

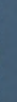
Coller Capital



Latin American Private Equity Survey

◆◆◆ 2014

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 131 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:

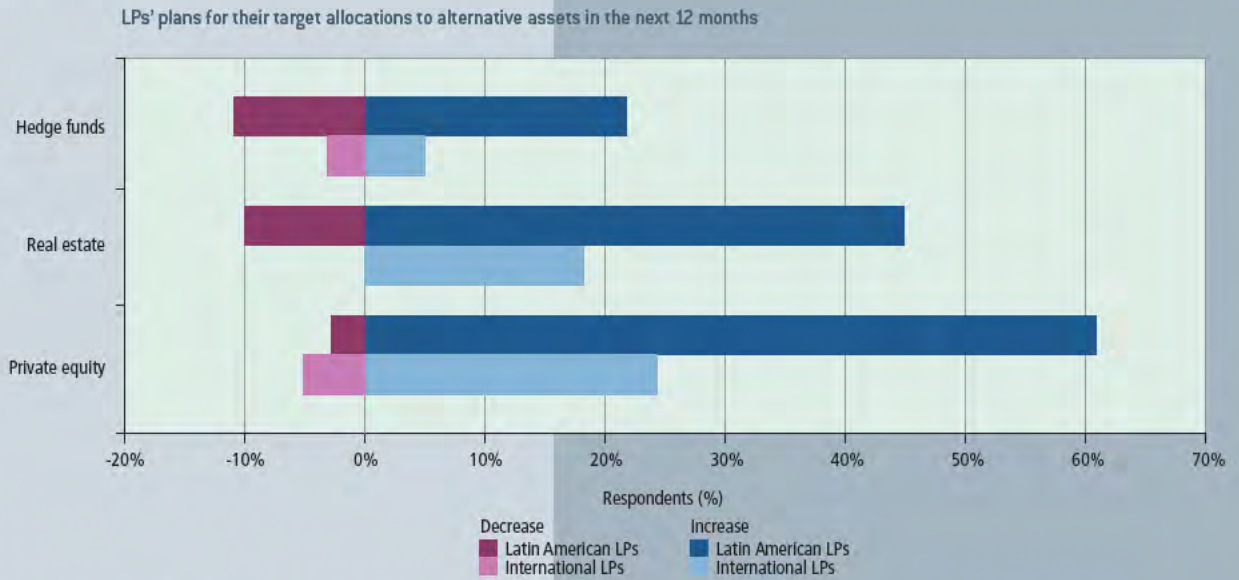
- LPs' appetite for Latin American private equity
- Opportunities / challenges for PE investment
- Attractive countries and sectors in Latin American PE
- Means of accessing Latin American private equity
- Direct investments and co-investing by LPs
- LPs' views on non-control / minority investments
- LPs' return expectations
- The exit market
- LP interest in 'first time' Latin American funds
- LPs' satisfaction with Latin American GPs
- Influence of ESG considerations on LP investment decisions

Definitions

- 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 are defined as LPs headquartered outside Latin America

Overall target allocations to PE and RE are rising

LP target allocations to private equity and real estate as asset classes are expected to rise over the next year. This is particularly true for Latin American LPs – 61% of whom expect to increase their allocation to private equity. Overall, investor appetite for hedge funds is stable, but the proportion of *Latin American* LPs planning an increased allocation to hedge funds has fallen from 55% in 2013 to 22% in 2014.

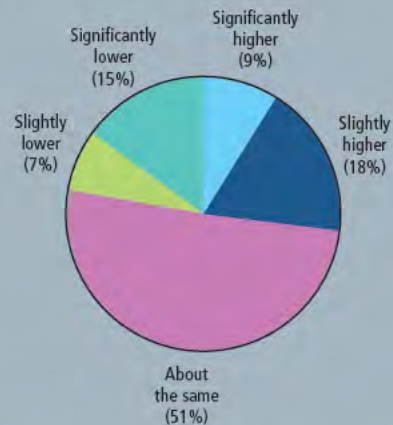


(Figure 1)

Pace of new commitments to Latin American PE funds to hold steady

78% of LPs with exposure to Latin American PE plan either to maintain or accelerate their commitments to Latin American PE funds in the next 12 months – compared with 22% planning a slowdown in their pace of new commitments.

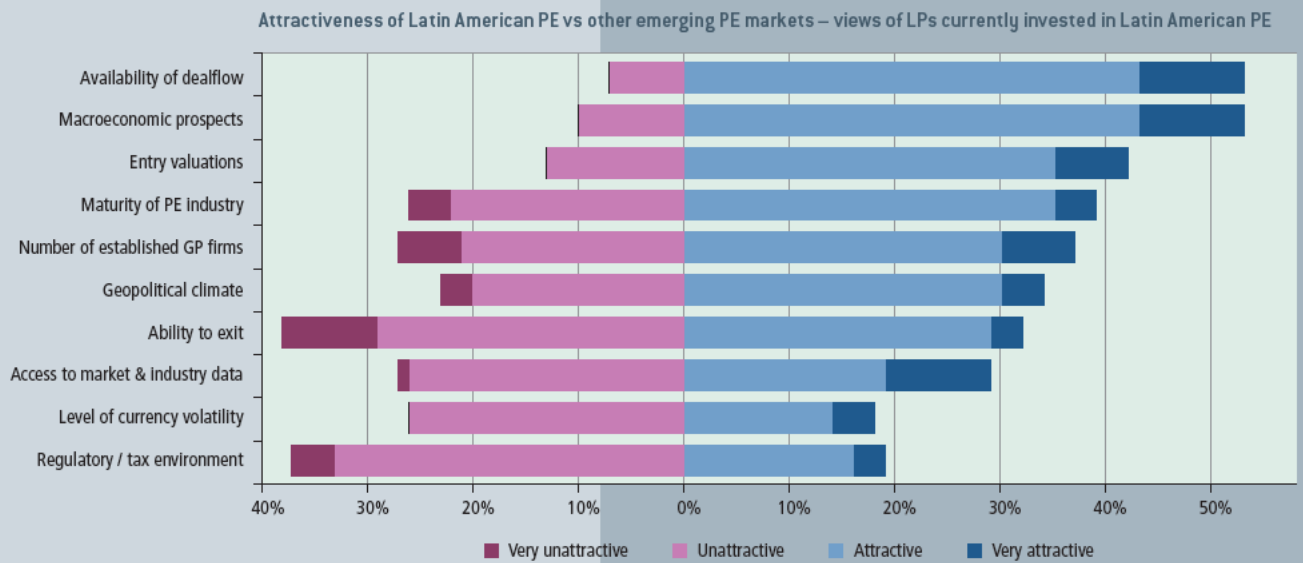
LPs' anticipated level of new commitments to Latin American PE in the next 12 months vs the last 12 months



(Figure 2)

Latin America remains attractive vs other emerging markets, but exits are challenging

Macroeconomic growth, availability of deal flow and entry valuations continue to look attractive to investors with Latin American PE exposure when compared with PE in other emerging markets. However, the climate for exits has become more challenging since last year.

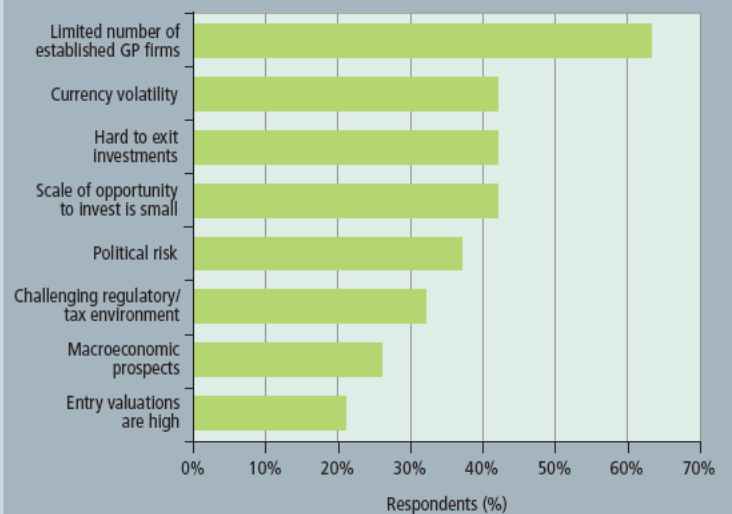


(Figure 3)

The limited number of established GPs remains the main issue for prospective LPs

Investors considering a first commitment to Latin American PE within the next five years continue to see the limited number of established GPs as the main obstacle to investing. However, existing investors in Latin American PE view the region as slightly better than other emerging markets in this regard.

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



(Figure 4)

Colombia, Mexico and Peru are still viewed as the most attractive Latin America PE markets

Half of LPs believe Colombia and Mexico will be very attractive markets for PE over the next two years, while over a third think the same about Peru.

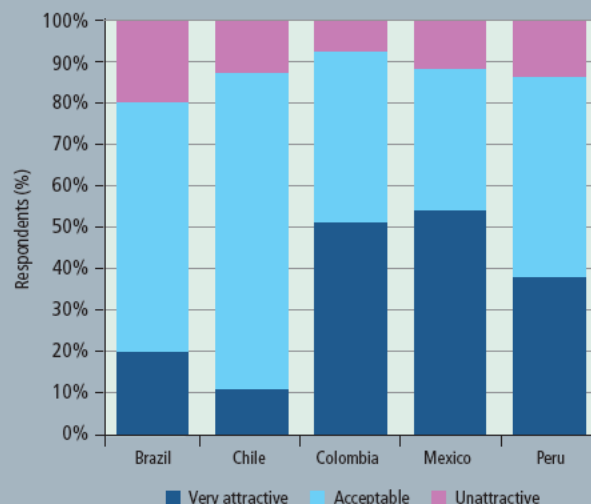
However, there are some divergent views between Latin American and international LPs – with the former more positive about investment opportunities in Mexico and Peru, and more wary about those in Brazil, than their international colleagues.

The risk/return equation for Latin American PE is improving, LPs think

Half of LPs think the overall risk/return equation is improving in Latin America – with similar views expressed by both Latin American and international LPs. For Mexico, Colombia and Peru, significantly more LPs see this equation improving rather than worsening.

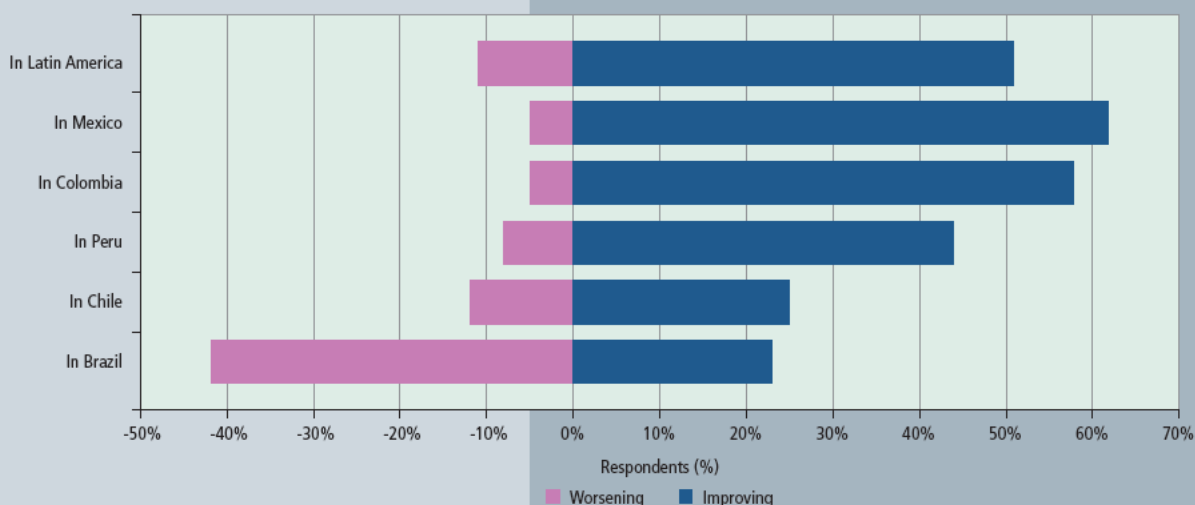
On the other hand, investors overall see the risk/return ratio worsening in Brazil (although international investors are more optimistic about Brazil than Latin American LPs).

The attractiveness of Latin American markets for GP investment over the next 1-2 years – LP views



(Figure 5)

The risk/return equation in Latin America – LP views



(Figure 6)

Domestic and international LPs favour the consumer/retail sectors, but differ on some other industries

A majority of Latin American and international investors believe the consumer goods/retail sector offers attractive investment opportunities for GPs in Latin America over the next three years. The biggest change in view over the year has been an improving outlook for the agriculture/agribusiness sector and a less attractive outlook for financial services and the IT/media/entertainment sectors.

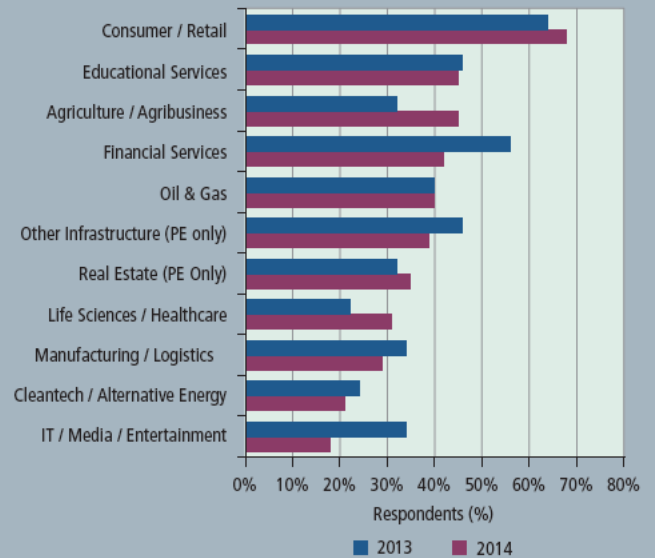
However, the views of domestic and international investors on the attractiveness of some sectors differ significantly. Latin American LPs find PE real estate and infrastructure more attractive than international LPs, while international LPs find the financial services and oil & gas sectors more attractive than Latin American LPs.

LPs set to increase investment in country-specific PE funds

Pan-regional funds remain the most popular method of accessing Latin American PE for both domestic and international LPs, with 63% of LPs currently investing this way and 73% expecting to do so within three years.

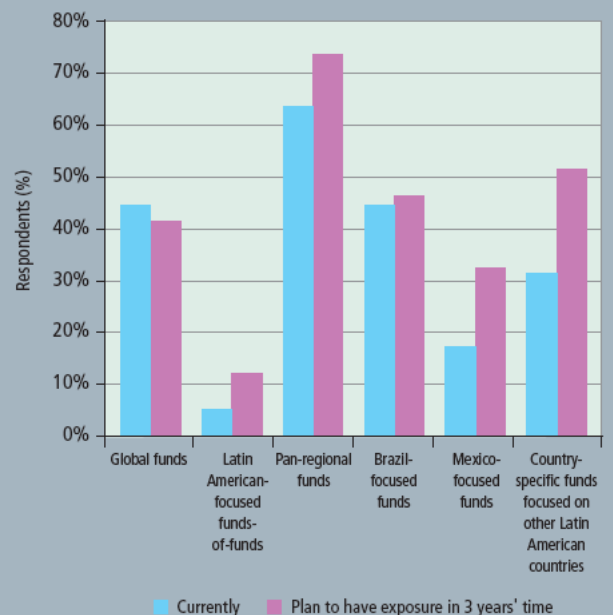
As opportunities appear in newer markets, country-specific PE funds are becoming more important, with both international and Latin American LPs expecting to increase their commitments to country-specific PE funds over the next three years.

LP views of attractive sectors for Latin American PE over the next 3 years – 2013 vs 2014



(Figure 7)

Proportion of LPs accessing Latin American private equity via particular routes – now and in 3 years' time

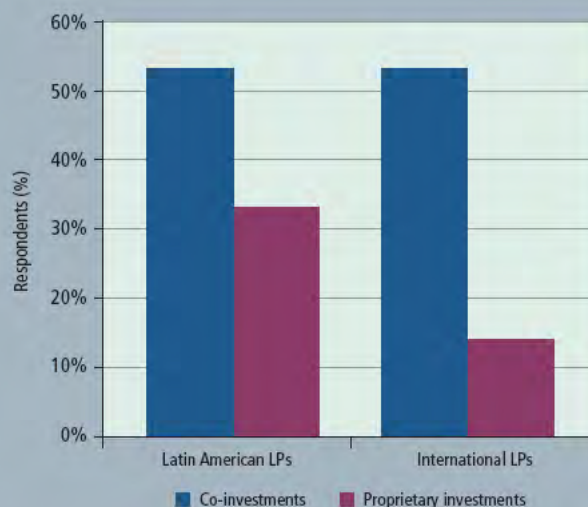


(Figure 8)

International and domestic LPs agree on co-investments, but have different views on proprietary investing

Over 50% of Latin American and international LPs are likely to make co-investments with GPs over the next three years. However, while over 30% of Latin American LPs expect to make proprietary investments in the same period, only 14% of international LPs expect to do so.

LP attitudes to direct investment in private Latin American companies over the next 3 years



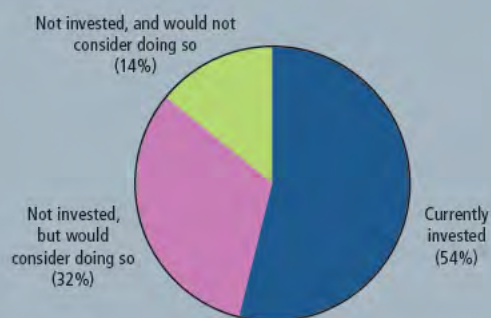
(Figure 9)

Most LPs view non-control/minority investments positively

86% of investors invest with GPs in Latin American PE funds focused on non-control/minority investments or are open to doing so.

72% of all PE deals in Latin America in 2013 were in non-control/minority investments. This percentage rises to 85% once venture capital transactions are added to the total. (Source: LAVCA).

LP exposure to with GPs in Latin America whose strategy is non-control / minority investments

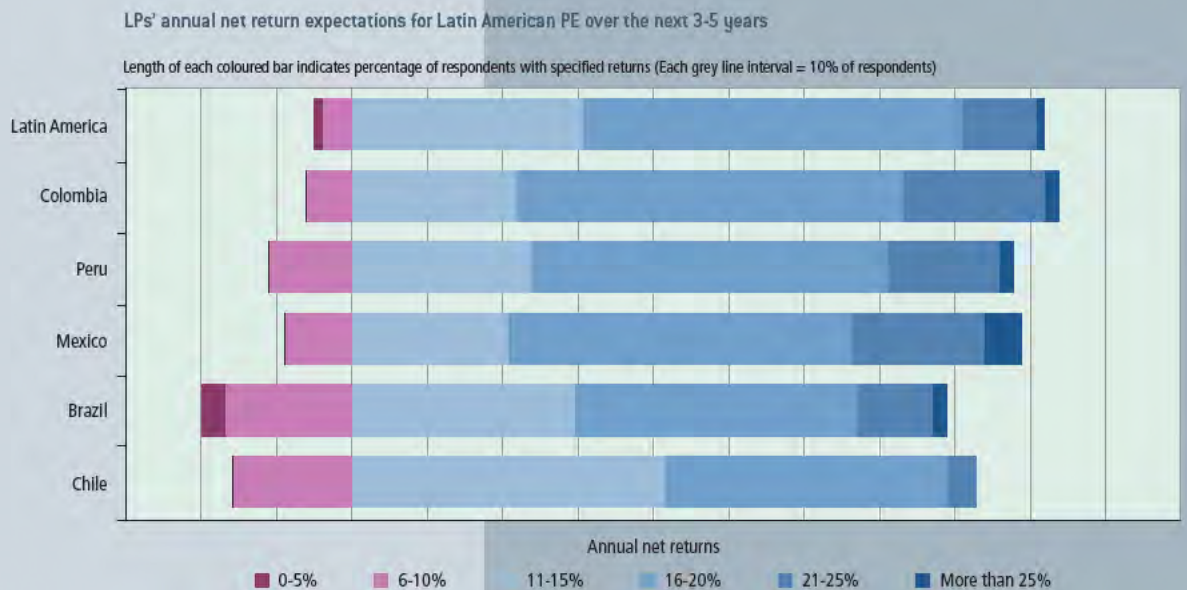


(Figure 10)

Majority of LPs expect net returns of 16%+ from Latin American PE

62% of investors expect net annual returns of 16%+ from their overall Latin American PE exposure over the next 3 to 5 years. Three quarters of investors have the same expectations for their Latin America PE exposure outside Brazil. Half have the same expectation for Brazilian PE.

LPs are particularly optimistic about PE returns from Colombia, Mexico and Peru.

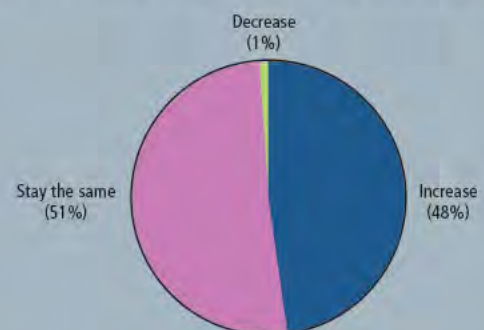


(Figure 11)

Half of LPs expect to increase the size of their PE teams over the next 12-18 months

Private equity investors are continuing to recruit for their Latin American-focused teams. Nearly half (48%) of LPs plan to increase the size of their PE teams over the next 12-18 months. (Domestic and international investors have similar intentions in this regard.) Almost no investors expect to reduce the size of their Latin American PE teams.

LP expectations for PE team size over the next 12-18 months



(Figure 12)

Trade sales to remain Latin America's dominant exit route

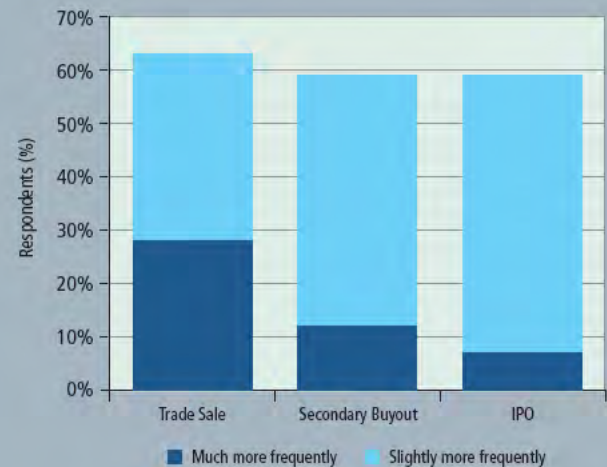
Trade sale continued to be the most important exit route for Latin American PE in the last year, with 64% of LPs saying it was frequently used. This was followed by secondary buyout, followed in turn by IPO.

Both Latin American and international investors expect trade sales to become still more dominant as an exit route in the next couple of years. Secondary buyouts and IPOs are also expected to increase in frequency slightly as an exit route.

One third of LPs expect to invest in a GP's first Latin America-focused fund

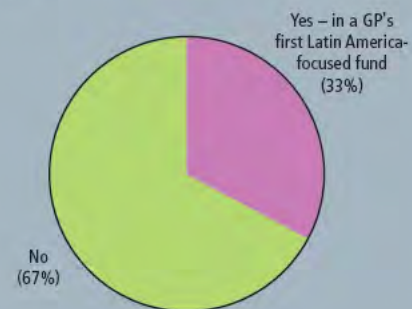
One third of LPs expect to invest in at least one GP's first Latin America-focused fund in the next two years. LPs interested in first-time funds say they might choose funds from either international or Latin America-based GPs.

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



(Figure 13)

LPs expecting to invest in a GP's first Latin America-focused fund in the next two years

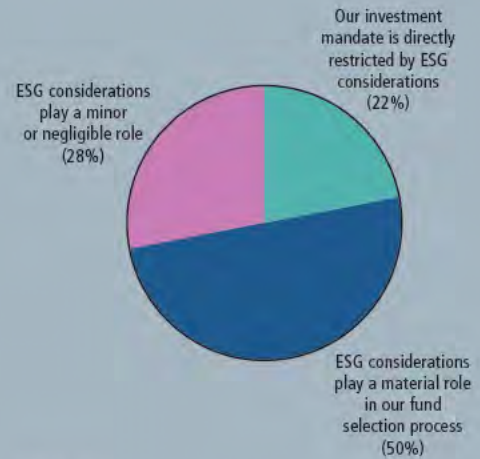


(Figure 14)

Three quarters of LPs take account of ESG issues in fund selection

Only a quarter (28%) of investors in Latin American private equity say that environmental, social and governance (ESG) issues are largely irrelevant to their fund selection.

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

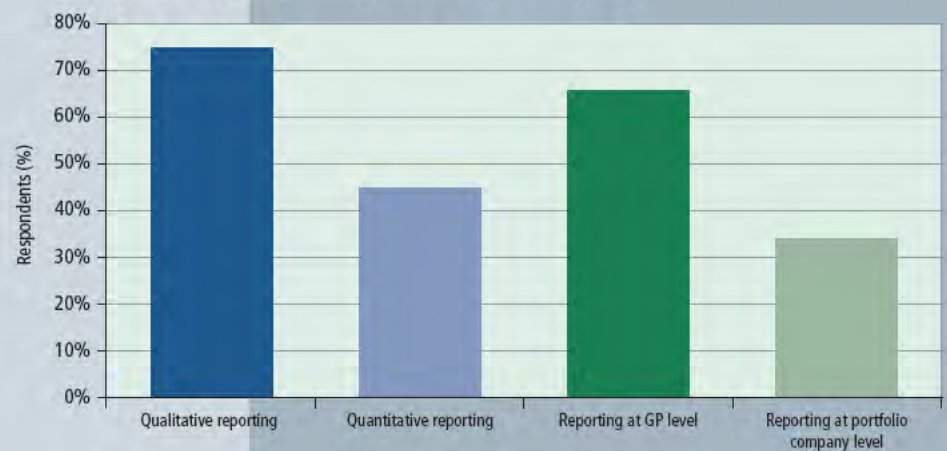


(Figure 15)

LPs think qualitative reporting is most relevant for ESG monitoring

Two thirds of LPs require some form of ESG reporting from their GPs. Qualitative reporting at the GP level is LPs' most usual demand. A majority of North American LPs do not make specific demands regarding ESG monitoring.

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



(Figure 16)

Collier Capital / LAVCA Latin American Private Equity Survey

Respondent breakdown

The Survey researched the plans and opinions of 131 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.

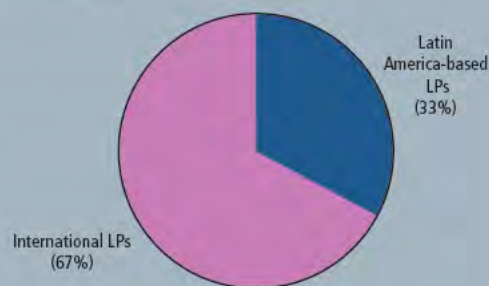
About LAVCA

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 165 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

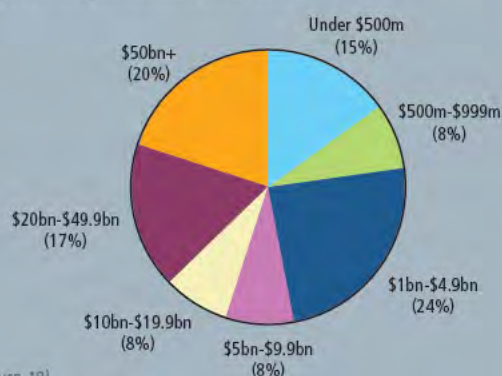
Fieldwork for the Survey was undertaken for Collier Capital and LAVCA in June-July 2014 by Arbor Square Associates, a specialist alternative assets research team with over 50 years' collective experience in the PE arena.

Respondents by region



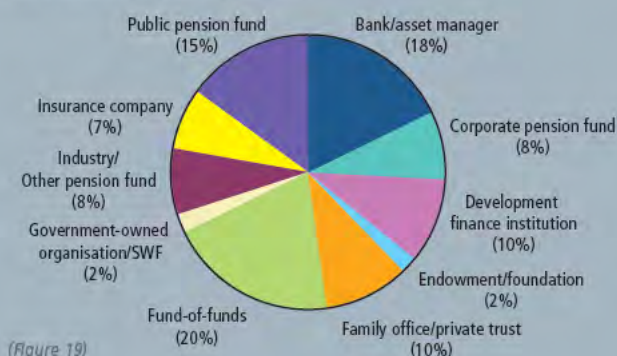
(Figure 17)

Respondents by total assets under management



(Figure 18)

Respondents by type of organisation



(Figure 19)

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



(Figure 20)



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