

System Level Capital Compounding

By SKGP, SKGP Strategic Partners Pre Yield Asset Series ©

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This paper is part of the public Pre Yield Asset framework developed by SKGP Strategic Partners.

Executive

System level capital compounding is the core engine of the SKGP Capital Physics model. It defines how capital grows not through individual transactions, but through the progression of an entire real asset system. In the Pre Yield Asset classification early stage assets do not compound through yield. They compound through structural movement. The system itself becomes the compounding instrument.

In the SKGP architecture compounding occurs when capital moves across probabilistic nodes, recycles through uplift events, transitions across gate states, and reenters formation at higher information levels. This is system level compounding, not project level return.

Why Real Asset Systems Compound at the System Level

Traditional asset classes compound through cashflow. Real asset systems compound through sequence. Early stage systems carry momentum because each structural improvement alters the probability state of the entire system. System level compounding emerges from.

- Gate progression

- Information quality uplift
- Jurisdictional stabilization
- Corridor activation
- Sovereign alignment
- Cross node probability transitions
- Recycle velocity

Each structural shift creates new entry and exit points for capital. Each exit becomes the next cycle of formation. The system compounds because capital is never idle. It is always in motion.

The Capital Physics Interpretation of Compounding

In the public Capital Physics materials compounding is not the simple reinvestment of returns. It is the acceleration of a system as uncertainty collapses and probability weights improve. The system reorganizes itself into higher states of clarity. This reorganization increases.

- Expected MOIC across nodes
- Expected Shortfall stability
- Jurisdictional resilience
- Cross border durability
- Recycling efficiency

Compounding therefore becomes the system wide effect of probability shifts rather than the output of a single project.

Nodes as the Units of System Level Compounding

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The Capital Physics deck describes each real asset project as a probabilistic node with its own.

- Probability of gate success
- Expected uplift
- Capital consumption
- Jurisdiction score
- Logistics score

The overall compounding effect is produced when these nodes interact across a portfolio or corridor. Each node influences the risk surface of the system. When multiple nodes improve their state the system undergoes nonlinear compounding because the probability distribution becomes more coherent and less volatile. Node improvement becomes system improvement.

Gate Architecture Creates a Compounding Curve

Gates represent structural transitions. When a gate is crossed uncertainty collapses and NAV increases. System level compounding occurs because these gate events do not operate in isolation. They influence each other.

- Technical gate often improves commercial probability.
- Jurisdictional gate often improves sovereign probability.
- Environmental gate often improves cross border compatibility.

This interdependence links gate events into a compounding curve. Each gate crossed multiplies the

effect of the next one. This creates a system wide uplift trajectory rather than a linear sequence.

Recycling as the Engine of Compounding

The Capital Physics model publicly references recycle velocity as a primary driver of compounding. Recycle velocity measures how rapidly capital reenters formation after realization events.

Recycling creates system level compounding because.

- Capital reenters at a higher probability
- Information from previous cycles reduces future uncertainty
- Each cycle increases the structural quality of the system
- The cost of new cycles decreases
- Time to derisk shortens
- The system gains momentum

This is a compounding loop. Outcomes from one cycle accelerate the next.

Jurisdictional and Corridor Effects on Compounding

Jurisdiction and corridor alignment create systemic compounding forces. Jurisdictional stability strengthens.

- Concession durability
- Regulatory predictability
- Legal integrity
- Institutional compatibility
- Sovereign alignment

Corridor alignment strengthens.

- Logistics reliability
- Processing integration
- Export consistency
- Cross border governance
- Industrial positioning

When both jurisdiction and corridor logic strengthen simultaneously compounding accelerates because risk becomes concentrated in fewer variables and probability weights converge. The system becomes predictable. Predictability increases compounding.

System Level Compounding vs Traditional Fund Compounding

Private equity

- Compounding depends on operational improvements and exits.
- In PYA compounding depends on structural uplift and recycling.

Venture

- Compounding depends on exponential product adoption.
- In PYA compounding depends on probability transitions embedded in physical systems.

Credit

- Compounding depends on reinvested interest.
- In PYA compounding arises from derisking and NAV progression long before yield.

Infrastructure

- Compounding depends on stable cashflow.
- In PYA compounding occurs before yield exists.
- Only PYA creates system level compounding before operations begin.

AUM Compounding Through System Physics

In the Capital Physics deck AUM(t) increases when three structural conditions converge.

- Recycle ratio increases
- Probability weighted uplift increases
- Expected Shortfall decreases

These conditions move the system along a compounding surface rather than a return curve. AUM growth becomes a function of structural quality. The asset behaves more like infrastructure the further it progresses. Compounding is therefore endogenous to the system, not dependent on external markets.

Sovereign Alignment as a Compounding Accelerator

When sovereign priorities align with the system the risk surface collapses. This creates one of the strongest compounding accelerators in real asset formation.

Sovereign alignment provides.

- Concession integrity
- Cross border stability
- National infrastructure support
- Regulatory clarity
- Long horizon continuity
- Geopolitical insulation

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These forces reduce binary volatility and shift the entire system into a stable state. Once this state is reached compounding accelerates because the political foundation becomes predictable. Sovereign alignment locks the compounding pathway in place.

Compounding Across PYA Categories

The system level compounding effect applies across all PYA pillars.

Mining

Gate progression, sovereign alignment, corridor relevance, and verification create structural uplift cycles.

Agriculture

Land mapping, water rights, crop systems, storage alignment, and agro corridor integration create a similar compounding surface.

Energy and geothermal

Reservoir modeling, engineering progression, offtake certainty, and regulatory alignment drive non linear compounding.

Industrial corridors

Processing capacity, cross border governance, sovereign cooperation, and logistics integration form compounding loops.

Logistics linked assets

Node activation, clearance stability, multimodal alignment, and storage integration produce continuous

recycling. Each category compounds differently but follows the same structural laws.

Why System Level Compounding Defines the Asset Class

System level compounding is the final proof that Pre Yield Assets are infrastructure equivalents, not speculative ventures. The system becomes more valuable through structure, gating, and sovereign integration, not through market cycles or commercial volume. This compounding effect is measurable, repeatable, and allocable. It provides institutions and sovereign partners with a framework for engaging early stage real assets using predictable mechanics rather than narrative risk. PYA is an asset class because its compounding behavior is inherent to the system, not the market.

Conclusion

System level capital compounding is the structural outcome of gate progression, recycling, information uplift, jurisdictional stability, corridor relevance, and sovereign alignment. It is the compounding engine inside the SKGP Capital Physics framework and the reason Pre Yield Assets can form value and institutional readiness long before yield. Capital compounds because systems progress. Systems progress because uncertainty collapses. Structure transforms potential into measurable uplift. SKGP Strategic Partners formalizes this physics so that institutions and sovereign partners can engage early

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stage real asset systems not as speculative ventures but
as compounding pre yield infrastructure.