

PRIVATE CREDIT: UNLOCKING CAPITAL MARKETS IN MEXICO AND GLOBAL MARKETS

Announcer 31:25

Please welcome the panel on “Private Credit: Unlocking Capital Markets in Mexico and Global Markets,” moderated by Luis De la Calle, founder De la Calle, Madrazo and Mancera.

Luis De la Calle 32:03

Well, can you hear me well? Glad to be here. Thank you to the Milken Institute for the invitation. This is a very exciting panel, because we'll go from the ideas as to why there is potential in Mexico with the how to do it, how to allocate capital, how to invite capital to come in and finance projects, how to make Mexico more entrepreneurial. And we have a great panel to discuss that, with Cecilia Jimenez from Santander, with David Razu from the largest AFORE in Mexico, XXI, Richard Vaughan from Alloy Capital, and Juan Manuel Yori from Apollo, and we have short presentations, which each of the panelists will do few rounds, and we'll ask questions as to why and how private credit could become a catalyst for deployment board investment in Mexico. I mean, we have—a compared to when I participated in the NAFTA negotiations 30 years ago, where Mexico had no long term capital. We had little savings. A lot of needs to invest. Few, very few firms to invest in. Now the situation is quite different. Mexico has a long term institutional investment framework, but still, we're punching way below what the Mexico's weight in terms of allocation of capital and entrepreneurship. So why don't we begin with the largest source of capital, with David to give us your views, and then we'll go around the table with other interventions and go back to you again.

David Razu Anzar 33:47

Thank you. Well, first of all, thanks a lot to the Milken Institute for the invitation. It's great to be with you guys here today, and thank you so much for to all of you for coming. Well, I think this is a very relevant panel. And speaking about private credit in Mexico and in general in emerging markets, it's really relevant because they're actually coming to change the way in which capital is being deployed in emerging markets. In Mexico in particular, it has grown just in the last few years, from roughly over 4 billion that were in the market in 2015, to more than 18 billion right now, which is still we were talking with Richard before we entered here, which is— it's still really, really small. There's a lot more of capital that should be flowing in

this in this way, especially because private capital, it's a bridge between the requirements of liquidity of different companies, especially small and medium enterprises that have no access to capital through other means, especially clearly not banks that. Are not—They're not their main client and certainly not through the public market, because in the public market in Mexico is still very shallow. We know that there's a lot more to be done. It's really hard to get listed right now. It's not even attractive. It's not only that it's hard, it's that it's not attractive. So there's and I think in this panel, we're going to have a lot of very interesting discussions in how to get that capital flowing, especially when we are talking about the institutional investors in Mexico, AFOREs that are right now, 22 points of GDP is what AFOREs are managing. Of course, we you can never think in all of that to be in one particular asset class, but even in a small percentage, it should be flowing more. But there are a lot of challenges that prevent us from from going there, starting with the risk and premium and returns profile of the different projects, and also with the structure of the managers, we have challenges that I hope will go a little bit deep into in terms of governance, in terms of asset selection, in terms of fees and the whole structure of the deals, and we need to evolve. And that's something I will underline, and then I will leave it for someone else to deepen on it. We need to evolve from a deal based culture, in private credit to an institution based culture. We need to have a lot more standard processes in general, in the structuring of the deals, so there can be more efficient platforms, and we can get a lot more capital flowing.

Luis De la Calle 37:00

Juan Manuel from Apollo, do you see these challenges also as an opportunity? And why do you consider doing something in Mexico in this context of the private credit?

Juan Manuel Yori 37:10

Sure, and I'd first like to start with a little bit of our institutional view. So we see private credit as a much broader market than the one to two trillion direct lending to SMEs in the US and globally, which we think it's incredibly important and interesting, but we also see a 40 trillion market, which encompasses corporate lending, fleet finance, RMS, ABS and a bunch of other products that can add value to the economy in several senses, and we like to play on both sides. And I believe that Mexico requires both types of capital, direct lending to SMEs, in which, as a bit was mentioning, selection of the right managers is probably among the most paramount and most important factors for institutional investors to decide how to invest that capital, because it's very hard for when you're managing billions of dollars. To look at \$5 million investment, \$10 million investment, you need to find the right manager who's able to do the underwriting, who's able to find the right opportunities and invest larger pools of capital in a cost efficient manner. But then we also see the broader market, which we see as predominantly investment grade, and we see the authorities, the annuities providers, insurance companies, that also need to invest here. And this is a way to invest the monies of the retirees. Add a lot of value to the economy, and then a lot of value to the large corporates, which need more flexibility in the structures or to the governments that need to fund large CapEx projects, and they need flexibilities, which are not available in public markets, and the execution certainty that can be provided by private credit. So I do see a lot of opportunities in Mexico. Our firm is very bullish, both working with SMEs, but also working with larger IG companies and governments.

Luis De la Calle 39:05

Cecilia, from your retail perspective, out of Santander how do you see the opportunities?

Cecilia Jimenez 39:11

I think opportunities are—first, thanks for the invitation and sharing this panel with such distinguished colleagues, I think the opportunity is quite relevant. It's important. But I wouldn't—I just would remind everyone that, in general terms, leverage in Mexico, across the country is not as high as in other geographies. If we look—if we take a look at public to GDP, it's roughly, let's say, 50% private credit to GDP, roughly 35% and if we compare that to Latin American countries, is maybe 50% and if we compare it to Chile, where I am from, with similar per capita income penetration, just 100% so the country as a whole does not have a deep penetration in leverage, which is also reflected in private credit. So it's not just private credit, but everything, I would say as a whole has an important room to go. Both of my colleagues have mentioned SMEs. Definitely SMEs, it's relevant and the opportunity, it's huge, given the gap we still have between supply and demand. SMEs represent, let's say, 50% of total GDP, two thirds of the formal employment, but the access to credit is roughly 20% so there is a huge gap there. We have several in the country, SMEs programs and then the traditional lending focus on, let's say larger traditional companies, we have a huge gap in between, and I think private credit, it's a great tool to serve this. As Juan Manuel was mentioning flexibility, or the fact that lenders are not regulated, Companies have more agility to react to these new demands, because not always, not only we have this gap open, but also we have incomings to the market, public list, new companies coming to the market, which are not the traditional ones. We have more disruptive business models, more—let's say, less capitalized companies in terms of asset base. So the model needs to also change, because the companies we have in the past 10-15, years are much more disruptive, and they do need different type of solutions that the traditional system is providing. So I think that's where the largest opportunity for private credit comes. And I will let Richard go deeper into that.

Luis De la Calle 41:50

Richard, the fact that in Mexico, the penetration is, Cecilia was saying low, lower than it should be, and lower than benchmark countries around Latin America. Do you see that as an opportunity? And how do you see not only this an opportunity in terms of participating, but making growing this market as a business?

Richard Vaughan 42:12

So I think we're all in agreement that Mexico is grossly under capitalized as a country and as a corporate set, when you look at and we've all talked about the under penetration of loans relative to GDP, but the loans, such as they are to businesses in Mexico, 14% of those loans are going to small and medium sized companies. That means the rest is going to largely investment grade businesses. So when you look at that small and medium sized business sector, they employ almost three quarters of all Mexicans. So you've got, you've got a sector that's responsible for the majority of employment, majority of growth driver in Mexico that has almost no access to credit, and so at Alloy, what we've been doing is we've been focused on midsize companies and smaller companies, looking at that opportunity set. Yes, it's to fill a need, but we're actually making pretty strong risk adjusted returns by any global measure doing it. You've got to be local. We are definitely US based, but we have a Mexico City office, so we originate the underwrite as a Mexican firm, because it does, it takes a rigorous and I will say U.S. style underwriting capability, but you've got to be local and and we've been doing it with our own balance sheet. So we have our own capital. We've not been doing it, accessing, really Mexican capital at all. What we've been focused on, the loans we've been making, which are typically 10 to 30 million US dollars or peso equivalent. We do what we have capacity to do. The loans that we see available are multiples of what we're deploying right now. And so when I think about what the opportunity for Mexico is, it's to figure out how you marry larger institutional capital to bring it into this sector, because it's grossly undercapitalized. The growth of Mexico really depends on it and and so I that's the conversation. And I think we're all representing different segments of it, but, but to me, that's the conversation.

Luis De la Calle 44:36

Manuel, this is in your business area. I mean, how do you go about doing your plans in Mexico? I mean, you see this is a demand problem, a supply problem. Which sectors do you try to tap?

Juan Manuel Yori 44:53

Sure, so I'm going to give a two fold answer. I do believe that there is an excess of capital in the world, but what's difficult is finding the right projects and the right way to invest it. I'd say that in Mexico, one crucial factor, and I'd love to hear Richard's views on this, is based on your source of capital, if it's dollars, how can you manage the FX? So that's one of our main concerns when accessing Mexico. But I do believe that there is, if there's peso funding, there should be a lot of opportunities to deploy capital in SMEs, in Mexico and internally. At Apollo, we fought the view that there was this notion in the market, the public is safe and private is dangerous. I mean, it's more risky. We are not a believer of that, because you can actually go to the companies, do the due diligence, speak to them, and underwrite the credit in a much more detailed manner than what public markets can do, and then you're going to get a premium over that. You're able to get an outsized return for unit of risk. And in a market that's gone from 20 to 30% index investing in public markets, there's basically no alpha. So we do see private credit as the way to go, and it's we do believe it's safer, and do believe it's a better source and better matching for the capital of different LPs in Mexico. The main concern, I'd say, is currency.

Luis De la Calle 46:20

Cecilia, if you look at your experience in rest Latin America, I mean, what are the main obstacles that you will find in Mexico? Are there institutional or legal? What is why are we punching below our weight?

Cecilia Jimenez 46:34

I think we have some—We have faced some challenges that we have overcome throughout the time in terms of the depth of the market, but I think we continue to see a few constraints that I could mention as liquidity constraints from an investor point of view, corporate governance, as David was mentioning, is definitely something that it's must and totally necessary to fulfill and comply with to have institutional investors. And then I think we have a third point, which is exit, exit from private from structures—for private structures, that also has been an issue. And I will detail so from you are, I will pass you the mic to talk about institutional investors, but what I could tell is, in terms of liquidity, and I talk about retail investors with the overview, we have in almost 11 million clients. So from retail perspective, the liquidity continues to be one of the main constraints. So you need to have a deep secondary market where you can go in order to, you know, execute and get the liquidity you need, whatever you need. I think that's a key constraint. Private credit within the universe of private equity, it has an edge, a positive edge, because the private credit structures usually are shorter, and also because you can get the recurrent payments of distributions of interest. So from that perspective, although liquidity is a constraint, private credit has a positive edge within the private equity universe. The second point I mentioned was the exit we do this question mark is, wait when, once you have an instructor, eventually will end with them. You know, after a certain period, what's going to happen by that? What—Where are we going to be in terms of effects, in terms of rates, are we going to have a public market to perform and execute an IPO at the proper price? I don't think we have had enough enough, you know, experience and examples actually, to see okay. We had so many cases this went right. This is a way to go. And I think from an investor point of view, that continues to be a key concern, as in private equity in general, within private debt, as we have more—most our self amortizing structures, I think that risks is reduced, but there's still a risk by the time of the of the exit. And then finally, if I compare from an institutional and a retail perspective, from a retail point of view, which is, you know, we our private banking, ultra high network individuals. I think there's still a big difference from a tax burden point of view, once you have direct investment as private credit or private equity, versus when you have other vehicles, like mutual funds or, you know, other vehicles, I would say. And that continues to be a handicap, particularly in that segment, in order to invest more easily in private credit and private equity in general.

Luis De la Calle 49:49

David, do you think that credit and equity should be seen as compliments or substitutes? And How does the lack of development on both markets play in this situation we have in Mexico?

David Razu Anzar 50:07

No, I think, I honestly think it's a mistake to see them as substitutes. I think they're compliments. It's really hard-

Luis De la Calle 50:15

Explain why.

David Razu Anzar 50:17

Because it's really hard for you to actually imagine a very healthy and deep Public Market. If you don't have, where does it start? I mean, how do you get there? You cannot get there. Like not every company is a unicorn, right? They're not going to go and start in a garage, and then the next day they're going to be listing themselves on the stock exchange, you need time to grow. You need time to garner your ideas, your productivity, your product, to get it out. And in that part, in that stage, you need credit, private credit. So I think if you have a very healthy private credit market, it's very likely you will have a healthy public market. You need them both if you want a good capital structure to flow in the whole economy and to make the whole economy productive. The problem is if both of them are shallow, which is something that has been actually happening. I totally agree with Richard and what he was saying, if both of them have—are shallow, happens what Cecilia was saying as well, and it's like what you were saying before. It's the chicken and egg. One of the constraints you have for private capital is the exit, right? There's no exit because you can, you can at least, and it's not even appealing to get listed, right? So if you see in Mexico, what's been happening, we haven't had a single IPO in like ages, right? So if I as an investor, I go to a private credit venture, but I'm not sure what's going to happen with it in 2,3,4, or five years. They even they are not sure about it, right? You cannot be. I mean, you could be on private credit like for forever, but that's not ideal. So I think they should be compliments and a little bit to what Richard was saying a while ago, I would say that, and this, I say from the perspective of an institutional investor, I would say that, yes, it's true that the Mexican market is under capitalized. And yes, it's true that 70% of the labor in Mexico is employed by SMEs, which are getting the it's only, actually, it's only 10% of formal credit, what they're getting, right? And two thirds of credit are going to large companies, to large gap companies. So there's an imbalance here, and I'm an institutional investor, so I that's, I don't think that's my that's my tear, you know, but I think there's a huge opportunity there for managers that like Alloy, are trying to find a way to bring capital into that huge gap in the market. Now, how can they get to the to the big capital, to the institutional investors? Well, you need to better the practices of management. For first governance is very relevant. You need to have a lot better risk management tools so you can make sure—So you can make us make the and I don't make me personally, but we have our own governance, right? So you can make the institutional investors sure that you are creating interesting and profitable risk pools, right, so you have a lot of different companies. Some of them are going to make it, some of them are not going to make it, but your pool, your selection, is so good that we can be certain to get the capital there. Should that capital should a lot of institutional a lot more of institutional capital should be going to those markets. Of course it should, but it can never be at the expense of returns for our clients, which are the workers, right? And as I was saying before, in 28 years, that the system—that Mexico Retirement System has that now is managing 22% of the GDP of Mexico. I don't think nobody can actually remember any showdown or something that has been a grossly, badly done investment. And one of the reasons is that right because we are really, we're really taking care and we should be taking care of our. Fiduciary

responsibility as the number one objective we have. Now, I believe there's a lot of profitability happening in SME, in SMEs, and not only SMEs, also it can go in large companies. But we need better pools of risk. We need better governance. And of course, we need more transparency. That's also very important: transparency in fees, transparency in different procedures, and then capital will fall by itself. It will never happen. And I'm really, I really couldn't stress this more as an obligation you cannot tell, and that'd be crazy to tell an institutional investor you have to invest in this, because that would go against the interest of the of the clients, which are the workers.

Luis De la Calle 55:57

I mean—the what is clear, I think, is that the upside is tremendously important. If you look at the Economic Census that we Mexico publish every five years, and we just published it two months ago, the number of mid sized firms that have become tremendously more productive. You can see that in productivity levels, but you can also see that in terms of corporate income tax collection by the government, that has been growing two digits for 12 years. You can see that also in the export sector of Mexico has been growing significantly in the countryside. So we have very tremendous success stories. Richard, why are we are not producing the managers that you say that we need, with the corporate governance that you say that we need, if the upside is so large, I mean, it's is it the fault of the private sector that is not generating these capabilities to assess risk and do nice portfolios so that we can propose to David and others.

Richard Vaughan 57:10

So honestly, it's the fund management industry is built around raising funds where you have a management fee and the teams have to live off that management fee and then deploy the money, bring it back and do it all over again. So it's all about how much management fee you can raise. And so when you have a small market which, quite frankly, both private debt and private equity in Mexico are it is tough to raise enough capital consistently for people to run firms.

Luis De la Calle 57:47

The fixed cost is too high.

Richard Vaughan 57:49

Well, and the access to capital isn't there, so it's another chicken and egg. And so what Alloy did differently is we had permanent capital, and we basically deployed capital that we were profitable, and we kept growing and scaling our balance sheet, and that's how we did it. So that's how we broke into a market that wasn't at scale yet, because we saw the opportunity. And we're like the AFOREs, their pensioners, like we're not doing this because it's altruistic. We're doing this because we're making a really strong rate of return, but we're definitely filling a need. So we think it's good for the companies, it's good for Mexico, and it's good for the owners of the capital, and so that's been our perspective. But why there's not more managers? I think there are discipline credit people in Mexico and teams that could do this, but they've got to go get a capital base from which to do it. And it's, I understand why you're not underwriting brand new teams, because that's that is a bar first time funds are tough so—but that's the answer to your question. What I do see is a potential bridge for getting the AFOREs and potential insurance companies as well. It is right now, SMEs are not rated. These are unrated companies. You'll never get the AFOREs and insurance companies that need to have a rating in order to invest, to invest directly, and they don't have time to do it, the numbers are too small. But what we are exploring, and I'm cautiously optimistic, is making a risk pool, getting it rated, and then bringing in capital and Alloy is well positioned to do this, because we run a balance sheet and we have a portfolio, and so we can—we know what our risk is every day, but that

I do see that as a catalyst for kind of break, breaking the log jam here. And so we're anyway—We're optimistic that that conversation will be a good one.

Luis De la Calle 1:00:05

Do banks really have a role to play in that raising of potential clients in the private equity, private credit,

Cecilia Jimenez 1:00:15

I think, always have a role to play in the economy.

Luis De la Calle 1:00:19

I mean, you know who is who, and [inaudible]

Cecilia Jimenez 1:00:22

I think what I could add, and I'm following on Richard's point, I think one of the things that could be a catalyst, and we have seen this in other markets, is information, and I mean information from the large, huge base of companies that we have, not the public ones that have regulatory, you know, obligations every quarter, etc, but from the lower part of the base, if, if there is, if there could be, if there was a system where the information was homogeneous for, let's say, SMEs, or maybe little bit larger companies, where you as an institutional investor or bank or any other you know, institution could cluster and organize, but again, consistently at the largest scale. I think this is something that could help, not only, I mean the system as a whole, from a lending perspective. Today, most of the companies that are not in the large part of the pyramid have information that is maybe not the same, comparable from one company to another, and doing the deep dive and the diligence that is necessary to provide lending takes a lot of time, and it's not easy to scale. So we have seen information systems in other countries that develop, and less developed countries which where you have enough information from an institutional point of view, from a bank point of view, if you want, it's much easier to cluster—make clusters and and, you know, work intel with that, and with that, provide more efficient, quick care across the board, solutions on a scalable way. Because one by one, I mean, we could do it, I don't think that's going to solve the problem. We need to make—we need to have a more, you know, a solution that it's actually scalable again, and I think consistent data coming from companies is probably what I would if I Cecilia could ask. I would ask to be able to make a more deeper and consistent analysis, analysis throughout time, and just to do a follow up on what David mentioned earlier. Definitely think this is a system that has to grow, and should grow as pieces of building blocks. Credit, private credit, should be the first stage, or the second stage of financing for any company. And then we can go to the next stage, which is maybe equity, private equity, and then to the next stage. And then is not a competition, but it's complementary and scalable throughout the life—of any lifecycle of any company.

Luis De la Calle 1:03:06

I think I mean the main role—the main complementary role of these different market segments, is that it facilitates the exit,

Cecilia Jimenez 1:03:20

Yes.

Luis De la Calle 1:03:21

and therefore generates more. Juan Manuel, how do you see this? I mean, nobody has mentioned yet the rule of law. I mean, there's a lot of talk in Mexico as to the rule of law as an impediment. Do you have any sense? Well, you can comment on the managers, professional the corporate governance, the exit strategy, the complementarity. But also you could say something about sure, I'll ask others the same question on the rule of law.

Juan Manuel Yori 1:03:50

And I'd say that generally, coming from Latin America, people looking in have a more pessimistic view than people coming from outside. So at least from the US, from Apollo, we have a very constructive view on Mexico. As you mentioned, rule of law is critical, and it's not only the way the law is written, but that you can actually enforce it. So collateral is crucial in private credit, so being able to enforce the collateral, having certainty that judges and courts are going to rule in a predictable way is paramount in order for us to do an investment. But then I'd say, at least on our side, we take a slightly different approach. We try to focus on fewer transactions, larger transactions, with the best counterparties, or with counterparties that we know or we're confident that rule of law and character is not going to be an issue, because it's not only about ability to pay, capacity to pay, but it's also about willingness to pay. And that is crucial when investing large sums of capital, and more important, when it's most of our investments are from our. Permanent capital vehicles, our insurance companies, as David was mentioning, we cannot lose money. We'd rather make much safer investments, rather than get an extra 200 beeps and take some legal risk in some market. But I'd say right now in Mexico, we are very constructive, but the maintenance of the rule of law and no future changes. We follow the reforms and that the things stay the way they have been in the past is paramount for us to continue investing in the country.

Luis De la Calle 1:03:51

Is arbitration—private arbitration plays a role in your dealings? Or do-

Juan Manuel Yori 1:05:22

I mean it is we can do New York law, we can do English law, we can do arbitration, but at the end, what really matters is it going to be enforceable. So you can have the best collateral in the world, but if you're dealing with the wrong counterparty in the wrong country, you're not going to be able to enforce so the effectuation of the law is more important than the way the law is written, at least for us.

Richard Vaughan 1:05:46

I would just add, the integrity of who you're working with isn't important just for large transactions.

Luis De la Calle 1:06:04

How do you assess the integrity beyond the data gathering that Cecilia was talking about? How do you-

Richard Vaughan 1:06:10

So, completely agree more data is better. And I would say that over the 10 years that we've been operating in Mexico with the strategy, data has improved. I know the SAT is controversial. Everything that's been happening in the increased enforcement, if you will, but the data you can get from the SAT is spectacular. And so as an underwriter,

Luis De la Calle 1:06:34

I mean, SAT is a good source. AIMS is another source. The Credit Bureau is another resource. The large companies that know who their suppliers are also sourced. The banks are the source. So,

Richard Vaughan 1:06:49

So the data that we're able to get now relative to 10 years ago, is spectacularly stronger. It needs to get better. It can get better, but I would say the evolution is headed in the right direction.

Luis De la Calle 1:07:05

Richard, do we have in Mexico an entrepreneurial class?

Richard Vaughan 1:07:10

Yes.

Luis De la Calle 1:07:11

—that is enough to make this happen?

Richard Vaughan 1:07:14

Yes, they just don't have access to capital. And as Ceci was saying, you don't get medium size from being small without access to capital. The way it happens now, for the most part, is you get it from your family, friends. If you've got suppliers that can take it, you push out your suppliers, and get working capital from them, and so you have to bootstrap your way up. The way this should work is that you get small to medium with access to some level of credit. You get medium to large by having larger amount of credit, and then private equity is able to come in successfully invest in growing mid sized companies, by the way, right now, if you're if you're midsize, you're having to bootstrap your way up, for the most part, and so you don't want to work with private equity if you're really good, because you have to sell your company before you

grow. So there's an adverse selection. If private credit was actually more available, mid market, companies would be growing. They'd be more active participants with private equity, there'd be more examples of success, more exits would happen, like, that's the flywheel just keeps going. And so, you know, we view private credit as being the foundation block, the cornerstone to making the whole capital market flywheel work.

Luis De la Calle 1:08:37

Yeah, the catalyst for, we have a, I mean, one minute for the three remaining panelists, Cecilia David and then Juan Manuel,

Cecilia Jimenez 1:08:46

Sure, maybe from the point of view of Mexico and the attractiveness, I could say, let's say, over the past 30 years, we have seen eight different elections in the US, six different elections in Mexico, we have had probably five global crises in between, and today, Mexico continues to be one of the most relevant countries for us and where we see strongest growth potential. I think as long as Mexico continues to have its independence in its central bank, its fiscal account, super well managed as they are today, we will continue to see a lot of investment appetite towards the country in terms of, what were you asking before.

Luis De la Calle 1:09:33

David, you have a lot of capital to deploy. I mean, are you going to have— AFOREs—going to have enough projects to invest?

David Razu Anzar 1:09:39

Yeah, I would just say on an ending note that I'm one that believes that Mexico is right now in a very relevant economic moment historically, because the new geopolitical reality and the new commercial alignment in the new blocks is going to make Mexico grow. No matter what, businesses in Mexico have a lot of room to grow, and there's going to be a lot of need for not only the large caps, but also small and medium companies. Right now, if you see what's happening in the border, in the manufacturing, which is our strong suit, yeah, in manufacture, it's not that you have these huge companies doing all the manufacturing. You have a lot of small and medium companies that are doing one part or a different part in a supply chain. They all get together, and then they get exported. And there's a lot of work involved there. Those companies need capital, and the companies that are going to be created are going to be needing capital. So the way I see it is the growth that Mexico is going to have at the same time, you have a lot of macroeconomic stability, so there's going to be investment flowing in. But how you channel all this investment, how do you channel all this capital to SMEs that actually can get the work done, and that are employing 70% of the workforce in Mexico? I think we need more creative vehicles that can actually give trust, going back that can give trust to institutional investors, going back to the name of this, of this panel, unlocking capital markets, I think private credit unlocks capital markets when it unlocks trust, and that's pretty much what what's needed. And I think there's a gap there that can be filled by a lot of people with vision, as Richard has been working and talking about like that. A lot of different funds and managers can take advantage of this and create a more, a stronger market that, as I was saying, it's not private credit. It's never going to be a substitute for public markets. It's actually an element to make of them more stronger and more inclusive public markets,

Luis De la Calle 1:12:03

Absolutely. Juan Manuel.

Juan Manuel Yori 1:12:13

So I'll just use 30 seconds before I spoke about SMEs. Now, when I speak about the other world where I think that AFOREs insurance companies in the US and the world annuities provider can also add a lot of value to the economy. The great benefit of that capital is it's very, very long term. It's very, very flexible, and its cash flows needs are extremely predictable. They're basically actuary so that allows us a forest insurance companies to invest that capital in very, very long term projects and help fund the growth of the infrastructure that the government of Mexico need, that the country needs in order to further promote growth throughout it's capital that doesn't need to receive a coupon every day. It's capital that can be deployed over years. It's capital that can pick, that can be deferred. So all of that flexibility, which we also see in SME lending, can also be applied to large government infrastructure, to large corporate projects that can help fuel the growth of the country.

Luis De la Calle 1:13:12

Well. Thank you. Well, we managed to speak for 45 minutes without mentioning Donald Trump, which is until David mentioned briefly that So final question-

David Razu Anzar 1:13:23

I implied it.

Luis De la Calle 1:13:23

So, Final question for you, Richard, is the what Trump is doing in the US has a positive or negative impact on Mexico?

Richard Vaughan 1:13:33

I'd like to think that the business sector on both—in both countries are just going to power through this. I do think there has been a pause on incremental investment, in new investment in Mexico because of what's happening right now. But this is a moment in time, and when there is certainty, whatever it is, it will resume. We're neighbors.

Luis De la Calle 1:13:57

All right. Well, with that note, thank you very much for your attention.

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