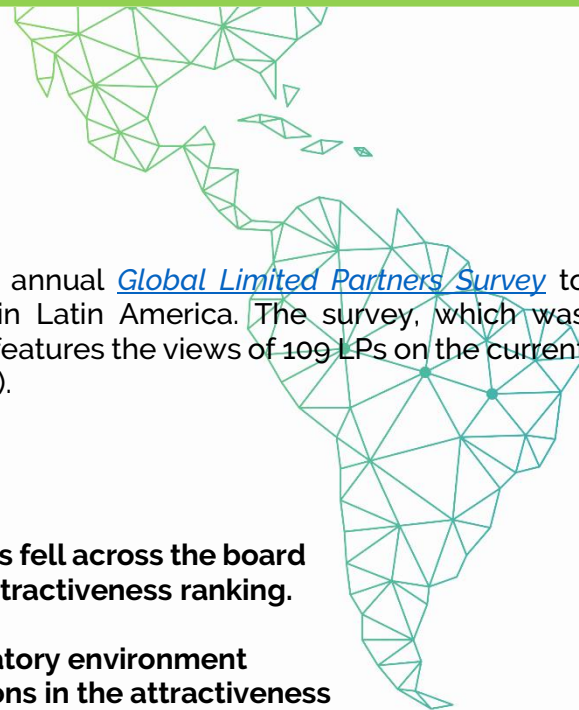




# 2020 Global Limited Partners Survey

## Latin America Snapshot



In 2020 LAVCA collaborated for the first time with EMPEA on its annual [Global Limited Partners Survey](#) to highlight limited partner (LP) sentiment towards private capital in Latin America. The survey, which was conducted in the midst of the COVID-19 pandemic (February-April), features the views of 109 LPs on the current conditions and outlook for private capital in emerging markets (EMs).

### KEY FINDINGS:

**LATIN AMERICA (EX-BRAZIL):** Although attractiveness scores fell across the board for EMs, Latin America moved up two spots in the market attractiveness ranking.

**BRAZIL:** While LP perception of political risk and the regulatory environment significantly improved in recent years, Brazil fell two positions in the attractiveness ranking, with respondents pointing to currency concerns as a major deterrent.

**LP EXPOSURE TO LATIN AMERICA:** The percentage of commercial LPs with exposure to Latin America has increased since 2014.

**VC/TECH:** Latin America is gaining traction as one of the most attractive EMs for VC/tech investment outside of Asia according to survey respondents.

**CLIMATE CHANGE & ESG:** Environmental factors have become critical in the investment decision making process and fund manager selection.

Market	Overall Ranking			Attractiveness Index
	2020	2019	YoY Change	
Southeast Asia	1=	1		47.5
China	1=	2	+1 ↗	47.5
India	3	3		45.6
Africa	4=	5	+1 ↗	37.3
Latin America (excl. Brazil)	4=	6	+2 ↑	37.3
Brazil	6	4	-2 ↓	31.0
Central and Eastern Europe	7	7		24.5
Middle East	8	8		20.4
Turkey	9	9		13.3
Russia/CIS	10	10		4.9

**“Demographics, credit expansion, and proximity to the US.”** -DFI on why Latin America and Brazil are attractive.

SOURCE: 16<sup>th</sup> Annual Global Limited Partners Survey



## LATIN AMERICA (EX-BRAZIL)

Latin America gained two positions in the market attractiveness ranking. In regard to deterrents to increasing exposure to Latin America (ex-Brazil), **LP concerns over regulatory/tax issues, historical performance, and the limited number of established fund managers have eased since 2016.**

**Political and currency risk remain the two biggest constraints** on additional commitments from institutional investors to Latin America. LP's currency concerns decreased slightly but remained elevated.

**Half of respondents intend to increase their commitments to EM-focused funds in the next three to five years**, projecting a return to relative normalcy within private capital investment after the anticipated easing of the COVID-19 pandemic.

### DETERRENTS TO INCREASING INVESTMENT IN LATIN AMERICA (EX-BRAZIL)

Survey Year	Historical Performance	Limited Number of Established Fund Managers	Weak Exit Environment	Challenging Regulatory/Tax Issues	Prefer Exposure via Other Asset Class	Political Risk	Currency Risk
2016	26%	30%	26%	22%	22%	44%	48%
2017	16%	23%	19%	19%	16%	32%	48%
2018	13%	34%	25%	25%	16%	34%	53%
2019	30%	30%	23%	20%	11%	43%	52%
2020	20%	22%	22%	6%	18%	43%	43%

*"[Latin America] remains attractive from a lack of available capital perspective."* -Pension fund

*"We take a highly selective approach and look for diversification in investments and know we might find attractive opportunities across geographies if we look carefully enough."* -Secondary

## BRAZIL

Brazil fell two positions to sixth in the overall market attractiveness ranking. **Currency risk continues to be the most consistent deterrent** according to LPs, after the Brazilian Real sharply depreciated in early 2020.

However, **Brazil has made significant progress on its regulatory/tax environment.** The share of LPs citing this factor as a deterrent has reached its lowest level since 2016, driven by progress on deregulation, privatization, and pension reform.

**Political risk concerns also continue to trend downward** from a peak reached in 2016, according to institutional investors responding to the survey.

### DETERRENTS TO INCREASING INVESTMENT IN BRAZIL

Survey Year	Historical Performance	Limited Number of Established Fund Managers	Weak Exit Environment	Challenging Regulatory/Tax Issues	Prefer Exposure via Other Asset Class	Political Risk	Currency Risk
2016	18%	18%	24%	24%	21%	65%	56%
2017	19%	17%	22%	22%	14%	42%	53%
2018	15%	12%	17%	29%	15%	39%	59%
2019	21%	10%	8%	19%	10%	44%	40%
2020	16%	16%	12%	8%	22%	31%	47%

*"Brazil has good fundamentals."* -Family office

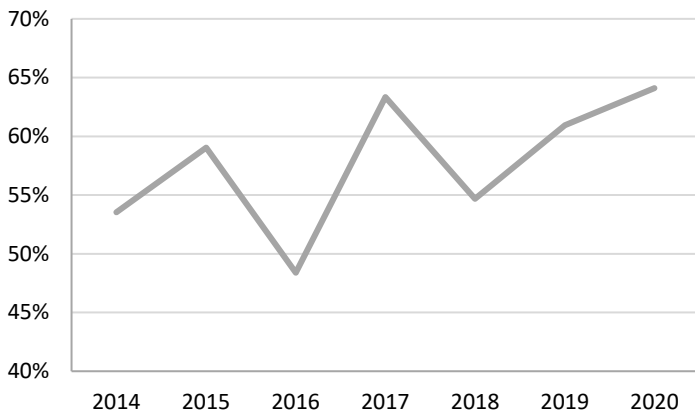
SOURCE: 16<sup>th</sup> Annual Global Limited Partners Survey

## LP EXPOSURE TO LATIN AMERICA

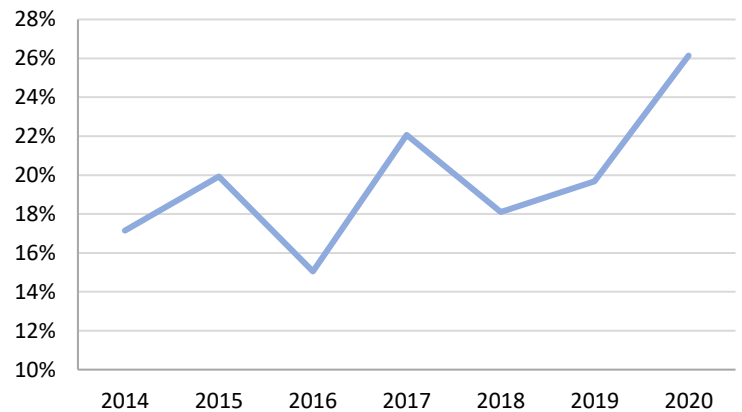
The percentage of commercial LPs with exposure to Latin America has increased since 2014, and Latin America has accounted for a larger proportion of commercial LPs' overall EM allocations during the same period.

While DFIs continue to play an important role in Latin America, especially in a time of uncertainty and disruption, **commercial LPs are becoming a more essential source of capital for GPs seeking to fundraise** and invest in the region as the private capital industry matures.

**% OF COMMERCIAL LPs WITH EXPOSURE TO LATIN AMERICA**



**LATIN AMERICA AS % OF TOTAL EM ALLOCATION (COMMERCIAL LPs)**



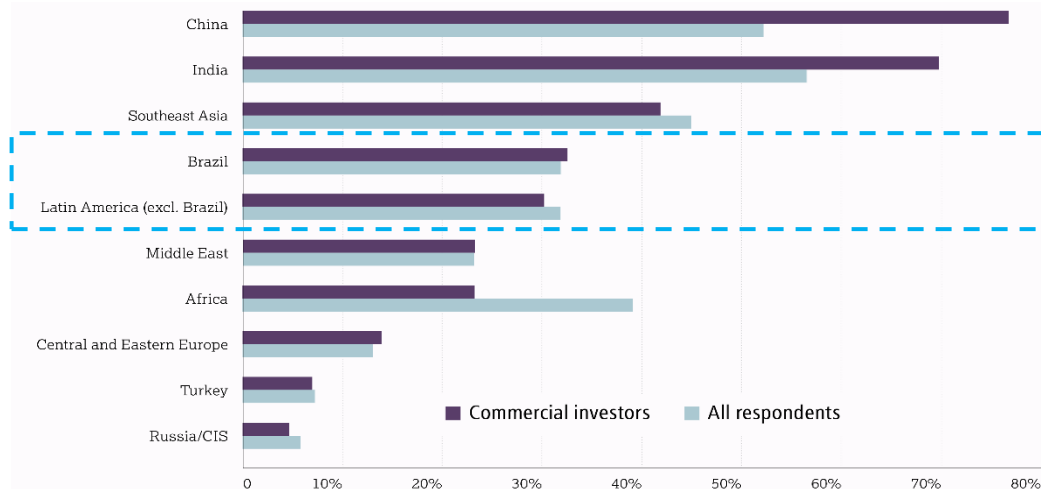
## VC/TECH

Outside of Asia, **Latin America and Brazil are the two most attractive EM destinations** with the largest share of commercial LPs who currently invest or plan to invest in VC/tech opportunities.

The share of respondents with exposure to Brazil and Latin America VC went from 20% in 2019 to 30% in 2020. This slight increase is consistent with the record VC dollars raised and invested in 2019, according to [LAVCA's Annual Review of VC/Tech Investment in Latin America](#).

The COVID-19 pandemic has reinforced ongoing trends towards digitalization. LPs continue to seek opportunities in startups that specialize in fintech, business services, life sciences, and health technology, as well as foodtech/agtech and edtech.

### IN WHICH GEOGRAPHIES DO YOU CURRENTLY INVEST, OR PLAN TO INVEST, IN VC OPPORTUNITIES?



NOTE: 'Commercial investors' excludes DFIs and government agencies with an explicit mandate to pursue economic development and social impact, as well as investors mandated to invest in only one specific EM geography.

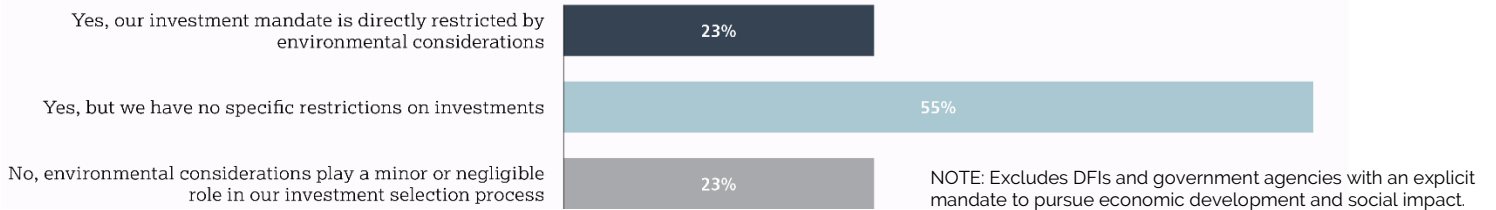
SOURCE: 16<sup>th</sup> Annual Global Limited Partners Survey

## CLIMATE CHANGE & ESG

23% of survey respondents who plan to increase commitments to EM private capital funds indicated that environmental or social impact is a motivating factor, up from 13% in 2018.

Over 75% of commercial LPs indicated that **climate change has become a factor when making investment decisions**. Moreover, 23% of commercial LP respondents indicated their investment mandate is restricted specifically by environmental considerations.

### ARE CLIMATE CHANGE OR ENVIRONMENTAL CONSIDERATIONS AFFECTING YOUR INVESTMENT DECISION MAKING & FUND MANAGER SELECTION?



*“Environmental considerations have an impact on our investment decision-making, due to a mix of drivers including reputational risk and financial risk related to climate change and also a growing number of LPs seeking opt out rights in respect of climate risk sectors such as thermal coal.” -DFI*

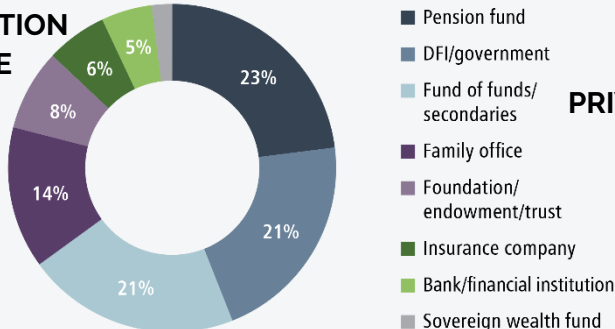
*“We consider climate and the environment because of our internal firm's belief, our stakeholder's interest, and our grandchildren's future.” -Fund of funds*

*“Demands from board and clients, and an internal belief that environmental factors affect the risk-return profile of the investment are what drive our investment making decisions.” -Sovereign wealth fund*

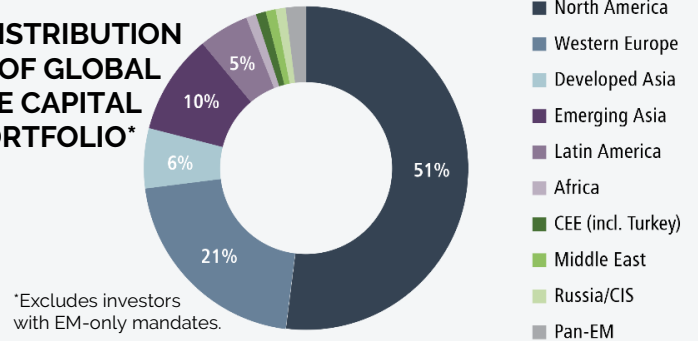
## RESPONDENT PROFILE

LAVCA and EMPEA surveyed 109 LPs (each from a unique institution). Participants are based in 33 different countries and collectively represent approximately US\$4.7 trillion in total assets under management (AUM).

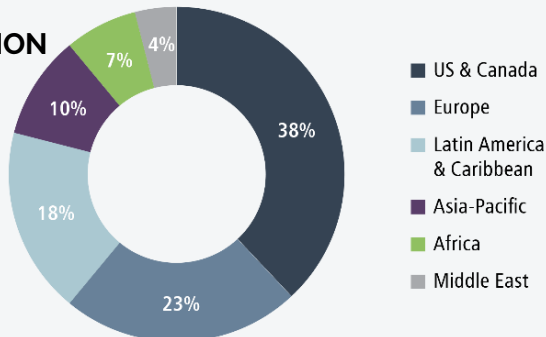
### INSTITUTION TYPE



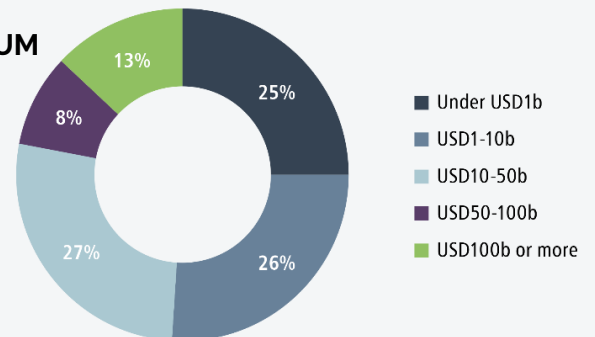
### DISTRIBUTION OF GLOBAL PRIVATE CAPITAL PORTFOLIO\*



### HQ REGION



### TOTAL AUM



SOURCE: 16<sup>th</sup> Annual Global Limited Partners Survey