

EXECUTIVE SUMMARY

NAZCA III FUND: PROMOTING VENTURE CAPITAL REGIONALIZATION STRATEGIES (RG-Q0085)

This project responds to IDB Lab's new approach to investments in venture capital funds aligned specifically with the pillar to support funds with regional strategies which, in addition to targeting more highly developed venture ecosystems, include nascent or emerging ecosystems to promote regional integration and transfers of knowledge from a more mature venture capital market to an emerging venture capital market in Latin America and the Caribbean. These are funds led by veteran managers with solid experience in venture capital investments, clearly aligned theses, and solid regional networks.

Between February and June 2021, IDB Lab received more than 130 submissions as part of a call for proposals in which more than 40 funds applied to the vertical **funds with regionalization strategy**. **Nazca III** was selected as a result of the exercise. Headquartered in Mexico, it is one of the first funds to be managed by former entrepreneurs/operators with experience in having created, scaled up, and sold companies. It has invested in 38 companies through its first two funds—including an early investment round in the country's first unicorn (Kavak)¹—and with its new fund, it will adopt a regional investment strategy, capitalizing on its broad investment track record to provide stronger support for a startups in Spanish-speaking Latin America. The selection process included an exhaustive analyses of the following areas: (1) management team, (2) manager's experience, (3) thesis governing fund investments, (4) fund terms and governance, and (5) potential for development impact and IDB Lab's additionality.

Nazca III's mission is to empower entrepreneurs in Spanish-speaking Latin America who are building technology-based companies, creating innovations to address the most pressing challenges in the region/disrupt highly inefficient industries, while seeking major market opportunities. The Fund seeks to invest in up to 20 early-stage companies aligned with its investment thesis, where the fund manager can add value for the founders and their businesses operating in the following sectors: fintech/insurtech, mobility/transportation, edtech, e-commerce/retailtech, healthtech, enterprise solutions (SaaS), logisticstech/last mile delivery, agtech/foodtech, and cleantech. At least 30% of the Fund's investible resources are expected to be channeled into startups outside Mexico, while companies from that country will receive strategic support in their expansion into other countries in the region, including nascent and emerging ecosystems. It is also expected that about 50% of the users of the companies in the Nazca III portfolio (3.9 million people, according to estimates based on its prior investments) will be from low- and lower-middle income populations.

IDB Lab's additionality is linked to: (1) providing access to IDB Lab platforms such as fAIRLAC, LACChain, the Corporate Impact Venturing initiative, WeXchange, Latitud R, etc. to the Manager; (2) supporting the Fund's regionalization strategy by linking the

¹ In September 2021, Kavak became the second-largest startup in the region (US\$8.7 billion), exceeded only by the Brazilian firm Nubank. Kavak currently employs more than 5,000 people in Mexico, Argentina, and Brazil, and has recently launched Kavak Capital to promote access to financing by users to buy second-hand vehicles. <https://techcrunch.com/2021/09/21/mexicos-kavak-raises-700m-for-its-used-car-marketplace-doubling-its-valuation-to-8-7b/>.

deal-flow of nascent and emerging markets in the region that are directly aligned with Nazca III's thesis (via the new direct investment focus) and via funds in IDB Lab's portfolio operating in those markets, thereby fostering closer ties between Mexico and newer ecosystems in the region; and (3) supporting the management team in deepening the integration of the impact approach (particularly in poor and vulnerable populations, MSMEs, and the environment) into its investment and monitoring process. IDB Lab's financial investment will also be relevant so Nazca can develop its previous US\$60-million fund into a US\$150-million fund, especially as a sign to institutional investors outside Mexico, as well as to channel investment resources to companies in Group C and D countries.

In turn, this is a strategic investment for IDB Lab since: (1) it responds to a portfolio approach in terms of expected returns that will complement investments with a higher risk profile in more incipient countries; (2) it generates access to co-investment opportunities for IDB Lab and IDB Invest (in Nazca III and in its previous funds) and access to the Nazca team's market intelligence and networks (founders, co-investors in Latin America and around the world, corporate partners, etc.), and (3) it provides opportunities for interaction and transfer of knowledge with other funds in the portfolio such as Magma, Pomona, Carao, etc.

Nazca III GP, LLC ("Nazca"), a limited liability company, incorporated in Delaware, with a management team based in Mexico, will be the Fund manager.

The project proposes an IDB Lab investment of up to US\$4 million in the Fund, with an expected final capitalization of US\$150 million.