LATAM FIVE

JULY 31, 2020

integra GROUPE

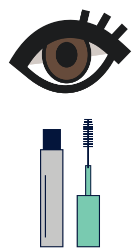
COVID TRANSFORMS CONSUMER BEHAVIOR

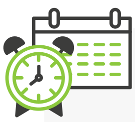
Council On Americas Consumer Behavior Trends discussion showcased Latin America's ability to leap 5 years forward in eCommerce and digital consumption in just 3 months. With executives from Belcorp, Mastercard, SAP and Grupo Exito the conversation focused on three themes driving COVID consumers:

- **Digital adoption advanced 5 years in just 3 months**
- **Local brands, local production and home country bias**
- **Sustainability**

Some of the highlight from COA for those that missed the session: eCommerce is up an "astonishing" 35 percent year-over-year, said Mastercard's Walter Pimenta, which is all the more impressive considering the travel and entertainment category—which usually accounts for one-third of sales—is virtually non-existent. Grupo Éxito's Carlos Mario Giraldo pointed out how consumers are buying more locally produced goods and "privileging the local economy because they're sure it will have a very important impact in employment." He also noted how consumers are visiting fewer stores these days but making higher-ticket purchases when they do. "Whoever comes to a store or comes online is serious about making a very effective purchase." And SAP Latin America's Claudio Muruzabal laid out three things companies can do today: Understand the consumer has changed in permanent ways and make sure you have the digital tools to serve them. Second, have a well-aligned manufacturing-to-consumer chain that can be retrofitted in days if not hours. And lastly, don't forget your employees. "They'll work in a different way and will define the success of your business," he said.

For Belcorp while sales of fragrances and makeup declined with customers sheltering in place sales of eye makeup have skyrocketed. Think about it, the eyes are the only part of the face visible with our newest accessory: the mask.



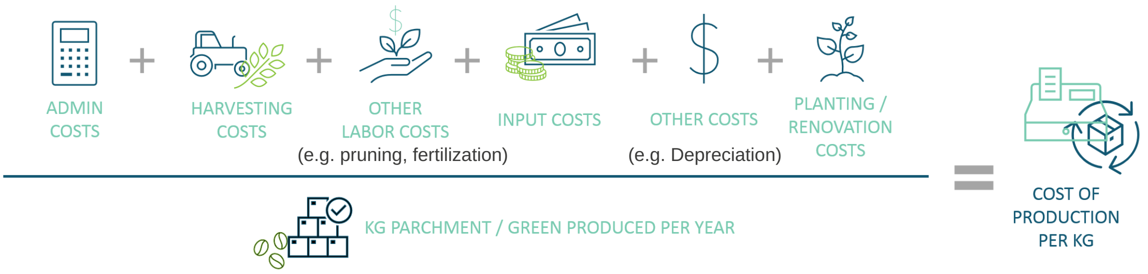


NEXT WEBINAR: SEPTEMBER 9, 2020

INTEGRA GROUPE AND PRINCIPLES FOR RESPONSIBLE INVESTMENT HOST

DEAL PIPELINE

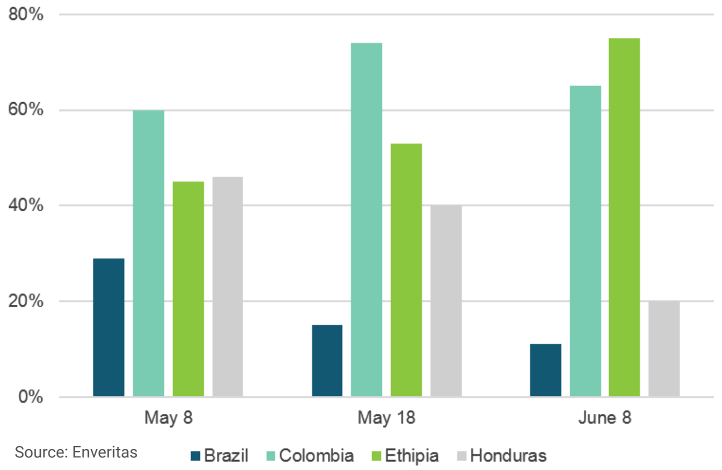
Global specialty coffee market is on track to hit $ 83.5 billion by 2025 according to Adroit Market Research. Market revenue is projected to grow at a CAGR of 13.3% and market volume is projected to grow at a CAGR of 8.3% over the foreseeable future.



Blue Bottle Coffee is a benchmark for successful branding, drinker education and an emphasis on freshly roasted beans. We are impressed by their business model and believe local growers can compete by roasting at source. We work with local Latin America brands that actually roast, after harvest, at source, pay fair wages, have fair labor practices and develop local communities all whilst practicing environmentally responsible growing. The importance of supporting roasting at the source creates attractive vertically integrated operations that performed well during the recent pandemic. By roasting right after the berry is picked and roasted the freshest coffees in the world are produced. This is all possible while benefiting growers and firms throughout Latin America.

Growing Pain

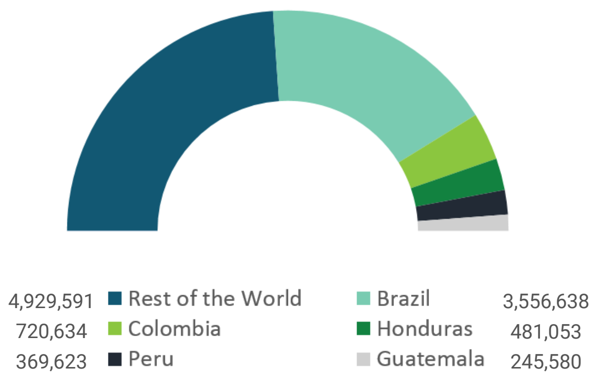
Impact of Covid-19 for coffee laborers is harder felt for some countries



Source: Enveritas

Coffee Global Production

Tons, 2018



Source: Wilson Center, June 2020

Despite the recent turbulence of coffee futures and scarcity of seasoned coffee pickers as a result of COVID we are long term investors focused on the consumer trends of sustainability, locally sourced, millennial digital consumption of fairly sourced organic goods and the growing number of global coffee drinkers. There have been a few recent “COVID headwinds” however we view these as opportunities to improve efficiencies and streamline production.

PERHAPS ECUADOR DEBT NEGOTIATIONS WERE NOT TOO CLOSE TO FAIL?

As we highlighted last week the largest group of Ecuador creditors, the Ad Hoc group, representing 53% of bondholders was in support of the Ecuadorian government’s latest proposal of over $10 billion in debt relief and $6 billion more between 2025-2030 delivering a nominal haircut of 9% on the $17.4 billion outstanding.

The initial hope seems to be in question following filed a class-action lawsuit against the country in New York on July 29 in relation to halt its $17.4 billion restructuring offer that expires on July 31.

The group of creditors claim Ecuador is violating securities law by making false and misleading comments in a July 27 press release and related documents. They also say the tender offer is coercive and that bondholders would suffer irreparable harm if it goes through because they will either have to agree to what they call unfavorable terms or receive less favorable treatment as a non-tendering bondholder.

AUGUST 4TH DEADLINE EXTENSION ANTICIPATED FOR ARGENTINA SOVEREIGN DEBT NEGOTIATIONS

Thursday the Atlantic Council hosted Economic Minister Martin Guzman discussing the path forward for Argentina and the ongoing $65 billion debt negotiations. There is a good chance the August 4 deadline will be extended as creditors consider the last offer from Guzman and the Argentina government. As President Alberto Fernandez and Guzman emphasized last week on the economic front Argentina is making the maximum effort for what they can fulfill. Given the history of balance of payments crisis in the country this time the current administration wants to commit to something responsible that they can fulfill whilst bringing economic stability to the country.

Guzman made very clear regardless what happens with the debt swap they are already negotiating for a new IMF program. He looks forward to a "new IMF program based on sound macroeconomic conditions." It would greatly benefit Argentina to begin a new program sooner rather than later all of which hinges on the current restructuring.

PENSION REFORMS BECOMING A REGIONAL TREND

This week Integra spent a lot of time chatting with our advisors in Chile, Peru and the Dominican Republic for more perspective on what recent pension reform and subsequent drawdowns could mean for the regional political environment and long-term growth.

Lockdowns in Latin America have been some of the longest in the world with the virus not yet at peak in some nations. While regional governments have launched effective fiscal policies pensions, especially in Chile, have been the rallying point for calls for reform and violent protests since last year. This is transforming large pools of capital from retirement income to COVID gap financing.

Chile's Administrators of Pension Funds (AFPs) currently manages the equivalent of 65.1% of GDP in savings, some $183.8 billion as of April 30, belonging to 10.9 million Chileans, about 58% of the population. The government anticipates an approximate $20 billion withdrawal as a result of last week's congressional agreement signed into law last Friday. As mentioned in the America's Quarterly, Finance Minister Ignacio Briones, an outspoken critic of the law, said the measure means "bread for today, but hunger tomorrow" and "is not good for the country."

This decision follows a similar move in Peru where savers were recently permitted to withdraw as much as 25% of their private retirement savings ahead of schedule. The Dominican Republic is also discussing a potential pension reform which could allow early access. Many critics are disappointed emphasizing that the funds being used today are those accumulated over 30 years and will gravely impact capital markets. There is also the overwhelming suggestion that modest pension drawdowns have created a precedent leaving possibilities for addition redemptions and more populist policies. (Source: America's Quarterly)

DID YOU KNOW?

On August 1, 1498 Explorer Christopher Columbus sets foot on the South American mainland for the first time, at the Paria Peninsula in present-day Venezuela. Thinking it an island, he christened it Isla Santa and claimed it for Spain.