OPALESQUE



Opalesque Round Table Series '12

BRAZIL

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Editor's Note

Dear reader,

After 2008 and 2010, this is the third Opalesque Roundtable we are publishing about Brazil. Coming back after two years, I was amazed how the markets and the financial industry have marched along and achieved true progress, to the benefit of all Brazilians and investors.

The **number of strategies** offered by the local alternative investment managers continues to grow. The firms which participated in our small Roundtable, held in March at a local Citi office in Ipanema, are running equity long/short, activist, credit, macro, quantitative, real estate and private equity funds. You will also find CTAs operating out of Brazil.

Today, **more instruments than ever** are available to the local managers. They come in acronyms like REIT, but there are also FIPs, LCAs, LCIs, CRIs, FIDICS: all these instruments are starting to gain sophistication and also create arbitrage opportunities for the professionals on the ground who understand mispricing of an instrument related to its comparables.

On the macro level, the **creditworthiness** of Brazil is probably in its best position in at least 40 years – debt to GDP ratio has come down all the way from over 60% to around 36%-38%.

What will drive the performance of Brazilian markets going forward?

At a certain point, large inflows from **retail and institutional** Brazilian investors are expected to go into the listed equity markets. Fore example, only 15% of retail investors with US$100,000 to invest have money in funds. From these 15%, only 9% invest in equity funds. The average allocation of Brazilian pension funds to equity is 18%; but if you leave out the largest two, Petros and Previ, the number comes down to about 12-13%.

Brazil has still **attractive multiples and also better liquidity** compared to other Latin American markets like Chile or Mexico. Brazil's PE is between 9 and 10 while Chile is at 15 or 17, depending on the day, and Mexico is close to 14.

The **listed equity market** has still huge growth potential. Right now, only around 400 firms are listed companies (100 of those are basically shell companies and therefore not investable), whereas over 30,000 companies could eventually be listed.

Brazilian enterprises that have never tapped the capital markets before now have easy access to the local **credit markets** and issue relevant amounts at very low spreads. That has a direct impact on the equity market, because these companies can now raise capital not by using the owner's money, the equity, but by using third parties' money, which works as a significant leverage for the equity part of the balance sheet of the company.

Investor-friendly regulations

Regulations are extremely investor-friendly, as **hedge funds in Brazil are regulated by the same set of regulations as the local mutual funds**. That has broad implications for investors. For instance, **transparency and corporate governance** are in general much better than with offshore hedge funds. All **pricing** is done by an independent administrator, who will apply the same price for the same securities across all the funds from different managers that are under their administration. This is in stark contrast to what happened in 2008 or 2009, where some managers were carrying GMAC bonds at cost or par, while others had marked them down to zero; and between zero and par, you could find all sorts of marks even within the same administrator.

Margin requirements are set by CBLC rather than by the prime brokers. That means that two market participants having the exact same portfolio will have identical margin requirements. The margin does not depend on their commercial relationship with the broker.

The **market infrastructure** is changing fast. For example, over the last three years, several high frequency trading firms started to enter Brazil and are now adding liquidity to the local listed derivatives market. UBS' acquisition of the Brazilian brokerage firm Link Investimentos raised eyebrows in April 2010. Today, several major vendors like Trading Technologies and Equinix (through its acquisition of the Brazilian technology firm Alog) now provide access to exchanges and trading platforms.

The Opalesque 2012 Brazil Roundtable was sponsored by Citi and Eurex. Enjoy the read!

Matthias Knab
Director Opalesque
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Cover Photo: Rio de Janeiro

Participant Profiles



(LEFT TO RIGHT)

Mauricio Levi, Eduardo Moreira, Mariano Andrade, Raquel Gonzalez, Matthias Knab
Vassilis Vergotis, Marcia Rothschild, Otávio Vieira

Introduction

Eduardo Moreira
Plural Capital

My name is Eduardo Moreira. I am one of the founders and also a partner of Plural Capital. Plural Capital is a firm established in 2009, where four former partners of Banco Pactual, by that time UBS Pactual, decided to found a firm with the core business of investment banking, wealth management and asset management. After the non-compete agreement with Pactual ceased in July 20011 we started our banking and broker-dealer initiatives.

We have offices in Sao Paulo, Rio de Janeiro and New York. About 250 people work for us and we manage about 3 billion reals in our wealth management and asset management divisions.

Our funds have demonstrated very good returns, both in comparison to the industry and in absolute terms, but also in respect of the consistency of returns and volatility, which is amongst the lowest compared to our peers. Our flagship fund – Plural Equity Hedge - has led the industry of multimarket / multistrategy funds for most of the time since its inception, yielding 143% of the local benchmark rate (CDI) never having a single negative month.

Investment banking activities play a very important role at Plural Capital, since Pactual is the leading independent investment banking house in Brazil, and some of our founders were responsible for the investment banking teams there, leading about 70% of the IPOs and large M&As that took place in Brazil over the last decade. I myself am responsible for the wealth management and private banking divisions at Plural Capital.

Mauricio Levi
FAMA Investimentos

My name is Mauricio Levi. I am one of the founding partner of FAMA Investimentos, a long-only, value investing equity house that started back in 1993 and currently manages about $1 billion. We consider ourselves collaborative shareholders, as when appropriate, we buy reasonably large positions in companies, take seats on the board and try to unlock value in those companies we invest in.

Our main goal is to have consistent results over a period of 36 months and our flagship fund has delivered about 34% in dollar terms per year since inception in 1993. We like to be off index and out of the radar in order to find the ideas that no one is looking into and get into a nice story before they get big.

We are based in Sao Paulo and have currently 23 people working with us

Vassilis Vergotis
Eurex

My name is Vassilis Vergotis. I am responsible for the offices of Eurex in the Americas. Eurex started in the late 90s as a merger of the German and the Swiss derivatives exchanges. Since then, we have shown constant growth and the Eurex Group is currently a leading global exchange group comprising Eurex Exchange, ISE, EEX, Eurex Bonds, Eurex Repo and Eurex Clearing. We operate representative offices throughout Europe, including London, Zurich, Paris, and, of course, our corporate headquarters in Frankfurt. In the Americas our headquarters is in Chicago, and we have a smaller office in New York where we work together with the ISE.

As part of our growth strategy and geographic expansion, the last couple of years have seen the opening of offices in Singapore, Hong Kong, Mainland China, and recently in Japan.

As an exchange, we are the market operator and have always placed technology at the forefront of our activities. In our normal course of business, we speak regularly with hedge funds, institutional investors, CTAs, investment banks and basically everybody who participates in the market as part of our efforts to understand where the industry is going. Of course, we strive to use this information to best develop products that can be used by those investor groups to develop investment strategies. We

are also focused on developing market structures that make sense and serve the industry.

Brazil is one of the markets we cover out of the U.S. It is quite an important market for us and we look forward to continuing our engagement here, participating in discussions with market participants and growing our business further. We believe that we can do so by our unique and diverse product offering that can help Brazilian investors diversify their portfolios by accessing European markets via our cutting edge technology offering.

Mariano Andrade
Polo Capital

My name is Mariano Andrade. I am the head of the investor relations for Polo Capital. Polo was established in 2002 and started trading in 2003. We are an independent asset management firm founded by Claudio Andrade, not my relative, and Marcos Duarte. They had previously worked together at Credit Suisse Garantia. Our firm started as a single strategy platform with US$6 million and it grew to $1.5 billion in various strategies We are now 45 people.

Our AUM roughly breaks down into $900 million in our event driven long/short strategy that is focused in Brazil and Latin America. Then, our credit driven strategy has various different mandates in credit situations mostly in Brazil but also a few Latin American situations, for a total AUM of $450 million. There is a macro mandate with around $100 million. We also have a quantitative trading fund with roughly $50 million, and a real estate platform with $20 million which we seeded internally. This year we will launch our second real estate vehicle where we intend to raise around $180 million.

We believe that having a multi-disciplinary forum and different approaches creates lots of synergies, and we believe that those synergies far outweigh the cost of having different platforms.

In general, as a firm we aim to build attractive returns over the long-term. We will accept more volatility in the short-term than the average of the industry in exchange for potentially higher returns in the medium and longer-terms.

In our original fund, the event driven long/short strategy, we try to be involved in situations that are driven by company specific or situation specific risks rather than beta.

Marcia Rothschild
Citi's Securities and Fund Services

My name is Marcia Rothschild. I am Latin America sales and client management head for Citi's Securities and Fund Services Division. As most of you know Citi is a very important player in the space, supporting clients such as Polo and many in Brazil and globally.

Latin America is of strategic importance to Citibank, and Brazil is of course instrumental in that strategy. The country is a major hub for our securities and fund services business. We have been doing business here since the early 90s and have an office in Sao Paulo. We are a full service provider here in Brazil, servicing both traditional and alternative asset managers and are the number one private equity administrator. We have a unique position in that we can support our clients both onshore and offshore. I think that is not only unique but critical, as the Brazilian managers globalize and start developing their businesses offshore. That is a rapidly increasing trend.

Otávio Vieira
Fides Asset Management

My name is Otávio Vieira. I am Partner of Fides Asset Management and also act as the COO of the company. Fides Asset Management was created in 2002, which makes it an old company compared to a lot of players in Brazil. We focus only on equities with mandates of long/short and long-only funds.

We follow a multi-disciplinary approach to investing. We analyze mid and small cap, but also blue chips, so the whole universe of companies in Brazil. We look for companies that are not only attractive in terms of value, but also in terms of the risk return. We currently manage $200 million.

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Matthias Knab **You can sometimes hear that foreigners are usually cautious putting money into Brazil, while most locals are bullish. What is your view?**



Otávio Vieira: I would like to be contrarian on this question, because foreign investors are actually putting money into the Brazilian market since last year. They bought a lot of IPOs and follow-ons on those with substantial volumes. For this year, so until early March 2012, they bought over 7 billion reals in the BOVESPA, and foreigners are also very active in the private equity space. So, quite to the contrary, I believe we are in a position where foreign investors are more bullish on Brazil than even the local investors

Otávio Vieira

Individual investors in Brazil have been selling stocks for at least four years in a row. Brazilians are very cautious, and they use the CDI, our base interest rate, as their main benchmark. Brazilians think in CDI terms and go to sleep dreaming about the CDI, and I believe it is difficult to change this idea, at least in the short-term. 10.5% interest rate is fantastic for very low risk, considering that Brazil has today 38% debt to GDP, which is a very low ratio compared even to the developed countries.

The creditworthiness of Brazil is probably at the best position for at least the previous 40 years and therefore the risk of a sovereign bond is at extremely low levels. This is why Brazilians are so prone to investing in fixed income and not on equities or private equity.

Vassilis Vergotis: We have also witnessed and are continuing to witness several investment banks, trading firms and service providers that are investing into the Brazilian financial sector. You saw deals like UBS' acquisition of the Brazilian brokerage firm Link Investimentos in April 2010. Several major vendors like Trading Technologies and Equinix (through its acquisition of the Brazilian technology firm Alog) now provide access to exchanges and trading platforms. International investors are putting capital into Brazil, opening offices, hiring people and setting up teams to serve the market. We also see different foreign exchanges that are establishing their presence.

On the other hand, Brazilian firms are not yet putting a lot of money outside Brazil, since there are still so many things within the country. You probably see more capital inflows than capital outflows.



Vassilis Vergotis



Eduardo Moreira: I would like to address a particular aspect here. Foreigners can in fact say they are bullish and positive about Brazil, but still in aggregate don't put a lot of money into the markets here. We see this certainly happening nowadays, and the reason for that is mainly because the headquarters of those companies, wherever they are based, are going through a huge turmoil, which after the events of 2008 could be the greatest turmoil in their firm's existence.

They are so busy solving the problems they started to face after 2008, that even being bullish for Brazil and seeing a lot of opportunities here, they just cannot afford to invest as much as they wanted.

I personally believe Brazil offers great opportunities for investors today. Now and for the next few years, investors can make use of highly regarded investment houses like Fama and Fides which are highly respected equity investors, with great track records, and here on this table we also have Polo with a great focus on credit markets and offering good performance as well. Compared to the previous cycles Brazil has been through, my view is that credit and equity markets offer an unique scenario and great opportunities.

Otávio was mentioning that debt to GDP is now at around 36% or 38%, which came down all the way from over 60% a few years back. Also, looking at Brazilian CDS or other instruments that specify the country risk, you see that these days Brazil carries a really low premium, whereas over the past years, the country used to carry a pretty high premium on its securities.

The usual way of investing in Brazil was simply a buy and carry mode. For probably some twenty years ago until recently, the Brazilian investment package was to invest in interest rates, sell the dollar and buy stocks. If you do that, you will get almost 100% correlation with the vast majority of funds in the market.

However now for the first time, we are living in a global crisis where interest rates futures are not going up but rather going down in Brazil, which is what you would expect in a developed economy. You also don't see the local currency devaluating consistently against the dollar. Equity markets though went down; like it did during the other crises.

That means that now, there is no premium in the interest rates and FX markets for the asset management industry for just to buy and hold, which actually did work after every single crisis we lived in the past.

Eduardo Moreira



The equity market though seems to be holding a much higher premium than in the past crisis, because in a simplified way equities are just the discounted future companies' cash flows. During the past crises where we had much higher interest rates, and company stock was going down, it could be viewed as just an adjustment to the higher interest rates discounting the future cash flows. This time we saw the prices going down with the interest rates going lower as well. This brings a lot of premium on the equity market comparing to the other opportunities, but that does not necessarily mean it is going up right now.

You don't see this premium on either the local or the offshore sovereign bonds, and neither on the credit markets. However, probably within the next five years' window, we will be seeing a great development on the depth and sophistication of local credit markets.

The Brazilian REITs, the LCAs, the LCIs, the CRIs, the FIDICS and all the other instruments we have now are starting to gain sophistication, and with that, opportunities arise, as imperfections in pricing those securities in relation to their alternatives takes place.

This, in short, is my view. I am not outright bullish about the market, but I am bullish about the market offering lots of opportunities for investment experts that are specialized on those markets.



Mauricio Levi: I do believe equities in Brazil are still very attractive and not overpriced, because, as a matter of fact, the capital that is coming from abroad is still rather small in size.

Of course, it is true that capital goes in and out of Brazil with foreigners pulling out again after making some profits and then later coming back in, but this is due to the short term oriented money that is still prevalent in our markets. We still do not have a lot of what is called sticky money. Very few asset managers in Brazil have tapped institutional investors abroad that are typically more long term oriented. Instead, we do see a lot of hedge funds and traders trying to make 15% or 20%, as this is their game and that is why

they want to trade in Brazil.

If you look at global portfolios, Brazil, and Latin America, are still a very small part, especially compared to Asia. Most institutional investors will have either no investments in Brazil or maybe 1% or 2%, while having between 10% and 20% allocated to Asia. We are still at the tip of what is going to happen over the next ten years.

Even though interest rates have fallen a lot over the last ten years, we still have very high interest rates, that keep the pension funds in Brazil from investing more in equities.

As these interest rates continue to fall, more of the domestic pension funds will be moving into equities, and finally the individual investor will join as well. With a 10% interest rate, people here are comfortably getting 0.7% to 0.8% a month on their money without bearing any risks. As the rate falls, we will see them move into more risk.

In my view, most stocks in Brazil are cheap, with a huge room for richer valuations going forward. We are still a very small market, and if we want to attract more money, we'll also have more IPOs. Brazil has approximately 400 companies listed, and 100 of those are basically shell companies in which you cannot invest at all. They do not have any liquidity or float, so you are down to basically 300 companies.

For a country of the size of Brazil, 300 listed companies is ridiculous. For example, Israel is half the size of the smallest state of Brazil but has 600 companies listed. Another gauge is that there are 18,200 Brazilian companies with over 250 employees!

Coming back to the question – yes we currently see the faster type of foreign money coming in and out. However, as more institutional investors come in, and the market keeps growing, it will be only a question of time until we see the investors who were so far only focused in Asia building larger and longer term investments in Brazil and Latin America.

Mauricio Levi



Mariano Andrade

At Polo Capital we look at investments on a bottom-up basis but we have a macro desk that helps us evaluate our investment theses in the context of various macro scenarios. When we look at Brazil on a top-down basis, we cannot ignore the massive tailwind our economy had in the last five years. We enjoyed extremely favorable terms of trade and a huge expansion of credit penetration. Our base case is that the next five years will be more challenging to Brazil than the previous five years. As China migrates a part of its economy from capex to consumption, our terms of trade may de-rate.The cautious view that foreigners have towards Brazil probably stems from such dynamics.

Matthias Knab **Why do think Latin America is that under-represented in the global institutional portfolios?**

Mauricio Levi

For us at FAMA, institutional investors represent the client base we foremost deal with. Half of our investor base is currently of foreign institutional investors and I can tell you that it is very hard to get into these institutional investors. You need a long track record and go through a long and intense due diligence process, and when they put money with you, they start very small.

And yet, the vast majority of foreign institutional investors still know very little, if at all, about Brazil. They are still focusing a lot in Asia as their core emerging market allocation. Brazil is still new to them - be it by the distance, be it by the lack of knowledge, whatever the reason, there is a still lot of, let's call it, learning curve, ahead. Today, investors begin to understand what Brazil as an emerging country will deliver over the next few years and that it won't be another stop and go process like we have had so many times in the past. As foreigners gain confidence, they will put



more money to work in Brazil.

Our investors tell us that among their peers they are literally the pioneers. The most they allocate to Brazil is 2% of their core assets. You don't hear anyone saying "I have 5% or 10% allocated to Brazil", unless you are dealing with a dedicated emerging market fund with the mandate to allocate 100% into emerging markets. But also in this case, the dedicated emerging market fund will have a much larger share into Asia than into Latin America.

Mauricio Levi

Otávio Vieira Global allocations to Brazilian securities will continue to grow over time, but locals should invest as well more into Brazilian equities or the sophisticated securities like the ones Eduardo mentioned.

Let me add some numbers: from the people that have over US$100,000 to invest, only 15% invests in funds. From these 15%, only 9% invest in equity funds, so in aggregate this isn't a lot of money. The average allocation of Brazilian pension funds to equity is 18%; but if you leave out Petros and Previ the number comes down to about 12-13% invested in equities. So, there is still a lot of room to attract capital.



Otávio Vieira

Mariano Andrade: Some pensions do have a hard time on a forward-looking basis to beat their actuarial targets. That could create a driver for larger equity allocations from local investors. We're seeing some developments that may represent an intermediate phase in that process. For instance, we are experiencing a lot of demand for credit products, which one could see as the initial move towards seeking higher returns before institutions really migrate more towards equity and accept more volatility as a part of that.



In addition, individual investors already have lower CDI returns on their plain vanilla investments, and at the same time there is a lot of competition from tax efficient products like CRIs and FIIs where they do not pay any tax on income. Those instruments make for very compelling propositions compared to after-tax CDI investments. These products also give them alternatives to the migration into equity.

With the disclaimer that our firm does not live and breathe by making a call on the market, I would like to add some points regarding the Bull or Bear case of Brazil.

We can understand the cautious view towards Brazil going forward, because over the last five years or more, Brazil benefitted from very positive terms of trade which we do not think will carry over for another five years or more. At the same time, we experienced an expansion of credit from probably 20% of GDP towards 50%. That created lots of shock waves and benefitted several sectors of the economy.

Even if credit continues to expand without a cyclical bump, which is arguably unlikely, and we assume credit goes from 50% to 70% of GDP, the impact of that next leg will be much smaller than the previous move that took us from 20% to 50%. The base we grow from is much larger today. The natural tendency of investors when looking at some sectors in the Bovespa is to extrapolate the past into the future, and we think in some cases this is very unlikely.



If you factor in these considerations, some sectors in Brazil will look expensive versus comparable businesses in other places in the world, for instance in developed markets. That creates a competition for capital.

Mariano Andrade

Matthias Knab **Going forward, what will drive the performance of Brazilian equities, where will the returns come from?**

Eduardo Moreira It is pretty hard to say that equities are expensive or cheap in absolute terms but rather on relative terms. We can compare the valuation of the companies in terms of their ratios, and analyze it that versus their historical values over the past years in Brazil. From that perspective, valuations of the main companies that make up the Bovespa Index seems to be pretty attractive. Of course the intensity of that varies amongst different sectors and companies.

When I say that I see a premium on the stock market looking at the current prices, we have to keep in mind that the market acts as a herd when the players are diminishing their positions on risky assets. Then, the equity market is one of the first markets where they decrease their exposures. The market came down from 80,000 to about 50,000 points, which was a percentage downswing we had already experienced in other crises. However back then, we saw interest rates climbing from 10%, 12%, 14% to 25% and 30% on the peak of the crisis. This time, interest rates went from 10%, 12%, 13% to 9%, 10%.

The impact of these current lower rates on the present share prices means that the recent 30% or 40% decrease seems different to the ones from the previous crisis, which to a certain extent were also a reflection of the new opportunity cost of the future cash flow of the companies. Therefore, what I mean by saying that there is premium in the Brazilian equity markets, is that compared to the previous crisis, we are seeing the stock market going down, with the opportunity cost of Brazil going down as well.

We mentioned pension funds here at the Roundtable - most of the pension funds in Brazil had a perfect instrument for their investments, the NTNB. NTNB is a security in Brazil that yields the inflation plus a premium. This meant inflation plus 8% at the beginning, whereas most of the actuarial targets of those pension funds were inflation plus 5% or inflation plus 5.5%. Now, those NTNBs yield inflation plus 5%, which means that pension funds have no other alternative than adding risk to their assets to find this premium. From that side, a sizable amount of resources will at some point go to the equity market.



As we mentioned, the benchmark rate in Brazil is currently below 10%. You have to keep in mind that individual investors always had that magical number of 1% yield per month in their minds. For quite some time, earning 1% a month on their investments was the norm, but now they start to get just 0.6% or 0.5% per month. Soon, they will also be more willing to look at riskier assets to rebalance their portfolios.

Considering those trends, I believe we have reasons to expect a higher demand for Brazilian equities and also compared to other crises the market appears to have more premium considering the much lower opportunity cost of interest rates.

Eduardo Moreira

Mauricio Levi Of course, there are always certain stocks which are expensive, that is always going to happen in the market. There will be stocks that are “the flavor of the day” that end up expensive as investors herd into them. But we are not talking about one stock, we are talking about 300 stocks. In the past, some people bought Petrobras like it was the last pot of gold in the world, until they found out that being partners with the government was a terrible idea and they lost money. Then you have other companies that are just lying there and no one cares about them because they may be in a bad earnings momentum. However, this might be the case for a turnaround situation and a huge opportunity to produce outstanding returns as we have done so many times.

Buy cheap and sell expensive, that is where sustainable, long-term returns come from. We see Brazil as a great place for stock picking. If you just buy anything that will get you somewhere, but you probably won't be getting above market returns, i.e. you'll get only beta and no alpha at all.

Take the case of ETFs. They have specific stocks in their indices, but do not look at valuations as they just buy when the money comes in and sell when the flow goes out. Stocks that are part of ETFs can display a huge volatility because of these inflows and outflows, which gives the astute investor a good opportunity to trade. Those inflows can carry the stock way above its target price, and outflows can push them below any reasonable price, and you can go in and buy at exactly that point.



We are strong believers in stock picking. You have to find the best alternatives and the best ideas, and the less the market is looking at them, the less priced they are, giving you a good chance to reap those returns going forward. Of course, timing is uncertain and you need to able to sit and wait, even if you are an activist, in order for the value to be unlocked.

Mauricio Levi

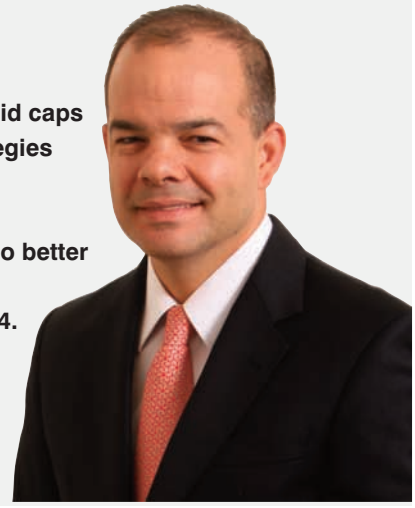


Mariano Andrade: **Interest rates will go down, but have in mind that the CDI rate is just some distant benchmark for the majority of small and mid-sized firms, because they certainly can't raise money anywhere near the CDI. In our credit fund we are structuring loans with real collateral using a concept called fiduciary alienation by which you can repossess the collateral in an off-court process.**

Depending on the business the company is involved in, those firms are happy to borrow money at CDI plus 8 or plus 10 points, and sometimes inflation plus a healthy spread, which for lenders are of course very attractive spreads. When you look at the economy in aggregate, the cost of capital still is high for many players and the CDI rate may not be a good yardstick for cost of capital.

Otávio Vieira: **At Fides Asset Management, we believe that the future returns will come from alpha generation. In the past, it was very easy to make money simply betting on beta.**

I believe that our multi-discipline approach will be key for success going forward. For example, sometimes it will be good to buy large caps and sell small caps or at least mid caps or ETFs in this space. You can create double alpha strategies, and such a mix of strategies will optimize fund's risk return profile.



In my view, Brazil is certainly not expensive if you compare our multiples and have also better liquidity compared to other Latin American markets like Chile or Mexico. Brazil's PE is between 9 and 10. Chile is at 15 or 17, depending on the day, and Mexico is close to 14. On the sovereign and corporate bond side, Brazilian companies and the government are issuing bonds at levels very close to these countries. So, there is no reason why Brazil should be trading with such a rich premium.

Otávio Vieira

Eduardo Moreira These are very important points and it is very good we are mentioning this.

Companies in Brazil are raising money on local markets at levels that they never dreamt of. Enterprises that have never tapped the capital markets before come to the local market of debentures, the local corporate bonds, and issue relevant amounts at very low spreads. In fact at spreads comparable to the sovereign spreads, looking for instance to the Brazilian 5yrs CDS. Theoretically sovereigns should be the ceiling where those companies should issue, or be rated, however local companies coming fresh to the market have been able to raise money at comparable rates to this ceiling.



What does that mean? That has a direct impact on the equity market, because that means that these companies have the ability to raise capital not using the owner's money, the equity, but using third parties' money, debt, at much lower rates than they could before. That works as a huge leverage for the equity part of the balance sheet of the company.

I have not been hearing people talking about this effect, but going forward, the level where the local private companies have been able to raise money on the fixed income market will have a great impact on the valuation of the companies. In my opinion, this effect will be priced into the equity market in the short-term.

Eduardo Moreira

Matthias Knab **After 2008 and 2010, this is our third Roundtable in Brazil. What I am impressed this time is specifically how the Brazilian hedge fund industry has evolved – there are now much more fund strategies available than before. We are looking at credit strategies, macro quantitative strategies, real estate funds and even local CTAs. Please share with us in detail how the Brazilian financial markets and strategies have evolved.**

Eduardo Moreira: We have witnessed a huge evolution over the past few years in the fixed income markets. Government debt to GDP decreased from over 60% to 36% in Brazil, and the world lives in an environment of much more liquidity today. As the need for financing the growth of Brazil still exists, actually at a much higher level than before, we needed to create private instruments for raising this money in order to finance this growth.



Then instruments like the CRIs, the FIIs, the LCIs, the LCAs and arose and were given the same tax treatment of the instruments that were used to finance the real estate and agribusiness sectors for instance.

When I started to trade the offshore corporate bonds of Brazilian companies back in 1997, a $100 million issuance of large companies like Vale do Rio Doce with a five years tenure was considered big. Nowadays, a company you never heard of issues a $1 billion perpetual bond, and nobody seems to care about it.

Between those points A and B there was obviously a continuous development and gain in sophistication for the market from plain vanilla instruments to where they are today.

There are still a lot of arbitrage opportunities in the local credit markets, mainly because the banks are set up in a way where you have desks that trade only REITs, desks that trade only debentures, and trading only FIDICs, FIIs, LCIs, and so on. Because these markets are pretty new, they are still rather shallow in Brazil. There is basically no or a very small secondary market. And despite the fact that the instruments are all comparables - they are all credit instruments,

so all have a tenor, a rate, some have provisions for a guarantee or collateral, and they all compete for the same money - markets price them individually.

The current set-up of the segregated trading desks creates a lot of arbitrage opportunities. If you start a proper analysis, you will find that some things will trade at levels that make no sense when you contrast them to other comparables in the credit market. In this sense there is still a lot of evolution to happen.

On the equities markets, I believe it is still a challenge to set up quantitative strategies in Brazil. No matter if your strategy is low or high frequency, you need the liquidity that allows you to get in and out of a position without major transaction cost. In quantitative strategies, the transaction cost makes a lot of difference. And you also need a large universe of companies that fits the minimum pre-requisites of liquidity to screen.

Eduardo Moreira



Of course, there are a few funds that are still trying to prove themselves in the market, but it is a bit like the egg and the chicken, it all comes down to liquidity getting broader. For Plural Capital we just hired Ian Glaser, the head of MSCI Barra for the Portfolio Optimization division as our CRO. He will be bringing to our company the ability to build a quantitative strategy in Brazil. It is a tricky process, because you just can't take something that works on the U.S. market and adapt to Brazil, because here you are dealing with a completely different market in terms of liquidity and breadth.

Mariano Andrade

We have a small quantitative product in our platform, and I agree with Eduardo's statements about the quantitative strategies. Ours is a local fund for Brazilians that runs around 100 million reals or roughly US-$50 million. Getting scale is a challenge, because if you take the universe of 300 stocks that Mauricio mentioned, you have to screen for the ones that fit high frequency trading, which requires a certain depth of the order book. The result is that high-frequency is limited to a few dozen stocks.

So for us, this fund is a small product where we are trying to build scale. It is an important asset management discipline to first build the scale before you bring in new capital. For Polo Capital, that means that the fund has kept a stable size for a while. We do not want to dilute the fund with lower Sharpe ratio strategies just to raise assets. Again, the basis of our approach to capacity is scale first, capital later, which applies to all our products, but it's certainly a key consideration in our quant fund.



Matthias mentioned the evolution of the asset management industry in Brazil. I would like to add a few points here that I believe are interesting. For example, our local hedge funds in Brazil are regulated by the same set of regulations as the local mutual funds. That has broad implications for investors. For instance, corporate governance here is in general much better than with offshore hedge funds, and that became pretty obvious during the 2008/2009 crisis.

Another important aspect is that all pricing is done by an independent administrator. In Brazil the administrator will apply the same price for the same securities across all the funds from different managers that are under their administration. This is in stark contrast to what we saw in 2008 or 2009 where you had some managers carrying GMAC bonds at cost or par, while others had marked them down to zero, and in between zero and par you could find all sorts of marks even within the same administrator. That does not happen in Brazil.

Mariano Andrade

In Brazil, the administrator is the party that is legally responsible for the funds. They can actually fire the manager at any point in time if they believe the manager is not doing a proper job. If a manager suspends redemptions in a fund, the administrator has to call an extraordinary shareholders meeting which will deliberate, among other things, the replacement of the manager. In Brazil, managers cannot get away with some things that we saw in the offshore marketplace.

The other point I was going to make about Brazil, which is very important for managers and investors alike, is that the margin requirements here are set by CBLC rather than by the prime brokers. If you have two market participants that have the exact same portfolio, the margin requirements are exactly the same, to the penny. The margin does not depend on their commercial relationship with the broker.

Of course, CBLC revises those requirements periodically, but you have always a very good handle on how much collateral you need to post, you are not subject to your prime broker calling you overnight and saying that the market is a mess, so you need to double your collateral.

For certain strategies that use leverage, which is the case of our event driven long/short strategy, that is a very important distinction if you were going to operate the same type of portfolio in other jurisdictions.

As a final comment on the evolution of the industry, I would point that scale will become more and more important, as costs have been going up on all fronts – rent, people, compliance, travel, etc.

I have a question where I am also curious to hear your opinion. Do you think that going forward fees will be more scrutinized, particularly as the rates of the CDI and other plain vanilla returns go down?

Otávio Vieira

I would add that there are a lot of funds in Brazil with a value proposition of generating 50 basis points a year of excess return, and they are charging 1% of management fee. For the next years, definitely these kinds of things would disappear. Conversely, those funds offering a true value proposition should still be able to get good offers in terms of fees.

Marcia Rothschild

Despite all the advances and evolution of the Brazilian market, we some times see that Brazil is still considered a "mystery" to some of the foreign investors. There is of course a strong attraction and certainly the intention to do more here, but as we pointed out, many still have yet to actually come here on a proper due diligence trip to explore the investment options in Brazil.

Meanwhile, a good number of foreign investors do find interesting M&A and partnership opportunities in Latin America overall and Brazil, and they are very happily surprised when they learn that a local hedge fund is as regulated as a mutual fund for example in the U.S. We haven't mentioned transparency yet – really I do not see the level of transparency that we have here anywhere else where we do business.

While LatAm and Brazil are attractive to them and part of their strategic plans, considering their immediate concerns with the situation in Europe, LatAm and Brazil have definitely been placed on the back burner for the time being.

Marcia Rothschild



We as a service provider must support new instruments and collaborate with our clients and partners in their development in compliance with the regulations.

I also believe that people like yourselves at this table have a tremendous advantage compared to foreign asset managers that want to break through in Brazil. The on the ground presence and depth of knowledge and expertise that you have are very hard to compete with.

I am a believer that "if you can make it in Brazil, you can make it anywhere" - I am curious, are you looking into exporting your talent and expertise and go abroad? Can you export your knowledge and expertise and manage money beyond Brazilian stocks and Brazilian strategies?

Otávio Vieira: Marcia, first, I do not believe a foreign investor should be scared about Brazil. I think transparency here is much better than most of the other emerging economies. We have a really decent liquidity, for example, the Brazilian Bovespa is trading a volume that is five times that of the Mexican Stock Exchange. Regarding derivatives, you cannot compare Brazilian liquidity to any country in Latin America or even to some countries in Europe.



One of our biggest issues here is that the CDI is so powerful that even banks use it to lend money and invest in CDI. For example, the return on equity of Bradesco and Itau are larger than the return on equity of BTG Pactual, simply because the former two lend money. Lending money in Brazil is a big business. From a foreign investor's stand point, I think he or she should look at macro strategies and equity strategies in the hedge fund space, credit and private equity.

The other spaces may still be difficult to navigate, because we do not have convertibles or CDS for the local markets or agriculture contracts. Well, in fact, we do have some, but they are not traded constantly. It is difficult to short some stocks, I would say you can short only 100 stocks or even less. These are the complexities of our emerging economy, but even with these current limitations, I believe we are in a good shape.

Marcia Rothschild That is correct, and in fact I am more positive now than I was four or five years ago. Several firms that never before talked to us specifically about Brazil are now very interested. Some of the largest firms in the world are now actually investing, a couple of them for the first time, either through a FIP (Private Equity Fund) or other vehicles. I think we are just starting to see what has been happening in Asia for many years.

Mauricio Levi I think we have to understand that Brazil is far from the mainstream. We are not close to Asia, we are not close to Europe, we are not close to anywhere basically, so the distance is also a challenge to get people to come down here. It is a long 10-12-hour flight at least, no matter where you come from. Nonetheless, looking forward, we will be a part of everyone's portfolio.

Regarding Marcia's question of Brazilian managers moving abroad, I would say it depends a lot on what you do. If you are trading large caps for instance, it really does not matter where you are because when you buy the Brazilian large caps, you are not buying Brazil, you are buying global, or should I say Chinese, demand for oil or iron ore.

If Vale is headquartered in Brazil or in Canada or in the Arctic Pole, it makes no difference at all. Whatever Brazil does, it doesn't affect Vale for instance, (except when you get new taxes from the government, increasing your downside). Brazil does not dictate the price of iron ore. If demand falls you are going to have a problem, no matter where Vale is located, and you have the same thing with oil.

Therefore, a typical large cap investor can be sitting in New York, London, wherever, as he will be having almost identical information at the same time.

Mauricio Levi



However, if you are buying in the domestic market with smaller companies, that do not necessarily have very well structured IR departments, then you need to take extra efforts to double check and cross check the information. To understand where you are putting your money to work, you need to be on the ground. You need to have a very good idea of who is your partner, what has this guy done in the past, what are his ethics. You need to understand the dynamics of that specific market. Who are the suppliers? Who are the clients? Who are the competitors? Are you a price taker or a price maker? Are your levels of return sustainable given the dynamics of your industry? It is very hard to export this model and that is why you have specialist equity managers in several places of the world operating on the ground.

We know of examples in the Brazilian market where companies that were listed in the Novo Mercado, which should stand for the top level of corporate governance, decided to overrule the requirements and just went around the bylaws.

No matter what the lawyers do, you are not safe at all if you do not have an ethical partner on your side. How will you research the guy's reputation, his history, his ethics, who is he related to, if you are not on the ground? You can try to google his name, but we are talking about a very different set of information.

Regulations, taxes, governments are different, everything changes from country to country. Even when you fly to from Sao Paulo to the northeast of Brazil you already find differences.

If you trade government bonds or currencies, it again does not really matter where your office is. However, if you deal with private credit/bonds things are different. If you want to put money into bonds, you need to analyze the company just as much as you analyze for equity investments. So here, again, you need to have local intelligence.

For the local companies, a similar effect applies, particularly for the very small ones. They will be able to have access to credit in Brazil, but if they try raise capital abroad, they'll pay very high interest rates, because part of that will be the premium for not knowing who the issuer is.

Vassilis Vergotis

From an exchange perspective, we also see that activity from our customers into Brazil is on the rise. We have identified a couple of relevant developments that have occurred during the last three years in Brazil that have encouraged this trend. In contrast to the rest of the world, the majority of the derivatives volume in Brazil is done in the exchange listed business while OTC is a very small part of the market. Therefore, it is important to talk about the evolution and changes of the exchange traded derivatives space in Brazil.

Over the last three years we have seen the entry of several high frequency trading firms into Brazil, adding liquidity to the local listed derivatives market. That created a dynamic that wasn't there in the past.

The technology that these new entrants have deployed changed the technology services that the local exchange and brokerage firms are offering. At the same time, their activity started interacting and competing with that of the local market participants.



The evolution on the technology side is also affecting quantitative strategies. Some of the participants mentioned the dearth of quantitative strategies. However, I believe that going forward, they will become more common as liquidity and technology improve. More and more firms are looking into it and developing and adjusting their technology accordingly. All in all, those changes are also changing the overall market structure in Brazil.

It is also worth mentioning some of the recent regulatory changes that will alter the Brazilian market structure longer term. First of all, the fact that CVM started to

Vassilis Vergotis

allow foreign exchanges to register enables firms like Eurex Exchange to engage in discussions with local market participants and offer a new venue for their investment strategies. This will be also facilitated by the new rule that allows local registered funds to allocate up to 100 percent of their assets in foreign markets.

There are still several hurdles that counteract the necessary freedom of capital inside and outside of the country in order to allow for a successful implementation of the above measures but I assume that the market will work through them over time.

In the light of falling interest rates in Brazil, we also believe that the idea of diversification not only into the local equity market, but also into other foreign markets starts making sense. This is an idea that is gaining momentum and more firms are looking into it, along with the notion of also having their assets in different currencies, be it the dollar or euro and not just in reals.

This builds on the importance of buy-side firms and is creating a more rounded market.

Eduardo Moreira Marcia referred to the level of expertise some of the Brazilian money managers bring to the table.

I believe as well that Brazil is a unique country in the world. We have gone through hyperinflation, we recently lived a sharp institutionalization process of the country, a shift in risk premium, and an advance of market rules that probably isn't comparable to any other country.

As locals, we are experts in a country that has a lot of peculiarities compared to other countries in the world. We do have this competitive advantage in trading the Brazilian markets when we compete against foreigners in Brazil. What is more, the edge that we locals have here in Brazil is much higher than say an American would have in trading the U.S., because the U.S. is a much more globalized economy and thus more a commodity than the Brazilian markets.

Eduardo Moreira



This is why at Plural we like to specialize in Brazil and take advantage of this edge to bring above-average returns to our investors. Having this kind of edge enables you to walk into the efficient frontier to better risk-return levels of investments.

Mariano Andrade I'd also say that exporting what we do in Brazil and Latin America to other geographies is very tricky and depends on certain variables. For the typical relative value trade on our equity long/short platform, we are looking for corporate events that would change pricing of one security versus another, and this requires knowing the motivation of the shareholders, the regulation and other local factors – exporting this discipline requires knowledge of the end markets.

In other equity long/short positions we will trade pairs of comparable companies. We look at how certain key performance drivers are priced across sector peers and try to spot large discrepancies. In the case of stocks that are driven by domestic factors, we stick to Brazil, Latin America and South Africa, which are the markets we know well. That applies to sectors such as consumer, retail, financial, electric utilities, telecom and . For some sectors that are primarily driven by global factors, such as metals and mining, it is arguably more feasible to export the strategy, but we do it on a very measured scale, as there are always local factors that impact the investment, such as corporate law, taxation, etc.

When it comes to our credit strategy, we are originating loans. You have to know whom you are lending money to, you have to structure the loan, you have to evaluate the collateral, and you have to have a good handle on the laws and regulations. These are skills that are not easily replicated in other jurisdictions.

In our real estate engagement, we focus always on Brazil. In respect to the quantitative strategies, if you try to apply your models that work here to the U.S., you will probably get a completely different picture, however taking them to other emerging markets may offer you interesting opportunities.

Mauricio Levi: Mariano just mentioned how important it is to be familiar with the local law, and indeed, the regulatory risk and actually court risk in Brazil can be substantial. I would say that any foreigner coming to Brazil wanting to litigate will be going through hell; that is the best word I can use to describe the experience. He will never understand how courts work in Brazil, as we ourselves don't understand them. We do not get it. Imagine someone from abroad, especially from the Anglo Saxon countries where the rule is actually what it is. Here in Brazil, rules may be and may not be, it depends on who is judging, and the whole thing takes forever.



Say you are an activist investor from abroad disputing something with a company, if you don't manage to get an agreement or relatively good terms and go to courts, you are going to get tangled in there for maybe five, ten or even fifteen years. You will be part of the discussion about the weather or soccer results, just everything except getting your things done.

Being local and having grown up here, you know the limits to which you can go before you enter a fight or a dispute in Brazil. You need to know the grounds and where your limit is for each different situation. That is not something that you learn very quickly. Even initiatives as arbitration and chambers are better than the courts, they tend to work well, but they do not cover all of the situations in Brazil, and unfortunately in Brazil you can always have the next level of the courts to dispute anything. Even things that look certain may not be certain in Brazil. Only by knowing how things work that you are going to get around this risk.

Mauricio Levi

Matthias Knab **Mauricio, activist investing is one of the core investment principles at Fama. Can you explain us more about the companies' corporate governance? And what are some of the tools you can use here in Brazil as an activist investor?**

Mauricio Levi: Corporate governance in Brazil can differ a lot. It depends on the company you are investing in. We run a very thorough due diligence process on the qualitative side before we invest. Some companies welcome you, some do not. Some companies are listed just for the sake of being listed, some companies do not want minority shareholders at the Board level, some of them will fight as hard as they can to get you out of the Board.

We have several examples of such behavior in our history. Even when you have the right to a board seat because you are the largest minority shareholder, they try to overrule your documentation or try to impose fines, whatever it takes. On the other hand, you have companies that are avid to have someone on the Board because they know that you are going to bring a different angle, you are going to help them with things where they maybe are not so knowledgeable.



This is often the case with companies that recently IPO'd. Investment bankers fulfill their role offering numerous alternatives, but we often see them pushing products that may fit into a bank's balance sheet but not necessarily on a company's balance sheet. Most companies are not financially sophisticated and that is why we think we can help them in many cases, but not everyone wants to be helped, some people just want to play their own way.

Mauricio Levi

When it comes to available tools for the activist investor in Brazil, in some cases you can have arbitration, and for all others you may obviously go to court. However, we do not even go to arbitration. We stop before that, and this is why a very important part of our analysis is knowing who is our partner. I do not want to get entangled in a fight that will lock in my capital there for an indefinite period of time. Also, smaller or mid cap companies here are mostly owned by a family or by a group of people, so they actually have the final word. You can tap dance on the table and it won't matter. If they say no it is no, if they say yes it is yes.

So rather than being a confrontational activist we are a collaborative activist. We sit down with the controlling group and show them our ideas. Obviously, we do not have to agree on everything, but as the activist investor you want to demonstrate to them that you are trying to help develop the company, that you have the same targets and are not in opposite ends. The bottom line is that confrontation does not pay off in Brazil.

Matthias Knab **Are you looking to establish long term relationships with the firms?**

Mauricio Levi

The relationship mainly depends on how long you want to be invested in them or on how long it takes for the investment case to be fulfilled.

When we elect someone for a Company's board there is a very specific mandate and result we want to obtain through that. It might just be to get more transparency or it might be to help the Company develop a sounder long-term strategy and focus on its core. In some cases, we try to be a driving force behind a necessary turn-around on the Company`s operations.

It is therefore the results obtained from the different strategies that will determine for how long we will develop the relationship with the company rather than a pre determined timeframe. First and foremost we are investors and what determines the duration of our relationship with companies is the investment theses and the returns obtained from the investment.

Matthias Knab **Is anybody working on new products or has anyone recently launched a new product?**



Mauricio Levi: We launched a private equity fund looking into smaller companies back in 2008. As we discussed, Brazil has a very small number of companies listed in the stock market, but over 30,000 companies could eventually be listed. Therefore, private equity is another area with very good outlook for investments in Brazil. However, PE is currently expensive and in fact we did not invest all the capital that we raised. We actually returned a significant part of the amount raised back to our investors. There is too much money coming into private equity and too few companies willing to deal.

We think that valuations in the public equity space, more specifically in the small caps, are currently much more enticing than those found in private equity. That must be because there is so much money sitting on the sidelines for private equity and not nearly as much willing to invest in the less liquid listed equities space. This is why we are currently analyzing ideas to better explore this niche with a longer-term, focused investment vehicle.

Mariano Andrade

The real estate group of Polo Capital was started in 2010, when a Board member of one of the listed real estate companies we were invested in decided to complete his cycle with the company that was owned by his family. Having enjoyed the interaction with him on the Broad capacity, we thought it was a good idea to have him join the firm. We started investing in real estate projects, development

projects with family and friends money first by launching a small FIP structure which is essentially a private equity type vehicle to invest in real estate projects.

The capital was of $20 million and it is now 100% earmarked around a dozen projects. We have at the moment many more ideas than we have capital, so we decided to launch a second real estate fund this year. The fund is already approved by the CVM for up to 300 million reals. This fund basically targets real estate development projects in residential, commercial, second homes, hotels, and retrofit.

The way we structure those investments is that for each investment we create a special purpose vehicle where the fund is a partner. Of course, each project is very idiosyncratic and every investment is different, but in various situations it is interesting for us to have the construction company as a partner in the SPV. That aligns interests more efficiently. Should the project be too big for us, we can also bring another partner to properly diversify our portfolio.

What we have seen in the real estate market in Brazil is that there is a certain part of the market with much less competition, for example projects with estimated sales of around 20-30 million reals. The reason is that the large, listed home builders need to follow their quarterly guidance, they have certain earnings projections and are not really willing to look at smaller projects, because that will use some of their human capital and resources and create a diseconomy of scale for them. Hence, for smaller projects you have often much less competition for the land or for the building if it is a retrofit project. We are very excited about the opportunities here and have found very interesting expected IRRs in those situations, because we can come in at better entry points.

Mariano Andrade





Eduardo Moreira: One new product we are launching at Plural Capital is a retail real estate fund that will develop and operate shopping malls. Our fund is different compared to most other shopping center companies in Brazil, because their main focus is to consolidate the industry by acquiring existing operating assets, whereas our fund aims to create new assets by developing greenfield projects.

On top, our focus is the Brazilian emerging middle class, which today represents about 50% of the country population. This is the demographic group that after the development that Brazil passed through over the last decades has gained a lot of purchasing power.

Moreover, our shopping malls will be located in densely populated cities with more than 500,000 people, in most part located in large metropolitan areas (primary markets), and cater to these communities. Most of the retail commerce that you see in these communities are very busy street stores located in downtown areas near transportation hubs, such as bus and train terminals. Today, there is a demand from retailers and consumers for new organized retail areas in these areas.

Another product we just launched is an FIDC, a credit rights investment fund on the oil and gas sector in Brazil. This is a fund where the junior and mezzanine quotes are owned by Plural and Petrobras. We also have many Mortgage Backed Securities (MBS) in the pipeline from different issuers.

Matthias Knab **Vassilis, from Chicago you are in charge for the whole American and Latin American business for Eurex. What do you see from an exchange perspective, and what are some or the things you are developing for the markets here?**

Vassilis Vergotis We started covering the Brazilian market about three years ago. As a leading foreign exchange we have a very unique perspective where we help Brazilian firms to diversify their exposure by investing in our markets. There is good interest from firms on the ground here, but a lot of their activities obviously depend on the macro picture and on where the global economy is going in general.

As you know, some of our core products are the Euro-Bund, Euro-Bobl and Euro-Schatz futures which are the Eurozone benchmarks for fixed income products for investors seeking exposure in European sovereign debt.

The recent sovereign debt crisis in Europe and the dramatic effects it had in the yield spreads between several non-triple-A-rated European countries (e.g. Italy, Greece, Portugal, etc.) and Germany, had a significant impact on the ability of these products to act as a proxy for sovereign exposure across all Eurozone countries. We saw this as good opportunity for introducing a new product suite to cover this gap.

In late 2009, we listed the first of our group of Italian government bond futures, to cover the Italian yield curve. This proved to be a very successful product launch averaging, in the example of the 10-year Euro-BTP future, a daily volume over 13,000 contracts. In addition, On April 16, 2012, we will launch new interest rate futures based on the notional long-term bonds issued by the French Republic (Obligations Assimilables du Trésor - OAT). The interest rate futures on French government bonds represent a significant addition to the range of efficient and effective hedging instruments on the European bond market.

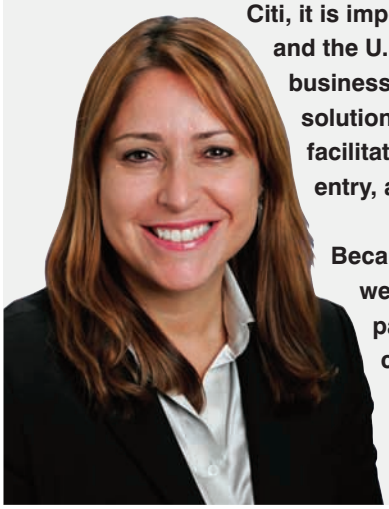


There are still other trends noticeable as the sovereign debt crisis in Europe continues to develop and starts to involve even more countries. That could result in additional product introductions that better reflect the fast changing economic landscape. One of our goals is to make the events in Europe more accessible to Brazilian investors.

Vassilis Vergotis

We are looking at all opportunities in that realm, but thus far the Italian government bond futures that we have listed picked up the most traction and have gained global interest. We have certainly found interest from Latin America for those products and the opportunities they offer. We believe that global macro events combined with the changes inside of Brazil (declining interest rate environment, legal changes and tax developments) will continue to encourage Brazilian investors to look outside their country for supplemental investment opportunities. Brazilian investors, especially on the buy-side, are a massive customer group for us and we certainly recognize their potential.

Marcia Rothschild: We see similar trends where the Brazilian and the international markets come closer together. For Citi, it is important to be ready both from an outflow from Brazil and Latin America into Europe, Asia and the U.S., but also for inflows. That means we must continue to help our Brazilian clients do business outside of Brazil and our global clients to do business in Brazil. For example, we have solutions for foreign firms which do not want to setup a shop here yet but can use us to facilitate their operations and asset management activities. Brazil still has high barriers of entry, and our clients appreciate this approach.



Because of the economic conditions elsewhere and the formidable growth in Latin America, we also see a lot of intra-regional flows. For instance, Brazilian clients are acquiring or partnering with other firms or launching funds in other Latin American countries. These clients want Citi to support them wherever their business takes them and our network in Latin America and beyond is second to none. At Citi, we have people on the ground with a deep understanding of how the Brazilian marketplace works, how Brazilian managers think, know the local regulators and authorities. This is key.

We are also using our experience in Brazil and other countries and sharing that knowledge across the entire region. For example we have sent an experienced Brazilian product manager to Mexico to further develop our fund services there. We are leveraging on our experience in servicing the first Colombian ETF in other countries.

Mariano Andrade Are you seeing more demand from foreign investors to invest in local funds, so Real nominated vehicles through a bank agreement?

Marcia Rothschild Yes, especially in the form of FIPs (Private Equity Funds). It is easy to explain the concept; they are comfortable with the level of governance and the transparency. We are working right now with several of the largest global private equity firms, some of which are investing for the first time in a local FIP managed by a Brazilian manager.

In addition, as global asset managers try to break through in Brazil we can also help them with distribution support, which is key. And as I mentioned, we are also tracking very closely the flows from Brazil. I hope that we collectively extract as much value of our skills and expertise as possible as managers, service providers, and local players in this industry, because what we can offer is no small feat. I do believe that – as the song says – even though it was originally referring to New York - if you can make it here, I think you can make it anywhere.

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