PREQIN MARKETS IN FOCUS: LATIN AMERICA'S GROWING APPETITE FOR ALTERNATIVE ASSETS

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Latin American LPs Are Eager to Commit to Global Private Capital

Leading GPs look to raise capital in Latin America as LP sophistication grows, but managers must prepare for a diverse environment that favors specialization and long-term relationships

Despite the serious challenges of COVID-19 and the increased political and macroeconomic headwinds that have plagued most of the region, Latin America has become a highly sought-after fundraising destination for alternative fund managers.

Indeed, alternative investment penetration in Latin America has been advancing at a galloping pace. Aggregate commitments to alternatives have rapidly increased and total assets under management (AUM) are now approaching $2tn, driven by a growing middle class, favorable demographics, and benign regulatory frameworks across most countries in the region.

This trend started in 2008-2010, when pension funds in Colombia and Chile made the first commitments to alternatives. It has since evolved into a broader opportunity set and paved the way for other countries like Peru – already a mature market in its own right – and most recently Mexico – the blank canvas of the region – to become significant players in the alternative investment allocation business. Understanding the maturity levels of the various countries and investor programs is critical for an optimal fundraising strategy.

Problem Region or Fundraising Darling?

The 'flight to quality' dynamic in Latin America, where investors favor assets in US and European markets over local assets, began decades ago. However, as local investors have searched for alpha and geographic diversification, the trend has been exacerbated in recent years by the political and economic woes of the region, the limited options afforded by the local investment environment, and the frequent underperformance of local assets. For example, falling interest rates in Brazil have boosted appetite for alternatives, and political uncertainty in Mexico has prompted an investor exodus. For savvy developed-market managers, these dynamics have created a unique opportunity to expand their pool

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Founded in 2010, **ROAM Capital** is Latin America's first alternative asset placement agent focused exclusively on private equity, real estate, and other alternative investments with no ancillary lines of business. To date, ROAM has raised over $4.2bn from accredited Latin American investors for more than 18 investment funds, including for some of the world's leading managers, among them Starwood Capital, Oak Hill Capital Partners, Harrison Street Real Estate, and General Atlantic.

Our success as the leading conduit between sophisticated Latin American capital and the world's leading alternative fund managers comes from our deep sector knowledge, trusted investor relationships, local regional expertise, and longstanding financial placement experience. Utilizing a proprietary research-driven selection process, ROAM Capital identifies the top-performing fund managers and asset classes in the alternative investment landscape and secures exclusive mandates that offer investors superior risk-adjusted returns.

For more information, please contact pstiernon@roamcapital.com of available capital, while securing a foothold in a region that is bound to grow in size and sophistication. The fundraising potential is quite significant, with some managers capturing $300 to $400mn in aggregate commitments during their first foray into Latin America, and re-ups of $1bn+ for those that are successful with their immediate successor funds. This fast-growing capital base has also provided the ancillary benefit of boosting the negotiating leverage that managers have with their existing and largest LPs in the US and Europe.

However, with increased opportunity comes heightened competition and greater sophistication among prospective LPs. Indeed, pension alternatives teams and family office CIOs have become extremely discerning in their quantitative and qualitative due diligence, including ESG and other matters such as succession planning, alignment of interest, and company culture.

Following the global trend, Latin American LPs have also started to rationalize the number of GP relationships in their portfolios by focusing on a select group of managers with whom they believe they can be successful over time. This theme has taught GPs many lessons, including the importance of differentiation, delivering strong alpha, and meeting all of the other stringent criteria that would make them worthy recipients of capital commitments. More and more we see that platform GPs are losing their flair – they are now mostly considered 'beta providers' – and that Latin American LPs are starting to recognize that investing with highly specialized managers with mature programs and top-quartile returns is the best way to capture meaningful alpha.

On the fundraising front, it is equally important to comprehend that the 'one size fits all' approach simply does not work in Latin America. GPs need to recognize that Latin American LPs will have varying needs and levels of sophistication, depending on the country, investor type, and inherent regulatory framework. For example, what may be of interest to a Colombian or Peruvian LP may be vastly different from what is suitable for their Mexican or Brazilian counterparts.

How Should GPs Tackle the Region?

At ROAM Capital, the first question we ask a prospective GP is their level of commitment toward building a long-term presence in Latin America. Defining this GP/LP alignment from the onset is critical; as the Latin American sales cycle is long, it typically requires educational efforts and a level of involvement that is not generally found in GPs with 'one-off' or transactional mentalities. We have found that GPs that are able to commit strategically to the region, over multiple vintages and with a clear set of predefined goals and objectives, are best suited to reap the rewards of the Latin American fundraising opportunity.

During our 10-year track record, we have come to realize that a manager's ability to foster and embrace a long-term mentality is key for placement success. Although most of our clients are managers that had never come to the region before, we have also been retained by some with an established physical presence in the region. These GPs are counting on an extra set of 'eyes and ears' with on-the-ground expert personnel, and are cognizant of the importance of deep-rooted networks and privileged access – great catalysts for meaningful advantages in this highly competitive industry. Locals dealing with locals is the conduit toward a successful and highly efficient fundraising process.

The Outlook for 2021 and Beyond

So, what's next for the region? Some markets will expand and others will contract, but the overall net effect will be positive in terms of outflows from Latin American investors, and alternatives allocations will certainly continue to increase. The COVID-19 pandemic has deepened a structural bifurcation between winners and losers, evolving a trend that was already in place before COVID in terms of manager performance. What we see now is a sort of 'tale of two cities,' where LPs in some countries are truly struggling, while others eagerly wait to deploy their excess dry powder.

As the chasm between the haves and the have nots widens in Latin America, it remains important for LPs to be selective, nimble, and opportunistic. For GPs, the primary focus is on performance and aligning themselves to international best practices, such as ILPA guidelines and PRI standards. In regard to capital raising, the key lies in thinking ahead and having a long-term approach to the region. Given the high levels of competition and complexity across the different markets, we recommend working with a proven local partner that will help to create the optimal pan-regional fundraising strategy.

As we observed back in October, in our previous conversations with Preqin, we believe Latin American alternatives are set for significant growth.

Prominent Latin American Placement Agents Servicing Private Capital Funds

Firm	Known No. of Private Capital Funds Serviced	Known Aggregate Capital Raised for Alternatives in Past 10 Years ($mn)	Key Relationships with GPs	Headquarters
Compass Group	37	8,200	Rhône Group, Vista Equity Partners, Blackstone Group, PIMCO, Lexington Partners, Fortress Investment Group	Santiago, Chile
HMC Itajubá	51	6,100	Clayon Dubilier & Rice, Coller Capital, Insight Partners, Cortland, Oaktree Capital Management, CarVal Investors	Santiago, Chile
PICTON	54	5,390	American Securities Partners, Ares, Avenue, Bridgepoint, Brookfield, EQT, Goldman Sachs, Hamilton Lane, Horsley Bridge, Kayne Anderson, KKR, Macquarie, Morgan Stanley, OHA, Permira, Savanna, SVP, The Jordan Company, TPG, Warburg Pincus	Santiago, Chile
ROAM Capital	32	4,200	Starwood Capital Group, Oak Hill Capital Partners, Harrison Street Real Estate Capital, General Atlantic, RCP Advisors, Greenspring Associates, Yellowstone Capital Partners	Bogotá, Colombia
Credicorp Capital	24	1,881	Not disclosed	Lima, Peru
LarrainVial	36	Not Disclosed	Altamar Capital Partners, Antin Infrastructure Partners, Apollo Global Management, Baring Private Equity Asia, Court Square, Global Infrastructure Partners, Golub Capital, HarbourVest Partners, Landmark Partners, Marathon Asset Management, PAI Partners	Santiago, Chile

Source: Preqin Pro. Data as of March 2021

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