Preqin Special Report: Latin America

Can Investor Appetite Drive Growth?

March 2013

Content Includes:

Private Equity in Latin America

We give an overview of the Latin American private equity market, including investor appetite, deals activity, fundraising trends and performance.

Country Focus

We examine investor preferences for country-specific Latin American investment, as well as fundraising and deals data across specific countries.

Private Real Estate

We assess the private real estate industry in Latin America, including historical fundraising and the outlook for the year ahead.

Infrastructure

We take a closer look at infrastructure in Latin America, including deals data and key fundraising trends.

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Foreword

Private equity in Latin America has grown in prominence over the last few years, with fundraising levels in 2011 reaching an all-time high, both in terms of the aggregate capital raised and the number of funds closed. Despite lower levels of fundraising in 2012, fund managers have continued to raise funds purely focused on the region, with a greater number of funds in market as of January 2013 than in January 2012.

Preqin's survey of over 40 global investors with an interest in Latin America demonstrates that investor confidence in the region also remains strong, with a significant proportion looking to make further investments in the region in the future. The outlook for buyout and growth funds looks particularly positive for 2013, with a large proportion of investors interested in Latin America targeting these fund types specifically in the coming year.

Funds focusing purely on a specific country within Latin America will continue to be in competition with geographically more diversified vehicles, but a significant proportion of investors display an interest in country-specific funds, particularly in the more developed private equity market in Brazil, as well as Colombia, Mexico and Peru. However, with the number of pan-Latin America-focused funds increasing in 2012, investors are likely to continue to look to gain diversified exposure to the region in order to minimize the risk in investing in this still emerging market.

Preqin Special Report: Latin America provides an exclusive insight into the private equity market in Latin America, including investor appetite, key fundraising data, deals and performance. The report draws exclusively from many of Preqin's online products and services, which provide over 10,000 industry professionals with data on all aspects of alternative assets, including fund managers, fundraising, investors, deals, performance, service providers and more.

We hope you find this report useful, and welcome any feedback you may have. For more information, please visit www.preqin.com or contact info@preqin.com

Key Findings

- 57% of investors with an interest in Latin America view the region more favourably than other emerging markets.
- 22 Latin America-focused funds closed in 2012, raising an aggregate $5.1bn.

An overview of private equity in Latin America can be found on pages 3-6.

- 43% of the aggregate capital raised by Latin America-focused funds in 2012 was for vehicles focused on Brazil.
- 52% of investors with an interest in Latin America see Colombia as presenting the best investment opportunities in the region.

More country-specific Latin America analysis can be found on pages 7-9.

- Of the real estate funds in market, the majority of both the number (64%) and the aggregate target capital (63%) is being raised by Latin America-based fund managers.

More real estate information can be found on page 10.

- The core infrastructure industries of energy, transport and utilities account for 85% of the number of deals completed in the region since 1994.

More infrastructure information can be found on page 11.

Private Equity in Latin America

The Latin American private equity market has evolved considerably in recent years, with an ever-increasing number of funds in market focusing on the region specifically. Increasing investor interest in Latin America-focused private equity funds has led to a surge in fundraising, with aggregate capital raised by the 41 funds that closed in 2011 reaching $15.2bn, the highest amount raised in any single year. A number of large Brazil-focused funds held a final close in 2011 (see page 7), partly driven by increasing investor confidence in Brazil's rapidly growing economy and more stable market in 2011. Despite the aggregate capital raised by Latin America-focused funds closed in 2012 decreasing significantly to 22 funds closing on an aggregate $5.1bn, investors still view the region positively, with many looking to either maintain or increase their portfolio allocations to Latin America over the next 12 months.

Emerging Markets

Although Latin America-focused fundraising has experienced growth in recent years, other emerging markets such as Asia are still garnering more capital and investor interest. In December 2012, Preqin conducted a survey of over 100 LPs from around the world and found out about their current appetite for different emerging markets. Although Latin America was named by a significant 27% of respondents as presenting the best investment opportunities, Asia and China were stated as attractive by 49% and 31% of respondents respectively.

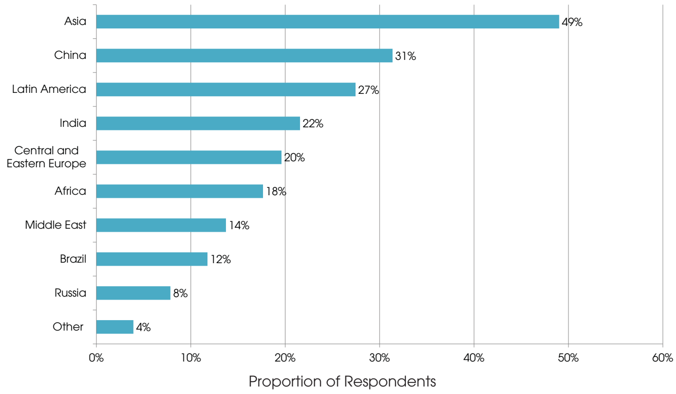
Fig. 2 shows that Asia has consistently accounted for between 70% and 75% of the aggregate capital raised annually by emerging markets-focused funds since 2004. Latin America-focused funds have historically contributed a much lower proportion of the aggregate capital raised by emerging market-focused funds, peaking at a high of 20% in 2011.

The proportion of aggregate capital raised by emerging markets-focused funds represented by Latin America-focused vehicles fell from 20% in 2011 to 8% in 2012, demonstrating that fundraising remains challenging in the region, particularly compared to Asia. Fig. 3 shows that the number of Latin America-focused funds in market has grown over the last year, from 55 funds targeting an aggregate $20bn in January 2012 to 68 funds targeting an aggregate $18bn as of January 2013, the highest number of funds in market in the period 2007-2013. Fund managers looking to raise capital for Latin America-focused funds in the coming year may find fundraising challenging, given the increasingly crowded market and competition for LPs' emerging markets allocations from managers targeting regions like Asia.

Investor Appetite for Latin America

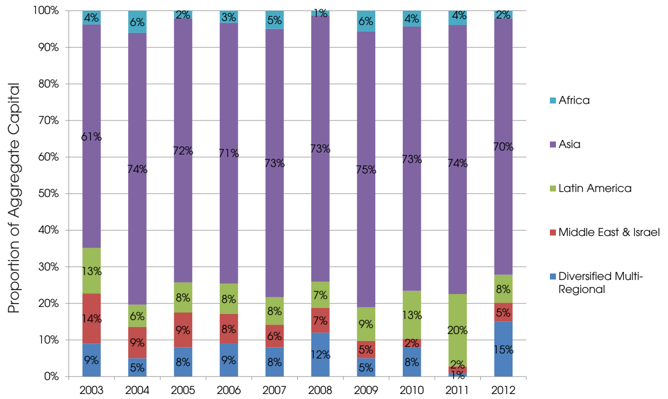
However, there is still significant investor appetite for emerging markets, and for Latin America specifically. In Preqin's December 2012 investor survey, 60% of respondents stated they invest in emerging markets and a further 14% said they are considering the possibility in the near future. Of the investors that currently invest in emerging markets, 30% are looking to increase their

Fig. 1: Countries and Regions within Emerging Markets that Investors View as Presenting the Best Opportunities*



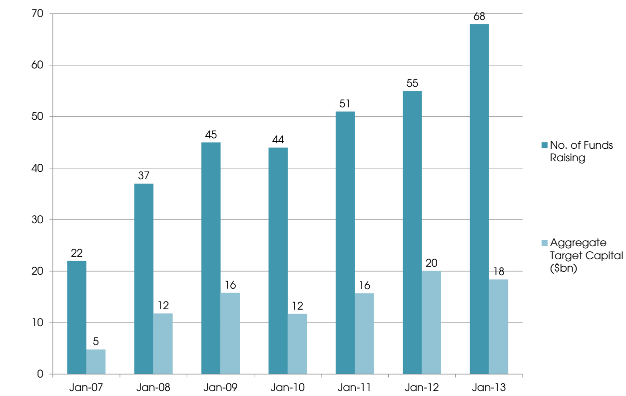
Source: Preqin Global Investor Survey, December 2012

Fig. 2: Proportion of Aggregate Capital Raised by Emerging Markets-Focused Funds by Region



Source: Preqin Funds in Market Online Service

Fig. 3: Latin America-Focused Funds in Market over Time, 2007 - 2013



Source: Preqin Funds in Market Online Service

**Respondents were not prompted to give their opinions on each country/region individually; therefore the results display the countries and regions at the forefront of investors' minds at the time of the survey.*

allocations in the next 12 months, with 44% looking to do so over the longer term.

In order to further explore investor appetite for Latin America in particular, Preqin conducted a further study of over 40 LPs in January 2013 that have either previously committed to funds investing in Latin America or are seeking to invest in the region. Fig. 4 shows that 57% of respondents to this study believe that Latin America is currently presenting more attractive investment opportunities than other emerging markets. These investors provided a number of reasons for their preference for Latin America, including the region's "good demographic and increasing maturity of economic and political structures", "better corporate governance", "growing middle classes" and "wealth of natural resources".

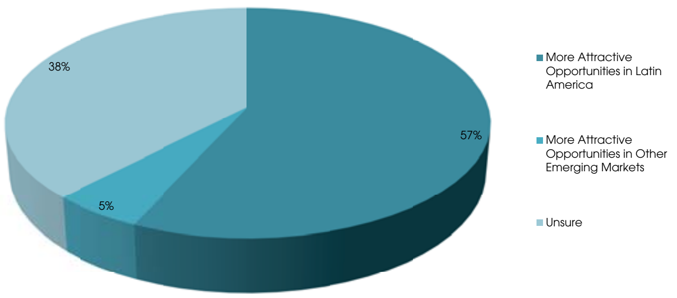
When investors were asked which private equity fund types they viewed as presenting the best opportunities within Latin America, 73% stated a preference for growth funds. Of the 68 funds in market, 13 are focused on growth stage investment. There is also significant investor appetite for small to mid-market buyout funds, with 67% of investors naming the fund type as currently presenting the best investment opportunities.

Interestingly, Fig. 6 shows that a significant 64% of LPs interviewed prefer to invest in a direct fund with a 100% focus on Latin America and a further 26% look to invest via direct funds that include Latin America within their remit. As LPs have become more experienced in investing in the region, many have moved to investing in direct funds. Only 2% of LPs interviewed stated that their preferred method of exposure to the region was via funds of funds. However, it should be noted that the survey of investors was focused on those with an active interest in Latin America.

Performance of Latin America-Focused Funds

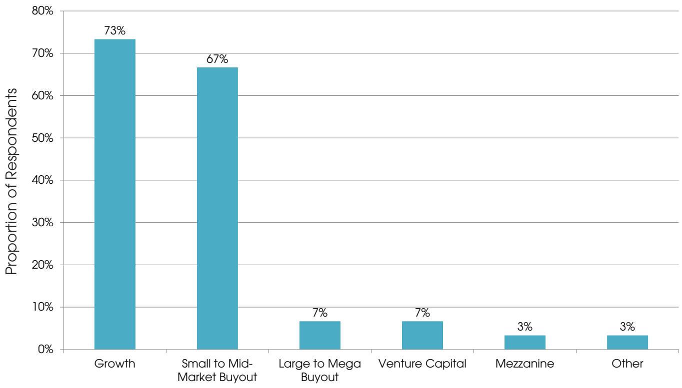
Investor interest in the region may also be driven by the strong performance of Latin America-focused funds. Fig. 7 shows the median net multiple by vintage year of Latin America-focused funds against those of Asia, Europe and North America. The chart shows that Latin America-focused funds of pre-2007 vintage years outperform Asia, Europe and North America, with a median net multiple of 1.35x for vintage 2006 Latin America-focused funds, compared to 1.23x for Asia, 1.12x for Europe and 1.15x for North America. Despite a subsequent decrease in the median net multiple for these funds, it should be noted that funds of recent vintage years are still early in their investment cycles.

Fig. 4: Investor Attitudes Towards Latin American Investment Opportunities in Comparison to Other Emerging Markets



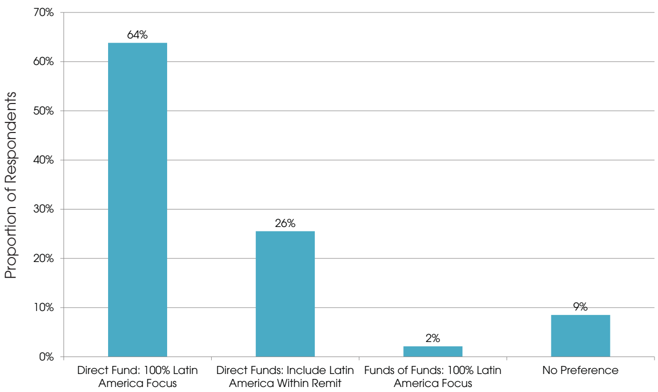
Source: Preqin Latin America Investor Survey, January 2013

Fig. 5: Investors' Views on Fund Types Presenting the Best Opportunities within Latin America



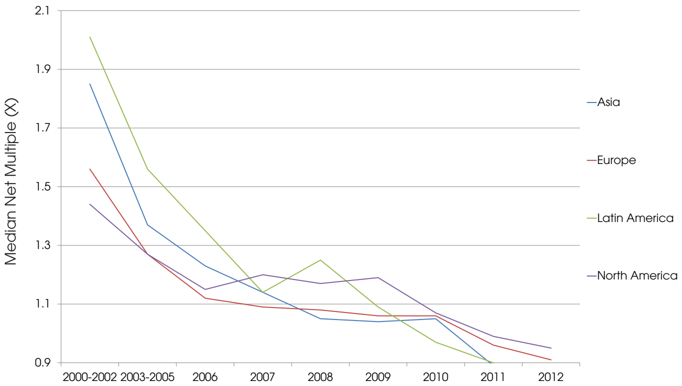
Source: Preqin Latin America Investor Survey, January 2013

Fig. 6: Investors' Preferred Methods of Gaining Exposure to Latin America



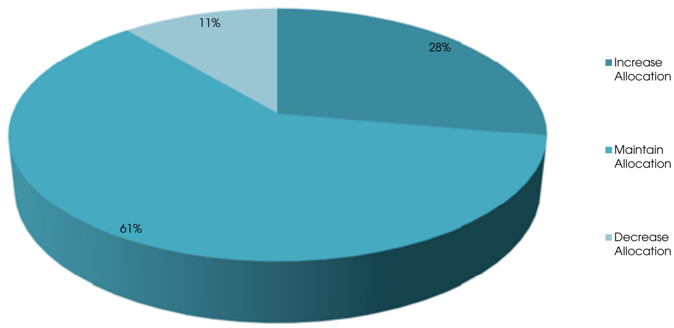
Source: Preqin Latin America Investor Survey, January 2013

Fig. 7: Median Net Multiple by Vintage Year and Primary Geographic Focus



Source: Preqin Performance Analyst Online Service

Fig. 8: Investors' Intentions for the Proportion of Their Private Equity Portfolios Allocated to Latin America Over the Next 12 Months



Source: Preqin Latin America Investor Survey, January 2013

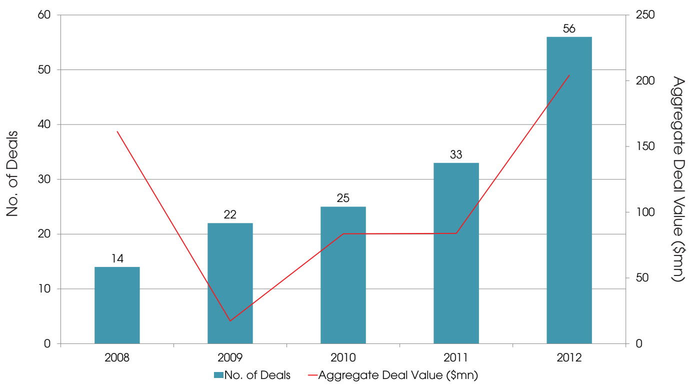
Nonetheless, it can be seen that Latin America-focused funds of vintage 2008 have a higher median net multiple (1.25x) than those of Asia, Europe and North America.

Investors' Future Plans for Committing to Latin America

Moving forwards, the majority (61%) of investors interviewed stated that they will be maintaining their private equity allocations to Latin America in 2013 (Fig. 8) and 28% of respondents will be increasing their private equity allocations to Latin America over the next 12 months. The outlook for the longer term is even more positive, with 43% of respondents looking to increase their allocations to the region.

More specifically, a significant proportion of investors interviewed plan to commit to funds targeting the region in the near future, with 38% of respondents stating that they will be committing to a Latin America-focused fund in the coming year, and 7% expecting to make a commitment to a vehicle targeting the region in 2014; only 5% of respondents do not anticipate investing in the region before 2015. However, half of investors interviewed are unsure when they will make their next commitment to a Latin America-focused fund, demonstrating that many investors, even those specifically targeting the region, are still cautious when approaching commitments to Latin America-focused funds.

Fig. 9: Number and Aggregate Value of Venture Capital Deals by Year, 2008 - 2012



Source: Preqin Venture Deals Analyst Online Service

Dry Powder

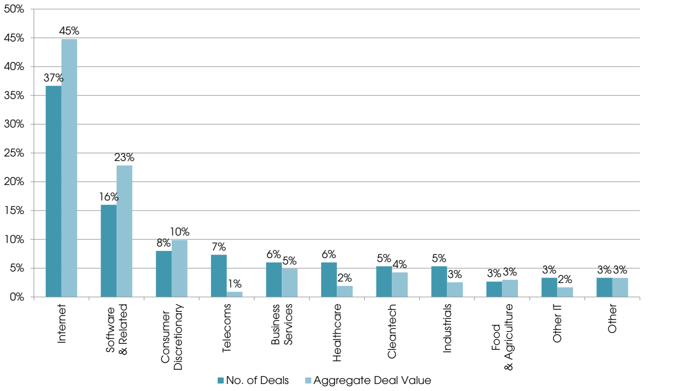
In addition to caution among investors, a key concern for fund managers is whether LPs will continue to make new commitments in the region if their capital in existing commitments is not being called up. December 2012 saw dry powder reach an all-time high of $35bn for Latin America-focused funds, indicating that many fund managers still have capital available that they have yet to put to work. This represents a 27% increase from the $27bn in dry powder available in December 2011, and a 73% increase from the $20bn in Latin America-focused dry powder available in December 2010.

Latin American Venture Capital Deals

However, the continued development of the Latin American market has driven a growth in investment opportunities, particularly in the venture capital space. The number and aggregate value of venture capital-backed deals has increased considerably from 2008 to 2012 (Fig. 9). Fifty-six venture capital deals were completed in 2012, with an aggregate value of $204mn. This represents a significant 70% increase in the number and 143% increase in the aggregate value of venture capital deals compared to 2011. The growth in the middle class in particular regions of Latin America, such as Brazil, one LP told us, has led to an "increase in consumer spending, which will help small companies in the region which need money to fund growth". This increase in consumer spending drives higher levels of entrepreneurship in these regions, in turn leading to more interest from venture capital firms that see the potential for profitable investments.

In terms of industry, internet and software & related deals make up the majority of both the aggregate value (68%) and the number (53%) of venture capital deals in Latin America from 2008-2012 (Fig. 10). Consumer discretionary is the third most prominent industry in terms of the number and aggregate value of deals, further demonstrating the growth in consumer spending in Latin America. One notable deal in the software sector was the

Fig. 10: Proportion of Number and Aggregate Value of Venture Capital Deals by Industry, 2008 - 2012



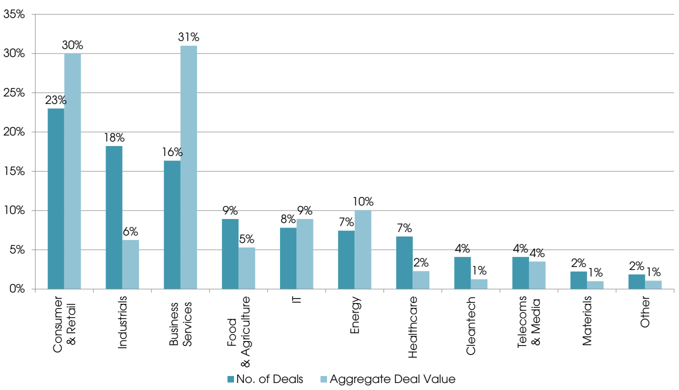
Source: Preqin Venture Deals Analyst Online Service

$66mn Series C financing of software company Spring Wireless by Goldman Sachs Merchant Banking Division, Ideiasnet and New Enterprise Associates in August 2008.

Latin American Private Equity-Backed Buyout Deals

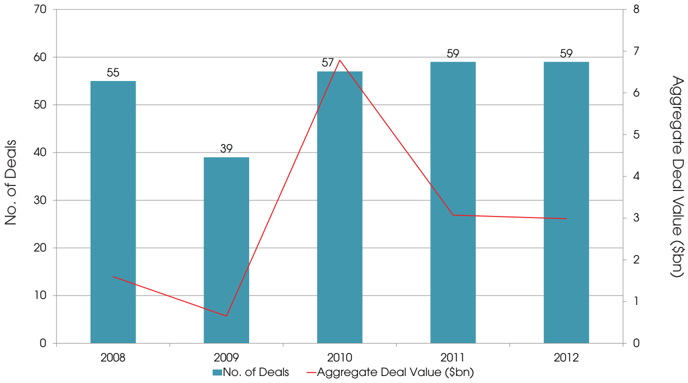
In comparison to venture capital deal trends, the aggregate value of buyout deals announced each year in Latin America is significantly larger, but has fallen since 2010. Buyout deal activity peaked in 2010, with 57 deals valued at an aggregate $6.8bn. 2011 and 2012 witnessed a similar number of deals as 2010; however, the aggregate value of buyout deals completed in 2011 was 54% less than those completed in 2010 and the aggregate value of buyout deals in 2012 fell again slightly compared to 2011. The figures are distorted by the fact that the three largest buyout deals to have occurred in Latin America between 2008 and 2012 were all in 2010; these alone accounted for 59% of the aggregate value of all private equity-backed buyout deals in 2010. The largest deal among these is the $1.8bn buyout of BTG Pactual, a Brazilian investment bank, in December 2010 by a consortium of investors led by Government of Singapore Investment Corporation, Invest AD, JC Flowers & Co., Ontario Teachers' Pension Plan and China Investment Corporation.

Fig. 12: Proportion of Number and Aggregate Value of Private Equity-Backed Buyout Deals in Latin America by Industry, 2008 - 2012



Source: Preqin Buyout Deals Analyst Online Service

Fig. 11: Number and Aggregate Value of Private Equity-Backed Buyout Deals in Latin America, 2008 - 2012



Source: Preqin Buyout Deals Analyst Online Service

Fig. 12 shows that consumer and retail, industrials and business services account for 23%, 18% and 16% respectively of the number of buyout deals in Latin America between 2008 and 2012. The prominence of consumer and retail buyout deals again demonstrates the growth in consumer spending in Latin America in recent years. 2013 has already witnessed the significant $28bn buyout of food company Heinz Capital by Berkshire Hathaway and 3G Capital, a Brazil-based investment firm. The deal is the largest buyout globally since Blackstone Group's acquisition of Hilton Worldwide for $26bn in 2007.

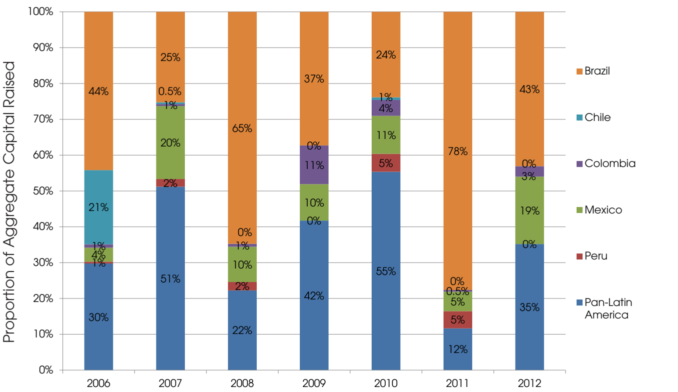
Outlook

The aggregate capital raised by Latin America-focused funds decreased significantly in 2012 compared to 2011, and fundraising will likely remain challenging for fund managers looking to raise capital for vehicles targeting the region. The high level of dry powder still available for investments in the region indicates that many GPs are still searching for suitable investment opportunities for the capital they have already raised. This shows the potential for growth in deal flow in the region in the future but it may also prevent some LPs from making new commitments while they wait for existing uncalled commitments to be called up.

However, there is still significant investor appetite for vehicles targeting the region, with 43% of investors interviewed by Preqin in January 2013 looking to increase their allocations to Latin America-focused funds in the long term. There are still investment opportunities available in Latin America, particularly in the venture capital space, with increasing entrepreneurship and growth in the region.

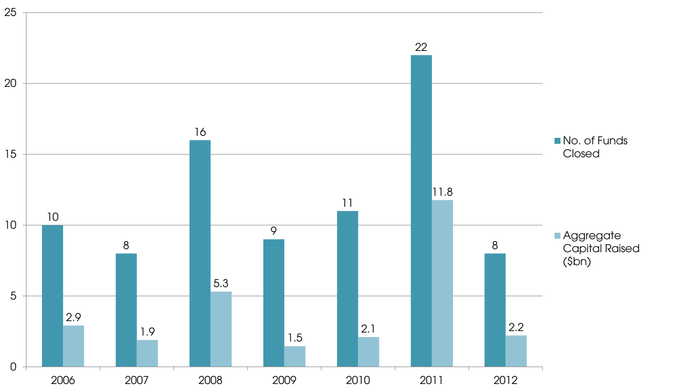
Latin America: Country Focus

Fig. 13: Breakdown of Latin America-Focused Fundraising by Country, 2006 - 2012



Source: Preqin Funds in Market Online Service

Fig. 14: Annual Brazil-Focused Fundraising, 2006 - 2012



Source: Preqin Funds in Market Online Service

Fundraising levels in Latin America have varied significantly over time, and despite the 66% decrease in aggregate capital raised in 2012 in comparison to 2011 (see page 3), many investors continue to see the region as presenting good investment opportunities. Brazil continues to be the most prominent destination for Latin America-focused investment, but a large proportion of investors view markets in other countries, such as Colombia and Mexico, as also presenting good investment opportunities. However, fund managers and investors often continue to look to diversify their portfolios across all of Latin America in order to reduce the risk involved in investing in this emerging market.

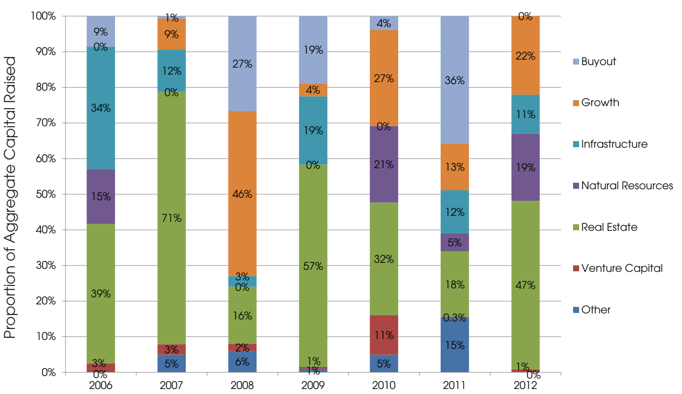
Fundraising by Country

The proportion of capital raised for investment across different Latin American countries has fluctuated significantly between 2006 and 2012, as shown in Fig. 13. Although pan-Latin America-focused funds accounted for 55% of the aggregate capital raised by Latin America funds in 2010, this decreased to only 12% the following year, when an all-time record $15.2bn was raised by Latin America-focused funds. In 2011 and 2012 country-specific Latin America-focused vehicles, particularly those targeting Brazil, represented a significant proportion of the aggregate capital raised by all funds focused on the region.

Brazil-focused funds accounted for 78% of the total capital raised by Latin America-focused funds in 2011, resulting from the closure of several large Brazil-focused funds, including the $1.8bn final close of Gávea Investment Fund IV and the $1.5bn final close of BTG Pactual Brazil Investment I. Eight of the largest 10 Brazil-focused funds to close since 2009 occurred in 2011, accounting for an aggregate $6.4bn in capital commitments.

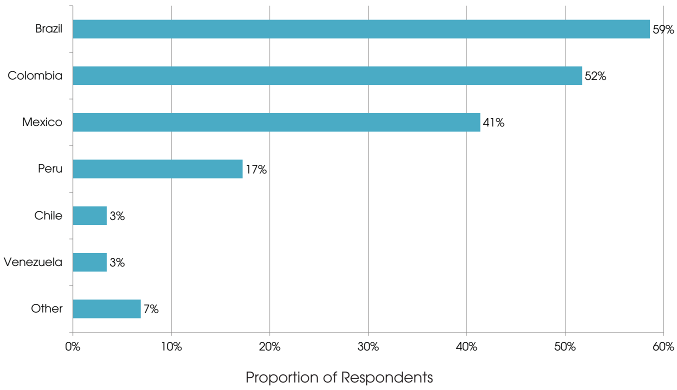
However, the proportion of investors stating that Brazil presents the best investment opportunities in emerging markets decreased from 25% in December 2011 to 12% in December 2012 (see page 3). 2012 saw the proportion of capital raised by funds targeting Latin American countries outside of Brazil increase, with new opportunities in other Latin American countries attracting interest from investors and fund managers. For instance, the proportion of aggregate capital accounted for by Mexico-focused funds increased from 5% in 2011 to 19% in 2012, with funds closed in 2012 raising an aggregate $966mn. This trend is likely to continue as investors look to diversify their portfolios. In addition to an increase in investment in country-specific funds, Latin America-focused vehicles with a geographically diversified focus also saw an increase in the proportion of aggregate Latin America-focused capital they raised to 35%. Of the 68 funds currently in market targeting Latin American investment opportunities, 41%

Fig. 15: Proportion of Aggregate Capital Raised by Brazil-Focused Funds by Type, 2006 - 2012



Source: Preqin Funds in Market Online Service

Fig. 16: Countries within Latin America Investors View as Presenting the Best Investment Opportunities



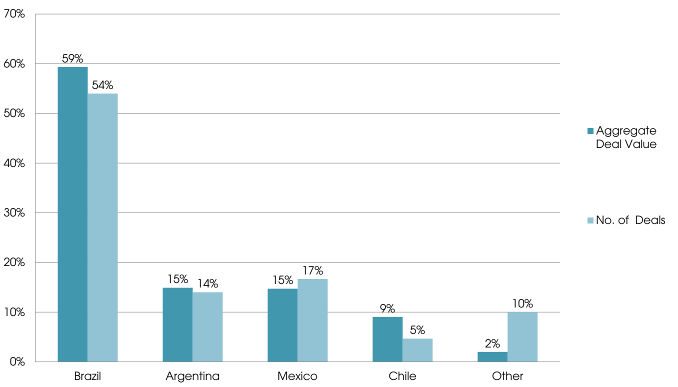
Source: Preqin Latin America Investor Survey, January 2013

are purely Brazil focused, 7% are Colombia focused, 4% are Mexico focused, and a significant 51% are diversified.

Brazil Fundraising

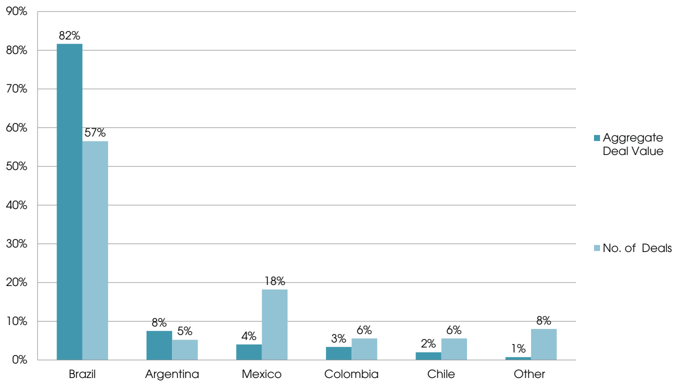
Despite growth in investor interest in other Latin American countries, many fund managers are still targeting Brazil's more developed market. Brazil continues to account for the largest proportion of country-specific Latin America fundraising, both in terms of aggregate capital raised and number of funds closed. Fig. 14 shows that the number and aggregate capital raised by Brazil-focused funds reached an all-time high in 2011, with 22 funds closing on an aggregate $11.8bn. As shown above, this may be accounted for by the final close of several large Brazil-focused funds in 2011. However, in 2012 only eight Brazil-focused funds closed on an aggregate $2.2bn. A key concern for fund managers is whether LPs will continue to look to make new commitments to Brazil-focused vehicles if their capital in existing commitments to the country is not being called up. High levels of dry powder in Latin America indicate that many fund managers are continuing to search for suitable investment opportunities.

Fig. 18: Proportion of Aggregate Value and Number of Venture Capital Deals by Country, 2008 - 2012



Source: Preqin Venture Deals Analyst Online Service

Fig. 17: Proportion of Aggregate Value and Number of Private Equity-Backed Buyout Deals by Country, 2008 - 2012



Source: Preqin Buyout Deals Analyst Online Service

Brazil Fundraising by Type

Fig. 15 shows that the capital raised by real estate funds has often made up a notable proportion of capital raised by all Brazil-focused funds; in 2012 these funds represented 47% of the aggregate capital raised by Brazil-focused funds in the year. Infrastructure funds have also raised a significant 11% of the aggregate capital raised by Brazil-focused vehicles. We explore Latin American real estate in more detail on page 10, and take a closer look at infrastructure investment in the region on page 11.

Although the capital raised by buyout funds represented 36% of the aggregate capital raised by Brazil-focused funds in 2011, there were no buyout funds closed in 2012 focusing solely on Brazil. In contrast, the proportion of aggregate capital raised by Brazil-focused growth vehicles has increased, from 13% in 2011 to 22% in 2012. There is also significant investor appetite for these vehicles; 73% of LPs in our January 2013 study of investors targeting Latin America stated that they believe that growth funds are currently presenting the best opportunities in the region (page 4). It is likely that investment in this type of Latin America-focused vehicle is likely to increase, particularly in Brazil.

Investor Appetite for Country-Specific Investment

When investors in Preqin's January 2013 survey were asked which countries they see as presenting the best opportunities for investment, 59% of respondents named Brazil (Fig. 16); it is therefore likely that a large proportion of investors will continue to target Brazil-focused funds in the future. Interestingly, however, 52% of respondents stated that they saw Colombia as presenting the best investment opportunity, 41% stated Mexico, and 17% stated Peru. As Colombia-focused and Mexico-focused funds currently represent 7% and 4% of the funds in market respectively, investor interest in these regions may lead to increased investment in these countries in the future.

Deals Breakdown

Private equity-backed buyout deals are more common in countries with more developed economies, demonstrating why Brazil accounted for the largest proportion of the number and aggregate value of Latin American buyout deals over the period 2008-2012, as Fig. 17 shows. Brazil accounted for over half the number (57%), and 82% of the aggregate value of private equity-backed buyout deals in Latin America from 2008 to 2012. The country attracting the second highest number of private equity-backed buyout deals was Mexico, with 18% of the total number of private equity-backed buyout deals in Latin America. However, the aggregate value of Mexican deals accounted for only 4% of the total value of all Latin America buyout deals between 2008 and 2012.

Looking at a similar analysis of venture capital deals from 2008 to 2012 (Fig. 18), there is a slightly more diverse picture; however, Brazil accounted for a significant 59% of the aggregate value and 54% of the number of venture capital-backed investments in Latin America from 2008 to 2012. Mexico and Argentina each accounted for 15% of the aggregate deal value over this time period; however, Mexico accounted for a slightly higher 17% of the number of venture capital deals between 2008 and 2012, in comparison to Argentina at 14%.

Outlook

Although Brazil continues to be the most prominent country in Latin America in terms of private equity activity, fund managers are increasingly raising funds focusing outside of the country. Only a small number of funds in market are Mexico and Colombia focused but these countries are stated by a large proportion of investors as presenting good investment opportunities, indicating that investment in these areas may increase going forward. However, the inherent country risk involved in investing in all emerging markets means that investors often look to target geographically diversified funds in order to hold a diverse portfolio of investments. Therefore, funds with a diversified country focus will likely continue to represent a significant proportion of Latin America-focused vehicles.

Fig. 19: 10 Largest Latin America-Focused Funds in Market (As of 1 February 2013)

Fund	Manager	Type	Target Size ($mn)	Location Focus
BTG Pactual Brazil Infrastructure Fund II	BTG Pactual	Infrastructure	1,500	Brazil, South America
Astra Infrastructure Fund	Astra Investimentos	Infrastructure	1,000	Brazil
LAC-China Infrastructure Fund	Macquarie Infrastructure and Real Assets (MIRA)	Infrastructure	1,000	South America, Central America, Americas
Astra Natural Resources Fund	Astra Investimentos	Natural Resources	1,000	Brazil
Hemisferio Sul Investimentos Fund IV	Hemisferio Sul Investimentos	Real Estate	650	Brazil
Angra Partners Fund 2	Angra Partners	Expansion / Late Stage	500	Brazil
Astra Agro Fund	Astra Investimentos	Growth	500	Brazil
SLC Resources Opportunity Fund	SinoLatin Capital	Growth	500	South America
Latin Power IV	Conduit Capital Partners	Infrastructure	500	Brazil, Chile, Colombia, Mexico, Peru, South America, Central America
TFI-Hines Brazil Income Real Estate Fund	The First Investor, Hines	Real Estate	500	Brazil

Source: Preqin Funds in Market Online Service

Sector in Focus: Real Estate

Closed-end private real estate funds have often represented a significant proportion of Latin America-focused private equity funds. The 14 real estate funds currently in market targeting the region represent 21% of both the number and aggregate capital sought by Latin America-focused funds. The developing Latin American market presents opportunities for fund managers raising private real estate funds. These funds are increasingly being raised by fund managers based in the region, demonstrating their confidence in local real estate opportunities and the increasing development of the private real estate industry in Latin America.

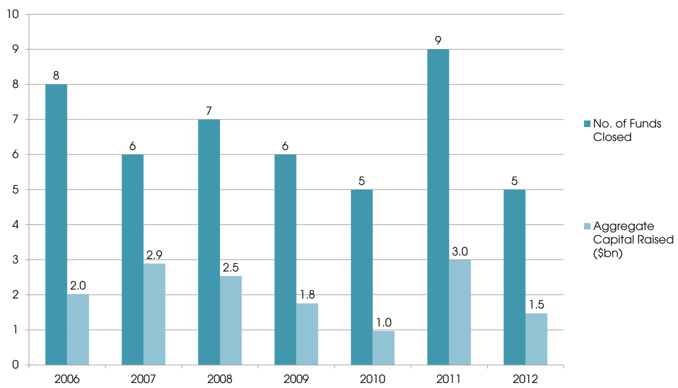
Historical Real Estate Fundraising

Private real estate fundraising for vehicles focusing primarily on Latin America fell significantly in 2012 in comparison to 2011, as demonstrated in Fig. 20, with five funds reaching a final close having raised $1.5bn. This represents a significant 44% decrease in the number and 50% decrease in the aggregate value compared to funds that closed in 2011. However, it should be noted that 2011 represented a particularly successful year for private real estate fundraising in Latin America, with the capital raised by Latin America-focused private real estate funds representing 5.3% of the total real estate capital raised globally, an all-time high.

Brazil – a Hub for Private Real Estate?

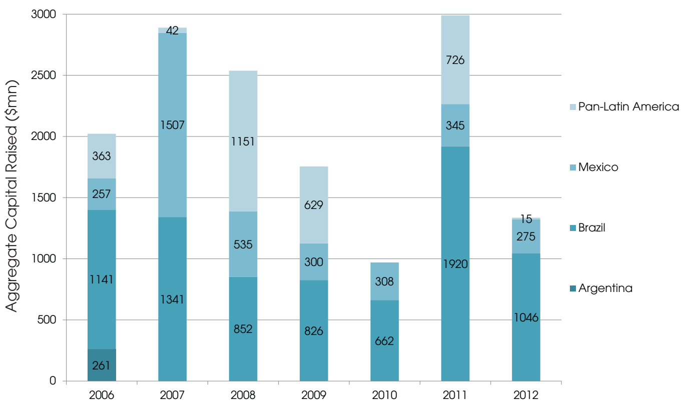
Private real estate funds are particularly prominent in Brazil, representing 47% of all Brazil-focused private equity funds closed in 2012. Brazil consistently accounts for a significant proportion of the amount of aggregate capital raised by real estate funds targeting Latin America, as Fig. 21 shows, and over the period 2006-2012 the country accounted for 53% of all Latin America-focused real estate capital. Eighty-four percent of the aggregate target capital of Latin America-focused real estate funds in market is being sought by Brazil-focused funds, indicating that Brazil will likely remain a prominent country for future real estate investment in Latin America.

Fig. 20: Annual Latin America-Focused Closed-End Private Real Estate Fundraising, 2006 - 2012



Source: Preqin Real Estate Online Service

Fig. 21: Annual Latin America-Focused Closed-End Private Real Estate Fundraising by Geographic Focus, 2006 - 2012



Source: Preqin Real Estate Online Service

Funds by Strategy

The majority of Latin America-focused real estate funds closed between 2006 and 2012 follow an opportunistic strategy, with 58% of both the number of funds closed and the aggregate capital raised by opportunistic funds closed over this time period. Many real estate opportunities in the region require more extensive development, ideal investments for opportunistic or value added vehicles. In contrast between 2006 and 2012 only two core closed-end private real estate funds closed on an aggregate $400mn.

Outlook

The capital raised by Latin America-focused real estate funds has fluctuated in recent years, with a significant decrease in both the number of funds closed and aggregate capital raised between 2011 and 2012. As of January 2013, there are 14 Latin America-focused closed-end private real estate funds in market, targeting an aggregate $3.8bn in capital commitments. Attracting investor capital looks set to remain challenging for these funds; however, it is interesting to note that of these funds in market, the majority of both the number (64%) and the aggregate target capital (63%) is being raised by Latin America-based fund managers. This is in comparison to the period 2006-2012, when 67% of the aggregate capital raised was by non-Latin America-based fund managers. Interestingly, the average target fund sizes of these managers are very similar; non-Latin America-based fund managers have an average target fund size of $285mn and Latin America-based fund managers have an average target fund size of $280mn.

Sector in Focus: Infrastructure

Infrastructure investment in Latin America is in demand due to the developing nature of the region's economy. The long-term, stable nature of the asset class means fund managers often predominantly target the more developed markets of Europe, North America and Australia. Infrastructure investment in emerging markets often requires the development of greenfield assets, carrying inherent construction risk, alongside the increased political risk often associated with these regions. As a result, investors may be wary of committing capital to Latin America-focused unlisted infrastructure funds, and are more likely to invest in more established markets.

Historical Infrastructure Fundraising

A breakdown of primarily Latin America-focused unlisted infrastructure fundraising from 1993-2012 shows that the fundraising environment for the asset class remains challenging, with the number of funds reaching a final close and the aggregate capital raised annually remaining at relatively low levels, as demonstrated in Fig. 22. The aggregate capital raised by Latin America-focused unlisted infrastructure funds decreased significantly between 2011 and 2012, from $1.5bn in 2011 to $0.8bn, the lowest point since 2008.

Unlisted infrastructure funds raised over the period 1993-2012 have predominantly focused on Brazil. A significant 40% of the number of funds and 39% of the aggregate capital raised by Latin America-focused unlisted infrastructure funds over this time period target Brazilian assets. Interestingly, despite only three Chile-focused unlisted infrastructure funds holding a final close over this time period, the region accounted for 16% of the aggregate capital raised. The largest of these vehicles was Transelec Transmission, managed by Canada-based firm Brookfield Asset Management, which closed in June 2006 having raised an aggregate $1.4bn in capital commitments.

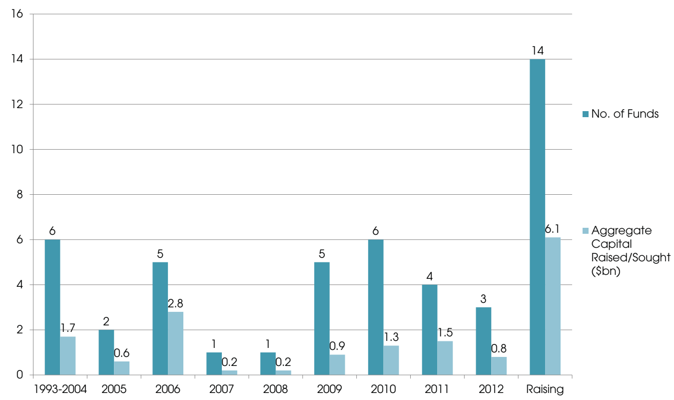
Latin America-Focused Infrastructure Deals

Following on from the financial crisis, 2009 saw a significant drop in the number of deals completed by unlisted infrastructure fund managers in Latin America, decreasing from 18 in 2008 to 10 in 2009. Since this point, the number of deals completed annually in the region has increased back to 2008 levels, with 18 deals completed in 2012. Fig. 23 shows the majority of infrastructure deals since 1994 were in Brazil, with 57 deals taking place in the country. The core infrastructure industries of energy, transport and utilities are the main focus for deals in Latin America; these industries account for 85% of the number of deals completed in the region since 1994.

Outlook

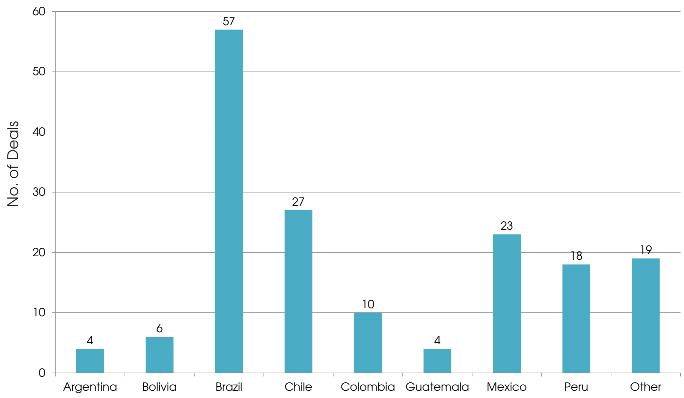
As investors look outside of traditional developed markets for profitable opportunities, infrastructure investment in Latin America is likely to see increasing interest from institutional investors and fund managers alike. Unlisted infrastructure funds in Latin America currently account for a significant 21% of the number and 33% of the aggregate capital targeted by all private equity funds in market purely focused on the region. Of the 14 infrastructure funds currently in market, seven take a diversified approach, six are purely focused on Brazil and one fund is purely focused on Mexico.

Fig. 22: Latin America-Focused Unlisted Infrastructure Fundraising, 1993 - February 2013



Source: Preqin Infrastructure Online Service

Fig. 23: Breakdown of Deals Made by Unlisted Infrastructure Fund Managers in Latin American Assets by Country, 1994 - February 2013



Source: Preqin Infrastructure Online Service

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