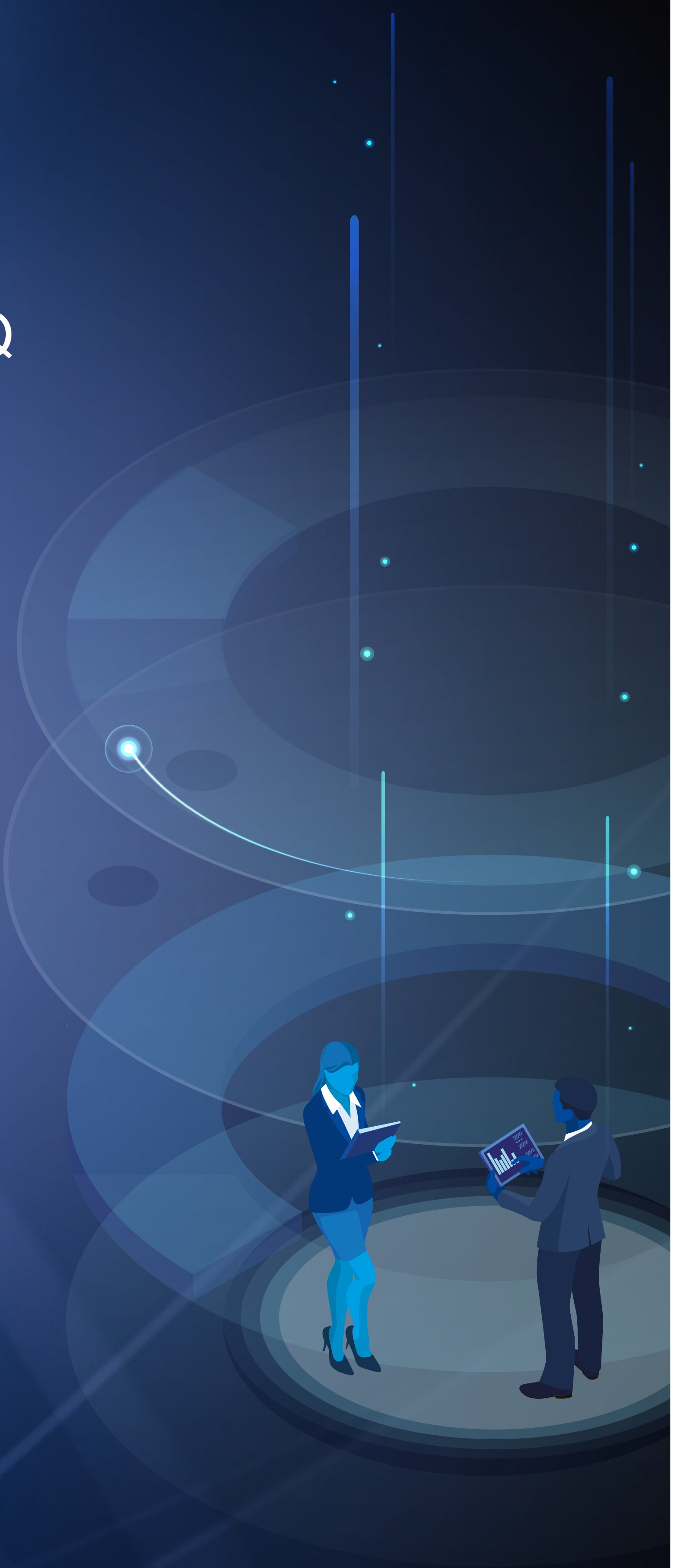
Principles for Responsible Investment

RESPONSIBLE INVESTMENT DDQ FOR VENTURE CAPITAL LIMITED PARTNERS



United Nations Global Compact

UN environment programme finance initiative

An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

ABOUT THIS DDQ

This due diligence questionnaire (DDQ) has been developed to help investors understand and evaluate a general partner's (GP) responsible investment practices and the material environmental, social and governance (ESG) risks and opportunities their investments may be exposed to.

It is separate to the PRI's private equity DDQ, which is focused on later-stage growth and buyout investors.

The DDQ is designed to complement the PRI's Reporting Framework, particularly the private equity module. Where a DDQ question maps in a material way to a Reporting Framework question, the relevant indicator(s) is provided.

The DDQ is divided into six sections:

1. Policy and governance
2. Fundraising
3. Pre-investment
4. Post-investment
5. Reporting and disclosure
6. Additional information

WHY USE THE DDQ?

A questionnaire can never replace the dialogue between investor and manager: this DDQ is designed to act as a starting point for such dialogue by providing a baseline list of questions that limited partners (LPs) can ask GPs during the fundraising process.

LPs may consider supplementing this DDQ with additional questions. However, they should consider the importance of those questions versus the additional reporting burden placed on GPs.

GUIDANCE FOR COMPLETING THE DDQ

GPs are encouraged to complete this DDQ as part of their fundraising preparations and include it in their data rooms as standard.

They should make the scope of their responsible investment activities clear within their answers, for example, by specifying whether an answer applies across all strategies or select strategies or funds.

The DDQ questions have been designed to reflect the fact that responsible investment practices in venture capital are still nascent. The questions are intended to be flexible enough for those at an earlier stage of their journey to demonstrate progress, while holding more advanced GPs to account.

GPs that are PRI signatories should provide their latest PRI Transparency and Assessment Reports to prospective LPs alongside their DDQ responses.

LPs are encouraged to:

- assess DDQ responses in the context of the GP's size, experience, resources, investment stage and investee influence (i.e. whether they occupy board seats; their relationship with co-founders and co-investors);
- assess GPs within the context of nascent responsible investment practices in venture capital; and
- use any opportunities for improvement that they identify to engage with GPs, either pre-or post-commitment.

Readers can refer to the PRI Reporting Framework glossary to clarify the definition of terms used in this DDQ.

REVIEWING FUND DOCUMENTATION

During the initial stages of due diligence, an LP should review the GP's Private Placement Memorandum, Offering Memorandum, or any other introductory marketing materials to establish whether their fund addresses ESG considerations.

If the LP is undertaking due diligence on a PRI signatory, they should review the GP's latest PRI Transparency and Assessment Reports on the PRI Data Portal.

FUNDS OF FUNDS (INCLUDING SECONDARIES)

When investing in a fund of funds, LPs should seek assurance that the GP has a thorough process in place to assess and monitor the responsible investment approach of the underlying funds.

An LP could ask the fund of funds GP to complete this DDQ during fundraising (noting that some questions might not be applicable). Fund of funds managers are encouraged to use this DDQ for their ESG due diligence of underlying funds.

DOCUMENT CHECKLIST

A suggested checklist of documents that LPs can request from GPs during the due diligence process.

- ☐ Code of conduct
- ☐ DEI policy
- ☐ Exclusion policy (or equivalent)
- ☐ ESG report (or equivalent)
- ☐ PRI Assessment Report
- ☐ PRI Transparency Report
- ☐ Responsible investment policy (or equivalent)
- ☐ Whistleblowing policy

DDQ QUESTIONS

Questions in this responsible investment DDQ for venture capital investors should be supplemented with questions on diversity, equity and inclusion (DEI) from the PRI's DEI DDQ and / or the DEI section of the ILPA DDQ.

Questions in the ILPA DDQ are primarily relevant for US-headquartered organisations, whereas those in the PRI DEI DDQ are globally applicable.

1. POLICY AND GOVERNANCE

Understanding your responsible investment-related[1] policies, governance, and oversight.

1.1 [PGS 1, PE 1] Does your firm have a responsible investment policy (or equivalent)?

State when it was implemented, whether it has been fully implemented, how it is reviewed and updated, and any changes you plan to make to it. Explain why it is appropriate for your firm and investment strategy and provide a copy or a link, if publicly available.

If your firm does not have a responsible investment policy, describe your overall approach to responsible investment. What has prevented you from implementing a responsible investment policy? Do you intend to do so within the next 12-18 months?

1.2 [PGS 11, 12] Who oversees responsible investment within your firm?

List the people accountable for and involved in implementing responsible investment. Describe their roles in the organisation and relevant experience, including any training or resources provided to them. If these are not investment team roles, explain how they interact with your investment team.

2. FUNDRAISING

Establishing your responsible investment commitments within fund documentation.

2.1 [PE 2] Do you plan to include any formal responsible investment commitments in the Limited Partnership Agreement, side-letters, or other constitutive fund documents for this fundraise?

If so, describe these and any similar commitments made in the past – for example, granting LPs the right to receive ESG-related data, or be informed of ESG incidents.

If not, explain why.

3. PRE-INVESTMENT

Understanding how you consider possible ESG risks and opportunities in your potential investments.

3.1 [PGS 20] Are there any products, services, and/or technologies that you avoid investing in (i.e. exclusions), or to which you apply additional due diligence, due to responsible investment considerations?

If so, describe any norms-based or sector-based screens, or additional due diligence criteria applied, and whether these are included in fund documentation.

3.2 Do you assess whether ESG factors and broader thinking around environmental sustainability and social responsibility influence a founder's and/or management team's approach to building their business?

If so, how? In early funding rounds, this might include using ESG discussions with founders to understand whether certain topics are important to them and how they might be considered as companies scale. At later stages, it might include establishing whether companies have taken action to address ESG issues, evidenced by, for example, ESG KPIs.

If not, explain why.

3.3 [PE 4, 5] Do you evaluate current or future ESG risks and opportunities in potential investments and systematically include their evaluation in your investment process[2]?

If so, are they included in investment memos and considered by the ultimate investment decision-making body, such as the investment committee?

Explain your process using one to two examples from a recent fund and include whether this helped identify risk management or value creation opportunities, led to abandoning certain investments, or affected other deal terms.

If not, explain why.

1 Throughout this questionnaire, the term responsible investment refers to a strategy and practice to incorporate environmental, social and governance (ESG) factors into investment decisions and active ownership.

2 This question refers to post-screening analysis.

3.4 Do you include any ESG or sustainability-related clauses in deal documentation (e.g. term sheets)?

If so, describe what these require of the company – for example, reporting on greenhouse gas (GHG) emissions or ESG incidents, and state whether they are legally binding.

If not, explain why.

4. POST-INVESTMENT

Understanding how you integrate responsible investment practices into portfolio management and contribute to your portfolio companies' ESG risk mitigation and value creation efforts.

4.1 [PE 10, 11,12,12.1] Do you incorporate responsible investment practices in your portfolio management activities?

If so, how do you work with your portfolio companies to manage ESG risks and opportunities?

Examples could include working with founders and/or management teams to:

- *review existing compliance, sustainability, and business ethics guidelines and/or introducing these if necessary;*
- *access relevant tools, training, expertise and networks;*
- *providing portfolio services that help the company innovate responsibly or attract and retain diverse talent;*
- *or identify and mitigate ESG risks that may present as the company scales.*

If not, explain why.

[PGS 40, 41.1, 44, 46] In addition, include any relevant discussion around identifying and managing climate-related risks and opportunities. Do you measure the GHG emissions of your investments? Has your organisation identified any focus areas for reducing GHG emissions – for example, switching to green data centres?

4.2 Do you sit on or interact with portfolio company boards to influence and monitor how they manage ESG risks and opportunities?

[PE 9] If so, please indicate how frequently these interactions occur. This could include raising ESG issues at board level or recommending board members with ESG expertise.

If not, explain why.

[PGS 40, 41.1, 44, 46] Include any relevant discussion around how boards manage their climate-related risks and opportunities.

4.3 [PE 6, 6.1] Do you measure and monitor material ESG key performance indicators (KPIs) for your investments?

If so, explain how you identify these (including using any relevant frameworks) and provide examples. Additionally, discuss what you do with this data. For example, do you use it to frame your engagements with underperforming companies?

If you do not yet measure and monitor ESG KPIs, do you support and/or encourage early-stage companies to put structures in place that will allow you to do so as they grow?

If you do neither, explain why.

4.4 [PE 13] Do you incorporate ESG considerations when positioning portfolio companies for follow-on capital and/or exit?

This could include supporting the company to communicate how it has managed risks and realised opportunities related to ESG issues to potential investors or buyers in subsequent funding rounds, or when preparing for a public listing or M&A transaction.

If not, explain why.

4.5 [PGS 47, 47.1, 47.2] Do you identify and/or act on sustainability outcomes[3] related to portfolio companies' operations, products and services as they scale?

If so, explain how, including any frameworks or tools you use to do so (e.g., the Sustainable Development Goals, the United Nations Guiding Principles on Business and Human Rights, IRIS+).

If not, explain your current thinking around the real-world impacts of your investments. This could include describing how you encourage companies to innovate responsibly, or how they minimise negative externalities.

Please note, this question is not limited to impact-oriented funds. It refers to intentional and unintentional impacts (externalities) of all business activities on outcomes such as climate change, biodiversity loss, and the protection of human rights.

5. REPORTING AND DISCLOSURE

Understanding how LPs can monitor your ESG performance and ensure the fund is operating within agreed-upon policies and practices, including disclosing material ESG incidents.

5.1 [PE 14] Do you report and evidence progress on ESG performance, including data and targets, to LPs?

If so, provide samples of ESG-related disclosures from an earlier fund.

Do you use events such as your LP Advisory Committee and Annual Investor Meeting to communicate ESG performance and progress?

State if you measure and report on: DEI metrics or GHG emissions, either actual or estimated, associated with your investments and/or your own business, and the methodology used (if relevant).

If not, please state whether you plan to do so in the fund being raised.

5.2 How do you manage and disclose material ESG incidents[4] to your LPs?

Explain how you define what constitutes a material ESG incident – for example, cybersecurity breaches, sexual harassment, health and safety incidents – at GP and portfolio company level.

Explain the steps you would take or have taken to identify and manage incidents at your firm. State whether there have been any known incidents within the last three years and how you will prevent/have prevented those from reoccurring.

Explain the steps you would take or have taken to manage incidents at your portfolio companies. To the extent you can disclose, state whether there have been any known incidents within the last three years and how you/the portfolio company will prevent/have prevented those from reoccurring.

6. ADDITIONAL INFORMATION

6.1 How do you identify and manage material ESG risks and opportunities within your own firm?

Explain the steps you will take, or have taken, to identify, realise or manage these.

Describe any initiatives you have implemented and/or are planning to implement in the next 12-18 months to improve your firm's internal ESG performance, e.g. to increase investment team diversity or reduce your firm's carbon footprint.

6.2 If applicable, describe any of your responsible investment practices not otherwise covered in this questionnaire.

Please use no more than 500 words.

3 Sustainability outcomes are the results of actions taken by (in the case of this questionnaire) investee companies on people and the planet. They are understood by reference to global social, environmental and governance goals as reflected in internationally recognised principles and frameworks. They are positive when they are consistent with global sustainability goals; they are negative when they are not.

4 The PRI defines an ESG incident as a specific environmental, social or governance event that has a substantial negative impact on a security, issuer or investment and its key stakeholders including investors, employees, communities and the environment.

APPENDIX 1: ACKNOWLEDGEMENTS

We would like to thank the following working group participants for their feedback and contributions to this DDQ:

- AlpInvest Partners, Maaike van der Schoot
- Antler, Ros Bazany
- The Sixth Swedish National Pension Fund (AP6), Anna Follér and Anna Grgic
- Atomico, Soline Kauffmann-Tourkestansky
- Balderton Capital, Elodie Broad
- Base10, Luci Fonseca
- California State Teachers' Retirement System (CalSTRS), Nicholas Abel
- Cycle Capital Management, Marie-Agnès Thiebaud
- European Investment Fund, Adelaide Cracco
- EQT Partners, Anastasia Altynnikova and Katherine Kitson
- Fin Venture Capital, Marcella McColl
- Glasswing Ventures, Sarah Fay, Hanna McLean, and Larissa Weinstein
- Hamilton Lane, Andrew Rich
- Harvard Management Company, Michael Cappucci
- Hong Kong Monetary Authority (HKMA), Kim Chong, Jessica Ling and Alan Mak
- KfW Capital, Theresa Bardubitzki and Simone Sauer
- Knightsbridge Advisors, Sven Weber
- Index Ventures, Weronika Sowa
- Industry Ventures, Amir Malayery
- LGT Capital Partners, Stefan Luegstenmann
- Lightspeed Ventures, Angela Sibley
- Lucid Capitalism, Shu Dar Yao and Cecilia Young
- MMC Ventures, Victoria Ferguson
- Molten Ventures, Ben Robson
- Mouro Capital, Jillian Cohn
- Openspace Ventures, Jaclyn Seow
- Responsible Innovation Labs, Luisa Reyes
- San Francisco Employees Retirement System (SFERS), Andrew Collins
- SVB, Danielle Conkling, Taha Laique, and Alex Nelson
- Stafford Capital Partners, Silva Deželan
- StepStone Group, Dawn Powell and Suzanne Tavill
- Techstars, Mairi-Jane Fox
- The Westly Group, Shaun Chaudhuri
- Top Tier Capital Partners, David York
- VentureESG, Hannah Leach and Johannes Lenhard
- Wafra, Avantika Saisekar
- 500 Global, Tracy Barba

The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

More information: www.unpri.org

PRI Principles for Responsible Investment

The PRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact.

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

More information: www.unepfi.org

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United Nations Global Compact

The United Nations Global Compact is a call to companies everywhere to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues embodied in the Sustainable Development Goals. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate practices. Launched in 2000, it is the largest corporate sustainability initiative in the world, with more than 8,800 companies and 4,000 non-business signatories based in over 160 countries, and more than 80 Local Networks.

More information: www.unglobalcompact.org

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