

The Adelante Fund

The Opportunity

Mexico City's clogged streets, long commutes, and the crippling cost of getting around earned it the title of 'the world's most painful commute' in 2011. Given that the city's poor are most likely to live in peri-urban communities far from the city center and disconnected from the regional subway network, the inadequate transit options hit them hardest; research shows that the working poor in the greater Mexico City area spend more than 25% of their household income simply commuting across the city, a trip that can take more than three hours per day.

In response, the city has initiated a transformation, creating significant complementary investment opportunities along the way. Authorities have increased their investment in improving the flow of traffic by expanding bus rapid transit lanes, replacing old buses and taxis with fuel efficient models, and implementing the Ecobici bicycle sharing system. This work earned them the 2012 Sustainable Transport Award and signaled a radical shift in momentum, from increasing gridlock to a search for innovative solutions. The municipal government is investing heavily in solving this problem, starting with former mayor Marcelo Ebrard and current Transport Minister Rufino Leon. Much work has been done, but in a metropolis of close to 25 million people, there is much more to do. Transforming the transportation situation in Mexico City has the chance to radically improve the everyday lives of millions of the urban and peri-urban poor, and serves as a model for an increasingly urbanized global future.

The Fund

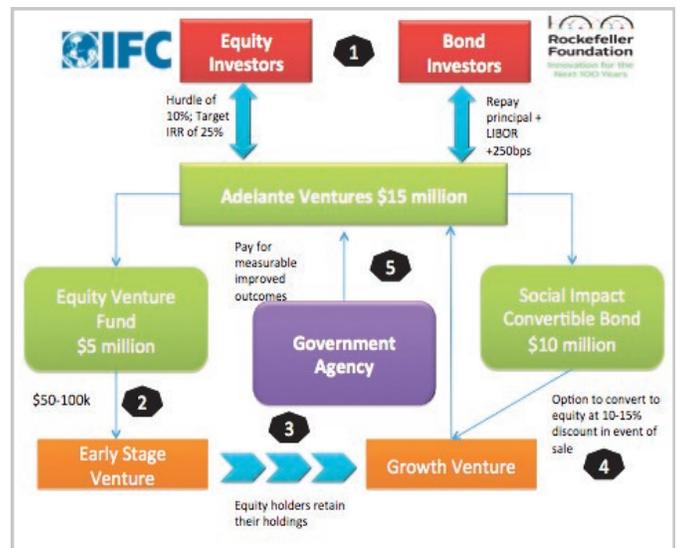
The Adelante Fund is structured as a unique social interest venture firm, poised to rapidly deploy capital to the most promising new ideas in solving Mexico City's transportation problems, as well as to work closely with public transit agencies. While we will start in Mexico City, where the problem and opportunity seem largest, we are building a fund structure and strategy that will make it possible to tackle similar congestion problems around the world.

We invest through two primary vehicles:

- Early-stage venture capital fund
- Social Impact Convertible Bonds

Venture Capital Equity

While Mexico City has made significant strides in improving traffic in the downtown core, it's much more difficult for large-scale infrastructure funding to improve the specific circumstances of poor, peri-urban commuters. As a result, to even reach the municipal metro system, many people must use run-down, privately-run *peseros* and *combis* (private buses and vans), which tend to be disorganized and expensive relative to their income. This is exactly where a number of motivated, innovative entrepreneurs can make a difference. Adelante's venture capital fund will rigorously screen potential funding recipients for ideas that are targeted at the specific transportation needs of underserved Mexico City residents, by measuring their potential on four primary metrics:



(1) the financial viability of the enterprise (2) projected reductions in travel times, (3) cost savings for low-income commuters, and (4) health and environmental considerations like CO2 reduction potential. There is already a rich ecosystem of entrepreneurs focused on improving Mexico City's traffic situation, but up to now their efforts have focused on targeting the needs of well-educated young professionals. Adelante is targeting a different kind of user.

Initial investments will range from \$50,000 to \$100,000 and will be complemented by hands-on support and incubation, including data and analytical support, and connection to relevant agencies and organizations through our research arm. Equity arrangements with entrepreneurs will range from 10-20%.

Social Impact Bond Financing

Once early stage ventures have established their potential to successfully deliver impact on one or all of our key metrics, they will be eligible for support through social-impact bond financing. Investors provide up-front capital to socially focused enterprises, and government agencies pay back those investors in proportion to the impact the enterprise delivers. Since 'impact' is measured by government money saved, these types of arrangements can be difficult to execute in practice.

However, since congestion, carbon emissions, and commuters' use of transit services are easily measured in terms of hours and units, determining parameters and metrics for these bonds will be straightforward. In addition, Mexico City is already investing \$1.5 billion a year (51% of all tax revenues) on improving public transportation systems, including expansion of its Metro subway system. Venture bond financing is usually treated as a last resort funding vehicle, but there are many

benefits to providing debt financing in this case: (1) avoid diluting equity and putting pressure to increase the value of the enterprise just to recoup the impact of the dilution to equity investors (2) considering the willingness of the Mexico government to invest in public projects and the ease of measurement, social impact bonds can provide a relatively safe investment for institutional investors (3) social impact bonds balances the equity investors' focus on financial returns with a focus on ensuring measurable impact.

Partner with Adelante Research Institute

The key differentiator of the Adelante fund is our data- and in policy-driven approach to solving urban traffic issues, embodied our internal Research Institute. The Institute's work will help us (1) identify the pieces of the regional transit puzzle our portfolio would be best positioned to take on, (2) gather data and turn it into insight for our portfolio companies and the Transportation Ministry, and (3) foster an innovative dialogue between transit agencies, civil society, and our entrepreneurs that will both help us build complementary strategies and broaden the exposure of our work to potential users, clients, and follow-on investors.

We believe this unique relationship, and our resultant ability to leverage our size to deliver research, data, and infrastructure to a network of energetic entrepreneurs, is the key to making an impact on the otherwise-difficult-to-reach communities in and around Mexico City. Moreover, we believe it is a structure that will be scalable to other urban areas all over the world, from Lagos to Mumbai. In fact, the opportunity for near-term international expansion is a key piece of our value proposition to entrepreneurs.

Expected Returns

Social venture capital investments are new concepts in Mexico and IGNIA is the first social venture fund targeting the BOP to gain significant scale. IGNIA boasts an IRR of 30%. Similarly, Aventones, an innovative Mexican start-up that facilitates car-pooling, has stated that their investors seek an ROI of 30%. As a unique social venture fund targeting specifically urban transportation, Adelante will provide equity investors with a reasonable and attractive IRR of 25%.

- **Fund Economics:** Adelante provides investments that will satisfy a wide range of investor risk appetites and goals. The convertible social impact bond will earn a yield of LIBOR+250bps to be paid semi-annually with an option to convert at a 10-15% discount to equity in a trigger event such as a sale. Bondholders are not limited to the proceeds purely from the government; if the venture is cash flow positive but not making much social impact, the bondholders will still be able to claim interest payments. Equity investors will have a hurdle of 10% and a target IRR of 25% with a payback period of 1.5 years. Equity investors will absorb additional returns from government savings.

- **Target Investors:** in the first two years, we plan to target the Mexican development bank Nacional Financiera and Fund of Funds, a development fund established by the Ministry of Economy dedicated to promoting the PE and VC industry in Mexico. In later years we will target multilateral organizations such as the IABD and IFC along with institutional investors such as JP Morgan and Goldman Sachs Social Finance Funds.

Risk Factors

- **Political Risk:** any potential collaborate with municipal transit authorities would depend on their willingness to share information and strategic priorities. Some of our entrepreneurs may end up disrupting entrenched interests, which could lead to legal challenges of their models, much like those faced by Uber or ZimRide in several U.S. cities. Like in any developing country, especially when dealing with public agencies like transit, the costs of corruption are a major concern.

- **Investee Risk:** we are confident in the future of Mexico's entrepreneurial class and according to the Latin America Venture Capital Association, Mexican startups raised \$469 million dollars in 25 projects in 2011 through venture capital funds, compared to the \$211 million dollars raised through 19 deals in 2010. To strengthen this growth and mitigate the risk, we would explore developing some ventures in-house alongside outside entrepreneurs.

