

Guidelines for Identifying Proxies in Anti-Portfolio Tracking

As we have embarked on the task of anti-portfolio tracking, it is important to acknowledge the inherent challenges in tracking the vast landscape of startups, particularly those that may not have significant visibility in major databases. This document outlines the difficulties you may encounter in this process and provides guidance on how to develop and implement effective proxies that will enable a more robust evaluation of the startup ecosystem.

Challenges in Anti-Portfolio Tracking

Our research indicates that a significant portion—up to 50%—of companies evaluated do not appear in the largest and most significant databases. The reasons for their absence are varied and include:

- The company may have ceased operations.
- The company did not achieve sufficient relevance to be included.
- The company has chosen to operate in "stealth mode" and thus avoids public attention.
- The company operates in regions such as Africa, Southeast Asia, and Latin America, which are not monitored as closely as Europe and the USA.

When analyzing the data of companies that are listed in databases, we find that only 30-40% have accessible valuation information. This highlights a stark reality: approximately 80% of the companies we screen at the seed stage do not have visible valuations in specialized databases.

Developing Proxies for Anti-Portfolio Tracking

Given the limitations of direct data acquisition, creating accurate proxies for the evaluation of these companies is essential. A proxy, in this context, is an alternative measure that, while not directly assessing the company's valuation, can provide insights into its potential success or failure.

The process of developing these proxies involves a few key steps:

- **Identify Key Indicators:** Start by determining which indicators or metrics can serve as reliable signs of a company's growth potential, such as patent filings, product launches, hiring trends, or website traffic.

- Establish Sound Logic: Each proxy must be logically sound and have a clear rationale linking it to the company's success. The relationship between the proxy and the company's performance should be empirically justified.
- Ensure Implementability: Proxies must be practical and implementable within the constraints of our resources. They should rely on data that is accessible and verifiable without necessitating extensive resources, such as a vast web scraper.
- Validate Proxies: Once developed, these proxies must be validated through back-testing against known data points to ensure their accuracy and reliability.

Implementing Proxies

The implementation of proxies should be approached with pragmatism. We aim to:

- Utilize Available Data: Leverage data from diverse sources including news articles, social media, employment websites, and industry reports.
- Minimize manual work: it must be scalable.
- Maintain a Lean Approach: Avoid overly ambitious data collection projects that are beyond the scope of our capabilities.

The endeavor to track and evaluate companies outside of the visibility of major databases is complex but essential. By developing and implementing practical proxies, we can gain valuable insights into the broader startup ecosystem and refine our investment decision-making process. Your role in identifying these proxies is critical to enhancing the robustness of our Anti-Portfolio Evaluation Program (APPE). Innovation in our approach is just as valuable as the innovation we seek in our investments.