

Legal Update

Development Trust Certificates (CKDs)

Development trust certificates (*certificados bursátiles fiduciarios de desarrollo*) ("CKDs") are a type of financial instrument initially issued by a Mexican trust and publicly placed in the Mexican market via a public offering. CKDs grant their holders an equity stake over an investment fund generally composed of a diversified asset portfolio and should not be confused with bonds (*certificados bursátiles directos*) or trust certificates issued in the context of a financing transaction (the latter grant their holders the right to collect principal and interest, whereas CKDs only grant the right to participate on the return of investments that, due to their nature, represent a higher level of risk for investors). CKDs emerged in Mexico in the 2000s to provide an alternative for certain institutional investors with restrictive investment regimes that would allow them to have direct exposure to productive assets focused on development.

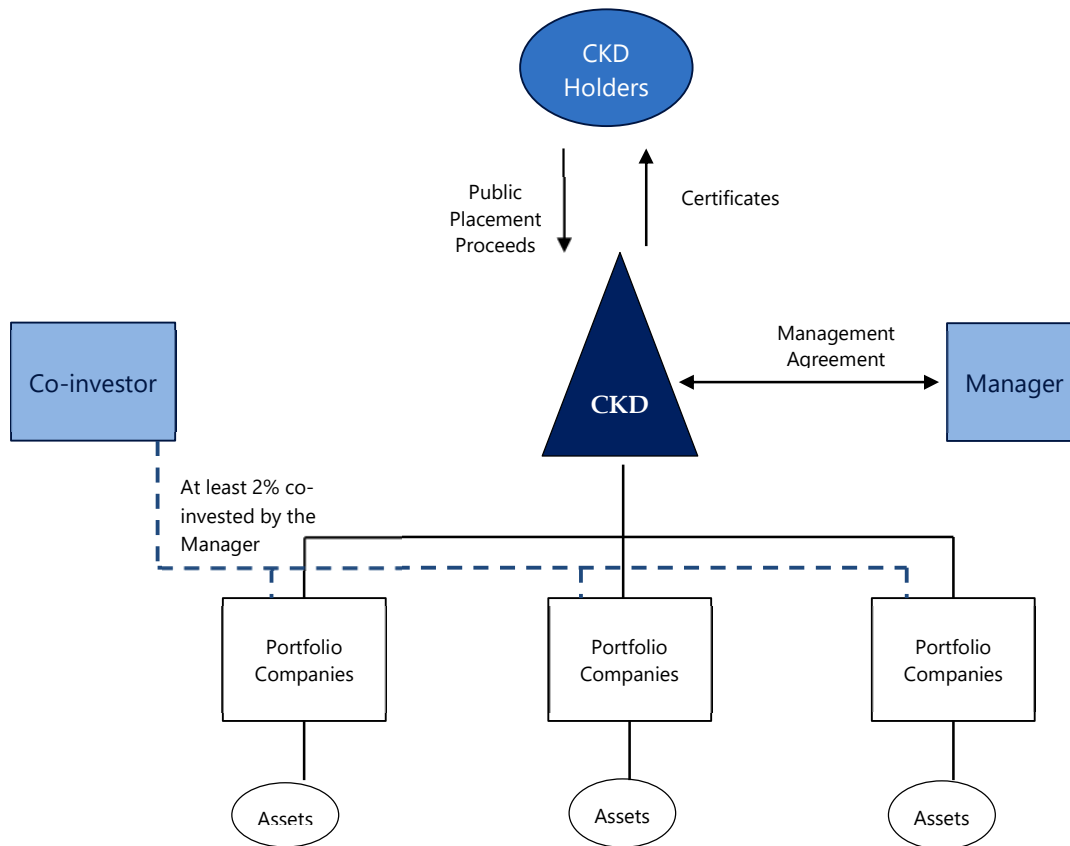
CKDs channel resources mainly from institutional and qualified investors to growth sectors and activities (*e.g.*, infrastructure, energy, real estate, private equity) through investment in equity or financing of Mexican companies. The returns paid by CKDs derive not from the payment of principal or interest (since they are not debt instruments) but from the performance of the underlying assets. Accordingly, each CKD unit represents a portion of the underlying fund (represented in a trust right).

There are several reasons why CKDs have gained popularity in recent years. Some of the most important reasons include:

- They allow investors to participate in the performance of a fund without having to worry about the management of the fund.
- They enable investors to access a wider variety of assets with a relatively small investment.
- They provide greater risk diversification since the performance of the CKDs depends on the performance of the asset portfolio subjacent to the CKD trust, not on a single asset.
- They are a regulated investment product subject to compliance with securities laws and regulations (*e.g.*, periodic reporting obligations, robust corporate governance, etc.).

Generally, the trusts are structured as "blind-pools," that is, at the time of initial issuance, they have no assets or investments. Also, CKD issuances are typically structured under a capital call mechanism, under which the issuers may exercise the option to require the CKD holders, subsequent to the CKD's initial funding, to make additional capital contributions to the trust's equity.

CKDs Typical Structure



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