

INSIDE MEXICO'S PE MARKET



PRIVATE EQUITY IN MEXICO
2017

Mexican Association of PE & VC Funds
AMEXCAP
Asociación Mexicana de Capital Privado A.C.

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ABOUT AMEXCAP

AMEXCAP is a non-profit association whose mission is to foster the development of the private equity industry in Mexico. The Association was created in 2003 and currently represents **over 118** Private Equity, Venture Capital, Real Estate, Infrastructure and Energy funds that actively invest in Mexico and over **82** advisory service companies involved in the areas of corporate law, tax advisory, financial services, and consulting.

The private equity industry in Mexico has raised a cumulative **USD\$ 51.4bn**, over the past seventeen years. These funds invest in a broad range of sectors including consumer products, healthcare, transportation, financial services, media, telecommunications, real estate, infrastructure and energy.

OUR MISSION

The AMEXCAP works under the following objectives:

- Developing and strengthening the relationships with institutional investors.
- Generating the largest number and frequency of transactions.
- Developing and maintaining relations with authorities and regulators, lobbying with them to improve the competitiveness of the industry.
- Promoting and disseminating the Private Equity and Venture Capital industries at national and international levels.

To carry out these objectives, identify key challenges and propose initiatives which will encourage the development of the industry, AMEXCAP's Board of Directors is composed of a President, a Secretary and ten Committees:

- Venture Capital Committee
- Growth and Acquisitions Committee
- Real Estate Committee
- Infrastructure Committee
- Family Offices Committee
- Institutional Relations Committee
- Promotion Committee
- Research and Education Committee
- Diffusion and Communication Committee
- VC & Seed Legal Committee

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A Letter From AMEXCAP

Dear Reader,

The Mexican private equity industry has come a long way. Starting 17 years ago with only 4 funds and USD\$ 400 Mn in assets under management, today, we reach USD\$ 51.4 Bn of committed assets for private equity investments in Mexico and over 177 active funds investing across different sectors.

The PE and VC sector in Mexico continues to mature. The internationalization of both funding sources and investment by domestic GPs suggests that Mexico is playing an increasingly influential role in financial and economic growth, at both the regional and global levels.

The data of 2016 shows the Mexican private equity and venture capital industry is growing from strength to strength, as high levels of fundraising and dry powder signal strong investment activity over the next few years.

Growth & LBO, Venture Capital, Real Estate and Infrastructure & Energy funds continue to make significant amounts of investment into Mexican businesses, bringing with them the right skills and expertise to make transformative changes to these companies. Overall AMEXCAP has registered 2,017 private equity transactions over the last 26 years, of which 68% occurred in the past 7 years; 56% belong to the Venture Capital sector, 12% are Growth and LBO deals; 20% Real Estate deals; 4% Infrastructure transactions; 1% Fund of Funds and 7% Debt transactions.

Pleasingly, overall fundraising and investment levels remained strong, which is especially noteworthy given the uncertainty and volatility seen across financial markets in a number of leading economies around the world and the moment of political and economic impasse Mexico has been facing during these past months. Funds raised a record of USD\$ 11.8Bn during 2015.

Our pension funds have been more active in the space and continue to be the foundation for our local and some international managers actives in the country, having committed USD\$ 19.9 Bn across all sectors. In 2016, 11 CKDs (including 1 FIBRA e and 1 Cerpi) were issued and this 2017 we have 10 new issued and 26 in pipeline. International investors however, still constitute the major component of our commitments, in a continuation of the trend seen over recent years.

In a positive sign for the innovation ecosystem, fundraising levels for Mexican VC funds remained strong with a continuous trend towards early stage investing. The growing quantum of capital raised by VC funds should help sustain healthy levels of investment into fast-growth early stage businesses over the coming years. A diverse range of investors, (more now but still slow) at the institutional level, are now seizing the opportunity to back homegrown startups and other early-stage companies through established Mexican VC funds. We still wish bigger-ticket support from the domestic investor community. The federal government's policy initiatives through the INADEM, as well as new interest in the early stage sector by large corporates, have worked in tandem to encourage investors to think about allocating capital to this fast-moving and high-growth segment of the economy. As an example of this, Mexico has now more than 240 fintech startups.

Interesting levels of divestment activity were seen across the Private Equity industry over 74 exits recorded during 2016 and 2017 including the IPOs of Javer, Ban Bajío, Traxión, and Vista Oil & Gas in the Mexican Stock Exchange PE Backed. The investment returns being generated by our fund managers remain an important part of the value that the industry brings to Mexico's economic landscape, and to the beneficiaries of the institutional investors who allocate capital into our country.

Increasing policy and regulatory focus is taking place. We are very much active in various topics that will be discussed in this research but mainly to address our fundraising, both domestic and international, and liquidity challenges.

The Mexican government has been very supportive as well. Just this past year two new investment vehicles were launched: "FIBRA E" and "CerPIs" designed to attract top national and global asset managers, as well as local and international institutional investors by featuring transparency of information to adequately align incentives with managers, co-investors and investors.

We will remain very close to our Government seeking to improve investment conditions that will allow Mexico to more competitive for our industry.

I would like to express my gratitude to all the GPs who contributed their valuable time, data and information to AMEXCAP to assist in the production of this report.

I would also like to thank the Chairman **Alonso Díaz Etienne** and the whole Board for their support and trust, and to **Diego Armenta** our Research Director and long-standing member of my team for the fourth year running, for his valuable input and support of our organization and the industry we represent.

Finally, special thanks to our contributors for this edition: Committees' Presidents and the overall participation of some of our members.

Rodrigo Fonseca, President, AMEXCAP's LBO & Growth Committee

Ricardo Elizondo, President, AMEXCAP's Venture Capital Committee

Felipe Vilá, President, AMEXCAP's Institutional Investors' Committee

Francisco Navarro, AMEXCAP's Real Estate Board Member

Manuel Rodríguez, AMEXCAP's Infrastructure Board Member

Andrés Cárdenas, AMEXCAP's Venture and Seed Capital Legal Committee

José Luis Fernández, AMEXCAP's Board Member

As private equity remains an opaque asset class, we encourage readers to review our data methodology. We hope that you enjoy this publication, and that it provides a fresh perspective on a richly diverse economy.

We look forward to another great year for investments and continued exit success.

Cordially,
María Ariza
CEO

AMEXCAP METHODOLOGY

This report provides an overview of trends in fundraising and investment among private equity (PE) funds investing in Mexico, including Venture Capital (VC), Growth & LBO, Real Estate, Infrastructure & Energy. The statistics presented here are drawn from AMEXCAP's funds and transaction database. The main data sources used were: press-releases, trade publications, AMEXCAP communication with industry participants and members. This overview covers from 2000 thru October 2017.

Reported fundraising totals reflect only official closes (interim and/or final) reported by public sources and by the firms. Capital commitments accruing prior to, or between, official closes are not included. Investment totals included in the report reflect total equity amounts for transactions in which financial details have been reported. For both fundraising and investment data, amounts have been confirmed wherever possible through information provided by the fund managers themselves. Any discrepancies between the aggregate statistics published by AMEXCAP and the constituent data files can be attributed to confidential information that has been omitted from public reporting. Funds of Funds' capital committed is no longer being on the report as the capital is being invested in funds investing in Mexico.

We continuously strive to gather as much information as possible to better reflect the current PE industry in Mexico, so our data may have some adjustments year over year, this is due to several factors the main ones are:

- a) More public information from historic investments and capital raised from funds we have not tracked before.
- b) The maximum amount that CKDs can call, on 2016 report we used only what was called.

Information from Inside Mexico's PE Market published on December 2016 shows the following adjustments on Accumulated Capital Committed :

On 2016 USD\$ 48,141 instead of USD\$ 42,571 Mn

On 2015 USD\$ 44,322 instead of USD\$ 41,918 Mn

On 2014 USD\$ 32,465 instead of USD\$ 33,469 Mn

On 2013 USD\$ 26,610 instead of USD\$ 27,422 Mn

On 2012 USD\$ 24,455 instead of USD\$ 25,361 Mn

On 2011 USD\$ 20,436 instead of USD\$ 20,889 Mn

On 2010 USD\$ 17,651 instead of USD\$ 18,102 Mn

On 2009 USD\$ 14,004 instead of USD\$ 14,372 Mn

On 2008 USD\$ 12,441 instead of USD\$ 12,693 Mn

On 2007 USD\$ 10,597 instead of USD\$ 10,848 Mn

On 2006 USD\$ 6,497 instead of USD\$ 6,725 Mn

On 2005 USD\$ 4,403 instead of USD\$ 4,439 Mn

Disclaimer: This information is intended to provide an indication of industry activity based on best information available from public and proprietary sources. AMEXCAP has taken measures to validate the information presented herein but cannot guarantee the ultimate accuracy or completeness of the data provided. AMEXCAP is not responsible for any decision made or action taken based on information drawn from this report.

EXECUTIVE SUMMARY

Much has changed in the last 4 years. Mexico keeps living a prosperous moment when it comes to private equity investments.

The PE industry has grown a in a double digit annual growth rate (15.25% for the last 10 years), reaching now over USD\$51.4bn in capital commitments to Private Equity investments in a diverse pool of sectors and strategies.

Mexico's Private Equity Industry has 177 active fund managers, 7.4X since its beginnings in 2005, of which 109 are Mexican GPs, 68 foreign GPs, 74 CKDs, 1 CERPI and 1 FIBRA E.

AMEXCAP has registered 2,017 transactions over all, of which 269 were done in 2016 and 140 this year: 119 Venture Capital deals, 12 Growth & LBO deals, 4 Real Estate deals, 4 Infrastructure & Energy deals and 3 Debt deals. On the liquidity side, during 2016 and 2017 we had 74 exits and the IPOs of Ban Banjio, Traxión, and Vista Oil & Gas in the Mexican Stock Exchange. Historically we have had 18 IPOs of PE backed companies.

PE funds (Growth & LBO, VC, RE and Infrastructure & Energy) raised USD \$4.32Bn in 2016, lower than the 2015 but still higher than the average levels before 2013.

VC fundraising was for 2016 USD\$165Mn, lower than the average fund-raised on the 3 previous years.

Growth & LBO fundraising was for 2016 USD\$530Mn, USD\$206mn lower than the capital raised on 2015.

Real Estate fundraising for 2016 was USD\$ 806Mn, so much lower than the previous year, 2015 was the highest year above all with USD\$4,322mn.

As of 30 October 2017, an estimated USD\$ 25bn of dry powder was available for investment by PE funds investing in Mexico.

For 2016 PE investments in USD\$ terms maintain almost the same level of 2015 with USD\$2,735Mn 2015 was a record year with more than USD\$6,512mn, the number of transactions of PE investments was very close with 269 in 2016 and 238 in 2015.

Growth & LBO investments maintain almost the same level as of 2015 on 2016 there were 28 transactions just 7% above 2015; in terms of capital deployed USD\$ 27Mn higher than 2015-Average PE investment sizes maintain very similar for 2016 and 2015, USD\$ 13.56Mn and USD\$ 13.05Mn respectively.

Total VC investment in 2016 was almost 275% higher in terms of total value compared to the previous year, with USD\$231mn invested.

PE Overview 2017

An investment trend was the growth of VC investment in fintech, totaling USD\$87Mn for 2016 and USD\$63Mn this year.

Our latest research conducted by KPMG and AMEXCAP regarding successful PE backed companies in Mexico, which will be published in January 2018, demonstrates that PE funds have encouraged growth and improved the investees' performance, showing the following results:

For Private Equity Investments:

Revenue growth of 4.39X

EBITDA growth of 3.58X

For Venture Capital Investments (series A):

Revenue growth of 6.22X

EBITDA growth of 1.28X

For Venture Capital Investments (Seed Capital):

Revenue growth of 2.17X

EBITDA growth of 1.46X

Our major local investors foster the development of our industry. The Fund of Funds investment vehicle "CMIC" has invested more than USD\$885 Mn in more than 84 funds and co-invested in 17 deals; the INADEM has invested in 41 new seed capital funds from 2013 to 2016; finally, Domestic Pension Funds have allocated more than USD\$19.9 Bn through 74 CKDs since the rule change in 2009. This amount can further increase to USD\$6.2bn more, with the CKDs that are on the pipeline.

As a result, Mexico is now seen as one of the most favorable emerging markets to invest in and top in LATAM according to different LPs surveys. (LAVCA 2014, 2015, and EMPEA 2015, 2016 and 2017).

INDUSTRY PROFILE AND EVOLUTION

AMEXCAP gathers all investment sectors, including not only VC and Growth & LBO, but also Real Estate, Private Debt, Infrastructure & Energy. All of them show important growth year per year as seen in the graph below.

In the last seventeen years, Mexico's Private Equity Industry has achieved over USD\$ 51.4Bn in capital commitments

with 92% of the total coming from the Growth & LBO, Infrastructure & Energy and Real Estate Funds. Capital Commitments have increased specially in Infrastructure & Energy sector with a 19% increase from 2015 to 2017, Real Estate and Venture Capital also had a double digit increase in the same period 16% and 13% respectively.

Accumulated Capital Commitments In Mexico (USD\$ Mn)

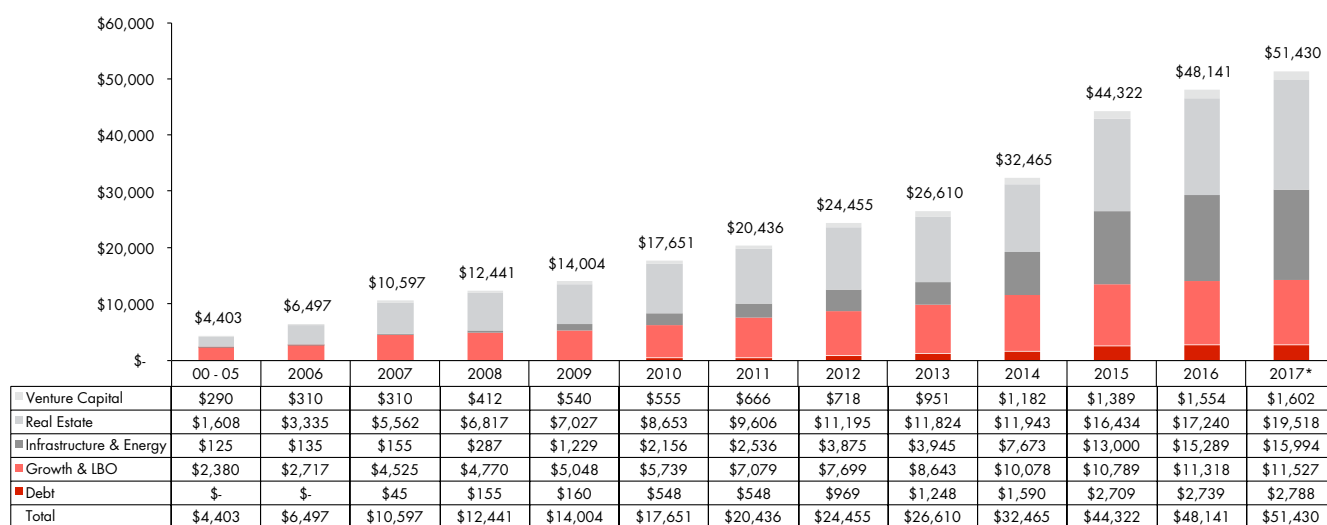


Fig. 1

In 2010, the committed capital from Mexican funds represented 33.6% of the total, today it represents 41.8%, this percentage has been increasing in previous years. Due to the development of the private equity industry, the

creation of new funding vehicles, local development banks, economic stability among other factors had helped to boost the industry.

Accumulated Capital Commitments (Mexican & Foreign USD\$ Mn)

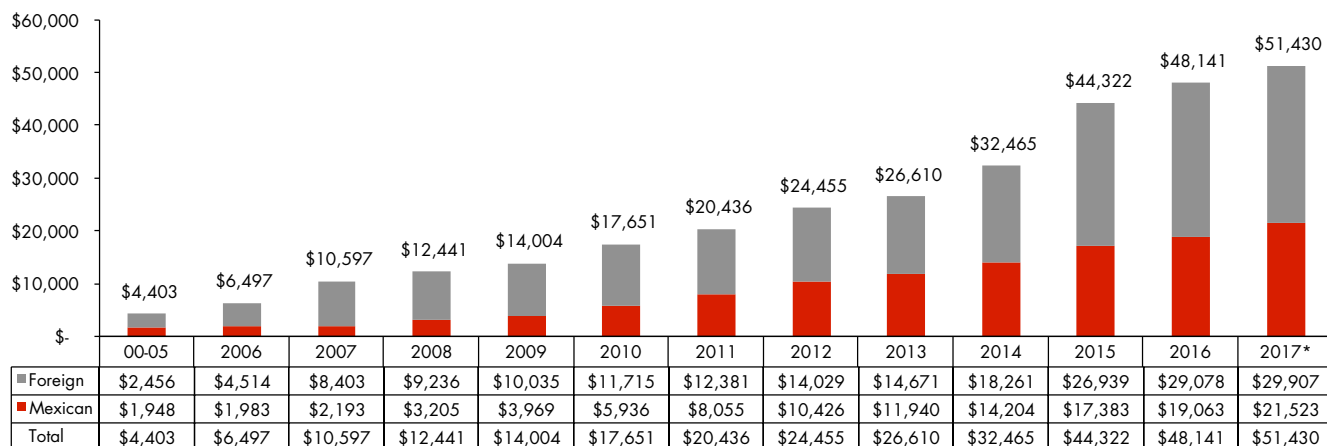


Fig. 2

Source: AMEXCAP 2017

Note: Does not include first time funds without first closing

INDUSTRY PROFILE AND EVOLUTION

Fund managers in Mexico have more than quadrupled in the last ten years going from 41 fund managers in 2007 to 177 fund managers in 2017. Roughly, 35% of the active fund managers belong to the Venture Capital industry, 25% belong to the Growth & LBO industry, 17% belong to the Real Estate industry, 17% belong to the Infrastructure & Energy industry and the remaining 6% belong to Fund of Funds and Private Debt.

The increase of GPs in the Venture Capital industry sticks out from other industries with an astonishing increase of 55 funds in the last seven years, which represents 50% of the total increase of funds from all industries in the same period of time. Recently, foreign Venture Capital funds have been investing in Mexico, mainly in the fintech and consumer services sectors.

Some foreign funds with at least one transaction in Mexico include Accion Venture Lab, American Express Ventures, Axon Investment, Bamboo Capital Partners, Baroda, Bitcoin Capital, Core Ventures Group, Cottonwood Technology, Crunchfund, Endeavor Catalyst, Felicis Ventures, First Round Capital, Intel Capital, Investment AB Kinnevik, Jackson Square, Plug and Play US, QED Investors, Quona Capital, Richmond Global, Rise Capital, Roadster Capital, Sierra Ventures, Summit Partners, Tanant Capital, Tengelmann Group among others.

The Infrastructure & Energy industry has also been increasing in number of active fund managers recently, due to the energy reform that is allowing private investments on energy sectors, oil and gas, electric power generation and renewable energy. There are currently 31 active funds investing in infrastructure and energy in Mexico, more than three times the amount four years ago.

**Active Fund Managers
(Number of GPs)**

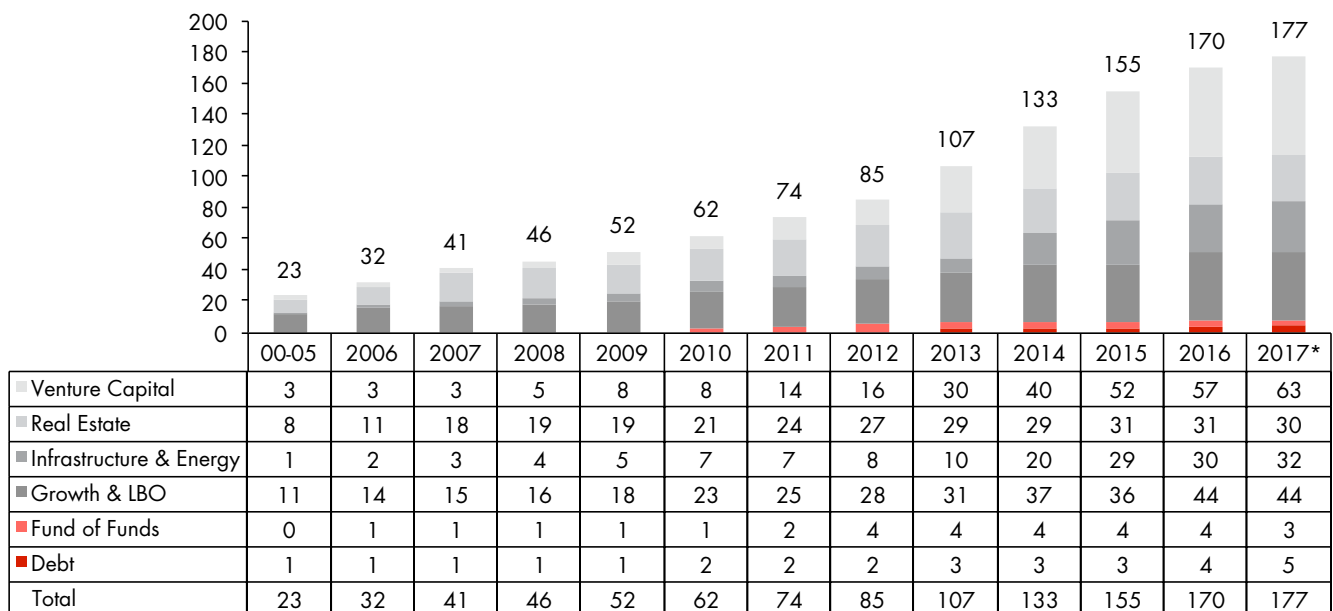


Fig. 3

Source: AMEXCAP 2017
Note: Does not include first time funds without first closing.

UNIVERSE OF GPS IN MEXICO COVERS DIVERSE STRATEGIES

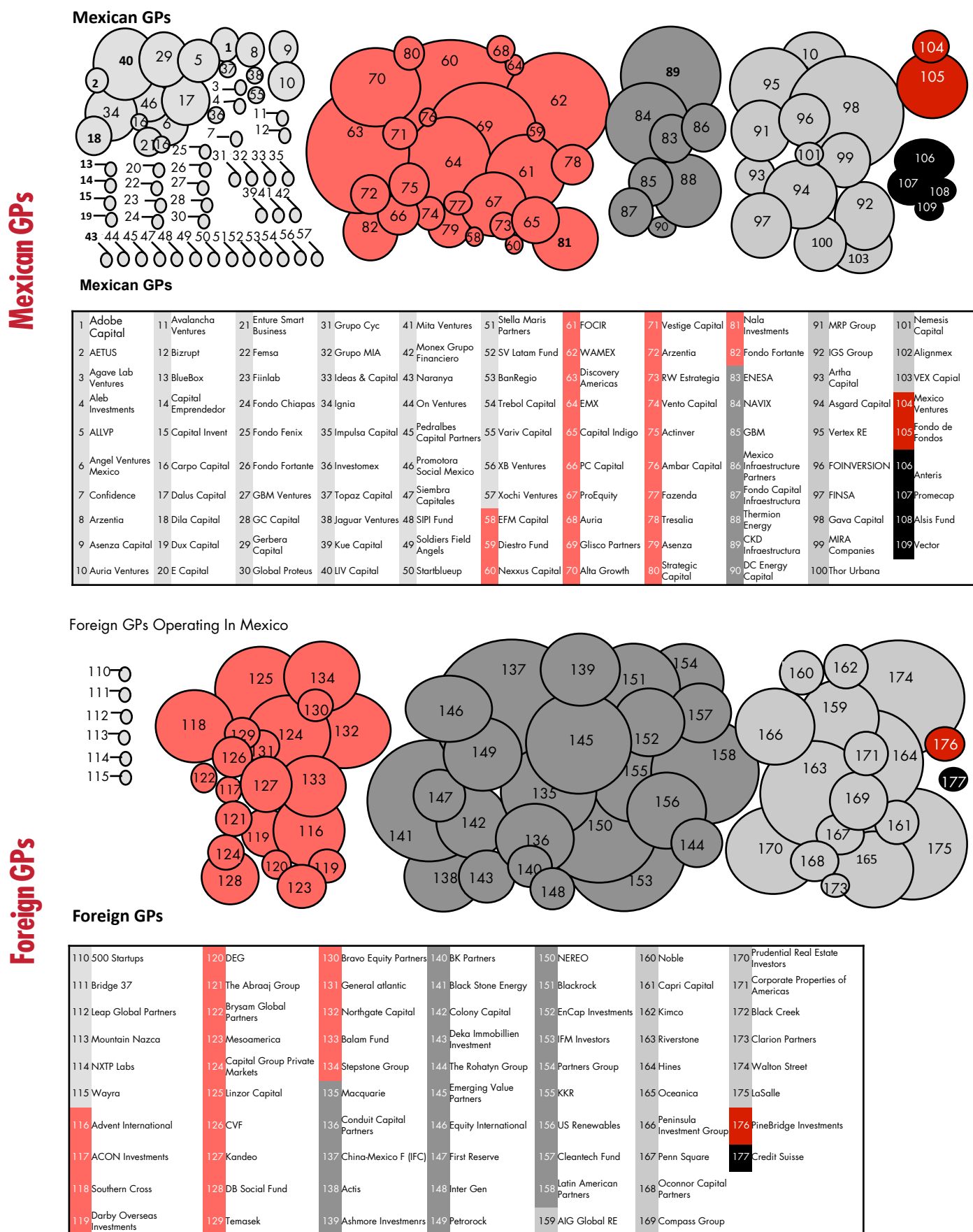


Fig. 4

Source: AMEXCAP 2017

Note: Bubble size illustrates capital commitments to Mexico. Drawing not to scale. Does not include first time funds without first closing

■ Debt ■ Fund of Funds ■ Growth & LBO
■ Infrastructure & Energy ■ Real Estate ■ Venture Capital

FUNDRAISING OVERVIEW

Since 2013 we have seen a trend with more than 40 funds raised per year this is due to several factors such as government support for VC funds, Mexican pension funds investing through CKDs vehicles and the energy reform between other factors are boosting PE industry.

Funds raised a record of USD\$11.857 bn during 2015, a 51% increase from 2014 mostly driven by Infrastructure & Energy funds, making 2015 a record year.

Funds raised per year

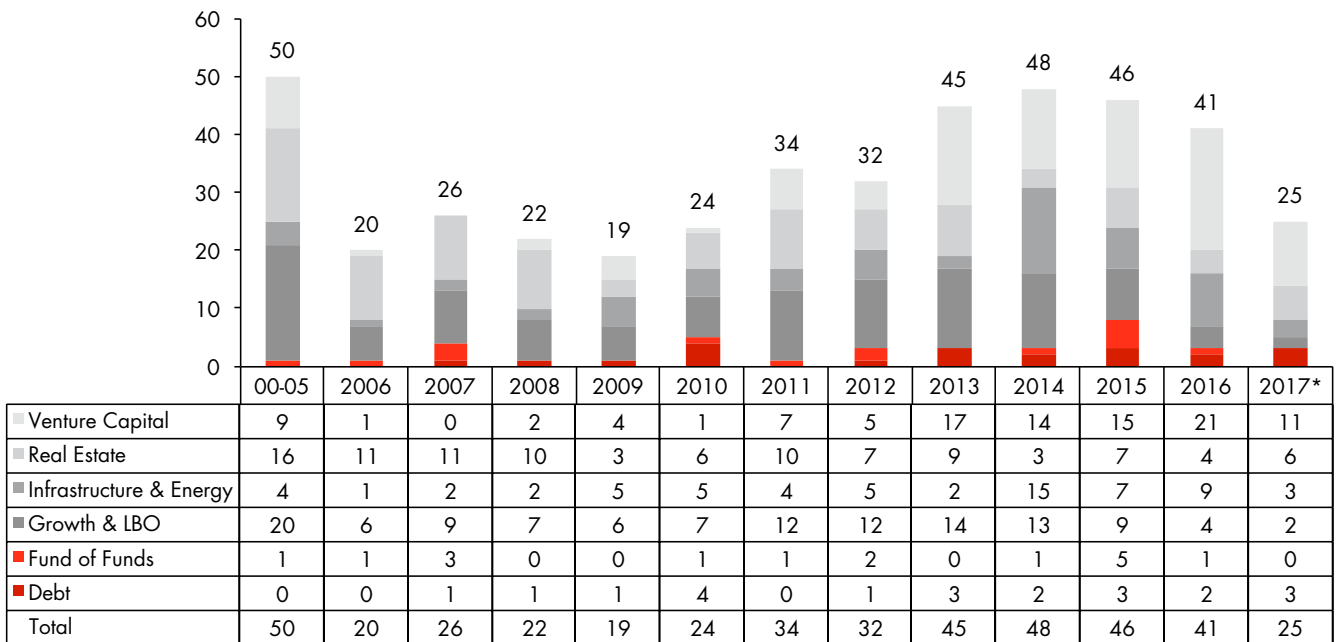


Fig. 5

From the total number of funds raised yearly that actively invest in Mexico, the number of Mexican funds is roughly twice as of foreign funds. So far this year 7 foreign funds and 18 local funds have been raised. There are at least 7 funds raised from Mexican and foreign funds each year on the last 7 years.

Funds raised per year



Fig. 6

Source: AMEXCAP 2017
Note: Does not include first time funds without first closing.

FUNDRAISING OVERVIEW

So far this year, there has not been a lot of capital commitments for some of the industries from Mexico in comparison to previous years, as the commitments decreased roughly 15%. The Venture Capital and Growth & LBO industries raised USD\$ 48Mn and USD\$ 209Mn, respectively; an amount that represents less than half of what they raised in 2016 - USD\$ 165Mn and USD\$ 530Mn, respectively.

Capital Commitments in Mexico (USD\$ Mn)

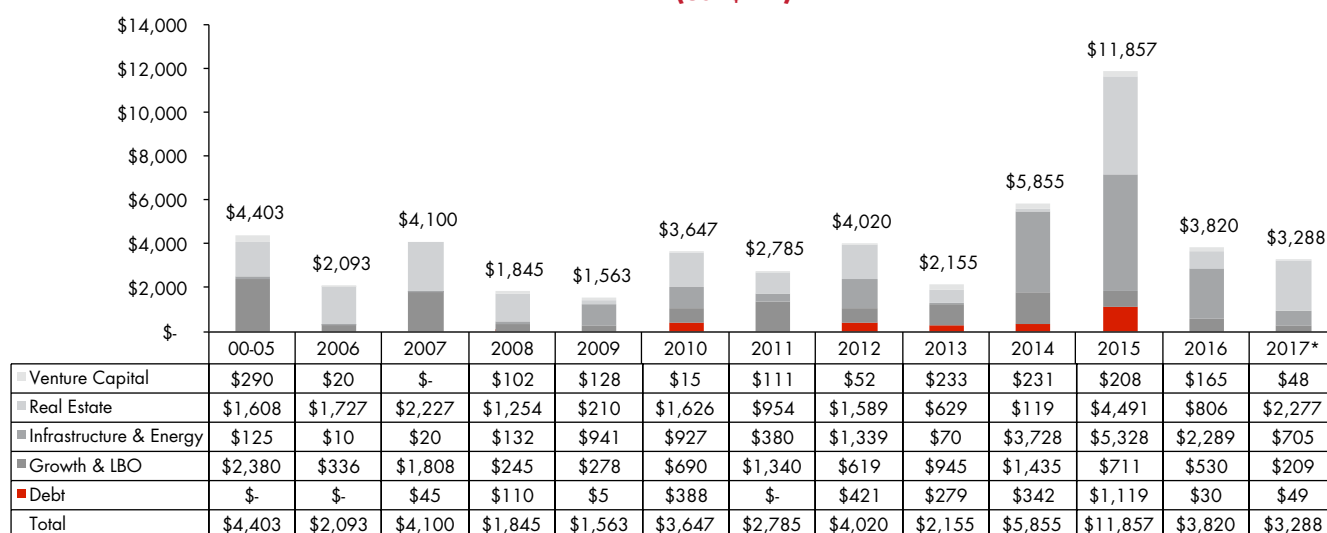


Fig. 7

On 2016 and 2015, 55% and 75% of the capital commitments in Mexico came from foreign funds. So far this year, foreign funds only committed \$USD 828Mn which represent 25% of the total capital commitments in Mexico, as the amount of capital commitments from Mexican funds is USD\$ 2,460Mn.

Capital Commitments in Mexico (USD\$ Mn)

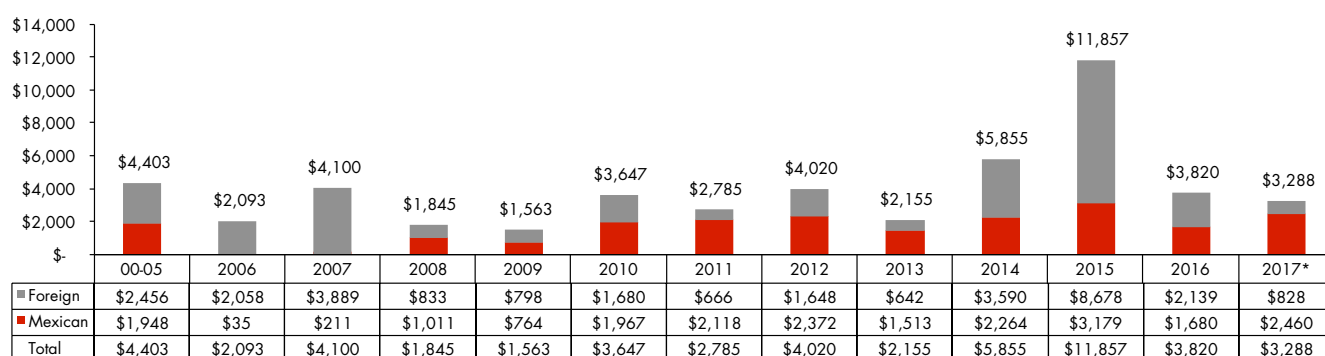


Fig. 8

Source: AMEXCAP 2017

Note: Does not include first time funds without first closing.

TAX DEVELOPMENTS IN THE PRIVATE EQUITY INDUSTRY

INVESTING THROUGH PRIVATE EQUITY FUNDS HAS BECOME HIGHLY IMPORTANT IN MEXICO IN THE PAST FEW YEARS



José Luis Fernández
AMEXCAP's Board Member



Alberto Álvarez Flores
Chevez Ruiz y Zamarripa

The expansion of this industry is due to various factors, including the enhancements achieved for the current legal and tax frameworks and regulations, which provide legal certainty to all the participants.

In this article, we describe briefly some of the breakthroughs our current tax framework

One of these factors has to do with the amendments made to the investment regime of the Mexican pension funds investment entities (SIEFORES) a few years ago, which had a direct impact on the way private equity investments are made by broadening their investment horizon.

This situation, among other elements, has triggered the development of certain vehicles and instruments such as *Certificados de Capital de Desarrollo* (CKD's), *Certificados Bursátiles Fiduciarios* (CBFs) or even the new *Certificados de Proyectos de Inversión* (CerPis), that promote investment of SIEFORES, and several other participants in this industry.

Even though we are able to say that at the moment we have tax certainty for all the participants involved, it is also true that the task remains unfinished and that several changes can still be made to further improve the legal and tax regime of private equity in Mexico for it to match the level of more developed countries.

In this article, we describe briefly some of the breakthroughs our current tax framework has developed over the past few years for private equity funds, investors and entrepreneurs, and also some of the proposals that could be incorporated in our tax system to take this industry to the next level, where it deserves to be.

Current tax framework

When designing a tax structure for a new private equity fund, one of the most important features that the vehicle should have from a tax viewpoint is the ability for all the participants to be subject to

taxation on the returns they obtain from the investments by applying their particular tax regime. For these purposes, in the last few years, all the efforts towards the improvement of our tax framework have been focused on developing rules for vehicles that can be treated as disregarded from a Mexican tax perspective and can be implemented, taking into consideration all the elements required for the participants in order to raise capital, including corporate governance rules, waterfalls for investors and managers, etc.

The fact that a Fideicomiso is considered as a business type of vehicle created certain tax issues...

The vehicles which provide this flexibility are in general terms Mexican Fideicomisos (Trusts) (Non-Business Fideicomisos and Private equity Fideicomisos (FICAP) and Limited Partnership Agreements (LPA) established in accordance with foreign legislation.

Mexican Fideicomisos (Trusts) have been subject to a great deal of scrutiny from a tax perspective over the years since, depending on the kind of activities performed through them, different tax regimes could be triggered, since they could be treated as business or non-business Fideicomisos, and there was no clarity as to when a specific regime was applicable over the other one.

The fact that a Fideicomiso is considered as a business type of vehicle created certain tax issues that did not allow fund managers to offer the total transparency their investors were looking for, which discouraged the use of this vehicle. An improvement made to our tax system is that, currently, due to the incorporation of an administrative rule, certainty has been provided with respect to the use of these vehicles, since it is clear that, if the income obtained is passive income as defined by the rule (at least 90% of total income) then we are able to rely on a Fideicomiso as the vehicle through which the fund is incorporated without being concerned that there would be tax leakage for the investors due to the vehicle chosen.

Another development in our tax system was the incorporation of certain rules within the Mexican Income Tax Law that provide the legal framework for Private Equity Fideicomisos or FICAPs. These vehicles were incorporated as an incentive seeking to promote investment of this type in Mexico.

This vehicle involves the use of a Mexican non-business Fideicomiso by providing a set of rules, which are more specific than those applicable to traditional non-business Fideicomisos that intend to promote the private equity industry even further.

Finally, another vehicle that has been utilized by private equity funds in Mexico is the Limited Partnership Agreement which is usually governed by Canadian law although it could be governed by some other legislation. These vehicles were the most popular a few years ago, before clarity was given to the Mexican Fideicomiso tax regime as mentioned above.

The transparency and success of these vehicles relied on the fact that they are agreements that lack legal capacity, and therefore, all the effects triggered through them are recognized by the limited partners or investors. Also, the Mexican tax authorities made a pronouncement on the transparency of these vehicles through private tax rulings issued several years ago.

Recently, and following the rules that give clarity to Mexican Fideicomisos, it has also been established through an administrative rule that an LP should be disregarded and should allow its investors to recognize their own tax effects provided the income obtained is also passive income.

The fact that our tax framework contemplates the abovementioned tax regimes for these vehicles allows fund managers to offer competitive structures to investors since they can be subject to taxation under their own tax regime (including the possibility of applying the broad tax treaty network Mexico has with other countries without incurring any leakage throughout the chain.

However, since most of these rules and criteria are included via administrative rules, in order to provide more legal certainty to participants in this industry, it would be worthwhile if all of these regulations were incorporated into our legislation.

Proposals to improve the tax regime

Irrespective of the above, we do believe that there is room for improvement in the tax regime applicable to this industry.

In this respect, the AMEXCAP has been deeply involved in proposing the creation of a new pass-through vehicle that should be incorporated into Mexican mercantile law, which from a tax viewpoint should work similarly to the vehicles mentioned above, but that would provide certain advantages from a legal perspective, not to mention that it would be more cost-efficient for fund managers than the current alternatives.

... the AMEXCAP has been deeply involved in proposing the creation of a new pass-through vehicle that should be incorporated into Mexican mercantile law...

Another feature that our vehicles should have is the possibility for investors to be taxed once the return over the total investments made by a fund exceeds the amount invested. Currently the tax regime obliges investors to measure their tax effects on a single divestiture basis (i.e. once shares are sold by a company).

This situation makes investors subject to taxation on certain kind of investments (where profit is obtained), without being able to use any losses incurred in previous investments, especially when a profit is realized before a loss is incurred, since we do not have carry-back provisions in our tax regime.

AMEXCAP's proposal in this regard is that investors should be taxed only when the fund is terminated, so that the total result of the investments made is known, and therefore, taxpayers are only taxed on any profits realized.

Proposals such as the ones mentioned above will definitely help to further improve the tax regime for private equity funds in Mexico and the parties participating therein, which is why we should all continue promoting them and supporting AMEXCAP in every way possible to achieve these changes.

FUNDRAISING OVERVIEW- “STRUCTURED EQUITY SECURITIES” (CKDS)

For the last nine years 74 CKDs, 1 CERPI and 1 FIBRA E have been issued with a maximum amount to raise for USD\$ 19.9bn. The Sectors that have received most of the investments are Infrastructure & Energy and Real Estate.

There are 26 CKDs on the pipeline pending to be approved which would capture MXN\$117,700mn (USD\$ 6,178Mn).

9 CKDs per year is the annual average of CKDs that are listed per year since 2010.

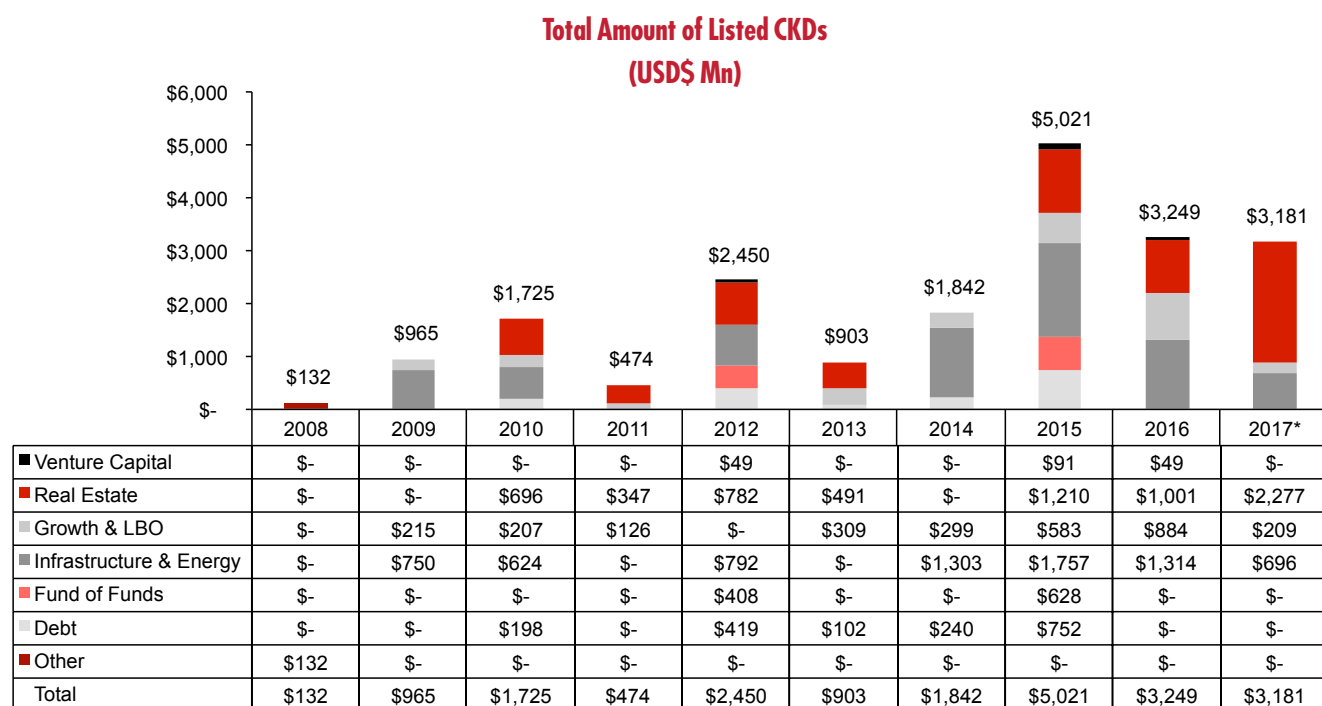


Fig. 9

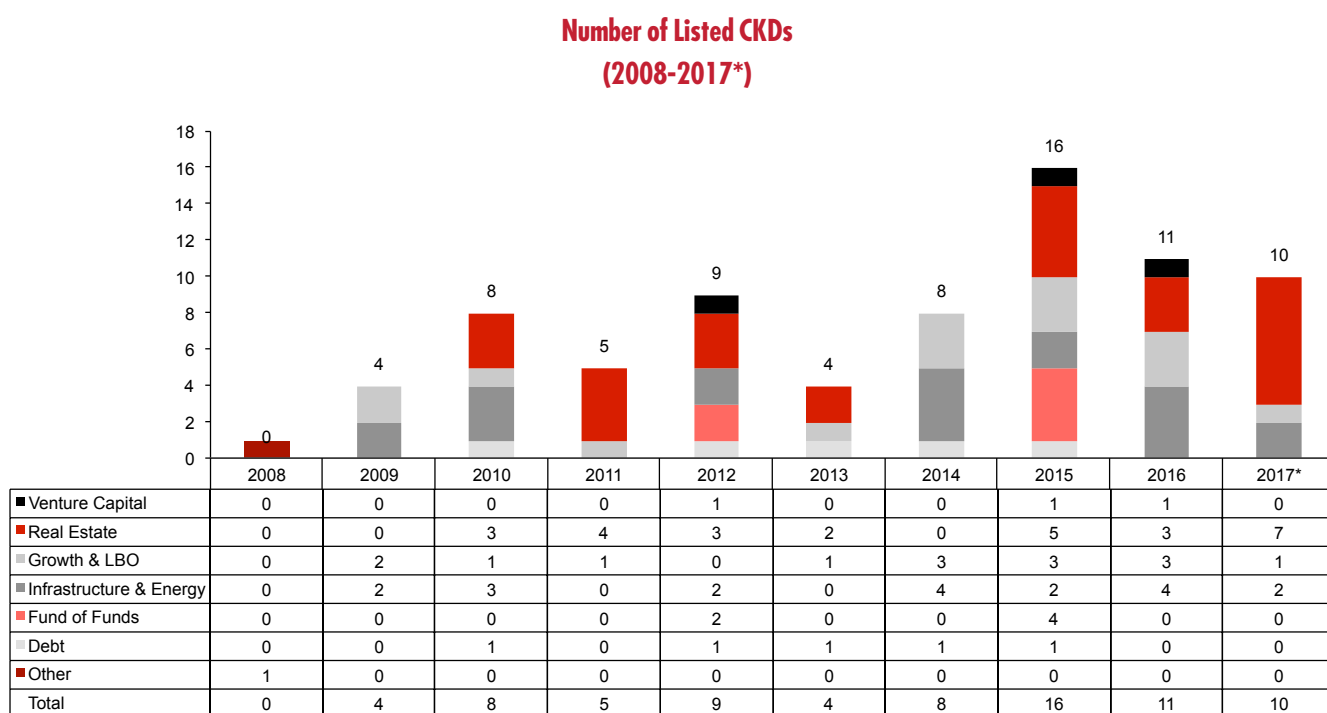


Fig. 10

Source: AMEXCAP 2017
Note: Extracted from BMV

Venture Capital (USD\$ Mn)

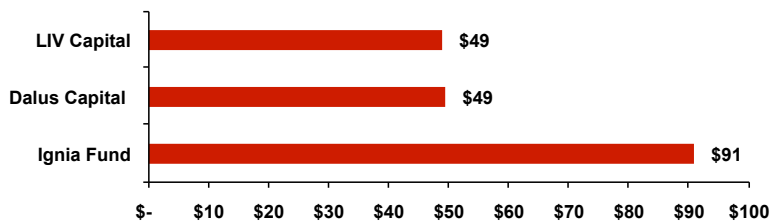


Fig. 11

Venture Capital Funds have raised USD \$189M via CKDs, almost USD \$100Mn have been invested in 10 companies. The funds that have participated in these transactions are Dalus Capital, Ignia Partners and LIV Capital.

Growth & LBO (USD\$ Mn)

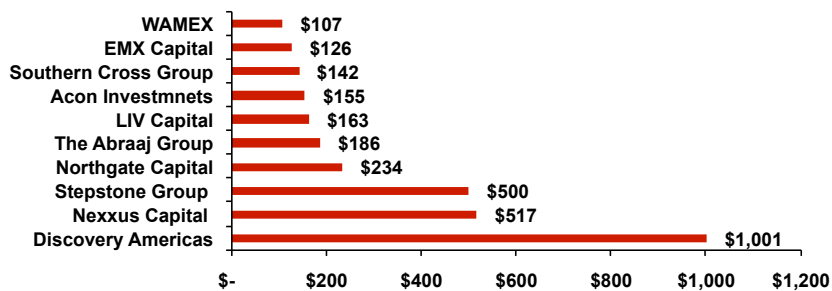


Fig. 12

There have been 33 Growth & LBO transactions from CKDs, more than USD\$ 860Mn have been invested since 2010. These transactions have been carried out by six funds in 31 companies. Some funds that have participated in these investments are Acon Investments, Discovery Americas, EMX Capital, Nexxus Capital, The Abraaj Group and WAMEX Private Equity.

Fund of Funds (USD\$ Mn)

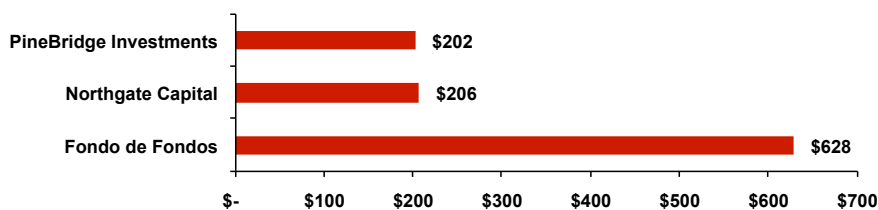
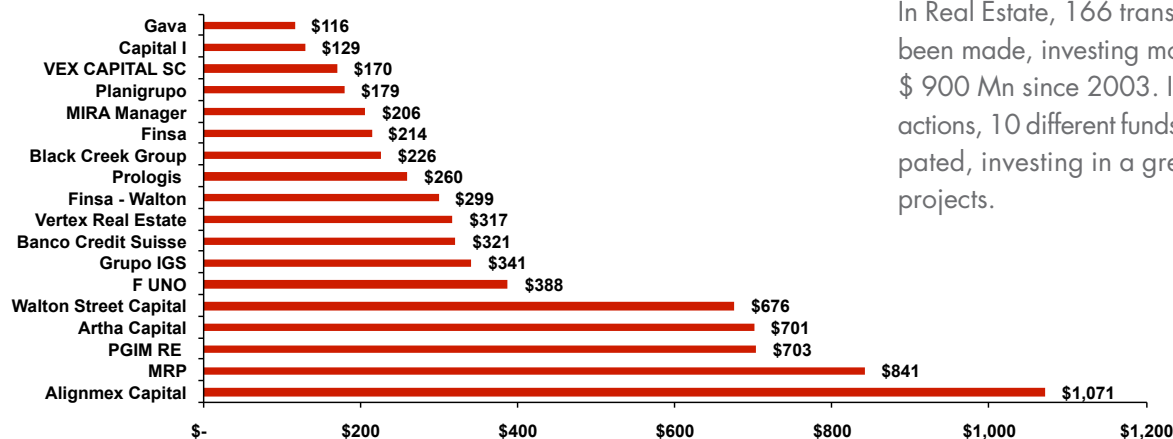


Fig. 13

Fund of funds have been a very important accelerator in the Mexican industry mainly Fondo de Fondos an institution that was created by the Government 10 years ago, that have emitted four CKDs on 2015 for a total committed capital of USD\$ 628Mn. Pinebridge Investments committed their capital with real estate, infrastructure, energy, early growth and growth & LBO funds investing in Mexico. Northgate Capital have two CKDs one for fund of funds and an Growth & LBO CKD.

Real Estate (USD\$ Mn)



In Real Estate, 166 transactions have been made, investing more than USD \$ 900 Mn since 2003. In these transactions, 10 different funds have participated, investing in a great variety of projects.

Fig. 14

Infrastructure & Energy (USD\$ Mn)

In Infrastructure and Energy, 34 investments have been made through CKDs since 2009. In these investments, 10 funds have been invested in 31 different projects, such as highways, solar parks, waste recycling, among others. We have seen important investments, CKD Infraestructura Mexico invested in Enel Green Power, Macquarie in Parque Solar Coahuila, among other interesting projects.

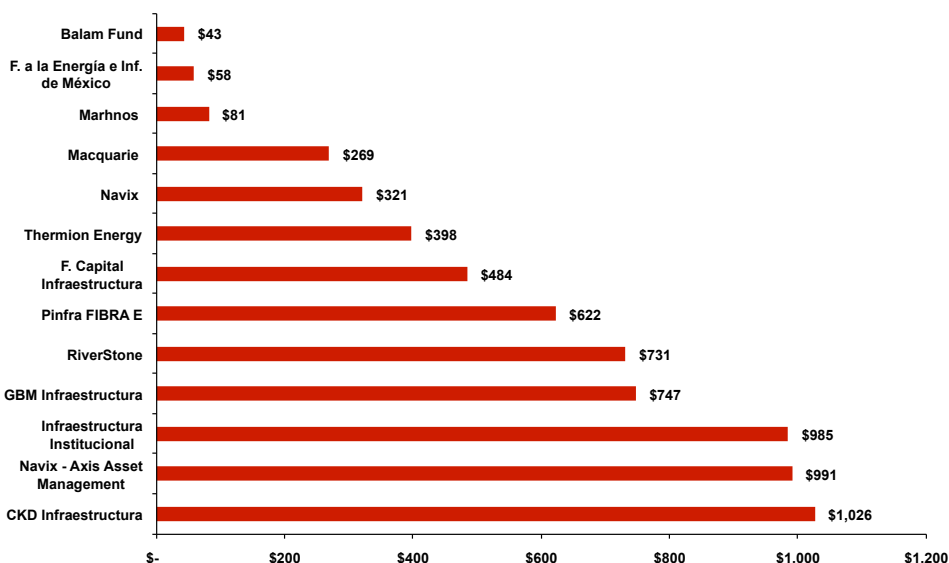
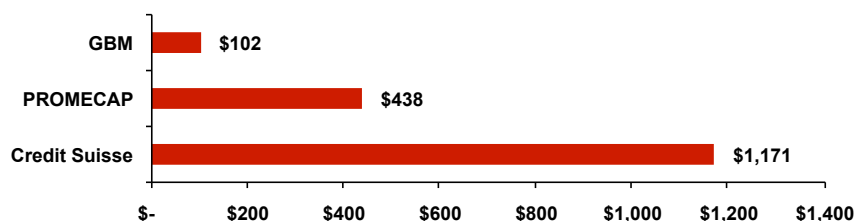


Fig. 15

Debt (USD\$ Mn)



In the past 5 years we have seen 28 debt transactions by Credit Suisse derived from its CKD with ticker CSMK, accumulating USD\$ 291Mn in loans.

Fig. 16

SIEFOREs still have a large amount to invest within their investment permitted limit, only 23% of their limit has been invested, remaining a great amount of capital yet to be compromised.

Total Amount Invested per SIEFORE

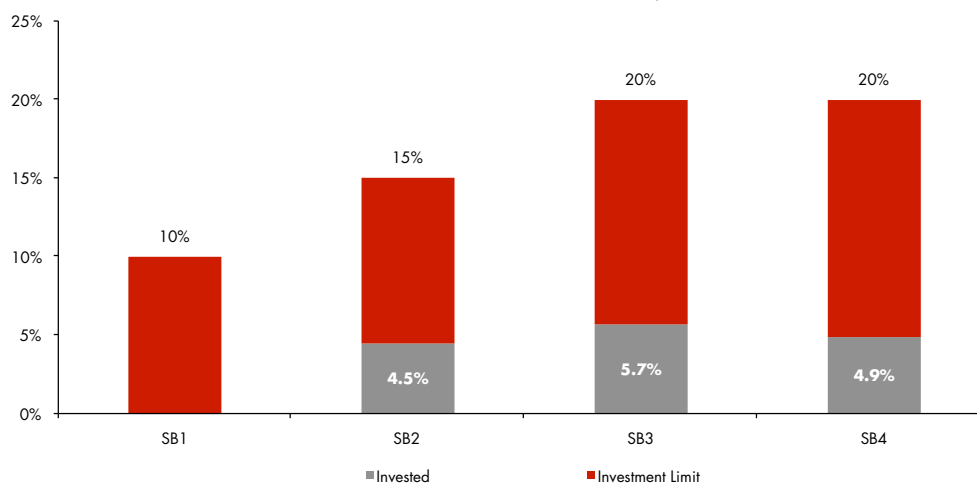


Fig. 17

Banamex has the lead in investments, covering 28% (USD \$2,065 Mn) of the total amount that has been invested by SIEFOREs, followed by Banorte who has participated actively with 21%, investing USD\$1,533 Mn.

Amount Invested on Structured Equities Pension Funds (USD\$ Mn)

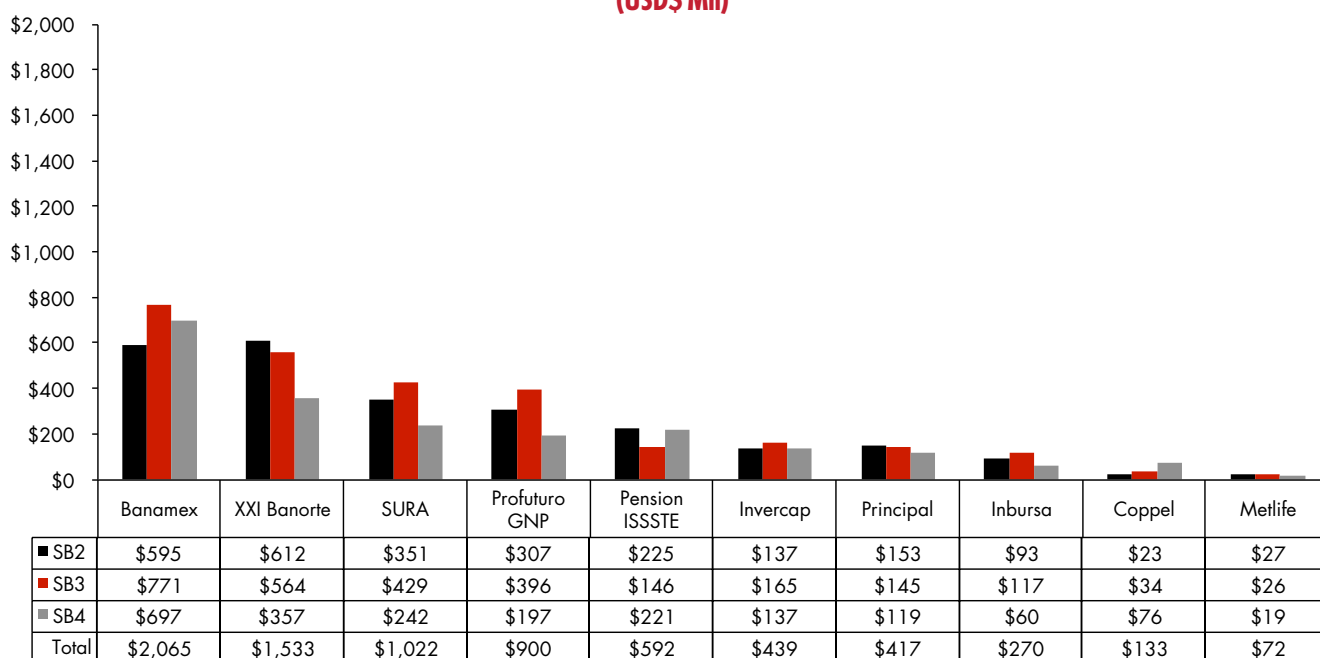


Fig. 18

Investments in Structured Securities (USD\$ Mn)						
	SB1	SB2	SB3	SB4	Additional	Total
Banamex	-	\$595	\$771	\$697	\$2	\$2,065
XXI Banorte	-	\$612	\$564	\$357	-	\$1,533
SURA	-	\$351	\$429	\$242	-	\$1,022
Profuturo GNP	-	\$307	\$396	\$197	-	\$900
Pension ISSSTE	-	\$225	\$146	\$221	-	\$592
Invercap	-	\$137	\$165	\$137	-	\$439
Principal	-	\$153	\$145	\$119	-	\$417
Inbursa	-	\$93	\$117	\$60	-	\$270
Coppel	-	\$23	\$34	\$76	-	\$133
Metlife	-	\$27	\$26	\$19	-	\$72
Total	-	\$2,523	\$2,793	\$2,125	\$2	\$7,443

Exchange rate to October 31, 2017

According to Quantit's report from the second trimester of 2017, these are the 10 CKDs with the best performance yields:

The information shown in the table considers the placement price, realized distributions, capital calls, second quarter price, period yield in relation to the initial price and annualized yield of the 74 current CKDs.

It is worth mentioning that several of the CKDs were recently issued, so in some cases their returns may be lower, since they are making their first investments.

Position	GP Name	CKD	Strategy	Issuance Date	Prices at 30/06/2017 (MXN)	Initial Yield 30/6/2017	Annualized Yield
1	Grupo IGS	IGSCK 11	Real Estate	04/10/11	102.26	173.7%	29.8%
2	Red de Carreteras de Occidente (RCO)	RCOCB 9	Infrastructure & Energy	02/10/09	183.93	169.1%	21.5%
3	Artha Capital	ARTCK 13	Real Estate	11/10/13	172,747.69	73.9%	19.6%
4	FINSA	FINSACK 12	Real Estate	28/09/12	161.55	74.1%	15.4%
5	Artha Capital	ARTHA4CK 15	Real Estate	13/11/15	124.13	24.1%	14.6%
6	Artha Capital	ARTHACK 10	Real Estate	20/10/10	168.81	92.2%	13.6%
7	Discovery Americas	ADMEXCK 09	Growth & LBO	23/12/09	159.65	96.6%	12.7%
8	Planigrupo Management	PLANICK 12	Real Estate	18/05/12	123.00	64.0%	12.3%
9	Infraestructura Institucional ¹	ICUADCK 10	Infrastructure & Energy	23/12/10	163.51	66.8%	10.1%
10	Credit Suisse	CSCK 12	Debt	05/11/12	82.70	47.5%	10.1%

FUNDRAISING OVERVIEW- “STRUCTURED EQUITY SECURITIES” (CKDS)

Pipeline CKDs

According to 414 Capital CKDs 3rd Quarter report there are 26 CKDs on the pipeline pending to be approved which would capture MXN\$117,700mn (USD\$ 6,178 mn). From the 26 CKDs on the pipeline, 46% are for Real Estate, 23% for Debt, 19% for Infrastructure & Energy and 12% for Growth & LBO.

Ticker	GP	Strategy	Maximum Amount (MXN Mn)	Term	Date	Admin	Pref.	Catch-up	Split
AINDACK	Ainda	Energy	\$5,000	15y	11/11/2015	1.50%	9.0% - 12.0%	•	80%-20%
NXCERPI	Nexus Capital	Debt	\$5,700	10y	19/01/2016	1.75%	9.00%	•	82.5%-17.5%
AEIFCK	The Abraaj Group	Energy	N/D	10y	29/02/2016	1.75%	9.00%	•	80%-20%
NGPEIICK	Northgate	Growth & LBO	\$5,000	10y	06/05/2016	2.00%	10.00%	•	80%-20%
DELTACK	Desarrollos Delta	Real Estate	\$4,000	10y	22/07/2016	1.75%	8.00%	•	80%-20%
FIMM2CK	Macquarie	Infrastructure	N/D	N/D	07/09/2016	0.75% - 1.50%	8.00%	•	80%-20%
RSRENCK	Riverstone	Energy	N/D	10y	08/09/2016	1.00% - 1.50%	8.0% - 10%	•	80%-20%
ARTH5CK	Artha	Real Estate	\$12,000	10y	29/09/2016	1.50%	10.00%	•	80%-20%
PRQMXCK	Alignmex	Real Estate	\$20,000	5y	21/10/2016	1.25% - 1.50%	9.00%	•	80%-20%
ALTUMCK	ALTUM Capital	Debt	\$2,000	N/D	01/11/2016	2.00%	9.00%	•	80%-20%
CARZA	CARZA	Real Estate	\$3,000	10y	05/12/2016	1.00%	10.00%	•	80%-20%
GAIA	Gaia Capital	Real Estate	\$2,000	10y	05/12/2016	2.00%	5.00%	•	50%-50%
GRANDCK	Be Grand	Real Estate	\$5,000	10y	06/12/2016	1.00% - 1.50%	11.00%	•	80%-20%
GREY CK	Greystar	Real Estate	\$4,000	N/D	06/12/2016	1.75% - 1.85%	10.00%	•	80%-20%
ODOCK	O'Donnell	Real Estate	\$5,000	10y	16/12/2016	1.85%	9.00%	•	80%-20%
SBCK	Sailbridge Capital	Growth & LBO	\$4,000	5y	16/01/2017	1.75%	10.00%	•	80%-20%
ALSISCK	Alsis Funds	Debt	\$4,000	N/D	19/04/2017	2.00%	10.00%	•	80%-20%
AMICK	Amistad Global	Real Estate	\$4,000	N/D	08/05/2017	0.50%	10.00%	•	80%-20%
VMZCK	Vector	Debt	\$2,000	9y	19/05/2017	0.50%	8.00%	•	80%-20%
TUCK	Thor Urbana	Real Estate	\$4,000	50y	07/02/2017	1.85%	9.00%	•	80%-20%
INDCK	Capital Indigo	Debt	N/D	N/D	31/05/2017	1.80%	10.00%	•	82%-18%
FINPRCK	FINPRO	Debt	\$12,000	N/D	28/07/2017	N/D	N/A	N/A	N/A
GALENCK	Galena	Energy	\$7,000	10y	15/08/2017	1.25% - 1.50%	8.00%	•	80%-20%
MYACK	MYA Capital	Real Estate	\$4,000	13y	31/08/2017	0.75% - 1.25%	10.00%	•	80%-20%
ANV	Angel Ventures	Growth & LBO	\$N/D	10y	01/09/2017	2.00%	10.00%	•	75% - 25%
CAK	Urban Center	Real Estate	\$4,000	10y	19/09/2017	1.25%	10.50%	•	80%-20%

INVESTMENT OUTLOOK

During the last seventeen years AMEXCAP has registered 2,017 private equity transactions, 43% of them are VC an important growth starting in 2013. Huge investments on Infrastructure & Energy starting on 2014. 2016 has been the third year with the most invested capital.

**Investments per Strategy
(2,017 transactions)**

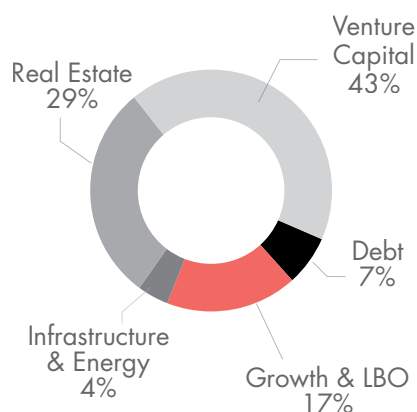


Fig. 19

Source: AMEXCAP 2017
Note: Does not include first time funds without first closing.

Amount Invested

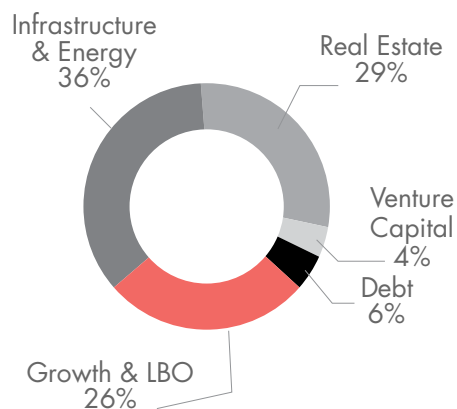


Fig. 20

Source: AMEXCAP 2017
Note: Does not include first time funds without first closing.

In the last seventeen years, the Private Equity industry has presented an average increase of 23 new transaction each year. So far this year 2017, the amount of transactions decreased significantly to 140 when compared to the 269 transactions in 2016.

In terms of investments, so far this 2017, the amount of money invested is USD\$ 2,071Mn, which represents a decrease of 24% in comparison to the USD\$ 2,735Mn raised in 2016. In 2015, there was a record high in terms of invested capital with more than USD\$ 6.5 Bn invested.

**Historical PE Investments and Transactions
Venture Capital, Growth & LBO, Real Estate, Infrastructure
(2000- 2017*)**



Fig. 21



Rodrigo Fonseca
President, AMEXCAP's LBO
& Growth Committee

PRIVATE EQUITY IN MEXICO

Despite a challenging external environment and internal political volatility, Mexico's environment for private equity ("PE") investment remains highly attractive. Fund managers with the right origination capabilities will find profitable capital deployment opportunities. The increase in venture capital activity will provide a stronger pipeline of PE targets. Recent transactions provide evidence that profitable exits can be executed.

Regarding external/internal environment, at the time of writing, main factors to observe include: political environment in the USA (including a potential renegotiation of NAFTA), Peso volatility and political volatility tied to state and federal elections. Other experts are more interested in writing about

PE investors must keep a careful eye on the macro environment. However, it is increasingly clear that favorable macro trends are not a requirement for good PE investment

these topics. However, given recent surprises, fewer venture to make predictions. Therefore, we will not spend much time here. Certainly, PE investors must keep a careful eye on the macro environment. However, it is increasingly clear that favorable macro trends are not a requirement for good PE investment. Certainly, favorable trends are not sufficient either.

Drilling down into the Mexican PE market, when compared to other regions, one can see that it offers attractive opportunities based, among others, in the following elements:

- **Reasonable valuations.** In most cases, entry valuations for PE investments remain significantly below comparable transactions in more developed markets. Therefore, management can focus on improving the operational performance of the companies and not on seeking multiple arbitrage, or worse, on dealing with significant multiple compression.
- **Disciplined use of acquisition debt.** Hand in hand with reasonable valuations, goes the prudent use of debt to fund acquisitions. A more solid balance sheet allows companies to withstand unforeseen events and in general provides a more attractive financial risk profile for shareholders. Many international investors are beginning to realize that the perceived "safety" of developed markets can be more than offset by the financial risk inherent in highly leveraged transactions.
- **Availability of outstanding talent.** With increased awareness of PE as a source of funding, managers are meeting highly qualified management teams or company owners that are willing and open to partner with a fund. Capable partners and management teams are probably the single most important element in a successful PE environment. When funds and management align expectations and interests, a powerful partnership can emerge. This is happening more and more in Mexico.
- **Significant opportunities for value creation.** In many industries and company sizes where PE funds are currently investing, incumbents have significant room to create

value via institutionalization or via further operational improvements. Many family-owned businesses have extremely valuable capabilities that often have not been fully exploited.

- Pipeline supported by emerging venture capital “VC” investments. VC investment, fills a critical stage in the funding needs for emerging companies. Without VC, many entrepreneurs or small firms would not have the opportunity to launch themselves into bigger markets and larger challenges. This development also helps nurture a broader pipeline for PE investments. These types of opportunities are often more attractive for PE funds because management and entrepreneurs have the experience of living with an institutional partner. Alignment of interest, communication and execution can be substantially streamlined in these cases.
- Increasing exit activity. Historically, the most challenging part of the PE cycle worldwide is the exit. Mexico has recently seen increased exit activity. Diverse structures complement the often-volatile IPO option. Increased exits are being made via strategic investors, international financial investors and even local family offices. Many healthy PE companies have successfully passed into a new phase of ownership.

Overall, we remain confident in the attractiveness of the PE market and are excited about the prospects for the industry in the next years and decades.

GROWTH & LBO: INVESTMENT SECTORS AND NUMBER OF DEALS

We have seen a decrease in the number of funds raised per year in the Growth & LBO sector since 2014, going from 13 new funds to only 4 new funds raised last year. Since 2000 67 local funds and 52 foreign funds have been raised.

**Growth & LBO Funds Raised per Year
(2000- 2017*)**

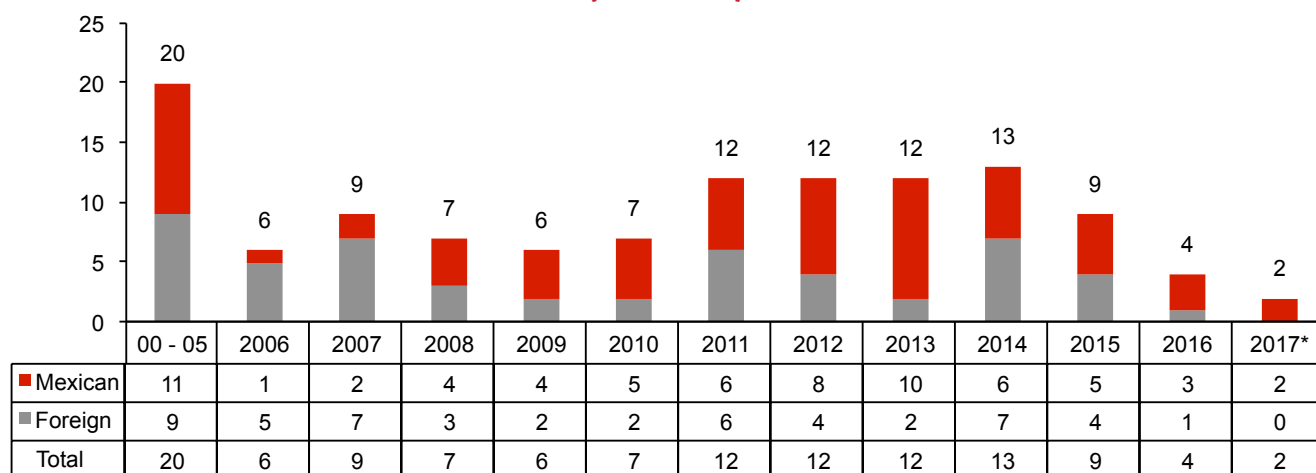


Fig. 22

Capital commitments show a similar behavior to the number of funds raised, decreasing since 2014, decreasing 47% from 2014 to 2015 and 30% from 2015 to 2016, year in which USD \$530Mn were committed.

**Capital Commitments Growth & LBO
(USD\$ Mn)**

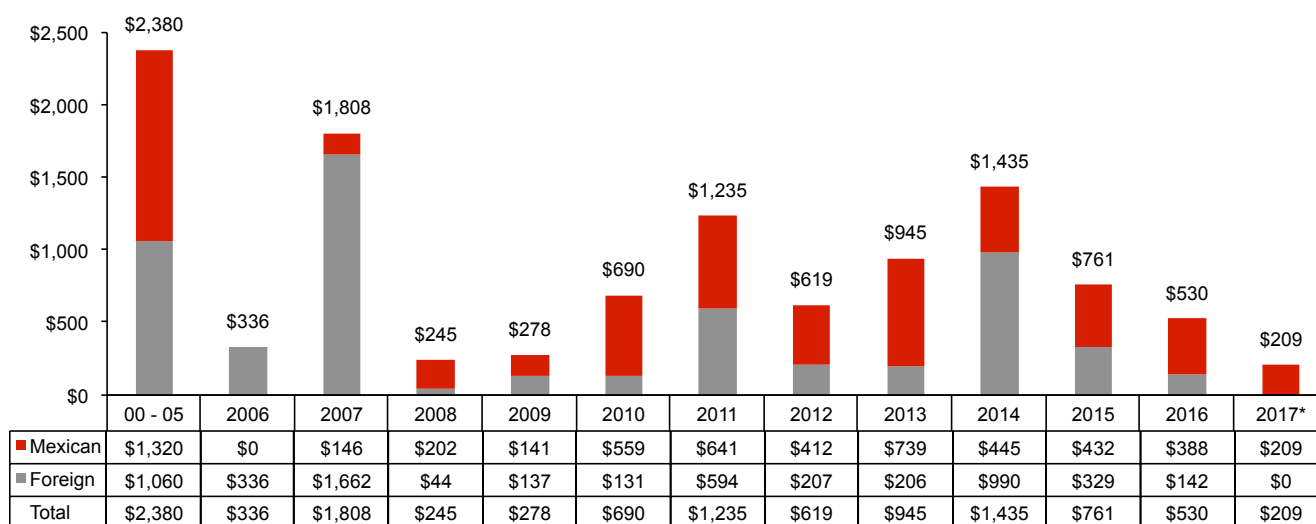


Fig. 23

Capital commitments in Growth & LBO show an average growth of 15% (USD \$380 Mn) per year, reaching a total of USD \$11,472 Mn accumulated capital commitments since the year 2000.

Growth & LBO Accumulated Committed Capital (USD\$ Mn)

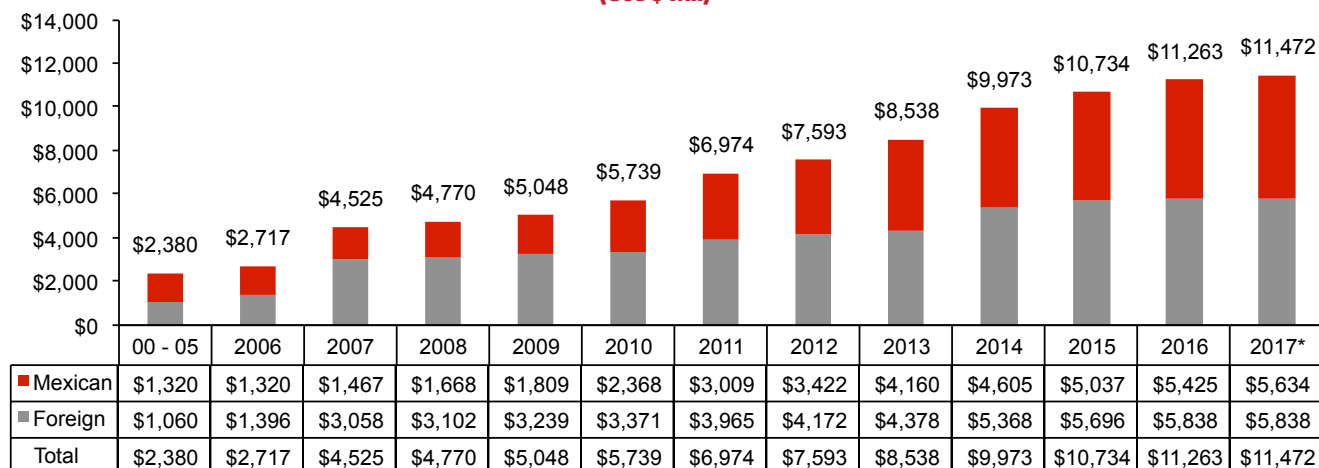


Fig. 24

For Growth & LBO industry there are USD\$ 5,504Mn ready to be invested.

Committed Capital & LBO (USD\$ Mn)

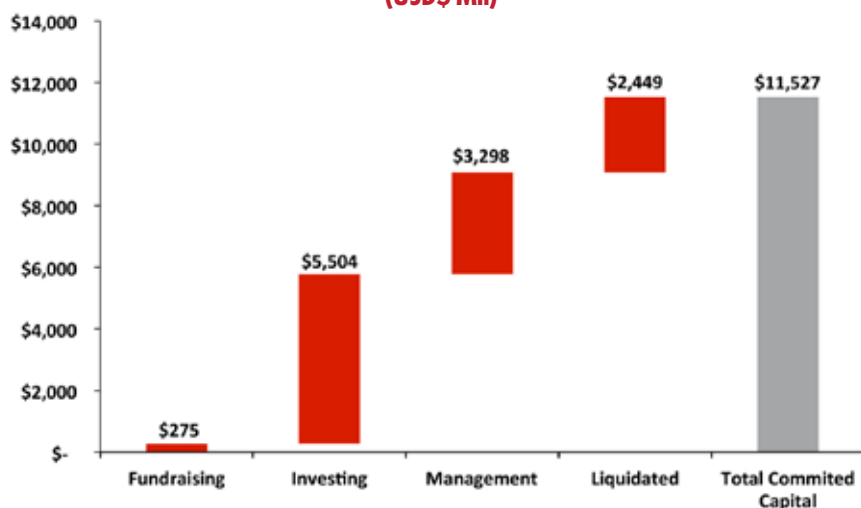


Fig. 25

The average & median graph shows that growth & LBO funds in the last 5 years have a size of USD\$ 143Mn per fund, there was a 54% drop in 2015 from 2014.

Average & median Growth & LBO fund size (USD\$ Mn)



Fig. 26

For the last 8 years there is a tendency on the industry as an average of transactions 23 transactions per year not all of them disclosed. Some important transactions for 2016 and 2017 were Advent investment on Viakem, Alta Growth investments in Grupo Bienestar, Extended Suites and Maskota, EMX in Consorcio Industrial Valsa, Gulfstar XME, and Orben Telecomunicaciones, General Atlantic in Clip and Grupo Axo, Glisco Partners in Grupo Hunan, Linzor Capital in Engenium Capital, Nexxus Capital in FTM, Taco Holding, TransNetwork, Pumping Team, and Immunotec, PC Capital in Grupo Filoa, The Abraaj Group in Capa de Ozono, and important follow-ons Discovery Americas in FTM (Fondo de Transporte Mexicano).

**Growth & LBO Funds Investments and Transactions
(2000-2017*)**



Fig. 27

Growth & LBO funds active in Mexico invest across a broad spectrum of industry sectors: health care, financials, industrials, consumer goods, and consumer services, are the most targeted ones. Consumer services includes among other subsectors: home improvement retailers, specialty retailers, restaurants, broadline retailers, specialized consumer services, recreational services, broadcasting & entertainment, travel & tourism, drug retailer, airlines, food retailers & wholesalers, apparel retailers, media agencies, hotels, publishing, general retailers and other sectors not yet invested on Mexico. Consumer goods includes: personal products, furnishings, clothing & accessories, home construction, food products, automobiles, soft drinks, distillers & vintners, toys, auto parts, recreational products; and other sectors not yet invested on Mexico.



Growth & LBO

Growth & LBO transactions have had a constant average size investment for many years, having an atypical year in 2013, reaching an average ticket size of USD \$37 Mn. This year the average also got higher with larger investment by funds such as ACON Investments, Advent International, Discovery Americas, General Atlantic, Temasek, among others.

Fig. 28

Growth & LBO Annual Average Size Investment

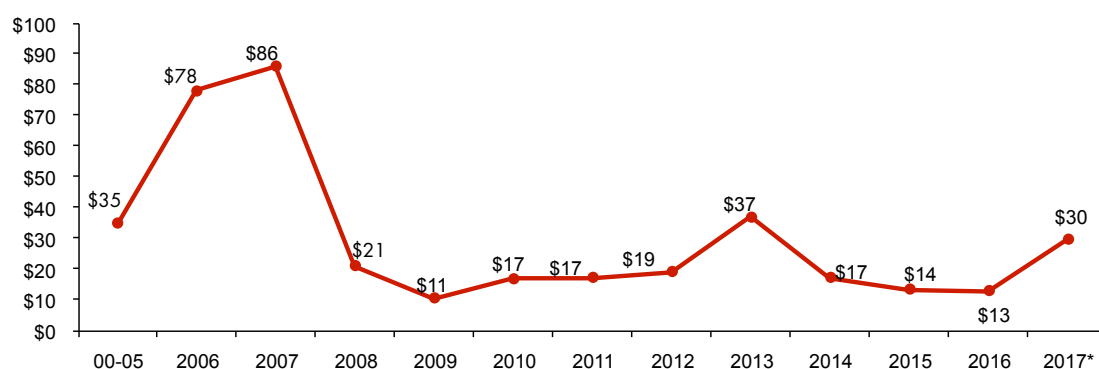


Fig. 29

We have seen 101 exits in the Growth & LBO sector since 2005, 59 of these exits have been strategic exits. 2014 was the year with the most exits announced, reaching 16, followed by 2016 where 15 exits were announced.

Growth & LBO Exits by Strategy

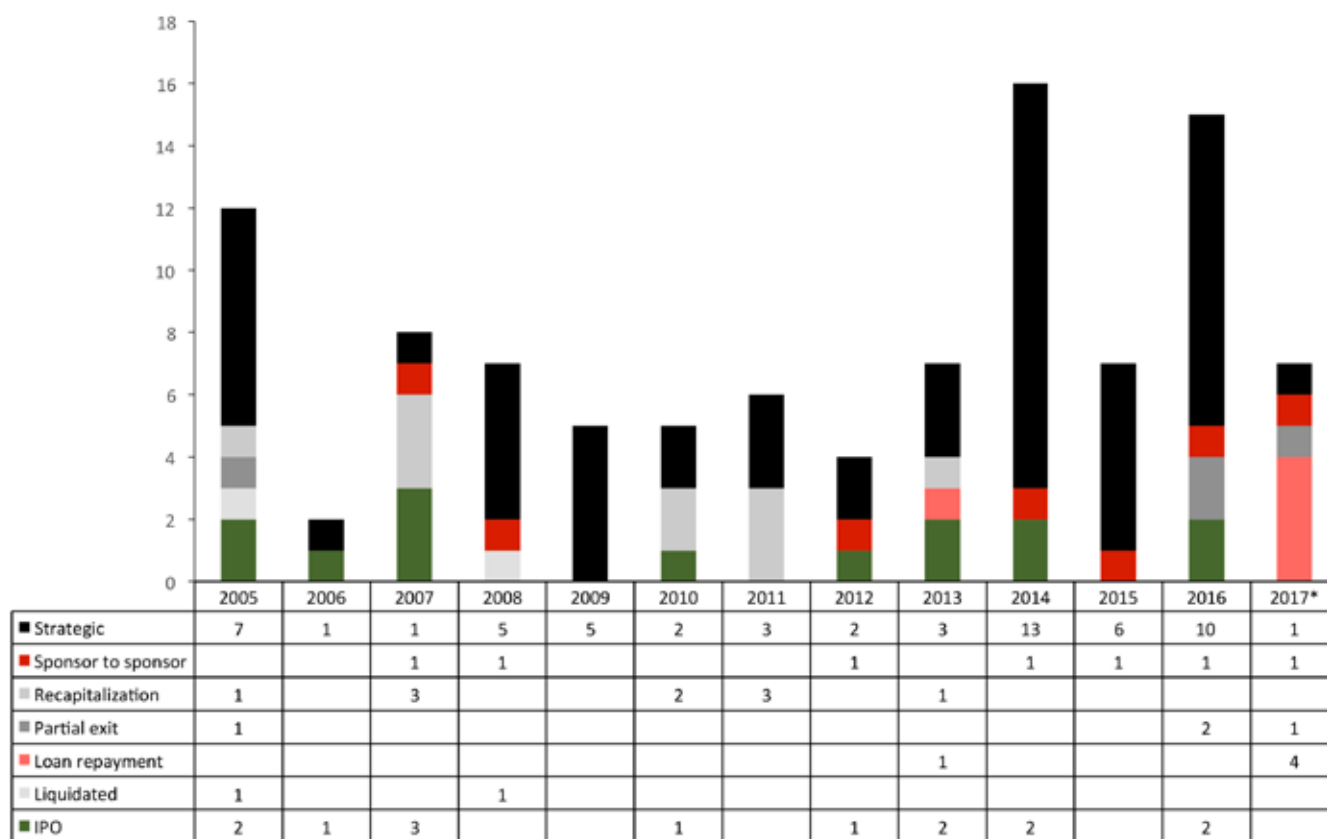
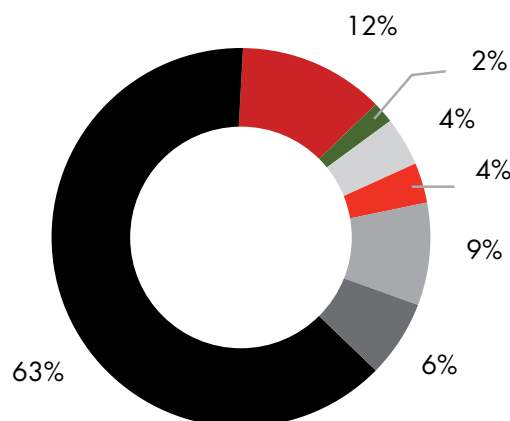


Fig. 30

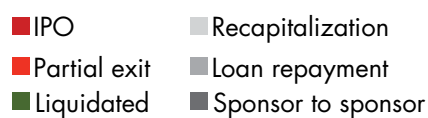
Growth & LBO has shown a preference for strategic exits, representing 63% of the total, followed by IPOs which represent 12% (14) of the exits, for example, Sports World, Axtel, Banco Compartamos, City Express, Genomma Lab, among others.

Growth & LBO Exits by Strategy



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Fig. 31



Growth & LBO



Fig. 32

Growth & LBO funds seem to present a preference for companies with a high innovation business model, investing in companies such as AGS Nasoft, Kio Networks, Transnetwork, Health Digital Systems, Orben Comunicaciones, Getronics among many others.

Growth Industry

GPs by number of funds



Fig. 33

MORE ALLIES FOR YOUR STARTUP IN MEXICO



Ricardo Elizondo
President, AMEXCAP's Venture
Capital Committee
Managing Partner at Ideas y Capital

In México, for many years, the possibility of starting your own business and growing it past friends and family (F&F) funding was close to impossible. If the business venture wasn't able to reach breakeven with F&F funding, there would be no other sources to finance growth. This led to a huge bias towards business models for entrepreneurs who'd only seek a lifestyle hedge.

An inflection point came when in 2012 the Mexican government created the INADEM (National Institute for Entrepreneurship) in an effort to accelerate the development of the entrepreneurial ecosystem. Academic institutions established departments to train potential entrepreneurs and to channel their research to the market through the incubation of startup companies. New incubators and accelerators were launched and a new entrepreneurial culture started to permeate into the minds of society.

Mexican entrepreneurial projects in different industries became examples of success (e.g., Cinemex, Proteak, KIO Networks, City Express, Metros Cúbicos) and a new breed of entrepreneurs, tech savvy, eager to change the world, with a global vision, ready to compete, started to emerge from Universities and corporations.

Also, new Venture Capital funds focused on early stage surged to provide much needed financing in the so called valley of death. From 2013 to 2016 more than 57 VC funds were created. These funds helped Mexico obtain a leading role in Latin America in terms of share of investments. According to LAVCA, from 2014 to 2015, Mexico grew from representing only 15% to 33% of the total amount of VC invested in the region.

Percent of Total Amount Invested

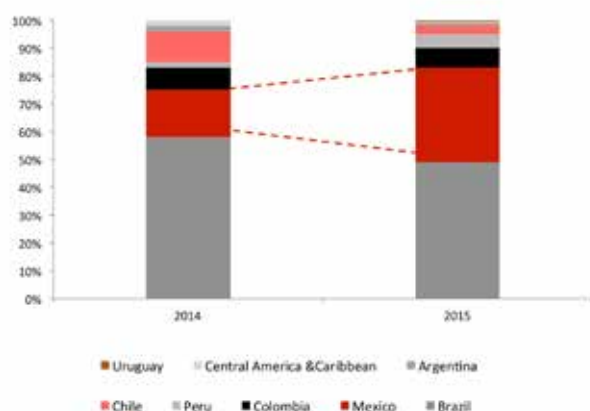


Fig. 34

Percent of Total Number of Deals

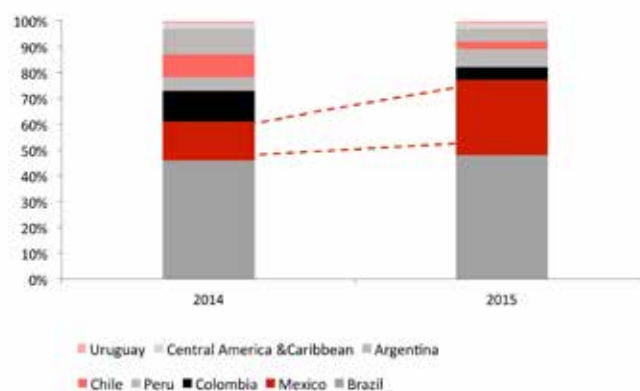


Fig. 35

Moreover, many of the institutional investors are in the process of raising more capital for subsequent funds. A clear example of the opportunities perceived in our ecosystem is the fact that Mexican pension funds backed at least three VC firms that are filling the investment needs of startups raising Series A, B and C.

The size of the deals is also growing. To date there are more than 30 Mexican startups that have raised over USD\$5 mn through venture capital. Just in our portfolios at Ideas & Capital we have Prolade, NextU, Fruitex and Pro Organic Growers which were all funded from grass roots after 2013 and now they belong to this new category of startups that have been able to scale up under the new VC environment.

In the fintech industry there are also many companies in this category. Some examples of them include: Kubo, Laudex, Kueski, Clip, Conekta and Alkanza. The list of startups that have been strongly backed goes on in other industries like healthcare and e-commerce.

Even though the VC market in Mexico is young, many startups are growing fast and are becoming great opportunities for investors seeking larger companies, and exits are starting to accumulate.

Mexico is ready for international investors eager to partner with Mexican funds. The foundations are there. Although the amount invested by VC firms presents a steady increase and is now over \$600 million USD per year there is huge room for growth. It would only make sense to get our ecosystem at the level of VC investment as percentage of GDP that we see in other economies like Israel, India and the UK... from 0.08% to more than 0.15%.

THE VENTURE CAPITAL LEGAL ENVIRONMENT IN MEXICO



Andrés Cárdenas
AMEXCAP's Venture and Seed
Capital Legal Committee

In addition to a country's variables such as: macroeconomics, socio-politics, market conditions, currency exchange volatility and tax implications, legal certainty is a variable that local and foreign investors analyze before making an investment.

In recent years, sophisticated boutique law firms ("VC Law Firms"), as my firm Cardenas Ortiz Monasterio Abogados, S.C., have emerged in Mexico, and have developed a strong practice in venture capital and growth capital transactions ("VC"), as counsels to leading investment funds and startups.

Together with the AMEXCAP, the main VC Law Firms have recently formed a legal VC committee, in order to discuss new legal structures, confront new challenges, and advise on best practices in the newly created venture capital ecosystem. One of the main goals of such committee is to increase the efficiency in VC transactions, aiding in the development of a successful VC ecosystem in Mexico.

A solid and secure legal structure in VC deals influences the likelihood of a successful exit in venture-backed transactions. In this respect, VC Law Firms are working in more sophisticated and secure legal structures. Sophistication does not mean more robust and expensive structures. On the contrary, in VC transactions right-law is a foremost principle. Over-lawyering is out of the equation.

For years VC transactions in Mexico were either legally unattended or wrongly attended at the most. As the VC ecosystem has evolved, the need for better suited legal structures became paramount for the VC players. Currently, VC Law Firms have developed more transparent, balanced and sophisticated legal structures, enhancing the feasibility of venture-backed transactions. Mexican investors and entrepreneurs understand the importance of high quality legal advice while structuring a VC transaction, as in any other industry.

It is worth to remark that VC has now become a common area of practice within the Mexican legal services environment. A VC lawyer has special qualifications and skills. Lawyers are trained to be conservative, but in VC transactions it is hard to make good venture investments without taking on some risk, thus VC lawyers, are “cautiously” riskier.

VC lawyers must be very conscious that the success of venture-backed transactions is not when the deal takes place and the investment has been made. Success is built slowly from the date of the investment until the date of an exit. Thus, as VC lawyers we need to see the big picture and be pro-deal lawyers, without losing focus trying to win small battles and shallowing rights for our client during the negotiation process, which delays the negotiations and might prejudice the relationship between entrepreneurs and investors during their partnership. A VC lawyer must create extensive strategic partnerships between entrepreneurs and investors. The importance of a balanced structure lies in ensuring that the interests of investors and the entrepreneurs are well aligned and that the entrepreneurs have proper incentives to grow their venture, along with investors controlling major decisions. Overprotecting clauses for either party could backfire during the life of the investment and hinder the relationship between the partnership, having an impact on exit ratios.

VC lawyers must be very conscious that the success of venture-backed transactions is not when the deal takes place and the investment has been made

Additionally, VC lawyers must be creative. The Venture Capital Ecosystem is a living network and is continuously evolving, thus, lawyers must move and evolve with it. As VC lawyers, we must assume our role in helping to develop the ecosystem. We must think outside the box, as entrepreneurs do. It is our duty to make current laws applicable for current needs, even if the businesses are disruptive and ahead of their time in regulation.

One of the key points for a solid legal structure is to pave the path for a smooth exit. And by exit I mean any liquidity event: an acquisition, in whole or in part, secondary sale, buyback, write-off, IPO, etc. Within the next lustrum, we will start to see venture-backed startups going public. The stock market regulation is there, a new stock exchange is coming to boost IPO transactions, so the table is set, we just need the startups to be ready. Mexico has a solid and reputable legal framework, based on civil law tradition. The VC ecosystem and the government have been working hand in hand to enact new laws or update existing laws. In the following months, we are expecting the so-called Fintech Law, which will fire up Fintech transactions.

Legally, the main concern of investor s-local or foreign- is the enforcement of agreements before Mexican courts. In the eyes of investors, the Mexican judicial system is inefficient. However, the lack of reliance in the Mexican judicial system could be solved with arbitration. Given the lack of trust in the Mexican Court System, arbitration seems to be the best dispute resolution mechanism for venture-backed transactions, specifically for those that involve a foreign investor. The dispute is resolved in shorter time by an expert and foreign investors do not have to litigate before a Mexican court.

In conclusion, Mexican Legal VC practice is entrenched and continuously evolving. Thus, legal certainty in Mexico shall not be a concern in the decision-making process of investors.

CAPITAL COMMITMENTS IN THE VENTURE CAPITAL INDUSTRY

From 2014 to 2016 there was a sustained growth in the number of funds raised each year, but this year this trend came to an end as the current amount of funds raised this year is 57.14% less than last year's amount. The nine funds raised so far this year 33% come from Mexican GPs.

**Venture Capital Funds raised per year
(2000-2017*)**

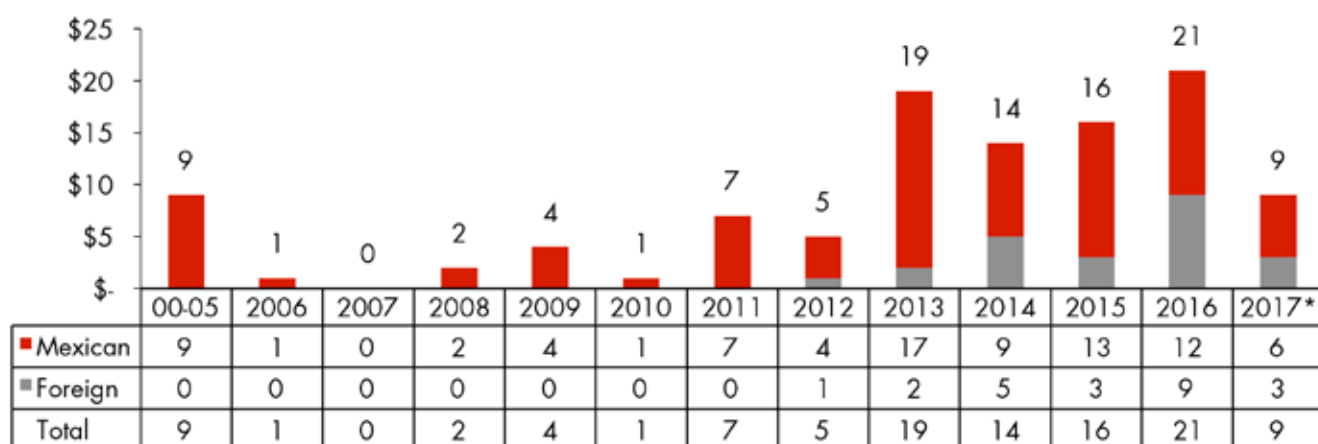


Fig. 36

The amount of capital commitments from the industry has been decreasing. In 2013, the industry reached a peak of USD\$ 233Mn in capital commitments, from which roughly 43% came from Later Growth Stage funds. So far this year, the capital commitments raised for the industry are USD\$ 48Mn, a decrease of 79% of 79% in 4 years.

**Capital Commitments
VC Industry by Substrategy
(USD \$ Mn)**

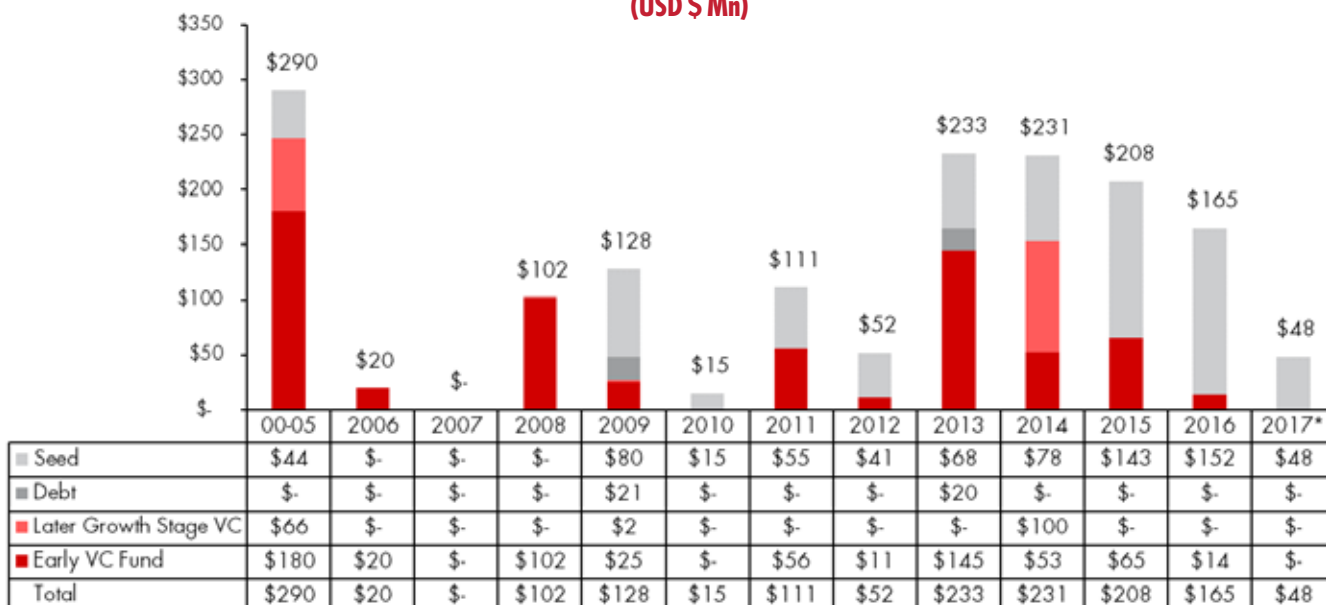


Fig. 37

Although the Venture Capital faces a drought in the amount of capital commitments, so far this year the accumulated capital commitments that come from seed funds reached more than USD\$ 700Mn. The previous amount represents roughly 45% of the accumulated capital commitments from the Venture Capital industry in the last seventeen years.

Accumulated Capital Commitments in Mexico VC Industry by Substrategy (USD\$ Mn)

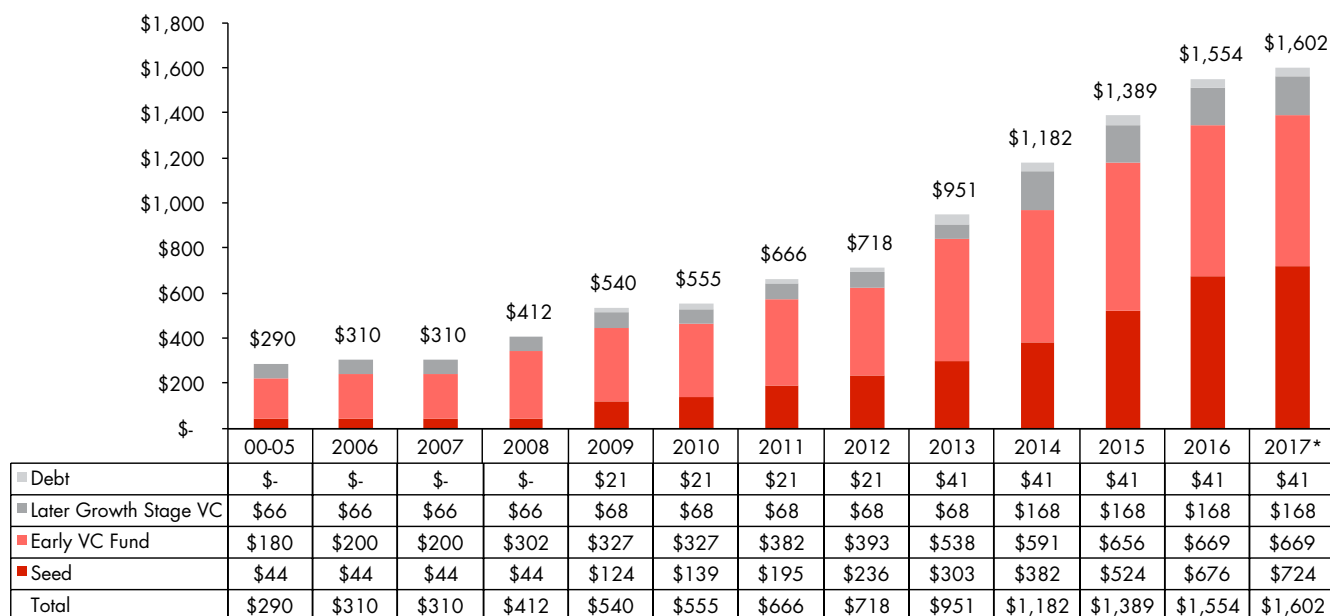


Fig. 38

From the USD\$ 48Mn of capital commitments raised this year only one million comes from foreign Venture Capital funds. We should expect an increase in this amount in following years as presidential elections and other uncertainties will cease next year.

Capital Commitments VC Industry Mexican & foreign funds (USD\$ Mn)



Fig. 39

CAPITAL COMMITMENTS IN THE VENTURE CAPITAL INDUSTRY

In the last seventeen years, foreign funds have only contributed with 10% of the total accumulated capital commitments in the Mexican Venture Industry. As the number of GPs increase, the negotiations of the fintech law is in process and new startups start to rise, the activity of foreign funds is expected to rise in the Mexican Venture Capital industry.

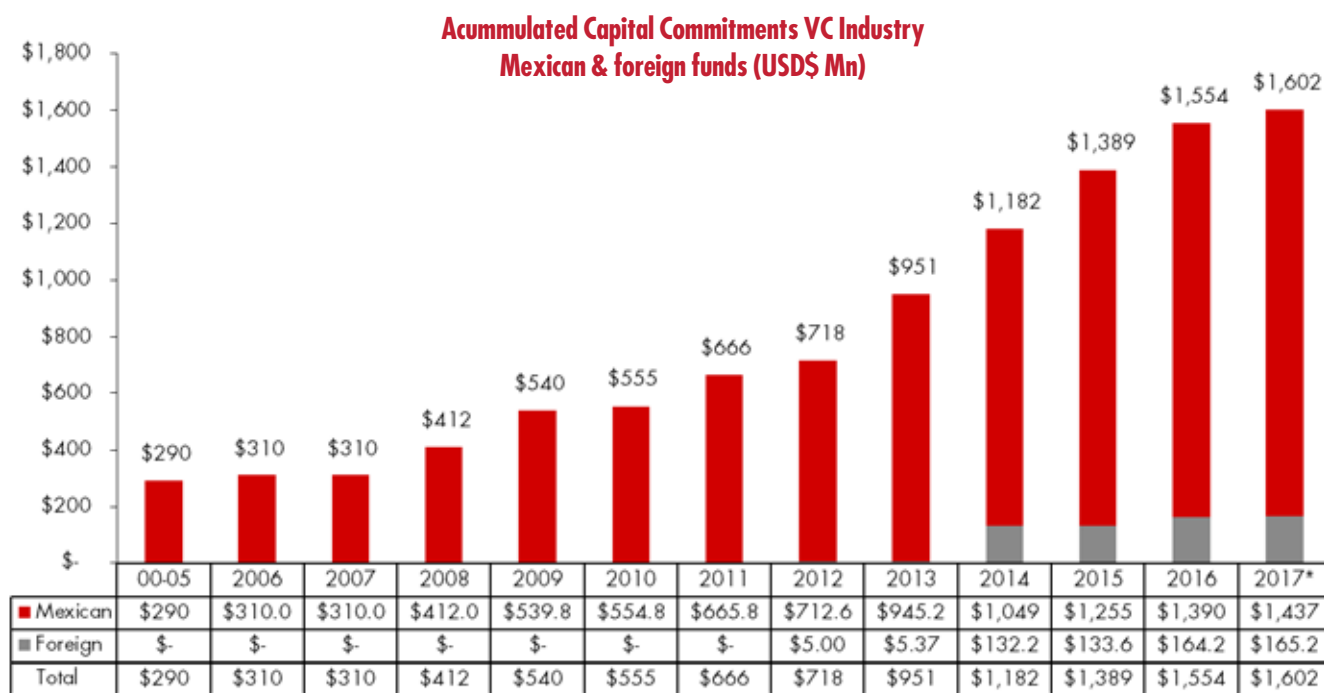


Fig. 40

The Median & Average graph in the right might cause confusion with the outlier in 2008, this data comes from a huge fund.

Furthermore, the average fund size is roughly USD\$ 20Mn and the average median is USD\$ 12Mn, as there are small VC firms that have been growing pulling the data, mainly due to INADEM support.

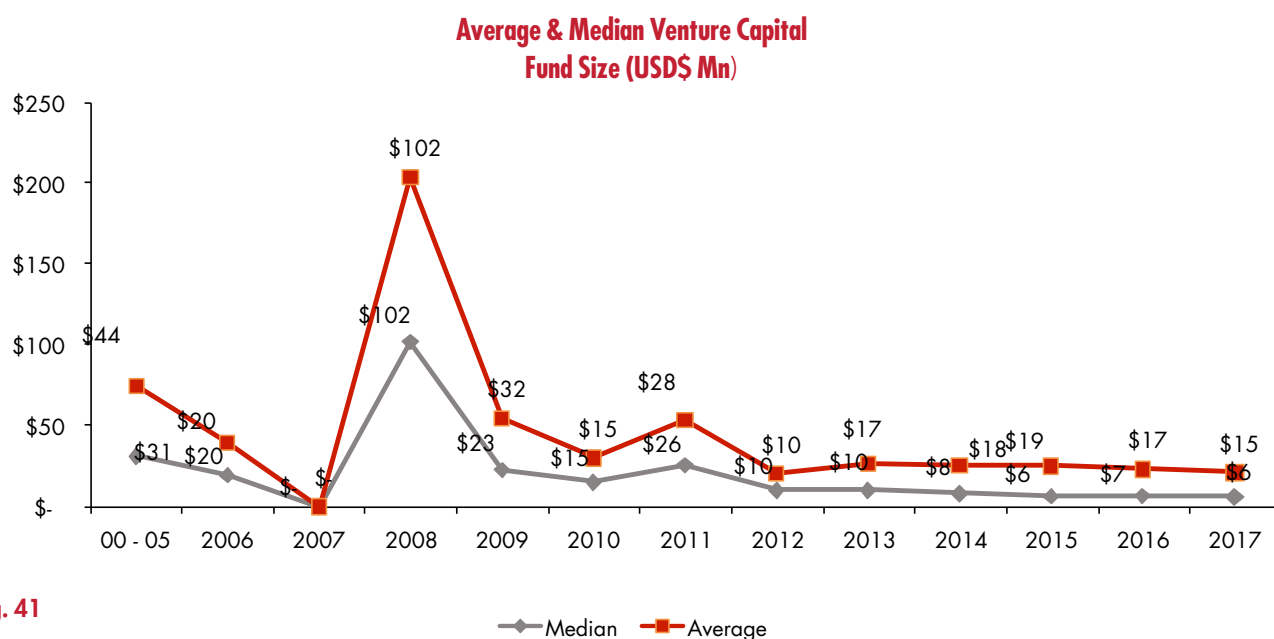


Fig. 41

VENTURE CAPITAL: NUMBER OF TRANSACTIONS AND INVESTMENT SECTORS

In the last seven years, the Venture Capital industry had presented an average increase of 20 new transaction each year. This year, the trend came to an end as the amount of transactions decreased from 196 in 2016 to 119 -the total amount of transactions so far this year-.

**Venture Capital Funds Investments and Transactions
(2009-2017*)**

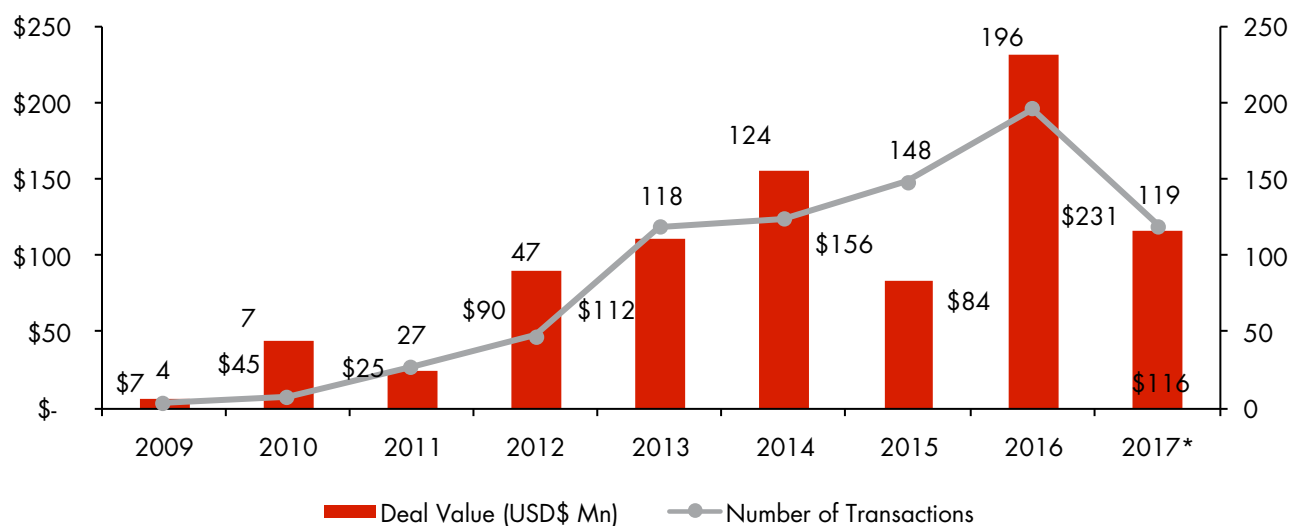
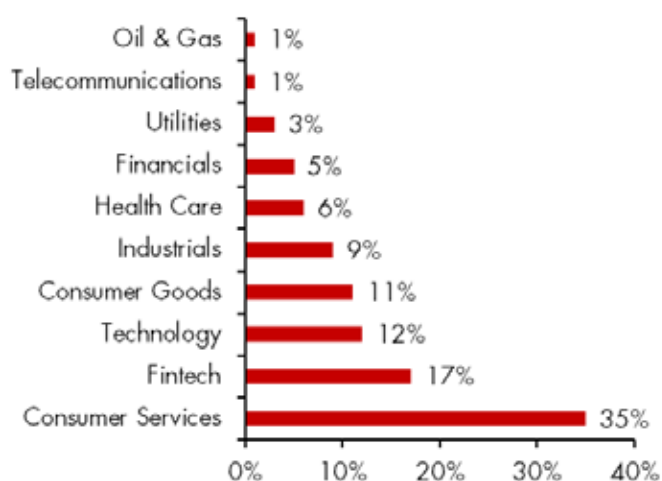


Fig. 42

**Venture Capital
(2009-2017*)**



Last year 2016, reached a record high in terms of invested capital with more than USD\$ 200Mn invested. For 2016 and 2017 more than 40 follow-on investments were made for USD\$ 100Mn and 141 VC transactions in both years.

Fig. 43

Source: AMEXCAP 2017
Note: Does not include first time funds without first closing.

Venture Capital funds in Mexico are mainly investing in the Consumer Services, Fintech, Technology, and Financials industries. However, we see a lot of activity in the Consumer Goods, and Health-care lately.

Consumer services includes, among other subsectors: retailers, restaurants, specialized consumer services, media agencies, recreational services, broadcasting & entertainment, travel & tourism, airlines, food retailers & wholesalers and other sectors not yet invested on Mexico.

Technology includes, among other subsectors: software, computer services, internet, computer hardware.

Venture Capital had reached a peak in 2010 with an average size investment of USD\$ 6.36Mn due to large investments by Ignia Partners and Gerbera Capital. The average stabilized in 2011 and maintaining similar amounts. It has decreased 11% from 2016 to the present year.

Venture Capital Annual Average Size Investment



Fig. 44

Committed Capital by Stage in Venture Capital (USD\$ Mn)



Venture Capital Industry have USD\$ 808 Mn, to invest in projects although recently important follow-ons transactions are coming from outside investors capital that is not being tracked by AMEXCAP.

Fig. 45

VENTURE CAPITAL: EXITS

This year, the Venture Capital industry already present 4 exits including En-ture's strategic sale of Grupo la Alegria PECAN and Xnax sale; Adobe Capital's sale of NATGAS to Northgate Capital and; Variv Capital's Itaro Brazil sale. Three out of the 4 exits were a strategic exit and the remaining exit was a sale to another sponsor.

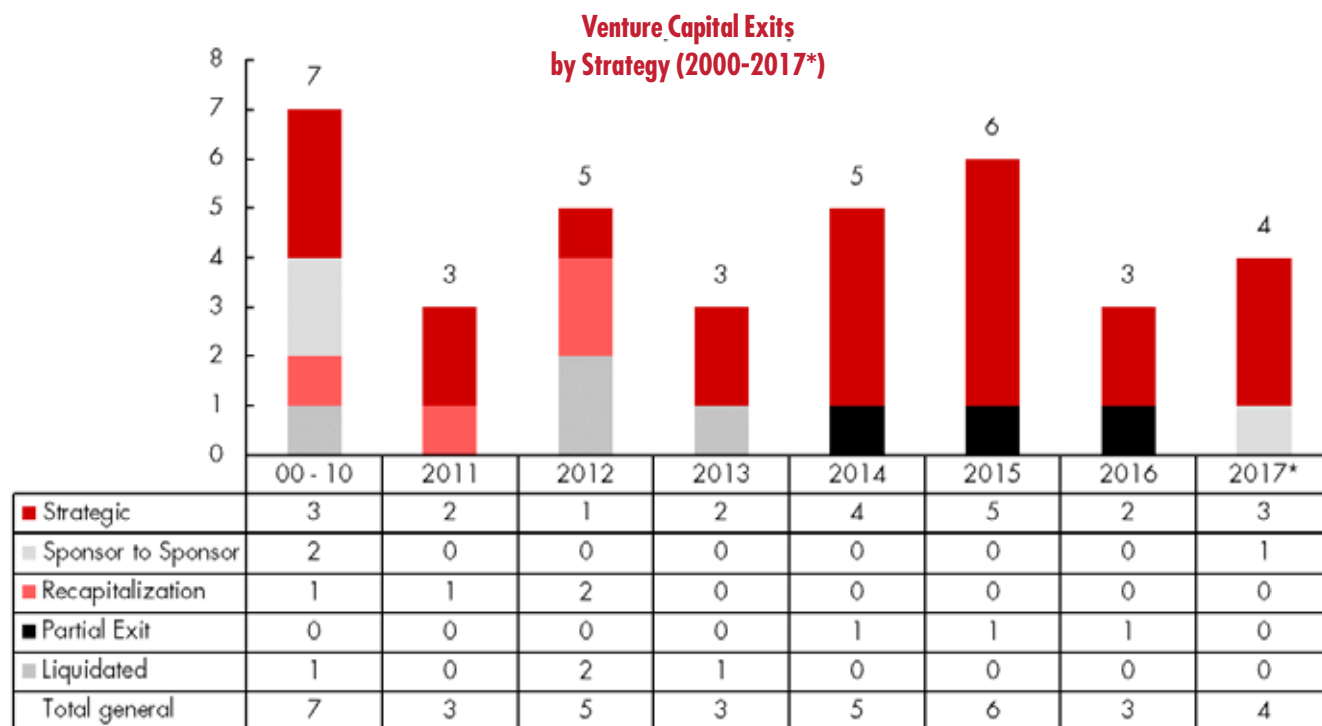


Fig. 46

Venture Capital Exits by Strategy (2000-2017*)

In the last seventeen years 63% of the Venture Capital exits have been strategical, 13% liquidated, 10% recapitaliza-tion, 10% Sponsor to sponsor and 3% partial exits.

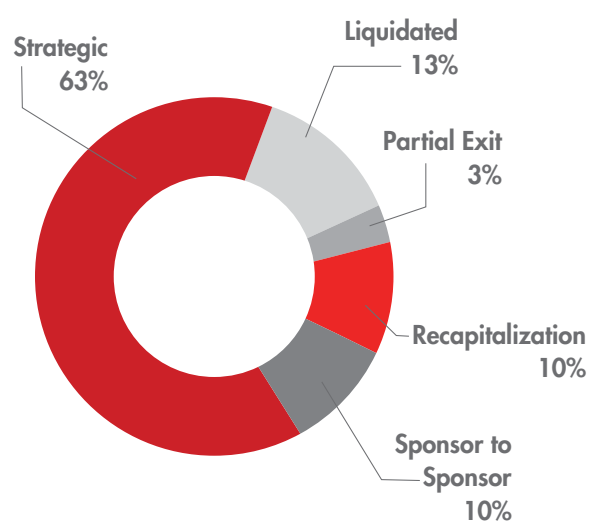


Fig. 47

Source: AMEXCAP 2017

Note: Does not include first time funds without first closing.

Recently, Venture Capital funds have had a particular interest in high innovation startups due to their potential to generate high returns. High innovation startups tend to disrupt their industries and generate economic value to their shareholders.

The fintech, edtech and consumer services industries are particularly hot in terms of high innovation startups, as these industries are being disrupted. Some examples include Clip, Konfio and Kubo Financiero in the fintech industry; Yogome and Kinedu in the edtech industry and; Linio, Clickonero and Gaia Design in the consumer services industry.

Venture Capital

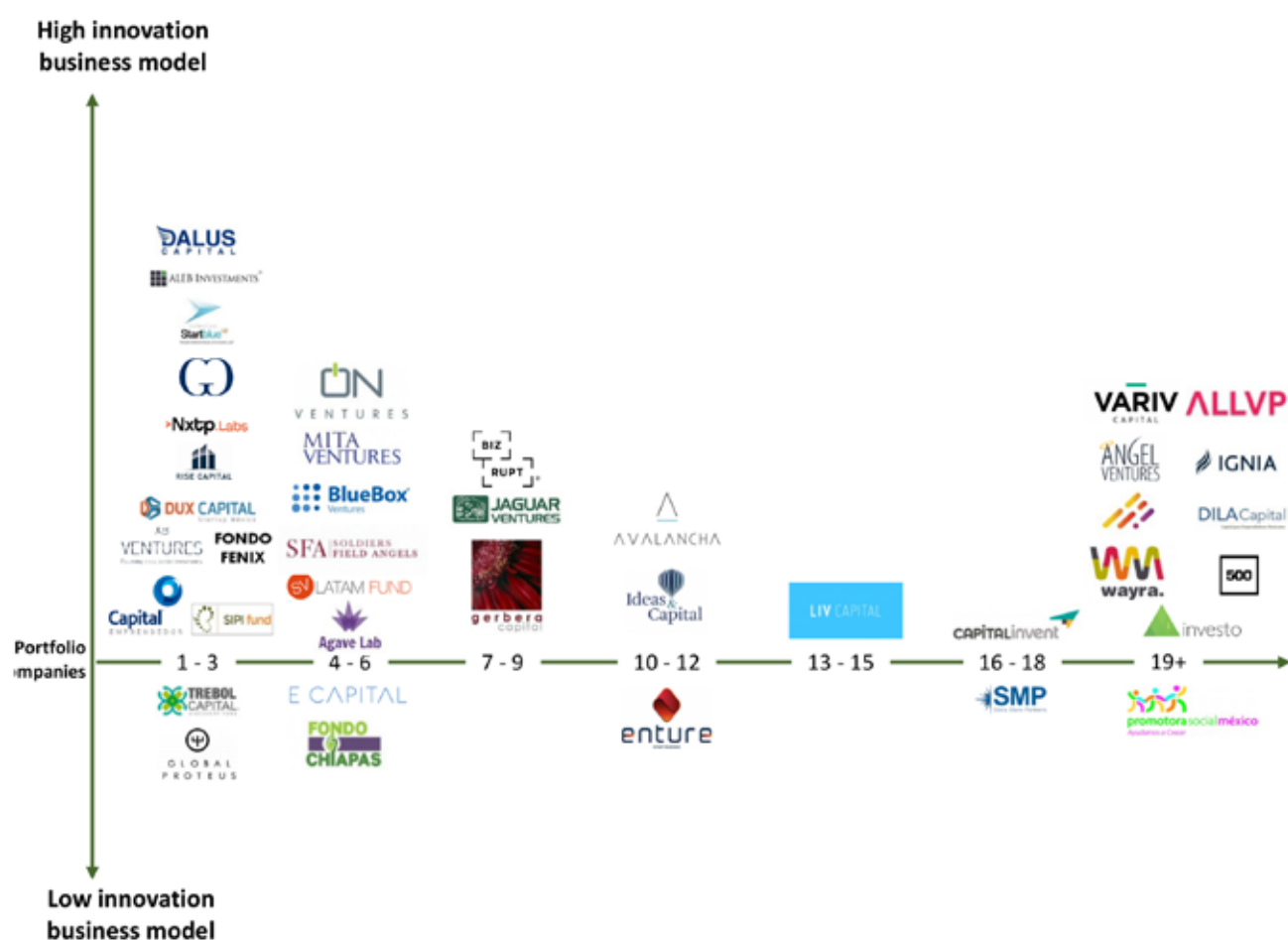
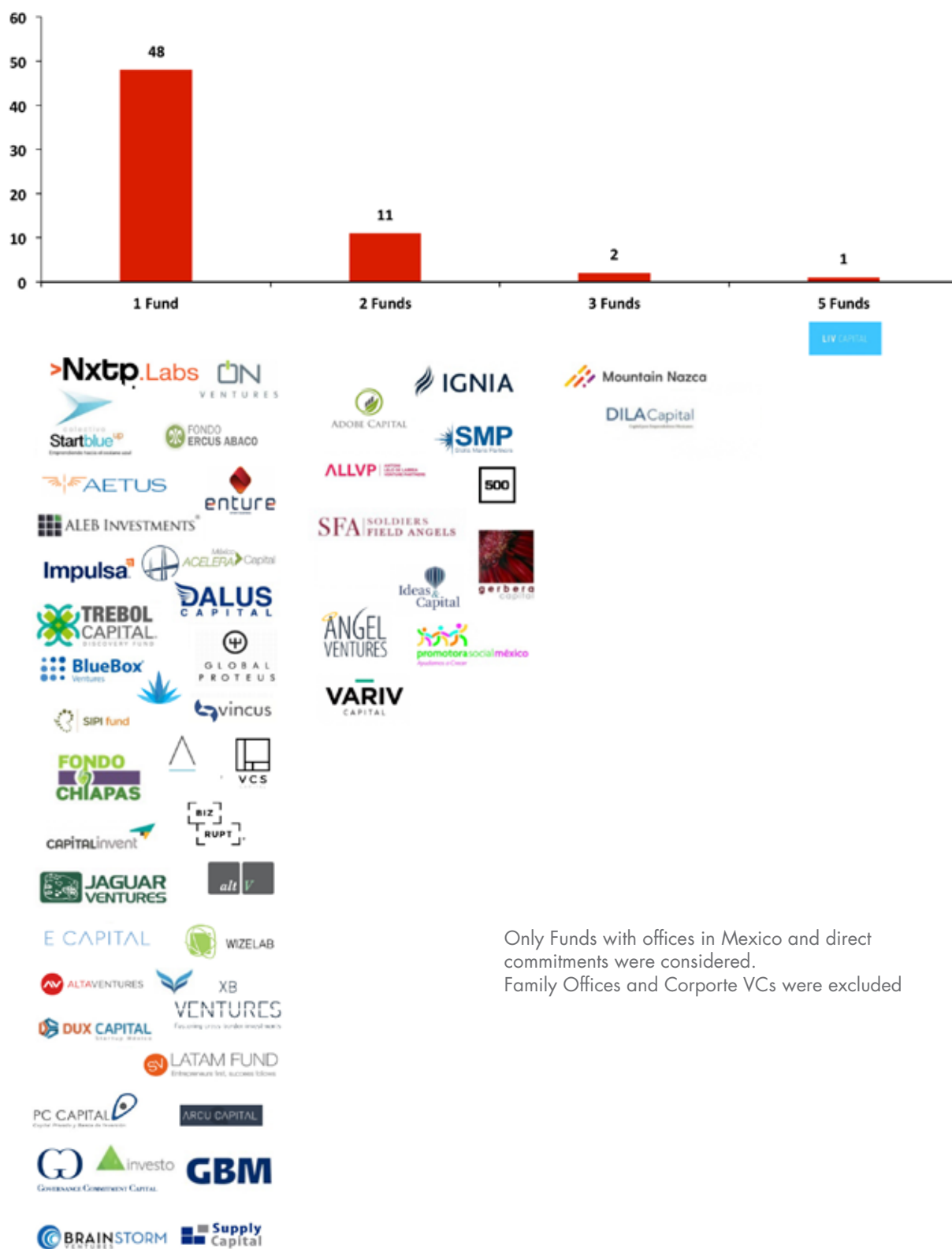


Fig. 48

Source: AMEXCAP 2017

Note: Does not include first time funds without first closing.

VC Industry GPs by number of funds



Only Funds with offices in Mexico and direct commitments were considered.
Family Offices and Corporate VCs were excluded

Fig. 49

THE DYNAMISM OF THE REAL ESTATE SECTOR IN MEXICO, A BRIEF DESCRIPTION OF THE PAST, PRESENT AND ITS UPCOMING TRENDS



Francisco Navarro
AMEXCAP's Real Estate
Board Member

For almost two decades I have been an active participant in the Mexican real estate market, representing several companies of relevant contribution in real estate sector, improving the investment rythm at the comercial real estate segment: industrial, retail, hotel and office.

In the beginning of the 21st century, the real estate sector experimented strong capital inflow of foreign and private capital into the domestic sector, motivated by the strong positive relationship of both industrial production sectors between Mexico and the United States of America, as a consequence of the agreement of Free trade of North America: "NAFTA". At that time the main incentives for foreign and domestic production companies were the competitive labor cost between the two countries, the low costs of transportation due the geographical proximity, and complemented by strong fiscal incentives of goods production in Mexico in the main border states of the country.

This first wave of investment was attracted by the high levels of capitalization rates that could be obtained with dollar-denominated rents, relative low cost of land in an economic scenario with high national capital cost and significantly high peso inflation.

Foreign investment funds benefited from the large profits that the sector offered while a high entry barrier was stated: the amount of capital per investment, in consequence the development of large industrial parks with foreign owners and together with local development companies tooks the initial benefits from capital inflows to accelerate the inventory of industrial parks abroad the country.

In the mid-2000s purchasing power in Mexico represented a great opportunity to develop retail throught anchored centers due the stabilizing inflation process, a gradual increase in purchasing power, constant consumer financing, and a dynamic consumer goods sector promoted the development of shopping centers anchored by Autoservice stores which based their expansion strategies in the country through local developers in conjunction with a growing inflow rate of capital and financing to the sector motivated by the guarantees represented by Autoservcie intenational brands.

This second wave was perform with great succes that internacional Autoservice Stores also change the habit of consumption in big, medium and small cities representing regional distribution centers for the rest of the surrounding towns.

During this stage the industrial and commercial portfolios concentrated a large number of assets in the Mexican economy.

At the beginning of the second decade of the 21st century, large office corridors in two of the three major cities, Mexico and Monterrey suffer a regulatory change that gave unprecedented permits to built high-rise office buildings on major avenues with better and more efficient equipment in comparison with the existing inventory. The concentration as a landmark development is given the greater competition, since the business corridors are limited and necessarily the infrastructure of communication, transportation and housing must accompany the integral operation of the business centers, where historically the business corridors in the main cities lacked a comprehensive design by the government.

As a result, capitalization rates accordingly attracted both domestic and foreign investors. The channel of investment during these years experienced a soft landing of capitalization rates as the entry of more competitors, mainly foreign investment funds, and this is where the prevailing need to de commoditize the traditional developments as well as offere have clear vie to investment exit, derives in a natural pressure to create public vehicles that had: sufficient capitalization levels to carry out large merge and acquisitions as well as provide constant re-investment in different sectors.

Accompanying the exit of portfolios created at the beginning of the 21st century in the public market through the FIBRAS represented a competitive advantage as a country to ensure a clear exit to the private capital, as well as providing access to large capital investments in the sector for public and private investor in the mexican stock market. Since 2012, nine private investment vehicles as FIBRA modality, and many more in the CKD and CERPI version, assures the investor the option of an initial investment and exit channel for the sector in the Mexican market.

The era after the birth of the FIBRAS gave origin to homogenize the products of development and give a new opportunity of investment in previously unexplored market niches pursuing again to rise high levels of capitalization in the development stage of real estate products: such as: techno-industrial parks, logistics centers, shopping malls "life style", luxury hotels with travel experiences never before offered in the country. Today we have one of the international inventories most diverse in the world concentrated in three markets: Yucatan's peninsula, Vallarta region and Los Cabos. Each one of them has a very particular and dynamic business logistics.

The next stage must be lead by the trend of differentiation via experience of purchase, better mix use coexistence and provide product quality improving in life experience.

The great transformation started from young population, the demographic bonus of young people and the dynamism in the Mexican economy increases the speed of creativity, design and competition by design, product and new landmark locations.

Large investment funds require higher capitalization rates and re direct their investment channels to products with differentiators that can achieve the needs of more complex users. Today the international trade interrelation improves high profit margins to products as: textil, automotive and consumer products that allow a standard market of rents abroad the country which in general terms increase the capital returns for real estate investments in several sectors, in conjunction with a clear exit in the stock exchange finally connects the cycle of a Real estate investment. So, the trend of real estate development in a country with positive and constant population growth rates, macroeconomic stability, clear commercial interrelationship from export and import sector and the institutional and private exit option undoubtedly is an Ideal investment platform to continue with the positive growth dynamics of the Mexican real estate sector.

CAPITAL COMMITMENTS IN THE REAL ESTATE INDUSTRY

In the last three years the number of GPs have stagnate, but the amount of capital commitments increased 280% from last year. In 2015, the industry reached a peak of USD\$ 4,491Mn in capital commitments. So far this year, the capital commitments raised for the industry are USD\$ 2,277Mn, from which most of the money comes from CKDs.

In the last seventeen years, we have tracked 104 raised funds for the Real Estate industry, from which 60.5% come from foreign funds and the remaining 39.5% come from Mexican funds. From 2000 to 2008, foreign GPs raised more funds than Mexican funds, but this trend has changed recently mainly due to the different incentives that the Mexican government offers to Real Estate GPs

**Real Estate Funds raised per year
(2000-2017*)**

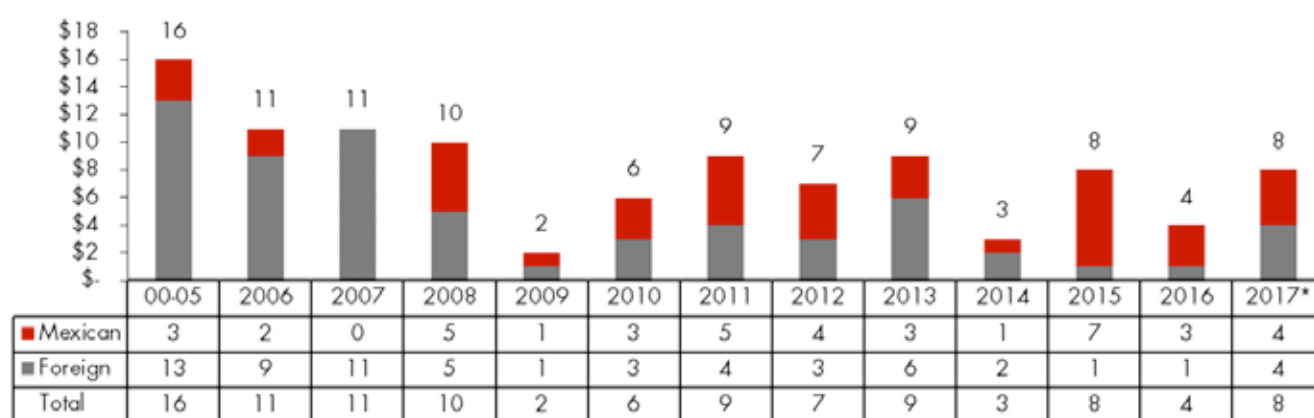


Fig. 50

From the USD\$ 2,277Mn of capital commitments raised this year 34% comes from foreign Real Estate funds. Almost all capital commitments come from foreign funds, as in the last seventeen years foreign funds have contributed with more than 50% percent of the commitments with an exception in 2011.

**Capital Commitments
Mexican & Foreign funds
RE Industry (USD\$ Mn)**

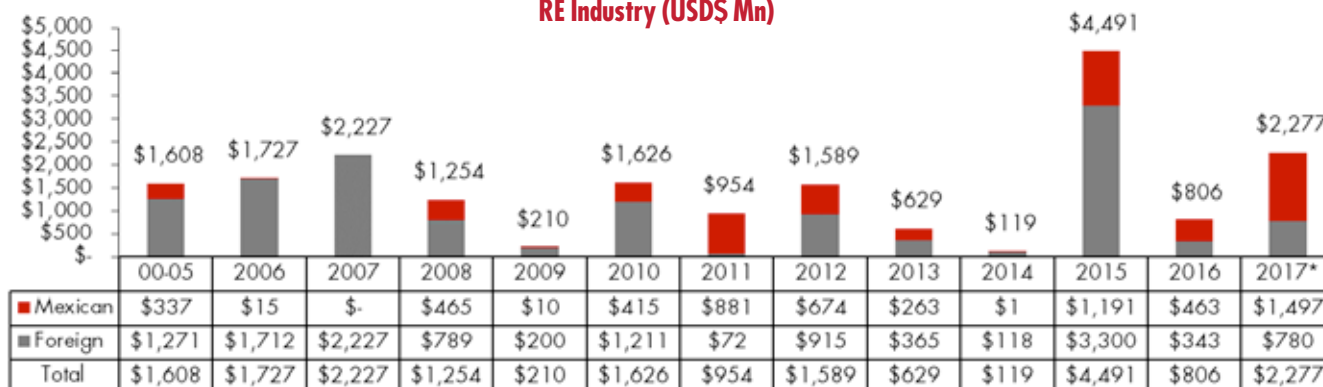


Fig. 51

The Real Estate industry is close to reach USD\$ 20Bn of accumulated capital commitments in the last seventeen years. The amount of capital commitments has increased in average USD\$ 1.5Bn yearly.

In the last seventeen years, foreign funds have contributed with 68% of the total accumulated capital commitments in the Real Estate Industry. Mexican funds are increasing significantly their commitments as they use new vehicles to achieve better funding strategies.

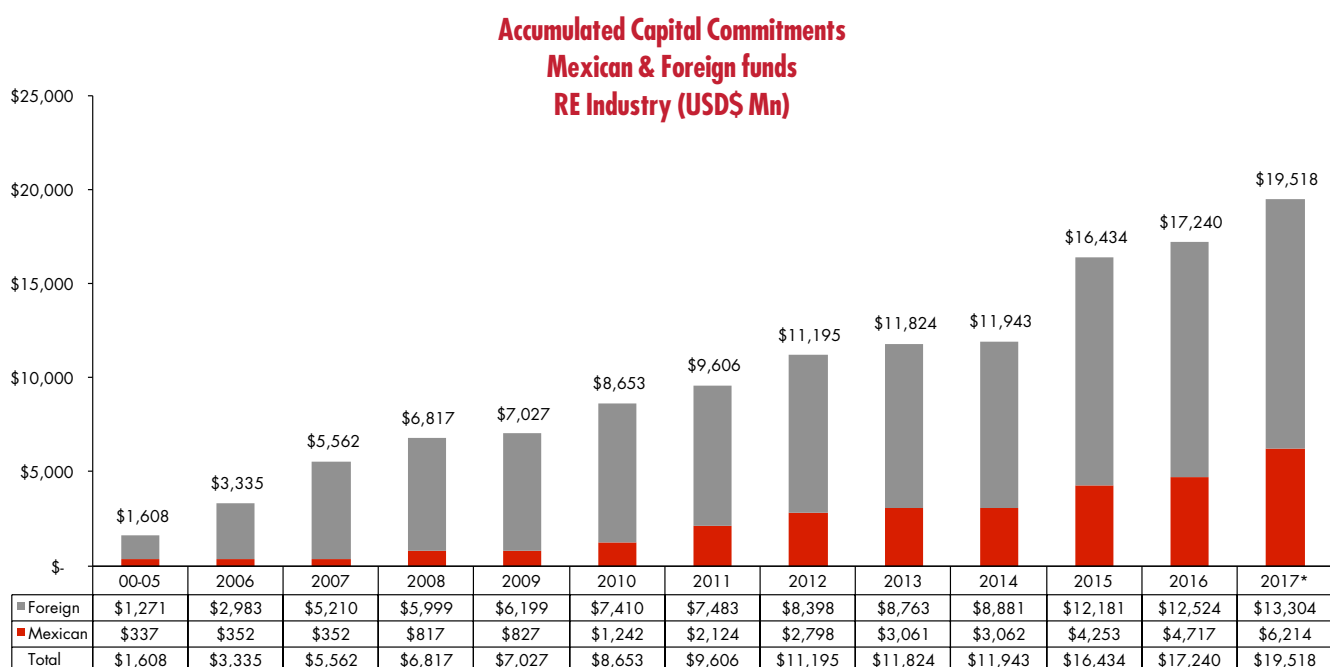


Fig. 52

In 2015, the Real Estate industry presences a record in the sector with a 3.25x increase from previous year. Driving this grow was a USD\$ 3.3Bn transaction. Close to 59% of the assets of Real Estate Funds were for greenfield projects versus 41% for acquiring developed assets. We have seen a drop-down transaction from 2013 we expect this to change in a near future mainly due to Real Estate funds that have USD\$ 6.2 bn ready to be invested. Real Estate Funds have USD\$ 7,949Mn ready to be invested specifically in the country.

**Committed Capital by Stage in Real Estate
(USD\$ Mn)**



Fig. 53

Source: AMEXCAP 2017

Note: Does not include first time funds without first closing.

The Median & Average describes the average funds size and the median of all funds that raised each year. Furthermore, the average fund size in 2017 was USD\$ 376Mn, roughly and in 2015 the average size fund was USD\$ 617Mn.

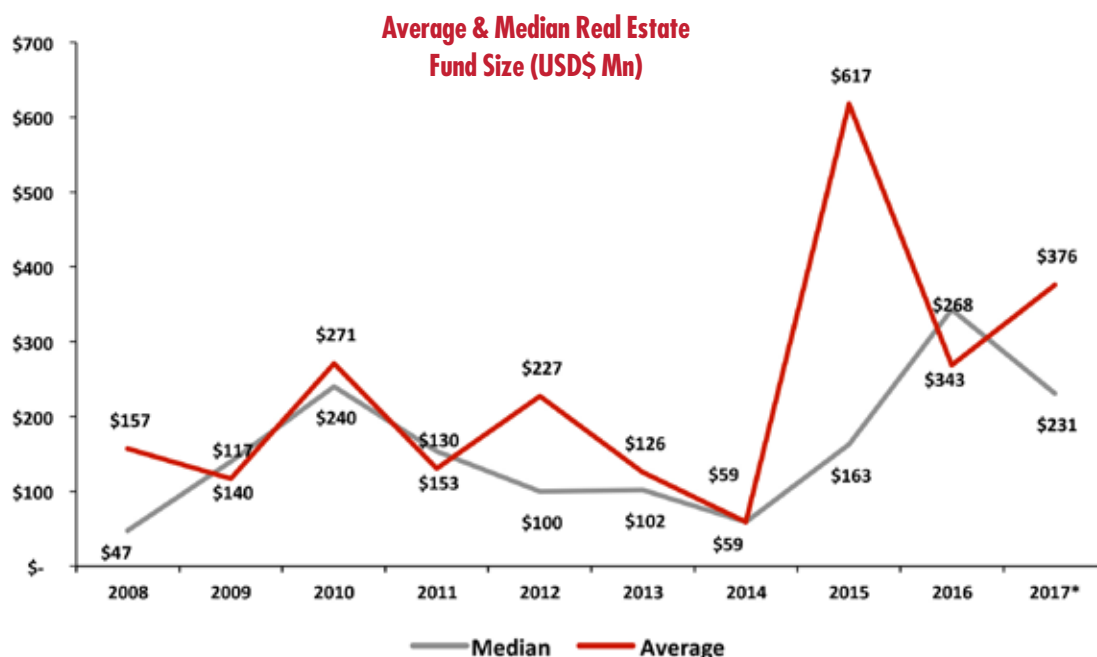


Fig. 54

In 2015, the Real Estate industry presents a record in the sector with a 3.25x increase from previous year. Driving this grow was a USD\$ 3.3Bn transaction. Close to 59% of the assets of Real Estate Funds were for greenfield projects versus 41% for acquiring developed assets. We have seen a drop-down transaction from 2013 we expect this to change in a near future mainly due to Real Estate funds that have USD\$ 6.2bn ready to be invested.

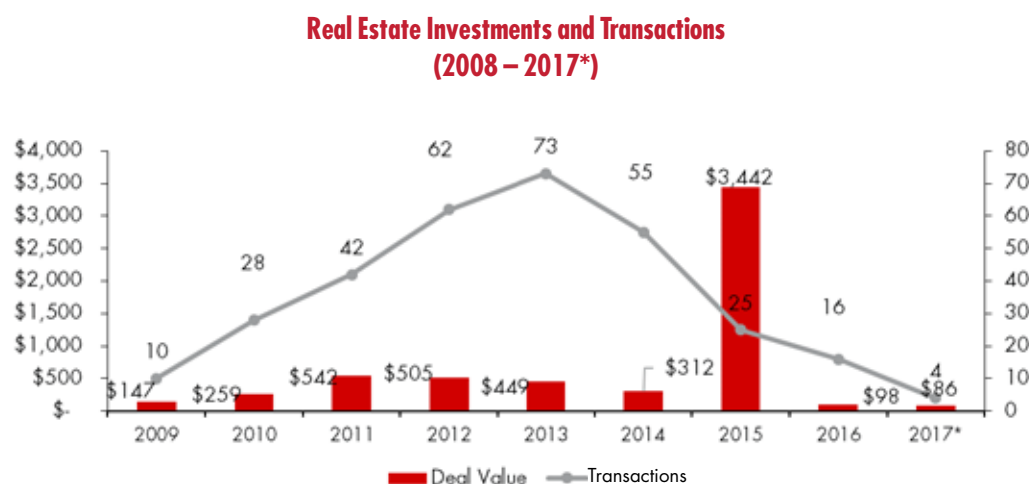


Fig. 55

Real Estate (2008-2017*)

Real Estate funds investing in Mexico are focusing on industrials, commercial and housing developments abroad the country.

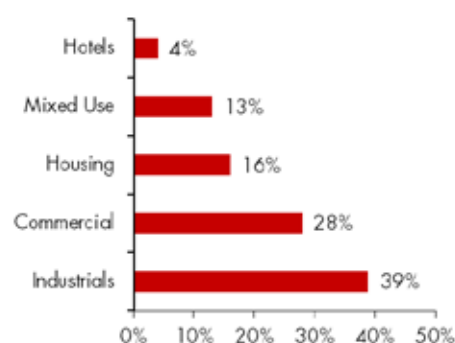


Fig. 56

We saw an atypical average size investment in Real Estate in 2015. The average size investment had been decreasing year by year but has increased in the present year with bigger transactions. There have been investments in hotels, commercial buildings, industrial buildings, mixed use among others.

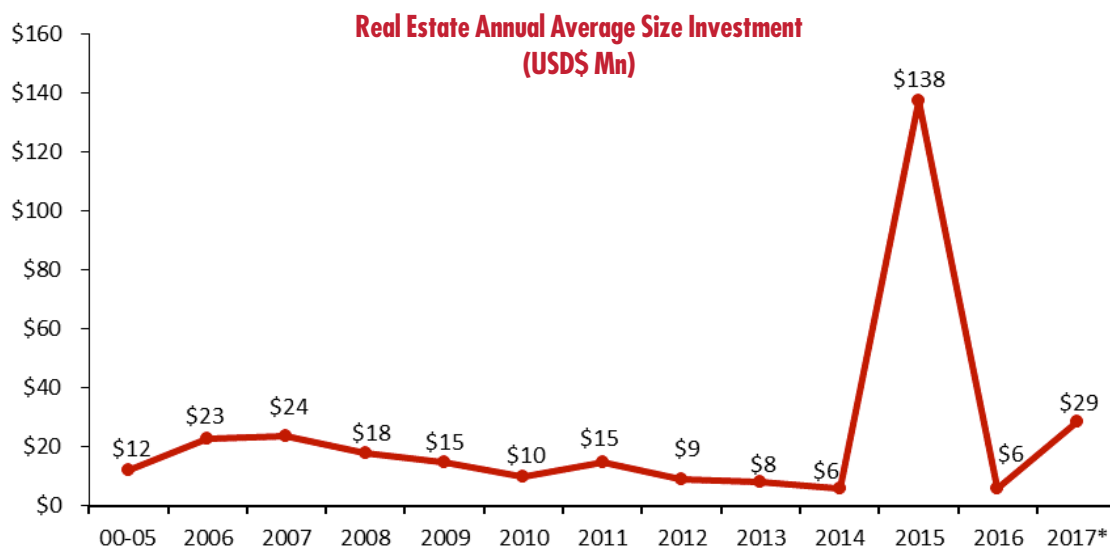


Fig. 57

In the last seventeen years, almost all of all exits from the Real Estate industry are asset sales. In concrete, 95% of the exits have been asset sales, 3% strategic, 1% sponsor to sponsor and 1% partial exits.

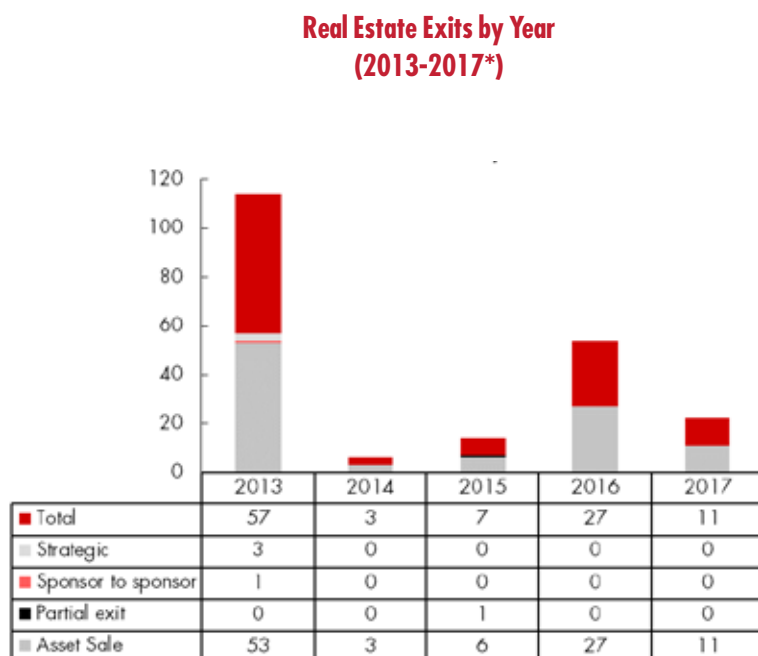


Fig. 58

RE Industry GPs by Number of funds

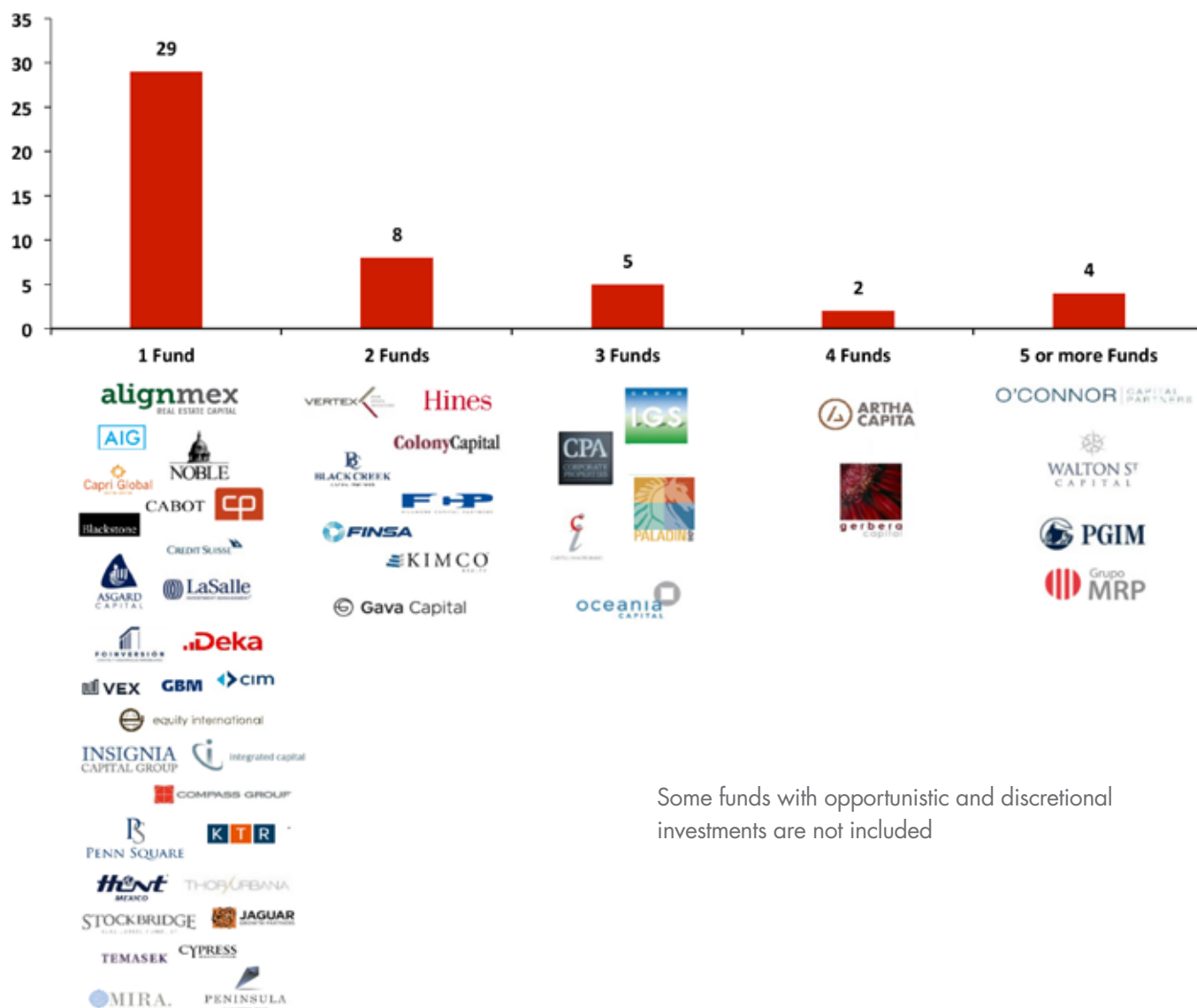


Fig. 59

MEXICO, LAND OF OPPORTUNITIES TO INVEST IN ENERGY AND INFRASTRUCTURE PROJECTS

In Mexico, there are unique opportunities to invest in energy and infrastructure projects with a very attractive risk / return profiles. To start with, there is a huge backlog of projects given that, for decades, the legal framework did not allow the participation of the private sector that the country required.

a) Oil & Gas: At current prices, there are very good opportunities to invest in upstream in Mexico at a lower than normal risk, by improving the recovery factor and exploiting the opportunities in the stratigraphic column. About 80% of domestic production is concentrated in 33 fields and 60% are in a declining stage. Pemex needs to invest in technologies of artificial lift and infrastructure to keep production levels. The historic number of wells drilled in Mexico is only 1.6% the number in the USA. In addition, Mexico does not reach a 20% recovery factor in many fields, when compared to the 40s% obtained in USA. In Chicontepec, for example, with more than 35% of the 3P reserves of the country, the recovery factor in the Tertiary has been less than 5%. In contrast, similar fields in other countries have achieved recovery factors close to 30%. The feasibility of opportunities in exploration and production are evident when taking into account changes to taxation and the possibility to register of reserves.

In the midstream sector, for decades CFE and Pemex restricted their investments. As a result, Mexico has 0.1x of pipelines / km² compared to USA. There is considerable upside to be gained from companies that cannot only invest capital wisely, but can also bring structure and cohesiveness to Mexico's transportation and storage needs.

In downstream, the performance of the refining plants is below international standards: the energy intensity rate is 134.6, which is 1.42x the international parameter; unscheduled stoppages rate is 12x international reference and fuel performance is 9% below international reference (69.6% vs 79.4%). This presents an opportunity to invest to make plants more efficient.



Manuel Rodríguez Arregui
AMEXCAP's Infrastructure
Board Member

b) Electricity: Before the Energy Reform, Mexico had a vertically integrated State Owned Enterprise responsible for distribution, transmission and generation of electricity. The consequences of having a monopoly transfer cost to consumers are clear. 15% of Mexican electricity is generated with fuel oil, which is more expensive than natural gas. The USA uses only 1%. The efficiency of the CFE plants is 62% while private operators have around 80%. More than 45% of the transmission lines have between 20 and 30 years in operation. Clearly, CFE does not have the financial capability to undertake all the investments needed. Consequently, CFE requires new financial and operating partners to capture the opportunities.

In addition Mexico is committed to honor its commitment to the Paris Climate Accord. The law establishes that by 2024 participants in the wholesale market will need to satisfy 35% of their demand through clean air certificates. The use of this mechanism will guarantee the demand for renewable energy.

The energy reform seeks to establish a new industrial organization that allows the productive sector to acquire electricity at competitive prices from a wholesale market and transmission and distribution become regulated utilities. The new industry organization is similar to the wholesale electricity markets models established around the world. The new market structure allow new opportunities to revamp inefficient generation capacity, produce clean energy certificates, build new transmission lines and develop smart grids.

c) Water: There is a lag in the supply of drinking water and water treatment. States like Chiapas, Guerrero and Oaxaca has coverage rates lower to 80%, while the national average is only 92%. Even in Mexico City 18 % of the population does not have access to water every day. The water systems show sub optimal physical and commercial efficiencies and less than 45% of the collected water is treated properly. The budget constraints of States and Municipalities have significantly limited resources allocated to water infrastructure. Thus, there is an opportunity to develop integrated water concessions like in Cancun and Puebla to optimize operational and commercial efficiencies, freeing up municipal budgets and reducing the coverage lag.

d) Transportation: The transport sector presents a variety of opportunities to develop new projects and optimize operational, financial, tariff and commercial structure of existing projects. Transport infrastructure has grown at a lower level than mobility and logistics demand. Although Mexico has successfully involved the private sector in the construction and operation of toll roads, 42% are still owned and operated by the government. Furthermore, in the airport sector, of the 58 operating airports, the Federal Government manages 31%. Some of these present saturation and require investments to expand its capacity or to be relocated, and represent an opportunity for the federal Government to monetize assets. And finishing the New Mexico City Airport will require more PPPs. With respect to the ports diversifying trade flows will require increasing the capacity and efficiency starting with the port of Veracruz. Mexico also needs a strategy to have port capacity that can compete with the Long Beach and LA Ports.

Today, the reform of the energy sector and the PPP legal framework, together with the current business environment are generating more investment opportunities than what the market anticipated. The factors that are triggering the number and attractiveness of the opportunities are:

- Government budgetary constraints that force it to monetize assets
- Strategic alliances with Pemex and CFE to improve their balance sheet and complement execution capacity
- Opportunities to maximize recovery factors of upstream resources and improve associated infrastructure and logistics
- Financial restructuring of existing private companies
- Competitive advantage of regional price of natural gas and associated raw materials
- PPP projects to relocate infrastructure and capture the value of real estate
- Arbitrage opportunities in wholesale markets of electricity and refined products
- Need for non-traditional financial products to optimize capital structures
- New schemes of producing renewable energy through Clean Energy Certificates
- Value of implementing new business models to tap potential demand and achieve efficiencies

To capture the opportunities, international institutional investors and Global PE Funds will require to find adequate local partners to identify associated risks and improve the capacity to manage them. Over the last five years Mexico has been increasing the number of managers of PE funds specialized in the energy and infrastructure sectors. We now have multidisciplinary teams with experience managing funds and robust organizational structures. Improvements are possible to incorporate best practices in corporate governance and codes of ethics as well as social and environmental responsibility. Going forward local companies will certainly also benefit from having more strategic alliances with multinational players.

INFRASTRUCTURE & ENERGY OVERVIEW

2014 was a great year for the Infrastructure & Energy sectors, achieving to raise 15 new funds, although this year was the year with most new funds, 2015 reached a peak in capital committed, raising USD\$ 5,328Mn with only seven funds.

**Infrastructure & Energy Funds Raised per Year
(2000- 2017*)**



Fig. 60

The last four years have been very important for the Infrastructure & Energy sectors, raising 75% of the total amount of capital since 2005. Since 2014, 32 new funds have been raised, 16 local funds and 18 foreign funds. In the past four years USD\$ 8,058Mn have been raised from foreign funds and USD\$ 3,992Mn from local funds.

**Infrastructure & Energy Committed Capital
(USD\$ Mn)**

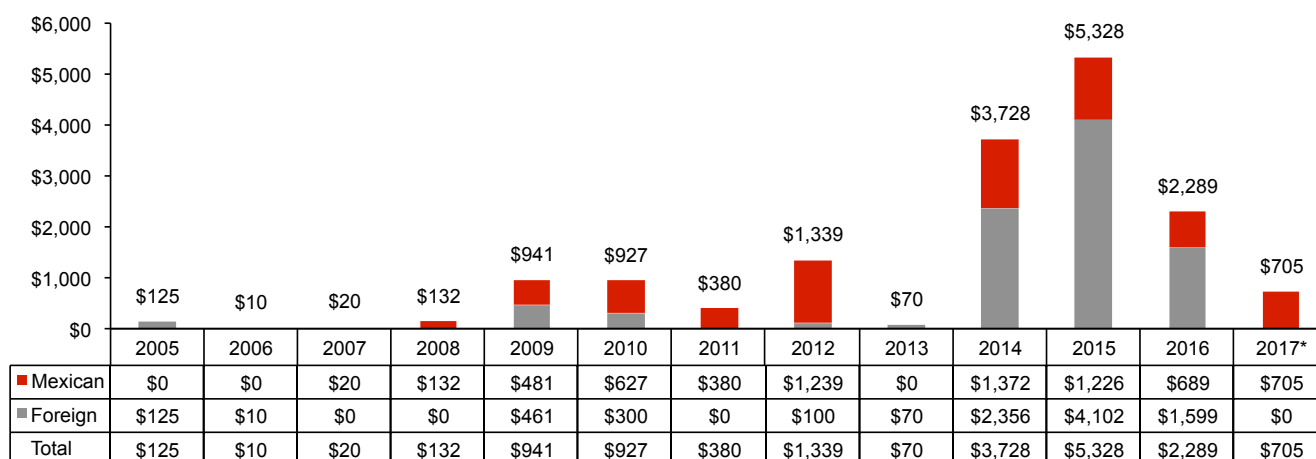


Fig. 61

As mentioned before, the Infrastructure & Energy sectors started to grow and to raise capital actively in 2014. In 2015 foreign funds designated a great amount of capital to Mexico. Local funds continue to raise capital actively, in the present year we have seen three new funds raising a total of USD\$ 705.4 Mn.

Infrastructure & Energy Accumulated Committed Capital (USD\$ Mn)

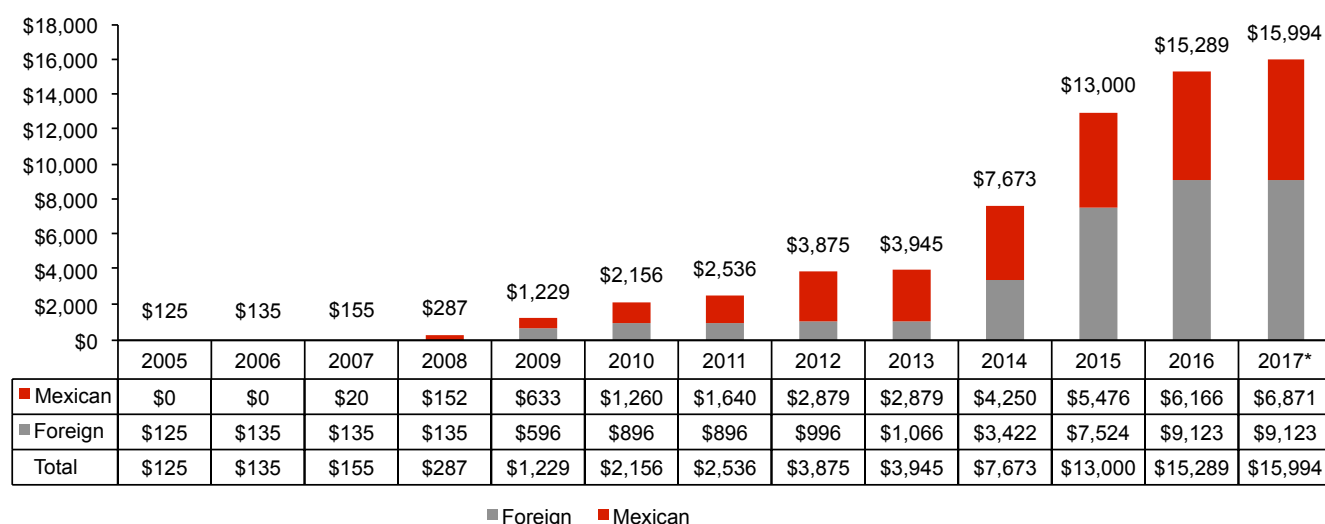


Fig. 61

In the Infrastructure & Energy industry, from the USD\$ 15,994 Mn of total committed capital roughly 71% is ready to be invested.

Committed Capital for Infrastructure & Energy (USD\$ Mn)

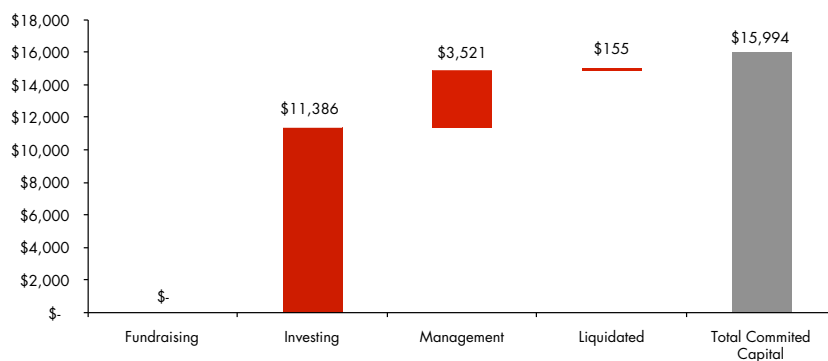


Fig. 62

The average & median graph shows there was a peak in 2015 and industry is returning to normal levels.

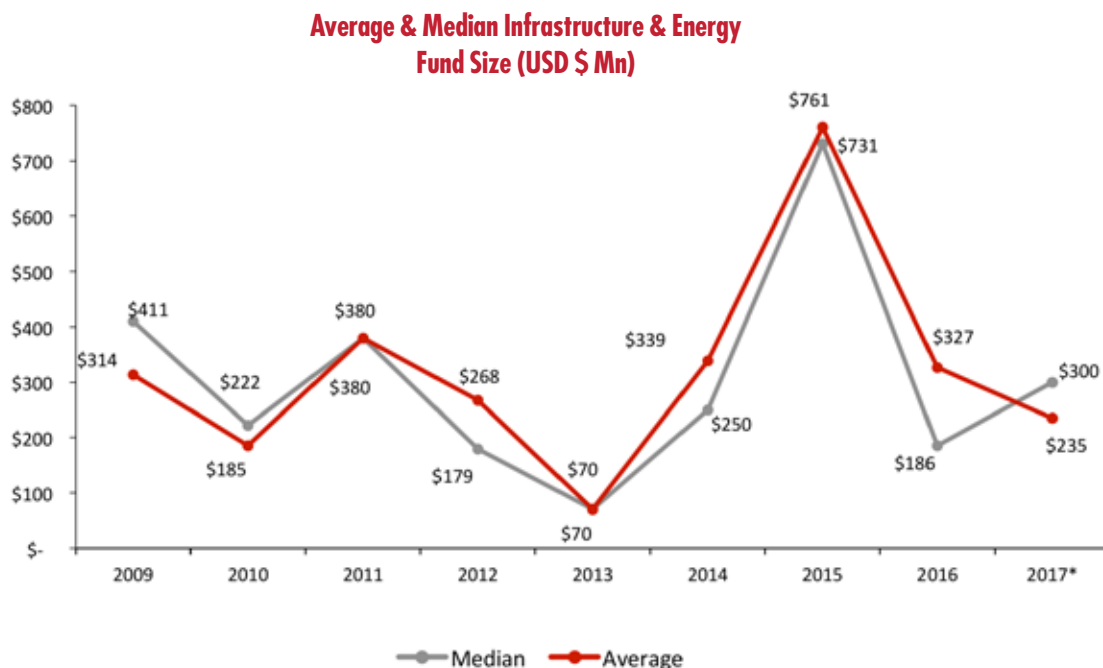


Fig. 63

Since 2014 Infrastructure and Energy Funds increased their investments due to the energy reform that allowed private investors to participate in energy projects. Last year we saw that Blackstone sold Ventika to lenova a fresh exit in the energy sector the transaction was made in 2014.

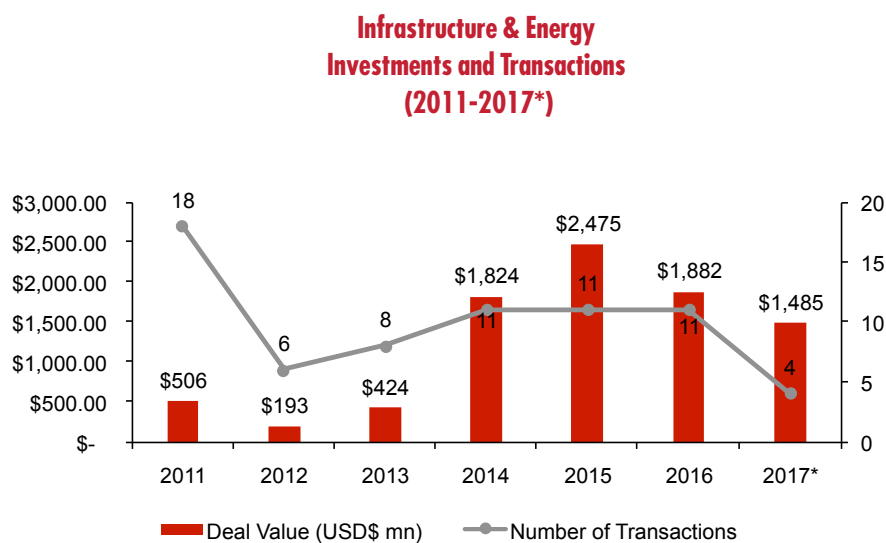


Fig. 64

The Oil & Gas sector is becoming a top sector, almost half of the transactions made, have been made in this sector, investing almost USD\$ 6,000Mn. Funds have also shown a preference for the Industrials sector, accumulating USD\$1,500Mn in investments.

Infrastructure & Energy

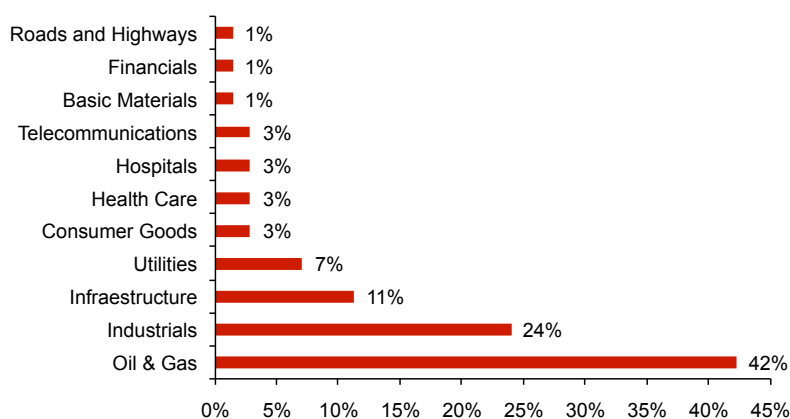


Fig. 65

Infrastructure & Energy annual average size investment had been growing for several years, reaching its peak in 2015, achieving an average size investment of USD\$ 225Mn. The average decreased 24% last year but reached a new peak this year which was triggered by two very large investments, reaching an average size investment of USD\$ 371Mn.

Infrastructure & Energy Annual Average Size Investment

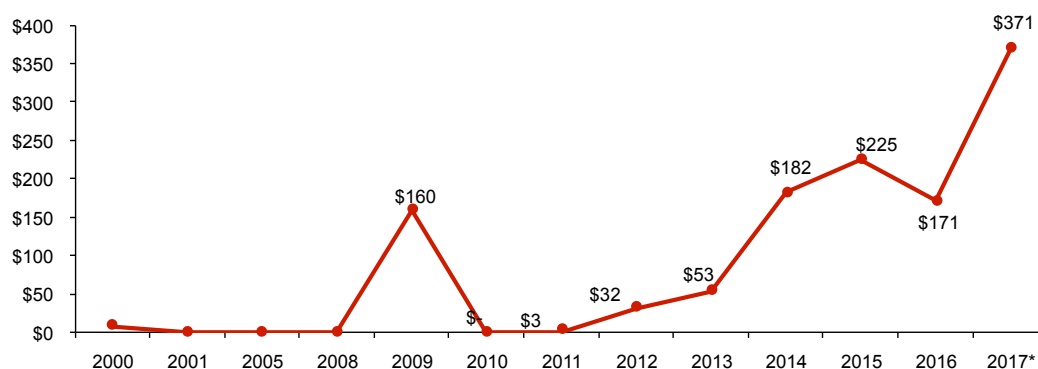


Fig. 66

Infrastructure Exits by Strategy (2008-2017*)

We have seen three exits in the Infrastructure & Energy sectors, Blackstone sold The Ventikas to Ilenova, Conduit Capital Partners sold Mexhidro and Darby Overseas Investments Tapsa. Two of the exits were made in the oil & gas sector and the other one in the industrials sector.

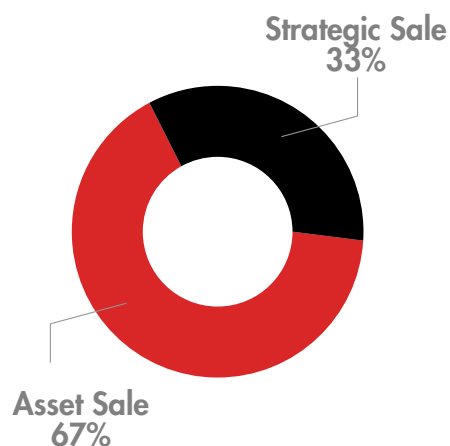


Fig. 67

Infrastructure & Energy Industry GPs by number of funds

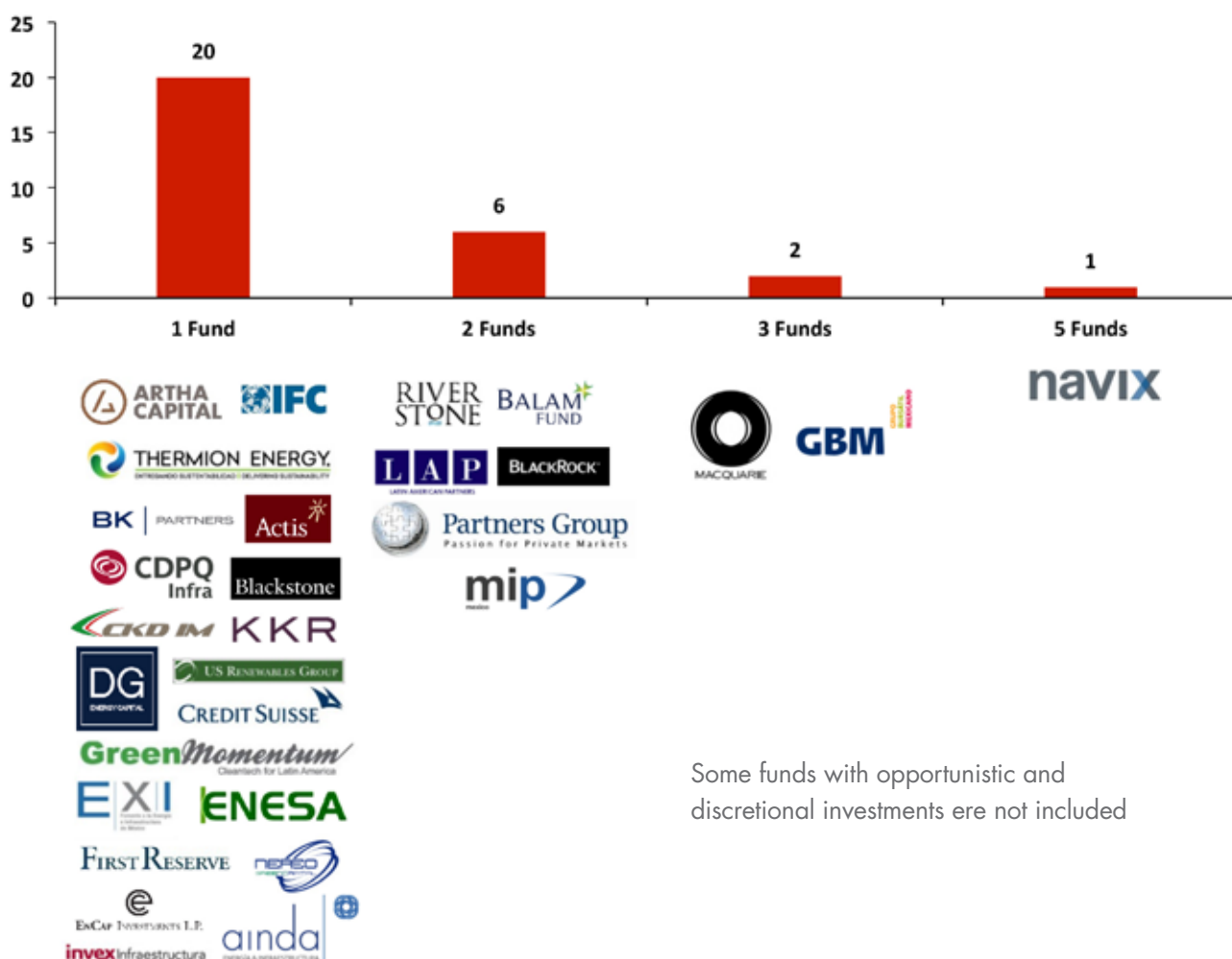


Fig. 68

CAPITAL COMMITMENTS IN THE DEBT INDUSTRY

Although the use of debt as a financing strategy for the funds is increasing, there are not much funds that specifically consider themselves as debt funds. In the last seventeen years we have tracked a total of 14 debt funds raised from which 50% were raised in the last 5 years. From the total of funds only two out of the fourteen funds are foreign funds.

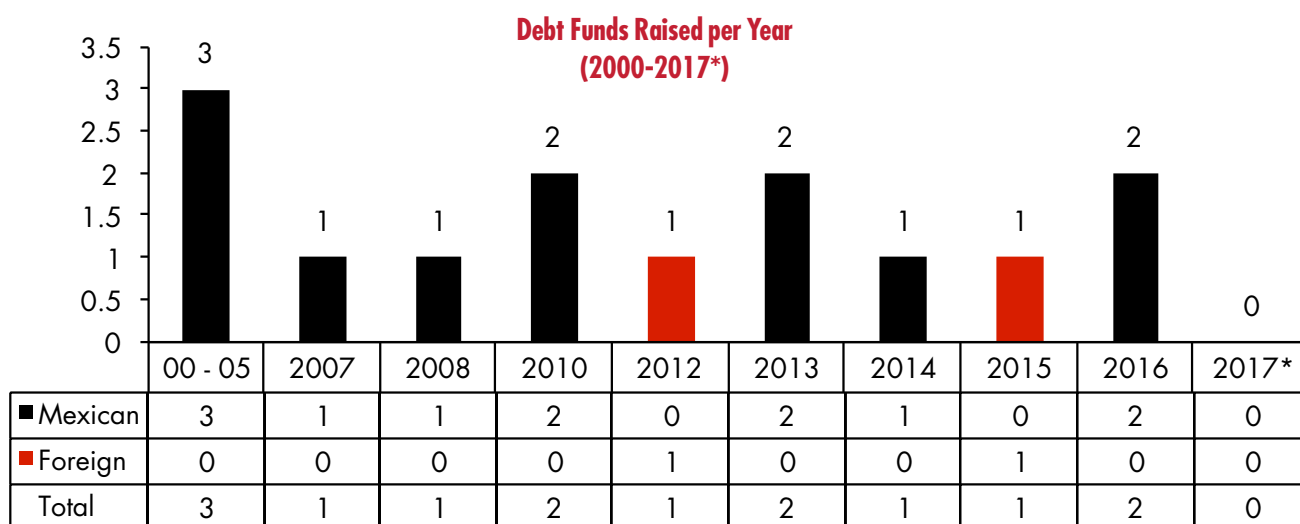


Fig. 69

Although there is not much change in the number of new GPs recently, the amount of capital commitments from the industry decreased significantly in the last two years. From USD\$ 752 Mn in 2015 to none so far, this year. As there are not much transactions each year, the source of the capital commitments varies, as an example in 2015 all of the capital commitments came from foreign funds and in 2016 all of the capital came from Mexican funds.

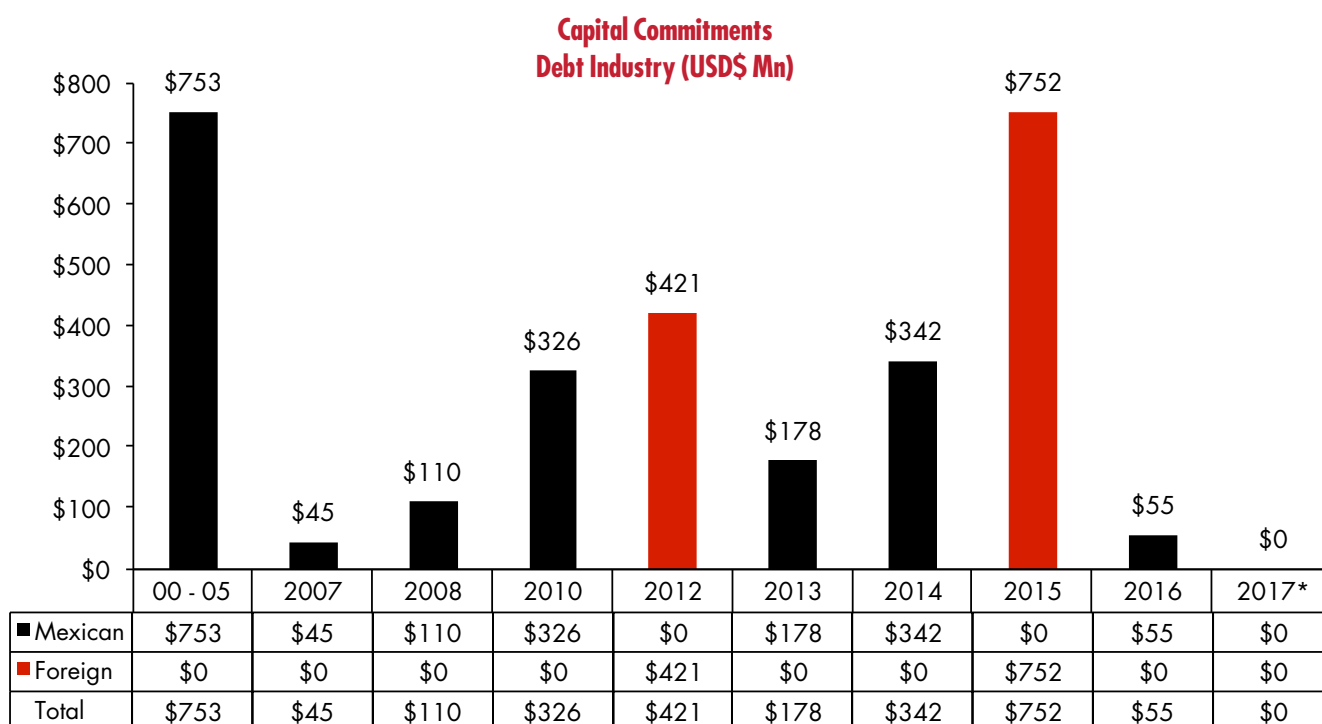


Fig. 70

Although Debt funds have no recorded capital commitments so far, this 2017, the accumulated capital commitments that come from Debt funds reached more than USD\$ 1,800Mn. From the total amount of capital commitments roughly 40% of the capital comes from Foreign funds and 60% comes from Mexican funds.

Accumulated Capital Commitments Debt Industry Mexican & Foreign Funds (USD\$ Mn)

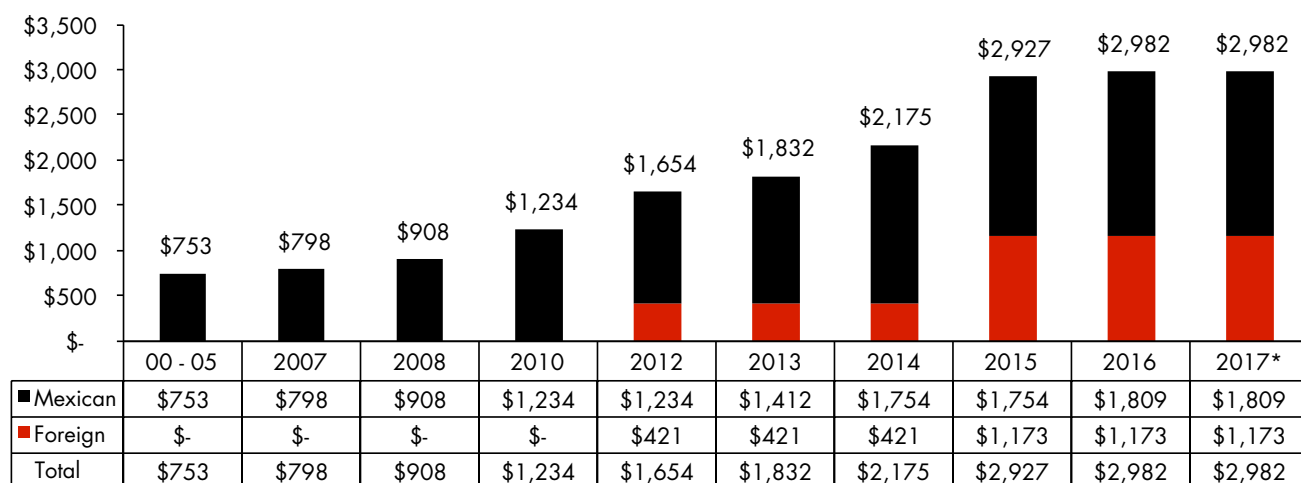


Fig. 71

As not much transactions are recorded each year, there is not much variance in the median and average of the transactions of this industry. If we eliminate the two outliers from 2015 and so far, 2017, the average size of a fund in the last seventeen years from the debt industry is USD\$ 181 Mn.

Average & Median Debt Fund Size (USD\$ Mn)

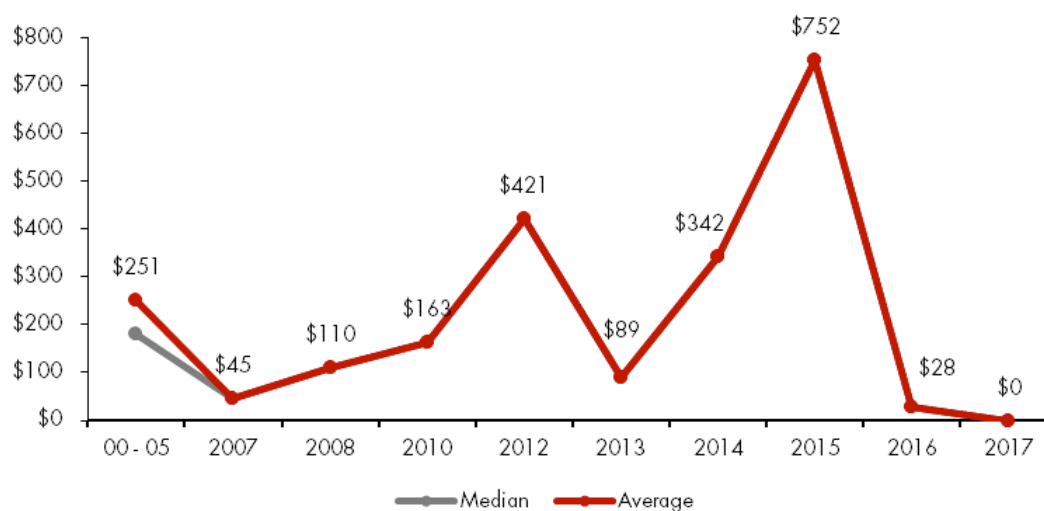


Fig. 72

NUMBER OF TRANSACTIONS AND INVESTMENT SECTORS

In recent years, funds investing throughout debt is becoming more common, as companies decide to finance projects by loans instead of other financing strategies. In the last 5 years, an average of 15 debt transactions have been tracked with an average transaction of USD\$ 117Mn.

**Debt Funds Investments and Transactions
(2000-2017*)**

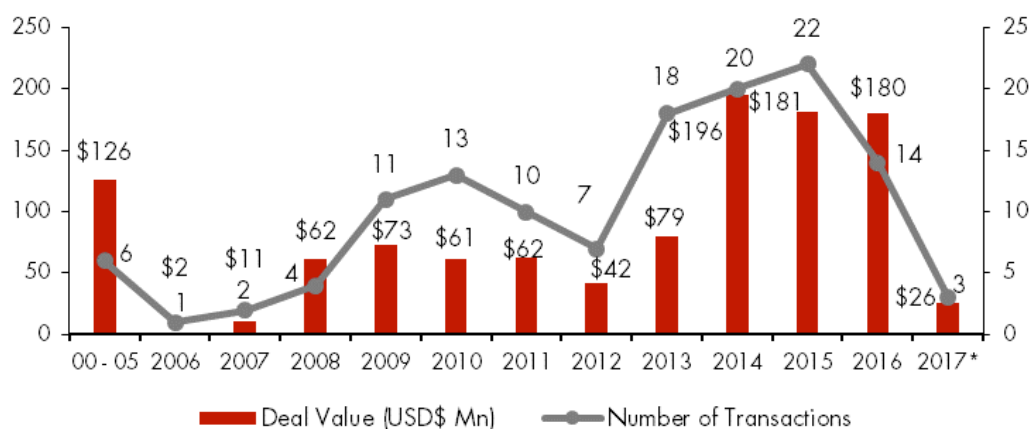


Fig. 73

Debt funds in Mexico are mainly investing in Financials and Industrials as these two categories represent 84% of all transactions recorded for the industry. The Oil & Gas category represents 9% of the industry transactions and the remaining categories sum 7%.

**Debt
(2000-2017*)**

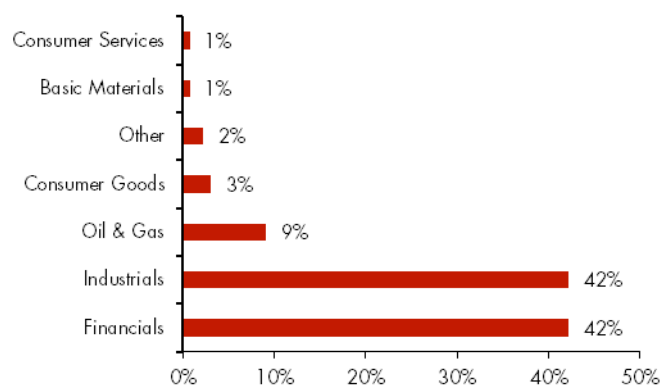


Fig. 74

Source: AMEXCAP 2017

Note: Does not include first time funds without first closing.

The average size investment in private debt is growing from 2013 to 2017 a 56% more.

Debt Annual Average Size Investment

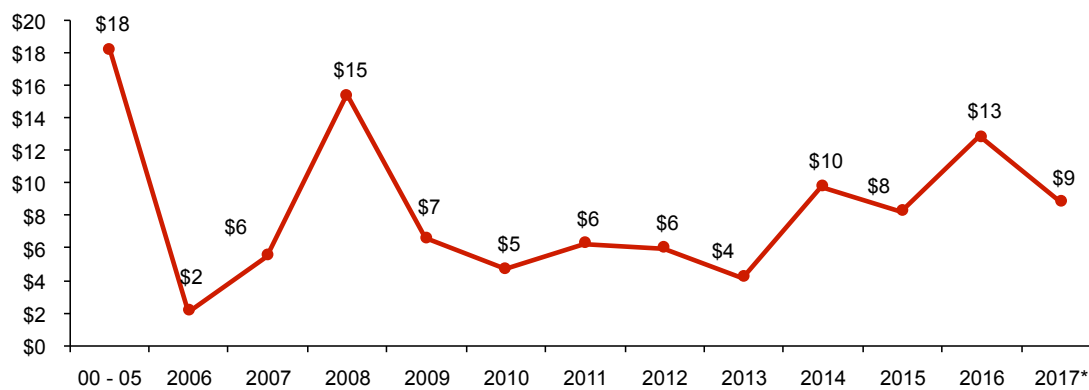


Fig. 75

Debt

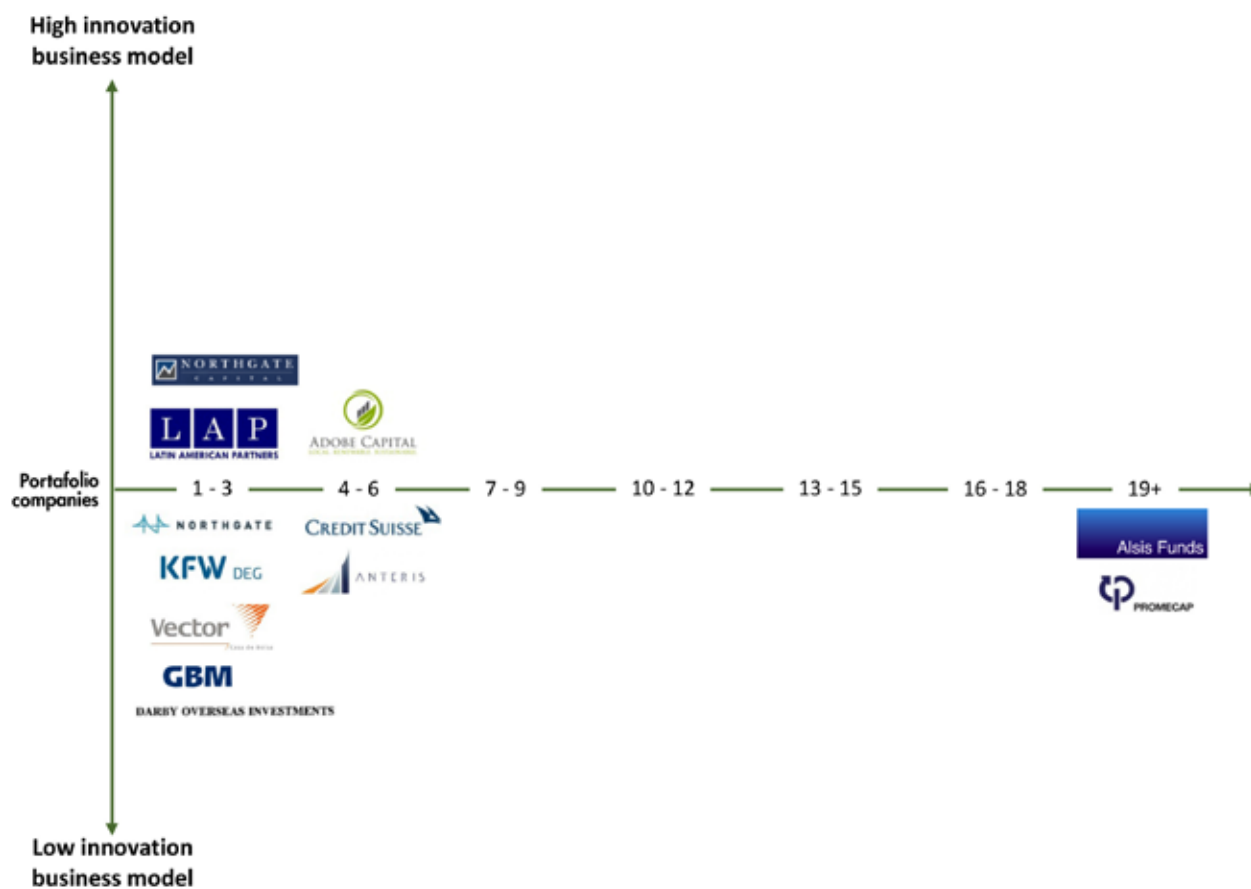


Fig. 76

FUNDRAISING OVERVIEW- LP PROFILE

Since 2015 AMEXCAP has conducted the LP Composition survey with its members and 45 GPs have participated, disclosing 75 funds structure.

Within Venture Capital, most LPs are still mainly local HNWI, family offices and recently local pension funds. For

the foreign investors, we have fund of funds who are the most active type. On the other side, we have more foreign LPs participating in the Private Equity segment, mainly Financial Institutions and Fund of Funds. Pension funds are increasing their allocation to PE so we will expect the composition to equal in time.

Venture Capital LP Composition

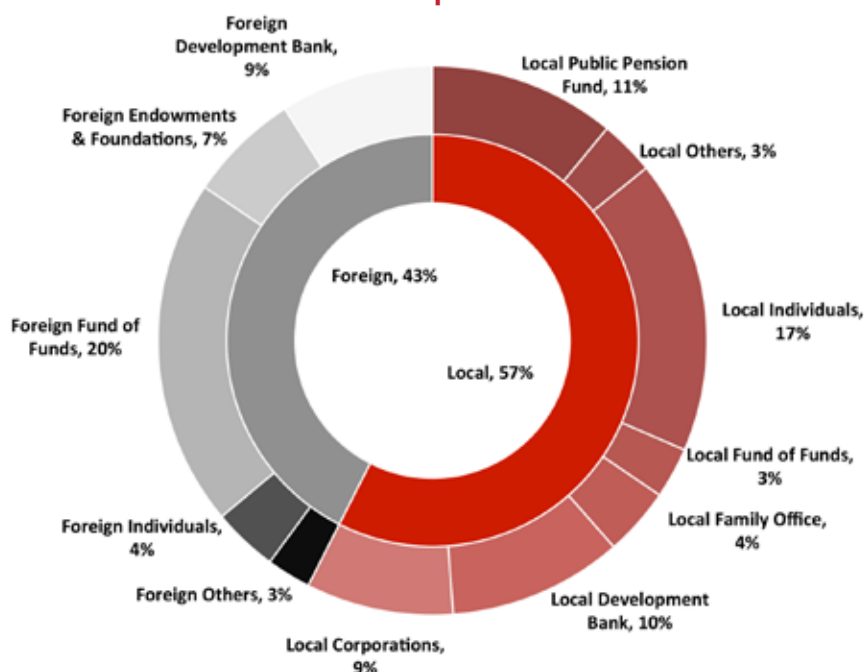


Fig. 77

Growth & LBO LP Composition

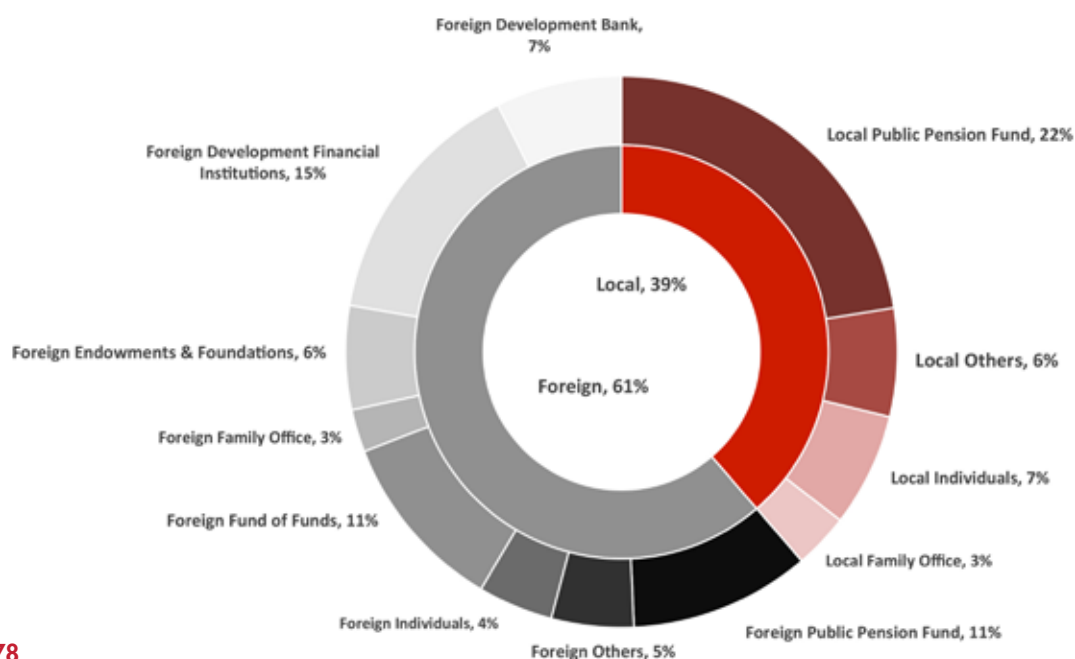


Fig. 78

Source: AMEXCAP 2017

FUNDRAISING OVERVIEW- LP PROFILE

For both the Infrastructure & Energy as well as Real Estate local pension funds are increasing their participation. Real Estate has changed dramatically. Few years ago, foreign investors were taking the majority of the pie and now pension funds are taking over.

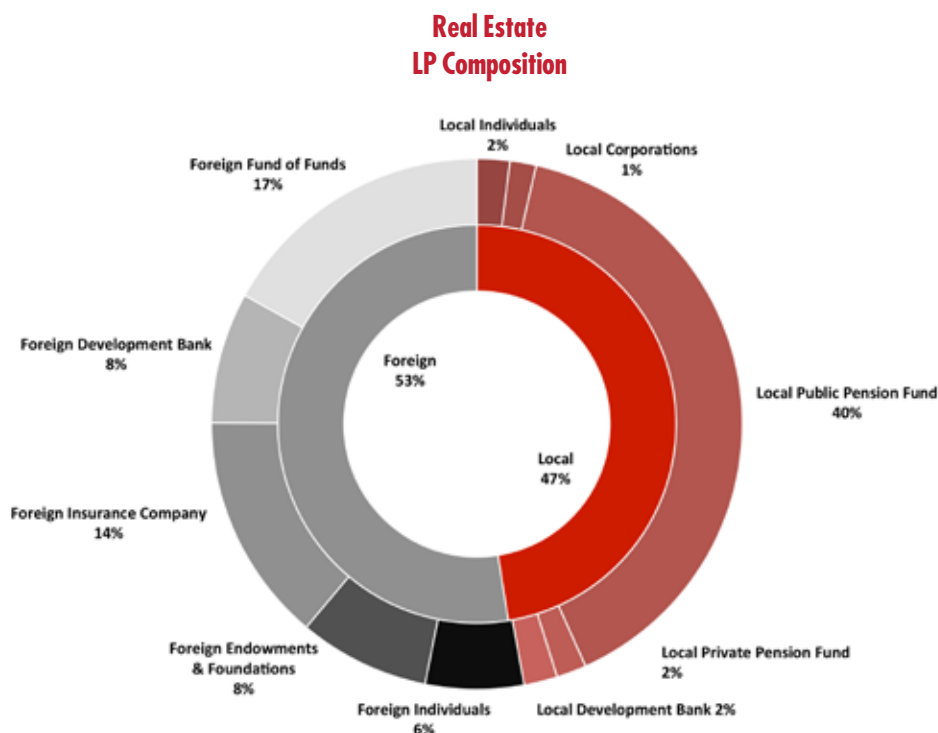


Fig. 79

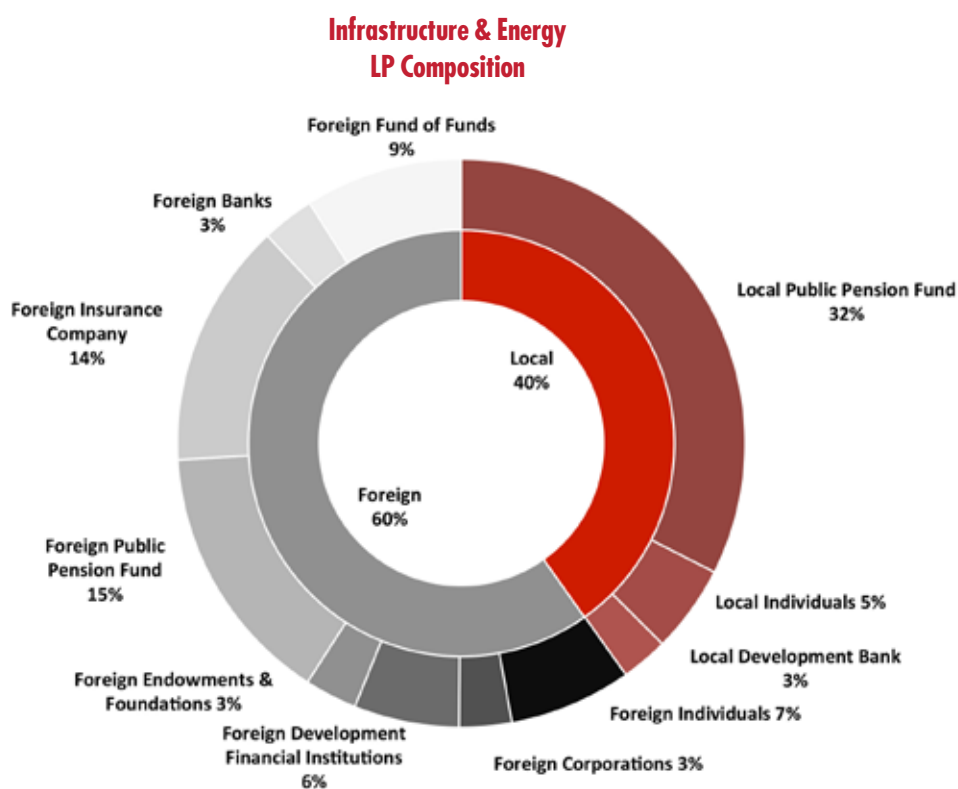


Fig. 80

Source: AMEXCAP

PRIVATE EQUITY ALLOCATION BY GLOBAL INSTITUTIONAL INVESTORS

On a recent research from Gerbera Capital Asset Management with Global Institutional Investors we can find out how these institutions allocate their capital for Private Equity, including buyout funds, co-investments, private debt funds, fund of funds, growth funds, real asset funds, venture funds, real estate funds, opportunistic PE funds, among others.

The universe of Institutions that were analyzed includes the largest 100 institutions under each of the different institutional investor classifications; all institutions that didn't disclose their assets under management (AUM) and PE asset allocation were excluded.

Total AUM, represents the cumulative assets under management for each class of institutional investor included on the analysis.

Avg PE allocation represent the avg PE allocation reported by each institution covered in the sample.

Superannuation Funds, are a type of defined benefits retirement fund for employees.

	# of Institutions	Total AUM (USD\$ MN)	Avg AUM (USD\$ MN)	Avg PE Allocation
Government Pension	96	6,208,877	64,676	23.80%
University/Endowment	97	831,775	8,575	30.10%
Foundation	83	424,632	5,116	37.10%
Public Company Pension	89	1,394,952	15,674	11.90%
Insurance Company	82	4,368,753	53,277	8.70%
Sovereign Wealth Fund	20	3,430,949	171,547	19.50%
Family Office	4	10,965	2,741	17.30%
Hospital	85	458,366	5,393	11.60%
Fund of Funds	1	426	426	19.00%
Other	42	546,646	13,015	19.30%
Private Company Pension	100	1,422,100	14,221	21.00%
Financial Institution	82	5,518,626	67,300	4.70%
Government Agency	9	220,399	24,489	23.40%
Corporate Investor	3	113,335	37,778	18.80%
Superannuation Funds	39	355,260	9,109	26.20%

Total AUM (USD \$ mn)	25,306,060.00
Total # Of Institutions	832
Total PE Allocation (USD\$ mn)	4,392,303.00
Wtd Avg PE Allocation	17.40%

HOW INVESTORS SOURCE AND SELECT FUNDS

FROM THE 2017 PREQIN GLOBAL PRIVATE EQUITY & VENTURE CAPITAL REPORT

While 45% of investors are finding it harder to source attractive investment opportunities and 48% of the investors believe marketing documents fail to meet their needs.

Through different ways investors source funds:

- Internal investment team. (16%)
- Mainly internal or consultant recommended, external approaches. (26%)
- Mix of internal and external recommendations. (43%)
- Mainly approaches from GPs or marketers, some internal recommendations. (14%)
- Solely from external approaches. (1%)

An investor selects a fund from 180 fund proposals that it receives each year, where the most important factors investors consider when looking for a private equity fund manager are:

- Team track record
- Team strategy experience
- Firm track record

From the 180 proposals, 58% of the investors feel they get insufficient information on track record and 50% feel they get insufficient information on the strategy of a fund. Only 8% of the proposal, on average, are sent through for a second round of screening.

The key reason investors reject a GP are:

- Below average team track record
- Fees/terms
- Length of team track record

Finally the average investors makes 3 commitments to private equity fund, each year.

ACTIVE INVESTORS IN MEXICO (non-exhaustive list)



FUNDRAISING OVERVIEW – PERSPECTIVES FROM LPS

According to the 2017 EMPEA's Global Limited Partners Survey, Latin America (excluding Brazil) move up one rank setting the region in 3rd place just below Southeast Asia and India as the exhibit of "The Attractiveness of Emerging Markets for GP Investment Over the Next 12 Months –LP Views".

"Latin America (excl. Brazil) overtook Sub-Saharan Africa for third place in the attractiveness ranking after a steep drop from first to fourth place in 2016. This modest increase in ranking mirrors positive developments in the region. In 2016, disclosed private capital invested in Mexico nearly doubled 2015's total,..."

"Latin America could become a great place to invest given company prices and recent market performance." DFI (Development finance institution)

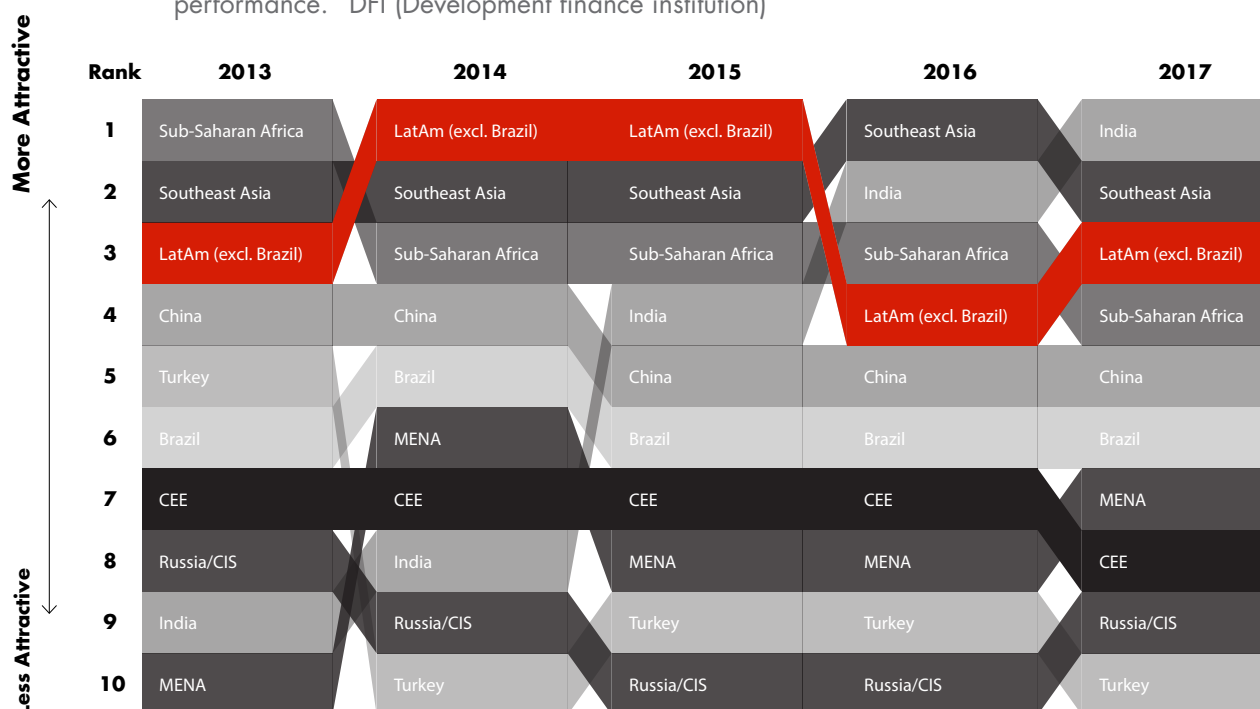


Fig. 81

The main concern from the LPs, are political risks and currency volatility two factors that Mexico might have for 2018, a new President will be elected so this could impact fundraising from new foreign LPs. Despite the situation last year we saw a huge investment and a great exit, KKR investing on PEMEX the Private Equity deal awarded by LatinFinance and lenova buying from Blackstone the Ventika wind generation facility.

Challenges facing PE in Latin America -views of LPs considering a first Investment in Latin American PE



Fig. 82

Survey methodologies

From EMPEA:

Global Limited Partners Survey Investors' Views of Private Equity in Emerging Markets EMPEA surveyed 127 representatives from 106 different LP institutions headquartered across 34 countries—collectively representing more than USD\$480 bn in reported global PE assets under management and US\$6.6 trillion in total UM—to gather their views on the EM PE asset class. Respondents represent a diverse mix of institutions, including public and private pension funds, family offices, endowments, foundations, banks, asset managers, insurance companies, government agencies, corporations, development finance institutions, funds of funds and private market advisors. In cases where more than one respondent from the same institution took part in the survey, only one response was included for questions concerning an institution's current allocations and future investment plans. Just under 96% of institutions surveyed are currently invested in at least one EM PE fund, and 80% have been investing in EM PE funds for more than five years. EM PE constitutes approximately 22% of the current overall PE portfolio of the average surveyed institution (excluding development finance institutions, EM-focused funds of funds and others legally mandated to invest in emerging markets).

From Cambridge Associates/LAVCA:

Latin American Private Equity Limited Partners Opinion Survey

The Survey researched the plans and opinions of 133 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. Fieldwork for the Survey was conducted by LAVCA and Cambridge Associates in June–July 2016, with assistance from the Institutional Limited Partners Association (ILPA).

Investment Outlook Infrastructure & Energy

Firm Name	Fund Strategy	Target	Industry	Year
CKD Infraestructura México	Infrastructure & Energy	Altán Redes (Red Compartida)	Telecommunications	2017
EXI	Infrastructure & Energy	ICA	Industrials	2016
GBM Estrategia S.A. de C.V.	Infrastructure & Energy	Proyectos de Cogeneración	Infraestructure	2016
GBM Infraestructura S.A. de C.V.	Infrastructure & Energy	Otorgamiento de Crédito Subordinado para la Autopista Naucalpan - Ecatepec	Infraestructure	2016
GBM Infraestructura S.A. de C.V.	Infrastructure & Energy	Parque Eólico Maya	Infraestructure	2016
GBM Infraestructura S.A. de C.V.	Infrastructure & Energy	Vía San Martín Texmelucan - Huejotzingo	Infraestructure	2016
GBM Infraestructura S.A. de C.V. & GBM Estrategia S.A. de C.V.	Infrastructure & Energy	Viaducto La Raza - Indios Verdes-Santa Clara	Infraestructure	2016
IFC Asset Management Company	Infrastructure & Energy	Citla Energy	Oil & Gas	2016
KKR	Infrastructure & Energy	15th PEMEX ASSETS	Oil & Gas	2016
Macquarie	Infrastructure & Energy	Parque Solar Coahuila	Utilities	2016
Riverstone	Infrastructure & Energy	Avant Energy	Oil & Gas	2016

Investment Outlook Venture Capital

Firm Name	Fund Strategy	Target	Industry	Year
Accion Frontier	Venture Capital	Konfio	Fintech	2016
Accion Venture Lab	Venture Capital	Konfio	Fintech	2016
AETUS	Venture Capital	Juganu	Consumer Goods	2016
AETUS	Venture Capital	Publi Co	Industrials	2016
Aleb	Venture Capital	GUBLER	Health Care	2016
Aleb	Venture Capital	Paybook	Fintech	2016
ALLVP	Venture Capital	Alkanza	Fintech	2016
ALLVP	Venture Capital	Aplázame	Fintech	2016
ALLVP	Venture Capital	Apli	Technology	2016
ALLVP	Venture Capital	Cornershop	Consumer Services	2016
ALLVP	Venture Capital	Dentalia	Health Care	2016
Angel Ventures Mexico	Venture Capital	Iguana Fix	Consumer Services	2016
Angel Ventures Mexico	Venture Capital	Nube	Consumer Goods	2016
Angel Ventures Mexico	Venture Capital	Ösom	Consumer Services	2016
Angel Ventures Mexico	Venture Capital	Rocket Dinarius	Fintech	2016
Angel Ventures Mexico	Venture Capital	Salud Facil	Financials	2016
Asenza Capital	Venture Capital	Galt Energy	UTILITIES	2016
Axon Investment	Venture Capital	Mercadoni	Consumer Services	2016
Axon Investment	Venture Capital	Simpat Mobile	Consumer Services	2017
Bamboo Finance	Venture Capital	Kubo Financiero	Fintech	2016
Bitcoin Capital	Venture Capital	Bitso	Fintech	2016
Bizrupt	Venture Capital	Critical Masser	Technology	2016
Bizrupt	Venture Capital	Farrow Ventures	Telecommunications	2016
Bizrupt	Venture Capital	Gaszen	Technology	2016
Bizrupt	Venture Capital	Hoopa	Technology	2016
Bizrupt	Venture Capital	Joyas de Mexico	Technology	2016
Bizrupt	Venture Capital	Lukes Brands	Technology	2016
BlockChain Tech Limited	Venture Capital	Bitso	Fintech	2016
BlueBox	Venture Capital	Apli	Technology	2016
BlueBox	Venture Capital	Makeuponus	Technology	2016

Investment Outlook Venture Capital

Firm Name	Fund Strategy	Target	Industry	Year
BlueBox	Venture Capital	Synapbox	Technology	2016
Capital Invent	Venture Capital	Collective Academy	Consumer Services	2016
Capital Invent	Venture Capital	Marco Polo Learning	Consumer Services	2016
Capital Invent	Venture Capital	Nubity	Technology	2016
Crunchfund	Venture Capital	Kueski	Fintech	2016
Da Vinci Capital	Venture Capital	CATUSA	Consumer Goods	2017
Digitl Currency Group (DCG)	Venture Capital	Bitso	Fintech	2016
DILA Capital	Venture Capital	Alameda	Consumer Services	2016
DILA Capital	Venture Capital	Boletia	Consumer Services	2016
DILA Capital	Venture Capital	Hickies	Consumer Goods	2016
DILA Capital	Venture Capital	iVoy	Consumer Services	2016
DILA Capital	Venture Capital	Le Macaron	Consumer Services	2016
Endeavor Catalyst	Venture Capital	Kubo Financiero	Fintech	2016
Enture Smart Business	Venture Capital	BrickAir	Industrials	2017
Enture Smart Business	Venture Capital	Frisk Naturlige	Consumer Goods	2017
Enture Smart Business	Venture Capital	Grupo La Alegria PECAN	Consumer Goods	2016
Enture Smart Business	Venture Capital	Salver	Consumer Goods	2016
FundersClub	Venture Capital	Bitso	Fintech	2016
Genesis Capital Ventures	Venture Capital	Farrow Ventures	Consumer Services	2016
Gerbera Capital	Venture Capital	Green Gold Farms	Consumer Goods	2017
Gerbera Capital	Venture Capital	Nexu	Fintech	2016
Gerbera Capital	Venture Capital	Soccerly	Consumer Services	2016
Ideas y Capital	Venture Capital	Farrow Ventures	Consumer Services	2016
Ignia Partners	Venture Capital	ABRA	Fintech	2017
Ignia Partners	Venture Capital	AirTM	Fintech	2017
Ignia Partners	Venture Capital	Pangea	Fintech	2016
Ignia Partners	Venture Capital	Sr. Pago	Fintech	2016
Jackson Square	Venture Capital	Cornershop	Industrials	2016
Jaguar Ventures	Venture Capital	Conekta	Fintech	2016
Jaguar Ventures	Venture Capital	Gaudena	Consumer Services	2016
Jaguar Ventures	Venture Capital	Konfio	Fintech	2016
Jaguar Ventures	Venture Capital	PontaMedia	Consumer Services	2016
Jaguar Ventures	Venture Capital	Producteca	Industrials	2016
Kaszek Ventures	Venture Capital	Konfio	Fintech	2016
Kue Capital	Venture Capital	Kubo Financiero	Fintech	2016
LIV Capital	Venture Capital	Boletia	Consumer Services	2016
LIV Capital	Venture Capital	CENCOR	Financials	2016
Monex Grupo Financiero	Venture Capital	Kubo Financiero	Fintech	2016
Mountain Nazca	Venture Capital	Alta Motors	Consumer Goods	2016
Mountain Nazca	Venture Capital	Bluesmart	Consumer Goods	2016
Mountain Nazca	Venture Capital	Creze	Technology	2016
Mountain Nazca	Venture Capital	Human	Consumer Goods	2016
Mountain Nazca	Venture Capital	Kavak	Consumer Goods	2016
Mountain Nazca	Venture Capital	Luuna	Consumer Goods	2016
Mountain Nazca	Venture Capital	Miroculus	Health Care	2016
Mountain Nazca	Venture Capital	Nubleer	Consumer Services	2016
Mountain Nazca	Venture Capital	Petsy	Consumer Services	2017
Mountain Nazca	Venture Capital	Tapptime	Consumer Services	2016

Investment Outlook Venture Capital

Firm Name	Fund Strategy	Target	Industry	Year
On Ventures	Venture Capital	Gestionix	Technology	2016
PC Capital	Venture Capital	Little Cesar	Consumer Services	2016
Pedralbes Capital Partners	Venture Capital	Logan media	Consumer Goods	2016
Plug and Play MX	Venture Capital	Bochito	Consumer Services	2016
Plug and Play US	Venture Capital	Bayonet	Technology	2016
Plug and Play US	Venture Capital	Dogsi	Consumer Services	2016
Plug and Play US	Venture Capital	Grill on Box	Consumer Goods	2016
Promotora Social Mexico	Venture Capital	Medica Santa Carmen	Health Care	2016
Promotora Social Mexico	Venture Capital	Onko Solutions	Health Care	2016
Promotora Social Mexico	Venture Capital	Someone Somewhere	Consumer Services	2016
QED Investors	Venture Capital	Konfio	Fintech	2016
Quona Capital	Venture Capital	Konfio	Fintech	2016
Richmond Global Ventures	Venture Capital	Kueski	Fintech	2016
Rise Capital	Venture Capital	Gaia Design	Consumer Goods	2016
Rise Capital	Venture Capital	Kueski	Fintech	2016
Roadstercapital	Venture Capital	Bayonet	Technology	2016
Sierra Ventures	Venture Capital	Clip	Fintech	2016
Startblueup	Venture Capital	Ride safe app	Consumer Services	2016
Stella Maris Partners	Venture Capital	iVoy	Consumer Services	2016
Stella Maris Partners	Venture Capital	Lentesplus	Consumer Goods	2016
Stella Maris Partners	Venture Capital	Ilollo	Technology	2016
Stella Maris Partners	Venture Capital	Nubity	Technology	2016
Tanant Capital	Venture Capital	Kubo Financiero	Fintech	2016
Variv Capital	Venture Capital	Bitso	Fintech	2016
Variv Capital	Venture Capital	Kueski	Fintech	2016
Variv Capital	Venture Capital	Mpower	Consumer Services	2016
Wayra Mexico	Venture Capital	Descifra	Technology	2016
Wayra Mexico	Venture Capital	Interpretap	Technology	2016
Wayra Mexico	Venture Capital	Luxelare	Technology	2016
Wayra Mexico	Venture Capital	Pollstr	Technology	2016
Wayra Mexico	Venture Capital	Seenapse	Technology	2016
Wayra Mexico	Venture Capital	Somos Fut	Consumer Services	2016
Wayra Mexico	Venture Capital	Store Level	Technology	2016
Xochi Ventures	Venture Capital	Bitso	Fintech	2016

Investment Outlook Growth & LBO

Firm Name	Fund Strategy	Target	Industry	Year
ACON Investments	Growth & LBO	GMI	Industrials	2016
Adobe Capital	Growth & LBO	SalaUno	Health Care	2016
Adobe Capital	Growth & LBO	NATGAS	Utilities	2016
Adobe Capital	Growth & LBO	Habvita	Industrials	2016
Adobe Capital	Growth & LBO	Velifin	Financials	2016
Advent International	Growth & LBO	Viakem	Basic Materials	2016
Alta Growth	Growth & LBO	Extended Suites	Consumer Services	2016
Alta Growth	Growth & LBO	Grupo Bienestar	Consumer Services	2016
Alta Growth	Growth & LBO	Maskota	Consumer Services	2016
Auria Ventures	Growth & LBO	Carrot	Consumer Services	2016
Beamonte Investments	Growth & LBO	Carrot	Consumer Services	2016

Investment Outlook Growth & LBO

Firm Name	Fund Strategy	Target	Industry	Year
Capital Indigo	Growth & LBO	Osom	Consumer Services	2016
Capital Indigo	Growth & LBO	Crediconfia	Financials	2016
Capital Indigo	Growth & LBO	Deli Dips & Snacks	Consumer Goods	2016
Credit Suisse	Growth & LBO	Entertainment Private Equity	Consumer Goods	2016
Discovery Americas	Growth & LBO	FTM - Fondo de Transporte México	Industrials	2016
EMX Capital	Growth & LBO	Consorcio Industrial Valsa	Basic Materials	2016
EMX Capital	Growth & LBO	Gulfstar XME (Kidde de México)	Oil & Gas	2016
EMX Capital	Growth & LBO	Orben Comunicaciones	Technology	2016
Fazenda	Growth & LBO	SAN FELIPE (NAYAMEX)	Consumer Goods	2016
General Atlantic	Growth & LBO	Clip	Fintech	2017
General Atlantic	Growth & LBO	Grupo Axo	Consumer Goods	2017
Glisco Partners (Evercore Mexico Partners)	Growth & LBO	Grupo Hunan	Consumer Goods	2017
Linzor Capital	Growth & LBO	Engenium Capital	Financials	2016
Nexxus Capital	Growth & LBO	FTM - Fondo de Transporte México	Industrials	2016
Nexxus Capital	Growth & LBO	Taco Holding	Consumer Services	2016
Nexxus Capital	Growth & LBO	TransNetwork	Financials	2017
Nexxus Capital	Growth & LBO	Pumping Team	Industrials	2017
Nexxus Capital	Growth & LBO	Immunotec	Consumer Goods	2017
Northgate Capital	Growth & LBO	ABC Leasing	Financials	2016
Northgate Capital	Growth & LBO	Extended Suites	Industrials	2016
PC Capital	Growth & LBO	Grupo Filoa	Consumer Services	2016
ProActive	Growth & LBO	Médica Sur	Health Care	2017
The Abraaj Group	Growth & LBO	Capa de Ozono	Consumer Goods	2016

Investment Outlook Real Estate

Firm Name	Fund Strategy	Target	Industry	Year
Capital Inmobiliario	Real Estate	Paseos de Toluca	Housing	2016
Capital Inmobiliario	Real Estate	Paseos de Toluca	Housing	2016
Capital Inmobiliario	Real Estate	Paseos de Toluca	Commercial	2016
Credit Suisse	Real Estate	Real Estate Private Equity	Industrials	2016
Enture Smart Business	Real Estate	Be Inn	Hotels	2016
Gava Capital	Real Estate	Casas DF	Housing	2016
Gava Capital	Real Estate	Departamentos DF	Housing	2016
Gava Capital	Real Estate	Casas Cancun	Housing	2016
Gava Capital	Real Estate	Departamentos Quintana Roo	Housing	2016
Gerbera Capital	Real Estate	Be Grand (Reforma)	Mixed Use	2016
Gerbera Capital	Real Estate	Be Grand (Del Valle)	Mixed Use	2016
Gerbera Capital	Real Estate	Be Grand (Casino San Angel)	Mixed Use	2017
Gerbera Capital	Real Estate	Pendiente	Industrials	2016
Gerbera Capital	Real Estate	Pendiente	Industrials	2016
Jaguar Growth Partners	Real Estate	Hoteles City	Hotels	2017
Mexplorer Capital	Real Estate	2 projects	Mixed Use	2016
MRP	Real Estate		Commercial	2016
MRP	Real Estate		Commercial	2016
Thor Urbana Capital	Real Estate	Centro Comercial Metepec	Commercial	2017
Walton Street Capital	Real Estate	Finsa and Walton Street Acquire Real Estate Portfolio	Industrials	2017

IPOs IN MEXICO

We have 283 exits (105 for Real Estate and 43 Debt transactions) accounted across the private equity industry. The most popular exit is the asset sale due to the amount of real estate transactions, followed by selling the company to a strategic buyer, followed by loans repayments (debt transactions), and then tied IPOs and recapitalization from original investors.

There have been 61 IPOs in the Mexican Stock Exchange since 2004, of which 18 have been backed by Private Equity funds. Some examples of these companies include: Volaris, Citi Express, Sports World, Crédito Real, Genoma Lab, Homex, Javier, Traxión, Ban Bajío and Vista Oil & Gas. Additionally, there were 2 IPOs of private equity backed companies abroad.

IPOs in Mexico

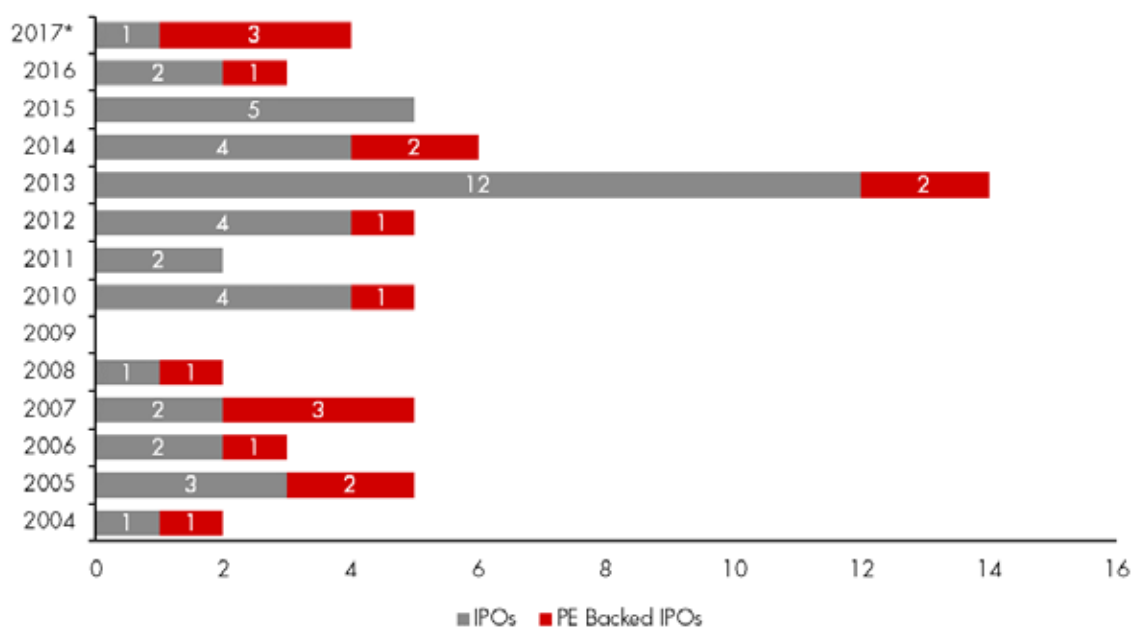


Fig. 83

Initial Public Offerings represent 5% of the total amount of exits seen in the private equity industry in the last seventeen years.

**Exits by Strategy
(2000-2017*)**

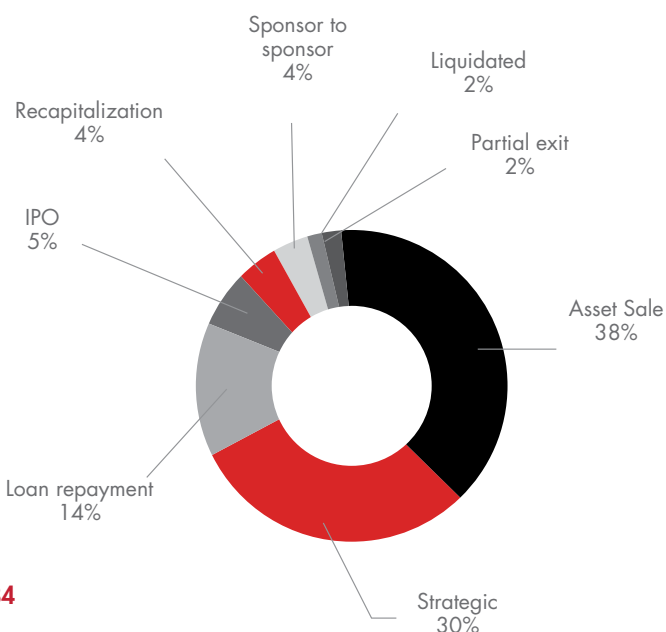


Fig. 84

NOTABLE EXITS (2015-2017*)

The following list does not include Real Estate, Debt and undisclosed companies from.

No.	Firm Name	Fund strategy	Target	Industry	Year	Exit Year	Exit Strategy
1	Advent International	Growth & LBO	International Meal Company (IMC)	Consumer Services	2006	2015	Sponsor to sponsor
2	ALLVP	Venture Capital	Aventones (BlaBlaCar)	Consumer Services	2012	2015	Strategic
3	DEG	Debt	Waldos Dólar Mart	Consumer Services	2013	2015	Strategic
4	Discovery Americas	Growth & LBO	Umbral Capital	Financials	2004	2015	Strategic
5	Enture Smart Business	Venture Capital	Oggastro	Consumer Goods	2006	2015	Strategic
6	Glisco Partners	Growth & LBO	More Pharma	Health Care	2008	2015	Strategic
7	Nexus Capital	Growth & LBO	DIAMEX (OLAB)	Health Care	2009	2015	Strategic
8	Rocket Internet	Venture Capital	Carmundi	Consumer Services	2012	2015	Strategic
9	Seaya Ventures	Venture Capital	SinDelantal	Consumer Services	2003	2015	Strategic
10	Variv Capital	Venture Capital	Wallapop	Consumer Services	2014	2015	Partial exit
11	Advent International	Growth & LBO	Latin American Airport Holdings (LAAH)	Industrials	2008	2016	Strategic
12	Blackstone Energy	Infrastructure & Energy	Ventika	Oil & Gas	2014	2016	Strategic
13	Discovery Americas	Growth & LBO	Lipu	Industrials	2010	2016	Strategic
14	EFM Capital	Growth & LBO	Even Telecom	Telecommunications	2015	2016	Sponsor to Sponsor
15	EMX Capital	Growth & LBO	Arabela	Consumer Goods	2007	2016	Strategic
16	EMX Capital	Growth & LBO	IHS Global (Fit Bits)	Consumer Goods	2010	2016	Strategic
17	Enture Smart Business	Venture Capital	Ambar Seguros	Financials	2011	2016	Strategic
18	Glisco Partners	Growth & LBO	Javer	Industrials	2009	2016	IPO
19	Southern Cross Group	Growth & LBO	Javer	Industrials	2009	2016	IPO
20	Startup Studio Monterrey	Venture Capital	Monkier	Consumer Services	2015	2016	Strategic
21	Adobe Capital	Growth & LBO	NATGAS	Utilities	2014	2017	Loan repayment
22	Discovery Americas	Growth & LBO	Traxión	Industrials	2011	2017	IPO
23	Discovery Americas	Growth & LBO	Volaris	Consumer Services	2010	2017	Partial exit
24	Enture Smart Business	Venture Capital	Xnax	Health Care	2014	2017	Strategic
25	Enture Smart Business	Venture Capital	Grupo La Alegria PECAN	Consumer Goods	2016	2017	Strategic
26	Nexus Capital	Growth & LBO	Moda Holding	Consumer Services	2011	2017	Strategic
27	Nexus Capital	Growth & LBO	Traxión	Industrials	2016	2017	IPO
28	Open Gate Capital	Growth & LBO	Getronics México, Brasil, Colombia	Technology	2012	2017	Sponsor to Sponsor
29	Riverstone	Infrastructure & Energy	Vista Oil & Gas	Oil & Gas	2016	2017	IPO
30	Southern Cross Group	Growth & LBO	Grupo Expansion	Consumer Services	2014	2017	Strategic
31	Variv Capital	Venture Capital	Itaro Brazil	Consumer Services	2014	2017	Strategic

MEXICO BEYOND THE WALL: THE POTENTIAL OF A TRANSFORMING ECONOMY



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Globally, since last November, the perception about the Mexican economy went from positive to moderate despite the resilience in the growth rate compared with other Latin American economies and the world average. While international investor interest in Mexican private equity funds persists, there is not a full appreciation for the strength of the Mexican economy and its most promising sectors.

At present, the Mexican economy is undergoing an important period of transformation mainly because of micro-economic reforms —aimed at ensuring the liberalization of certain strategic industries— and a demographic transition to medium class. These strong facts explained the robust growth of GDP in 1Q17 (2.8% YoY) and in 2016 (2.1% YoY), driven by the tertiary activities including Consumption.

Constitutional reforms have opened the energy sector —Mexico is the world's ninth largest oil producer— to more dynamic private sector development. Furthermore, structural changes have been introduced in financial services, telecommunications and seven other areas. These reforms are transforming the economy into one of the most business-friendly in Latin America.

During the past decade, the Mexican population experienced a demographic shift, and it is expected that the ratio of the number of working age people to non-working age people reach a maximum of 1.9x in 2026. The increasing percentage of working age adults would increase workers' disposable income and lead the surge of demand for goods and services, for instance the Consumption between 2011 and 2015 grew 12.0%, with sectors such as health care, clothing and accessories, and hardware reporting the highest gains in 2015.

Economic activity in Mexico is also characterized by a high level of complexity in terms of how many different products are near a country's current set of productive capabilities, many of them unrelated with oil and other commodities unlike the biggest economies of the region. "Countries with a high complexity outlook have an abundance of nearby products due to the make-up of their

current export basket”[1]. According with the 2014 Ranking of Economic Complexity, published by Harvard University, Mexico bears the 22th position, the first Latin American economy appearing in the top 40 and just near of countries with fast progress in terms of technological development like China or Israel.

The strong history of specialization in complex manufactured goods explained the growing industry clusters, especially in automobile, aerospace and appliance manufacturing besides the acquisition of knowledge and technology development

The strong history of specialization in complex manufactured goods explained the growing industry clusters, especially in automobile, aerospace and appliance manufacturing besides the acquisition of knowledge and technology development. Mexico also stands out for competitive costs of energy and experience dealing with free trade institutional frameworks giving strong basis to support an important interdependence and supply-chain integration with United States and Canada, becoming North America in one of the most dynamic economic regions around the globe due to the high degree of efficiency and economies of scale. In a pessimistic scenario without NAFTA, North America as a market necessarily will find the way to coexist, even though the uncertainty and volatility within the process, to benefit the population with lower prices and higher disposable income.

The macroeconomic framework is also one of the main advantages, in fact the International Monetary Fund has highlighted the discipline of monetary authorities and the compromise of the Federal Government to reduce the level of spending. The ratio of sovereign debt to GDP is around 50% with pressures in Government's income, but with a stable path and not considering an illiquid condition that could impact in economic growth perspectives in the medium term. In the short term, a lower Governmental investment has opened the door to the private investors to high yield projects through private equity funds and co-investment schemes, resulting from the need for injections of fresh capital into fast growing sectors.

The Mexican market has capitalized on the growing interest of institutional investors in PE investments. At the end of 2015, total capital raised for PE and VC funds in Mexico totaled USD\$51.1 bn, a CAGR of 15.17% over the last 17 years, recently led by the Development Capital Certificates (known as CKDs) — trust financing instruments traded at the Mexican Stock Exchange that facilitate the allocation of capital by pension funds and other regulated institutional investors into PE projects in Mexico. These instruments offer two key advantages: 1) a mechanism for investors to access investments with high growth potential; and 2) a regulated and transparent financial instrument subject to the scrutiny of the stock market authorities. The total issuance of CKDs since 2009 includes 67 offers worth USD\$17.3 bn in commitments as of May 2017.

Mexican PE funds' compliance with international frameworks and standards should also boost investor confidence. Fondo de Fondos has fostered this effort of transparency across the industry, and its vehicles have subscribed to US IRS to comply with FATCA rules.

Fondo de Fondos' own investment strategies are based on confidence in the robust condition of the Mexican economy, the profitable investment opportunities available across a wide range of industries, and the low PE penetration that benefits the local market. The eventual prosperity resulting from structural reforms in the Mexican economy represents a golden opportunity for investors to invest in a transforming economy with a uniquely attractive forward outlook.

[1] Complexity Outlook Index. The Atlas of Economic Complexity. Harvard.edu

PERSPECTIVES OF THE FUTURE PRIVATE EQUITY PENETRATION ON GDP

The Mexican economy is the second largest economy in Latin America, with a GDP of USD\$ 1.14 trillion. The Private Equity Penetration on GDP for 2016 was very similar to Brazil's: for Mexico it was 0.08% and for Brazil it was 0.10%, according to EMPEA's Global Private Capital Penetration research. Mexico has been considered to have economic stability, with conservative but still rising growth rates. The Mexican economy has been growing at an average rate of 2.5% for the past 10 years. This can mainly be explained because of robust efforts to enforce our service sector to counteract a complicated international market context, with falling prices from commodities, oil and manufactures. As well as implementing new regulations to boost development and become more competitive at a global scenario.

Moreover, World Bank suggests Mexico might be the 8th largest economy by 2050, situation which places our country as an attractive destiny for direct foreign investment and as a main global trade actor.

EMPEA Methodology: Annual private capital investment divided by annual gross domestic product (current prices).

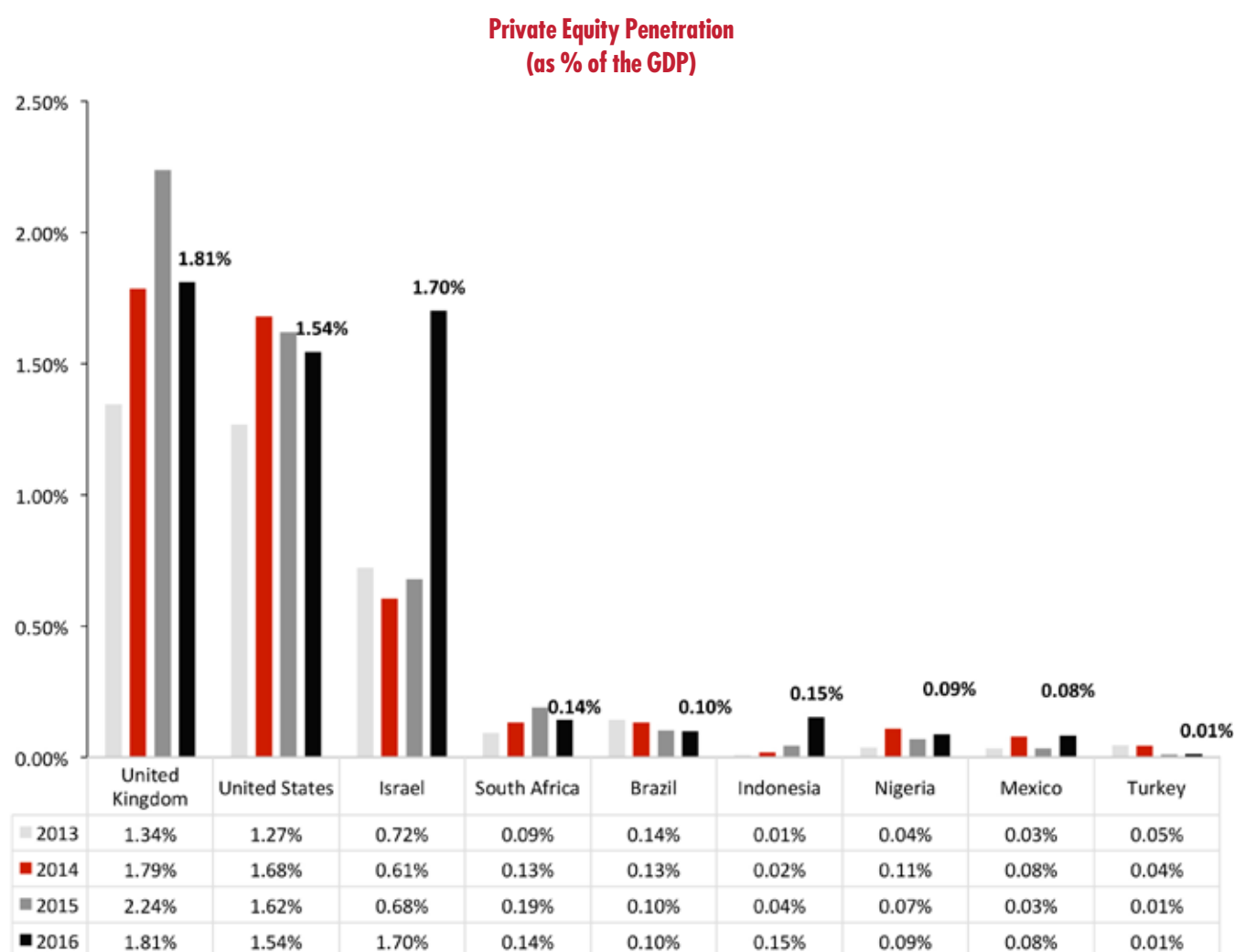


Fig. 85

PERSPECTIVES OF THE FUTURE POTENTIAL IN MEXICO THROUGH 2021

Forecast Variables	2013	2014	2015	2016	2017*	2018*	2019*	2020*
Mexico's GDP (Million MXN)	15,754,076	16,116,420	16,519,327	16,899,272	17,321,753	17,789,441	18,216,387	18,762,879
Mexico's GDP Growth (%)	0.01	0.02	0.03	0.02	0.03	0.03	0.02	0.03
Exchange Rate (End of the Year, million MXN)	13.07	14.73	17.34	20.66	18.50	22.11	22.56	22.80
Mexico's GDP (Million USD)	1,258,774	1,294,690	1,327,057	817,971	936,311	804,588	807,464	822,933
Annual Capital Commitments (as % of GDP)	0.00	0.00	0.01	0.01	0.00	0.01	0.01	0.00
Annual Capital Commitments (Million USD)	2,160.00	5,896.83	12,609.83	4,337.62	2,655.79	5,028.00	4,972.00	3,892.00
Accumulated Capital Commitments (Million USD)	27,630.54	33,527.37	46,137.20	50,474.82	53,130.61	58,158.61	63,130.61	67,022.61

Despite what will happen with the NAFTA negotiations with the U.S., Mexico is preparing for an adverse scenario. Government officials are already aiming to increase trade with Brazil, Argentina and the Pacific Alliance (Colombia, Peru and Chile), as well as the European Union and Asian countries. Mexico's IPO listings have been put on hold after the U.S. election, almost everyone is waiting to see what happens with the U.S. trade policy; this situation is no longer affecting the exchange rate. During May 2017 the MXN has appreciated against the USD making it the best performing currency in the emerging markets under President Trump's administration.

There is a prosperous outlook regarding Mexican Private Equity, local funds are becoming more global, deploying capital on other countries. For example: Nexxus Capital is fundraising a Spain focus-only fund. This year Nexxus Capital coinvested with the Spanish fund: MCH Private Equity, in a transaction that involves operations in Spain and Mexico (Pumping Team Holding). In the VC industry, Angel Ventures Mexico is fundraising a fund which focuses on the Pacific Alliance Countries exclusively. These are just a few examples. In the Infrastructure and Energy sectors there is more appetite from global funds, such as: KKR, Black Stone, Black Rock, First Reserve, Actis, Partners Group, among other funds. From a global perspective on the last 4 years, more than 25 foreign VC funds are making their first investment on Mexican startups. Moreover, we estimate there are USD\$25 bn of dry powder in the industry, ready to be invested just in the local scene.

**Accumulated Capital Commitments in Mexico
(USD\$ Mn)**

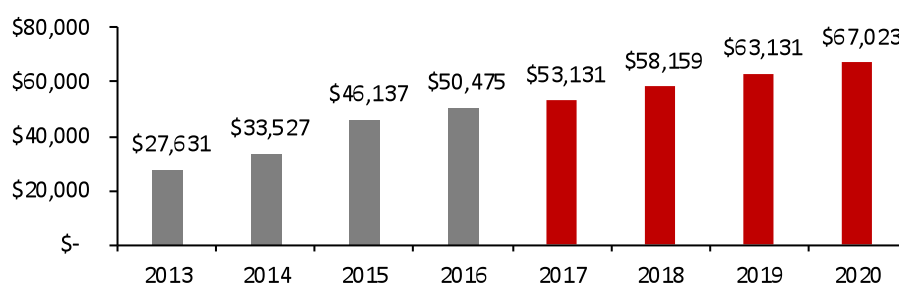


Fig. 86



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