

# REQUEST FOR EXPRESSIONS OF INTEREST

## Fund Manager

### The Pacific Alliance Fund

#### THE PACIFIC ALLIANCE

1. Created in April of 2011, the Pacific Alliance is an initiative of regional integration comprised by Chile, Colombia, Mexico and Peru. The main objectives of this initiative are: (i) to build in a participatory and consensual way an area of deep integration to move progressively towards the free movement of goods, services, resources and people, (ii) to drive further growth, development and competitiveness of the economies of its members, focused on achieving greater well-being, overcoming socioeconomic inequality and promoting the social inclusion of its inhabitants, and (iii) to become a platform of political articulation, economic and commercial integration and projection to the world, with emphasis on the Asia-Pacific region.<sup>1</sup>
2. The opportunity for integration of the financial markets of the Pacific Alliance members is also significant thanks to the Mercado Integrado Latinoamericano (MILA), which emerged in 2010 from a multilateral agreement between Peru, Colombia and Chile in an effort to integrate their stock markets. Phase I of the integration has been completed and Phase II is currently undergoing. According to the recently published report “The Pacific Pumas: An Emerging Model for Emerging Markets,”<sup>2</sup> the stock markets of these countries individually are seen as small, illiquid and even one-dimensional: Chile in retail and services (32% capitalization), Colombia in financials and energy (78% capitalization) and Peru in mining (53% capitalization). However, the MILA has the opportunity of changing this, especially with the integration of Mexico’s stock exchange, Bolsa Mexicana de Valores (BMV) into the MILA at the end of 2014. The integration of the four markets is expected to lift the MILA market capitalization to levels similar to Brazil’s Bovespa or South Korea’s Stock Exchange.
3. Cross border VC investments in the Pacific Alliance member countries could further foster regional integration in markets where early-stage companies with growth potential are currently having difficulty accessing long-term financing to develop and scale their business models.

#### THE FUND

4. The SME Group is one of the 14 technical groups of the Pacific Alliance. The Group seeks to establish support mechanisms to ensure that SMEs benefit from regional opportunities offered by the Pacific Alliance, through the exchange of best practices and strengthening public policies of member countries. In the context of the SME Group, member countries have agreed to establish a financing and investment mechanism for SMEs and entrepreneurs of the Pacific Alliance. After analyzing various options, the Multilateral Investment Fund from the Inter-American Development Bank (MIF/IDB) was asked to provide advice to the

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<sup>1</sup> <http://alianzapacifico.net/>

<sup>2</sup> Samuel George, Bertelsmann Foundation, 2014, “The Pacific Pumas: An Emerging Model for Emerging Markets.”

countries of the Alliance in the creation of a seed and venture capital fund to support entrepreneurs and their companies. The fund will provide smart capital<sup>3</sup> to between 10-20 start-up and scale-up companies<sup>4</sup> of the Pacific Alliance countries, taking advantage of the synergies that are taking place within the framework of the Alliance.

5. The intervention model is based on a private-public partnership in which the governments of the four countries of the Alliance and the MIF will be the Fund's anchor investors. It is expected that private sector investors will join the Fund before the second closing.
6. The MIF, as lead sponsor of the Pacific Alliance Fund, along with interested co-investors, seeks to identify a dedicated Fund Manager.
  - **Summary of the Fund's Terms:** "Pacific Alliance Fund" (Fund) will most likely be a *Limited Partnership Agreement LPA* to be incorporated under the laws of Quebec, Canada. The Fund will invest in start-up and scale-up companies operating in member countries of the Pacific Alliance. The fund will consider investing in other countries that will potentially join the Pacific Alliance in the future. The Fund will have the capacity to use equity, quasi-equity, and any other hybrid instruments.
  - **General Partner:** The General Partner of the Fund (GP) will be a management company, preferably from any Pacific Alliance member country, or with proven experience in the region. The GP should have a track record as a fund manager, and will be selected by the specialized agencies of each member country and the MIF/IDB. The GP will be responsible for making all investment and exit decisions for the Fund. The GP should have a mixed team with representatives from each Pacific Alliance country, in order to ensure knowledge of local and international regulations.
  - **Size of the Fund:** The Fund will have a target capitalization of up to US\$ 100 mm, although upon reaching at least ~US\$40 mm in commitments the Fund could start operating.
  - **Maximum life of the Fund:** The Fund will have a 10 year life from the Initial Closing, with two possible one-year extensions.
  - **Investors:** The Fund is oriented to long-term investors with investable assets of over 5 million USD, who understand the illiquid nature of the investments in which the Fund will participate, and the potential risk of loss of capital.
  - **Size of investments:** The Fund will typically invest between \$ XX and \$ XX USD per company (this range is to be proposed by the management company applying to the RFP), with possible additional investments in future rounds.
  - **Country and company diversification:** The Fund will invest in start-up and scale-up companies operating in Pacific Alliance member countries, promoting talent mobility and global vision among investees.

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<sup>3</sup> Smart capital refers to funding and added value through strategic support to consolidate and scale the start-up and scale-up companies.

<sup>4</sup> For purposes of the Fund, "start-ups" are micro, small and medium size companies less than two years old. "Scale-ups" are companies more than two years old.

- **Definition of high impact:** For the purpose of this Fund, the definition of the Instituto Nacional del Emprendedor/INADEM will be used: for-profit companies that incorporate or develop high-impact practices in their products, services, processes, in order to develop, commercialize and scale them.
  - **Investment thesis:** The Fund will provide smart capital to companies in different sectors. Some indicative sectors of interest are: information and communication technology (ICT), applied engineering, biotechnology, manufacturing, health sciences, education, mobile finance, renewable energy, and crowdfunding platforms, among others. The Fund will not provide financing for private equity deals or sectors such as infrastructure, real estate, forestry, mining, or microfinance projects. See Annex for specific policies with respect to restrictions on some sectors.
  - **Measurement of high impact:** The impact generated by invested companies should be measured internally (profitability, jobs, productivity) as well as externally (social, environmental, industry, community and sector).
7. This Request for **Expressions of Interest** seeks proposals from management firms willing to act as Fund Manager. The Fund Manager will be expected to undertake the legal and operational organization of the Fund.
  8. The Fund Manager is expected to develop and finalize a business plan of the Fund, and propose the final structure and investment strategy of the Fund to the lead sponsors. The Fund Manager will be responsible for finalizing the fundraising efforts initiated by the lead sponsors, and, if needed, will prepare a private placement memorandum.
  9. Collaboration among potential management companies and teams is welcomed. Applicants are strongly encouraged to create a local team and presence in at least one of the Pacific Alliance member countries. The first submission of the Expression of Interest will not require the collaboration/consortia arrangement to be in place, if needed.

#### **CRITERIA FOR THE SELECTION OF THE FUND MANAGER**

10. There are certain minimum requirements that the candidates who wish to participate in the selection process must fully comply with. The Requirements include the following: (i) compliance with all relevant laws and regulations; (ii) qualified Management Team with track record as a fund manager; (iii) preferably from any Pacific Alliance member country, or with proven experience in the region; (iv) proven expertise in eligible sector-related projects and/or companies; (v) proven active experience in the structuring and management of similar investment vehicles; (vi) in case the candidates are managing other similar funds in the capital raising phase, investment phase or divestment phase, explanation of how the candidate plans to manage the proposed Fund vis-à-vis other funds under management to avoid conflict of interests; (vi) demonstrated ability to cover the costs associated with the development and creation of the Fund prior to the initial closing; and (vii) demonstrated ability to source deals from all Pacific Alliance countries.
11. The assessment criteria that will be applied for the selection of the management team will comprise both qualitative and quantitative attributes that are considered key indications of the

most suitable candidate to act as the fund manager. The assessment criteria will consist of an evaluation of the requirements described above as well as other aspects including, without limitation, the candidate's institutional profile, the track record of the proposed management team, the proposed financing structure, and experience in structured financing schemes. The creation of local capacity is important, including a strong preference for teams that incorporate diversity and local professionals (from Pacific Alliance member countries) into the management team through a local office. The attributes of the fund management team will be looked at holistically and selected on a consensual basis by a committee of professionals from MIF/IDB, and other investors.

12. Expected responsibilities, among other tasks, of the Fund Manager include the following:

- Finalize the fundraising and define the business model of the Fund;
- Finalize the terms and conditions of the Fund with investors;
- Manage the assets of the Fund;
- Administer all corporate matters;
- Manage accounting and treasury functions, prepare investor reports and coordinate with external auditors;
- Develop the pipeline, analyze risk, structure, negotiate and document financing agreements with qualifying portfolio companies;
- Explore available hedging mechanisms in order to manage foreign exchange risk as needed;
- Coordinate the meetings of the Investment Committee, and the Advisory Committee (these Committees are expected to be a part of the Fund's governments);
- Disburse, collect and supervise outstanding investments;
- Structure portfolio exits;
- Administer the cash flow of the Fund; and
- Monitor and report to the Investment Committee and to the investors on the status of the portfolio.

#### **EXPRESSIONS OF INTEREST**

13. The MIF/IDB invites eligible firms or consortia to indicate their interest in managing this Fund. Interested firms or consortia must provide an Expression of Interest indicating the name and address of the firm, or in the case of consortia, of the consortium members, and the firm/consortium's credentials in the above skill sets.

14. Expressions of Interest must include the names, key qualifications, relevant experience and demonstrated commitment of the key managers and personnel. Details should also be provided regarding current capacity (the number of staff members fully dedicated to the Fund) and the need to augment human resources to undertake the incremental work-load that the administration of the Fund would require, including how such need would be addressed on a short-term basis.

15. The Request for Expressions of Interest (REI) will have a two-step submission process. The REI will be formally announced on March 30<sup>th</sup>. A first submission of the Expression of Interest with up to 10 pages, including annexes, is expected by May 15<sup>th</sup>, 2016 by 5 p.m. eastern daylight time. This paper should indicate:

- A brief description of the firm/consortia.
  - Management team, bios, residence, nationality and time commitment to the Fund.
  - Investment strategy, pipeline list, and proposed fund structure.
  - Cost structure of management firm/consortia, estimated annual budget to manage the Fund, proposed fees and compensation structure, and estimated pre-operating costs and how covered.
  - Fundraising: potential investors to be approached.
  - A general description on your proposed structure to manage the Fund, including general terms.
16. Qualifying finalists will be notified after May 30th, 2016 and may be required to provide more extensive information and invited to make a 2-hour presentation during the following two weeks. Selected finalists must be available to visit MIF/IDB in Washington D.C. during the process, and to receive an onsite due diligence team from the lead sponsors, and other potential investors.
17. The lead sponsors and potential investors will not be liable for any costs incurred in connection with the submission of an Expression of Interest, or any of the follow up activities prior to the engagement of the Fund manager.
18. Confidentiality. While applicants may desire to attach confidentiality requirements to some of the information presented in the Expression of Interest, participants making submissions of Expression of Interest or sending follow-up information must understand that information received will be subject to information disclosure requirements of the lead sponsors, and potential investors; for instance, under the Freedom of Information Act of the United States, and the IDB information disclosure policy. The lead sponsors and potential investors will not treat as confidential, or proprietary, any general ideas, strategies and concepts contained within any Expression of Interest or any follow-up documentation submitted.
19. The Expressions of Interest should be e-mailed to: [adriana.tortajada@inadem.gob.mx](mailto:adriana.tortajada@inadem.gob.mx) y [SUSANARO@iadb.org](mailto:SUSANARO@iadb.org) and must be received by May 15th, 2016, 5 p.m. eastern daylight time.

*This Request for Expressions of Interest is not an offer or a contract. In addition, it does not constitute an invitation to invest, solicitation to invest, nor a commitment to invest, including by MIF/IDB or any other potential investor in the Facility.*

*MIF/IDB or any other potential investors are not advisers, administrators, underwriters or guarantors of the Fund described herein, and their potential roles are limited, respectively, to acting as prospective Limited Partners (MIF/IDB along with prospective investors), which is subject to: (a) the Fund being established with the criteria of and key terms to be determined in the Fund's documentation; (b) a due diligence review to determine compliance with each institution's policies and procedures; (c) obtaining internal approvals, including an approval from the MIF Donors Committee, and approval committees of the other investors and (d) execution and delivery of documentation in form and substance satisfactory to MIF/IDB and other investors, in their sole discretion.*

*No representation or warranty, expressed or implied, is made, or responsibility of any kind accepted by, MIF/IDB or other investors with respect to the completeness or accuracy of*

information included herein. Neither MIF/IDB or any other investors is under any obligation to consider, shortlist, or select any of the firms/consortia or persons who submit Expressions of Interest or other documentation.

*Restricted sectors by INADEM:*

- *Companies that sell alcoholic beverages like nightclubs, bars, and pubs.*
- *Companies that develop and / or manufacture fire gun.*
- *Casinos and / or bookmakers.*
- *Meeting points for women or men to hire services for prostitution and / or consumption or drug traffic.*
- *Production and / or sale of narcotics.*

*Restricted sectors by Bancoldex:*

#### **SYSTEM OF ENVIRONMENTAL AND SOCIAL MANAGEMENT (SESM)**

*The General Partner shall establish, adopt and implement a system of environmental and social management for its investments in the fund. According to the (SESM) procedures of the Fund, the General Partner shall:*

- 1. As part of the due diligence and before investing in a prospectus company, an environmental analysis must be carried out, and all applicable environmental laws and regulations must comply with the requirements of the jurisdiction of the company. Otherwise the company should establish a corrective plan.*
- 2. The company and the GP should implement their best efforts to comply with all environmental and social requirements, and*
- 3. Not later than ninety (90) days after the annual fiscal year has ended, the fund must provide to each investors an environmental compliance certificate of the Fund's investments.*

*The General Partner agrees to appoint an employee to oversee, implement and monitor the SESM.*

#### **PROHIBITED ACTIVITIES (exclusion list)**

- 1. Activities involving child labor, any form of forced labor and / or labor exploitation.*
- 2. Discriminatory practices by gender, age, ethnic origin, color, marital status, sexual orientation, political opinion, religion or limitations on the right of association and collective bargaining.*
- 3. Production or trade of products or activities considered illegal.*
- 4. The production and distribution of anti-democratic material or any business related to pornography and / or prostitution.*
- 5. Manufacture or trafficking of arms and ammunition.*
- 6. Gambling, casinos and other similar activities.*
- 7. Production or activities that impinge on land owned by indigenous people.*
- 8. Failure of comply with Colombian labor law and fundamental principles and rights covered by the conventions of the International Labor Organization (ILO).*
- 9. Trade of endangered or regulated species by the Convention of International Trade of Endangered Species and Wild Fauna and Flora (CITES), or products derived from them.*
- 10. Production or trade of wood and forest products from forests without a proper sustainable management plan.*
- 11. Projects to be develop in areas of protection and conservation.*
- 12. Fishing with drift nets in the marine environment using nets of more than 2.5 km in length.*
- 13. Production or trade of substances that deplete the ozone and that are subject to gradual elimination.*
- 14. The manufacture or sale of radioactive materials (including radioactive waste), except for medical uses.*

15. *The production, trade or use of asbestos fibers non-agglomerated (asbestos), except for chrysotile asbestos fibers that have safety requirements.*
16. *The manufacture or sale of products containing polychlorinated biphenyls.*
17. *Production or trade in pharmaceutical products subject to elimination.*
18. *The production and trade of chemical pesticides or herbicides and organic pollutants subject to gradual elimination or ban.*

#### **BUSINESS PRACTICES**

*The General Partner prospectus shall request prospectus companies, a written commitment to:*

1. *Ensure its best efforts to comply with the environmental policy.*
2. *Have health and safety conditions for employees and contractors.*
3. *Promote environment protection and an efficient use of natural resources.*
4. *Have the same condition for all employees in hiring, advancement, compensation and working conditions, regardless of race, gender, color, language, disability, political beliefs, age, religion, social origin or nationality.*
5. *In accordance with the principles of the International Labor Organization (ILO), enable procedures for consultation and partnerships that provide employees an opportunity to express their views freely, individually and / or collectively, to the administration.*
6. *Consider the impact of the operation on local communities and strive to ensure that potential harms of occupational health and safety issues are properly evaluated, treated and monitored.*
7. *Maintain high standards of integrity and honesty in their business, and operate in accordance with the country host law (or the country where the investment is made) and good practices (including those designed to fight extortion, bribery and financial crimes).*
8. *Promote the use of quantified goals for occupational health and safety, environmental and social problems as well as the continuous improvement of the business.*
9. *Design and operate its business in accordance with local law.*
10. *Adopt the following minimum employment standards in accordance with internationally accepted good practices:*
  - Do not use forced labor of any kind;*
  - Do not employ children under fifteen (15) years;*
  - Provide compensation that meet or exceed the industry or the legal minimum and are sufficient to meet basic needs.*
11. *Record, reporting and review your financial and tax information.*
12. *Ensure that no payment will be received or made (in the form of compensation, gift, contribution or otherwise) to induce improper or preferential treatment to the company, its management, shareholders, employees or any member of the group of companies to which it belongs.*
13. *Comply with local regulations on industrial safety and occupational health.*
14. *Incorporate environmental and social aspects in its internal and external communication strategy.*