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FEATURED Q&A

What Is the Outlook for Venture Capital in the Region?

Q Private equity investments as well as deployments of venture capital in Latin America declined by 10 percent in the first half of this year, as compared to the same period last year, to $2.6 billion, the Latin American Private Equity and Venture Capital Association said recently. Fundraising in the period totaled $3.5 billion, a figure the organization estimates could reach $8 billion by year's end. What are the trends in venture capital and private equity in the region? Who is investing money and in what sectors? Which countries have attracted the most and least investment this year, and why?

A Alejandro D. Fiuza, partner and chair of the Latin America Practice Group at Brown Rudnick LLP: "We have seen a significant increase in venture capital and private equity investments (many of them high-end and mid-market) in Latin America over the last few years, both from international as well as local investors, along with the more prominent role played by some sovereigns and government-owned funds and the growing role of the so-called 'Multilatinas' in the region and outside the region. While the key drivers of M&A activity continue to be opportunistic, economic and political volatility as well as the growth of middle class, our clients see Latin America as a region ripe with opportunities and with innovative entrepreneurs. In the last 12 months, we have assisted our clients in closing numerous series investments in various Latin American companies. As an illustrative example, one of our clients, Endeavor Catalyst, alone has invested in more than 10 different companies in Brazil, Argentina and Mexico, mostly in the emerging tech and consumer products space. The same client was also involved in two exits, the last one in connection with Globant S.A.'s recent IPO. There has been significant appetite in other segments (for instance, oil and gas, energy, infrastructure, agribusi-

Continued on page 2

Panama's Varela Seeking Increase of Deficit Limit

Panamanian President Juan Carlos Varela said Tuesday that he will ask lawmakers to lift the government's budget deficit limit to 3.7 percent of GDP. The previous government increased spending ahead of the country's general election in May. See brief on page 2.

File Photo: Panamanian Government.

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NEWS BRIEFS

Latest Poll Shows Rousseff Pulling Ahead in Brazil

A poll released Tuesday shows Brazilian President Dilma Rousseff pulling ahead of her main rival, Marina Silva, less than two weeks before the first round of the country's presidential election, Bloomberg News reported. In a hypothetical runoff, support for Rousseff rose to 46 percent, up from 41 percent in the previous poll, while Silva's support declined to 39 percent from 42 percent, according to the **Vox Populi** poll published on the R7 news site. The poll of 2,000 people was conducted Sept. 20-21 and has a margin of error of 2.2 percentage points.

Panama's Varela Seeking Increase in Deficit Limit

Panamanian President Juan Carlos Varela said he will send a proposal to Congress within a month asking to increase the government's budget deficit limit from 2.7 percent of GDP to 3.7 percent, Bloomberg News reported Tuesday. Varela, who took office July 1, said the change would be part of a "transition" that will allow his government to finish public investment projects started under the previous administration and also manage inherited debt.

Deforestation Pledge Signed at U.N., But Brazil Holds Back

More than 30 countries, among them the United States, Canada and European nations, as well as companies and other groups, on Tuesday signed on to a United Nations declaration to cut forest loss in half by 2020 and end deforestation by 2030, the Associated Press reported. However, Brazil said it will not join the pledge because it was not consulted in its the declaration's development.

Political News

Three Members of Anarchist Cell Ordered Held in Chile Bomb Attack

A judge in Santiago on Tuesday ordered the continued detention of three members of an anarchist cell who are suspected of involvement in a Sept. 8 bomb attack in the Chilean capital that injured 14 people, the Associated Press reported. Juan Flores, 22, Nataly Casanova, 24, and Guillermo Duran, 25, were arrested last week. The three suspects, who were ordered to be held under nighttime house arrest, were often seen laughing during Tuesday's court proceedings, the wire service reported. The judge said that prosecutors had 10 days to collect evidence against the three under the South American country's antiterrorism law. The measure, which was enacted during the dictatorship of Gen. Augusto Pinochet, allows the government to hold suspects in isolation without charges against them and also allows investigators to intercept phone calls and use secret witnesses. The three suspects also are suspected of being involved in three other bombings, including an attack at a subway station last July in Santiago that caused minor injuries and some property damage. The Sept. 8 bomb attack occurred at lunchtime in an area with food stalls in the busy Escuela Militar subway station. It was the worst such bombing in Chile since the country returned to democracy in 1990. [Editor's note: See Q&A about the bombing and security in Chile in Tuesday's *Advisor*.]

The judge gave prosecutors 10 days to collect evidence under Chile's antiterrorism law.

Economic News

Peru Expects to Begin Exporting Energy in a Few Years: Humala

Peru will be able to begin exporting energy to its neighbors in a few years as natural gas production and hydroelectric projects boost the country's energy production and make it self-sufficient, President

Featured Q&A

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ness, IT and telecommunications). While a significant percentage of the exits in 2013 involved Brazilian companies, there were also exits in other areas in the region (Mexico, Chile, Andean region and Argentina). When it comes to Latin America, there is no such a thing as a one-size-fits all investment approach. There is not a single recipe for success. For instance, sudden and unpredictable regulatory changes often dissuade some investors (the most risk-averse funds) from investing in some countries or industries, but others see those very same changes as challenges and opportunities for arbitrage. Last but not least, Latin American firms are taking a more active role north of the border—this is growing, and it is not just Brazilian and Mexican companies that see opportunity in the North American market. This is a very interesting development."

A Bret Rosen, managing director at Jamestown Latin America: "This year's decline in private equity investments in Latin America should be viewed as cyclical in nature, rather than representative of a longer-term trend. Local and foreign pension funds, endowments and sovereign wealth funds are all allocating funds to the region, and once economic growth returns to trend level, they will likely be investing more aggressively. Domestic pension funds have seen substantial increases in assets under management, and given the lack of liquidity

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Ollanta Humala said Monday in New York, Bloomberg News reported. Peru has met its domestic demand, and once the country's second gas pipeline comes online, it will be able to export surplus energy, he said. "[This] allows us to take on another concept which is that of energy solvency, that is to say that Peru can not only meet its domestic demand for gas, and cheap gas, one of the cheapest in the world, but also export industrialized products of this gas, to export energy, to brother countries, countries in the region that require it. …Within a few years, we are going to begin exporting energy, " Humala said, according to state news agency Andina. On June 30, Peru awarded a consortium comprised of Brazil's **Odebrecht** and Spain's **Enagás** the rights to build Peru's second major pipeline, which will carry natural gas from the Camisea fields to the southern Pacific coast and supply two power plants that are currently under construction. Peru's first major gas pipeline, which came online more than a decade ago, provides half of the country's electricity and also feeds an LNG-export terminal. Peru has the second-largest natural gas reserves in South America, according to U.S. EIA figures, and nearby Chile imports 97 percent of the oil and gas it consumes. On Monday, José Suárez, the technical secretary for CodeHuallaga, said that the country's central Huánuco Region will receive $1.69 billion of investment in four hydroelectric projects that will come online over the next few years, Andina reported.

Humala

File Photo: Peruvian Government.

Company News

Colombia's Grupo Aval Raises $1.26 Billion in IPO

Colombia-based **Grupo Aval** on Tuesday raised $1.26 billion, more than the banking group had expected, in an initial public offering of shares in New York, Reuters reported. Aval's offer was priced at $13.50 for each American depositary share. However, the shares debuted with a rise of 0.96 percent, to $13.63 per ADS. Each American depositary share, which trades under the ticker symbol "AVAL," represents 20 preferred shares of the banking group. The Bogotá-based bank had expected to raise $1.1 billion in the IPO. **J.P. Morgan Securities**, **Goldman Sachs**, **Citigroup Global Markets** and **Morgan Stanley** were the underwriters of the share offering. Aval has said it is planning to use the proceeds of the sale to support its units, **Banco de Bogotá**, **Banco Popular**, **Banco de Occidente**, **Banco AV Villas**, the **Corficolombiana** financial entity and pension fund **Porvenir**. Colombia's richest person, Luis Carlos Sarmiento, controls Grupo Aval, Latin America's largest non-Brazilian banking group by assets. Sarmiento owns approximately 95 percent of the group's outstanding shares. Aval has maintained its focus on Latin America in its acquisitions in recent years, buying **BAC Credomatic** for $1.9 billion in 2010 in addition to the Panama unit of **BBVA** and a Guatemalan lender, Bloomberg News reported.

The Dialogue Continues

What Should Be Done About Central America's Drought?

Q A severe drought has destroyed crops in Central America, where as many as 2.8 million people are struggling to feed themselves, the United Nations World Food Program said Aug. 29. Southern Guatemala, northern Honduras and western El Salvador have been particularly hard hit. What should those countries' governments and international agencies do to address the crisis? How will the drought affect the economies of the Central American countries involved? What should be done to prevent such crises in the future?

A Miguel Barreto, World Food Programme regional director for Latin America and the Caribbean: "Governments should prioritize and reorient their social spending effectively and efficiently. International bodies should complete the rapid assessment to focus their response. The measures should include food transfers or conditional transfers of coupons and cash that allow access to food. If there is not a quick response and/or if the lack of rain continues and affects the most recent harvest, it could generate a very severe human crisis. The international community should confront this slow crisis by giving resource support to activities where necessity exceeds the response capacity of the state. Honduras and Guatemala have made international calls for help. The drought affects the socioeconomic condition of subsistence farmers and very poor families from the 'dry corridor' and reduces their resources and consumption options. Deterioration in the countries' economies is not expected, since food production in this zone oscillates between 10 and 15 percent of national totals. However, due to the incidence of coffee in export revenue, coffee rust has affected the regional economy. Avoiding this type of crisis involves sustainable and coordinated public policies, as well as effective measures that prioritize this geographic area in development plans, of preferential treatment and of public and private investment. It is essential to have resilience programs, community agroforestry, incorporation into the market, water infrastructure, irrigation and access routes. Additionally, there is a need for social programs that respect the local culture and promote access to adequate nutrition, education and health services."

Editor's note: The above is a continuation of a Q&A published in the Sept. 19 issue of the Advisor.

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Featured Q&A

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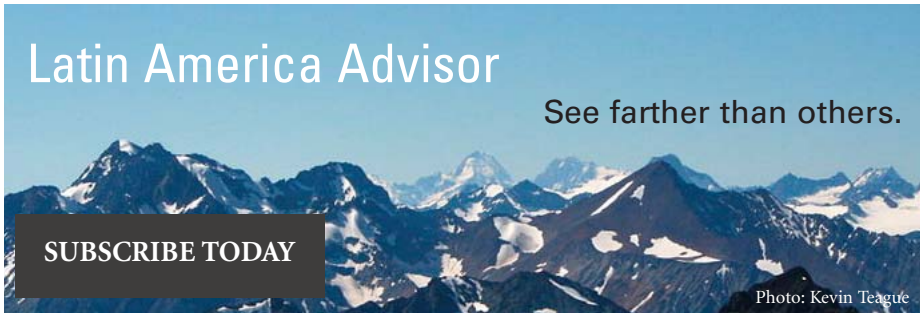
in many domestic stock markets, are increasingly more interested in private equity. Private equity investors continue to search for opportunities linked to the rise of the middle class in Latin America. In particular, businesses connected to the rising consumption of the middle class are gaining marked interest. The real estate and retail sectors benefit from interest rates that are low from a historical perspective and higher levels of disposable income. Latin America has a substantial housing deficit (Brazil's is estimated to be over 6 million), and mortgages are now within reach of larger percentages of the population. Due to better access to consumer credit and healthy jobs markets, retailers and shopping malls have delivered good financial performance. Meanwhile, the average Latin American consumer is demanding the same products middle-class citizens in the United States and Europe have been accustomed to. Private equity investors are deploying capital with these trends in mind. The Andean countries have seen growing interest due to strong economic fundamentals and rising consumer confidence. Returns in the Colombian and Peruvian markets should be attractive, especially as the landscape there is less competitive than in the region's largest markets. Colombia and Peru only recently have entered the radar of large institutional investors. Brazil remains a major focus; despite its subpar macro numbers, Brazil represents a huge domestic market, with more than 200 million people, more than 50 percent of whom are considered to be middle class, a GDP of more than $2 trillion and a strong consumer culture."

> "Despite its subpar macro numbers, Brazil represents a huge domestic market..."
>
> — *Bret Rosen*

Francisco Alvarez-Demalde, founder and partner of Riverwood Capital Partners in New York: "2014 has continued to be a strong year for private equity and venture capital for Latin America, and deal activity might end up close to record levels, despite the decrease in the first half of 2014 versus 2013. However, we see that the trends are different by country, sector and investment type. For example, technology, which is the sector in which we focus, continues to be a strong destination for investment driven by the secular growth in the sector. We continue to be cautiously optimistic about the growth in several technology verticals, despite the macroeconomic headwinds. At the same time, other sectors are getting less attention as macroeconomic conditions change and growth decreases. In terms of countries, we see a more balanced and conservative market in Brazil in comparison to 2012 and 2013, with significant concerns due to lack of growth and continued devaluation of the currency, as well as the elections. At the same time, Mexico has caught a lot of new attention by private equity firms, driven by the recovery in the United States and the energy and telecommunication reforms. The Andean region also presents a mixed picture."



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