Mexico Update
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WAMEX Private Equity 15 years

- MIF I portfolio on track for full realization
- MIF II continues to build value with strong portfolio performance

WAMEX NEWS

During 1H15, Wamex continued to seek and create value for Limited Partners.

Although the remaining MIF-I company had a challenging 2014 due to the after-effects of growth consolidation, the Company is undergoing a structural and managerial transition that should lead to exit during 2H15, providing additional liquidity to MIF-I LPs.

MIF-II portfolio companies showed strong performance, all reaching key milestones and historic financial highs during 1H15. **Hoteles City Express** now operates 100 properties across 60 cities in Mexico, Costa Rica and Colombia. **Medix** celebrated 59 years of continuous growth and improvement with the opening of *Become Yourself*, a wellness and beauty clinic that takes the fight against obesity and weight problems a step further. It has also teamed with the Mexico City government to launch a public policy campaign to decrease obesity by focusing on active prevention. **Kua Mex Foods** acquired its ninth portfolio company, *Novelda* – Mexico's largest distributor of Spanish and European gourmet products – and is on track to complete its tenth acquisition in 3Q15. It is also opening its new state-of-the-art factory that will consolidate production for most of its portfolio companies that shall yield greater efficiencies, synergies and economies of scale. **Bodesa** successfully opened its fifth La Marina department store in Guanajuato, expanding its presence into central Mexico. It is scheduled to open its sixth La Marina store in October 2015, which will effectively double the selling floor space since our investment in late 2013.

MIF II Portfolio Companies reached key milestones during 1H15, reinforcing the Fund's solid growth and performance

THE ECONOMIC ENVIRONMENT

As of the date of this report, Mexico's structural reforms are gaining momentum, and are expected to accelerate growth in the coming years by strengthening domestic and external demand.

In 1Q15, Mexican GDP grew 0.4% QoQ in seasonally adjusted terms, largely due to the recent fall of crude oil prices and languid performance in the United States. 1Q15 figures were impacted by slow growth of both the manufacturing and service sectors, with the former contracting 0.2% QoQ and the latter growing 0.5% QoQ. Primary activities increased 3.0% QoQ compared to a contraction of -2.2% QoQ registered during 1Q14. However, on a global basis, Mexico's economy has performed positively among emerging markets.

While the fiscal deficit remained in line with consensus at 1.2% of GDP, net debt represented 40.4% of 1Q15 GDP, due to an increase in government spending associated with elections. However, in 2H15 public expenditure is expected to decline in line with budget cuts (0.7% of GDP).

The Mexican peso, as pretty much all currencies in the world, has been affected by USD appreciation as a result of, amongst other factors, i) crude oil prices, ii) the imminent rise in US interest rates, and iii) the devaluation of the Chinese yuan.

However, Mexico's Central Bank, *Banxico*, has attempted to neutralize the impact on the exchange rate through USD auctions. Furthermore, the Central Bank Governor, Agustín Carstens, has stated that the exchange rate level is sustainable, since in real terms the Mexican peso remains solid and stable. While the official data for 2Q15 core inflation has not yet been released, Mexico's expected inflation for 2015 is on the lower end range of the Central Bank target (3% +/- 1%) and is forecast at a historic low of 2.6%, a positive result when compared to other countries in the region.

Mexico's economy has fared better than most emerging markets

In spite of dollar appreciation, during 1H15 the Mexican peso depreciated modestly compared to other emerging market currencies, falling 5.8% while the Brazilian Real fell 15.5% and the Turkish Lira depreciated by 13.5%, meanwhile the Euro and the Canadian Dollar fell by 8.3% and 6.0% respectively, with the Euro close to parity against the dollar.

The financial sector remains well-capitalized and new regulations are taking shape to align local pension fund managers with internationally recognized certifications. Moreover, there is a growing pool of pension fund capital that may be deployed to private equity. Lending activity in the commercial and household sectors has also increasing during 1Q15 as a result of the low interest rate environment.

THE POLITICAL LANDSCAPE

1H15 has presented challenges for President Peña Nieto in the political arena. Although his mandate and authority remain strong, questions remain around cabinet members' conflicts of interest, police corruption, and flagging educational reform in Oaxaca and Guerrero, among other issues. However, high-impact reforms have been passed by the current Administration, and their economic and social benefits are expected to become apparent in the medium term. As a result, substantial foreign capital is already beginning to flow into auto- and aero- parts manufacturing. Over US$10 Bn in new investments has flowed into the auto parts industry. The aerospace sector has grown at an average of 15% per year since 2010 with over 300 companies established in the country, exporting over US$7 Bn per year. Most importantly, an estimated $62.5 Bn of new investment into the energy sector is expected over the next three years. The first oil field auction took place in June 2015 and it has helped the Government calibrate the basis for upcoming auctions that should prove more successful.

Altogether, these investments in conjunction with other structural transformations should boost GDP growth by an additional 1% by 2018 and an additional 2% by 2025. We expect a spill over effect that will benefit domestic consumption and consequently many other primary and secondary industries.

Mid-term elections for National Congress, as well as for 9 State governors, were held in July. The end result has been a slightly weaker PRI hold on Congress' majority, with selected turnovers in State governments, where 5 went to the PRI, 2 to the PAN and only 1 to the PRD. These elections were fairly well run by a new institute and results were peacefully and well accepted across the country.

The recently elected Congress and Governors will surely bring new energy into government when they assume their positions after summer, when all parties will begin to position their agendas and potential candidates for year 2018.

Overall, even though there has been a tough political environment, President Peña Nieto has been able to manoeuvre and pass key reforms that should maintain and increase long-term economic growth and stability.