The Pacific Alliance Infrastructure Fund (PAIF)

Concept Note

July, 2018

Introduction

Faced with the necessity of boosting private participation in the financing of infrastructure, the Pacific Alliance (PA) countries, through the Pacific Alliance Infrastructure Investment Working Group ("PAIWG"), requested the Inter-American Development Bank ("IDB") and the Development Bank of Latin America ("CAF") the elaboration of a study to analyze the feasibility of constituting an Infrastructure Debt Fund that will channel funds from PA and foreign institutional investors to finance Public-Private Partnership ("PPP") projects in PA countries, (the "Pacific Alliance Infrastructure Fund" or "PAIF"). The feasibility study concluded that:

- A dedicated investment fund in infrastructure is not only desirable but viable.
- The PAIF should function as a debt fund whose initial proposed size is USD 1,000 million, with a projected life of around [25] years.
- The PAIF would provide long-term debt financing to PPP projects in energy, transportation, water and sewage, and telecommunication, amongst others.
- The analysis of the PAIF's final structure should consider factors as taxation, specific requirements of potential investors (the "Limited Partners" or "LPs"), among others.
- The PAIF is expected to be organized as a fund and be independently managed by an established and recognized international fund manager (to be selected) as its General Partner/Manager ("the GP/Manager").

The Investment Opportunity

Pipeline of infrastructure projects

The PA countries have a portfolio of infrastructure projects that they plan to execute through a PPP scheme during the next two to four years that represent an approximately total investment of USD 86 billion in 199 projects[1]. It is estimated that these projects would require debt financing in the order of approximately USD 54 billion.

Expected Returns

Returns for the PAIF will ultimately be a function of market conditions, risks associated with the execution of the PPPs and the management fee charged by the PAIF's GP/Manager. Based on different information sources, including in some cases interviews with infrastructure fund managers located in the PA countries, the Portfolio Consultants estimated an approximate yield of between 5% and 12% for the PAIF.

Effect of taxes on the expected returns

[1] Chile: 50 projects, Estimated Investment USD 13 billion; Colombia 39, USD 26 billion; México 86, USD 23 billion; and Peru 24, USD 25 billion.

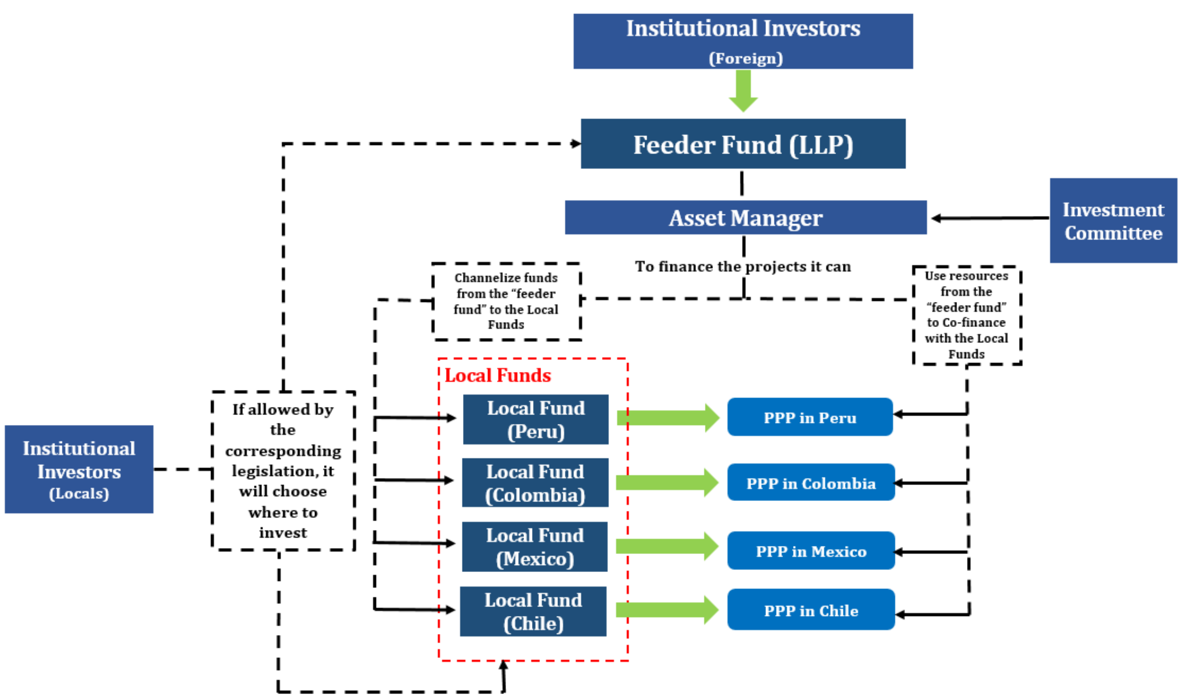
A relevant issue to be considered in the viability of PAIF is the effect that taxes could have on the return of investors. According to the work carried out by the legal consultants, taxes on the potential structure will not significantly affect the PAIF's expected return.

PAIF's Potential Legal Structure

This legal structure was designed with the purpose of maximizing the participation of local and foreign investors. However, this is just a potential structure. The GP/ Manager will have the ultimate decision regarding the final structure of the PAIF according with its lecture of the market.

The potential legal structure consists in the constitution of a Private Local Debt Fund ("PLDF") in each PA country and of a Private Foreign Debt Fund ("*feeder Fund*") that will "feed/receive" funds from the Local Funds. The Foreign Fund or "*feeder fund*" will channel funds from institutional investors, from the PA countries or international, to the Local Funds or it will co-finance together with the Local Funds the selected PPP projects in each country. This structure is represented in the following Figure:

Figure 1: Potential transaction structure



Investors would commit to contribute a specific amount of funds to the PAIF for an established disbursement period, expected to be no more than [4] years. The funds committed to the PAIF would be used to provide long-term debt financing to PPP projects in energy, transportation, water and sewage, and telecommunication, amongst others to be developed in the PA countries.

The structure permits the fund to lend in USD or in local currency depending on the financial needs of the project. In the case of loans to be made in local currency it is expected that the GP/Manager will make these loans in local inflation-indexed currency and, if possible, to use proper hedge mechanisms to cover the fund from potential currency risks. Ultimately, the decision of the currency to be used in the loans will rest upon the PAIF's GP/Manager.

PAIF's General Partner / Manager

The PAIF is expected to be independently managed by a well-established and recognized international fund manager (to be selected) as its General Partner/Manager ("the GP/Manager"). The GP/Manager will be responsible of:

(i) Defining the final structure of the fund;
(ii) Constituting the fund;
(iii) Marketing the fund and obtaining the commitments from institutional investors; and
(iv) Administrating the fund.