

## PROJECT SUMMARY

### VENTURE INNOVATION FUND II (VIF II) (ME-M1090)

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**Project Summary:** The project will support the establishment of Venture Innovation Fund II (VIF II), a fund focused on start-up companies in the Healthcare Services, Financial Services, and other New Service Technologies sectors (education, e-commerce, energy, etc.) in Mexico by providing a US\$ 2 MM equity investment and a US\$ 300K Technical Cooperation.

Mexico has a nascent venture capital private equity market positioned for continued strong growth. The entrepreneurial ecosystem of the country is developing with the support of the government, the MIF, the private sector, and educational and research institutions, allowing for the creation of high potential, high impact companies. Funding for these companies, however, continues to be scarce. They are represented mainly by Governmental funds, angels, and a few venture capital funds operating in the market. VIF II seeks commitments for US\$ 40 MM to invest in up to 14 early stage Mexican companies through venture capital rounds of equity, quasi-equity, and loan instruments. Investments in the sectors described above must demonstrate an innovation<sup>2</sup> component, scalability potential, and superior management. The Fund will make initial investments of at least US\$ 400K with follow-on investments determined by company performance, and take a minority position of greater than 10% with a seat on the company's Board of Directors. Emphasis will be given to building solid companies with strong corporate governance. The Fund will seek to take a role of active investor and strategic partner.

The MIF's prior experience in early stage equity<sup>3</sup> and venture funds will be key to ensure that the Management Company, Venture Partners GP II, L.P., structures the Fund according to international best practices and adopts best practices in corporate governance and environmental and social standards, at both the fund and investee levels. The MIF will provide an equity investment to an asset class that is of limited supply in the Mexican market. It will improve the credibility of the Fund by helping to bring other investors during its first and subsequent closings.

Venture Partners brings its experience investing in technologies serving the healthcare industry to VIF II. In Venture Partners' first fund, Seed Innovation Trust I (SIT I), out of 12 investments made, five were in this sector.<sup>4</sup> Although other Funds in Mexico currently have healthcare in their targeted sectors, VIF II is

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<sup>2</sup> For the purposes of this fund, innovation is defined as a new solution to a persistent problem or the development of a new market niche.

<sup>3</sup> Early stage equity is defined as seed and initial venture capital investment rounds.

<sup>4</sup> The performance to date of SIT I's five investments made in 2012 is that three companies have unrealized gains and two have no change in value. The other seven investments were made in 2013 and therefore remain valued at the initial cost of investment.

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expected to generate more transactions given Venture Partners track record. Additionally, it will retain a close partnership with Venture Institute which serves as an accelerator and feeder of potential investments to the Fund. Mr. Lelo de Larrea and Mr. Antoni, VIF II's Managers, founded Venture Institute in 2011 to serve as an accelerator for top entrepreneurs from ITAM and others in Mexico City. They soon found that the graduates from the Institutes faced a lack of sufficient early stage capital and quickly raised their first to invest US\$ 5 MM in Venture Institute and other companies best prepared for rapid growth in strategic sectors. At the end of 2012, KPMG's mark-to market valuation of the SIT I estimated a gross annual return of 46%.