# MMIF: Greenfield ambitions

09/02/2010

Macquarie's debut Mexican infrastructure fund does not have to close until mid-2011, but is looking to participate in several bids before the end of the year. Macquarie reached a first close on the Ps5.2 billion ($408 million) Macquarie Mexican Infrastructure Fund on 14 January after garnering Ps3.42 billion in commitments from Mexican pension funds, or afores.

The fund is notable as the first use of the development certificate (CKD) for an issuer without existing assets. It attracted strong support from the Mexican government, including the approval of the country's pension fund regulator, CONSAR, and a cornerstone investment of Ps1.04 billion (with a promise of up to Ps1.6 billion more) from the country's state-owned infrastructure fund, Fonadin. Credit Suisse was placement agent for the certificates, while Ritch Mueller advised Macquarie.

The launch is notable as the first time that Macquarie has launched a listed fund since 2006, when it took the Macquarie Korea Infrastructure Fund public. In the intervening period it has launched several unlisted funds, particularly in Asia, but the performance of listed funds during the crisis has been unimpressive, and several managers, most notably Babcock & Brown, have struggled.

But the Mexican government's need to attract private finance for its concessions programme, and its desire to reduce its dependence on foreign capital, have created a supportive environment for the fund's launch. The head of Mexico's stock exchange, Luis Tellez, is a former minister for transport, and the country's regulators have been broadly supportive of the creation of development certificates.

The first development certificate deal, for the Farac 1 road portfolio, refinanced acquisition debt, and benefited from an existing asset base, featured little development or construction risk, and enjoyed considerable support from its sponsors, Goldman Sachs and ICA. The banks on Farac had pressured Banobras, which runs Fonadin, to refinance some of their Ps31.7 million commitment. Banobras had demurred, and the Mexican government would prefer that the afores' cash be put to work in new deals. But the Ps8.55 billion of Farac certificates, led by Sanatnder, served as a useful proof of concept for later deals.

The Macquarie fund consists of two trusts with a co-investment agreement – a conventional infrastructure fund, for foreign and unregulated investors, and the trust that issues the CKDs, although each has the same rights and obligations and the other. The buyers of the CKDs are public pension funds, or afores, for which the certificates were created. To comply with the regulations for the issuance of CKDs, the governance structure of each is slightly different, because CKD issuers must have a prescribed set of oversight committees, though the functions of the committees for each are broadly similar.

The buyers of the CKDs will fund on their purchases immediately, while the investors in the conventional fund will be liable for cash calls when necessary. The proceeds of the certificates will be invested in federal government bonds until needed. This should not create a negative carry since the bulk of the afores' assets are already in government debt. Mark Ramsey, executive director at Macquarie Capital, notes that "the investors in the conventional fund are likely to account for their commitments as if the cash has already been contributed."

According to Ramsey, the funds have been structured to mimic a private equity infrastructure fund as closely as possible, though the CKDs are the only way for the afores to gain access to a private equity-type investment. "About 60% of the investors in Macquarie's funds are pension funds, so having the participation of Mexico's pension funds in a fund focused on the country is important to us."

The progress of the fund will be closely watched by Mexico's existing sponsors, which had been sceptical, variously, about the fund's ability to shoulder development costs and the suitability of CKDs as an asset class to pension funds. In response to the first criticism, Ramsey notes that Macquarie will follow its existing practice of pursuing development itself before offering assets to the fund.

The second criticism will take longer to substantiate, if at all. Macquarie offers investors the return of their capital plus an 8% annual return before taking a cut revenue. After that, and until it reaches a 20% share, it will take 70% with the certificate-holders 30%, and after reaching that level 20% and the holders 80%.

The Mexican government will need to manage the potential conflicts of interest carefully. Fonadin, run by the national development bank Banobras, has no control over the actions of the fund, but Banobras will take an important role in senior debt funding for projects in coming months, and the government will be awarding a number of projects on which Macquarie is bidding.

Ramsey says that the fund is looking at both public-private and private-private opportunities, but notes that the road, water and power sectors, which mix public and private ownership, are likely to dominate its activity this year.

**Macquarie Mexican Infrastructure Fund**
Status: Registered 17 December 2009, reached first close, open to commitments for 18 months
Size: Ps5.2 billion ($408 million)
Location: Mexico
Description: Twin listed and unlisted infrastructure investment vehicles
Manager: Macquarie Mexico Infrastructure Management
Placement agent: Credit Suisse
Trustee: Bank of New York
Legal adviser to manager: Ritch Muller
Anchor investor: Fonadin