# Balderton Capital TCFD report 2023

## Introduction

Climate change poses both risks and opportunities to Balderton's portfolio, as well as to our own operation and employees. Implementing the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD") enables us to improve our understanding and management of our most material climate-related risks and opportunities, as supported by the UN PRI. Over the course of 2023, we engaged climate specialists to support us with an inaugural entity and portfolio climate risk assessment to inform our alignment with TCFD.

Our focus for the first year was on developing high-level descriptions of qualitative climate impacts, including explanations of our exposure to risks, expected impacts, and management actions to mitigate risks and realise opportunities. We've also added climate risk to the firm's Risk Management Policy.

Our processes and disclosure will evolve over time and we will continue to align with climate-related financial disclosure recommendations over the course of 2024 and beyond, whether it be through the TCFD, or the International Financial Reporting Standards S2.

## Governance

**Board oversight**
Balderton's Board of Partners recognises climate change as a material business risk, and climate risk is integrated into our existing risk management process, with the Board of Partners holding ultimate responsibility and oversight.

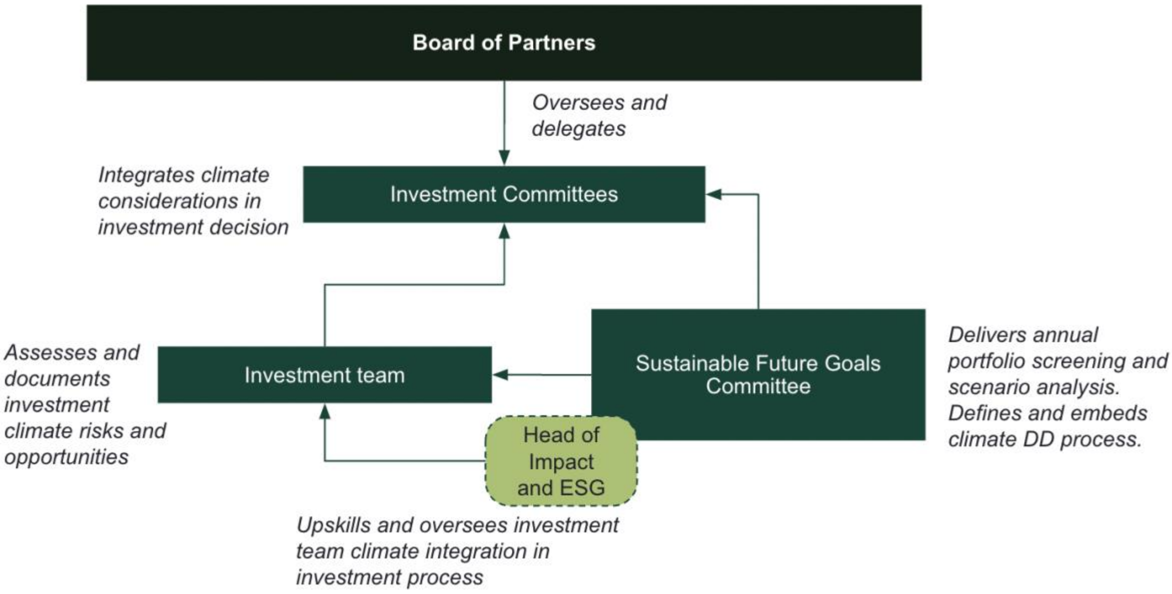
**Management oversight**
Balderton's Sustainable Future Goals (SFG) Committee is accountable for the design and implementation of the firm's climate strategy. It meets quarterly and comprises members of the Balderton team from across the firm's functions:

- Managing Partner
- Operating Partner
- Head of Impact and ESG
- Chief of Staff
- Investment Team Partner
- Investment Team Principal

The SFG Committee acts as a single forum responsible for advancing the firm's ESG strategy, including our climate strategy. It leads the work on the definition and regular assessment of climate risk and opportunities at a firm and portfolio level, and is actively involved in the integration and management of these risks and opportunities in our investment decisions, in our portfolio, and for the firm. Climate-related risks could arise from external policy and market factors or meteorological events. They could also stem from actions and issues internal to portfolio companies. For that reason, we have multiple concurrent reporting mechanisms, as described below:

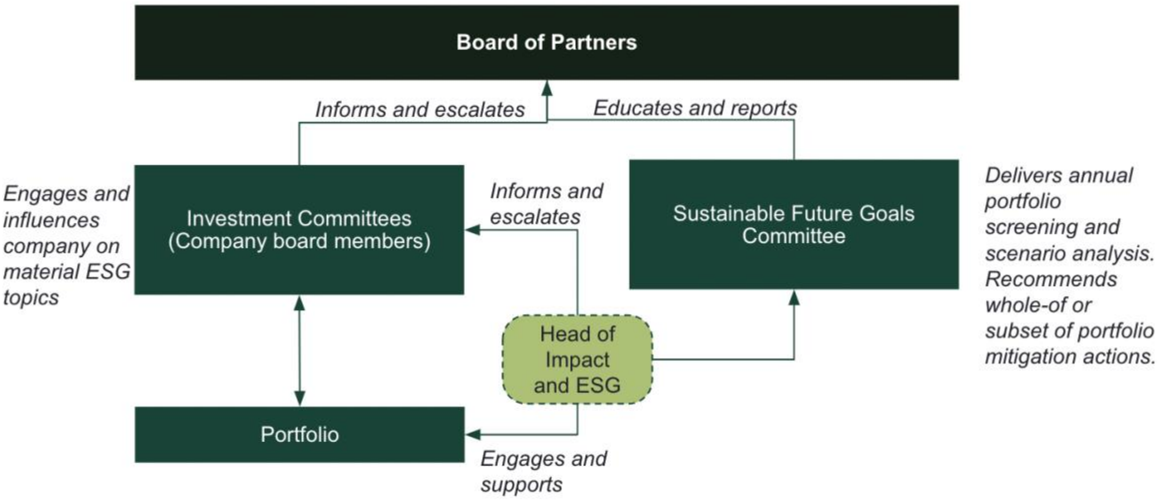
**Climate-related investment risk and opportunity proactive management**

Balderton’s identification of climate-related investment risks and opportunities is led by the Investment Team, with the support and strategic direction of the SFG Committee and our Head of Impact and ESG. The Board has delegated oversight of climate-risk and opportunity integration in investment decision-making to the Investment Committees. Our organisational understanding of climate risks is informed by an annual portfolio screening exercise of material climate transition and physical risks, led by the SFG Committee. Our house view of climate-related opportunities is shaped by the ongoing work of the Investment Team to refine our investment theses through sector deep-dives and other analyses.




**Climate-related portfolio risk and opportunity proactive and reactive management**

The management of climate-related risks and opportunities in our active portfolio is led by Investment Partners, in their individual capacity as Board Director for a subset of companies in the portfolio. Our Head of Impact and ESG, through their direct engagement with some of the companies of the portfolio on various climate and sustainability topics, is also in a position of responsibility to identify potential risks in need of escalation. All this engagement activity is guided by the SFG Committee’s ongoing work around climate and other ESG risk anticipation and proactive mitigation.




**Climate-related firm risk and opportunity proactive and reactive management**

Balderton's exposure to climate-related risks at a firm level is integrated into the firm's Risk Management Policy, which provides a framework to identify, report and escalate operational risk incidents based on a risk impact rating. Oversight and governance is provided by the quarterly Compliance and Risk Committee, reporting to the Operations Committee and to the Partnership.

The Operations Committee is responsible for (i) monitoring firmwide operational risk changes in line with strategic direction and major change projects; and (ii) providing review and challenge of the firm's operational risk profile and operational resiliency.
The Compliance and Risk Committee will monitor and provide oversight over operational risk matters by: (i) monitoring operational risk indicators via monitoring of key risk indicators (KRIs); and (ii) providing review and challenge of operational risk incidents.

On at least an annual basis, the Partnership receives formal reporting on the operation of the risk management framework which includes reporting of climate and ESG risk. A high impact event (as defined by the Risk Management Policy) will be escalated according to the governance framework within the Policy.

## Strategy

Urgent Climate Action is the first of the ten Sustainable Future Goals (SFGs) we launched in 2020 to make a strong public statement on our attitudes towards climate change and sustainability as a European venture capital firm. The goal acknowledges the significant risk posed by climate change to our current and future investments, alongside the value creation opportunity of tackling the climate crisis, transitioning to a low-carbon economy, and adapting to a worsening climate.

While realising climate-related opportunities organically emerged from our sector-agnostic investment strategy, we recognised that we needed to take more deliberate action to fully and formally identify climate-related risks as they related to us and our portfolio.

<u>Climate screening</u>
Balderton has undertaken an initial portfolio-wide climate screening materiality exercise, using external climate consultants to establish a heatmap of the climate risks and opportunities that matter most for each of the 28 sectors represented in the portfolio. We used external climate expertise to establish and validate the screening outcomes which allowed for a deeper, more quantitative, scenario analysis focussing on financial impacts across the portfolio.

<u>Scenario Analysis</u>
We understand the importance of scenario analysis to test the resilience of our investment strategy to possible future climate change outcomes. Because climate change inherently requires both short- and long-term thinking, we analysed the financial impacts of each risk impacting each sector in the short-term (2030), the medium-term (2040), and the long-term (2050), under 1.5, <2 and 3-degree climate scenarios.

<u>Risks</u>
Transition risks related to market, reputation and policy & legal are the most material climate-related risks for the Balderton portfolio. On the latter, all our companies are to some degree exposed to transition risks stemming from increased pricing of greenhouse gas (GHG) emissions, fossil fuel price increases, and increased GHG emissions reporting obligations. Carbon pricing mechanisms and more rigorous regulations related to GHG emissions reporting could have implications for our companies' costs, their ability to operate and our return on investment. Increasing awareness about climate change will continue to impact customer preferences, leading to increased demand for products and services with a low climate impact. The risk of not being able to meet these demands by making the transition to a zero-carbon economy could have an impact on our companies' competitiveness.

<u>Opportunities</u>
Meanwhile, we see several opportunities related to climate change, particularly as our strategy is to invest in technology-enabled and innovative businesses. The main opportunity is around changing consumer preferences and the development of products and services with a low or positive climate impact. Compared to more analogue business models, our companies are in a good position to accelerate the pace of transformation to meet the growing demands of their increasingly climate-conscious customer base. Increasing regulation around carbon measurement and disclosures is also creating new markets for data platforms, which we are also well positioned to tap into.

## Risk Management

The findings from our inaugural climate screening exercise have helped us strengthen how we identify and assess climate-related risks in the pre-investment phase, and how we manage climate-related risks with individual companies post-investment.

### PRE-INVESTMENT

At the early founder engagement and in-depth company research phase, new investment opportunities are screened for climate-related risks and opportunities, alongside other ESG considerations (see “sourcing” in our Sustainable Investing Policy). Where material risks are identified, more detailed and focused due diligence is completed using our climate due diligence tool before an investment decision is made.

This first phase of climate analysis is led by the Investment Team, supported by guidance from our Head of Impact and ESG. This year, in order to strengthen our risk identification approach, we invested in the development of a dedicated due diligence tool for climate risk with the support of a third-party provider.

### DECISION MAKING

All pre-investment analysis is documented in the SFG section of Investment Memorandums. The Investment Committee will consider climate-related risks and/or opportunities alongside commercial factors, ensuring that no investment conflicts with SFG1 Urgent Climate Action nor exposing ourselves to disproportionate climate-related financial risk.

Given we typically invest at early-stage in businesses with a relatively low carbon footprint, we believe that we can engage and support most businesses to develop a robust climate action plan, to ensure the companies do not grow into unabated climate risk exposure.

### POST-INVESTMENT

The ESG clause in our term sheet requires portfolio companies to establish an ESG Policy within twelve months of closing, of which we expect to see an outline of carbon management efforts.

We continue to promote climate action during our ownership of the company through:

- ESG Platform Services (advice and access to resources);
- Portfolio Sustainability Community (peer learning and knowledge sharing platform);
- Using our board seats and interactions with founders and management teams to influence and promote progress on climate mitigation and adaptation.

Our annual SFG survey provides us with ongoing monitoring of existing investments, including matters of GHG inventories, and Paris-aligned GHG reductions. These insights help us support our companies manage their

| | |
|---|---|
| | climate-related risks and opportunities. |

## Metrics and Targets

Work is in progress to more specifically define and quantify how climate change potentially impacts our fund performance. What is clear, however, is that our funds have more exposure to transition risks than physical risks. Managing and reducing the carbon footprint of our portfolio is therefore the most effective mitigating action we can take as a whole. This is why we are focusing on building strong portfolio GHG emissions monitoring practices through an annual portfolio SFG survey and GHG inventory campaign.

**Portfolio SFG survey**
Under SFG1, Urgent Climate Action, climate change has always been a core part of our annual ESG monitoring. Since 2021, we have been tracking and reporting on % portfolio:

- Measuring GHG emissions
- Actively reducing GHG emissions
- Using carbon credits

**Portfolio company GHG inventory campaign**
In 2022, we also partnered with carbon management platform Sweep to offer all of our portfolio the opportunity to calculate their GHG inventory across scope 1, 2 and select scope 3 categories.

Informed by our portfolio climate risk screening and company GHG emissions data, we have identified a subset of companies who account for the most material climate risks and will be working with them to develop science-aligned reduction targets, and where applicable adaptation plans, over the coming years.

We will continue to report against the TCFD recommendations annually and build on the extent of our analysis and disclosures.