



Cleantech Forum **Europe** | Stockholm

# Approaches to Assess and Measure Impact



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SET Ventures



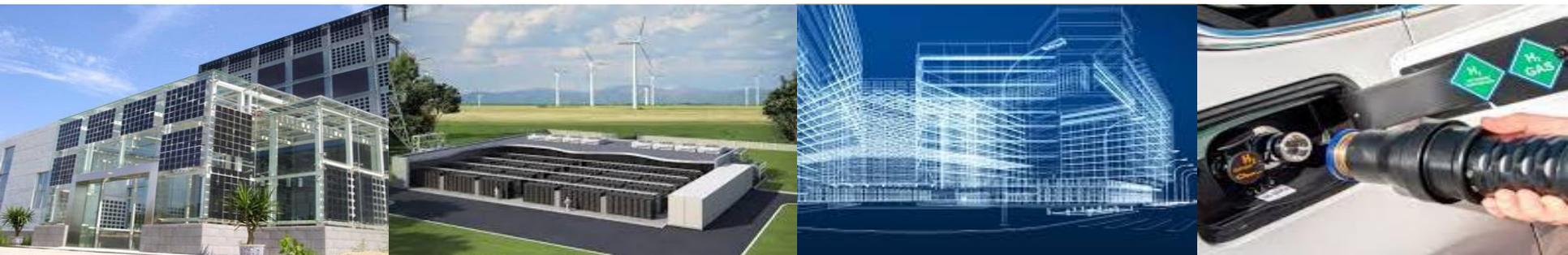
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TiLT Capital



2019 Cleantech Forum Europe

Nicolas Piau

22 May 2019

### Our vision:

- Environmental responsibility is consubstantial to energy transition
- The granularity of investments entails a multiplication of players with a wide range of social standards
- The notion of « transition » implies significant social and cultural disruptions, requiring a long term perspective

#### Environment

Managing environmental **externalities** to preserve license to operate and anticipate regulations

**Climate change** is a game changer in energy investments

**Land contamination** focuses attention because of impact on human health and remediation costs

Sustainability of **supply chain** for energy intensive industries and for buildings

#### Social, Ethics and Governance

**Diversity in the workplace** is a clear signal to a company's insertion in its local environment

A fair split of value creation amongst stakeholders helps tackle rising **inequalities**

**Transparency of decision making** fosters **stakeholders engagement**

Continuous **employee development and training** is essential to transitioning industry

Climate Change is a Sustainability issue  
How the investment sector will tackle the “S” in ESG is critical

# ‘Yellow vests’ spark EU debate about just transition to clean energy

By Frédéric Simon | EURACTIV.com

📅 27 nov. 2018



# ESG and value creation

The focus on correlation fails to see the bigger picture

## HR practices & firm performance

Core HR practices (recruitment, training, development, compensation, etc.)

Strong Correlation<sup>1</sup> (0.55 R<sup>2</sup>)<sup>2</sup> with

**Organizational Commitment** = desire to see company succeed<sup>3</sup>

- Belief in & acceptance of goals & values
- Willingness to exert efforts (motivation)
- Unwillingness to withdraw from target (continuance)

Strong Correlation (0.42 R<sup>2</sup>)<sup>4</sup> with

**Increased productivity**

## Safety & firm performance

Occupational safety policies & safety management systems

Strong Correlation<sup>5</sup> (0.55 R<sup>2</sup>)<sup>6</sup> with

### Competitiveness

- Image & reputation
- Productivity
- Capacity to innovate

**Supplemented by empirical studies on links with financial performance<sup>7</sup> :**

- **17% increase in productivity**
- **9% drop in absenteeism & turnover**
- **Impact on insurance and claim costs**

Notes 1, 2, 3, 4, 5, 6 and 7: sources available upon request



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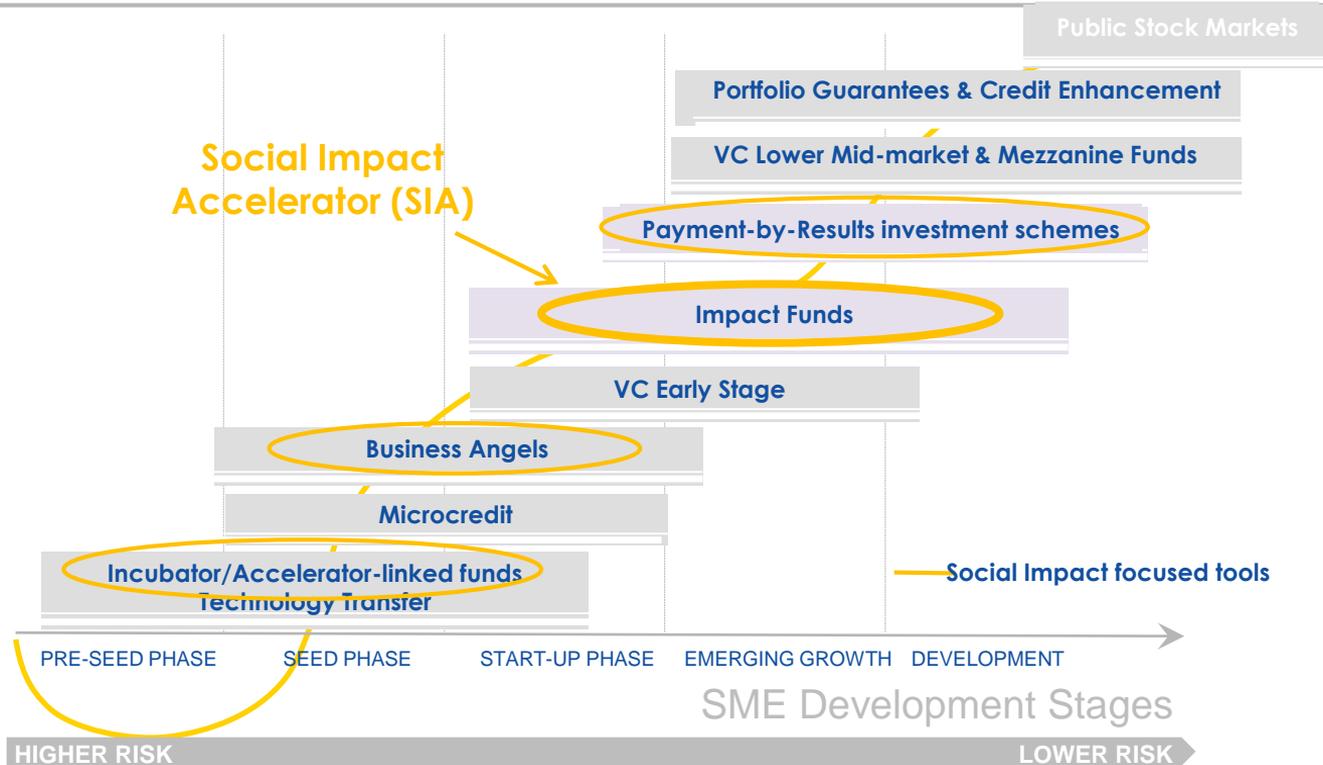
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*EIF Impact strategy &  
Impact Measurement*

*Cleantech Forum Europe  
May, 22<sup>nd</sup> 2019*

# Supporting Impact companies Across the Value Chain



# EIF approach

- A deliberate pragmatic definition of “impact”, different from ESG-focused funds, or CSR investing
  - **Intentionality**
  - **Scalability**
  - **Positive correlation** between impact and financial performance

# Impact metrics: implementation and reporting

## Input GP:

- Define at least 1 and up to 5 impact indicators per portfolio company
- 1 unique quantifiable target per indicator
- Define a weighting for each indicator, representing the importance of each impact achieved by the business model

## Role of the

## Advisory Committee (or equivalent Investors' Committee)

- Approves indicators
- Approves targets
- Votes upon request of the GP on:
  - ✓ Removing indicator
  - ✓ Adding indicator
  - ✓ Modification of an indicator
  - ✓ Modification of a target

## Reporting

- Annual reporting
- Consolidation of impact multiples at
  - (i) company level and
  - (ii) portfolio level

# Portfolio Impact Multiple and Carry distribution

- First and foremost, this mechanism becomes relevant only when the fund is in the financial carry.

Portfolio social impact multiple below 0.6	Portfolio social impact multiple between 0.6 and 0.8	Portfolio social impact multiple higher than 0.8
<p>No carry is distributed to the predefined carry recipients.</p> <p>Carry is donated to a third party foundation/NGO/social enterprise proposed by the team and approved by the Investors' Committee</p>	<p>Between 50% and 100% of the carry is distributed to the predefined carry recipients.</p> <p>The non-distributed part is donated to a third party foundation/NGO/social enterprise proposed by the GP and approved by the Advisory Committee</p>	<p>100% of the carry is distributed to the predefined carry recipients</p>



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# SET'S IMPACT AND ESG INTEGRATION AND REPORTING

**We invest in European early growth-stage companies  
that impact the future of the global energy system**

**We are the only European financial VC purely focused  
on the Energy System Transition**

# IN SHORT

**ESG** – how to build a good and successful company,  
Internally focused

**Impact** – How to measure the external impact that a  
company has, we look at Direct Impact only

# ESG PRINCIPALS

- SET has long been a leader in ESG in the Venture Capital Community and actively promotes good ESG practice in the industry. We aim to continue to be best in class in ESG performance and implementation.
- We expect all companies we finance to:



Impact the energy transition



Provide substantive, positive, measurable impact on the environment



Compliance with all laws and conventions



Provide a positive working environment



Constantly report and improve on their own ESG in a transparent manner



Engage with customers and suppliers to improve their own ESG systems



Apply high ethical standards

**We apply these principals to the way we operate and include this as part of our investment process**

# WHY IMPLEMENT STRONG ESG POLICIES?

We believe that **ESG excellence** is key to **building successful companies** that can scale, create value and good economic returns to our investors.

Companies that focus on ESG performance are **actively managing** their **internal risks**.

# PRACTICAL IMPLEMENTATION AT COMPANIES

**We believe a pragmatic approach to ESG implementation at companies**



Talk with management teams – conversations change from “Why should I do this?” to “We should do this to help our business grow.”



Highlight the key issue areas and work on them – before bringing up more



Integrate into the company process, identify – assess – improve



Make things easy for the company – make your required reporting easy

# IMPACT

We look at the direct impact that our portfolio companies have - primarily on the benefits to their customers

Our investment focus means that every portfolio company has an impact on the Energy System Transition



**SUSTAINABLE DEVELOPMENT GOALS**



In practice this means measurable impacts on Energy and CO<sub>2</sub> Emissions

# IMPACT TARGETS & REPORTING

## We believe in a practical approach to impact reporting



We define 1-5 non financial KPIs with the company to derive the impact performance of the company



We create reasonable targets, calculated using the KPIs, during the investment process.



We report and review the progress annually of each company and the total fund performance

**Any impact metric requiring more than 4 calculation steps is not a sensible metric to use**

# WHY IS THIS IMPORTANT TO SET?

**We believe in the need to change the way we create value for future generations**



Next to financial performance targets we define **impact targets** per individual investment and **link our remuneration** to this performance



This is done in such a way as to not change the financial distribution to the LPs – which is purely based on the fund financial performance and hurdle

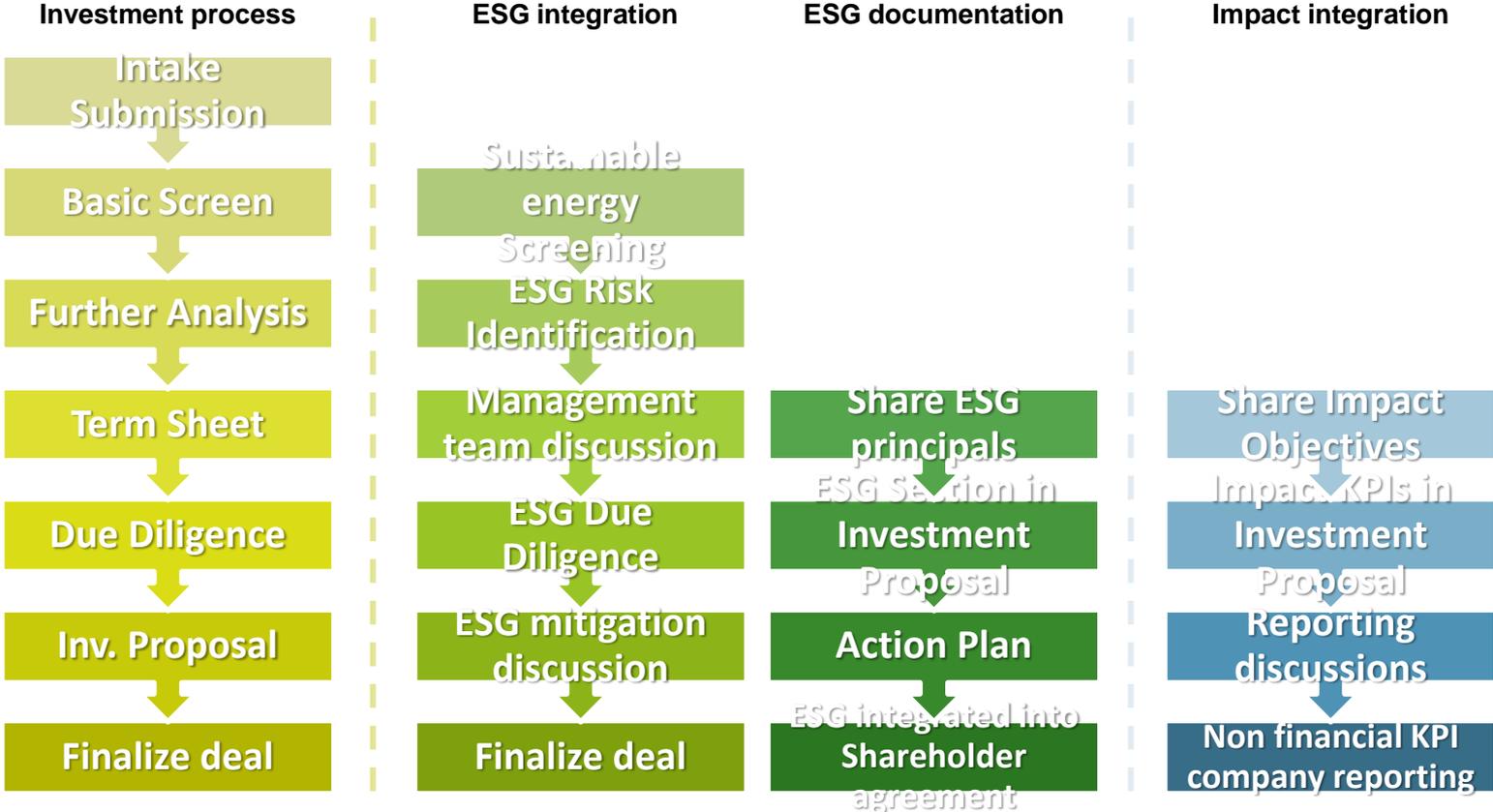


50% of the fund manager's carry is linked to the impact performance of the portfolio



Any carry amount that will not go to the fund manager because environmental impact return has been missed, will be donated to a cause selected by fund manager and accepted by the LPs

# INTEGRATION IN TO INVESTMENT PROCESS



# FOR FURTHER INFORMATION:



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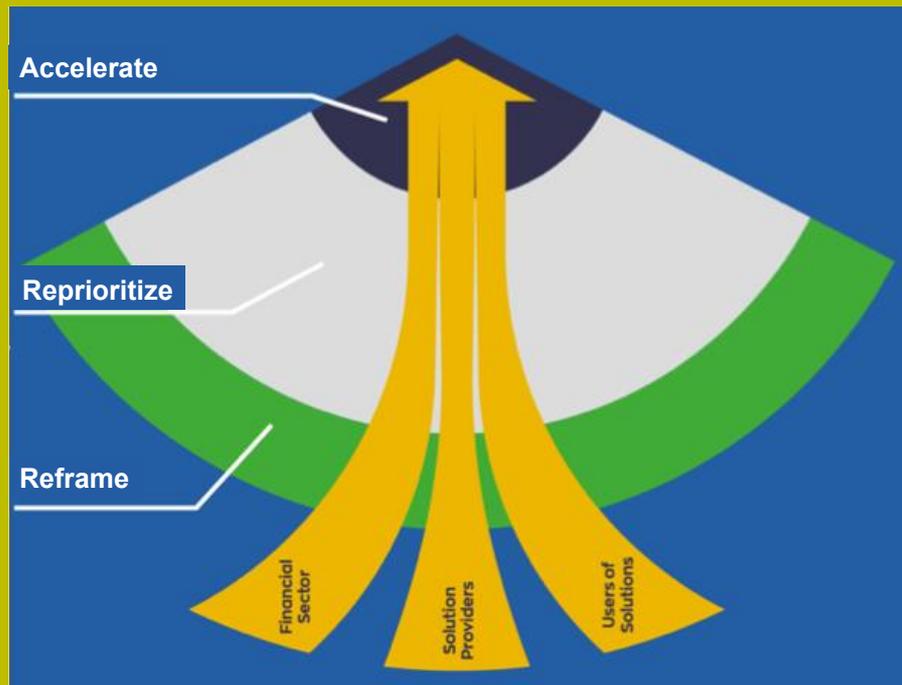
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# Mission Innovation and the 1.5 °C Compatible Solution Framework

## Approaches to Assess and Measure Impact

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Dennis Pamlin, Lead, Mission Innovation, 1.5 °C Compatible Solution Framework





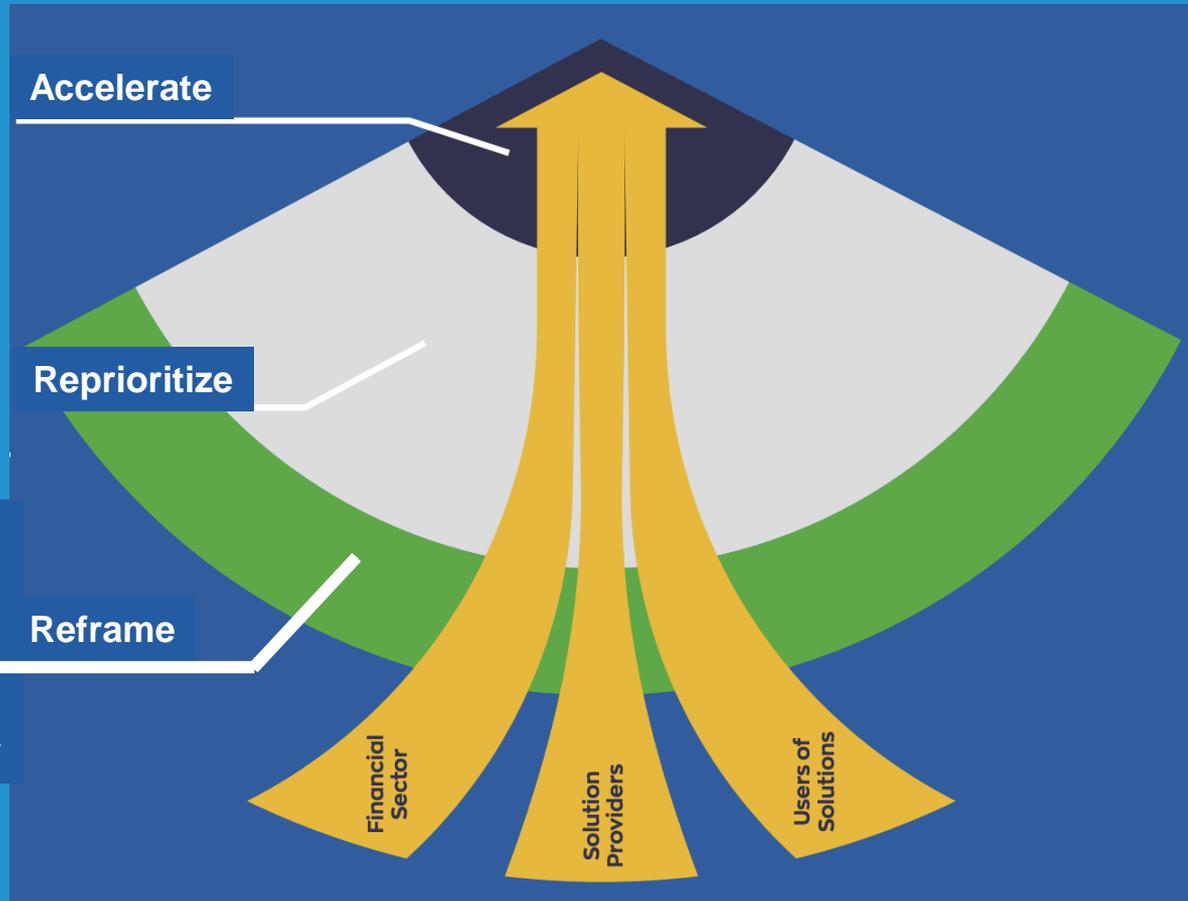
# Framework for Assessing Avoided Emissions

The Framework is supporting an accelerated uptake of disruptive solutions by supporting increased transparency regarding actual and potential greenhouse gas reductions, making it easier to identify, support and invest in the next generation of solution providers.

[Find out more](#)



# 1. Three-steps towards a solution/innovation agenda



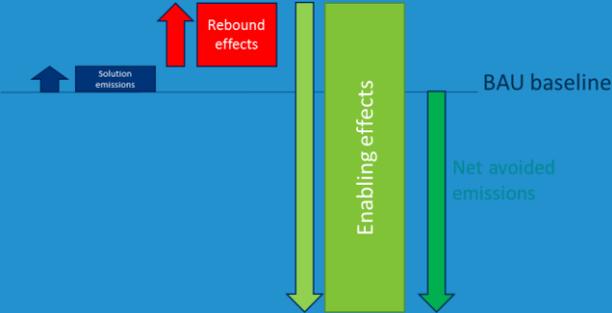
From only:

1. Risk
2. Divestment

To also:

1. Opportunity
2. Impact in society

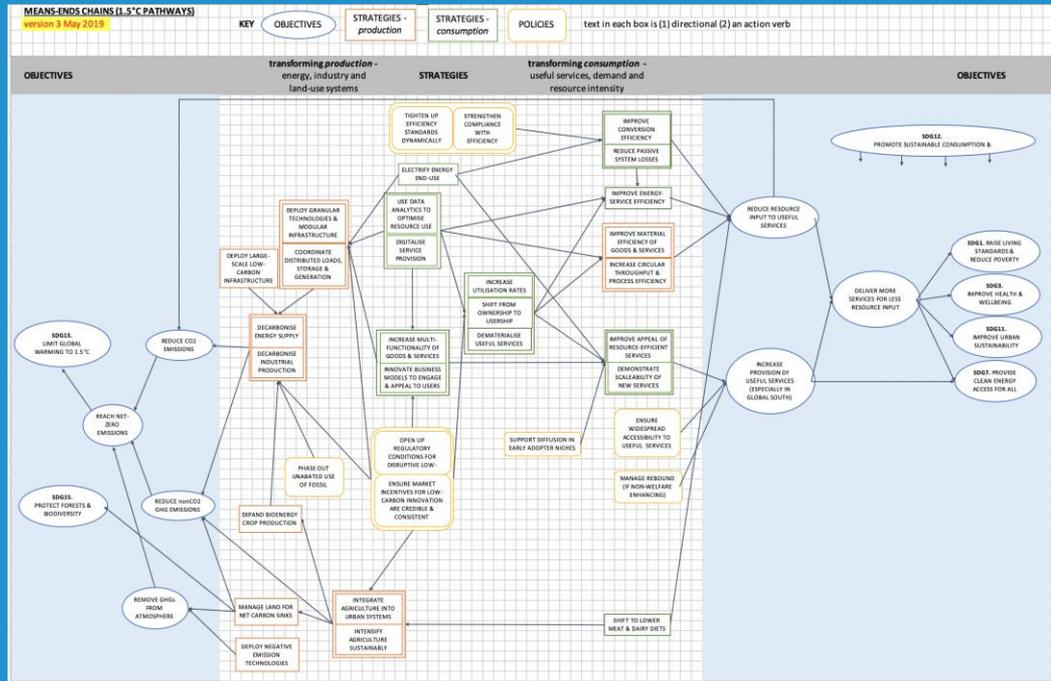
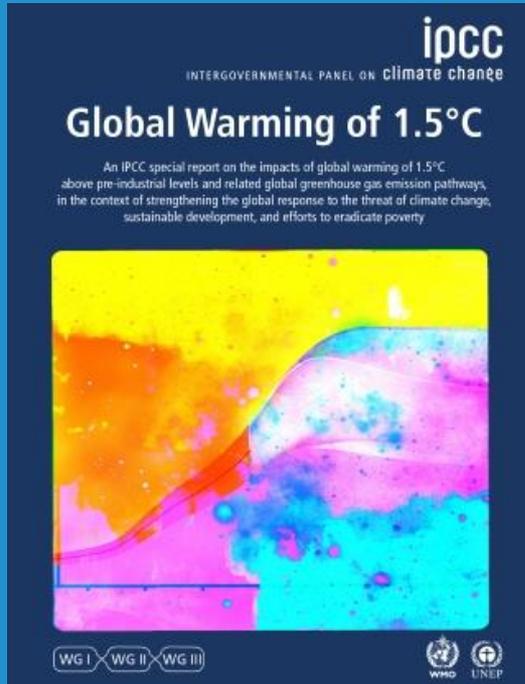
# 2. Quantify Avoided Emissions



$$\sum \left( \begin{array}{c} \text{Volumes} \\ \text{Sum of solutions} \end{array} \times \begin{array}{c} \text{Carbon Abatement Factor} \\ \text{Case study or modelling} \end{array} \right) = \begin{array}{c} \text{Total Carbon Abatement} \end{array}$$

$$\sum \left( \begin{array}{c} \text{Probability of success} \\ \text{Probability of adoption} \end{array} \times \begin{array}{c} \text{Volumes} \\ \text{Carbon Abatement Factor} \end{array} \right) = \begin{array}{c} \text{Total Carbon Abatement} \pm I \end{array}$$

# 3. IPCC based 1.5 C Compatibility Mapping







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