

Due Diligence and Other Considerations from the Perspective of a Mexican Investor

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Deal Sourcing – teams with deep roots in the region

With US\$ 560m of commitments, Fondo de Fondos is one of the most experienced fund manager in LatAm



THE BARING MEXICO



MEXICO REAL ESTATE

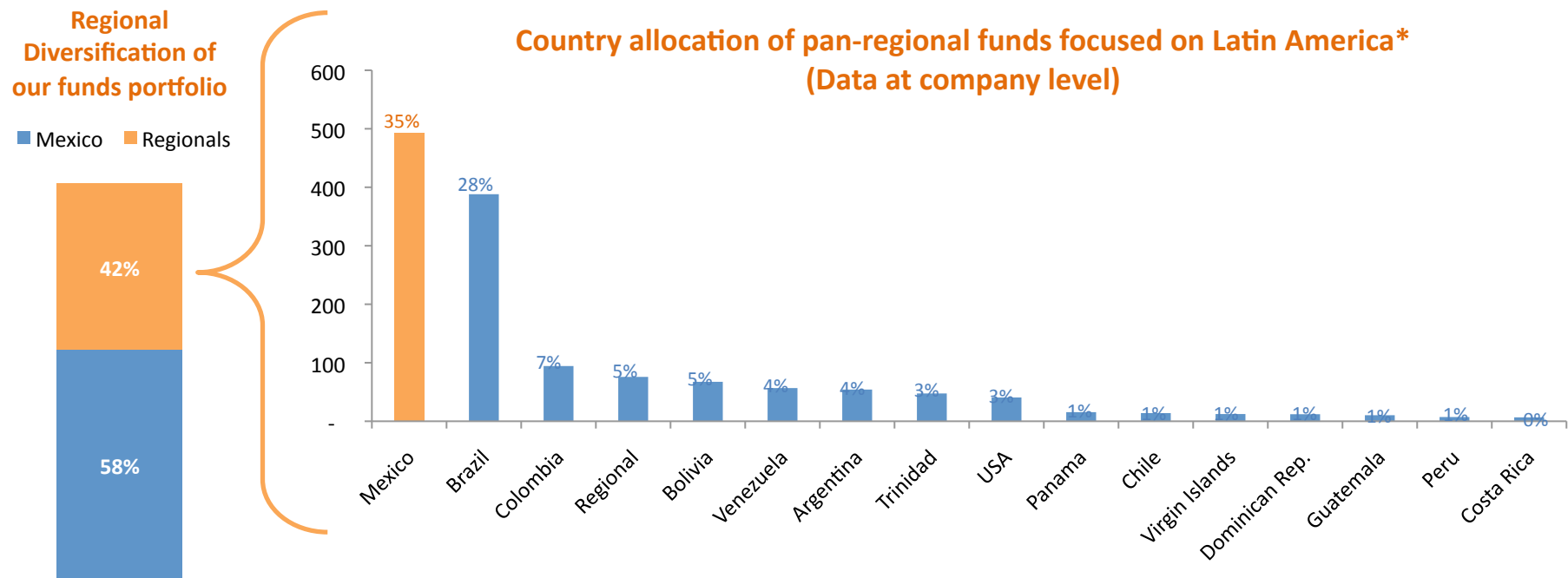


EVERCORE PARTNERS



Deal Sourcing – teams with deep roots in the region

Bring in funds interested and committed to Mexico, thereby establishing offices that will facilitate business and strengthen the pipeline

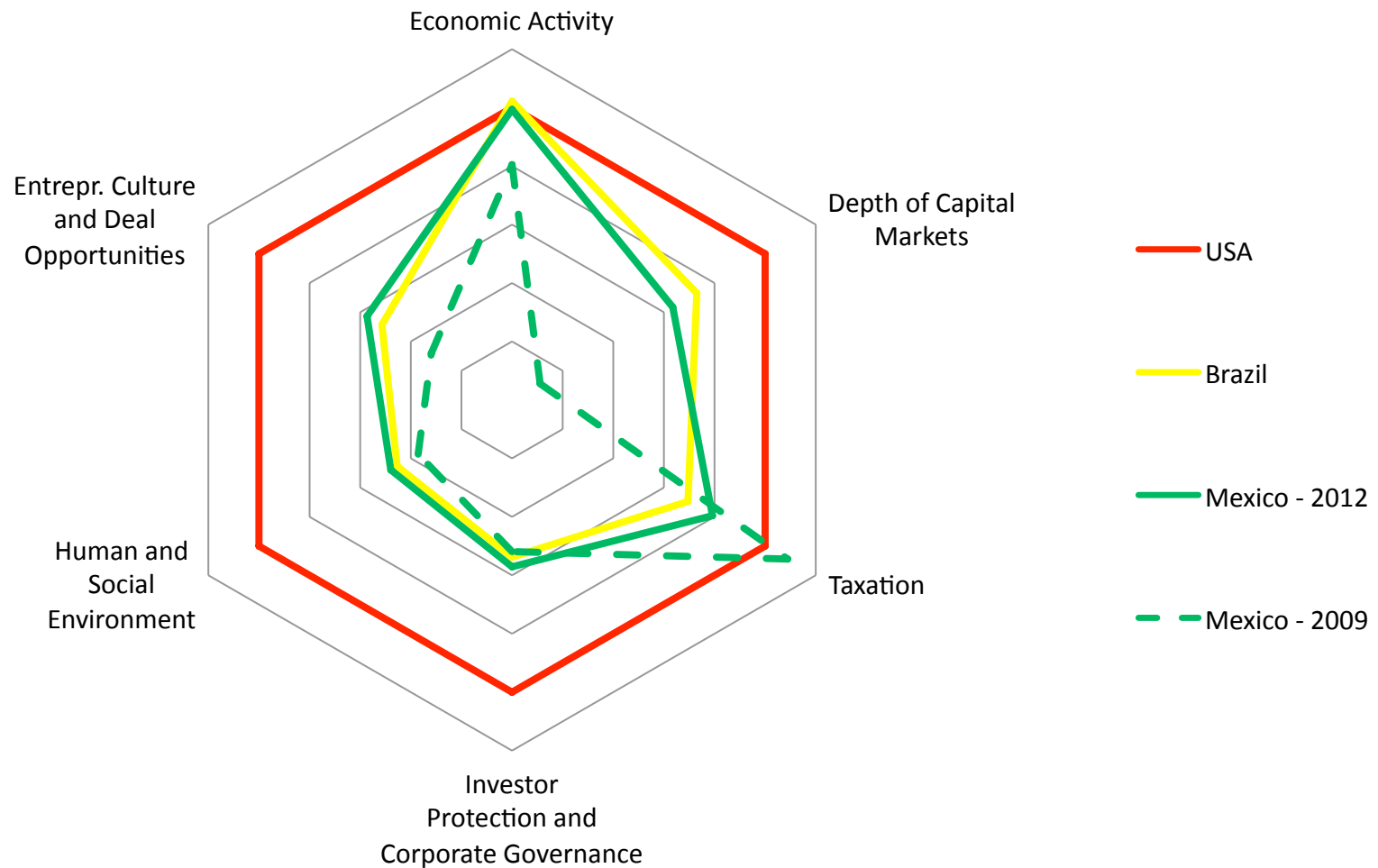


The opportunities and attractiveness of the Mexican PE/VC industry influenced pan-regional funds country allocation, solely through a risk / return analysis

*Statistics based on historic investments made by Fondo de Fondos regional funds portfolio

Historical Evolution of the Mexican PE/VC Key Metrics

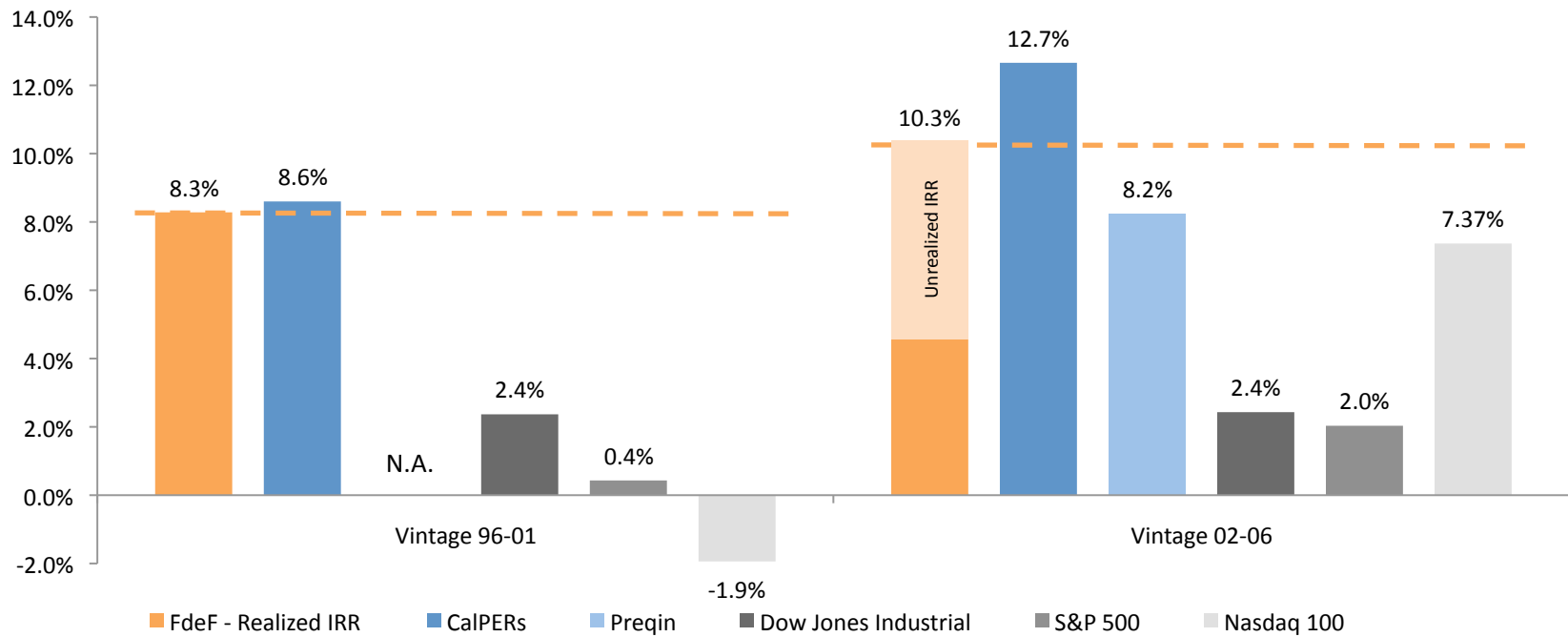
Key Factors for PE/VC Industry Expansion



Source: The Global Venture Capital and Private Equity Country Attractiveness Index 2012, Ernst and Young.

Historical Return

Fondo de Fondos portfolio performance in line with industry peers and above US financial markets.



Fondo de Fondos has been generating α through its investments

Deal Sourcing – teams with deep roots in the region

The pre-screening stage enable Fondo de Fondos team to devote time and energy to pre selected funds

- **Portfolio allocation criteria:**
 - Up to 10% mezzanine/venture
 - Up to 15% infrastructure
 - Up to 10% real estate
 - At least 50% equity growth
 - Up to 20% direct coinvesting
 - Up to 20% first-time funds
 - Vintage allocation (25% per year)
- **Compliance:**
 - Adherence to ESG and/or PRI
 - Compliance with internal investment policies (Excl. prohibited investments)
- **Background check – 1st stage:**
 - Reputational aspects of fund managers
 - Previous deals

Compliance



Compliance



- Since private equity fund of funds **reputation** takes years of strong performance to build, Fund of Funds established the compliance function in 2009.
- The Chief Compliance Officer (CCO) monitors the Fund of Funds particular compliance, risks and conflicts of interest, so she participates actively in the Due Diligence, through specialized databases contracted with a external suppliers. These databases are used to **identify individuals (fund managers) and companies (portfolio investments)** linked to over twenty different risk categories, such as: terrorist funding, money laundering, corruption, fraud, drug trafficking, among others. Also to look for PEP's (Politically Exposed Persons).
- In order to present the Investment Memorandum to the Investment Committee, this screening process is **mandatory**. This data is permanently monitored.

Compliance



- Our **compliance** program has demonstrated its value to shareholders and investors.
- It also sends a message to its employees that the entity takes its regulatory compliance and fiduciary obligations seriously and that it expects its **employees to act responsibly**.
- **Compliance landscape** has been achieved by strong policies and procedures, considering change of regulation and best practices to mitigate risk. ILPA Principles are considered in our policies.
- Fund of Funds has been established its Due Diligence process on the basis of the **compliance culture** and the right “**Tone at the top**”.

Due Diligence Generalities

The Due Diligence processes and methods integrate international best practices as well as consider the following key points, specific to Mexican market:

- **Emerging Industry:**
 - Because we have witnessed the growth and development of the PE/VC industry in Mexico, we cannot limit our efforts solely on financial performance, but on good governance too
 - Since we have dealt with many first time funds, we assess that the experience of the fund managers and their participation in transactions has been relevant
- **Reputation:**
 - As part of our due diligence, we emphasize the fund managers standing, professional skills, knowledge of the industry and regulatory framework understanding
- **Industry promotion:**
 - We focus our efforts on the perspectives and development of the comprehensive private equity environment; therefore we promote regulatory reforms
 - Our policy aims to deploy resources in Mexico from regional funds, broadening the number of companies and jobs, seeking economic sustainability

Due Diligence

Specific processes and tools

The Due Diligence processes and methods integrate international best practices as well as consider the following key points, specific to Mexican market:

- **References**

- Proprietary network references in addition to common references. The team holds interviews with different transaction participants (e.g. lawyers, buyers, managers, portfolio investments, limited partners, financial institutions, etc.)

- **Compliance Processes:**

- Specialized compliance databanks and other sources (SEC, CNBV, World Check, among others). Outsourcing for background checks may be used in special cases

- **Investment Thesis:**

- Investment thesis and cash flow modeling are analyzed and verified against our own sectorial perspectives in Mexico, backed by high level insights on Mexican economy
- Track record review, emphasizing value creation capabilities of the GP

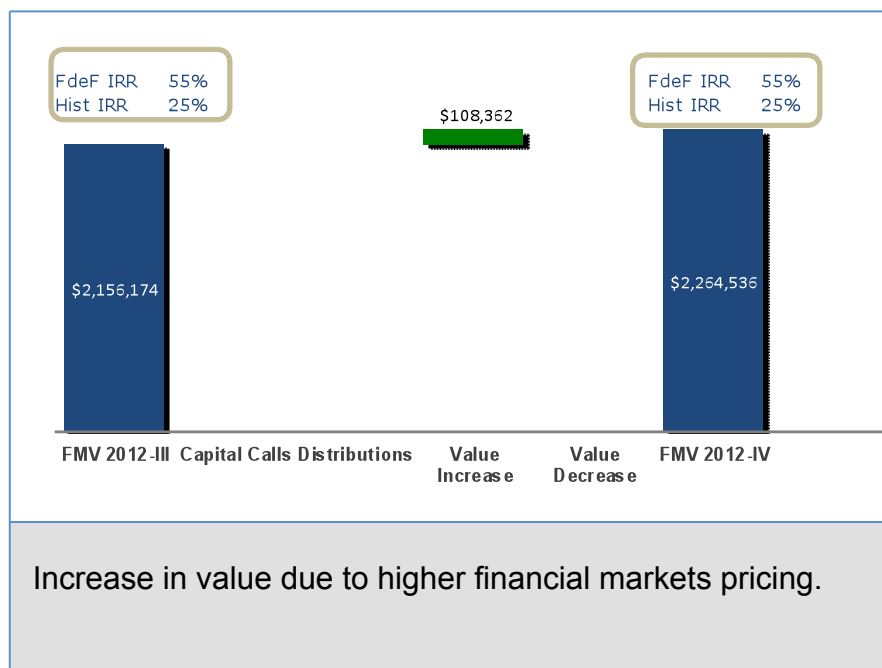
- **Internal Tools and Strengths:**

- Decisions made by Investment Committees and Board of Directors; the vote of the independent members (50%) must be unanimous
- Proprietary tool benchmarking for historical funds performance and governance

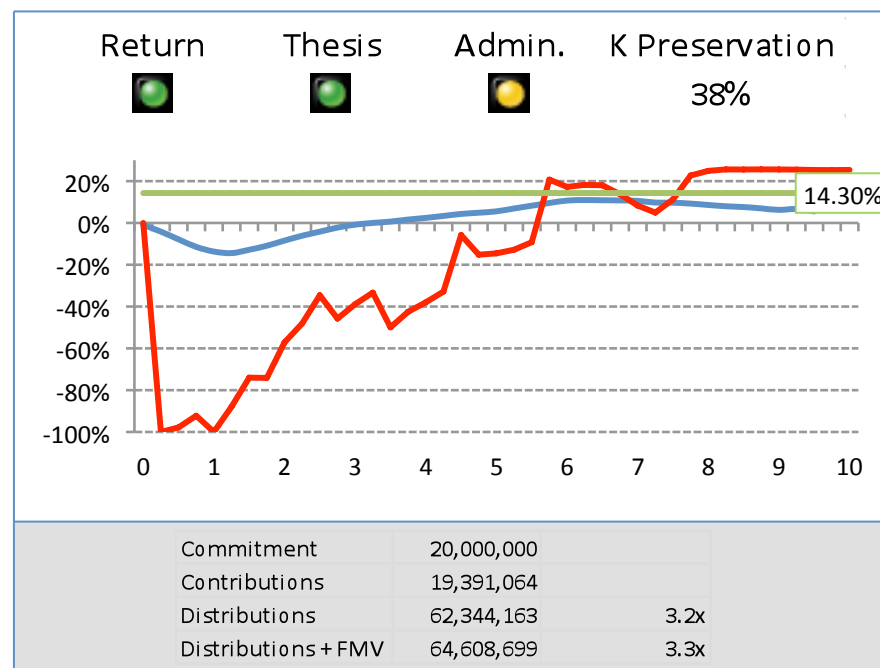
Fund 01 (Jun. 2002 – 2012)

16.7%

1 - VALUACIÓN



2 - ESTADÍSTICAS



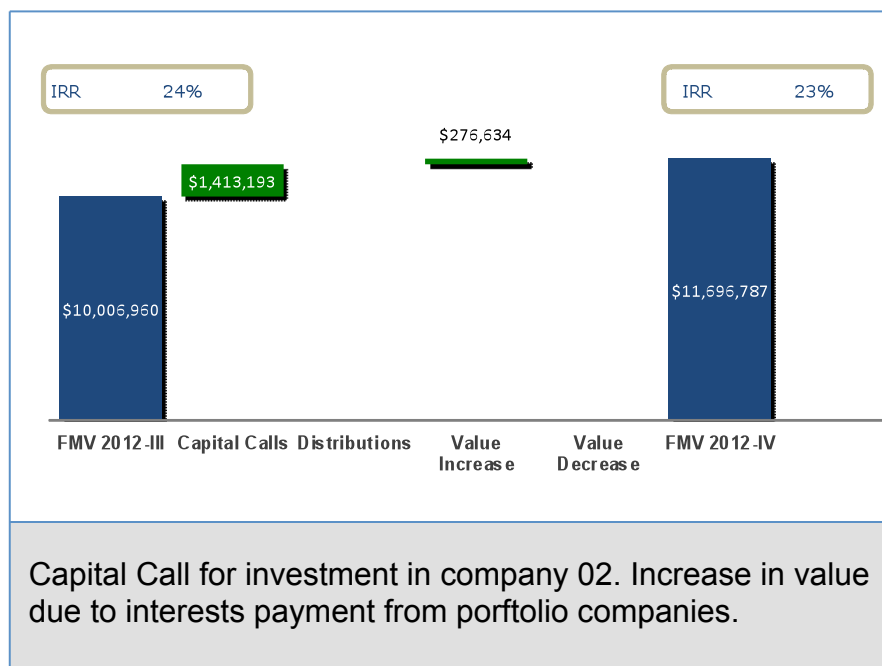
3 - PORTAFOLIO (MDD)

Fund 01	Part. sep-12	Inv. Date	Count.	Cost Total	FMV + dist.	+/- value Q-1	Total Mult.	+/- value comments
Company 08	21%	Jul-05	MEX	22.8	49.0	6%	2.1x	IPO - Marked to Market
Sub-total (Current Portfolio)				22.8	49.0	6%	2.1x	
Company 01	2%	Feb-02	Mex	4.4	3.6	-	0.8x	Strategic sale
Company 02	20%	Nov-02	Mex	19.2	1.1	-	0.1x	Write Off
Company 03	19%	Dec-02	Mex	6.3	0.1	-	0.0x	Write Off
Company 04	30%	May-04	Mex	17.9	338.2	-	18.9x	IPO
Company 05	30%	Mar-08	Mex	7.8	-	-	0.0x	Write Off
Company 06	17%	Dec-03	Mex	21.7	31.3	-	1.4x	Strategic Sale
Company 07	50%	Sep-04	Mex	13.8	0.8	-	0.1x	Strategic Sale
Total Fund				113.8	424.1	6.0%	3.7x	

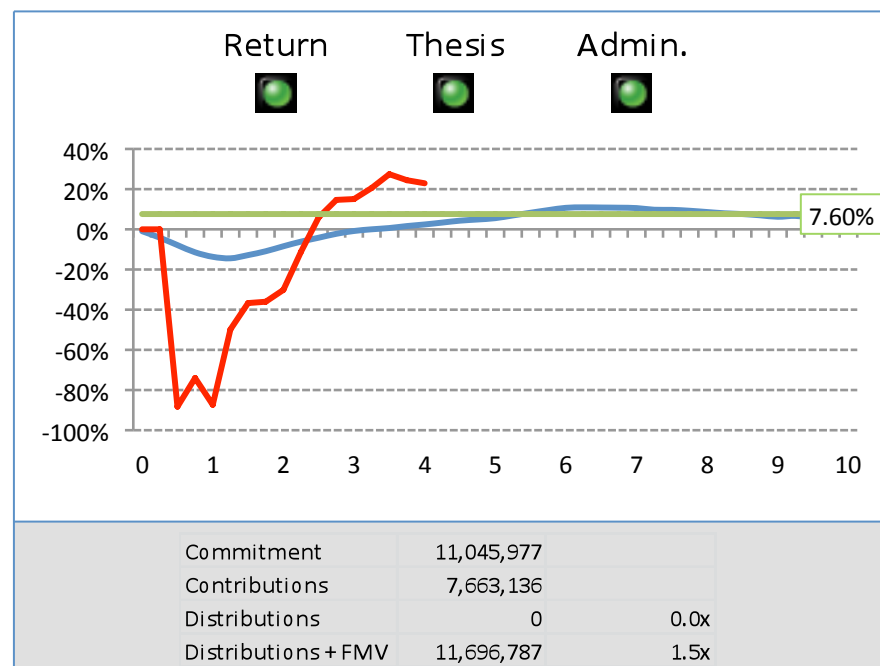
Fund 02 (Dic. 2008 – 2021)

7.4%

1 - VALUACIÓN



2 - ESTADÍSTICAS



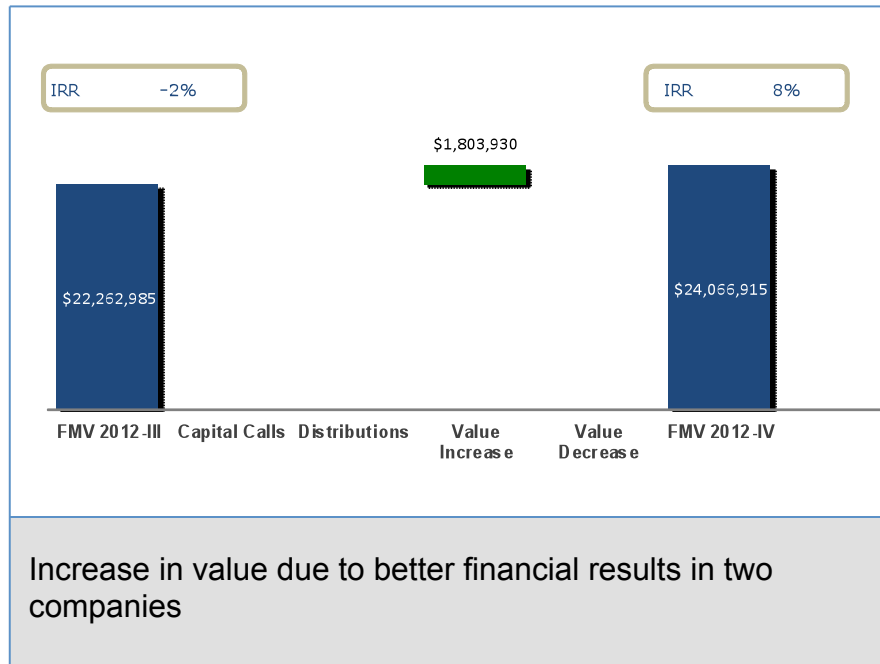
3 – PORTAFOLIO (MDD)

Fund 02	Part. sep-12	Inv. Date	Count.	Cost Total	FMV + dist.	+/- value Q-1	Total Mult.	+/- value comments
Company 01	mezz	Dec-09	MEX	17.9	22.4	-4%	1.3x	EBITDA Increase due to lower input prices
Company 02	8.3% + mezz	May-10	R.D	17.5	18.8	3%	1.1x	Increase in value due to higher dividends
Company 03	mezz	Jul-10	COL	9.0	12.6	3%	1.4x	Increase in value because cashflow higher than expected
Company 04	mezz	Nov-10	MEX	15.0	16.8	-1%	1.1x	Credit amortization and decrease in mult. comparables
Company 05	50% + mezz	Apr-11	GUA	10.6	15.4	2%	1.5x	Increase in value because cashflow higher than expected
Company 06	19% + mezz	Aug-12	HON	4.0	4.0	-	1.0x	New investment - Valued at cost
Total Fund				73.9	89.9	0.0%	1.2x	

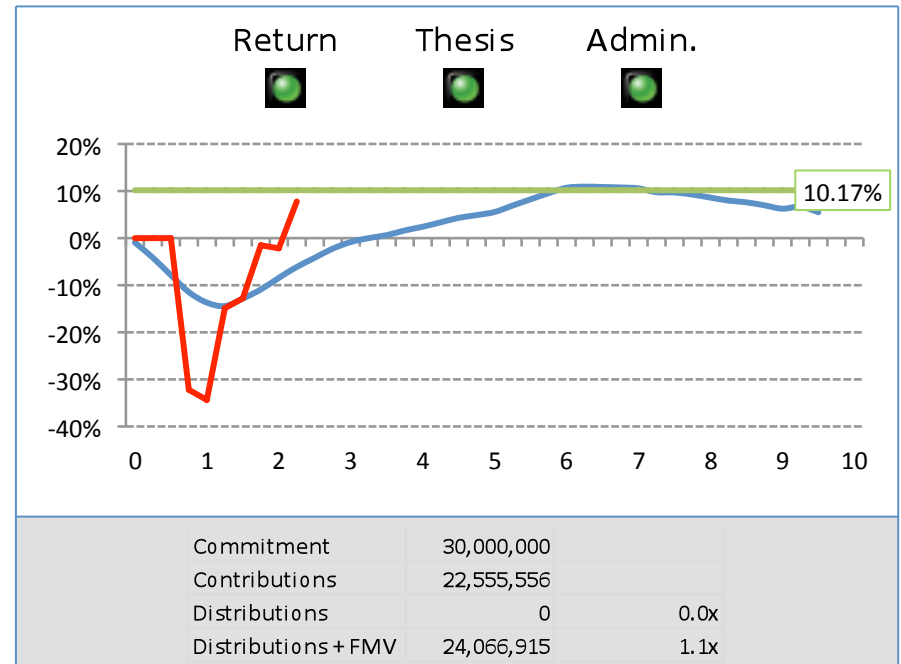
Fund 03 (Ene. 2011 – 2021)

31.9%

1 - VALUACIÓN



2 - ESTADÍSTICAS



3 - PORTAFOLIO (MDD)

Fund 03	Part. sep-12	Inv. Date	Count.	Cost Total	FMV + dist.	+/- value Q-1	Total Mult.	+/- value comments
Company 01	29%	Mar-11	MEX	16.5	22.0	16%	1.3x	EBITDA increase
Company 02	15%	Sep-11	MEX	11.8	15.6	61%	1.3x	Increase in value due to better financial results
Company 03	9%	May-12	MEX	12.6	12.6	-	1.0x	New investment - Valued at cost
Company 04	39%	Aug-12	MEX	4.3	4.3	-	1.0x	New investment - Valued at cost
Company 05	9%	Aug-12	MEX	18.3	18.3	-	1.0x	New investment - Valued at cost
Total Fund				63.5	73.0	17.9%	1.1x	

Benchmark Model as a tool for investment decision making

Fondo de Fondo built its own data base to benchmark its portfolio fund against each other, considering:

➤ Financial Performance

- Financial Returns
- Investment Thesis

➤ Governance

- Back Office and Reporting
- Diversification
- Intangibles

[Open Benchmarking Form](#)