

INVESTMENT OPPORTUNITIES IN MEXICO AND CALIFORNIA

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Good Afternoon.

Chairman Hueso, other distinguished members of the Select Committee on California-Mexico Cooperation, and fellow speakers. My name is Maria Ariza and I thank you for the opportunity to come before you today and participate in the Sixth California-Mexico Advocacy Day here in Sacramento.

I feel deeply honored to have the opportunity to explain the history of the Mexican Association of Private Equity and Venture Capital Funds, or AMEXCAP, and its role in the Mexican Capital markets. Additionally, I would like to speak of the increasing investment opportunities that have been found throughout Mexico and the role that California has had, and will continue to have in the development of these opportunities across our borders.

AMEXCAP is a non-profit association whose mission is to foster the development of the private equity and venture capital industry in Mexico. The Association was created in 2003 and comprised of 4 participating funds managers. While both Private Equity and Venture Capital were relatively nascent industries in Mexico at the time, particularly when compared to those of the United States, their growth pattern has been quite remarkable. In the past 12 years, it is estimated that fund managers in Mexico have increased nineteen-fold and Assets under Management by thirty fold. Our latest conference, the “10th Annual Private Equity Summit” this last march March, was a testament to that growth; featuring speakers and panelists from both Mexico and the United States while bringing in over 780 attendees from several countries.

Currently, AMEXCAP represents 75 Private Equity, Venture Capital, Real Estate and Infrastructure funds managers that actively invest in Mexico. Additionally there about 40 fund managers that having offices abroad have invested in Mexican opportunities, for a total of 125 fund managers. Amid these participating funds is a diverse group of foreign and domestic investors with an array of strategies and investment profiles. Additionally, AMEXCAP includes over 35 advisory service companies involved in the areas of corporate law, tax advisory, financial services, and consulting.

AMEXCAP’s members have raised a cumulative \$24.8 billion USD over the past twelve years, and have invested in a broad range of sectors such as real estate, media and telecom, wholesale and retail trade, financial services, healthcare, transportation, business services, infrastructure, and manufacturing.

As the CEO of AMEXAP, I am responsible for furthering the development of the private equity community in Mexico by developing and fostering relationships with institutional investors, maintaining relationships with authorities and regulators to improve competitiveness, and broad dissemination of industry information.

At AMEXCAP, we have been pleased with the increase in cross-border investment activities between the United States and Mexico and are very excited with its growth potential.

A few notable examples of recent cross-border investments include Advent International's \$53 million USD minority investment in Grupo Financiero Mifel, a leading Mexican bank serving the mass-affluent retail segment, and BlackRock with First Reserve acquired approximately 45% equity interest in PEMEX's Los Ramones II gas pipeline, that represents an investment of nearly \$900 million USD. The Los Ramones II Projects consist of the construction and operation of 462 miles of natural gas pipelines to transport natural gas from Texas to Mexico. This will be the first major PEMEX-sponsored midstream assets to be built in partnership with foreign capital since the approval of the Energy Reform in 2013. These are a just a few examples of the many cross border investment opportunities we have seen and exemplify the broader growth in Mexican investment.

In 2013, Foreign Direct Investment (FDI) in Mexico rose to a record \$42.1 billion, boosted by the \$13.2 billion buyout of Grupo Modelo by Anheuser-Bush InBev. While Foreign Direct Investment returned to historical norms at \$22.6 billion dollars during 2014, the figure can be somewhat misleading due to the \$11.4 billion dollars in reductions to FDI as companies sold their assets to Mexicans. In terms of net inflows, Mexico recorded its second strongest year in 2014 with \$33.9 billion dollars, or roughly 50% above the previous 10 year average. As Mexico continues to improve its investment environment, California will undoubtedly continue to be the beneficiary of this growth as cross border opportunities increase and trade between the regions continues to expand.

This drastic growth of investment opportunity has come on the heels of sweeping economic and political reforms passed by President Enrique Pena Nieto and the Mexican Congress in 2013. Following decades of restrictive regulation and limited competition, these constitutional reforms brought about sweeping changes in key sectors across Mexico. The most significant of these changes occurring in the Energy industry, as state-controlled Pemex may now partner with domestic and international private sector firms for oilfield exploration, as well as Government owned CFE, would do the same to generate and distribute electricity. Another important reform related to the Telecommunications sectors by creating autonomous regulators to diminish concentration and improve competition. These sectors have since become a focus for private equity and venture capital throughout Mexico.

Not only did these constitutional reforms seek to open key sectors to Foreign Direct Investment, but aimed to address deficiencies in the country's structural business environment, taxation, infrastructure, and overall competitiveness. While the full effects of such reforms will not be felt for years to come, the increase in investment activity demonstrates the optimism that permeates the country as a result of these actions.

Finally, the recent reforms appear to have ushered in the beginning of a new era of increased global access for Mexico. In response to the apparent success of recent actions, Mexico has begun to further its global investment presence by proposing legislation and additional reforms to open approximately \$160 billion dollars in Mexican pension money that would allow interesting joint-ventures with foreign investors in financing infrastructure, energy, telecom, and other projects.

Almost twenty years ago, Mexico took a fundamental step in adopting a pension fund system with individual accounts. The change has been so successful, that in the last 10 years the financial resources manage by the pension funds has grown 17.3 % per year, Today their assets represents 14% of the gross domestic product. In terms of profitability, the average historic nominal rate was 12.5% per year.

In 2013, the Mexican Congress modified Pension System laws to allow a further diversification of investments; to increase pension funds money to finance productive projects; as well as to stimulate workers to increase their voluntary savings in their pension fund account.

Mexico Advocacy Day and other recent meetings between the State of California and Mexico serve as shining examples of this expanding investment relationship. Governor Jerry Brown's recent trade and investment initiative to Mexico last summer furthered dialogues between the regions. President Peña Nieto subsequently visited California to discuss trade and the ever increasing partnership between California and Mexico. This morning, representatives from the California Public Employee's Retirement System, Fondo de Fondos (an investment vehicle created by four Mexican Development Banks), and FOCIR (governmental institution to promote investment in rural and agribusiness sectors) met to further the dialogue between investment communities; forging a relationship that will continue to strengthen in the years to come.

We at AMEXCAP strongly believe that the investment community will continue to develop throughout Mexico, and that the State of California will have a vital role in furthering that development. We also believe that Californian pension funds will find in Mexico investment opportunities with strong risk-adjusted returns. We remain committed to expanding this relationship and look forward to the many successful cross-border opportunities that will inevitably ensue.

I thank you for your time and attention and would welcome any questions you may have.