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FUND NEWS | TOP NEWS , LATIN AMERICA EXCLUSIVES

HMC Looks to Expand Colombian Bond Market With \$100 Million Credit Fund



Latin America. capitanoseye/Shutterstock.com PHOTO: CAPITANOSEYE/SHUTTERSTOCK.COM

By **LUIS GARCIA**

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HMC Capital is seeking \$100 million to buy bonds from Colombian midmarket companies, as the Latin American-focused firm expands a credit strategy it launched in Peru more than two years ago.

HMC—a financial advisory and investment firm with offices in New York and four Latin American countries—recently started raising HMC Credito Colombia and expects to hold a first closing for the fund by the end of the year, said Daniel Dancourt, a Lima-based partner who heads Latin American asset management for the firm. HMC set a target and a hard cap for the fund, which is being raised in Colombian pesos, equivalent to \$100 million, he added.

HMC plans to repeat in Colombia the same credit strategy it is pursuing in Peru, which consists of raising the vehicle as it would a traditional private-equity fund but investing it in corporate bonds.

The firm seeks to encourage local midmarket businesses to issue bonds by pledging to buy a portion of the debt, from 25% of the value being issued to as much as 100%, and then guiding the companies through the issuance process, Mr. Dancourt said.

“What we saw here was an opportunity, a disconnection between potential midsize issuers and institutional investors,” he said, adding that today, in general, only larger companies with higher credit ratings have access to Colombia’s and Peru’s still-fledgling corporate-bond markets.

Colombia had a total of 48.1 trillion Colombian pesos in outstanding corporate bonds at the end of 2016 (\$14.4 billion at the time), or 5.5% of the country’s gross domestic product, according to Oxford Business Group, a research and consultancy firm. That compares with \$8.5 trillion, or 45.7% of GDP, in the U.S. for the same period, according to the Securities Industry and Financial Markets Association, an industry trade group.

Private-equity firms have been bolstering their credit investments in Latin America, where an increasing number of smaller companies need capital to expand but have difficulty accessing mainstream lenders. HMC believes its strategy has more “scalability” than the average private-debt investments because it will foster the local corporate bond markets over time, broadening the universe of potential investment targets, Mr. Dancourt said.

For investors, he said, it means an opportunity to be exposed to the credit market through a more transparent type of investment.

“Obviously, being a fixed-income investment, it doesn’t have a necessary restriction of competing with investments that have other return profiles,” he said. “This will not return like a private-equity fund. You’re not taking the same type of risk.”

HMC in early 2015 raised \$60.4 million for its Peruvian credit fund, HMC Capital High Yield Peru Fund, after securing commitments from local pension funds and the International Finance Corp., a member of the World Bank Group.

The firm has invested about 65% of that vehicle across seven bonds issuances with maturities mostly from three to five years and at values between \$5 million and \$25 million, Mr. Dancourt said. The securities’ yields typically carry a 400 to 500 basis-point spread over local government bonds, he added.

HMC also is planning to raise a second, larger credit fund in Peru by the end of the first half of 2018. The firm will seek \$200 million, as it expects to attract new and returning issuers and invest a lower share per transaction. For the current fund, it is investing an average of about 60% to 70% of the issuance amount, Mr. Dancourt said.

“It’s our vision for the future that this will become liquid investments in time, liquid issuers, and will bring more types of investors to the corporate bond market—not only local but foreign investors,” he said.

HMC Capital was founded in 2009 by Ricardo Morales and Felipe Held, two former executives of Chilean investment bank Larrain Vial SA, who serve as HMC’s chairman and chief executive, respectively. The firm has an asset management as well as an advisory and capital access arm. In addition to real estate and credit strategies, it manages private-equity feeder funds, which channel Chilean pension fund capital to the vehicles of several global private-equity investors.

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