Creation of value through alternative financing sources: CERPIs and CKDes
**Description**

Development Equity Certificates (CKDes) arise in 2009 as a response to the needs of Investment Funds Specializing in Retirement Funds (SIEFORES), entities whose purpose is to invest the resources of Retirement Fund Administrators (AFORES), to diversify their portfolios through investment in alternate assets such as private companies and projects which, before the existence of this instrument, were not within the investment alternatives of the SIEFORES.

**Pros and cons**

The CKDes represent a new investment perspective both for AFORES and for project developers. The market has learned to adapt to the operating mechanism of this instrument, identifying advantages and disadvantages, as follows:

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to a larger base of institutional investors because they can be acquired by SIEFORES.</td>
<td>Investors other than SIEFORES have little interest in CKDes because the costs associated with such instruments may be higher than private vehicles.</td>
</tr>
<tr>
<td>The CKDes represent a type of security which results in a benefit for SIEFORES by allowing for higher yields than those of debt and equity instruments traded in the market.</td>
<td>Because the issuance of CKDes implies a public offering, it entails compliance with certain regulatory requirements.</td>
</tr>
<tr>
<td>Because they are issued through public bids, CKDes are listed in the National Registry of Securities (RNV); the offering and registration are authorized by the National Banking and Securities Commission (CNBV)</td>
<td>Investor involvement in decision making.</td>
</tr>
<tr>
<td>Solid corporate governance based on applicable regulation and industry standards.</td>
<td>In the case of FICAPS, certain requirements must be met and applicable investments must be recorded, among others.</td>
</tr>
<tr>
<td>Tax transparency of the issuing trust, whether through and administrative trust with passive income, based on the Omnibus Tax Ruling (Omnibus Ruling), or private equity investment trusts (FICAPS), in terms of the Income Tax Law (LISR)</td>
<td></td>
</tr>
</tbody>
</table>
**Economic impact**

During the second half of 2009, the first CKDes were issued by various companies in Mexico. The amount of such issues was 9,900 million Mexican pesos, of which 74% was applied to infrastructure. These investments directly impacted highway improvement and boosted various projects in the telecommunications, energy, and hydraulic sectors.

The remaining 26% was private equity. The issues were by Wamex and Discovery, with Wamex being the first CKD request.

By the 2012 yearend, 26 CKDes had been issued with different investment objectives. We can currently find six specializations: real estate, infrastructure, energy, financial assets, private equity, and venture capital.

By the 2015 yearend, the total amount issued by CKDes is mainly concentrated in financing companies engaged in private equity investments (28%) and infrastructure (24%), with an approximate amount of 53,800 and 46,700 million Mexican pesos, respectively.

After that, investments in real estate (22%) and energy (14%), have an accumulated issue, at December 2015, of 42,500 and 26,800 million Mexican pesos, respectively.

The trusts which manage this type of CKDes diversify their investment strategy in infrastructure projects (real estate, telecommunications and energy, etc.) and companies from various productive sectors, depending on their degree of maturity, potential, and sector in which they are established.

The CKDes related to private equity trusts are managed by WAMEX Private Equity, Nexxus Capital, Discovery Americas, Northgate Capital, Abraaj Group, LIV Capital and Fondo de Fondos, among others.

Finally, we have trusts with venture capital objectives. The CKDes with this specialization (8%) have an accumulated issue amount of approximately 15,800 million, with trusts such as Navix de Mexico and Axis Asset Management, among others, as managers and trustors. Their main investment strategies focus on granting structured financing to Pemex and Comisión Federal de Electricidad (CFE) contractors, and investing in power generation and renewable energy projects.

Below is the share per investment objective according to the amounts issued annually.)
Is this right for me?
CKDes involve various complexities which are discussed herein, including certain placement and maintenance costs common to public security offerings. Therefore, those interested in issuing such securities must consider, among others, the following aspects:

- The main issue to consider is that, while there are investors other than SIEFORES which have acquired CKDes, these securities are designed to enable the investment of SIEFORES; therefore, before working on establishing a CKD issuing vehicle, you must approach these entities and ascertain whether they are interested in the trust objective.

- One of the most significant factors in making an investment decision is the manager’s track record, because investors regularly expect prior experience in managing trusts similar to that which will be established.

- Based on the alternate asset industry standards, investors expect one of the conditions to be that the trust manager co-invests, together with the CKD issuing trust, a certain percentage of the amount invested in companies and projects.

- Per regulations currently applicable to CKDes, investors are entitled to participate in investment and other operating decisions made by the issuing trust by participating in the Technical Committee and Holders’ Meeting. This differs from the international private equity trust practice because, under alternate asset industry standards, investors should only be involved in issuing opinions in the event of potential conflicts of interest, not in making investment decisions.

Amount available in the AFORES
As of December 2015, the amount of resources managed by the AFORES, according to the CONSAR, was 3,644,786 million Mexican pesos, of which 97% was from resources related to retirement and early retirement, and the remaining 3% from resources related to voluntary savings, social welfare funds, and AFORE resources, in accordance with capitalization standards.

With regard to resource share per AFORE, we should point out XXI Banorte (24%), with a managed resource amount of 867,100 million Mexican pesos.
To date, AFORES have a broadly diversified portfolio with government instruments (50%), domestic private resources (20%) and international variable income (16.2%), among others.

Structured instruments (CKDes, FIBRAS, REITs) only represent 6.1% of the total portfolio. Even though such share has increased during the last years, significant investment capacities still exist for these types of instruments.

The investment amount of AFORES intended for structured instruments ranges from 1% to 6% which, if compared to the thresholds, indicates a potential investment capacity of 70%.

### Resource share per AFORE

<table>
<thead>
<tr>
<th>Resource</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>XXI Banorte</td>
<td>24%</td>
</tr>
<tr>
<td>SURA</td>
<td>14%</td>
</tr>
<tr>
<td>Profuturo GNP</td>
<td>12%</td>
</tr>
<tr>
<td>Principal</td>
<td>6%</td>
</tr>
<tr>
<td>PensionISSSTE</td>
<td>10%</td>
</tr>
<tr>
<td>Metlife</td>
<td>3%</td>
</tr>
<tr>
<td>Invercap</td>
<td>6%</td>
</tr>
<tr>
<td>Inbursa</td>
<td>4%</td>
</tr>
<tr>
<td>Coppel</td>
<td>5%</td>
</tr>
<tr>
<td>Banamex</td>
<td>16%</td>
</tr>
<tr>
<td>Azteca</td>
<td>2%</td>
</tr>
</tbody>
</table>

### Investment in Structured Instruments vs. Regulatory Threshold

Source: CONSAR
History

Legal precept / regulation

As discussed above, CKDes arise in 2009 by their inclusion in the General Provisions Applicable to Security Issuers and Other Securities Exchange Participants (the Sole Issuer Circular or CUE), and in the Internal Regulations of the Mexican Stock Exchange (the RIBMV), where they called “Development Equity Certificates”. However, the first reference to CKDes is in the CONSAR 15-19 Circular, (CONSAR Circular), issued by the National Retirement Savings System Commission (CONSAR).

In this regard, the CONSAR Circular established in Exhibit L the rules which must be met by structured instruments (Structured Instruments) to be an investment objective for SIEMOES, as follows:

01. They must be composed of securities which guarantee their nominal value upon maturity and whose full or partial yield was tied to underlying trust assets which grant rights on their earnings and/or proceeds.

02. The Structured Instrument must have (i) a fixed flow component composed of a debt security issued by domestic issuers; and (ii) a variable flow component tied to the project company or the financed project, and to the guarantees granted.

On August 4, 2009, Exhibit L of the CONSAR Circular was repealed, thus eliminating the requirements contained therein. The current definition of Structured Instruments is as follows:

- The CKDes, defined as fiduciary instruments intended for investment or financing of activities or projects within Mexico, of one or several companies, including those which invest in or finance the acquisition of common stock of Mexican corporations whose shares are listed in the Mexican Stock Exchange, except for those regulated by the Investment Funds Law.
- Real estate investment vehicles (FIBRAS), and
- Securitization Certificates, whose payment source relates to the use or enjoyment of actual assets.
- The Securitization Certificates referred herein must meet the requirements established in the general financial provisions of the Retirement Savings System issued by the CONSAR.

For market purposes, on July 22, 2009 the CNBV published amendments to the CUE, in order to establish the rules for the issuance of CKDes. Similarly, with the financial reform published on January 10, 2014, the Securities Exchange Law (LMV) was amended to create the fiduciary development securitization certificates figure, including the rules established in the CUE.

From a legal standpoint, CKDes are governed by different regulations, which give different names to such securities, but they are still a single instrument.

First public offerings

One of the prototypes of the CKDes was the offering of a structured instrument in July 2008 by the trust established by Agropecuaria Santa Genoveva, S.A.P.I. de C.V. (Santa Genoveva), whose purpose was to finance forestry development transactions through the securitization of a portion of their future flows. Such structured instrument had two parts: (i) a fixed flow component composed of debt securities, and (ii) a variable flow component...
component whose resources were invested in the common stock of private companies.

Once the first provisions applicable to CKDes were published, as described above, the first issuance of such instruments was made in the second half of 2009 by the following companies: (i) WAMEX Capital, S.A.P.I. de C.V.; (ii) Atlas Discovery Mexico, S. de R.L. de C.V.; (iii) Carreteras de Occidente, S.A.P.I.B. de C.V.; and (iv) Macquarie México Infrastructure Management, S.A. de C.V.

To date there have been 52 issues of CKDes, which have been used in private equity investment funds, infrastructure projects, real estate investments and to make loans.

**Evolution**

From the start the regulation of CKDes has evolved to adapt to international market standards for this type of assets, resulting in significant amendments to the LMV, the CUE, the CONSAR Circular and the RIMBV; similarly, the economic and corporate governance terms have been modified in accordance with the agreements made in each case by managers and investors.

Below are the main amendments:

**July 2009-CUE**

- The CUE is amended to include the rules applicable to fiduciary instruments which give the holders the right to participate in a portion of the earnings or yield; of the assets or rights; or of the sale of the assets or rights which are part of the trust assets, up to their residual value, for purposes of using them in an investment which enables the performance of activities or development of projects of one or more companies, or the acquisition of common stock share certificates.

- The first rules for CKDes were mainly based on corporate governance, minority rights and information disclosure obligations applicable to public corporations. Such rules are still effective and have not been amended.

**August 2009-RIMBV**

- The RIMBV is reformed to include the term “Development Equity Certificates.”

- CKDes are defined as follows: “Fiduciary instruments at a determined or determinable term issued by trusts with variable and uncertain yields and fully or partially linked to underlying trust assets, whose purpose is an investment that enables the performance of activities or the development of projects of companies, or the acquisition of common stock share certificates”.

- As a result of the RIMBV reform, the rules for listing CKDes in the BMV were included.

- Similarily, CKDes were classified according to the type of investment into: (i) A Development Equity Certificates, used to invest in common stock share certificates or acquire assets or rights to the flows of several corporations, and (ii) B Development Equity Certificates, used to invest in common stock share certificates or acquire assets or rights to the flows of one company.

- Note that in the case of B CKDes, the trustors had to list their common stock share certificates in the BMV without a public offering. This A and B classification no longer exist and, therefore, the requirement contained herein is irrelevant.

**August 2009-CONSAR Circular**

- Exhibit L of the CONSAR Circular was repealed.

- With the repeal of Exhibit L, requirements to the effect that Structured Instruments had to be composed of securities which guarantee their nominal value upon maturity and whose full or partial yield was tied to underlying trust assets that grant rights to their earnings and/or proceeds, were eliminated.
December 2010-CUE

• Se adicionan a la CUE los Anexos H BIS 2 y el Anexo W.

• El Anexo H Bis 2 establece el instructivo para preparar los prospectos de colocación para la oferta pública de los CKDes, mientras que el Anexo W era el formato el que deben firmar los inversionistas en CKDes, en el cual manifestaban el conocimiento de las características de los valores, así como los potenciales riesgos que representan las inversiones en los mismos.

Dicembre de 2010-CUE

• The obligation to publicly disclose the relevant events of the companies in which the CKD issuing trusts invest is included in the CUE.

July 2011-CUE

• The ability to make capital calls to holders of CKDes is included in the CUE, thereby adapting the vehicle to international sector standards and reducing the cost of opportunity present in the prefunding mechanism.

• The CUE defines capital calls as the terms and conditions established by the issuer of CKDes, so that the issuer itself may exercise the option to request from the holders, after the placement of the first tranche of the issue, additional contributions to the trust assets for investment projects, by amending the number of shares, if applicable, and the issue amount of the new tranches, based on the provisions of the respective issue document.

• As part of the 2011 amendment, special rules were included for the issue of CKDes through the capital calls method, such as the issue under an issue document; that the CKDes may not have a nominal value; and the obligation to establish in the documents the contractual penalties applicable by the issuer if one or more holders of fiduciary instruments do not cover the capital calls in proper time and form.

January 2014-LMV-Financial Reform

• As part of the financial reform, “Fiduciary Development Securitization Certificates” were included in the LMV. These instruments are issued for investment in shares, business interests, or financing of Mexican companies, whether directly or indirectly, through various investment vehicles.

• The inclusion of CKDes in the LMV was based on the existing rules in the CUE for such instruments, such as the holders' rights to appoint technical committee members, the operating percentages which require approval by the technical committee or the holders' meeting, and the rules for issues made using the capital calls methods.

• The figure of the “directed bid” to a certain type of investors was also included and is governed in greater detail by the CUE.

June 2014-CUE

• The main change to the CUE in regard to CKDes is the inclusion of holders' meeting powers.

• The holders' meeting was granted the power to approve: (i) proposed investments or acquisitions when they represent 10% or more of the trust assets, and will be made with individuals who meet at least one of the following conditions: (a) are related to the companies in which the trust will invest, to the trustor, the trust asset manager or anyone assigned with such functions, or, (b) represent a conflict of interest; (ii) expansions of proposed issues, whether in amount or number of shares; and (iii) any amendment to compensation schemes or management commission or any other item in favor of the trust asset manager, technical committee members, or equivalent body, or any third party.
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October 2015-CUE

• In the case of CKDes whose resources will mainly be used to grant loans or financing to Mexican companies or for the acquisition of debt securities issued by such companies, the rules for such operations must be clearly stated, including (i) methodologies for calculating the indebtedness level and the debt service coverage ratio, (ii) leverage thresholds, (iii) the obligation to comply with a debt service coverage ratio when assuming any loan or financing charged to trust assets, and (iv) measures if the leverage thresholds are exceeded.

• The most relevant changes in terms of CKDes is the ability to request the CNBV's authorization to make, within a maximum one-year term from the initial public offering, several public offerings until the minimum initial contribution amount to trust assets is placed, provided the securities are offered in restricted public offerings and the issue documents establish how the offering price will be calculated.

• In relation to the requirement that investments in shares or credit instruments registered in the RNV or issued by Mexican corporations subject to a public offering abroad must represent at least 20% of the respective company’s common stock, the possibility to make such investments at a lower percentage was included, provided there are joint venture agreements with other investors that allow the joint acquisition of at least 20% of the company’s common stock and involvement in such company’s management.

• In relation to information disclosure requirements, the publication of the financial information of project companies in which the investment represents 10% or more of the trust assets may be omitted provided the CKDes were issued through a restricted public offering. Such assumptions must establish the holders’ right to ask the common representative or trustee to provide access, free of charge, to financial information that the issuer is not obligated to disclose to the investing public, provided their request includes a certificate of ownership of the respective securities, issued by a securities deposit institution. Such information must be related to the issuer’s proposed investments, without detriment to the confidentiality and conflict of interest provisions established in the issuance documents.

• When schemes are agreed which entitle the trust asset manager or the person assigned such functions or the related trustor or individuals to appoint all the technical committee members, the latter must at least have a committee responsible for resolving conflicts of interest.

• The investors’ obligation to sign the form acknowledging the characteristics of the CKDes in terms of Exhibit W of the Sole Issuer Circular was repealed.

• Finally, CKDes must be valued at least once a year; previously it had to be done quarter.
December 2015 - CUE

- An amendment to the CUE was published in December 2015 to include “Investment Project Securitization Certificates, which are a security similar to CKDes (CERPIS). Section 6 herein describes such instrument.

January 2016 - CONSAR Circular

- As part of the amendments to the CONSAR Circular published on January 4, 2016 in the Federal Official Gazette, an Exhibit P was included regarding the methodology to calculate the maximum investment limits for the set of Basic Investment Funds operated by a same Manager in Structured Instruments.

- Exhibit P of the Circular establishes that the set of Basic Investment Funds, eligible for investments in Structured Instruments, which are operated by the same AFORE, may acquire over 35% of the same issue of Structured Instruments, in which case the maximum amount subject to investment must adhere to the following:

  - The percentage limit determined by general financial provisions for Retirement Savings Systems issued by the CONSAR must always be respected.

  - For the Structured Instruments referred to in Provision Two, Section LI, Subsection a) (CKDes): Up to 80% of the value of projects financed using the Structured Instrument may be used as long as its value is below the threshold.

  - For the Structured Instruments referred to in Provision Two, Section LI, Subsection b) (CERPIS): Up to 70% of the value of projects financed using the Structured Instrument may be used, provided its value is lower than the threshold, and the involvement of a group of joint investors in the financed projects is confirmed, which must comply with the eligibility conditions established in the general financial provisions issued by the CONSAR.

- When the value of the Structured Instrument equals or exceeds the threshold, the equivalent of 35% of the Structured Instrument value cannot be exceeded.

- Threshold: equivalent to 4,000 million Mexican pesos. The threshold will be restated in the same proportion as the increase in the value of investment units (UDIs). The initial value will be that of the effective date of the circular and will be restated once every calendar year.

- The qualifications established in Exhibit P will apply only to Structured Instruments whose manager does not have another instrument of the same kind in effect in the Mexican financial market.

February 2016 - CONSAR Financial Circular

- On February 16, 2016, amendments to the general financial provisions applicable to retirement savings systems (the “CONSAR Financial Circular”) were published in the Federal Commission for Regulatory Improvement.

- Exhibit B of the CONSAR Financial Circular establishes the elements which must be included in the policies defined by Structured Instrument Investment Committees, and establishes the eligibility of the CERPIS joint investor, as follows:

  - Certify that the joint investor has experience in investments similar to that in which it is investing

  - Certify that the joint investor is only a pension fund, sovereign funds, central bank, multilateral financial agency in which Mexico is a member, a Mexican Company, or private equity fund manager.

  - If the joint investor defines the investment proposal, it must certify the following:

    - That it is a private equity fund manager, pension fund, sovereign fund, or central bank; and

  - If it is a joint investor other than those discussed in section i. above, that it has experience in investments or projects in which the Structured Instrument will invest.

- In addition to the above, the following joint investor information must be provided:

  - General information of the joint investor in Fiduciary Investment Project Securitization Certificates

  - Executive team of the joint investor and, if applicable, analysis of the joint investor’s affiliate or subsidiary responsible for approving investment projects.

  - Description of any possible conflict of interest regarding the investments of the related instrument.

  - Joint investment policies regarding instrument management, operation, and monitoring.

  - Description of joint investor policies related to:

    - Information disclosure

    - Appraisal practices

    - Analysis of underlying and fund investments.

    - Code of ethics of the joint investor

Investment amounts

The total amount issued by CKDes as of December 2015 is approximately 191,274 million Mexican pesos, distributed among 52 CKDes, which specialize in financial assets, equity funds, real estate assets and infrastructure projects, depending on the sector (telecommunications, energy, real estate, hydraulics, etc.)

2015 was the year with the greatest amount and volume of CKDes issued (16 in total), which mainly focus on financing private equity funds (41%) and infrastructure (21%).

Each trust has an investment period of three to eight years, depending on the The
Total invested amount of the CKDes analyzed is 60,000 million Mexican pesos. Such amount is largely concentrated in investments in infrastructure (28%) and real estate (27%) companies, with an approximate amount of 16,600 and 16,300 million Mexican pesos, respectively.

Then we have investments in venture capital (18%) and private equity (10%), for an accumulated investment as of the first half of 2015 of approximately 11,000 and 5,800 million Mexican pesos, respectively.

Energy investment represents 9% of the total invested amount and is equal to approximately 5,600 million Mexican pesos. A significant part of CKDes specializing in this sector are in an investment period, which is why this specialization shows a relatively low investment amount based on the issue.

Source: Placement Prospectus, Mexican Stock Exchange.
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### Invested amount

<table>
<thead>
<tr>
<th>Year</th>
<th>Real State</th>
<th>Private Equity</th>
<th>Infrastructure</th>
<th>Energy</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>11,014</td>
<td>9%</td>
<td>27%</td>
<td>28%</td>
<td>19,534</td>
</tr>
<tr>
<td>2010</td>
<td>4,671</td>
<td>18%</td>
<td>10%</td>
<td>14%</td>
<td>18,357</td>
</tr>
<tr>
<td>2011</td>
<td>1,256</td>
<td>9%</td>
<td>27%</td>
<td>28%</td>
<td>5,573</td>
</tr>
<tr>
<td>2012</td>
<td>1,256</td>
<td>9%</td>
<td>27%</td>
<td>28%</td>
<td>1,256</td>
</tr>
</tbody>
</table>

Source: 1Q2015 Reports, Mexican Stock Exchange.
Generación de valor a partir de fuentes alternativas de financiamiento: CERPls y CKDes
Participants in the operation and role description
The issues of CKDes involve the participation of several people, some derived from the regulation applicable to securities and the fund, and others from market standards. Below are the participants in CKDes issues, including those who take part in the creation and over the life of the fund, as well as a description of their roles:

01. Trustor/Manager: The trust manager, while establishing the CKDes issuing trust as trustor, also provides its services for purposes of analyzing investment opportunities for the trust, selecting those it believes most suitable and submitting them to the Technical Committee and, if applicable, the Holders' Meeting, for approval, and maintaining and managing the investments. Depending on different regulatory and tax conditions, the trustor and manager may be the same company or different companies.

02. Trustee: The trustee must be an authorized financial institution; it will have the fiduciary ownership of the trust assets, and the legal personality of the latter for all legal effects which arise; therefore, it is considered the issuer of the CKDes. The trustee acts in accordance with the instructions of the manager, technical committee and holders' meeting.

03. Common Representative: The holders of CKDes are jointly represented with the trustee, manager, and third parties by the common representative, a figure used in the issue of securities per the General Law on Credit Instruments and Operations.

04. Broker: Because CKDes are placed through public offerings, they require the involvement of authorized brokers who are responsible for the CKDes purchase sale transactions on the stock exchange, provide financial advice to the manager and investors, and perform the
crossing transaction by means of the BMV's electronic systems.

05. Structuring agent: In certain CKDes structures the structuring agent figure is used. The structuring agent is responsible for designing the structure, reviewing the documentation, and providing support in the preparation of sale materials. In issues which have a structuring agent, the percentage charged by the broker is lower because he does not provide structuring services.

06. Independent Legal Advisor: To comply with regulations, in issues of CKDes an independent legal advisor must be engaged to issue the legal opinion on, among other things, the proper creation of the trust and the validity and enforceability of the CKDes.

07. Tax Advisor: CKDes must have the opinion of an independent third party qualified to issue tax reports under applicable legal provisions, stating whether the tax scheme disclosed in the placement prospectus is applicable to such CKDes.

08. Investors’ Legal Advisor: In addition to the opinion issued by the independent legal advisor, normal practice in issues of CKDes has been to engage a legal advisor to issue a document for investors, indicating the main terms and conditions of the issue and their adherence to market standards.

09. Independent Appraiser: The investments made with CKDes issue resources must be appraised quarterly by an independent appraiser, who must be engaged by the trustee responsible for trust assets.

10. Price Supplier: A price supplier is engaged for issues of CKDes. The price supplier must verify the value of the CKDes based on the value of the investments determined by the independent appraiser. This figure is not required by the regulation applicable to CKDes, but it is required of the SIEFORES.

11. Technical Committee: The CKDes issuing trust must have a technical committee that includes at least 21 members, of whom at least 25% must be independent (per Articles 24 and 26 of the LMV), and will have certain non-transferrable powers, such as: establishing the policies for investment of trust assets, approving investments and divestments equal to or greater than 5% of trust assets and lower than 20% of trust assets, as well as transactions with related parties or those which may represent a conflict of interests.

12. Holders’ Meeting: The holders’ meeting will represent the investors’ interests and have powers such as approving proposed investments or acquisitions when they represent 20% or more of trust assets, and transactions which represent 10% or more of trust assets when they involve related parties or may represent a conflict of interest.

Legal and economic terms
The terms and conditions of CKDes issues are divided into those of a regulatory nature, and those negotiated in each transaction by the manager and investors.

The main legal and economic terms used in CKDes issues are as follows (see upper chart in page 15).

Main differences with other vehicles
As discussed above, CKDes originated from the need of SIEFORES to invest in securities placed through public offerings, because the Retirement Savings System Law requires SIEFORES to invest in publicly offered securities which are registered in the RNV. Accordingly, such instruments have their own characteristics, different from other vehicles used in Mexico and abroad for investment in Alternate Assets.

Below is a chart (page 15) with the main differences between CKDes (and their issuing trusts), and the Limited Partnership, used in various jurisdictions, but whose characteristics are similar

Types of assets
According to their objectives, CKDes have been classified in several types. Below (see chart in page 16) we analyze each of the specializations according to the destination of the resources.

Market standards
Private equity trusts
Private equity trusts invest in private companies with a high growth potential, addressing areas of opportunity and strengthening competitive advantages to obtain accelerated growth.

The trusts operate with a specific structure, which includes:

- Investment vehicle (Limited Partnership)
  It is the most common legal form of private equity investment. The vehicle invests in the companies and they have an approximate 10-year life.
- Investor (Limited Partner or LP)
  An investor which contributes funds to the company that are used to acquire companies managed by a private equity firm. The investor has limited liability and is liable for company debts only up to the amount of his investment.
- Trust Manager (General Partner or GP)
  Analyzes the options for investment, manages investments made and is responsible for their performance and the yield given to investors.

Alternate Assets.
### Legal terms

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment period</td>
<td>4-5 years.</td>
</tr>
<tr>
<td>Duration of CKDes</td>
<td>10-14 years. Certain infrastructure CKDes have terms which range from 30 to 40 years.</td>
</tr>
<tr>
<td>Technical Committee</td>
<td>Composed of a maximum of 21 members of whom at least 25% must be independent. A. Any holder or group of holders who jointly own 10% or more of the total number of CKDes may appoint a technical committee member. B. The manager may appoint, after the holders’ appointments, all other technical committee regular members and their respective alternates.</td>
</tr>
<tr>
<td>Percentage to remove the manager with no cause</td>
<td>Commonly 75-90%</td>
</tr>
<tr>
<td>Percentage to remove the manager with a cause</td>
<td>Commonly 51-80%</td>
</tr>
<tr>
<td>Percentage invested to raise new funds</td>
<td>Commonly 70-90%</td>
</tr>
<tr>
<td>Required documents</td>
<td>Trust Contract, Issue Document, Placement Prospectus, Public Offering Notice, Legal opinion, Tax opinion, Title supporting the CKDes, Technical Committee Meeting Minute approving the Issue and Document with Key Investment Information, among others.</td>
</tr>
</tbody>
</table>

### Economic terms

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust manager joint investment</td>
<td>1%-5% of the investment amount in each project company or financed project, depending on the characteristics of the CKDes, the manager and the investors.</td>
</tr>
<tr>
<td>Management Commission</td>
<td>(i) 1%-2.5% (depending on the size of the trust) of the maximum issue amount during the investment period, and (ii) once the investment period has concluded, 1%-2.5% of the result of subtracting (a) from the investment amount, (b) the amount invested in investments in regard to which a total divestment occurred, or which has a $0 value.</td>
</tr>
<tr>
<td>Preferred yield</td>
<td>Commonly 8% in US dollars and12% in Mexican pesos.</td>
</tr>
<tr>
<td>Carried Interest</td>
<td>80% holders -20% manager.</td>
</tr>
</tbody>
</table>
### Characteristics

<table>
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<tr>
<th>Legal nature of the vehicle</th>
<th>CKDes</th>
<th>Limited partnership</th>
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<tr>
<td>Issuing trust of fiduciary development securitization certificates, with no legal personality with no legal personality</td>
<td><strong>Limited Partnership</strong>, contract, with no legal personality and with tax transparency.</td>
<td></td>
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<table>
<thead>
<tr>
<th>Legal nature of the securities</th>
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<tr>
<td>Partnership interests which grant rights to the yield obtained by the trust.</td>
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<table>
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<tr>
<th>Capital contribution mechanism</th>
<th>Prefunding/Capital calls.</th>
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<tbody>
<tr>
<td>yield obtained by the</td>
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<tr>
<th>Securities offering</th>
<th>Public offering (which may be restricted to institutional and qualified investors.)</th>
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<tbody>
<tr>
<td>Private offering.</td>
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<thead>
<tr>
<th>Management bodies</th>
<th>Technical Committee and Holders' Meeting.</th>
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<tbody>
<tr>
<td>Depends on each trust, but the minimum standard is an investment committee exclusively controlled by the manager and an advisory committee.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Parties</th>
<th>Trustor, Manager, Trustee, Common Representative, Broker, Investors.</th>
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</thead>
<tbody>
<tr>
<td>General Partner, Manager, Investors.</td>
<td></td>
</tr>
</tbody>
</table>

### Types of Ckd

<table>
<thead>
<tr>
<th>Types of Ckd</th>
<th>Infrastructure</th>
<th>Financial Assets</th>
<th>Real State</th>
<th>Private Equity - Venture Capital</th>
<th>Energy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource destination</td>
<td>Highway, railway, port, and airport conditioning; telecommunications infrastructure, forest projects, water treatment.</td>
<td>Credit market (corporate bonds, mezzanine debt, warrants, past due portfolios).</td>
<td>Commercial, industrial, educational, residential, and service real estate assets.</td>
<td>Company financing, private equity.</td>
<td>PEMEX and CFE contractors; renewable and nonrenewable energy; hydrocarbons and power generators.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Trustor examples</th>
<th>Red de Carreteras de Occidente Macquaire Mexico Infraestructura Inmar del Noroeste Infraestructura Institucional</th>
<th>PLA Inmuebles Industriales Artha Operadora VERTEX Real Estate Planigrupo Management Walton Street Equity</th>
<th>WAMEX Capital Atlas Discovery Promecap Capital de Desarrollo AMB Mexico Manager EMX Capital I</th>
<th>Axis Asset Management Navix de México</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity %</td>
<td>24%</td>
<td>3%</td>
<td>22%</td>
<td>36%</td>
</tr>
<tr>
<td>Issued amount</td>
<td>46,764 MDP</td>
<td>5,487 MDP</td>
<td>42,525 MDP</td>
<td>69,677 MDP</td>
</tr>
</tbody>
</table>

Source: Placement prospectus, Mexican Stock Exchange and CONSAR

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**Characteristics**

- **Legal nature of the vehicle**: Issuing trust of fiduciary development securitization certificates, with no legal personality with no legal personality.
- **Legal nature of the securities**: Fiduciary development securitization certificates which grant corporate and economic rights (distributions).
- **Capital contribution mechanism**: Prefunding/Capital calls.
- **Securities offering**: Public offering (which may be restricted to institutional and qualified investors.)
- **Management bodies**: Technical Committee and Holders’ Meeting.
- **Parties**: Trustor, Manager, Trustee, Common Representative, Broker, Investors.

**Limited partnership**

- **Legal nature of the vehicle**: **Limited Partnership**, contract, with no legal personality and with tax transparency.
- **Legal nature of the securities**: Partnership interests which grant rights to the yield obtained by the trust.
- **Capital contribution mechanism**: yield obtained by the.
- **Securities offering**: Private offering.
- **Management bodies**: Depends on each trust, but the minimum standard is an investment committee exclusively controlled by the manager and an advisory committee.
- **Parties**: General Partner, Manager, Investors.

**Types of Ckd**

- **Resource destination**: Highway, railway, port, and airport conditioning; telecommunications infrastructure, forest projects, water treatment.
- **Infrastructure**: Credit market (corporate bonds, mezzanine debt, warrants, past due portfolios).
- **Real State**: Commercial, industrial, educational, residential, and service real estate assets.
- **Private Equity - Venture Capital**: Company financing, private equity.
- **Energy**: PEMEX and CFE contractors; renewable and nonrenewable energy; hydrocarbons and power generators.
Typical project stages – chart

The operating structure of CKDes is as follows:

01. The trustee issues and places the CKDes in the BMV, whereby the holders acquire the CKDes and contribute the necessary resources to trust assets to invest in project companies or projects;

02. The trustee executes with the manager (which may be the trustor or another appointed entity), a management contract whose main objective is for the manager to analyze investment opportunities for the trust and select the most suitable opportunities. The manager’s engagement may also be stated in the trust and not necessarily in a management contract;

03. The manager instructs the trustee to make the investments in the project companies or projects, in conformity with the trust’s investment scheme, with the previous approval of the technical committee or the holders’ meeting;

04. The manager must instruct the trustee to make the divestments and, as established in the trust, to pay the holders and the trustor the respective amounts in conformity with the distribution rules established in the trust; and

05. On the maturity date, the trustee must distribute trust asset resources. Distributions may be made before such date, once all investments and divestments have been fulfilled in conformity with the related terms established in the trust.
Fiduciary Investment Project Securitization Certificates

In terms of the Circular, CERPIS are defined as follows:

“Fiduciary Investment Project Securitization Certificates are certificates whose issuance resources are used to finance projects and invest in stock, business interests or company financing, whether directly or indirectly through one or more investment vehicles.”

The main characteristics of CERPIS are as follows:

• They must be issued through restricted public offerings.

• The holders’ meeting powers will be: (i) approve intended issuance extensions; (ii) remove and replace the manager, and (iii) approve increases to the compensation schemes or manager commissions.

• To appoint technical committee representatives, one must hold 25% of the outstanding CERPIS, instead of the 10% established in CKDes;

• The technical committee will not have the non-transferrable power to approve investments and divestments. The most relevant powers of the technical committee are as follows: (i) oversee compliance with the rules established by the trust; (ii) request the trustee to publish relevant events; (iii) verify the manager’s performance, and (iv) review the quarterly report which must be filed by the manager;

• Rules are included for issues with different series of CERPIS;

• There is no obligation to publicly disclose information on project companies or projects which represent 10% or more of trust assets; however, the holders are entitled to request access to information agreed to without having to publish it, and

• The issue may be in several public offerings within a one year period from the first offering.

In terms of the above, the most relevant differences between CERPIS and CKDes are: (i) not requiring the approval of the technical committee or the holders’ meeting to make investments, and (ii) requiring 25% of outstanding CERPIS to appoint technical committee members.
Regulation in Progress

Private equity trust international standards

This section includes a brief analysis of the various laws and commercial uses in several countries regarding the creation and operation of Alternate Asset investment funds.

As discussed above, the United States, United Kingdom, Holland, Canada, Bermuda, and Cayman Islands use the limited partnership (LP) figure, with common characteristics which were described in the Market Standards section.

In the LP, managers have the obligation to direct the selected vehicle's business in an optimal and diligent manner, and the laws of certain countries establish sanctions and penalties for managers who commit errors or omissions, such as the US, Canada, Cayman Islands and Bermuda.

The commercial laws or customs of the United States and Cayman Islands establish the existence or use of special LP types, Master Limited Partnership (MLP) and Exempted Limited Partnership (ELP), which together with the LP in Canada, the LP and Trusts in Bermuda, the LP in the United Kingdom, and non-regulated vehicles in Luxembourg (joint ventures), establish tax exemptions or preferred schemes in their respective laws which set forth that the vehicle is flow-through for tax purposes.

Required regulations

Notwithstanding the progress in terms of CKDes and shortly in CERPis, continued work is required on the regulatory framework applicable to investment in Alternate Assets, mainly to adapt such framework to international standards. This in order to have transparent, efficient and dynamic regulations based on international market standards, always within a framework of legal assurance for all the parties involved, including investors, Alternate Asset trust managers, authorities and service providers.

The main amendments which must be implemented are as follows:

01. Creation of the Limited Partnership

Currently, investment in Alternate Assets is performed through CKDes, which are securities offered to small investors in the stock market; therefore, their placement implies an administrative process which makes the process of creating alternate asset investment funds more expensive, among other drawbacks.

Accordingly, we believe that Mexican laws should include a limited partnership, similar to the LP used in other jurisdictions.

02. Investment scheme of SIEFORES

A. In order to standardize the investment of SIEFORES in Alternate Assets, their investment scheme must be amended to allow them to directly invest in trusts and joint ventures, following the international trend without the need to invest in a public instrument.

B. In order to allow a greater diversification of investments made by SIEFORES through CKDes, it would be advisable to allow a portion of such investments to be made outside Mexico, through regional alternate asset investment funds.

03. Stock Market

A. Regarding the special regulation for restricted public offerings, it is necessary and advisable to have a less restrictive regulation because
the applicable investors have sufficient knowledge and experience in private equity investments.

B. Reduction of corporate governance and minority right requirements so that investor involvement is limited to issuing an opinion only on transactions with related parties and those involving possible conflicts of interest, not investment decisions.

C. The destination of the resources from CKDes issues should not be governed by the Securities Exchange Law. There should only be an obligation to disclose such situation in the respective placement prospectus.

**Tax considerations**

**Legal and economic terms**

**Contribution:** Contributions in kind, cash or credit made by the partners in favor of the companies or trusts to which they belong.

**Reimbursement:** The amounts or assets returned to the partners as a result of their contributions to the companies or the trust.

**Equity:** Collective rights on specific property (assets) and subjective rights together with an individual’s obligations which may be valued in monetary terms.

**Interest:** Regardless of their name, interest is the yield on any type of loans.

**Rights assignment:** For tax purposes, any type of ownership transfer, including a rights assignment, will be considered as a sale.

**Withheld taxes:** The taxes paid by individuals and/or foreign residents, in accordance with the revenues distributed by the fiduciary institutions, which will be responsible for withholding such taxes.

**Tax residence:** The country of residence for tax purposes of the applicable taxpayers and collection. This necessarily affects the lack of tax regulation (two articles in the Law and about 10 omnibus rulings).

**Future regulation and market development forecasts; “tax considerations”**

Out of all investment possibilities, CKDes represent a minority in regard to the applicable taxpayers and collection. This necessarily affects the lack of tax regulation (two articles in the Law and about 10 omnibus rulings).

If we adhere to the tax incentive included in the LISR for “FI-CAPs”, there are certain details and possible areas of opportunity regarding the current rules.

**Disadvantages of the Business Trust**

- Estimated payments made by the trustee.
- Disavowal of the SIEFORE exemption scheme (RMF).
- Tax losses may only be applied at the trust level.
- Constitution of a permanent establishment for foreign residents.

**Sales in a secondary market involve the sale of underlying assets (no rules to determine earnings).**

**In regard to the sale of securities by foreigners**

- The applicable withholding rate is unclear.
- It is unclear if an exemption applies to individuals and foreigners.

**Analysis**

**Minority Rights and Corporate Governance**

In addition to the international standard on Alternate Assets, in CKDes there are specific terms and conditions regarding corporate governance and minority rights, as follows:

A. The Holders’ Meeting must be held to, if required, (i) approve investments in project companies and projects when they represent 20% or more of the maximum issuance amount; and (ii) approve any investment or acquisition when it represents 10% or more of the maximum issue amount, when they involve individuals who fulfill at least one of the following: (a) are related to the project companies and projects of the trustor and manager, or (b) represent a conflict of interest;
Generación de valor a partir de fuentes alternativas de financiamiento: CERPls y CKDes | Regulación en Proceso

(iii) approve any amendments to compensation schemes and management commissions or any other item in favor of the manager, members of the technical committee or any third party; (iv) determine the rules for contracting any loan on behalf of the trustee.

B. The technical committee will be composed of a maximum of 21 members of whom at least 25% must be independent, on the understanding that such committee will have the following non-transferrable powers: (i) establishing the policies for investment of trust assets; (ii) approving investments, divestments and any purchase or sale of assets, goods or rights lower than 20% of the maximum issue amount; (iii) establish the terms and conditions applicable to the manager in exercising its ownership and, if applicable, management powers; (iv) approve transactions with related parties of the project companies and projects, the trustor, and the manager, or which represent a conflict of interest; and (v) resolve any conflict of interest regarding the trust.

C. The members of the technical committee may execute agreements to exercise voting rights in their sessions.

D. Any holder or group of holders who jointly own 10% of the outstanding number of CKDes, will have the right to appoint and, if applicable, revoke, one regular member for each 10% of outstanding CKDes of the technical committee.

Disclosure of financial information

Annual information
As established in the CUE, CKDes issuing trusts must provide to the CNBV, the BMV and the small investor annual financial statements prepared in conformity with International Financial Reporting Standards (IFRS) together with an external audit report prepared in conformity with the International Standards for Quality Control, Audit, Review, Other Attest Standards and Related Services.

Similarly, audited financial statements prepared in conformity with IFRS or Mexican Financial Reporting Standards must be prepared in regard to project companies in which the Trust acquires stock which represents more than 10% of trust assets.

No later than on April 30 of each year, the CKDes issuing trusts must file the annual report of the prior year, prepared in conformity with the instructions attached to the CUE.

Quarterly information
The CUE requires financial statements prepared in conformity with IFRS, as well as economic, accounting, and administrative information to be included in the respective electronic forms within 20 working days after the end of the first quarters of the business year and within 40 working days after the end of the fourth quarter.

Accounting requirements
As discussed above, CKDes issuing trusts must prepare their financial information in conformity with IFRS, particularly in regard to:

01. Determining whether the issuing trust qualifies as an investment entity.

02. Valuation of the investments in project companies at fair value in conformity with IFRS requirements.

03. Classification and presentation of securities issued in the statement of financial position.

04. Disclosures related to fair value valuations and financial risks in general.

Compliance with IFRS requires a detailed analysis of the particular circumstances of each trust in accordance with accounting regulations.
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