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A COLLECTION OF COMMENTARIES ON THE CRITICAL LEGAL ISSUES IN THE YEAR AHEAD

Trends to Watch and Opportunities to Catch in Latin America

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Concerns over slow growth in most economies; uncertainty about governments' incentive strategies, including the U.S. winding down its bond-buying program; volatility in the stock markets globally; and inflation and deflation trends have dominated the global discussion of financial and business expectations for 2014. M&A and finance-related deal flow typically is impacted by such concerns, so despite the expected stronger recovery in the U.S. and other positive financial and business indicators in other areas heading into 2014, cross-border transactional volume may not reach precrisis levels.

In Latin America, even though Brazil had been one of the most attractive emerging markets for investors until 2012, the Brazilian economy stalled, with just 1 percent growth in 2012 and little more than 2 percent in 2013. The country's rate of inflation was 5.9 percent at the end of 2013, and the government increasingly has interfered with private transactions. These factors have contributed to reduced interest by foreign investors in Brazil. Overall, deal volume decreased in Brazil in 2013: Brazil's 41 percent share of the region's investment banking revenue relating to debt and equity underwriting and M&A advisory services was the lowest since at least 2007 (when Brazil's share of such revenue was at a high-water mark of 63 percent), and down from 51 percent in 2012.

However, there are encouraging trends and opportunities elsewhere in Latin America. Mexico, Colombia, Chile and Peru all have recently captured much of the attention of sophisticated global investors looking for growth. While the pace of the region's economic growth slowed in 2012 and macroeconomic performance was mixed in 2013, these countries' economies are expected to grow at higher rates than the U.S. and most European countries in 2014. A solid transaction volume in 2013, with investment banking revenue from debt and equity underwriting and M&A advisory work in the region totaling nearly $2 billion (according to Dealogic), is expected to increase in most of the region's countries in 2014. A few reasons for our optimism, as well as some areas of concern to monitor, are discussed below.

Mexico: Economic Reforms Among Signs for an Encouraging 2014

Mexico could finally deliver on its long-standing potential to become Latin America's top inbound investment market in 2014. During the recent global economic crisis, Mexico's close geographic proximity and economic ties to the U.S. and perceptions over security may have contributed to its underwhelming performance. However, during 2013, Mexico enacted a series of economic reforms aimed at improving the economy's growth rate, which had been flat during periods when Brazil, Colombia and Peru had record GDP growth.

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Most of the reforms are promising. For example, Mexico's energy reform, which will allow private investment into the sector, has taken center stage as one of the most significant opportunities, not only in Latin America, but also among the global energy markets. According to Bloomberg, Jim O'Neill (the creator of the BRIC acronym that dominated the discussion about emerging markets during the past decade) predicted that these reforms would independently increase average annual GDP growth from 3 to 5 percent. Standard & Poor's already raised its sovereign long-term foreign currency credit rating for Mexico by one notch to BBB+, mainly on account of the expected

impact of the reform. The prospect of ending the government's monopoly over energy in a large market close to the U.S. affords Mexico an opportunity to be a global player in this sector. Of course, new investment regimes take time to develop. A smooth process will depend in large part on how the Mexican Congress reaches disciplined consensus on the enabling laws (expected within the next three months) and government agencies carry out the mandate of President Enrique Peña Nieto's government to create a functional, competitive market.

The country's financial reform, aimed at increasing availability of credit from development and commercial banks, encouraging competition in the financial sector and strengthening oversight over its participants, was signed by President Peña Nieto on January 9, 2014. Bolstering the financial sector will contribute to the long-term sustainable growth of the Mexican economy and provide much needed stability and opportunity to the productive sector — which is integral to cross-border investment into the country.

The tax reform package, which became effective January 1 and sought to raise additional non-oil income for the country, has elicited some concerns, including a fear that an increase on mining taxes may cause a diversion of capital available for mining investments to other jurisdictions. However, Mexico was under pressure to undertake even more aggressive tax reforms, as its tax collection is less than that of its main peers in the region and in more developed economies.

In general, Mexico's recent reforms appear to have been well-received by the investment public and have enhanced the perception that Mexico will be a leading Latin American destination for foreign investment in the next five years. The shift already may have begun. By the end of 2013, before any of the significant reforms had taken effect, Mexico, the second-largest market for investment-banking fees in Latin America, expanded its share of the total Latin American-related investment-banking fees to a record 34 percent, up from 21 percent in 2012.

Chile: Investors Monitoring New Government's Policies

For years, Chile has enjoyed its reputation as one of the most investor-friendly and stable economies in the region. A market of only 17.5 million people (compared to nearly 200 million in Brazil, 120 million in Mexico, 48 million in Colombia and 30 million in Venezuela), Chile has maintained a solid foreign investment regime and managed its mineral resources carefully. However, Chile's economic performance relies heavily on strong demand and general stability in commodities prices, making China's demand for metals and other external factors in the commodities markets crucial to Chile's performance in 2014.

Perhaps more notably, newly re-elected President Michelle Bachelet has promised a major education reform, and tax increases to help pay for it, at a time when the country is expecting slower economic growth. During the presidential campaign, Bachelet discussed raising corporate taxes from a rate of 20 percent to 25 percent. Although this rate is closer to that of more developed economies, it may have an impact on foreign investment appetite, further affecting the economy's growth.

Energy policy under the new government also will be critical. Chile has an important energy deficit that negatively impacts its mining industry. The government will need to assess local opposition to coal-fired plants and hydro projects, which has resulted

in a limited number of new power projects in recent years. Another key issue will be whether natural gas and alternative energy sources, like solar, get the traction they need to become a true alternative to the mining industry. The direction of energy policy also will have a significant impact on deal flow in Chile, affecting not only those transactions directly relating to alternative energy projects, but also deals relating to the opening of additional capacity for new mining operations and the expansion of existing mines.

Despite these challenges, we believe that the Chilean market offers many opportunities for M&A activity in the financial, retail and technology sectors, and finance activity in mining and energy. There was significant activity in the insurance and retail sectors in 2013, and there are still attractive assets in these sectors for new investors as well as those seeking to enhance their market share.

Colombia: Stability and Growth Drive Deal Activity

Colombia, through a combination of investor-friendly policies and an improvement in addressing security concerns, continues to rank as a leading destination for emerging market investments. The tax reform that came into effect in 2013 has been credited by the International Monetary Fund with helping drive Colombia's promising economy by, among other things, lowering nonwage labor costs, promoting job creation in the formal economy and reducing inequality. Although a reduction of the payroll tax was offset by a new equity tax, new investments do not appear to have been negatively impacted. Colombia's economic growth accelerated in the third quarter of 2013, expanding 5.1 percent from a year earlier and compared with 3.9 percent in the second quarter of 2013, according to Colombia's National Statistics Agency. (Colombia's third-quarter expansion was higher than Peru, with 4.4 percent growth, and Chile, with 4.7 percent.) In 2014, foreign trade is estimated to increase to $63 billion and foreign direct investment is projected to reach $13.2 billion.

Colombia also benefits from healthy natural resource reserves and a solid history of government support for foreign investment in this area. Colombia, Latin America's fourth-largest oil producer after Venezuela, Mexico and Brazil, allocated 49 oil reserve blocks to 37 local and foreign companies last year. While it currently produces only around 1 million barrels a day, it has oil reserves of about 2.38 billion barrels. Evolving environmental laws and enhanced enforcement of existing ones will have to be monitored by investors in these sectors, but the costs associated with such rules are still shy of the standards multinationals observe in the U.S. and Canada.

The growth of the middle class also will continue to create opportunities in the construction, retail, services and financial sectors; and, as 2014 is an election year, there is significant expectation for increased infrastructure investment, which already is attracting players from around the world. In November 2013, the Colombian Congress enacted a new transportation infrastructure law, seeking to promote infrastructure projects by, among other things, providing clear rules regarding the use of real estate and environmental licensing.

Peru: Metals and Mining Among Key Sectors to Watch

Peru, with a GDP of $203.8 billion in 2012 according to the World Bank, is probably the Latin American country that has shown the largest increase in cross-border activity in the past decade. According to Thomson Reuters data, 2013 M&A activity with Peruvian targets was $12.3 billion, which was more than double the previous year's total. Although its Central Reserve Bank recently lowered its outlook for economic growth for 2014 (activity has slowed because of weaker domestic demand and a decline in metal prices), Peru's GDP is expected to grow 6 percent in 2014.

Similar to Brazil, Colombia and Mexico, Peru is expected to invest heavily in infrastructure in the coming years, generating significant opportunities for foreign investment. Private equity funds, which increasingly are encountering expensive entry prices and difficult exits for their investments in Brazil and Chile, are expected to pour significant amounts of investment into Peru, mostly in the retail, entertainment, tourism and fishing industries. Strategic investors also will likely look to the Peruvian market for growth opportunities in these sectors.

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Additionally, many mid-to-large local conglomerates are expected to continue to attract foreign investors as they seek capital for continued expansion, or as they evolve from family-owned businesses to large independently managed multinationals and some seek to avail themselves of the capital markets. This evolution also is likely to continue to occur in Colombia and Mexico.

The mining sector deserves a special mention, as it presents both challenges and opportunities. Similar to Chile, Peru is expected to suffer from volatility in the commodities market. Further, in 2013, environmental and administrative reforms impacting Peru's growing mining sector caused some anxiety, especially in connection with (i) the creation of the Servicio Nacional para las Inversiones Sostenibles, which is charged with managing a new system of environmental regulatory requirements; and (ii) the ongoing debate about whether a consultation with indigenous communities is required prior to approving new mining projects in their areas. The government appeared divided between trying to fuel continued economic growth through additional investments in the mining sector and meeting the demands for sustainability and inclusion policies. But it was revealing that in the third quarter of 2013, the Ministry of Mines announced plans to expedite commencement of hydrocarbon and oil projects and make investments of approximately $8.1 billion in energy projects to increase sustainability and competitiveness in the mining sector.

Venezuela and Argentina: Anti-Market Policies Unlikely to Spread in the Short-Term

Venezuela and Argentina, which once were fertile grounds for cross-border finance and M&A transactions, have departed from pro-market policies and experienced significant declines in foreign investment as a result. Investor fears of expropriation materialized, including with the takeover by the Argentine government of oil giant YPF from Spain's Repsol last year, slowing the pace of foreign investments in those countries. Naturally, foreign exchange and remittance limitations also have negatively impacted cross-border activity in Venezuela and Argentina.

Recognizing that politics always play a role in the stability of markets, investment banks, analysts and even nongovernmental organizations seem to agree that the recent results for the larger economies in the region and the ailing economies of the anti-market jurisdictions should be persuasive enough to prevent other nations in the region from adopting aggressive anti-market policies in the short-term. However, efforts to close the gap between Latin America's business elite and the underprivileged majority must be a priority. Hopefully, policymakers will be able to balance legal certainty for investors with policies that address inequality and social investment needs, not only to minimize the risk of internal conflict, but also to deliver on the promise of long-term economic growth, which depends to a significant extent on the sustained growth of the middle class.

Other Opportunities

Panama, Guatemala, Uruguay and Costa Rica should continue to evolve as frequent destinations for foreign investors. Each of these countries has sought a stable investment protection program and market-friendly policies. Although the size of these markets is not yet as significant as other countries in the region, the pursuit of growth likely will result in more multinationals entering them.

Final Outlook

Judging from the transaction pipeline we see today, the region will continue to generate a significant amount of activity and interest from global investors throughout in 2014. Despite its current challenges, the size of the Brazilian market will continue to make it attractive to many multinationals and, with the World Cup and the Olympics approaching, investment in infrastructure will still present an attractive opportunity for banks and construction, engineering, management and tourism companies. Additionally, deal volume lost in Brazil is likely to be offset by transactions in the rest of Latin America.

We also expect to continue to see large Latin American conglomerates participate in local and outbound deal activity. In the past three years, Brazilian, Mexican, Colombian, Chilean and other multinationals, or Multilatinas, have engaged in significant outbound M&A activity in other Latin American countries (*e.g.*, Banco Pactual's acquisitions in Chile and Colombia and Grupo Sura's acquisitions throughout the region), as well as in the U.S. markets (*e.g.*, Mexico's Grupo Bimbo's acquisitions in the U.S. to become the largest industrial baker in the Americas and Colombia's Grupo Argos' purchases in the U.S. and Central America). These and other Multilatinas have become extremely sophisticated through their experience in the growing Latin American markets, are decisive and efficient in exploring available M&A opportunities, and have accumulated cash that can be used to further expand their reach.

In any event, with upcoming elections in Colombia, Brazil, Uruguay and Bolivia, a new government in Chile and the difficult dynamics in Venezuela and Argentina, trends can change, and opportunities can shift, quickly. Investors should be prepared to adjust as market forces evolve.