AN ESG DD

Materiality-Filtering Tool for Venture Capital

What Matters Most to Venture Capitalists on ESG: Taking a Sector and Stage-based Approach

VentureESG White Paper #6

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VentureESG

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Executive Summary

An ESG materiality tool developed with VCs for VCs

ESG is not 'one size fits all' but needs to be tailored to a company's sector, business model, and funding stage. In ESG practice, *financial materiality* is the critical lens for tailoring ESG issues based on what is most financially impactful and relevant, i.e., the business case[1]. For VCs, no comprehensive, 'fit for purpose' materiality tool existed to date that tailors ESG issues to the specifics of VC sectors (like B2B SaaS or Fintech) or to VC funding stages (from pre-seed to growth).

In a previous VentureESG White Paper #2, we supported the VC ecosystem by explaining how to tailor a materiality assessment to the VC context and published an accompanying materiality assessment tool. In this White Paper #6, we are introducing a new, VC-specific 'materiality ESG DD tool' that gives VCs an efficient starting point to zoom in on the top priority, most financially important ESG issues by sector and stage of funding during the pre-investment process.

To develop this materiality tool, we spoke to over 60 VC ESG managers and sector-specialist VC investors over the course of 6 months. The materiality tool is published in two formats: (1) printable 'materiality napkins' (available in this White Paper), and (2) a dynamic 'materiality filtering tool' integrated into the VentureESG Universe of Issues framework (forthcoming on the VentureESG Members' Notion).

1 SASB defines 'material issues' as those which are "reasonably likely to impact the financial condition or operating performance of a company." For other materiality definitions see the VentureESG White Paper #2, lead author Susan Winterberg.

Part 1

Developing the materiality tool

I. Goal: A VC-specific, materiality-filtered ESG DD tool

For ESG to be maximally relevant to VC investors and integrated into the investment process, the ESG issues need to be tailored and prioritised so that VCs can focus on the ESG issues that matter most for value creation. The analytical technique for tailoring ESG is a materiality assessment, which is a process for prioritising ESG issues from a list of potentially hundreds of ESG issues based on their *financial materiality* – essentially, their importance as a source of opportunity or risk for the financial performance of the company. One output of a materiality assessment is a prioritised matrix of *material* ESG issues that can be applied to refine due diligence, improve investment decision-making, and guide portfolio company strategy.

For VCs, materiality means filtering ESG issues based on VC-specific sectors, sometimes with unique business models, and VC-specific funding stages.[2] The recurring problem for VCs, as we identified in our first White Paper #1 (2021) and subsequent Materiality Assessment for Venture Capital White Paper #2 (2022), is that there is no 'fit for purpose' materiality tool that gives VCs an efficient starting point for a materiality assessment – and, consequently, no starting point for targeting ESG due diligence to company specifics or for fully unlocking the strategic potential of ESG for value creation and risk mitigation post-investment.

The main materiality framework, SASB (the Sustainability Accounting Standards Board), is designed for large companies in mature markets, and the SASB materiality maps do not readily correspond to the specifics and priorities of VC investments. In the Materiality Assessment White Paper, we explained how SASB can be integrated as an input for a VC-specific materiality assessment, but this process involves more time and resource than many VCs are able to dedicate to ESG at the moment, especially at the pre-investment stage.

In response to this problem, we undertook a research project, kindly funded by Atomico, to develop a materiality-filtered ESG DD tool that gives VCs a meaningful starting point for materiality at the pre-investment stage. The immediate aims of the materiality tool were to filter the top priority, most financially impactful ESG issues by VC-specific sectors and funding stages, to articulate the business case for these material ESG issues, and to equip VCs with actionable guidance on what to ask and what to look for during due diligence.

We built the materiality tool by interviewing over 60 VC ESG managers and sector-specialist VC investors. Based on their input (and a survey), we selected five key sectors to centre the materiality tool on – B2B SaaS, consumer tech, fintech, health tech, and climate tech – and developed the content and design of the tool with them.

By providing a streamlined, sector- and stage- specific starting point for ESG due diligence, a wider goal of the tool is to assist VCs to unlock the potential investment value creation opportunity of materiality. Materiality makes the business case for ESG because it prioritises only the ESG issues that are financially impactful, and moves beyond ESG tick-box exercises. Adopting a materiality-focused approach to ESG due diligence can improve investment decisions by highlighting major ESG opportunities and ESG risks. And extending a materiality-based approach to ESG throughout the investment lifecycle – not just at the due diligence stage, but earlier at the investment screening stage and in initial conversations with founders, as well as later during portfolio support and exit planning – improves investment value creation and protects against major risks.

2 It can also mean filtering for geography, VC commitments, and LP requirements.

II. Providing context: observations from our interviews

A. Three general findings: materiality is key but 'for the privileged' so far

1. ESG managers highlighted the importance of materiality

All ESG managers agreed on the importance of materiality to their ESG work (i.e., 'the materiality of materiality'), and shared many perspectives on how materiality is useful, including:

- **Materiality makes ESG relevant to everyone:** interviewees emphasised how materiality illustrates the value of ESG to investors and makes it relevant to their investment decision-making. Interviewees also stated how materiality facilitates founder engagement with ESG by demonstrating why and how an ESG issue really matters to their growth ambitions.
- **Materiality moves ESG up the priority stack:** by making the business case for ESG clear, materiality moves ESG up to compete alongside other non-ESG priorities.
- **A tool to align ESG managers, investors, and founders around shared strategic priorities:** materiality can help to coordinate this trio around shared priorities, and makes for more efficient processes.
- **The way to triage your time:** given the scarcity of time and resources faced on all sides of the VC investment model (founders, investors, ESG functions), many ESG managers discussed how a materiality tool helps to prioritise time and workload.
- **A roadmap for growth:** when material ESG issues are mapped out by stage, it gives founders a guiding trajectory for growing a long-term sustainable company.

2. Full engagement with materiality is, on the whole, confined to highly resourced VC firms at the DD stage, or to post-investment ESG strategy workshops

There is a spectrum of how ESG managers are integrating materiality into their processes. At one end of the spectrum are VCs that are not taking any action on materiality yet. Some interviewees mentioned that time and resource constraints impede them from doing a full materiality assessment, and that existing tools – like SASB – do not assist them because they are not tailored to the VC situation.

Many of the interviewees are one step along this spectrum, and often integrate materiality into their portfolio work – often working with founders to build a company-specific materiality map to guide strategic decisions. Some of these interviewees also took steps towards identifying and addressing material ESG issues in their due diligence process – sometimes by augmenting their ESG DD questionnaires with company or sector-specific questions based on SASB or desktop research.

Another group of interviewees further along this spectrum have built / are building their own materiality tools but, on the whole, these are partially complete. Some have workshopped ESG issues with their investor teams, using a collection of SASB issues and public company materiality maps.

At the other end of the spectrum, a small number of more highly resourced ESG managers were satisfied with their materiality processes. One ESG manager conducts a full materiality assessment during due diligence, using SASB and the VentureESG Materiality Assessment for Venture Capital, and was of the view that SASB can be relatively easily adapted to the VC-context once you've used it a few times. Another ESG manager, at Northzone, has developed a double materiality mapping framework with input from Apiday.

3. Most ESG managers want a VC-specific materiality-filtering tool that is streamlined and focuses on key information

The majority of ESG managers said a new materiality-filtering tool would be very useful to them. The most sought features for a new tool were (i) ESG issue identification by sector and stage, (ii) an explanation of the ESG issue, (iii) an articulation of the business case, (iv) suggested questions for due diligence, and (v) tips on how to assess company responses.

In addition, some interviewees stated that illustrative examples / case studies would be useful and are persuasive to founders, that data on the business case is powerful especially to persuade investors, and that reporting and benchmarking information would also be useful.

A recurrent request, especially from those least engaged with materiality at the moment, was that a new tool is simple to use and 'as lean as possible.' Some managers mentioned that ESG tools can sometimes feel like 'libraries' and that a streamlined tool can empower investors to conduct ESG diligence themselves. On the other hand, ESG managers also stated that an ideal new tool would also be informative to those who are already relatively engaged with materiality. Another common request was that a new tool is not overly prescriptive about how to integrate materiality into their processes – VCs prefer to decide for themselves at which point to raise a diligence issue, or how to respond to a red/amber flag issue.

Finally, some interviewees expressed some scepticism about whether a sector-based lens was sufficiently granular to identify material ESG issues. Some interviewees thought that a new tool should ideally combine multiple business model dimensions.

B. Six themes across all sector-specific interviews with VC investors

1. Sectoral ESG priorities are either unique to the sector or have a sector-specific context

Some of the sectoral ESG priorities investors identified are unique to the sector – for example, patient health and safety considerations in health tech, or KYC and AML procedures in fintech. Some of the other sectoral ESG priorities are relevant to other sectors too, but investors considered them a sector-specific priority because of their sector-specific context. For example, data security was considered a priority ESG issue across most of the sectors (with the exception of climate tech software outside of critical infrastructure, and climate tech hardware) but for different reasons and sometimes at different stages of funding[3]; in B2B SaaS and fintech, most data security topics are financially material at a very early stage to win customers and guard against the massive downside risk from data breaches. In climate tech, data security was viewed as being material only for software companies serving critical infrastructure, such as the grid, in which case the priority is cybersecurity and only from an early stage of funding.

2. There is a core of cross-sector ESG issues that are material in any sector but do not have a sector-specific context

Regardless of the sector, most investors identified a common core of cross-sector ESG issues that are material to any VC investment without any sector-specific context.

3 We use three broad groupings for funding stage in this White Paper: very early (Pre-seed, Seed), early (Series A, Series B), and growth (Series C, Series D).

These cross-sector ESG issues relate to five of the topic areas in the VentureESG Universe of Issues framework, and the timing of their importance tracks the 'maturity curve' of a start-up's journey from pre-seed to growth.

These cross-sector ESG issues include:

(1) team and working environment (option allocation, employee engagement and NPS scores, employee turnover);
(2) regulatory compliance;
(3) governance (board structure, independents, financial controls);
(4) environmental management and impact (carbon footprint tracking); and
(5) diversity and inclusion (inclusive hiring practices, board diversity).

Many investors did comment that a lack of diversity and inclusion was an especially important issue in their sector, often stating that white men founders were over-represented because of sectoral-structural biases (in STEM training for climate tech, in financial services for fintech, or in medical training for health tech). Given that investors in all sectors placed a similar importance on the issue area, and that the specific ESG actions were similar, we have treated it as a cross-sector ESG issue.

Importantly, many VC investors ranked these cross-sector ESG issues amongst their top priorities in their sector – certainly a strong team culture and robust governance processes were typically viewed as being essential from a very early stage and early stage, respectively. This indicates that for a complete materiality picture, VCs should combine sector-specific ESG issues with a set of cross-sector ESG issues.[4]

3. Funding stage can but doesn't always affect sectoral ESG priorities

For some sectoral ESG priorities, the funding stage did not seem to matter to investors. For example, for a B2B SaaS selling to large corporates with ESG criteria in their RFPs, the ability to satisfy these ESG criteria (with an ESG policy, carbon footprint tracking, and so on) is a revenue opportunity regardless of the size and funding stage of the company.

For some other sector priorities, the funding stage appears to matter in two ways. First, the sectoral priorities match the scaling journey of the company – at the very early stage, some ESG issues hone in on product development, whereas at the growth stage, some ESG issues concern maximising and derisking growth. In B2C/

4 Interviewees also noted that a complete materiality picture takes account of other factors to determine material ESG issues, including geographic location, the ESG requirements of the LP investor base, and the VC firm's own ESG requirements (including their regulatory requirements).

B2B2C health tech, for example, the materiality of patient health and safety registers as a concern with the 'efficacy of the care/intervention' at the very early / early stage, with investors focusing diligence on the evidence base for efficacy, awareness of side effects, and error minimisation. At the early / growth stage, however, patient health and safety requires strong clinical processes, and investors de-emphasised efficacy as a stand-alone issue in favour of diligencing clinical protocols, the role of the Chief Medical Officer, the clinical audit process, and patient satisfaction levels.

Second, the sectoral priorities shift with the scale and sphere of influence of the company. In climate tech hardware, for example, supply chain ESG risks are a top ESG priority only from the early and growth stages, partly because this is when commercialisation and scaling means the company is starting to develop a meaningful supply chain and also because the growth of the company gives it some negotiating power and resources to choose its suppliers and influence their conduct (e.g., with a supplier code of conduct).

4. Funding stage affects the purpose of and approach to DD

Investors also discussed how the funding stage weaves into the DD approach. At the very early stage, most investors' primary aim during DD is to understand the founders' mindset towards ESG issues. Investors are looking for founders who recognise the importance of material ESG issues for the long-term sustainable growth of the company, and are evaluating founders' willingness to proactively engage with an ESG issue later down the line when it becomes a higher priority. For this reason, investors explained that they are sometimes inclined to ask founders how they have thought through their approach to an ESG issue or about their plans. Another objective of DD at the very early stage is to measure the ESG workload for the company and formulate a set of priority actions or portfolio supports post-investment.

At the early stage, many investors stated that the purpose of due diligence expands to include assessing the strength of processes and identifying red or amber flags. Many investors stated the importance of strong processes for capturing ESG value opportunities and for setting the company on a long-term sustainable growth path. Some investors also stated they were looking out for 'showstopper risks' and would conduct in-depth further due diligence (e.g., with a DD partner) on red and amber flags (i.e., indicators of high and medium risk levels, respectively). At the early stage, some 'red flag' ESG risks can be hard to mitigate because the company might not be able to change or pivot its business model as easily as at the very early stage. By the growth stage, most investors did not talk did not talk as much about understanding the founders' mindset, but rather about the importance of robust processes and avoiding key risks.

5. ESG opportunity and ESG risk are often 'two sides of the same coin'

There is sometimes a tendency to frame ESG as a downside risk mitigation exercise. However, investors often viewed the business case for an ESG issue as *both* an ESG opportunity *and* an ESG risk. Taking the ESG issue of 'bias and discrimination' in fintech as an example (e.g., in underwriting models, insurance pricing), investors saw reducing bias as *both* a value creation opportunity because it improves unit economics over the long-term *and* a risk mitigation strategy because it protects against the legal and reputational risks from perceptions of discrimination.

6. The ESG/impact relationship: ESG matters for impact business models and vice versa validation of impact is an essential part of DD

Some investors commented that even in impact business models, such as health techs and climate techs aiming at positive health or climate outcomes, a focus on ESG issues is vital for investment success.[5] In these sectors, there are a number of inward-looking ESG issues concerned with how the company operates and manages its ESG opportunities and risks that investors ranked as top priorities.

On the flip side, investors also emphasised that the robustness of an impact company's stated positive environmental or social benefits was essential to its financial success. In climate tech, investors emphasised the need to validate a company's stated climate benefits (e.g., its scope 4 / avoided emissions) because it is part of customers' purchasing criteria and for accessing capital in subsequent funding rounds from climate tech impact investors. In consumer tech, investors insisted on due diligencing the sustainability claims of sustainable brands because of the legal and consumer backlash risks from greenwashing. Given the direct financial importance of impact validation, we have included these issues in the materiality tool.

5 For the distinction between impact and ESG see the VentureESG White Paper #1.

C. Five sector-specific themes from interviews with VC investors

Turning to some specific sectors, a few additional themes emerged from the interviews in the five key sectors the materiality tool covers (the complete list of priorities is in the materiality napkins, in Part 3):

1. B2B SaaS: the importance of data practices

Data security, data privacy, and data licencing are critical ESG issues in B2B SaaS at any funding stage. Investors stated that being able to demonstrate strong data security management processes builds trust to win customers, whereas a data breach causes massive reputational damage and loses customers.

2. Consumer tech: the role of the savvy consumer

The priorities in consumer tech are shaped by consumers' expectations of authenticity and transparency to have trust in a brand, and consumer concerns that a company does not cause significant negative social or environmental impacts – especially in the context of savvy, sophisticated consumers who can rapidly damage a brand through social media scrutiny and cancel culture. In this context, mitigating negative social side effects (such as addiction, mental health, misinformation, and harassment and abuse) and establishing responsible partnerships in channel strategies are top priority ESG issues.

3. Fintech: regulatory compliance, and transparent pricing and selling practices

Given the heavily regulated nature of the sector, strong processes to ensure regulatory compliance are essential for customer acquisition (especially in B2B and infrastructure fintech), and to avoid regulatory action of fines or shutdown. For B2C business models, transparency of information to customers is a priority ESG issue – both as a way to improve unit economics and to avoid regulatory action for misleading customers.

4. Health tech: stewardship of health data, and oversight of patient health and safety

In the health tech context, data security and data privacy are top priority ESG issues, encompassing concerns with patient consent to access data, safeguards to secure data passed between partners, safeguards for data privacy controls, and consent for data sharing. In B2C and B2B2C business models, which provide patient care delivery or interact with patients, patient health and safety is such a critical ESG priority that effective governance for oversight of patient safety and clinical quality is important to win contracts and identify clinical quality risks early. In these business models, the Chief Medical Officer plays a key governance role in assuring patient safety and clinical quality, and is, investors commented, as important as the CFO or COO.

5. Climate tech: supply chain ESG risks in hardware[6]

In climate tech hardware, the mitigation of supply chain ESG risks concerning environmental impacts, human rights, and forced labour is a top priority because of the importance investors and customers place on these issues, and because of the potential for legal and reputational risks from non-compliance. The risk level varies by inputs, labour and geography, and investors emphasised the high risk levels for companies with critical mineral inputs (e.g., lithium, cobalt, nickel) and/or using labour in high-risk countries.

6 As a side comment on the scope of the climate tech sector, many investors noted the diversity of the climate tech sector, which encompasses multiple tech-types and end-markets (e.g., renewables, industrial processes) unified by the theme of intending a positive climate impact. We explored making the materiality tool more granular to focus on specific tech-types and/or end-markets, but most (although not all) investors felt that climate tech (with sub-sector business models of software and hardware) was an appropriate level of depth for the materiality tool to be useful. One interviewee with a different opinion thought that 'climate tech' ESG issues were typically ESG issues that relate to any software or hardware business model.

Part 2

Contextualising the materiality tool

Introduction to the materiality tool

The materiality tool is a VC-specific, materiality-filtered ESG DD tool that identifies the material ESG issues that can make or break a VC investment by sector and stage of funding, and gives guidance on how to diligence these issues pre-investment.
We are publishing the materiality tool in two formats:

(1) **Printable materiality napkins** that summarise the top ESG issues by sector, available in Part 3 of this white paper.

(2) **A dynamic materiality filtering tool:** we are continuously updating the VentureESG Universe of Issues framework, and will update the framework so that VCs can dynamically filter the ESG issues by sector and stage.

When to use the materiality tool: during DD and other uses cases
The materiality tool is primarily designed to be used by VCs during pre-investment due diligence. The materiality tool can be integrated into different points of the DD process – the feedback we had from interviews is that flexibility is key because some VCs conduct their ESG due diligence processes differently (e.g., separating or integrating ESG DD into other DD workstreams, staging ESG DD, using a standard or tailored ESG questionnaire), and because most VCs use their discretion to decide when and how to raise certain ESG issues anyway.

As a DD tool, the materiality tool is designed to serve the multiple purposes of due diligence that ultimately inform the investment decision: identifying critical ESG opportunities and downside risks, assessing the founders' / management's approach to these ESG issues, evaluating the strength of the company's processes and systems, negotiating investment terms (especially conditions precedent or conditions subsequent), and determining post-investment priorities and support.

The use case is not, however, limited to the DD phase, and the materiality napkins in particular can also be used:
- By investors early on in their investment screening or to inform their conversations with founders;
- Post-investment in ESG workshops with founders and management teams to identify priority actions and build a company-specific materiality assessment.

Sectors: 5 sectors with sub-sector business models
The materiality tool covers five sectors: B2B SaaS, consumer tech, fintech, healthtech, and climate tech.[7] Within each sector, the materiality tool differentiates between 'sector-wide ESG issues' that are relevant to most companies in the sector, and additional ESG issues that are typically only relevant to companies with a specific sub-sector business model type (e.g., B2C, hardware). The particular sub-sector business models vary across the sectors and are calibrated, based on interview feedback, to pick out only those sub-sector business models that have distinctive ESG priorities.

Core: cross-sector ESG issues
The sector-specific ESG issues identify only one part of the materiality picture. Given that interviewees also identified a common 'core' or spine of ESG issues for any start-up (see Interview Themes B above), the materiality tool also identifies the top, cross-sector ESG priorities agreed on by the vast majority of investors.

We are currently conducting another research project on an ESG maturity curve to plot when some ESG issues become material based on key phases and triggers in a company's growth. This research project will dive deeper into some of these cross-sector ESG issues.

Stages: very early, early, and growth
The materiality tool groups ESG issues into three broad funding stages: very early (Pre-seed, Seed), early (Series A, Series B), and growth (Series C, Series D).

Method of prioritisation: sector-specific uniqueness and context
The materiality tool identifies the ESG issues that are, typically, the most financially impactful or business-case relevant ESG issues – i.e. the *most material* ESG issues where there is a business case in terms of value creation (top-line growth, cost management, long-term valuation enhancement), risk mitigation (i.e., managing reputational risks, legal and regulatory risks), or capital-raising (i.e. securing later-

7 The sector definitions and sector boundaries are summarised in the Materiality Tool Outputs section below.

stage investment, and exit-readiness to public markets, trade buyers, or private equity). The priority ESG issues come from the interviews – we selected the ESG issues with a high degree of consensus about their financial importance amongst the VC investors (from stage 3).[8]

The sector-specific ESG issues have a strong business case, based on this materiality criterion, and are deemed sector-specific either because:

(1) they are *unique* to that sector. For example, patient health and safety ESG considerations are unique to the health tech sector; or

(2) they have a *greater importance and a sector-specific context* in that sector compared to other sectors. For example, whilst regulatory compliance is important in multiple sectors, in health tech the regulations are of an even greater importance and cover specific health data and health delivery regulations.

Applying judgement: most, but not all, of the ESG priorities
The materiality tool identifies most, but not all, of the typical, top priority ESG issues, and the typical funding-stage timing at which they become relevant. The materiality tool should be used with the '80/20 rule' in mind – it gives a helpful starting point but is an approximation as each company is unique with its own ESG profile.

8 Generally speaking, if more than two thirds of investors agree an ESG issue is of high financial importance then we treated it as a top priority ESG issue.

The materiality napkins

There are 5 sectoral materiality napkins and 1 cross-sector materiality napkin. The sectoral materiality napkins present the sector-wide ESG issues first, followed by the additional ESG issues that apply to the particular sub-sector business models.

The materiality napkins have five main sections that cover the 'what', 'why', 'when', and 'how' of the priority ESG issues:

- **ESG issue:** a headline of *what* the ESG issue is.
- **Context and business case:** a sector-specific explanation of the ESG issue, and *why* there is a strong business case for the ESG issue based on financial value creation opportunities or downside risk protection.
- **Funding stage:** *when* the ESG issue is typically relevant using the three broad groupings of VC funding stages – very early (Pre-seed, Seed), early (Series A, Series B), and growth (Series C, Series D).
- **Due diligence questions:** targeted questions that VCs can integrate into their DD process, either in a DD questionnaire or in DD conversations.
- **Due diligence guidance:** split into:
  - *Guidance:* tips on how to approach the DD, and triggers for more in-depth DD (e.g., specific business model features, or company responses).
  - *Best practice:* processes that would indicate a company is taking strong advantage of the ESG value creation opportunities or strong protections against the ESG downside risks. Best practice can also be used as a guide to prioritise portfolio management actions so that companies work towards best practice.
  - *Red flags / amber flags:* indicators of high / medium risk levels that could trigger further due diligence, direct engagement with the founders on the ESG issue, negotiating priority actions as conditions precedent or subsequent to an investment, or declining an investment opportunity.

Appendix I. Methodology: Semi-structured interviews

We developed the materiality tool in close collaboration with the VC community so that it meets their needs and reflects their priorities. Over the course of 6 months, we interviewed over 60 VC ESG managers and sector-specialist VC investors for input on the content and design of the tool. We developed the tool in four stages:

Stage 1: Interviews with ESG and sustainability managers at VC firms. We interviewed 24 ESG and sustainability managers within VC firms to understand how they are engaging with materiality, and to understand how to design a VC-specific materiality tool that would be maximally useful to them and their investor teams.

Stage 2: Selection of the sectors for the materiality tool. We surveyed the VentureESG membership to identify the most important sectors to them as a group, and asked the ESG managers (from stage 1) for feedback on which sectors would be most useful to them. Based on this information, we selected the five key sectors to centre the materiality tool on – B2B SaaS, consumer tech, fintech, health tech, and climate tech. (We also included a sixth sector, Proptech, but did not include it in the materiality tool because we did not discover enough of a consensus on top priority Proptech-specific ESG issues, or found that they were climate tech-related.)

Stage 3: Interviews with sector-specialist VC investors to identify the priority ESG issues and DD guidance. We interviewed 37 sector-specialist VC investors about the top ESG priorities in their sector, covering 7-9 investors per sector across all stages from very early to growth. We deliberately spoke directly with investors so as to pick up any sector-specific ESG issues that might not appear on standard ESG issues lists, and to realistically assess just how financially important various ESG issues really are based on their direct investing experience. We asked investors open questions about the top issues, ESG or otherwise, in their sector, and asked them to prioritise a list of ESG issues based on the VentureESG Universe of Issues combined with some SASB prompts. Referring to the resulting ESG priorities, we asked investors about the business case for the ESG issue and how they would diligence the issue, including questions to ask and how to assess company responses for indications of best practice or red/amber flags.

Stage 4: Building and testing the materiality tool with VC ESG managers and investors. We built the materiality tool by selecting the ESG issues prioritised by VC investors (from stage 3), and summarising the business case and due diligence guidance from investor feedback. We circulated a draft materiality tool with some of the interviewees from stages 1 and 3, asking for feedback on the priorities and content, the usefulness of the materiality tool, and any suggestions to improve it. We incorporated this feedback into the final design of the materiality tool.

Appendix II. Interviewees

Adrianna Alterman, Salesforce Ventures
Carolin Althoff, Cusp Capital
Bhrigu Bali, A/O
Tracy Barba, Lucas Institute for Venture Ethics
Meera Bissoondeeal, 13books Capital
Julie Blane, Dawn Capital
Martina Bortot, Atlas Metrics
Marie Bos, HV Capital
Liz Broderick, Kindred Capital
Ashleigh Brown, Atomico
Victoria Burrows, Kompas VC
Reid Carroll, Sustainable Future Ventures
Leo Chandler, Nesta
Jeff Chowdhry, Concept Ventures
George Darrah, Systemiq Capital
Jen Davies, Active Partners
Lauren Densham, Energize
Jimmy Dietz, v3 Ventures
Harriet Dwyer, Airtree Ventures
Mairi-Jane Fox, Arbor Day Carbon
Adrian Fuchs, HTGF
Chloé Gouérec, Apiday
Shanbor Gupta, Clean Energy Ventures
Peter Hirsch, 2150
Sarah Hopley, Crisis Venture Studio
Catriona Hyland, A/O
Victoria Imerelli, JamJar Investments
Angela Jhanji, EQT Investors
Jimmy Jia, Pilabs
Mathew Joseph, Kinnevik
Emma Kjellander, PreSeed Ventures
Elena Klijn, Superseed
Brooke Latham, NATO Innovation Fund
Tom Lesche, SpeedInvest
Dinika Mahtani, Cherry Ventures
Jimena Merino, AENU
Natalie Milde, Future Energy Ventures
Emily Nixon, A/O
Jaspreet Pruthi, Albion VC
Zoe Peden, Ananda Impact Ventures
Anna Pellicer, Abac Capital
Pranav Pillai, Lightrock
Katya Pogudina, Albion VC
Laura Weidman Powers, Base10
Sam Procter, Sapphire Ventures
Tejasvi Ravi, Lightrock
Ferdinand Reynolds, Superseed
Paolo Rigutto, REACH UK
Carina Roth, Calm/Storm Ventures
Marc Sabas, Ship2b
Agnés Salle, Apiday
Steve Schlenker, DN Capital
Anuj Shah, Stax
Anna Skarborg, Northzone
Margarita Skarkou, 2150
Elena Stark, AENU
Jessica Stewart, Systemiq Capital
Paola Tatay, Project A
Bob Thomas, Oxx
Bronagh Ward, Atlas Metrics
D'Arcy Wheelan, Outward VC
Susan Winterberg, independent
Denise Xifara, Mercuri

Plus 3 anonymous interviewees