

WEBCAST LATAM UNCORRELATED ALTERNATIVE INVESTMENTS IN DEEP-VALUE MARKETS

PARTICIPANT QUESTIONS

RECORDED WEBINAR

bit.ly/2020WebinarApr15



BrightTALK

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DO YOU BELIEVE THAT VENEZUELA SANCTIONS WILL BE LIFTED AS TO NOT IMPACT INVESTORS?

- UNITED STATES-

The first week of April the US proposed lifting sanctions in exchange for a power-sharing deal, with opposition members and Mr. Maduro's party, which would create a transitional government. The transitional government would be formed to lead the country until elections are held. Should there be movement in the country's leadership structure the US indicates a shift to lift sanctions which should open more investment possibilities for some asset classes.

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WHAT ARE THE LATAM SECTORS OF OPPORTUNITY?

- UNITED KINGDOM-

Integra Groupe is focused on restoring dynamism to Latin American economies where we have a competitive advantage. We do this by investing in middle market businesses that are cash flow positive, attractive margins, straight to market products and easy to understand business models. In particular we appreciate the strength that specific Latin American markets have in pharmaceuticals, consumer goods, agriculture, food, spirits, healthcare, education, infrastructure and energy. As global supply chains restructure we believe these industries should benefit.

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ARE YOU INVESTING IN MEXICO AND BRAZIL?

- SWITZERLAND -

As we discussed during our quarterly call we are very disciplined in our approach to markets and rank different countries across various investment horizons. In terms of risk/return we believe Mexico and Brazil to be medium term as these economies are facing headwinds which may create more attractive entry points in the future. As an example:

Brazil as the region's largest economy can't be ignored therefore we work closely with our partners there to stay current on opportunities especially in sectors that can add value to our existing portfolio companies. We do however believe that the uncertainties of the COVID-19 impact, political challenges, oil drawdown, currency weakness and demand for better services will strain a government without much fiscal room to front run potential economic challenges. We are waiting and ready to revisit Brazil opportunities in the medium term.

The outlook for Mexico continues to be challenging in the near term especially in light of last week's PEMEX downgrade. While Mexico, for now, retains its investment grade creditworthiness PEMEX is now junk which will dramatically increase financing costs. With \$105 billion in debt outstanding it has the unenviable title of world's largest "fallen angel". Given the economy dipped into recession well before COVID-19, is predicted to contract 6% this year and the Peso is down 22% versus the US Dollar we believe this will unfortunately lead to increased pressure on the economy that is already strained. We are watching and waiting to work with strong firms in Mexico as we move closer to 2021.

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IS IT A BREACH OF INTERNATIONAL SANCTIONS TO INVEST IN VENEZUELAN COMPANIES?

- SPAIN -

The answer is it depends, which makes working with an expert local manager very important. We focus on governance and transparency only working with real estate and enterprises that are independently owned and operated.

WHAT IS INTEGRA AUM?

- UNITED KINGDOM-

Come on! Firstly, we want to thank you for attending the webinar all the way through. Secondly, we are happy to discuss our firm and its footprint in person but not on a webinar. Please give us a call to arrange a meeting.

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PARTICIPANTS QUESTIONS

COULD YOU PLEASE WALK US THROUGH A FEW LIVE INVESTMENT CASES AND DECISIONS TO UNDERSTAND THE PROCESS?

- DOMINICAN REPUBLIC-



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DO YOU THINK THAT THE ACTUAL BRAZIL POLICY IS ENOUGH TO COPE WITH THE SLOWDOWN OF THE ECONOMY SO FAR?

- SINGAPORE-

To answer the known unknowns, Brazil's policy is absolutely going to side-track its neo-liberal agenda in recreating economic policy to Guedes' designs. In terms of the unknowns we don't know if the current policy will be enough to prevent a sustained slowdown.

The stimulus, equal to roughly 10% of GDP, might provide ample liquidity to expedite the slowdown and partially aid the recovery. It will however be a big challenge to the ambitious and aggressive transformation that Paulo Guedes was largely successful in executing until COVID-19 appeared. He was discarding decades of bureaucracy and pushing through pension reforms. As relative success looked within grasp the virus appears and with it the necessity for massive public expenditure.

As of early April Brazil's benchmark stock index took a 48% hit in US Dollar terms making it the worst performer globally. It's been a tumultuous month for public equities, currencies and paper but we believe that Brazil is a vibrant market with long term potential offering an opportunity to work closely with trusted partners.

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HOW MUCH DO YOU THINK BRAZIL HEALTH CARE SYSTEM WILL COPE WITH THE SPREADING OF THE VIRUS?

- AUSTRALIA -

Within Latin America there is a high level of dispersion between quality and capabilities in the healthcare sector. This varies across countries and even within countries themselves spread across public and private facilities. Brazil, like most other countries globally, may find itself unprepared for the pandemic should levels reach those experience in Europe and the United States.

Brazil now has over 40,000 cases and 2,600 deaths. The total number of cases is uncertain, as it is in most of the Americas, as a result of lack of testing. On the 20th March Foreign Policy reported that public hospital ICU beds in Sao Paulo are at 80% capacity. There has been a lot of mention of lacking coordination and shifting of resources however this is common with healthcare systems everywhere. We believe with declining investment in the health sector for the past decades there could be severe strains on the public system in the short term.

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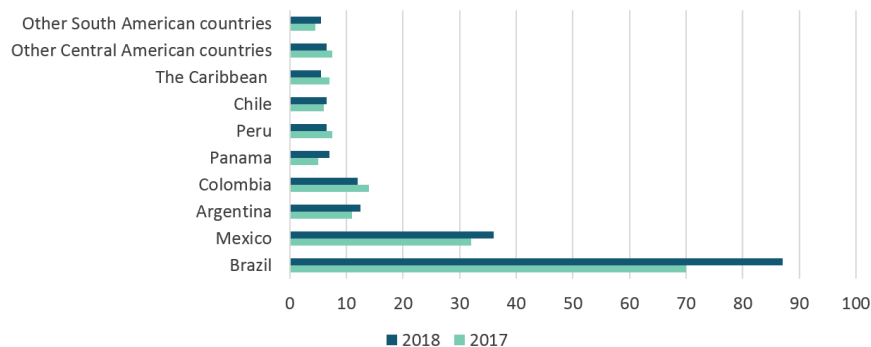


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WHO DO YOU THINK ARE GOING TO BE THE MAIN INVESTORS IN LATAM ECONOMIES AND IN VENEZUELA SPECIFICALLY?

- VENEZUELA -

Latin America (selected countries and subregions) ; FDI inflows, 2017-2018
(Billions of Dollars)



SOURCE: ECLAC, ON THE BASIS OF OFFICIAL FIGURES AND ESTIMATES AS OF 23 JULY 2019.

On the private side Intra-regional investment is very strong as a result of diversification amongst powerful regional players and conglomerates. Outside Latin America much of the capital originates in the United States and Europe. According to balance of payments and IMF information Europe has a stronger presence in the Southern Cone and the US was one of the largest investors in Mexico and Central America. China is also present in Latin America although in recent years their investments have declined. Chinese are typically investing inorganically through mergers and acquisitions in addition to infrastructure and mining interests. For 2018 and 2019 Brazil greatly benefitted from the optimism of Bolsonaro's election after which it enjoyed leading foreign investment when compared to the other regional economies. Korea is also a player to watch as they are deploying capital on the manufacturing side in the region.

On the private equity front specifically, private equity deals were recovering sharply at the start of 2019 reaching a record of \$4.4 billion the first half of the year. Brazil's pension reforms and overall attempts at liberalization helped to attract 70% of that sum to the region's largest economy. Recent increases to private asset allocation in regional pension funds have increased local and global firms activity throughout Latam with local boutiques as well as global names deploying capital.

Multilateral organizations such as Inter-American Development Bank, World Bank, IMF etc. are also major investors in the region which is set to increase as most regional economies lack fiscal flexibility to face COVID-19 and oil drawdown simultaneously.

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HOW WILL OIL DRAWDOWN INFLUENCE LATIN AMERICA?

- CANADA -

Regional stability is greatly linked to commodity prices, dollar strength, inflation and access to foreign capital markets. Historically any drawdown, most recently we can cite the 2017 external shock, has brought challenges to regional governments. With the stress of the COVID-19, tight fiscal conditions, large debt burdens for some countries, depressed currencies and trading partners in recession local governments may need to make unpopular decisions. This never before realized demand destruction in the hydrocarbon space could elicit dramatic social unrest as austerity measures are deployed.

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