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Episode Information

Topic: Venture Capital and Climate Tech

Hosts: Ian M. Cook, Kate McGinn

Guests: Heidi Lindvall of Pale Blue Dot

Publishing date: 30.03.2021

Link to Podcast: <https://podcasts.ceu.edu/content/venture-capital-and-climate-tech>

Transcript

[Music]

Episode Introduction (0:15 – 1:05)

[Sound of car engine revving, tire screeching]

Ian: Whoa! Kate, Kate, slow down, slow down, you're driving too fast.

Kate: We have a need for speed!

Ian: Uh, we do?

Kate: Yes! We're trying to outrun the climate emergency.

Ian: Okay, I get that. But you know, we're running low on fuel.

Kate: Damn the unsustainability of carbon-based vehicles.

Ian: Damn them later Kate, we'll have time for that later. This vehicle needs something now.

Kate: But what does it need?

Ian: Uh, fuel?

Kate: Or maybe it needs investment.

Ian: What are you talking about, Kate?

Kate: Tune the radio, Ian. Search for the frequency where we can hear the Urban Arena Podcast.

Ian: Uh, Okay. Found it.

Kate: Good, because now we can listen to an interview with Heidi Lindvall from Pale Blue Dot about venture capitalists investing in climate tech.

[Music]

Pale Blue Dot Introduction (1:07 - 7:00)

Kate: So, Heidi, thank you so much for coming and speaking with us at the Urban Arena Podcast. You have an incredible breadth of experience in the venture capital space, at Pale Blue Dot, but then also have an interesting kind of background, you know, starting from a career in documentary filmmaking. Obviously, this podcast is about just and sustainable cities, and the investment vehicles like the venture capital firm Pale Blue Dot are instrumental in being able to shape the futures and cities that our world really necessitates if we want to keep living on this Earth. So it made sense to talk to you, an investor, to talk about how you approach the movement to creating better, more environmental, more socially conscious cities. So would love to dive straight in and have you tell me a little bit about yourself?

Heidi: Great! Well, thank you so much for inviting me, first of all, I'm really, really glad to be here. So, yeah, happy to talk about my background, I'm originally from Finland, but I've lived abroad most of my life. So I was in London for 12 years, spent some time in Silicon Valley and Berlin, and now living in Sweden, running my fund here. And I started off my career as a documentary filmmaker. I used to make documentaries about social and global issues so I would travel around the world, and I went to places like Sri Lanka, made a documentary about the civil war that was going on at the time. I went to Uganda, made a documentary about formerly abducted child soldiers and Guatemala, press freedom, etc.

And you know, my whole career was really just trying to bring awareness to some- some of the really huge problems that we had, and really was, you know, I was really a storyteller and really would try- was trying to tell stories and really was trying to get people more engaged around social and global issues. And I think during this time, of course, I saw, a lot of suffering. I saw a lot of pain and I, I just realised that there are so many big problems that we have in the world, that people are just not aware of. And I felt a bit frustrated just being on the storyteller side, and I felt like I wanted to do more. So I actually went into tech, which doesn't seem like the very kind of conventional choice, but I realised that technology was such a great tool that we had, and it could be used to solve a lot of problems.

You know, it could be used to communicate a lot of things, it could be used to solve a lot of problems that we had. And I was very frustrated with what was actually being done at the time, and I felt like there was so much potential here. However, there is, it's fully untapped. No one is really looking into, well, not no one, but a lot of- you know, people aren't really doing the most that could be done with this technology. So I started a few different tech companies, more in the kind of video space and interactive video space trying to figure out how we could get people to take action. How can we actually do more than just raise awareness? How can video be used as a more powerful medium?

And, you know, went from London to Berlin to Silicon Valley, went through a few different accelerators and kind of really did the full Silicon Valley journey of building my company and understanding how the start-up bubble works. Learnt a lot, but, you know, was not very successful with neither of my companies. And I then, coming back to Europe afterwards, I then wanted to go into the support side and I felt like I had learnt so much. And if other people would only know the potential of this and we could get more great

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people to really focus on solving some great problems, then I think we can actually, you know, change the world a little bit, kind of optimistically, but that's kind of what I felt like was needed.

So went on the support side and I first joined Open Data Institute to kind of help them set up an accelerator called Data Pitch in London. So that was a Horizon 2020 programme actually where, um, where we would fund companies that would work together with corporates and data. And really, again trying to find a great company, solving big problems with data and back them. And I helped set up that programme. And then after that, I wanted to go into a more, even more kind of start-up-y, a programme, a programme where I felt like I had more influence, essentially, and I could determine more of that, that's what is the best way of building a full accelerator. And I ended up going to Sweden and joining fast track Malmö, which is where I met my co-founder, Joel, who's, who I now run the fund with and we build Fast Track Malmö to really kind of high quality accelerator.

And, you know, I learnt so much during this time, just being on the support side and just working with loads of different entrepreneurs and really felt like I got a really good idea of what was needed to build really great companies and what type of founders we need in the world. And we then set up a micro fund together about three years ago, now part of the accelerator. And that was kind of my first step into the investment side. And then we now set up our fund together last year called Pale Blue Dot. So there's Joel and my other partner, Hampus, who was at the time VC and has been an angel investor for the past 10 years, but also has an entrepreneurial background. So the three of us set up Pale Blue Dot together in June 2020, and Pale Blue Dot is a climate tech fund. We invest in early stage start-ups, so kind of pre-seed and seed-stage start-ups that are often getting their first institutional capital in Europe and US, and we invest in companies that have a positive climate impact.

So it's all, you know, we invest across all sectors, but they have one thing in common, they all do something positive for the climate. And essentially, I always say that, you know, our main job is to find really great people who are solving really great problems. That's really what I do.

Investment Process (7:00 – 12:14)

Kate: First off, I think this idea of of tech kind of being able to supercharge and really tackle solutions is something that I think, you know, needs to be injected into more than just kind of the technology space, you know, be it government, be it social services. I totally agree with you that there's a lot of opportunity there. In terms of Pale Blue Dot, obviously, you know, you first and foremost, you find companies right, then you invest pre-seed seed, and then what happens after a company joins your portfolio? So how do you interact with those companies on a day to day basis?

Heidi: Sure. So we're actually very hands on investors compared to probably a lot of other funds. And, and I think it's also because all of us are kind of entrepreneurs at heart. We've all started companies, we've done the journey ourselves and then we've also been on the support side. We've also run accelerators and other support programmes. So we've thought a lot about what is needed and what kind of help, you know, you kind of need on the way when you do it, when you are starting an early stage company. So we, we meet with all of our companies every two weeks. We kind of have a meeting and just try to

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figure out what their needs are. So we don't have a specific thing. We don't, you know, we don't always help with marketing or sales or recruitment or anything else. We really just kind of meet the founders one-on-one and try to figure out what are the biggest problems and challenges at the time. And then, and then we figure out, you know, how to, how to work from there.

So some of the companies right now, I'm working on fundraising strategies and, you know, helping talks of funds and trying to help them get the rounds together. Others, I'm working on recruitment and actually, you know, doing some meetings with them. And and for some, it's just more of a brainstorming, just being someone to listen to and, and talk to. And you know, some of our founders are solo founders, and sometimes it's really good to just have someone else you can just call up and say, hey, can I just talk about this one thought I have that I just can't really figure out what to do with. And that's what we try to do. So it really is supporting them whatever they need and just really trying to be understanding of the journey and do whatever we can within our networks and within our power, essentially to help them succeed.

Kate: Quickly on the on the company kind of companies sourcing side, so obviously when you meet companies, they're in their very early stages, right? It's just a couple of people with an idea, maybe some sort of prototype and then you give them money to accelerate that idea into, into something more tangible. What happens when a company that you invest in ends up pivoting to a degree that it doesn't necessarily align with your investment thesis or investment strategy anymore?

Heidi: So that's a great question. However, we're a very new fund, so I have to say it hasn't happened to us yet. We started last year in June so, you know, we are running for almost nine months now, but we have had some pretty big pivots. But I think, I think the important thing to note that value alignment is very important for us when we invest, we really- we know that the business model is going to change. We know that they- the market will change. You know, a lot of things in terms of what they're pitching to us at the time will change. And, you know, pricing everything else is- these are just ideas at this time.

But what's not going to change is these founders, and that's essentially what we invest in. So we try to find really great founders who we, you know, are value aligned with, who we would be proud to see talk on the stage and that we believe that they genuinely have a passion for this and are building it for the right reasons. And then, you know, you just have to essentially trust that they are going to build the type of company that you would be proud to back. And the other thing to mention is that when we back a company, we make sure that climate is very much core to what they do. We don't really back companies where, you know, if we do X then we can also donate X to climate initiatives or something like that.

We, you know, for us, it has to be fundamental to what they do because we- I don't know, we create this plant-based burger, we know that, you know, people are going to eat less meat – for example, we haven't invested in plant based burger, It was just that example- but, but that's the idea for us that it has to be very fundamental. And then it would be very strange for them to pivot and say, oh, we've started doing meat instead, right? It's just like, oh, well, that's not really, you know, that's- was a very core thing to what, what you do. So, so that's essentially what we look for. And I mean, we have, we have had huge

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pivots for some of our companies, but there is no one that I'm worried that wouldn't be climate or that it wouldn't be a great company in the future. And yeah hopefully we won't be in that situation either.

Kate: Well, but then again, if the core of why that person starting that company is the climate and to help address the climate, I don't see a pivot going to a completely 180-degree change. So that makes a lot of sense.

Heidi: No, exactly. If I can just add one thing there is that we also ask them to take this climate pledge. So we have a climate pledge that they have to take when they invest. And this is in our term sheets, and this is, you know, in our investment documents where they pledge to take positive steps towards the climate both as founders, you know, personally as well as, as for the company. And of course, this is not legally binding, even if we put it in the legal documents, but it is a pledge and it does kind of show what we want them to do and how seriously we take this. So again, it would be very strange if they said, yeah happy to take a climate pledge, and then a few years later, they say haha we're going to do oil instead [Laugh]. So I don't really see that happening.

Investment Example – Cirplus (12:41 – 26:08)

Kate: But look at the term sheet! Yeah no, absolutely, absolutely. When thinking about climate, when thinking about clean tech and the clean tech revolution, obviously a lot of those problems that entrepreneurs are looking to solve happen in cities, because yeah in many ways, cities are the most unsustainable form of living right now when you're just looking at different types of living in the world. And obviously, our podcast about just and sustainable cities tries to speak to and look to to people who are delving into, into those issues in an urban setting. And so with that in mind, I would love to talk about one of your most recent investments, which is your investment in Cirplus, which is a plastics recycling marketplace. So just give us a brief overview of what Cirplus does and then how you met the team.

Heidi: Sure. So I can tell you first that we met the team about a year before we actually started the fund. That is- it's a team we knew about, and, and we, you know, and we kind of kept in contact with them, but we didn't have the fund at the time. And then when we actually set up the fund, we'd been following them for a while and we really liked what they were doing, the progress, and then we ended up investing. And what they do is that they are a marketplace for plastics, essentially. So they, they work both with, kind of, waste owners and with recyclers, and then they provide the kind of waste to the recycling stations and, and help them recycle plastics, and they work with multiple different types of plastics to do this. So essentially, they are business to business, so a B2B marketplace for recyclable plastics.

Kate: And what's their, what's their business model?

Heidi: So the idea is that they connect these different parties. So at the moment, recycling plastics is very difficult. There's multiple different, different types of plastic. They are recycled in different ways, and they haven't really been enough incentives for people to buy recycled plastics. Because, you know, one, it's a lot more expensive than creating virgin plastics has been and, and, and there hasn't really been much pressure. So it hasn't- even though we've had the technologies how to recycle plastic, it hasn't really been a very, you know, successful business previously, but a lot of things are changing now.

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So there is a lot of consumer demand. There's a lot of demand from, you know, countries going- saying they're going to go carbon neutral. People are, you know, we're putting in a pla- where the regulations are changing, we're putting in a plastic tax. There's a lot of reasons that a lot of companies are going to have to start looking at other alternatives than just producing new virgin plastic, which, which of course, is terrible for the climate. So, so we are now coming to a place where, where there is starting to become a market, so that the way they do it is that they connect these different parties with each other and then they take a small commission of the transactions in between that.

And I can just add that, you know, plastics, a lot of people think, oh, well, here in the Nordics or a lot of places in Europe, we recycle a lot of our plastics, but it's not actually true that we recycle as much as we think. We might sort the plastics, but still, we know that about, you know, 10% of all plastics that is produced is currently being recycled. So it's a very, very small number. About 32% is, is actually leaked into nature and oceans, 40% into landfills, about 14% is incinerated, which of course, also produces greenhouse gas emissions. So it's really a mess, to be honest. And in Europe, we export a lot of our plastics. So we used to export a lot to China, now China doesn't take our plastic anymore. So now we export a lot to Malaysia, and to other Asian countries, and they just end up in landfills, in other countries.

So, you know, a lot of people think, oh, but this is a problem for the people who don't recycle, but it is just as much a problem for, for the countries that do recycle. And, and like I said, this is all changing now. So then suddenly people say, okay, this might actually have some value, and with the taxes coming in, a lot of companies are going to be forced to go into, you know, buying recycled plastics rather than buying or producing virgin plastics.

Kate: Hmm. That's interesting because, because I feel like this type of space waste management or waste rec- or plastic recycling used to be trusted in government hands; where, you know, I as a consumer think, well, if I recycle and do my bits, then the government or, you know, whatever governmental party in charge, they will deal with this bit. And then obviously we see that that's not happening. And so that's why private enterprise has to come in like, do you have any thoughts on, on, I guess, disappointment with, with government dealing with something as complex as waste management.

Heidi: Yes, I think it's, I think it's terrible that, we, yeah, we had like we had no, no, no clue, I mean, we as a fund, as people, you know, most of our friends, like most consumers, just think that, oh, if we do our part and if we recycle, then, then someone else will take care of it. But, but I think that's what happens in a lot of cases. It's it's kind of, it's broken somewhere and there is a lack of responsibility. And even, like I said, even if we learn to sort really well, there hasn't been enough economic incentives to really nail recycling essentially. There, it's just, you know, we recycle a certain amount and then we export the rest, and it becomes someone else's problem. And then of course, you can say, oh, but of all of the plastics we have in this country, we have handled all of it. Yes, but you know, handling isn't really exporting it and making it someone else's problem and then saying, oh, but we thought they might recycle in another country like that is just a yeah, that is just, just pure wrong.

I think it's really important that people know and I think this is what happens in so many other industries like people also don't know the amount of clothes that are incinerated

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when, you know, the- people don't buy them. So, you know, chains, like a lot of fast fashion chains, they, they burn the clothes that aren't bought also because they don't want to, they don't want to give them out for free. They don't want to seem cheap. Some of them burn. So mu-, I mean, some of the high end brands burn all of their clothes just to make sure that the ones that are on the market, you know, who- retain their value and they don't want to see them on the second-hand market, so they incinerate them instead. And it's just like people have no clue about these things. It is, it is completely nuts.

But the good thing is, you know, both with with like with plastics we're seeing now, plastic cut tax come in very soon, with clothes we've already seen in countries like France already said, hey, you can't incinerate your clothes, which means that we have a lot of business models coming in where, where, you know, opportunists, tech entrepreneurs are benefiting from saying, hey, let us take these clothes and do something else with them instead. And you know, that is happening, but it's, there's so much to do. There is so much to do. It's, it's not going to end, but it's important to raise awareness and continue working on all these problems.

Kate: Mm-Hmm. Because I feel like you're talking about two ways that entrepreneurs tackle issues within the social or environmental landscape, which is, you know, sometimes there're governments who put in a new law which open up opportunities, right? So the you can't incinerate clothes in France, then one entrepreneur would kind of take advantage of that new law and build some sort of business upon that. But then there's the other side where government isn't doing its part and the entrepreneurs are looking to solve kind of the lack of of a law, you know, so there're kind of two ways, two ways that entrepreneurs deal with anything that the government does.

Heidi: Definitely.

Kate: And, and another thing that you mentioned was kind of that plastics recycling and and creating a marketplace like this is just insanely difficult, and people have tried in the past, government has tried in the past surely, you know, people have been thinking about this, but that you saw something very distinctive in the Cirplus team. Could you, could you talk about kind of what you saw in that team that made you think, gosh, these people can do it?

Heidi: Yeah, I mean, first of all, I mean, they are very strong, diverse team. They're based in Germany, but they have, they have, you know, a very diverse, diverse group of team members and, and really kind of diverse thinking as well. And they were really, you know, they, they spent so long on just really understanding and tackling this problem. And I mean, they're still early stage companies. So they aren't, you know, they aren't fully kind of monetising on this yet. But, but they've been kind of ahead of the curve in understanding that there is going to be a market in this in the future. And they've really kind of been betting on that. And now we're coming to a place where people are starting to realise, wow, it might actually be worth it money to recycle, to use recycled plastics in the future, and that we- and people are realising that we have to get away from creating new virgin plastics and of course, there's lot of other plastic alternatives as well.

But the problem has been that virgin plastic has been so cheap to produce. I mean, it's like I think it's about 3 or 4% percent of the greenhouse gas emissions in general that come from producing plastic. But it's just so cheap to produce. It's so easy to produce that

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compared to any other alternatives. So people have just felt like, oh, that's worth it, like, like, we will just have to keep doing that. And, and then like I said then, recycling, however, has been much more expensive. So, so who wants to do that? But yeah, they've come at the right time and really spent the past years just really understanding the problem and understanding how a solution around this needs to be built.

And, and I also think that it's really great that they haven't kind of put the pressure on starting monetising in the space. They've really tried to create the market. They've tried to get all the parties in- involved and for them it's been really key to get people onto their marketplace, both the- the recycling companies as well as the waste owners. So it's been very, very important to kind of try to get all the parties involved and this is what they've been building for the past years. But ultimately, I would say that, that what is on their side right now is timing, and I think they probably are already one of the biggest marketplaces, um, definitely in Germany, if not in, in Europe for this, because they've spent so much time getting, you know, huge amounts of plastics that are- is being kind of traded on their platform right now.

So it's just about finding an opportunity and just kind of sticking with it and, and believing it and knowing that, that, you know, consumer change is- or consumer change is happening. Regulation change is happening. You know, corporate behaviour is changing. You know, corporates are suddenly looking for things that they weren't before. You know, corporates are feeling the pressure from consumers, from the governments, from the regulations. So, like, everyone is- we're in this perfect storm right now where everyone is realising that climate is a big issue and we have to tackle it from all different directions. And I think the entrepreneurs who've started a while ago but really kind of stuck with and believed in this are suddenly seeing that it's starting to pay off.

Kate: Mm-Hmm. Mm-Hmm. Yeah. And you mentioned kind of delaying monetisation as a strategy to kind of really understand the problem and create a solution that works. I mean, that's kind of the the magic of where VC comes in, right? They can provide that capital so that entrepreneurs don't have to immediately think of monetisation, so that they have some sort of runway to actually build something. And I think especially in these complex, complex areas, you know, name it, clean, clean tech, waste management, plastic recycling; yeah they need- entrepreneurs need this type of runway so that they can actually again understand the problem and work to a solution and create that ecosystem to enable them to eventually monetise so, so I think VC plays a very interesting role in that.

Heidi: Exactly. No, I agree. And I think this is exactly where VC is often needed, where you see a huge opportunity, but maybe isn't right now. It's not fully ripe, but we know it's coming and I think this is what's exactly happening in climate right now. You know, like I said, there's all these forces coming together. We see consumer behaviour changing. We see the corporates vowing to be carbon neutral in the very near future. We see countries saying that, hey, we're fully going to be carbon neutral, you know, our cities are going to be carbon neutral; they have no clue how to do this. And then we see some regulations coming and starting to, starting to make some of that happen as well. And if all of this happens at the same time, then we know there's going to be opportunities being created by that.

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So that is what we're betting on. We don't have to invest in just who is doing the best thing *at this time* and who is already monetising those. We can kind of bet on the fact that this is all going to happen in near future. I mean, we know a lot of the countries and- have said to be carbon neutral by 2030. I mean, that is like 9 years away. So we know that's, you know, if that's going to happen, you're going to have to pull a lot of money in a lot of these different spaces very, very soon. So even if it's not worth anything at the moment, it will be in the next few years. And I think this is the, this is where VC funding becomes really important to just kind of accelerate that growth and allow those companies to get to a place where they can actually make a real big difference, and a real kind of positive impact for, for us as well.

On the VC Environment (26:09 – 32:20)

Kate: Yeah, I mean, I think, I think lots of people think, you know, venture capitalist, just chase quick money. And if they can see some sort of like software company that doesn't really change things for the better, but maybe capitalises on some sort of even negative output in the environment, then they'll invest in it. Like, what do you think about the VC ecosystem at large? Like, do you think VCs are kind of veering towards your direction where they're really trying to solve problems or the other direction?

Heidi: I mean, it's a great question. And I mean, I think you're absolutely right. VC has not been known to be great. A lot of times it has been putting money into what is going to be the most profitable thing, and not at all what is the best for the world. And this is also partly my frustration of coming into this space about 10 years ago feeling like there's so much potential, there are so many great models, there is so much- there're such great frameworks for building companies. Yet people aren't really thinking about impact whatsoever. It's, it's more of an afterthought. And that, you know, was kind of a really concern me.

But I do think that since myself kind of coming into VC, first of all, like I came into VC because I felt like we needed a change. We need different people from different backgrounds to come into this space. We need, we also there's so much untapped potential in terms of the type of founders that have been backed by VC capital. And, and therefore, also the type of problems have been solved. So I think we need more people to kind of come and make use of what VC has done well and that is, you know, figure out models of very quickly accelerating growth in these type of companies and, you know, kind of start changing it from the inside.

And it is changing, a little bit [Laughs], but it's not all great. It is- I wouldn't say this is radical change where VC's all great, and it's the best model of, you know, for the future of building companies or doing anything whatsoever. There's still a lot of VC money going to companies that have a negative societal impact, and it is a huge frustration that I have and- but, you know, to be a bit on the kind of positive side here, I do see a lot of change. I mean, more and more VCs are actually thinking about, you know, how they measure ESG, how they measure environmental and social and governance in the companies that they, that they fund. A lot of people are realising that impact is not a compromise, which is something very frustrating that people have thought for a long time. People thought, Oh, that's nice, you do impact, but you can't possibly do it for like- you do it because it's profitable.

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And I think especially in climate, we've seen people actually realising, okay, like this is a lot of money being put into this. There's like going to be very successful businesses in this space. I mean, you know, just look at Tesla, for example, like, like, look at really- there's a lot of companies that are trying to do really, you know, good societal- have, have really good, you know, positive impacts on the societies that have gotten so big and so valuable. And people are realising that this might really be smart from a financial perspective, which is actually what's starting to get people to, to change because, you know, no one wanted to do it for charity reasons or there wasn't enough capital going into this for for that reason.

And so, so yeah, there's some change happening. I think, I think both from inside of space, there's a lot more VCs actually realising that, hey, we need to actually start using our money for good because there's not going to be anything to, you know, work for in the future. There's, if we don't understand the urgency around climate change, if we don't understand that this is the time that we have to try to save humanity, then it's going to be too late. Like, you know, why, why kind of waste this time and think about just building your wealth for whom I mean? Your, you know, great grandchildren are not going to have a planet to be on, or they're not going to exist. The planet is going to be here. And so I think people are realising that.

And yeah, long answer, but yeah change is slowly happening, it is not all good, VC *alone*, are- it's in no way going to solve all the problems we have. But I do think it's important to try to change all of the existing systems, try to figure out how we can direct more capital towards positive impact initiatives, whether it's on environmental or on social level. We, you know, we need to, we need to use all of the different means that we have to try to, to save humanity, essentially, we just don't have time to start from scratch and build new models for all of these things. It's just, it's, it's, yeah, we just don't have the time.

Kate: That's really interesting. So you've kinda- kind of work with the models that you currently have. Are you saying you can't create a new investment vehicle just because there's not enough time?

Heidi: I, I think- so, you can, and you should. But that is, that alone is probably not goin- we don't have time to start from scratch alone. I think it's, it's, I think it's great that people are thinking about different ways of doing it in the future. And I think we have, you know, there will be much better ways than capitalism of, of running, you know, our world in the future. Or, there's, there's a lot of better ways than, yeah, how we've been running the world so far. Erm, but I also think that at the time, there's so much urgency that we do need to make use of what we currently have and what has been successful and the frameworks that have been set up and what we've learnt and utilise that for good because that hasn't really been done. We haven't really seen what would happen if we use these similar systems in a better way. And like I said, we need all the different type of capital. We need all the different type of initiatives and the more people who can just mobilise themselves, the better.

The Sustainable Growth Paradox (32:20 – 35:21)

Kate: Mm-Hmm. Mm-Hmm. Well, and in fear of this running into a philosophical debate, like, I think some of these frameworks that we have that you're saying we just need to

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like go with because there's not enough time to create an alternative, one of these frameworks is kind of the growth imperative, which again, venture capital, any type of start-up is fundamentally hinged upon. You need to grow something in order to scale. This is what venture capital does. This is what start-ups are trying to do, like, it fundamentally in many ways kind of goes against, you know, environmentalism or against a sustainable future. How do you grapple with that as a, as a climate tech investor?

Heidi: I still think that you can do it in better ways. Like I said, I think, you know, we don't have time to start building companies and, you know, very slowly and organically without extra funding. And, and, you know, really starting where the market is because we're not going to- that alone is not going to be enough to solve all the problems we have. So I think we have to use this way of really accelerating growth, but we can also start, we can start from a much better place than we did before. As in we can back great people who want to build really great, diverse team. We can back companies that have, for example, climate as the core thing that they do, so the higher the growth, the more growth, the better it is for climate and, and, and, you know, of course, for other social causes as well. And I think this is, this is more fundamental and I think like the model itself can be used to do a lot of good.

Now we can't have all companies being built like that, and we can't have whole society work like that. We do need a lot of different alternatives, but it doesn't mean that we should fully rule it out for what the best way is to build a company at this moment when we have so many urgent problems that we literally have to solve within the next 10 years. So I really, I do think that there's, you know, there's certain compromises that you have to make in order to just have the best chance of kind of, you know, essentially saving the world. And like I said, if we, if we had the luxury of starting from scratch, then we probably wouldn't have built this kind of capitalistic world and we probably wouldn't have said that VC is the best way to do X. You know, we would do a lot of things differently, and I think we should start thinking about those.

I think it's really great that people are thinking about alternative investment. It's great that people are thinking about whole new ways of over, you know, running, running governments that are not kind of based on capitalism alone. And I think that's all needed. It's just not enough alone. We're not- you can't start from scratch anymore. Now we have to change our systems and we have to hopefully get to a better place. And, you know, 10, 20, 30 years, once, once things have settled and we know that we're going to be fine. We're going to exist and we're going to be continue living on this planet.

Advice for Transforming the VC Space (35:22 – 41:27)

Kate: Mm-Hmm. Mm-Hmm. Yeah, and I think again, it's all it's all a matter of kind of moving the growth imperative framework from like growing consumer products to maybe growing solutions to address these problems, right? Because if the growth imperative works with, with the recycling plastics marketplace, that's fantastic, we want that to grow. So it's I think it's also just kind of changing frameworks to to maybe fit the agenda that you're trying to solve for. No, that makes a lot of sense. A kind of, kind of a closing question, but you were talking about kind of alternative frameworks and what a more sustainable venture capital could look like. If you could talk to a room of 50 investors, what would Blue Dot want to tell those 50 investors in terms of like immediate things to do to be more sustainable and potentially invest in a more sustainable future?

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Heidi: Sure. Um, I mean, I think there's so many different things that could be done. And I think, like I said, I think we need so many different type of models that I wouldn't kind of restrict it to saying that this is the best way of of funding start-ups, for example, or building sustainable cities. But I think we need multiple different alternatives and multiple different ways of providing funding to a lot of these initiatives, you know. Is it- yeah I mean, a different type of companies will need different type of support and different type- and require a different type of funding as well. So I think that's really important.

But I mean, from the kind of VC space I think, you know, we are, we have, we have a 10-year fund. Which means we we need to we need to return the investment to our LTs, essentially with, of course, a good return after 10 years, we can extend it with a few more years, but that means that we are restricted to investing in companies where we see that we are also going to be able to exit within that time frame. So that already restricts us.

Kate: What's your deployment? Like, how many years are you trying to deploy your most recent fund?

Heidi: So, we have, we have up to five years of active investment and then we have follow-on investment after that. So that means that, you know, we've currently raised 53 million euros. We're going to do a second close very soon. So we're going to land at around 80 million euro fund. And, and we have in the first four to five years, we will then invest about 50% of our capital, and then the other 50% will be kind of held for follow-on. And that means, of course, that we have restrictions in terms of where- when we need to exit the investment. And, and that already rules out some really vital industries for climate that we actually can't really invest in or it's not a great investment for us. So if you look at some really research-heavy industries or carbon removal, for example, it's not really monetizable at the moment. And it's not really- the technologies aren't really ready at the moment. So for us to invest, it's very hard.

While, for example, an evergreen fund which, you know, doesn't have a specific time horizon of when they need to exit and have a really good multiple on their investment, they would have a much easier time investing in these type of companies. So I think that is one thing that people don't realise the restrictions that VC funding has in terms of the timeframe that we need to, that we need to exit. And that also, of course, means that we need to see really high growth within a much shorter time than maybe what would sometimes be more sustainable. So I think that is definitely one thing that can change.

And then, then, then I in general, I also think that we need to get better at measuring impact. I'm really, really sick of people only talking about impact measure if- impact measurement for funds that are considered impact funds. I think we need to make sure that we're measuring impact for all of the funds that are out there and everyone should be reporting on the impact. Even the ones who said, oh, we're not an impact fund but, but you still have a huge impact on our societies, whether you call yourself an impact or not. And if it's a negative impact, it's even more important that we know about it. So I think this is something that, you know, we can't do alone from within the industry, like we actually need some regulations to come in here as well where, where people are having to start reporting on the impact of their portfolio actually has. And then we have to start questioning, are we really going to continue putting money into things that impact our, you know, whole planet and humanity negatively? I mean, it is so crazy that we're still

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doing that. And I think, I think we need to raise awareness about that so that more people can start asking these questions. And then, and then, you know, be a bit more aware of where all of our money is being invested.

So, so that is something that I think, it just, it needs to change, and it's ridiculous that it hasn't, that these things haven't come up. It's really ridiculous that people don't really ask. They say, oh, this is a really successful fund, and they have three billion under management and they've grown eight X and then no one says, but what did they invest in? What has the impact been over those three billion that they invested? And no one asks! No one is it asking that, we're just saying, oh, that's a successful fund, like that is to me ridiculous. And I, and I really- but this is the thing like, I think it's, at the moment you're only asking those questions for the funds that are specifically saying that they're impact funds or they're climate funds or they're clean-tech funds,.

Kate: Which isn't fair.

Heidi: Which isn't fair, I mean, of course, we should also be reporting on that. But I mean, we're not, we are not necessarily the biggest part of the problem. The biggest part of the problem are the ones who don't want to report on their impact. And yeah, so my, my hope for the future is that we won't be putting any money into things that are negatively impacting environment or the, or societies and that you wouldn't even be allowed to do so. But you know, there's, a there's a long way to go to get there, but that's that's kind of what I'm, that's what I'm hoping for, at least,

Kate: Heidi, you're an optimist at heart. I love it. I love it. And I, I'm very excited to see what Pale Blue Dot kind of does just in terms of its own portfolio, but then in also kind of changing and shaking up the venture landscape in Europe and globally, even, so very excited to see the fund progress. Yeah, so thank you so much for coming to the Urban Arena Podcast. Really great to chat, thank you.

Heidi: Thank you for having me.

[Music]

Post-Interview Discussion (41:46 – 49:07)

Kate: Okay, Ian, now that I was the interviewer and you, the listener, what did you think about the interview?

Ian: Well, I absolutely was fascinated by it; when, first of all, you told me that you wanted to interview a venture capitalist, I wasn't like, I was a bit like, what? Really? Really? But then you convinced me. And, and actually, it was, it was nice because I actually found out that they are human.

Kate: Capitalists have a soul. I know, it's crazy.

Ian: I know, I know I was imagining something a bit like Wolf of Wall Street, but it turns out, you know, that she doesn't live a life full of drugs and prostitutes and, and so on, but actually of documentary filmmaking and so on. And I thought it was actually quite a lot of

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interesting stuff there, I was thinking partly maybe in terms of, I guess, methods for change or what we're allowed to do or what we're not allowed to do and so on, because obviously the world that she's working in is a world where people are allowed to fail, right? It's even almost encouraged, the whole mantra of, you know, failing fast and failing often.

And, and very often the case is that when we try to think about different ways of, let's say, governing our cities in a more just and sustainable way, people are looking for solutions very often. And then when they don't succeed, then people get very despondent and, you know, people start casting blame around and so on. And this is something which I think is a, is a shame in a way because, you know, obviously we need innovation. We need innovative tools, innovative ideas to try and basically, you know, yeah, save the planet from the climate emergency. But yet at the same time is that people often aren't allowed the space to experiment and to to try these things, it's, it's sort of missing.

Having said that, of course, it is very different because, you know, when you fail in the, you know, the world of venture capitalism, you, you lose other people's money, and which, you know, of course, is bad, but it's also part of the game, right? This is what they do. They know they're investing in lots and lots of different, you know, ideas in the hope that some of them pay off. But of course, when we're talking about how to, you know, govern a city or organise things in, on a nation scale and so on, these are people's lives, you know, and this is a very, and these are very political questions as well.

Kate: I think that also depends, like I think in the, in the investing, in the venture world, this is like a huge, huge problem that people are facing. You know, maybe if you're developing a consumer product and then that consumer product isn't the standard that other people are looking for so ergo, you failed, it's not the end of the world. But for example, if you're thinking about digital health, if you're thinking about like the insurance space, things where your customer is actually going to feel the repercussions of you failing that is a tremendous cost.

And you know, there's a famous example of Theranos, which is a digital health company that was based in San Francisco that could let you diagnose yourself with a drop of, drop of blood. And then the entire thing turned out to be a fraud. Yeah, there are thousands and thousands of customers that, you know, really were hurt by this entire thing, and that was fuelled by, you know, millions of dollars of venture money. So I think absolutely the venture world also sees the repercussions. But again, the benefit of kind of like this approach, the fail fast approach is you're hacking your way through a problem, you're creating minimum viable products, you're creating MVPs to kind of test out a solution before building something completely. And it's just a much faster way for change and for innovation.

Ian: Mm-Hmm. Mm-Hmm. But then when you asked and I was thinking that okay, but these are still all models based on profit and growth and, um, which is fundamentally the heart of the capitalist system. And if we're talking about something as urgent and as important as saving our planet from, you know, human made destruction of, of the climate, and for a lot of people, myself included, I put a lot of the root of this problem, you know, on the growth paradigm, basically on the logics of capitalism. So I guess it's a question, you know, can capitalism save capitalism? You know?

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Kate: See and for and for me, I think the question is like capitalism has to save capitalism, but how do you do it? Because there's just, as Heidi said, there's no time to develop a completely different system and we've been trying to develop a different system and it hasn't, you know, it historically failed. So now it's about like seeing what we have and trying to work within those bounds, which again, is very difficult. But I think the alternative of creating a something completely different is near impossible given the timeline we're operating in.

Ian: I suppose the counterargument to that is- I like it when we disagree a bit, it's healthy.

Kate: I love it I know.

Ian: No but it- the point is like, you know, the logics of the way capitalism works and how embedded it's become within state structures and given how some of the fundamental underlying assumptions of what's- of what is good for capitalism is good for society have been really, have been pushed out amongst, you know, the populations. All of these things make it seem like there is no other alternative very often, and this is very often that there is no other alternative. We don't have time. How can you imagine anything outside of this, you know? But I just, I just don't believe it's reformable because it's just, I mean, in the sense that like, and, and in one hand, it's always been a question of when it comes to, you know, exploitation of people. And this is terrible, of course, but people keep reproducing themselves. There's plenty more people to to exploit when it comes to the destruction of the planet. There is only one planet, as the mantra goes. And so it's almost like it's a big risk to put in the hands of people who like taking risks and like failing, you know, like because then we end up in a situation when, okay, we're all doomed and we never really addressed, like, the question of unlimited growth in a finite planet, ended up being, you know, we ended up using up everything that we had.

So whilst it's great if more recyclable plastics or more recycled plastics can be used in the next five years and I wish them all the best in that venture, like I still think that fundamentally that doesn't change the root cause and the root structures of the problems that we're facing.

Kate: Well the- yeah [big sigh], man!

[Both Laugh]

Ian: Let's keep discussing this. You know, I'm not going to- I'm just, you know. Yeah, let's let's keep discussing this moving forward. Let's, but let's hear, should we hear some voices of optimism? Maybe some from the youth?

Kate: Yes, youthful optimism is, I think, what we need at this moment. So today's listener a submission comes from the Bronx in the US by six-year old Isabella.

Ian: Alrighty. Let's listen. And if anyone else wants to become an urban arena podcast correspondent, then they can do by checking out the links on the show notes. And they can get in touch, and you can be our next Isabella. bye Kate!

Kate: Bye!

[Music].

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Guest Contribution (49:10 – 50:39)

[Guest contribution inaudible or unclear, not possible to transcribe].

[Music].

Disclaimer

This podcast is part of the three-year project UrbanA – Urban Arenas for Sustainable and Just Cities. It was funded by the European Union's Horizon 2020 Research and Innovation Programme.