Disclosure Statement: Operating Principles for Impact Management

Capria Ventures LLC

June 2020

Capria Ventures is an early signatory to the Operating Principles for Impact Management (the Principles). The Principles provide a reference point against which the impact management systems of funds and institutions may be assessed. They draw on emerging best practices from a range of asset managers, asset owners, asset allocators, and development finance institutions.

This Disclosure Statement affirms that Capria policies and practices are aligned with the Principles. This affirmation applies to Capria overall investment strategy and investment processes (including deal sourcing/screening, operations, and exit). Total assets under management in alignment with the Principles will be USD 100 million as of June 2020.

Will Poole
Managing Partner, Capria Ventures
June 2020

Principle 1 – *Define strategic impact objective(s), consistent with the investment strategy: The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.*

- Capria Ventures is a global investment firm leading, partnering with and funding the largest network of emerging market fund managers collaborating to deliver superior returns and scaled impact. We bring innovation and global best practices to local venture capital, private equity and innovative debt funds, managed by local investment experts tapping into a USD $5 trillion opportunity.

- Capria allocates their resources based on geography, investment strategy, and investment structure (GP partnerships, fund investments, direct investments). Capria makes direct investments as part of its global fund manager investment programs as well as through its owned-and-operated direct investment vehicle in India, Unitus Ventures.

- Capria's theory of impact goes beyond providing catalytic capital, aiming to impact populations or systems that lack access to resources, essential products and services, or higher quality employment opportunities.

- We expect our network of fund managers to have impact across three primary dimensions (the "Capria Impact Scoring Dimensions"):
    - Greenfield markets[1] – Fund managers foster innovative fast-growing tech-enabled businesses that profitably deliver sustainable products and services in vast, largely under-served markets of Latin America, Africa and South/Southeast Asia.

[1] Markets can be

a. Underdeveloped - relatively new investment market, subject to systemic challenges, including governments coming out of crises and/or with unfriendly policies around entrepreneurship;
b. Developing - investment market is emerging with policies friendly to entrepreneurship, and overcoming challenges to accessing human and financial capital; or
c. Established - the investment market is relatively proven and well-functioning.

- Catalytic early stage capital[2] – Fund managers provide access to early-stage and early-growth capital to entrepreneurs that are largely undervalued, in forms best suited to their needs. Across different countries, the gaps in early stage capital vary, creating specific market opportunities to make investments.
- End clients/systems: Fund managers invest in a diverse range of companies primarily addressing local consumption of essential products and services resulting in resilience to economic downturns. Target demographics for these solutions include investments in the bottom of the pyramid, minorities, women, refugees, environment, etc.

[2] The need for early-stage and early-growth capital ranging from USD $500,000 to $1.5M from impact investors, institutional investors and venture capitalists who may or may not consider themselves "impact", but have an inherent impact focus, can be:

a. Critical - limited availability of capital;

b. Less critical - the opportunity to invest has been identified and investors are headed in that direction; or

c. Supplemental - capital is generally available.

Principle 2 – *Manage strategic impact on a portfolio basis: The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.*

- Capria, with fund and direct investments, is not prescriptive about the form or type of impact to be achieved through investments. Capria is scaling and professionalizing the next generation of local and diverse impact managers. Instead, across the portfolio, Capria requires all investees to develop and implement an impact strategy as a core element of their investment/business processes, with buy-in and commitment from all partners and constituents, and their investors.

- To ensure investees commit to impact achievements, Capria has been practicing pragmatic impact management using a roadmap that enables firms to align their impact investment strategies with traditional investment processes. We require investees to develop a clearly defined impact thesis, impact screening process and framework - these commitments and expectations would be clearly stated in formal documents, including PPM, side letter and term sheets, to establish accountability and commitment towards impact, along with reasonable flexibility to shift impact strategies.

- Keeping the Capria Impact Scoring Dimensions as the underlying framework, Capria's impact screening system has been designed to take into consideration local market characteristics, investment size, strategy and stage, and target population size.

- Impact is evaluated at all stages of the investment process by the investment team, across all types of investments. Once the investment is made, there is a standard reporting system and process to monitor impact performance. We have developed a set of portfolio-wide impact metrics to be reported on an annual or semi-annual basis, which is discussed in detail in Principle 6.

- Capria considered aligning impact performance to staff incentive systems but does not plan to implement it at this time. That being said, we would explore the link between impact and other motivational or compensation structures.

Principle 3 – *Establish the Manager's contribution to the achievement of impact: The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels.*[3] *The narrative should be stated in clear terms and supported, as much as possible, by evidence.*

- Capria has three investing programs, including providing operating or warehouse capital to fund managers, taking LP positions and co-investing alongside its GP partners to make direct investments. Through these investments, Capria provides smart risk capital to local fund managers and entrepreneurs from different geographies, and across investment strategies.

- Capria's theory of impact goes beyond providing catalytic capital. We are aiming to impact populations or systems that lack access to resources, have insufficient essential products and services, and/or need higher quality employment opportunities. In the long term, we envision dozens of new markets where thriving entrepreneurial ecosystems will be fueled by local and global capital flow, healthy competition will be established among entrepreneurs and local investors, and a network of advisors and mentors will support the continued ecosystem development. For each investment, at every stage of the selection process, the investment team both quantitatively and qualitatively evaluates alignment with the above theory.

- Capria recognizes that not all fund managers or entrepreneurs have a completely articulated impact thesis and strategy to implement. At the heart of our process for screening, selecting, and supporting fund managers is Capria Quantum, a proprietary fund manager capabilities evaluation tool, now in its seventh generation. Quantum is used to benchmark and support investment firms on their journey to become global top-tier impact firms. Across its many categories of evaluation, which include multi-level assessment of "Impact and ESG" and "Diversity, Equity and Inclusion", Capria uses Quantum results to identify proprietary and public resources, develop a plan and corresponding learning and support actions to advance each firm's growth and overall success. These results further refine their investment strategy to enhance overall environmental or social impact. We also train our managers to train entrepreneurs in the same areas. Excellence in investment management is a journey that requires constant learning, evolution, and improvement.

- Capria has created a network for fund managers that facilitates deep collaboration and sharing through online resources, a digital communications and sharing platform, and both virtual and in-person gatherings to leverage the exponential power of the network's collective expertise, which includes many examples of best-in-class and/or first-in-market practice of impact management principles.

[3] For example, this may include: improving the cost of capital, active shareholder engagement, specific financial structuring, offering innovative financing instruments, assisting with further resource mobilization, creating long-term trusted partnerships, providing technical/ market advice or capacity building to the investee, and/or helping the investee to meet higher operational standards.

Principle 4 – *Assess the expected impact of each investment, based on a systematic approach: For each investment, the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact? The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations.*

In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow best practice.

- For Capria's investments in GPs and their funds,
    - Capria uses the Capria Impact Scoring Dimensions to provide a score ranging from 1 to 18, where 1 has the highest impact and 18 has the lowest impact. The score enables the investment team to compare and choose funds that have higher potential to deliver impact in the long term across the three dimensions.
    - We take a phased approach to the due diligence process, where the evaluation of a fund's impact strategy, commitment to impact and understanding of long term impact management goes deeper as the fund managers move further in the process.
    - When evaluating fund manager applications, ESG and impact are considered in every step of our screening process and inform any investment decision we make. To evaluate the impact intent of the fund managers, Capria would consider the demographics and socio-economic characteristics of the investment beneficiaries; fund allocation into different sectors or geography; current screening mechanism for investments; and examples of past investments that generated impact.
    - We use a proprietary comprehensive capabilities evaluation tool, Capria Quantum spanning nine areas of fund management, to benchmark and support impact investment firms on their journey to become top-tier players. One of the key areas is impact and ESG measurement and management that dives deeper into the development of impact management processes and systems.

- For direct investments which Capria makes as part of its global fund manager investment programs as well as through Unitus Ventures:
    - Capria uses a standardized scoring mechanism in its investment memos to evaluate all aspects of a business, which includes an evaluation of a company's current and future impact potential, including scale.
    - Similar to fund investments, Capria takes a phased approach to the evaluation of impact and ESG through the process. This includes an assessment of breadth and depth of impact as well as any potential ESG risks in the key decision making memos. In the coming year, we will upgrade internal analysis frameworks to align with the impact management project.

Principle 5 – *Assess, address, monitor, and manage potential negative impacts of each investment: For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice.*[4] *As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.*

- Capria has developed an Environmental and Social (E&S) Governance policy and Environmental and Social Management System (ESMS) that comprises E&S objectives and risks, Exclusion list, due diligence processes and procedures to manage risks, anti-corruption and anti-money laundering policies and procedures to ensure compliance. All Capria Network managers are required to have similar systems.

- Capria has identified a list of common ESG risks associated with some of our primary sectors for investment, including education, healthcare, energy and agriculture, among others. Each sector, specifically in emerging markets, faces legal and regulatory risks and different sources of social and environmental risks.

- Capria uses IFC's Exclusion list and our other institutional investors' lists, as applicable. In addition, we use IFC's risk categorization (Category A, B, C, F1, F2, F3, linked here) reflecting the potential magnitude of E&S risks. Capria and its underlying fund investments do not invest in Category A investments. Category B companies will be reviewed carefully by the Capria Investment Committee ("IC") and/or local fund IC, on a case by case basis.

- As part of the investment process, Capria and Capria Network managers conduct Environmental and Social Due Diligence (ESDD) that concerns companies' or fund managers' E&S risks. Capria has right-sized the process based on the size of the investment. Where E&S issues are identified, we work with funds and companies to create and implement an E&S Action Plan.

- On an annual basis, Capria creates an E&S performance report, and administers an Anti-Corruption, Impact and ESG Compliance survey with all investments to produce a compliance report that is shared with investors.

[4] Actions could include active engagement with the investee; early divestment; adjusting indicators/expectations due to significant, unforeseen, and changing circumstances; or other measures to improve a portfolio's expected impact performance.

Principle 6 – *Monitor the progress of each investment in achieving impact against expectations and respond appropriately: The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action. The Manager shall also seek to use the results framework to capture investment outcomes.*

- Capria has developed a portfolio management system to measure impact, business and financial Key Performance Indicators (KPIs) that are shared with each investee. The data is self reported by the investees on a quarterly or half-yearly basis.

- Capria has adapted and right-sized the logical results framework to early-stage investments to define impact goals and metrics collaboratively with each investee.

- Capria measures and monitors impact data twice a year across all portfolio companies. Its reporting system includes a series of metrics, defined to track progress against the Capria Impact Scoring Dimensions that measures the impact generated by each direct and underlying portfolio company. These impact KPIs are based on GIIN's IRIS metrics and reported publicly in alignment with the UN Sustainable Development Goals.

- Capria publishes impact reports tracking its progress on at least an annual basis. These reports include quantitative and qualitative analysis of the underlying investments' impact for that period. Results are tracked against the UN Sustainable Development Goals.

- Capria is currently developing an appropriate action plan to manage fund managers and/or investments that are not on track to deliver the expected impact performance. Actions could range from coaching and supporting the investee to attempt to increase their impact to attempting to find a secondary purchaser for the under-performing assets, to taking no action at all due to size and/or lifecycle of the investment.

Principle 7 – *Conduct exits considering the effect on sustained impact: When conducting an exit, the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.*

- Capria's fundamental principle is to invest in companies where the impact is intrinsic in their business, so that an exit, or scale-up financing round, will only increase impact.

- Over the course of the next 2 years we plan to develop and recommend a strategy to structure and manage for impact in exits while considering local market conditions, capital structures and financial return expectations.

Principle 8 – *Review, document, and improve decisions and processes based on the achievement of impact and lessons learned: The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.*

- Using our direct investing experience in India, over the next year, Capria will integrate concepts of added business value through impact management into our standard portfolio management practices, and make the same available to Capria Network.
- On an annual basis, Capria will administer an Anti-Corruption, Impact and ESG Compliance survey with investments and produce a compliance report that will be shared with investors.
- Capria will review its own impact and ESG policies, processes and systems annually, make updates based on learnings and market changes and appropriately train internal teams, and where appropriate, pass such learnings down to Capria Network managers and/or their investees.

Principle 9 – *Publicly disclose alignment with the Principles and provide regular independent verification of the alignment: The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.*

- Capria will obtain independent verification of claims made in this Disclosure Statement from the firm's Independent Impact Sub-Committee (IISC) every two years.

- The IISC is formed from a group of Capria Fund LPs who are not members of Capria's management firm and do not sit on Capria's Investment Committee.

- The IISC will be notified of any significant updates made to the above Principles on a periodic basis for further review.

- Information on the independent verifier is as follows:
    - Name and organization: Capria IISC
    - Most recent review: May 2020
    - Next planned review: May 2022

- Link to Verification: https://capria.vc/opim-verification-report