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LatAm Opportunties 2016

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Executive Summary

1. Among developing countries, LatAm has one of the hottest spots for medium term investments

2. LatAm economic reality can be segregated in three distinct economic realities, been the “pacific group” the most prosperous in the near future

3. Funding for LatAm companies has increased over the time and, with huge external liquidity and lower rates of return abroad, there is a great potential to attract capital to Latin America

4. Selectivity will be increasingly mandatory for investors, but the region has good economical foundation and entrepreneurial environment to support that.

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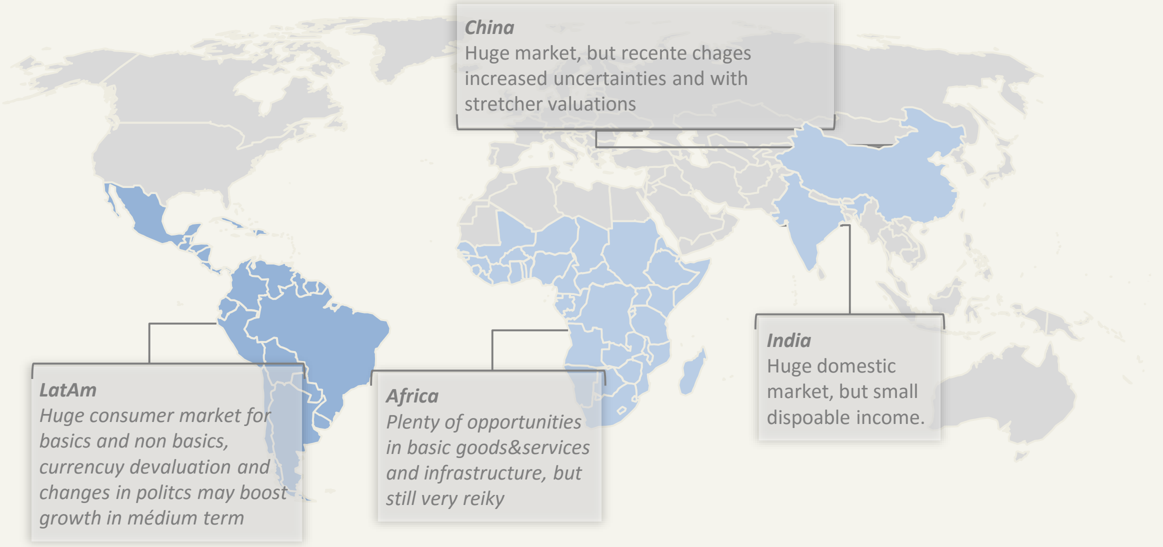
Latin America – Good option over developing countries

Latin America is a key emerging region for global economic growth, accounting for 7.8% of total global GDP in 2014.

Rough precipitated an overall slowdown in activity across much of the region.

But long term investors are confirming that the thesis remains intact and recent currency devaluation opened an entry point.



	LatAm	Africa	India	China
GDP (USD tri)	6,2	1,7	2,0	10,2
GDP per Capita (kUSD)	9,9	1,8	1,6	7,6
Literacy rate	92,3%	60,3%	69,3%	95,1%
Population (million)	626	923	1396	1282
Life Expectancy (years)	74	59	68	75
Capital Flows (% GDP2016-18)	5,3%	4,1%	5,1%	3,7%
Arable Land (million km²)	5,52	10,64	1,80	5,10

Latin America is a key emerging region for global economic growth, accounting for 7.8% of total global GDP in 2014. Brazil is the biggest economy in the region, comprising 38.9% of total regional GDP in 2014, **yet Chile far outperforms it in indicators such as the Global Competitiveness Index 2015**, at 35^{th} place out of 140 countries. Rough winds — in the form of decreasing foreign demand, falling commodities prices and a reversal of asset flows back to the developed markets — precipitated an overall slowdown in activity across much of the region. But PE investors are confirming that the long-term thesis remains intact and are willing to weather the volatility of the market.

The pursuit of global competitiveness is a priority for most countries in the developing Americas. The ambitious structural reform process in Mexico continues to advance setting a regional precedent, with all eyes placed now on the energy sector. **The expansion of the Panama Canal (93% completed), considered the hemisphere's largest flagship infrastructure project, will boost intra-regional trade flows** throughout the Americas and intensify activity with the fast-growing Asia-Pacific region. The widespread use of public private partnerships in infrastructure development projects will provide ample opportunities for foreign direct investment in countries such as Peru, Chile and Colombia. The relative financial sector strength in the core group of Latin American economies will facilitate the deployment of long-term capital to improve the basic infrastructure needed for sustained economic growth. Gradual de-dollarization dynamics will remain in place in both Peru and Uruguay. Domestic pension funds will increasingly become primary sources of long-term capital financing. Despite modest deceleration in economic activity, China will increasingly play a relevant role as a capital partner and a key source of investment finance in Latin America.

Sources: Euromonitor, World Bank Santander, Patagon Analysis

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New venture, disruptive and tech oriented business tend to be benfited in LatAm.

The region has a good entrepreneurial environment, with high skilled people popping up with new ideas everywhere.

Latin America – A huge opportunity for entrepreneurs

Consumer expenditure per capita of LATAM is 2.3x higher than China and 6.2x higher than India.

A substantial market for new ventures, compared with blocks like US and Europe.

	LatAm		US		Europe	
	2015	2020	2015	2020	2015	2020
Internet Users	332 M	414 M	259 M	290 M	286 M	312 M
Mobile e-Users	231 M	395 M	186 M	235 M	224 M	297 M
B2C e-Commerce	$ 90 B	$ 367 B	340 B	590 B	283 B	567 B
Bancarization	51%	75%	94%	97%	95%	98%

Sources : Nxtp Labs

Latin America as a regional business unit, is a relatively new phenomenon.

Until very recently Latin America was subject to multiple-country strategies. Companies might pursue increased business within individual countries, but did not consider the potential synergies and growth that could come from viewing these countries as a region.

Many managers of Latin American business now realize that there are advantages to pursuing a unified regional strategy -- including maximum levels of return on brands, products, service deployment and consumer cultivation.

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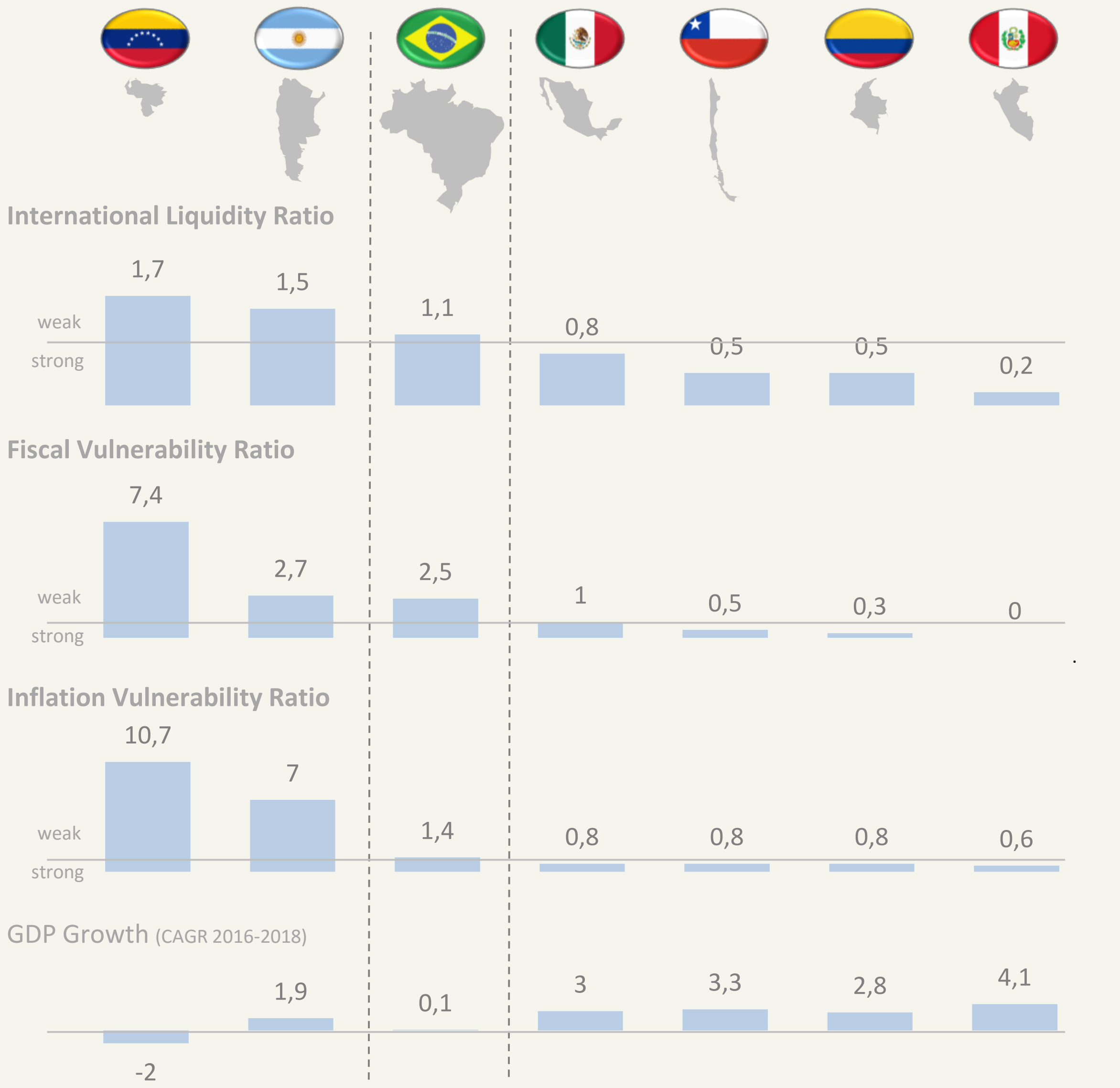
Latin America – Macroeconomic overview

Despite the end of the super commodity cycle and its consequences for the majority of developing countries, economic conditions are mixed in LatAm.

Mexico and "Pacific Club" has a great outlook, Argentina may se a recover after long years of populism.
Brazil is passing through a turmoil because of its Fiscal and Inflation outlooks.

Venezuela is still a deception due to it's political arrangements and the plunge in oil prices, despite its huge potential.



Assessing overall macroeconomic vulnerability in these three (Liquidity, Vulnerability and GDP Growth) macroeconomic dimensions divides the region into three prototypical clusters.

The first group—Chile, Colombia, Peru and Mexico—has full access to international markets and strong macroeconomic fundamentals—i.e., a strong international liquidity and fiscal position and a positive inflation outlook.

The second group—Argentina and Venezuela—has limited access to international financial markets and weak macroeconomic fundamentals, indicating a vulnerable international liquidity and fiscal position, and a negative inflation outlook.

Finally, Brazil can be classified as a third and intermediate case. It has full access to international financial markets but displays vulnerabilities in some macroeconomic dimensions—especially on the fiscal front—that although quantitatively distinct to those of countries with weak macroeconomic fundamentals, is not exactly aligned with the group of countries with strong fundamentals

Sources : Latin America Macroeconomic Outlook A Global Perspective, World Bank

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Demography, good balance between consumption and commodities and stronger political institutions, are factors that gives an edge for LatAm over other developing regions.

Latin America – Investment thesis foundations

Main Factors

1. Favorable demographics, as young and growing populations across the region (over 400 million people) enter the workforce.
2. Sustainable growth, driven by demographic forces and two decades of improved economic, fiscal and monetary policies.
3. Increasing affluence, as personal wealth and incomes rise with economic growth.
4. Greater housing affordability for millions of potential new buyers
5. Relevant position in agricultural and mining exports
6. Pick up in exports, boosting industrial sector due to currency devaluation and Pacific Alliance

Attractive Sectors

- Financial Services
- Consumer Goods
- Industrial Sector
- Infrastructure
- Real Estate
- Start Ups
- IT
- Agribusiness

In a lot of emerging markets, investor interest is receding. Latin America offers advantages to investors that other markets do not. As a region, it’s more diverse, with a better balance between consumers and commodities than, say, Turkey, where 75 percent of the economy is driven by consumption, or Russia, which is commodity-dependent.

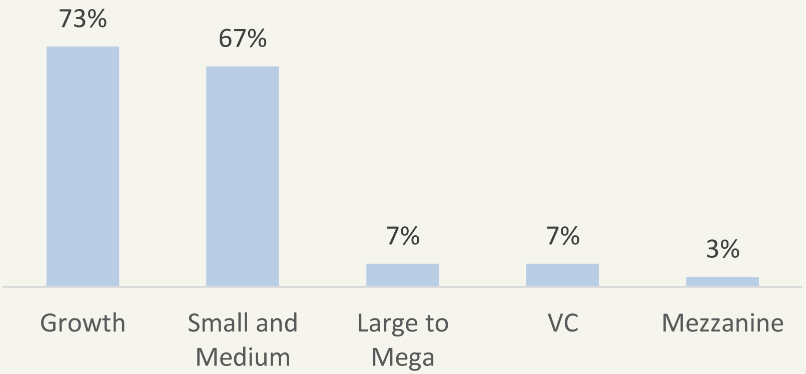
Improved political institutions, huge consumer market (in terms of disposable income), growing middle class, huge availability of natural resources are long term conditions to boost a variety of industries across the spectrum of economical activities.

With lots of gaps to be filled, like other developing countries, we expect LatAm to be a hub of investments for companies and portfolio managers with long term view.

Additionaly, the region has an emerging entrepreneurial class well educated, ambitious with big goals to be met.

The recent current devaluation and Pacific Alliance may also be good catalysts to put LatAm industrial sector in better position within the global value chains and boost economic diversification.

Fund Strategy - Presenting Best Opportunities in LatAm



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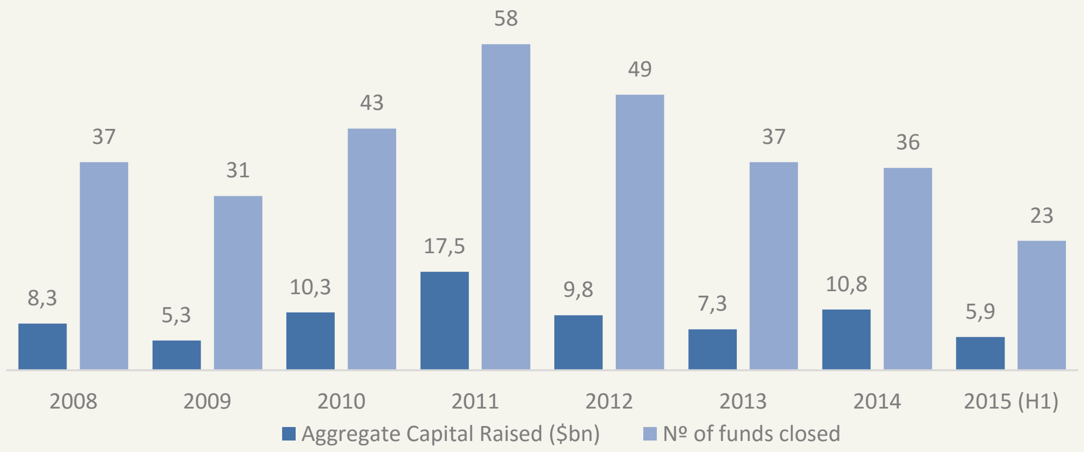
Latin America – PE/VC Capital Inflow

LatAm has attracted a considerable amount of private equity investment but still represent a small part of its markets when compared with its business opportunities.

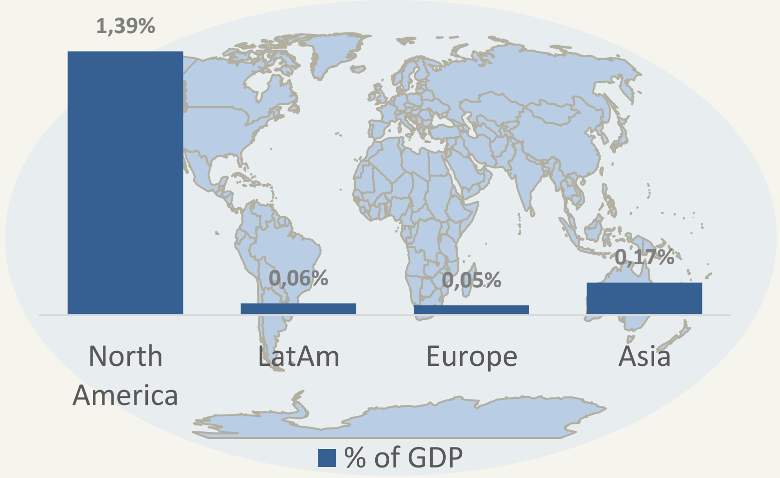
The prospect of high IRR in businesses through the region and lower return rates on developed countries and China, may improve capital flows for the region.

Fundraising for Latin America focused Private Equity (2008 – 2015)



Latin American private equity and venture capital fundraising, investment, and exits increased year-on-year in 1H 2015, according to data released by the Latin American Private Equity & Venture Capital Association (LAVCA). Fundraising increased 21% with firms raising an aggregate US$4.27b (projection US$5,9b), investments were up 39% with US$3.58b being deployed, and exits generated US$1.74b in proceeds, an 8% increase compared to 1H 2014. PE/VC firms active in Latin America are putting money to work in new and follow on deals, particularly in Brazil where an environment of adversity is creating new opportunities for investors."

Aggregate capital for PE funds in 2014 by region (% of GDP)



Latin America's PE investment as a percentage of GDP remains low relative to US and Asia, and the region's emerging middle class continues to represent a powerful force. Alternative sources of capital funding for SME businesses remain underdeveloped, while entrepreneurs and family owners grow increasingly accustomed to working with private equity. Indeed, many PE firms are seeing opportunity amid the volatility and the chance to put assets to work in an environment of increasingly attractive valuations for both sides, as is opportunity to invest dollars in funds that will make investments in heavily depreciated local currencies. As such, while the mainstream hype surrounding Latin America may be waning, PE investors may now be seeing one of the most interesting investment climates in recent memory.

Fonte: Preqin

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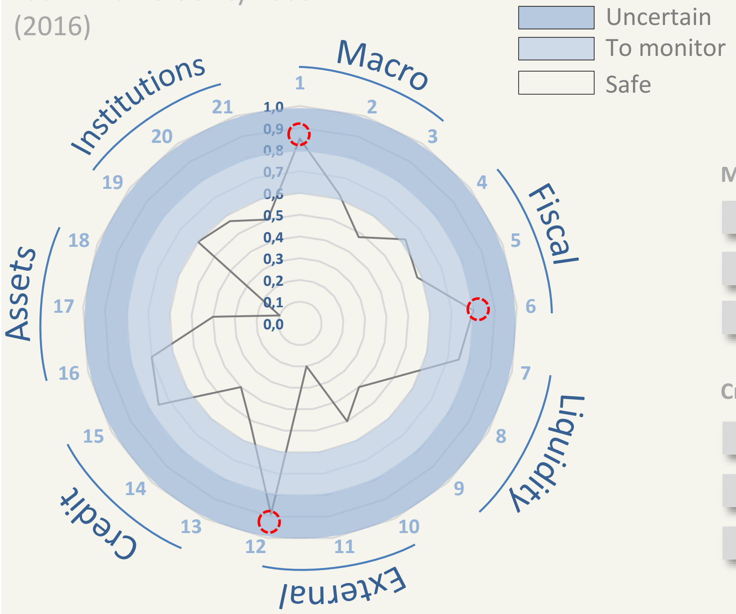
Despite the opportunity, there are many obstacles that LatAm entrepreneurs have to overcome to put foreign capital to work in the region.

Latin America – Investors concerns

1. Economic contamination of China's possible hard landing
2. Inflation risks through currency devaluation transmission chanel
3. Lack o proper comunication and transparency
4. Government internvention policy and its consequences for Public debt

LatAm Vulnerability Radar (2016)



Macro		Fiscal		Liquidity		External	
1	GDP (yoy%)	4	Structural Balance(%)	7	Debt by Non Res (%total)	10	Ext Debt (%GDP)
2	Prices (yoy%)	5	Int Rate-GDP (yoy%)	8	Fin. Needs (%GDP)	11	RER Apprec. (yoy%)
3	GDP (yoy%)	6	Pub. Debt (%GDP)	9	Fin Pressure (yoy%)	12	CA Balance (%GDP)

Credit		Assets		Institutions	
13	Household (yoy%)	16	Priv Credit (yoy%)	19	Political Stability
14	Corporate (yoy%)	17	Housing Px (yoy%)	20	Corruption
15	Cred to Deposit (yoy%)	18	Equity (%)	21	Rule of Law

Sources : BBVA Research

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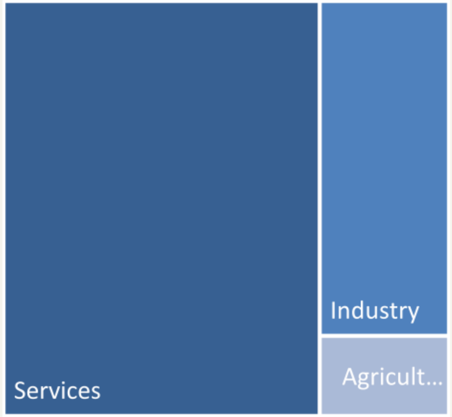
Country Snapshot – Brazil

Brazil is facing one of the most important challenges of its recent history.

A huge dissatisfaction with the workers party economic policies and corruption scandals are leading the country towards right and more orthodox actions.

In the past few years Brazil's economy has disappointed. It grew by 2.2% a year, on average, during President Dilma Rousseff's first term in office in 2011-14, a slower rate of growth than in most of its neighbors. Against that challenging backdrop, however, new PE deal activity held up surprisingly well. PE's continued strength stems from the bifurcated nature of the Brazilian market, which gives PE a seat
at the table in both good and bad economic times. Global PE and VCs are investing in Brazil and taking advantage from the devalued Real.



	2012	2013	2014	2015	2016	2017
Real GDP (% change)	1.9	3.0	0.1	-3.7	-3.0	1.8
Current Account Balance (% of GDP)	-3.5	-3.8	-4.4	-3.8	-2.7	-2.6
CPI (eop, % change)	5.8	5.9	6.4	10.7	7.0	5.5
Government Fiscal Balance (% of GDP)	-2.6	-3.1	-6.2	-9.5	-7.0	-6.0
Government Debt (% of GDP)	64	62	65	70	72	75
Population (million people)	199	201	203	204	206	208
Nominal GDP (USD bn)	2,429	2,408	2,372	1,691	1,505	1,454
GDP per Capita (USD)	12,206	11,980	11,685	8,289	7,306	6,990
Exchange Rate USDBRL (eop)	2.05	2.36	2.66	3.96	4.30	4.50
Central Bank Interest Rate (eop)	7.25	10.00	11.75	14.25	15.00	14.00
Trade Balance (USD bn)	19	2	-4	5	15	15
Foreign Reserves (USD bn)	379	376	374	370	375	380

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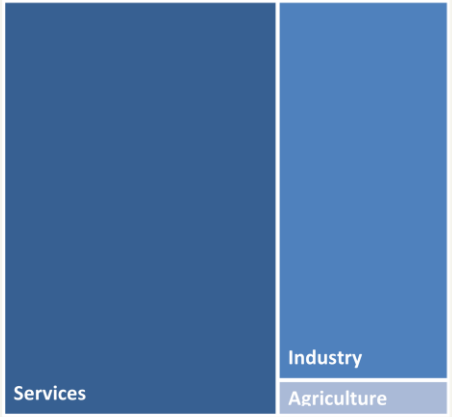
GDP is growing below its nearest average but still showing the highest GDP per capita in LatAm

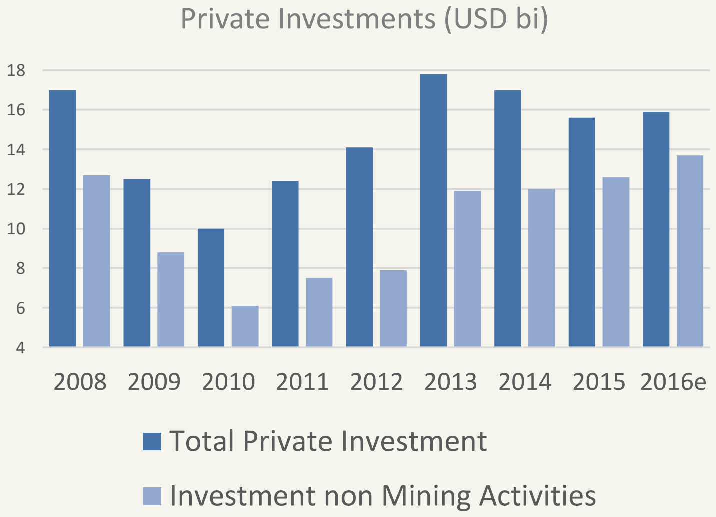
Recently, we see downward adjustments in GDP growth trend, stabilizing around 3,5% yearly till 2018.

Country Snapshot – Chile

Chile has been one of Latin America's fastest growing economies over the past two decades. Per capita income has more than doubled in real terms, and the poverty rate was more than halved. However, the economy's heavy dependence on mining and related exports left it vulnerable when commodity prices plummeted. The outlook for the economy is moderately positive with private fixed investment gradually rising. Growth of real GDP should steadily rise, reaching 4.0% per year in the medium term. Officials have made education, innovation and other types of human capital development a priority but public spending is likely to be cut back over the next several years.



	2012	2013	2014	2015	2016	2017
Real GDP (% change)	5.5	4.2	1.9	2.1	1.9	2.9
Current Account Balance (% of GDP)	-3.6	-3.7	-1.2	-1.7	-2.6	-3.4
CPI (eop, % change)	1.5	2.9	4.6	4.4	3.3	3.0
Government Fiscal Balance (% of GDP)	0.7	-0.5	-1.5	-3.3	-3.0	-2.5
Government Debt (% of GDP)	12	13	15	18	20	22
Population (million people)	17	18	18	18	18	18
Nominal GDP (USD bn)	266	273	255	235	233	248
GDP per Capita (USD)	15,647	15,167	14,167	13,056	12,944	13,778
Exchange Rate USDCLP (eop)	479	525	606	709	710	708
Central Bank Interest Rate (eop)	5.00	4.50	3.00	3.50	3.75	4.25
Trade Balance (USD bn)	2.3	1.8	7.8	4	3	6
Foreign Reserves (USD bn)	42	41	40	39	40	41



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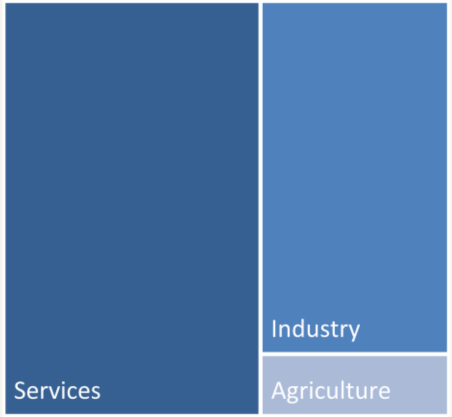
Country Snapshot – Colombia

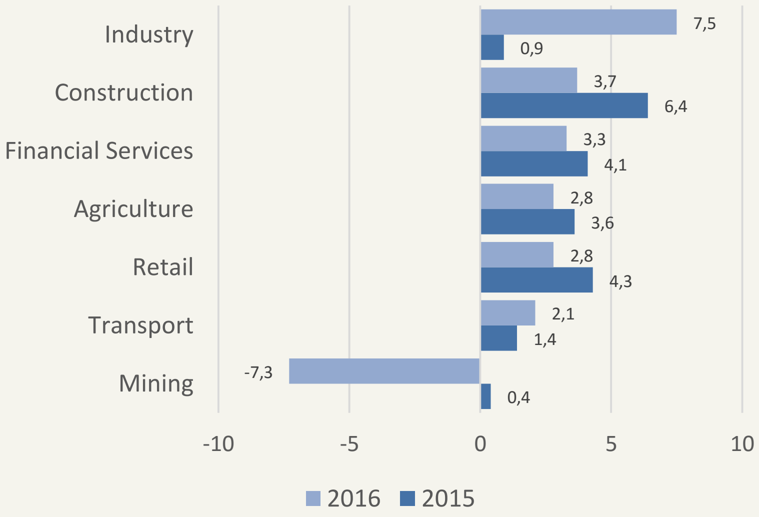
- Doubled its GDP per capita during the last decade;
- Reduced unemployment and inflation to single figures;
- Increased by five times the size of its international trade during the last five years, almost doubling its exports alone during the same period;
- Increased sevenfold the amount of foreign direct investment into the country, making it the 18th best destination in the world (and third in Latin America) for foreign investment.

Colombia has been one of the fastest-growing countries in the region over the past several years. The economy was driven by a boom in oil and mining, along with foreign direct investment in the commodity sector. Growth of real GDP should gradually edge upward, reaching about 4.5% per year in the medium term. Support will come from the government’s infrastructure investment program and improvements in the business climate.



	2012	2013	2014	2015	2016	2017
Real GDP (% change)	4.1	4.9	4.6	3.2	2.9	3.2
Current Account Balance (% of GDP)	-3.0	-3.3	-5.3	-6.3	-5.6	-4.7
CPI (eop, % change)	2.4	1.9	3.7	6.8	5.0	3.0
Government Fiscal Balance (% of GDP)	0.1	-2.3	-2.4	-3.2	-3.5	-3.3
Government Debt (% of GDP)	34	38	44	51	49	48
Population (million people)	47	47	48	48	49	49
Nominal GDP (USD bn)	372	375	367	286	261	258
GDP per Capita (USD)	7,915	7,979	7,646	5,958	5,327	5,265
Exchange Rate USDCOP (eop)	1,767	1,93	2,377	3,175	3,3	3,45
Central Bank Interest Rate (eop)	4.25	3.25	4.50	5.75	6.00	5.00
Trade Balance (USD bn)	1	-1	-9	-10	-7	-5
Foreign Reserves (USD bn)	37	44	48	45	45	47

GDP (%yoy) by Sector



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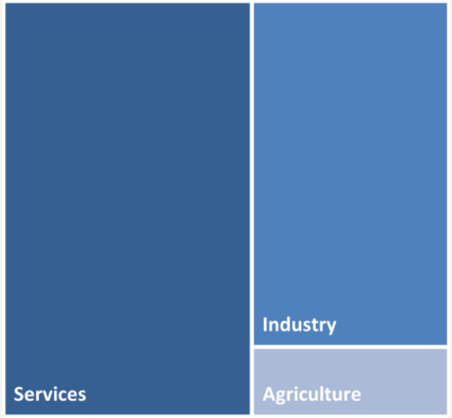
Country Snapshot – Peru

- Sound macroeconomic management and strong policy framework
- Strong macroeconomic fundamentals
- Strong pipeline of investments and developing middle class to drive growth
- Efficient debt management Healthiest balance sheet in its peer group

Peru built significant buffers during the boom years, which have remained strong even after the 2009 financial crisis, subsequent Chinese slowdown and decline in commodity prices. As a result, Peru remains better prepared than regional peers to cope with external and domestic shocks.

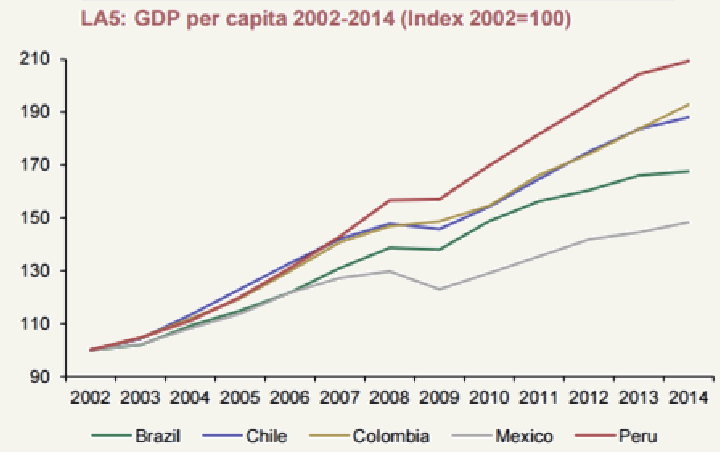
Fast growing economy with low inflation rate versus international peers it has changed to a modern economy with diversified industries and less commodity dependent, driven by private investment.

Peru's public sector balance sheet is the strongest in its peer group and It has delivered solid returns to investors.



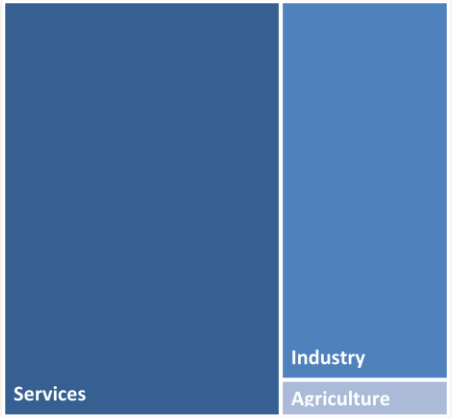
	2012	2013	2014	2015	2016	2017
Real GDP (% change)	5.5	4.2	1.9	2.1	1.9	2.9
Current Account Balance (% of GDP)	-3.6	-3.7	-1.2	-1.7	-2.6	-3.4
CPI (eop, % change)	1.5	2.9	4.6	4.4	3.3	3.0
Government Fiscal Balance (% of GDP)	0.7	-0.5	-1.5	-3.3	-3.0	-2.5
Government Debt (% of GDP)	12	13	15	18	20	22
Population (million people)	17	18	18	18	18	18
Nominal GDP (USD bn)	266	273	255	235	233	248
GDP per Capita (USD)	15,647	15,167	14,167	13,056	12,944	13,778
Exchange Rate USDCLP (eop)	479	525	606	709	710	708
Central Bank Interest Rate (eop)	5.00	4.50	3.00	3.50	3.75	4.25
Trade Balance (USD bn)	2.3	1.8	7.8	4	3	6
Foreign Reserves (USD bn)	42	41	40	39	40	41

GDP per capita increased more than all regional peers



Country Snapshot – Mexico

Real GDP is expected to grow by 2.4% in 2015, up from 2.1% in 2014. Gains in manufacturing, construction and services partially offset problems for oil and other resource industries. Mexico's inclusion in the recently concluded Trans-Pacific Partnership (TPP), a free-trade agreement with countries on the Pacific Rim, is expected to provide a big boost to the economy but it will be several years before significant benefits can be realised.



	2012	2013	2014	2015	2016	2017
Real GDP (% change)	4.0	1.3	2.3	2.5	2.8	3.5
Current Account Balance (% of GDP)	-1.3	-2.3	-1.8	-2.9	-2.9	-2.5
CPI (eop, % change)	3.6	4.0	4.1	2.1	4.5	3.9
Government Fiscal Balance (% of GDP)	-3.8	-3.7	-4.6	-4.0	-3.8	-3.5
Government Debt (% of GDP)	43	46	50	52	52	52
Population (million people)	117	118	120	121	122	124
Nominal GDP (USD bn)	1,248	1,31	1,328	1,163	1,172	1,304
GDP per Capita (USD)	10,667	11,102	11,067	9,612	9,607	10,516
Exchange Rate USDMXN (eop)	12.9	13.0	14.8	17.21	17.52	16.81
Central Bank Interest Rate (eop)	4.50	3.50	3.00	3.25	4.50	5.50
Trade Balance (USD bn)	0	-1	-3	-13	-11	-6
Foreign Reserves (USD bn)	164	177	193	176	190	200

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Colômbian Office (out/16)

Regional Presence

Carlos Martins

From 2011 to 2013, Carlos was manager of the Corporate Finance team at PwC. In 2011, he worked at The Jai Group. From 2009 to 2010, he was a restructuring consultant at Naxentia Consulting, having previously worked in the Private Equity area of Fama Investimentos between 2008 and 2009. He graduated in Engineering from Escola Politecnica da Universidade de São Paulo.

Paulo Margatho

Between 2010 and 2012, was manager of the integration area in Inbrands, linked with the investment fund Vinci Partner, acting as Interim CEO of new acquisitions. From 2008 to 2010 he was a partner / consultant in the restructuring area of Galeazzi e Associados, he worked in the Planning area of Ingersoll Rand between 2006 and 2008. He graduated in Business Administration in Mackenzie University.

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