Venture Climate Alliance

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Portfolio Alignment Framework

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Overview

Introduction

The Venture Climate Alliance (VCA) is a venture capital specific-initiative providing GPs with voluntary, practitioner-developed tools, resources, and support to capitalize on opportunities and manage risks inherent in the climate transition. The VCA's primary focus is to support member GPs and portfolio companies in embedding climate aligned practices from day one. The Portfolio Alignment Framework is the VCA's inaugural release covering net zero for the venture industry.

Steering committee

- Capricorn Investment Group
- Coatue
- DCVC
- Energy Impact Partners
- Galvanize Climate Solutions
- Prelude Ventures
- Tiger Global
- USV
- 2150

Methodology working group

- Coatue
- Clean Energy Ventures
- Congruent Ventures
- DCVC
- Energy Impact Partners
- Fifth Wall
- Galvanize Climate Solutions
- Prelude Ventures
- S2G
- VoLo Earth Ventures
- WorldFund
- 2150

Our commitment

VC plays an outsized role in shaping and accelerating the pathways to net zero emissions across industries, sectors, and geographies. The VCA is made up of leading VCs committed to achieving a rapid, global transition to net zero or negative greenhouse gas emissions by 2050 or earlier. Our mission is to be the leading voice for the VC industry on climate-aligned value creation.

01	**Lead**	**We will measure and reduce our operational emissions (excluding financed) and neutralize residual emissions by 2030 or sooner**
02	**Recruit**	**We will encourage our portfolio companies to set their own net zero by 2050 targets**
03	**Assist**	**We will help our portfolio companies decarbonize**
04	**Track**	**We will share progress on our goals**

Process

The VCA Portfolio Alignment Framework & Annual Disclosures were developed over a 9+ month process of extensive research, industry collaboration, and a public consultation led by the VCA Methodology Working Group (MWG) and approved by the VCA Steering Committee. The approach incorporates concepts from various net zero frameworks and target setting methodologies.

Consulted frameworks

- SCIENCE BASED TARGETS
- NET ZERO INVESTMENT FRAMEWORK 1.5°C
- PMDR Private Markets Decarbonisation Roadmap
- PRI Principles for Responsible Investment
- Draft 2025 Target Setting Protocol, U.N.-CONVENED NET-ZERO ASSET OWNER ALLIANCE, MONITORING REPORTING AND VERIFICATION TRACK

Industry feedback

With support from experts at Driftwood Climate and Great Circle Capital Advisors, the VCA solicited feedback from 50+ industry leaders including climate-focused and generalist VC firms with a wide variety of perspectives, a range of limited partners (LPs), net zero, climate finance and impact-oriented organizations, and other stakeholders.

On ‘Finance Day’ at the COP28 Dubai Summit in 2023, the VCA announced a 60-day public consultation period for stakeholders to provide feedback on the draft framework.

Rationale

Bandwidth and resource constrained early stage teams need a fit-for-purpose approach to net zero that prioritizes forward-looking growth as opposed to retroactive ‘transition planning’ designed for legacy industry. The VCA was founded to create climate-aligned resources by venture for venture portfolios, beginning by addressing a major gap in the existing net zero framework landscape for asset managers and investors operating in private markets.

	VCA	NET ZERO INVESTMENT FRAMEWORK 1.5°C	SCIENCE BASED TARGETS	PMDR Private Markets Decarbonisation Roadmap
Purpose	Target setting framework	Target setting framework	Externally validated science-based targets	Disclosure framework
Target asset class	Venture capital	Private equity	Private equity	Private markets
VC application	✓		✓	✓
Early-stage focus	✓			

How to use this document

The Portfolio Alignment Framework is the first net zero framework created by and for the VC industry. This framework allows VC firms to set targets and consistently report on the percentage of their portfolio that is 'managed in alignment with net zero.' It also serves as a roadmap for encouraging portfolio companies to adopt net zero practices as they mature and scale. VCA members are advised on how to report their alignment via the VCA disclosures guidance.

02 Recruit

Before VCs can encourage portfolio companies to adopt net zero targets, the private sector must align around common approaches to net zero alignment for early stage venture-backed firms.

The Portfolio Alignment Framework is the result of that collective effort.

Portfolio Alignment Framework

First Principles

Quality over quantity
Engage teams with only the most critical climate actions without overburdening them

Build for scale
It is easier to consider and integrate climate early on than trying to retrofit it later

Maintain focus
Climate practices should be pursued with the primary goal of mitigating emissions

Optimize for cross-compatibility
VCA frameworks should be an on-ramp to established later stage net zero frameworks

Maturity stages
The framework uses maturity stage indicators to approximate portco maturity and the associated climate practices feasible at that stage. Indicators aim to be objective, measurable, and broadly available to investors.

Practical phase-in
The approach phases in stage appropriate climate practices as opposed to proposing a static set of requirements across an entire portfolio. Practices align with actions that are both practical and material for early stage fast-growing companies.

Aligning, not aligned
Practices follow the industry definition of ‘aligning’ to net zero, which implies that a firm is on the path to net zero, but has not yet achieved emissions reductions (aligned). This approach was chosen given the nascent stage of climate programs at most VC companies.

...in action

PORTFOLIO ALIGNMENT **FRAMEWORK**

			Climate Practices		
Maturity Stages			**Board Climate Strategy**	**Measure S1, S2, S3 Emissions**	**Near-term Emissions Intensity Target**
A portfolio company progresses to the next stage when it meets <u>two</u> or more of the annual revenue, capital raised, or full time employee thresholds below:					
Stage 1			✓		
All in-boundary portfolio companies					
Stage 2			✓	✓	
>$10m in revenue	>$25m raised	>100 FTEs			
Stage 3			✓	✓	✓
>$50m in revenue	>$250m raised	>500 FTEs			
Stage 4			Set a 1.5°Aligned Target under one of the following frameworks: *IIGCC Net Zero Investment Framework (NZIF), iCI Private Markets Decarbonisation Roadmap (PMDR), SBTi Corporate Net Zero Standard*		
>$100m in revenue	>$500m raised	>1000 FTEs			

If a portfolio company meets each of the climate practices at its stage, it is considered to be "managed in alignment with net zero"

Maturity based phase-in of climate practices

The VCA's frameworks are designed to phase in stage-appropriate climate practices as a startup matures. Climate practices align with actions that are practical and material for early stage fast-growing companies and encouraged for all of a venture firm's in-boundary portfolio companies.

1	Board-level Climate Strategy	The portfolio company's board is responsible for climate strategy and discusses material climate-related risks, opportunities, and emissions at least once annually.
2	Emissions Measurement	The portfolio company measures scope 1, 2, and material scope 3 emissions, according to the GHG Protocol guidance. Measurement is based on best available data quality, including spend-based estimations for scope 3.
3	Near-Term Intensity Target	The portfolio company sets a near-term (5-10 year) intensity target based on emissions per employee (headcount), dollar revenue, or unit of physical production.
4	1.5°C Aligned Target	The portfolio company sets a near-term (5-10 year) 1.5°C-aligned decarbonization target as defined by accepted frameworks including Net Zero Investment Framework (NZIF), Private Markets Decarbonisation Roadmap (PMDR), or SBTi Corporate Net Zero Standard.

Version 1.2 of the Portfolio Alignment Framework has been updated to include the 'new investment boundary' option for firms who regularly don't take board seats

Boundary options

While the VCA's goal is for members to eventually set a 100% target for their portfolio, is not immediately practicable for VCs with limited influence as minority investors. Boundaries help focus effort where investors can realistically engage and advance climate practices. Thus, VCs may select the boundary that best fits their investment and engagement strategy. In either scenario, firms can exclude portcos that are no longer included in operational reporting (i.e. write offs or material write downs).

Option 1: Board seat boundary		Option 2: New investment boundary
Inclusive of portfolio companies where the investor holds a board seat or observer rights	**What**	Inclusive of portfolio companies made after the selected investment start date
For firms who commonly take board/observer rights or have an active engagement strategy	**Who**	For firms who typically don't take board seats or have a lower touch engagement strategy
Board roles grant VCs the direct ability to advance climate practices. By narrowing the boundary to portcos where the VC has a board seat, VCs can focus energy on portcos they have the greatest ability to influence	**Rationale**	Without board access firms have the greatest ability to engage at or closely following investment. Focusing the boundary on new investments narrow efforts to a targeted set of portfolio companies where VCs have a greater opportunity to influence

STAGE 1

1	Board-level climate strategy	Climate related topics (such as risks, opportunities, emissions) are discussed at the board level at least once annually
Rationale	As early stage portfolio companies design products, engage suppliers, and select locations, boards can guide them to consider climate risks and opportunities as a part of these critical decisions. For example, boards can encourage management to consider physical risks of material sourcing, production siting or emissions intensity of data centers.	
Criteria	Discussion noted in board meeting minutes and agendas at least once per year.	

Initial practice
Getting started

Use the VCA board climate guide to understand stage-specific climate considerations and how they apply to portfolio companies

Minimum practice
Meets criteria

Using prompts from the VCA board climate guide, facilitate board level climate discussions at least once annually

Best practice
Best-in-class

Systematically act on climate considerations, integrating climate aligned strategies into critical growth milestones

STAGE 2

2	Emissions measurement	The portfolio company measures its scope 1, 2, and material scope 3 emissions, according to the GHG Protocol guidance. Measurement is based on best available data quality, including spend-based estimations for scope 3.

Rationale

In order to eventually set a target and reduce emissions, companies need to first understand their emissions profile. At this stage, companies generally have a relatively larger operational footprint where emissions are more material and enough resources to start measuring emissions.

Companies at this stage may also soon face requirements from local regulations (e.g. California SB 253 or EU Corporate Sustainability Reporting Directive) and/or blue chip customers to report emissions measurement.

Criteria

Portfolio company shares its scope 1, 2, and 3 emissions measurements with VC firm

Initial practice
Getting started

Start by measuring just scope 1 & 2 emissions with support of third-party emissions tracking software

Minimum practice
Meets criteria

Measure scope 1, 2 and 3 emissions using best available data quality (at this stage spend-based estimations for scope 3 emissions are acceptable)

Best practice
Best-in-class

Improve scope 3 measurement and ensure all scopes are comprehensive using supplier-specific data to further improve data quality

CLIMATE PRACTICE
STAGE 3

3	Near-term intensity target	The company sets a near-term intensity target (within 5-10 years) based on emissions per employee (headcount), dollar revenue, or unit of production.

Rationale	Companies at this stage are more mature and better capitalized, but they may not yet have enough years of operational data to inform a 1.5°C-aligned decarbonization target. Moreover, firms are still developing and refining their business models and while nearing scale, longevity is uncertain. At this stage, portfolio companies can develop an emissions intensity target (i.e. emissions per employee, per dollar revenue, or per unit produced) rather one focused on absolute reductions. The goal is to catalyze muscle-building that allows for growth and prepares companies to set future 1.5° aligned targets once they mature beyond the VCA framework.
Criteria	Portfolio company has set near-term intensity target

Initial practice
Getting started

Using scope 1-3 emissions data identify hotspots and explore reduction initiatives that coincide with potential cost savings

Minimum practice
Meets criteria

Set near-term (within 5-10 years) emissions intensity target based on headcount, revenue, or units produced

Best practice
Best-in-class

Set intensity target aligned with most recent Intergovernmental Panel on Climate Change (IPCC) guidance on 1.5°C pathway– currently 7% annually

CLIMATE PRACTICE
STAGE 4

4	1.5°C aligned target	The portfolio company sets a near-term (within 5-10 years) 1.5°C-aligned decarbonization target defined by commonly accepted later-stage frameworks

Rationale	At this stage, portfolio companies are mature and capitalized enough and have a proven track record to set a 1.5°C net zero-aligned target. Many companies at this stage are likely close to an IPO or later stage growth equity where alternative net zero target setting frameworks created for later stage asset managers (e.g. private equity) or mature corporates exist. Rather than creating an additional or separate target, the VCA expects these stage 4 portfolio companies to leverage existing frameworks designed for later-stage firms such as Net Zero Investment Framework (NZIF), Private Markets Decarbonisation Roadmap (PMDR), and/or the SBTi Corporate Net Zero Standard. .
Criteria	Portfolio company has set 1.5°C-aligned target

Initial practice
Getting started

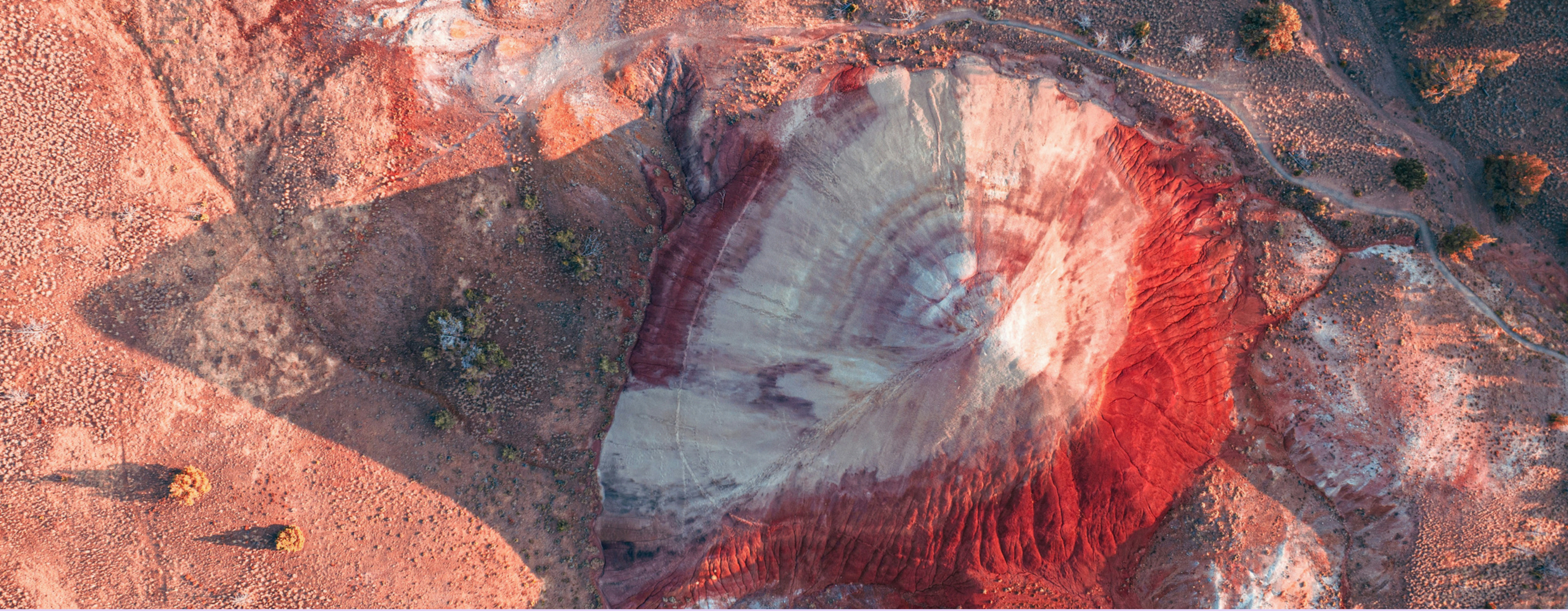
Establish decarbonization plan that may not reach net zero-level ambition (or SBTi commitment)

Minimum practice
Meets criteria

Set long-term 1.5°C-aligned target (considered 'Aligning' under NZIF and PMDR frameworks or validated science based target)

Best practice
Best-in-class

Demonstrated YoY emissions in line with 1.5°C-aligned target (considered 'Aligned' under NZIF and PMDR)



Applying the framework

Track progress to the framework in four steps

The Portfolio Alignment Framework is used to measure the percentage of a VC portfolio that is managed in alignment with net zero. Members report this percentage on an annual basis via the VCA disclosures guidance and set targets to eventually reach 100% portfolio alignment by 2040.

Establish period	Establish boundary	Classify stages	Assess practices
Establish a measurement period	Select boundary and filter portcos	Classify portcos into maturity stages	Assess stage-based climate practices
The VCA recommends using the calendar year (January to December), but firms may select their own fiscal year. If using new investment boundary, firms must determine their start date for included investments.	<u>Board seat boundary</u> Include portcos where firm has held an equity position AND a board seat for the entire measurement period (12 months prior to reporting date) <u>New investment boundary</u> Include portcos where firm has held an equity position for the entire measurement period (i.e. no exits or writeoffs) and investment was made after the boundary start date	A portfolio company's maturity stage is based on the stage reached as of the end of the prior measurement period This one year window allows the VC firm time to influence the portco to adopt the new practices	Collect information on the portco's climate practices in place during the measurement period to determine whether the company has met stage-based requirements Calculate portfolio alignment using guidance from the next slide

Alignment calculation and weighting

Portfolio alignment weighting
The VCA uses invested capital as the alignment weighting metric given its simplicity and universal nature. Financed emissions and carrying value were also considered but ultimately rejected.

Financed emissions is a challenging metric for VC firms because many early stage companies do not yet measure their emissions footprint (hence the need for the Portfolio Alignment Framework), while carrying value can be a subjective and at times misleading indicator of a company's maturity.

Portfolio alignment equation

$$\frac{\text{Invested capital of portfolio companies meeting required climate practices}}{\text{Invested capital of all portfolio companies considered in boundary}} = \textit{Percentage of portfolio managed in alignment with net zero}$$

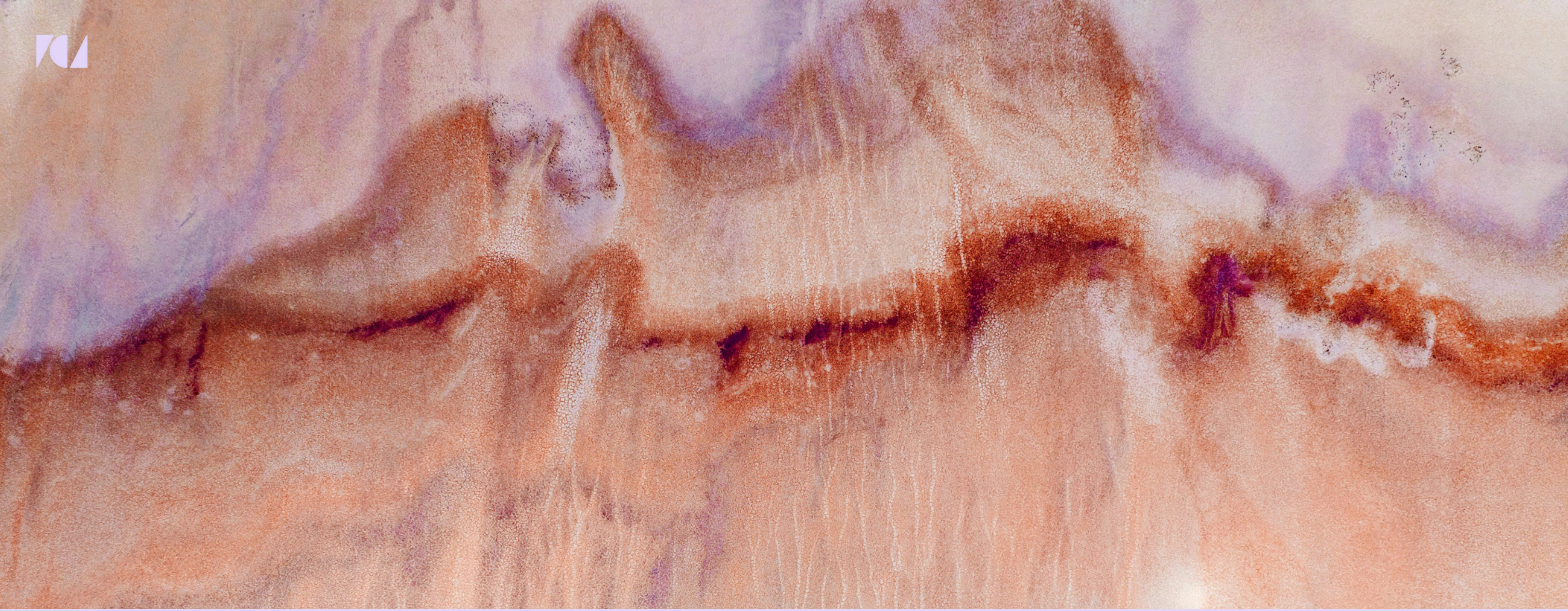
Factors affecting weights

Portcos adopt/advance climate practice	▲	Increase to the numerator of the equation
Investment or new board seat is added	▲	Increase to the denominator of the equation
Net zero aligned portco misses a new practice	▼	Decrease to the numerator of the equation
Exit or BoD seat loss of a net zero aligned portco	▼	Portcos adopt/advance climate practice

Sample aligment calculation

$22m/$42m = 52% managed in alignment

Portfolio *Total invested capital*		**Determine boundary** *Board seat boundary* **Determine period** *1/01/24 to 12/31/24*		**Boundary Outcome**	**Identify maturity stage** *Based on in-boundary portcos meeting 2+ maturity indicators by end of the measurement period*			**Stage Outcome**	**Assess climate practices** *Based on in-boundary portfolio companies achieving climate practices by the end of the measurement period*				**Aligning to net zero outcome**
		Equity position *Over period*	**Board seat** *Over period*		**Revenue**	**Equity raised**	**FTEs**		**Board climate strategy**	**Emissions measure-ment**	**Near term intensity target**	**Net zero aligned target**	
1	$3m	Yes	Yes	✓	$15m	$20m	25	**Stage 1**	No				✗
2	$10m	No *(exited 2024)*	No	✗									
3	$5m	No *(invested 2024)*	Yes	✗									
4	$20m	Yes	Yes	✓	$7m	$200m	200	**Stage 2**	Yes	Yes			✓
5	$17m	Yes	Yes	✓	$60m	$300m	300	**Stage 3**	Yes	Yes	No		✗
6	$2m	Yes	Yes	✓	-	$10m	20	**Stage 1**	Yes				✓
Total invested capital	**$57m**			**$42m** *(denominator)*									**$22m** *(numerator)*



Glossary

Glossary

Board seat boundary	One of two framework boundaries presented by the VCA Portfolio Alignment Framework to narrow the focus of efforts. The board seat boundary narrows your efforts to portcos for which you hold a board seat or board observer rights.
Corporate Sustainability Reporting Directive (CSRD)	The CSRD is a directive by the European Commission that requires ESG reporting by companies doing business in the European Union, inclusive of climate change data and greenhouse gas emissions.
Framework boundary	Criteria defining what is in-scope for a given metric calculation methodology. The VCA Portfolio Alignment Framework presents two boundary options.
Greenhouse Gas Protocol	The Greenhouse Gas Protocol provides requirements and guidance for companies preparing greenhouse gas (GHG) emissions inventories. The protocol provides guidance on scope 1, 2, and 3 emissions reporting.
Intergovernmental Panel on Climate Change (IPCC)	The IPCC is the international body for assessing the science related to climate change in order to inform policy-making. IPCC assessments provide a scientific basis for governments to develop climate related policies by presenting projections of future climate change based on different scenarios and risks. The IPCC published a Special Report on Global Warming of 1.5°C.

Glossary

Invested capital	The sum, across all active portfolio companies, of cumulative equity capital a firm has invested in those companies from the initial investment up until the end of the measurement period.
Methodology working group (MWG)	The working group that led the development of the VCA's annual disclosures and Portfolio Alignment framework over a 9 month period with monthly workshops, stakeholder feedback and a public consultation.
Net zero	The achievement of net zero across a system entails a steady state in which carbon emissions have been reduced to a small amount of residual emissions that can be absorbed and durably stored by nature and other carbon dioxide removal measures such that greenhouse gases going into the atmosphere are balanced by removal out of the atmosphere.
Net Zero Investment Framework (NZIF)	The NZIF is guidance created by the Institutional Investors Group on Climate Change (IIGCC) and used by investors to set voluntary net zero commitments. NZIF modules support specific asset classes including PE and infrastructure.
New investment boundary	One of two framework boundaries presented by the VCA Portfolio Alignment framework to narrow the focus of efforts. The new investment boundary narrows your efforts to portcos you invested in after a determined start date.

Glossary

New investment start date	A new investment start date is a date selected by a VC firm using the new investment boundary for which all new portfolio companies invested after that date must be included in the framework boundary.
PE Sector Science-Based Target Guidance	The PE Sector Science-based Target Guidance is a science-based standard for private equity firms to set net zero targets for operational emissions and portfolio emissions. The SBTi develops the standards and validates targets.
Private Markets Decarbonization Roadmap (PMDR)	The PMDR is a reporting framework for private equity firms to communicate where their assets are on their decarbonization journey. PMDR was created by Initiative Climat International (iCI) and the Sustainable Markets Initiative.
SBTi Corporate Net Zero Standard	The NZIF is guidance created by the Institutional Investors Group on Climate Change (IIGCC) and used by investors to set voluntary net zero commitments. NZIF modules support specific asset classes including PE and infrastructure.

Disclaimer

All presentations, meetings, communications and initiatives undertaken by the VCA are designed solely to support member firms in understanding risks and opportunities associated with climate change and take action to address them. Our work is conducted in accordance with all relevant laws, including data protection, competition and acting-in-concert rules.

Venture firms and portfolio companies are not asked for and must not disclose or exchange (this includes one-way disclosures) strategic or competitively sensitive information. It is a foundational principle of how the VCA and its members work together that the choice to adopt any methodology, guidance or best practice tools prepared by the VCA is always at the ultimate discretion of individual member firms based on their own decision making. The aim of the VCA is to provide information that can be used by VC firms, all of whom will have differing mandates and starting points from which they make their own decisions. These materials serve as a guidance only.

The VCA's services to members do not constitute financial, legal or investment advice.