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Conduit Closes $393M Latin American PE Fund

By Alex Burgess

Conduit Capital Partners held a fifth and final close on what has turned out to be the biggest Latin American private equity fund raised since the region's first wave of private equity activity in the late 1990s. Conduit's Latin Power III fund reached a total capitalization of $393 million, edging out Advent's $375 million fund that was raised last year. The fundraising process took Conduit two and a half years. Like the first two Latin Power funds, Latin Power III will invest in the electric power industry in Latin America and the Caribbean. Conduit both develops greenfield projects and acquires existing power generation facilities.

Limited partners in the fund included many prior investors in Latin Power funds, as well as a number of first-time investors. Five US universities were first-time Latin Power investors, and included Baylor University and Oklahoma State University. The biggest investor in the fund was one of the five universities. Other limited partners included Australian pension funds Australia Post Super Annuation Scheme, which is the largest investor in total in all three Latin Power funds, and Motor Trade Super Annuation Scheme; Dutch development bank FMO; German development bank DEG; Corporacón Andina de Fomento (CAF); a Middle Eastern government investment authority; a large US insurance company and the Overseas Private Investment Corporation (OPIC), which provided $60 million of debt financing to the fund.

With this being the second fund in the past year to reach nearly $400 million, investors are clearly starting to regain interest in the region. "I think the success of our fund is signaling that investors believe that Latin America is a good place to invest again," said Conduit's Chairman Scott Swensen. "Part of it is that there is a recognition that there's not a lot of capital in the region, and part of it is that there's an excess of capital in other areas of the world," he explained as reasons for the increased interest in Latin America. Swensen also cited a strong track record and a market niche that is not correlated to anyone else's activities as reasons for the high level of investor interest in Latin Power III.

Latin Power III will make average investments of $25 million. The fund will first target Mexico, but will also look to invest in Chile, Peru and Central America. Two investments have already been completed and another 10 transactions are currrently being developed in Mexico, according to Swensen. The fund's first investment was in Libramiento, a natural gas pipeline in Mexico now under construction and which will be leased to and operated by state oil and gas company Pemex. This was the first time that Conduit strayed from power plants and invested in a pipeline. Latin Power III also purchased a minority investment in Jamaica Energy Partners ("JEP"), the operators of two diesel barges, already controlled by Latin Power I & II. The three Latin Power Funds now own 100% of JEP.

Conduit is one of the only truly regional players that refuses to invest in Brazil. "Brazil is much less important to us than its economic size might suggest," Swensen said. In Brazil it is illegal to have dollar contracts, and Conduit views that as a currency risk that it doesn't wish to take. Colombia will also be avoided, even though it was the biggest focus of the first two Latin Power funds. Conduit will not invest in Colombia because of Resolution 34, which allows for a price cap to be put on wholesale power costs in certain instances, thereby negatively impacting rates of return. "Resolution 34 is going to be a problem for Colombia, because no one is building thermal generation there, and sooner or later an El Niño will hit the country," said Swensen.

Like the second Latin Power fund, this latest fund will make majority investments. Latin Power I had some difficult experiences in managing minority investments, finding that strategic investors in these investments tended to manage for earnings instead of cash flow, and therefore were at odds with the goals of a private equity investor.

According to Swensen, Conduit has historically leveraged 50-75% of the cost of a plant and will continue to do so. "We see an ability to refinance a completed plant with local banks in many countries, whereas that opportunity didn't exit five years ago," he said. "These countries have made tremendous progress against inflation, and local banks are therefore increasingly able to help out with debt financing."

"We are delighted with where we are now and are very optimistic for the prospects of Latin Power III," Swensen concluded.