



GRAYGHOST™ VENTURES

2012



innovate

contribute

inspire

ANNUAL REPORT



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Manager's Overview

Dear Friends,

Gray Ghost Ventures is pleased to present its first annual report for fiscal year 2012. After spending many years improving our impact investment model, we foresee the impact investment space with great optimism.

Each of our investments since 2006 (Fund I: The Gray Matters Capital Fund and Fund II: Gray Ghost DOEN Social Ventures Coöperatief), have been early-stage investments and in mostly pre-revenue companies – validating our belief that our investments are made to promote and originate entrepreneurship that impact underserved populations. Between these two funds, we have made 16 investments and have harvested one full and one partial exit.

Our work is unprecedented and requires great insight beyond the obvious to evaluate and navigate this uncharted territory. We thank our Limited Partners for their support, understanding and the trust they have in us which allows our organization to successfully give life to enterprises around the world.

In July, we successfully closed the final round of the Gray Ghost DOEN Social Ventures Coöperatief, a \$35M fund. We have nine quality equity investments in this fund, which completes the investment period. We expect that each of these enterprises will provide significant impact socially and financially. Keeping with this belief, our engagements with these enterprises are far beyond just a financial investment.

The team continues to work tirelessly in pursuing our mission of creating a “best in class” portfolio, and it is our hope that we can become a proof-point to the sector and contribute to the success of the impact investment space. To each one of these investments, Gray Ghost provides operational and fund raising support, a legal network, an HR infrastructure, local compliance as well as governance. After six successful years in Impact Ventures, we have developed a strong core team with a unique skill set. As we endeavor to reproduce our efforts, the Manager will launch its third fund during the first half of 2013.

Our commitment as Impact Investors extends further than just our portfolio companies; we continue to support various industry organizations, our partners, co-investors, universities and any one that is interested in promoting the Impact Sector. We hope you will continue to support Gray Ghost and the sector as we strive to enrich the lives of the underserved.

Sincerely,

Arun Gore, President & Chief Executive Officer

Our First Six Years

2006

The corporate entity for the mission-related investment portfolio was established with the founding of the Gray Matters Capital Foundation, Inc.

2007

Social impact metrics identified, developed and utilized to screen potential investments, and to manage and monitor performance of the portfolio.

Multiple pioneering investments sourced and secured within 18 months, including CellBazaar, United Villages, d.light, Paralife and BEAM among others.

2008

Co-investment model adopted to ensure that the firm's work broadens the base of potential investors in the impact community, blazing a path for others to follow us into the space.

2009

The Gray Ghost DOEN Social Ventures Coöperatief was formed and successfully deployed capital into five leading impact ventures in its first year of operations.

Gray Ghost DOEN's first year investments include BEAM, iSend, Movirtu, mDhil and PharmaSecure. Subsequent investments include M-Kopa, bKash, Babajob and Range Networks.

2010

Initial exits demonstrate that the portfolio companies are executing against impact models which are also leading to significant value creation, differentiation and appreciation from customers and stakeholders alike - acquirers chose to keep the models alive and accelerating with little to no change in structural function or approach.

2011

The Manager has approximately US\$50M under management.

2012

The Manager facilitated nearly 100 meetings till date among the investment committees of Gray Matters Capital and Gray Ghost DOEN, creating a wealth of information and data on the market space and pipeline opportunities for investments within the Manager's mandate.

Established track record of investing in early-stage impact ventures focused on consumers in underserved markets for 6 years, circa 2006.

Bob Pattillo, Founder Gray Ghost Ventures

"I've never seen a group work so hard and travel so many days to create value with the enterprises they invest in. The care and respect they show these companies across the globe reflects my values, and in the long run makes us an investor-of-choice; the best leaders and enterprises screen their investment partners carefully as they should, and when pipeline companies talk to portfolio companies, they want to do business with us. There is no tradeoff between financial gain and social impact when you invest with compassion."

Jasper Snoek, CFO DOEN Foundation

"The manager of GGD has succeeded in building a highly interesting and well diversified portfolio of early stage companies that use mobile technology platforms for their highly scalable business models. The manager has demonstrated that it can use the background of its staff with doing business in the US and internationally and their strong practical knowledge of India to guide the investment companies to fast growth. We are pleased with the portfolio that has been built. We are confident that the social and economic impact of the portfolio companies will multiply rapidly in the years to come."

Social Impact Highlights



32.1M⁺⁺

Access to Information,
Knowledge and Services



\$75.2M⁺

Increased income or
Productivity



\$183.7M⁺

Time and
Cost Savings



Beam, recognized in 2012 for its social mission as a Top 50 Inclusion Project by the Skoch Development Foundation, created ~\$17.7M in time and cost savings to its customers.



d.Light surpassed 11.5M lives empowered in Dec 2012 through solar light and power products while saving ~\$100M+ in energy-related expenses.



A recent Babajob impact study revealed a 20% income increase and a 14 min/day commute reduction for seekers following job placements using Babajob.



mDhil has accumulated millions of viewers by providing basic health information that empowers users to make positive changes in their lives.



bKash's mobile money platform has enabled ~\$10.9M+ in time and cost savings to its users, while supporting millions of transactions.



Movirtu's subscribers received ~\$2.1M+ in enhanced opportunities for productivity, mobility and creativity.

* Direct Beneficiaries

+ As of December 31, 2012

Portfolio in India



offers a mobile-based, cashless system that allows the unbanked to transact utilizing pre-paid instruments.



manufacturers and distributes solar light and power products throughout the developing world.



UNITED VILLAGES
access for all®

a last mile, mobile-enabled distribution company.



PharmaSecure

mobile-based authentication system designed to eliminate pharmaceutical counterfeiting.



connects Indian consumers with healthcare information via SMS, mobile web and website.



marketplace for employers and informal sector workers via web and mobile.



technology solutions enabling the acquisition of remote data in the agriculture and financial inclusion sectors.

INDIA*



The Indian market today, is one of the most attractive investment destinations despite a global slowdown. This can largely be attributed to the country's structural strengths such as a relatively high private savings and investment rate (both more than 32%), a very large and diverse economy, and a competitive private sector comprised of small, medium and large enterprises. These strengths may support an eventual acceleration in India's growth rate that will be sustained by huge internal demand as its sizeable middle class continues to increase consumption. The risks to this acceleration lie in the country's poor physical infrastructure, which lowers competitiveness and fuels inflationary pressures.

With more than 350M people living below the poverty line, India presents a compelling opportunity for impact oriented enterprises. The rule of law, a stable democratic government, a vibrant entrepreneurial culture, a deep and fundamentally sound capital market and a long history of innovation makes India a fertile market for early stage investments. Just as the last decade belonged to the rising urban middle class the next can well be the decade of the millions in India's hinterland, emerging out of poverty and joining the mainstream economy.

With more than 350M people living below the poverty line, favorable rule of law, stable government and a surge of entrepreneurs, India is a fertile market for early-stage investments.

BANGLADESH*

With a population of over 151M and an economy of close to US\$112B, Bangladesh's GDP per capita stands at US\$760 as of FY 2012. Despite being afflicted by natural disasters, political transitions and a global slowdown, the economy has demonstrated considerable resilience, with economic growth averaging around 6% between FY 2001 and FY 2011. In FY 2012, real GDP growth slowed to 6.3% from 6.7% in FY 2011 and below the government's target of 7%. This was partly due to policy tightening, with major setbacks arising from infrastructure constraints and external pressures given deteriorating global growth. The economy is reliant on private consumption, which comprises 75% of GDP, mainly supported by overseas remittances.

Remittances have played an important role in maintaining gross domestic savings at ~20% of GDP. Bangladesh's current account has consistently posted surpluses since FY 2006, reflecting the continued strength of garments

Bangladesh has a history of success with social enterprises and continues to be a hotbed of social innovation.

exports and stable inflows from remittances. Bangladesh has nibbled away on China's market share, which is still by far the world's largest exporter of apparel.

Bangladesh has a history of success with social enterprises and continues to be the hotbed of social innovation. Successful franchisees such as Aarong, Grameen Bank, CellBazaar, Grameen Phone and the series of BRAC enterprises spanning across industry sectors, provides adequate testimony of the business opportunities that exist within Bangladesh's 47.5M people living below the poverty line.

Portfolio in Bangladesh



offers a cost-effective, energy efficient, multi-fuel replacement for diesel generators.

bKash

Bangladesh's preeminent mobile money financial services provider for the banked and unbanked population.

Current Situation in Target Countries

Kenya will enter 2013 with an improved economic position. During 2012, inflation declined, the exchange rates stabilized and debt levels remained sustainable. But creating this strong macroeconomic foundation came at a cost. Projected growth will not meet government expectations of 5% for 2012. A strong recovery at the end of the year and increased consumption driven by pre-election spending makes it possible for Kenya to achieve 5% growth in 2013.

Kenya has demonstrated economic resilience in the face of multiple shocks in recent years. This resilience is driven by ongoing structural changes involving economic diversification and the rapid adoption of communications technology and infrastructure improvements. Recent oil discoveries will add to export diversification and help reduce macroeconomic vulnerabilities as a result of its heavy oil-import dependence. Kenya is committed to implementing governance reforms mandated under its new constitution ratified in August 2010. The new constitution mandates electoral reforms that will help reduce the risk of a repeat of post-election violence and political crisis the country experienced in 2007-08, which severely disrupted the national economy.

With a total population of 42M (of which ~46% is below the poverty line), an economy close to US\$34B, and a high literacy rate (> than 80%), Kenya has emerged as one of the more stable African markets. The high penetration and use of mobile phones, the recent success of mobile platforms such as M-Pesa together with the investor friendly political environment has uniquely positioned Kenya as one of the preferred investment destinations in Africa.

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MEXICO*

For December 2012, the Mexican economy registered a growth rate of ~3.8% with its stock market outperforming all major emerging market indices. As of November 2012, the Mexican bourse was the second-best performing major market in the world, lagging only Germany's. The benchmark IPC index soared 23.6% as investors have become increasingly convinced that cartel violence can't derail Mexico's economic growth. President-elect Enrique Peña

If the reforms are passed, Mexico will be positioned to become Latin America's biggest economy by 2022.

Nieto's Industrial Revolutionary Party is working with opposition parties to push through measures that would allow hourly wages instead of daily rates, and loosen rules on recruitment and lay-offs. Also proposed is to revamp tax collection for increased revenue and to allow privatization in its energy sector. If the reforms are passed, Mexico will be positioned to become Latin America's biggest economy by 2022, according to Nomura's Emerging Markets Research report.

With a total population of ~114M, of which 51% live below the poverty line, Mexico has emerged as a major Latin American market where investment dollars can make a significant impact. However, its high level of fiscal dependence on oil prices and a staggering US economy adds significant concentration risk to an undiversified economy.

Portfolio in Africa



manufacturers and distributes
solar light and power products
throughout the developing
world.



utilizes a pay-as-you-go business
model to deliver economical and
socially beneficial products to the
base of the economic pyramid.



pioneered “share phone”
solutions for low income and
underserved segments in Africa.

Portfolio in Mexico & Central America



1. Eliminate the word “deal” from your vocabulary; ours is a relationship business.
2. Urge portfolio companies to keep options open by preserving cash as long as possible until it is clear what efforts are working and paying off, then spend like there is no tomorrow.
3. You have to be present in the market to know your customers and your business.
4. Keep the terms, process and structures as simple as possible.
5. Never shrink from opening the next door; you will not truly know what opportunities it might present you.
6. Never assume that because you have questions, everyone else has the same questions: ASK!
7. Awesome spreadsheets do not translate into awesome businesses.
8. Find people who want to change the world, but support them with people who know how the world works.
9. There is no shortage of investment opportunity; just a shortage in the number of hours in a day.
10. Start-up enterprises not only require patient capital, but patient leadership too!



MOBILE PHONE GROWTH AND PENETRATION

Four billion people have annual incomes below US\$3,000 (expressed in terms of purchasing power parity) and live in poverty. Their average incomes are less than US\$3.35 per day in Brazil, US\$1.89 in Ghana and US\$1.56 in India. Another billion people live above formal poverty lines but remain underserved beyond the most basic of necessities. They collectively have substantial purchasing power, comprising an estimated global consumer market of more than US\$5 trillion. Lack of access to basic infrastructure creates significant inefficiencies for the poor, driving up costs and reducing availability of goods and services. A growing opportunity exists to develop innovative businesses that provide affordable solutions.

Over the last decade, it has been observed that proven technology applied to innovative business models (frequently through a mobile phone) provides reliable, low-cost access to goods and services. While access to technology has been low in developing countries, the mobile phone has become an increasingly integral part of the lives of the poor. By 2015, mobile phone subscriptions are projected to increase by 60% in the developing world as availability, price, coverage, and applications will continue to make this the most widespread technology platform available to all. “In Africa and Southeast Asia, the number of GSM mobile connections has doubled in the last four years. In Southern Asia, it has more than tripled within the same timeframe. As more people in emerging markets are connected, the potential for mobile technology to improve people’s lives consonantly increases.”

Of all regions where mobile penetration has increased significantly, India as a country is particularly noteworthy. CyberMedia Research estimates that India sold 100M new mobile phones in the first half of 2012 taking the total mobile subscriber base to 934M. Compared with the 261M subscribers in December 2007, this highlights a compounded annual growth rate of 32.7%. Examples of how Gray Ghost is capturing this opportunity and addressing issues at the BoP are demonstrated in our funds’ existing investment portfolio. Out of the 16 venture investments made by GGV so far, 11 are leveraging mobile technology to address the needs of the base of the economic pyramid population.

Continuing Our Work



“With the mix of industry specific, geography focused and functional area expertise that the team brings to the table, our investment professionals realize that the success of early-stage ventures lie not in financial engineering, but in the building of a solid enterprise that is well equipped to face the strategic challenges and operating realities of emerging markets as well as to quickly respond and pivot with market feedback. The aim is to build enterprises that last while finding exit opportunities along the way, not vice-versa. What sets us apart is the wealth of start-up experience that our professionals bring to the table enabling us to think from an entrepreneur’s perspective and relate to the problems they face.”

– Arun Gore, President & Chief Executive Officer of GGV

Gray Ghost in its commitment to the “plant and nurture” approach, understands the importance of maintaining a strong operating focus. As such, our responsibilities in 2013 will focus on:

- ▶ Continuing involvement with the management of our portfolio companies, thus supplementing our entrepreneurs with more entrepreneurship;
- ▶ Continuing technical assistance to our entrepreneurs and often with the use of our experienced technical experts that have, at times, stepped in as interim and full-time senior management;
- ▶ Creating strategic partnerships to aid our investees with customers and vendors, joint venture partnerships and co-investors;
- ▶ Providing meaningful impact metrics and financial performance reporting to our LPs and the industry; and
- ▶ Raising fund III, a US\$50M fund.



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