



- MIF I is winding down and will wrap up by the end of the year
- MIF II portfolio companies are building value with positive results
- Our Chairman Ernesto Warnholtz, was distinguished with the “Lifetime Achievement Award” by the Mexican Association of Private Equity

WAMEX NEWS

2014 was a very busy and productive year for Wamex, both preparing the exit of the last portfolio company of MIF I, as well as actively pursuing the value creation potential of MIF II companies (Hoteles City Express, Medix, Bodesa and KUA).

Sale negotiations are currently underway for MediAccess (MIF I), with a positive exit for this current year.

As for MIF II, portfolio companies closed the year with significantly record numbers representing historical highs. As a result, the MIF II portfolio has almost recouped the loss of two investments, which will bring the Fund into positive numbers.

The Mexican Association of Private Equity and Venture Capital Funds (AMEXCAP) has distinguished our Chairman Ernesto Warnholtz with its first “Lifetime Achievement Award” for his important contributions to the industry achieved in his past 25 years in the PE sector. We are very proud of this well-deserved recognition to Mr. Warnholtz.

Portfolio companies achieved record financial and operational results, representing historical highs.

THE ECONOMIC ENVIRONMENT

At the end of 2014, Mexico's economy continued to gradually gain momentum due to healthy growth in services and solid growth in construction and manufacturing. GDP in Q4 increased 2.6% over the same quarter of the previous year. This reading represented a mild acceleration over the 2.2%

increase tallied in Q3 but fell a bit short of the 2.7% rise markets had expected.

Q4's acceleration reflected faster growth in the industrial sector (Q4: +2.4% year-on-year; Q3: 2.0% yoy), supported by meaningful growth in manufacturing (Q4: +4.6% yoy; Q3: +3.3% yoy) and construction (Q4: +5.9% yoy; Q3: +3.7% yoy). On a negative note, weakness in the mining sector influenced by oil exploration was a drag on growth in the industrial sector. Services picked up momentum, with growth rising to 2.9% in Q4 from 2.1% in Q3. Conversely, agriculture slowed down sharply in Q4, from a 6.8% increase in Q3 to a 1.1% expansion but is picking up in Q1 of 2015.

In summary, Mexico's gross domestic product increased 2.1% in 2014, which came in above the 1.4% expansion observed in 2013. Mexico's Central Bank (Banxico) expects the economy to grow between 2.5% and 3.5% in 2015. For 2016, the Bank sees the economy growing between 2.9% and 3.9% still influenced by the global economic slowdown.

Analyst consensus forecast expect the economy to grow 3.2% in 2015, and for 2016 the panel expects growth to pick up to 3.7%.

Oil-producing countries are in a difficult position due to the recent sharp fall in global oil prices and Mexico is not an exception. Although oil is only 7.2% of Mexico's exports, oil-related revenues finance about one-third of the non-financial public sector budget so that the government recently announced a series of cuts to its





2015 budget. According to the Ministry of Finance (Secretaría de Hacienda) the reduction in spending totals around MXN 124.3 billion (USD 8.3 billion), which accounts for around 0.7% of GDP. Half of said reduction will be government expense cuts while the other half will come from Pemex and CFE.

The impact of the cuts on growth in the coming year remains to be seen. Should oil prices recover, in the midterm the government could amend some cuts. On the positive side, these corrective measures will avoid the government's need to raise taxes or raise debt.

Even with these budget cuts in place, Energy and Telecom reforms action plans continue moving forward.

THE POLITICAL LANDSCAPE

Year 2014 was complicated for President Peña Nieto, as a succession of developments debilitated the strong political start of his 6-year term.

On the plus side, he was able to move his many reforms into second gear, most notably the Energy Reform, with successive rounds of oil fields going into auction. Other reforms are moving more slowly, in particular the Education Reform, with delays mostly in the states of Oaxaca and Guerrero. As you might recall, a historical package of reforms was pushed through Congress with the relative consensus of the three major parties (PRI, PAN and PRD), a pact that has now been dissolved as attention is now drawn towards mid-term elections. The reforms will probably become the cornerstone of Mr. Peña's legacy and the President has made a good effort in making them well known in Mexico and abroad, with positive reactions from investors.

On the negative side, the tragic mid-year disappearance of students in Ayotzinapa, Guerrero due to drug cartel involvement in local governments was compounded towards year-end by scandals hitting

the President regarding potential conflicts-of-interest with government contractors. These two situations galvanized a strong social reaction demanding more security in the countryside and more transparency across government functions. Other scandals have hit

each and every party, so that the common citizen is now clearly dissatisfied with the whole political class, evidenced in social media and in a gradual recurrence of (peaceful) street protests, mostly in Mexico City. Voter participation and turnout have remained stagnant recently, so the upcoming elections will be a new test of Mexico's developing democracy.

The political parties' machineries are currently busy producing candidates for 9 State governors and for 500 congress representatives; elections that will take place on June and July. Publicity is about to flood all media, mostly with superficial discussions of problems and potential solutions, not real agendas. Expectations are for the maintenance of a three-way split of seats in Congress and few changeovers in states, where the PRI also has a majority of governors (although the important states of Nuevo Leon, Queretaro and Baja California will be hotly contested). Mexico's Electoral Institute has proven effective in organizing elections and in peacefully solving inevitable disputes, so that the current political make-up will probably remain mostly unchanged. Government spending before elections has historically been a traditional lever for governing parties, but with recent oil-related cutbacks, it will be difficult to influence outcomes significantly.

For the second semester and onwards, Mr. Peña Nieto may shuffle some Cabinet positions, as some Ministers may run for office or are removed for being ineffective in implementing reforms. Through the second half of this year, the economy should show more strength and fresh faces could invigorate the political action needed to materialize pending legislation for a true Judicial Reform that improves safety, equality and justice, the key demands from all levels of society. ■

The historical package of reforms approved by Congress should boost the economy's strength through the second half of the year.

