Carpe Diem

Mexico is Latin America second largest economy. Big, irreversible trends are likely to favor Mexico's growth. Falling birth rate in the country, rising wages in China, a growing internal market and a flexible inclusive economy are pushing the country forward. Home-grown problems that have held it back in decades past seem to finally be taken care by a newly energized political class.

Mexico used to be a place were business would be done from within; strangers were not a part of the circle and getting in was beyond hard.. Things have changed as Mexico has opened up to become a place where the world does business. The North American Free-Trade Agreement (NAFTA) eliminated most tariffs between Mexico, the United States and Canada. That was but the beginning. As of today, Mexico has signed more treaties with over 44 countries. This makes it the largest trade agreement country in the World. German companies turn out electrical components, Canadian firms assemble aircraft parts, and Japanese firms assemble cars not to count the endless amount of multi national companies that make televisions, fridge-freezers and much else. On a yearly basis, Mexico exports manufactured goods that amount to about the same value as the rest of Latin America put together. Trade makes up a bigger chunk of its GDP than of any other large country in Latin America

A 19th century proverb used to say:"Poor Mexico, so far from God and so close to the United States"; the impact of a US recession took its toll on Mexico's as the economy shrank, but its self established globalized profile has helped it recover at a very fast pace. What's more, it seems that the irony of this is that Mexico is poised to take advantage of is close geographical location to the USA. Mexico's took a beating about a decade ago, when large US companies moved their operations to China; since China labor wages have more that quadrupled, whereas Mexican wages have less than doubled. Add to that the cost of shipping goods form Asia to the US compared to bringing those same goods from south of the border. It is not surprising that factories are opening up left and right, from cars to clothing, you name it, chances are high that the average American will read the "Hecho en México" label in their products..

An interesting projection appeared on The Economist magazine last year (see below), that exposes the likelihood of Mexico taking a much larger role in the US economy in years to come.

The Thinking Man's Approach

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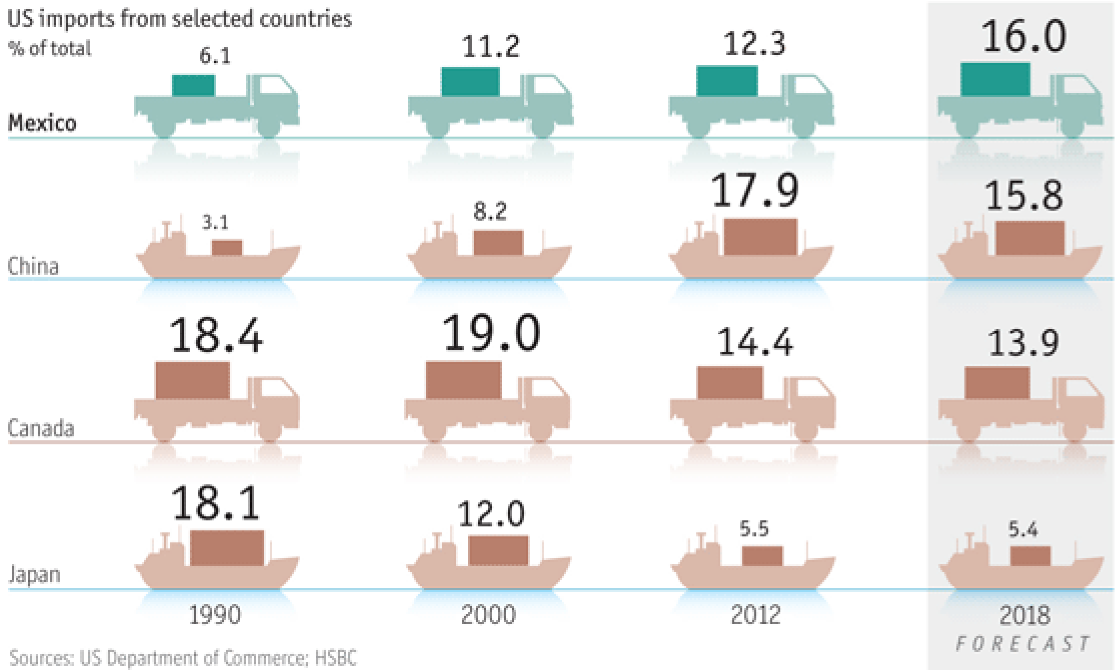
Gerhard Herrera Pahl | Managing Partner

In a world where good investment opportunities have become scarce and difficult to spot, it is important to act swiftly when an opportunity is identified. Mexico is a success story long in the making, and after years of underachievement and rising violence, Mexico is at last beginning to realize its potential. So should long term investors.

For more information and details on our investments in Private Equity, please inquire: ideas@bigsurpartners.com



Conclusion

It is also important for investors to realize that no one has the crystal ball, and although we feel comfortable investing in real estate for all of the reasons this note highlights, there is a possibility that the market has not yet bottomed, and the positive movement real estate is experiencing is not a sustained recovery. We don't see this as the base case, but for those readers interested, there is a recent New York Time's article by Robert Shiller, an expert in housing markets and bubbles, which puts today's housing recovery in context with historical bubbles. The article follows this piece.

We will continue to look for reasonably priced assets, focusing upon two segments of the market: second tier primary markets for office space and Texas for multi family housing. The office space in top tier metropolitan markets such as New York, San Francisco, and Washington, DC is already richly valued- reasonably priced assets are scarce, and there are few opportunities for attractive investments. Our focus has been upon markets a step below these primary top tier markets- cities such as Pittsburgh, Pennsylvania or Austin, Texas. We are targeting cities that are experiencing a significant transformation, usually related to a change of industry (for example, Pittsburgh, which has for the last few years positioned itself to become a leading health care services city from a manufacturing and steel city). We like to find this dynamic in the cities we invest in- strong. fundamental drivers propelling growth. We are focusing on Texas for multi family housing; key factors to consider when evaluating multi-family housing are population, job and economic growth. Texas leads the way in all three categories in the US- in 2012, the population growth rate in Texas cities (Austin: 2.8%; Dallas: 2.2%; Houston: 2.0%;) were more than double that of the average US city (0.7%).[1] Forbes forecasted the economic growth rate of cities in Texas to be above 5% for 2011-2016 (Austin: 6.1%; Dallas: 5.0%; Houston 6.1%).

We will take advantage of the low interest rate environment to lock in low financing rates for as long as we can- and we believe that these conditions of low valuations and low rates will not last forever.   While the window of opportunity remains open we will be helping our clients to build a balanced real estate portfolio of investments that will yield relatively higher than other assets for the next few years.

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