



ESG Report 2023

A message from the Managing Directors



Dr Jörg Goschin and Alexander Thees

Dear readers,

At a time when the world is facing growing ecological and social challenges, it is of crucial importance for companies to fulfil their responsibility and actively contribute to creating a more sustainable future. As an institutional investor in the venture capital (VC) ecosystem, KfW Capital is tasked with promoting the development and financing of innovative solutions that not only promise economic success but also take environmental and social aspects into consideration.

Since our establishment in 2018, we have committed more than EUR 2.3 billion in 116 VC funds (as of 30 June 2024), contributing to a large number of VC funds that are active in the European ecosystem. We have already co-financed more than 2,200 start-ups indirectly via the VC funds. Since 2021, we have integrated important ESG criteria into our investment process and our strategic objectives. As we look to set market standards and further develop the venture capital ecosystem, collecting ESG data is a very important next step for us.

In our ESG Report, we share the results of our annual data collection from our portfolio VC funds and their companies for the first time in order to further improve data availability and transparency in the VC ecosystem. This not only provides the VC funds in our portfolio with an initial benchmark but also fulfils our role as a public investor by sharing the insights we have gained with the market.

We also report transparently about our own measures, progress and objectives in respect of ESG – both within the context of our investment process and as an organisation.

We would like to take this opportunity to thank all our partners and stakeholders who have joined us and support us on this journey. We cordially invite you to read our first ESG Report and look forward to engaging in constructive dialogue on how we can build a more sustainable future together.

Yours sincerely,
Dr Jörg Goschin and Alexander Thees

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An aerial photograph of a city skyline, likely Frankfurt, Germany, viewed from an elevated position. The foreground is dominated by a dense, lush green forest. In the middle ground, various skyscrapers and modern buildings are visible, including the prominent tower of the Commerzbank Tower. The background shows a hazy horizon with distant mountains. A semi-transparent grid of white squares is overlaid on the right side of the image, extending from the top to the bottom.

1 KfW Capital: A responsible VC fund investor

As a subsidiary of KfW, KfW Capital invests in German and European venture capital and venture debt funds with support from the ERP Special Fund and the German government's Future Fund. Its aim is to sustainably bolster the VC ecosystem in order to give innovative start-ups and young technology companies in Germany better access to growth capital. In addition to making fund investments at its own risk, KfW Capital invests German government funds. This includes investments made by KfW Capital on a fiduciary basis for the German government's Future Fund.

In July 2023, KfW Capital launched the Green Transition Facility, which specifically invests in VC funds with a focus on climate tech and related climate-relevant topic areas. This facility makes EUR 100 million available to these VC funds, EUR 44 million of which was already allocated in 2023.

The Emerging Manager Facility was launched in October 2023 with a volume of EUR 200 million that is available until 2030. It addresses a new target group in the VC ecosystem: smaller VC funds (up to EUR 50 million) managed by gender diverse teams.

In November 2023, KfW Capital successfully implemented a further module of the German government's Future Fund with the final closing of the Growth Fund Germany at a target volume of EUR 1 billion.

The Growth Fund Germany is a VC fund of funds that invests in German and international VC funds. For the first time, it has attracted institutional private investors who had not previously invested in venture capital.



In 2023, a total of EUR 471 million was committed to 27 German and European VC funds via KfW Capital's own programmes (2022: EUR 432 million to 25 VC funds).

Two more investment programmes are currently under development. The first will see KfW Capital investing directly in particularly promising technology firms as a

co-investor alongside its portfolio funds, while the second is aimed at systematically driving the development of the impact investing market. The corresponding target VC funds feature an ecological and social return as well as a financial return. You can find further information about KfW Capital's investment programmes on our website: [Investment programmes of KfW Capital](#)

KfW CAPITAL

Investment programmes of KfW Capital

In future

ERP venture capital
fund investments

ERP / Future Fund
Growth Facility

Green Transition
Facility (GTF)

Emerging Manager
Facility (EMF)

Impact Investing

Direct
co-investments

VC funds
VD funds

VC funds
VD funds
(focus on
growth phase)

VC funds with a
focus on
climate tech

Smaller VC funds
managed by women
or gender-diverse
teams

Targeted
investments in
impact VC funds

Co-investments
together with
portfolio funds

Growth Fund Germany: KfW Capital also acts as an investment advisor to the Growth Fund Germany and assists in the selection of potential target investments

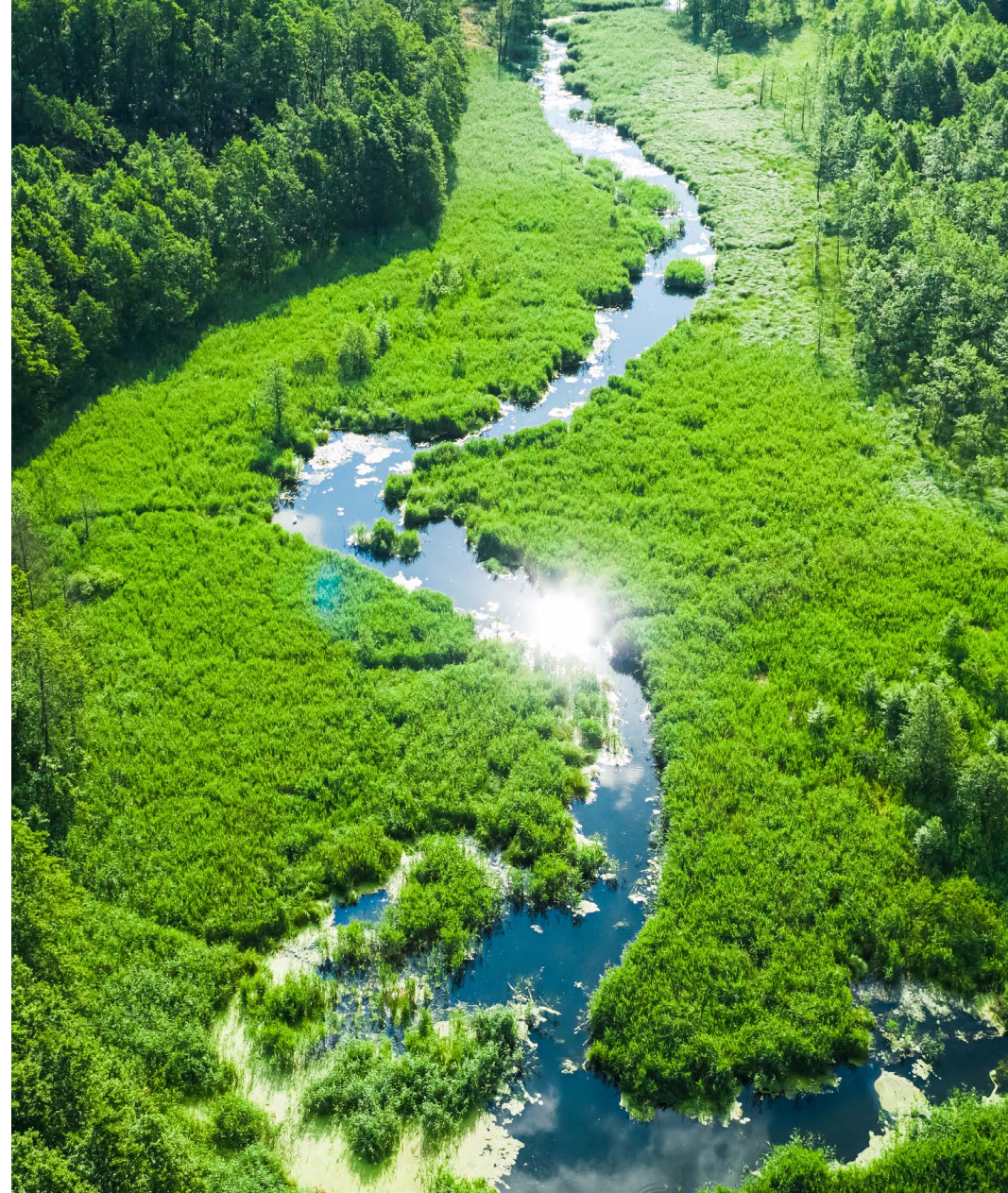
An aerial photograph of a solar farm in a rural landscape. The solar panels are arranged in neat, parallel rows in the foreground, sloping downwards. Behind them is a dense forest of green trees. In the background, there are rolling hills covered in vineyards with rows of grapevines. A small building is visible on a hillside. The right side of the image is partially obscured by a white and black checkerboard pattern.

2 Focus on sustainability

Integrating ESG into our investment strategy is of central importance for KfW Capital. We strongly believe that managing ESG risk factors today is more than just a matter of regulatory compliance, as systematically leveraging the resulting opportunities opens up possibilities for creating the sustainable value that is essential for generating long-term returns.

VC funds play a crucial role in the foundation and growth phase of new companies, accompanying and supporting them throughout their development. We want our funds to help bring about positive change and to enable their portfolio companies to be part of the solution.

That is why an essential element of our strategy is to fully incorporate sustainability principles into our own investment processes at an early stage and, beyond that, to promote them within the VC ecosystem. In recent years, we have implemented a large number of measures, designed processes and created initiatives aimed at achieving this.



Step by step towards a more sustainable future

Shortly after making our first fund investments, we asked ourselves how sustainability aspects could be incorporated into investments in the venture capital asset class. Working with the Boston Consulting Group (BCG), we developed our own ESG framework that covers the specifics of investments in early-stage technology-oriented and innovative companies.

This framework and the findings of one of the first market studies on how VC investors and start-ups are integrating sustainability were published jointly in the 2021 report entitled [‘Growing the Seeds of ESG: Venture Capital, Start-ups and the Need for Sustainability’](#). ESG criteria have since been an integral aspect of KfW Capital’s due diligence process.

The project for implementing the Sustainable Finance Strategy (tranSForm) within the KfW Group was launched at the same time. KfW Capital has been involved from the very start. The project addresses four thematic areas:

- Managing impact
- Advancing Paris compatibility
- Strengthening ESG risk management
- Reporting finance-related sustainability data

For KfW Capital, managing our impact and measuring our portfolio’s greenhouse gas footprint for ensuring Paris compatibility are both highly important factors.

- Establishment of KfW Capital

- Launch of the Sustainable Finance Project (tranSForm) of KfW Group with the participation of KfW Capital
- First steps in integrating ESG into the due diligence process

- Publishing of the report ‘Growing the Seeds of ESG: Venture Capital, Start-Ups and the Need for Sustainability’
- Creation of KfW Capital’s first sustainability policy

2018

2020

2021

Since 2022, we have been collecting ESG data from the VC funds and their portfolio companies so that we can continue to support and monitor their compliance with ESG principles after the completion of due diligence and the investment decision.

As well as fully integrating ESG criteria into the investment process, KfW Capital aims to continue developing the VC market, share knowledge and build networks.

To this end, we have developed a variety of initiatives such as the “Leading in ESG” training course and the KfW Capital VC Academy. Moreover, in 2022, we launched the KfW Capital Award with prizes for ‘Best Female Investor’ and ‘Best Impact Investor’. The aim is to honour investors who are role models in these categories and to highlight these two topics in the market.

- Launch of the KfW Capital VC Academy and the KfW Capital Award for ‘Best Female Investor’ and ‘Best Impact Investor’
- Collaboration with VentureESG and the BMW Foundation Herbert Quandt to design the “Leading in ESG” training course; first training session held in autumn 2022

Other topics covered by sustainability management at KfW Capital as part of the KfW Group include contributions to the upcoming sustainability reporting in compliance with the Corporate Sustainability Reporting Directive (CSRD) or the Biodiversity Roadmap.

KfW Capital now also places a growing emphasis on environmental and social aspects on the product side as well. The sustainability management team was closely involved in the design of the Green Transition Facility and the Emerging Manager Facility in particular.

- Launch of the Green Transition Facility and Emerging Manager Facility
- Initial collection of ESG data from portfolio funds and companies for 2022



An aerial photograph of a farm during the day. The foreground is dominated by rows of green corn plants. A dirt road curves through the middle ground, separating the corn from a vast field of yellow sunflowers. In the lower right, a person wearing a red and black plaid shirt and a grey cap stands in the cornfield, looking towards the sunflowers. The background shows a flat landscape under a bright sky. A white grid pattern is overlaid on the right side of the image, partially obscuring the sunflower field.

3 Integration of ESG into the investment process

Due diligence and investment decision

Start of the investment process

First, the fund's investment strategy is checked against the portfolio guidelines. The start of the due diligence process is then approved by the Investment Committee (IC).

As a member of the IC, Sustainability Management is involved at an early stage and can contribute to the decision to start the due diligence process.

Due diligence

The fund is evaluated based on an on-site visit, reference calls, questionnaires and other documents.

The ESG due diligence process examines the fund's minimum criteria (compliance with exclusion lists, SFDR and the ESG Policy) and ESG management capabilities. Risk Management also prepares an ESG risk profile which delivers E, S and G scores based on internal and external data.

Investment decision

The due diligence findings are discussed by the IC and an investment recommendation is made.

Any potential improvements identified are summarised in an action plan and shared with the VC funds. The findings of the ESG due diligence process are considered in the investment decision.

Signing and post-signing

Portfolio management including regular communication and reporting.

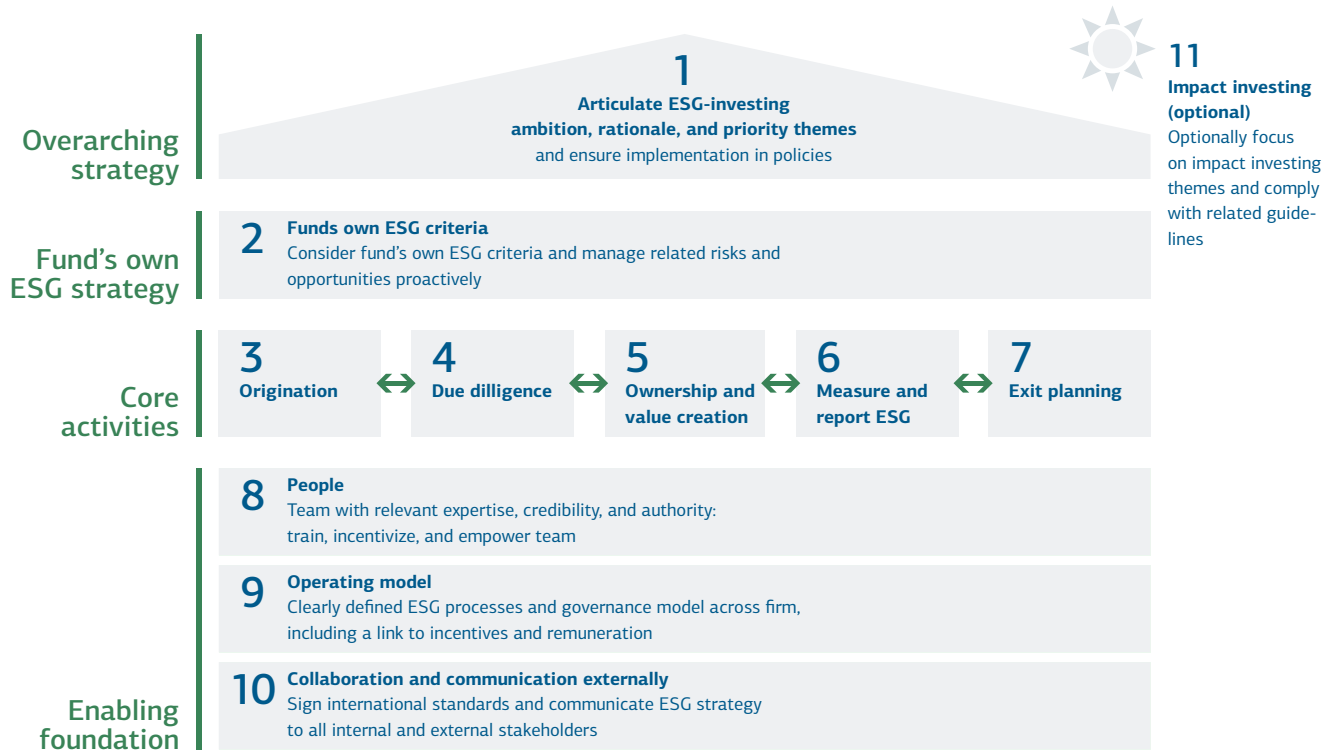
General conditions for ESG integration, other requirements and ESG reporting obligation are covered in the side letter. Data from ESG reporting are utilized for portfolio monitoring purposes, among other things.

Sustainability Management is involved in all steps of the investment process and has a permanent seat on the Investment Committee (IC).

Making the ESG management capabilities of VC funds transparent

A fund's ESG management framework is assessed using a standardised questionnaire. The findings of the individual areas of the ESG due diligence process are displayed in what is known as the "ESG Capabilities House". This enables both KfW Capital and the fund to identify strengths and potential areas for improvement.

The initial assessment by the fund's management is validated by reviewing the documents provided and by an ESG related due diligence call.



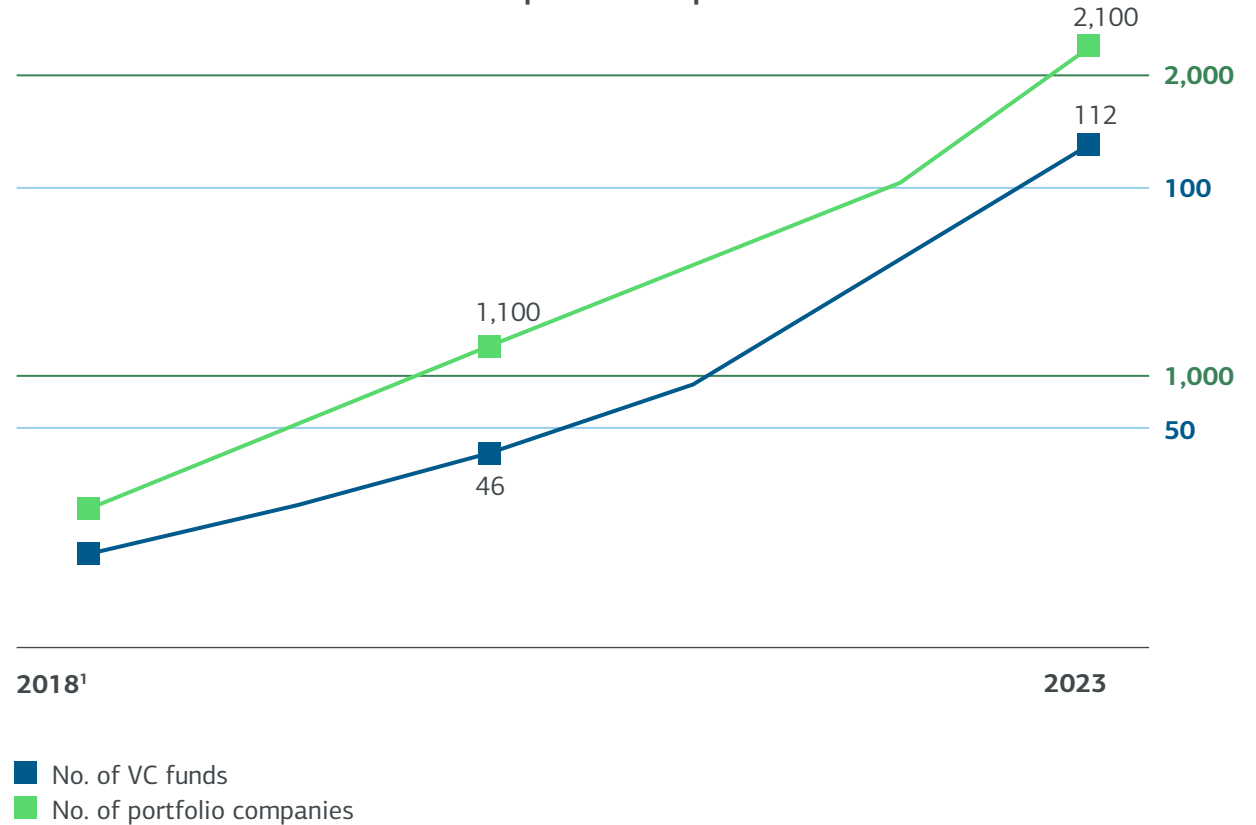
Data-based portfolio management

Alongside the implementation of requirements, the ESG progress of the VC funds and their portfolio companies is tracked by recording ESG data on an annual basis starting in 2022. This information is used in ESG risk management and is also considered in future investment decisions.

In addition, KfW Capital uses the data for Group-wide impact management and to satisfy regulatory requirements in the context of KfW's CSRD reporting obligation (e.g. carbon footprint and EU Taxonomy quotas).

The KfW Capital portfolio comprises 112 VC funds (31 December 2023). Via these VC funds, KfW Capital has already invested indirectly in more than 2,000 portfolio companies. The findings for this extensive portfolio are presented on the following pages and are intended to further enhance data availability and transparency in the VC ecosystem.

Cumulative number of VC funds and companies in the portfolio



¹The fund investments made by KfW between 2015 and 2018 were transferred to KfW Capital

Data-based portfolio management

KfW Capital uses the Invest Europe ESG reporting framework to improve standardisation and increase transparency. We are convinced that using agreed frameworks and harmonising ESG data queries to the market are fundamental to reducing the burden involved for all stakeholders, while at the same time improving data quality and comparability.

In order to facilitate ESG data collection by the portfolio funds and their portfolio companies and enable benchmarking, KfW Capital has been working with a specialist service provider since 2023.



**INVEST
EUROPE**

“It’s great that KfW Capital, like many other leading European investors, has aligned its ESG reporting with the Invest Europe template. Harmonised ESG reporting empowers investors with consistent, reliable data and reduces the overall compliance burden. Invest Europe will continue to shape best practices in line with evolving market and regulatory expectations and we’re honoured that KfW Capital has been a pioneering partner on that journey.”

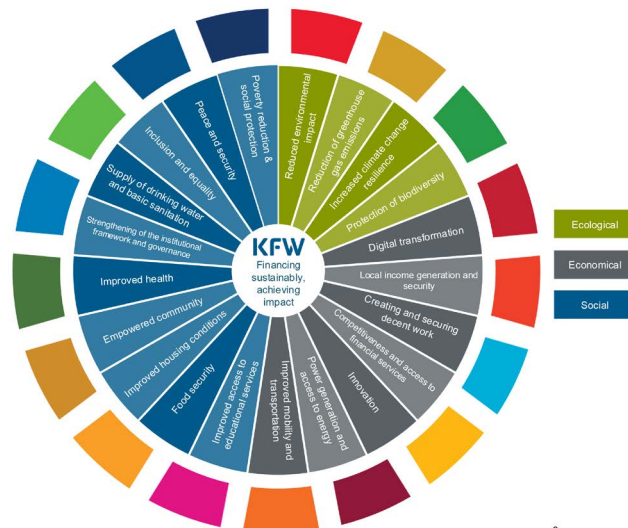
Erika Blanckaert (Invest Europe)
Senior Public Affairs Manager – Head of Sustainability



Impact management

In addition to its ESG reporting, KfW Capital records the positive impact of its investments within the context of the KfW Bank Group's impact management activities. A group-wide set of indicators was developed for all impact categories based on the KfW-wide 'Theory of Change'. It is a key concern for KfW to systematically measure the contribution to sustainable development and make it transparent. With its indicators, the impact management system covers all three dimensions of sustainability (economic, environmental and social) and was guided by the 2030 Agenda of the United Nations with its 17 Sustainable Development Goals (SDGs).

More details about the methodology can be found in the KfW [methodology paper](#) on impact management.



KfW Capital was established with the mandate to invest in German and European venture capital and venture debt funds, thereby strengthening the capital base of innovative, technology-oriented start-ups and growth companies. Therefore, the key impact categories based on the strategy are:

- Competitiveness and access to financial services
- Innovation
- Digital transformation

These categories contribute above all to SDG 8 (Decent work and economic growth) and SDG 9 (Industry, innovation and infrastructure).

Moreover, thanks to dedicated investment programmes (e.g. the Green Transition Facility) and the strong life science focus of its portfolio, KfW Capital is increasingly contributing to environmental and social impact categories, as well.

Impacts are primarily measured by analysing the business models of the portfolio companies to determine their contribution to indicators that have been defined for the individual impact categories. ESG reporting data serves as an additional source of information for determining the impacts achieved.

In the future, the aggregate impact of the KfW Bank Group will be documented in an annual impact assessment.

An aerial photograph of a tea plantation, showing neat, curved rows of green tea bushes. A dirt path winds through the rows. The right side of the image is partially obscured by a white grid pattern, which is semi-transparent, allowing the green of the tea bushes to be seen through it.

4 Portfolio overview 2023

Key facts at a glance



67 % of the funds are classified in accordance with Art. 8 or 9 SFDR

The VC funds in the portfolio tend to be classified in accordance with Art. 8 SFDR. This means that environmental and social characteristics are considered when selecting investments.



100 % of the VC funds have an ESG policy

78 % of the fund managers collaborate with sustainability initiatives

51 % of the fund managers offset their emissions (at least in part)



46 % of the fund managers have at least one female partner

These fund managers have a higher proportion of female employees (47% + 8 percentage points). In addition, the proportion of women in the C suite of these funds' portfolio companies is 12 percentage points higher (28%).



42 % of the companies have a sustainability officer

24 % of the companies have an ESG policy, rising to 56% in the case of companies with a sustainability officer



25 % of the companies have an emission reduction target

37 % of them have targets compatible with the Paris Agreement



65 % of the companies have at least one independent board member

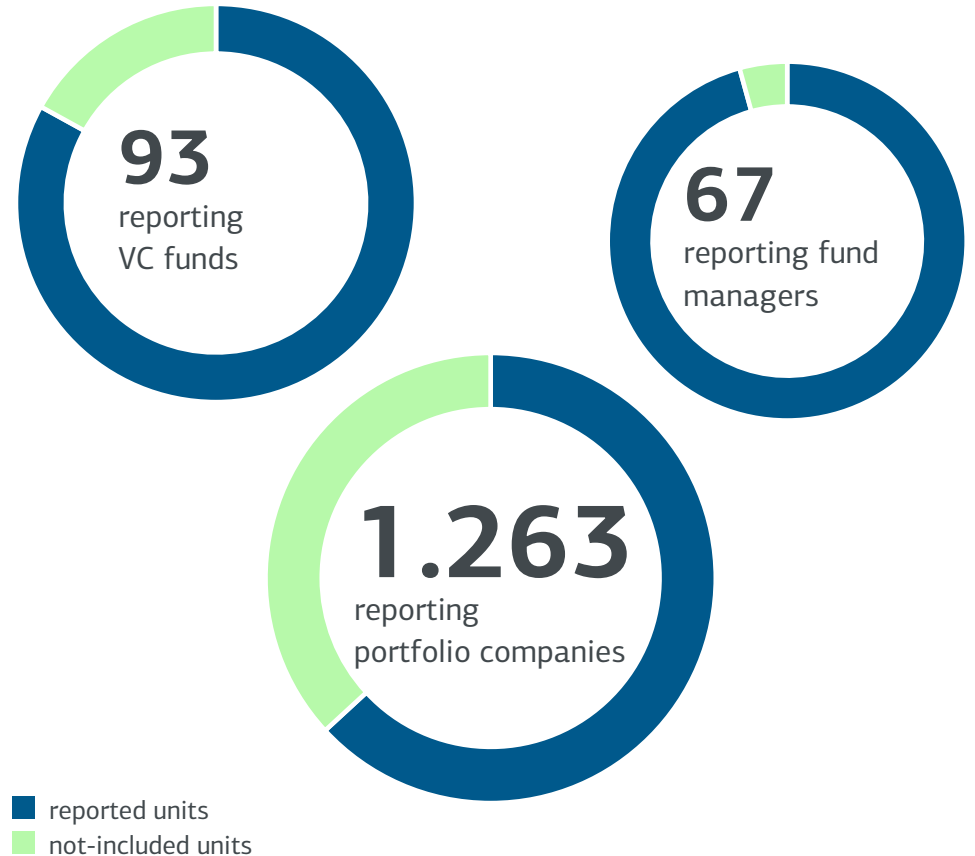
53 % of the companies have at least one female board member

Introductory words on the portfolio overview

In the course of the data acquisition process, we requested information from three different levels: (1) the fund management companies (also called general partners / GPs; hereinafter referred to as fund managers); (2) the venture capital (VC) funds of each fund manager in which KfW Capital has invested; and (3) the VC funds' portfolio companies. All statements in this report always relate to the fund managers, VC funds and portfolio companies that provided the respective data. Due to the different reporting levels¹ and the resulting significant variation in the scope of requested indicators, the number of portfolio companies that have responded to the questions differs from one indicator to the next.

To date, only limited ESG data is available for VC funds and their portfolio companies, which in many cases are very young. In our first ESG Report, we would therefore like to focus on assessing the status quo of the various sustainability aspects that relate to fund managers, VC funds and companies in the VC ecosystem.

We do not present any causal relationships in this report. The descriptive analyses refer exclusively to the data provided by the fund managers, VC funds and portfolio companies. Despite conducting data quality checks using statistical methods and providing corresponding instructions to the report participants, no guarantee can be given as to the accuracy of the information. The information was provided directly by the report participants and was not amended or added to by KfW Capital. All statements should therefore be viewed in light of this.



¹ A detailed explanation of the reporting levels is provided on the following pages.

Introductory words on the portfolio overview

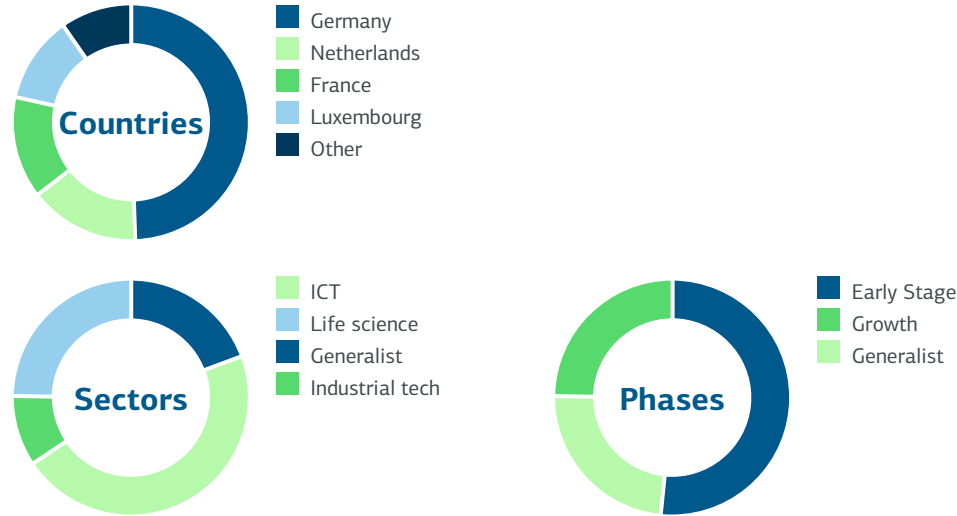
Analysing causal relationships requires time series data and more complex econometric analysis. This is something we aim to achieve in the medium term. Our goal is to use the data and analyses to draw relevant conclusions for all stakeholders, to identify correlations and to facilitate better-informed decisions.

The portfolio companies are allocated to industries using the NACE classification (2008), as this is used for assessments within the KfW Group (including greenhouse gas accounting). However, the industry allocation and its designation are not necessarily customary for start-ups. For example, a company in the real estate sector may operate an app for the real estate sector or for holiday accommodation.

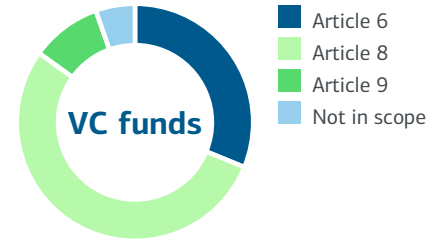
In some individual cases, KfW Capital has invested in the same portfolio companies via different VC funds. However, each company is considered only once in the analysis (a total of 1,263 different companies).



The portfolio at a glance



KfW Capital operates as an institutional investor that invests across different phases and sectors in venture capital and venture debt funds with a focus on Germany. This approach is reflected in the diversified composition of our portfolio. The focus is on VC funds that invest in the early phase and in information and communications (ICT). However, life science funds also account for a significant proportion of the portfolio. Just under half of the VC funds are based in Germany, followed by the Netherlands and France.



Almost all VC funds in the KfW Capital portfolio are classified in accordance with the EU Sustainable Finance Disclosure Regulation (SFDR)¹, which differentiates between Articles 6, 8 and 9. More than half of the committed funds (53.8%) are classified as Article 8 funds, followed by Article 6 funds (31.2%). Article 9 funds account for 9.7%.

VC funds classified in accordance with Article 8 take into account environmental and social characteristics when selecting their investments. They are also able to invest in a certain proportion of sustainable investments. By contrast, Article 9 funds must invest exclusively in sustainable investments. In both cases, the investments may have a social (i.e. life science) or environmental (i.e. climate tech) focus, or both:



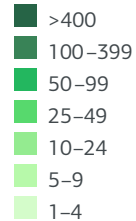
¹ Non-classified funds are either not authorised for sale in the EU and are therefore not subject to the SFDR, or their sales phase ended before the SFDR came into force and they have not been classified voluntarily.

The portfolio at a glance

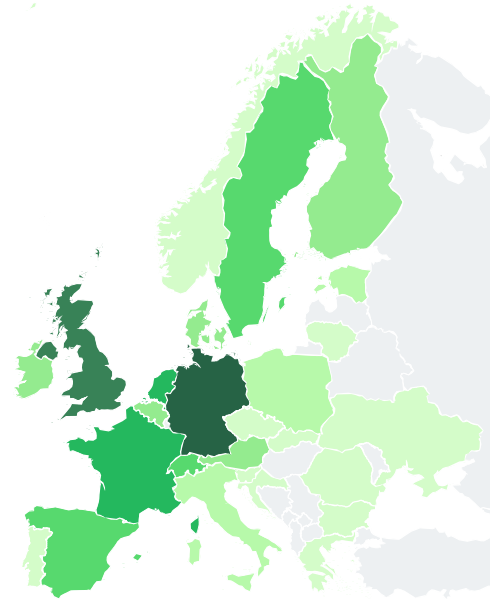
1,263 (61.9%) of the just over 2,000 portfolio companies contributed to the reporting. Compared with a year earlier, the proportion of reporting companies increased by more than 20 percentage points.¹

Most of the portfolio companies that participated in the survey come from Germany (32.9%), the United Kingdom (13.9%) and the United States (11.6%). A further 28.7% come from other European countries, and just 3.0% from other countries outside Europe. 10.0% of the companies did not provide information.

Number of portfolio companies

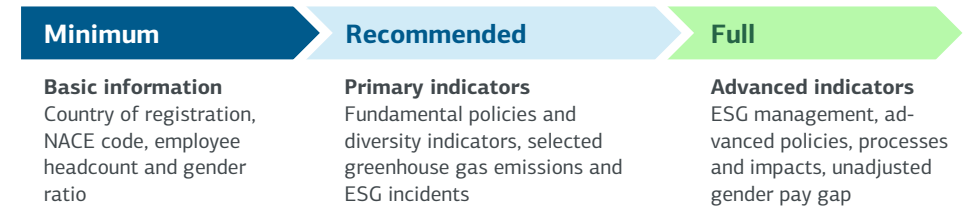


Most of the portfolio companies are active in the ICT sector, followed by professional, scientific and technical activities, human health and social work activities, and financial and insurance activities.

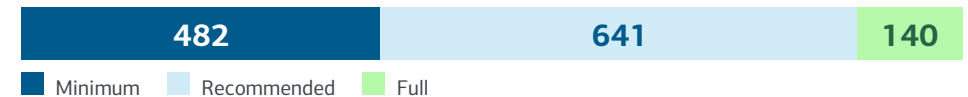


¹ ESG data first collected for the 2022 financial year. Extracts of the findings were made available to the participating fund managers only.

In line with Invest Europe's ESG Reporting Framework, KfW Capital applies various reporting levels as a way of reflecting the different sizes of the portfolio companies. We have introduced an additional reporting level to the recommended and full reporting levels of the Invest Europe framework. Small companies with fewer than 15 employees (minimum reporting level) are asked to provide just basic information. Further indicators are added from the 'recommended' reporting level. Full reporting is required only for growth-stage companies (Series C and above). From next year, the thresholds for all three levels will be set uniformly on the basis of employee headcount.



Most of the portfolio companies are in the first two levels, reflecting the high proportion of early-stage VC funds in the portfolio.



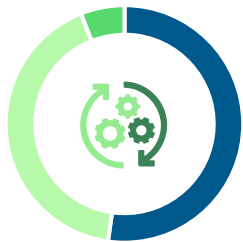
On the following pages, the reporting level (min./rec./full) is shown for each KPI in order to give a better idea of the size of the data basis.

Fund managers are the cornerstone of good ESG management

All fund managers have a dedicated ESG or responsible investing policy. Since 2021, VC funds have been required to have such a policy in order for KfW Capital to invest.

More than half of the fund managers (52.2%) have already established an environmental and social management system (ESMS), and more than three quarters (77.6%) work with or participate in sustainability-related initiatives. The UN Principles for Responsible Investment (UN PRI) were most frequently referred to in this context.

ESMS established



Participation in sustainability-related initiatives



■ No ■ Yes ■ No response



Sofinnova: a more active approach to ESG

Sofinnova's overarching goal is to help people live long, healthy and fulfilling lives. To achieve this, we invest in early-stage bio-pharmaceuticals, medical devices and sustainable industrial technologies. By definition, building and supporting the growth of products, businesses and innovation in these areas has a significant impact on the quality and duration of individuals' lives, as well as the environment. It was thus a natural next step when Robert Carroll, Partner at Sofinnova and Head of Investor Relations and Responsible Investing, wanted to extend the Sofinnova philosophy of leading by example, to create a more active approach to ESG and impact in 2020. Hence the implementation of the Responsible Investment Oversight Committee (RISOC), ensuring a holistic, fully embedded approach to ESG, through a smooth coordination and communication with our investment professionals across the firm. Through this committee's leadership, Sofinnova implements its ESG framework, the Maturity Model.

Sofinnova faces the challenge of having a very diverse portfolio, covering the entire life sciences spectrum in companies; from new and small to larger more established firms, across various therapeutic areas. This makes a uniform ESG policy and approach challenging, as the expectations and requirements we have for the different companies can vary enormously.

As an investor in innovation and as a company builder, we see the value of constantly assessing our performance and identifying where we can raise the bar. It was with this mind set, that it became clear that we needed to shift our ESG and impact policy to a higher level.

Pre-investment (Due Diligence)

Fully embedding ESG into our investment process means already incorporating it in the selection of potential investments.

Prior to making any investment, the investment has to pass our exclusion criteria. A dedicated ESG section is included in our due diligence process to assess each potential investment. No investment decisions can be made until a discussion about ESG has occurred. Where we opt to make an investment, we undertake various ESG-related procedures and activities, including engaging and sharing best practices with the portfolio company and preparing the management team to participate in our annual CEO survey, which serves as input for the scoring on ESG criteria and post-investment engagement.



Sofinnova
partners

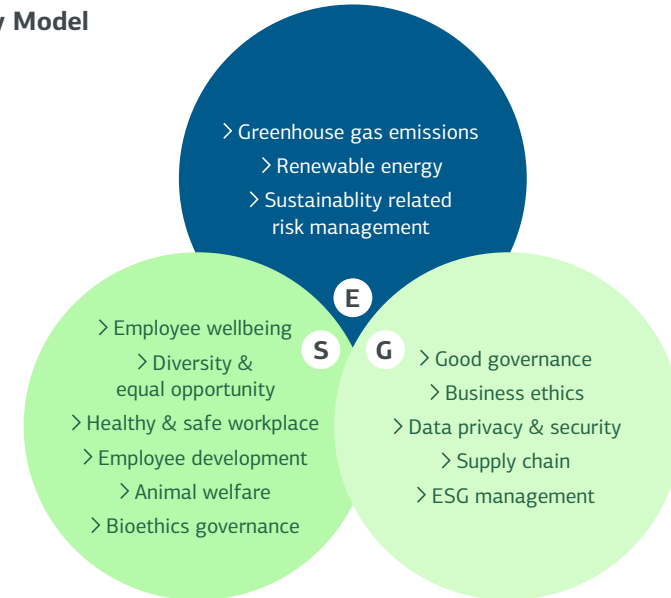
Robert Carroll Ph.D.,
Partner, Head of Investor
Relations and ESG

The ESG Maturity Model

To ensure that gathering data from our portfolio companies and analyzing their performance based on ESG criteria was beneficial for both them and us, we decided to provide guidance on relevant, applicable goals. Additionally, we offered advice on suitable ESG activities at each phase of their development. To do this, we needed consistent and relevant KPIs for meaningful analysis, recognizing that not all 'standard' ESG metrics are suitable for early-stage companies. For instance, metrics like gender pay-gap, diversity, or environmental footprint management are less applicable to a small, two-person company than to one preparing for a public listing. However, other KPIs like workplace safety are critical measurements at all stages.

With this in mind, we developed a set of material ESG themes that we believe are relevant and material to all of our portfolio companies. For these material ESG themes, we plotted relevant KPIs over four stages of ESG 'maturity'. Meaning, that for the same indicators we expect different ESG scores per growth phase of the companies. This means that every company gets an appropriate score and relevant next steps that it can work on.

Maturity Model



Levels

- | | |
|---|--|
| <p>Level 0</p> <ul style="list-style-type: none"> • No data collected • No policy is established, • No tools are in place | <p>Level 3</p> <ul style="list-style-type: none"> • Data is analyzed and used to identify and implement actions for improvement • Data is continuously monitored & reviewed |
| <p>Level 1</p> <ul style="list-style-type: none"> • An internal policy / statement is established | <p>Level 4</p> <ul style="list-style-type: none"> • Impact maximisation • Regular assessment & actions are taken • Targets are reached |
| <p>Level 2</p> <ul style="list-style-type: none"> • Tools for periodic data collection are in place • Data is collected | |

Sofinnova: a more active approach to ESG

However, as an investor, we have also dealt with the challenge of gathering sufficient and good-quality data. Especially from smaller VC investees, who struggle with measuring and delivering the great number and variety of ESG datapoints that are requested by various investors.



To address this inefficiency, in 2024, the Life Science VC community collaborated to establish a unified ESG data collection model tailored specifically for innovative Life Sciences companies. This new approach aims to streamline data collection efforts, emphasizing material ESG topics relevant to these firms. This project is now known as the Knowledge ESG Life Sciences Project.

Our maturity model brings very concrete results by guiding companies across various dimensions. For instance, if we consistently encourage every portfolio company to switch to green energy suppliers, and this approach is uniformly applied across each company, multiplied by all portfolios, and further extended across Sofinnova's entire platform of strategies, it generates a substantial multiplier effect. This is the Sofinnova view: we have the ability to amplify small actions by applying our responsible investor strategy across all our portfolios.



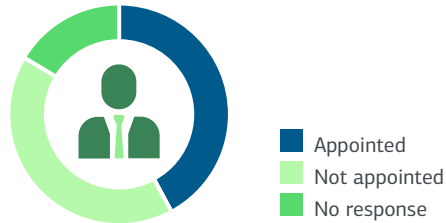
Portfolio companies are also establishing relevant governance structures

Responsibilities and policies

Sustainability governance is also playing a growing role at the portfolio company level, especially in later phases (full reporting level).

Of the portfolio companies that report at this level, 42.1% have appointed (at least) one person (sustainability officer) within the company to take full or partial responsibility for sustainability issues. These organizations are also more likely to have a sustainability policy in place.

Proportion of companies with sustainability officers



On average, 23.8% of the portfolio companies (rec.) state that they have a sustainability policy. Among the companies with a sustainability officer, this proportion rises to 55.9%. Of the companies that do not have a sustainability officer, only 15.5% have a sustainability policy.

However, governance also relates to other processes and policies that are in some cases voluntary and in other cases become mandatory for companies of a certain size due to regulatory requirements. In these policies, companies define which issues they focus on particularly in their daily business operations, detailing how these are regulated and practised. The policies also set out how these issues should be established.



Proportion of companies with policies



56.4 % Whistleblower protection policy (full) 43.6 %

38.2 % Anti-corruption and anti-bribery (rec.) 61.8 %

62.1 % Customer and employee privacy policy (rec.) 37.9 %

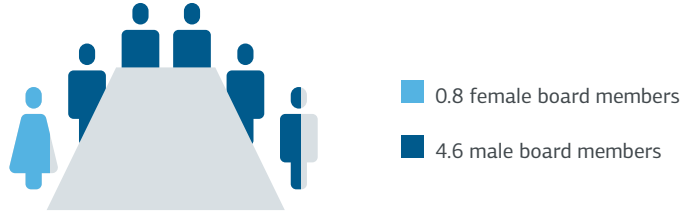
56.7 % Cyber security risk program (rec.) 43.3 %

Moreover, 53.3% of the portfolio companies (rec.) have a code of conduct.

The board as a key element of governance

A total of 76.7% of the portfolio companies with 15 or more employees have a board¹, while just 2.6% of these companies have no such structure. 20.7% of these companies did not provide any information on this indicator. The board is a decision-making body that represents the interests of a company's shareholders. It is responsible for monitoring and steering a company's strategic alignment and thus has significant influence in terms of shaping the company's development.

Average board composition



A board consists of 5.4 members on average. Some 52.6% of the portfolio companies (full) with a board have at least one female board member. However, this proportion varies widely between industry sectors, ranging from 22% in the real estate sector and 43% in the ICT sector to 67% in the professional, scientific and technical activities sector. However, the proportion of women overall is just 14.6%.

¹ Depending on a company's jurisdiction and legal form, the board may consist of one or two separate tiers (supervisory board and executive board). The definition of a board member may also differ from company to company.

² An independent board member does not perform any management duties at the company and does not represent any specific interests (major shareholder, employee or other) vis à vis society, the company or its executives.

At the highest reporting level (full), companies were also asked whether they have independent² board members. This was the case for around 65.3% of the companies. On average, 25.8% of board members were independent.

There is a weak positive correlation between boards with independent members and the existence of a code of conduct. The proportion of companies with a code of conduct is 5.4 percentage points higher (79.7%) for companies with independent board members than for those without any independent board members.

By contrast, the proportion of companies with a whistleblower policy and an anti-corruption and bribery policy is lower (12.3 and 16.1 percentage points, respectively) if their boards include independent members than if they do not.



Measuring and offsetting emissions

More than two thirds (68.7%) of the fund managers state that they collaborate with organisations to improve their environmental impact. These are usually private and sometimes international organisations.

Collaboration with organisations to improve environmental impacts



The data on greenhouse gas emissions provided by the fund managers has been relatively incomplete to date. In particular, the information provided only partially includes the emissions data for the portfolio companies (Scope 3)¹. Due to the small amount of data available and the lack of standardisation, it is not possible to draw meaningful conclusions.

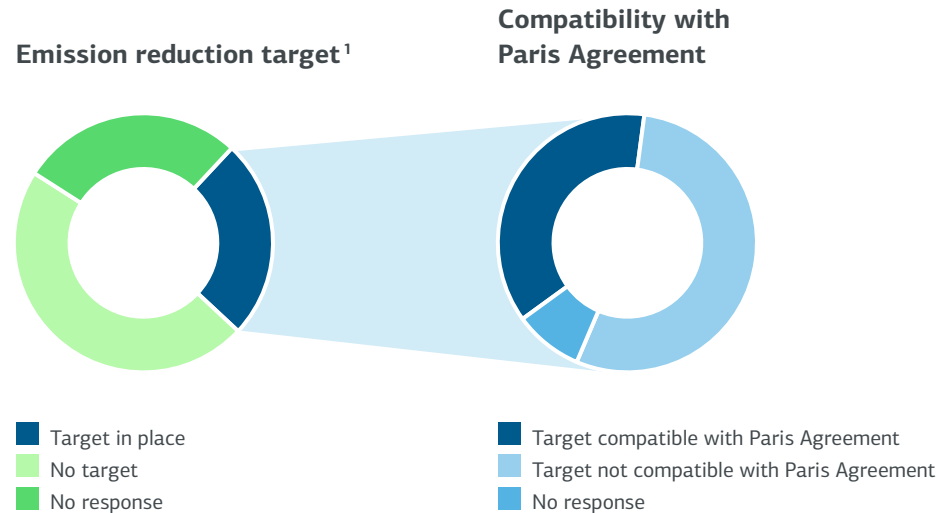
Nonetheless, more than half (50.7%) of the fund managers stated that they offset at least some of their CO₂ emissions. Of these, 85.3% offset their CO₂ emissions in full.

¹ Financed emissions are included in Scope 3 emissions in greenhouse gas accounting.



Setting emission reduction targets for growth

22.8% of the portfolio companies (rec.) have an environmental policy. Whereas a general sustainability policy covers a variety of ESG aspects, an environmental policy focuses on issues relating to the environment. One quarter of the companies (full) stated that they also have an emission reduction target. 37.1% of these companies set their targets in alignment with the Paris Agreement.



¹The emission reduction target (%) is the percentage by which an institution or organisation aims to reduce its greenhouse gas emissions through its climate protection or sustainability efforts.

²The statement relates to a comparatively small number of companies (8).

The portfolio companies of climate tech funds or of VC funds with an investment strategy focusing specifically on green technologies are generally more likely to have an environmental policy (+4.0 percentage points) and an emission reduction target (+26.5 percentage points)² than the portfolio companies of VC funds that have no such investment strategy.

In addition, portfolio companies that have a sustainability officer are more than twice as likely (46.3% vs. 21.7%) to have an emission reduction target and almost twice as likely (49.1% vs. 25.9%) to have an environmental policy than those that have not appointed a sustainability officer.



Cusp Capital – the path to successful ESG reporting

At Cusp Capital, good ESG reporting is the result of a systematic approach and application of the following best practices which are implemented individually with the portfolio companies (depending on which stage they are at):

1. ESG introductory workshop

Foster a uniform understanding of ESG (including metrics, regulatory requirements) as the foundation for successful cooperation

2. Strategy discussion

Link the ESG strategy and associated ESG targets with the overarching business strategy

3. Materiality analysis

Identify material ESG topic areas based on the sector and business model (e.g. SASB materiality assessment); double materiality analysis in accordance with CSRD from series B onwards

4. ESG reporting tool

Introduce a reporting software tool to effectively establish reporting processes (data collection, analysis and communication)

“We generally view ESG as a full-body workout”

ESG is the responsibility of our Head of ESG. However, we generally view ESG as a full-body workout in which each team member at Cusp Capital plays a part. For example, Investment Management is automatically involved because of the link between ESG and corporate strategy.

- In addition to the support we provide through our ESG experts, we help our portfolio companies achieve their ESG targets via various portfolio support functions. For example, our communications expert helps align communication strategies with ESG considerations and our HR expert assists in fostering diversification in the talent acquisition process. They provide training in integrative and inclusive personnel selection processes as well as in HR development within the company.
- Moreover, our finance managers provide support for ESG reporting and carbon accounting. The topic of ESG reporting is also of great importance to them, not least because of its (temporal) proximity to financial reporting.

Effective collaboration with portfolio companies facilitates reporting

We engage in regular dialogue with our portfolio companies and integrate ESG topics into ongoing talks about the most important aspects of early-stage companies (monthly or sometimes biweekly alignment calls with the portfolio support units or Investment Management).

We also speak more frequently with our portfolio companies during the ESG reporting phase or specific ESG projects (such as through workshops on establishing policies or certifications, e.g. in accordance with ISO 27001).

Our aim is to provide business founders with the support that empowers them to understand ESG not as a barrier but as an opportunity for sustainable growth. It is therefore essential to implement an ESG strategy from the very start and to define roles and responsibilities (ESG governance) for the topic within the portfolio companies.

Leveraging the findings

Our overarching objective is to derive useful findings from reliable data. We are already in the third reporting cycle with some of our portfolio companies. This enables us to identify initial trends for certain KPIs and develop truly impactful measures (e.g. diverse hiring practices and ensuring appropriate protective measures for sensitive customer data).

ESG as an opportunity

Alongside ESG reporting, ensuring the development of suitable ESG processes by our portfolio companies is crucial for us as an investor because functioning ESG processes are indispensable to the long-term viability of any business. In general, we see ESG as a value driver for our companies. Together with our portfolio companies, we examine the material ESG areas during the initial investment process and at the start of our collaboration in order to identify relevant impacts, risks and opportunities (IROs) at an early stage. This means that we analyse both the financial impacts of ESG risks on the companies themselves and their impacts on the environment and society, helping the companies to develop a business strategy that incorporates the potential impacts identified into their decision-making processes. We see this as an opportunity for more business and better valuations rather than a form of regulation.



Dr Carolin Althoff,
General Partner, Investor, Head of ESG

Diversity of the fund managers ...

On average, the fund management companies have six partners, 0.9 of whom are women. This proportion (15%) ranges from 0 to 66.7% for the different fund management companies. Around half of the fund managers (46,3%) have at least one female partner. This does not take account of whether the partners are responsible for the fund generations in which KfW Capital is invested – a factor that particularly applies to larger fund managers. Moreover, the way partners are counted varies between the fund managers. For example, partners do not always have a stake in the management company.

In terms of employees (25.8 on average)¹, the gender ratio per fund manager is much more balanced, with women accounting for 43.6%. The data also shows that fund managers with at least one female partner also have more female employees.

In the case of fund managers with at least one female partner, the average number of female employees is 7.8 percentage points higher (46.5% vs. 38.7%) than for fund managers without any female partners.

Generalists and life sciences fund managers have a larger proportion of female partners than fund managers that invest in ICT and industrial tech. In terms of their workforce, the proportion of female employees is above average at life science and ICT fund managers, and is comparatively lower at generalists and industrial tech fund managers.

¹ As was the case for the portfolio companies, the workforce is measured in full-time equivalents (FTEs), whereas partners (fund managers) and board members (portfolio companies) are measured in terms of headcount.



Proportion of female partners in overall portfolio



15.0 %

85.0 %

Proportion of female partners by sector

22.2 %

Generalist

78.8 %

18.7 %

Life science

81.3 %

11.5 %

ICT

88.5 %

10.7 %

Industrial tech

89.3 %



Proportion of female employees



43.6 %

56.4 %

Proportion of female employees by sector

40.0 %

Generalist

60.0 %

45.9 %

Life science

54.1 %

44.8 %

ICT

55.2 %

42.0 %

Industrial tech

58.0 %

... and their deal flows ...

Diversity clause



One quarter of the VC funds use diversity clauses in their term sheets. These are generally intended to ensure the development of a diversity policy and strategy, diverse hiring or the achievement of certain quotas at the portfolio companies.

Among the VC funds with at least one female partner, the proportion of those with a diversity clause in the term sheet is significantly above average, at 32.3%. Among the VC funds without any female partners, the figure is just 23.3%.

Collaboration with initiatives to strengthen underrepresented groups

More than half of the fund managers (62.7%) work with organisations or initiatives that are committed to founders from under-represented groups. Among the fund managers that work with these organisations or initiatives, the deal flow involving businesses with at least one third female founders amounts to 21.7% on average, which is higher than in the portfolio overall. For the fund managers that do not work with such organisations or initiatives, this proportion falls to just 15.5%.



“70% of the unicorns in the United States and the United Kingdom were founded by immigrants, women or people of colour, e.g. Google, Apple and Nvidia. In Germany, 60% of unicorns have a founder with a migrant background, e.g. Raisin and BioNTech. They are characterised by their ambition and perseverance. Nevertheless, it remains difficult for them to found companies, access networks and receive financing. As investors, we have a responsibility to find the best founders, irrespective of their cultural and social background, gender or other criteria. We can only achieve this by collaborating with communities for diverse founders such as 2hearts.”

Gülsah Wilke,
Founder and Managing Director of 2hearts

... and also of the portfolio companies



Proportion of female employees(35.0%)

On average, 35% of the workforce of portfolio companies is female. The proportion of female employees varies by industry. Whereas companies active in the area of human health and social work activities (mainly including life science and med tech companies) have the highest proportion of female employees, at 50.7%, the figure is just 29.2% in ICT.

The proportion of female founders is much higher if the investing fund managers work with organisations or initiatives for founders from under-represented groups than if they do not (11.7% vs. 7.7%).

The presence of a female partner at the fund manager level is also reflected at the portfolio company level, albeit only to a small degree. At the portfolio companies in which a fund manager with at least one female partner has invested, the proportion of women in the FTE, board member and founder categories is 4 to 5 percentage points higher; in the C suite, the figure is 11.9 percentage points higher.

Unadjusted gender pay gap

Among the portfolio companies, the average unadjusted gender pay gap is 15.5%. However, this also varies by sector. The average unadjusted gender pay gap in the professional, scientific and technical activities sector is 28.2%, compared with a comparatively low 6.8% in the human health and social work activities sector.

In our portfolio, the data indicates a statistically weak negative correlation between the unadjusted gender pay gap and the existence of an anti-discrimination and equal rights policy. Among companies with such a policy, the unadjusted gender pay gap is slightly below the average, at 14.5%, compared with 18.4% among companies without such a policy.

As an indicator, the unadjusted gender pay gap does not paint the full picture, as it does not consider explanatory factors such as education, professional profile, qualification and professional experience. Nevertheless, this KPI was used because it is one of the PAI indicators.



Proportion of women in the C suite¹
(23.4%)



Proportion of female founders²
(10.5%)

¹The C suite members of a company include the CEO and all executive employees who report directly to the CEO, e.g. CFO, COO and CAO.

²Refers to female founders who are still with the respective company.

Other relevant policies and processes in the portfolio companies

The policies most frequently in place in the portfolio companies are health and safety policies (rec.) and anti-discrimination policies (full). Among companies with an anti-discrimination policy, the proportion of female and independent board members is slightly higher, at +3.3 and +4.9 percentage points, respectively.

Among portfolio companies with a diversity and inclusion policy (rec.; 37.8%), the proportion of female and independent board members is also slightly higher (+3.1 and +4.2 percentage points, respectively) than among companies without such a policy.

There is a correlation, albeit only minor, between the existence of a diversity and inclusion policy and a higher proportion (+1.5 percentage points) of female employees.

Moreover, 59.7% of the portfolio companies (rec.) conduct employee surveys in order to take account of employees' needs.

One quarter of the portfolio companies also have a human rights policy (rec.). The portfolio companies rarely conduct separate due diligence focused on human rights (11.4%). Although this figure is significantly higher for companies with a human rights policy (24%), they only infrequently conduct such due diligence reviews



Portfolio companies with policies and processes



46.6 %

Health and safety policy (rec.)

53.4 %

44.9 %

Anti-discrimination policy (full)

55.1 %

37.8 %

Diversity and inclusion policy (full)

62.2 %

59.7 %

Human rights policy (rec.)

40.3 %

25.2 %

Employee survey (rec.)

74.8 %

11.4 %

Human rights due diligence (full)

88.6 %

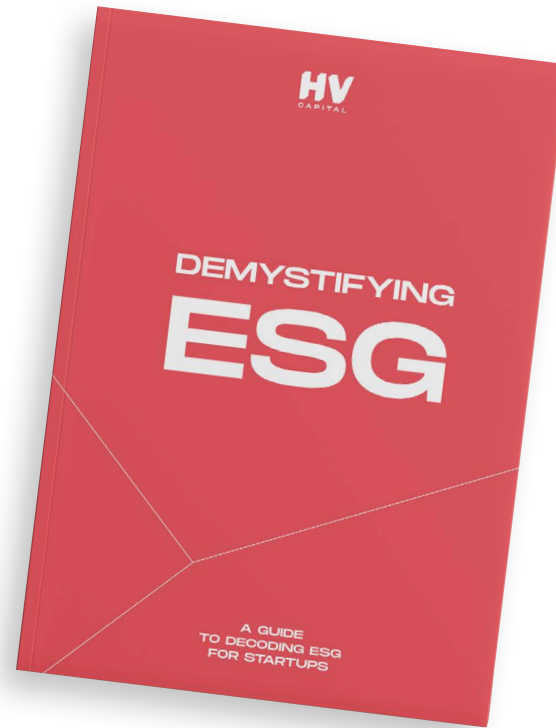
HV Capital's ESG guide for start-ups

In 2023, HV Capital created an ESG guide for startups, emphasizing that ESG-by-Design is essential for building enduring companies.

Ultimately, ESG is as simple as doing good business. However, the vastness and complexities of the topic can be difficult to navigate.

In this guide, we proposed a streamlined approach that requires almost no additional costs. Although each startup needs to adjust its ESG strategy to reflect its own business model, some basic principles of doing ESG-by-Design are relevant to all companies.

This guide summarises key best practices that we have observed. It includes practical tips and real-life examples of policies that have been implemented by our portfolio companies.



70 %

of respondents in a survey said that our ESG guide was the most valuable tool on the subject that they have received.

“I wish that we’d had an ESG guide back then that was tailored to startups like us, offering practical insights and concrete examples.”

Ning Zhu
Head of Sustainability at Solaris SE

The three golden rules

START EARLY

Integrating ESG principles into your values, goals, and activities is much simpler in the early stages of development.

PRIORITISE

It is important to prioritise by beginning any ESG journey with a materiality assessment.

ITERATE

Integrating ESG into your operations and implementing any subsequent changes should occur incrementally and be regularly reviewed.

> Following these three golden rules allows startups to seamlessly integrate ESG into their decision-making process. Instead of feeling like an extra burden, it will provide an additional perspective on mission-critical decisions.

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CASE STUDY



Marie Bos
VP ESG at HV Capital



DOWNLOAD

Scan this QR Code to access the complete guide, including tips from the HV Capital portfolio and a roadmap outlining which ESG initiatives to consider at which stage.

A man and a woman are walking through a greenhouse. The man is on the left, wearing a light-colored button-down shirt and dark pants. The woman is on the right, wearing a plaid shirt, blue jeans, and a blue cap. They are walking on a dirt path between rows of young plants. The greenhouse has a translucent cover supported by black poles. The lighting is bright, suggesting a sunny day. The right side of the image is partially obscured by a black and white checkerboard pattern.

5 Beyond the investment process

KfW Capital is active in many areas

KfW Capital VC Academy

In 2022, KfW Capital launched the KfW Capital VC Academy, a series of events aimed at developing the German VC ecosystem in the non-financial area as well. The events focus on sharing knowledge of important topics and on expanding networks. For example, ‘Diversity in the VC ecosystem’ featured on the agenda of the first VC Academy event, whereas in March 2023, the topic was ‘Female investing’. The events include exciting keynote presentations describing both theory and practical experience.

If you are interested in future KfW Capital VC Academy events, further information can be found at [KfW Capital VC Academy \(kfw-capital.de\)](https://www.kfw-capital.de)



KfW Capital Award to honour the best investors

KfW Capital presented the KfW Capital Award in the ‘Best Female Investor’ and ‘Best Impact Investor’ categories for the second time in October 2023. Itziar Estevez, a partner at VC fund Iris Capital, received the prize for ‘Best Female Investor’, while Tim Schumacher of the World Fund climate tech fund was honoured as ‘Best Impact Investor’. More than 50 applications have been received for the two awards since they were launched.

KfW Capital considers both ‘Female Investing’ and ‘Impact Investing’ essential for sustainably strengthening the VC ecosystem in Germany. In 2024, we will be adding a special award for ‘Best Emerging Manager’, which aims to give younger teams and new faces more visibility in the market.



Winner of KfW Capital Best Investor Awards 2023:
Itziar Estevez – winner of “Best Female Investor”
Tim Schumacher – winner of “Best Impact Investor”



Dr Jörg Goschin at the drawing of the “KfW Capital Fellowship Women in VC” scholarship at the German Private Equity Day 2023 with moderator Ilka Groenewold.

KfW Capital Fellowship Women in VC

KfW Capital awarded the KfW Capital Fellowship Women in VC for the first time in 2023. Under this programme, KfW Capital awarded two partial scholarships, each worth EUR 5,000, to support women in pursuing the venture capital track of the Certified Private Equity Analyst (CPEA) training programme run by the German Private Equity and Venture Capital Association (BVK) and the Technical University of Munich (TUM).

By offering these partial scholarships, KfW Capital aims to make more women aware of the training course and enable them to take part.

You can find an interview with the two 2023 scholarship recipients [here](#).



Leading in ESG training course

KfW Capital, VentureESG and the BMW Foundation Herbert Quandt designed the Leading in ESG programme two years ago in order to meet the demand from VC funds for training that is tailored to their needs and to systematically develop ESG expertise in the market.

In 2023, two training courses were held in Berlin und Munich for four and five VC funds, respectively. Further training were held in the UK, Scandinavia and the USA. An ESG training course specifically for Emerging Managers is being offered for the first time in 2024.

You can find out more about the training programme and how to register at [LeadingInESG – ESG Programme for VCs](#)



‘The partnership with KfW Capital was one of the most important VentureESG projects in the past two years. We can see that the Leading in ESG training course in particular is already having a great impact on the entire VC ecosystem. Venture capital investors from more than 50 funds in Germany, Austria, Switzerland, the UK, Scandinavia and the USA, some of whom we have trained together, now have greater expertise and in many cases, have become ESG advocates. Our joint work has enormous appeal, particularly in Europe, where we are currently also working with a large group of limited partners on harmonising ESG reporting. We look forward to continuing our collaboration in the years ahead.’

Dr Johannes Lenhard and Hannah Leach
co-founders of VentureESG

VentureESG.

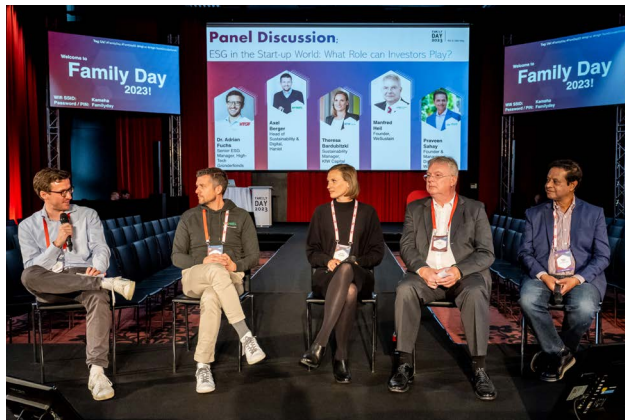
Engagement with the ecosystem

Panels, networking and co.

The Managing Directors of KfW Capital and members of the Investment Management and Sustainability Management teams regularly attend events and conferences, participating in numerous panels to discuss ESG developments in the VC market and our role as a market developer and investor.

Alongside major events such as the HTGF Family Day or the SuperVenture conferences, smaller events such as the SpinLab Investors Day and the Wintergarten 4.0 organised by the Frankfurt-based Union Club International also provided opportunities to discuss sustainability and expand networks.

From left to right: Dr Adrian Fuchs (Senior ESG Manager, Hightech Gründerfonds), Axel Berger (Head of Sustainability & Digital, Haniel), Theresa Bardubitzki (Senior Sustainability Manager, KfW Capital), Manfred Heil (Founder, WeSustain), Praveen Sahay (Founder & Managing Director, Wave) at the HTGF Family Day 2023



Office Hour at the WVC:E Summit

Members of the Investment Management and Sustainability Management teams attended the WVC:E Summit in Paris for the second time in October 2023. WVC:E brings together women in the VC market with the common objective of advancing inclusion, empowerment and integration in the venture capital arena.

In addition to fascinating presentations, workshops and networking opportunities, we were able to get to know many new and exciting women-led VC funds during the LP Office Hour organised as part of the conference. In April 2024, we had the opportunity to speak with many other fund managers at a side event hosted by WVC:E in Munich.



From left to right: Theresa Bardubitzki (Senior Sustainability Manager), Sabrina Senzel (Investment Analyst), Yanna Brede (Investment Analyst) – all KfW Capital – at the WVC:E Summit 2023

A group of four hikers is silhouetted against a bright sunrise over a body of water. They are standing on a rocky, uneven terrain. The hiker on the far left is wearing a dark jacket and has their arms raised. The second hiker from the left is wearing a red jacket and a backpack. The third hiker is wearing a red jacket and a backpack, and is holding a trekking pole. The hiker on the far right is wearing a light blue jacket and a backpack, and also has their arms raised. The sun is low on the horizon, creating a strong lens flare and illuminating the scene with a warm, golden light. The right side of the image is overlaid with a semi-transparent grid pattern.

6 KfW Capital's team

KfW Capital on a path to growth

49%

of our total workforce
is female

6

nationalities

44%

of our team leaders
are women

Our employees
are between
19 and 61 years old

 charta der vielfalt
Für Diversity in der Arbeitswelt

UNTERZEICHNET

67%

of the employees
who took parental leave
in 2023 were male

Gender parity on the
Investment Committee

KfW Capital was founded in 2018 as a subsidiary of KfW with the aim of further developing the VC ecosystem in Germany and Europe. Its initial line-up consisted of 20 people but the team has since grown steadily as responsibilities and tasks have increased.

We believe diversity is key to creating a successful team. A variety of skills, experiences, and perspectives enables better decision-making. Today, we are far more diverse than we were on day one. For example, there were only three women on the team in October 2018 whereas now, almost half the workforce is female. The same goes for the middle management level and our Investment Committee. However, diversity goes beyond gender. The KfW Capital workforce represents different disciplines, age groups and nationalities.

As a signatory to Germany's Diversity Charter, we aim to create a respectful working environment that is free from prejudice.

At the end of 2023, the team consisted of 70 employees and 13 student interns.

KfW Capital on a path to growth

Alongside diversity, there is another aspect that is important for a growing company: team spirit.

A strong team culture that facilitates fruitful and trustful collaboration is built on the physical and mental well-being of each and every team member.

KfW Capital helps its employees achieve a balanced diet by offering fresh seasonal meals in the canteen and by providing a well-filled fruit basket.

There is also ample opportunity for sporting activities: from participation in the JP Morgan Corporate Challenge and the KfW Soccer Cup to KfW Capital's own table football competition and a lunchtime jogging group.

Regular team meetings, off-site events, quarterly town hall meetings and spontaneous gatherings foster dialogue and teamwork and enable us to celebrate our successes.



We take responsibility – for the environment and our employees



Sustainable mobility

- Business trips account for a significant part of our carbon footprint. Our travel guidelines therefore stipulate that business trips within Germany and to nearby European destinations in principle must be made by train and that environment aspects must be considered when planning travel.
- For daily commuting, we support our employees' sustainable mobility by providing a Germany-wide ticket for public transport and offering the option to lease a bicycle.



Continuous professional development and training

- The employees of KfW Capital benefit from a wide range of professional development opportunities and training that gives them chances to improve their professional and personal skills. More than 1,200 hours were devoted to training and development in 2023
- Corporate culture and diversity workshops were offered to all team members in order to continue improving our way of working



Work-life balance

- KfW Capital offers its employees flexible working hours, mobile working arrangements, 30 days of annual leave, flexible days off and individual part-time working arrangements to support their work-life balance
- Tandem teams make it possible to offer part-time working arrangements to team leads
- In 2023, 11% of our employees worked part-time, 63% of whom were men

A photograph of a dirt path winding through a lush green forest. Sunlight filters through the trees, creating a bright, dappled light effect. The right side of the image is partially obscured by a white and black checkerboard pattern, which is a common visual indicator for transparency or a missing image layer in design software. The path is covered in fallen leaves and tree roots.

7 Next steps

We are pleased to have played a key role in establishing and shaping the topic of sustainability in the VC ecosystem in recent years, and it is a journey that will continue. Moving forward, we therefore intend to carry on actively championing constructive dialogue and continuous development – especially in the following areas.

Anchoring ESG in the VC market

Considering ESG aspects not only fosters more resilient companies that are well-prepared to meet regulatory requirements but also unlocks new opportunities.

While ESG and its impact knowledge must be more deeply embedded in the market, there should also be a greater focus on success stories. It is vitally important to demonstrate that leveraging and promoting these opportunities pays off economically.

Addressing responsible innovation

Investors are responsible for their investments. This presents a distinct challenge in the context of frontier technologies such as artificial intelligence, since the potential consequences and risks are often difficult to predict.

That is why it is important to engage in dialogue about what responsible innovation means and how it can be fostered, while at the same time ensuring the related technology is used responsibly.

Harmonising ESG reporting requirements

Recording and reporting relevant ESG information creates transparency and enables sustainability aspects to be managed actively. However, this is contingent on ESG reporting requirements being simplified and harmonised in order to make reporting easier while also improving data quality and comparability.

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