Latin American Private Equity & Venture Capital Association

CAMBRIDGE ASSOCIATES

Latin American Private Equity Limited Partners Opinion Survey

2016

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
- 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
- LPs' private equity exposure to real assets
- 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 133 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

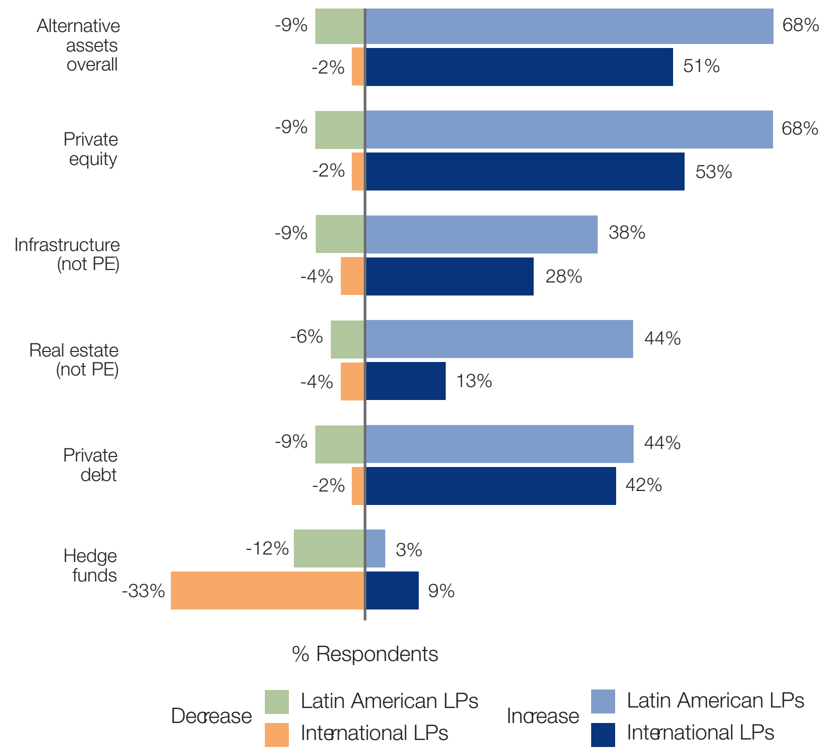
LPs plan to increase target allocations to alternative assets and PE

Over two-thirds of Latin American LPs and about half of international LPs are planning to increase their target allocations to PE and overall alternative assets in the next 12 months. The number of investors aiming to decrease their allocations to these asset classes increased slightly from 2015.

44% of Latin American LPs anticipate increasing exposure to real estate and private debt.

Investor appetite for hedge funds is expected to fall in the next year, with one-third of international LPs and 12% of Latin American LPs citing a decrease in their target allocations to the asset class.

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

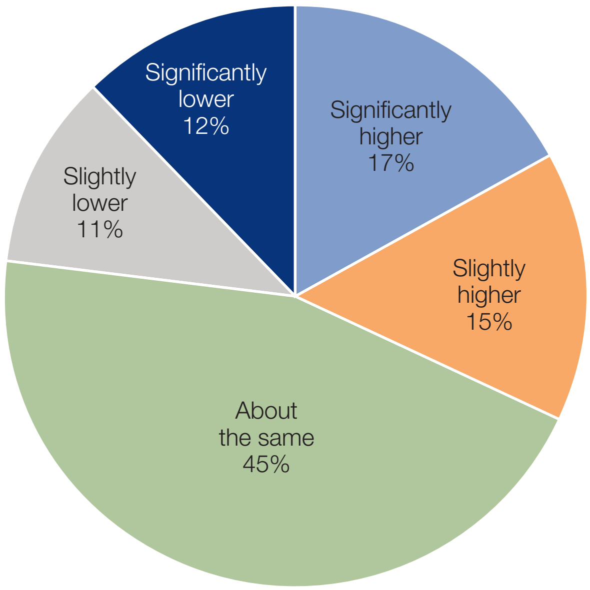


(Figure 1)

New commitments to Latin American PE remain stable

77% of LPs with Latin American PE portfolios expect to maintain or accelerate their commitments to the region in the next 12 months. This is consistent across both international and Latin American LPs (78% international respondents and 75% Latin American respondents).

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



(Figure 2)

PE entry valuations and dealflow appear more attractive in Latin America than in other emerging markets

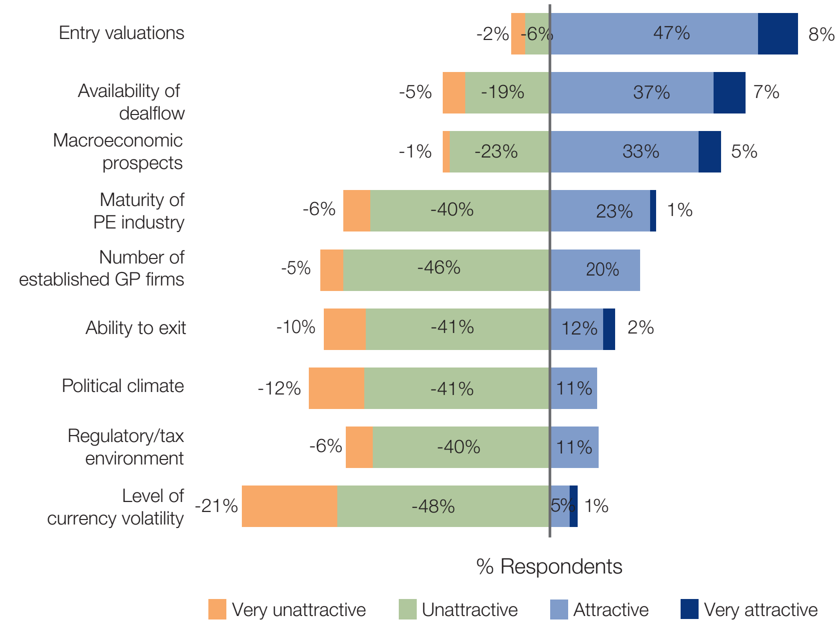
55% of LPs with Latin American PE portfolios consider entry valuations in the region attractive relative to those in other emerging markets. Dealflow in Latin America is also viewed favorably by LPs.

Investors also see the macroeconomic prospects of the region as favorable relative to other emerging markets (although with smaller margins than valuations and dealflow), perhaps anticipating positive tailwinds following recent economic slowdowns in some of the region's major markets.

LPs perceive factors such as currency volatility, political climate, and the regulatory/tax environment in Latin America as less attractive relative to other emerging markets.

Investors currently invested in Latin American PE also view the number of established GPs and the ability to exit as less attractive relative to other emerging markets.

Attractiveness of Latin American PE versus other emerging PE markets – views of LPs currently invested in Latin American PE



(Figure 3)

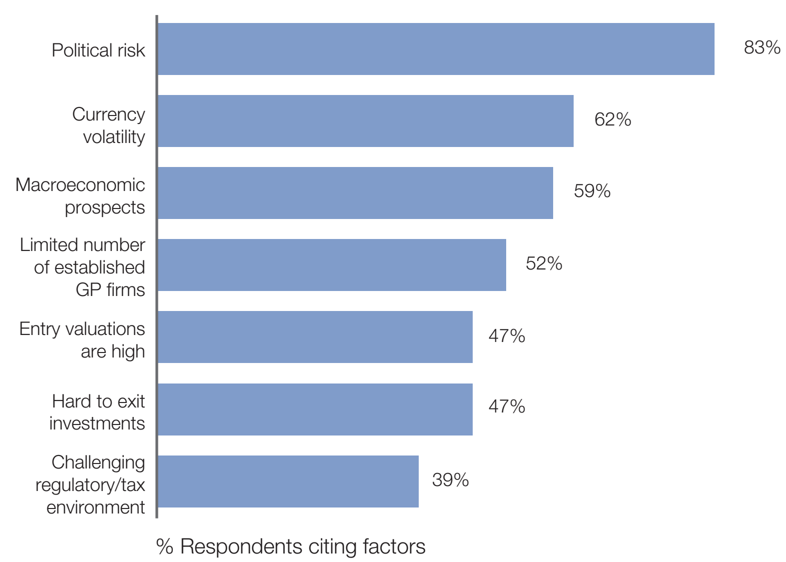
Political risk is biggest challenge for prospective LPs

Prospective LPs in Latin America PE view political and currency risks as the main challenges to entering the region, with over 80% of LPs indicating political risk as the biggest challenge.

In addition, almost 60% of LPs evaluating a first-time commitment to Latin American PE think that macroeconomic prospects pose a significant challenge.

So while existing LPs see opportunities in the macroeconomic prospects for the region, prospective LPs seem to be taking a "wait and see" approach. In fact, 60% of international LPs intending to make their initial PE investment in the region are planning to invest over a three- to five-year horizon, versus a more immediate investment within the next one to two years.

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



(Figure 4)

Pan-regional funds are most popular way to access Latin American PE

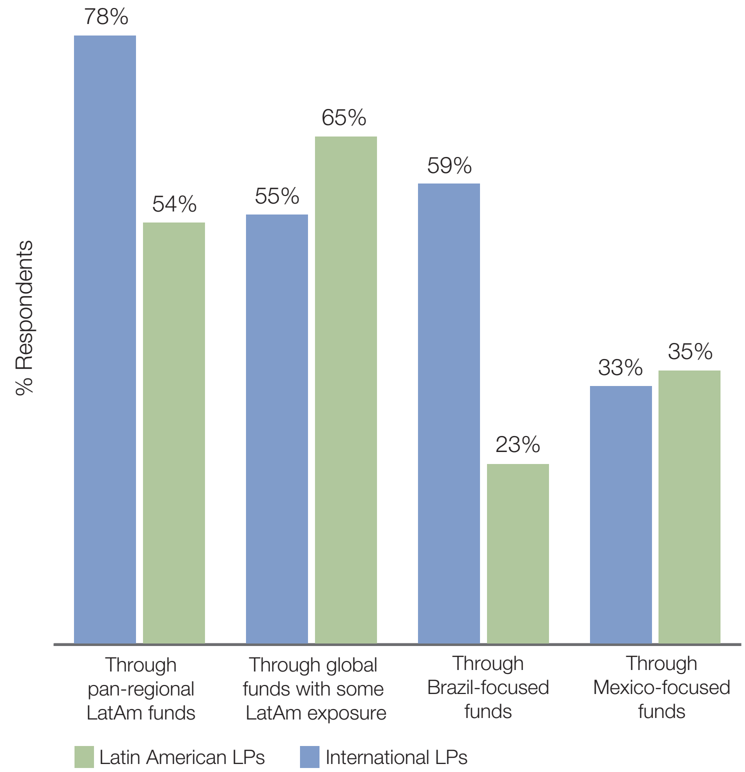
Nearly 80% of international LPs and over half of Latin American

expect to access Latin American PE via pan-regional funds in the next three years.

59% of all LPs plan to access Latin American PE via global funds with some exposure to the region.

Despite a year of political and macroeconomic turmoil, international LPs plan to up their bets on Brazil, with 59% of them indicating they expect to access the region via funds dedicated to this country. International LPs indicated a greater appetite for Brazil-focused funds than their Latin American peers.

Proportion of LPs expecting to access Latin American private equity via particular routes in three years' time



(Figure 5)

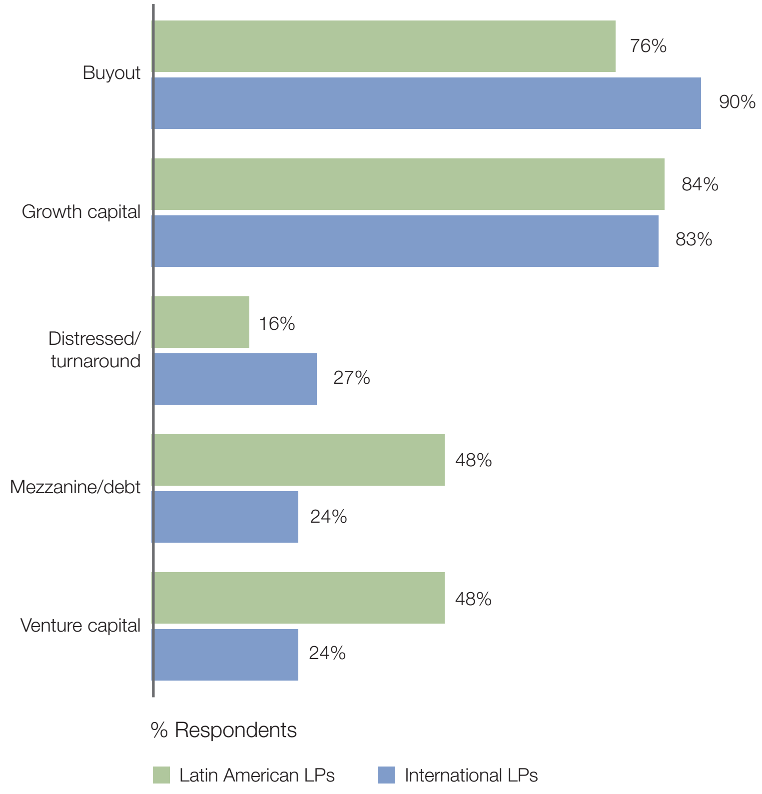
Buyouts and growth capital are preferred strategies for Latin American PE

Buyout and growth capital are forecasted to be the predominant strategies in both Latin American and international LPs' Latin American PE fund portfolios within the next three years.

In relation to 2015, venture capital and mezzanine/debt funds are gaining momentum among Latin American LPs, with 48% of them planning to invest in these strategies versus 24% of international LPs planning to do the same.

Conversely, international LPs expect to invest slightly more in distressed/turnaround funds than their Latin American peers.

LPs' anticipated exposure to Latin American-focused PE funds in three years' time



(Figure 6)

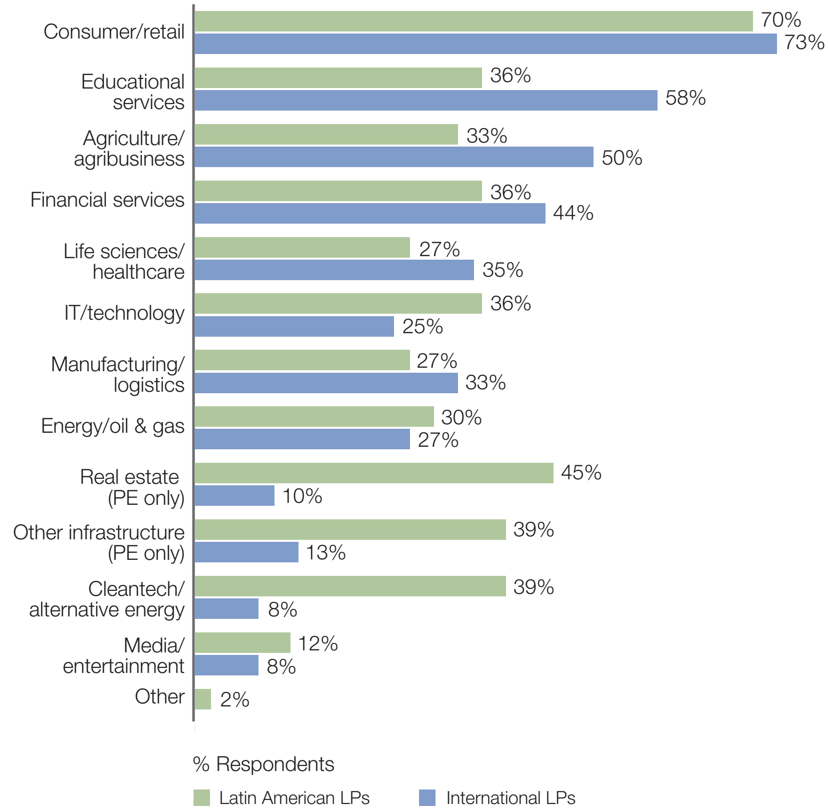
Consumer/retail prevails as most attractive sector for Latin American PE

Both international and Latin American investors continue to view consumer/retail as the most attractive sector for Latin American PE over the next three years.

Latin American LPs view real estate as the second most attractive sector in the region, with 45% of respondents highlighting the prospects in the space, compared to just 10% of international investors. Additionally, Latin American LPs view infrastructure and cleantech/alternative energy as significantly more attractive than their international peers.

On the other hand, international LPs favor opportunities in educational services, agriculture/agribusiness, financial services, and life sciences/healthcare.

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

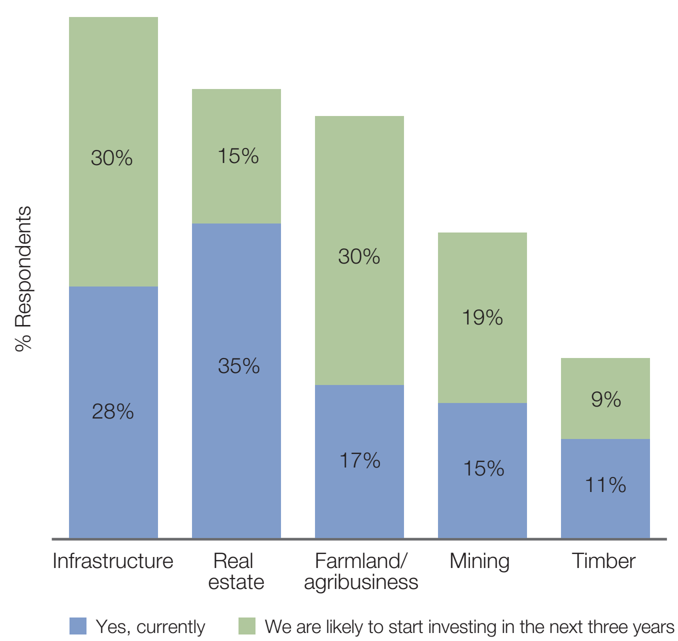


(Figure 7)

Real Assets: International LPs seek exposure to infrastructure and farmland/ agribusiness

30% of international LPs expect to start investing in Latin American PE infrastructure and/or farmland/agribusiness in the next three years. Currently, international LPs' largest exposure to Latin American real assets is to real estate (35%), followed by infrastructure (28%).

International LPs with current or planned PE exposure to Latin American real assets



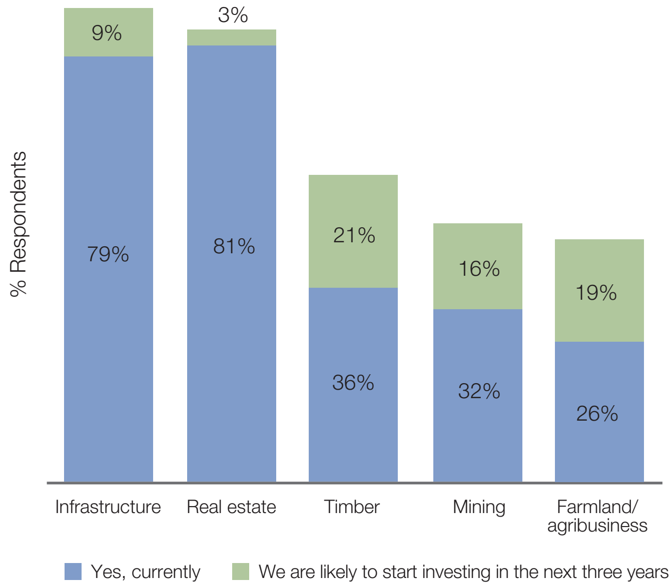
(Figure 8)

Real Assets: Latin American LPs eager to add timber and farmland/agribusiness exposure

40% of Latin American LPs are looking to add timber and/or farmland/agribusiness to their Latin American portfolios in three years' time. Interest in making investments in farmland/agribusiness (19%) has increased significantly since 2015 (7%).

Today, the PE real assets portfolios of Latin American LPs are heavily invested in real estate (81%), followed by infrastructure (79%).

Latin American LPs with current or planned PE exposure to Latin American real assets



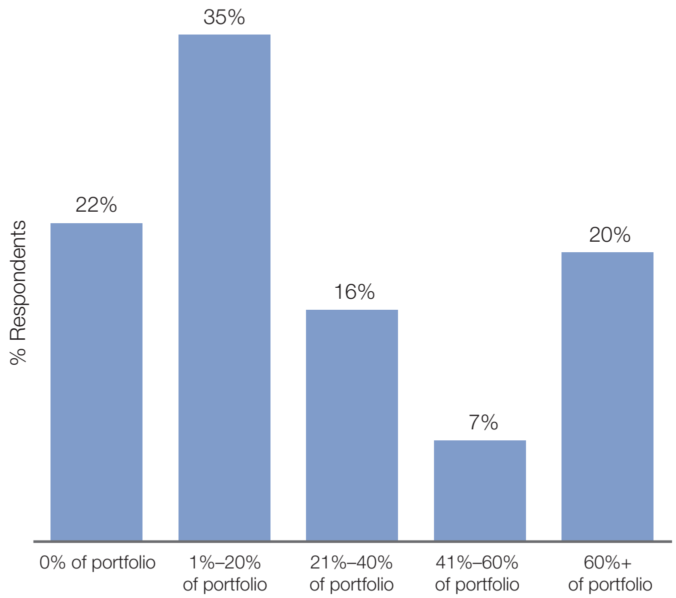
(Figure 9)

Majority of LPs anticipate making co-investments and/or direct investments in Latin American PE within three years

Consistent with the global trend of institutional investors looking for ways to reduce fees, 78% of LPs plan to have co-investments or direct investments in Latin American private equity in three years' time – an increase from the 68% of LPs that indicated the same in 2015.

A plurality of LPs (35%) plan to develop an exposure of up to 20% of these investments in their Latin American PE portfolios.

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



(Figure 10)

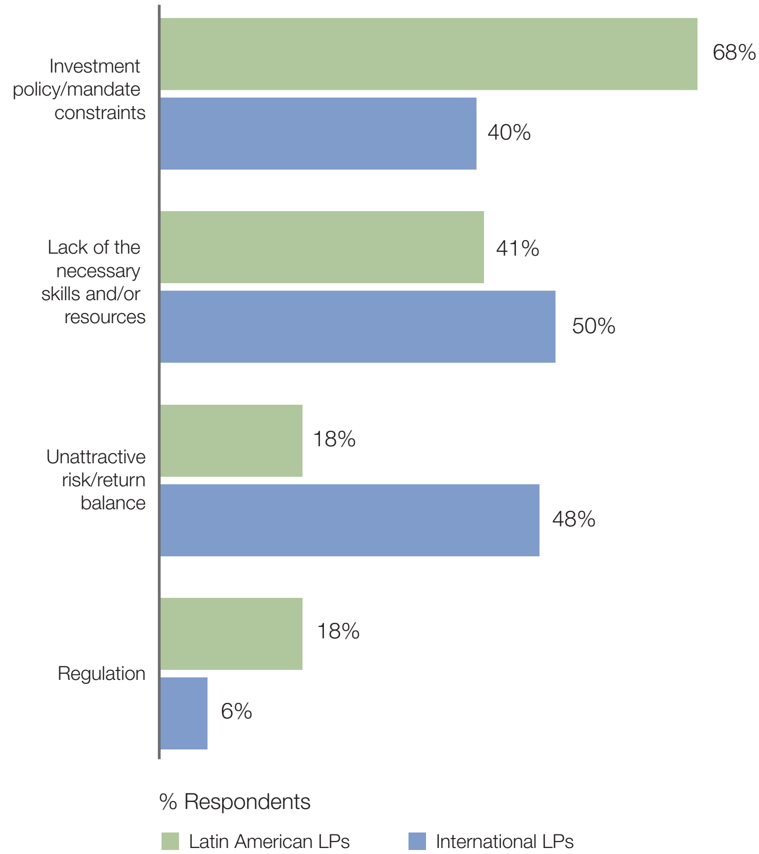
Investment policy/mandate constraints are the main deterrent to more co-investments and direct PE

68% of Latin American LPs cite investment policy/mandate constraints as the main deterrent to considering more proprietary investments and/or co-investments, followed by lack of necessary skills/resources (41%).

50% of international LPs indicate a lack of the necessary skills/resources and 48% cite an unattractive risk/balance as preventative factors.

International LPs do not see regulation as a major limit to their making proprietary direct investments and/or co-investments.

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



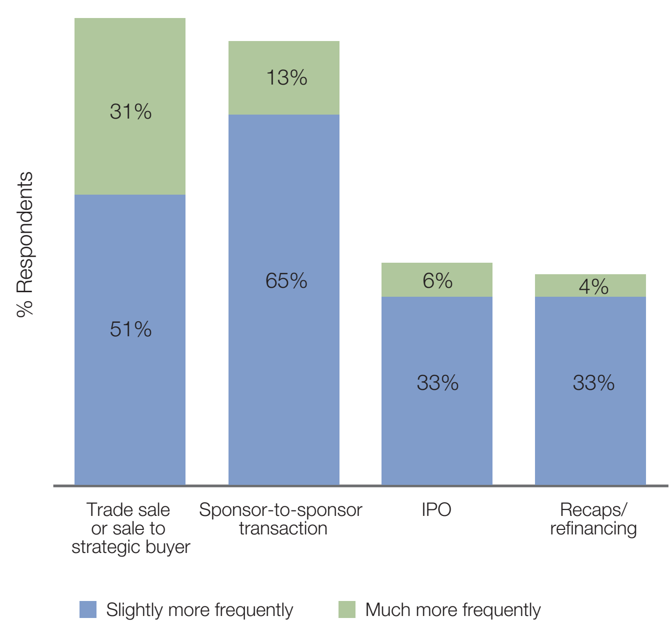
(Figure 11)

LPs see trade sales as most popular exit route for Latin American PE

LAVCA data indicates that 57% of the region's PE/VC-backed exit transactions were trade sales (2015-1H2016). In this year's survey, 82% of LPs stated that trade sales will remain the more frequent exit route for Latin American PE over the next one to two years, compared to 72% of LPs that indicated the same in 2015.

LPs also expect sponsor-to-sponsor transactions to be a more frequent method for PE exits in Latin America, indicating a more mature private equity market.

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



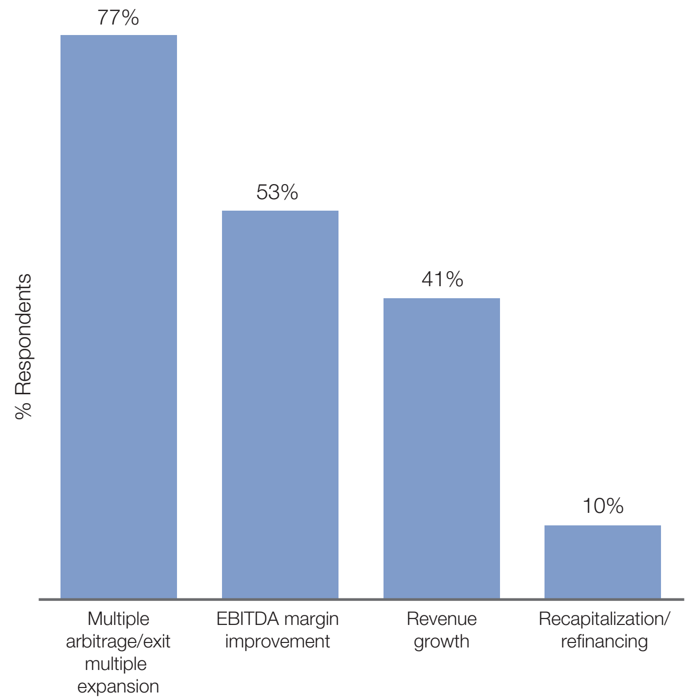
(Figure 12)

LPs see multiple arbitrage and EBITDA margin improvement as key return drivers

LPs see multiple arbitrage/exit multiple expansion as the most important driver of Latin American PE returns within the next three years. In contrast, just over 50% of LPs perceive EBITDA margin improvement as an important driver of returns in the region.

Only 10% of LPs think that recapitalizations/refinancings will be important drivers of returns, an indication that debt continues to play a limited role in private equity across the region.

Important drivers of Latin American PE returns in the next three years – % of investors citing individual factors

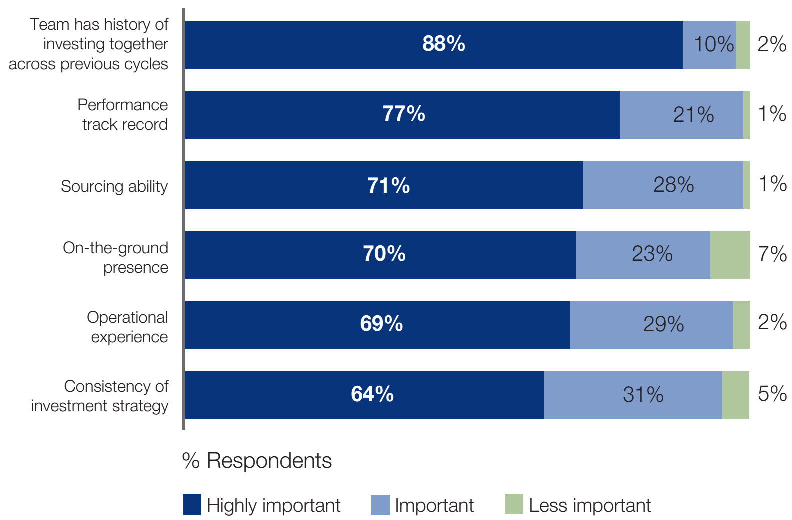


(Figure 13)

LPs look for teams with experience investing across cycles

When considering investments in geographies with volatile macroeconomic and/or political conditions, 88% of LPs believe that the most important attribute of a GP is the team's history of investing together across previous cycles.

Attributes LPs look for in GPs when investing in geographies with volatile macroeconomic and/or political conditions



(Figure 14)

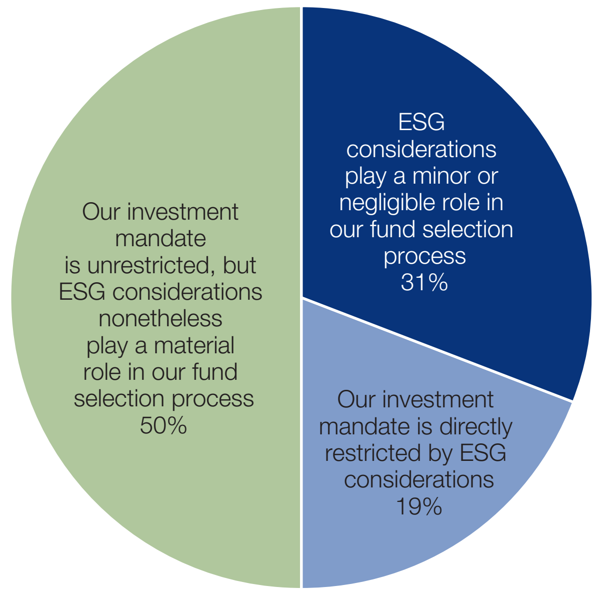
LPs overwhelmingly include ESG considerations in their Latin American PE fund selection process

69% of LPs cite environmental, social, and governance (ESG) considerations as playing a material role in the fund selection process, a similar result to the one obtained in the 2015 survey.

A limited number of LPs indicate that ESG considerations play a minor role when selecting PE funds in the region.

78% of LPs expect ESG considerations to become more important in Latin America over the next three years, a slight increase from 73% in 2015.

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



(Figure 15)

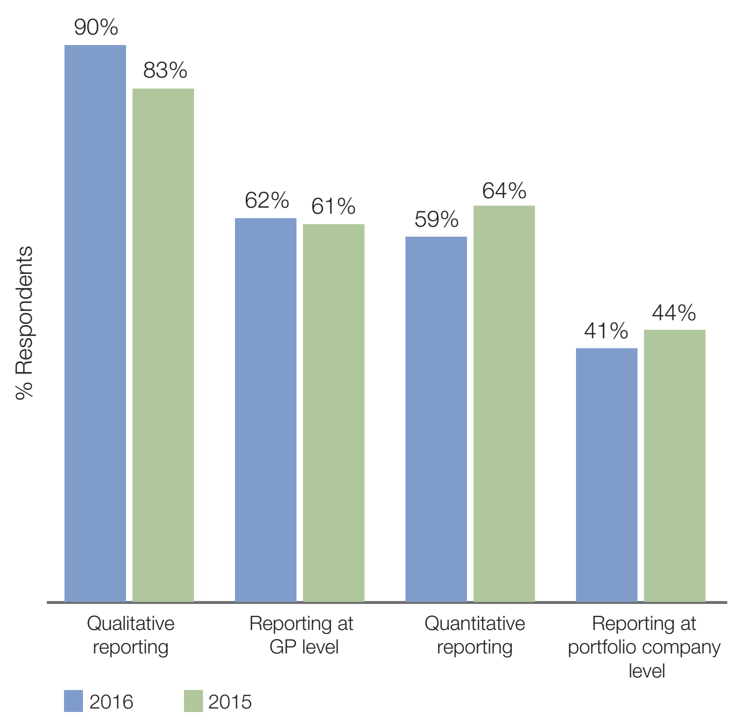
Qualitative reporting leads the way in ESG reporting

52% of LPs request some form of ESG reporting from their GPs.

90% of the LPs that request ESG reports ask for qualitative reporting – an increase from the 83% that indicated the same in 2015.

Nearly two-thirds of LPs that request ESG reporting ask for reporting at the GP level.

Types of ESG reports requested by LPs



(Figure 16)

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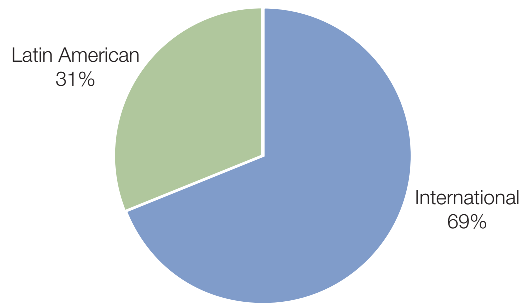
Latin American Private Equity Limited Partners Opinion Survey

Research methodology

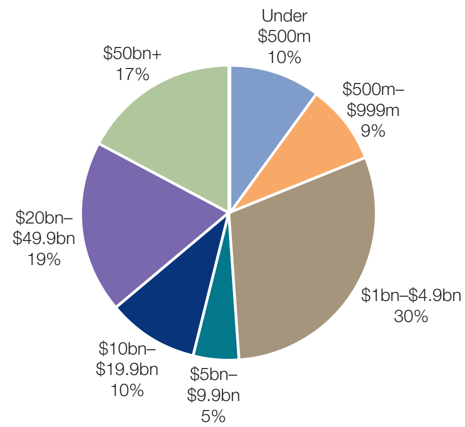
The Survey researched the plans and opinions of 133 investors in private equity funds. These investors, based in Latin America, North America, Europe, and Asia-Pacific, form a representative sample of the LP population worldwide. Fieldwork for the Survey was conducted by LAVCA and Cambridge Associates in June–July 2016, with assistance from the Institutional Limited Partners Association (ILPA).

Respondents by region



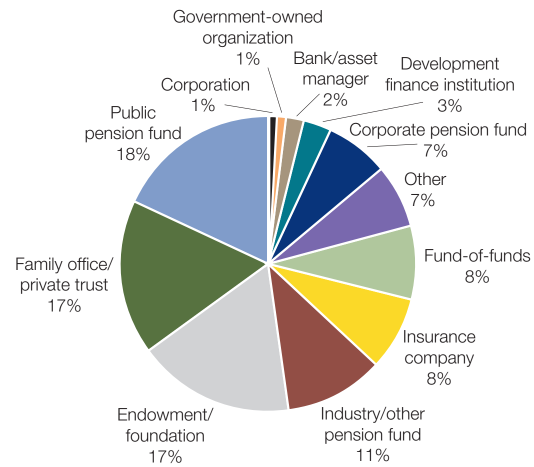
(Figure 17)

Respondents by total assets under management



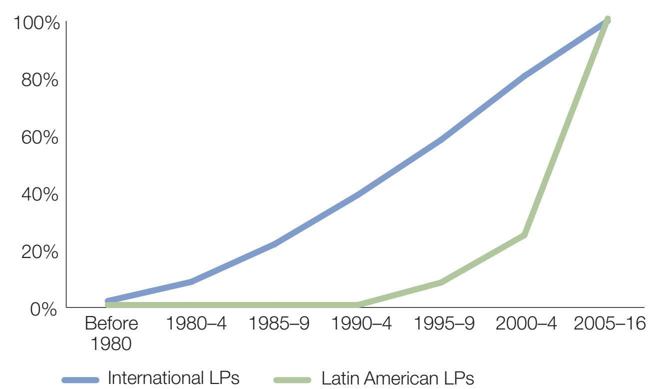
(Figure 18)

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 global investment firm founded in 1973 that builds customized investment portfolios for institutional investors and private clients around the world. Working alongside its early clients, among them several leading universities, the firm pioneered the strategy of high equity orientation and broad diversification, which since the 1980s has been a primary driver of performance for these leading fiduciary investors. Cambridge Associates serves over 1,000 global investors – primarily foundations and endowments, pensions and family offices – and delivers a range of services, including outsourced investment (OCIO) solutions, traditional consulting services, and access to research and tools across global asset classes. Cambridge Associates has more than 1,200 employees – including over 150 research staff – serving its client base globally. The firm maintains offices in Arlington, VA; Boston; Dallas; Menlo Park and San Francisco, CA; London; Singapore; Sydney; and Beijing. Cambridge Associates consists of five global investment consulting affiliates that are all under common ownership and control.

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 equity and venture capital in Latin America and the Caribbean. LAVCA's membership is comprised of over 170 firms, from leading global investment firms active in the region to local fund managers from Mexico to Argentina. Member firms control assets in excess of $60 billion, directed at capitalizing and growing Latin American businesses.

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