Latin American Private Equity & Venture Capital Association

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Latin American Private Equity Limited Partners Opinion Survey

2017

Cambridge Associates/LAVCA Survey of Latin American Private Equity

Findings include:

- Limited Partners' (LPs') appetite for Latin American private equity
- Opportunities/challenges for private equity investment
- Means of accessing Latin American private equity
- LPs' return expectations
- Preferred investment strategies in Latin American private equity
- Attractive sectors in Latin American private equity
- The exit market
- Direct investments and co-investing by LPs
- Drivers of Latin American PE returns
- Influence of environmental, social, and governance (ESG) considerations on LP investment decisions
- Respondent breakdown
- Research methodology

The Survey covers both domestic and international investors' views of private equity in Latin America, based on responses from 103 private equity investors (Limited Partners or LPs) from around the world.

Key Terms

Limited Partners (LPs): Investors in private equity funds

General Partners (GPs): Private equity fund managers

Private Equity (PE): Venture capital, growth capital, buyout, and mezzanine investments

"International" Investors: LPs headquartered outside Latin America

LPs plan to increase target allocations to PE and private debt

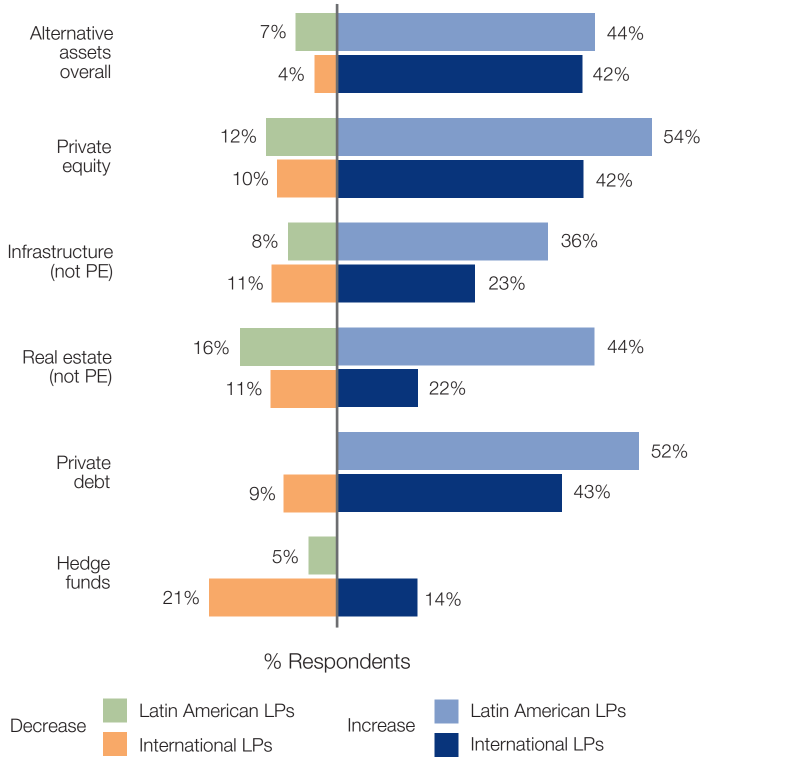
54% of Latin American LPs and 42% of international LPs plan to increase their target allocations to PE in the next 12 months.

Appetite for private debt maintains the upward trend we have seen over the last few years, with 52% of Latin American LPs and 43% of international LPs expecting to increase their exposure to this asset class in the next 12 months.

Almost half of Latin American LPs plan to increase their allocations to real estate, and the percentage of international LPs looking to do the same increased from 13% in the previous year to 22% in 2017. Appetite for infrastructure investments remained relatively stable compared to 2016.

Investor sentiment towards hedge funds is neutral overall but less negative than in 2016, with 21% of international LPs and 5% of Latin American LPs planning to decrease their target allocations to the asset class.

LPs' expected target allocations to alternative assets in the next 12 months



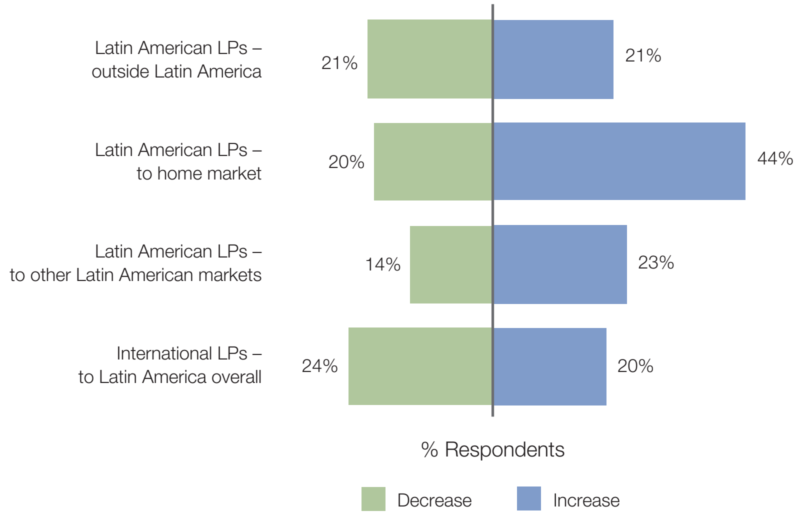
(Figure 1)

Latin American LPs favor domestic PE

44% of Latin American LPs are planning to increase their commitments to PE in their home markets. Roughly a fifth of Latin American LPs also plan to increase their exposure to other Latin American countries and/or outside of the region.

International LPs' pace of new commitments to Latin American PE is expected to be balanced in the next 12 months, with a similar number of LPs indicating increases and decreases in their commitments to the region. Given the cyclicality of the industry and the record US$17.6b raised for Latin American PE in 2014 and 2015, we may see increases in international LPs commitments to the region in the next big fundraising cycle.

LPs' anticipated pace of new commitments to PE in the next 12 months versus the last 12 months



(Figure 2)

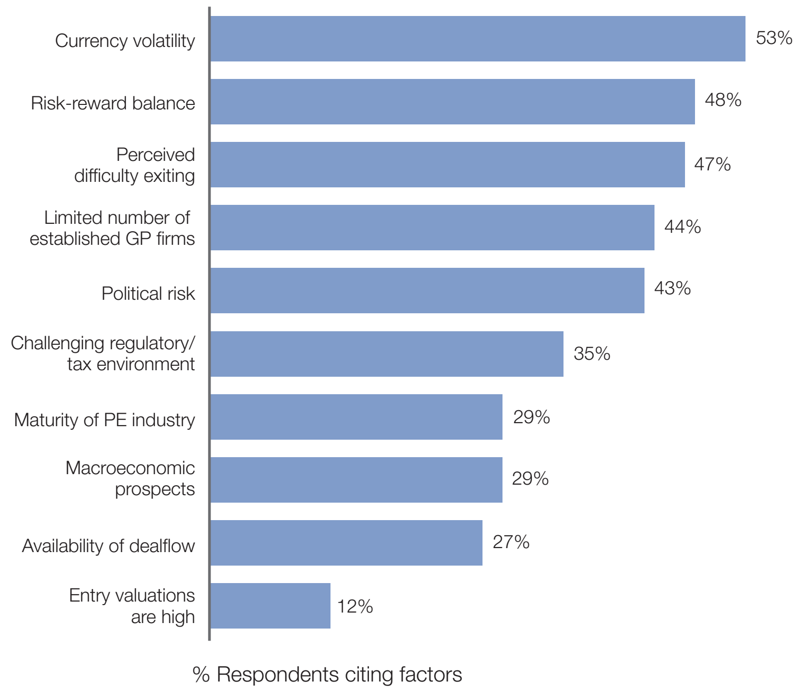
Entry valuations are no longer seen as a deterrent for prospective LPs

Entry valuations are no longer seen as a deterrent, with only 12% of LPs considering a first-time commitment to Latin American PE citing it as a factor, versus the 47% that did in 2016.

53% of LPs considering a first investment in the region view currency volatility as the biggest impediment to investing in the region.

Respondents also cited the risk-reward balance and perceived difficulties in exiting investments.

Challenges facing PE in Latin America – views of LPs considering a first investment in Latin American PE



(Figure 3)

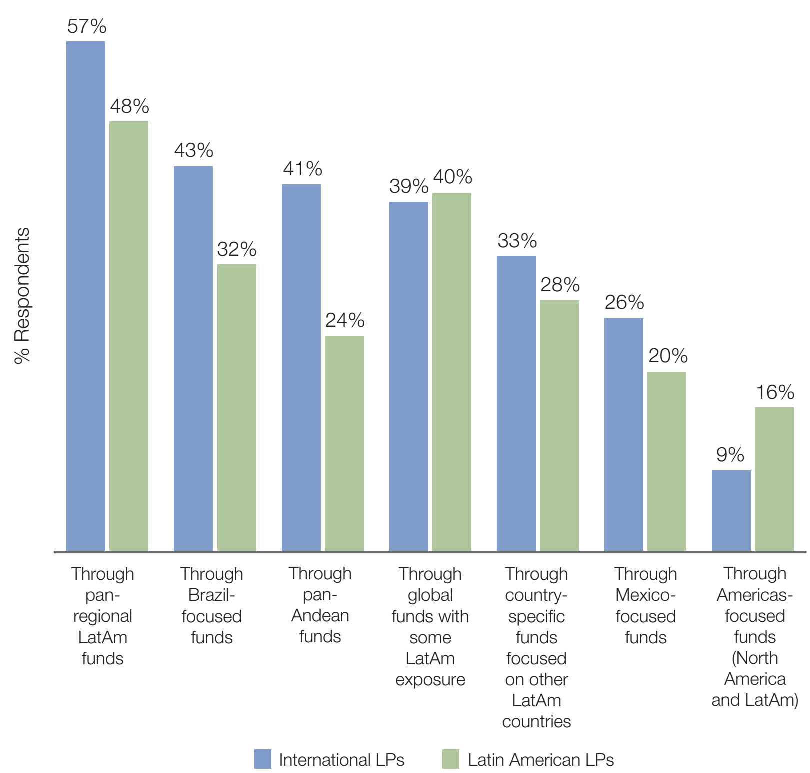
Pan-regional funds remain the preferred route to access Latin American PE, while international interest in pan-Andean funds is on the rise

54% of all LPs plan to gain exposure to PE investments in Latin America through pan-regional funds.

39% of LPs expect to access the region via Brazil-focused funds or global funds with some Latin American exposure.

41% of international LPs and 24% of Latin American LPs will invest in Latin American PE through pan-Andean funds, a significant increase from the 8% of LPs that cited this route in 2016.

Proportion of LPs expecting to access Latin American PE via particular routes in 3 years' time – LPs with Latin American exposure



(Figure 4)

Most LPs see the risk/return equation for Latin American PE improving; Argentina sentiment on the rise

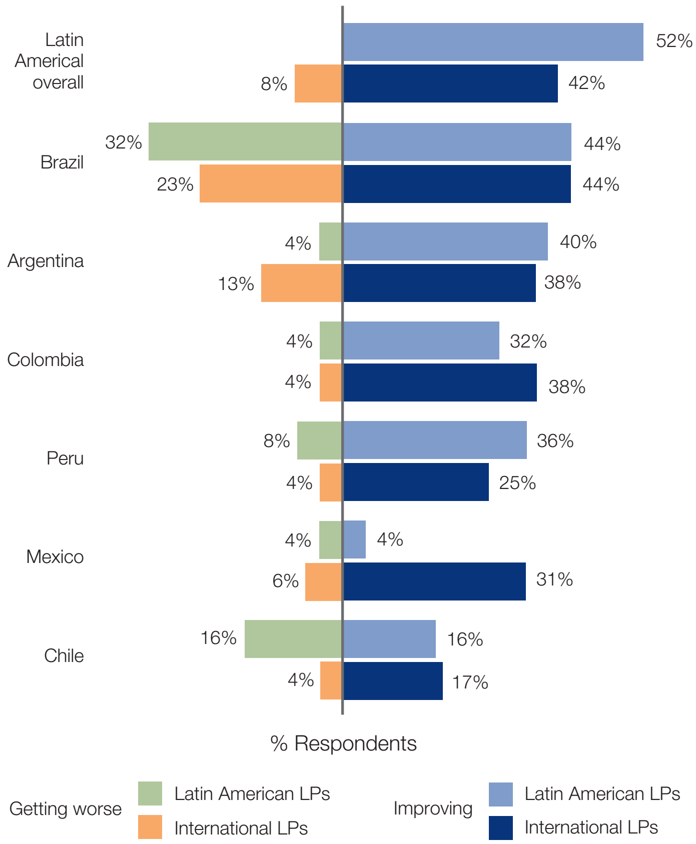
45% of all LPs believe that the overall risk/return equation is improving in Latin America, with Latin American LPs slightly more optimistic than their international peers.

In line with economic data that suggest Brazil is returning to growth, 44% of LPs think the risk/return equation in this market is improving, representing a notable increase relative to the 29% of LPs that indicated the same in 2015 (the last time this question was posed in the survey).

Propelled by the business-friendly government of President Macri, Argentina is seen by both Latin American and international LPs as the country with the second-best risk/return profile in Latin America. In the 2015 survey Argentina was seen as the least attractive opportunity in Latin America.

Attracted by the country's positive long-term fundamentals, international LPs are significantly more optimistic about Mexico's prospects than are Latin American LPs.

The risk/return equation for Latin American PE – LP views

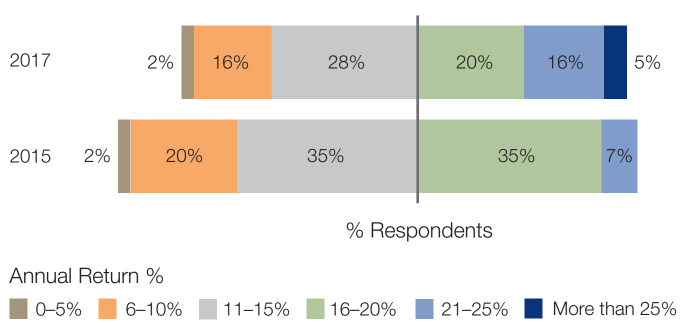


(Figure 5)

Returns for Latin American PE are expected to provide more upside relative to 2015

Approximately 20% of all LPs expect net annual returns of 21%+ from their exposure to Latin American PE in the next three to five years, which is significantly higher than the 7% of LPs with similar return expectations in the 2015 survey. About 40% of LPs expect to obtain net annual returns of 16%+ during the same period, about the same as in 2015.

LPs' annual net return expectations for Latin American PE over the next 3-5 years (in LPs' local currency)



(Figure 6)

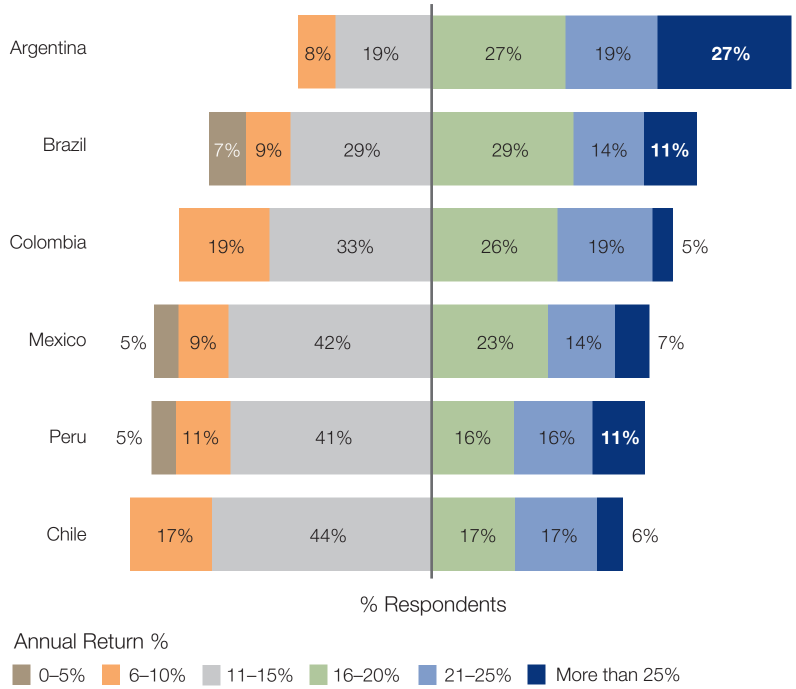
LPs see positive PE returns scenarios for Brazil, Colombia, and Argentina

54% of LPs expect to see annual net returns of 16%+ from their PE portfolios in Brazil, a slight increase compared to the 45% that expressed the same in 2015.

PE return expectations for Colombia, Peru, and Chile have remained stable since 2015, whereas return expectations for Mexico have softened. However, almost half of LPs still expect to obtain net annual returns of 16%+ from Mexico.

Almost three fourths of LPs cited the potential for annual net returns of over 16% from PE investments in Argentina over the next three to five years, a sharp increase from the 23% of LPs that indicated the same in 2015. LPs looking to future fund offerings and investment opportunities in Argentina are bullish on that country, but fundraising and investment PE activity today remains limited compared to opportunities in more established PE markets in the region.

LPs' annual net return expectations for Latin American PE over the next 3-5 years (in LPs' local currency)



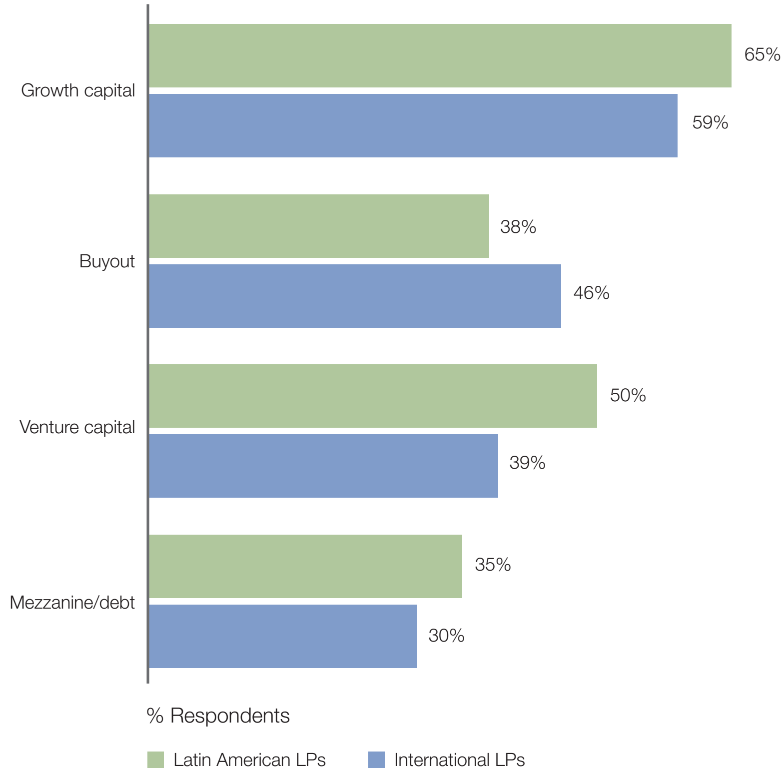
(Figure 7)

Interest in growth capital overtakes buyouts as the most popular strategy for Latin American PE, while appetite for venture capital and mezzanine strategies increasingly appeal to international investors

Two thirds of Latin American LPs and 59% of international LPs see growth capital as the preferred strategy for investing in Latin America in the coming years. Historically, family-owned businesses in the region have tended to favor partnering with minority investors rather than control-seeking investors.

Appetite for venture capital funds targeting Latin America continues its positive trajectory, with 43% of all LPs expecting to include this strategy in their PE portfolios in three years' time, an increase from 2016. Latin America has recently witnessed the return of Silicon Valley and other international venture firms looking to capitalize on opportunities in sectors such as fintech and e-commerce.

LPs' anticipated exposure to Latin American-focused PE strategies in 3 years' time



(Figure 8)

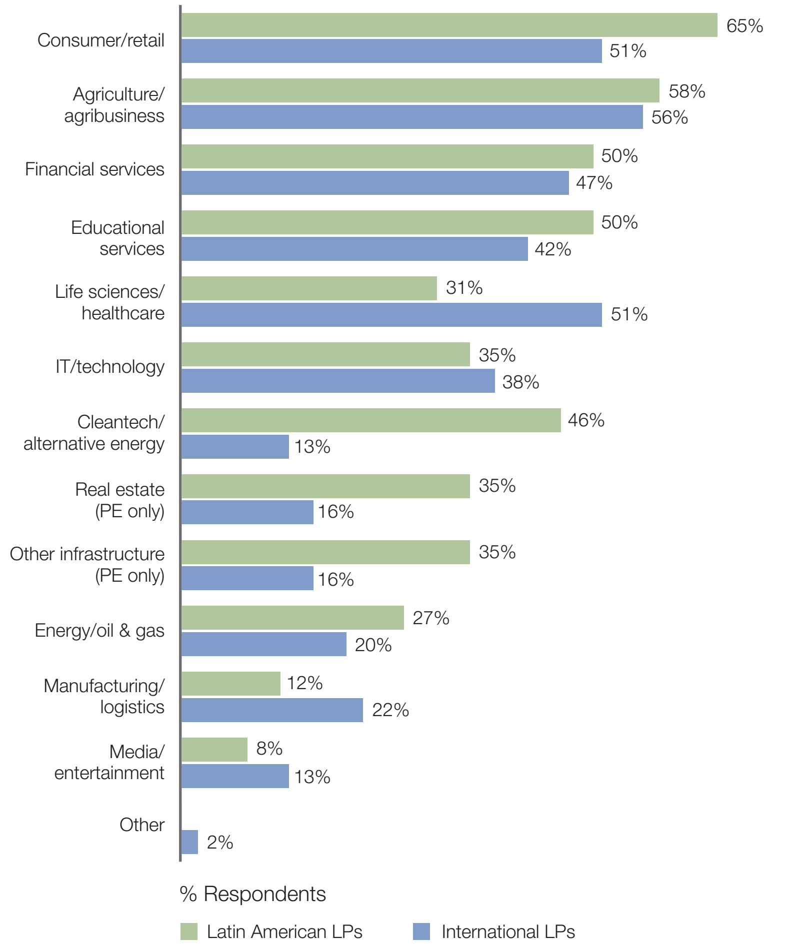
Consumer/retail remains top sector for Latin American PE

Two thirds of Latin American LPs and half of international LPs think that consumer/retail will be the most attractive sector for PE investments in Latin America in the next three years. The region's favorable demographics and rising middle class have led this sector to be ranked first among survey respondents since 2011.

56% of LPs view agriculture/agribusiness as the second most attractive sector for Latin American PE in the coming years. Recent interest in this sector suggests that strategies targeting export-oriented investments in markets with volatile currencies are attractive to investors.

Consistent with the demographics and middle-class themes above, half of Latin American LPs are bullish on the financial and educational services sectors, whereas 51% of international LPs demonstrate interest in life sciences/healthcare.

LP views of attractive sectors for Latin American PE over the next 3 years



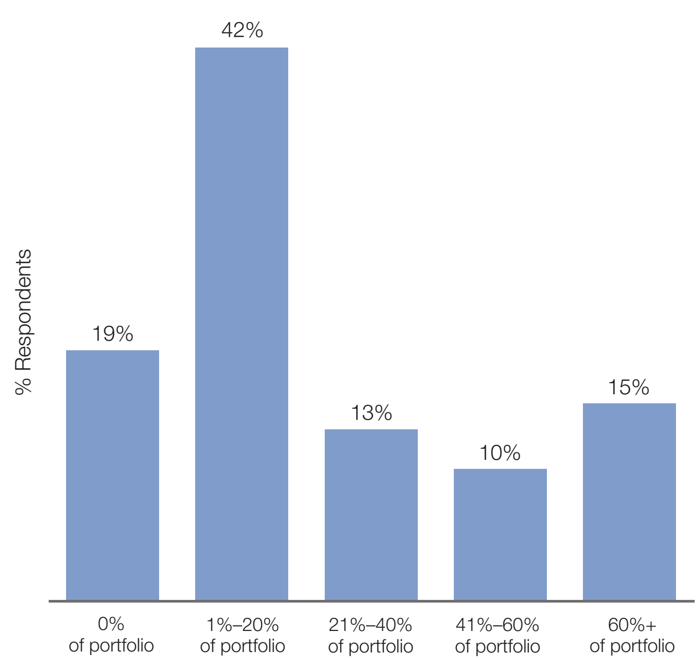
(Figure 9)

Trend of more LPs planning direct and co-investment exposure continues

Over 80% of LPs will have some co-investments or direct investments in Latin American PE within the next three years, an increase from the 78% and 68% of LPs that indicated the same in 2016 and 2015, respectively.

Regarding direct PE investments outside of Latin America (data not shown), 47% of all LPs plan to allocate 21%+ of their portfolios to these investments over the next three years, a sizable increase from the 27% of the LPs with that exposure currently.

Co-investments and direct investments in Latin America as a proportion of LPs' Latin American PE exposure in 3 years' time



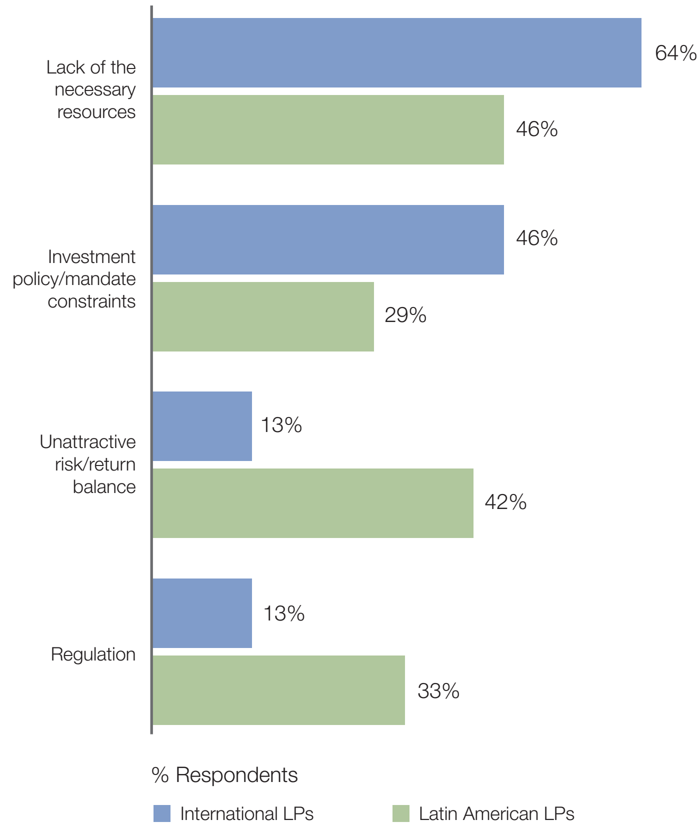
(Figure 10)

Lack of the necessary resources is the main factor preventing more LP co-investments and direct investments

57% of LPs cite the lack of necessary internal resources as the main deterrent to more co-investments and direct investments.

The second most cited impediment for international LPs is investment policy/ mandate constraints and a third of Latin American LPs cite regulation as an obstacle for making more co-investments and direct investments.

Factors preventing LPs from making more co-investments and direct investments



(Figure 11)

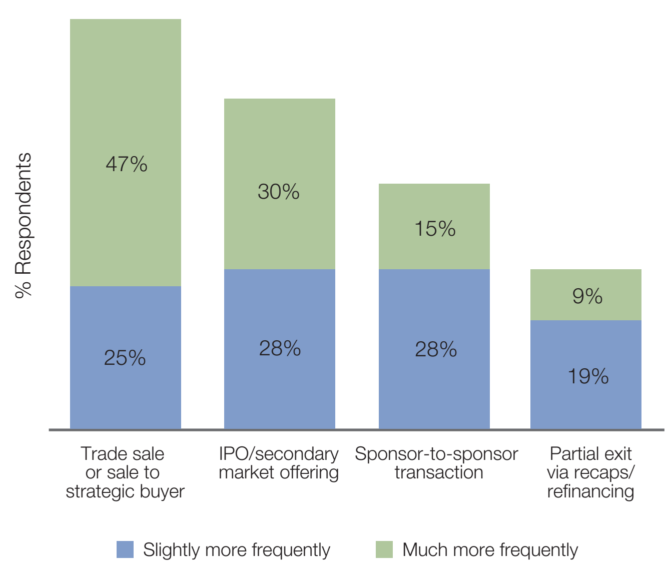
Trade and strategic sales prevail as the primary exit strategy for Latin American PE

72% of LPs expect trade sales or sales to strategic buyers to be the most popular exit route in the next one to two years, a slight decrease from the 82% of LPs that indicated the same in 2016.

In line with the current IPO window seen in some of Latin America's main PE markets, 58% of LPs believe that IPOs/secondary market offerings will be a more frequent exit strategy for Latin American PE in the next few years, an increase from 39% in 2016.

Consistent with this IPO opportunity, significantly fewer LPs than in the 2016 survey believe that sponsor-to-sponsor transactions will be a more frequent exit route.

Expected change in exit routes for Latin American PE in the next one to two years



(Figure 12)

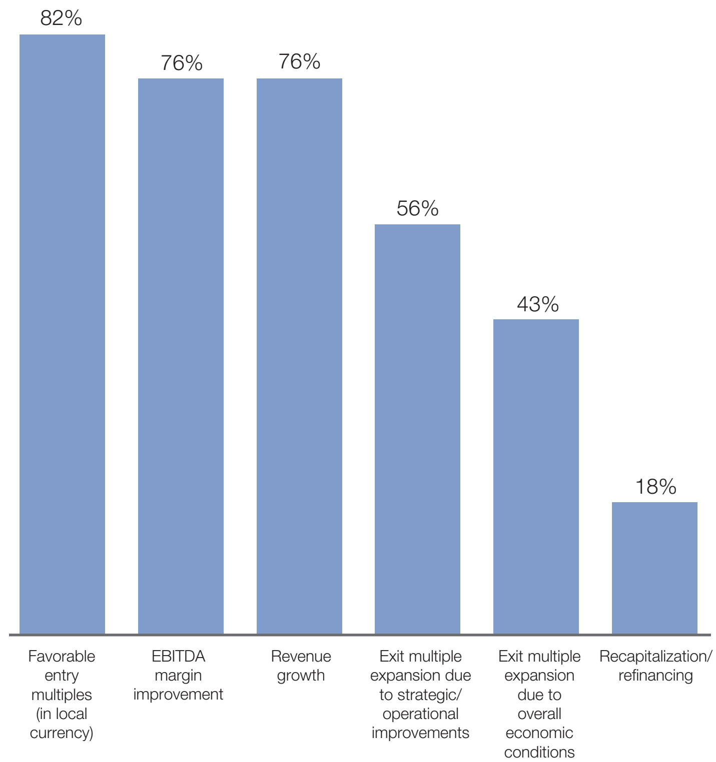
Favorable entry multiples, margin improvement, and growth seen as main drivers of PE returns

82% of LPs singled out favorable entry multiples (in local currency) as the most important driver of PE returns in Latin America.

EBITDA margin improvement and revenue growth were both cited by 76% of LPs as the next most important drivers of PE returns in Latin America.

LPs consider exit multiple expansion due to strategic/operational improvements a more important PE return driver than exit multiple expansion due to overall economic conditions.

Important drivers of Latin American PE returns in the next three years – % of investors citing factor "highly important"



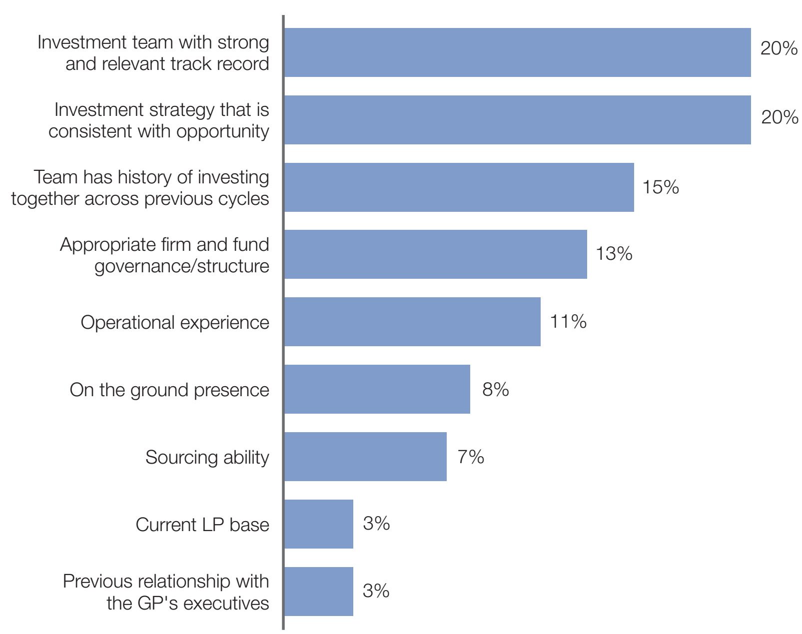
(Figure 13)

Strong and relevant track record is the most important factor LPs look for in GPs

Investment teams with strong and relevant track records that execute an investment strategy consistent with the market opportunity are the main attributes LPs look for when evaluating commitments to GPs.

Managers that have a history of investing together across previous cycles are cited by LPs as the next most important factor when selecting GPs.

Factors LPs consider when evaluating commitments to GPs – % of LPs citing factor "highly important"



(Figure 14)

Majority of LPs include ESG considerations in fund selection

Two thirds of LPs expressed that environmental, social, and governance (ESG) considerations play an important role in their fund selection process.

LPs specifically prioritize strong corporate governance, risk management, and environmental issues as important considerations.

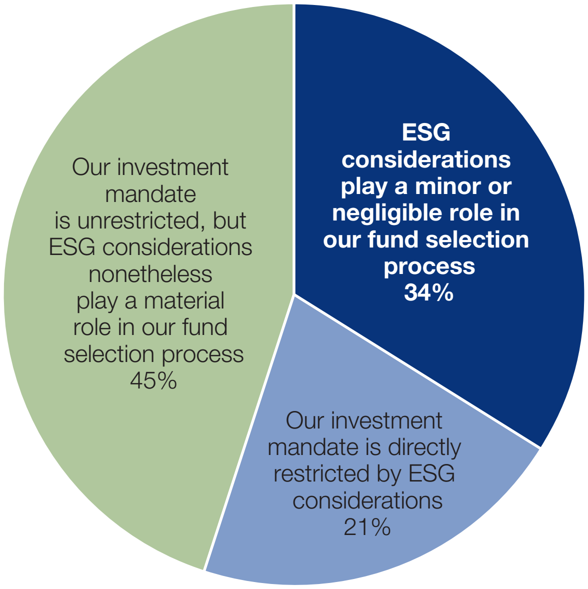
Many LPs make no specific demands regarding ESG monitoring

Over half of international LPs and 36% of Latin American LPs make no specific demands regarding ESG monitoring.

Both international and Latin American LPs favor qualitative over quantitative reporting, with 85% of LPs requesting reporting on an annual basis.

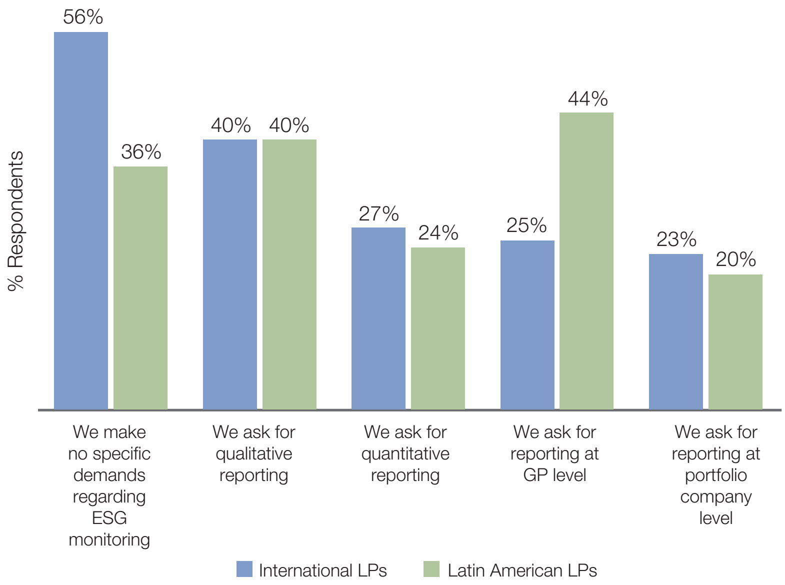
44% of Latin American LPs request reporting at the GP level, a noteworthy increase from the 27% that indicated the same in 2016.

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



(Figure 15)

Types of ESG reports requested by LPs



(Figure 16)

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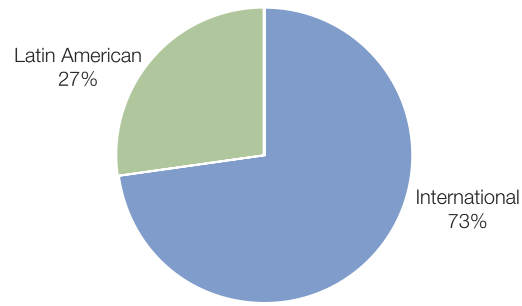
Research methodology

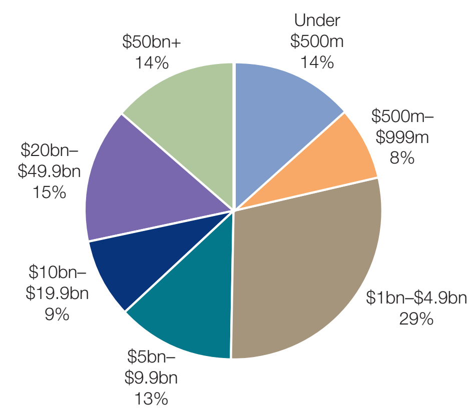
The Survey researched the plans and opinions of 103 investors in private equity funds. These investors, based in Latin America, North America, Europe, and Asia-Pacific, form a representative sample of the LP population worldwide. Fieldwork for the Survey was conducted by LAVCA and Cambridge Associates in June–July 2017, with assistance from the Institutional Limited Partners Association (ILPA).

Respondents by region



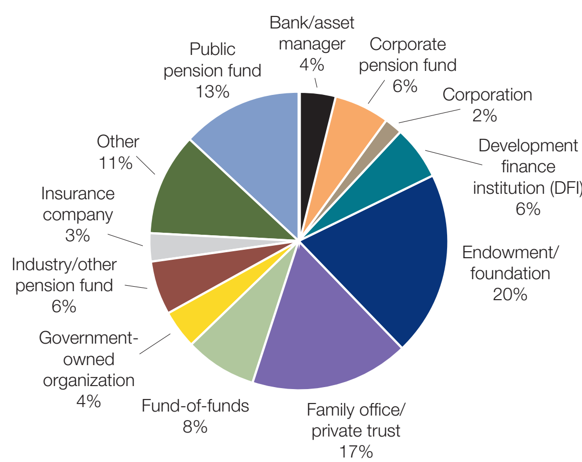
(Figure 17)

Respondents by total assets under management



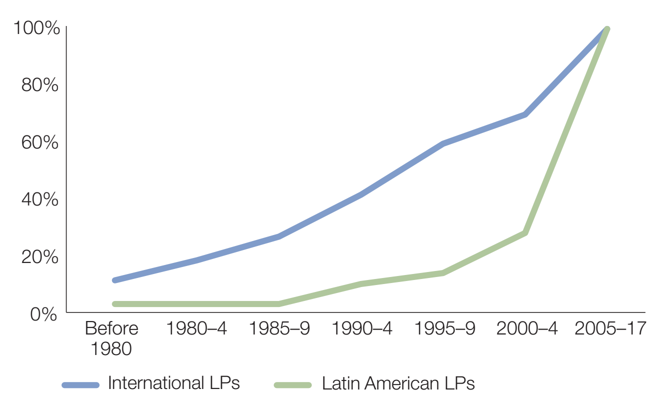
(Figure 18)

Respondents by type of organization



(Figure 19)

Current investors in PE - cumulative, by year in which they started to invest



(Figure 20)

About Cambridge Associates

Cambridge Associates is a global investment firm founded in 1973. The firm helps more than 1,000 endowments, foundations, pension plans, and private clients maximize their impact on the world by building custom investment portfolios aimed at generating outperformance across all asset classes. Working alongside its early clients, among them leading university endowments, the firm pioneered the strategy of high-equity orientation and broad diversification, which since the 1980s has been a primary driver of performance for institutional investors. Cambridge Associates delivers a range of services, including outsourced CIO; investment consulting; and access to investment research and tools across the continuum of global asset classes.

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About LAVCA

The Latin American Private Equity & Venture Capital Association (LAVCA) is a not-for-profit membership organization dedicated to supporting the growth of private capital investors in Latin America and the Caribbean. LAVCA's membership is comprised of over 180 firms, from leading global investment firms active in the region to local fund managers from Mexico to Argentina, in addition to institutional investors such as pension funds, sovereign wealth funds, and family offices. Member firms control assets in excess of US$65b, directed at capitalizing and growing Latin American businesses. LAVCA's mission is accomplished through programs of research, networking forums, investor education seminars, and advocacy of sound public policy.

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