



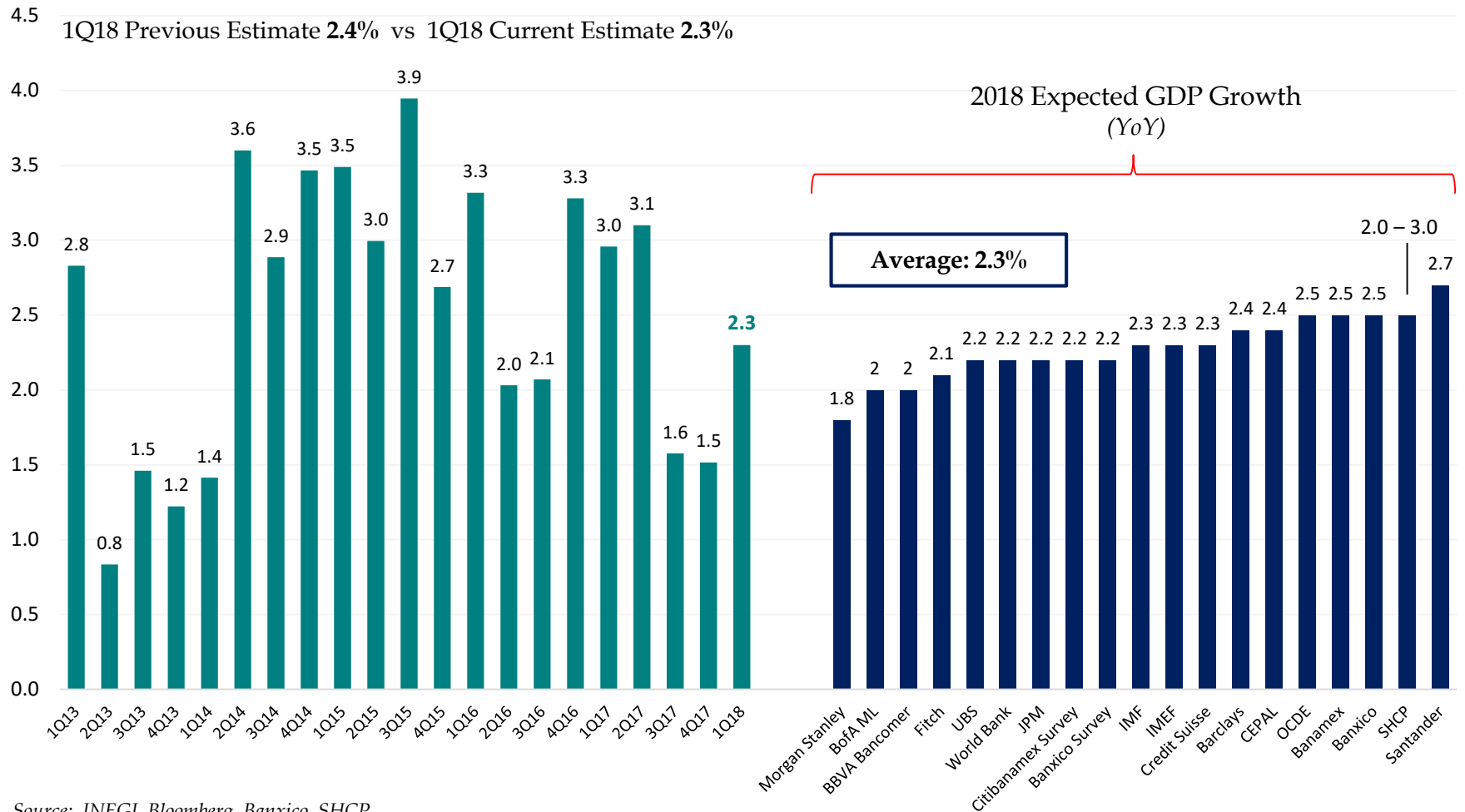
**Pichardo Asset Management**  
Independent Portfolio Management Firm

**Mexico 2018: Healthy Economy, External Risks and Political Challenges**  
**Quarterly Shareholders Presentation**

*June 2018*

# Economic Situation

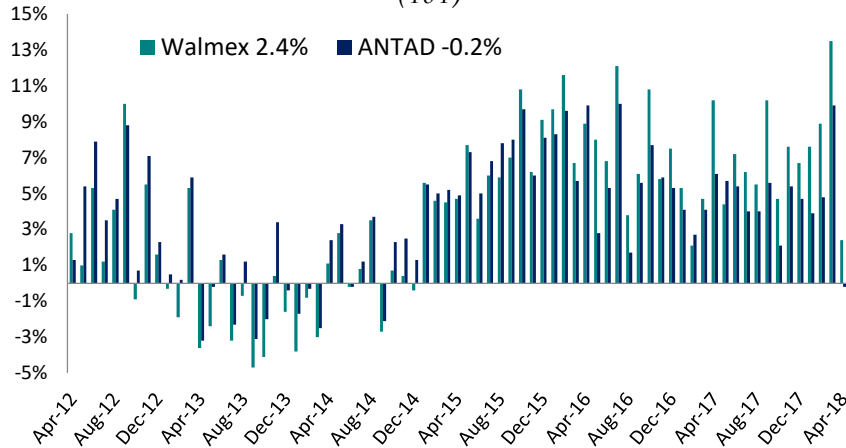
## Mexico's GDP Growth (Seasonally Adjusted) (YoY)



Source: INEGI, Bloomberg, Banxico, SHCP

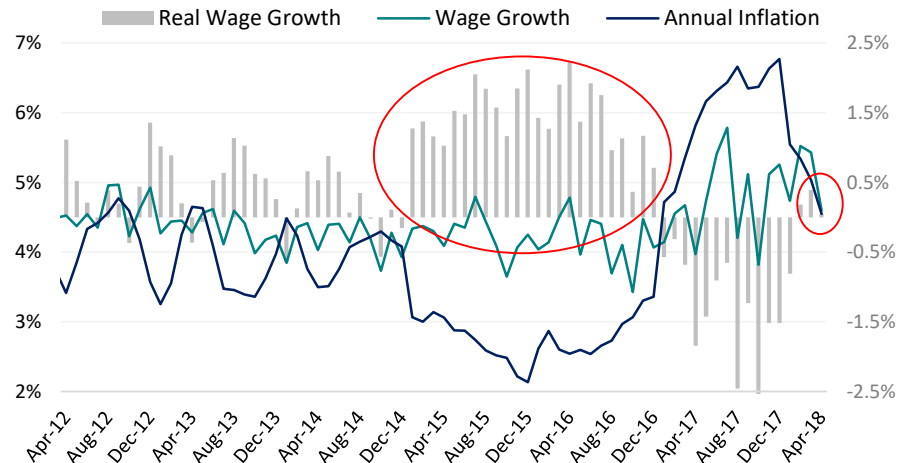
# Economic Situation

### Same Store Sales (YoY)



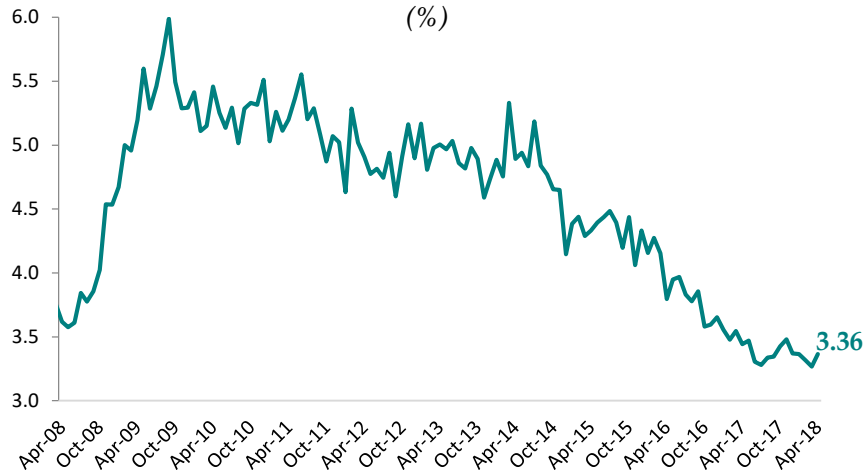
Source: ANTAD & Walmex

### Wages & Consumer Inflation



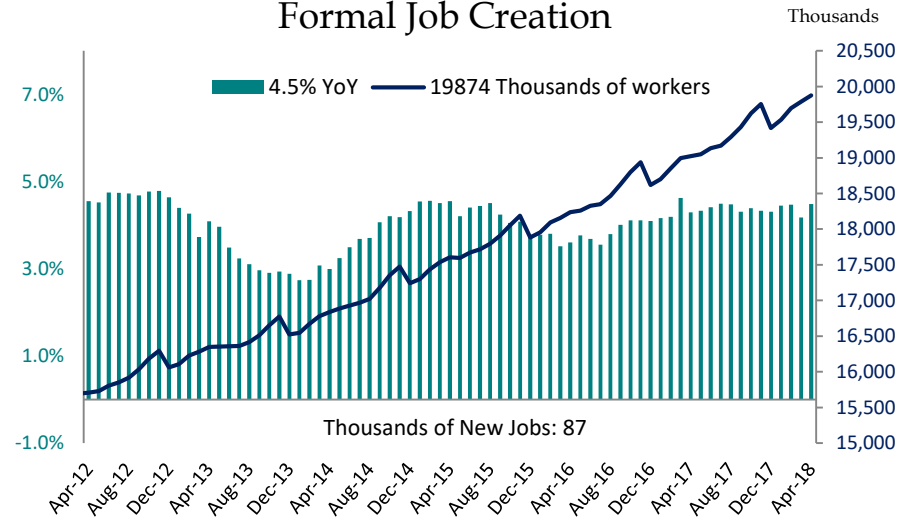
Source: Banxico, INEGI

### Unemployment Rate (%)



Source: Bloomberg

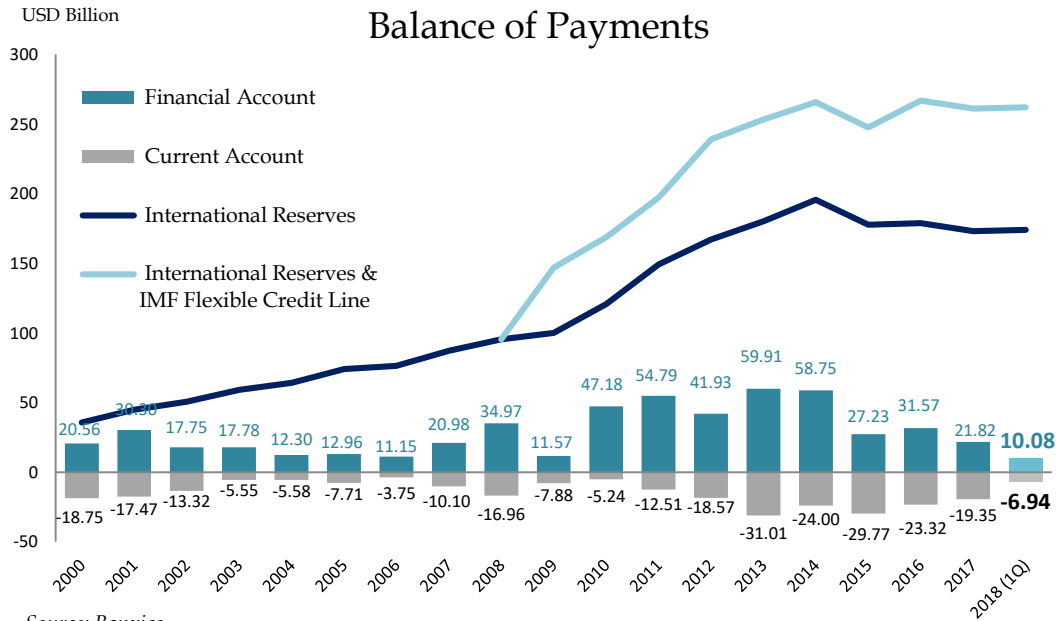
### Formal Job Creation



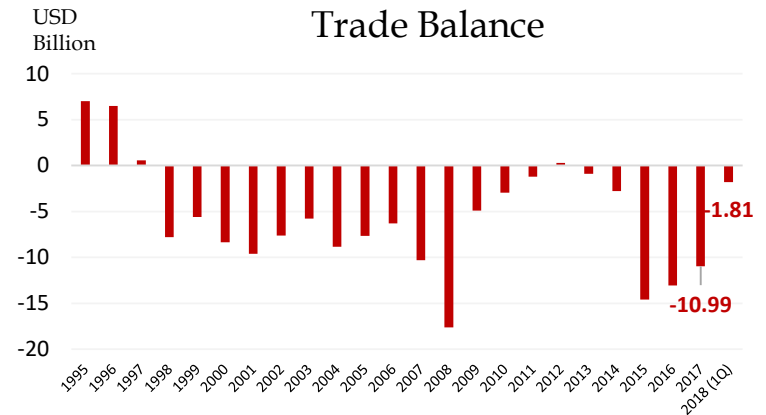
Source: Bloomberg

# Public Finances

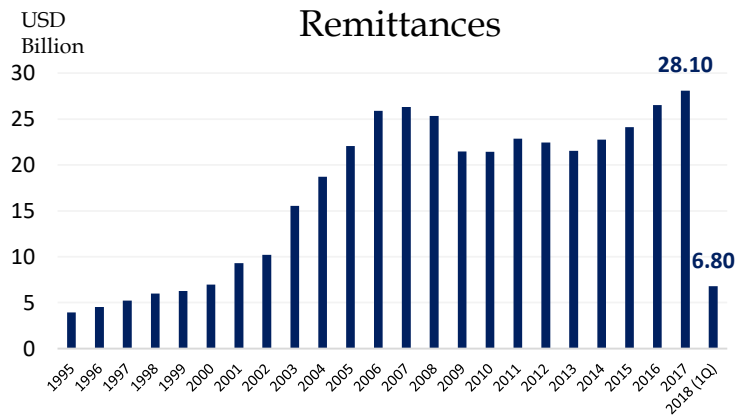
## Balance of Payments



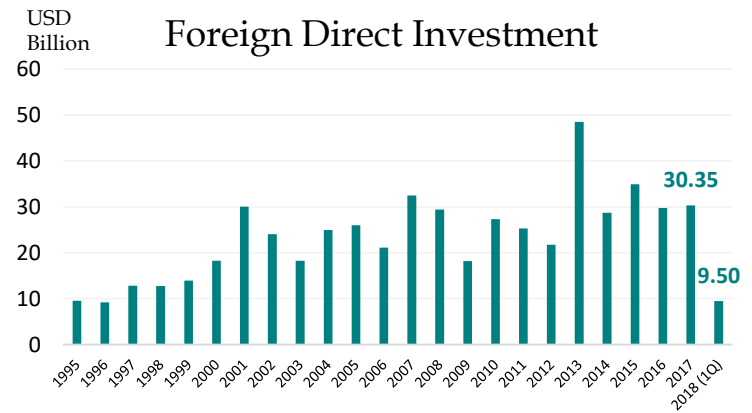
## Trade Balance



## Remittances



## Foreign Direct Investment



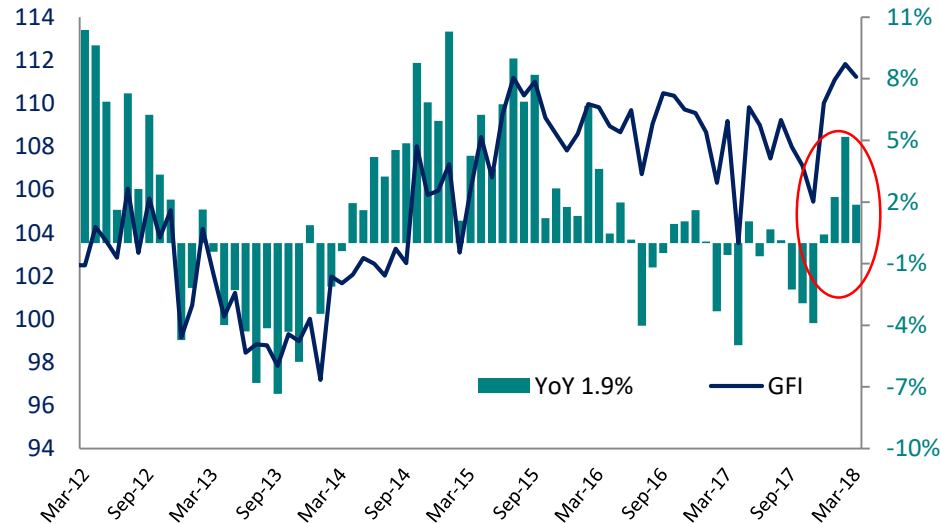
## Foreign Investment Linked to Energy Reform

ROUND ONE AUCTIONS, 2015 - 2016					
Date	Auctions	Contractual Area	Committed Investment (Million Dollars)	Estimated Production (Thousand barrels per day)	Assigned (%)
15-Jul-15	1.1	Shallow waters in the Gulf of Mexico	2,709	79	14%
30-Sep-15	1.2	Shallow waters in the Gulf of Mexico	3,148	124	75%
15-Dec-15	1.3	Onshore areas	1,141	70	100%
5-Dec-16	1.4	Exploration and extraction areas in deep waters	34,352	732	80%
<b>SUBTOTAL</b>			<b>41,350</b>		
ROUND TWO AUCTIONS, 2017 - 2018					
Date	Auctions	Contractual Area	Committed Investment (Million Dollars)	Estimated Production (Thousand barrels per day)	Assigned (%)
19-Jun-17	2.1	Exploration and extraction areas in shallow waters	8,193	186	67%
12-Jul-17	2.2	Onshore areas	1,100	69	70%
12-Jul-17	2.3	Onshore areas	964	102	100%
31-Jan-18	2.4	Deep Waters	92,794	1,500	66%
<b>SUBTOTAL</b>			<b>103,050</b>		
ROUND TWO AUCTIONS, 2018					
Date	Auctions	Contractual Area	Committed Investment (Million Dollars)	Estimated Production (Thousand barrels per day)	Assigned (%)
27-Mar-18	3.1	Exploration and extraction areas in shallow waters	8,626	513	46%
<b>SUBTOTAL</b>			<b>8,626</b>		
<b>TOTAL</b>			<b>153,026</b>		

Source: Ministry of Finance

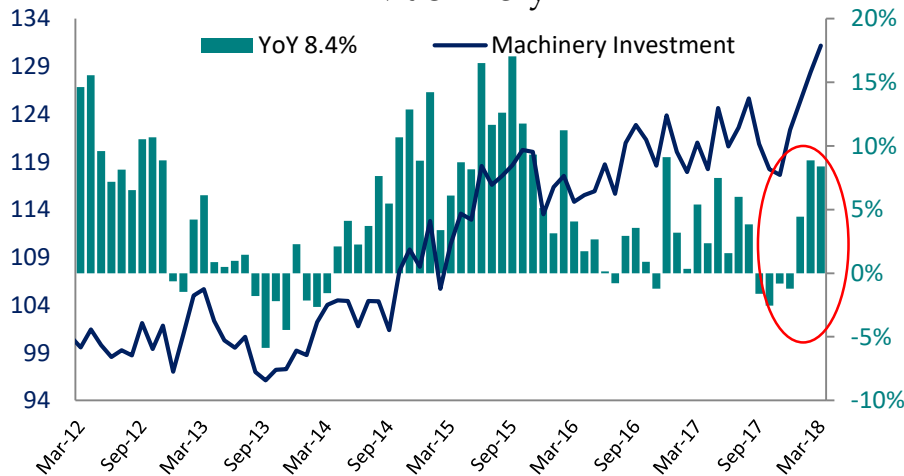
# Economic Situation

## Gross Fixed Investment



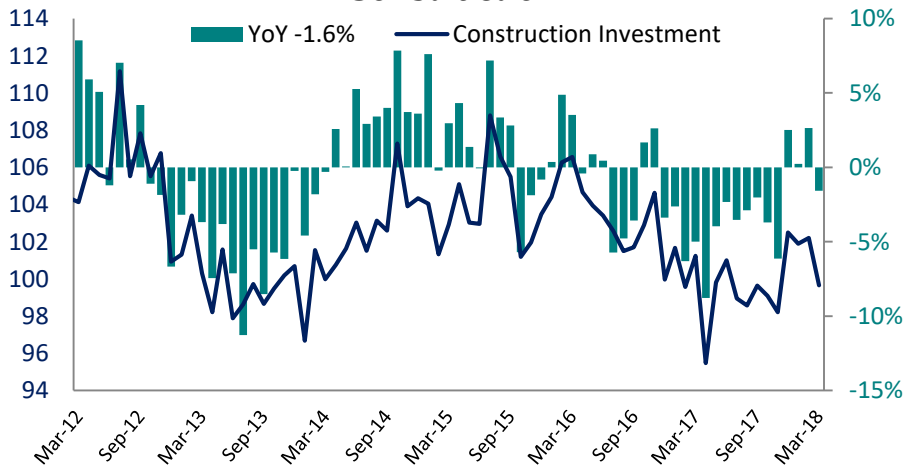
Source: INEGI

## Machinery



Source: INEGI

## Construction



Source: INEGI

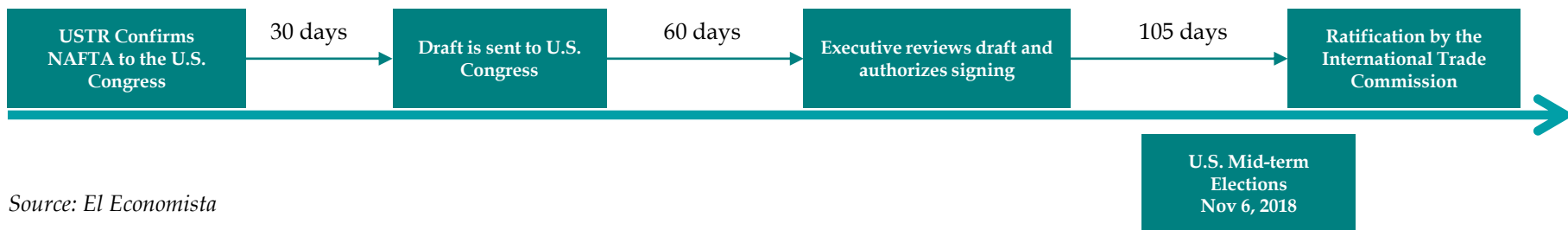
# Trade Agreements

## NAFTA Negotiations

U.S. imposed tariffs on steel (25%) and aluminum (10%) imports from Canada, Mexico and the European Union.

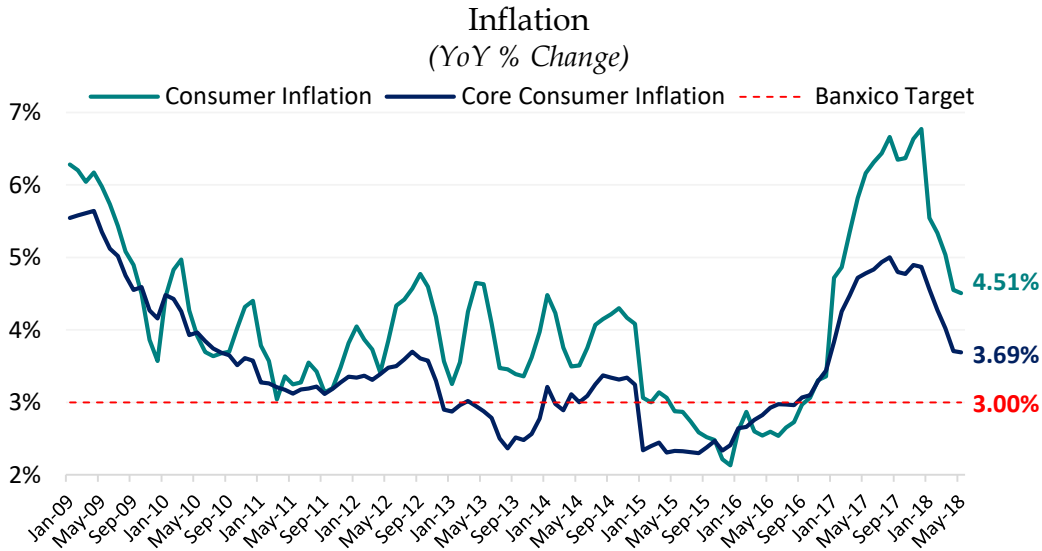
Difficult proposals:

- “Sunset” clause.
- Auto sector rules of origin.
  - **US:** Increase the content of auto parts from the NAFTA region from 62.5% to 75% and 40% from regions with wages of \$16 dlls/hrs. Threatening to impose tariffs of up to 25% on imported vehicles.
  - **Mexico:** Increase the content of auto parts from the NAFTA region from 62.5% to 70% & accepted 20% content with an hourly wage of USD\$16.
- The main NAFTA dispute settlement mechanisms (Chapters 11, 19 & 20)
  - **Chapter 19:** dispute mechanism that allows an independent panel to settle issues around trade.
  - **Chapter 11:** mechanism for the settlement of investment disputes that assures both equal treatment among investors of the Parties to the Agreement.
  - **Chapter 20:** Institutional arrangements and dispute settlement procedures.
- Setting limits on seasonal trade of agricultural products.

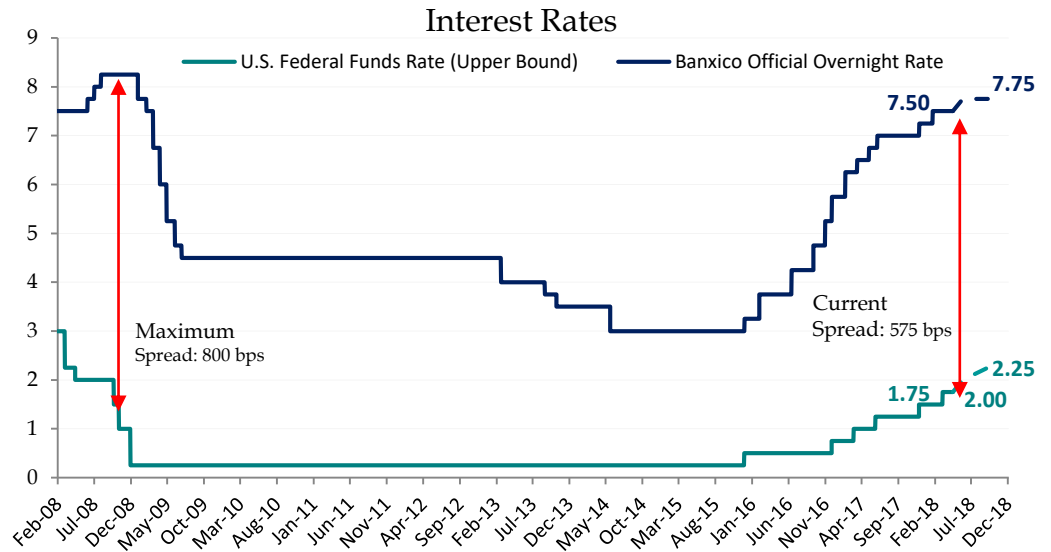


Source: *El Economista*

# Monetary Policy



Source: INEGI



Source: Bloomberg, Banxico Survey of Expectations

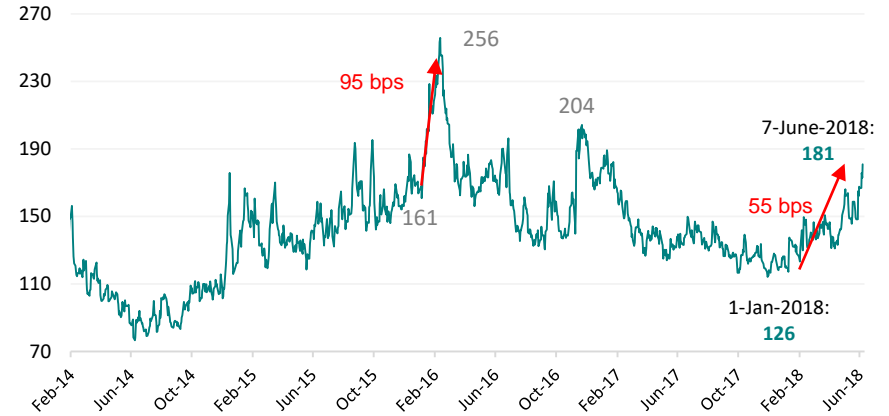


# Economic Situation

Mexico's Credit Ratings						
Date	Standard & Poor's		Moody's		Fitch	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
11-Apr-18			A3	STABLE		
3-Aug-17					BBB+	STABLE
18-Jul-17	BBB+	STABLE			BBB+	STABLE
9-Dec-16					BBB+	NEGATIVE
23-Aug-16	BBB+	NEGATIVE				
31-Mar-16			A3	NEGATIVE		
5-Feb-14			A3	STABLE		

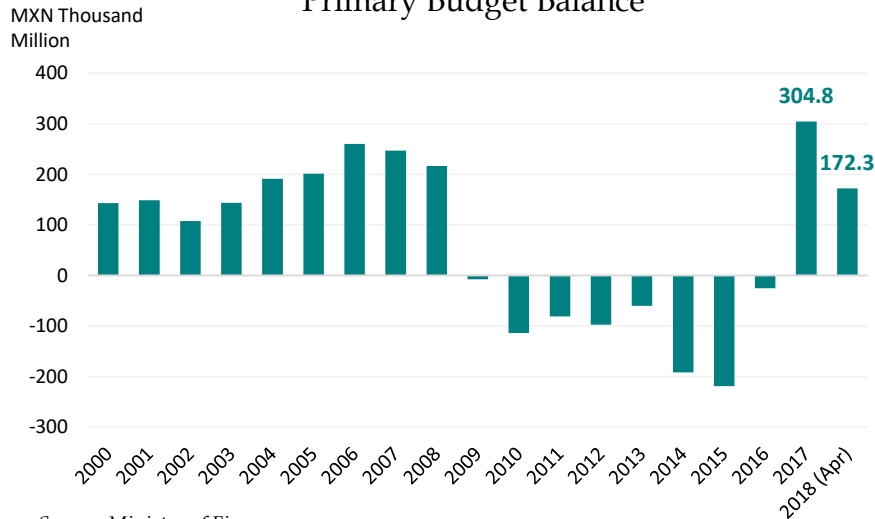
Source: Bloomberg, El Financiero

### 10-Year UMS vs. Treasury Bond Spread (As of June 7, 2018)



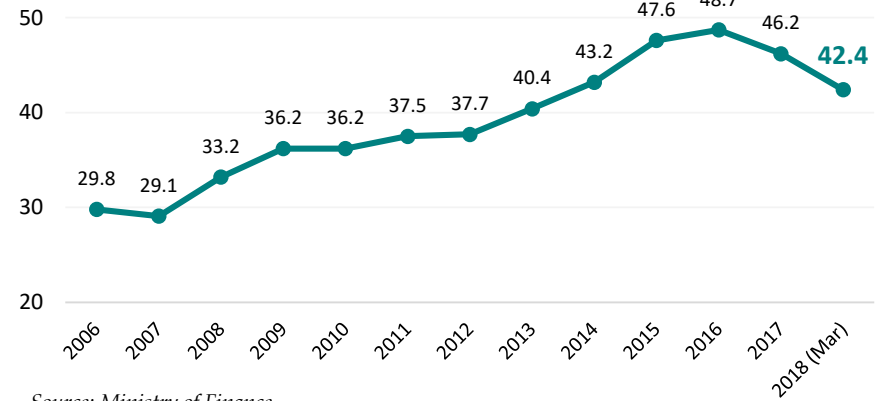
Source: Bloomberg

### Primary Budget Balance



Source: Ministry of Finance

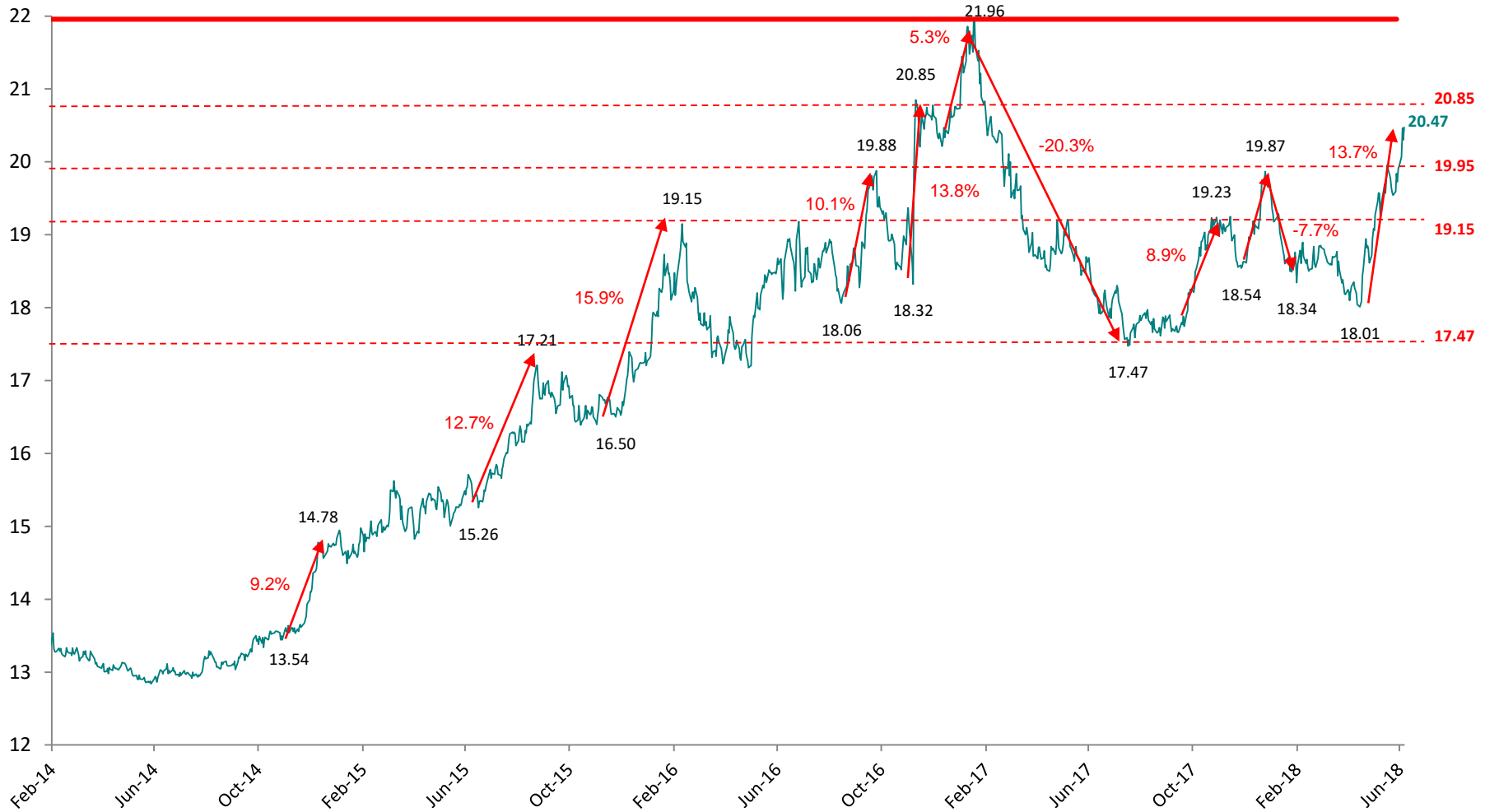
### Historical Balance of Public Sector Financial Requirements (% of GDP)



Source: Ministry of Finance

# Exchange Rate

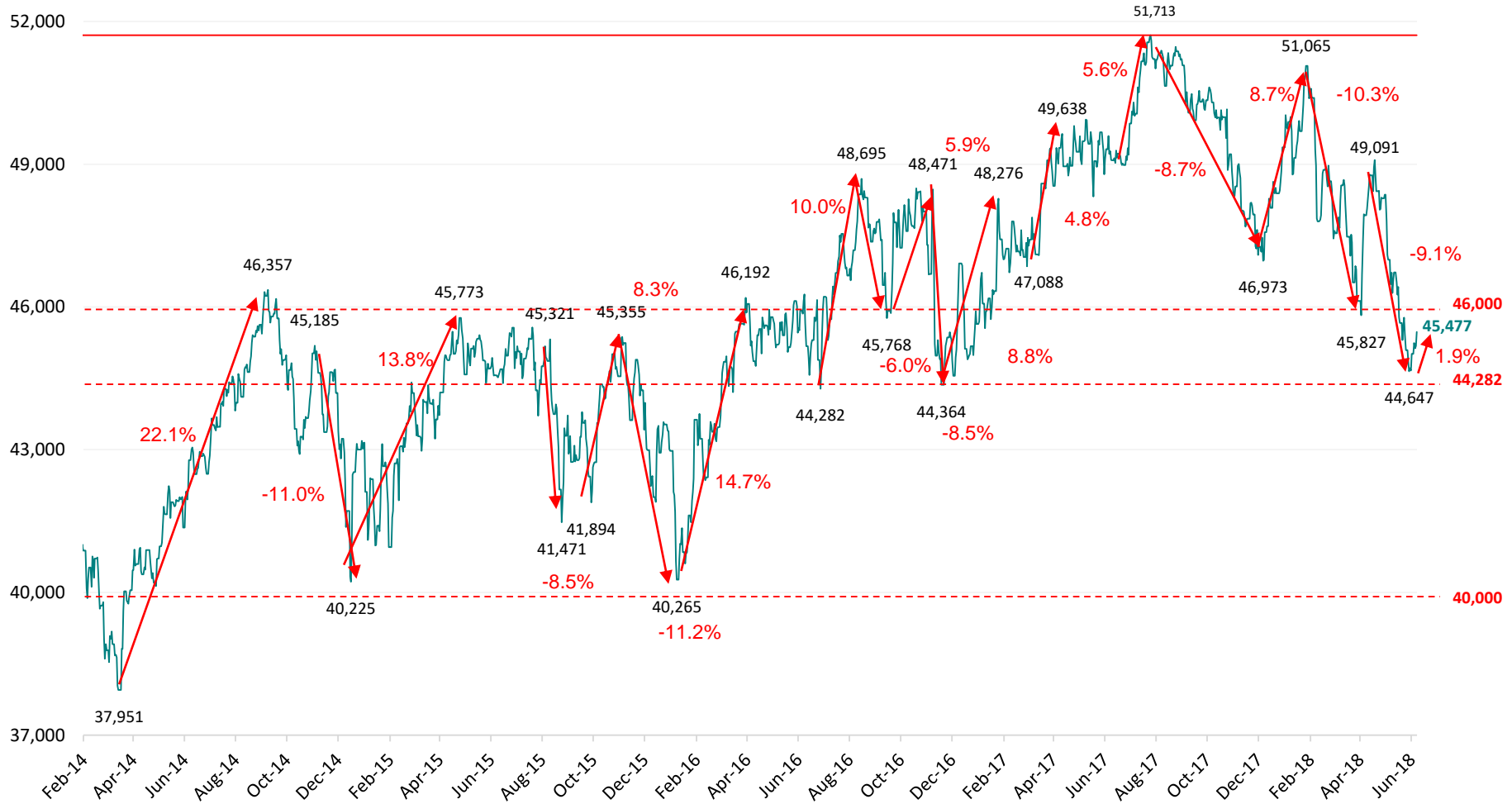
## MXN/USD Spot Exchange Rate (As of June 7, 2018)



Source: Bloomberg

# Financial Markets

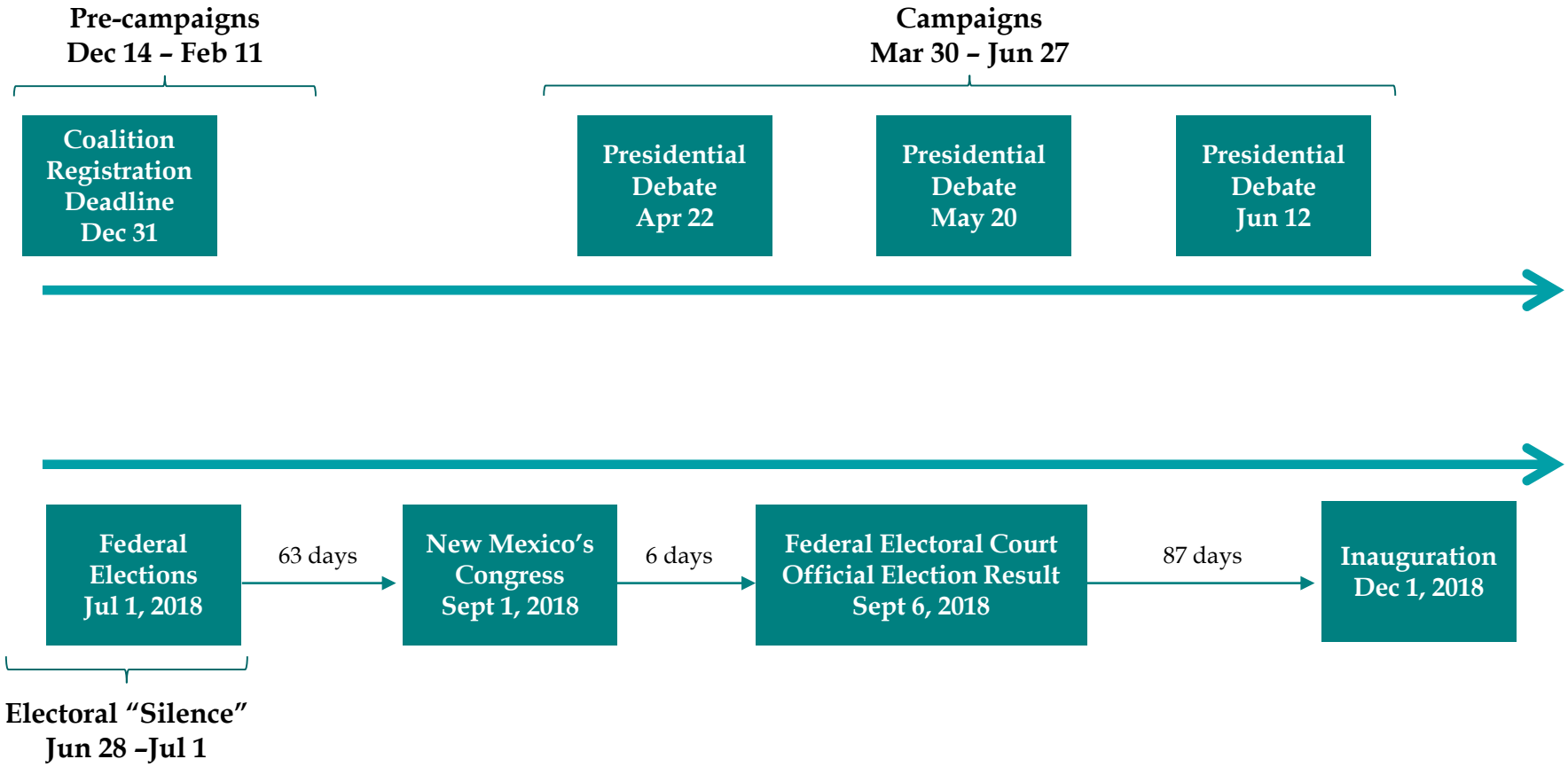
MEXBOL Index  
(As of June 7, 2018)



Source: Bloomberg

# Political Outlook

## 2018 Politic Timeline

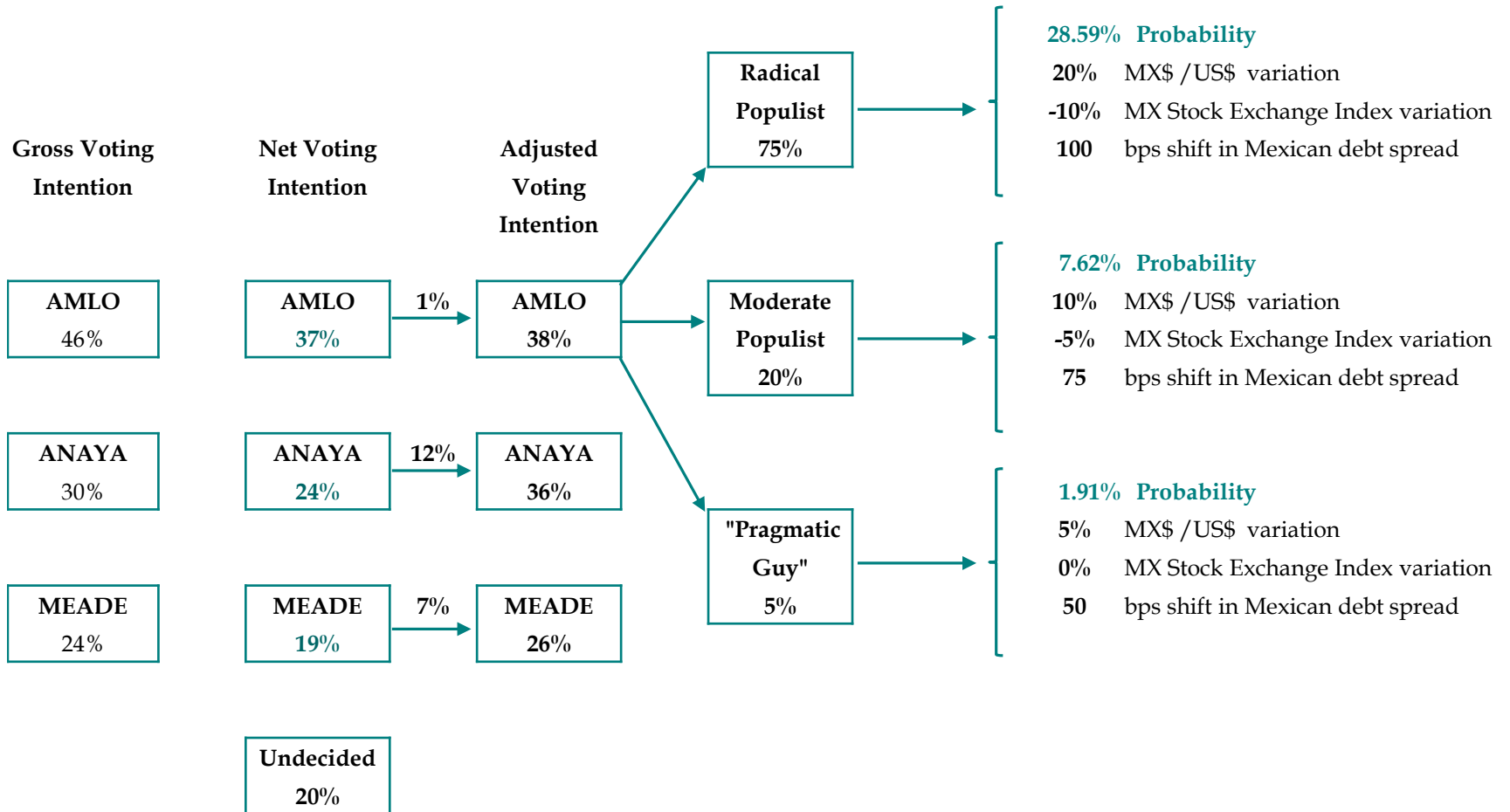


Source: PAM

# Electoral Outcome Impact on Mexican Financial Markets

## Actual Probable Outcome Scenario

Last Update:  
May 31, 2018

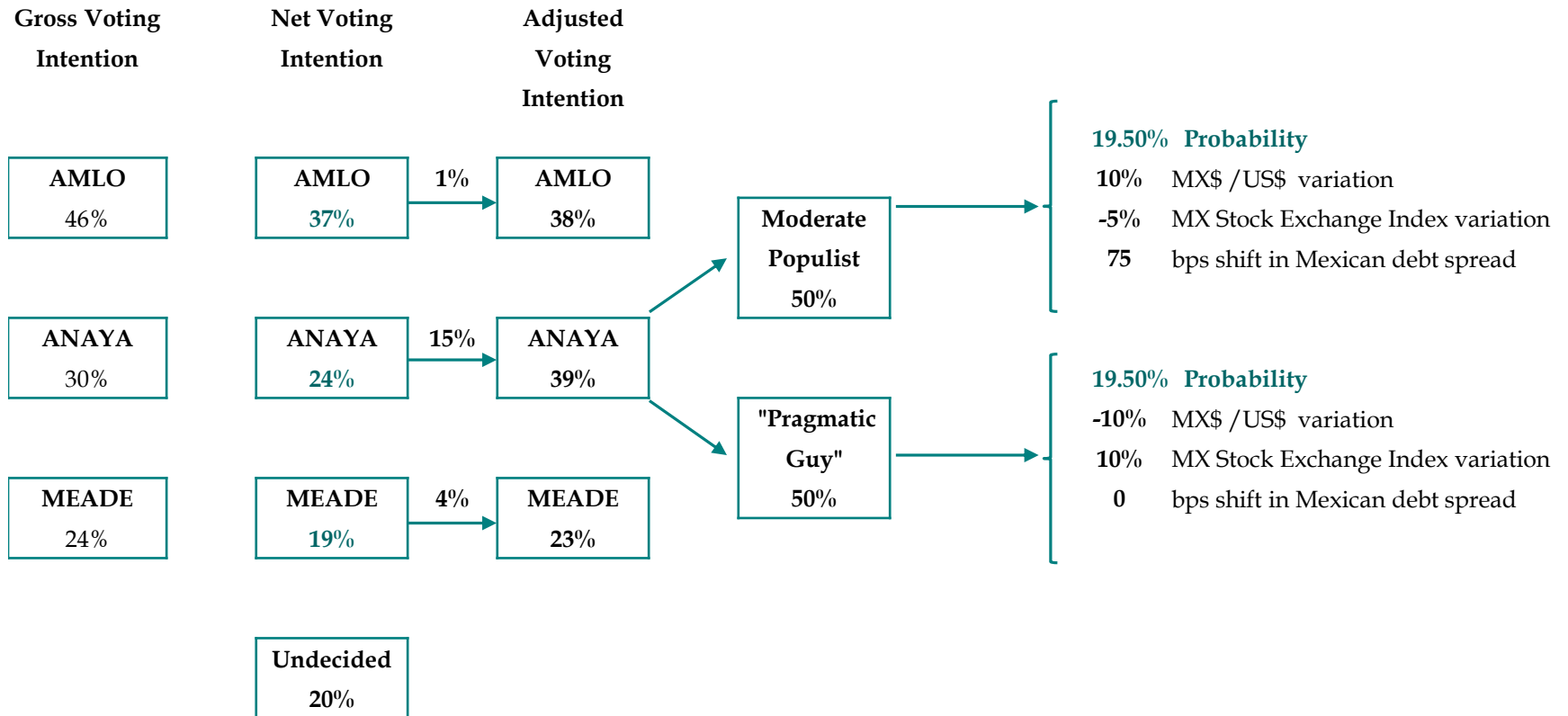


Source: PAM

# Electoral Outcome Impact on Mexican Financial Markets

## Alternative "Useful Vote Scenario"

Last Update:  
May 31, 2018

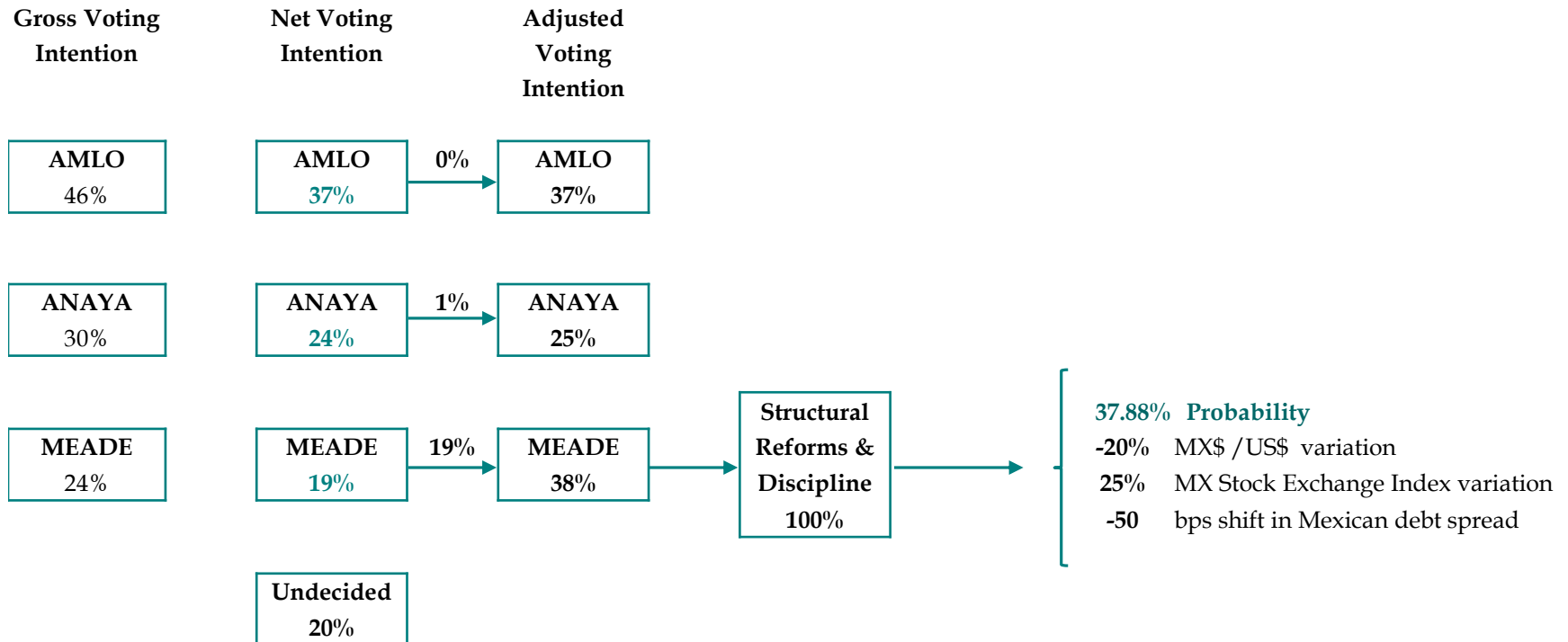


Source: PAM

# Electoral Outcome Impact on Mexican Financial Markets

## Alternative “Hidden Vote Scenario”

Last Update:  
May 31, 2018



Source: PAM

# Electoral Outcome Impact on Mexican Financial Markets

## Scenario Summary

Electoral Outcome Scenarios	Candidate Profile	Financial Markets Response "X" days after election								
		Spot Exchange Rate MX\$ / US\$			Mexbol Index			Mexican Sovereign Debt Spread		
		Ex ante	Ex post	% Change	Ex ante	Ex post	% Change	Ex ante	Ex post	bps Change
AMLO Gross Probability of Electoral Victory <b>37%</b>	Radical Populist	20.47	<b>24.56</b>	20%	45,477	<b>40,929</b>	-10%	181	<b>281</b>	100
	Moderate Populist		<b>22.52</b>	10%		<b>43,203</b>	-5%		<b>256</b>	75
	"Pragmatic Guy"		<b>21.49</b>	5%		<b>45,477</b>	0%		<b>231</b>	50
ANAYA Gross Probability of Electoral Victory <b>24%</b>	Moderate Populist "Pragmatic Guy"	20.47	<b>22.52</b>	10%	45,477	<b>43,203</b>	-5%	181	<b>256</b>	75
			<b>18.42</b>	-10%		<b>50,025</b>	10%		<b>181</b>	0
MEADE Gross Probability of Electoral Victory <b>19%</b>	Reforms & Discipline	20.47	<b>16.38</b>	-20%	45,477	<b>56,846</b>	25%	181	<b>131</b>	-50
<i>Undecided</i> Gross Probability <b>20%</b>										

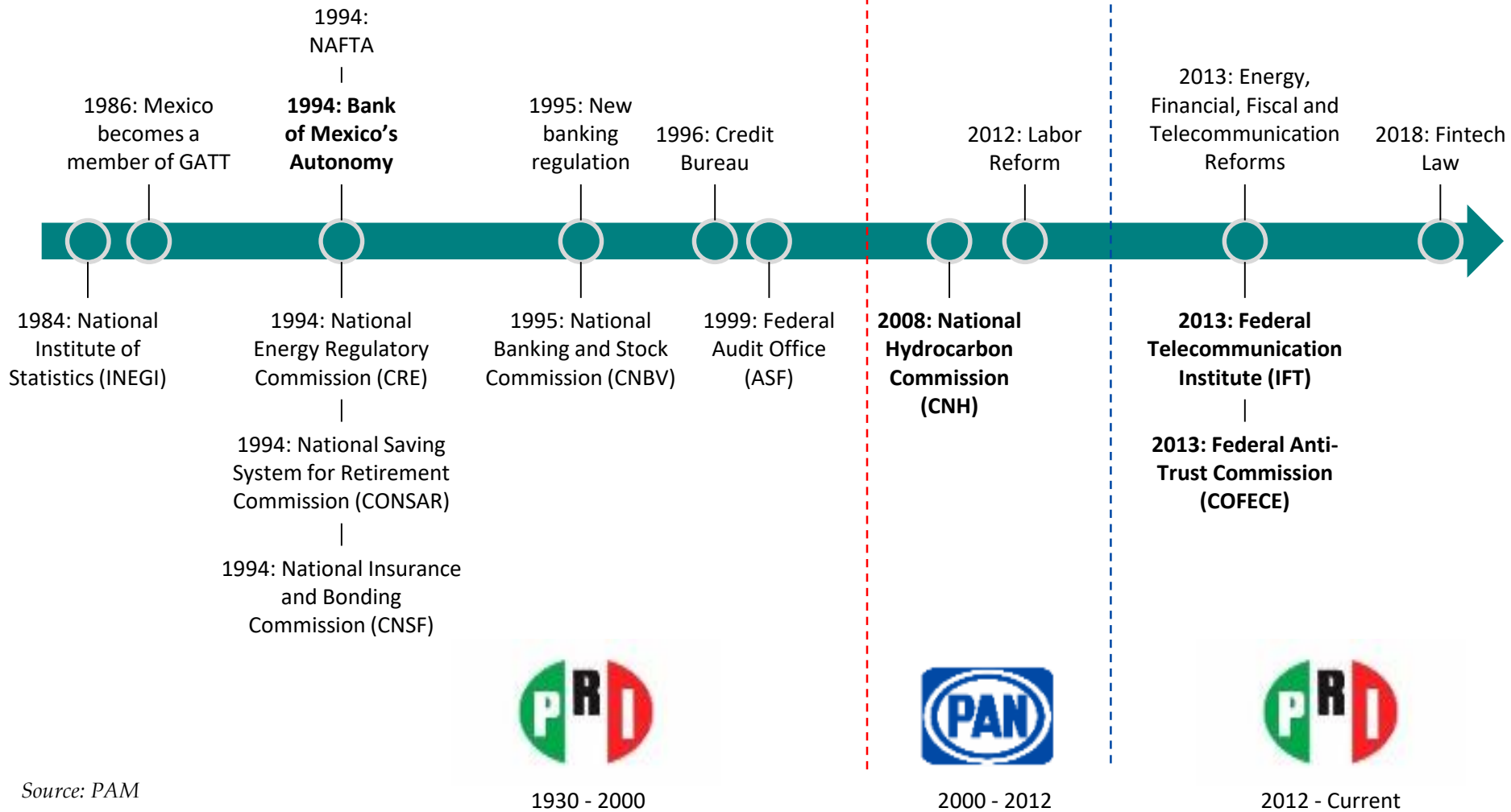
Last Update:  
May 31, 2018

Source: PAM



# Independent Government Agencies and Institutions

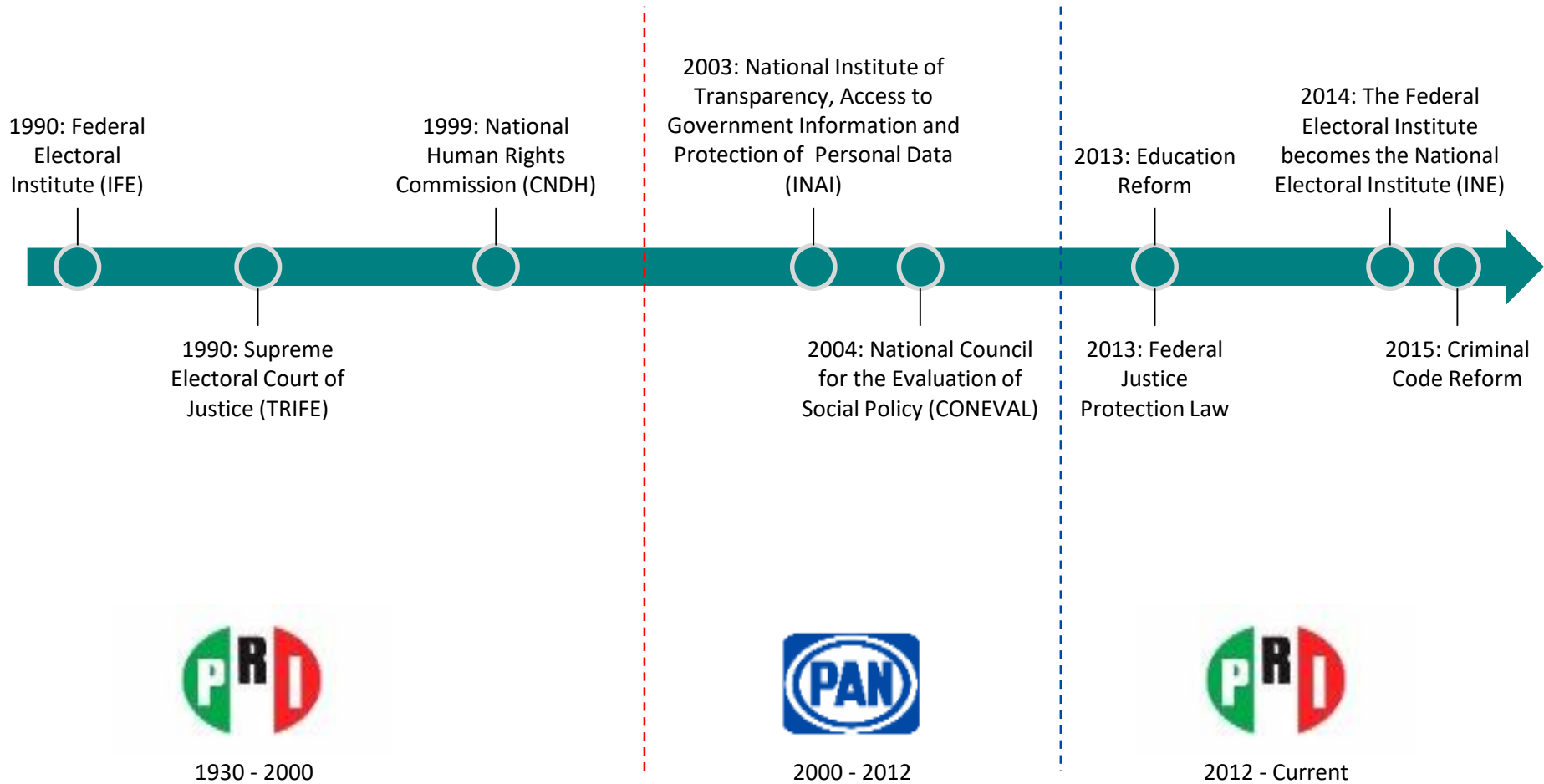
## Economic and Financial



Source: PAM

# Independent Government Agencies and Institutions

## Social and Political

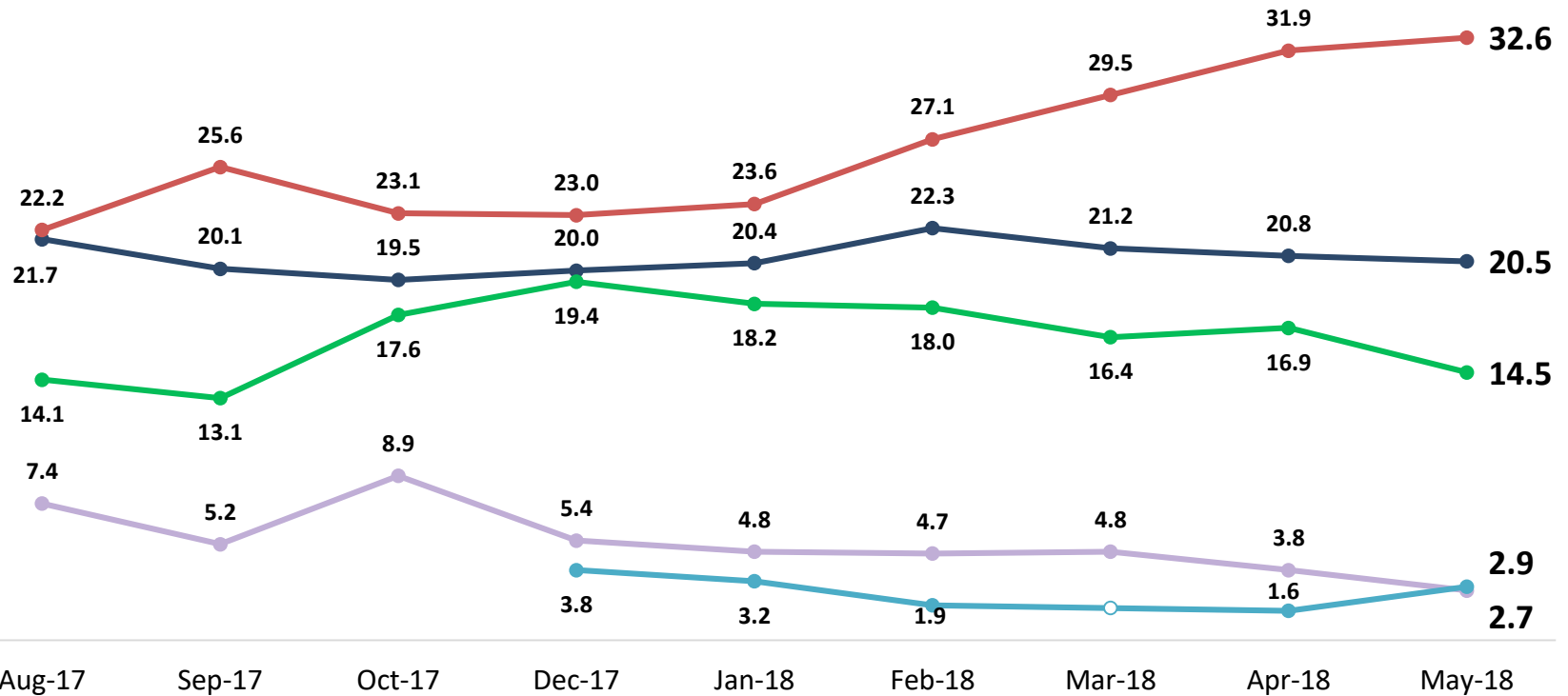


Source: PAM

## Coalition Party Voting Intention

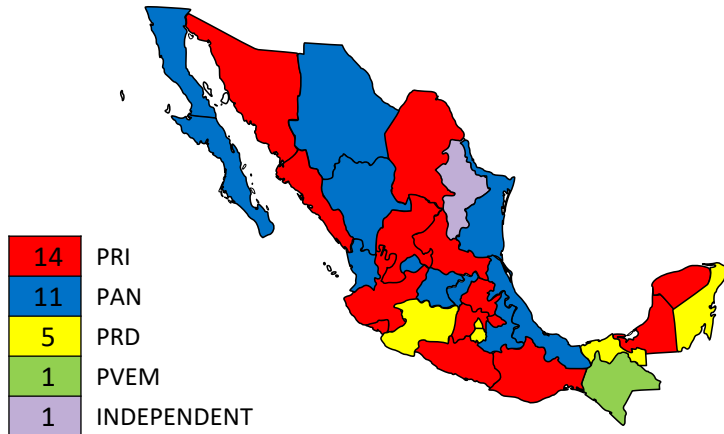
Number of respondents: 1,000

**May 2018**



Source: Consulta Mitofsky

## Current State Governors



## Composition Before Elections

Coalition	States
All for Mexico (PRI, PVEM, PANAL)	15
For Mexico at the Front (PAN, PRD, MC)	16
Together We'll Make History (MORENA, PES, PT)	0
Independent	1

## Possible State Governors



## Possible Composition After Elections

Coalition	States
All for Mexico (PRI, PVEM, PANAL)	13
For Mexico at the Front (PAN, PRD, MC)	13
Together We'll Make History (MORENA, PES, PT)	5
Independent	1

Source: Massive Caller, Grupo Reforma, Consulta Mitofsky, Arias Consultores

## Mexico's Senate Composition

Coalition	Political Parties	Before Elections		After Elections*	
		Senators	%	Senators	%
All for Mexico	PRI, PVEM, PANAL	62	48%	53	41%
For Mexico at the Front	PAN, PRD, MC	41	32%	44	34%
Together We'll Make History	MORENA, PES, PT	18	14%	27	21%
Independent		7	5%	4	3%
<b>TOTAL</b>		<b>128</b>	<b>100%</b>	<b>128</b>	<b>100%</b>

\* Calculated with the voting intention by coalition for the next election.

## Mexico's Chamber of Deputies Composition

Coalition	Political Parties	Before Elections		After Elections*	
		Deputies	%	Deputies	%
All for Mexico	PRI, PVEM, PANAL	255	54%	93	20%
For Mexico at the Front	PAN, PRD, MC	160	34%	130	28%
Together We'll Make History	MORENA, PES, PT	50	11%	210	45%
Independent		5	1%	36	8%
<b>TOTAL</b>		<b>470</b>	<b>100%</b>	<b>470</b>	<b>100%</b>

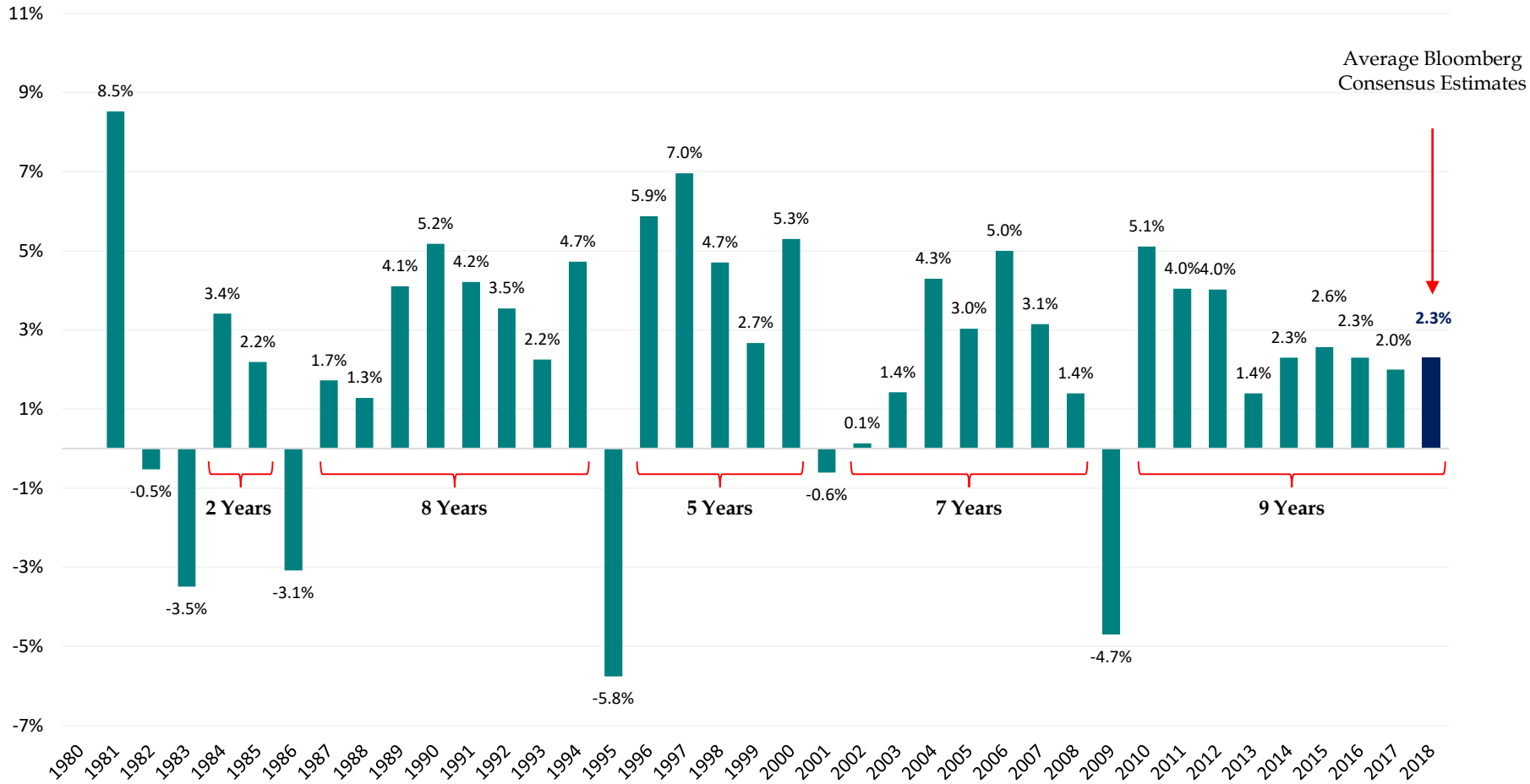
\* Calculated with the Consulta Mitosky voting intention by coalition.

Source. Mexican Senate and Congress

# Attachments

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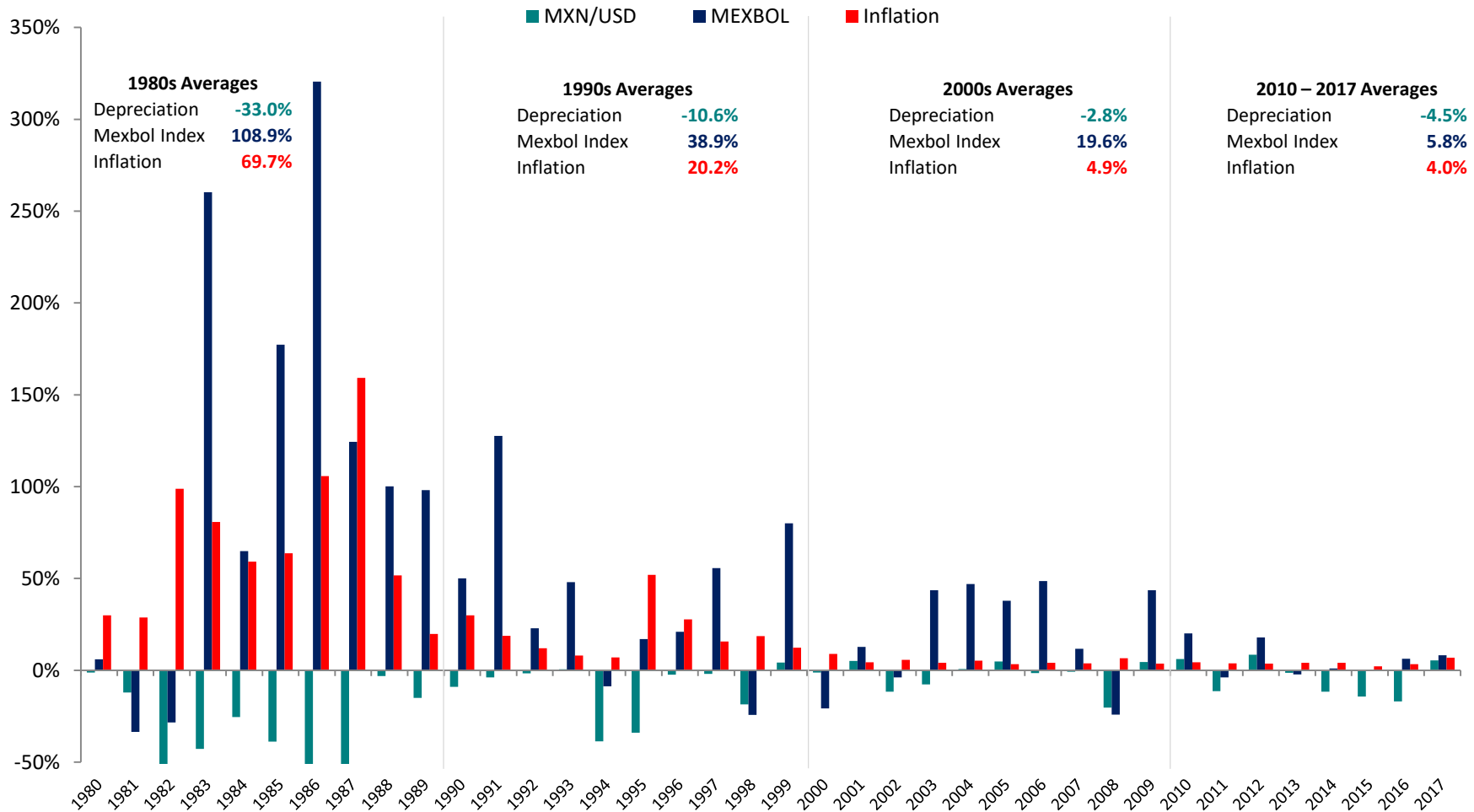
## Annual GDP Growth (Constant Prices)



Source: Bloomberg

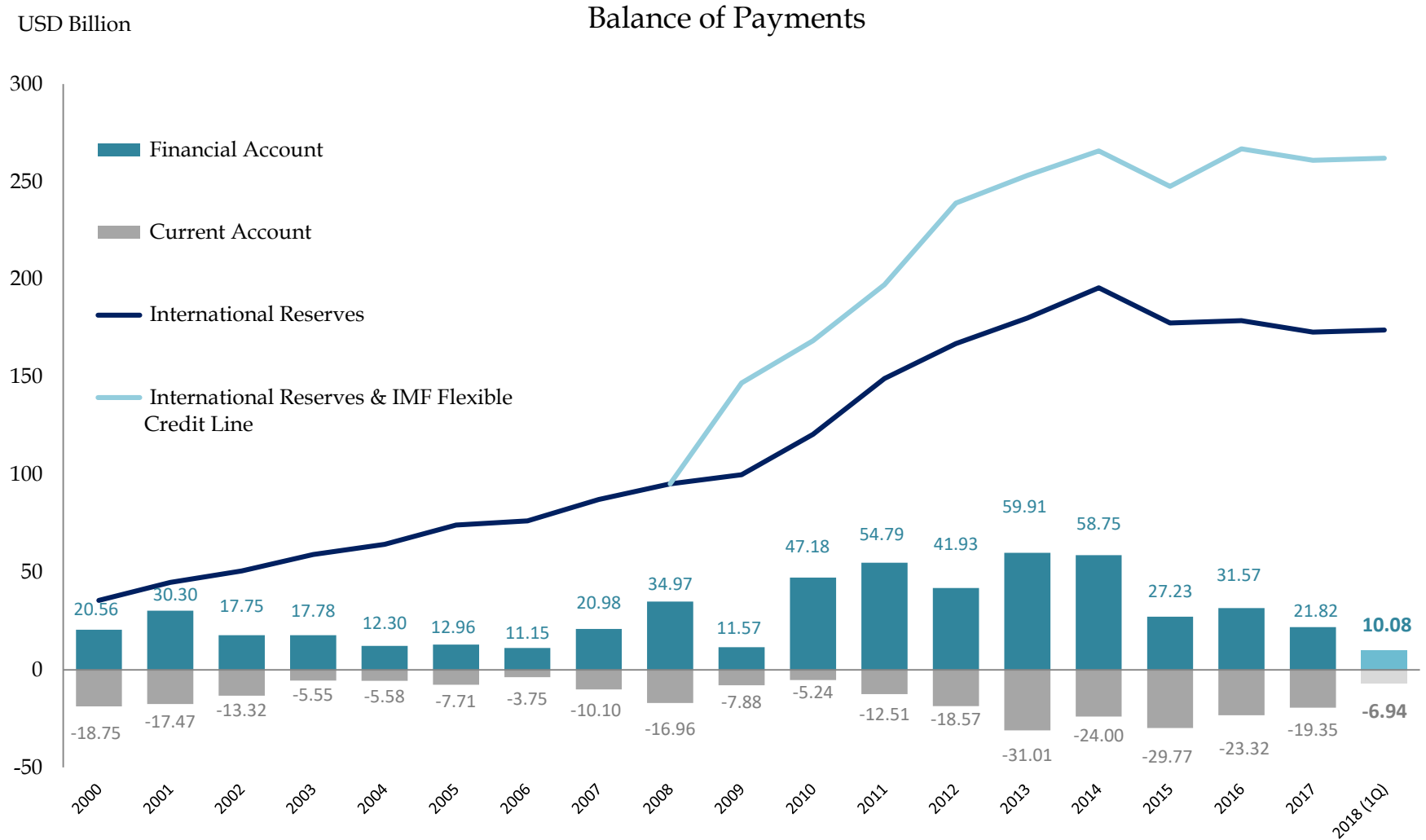
# Attachments

## Exchange Rate, Stock Market & Inflation



Source: Bloomberg



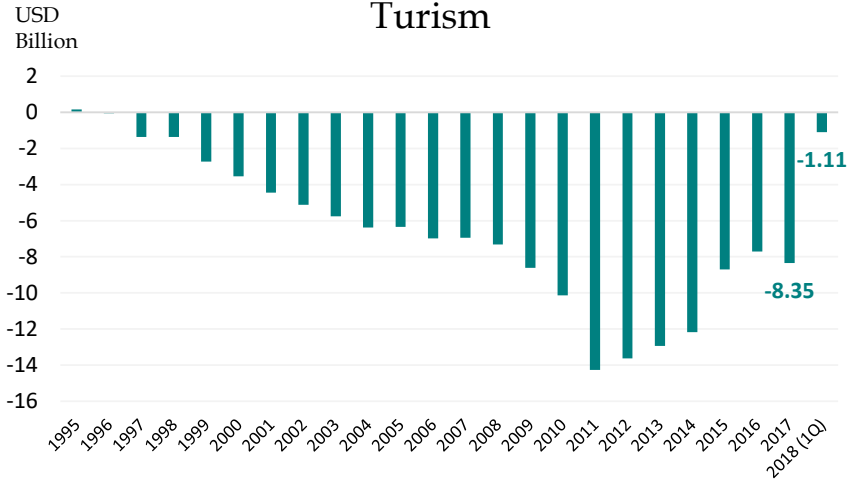


Source: Banxico

# Attachments

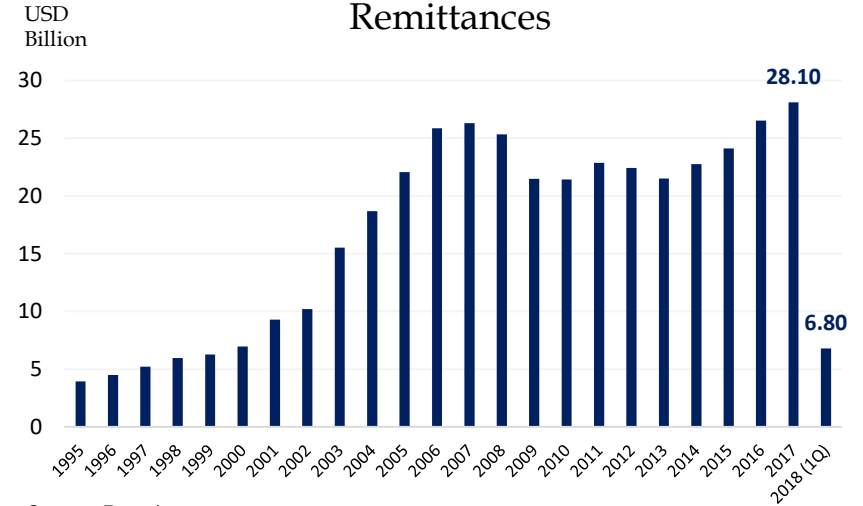
## Current Account Components

### Turism



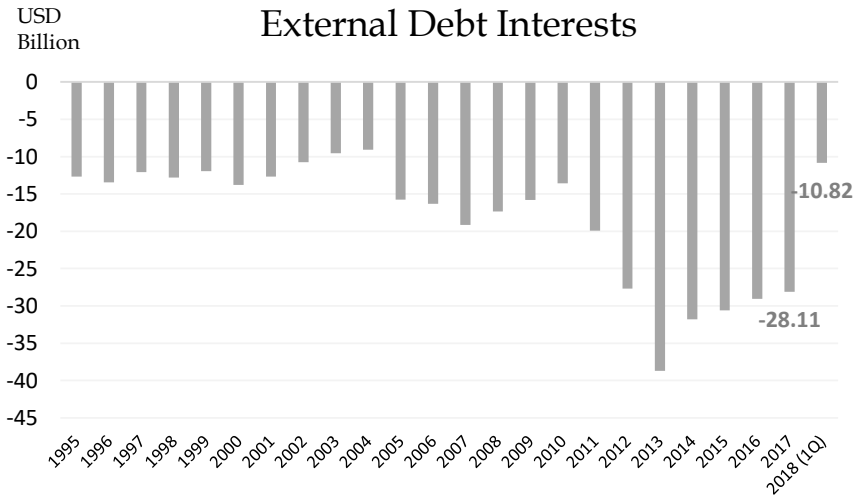
Source: Banxico

### Remittances



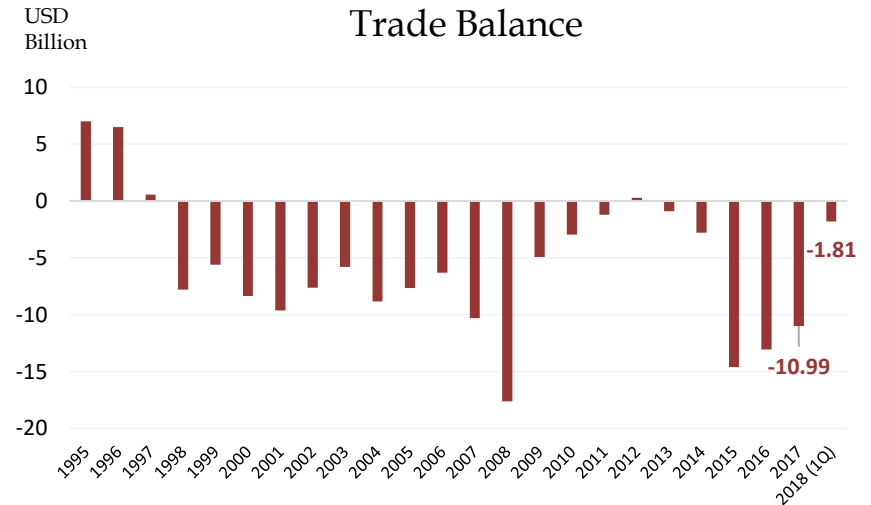
Source: Banxico

### External Debt Interests



Source: Banxico

### Trade Balance



Source: Banxico

## Trade Patterns with the U.S. & External Accounts

### United States International Trade (to Dec 2017)

Country	Exports	Imports	Total Trade	Balance	Country	Exports	Imports	Total Trade	Balance
China	130,370	505,597	635,967	-375,227	Taiwan	25,754	42,492	68,246.0	-16,738
% of Total	8.4%	21.6%	16.4%		% of Total	1.7%	1.8%	1.8%	
Mexico	242,989	314,045	557,034	-71,056	France	33,582	48,888	82,470	-15,306
% of Total	15.7%	13.4%	14.3%		% of Total	2.2%	2.1%	2.1%	
Japan	67,696	136,544	204,240	-68,848	Saudi Arabia	16,261	18,866	35,127	-2,605
% of Total	4.4%	5.8%	5.3%		% of Total	1.1%	0.8%	0.9%	
Germany	53,493	117,745	171,238	-64,252	United Kingdom	56,329	53,075	109,404	3,254
% of Total	3.5%	5.0%	4.4%		% of Total	3.6%	2.3%	2.8%	
Italy	18,323	49,963	68,286	-31,640	Brazil	37,077	29,427	66,504	7,650
% of Total	1.2%	2.1%	1.8%		% of Total	2.4%	1.3%	1.7%	
Canada	282,392	299,975	582,367	-17,583	Singapore	29,753	19,397	49,150	10,356
% of Total	18.3%	12.8%	15.0%		% of Total	1.9%	0.8%	1.3%	
India	25,700	48,631	74,331	-22,931	Hong Kong	40,024	7,554	47,578	32,470
% of Total	1.7%	2.1%	1.9%		% of Total	2.6%	0.3%	1.2%	
Korea, South	48,277	71,164	119,441	-22,887	All other countries	438,634	579,542	1,018,176	-140,908
% of Total	3.1%	3.0%	3.1%		% of Total	28.4%	24.7%	26.2%	
					<b>TOTAL 2017</b>	<b>1,546,654</b>	<b>2,342,905</b>	<b>3,889,559</b>	<b>-796,251</b>
					<b>TOTAL 2016</b>	<b>1,454,586</b>	<b>2,189,183</b>	<b>3,643,769</b>	<b>-734,597</b>

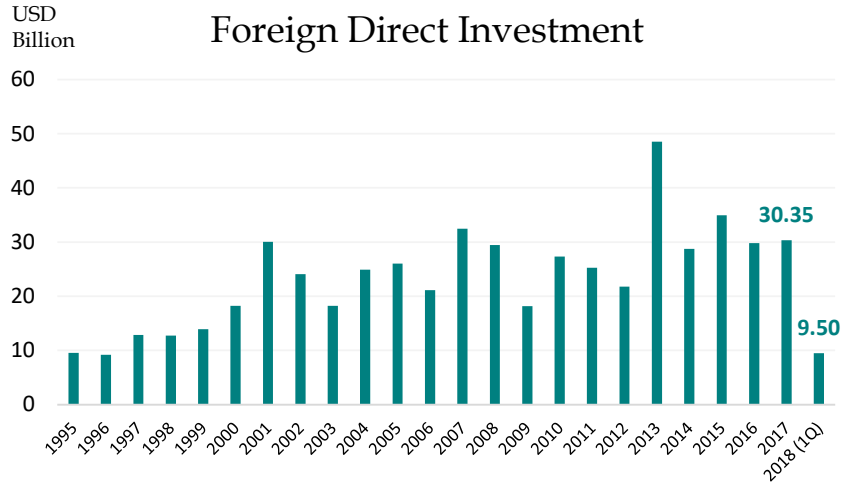
Source: U.S. Census Bureau

Amounts in millions of dollars

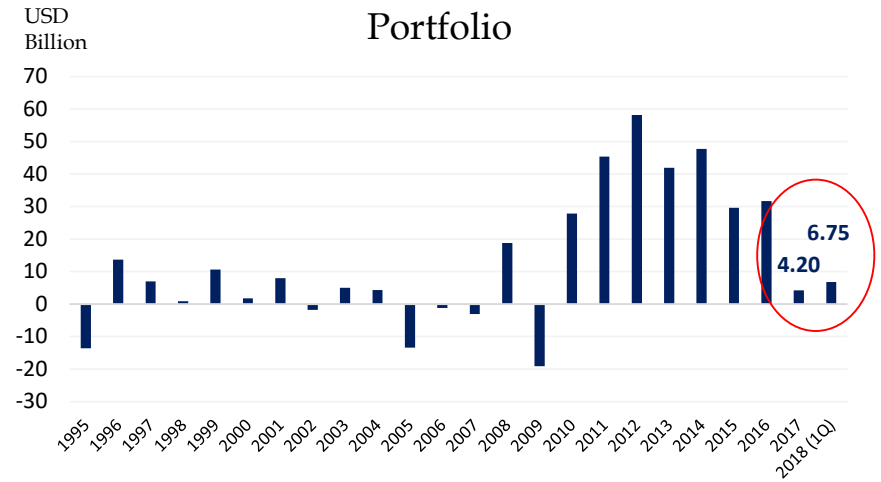
	Exports	Imports	Total Trade	Balance
<b>Mexico 2016</b>	230,959	294,151	525,110	-63,192
<b>Mexico 2017</b>	242,989	314,045	557,034	-71,056
<b>Mexico Accum 2018 (Apr)</b>	87,901	112,536	200,437	-24,635

# Attachments

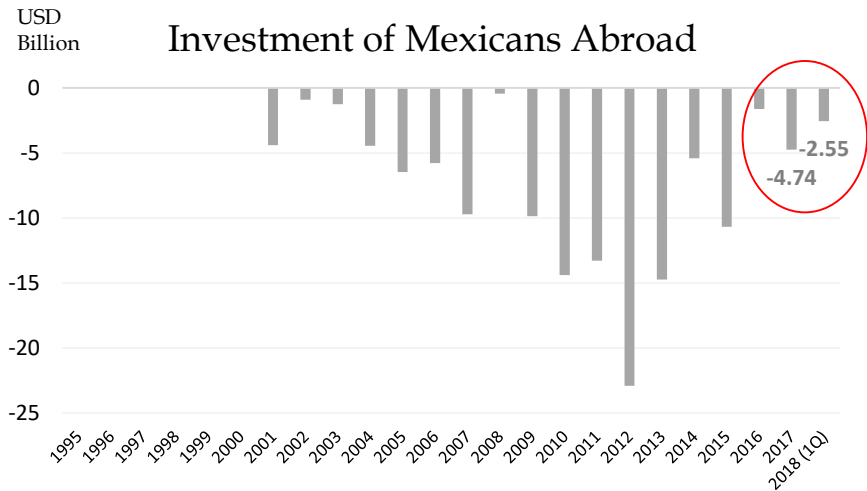
## Financial Account Components



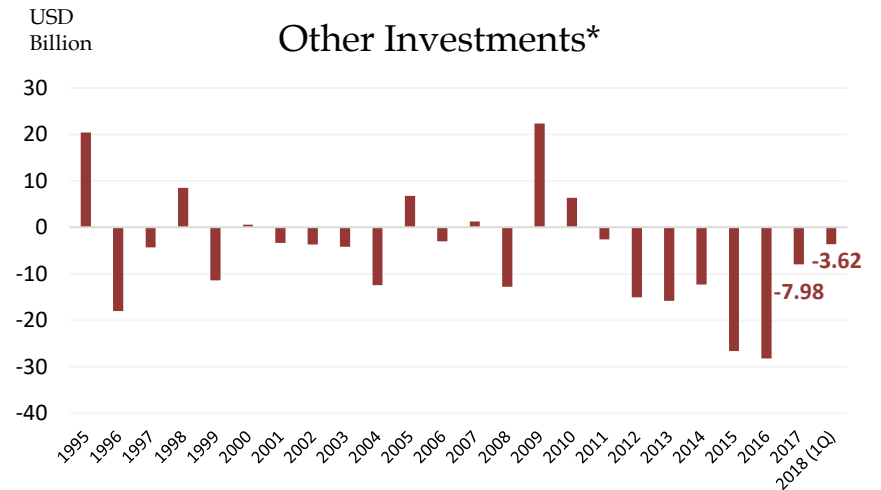
Source: Banxico



Source: Banxico



Source: Banxico



Source: Banxico

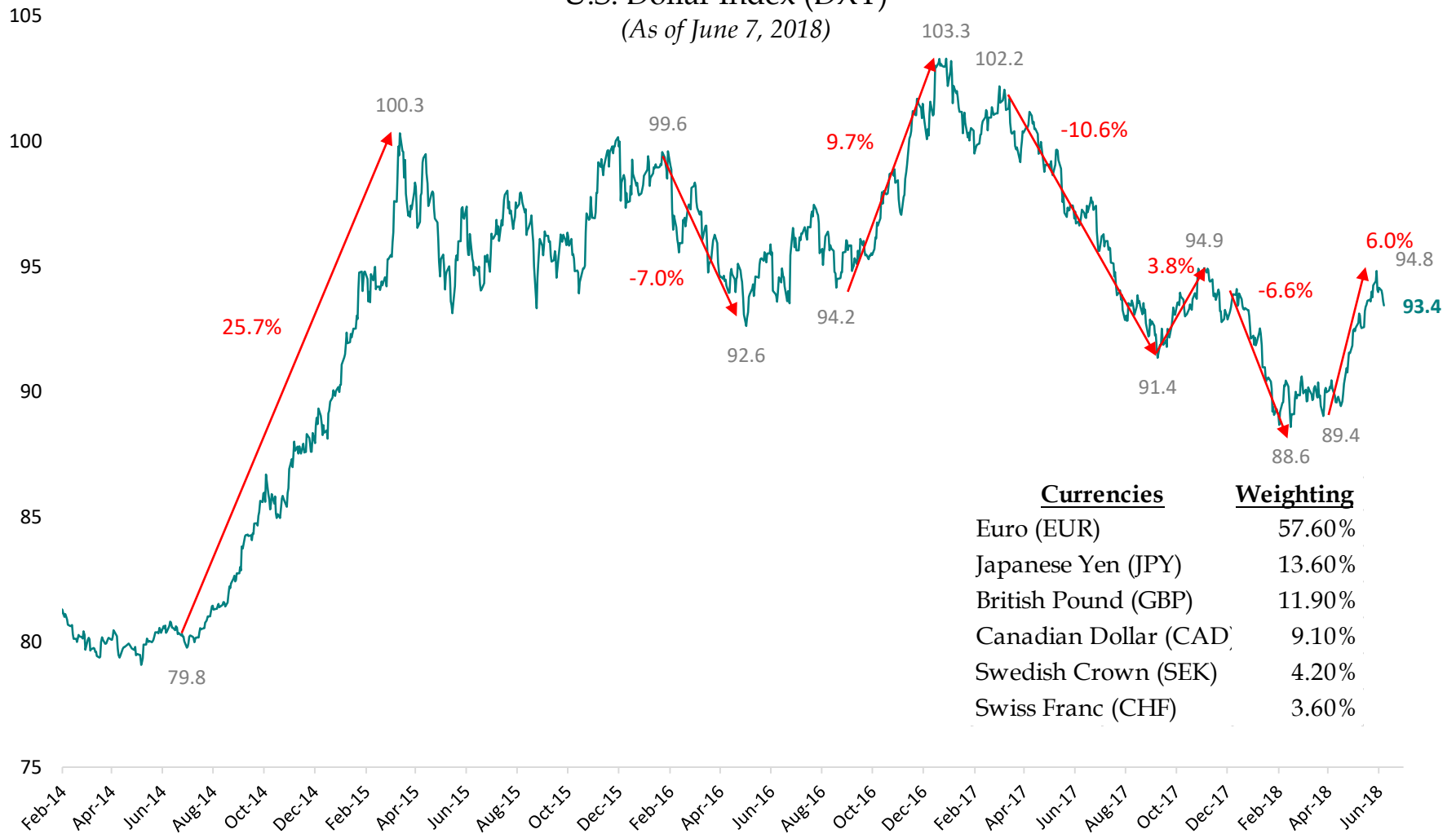
## 10-Year Treasury Bond Yield (As of June 7, 2018)



Source: Bloomberg

# Attachments

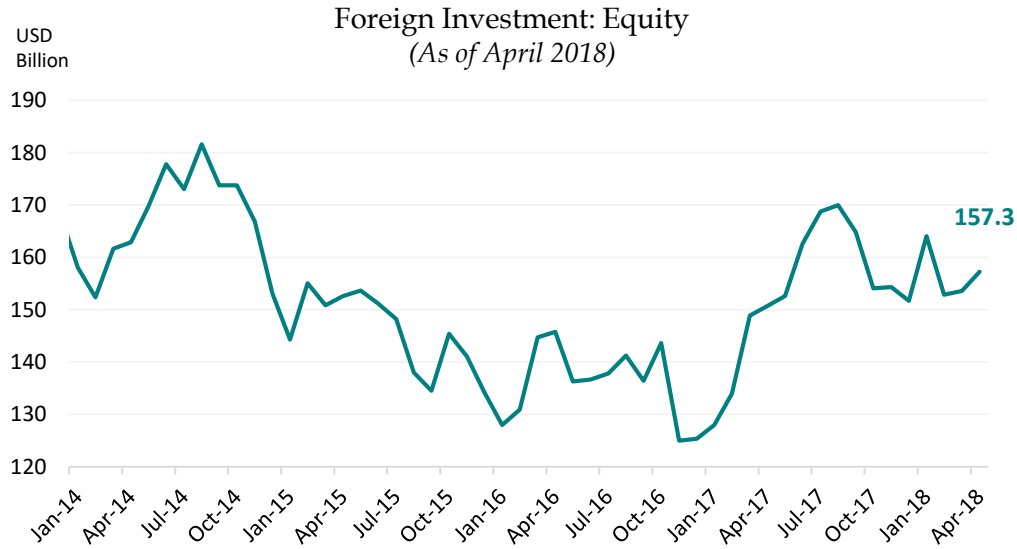
**U.S. Dollar Index (DXY)**  
(As of June 7, 2018)



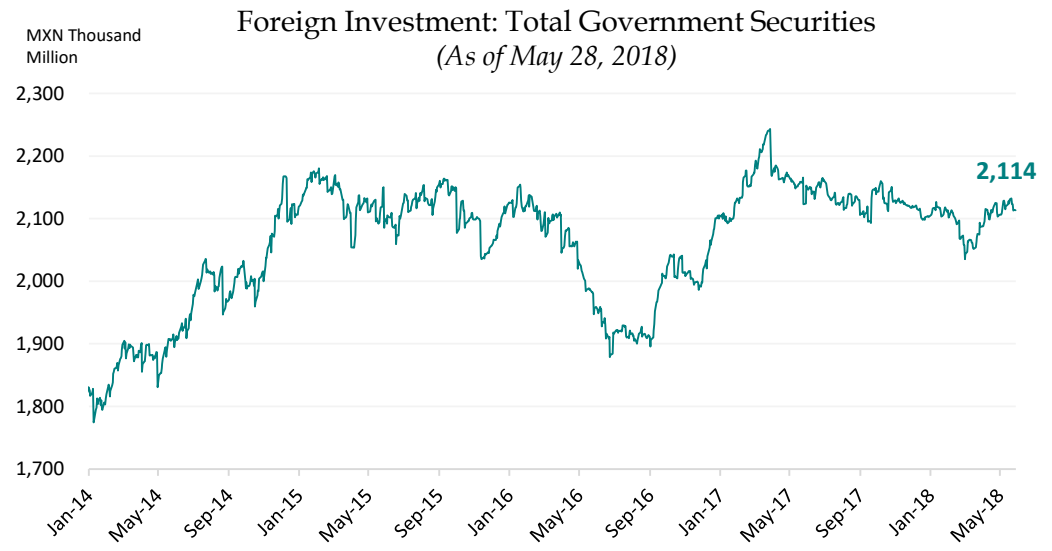
<u>Currencies</u>	<u>Weighting</u>
Euro (EUR)	57.60%
Japanese Yen (JPY)	13.60%
British Pound (GBP)	11.90%
Canadian Dollar (CAD)	9.10%
Swedish Crown (SEK)	4.20%
Swiss Franc (CHF)	3.60%

Source: Bloomberg

# Attachments



Source: Banxico



Source: Banxico

## Year-To-Date Total Returns (As of June 7, 2018)

INDEX	Mexico VS US					
	Dividends reinvested in the index					
	Local			USD		
	2017	2018	June	2017	2018	June
Dow Jones	28.1%	3.2%	3.4%	28.1%	3.2%	3.4%
S&P 500	21.8%	4.5%	2.4%	21.8%	4.5%	2.4%
NASDAQ	29.7%	11.2%	2.6%	29.7%	11.2%	2.6%
<b>Mexico</b>	<b>10.1%</b>	<b>-6.9%</b>	<b>2.2%</b>	<b>15.4%</b>	<b>-10.6%</b>	<b>-0.4%</b>

INDEX	Mexico VS LATAM					
	Dividends reinvested in the index					
	Local			USD		
	2017	2018	June	2017	2018	June
Argentina	77.7%	0.4%	5.7%	51.9%	-25.2%	5.6%
Brazil	26.9%	-3.3%	-3.8%	24.7%	-18.8%	-8.8%
Chile	34.0%	-1.7%	0.2%	46.0%	-4.2%	0.3%
Peru	28.3%	6.3%	2.0%	32.7%	5.7%	2.4%
Colombia	14.8%	3.3%	0.2%	15.4%	8.8%	2.0%
<b>Mexico</b>	<b>10.1%</b>	<b>-6.9%</b>	<b>2.2%</b>	<b>15.4%</b>	<b>-10.6%</b>	<b>-0.4%</b>

INDEX	Mexico VS Europe					
	Dividends reinvested in the index					
	Local			USD		
	2017	2018	June	2017	2018	June
Italy	16.9%	1.5%	-0.1%	33.3%	-0.3%	1.1%
Spain	11.3%	-0.7%	3.9%	26.8%	-2.5%	5.1%
France	12.5%	5.0%	1.1%	28.3%	3.1%	2.3%
Germany	12.5%	-0.8%	1.6%	28.2%	-2.6%	2.8%
Switzerland	17.9%	-5.8%	1.1%	23.2%	-6.6%	1.4%
U.K	12.0%	2.4%	0.5%	22.6%	1.5%	1.4%
Russia	-0.1%	10.3%	0.8%	6.2%	1.8%	0.7%
<b>Mexico</b>	<b>10.1%</b>	<b>-6.9%</b>	<b>2.2%</b>	<b>15.4%</b>	<b>-10.6%</b>	<b>-0.4%</b>

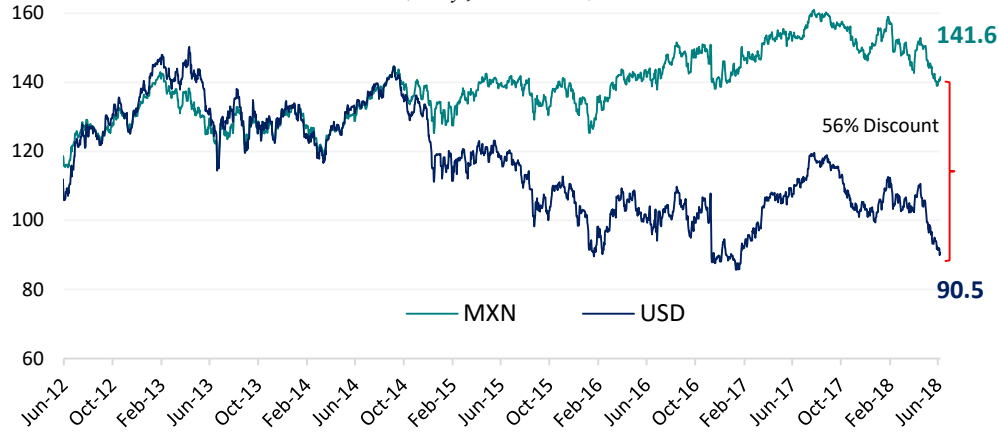
INDEX	Mexico VS Asia					
	Dividends reinvested in the index					
	Local			USD		
	2017	2018	June	2017	2018	June
China	24.3%	-4.5%	0.9%	32.5%	-2.8%	1.3%
India	29.6%	4.6%	0.4%	37.9%	-1.0%	0.3%
Indonesia	22.5%	-2.3%	2.2%	22.0%	-4.7%	2.1%
Japan	22.2%	-0.6%	2.4%	26.6%	2.0%	1.4%
South Korea	28.5%	-1.0%	2.5%	44.7%	-1.1%	3.4%
<b>Mexico</b>	<b>10.1%</b>	<b>-6.9%</b>	<b>2.2%</b>	<b>15.4%</b>	<b>-10.6%</b>	<b>-0.4%</b>

Source: Bloomberg



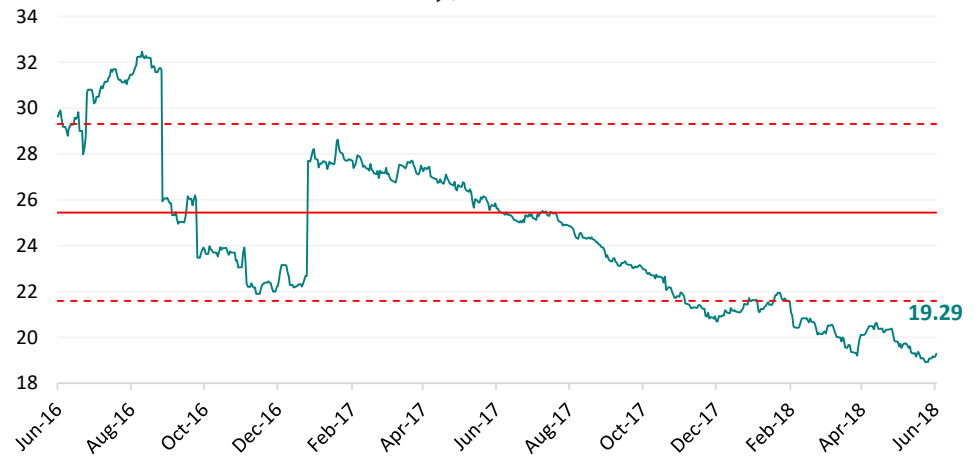
# Attachments

Mexbol Index  
Base = 100  
(As of June 7, 2018)



Source: Bloomberg

MEXBOL P/E  
(As of June 7, 2018)



Source: Bloomberg

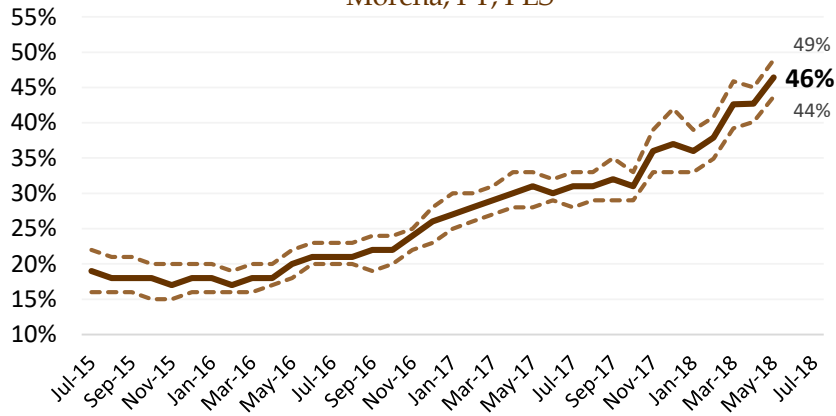
# Attachments

## Candidate Voting Intention

Last Update:  
May 31, 2018

### A.M. López Obrador

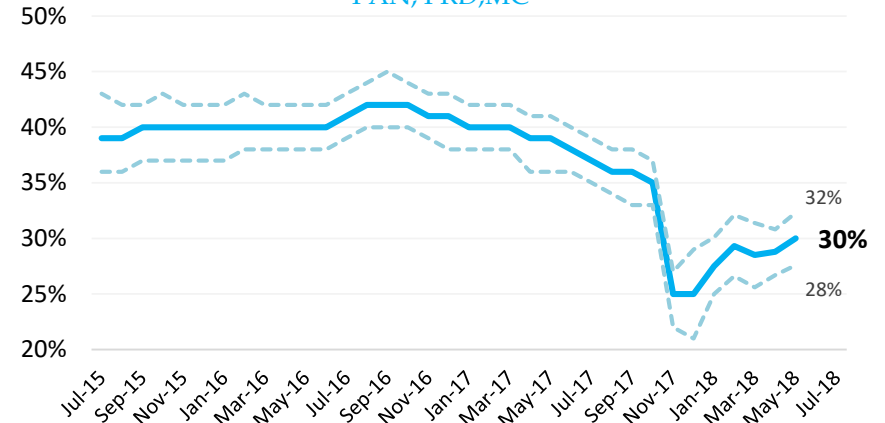
Morena, PT, PES



Source: Oraculus

### Ricardo Anaya

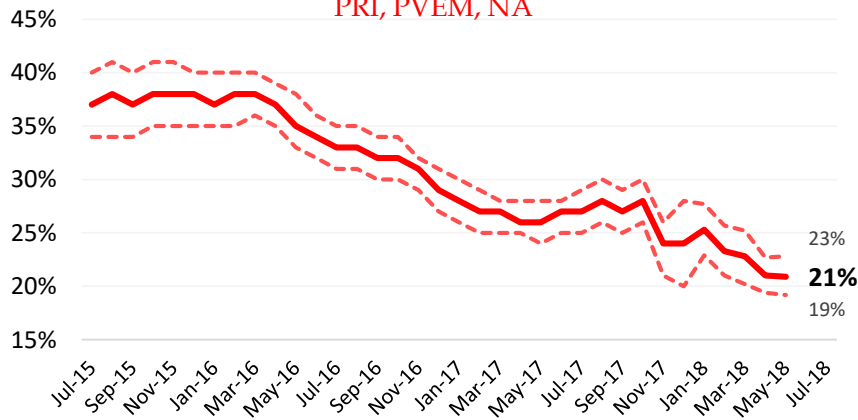
PAN, PRD, MC



Source: Oraculus

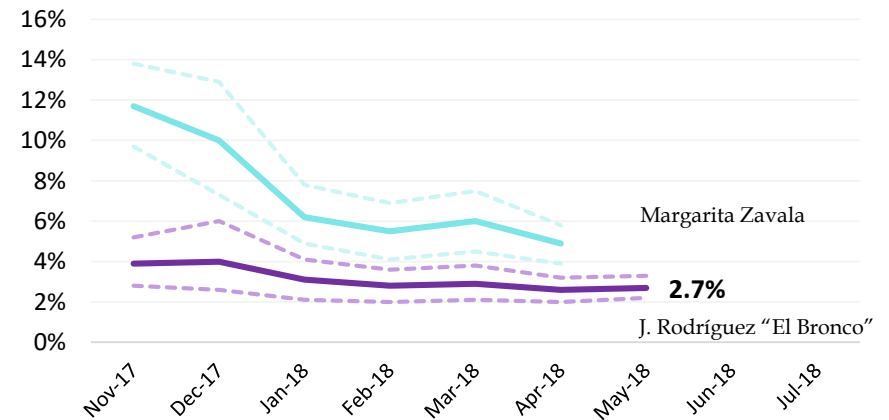
### J. Antonio Meade

PRI, PVEM, NA



Source: Oraculus

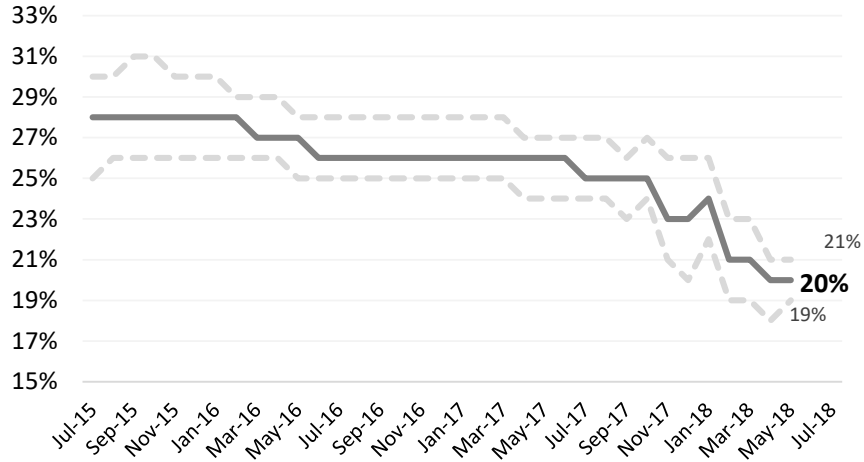
### Independents



Source: Oraculus

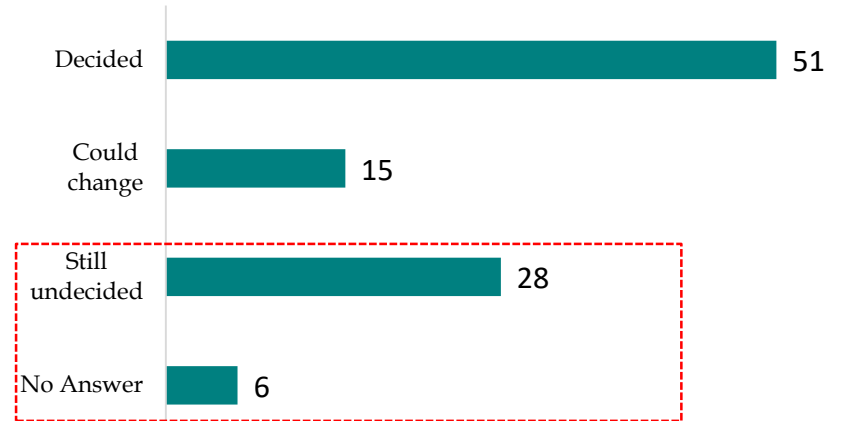
# Political Outlook

## Undefined



Source: Oraculus

## Voting Decision



Source: El Financiero

# PAM's Contact Information

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