OPALESQUE

Opalesque Round Table Series '10

BRAZIL

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Editors' Note

Dear Reader,

The global financial crisis has turned the world order upside down. Contemplating the events since 2008, a famous hedge fund manager (one of the handful who correctly predicted the subprime crisis) told me recently that "we, the Western world, basically have become what the emerging markets used to be". And where are the emerging markets – here: Brazil – today?

Brazil has learned from mistakes made in the past and successfully turned around the country. By all means, Brazil is a success story, a creditor on foreign currency basis boasted by strong balance sheets on corporate and government level. With growth at probably 6.5% to 7.00% and debt to GDP around 45%, the country is in much better shape than the majority of developed economies.

The Brazilian asset management and financial industries are stable and very well regulated. Brazilian funds and their investors did not suffer from the deadly mismatch between assets and liabilities that was very common for funds in other jurisdictions. Out of 5,000 local Brazilian local hedge funds (multi mercado funds) and 120 offshore hedge funds, only two or three, mainly very small, ran into problems. Contrast that what happened in the U.S. or with other global hedge funds.

Brazilian hedge funds are audited, publish their NAV every day and have segregation of functions between management, administration, and custodian. The local Investment Bank Association has started a project that aims to make Brazil a global financial center and formed a new association called BRAiN.
Brazil's capital markets evolve in great strides, already now its exchange is the fifth largest in the world - in 2008, Brazil was #3 in IPO volumes globally. During the recent financial crisis, the country did not suffer any bankruptcies or government interventions like most Western countries. This Roundtable further covers:

- Background on the Brazilian corporates and the many opportunities there
- Who is now investing in Brazil
- Opportunities in the primary markets - R$35 billion IPO volumes already lined up at realistic valuations
- Infrastructure of the Brazilian market, and why global players like BlackRock, Franklin Templeton are now moving in
- The evolution of Brazil from a value to a growth proposition.

The 2010 Brazil Roundtable was sponsored by SunGard Alternative Investments and united the following experts:

- **Otávio Vieira, Director of Investments and Head of Fund Advisory Services,** Safdie Group
- **George Wachsmann, Founding Partner of** BAWM Investments
- **Patrick de Picciotto, Partner,** M Square
- **Mauro Rodrigues da Cunha, Head of Equities and Portfolio Manager,** Maua Investimentos
- **André Lion, Partner, Head of Equities Strategy,** BRZ Investimentos
- **André Ribeiro, Partner,** Brasil Capital
- **Thomas Souza, Founding Partner of** AguasClaras Investimentos
- **Julie Rice, Managing Director,** SunGard Alternative Investments

Enjoy the read!

Matthias Knab
Director Opalesque Ltd.
knab@opalesque.com

Cover Photo: Ibirapuera Park, Sao Paulo. Photo: Sergio Cruz

Participant Profiles

(LEFT TO RIGHT)
Standing: Otávio Vieira, George Wachsmann, André Lion, André Ribeiro, Thomas Souza, Matthias Knab
Seated: Patrick de Picciotto, Julie Rice, Mauro Rodrigues da Cunha

Introduction

André Lion
BRZ

My name is André Lion. I am the partner that heads the equities strategy of BRZ Investimentos. We are an independent asset management company in Brazil with currently over R$4 billion (US$2bn) of assets under management, 70% of that from Brazilian institutional investors. In addition to equities, we have teams managing private equity, credit, and macro funds.

We run two families of equity funds, a long-only and a market neutral long/short, and we offer both onshore and offshore versions of those funds. Both strategies employ a bottom-up stock picking approach, grounded in fundamental research.

George Wachsmann
BAWM Investments

My name is George Wachsmann. I am a Founding Partner of BAWM Investments. We are a multi-family office providing wealthy families a combination of services in asset allocation, managing liquid investments, advising on legal aspects, investments in the real economy, M&A and other interests related to wealth management.

BAWM was founded in 2005 and currently has over US$1 billion under advisory.

Patrick de Picciotto
M Square

My name is Patrick de Picciotto, I am one of the partners of M Square, where I sit on the investment committee and head the international business development area.

M Square is an independent investment partnership based in São Paulo, Brazil. We have two distinct investment areas. One is focused on investing money from wealthy Brazilian families abroad, which we do by selecting and investing in hedge funds, primarily based in the U.S. and in Europe. The other area focuses exclusively in the Brazilian equity space, where we invest directly with a dedicated and experienced team of six people, using a value-oriented, fundamental approach.

We currently manage US$580 million out of which US$320 million is in the M Square Brazil Value Strategy, where we offer both a long-only and a long biased vehicle.

Thomas Souza
AguasClaras

My name is Thomas Souza and I am a Founding Partner of AguasClaras Investimentos, an equity investment management company based in São Paulo. We offer two funds – an offshore equity hedge (with feeders in Cayman and Delaware) with a Brazil-centric investment approach and a LatAm mandate, and a Brazil local equity fund. We have around US$85 million in assets under management at the moment.

AguasClaras currently has a staff of 6 people, all partners. The three founding partners are portfolio managers with over 15 yrs of experience in the Brazilian equity markets. The management team has complementary industry backgrounds in fundamental research and had been already working as a team for a large family office in Brazil prior to AguasClaras' foundation.

We have a fundamentally driven, bottom-up investment approach. In selecting stocks, we look for value and/or growth at a reasonable price. Top-down analysis is used in determining our net exposure and sector allocation.

Otávio Vieira
Safdié Private Banking

My name is Otávio Vieira, I am the Director of Investments of the Safdie Group in Brazil. We do wealth management here and in Europe, through our Geneva headquarters. The group as a whole has US$7 billion under management. We have US$1 billion in Brazil and operate as an open investment platform.

Andre Ribeiro
Brasil Capital

My name is André Ribeiro, I am a Portfolio Manager and one of the partners at Brasil Capital. Currently we manage around US$400 million in equity hedge funds for Brazilian and foreign investors. We just secured the mandate of a European private bank to manage a strategy focused on Brazil.

Overall, our strategy is based on deep fundamental research, both on equities and fixed income, as we believe that the expectations priced into these markets will likely converge.

For the equity portion of the portfolio, companies are selected based on fundamental analysis, with focus on businesses that deliver higher-than-average returns over time.

Decisions are invariably based on conservative assumptions and build in a safety margin that will minimize any possibility of permanent capital losses.

In this respect, we believe the fixed-income and derivatives markets offer excellent protection/hedge for our stock portfolio. Here our goals are (i) to capture low-cost protection opportunities as well as (ii) obtain additional low-risk returns, focusing on operations that have asymmetric risk/return profile.

Mauro Rodrigues da Cunha
MAUA Investments

My name is Mauro Rodrigues da Cunha. I am a Senior Partner at MAUA Investments. The firm was founded five years ago, and is also focused on Brazil. We offer macro and equity funds and manage R$650 million.

Last year we announced a merger with another firm called Sekular, which adds a number of capabilities to our firm, including credit funds, wealth management, and advisory. We are in the process of integrating both teams right now.

Sekular was formed by very experienced professionals from the Safra Group and Itau Group, and we expect this to build a stronger, more diversified company going forward.

In equities, we have two onshore funds, only our macro funds has an offshore version at this time. One of our equity funds is called MAUA Bolsa which aims to outperform the Bovespa through stock picking, market timing, and a little bit of leverage (up to 20%) and some shorting. This fund has almost a five-year track record, and has outperformed the Ibovespa by 28 percentage points since inception.

And in the end of 2008, we launched a second equity fund called MAUA Empresas, a deep value long/short fund that aims to identify long-term opportunities and does not use leverage.

Julie Rice
SunGard Alternative Investments Americas

My name is Julie Rice and I am managing director with SunGard's Alternative Investments business.

We are pleased to be sponsoring this Opalesque Roundtable as part of our expanded footprint into the Brazilian alternatives marketplace. We specialize in providing mission-critical tools, and software solutions to the alternative investments industry, helping customers drive and manage their businesses efficiently. Our customers include hedge funds, private equity firms and asset managers globally. We firmly believe the Brazilian alternatives market is particularly interesting and poised for growth, in fact we are hosting our city day event series in Sao Paulo in September to meet the needs of our Brazilian customers to come together and network with their 200 plus peers.

Matthias Knab **Let's take a step back to our last Opalesque Brazil Roundtable, which we had in October 2008. A lot has changed since then as we all know. How did Brazil do since then, and what is the future for Brazil?**

Otávio Vieira Brazil has learned from mistakes made in the past and successfully turned around the country so that today Brazil is actually creditor on foreign currency basis. Brazil had a decent balance sheet at the beginning of the crisis, and we are still strong and healthy. The country will probably grow at 6.5% to 7.00% this year; unemployment is at about 8% and debt to GDP is roughly 45%. Thus, we are in much better shape than the majority of developed economies.

International investors looking at Brazil need to realize that the asset management and financial industries are stable and very well regulated. Brazilian funds and their investors did not suffer from the deadly mismatch between assets and liabilities, that was very common for funds in other jurisdictions.

Here, only a small number of funds had problems during the crisis. In fact, out of about 5,000 Brazilian local hedge funds (multi mercado funds) and 120 Brazilian offshore hedge funds, only two or three, mainly very small, ran into problems. Now, contrast that what happened in the U.S. or with other global hedge funds.

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Otávio Vieira

George Wachmann The figures currently for our industry are R$1.43 trillion for the local fund industry, and R$60 billion for the offshore funds.

Otávio Vieira I think it is fair to say that Brazil and also some other Latin American countries fared very well during the crisis, and that going forward the importance of the region will only continue to grow.

Mauro Rodrigues da Cunha You touched on some points that are very important. When you say that the market is well regulated, that is very easy to say and probably a lot of places claim they are well regulated, but people need to realize how seriously well-regulated Brazil is in comparison to other emerging markets.

This level of regulation and best practice has not come overnight. We have been through a lot of reform, particularly in the equity market. We have witnessed the revamping of the regulator, the creation of the Novo Mercado. Today, the whole market benefits from the well-defined understanding of shareholder rights, in addition to the financial infrastructure per se. Many things we take for granted here, like settlement certainty for example, which many other emerging markets clearly don't have. All this leads me to believe that Brazil deserves a significant premium over other emerging markets.

I think that is actually an unnecessary problem for investors that most of them go through intermediary vehicles when investing in Brazil, because I believe that the Brazilian vehicles are actually much more transparent and safer than most of the vehicles we see in the most common financial centers of the world.

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This financial infrastructure and level of regulations is a huge asset Brazil has, which in turn serves as a basis for all the exuberance that we have experienced in respect of the macro growth. I mean, Brazil is a country led by a Leftist government for the past eight years, and still the basic tenets of good management have been kept.

Mauro Rodrigues da Cunha

This financial infrastructure and level of regulations is a huge asset Brazil has, which in turn serves as a basis for all the exuberance that we have experienced in respect of the macro growth. I mean, Brazil is a country led by a Leftist government for the past eight years, and still the basic tenets of good management have been kept. Of course we are not pleased with some very important long-term issues the country still has to focus on, but the basics are in place, and this one of the reasons to be optimistic about Brazil.

The other thing I wanted to mention is that there is this notion that investors should buy equities in Brazil, to ride a wave of inflows the country is enjoying from the likes of international investors or pension funds or retail or what not. While this is all true, I don't believe that this will lead the market into a sustained up-trend, because for the past five or ten years we already enjoyed a primary market for equities. As soon as flows become very relevant, investment banks get very active and to throw a lot of paper at us, which is happening at this time.

I don't believe that flow is what will lead the market up mid- or long-term, but rather the fact that Brazil has a huge number of world-class companies that so far are outside of the market. They are just now starting to get access to capital, which creates a lot of opportunities with firms that face projects that were not net present value (NPV) positive under a double-digit interest rate environment in real terms in Brazil, but are clearly NPV positive under lower interest rates.

These are the opportunities that these world-class companies want to tap into, for which they will need capital, and it is our job to provide capital to them, which in turn will be beneficial to our clients.

Matthias Knab **You mentioned that the legal vehicles in Brazil are different and safer than to the current offshore vehicles and standards. Can you give us more background or details how they are different and safer?**

Mauro Rodrigues da Cunha That is an easy exercise, you compare the bylaws of a typical investment vehicle from whatever jurisdiction and compare that to the bylaws of a mutual fund or multi mercado (hedge) fund in Brazil. You will see that all of us here have to publish our NAV every day, we are audited and have segregation of functions between management, administration, and custodian. Madoff could not have happened in Brazil.

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That is the very reason why the Investment Bank Association has started a project that aims to make Brazil a global financial center, they actually formed a new association called BRAiN. After effecting some minor improvements in the tax and foreign exchange legislations, there should be no real reason for foreign investors to go through Cayman to invest in Brazil. Foreign investors will be able to buy Brazilian registered mutual funds and enjoy much more transparency and security than they have in the current set up.

Thomas Souza I don´t necessarily agree that local Brazilian funds are safer than Brazilian off-shore funds. I think if you provide the investor with a strong and well-known investment structure, with sound corporate governance principles and supported by blue-chip service providers from the administrator to the auditor, I think it is correct to say safety is similar in both cases.

Matthias Knab **Brazilian onshore hedge funds, the multi-mercado funds, are actually registered mutual funds, right?**

Thomas Souza Yes, all funds are registered and regulated by the Brazilian SEC (CVM). Funds are obliged to disclose daily NAVs and turn public all holdings every 30-90 days.

George Wachsmann The whole industry sits on the same legislation. This holds for liquidity funds all the way up to hedge funds or private equity funds, they are all equally regulated by the same legal framework.

I agree with Otávio and Mauro that thanks to the reforms and policy changes Brazil underwent over the past decade or so, we can say that we are in a relatively calm and safe situation, whereas a number of other countries will be facing substantial challenges over the next two or three years.

It is correct to say that in essence, the Brazilian corporate story will lead the market and not the flows or risk taking feature or any similar factor. But it is also true that foreign or global funds are definitely more open to Brazil than five or even three years ago. They want to know more about Brazil, and learn more about our economy. They congratulate us for the World Cup, and the Olympic Games; they know that the continent’s financial capital is no longer Buenos Aires.

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We see a lot of people claiming that Brazil is a proxy to China, but you still don't see too many people looking at Brazil as an important allocation. In the long term this difference between talk and action will have to somehow disappear. So, my question to the equity players here, at this Roundtable, is how do you see this happening? I agree that our story will not be based on flows, but there is an expectation that the flows will eventually show up. How will that happen, and wherefrom will the flows come first?

Patrick de Picciotto

At M Square, we follow a fundamental long-term value approach that appeals to basically two types of investors, and both have a long-term horizon. One group is the high net worth families and family offices, and the other group consists of institutional investors like endowments and foundations.

Since the second half of 2009, we have definitely seen a renewed and very high interest from these two groups in Brazil. They have been coming down on a regular basis and our impression from our conversations with them is the following:

Since the second half of 2009, we have definitely seen a renewed and very high interest from these two groups in Brazil. They have been coming down on a regular basis and our impression from our conversations with them is the following:

First, it is clear that Brazil is still not an important allocation for these investors. I can say with confidence that the vast majority of them do not have a dedicated Brazil exposure yet. In many cases, they already made the decision to have a direct exposure to Brazil but are still doing their homework, very diligently, taking their time to visit the managers and companies, and understand what is really happening with the Brazil domestic story in the first place. This approach is quite different from what we saw back in late 2007 and at the beginning of 2008, where people were rushing into Brazil and money flows came in quickly, but it was not really high quality, sticky capital.

The feedback that we get from all these investors regarding Brazil is that they come out of their trips here with a very positive impression overall.

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The feedback that we get from all these investors regarding Brazil is that they come out of their trips here with a very positive impression overall. That is the certainly valid with regards to the opportunity set over the next, say three to five years - there are, as Mauro said, dozens of world-class companies mainly focused in domestic oriented sectors, which are still very under-penetrated markets with a strong structural positive growth, that will thrive.

Their second conclusion is that Brazil is in a different league compared to other emerging markets in terms of regulatory framework, transparency, and also in terms of the number of quality managers that they find here.

Many large investors have told us that they already have dedicated investments in China and in India. From what we hear it seems that Russia has not been a major focus of these investors' capital since the 2008 crisis. But they also tell us that when they go to China or India and visit managers, they come out with a clear impression that there are only a very limited number - say four or five max – where they could put their money to work.

However, when they visit managers in Brazil, they realize that here at least are ten high quality managers that would be eligible to manage their capital. So, while the process may take a bit longer than in other markets, overall the developments are very positive for Brazil, and the international capital of quality will inevitably increase.

George Wachsmann

This is exactly my point. This is the story we keep hearing. Credit Suisse published a hedge fund report today, saying that hedge funds will top US$2 trillion, by the end of the year, and they expect over 60% of the inflow to go to Asia.

So, I keep listening to the same story: we love Brazil, the companies are world class, you have great managers, strong regulation and all that 'shpil', but still money goes either into G-3 or into Asia.

Thomas Souza

Money pours into equities in the G-3 and Asia more easily versus Brazil because real interest rates are still too high at 6%+. This means investors take a cyclical stance to investing in Brazil. Just compare valuations in Brazil to Chile or Mexico to underline my point. While Brazil trades at 14x earnings for 2010, Chile trades at 18x and Mexico trades at 16x – and real rates are a fraction in both these countries relative to Brazil. In addition, I believe Asia is mapped out by the foreign investor while Brazil is not.

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Patrick de Picciotto

I agree with George, and While for us on the ground, used to investing in the Brazilian equity space and seeing all kinds of interesting opportunities, not investing here does not seem too logical. But one has to keep in mind that these foreign investors have been going to China and

Asia for over ten years! This process does not happen overnight, it takes time, but it will happen in Brazil in the same way it did in Asia.

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Over the past year, we have seen a good number of endowments and institutional investors that took their first trip to Brazil. They call these “exploratory trips”. They typically stay for about a week, see 20 managers, five economists, three or four private equity firms and a few investment bankers. Then, a few months later they come down again. This time, they will only see the few managers they liked best. Then, maybe in another six months they will make the decision to allocate and to whom they will trust their capital.

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So the whole process takes time. Even if there are many high quality managers in Brazil, these institutional investors have very specific requirements. They are looking for firms with the right partnership structure, with strong operations, etc. because once they do invest their capital will stay in Brazil several years.

George Wachsmann

Just an anecdotal incidence, if you look back to the beginning of the Brazilian hedge fund industry back in 2002 and 2003, you will probably remember that all business plans started with offshore funds. But then they all focused on the local funds and forgot the offshore funds, because the flow were not happening. However, I am convinced that the flows will come eventually.

André Lion

If you look at Brazil from a longer time frame, say from the 1990s up until now, we have proven that not only are our companies really well managed, but they are also well prepared to cope with economic and systemic stress. Managers know how to behave during a crisis, having learned their lessons during the 80s and the 90s. So when you look at the most recent global crisis of 2008, people knew exactly what to do: how to cut costs, how to decrease leverage or not to be leveraged, and how to save cash. While many companies throughout the world were struggling to survive, people here in Brazil knew that the economy would be going through tough times, but they knew exactly what to do.

The other point I want to make is that as a country, our structure, our laws and institutions have now proven to international investors that Brazil has evolved from a weak, developing country into a position of strength. Today, the Central Bank is better prepared to target inflation, and we do have huge reserves. Overall, Brazil has become a much safer jurisdiction for investments, which is a relevant aspect to attract investors.

I believe when investors are still holding back, despite the opportunities and the framework here, the reason is lack of information about the country and our fundamentals. For example, when we travel and meet with people abroad, we have to address pretty basic questions such as how the securities lending markets operate here. They don’t understand how it works in Brazil, or how much you can leverage, how banks are controlled by Central Bank, etc.

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Those investors have been to India, China and other emerging market countries and are aware of the limitations there, and they assume we are very similar to those countries, but we are not, we are a step ahead of them. The high inflation period we went through until 1994 left us a very sophisticated and regulated financial system and fund industry.

André Lion

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Otávio Vieira That is right, and just to add to that, one of the main concerns of foreign investors is liquidity. They think that the market here is not so liquid, while in reality the Bovespa right now is the fifth biggest largest stock exchange in the world. Our volume is larger than the rest of whole Latin America, much bigger than Mexico or Chile, and much bigger than of some European stock exchanges.

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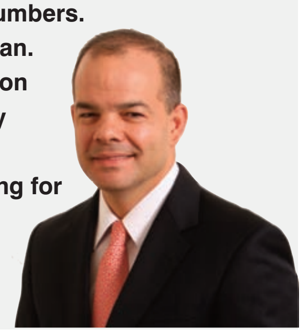
Regarding the quality of the managers in Brazil and Latin America, let me add some facts and numbers. Safdié Group runs a dedicated Latin America fund of funds, an offshore fund domiciled in Cayman. Our performance in 2007 was 15% positive, in 2008 we were down 20% but we were able to pay on time all our investors who had to redeem. Neither our program nor our underlying funds had any issues or restrictions. And in 2009, we were up +54%. I believe this is a good example of the soundness and capability of the Brazilian asset management industry, which has been developing for a number of years now and which will only continue to expand going forward.

Otávio Vieira



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example of the soundness and capability of the Brazilian asset management industry, which has been developing for a number of years now and which will only continue to expand going forward.

Thomas Souza

While Brazil has developed a strong regulatory framework for the financial and the fund industry as a whole, it still is a quite immature capitalist market. Brazil is really in the first innings of the development of its capital markets from a depth/reach perspective.

The high interest rates have prevented local investors from developing a culture of investing in equities. Meanwhile, a great number of foreigners still see the region as a cyclical investment proposition. I believe that flows will play a key role in re-rating Brazil and improving the capital markets functioning when Brazilian and foreign investors take a structural view to allocating capital to equities, and not just a cyclical approach.

While Brazil has developed a strong regulatory framework for the financial and the fund industry as a whole, it still is a quite immature capitalist market. Brazil is really in the first innings of the development of its capital markets from a depth/reach perspective.

When interest rates here converge to global levels, I believe that we will see a huge allocation of capital into equities from foreign and local investors.

Thomas Souza

When interest rates here converge to global levels, I believe that we will see a huge allocation of capital into equities from foreign and local investors. That will in itself make the capital markets a lot more vibrant than they are now, attracting world-class companies into the market as Mauro said, and making the market a lot more liquid, deeper and more sophisticated.

As of today, we don't have the pure equity hedge product as a representative asset class in Brazil yet; but over time we will have that. We do have the classic market neutral, long/shorts, which have played a very important role in providing liquidity, but we have to move on in Brazil and develop the overall fund industry further.

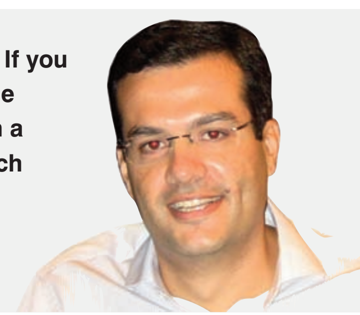
But this will happen, and these products and opportunities will come, which is why I am very bullish on the Brazilian market. I believe that interest rate convergence, economic growth, stability and visibility along with great corporate execution will be the main drivers for the market to really take off, rerate and converge with developing markets.

André Ribeiro

I agree with Otávio in the sense that less than a handful of Brazilian funds had problems during the crisis, and that the industry here is already big enough to have satisfactory statistical results. What is equally important is that even at the company level we didn't have many problems either - maybe five to ten companies had large problems with liquidity and so on, but that was it. Overall, Brazilian companies are still cheap, well run, and well capitalized. Also, the vast majority of the Brazilian companies have a family as the controlling shareholder and usually families don´t like leverage. That was really important for the Brazilian market to face the crisis.

Let me add more details to the level of transparency and regulations of the markets here. If you go to the CVM website - the CVM is the Brazilian SEC - you can see the portfolios of all the Brazilian managers in almost real-time, with one or two months of delay. Every investor in a Brazilian vehicle can go to the CVM website and see everything managers are doing, which companies they invest in, and so on.

André Ribeiro



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I also agree with Thomas that interest rates will be going down in Brazil; naturally in the short-term there will be some interest rates hikes, but Brazilian interest rates will converge, in the future. The middle class is growing very fast in this country, which means there is new, domestic money for investing in equities.
Until last year, everybody could have 1% per month invested in fixed income since Brazilian interest rates were running at 13% a year. Right now it is "just" 0.6% every month, and maybe in two or three years it's going to be 0.4% per month. This represents huge inflows to the Brazilian stock market.

In short, we have transparency, strict regulation, interest rates going down, a fast growing middle class, and foreign investors willing to increase exposure to Brazil. The long-term trend is quite good for investing in equities in Brazil.

Julie Rice I have a question for Patrick related to how international investors evaluate the markets here. Some firms are struggling right now to provide the kind of transparency that investors in this post-Madoff world are demanding. When the endowments study the Brazilian market, do they find everything they need in terms of transparency and risk reporting? Are they investing in your funds?

George Wachsman The first problem for most of them is that the minimum size of investments they are willing to make usually exceeds the current capacity that some funds, or even companies, or projects have. On the other hand, you are right that investors enjoy one of the highest levels of transparency from multiple sources, not only from managers who are willing to be more open, but also through legislation and controllers.

Patrick de Picciotto All investors have much more transparency in Brazil than they get abroad. This benefit is not provided specifically for them, but is pretty much standard.

As George said, the size of the offshore vehicles for many local asset management firms are still small in order to take tickets that could be $50 to $100 million. In some cases, investors are also looking for a longer track record, but most funds run by independent firms in Brazil were created in the last three or four years.

As I said before, despite the high quality of the managers locally, international investors really have relatively few independent firms where they can put money to work, because these are the ones that have all the requirements needed by this specific public. Obviously over time, more firms will qualify to be recipients of this type of capital.

Julie Rice You mentioned the CVM and the full disclosure on positions. Does that put you at a disadvantage? Are you able to compete with other alternative investment managers internationally?

You mentioned the CVM and the full disclosure on positions. Does that put you at a disadvantage? Are you able to compete with other alternative investment managers internationally?

Julie Rice

Mauro Rodrigues da Cunha I think it depends on your strategy. We have fairly liquid markets, so for funds concentrated on liquid assets, that's not a big issue. For deep value strategies and private equity, that's certainly more complicated. Managers tend to try to negotiate a black window with the CVM. You can request a 90-day period to disclose positions.

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Matthias Knab **And still, 90 days is not a lot of time.**

Thomas Souza I agree with Mauro. I don't think it puts the manager at a disadvantage if your investment strategy is based on liquid investments. Now if you trade in illiquid strategies, it is possible full disclosure may hurt you.

Julie Rice If all the mangers know each other's positions - are compelling returns difficult to produce? In the U.S. it is a manger's most prized possession; their intellectual property...

Mauro Rodrigues da Cunha Brazilian managers are used to transparency, because Brazilian clients demand that, especially institutions. Institutions demand daily transparency.

André Lion We live in an environment where information about the investment portfolios is easily disclosed in a timely manner. Therefore, the portfolio manager is prepared, as he knows that all his positions will be available online in no later than ninety days by CVM (the Brazilian SEC). In our opinion it raises a question about liquidity of the investments. At BRZ we have a very strict liquidity policy by which we do not trade securities with a daily average volume of less than R$10 million. Such liquidity policy allows us to fully implement our investment decisions as we have no trading limitations. Also, we believe that it helps protect our hedge funds from short squeezes. As the industry evolves, we will see funds with longer term mandates investing in less liquid assets (no mismatches between assets and liabilities). In the mean time we have to proactively manage undesirable risks of the portfolios.

George Wachsmann Generally, you can say that strategies in Brazil are very transparent, not just managers. The strategies are very clear and simple.

Thomas talked about the need to evolve – yes, we had long/shorts and market neutral, which are not as large a community as they used to be. At the moment, long-bias funds seem to be the new generation of the long/short.

The strategies are very clear and the rules are for everyone. Some managers may not like to have their positions disclosed, but everyone has to have it disclosed. That means you have to enhance your strategy to include that factor.

If you have a manager that says that he cannot provide transparency, then you have to point to him and say "well, maybe your strategy is weird, maybe you are doing something not so 'kosher', what are you doing there?" So in the end, the transparency becomes an even stronger point, it is not a weakness.

Mauro Rodrigues da Cunha And most of us volunteer to give more information. We do have to publish reports, and we give more qualitative information on top of that.

André Ribeiro And not just the managers provide a very transparent approach to clients, but also the companies are more transparent in Brazil compared to the rest of the world.

Not just the managers provide a very transparent approach to clients, but also the companies are more transparent in Brazil compared to the rest of the world.

If you want to invest in a European company or in an American company, let's not even mention Asia or other emerging markets, you won't have the amount of information you have from the Brazilian companies. Here, you can be very close to management teams and the whole organizational structure, you understand how the competition behaves, how clients understand the company's products, you can get lots of public information.

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Matthias Knab **In some other markets, some people invest based on having the right connections or having the right people.**

André Ribeiro Correct, while here it's always public information. The CVM, the Brazilian SEC, is getting stricter every year on facing and fighting insider information.

Patrick de Picciotto Patrick de Picciotto: At this point, managers can basically go long or short equities, fixed income, and currency instruments, but the offer keeps evolving. As Thomas mentioned, we are far from having the number of products on the credit space that other more developed markets have, but we are going into the right direction.

While it is of course beneficial for the market and investors that new strategies become available, I also like to point out that not all managers need to necessarily adopt the strategies. For example, many local equity funds are fundamental, long-only stock pickers, and several international investors, especially the endowments that I have mentioned before, are seeking these specific mandates. They want to select the best stock pickers they can find in Brazil through a very thorough and diligent process. And the allocation that they are going to put to work in Brazil is such a small % of their total portfolios that they are willing to withstand the expected volatility. At M Square, we do not use leverage, so as long as you do not have a permanent loss of capital - which we try to avoid by selecting the right companies, with little operational leverage and so forth – volatility is an inherent part of being a long-only fund in Brazil. The returns will likely be outsized over longer periods of time and this will compensate you for that kind of vol.

The market as a whole will of course continue to evolve. For example, the new Resolution 465, allows managers to invest a portion of their assets abroad, so there will be more options in terms of what can de done, more hedges, etc.. Some funds will even be able to invest entirely abroad, as long as they meet the minimum criteria of super qualified investor (>R$1 million).

George Wachsmann Last time we had this Roundtable, back in 2008, this new legislation allowing managers to invest offshore had just been announced, it was right out of the oven, if I am not mistaken. However, so far this is happening for hedging purposes rather than for broadening the opportunities beyond Brazil. You don't see local managers willing to invest in European countries, but rather local managers looking for cheaper hedges.

Last time we had this Roundtable, back in 2008, this new legislation allowing managers to invest offshore had just been announced, it was right out of the oven, if I am not mistaken. However, so far this is happening for hedging purposes rather than for broadening the opportunities beyond Brazil. You don't see local managers willing to invest in European countries, but rather local managers looking for cheaper hedges.

On the other hand, this legislation also allows offshore funds to set up local Brazilian feeders. However, this did not take off, either. Does anyone of you have an idea why? I think the opportunities are to be here, I would even say that international positions could compliment local strategies. I tend to believe we somehow have a paradox situation, of sorts. We complain that we don't have a lot of strategies, but on the other hand we are not very keen to look for them outside the box. Either we are afraid, or we are very good at what we are currently doing.

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Another example of this here is one more example for that paradox when you look at CTAs. There are around two or three CTAs who are trying to launch their feeders here. Now, if you talk to any fund of funds analyst and ask him what would make a good fit into any of the portfolios of Brazil to further diversify and achieve non-correlation, the theorist will always suggest to include at least 15-25% CTAs, but here the number is zero.

Thomas Souza Correct, I believe that CTAs are a product that should and will develop in the end, however at the moment we lack human resources for that here. In Brazil, you don't see a large number of managers dedicated to launching products in this niche, in part because it's difficult to put together a team with capabilities to excel in this area.

Matthias Knab **How is the market evolving in Brazil, what else do you observe?**

Mauro Cunha The market here definitely keeps evolving. One arena we are watching is certainly the primary markets, the IPO markets. Investment banks have lined up R$35 billion in offerings to us for this year, which is clearly more than the expected inflows.

The difference is that this time investors are actually looking at price and are not buying anything just because the friendly bankers told them to. This is very positive. People really will not just follow the hype anymore.

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André Lion During 2007 and 2008, offshore investors were using IPOs as a way to play the beta of the market. At that time they wanted exposure to the Brazilian market and bought just about any IPO. They didn't care if it was a telecom company, a mining project or any other investment case. For the

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It looks now that the market is back to normal where IPOs are better priced for the investors. One other aspect I would like to point out is that the number of companies that have acceptable daily liquidity have been increasing due to many block trades done by the controlling shareholders.

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Thomas Souza I think the market is developing at a slower-than-desired pace because as I said before, real rates remain way too high and therefore hinder the development of new strategies. So we are seeing a large number of new managers coming to the market offering already existing strategies such as market neutral long/shorts. The markets will enjoy a constructive revolution once real rates drop to 2-3%. You will then see the emergence of a number of different strategies as you can observe in the US, Europe and Asia.

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Thomas Souza

George Wachsmann We see evolution in the credit space, and ETFs are an area where we will see a lot more products, very soon. There is a huge effort to change legislation to allow for even fixed-income ETFs – right now the issue here is working through taxation, which is different for fixed income and equity investments.

Another factor that will impact the markets in the mid- and long-term is the process where lower interest rates will again cause a huge movement towards equities.

In the past, Bovespa did set up small stands in several public places to promote equities, even on the beaches! While this is laudable, it will of course also lead people to rush into buying equities without a proper approach, just following the "friendly advice" of someone or the media.

I have a question to the managers here at this Roundtable. After the crisis, many offshore managers started to change their liquidity terms, they became more investor-friendly and were even discussing lowering fees and so on.

In Brazil, funds still have the same fees from those days when interest rates were 20% a year, and now they are half of that, and the fees are still 2 and 20, which seems high. Do you see fees changing in Brazil?

Secondly, do you see the current framework of benchmark orientation changing in Brazil?

André Lion Regarding the 2 and 20 fee structure, I don't think the point is how high or how low the interest rates are, but rather how much alpha the manager can generate.

Going forward it will be easier to separate the good managers from the not so good managers, there will be a natural selection. The fees will then become an issue for firms that are not adding value to their funds or that consistently underperform whatever index or benchmark they are measured against.

Mauro Rodrigues da Cunha I would say that generally fees in Brazil are changing. The headline number is 2 and 20, but by means of rebates and discounts the average fee is already lower than this. I also agree with André that fees are not a function of interest rates, but that scale is the most important factor. The 2 and

20 is the flip side of the small scale of having a large number of individual asset management businesses in Brazil.

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Barriers to entry are nonexistent, and in addition an unprofitable firm can live on as a zombie for a long time. They don't even need to disappear, because many of these firms are heavily reliant on prop money.

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The consolidation of the industry will take a long time to play out, and only when you have more concentration and bigger managers, will we see a sustained movement to lower fees. And that of course will leave the niche players on one side and the bigger players on the other side.

André Ribeiro

When we look at U.S. or Europe, very good managers charge 2 and 20 or even more, while here in Brazil we follow a benchmark-oriented compensation. So let me clarify that here you charge 20% of performance fee over a benchmark, while outside of Brazil some managers don't even have a benchmark.

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André Ribeiro

In the case of certain index-linked products provided by very large Brazilian banks, I agree that here the prices have to go down and actually are going down. But when we look at the independent managers who aim to deliver alpha every year, it is more than fair to charge 2 and 20.

Mauro Rodrigues da Cunha

I think there is a very important issue here with how these products are sold. The distribution in Brazil is still very dependent on banks. They still own the end clients and therefore have a lot of pricing power for their own products and for third party products as well.

Secondly, the industry here is very much marketing driven. As much as we would like it to be purely driven by performance, I am sorry to say that this is not the case. It could be a bit different for macro funds, but success in particular for equity funds has possibly more to do with marketing than anything else. We have lots of managers that have been around for a long time, that have great stories and great reputations in the market, and if they open their funds for inflows, they get swamped with money. But if you look at their long-term track records, they underperform the

Bovespa. On the other hand you have some very good managers who regularly outperform the Bovespa, but they don't raise money because they didn't get their marketing act together.

So I would guess this is another aspect that will take a little bit of time, but eventually also here the market will be more efficient and more efficiently priced.

Thomas Souza

I think fees in Brazil are adequate, given that we have daily liquidity. While this makes life for an investor very easy, it is actually very bad for the development of the industry itself, because potentially you can have fund managers blow up in no time. If they underperform for three months, investors get out of the fund with no mercy.

Therefore, I argue that the daily liquidity requirement is something that has to change in Brazil long-term, so that managers can give more credibility to the investment they make and not only play it short-term.

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Thomas Souza

George, in your second question you pointed to the benchmark fixation here, which for me is a serious issue as well. Over the long-term, long-only funds will have to migrate towards index benchmarks, while long/shorts, equity hedges and long-bias funds will be able to sustain a benchmark which is absolute in nature, because they can preserve capital.

George Wachsmann

My main point about 2 and 20 being expensive - except for the point related to performance towards inflation - relates to other strategies, where you aim at returning something like CDI plus, a very small alpha.

If you compute a ratio between how much the manager is taking home, at the end of the year, and how much the investor is taking home, it's not fair, its almost like a private equity or a very leveraged "other people's money" play.

Every year that follows a year with a strong market return - like 2009 - someone spreads the rumor that CVM will change the legislation related to performance fees and benchmarks. In a year where the Bovespa index is 20% up and the managers return dispersion is, say from 10% to 30%, this is not a big deal. However, if you look at last year, when markets were up almost 100%, even managers that did poorly, with say, a return of half of the Bovespa, will have a huge performance collection

George Wachsmann

There is another reason why I bring up this discussion. Every year that follows a year with a strong market return - like 2009 - someone spreads the rumor that CVM will change the legislation related to performance fees and benchmarks. In a year where the Bovespa index is 20% up and the managers return dispersion is, say from 10% to 30%, this is not a big deal. However, if you look at last year, when markets were up almost 100%, even managers that did poorly, with say, a return of half of the Bovespa, will have a huge performance collection.

Patrick de Picciotto

Overall I would say the industry is evolving in the right direction regarding fees, but let me add that it is also an investor´s responsibility to choose the managers he likes most and have the most aligned incentive fee structure in place.

We have a local (R$-based) long-only fund that charges performance above inflation plus a benchmark (IGPM +6%). Last year obviously, we collected a sizable performance fee because we did very well. The year before though, the opposite happened as the Bovespa was down close to -42% in local terms while our benchmark of IGMP +6% was up >10%. So, despite falling substantially less than the main index (-30%), our local equity fund was still way below the high watermark, a situation we reverted in 2009.

Thomas mentioned the problems that can arise for a fund with daily liquidity. If investors ask for funds with such liquidity terms, then managers should charge higher fees because the investor base they will attract will likely be of poor quality.

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Patrick de Picciotto

At M Square we have some international investors who agreed to a two-year lockup in our offshore funds and in return we gave them a small discount on the fees. These types of arrangements make sense for some long-term investors and for us. We would welcome having more of this type of investor and in exchange charge a little less, as it aligns everybody's interests.

What I think is absolutely wrong in Brazil, but it is something that has been going on for so long that it will still take a long time to revert, is that local investors, including allocators, invest large sums in R$-based funds that have as mandates to deliver 110% of their benchmarks, normally equivalent to the local risk free rate. I believe that over time the local industry should migrate to a model, as it is in the United States, where managers really need to generate alpha in order to succeed. Returns will have to be 5-10% above their benchmarks, as opposed to 10% more than the local risk free rate as is currently the case with many funds in Brazil. Given the actual level of interest rates in Brazil, the latter currently translates into +0.5% to +1.0% per year above the local risk free rate. It seems absolutely bizarre and unsustainable to pay 2 and 20 for something like that, in my opinion.

Mauro Rodrigues da Cunha

I totally agree with Patrick that a lot of responsibility goes back to the investor. In our case, we launched a value fund that charges a performance fee on an annual basis, not semiannual, like it is the common practice in Brazil. There are even some long-term funds that charge monthly performance fees, which I find appalling.

But what's amazing is that we haven't really had a single case of feedback from a client saying

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Matthias Knab **Investors often don't care that much, as long as their investments generate return.**

Mauro Rodrigues da Cunha Yes, exactly.

Julie Rice I am curious about your approach to marketing. In the U.S. for example, funds direct their marketing to the pension advisory boards and to events like roundtables, but on much bigger scales. How do you go about marketing your funds internationally?

Patrick de Picciotto I can try to address this question as over the past 2.5 years I have been quite focused on international business development. My personal background is rooted in the investing side. Before joining M Square, I was running a family office and a small local asset management firm, while at M Square my main responsibility is to identify and attract foreign investors to our equity funds. This is of course a process that takes time and where a couple of things need to be done.

First thing is of course to travel, which many Brazilians do not do regularly. In my case, I have been traveling a lot, mainly to the US over the past two years. Several of the conversations we had, especially the initial ones, are very "educational". We basically explain to these prospect investors what is going on with Brazil, how different it is now for our activity compared to four or five years ago, etc. We tell that local capital markets have really evolved, that there are no longer as many issues about minority squeezes when the dual share class structure was the norm, etc. This is a consequence of the establishment of the Novo Mercado and the evolution of the local regulation.

Next, we talk about our particular approach to investing in the Brazilian equity space. At M Square, we spend a tremendous amount of time and effort following a very disciplined investment process. What is our investment universe, how do we define it? What are the main characteristics of the companies we are looking at? We explain our process in detail, because all equity managers have somewhat a similar speech - that they are long-term investors, buying substantially discounted companies and so on - I have really never heard the opposite...

My job is to differentiate M Square´s approach to those used by my colleagues here at Brasil Capital, BRZ, MAUA. All of these are quality companies, but we all have different styles and approaches to investing and the end investor needs to be able to understand these differences and choose what manager suits him/her best. It is a lengthy process, and you need qualified people doing that.

At M Square, we have decided that this function requires the full attention of a major partner of the firm. The days where a junior guy simply answers the phone and sends investor reports are pretty much gone. Investors want not only to talk to the investment team, but also to highly qualified professionals on the marketing side, people who really understand the companies in which the funds are invested, and the process we use to make these decisions. This is the reason I am involved in the investment committee.

In summary, although marketing is still somewhat a numbers game and you need to be in front of your potential and existing investors on a regular basis, you also need to do this being able to tell them how and why your firm and process differs from other equity funds.

George Wachsmann

I agree, firms have to follow a process exactly as Patrick explained and it will take some time to get traction offshore, except perhaps for those managers who, for example, came from the Central Bank, or who already had relationships or were established offshore.

Firms have to follow a process exactly as Patrick explained and it will take some time to get traction offshore, except perhaps for those managers who, for example, came from the Central Bank, or who already had relationships or were established offshore.

I also recommend to aspiring local firms not to try to reinvent the wheel. From a legal and structural perspective, your fund has to be exactly like all the other funds. For example, while theoretically you can work with any prime broker, if you don't use one of the top three names, you are going to be out of the main league. And that is already another thing you have to explain. Similarly, if you select a domicile for a fund, don't try to put more problems in front of you.

After all, finding offshore investors is the same challenge as doing it in the local market – a lot has to do with finding the first investor. The second, third and fourth endowment would come along, much more easily than the first one. If you chart the AUM growth of a fund, you see that whenever a big player comes in, a lot of others jump in as well, right?

I remember when I set up the fund of funds business at Unibanco, at that time only the global banks were doing fund of funds in Brazil. The problem was that they followed the same rules they had back in London, New York or Switzerland, which was looking for a five-year track record. However, at that time, no fund in Brazil had a five-year track record. Of course, now, five years later, they have it. So, what we did at Unibanco was decide to play by the local rules, not by the offshore rules.

George Wachsmann

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After all, finding offshore investors is the same challenge as doing it in the local market – a lot has to do with finding the first investor. The second, third and fourth endowment would come along, much more easily than the first one. If you chart the AUM growth of a fund, you see that whenever a big player comes in, a lot of others jump in as well, right?

You can of course try to cold-call like 100 endowments, but at some point you have to talk to their advisor, right? There are a number of companies in the U.S. that provide these advisory services. If you have them fall in love with you, then it will take perhaps one year or two, but you can end up in front of a lot of their clients.

I remember when I set up the fund of funds business at Unibanco, at that time only the global banks were doing fund of funds in Brazil. The problem was that they followed the same rules they had back in London, New York or Switzerland, which was looking for a five-year track record.

However, at that time, no fund in Brazil had a five-year track record. Of course, now, five years later, they have it. So, what we did at Unibanco was decide to play by the local rules, not by the offshore rules. Unfortunately when it comes to business, some companies are not able to question and change their rules, and often nobody wants to be the first one in anything, it seems to be a perennial challenge.

Thomas Souza

We have a strategy to use capital intro partners such as Morgan Stanley (our prime broker), Protege Partners (our seed investor) and Pyrenees (one of the most successful global emerging markets funds around). With their help and support we constantly travel to the US and Europe and are initially targeting family offices and fund of funds.

In a second stage, we will target the pension and endowment funds. We believe face-to-face contact is critical to the success of our capital raising effort, as the bottom line in this business (besides performance), is trust and confidence in the manager.

Patrick de Picciotto

Endowments are somewhat "dream investors" for all of us, which are long-term equity investors. However, many of these institutional investors are not in phenomenal shape right now, given what happened in 2008. Many of them do not have much capital to deploy in Brazil, so you cannot base your entire business model on attracting those investors.

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For the M Square Brazil Value strategy to succeed, we ultimately need to be able to attract capital of long-term horizon, which we have so far managed to do. Wealthy families, either directly or through family office structures, are also great long term investors, just like endowment or foundations

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For the M Square Brazil Value strategy to succeed, we ultimately need to be able to attract capital of long-term horizon, which we have so far managed to do. Wealthy families, either directly or through family office structures, are also great long term investors, just like endowment or foundations. We already have some institutional investors and would like this group to grow as a % of our investor base. In that sense, we have been spending a relevant amount of time talking to them. However, families who have run companies or sold their business and understand the companies and the process we use to select these companies are also phenomenal long-term investors that we would very much like to continue to attract.

Matthias Knab

How else can a Brazilian manager grow his firm? Mauro, your firm is currently merging with another fund manager, will consolidation be a force here in the market?

Mauro Rodrigues da Cunha

In our case, the merger is a very complementary fit; one company did not do anything that the other company is engaged in, so the fit is more horizontal. We believe we have a lot of opportunities for cross-selling and even more cross-fertilization of ideas.

I think more of such mergers will happen, but we also need consolidation in vertical terms where two firms that do similar things merge in order to become more competitive. I believe we will also see this type of merger.

George Wachsmann

As we said before, the barriers to entry to this industry are very low. So while some firms may consolidate, there is this huge incentive for a second tier manager or trader to leave and set up their own funds, and we also mentioned that funds here can survive forever in a sort of hibernation, operating with prop capital on a low cost base, without the need to raise much capital.

On my side of the business – the advisory side – I see a similar dynamic. There are offshore players coming in, they may acquire a local firm to jump start, and so when large banks merge (such as Itaú and Unibanco or Santander and ABN Amro), say, 30 bankers rolled over, and then they start like 15 different advisors and the show goes on.

Patrick de Picciotto

I believe this consolidation process is much more difficult than people expect, because at the end of the day our business is based on people. It is very hard to find a group of highly professional and talented people that get along well, think alike and have a similar long-term project. Therefore, the model of the partnership, how people get compensated and these kinds of issues are really at the core of successful independent investment firms.

Having said that, I do think a firm needs to have a critical size, because otherwise you won't attract the best talent and in the long term this matters a great deal. If I am running a small fund and a phenomenal student is coming out of a great university in Brazil or from an MBA abroad, and there is another equity fund which is much larger and has a better marketing strategy than ours, it is very likely that this student will go interview there first.

So I think it is critical to have a relevant size, but we do not believe in growing at any price. At M Square, we have made the decision to grow perhaps slower than some of our peers, but with the appropriate investor base and within our existing focus in the Brazilian equity space.

Mauro Rodrigues da Cunha

Consolidation may also happen by foreigners buying their way into the market buying a local asset manager. I am sure that all of your phones were ringing off the hook in 2007, but very few deals actually happened, probably because our value expectation at that time was wrong. But some deals happened, surely the same will happen again and possibly with much more rationality. We agreed that the barriers to entry are very low, but the barriers to growth and to reaching scale are actually very high. Therefore, for a foreign firm buying their way into the market is definitely an important way to try to access Brazil.

Thomas Souza

I agree consolidation is going to happen, either through foreign asset management firms buying Brazilian firms to have direct access to the markets, or through local managers who decide to merge.

This will also help strengthen management companies and create conditions for portfolio managers to focus more on performance and less on marketing or bureaucratic tasks, and improve corporate governance, which at some funds can still be very poor.

Matthias Knab

Do you have examples of such bad governance on a fund level?

Thomas Souza

Things like not having independent directors, misalignment of compensation, conflicts of interest between businesses, weak guidelines on personal investments outside of the fund the individual is associated with, and others. AguasClaras takes a serious view on those issues and has adopted strict governance standards.

George Wachsmann

Some of the really large, global asset management companies are starting to consider setting up dedicated Latin American and Brazilian desks, with analysts, managers, etc. in their home jurisdictions. In the same way in which a good portion of the larger Asian managers are sitting in London and New York, they are considering having their Latin America or their Brazilian teams in London and New York, as well.

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So firms like BlackRock, Franklin Templeton and other big names are starting to set up their Brazilian business at home, while we as local players have tons of reasons to think that being local is different and it is an advantage, however we must be aware that those guys know everything on how to reach clients. They know how to do it.

That means if they are successful and competitive in their returns, they will also be the competitors for offshore money. Some of them are already considering coming to Brazil and selling their funds locally, which they can under the new rules, they can even set up a local fund. These are really big firms and can easily claim they have 15 years doing Brazilian markets, somehow they will find a track record.

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Otávio Vieira

Still, for a larger investor like an endowment or institution, the most efficient way to reach the market is through a local advisor, even though the Brazilian market is well developed, transparent, and regulated and can be traded from abroad. Even with all these facilities, we have some pitfalls to avoid, I think this is a really important point.

Matthias Knab **Any other final comments?**

Patrick de Picciotto

When we take a longer-term view and look three to five years out, it's hard not to be very constructive with our activity in Brazil. Local capital markets have been evolving in the right direction. Since 2004-2005, over 110 companies have been listed. This means almost 50 new different businesses/segments of the economy that are now available to equity investors. We strongly believe this is an irreversible process and that these types of offerings will continue to happen for high quality companies, and at the right valuation.

So, for fundamental stock pickers like ourselves, it is now possible to invest in several winning businesses across different sectors of the economies, which have the majority if not all of their operations linked to Brazil´s domestic economy. Most of these firms are still either not in the index or very underrepresented in the Ibovespa.

Many of these firms operate in markets that are still hugely under-penetrated. These businesses have enormous pent up demand for their products or goods and will do well even in a more challenging macro environment. An example of a sector with these characteristics is healthcare, where we have been spending a substantial amount of time and investing a relevant part of our equity funds (around 20%). There are also many other industries with similar dynamics, where we are also very constructive.

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Patrick de Picciotto

My main message is that investment prospects are very good for a number of businesses across different segments of the Brazilian economy. We strongly believe that, as fundamental, disciplined stock pickers, we can select some of these companies that over time, will reward investors with extremely attractive returns. At M Square, we do not use leverage so, if investors can withstand volatility, understanding that this is an inherent part of the game in Brazil and very different from permanent losses of capital, they will likely do very well over the long run. Last, we are convinced that some of the best opportunities for investors in the Brazilian equity space lie outside of the main indices, so investing with a quality local manager will prove to be a winning strategy, providing higher returns with less risk than ETFs or the Ibovespa. Thank you for the opportunity of participating again in this RoundTable.

André Lion

Brazil is finally harvesting the results of all of the changes and reforms that were implemented during the last 10-15 years. The trend for Brazil's growth is outstanding. For the next five or ten years, GDP will grow at rates close to 5%, which is a strong and sustained trend, especially when you compare it to the new normal that we expect to see in the rest of the world. Even if compared to other emerging countries, Brazil is an interesting and different place to be; a great investment opportunity offering attractive returns in the long-term.

I also believe that to invest wisely in Brazil or in any other market, you have to have local contact. You need to know the companies and markets inside out, you need to be in direct contact with the domestic economy.

I would also say that with the continued evolution of funds, products and strategies available to investors, a pure beta play through ETFs, or a similar instrument, is not the name of the game anymore. It can be great in some years, but as we saw in 2008, they were not the best choice. We strongly believe that we have a handful of local managers that can deliver superior risk adjusted returns for investors.

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George Wachsmann

The interest in Brazil is there, and constantly increasing. For example, offshore multifamily offices are now looking for closer ties with local players. They want to learn more about the country, its legislation; they are looking for direct investments and local advice.

There is also new money coming in, and some of it in unconventional, nonlinear ways. For example, large local banks were very successful in raising money from their subsidiaries around the globe, or a French bank raised dedicated money for Brazil on their Korean subsidiary. This, I think, also enters into play -- it's new money coming in, but through people that already have their distribution links.

Thomas Souza

Over time, Brazil is transitioning from a value proposition into a growth proposition, and I believe the experienced managers will be better equipped to benefit from this new dynamic.

In the past, investing in Brazil was a cyclical experience. You would buy every 18 months or so. Brazil would blow up at some point, and you would sell before it blows up and buy again at the bottom, and so on and so forth. But now, with economic stability and visibility, things have changed. You can plan, program, you can see where companies will go maybe five, ten years from now. You can address questions like how they will grow, how they will finance the growth, and if we are paying the right price for the growth.

The longer-term investors will be able to capture the winners and survivors. The value proposition will always be there, but if the crises don't happen anymore every 18 months, it's going to be an increasingly tougher environment for the value players, and probably a better environment for the growth investor.

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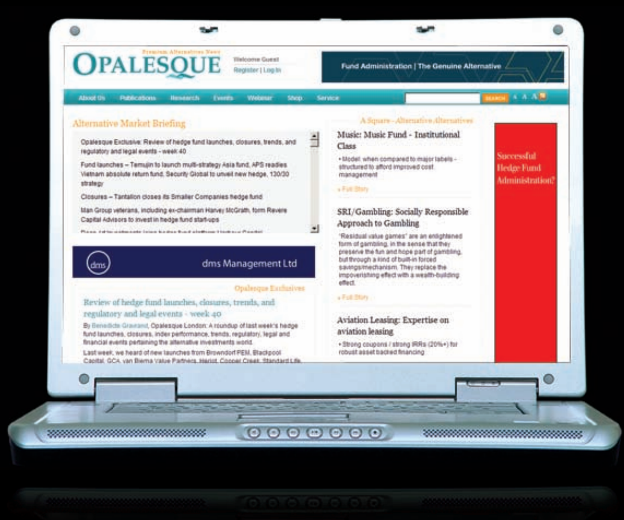

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