COLLABORATIVE FOR FRONTIER FINANCE

sonen capital
Social & Environmental impact investment management

The new operating environment facing Latin American capital providers

September 2020

In collaboration with FONDO DE FONDOS and Dalberg

"In life you can fall down 1000 times but the point is to have the willingness to stand up and to start again." — Jose Mujica

Latin America and the Caribbean account for over 25% of the world's COVID-19 cases, while having less than 10% of the world's population. The Pandemic is contributing to widespread economic disruption in the region, including driving food insecurity and scarcity which risks fueling conflict, political unrest and forcing vulnerable families to migrate. This comes on top of the region's protracted economic inequality, which prior to the onset of the pandemic, swelled onto the global stage in the form of mass protest across the region.

In the face of these large scale, seemingly intractable problems, it is a matter of urgency to determine who and how best to respond to these social inequities. Is this the responsibility of governments, the private sector or civil society? Or should philanthropy and aid organizations take the lead? Without a doubt in my mind the answer is – all of the above. Yet one of these players, more often than not, has been lacking. They are the capital providers willing to invest in the micro, small and medium sized enterprises that form the backbone of the region's economy.

We started Sonen Capital nine years ago this month because we believe that the capital markets, given its scale, discipline and efficiency is best equipped to tackle large scale problems. We recognized that investing without regard for social and environmental factors not only introduces material risk, but also misses rewarding opportunities. Thankfully, through the emergence of the global impact investing ecosystem, more and more asset owners today are awakening to this reality.

As the unpresented health and economic crisis began unfolding at the beginning of this year, we were keenly interested in understanding how the impact investing ecosystem supporting MSME's is weathering the storm. Through our efforts, we met Drew von Glahn of the Collaborative for Frontier Finance (CFF). We were truly impressed and inspired by the Emerging Market Small & Growing Business Capital Provider's Survey and report they produced. With that research primarily focused on Sub-Saharan Africa, we reached out to gauge their interest on a similar effort for Latin America & the Caribbean. They agreed to collaborate, which then led to us assembling the incredible team that made this report possible.

Thank you Drew for the insightful, experienced and thoughtful leadership you brought to this work. I also want to thank Elisabeth Prager for her meaningful contribution towards making this report possible. And a huge thanks to Adam Klestadt, a recent Columbia Business School graduate, who joined us for the summer to work on this report. Without a doubt he was the workhorse of this endeavor. And a thank you to Amando Balbuena for creating the final version of a visually stunning report. Gracias to Ana Laura Fernandez, from Fondo de Fondos. Your efforts and contribution to this report are yet another testament of why we are so pleased to partner with you, in all that we do in the region. Thank you Kusi Hornberger, Fabiola Salmán and Marcos Payá from Dalberg, for your strategic input and perspective, from which the report truly benefited. Thank you to all the local capital providers who took the time to complete the survey that afforded us all a window into the current reality of your organizations and the MSME's you support, during these truly unprecedented times.

Thank you to our sponsors the Visa Foundation, Grupo Bimbo, CitiBanamex Foundation and AIImx, whose generous support made this report possible.

Lastly, I want to thank you, the reader, for taking the time review this study's findings during what we know are difficult times. At the same time, we ask you to take what you can from this work and turn it into action. With whatever means at your disposal, please join us in harnessing the power of enterprise to drive the response and recovery from COVID- 19 across Latin America and the Caribbean. Together, grounded in the values and practices of impact investing, we can stand up and start again to rebuild the region into a better version of its past and ensure a more economically sustainable, socially just and brighter environmental future.

Un cordial saludo,
Raúl Pomares
Founder, Sonen Capital

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GRUPO BIMBO — NOURISHING A BETTER WORLD
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Survey Context and Summary Dashboard

Rationale for the Survey: Market input to understand new operating environment for impact-orientated LatAm MSME capital providers

The Collaborative for Frontier Finance (CFF) believes in listening to the market. So, CFF and Sonen Capital, in collaboration with Fondo de Fondos and Dalberg, with the support of our sponsors, have completed a survey of capital providers in Latin, Central America and the Caribbean which aims to provide a snapshot of the impact investing universe and the portfolio companies they support pre- and post-COVID-19.

- The COVID-19 pandemic has launched the world into unprecedented turbulence and uncertainty. The micro, small and medium sized businesses (MSMEs) that underpin employment and growth in frontier economies have felt the impact on multiple dimensions. By extension, the capital providers that have invested in and financed these enterprises are equally challenged as they seek to support their portfolios in these uncertain times.

- Even prior to the COVID-19 pandemic, there was a dearth of capital for MSMEs in LatAm of nearly $1 trillion*. COVID-19 has exacerbated this situation and has the potential to undermine many gains made in income and gender equality, growth and employment over the last years.

- The survey looked into who the impact-orientated capital providers are that finance MSMEs in LatAm; how they look at impact, in particular gender; what their portfolio of small businesses is; what the portfolio's performance pre-COVID was; what their financial and non-financial needs post-COVID look like; and whether any changes and opportunities are arising from the current situation?

We hope that with this survey we can advance the dialogue around the role that these capital providers play in their local economies. And further what can be done now to **contribute to enterprise resiliency, gender equity and reduce loss of livelihoods in frontier economies.**

* IFC (World Bank Group): MSME Finance Gap 2017 Latin America (2017)

Who are impact-orientated LatAm MSME capital providers and why do they matter?

Of the c. 95 respondents, a variety of capital providers participated in the survey. While they each operate differently*, the subsequent results shed a better light on the exact differences and demonstrate that they have one thing in common: namely, their support of portfolio companies that operate in LatAm markets. These capital providers also benefit from proximity and access to, as well as knowledge of, these markets and their opportunities.

Who are the impact-orientated LatAm MSME capital providers in this survey?

- Capital providers targeting investment sizes <$100K to >$10M
- Apply diverse vehicles
- Focus on early stage through growth and scaling
- Provide diverse capital instruments (for e.g. equity / debt)
- Balance impact with financial returns

Why do capital providers matter?

- **Provide targeted, efficient and effective capital to local companies**
- **Have access to and a pulse on the market**
- **Have the ability to respond to market needs with speed**
- **Build knowledge networks across their portfolio companies**
- **Play a key role in local capital ecosystem**

* "Closing the Gaps: Finance Pathways for Serving the Missing Middles" identifies five alternative approaches or "pathways" for providing finance that meets the diverse needs of each SGB segment and investor.

Who are the portfolio companies that LatAm capital providers support? And why do they matter?

Broadly, respondents' portfolio companies are Micro, Small and Medium Enterprises (MSMEs). A subset of these are Small and Growing Businesses, which the Collaborative focuses its work on.

Who are the portfolio companies?

Micro, Small and Medium Enterprises (MSMEs)*:

MSMEs are commercially viable businesses employing up to 250 people. They represent a substantial part of a country's economy and are a strong driver of economic development, innovation and employment. These businesses have ambitions to grow and have varying and nuanced financial needs; yet they are often credit-constrained.

Why do they matter?

- **Growth**
- **Employment**
- **Goods and Services**
- **Value Chain**
- **Innovation**
- **Drive UN SDGs**

* Source: IFC, www.SMEfinanceforum.org
Within MSME market there is a subcategory known as Small and Growing Businesses (SGBs) with financing needs between $10K and $2M. For the purpose of this survey we have kept the definition broad to include all MSMEs. For more information on SGB segments and their varying needs please see: "The Missing Middles - Segmenting Enterprises to Better Understand their Financial Needs." Details on the four segments can also be found in slide 47

Survey Introduction

Context: Gather market input to understand the impact of the COVID-19 pandemic on local capital providers (LCPs) and their portfolio of Micro, Small and Medium Enterprises (MSMEs) across Latin America. This provides greater clarity and transparency to the broader impact capital ecosystem as to the issues and needs confronting local capital providers.

Survey Fielding: July 8 – July 20, 2020

Methodology: A 30-question survey posted publicly via ImpactAlpha and sent through regional industry networks, associations, and contact lists from participating firms. Targeted outreach to capital managers operating in Latin America

Respondents: 95 capital providers operating in Latin America

Survey Design: The survey was divided into four sections:

(i) Background of Capital Providers, Fund Operations and Economics
(ii) Focus on Portfolio Companies
(iii) Impact Focus of Capital Providers
(iv) Effect of COVID-19 and Future Outlook

Cumulative AUM:* Est. $3.0 – 3.5 billion

* Reflects survey results of the 93 capital providers operating in Latin America

The survey's key framing

The survey reflects the current market situation for impact capital providers and their portfolio enterprises operating across Latin America.

- Provides market-based insights as to the realities "on-the-ground"
- Obtains insights on the investment focus and approaches of local capital players operating in LatAm
- Offers an unfiltered update on the "state-of-play" in the gender-oriented enterprise investment sector
- Assesses LatAm capital providers balance regarding financial and impact returns
- Reviews the source of institutional capital and changing trends
- Considers the diverse needs of MSMEs and does not treat them as a monolith as well as considers the various emerging approaches to better serve their needs
- Illustrates the recent performance of impact enterprises and the affect of COVID-19 on local enterprises
- Provides insights into how capital providers are considering leveraging COVID-19 to change the way they invest

Overview

This presentation covers the survey results in four key sections:

1. Who are the local capital providers? What types of investments do they target? How did they think about impact, specifically employment and gender?

2. How were LatAm capital providers doing prior to COVID-19? What performance were they expecting from portfolio companies?

3. How has COVID-19 affected LatAm capital providers' operations and expectations? How have their portfolio companies been effected?

4. What are the needs of LatAm capital providers and MSMEs going forward? What are the implications of these diverse needs for the broader ecosystem?

* Reflects survey results of the 93 capital providers operating in Latin America

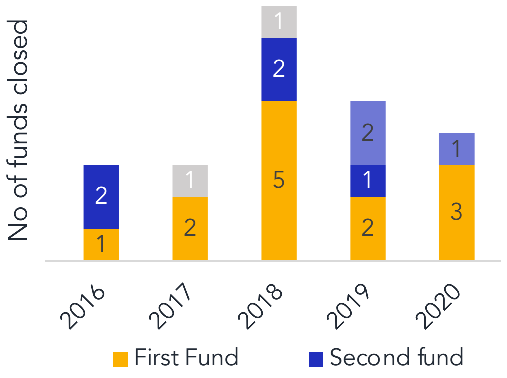
Dashboard: LatAm capital providers

Local knowledge is key within LatAm, and recent years have seen a larger number of local based funds

88% of funds surveyed have a physical presence in Latin America…

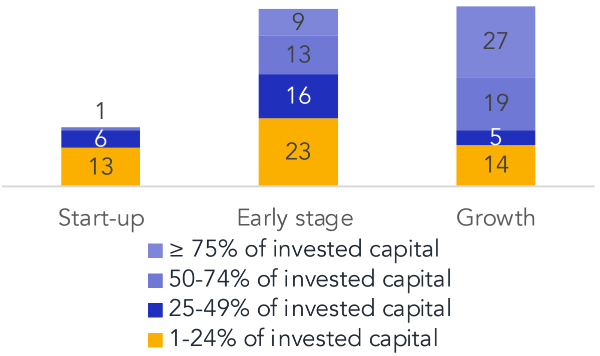
…though **29%** of funds surveyed indicated their team is principally based in the "global north," while still investing across the region

Funds closed in LatAm 2016-2020



Companies at the growth stage in their business cycle* are the predominant focus of investors in the region

Number of Investors per Company Stage



While similar numbers of capital providers invest in companies at the early and growth stages in their business cycle, **>70%** of respondents' total assets under management flows into companies at the growth stage of their business cycle, with **42** investing more than half of their capital into this segment

LCPs seek commercial returns through an impact lens

75% of respondents look for commercial returns with an impact lens

All most all use a mix of instruments; notably, **57%** use preferred equity and **60%** use debt**

Almost **4 out of 5** LCPs focus on supporting the UN SDGs with investments:
- SDG 8 decent work & economic growth,
- SDG 5 gender equality
- SDG 1 no poverty

lead the agenda with 50%, 40% and 38% LCPs supporting them respectively

Gender is a key focus for LCPs and MSMEs; but there is substantial room for parity and improvement

Total AUM for women-led capital providers is roughly **5x smaller** than that of male-led peers, yet their ambition to fundraise demonstrates they are looking for parity.

And despite commitments to gender equality, **<20%** of respondents have women ownership or board representation at the LCP level this this number shrinks to **<3%** when LCPs consider their portfolio investment criteria

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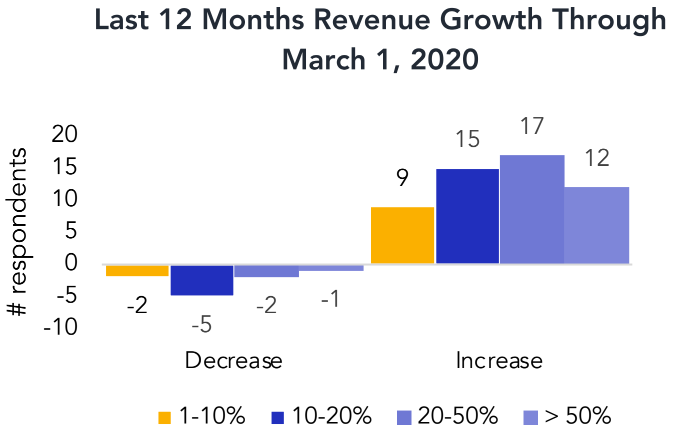
*Refer to slide 18 for definition of companies at a growth stage of their business cycle
** Respondents responded to more than one category

Dashboard: pre- and post-COVID impact, needs and opportunities

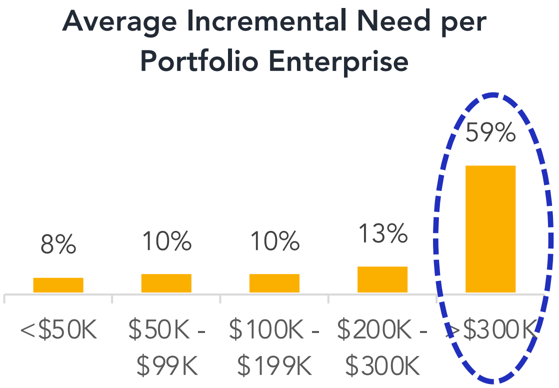
The portfolio companies local capital providers had invested in were healthy pre-COVID



63% of respondents' portfolio companies were growing revenues at more than 10% pre-COVID

And at the same time, **37%** were growing cash flows by more than 10%

COVID affected growth projections and widened the existing funding gap



~60% of capital providers think the average incremental need per portfolio company will be **>$300K**

20% of capital providers think that **>60%** of their portfolio companies will need more financing

Portfolio companies need financial – specifically working capital – and non-financial support

82% of respondents identified a **need for working capital** financing amongst portfolio companies

And the top three non-financial needs for portfolio companies are:

Need	%
Finance and debt management	76%
Strategic / organizational planning	72%
Crisis management	66%

Opportunities continue to exist post-COVID across sectors

Respondents are likely to increase allocations to sectors, without decreases elsewhere, suggesting a **net capital influx into the ecosystem**

30% of respondents intend to increase their investment in **healthcare**

26% of respondents say they will increase their allocation in **education**

23% of respondents say they will increase their allocation in **financial inclusion**

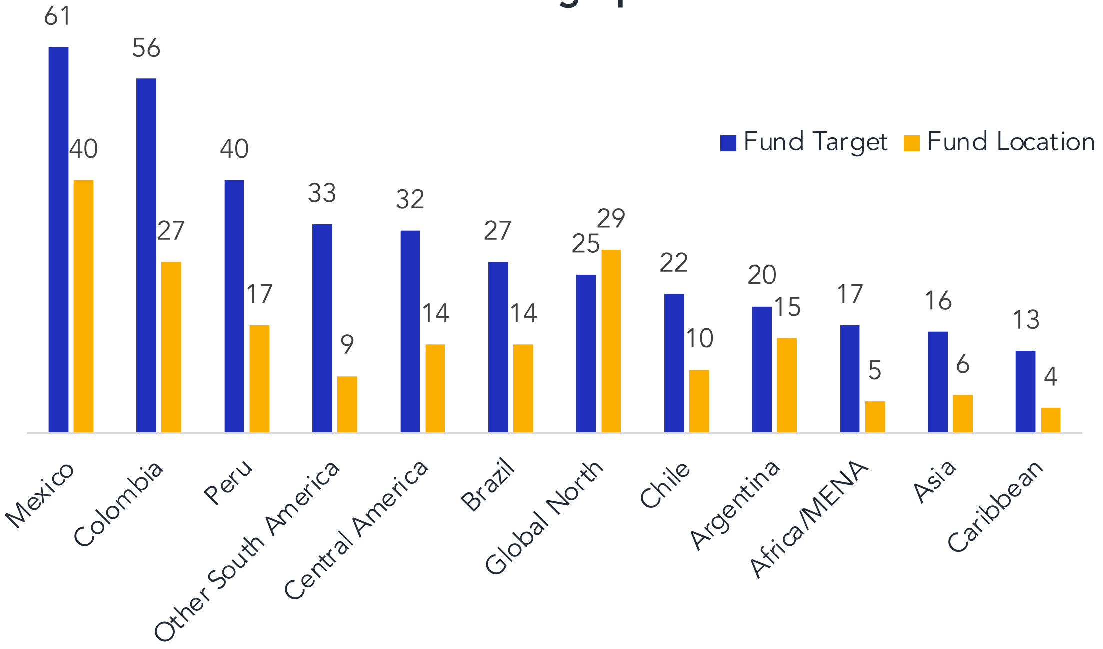
1.

Who are the LatAm capital providers? What types of investments do they target? How did they think about impact, specifically employment and gender?

LatAm capital providers operate and invest in markets they know

Most LatAm capital providers respondents have funds managed from one country and invest in that country as well as others

Respondents Investing and Located in Specific Geographies



Most capital providers operate and invest in the same markets, suggesting that a majority also made decisions locally

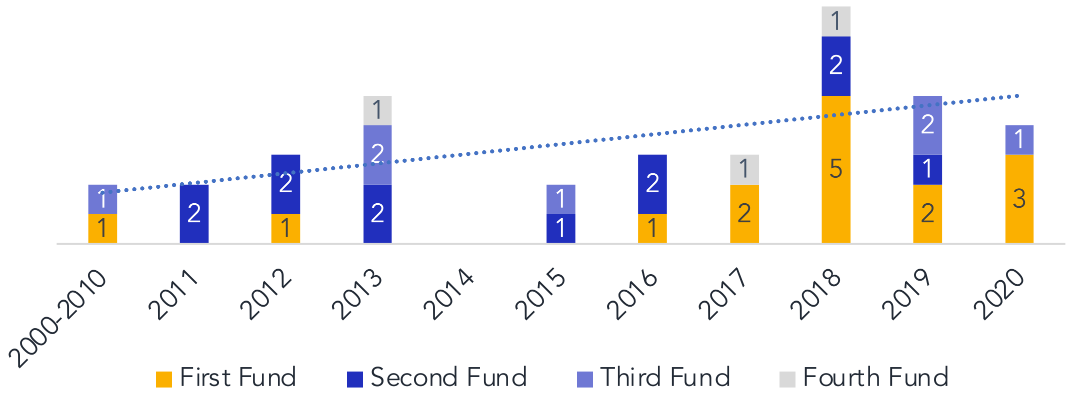
88% of funds surveyed have a physical presence in Latin America…

…and **79%** of funds surveyed indicated their teams, and by deduction their key decision makers, are principally based in LatAm markets

There is a growing number of players in the network of LatAm capital providers

Recent years have seen the formation of new first, second, third or fourth fund closures, with total AUM increasing at a an accelerated pace in the past five years

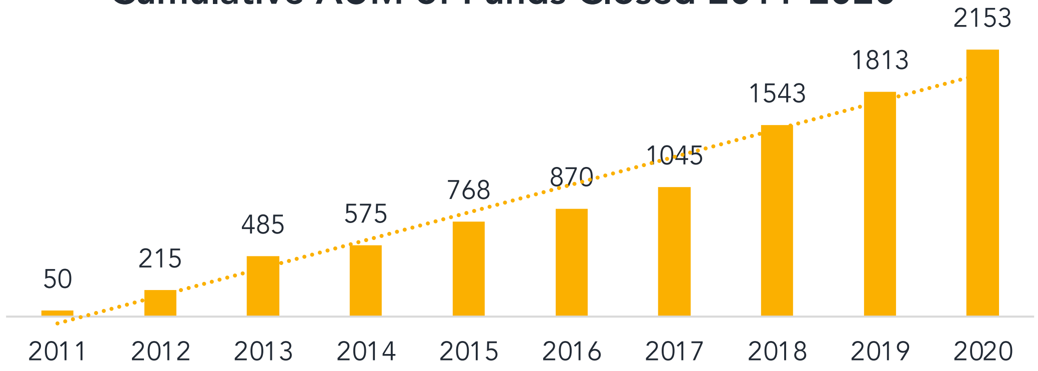
Funds Closed, by Number, per Year*



27% of respondents are on a **third or fourth fund**.

And in the last 5 years, **56%** of new entrants were **first-time funds**.

Cumulative AUM of Funds Closed 2011-2020**



Assets under management have grown at a **52% CAGR** over the last decade.

And overall, impact investing has **doubled** since 2017.

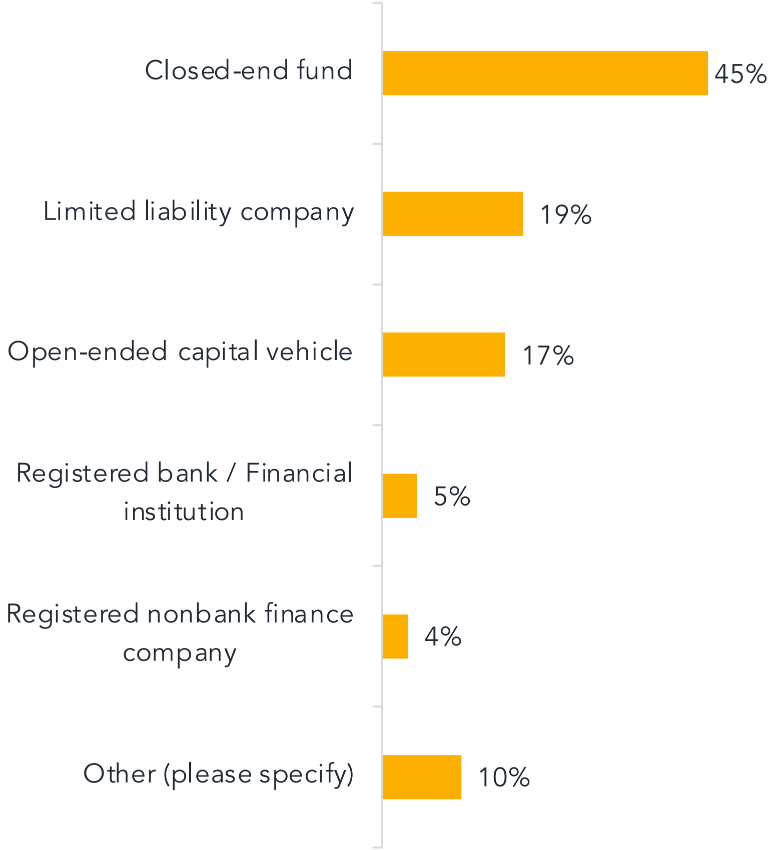
* Graph only includes respondents who indicated specific fund number

** Graph includes all respondents

LatAm capital providers utililize various vehicle types and instruments…

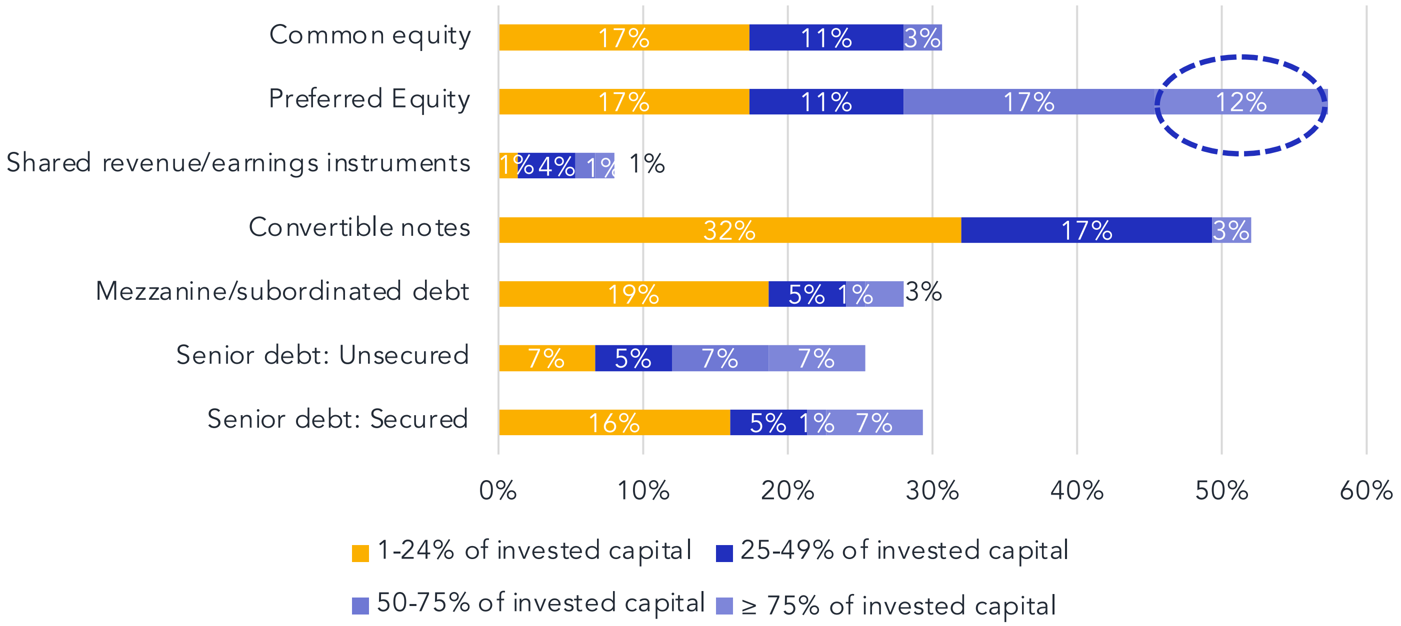
There is a mix in the vehicle types

Distribution of Capital Vehicle Type



And a mix of instruments used, predominantly equity and convertible notes

Distribution of Financing Instrument Used by Respondents*



The **majority of equity instruments** are non-dilutive in nature (preferred and converts)

Over 50% of respondents **utilize convertible notes** to some degree; a majority **invest $1-5 million,** and **87%** of those invest **in high growth ventures****

* Respondents had option to select more than one answer

** Refer to slide 17 for definition of high growth ventures

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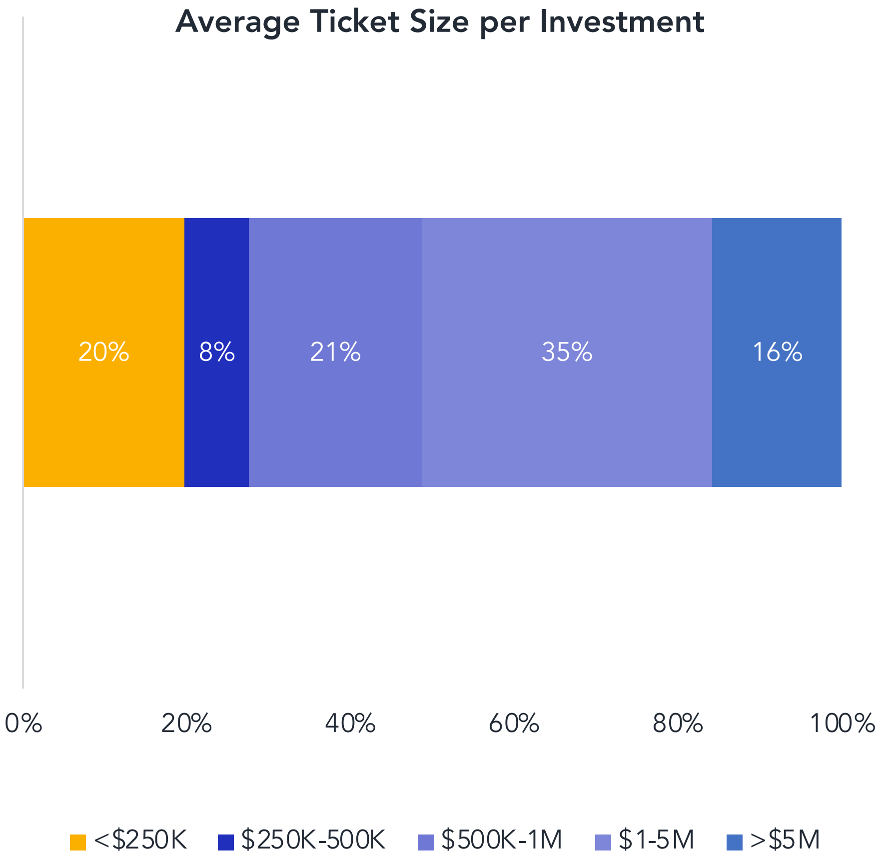
…and the most common ticket size is between $1-$5M

Ticket sizes are split rather evenly between <$1M and >$1M



Capital providers investing larger ticket sizes (>$1M) invest more using equity

Approximately **75%** of capital providers with an average ticket size greater than $1 million invest **most of their capital** through either **preferred or common equity**

While, in comparison, **40%** of capital providers with an average ticket size less than $1 million invest **most of their capital** through **preferred equity**, and **14%** of them invest most of their capital in **common equity**

The majority of capital providers utilizing smaller ticket sizes (<$500K) invest in early stage companies, though they shift towards growth stage as ticket sizes grow

51% of respondents with an average ticket size less than $500K invest in **early stage*** enterprises

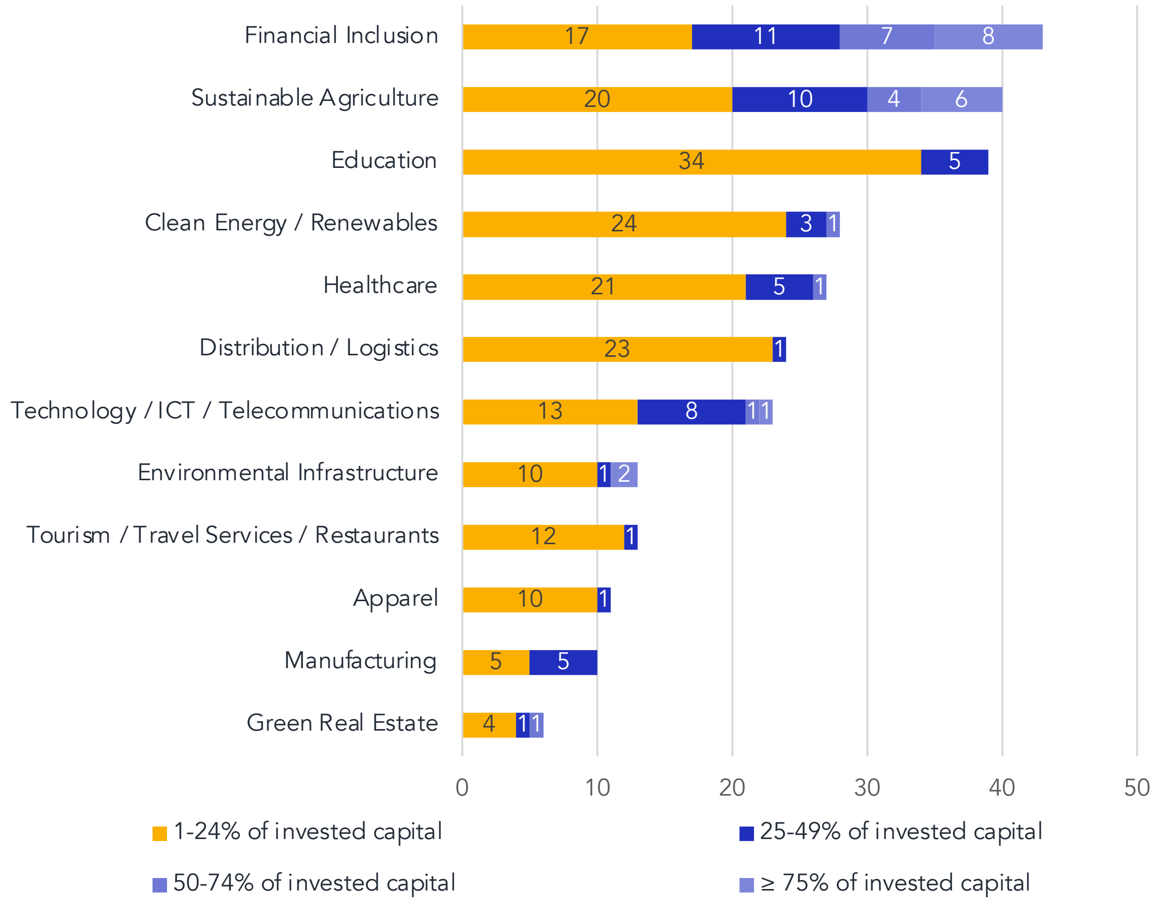
For respondents with an average ticket size less than $1 million, **45%** invest in **early stage** companies while **63%** invest in **growth stage enterprises***

* Refer to slide 18 for definition of early and growth stage companies

LatAm capital providers invest in sector-diversified portfolios

Investments are varied by sector

Distribution of Investment in Specific Sectors*



The majority of capital providers invest in multiple sectors

92% of respondents indicated that they **do not specialize** in a single industry

Yet, three sectors appear to be attractive to capital providers looking for specialization

Sustainable agriculture, **financial inclusion**, and **tech/ telecom** are the sectors with highest thematic specialization

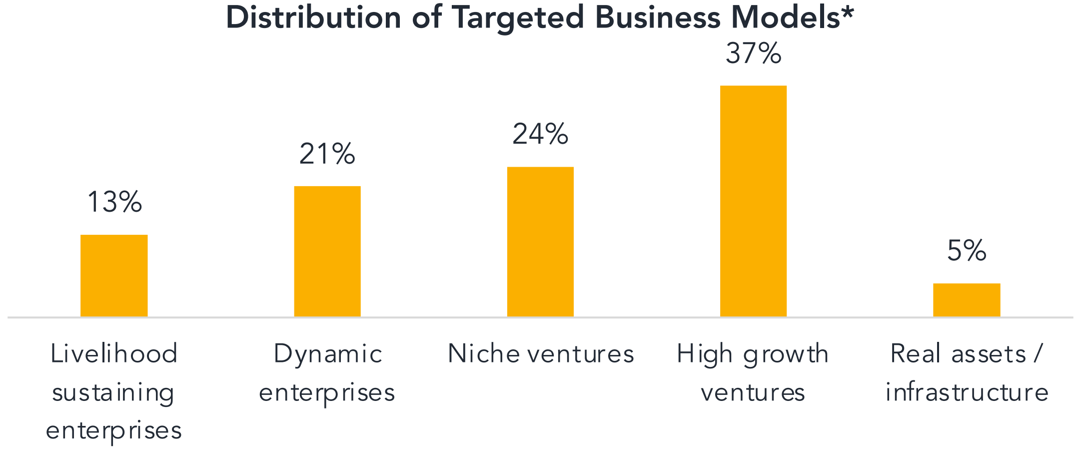
Within popular geographies, financial inclusion makes up an especially notable percentage of portfolios

Leading countries focusing on financial inclusion are **Mexico, Brazil and Colombia**

* Respondents had option to select more than one answer

LatAm capital providers invest in the full range of business types, with largest share allocated to high growth ventures with disruptive business models targeting large markets

With substantial capital being invested in high growth businesses



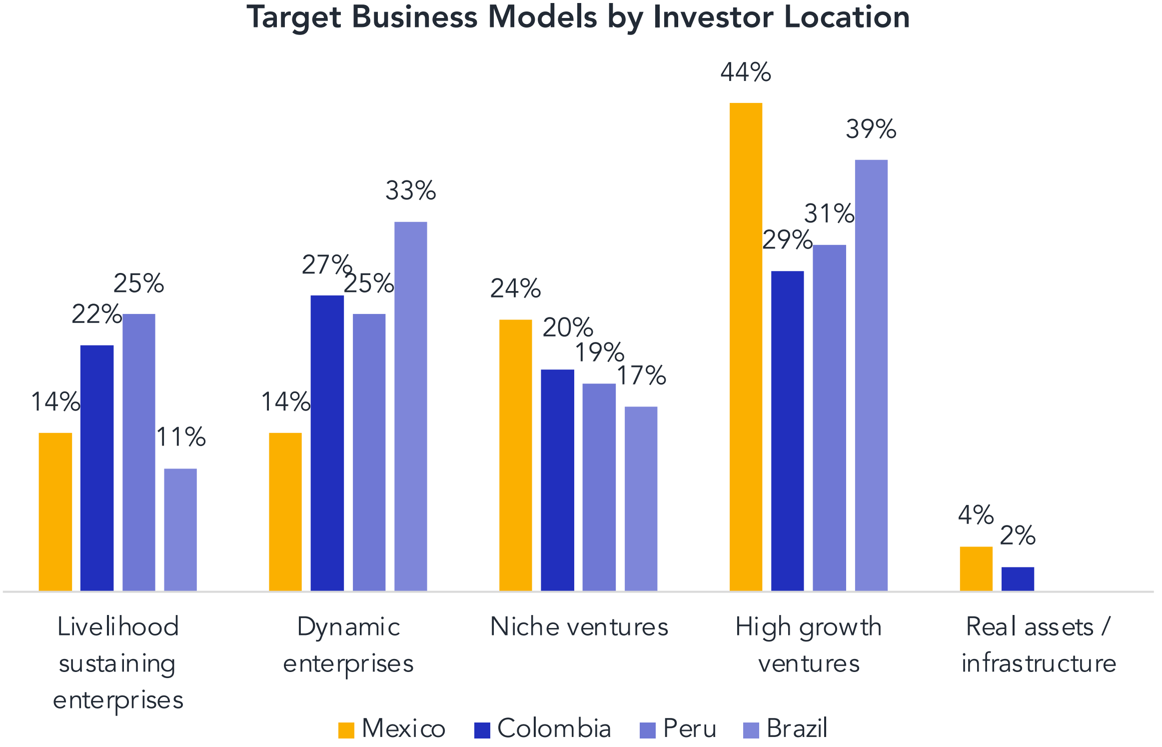
Livelihood sustaining enterprises are family run businesses targeting incremental growth, e.g. "mom and pop" shops such a bike or car repair shops

Dynamic enterprises are proven business models operating in established industries with moderate growth potential; e.g. food-processing or agriculture supply chain companies

Niche ventures are innovation-driven businesses targeting niche markets with limited growth potential; e.g. a social enterprise selling selling roasted coffee beans directly to consumers in chosen markets

High growth ventures are disruptive business models targeting large markets with high growth potential; e.g. high-tech ventures like a tech-driven financial services

When considering a sub-set up geographies, high growth businesses appear to be the most popular target



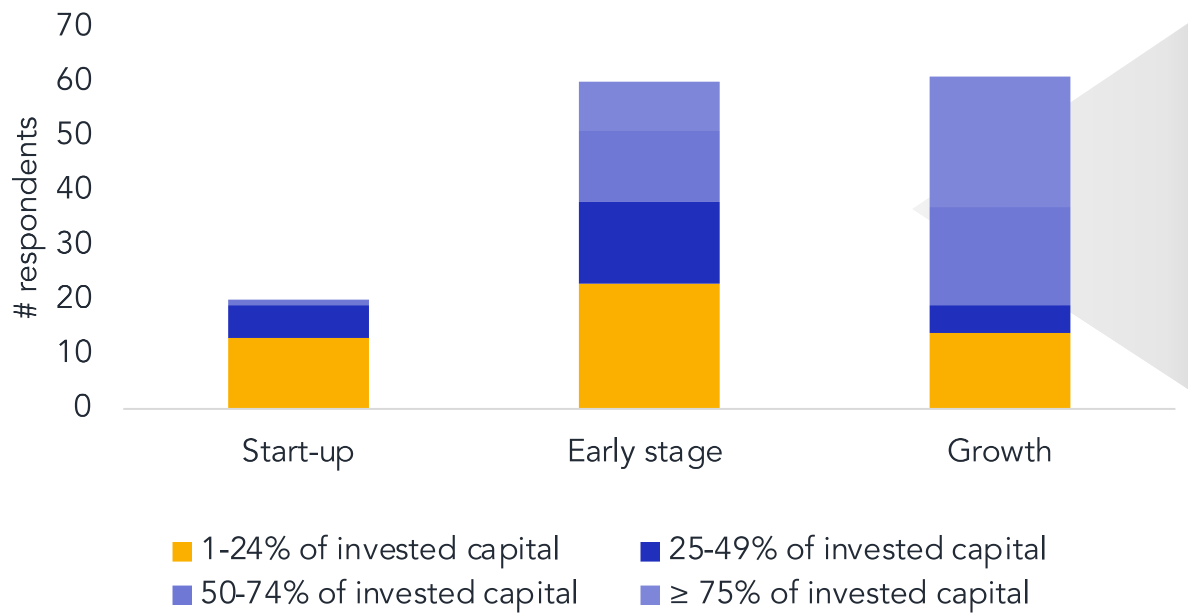
Portfolios seem balanced between the strong focus on high-growth ventures and stable lower growth, dynamic business model

* For additional information on the segmentation of business types, please refer to "The Missing Middles - Segmenting Enterprises to Better Understand their Financial Needs" and slide 47

Capital is focused into companies at a growth stage of their business

Most capital is concentrated into companies at the growth stage of their business cycle, which have established business models and are seeking scale

Concentration of Capital per Stage of Business



Start-up opportunities are pre-revenue, focused on concept and business plan development

Early stage investments are early revenue, focused on product/service development, and needed to expand business models

Growth stage opportunities are established businesses in need of funds for expansion, assets, working capital, etc.

~60% of respondents invest more than half their portfolio in companies at their growth stage

Over 70% of respondents' total assets under management flows into portfolio companies in the growth stage of their business

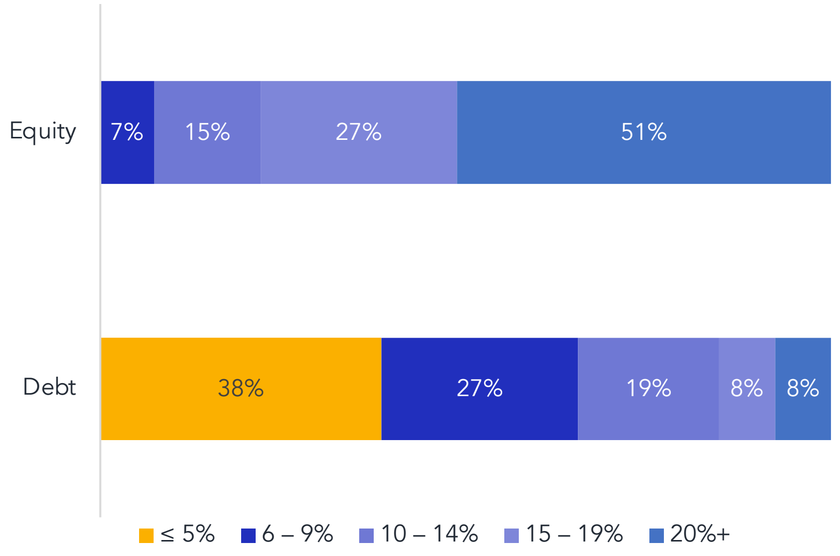
And companies at an early stage of their business are also a frequent choice

While numbers are smaller, in assets under management, over **¾** of capital managers do some level of early stage investment

LatAm capital providers target financial results, which differ by investment instrument and country

Target rates of return vary depending on investment instrument…

Percentage of Respondents with Target IRR per Primary Instrument

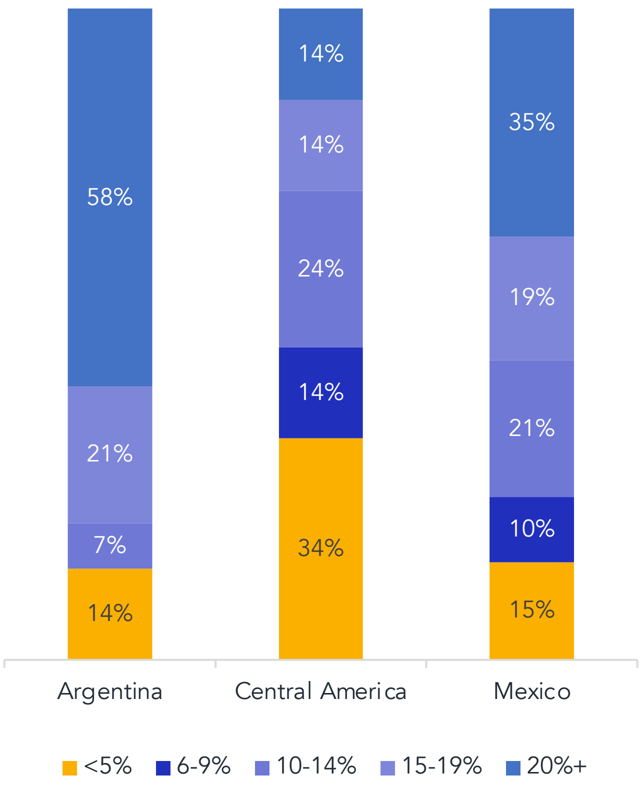


Equity investors are seeking returns above 15%; with a majority over 20%

Debt investors mostly look at returns less than 10%; nonetheless certain investors seek equity-like yields

…and target IRRs align to the predominant investment instrument used in different geographies

IRR Range by Target Country



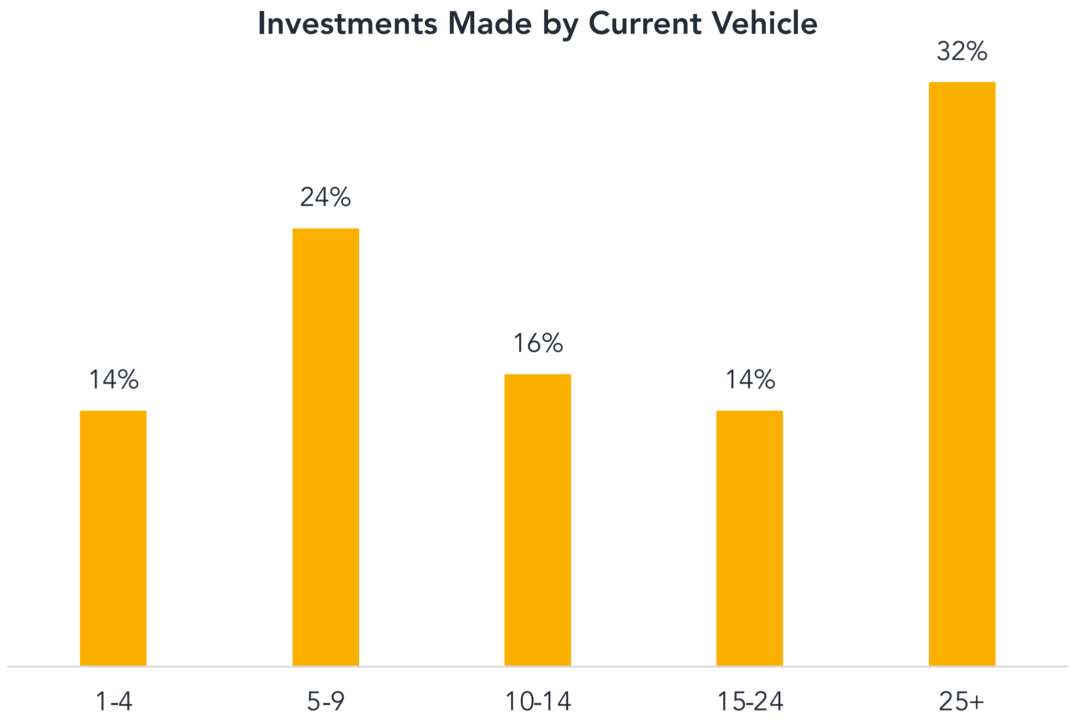
88% of capital providers investing in **Argentina** do so predominantly with **equity**

71% of capital providers investing in **Central America** do so predominantly with **debt**

And the in the case of **Mexico**, there is an almost equal balance of debt and equity investments; which is reflected in the broad spectrum of returns

With a track record of investments and exits

62% of capital providers have at least ten investment in their current vehicle



Several have experienced multiple monetizations to date, with some geographies and sectors in the lead, suggesting a more developed ecosystem in some places

60% of capital providers financing with debt have seen **more than 5 investments being repaid**. **54%** of these investors are located in **Colombia**, with **77%** financing **sustainable agriculture**

In terms of equity exists, **Mexico** appears to be the most mature market, as over half of the capital providers existing more than 5 equity investments are located there. Of these 3 out of 4 have invested in either **education** or **financial inclusion**

Impact-oriented capital providers continue to fundraise to support their portfolio companies

A large influx of capital is in demand over the next two years, with opportunities for investors worldwide to provide financing

85% of respondents indicated a **planned capital raise** in 2020 or 2021,

26% of respondents indicated they were **presently fundraising**

42% are considering accessing new international LPs…

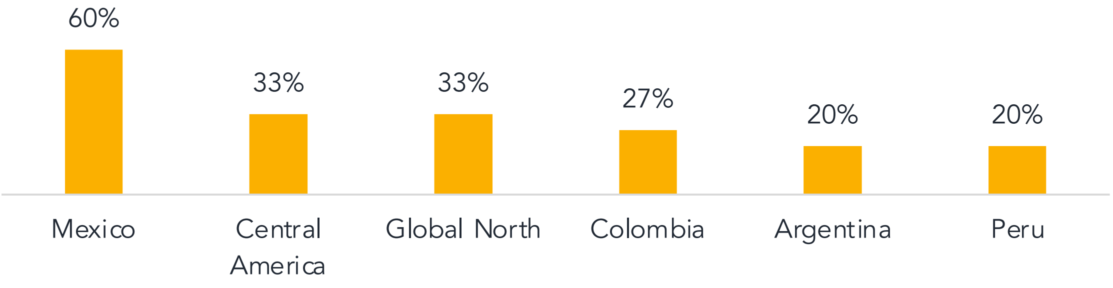
…while **27%** of respondents are considering seeking access to new LP funds domestically

The majority of new funds are likely to support companies at the growth stage of their business cycle*

76% of fundraising respondents invest in companies at the growth stage of their business cycle, with more than half of those investors allocating over 50% of their capital to companies in this stage

Mexico has the highest concentration of vehicles that are currently fundraising and that invest in companies at the growth stage of their business cycle

Vehicles Fundraising for Companies in the Growth Stage in their Busines Cycle by Geography**



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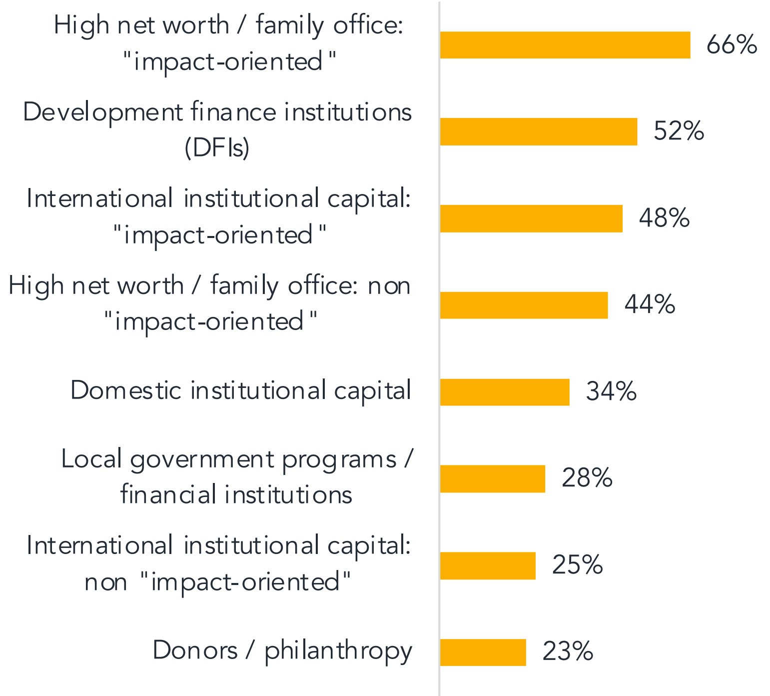
* Refer to slide 19 for definition of growth stage
** Respondents had option to select more than one answer

And LatAm impact capital providers piece together raised capital from multiple sources

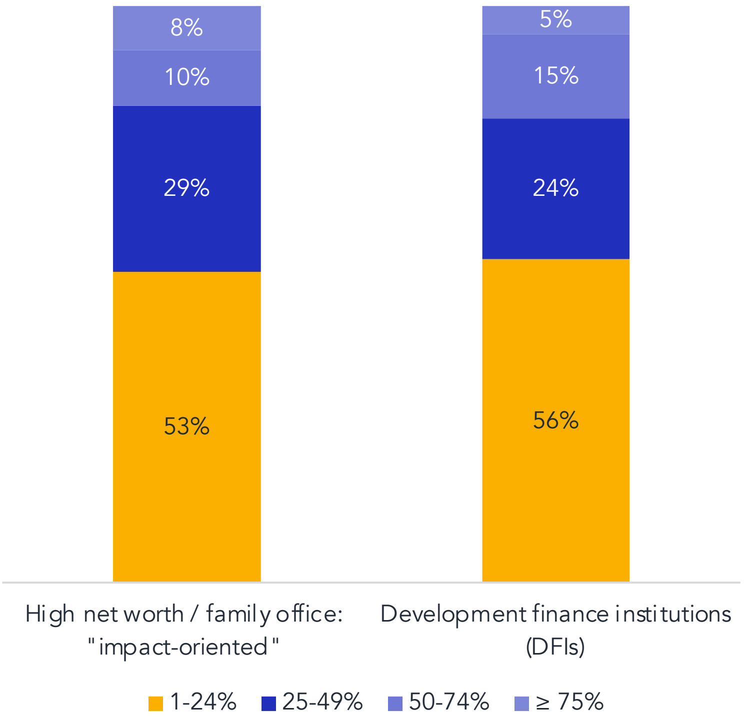
Diversified sources of funding

LCPs Indicating at Least Partial Reliance on a Given Source of Capital**



The most common sources are HNWI/FOs or DFIs

Breakdown of Capital Allocation for Popular Source



Domestic institutional capital is more heavily utilized in large, established vehicles

50% of respondents that receive domestic institutional capital have AUM greater than $50 million

Domestic capital is open to investing across various stages of business

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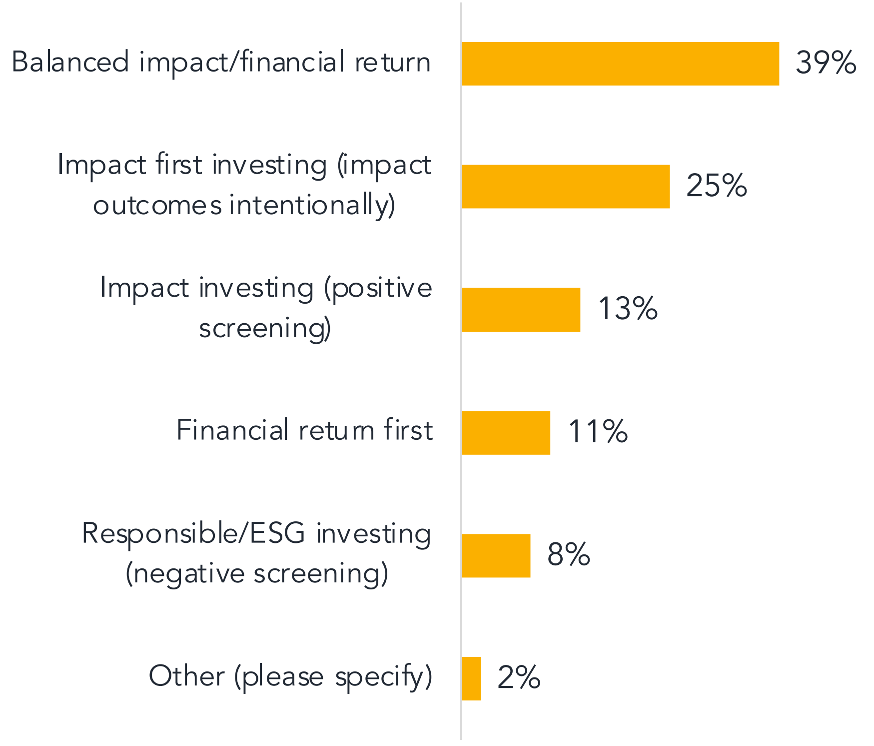
* Refer to slide 19 for definition of growth stage companies
** Respondents had option to select more than one answer

LatAm impact-orientated capital providers target financial returns while also supporting the UN SDGs

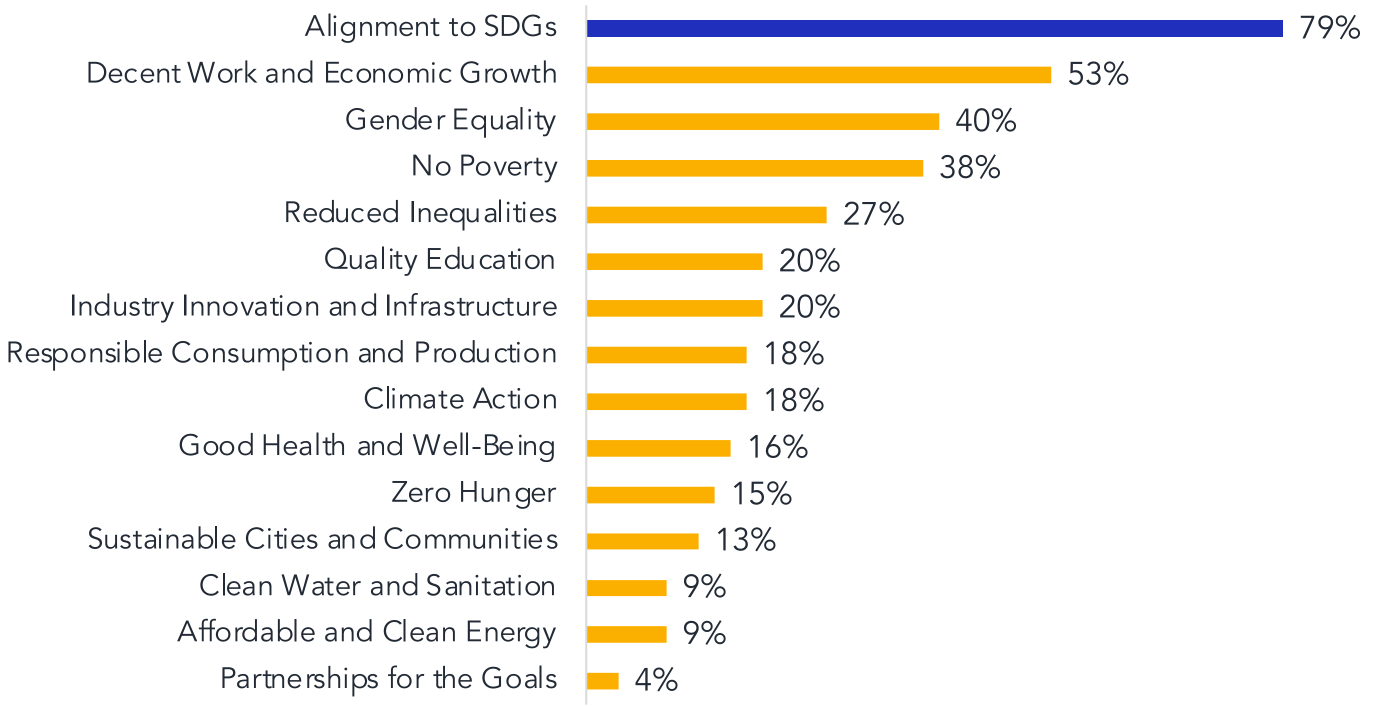
More than 75% of respondents look for commercial returns with an impact investing lens

Orientation of Capital Vehicles



Almost 4 out of 5 LCPs focus on supporting UN Sustainable Development Goals with their investments

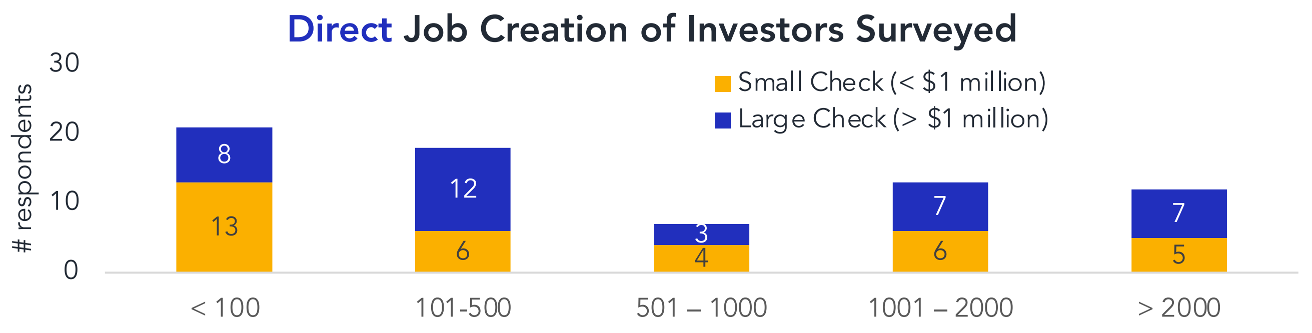
Commitment to the Sustainable Development Goals* (% reporting alignment)

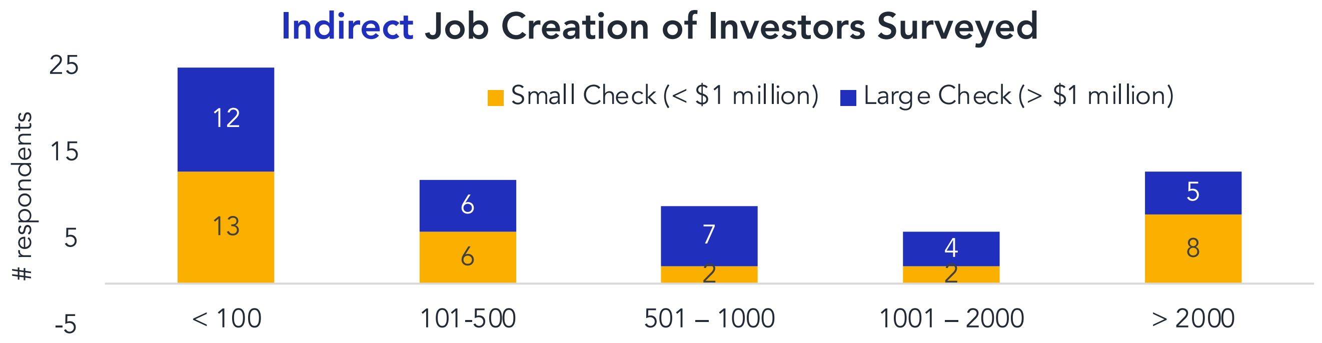


* Respondents had option to select more than one answer

LatAm capital providers most frequently support SDG 8 "decent work and economic growth"

Not only do MSMEs drive direct job growth in their communities, but their business needs require the support of third party workers and other indirect staff too





For **every 1 direct job** created, another **1.6 indirect jobs** are provided by MSMEs

Sectors matter as to the multiplier effect on indirect job creation

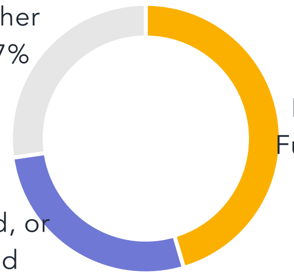
Financial inclusion enterprises drive the most indirect job growth, as respondents that invest the majority of their capital in the industry report creating **2.8 indirect jobs** for **every 1 direct job**…

While reporting absolute direct and indirect job creation, the current reporting limits the ability to assess the quality, duration and resiliency of such jobs. It is the goal of future reporting to provide greater insight into these impact qualifiers

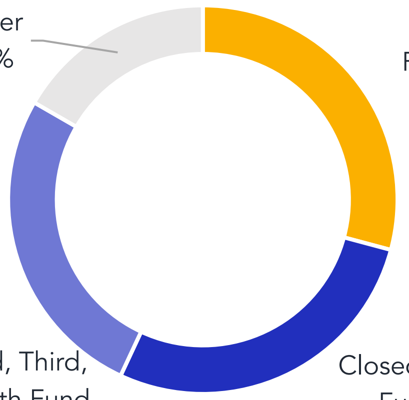
LatAM capital providers appear intent on closing the gender gap, with evidence suggesting that a gender focus is beneficial…

The existing ecosystem of women-led vehicles is small by comparison, though it seems to be evolving with ambitions akin to their male peers

Women-Led Funds*



Male-Led Funds*



Reality: Total AUM for women-led capital providers is roughly

5x smaller

than that of male-led capital providers.

Ambition: Yet the large proportion of women-led **vehicles fundraising targeting similar average AUMs** (roughly $45M) as male counterparts, signals clear ambition to establish more parity in the ecosystem

Comparable or better performance…

82% of participating vehicles with majority women ownership had positive revenue growth in the 12 months prior to March 1, 2020…

…versus **75%** of participating male-led vehicles reporting positive revenue growth over the same period

And always targeting impact…

100% of participating women-led vehicles are impact-focused…

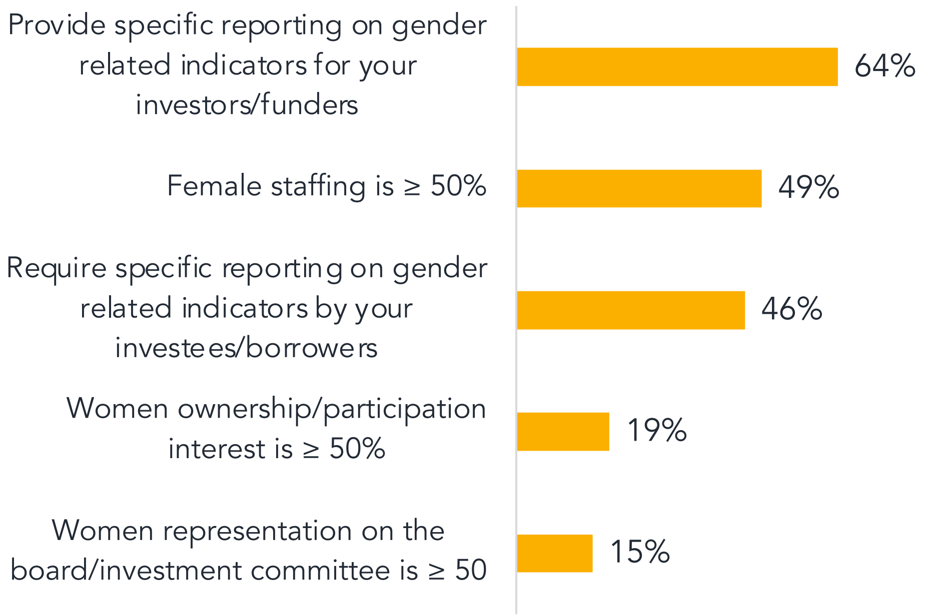
…versus **~70%** of their male peers

* Size difference illustrative of differences in total AUM

…but gender equality has not been a priority at either the capital provider or the portfolio companies' level

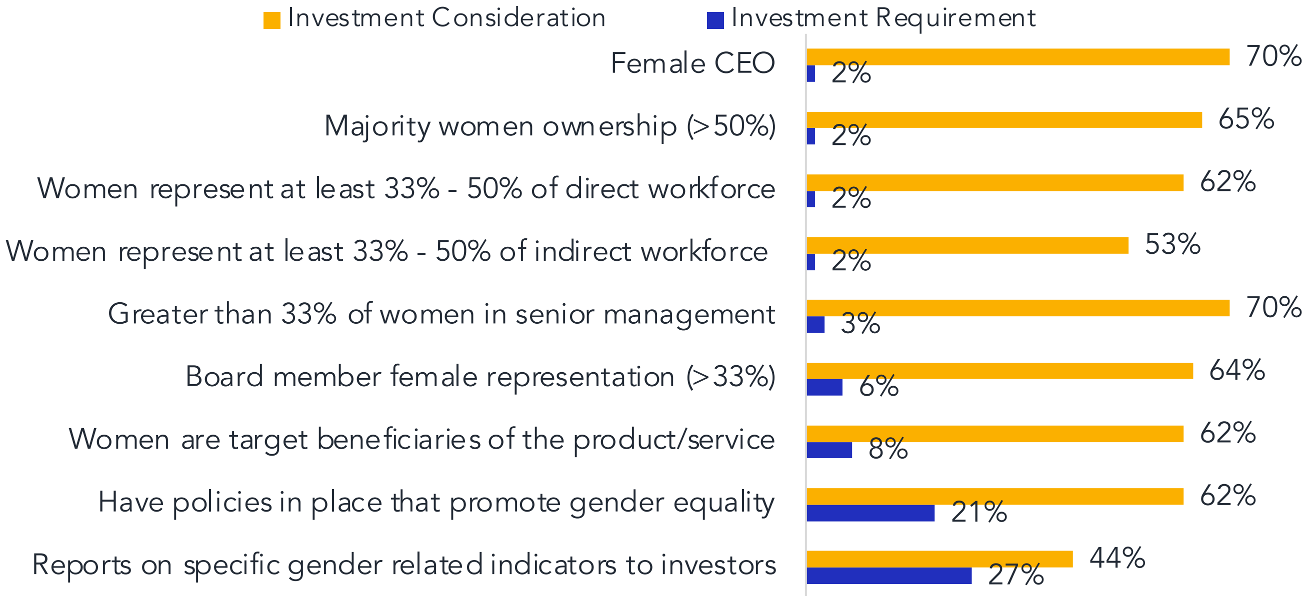
Despite commitments to gender equality, less than 20% of respondents have women ownership or board representation at a capital provider level

Percent of Investors Reporting "Yes" to Relevant Gender Equality Indicator*



And tangible equality metrics are almost never required of portfolio companies, only gender reporting and policies

% Investors Reporting Considering or Requiring Relevant Gender Equality Indicators in Investment Decisions*



Having **a female CEO**, **majority women ownership**, and at least **33% female representation** in the workforce are investment criteria for **less than 3%** of participating capital providers

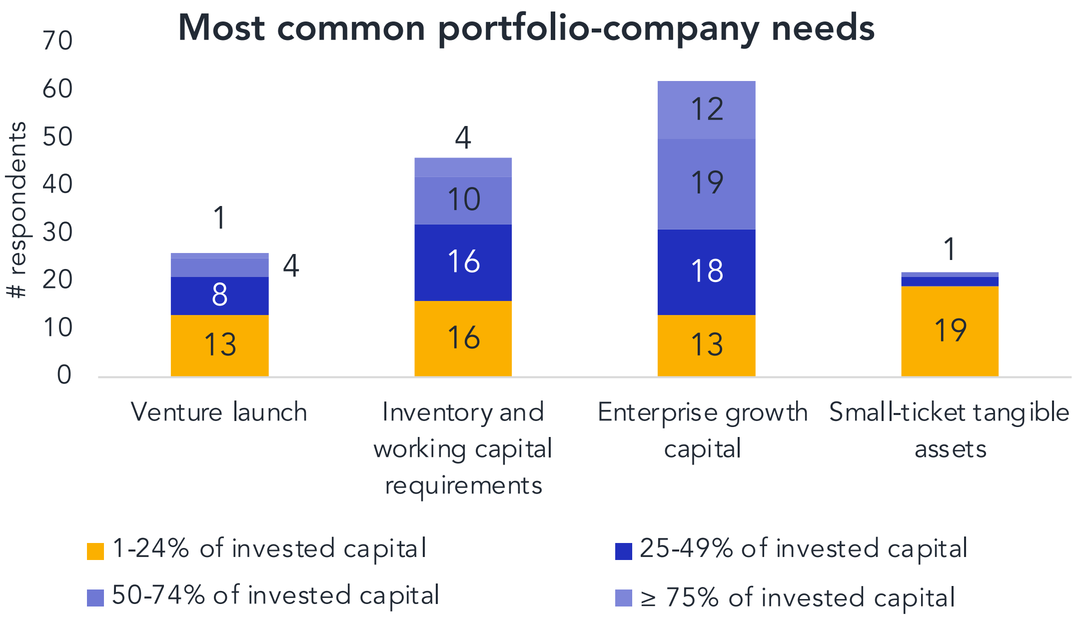
* Respondents had option to select more than one answer

2.

How were LatAm capital providers doing prior to COVID-19? What performance were they expecting from portfolio companies?

Pre-COVID LatAm capital providers were providing portfolio companies' growth and working capital

Growth capital was the target of most capital providers, be it part of a diversified strategy or a dominant portion of a portfolio



46% of respondents indicate that they invest **more than half of their funds** in enterprise growth capital, which includes intangible investments such as staff build-out, expanded sales and marketing capabilities, new markets, operational and support systems

Injections of working capital is the second most common way capital providers support portfolio companies

~ **2/3rds** of respondents supported the inventory and working capital needs of portfolio companies, of which…

65% invest in financial inclusion…

60% in education…

58% in sustainable agriculture

And, industry agnostic, **70%** of capital providers providing working capital did so to high growth ventures*

And capital providers using >50% of their invested capital in providing working capital did so through:

Senior (secured or unsecured) debt at **28%** and

Equity (preferred or common) and **22%**

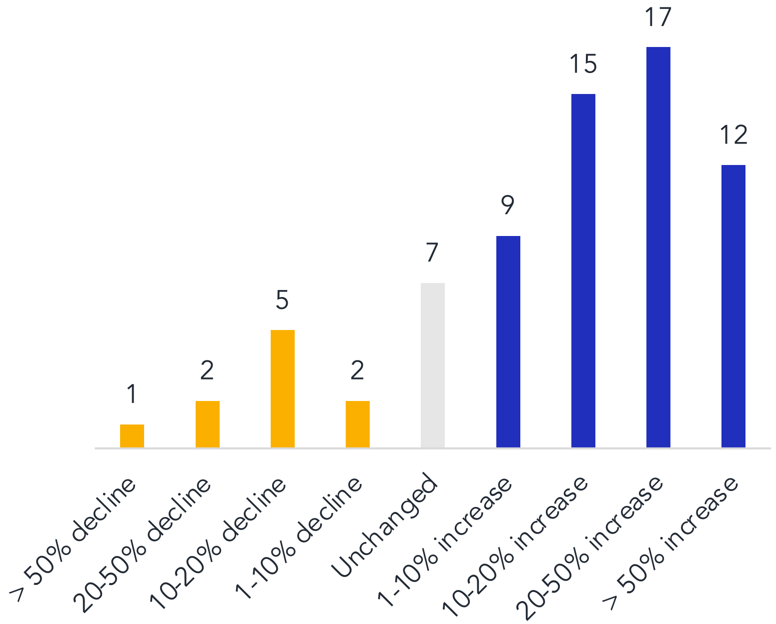
At **4%**, shared revenue was the least common instrument used

* Refer to slide 18 for definition of high growth ventures

Pre-COVID, LatAm capital providers were mostly investing in healthy businesses in terms of operating cashflow and revenue

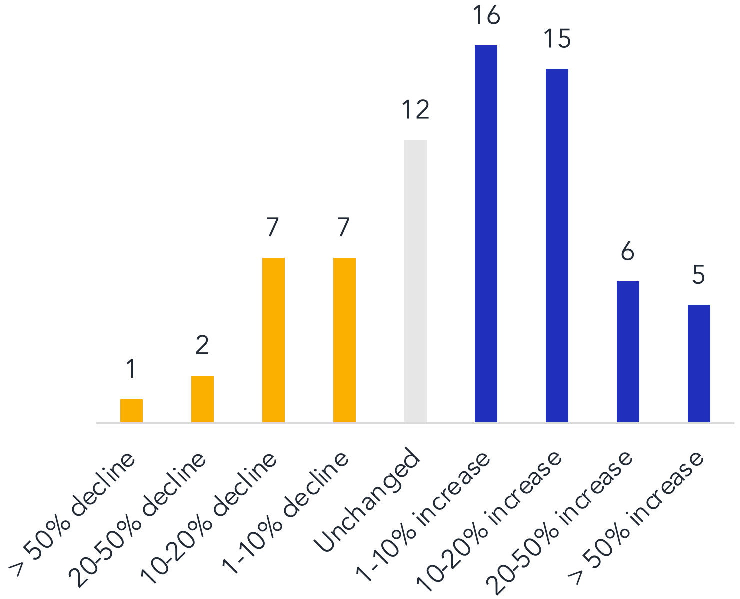
Revenues were mostly positive and growing pre-COVID

Last 12 Months Revenue Growth Through March 1, 2020



As were operating cash flows

Last 12 Months Growth in Operating Cash Flows Through March 1, 2020



Signalling most investments were made in healthy companies

63% of respondents' portfolio companies were growing revenue at more than 10% prior to COVID

Operating cash flows, while not as robust, also showed positive trends. Historical declines in operating cash flows were associated with investments into early stage businesses

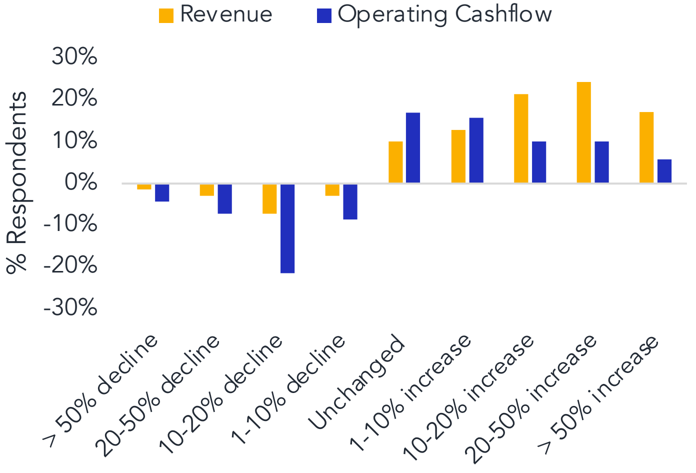
* Refer to slide 19 for definition of early stage companies

3.
How has COVID-19 affected LatAm capital providers' operations and expectations? How have their portfolio companies been effected? What is the status of the entire ecosystem?

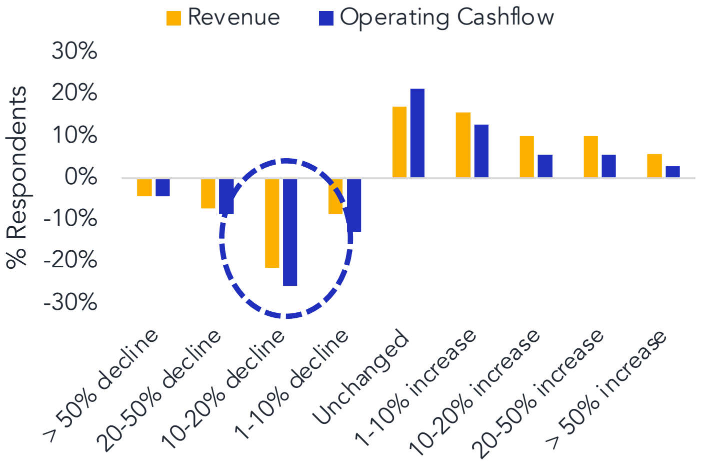
Post-COVID performance of portfolio companies has taken a hit, demand has shrunk

While portfolio enterprises were growing revenues and operating cash flow at double digit rates over the prior twelve months, COVID-19 has reset growth expectations

PRE-COVID 12 month Revenue and Cashflow Performance



POST-COVID Anticipated Revenue and Cashflow Performance



Smaller investment vehicles are bearing the brunt of COVID

Respondents with AUM of **less than $10 million** have adjusted revenue growth expectations **down by 38%**

Despite the severe affect of COVID-19, 40% of capital providers anticipate that their portfolios will continue to grow over the coming quarters

Sectors anticipated to weather the current environment **best** are **financial inclusion** and **healthcare**

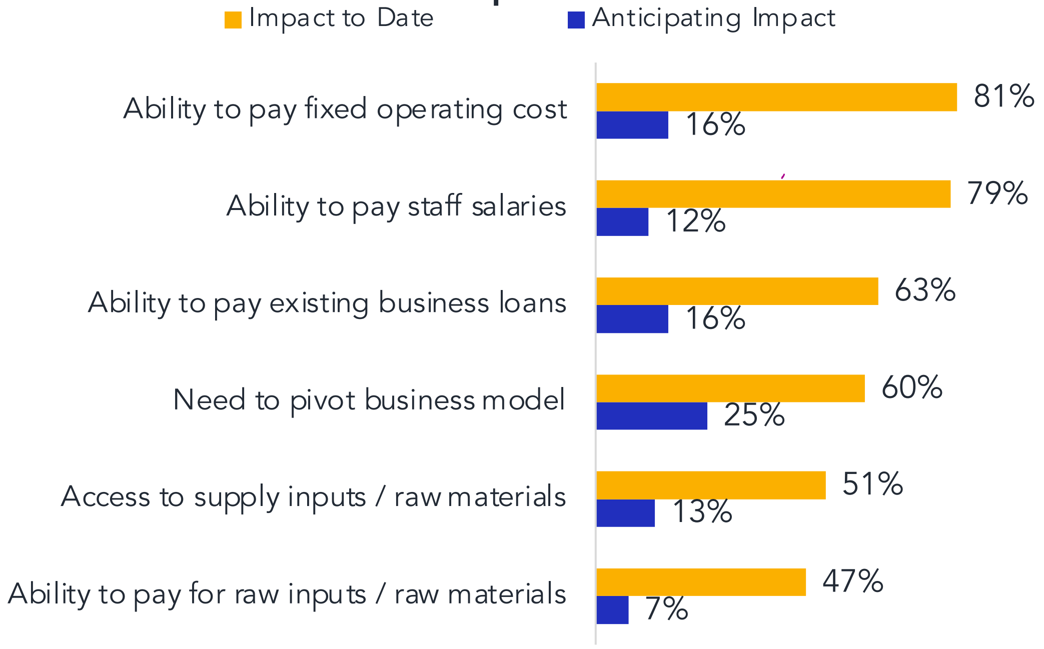
As to the capital providers, the more **established, larger funds** that focus on **non-dilutive equity for high growth enterprises** are the most optimistic regarding their portfolio enterprises

Yet, as illustrated in the next slide, these expectations are tempered by the **need to access working capital**

Fall in demand is resulting in portfolio companies facing challenges to pay for operating and staff costs

The majority of vehicles report portfolio companies' ability to cover expenses has been impacted, and still more expect future impact

Impact of COVID-19 on portfolio companies
Percentage noting impact to date or anticipated impact**



Portfolios that prioritize early stage enterprises are seeing difficulty in covering operating costs

91% of respondents investing in **enterprises at early stage of their business development** * reported seeing impact across their business operations. However, few have material debt obligations and therefore are not additionally burdened by debt servicing requirements during this period.

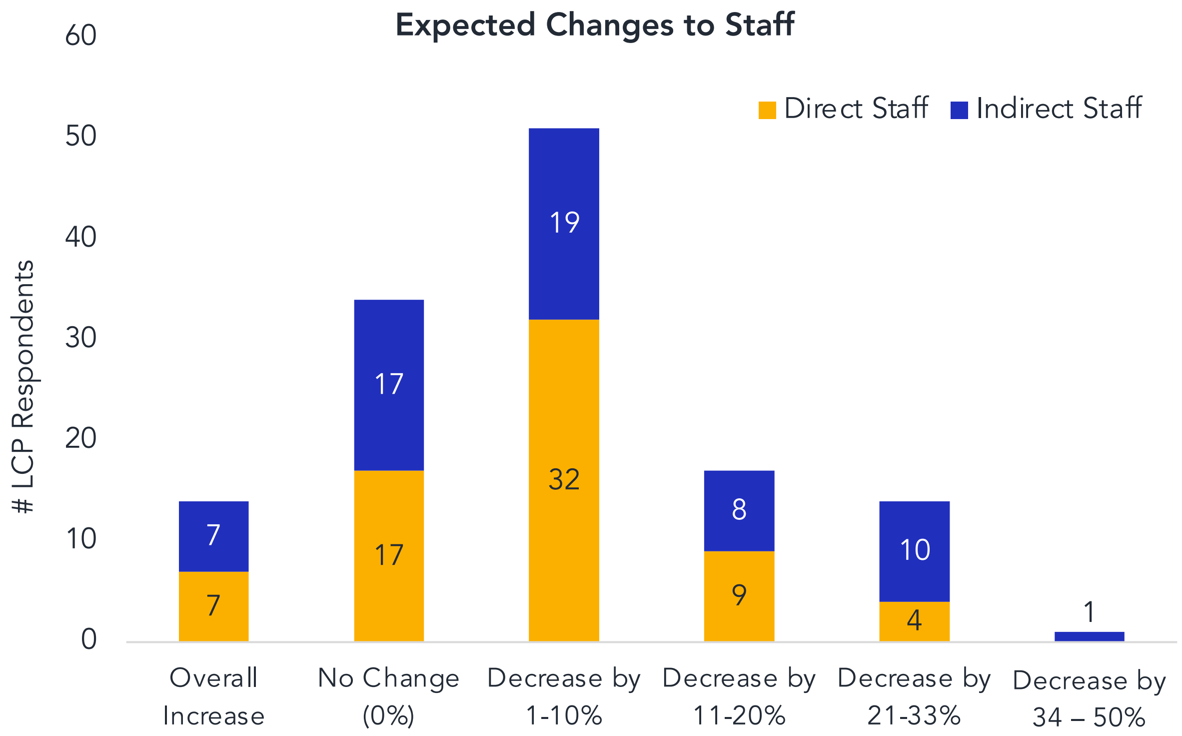
While financial inclusion is faring better

Respondents investing in **financial inclusion** report over **75%** of portfolio companies have experienced no or only a slight impact on their ability to pay salaries, fixed operating costs, existing loans

* Refer to slide 19 for definition of early stage companies
** Respondents had option to select more than one answer

Similarly, fall in revenue leads to fall in employment in portfolio companies

Almost 2/3rds of respondents think there will be a decrease in direct staff



For enterprises that were in the growth phase, not only are the not hiring for the previously anticipated growth, they are now expecting to cut back on staff

100% of capital providers that expect direct staff to decrease by more than 10% invest in enterprises with a **growth business model***

83% of capital providers that expect direct staff to decrease by more than 10% invest in **high growth ventures***

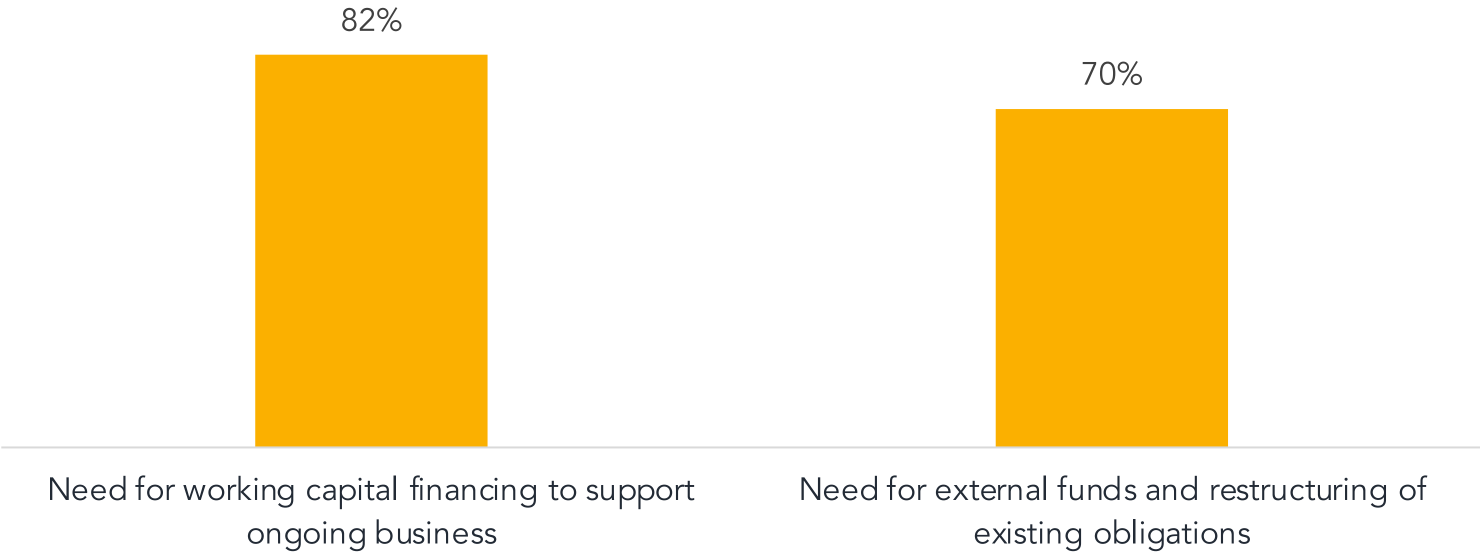
* Refer to slides 18 and 19 for definitions of high growth and growth stage companies, respectively

4.
What are the needs of LatAm capital providers and MSMEs going forward? What are the implications of these diverse needs for the broader ecosystem?

LatAm capital providers highlight that their portfolio companies need financial support

Portfolio companies have financial needs resulting from COVID

Financial Needs of Portfolio Enterprises*



And working capital is seen as a key solution by many capital provider's for their portfolio companies

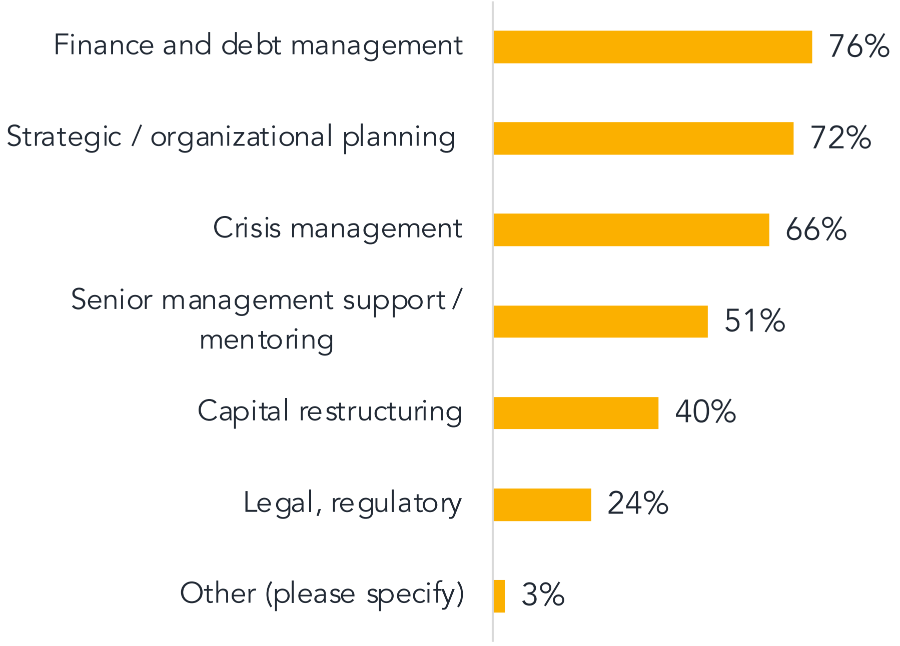
4 of 5 LCPs reported one or more of their portfolio companies have a need for working capital finance to support ongoing business…

* Respondents had option to select more than one answer

In addition, capital providers underline the need for nonfinancial support; however, a majority is not looking to raise additional funds to cover technical assistance needs

Alongside financial support, various components of technical assistance (TA) have been highlighted*

Anticipated Technical Assistance Needed in Next 3-6 Months*



Less-established enterprises require more TA than average, as well as sectors that have experienced substantial increases or decreases in demand for services as a result of COVID

65% of LCPs investing in **startups** identify a need for **senior management support and mentoring** amongst their portfolio companies

85% of LCPs investing in **tourism, travel, and restaurants** identified **crisis management** as an area of needed technical assistance…

… while **78%** of capital vehicles investing in **healthcare** said the same

At this time, TA capital is not a material focus

17% of LatAm capital providers plan to raise funds for technical assistance to support portfolio companies in the next two years, indicating the need for TA at this time

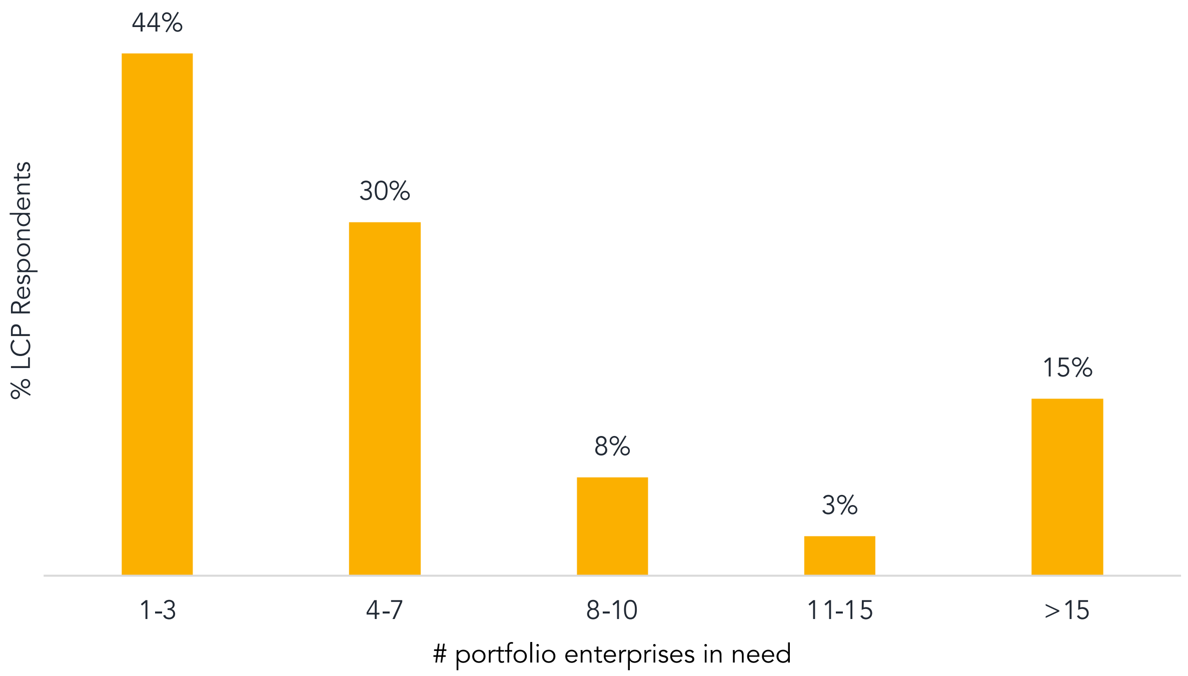
* Results represent % of respondents that identified each need for at least one company across their portfolio. Respondents had option to select more than one need if applicable

** Respondents had option to select more than one answer

The ecosystem is facing an exacerbated funding gap which capital providers must meet

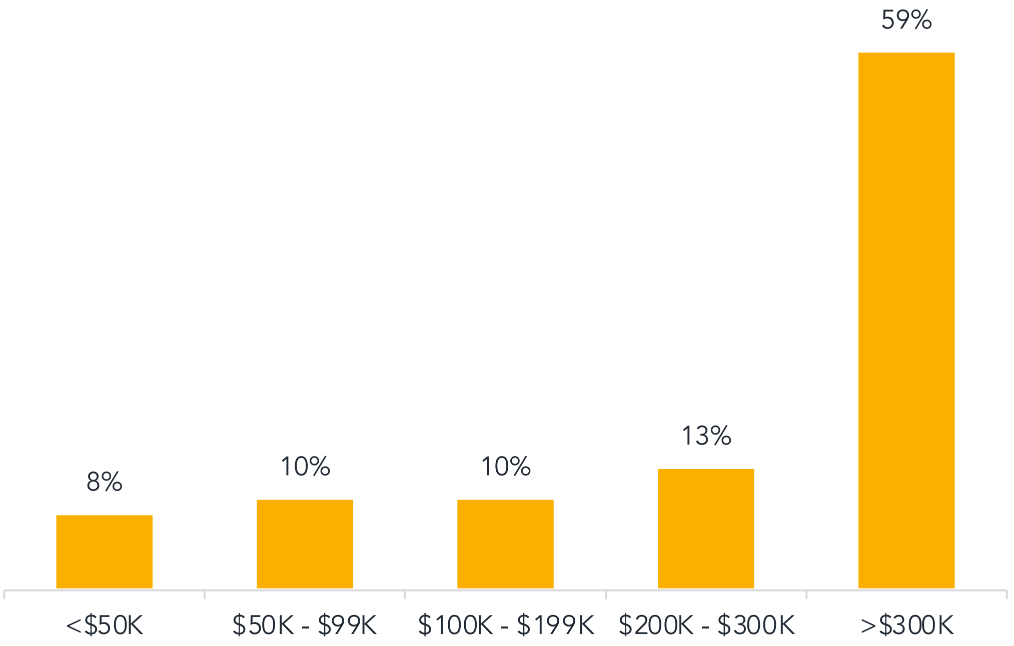
More than half of capital providers believe 4 or more of their portfolio companies will need additional financing

Number of portfolio enterprises in need of incremental funding



Incremental capital needs per portfolio enterprise are significant with funding requirements of over >$300K

Average Incremental Need per Portfolio Enterprise

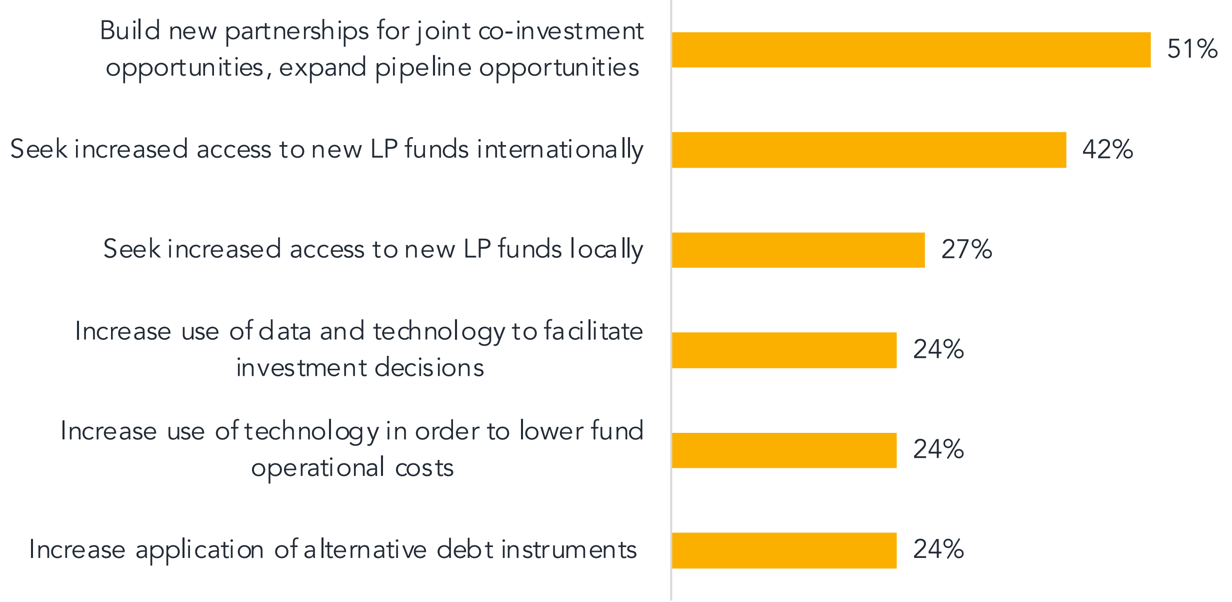


* Refer to slides 18 and 19 for definitions of high growth ventures and early stage companies, respectively

LatAm capital providers are seeking opportunities to change and expand business in this environment

Half of LatAm capital providers seek more partnership/co-investment opportunities

Future Capital Provider Considerations Given Impact of COVID*



29% of respondents looking for **co-investment opportunities** are also expecting to increase investment allocation in **healthcare**, suggesting an incoming flow of capital into the sector

One quarter is considering increased use of technology to support their own businesses

Close ended funds are under greater pressure to adopt technology to lower operating costs:

With **55%** of close-ended vehicles leading the way in the application of technology, relative to **15%** open-ended vehicles…

And see now as a time to invest, with many LCPs looking to raise funds

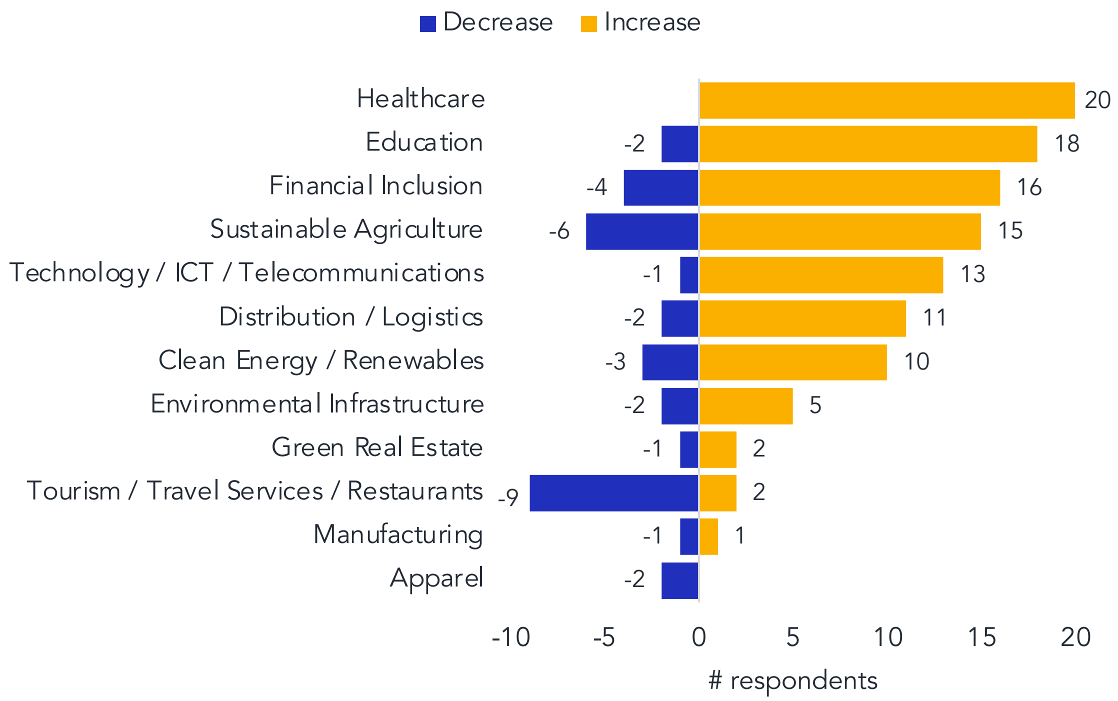
42% of capital providers are fundraising to expand business lines or increase market share of existing portfolio portfolio companies while **70%** of capital providers are raising funds to expand their pipelines

* Respondents had option to select more than one answer

And certain sectors will benefit from increased funding, while others suffer

Most LatAm capital providers expect to increase allocations to many sectors without corresponding decreases in others

How will portfolio allocations change by sector in 2020 and 2021?



LatAm capital providers see opportunity in areas directly affected by the pandemic…

30% of respondents intend to increase their investment in healthcare, while none intend to reduce it

26% of respondents say they will increase their allocation in education

…with women-led vehicles leading the way in education

45% of women-led respondents say they will increase their allocation in education, while none will reduce it, which is **3x** the amount of male-led funds that intend to increase funding to education

5.
Conclusions

Key Takeaways regarding portfolio enterprises

The following summary conclusions arise from the survey's data. Reflecting upon the survey results, several observations and implications arise that warrant consideration.

- **Growth is on the agenda of capital providers;** demonstrated by a propensity to invest in high growth ventures and provide enterprise growth capital.
- **Prior to the COVID-19 pandemic, investors had identified and financed portfolio companies with overall healthy performance**. Where cashflows were low or negative in the twelve months leading up to COVID, investments in early stage companies were more prevalent.

Indications that the local capital provider investment model has been working well, uncovering and supporting businesses that have viable businesses and pathway to scale

- COVID-19 has injured demand, and as such, over the coming twelve months **growth prospects and staffing levels are expected to be curtailed.**
- At this time, **liquidity** and the ability to cover operating expenses are areas of concern.

Highlighting the need for additional, urgent financial intervention to ensure the survival of a critical mass of the entrepreneurial base

- **Financial needs are significant,** with a majority of capital providers anticipating over $300K in incremental capital needs per enterprises.
- **Portfolio companies also need non-financial support,** but capital vehicles are NOT raising money for it. This represents an unrecognized need in the market.

These businesses will require technical, managerial and financial support in order to position themselves for a pathway to renewed growth

Key Takeaways regarding LatAm capital providers

Again, reflecting upon the survey's results, several observations arise with regards to these critical intermediaries; indicating opportunities for this sector going forward.

- More than half of respondents seek double digit returns, and four out of five are investing for measurable impact and social goals; with SDG on decent employment, gender equality and no poverty being key areas of focus.
- Gender is a focus for LatAm capital providers and MSMEs, but there is substantial room for parity and improvement. Roughly 40% of respondents support gender equality and empowerment through SDG 5, but almost no respondents require female representation in the companies they invest in, at any level.

As COVID imposes multidimensional impacts on society, the economy and the environment, effective impact measurement and management should take a deeper role in re-shaping investment thesis and strategies

- Pre-COVID, local impact capital investment vehicles were expanding, with an increasing rates of fund closings and assets under management.
- Domestic capital plays a role in the region, but the large presence of international financing suggests markets are still inefficient.

Given historical experience of cross-border capital flows to slow during times of economic turmoil, there exists an opportunity for domestic institutional capital to play an increase role, and ultimately strengthening the broader ecosystem

- Opportunities to invest continue to exist in the COVID world. Vehicles are looking to fundraise from both international and domestic sources.
- Capital vehicles are looking to change the ways in which they work by increasing partnerships and utilizing more technology to enhance their decision making. The common denominator seems to be an aim to lower operating costs in the new environment.

These opportunities combine to create an incentive to revisit and adapt the modus operandi of the capital providers themselves, driving business efficiencies and thereby strengthening their own attractiveness to LPs

6.
Appendix

Survey Questions (1/2)

1. Where is your team principally based? (select as many as applicable)
2. In what markets do you operate (by percentage of invested capital)? (Please select as many as applicable, allocating as close to 100% as possible)
3. What is the legal structure of your current fund/investment vehicle?
4. When did your current fund/investment vehicle achieve each of the following?
5. What is the status of your current fund/investment vehicle's operations?
6. How would you frame the impact vs financial return orientation of your capital vehicle?
7. How many investments have been made to date by your current investment vehicle?
8. What is the size of your current fund/investment vehicle? (if selecting in fundraising, also select current amount of monies raised to date)
9. What are your organization's main sources of capital? (Please select as many as applicable, allocating as close to 100% as possible)
10. What is the average size of investments/financing per portfolio company?
11. Please denote by percentage the stage of business model(s) you target. (Please select as many as applicable, allocating as close to 100% as possible)
12. What types of business models do you target? (select as many as applicable)
13. Please denote by percentage the instrument(s) you have applied in making financing/investments. (Please select as many as applicable, allocating as close to 100% as possible)
14. What is the target IRR for investors when investing in your capital vehicle (in USD equivalent)?
15. For equity investments, how many exits/monetizations have been achieved? For debt financings, how many repaid in full?(Please answer only as applicable)

Survey Questions (1/2)

16. Please denote by percentage the key financing needs of your portfolio enterprises (at the time of your initial investment/funding). (Please select as many as applicable, allocating as close to 100% as possible)

17. Please provide, across your portfolio, both the historical and expected average annualized financial performance.

18. During the next 3 – 6 months, what is the anticipated financial situation of your portfolio companies (by percentage of invested capital and by performance segment)? (Please select as many as applicable, allocating as close to 100% as possible)

19. Does your fund/investment vehicle specifically report any Sustainable Development Goals?

19a. Please list the top 3 Sustainable Development Goals (or as many as apply):

20. Do any of the following gender considerations apply when making investment/financing considerations? (select as many as applicable)

21. Do any of the following apply to your fund/vehicle? (select as many as applicable)

22. What proportion of your investment vehicle is dedicated to each sectors/focus (by percentage of invested capital)? (Please select as many as applicable, allocating as close to 100% as possible)

23. How will COVID-19 change your portfolio allocations by sector in 2020 and 2021? (select as many as applicable)

24. What impact has COVID-19 had on the following aspects of your portfolio companies? (select as many as applicable)

25. Due to the impact of COVID-19, what do you anticipate to be the incremental funding needs for your portfolio?

26. What is the total impact on employment/jobs associated with your portfolio? What is the expected impact over the next 6 months on direct and indirect labor?

27. Due to COVID-19, what are the anticipated technical support needs of your portfolio companies during the next 3 – 6 months? (select as many as applicable)

28. Are you anticipating raising new LP funds in 2020 or 2021? If yes, for what purpose? (select as many as applicable)

29. Regarding your current fund/investment vehicle, which of the following is under consideration? (select as many as applicable)

Families of SGBs and their financing needs

FOUR SGB FAMILIES AND THEIR FINANCING NEEDS

HIGH-GROWTH VENTURES

- Disruptive business models that target large addressable markets
- High growth and scale potential; typically led by ambitious entrepreneurs with significant risk tolerance

NICHE VENTURES

- Creators of innovative products and services targeting niche markets or customer segments
- Entrepreneurs seeking to grow but often prioritizing goals other than scale

DYNAMIC ENTERPRISES

- Operators in established "bread and butter" industries (e.g., trading, manufacturing, retail, and services)
- Firms deploying existing products / proven business models and seeking to grow through market extension / incremental innovations
- Companies showing moderate growth and scale potential

LIVELIHOOD-SUSTAINING ENTERPRISES

- Opportunity-driven, family-run businesses on the path to incremental growth
- Firms that may be formal or informal operating on a small scale as an income source for an individual family
- Replicative business models serving highly local markets or value chains

Source: CFF, New Perspectives on Financing Small Cap SMEs in Emerging Markets: The Case for Mezzanine Finance (May 2016); CFF, The Missing Middles: Segmenting Enterprises to Better Understand Their Financial Needs (2018); CFF, Scaling Access to Finance for Early-Stage Enterprises in Emerging Markets: Lessons from the Field (January 2019).

7.
Survey Sponsors and Collaborators

Survey Sponsor Profiles

Alianza por la inversion de Impacto México

The AIIMx became active in 2015 with the aim of promoting and strengthening the impact investment ecosystem in Mexico and at the same time, adding to the international level the Mexican vision, perspectives and reflections on the sector.

Grupo Bimbo

Grupo Bimbo is the leader and largest baking Company in the world and a relevant participant in snacks. Grupo Bimbo has 197 plants and around 1,700 sales centers strategically located in 33 countries throughout the Americas, Europe, Asia and Africa. Its main product lines include sliced bread, buns & rolls, pastries, cakes, cookies, English muffins, bagels, tortillas & flatbreads, salty snacks and confectionery products, among others.

Grupo Bimbo produces over 13,000 products and has one of the largest direct distribution networks in the world, with more than 2.8 million points of sale, around 55,000 routes and more than 134,000 associates. Its shares trade on the Mexican Stock Exchange (BMV) under the ticker symbol BIMBO, and in the over-the-counter market in the United States with a Level 1 ADR, under the ticker symbol BMBOY.

Citibanamex Foundation

Promote the integral development and well-being of society through co-responsibility programs and actions that reflect Banamex's permanent commitment to the progress of Mexico. We work mainly on 4 topics: education, improvement of quality of life, conservation of the environment, as well as promotion and preservation of cultural values and artistic heritage.

To be recognized as a leading organization in social return, which makes decisive contributions to the construction of a more prosperous Mexico, in which people develop economic skills to strengthen their heritage and collaborate with national progress.

VISA Foundation

The Visa Foundation works with charitable organizations to support underserved people and communities. As its central focus, the Visa Foundation is committed to helping low-income, financially underserved micro and small enterprises around the world to thrive and prosper. The Visa Foundation, registered in the U.S. as a 501(c)(3) entity, also supports broader community needs as well as humanitarian responses in times of crisis.

Survey Author Profiles

Collaborative for Frontier Finance

The Collaborative for Frontier Finance (CFF) is a multi-stakeholder initiative that aims to increase access to capital for small and growing businesses in emerging markets.

CFF is working to support a sustainable, diverse, and robust financing ecosystem for early, small and growing businesses (SGBs) in emerging markets. Over the next five years, the Collaborative aims to catalyze a significant amount of appropriate capital from local and international investors and, through partnership, significantly scale or develop relevant interventions that address core pain points in the system.

Sonen Capital

Sonen Capital is a dedicated investment management and advisory firm founded in 2011 to serve the impact investment field.

Our name is derived from Social and Environmental investing, and reflects our values and our conviction that investing to generate financial returns and lasting social and environmental impact are not only compatible, but also mutually reinforcing objectives.

Fondo de Fondos

Fund of Funds is a Specialized investment firm. Since it's establishment in 2006, Fund of Funds has promoted productive investment in Mexico and Latin America, to catalyze the development and competitiveness of SME's, as well as the energy and infrastructure sectors. Fund of Funds has implemented a strategic plan to invest and develop private equity, venture capital, energy and infrastructure, and impact investing funds.

As an alternative asset manager, Fund of Funds manages third-party resources with the best international practices, creating unique databases in the industry and selecting experts with a solid reputation and proven careers.

Dalberg Advisors

Dalberg Advisors is a strategic advisory firm that combines the best of private sector strategy skills and rigorous analytical capabilities with deep knowledge and networks across emerging and frontier markets. We work collaboratively across the public, private and philanthropic sectors to fuel inclusive growth and help clients achieve their goals.