FOURTH EDITION

THE LATIN AMERICAN PRIVATE EQUITY DEAL BOOK + ESG CASES

BID Invest

LAVCA
Latin American Private Equity & Venture Capital Association

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LAVCA+ MEMBERS

LAVCA would like to express special appreciation to our LAVCA+ Members

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 180 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 US$65 billion, 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.

ABOUT BID INVEST

BID Invest, the private sector institution of the Inter-American Development Bank Group, is a multilateral development bank committed to supporting the private sector in Latin America and the Caribbean. It finances sustainable enterprises and projects to achieve financial results that maximize economic, social and environmental development for the region. With a current portfolio of US$11.2 billion under management and 330 clients in 21 countries, BID Invest works across sectors to provide innovative financial solutions and advisory services that meet the evolving demands of its clients. As of November 2017, BID Invest is the trade name of the Inter-American Investment Corporation. www.idbinvest.org.

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Globeleq Mesoamerica Energy

DATE OF INVESTMENT 2010

AMOUNT US$75 MILLION

PARTICIPATION/STAKE 70%

actis

COMPANY NAME
Globeleq Mesoamerica Energy

INDUSTRY / SECTOR Energy

LOCATION(S) Costa Rica, Honduras, Nicaragua

DESCRIPTION
Based in San José, Costa Rica, Globeleq Mesoamerica Energy is a renewable energy firm with an operating capacity of 394MW (as of the date of Actis' exit). Globeleq operates wind and solar generation assets in key Central American markets. The company was a pioneer in renewable energy investment in Central America, operating Costa Rica's first wind farm built in 1996, as well as the Cerro de Hula wind farm in Honduras, which is the largest in Central America.

INVESTOR PROFILE
Actis is a leading pan-emerging markets investor, with a portfolio of investments across Asia, Africa and Latin America and US$7.6b of assets under management. The firm is a signatory to the United Nations Principles for Responsible Investment (UNPRI) and focuses on delivery of long-term transformational social impact for its host communities. Actis has three business units: private equity, energy and real estate. Within its energy business, Actis focuses on making investments in power generation and distribution companies in emerging markets.

FUND NAME
Actis Energy Fund II

FUND SIZE US$752 million

TOTAL AUM US$7.6 billion

OPPORTUNITY

The supply and demand dynamics for electricity in Latin America, combined with a sustained regulatory shift towards private sector participation in the segment since the 1990s, underpin the opportunity for Actis to invest in this sector. Renewable energy companies make a positive contribution to economic growth through access to reliable, sustainable, and affordable power. Actis identified Central America as a particularly attractive investment destination for power generation. Power demand has a strong track record with annual growth of 3-4% over the past decade. The extensive use of high-cost thermal generation has also made wind and solar power cost-competitive in the region. Future demand in the region is supported by organic growth and significant potential expansion since 10% of the population in Central America still does not have access to the power distribution network. The region's dependency on inefficient thermoelectric plants and hydroelectric generation – which fluctuates seasonally – has prompted many of the region's governments to push renewable energies.

Actis identified Central America as an optimal region for investment in wind generation, not only because of the quality of the wind in the region, but also because wind generation is complementary to hydroelectric generation. During dry periods – when hydroelectric reservoirs are depleted – wind generation increases, providing a natural backstop for hydroelectric plants. Likewise, the region's lack of domestic petroleum production means that more than 80% of thermoelectric plants use imported oil or diesel fuel. With increased wind power, the need to dispatch high-cost thermoelectric plants has diminished. This was particularly important for poor countries during periods of high global oil prices, which created a burden for the local population and governments in this region.

Globeleq Mesoamerica Energy (GME) was a pioneer in wind generation in Central America having implanted the first wind farm in the region in 1996. The GME team was made up of highly capable, qualified professionals with vast experience in wind power. To expand its generation from the 24MW it had in operation, the company decided to seek an investor that, in addition to offering capital, shared its vision regarding the potential of wind generation. Actis was selected because of its expertise and global experience.

EXECUTION

Actis invested in GME in 2010, acquiring a 70% stake in the company, partnering with Central American private equity firm Mesoamerica. Over the next five years, Actis worked with the management team to increase the size of the company, with installed capacity jumping by more than 16 times to 314MW, considering plants in operation and under construction. The company also had 80MW in late development and a proprietary pipeline of nearly 300MW in the region. At the time of the investment, wind power was still in its early stages in Central America. Actis believed that the development of new wind technologies and the growing need for power in the region created an optimal environment for investments in wind farms.

Actis' strong global relationships with suppliers for the wind industry allowed them to take a very hands-on approach, working directly with GME to find the right suppliers and to maximize efficiency of its project pipeline. During the period, the equipment prices for wind projects were falling rapidly and Actis helped the company guarantee that each project used the best technologies available for the best price. Ultimately, Actis' contract negotiation experience created US$38 million in cost savings in the Cerro de Hula project in Honduras, significantly enhancing returns. Once the Cerro de Hula project was concluded, the model was replicated in Nicaragua and Costa Rica, whereby creating a regional wind generation company.

Likewise, Actis' global relationships with lenders and sector stakeholders resulted in further asset de-risking through the involvement of top-tier development finance institutions, the provision of sovereign guarantees and acquisition of MIGA (Multilateral Investment Guarantee Agency) insurance.

OUTCOME

During the investment period, GME increased its installed generation capacity 16-fold and expanded across the region. In December 2016, after a competitive process, GME was sold to Guatemala's Corporacíon Multi Inversiones (CMI), a local conglomerate that wanted to expand into the power generation business. The returns for the investment exceeded expectations and showed how ESG initiatives contribute to value creation.

ESG IN FOCUS

FUND ESG POLICIES

All Actis' energy investments are either majority or wholly-owned platforms. This makes it possible for Actis to ensure a head of ESG is appointed at the company level and to establish an ESG sub-committee on the board. Actis periodically hosts meetings for portfolio company ESG managers globally to share best practice and discuss commonalities. Actis' investment model always focuses on posting positive social, environmental and governance returns for its investments and has a model that tracks the benefits in these areas.

COMPANY ESG INITIATIVES

In addition to the clean-energy impact of this investment, which is helping to bring renewable power to countries that depended on inefficient fuel oil and diesel-powered thermoelectric plants, the GME investment also had a significant social impact. The Cerro de Hula project is located in a rural area of Honduras where most of the residents were subsistence farmers. Many of these families had been living in the region for generations, but did not hold the title to their land. Whereas other parties interested in the Cerro de Hula project saw the lack of land titles as a deal-breaker for the project, Actis saw this as an opportunity to make a positive long-term impact on these families. Actis formed a community outreach team that worked closely with 240 families to help them register title to their land. This not only allowed them to have official ownership, but also gave them the leasing revenues from the wind farm. This was a milestone achievement for the company and provided a roadmap of how to deal with future community challenges. This process also gave the company credibility within the community. While the project was under construction and after the plant was operating, GME continued to work with local communities, making sure there were open channels of communication for grievances.

OCENSA

DATE OF INVESTMENT DEC 2013

AMOUNT UNDISCLOSED

STAKE 22.35% (INCL. CO-INVESTORS)

Advent International GLOBAL PRIVATE EQUITY

COMPANY NAME

Oleoducto Central (Ocensa)
www.ocensa.com.co

INDUSTRY / SECTOR

Oil & Gas

LOCATION(S)

Bogotá, Colombia

DESCRIPTION

Founded in 1994, Ocensa manages Colombia's largest crude oil pipeline. The company's system has an average pumping capacity of 745,000 barrels per day, with 11 stations and four distinct segments, stretching 836 kilometers inland and 12 kilometers offshore. It is the main pipeline between Colombia's Llanos region and the Atlantic Coast, transporting approximately 65% of Colombia's crude production and 60% of the country's oil exports.

INVESTOR PROFILE

Founded in 1984, Advent International is one of the largest and most experienced global private equity investors. The firm has been operating in Latin America for over 20 years and during this time has completed more than 55 investments across the region. Its network of 40+ investment professionals working across Bogotá, Buenos Aires, Lima, Mexico City and São Paulo is the largest dedicated private equity team in the region. Throughout Latin America, Advent has raised over US$6 billion of capital focused on the region. Its latest Latin American fund, LAPEF VI, raised in 2014, has US$2.1 billion of capital. Advent pursues control-oriented investments in later-stage businesses in its core sectors: business and financial services; healthcare; industrial and infrastructure; consumer and retail; and technology, media, and telecommunication.

FUND NAME

Latin American Private Equity Fund V
Global Private Equity Fund VII

FUND SIZE

LAPEF V: US$1.65 billion
GPE VII: $10.8 billion

TOTAL AUM US$42 billion (as of Sept 30, 2017)

OPPORTUNITY

Advent identified Ocensa as an investment target because it is a core strategic asset for Colombia and the most reliable transportation option for the country's oil producers. The company is responsible for transporting roughly 65% of Colombia's crude oil production and approximately 60% of its oil exports through its pipeline. Ocensa also has low capital expenditures and working capital requirements and strong, predictable cash flows. As a result, Advent recognized the potential for attractive returns with limited downside. Further, the shareholders agreement provided Advent with significant rights as a minority investor. This, coupled with the strong alignment of interests with the controlling shareholder, Ecopetrol's subsidiary Cenit, further influenced the firm's decision to invest in Ocensa. Most importantly, Advent identified multiple opportunities to create additional value on the financial, regulatory, operational, and commercial fronts and Ocensa had well-defined expansion plans and opportunities to grow inorganically by acquiring other pipelines.

EXECUTION

With Advent's investment, Ocensa was able to expand its oil transportation capacity by 30% through two major projects. The first, Delta 35, became operational in 2014 and increased the company's transport capacity by 35,000 barrels per day. Following the success of the first project, Ocensa moved ahead with a second capacity expansion project, Potencia 135, completed in December 2016, increasing Ocensa's capacity to an additional 135,000 barrels per day. This project formally started operations in July 2017.

Advent played an instrumental role in enhancing the pricing for regulated services. In 2016, Ocensa began conducting technical tests of heavy crude, which resulted in savings of as much as $3 per barrel in dilution costs and logistics for producers. The company started charging an incremental tariff in the second quarter of 2017 to shippers that opted for this alternative. Advent also worked closely with Ocensa to provide better inputs to the regulatory agency as part of Colombia's tariff review process. Because of new regulations approved in 2014, the tariff review process became more consistent and helped to improve long-term profitability. After the implementation of this new method, pipeline users were allowed to opt for ship-or-pay contracts for Potencia 135's capacity increase. As a result, Ocensa shifted approximately 30% of volume to ship-or-pay contracts with a tenure of eight to ten years. Additionally, approval of the tariff for the 2015-2019 period was successfully completed.

Along with the management team, Advent rebalanced Ocensa's capital structure from pure equity to a prudent combination of debt and equity. Advent also helped in providing access to public debt via the capital markets to finance new expansion projects. Due to these efforts, Ocensa raised US$500 million through a public bond offering.

Additionally, Advent and the management team worked to broaden Ocensa's business plan to include non-regulated sources of income. In the second quarter of 2017, Ocensa offered dilution services in the port city of Coveñas for shippers transporting heavy crude. This value-added service helped diversify the company's sources of revenue and enhanced access for independent oil producers by optimizing existing off-loading stations and connecting additional production fields through feeder pipes to facilities. Similarly, the company reviewed pricing of non-regulated services such as off-loading facilities, blending, port services, and storage, helping to maximize revenues.

OUTCOME

With Ocensa, Advent faced typical challenges inherent in the oil and gas industry, notably employee health and safety and environmental considerations. Additionally, at the time of the transaction, Ocensa was about to begin two major expansion projects, which posed increased risks to personnel safety and the integrity of the pipeline infrastructure.

Prior to the investment, Advent completed extensive due diligence, including a review of the asset integrity and FCPA procedures at the company. Although no issues were found, Advent made recommendations to strengthen ESG procedures and bring them in line with international best practices. For example, with Advent's guidance, Ocensa engaged advisors to undergo a detailed assessment of its ethics and compliance program. Advent also recommended constant monitoring of the expansion projects through a special committee.

Post investment, Ocensa has established a robust ESG framework and adopted state-of-the-art technology to prevent environmental and work-related accidents. The company is also implementing initiatives to support communities in its area of influence, mitigate and adapt to climate change, and promote safe working conditions for its employees.

ESG IN FOCUS

FUND ESG POLICIES

Advent has an integrated approach to ESG that aligns the priorities of portfolio companies and investment teams with internal Advent resources and outside advisors.

Consideration of ESG issues begins during diligence. Advent employs standards designed to join its investment thesis with the goal of ensuring that applicable issues are identified during the due diligence process before any recommendations to invest are made. Guidance, internal and external resources are provided to Advent's portfolio companies as deemed necessary during active ownership to help build and position the companies for long-term success.

COMPANY ESG INITIATIVES

In 2014, Ocensa hired a professional services firm to conduct a detailed assessment of its ethics and compliance program. The analysis included procedures in purchasing and procurement, rights of way, community interaction, Foreign Corrupt Practices Act, anti-money laundering and terrorism prevention. Upon completion of this audit, Ocensa developed a new framework for its ESG strategy to better serve its employees and contractors' employees, surrounding communities, the environment, clients, shareholders and contractors. The company changed its approach to safety to include shared responsibility, on-field prevention inspections of directors, workers and supervisors, and empowerment of contract administrators. As a result, Ocensa has consistently reduced the number of accidents since 2015. During the first half of 2017, the total recordable incident frequency was at its lowest point in the last 12 years.

Ocensa also started a new program for social sustainability. The former CEO of the company, Luisa Fernanda Lafaurie Rivera, and the former Mines and Energy Minister of Colombia, had a deep understanding of the issues facing rural Colombia. She hired a team to assess the 100 communities that were located along the pipeline that had been hit hardest by conflict. As a result, Ocensa concluded that a significant share of the households were headed by women, many of whom were widows as a result of the violence in the country. The company decided to build a support network and launched an initiative around women who are crucial to the development of the communities where the pipeline operates.

As part of this new program, Ocensa identified three core themes: women and education, women and family, and women and community. During the first half of 2017, Ocensa worked in 17 districts and established 13 alliances for the development of social sustainability programs focused on women. Through these initiatives, 135 women have been enrolled in higher education programs. Likewise, housing conditions were improved for more than 250 families. Also, over 50 organizations led by women have been strengthened. The company also supports a non-government agency that supplies seed capital to women to start a business with the goal of providing long-term income to these households.

DATE OF INVESTMENT SEPT 2014

AMOUNT US$18.3 MILLION

PARTICIPATION/STAKE 62.8%

COMPANY NAME
Transambiental
www.transambiental.com.co

INDUSTRY / SECTOR Transportation

LOCATION(S) Cartagena, Colombia

DESCRIPTION
Transambiental is a company created by Ashmore Colombia. It is one of the three concessions of Cartagena's Bus Rapid Transit (BRT) system that operate TransCaribe. The system was created by the municipality of Cartagena to integrate the city's transport network and provide better and faster service for users, while reducing the environmental impact of public transportation. TransCaribe was created to transform the current bus system into a single mass transport system that includes infrastructure, vehicle operators, a centralized common revenue collection system and a single managing body. With an estimated demand of over 450,000 passengers per day across 42 different routes, TransCaribe is structured to serve 100% of Cartagena's public transportation demand. The concession awarded to Transambiental will supply 212 new vehicles to the system and will be responsible for financing, maintaining, and operating these vehicles. To date, the company has 100 high-technology vehicles that cover more than 40 neighborhoods in the city.

INVESTOR PROFILE
Ashmore Colombia is an Andean private equity manager that invests in infrastructure-related assets. It has made successful investments in transportation, power generation, health, education and logistics. Ashmore Colombia is a subsidiary of Ashmore Group, an emerging markets investment manager with over twenty years of experience. Inverlink, a Colombian investment bank and M&A advisory firm, is also a shareholder in Ashmore Colombia.

FUND NAME
Fondo de Infraestructura Colombia Ashmore I - FCP

FUND SIZE US$170 million

TOTAL AUM US$208 million

OPPORTUNITY
Ashmore had identified Colombia's urban mobility sector in Cartagena as an attractive investment target. Ashmore joined forces with Colombia transport conglomerate "Grupo Si" to bid for one of the three concessions of TransCaribe. Some of the key elements of the investment thesis included the lack of competition, because TransCaribe is structured to serve 100% of Cartagena's demand. This created significant upside potential from improving a poorly managed transport system with old buses in bad conditions. In addition to the robust contractual agreements with the municipality, 95% of the required new infrastructure, including bus terminals and exclusive bus lanes were already completed. This meant that there was limited construction risk and Ashmore could calculate a steady and predictable cash flow. The investment thesis was further strengthened by its partnership with Grupo Si, which has a successful track record of over 15 years operating mass transport systems in both Colombia and Peru. Ashmore also believed that many of the companies that had participated in transportation tenders were not interested in participating in this concession auction. This allowed the fund, together with Grupo Si, to win the concession without making an aggressive bid that could make the investment unviable.

EXECUTION
Since taking over the concession, TransCaribe has been transforming the current transportation model of the city into an integrated mass transport system that offers organized, high-quality public transportation with lower travel times, reduced environmental impact and good labor conditions. TransCaribe conducted studies of the transportation system in Cartagena and concluded that the city only needed 658 buses to meet initial demand. Before TransCaribe started operating, the city had 1,585 buses, most of which were old and poor quality. One essential element of the concession contract was that all old buses had to be taken out of service and a scrapping calendar was designed ensuring that the purchase price of each vehicle was exceeding their commercial price.

TransCaribe acquired a new bus fleet that uses natural gas, meaning a significant reduction of CO_2 emissions. The use of natural-gas powered buses also lowers costs for TransCaribe, because of a joint decree issued by the Ministry of Finance and the Ministry of Environment, which exempts these vehicles from VAT taxes when imported.

Another key element that set the Cartagena concession apart from other tenders was the tariff structure offered by the local government. Ashmore determined that the fare necessary to cover the costs of the system, or technical fare, was the equivalent to roughly US$0.50. This fare is lower than the one users pay, known as the political fare, which is approximately US$0.60 per passenger. This helped contribute to the long-term sustainability of the concession, as it will not depend on future fare hikes.

Grupo Si's vast experience in mass transport systems has also helped to mitigate risks when planning and implementing the system. Grupo Si currently controls transport operators in Bogotá and Lima, and is developing mass transit plans for other cities, including Guadalajara and Tijuana in Mexico, and San Salvador, El Salvador. While Grupo Si brought the operational know-how, Ashmore Colombia helped the company to raise specialist financing tailored to the concession and ensured that all related transactions were well structured, including all funding, transactions, fleet acquisition and fee collection agreements.

OUTCOME

Since the implementation of the new transportation system, the entire community, and importantly, the vulnerable communities in the city have seen a great improvement in their quality of life by having faster, better quality, and safer transport at a lower cost, with a wider range of destinations. Travel time for users has notably decreased from an average of 1 hour and 9 minutes to an average of 45 minutes. Because of the popularity of the system among users, there is low risk that a future government will try to change the system.

Demand has also surpassed expectations and TransCaribe plans to order more buses next year for arrival in 2020. Once the new vehicles are in circulation and the system is fully implemented, Ashmore will look for strategic alternatives.

ESG IN FOCUS

FUND ESG POLICIES

Ashmore Colombia is focused on applying best practices for investment implementation of community programs and environmental management. Ashmore does an in-depth audit of each potential portfolio company's ESG practices. When acquiring a stake of a company, ESG factors are always monitored and reports are shared with Ashmore's investors. In addition, Ashmore routinely monitors the ESG performance of the companies in its portfolio through a full-time Social and Environmental Officer that constantly visits the companies and generates monitoring reports. Ashmore Colombia closely supervises its investments under the IFC Performance Standards on Environmental and Social Sustainability, the United Nations Universal Declaration of Human Rights, and International Labor Organization ("ILO") Basic Terms and Conditions of Work.

COMPANY ESG INITIATIVES

From a strictly environmental perspective, TransCaribe has already been a success. With the concession, Cartagena is taking 1,592 highly polluting buses out of circulation and replacing them with 658 natural gas-fired, low pollutant buses. The new fleet has reduced CO_2 emissions by 56% and cut down on emissions of particulate matter, which are a public-health concern. Fuel consumption has been reduced by 46% relative to the traditional transport. To manage and monitor greenhouse gas (GHGs) emissions, the buses use on-board software, allowing the measurement of different variables associated to fuel consumption and emissions. Fleet maintenance is carried out through suppliers who have certificates of waste disposal for tires, batteries and oil. Additionally, with Ashmore's backing, the company has set up a task force focused on the elaboration of an environmental and social management plan under the IFC Performance Standards on Environmental and Social Sustainability, which will establish control and monitoring activities of the impact of the system on surrounding communities. Furthermore, to raise awareness among employees and users, every October, Transambiental dedicates the entire month to the environmental issues.

The city has a program called Cartagena Como Vamos ("Cartagena, How Are We Doing") which monitors approval ratings of key projects. In these surveys, TransCaribe has received approval ratings of up to 85% and users are asking for more routes. This is yet another indicator of the positive impact that providing quality public transport has on the lives of the residents of Cartagena.

To reduce the labor tensions created by the reduction in the number of bus drivers in the city, TransCaribe created a training program for all drivers, but under much more favorable work conditions. Roughly 30% of the current drivers were part of the old system, but are now working 7.5 hours per day on average, compared to 10-12 hours under the previous system. As a result of rigorous training, no traffic fatalities took place in the first year of operation. Workers have open-term contracts with full benefits under the law. Currently, there are 294 workers, of which 5% are women drivers, whereas there were no female drivers in the previous systems. TransCaribe has a project to increase female participation. TransCaribe has also helped to integrate street vendors, who could no longer sell at bus stops because of the changes to the system, into their job reallocation programs.

DATE OF INVESTMENT AUG 2015

AMOUNT US$25 MILLION

PARTICIPATION/STAKE 80%

COMPANY NAME
Paseo Villa del Rio Retail Center
www.paseovilladelrio.com

INDUSTRY / SECTOR Real Estate Development (Retail)

LOCATION(S) Bogotá, Colombia

DESCRIPTION
Paseo Villa del Rio is a large-scale retail development project located in a 46,900-square meter lot in south Bogotá. The project is being developed in a high-density, working class residential neighborhood that currently has very few retail options for local residents. Additionally, the retail center has one of the largest entertainment offerings of any shopping mall in the country, with a total leasable area of 73,600 square meters. The project has potential traffic of two million people.

INVESTOR PROFILE
Avenida Capital is a private equity real estate investment firm with offices in Bogotá and New York City. Since its foundation in 2006, the firm has committed capital both as principal and on behalf of its investors to residential, retail, and mixed-use projects in Colombia, Brazil, Chile, and Panamá. The principals of Avenida Capital have executed over US$1.5 billion of real estate transactions and manage a series of real estate funds in Latin America. With over 140 years of combined investment management and development expertise across all property types, the team at Avenida Capital has knowledge and operational experience in real estate development, which has contributed to create value for both its local partners and investors and enhanced the vitality of the urban and economic environments in the markets where Avenida's projects are located.

FUND NAME
Avenida Colombia Real Estate Fund II

OPPORTUNITY

When Dutch wholesaler Makro announced it would be downsizing its retail space in southern Bogotá, Avenida saw an opportunity to step in and develop a large retail project. Although many investors in Latin American real estate, including Avenida, focus on the housing deficit for the working and middle-class population, Avenida has also identified a significant retail deficit for these segments. The working-class population in Colombia has increased disposable income, but is lacking access to high quality retail in their own neighborhoods. For example, despite the 23% increase in per capita income in Bogotá over the last decade, residents have limited entertainment and leisure options locally, forcing them to seek quality alternatives in other areas of the city. Paseo Villa del Rio seeks to reduce this retail deficit for residents of southern Bogotá and improve the quality of life for the region's growing middle class.

The space is located near main public transportation hubs and was one of the few remaining sizable vacant areas south of the city. With a local population of over two million people from lower-middle income households, Avenida saw Paseo Villa del Rio as an opportunity to offer a quality retail space close to an underserved population. Similarly, retailers showed strong interest in the project and Avenida identified an experienced local development partner. The project model for Paseo Villa del Rio, which is for-sale, provides additional capital for the construction of the project, limiting operational exposure. The remaining retail space, including anchors and semi-anchors, will be leased and sold, giving Avenida additional upside from the retail center's operation. Likewise, the project still has a Makro wholesale market, which provides consumer traffic from earlier retail activity in the lot.

Considering that according to UN Habitat, the recommended percentage of public space in an urban center should be approximately 45%, and that average public space in Colombian cities is less than 10%, shopping malls in the country, beyond being retail centers, have become preferred recreational destination for families across all income segments. Additionally, retail centers in Colombia serve as prime public spaces as they provide entertainment and commerce/services in an enclosed safe space. Nonetheless, for decades, the development of shopping malls was concentrated in wealthier parts of the main cities. This gap generated significant demand in the low and middle-income segments of the population.

EXECUTION

Avenida has played an integral part in developing the project in line with its ESG and management standards. Given its experience in real estate, the fund's managers understood the challenges of obtaining regulatory approval for the project. To streamline this process, Avenida assigned a specialized in-house project manager, helping to guarantee that the necessary permits were issued on time. Furthermore, Avenida played a key role in early discussions about policy and execution expectations including the consideration of ESG factors. Members of Avenida's ESG Task Force meet regularly with the project's partners to assure complete alignment during design and execution of critical steps. Avenida is also playing a significant role in the design of the project, which focuses on reducing energy and water consumption. Similarly, the project is designed to have a positive impact on traffic. This includes the creation of circular transit routes in the adjacent neighborhoods to and from the project and the renovation of the main and secondary roads close to the project. The retail mix and entertainment offerings have been designed to integrate the surrounding community, which currently lacks adequate retail and leisure options. Avenida also provides a strong governance framework throughout its portfolio and Paseo Villa del Rio is no different.

Avenida also instituted an eight-step reporting process to provide timely information to the fund's limited partners. All information related to the project begins with on-site reports, which are reviewed by Avenida's designated project manager. This information then goes through a financial and accounting review, and ultimately to senior management and limited partners. This process helps guarantee transparency. Avenida also created a management committee which is the primary decision maker for the project. All strategic decisions and policies including ESG are made by this committee. Other project committees include a design committee, which includes representatives from local partners, and the commercial committee, which oversees sales and marketing strategy.

OUTCOME

Because of the quality of the project and the strong unmet demand for both leisure and retail space in this region of Bogotá, the project has already been a success. This has been one of the fastest selling retail projects in Colombia and over 70% of the retail space has already been commercialized as of December 2017. The project is already boosting local employment during the construction phase, with the creation of 1,000 local jobs, and is on target for an on-time inauguration in 2019. Once operational, the project will create approximately 3,000 local jobs.

ESG IN FOCUS

FUND ESG POLICIES

Avenida weighs ESG factors in all phases of its investment process, beginning with due diligence and extending to project management. Avenida uses ESG as part of its strategy to mitigate risks and reveal opportunities to create long-term value. The fund looks beyond its goal of delivering financial returns to the broader impact of its projects. To achieve this goal, Avenida has its own proprietary system, called the Avenida Impact Framework, which was designed based on its experience in investing in real estate in Latin America. It includes the integration of internationally accepted ESG frameworks to the Colombian context, including the IFC Performance Standards on Environmental and Social Sustainability. Additionally, Avenida has created an ESG Integration Task Force that provides guidance to integrate ESG factors in the investment and project management activities.

COMPANY ESG INITIATIVES

Promoting sustainable construction projects that have a positive social impact is one of the basic tenants of Avenida's investment strategy. Paseo Villa del Rio, like other projects developed by Avenida, has a sustainable design aimed at reducing energy and water consumption. The project has a water recycling program, which includes the use of rain water during the construction phase, which helps to limit water consumption and waste at the construction site. The project is pursuing the Bogota Sustainable Construction Certification, making it one of the few projects targeting the lower-middle income segment to apply sustainable construction techniques. Similarly, strict controls for pollution prevention and GHG emission management are included in the project's design. Additionally, all contractors and suppliers must comply with internal policies and local environmental regulations. As part of the sustainable design, the project will use green roofs, natural lighting, and natural ventilation. Construction workers are trained in environmental programs. Bike paths will be added to the neighboring public infrastructure to promote the use of non-polluting transportation in the surrounding area. Likewise, a strict waste management program has been implemented for all phases of construction. As of December 2017, Paseo Villa del Rio is on track to be the first retail center in Colombia with EDGE certification, due to the savings achieved by design in water, energy, and waste consumption.

Social considerations are also at the core of the Paseo Villa del Rio project. The project will provide a new leisure space for an underserved segment of Bogota that does not have adequate retail center services. The project aims to provide a primary public space in areas where such spaces are virtually non-existent. Paseo Villa del Rio will provide entertainment offerings, convenience stores, and access to services including banks, all in an enclosed and secure environment. Through Paseo Villa del Rio, a population of over two million people, mostly from lower-middle income households will have access to the convenience of a large-scale shopping mall with one of the largest entertainment areas in the city, while remaining affordable for the adjacent communities.

DATE OF INVESTMENT MAR 2017

AMOUNT UNDISCLOSED

PARTICIPATION/STAKE MAJORITY

COMPANY NAME

Rio Energy / Serra de Babilônia Wind Project

www.rioenergyllc.com

INDUSTRY / SECTOR Energy

LOCATION(S) Rio de Janeiro, Brazil

DESCRIPTION

Rio Energy is a developer and operator of renewable power generation plants in Brazil. Led by CEO Marcos Meireles, the Rio Energy team has deep knowledge of the Brazilian energy sector, which has given it significant advantages in site selection, understanding the regulatory environment, and pricing of power purchase agreements. Rio Energy's current portfolio consists of 261MW of power generation projects in operations (54 MW Caetité and 207 MW Itarema), a 223MW project currently under construction (Serra da Babilônia), and more than 1,500 MW of expansion and greenfield pipeline projects.

INVESTOR PROFILE

Since 2004, Denham has raised ten institutional funds with approximately US$9.3 billion in committed capital. The fund focuses on the oil and gas, mining and international power generation sectors. In addition to capital, Denham provides its portfolio companies with the managerial support that they need to build energy and resource companies.

FUND NAME

Denham Commodity Partners Fund VI

FUND SIZE US$3 billion

TOTAL AUM US$9.3 billion

OPPORTUNITY

Denham Capital identified Brazil's renewable energy sector as target for investment based on the country's fundamental need for new generation capacity as well as the government's commitment to renewable power. Furthermore, Denham understood that the Brazilian government has been working to diversify away from hydroelectricity, which dominates the country's power generation, because of its vulnerability to drought. Despite Brazil's stable regulatory framework for power generation expansion, Denham also recognized the need to have a local partner with experience in the sector. The fund had been in contact with the founding partners of Rio Energy for several years and had identified them as qualified partners because of their proven track record in selecting locations for their wind farms, their technical expertise in construction management, and their understanding of the investment environment in Brazil. Rio Energy had successfully competed in several government-sponsored power generation auctions, obtaining power purchase agreements at above average prices. As a result, Rio Energy has existing assets which provide long-term, inflation adjusted revenues with limited risk.

EXECUTION

Rio Energy participated in the Brazilian government's 2015 reserve energy auction, successfully signing long-term power purchase agreements for its third wind farm, the 223MW Serra da Babilônia project, located in Bahia state, Brazil's northeast. Rio Energy identified this area for investment because of the highly favorable conditions that offer stronger and more consistent winds than other areas. Because of the company's experience and reputation from past projects, it was able to expedite loan applications for Serra Babilônia through BNDES' (The Brazilian national development bank) fast track process. This significantly reduced financing costs by eliminating the need for a bridge loan and reduced funding delay risks. To match exceptional wind resources at play, Rio Energy selected a top-tier wind turbine supplier, Enercon. Rotor size of this turbine allows it to capture energy most efficiently at the site's average wind speed. The price of electricity awarded to Serra da Babilônia in the long-term power purchase agreement was also the highest among large projects that won contracts in the government's 2015 Reserve Energy Auction. The project accounted for roughly 40% of the capacity sold by wind projects in the auction. Despite the political and economic environment in Brazil, construction of the project began in the first quarter of 2017. The project is expected to enter commercial operation in Q4 2018.

OUTCOME

The Serra da Babilônia wind project is expected to begin operating in Q4 2018. In addition to providing renewable energy to the region once it enters operation, the Serra da Babilônia project is helping to preserve endangered flora species through its Viveiro tree nursery, which also doubles as an education center for sustainable agricultural techniques. Through its youth network program, the project is developing future community leaders while gathering important feedback from residents, and with this feedback, the project is implementing several initiatives to address needs of local residents, such as providing basic sanitation infrastructure, improving roads, and helping to develop local tourism.

ESG IN FOCUS

FUND ESG POLICIES

Denham Capital believes that its role as an investor gives it the opportunity to promote responsible environmental stewardship and socially responsible development. This includes a responsibility to respect human rights and to recognize the importance of climate change and biodiversity. In addition to its financial analysis, Denham considers ESG issues at every stage of the investment process, ranging from thematic selection to deal evaluation and execution. Denham has worked with consulting firms to develop a best-in-class Environmental and Social Monitoring System, allowing active data collection and reporting to its investors.

COMPANY ESG INITIATIVES

In line with both Denham Capital and Rio Energy's policies, the company made voluntary social and environmental investments in the region influenced by the Serra da Babilônia project. The project is located within the Caatinga biome in the semi-arid region of northeastern Brazil. This is one of the more vulnerable biomes in Brazil. To help preserve and restore local plant species, Rio Energy, together with researchers from the Federal University of Rio Grande do Norte, established a tree nursery in São Bento. The nursery is the first environmental management program of its kind in the region. The project registers local plant species, stores seeds, and produces saplings, which will later be used for reforestation. The project currently produces 50,000 saplings per year from 20 species, some of which are endangered. The nursery employs members of the local community, generating income and teaching people about sustainable agriculture. Community members are also trained to manage the nursery as a community cooperative, so that after the company's wind project is completed, the saplings can be sold to businesses that have environmental obligations related to reforestation. The nursery runs on solar energy and uses collected rainwater and filtered ground water for irrigation.

In addition to the tree nursery, Rio Energy started a program called Rede de Jovens ("Youth Network"). The program selected nine young people from different communities within the wind farm's sphere of influence and trained and paid them to interview members of their communities about the social and economic needs of the region. One of the interviews highlighted the lack of access to basic sanitation and plumbing. Together with the youth leaders, Rio Energy is developing a program to install ecological toilets in many households. Likewise, in some isolated areas, the company has helped install water storage and distribution systems for homes.

Another concern raised was emission of dust and small particles from the increased traffic on local dirt roads during construction. To mitigate this impact, Rio Energy built 4km of cobblestone roads alongside the Povoado de São Bento community, which can also benefit locals after the project is completed.

Rio Energy is working on an initiative to help promote local ecotourism. The region is known for its extensive underground caverns (Gruta dos Brejões) but the area lacks adequate tourism infrastructure and access is limited. Rio Energy is helping to develop basic infrastructure to promote tourism, which would give residents in the region a long-term, sustainable livelihood.

DATE OF INVESTMENT JUL 2013

AMOUNT UNDISCLOSED

PARTICIPATION/STAKE 33.33%

COMPANY NAME
Hass Perú
www.hassperu.com

INDUSTRY / SECTOR Agribusiness

LOCATION(S) Peru

DESCRIPTION
Hass Perú is an agribusiness company with more than 10 years of experience in the cultivation, harvesting and export of Hass avocados and blueberries to national and international markets. The company has an experienced and professional team committed to providing high-quality products to our consumers and to upholding the strictest international production standards. The company has received multiple certifications, which allows it to export to leading global markets. Hass Perú pursues sustainable agricultural policies that ensure quality conditions for its growing workforce.

INVESTOR PROFILE
Fortaleza GP is a local, dedicated and independent Private Equity Fund Manager with vast experience in the Peruvian market. Fortaleza Fund is focused on Peruvian mid-cap companies in the healthcare, education, agribusiness, industry, commerce and energy sectors. All of these segments have benefitted from strong economic growth following a wave of government reforms as well as the rapid expansion of family-controlled companies that lack access to growth capital from traditional sources of financing.

FUND NAME
Fortaleza Private Equity Fund I

FUND SIZE US$50 million

TOTAL AUM US$50 million

OPPORTUNITY

Fortaleza GP identified agriculture as a very promising sector and was seeking new investment opportunities in this area. The fund's investment thesis is based on the fact that agriculture is one of the main economic activities in Peru and the sector has played an integral role in creating jobs and bringing economic development to rural regions of the country. Peru has become one of the top ten food suppliers in the world and its agricultural sector represents an important source in the total GDP of the country.

In this context, Fortaleza explored many opportunities where medium size companies were seeking partners to accelerate their growth. Hass Perú began its operations in 2013 as the result of a corporate spin off. From the time the new company was formed, it decided to move ahead with an aggressive growth plan, taking advantage of more than 450 hectares of arable land with guaranteed water supply. Hass Perú began seeking a partner that could provide both capital and professional support for developing a long-term growth strategy.

Together with Fortaleza, the company has prepared an ambitious plan to expand from 153 hectares under cultivation to 600 hectares in three years, using its own cash flow, new capital and debt capacity to finance the expansion. Part of its plan included allocating half of the land to blueberries cultivation, tapping into growing global demand.

EXECUTION

As part of the thesis of Fortaleza GP, days after the investment's closing, the fund started its 100-day immersion process where the whole team became involved deeply in all the areas. Moreover, the company hired an agriculture specialist dedicated to advising the cultivation process. Fortaleza's management, together with company management agreed to replace the financial manager and reorganize the company around Fortaleza's directives and business standards.

On the avocado side of the business, the company took advantage of the vast experience of the field team and increased the production of the crop by an additional 207 hectares. The fund managers identified fields that needed to be replaced, taking into consideration pollination, wind, salinity and density of plantation. In its first productive year, the new fields produced more than the average of existing fields. This was a result of investments in new technologies, irrigation and repositioning of trees.

The most important initiative was the expansion into blueberry cultivation, which at that time was still a relatively unknown crop in Peru. Based on global market analysis conducted by the commercial and agricultural teams, the company decided to expand into blueberry production, planting the first 34 hectares. Following the success of the initial area, the company decided to continue increasing blueberry cultivation. For the next phase of expansion, the company partnered with Driscoll, one of the largest and most experienced players in the sector. Using blueberry varieties supplied by Driscoll, the company planted an additional 190 hectares. With constant technical assistance, the company produced a high-quality crop that satisfied all of the standards demanded on the international market.

OUTCOME

In the first four years of the investment, Hass Perú has seen its sales balloon from US$3.1 million to almost US$26 million, and its EBITDA jump from US$500,000 to US$13 million. In the process, the company now has a stable labor force of over 1,800 people. The outlook is for continued improvement, because the company's fields are in the early years of their production cycles and are expected at least to double output by 2019. Hass Perú's team acquired deep experience and is preparing its expansion to newly leased lands. Meanwhile, Fortaleza GP is preparing the ground for selling its stake and using its tag along rights to provide a new owner with 100% mature fields with strong and stable cash flow by 2019.

ESG IN FOCUS

FUND ESG POLICIES

Fortaleza GP is the first and only Peruvian private equity fund manager which is a signatory of the Principles of Responsible Investing (PRI), one of the world's leading responsible investment organizations. As a PRI signatory, Fortaleza is required to incorporate ESG principals into their investment and ownership decisions. As a result, ESG has become an integral part of the Fortaleza fund's DNA and is present at all stages in the investment process.

COMPANY ESG INITIATIVES

The agriculture sector provides opportunities to have a meaningful impact on the local population and the surrounding environment. Among the environmental measures Hass Perú has developed are organic pesticides to diminish water pollution, environmental preservation education programs, and the use of solar panels for insects and pest control.

As part of a broader strategy to bring Hass Perú in line with international best practices in farming, the company pursued a wide range of international certifications. These include the Base Ethical Trading Initiate, and the Sedez Members Ethical Trade Audit, which does an in-depth audit of the company's supply chain and guarantees that labor conditions meet international standards. The company has also been certified by global supermarket chain TESCO. Additionally, Hass Perú has the GLOBAL GAP Risk Assessment on Social Practice certification, which addresses specific aspects of workers' health, safety, and welfare.

A key change with the introduction of blueberry cultivation is related to labor relations. Previously, when the company only produced avocados, it did not need a year-round labor force. This meant that the company was forced to rely on seasonal workers who did not have reliable year-round incomes. With the introduction of blueberry cultivation, the company now offers year-round employment. This has allowed Hass Perú to expand investments in training programs for its staff. With the rapid expansion of the company, it hired 1,000 new employees. The company has a diverse labor force and offers employment to older people and people with disabilities, who are often marginalized in traditional farm labor markets. The company also provides child care for every employee, and offers profit sharing and a bonus system based on performance.

Additionally, Hass Perú has implemented very strong governance policies, including the creation of audit committees and executive boards, promoting continuous shareholder dialogue, using international IFSR accounting and audit standards as well as setting up a legal advisory staff to ensure compliance with Peruvian laws and the fund bylaws.

DATE OF INVESTMENT NOV 2011

AMOUNT R$4.71 MILLION

PARTICIPATION/STAKE 17.2%

COMPANY NAME
Huntington Centro de Medicina Reprodutiva
www.huntington.com.br

INDUSTRY / SECTOR Healthcare

LOCATION(S) São Paulo, Brazil

DESCRIPTION
Huntington is an in vitro fertility (IVF) clinic founded in 1995 in Brazil by two leading doctors in the field: Paulo Serafini and Eduardo Motta. Pioneers in the concept of "fertility clinics" in the world and having worked together in Los Angeles, they decided to return to Brazil and open their own clinic. They opened two reproductive clinics in São Paulo and quickly became recognized in research, prevention and treatment of infertility. At the time of Invest Tech's investment, Huntington was already one of the largest independent assisted reproduction clinics in Brazil.

INVESTOR PROFILE
Invest Tech focuses on middle market companies across different sectors where information technology can be used as a tool to improve performance and where technology can revert inefficiencies and a new business approach can generate significant value for investors. Target companies have annual revenues between US$10 million and US$200 million. Invest Tech has just completed its investment program for its second fund.

FUND NAME
Capital Tech I

FUND SIZE R$31 million

TOTAL AUM R$240 million

OPPORTUNITY

Invest Tech identified significant potential in the assisted reproductive health market in Brazil. Despite the differences with traditional technology investments, Invest Tech also saw similarities between this market and IT, which was the main focus of Capital Tech I. In the reproductive health market, Invest Tech saw opportunities for consolidation. Likewise, the barriers of entry for the segment were very high because of the need to have a laboratory and to buy expensive, mainly imported equipment. Invest Tech approached several of the leading reproductive health clinics in São Paulo but quickly identified Huntington as the most promising target.

Huntington was already a leading clinic in São Paulo and Invest Tech believed that by focusing on hiring highly qualified employees, expanding research and development and acquiring existing competitors, Huntington could rapidly expand beyond São Paulo and increase the number of clients. Huntington had a highly regarded and seasoned team in the in vitro fertilization market and its founders had a long-standing partnership. It had research agreements with academic institutions around the world, which gave it access to new developments in the field, and it boasted a successful track-record in the IVF market during its 15 years of operations. Invest Tech presented the proposal to the two partners, who understood the need to professionalize their business in order to grow.

EXECUTION

Invest Tech focused on improving business operations by reducing bottlenecks and increasing financial controls and operational discipline. This started with a complete reformulation of the company's finance department. The founding partners of Huntington had limited experience in this area to which Invest Tech believed it could add value. The fund started by implementing budget models and forecasts. It helped Huntington to find and hire a CFO, who was an important leader on this front. The CFO also introduced an ERP and a new operational system. The CFO played a key role helping to translate the new finance and accounting systems to the medical team. Although there was some initial resistance, the founders were eager to engage in best practices in all business areas.

The fund also studied and completely redesigned the company's information technology, human resources, medical and marketing operations. In addition to redesigning the physical space of the clinic to allow more patients to be seen, Invest Tech also helped to standardize medical records at the clinic. All medical records were moved to an electronic model, which improved quality and helped with the implementation of more standardized consultations and treatments.

One of the most important transformations took place on the human resources side. At the time of the investment, the two leading doctors and founders were examining nearly 100% of the patients. This meant that there was a six-month waiting list for new patients to be seen. Many patients opted to seek treatment elsewhere because of these long waiting periods. Under Invest Tech's guidance, Huntington prepared a second group of specialist doctors who expanded the company's capacity, without compromising quality. In addition, Huntington implemented a new compensation system that focused on quality as well as the number of procedures, with a full training program and career plan for all levels of its medical staff. The most promising doctors were given the opportunity to open other branches of Huntington. This meant that for the first time, talented staff saw a promising future within the company. This helped Huntington to grow while maintaining the highest treatment standards.

Because of significant levels of foreign exchange volatility during the holding period, Invest Tech identified pricing difficulties that the company faced. Most of the medical inputs were imported with no alternatives among local providers. The fund implemented a hedging policy, which included the cost in the pricing. Invest Tech also worked to develop local sourcing of products, reducing Huntington's dependence on imports.

OUTCOME

With Invest Tech's investment Huntington grew rapidly. By the time of the fund's exit, Huntington's main clinic performed over 5,000 cycles, up from 2,000. The addition of two new sites, one outside of São Paulo, brought the total cycles in all locations to over 9,000 annually.

Shortly after the initial transaction, the company received an unsolicited offer. However, it was not yet well-structured and the proposed transaction took a toll on the company, with a loss of focus and repurcussions on the finances and operations. In the end, this first transaction was not successfully concluded. But a few years later, when the Brazilian government authorized foreign investors to enter the local health market, the company was more prepared for sale. The company was able to reach an agreement with Spain's Eugin, the second largest global IVF player, in 2016.

ESG IN FOCUS

FUND ESG POLICIES

Invest Tech encourages all its portfolio companies to implement social and environmental initiatives. In addition, Invest Tech, prepares an annual "Social Balance Sheet" on which it highlights the achievements and goals of each portfolio company. The fund's ESG Guidelines include initiatives in social responsibility, social development and human rights, while promoting environmental responsibility and environmentally friendly technologies. The fund is also focused on promoting anti-corruption practices.

COMPANY ESG INITIATIVES

ESG initiatives included a monthly board meeting for strategic decisions, development and monitoring of KPIs, weekly cash flow analysis, audited financial reports and redeveloping of incentives based on the company's performance. As a result, Huntington was able to provide Brazil's population with higher-quality services for the prevention and treatment of infertility at accessible prices across several regions.

Huntington created a program to assist the underprivileged population to gain access to fertility services via low cost, subsidized procedures. The company also works with public hospitals to treat families that otherwise would not have access to higher cost treatments. These treatments can be completely free, in cases where the patients do not have the resources to pay.

Invest Tech implemented a professional management team and corporate governance procedure. Additionally, corporate governance was improved in preparation for sustained growth.

PROGRESEMOS

DATE OF INVESTMENT DEC 2014

AMOUNT US$16.3 MILLION

PARTICIPATION/STAKE 42.9%

KANDEO

COMPANY NAME

Progresemos

www.progresemos.com.mx

INDUSTRY / SECTOR Financial Services

LOCATION(S) Mexico

DESCRIPTION

Progresemos is a microfinance institution focused on providing working capital in rural Mexico using the group-loan model. The company has historically focused on providing loans to female micro-entrepreneurs from low-income groups in some of the poorest regions of the county. The company has developed a unique and innovative business model based on developing strategic partnerships with smaller microfinance institutions, where Progresemos will co-finance these partners' loan portfolios. In addition, Progresemos offers payroll-deducted loans that allow financially-underserved populations to borrow against stable fixed incomes, such as salaries and pensions, and in recent years has expanded its SME financing portfolio.

INVESTOR PROFILE

Kandeo was founded in 2010 by senior business professionals with vast, global experience in a wide range of sectors. The fund manager primarily targets financial services companies focused on individuals or small and medium-sized businesses that have limited access to traditional banking and credit services. These industry segments include microcredit, fixed-asset financing, working capital financing, payroll-deducted loans and housing development. Kandeo typically seeks to make investments between US$15 and US$50 million. Kandeo currently has 10 partner companies between its two active funds.

FUND NAME

Kandeo Fund II

FUND SIZE US$251 million

TOTAL AUM US$377 million

OPPORTUNITY

Progresemos was an ideal investment opportunity because it aligned perfectly with Kandeo's investment thesis. Microfinance and related financial products have a successful track record in Mexico because a large portion of the population lacks access to financial services. The lack of credit is particularly acute among the poorest segments of the population. One of Kandeo's partners, who has vast experience in the Mexican financial sector, initiated talks directly with Progresemos and immediately saw a strong fit between the two organizations. Kandeo's experience in this segment was seen as an important value-add by Progresemos, who saw Kandeo as not just capital, but a strategic partner that could help the company to quickly grow and develop. Progresemos already had strong corporate governance and had partnered with the IFC and local development banks, but Progresemos recognized that Kandeo could help the company gain access to new financial resources and improve processes. Kandeo saw an opportunity to utilize its capital and operational experience to further scale and institutionalize the business to prepare it for an exit in the medium-term. Likewise, Progresemos's strong co-financing business model created a unique and substantial value-offer for both the company and its strategic partners.

EXECUTION

Once Kandeo became a partner in Progresemos, the company increased its focus on growth. One of Kandeo's partners became the Commercial Director of the company, which helped Progresemos to take advantage of his network of contacts across Mexico to increase its strategic partnerships. The company has also become more focused on new areas of the microfinance market, such as agricultural lending, and has increased its lending to small and medium-sized businesses.

Through an all cash-in investment of US$16.3 million, Kandeo significantly strengthened the company's capital structure, which allowed for substantial new leverage. From the time of the investment in 2014 through Q2 2017, the company's credit portfolio increased from MXN 269 million to MXN 1.3 billion, growth of over 400%, while maintaining healthy leverage indicators. This increase in financial leverage was also supported by Kandeo's extensive network in the global financial sector, which allowed for new international funding partners, such as World Business Capital, Developing World Markets, and Microvest. Furthermore, the company's growth and institutionalization over this period allowed it to start preparing its first portfolio securitization to be placed on the local public debt market in the first half of 2018.

To address challenging market conditions starting in 2016 that squeezed operating margins, the Commercial Director assigned by Kandeo developed and implemented a specific "10 Point Plan" aimed at generating operating efficiencies in order to preserve the company's margins.

OUTCOME

With the increase in financial resources, during Kandeo's first two and a half years with the company, the loan portfolio grew from MXN 273 million to MXN 1.2 billion, an increase of 339%. In 2016, the company was able to originate 173,951 loans, an increase of 185% from 2014. Furthermore, in 2016, 79% of their clients were female, and the average microfinance loan was just US$451. Despite the increasingly challenging market conditions during this period, the company's operating margin increased from 14% in 2016 to 18% in the first half 2017. With a consistent focus on portfolio quality, the non-performing loan rate dropped from 1.9% when Kandeo joined the company in 2014 to 1.3% by Q2 2017. Not only is this below the national rate for micro finance, which increased to 4.3% in the first half of 2017 (from 3.7% in 2016), the fall in non-performing loans came as Progresemos increased loan origination growth throughout this period.

ESG IN FOCUS

FUND ESG POLICIES

Kandeo utilizes ESG tools to drive financial performance through risk mitigation and operational efficiencies. First, all new investments go through an ESG due diligence process, which follows the IFC Performance Standards on Environmental and Social Sustainability. Each potential investment is categorized based on its ESG risk profile. If an investment opportunity is classified as a medium or high ESG risk project, Kandeo may hire consultants to assess the risks before moving ahead with the investment. If Kandeo decides to move ahead, it works with the portfolio company to develop an ESG framework. The key elements of the framework include identifying and prohibiting operations in restricted activities, identifying key environmental and social risk factors and creating mitigation plans, and establishing internal and external communication methods. Kandeo does an annual ESG report for all companies. These reports help identify new risks and implement solutions.

COMPANY ESG INITIATIVES

Kandeo helped develop the company's ESG framework, which gave Progresemos new tools to mitigate risks, generate operational efficiencies, and gain access to new financial resources. Progresemos' core business of offering loans to female micro-entrepreneurs in rural Mexico has significant social impact, as it directly addresses some of the most critical social challenges in the region, including lending to populations at the base of the pyramid, employment opportunities for women, and the economic development of rural areas, which consistently lack sufficient capital resources.

In 2017, with the support of Kandeo and local and international development agencies, ProEmpleo and MEDA, the company launched a business course to provide training for people that have historically had limited access to quality education. The company currently has education centers in 10 of its branches, and has graduated 59 students as of the first half of 2017. In addition to traditional business skills in the curriculum, such as marketing and accounting, the program also offered modules focused on developing the mindset of the students, in order to build self-confidence and show them that they are capable of becoming successful entrepreneurs.

During Kandeo's annual ESG reporting process, it was discovered that loan officers were exposed to safety risks when collecting loans. To address this, the company is currently in the process of eliminating cash collections. To further help mitigate this risk, the company also launched a list of essential security tips for the loan officers.

Kandeo has played an active role in defining the current corporate governance structure. Kandeo holds three voting seats on the 10-member board and plays an active role in board meetings. A Kandeo team member is currently the President of the Risk Administration Committee, where he helps to identify and mitigate various risks relating to the company's operations. Kandeo has one of five voting seats on the Compensation Committee, which helped lead to new incentive-based compensation schemes for both executive and operational level positions.

The annual ESG reporting process also helped identify the company's high employee turnover rate. To address this, in 2017 the company implemented a new compensation scheme for employees, aimed at offering better incentives to maintain and reward their best human talent.

On the environmental side, the company launched programs to reduce their electricity and fuel consumption, both of which were identified as important themes in Kandeo's ESG review. Likewise, in conjunction with a strategic partner, the company participated in a program that allowed clients to collect plastic bottles for recycling, which, in addition to generating environmental benefits, created an additional income source for the participating clients.

DATE OF INVESTMENT APR 2016

AMOUNT UNDISCLOSED

PARTICIPATION/STAKE 100%

COMPANY NAME

Paradise Ingredients
www.paradiseingredients.com

INDUSTRY / SECTOR Agribusiness

LOCATION(S) Cartago, Costa Rica

DESCRIPTION

Paradise Ingredients is the world's largest banana puree exporter. The company – formerly Gerber Ingredients – produces, markets, and exports banana puree and essence in aseptic, frozen and unpasteurized forms. It operates the largest banana processing facility in the world, which is located in the province of Cartago, Costa Rica. The production processes follow strict controls, which ensure compliance with international quality standards and certifications. Paradise Ingredients buys 100% of its raw materials from third-party banana farmers, mainly from the Caribbean area of Costa Rica. Paradise generates more than 9,200 indirect jobs on 40 farms. This includes a group of 600 farmers who belong to the UCANEHU cooperative, which is responsible for supplying 35% of the company's demand for organic bananas.

INVESTOR PROFILE

Lafise Investment Management (LIM) was founded in 2000 by a group of professionals with experience in the financial sector in Central America and the Caribbean and a long track record of investing in the region. LIM's investment team has deep knowledge of Central America and a strong local presence in the countries where it invests. The fund targets investments in several sectors such as food processing and agribusiness, fintech, waste management, health care, energy sector and logistics among others.

FUND NAME

CASEIF III

FUND SIZE US$41.67 million

TOTAL AUM US$85.42 million

OPPORTUNITY

LIM has extensive experience in agribusiness in Central America and was seeking new investments after several successful exits from companies in this segment. CASEIF III was presented the opportunity to purchase a 100% stake of Nestlé's banana puree operations and saw it as a chance to take advantage of its knowledge of the frozen fruit and vegetable industry, as well as the dynamics of the US frozen fruit market. The LIM team identified high diversification potential using the existing facilities, considering that the worldwide market for fruit pastes and purees was growing at an annual rate of 6.4% and by 12.6% in the US. LIM already understood the export and distribution dynamics for these markets, which made the opportunity more attractive. Nestlé had decided to exit the business, which it saw as too commoditized and not part of its core. The company had a strong team, whose expertise and contacts in this type of agro-industrial business complimented LIM's knowledge of this sector. CASEIF III structured the deal to give the company's former management equity in an effort to keep them involved.

EXECUTION

Once the deal was completed, LIM had to manage the challenges of creating a new company from an existing asset. This transition involved transforming a business unit that was a cost-center, into a company that needed to be profitable and to generate revenue. For the first time, management needed to look at marketing and analyze its profits and losses, whereas it was previously focused on production. This involved completely transforming the mindset of the staff. To facilitate this transition, two members of the LIM team began working full time in the management of the company. Nestlé provided an 11-month transition period to prepare, execute, and complete the migration of Paradise's systems. In this period, LIM needed to transfer all of its data to SAP 6.0 to allow the proper management of the company's accounting system, which was previously part of Nestlé. LIM also needed to hire a financial manager for this transition. The financial manager guided the team in the process of implementing new financial and accounting policies and procedures.

LIM's team led Paradise in the transition to a fully-fledged business by creating and strengthening the implementation of new payroll software, its own IT infrastructure, and migration of four other systems that are key for running the operation. Ultimately, this created savings in capital expenditures of close to US$500,000. The fund helped the company build its own financial, accounting, and IT departments. Despite all of the challenges, LIM concluded this process in seven months.

LIM also needed to focus on changing the company's culture. Previously, all of the key decisions were made at Nestlé's headquarters, which meant that any new initiatives took months to approve. The company needed to empower its employees to make decisions. With time, Paradise Ingredients was transformed into a dynamic company and the employees took a much more hands on approach to management.

As the new company took shape, LIM adopted corporate governance practices which are in line with the IFC's high standards. This included forming a board, elaborating KPIs, incorporating three big accounting firms, granting stock options to key managers, and elaborating a code of ethics. The company also adopted a gender policy, which was essential because 43% of total management positions are occupied by women.

Paradise management also helped the company's employees during the transition, by implementing an occupational health and safety management system. The company offers free medical services to women in the company's clinic. A total of 68 single mothers in the production area are provided with a package of school supplies for their children.

In 2016, the employees founded a solidarity association. Paradise Ingredients contributes the equivalent of 5% of each employee's salary to the association, which offers services to workers. The company also organizes a health fair every year that benefits employees and their families at subsidized prices. Similarly, the company offers 24-hour medical services as well as physical therapy. Employees also receive food subsidies and transportation services.

OUTCOME

In 2016, Paradise Ingredients had annual sales of US$33.2 million, EBITDA of US$3.57 million, and net profit of US$1.9 million. The company has also diversified into new markets, with customers in Asia, Russia, New Zealand, China, and Japan. In 2017, all initiatives implemented by LIM Team have resulted in a 9% increase in sales, a 52% jump in EBITDA and 67% increased net profit. The company has also become more efficient and is better-positioned to take advantage of global growth trends.

ESG IN FOCUS

FUND ESG POLICIES

ESG plays an integral part of CASEIF III's investment process. The fund follows the International Finance Corporation's ESG guidelines which includes an in-depth ESG audit of all prospective investments. In addition to the economic potential of a company, CASEIF III considers environmental, social and governance factors in its final investment decisions. If an investment is approved, the fund constantly monitors ESG factors to guarantee that the portfolio company remains in compliance with all of the fund's ESG directives. The fund also conducts a periodic ESG audit of all of its portfolio companies, which is then shared with the limited partners of the fund. CASEIF III also seeks to improve each company's governance, to implement environmentally friendly policies and to guarantee that each portfolio company has a positive impact on local communities.

COMPANY ESG INITIATIVES

Prior to the CASEIF III investment, the company's ESG operations were managed by a junior person with little decision-making power. As part of the strategy to improve ESG, LIM appointed a director who focused entirely on ESG improvements. Following LIM's analysis, Paradise implemented an environmental management system that was in line with both international and IFC standards. As a result of these efforts, the company saw a significant decrease in energy, water and fuel consumption. For example, by improving the ventilation system of the plant's banana ripening chambers, electricity costs fell by US$125,000 per year. This measure also allowed the company to increase the capacity of the drying chambers by 20%. Improvements to the reverse osmosis system for the water filtration and treatment system resulted in improved boiler efficiency, which reduced fuel consumption by 9,386 gallons per year as well as 1,667 cubic meters of water consumption. This resulted in significant reduction in CO_2 emissions as well as costs. LIM also identified improvements in the industrial process that increased boiler efficiency, which resulted in additional yearly savings of more than 12,000 gallons of fuel per year, as well as further emissions reductions.

DATE OF INVESTMENT JUL 2008

AMOUNT US$2.97 MILLION

PARTICIPATION/STAKE 100%

COMPANY NAME

Inmaculada Guadalupe y Amigos

www.andrescarnederes.com

INDUSTRY / SECTOR Consumer/Retail

LOCATION(S) Colombia

DESCRIPTION

Inmaculada Guadalupe y Amigos (IGA) operates Andrés Carne de Res y Andres DC, two of Colombia's leading thematic restaurants. Today, IGA operates restaurants, bars, event venues, a brewery and ice cream parlors across Colombia, under top of mind brands. The company first opened its doors in 1982 as a small roadside restaurant in Chía, in suburban Bogotá, Colombia. Today, IGA operates a total of 17 locations including four restaurants based on a farmer's market concept (Plazas de Andrés), 11 fast food venues (Andrés Exprés) and two full-service restaurant/night clubs which have become iconic tourist attractions in Bogotá. With more than US$ 100 million of revenues, Grupo IGA is one of the largest restaurant conglomerates in Colombia operating 303 restaurants and employing over 4,500 people.

INVESTOR PROFILE

MAS Equity Partners (MEP) was a pioneer in private equity in Colombia. With more than 10 years of operation, MEP focuses on growth equity for medium-size companies with strong growth potential. To date, MEP has made eleven investments from three private equity funds, one of them managed by SEAF Colombia. It invests in a broad range of sectors, targeting visionary business leaders with strong industry knowledge and a drive to grow their companies. MEP has a regional investment approach centered in Colombia, providing support to companies to expand in other Latin American markets. MEP has completed five successful exits, completing a full cycle of its first fund. Its portfolio companies have seen an average annual increase of 24% of EBITDA and 12% in revenue. The firm has also achieved two industry awards for most successful transaction and business impact.

FUND NAME

Fondo Transandino Colombia

FUND SIZE US$17 million

TOTAL AUM US$208 million

OPPORTUNITY

MEP has identified several target sectors which are based on long-term, macro-economic trends in Colombia. One of these strategies targets companies that provide products and services to Colombia's growing middle class. As part of this theme, MEP began to actively seek investments in the out-of-home dining and entertainment segments and identified Andrés Carne de Res, as a promising target for its unique value proposition and enormous growth potential. At that time, Andrés was well-known in Colombia for more than just its food, but also for the fun and entertaining experience it offered. The fund recognized the opportunity to use Andrés Carne de Res' strong brand and reputation for customer service to improve the operation, develop different formats, and replicate the business model. Initially, the founder of the company, Mr. Andrés Jaramillo, wanted to exit the company as part of the deal. But MEP convinced him to remain as partner to help grow the business and guarantee that spirit of the restaurant would be maintained as the restaurant embarked upon its expansion.

EXECUTION

With MEP, the company began an aggressive expansion strategy. The first measure implemented was the appointment of a professional manager to lead the company, and let Andrés Jaramillo focus on his core expertise: strategic vision and customer experience. In his new role, he was key to the development of a new strategy, safekeeping quality of serve and the "Andrés experience". With the help of MEP and an experienced new board of directors, the new CEO focused on cost efficiency, return on investment, and discipline to accomplish the new growth strategy. This included strengthening of corporate governance through the creation of board committees as well as a fully operational board of directors, and the standardization and documentation of operating and administrative processes. MEP also appointed a CFO to guarantee financial discipline during the expansion process.

One of the initial projects was the expansion of the flagship restaurant in Chía from a seating capacity of 1,700 to over 1,900 in 2015. MEP also led the design and development of the new restaurant/night club in downtown Bogotá, Andrés DC. Contrary to market expectations, Andrés DC was a total success, and the company rapidly doubled its sales and boosted profitability. It further improved its reputation as both a venue for quality food and entertainment, particularly among international visitors who found the new location much more convenient. Phase three was to develop new concepts leveraging on the "Andrés" brand, which resulted in the Plaza de Andrés food court concept, and the Andrés Exprés food truck model. By December 2016, these new formats represented more than one third of total revenues.

During MEP's investment period, four Plazas were opened in Bogotá. Andrés Exprés rapidly expanded across Bogotá and catered to a new customer base. "Andrés en Casa" also began offering catering and event organization services. The company started organizing special events and parties in other cities and overseas. With all of the different outlets, Andrés was able to maintain the style and atmosphere of the original restaurant, with the help of the new management structure, and strong operating process. MEP played a fundamental role in the creation of the Andrés-style art gallery and gift shops where customers can acquire the same decorative items found in the restaurants. As a result, the company's non-restaurant revenue streams reached 15% of total revenues.

OUTCOME

Grupo IGA consolidated its expansion plan and became one of the leading and most profitable restaurant operators in Colombia. In order to continue the consolidation process, MEP successfully brought in two large institutional investors who purchased the equity stake of MEP's Fund I in March 2017. Subsequently, MEP promoted a merger with its Fund II portfolio company owner of traditional restaurant and ice cream chains Kokoriko and Mimo's. MEP continued to take advantage of the sector's growth trend and large potential operational synergies, resulting in the creation of the largest restaurant company in Colombia, Grupo IGA. The exit of MEP's Fund I from the Andrés Carne yielded more than 7x investment and was awarded the most successful transaction of the industry in Colombia.

ESG IN FOCUS

FUND ESG POLICIES

MEP follows a strict due-diligence process on financial, integrity and ESG criteria. In addition to following the IFC's and IIC's environmental, social and integrity investment policies, MEP also applies its own framework to evaluate potential investments. During the due diligence process, MEP relies on third-party specialists to do complete ESG and integrity audits. MEP has been working with the same ESG and integrity advisors since 2008 and during this period, those audits have played a fundamental role in helping MEP to improve its own policies, as well as those of its portfolio companies.

COMPANY ESG INITIATIVES

MEP played an instrumental role in the creation of the Environmental Affairs Delegation. This group helped guide a series of initiatives, including training programs, environmental oversight, and improvement of waste management, environmental innovation, responsible resource consumption, biodiversity and carbon footprint monitoring. One particular initiative was the creation of a waste management control program, which created an in-house process to separate, treat or sell recyclable materials to ensure their adequate disposal. The company also implemented an organic waste management program for the disposal of used vegetable oil, which is now sold or donated to be used in the production of biodiesel. The company has also planted c. 1,500 trees of 32 native species in an effort to reduce its carbon footprint and is responsible for the maintenance of the Espartillal Park in Bogotá as part of the government's "Adopt-a-Park" program.

The "Andrés y Lucía Project" was created in 2008 with the purpose of providing children in Chía with an educational space to develop their creativity and overall wellness. Through a technique named "Art Therapy", children are encouraged to engage in dance, theatre, painting and sculpture, soccer and basketball. The main goal of the project is to strengthen the children's communication skills and social development. The company also developed a program for its workers, to pay for their studies. This program has provided support for more than 50% of the company's employees to continue their education. The "Escuela Andresiana" training program was also created to promote job training and professional advancement within the company.

On the corporate governance side, MEP created the executive, financial and brand committees. An independent board of directors was set up, with representative of MEP and industry experts. Roles and functions of the management team where redefined with clear separations, and new operational and administrative processes were put in place. Finally the capital structure of the company was improved with the contribution of fresh equity capital and the reshaping of financial debt.

PayGroup
The Payment Company

DATE OF INVESTMENT DEC 2011

AMOUNT US$10 MILLION

PARTICIPATION/STAKE 44.88%

MATER
FONDO DE INVERSIONES

COMPANY NAME

PayGroup
www.paygroup.com

INDUSTRY / SECTOR Financial Services

LOCATION(S) Santiago, Chile

DESCRIPTION

PayGroup specializes in providing transactional and banking-services technology, with payment and collection solutions for the financial, telecom and retail industries, as well as for service companies. PayGroup has more than 80 clients in 15 countries in Latin America. The company processes more than 20 million transactions per month through its payment and collection hubs, providing services for the most complex transactions in the industry such as tax payments, treasury, customs, service accounts, social security, payroll and dividends, among others.

INVESTOR PROFILE

Mater is a private equity firm focused on middle market and buyouts. The firm invests in small and medium-sized companies, and has investments in different sectors (Technology, Industrial, Healthcare, Retail and Services). It focuses on investments in Chile in the US$5 million to US$12 million range. Typically the fund seeks to have board representation and active participation in management of its portfolio companies. The firm was founded in 2010.

FUND NAME

Mater Fund II

FUND SIZE US$40 million

TOTAL AUM US$52 million

OPPORTUNITY

One of Mater's target sectors is technology firms. EFT Group (now PayGroup) fit perfectly with the fund's strategy of helping family-owned businesses to grow with the assistance of an experienced, independent management team. With EFT Group, the fund also saw the potential to take advantage of the trend of increased use of electronic payments through the dematerialization of cash. Mater recognized that developing countries were behind in implementing electronic payments and transactions, but expected Latin American countries to follow the same path as developed ones. Mater believed that it could transform EFT Group into a regional player, using the cash generated by the company, and believed it could play an instrumental role in closing the gap in electronic payment technology in the region. EFT Group had a handful of partners with one family controlling 75% of the company. The owner was close to reaching a deal with an international private equity fund, but it fell through. The controlling shareholder ultimately closed with Mater, which took control over the company through a shareholder agreement.

EXECUTION

As part of the shareholders agreement, Mater was allowed to appoint a new management team, which included both a CEO and a CFO. With the new leadership, the company was able to begin its transition from a family-owned company to a regional corporation. From the beginning, Mater believed that the company should focus on both organic growth as well as growth via acquisitions. The fund identified acquisition targets that the family management had not seen, in part because of the founding partner's focus on managing the company. Mater had already identified a list of possible acquisition targets when it was still in the due diligence phase. One of the companies on this list was PayTrue, which ultimately was acquired by EFT Group. Mater not only played an instrumental role in negotiating the terms of acquisition of PayTrue, but also helped define the business strategy for the company following the acquisition.

The integration of the two companies, which was renamed PayGroup, generated economies of scale, and created "cross-selling" opportunities for each company's products. Mater also played an important role in unifying their business cultures, including working with the local management team. Following the acquisition, the company's overall revenues increased 2.5 times, and

EBITDA jumped threefold. At the same time, PayGroup also moved ahead with new projects in Dominican Republic, Colombia, Brazil, Bolivia, Peru, and Mexico. The company also migrated from the license model to the Software as a Service (SAAS) model for processing cards and fraud control systems.

Mater managed to maintain a positive relationship with the founder of the company, which helped to improve operational results. After the acquisition of PayTrue, the fund entered a process of reorganizing the tasks of each of the managing shareholders in order to take advantage of their experience and pursue the targets of the company. The fund was acutely aware of the need to maintain good relationships with each shareholder, in an effort to guarantee that all the stakeholders were moving toward a common goal.

OUTCOME

During the investment period, Mater was able to significantly increase revenues and EBITDA. The challenge of growing the company to become a regional player was achieved, and the fund was able to manage the difficulties of working with partners with different opinions about strategy. The fund benefited from never assuming that business cultures, even in different regions of Latin America, are homogenous. Because of this mindset, the company grew rapidly and was able to attract interest from a strategic investor. It is commonly known that synergies are difficult to achieve in M&A deals, but in this case thanks to the efforts of the administration and the board of directors, the sales team learned about all the products of both companies and understood that PayGroup's offering was complete. The buyer saw this value and decided to make an offering which was accepted by PayGroup shareholders.

The fund exited in July 2017 selling PayGroup to the Puerto Rican financial technology solutions and back office service provider Evertec (NYSE: EVTC) for US$47 million. EBITDA increased by 3x over the investment period and Mater sold the company for 9.51x EBITDA after buying it at 6.5x EBITDA. Likewise, PayGroup's solid corporate governance was confirmed during the acquisition, because Evertec's purchase of the company required approval from regulatory authorities in the US.

ESG IN FOCUS

FUND ESG POLICIES

Mater typically conducts ESG due diligence on companies prior to making an investment decision. Because the fund acquires family-owned companies, it is especially focused on governance-related issues. The fund manager has a special compliance unit that conducts extensive due diligence on all potential portfolio companies.

COMPANY ESG INITIATIVES

From the time that Mater made its investment in EFT Group, the fund focused on transforming the company into a corporation with the highest management standards. The fund established corporate governance practices at PayGroup, such as the implementation of KPIs for the first time as well as other systems to enhance governance. It oversaw the independent hiring of a CEO and created a multidisciplinary board, which was adapted to the needs of the company. The board was given direct access to management and information. Ultimately, Mater was successful in its goal of bringing PayGroup's governance and accounting standards in line with those of publically traded companies.

Mater helped institute new human resources policies at PayGroup. One specific policy was the recruitment of people with disabilities. The company also began a program aimed at allowing staff to study abroad, with tuition and expenses paid. This has helped the company to retain its top quality staff.

PayGroup supports TECHO, one of the most important Chilean initiatives to eliminate poverty and improve housing conditions. TECHO builds makeshift houses for the homeless and helps them to find employment.

Finally, the services provided by PayGroup help to reduce the use of printed documents and also the need to transport documents and to collect cash. These initiatives not only help to improve efficiency, they also reduce pollution as well as safety risks related to transporting money.

DATE OF INVESTMENT APR 2017

AMOUNT US$22.5 MILLION

PARTICIPATION/STAKE 43.75%

COMPANY NAME
Pumping Team
www.pumpingteam.com

INDUSTRY / SECTOR Construction

LOCATION(S) Mexico, Spain

DESCRIPTION
Pumping Team provides ready-mix concrete pumping services in Mexico and Spain. The company was incorporated in Spain in 2011. Later, during 2017, Pumping Team closed a carve-out of Mexican cement giant CEMEX's concrete pumping services and has since become a consolidated platform for concrete pumping assets. The transaction is one of the biggest carve-outs in the history of Mexico's growing M&A market and sets the ground for large corporations in Mexico to focus on its core business activities and divest assets that can be efficiently operated as independent companies. Pumping Team currently has more than 550 concrete pumps, is the largest provider of concrete pumping services in Mexico, and among the top-three players in Spain. Today, by number of concrete pumps, Pumping Team is the second biggest pumping service provider in the western world.

INVESTOR PROFILE
Nexxus has actively participated in the private equity industry in Mexico since 1995 and is one of Mexico's largest independent alternative asset managers. Nexxus has completed 25 investments and has fully divested from 13 portfolio companies. Nexxus has raised and managed five funds through seven investment vehicles with aggregate capital commitments of over US$1.2 billion and is the only Mexican alternative asset manager that has listed six portfolio companies on the public markets.

FUND NAME
Nexxus Fund VI

FUND SIZE US$550 million

TOTAL AUM US$750 million

OPPORTUNITY
Prior to the spin-off, Pumping Team's personnel and concrete pumps in Mexico operated as an internal CEMEX division and this business was not a core strategic activity for the cement giant. Nexxus saw the potential for business given the underutilized assets' capacity, and believed that leveraging the vast experience of the operating partners could rapidly increase performance, especially considering projections that Mexican cement consumption will rise in volume by 40% over the next four years. The deal was structured to merge the concrete pumping assets in Spain and Mexico. Pumping Team's founding partners in Spain have decades of experience in the concrete pumping business and are pioneers in the industry. The Spanish and Mexican operating teams, together with the financial experience of Nexxus in the Mexican market and MCH in Spain (a mid-market Spanish private equity fund) helped to strengthen the deal. Besides Mexico, Pumping Team is positioned to benefit from the favourable macroeconomic trends in Spain, where the concrete pumping industry is expected to triple over the next six years.

EXECUTION
Once the investment was closed, Nexxus and its partners focused on improving operations and reinforcing management to immediately create growth in the business with practically no additional capital expenditures. Concurrently, management needed to quickly create a new company with its own administrative staff, IT infrastructure and accounting department independent from CEMEX. In an effort to hone the new company's strategy, Nexxus and its shareholders held a series of high-level meetings to agree upon priority initiatives and main mid-term objectives while also reinforcing the management structure. The shareholders decided the company needed to hire additional staff, such as an HR director in Mexico and comptrollers in Mexico and Spain. The

shareholders also began implementing a KPI system which applied to a broad range of staff members. Similarly, the shareholders began working on an independent sales plan for the Mexican market with an eye on closing M&A deals in strategic geographies. In Spain, growth is focused on major cities and on targeting high-volume projects. Across the firm, there was a strong focus on controlling costs and on EBITDA to cash-flow turnover.

As an independent company, management identified several strategies to quickly boost Pumping Team's growth. The most obvious was related to the use of the company's concrete pumps. As a division of CEMEX, concrete pumping services could not be provided to third-party concrete companies. As a result, there was as much as 20% idle capacity of the company's pumps. Prior to the carve-out, Pumping Team was not seen as an independent business unit. Nexxus and its partners worked closely with the management to help change the mentality of the company's workers.

Members of management visited all regional offices to explain the transition and to highlight the benefits for employees. One important change was the reinforcement of financial incentives for the pump operators, who are paid bonuses based on performance. This helped the employees to take ownership of the new company and to contribute to its success. The partners also invested in a new IT system which allows all pumps to be monitored remotely, which has streamlined the order and payment process for clients. Nexxus also played a fundamental role in negotiating bank loans for the company, including the acquisition finance and working capital facilities.

OUTCOME

As a result of strong leadership from Pumping Team's operating partners, it became a fully independent company in five months, one month ahead of schedule. The company is already seeing significant operational changes, with the reduction of idle capacity and building up a broader book of clients. Since May 2017, Pumping Team has pumped over 2.9 mm m3 of concrete and is expecting to see strong growth going forward.

ESG IN FOCUS

FUND ESG POLICIES

Nexxus follows strict guidelines for environmental, social and governance during all phases of investment. Nexxus avoids investments that have a negative impact to the environment. The fund manager also seeks to have a positive social impact through job creation and by investing in companies that help to boost economic growth in Mexico. Nexxus evaluates all prospective investments in an institutionalized four-phase process. For a deal to move forward, it has to be approved by multiple committees during the analysis phases. Nexxus relies on third-party experts for legal, fiscal, financial, labour, and IT due diligence. If Nexxus moves ahead with an investment, it guarantees that the portfolio company implements the highest corporate governance standards.

COMPANY ESG INITIATIVES

As Pumping Team was being transformed into an independent business in Mexico, Nexxus played a key role in the development of a strong corporate governance framework for the company. This included the creation of a Board of Directors, as well as an executive committee and a finance committee. Nexxus also supported a strong organizational structure, reinforcing human resources, commercial and finance departments while also defining a results-based compensation plan for key employees aligning incentives between operating partners and investors. Another relevant governance milestone was a smooth employer substitution as only around 1% of more than 820 employees decided not to transition to Pumping Team's project. Finally, the company has managed to establish an open communication channel with 14 unions across Mexico.

On the environmental side, Pumping Team is generating awareness of fuel use among employees, which is expected to cut costs and fossil fuel consumption. Savings arising from a leaner operation will positively benefit employees' salaries thus increasing their purchasing power. Additionally, the entire autonomous concrete pump fleet has to meet specific environmental regulations in order to control emissions. The company has also been refurbishing existing pumps to make them more efficient .

DATE OF INVESTMENT DEC 2015

AMOUNT UNDISCLOSED

PARTICIPATION/STAKE MINORITY

COMPANY NAME

Te Creemos

www.tecreemos.com

INDUSTRY / SECTOR

Financial Services

LOCATION(S)

Mexico

DESCRIPTION

Te Creemos is a Mexican financial institution that provides comprehensive financial services to the population at the base of the pyramid. Its main product offering consists of savings, loans and insurance products. The company was founded in 2005 with the mission of providing financial services to Mexicans with no access to banking services, creating a positive social impact in the communities that it serves. With PC Capital's backing, Te Creemos has become Mexico's largest private microfinance company. In addition to the tenfold jump in earnings in 18 months, the company has increased its social impact to benefit close to one million Mexican small businesses and families on an annual basis that were previously excluded from the formal banking system.

INVESTOR PROFILE

PC Capital was founded in 2008 by a group of professionals with vast experience in Mexican financial markets and a deep understanding of Mexico's business and social reality. PC Capital is a leading social impact middle market private equity firm in Mexico. The firm manages direct investments, co-investments and a private equity fund. PC Capital is a member of AMEXCAP, LAVCA, and Endeavor's Global Investment Network.

FUND NAME

Mexico Development Fund I

FUND SIZE

US$28 million

TOTAL AUM

US$28 million

OPPORTUNITY

The Te Creemos investment was in line with PC Capital's broader investment strategy of backing financial services companies that focus on Mexicans without access to banking services. Roughly 70% of Mexicans have no access to the formal financial system, which contributes to poverty and lack of entrepreneurship. PC Capital identified Te Creemos as an opportunity to consolidate the microfinance industry in Mexico, with the potential to expand into the largest private microfinance company in the country. Additionally, the company was well positioned to create a substantial social impact by providing working capital to thousands of small businesses without access to banking services. Furthermore, Te Creemos management adopted the micro-finance model to the Mexican reality, offering individual loans, as well as a share of group loans. PC Capital identified Te Creemos as a possible target in 2012, when it initiated contact with the company's founders. PC Capital worked closely with the company on its acquisition strategy, helping it to identify targets and to build a business plan. PC Capital's investment was finalized to help the company move ahead with its first acquisition and to help it to strengthen its business model.

EXECUTION

Once the investment was finalized, PC Capital worked with the company and its other shareholders, including Creation Investments, to identify and complete three major acquisitions in 18 months. Although Te Creemos was growing steadily before PC Capital's investment, company management recognized the need to begin a consolidation process to be able to achieve economies of scale and become a leading player in the market. PC Capital played a fundamental role in identifying value-added takeover targets, strengthen the capital structure through the issuance of common and preferred shares, and funding its first acquisition. During the first months following its initial acquisition, the company was able to issue debt on the Mexican Stock Exchange through a MXP $2 billion securitization program, the first of its kind for a microfinance company in Mexico, and integrated the new acquisitions to Te Creemos' culture and work methodology.

OUTCOME

As a result of the investment, Te Creemos has been expanding rapidly. In addition to the three acquisitions the company has made, it has seen a tenfold increase in earnings and a fourfold increase in its loan portfolio in 18 months. The company has added an additional 130 branches to reach 226 branches, up by more than 194% since PC Capital's initial investment. Many of these branches are located in rural areas that do not have other financial institutions. This allows clients to avoid long journeys to reach a bank. With the expansion in the footprint, the company has added over 190,000 new clients, and more than 2,800 employees, which are 300% and 170% more from its previous base.

ESG IN FOCUS

FUND ESG POLICIES

In addition to financial returns, all of PC Capital's private equity investments are required to have a social impact. This includes fostering entrepreneurship, creating direct and indirect employment, promoting sustainable business models and expanding education opportunities. Prior to making an investment, PC Capital looks at both financial and social factors and ESG plays an integral part of the investment process. In addition to the legal and accounting due diligence process, the fund also conducts in-depth environmental and social due diligence. PC Capital uses the Global Impact Investment Ratings System (GIIRS), which measure the social impact of each investment. PC Capital has adopted the system with support of the Multilateral Investment Fund of the Inter-American Development Bank. If PC Capital decides to move ahead with an investment, the company is monitored and given an annual rating, which helps to identify areas that need additional attention.

COMPANY ESG INITIATIVES

With PC Capital's support, Te Creemos has created a corporate governance structure to comply with the Mexican Banking Commission's regulatory framework as well as the fund's reporting and ESG standards. These initiatives include an annual impact rating and the formation of an operations committee that meets monthly. PC Capital has also been instrumental in the institutionalization of the company's board, risk, compensation, and auditing committees. Likewise, PC Capital created a shareholders agreement that provides for protection of minority investors.

Today, the company employs 1,839 women out of 4,129 total employees, equivalent to 44% of its workforce, which is in line with the country's gender split. Additionally, Te Creemos has specific policies to support female entrepreneurs. Te Creemos also finances individual businesses, rather than only providing group lending, and provides backing to businesses owned by men, unlike some micro-finance organization. The company sees this as a way to help boost economic growth and prosperity in Mexico. Currently, the company has over 250,000 active loans, of which 87% are currently granted to women run businesses.

Te Creemos identified the lack of home-improvement and home building products for lower-income Mexicans and has moved to expand this business area within the company. This is an important initiative for low-income Mexicans, because it is practically impossible for people who do not work in the formal economy to qualify for housing loans. These products now have an active portfolio of over 10,000 new home and home improvement loans.

The company has been actively developing low-cost insurance for its clients. Products include unemployment and disability insurance, which had not been offered to low income Mexicans on a large scale in the past. The company also offers life insurance policies with its loans that not only cover all outstanding debt in the event that the loan holder dies, but also helps families with the costs of funeral and burial. With the development of these products, Te Creemos now has more than 230,000 active micro-insurance policies that are issued to each of its clients

Te Creemos has also developed incentives for people to start savings accounts, with the goal of helping to create a culture of savings. Each customer that gets a loan is asked to open a savings account. In addition to paying debts, clients are encouraged to deposit a small share of the low payment into the savings account. At the end of their loan period, people have also managed to build a nest egg. Te Creemos has over 150,000 saving accounts and has seen positive results from these savings initiatives.

ALTOS DEL LIBERTADOR
CONDOMINIO URBANO

DATE OF INVESTMENT DEC 2010

AMOUNT US$3.5 MILLION

PARTICIPATION/STAKE 50%

PENINSULA
INVESTMENTS GROUP

COMPANY NAME

Altos del Libertador
www.altos.com.uy

INDUSTRY / SECTOR Real Estate (Residential Development)

LOCATION(S) Montevideo, Uruguay

DESCRIPTION

Altos del Libertador is a residential real estate project developed by Altius Group in partnership with Peninsula Investments Group in what was originally the "Alpargatas factory", located in the traditional neighborhood of Goes in Montevideo, Uruguay. Once the retrofit development is concluded, the project will have 382 condos from 30-116 m2 targeting middle income families. The project is built on the site of a 40,000 m2 factory, which was purchased by a developer that soon after starting construction of the first phase went bankrupt during the 2000 financial crisis. For over a decade, the property was abandoned, contributing to an increase in crime and urban decay in this traditional neighborhood of Montevideo. Today, because of the project, the opening of the renewed Mercado Agricola de Montevideo (MAM) and other surrounding development initiatives, the region of the Altos del Liberator project is experiencing a period of urban revival after transforming from a high-crime area to a thriving, middle class neighborhood and tourist destination.

INVESTOR PROFILE

Peninsula is an asset management firm focused on real estate investments across Latin America. The firm was founded by a team with extensive experience in the region that wanted to focus on under-invested segments of the real estate market. In this context, the firm's strategy is to target the mid-to low-income housing market, where there is a deficit of more than 20 million homes. Peninsula has a total of three funds under management, which will invest in over 18,000 housing units across the region. The fund's backers include multi-lateral investors, pension funds, fund-of-funds and family offices. Peninsula's target is to develop 4,339 homes with its second fund.

FUND NAME

Peninsula Investment Group II

FUND SIZE US$60.68 million

TOTAL AUM US$494.17 million

OPPORTUNITY

As part of its overall investment thesis, Peninsula seeks projects that target housing for low-and middle-income families. While this segment has been successfully developed in other countries in the region, Peninsula recognized a need for more investment in the affordable housing segment in Uruguay. When Peninsula started to look at possible investments in Uruguay, the local government was also seeking to attract private investment in this segment, which had been neglected after the bankruptcy of the main mortgage lender, Banco Hipotecario del Uruguay. Based on its experience in the region, Peninsula concluded that the best model to develop low-income housing would be using the public-private partnership (PPP). But at that time, Uruguay did not have an adequate regulatory framework for housing PPPs. Having recognized the potential of this market, Peninsula began working closely with the government to develop a legal framework that would attract investment to this segment. Peninsula played a key role in the passage of Law 18.795, which gave a series of tax breaks to investors in the affordable housing segment and paved the way for the first PPP in the housing sector. Once the law was passed, the National Housing Agency (Agencia Nacional de Vivienda - ANV) launched a tender offer for the first public-private partnership in the country with the objective of co-developing a residential real estate project. Peninsula Investments Group together with its local development partner, Altius Group, competed with several other companies and was selected by the ANV. This process took nearly 18 months and the contract was ultimately awarded to Peninsula and its partner based on their track record in the mid-income sector across Latin America, the proposal to revitalize the neighborhood, the architectural plan to retrofit the Alpargatas factory, and the innovative partnership structure.

EXECUTION

To assure the success of the project, Peninsula identified that the first step was to revitalize the Goes neighborhood that had been taken over by a local gang, which had pushed up crime in the area. Peninsula understood that the Altos del Libertador alone would not be sufficient to revitalize the Goes neighborhood. Peninsula recognized the need to build other partnerships to help speed up a turnaround. Peninsula identified Montevideo's Fruit and Produce Marketplace (Mercado Agricola, MAM), which was owned and managed by the Municipality of Montevideo, as an ideal partner in the renovation process. At that time, the marketplace was in a state of disrepair and needed to be renovated and to modernize its business model to attract visitors and new vendors.

Peninsula presented its vision of Goes to the municipal government, which immediately came on board with the project. But the city lacked the resources to invest in the project. To secure backing for the project, Peninsula worked closely with the Municipality and several multilateral organizations, including the International Development Bank (IDB), the Agencia Española de Cooperación Internacional para el Desarrollo (AECID) and others. Because of this process, the city raised over US$13 million to transform MAM into a modern marketplace that includes stores with local crafts, a fresh fruit and vegetable market, restaurants, and a supermarket. Today, the market has become a leading tourist attraction in Montevideo and receives over 300,000 visitors a month.

Because of the investment structure, Peninsula was required to work very closely with the housing authority, which managed all purchases and expenses. This was a very bureaucratic process and required Peninsula to be extremely organized, as all purchases had to be approved and paid by the housing authority. Similarly, the project needed to be concluded without any construction loans, which also required Peninsula to seek alternate mechanisms to finance construction. Ultimately, phase one of the project was financed through equity and pre-sales.

On the operational side, transforming the factory into a modern residential building was a challenging process. The architectural design needed to strike a balance between the existing structure and a successful residential space. Additionally, underground parking lots, a swimming pool, and a glassed roof had to be incorporated into the existing structure. Industrial waste at the factory needed to be managed extremely carefully to guarantee that residents were living in a healthy space. This added additional costs and delayed completion of the project.

OUTCOME

The first phase of the project was delivered in 2014, the second phase in 2017 and the third phase will be delivered in 2018. In total, the project will have delivered 382 high-quality apartments to families who might otherwise be living in sub-standard housing. In addition to the turnaround of this historical region of Montevideo, the project was a pioneer in public-private partnerships in Uruguay and will likely pave the way for future housing developments targeting middle income families. Finally, the project has shown that it is possible to have both a positive return on investment – which in this case achieved a 3.39-fold return on invested capital and a 31% IRR – and also have high social returns for the population.

ESG IN FOCUS

FUND ESG POLICIES

During the project feasibility phase, the technical team undertakes an evaluation of the ESG issues from different perspectives. Each project site must be carefully evaluated based on environmental criteria as well as archeological facts, to avoid potential impact on historical patrimony. Peninsula also analyzes the potential impact of a project on the local flora and fauna, if applicable. Following this process, the team issues a report to the investment committee, so that all potential ESG risks are thoroughly evaluated. When necessary, Peninsula will consult outside experts to help with further evaluation of ESG risks.

COMPANY ESG INITIATIVES

The main goal of this project was to provide affordable, quality housing to an underserved population. In addition to achieving this, the project also played a fundamental role in allowing middle class Uruguayans to reclaim a region of Montevideo which had suffered from years of neglect and urban decay. Today, in addition to attracting visitors, the Goes region of Montevideo is attracting shop owners, restaurants and other retailers. Likewise, many of the families originally from the region that had been forced to leave because of security issues are now moving back.

Additionally, Peninsula built the project taking into consideration energy and water efficiency elements. All public areas of the building have LED lighting and motion detectors to reduce electricity consumption. Apartments have hot-water on demand, rather than less-efficient heaters. To the extent possible, the building takes advantage of natural light and to reduce heating and cooling costs.

The project also offers on-site daycare and playgrounds for different age groups, as well as common spaces for teens and families. Similarly, the project has a pool and a gym, not only to improve quality of life for residents but also to increase the convenience for families.

DATE OF INVESTMENT FEB 2016

AMOUNT US$59 MILLION

PARTICIPATION/STAKE 49%

COMPANY NAME
Parque Eólico Tres Hermanas

INDUSTRY / SECTOR
Energy

LOCATION(S)
Peru

DESCRIPTION
Founded in 2011, Parque Eólico Tres Hermanas is Peru's largest wind farm, operating 33 Siemens wind turbines with a total installed capacity of 97MW. Tres Hermanas is located in the coastal region of Ica, where the Pacific Ocean meets the Andes, creating ideal wind conditions for energy generation. The wind farm began operating in March 2016, achieving an annual electricity generation of 487 GWh and a 57% average capacity factor. The project has a 20-year 415 GWh/year power purchase agreement with the Peruvian government, which guarantees demand for the energy generated at an above-market, US dollar inflation-adjusted price. Moreover, the Peruvian electric system prioritizes energy generated by renewable energy sources, ensuring that Tres Hermanas' excess generation can always be sold in the spot market, providing additional revenues.

INVESTOR PROFILE
Sigma was founded in 2005 by a group of executives with broad experience in the financial sector. Since launching its first fund in 2006, Sigma has been focused on the Peruvian market, providing financing for companies in the infrastructure, construction and mining industries, building a vast network of contacts across the industry. The fund manager's first three funds focused primarily on leasing operations, with backing from Peruvian pension funds and other local investors. Sigma's fourth fund targets the infrastructure sector, being currently invested on energy generation (both wind and thermal/natural gas generation), energy transmission and road development projects. Sigma's long-standing, deep corporate and public sector relationships have helped it to build a strong pipeline of projects, which contribute to the development of Peru while offering returns for investors.

FUND NAME
Sigma Fondo de Inversión en Infraestructura – Sigma FI

FUND SIZE
US$249 million

TOTAL AUM
US$600 million

OPPORTUNITY

In 2008, improvements in the regulatory environment of the Peruvian energy sector led to the creation of the "Law for the promotion of investment in electricity generation with the use of renewable energies". This law established a goal of sourcing 5% of all national energy demand through renewable sources. Since 2009, the Peruvian Ministry of Energy and Mines began holding auctions for new renewable generators, offering long-term power purchase agreements (PPAs) to project developers. Within this context, Sigma identified the opportunity to finance renewable energy projects which could offer double-digit returns on its investment. Sigma approached construction firm Cobra, a subsidiary of Spain's ACS group, which had recently won the build-and-operate rights to the Tres Hermanas wind generation project. Cobra had a good track record with Greenfield wind projects, having developed over 1,800 MW of wind power capacity globally, including the first wind farm in Peru. Sigma was aware that Cobra participated in the auction because of its interest in the construction component of the project, and was therefore open to partnering with a financial investor. The deal structure allowed Cobra to maintain control during the construction period and allowed Sigma to reduce its downside exposure. The structure of the partnership allowed Sigma to have an active voice in the management and cost structure of the project, which has helped to keep its own interests aligned with those of Cobra.

EXECUTION

Sigma's investment commitment took place at an early stage of the project, but the disbursement was held subject to achieving financing approval from banks, thus mitigating the financing and project construction risk, while additionally delaying the disbursement date, hence increasing the project's internal rate of return. Since the plant's beginning of operations, Sigma has been active in co-managing the company, helping optimize results and manage risks. This was particularly important when overcoming setbacks such as operational errors by the administrator of the Peruvian electric system (COES), complexities stemming from the determination of the timing of PPA-related payments, and lower spot prices than expected – all factors which temporarily led to a lack of clarity regarding the timing of current and future short-term revenues.

OUTCOME

Now that the plant is fully operational, it has proven to be an extremely efficient wind farm by global standards, as determined by its capacity factor. Sigma has decided to exercise a call option granted by Cobra as part of the original investment agreement, which will allow it to acquire Cobra's 51% stake in the project. Once the fund has received final approval from the Tres Hermanas lenders, it will be wholly-owned by Sigma. Although interest in acquiring the asset has been expressed by potential buyers, Sigma believes that full ownership of Tres Hermanas will constitute a more attractive target for investors interested in expanding their renewable generation footprint in Peru.

ESG IN FOCUS

FUND ESG POLICIES

In addition to analyzing the growth potential of companies during the process of evaluating potential investments, Sigma has decided to avoid any which have potential negative impacts on society or the environment; and consistently applies socio-environmental filters as part of its deal-sourcing and due diligence process. Furthermore, as Sigma typically holds a minority stakes in investments, it applies an in-depth governance-focused due diligence.

COMPANY ESG INITIATIVES

One of Sigma's Infrastructure Fund primary goals is to contribute to the economic development of Peru, seeking to improve the quality of life of its population. It's investment in the Tres Hermanas project played a key role in helping Peru achieve its goal of sourcing 5% of all national energy demand through renewable sources. As of 2016, Tres Hermanas generated 21% of Peru's total renewable energy.

During the design phase the project considered the importance of maintaining a positive relationship with the local community; thus, in an attempt to minimize its impact on local residents, it selected a building site located 8.5Km from the nearest population center. Furthermore, during the construction phase and for ongoing maintenance operations, the company has promoted the use of local community labour whenever possible. Currently, Tres Hermanas closely monitors both, the project's noise emissions and any negative impacts on the local desert ecosystem. The company has also partnered with local officials to open channels of communication with the community helping them become familiar with the project. This is achieved through guided visits to the wind farm, during which participants are briefed on how the plant operates, its impact on the national power grid and the environmental benefits it generates. Furthermore, the company has worked with local schools to improve healthcare and has sponsored vaccination campaigns.

DATE OF INVESTMENT MAR 2014

AMOUNT US$120 MILLION
(LEAD BY VCP AND SELECTED CO-INVESTORS)

STAKE SIGNIFICANT MINORITY

COMPANY NAME
Corona Industrial
www.corona.co

INDUSTRY / SECTOR Industrials

LOCATION(S) Bogotá, Colombia; Latin America

DESCRIPTION
Corona is a building materials company in Latin America, with over 125 years in operation. It manufactures, distributes and markets plumbing products, tiles, paints, plasters, adhesives and other building materials. The company dominates the home building and refurbishment space in Colombia. In addition to its strong market share in Colombia, it has been successful in implementing its expansion strategy through the region. With annual revenues of over US$800 million and 29 manufacturing facilities, Corona has a workforce of over 7,800 direct employees across Colombia, Brazil, Central America, Mexico and the United States. In addition to manufacturing, Corona markets its products under 14 brands, through its retail chain of 45 stores in Colombia and exports to 50 different countries across five continents.

INVESTOR PROFILE
Victoria Capital Partners (VCP) is an independent investment firm, which is led in large part by the team that was formerly responsible for investments of DLJ South American Partners. VCP focuses on private equity investments in South America and manages two funds: SAP I and SAP II. VCP targets growth-oriented companies across core markets in South America, including Brazil, Argentina, Colombia, Peru and Chile. VCP has capital commitments of over US$1.7 billion.

FUND NAME
Victoria South American Partners II

FUND SIZE US$840 million

TOTAL AUM US$1.8 billion

OPPORTUNITY

Corona has a long history in the Colombian building materials market and was already a well-managed company with solid market share. Company management recognized that the best way to grow would be through an aggressive expansion plan across the region. Although the company was looking for ways to finance this expansion, it was also looking for a partner with knowledge of key markets outside of Colombia. Corona's Board of Directors held a competitive process among financial investors in an attempt to find a partner that could help. Corona wanted a regional fund that would actively add value to its Latin American growth strategy. After getting to know the management of VCP and talking to several of the fund's other portfolio companies and shareholders, Corona decided to partner with VCP.

VCP's interest in Corona stemmed from its strong track record in the Colombian, Central American and North American construction finishes sector. The company was already well positioned to take advantage of the robust and growing demand for consumer household products across the region. VCP saw Corona as an ideal opportunity to partner with one of the leading building materials companies in Latin America. The fund also saw the potential to further expand Corona's market share in several segments in the Americas through a stable and geographically diversified platform. VCP believed in the company's strategy of expanding into cement manufacturing in order to monetize sizable mining reserves and take advantage of its strong distribution and commercial capabilities, including Organización Corona's own distribution network.

EXECUTION

From the beginning of the investment period, it was clear that Corona and VCP shared the common goal of rapidly expanding the company. Because Corona already had very solid governance and management, VCP focused on supporting its transformation into an international company and bringing investment discipline to Corona's expansion outside of Colombia. VCP helped the company to adapt to the business and cultural realities in other parts of Latin America. This included establishing a revised due-diligence process for new acquisitions, as well as a getting involved in the redefinition of the organizational structure and management needed to support operations in other countries besides Colombia, with a focus on ownership and accountability of that new international organization. VCP has also helped Corona to identify a joint venture business partner for its cement project and to redefine its long-term compensation plan to help the company retain top talent and better align management's and shareholder's incentives.

VCP played an integral role in identifying and analyzing acquisition targets. In 2015, Corona acquired Mexican kitchen and bathroom fixtures manufacturer Lamosa, with the goal of entering the Mexican market and complementing its product offer in the southern states of the US market. Similarly, VCP helped Corona to redefine its post-acquisition strategy in Central America and the Caribbean, including the shutdown and relocation of plants in that region.

VCP has been instrumental in the development of the new cement project that was announced in October 2015. Construction of the plant began in January 2017. This project, which will require approximately US$370 million of investments, is being executed in a 50-50 joint venture with the Spanish company Cementos Molins. In addition to VCP's active role in structuring the project, VCP was responsible for bringing the Spanish partner to the table, and is deeply involved through its Board participation in the financing aspects of the project.

OUTCOME

Since VCP's investment, Corona has consolidated its significant market share and grew its regional presence by entering new markets (Mexico), as well as a developed a new business line (cement). Corona's Mexican business has been successful and its strong emphasis on exporting to the southern US has paid off. Although the economic downturn in Brazil resulted in below-expected growth in Corona's Brazilian operations, the long-term outlook is positive.

In January 2017, Corona started the construction of a cement plant in northwest Colombia, with a total capacity of approximately 1.4 million tons a year, in a 50-50 joint venture with Cementos Molins from Spain. This plant, with total investments of over US$370 million, is expected to start operations in 2019 and will mark Corona's expansion into the cement business.

ESG IN FOCUS

FUND ESG POLICIES

ESG has been a cornerstone of VCP's mission since it was founded in 2006. During the due diligence process, it looks at a company's finances, but also vets and reviews investments based on social, environmental and governance criteria, often hiring outside specialists. VCP uses a structured framework to support and implement high standards for environmental, social and governance within the macroeconomic, regulatory, and cultural context of the South American region. The ESG analysis continues if a company receives backing. The fund's managers monitor ESG on an ongoing basis during the life of the investment. VCP seeks to follow and adhere to IFC Performance Standards on Environmental and Social Sustainability. VCP also works directly with its portfolio companies to guarantee that the companies adopt policies that have a positive social and environmental impact, while upholding strict, international governance standards.

COMPANY ESG INITIATIVES

VCP took an active role on Corona's Board of Directors and contributed to improving the company's internal auditing, human resources and compensation committees. It focused on strengthening Corona's corporate governance and implementing best practices through specific initiatives such as supporting the definition and implementation of the management team's long term compensation scheme, guaranteeing interest alignment with the company's mid- and long-term goals. It also helped improve the company's internal reporting standards while complementing the information available to the board to facilitate the decision-making processes.

The company is focused on several environmentally friendly policies. One example is the reduction of Corona's water footprint. The company implemented closed water-cycles (zero disposal) across its five business units: the Sopo plant (tiles), the Madrid plant (fixtures ware), the La Union plant (mineral products), the Rio Negro plant (paints) and the Caldas plant (dinnerware). In 2016, Corona achieved a milestone of recycling over 81% of its water consumption, equivalent to more than 700 Olympic swimming pools. In 2010, the recycling of water in Corona was only 51%. As a result, total wastewater disposal decreased 79%.

The company also launched an initiative in 2012 to improve social conditions in the areas and communities in which Corona has operations to promote the solidarity and social responsibility via product donations, cash investments and volunteering. The initiative focuses on four areas – donation of building materials for infrastructure projects, reforestation, low income housing and the transfer of knowledge aimed at the reintegration of combatants in Colombia's civil war. The company estimates that 50,000 hours of voluntary work have been donated, with 1,600 volunteers and 108,147 people benefiting from the program.

LAVCA PRODUCTS

LAVCA Industry Data and Analysis

Represents the most comprehensive and accurate source of regional industry data on PE/VC investments.

LAVCA Online Directory

The only comprehensive online database of Latin America PE/VC fund managers. System updates are made ongoing.

LAVCA LP Survey

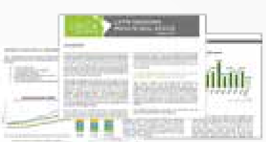
The first comprehensive survey of Latin American PE of its kind, providing a unique perspective of the issues and opportunities facing private equity investors in the region.

The Latin American Private Capital Update

The Latin American Private Capital Update is LAVCA's official bi-weekly newsletter.

The LatAm Venture Bulletin

A must-read roundup of startup deals and news on emerging technologies in Latin America, delivered to over 3,000 investors, entrepreneurs, and corporates bi-weekly.



LAVCA Real Estate Report

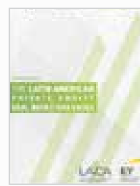
Latin American Provate Real Estate presents an independent perspective on the size of the Latin American private real estate market, identifying the main player, geographies, and relevant sectors in the region, with a particular focus on Brazil, Mexico, Colombia, Peru, and Chile.

The LAVCA Fund Manager Directory

The LAVCA Fund Manager Directory catalogs PE/VC managers active in Latin America. Profiles detail investment strategies; AUM; preferred stages, sectors, and geographies; addresses; and key contacts.

LAVCA Scorecard

Produced in collaboration with the EIU, the LAVCA Scorecard ranks 12 countries based on 13 indicators.



The Latin American PE Deal Book & ESG Cases

The Latin American Private Equity Deal Book & ESG Cases profiles investments from leading private equity players in Latin America. Cases include information about deal execution, investment strategy, ESG, and IRR.

Directory of Latin American Pension Funds & Overview and Analysis of Key Markets

The Directory of Latin American Pension Funds includes an overview and analysis of the key markets, directory of regulatory agencies, and profiles with key contacts at the top pension funds in each country. Profiles also include each pension's asset mix.

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