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The VC newbie with plans to 'break the ESG mould'

A look inside Bay Bridge Ventures, a firm with grand plans founded by an ex-CalPERS portfolio manager and two venture capitalists.

Joe Blair (left), Kim Kolt, Andrew Karsh, Bay Bridge Ventures

Venture capital is a corner of private markets that has been slow to adopt sustainability measures. But a new firm is aiming to draw institutional capital to a strategy that screens potential VC investments for ESG criteria.

Bay Bridge Ventures launched earlier this month seeking to "break the mould" for what LPs can expect from how VC firms incorporate ESG due diligence into their investment practices, according to Andrew Karsh, a co-founder of the firm who previously worked as a portfolio manager at the $472 billion California Public Employees' Retirement System.

"We're trying to solve the holistic challenge of how do I generate maximum returns within the guidelines of an investment mandate," Karsh told New Private Markets in an interview along with Kim Kolt and Joe Blair, Bay Bridge's other co-founders.

The firm has developed an internal methodology called ESG-plus to change "how institutional investors perceive investments that are profitable as well as impactful", Karsh said.

According to Blair, the framework was developed to target "top-quartile returns using a clear ESG process and stewardship methodology".

Many existing frameworks were built for publicly listed companies, so Bay Bridge consulted with large institutional investors to build its own, which Blair called "an amalgamation of the most globally accepted and respected frameworks out there, but purpose-built for venture capital".

"Our methodology is configurable to match the size and stage of the company and evolve with the company as they grow in maturity, from a revenue and commercial perspective," Blair said.

Bay Bridge plans to invest across three sectors including climate tech, health innovation and inclusive capitalism.

For climate tech, the firm is "looking at how big data, artificial intelligence and robotics play an integral role in climate technologies", said Kolt, who previously founded the tech-focused firm For Good Ventures.

In healthcare, telemedicine will be a priority, as well as synthetic biology, machine learning and applied diagnostics. Inclusive capital will focus on fintech, education, the future of work and jobs, and how to "integrate new technologies into the scalable model of these industries", she said.

Bay Bridge's attempt to provide VC investors with sophisticated ESG solutions is indeed unusual. Few among venture capital's elite have taken to implementing such strategies.

Only five of the top 50 largest venture capital funds have mentioned ESG or committed to sustainability, according to an article last year in the Stanford Social Innovation Review. This has led limited partners to start raising the issue.

At a time in a company's life when rapid growth is a top priority, whether for strong returns or to solve pressing issues like climate change, VC firms have not faced as much pressure to adopt ESG. Applying sustainability measurements is viewed as potentially suppressive for quick development and, with LP demand remaining high for top-performing firms, LPs have been unwilling to start making ESG-related demands for fear of losing access to top-performing managers.

One VC firm that's made ESG central to its strategy is 500 Startups, a 10-year-old shop investing seed capital across global markets. In an interview last year with affiliate publication Venture Capital Journal, 500 Startups founder Christine Tsai said that before companies mature is actually the best time to apply sustainability processes.

"Because we are investing before [companies] take on a large institutional round, they are quite formative in terms of business model and building out their team," Tsai said.

The nascent firm addresses another "hot button" sustainability topic: diversity. According to Bay Bridge, this is something it has already accounted for with diverse ownership and an investment team that is 30 percent comprised of women and a similar proportion for underrepresented backgrounds.

Whether Bay Bridge can live up to its proclamations and be a driving force in venture capital ESG remains to be seen. While the firm declined to comment on future fundraising plans, Karsh said he and his team are eager to become active in the market.

"We've spent the last nine months just talking about how we're going to evaluate investment opportunities, report different ESG metrics, transparency, methodologies, taxonomies," Karsh explained. "We don't want to see early-stage companies as an impediment to being both profitable and ESG compliant."