

Coller Capital



# Latin American Private Equity Survey

❖ 2012

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



# Coller Capital/LAVCA *Latin American Private Equity Survey*

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 105 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
- Means of accessing Latin American private equity
- Drivers of PE returns & LPs' return expectations
- Attractive sectors for Latin American PE
- Influence of ESG considerations on LP investment decisions
- Latin American private equity risk
- Direct investments and co-investing by LPs
- GPs' first Latin American funds
- LPs' use of consultants/gatekeepers
- Opportunities/challenges for PE investment
- LPs' satisfaction with Latin American GPs

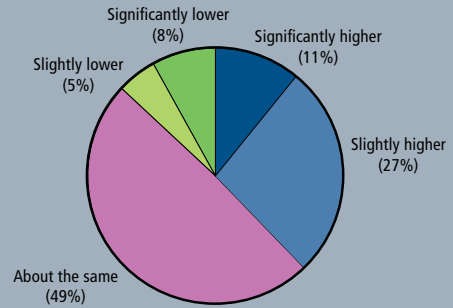
## Abbreviations

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

# Investors are accelerating their commitments to Latin American PE

38% of LPs with exposure to Latin American PE expect the pace at which they make commitments to Latin American PE funds to accelerate in the next 12 months.

LPs' anticipated level of new commitments to Latin American PE in the *next 12 months vs last 12 months*



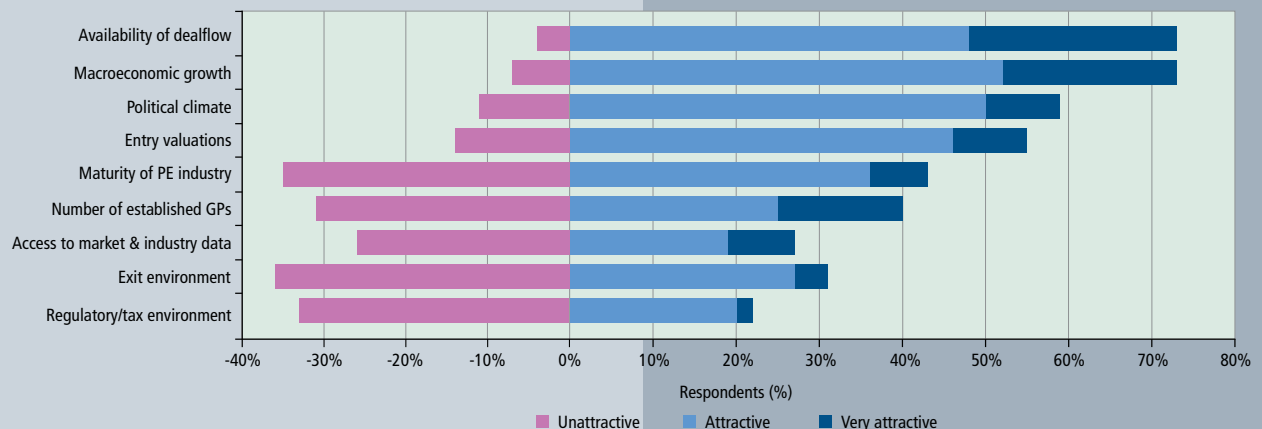
(Figure 1)

# Latin America outscores other emerging PE markets for dealflow and economic growth, say LPs

Three quarters (73%) of LPs with some exposure to Latin American PE see the region's dealflow and economic growth potential as attractive compared with other emerging PE markets. Exit opportunities and the regulatory/tax environment are seen as Latin America's weakest points.

Interestingly, international investors are more impressed by the maturity of the Latin American PE industry and the number of established GPs than domestic LPs are.

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

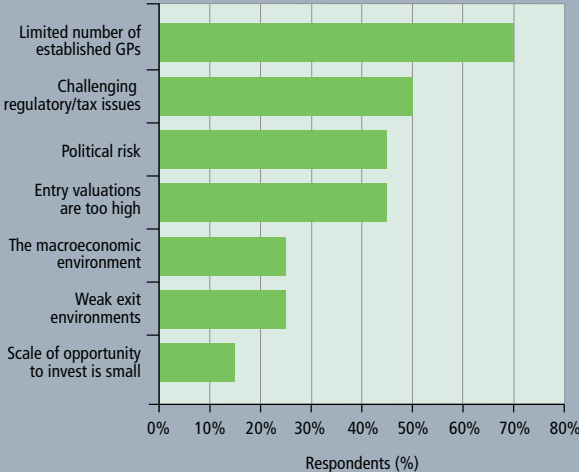


(Figure 2)

# Views of Latin American PE change significantly with exposure

Investors currently invested in Latin American PE find the region's political climate and entry valuations attractive. However, LPs considering a first investment in Latin America see these factors as significant challenges to investment.

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



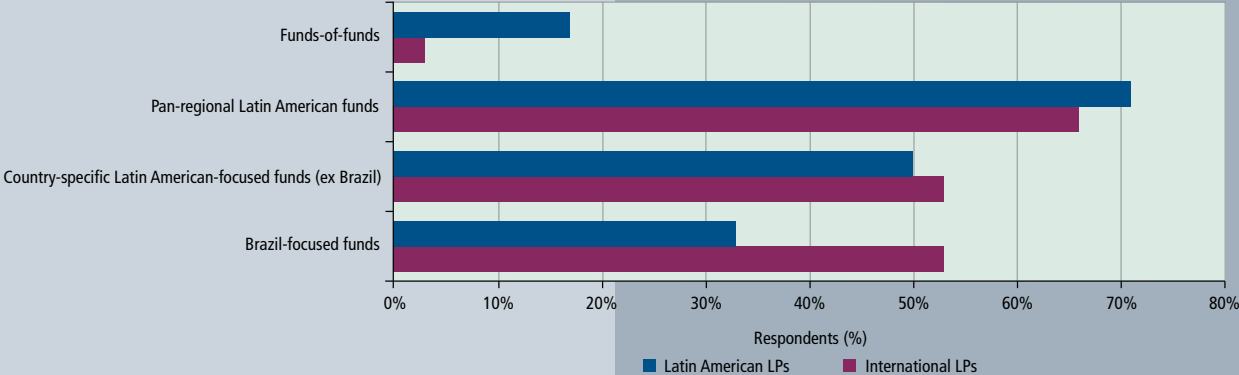
(Figure 3)

# Routes to accessing Latin American private equity

Pan-regional Latin American funds are the most popular method of accessing Latin American PE for both domestic and international LPs.

Half of investors are committed to country-specific Latin American funds.

Accessing Latin American private equity – proportion of LPs investing via particular routes

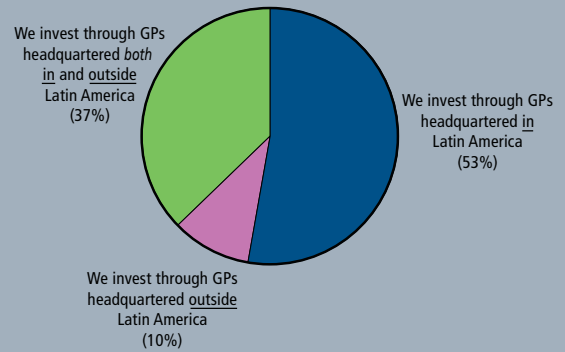


(Figure 4)

## International LPs favour Latin American-headquartered GPs

90% of international investors with exposure to Latin American PE have at least some commitments to GPs headquartered in the region. Half (53%) only invest in Latin America through domestic GPs. Just one in ten LPs with Latin American exposure invest only through GPs headquartered outside the region.

How international LPs access Latin American PE



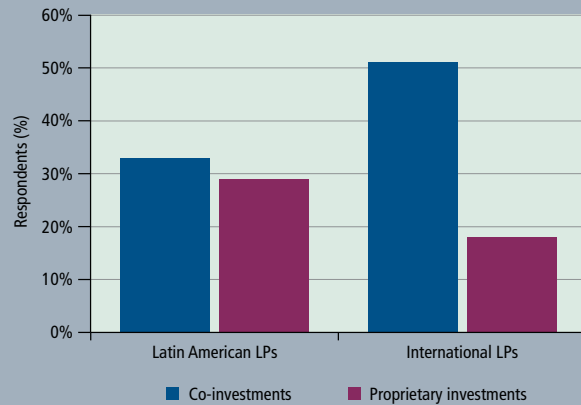
(Figure 5)

## International and domestic LPs take different approaches to direct investing

International LPs that also invest directly into private companies in Latin America favour GP co-investments over proprietary investments. However, Latin American LPs are equally comfortable with both types of direct investment.

It is worth noting that nearly all direct investments into private companies by Latin American LPs are made within their home countries.

LPs making direct investments into Latin American private companies

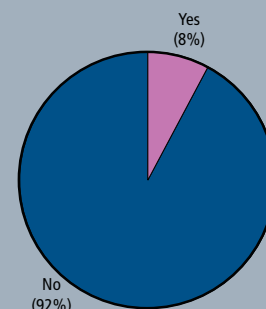


(Figure 6)

## Consultants/gatekeepers little used for Latin American PE

Neither Latin American nor international LPs tend to use consultants or gatekeepers to help them make commitments in the region – only 8% of each group employs such help.

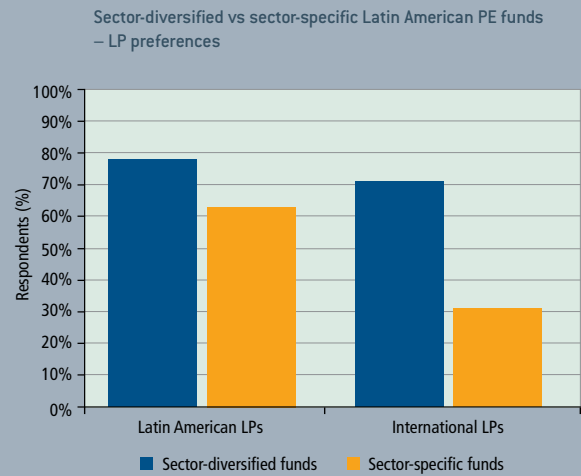
LPs employing consultants or gatekeepers to access Latin American PE



(Figure 7)

## International LPs are less sector-focused than domestic ones

The majority of Latin American LPs invest in both sector-diversified Latin American PE funds (78% of LPs) and sector-specific ones (63% of LPs). International investors, however, prefer sector-diversified funds (71% of LPs) to sector-specific ones (31% of LPs).



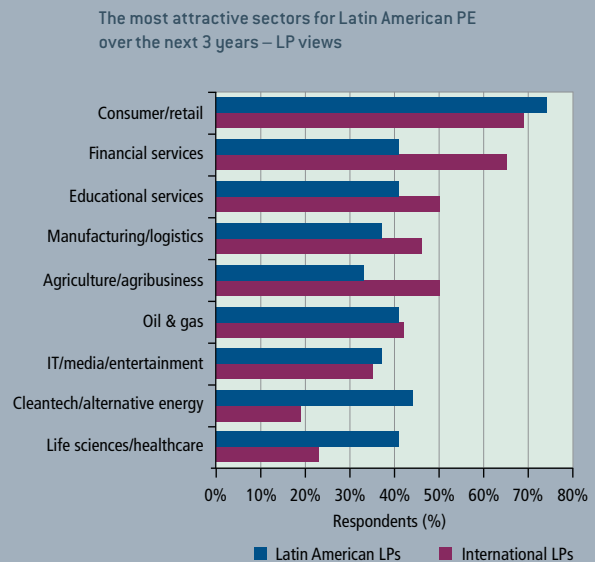
(Figure 8)

## Consumer goods and retail most attractive sectors in next three years, LPs say

Both Latin American and international investors believe the consumer goods and retail sectors offer attractive investment opportunities for GPs in Latin America over the next three years – almost three quarters of LPs say so.

However, there are interesting variations in the views of international and domestic LPs on some other sectors.

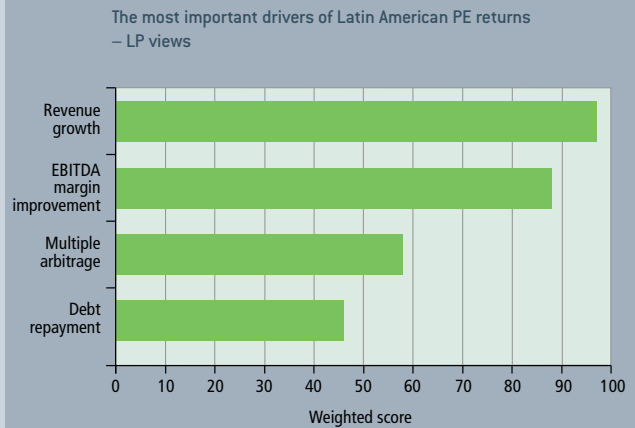
Cleantech/alternative energy and life sciences/healthcare are roughly twice as popular with Latin American investors as with international LPs. Meanwhile, international investors are more enthusiastic about opportunities in the financial services and agribusiness sectors than Latin American LPs are.



(Figure 9)

## Revenue growth and margin improvement drive Latin American PE returns, LPs say

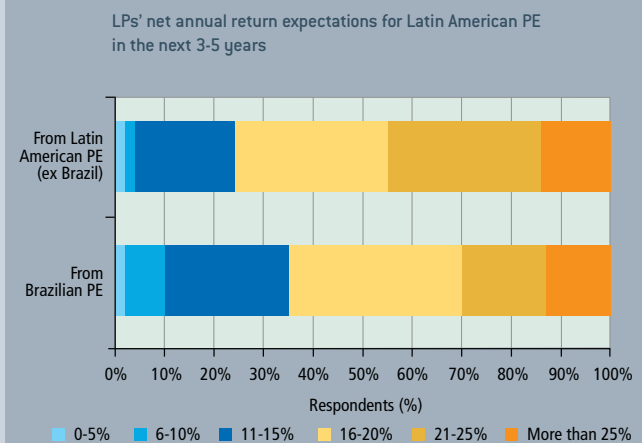
LPs believe revenue growth and margin improvement at portfolio companies are the most important drivers of PE returns in Latin America. Multiple arbitrage and debt repayment are relatively less important.



(Figure 10)

## The majority of LPs expect net returns of 16%+ from Latin American PE

Three quarters (76%) of investors expect net annual returns of 16%+ from their Latin American PE funds (excluding Brazil), and two thirds (65%) expect the same returns from Brazilian PE funds.

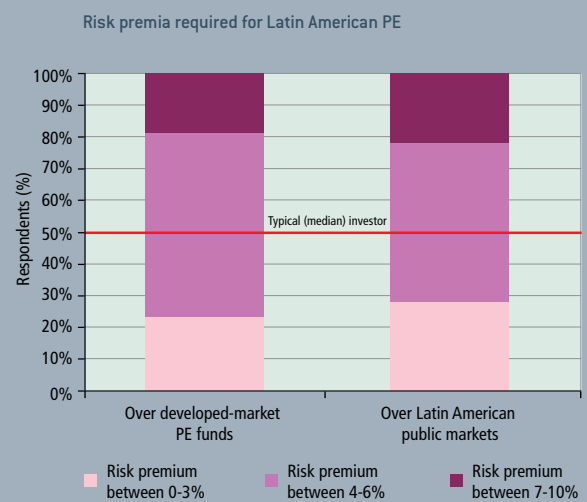


(Figure 11)

Interestingly, for Brazilian PE, more international investors than Latin American LPs expect to achieve net annual returns of 16%+.

## A 5% risk premium is required for Latin American PE

The 'typical' (median) investor in Latin American PE requires a risk premium of about 5% over both developed-market PE funds and Latin American public markets.



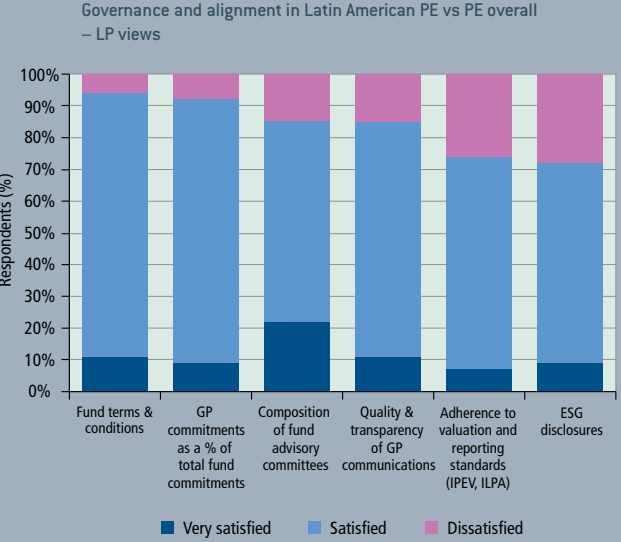
(Figure 12)



# Governance and alignment in Latin American PE compare well with PE overall

Latin American and international LPs alike are broadly satisfied with governance and GP alignment in Latin America compared with PE elsewhere.

The weakest points of Latin American PE in investors' eyes are adherence to recognised valuation and reporting standards and ESG reporting (with domestic investors less satisfied than their international peers) – though even here satisfaction levels are generally good.

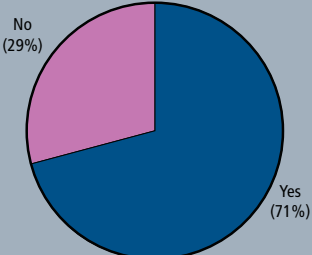


(Figure 13)

# Investors foresee increased importance for ESG in Latin American fund selection

Domestic and international investors alike (71% of LPs) expect environmental, social and governance (ESG) considerations to play an increasing role in fund selection in Latin America over the next 2-3 years.

Likelihood of ESG growing in importance in Latin American fund selection over 2-3 years – LP views

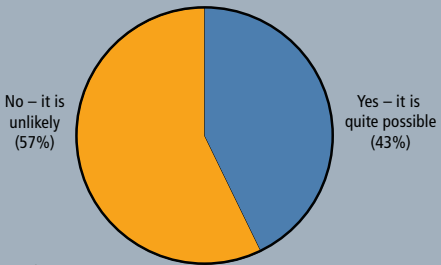


(Figure 14)

# Two fifths of LPs would consider investing in a GP's first Latin American fund

43% of LPs say it is quite possible they would invest in a GP's first Latin American fund. (Views were similar among both domestic and international LPs).

The likelihood of LPs investing in a GP's first Latin American fund



(Figure 15)

Development Finance Institutions and funds-of-funds seem most willing to consider first-time funds.

# Coller Capital/LAVCA Latin American Private Equity Survey

## Respondent breakdown – 2012

The *Survey* researched the plans and opinions of 105 investors in private equity funds. These investors, based in Latin America, North America, Europe and Asia-Pacific, form a representative sample of LPs investing in Latin American PE.

## About Coller Capital

Coller Capital is the leading global investor in private equity 'secondaries' – the acquisition of positions in private equity funds from the original investors and of portfolios of companies from corporate or institutional owners.

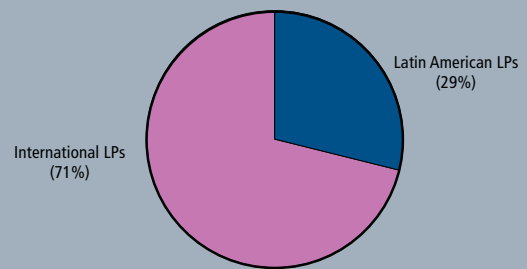
## About LAVCA

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 130 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 \$50 billion, directed at capitalising and growing Latin American businesses.

## Research methodology

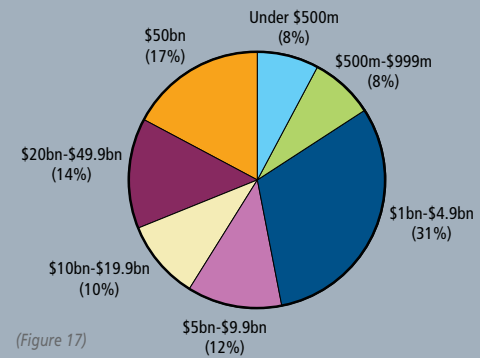
Fieldwork for the *Survey* was undertaken for Coller Capital and LAVCA in June-July 2012 by Arbor Square Associates, a specialist alternative assets research team with over 50 years' collective experience in the PE arena.

Respondents by region



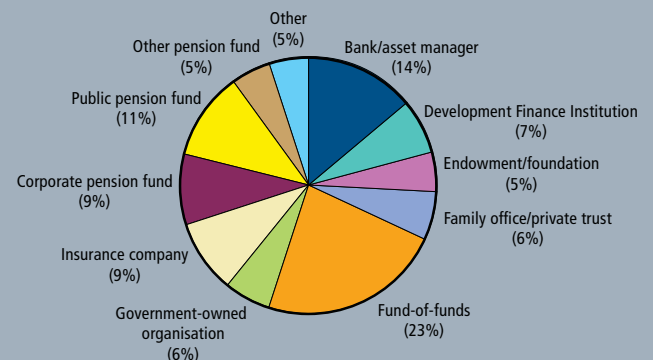
(Figure 16)

Respondents by total assets under management



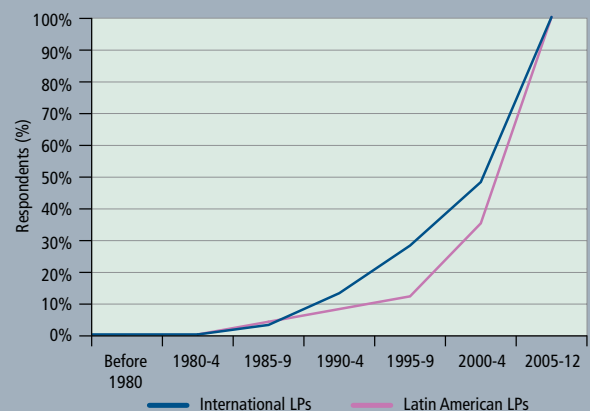
(Figure 17)

Respondents by type of organisation



(Figure 18)

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



(Figure 19)





[www.collercapital.com](http://www.collercapital.com)



[www.lavca.org](http://www.lavca.org)