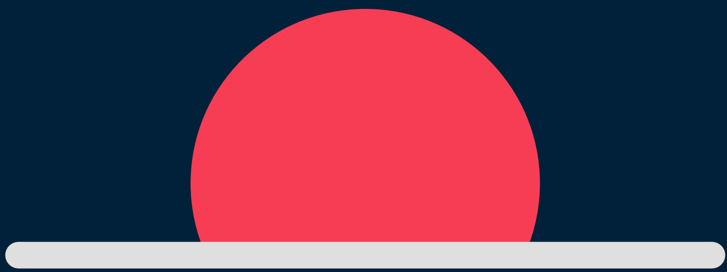
IDEAS LLYC

EXPLORE. INSPIRE.



REPORT

INSTITUTIONAL INVESTMENT IN LATIN AMERICA: THE IMPORTANCE OF GOVERNANCE AND REPUTATION

New York City, 17th July 2019

LLORENTE Y CUENCA

In a global context of protectionism, Sovereign Wealth Funds and other institutional investors ("SWFs") continue to play a crucial role in cross-border investments. With over $12 trillion[1] of assets under management, they continue to be one of the largest group of asset owners and one of the most active buyers of fixed income, public equities and alternative assets around the world.

FDI IN LATIN AMERICA

Foreign Direct Investment (FDI) contracted globally in 2018. In Latin America, the flows decreased by 6 % to $147 billion[2], as the economic recovery stalled. The tightening was fell most in Brazil and Colombia; while flows remained stable in the rest of the region. The exception were Ecuador and Panama, which experienced significant growth when compared to previous exercises.

The industries of interests continue to be natural resources (including mining), infrastructure and consumer goods, especially those related to IT. These industries should sustain better FDI levels in 2019, as commodity prices and economic conditions stabilize. Barriers of entry are reducing, and greenfield projects in construction have risen a 16 %, back to the levels of the peak years.

However, the region is still vulnerable to external factors, including monetary policy in the US and its tensions with China and other partners. Tariffs imposed in new industries such as automotive can mean higher price of commodities like copper, which is one of the main exports of the region.

SWF INVESTMENTS

At the beginning of 2005, three SWFs first signaled the interest in the region: Abu Dhabi's ADIA and Kuwait's KIA committed to Conduit Capital Fund, with a focus on power generation across the continent, and Singapore's GIC invested $200 million in a JV with AMP to acquire distribution facilities in Mexico. Since then, Sovereign vehicles from around the world have poured $36 billion in the region, including infrastructure and energy assets, real estate and fund investments.

During these past 15 years, the funds have learned to appreciate the differences between

[1] Sovereign Wealth Center (2019): Fund Profiles
[2] United Nations (2019): World Investment Report

the 20 countries that comprise Latin America. They have evolved from risk-averse funds, investing only in OECD countries (Mexico, Chile), to sophisticated regional players with local teams and offices. There are now six SWF branches with over 100 investment professionals serving the continent.

An illustrative example is Abu Dhabi's Mubadala, which has come a long way since it first invested in a Carlyle Pan-American fund in 2011. A year later, in the midst of the Brazilian boom, the fund decided and made a strong bet by paying $2 billion for a 5.63 % into Eike Batista's EBX Group. When some of the assets went into distress, Mubadala converted its stake into debt and kept throwing capital into the group, including OGX, MMX, OSX, CCX, IMX, REX, Hotel Gloria and Leblon Tower in Rio de Janeiro, where they opened an office to stay close to the operations.

A more recent and promising case is brought by Japan's Softbank, which has attracted significant SWF money into its Vision Fund, and is setting up a $5 billion tech fund focused on Latin America. The bank aims to revolutionize the region by investing directly in local VC funds and disruptors, developing partnerships and making a positive contribution to the entire growth ecosystem.

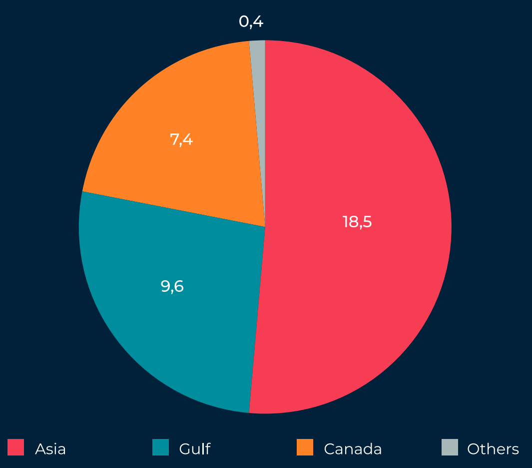
As funds mature and the search for yield becomes fierce, other countries are starting to gain attention, too. Peru, Colombia, Ecuador, Argentina, Uruguay and Panama are attracting institutional capital. However, funds need to stay cautious as regional challenges remain. When Qatari Diar invested $75 million in Gran Paraiso Hotel in Cuba in 2008, the development was supposed to take 3 years[3]. Eleven years later, the completion of the property is an unknown.

THE WAY FORWARD: CO-INVESTMENTS AND GOVERNANCE

One way to increase investors' confidence in the region is by facilitating agreements with domestic SWFs. Today there are seven funds, managing over $35 billion that can source opportunities and offer co-investments in

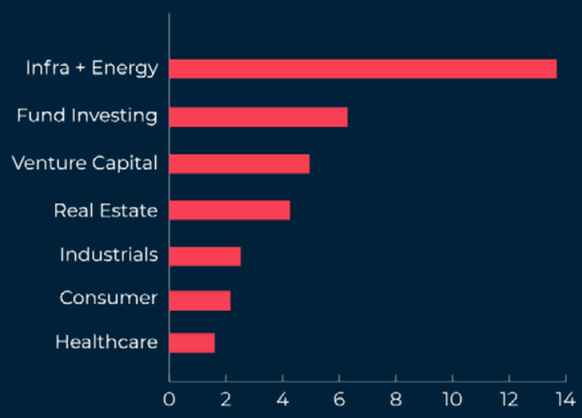
[3] Trade Arabia (2009): Qatari Diar signs $75m JV with Cuba

Figure 1.
SWF INVESTMENT BY ORIGIN ($ BN)



Source: Global SWF analysis

Figure 2.
SWF INVESTMENT BY INDUSTRY ($ BN)



Bolivia, Brazil, Chile, Colombia, Mexico, Panama and Peru. This is an increasingly favored route as it minimizes fees paid to asset managers and private equity funds.

However, it also increases the exposure to Governance, Risk and Compliance, and the scrutiny from both stakeholders and the public opinion. EBX is not the only failure story in Latin America. In 2018, the world's largest emerging markets private equity firm, Abraaj Group, collapsed amid allegations of fraud and mismanagement. Its Latin American platform, which managed $700 million in 22 investments since 2006, was sold to US-based Colony Capital earlier this year[4].

In this context, trust is crucial, and a proper due diligence has become a key step in the investment process. Whether it is to commit capital to a fund, or to buy a direct stake into an asset, SWFs need to carry out a reputational assessment of possible risks attached to a business partner, including compliance and corporate governance. Such analysis also needs to stress the reliability on the political environment in a specific country, especially given Latin America's latest few years.

"In this context, trust is crucial"

Asian, Middle Eastern and Canadian finds will continue to pour billions of dollars into the region, attracted by its economic and demographic prospects and by the abundance of natural resources. Their long-term success will be determined by how thorough their due diligence process is. Understanding the particular challenges of each country and asset from thousands of miles away can be a daunting task, and can better assisted by a network of industry experts and consultants.

[4] LAVCA (2019): Abraaj Group's PE Platform in Latin America acquired by Colony Capital

AUTHORS

Diego López is a Member of the Advisory Council of LLYC in the USA since 2019. He is the Managing Director of Global SWF, an advisory boutique focused on Sovereign Wealth Funds that serves the World Bank and the UN, among others. He is a globally-minded financier with over 13 years of work experience with blue-chip firms, including Santander, KPMG and PwC. He holds a Bachelors in Economics and a Masters in Finance from the London School of Economics (LSE) and has worked in Europe, the Middle East, China, Brazil and the USA.

Alejandro Romero is Partner and CEO Americas. Ever since 1997 Romero has been at the forefront of the company's expansion processes in Latin America, starting operations in Peru, Argentina, Colombia, Panama, Ecuador, Mexico and recently, Miami. Romero has also recently led the communication processes in three of the ten most important M&A operations in the region: the selling of BellSouth operations to the Telefonica Group; SABMiller's acquisition of the Corporate Group Bavaria and; the selling of the Financial Group Uno to Citibank. In 20 years, Romero has managed to position LLYC as the leading communication network in Latin America

MANAGEMENT TEAM

José Antonio Llorente
Founding Partner and Chairman
jallorente@llorenteycuenca.com

Alejandro Romero
Partner and CEO Americas
aromero@llorenteycuenca.com

Enrique González
Partner and CFO
egonzalez@llorenteycuenca.com

Adolfo Corujo
Partner and Chief Strategy Officer
acorujo@llorenteycuenca.com

Goyo Panadero
Partner and Chief Talent
and Innovation Officer
gpanadero@llorenteycuenca.com

Juan Pablo Ocaña
Director, Legal & Compliance
jpocana@llorenteycuenca.com

Daniel Fernández Trejo
Director, Technology
dfernandez@llorenteycuenca.com

José Luis Di Girolamo
Partner and CFO Latin America
jldgirolamo@llorenteycuenca.com

Antonieta Mendoza de López
Vice President, Advocacy LatAm
amendozalopez@llorenteycuenca.com

SPAIN AND PORTUGAL

Arturo Pinedo
Partner and Managing Director
apinedo@llorenteycuenca.com

Luisa García
Partner and Managing Director
lgarcia@llorenteycuenca.com

Barcelona

María Cura
Partner and Managing Director
mcura@llorenteycuenca.com

Óscar Iniesta
Partner and Senior Director
oiniesta@llorenteycuenca.com

Muntaner, 240-242, 1º-1ª
08021 Barcelona
Tel. +34 93 217 22 17

Madrid

Joan Navarro
Partner and Vicepresident,
Public Affairs
jnavarro@llorenteycuenca.com

Amalio Moratalla
Partner and Senior Director,
Sport and Business Strategy
amoratalla@llorenteycuenca.com

Iván Pino
Partner and Senior Director,
Digital
ipino@llorenteycuenca.com

David G. Natal
Senior Director,
Consumer Engagement
dgonzalezn@llorenteycuenca.com

Paco Hevia
Senior Director,
Corporate Communication
phevia@llorenteycuenca.com

Jorge López Zafra
Senior Director,
Financial Communication
jlopez@llorenteycuenca.com

Lagasca, 88 - planta 3
28001 Madrid
Tel. +34 91 563 77 22

Lisbon

Tiago Vidal
Partner and Managing Director
tvidal@llorenteycuenca.com

Avenida da Liberdade nº225, 5º Esq.
1250-142 Lisboa
Tel. + 351 21 923 97 00

UNITED STATES

Erich de la Fuente
Partner and Chairman
edelafuente@llorenteycuenca.com

Mike Fernandez
CEO
mikefernandez@llorenteycuenca.com

Miami

Claudia Gioia
SVP Americas,
Business Development
cgioia@llorenteycuenca.com

600 Brickell Avenue
Suite 2020
Miami, FL 33131
Tel. +1 786 590 1000

New York City

Gerard Guiu
Director, International Business
Development
gguiu@llorenteycuenca.com

3 Columbus Circle
9th Floor
New York, NY 10019
United States
Tel. +1 646 805 2000

NORTH REGION

Javier Rosado
Partner and Regional Managing
Director
jrosado@llorenteycuenca.com

Mexico City

Juan Arteaga
Managing Director
jarteaga@llorenteycuenca.com

Rogelio Blanco
Managing Director
rblanco@llorenteycuenca.com

Av. Paseo de la Reforma 412
Piso 14. Colonia Juárez
Alcaldía Cuauhtémoc
CP 06600, Ciudad de México
Tel. +52 55 5257 1084

Panama City

Manuel Domínguez
Managing Director
mdominguez@llorenteycuenca.com

Sortis Business Tower
Piso 9, Calle 57
Obarrio - Panamá
Tel. +507 206 5200

Santo Domingo

Iban Campo
Managing Director
icampo@llorenteycuenca.com

Av. Abraham Lincoln 1069
Torre Ejecutiva Sonora, planta 7
Suite 702
Tel. +1 809 6161975

San Jose

Pablo Duncan - Linch
Partner and Director
CLC Comunicación | Afiliada LLYC
pduncan@clcglobal.cr

Del Banco General 350 metros oeste
Trejos Montealegre, Escazú
San José
Tel. +506 228 93240

ANDEAN REGION

Luis Miguel Peña
Partner and Regional Managing
Director
lmpena@llorenteycuenca.com

Bogota

María Esteve
Partner and Managing Director
mesteve@llorenteycuenca.com

Av. Calle 82 # 9-65 Piso 4
Bogotá D.C. – Colombia
Tel. +57 1 7438000

Lima

Luis Miguel Peña
lmpena@llorenteycuenca.com

Av. Andrés Reyes 420, piso 7
San Isidro
Tel. +51 1 2229491

Quito

Carlos Llanos
Managing Director
cllanos@llorenteycuenca.com

Avda. 12 de Octubre N24-528 y
Cordero – Edificio World Trade
Center – Torre B - piso 11
Tel. +593 2 2565820

SOUTH REGION

Juan Carlos Gozzer
Partner and Regional Managing
Director
jcgozzer@llorenteycuenca.com

Sao Paulo y Rio de Janeiro

Cleber Martins
Partner and Managing Director
clebermartins@llorenteycuenca.com

Rua Oscar Freire, 379, Cj 111
Cerqueira César SP - 01426-001
Tel. +55 11 3060 3390

Ladeira da Glória, 26
Estúdios 244 e 246 - Glória
Rio de Janeiro - RJ
Tel. +55 21 3797 6400

Buenos Aires

Mariano Vila
Managing Director
mvila@llorenteycuenca.com

Av. Corrientes 222, piso 8
C1043AAP
Tel. +54 11 5556 0700

Santiago de Chile

Francisco Aylwin
Chairman
faylwin@llorenteycuenca.com

Magdalena 140, Oficina 1801
Las Condes
Tel. +56 22 207 32 00

IDEAS **LLYC**

EXPLORE. INSPIRE.

IDEAS by LLYC is a hub for ideas, analysis and trends. It is a product of the changing macroeconomic and social environment we live in, in which communication keeps moving forward at a fast pace.

IDEAS LLYC is a combination of global partnerships and knowledge exchange that identifies, defines and communicates new information paradigms from an independent perspective. Developing Ideas is a constant flow of ideas, foreseeing new times for information and management.

Because reality is neither black nor white, IDEAS LLYC exists.

llorenteycuenca.com
www.uno-magazine.com