Mexico Update

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WAMEX Private Equity

- MIF II companies continue to perform under plans
- Mexico continues to distinguish amongst Emerging Markets

WAMEX NEWS

Efforts continue to complete the exit of Fund MIF-I, with final authorization for the MediAcccess sale expected to take place by year-end.

MIF-II portfolio companies continue working to strengthen their presence in local and international markets. **Hoteles City Express (HCE)**, the leading business limited-service hotel chain in Mexico, is now operating 113 hotels in Mexico, South America and Central America, with a new hotel opening every month, and demonstrating continually improving occupancy and room rates. **Productos Medix (MEDIX)**, the leading anti-obesity and overweight pharmaceutical company in Mexico, was recognized by the Work Wellness Council with the "Responsibly Healthy Organization" distinction, in addition to the "Great Place to Work" badge, which was awarded for the second time. Medix has a portfolio of more than 50 pharma products sold throughout Mexico, Colombia, Argentina and Brazil. It also has a network of weight control centers in Mexico City and Texas. **KUA Mex Foods (KUA)**, the unique consolidation platform in the Mexican Food & Beverage industry, recently added three new acquisitions: *Excel Spain*, a leader in import and commercialization of European gourmet products in Mexico; *Mi Viejita*, which will add new distribution channels for KUA; and a joint venture with *Bongos Candy* to start producing organic and sugar-free mints and candies for the American market. **Bodesa (BDS)**, the leading retailer in the Mexican Western area, has made management changes to strengthen its operational performance. As part of these changes, the company has also adopted the Balanced Scorecard methodology and other strategies to boost productivity.

THE ECONOMIC ENVIRONMENT

The volatility of international markets, coupled with low oil prices, has slightly reduced Mexican GDP growth to 2.4% in 2Q16; where primary, secondary and tertiary economic activities were 4.2%, 0.8% and 3.2% respectively. Inflation was registered at 2.65%, with a slight increase in the last five months due to the rise of local gas prices; still, the inflation report was below expectations.

The Mexican peso has had a rough year, with ups and downs due to global dollar appreciation, but remains within a narrow trading range thanks to the recent rise in oil prices and Great Britain's decision to cut its interest rate, a move that could slow increasing rates across the world.

In spite of this, the Mexican Stock Exchange recently rose to a historical maximum, demonstrating Mexico's underlying economic strength in an environment where other capital markets tend to stagnate or fall because of the uncertainty produced by Brexit and the remaining commodity' price volatility.

The Mexican Central Bank also took the measure to get ahead of a FED decision, and increased the local peso reference rate by 50 bps from 3.75% to 4.25%. Furthermore, in order to ensure more balanced public accounts, the Mexican government announced additional budget cuts to reduce current expenditures. In sum, orthodox macro and fiscal measures that underpin economic stability and growth.

THE POLITICAL LANDSCAPE

President Peña Nieto (from the PRI party) is now facing various challenges. One of them is the renewed resistance from a few state teacher syndicates that keep demonstrating against the Education Reform, mainly in: Oaxaca, Chiapas and Michoacán. Blockages and demonstrations in these states and in Mexico City are becoming more frequent, to general annoyance. Also, there is general Presidential disapproval, most recently fueled by Peña Nieto's late admission and apology for his wife's acquisition of a high-end residence three years ago and more recent state-level corruption suspicions, even though a recent anti-corruption reform has now been enacted (but slow to implemment). The President approval index is at its lowest levels, this because of the latest news about an apartment in Miami owned by the President's wife, and about alleged plagiarism in the president's bachelor degree thesis. Lastly, the economy, although stable, does not yet show tangible improvements from reforms, invalidating his political discourse.

Peña Nieto has shifted some political figures: most notably the PRI head has resigned following a bad mid-term election result, where the PRI lost various states to opposition parties. Speculation about further cabinet changes in anticipation of next year's State of Mexico governor elections keeps the President's team in flux.

Opposition parties are slowly positioning to select candidates for the 2017 State of Mexico elections, a potential preview for the Presidential elections in year 2018. The PAN had a strong mid-term show (while maintaining some PAN-PRD alliances); but the new leftist Morena party (headed by ever-present Lopez Obrador) has now almost equaled the PRD weight in the political field. Going forward, independent candidates will also be a factor, and can take votes away from current parties, eventually weakening any electoral mandate.

On a side note, the Foreign Ministry has now taken a more active role in promoting a pro-NAFTA message in the US, as a balance to the Trump discourse.

In all, the political landscape remains stable with some friction with teachers, while parties slowly re-position towards the future.