

Latin American Private Equity Survey

❖ 2015

A UNIQUE PERSPECTIVE ON THE ISSUES AND OPPORTUNITIES
FACING INVESTORS IN PRIVATE EQUITY WORLDWIDE

Coller Capital/LAVCA Survey of Latin American Private Equity

The Survey is a unique snapshot of both domestic and international investors' views of private equity in Latin America.

The Survey captures the views of 113 private equity investors (Limited Partners or LPs) from around the world. The findings are globally representative of the LP population by:

- Investor location
- Type of investing organisation
- Total assets under management
- Length of experience of private equity investing

Contents

Key topics in this edition of the Survey include:

- LPs' appetite for Latin American private equity
- Opportunities/challenges for private equity investment
- Means of accessing Latin American private equity
- LPs' return expectations
- Attractive countries and sectors in Latin American private equity
- The exit market
- Direct investments and co-investing by LPs
- LPs' private equity exposure to real assets
- New GPs' debut Latin American funds
- Influence of ESG considerations on LP investment decisions

Abbreviations

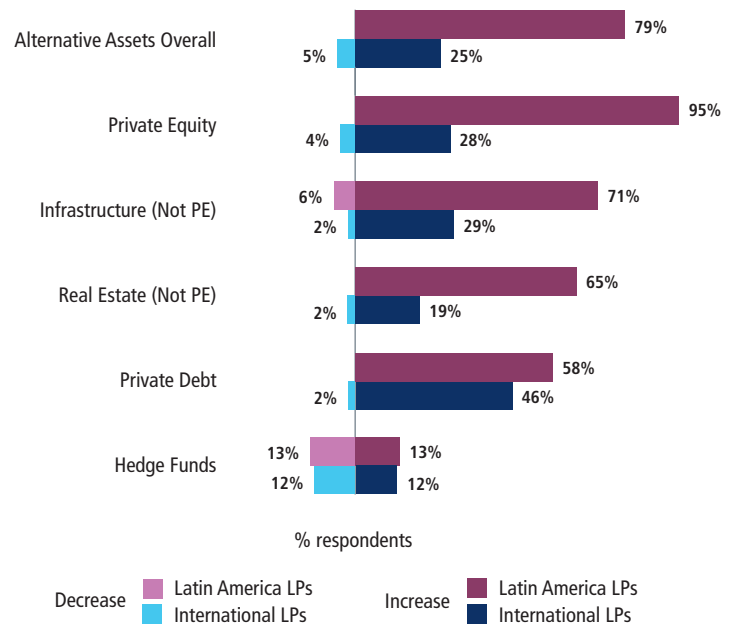
- Limited Partners (LPs) are investors in private equity funds
- General Partners (GPs) are private equity fund managers
- Private equity is used as a generic term covering venture capital, growth capital, buyout and mezzanine investments
- 'International' investors are defined as LPs headquartered outside Latin America

LPs raise their overall target allocations to PE

Both international and Latin American LPs are planning to increase their overall allocations to private equity in the next year. 95% of Latin American LPs intend to increase their target allocation – an increase from 61% of LPs that indicated the same in 2014.

International and Latin American LPs are also planning to increase their exposure to infrastructure, real estate and private debt. LPs' views on hedge funds are more balanced, with equal numbers planning to increase and decrease their target allocations.

LPs' plans for their target allocations to alternative assets in the next 12 months



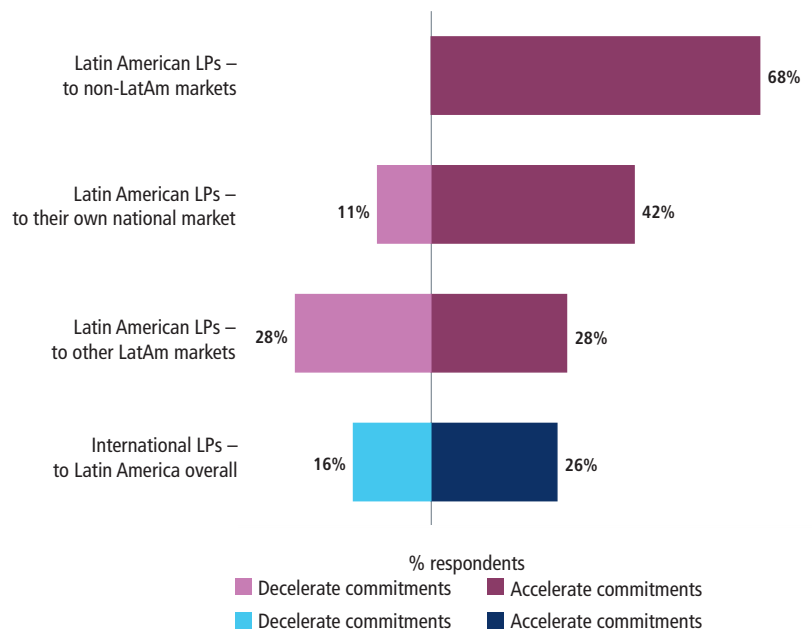
(Figure 1)

New LP commitments to PE are accelerating

A quarter of international LPs plan to accelerate the pace of their commitments to Latin American private equity. And over two thirds of Latin American LPs plan to accelerate their commitments to private equity outside Latin America in the next 12 months.

42% of Latin American LPs plan to speed up commitments to private equity funds dedicated to their own national market. Their plans for other Latin American markets are more balanced, with equal numbers of Latin American LPs intending to accelerate and decelerate their commitments.

LPs' anticipated pace of new commitments to PE in the next 12 months vs the last 12 months



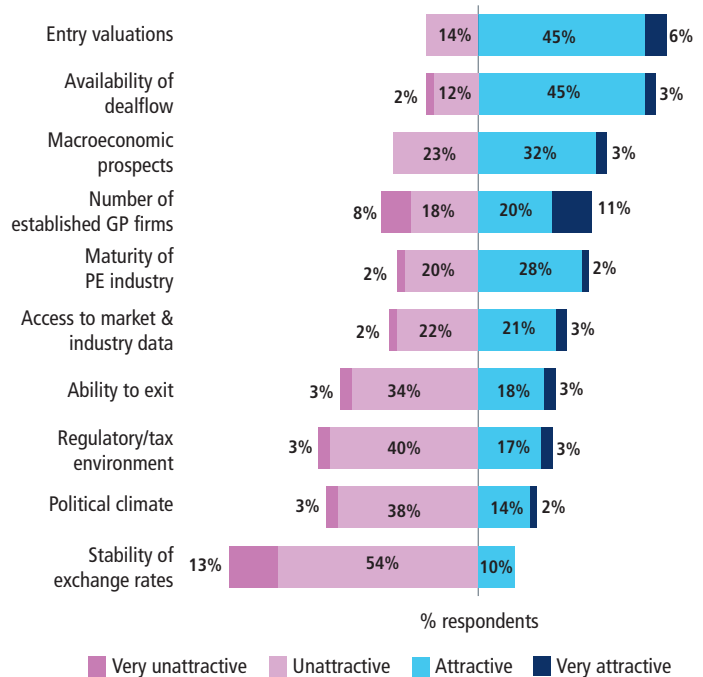
(Figure 2)

LatAm PE entry valuations and dealflow attractive vs other emerging markets

Half of investors in Latin America private equity believe its low entry valuations and good availability of dealflow are particularly strong compared with other emerging markets. Only 14% of LPs see these aspects of Latin American private equity as weaker.

However, LPs view currency volatility, the political climate, the regulatory/tax environment and the ability to exit in Latin America as currently less attractive than those in other emerging markets.

Attractiveness of Latin American PE vs PE in other emerging markets – views of LPs currently invested in Latin American PE

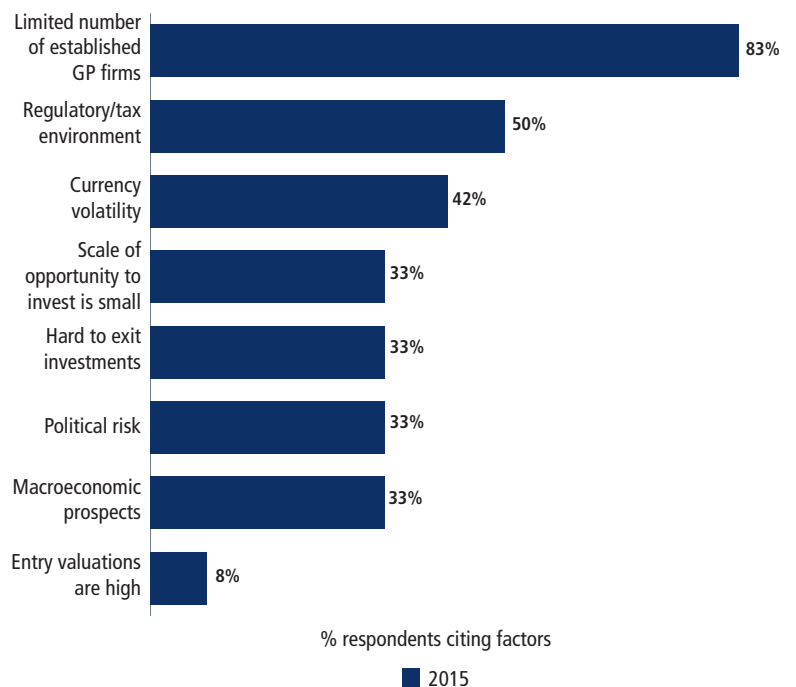


(Figure 3)

Scarcity of established GPs is biggest deterrent to new investors in LatAm PE

Over four fifths of LPs considering a first time investment in Latin American private equity view the limited number of established GP firms as the market's biggest challenge. Entry valuations are no longer viewed as a barrier, with only 8% of LPs citing it as a challenge, compared with 21% in 2014.

Challenges facing PE in Latin America – views of LPs considering a first investment in Latin American PE within the next 5 years

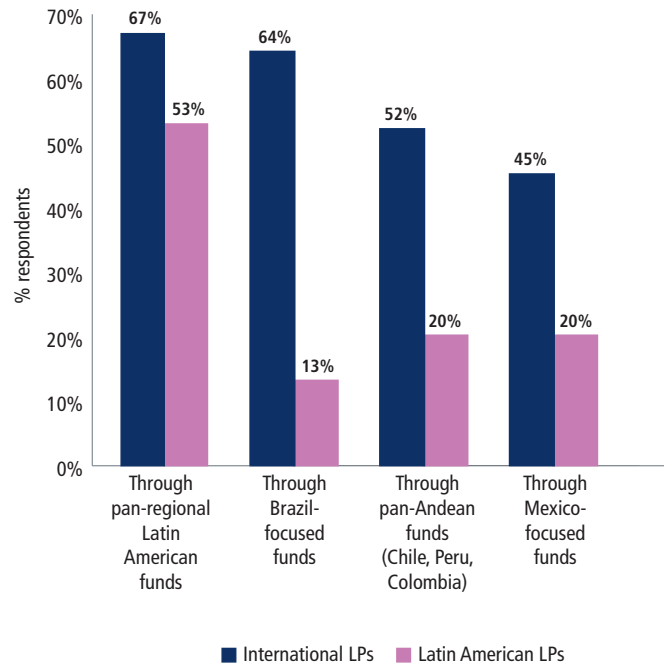


(Figure 4)

Pan-regional funds are most popular access route to LatAm PE

Two thirds of international LPs and just over half of Latin American LPs will be using pan-regionally-focused funds to access Latin American private equity within three years. Significantly more international LPs will invest via Brazil-focused funds (64%) than will Latin American LPs (13%).

Proportion of LPs expecting to access Latin American private equity via particular routes in 3 years' time



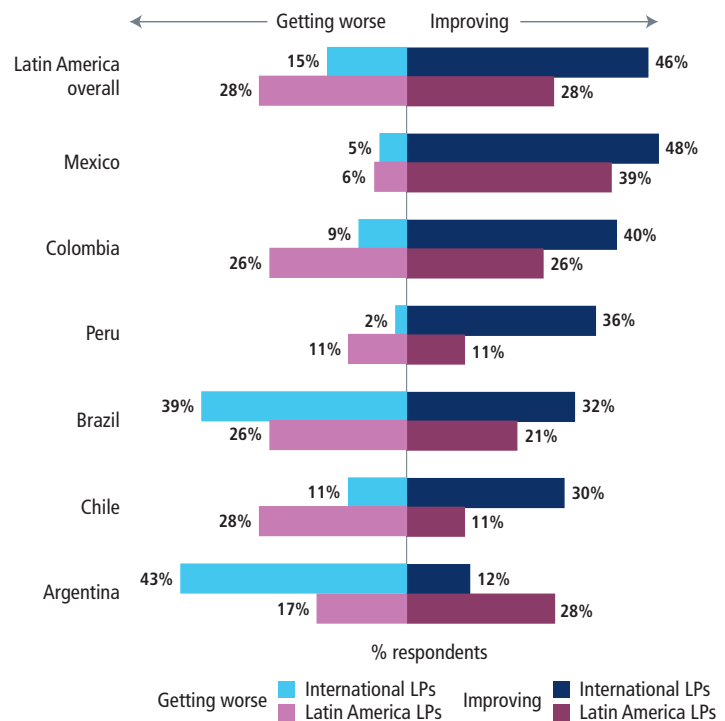
(Figure 5)

International LPs more positive on risk/return balance for LatAm PE

On balance, international LPs believe the risk/return equation is improving, whereas Latin America-based investors are equally split as to whether it is improving or deteriorating.

International LPs take a similarly positive view of risk/reward in Mexico, Colombia, Peru and Chile individually. Latin American LPs are more positive about the risk/return equation in Argentina than are international LPs.

The risk/return equation for Latin American PE – LP views



(Figure 6)

Over two fifths of LPs expect annual net returns of 16%+ from LatAm PE

43% of all LPs with Latin American private equity exposure expect to generate annual net returns of over 16%. Latin American-based investors have still higher expectations, with 56% expecting to generate returns of over 16% from Latin American PE.

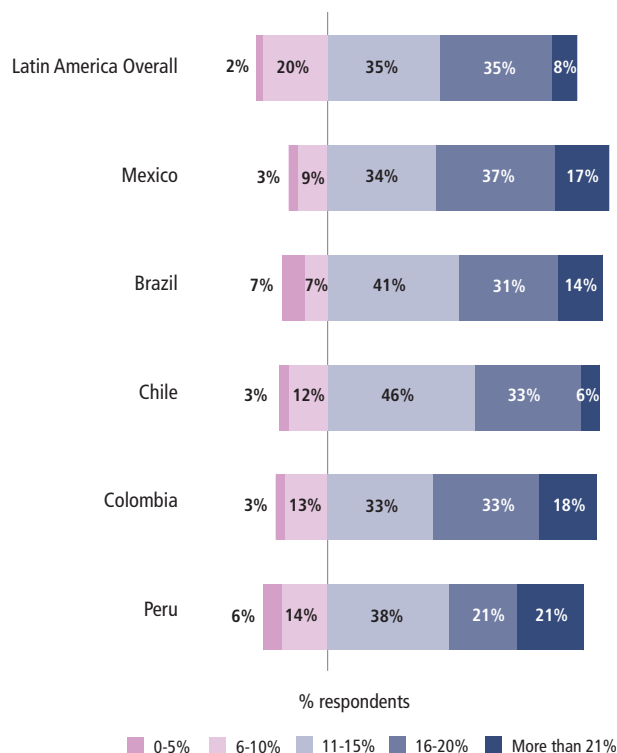
Although there has been a slight softening of return expectations for Colombia and Mexico since 2014, still around half of LPs expect to generate net annual returns of 16%+ from these countries. This compares favourably with global expectations; only 26% of LPs reported that they expected net annual returns of over 16% from their overall private equity portfolios in Collier Capital's *Global Private Equity Barometer for Winter 2014/15*.

Buyouts and growth capital most popular LatAm PE strategies

Within three years around three quarters of all investors in Latin American private equity expect to have exposure through both buyout and growth capital funds.

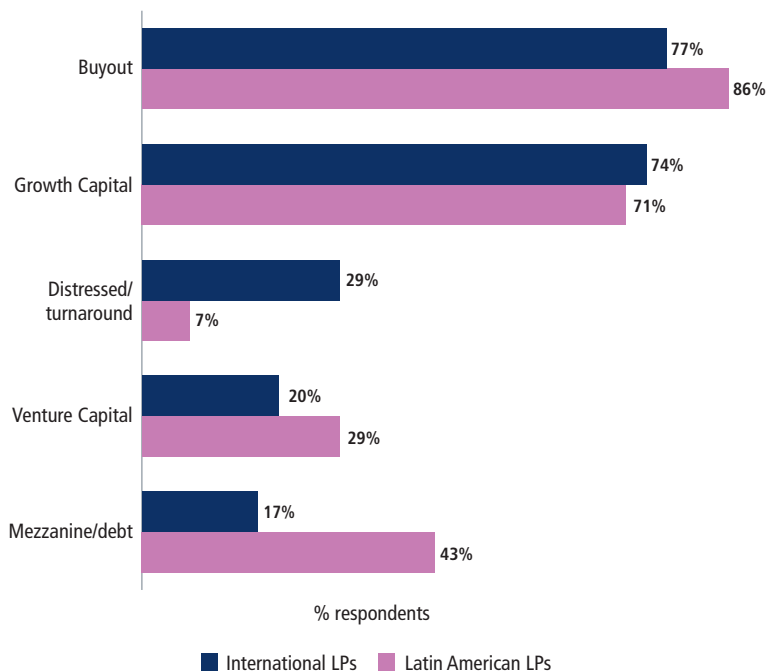
Significantly more international LPs than Latin American ones expect to be invested in distressed/turnaround funds within three years. Conversely, a greater proportion of Latin American LPs expect to have exposure through mezzanine/debt funds than do international investors.

LPs' annual net return expectations for Latin American PE over the next 3-5 years



(Figure 7)

LPs' anticipated exposure to LatAm-focused PE funds in 3 years' time

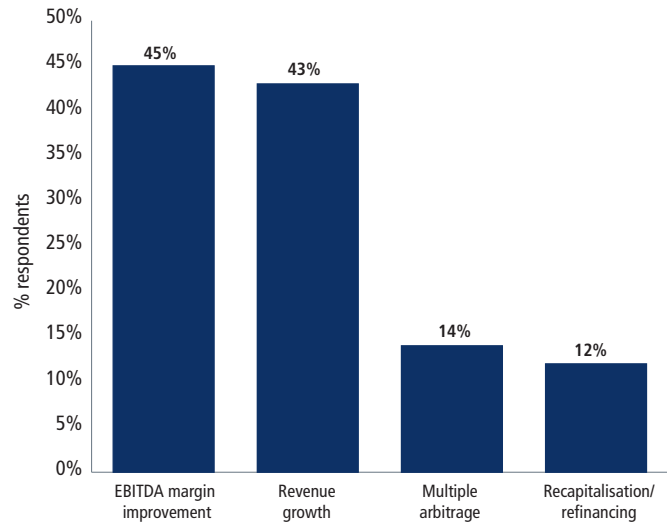


(Figure 8)

Margin improvement and revenue growth seen as most important drivers of PE returns

LPs see EBITDA margin improvement and revenue growth as the most important drivers of Latin American private equity returns, ahead of multiple arbitrage and refinancings.

Important drivers of Latin American PE returns – % of investors citing individual factors



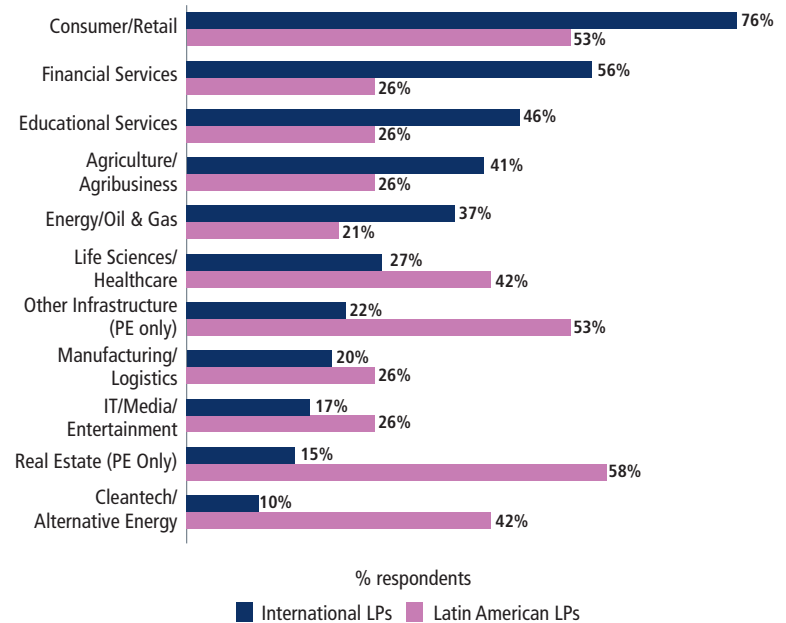
(Figure 9)

LPs see consumer/retail as the most attractive industry sector

International LPs view private equity opportunities in the consumer/retail, financial services and educational services sectors in Latin America more positively than domestic investors do.

Latin American LPs are more positive about private equity real estate, cleantech/alternative energy, life sciences/healthcare and private equity infrastructure than international LPs are.

LP views of attractive sectors for Latin American PE over the next 3 years

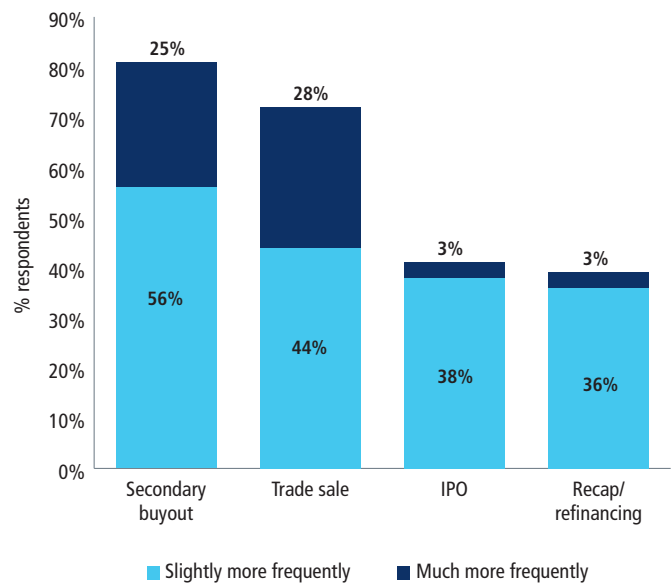


(Figure 10)

LPs see secondary buyouts and trade sales becoming more important exit routes

81% of LPs expect secondary buyouts to be a more frequent exit route for Latin American private equity in the next one to two years. 72% of LPs believe that trade sales will also become a more frequent exit route.

Expected change in exit routes for Latin American PE in the next 1-2 years – LP views

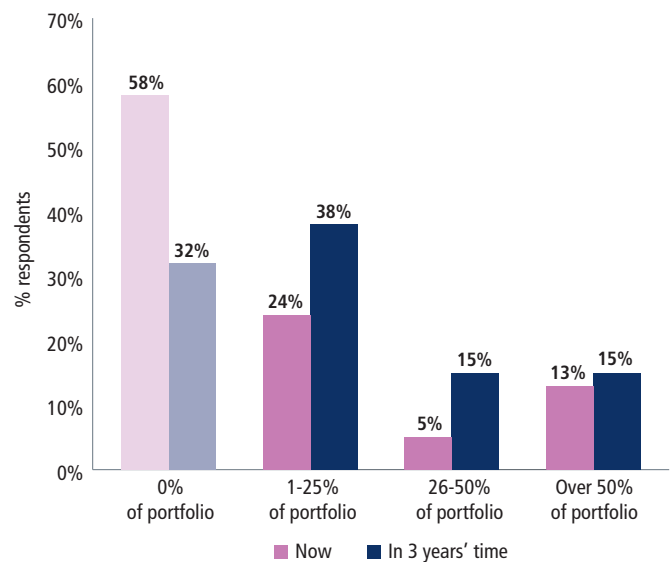


(Figure 11)

Two thirds of LPs will have direct investments in LatAm PE within three years

68% of LPs will have proprietary investments and/or co-investments in Latin American private equity in three years' time. Fewer than half (42%) of LPs currently have direct exposure.

Direct investments as a proportion of LPs' Latin American PE exposure – now and in 3 years' time

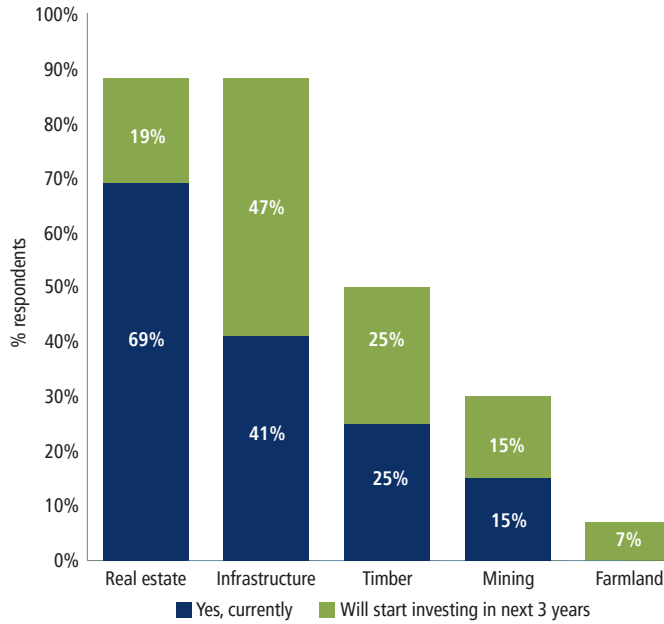


(Figure 12)

Big jump to come in LatAm LPs' PE infrastructure investing

88% of Latin American LPs will have private equity infrastructure investments in the continent within three years – more than doubling the proportion of investors with this kind of exposure.

Latin American LPs with current or planned PE exposure to Latin American real assets

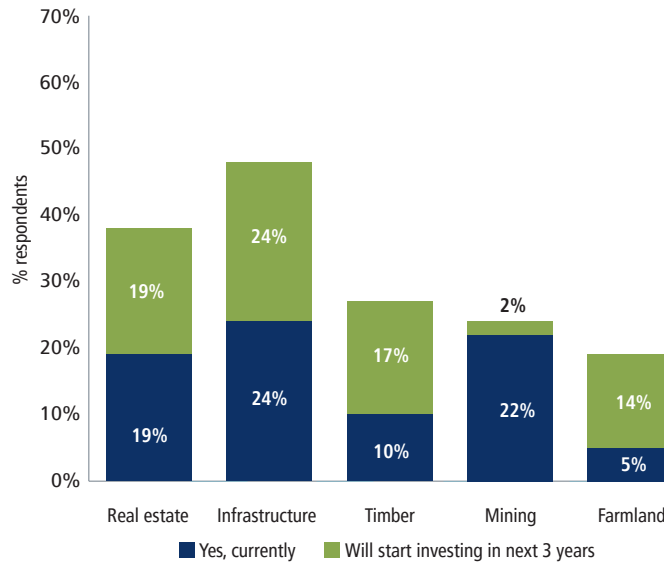


(Figure 13)

International LPs to grow real estate, infrastructure and timber PE holdings

The proportion of international LPs with private equity exposure to Latin American real estate, infrastructure and timber will double over the next three years.

International LPs with current or planned PE exposure to Latin American real assets



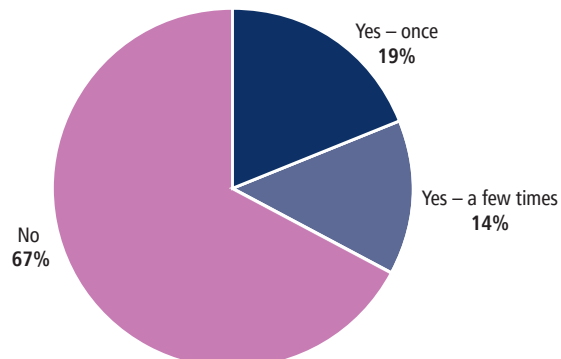
(Figure 14)

One third of LPs have recently invested in new GPs' debut Latin American funds

33% of LPs have invested in one or more debut Latin American-focused funds from new GPs since the global financial crisis.

About the same proportion of investors expect to do this in the next 3-5 years.

LPs investing in debut funds from new Latin American GPs since the global financial crisis

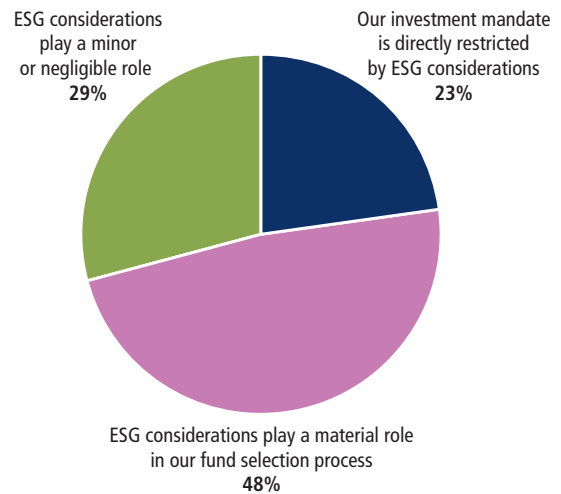


(Figure 15)

Majority of LPs consider ESG issues in fund selection in Latin America

71% of investors in Latin American private equity say that environmental, social and governance (ESG) issues play a role in their fund selection.

Impact of environmental, social and governance (ESG) considerations on LPs' fund selection processes in Latin America



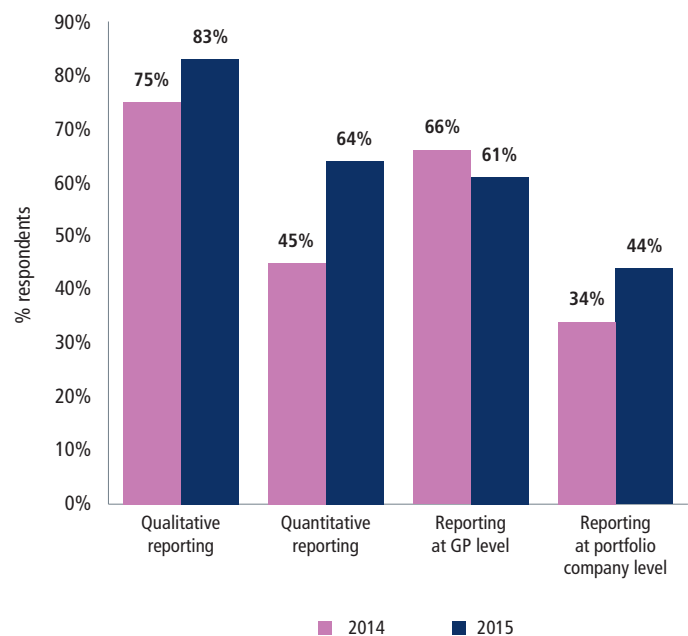
(Figure 16)

ESG reporting requirements becoming more stringent

Three fifths of LPs require some form of ESG reporting from their GPs.

83% of LPs that do require ESG reporting ask for qualitative reporting at the GP level, increasing from 75% of LPs that required this in 2014. More LPs also require quantitative ESG reporting now, with 64% of LPs requesting this, increasing from 45% in 2014.

Types of ESG reports requested by LPs that do request ESG reporting



(Figure 17)

Collier Capital/LAVCA Survey of Latin American Private Equity

Respondent breakdown

The Survey researched the plans and opinions of 113 investors in private equity funds. These investors, based in Latin America, North America, Europe and Asia-Pacific, form a representative sample of the LP population worldwide.

About Collier Capital

Collier Capital is the leading global investor in private equity secondaries – the purchase of original investors' stakes in private equity funds and portfolios of direct investments in companies.

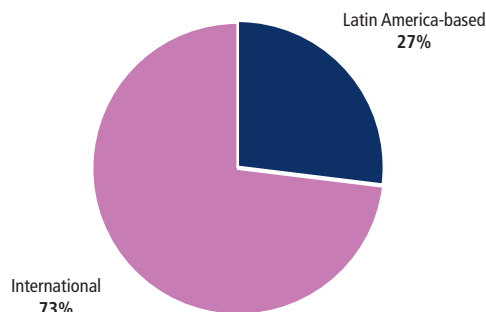
About LAVCA

The Latin American Private Equity & Venture Capital Association (LAVCA) is a not-for-profit membership organisation dedicated to supporting the growth of private equity and venture capital in Latin America and the Caribbean. LAVCA's membership is comprised of over 170 firms, from leading global investment firms active in the region to local fund managers from Mexico to Argentina. Member firms control assets in excess of \$60 billion, directed at capitalising and growing Latin American businesses.

Research methodology

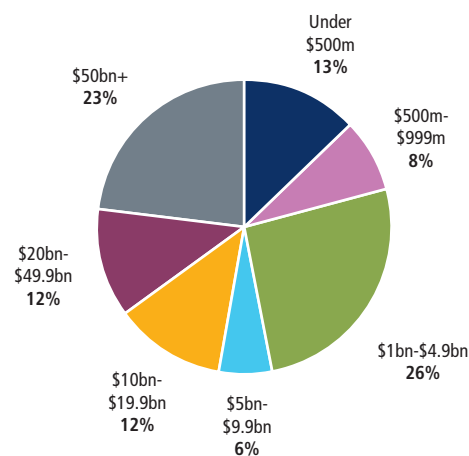
Fieldwork for the Survey was undertaken for Collier Capital and LAVCA in June-July 2015 by Arbor Square Associates, a specialist alternative assets research team with over 50 years' collective experience in the private equity arena.

Respondents by region



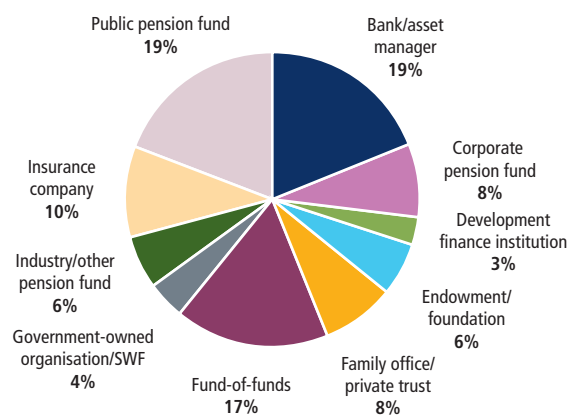
(Figure 18)

Respondents by total assets under management



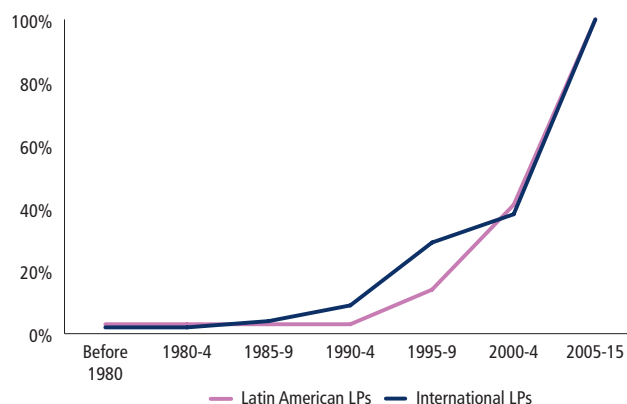
(Figure 19)

Respondents by type of organisation



(Figure 20)

Current investors in Latin American PE – cumulative, by year in which they started to invest



(Figure 21)

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