



EMERGING OPPORTUNITIES

The city is teeming with life, the sidewalks are lined for miles with red and green poinsettias, restaurant patios are full of diners, and street vendors are enthusiastically peddling their products to locals and tourists. For those who live or vacation in Florida, this illustration could be from any one of the many small town main streets decorated for the winter holidays. Surprisingly, the scene described is not in Florida or even the U.S.; rather it is a scene from a recent Sunday morning walk down **Avenida Presidente Mararyk** in the Polanco neighborhood of **Mexico City**.

After a two-year hiatus, our pursuit of uncovering exceptional global companies in which to invest returned with a December research trip to Mexico. This trip was unique as it was our first time experiencing international business travel under the ever evolving “Rules of Covid.” Although the team had been to Mexico several years ago, the awkward fist bumps at introduction, masked meetings, repetitive temperature checks for hotel entrances, and testing to re-enter the U.S. all comprised new territory for us.

Also since our last visit, Mexico had a political regime change that ushered in the progressive candidate Andres Manuel Lopez Obrador, or AMLO, as he is known. AMLO, a left leaning nationalist, garnered the support of the masses with a vision of a reformed Mexico. His campaign promised to empower the underprivileged, eliminate corruption, provide funding for needed infrastructure improvements, end the country’s widespread violence, and reassert the state’s centrality in the Mexican economy. While directionally the pledges are commendable, the stance on reasserting the state’s power raised eyebrows and was a topic of conversation with many of the business leaders we visited. Mexico’s previous President was pro-business and encouraged international investment, while the new regime’s policies have sought to reverse that progress and centralize the power over energy, banking, and law within the executive branch.

In addition to the political uncertainty, we arrived in Mexico with any number of embedded social concerns and stereotypical expectations. The threats of crime, smog, and traffic snarls are all real and notoriously unpleasant. Despite those headline risks, we were pleasantly surprised on most every front—the lovely weather, ease of using various modalities of transportation, and frequent bilingual nature of the local population to name but a few.

Over a three-day span, we traveled between **Mexico City** and **Guadalajara**, visiting with corporate executives, investor relations personnel, and touring operating facilities. With a population of 22 million, **Mexico City** is the business and cultural epicenter of the country. It is also one of the largest and most densely populated cities in the world. While in **Mexico City**, we discussed the role of fintech in banking with a leading commercial bank,



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Mexican warehouse facility

observed the dispatch center for Mexico's leading auto-insurer, and toured the second largest Stock Exchange in Latin America. While in the more industrial city of **Guadalajara**, we discussed the regime change effect on fiber and telecom infrastructure with the CFO of a leading cable and communication company and reviewed blueprints for expansion of the second busiest airport in Mexico. In each case, we were the first analyst team to visit in-person in the last two years.

Among the more interesting investment opportunities we identified was a Mexican REIT (Real-Estate Investment Trust) specializing in triple net-leased prime industrial and logistics real estate throughout Mexico, with property concentrations in the northern border states of **Monterrey** and **Juarez**. With well-documented global supply chain issues and the deterioration of U.S.-China trade relations over the last few years, Mexico has emerged as an exceedingly important trade partner for the U.S. Able to offer strong intellectual property protection, geographic proximity, and affordably skilled labor, Mexico's northern states are a primary beneficiary of U.S. companies seeking to relocate closer to home, or "nearshore," a portion of their manufacturing capacity. Our interest in the industrial REIT was piqued by the "nearshoring" narrative, but our value orientation led us to an admiration of the stock due to its significant discount to net asset value and attractive higher yields. We met with the REIT's CFO and head of development where we discussed in detail the attributes of their current real estate portfolio, their pipeline of new development opportunities, and their intentions to allocate capital moving forward. This meeting served to confirm our enthusiasm for the investment opportunity and reinforce the value of our in-person, boots on the ground discovery process.

Given the historical shared borders, the embedded trade and tourism relationships, and the ubiquitous access to U.S. television in both English and Spanish, there is a visible intermingling of cultures between the U.S. and Mexico. And with a growing population that is now over 129 million, we noted a vibrancy in the Mexican demographic structure where the average age is just 29 years old. For comparison, the average age of the population is 39 in the U.S., 41 in Canada, 48 in Japan, (and 66 in Naples), placing Mexico among the youngest countries, demographically speaking, in the world. As we've witnessed in numerous emerging markets, an expansion of youthful workers goes hand in hand with increased technology utilization. Technology is a

wonderful equalizer, empowering businesses with efficiencies and the ability to bypass any number of historically bureaucratic obstacles. The impact of technology was evident to us across a wide swath of the Mexican economic strata and within the companies we visited which were all using highly sophisticated technology in their work routines. Additionally, with little in the way of historic social security safety nets to rely on, the noted predominant mantra is that everyone must work to live—and to work hard if they intend to prosper in a highly energized and competitive environment.



As we've experienced repeatedly over the years, our investment strategy in any country can't be heavily dependent on the vicissitudes of voters. Trying to invest around political sentiments, particularly within the emerging markets, is a perpetually unpredictable undertaking. The manifestation of pro- or anti-business political change is usually expressed sharply, and brutally at times, in a currency's value. While we maintain an active awareness of the political environment, our focus remains on identifying companies with apolitical strategies. That is, we look to invest in companies with business models that can succeed within a variety of regimes. We then input a realistic assessment for the currency risk and size our portfolio investment accordingly.

Given Mexico's nationalist leadership, the economic weakness exacerbated by the pandemic, and the less than flattering crime-driven headlines, one might think that Mexico is better left in search of greener investment pastures. On the contrary, each of our meetings provided supporting evidence for why we want to have capital invested in Mexico, albeit in moderation. There is truth to the criminal statistics; however, we found the general image and stereotypes to be less concerning in the day-to-day business world. While the media can dictate to popular opinion, the vibrant culture and youthful hard-working population is under-reported. As an investor, this disconnect presents an opportunity where the risk is real but appears adequately discounted.

Traveling during the pandemic added challenges, but the effort was necessary. We came away with a fresh perspective and renewed convictions related to investing in our critical southern neighbor.

