

**Scott Swensen**  
Chairman  
Conduit Capital Partners, LLC

Financing is one - if not the - key factor in getting power plant projects up and running, in particular in Latin America and the Caribbean. One company that has set its sights on the region's power sector is New York-based private equity investment firm Conduit Capital Partners, LLC.

Last month, Conduit reported the completion of two new investments in Mexico through its recently closed US\$393mn Latin Power Fund III.

BNamericas talked to Conduit chairman Scott Swensen and managing director George Osorio about how the company's Latin Power Funds work and are structured as well as the company's assessment of the region's power sector in general.

BNamericas: How does Latin Power Fund III work and how is it structured?

Swensen: Private equity funds operate as commitment funds, so we closed commitments of US\$393mn for the latest fund and that money is not put in until we need it. We have five years in which to invest the capital. The initial final maturity of the fund is nine years after the first closing because we expect to be able to complete all of our investments and exit them within that period. If for some reason we are unable to do so, there is a provision that allows us to extend the life of the fund with the approval of the limited partners, the investors.

About two-thirds of our money is from the US and US\$60mn is a debt commitment from the US government through OPIC. The rest is equity money as limited partnership interests that include five US university endowments, some large foundations and private investment managers, some financial institutions, development banks from Europe, a Middle Eastern investment authority, high net-worth individuals and Australian pension funds.

George and I spent two years on the road traveling around the world trying to raise this fund.

BNamericas: How does this fund differ from similar types of fund that operate in the region?

Swensen: This business was started in 1993. Latin Power I was a US\$100mn fund raised in 1993 and its purpose was to be a minority partner alongside large strategics. Some of our original partners included Duke Energy and El Paso, big utility companies. We'd have a seat on the board, but we were not in control. What we found is strategics tend to manage for earnings rather than cash flow and also we didn't feel as though we were able to add the sort of value we wanted to. So Fund II, which was raised in 1998, is a control fund and Fund III continues that strategy.

We are different from a fund because we are a control investor. I have a power engineering degree and I was CEO for an energy company for five years. We are hands-on active managers through our positions on the boards of directors of these companies, so that really differentiates us from the other funds that have been operating in Latin America. There are four engineers out of the 10 of us at Conduit.

Osorio: One thing that differentiates us from most private equity investors investing in the region is that we invest for cash flow in the sense that a lot of these private equity funds buy or invest in a company and then wait for the exit to get some value. What we do instead, and I think that's why we've been able to perform, is to make sure that our investments are generating cash flow so that we don't have to rely on the exit in order to get our return.

BNamericas: How have the first two funds performed?

Swensen: Both funds still exist. Fund I has returned capital and Fund II 86% of capital, but both funds still own a majority of their assets. We are in the process of hiring an investment bank to help us sell the first two portfolios because we think that investors have become much more comfortable with Latin American power assets. We believe that by the time we're done selling those two portfolios, they will have returned two or three times capital to their

investors.

BNamericas: Any plans in the works for Latin Power Fund IV?

Swensen: Once we've committed about three-quarters of Latin Power III we will start raising Latin Power IV. But there definitely will be a Latin Power IV, there's no doubt about it.

BNamericas: What is your assessment of the current financing scheme for power projects in the region?

Swensen: There are more opportunities today to finance power plants than there ever have been. When we started the business in 1993, the only lenders that would give you construction financing and long-term debt were the multilaterals, IFC being the largest, but also CAF [the Andean Development Corporation]. The Inter-American Development Bank opened a private sector network and bilateral institutions such as FMO and DEG have also played significant roles.

But today what we find is many of the large multinational banks such as BNP Paribas, Santander, JPMorgan Chase are willing to do it. Once plants are built, we have done local bank financings in Chile, in Peru, in Honduras and we had a commitment from a local bank group in Guatemala, which never would have happened 10 years ago.

And in some of the countries you can access the capital markets. In Peru, we have two investments, both of which have issued long-term non-guaranteed bonds onto the market. Bond financing in Chile, of course, has been an option for years. And the Mexican market is developing.

So today we see many sources of debt financing for a well-structured power plant.

BNamericas: Renewables are taking center stage more and more. How do these come into play when Conduit is scoping out new investment opportunities?

Swensen: We are driven by rate of return balanced against the risk, so we're not going to invest in a renewable just to do a renewable. However, 40% of Fund II was in fact in renewable projects. We are the only independent hydroelectric operator in Mexico. One of these investments in Fund III continued that strategy: Benito Juárez.

And the increase in oil prices plus the availability of carbon credits have made the economics of renewable plants even better than they were before. Therefore we are actively looking at a number of new renewable plants, in particularly in Mexico and Central America. We've also got things we're looking at in Peru and Chile. So we expect it to be a very significant portion of the Latin Power III portfolio.

BNamericas: Where does Conduit have its eyes set on in the short term?

Osorio: It continues to be Mexico. We have excellent relationships there, partners who look for transactions, potential investments for us. But where we've been focusing primarily is countries like Mexico, Panama, Peru, Chile and now Colombia looks interesting again.

Swensen: El Salvador, there's some real need there, Guatemala.

Osorio: In the next few months it's likely we'll see investments in Central America. The investment environment has become very good in that region in regard to Panama and El Salvador and a number of the other countries.

BNamericas: What risks do you see in the region that could impact power sector development?

Swensen: Clearly political risk has become an issue with the actions by the Bolivian government. We do not have and never have had investments in Bolivia. We have stayed away from Venezuela once President [Hugo] Chávez demonstrated he does not respect foreign investors.

So the choice of location has been critical for us. We were not in Argentina when the devaluation occurred because we knew the currency was overvalued and there had to be an adjustment.

Brazil is an issue for us because it is illegal to index to the dollar and that's been one of the things we've absolutely

insisted on. Brazil allows local inflation adjustments in the tariff but only on an annual basis and we're not comfortable making a 20-year investment in such an environment when our capital is dollars, although the most profitable investment we've made so far has been in Brazil, where we did an emergency thermal deal in the northeast in response to the drought in 2000.

Osorio: Because it was an emergency, they offered dollar contracts for the first time.

**ABOUT THE COMPANY:**

Conduit Capital Partners is a private equity investment firm focused on investment opportunities in the independent electric power industry in Latin America and the Caribbean.

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