Case study: Application of SDG Impact Standards for PE Funds

November, 2021
Salkantay Exponential Fund

骅 Early stage VC fund focused on Andean founders and startups targeting Spanish-speaking LatAm

骅 We invest in high-impact sectors, in companies that are solving the region’s problems, through the use of technology
  • Nine investments made

骅 We are currently fundraising and have secured anchor investments from IDB Lab, Capria and other institutional investors
Target Sectors and Opportunity

SXF invests in companies that solve big regional market pains or bridge gaps, using technology

- **Smart Cities**
  - eCommerce represents c. 5% of retail sales
  - 80% urbanization

- **Gig economy/Livelihoods**
  - 53% workforce in the informal or gig-economy
  - 30% living below poverty line

- **Healthcare, Education and Finance**
  - 1/3 without access to healthcare
  - 70% don’t have a bank account

- **B2B / Digital Transformation**
  - 99% of companies are micro or small
  - 60% of formal jobs, but only 3.2% of production
Our Objective: Develop an Impact Management System for Salkantay

1. How can we leverage our impact mission to better position SXF within the increasingly competitive VC ecosystem in Latam?

2. How can we set up a professional impact management system that will allow us to go from claiming that we have an impact to actually measuring and managing it?

3. How can we go beyond monitoring statistics to gaining insights that can help manage impact at the portfolio level and add value to our investees?

4. Where to start?
Using the SDG Impact Standards

1. Identify the best practices/“gold standard” within impact measurement and management
   - No need to reinvent the wheel

2. Identify where we are today - key gaps
   - Humbling process, but at least we know where to start!

3. Define priorities going forward
   - On-going process, no need to do all at once
Our Process

Understand SDG Impact Standards

Perform Self Diagnosis and Prioritize

Develop our MVP and Roadmap

Link to download Self-Assessment Tool
## MVP + Roadmap

<table>
<thead>
<tr>
<th>Theme (SDG Impact Standards for PE Funds)</th>
<th>Activity/document</th>
<th>Draft (estimated date)</th>
<th>Approved (estimated date)</th>
<th>Implemented (estimated date)</th>
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<tbody>
<tr>
<td><strong>Strategy</strong></td>
<td><strong>Impact + do no harm purpose and goals</strong></td>
<td>4Q 2021</td>
<td>1Q 2022</td>
<td>n.a.</td>
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<td></td>
<td><strong>Impact thesis</strong></td>
<td>Draft</td>
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<tr>
<td><strong>Management approach</strong></td>
<td><strong>Identify key impact metrics and define reporting standards</strong></td>
<td>4Q 2021</td>
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<tr>
<td></td>
<td><strong>Responsible Investment and Operations Policy</strong></td>
<td>Draft</td>
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<td><strong>ESG Policy</strong></td>
<td>Draft</td>
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<td><strong>ESG Questionnaire for screening, due diligence, monitoring and exit</strong></td>
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<td></td>
<td><strong>Legal documentation: Impact and do no harm provisions (side letter/ SPA)</strong></td>
<td>4Q 2021</td>
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<td></td>
<td><strong>Impact rating</strong></td>
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<td>2Q 2022</td>
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<td><strong>Gender lens for investments</strong></td>
<td>1Q 2022</td>
<td>2Q 2022</td>
<td>3Q 2022</td>
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<td><strong>ESG and impact trainings for the team</strong></td>
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<td>n.a.</td>
<td>2Q 2022</td>
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<tr>
<td><strong>Transparency</strong></td>
<td><strong>Annual Impact Report</strong></td>
<td>1Q 2022</td>
<td>1Q 2022</td>
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Two-pronged Impact Thesis (WIP!)

We are convinced that investments that improve lives and close gaps are more resilient, less risky, and more profitable than investments that do not solve fundamental problems.

Systemic and catalytic impact
- Catalyze additional investment capital to the Andean region
- Connect companies to regional and global ecosystems, to support their international expansion

Investees as agents of change
- Promote the provision of products or services that bridge gaps and generate well-being
- Promote decent employment creation

Identified metrics
- Capital mobilized: Funds raised in subsequent rounds
- Growth and expansion: Revenues and jobs generated in countries other than the country of origin
- Specific industry metrics
- Lives touched: # of lives impacted by product or service
- Job creation: # of full-time jobs created by company
- Diversity: % of women founders and in leadership positions
Integrating Impact into Investment Decisions and Portfolio Management

Screening

- Review companies for alignment to SXF's thesis, do no harm and impact commitment, as well as compliance with exclusion lists.

Due Diligence and Structuring

- Do no harm and impact due diligence.
- Assess expected impact of investment.
- Development of an ESG action plan.

Monitoring

- Monitor and review ESG and impact progress against expectations.
- Support the company in the implementation of best practices.

Exit

- Assess impact and reputational risks of planned exit strategy.
- Review and improve decisions and processes based on lessons learned.

2.2 The Fund establishes criteria and pre-screens potential investments to assess strategic alignment with its purpose and strategy, including its impact thesis and portfolio level impact goals.

2.4 The Fund engages openly, proactively and collaboratively with LPs and potential Investees during the due diligence and investment structuring phase, to agree on how to embed impact considerations within the investment terms, and so optimize future impact performance.

2.5 The Fund systematically monitors and manages its ongoing impact performance overall and for each investment, and acts to optimize impact (including managing unexpected outcomes).

2.6 The Fund proactively manages its exits from investments to optimize impact on sustainable development and achieving the SDGs post exit.
Thank you!