

For SGG's Ushuaia Investment, Timing Is Everything

by Lore Lawrence



For Stern Gold Group (SGG) Director Dan Baker, opportunity is far more than an interesting pitch that comes along: it's a matter of knowing who to back and when to invest. Two years ago, when his team was scouting countries and pipelines for sustainable investments, Ushuaia Capital Partners, a new Argentine firm, stood out.

"We spent a lot of time with Ushuaia to assess whether they had what it takes to be a value-added investor in the South American context," said Baker. "It's critical for us to back managers that we feel have the necessary insight and nimbleness to operate in promising markets and also helm a strong, cohesive team."

Started by a small network of Latin America-based investors, it took two years for Ushuaia to get to a point where they were fundraising. The fund needed to show that they had strong management, an executable strategy, and a dedicated team that would stay together.

Sustainable investment has been pouring into Latin America in recent years. The region has a thriving renewables energy market and has also been the recipient of some climate-related investments. But political risks and an uncertain regulatory environment across countries has kept many investors hesitating or out altogether. Ushuaia wanted to raise funds to invest in SMEs in the climate industry, or those SMEs which incorporated green standards. And although Baker and his team had been looking to enter the South American renewables market, the management and timing had to be right.

That team — SGG Vice President Grace Johnson, Senior Associates Steve Handelman and Karin Garcia, Associate Egon Harket, and Analysts Joshua Lewis and Tim Finegan — had the extraordinary task of assessing the macro environment, conducting due diligence, and building a relationship with the new firm over time to determine if Ushuaia would be a strong partner.

As Johnson noted, "A key challenge was Ushuaia being a first-time fund manager with a limited track record operating in a politically uncertain private equity ecosystem. While individuals on the Ushuaia side had requisite networks, investment, and operations experience to originate and value the deals, as well as several having private equity experience, it was the first time they were working together as a team."

Though Ushuaia was formed in 2018, its first fund did not have a closing until August 2019. SGG has committed \$22 million so far and the fund is expected to raise as much as \$400 million from global investors.

When it comes to private equity, staying power is especially important in Latin America due to political and macroeconomic challenges. Low liquidity remains a challenge, which when coupled with transparency issues, often creates barriers to foreign investment. Knowing your partner becomes critical. Yet, in little over a year, Ushuaia proved it was ready.

So in 2019, things started happening: the macro conditions in Latin America had improved and Ushuaia had come up with a strategy that met the criteria of SGG's Renewables Investment Program.

Once Ushuaia had met the required criteria, SGG swiftly invested. Both the funding and infrastructure was in place when the pandemic hit, allowing Ushuaia to invest during a critical time.

There was a lot of upfront time and effort to reach that point but the preparatory steps were necessary. As Baker puts it, "If in the process you can create a firm that is successful in establishing a team and putting its first fund to work, then it will be well placed to raise the next round and back another 10-15 companies. That success attracts other competitors who want to do the same thing. And that's the way to build PE ecosystems."

"SGG also now has a partner that knows how to work with these SMEs. We need these partners to get capital to these companies and leverage SGG's presence in these types of challenging markets," added Baker.

Ushuaia is at the beginning of its journey. But if it's successful, SGG will have helped create an intermediary that can expand SGG's reach. Time will tell – but timing is everything.