

Managing for climate mitigation impact

(FULLCYCLE)

Investment in early-stage carbon technologies is an urgent area of focus and growing rapidly.¹⁵ In 2022, global investment represented more than one quarter of every venture dollar invested in 2022, with a particular focus on technologies with the highest potential to reduce carbon emissions.¹⁶ As impact investors become increasingly focused on the pressing need to invest in climate change mitigation technologies, investors are pushed to find effective ways to measure and monitor the impact of these investments, which tend to operate on relatively longer timescales than many other kinds of impact investments.

BlueMark has conducted over 20 verifications for climate mitigation-focused investors and continues to adapt its practice verification to account for climate impact management and promote best practices related to emissions reduction potential frameworks.

Our Verification Insights

In reviewing how IM systems for climate change mitigation investors performed, one key data point is the median rating of Advanced on ESG risk management practices (Principle 5). This data suggested that regulatory frameworks like SFDR, along with voluntary market initiatives such as the ESG Data Convergence Initiative and Net Zero Asset Managers, have enabled greater consensus and definition as it relates to ESG and sustainability risk management. In other words, to identify as a climate impact investor, incorporating and managing ESG risk – for example, supply chain disruptions, toxic waste created through operations, or real property damage during the construction of mitigation technology infrastructure – is a gateway to entry.

However, when it comes to monitoring the impact of climate change mitigation technologies, investors face the challenge of accurately capturing emissions reductions experienced in the real economy. This is particularly true for early-stage investors, where the effects or implementation of new technologies or projects may not be fully realized during their holding period. This challenge

¹⁵ Prime Coalition (2020): [Project Frame](#)

¹⁶ HolonIQ (2023): 2022 Climate Tech VC Funding; PwC (2022): [State of Climate Tech Report](#)

is reflected in the fact that climate change mitigation investors tend to score lower on impact performance and monitoring (Principle 6) – with a median score of Moderate compared to the overall median score of High.

The challenge presented by capturing data on actual emissions reductions means that these investors primarily rely on emissions reduction prediction methodologies to articulate and track impact potential. Given the complexity and diversity of factors in assessing emissions reduction potential, it is particularly crucial that these investors have strong methodologies with reliable and transparent assumptions.

Client Spotlight: FullCycle Climate Partners

FullCycle Climate Partners (“FullCycle”) is a North American-based asset manager investing in growth-stage companies developing climate change mitigation infrastructure and technologies. FullCycle engaged BlueMark for its second verification to assess their IM system’s degree of alignment to the Impact Principles.

In calculating the impact potential of its investments, FullCycle has developed a framework of “Carbon Return on Investment (CROI)” to assess the quantity of GHG emissions abated per dollar invested in each prospective investment. One aspect of FullCycle’s emissions reduction methodology that is particularly unique is its focus on “short-lived” climate pollutants – such as methane and nitrous oxide – which have a disproportionate warming effect in their first 20 years of emission. While many carbon methodologies tend to work with 100-year time periods, FullCycle’s focus on these short-lived climate pollutants reflects a growing consensus that addressing higher-potency greenhouse gases with an outsized warming potential are a critical component for achieving net zero goals.¹⁷

Because of the nature of the outcomes they target, climate technology investors will always face challenges in accurately capturing actual emissions reductions and therefore require robust emissions reduction methodologies to manage impact. While the field is quickly evolving, industry initiatives like Prime Coalition’s Project Frame¹⁸ and efforts from IGCC¹⁹ are increasingly providing greater consensus and resources for what constitutes a robust carbon reduction methodology. BlueMark’s verification process helps to assess alignment with these best practices and ensure that

¹⁷ Over 100 countries have joined the [Global Methane Pledge](#) to slash 2030 methane emissions by 30% from 2020 levels.

¹⁸ Prime Coalition (2020): [Project Frame](#)

¹⁹ Institutional Investors Group on Climate Change (IIGCC)

bespoke emissions reduction methodologies – like FullCycle’s – stand up to external scrutiny in their ability to effectively facilitate climate mitigation impact management.

“BlueMark’s verification process helped FullCycle both benchmark our IM system against peers and identify industry best practices to be incorporated as we continuously improve our process. FullCycle’s IM system was designed to both align with industry best practices and to integrate our core carbon investing metrics. Our core metric Carbon Return on Investment (CROI20) is integrated into our investment strategy which aims to achieve greater impact by targeting those emissions with disproportionately high warming potential.”

YAZAN AL TAHER

PARTNER, FUND AND PORTFOLIO OPERATIONS, FULLCYCLE

