2021

SUSTAINABILITY IN EUROPEAN VC

A Limited Partner's Views

ISOMER CAPITAL

CONTENTS

GRADUALLY, THEN SUDDENLY
Sustainability Is On Every Investor's Mind

There is a subject that comes up during practically every meeting we have with institutional investors, venture capital managers, and startup company founders. And unlike track record, strategy and team, it was barely mentioned until a year or two ago.

The rise of environmental, social and governance (ESG) has been one of the main stories across the finance world in recent years. It is now common practice for institutional investors to take these elements into account when making investment decisions, and to monitor them across their portfolios. Meanwhile, VC firms, responsible for finding and backing the most innovative firms, have been slow to integrate ESG into their strategy.

But this is changing, and we have observed some great initiatives across our portfolio of 37 VC funds. The industry is an inflection point where these factors are not only becoming part of VCs' checklists but also many firms in Europe are taking proactive steps in their company selection and development to deliver a positive impact on the world. No longer a box-ticking exercise or a simple greenwashing, ESG is becoming a differentiator and performance driver in the market.

Over the past five years we have witnessed a growing interest from entrepreneurs and investors alike in building and backing purpose-driven companies. Evidence suggests this strategy is paying off, at the firm level where stronger ESG leads to better teams and decisions, and at the portfolio level where impactful companies deliver stronger returns than their traditional counterparts.

We built Isomer around a shared vision that technology is shaping the world around us, and can be a powerful force for growth and positive change. We partner with VC investors who share our values of equality, creativity and relentless optimism, as seen today in our portfolios with over 800 companies working to build great businesses and to make the world a better place.

To explore some factors driving VCs' adoption of sustainable practices, we looked at how Isomer's portfolio funds are working to sharpen focus on ESG and impact investing, and in some cases demonstrating leadership in the area. We considered partner firm's sustainable goals and outcomes, and actively monitor key metrics both at the fund and company level.

We believe that limited partners investing in VC funds have an opportunity to show leadership in sustainable investment and can drive the adoption of better firm management and investment practices. And this topic is relevant for investors who may not consider criteria beyond financial returns - sustainability is not a fad nor a distraction for fund managers; it is a core part of entrepreneur, investor and consumer mindsets, and in turn, a key component of companies' success.

We'd like to thank our wonderful portfolio VCs and ecosystem partners for their support and collaboration, not only in putting together this report, but also in helping us develop our own sustainability strategy.

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A BIRD'S EYE VIEW
On A Shifting Mindset

Isomer Capital is an independent investment firm focused on European venture capital. Founded in 2015, we now have investments in over 30 countries and have backed nearly a thousand technology-enabled companies across Europe through VC fund commitments and co-investments. We run a thorough research programme allowing us to monitor over 850 early stage tech VC firms all over Europe, with whom we held 300 meetings in the past year alone. And through our investments, we have direct visibility into 950+ companies where we track key growth metrics each quarter, including ESG and impact.

Whilst we don't pretend to be leaders in sustainability, we've spent a lot of time in the past two years reviewing our portfolio, advising our portfolio funds, and in many cases learning from them on how to make this a core part of our investment programme. This report offers the bird's eye view of an investor noticing a major shift in the market.

UN-MUDDLING THE TERMINOLOGY
What We Mean by ESG, Impact & Sustainability

As we consider the topic of sustainability in VC, it is important to distinguish between different types of investment based on desired outcomes.

At one end of the spectrum is a single focus on impact, driven by a philanthropic aim, where the primary driver is creating societal or environmental value and not returns. At the other end, pure financial investors chase profit and make decisions based primarily on financial return potential. Sustainable investment lies somewhere in between, with varying degrees of impact and profit. This can in turn be split among:

TRADITIONAL IMPACT INVESTING

Impact comes first, and performance second

SUSTAINABLE / IMPACT-MINDED

Focused on having a positive impact on society and/or the environment, but returns are in line with VC returns

RESPONSIBLE INVESTING

Considering ESG factors in investment decisions

For the purposes of this report, we consider mainly sustainable and responsible VCs, as these are the types of firms that fall within Isomer's scope. We see VCs in Europe inhabiting this middle ground more and more. They are motivated by a new generation of founders who are eager to challenge the status quo and start companies that couple profit with purpose. They want investors who are aligned with that vision and will help them make it a reality, which is important for their socially conscious customers. Sustainable investing is not the primary modus operandi for traditional VCs, but we now see most firms considering impact and ESG factors as part of their diligence process.

To clarify confusion in the market around the terms “impact”, “sustainability” “ESG” and “responsible investing” we define these as follows:

Impact and sustainability are often used interchangeably. However, they have both become synonymous with different areas:

The term **impact** is broadly associated with traditional impact investors, for whom the primary goals are non-financial. However, impact simply relates to companies’ positive outcome on the world. But some VCs are reluctant to use the term as it can sit uncomfortably with investors who associate it with weak financial performance.

Sustainability, on the other hand, has become synonymous with climate and environmental impact, though it covers societal considerations too. Whilst it may now seem like it has lost some of its meaning due to its wide use, we like to use it as it encompasses both the ESG matters as the firm level and the impact of investments.

ESG is more of a framework that if followed, leads to responsible investing. All companies can be ESG compliant but may not have a core mission driving to larger societal or environmental impact. It’s a lighter commitment to sustainability than having clear impact goals, but it indicates a desire not to inflict negative effects on society and the environment.

Sustainable investing and a focus on returns are no longer mutually. Isomer remains primarily focused on financial returns; however, though sustainability is an important consideration in our investment process as a framework for risk management and as a foundation for building better firms. There is a growing middle ground between impact investing and traditional, returns-driven investing, and we believe that VCs with this double lens might uncover Europe’s next unicorns.

SUSTAINABLE INVESTING
From The Fringes To A $30 trillion Opportunity

Sustainability within investing is not a new theme, however, the focus on measuring, managing and ESG risks has grown substantially since the 2008 financial crisis. Global ESG-oriented investing strategies have experienced a meteoric rise, with a reported $30 trillion being allocated to sustainable assets in 2018, up 34% in just two years and, according to McKinsey, ten times that amount since 2004. The acceleration of adopting ESG as part of an investment strategy has partly been in response to increasing consumer attention on the impact of large corporations and strengthened conviction around adopting sustainability measures to safeguard the long-term success of companies. It is also possible to see the global financial crisis in 2008 as a catalytic event from a top-down perspective. Increasing blame on financial institutions for causing the crisis, led to multiple government and NGO calls for increased transparency, governance and an alteration in capital allocation strategy. Similarly, we believe the Covid-19 pandemic will lead to an enhanced interest in mission-driven companies solving major challenges (e.g. healthcare, education) and an increased sensitivity from consumers and investors in companies' ethics and responsibility.

From Risk Management To A Key Investment Consideration

In recent years, European institutions have become the leaders of sustainable investment, pushing much harder than their US counterparts for financial products that incorporate ESG. This shift in mindset seen in public markets is rapidly moving to private investments. In the past two years, we've seen European VCs increasingly consider sustainability. What was once a risk-management exercise to avoid investing in unsavoury sectors is now becoming table stakes; many limited partners expect VC fund managers to have a 'meaningful approach to responsible investment'. Indeed, a 2017 study conducted by Schroders noted that of 22,000 investors surveyed, 78% felt that sustainable investing was more important than in 2012 and 65% had already taken active steps to increase sustainable related investments. It is also clearer that this goes beyond a simple 'feel-good factor'; firms that implement ESG strategies can outperform, by upwards of 4.8%. [1]

Sources:
Global Sustainable Investment Review 2018, Global Sustainable Investment Alliance, 2018
Five ways that ESG creates value - McKinsey & Co
Why VCs should care about measuring ESG'- Sifted newsletter, FT, August 2020

78%

Of 22,000 investors believe sustainable investing is more important now vs 2012

65%

Have taken active steps to increase sustainable related investments

Applying ESG to Early Stage VC

It may seem as though ESG is less applicable to early-stage technology companies, especially as previous initiatives have tended to focus on environmental factors. The kinds of companies targeted by VC investors typically don't emit vast amounts of greenhouse gases or conduct environmentally risky operations, though this might become relevant as they scale. However, many of the key social and governance considerations apply. Below are some examples of relevant elements in the context of early stage investment:

Sources:
Global perspectives on sustainable investing 2017, Schroders
The Impact of Corporate Sustainability on Organizational Processes and Performance, Harvard Business School

ENVIRONMENTAL

- Climate change and Co2 emissions
- Energy efficiency
- Waste management

SOCIAL

- Customer satisfaction
- Data protection
- Diversity and inclusion
- Employee engagement
- Community relations
- Labour standards
- Financial inclusion

GOVERNANCE

- Anti-corruption and anti-bribery
- Board composition
- Executive compensation
- Political contributions
- Whistleblower protection

VC funds tend to target category-creating, disruptive companies that they believe can scale. But disruptive companies that have not developed a responsible approach to ESG issues can lose out when regulations eventually catch up. Tech firms are also often at the forefront of emerging ESG concerns. For instance, the ethical use of personal data will likely be a major human rights issue of the 2020s. Similarly, there are concerns that artificial intelligence can inadvertently perpetuate discrimination and unconscious bias. Once operating at scale, it can be difficult for companies to change course, particularly when it comes to relationships with workers and consumers. By incorporating ESG thinking early-on, VC investors can set the foundations for rapid growth and ensure the long-term sustainability of the companies they back. There is a fine balance between allowing early-stage companies room for maneuver and adding value by formalising processes.

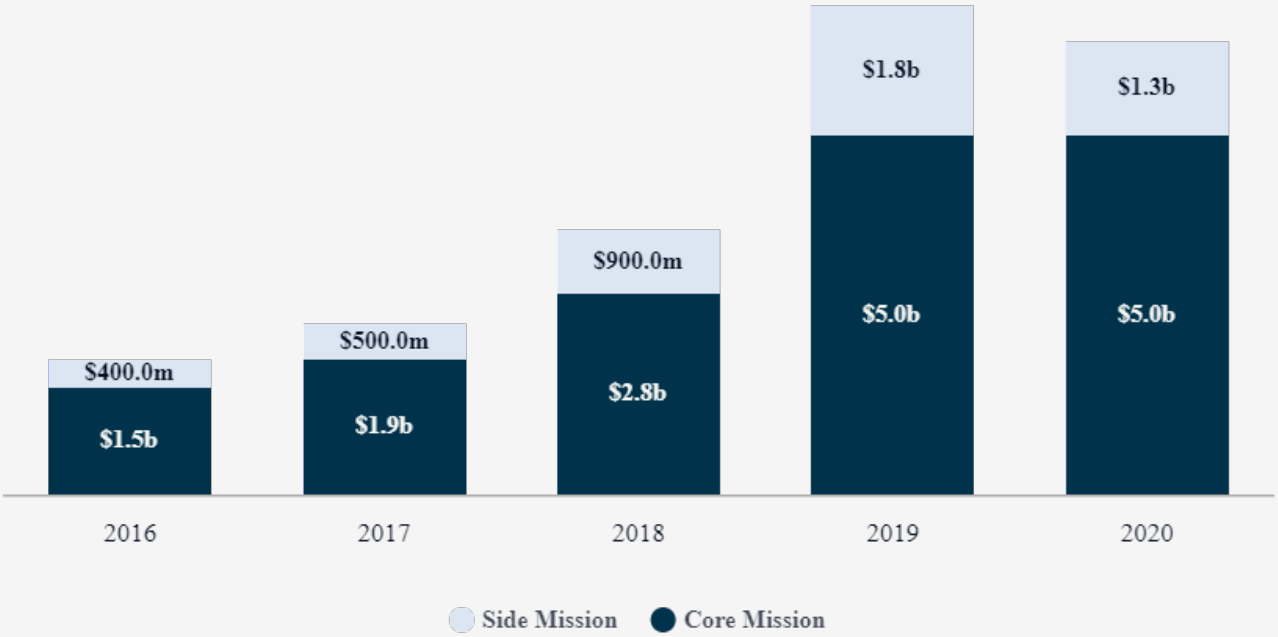
VCs Are On The Hunt for Sustainable Companies

Over the last five years, since the inception of Isomer's first fund, $20bn has been dedicated to funding purpose-driven European companies and this allocation of capital does not show signs of slowing down. Dealroom estimates that the total amount of capital invested into purpose-driven tech companies will equal $6bn by the end of 2020, which equates to 17% of all investments made in Europe during the year.

Sources:
The State of European Tech Report , Atomico, 2020

The move towards more purpose-driven companies can also be seen in the data at the founder level. We would define a purpose-driven company as one which aims to fulfill at least one SDG. Atomico estimates that in 2020, $5bn will be dedicated towards startups with purpose at the core of their mission. This represents a 2.6x rise in the amount of investment dedicated towards companies fulfilling the Sustainable Development Goals since 2016.

$6BN INVESTED INTO PURPOSE DRIVEN COMPANIES



Sustainability drives performance. A Harvard report found that companies with good performance on material sustainability issues outperform companies with poor performance on such metrics. Additionally, research by Morningstar found that ESG funds outperformed non-ESG funds over one, three, five and ten years. Larry Fink, CEO of BlackRock, highlighted exactly this in his 2020 letter to CEOs: “sustainability- and climate-integrated portfolios can provide better risk-adjusted returns to investors”. He added: “a company cannot achieve long-term profits without embracing purpose and considering the needs of a broad range of stakeholders”. Another strong voice in impact investment, Sir Ronald Cohen, co-founder of Apax Partners and widely regarded as the father of British VC, cites Tesla as an example, which is worth more than all other car companies combined.

Sources:
Majority of ESG fund outperform wider market over 10 years, The Financial Times
Corporate Sustainability: First Evidence on Materiality, Harvard Business School Working Paper
Sustainable Investing: Resilience amid Uncertainty, Blackrock

FROM CONSUMERS TO LPs:
Who's driving the sustainability agenda?

> *"VCs are waking up to the fact that impact can be a driver of value – in helping startups better attract and retain customers, employees, and investors over the long term."*

Katie Fulford-Smith

Big Society Capital (London)

Entrepreneurs and Employees are Motivated by Mission

We notice an increasing drive from technology company founders to build businesses around a strong purpose. Our portfolio VCs across Europe relate to us that an analysis of their investments shows that those with a strong, core mission and commitment to society saw a notable increase in the speed and quality of the hiring process. There are several examples of highly sought-after technical talent joining a young startup at a salary below market driven by their desire to work on something meaningful. Data also suggests that retention rates are much higher. Employees' job satisfaction and connection to their work in turn fuels business output, or, as summarised by a recent LinkedIn survey:

> "a mission is a purpose > purpose attracts purpose-orientated workers > purpose-orientated workers are more successful > successful workforce = successful organization"

And the stronger the perception of impact on beneficiaries of their work, the greater the employee's motivation to continue to act for the good of society.

Sources:
2016 Global Report: Purpose At Work, Linkedin

> *"One of the most exciting trends we are seeing in the impact space is that exceptional founders, often repeat entrepreneurs, are setting businesses up with an unparalleled level of ambition because they are driven by truly changing an industry rather than building something purely for commercial benefit. The mission and drive of these founders is enabling them to hire incredible people early in the journey and raise strong early rounds leading to a virtuous ecosystem being created. We believe over time this will generate outlier financial returns as these companies grow into being the enduring companies of the future."*

Camilla Dolan
Eka Ventures (London)

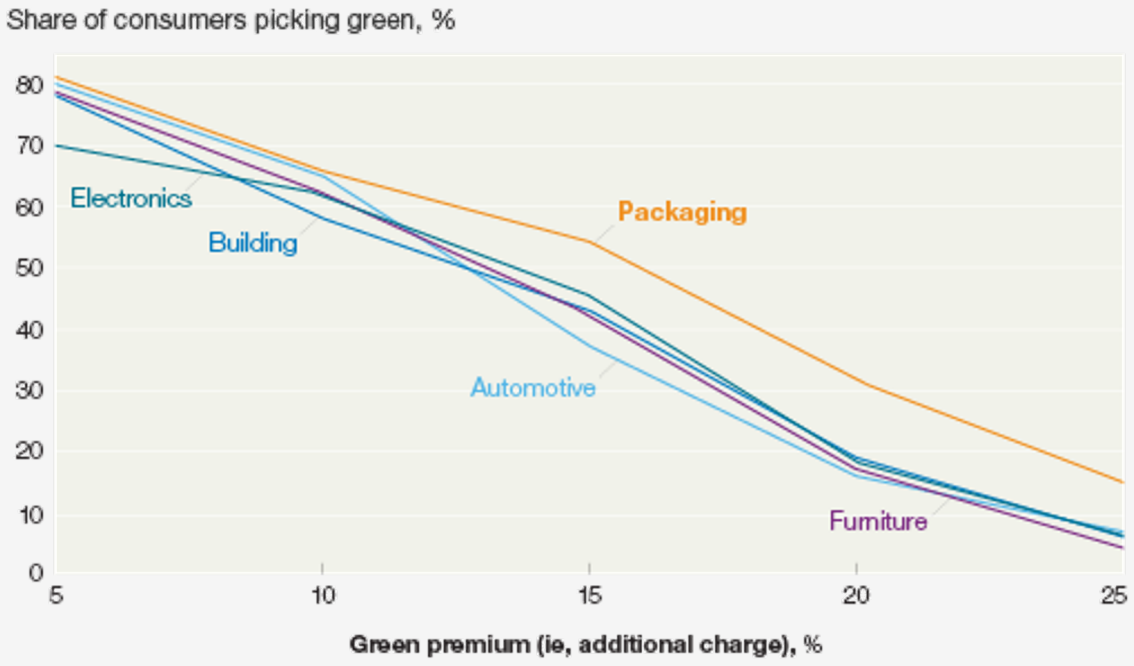
Company Value Is No Longer Limited to Financials

As highlighted in another Blackrock CEO letter, this one from 2018, "To prosper over time, every company must not only deliver financial performance but also show how it makes a positive contribution to society." The firm has since doubled down on the issue, citing sustainability as a top priority. The private markets are ripe for a similar shift; Sir Ronald Cohen believes that the economic paradigm of investing is shifting from risk/return to risk/return/impact. He explores this impact revolution in his excellent book Impact: Reshaping capitalism to drive real change.

Consumers Are Choosing Purpose Driven Companies

From a grassroots perspective, studies show that companies with a strong purpose and sound ESG approach benefit from top-line growth, reduced costs, increased workforce retention, higher productivity and enhanced influence over consumer preference. From a regulatory perspective, complying with global guidelines and goals relating to ESG can help with tapping into new markets and customer groups who are willing to pay a premium to go green and do good. A consumer study by McKinsey revealed that more than 70% of people would pay a premium of 5% to companies that had a green alternative which performed as well as a cheaper, non-green alternative, with packaging being an area of high concern.

Sources:
How Much Will Consumers Pay to Go Green? McKinsey & Co



This push for sustainability from consumers is set to increase with Gen Z customers (those born after 1995). Nielsen reports that 54% of consumers in this age bracket would pay a 10% premium for a product from a sustainable company, with 50% of Millennials agreeing. With Gen Z making up 40% of consumers, companies that do not change or implement ESG practices risk becoming less relevant. This pressure increasingly touches technology companies as this digitally native generation spends more on this sector than any other.

Investors Expect Sustainability Reporting

Government funds, currently contributing 19% of VC funding in Europe, have played an important role in driving ESG adoption, particularly when it comes to reporting. They typically require their investees to regularly report on ESG metrics related to their firms and portfolios. Limited partners with a clear impact mandate are also actively backing VC funds and are helping them integrate sustainability into their business practices. Though traditional private investors lag in this area, we're encouraged by the increasingly frequent conversations we're having with our counterparts in the market about sustainability. The savvier we become in this area, the more we can support VC firms in implementing and executing beneficial sustainability practices.

Sources:
The State Of Consumer Spending: Gen Z Shoppers Demand Sustainable Retail, First Insight
Adam M. Grant, "Does intrinsic motivation fuel the prosocial fire? Motivational synergy in predicting persistence, performance, and productivity," Journal of Applied Psychology, January 2008, Volume 93, Number 1, pp. 48–58, psycnet.apa.org
The State of European Tech Report , Atomico, 2020

Frameworks Are Helping To Shape New Approaches

ESG is a framework for understanding the sustainability and ethics of a company and underpins the assessment of each investment. This approach is typically one of risk management rather than a specific investment focus.

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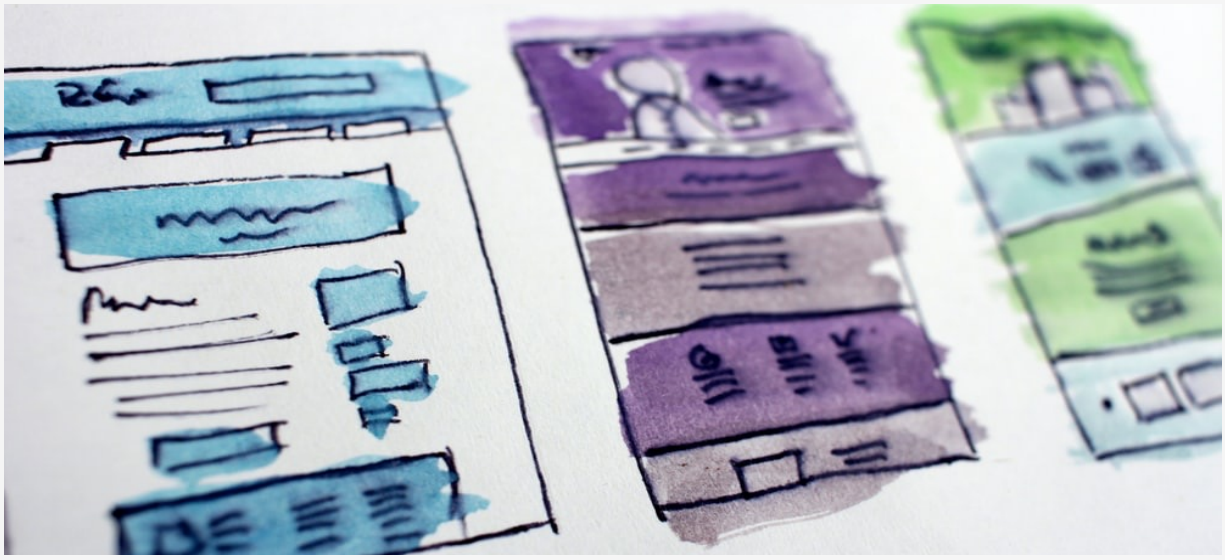
Similarly, the **Principles for Responsible Investing** (PRI) outline six major tenets for responsible investment. By becoming a signatory to the PRI, investment firms commit to respecting these principles and ensure effective monitoring and reporting of their portfolio. As of 2020, there are over 2,700 signatories to the PRI. **Isomer became a member of the organisation in 2019.**

Both ESG monitoring and the PRI align with how companies are operating, rather than what their main operations focus on. Aligning with the "what", and core mission of companies, one of the more common approaches to assessing and measuring impact are the **UN's Sustainable Development Goals (SDGs).** Set out by the UN in 2015, they range from job creation through to protection of the environment and gender parity. This sustainability blueprint is now used by many VCs as part of their investment strategy or as a way of monitoring their portfolio's impact.

A number of more proactive frameworks have been developed to allow companies to measure their impact, such as the Impact Management Project. Instead of becoming additional red tape for businesses, we see examples where running these assessments can create value by identifying new business opportunities. A VC tells us of a recent example where they conducted an impact assessment with one of their portfolio companies which highlighted the effect that their product was having on a historically underserved segment of the market. The findings led the company to launch a new product tailored to the needs of this clientele, which is proving to be very successful.



SUSTAINABLITY IN OUR PORTFOLIO

Isomer's Approach

Our values and investment considerations are inherently aligned with sustainability objectives, though we have only recently begun to formalise our commitment. We have long believed that technology innovation is intrinsically aligned with sustainability, as it aligns with several important goals such as efficiency in assets, systems and processes, as well as education and work opportunities. As we witness a shift in the ecosystem, we believe it's useful to share what we have done to promote sustainability within our firm and portfolio.

ISOMER'S APPROACH

Sustainability Policy

A first start for us was to implement a sustainable investment policy, which we adopted at the time we launched Isomer and update annually. This supplements investment exclusions defined in our fund legal documents and contains principles for operating and investing more sustainably. For example, the policy outlines our commitment to fair treatment of people as well as diversity and inclusion within our team and investment activities.

Sustainability Assessment In Investment Process

Our investment DD process includes a review of target funds and companies' ESG management and sustainability metrics. We are using a simple framework inspired by the PRI and the Impact Management Process to help us assess risks and opportunities. We include these findings in our investment memos for consideration alongside the traditional areas of team, strategy, track record, etc.

One of the metrics we look for is diversity in our VCs teams. **40% of our portfolio funds have at least one female partner, whilst 20% have a partner from an ethnic minority**. Tracking such statistics helps us benchmark ourselves and see improvements over time.

Supporting Portfolio Funds

We engage with prospective and current investments about how they integrate sustainability into their activities as well as their approach to ESG risks and opportunities.

SDG Monitoring

We monitor our underlying portfolio's progress towards the SDGs. Over time this will enable us to identify trends, shifts and assess key metrics such as the performance of SDG-aligned companies vs non-SDG aligned companies.

Reporting

We are working to conduct an annual assessment on a set of sustainability measures within our firm and our portfolio. This information will be shared with our investors and will provide us with a better understanding of where we can improve.

Joining The PRI

We signed the PRI as a further commitment to our desire of being a sustainable investor. The yearly reporting keeps us accountable and helps us to see where we can make improvements both internally and externally.

VC Fund Observations: Our Portfolio & Beyond

We've looked at our portfolio of VC funds to identify how this is integrated, both at the firm level and in investment programmes. We're seeing a range of approaches and frameworks different frameworks and investment thesis surrounding these issues:

96%

Of Isomer portfolio VCs are actively considering ESG issues when making investments

Many note that they had been doing so instinctively for a long time without adopting policies or measuring indicators. However, they are now more consciously building it into their investment processes or more actively raising issues such as diversity of teams with founders.

59%

Of Isomer portfolio VCs have chosen to formalise their commitment to ESG in a policy

Many note that they had been doing so instinctively for a long time without adopting policies or measuring indicators. However, they are now more consciously building it into their investment processes or more actively raising issues such as diversity of teams with founders.

21%

Of Isomer portfolio VCs have a core investment thesis focused on sustainability

Some of our more sustainability-focused portfolio VCs have actively developed their core investment thesis around sustainability or a particular SDG like better education.

Frameworks

The most popular choice is to use the SDGs as a general framework to map impact. Other notable options include the Impact Management Project and the B Impact Project, which can be adapted to the reality of early stage VC.

Term Sheet Requirements

Our more sustainability-focused VCs require specific clauses at term sheet stage to ensure that the company is aligned with their core values in running their business. They report having no push back; companies that are mission-driven have been happy to formally adopt these conditions and, in some cases, have used it to further drive sustainable practices within their business.

Scoring & Reporting

VCs also use frameworks to score companies based on sustainability metrics. This mainly involves setting KPIs, some form of regular reporting and/or target setting.

Signatory to PRI

Two of our VC partners have signed the PRI. Notably, they are both slightly more mature managers, with larger teams and therefore more resources to complete the yearly reporting.

> *"The majority of byFounders' first fund's portfolio companies are focused on improving society and the environment. However, it's been more of an implicit choice from our side, which is why we're now making it explicit in Fund II and have added an investment consideration around "Tomorrow" to our evaluation framework. With our updated impact-awareness strategy, all of our portfolio companies will also report on a handful carefully selected ESG metrics. We believe that the implementation of these metrics needs to be done in three steps: First, **set and measure KPIs**. Then, **report** on them to ensure accountability. Lastly, set clear **targets** - this drives you to continually improve."*

Sara Rywe
byFounders (Copenhagen)

Going The Extra Mile: How VCs Are Being Good Corporate Citizens

In addition to making responsible investments, we note that our portfolio VCs and companies are taking further steps to support sustainability. These activities include:

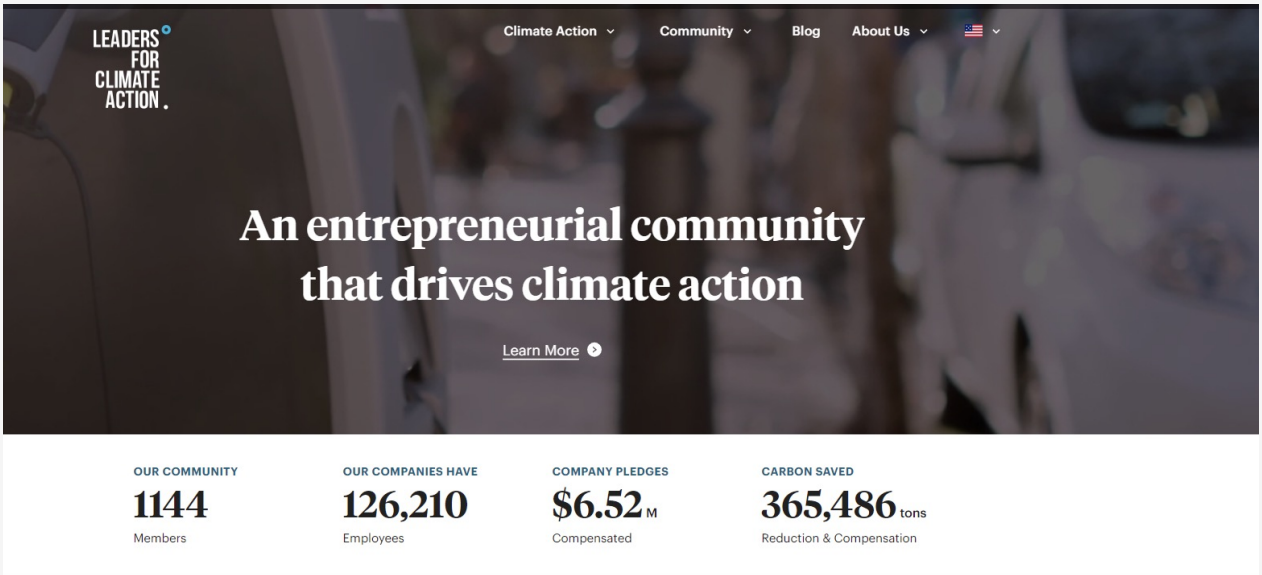
- **Donating carried interest:** Some VCs reserve a portion of their profit for redistribution among their portfolio founders. By doing so, they promote a culture of collaboration and support, and the additional wealth created will lead to further investment into the next generation of entrepreneurs. Other firms allocate some of their profit to a specific charity.

- **Membership of organisations supporting sustainable goals in VC** (e.g. Diversity.vc, Sista): Most of our portfolio funds publicly support initiatives to promote diversity and inclusion in the tech world.

- **Founders' Pledge:** By signing up, company founders make a binding pledge to donate a portion of their personal proceeds on liquidity to a charity of their choice. So far, $3.1billion has been pledged by founders, with $475 million commitments being fulfilled to date by founder exits.

- **Leaders for Climate Action:** Started by a group of founders from the Berlin startup ecosystem, LFCA is a group of more than 1200 founders and VCs. The group encourages leaders to take a 'Green Pledge' and take account of their personal and company environmental impact.

Such actions further cement our belief that the VC and founder mindset is changing, and that ESG factors are becoming increasingly important for the wider tech ecosystem.. .



COMPANY OBSERVATIONS

How does the Isomer portfolio align with the SDGs?

Within our underlying portfolio, we have used the SDGs to track companies' missions and progress towards creating a better and more sustainable future for all. Whilst we do not believe that a company must be working towards an SDG to be sustainable, monitoring against the SDGs can be a useful measure of wider portfolio impact. This kind of tracking allows us to:

- Understand how our investments are working to drive better future for society and the planet and provide reporting to our investors and the PRI
- Identify trends, including which European countries are developing smaller ecosystems and expertise around tackling different problems, and seeing if there are any areas that our portfolio is covering particularly well and those where we should look to improve
- Identify wider ecosystem shifts and VC best practices; for example, which are the most pressing issues that entrepreneurs are tacking now, compared to five years ago?
- Monitor impact as related to performance. Assessing our portfolio over time will allow us to draw evidence-based conclusions on whether, for Isomer, SDG-aligned portfolio companies have under or overperformed in comparison.

Our Methodology for Monitoring Against the SDGs

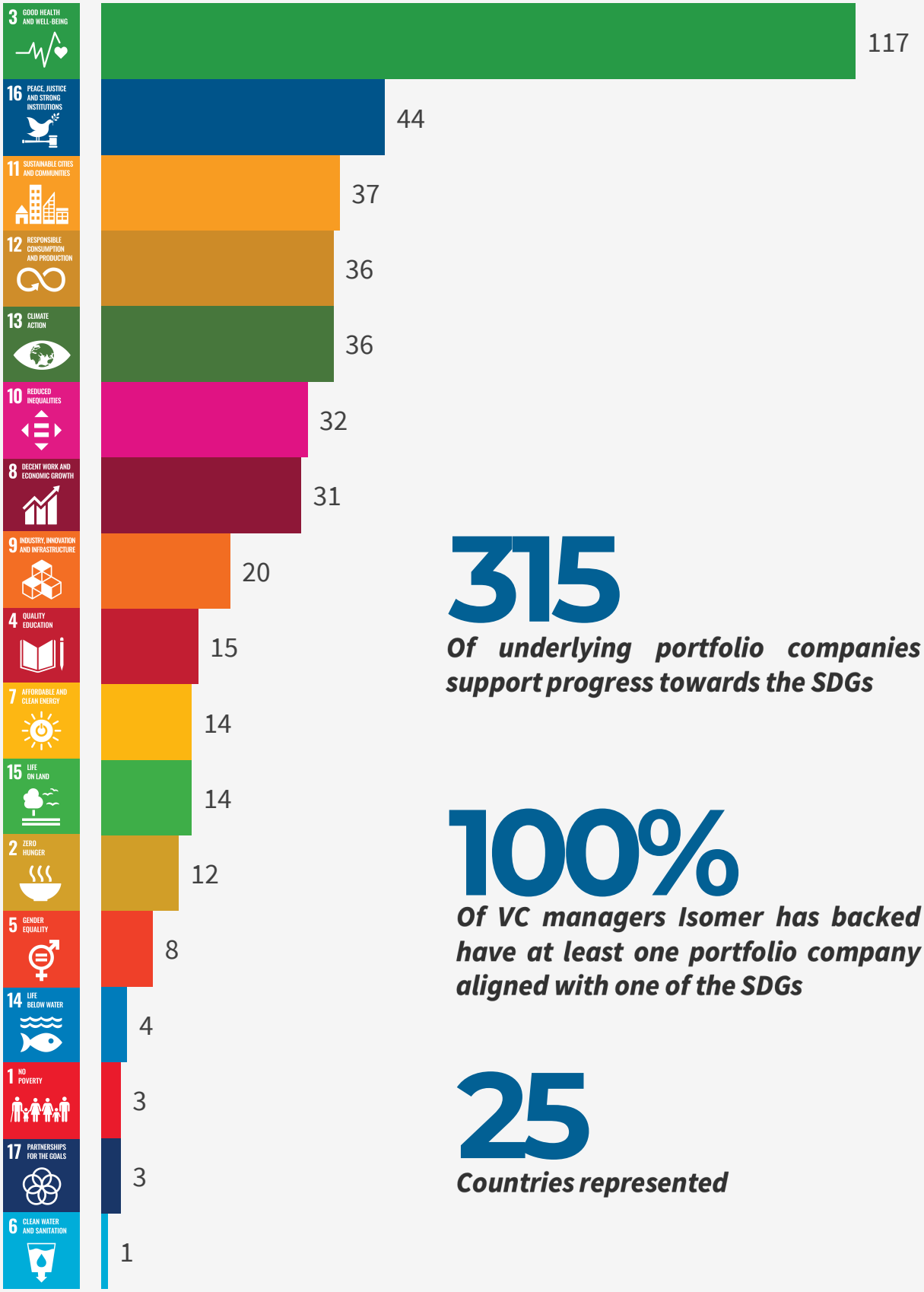
By its very nature, early stage technology investment typically supports **SDG 8: Decent Work and Economic Growth**. But for the purposes of this analysis, we have focused on companies that actively set out to create a solution that supports progress towards a specific SDG.

Portfolio Overview

↑40%

As of Q3 2020, 40% of the companies in Isomer's underlying portfolio were actively working towards an SDG. Looking at the percentage change over time, we see that the number of companies working towards the SDGs has increased from 25% in late 2015.

Alignment of Companies to the SDGs in Isomer's Underling Portfolio



The Most Popular Goals & Example Companies

3 GOOD HEALTH AND WELL-BEING	113	16 PEACE, JUSTICE AND STRONG INSTITUTIONS	44	11 SUSTAINABLE CITIES AND COMMUNITIES	37

SUPER AWESOME	UK	Regtech to keep children safe online	Goal 16.2
COWBOY	Belgium	Connected electric bikes	Goal 11.6
Corti	Denmark	Machine learning for medical diagnostics	Goal 3.8
ambify	UK	Individual environmental health risk tracking	Goal 3.9
ubble	France	Identity validation	Goal 16.5

Tech Tools for Sustainability

As interest in sustainability increases, entrepreneurs are working on tools to help all companies measure and track key metrics. Examples in our underlying portfolio include:

normative	Sweden	Helping companies to measure their climate impact
worldfavor	Sweden	Focusing on helping companies measure their ESG efforts
OAZE.IO	Austria	Helping companies to measure their emissions data
Contreeb	France	Helping companies measure the impact of their products, and produce climate-friendly products going forward

Performance

43.9%	51.7%
Invested Capital	Portfolio NAV

Currently, companies aligned with the SDGs represent 43.9% of our invested capital, yet 51.7% of current portfolio NAV. Although this suggests outperformance, it is early to draw such a conclusion, as the average holding period is just 30 months.

CONCLUSION

A growing number of European VC firms are challenging the historical belief that sustainability is mutually exclusive from returns. Several in our own portfolio have clear strategies that go far beyond standard exclusion clauses and make impact a driver of performance. We believe that this evolution is primarily driven by entrepreneurs' drive to build businesses that are 'values aligned'. The intersecting crises in 2020 of a global pandemic, climate disasters, economic uncertainty and racial injustice, make ESG and impact more relevant than ever; tech companies can play a leading role in making progress towards the SDGs.

Prior to 2015, most of the ESG focus was around the environment. Whilst this remains a significant theme for European firms, much of the increase in SDG-alignment in our underlying portfolio comes from health tech and security. The expansion of health tech companies like accuRx, Babylon Health, Docplanner and Kheiron Medical is indicative of a change towards more readily accessible and immediate healthcare. And their partnerships with national health agencies and insurance companies, show that traditional systems are embracing digital-first startups in order to remain relevant. Europe's leadership in regulation tech also supports welcome innovation in security, compliance and governance.

Though we will need to collect more data to claim that investing in companies aligned with SDGs ensures consistently *superior* returns, we see encouraging early signs that it correlates with a positive effect on performance. By actively monitoring key impact KPIs, we hope to show that sustainable VC not only supports a better world but is also a sound investment.

Isomer Capital is a private investment firm focused exclusively on European Venture Capital. We back technology-enabled entrepreneurs across Europe through primary and secondary investments in venture capital funds and company co-investments.

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