



Opalesque Round Table Series '13 BRAZIL

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Editor's Note

Brazilian high net-worth and institutions set to invest into alternatives, and offshore

The last five years saw large interest toward investing in the Brazilian markets from foreigners and local clients alike. Brazil was a hot spot. The driver was the foreign money that was created in the past decade coming into the country in search of high interest rates. But recently, things have changed drastically. The offshore environment is slowly improving, with signs that foreign economies are moving away from their darkest periods. Meanwhile in Brazil we are seeing the opposite, as conditions are worsening. The Brazilian government's mismanagement of its creditworthiness, the strengthening of the dollar, and the moves of FX rates this year against the Brazilian real, are all converging to **push Brazilians to the awareness that they should now diversify to offshore markets**. Some local wealth advisers recommend to put 30 to 50% of assets into investments domiciled offshore instruments for the next 12-24 months.

The **pension fund industry in Brazil** has around \$500bn under management. On top of that comes the PPS sector, which are state and municipalities pension schemes. Brazilian real rates will be much lower than they were for the previous 25 through 40 years. The pensions' actuarial targets will not be fully achieved by continuing to invest in plain vanilla fixed income funds or buying government bonds directly, which is basically what those pension funds did for 40 years.

Currently, pension plans can allocate up to 10% of their portfolio into hedge funds. They can choose products that have been discussed here today, like Multi-Mercado, and they also have an additional 3% which is completely open. Now is a very important time for those institutional investors, and they need help. The Multi-Mercado funds, the Brazilian equivalent of hedge funds, are gaining a lot of attention now, but we are just at the tip of the iceberg for inflows into those. Most investors are still trying to understand what they should do about investing abroad.

The case for active management

Simultaneously, international investors have become more skeptical of investing in Brazil – in the earlier part of 2013, inflows into the Bovespa and Brazilian credit have come to a halt and outflows have continued. However more recently, rates have returned to a more attractive point, bringing foreigners back in the game a little bit, especially in fixed income more than in equities. While conditions are considered to be challenging for some time, they are not seen as catastrophic, and Brazil will still offer sound opportunities. The country has a deep financial market with very strong institutions, and, according to the participants of this Roundtable, still offers good **investment opportunities in infrastructure, healthcare, education, and credit**.

A lot of flows still go towards Brazil ETFs and other “very inefficient” vehicles. The Bovespa is an index that is weighted by liquidity and market cap, so it has the problem of always having a large weight on companies that represented the last decade. Petrobras, Vale, and banks and steel producers account for almost 50% of the index, but they won't represent the part of Brazil that has grown with a lot of interesting dynamics in the last few years.

Pensions investing in passive index funds missed a lot of those smaller stocks and many of the opportunities in high growth companies, and underperformed significantly in the last few years. Foreign investors tend to like the story of a local Warren Buffett who will buy into a company and stay invested for 20 years. But in Brazil, that approach makes no sense. The long term track records show that those money managers underperform. For example, Quest, represented in this Roundtable, has for nine years managed to beat the market by a significant margin: **505% net versus a 102% return from the Bovespa** during that same time period. This shows how much value a local Brazilian manager can add to the portfolios of institutional investors.

The Opalesque 2013 Brazil Roundtable was sponsored by Litwak & Partners and Eurex, and took place in October 2013 in Sao Paulo with:

1. George Wachsmann, [Partner, GPS Investments](#)
2. Martin Litwak, [Founder, Litwak & Partners](#)
3. Nathan Shor, [Co-Founder, Galloway Capital](#)
4. Thalius Hecksher, [Global Managing Director of Business Development, Apex Fund Services](#)
5. Wagner Murgel, [Founding Partner, NEO Investimentos](#)
6. Walter Maciel, [CEO, Quest Investimentos](#)

The group also discussed:

- Why Brazil and perhaps Chile are the only countries in South America where people tend to invest their money first in their own country's markets
- Which offshore structures are starting to become more popular within the Brazilian market
- What is a "Corralito-type" regulation?
- The discrepancies between the local and offshore Brazilian bond markets
- An analysis of political risk in Latin America

Enjoy!

Greg de Spoelberch

Participant Profiles



(LEFT TO RIGHT)

Nathan Shor, Wagner Murgel, Walter Maciel, Thalius Hecksher, Martin Litwak, George Wachsmann, Greg de Spoelberch.

Introduction

George Wachsmann
GPS Investments

I am George Wachsmann, a Partner with GPS Investments. We are the largest independent wealth manager in Latin America, currently managing 16bn Brazilian reais for about 500 families. Since 1999 we advise clients in both their local and offshore portfolios.

Nathan Shor
Galloway Capital

My name is Nathan Shor. I am one of the Founders of Galloway Capital. We are a global emerging market fixed income asset management house, and we specialize in high yield debt. We currently manage around \$440m. Today we are invested in 23 countries with a team of 13 people.

Martin Litwak
Litwak & Partners

I am Martin Litwak, the founder of Litwak & Partners. I am a lawyer graduated in Argentina and admitted to practice not only there but more importantly in the United Kingdom and the British Virgin Islands. Litwak & Partners is an offshore law firm that specializes in Latin America. We established our firm to provide clients with an alternative to the typical major Anglo-Saxon law firms which are headquartered in the Cayman Islands and the British Virgin Islands.

The advantage of this set up is that we are not the Latin American practice of a major law firm with just one or two lawyers active in the region. Rather, our full commitment is to LatAm. All of our clients are either based out of Latin America or doing business here. Brazil for us has always been a key region, along with countries like Argentina, Peru or Chile. In the U.S. we have a strong and loyal client base in Miami. In terms of areas of practice, we are highly specialised in funds and the establishment of other collective investment vehicles, private client and trusts and corporate finance and capital markets transactions. Over the years we have incorporated almost 350 offshore funds for our clients in the region, most of them based in the British Virgin Islands or the Cayman Islands. As we always say, when an offshore structure or transaction has a Latin American component we are probably best placed than any of our competitors to provide the legal advice that is needed.

Wagner Murgel
NEO Investimentos

My name is Wagner Murgel. I am a Founding Partner of NEO Investimentos, and currently act as both COO and CFO. NEO Investimentos is an alternative investment manager with a broad range of products that include hedge funds, private equity funds, long only funds, and real estate funds. We have around 1.5bn Brazilian reais under management.

Neo was created in 2003 by a team that came from JPMorgan. The team has been working together since the beginning of the 90s when we were part of Banco Patrimonio, a Solomon Brothers joint venture here in Brazil. The goal of the company was to put together the innovation, performance and agility of an independent investment company with the well-structured investment process, fiduciary culture and infrastructure that you usually find in large investment management firms.

The company is one of the few multi-product independent asset managers in Brazil and have been developing very innovative products both in hedge funds and private equity since its launch in 2003. As example of this innovation we can mention our multimercado funds that are focused on alpha generation rather than on pure beta play. Other example is that the company launched in 2006 the first mezzanine fund in Brazil.

Thalius Hecksher
Apex Fund Services

My name is Thalius Hecksher, I am the Global Managing Director of Business Development for Apex Fund Services. We are a worldwide provider of fund administration services. The core of our business services are the management of the back office, fund administration services, fund accountancy services, RTA, and shadow accounting services.

We now have \$30bn in assets under administration, representing about 400 managers and 850 funds. We have 33 offices globally, so we have a presence in all major financial jurisdictions. We

service clients in their local language, local time zone and local jurisdiction. In Latin America we have recently opened an office in Montevideo, Uruguay, which has allowed us to put a very strong footprint in the region.

Walter Maciel
Quest Investimentos

My name is Walter Maciel. I am the CEO at Quest Investimentos, an independent asset management company that was founded in 2001. We have 2.4bn Brazilian reais under management and have a solid long-term track record. Our investments are mainly in equities, split in four different strategies: long-only all cap, long only small cap, quasi-neutral long-short and long biased long short. Our team is comprised of 18 people who are directly involved with the investment process.



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George Wachsmann: The last five years saw large interest toward investing in the Brazilian markets from foreigners and local clients alike. Brazil was a hot spot. The driver was the foreign money that was created in the past decade coming into the country in search of high interest rates. At the same time, all developed markets were in the middle of the credit crisis. It was therefore almost impossible to convince local clients to diversify away from Brazil. Geographic diversification was a non-issue, and was not prioritized by Brazilian investors during that period. In a nutshell, foreign capital was flowing into the Brazilian market and locals were not investing offshore.

In the past year or so, things have changed drastically. The offshore environment is slowly improving, with signs that foreign economies are moving away from their darkest periods. Meanwhile in Brazil we are seeing the opposite, as conditions are worsening. Widespread perspectives for the local economy have become more pessimistic, with government credit losing investors' confidence and the fiscal outlook becoming more gloomy.

Because of this inverse relationship, we are seeing significant outflows of money among locals. The Brazilian government's mismanagement of its creditworthiness, the strengthening of the dollar, and the moves of FX rates this year against the Brazilian real, are all converging to push Brazilians to the awareness that they should now diversify to offshore markets. Simultaneously, the same factors are pushing away offshore clients or international clients. They are all the more skeptical of investing in Brazil now; this is an identifiable pattern we observed at the beginning of the year, as inflows into the Bovespa and Brazilian credit have come to a halt and outflows have continued.



Currently, rates have returned to a more attractive point, so in the past three months we have seen foreigners back in the game a little bit, especially in fixed income more than in equities.

We are focusing on these tactical short-term movements, in which the Central bank is influencing FX when you may have the option for tactical timing decisions on when to send money offshore, along with factors such as the debt ceiling influencing that decision when to tactically allocate. It is a tough challenge between onshore and offshore in the short term and medium term. We have to be actively monitoring all internal and external factors here to capture short term moves within the context of the persevering medium or long term outlook, which is the permeating sense that Brazil is getting worse and the world is improving.

Wagner Murgel: I think it's interesting to see the flows that George mentioned. It looks like everybody is waiting for the best opportunity to send money abroad. However, I think that this theme applies primarily to a narrow segment of wealthy individuals. Most investors, such as pension funds, are still trying to understand what they should do about investing abroad. We think that the process is going to be a lot slower in terms of flows going offshore from institutional clients.

We know that the private banks and the wealthy individuals are going to move faster, as they have done historically. I think that we will not see that much flow from other types of investors because they do not have a great understanding of how the offshore markets work, and they will need to be more comfortable regarding alternatives abroad. That is the reality for most Brazilian investors. They will start looking to opportunities in the offshore market and will consider some diversification but a significant portion of their assets will still be invested locally.

Regarding the flow from foreign investors into the Brazilian market, I think the paradigm has changed. Foreign

investors used to buy the Brazilian “case”. They were looking for exposure to Brazil and were not really concerned about adding active management to their position. Investors typically bought the Bovespa or stocks because there was a sustained period with positive market conditions and there was also the global crisis going on at a time when the Brazilian market was relatively sheltered. They were also buying government bonds and getting strong returns just carrying those positions. There was a limited value to be added by Brazilian fund managers.

As the market conditions have changed, we believe attracting offshore capital will not be as easy as it was before. We will see a more selective flow based more on active management as foreign investors look for tactical and strategic opportunities in a more difficult market.

Although we have a challenging short term environment, I believe that certain strategies can still provide some good opportunities for both local and offshore investors.



Walter Maciel: I agree with George and Wagner. In addition, I would add that what we have seen in the last 10 years was a direct consequence of President Lula and also the country’s condition when he came to power. Brazil suffered eight years of tremendous reform under Fernando Henrique Cardoso’s government; this reform came through privatization and the creation of regulation agencies during that time period, including the Fiscal Responsibility Law. This created massive potential growth in this country. Since Lula came to power, the country has essentially used up all that potential capacity that was created through those reform measures. The capacity table for rapid growth was set by his predecessor, and Lula rapidly burned through it in his term. This occurred primarily because we were fueled by China, which drastically changed our trading terms.

If you look at the history of our trading terms, the day that Lula was elected and the decade before, for each \$100 of goods that we exported, we could import \$90 worth of goods. China was pushing our commodities and speeding up industrial goods so heavily that this increased our trading surplus by a factor of 45%. In that period Brazil was able to accumulate almost \$400bn of reserves. As we say here in Brazil, President Lula probably had an agreement with God or the devil, but the day that he passed on the government to Dilma Rousseff, we started seeing those trading terms coming back to a more reasonable level.

At Quest we hold a central belief that the U.S., Japanese, and probably European economies, are already turning the corner and growing again. If that’s true we are going to see strong dollars. We are going to see 10-year treasuries around 3.5%, and all other global prices will have to adjust to that. This means that emerging currencies will suffer. Not only will Brazil have to go through an adjustment to cope with the US, but China will change the style of its growth. This includes China’s greater focus on domestic consumption rather than on exports, which will be less intensive in metallic commodities. China will no longer rely so heavily on Brazilian exports. The result will be a major devaluation of the Brazilian real in order to adjust costs here, internally, which will cause the country to go through a challenging period and change its course. Devaluation will have to occur, and with it a change in economic policy.

Despite that prediction, Brazil has a deep financial market with very strong institutions. This is exemplified by what happened at Lula’s election. After his election, the market forced him to follow the previous administration’s economic policy, including inflation targeting and primary fiscal surplus. The institutions in Brazil have always been very responsible about respecting contracts. Foreigners know that they will find a positive and stable environment with first class managers that will be able to take advantage of that devaluation scenario to create opportunities.



For example, now we are focusing on companies that are exporters or that have the ability to pass through the foreign exchange devaluation to local prices.

Another factor we will have to take into account is that two years ago Brazil was very expensive relative to the rest of the world. It is easily possible that one year from now we will see Brazilian equities and bonds become very cheap again. Everything comes down to price and entry points.

Nathan Shor: The way we see it, global macro flows will define short term results in EM in general and Brazil in particular. Fundamentals will define the long term results.

Short term, we had a catalyst at the middle of May with important US treasury movement (tapering). At the same time EM fundamentals disappointed while US and Europe were improving. The effect was an important sell off of EM assets everywhere to invest the proceeds in the US and Europe. This sell off hit Brazil more than other countries, because it is very liquid and easy to trade Brazilian assets.

Long term: Brazil is becoming less competitive against other emerging market countries. In Brazil there is the need to improve literally everything; the legal system, the bureaucracy, the labor laws, the infrastructure, and the country is losing time for these reforms. There were huge missed opportunities to make advancements in these areas during the last 10 years. Other countries didn't make the same mistake. So we can find better opportunities in other emerging markets.

To name a few examples, given our strategy, we see China, Indonesia, Peru, and Mexico as places where we have to put our money to work. When we look at Brazil, currently there are some good opportunities in the most liquid and best quality fixed income names as well as in high yield. However, movements in these names and the opportunities they present are only driven because of the change in the U.S. Treasury yields during the last couple of months. The Treasury yields scared away a lot of fixed income investors, which drove down the price and presented us with attractive opportunities. This means that it was a global macro trend that created the opportunity for us globally. The High Yield opportunities are all over EM as we are currently at the highest spread over US High Yields in years, what always shows a good entry point.



Martin Litwak: Regarding outflows, Brazil and perhaps Chile are the only countries in South America where people tend to invest their money first in their own country's markets, and then on a secondary basis to think of sending money offshore. In all the other countries in South America the money goes offshore as a first priority; in general to Switzerland, the United States or even Uruguay. Only when growth is present do citizens invest internally in their own country. This is probably why Brazilians invest in their own country in the first place.

The other major factor that drives Brazilians to invest in Brazil is the established institutional strength of the rule of law. Together with Chile and Uruguay, Brazil has the best legal system. It also has much deeper, liquid capital markets, with bigger and more experienced players. These factors lead to credibility of the local markets.

In addition, when we set up a fund for a Brazilian asset manager, in almost every case it will be a company that already has an established team in place. Often they will already have onshore funds, experience, track records, and sophisticated systems in place. Usually such a firm will manage a series of onshore funds, and then will decide to set up an offshore fund that mirrors those strategies. When you go to Chile, you will often encounter the same



thing. There is a well-regarded level of sophistication, experience, and predictability. This leads to a feeling of security for investors.

In the rest of South America there is less predictability and stability in the way funds are set up and in their operations. For example, if you go to Argentina you might find a manager who left a bank and has \$20m that he manages. The infrastructure is not as well set up. In many cases the first fund they set up is actually offshore, and there is no local office, no local fund, and no local structure. Everything will be set up offshore. In Uruguay, Paraguay, and Peru you will find the same thing. Colombia is a mixed market; so now it's doing much better. The point is that Brazilian managers are uniquely regarded in Latin America for their sophistication.

The other trend I would point out is that if you compare Brazil with the rest of LatAm, most of the funds that we set up, either onshore or offshore, are funds that invest in financial assets, notwithstanding the growth of other sectors such as private equity or mezzanine finance. In other countries you will find that most funds invest in real estate, either in their own countries or in the United States, with many also investing in farmland and/or agricultural businesses.

What drives that difference is that Brazil's market has a better brand internationally and it is better diversified. It is far easier to convince investors to invest in the Brazilian stock exchange or in other securities. An investor in New York or London would not look seriously at the exchange in Buenos Aires. If those investors are going to take the risk and invest in Argentina, they will prefer a real asset so that if something goes wrong they still own the farmland or the building.

Thalius Hecksher: Historically, Brazil has certainly been an inward-looking type of economy. Thankfully, we are now starting to see considerable change to that theme, with a lot of managers exploring ideas about going offshore. The calming of global markets in conjunction with the challenging cyclical effects of poor Brazilian credit and potential devaluation are driving Brazilian attention to more global investments. Well-structured and proven Brazilian managers can now begin to take their local track records offshore and capitalize on mirror vehicles. The historical momentum is beginning to sway toward strong consideration of offshore, and it's something we are looking forward to because we think it will lead to the dynamic evolution of the hedge fund industry here in Latin America.



Greg de Spoelberch

Martin and Thalius raise an interesting point, which is the fund launching environment. Are funds launching onshore or offshore?

George Wachsmann: First let me address your point from a historical perspective. If you look at the first business plans when the independent asset managers started to open their businesses back in early 2000, everyone thought the first funds would be offshore.

Managers who left banks initially planned on setting up their funds offshore. But then the local market picked up on the independent asset manager trend, and together with the development of the legal and regulatory foundations, the demand in Brazil grew tremendously for onshore funds. Offshore became a scenario that managers typically decided to push it down the road, planning to set up offshore shops later. However most of them missed the opportunity, because when the time came to open the doors, they didn't have the offshore track record.



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Wagner Murgel: Adding to what George was saying, historically most of the managers in Brazil since 2000 reached their capacity with inflows from local investors. The relatively small liquidity in the Brazilian marketplace and the limited number of investable assets was the main problem driving the capacity dilemma. Sometimes it was difficult to allocate all the money coming into the multimercado funds. Therefore, we saw most of the local funds here spending a lot of their fund life closed for new subscriptions. The situation for fund managers in Chile and other Latin American countries is similar.

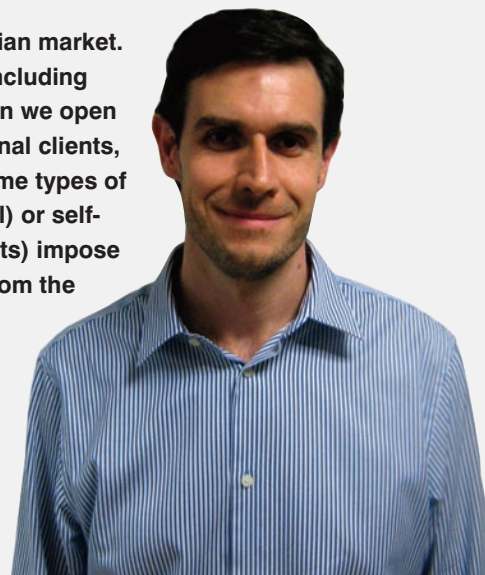
Everybody was looking at this flow and saying, “Why should I bother to go to the offshore market if I can fulfill all my capacity with the money that is already here at my front door.” Trying to get exposed to offshore investors seemed a pointless endeavor during a period when a significant portion of the offshore investors were just looking for a beta exposure. When managers opened their funds, the money was right there and easily accessible for them to receive inflows from willing local investors. This is a large reason why managers refrained from going offshore.

A challenge for a manager in going offshore is that when you open the mirror fund, you are going to lack both scale and track record. The track record only represents the local fund, and the scale is completely different. If you open a \$20m fund abroad, it is not large enough for you to have an impact and will not be worth your time. Other problem is that sometimes a \$20m fund is not able to replicate the exact same strategy that you have on your local fund. Not to mention the tax and cost inefficiencies of a mirror fund.

An additional problem is that when we as managers try to reach the offshore market, we were not allowed to sell our funds directly to offshore investors because of tax discrepancies. An offshore investor would have to pay much higher taxes when investing in a Brazilian domiciled fund than if they directly buy the same bonds or equities through a foreign investor managed account. The government has recently changed this tax regulation but unfortunately this change is coming in a very different market sentiment towards Brazil.

We have a regulated market, which is one of the great advantages of the Brazilian market. We went through the 2008 crisis with no problems at all, because everybody, including hedge funds, was essentially regulated as a mutual fund. The catch is that when we open the mirror structure, since we were not able to sell our local funds to international clients, we have to open a Cayman or BVI fund. When you do that, there are not the same types of controls that the Brazilian CVM (Securities and Exchange Commission of Brazil) or self-regulation entity ANBIMA (Brazilian Association of Financial and Capital Markets) impose on local funds here. At the end the investor in the mirror fund will not benefit from the transparency and segregation of duties that a local fund is subject to.

In conclusion, even managers that had strong performances in the local fund were not able to successfully sell their expertise to offshore investors on the scale that they have locally. A mirror fund would not allow the offshore investors to get all the benefits of the track record, scale and regulation and the managers have postponed his efforts to go offshore also because of that.



Walter Maciel: I would like to add some perspective. In 2006-2007, by myself I was able to raise almost \$200m for an offshore macro fund that we ran. In the 2008 crisis, albeit good performance, we lost 80% of the AUM because the investors were mostly fund of funds. We found out the hard way that the diversification was not there, and the quality money that we thought we had was not quality money at all.

We had no gates, no lockups, and up to 30 days' notice for redemptions. We were used as a cash machine at the time, and we didn't like the experience. I made a conscious decision by 2009, that instead of focusing on the international front we would tap into the institutional investor environment in Brazil.

This turned out to be a wise shift for us. The money is far stickier. Today we have almost 1.2bn Brazilian real under

management. More than 50% of our AUM is from Brazilian pension funds, and we are now starting to tap into states' and cities' pension systems. We realize that pensions have a long term time horizon, and particularly states and cities have no clue where to invest now that real rates are lower.

My opinion on the market is that we are going to go through a phase where real rates will be slightly higher, but rates will still be much lower than they were for the previous 25 through 40 years. There are actuarial targets that will not be fully achieved by continuing to invest in plain vanilla fixed income funds or buying government bonds directly, which is basically what those pension funds did for 40 years. Now is a very important time historically for those institutional investors, and they need our help.

Those institutional flows that I am forecasting lead me to believe that although I do forecast a huge devaluation, I do not think that Brazilian funds or financial markets will suffer terribly with this great adjustment. I think that the country will become cheaper for foreigners, leading to greater foreign investment. There also will be huge opportunities and enormous amounts of flows from those larger institutional players coming into the market.

What we opted to do at Quest to tap into these institutional dollars is to open a fund with Nordea, the largest Scandinavian bank. They opened a fund focused on the Brazilian equity markets and selected us to manage the fund. They now have the job of distributing and marketing the fund to clients. On our end, we will be able to offer our long-biased offshore fund that we have managed since 2009 with great performance.

However, as Wagner noted earlier, the restrictions of being a small fund are enormous. We have \$16m under management in the offshore fund, and we do not have the same track record locally. Although we have a good track record since 2009, being small makes things difficult. I do not think that foreigners grasp how strong local regulations are, and why most local managers do exactly as Martin mentioned earlier; they start with local funds and have a secure structure, infrastructure, and track records in place, and then go offshore. Investors need to recognize why they do this and why it is important, and should consider these managers more seriously as an alternative investment because they can add alpha to a portfolio. Unfortunately, investors more often do not see the whole picture, and we still see a lot of flows towards ETFs and other very inefficient vehicles.



Foreigners tend to like the story of a local Warren Buffett who will buy into a company and stay invested for 20 years. In Brazil that is a story that makes no sense. The long term track records show that those money managers underperform.

Greg de Spoelberch

Can Thalius and Martin give some insight into the actual day to day in working with clients, onshore and offshore? What trends are you seeing with your clients?

Thalius Hecksher: What drove us to set up a new operation in LatAm is we experienced a pull and push effect. We got pulled into the market by onshore managers looking to create offshore structures, like UCITS structures across Europe or in Cayman. Now we are starting to offer the option to a lot of managers who have interest.

Although very much an onshore market, we believe the time is coming where the offshore funds are starting to become more popular within the Brazilian market. All of our meetings with managers have been focused around this particular topic. One thing we do know is that there is a little bit of fear factor of stepping offshore. They want to know what the implications will be from a fiduciary standpoint.

Regarding mirror funds that are created, managers are going to put \$20m or \$30m into the fund. However, I agree with the previous concern about economies of scale; is this going to be worth your while?

In conjunction with Martin, Apex tries to find new ways of creating cost effective structures to cater to exactly that offshore market to Brazilian managers, and to address that problem of scale. We have had those structures in place for about three or four years, so we have significant experience. We have Bermuda platform structures, Cayman platform structures, and soon to be BVI platform structures. We have reached out to the right players in each of the cogs (legal, Audit, Directorships and Administration) or support areas required to run a successful hedge fund. By collaborating with strategic service provider partners we were able to shrink down the fees, because what we want to do is to encourage Latin American markets or managers to take that step offshore. We want them to be able to launch a fund at a reasonably low asset level and reducing the expense ratio. In doing so we give the manager the opportunity to build a track record and then bring it to the market.

There has been a kind of resistance to that in Brazil for a while. Everyone liked talking about doing it, but very few firms are actually took that step. Now we are seeing a very strong interest, and momentum is picking up. Martin, from your side of things, what are the trends in fund structuring, and what is the real key driver for managers in Brazil, now that we are considering the step to the offshore market to try and generate more allocations?



Martin Litwak: I find that most of the Brazilian offshore funds are set up in the Cayman Islands. This is primarily because of tradition and marketing. Cayman law firms were the first in marketing their services in the country and to creating bonds with local lawyers and banks. This has led to a preference with the first managers to set up offshore in Cayman over other jurisdictions. Managers who are launching tend to repeat what others have done in the past, which perpetuated that trend. That is why managers in Brazil prefer a Cayman to a BVI fund, which is a more flexible and cheaper jurisdiction. Funnily enough, if we take a look at the whole region, this preference appears only in Chile. All the rest of the countries prefer the British Virgin Islands.

Having said that, a couple of years ago there was a trend whereby local fund managers started to use the BVI to establish offshore funds to raise money from local funds which were allowed to allocate offshore by Regulation 450 of the CMV (Comissão de Valores Mobiliários, the Brazilian securities regulator). This happened because one of the conditions was that the offshore fund had to be based on an IOSCO recognised jurisdiction and initially Cayman Islands was not recognized by IOSCO and the BVI was. The other use for BVI funds in Brazil relates to the structuring of family funds.



Another trend we see in the region is that fund managers in Latin America have started shifting from plain vanilla funds to a more sophisticated structure, like a segregated portfolio company that allows issuance of different portfolios with different investment strategies. A lot of these innovations are quite sophisticated and quite new for LatAm funds.

Something we have not seen very much in the area is master-feeder structures, which sometimes are more efficient structures than mirror funds. That is very popular in the US when raising money onshore and offshore, but the trend has not caught on yet in Brazil. In some other areas of LatAm like Peru, it's becoming a norm now. The master-feeder structure will provide savings in terms of cost.

We see a lot of appetite for structures that deal with asset protection and estate planning, along with the growth of the family office community. Succession of assets is an important concern for a lot of our clients on both a personal and a business level, and we are active in creating trusts and foundations. However, it's fascinating because while the trust is clearly the entity which can accommodate all succession needs, it is something that Brazilians, and Latin Americans in general, are not very comfortable with on a conceptual level. They are losing control over the assets, which is why a lot of families structure their wealth through funds.

George Wachsmann: To address Thalius' question, there are a few reasons why local managers were slow to look at the offshore markets and why now it's picking up. We mentioned a few of them. The first is capacity, as Walter explained. If the manager has capacity with local clients there is no need to go offshore with a different structure.

The second reason is that it is not clear for local managers how to do it offshore. CVM monitors the manager's local business, but CVM does not watch the offshore business. Going offshore puts Brazilian managers outside their jurisdiction, and managers aren't familiar with the SEC or European regulatory bodies. They are unfamiliar with reporting practices and regulation rules in place. It's getting more difficult from a reporting standpoint everywhere in the world, and the local authority here doesn't provide any aid when a manager goes offshore.

The third point is that when foreigners and international players come to Brazil, they want to invest in Brazil with managers, but they don't want to pay for beta. They only want to pay for alpha. The investor wants to buy Brazil but typically doesn't want to pay 2 and 20. He will not pay a 20% performance fee on top of gains, because 80% of the return stream the manager is providing is beta. The investor will only pay around 40 basis points. I heard this from several pension funds and large investors in the U.S., for example, between 2008 and 2010. The allocator wants the manager, but he would rather buy an ETF and pay an ETF price than buy the manager with those traditional hedge fund fee structures.

As we discussed, a lot of foreign investors have been scared off recently. Some local managers are becoming so skeptical with the future of Brazil that they want to protect their investments by investing offshore. They are afraid of a Corralito type regulation (in 2001, Argentina limited the amount of dollars per week clients could draw from your own account) here in Brazil, so they want to send money offshore so as not to be cut in the middle. That's why I agree with Martin that a feeder structure will be smart. It will bring money to a master fund here, and I don't think it would be taxed in Brazil.

I think that interest from the managers' side in setting up offshore structures exists and is growing, but the more pressing and tangible demand is coming from Brazilian investors who want to invest their money offshore, and not just in funds. In other words, there is not a high demand for the local manager. As an investor I want to send my money offshore, but I may want to stick with the manager that I have locally, so I am asking that the manager goes offshore with me.



Thalius Hecksher

That's the question our managers want to know about: how do we go offshore? What do we have to consider? What are the regulation requirements? Which jurisdiction should we choose, Bahamas, BVI?

Walter Maciel

We actually do use a master-feeder structure for our funds, so we are one of the few entities here that do get the value out of the vehicle. I would like to see more utilization of the master-feeder here, it works very well for us and the different funds we employ.

Walter Maciel: Regarding regulation, when a manager goes offshore he must locally open a super qualified fund in Brazil. That enables him to hold more than 20% of the fund's AUM in foreign assets. In the case of a super qualified fund, regulation states that each individual investor must write a 1m real ticket.



That ticket size significantly restricts the universe of investors here that will directly invest. That is why funds are looking to sell offshore opportunities to local pension funds. The catch is that pension fund employees, the decision makers, have a lot of downside, and no upside to investing in these super qualified funds. They just want to keep their jobs. To them, that kind of investment is a risk not worth taking.

If investment managers cannot have monthly conference calls providing total transparency, pensions won't invest. The few cases of success we have seen are with international fund platforms with strong local presence that offer access to their offshore funds.

Greg de Spoelberch

Walter, you are working with some Brazilian institutional investors. The institutional dollar is driving the hedge fund industry now. 90% of allocations coming into hedge funds is institutional money. How actively are the Brazilian pension funds and institutions looking at alternatives and hedge funds?

Walter Maciel: The pension fund industry in Brazil has around \$500bn under management. Then you have to add in what we call our PPS, which are state and municipalities pension schemes. In the past, those pensions could easily beat their actuarial targets by staying in government bonds and plain vanilla fixed income funds.

The three largest pension funds account for almost 25% of that \$500bn overall AUM. Those are Previ, Petros and Funcef. Those funds have large teams of professionals who are looking directly into different sets of strategies with very good skills and infrastructure. For the medium and small sized pension funds, and states and municipalities, this game is new.

The Bovespa is an index that is weighted by liquidity and market cap, so it has the problem of always having a large weight on companies that represented the last decade. So today on the Bovespa you have companies like Petrobras, Vale, and banks and steel producers accounting for almost 50% of the index. That is not the part of Brazil that has grown with a lot of interesting dynamics in the last few years.

Pension funds were investing in passive funds that would only replicate the index performance with a very small tracking error. They missed a lot of those smaller stocks and many of the opportunities in high growth companies, so they underperformed significantly in the last few years. To a large degree this is because there are stringent regulations for institutional funds in Brazil. Those restrictions definitely limit what a pension fund can do, and can hurt performance.

To give an example of these limitations from my personal experience, I would point to our plain vanilla all cap fund at Quest. This is a fund under institutional regulations. We cannot have less than 67% of our AUM in long positions, so our maximum cash positions can only be 33%. We cannot have more than 100% invested. We cannot use derivatives unless we are shorting the index to protect the long portfolio. We cannot day trade, and we cannot invest in companies with what are considered less governance.



Naturally, with those limitations, the outperformance that is achieved has to be achieved through alpha. Despite the strict mandates imposed by institutions, that fund has beaten the Bovespa each of the last nine years. There were bull years, bear years, and dull years. Every year we managed to beat the market. We have an overall 505% net return of all fees performance in Brazilian reais versus a 102% return from the Bovespa during that same time period. This shows you how much value the managers here can add to the portfolios of institutional investors.

Institutional investors who have been investing in the index funds have suffered. They are looking more and more for talented, independent managers that can provide good products. I think this is only the beginning of a long term trend.

Walter Maciel

To tie in the pessimistic devaluation view I expressed earlier when we talked about the institutional allocation theme, Brazil is a 200 million person country with \$12,000 per capita income and deep financial markets. Exporting may slow down, but companies will not necessarily depend so heavily on exporting to grow. They will be able to succeed in selling to the expanding domestic market. As trading terms move toward where they were in the past, the central bank will probably carry out a strategy to diminish those huge foreign reserves to around \$150bn to smooth out the currency valuation. There is also no kind of risk in terms of Brazil's credit. To summarize, conditions will be challenging for some time, but not catastrophic, and there will be a lot of opportunities. Institutional investors will need the right managers to find the right ones.

Wagner Murgel: I agree with Walter's point about the different levels of sophistication among pension funds. The bigger ones already have the structure in place to look for alternative investments. About half of the AUM that we have in our private equity products is coming from institutional investors. They invested in these alternative investments because interest rates were going down over the last two to three years, and these funds were being pressured by the target returns that they must meet.

Although there was a bit of a setback this year when interest rates actually went up slightly, these investors definitely require alternative investments to get the returns they need. As Walter said, investors have to be comfortable, but as their comfort level increases the allocations will be more frequent. Pension funds used to be able to rely on fixed income instruments. Money market funds in most of the portfolios were paying enough of a return on very liquid instruments to get the target returns that they needed. This is no longer true and they cannot count on that going forward even with the recent increase in rates.

In our experience, the life cycle of pension fund investing into alternatives started with private equity investments, with real estate, and with some credit exposure as well. The Multi-Mercado funds, the Brazilian equivalent of hedge funds, are gaining a lot of attention now, but we are just at the tip of the iceberg for inflows into those. That is a strategy that the investors need to understand better before they take the risk.

The backgrounds of our team members are from big institutions like JP Morgan Chase and Citibank. We used to manage money for these pension funds, so we are familiar with their way of thinking. In the past, a Brazilian pension fund allocation to managers usually came down to a pricing war. Pension funds wanted to hire the managers with the lowest management fees, as there was small need for active management. That dynamic is changing now that passive investing is no longer generating enough returns and the institutional investors are struggling to beat their actuarial returns. The pension funds are more willing to pay for the value-add and willing to pay higher fees for the additional return. In this way we see the independent managers gaining more mandates, as the need for additional returns will drive the manager selection.



Wagner Murgel

Finally, a major issue is that institutional investors in Brazil need to adjust the risk profile of their investments. The expected return and maturity of the investments must be modified. In the past,

these investors experienced relatively liquid and short term investment with no volatility at all. The recent period of low interest rates lead to an increase in their risk allocation and in the recent market correction they are experiencing higher volatility on their returns. Some of them are learning the hard way that it will be challenging to adjust their portfolio and get the return they need. In this process they will seek for advice and new investment strategies like hedge funds and alternatives. They know that the value of these products will reflect in higher fees.

George Wachsmann

I have two main areas to contribute here regarding institutional allocation themes where Brazil is concerned. The first is in legislation for Brazilian pension funds and their current level of readiness to go offshore. The second has to do with foreign institutional investments and the trends we have seen from them in finding value investing in Brazil. Firstly, Walter mentioned the fact that legislation for institutional client investments is different than investments from regular clients.

George Wachsmann: Currently, pension plans can allocate up to 10% of their portfolio into hedge funds. They can choose products that have been discussed here today, like Multi-Mercado, and they also have an additional 3% which is completely open. With that 3% they can invest wherever they want. This means that to some degree they can already invest offshore. Things are clearly becoming much more flexible now.

But, what we actually see is that a lot of these clients are not yet allocating the 10% to hedge funds, but they are indeed using that nimble 3%; so they are already beginning to run after alternatives and better returns. This leads to the conclusion that offshore is already a viable option for pensions. But are they ready to do so, that is the real question, and if not, how long will it take?

I was in a debate at the beginning of the year with some pension plans where we were talking about investing offshore. The large funds said that they have already stepped into the waters to find out how they should be investing offshore. The smaller pensions were actually hoping that this offshoring process would take five years to occur, because it will take them five years to be ready to invest and take advantage of those structures and opportunities.

My second point concerns foreign institutional investments into Brazil. When you look at offshore pension plan investments into Brazil, the demand for Brazilian managers has been filled by the large banks that have a presence here. These banks went to Asia and the Far East and raised money from sovereign wealth funds and specific niche markets like Korea and Japan. The large banks were able to use the hype to sell Brazilian equity funds to Japanese clients that have a lot of money. Large banks were able to find those specific large and niche investor markets to invest in Brazilian funds.

Not many independent managers were able to achieve that. Walter, you guys were one of the only independent managers to be successful in raising assets that way. Usually it is a bank like BNP that went to Korea and raised \$100m to invest in Brazilian equities.



Alternatively, when it comes to foreign investments into Brazil, the independent asset managers here were successful in raising money from large tickets allocated by foreign pension funds and endowments who were looking for specific long-dated mandates. For example, a US endowment would come to Brazil and allocate \$200m. They would pick independent asset managers to fill those mandates. Tarpon, FAMA and Constellation are examples, they managed to raise large pockets of money from endowments and pension funds in the U.S.

So, we are looking at two completely different cases of capital raising. My opinion is that the Far East and niche money that banks were able to attract will leave the market far more quickly than other foreign institutions like endowments that have longer time horizons and also lockups. This long term access to capital is not often publicized, but is beneficial to our community of independent asset managers.

Walter Murciel

I agree with you, I think the Japanese investor market is probably gone by now. Rates in Japan were at zero five years ago, and rates here were so high. The Brazilian currency has since appreciated, and a lot of those investors pulled out.

Nathan Shor: Most of our clients are not in Brazil, they are mainly abroad. We are located in Brazil, but our knowledge and trading is focused globally. We just turned our funds into UCITS 4 form, in order to sell it more in Europe where most of our clients are today.

We have been a Brazilian asset management company for a while but just now opened our local products to fill the niche of investing abroad. We launched a feeder fund for super-qualified investors that can buy our offshore fund. Our offshore fund has been around for four years and half. The focus is long only, short duration, and very high yields with historic average of 9%. The average return has been over 10% net in U.S. dollars. The other fund that we just launched is a product with minimum investment of BRL 20.000. The investors will buy 20% of our offshore fund and 80% will remain in government bonds, which is an interesting hybrid structure.



Walter Murciel

Did you consider using leverage for that fund?

Nathan Shor: We did consider leveraging, but we feel more comfortable without it. Our philosophy is long only, with no leverage. In the high yield type of companies that we invest in, the average coupon is 9%. Our primary responsibility is to avoid blow-ups and bankruptcies, so we try to avoid that risk.



Today we have 92 names in 23 countries, and this year we avoided all of the headaches. There were plenty, in Brazil with OGX and OSX. In Mexico three or four home builders went bankrupt and various Telecom companies restructured their debts. A lot of coal companies in Asia were problematic, and in Chile you got a couple of headaches as well.

We like companies that pay well with short duration. Most of our returns depend on the coupon clipping that we make, not on the capital gains. I think this differentiates us from a lot of emerging market debt strategies that have performed well the last couple of years. With U.S. treasuries where they are now, it is mathematically impossible for these emerging market debt funds to replicate past 4 years performance. For that treasuries would have to go below zero and EM spreads should be lower than the US ones.

Greg de Spoelberch

What are the opportunities in Brazil that you all see on the ground in your strategy right now? Nathan, you invest globally, but do you see opportunities in Brazil as well?

Nathan Shor: We buy Brazilian fixed income names offshore instead of buying them locally because we get better yields for the same risk.



- Their most important local demand such as big pension funds, foundations do not invest abroad yet.
- They will accept to buy bonds that just pay over local CDI, equivalent to Libor.
- As Brazil has good demographics with a lot of young population, considerable money is flowing into their pension funds and large asset managers. Because of the net inflow of money, the pension funds can keep their holdings without selling them. They can mark them at the curve, lowering the volatility of their portfolios. As a negative consequence there is no liquidity for the issues either.
- In Brazil you have far fewer players issuing debt and charging higher prices than their offshore peers where there is more competition. The result is that the final investors get a lower rate of return.

Walter Maciel: We currently cover around 150 companies in the Brazilian equity world. We have our own models and are familiar with companies and their management, which gives us the confidence to invest. 150 is about the capacity of companies we will own, so if we want to add another company we will have to drop one that is currently in the portfolio.

One sector we like is education. There is enormous repressed demand, and it is one of the few, if not the only, sector where the government has been friendly to investors. One example of a growth opportunity is a government created fund called FIAS. In effect, the fund takes the credit risk out of universities that have to accept their students' credit. There is huge potential growth in that sector overall, and we still see a lot of opportunities as it becomes a consolidation story in a big country with a large population.

There are many other companies that are very well run in Brazil that we like. One example that Nathan brought up is Banco Itaú. Over the last 40 years this bank has posted 20 to 25% return on equity every year in a row. The company is very, very well run. Equities opportunities are always there and for us it is simply a matter of constant review. Just to give a few names that we like; we like Kroton, we like Cosan, we like Cetip, we like Brazil Foods.



Regarding fixed income, the process of devaluation I have mentioned and the shifting exchange rate by itself create an opportunity. There will be a widening of spreads on long term bonds, especially inflation-linked bonds here in Brazil that have been a preferred asset of individuals and institutional investors in the last two years. During this time there was a 500 basis point reduction of rates. This gap will present us with tactical and strategic opportunity, because those securities will suffer and provide a fantastic entry point.

Wagner Murgel: As a general forward-thinking opportunity set, I feel the stock picking of closed companies can provide good value, as opposed to the listed companies. We also see a demand for infrastructure, healthcare, and education that will benefit from the demographic window. As George mentioned, the low income class are migrating into the middle class. All of these sectors are stories of increased consumption, which yield good opportunities for growth and for investment.

Although we still have some short term challenges, we are going to see companies in very good position to benefit in this environment. As we do not expect to see Brazilian companies performing well across the board, selecting the right fund managers to identify these opportunities will make a lot of difference for the investors.



George Wachsmann: From an end investor's point of view, although we are not very optimistic on the stock market, we continue to believe that investing through fundamental managers pays off. Our fund of funds repeatedly gains 10 to 15% over the Bovespa index. Feedback from managers we work with is that this government is in favor of the health care and education sectors. As Wagner and Walter mentioned, there are opportunities to be found there. Other sectors, such as utilities and banks, have been suffering. One risk I will briefly mention and warn about is that the offshore investor has to be careful that the Bovespa index will change the way it calculates its components next year, so investors must pay close attention to that.

Regarding inflation linked instruments and credit, we continue to think Brazilian credit is a terrific global opportunity. Brazil is a solid investment in that the government will pay its bills. 10 year paper, which amounts to inflation plus 5.5% or 6%, is a good investment. Even though there might be better entry points in the future, as Walter discussed earlier, we still think that this rate is a solid short-term investment. It is interesting to note that last year inflation-linked instruments on bonds carrying a five to 10 year duration average posted around 25%. This year those bonds are having a bad year and returns are down roughly -5% to -8%, but I think those instruments are back to a level where it makes sense to invest in them again.

Earlier Nathan made a good point about the discrepancies between the local and offshore bond markets. Rates are very compressed in Brazil, but last week we bought 10 year paper for our clients at inflation plus 7.5%. The month before we bought inflation plus 6.5% with a tax exemption. That investment gives you almost twice the return you will get with the CDI, so it's a huge opportunity.

We continue to like local hedge funds because they can tactically hedge in challenging times for the Brazilian economy. We are seeing a lot of these managers invest offshore and hedge against currency fluctuations. We value this flexibility.



Nathan Shor

Regarding tax benefits, the government has a policy of assistance to the poor in several areas. There is a special line of credit to buy furniture and appliances, and now a special line of credit for education, which Walter mentioned. We can gain tax benefits by investing in FIAS. The government has also instituted a special line of tax-exempt instruments for investors if they invest in real estate, agriculture, and infrastructure. This 15% tax exempt benefit is very advantageous for local investors, and they should be opportunistic about utilizing this in their allocations.

Thalius Hecksher

One of the best opportunities we see globally is in encouraging managers in Brazil to overcome and re-evaluate the historical risk benefit of going offshore. We think that given the momentum of the convergence of international and domestic trends highlighted here today, managers who come offshore can capitalize on the growing domestic desire to diversify out of Brazil.

In addition, Brazil is about to land on the world's stage with the World Cup in 2014 and the Olympics in 2016. There will be a global spotlight and focus on the Brazilian market, which should further enhance the international credibility of the capital markets and stability of the political structure. With a very young population that is growing rapidly, the healthcare, food, and education sector are areas some of our managers like. These and other growth and consumption sectors that were mentioned today are only going to improve and grow over the next two to four years with that international exposure.

Greg de Spoelberch

How do you evaluate political risk as it affects your investments in Brazil? What is your outlook going forward?

Martin Litwak: In Latin American countries, political risk was historically associated with revolution and military governments. The question here always was “how stable is a government or political system?”, and therefore how stable is an economy? That revolutionary risk doesn’t exist anymore, in my opinion. Governments, although they might shift to the left and right, are essentially stable.

What we currently refer to as political risk can be more appropriately labelled as legal risk and by legal risk I mean the stability of the rule of law at all times, and the risk of governments changing regulations from one extreme to the other in a short period of time and without implementing transitional measures to reduce the impact of these changes. These regulatory changes drastically affect markets and investments into those markets.

Over the past 10 years the major risk was perceived to be a government takeover by a Marxist or leftist party.

That risk didn’t materialize in counties such as Brazil, Chile, or Uruguay even though they had (and some of them still have) leftist parties in the government.

However, some other countries in the region, such as Ecuador, Argentina, and Venezuela, did change regulations, nationalized companies, and put restrictions on money transfers and investments into those countries when this type of political parties took office.

In our view and experience, the depth of capital markets or the identification of an investment opportunity are not the most significant factor in analysing investments into emerging economies. What is paramount is whether the rule of law is well established and secure. This would mean that the legal risk is very low, which is conducive to investment. The fact that rule of law in Latin American in general is not as strong as in the United States of Europe is actually one of the main reasons where people in Latin America invest offshore and why foreign investors structure their investment vehicles offshore when they invest into the region. We see that these trends will continue in the future.



Walter Maciel

Brazil faces the challenges of inflation growing above GDP, and will have to raise rates and diminish government spending to improve the fiscal situation. Those measures will have a recessive impact on Brazilian growth. On the other hand I don’t believe that any candidate in 2014 will preach what the PT Party party preached prior to Lula’s election in 2002. That they would not honor contracts; that they would lower rates despite inflation, and that they would requisition property from citizens to appease leftist movements. Those political risks have been eliminated. Brazil is light years ahead of the average South American country. Brazil, Chile, Colombia, and Mexico, each have different challenges but are also on a safe path. Therefore, I do believe in economic risk, but I do not believe in political risk going forward.

George Wachsmann: I completely agree that the true risk is the economic risk and not the political. To hedge political risk you would set up an instrument offshore and send the money offshore. To hedge for economic risk in a lagging Brazilian market and with a positive global market, I would do the same thing. I don’t even feel it’s necessary to hedge for political risk, but if I did hedge for political risk I would be simultaneously hedging for political risk I will be simultaneously hedging for economic risk, because the strategy to hedge both is the same: to go offshore.

In the liquid part of our clients’ portfolios, we are advising them to have somewhere between 30 to 50% of their investments domiciled in offshore instruments for the next 12-24 months.

As I said earlier, of our 16bn reals only 20% is offshore, but when we started 14 years ago we were almost 100% offshore. We don’t see overbearing political risk, but it is cheap now to hedge for it because you are hedging for both economic and political risk simultaneously by going offshore.



Nathan Shor

We have to analyse the political environment in every country where we invest. We have levels from one to 10. We don't invest in high grade countries, so political risk is clearly a powerful factor in our investment process. At the worst level you have some African countries, together with Venezuela and Argentina. Brazil is not close to that category. We believe that even with a regime change the investment environment in Brazil is stable.

Walter Maciel: I believe that the biggest risk we will encounter in South America and Latin America is when the U.S. interest rates adjustment starts. All emerging markets are exposed to that risk. I would point to a country like Argentina, for example. When U.S. rates start rising, the currencies of countries that are more fragile and more exposed will be impacted very adversely and very sharply. There will be an attraction towards other, safer currencies, and there could be a cycle of risk-averse movement and flight of capital. Therefore, we will be closely monitoring Argentina, India, Indonesia, and South Africa in the next 18 months. How they react to this adjustment could be a leading indicator of how painful the overall movement will be for the emerging world in general.

However, despite the global macro risk that all emerging markets face, Brazil is in good shape with relation to other BRIC countries. Foreign investors I speak with are starting to believe that Brazil is getting cheaper, and India is getting more expensive. China is losing its dynamics. Russia is very hard to trust, and not many people have the guts to invest there. In the realm of emerging markets, Brazil will suffer a lot because of its bad economic policies in the last three to four years, but we don't see a painful elongated outcome when it comes to the country's credit worthiness. I truly believe that we'll have an inflection point in the next 12 to 18 months, and investors should be looking closely to start investing because there are going to be attractive opportunities.



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