Opportunities in the Mexican Private Equity Space

Mexico is Latin America's second largest economy. Important, structural trends are likely to favor Mexico's growth. A boosting disposable income in the country, rising wages in China, a growing internal consumption market and a flexible open economy are propelling 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 where business would be done from within; strangers were not a part of the circle and accessing it was beyond difficult. 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 just the beginning; as of today, Mexico has signed treaties with over 44 countries. German companies turn out electrical components, Canadian firms assemble aircraft parts, and Japanese firms assemble cars; there are 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, the irony of this is that it would seem Mexico could take advantage of its 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 than quadrupled, whereas Mexican wages have less than doubled. Add to that the cost of shipping goods from 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/(Made in México)" label in their products. An interesting projection appeared on The Economist magazine last year (see below), that exposes the likelihood of Mexico taking on a much larger role in the US economy in years to come.

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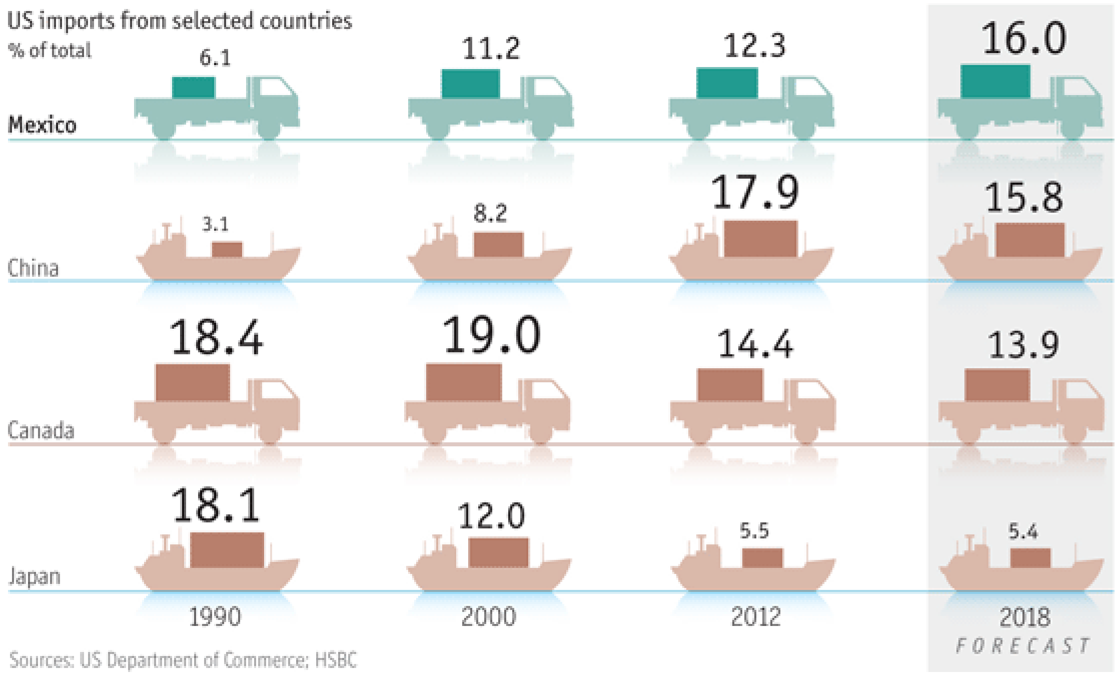
In a world where good investment opportunities have become scarce and difficult to spot, it is important to act swiftly when an opportunity is identified. Mexico is a success story long in the making, and after years of underachievement and rising violence, Mexico is at last beginning to realize its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

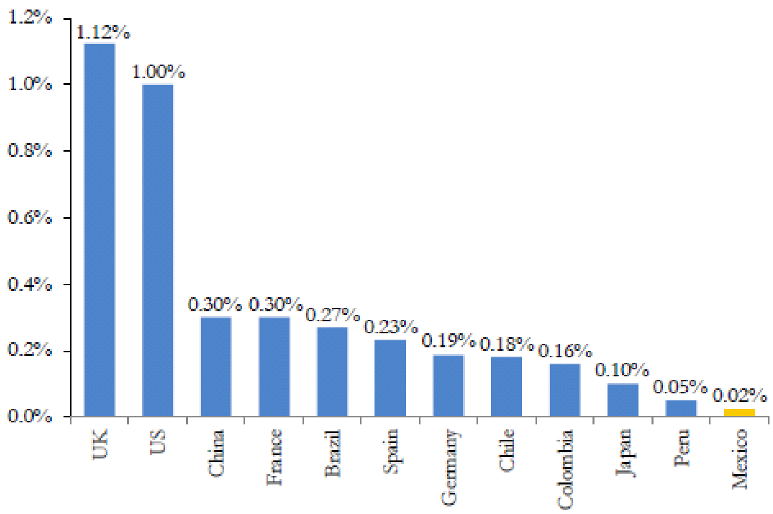
For more information and details on our investments in Private Equity, please inquire: ideas@bigsurpartners.com



Private Equity

Mexican business owners running large companies are often unwilling to give up control or to tap financial investors as a source of capital. It is a more institutionalized approach to business and less understanding of the value that Private Equity investors can offer to growing companies. This creates barriers to investment in key sectors such as energy, telecom and media. However the business culture is changing as the underlying economic landscape continues to improve and the windfalls of an open economy continue to challenge old ways. The country's Private Equity industry is quite small for an OECD country. Private Equity (PE) investment represents a much smaller fraction of GDP compared to Brazil. Much of this has to do with the availability of local sources of capital to fund first time fund managers. Looking at other markets, there is a direct correlation between total investments and regulations limiting local pension funds to back Private Equity firms. Brazilian pension funds started backing domestic PE managers over a decade ago which has created a stronger PE culture there. In Colombia and Peru the domestic PE industry opened up around 2006 when pension funds began backing local managers. Regulatory bodies in

2011 PE Investments as a % of GDP



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Mexico only began allowing pension funds (Afores, which manage over $140bn) to invest in PE funds since 2010, which has had a visible impact with funds opening since then.

Conclusion

Within Mexico we identify an opportunity based on the attractive growth prospects and a demographic transition which is boosting disposable income and thus fostering domestic consumption. We have recognized that there is a unique target company universe within the local markets, where considerable opportunities arise for family owned and privately held growth oriented companies. These companies are searching for partners combining local knowledge and global vision to help them transition from the traditional family owned business model to the modernized corporate model. More importantly for the opportunity itself, we think that there are attractive entry multiples and a liquid equity market that will make IPOs a realistic exit strategy. In a Zero Interest Rate Policy World where developed markets present investors with stretched valuations, we think it wise to expand our horizon and seize an opportunity that seems ripe for fruition. The Private Equity market is a nascent one in Mexico and it offers attractive entry opportunities at attractive discount. As with all investment decisions, finding the best partner possible is important. Private Equity is not an exception, and given the opportunity it is imperative to make the appropriate choice as to the way of accessing the prospect.

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