UNLOCKING THE NEXT TRILLION: MOBILIZING LONG-TERM CAPITAL FOR REGIONAL DEVELOPMENT

Margaret Kuhlow 00:07

Thank you. Welcome, and thank you all very much for joining us. It's a real pleasure to be here on this panel with literally decades of experience in investment and trade in Mexico and all around the region. A real pleasure to have you all here. I want to get started right away. I'm going to go first to Ambassador MacKay. Last month, Prime Minister Carney hosted the Canada Investment Summit in Toronto. It was the first of its kind. Milken Institute, at the same time, we hosted our first event in Canada on the sidelines of that event. At the summit, Prime Minister Carney said he wants to attract a trillion dollars of new investment to Canada over the next five years. At the same time, he's been very clear that Canada's trade relations with Mexico is a real priority. How do you connect those two?

Cameron MacKay 01:01

Mm-hmm. Let me come first to the summit. So, Prime Minister Carney, with his background, Bank of Canada, Bank of England, and then years actually in the institutional investment world, had a very clear goal with the summit. He was able to attract $100 trillion of assets under management, the leadership in that room when he led the summit. And basically, the pitch was this, Canada's about the 10th largest economy in the world. It's about a $2.5 trillion economy. That's about 2 percent of the global economy. But institutional investors globally have so far only allocated about 1 percent of their assets in the Canadian market. So, they need to about double it if they really want to be diversified. They're overweighted in certain markets, the US might be one, and underweighted in others. And so, he made, I think, a very compelling pitch as to why, if you haven't looked at investing in Canada recently, like in the last 18 months since he's become prime minister, it's time to look again. There was almost half a trillion dollars of new investment announced at the summit, mostly by Canadian pension plans, the banks, et cetera. And the goal is, in the next five years, another trillion dollars. We think that's ambitious, but entirely achievable. And, why do we need this investment? Massive infrastructure build-out all across Canada. So, it's ports, it's railways, it's nuclear facilities, it's pipelines. We need to build a lot of new infrastructure, and trade-facilitating, and energy-exporting infrastructure in Canada. We're not going to be doing it with taxpayer dollars and government dollars. These are big opportunities for the global investment community basically to take part in what we think will be an infrastructure investment super cycle that the Ppime minister is triggering in Canada now. And then, just briefly on Mexico. Canada and Mexico, thanks to 32 years of free trade under the NAFTA and then the USMCA, we already have a very deep and sophisticated economic partnership. Mexico is Canada's third-largest trading partner with respect to trade in goods after the US and China. Canada's the third-largest investor in Mexico after the United States and Spain. We sort of rival Spain as second or third. You've got 1,000 Canadian companies have invested, and manufacture, and produce things in Mexico, supporting over a million direct and indirect jobs in this country. But we need to be doing a lot more. And there's

some uncertainty, as we've talked about today, in the North American trade and investment climate right now. But we need to prepare Canada and Mexico together that we're going to get through all of this, and we will both be stronger coming out the other end, including because we've got a stronger economic and political partnership by the time we get through all of this. That's the goal.

Margaret Kuhlow 04:08

I'm going to come back to the USMCA in a minute because you've got a lot of experience, Mr. Ambassador, in the trade space as well, so I want to come back to that. But first, I want to stay on this question of investing in Mexico. And, Carlos, I want to come to you. Your firm has worked on a number of landmark transactions in Mexico, including—the list is kind of long—the largest-ever competitive public tender process, the first two special purpose acquisition companies, SPAC IPOs, first three master limited partnership IPOs, the three largest real estate investment, FIBRA, IPOs. The list goes on. Now, obviously, your team has done a lot of work, but that also represents, clearly, a lot of work that's been done by the Mexican authorities to set the policy environment, the regulatory environment, the incentives. And I want to ask you, what do you think is the greatest opportunity to continue that long-term, deep investment, based on your early experience and where you see the market going?

Carlos Aiza 05:11

Well, thank you for having me and having the firm participate in this very interesting panel. We were discussing previously, we need more of the same thing, I think, of what we're seeing. There's been an important shift, which is visible, I think, to everyone in the approach that the federal government has taken on private investment in certain sectors. The last panel, I couldn't hear much of it because we were standing back there, but the Plan México, obviously, is the big list of projects that are a priority for the government. But, I think what we need to see is, to the ambassador's point, we need to leverage on what Mexico already has built. I'm going to cite someone in my panel in the Mexico Investment Week a couple of weeks ago in New York. North America is inevitable was sort of the conclusion of that panel, and Mexico plays a key role. There was an interview in Bloomberg only a couple of days ago. I can't remember who was in the interview, but they were discussing how important Mexico is to North America, not only for demographics, but various other reasons, and that goes to energy sufficiency, food sufficiency. Yeah. So, North America is inevitable. So, we—I think as a firm, and our colleagues in law firms in Mexico are a good sort of thermometer measure of what's going on in the economy, and we're very glad to see that, including Plan México, but other projects are continuing to develop. There are discussions about price adjustments because of risk perception. The court system reform, the judicial reform, which is a subject that we've discussed in various panels in the last year or so, has been a challenge. It's a challenge either because it doesn't work the way people would hope or because there's, at least today, a very clear perception that that represents a risk that was not there prior to the reform, and therefore, price adjustments need to be discussed. But I think, again, the instruments are here. We've been doing this together for a very long time. So, what we as a business, as a law firm, as a service provider would like to see is a continuation of the policies and the different ideas that have been thrown out there, the openness of the different government agencies to discuss new concepts. You know, a lot of that innovation came off of government initiatives or private party initiatives that the government endorsed. So, again, just more of the same would be great.

Margaret Kuhlow 07:51

And consistently delivered.

Carlos Aiza 07:54

Correct.

Margaret Kuhlow 07:56

Orlando, I want to turn to you. The IDB Group—Mexico's one of the largest clients for IDB Group—as the CFO plus of the IDB Invest, which is the private-sector arm of the IDB. You've had the opportunity to introduce a lot of new products,

including labeled bond issuances here in Mexico, including a lot of foreign currency or local currency issuances. Talk a little bit about that experience and what you see as the opportunity to make this investment opportunity deeper.

Orlando Ferreira 08:36

So, thank you so much, and it's an honor to be here. I think the first step is tools. The 48 countries who own IDB and IDB Invest, something that Mexico, of course, being a key player in that, increased our capital by $3.5 billion. And that will take us from six to 14 to hopefully $25 billion per year by 2030. But, what the governors did is they gave us a set of tools that we didn't have before.

Margaret Kuhlow 09:14

Mm.

Orlando Ferreira 09:14

So, we have now the capacity to triple our equity investments in the region. We have the capacity to double our investments in riskier assets. We have the capacity to double the experience we have with risk transfers. And significantly, what you mentioned, double our participation in local currency markets. We also set up a technical cooperation facility, which is something that allows us to work with clients, do the upstream work. How does that help us in Mexico more concretely? It gives us a chance to look at the whole board. Instead of looking at individual projects, we can now look at the whole ecosystem, including energy, including water, including digital connectivity, logistics. So, we have the capacity now to look at the whole board. The second is, of course, capital markets. At IDB Invest, we do take advantage of funding opportunities in the euro, in Aussie dollars, in other markets when there are opportunities for us to fund ourselves. But in the region, every time we issue local currency in the region, it's 100 percent to fund projects in the region. So, that's the second piece where we think we can participate and we can continue helping Mexico. I can give you some details later if we have the time. And the third is, of course, mobilization. We have accumulated about 300 partners that have done one or more deals with us in the region, and we bring those partners to where we go and to where we implement. And that's the final goal of this transformation within IDB Invest. We are already on that path, and we want to make sure that for every dollar that IDB Invest brings to the table, we can bring two or three dollars from these 300 and more partners, so we can take advantage of the projects and the opportunities that already exist in Mexico.

Margaret Kuhlow 11:27

I want to—quick follow-up question. So, we've seen, obviously, rapid growth in Mexico in the pension assets. The AFOREs now are sitting on more than $515 billion in assets. Talk about the work that Mexico has done to incentivize investment of Mexican resources in Mexican development.

Orlando Ferreira 11:53

We've had an extraordinary opportunity or experience, I should say. We have found both the regulation and the markets extremely open and we are trying to tap into this very deep pool of domestic resources that exist in Mexico. What we can do then is issue as IDB Invest, which is a triple-A entity, give the AFOREs and other domestic investors the peace of mind that they're investing in an asset that is backed by IDB Invest, and then we turn around and we run the private-sector risk associated with that transaction. We've done 12 local currency issuances so far, equivalent to about $1.3 billion in local currency. Every issuance has been one, two times oversubscribed. So, we found the best conditions to continue operating, and this is an area where we want to continue expanding with the obvious benefit, of course, that we can then help Mexican companies avoid the FX risk associated with borrowing in dollars when the assets and the income is in Mexican pesos. And we see it also as part of our development mandate because we want to make sure that we do our best to contribute with the development also of local capital markets in Mexico and across Latin America.

Margaret Kuhlow 13:33

I'm going to come back on the issue of the sort of project development too, beyond the capital markets—development. But I want to first go back to Ambassador MacKay. You've had many roles in the Canadian government supporting and building trade relationships across the world. In addition to your ambassadorship here in Mexico, you've been in other parts of Latin America, I think Costa Rica, Honduras, Nicaragua. You've also been ambassador in Asia. How do you see the USMCA shaping the next phase of the relationship between Canada and Mexico, and where do you see the greatest opportunity to move beyond trade toward this deeper investment?

Cameron MacKay 14:13

I think it's important for everyone to step back and think 35 years ago, when we were just talking about building the North American Free Trade Agreement, and then what has happened since then—32 years ago, brought into force. It has absolutely transformed the economies of the United States and Mexico and Canada, and largely for the better. There were also some hiccups, and governments responded differently as they managed that. But, although we'll never go back to the world that we had three years ago with true duty-free trade for almost everything across North America, I think the US administration has made it pretty clear that there's going to need to be some adjustments to that. We would be—it would be deeply unwise to try to step back and unscramble the omelet that we've made over the last 32 years, where we truly do, all three of us, build things together. Autos are a great example, and it was spoken of earlier today. Aircraft, pharmaceuticals. Again, as others said earlier this morning, North America really does have what the rest of the world wants, between deep capital markets, vast natural resources, incredibly high-skilled, most educated workforce in the world in Canada, and a very high-skilled and young demographic in Mexico. We need to bring it all back together again. So, we're definitely at a bumpy spot on the road right now. But, I would encourage everyone to recall that still 80, 85 percent of the trade between our three countries now, well, Canada-Mexico is 100 percent duty-free pretty much. But even vis-à-vis the US, it's 80, 85 percent duty-free now, and we need to sort out what to do about that last 15 percent or so, and that's going to be difficult. Those are the most difficult issues we have to resolve. But the economic logic of figuring that out is unassailable, and therefore, over the medium term, I'm an optimist, an unabashed optimist, that we will sort it out and make North America what it should be, which is the strongest, most resilient, most innovative, most inclusive economy on the planet.

Margaret Kuhlow 16:29

And the deepest, most liquid capital markets.

Cameron MacKay 16:32

Exactly. Yeah.

Margaret Kuhlow 16:33

Carlos, I want to come to you on this. So, the new USMCA obviously has an annual review. How are investors managing the annual review? How does it impact their decision-making? And if you want to comment on the deeper capital markets point as well.

Carlos Aiza 16:50

Sure. It's obviously a bumpy time right now, so it's hard to tell how it's going to play out. But I think the message that we hear and that we convey is that the tools are available to manage risk, and that includes uncertainty about the trade relationship. Of course, it's been mentioned many times, but the omelet analogy is key.

Cameron MacKay 17:15

Mm.

Carlos Aiza 17:16

If you're concerned that next year you're going to have another round of negotiations about the same thing you negotiated this year with someone that has a different agenda, then that's difficult to manage. If you are simply anticipating another round of negotiations of things that perhaps have not been yet settled, and it's a constructive good-faith discussion, then that's risk that can be managed. And again, Mexico, I'd love to say this, we are like a [The following exchange was in Spanish. An accurate transcription is unfortunately not available.] I'm not sure how to translate that, but [The following exchange was in Spanish. An accurate transcription is unfortunately not available.] Mexico is risk. We always have been risk, and we are very good at developing and implementing tools to manage that risk, and this is not an exception. So, I personally, and I think generally at the firm, we don't see a terrible concern about USMCA in itself, but rather industries in particular that could be subject to further scrutiny. You know, obviously, right now with situations like cyber and other issues, geopolitics is certainly playing a role now in Mexico with this new statute about foreign investment rules, foreign investment screening that Mexico had basically gotten rid of in the very early '90s. That is sort of coming back. But, at the end of the day, the tools are there, the sophistication to use them is there, and I think it's just really a question of navigating one more time, you know, sort of the risk of the day.

Margaret Kuhlow 18:45

So, risk is also opportunity. I want to come to the opportunities of investing in this market, in particular. Orlando, coming back to you, where does IDB Invest's financing help both bring a project to fruition and bring other investors to the table? So, talk about maybe a specific example if you want to, and you can go through project prep. And then, on the capital markets side, you recently did a bond issuance in the BIVA to expand access to capital for SMEs. How'd you crowd in other investors into that instrument?

Orlando Ferreira 19:24

I think it starts with the mandate. We decided a while ago, maybe six or seven years ago, to make sure that the incentives for the investment officers are exactly the same, whether it's an investment on account or if it's mobilized. So that, to create the internal incentives for our force that is front-facing the clients, that they look for mobilization in every single deal. So, it starts there. And then it starts with talking to the investors and, to some extent, trying to share our own experience in terms of investing in Latin America and the Caribbean, because what you were mentioning is generalized. This idea of perceived risk versus real risk, and we try to work with the investors to show them our experience. We now have a database that it's shared by all MDBs. It's called GEMs, and as it grows, it has been showing that the experience working with companies in Latin America is truly less risky than what it's perceived to be. So, we do that too. So, we do a lot of work talking to investors and showing the investors our own experience. And then it's deal by deal. How do we sell the deal? So, for example, we just closed a deal where IDB Invest is bringing in 100 million, and we're bringing another investor with $58 million additional to work on an industrial park for companies that are focused on exports. But we also bring with that the structure for it to be sustainable on water, on energy, so trying to make the project better. We're working with five SOFOMes now to help them structure a sustainable bond issue so they can fund themselves also in the market. And then we would underwrite the bond and then bring other investors to participate in that deal. The umbrella does help. That's a reality for multilaterals and it is true for IDB Invest too, but the demonstration effect does exist too. So, the more we can work with these companies and the more these investors that come with us see the reality, the better basis we have to convince other investors to come in.

Margaret Kuhlow 22:09

So, the umbrella's important and just a quick advertisement for all the work that's been done by the DFIs to make that GEMs data, Global Emerging Markets database—make that data available. I think it now also includes loss given default data.

Orlando Ferreira 22:23

Yes.

Margaret Kuhlow 22:24

And it gives you, again, umbrella aside, it gives you a sense of what the real risk is of investing in all of these emerging and including some frontier markets as well. Carlos, building on this, what do you think needs to be in place for the financing partnerships to work? Because you've done a lot of work sort of bringing investors together in some of the new vehicles. What gets stuck? How do you unstick it? Does the work of the government on new policies, new regulations, or just thinking about the new infrastructure law, which has enabled SPVs?

Carlos Aiza 23:01

Mm-hmm.

Margaret Kuhlow 23:02

What are the greatest opportunities that you see?

Carlos Aiza 23:06

Well, there frankly are many, and it comes with being young [The following exchange was in Spanish. An accurate transcription is unfortunately not available.] There's a lot to be done. And I'd love to throw this out as just an example. And this came out of a prospectus of an IPO. The total number of industrial property square meters available, built out in—not available—built out in Mexico, in the entire country, is equivalent to that of Dallas-Fort Worth. That is opportunity, especially if North America is inevitable. There's no question about that. And the real estate market in Mexico has developed very quickly in the last—I mean, the investors in the real estate sector were our friends, the Canadian pension funds and the US pension funds mostly. The Mexican banking system would finance. That all changed, obviously, with the Mexican pension reform. And the AFOREs, their current assets under management, which are growing, as we all know, very quickly, more or less from 25 percent of GDP now to 34 percent in five years or—The bucket of real estate availability, the build-out—whether it's data centers, and there's another bucket for energy. The framework, the regulatory framework for private parties and the Mexican pension system to invest in infrastructure and real estate, other things as well, but especially infra and real estate is ready. It's been done. A new bucket was created under the AFORE regime to invest specifically in infrastructure. Their real estate bucket is very underused. I saw a graph, again, in this event a couple of weeks ago in New York. The dry powder for real estate and infra for the Mexican pension system is huge. So, if you combine that with foreign investors that understand the country or would like to understand the country, and then you put in place all these risk management tools, then it paints a really optimistic picture. And then to the capital markets question, real quick, another example of government initiatives that was translated into incentives for investment, we would've liked a broader incentive, but the Mexican tax laws were amended to motivate IPOs. There were restrictions and limits on the tax incentive before. They've, to a certain extent, taken those away. We're actually working on a couple of IPOs right now. At least one of them was mostly motivated because of this tax change. So, there's cautious enthusiasm. There's been other capital markets reforms that didn't really do what we expected they would do. Hopefully, this one will, but again, there's a lot of stuff that has been done. It's there, it's ready for folks to simply think about how you want to go about it.

Margaret Kuhlow 25:57

So, Ambassador MacKay, you have undoubtedly many, many Canadian investors coming through to see you whenever they're in town. You've had this experience, I'm sure, in every country you've worked in. In your experience working in trade, you also will have heard a lot from industry about what they need. What do you think is working in Mexico? What do you think needs to be—what are they telling you? What are you hearing from them about what more they need in order to move institutional capital, in particular, into Mexico?

Cameron MacKay 26:26

Mm-hmm. So, I agree with Carlos that in the last couple of years under this administration, the investment climate in Mexico has improved considerably. It's absolutely going in the right direction, which is not to say that it's perfect. There will always be risk in every market. There will always be some uncertainty, et cetera. And so, when those people do come to my office, the Canadian pension plans or the private institutional investors or others, no matter what sector they're in,

frankly, we work very closely with them, to bring them to the Mexican government and explain what it is that they would need to help them to tip the balance and help them make this bigger investment decision. And, in the last 18 months in particular, the Canada-Mexico government-to-government relationship has improved. Frankly, it's never been stronger. So, when we do seek an audience with somebody senior in the Mexican government to help them improve the investment climate here, we always get an audience, and most of the time we get a positive outcome from that. So, we do it all privately. We do it discreetly. We're not going to make public remarks with criticism in one way or another. But we found a really open door from the Mexican government to listen to both private-sector investors and foreign governments about what more is needed.

Margaret Kuhlow 27:49

One of the things we heard from Prime Minister Carney, we've heard from the US administration, and is part of the new Mexican infrastructure law, is efforts to make the permitting process a lot more efficient, and it includes some timelines, 30-day, 90-day requirements for approvals. This is a problem everywhere, not just here, clearly. Do you think, Carlos, that the new law will enable better, faster, more efficient investment, in particular in infrastructure? Well, we've heard the government's clear plans in Plan México. They clearly intend to be following through on those plans with all the policies that support it. Are we going to get faster investment?

Carlos Aiza 28:34

Well, that certainly is the objective. It's hard to say, and I don't want to be a cynic, but this has happened many times, and a good idea is not always easy to sort of trickle down to make sure that it actually is implemented. But that is definitely the idea, and I think Plato was the one that said that innovation is the mother of—what was—

Margaret Kuhlow 28:59

Necessity is the mother of invention.

Carlos Aiza 29:00

—necessity is the mother of innovation. Well, there we go. I mean, the three or four panels before this one talked about energy. So, when you have the necessity, then things happen. So, hopefully, this will trickle down, and the effects will be seen in the day to day. I can tell you, for example, in real estate projects, that is not yet the case. They're still probably slower, and this is mostly municipalities and state governments, but there's still a lot of challenges as far as getting bureaucracy out of the way. Again, the good intentions are there, but a lot of work needs to be done to make sure they translate into a reality.

Margaret Kuhlow 29:37

Orlando, I know you have a lot of experience on this at IDB, IDB Invest. Any views on whether these efforts to really put timelines on will make the investments move more quickly through the approval permitting process?

Orlando Ferreira 29:51

Yes. We have a lot of work to do. We have to start with ourselves.

Cameron MacKay 29:57

Well said.

Orlando Ferreira 29:59

The reality is that multilaterals, we do have to do some work that a regular investment bank wouldn't need to do. We have to be very careful on due diligence, on environmental, social, corporate governance, integrity. We have to measure

development impact. We have to report on development impact. But that doesn't mean that we can't get better. We are pre-investing heavily in technology. We are pre-investing heavily in processes. This is something that we agreed with our shareholders for the first three years of the capital increase, and we are looking very deeply. We're doing a lot of introspection, because we're doing about 100, 110 projects a year. When we get to the full deployment of the capital increase, we're aiming at doing 250, 300 projects a year. For that, we will need to be a lot more efficient than we are now. Our governance is what it is. But we are doing a lot of work to make sure that we can process those deals, and give a response to the private sector in the timing that the private sector expects.

Margaret Kuhlow 31:23

Well, thanks for that. Now, we have just a couple of minutes. So, to close, I want to go to quick priorities. Turn back to you, Ambassador MacKay. What would you most like to see Canada and Mexico accomplish together over the next two years to strengthen this regional investment?

Cameron MacKay 31:39

I think a top priority for me is to rebalance the investment relationship. So, Canadian companies, institutional investors, and manufacturers, et cetera, have invested about $66 billion into Mexico. And there's only about three or four billion of Mexican investment back into Canada. We think that there are a lot of Mexican businesses and institutional investors underweighted in the Canadian market, and there's never been a better time. Lowest debt-to-GDP ratio in the G7, arguably the world's soundest financial system. Those of us who remember 2008, not one Canadian bank went under, and it's an even more stable system and better regulated. Now, marginal effective tax rate on new business investment in Canada is now at 6.4 percent. That's half the US rate, and it's the lowest in the OECD. And there's the infrastructure build-out that I was describing earlier with pipelines, ports, railways, opportunities across the board, led by a prime minister who knows, I think, what institutional investors need to help them make those decisions. And he's very ambitiously pushing the Canadian government to set the framework to attract that kind of investment. Just briefly on how quickly things are approved, we think that it's ambitious but achievable and realistic in Canada to say one project, one review, one year. If you're talking about something really big, like a gas liquification plant or a pipeline, you do need to go through all of the steps and make sure all levels of government and all the environmental reviews are done. Used to take us years and years. We think one year is very achievable there, and we'll achieve it. So, never been a better time to look at investing in Canada.

Margaret Kuhlow 33:28

Thank you. Orlando, what would unlock a meaningful increase in private capital flowing into Mexico?

Orlando Ferreira 33:38

I think if I had to pick one, it's domestic savings. How can that very deep pool of domestic savings can be channeled to the economy? Obviously, as a multilateral where Mexico is a shareholder, we do a lot of work to be aligned with the country's priorities, Plan México in particular. So, the more the private sector reaches out to us, too, we will do the work to reach out, and we have a very strong presence in Mexico. We have 22, 23 people working from IDB Invest in Mexico. But I think that that connection between us and the private sector in Mexico can unlock a lot of possibilities and help us deploy these new tools that we have in a better way and aligned with the country's priorities.

Margaret Kuhlow 34:46

And last word to you, Carlos. You have negative five seconds.

Carlos Aiza 34:51

I literally have negative five seconds. I think the message is clear. The opportunity is there. There's a perception of risk that is not necessarily reflective of the real risk, and there's a lot of work to make sure that you sort of dissipate and understand what's real and what's not, to Orlando's point. I think it's a good time to do that exercise.

Margaret Kuhlow 35:11

Yeah. Thank you very much. Please join me in thanking our panelists, Ambassador Cameron MacKay, Carlos Aiza, Orlando Ferreira.

[Applause]

Cameron MacKay 35:18

Thank you.

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