



Private Capital Symposium
Finding Opportunity for Alternatives in Latin America

2022

CHILE | COLOMBIA | PERU | BRAZIL | MEXICO | UNITED STATES

Agenda

1. HMC Capital Overview
2. Private Markets in Latin America
3. Trends and Outlook

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HMC Itajubá Overview

About Us

“ Global Investment and Advisory Firm Focused on Alternative Investments ”

~ \$ 17 Bn AUM + AUD

 7 offices in 6 countries

 Team of +80 people

Asset Management

Americas (Latam & US)

-  Venture/Growth
-  Private Equity
-  Real Estate
-  Credit
-  Evergreen/ Liquid Funds

+ \$ 2.0 Bn

Placement & Advisory

-  Liquid Investments
Equity & Fixed Income
Specialized Managers
-  Alternative Investments
#1 in Alternatives AUD – Latam
-  Directs & Co-investments
Unique & Exclusive
Investment Opportunities

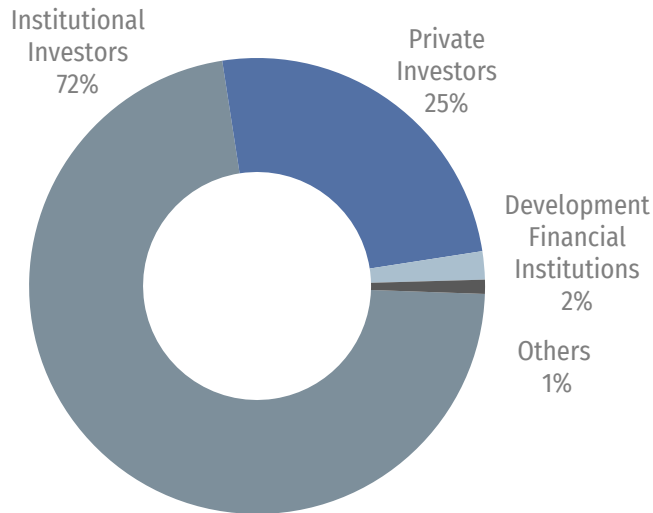
+ \$ 15 Bn



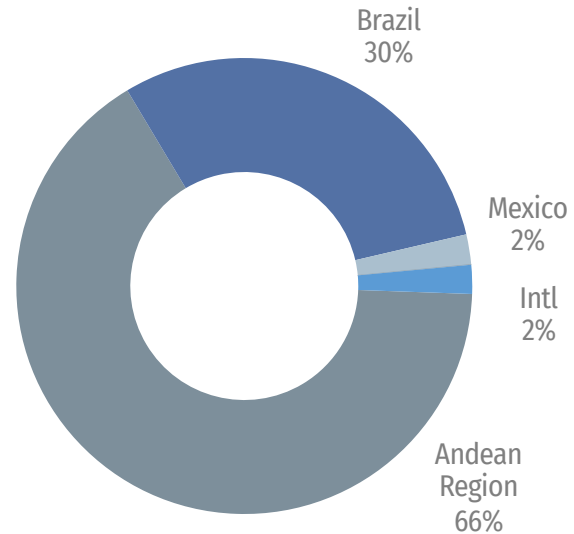


Investor Base

Breakdown by type of investor (%)



Breakdown by country (%)



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Private Markets in Latin America

Finding Opportunity in Latin America

Latin America is a region that has become an important source of growth for the alternatives industry.



Regional public markets (bonds/equities) are relatively illiquid for the size of its institutional players; therefore, **the need to look for returns and diversification in international markets has increased.**



Brazil and Mexico have the highest potential given their size, both on the institutional and private segments.

- Andean Region countries have been the pioneers in offshore allocation to alternatives.



With a growing middle class, the pension funds AUM has reached the level of **+USD 750 Bn.**



Political, economic and regulatory challenges remains an obstacle to exploit its growth potential.

Regarding PE in Latin America, venture capital & growth are the strategies that have gained more traction in recent years, **creating unicorns and successful listed companies (Ex Nubank, XP).**



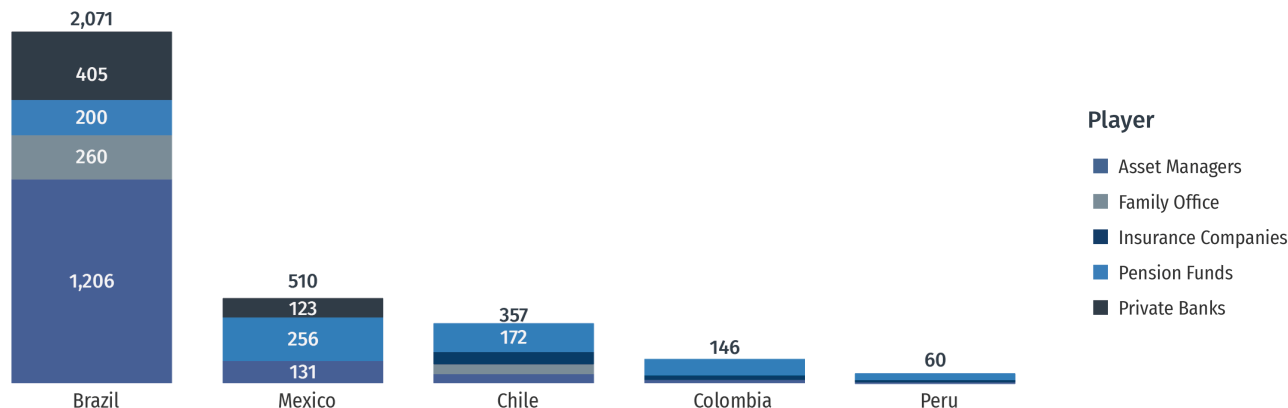
Latin America – Estimated Market Size

The region has become a relevant source of capital for private markets with an **estimated market size of USD 3,1 trillion**, including institutional and private investors.

On the institutional side, Andean Region Pension Funds are the most active investors in alternatives while Mexican Afores are starting to catch up.

In Brazil, **private banks and family offices** are the leading investors in the asset class since Pension Funds are still not allowed to invest in international PE.

Exhibit 1. AUM (USD Bn) by Type of Investor and Country



Source: Consar (Mexico); SVS and CMF (Chile); SFC (Colombia); SBS (Peru); Anbima, Abrapp, ISE & Ineo (Brazil); HMC Itajubá estimates. As of December 2021.

Latin America – Estimated Market Size

- In recent years, a **second wave is emerging in the market**, where private investors (Private Banking, MFOs, Fos) are attracted by the higher absolute returns offered by global alternatives managers.
- We have also seen a **resurgence of the US offshore market** getting significant inflows due to political and macroeconomic instability.
- As part of the market development, **secondaries deal flow** is becoming more relevant for institutional investors to adjust their portfolio needs.

Table 1. Number by Type of Investors

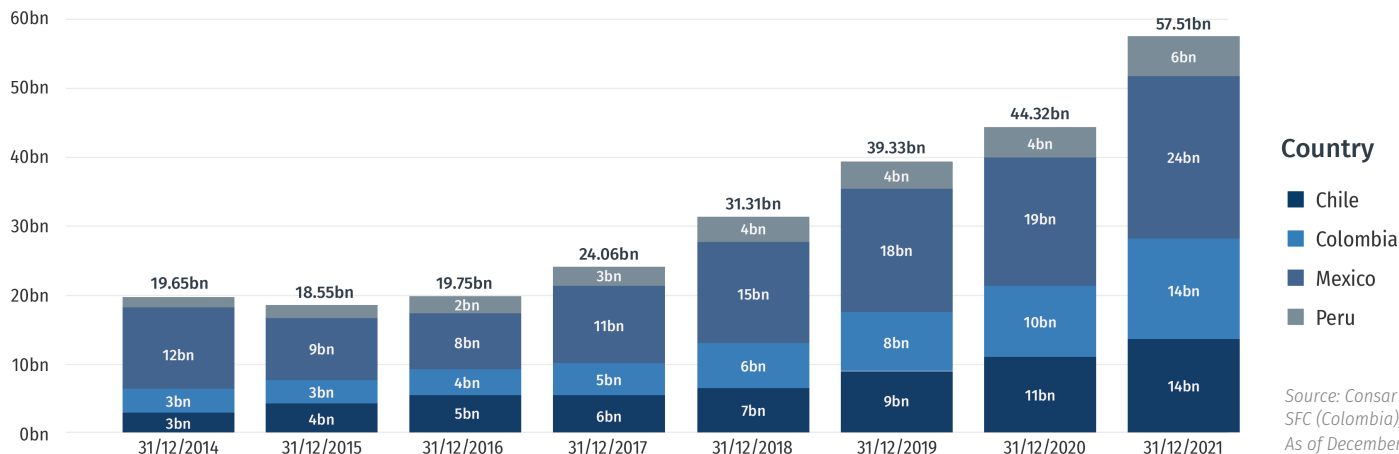
Country	Pension Funds	Insurance Companies	Asset Managers	Private Banking	Family Offices
Brazil	~320	160	~730	~25	~100
Mexico	10	115	30	10	N/D
Chile	7	36	18	N/D	>100
Colombia	4	33	44	N/D	N/D
Peru	4	18	12	N/D	N/D

Source: Consar (Mexico); SVS and CMF (Chile); SFC (Colombia); SBS (Peru); Anbima, Abrapp, ISE & Ineo (Brazil); HMC Itajubá estimates. As of December 2021.

Alternative Investments Portfolio Evolution

- Portfolios are consolidating and maturing, with a broad exposure to different strategies like Buyouts, Secondaries, Growth, Private Debt and Real Estate.
- Current exposure is close to USD 60 billion.
- On average, alternative exposure of Pension Funds has **increased 3.6x** in the last eight years. We expect this trend to continue, with Mexico as main driver.

Exhibit 2. Historical Pension Funds Alternatives Allocation (USD Bn)

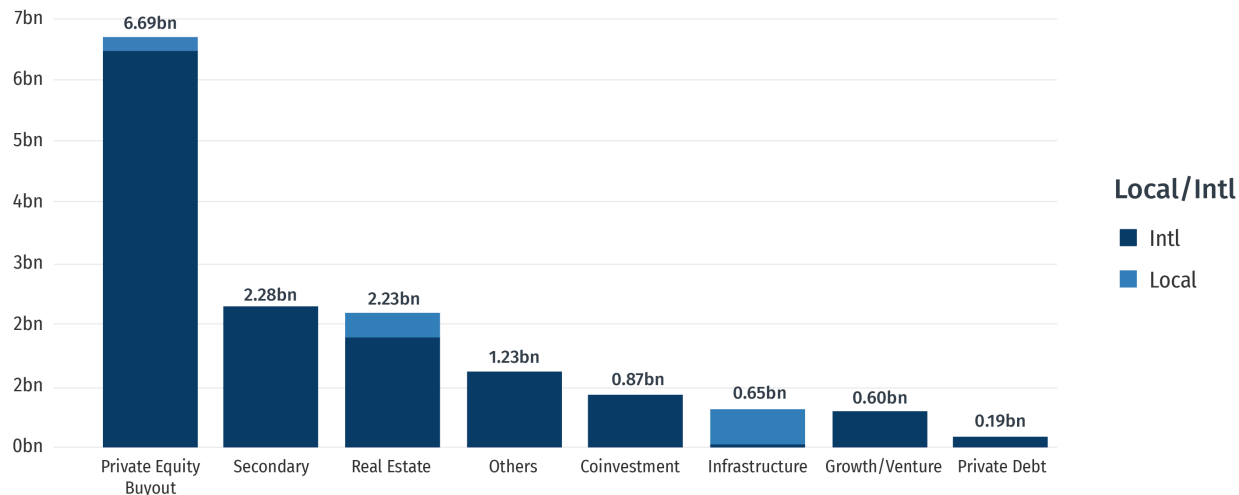


Source: Consar (Mexico); SVS and CMF (Chile); SFC (Colombia); SBS (Peru).
As of December 2021. HMC Itajubá estimates.

Portfolio Exposure to PE – Colombia Case

- Below the alternative asset allocation of **Pension Funds in Colombia** since their programs have grown rapidly and are the most sophisticated in the region.
- The exposure is concentrated in **International GPS**, while local private equity has been limited to some Real Estate and Infrastructure. **The total exposure is USD 15 bn.**

Exhibit 3. Colombian Pension funds alternative exposure by Strategy and Local/Intl



Source: SFC (Colombia). As of December 2021, HMC Itajubá estimates.

Private Equity in Latin America

PE industry in Latin America has had many challenges for its development. From political to macroeconomic challenges, including **high capital costs, huge volatility of local currencies, and lack of seed capital from Institutional Investors.**



The region's growing and young population has created opportunities in Fintech, Agri Tech, e-commerce and healthcare. There is an urgent need to improve the digital infrastructure.



The appetite of LPs for Latin American assets is driven by **market dislocation**, and most recently, **Venture Capital.**

Venture and Growth could be the drivers of growth going forward through disruptions and innovations according to OECD.

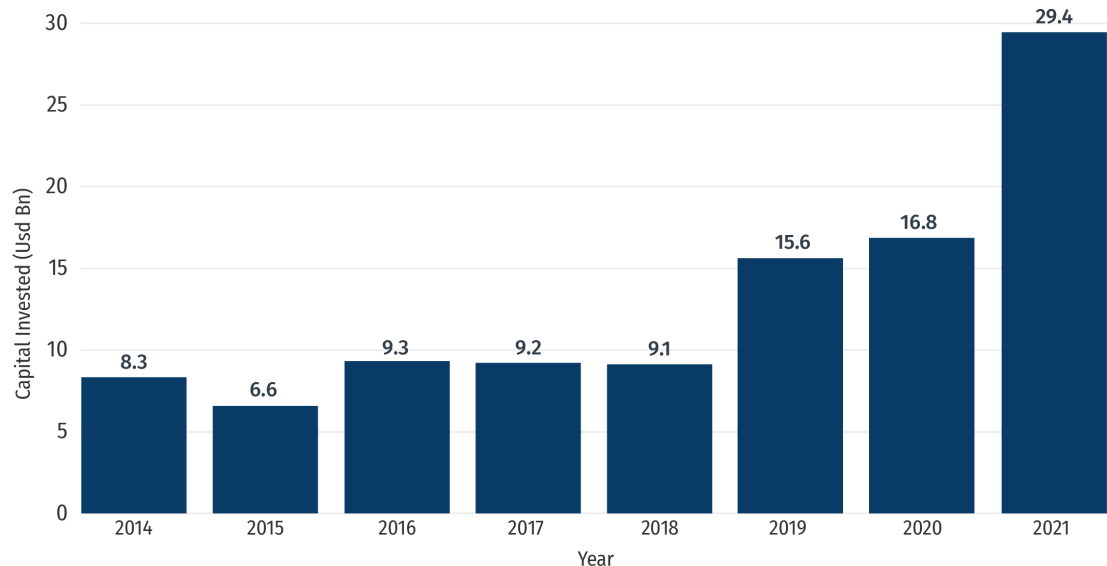


Private Market in Latin America

VC investment reached a record of **USD 15.7 Bn in 2021**, more than what the region's startups attracted in the 10 years prior.

Private capital funds are financing the region's bet on greater connectivity and competitiveness through digital and transportation infrastructure, with a record **USD 7.5 Bn deployed across 38 infrastructure projects**.

Exhibit 4. Private Capital Invested in Latam (USD Bn)



Private Market in Latin America

PE investors, corporates, pension funds and sovereign wealth funds are playing a central role in tech investing in Latin America, anchoring or contributing to late-stage rounds for high-growth tech companies.

Table 2. Notable VC rounds

Company	Tech Vertical	Country	Value (USD Mn)	Investors
 nubank	Fintech	Brazil	750	Berkshire Hathaway, Sands Capital, CPP Investments, Sunley House Capital (Advent affiliate), Tencent Holdings, et al.
 Rappi	Super Apps	Colombia	500	Y Combinator, T. Rowe Price, GIC, et al.
 tiendanube	E-commerce	Argentina	500	Insight Partners, Tiger Global, Qualcomm Ventures, Sunley House Capital (Advent affiliate), et al.
 loft	Proptech	Brazil	425	D1 Capital Partners, CPP Investments, GIC, Sunley House Capital (Advent affiliate), Tiger Global, et al.
 NotCo	Foodtech	Chile	235	Tiger Global, Bezos Expeditions, L Catterton, et al.
 merama	E-commerce	Brazil/ Mexico	225	Advent International, SoftBank Group, Globo Ventures, et al.
 CargoX	Logistics	Brazil	203	BTG Pactual, IDB Invest, SoftBank Group, Tencent Holdings, et al.

Source: LAVCA.

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Trends and Outlook

Brazilian Market Overview



Corporate Pension Plans

- Highly regulated. Historically invested primarily in Fixed Income.
- Offshore investing better regulated for liquid strategies since 2017. Restriction still in place for offshore private equity.
- Strong home bias with ~1.6% in international investments on average.

Private Banks & Digital Platforms

- Fixed Income, Credit, and Absolute Return strategies hedged back to BRL are the main targeted asset classes .
- Growing interest for Equities, Intl. Investments, and exposure to hard currencies.
- Appetite for illiquid strategies also has been growing .
- Local retail platforms looking to partner with well-established global managers.

Family Offices & Wealth Managers

- No legal restrictions to invest internationally directly. The most structured Single and Multi Family Offices have 35% exposure to international assets, on average; others have about 10% exposure.
- Most of these clients have well diversified portfolios, which makes them more receptive to niche strategies.

Mexican Market Overview

Pension Funds

- Afores started to invest in international PE in 2018 through local vehicles called CERPIs.
- Strong interest in international private equity has rapidly increased in the last few years (almost USD 11 bn NAV in 3 years of investing).
- Initial Stage bias to Big Brands (Ex, Blackstone, Blackrock, KKR, Insight, CDR).
- Buyout, Secondaries and Growth dominated the initial round of commitments.

Private Banking and FOs.

- FOs Tier 1 more bias to Direct Deals and Venture Capita/Growth exposure.
- MFOs still developing a learning curve in alternatives.



Andean Market Overview

Pension Funds

- In Colombia, PFs are more sophisticated and active in the private markets (+15y investing in private markets, followed by Chilean PFs +10 years).
- Geographic exposure in USA and Europe mainly.
- International alternative investment programs with focus on Buyout, Secondaries and more recent in Growth.

Recent developments:

- PFs in Peru Pension are currently not active in alternative investments.
- In Colombia, legal limit of international private equity funds (outside Alianza Pacifico) is currently exceeded. Alternative programs have been reduced.
- Leading AFPs are concentrating their global positions in fewer managers (same ticket size).

Private Banking and FOs.

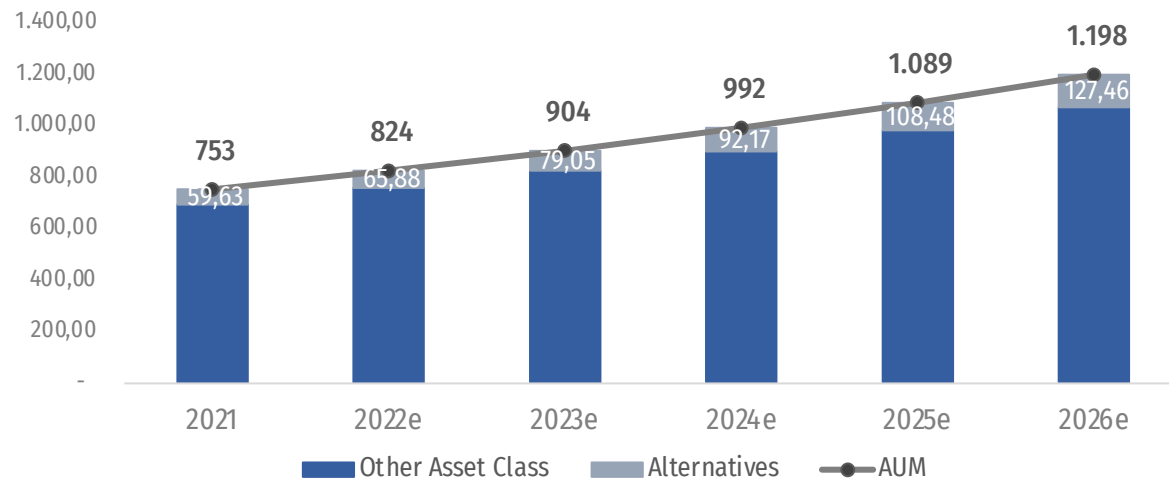
- Insurance companies are slowly investing in the asset class. They have been drivers of developing Secondaries transactions.
- In Peru New FOs and MFOs are emerging and deploying significant portion of the portfolio to PE and Venture.
- In Chile, Private Banking is also getting more traction with alternatives investments. They are demanding more bespoke products. Attractive potential going forward for other Andean countries.



Trends

In aggregate, the Private Pension Fund's AUM in Latam is estimated to increase by **1.6x**, while alternatives might increase by **2.1x** in five years, considering that Pension Funds, in the long term, seek to reach legal limits.

Exhibit 5. Projected Latin American Private Pension Funds AUM and Alternatives exposure



Challenges

Risk for the sustainability of the private-pension systems in the region:

- ✓ Government permission to withdraw pension savings (Peru and Chile).
- ✓ Government proposals to nationalize pension assets or minimize the Pension Funds' role.

Currency devaluations in Latin America have drowned returns, especially of funds denominated in US dollars.



The combination of high currency volatility and high borrowing costs reduces the feasibility and attractiveness of Latam buyout funds.



Higher exposure to private markets as a portion of PFs AUM (denominator effect).

Outlook

- Future allocation in private markets will be higher **for other investors** than Pension Funds:
 - ✔ Family offices, insurance companies, endowments, are channeling their money through private markets.
 - ✔ Andean clients are looking for themes that promise **growth, innovation and sustainability**.
 - ✔ Brazilian retail investors have grown bolder in their international exposure.
- The region continues to attract international asset managers, despite the uncertainty. For instance, Global players including KKR, I Squared Capital, and Riverwood have been actively investing in the region.
- **Mexico is shaping up as the country to watch for active managers abroad** (due to recent reform to increased contributions into Afores).

In summary, we project Global Alternatives exposure can reach **USD 150 bn** between Institutional and Private Investors over the next 5 years (2 x current exposure).

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