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Equity International's Debut in Colombia: An Exclusive Interview with Thomas McDonald (Chief Strategic Officer)

Conducted by Alyson Sheehan

VELA: Can you please tell me about Equity International (EI)'s most recent investment in Latin America, its first ever in Colombia?

MCDONALD: We invested in a business called Terranum Development, a subsidiary of Terranum, which is jointly owned by Estrategias Corporativas, a leading Colombian investment bank, and the Santo Domingo Family, a highly regarded global investor. We have known Estrategias Corporativas for some time and think they are some of the brightest real estate minds in the region. We have followed their progress for the last 7 years, have stayed in contact with them, and have seen the development of not only their business but also the macro trends in

See Interview on page 7

How Will Emerging Markets Shape the Alternative Assets Arena?

By Roberto Charvel (Vander Capital Partners)

Ever since Jim O'Niell from Goldman Sachs came up with the term BRIC in 2001, the world has started to pay more attention to what goes on in emerging markets. The BRIC concept was probably a big bet at the beginning of last decade. China had only started trading in a significant way with the West in 2000 when it became part of the World Trade Organization (WTO). The commodities' decade that followed that fueled the growth of Russia (oil) and Brazil (soy, iron ore and oil) significantly helped these economies live up to the expectation created by O'Niell.

Another document from Goldman Sachs [2007] estimates that BRIC countries as well as other emerging markets such as Mexico and South Korea are supposed to be among the largest economies by 2050. In or

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P2Brasil Raises US\$1.2 billion for Infrastructure Fund

By Elizabeth Johnson

With the massive bottlenecks in infrastructure, private equity funds have been investing aggressively in logistics and infrastructure, in an effort to fill the voids left by poor government planning and lack of private investment in this sector. With seemingly endless opportunities in this sector, Pátria Investimentos, one of Brazil's most respected private equity fund managers, together with Promon, a leading engineering, procurement and construction management firm, has raised \$1.155 billion for their P2 Brasil Private Infrastructure Fund II, which will invest in infrastructure projects in Brazil.

Foreign investors contributed 93% of the capital to the fund, including pension funds, endowments, high net worth individuals and sovereign wealth funds from

the US, Canada, Europe, Asia and the Middle East. The fund will focus primarily on investments in transportation and logistics; oil and gas; sanitation and power distribution and transmission. In addition to acquiring existing companies, the fund also plans to invest in greenfield projects, which the fund managers believe have the strongest growth potential.

The fund surpassed its original target of US\$1 billion and targets 20% or greater returns from its investments mainly through capital gains. The fund managers estimate that between its investments and those of co-investors, it will invest more than US\$4 billion in infrastructure and logistics projects.

New York-based Forum Capital served as financial advisor and exclusive placement agent to the P2 Brasil Fund. "The P2 Brasil Fund was so well received due to its unique value proposition – development and upgrading of infrastructure principally serving corporate customers in Brazil utilizing private equity-style value creation – and the exceptional capabilities of Pátria and Promon as fund sponsors," said Jeffrey M. Stern, Managing Partner of Forum Capital.

"Although infrastructure fundraising has been challenging in recent years, many institutional investors are gravitating towards Brazil, given its strong growth," says Stern. "Brazil's growth must be matched by improvement in the country's infrastructure – creating the investment opportunity for the P2 Fund."

Pátria partner Octavio Castello Branco, formerly of Brazil's BNDES development bank, will be in charge of managing the fund. He said that the decision to partner with Promon came as a result of the need to find a group capable of evaluating investment opportunities with greater depth and precision than can typically be found at a private equity fund.

Since its first close, which took place last year, the fund has already made two investments, one in river transportation firm Hidrovias do Brasil and the other in NovaAgri, a grain storage and logistics firm.

NovaAgri is an integrated logistics firm that provides all necessary storage and transportation services from the farm gate to the port. These services include grain and cotton storage facilities as well as road and rail

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transportation. The company has facilities in the state of Tocantins, which is one of Brazil's most promising agricultural frontiers. With the recent conclusion of the North-South railroad, which is controlled by Brazilian mining giant Vale, transportation of crops in the region will be greatly enhanced. NovaAgri has storage facilities in the states of Minas Gerais and Bahia. The company also has a facility near the port of Santos, the busiest port in Latin America. The company plans to invest in its own grain port.

The fund has also invested in Hidrovias do Brasil, an integrated waterway logistic operator. The company was created with the purpose of developing and operating inland and sea terminals integrated with barging operations. The company is in the pre-operational phase but plans to offer long term agreements for both bulk and container transport.

The fund plans to invest in two other sectors before the end of the year, including infrastructure for Brazil's oil and gas sector. After the discovery of massive oil and gas deposits in ultra deep waters off Brazil's coast in 2007 by state-run oil company Petrobras, the demand for investment in all stages of the oil and gas production chain has been increasingly apparent. P2 is reportedly considering investing in a fleet of ships to provide support for offshore platforms. These services will range from cargo transport to monitoring of offshore pipelines. According to industry estimates, demand for offshore services is seen doubling over the next five years.

The fund also plans to invest in basic sanitation services. While Brazil has made significant advances in providing its population with other basic services such

as electricity and telecommunication, improvements in water and sewage treatment have been modest in recent years. According to the Brazilian government, only 44.5% of the population has access to sewage collection infrastructure and a mere 38% of the population has access to sewage treatment. Roughly 82% of the population has access to treated water. New legislation which was passed in 2007 has facilitated the entry of

Pátria has been one of Brazil's most successful private equity fund managers because of its decision to pursue a roll-up strategy.

private sector players into this sector, making it a much more attractive investment.

Pátria has been one of Brazil's most successful private equity fund managers because of its decision to pursue a roll-up strategy. The company's best-known success stories include private education firm Anhanguera Educacional and medical diagnostics firm Diagnósticos da America (DASA). Pátria has more than US\$3.5 billion in assets under management. US alternative assets firm The Blackstone Group acquired a 40% stake in Pátria last year. The closing of the P2 fund was announced shortly after Pátria closed its fourth private equity fund, with capital commitments of US\$1.25 billion. Promon has been involved in approximately 400 infrastructure related projects during its 50-year history in Brazil, which will help the fund to evaluate greenfield projects.

The August 2011 issue of VELA featuring the article, "Latin American Pension Funds in PE Markets," highlights research conducted by the Emerging Markets Private Equity Association (EMPEA). EMPEA's special report, "Local Pension Capital in Latin America" includes a 35-page directory of pension funds in Brazil, Colombia, Mexico, Chile and Peru investing in private equity, as well as in-depth market profiles and expert insights from contributors such as Conduit Capital and Darby Overseas Investments. For more information, visit www.empea.net or contact them at empea@empea.net.

Corporate Resolutions

Corporate Resolutions: Part of Growing Due Diligence Services for PE Firms in LatAm

By Dan Weil

The increase of private equity investment opportunities in Latin America means plenty of due diligence work by investors looking at companies in the region. Corporate Resolutions, along with its competitors Kroll, Control Risks and FTI Consulting, can help provide that research.

Ken Springer, president of Corporate Resolutions and a former FBI agent, recently spoke to VELA about what kind of work the firm does for five or six U.S. private equity firms with investments in Latin America. So far it has looked at 15-20 deals.

It's important to know what you're buying beforehand, and LPs are demanding more and more transparency.

VELA: How long have you been working for clients in Latin America?

KEN SPRINGER: Off and on for 12 years, but it's really increased in the last two to three years, with the popularity of the BRIC nations (Brazil, Russia, India and China). We saw a lot more people had an interest, and we opened an office in Miami just to deal with Latin America. Now we're considering an office in Brazil, Colombia, and Mexico.

VELA: What creates the need for your services?

KEN SPRINGER: The information available through in-country data sources is very limited. Information related to money can disappear easily.

People want independent confirmation of their gut feelings about a purchase. They need to know if someone with whom they are dealing at a company is who they say they are. Investors need to do further vetting and know they can rely on us.

It's important to know what you're buying beforehand, and LPs are demanding more and more transparency.

VELA: What about the U.S. Foreign Corrupt Practices Act, which outlaws bribes to foreigners?

KEN SPRINGER: That's a big part of our business. A lot of people have been paying attention to that over the past couple years. U.S. companies were doing deals in Latin America and making payoffs. People must understand what they can and cannot do.

VELA: Is this an issue for private equity firms too?

KEN SPRINGER: Yes, and they're getting that message now. You can have a company in Ecuador making widgets, and if someone in that Ecuador company is making an improper payment to the government, you and your LPs are liable. It takes time and money to straighten out.

There's now a lot more upfront due diligence being done by us and others, so that if firms are going to invest in a company that has done something improper, they self-report the violations to the U.S. government, which generally only gives a slap on the wrist in that case. And then they make changes before investing to correct things going forward.

Some deals do get cancelled and others get changed.

VELA: How do you find out your information?

KEN SPRINGER: We maintain a network of several hundred consultants in cities throughout Latin America. It includes people retired from the U.S. DEA (Drug Enforcement Agency), FBI and CIA who had a career working in these countries.

It also includes people who worked for Latin American law enforcement and military agencies. We have people from the private sector too. Our network includes more Latins than Americans. All of our consultants are vetted by U.S. government agencies.

We also operate a whistle-blowing hotline where employees, vendors, etc. can call to report illegal behavior. It comes to us and then we brief our client. Some private equity investors are insisting on the hotline as a condition of their investment.

Corporate Resolutions

American private equity firms understand that they need a network of people down there.

VELA: Can you give us an example of what your consultants might do?

KEN SPRINGER: In certain countries when you want criminal records, you have to go right into police offices. And when you want tax information, you have to go right into official tax offices. We have done so and know the right people to contact.

VELA: Can you tell us about some of your investigations?

KEN SPRINGER: We had a case a few months ago where a client was looking to do business with a guy who had a lot of money and seemed like a great entrepreneur. The client wanted to know what his sources of funds were. It turned out that about 15 years ago he was a drug runner and reinvented himself as an entrepreneur.

VELA: Did that kill the deal?

KEN SPRINGER: No, I think they got over that. They're still looking at the deal. They'll talk it through. It wouldn't be the first time someone backed a convicted felon.

VELA: Any other interesting examples you can tell us?


KEN SPRINGER: About three years ago, a client of ours was dealing with a company exporting from Latin America to the U.S., and we found out a lot of the material exported was laced with illegal drugs. Regulators in the country had stopped the plane.

We discovered it through our Miami office, which is run by a former customs agent. He networked with people in the Latin American country. We dealt with the management team to help our client assess whether they could trust the team.


They ended up making the investment. But as a condition of investing, our client had us implement the hotline to make sure this wouldn't happen again. They feel comfortable now, because we haven't had any calls.

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Round Up

By Alyson Sheehan

Patria Raises Two Funds, Raises \$2.45 Billion

Sao Paulo-based Patria Investimentos, a Brazilian buyout shop partly owned by the Blackstone Group, has had an active fundraising month, according to Thomson Reuters' peHUB. Earlier in August, Patria closed its widely reported Patria PE fund with \$1.25 billion. Patria, along with engineering and construction management consulting firm Promon, has now closed a second infrastructure fund, P2 Brazil Private Infrastructure Fund II ("P2"), with \$1.155 billion, up from the \$1 billion target. Collectively, the funds raised around \$2.45 billion.

New York-based Forum Capital Partners was the placement agent for P2. Investors of P2 include corporate and public pension funds, endowments, family offices, funds of funds, and sovereign wealth funds from the U.S., Canada, Europe, Asia and the Middle East, according to a statement. P2 won't invest in public infrastructure projects like toll roads or highways, peHUB continues. Instead, the fund will focus on transportation and logistics, oil and gas infrastructure, and water and waste management that mainly serve the corporate sector. "P2 will develop or upgrade infrastructure for the private sector in Brazil," says Jeff Stern, Forum's managing partner. This could include barges, warehouses or rail cars, he says.

The 18-month fundraiser for P2 actually began in mid-2009, Stern says. From the end of 2009 to the first quarter of 2010 the market wasn't "that conducive to any fundraisings taking place," Stern says. Still, P2 completed a first close of \$470 million (including GP commitments) in second quarter 2010. About 75% of the fund was raised in 2010 with the rest collected this year, Stern says.

How is the current fundraising market? "It's a really crowded market," Stern says. "Getting time and attention from investors is the most challenging part of it." Funds that are getting raised are those pools with a "clear, differentiated investment strategy where GPs have a record of success," Stern says.

For a more in-depth, exclusive look at Patria's P2 Fund by VELA's correspondent Elizabeth Johnson, turn to page 2.

Equity International Announces Debut Investment in Colombia

Sam Zell's Equity International ("EI"), the privately held investor and builder of companies outside the U.S., recently announced the closing of a \$75 million investment in Terranum Development, a privately owned corporate real estate company based in Bogota, according to an official press release. Terranum Development is a subsidiary of Terranum, a full-service real estate company jointly owned by Colombian investment bank Estrategias Corporativas, and the Santo Domingo family. To hear more about EI's most recent investment, turn to VELA's interview with EI's Chief Strategic Officer Thomas McDonald on page 1.

Alothon Group Announces Acquisition of MTel Group

Latin American private equity firm Alothon Group recently announced the acquisition of The MTel Group, a Brazilian provider of outsourced hardware and network services for information and communications technology (ICT) in Brazil, according to an official press release on Reuters.com. The MTel Group is also the owner of Aynil Solucoes, which serves the public sector, and MTel Tecnologia, which serves the telecommunications operators, ISPs and the corporate market of medium and large companies. The acquisition was made through Alothon Group's Fund II. Under the terms of the agreement, former partner-managers of MTel will manage the group, and Mauricio Blanco will remain as Chief Executive Officer. The value of the transaction was not disclosed.

Aureos Invests in Mexican Toy Distributor

The Aureos Latin America Fund (ALAF) recently completed the acquisition of a majority stake in Handell, a Mexican company specialized in importing and distributing some of the world's leading toy brands in Mexico, according to a press release on Aureos's website. The proceeds of the capital injection will be used to expand Handell's operations and diversify its toy portfolio. The company, prompted by Mexico's evolving demographics as an increasing number of lower-income families gain disposable incomes, plans to develop new, affordable, but high quality toy lines for lower-income families. The value of the transaction was not disclosed.

Nexus Capital Acquires 49.79% Stake in Moda Holding

Mexican private equity fund manager Nexus Capital has acquired a 49.79% stake in Moda Holding, the owner of Dorothy Gaynor, No Piensas Igual and Varanni, which collectively operate 77 shoe stores in shopping malls across the country, according to the Emerging Markets Private Equity Association (EMPEA). The acquisition was made through Nexus Capital's two parallel funds, Nexus Capital IV and V. The value of the transaction was not disclosed.

BTG Pactual in Merger Talks with Chile's Celfin

BTG Pactual, Brazil's largest independent securities firm, and Chilean rival Celfin Capital are in talks to combine their businesses in a deal that could create Latin America's largest independent investment bank, Reuters reports. The deal remains subject to the completion of due diligence and the approval of regulatory authorities from both countries, Sao Paulo-based BTG Pactual said in a statement. Terms of the negotiations were not disclosed. The statement did not indicate whether BTG Pactual, controlled by Brazilian billionaire financier Andre Esteves, is buying a stake in Celfin or vice-versa. But International Financing Review, citing people familiar with the situation, said the Brazilian bank would be the acquirer.

"The institutions believe that they share similar cultures and that significant synergies could be created in the merger that would benefit their respective clients, employees and shareholders," the BTG Pactual statement added.

The move fits into the bank's plan to expand into other fast-growing Latin American economies at a time when growth in Brazil is beginning to slow. Santiago-based Celfin is a leading financial and brokerage firm with operations in Chile, Peru and Colombia. Esteves has set a goal of making BTG Pactual the largest securities firm from an emerging-market country by the end of the decade. The association between BTG Pactual and Celfin would underpin the growing ties between local South American firms as they seek to fend off bids from the world's biggest investment banks.

Global powerhouses pursuing business in the region are facing stiffer competition from local players, which are deploying more capital to finance takeovers and making use of their distribution and origination capabilities to facilitate deals, Reuters continues. Initial public offerings are thriving in Chile, as are corporate debt sales in Colombia. In both countries, soaring investment plans and strong consumer demand are fueling economic growth.

Interview

Interview

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Colombia, which continue to improve. What resulted today, in terms of our investment, was really a function of our stars aligning, and it being the right time for the company to bring us in. The right time for the country, as well. We are very excited about it.

VELA: You are on the Board of Directors for Terranum Development. Does EI routinely ensure management control of its investments?

MCDONALD: The way we look at it is "shared control". Regardless of our percentage ownership of companies, we typically have control of, and a voice in, any major decisions that the portfolio company makes. We think that that is really important, not only from an obvious standpoint of wanting to have a voice, but also from the standpoint of wanting to have a dialogue with our partners about important decisions related to the company. We want to be welcomed to share our views and our expertise. So, that desire shows up formally

in our board representation as active shareholders regularly involved in the management of a company, but just as importantly, in other more informal ways as well.

VELA: Have you had any issues with family-owned companies being reluctant to relinquish management control?

MCDONALD: No. That kind of issue would arise during the investment process, the underwriting process, or the partner-vetting process, all of which takes place long before the investment. In the case of Estrategias Corporativas for example, we have known them for 7 years. In the case of Brazil more generally, we traveled there ten years before we made our first investment. We have companies with whom we have been in dialogue for multiple years prior to making investments. In terms of family businesses, there is a process through which we get to know the families, and the families get to

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Interview

Interview

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know us and how we have operated in the past. We spend a significant amount of time making sure that there is a shared understanding of where the business is going to go and who is going to contribute in taking the business there. So far, we have not had issues related to governance in any of our businesses.

VELA: Equity International has had experience investing in the corporate property sectors of Mexico, Brazil and now Colombia. Can you please speak to some similarities and/or differences between the 3 countries in terms of this sector?

MCDONALD: We first entered the business in Mexico in 2000, and at that time, there was significant U.S. investment as well as local Mexican corporates that were growing in the country. As a result, there was a need for new facilities to handle their operations. In the case of Brazil, probably 4 or 5 years later, we saw a similar situation – local Brazilian companies and international companies were making or building investments in

I think that investors over the last 12 years have warmed more to Latin America than previously. Part of that has to do with Brazil's participation in the "BRIC" headline.

the country. There were no real, scalable institutional owners of property. What you had, both in Mexico and Brazil as well as now in Colombia, were corporations owning their assets, because there was not an alternative that existed in the market which could own and operate those real estate assets on their behalf. And so, what you are seeing in Colombia, which is consistent with the businesses we created in Mexico and Brazil, are the early stages of the institutionalization of real estate, where corporates have a reliable partner with whom they can grow their business while not having capital tied up in the assets. Rather, they are able to deploy that capital in more efficient ways. And again, in the case of Colombia, similar to Mexico and Brazil, there was not an alternative; we are the first in scale. We are leading the cause.

VELA: Is EI pursuing investments in any other sectors in Colombia currently?

MCDONALD: We are managing investments in office property and logistics distribution centers currently. That is our first area. We hope there will be other opportunities in Colombia after this investment with Terranum Development.

VELA: Since the time of EI's investment in Brazilian self-storage company GuardeAqui in February, has there been progress in the area of receiving financing from local banks?

MCDONALD: We did not have any financing planned in the short term for GuardeAqui. We realized that the assets needed to be stabilized in order for them to be financeable, and that continues to be the case. Generally speaking, credit has become a bit tighter in Brazil, but that is more of a macro trend and a function of interest rates rising, which we had expected.

So, I would say that what we thought was going to happen has played out. If you were over-levered and required significant amounts of debt, it was going to be difficult to obtain financing, which is the case today. Companies like GuardeAqui that have solid balance sheets are in good shape and will probably gain market share on companies that do not.

VELA: How will Brazil's current inflation and interest rates impact EI's strategy in the country?

MCDONALD: I think we are seeing really good opportunities today. When the capital markets are bubbly and it is easy to obtain capital in the public markets, that makes it a more challenging environment for private equity. Right now, public equity market values are down; private valuations are usually a reflection of the public market, so values (at least in some sectors) have come off bit. Therefore, companies in capital-intensive industries that do not have access to either debt or the capital markets are great targets for private equity.

VELA: Have you had any interaction with local pension funds either in Brazil or Colombia?

MCDONALD: Our partners in Colombia created the first REIT in the country, which has Colombian pension funds as investors. We have met them and certainly consider them a source of interesting capital. From time to time, we also have met directly with some of the larger

Brazilian pension funds. They have been sellers of assets into BR Malls, one of EI's portfolio companies.

VELA: Going forward, is EI maintaining an interest in pursuing investment opportunities in Brazil's hospitality sector?

MCDONALD: Yes, we continue to look at it. We are recognizing the opportunity but also respecting the challenge that surrounds the hospitality sector in Brazil right now. We are still working and trying to figure out how to crack the code. The lack of debt financing is a problem and an obstacle, and yet, there are still very strong demand criteria that support the efforts of trying to figure out how to navigate it.

VELA: Would you say that there is significant competition in the hospitality sector in Brazil?

MCDONALD: There is significant noise. And there is significant press about deals being made, which is germane to the hospitality sector. But we have not seen significant real activity, we have not seen a significant number of shovels in the ground, and we have not seen significant acquisition activity. So we feel that we will be well-served by being patient and disciplined. We will make the investment when the time is right.

VELA: You are a director of EI's portfolio companies BR MALLS and AGV Logística. In 2011, both companies made acquisitions. What is EI's role when portfolio companies make an acquisition or a sale?

MCDONALD: We participate on investment committees, and our views and experience are used in M&A discussions. In both the cases of AGV and BR Malls, one of the avenues of growth for those businesses is external acquisitions. When we made those investments, one of the theses of the investments was growing through acquisitions. So what we have tried to do, and what I believe we have been successful at achieving in both companies, is helping to build the management teams and to put the right procedures in place to allow for disciplined, thoughtful growth through acquisitions. And then, the integration that follows is just as important: making sure that you not only buy the right assets but that you integrate them into the portfolio correctly.

VELA: In terms of making investments, does EI currently favor Latin America over other emerging markets such as China?

MCDONALD: We have two investments in China, one in the homebuilding sector and one in the warehouse and distribution sector, both of which are growing. We believe that despite there being high growth in China, it is very difficult to invest and to be active shareholders in that region, and that it is difficult to find the right partners. For us, our partner-vetting process is really what drives the success of our business, and so we seem to have more opportunities today in places like Latin America than in places like China. We are having more success there, I would say. And we have tremendous experience and expertise in Latin America, after being involved in 12 companies in the region and creating great businesses, real net worth for partners and value for shareholders. We want to leverage that experience, which is powerful in Latin America. It is recognized.

VELA: In your time working within Latin America, have you seen a drastic change in investor appetite?

MCDONALD: I think that investors over the last 12 years have warmed more to Latin America than previously. Part of that has to do with Brazil's participation in the "BRIC" headline. As investors spend time in the country and more activity is undertaken there, the next step is to look elsewhere in the region. I believe that we are at that point today, where investors feel that there is significant penetration in Brazil. There is still significant work to be done and significant opportunity there, but some investors want to look beyond Brazil now. So, places like Colombia are beginning to attract attention. We are glad that we are early; Colombia is still under the radar for many people, and I do not think that that will be the case in 3 to 5 years.

Thomas McDonald is Chief Strategic Officer of Equity International. Mr. McDonald has been associated with the Company since its inception in 1999 and is primarily responsible for building and optimizing the Company's partner relationships. He is a director of various portfolio companies, including BR Malls, AGV Logística and Terranum Development. Mr. McDonald earned a BA in international relations and Spanish from the University of Notre Dame and received his MBA from the University of Chicago's Booth School of Business.

Emerging Markets

Emerging Markets

Continued from page 1

der to do so, these economies will have higher growth rates than developed economies, and as a result these economies will start saving in a significant way.

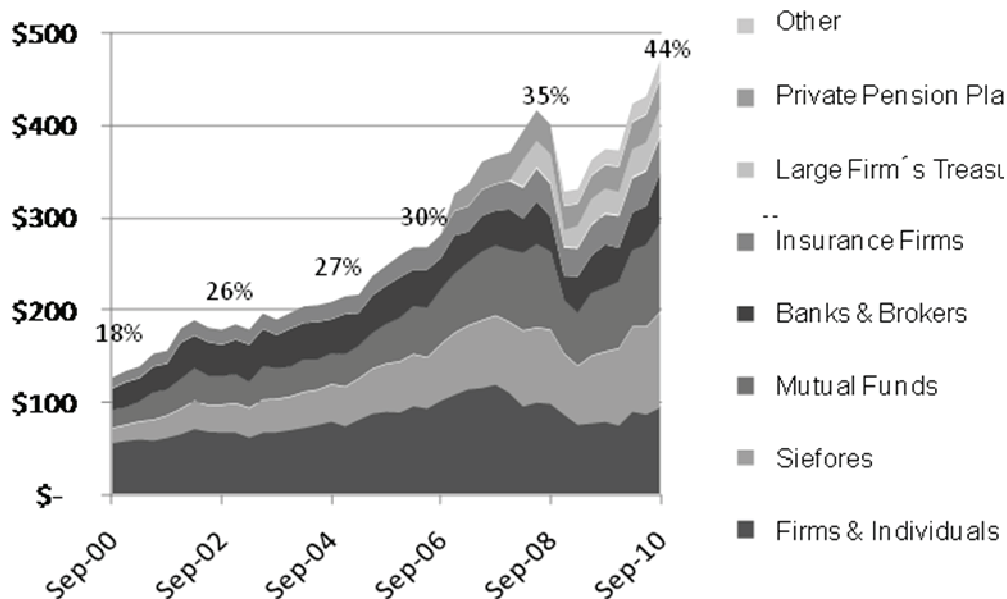
Savings will not come only from the population bonus that some of these countries are experiencing, but also due to the fact that several positive reforms to pension systems together with the emergence of a new emerging markets middle class is starting to surface worldwide.

Let's look at the case of Mexico. O'Niell excluded South Korea and Mexico from the BRIC term, as he suggested that these markets were further developed than the BRIC economies. Most people think of the tequila crisis of 1994 when talking about Mexico. Back then, due to a lack of liquidity similar to that experienced in 2008-2009 in the US, Mexico suffered a significant economic downturn accompanied by high inflation and significant devaluation of its currency. As a result, banks

had to be saved in a similar way as to how they were saved in the U.S. Most of the problem was that Mexico's government relied on foreign holders of its debt, and the central bank had to place debt in foreign currency while generating revenues (taxes) in pesos. When the global markets decided to put their money back in U.S. treasury bills as their interest rates increased, the Mexican economy faced a liquidity disruption.

This was not the case in the 2008-2009 crisis. Even when Mexico's economy was significantly impacted by the downturn in the U.S., this time it did not have a devaluation of its currency, and inflation was not a problem. What was different? Most of Mexico's debt (89.5% to be precise, using CNBV data) is now placed within a robust group of Mexican institutional investors. Who are these investors? When are they going to start fueling the private sector? Will they be able to start funding the growth of the private equity arena around the globe?

Graph 1
Graph 1 Savings in Mexico
Sep 2000– Sep 2010
US\$B & % of GDP



Source: CNBV, Banco de México, INDEVAL, CONSAR; Vander Capital Partners analysis.
Note: Mortgage pension funds (Infonavit and FOVISSSTE) and the ISSSTE Bonus are not included. They currently manage US\$50 billion. Other stands for other pension plans managed by the government (ISSSTE); banks and brokers in the graph show their own position and not the one from deposits; and Siefore are individualized pension plans copied from the Chilean model.

Mexico's economy, like many other emerging markets, has a significantly large economy. INEGI estimated that in 2010 the GDP was US\$1.1 trillion. What may come as a surprise to some, or probably to most, is the fact that Mexican savings in September of 2010 added up to US\$470 billion or 44% of GDP. Emerging market economies, like Mexico, are starting to save.

In the current financial times, an economy with its fiscal budget in order and with savings amounting to 44.28% of its GDP may sound attractive. What is even more attractive is to see the growth rate of its savings. Graph 1 shows how savings has grown since 2000. The savings CAGR at 14.05% is several times higher than the growth of the economy during the same period.

As mentioned before, by 2050 emerging markets are supposed to be amongst the largest economies in the World. Most of these economies will start generating savings that will fuel the investment world. This savings will probably first be invested in their country of origin and eventually will target global strategies to diversify away from its local markets. It is likely that emerging markets will not only have the largest economies by 2050, but also that they will manage the largest pools of savings that in turn will fund the alternative asset class overtime.

Today, most of the money managed by institutional investors in emerging markets is financing their local governments. Once this is covered, they will and are starting to finance firms both through the stock exchange and through private equity vehicles. From 1990 to 2007, the private equity industry in Mexico (not including real estate and other equity project finance strategies) amounted to US\$3.3 billion. Most of the equity commitments for the funds came from abroad (mainly the U.S.). Only around US\$350 million was invested by Mexican institutional investors (See Charvel [2009]). However, from 2008 to mid 2010, Mexican private pension plans had invested US\$2.8 billion in 13 private equity funds through publicly traded vehicles called CKDs of which US\$2.2 billion were committed to equity project finance funds (real estate, infrastructure and oil) and US\$600 million to private equity initiatives. See Graph 2 for a list of funds.

From Graph 1 we know that Mexican private pension plans manage around US\$120 billion and that by mid-2011 they had invested US\$2.8 billion in private equity. Not only is this number expected to increase to get to a best practice 5-10% benchmark; but also the other investors (such as insurance plans or public pension funds) will start fueling the industry as well. But Mexico is just one of the many emerging markets in the World. A recent article in *The Economist* estimated the

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**Graph 2: Local Private Equity Commitments by Mexican Private Pension Funds
US\$Mn by Placement Dates**

	Fund manager	Fund name	Type	Amount
1	Santa Genoveva	Santa Genoveva	EPF	148.14
2	ICA & Goldman Sachs	Red de Carreteras Occ.	EPF	484.77
3	Wamex	Wamex	PE	55.52
4	Atlas Discovery	Atlas Discovery	PE	103.63
5	Macquarie	Macquarie	EPF	252.79
6	Nexus Capital	Nexus Capital	PE	208.20
7	Promecap	Promecap	PE	198.07
8	Prologis	AMB	EPF	261.14
9	PREI	MIIP 3	EPF	292.40
10	Artha Capital	Artha Capital	EPF	193.09
11	Navix	Navix	EPF	316.70
12	MRP	I2	EPF	216.59
13	Marnhos	Marnhos	EPF	79.13
	Total			2,810.18

Source: BMV

Note: PF stands for Project Finance private equity strategies (including energy, infrastructure and real estate); PE stands for Private Equity.

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Brazilian hedge fund industry at US\$243 billion at end-2010, and that US\$36 billion was managed by private equity funds. These two industries had been fueled by local pension funds that managed US\$342 billion by 2010, and that were able to invest freely in alternative assets since 2009. In 2010, 22% of the private equity commitments in Brazil came from local pension funds. Brazilian pension funds have not been the only serious institutional investors funding the private equity. Brazilian development banks are the largest investors with US\$1.1 billion. Brazil's institutional investors had committed US\$8.3 billion for private equity by 2010. In less than twenty years institutional investors from Brazil, Mexico and other emerging markets will be the engine behind the private equity industry worldwide.

Emerging markets institutional investors will face setbacks. For example pension funds were nationalized in Argentina in the recent years. Chile's pension funds had a sub optimal experience investing in private equity. Overall, it seems that the trend is positive for Latin American and other emerging markets' investors to become the fuel for the global private equity industry.

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