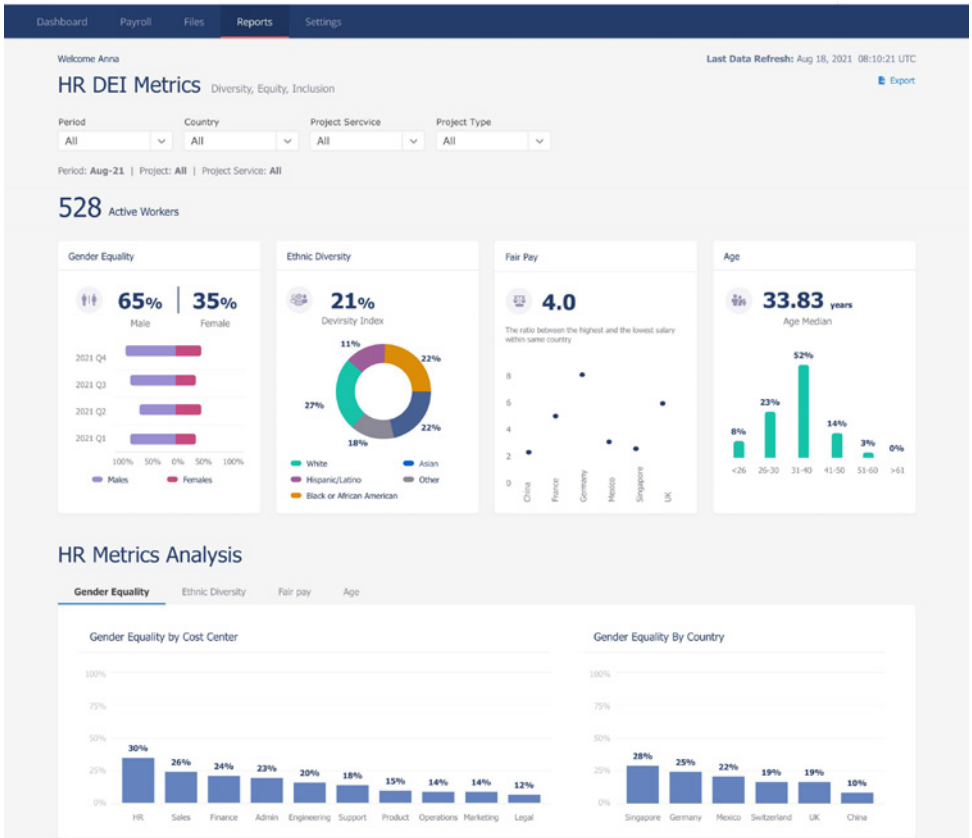
By way of its core business, the company aligns to at least one specific UN Sustainable Development Goal (SDG 8.8, Protect labour rights and promote safe and secure working environments for all workers) and works at the cross-section of many topics native to ESG, including labor law compliance, employee demographics, wellbeing, benefits, and more.

After receiving a detailed ESG questionnaire by an investor interested in investing in the business a few years ago, Papaya Global leadership were surprised to realize that some ESG requirements were already woven into the company's early operations. This made the ESG requirement less foreign or burdensome.

> *"During this initial encounter, I was actually pleasantly surprised that we actually do so much about ESG without even knowing we do so. We have diversity, capacity building for employees, recycling programs, and more. Papaya Global stands out for its diverse workforce. The company has 52% women in the company, the legal team is 80% women, a clear difference from the gender imbalance you typically see in other tech companies."*
>
> Inbal Aviad, Chief Legal and Compliance Officer, Papaya Global

papayaglobal

Through this initial encounter, Papaya quickly understood they can create a business advantage by embedding ESG throughout their business. In the last year, led by the company's Business Intelligence team, Papaya Global has developed an ESG Dashboard to help their own clients track diversity, equality, and inclusion data.



Papaya Global DEI Dashboard 2021

With support from the team's legal department, they defined topics that would be reflected in the dashboard – healthcare, disability and other issues - paying close attention to differences in compliance between countries regarding information that is legal to collect.

Papaya's DEI Dashboard currently tracks the following metrics for clients' HR teams:

- Gender equality
- Ethnic diversity
- Pay ratio
- Age distribution

With more technical resources available to instruct companies on best practices for workforce disclosure, there are numerous opportunities to add data to the tool that can help companies track information and boost compliance and responsible practices.

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Key Takeaways

A New Investment Imperative

- ESG integration is essential for building successful companies.
- As active and engaged managers, VCs can mainstream basic ESG practices across their portfolio, much like they do for other areas of management and capacity-building.

Early Days

- It is still early days for ESG in VC start-up companies.
- Funds and portfolio companies alike need support, including training and guidance on key practices and terms, policy templates, case studies and examples of how other early-stage companies integrate ESG practices.
- In our view, the best way to get started is to use the Principles for Responsible Investment as a guide and to join communities of practice where peers are actively and openly sharing tips and advice. Though still early days, there is an increasing number of resources and professional communities which can be called upon to provide support.

Industry Leadership

- VCs are in a position to champion this approach not only among their portfolio companies, but also among peers and regulators. If we want to build a fairer and more prosperous business environment, especially one more amenable to tech-enabled businesses, this is undeniably a timely path to take.

So how do you get started? And what has most helped New Era?

MEMBERSHIP IN AN INDUSTRY BODY (PRI)	Provides a "north star" of what to strive for and a structure for designing both fund-level and portfolio-level ESG activities
DEVELOPING OUR OWN ESG WORKSHOP	Helped us define our own approach to ESG and understand how to convey the message more effectively and practically to portfolio companies
LEARNING FROM PEERS (VentureESG!)	Peer learning has deepened our own practice >> practical management and integration of ESG

About New Era Capital Partners

New Era Capital Partners is an early growth stage fund founded by Gideon Argov and Ran Simha. New Era Capital Partners invests alongside exceptional entrepreneurs who seek to improve our world, and support their efforts to build leading, technology-focused global enterprises. Our primary goal is to deliver superior returns to our Limited Partners while investing in frontier technologies in sectors undergoing disruptions and structural change. New Era is the first of its kind ESG early growth technology investment fund with an "Israeli nexus" focus. We target companies for investment just as they are beginning to scale their business and operations. Headquartered in Tel Aviv and Boston and with years of experience in North America, Europe, and Asia, we are excited to serve as a springboard for Israeli companies expanding globally.

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Annex 1 - Approaches to ESG Integration in VC

To date, ESG integration and disclosure among VCs is fragmented. As referenced above this is largely because existing guidance is not yet fully fit for purpose for venture investors who typically have small times and invest in early-stage companies. Below we provide an overview of approaches while referencing useful resources that VCs may consult to help them on their respective journeys:

Disclosure

Disclosure Frameworks for Investors

- Principles for Responsible Investment
- TCFD
- SFDR (EU Only)
- IFC Operating Principles for Impact Management (relevant for impact investments that also address ESG factors)

Disclosure Frameworks for enterprises

- B-Impact Assessment
- Balderton's ESG_VC Questionnaire – ESG questionnaire for enterprises

ESG Due Diligence Questionnaires

Standardized LP ESG due diligence questionnaires provide clarity on ESG policies and processes that should be addressed both at the fund and portfolio company level.

- Institutional Limited Partners Association (ILPA) Due Diligence Questionnaire
- Responsible Investment DDQ for Private Equity Limited Partners - PRI
- Investment Cycle Due Diligence - CDC
- ESG Due Diligence Questionnaire for Private Equity Investors and their Portfolio Companies – InvestEurope

ESG / Impact Metrics

- Value Reporting Foundation/ SASB
- Toward Common Metrics and Consistent Reporting of Sustainable Value Creation - World Economic Forum
- Environmental, Social, and Governance issues – PRI
- GRI Standards
- IRIS Catalogue of Metric

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ESG Toolkits

- Responsible Investment Toolkit - British Venture Capital Association (BVCA)
- ESG Toolkit for Fund Managers - CDC
- ESG for Early-Stage VC – 500 Startups

Industry Research and Guidance

- PRI Starting Up: Responsible Investment in Venture Capital (PRI, 2022)
- Q2 Pitchbook Analyst Note ESG and the Private Markets (Pitchbook, 2021)
- How Venture Capital can Join the ESG Revolution (SSIR, 2021)
- Risky Business: Top leading venture capital firms failing in their Responsibility to Respect Human Rights (Amnesty International, 2021)
- Private Equity's ESG Journey: From Compliance to Value Creation (PwC, 2021).
- EIF Working Paper 2020/063: ESG considerations in Venture Capital and Business Angel investment decisions: Evidence from two pan-European surveys (EIF, 2020).
- Entrepreneurship Redefined (Slush, 2020)
- Responsible Investing Tech and Venture Capital (The Belfer Center for Science and International Affairs, Harvard Kennedy School. 2019)
- An introduction to Responsible Investment: Private Equity (PRI)

VC ESG Reports - Examples

- 2020 ESG Annual Report - 500 Startups
- Fund-level Diversity Report - Local Globe

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Resources

Environmental

- GHG Protocol - GHG Protocol supplies the world's most widely used greenhouse gas accounting standards. The website has handy online calculators for measuring emissions.
- Leaders for Climate Action – a German non-profit that works with business leaders to contribute to the fight against the climate crisis. Its Sustainability Clause is adopted by VCs in their term sheets binding companies to climate protection. The organization also provides additional guidance to VCs looking to manage their climate impacts.
- Plan A – a software company that enables businesses to monitor and reduce their emissions, while improving their ESG performance.

Social

- Power in Diversity (Israel) - A joint venture of over 40 Israeli VC firms and over 120 Israeli start-ups, coming together to promote diversity and inclusion in the Israeli tech industry.
- Diversity VC – Works with entrepreneurs, investors, and universities to create an industry that is free from bias.

Governance

- Responsible Product Design and Inherent Bias
- Consequence Scanning - Doteveryone
- Ethical Explorer – Tools to Navigate the Future Impact of Today's Technology
- Recommendation on the Ethics of Artificial Intelligence – UNESCO