BDC Capital

2024 DEI and ESG Portfolio Metrics

A data-driven look at trends in Canada's VC/PE ecosystem

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Message from the Executive Vice President, BDC Capital

Slowly but steadily, the Canadian venture capital and private equity ecosystem is adopting DEI and ESG best practices

This year's story is one of incremental progress: the Canadian venture capital (VC) and private equity (PE) ecosystem seems to be taking two steps forward and one step back in integrating DEI and ESG best practices. Yet, it remains a story of growth.

Overall, the portfolio data collected through this year's exercise tells us that market participants increasingly acknowledge the value of integrating best practices to encourage a more diverse, inclusive, and sustainable culture within their firms.

With this annual exercise, BDC aims to initiate a data-driven dialogue between limited partners (LPs), general partners (GPs), and their portfolio companies, and encourage progress toward a more resilient industry.

We want to foster greater awareness of where we stand as an industry and better position GPs, as well as VC and PE-backed companies, to operate within an evolving regulatory environment, including more stringent reporting requirements as they scale.

Progressing on industry-wide DEI and ESG standards is a gradual and ongoing journey. It must start from within individual firms and align with their unique values and circumstances. GPs and companies who are ahead of the curve recognize that diverse teams are stronger teams; able to better identify and solve problems by drawing on a range of contexts and perspectives. Additionally, they recognize that incorporating ESG considerations into business strategies can deliver a competitive edge, by helping companies build resilience in a changing world.

We should note the challenges of the past year. Despite making bold commitments to net-zero, many big technology firms have experienced a significant increase in their carbon footprints after adopting generative AI technologies. Additionally, there has been notable pockets of resistance to ESG and DEI initiatives, causing some firms to distance themselves from using these terms. Nevertheless, many firms continue to uphold the underlying principles of these initiatives, owing to the value they bring to companies and society.

At BDC, we are continuing to not only foster market awareness around these key issues, but to seize opportunities to address these gaps head on.

We have done so through the creation of our $500 million Thrive Platform for women, and anchor commitments to firms like StandUp Ventures, BKR Capital, and the Indigenous Growth Fund. We continue to build on the success of these initiatives through our recently announced investment platforms to support Black and Indigenous-led businesses. Furthermore, since 2016, we have committed $1.6 billion to clean and climate technology investments. Our goal is to build a VC and PE ecosystem that is reflective of Canada’s many strengths; diversity, inclusivity, and sustainability being paramount among them.

Executive summary

In 2022, we launched our DEI reporting template for Canadian GPs as a national standard for DEI data collection. In 2023, we launched our ESG template, which draws together metrics from key industry initiatives such as the:

- Institutional Limited Partners Association Environmental, Social and Governance Assessment Framework
- ESG Data Convergence Initiative (EDCI)
- International Financial Reporting Standards Foundation
- United Nations' Principles for Responsible Investment (UN PRI)

BDC Capital's broad coverage of the Canadian ecosystem places us in a unique position to infer trends across our industry. Our annual report on DEI and ESG trends among GPs and portfolio companies is an effort to give back to Canadian fund managers and help build an ecosystem that recognizes the importance of inclusive, climate-friendly practices.

We also wanted to create a benchmark to take stock of DEI and ESG in the Canadian VC/PE ecosystem, and share our findings with the industry.

This report and associated templates are not the only BDC Capital initiatives in this space. We also released several other resources on our website last year to complement the reporting effort. These include:

- A sample survey for companies and funds to use for collecting DEI data
- Best practice guides for collecting DEI and ESG data
- A set of ESG resources and ESG and DEI definitions
- An Excel-based GHG calculator

For this year's report, we have intentionally chosen to continue breaking out DEI commentary from the "S" in ESG as a reflection of the weight of our DEI questionnaire relative to our broader ESG survey. Until we see more progress on DEI in our industry, we expect to keep this reporting separate to emphasize its importance.

A slowly developing mindset shift

The results indicate that while there has been progress, stronger industry leadership is needed to build a more sustainable, diverse and inclusive ecosystem. For example, several DEI statistics have remained mostly flat year over year. This is not entirely surprising, given that staff numbers at funds typically grow slowly. It would be more typical to observe a change in a GP's fundraising cycle, typically every three to five years.

On the upside, we notice a positive year-over-year trend in adopting qualitative best practices—such as implementing HR and ESG policies. There has also been an increase in GP engagement with third parties to develop better practices and reporting. We think this indicates a mindset shift.

When comparing this year's results to prior years, you will note some variability in sample sizes and response rates at both the GP and company levels. However, we believe the results are still an adequate proxy for both groups to benchmark themselves against their peers.

Finally, in keeping with market best practices, we intend to review the DEI and ESG data collection templates in anticipation of next year's reporting effort (launching in January 2025). We want to ensure that the terminology used aligns with federal and industry standards, while striving to minimize year-over-year changes to maintain the integrity of the time series data and measure progress. Examples of new areas to report on in 2025 include accessibility, human rights, equity in the workplace and more focused reporting on visible minorities.

ESG and DEI remain a focus for customers, regulators and limited partners

It is well known that diverse and inclusive teams are more effective, can draw on a range of experiences to build better products and services and avoid the kind of groupthink that stifles innovation. Korn Ferry research has shown that inclusive teams make better decisions 87% of the time. Meanwhile, 80% of respondents to a Deloitte survey said that inclusion was important when choosing an employer.

Recent research has also shown that strong environmental or social performance resonates in the workplace. The vast majority of Gen Zs and Millennials said that having a sense of purpose is important to their job satisfaction, and almost half have changed jobs or industries to align their work with their environmental values.

The downside risks of regulatory change and capital availability are also a driver of change. While Canada doesn't yet have ESG disclosure regulation for private fund managers, such regulations exist for federally regulated financial institutions like banks and insurance companies. These institutions often invest in VC/PE funds and companies.

These evolving regulations demonstrate the potential for increased accountability in sustainability reporting. Public companies are already required to report on a range of ESG factors. Public and private firms are aligning with non-regulatory reporting standards and guidelines such as the:

- International Sustainability Standards Board Standards
- Sustainability Accounting Standards Board Standards

In addition to reporting, limited partners (LPs) increasingly factor ESG into their investment decisions, according to a report by VentureESG. In particular, LPs value disclosures, key performance indicators and policies (covering how VCs integrate ESG into their investment decision-making, for example).

Despite the overall trend toward ESG disclosure regulation, skeptics remain in the U.S. and elsewhere. Some criticize what they view as overly complex or poorly implemented policies that enable greenwashing and gaming of the system. Others view ESG as an attempt to inject politics into decisions that should be driven by the bottom line. It is BDC's view and that of others in the industry that ESG provides an essential framework for understanding and managing potential risks to a company's operations, which is important regardless of political preferences.

Challenges and solutions

We recognize the challenges companies face when gathering what many consider private information. To help the market address these challenges, BDC Capital has developed and can provide tools, resources and best practices for collecting DEI and ESG data.

Key challenges	Responses and strategies
Time and attention (limited resources)	– BDC Capital provides templates, instructions and how-to webinars. We designed the DEI/ESG reporting template to address multiple asks from investors for customized DEI and ESG reporting. Having a single standard across the Canadian VC/PE asset class helps streamline efforts to collect information and report to investors at both the fund and company levels. – BDC Capital can also propose, without formal endorsement, third-party service provider options for those that want to ensure best practices and/or outsource data collection.
Privacy and legal (concerns about employees being "outed," especially at smaller companies)	BDC Capital provides guidance on best practices related to DEI and ESG measurement. Examples include: – Use anonymized surveys that allow respondents to self-identify. – Build awareness of why employers and/or investors are asking for this data and how it will be used, including the use of a self-identification campaign and privacy disclaimers in surveys.

To address the privacy of the DEI data we receive from GPs, we have developed a data privacy notice that we share with participating GPs that outlines how we handle DEI data internally—in short, limiting access to the data internally on a need-to-know basis. We have also set up a dedicated DEI email (with restricted access) to accept data submissions.

GP Perspective

"The key to collecting DEI and ESG data is to give your portfolio companies access to user-friendly software (at no cost to them) so they can capture, track and analyze the data. If the data gets put into context, it makes the exercise more valuable and keeps portfolio companies engaged."

Whitney Rockley & Scott McDonald, Managing Partners, McRock Capital

The data behind the data

A look at year-over-year response rates

DEI metrics

For DEI disclosure, both GP and company response rates declined slightly compared to last year. The sample size increased over the period.

Year-over-year response rates

Year	BDC-backed GPs	Companies
2022	85% across 72	52% across 1,192
2023	84% across 76	49% across 1,231

We also observed a meaningful decrease in the percentage of employee self-reported DEI disclosures.

Year-over-year self-reported submissions

Year	BDC-backed GPs	Companies
2022	77%	78%
2023	64%	71%

This decrease could be explained by an evolving understanding of what “self-reported” means—in other words, self-reporting may have been overstated in previous years. This year, we asked GPs how they went about self-reporting and excluded firms whose approach did not meet our standard (see below).

What does it mean to self-report?

Allowing GP and portfolio company employees to self-report within various categories of DEI, with an option to answer “prefer not to say,” via anonymous tools such as surveys and third-party data collection services.

ESG metrics

The GP response rate on ESG data improved slightly this year, rising to 83% from 79% despite the increased sample size. However, the amount of quantitative data collected declined by four percentage points. This tells us that GPs need better tools to capture quantitative data, such as energy consumption and emissions.

Company response rates were about the same year over year, ticking up slightly to 45% from 44% the previous year. There was a 2% increase in the quantitative response rate, which reached 19%.

Unsurprisingly, environmental and clean tech (ECT) funds had the highest company-level response rate by a wide margin, with a material year-over-year improvement (rising to 69% from 61%). It is striking that among these funds, only 26% of portfolio companies provided their Scope 1 GHG emissions, and only 36% provided their energy consumption.

Response rates on ESG measures tend to increase as companies scale up. This tracks with our expectation that larger companies have more resources to devote to measurement and analysis and likely more investors and customers requesting this data.

DEI results

VC/PE fund managers in the upper quartiles for representation in the workforce had women and visible minorities at or near parity among their senior ranks. In contrast, less than 30% of employees in firms in the lower quartile for representation were women, and less than 16% of employees were visible minorities, but none of them held senior investment or leadership roles.

A note on the results: diversity takes many forms, including, but not limited to, age, education and socioeconomic background. Due to the small sample sizes at the GP level, we primarily report on gender and ethnic diversity. At the portfolio level, we are able to report data on sexual orientation, disability and veterans, although sample sizes remain lower than for gender and ethnic diversity. We hope to broaden the scope of diversity measured over time as our industry evolves and sample sizes grow.

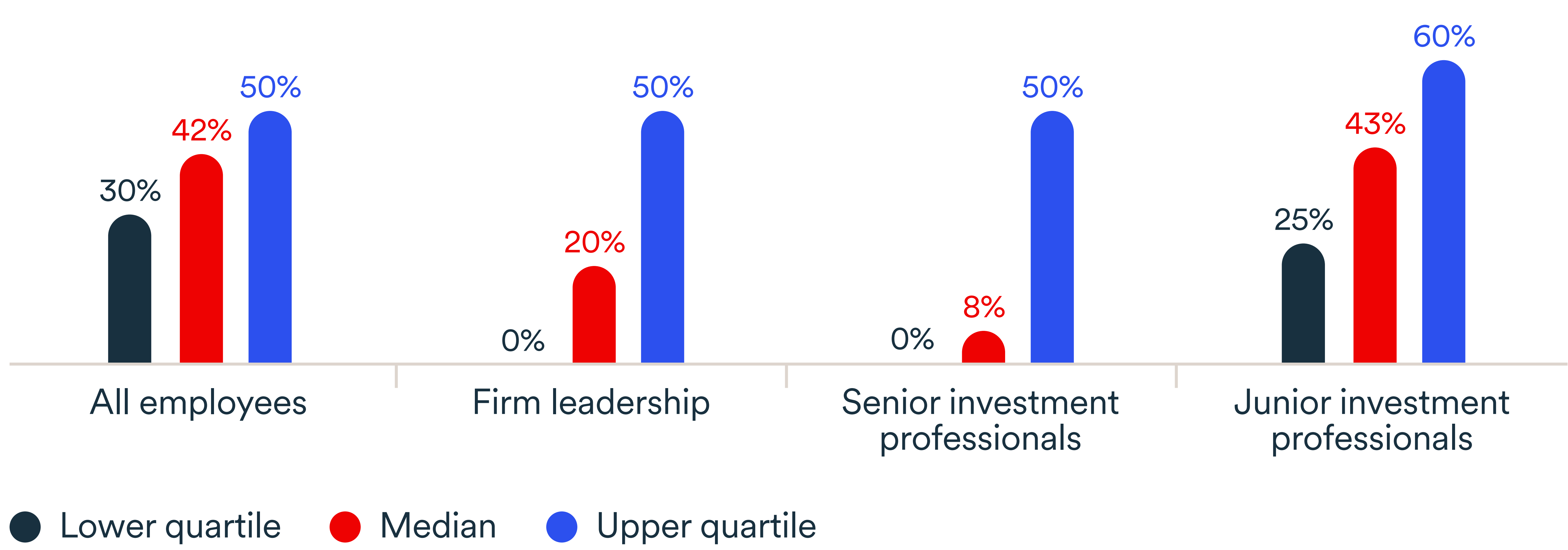
How to interpret this data?

If 50% or more of your firm's leadership team identifies as women, you are among the top quartile of gender-diverse teams in Canada.

This year's results indicate greater gender balance across the senior and junior levels for fund managers in the upper quartile. Performance in this area was more disappointing for GPs in the bottom half of the distribution who reported senior investment teams made up exclusively of men. It is possible that better gender balance at the junior level will translate, over time, into better balance at the senior level.

Similar trends emerged for visible minorities: that is, better representation at junior levels, but a large drop-off at senior levels. At eight firms, 100% of junior investment professionals were visible minorities. At seven firms, 100% of senior investment professionals were visible minorities, but these firms were led by only one senior investment professional.[1]

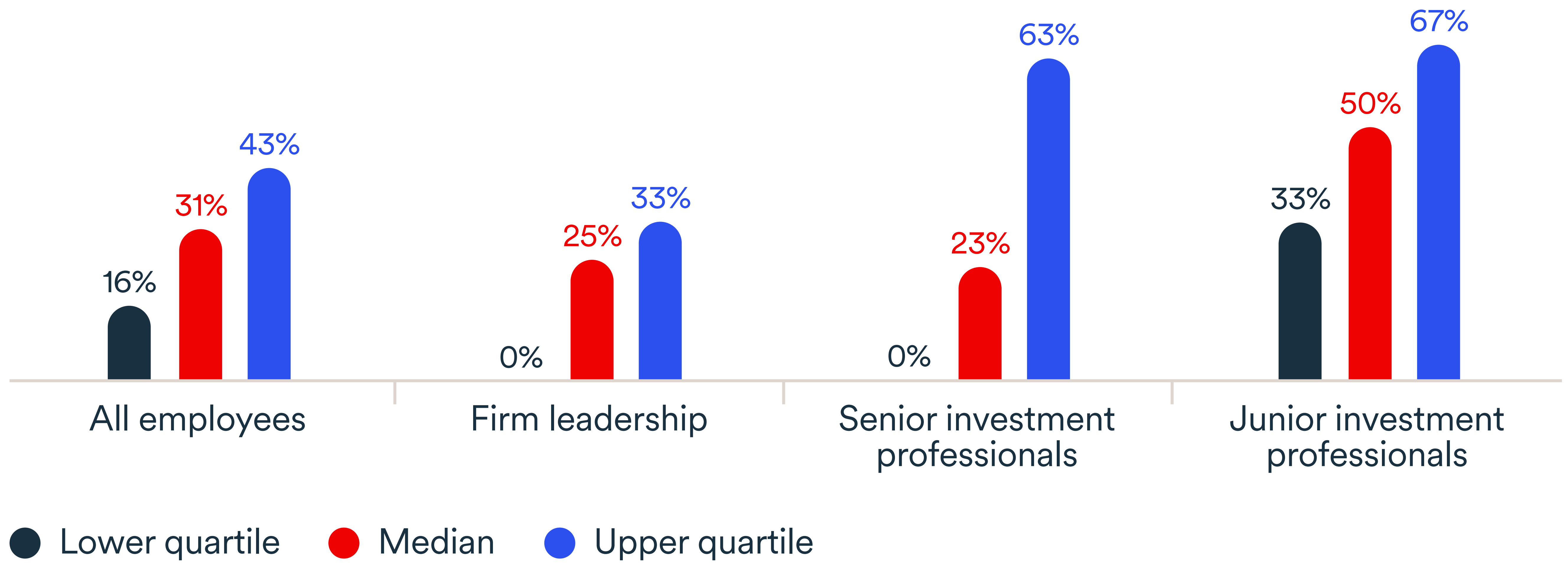
Figure 1: Roles held by women in GP organizations (by quartile)



Sample sizes (number of GPs providing data): All employees = 60. Firm leadership = 51. Senior investment professionals = 32. Junior investment professionals = 45

1 BDC Capital's DEI questionnaire also surveys respondents on non-binary identification, Indigenous identification, sexual orientation, disability and veteran status. The data collected for these groups at the GP-level, however, was not statistically significant enough to build a benchmark, and therefore is not pictured above.

Figure 2: Roles held by visible minorities in GP organizations (by quartile)



Sample sizes: All employees = 57. Firm leadership = 51. Senior investment professionals = 30. Junior investment professionals = 43.

GP Perspective

"At BKR Capital, we believe that the most sustainable way to increase the flow of capital toward talented founders from diverse backgrounds is to take steps to develop and enable new VC/PE leaders from underrepresented communities. This is why we developed a 9-month fellowship program to empower the next generation of investors, founders and stakeholders. To date, a dozen of Black professionals with expertise in different industries have gone through the program, gaining access to invaluable knowledge as well as to a strong network of venture capitalists. They are now using their knowledge and influence to strengthen our ecosystem, and we know this is only the beginning."

Lise Birikundavyi and Isaac Olowolafe, Managing Partners, BKR Capital

Top-quartile GPs provided positive responses to at least 11 out of 15 qualitative questions concerning DEI-supporting HR policies, investment practices and community involvement.

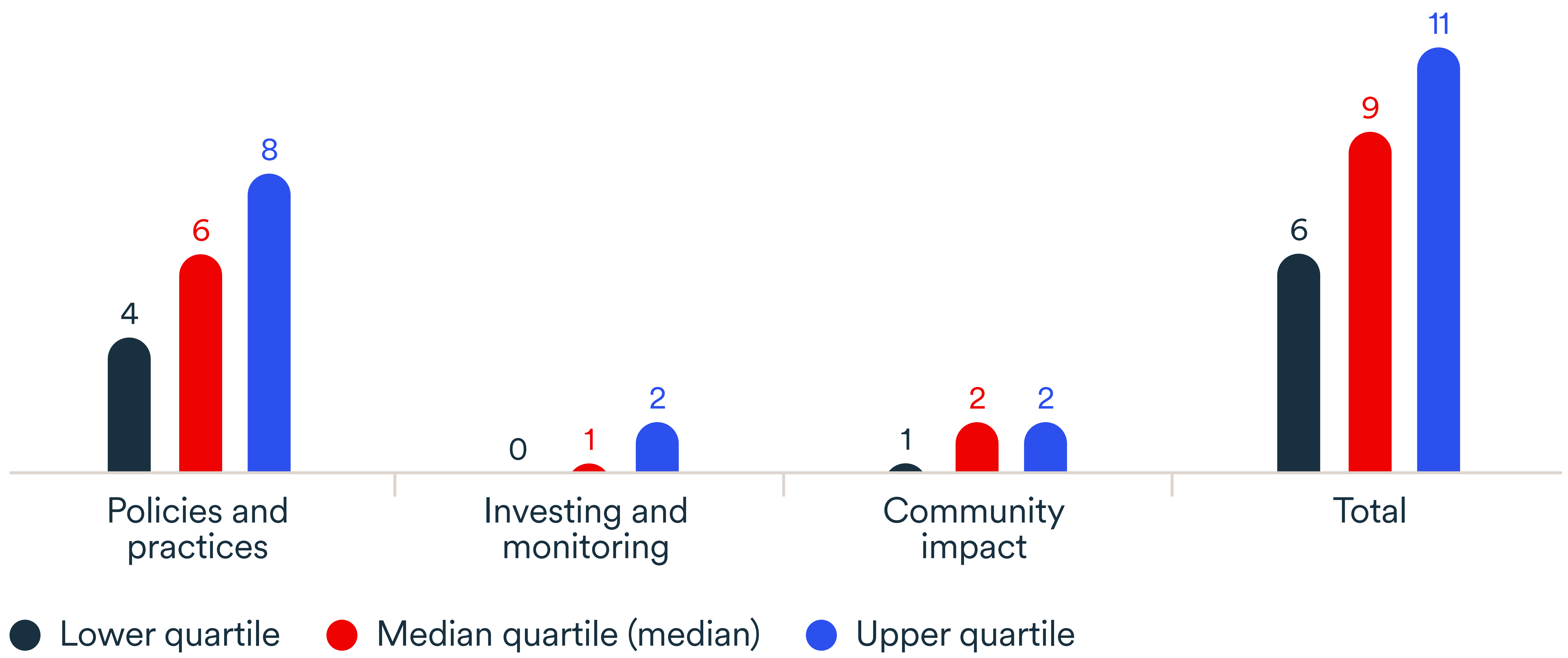
We noted a marked improvement year-over-year in the adoption of HR policies:

- an 11 percentage point increase in firms with a family leave policy and/or flexible work policies that promote work-life balance
- a 12 percentage point increase in fund managers taking steps to remove bias from their hiring processes and/or to widen applicant pools beyond traditional sources.

A handful of GPs indicated that they were in the process of implementing certain policies, so we expect these metrics to improve next year.

On the other hand, we observed a 5 percentage point drop in firms that enforce diversity investment targets, such as through diversity on boards or among senior management.

Figure 3: DEI policies and practices, benchmark for GPs



Sample sizes: Policies and practices = 50. Investing and monitoring = 63. Community impact = 62.

GP Perspective

"In the last three years, CTI Life Sciences has been making significant strides to ensure the best DEI-ESG working environment: our team is now more attuned to diversity challenges, engaging in meaningful discussions and actively addressing them, all while proactively seeking to include diverse perspectives. Beyond the creation of an organizational DEI strategy, we are also establishing new HR policies on parental leave and health issues, underscoring our commitment to continuous improvement and inclusivity."

Laurence Rulleau, Managing Partner, CTI Life Sciences

A deeper dive

GP-level results

1. Policies and practices: Widespread adoption gradually increasing

There has been minimal change year over year in the diversity of both GPs and their underlying portfolios. This was not surprising, given that changes to firm staffing and portfolio composition can take years to work through. Lower-hanging fruit, such as the adoption of policies and procedures to foster a more equitable workplace, saw either flat performance (where participation was already high) or year-over-year increases.

We did see some backsliding in the number of GPs that had established representation targets for portfolio company boards or teams. While 30% reported doing so in 2021, the number rose to 38% in 2022 and dropped back to 33% in 2023.

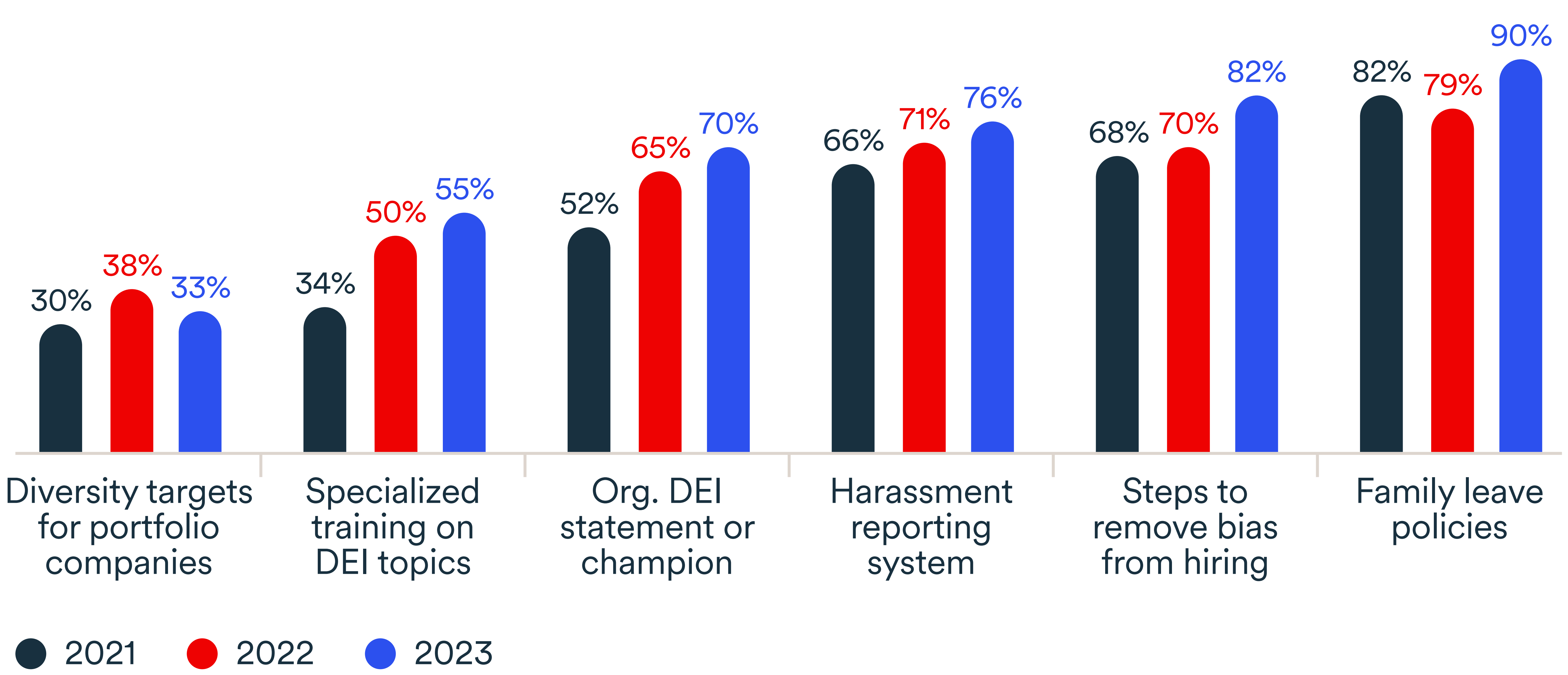
The good news is that several of the GPs that currently lack these measures are starting to develop them. Overall:[2]

- 70% have a DEI statement or strategy
- 12% are working on these

And when it comes to support for employees:

- 45% and 55% have mentorship programs for diverse hires and training for employees on DEI topics, respectively
- 12% are developing these

Figure 4: GP adoption of DEI-supporting policies; year-over-year change



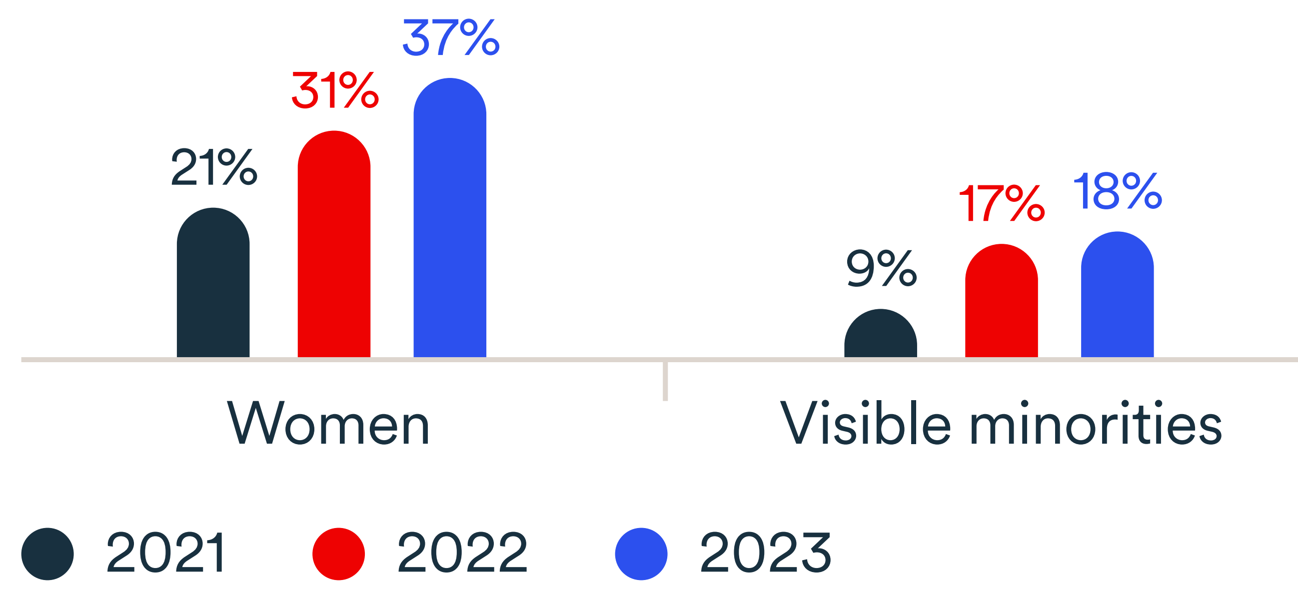
Sample sizes: Diversity targets = 63. Specialized training = 49. DEI statement or champion = 50. Harassment reporting system = 49. Steps to remove bias from hiring = 62. Family leave policies = 49.

2 Sample sizes vary year-over-year.

2. Staff composition: Continued progress

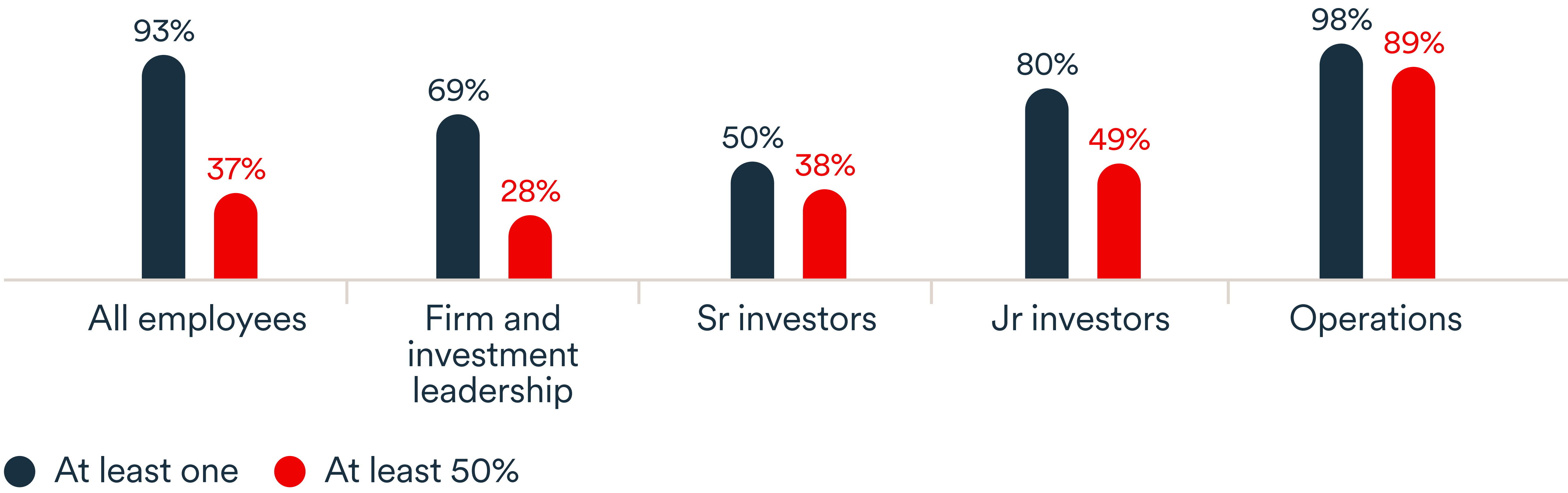
GPs continued to advance on gender diversity, with 37% of fund managers reporting that women made up at least half of their staff (up from 31%). Metrics for racial diversity improved slightly, with 18% of fund managers reporting that at least half of their employees were visible minorities (up from 17%). There has been a meaningful increase in diversity among senior investment teams (a 9 percentage point increase in teams with at least one woman year over year, and a 13 percentage point increase for visible minorities), with only a small change in the sample size (32 firms versus 34 in 2022).[3] There were similar year on year improvements at the leadership level as well.

Figure 5: GPs in which women or visible minorities make up at least half of employees



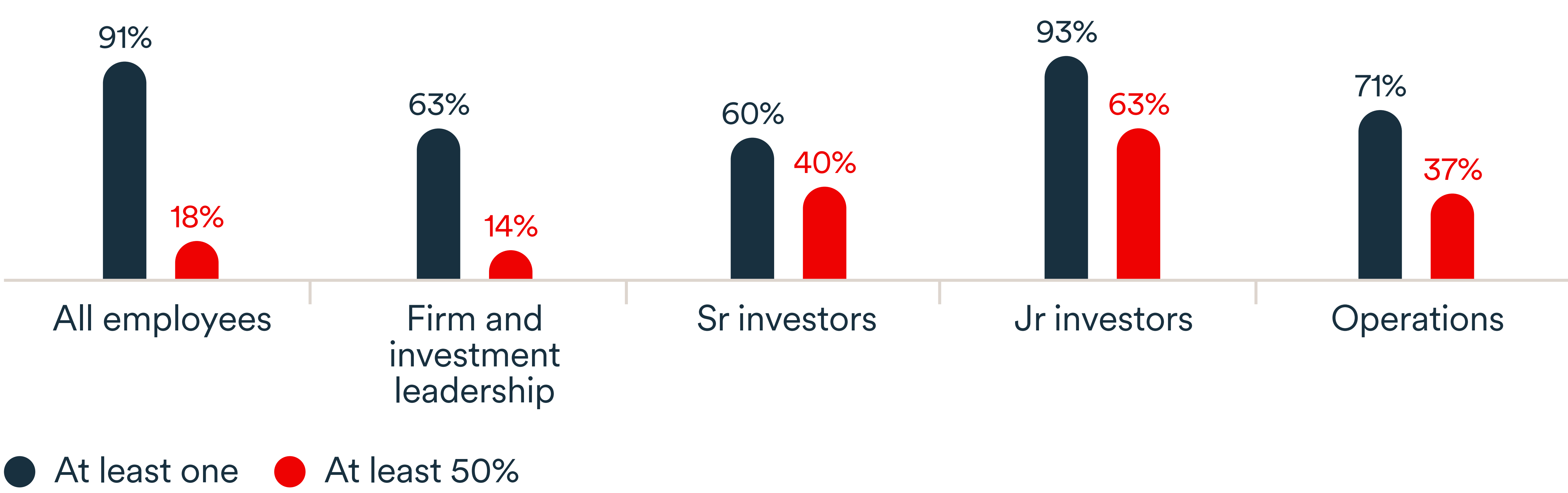
Sample sizes: Women = 60. Visible minorities = 57.

Figure 6: Women at GPs by role



Sample sizes: All employees = 60. Firm and investment leadership = 51. Senior investors = 32. Junior investors = 45. Operations = 26.

Figure 7: GP staff who identify as visible minorities, by role



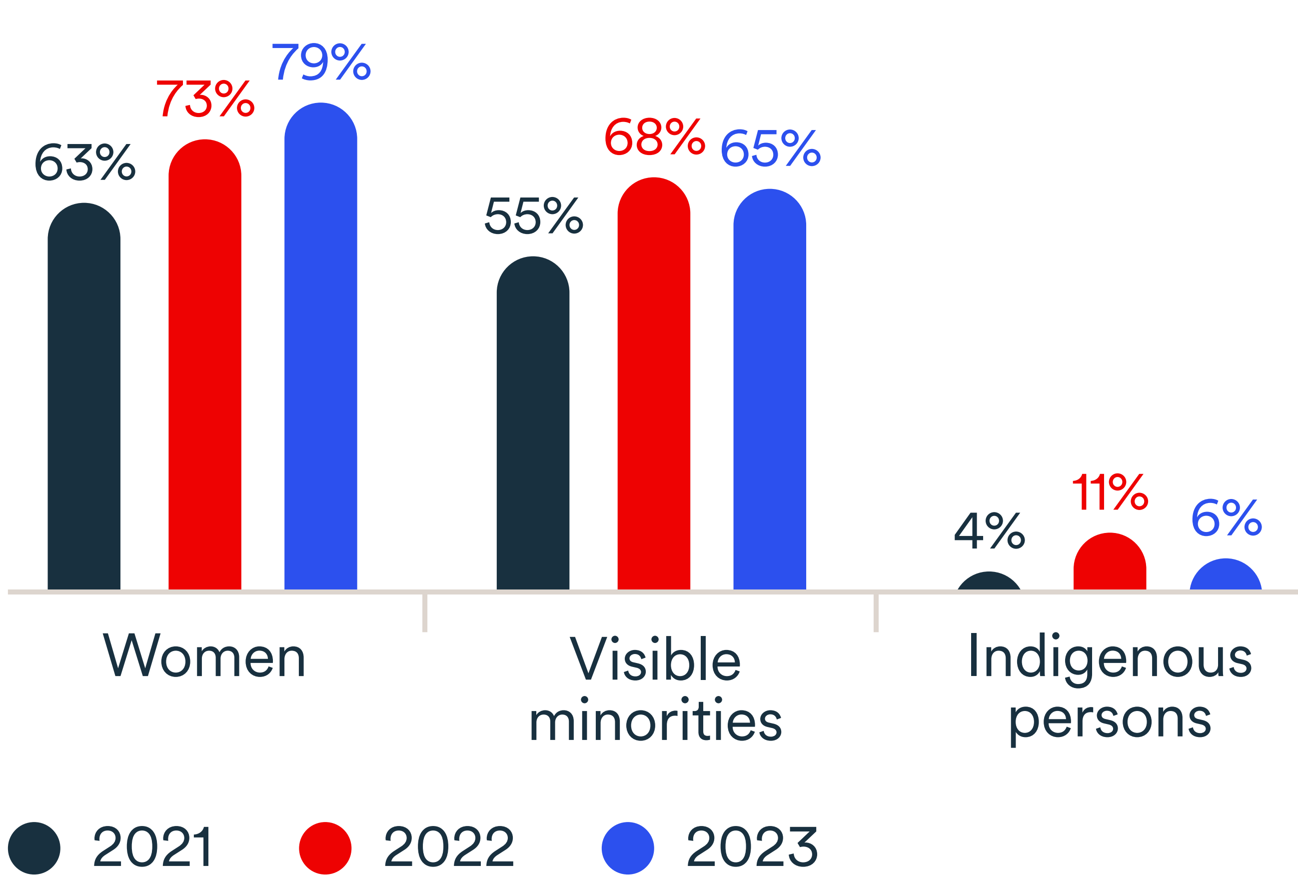
Sample sizes: All employees = 57. Firm and investment leadership = 51. Senior investors = 30. Junior investors = 43. Operations = 20.

3 For context: Last year, if a GP did not explicitly indicate a "0" in a field, their response was not counted. (We did not want to assume zeroes, recognizing that some GPs refused to survey their employees about selected data on principle.) To support comparability, we used the same methodology again this year. However, it is worth noting that this approach is driving percentages up slightly.

3. GP ownership and investment committee composition: Mixed results

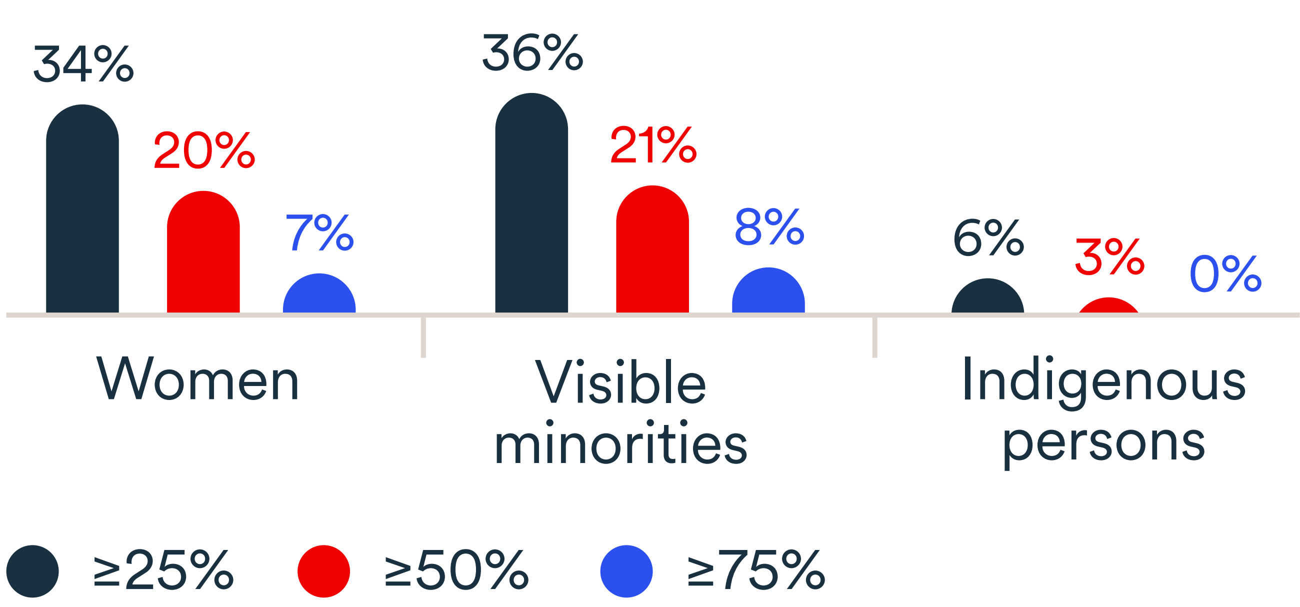
In this area, we see a positive year-over-year trend for women but mixed results for visible minorities and Indigenous peoples.[4] More all-man and all-woman GPs are forming, but fewer all-man investment committees (21% from 27%). More than half of GPs (55%) are entirely owned by men, although 69% have at least one woman in a leadership role. In contrast, only 5% of firms are entirely owned by women. While the number of entirely women-owned firms increased from the previous year (by 3 percentage points), this was outpaced by the growth in entirely men-owned firms (which grew by 7 percentage points).

Figure 8: GPs with investment committees that include at least one woman, visible minority or Indigenous person



Sample sizes: Women = 47. Visible minorities = 46. Indigenous persons = 34.

Figure 9: GPs that are at least 25% to 75% owned by women, visible minorities or Indigenous individuals



Sample sizes: Women = 41. Visible minorities = 39. Indigenous persons = 34.

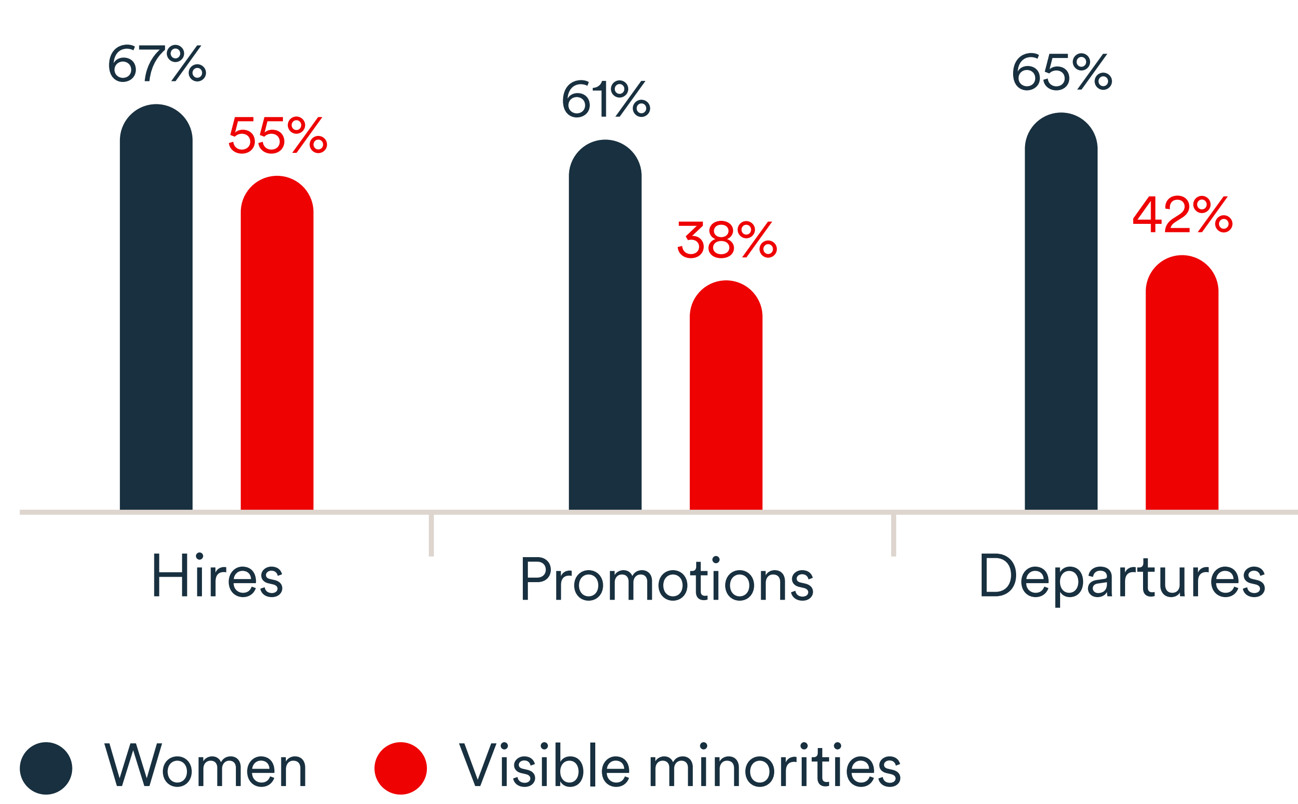
4. Joiners and leavers: Women may not be sticking around

There were more GPs this year in which women made up at least 50% of new hires and promotions. However, there were also more instances of women constituting more than 50% of departures. This could mean that, while efforts to diversify hiring are paying off, more attention must be paid to retaining women employees.

The results for visible minorities were more encouraging. At least half of new hires at firms were visible minority employees (55%), but only 42% of firms had more than 50% of their departures by visible minority employees.

It should be noted that this sample size decreased meaningfully year over year, likely due to fewer promotions, departures or hires in what was ultimately a less growth-focused year for the industry overall.

Figure 10: GPs in which women or visible minorities represent at least 50% of new hires and promotions



Note: Sample sizes: Women: hires = 30; promotions = 23; departures = 23. Visible minorities: hires = 29; promotions = 21; departures = 19.

4 The Indigenous persons group is especially sensitive to sample composition, with the year-over-year change heavily dependent on whether certain firms participate in the survey.

Portfolio-level results

1. Employee representation: Needs work

Majority-white and -men teams continue to be the prevailing model across the companies surveyed, with women and visible minorities less present in senior roles:

- 95% of companies have at least one woman employee
- 75% of management teams have at least one woman member
- 57% of company boards have at least one woman member

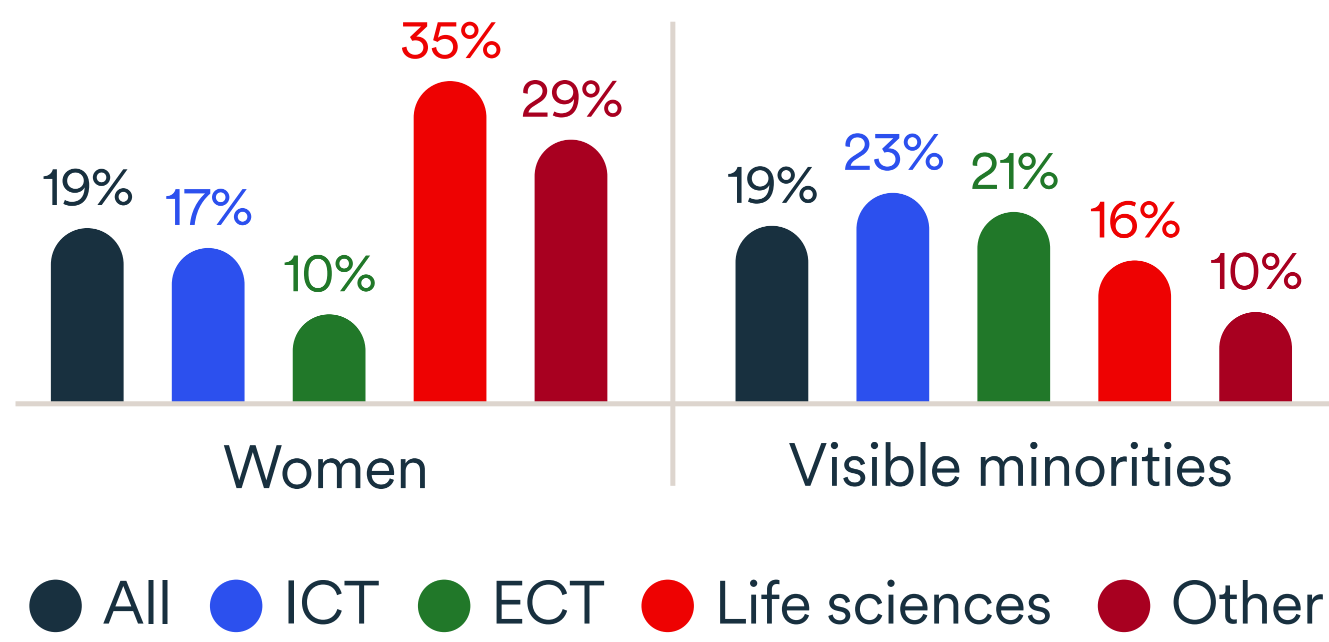
These dynamics hold across ethnicity and sexual orientation.

By sector, life sciences is the most gender-diverse, with 35% of teams overall and 30% of management teams in particular being at least 50% comprised of women.

ECT is the least gender-diverse sector, with only 10% of teams overall and 11% of management teams in particular being at least 50% comprised of women. The range for racial diversity is even narrower, with most sectors within 5% of the average.

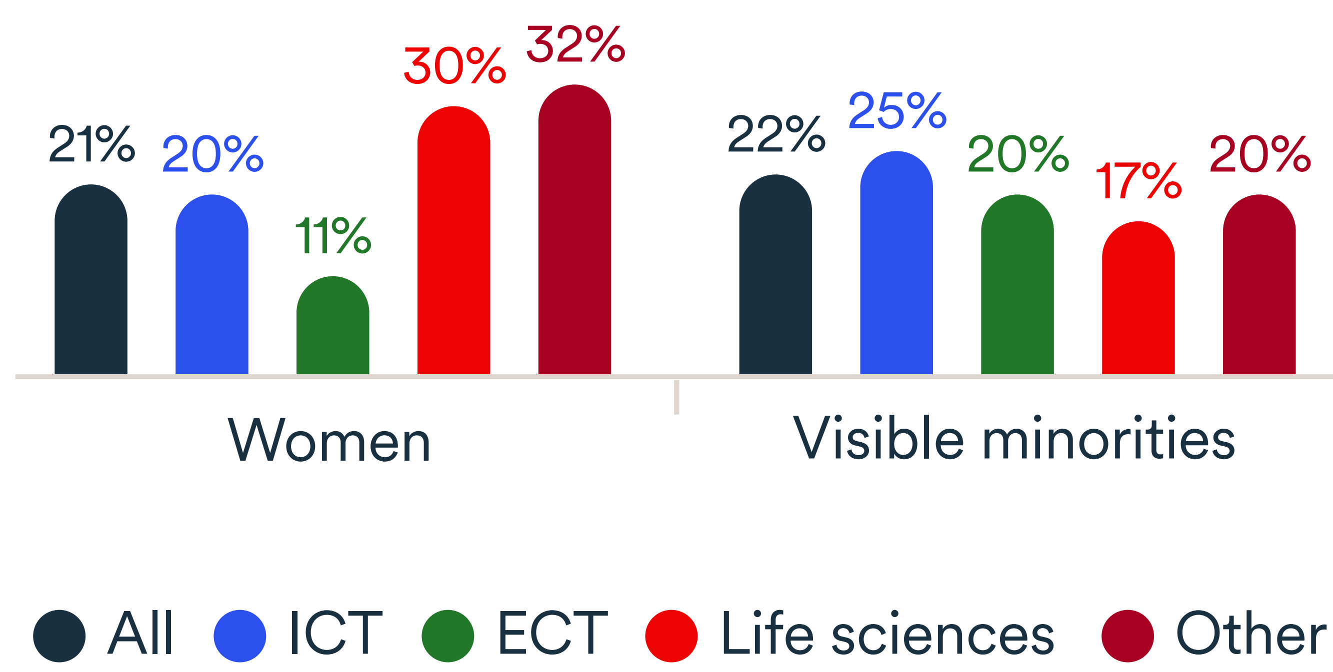
While most companies have at least one woman or visible minority employee, members of other diverse groups continue to be less common, especially at the management level. It is important to note that response rates for these categories tend to be lower than for gender and ethnicity; one possible reason is that not all managers use self-reporting and, therefore, are not aware of less visible characteristics.

Figure 11: Companies in which women or visible minorities make up at least 50% of all employees, by sector



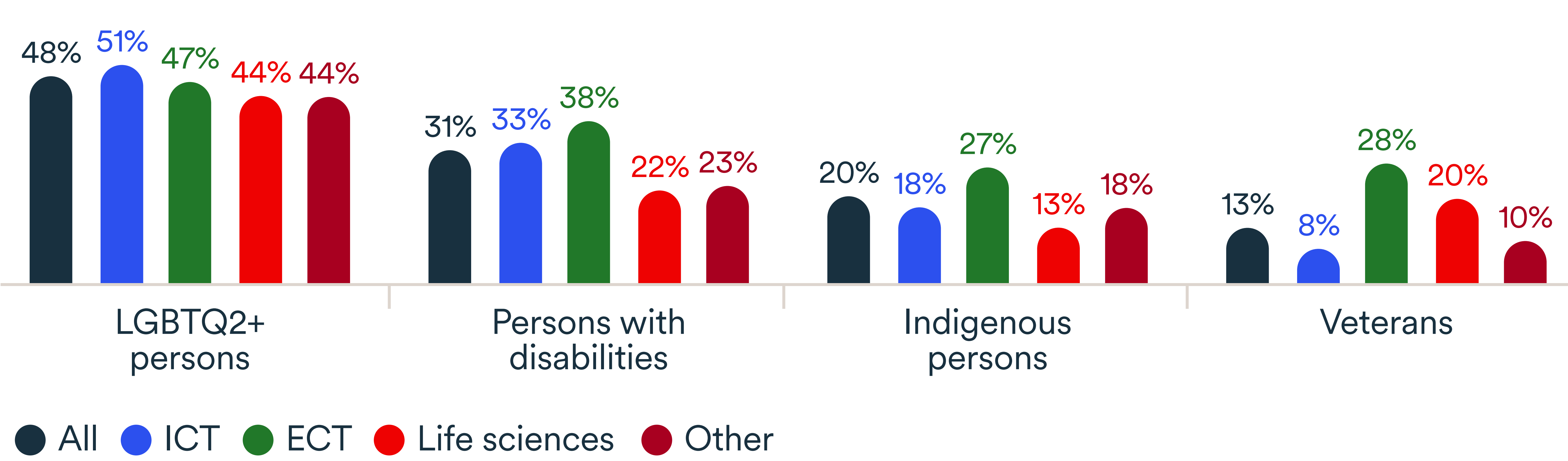
Sample sizes (number of companies providing data): All = around 450. ICT = around 225. ECT = around 85. Life sciences = around 60. Other = around 55. Note: Sample sizes vary slightly between women and visible minorities.

Figure 12: Companies in which women or visible minorities make up at least 50% of the management team, by sector



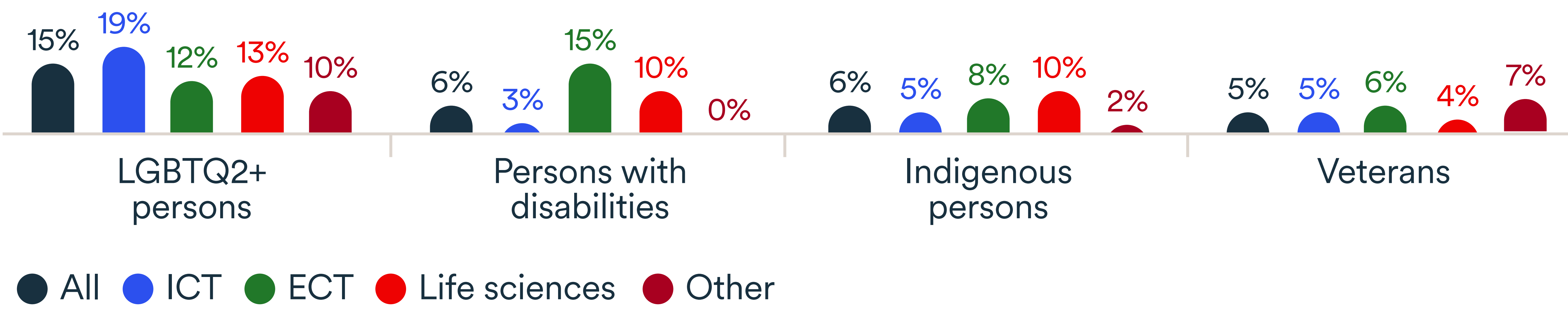
Samples sizes: All = around 450. ICT = around 225. ECT = around 85. Life sciences = around 70. Other = around 55. Note: Sample sizes vary slightly between women and visible minorities.

Figure 13: Companies with at least one of the following team members among all employees



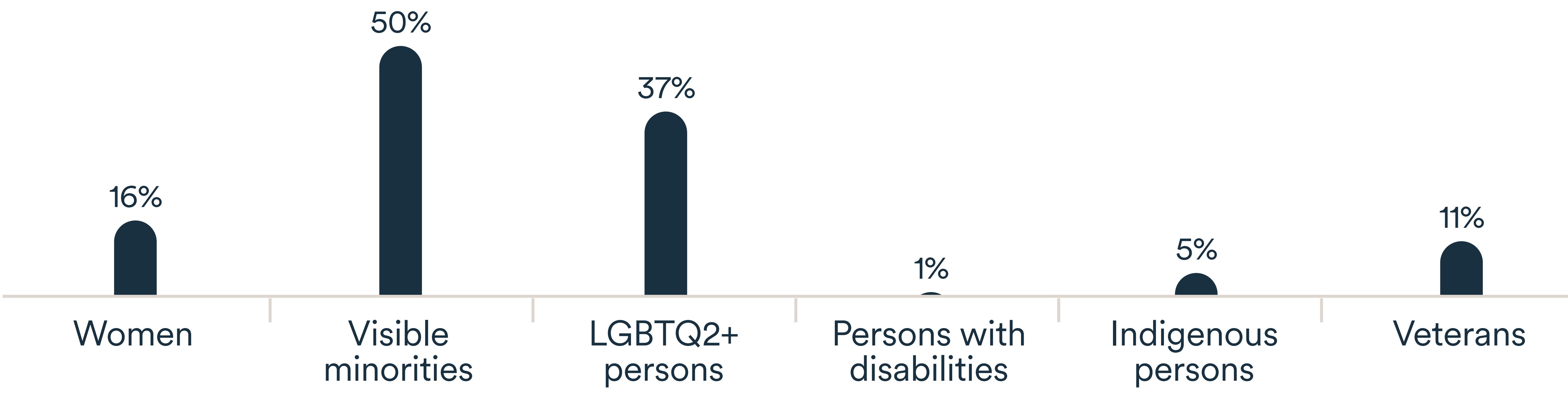
Sample sizes. All = around 300. ICT = around 150. ECT = around 50. Life sciences = around 40. Other = around 40. Note: Sample sizes vary slightly between women and visible minorities.

Figure 14: Companies with at least one of the following team members among management team employees



Sample sizes. All = around 300. ICT = around 150. ECT = around 50. Life sciences = around 40. Other = around 40.
Note: Sample sizes vary slightly among represented groups

Figure 15: Companies where the proportion of employees from particular diverse groups reflect the composition of Canada's population



Sample sizes in table

This year, we also compared companies to the general Canadian population (based on latest available data in 2021 Census) in terms of diversity characteristics. In other words, if 3% of the Canadian population identifies as LGBTQ2+, do 3% of a company's employees identify that way?

Interestingly, we found that the proportion of visible minority employees reflected the broader population of Canada (26.5%) in exactly half of companies reporting detailed data. On the other hand, only 16% of companies had a proportional representation of women (50.9%).

Underrepresented group	Canadian population	Underlying companies with proportional representation or better	Total companies that responded	% of underlying companies with proportional representation or better
Women	50.9%	78	498	16%
Visible minorities	26.5%	192	381	50%
LGBTQ+ persons	3%	110	299	37%
Persons with disabilities	27%	2	300	1%
Indigenous persons	5%	15	332	5%
Veterans	1.5%	30	285	11%

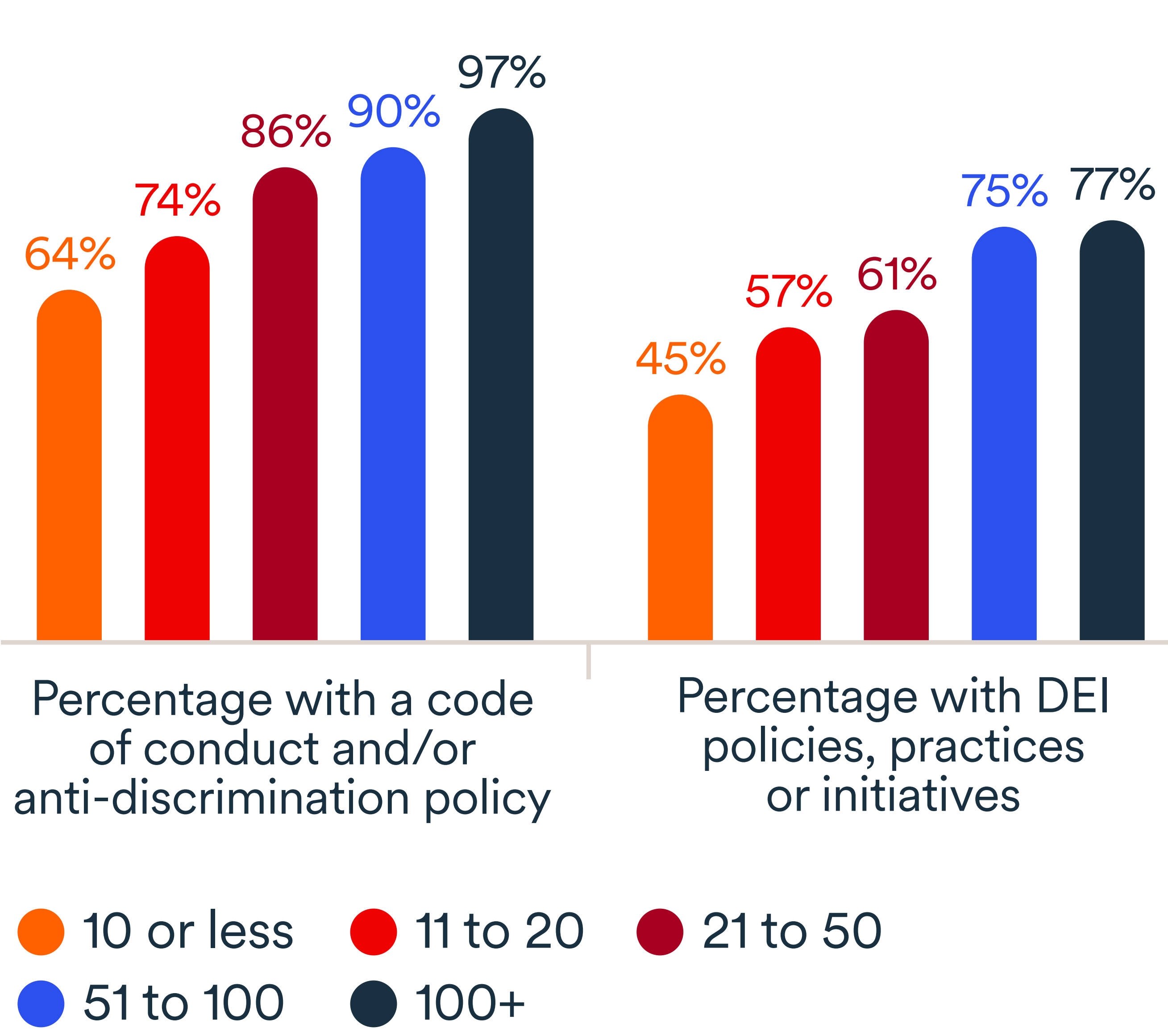
Note: Based on latest available data in 2021 Census.

2. DEI policies and practices: Better with scale

Improving DEI within an organization doesn't happen overnight, and it doesn't happen by accident—a corporate DEI strategy is essential in helping companies define their vision and set clear goals to guide activity. Policies like codes of conduct help set a baseline and expectations for acceptable behaviour in the workplace. Data shows that companies make more use of codes of conduct and/or anti-discrimination policies (83% on average) and DEI policies and practices (63% on average) as they generate more revenue and increase the size of their workforce.

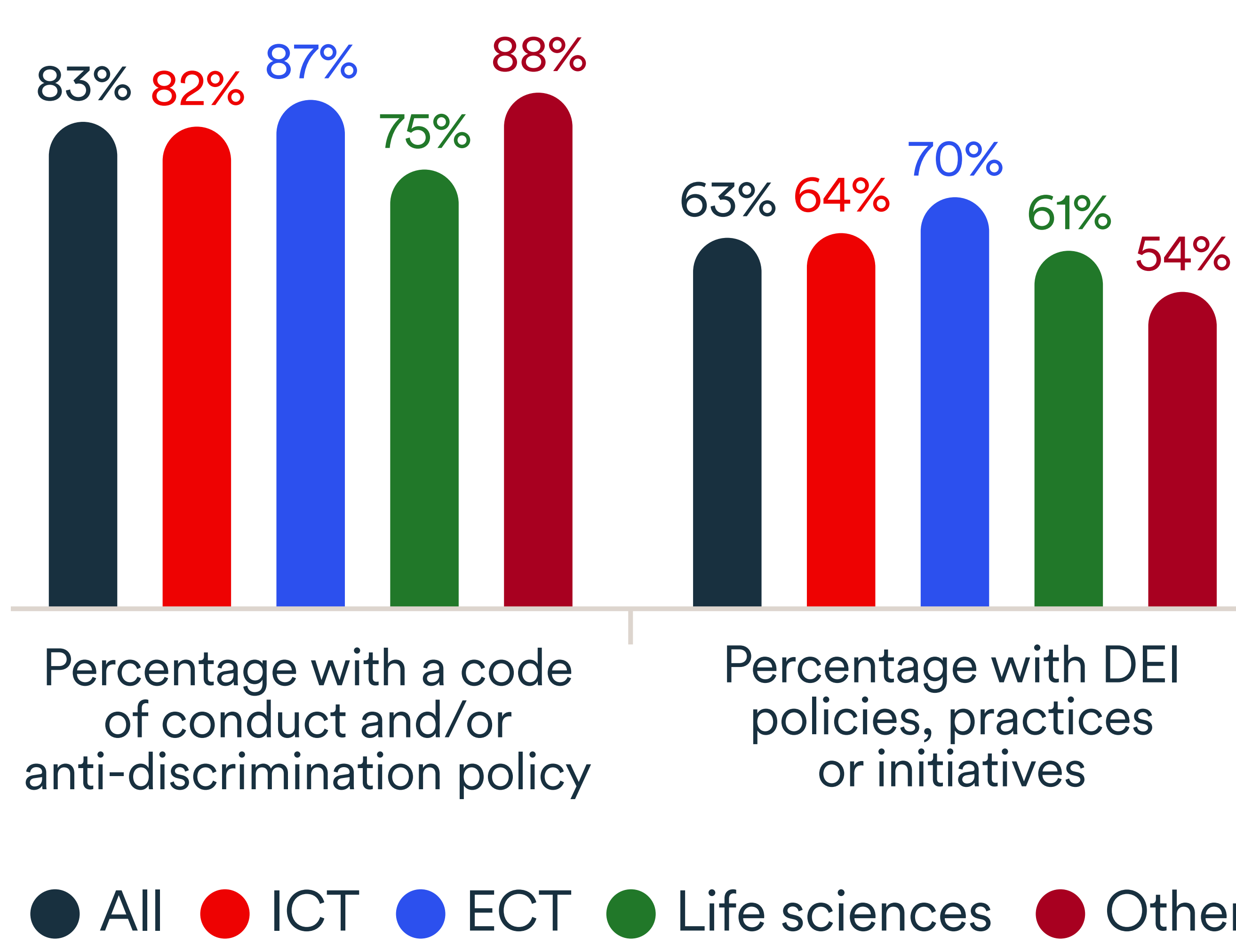
ECT companies are above average in adopting such policies (with 87% having a code of conduct and 70% having a DEI policy). In comparison, life sciences companies lag (with 75% having a code of conduct and 61% having a DEI policy).

Figure 16: As companies scale up, they are more likely to adopt codes of conduct and DEI policies



Sample sizes: Code of conduct = 510. DEI policies = 534.
Note: The legend indicates employee count.

Figure 17: ECT firms have higher adoption of codes of conduct and DEI policies



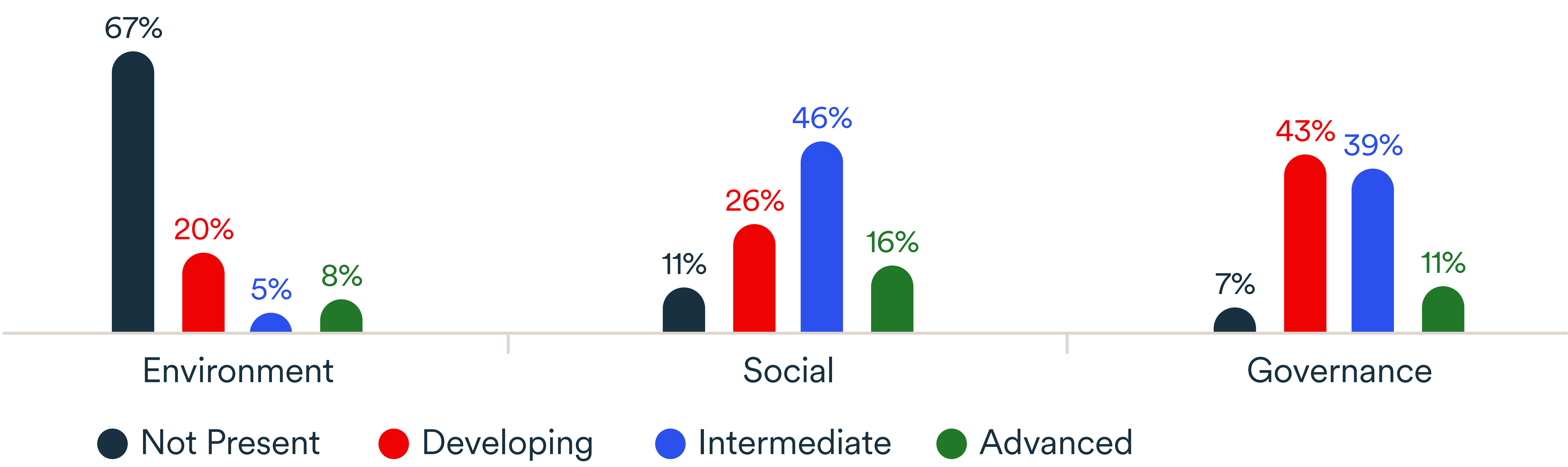
Sample sizes. All = around 520. ICT = around 260. ECT = around 100.
Life sciences = around 70. Other = around 65.
Note: Sample sizes vary slightly between questions.

ESG results

Our ESG template includes a framework to grade progress on ESG integration. For example, when looking at carbon emissions reporting, “Developing” means there may be anecdotal reporting on carbon emissions, whereas “Advanced” means the GP has set science-based targets and reports annually on progress towards those targets. Of the GPs that participated in our ESG survey, more adopted policies related to social and governance than to climate.

This is probably due to the relative ease of advancing on certain social and governance items (for example, adopting a whistleblower policy, implementing an investment exclusion list, or identifying ESG risks during investment diligence) versus environmental items (such as formulating a carbon-neutral objective, developing a corporate policy to reduce business air travel, or adopting a carbon-offsetting tool).

Figure 18: Adoption of social and governance-related policies versus climate policies



Sample size: 61

GP Perspective

"We believe that firms and funds with sustainable and socially responsible practices reduce risk, leading to greater cost efficiency, profitability, higher valuations for portfolio companies, and better returns for investors. Early-stage company leaders face challenges navigating complex ESG frameworks due to limited knowledge and resources. That is why we developed a proprietary tool for our companies that provides a tailored ESG roadmap, underpinned by meaningful resources to help leaders focus on material issues at each stage of growth and implement strategies.”

Sophie Gupta, Principal & Head of Responsible Investing, Yaletown Partners

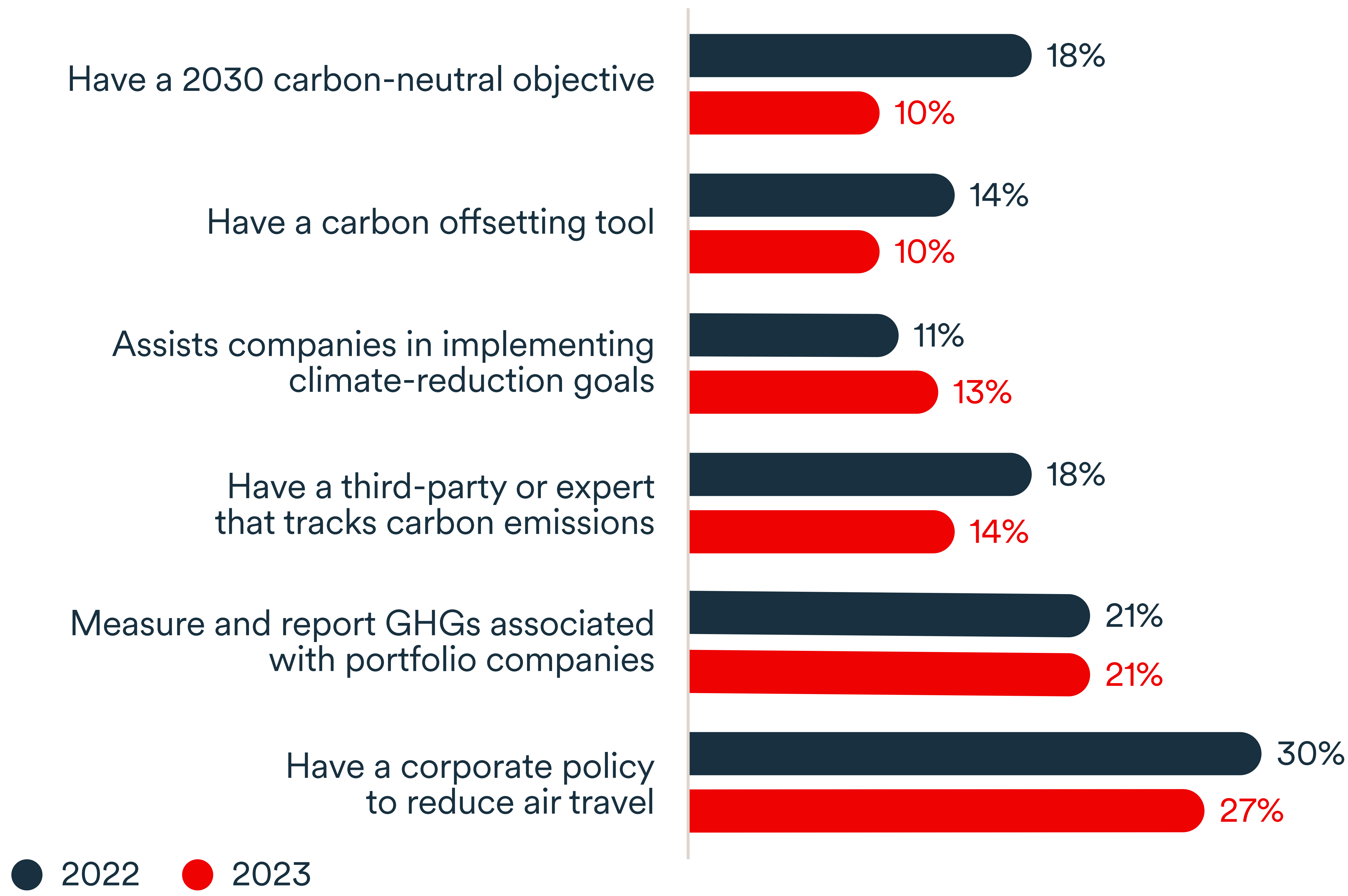
Environmental performance

At the GP level

The overall response from GPs to questions about quantitative climate measures was low. The most answered question was about distances travelled for business travel (with 21 out of 63 firms responding on ESG overall); and the least answered question was about greenhouse gas emissions, with just nine GPs sharing their scope-1 emissions and five sharing their scope-3 emissions.

GPs have also been slow to adopt climate-related policies. However, sample size changes may partially drive year-over-year decline. For example, the number of GPs with a corporate policy to reduce air travel was the same in 2022 and 2023, but more GPs answered the question this year. Policies are one thing, but when it comes to concrete objectives, firms seem to be stepping back from previously communicated plans, with a smaller percentage of firms having a 2030 carbon-neutral objective this year.

Figure 19: Climate policy adoption rates



Note: 2022: 44 to 56 depending on the question. 2023: 49 to 61 depending on the question.

Accounting tools we include in our ESG survey

BDC recently launched an Excel-based GHG calculator which can serve as a great starting point for companies to understand their footprint. We also include the following accounting tools in our ESG survey as examples (though not endorsements) of platforms that can help firms measure and manage their ESG reporting:

- Canadian providers: Carbonhound, Carbon Neutral Club, ESG Tree, Figbytes, Metrio, Novisto
- U.S. providers: Apex, Metric ESG, Novata, Persefoni, Pulsora, Green Project, OneTrust

At the portfolio level

Similar to GPs, the overall response rate from companies on quantitative climate measures was low (with only 125 or 10% of firms responding). These results will be categorized in the future as response rates increase.

Positives

- More companies avoided operating on ecologically sensitive sites (56%, up from 49%), with ECT firms leading the way (75%).
- More firms took steps to manage water-related risks (20%, up from 14%), with ECT firms rising the most (27%, up from 16%).

Negatives

- Although more companies avoided operating on ecologically sensitive sites than last year, doing so seems more challenging as firms grow. Of the businesses that said they avoided this practice:
  - 65% have 10 employees or less
  - 48% have 100 employees or more
- Only 4% of companies have made a carbon-neutral pledge.

Company Perspective

"With a mission to become one of the world's largest supply chain businesses, we knew we'd become a large emitter, but we wanted to make sure our emissions didn't grow at the same rate as our business. Our first step was to be able to measure our emissions. We partnered with a local ESG consultancy and they helped map our delivery data into a GHG protocol accepted format. This led to an automated engine that calculates each customer's emissions on a monthly basis and also helps us report on our avoided emissions from EV deliveries. In addition to measuring and accurately reporting on emissions, the calculator has helped us to attract large retailers who require emissions reporting from their service partners to meet their own emissions reduction targets."

Jarrett Stewart, SVP Commercial, GoBolt

Social performance

Since DEI is a major component of a company's social performance, we will continue reporting on it separately until there is more DEI progress in the industry.

At the GP level

There is no clear trend for GPs' implementation of socially related policies, with some metrics up and others down from 2022.

Improvement

- More GPs evaluated whether their portfolio companies' supply chains pose ESG risks (47%, up from 34%)

Decline

- Fewer GPs supported employees who volunteer during work hours (74%, down from 81%)
- Fewer GPs ran an annual employee engagement survey (45%, down from 53%)

On the other hand, about the same number of GPs offered components of an employee wellness program, such as flexible hours and personal mental health days (92%, slightly down from 93%).

Employee engagement surveys help companies identify and resolve issues

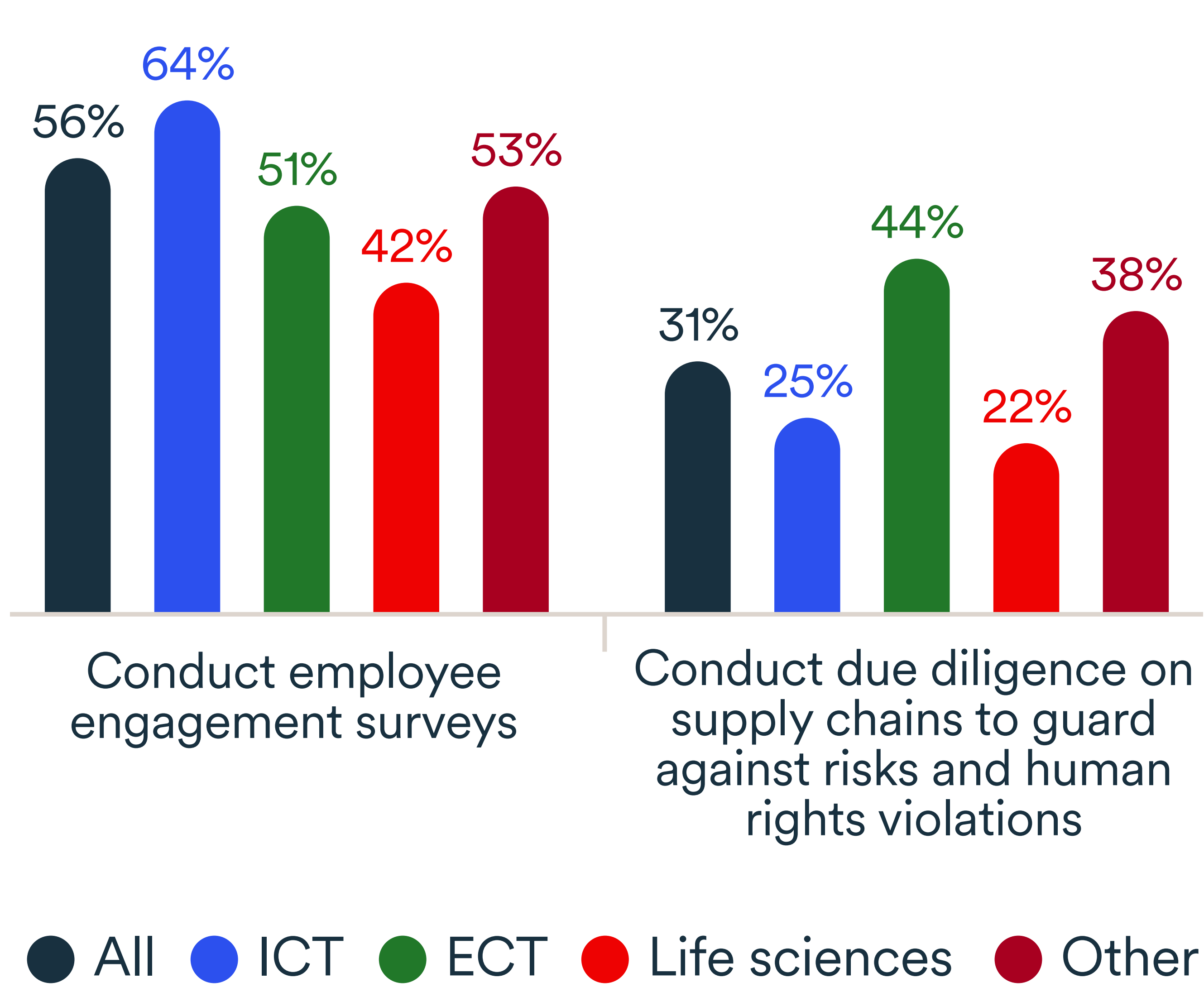
Fewer than half of GPs run annual employee engagement surveys, which means they may be missing the opportunity to deal with issues—or even wrongdoings—before they become significant problems.

At the portfolio level

When it comes to employee engagement surveys and supply chain diligence at the portfolio level:

- Life sciences companies lag significantly on both measures.
- ICT companies are most likely to conduct employee engagement surveys, which improves linearly with company size. For example, only 21% of companies with 10 or fewer employees conduct employee surveys, whereas 80% of companies with 100+ employees do so.
- Although improved by 2% since 2022, only 31% of all responding companies conduct due diligence on supply chains to determine risks (e.g., use of sanctioned vendors, unethical behaviour, discrimination) and human rights violations. ECT companies outperform the average on this measure, while ICT and life sciences companies lag.

Figure 20: Companies that engage employees and monitor supply chains



Sample sizes: All = around 470. ICT = around 230. ECT = around 100. Life sciences = around 75. Other = around 60. Note: Sample sizes vary slightly between questions.

Governance performance

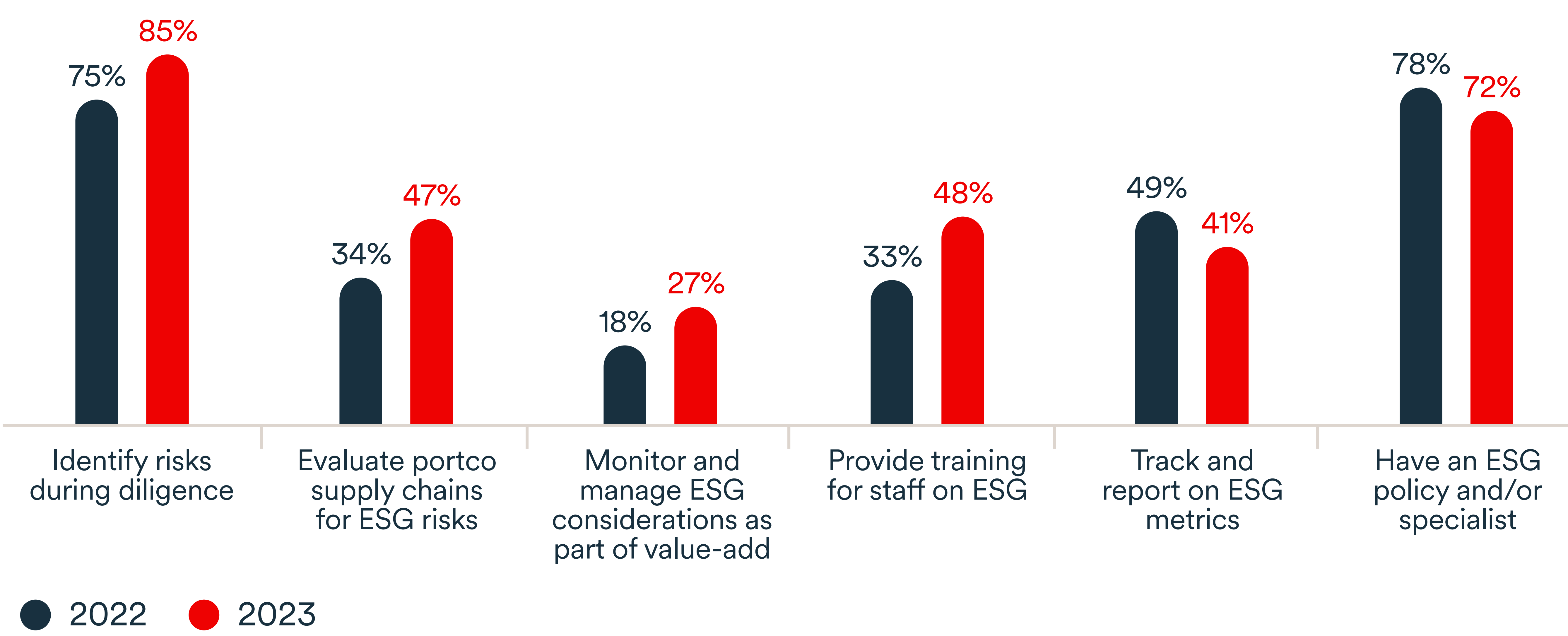
At the GP level

Generally, year-over-year performance was flat for internal and portfolio policies related to ESG (governance).

An increasing number of GPs are identifying ESG risks during their due diligence and factoring ESG into their investment decision-making, which is promising.

More are also evaluating their portfolio supply chains for ESG risks. We also saw an increase in whistleblower policies.

Figure 21: ESG integration at the GP level



Sample sizes: 50-60.

We observed a big jump in the number of GPs providing training for staff on recognizing ESG-related risks (48%, up from 33% last year). Additionally, more firms have assigned ESG oversight responsibilities to key investment decision-makers.

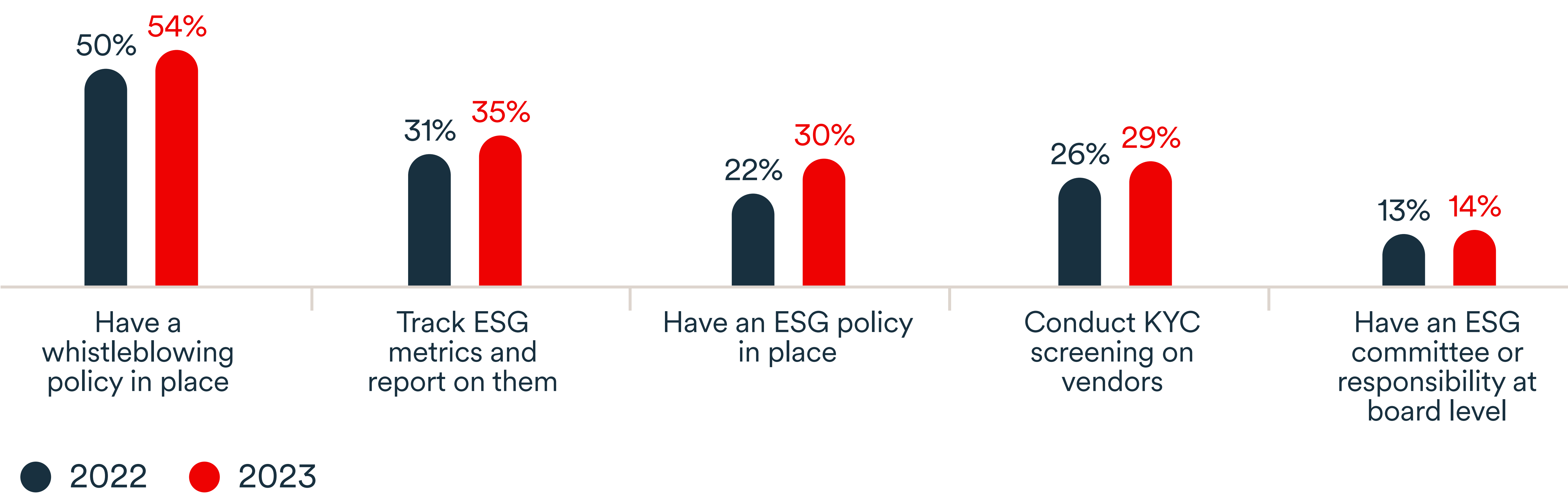
However, fewer GPs said they were tracking and reporting on ESG metrics versus targets or benchmarks. In addition, few GPs incorporate ESG objectives into management's performance reviews, creating a barrier to overall firm-wide uptake and emphasis.

At the portfolio level

We observed substantial growth in the adoption of ESG policies at the portfolio level, albeit starting from a relatively low baseline. An increasing number of companies are implementing whistleblowing policies, adopting ESG policies, and tracking and reporting ESG metrics.

However, ESG oversight and “know your client” screening on vendors for compliance with sanctions remain less common.

Figure 22: ESG integration at the portfolio level

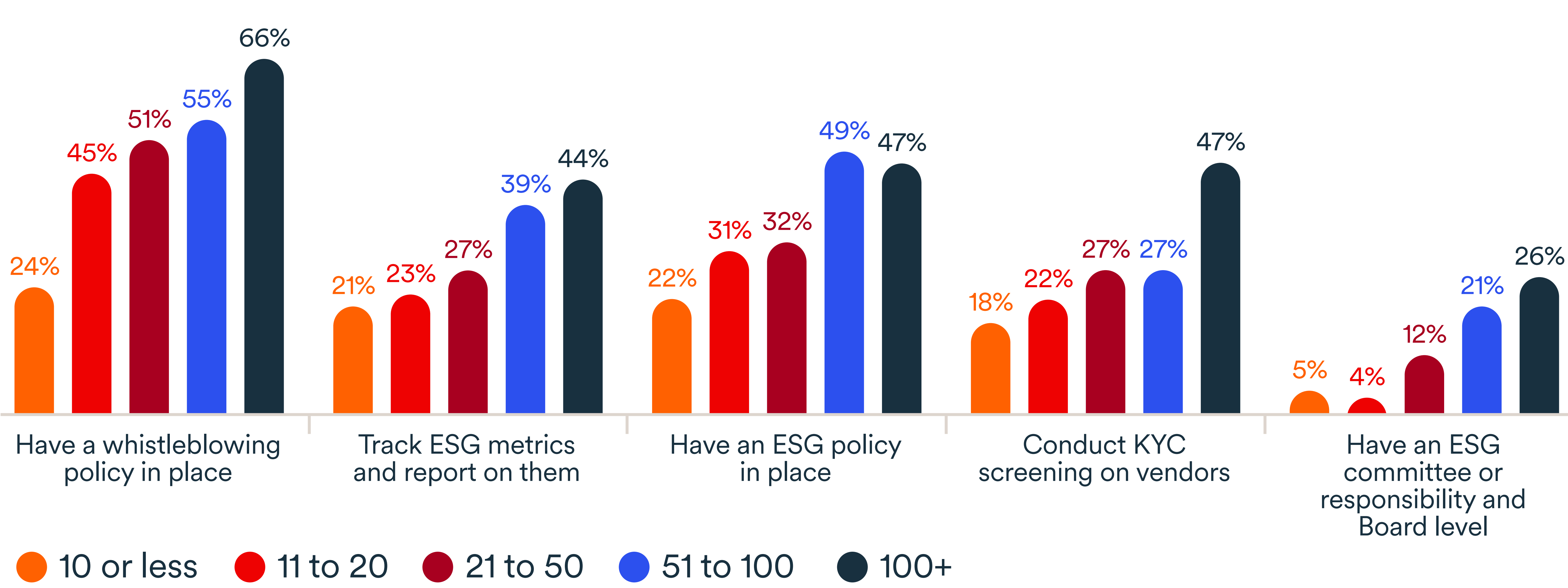


Samples sizes = about 500.

As with 2022, just over half of companies surveyed (55%) had an independent board member. ECT, life sciences, and niche funds were more likely than average to have this. For example, 64% of life sciences companies had an independent board member.

An independent board member can provide objective oversight, enhanced accountability, a diverse perspective, better risk management, and a closer focus on ESG. As the following chart shows, all these metrics improve as companies grow.

Figure 23: Companies with ESG strategies in place, by size



Sample size = around 500. Note: The legend indicates employee count

Closing thoughts

We would like to thank the industry participants who contributed to this year's reporting exercise. Your responses are helping us build knowledge that can guide the VC/PE ecosystem along a more sustainable path to derive the social and business benefits of DEI and ESG.

Overall, this year's data paints a picture of a Canadian private capital industry that continues to elevate its game on collecting information and using it to improve DEI and ESG performance.

However, the data also tells us much work is still needed. While gathering data is an essential first step, the ultimate objective is to translate it into tangible actions. The process to initiate such actions needs to occur more frequently and requires the involvement of all stakeholders.

GPs should adopt anonymous surveys to encourage self-reporting, which generates more accurate and complete DEI data. They should also support their portfolio companies in adopting these best practices. LPs should invest in managers with strong DEI and ESG values and performance. Portfolio companies need to improve compliance.

All parties must take subsequent actions to ensure the beneficial changes they implement endure. For example, improving employee diversity through better hiring practices is an excellent evolution. But at the same time, support systems must be established to retain diverse employees, encourage their upward mobility, and ultimately improve the diversity of management teams and boards.

Standard for sustainability disclosures in capital markets advanced significantly in 2023 with the release of the IFRS S1 and S2 standards, and this development continues to progress. As clients, investors and regulators push for greater transparency, ESG-related risks become an increasingly important factor in investment decisions.

Against this backdrop, we believe measuring and reporting on DEI and ESG results can yield important information for our entire market.

The data in this report paints a clear picture of an industry moving in the right direction but with lots of work to do. To that end, BDC Capital is committed to addressing systematic gaps in the market by putting capital to work, including:

- $500M Thrive Platform for Women, which includes a $300M direct investment fund investing in women-led technology businesses, a $100M Lab dedicated to women solving high-impact challenges, and a $100M fund investment envelope backing women-led and -focused funds in Canada
- Announcement of two new platforms to support Black and Indigenous-led businesses
- Over $550M channelled into two BDC Capital-led venture funds focused on climate-tech companies

Our role is essential, and we take it very seriously. As the bank for Canadian entrepreneurs, we strive to understand our clients' needs and develop offerings to help them meet their goals. In addition, we have built trusted partnerships with over 75 GPs nationwide to broaden our reach and impact. Together, we can move the dial on ensuring that our ecosystem reflects the diversity that is a core Canadian strength. We can develop inclusive cultures to attract and retain Canada's top talent, manage risk, and foster a more climate-friendly and sustainable future. And in doing so, we can further Canada's competitiveness on a global stage.

Appendix 1: Abbreviations

Abbreviation	Definition
DEI	diversity, equity and inclusion
ECT	environmental and clean technology
ESG	environmental, social and governance
GHG	greenhouse gas
GP	general partner
IC	investment committee
ICT	information and communication technology
KYC	know your client
LP	limited partner
PE	private equity
VC	venture capital

Appendix 2: Definitions

Race and ethnicity	Definition
Visible minorities[5,6]	Persons, other than Indigenous peoples, who are non-Caucasian in race or non-white in colour. The visible minority population mainly consists of the following groups: Arab, Black, Chinese, Filipino, Japanese, Korean, Latin American, South Asian, Southeast Asian, West Asian.
Indigenous peoples[5,6]	First Nations Peoples, Metis Nation, Inuit, and other Indigenous Communities.

Gender	Definition
Woman	An individual self-identifying as a woman, not exclusively cisgender individuals
Man	An individual self-identifying as a man, not exclusively cisgender individuals
Nonbinary	Relating to or being a person who identifies with or expresses a gender identity that is neither entirely male nor entirely female

Additional diversity information	Definition
LGBTQ2+ persons	A person who identifies as a member of the LGBTQ2+ community
Veteran status	A person who has been honorably discharged following service in any branch of the military
Persons with disabilities	A person with long-term physical, mental, intellectual or sensory impairment(s), which in interaction with various barriers may hinder their full and effective participation in society on an equal basis with others

5. Source: Diversity Institute (Sponsored by the Standards Council of Canada). Publicly available specification.
6. Source: Statistics Canada, Canadian Survey on Business Conditions, fourth quarter of 2021.

(GP) Investment professionals	Definition
Firm and investment leadership (partners and C-level executives)	For example, CEO, President, Managing Partners, Partners and Managing Directors with primary responsibility for overall leadership of the management company and oversight of the investment team, sometimes defined as the executive committee. May or may not be directly involved in sourcing, evaluating, executing, and managing deals. Typically responsible for final deal decisions, including exits. Typically participates in any carried interest earned from exited deals and/or profits of the management company. Does not include operations leadership.
Senior investment professionals	Investment professionals who serve in a decision-making capacity but are not part of firm leadership, e.g., may include Managing Directors, Senior Directors, Directors with a meaningful role in sourcing, recommending and leading investments and contributing to firm investment decision-making. May include dedicated portfolio company operating partners that work closely alongside deal professionals in managing investments.
Other investment professionals	For example, Principals, Vice Presidents, Associates, Analysts. Primarily responsible for sourcing, evaluating, executing, managing and supporting deals. May or may not participate in carried interest earned from exited deals and/or profits of the management company.

(GP) Non-investment professionals	Definition
Operations and administration leadership (partners and C-level executives)	For example, CFO, COO, CAO, CCO, General Counsel, CHRO, IR Partner, Managing Directors or partners on a non-investment team. Primarily responsible for leadership of the finance, marketing, investor relations, legal, and administrative teams (and any other unit detailed below). May or may not have input on final investment decisions (typically operational improvements). Typically participates in any carried interest earned from exited deals. May or may not participate in any profits of the management company.
Other operations and administrative professionals	Operation professionals/entrepreneurs in residence, marketing/investor, relations/communications, financial/accounting, legal/compliance, administrative, other operations/administration team members.

Environmental considerations	Definition
Carbon neutral	Carbon neutrality can be achieved by eliminating carbon dioxide emissions or by counterbalancing them with appropriate measures.
Ecologically sensitive sites	Areas or sites that currently or could, at some point in the future, contribute significantly to the conservation of Canada’s biodiversity and environmental heritage. Consult Government of Canada's website on the criteria of an ecologically sensitive site.
Greenhouse gas emissions (GHGs)	A gas emitted that contributes to the greenhouse effect by absorbing infrared radiation. Some examples include water vapor, carbon dioxide, methane and chlorofluorocarbons.
Renewable energy consumption	Geothermal, solar, wind, sustainably sourced biomass (including biogas), hydropower and ocean resources. Accounting should follow best practices outlined in RE100 and GHG Protocol Scope 2 Guidance.
Scope 1 emissions	Direct emissions due to owned, controlled sources accounted for using GHG Protocol.
Scope 2 emissions	Indirect emissions due to the purchase of electricity, heat, steam, etc. accounted for using GHG Protocol.
Scope 3 emissions	Emissions from sources not owned or directly controlled by a company but related to its upstream and downstream activities accounted for using GHG Protocol.
Total energy consumption	The scope of energy consumption includes energy from all sources, including energy purchased from sources external to the entity and energy produced by the entity itself (self- generated). For example, direct fuel usage, purchased electricity, and heating, cooling, and steam energy are all included within the scope of energy consumption.
Water stewardship	Using water in a way that is socially equitable, environmentally sustainable and economically beneficial.

Social and governance factors	Definition
Cybersecurity	Cybersecurity is the practice of protecting systems, networks and programs from digital attacks.
Employee engagement survey	An employee feedback survey can include, but is not limited to, questions related to company culture, company values, employee job satisfaction, employee engagement, and training.
ESG-related incident	An occurrence, condition, or situation arising in the course of work that resulted in exposure to environmental, social or governance risks or issues. Examples include supply chains that violate human rights, use of sanctioned vendors, unethical management behaviour, discrimination at the workplace, etc.
Know your client (KYC)	The Know Your Client guidelines in financial services require that professionals make an effort to verify the identity, suitability, and risks involved with maintaining a business relationship. The procedures fit within the broader scope of an anti-money laundering policy.
Sanctions compliance	Canada has sanctions and related measures in place against a number of countries, as well as sanctions against specific individuals and entities. Refer to the Government of Canada website for the list of sanctioned countries.

BDC is by your side every step of the way

- Learn more about our different funds and our support for the Canadian venture capital ecosystem.

For more information

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