

ALTERNATIVE
LatinInvestor

Issue 19 - December / January

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How to Stand Out

Top LatAm Banks

Economist Intelligence Unit:
LatAm FDI Hotspot?

HEDGE FUND
SPECIAL ISSUE

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4 Letter From the Editor

From myself and everyone at Alternative Latin Investor, we would like to wish you very happy holidays and a prosperous new year.



Saludos,

Nate Suppaiah
Managing Editor
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FRASER YACHTS

Top-Ranking Banks in Latin America

After a decade of unusual success, the Latin American banking sector's growth slowed in 2011 and 2012.

■ América Economía Intelligence

The year 2011 closed with disturbing news. Banco Santander decided to sell its subsidiary in Colombia, which finally Chile's Corp Group bought for US\$1.225 million. At the time, the chairman of Santander, Emilio Botín, said the measure was taken to "strengthen the balance sheet" of the crestfallen Spanish giants. As he explained, "Our market share in commercial banking in Colombia is far from the 10% which we aspired to get in the markets where we operate."

The news was that Santander lost a Latin American country on the map. On the other side of the equation, the novelty ran on behalf of the internationalization of a new Chilean bank, Corpbanca, which did not struggle in acquiring Santander Colombia,

with its 2.7% stake market assets of US\$5 billion, net income of US\$36 billion and 14,000 employees in 78 offices throughout Colombia. Bank is number 100 list.

Once it handled risks of a collapse in commodity prices, with a strong impact on growth and therefore on the ability of the American consumer, the region is still a good deal for the bank. Not as much as before, when the sector grew at a rate much higher than the real economy, but very good today after all, and given the global context. That's one of the main conclusions drawn from the analysis of the 250 largest banks in Latin America in 2012.

In terms of assets, the 250 largest banks in Latin America amounted to US\$3.6 trillion, as of July 2012, down 6.1% from the previ-



8 Banks

ous period, when it reached US\$ 3.9 billion, representing the largest drop in this indicator since 2005. The caveat: this year the actual exchange rate of the dollar influenced the results, given the volatility of currency that has been used to compare these banks, especially in Brazil. Therefore, this variation must be examined carefully, to hit the sets of 70 Brazilians and 29 Mexican banks that make the list, with Brazil and Mexico the only countries whose banks, in the aggregate and in dollars, decreased by assets (-13.8% and -5.9%, respectively). It impacts the overall results of the ranking, not only because Brazil and Mexico almost have a total of 100 of the 250 banks measured, but also because the top 5 includes all Brazilians megabanks whose combined assets account for 46.2% of assets of all banks.

Considering the variations in local currency, real and Mexican peso, Brazil and Mexico in assets grew by 14.3% and 4.7%, respectively, like all sets of banks in countries of the region present in the ranking, which they did (in dollars) from 1.4% (El Salvador) and 20.5% (Bolivia).

However, there is a clear decrease in the growth rate of the banking sector, which reflects a regional realignment. The sum of the profits of the 250 largest listed banks is US\$43 billion, a 12.9% decrease from the previous period, when earnings totaled US\$49 billion. This represents, however, a low decline in terms of variation, which occurred between 2008 and 2009, when profits fell 43.4%.

■ Here's the money

It was a tough year, but many can claim victory. The Venezuelan bankers increased their presence in the ranking, adding 3 new banks: Sofitasa (No. 208), Square (No. 224) and South (No. 249). Thus total assets and loan portfolio in that country increased 49.2% and 56.8%, and profits skyrocketed 129.9%, while deposits grew by 57.6%.

Something similar happened in Argentina, whose banks listed in this ranking rose 14.2% in assets, 30.2% of its loan portfolio, earnings in 17.2% and 13.3% in deposits.

These results are explained in large part by the maintenance of high oil prices and soybeans, but also respond to government

In terms of assets, the 250 largest banks in Latin America amounted to US\$3.6 trillion, as of July 2012, down 6.1% from the previous period.

cutting measures in both countries, which tend to retain currency, generating an endogenous market full of money.

Colombia and Peru are other interesting cases. Both countries, in the aggregate sum

of banks by country of origin, increased their assets, loan portfolio, earnings and deposits by at least 15%.

Thus, Colombia becomes a more interesting market. In fact, many of the mergers and acquisitions in the time period took place there. Besides landing CorpBanca, Scotiabank acquired Colpatría for US \$500 million. Moreover Colombian bankers also moved in the M&A category when HSBC got rid of several of its assets in Latin America during 2012. Davivienda (No. 28), for example, bought HSBC's operations in Costa Rica, El Salvador and Honduras, for US\$ 801 million, and BNG Sudameris (No. 86 and a jump upwards of 11 spots), did the same with the HSBC headquarters of Colombia, Peru, Paraguay and Uruguay, paying US\$400 million.

Meanwhile, Peru added a new bank to the list: The Santander Peru (No. 245), and shows consistency in advancing Peruvian banks seen from previous editions. And not grow only in volume but also in quality.

■ Methodology for ranking biggest banks

The information presented is for June 2012 unless otherwise noted. The criteria for choosing the 250 largest banks is the size of total assets. The conversion of the different items into current dollars was made according to the prevailing exchange rate at the date of publication. The loan portfolios are gross loan portfolio with performing loan. We considered profits for the period January to June.

In Brazil, the law recognizes two types of banks: commercial and multiples. The first includes a series of activities, such as investment, leasing, brokerage and real estate credit, whereas commercial banks correspond to traditional banking (and deposit). In Argentina, the estimation of default corresponds to the ratio of nonperforming

loans in total loans. Nonperforming loans are: portfolio problems, poor compliance, high risk of insolvency, difficult recovery, recoverable and unrecoverable by technical provision.

Methodology TOP 25 Best Banks:

We do not consider state banks, because, in general, they do not operate under the same rules of supervision. The tool used for this ranking is the CAMEL method, which consists of the following elements:

C: Capital Adequacy

A: Assets Quality

M: Management

E: Earnings

L: Liquidity

1. Capital Adequacy (15%): measures the financial capacity to absorb losses or impairment of its assets without affecting public deposits. Accreditation Index (10%): was calculated with the information of how many years the institution was accredited in conjunction with the areas that got credit.
2. Asset Quality (10%): shows how good are the assets of each institution through the
3. Efficiency (25%): measures ratio be-

América economía

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COMPANY OVERVIEW

Since the third quarter of 1986, AméricaEconomía has been covering Latin American events from a truly local perspective. For 25 years, the AméricaEconomía media group has analyzed business, economy, politics and finance in the region.

Currently they offer multiple issues of their magazine, published in Spanish and Portuguese, reporting, analyzing and anticipating trends, making the publication a powerful tool for executive decision makers in the region. <http://rankings.americaeconomia.com/2012/bancos/>

tween the sum of personnel costs and direct operating expenses of the bank, compared to operating margin.

4. Profitability or earnings (20%): the evaluation of the profitability associated with the current and future potential of the institution to generate profits, return on assets, and the balance between

return on assets and the cost of funds raised and concepts such as the return of investment.

5. Liquidity (5%): measures the bank's operational capacity to address its short-term financial commitments. Its vulnerability will depend on the balance between the maturities of assets and the maturity of bank liabilities, the risk of road and interest rate risk.
6. Size (25%): a final indicator entering the methodology is the size, as despite the selection of the first hundred banks provides a homogeneous sample, the distance between the number one and the hundred is more than U.S. \$ 450,000 million.

Colombia and Peru are other interesting cases. Both countries, in the aggregate sum of banks by country of origin, increased their assets, loan portfolio, earnings and deposits by at least 15%.

Security Risks

In Colombia's Oil and Gas Industry

■ James Knight



A senior US official said recently in a closed session of industry professionals and analysts that Colombia's oil and gas industry was seeing a "golden moment." While reserves of 2.23 billion boe are tiny in comparison with neighboring Venezuela's almost 300 billion boe (18% of global totals), Colombia's growth in production between 2006-2011 has been exceeded only by Azerbaijan. Production of 3 million bpd is thought feasible in the next 5 years.

The oil and gas sector in Colombia is the largest sector in a diverse economy, accounting for 5.5% of Colombia's GDP. Petroleum goods and services make up 2%. In 2012 the industry delivered revenues of US\$31 billion, with 9 billion going to the government. A regulatory overhaul in 2012 changed the structure of levies and taxes on the sector, and enabled the creation of a US\$2 billion emergency fund to be used counter-cyclically.

The industry received US\$6.72 billion of FDI in 2012, 43% of the total investment in the sector. By the end of 2012 49 new blocks, which include unconventional and offshore deposits, will have been licensed through regulator ANH, expecting to generate US\$2.6 billion. Attractive tax incentives, and the ability to offshore profits much more easily than Venezuela, are creating interest not only from the majors but from other firms on the continent. It was interesting to see the presence of Argentina's Andes Energia and Bidas both active in the bidding process, no doubt attracted by much lower policy risk in Colombia than in their home country.

However, production still hovers around 900,000 bpd, despite forecasts of 1.1 million bpd by 2013. Why? Partly because of a spike in security incidents that saw the FARC launch a total of 67 attacks against oil infrastructure in Colombia in the first 6

months of 2012, a threefold increase over 2011. In July, 5 contractors from the national firm Ecopetrol were killed in Putumayo, near the border with Ecuador and Peru.

The leftist FARC and ELN have had a presence on the ground since the 1960s, and sited many jungle bases in areas of oil exploration. They were joined by paramilitary groups in the 1980s, and subsequently "auto-defense" groups emerged to protect

The oil and gas sector in Colombia is the largest sector in a diverse economy, accounting for 5.5% of Colombia's GDP.

property and people, in the absence of a functioning security apparatus.

The first official talks in the latest peace process between the government and the FARC in Cuba in November are a hugely encouraging sign. But in the short term it will increase the security risks. These shows of strength are, unfortunately, a part of the brinkmanship that the FARC has fallen back on to try and create some leverage in the negotiations.

Weakened by successful government offensives to take out its leaders and a dwindling membership, it has few other options. But it will not hesitate to exercise them. At the end of October 6 police officers were murdered in southwest Cauca state, bringing to 15 the number of security force members killed since the government and rebels formally opened talks in Norway in October. For its own part, the government strategy of continuing its military campaign is in contrast to previous talks, where a ceasefire allowed the FARC to resupply, re-arm and replant its coca crop. This also ups the ante in the short term.

■ Don't airbrush the risks

Colombia has made strides to rebrand itself and deliver sustained economic growth since it threatened to become a failed state in the 1990s. This is perhaps what led an ex-Colombian Finance Minister to suggest recently that, depending on how you sliced and diced the figures, Colombia's GDP exceeds Argentina's and it should rightfully claim the mantle of 3rd largest economy in Latin America, after Brazil and Mexico.

True, it is trying to create market-friendly regulation, domestic market opportunities are growing, and foreign companies are flooding in. Recently it has been the epicenter of some furious dealmaking, inward and outward. Colombian banking group Grupo Sura acquired ING's Latinwide pension operations for US\$3.6 billion. In September Chilean retailer Cencosud laid hands on Carrefour's US\$2.6 billion supermarket chain in Colombia.

But oil exploitation takes place far from the safety of Bogotá, in highly inaccessible terrain without basic infrastructure that plays host to the various guerrilla factions, criminal gangs and paramilitary groups that have plagued Colombia. Therefore the spin doctors that have done such a good job of re-

12 Political Risk

branding the country and creating an opening for business mentality need to be careful of airbrushing the current political realities. There is a reason why so many private security firms choose Bogotá as their base: business is still good.

And even if the peace talks are successful, the question remains of what will become of well-trained ex-guerilla fighters and their weapons. If they choose to factionalize, or criminalize, foreign businesses, their assets and personnel become core targets. Crimi-

nal gangs are now seen as one of the biggest future threats to the country. Any investment strategy that involves resource extraction needs to take account of these dangers.



AUTHOR BIOGRAPHY

James Knight is a LatAm-based journalist and consultant with 10 years' experience of working in and with emerging market countries. He is Director of Pionero Partners, a locally based risk and strategic advisory consultancy serving international clients. Prior to his current role he acted as an advisor to Chinese clients on various LatAm projects and previously worked at Barclays Bank plc. He has acted as a strategic consultant to the World Bank and the United Nations, while his investigative and analytical skills were honed with journalism for Reuters, The Economist, Africa Confidential and BBC Online covering business, investment and conflict. He holds an undergraduate degree from Cambridge University.

Very useful to know other countries economic fundamentals, regulations, and the impact it has on raising funds.

Investment Officer, Corporacion Mexicana de Inversiones de Capital S.A. C.V.



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Welcoming the Inevitable

Antonio Gil Nievas of Moneda Asset Management on Why a Surge in Global Allocations to LatAm Is Not a Question of If, but When

Takeaways:

- Global institutional asset allocations do not yet reflect the current and forecasted macroeconomic reality.
- These investors will inevitably shift their allocations to emerging markets in general and LatAm in particular, though that shift will be progressive, not immediate.
- LatAm firms such as Moneda Asset Management will be attractive to institutional investors as they seek solid manager track records, multiple strategies and healthy investments.

For Antonio Gil Nievas, CEO of Santiago-based Moneda Asset Management, one of the region's largest and most proven asset managers, global institutional allocations do not yet reflect the prevailing macroeconomic order, where LatAm is showing some of the best sustained growth in the world. A shift in allocations is all but inevitable, he says, as these institutions seek sufficient returns. He reads this promising future in a set of basic macroeconomic numbers:

"LatAm represents 7.6% of global GDP, but the market cap only reflects 4.6%, and 3% of the MSCI. As soon as the MSCI better reflects market cap and the market cap better reflects GDP mix, institutional investors will allocate more money to LatAm."



14 Hedge Funds

Sustained low interest rates in developed markets are also a compelling force, he says.

“With the desperate need for yield on the fixed income side and the MSCI not reflecting the global GDP breakdown on the equity side, I think those 2 forces are going to lead investors in developed markets to invest in emerging markets in general and in LatAm in particular, both in fixed income and in equities.”

■ Standing Out From the Crowd

Mr. Gil Nieves’s firm, Moneda Asset Management, is a rarity in LatAm, one that has already attracted significant institutional attention. With US\$4.5 billion in AUM, a highly successful track record stretching back almost 20 years, a 25-person investment team and a total staff of 125 in Santiago and New York, Moneda is far larger and more well-established than most firms in the region, particularly those outside Brazil.

“The appetite for an active manager with the track record like us is going to be large, especially when you look at current allocations of the world to LatAm,” he says. “And we’re in a very good place to receive that money because we are more institutionalized as a company than other asset managers in the region that may focus on fewer countries or may depend on 1 or 2 key individuals.”

Currently, most of Moneda’s investors are from LatAm, including institutional investors of all types in Chile (pension funds, insurance companies, family offices) as well as HNWI; investors from outside Chile include some LatAm pension funds and insurance companies, as well as Asian, European and North American investors.

The firm has been growing its international client base substantially, Mr. Gil Nieves says, though change has slowed since 2009.

Indeed, he stresses that the overall shift in global allocations will be progressive, not immediate.

“The crisis hasn’t changed our client base as much as you’d expect. Basically, when the crisis came, investors became more

“Interest rates in developed markets are going to be at low levels for a long time. So with the desperate need for yield on the fixed income side and the MSCI not reflecting the global GDP breakdown on the equity side, I think those 2 forces are going to lead investors in developed markets to invest in emerging markets in general and in LatAm in particular, both in fixed income and in equities.”

*Antonio Gil Nieves,
CEO, Moneda Asset
Management*

risk averse and retrenched. As a result, the market overreacted and didn’t discriminate across asset classes. Many people unloaded risk and didn’t want to increase exposure

to asset classes that had healthy fundamentals but got dragged with the sell-off.”

■ Sticking to Fundamentals

Nevertheless, Moneda has maintained its focus on healthy assets, employing a fundamental, bottom-up approach to investing, including detailed analyses of companies as well as industries and the general economy. The firm’s strategies are country- and sector-agnostic, with investment ranging from the southern US border to Patagonia, and the focus is on medium- and long-term investments, not rapid trading.

“We don’t think our edge is to time the market to beat the market on an hourly, daily or weekly basis,” Mr. Gil Nieves emphasizes. “We don’t follow the ‘flavor of the day.’ We take a fundamental long-term approach.”

“When we analyze a company,” he explains, “we analyze everything, not just financials. It is about the business model, the competitive advantage, the quality of revenues and assets, barriers to entry, quality of management, relationship with suppliers, quality and character of shareholders in those companies, future consolidation or events, etc., and, of course, valuation and potential asymmetries between market and fundamental valuations.”

Moneda Asset Management’s studious, pan-regional approach opens up opportunities that may not be captured by market indices, he says.

“We have the index for the investors to compare how an asset class has performed and how our funds are performing, but we don’t follow them. For example, in some cases you have LatAm indices that are mostly reflecting just 5 countries with large concentration in few companies, but LatAm has more than 5 countries, so you could allocate in other countries that

are not in the index where you could find interesting opportunities on risk-return basis.”

■ Sticking to Their Guns

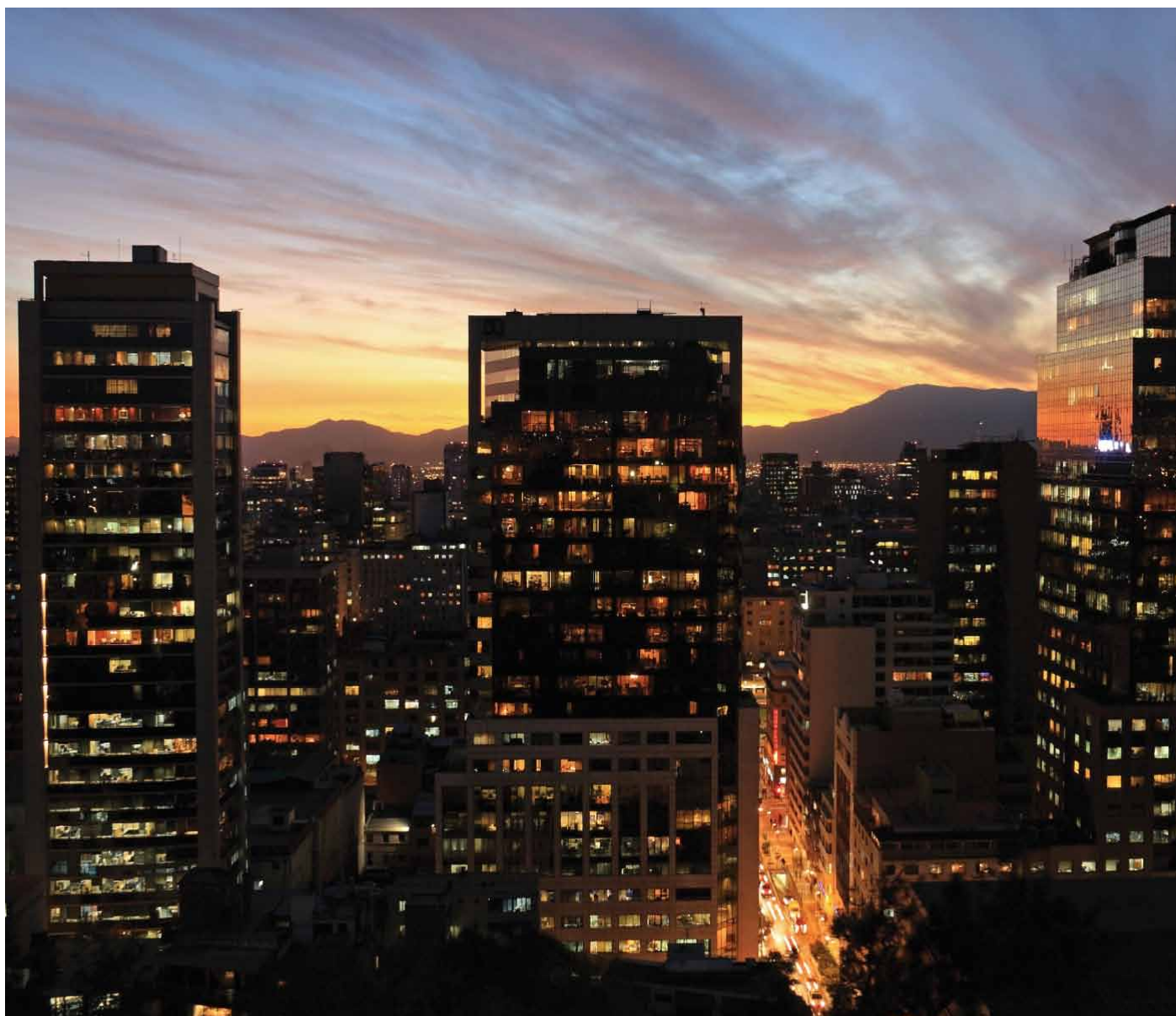
Historically, Moneda Asset Management’s 6 strategies have performed consistently well, with all strategies close to or in double digits since the firm’s inception almost 20 years ago. This multi-strategy track record gives Moneda a leg up on much of its regional competition.

“International institutional investors definitely look for relevant track record, both in

terms of consistency and history as well as size and diversity of the client base of the asset manager as a proxy for how institutional you are. In those categories, Moneda Asset Management scores very well. That’s why in some places we’ve been very successful, even on a reverse inquiry basis, when investors find us instead of us finding them.”

Mr. Gil Nievas says the firm is not in a rush to launch new strategies, though it may consider doing so in the future. “We want to have reasonable, sustainable, long-term growth,” he explains, “and that leads us to

be a bit more selective and not rush into latest flavor of month. Obviously we want to keep growing and add new clients, but our first priority is to focus on performance. Given our investment edge and our focus purely on LatAm, though, it will not be surprising if we launch additional strategies in the future complementary to the ones we have.”



What Do Changes to Mexico's Controversial New Bankruptcy Law Mean for Investors?

■ Georgina Gatsiopoulos, Mexico City

The Mexican Finance Ministry should submit a white paper proposing changes to the country's 12-year-old bankruptcy law, sources familiar with the situation said. With just days remaining before a December 1, 2012 turnover to a new administration representing a change in political parties, outgoing high-level officials in the government of President Felipe Calderon said they will push for near-term changes to the bankruptcy law, the sources said.

Dozens of top-tier bankers and lawyers veterans of Mexico's largest bankruptcy proceedings said they had been consulted by the Finance Ministry in its analysis of Mexico's Ley de Concursos Mercantiles (LCM). At least 2 working groups have been formed while another raft of procedural changes should be proposed by Mexico's bank-

ruptcy authority IFECOM via the Mexican judiciary.

"The trigger for the change is Vitro," said the lawyer of a prominent Mexican distressed investor, referring to a controversial restructuring of the Mexican glassmaker. By standing by and allowing the "Vitro exception [to become the] asymmetric rule," Mexico's legal system is promoting economic distortions that Mexico "can't live with," the lawyer said.

In February 2009, Vitro defaulted on US\$1.25 billion in bond debt, citing poor economic conditions and bad bets made on exchange rate and natural gas derivatives. Three years later and after generating US\$1.9 billion in intercompany debt, Vitro was able to use the intercompany loans and other related party debt to approve a restruc-

turing that entailed significant NPV losses for third-party creditors while preserving the position of its existing shareholders. The company filed for bankruptcy in Mexico and months later sought Chapter 15 recognition in the US, which was denied.

"An effective legal framework regarding creditor rights and insolvency boosts competitiveness," and is therefore a goal of the current administration, said Deputy Finance Minister Gerardo Rodriguez in an emailed statement. After a recent conference of the American Bankruptcy Institute in Mexico, Rodriguez confirmed that the Finance Ministry is currently analyzing Mexico's Ley de Concursos Mercantiles with the goal of proposing changes.

The Mexican bankruptcy law continues to come under fire in Mexico and the US af-

*“An effective legal framework
regarding creditor rights
and insolvency boosts
competitiveness”*



ter a local district court located in Vitro's headquarter city of Monterrey recognized close to US\$2 billion in intercompany claims submitted by the glassmaker in its Mexican court-supervised reorganization earlier this year. The intercompany debts are linked to a sale-lease back transaction between Vitro with Fintech Advisory, according to testimony taken during Vitro's Chapter 15 case in Texas.

The same Monterrey district court later validated a plan of reorganization proposed by Vitro and friendly entities that was approved via a voting scheme that swamped legitimate third-party creditors of the Mexican glassmaker,

"People have been talking about globalization for decades. Insolvency is a global business too."

*Deputy Finance
Minister Gerardo
Rodriguez*

forcing them to take significant NPV haircuts while preserving and enhancing the position of equity. The district court's decisions are on appeal in Mexico and the ruling regarding claims recognition and the POR voting are not definite (or 'firme' under Mexican law).

A higher court that has historically and consistently ruled against third-party creditors in the Vitro case has yet to rule on those ap-



COMPANY PROFILE

This article was provided by Debtwire Latin America PLUS, a company that provides actionable intelligence on event-driven equity in addition to the distressed and high-yield markets in Latin America. With an on-the-ground team of journalists based in Sao Paulo, Buenos Aires and Mexico City, Debtwire LatAm PLUS closely tracks special situations throughout the LatAm market, providing real-time coverage of primary equity issuance, and alerting subscribers early-on to restructuring events and key credit situations. Please visit www.debtwire.com

peals. Timing on the Mexican appeals is unclear, a source familiar with that situation said. A final decision by the 5th Circuit is expected soon but could take until year end, speculated a source familiar with that situation.

In the meantime, Vitro's creditors are preparing to challenge the constitutionality of the glassmaker's Mexican legal strategy and use of loopholes in the LCM even as they await a ruling on the US bankruptcy case currently before the US 5th Circuit Court of Appeals. The government of Mexico filed an amicus brief in the Vitro bankruptcy appeal case seeking comity of local court rulings that defend and validate the legal actions of Vitro and Fintech.

agreed-to plan is presented to the court," the same source said.

"No matter what" any changes to the law won't take hold in time to impact Vitro's Mexican court supervised reorganization, said a source close to the Mexican judiciary. A third source familiar with the situation said that the mishandling of the Vitro case proves that Mexico should scrap the LCM and start over with a law that complements and is homogenous with US bankruptcy law. "People have been talking about globalization for decades. Insolvency is a global business too."

"It was never supposed to get to this. The LCM is not a tool to resolve restructurings in litigation. The LCM serves to get debtors and creditors to negotiate a solution and present an agreement to the court," said a source familiar with the situation. "Intercompany debt has never before been used to out-vote third-party creditors. The debtor and the creditors come to an agreement first and the

Latin American Auction Recap

■ Provided by Artvest Partners

Following inconsistent results during the 2-week stretch of mega-auctions of Impressionist/Modern and Post-War/Contemporary art at Sotheby's, Christie's and Phillips, anticipation for the Latin American art sales ran high. Evening sales featuring Latin American masterworks at both major auction houses preceded considerable day-sale offerings, and collectors and enthusiasts also had opportunities to view exciting Latin American art at fairs and exhibitions around New York.

*Lot 9
Matta
Nada
oil on canvas
28 3/4 by 36 1/4 in.
Painted in 1943.
Est. 1.5/2 million
Sold for \$1,818,500*

Pinta 2012, now in its 6th year, ran from November 15th-18th, coinciding with the Latin American buzz in New York. Fifty galleries from the US, Latin America and Europe were selected to exhibit at the fair, and visitors were delighted to see artwork across a range of styles and media, from abstract, to kinetic, to conceptual.

Those in town for the auctions were also able to view interesting museum exhibitions, including the project by Gabriel Orozco (Mexican) entitled *Asterisms* at the Guggenheim Museum, on view through January 13, 2013, and 2 simultaneous exhibitions at The Drawing Center, featuring the works of Guillermo Kuitca (Argentine) and Jose Antonio Suárez Lon-





Sale Title LATIN AMERICAN SALE

Location New York, Rockefeller Plaza *Sale Date* Nov 20, 2012 - Nov 21, 2012

Lot Number 0011 *Sale Number* 2600

*PROPERTY FROM THE COLLECTION OF
THE BARON AND BARONESS DI PORTANOVA
DIEGO RIVERA (MEXICAN 1886-1957)*

*Portrait of Linda Christian
signed and dated 'Diego Rivera 1947' (lower left)
oil on canvas*

44 x 35 7/8 in. (111.7 x 90.5 cm.)

Painted in 1947.

Estimate: \$250,000-350,000

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doño (Colombian), both on view through December 9, 2012.

Sotheby's November 19th evening sale kicked off the auction week. Estimated to earn between \$16.2 million and \$19.8 million, the total came in near the high estimate at \$19.3 million including buyer's premium (\$23.1 million including the day sale lots). With 55 lots offered in the evening, 89.1% found buyers and 91.8% of the sale was sold by value.

Sale highlights included Chilean Roberto Matta's work entitled Nada (1943), which hammered in at \$1.75 million, achieving the evening's highest price for a single lot. Surrealist works also achieved high prices. Charbon de Mer (1945) by Wifredo Lam (Cuban) totaled \$542,500 including buyer's premium (against an estimate of \$400,000-\$600,000). In 1998 this same work sold at Christie's for just \$150,000, showing how greatly interest in the artist's work has grown. Also notable, Retrato de los niños Andrea y Lorenzo Villaseñor (1956) by female artist Remedios Varo (Spanish-Mexican) totaled \$518,500 including buyer's premium (against an estimate of \$200,000-\$300,000).

Six artists achieved record prices: Claudio Bravo (Chilean), Dr. Atl (Mexican), Jesús Rafael Soto (Venezuelan), Gego (Venezuelan), Giuseppe Leone Righini (European) and Pietro Guald (European), and a record price was also achieved for a Latin American colonial work of art: the 17th century Portrait of Moctezuma II by an anonymous Mexican artist earned a remarkable \$1.65 million including buyer's premium. Buyers of the top lots were primarily private collectors, with the majority coming from the US, South America and Mexico. This sale proved to be among Sotheby's most successful sales of Latin American art to date.

Christie's evening sale, which featured 79 significant Latin American works of art, fol-



Sale Title LATIN AMERICAN SALE

Location New York, Rockefeller Plaza Sale Date Nov 20, 2012 - Nov 21, 2012

Lot Number 0040 Sale Number 2600

PROPERTY OF THE SCHERINGA MUSEUM OF REALIST ART

FERNANDO BOTERO (COLOMBIAN B. 1932)

Horse signed and numbered 'Botero 2/3' and stamped with foundry mark (on the base) bronze with dark brown patina

106 x 102¼ x 54¼ in. (269.2 x 260 x 138 cm.)

Executed in 1999. Edition two of three.

Estimate: \$700,000-1,000,000

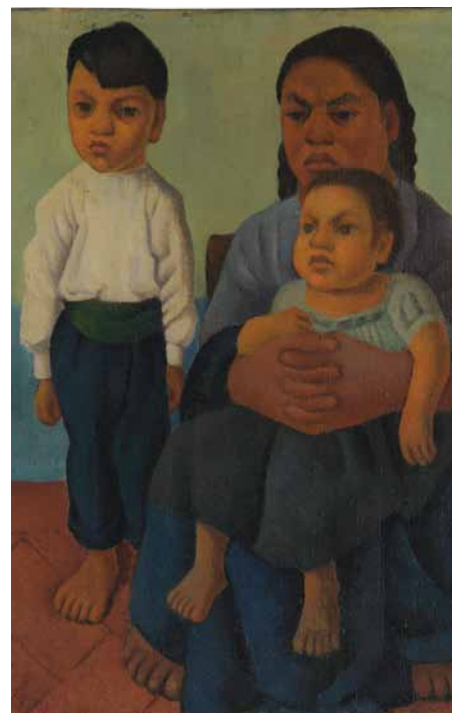
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lowed Sotheby's on November 20th. This sale realized \$13.6 million including premium, far less than its main competitor's sale, even though Christie's offered more property. Only 77% of the lots offered found buyers, though 86% of the sale was sold by value.

The monumental bronze sculpture entitled Horse (1999) by Fernando Botero (Colombian), which was touted in the press prior to

the sale, came in within estimate, realizing \$938,500 including buyer's premium and marking the evening's highest price paid for a single lot. The rediscovered Portrait of Linda Christian (1947) by Diego Rivera (Mexican) surprised those in the auction room when it sold for \$578,500 to a private collector, more than doubling its pre-sale low estimate.

Also greatly exceeding pre-sale estimates,



Top Left

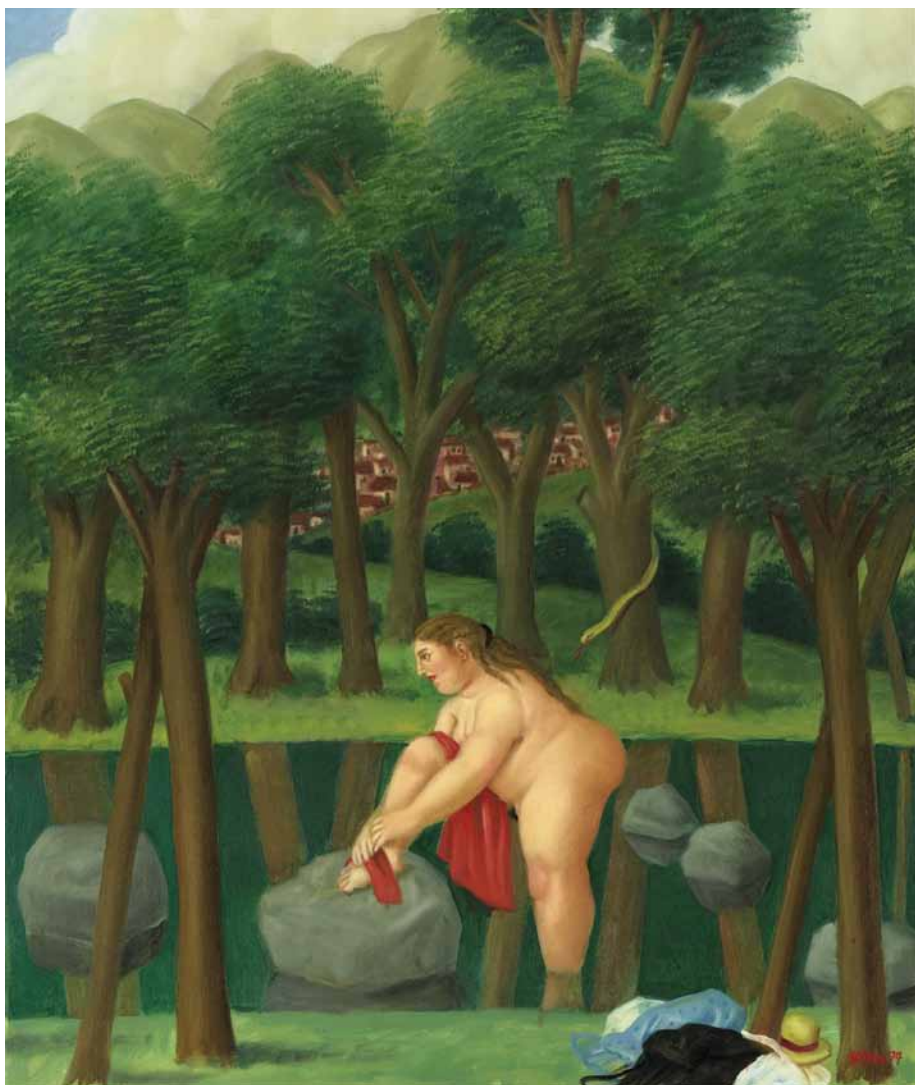
Lot 22
Francisco Toledo
Onagro (Wild Ass)
Signed, titled and dated 1976, and inscribed
México, para los Grant on the reverse
Oil and sand on canvas
39 $\times$ 51 in. 101 x 130.2 cm
Est. \$400/600,000
Sold for \$ 434,500

Top Right

Sale Title LATIN AMERICAN SALE
Location New York, Rockefeller Plaza Sale Date Nov
20, 2012 - Nov 21, 2012
Lot Number 0005 Sale Number 2600
Madre con hijos
(also known as *Mother with Two Children*)
signed and dated 'Diego Rivera, 26' (lower left)
oil on canvas
25 $\frac{3}{4}$ x 21 $\frac{1}{4}$ in. (65.4 x 54 cm.)
Painted in 1926.
Estimate: \$500,000-800,000

Left

Lot 41
Fernando Botero
The River
signed and dated 94 lower right
oil on canvas
38 $\frac{1}{2}$ by 30 $\frac{3}{4}$ in.
97.8 by 78.1 cm
Est. \$250/350,000
Sold for \$314,500





2 world auction records for individual artists were achieved. Including buyer's premium, private collectors paid \$626,500 for *Buscador de paisaje* (2005) by Tomás Sánchez (Cuban) and \$422,500 for *Jogo de carretéis I* (1967) by Iberê Camargo (Brazilian). The day sale, which included an array of works from the 18th through 21st centuries, helped Christie's bring in nearly \$18 million, though the house failed to reach its

pre-sale total estimate, which was in excess of \$20 million.

Phillips also brought its Latin American offering onto the auction block on November 20th, but after a lackluster evening sale last season, the house returned to hosting a day sale for this category. The combined pre-sale estimate was between \$3.8 and \$5.8 million, with a focus

Sale Title LATIN AMERICAN SALE
Location New York, Rockefeller Plaza
Sale Date Nov 20, 2012 - Nov 21, 2012
Lot Number 0005 *Sale Number* 2600
Madre con hijos
 (also known as *Mother with Two Children*)
 signed and dated 'Diego Rivera, 26' (lower left)
 oil on canvas
 25¾ x 21¼ in. (65.4 x 54 cm.)
 Painted in 1926.
 Estimate: \$500,000-800,000

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on contemporary art. Including premium, the sale totaled in at just \$3.2 million, failing to meet its low estimate. The sale was sold 76% by lot and 74% by value. Despite lukewarm results overall, artists Antonio Dias (Brazilian) and Lygia Pape (Brazilian) both achieved world records. Dias's *Free Continent: Natural Richnesses* (1968-1969) sold for \$434,500 with premium, also making it the highest priced lot in the sale.

Overall, there are a few apparent trends in the Latin American art market. While collectors are proving highly selective, abstract art, by artists such as Jesús Rafael Soto, sold well, as did work by Mexican artists. Artwork by those considered Latin America's modern masters continue to achieve high prices, despite mixed results across the 3 auction houses.

Coming up at this December's Art Basel Miami Beach, the Brazilian Association of Contemporary Art and ApexBrasil have announced a panel discussion entitled "Latin American Art Markets: Challenges and Opportunities in Brazil and Mexico," which will focus on current trends in this sector of the art market. ABMB will also feature a strong selection of works by Brazilian artists, with 13 galleries presenting artwork from the country.



Looking ahead, Christie's has already announced that its May 2013 Latin American sale will include 30 works donated to the Americas Society, with proceeds benefiting the visual arts endowment. The selection will be comprised of works by established Latin American artists such as Carlos Cruz-Diez (Venezuelan) and contemporary artists including Luis Fernando Roldán (Colombian). Patricia Phelps de Cisneros has agreed to act as the Honorary Chair of the benefit art auction.

*Sale Title LATIN AMERICAN SALE
Location New York, Rockefeller Plaza Sale Date
Nov 20, 2012 - Nov 21, 2012
Lot Number 0039 Sale Number 2600
TOMÁS SÁNCHEZ (CUBAN B. 1948)
Buscador de paisajes
signed and dated 'Tomás Sánchez 05' (lower
right) signed and dated
again and titled 'Tomás Sánchez, 2005,
BUSCADOR DE PAISAJES'
(on the reverse)
acrylic on canvas
48 1/8 x 66 1/8 in. (122.2 x 169.2 cm.)
Painted in 2005.
Estimate: \$300,000-500,000*

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AUTHOR BIOGRAPHY

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Coming Out of Their Shells



The Sharp Drop in Brazilian Interest Rates is Forcing Institutional Investors to Look Beyond Fixed Income. Are They Ready?

Takeaways:

- The drop in Brazilian fixed-income interest rates marks a sea change for institutional investors there.
- Nevertheless, Brazilian pension funds in particular are largely unprepared to take the leap into alternatives and foreign investments.
- The process will be gradual, but the change inevitable.
- Managers and consultants must demonstrate track record first and foremost, as well as strength and continuity of team and an intimate knowledge of Brazil.

The slowdown in the Brazilian and global economies has compelled the Brazilian Central Bank to drop base interest rates precipitously over the last 15 months, sending the Selic to historical lows of just over 7% in November. While still high by global standards, these interest rates, should they hold, mark a sea change for Brazilian institutional investors, who can no longer rely merely on fixed-income instruments to achieve their required returns.

“We are in a very challenging time because of the drop in interest rates,” says Alessandra Cardoso, Head of Investment Consulting at Towers Watson Brazil and one of the leading experts on the country’s pension fund investment trends. “Brazilian funds have to change their mindset. They’re used to investing mainly in fixed income, somewhat in equities and almost not at all in alternatives. But if they keep that up, they won’t meet their goals and might have problems with solvency.”

Ready or Not

The conventional wisdom has been that an interest rate drop and the changing landscape for institutional investors will mean an immediate boon for the Brazilian equity and corporate bonds markets, as well as alterna-

“Brazilian pension fund managers are aware that they have to invest in alternatives, but at the same time they are worried. The interest rates dropped quickly this year, but they had been going down the last 5 or 10 years, so you’d expect allocations to have been changing with the times. They didn’t, and now the change is going to have to be strong.”

Alessandra Cardoso,
Head of Investment
Consulting, Towers
Watson Brazil

tive asset vehicles such as hedge funds, with Brazilian institutional investors deploying their sum AUM more broadly and diversely.

But Ms. Cardoso says the story is more complicated.

“Brazilian pension fund managers are aware of the problem, aware of alternatives, but at the same time they are worried,” she says. “If you look at their median asset allocation over the last 10 years, it didn’t change. The interest rates dropped quickly this year, but they had been going down the last 5 or 10 years, so you’d expect allocations to be changing with the times. They didn’t, and now the change is going to have to be strong.”

Of their total AUM, Brazilian pension funds currently invest 61% in fixed-income instruments, 30% in equities, 3.5% in real estate and 2% in alternatives. Only 0.1% is invested abroad, even though the CMN (Brazilian Monetary Council) has established 10% of total AUM as the limit on foreign allocations.

Alternative Education

For these pension funds to alter their allocations will require significant training initiatives and strategic shifts, Ms. Cardoso says, a process that has begun but is far from complete.

“We are at the beginning of the learning curve. Of course, if you talk to the top 5 institutional investors, they can say they know what a quant fund is, what a long-short fund is; and the big pension funds have been building their expertise for the last 5 years – some have quite a bit of structure, teams, specialists, good governance for choosing and monitoring alternatives. But most pension funds do not know the difference and do not have the expertise.”

Regarding offshore investments in particular, Ms. Cardoso notes that until last year, Brazilian pension funds were hardly looking abroad at all. She expects offshore al-

locations to grow in the next 3 years, though in limited amounts still well below the 10% limit.

■ Helping Hands

There is a psychological barrier among these funds to soliciting consultants and managers to help them with more complicated investments. "Either they think they already know, or think they don't need help," Ms. Cardoso remarks. But as they come out of their shells and seek out managers and consultants for alternative asset investing specifically, pension funds will want to see track record and institutional stability first and foremost.

"Track record is still very important in Brazil; it's always important, but as people aren't used to proper asset manager research, track record is now the main thing. It's also important that you have experience in Brazil, a strong list of clients and a strong team, with little turnover."

"We say that Latin culture likes looking in the eyes," she adds. "It's important that these funds know who they're dealing with. Road shows are good, but you have to go there, visit, understand their issues, spend some time. They like talking and they like listening. Brazil is not an easy market to start in if you're not here."

Fees are also an issue, she notes, with pension funds commonly complaining about hedge fund fees in particular. Among consultancies, she notes that local firms tend to have an edge in costs relative to global firms such as Towers Watson. To stay ahead, she says her firm is aiming to differentiate itself with expertise and international reach, implementing a training agenda with its global team regarding alternative asset investment in the institutional context.



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Tax

Estate Planning from Argentina *Part 2*

■ Javier Canosa

We introduce news on questions of tax and estate planning in Argentina in order to understand the current regulatory framework and possible changes in the not-so-distant future. In the previous edition of ALI we reviewed the gift tax in the Province of Buenos Aires and new reporting requirements for foreign trusts. In this edition, we will analyze new developments on double taxation treaties (treaties to avoid double taxation or DTT) in Argentina.

■ Termination of DTT by the Republic of Argentina

In 2012, Argentina has terminated 3 treaties to avoid double taxation; these treaties were those executed with Switzerland, Spain and Chile.

Double taxation occurs when taxation is imposed to the same contributor for taxes of a similar nature in 2 or more States at the same time, for an identical taxable item and for the same fiscal period.

In the 80s and the 90s, Argentina executed a number of DTTs. In this way, to avoid double taxation with regard to income and wealth, Argentina concluded treaties with Germany, Bolivia, France, Austria, Italy, Chile, Spain, Canada, the United Kingdom, Belgium, Denmark, Netherlands, Norway, Russia and Switzerland, and only in respect to income with Sweden, Australia, Brazil and Mexico.

In general, these treaties offer and had offered great advantages at the time for doing business in Argentina, as they provide predictability to the fiscal capacity of each one of the State contracting parties.

It is important to bear in mind that the termination, in terms of public international

law, is the unilateral declaration by means of which a State decides to withdraw its consent out of an international treaty, breaking the obligatory relationship that linked the State through such treaty. This is based on the principle of State sovereignty. In the same way as States can link to others assuming liabilities through treaties, they can dissociate from them through a termination by their mere willingness.

Earlier, back in 2008 – effective as of January 1, 2009 – Argentina terminated the DTT with Austria. According to unofficial information, the Argentine government believed the treaty was used in an abusive way due to the massive use (or abuse) of certain exemptions. In fact, among other provisions, the DTT with Austria established exemptions on income tax, capital gain from sales and tax on personal assets for bonds emitted by the Austrian government, which was widely used by some Argentine taxpayers.

Going back to this year, on January 16, 2012 Argentina terminated the DTT with Switzerland, and on June 29 the DTT with Spain and Chile were terminated as well. In all cases, the Argentine government considered that these DTTs were being used in an abusive way. We will analyze briefly the consequences and the possible reasons for those terminations.

It is worth to note that, on one hand all these DTTs are being renegotiated by the Argentina State (in the case of Chile, renegotiating a DTT closer to the OECD model), and according to press reports, the Argentine government's idea is to have a new negotiated text before these DTTs are no longer enforced.

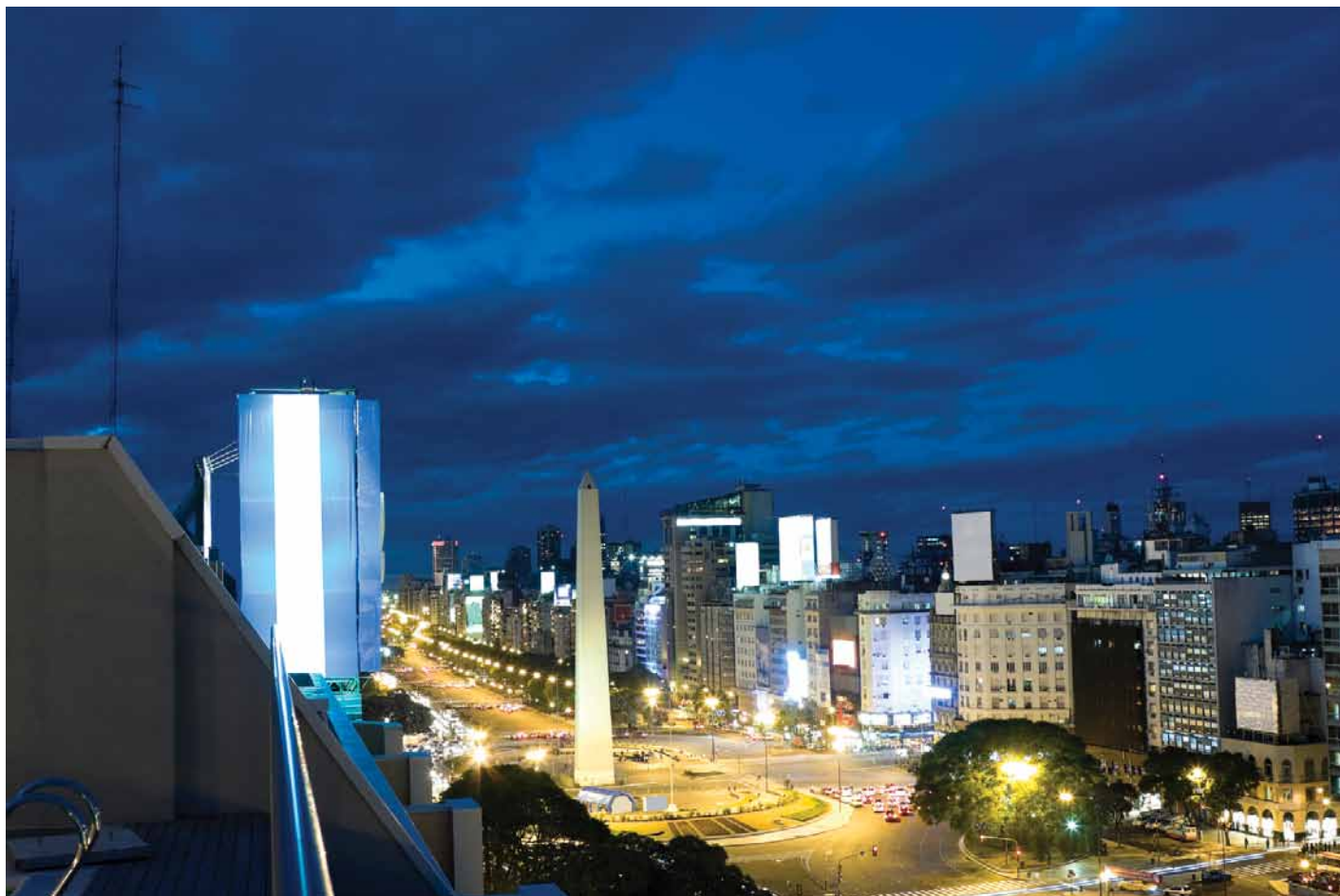
On the other hand, there are still many current DTTs that offer great opportunities (such as the agreement with the Netherlands, Finland or royalties on software for

example), which deserve to be explored and analyzed, and also a recent judicial interpretation can amplify the effects of the DTTs to other countries, as discussed below.

■ DTT with Switzerland

The DTT between Argentina and Switzerland was enforced January 1, 2001. This DTT followed the model of the OECD to these kind of agreements, and it mainly applied to income tax, minimum presumed income and personal assets in Argentina. The DTT with Switzerland was never ratified by an act of the Congress, but was enforced only provisionally by the exchange of protocol notes between Argentina and Switzerland.

Section 26 of the DTT with Switzerland provided the effects of the termination (to be performed with at least 6 months in advance) and states that the termination shall



have effects (i) regarding withholding taxes on amounts paid to as of January of the calendar year following the date of notice of termination, and (ii) in respect of other taxes on income or capital for fiscal years beginning on or after January 1st inclusive of the following year of the date of notification of the complaint.

This means that retentions on payments maintain their regime until January 1st, 2013 and for tax on income and wealth (earning, minimum presumed earnings and personal assets) the termination will be enforced in the fiscal year beginning on January 1st, 2013. That is to say that if the fiscal year starts in September, the termination will be enforced since September 2013.

The DTT with Switzerland provided great advantages for Swiss companies doing business in Argentina regarding retentions for royalties (trademarks, patents, technical assistance), and personal assets in respect to possession of shareholdings in Argentine companies.

■ DTT with Chile

The DTT between Argentina and Chile was enforced on December 19, 1985 following the model of the Andean community. Such DTT applied mainly in respect to taxes on earnings, eventual benefits, capitals, net assets, benefits of certain games and contests. The DTT with Chile was ratified by Argentina by Laws No 23.228, 26.232 and 26.623.

In the case of Chile, the reason was also the assumption by the Argentine government that this DTT was being used in an abusive way. In this case, the Argentine government pointed out that there was an annual detriment of about AR\$1.000 million for (i) the using of the so-called “platform companies” of investments or business in Chile, and (ii) the holding of bonds issued by the Government of Chile, which are exempt from the payment of personal assets tax.

In regard to the effects of the termination, Section 26 of the DTT with Chile provides that it can be terminated until June 30th of each year, and in that case the DTT will have no more binding effect (i) since January the 1st of the following year for individuals or undivided estates (this is to say January the 1, 2013) and (ii) for companies, since the beginning of the fiscal year following the notification. This means, that if the fiscal year begins on September 1, the DTT will be not applicable as from that date, but in general, most of the companies start their fiscal years on January 1, so the termination will be enforced from January 1, 2013.

■ DTT with Spain

The DTT between Argentina and Spain was enforced on July 28, 1994. This DTT was based on the OECD for this kind of agreement, and mainly applied in respect to taxes on income, assets and on personal assets in Argentina. The DTT with Spain was ratified by Argentina by Law No. 24.258.

In the case of Spain, the reason was also the perception from the Argentine government that the DTT was being used in an abusive way. In this case, the Argentine government intends to avoid the installation of Holding Foreign Securities Entities (ETVE).

Regarding the effects of the termination, Section 29 of the DTT with Spain states that the DTT can be terminated “with 6 months in advance each calendar year” and then the DTT will have no more binding effects (i) from January the 1st of the following year for taxes at source on amounts paid to non-residents, and (ii) for other taxes, for the fiscal years beginning the following January the 1st after the date of notification of the complaint. This means that on withholdings, the termination is enforced from January 1, 2013 and for all other taxes the complaint takes effect from the beginning of the fiscal years from January 1, 2013, meaning that if the exercise begins on January 1, it will be

January 1, 2013, but if the exercise starts on October 1, then the CDI will no longer have effect from October 1, 2013.

In any event, as explained before, there are still many applicable jurisdictions that can be implemented for designing tax-efficient structures. In addition, these 3 terminated DTTs are currently being renegotiated, and it is likely that a new DTT will be concluded soon.



AUTHOR BIOGRAPHY

Javier is a partner in the BA firm Canosa Abogados. Javier's practice develops in corporate law issues, advising several national and foreign companies in various corporate matters, including investment vehicles, corporate management, directors' duties and responsibilities, audits, risks' detection and distribution, documents, policies and corporate contracts, and design and implementation of a suitable corporate form for each business.

Regulation of Hedging by Brazilian Companies

■ Adler Martins

Resolution 3.312 from the Brazilian Central Bank has allowed any individual or company domiciled in Brazil to remit funds abroad in order to hedge its investments or its usual business transactions. In fact, Article 1 of such resolution reads:

To establish that the financial transfers to and from abroad, derived from operations designed for the protection (hedge) of rights or obligations of commercial or financial nature, subject to risks of variation in

the international market, of interest rates, of parities between foreign currencies or commodity prices, can be performed with banks authorized to operate in the foreign exchange market by individuals or legal entities resident, domiciled or headquartered in Brazil, subject to the provisions of this Resolution.

The transfers must also be made through a bank authorized to work in Brazil. Further detailing of Resolution 3.312/95, established by the Brazilian Regulation of

Currency Exchange Markets and Foreign Capitals (RMCCI), also states that the intervening banks must collect enough evidence of the legitimacy of the operation, as well as detailed client's identification. Those precautions are part of Brazilian efforts to curtail money laundering and corruption.

The money transferences may have a variety of purposes. A Brazilian company may set up a bank account at a foreign bank, obtain loans abroad, and establish collaterals or escrow accounts abroad, among other things.

After 2005, the scope of hedging operations allowed to Brazilian companies has been extended considerably.

The payment of exports in advance is also allowed, as are, in general, any other forms of natural hedging against foreign currency appreciation.

In spite of Brazil's large base of exporters, the use of hedging has been restricted to the larger companies. This is due to many factors. One will often hear complaints about the high cost charged by the banks to organize and execute hedging operations. It is often said, too, that the lack of information about the availability of such remedies is a major setback, since a considerable share of Brazilian exporters is composed of medium companies that may not know about hedging operations.

The Brazilian tax system is also to blame. Since 1999, a misguided bill has imposed withholding taxation on the gains of derivatives or swap operations, even when they have been used specifically to hedge companies from risk. (LEI No. 9.779, from January 19, 1999). Needless to say, this taxation has nearly made it impossible to hedge 100% of the losses due to currency appreciation or otherwise, since the gains obtained with the derivatives used to cover the losses with the main operation are now subject to taxation.

This issue has been discussed many times before Brazilian courts. Unfortunately, the Brazilian Superior Court of Justice (STJ) has decided for the applicability of the withholding tax and this understanding has little chance of being reverted. Please note that this refers only to the swap operations made by companies in its own benefit. The taxation of hedge funds follows different rules. Significant losses suffered by 2 big Brazilian companies with derivatives have also created a negative bias in the market, directed at swap, derivatives and hedging operations.

In spite of all that, the use of hedging by Brazilian companies is bound to increase. Many studies have been published in Brazil, especially by agribusiness associations and by the Brazilian Central Bank, detailing this phenomenon — if not by exporting companies, then by large companies interested in protecting its financial investments.

It is clear that the use of international mechanisms is allowed for hedging purposes, as demonstrated in this article. Therefore, a clear opportunity is presented for those who can make the use of these financial products more accessible to the average Brazilian company.



AUTHOR BIOGRAPHY

Adler Martins is a Law graduate from one of Brazil's greatest Law Schools: The Federal University of Minas Gerais (UFMG). He is also a MBA by Fundação Getúlio Vargas. Presently attending Masters Course credits (LLM) at Pontifical Catholic University of Minas Gerais and a Post Graduation Course in Financial Planning at São Paulo City University. He can speak English, Spanish, Portuguese, German and some Chinese (Mandarin). Adler has working experience in Argentina, Mexico, India, England, China and Dubai, aside from extensive experience in Brazil.

He is the co-founder of UFMG's group on the study of International Trade Law (GEDICI) and has represented UFMG at the Vis Arbitration Moot, in Austria. He is also a pioneer in legal research of contracts among Brazil, Russia, India and China.



Index for Real Estate Investment Funds

Biggest Loss in 2 Years

The Bolsa de Valores de São Paulo - Brazilian Mercantile and Futures Exchange (BM&FBovespa) maintains a total return index (IFIX) to track the performance of the largest and most liquid Brazilian real estate investment trusts (REITs), called Fundos de Investimento Imobiliário (FIIs). This index offers investors critical information regarding the performance of Brazil's booming real estate market. It is easily understood and very accessible on the BM&FBovespa website.

■ By Vernon Budinger



The components of the IFIX are published by the BM&FBovespa and the prices for some of the index components can be tracked on Uqbar's Orbis, Yahoo Finance and Bloomberg. This index has climbed steadily for 2 years and returned 35.3% for the 12 months ending October 2012. However, its seemingly unstoppable growth came to a halt in October when it dropped 2.05%, the biggest 1-month drop ever. Even more worrisome, the index is down another 1.57% this month (as of Nov. 13, 2012).

IFIX also offers another window into the real estate market that supplements the BM&FBovespa Real Estate Index (IMOB),

the interior and São Paulo in the south. This article explains the IFIX construction and then looks at some of the possible causes for the recent poor performance.

IFIX methodology

The IFIX is a total return index with a base of 1,000 set on Dec. 31, 2010. It tracks market prices, dividends and distributions to investors. The following text from the BM&FBovespa publication IFIX Real Estate Fund Index explains the methodology for constructing the index.

The objective of the BM&FBovespa Real

99% of the total value of all individual indices; b) Those with trading session participation that is equal to or greater than 60% in the period.

Real estate funds with less than 12 months of listing are only eligible if they have more than 6 months of trading, and if during the last 6 months of the analysis period they have had at least a 60% presence in the trading session.

Exclusion Criteria

A real estate fund will be excluded from the portfolio, if during the periodical reevaluations it fails to meet one of the inclusion criteria.

Source: BM&FBovespa

FII Index One Month Total Return Breakdown by Sector					
Fund Type	Contribution to Return			Index Weight %	Weighted Return %
Schools	Escolar	-0,064	-2,027	2,640	-2,432
Office Buildings	Escritórios	-0,079	-0,656	47,203	-0,168
Hotel	Hospedagem	-0,060	-3,860	1,565	-3,860
Hospital	Hospitalar	0,005	0,435	1,962	0,258
Industrial	Industrial	-0,055	-3,120	1,765	-3,120
Logistics	Logística	-0,024	-1,145	2,098	-1,161
Multiple	Múltiplos	-0,070	-1,294	6,517	-1,076
Not Classified	Não Aplicável	-0,040	-2,400	1,641	-2,414
Residential	Residencial	0,011	3,010	0,368	3,010
Retail - Individual Stores	Varejo - Lojas Individuais	0,008	1,600	0,510	1,600
Retail - Shopping Centers	Varejo - Shopping Centers	-0,201	0,323	16,446	-1,221
Total	Grand Total	-0,570	-0,694	82,715	

an index that tracks Brazil's largest real estate developers. Like us, many investors watched with great curiosity as IFIX climbed higher month after month while the IMOB has been floating sideways for the past 2 years.

Last month's poor performance from the IFIX is just one of the latest indications that Brazilian real estate is hitting a soft patch, if not hitting the skids. Breno Costa reported that the Banco Central is requiring banks to strengthen their reserves in the Oct. 28, 2012 edition of DCI and speculates that Brazilian banks may be entering crisis mode. CBN Radio broadcasts report falling real estate prices from Brazil's northeast to Minas Gerais in

Estate Investment Fund Index (IFIX) is to measure the return on an investment in a portfolio comprised of shares of real estate funds listed on BM&FBovespa. These shares are selected for their liquidity and weighted in the portfolio by the total market value (total number of issued shares multiplied by their last price quotations).

Inclusion Criteria

Based on the previous 12 months, the shares of funds that meet the following criteria are included in the index portfolio:

a) Those included in a group of shares whose combined negotiability indices represent

If throughout the duration of the portfolio the fund redeems all of its shares, they will be excluded from the index portfolio. In such circumstances, the necessary adjustments will be made to ensure the continuity of the index.

BM&FBovespa rebalances the index every 4 months: January to April, May to August, and September to December. It starts tracking the performance of the index on the first Monday of the first month in each rebalancing period.

Each fund is weighted by its total market value using the last available price quotation. An FII's participation in the index may

Ten Worst Performing FIIs for October 2012				
Operation	Type of Property	Start	End	Return %
BTG Pactual Fundo de FII	Not Classified	sep-12	oct-12	-10,62
Maxi Renda	Not Classified	sep-12	oct-12	-5,48
The One	Escritórios	sep-12	oct-12	-5,35
Shopping Jardim Sul	Varejo - Shopping Centers	sep-12	oct-12	-4,89
BB Votorantim JHSF Cidade Jardim Continental Tower	Escritórios	sep-12	oct-12	-4,82
Panamby	Múltiplos	sep-12	oct-12	-4,81
Rio Negro	Múltiplos	sep-12	oct-12	-4,74
Banrisul Novas Fronteiras	Varejo - Lojas Individuais	sep-12	oct-12	-4,61
BB Renda de Papeis Imobiliários	Não Aplicável	sep-12	oct-12	-4,56
BB Renda Corporativa	Escritórios	sep-12	oct-12	-4,22

Ten Best Performing FIIs for October 2012				
Operation	Type of Property	Start	End	Return %
Torre Norte	Escritórios	sep-12	oct-12	7,78
Mais Shopping Largo 13	Varejo - Shopping Centers	sep-12	oct-12	6,83
JS Real Estate Multigestão	Não Aplicável	sep-12	oct-12	5,04
RB Capital Agre	Residencial	sep-12	oct-12	4,70
Kinea Renda Imobiliária	Escritórios	sep-12	oct-12	3,39
Grand Plaza Shopping	Varejo - Shopping Centers	sep-12	oct-12	3,23
JS Real Estate Renda Imobiliária	Não Aplicável	sep-12	oct-12	3,04
RB Capital Prime Realty I	Residencial	sep-12	oct-12	3,01
CSHG JHSF Prime Offices	Escritórios	sep-12	oct-12	2,69
Personale I	Múltiplos	sep-12	oct-12	2,39

Source: Uqbar's Orbis System

not exceed 20% at the time of inclusion or during any of the periodic reviews.

The base for the index was set to 1,000 points on December 30, 2010. To adapt to the initial base, the market value of the portfolio was adjusted using a reducer (adjustment coefficient), designated by μ in the following index formula:

Initial Index = Value of portfolio / μ = 1,000

If necessary, the index reducer will be altered, so as to allow inclusions or exclusions to the portfolio, during its periodic rebalancing or due to the distributions made by the funds. The index is also adjusted for capital gains and income distributions. The point of these adjustments is to measure income as well as price appreciation.

■ Analysis of returns for the past 12 months and October

We were not able to replicate the IFIX to the penny; however we came very close using Uqbar's Orbis system. Our survey breaks down FII returns by sector according to the classification system used by Orbis. It indicates that the results were not uniform and that some FII sectors turned in positive returns but were overwhelmed by the poor performance from FIIs backed by Hotels, Industrial Projects and Non-Classified FIIs (probably mortgage pools). Note that the weight does not add up to 100% because not all of the components of IFIX had returns in Orbis.

Individual FII performance also varied greatly. We are concerned that BTG Pactual's Fundo de FII was down so much while the next-worst-performing FII was down

only 5.48%. One would expect that Fund de FII would perform more like the index. Still there was plenty of bad news to go around, and this offset the exceptional returns posted by Torre Norte and the other FIIs that turned in strong returns. Note that the second-best-performing FII, Mais Shopping Largo 13, is one of the worst-performing FIIs for the past 12 months.

Looking at the 1-year returns, our replication of IFIX returned 38.6%, very close to BM&FBovespa's official calculation of 35.5%. The Hotel Sector only has one FII, Hotel Maxinvest, and it returned 98.8% for the past 12 months. The Office Building Sector also performed well with a return of 41.8% for the past year. Retail Gallery is also composed of just one FII — REP 1 CCS — which has performed poorly this year. Residential FIIs have

Ten Worst Performing FIIs for Past Twelve Months

Operation	Type of Property	Start	End	Return %
RB Capital Agre	Residential	oct-11	oct-12	-19,57
Panamby	Multiple	oct-11	oct-12	-12,70
BB Renda Corporativa	Office Buildings	oct-11	oct-12	-12,30
REP 1 CCS	Retail - Galleries	oct-11	oct-12	-9,88
Mais Shopping Largo 13	Retail - Shopping Centers	oct-11	oct-12	-9,67
West Plaza	Retail - Shopping Centers	oct-11	oct-12	-6,73
RB Capital General Shopping Sulacap	Retail - Shopping Centers	oct-11	oct-12	-3,22
RB Capital Desenvolvimento Residencial II	Residential	oct-11	oct-12	4,26
Floripa Shopping	Retail - Shopping Centers	oct-11	oct-12	6,47
RB Capital Prime Realty I	Residential	oct-11	oct-12	6,99

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Source: Uqbar's Orbis System

also performed poorly: the sector contains three FIIs – 2 of which were up slightly while a third, RB Capital Agre, is down 19.6% for the year.

Performance for some individual FIIs has truly been spectacular. As tables for the best 10 and worst 10 individual FIIs shows, Memorial Office is up a whopping 139.4% for the year. The aforementioned Hotel Maxinvest is up almost 100%, while Torre Almirante and Square Faria Lima returned a “mere” 76.1% and 56.2%, respectively.

Summary

We looked at several variables to try to understand the IFIX's negative performance for October. We have not been able to isolate one dominant factor. However, there are several economic factors that contribute

to FII valuation and income generation that continue to signal trouble for the sector.

Investors expect the Cupom to start increasing SELIC, the short-term policy rate used by the Central Bank of Brazil to set monetary policy. The Cupom has stated that it will not be cutting the SELIC rate for the foreseeable future. Falling interest rates were a powerful driver of the positive returns over the past year.

- According to the Central Bank's data, Brazilian industrial production continues to decline on a year-over-year basis.
- The Central Bank's database also reports that loans more than 90 days past due for residential real estate are up 20% for the past year as of September 2012 and stand at 6% of bank's credit portfolios. However, loans more than 90 days past due for com-

mercial real estate are down 47.4% for the same period. This is a very worrisome deviation given that loans in bank portfolios more than 90 days past due are up more 11.5% for the past 12 months for all credit.

- Commercial and residential real estate loan issuance has been flat for the past few months. This is an important development given that growth in real estate loan issuance has approached 80% in the last few years.
- Initial reports for traffic at Brazil's shopping centers indicate that they are virtually empty compared to the activity normally seen at this time of the year.

Many indicators are pointing to further negative surprises; only a few are pointing to positive surprises. At the minimum, we do not see a repeat of 30% to 40% annual returns for the next few years.

FII Index 12 month Total Return Breakdown by Sector				
Fund Type	Contribution to Return	Index Weight %	Average of Rentabilidade	Weighted Return %
Schools	0,599	0,022	30,660	27,678
Office Buildings	26,014	0,622	43,276	41,796
Hotel	1,580	0,016	98,820	98,820
Hospital	0,386	0,019	18,590	20,744
Logistic	0,605	0,023	27,567	26,473
Multiple	2,024	0,080	23,212	25,183
Not Classified	1,449	0,044	31,762	32,849
Residential	0,051	0,018	-2,773	2,791
Retail - Gallery	-0,009	0,001	-9,880	-9,880
Retail - Individual Stores	0,196	0,006	35,080	35,080
Retail Shopping Centers	5,723	0,149	21,079	38,355
Grand Total	38,618	1,000	31,008	

AUTHOR BIOGRAPHY

Vernon Hamilton Budinger is the CFA and Principal Partner at Latin America Structured Finance Advisors, LLC. LatAm Structured Finance is an investment advisor specializing in Latin American asset-backed securities. We use our proprietary technology and experience to identify unique investment opportunities and to protect our clients from risks embedded in complex structures. Vernon Budinger is an investment professional and a CFA with more than 28 years of experience. Prior to forming LatAm Structured Finance, Vernon worked at Western Asset Management and spent the last 3 years working for Western in Brazil where he evaluated Brazilian structured finance.



Diamonds in the Rough

Otávio Vieira of Fides Asset Management on the Opportunities in Brazil's Sluggish Equities Market

Takeaways:

- With a sluggish Brazilian economy and risk-averse investors, equity fund managers need to be far more selective in the stocks they choose, focusing on generating alpha in the near term.
- Some of the best options in Brazil are under-the-radar companies, including some large caps, whose fundamentals are strong and whose stocks remain underpriced.
- Some of the best Brazilian stocks are benefiting from the recovery in certain sectors in the US.

The downturn in Brazil and the laggardly performance of the BM&FBovespa over the last 2 years has posed a challenge to investors in Brazilian public equities. Many companies are underperforming, are over-leveraged, and/or have stocks trading at high multiples, while the government continues to intervene with anti-inflationary measures (most notoriously in the case of Brazilian utilities companies in recent months) against a backdrop of macroeconomic sluggishness.

In this relatively grim context, growth and opportunities are still to be found, but managers have had to alter and refine their strategies, being far more selective in how they generate alpha.

“We’re focused on individual stories,” says Otávio Vieira, a Partner at Fides Asset Management, a Brazilian shop that invests exclusively in Brazilian securities. “We’re avoiding growth companies or companies that need to access the market heavily, over-leveraged companies and companies trading at high multiples.”

Founded in 2002, Fides has 270 million reais of AUM, with 2 long-short mandates and 2 long-only mandates. Mr. Vieira, who is responsible for institutional relations and operations and acts as COO of the company, says his firm focuses on value instead of timing and momentum. Among the companies Fides is avoiding in the current context are some of the retail and shopping mall stories that are popular in Brazil but, in his opinion, have little room to appreciate. “I don’t believe you should focus solely on consumer goods,” he says. “Of course there will be companies that benefit from this social inclusion, but retail companies, for example, are trading above 20 P/E. There are, of course, companies that deserve this high-multiples status, as they will grow a lot, but in other cases the investor will suffer.”

He points to several large-cap positions that have been effective for his firm, including Bradesco and JHSF. Bradesco has grown in value 40% since last year, he notes, and will grow another 40% this year.

Several of Fides’s stocks are linked to growth abroad, such as the steel company Gerdau, which has important connection with US

real estate, a market which Mr. Vieira says is stronger than it was 6 months ago and continues to show improvements. Fides also invests in some mid and small caps, including a small-weapons maker that holds a 22% market share of small weapons sold in the US.

“We’re looking for stories that are neglected by the markets or have had difficulties in the past but are now gaining momentum in terms of results and operational changes,” he explains.

Fides’s client base is all-Brazilian, 10% of whom are institutions and 25% private banks. He says multifamily offices are expanding their businesses, and private banks enlarging their client bases, both of which are good for his firm. Fides also targets some broker dealers and individual agents, and is focusing more on institutional investors in the wake of the steep drop in base interest rates over the last year-and-a-half, which is compelling institutional investors to look beyond fixed-income instruments.

“We are excited about the interest rate drop. It’s important, and we think permanent. The government will utilize other measures to curb inflation. Brazil will be living with these interest rates from

now on, and there will be a lot of growth in the equity market and equity-related products, so we’re optimistic.”

Fides is conducting its institutional strategy through an indirect approach, Mr. Vieira says, with institutional distribution: “We think that by setting up a lot of meetings with these distributors focused on institutional clients, we will achieve our goals.” He says Fides’s most appropriate product for institutional investors is a fund that adheres to the Bovespa, but with an excess return of approximately 10% annualized.

Mr. Vieira is more optimistic about 2013 than the rest of the market. “I believe in the recovery. Next year, when Europe tackles its main problems and after the

solution to the fiscal cliff in the US, I think the market will achieve higher levels than currently anticipated.” Nevertheless, he recommends that managers following Fides be very selective in their stocks in order to generate alpha. “Even though there will be beta in the next months as Brazilian market recovers, there will be permanent losses in some sectors,” he says.

“We have a diversified book with some stories that are uncorrelated,” he adds. “Now that the beta component of the returns will be less important, we believe alpha will provide the differentiation.”

“We’re focused on individual stories, avoiding growth companies or companies that need to access the market heavily, over-leveraged companies and companies trading at high multiples – including a few retail and shopping mall stories that are popular in Brazil but, in our opinion, have little room to appreciate.”

Otávio Vieira, Partner & COO, Fides Asset Management; Co-Head, Brazil Chapter of the Hedge Fund Association



Social Unrest in Latin America:

Land & Forests

■ LatinNews

Land-related social unrest in Latin America is no longer confined to the demand of the landless for fair access to land. It has come to embrace also the demands of the Indian peoples for respect for their land. It also includes the demands of the forcibly displaced for the restitution of their lands lost to conflict, and those of the environmentalists for the protection of their surroundings.

With this array of demands comes, also, the necessary consideration of the obstacles and threats perceived by each set of claimants. Several of the organizations that have sprung up in response to them define themselves as against something: against

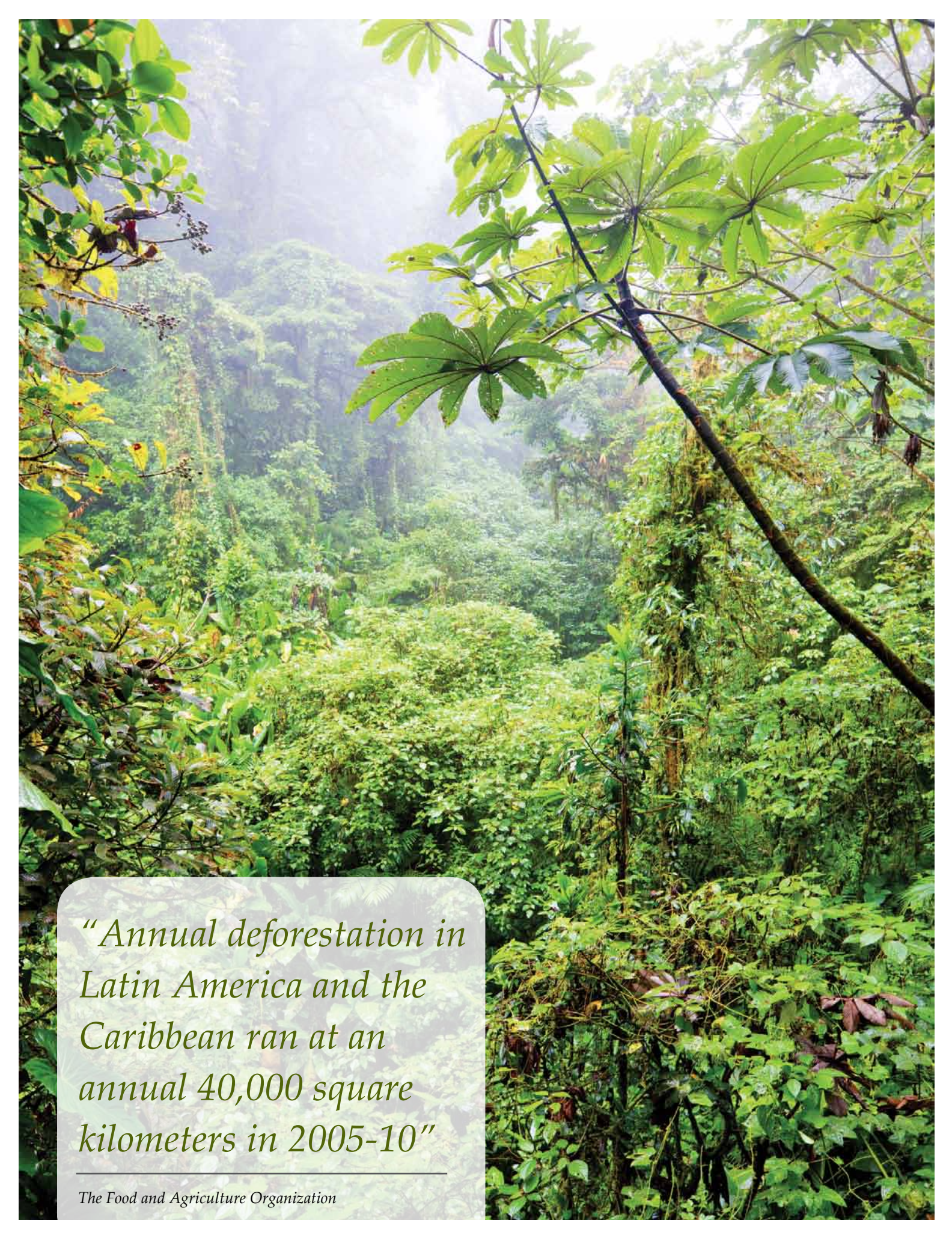
open-cast mining, against hydroelectric projects, against transgenic foods. Land-related, too, is a new menace: the organized transnational drug-trafficking groups that compete forcibly for land for drug crops and transit routes.

These added elements, of course, do not rule out consideration of the core demand for land, which remains as acute now as before the region began to experiment with agrarian reform or land reform, indeed, in many cases with even greater concentration of landownership than before in the region that sports the greatest indices of income inequality in the world.

A return to high concentration of landownership in few hands is one of the factors stoking social unrest in the region. It is, in effect, a reversal of land reforms introduced years ago across Latin America, before most of them had met their objectives.

In Brazil, the number of conflicts over land tenure increased in 2011 by 21.3% to 1,035. These accounted for the bulk of the rural conflicts for all motives, which were up by 15% to 1,363 and affected 600,925 people. The number of peasants who received death threats in 2011 more than doubled, from 125 in 2010 to 347.

Added to the demand for access to land is a newer one, for restrictions on the purchase

A photograph of a dense tropical forest. In the foreground, a large tree branch with several large, deeply lobed green leaves extends from the upper right towards the center. The background is filled with a thick canopy of various green plants, including vines and smaller trees, creating a sense of depth and lushness. The lighting is soft, suggesting a misty or overcast day.

“Annual deforestation in Latin America and the Caribbean ran at an annual 40,000 square kilometers in 2005-10”

of land by foreigners. The land-grabbing phenomenon is part of a broader process that has led to the reappearance of factors that prevailed in Latin America before the introduction of agrarian or land reforms. A study for the campaigning organization International Land Coalition (ILC) identifies 5 of these factors:

- The investment of foreign companies in pursuit of resource extraction
- The export of raw materials with no industrial processing
- Pressure on communal and campesino land resulting in the displacement of the original occupants
- The lack of regulations or controls over the companies' methods of appropriating lands granted in concession
- The concentration of economic power in certain small groups

A related issue is deforestation, over which Brazil has become a byword for despoliation. However the news is not all bad. The scale is shrinking, and may shrink more with a controversial new forest law. Farmers and other encroachers will have to replant the trees they have cut down above their legal quota.

Brazil's national space research institute has reported that between August 2010 and July 2011 deforestation fell by 11% to 6,238 square kilometers — a fall of 77% from the peak of 27,700 square kilometers recorded in 2003-04.

Ecuador is another major offender. The Food and Agriculture Organization has reported that since 2000 Ecuador has deforested an annual average of about 1,976 square kilometers, or 1.8% of its total virgin forest cover. That is the highest rate in Latin America, which has an average of 0.4%. A recent study put northwestern Ecuador among the 7 major deforestation areas in the region's moist forest biome.

A return to high concentration of land ownership in few hands is one of the factors stoking social unrest in the region. It is, in effect, a reversal of land reforms introduced years ago across Latin America, before most of them had met their objectives.

Annual deforestation in Latin America and the Caribbean ran at an annual 40,000 square kilometers in 2005-10. However, for every 100 square kilometers of deforestation in the region between 2001 and 2010, there were 66 square kilometers of reforestation. This is the headline of a study conducted throughout the region with the aid of satellite imagery. The catch, at least in terms of the direct impact on people, is that deforestation and reforestation are not occurring in the same areas.

About 92% of the deforestation has been taking place in South America, mainly in Argentina, Brazil, Bolivia and Paraguay. Most of the reforestation, though, has taken place in the dry forest and shrub biome and in mountainous areas, which are not appropriate for large-scale mechanized agriculture.

Note: This is an extract from LatinNews Special Report: Social Unrest in Latin America: Forests & Land (www.latinnews.com).

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On Familiar Ground

Linus Sluyter of Bolsa y Renta Discusses His Firm's New Luxembourg-Domiciled Colombian Equity Fund

Takeaways:

- In spite of the wealth of opportunities in the equity markets of the Andean region, there continue to be few equity funds with which international investors can be comfortable.
- Management houses such as Colombia's Bolsa y Renta are answering international demand by domiciling their equity funds in Luxembourg under a Unit Share Investment Trust (USIT) structure.

As the equity markets in Colombia, Peru and Chile grow in size, company strength, liquidity and integration, there continues to be a dearth of regional equity funds that are easily accessible to international investors. Many of these investors, moreover, remain hesitant because of their lack of familiarity with the regulatory frameworks and dynamics of these markets, a lingering distrust that was, of course, exacerbated by the recent Interbolsa meltdown in Colombia.

In order to provide more dependable exposure to this region's robust growth and overall stability, LatAm managers are opening equity funds in Europe that are devoted to the Andean markets while maintaining structures and regulatory frameworks more familiar to international investors.

In a recent special report on LatAm capital markets, for instance, the Financial Times reported that the major Chilean firm LarraínVial was set to open a small- and mid-cap LatAm equity fund in Luxembourg.

Another prominent example is a Colombian equity fund, also domiciled in Luxembourg, that Bolsa y Renta S.A., Colombia's leading equity broker and one of its most important asset managers, launched in April of this year.

■ Give Them What They Want

According to Linus Sluyter, Head of International Wholesale at Bolsa y Renta, the

idea behind the new fund was to feed the global appetite for Colombian equities. “We have seen a lot of inflows of foreign assets coming into the local stock exchange, but not a single actively-managed equity fund dedicated to international investors.”

Bolsa y Renta has offered a local long-only Colombian equity fund since 2007, and decided to replicate the fund in Luxembourg in April of this year, electing a local boutique to manage the USIT-structured fund while Bolsa y Renta serves as a fund sub-advisor.

Mr. Sluyter, who is originally from Germany, says that when he brought his European-based experience to Bolsa y Renta in 2011, he immediately saw an opportunity.

“I was familiar with the fund landscape in Europe, and I realized that we had a great story, with more than 5 years running a regulated equity fund that outperformed the local benchmark by more than 6% p.a. So we took a highly recognized fund vehicle like the UCITS fund to basically provide this additional service to international investors, so they could get easy, transparent access to Colombia through a fund structure they knew, complemented by the knowledge of a local sub-advisor that is among the leading asset managers in Colombia.”

■ Go With What You Know

Bolsa y Renta was uniquely positioned to provide this service, Mr. Sluyter says. Originally founded in the 1950s, the firm was essentially re-launched about 6 years ago, when some senior executives from Bancolombia, Colombia’s largest banks and other leading financial institutions in Colombia decided to become major partners of the existing brokerage firm.

The revamped firm immediately distinguished itself from its Colombian competition with a focus on equities.

“In Colombia, almost 90% of the total trading volume is still in fixed income,” Mr. Sluyter explains, “but our partners already started in 2006 to create an in-house equity research team, which grew over time.” When it started the long-only equity fund in 2007, Bolsa y Renta was able to leverage the company’s expertise in fundamental equity research.

“It was one of the few funds out there in the Colombian market that really pursued high-conviction portfolio construction,” Mr. Sluyter says.

Bolsa y Renta proceeded to grow quickly to the present, from about 20 to almost 300 employees; currently it manages about US\$2.7 billion in assets. In June 2012, it was confirmed that BTG Pactual will acquire the firm, a deal Mr. Sluyter says should be completed by the end of this year.

The local equity fund currently has US\$33 million AUM; at its peak in 2010, it ran at US\$120 million. “We’ve never had any problems meeting our daily liquidity profile,” Mr. Sluyter remarks. He says conviction trades constitute the largest part of the portfolio. “These are companies where we feel the market does not correctly understand their business model, and where we feel they’ll outperform in a 3- to 6-month period.”

Bolsa y Renta’s status as a leader among Colombian equity managers is not necessarily reflected in the size of its equity funds, Mr. Sluyter says, because the fund industry in Colombia is still at an early stage. “We are, however, running quite significant mandates through private managed accounts either for affluent individuals or institutions.” The client focus is mostly toward high-net-worth individuals and institutional investors – a clientele which, combined with Bolsa y Renta’s equity focus, makes the firm a true rarity in Colombia.

There will continue to be a strong appetite for equity funds such as Bolsa y Renta’s, Mr.

Sluyter predicts, as investors who maintain large percentages of their portfolios in Brazil and Mexico realize that better returns are to be found in the Andean region. “They’re starting to see that countries like Peru and Colombia have significantly outperformed their neighbors,” he says. “The MSCI LatAm index has 6% exposure to Colombia, which is often not even met in the LatAm funds, which tend to have 1% to 4%.”

“For family offices and other more sophisticated clients, especially in Europe,” he says in sum, “this is quite an interesting bet without running major risks in terms of legislation.”



SPEAKER BIOGRAPHY

Linus Sluyter joined Bolsa y Renta S.A. in 2011 as Head Business Development for the asset management unit. In 2012, Mr. Sluyter has also started to build international sales operations for the company. Before coming to Colombia in 2010, he worked for 5 years at Bank Sarasin in Switzerland in various positions in the field of asset management and institutional sales.

Mr. Sluyter is a German national and holds a Master Degree in Economics from Maastricht University and he is a CAIA charter holder.



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LatAm Hedge Fund Experts Weigh In on the *Current Political and Economic Context*

Though 2011 and 2012 have been strong years for LatAm hedge funds, particularly relative to other regions, the political and macroeconomic context in which local managers are investing has been fraught with complicated developments.

For instance, the slowdown in China has affected commodities markets, the lifeblood of many of the region's economies; the European crisis has diminished capital flows into the region; elections (and 2 important re-elections) in Peru, Mexico, Argentina and Venezuela have illuminated the region's bipolar political reality; and pitfalls in the Andean region's MILA integration, as well as the recent Interbolsa fiasco in Colombia, have cast doubt on how ready those markets are for the equity big leagues.

For this issue, in addition to discussing fund and strategy specifics with a small group of the region's top managers and consultants, ALI asked for their opinions on some of the most pressing macro issues of the day. Here are some highlights from those conversations:

Manuel Mejía, Chief Investment Officer, Bladex Asset Management (Bladex is a global macro fund manager focusing primarily on LatAm, including Brazil, Mexico, Argentina and Venezuela, with a fund in Cayman and another recently launched in Brazil. Total AUM: US\$135 million.)

On the world economy and the threat of another liquidity crisis: We're keeping a close eye on world economy. The big question now is whether it will decelerate again or if we've seen the worst, and it's not clear we've seen the worst. In 2007 we did a lot of corporate bonds, but because of what was happening in the US and the potential of an emerging-market-style crisis, we decided to focus on the most liquid securities.



We got out of anything that could become illiquid, and since then, we have followed a policy of investing only in the most liquid securities. There are times when we are very deployed and times when we aren't. Currently there is not much risk on our books.

On Argentina: For us, there is little we can do in Argentina besides external debt, as the government has such tight control of the currency. And with external debt, we're cautious because of the result of the lawsuit with the Elliot Group. Generally, we're not too keen on credit at the moment.

On Venezuela: People realize Venezuela's an oil country and has sufficient resources, and there is speculation there may be a devaluation sometime in late December or early next year, which will improve the credit profile of the country.

On Brazil: China's slowdown hasn't affected our portfolio. The big story in Brazil is really the Central Bank's lowering interest rates and the stimulus efforts by the government to get the economy going. We took advantage of that move because we thought they would be aggressive, and that's been good for us.

Antonio Gil Nievas, CEO, Moneda Asset Management (See the article entitled "Welcoming the Inevitable.")

On Argentina, Venezuela, Bolivia and Ecuador: When you actually look at the pure facts, the "market-unfriendly" countries barely represent 2 percent of the equity market cap and 3% of corporate debt market in LatAm. So for all intents and purposes, they are irrelevant from an equity and from a corporate debt perspective. Those are the hard facts and we need to educate international investors on facts.

Sonia Villalobos, Portfolio Manager, LV Pacific Opportunities Fund (See the article entitled "Redoubled Universe.")

On how the global downturn in commodities demand will affect the Brazilian market: If you take Brazil's commodity exports, they are 7% of GDP, total trade is 11%. The reason people think of Brazil as a commodity market is because the stock market is dominated by commodities. But Chile is actually dozens of times more exposed to commodities than Brazil, but people generally don't understand that.

"When you actually look at the pure facts, the 'market-unfriendly' countries barely represent 2 percent of the equity market cap and 3% of corporate debt market in LatAm. So for all intents and purposes, they are irrelevant from an equity and from a corporate debt perspective."

Sonia Villalobos, Portfolio Manager, LV Pacific Opportunities Fund

Carlos Rojas, Founder & CEO, Andino Asset Management (See the Article entitled "Filling the Andean Gap")

On the Mercado Integrado Latinoamericano (MILA), which integrates the stock markets of Chile, Peru and Colombia: MILA has some major problems and it needs to be solved by political action in every country. First, you don't have the same tax rate in every country, so the framework is not the same for everyone. The second is more important: the central banks need to authorize free entrance and exit of stock in the other bourses. Otherwise you're in Peru and you buy a Colombian company and the custodian remains in Colombia. There needs to be a platform that is totally integrated with 3 countries, with the same custodian and same rules.

Ultimately, though, there is real interest in MILA from people who have a lot of money and power and influence. For instance, BTG bought a brokerage house in Peru, Colombia and Chile, and are very interested in developing these markets for their distribution and products. So we're going to see big players, the BTGs and the Itaú, pushing this idea, and I think that will be great news.

SPEAKER BIOGRAPHY

Sonia Villalobos is a managing partner of Lanin Partners Ltd. and was formerly Head of Latin American Equities at Larraín Vial AGF. A Brazilian citizen, she has more than 25 years of experience in the Latin American equity markets. She was Head of Research at Banco Garantia in São Paulo from 1989 to 1996 and Vice President at Private Equity Manager Bassini, Playfair & Associates from 1996 to 2002. She holds a Bachelor and Master's degree in Finance from the Fundação Getúlio Vargas in São Paulo. In 1994 she obtained her CFA, the first person in Latin America to achieve it.

Guayaquil,

Latin America's New Hidden Treasure

■ Tom Kadala

Known mainly for its prehistoric inhabitants, the Galapagos Islands off the coast of Ecuador have always overshadowed their bustling port-of-call, the city of Guayaquil. To attract some of the 450,000 annual tourists that bypass the city on their way to the Galapagos Islands, Guayaquil's longtime mayor, Jaime Nebot, has been busy rebuilding his city, hoping to convince some of these visitors to stay a night or two longer. New roads, malls, conference facilities and 2 ambitious proposals to modernize their port facilities to world-class levels has started to turn heads. For investors who dig deep into the

numbers, they may be pleasantly surprised to find a growing middle class grounded on socialist beliefs but ready and able to respond to international business demands.

In mid-September of 2012, Guayaquil's mayor and his entourage presented their case to investor groups in New York City. Mayor Nebot openly solicited global corporations to consider a manufacturing presence at a proposed 670-acre port facility located in Posorja, about 100 kilometers south of Guayaquil. According to Nebot, early tenants could expect a generous dosage of municipal cooperation and a 10-year tax exemption that would begin on the first day of full operations. Nebot's primary goal is to create good-paying jobs for his newly indebted growing middle class, who, during the commodity-price bonanza era, were lavished with both housing and consumer credits. Nebot would prefer companies offering sustainable manufacturing jobs that participate in the value chain of products that move through his ports. Instead of just exporting raw materials to the rest of the world, Nebot wants some of his export products to be partially assembled in Guayaquil first.

Guayaquil's population of 3 million inhabitants generates 20% of Ecuador's GDP, and yet, its port facilities handle 70% of the country's trade activities. The disparity in these percentages suggests that the city has also been a longtime pass-through port for the country's rich, 3000,000-barrels-a-day oil industry. With good reason Nebot is focused on capturing a portion of the potential economic activities related to both oil and tourism that have been bypassing his city for years without leaving meaningful contributions. If Nebot has his way, Guayaquil will one day represent a greater slice of the country's GDP by becoming a preferred destination center for business tourism and a major logistics operation for companies servicing Latin America. His proposed state-of-the-art port facilities, access to cheap energy sources and future plans for a second airport with multiple runways located about 10 miles from the city in Dualar, will undoubtedly meet the needs of global companies.

Nebot has enjoyed unprecedented political stability, having been one of two mayors for the past 20 years. His likable demeanor and sincere passion to make Guayaquil the «Big Apple of the South»

has won him the trust and respect from his constituents. His long-term working relationships with managers of a prominent development bank in Latin America (CAF) has also proven useful. By depositing the city's tax revenues in CAF's vaults, Nebot has gained access to low-interest loans for up to 5 times the amount of the original deposits. He has further leveraged CAF loans into public-private partnerships and cooperative bonds to fund numerous infrastructure-related projects and public works in preparation for what he hopes will soon become a bustling center for business tourism. CAF President and CEO Enrique Garcia praised Mayor Nebot's achievements, naming Guayaquil as one of CAF's most successful development investments.

Nebot is known to run a tight ship. He employs fewer public employees than 12 years ago and invests 85% of his tax revenues into infrastructure and other public works. The replacement of open flea markets with modern malls, improved roadways and bridges, a new fleet of hybrid public buses, enhanced water systems and diverse cultural centers are only some of the projects completed in recent years to attract a wider variety of tourists to the city.

Beyond its new shine as a potential global center, Guayaquil offers yet another set of extraordinary benefits to foreign investors. First, the city is in the same time zone as New York city (with the exception of one hour during daylight savings time) and second, the seasons are inverted, hence New York's winter months occur during summertime in Guayaquil.

A recent merger between 2 prominent airlines called LanTam Group currently offers daily nonstop service from New York city to Guayaquil and in the not too distant future will offer 4 more flights so business travelers can arrive early and leave late from either destination. Best of all, travelers can leave without having to exchange currency, since Ecuador uses the same dollar that circulates in the United States.

After careful planning and meticulous strategizing, Guayaquil's ambitious mayor and his capable team have truly prepared their city to become an extension of New York city. Business CEOs who answer his call early can probably expect to negotiate more favorable terms. As for investors seeking higher returns from lucrative Latin American markets, perhaps this new passage between New York city and Guayaquil is the perfect starting point for the adventurous capitalist.



AUTHOR BIOGRAPHY

Mr. Kadala is an internationally recognized writer, speaker, and facilitator on topics that concern CEO's and political leaders. He is well-versed in economics, engineering, technology, finance, and marketing. His views are regularly published by prominent industry publications and also distributed to an exclusive list of contacts, most of whom he has met personally during his 20+ year tenure as the founder & CEO of Alternative Technology Corporation (ATC, Inc.). He earned a Bachelor in Science in Civil & Environmental Engineering from Cornell University and an MBA with a concentration in Finance from the Harvard Business School.

Mr. Kadala's ability to communicate complex issues to a wide range of audiences in writing or in person (English or Spanish) has won him a favorable reputation among his peers as someone who is "not afraid to tackle tough global issues." Most recently, Mr. Kadala developed a facilitated discussion format called Business Model Innovations or BMI's that was implemented successfully at the United Nations on renewable energy investments strategies for developing countries.

For more details on the BMI process, please visit www.ResearchPAYS.net

The Emerging Market Private Equity Association's Global Limited Partners Survey offers perhaps the best snapshot available of private equity investing world-

banks, asset managers, endowments and sovereign wealth funds with total AUM of nearly US\$400 billion. The survey was done between December 2011 and February 2012.

Indeed, the region is the most attractive for dealmaking for the year to come, followed by Brazil in 2nd place. For the 4th year in a row, Brazil will see the highest influx of new investments among regions worldwide.

LPs are Most Bullish about their Asian and Latin American Funds

■ Excerpt from EMPEA's 2012 Global LP Survey

wide. Surveying LPs from around the world, the yearly report addresses current allocations, planned future allocations, and overall views of the investment climate and opportunities in developed and emerging markets.

For this year's survey, EMPEA interviewed 106 LPs from 28 countries, representing pension funds, insurance companies,

The results, elegantly displayed and summarized, make vividly clear that LPs the world over are increasingly seeking emerging market investments, with 75% of the LPs surveyed saying they intend to increase commitments in emerging markets over the next 2 years. They are attracted primarily by macroeconomic and demographic drivers – a major reason why, as the report puts it, LatAm ex Brazil is taking center stage.

LatAm as a whole trails only Southeast Asia and China in terms of net returns predicted over the next 3 to 5 years.

From this invaluable report, ALI is pleased to publish an excerpt demonstrating the LatAm region's growing appeal to global LPs.

Exhibit 9: Ranking of Net Return Expectations from 2011-Vintage Funds

Ranking	Market	% LPs Expecting 16%+ Net Returns	Highest return expectations ↑ ↓ Lowest return expectations
1	China	76%	
2	Southeast Asia	71%	
3	Latin America	65%	
4	Brazil	64%	
5	Turkey	61%	
6	India	56%	
7	Sub-Saharan Africa	50%	
8	Russia/CIS	49%	
9	MENA	44%	
10	CEE	32%	

with the 2011 Survey results, which showed that investors without exposure to emerging markets overall—and in particular, those without exposure to the markets of Emerging Asia or Latin America—had higher expectations of performance than did investors with exposure to those markets.

The most striking gap in performance expectations was in relation to the performance of Central and Eastern European funds, with half of LPs with exposure expecting 16%+ net returns, compared with only 15% of LPs without exposure to the region expecting net returns of 16% or more.

LPs have the highest net returns expectations for their Chinese 2011-vintage funds, with 76% expecting returns of 16% or more. 71% of LPs expect similar returns for 2011-vintage Southeast Asian funds, while nearly two-thirds of LPs have similar expectations for the 2011 fund vintages in

Latin America (ex. Brazil) (65%) and Brazil (64%).

LPs currently investing in emerging markets generally have a more optimistic view on performance than do LPs without exposure. This is in contrast

Latin American Markets (ex. Brazil) Take Center Stage

LPs believe Latin American markets (ex. Brazil) represent the most attractive destination for GP investment over the next 12 months, jumping from 4th to 1st place, fol-

Exhibit 10: Net Returns Expectations of 16% or More, by Current Exposure

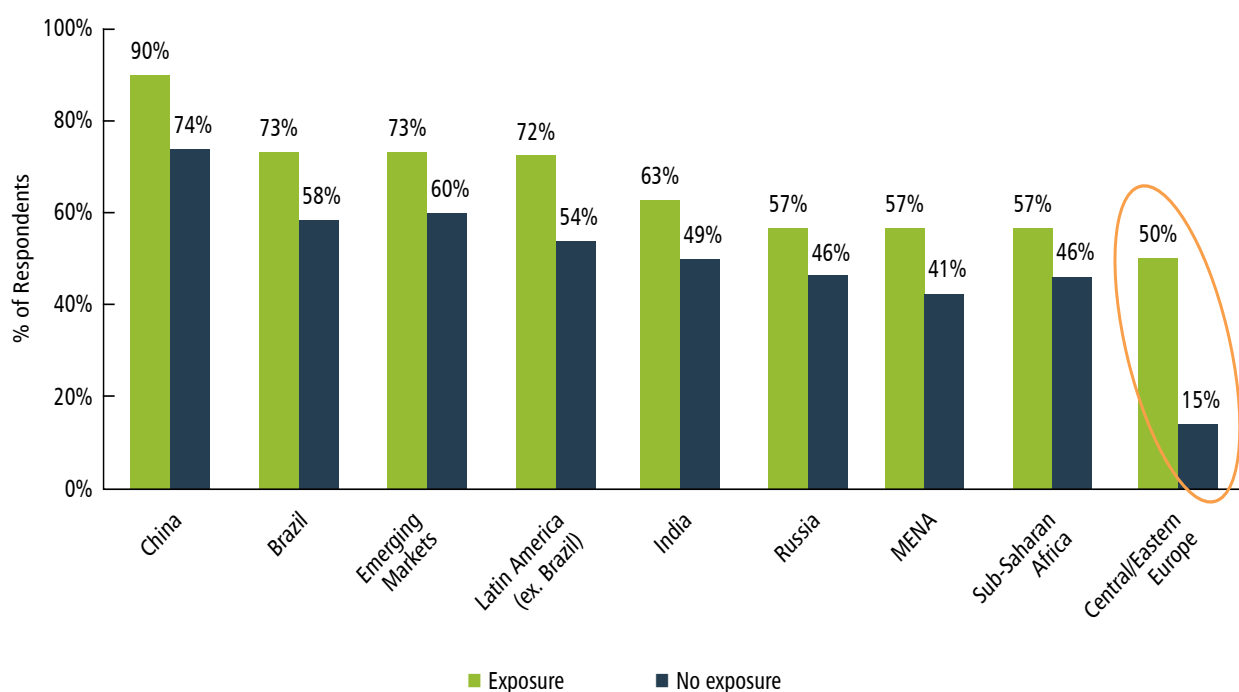
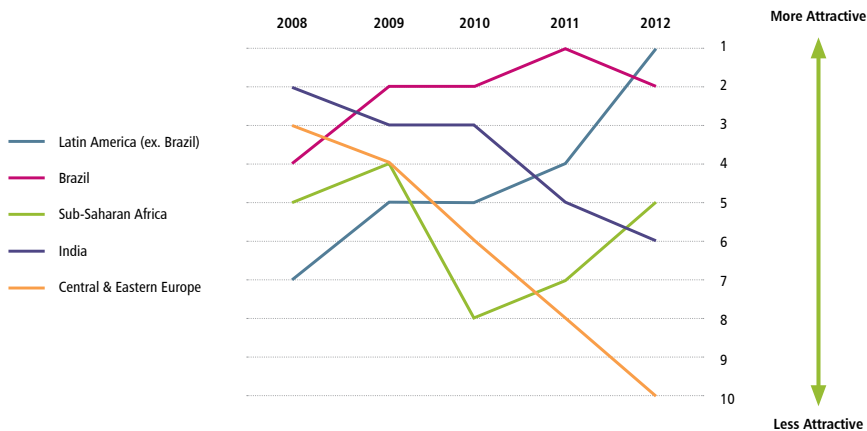


Exhibit 12: Market Attractiveness Rankings, Greatest Shifts 2008–2012



Emerging Markets Private Equity Association

COMPANY PROFILE

The Emerging Markets Private Equity Association (EMPEA) is an independent, global membership association whose mission is to catalyze private equity and venture capital investment in emerging markets around the world. Our 300-plus member firms share in the belief that private equity can provide superior returns to investors while creating significant value for companies, economies and communities in emerging markets. With access to an unparalleled global network, EMPEA provides its members a competitive edge for raising funds, making good investments and managing exits to achieve superior returns.

Our members, representing nearly 60 countries and more than US\$1 trillion in assets under management, include the leading institutional investors and private equity and venture capital fund managers across developing and developed markets.

www.empea.org

Exhibit 11: The Attractiveness of Emerging Markets for GP Investment over the Next 12 Months – LP Views

	Overall Ranking		
	2012	2011	2010
Latin America (ex. Brazil)	1	4	5
Brazil	2	1	2
China	3	2=	1
Other Emerging Asia	4	2=	4
Sub-Saharan Africa	5	7	8
India	6	5	3
Turkey	7	6	N/A*
Russia/CIS	8	10	10
MENA	9	9	9
Central & Eastern Europe	10	8	6

*Turkey replaced South Africa in the 2011 survey.

lowed by Brazil, China and Southeast Asia. This may reflect LPs' anticipation of an increasingly competitive market for dealflow in Brazil, after record-breaking fundraising in 2011 in which six Brazil funds raised capital totaling US\$7.5 billion.

Other movers in 2012 included Sub-Saharan Africa, which climbed into the number

five slot from seventh place in 2011 and eighth in 2010. Sliding down the ranks for the fourth consecutive year, India fell to sixth place. Once solidly among the three most attractive markets, Central and Eastern Europe fell to last place while Russia moved up slightly in attractiveness from tenth to eighth place.



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Latin America as an FDI Hotspot: Opportunities and Risks

■ The Economist Intelligence Unit (EIU)

This Economist Intelligence Unit paper is a transcription of a presentation given by David Humphreys at a recent conference in Shanghai. It gives a flavor of what is happening now in Latin America: the good in terms of the region's growth prospects and some of the challenges faced by its business environment, with a look at those challenges by industry.

■ Latin America's path to resilience

Latin America has come quite a long way, not only since the economic and political instabilities of the 1980s but also since the deregulation of the 1990s. The stability the region has shown in the last 5 years, with GDP growth averaging 4%, demonstrates its resiliency in the face of the global crisis of 2008; the markets bounced back very quickly.

This resilience is a product of 3 different factors. The first is Latin America's ability to export soft commodities like iron ore, soybean and timber to markets such as those in China. The second: its sound macroeconomic policies (with inflation-targeting and reduction of debt levels) coupled with the opening up of markets through trade diversification have also been beneficial. The last component is its domestic market, which consists of 600 million people with increasing purchasing power.

What does that mean for investors? In the last year, Latin America has experienced record levels — about US\$145 billion — of foreign direct investment (FDI). Today's FDI reserves stand at US\$750 billion, demonstrating how far those markets have come in the last 15 years.

Mapping the region's growth prospects over the next 5 years shows it to be quite solid.

However, still strong currency levels may make Latin American exports, particularly manufacturing, rather expensive. There are also concerns that the region is too dependent on commodities as opposed to diversifying to more value-added exports.

The big players in the region's emerging markets, Brazil and Mexico, represent 60% of the region's GDP. Both of these countries are looking at relatively stable growth rates over the next 5 years, but they are very different markets in terms of their economic base as well as the opportunities they make available to companies in China and abroad. The next level of countries with high potential for investors include not only Chile (which has featured consistently among foreign investors' darlings for years, thanks to its sound macroeconomic fundamentals, conducive business environment and sustained growth rates), but also markets like Peru, which are rich in resources but have

political and demographic challenges. Colombia also offers high growth rates. That country has recently experienced a great deal of growth, particularly in foreign direct investment, which this last year reached US\$7 billion, up 90% from the previous year. Colombia provides a very exciting market, not only in commodities, especially mining and metals, but also in its growing consumer base. Colombia's political and economic situation has hindered its development over the last 25 years, but this is now changing.

Of course, part of the success that Latin America has seen over the last 5 or 10 years has come from its expanded relationships with countries in Asia. One-fifth of its trade is with Asia and half of that is with Chinese companies. China has become a major trading and investment partner for Latin America. China's investment has increased from 1% of the region's foreign direct investment 10 years ago to 10% in the last year. Most of that has occurred in mining, metals and energy, but has started to expand into other areas as well. In the last year, a plethora of car manufacturers have been looking to establish plants in the south and northeast of Brazil as well as in Venezuela and small markets like the Caribbean. There is great interest in investing in the region, not only in terms of resource seeking but also in terms of market seeking.

■ Expanding opportunities

Many of the opportunities in the region are to be found in natural resources, infrastructure and manufacturing. Interestingly, however, Latin America's economy is also becoming more and more consumer-driven. The bar chart below breaks down Latin America's population of about 600 million people. About half of the population resides in Brazil and in Mexico. Countries like Colombia and Peru, as well as Argentina, also have sizeable populations.

Latin America has a very youth-driven society. In Brazil, for example, the average median age is under 30, and 30% of those are 14 and under. At the same time, urbanization is growing within Latin America, with about 80% of the people living in urban areas. In Brazil or even Chile, 85-90% of people are urban dwellers. The region's growth is becoming consumer-

“In the last year, Latin America has experienced record levels — about US\$145 billion — of foreign direct investment (FDI). Today's FDI reserves stand at US\$750 billion, demonstrating how far those markets have come in the last 15 years.”

driven both because of the youthfulness of its population and also because of current and future infrastructure needs, which will be required to support its growing urbanization.

Roughly 175 million people in Latin America still live below the poverty line. But over the

last 5 years, the region has experienced tremendous growth, making a particular impact on the most vulnerable segments of the population. The Gini coefficient, which measures income inequality, has dropped within Latin America. Not only has this region benefited from stable economic growth, but also conditional cash transfer programs to the most vulnerable segments of the population. Millions of people have been lifted out of poverty and extreme poverty, increasing the numbers of the middle class to make the next class of consumers. In Brazil alone, over the last 8 years, around 49 million people have moved upwards into the middle and middle-upper classes, 13 million of whom moved up in just in the last 2 years. The result is that markets like Brazil have achieved nearly 100% penetration rate in cell phone usage. We also see a high level of demand in the automotive sector, with both Colombia and Brazil showing double-digit growth in the last 2 years.

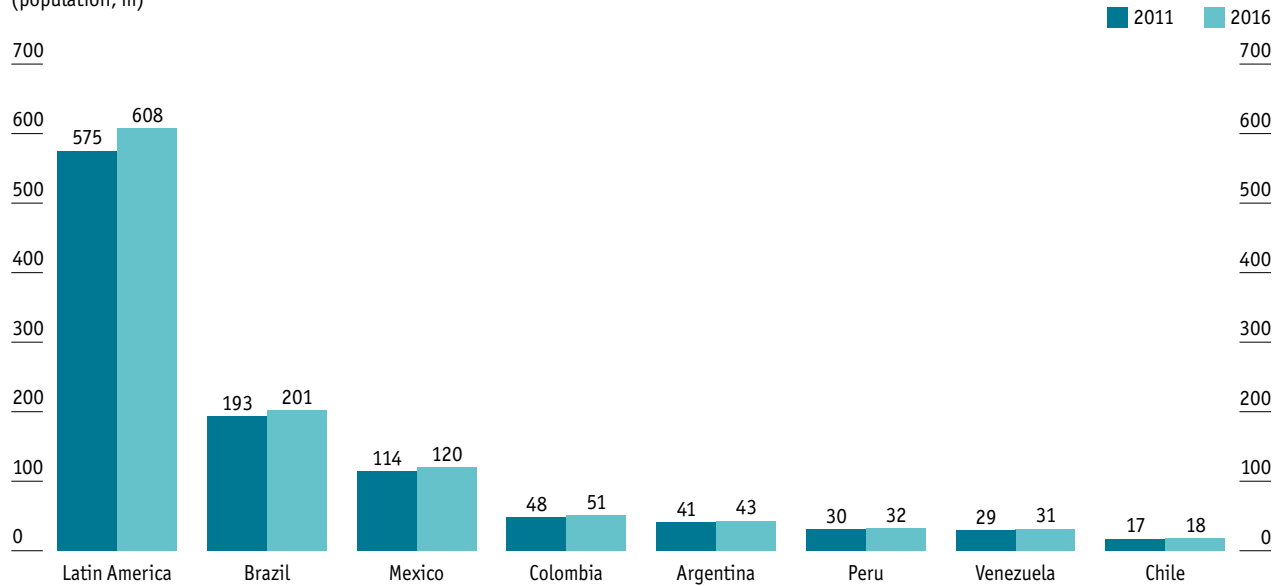
The impact of the growth in Latin America is shown in figure 1 on the next page.

The chart compares income levels and household consumption across different markets. Brazil shows tremendous growth, going from about \$3,000 in household consumption per head in 2005 to double that amount by 2010 to reach nearly \$9,000 in 2015. The effect of this growth is a huge increase in people's ability to acquire goods and services that are already being sold within Brazil and across Latin America. Debt levels of households are also increasing, however, particularly within Brazil where household debt-to-income has risen by 40% in the last 5 years. Because this debt is starting from a very low base, it is not necessarily worrisome but it is something to look out for.

Of course, Latin America has benefited in terms of trade opening. NAFTA is an important example of this, and now about a trillion dollars worth of trade moves across those 3 markets. Inter-region trade has increased

Figure 1

The demographic dividend
(population, m)

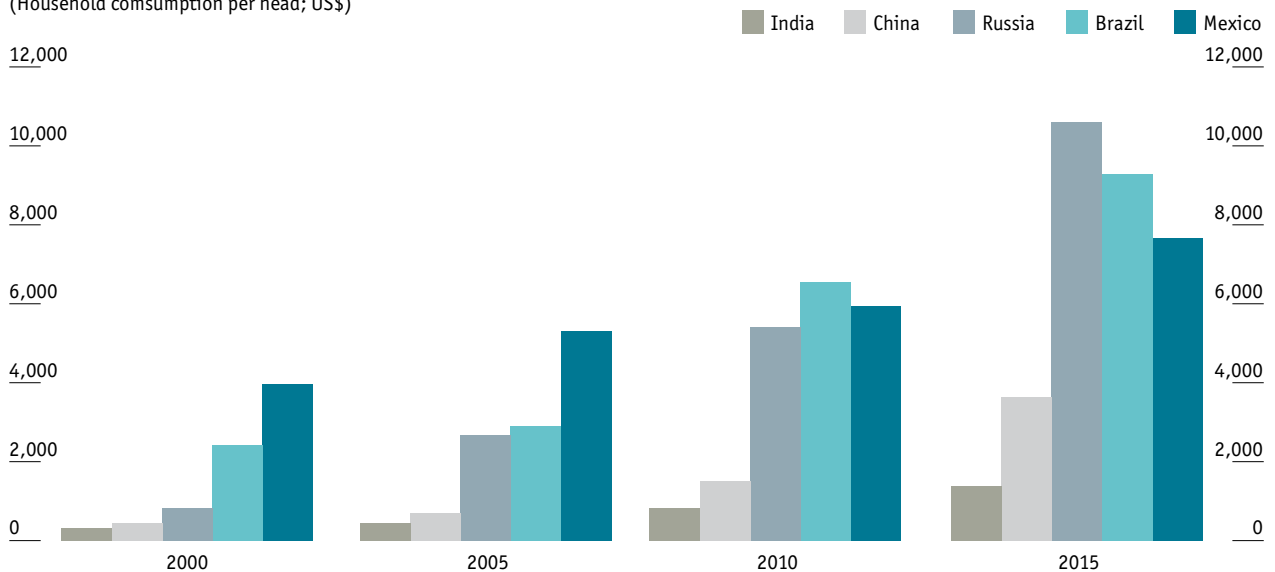


Note. Actuals from Instituto Brasileiro de Geografia e Estatística. Estimates are calculated as annualized growth in IBGE actual data.

Sources: IMF, *International Financial Statistics*; Instituto Brasileiro de Geografia e Estatística; Banco Central de Chile; Departamento Administrativo Nacional de Estadística; US Census Bureau; INEI; US Census Bureau, *International Database*; Economist Intelligence Unit.

Figure 2

Domestic demand is picking up
(Household consumption per head; US\$)



Source: Economist Intelligence Unit.

ninefold in the last 2 decades, particularly within markets like Brazil, Chile and Argentina. But increasingly in the last 10 years, a lot more trade happens through agreements — bilaterals and others — with countries in Asia. A prime example of this paradigm shift and the lack of dependence on one particular market is that companies in Latin America are looking elsewhere to be able to sell their services. Consumers stay open to products coming from markets like China. For instance, Chile's top trading partner is China; 20% of Chile's exports go to China and 15% of their imports come from China.

Brazil is much more than football

Aside from the World Cup coming up in 2014, from soybeans in the center-west of the country to the timber across the country, and with retail and cell phone manufacturing

in the Amazon, Brazil is a diverse region in terms of its capabilities and economic base.

A couple of areas are of great interest to investors. On the energy side, the development of pre-salt layers of oil off the coast offers superb opportunities for investment. The government has earmarked two-thirds of \$600 billion invested in developing both upstream and downstream capabilities—many of which the country does not have—to develop potentially 80 billion barrels worth of reserves that are off the coast in the deep sea in Brazil.

The other areas of investment are automobiles and manufactures. A flurry of investment announcements, particularly from Chinese companies, came within a year of developing plans and capabilities within the north and south of Brazil. Those are good markets looking for

affordable and quality-driven types of products. There is a tax to that. In the Brazilian market, 80% of what is sold today in automobiles is flex-fuel, meaning it has a capability of using sugarcane ethanol as well as gasoline, and in many cases natural gas. By 2020, 75% of the installed base of cars in Brazil will have flex-fuel capabilities. This is something to consider when looking at that market as a global market with unique requirements and advantages.

The World Cup of 2014 and the Olympics of 2016 will generate multiple earmarked infrastructure projects in transport, logistics and stadiums that will come online in the next 5 years. Those will probably occur in a way that tries to catch up to those events. The question will become whether Brazil really benefits from these events or they become a long-term burden, as has

Figure 3

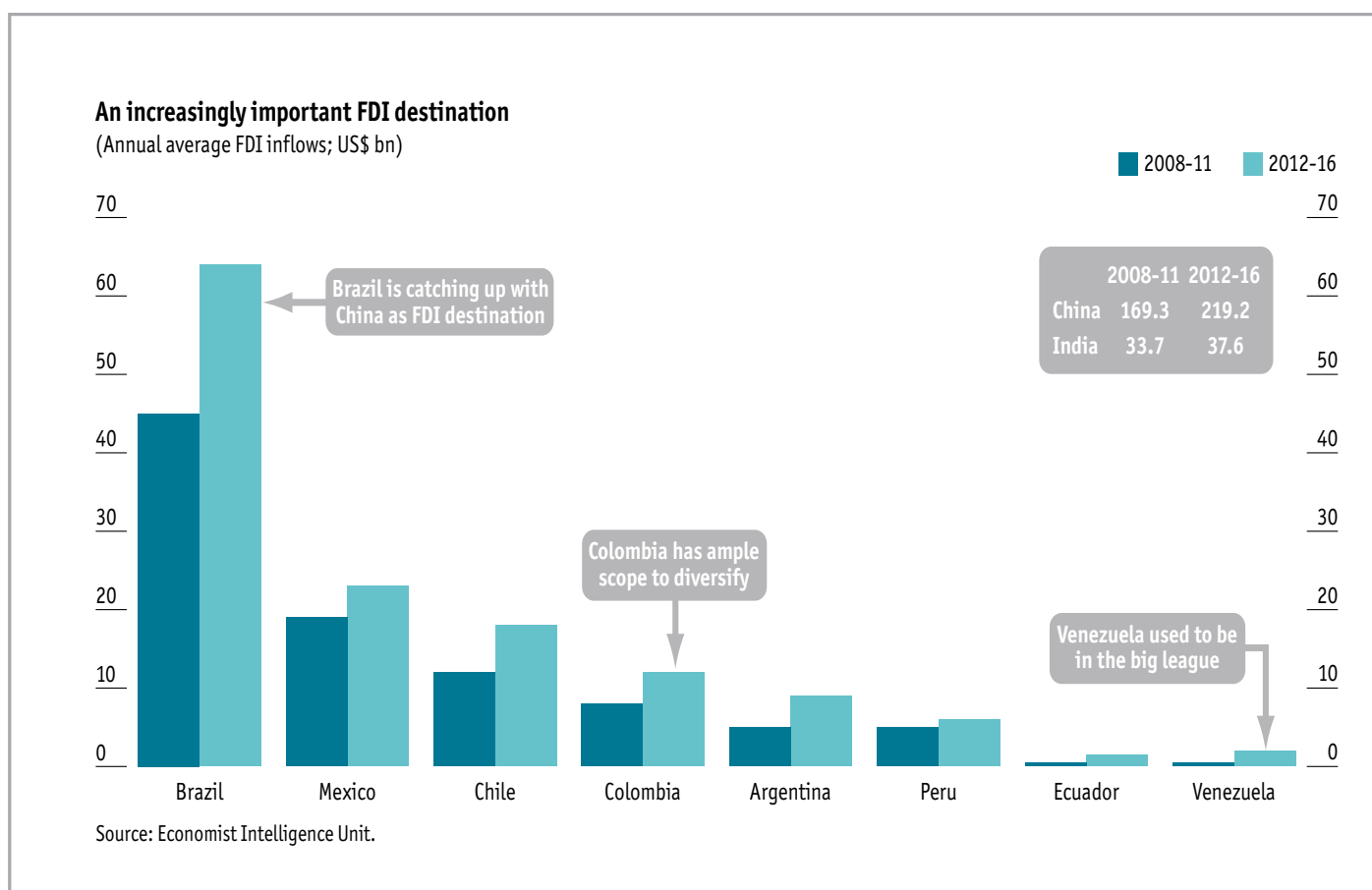
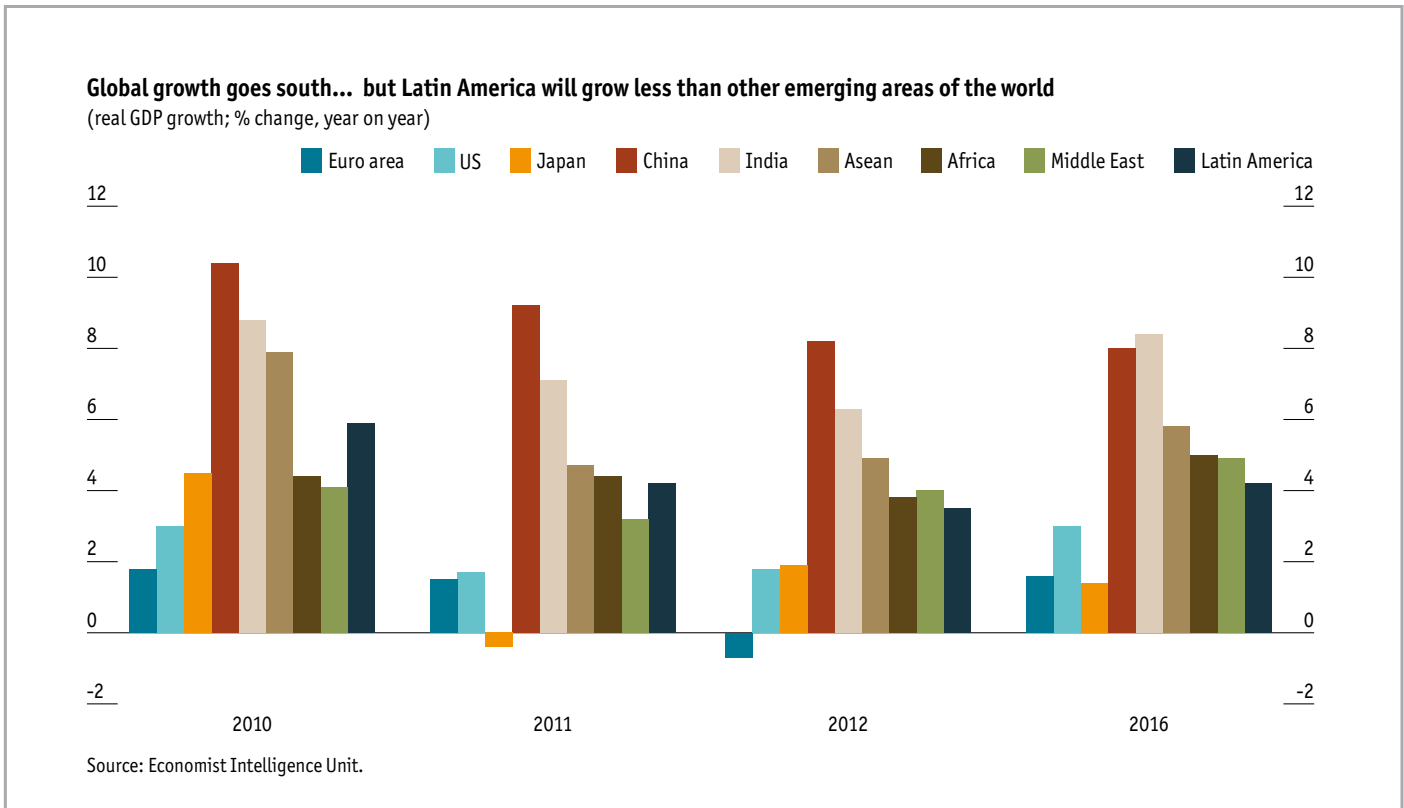


Figure 3



happened in other emerging markets, such as South Africa.

The market in Mexico

Mexico is another important market for FDI, but it is very different from Brazil: 82% of its exports are in manufacturing. Many of those come from the *maquiladoras*—the assembly plants located in northern Mexico that employ about 1.3 million people. This is an important sector that has become increasingly important for multinationals looking for both the ability to ramp up investments—manufacturing just in time to reach consumers, particularly in the US market—and also for local access to local low-class transportation to be able to reach the US market.

Mexico also has an energy side. It recently announced a new energy plan and we will see if that actually happens, but already a couple of interesting trends have developed. The first is in terms of opening up the coun-

try's oil sector and expectations that it will develop its own deep-sea capabilities within

Colombia is looking to ramp up its oil capacity to about 1 million barrels per day, and is in the process of auctioning off a lot of mining rights. And certainly because of the country's free-trade agreement with the US, there is a lot of interest in Colombia to be able to access those markets.

the Gulf of Mexico. Unfortunately, the oil operator Pemex faced a lot of challenges,

particularly in terms of the technical knowledge needed to reach and extract those reserves. Opportunities exist for partnering and sharing that technical knowledge especially now that the Partido Revolucionario Institucional has won the elections. The second trend concerns the development of shale gas, particularly in the northern part of Mexico. Mexico has the fourth-largest reserves in shale gas and the country is looking to be able to take advantage to that.

Colombia as a growth engine

Colombia represents the next group of emerging markets that we really see as growth engines, because up until the last 5 to 10 years it has been left relatively undeveloped. This lack of development was the result, partly, of the political and economic challenges brought about by the drug trade and resulting civil war that troubled the country for years.

Following the impressive pacification

achieved by President Alvaro Uribe, their foreign direct investment has increased nearly twofold in the last year, particularly in markets like metals, mining and energy. Colombia is looking to ramp up its oil capacity to about 1 million barrels per day, and is in the process of auctioning off a lot of mining rights. And certainly because of the country's free-trade agreement with the US, there is a lot of interest in Colombia to be able to access those markets.

But Colombia is also a lot more than just the resources it offers. Colombia has a population of about 50 million people with increasing purchasing power. The success of Chinese car companies is a good example of the openness of Colombia to be able to access affordable quality products.

■ Peru: Big growth and big challenges

Peru has experienced more growth in the last 2 to 3 years than any other Latin American market. When our expectation was flat, growth continued. But some challenges in Peru, which you find in the central countries of Latin America, are unique in terms of its indigenous population and the involvement of the government, which make business there very challenging.

From the market standpoint, 45% of its exports are in 2 products: gold and copper. Peru continues to be able to offer immediate-term opportunities in these products. The country also shows great interest in developing oil and other internal energy sources, but the state-owned company, Petroperú, is becoming increasingly involved.

The bar chart below compares FDI destinations within Latin America. Brazil has been the primary focus of foreign direct investment, particularly for Chinese investors in energy, metals and mining. In a place like Mexico, most foreign direct investment

really goes to manufacturing and is ramping up just-in-time capability. Within markets like Colombia, investment has started to come to other areas, particularly within manufacturing and automotive. Investment in the bottom end of the markets can be very problematic, as seen by the nationalization of the energy company YPF in Argentina. Those countries face many challenges about how to provide both growth in the economy and equality to their population, and that has affected investors within Latin America.

“One of many challenges for doing business in Latin America is the widespread inefficiencies in the region's business environment.”

■ Challenges presented by Latin American business

One of many challenges for doing business in Latin America is the widespread inefficiencies in the region's business environment. In the chart below, Latin America's

growth line has been good, although a little less positive than that of other emerging markets. Part of that has to do with the appreciation of currencies, the expensive nature of their manufacturing products abroad, and overdependence, particularly on commodities. No one who has dealt with Latin America is taken aback by these results. The fact that Latin America still ranks below average in terms of rankings in the business environment is no surprise. It is challenging to open an operation in the region.

It is challenging because of changing regulations, including tax rates as well as requirements, and because of local content needs. A couple of types of cases are found within Latin America. The first type is seen in Chile, which typically ranks in the top 15 countries in the world in business environment. Chile has a very clear long history of fair regulatory policies, respect for investment rights and good infrastructure that supports economic development. The second type is seen in markets like Argentina and Venezuela, which seem to be going backwards. These countries make no investment in infrastructure, and they have a history of nationalization and a challenging business environment. The third type is seen in Colombia, which is improving. Colombia is one of the few markets that has had some success in improving its political environment and continues to put forward regulations during times when economic growth is very positive.

This has not happened with other Latin American markets. Political stability and effectiveness is a big issue for everyone who has invested in Latin American

markets. Political discord has presented challenges to markets like Brazil and Mexico, keeping them from moving forward with market-driven reforms that are much needed. Markets like Peru and Bolivia face increasing demands and opposition from

disgruntled indigenous populations, environmental requirements and certainly political discord. No example demonstrates these complications better than the Minas Conga, a gold and copper mine in Peru. This mine is the largest single investment that has been made in Peru and protest around it has almost derailed President Ollanta Humala's government in its first months in office.

These types of concerns will continue to present hurdles for investment in Latin America. Infrastructure is a major issue within Latin America. Most countries invest only about 2% of their GDP in infrastructure. Chile is an exception, investing about 6%. In Brazil those numbers increased to 3-4%, but there are major challenges in in-

frastructure in that country. Brazil has 1.6 million kilometers of roads, around 250,000 of which are paved. When 60% of cargo is delivered via roads and only 20% via railways, it is very challenging both in time and cost to move goods when the roads are bad. Imagine you are a soybean producer inside the country: transporting that to the next port under those circumstances is extremely challenging and costly. The markets are looking to mitigate this challenge by addressing improvements to infrastructure. We need to actually see these improvements before they can be considered effective.

These are some of the issues that concern Latin American markets. Some of them are hard to change and will take time. The political environment is a big unknown. But

innovation is something that has already occurred within Latin America. The region is one of the biggest producers and consumers of sugar-based ethanol in the world and their cutting-edge technology has been exported globally. Countries like Uruguay, Argentina and Brazil demonstrate a robust development of IT services. So there is a capacity for innovation in Latin America, and that is one of the areas that the governments should be looking at closely as a key enabler of growth and competitiveness going forward. But that will take some time, and it will continue to be part the conversations going forward.

The Economist

Intelligence Unit

COMPANY PROFILE

The Economist Intelligence Unit (EIU) is the world's leading resource for economic and business research, forecasting and analysis. It provides accurate and impartial intelligence for companies, government agencies, financial institutions and academic organizations around the globe, inspiring business leaders to act with confidence since 1946. EIU products include its flagship Country Reports service, providing political and economic analysis for 195 countries, and a portfolio of subscription-based data and forecasting services. The company also undertakes bespoke research and analysis projects on individual markets and business sectors. More information is available at www.eiu.com.

The EIU is headquartered in London, UK, with offices in more than 40 cities and a network of some 650 country experts and analysts worldwide. It operates independently as the business-to-business arm of The Economist Group, the leading source of analysis on international business and world affairs.



Innovation in LatAm

WOBI's Recent Conference in Buenos Aires Shined a Light on the Future

In October, WOBI (Word of Business Ideas, a brand recently launched by HSM) hosted a 2-day conference in Buenos Aires focused on business innovation in LatAm. Beautifully produced, the conference invited speakers from around the world, including several global luminaries, to discuss economics, business, innovation and entrepreneurship before a crowd of hundreds at the Hilton Hotel in Puerto Madero.

The conference was an inspiring reminder of the region's current dynamics and future potential, made all the more impressive against the current backdrop of global malaise. Indeed, as a keynote speaker, WOBI invited none other than "Dr. Doom" himself, Nouriel Roubini, to be the showcase of the second day. In staid and measured tones, the globe-trotting economic guru dutifully provided his diagnosis and prognosis of the major forces in the global economy, in what sometimes sounded like a polite post-mortem report enlivened only by Mr. Roubini's own rockstar presence.

Those riveting if somber 45 minutes couldn't dampen the overall feel of the conference, however, which was essentially a celebration of what LatAm has to offer and discover in the realms of innovation, as well as an educational feast showing exactly how the region's entrepreneurs, businesses and innovators can take us there.

Some noteworthy speakers included Parag Khana, an expert in geopolitics and author of *How to Run the World: Charting the Course to the Next Renaissance*, who discussed, among many other things, the role that major cities are playing in geopolitics, independent of the state apparatus – an important issue for a region such as LatAm, with some of the largest and most dynamic cities in the world. Mr. Khana highlighted New York City as an example of a city that, within a context of national recession and slow recovery, has been able to initiate its

The conference was an inspiring reminder of the region's current dynamics and future potential, made all the more impressive against the current backdrop of global malaise.

own major tech boom, adding tens of thousands of jobs and becoming the second tech epicenter of the US after San Francisco.

Russell Stevens, a social marketing expert and partner at SS+K, who spearheaded the highly successful social participation strategies of the Obama '08 campaign and the Livestrong Foundation, discussed social media and (more importantly and interestingly) social participation as essential features of any marketing campaign; while Seth Godin, the world-renowned expert in marketing and innovation, discussed those

2 fields in terms of the development of meaningful stories – a simple concept that, as framed by Mr. Godin, was one of the conference's most poignant takeaways.

One of the more entertaining and invigorating presentations came from Raúl Rivera, a Chilean businessman and entrepreneur who has been an executive at the Boston Consulting Group (for whom he opened many offices worldwide) and the Mexican multinational Cemex, and who recently founded Foro Innovación in Chile, a major part of that country's aggressive incubation of innovation and entrepreneurship. In broad strokes, and drawing on his recent book, *Nuestra Hora* ("Our Time," published in LatAm by Pearson but yet to be published in English), Mr. Rivera gave an eloquent and humorous overview of all there is to be optimistic about in a region that, viewed collectively, constitutes one of the largest and fastest-growing economies in the world.

WOBI's was one of a handful of major conferences held in Buenos Aires this year that featured innovation and future businesses as major themes. Two months earlier, the Council of the Americas hosted a conference featuring an outstanding entrepreneurship panel comprising 4 of Argentina's most well-established and game-changing success stories: Martín Migoya of Globant, Gonzalo Costa of NXTP Labs, Andy Freire of OfficeNet and Marcos Galperin of MercadoLibre. That discussion, combined with the WOBI conference, painted an exciting picture of what LatAm could deliver in the coming years in terms of innovation, investment and development.

ALI will pick up this theme in our upcoming special report focusin on VC and early-stage investment in the LatAm tech sector, including a panorama of the entrepreneurial and startup ecosystems that have been transforming the region. With that profoundly interesting topic, and a host of high-profile investors and business executives weighing in, we'll inaugurate the New Year.

Hedge Fund Marketing Post-JOBS Act:

■ What's Happening?

Title II of the JOBS Act is poised to eliminate the “do not solicit” provision of the Securities Exchange Act of 1934.

■ What Does It Mean?

The regulatory change will mean that all Regulation-D issuers in the alternative investment space – hedge funds, venture capital funds, private equity funds, and companies directly issuing Reg-D securities – can now employ general advertising methods to raise capital from accredited investors.

■ What's The Bottom Line?

The bottom line for all but the biggest firms, is that what the JOBS Act means is competition for raising new capital will become even more fierce. To cut through the clutter, the bottom line for every manager is to clarify their pitch, refine the opportunity and focus marketing tools being provided by the regulatory change as tightly as possible to reach your target.

■ Who Are You, What Are You Selling And Who Should Buy It?

A precursor to any advertising campaign is understanding more precisely who you are, as represented by your brand, what you are selling, as determined by the most unique attributes of your fund or service, and who, exactly, you want to target.

■ Who Are You?

A precursor to any advertising campaign is understanding more precisely who you are, as represented by your brand, what you are selling, as determined by the most

Concepts to Begin the Advertising Conversation

■ Joshua Levitt, Communications Director, TIO Financial

unique attributes of your fund or service, and whom, exactly, you want to target. Ultimately, who you are is reflected in your firm's reputation and what that brand represents. More importantly, for the potential investor in your funds, who you are usually comes down to the single, major and most unique factor that leads them to choose your fund as part of their portfolio. Is it because of your: performance,

notoriety of principals, years of experience, AUM

■ What Are You Selling?

In alternatives, what you're selling is obviously the investment opportunity, but, more precisely, as part of an investor's diversified portfolio, an investment in your fund serves a defined purpose. What



you're selling needs to be defined by what they want to buy.

Alpha, Diversification, Non-Correlation, Specialty Exposure

Who Is Your Target Investor?

The cheeky answer is that every investor should want to buy into your fund, but even if that's the case, the constraints of advertising demand the pitch be defined exactly. From a 20 page pitch deck, a print ad allows you to focus on one slide and, preferably, one main idea that can really hit home. As your investor relations team knows, each target has very specific goals and requirements.

HNWI, Institution, Pension Fund, Fund of Funds

Can Your Targets Refer More Targets?

Every successful wealth management business is built on referrals. All the ad spending in the world cannot equate to what investment professionals know very well: a happy client is your best source for another client. The reason being that validation from a peer provides tremendous credibility. One very productive exercise is to brainstorm situations you can create that put your investor relations team in the same room as current and prospective investors. What situations can you create to enable current clients to speak highly of your firm to prospective investors?

How Can You Reach Your Target Investor?

Beyond referrals, the game becomes reaching new, unaffiliated, unknown prospects with your opportunity. Each target group is on the lookout to make new investments, but the question is where are they looking? One way to define that is listing all the venues where alternative investments might be discussed, and matching your targets to those outlets.

Email Inbox, Internet, Periodicals, Television, Conferences

Email Inbox

Direct mail will soon be besieged by hedge funds and others using the same techniques that have filled regular mail boxes for years. The hit rate of a good direct mail campaign is 2% and the closing rate is often 0.2%. That means acquiring lists of active, accredited investors, engaging them with your exciting opportunity, in a credible way, and sending out 500 emails to generate 10 potential targets interested in learning more. Of that 10, most will be only somewhat interested, or very interested but not able to invest, or not truly interested in the follow-up your investor relations team needs. But one will invest with your firm. With the standard 2 and 20 hedge fund fee model and a high minimum investment, amazingly, even 1 in 500 odds can generate strong ROI.

Internet

Internet advertising is now a broad category. Google AdWords has enabled millions of small business to have their ads pop up when matched with relevant content; Facebook is supposedly worth billions because of it. But for alternative investments, the route has many disadvantages. Even mutual fund companies, which target a much broader clientele, understand the limitations. A targeted campaign should be focused on advertising on internet-based media properties that match your target's interest. In addition to the tighter focus, credibility is much higher when an ad for investment pops up on an investor portal than anywhere else.

Periodicals

With all major media now online, the periodical in print or electronic form is a very powerful asset. Readers have already self-selected themselves to be interested in the topic and appreciate the credibility of the

publisher in the subject matter. While print is certainly splashier, and substantially more expensive, online has the advantage of tracking leads digitally. If your publisher could tell you which users clicked on your ad or you knew that each ad could bring them to your site where your investor relations team could ask for their email before connecting them to the information, increasing your base of contacts becomes a much more straightforward exercise for generating new contacts.

Television

Like a print campaign, television generates tremendous excitement amongst your own team because it means your brand is now entering the realm of popular culture. Disadvantages are that of print newspaper, in that you don't know who is watching, when or how you can track their interest back to your website. TV ads are also often very expensive, both in airtime and production. The other fact that's important is to understand the limitations of that media; a 30-second ad forces a company to get their point across very quickly and very memorably if it's to have any success.

Conferences

Conferences are a valuable tool for the financial services industry because they work to everyone's strengths. A venue provides an opportunity to offer added explanation and detail of a company and its opportunities, while the instant connection to a potential target fuels excitement that the effort has been worthwhile. Important factors are how to guarantee that your target is actually in the audience when you're speaking and that your team spends time with the right prospects rather than the ones who may be qualified but not truly interested. In addition to sector conferences, funds with an engaged investor base have been very successful hosting their own events for current and prospective investors.

How Does Social Media Fit In?

Social media – Twitter, LinkedIn, and specialists, Albourne Village, Hedge-Professionals – are all ways to connect with others. It can help your firm connect with targets, if those targets are users of these services, which is not always the case. But for a young firm trying to establish an identity, all of these outlets allow a company to get its name out, have that brand seen by colleagues and some prospects. The best way to use these tools is as channels that you can select to broadcast your know-how and expertise. What's the point in writing a great white paper if no one reads it? These tools can help spread your message to the far reaches of the blogosphere.

Is Public Relations Good Relations?

The answer is always yes. Whether you attempt this on your own or partner with a financial or creative agency to help, what public relations does for investment funds is work to generate “earned media,” which is effectively a “free ad” in a major periodical because it comes through a published article. The old adage that any publicity is good publicity is actually true when marketing a fund. If you are proud of what you've accomplished, built a reputation as being an honest investor and have no skeletons in your closet, the rewards far outweigh the risks of speaking to the media. Exposure can come in many ways, as simply being an expert on a region or industry who offers his views in an article, or to a feature that focuses on an interesting bet your firm has profited from. The point is that major brokerage houses, investment banks and investment companies have been leveraging the media for years to bolster their reputation in the public eye. Now, it's your turn.

Why Advertise And Who Can Help Me?

Once the JOBS Act allows alternative investment firms to advertise, rest assured, if you don't, your closest competitor will. If that's the case, keeping up with the (Tudor) Joneses should lead every investor relations department to think hard about how to put their best foot forward. In some cases, a very long and successful track record has already established a firm's reputation, and all of these tools can reinforce that message. In most cases, though, thousands and thousands of young firms are still trying to establish strength of their brands and positive notoriety. The best way to achieve that is by taking this opportunity seriously to refine your brand and understand all the ways to reach your real target. The most successful firms will seek help from experts. Any advertising agency can add value to what your team generates internally, but an agency specialized in financial services firms will bring much more to the table.

One-Word Takeaway: Consistency

Consistency is the most important factor in establishing a strong brand. Every touch point – from the website a prospect lands on, to the receptionist who picks up the phone when he calls, to the salesman who offers him the pitch, to the investor packet he receives, the monthlies, quarterlies, chairman letters and fact sheets you send him – must paint your firm in the same consistent light that shines positively on your brand, which should reflect the clear message you offer. All the many forms of advertising can help you spread that message and reach new audiences through a well-thought-out, long-term approach. Consistency in defining the brand and then sending it out into the world will determine the winners in this new frontier.

TIO Financial

AUTHOR BIOGRAPHY

Joshua Levitt is Communications Director of TIO Financial and Chief Copywriter at TIO Agency.

TIO Financial provides hedge funds, asset managers, investment banks and other financial services specialists with marketing insight and campaigns that feature clear communication, strong branding and visual creativity.

Joshua has 15 years of communications and professional writing experience, as a journalist, as a foreign correspondent for the Financial Times, and, as an executive, leading communication roles for hedge fund Everest Capital and energy developer Advanced Power.

ALTERNATIVES GO MAINSTREAM

■ Jennifer Connelly, CEO, Jennifer Connelly Public Relations

2013 will be the year alternative investments redefine their offering as an investing solution, not just a hedge against traditional investments

As 2012 draws to a close, investors and financial professionals can look back on the past months as a transformational period in the “alternatives era.” This may be the last year we talk about alternatives as a blanket term for nontraditional holdings and shift the perception of this asset class for both advisors and their clients.

After the market volatility of 2007-2008, the entire financial industry was looking for new strategies that would weather the ups and downs of the market. And so they turned to alternatives – everything from hedge funds and private equity to real assets and mutual funds that offered sophisticated strategies previously only available to institutional investors.

While some in the industry chose to define alternatives as anything that wasn't a stock, bond or cash, others referred to alternatives as any investment that, due to its complexity, was not suited to the general public. In essence, alternatives were viewed as exactly that: an alternative to traditional investments. On the cusp of 2013, the industry seems to collectively realize that if every product or strategy is an “alternative,” then nothing really is. As to their suitability, so-called alternatives have begun to appear in the portfolios of not just institutions and high-net-worth individu-

als, but also retail investors, and the allocation to alternatives is only expected to grow.

A survey conducted at the annual Financial Planning Association Experience Conference in September found that 83% of financial advisors are already using alternative investments to some degree. Taken in conjunction with the findings that fewer than 25% of the advisors surveyed use a traditional 60/40 stock/bond allocation, it

would seem that the demand for alternative investments is greater than ever, and allocation to what were once considered alternatives are, in fact, becoming standard investment allocations.

But not all alternatives are created equal. The justification for investing in alternative assets – that they reduce risk by providing greater diversification – is but one reason investors give for

pursuing these strategies. Certainly alternative “tactical” strategies, which seek to capitalize on current market conditions, help smooth out portfolio volatility through low- or non-correlation. But investors are also looking at various alternative asset classes as a way to generate superior returns, regardless of the activity in the world financial market.

TEAM PRESENTATION INNOV
MORE MARKET DISTRIBUTI
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RECOMMENDATION GROWTH
PROMOTION INTERNET PL
BRANDING SOCIAL ME PROD

The various subsets of the alternative space all play different roles in a portfolio, whether that's investing in real estate properties for short-term sale or making forestry investments as a way to take advantage of global population trends and maximize long-term returns with noncorrelated growth. The challenge for alternative investment funds and products will be clearly explaining how their strategies differ not just from similar offerings, as when comparing hedge funds to hedge funds, but how they differ from the entire investing universe.

At first glance, staking a claim in an increasingly crowded and complex market can seem like an impossible task. But from a marketing perspective, these products have an enormous opportunity.

2013 will be the year of category creation and perception shifting, when investment products drop the umbrella "alternative" label and start to identify as more narrowly focused solutions to investors' most-pressing challenges. These investments will no longer be defined as the alternative to traditional asset allocation, or investments outside of the mainstream, but will rather be evaluated based on their strategy, strengths and limitations.

Investors are ready and eager for this information. Since alternative investments started gaining popularity, growing to \$6.5 trillion globally by the end of 2011, investors have been told to do their due diligence and educate themselves about the strategies behind the products. In short, investors are not looking for eye-catching packaging. They have been conditioned to understand the solutions they're considering, the logic behind their allocation and the role each asset plays in their overall portfolio.

The enactment of the Jumpstart Our Business Startups or JOBS Act will help spur this movement, as the restrictions surrounding general advertising and solicitation placed on hedge funds, private equity funds, venture capitalists and others that utilize private capital markets are relaxed. Companies that create, sell or manage these products must also shift their approach in communicating their value to investors by understanding the unique niche that their product fills, effectively feeding the growing appetite for education and personalized context around their product and the factors influencing its performance.

This confluence of opportunity, popularity and desire for more information means 2013 will be the year of more narrowly defined solutions, while at the same time sparking a broader conversation about the investing universe. Industry estimates conclude that by 2015, alternative investments are expected to account for 25% of revenue and a majority of revenue growth of retail investor portfolios. The

challenge for today's alternative investments is to redefine themselves as the solutions for investors today and into the future – not just as the alternative to lackluster performance of stocks and bonds.



AUTHOR BIOGRAPHY

Jennifer Connelly Public Relations (JCPR) is an independent public relations agency developing and executing strategic, multichannel communications campaigns for public and private businesses across a broad range of industries. Deeply integrated into the industries it serves, JCPR maintains specialized practice groups in Finance, Financial Technology, Commercial Real Estate, Professional Services, Health & Wellness, Innovation & Leadership and Investor Relations.

JCPR offers a full suite of communications services including corporate reputation management, crisis and issues management, graphic design, marketing communications, media relations, social media strategy and execution, thought leadership development and content development. The firm additionally provides complete visual communications through its production company, JCIP.

www.jcipinc.com

Redoubled Universe

*Sonia Villalobos
of the LV Pacific
Opportunities
Fund on Why
LatAm Equity
Funds are
Looking Beyond
Brazil*

Takeaways:

- In light of Mexico's and the Andean region's strong macro numbers and greatly improved equities markets, regional equity funds are adjusting their allocations, focusing especially on internal growth and domestic consumption.
- Mexican equities are particularly strong, similar to the Brazilian market of a decade ago. Large positions and out-of-the-box thinking are key.
- The Peruvian equities market has taken great strides, though it continues to be dominated by commodities companies.
- In Brazil, the education sector offers the best opportunities in terms of earnings growth in an otherwise sluggish market.

LatAm equity funds have long focused mostly — and often entirely — on Brazilian equities. Brazil's BM&FBovespa is the largest stock market in the region and the 3rd largest in the world, and at the end of last decade, it boasted 15 of the top 500 companies in the world by market share. Brazil's LatAm neighbors, meanwhile, in spite of high growth numbers, did not have large, high-liquidity equity markets reflecting the dynamism of their economies.

This picture has changed significantly, however. As Brazil's economy stalled and investors lost confidence in what they saw as interventionist policies on the part of

Dilma Rouseff's government, the Bovespa Index dropped over the last 2 years, with 5 of those 15 blue-chip companies falling from the global top 500, some of them precipitously. At the same time, Mexico and the Andean region took major regulatory and infrastructural strides to ramp up their equities markets, all of which have been bolstered by the greater involvement of the region's swelling pension funds.

The result has been a change in orientation for the region's equity funds, with LatAm Ex Brazil funds appearing on the scene and growing, and pan-LatAm funds shifting their allocations north and west. And while the Andean region has long been pigeon-

holed as a commodities story, particularly in mining, the major story now is in domestic development and consumer-oriented companies – 2 areas where Brazilian stocks have faltered.

■ Redoubled Universe

Sonia Villalobos, Portfolio Manager at the LV Pacific Opportunities Fund, one of the region's most successful equity funds, aptly summed up the effect of looking beyond Brazil within the context of this new regional order: "It doubles my investment universe."

A pan-LatAm long-short equity fund, the Pacific Opportunities Fund was launched in 2008, in the thick of Brazil's emergence, and its allocations in Brazilian equities have historically been between 50% and 55%. Currently, however, that figure has dropped to 40%, with allocations growing in the fund's other primary investment targets: Mexico, Colombia, Peru and Chile.

The return and growth of Mexico have been particularly important to the fund. It had a position in the country's beverage sector earlier this year, but exited when target prices were reached. It continues to have 2 important long-term positions, in the companies Mexichem and Genomma Labb.

"Mexico in particular is really in a sweet spot comparable to Brazil in 2002," Ms. Villalobos says, "with the level of penetration of banks and household loans and consumer loans today. It doesn't have as many different sectors and companies as you have in Brazil, though, with nothing in education or health care. So it's more difficult to find ideas in Mexico, and that's why our positions are bigger. You really have to think outside the box."

An example of such out-of-the-box thinking is the fund's position in a popular Mexican pawn-shop chain called First Cash.

Peru has also captured the fund's interest. With very few equity options as of a few years ago, the country has seen a healthy surge in liquidity even as its growth numbers have impressed the world.

"I always say Peru is like Brazil with much better national accounts, a better fiscal deficit, an independent central bank," Ms. Villalobos says. "It's really nice to see how they are managing the country."

Nevertheless, as the Peruvian Bolsa continues to offer mostly mining-related equities, Ms. Villalobos has taken a position in only one Peruvian company, in the country's retail sector. "We like Peru's macro, but can't find many stocks that make sense for us."

Eschewing commodities is essential for the fund's mission, she says. "We want to help investors diversify away from the region's commodities." And in any case, she says it doesn't make sense for commodities-minded investors to invest through a regional long-short fund. "You have to have a positive macro view for commodities, but if you have a positive macro view, just buy a Brazil ETF – don't pay my 2 and 20!"

In Colombia, Ms. Villalobos sees a macro situation similar to Brazil's, with a slight problem in over-leveraged family debt, nonpaying loans (NPLs) and expensive stocks. She notes that Colombian stocks are expensive because the pension funds system is buying and accumulating stock positions on a monthly basis.

In Chile, the fund is net short, wary of high prices, inflation and the expensive peso.

"Chile is a developed market, different from the other 4 countries. All families have mortgages, credit cards, low interest rates. The problem is inflation because it's very sensitive to oil prices, so maybe the central bank needs to be stronger in the monetary policy, which could decelerate

the macro. But really the economy is very stable."

As for Brazil, Ms. Villalobos sees a country "that has been basically destroyed by the market," with huge outflows and bad press. "But at the same time, I see low earnings growth. That's the basis of my evaluation. Even though Brazil has gone down a lot, most of it was deserved because of its earnings growth."

"On the other hand," she adds, "I'm very excited by the education sector in Brazil, because the government has launched the Student Financing Fund (FIES), an education counterpart to Minha Casa Minha Vida. The stocks have gone up a lot, unfortunately, but I see it as the only sector in Brazil with consistent earnings growth."

In all, as of October, the Pacific Opportunities Fund was up almost 20% on the year. "I don't know of any LatAm fund in the region with this kind of return in dollars," she says. "Our transition to Mexico had great timing, and we avoided really many of the pitfalls this year, such as utilities in Brazil, the Wal-mex scandal in Mexico. We think 2013 may be the year we can grow the fund and spread our investment process. We think the fund works well in terms of a consistent systematic approach."

With less than US\$100 million in AUM currently, Ms. Villalobos says the fund's capacity is US\$500 million, and she hopes to see it hit US\$200 million or US\$300 million by the end of 2013.

Carlos Rojas of Andino Asset Management on the Need for More Managers in the Andean Region and the Outstanding Growth Opportunities to Be Found There

Filling The Andean Gap

Takeaways:

- LatAm needs more managers based in and focused on the Andean region.
- Long a commodity story, the Andean region and Peru in particular are seeing huge growth opportunities in consumer-related sectors.
- Andino Asset Management has recently launched a Peruvian equity fund, with an Andean regional equity fund scheduled to launch next year.

As global alternative investors turn their attention to Peru, Colombia and Chile, they are finding few local, specialized managers to help them. Brazilians continue to represent the vast majority of managers in the region, and of the few managers in the Andean countries, hardly any have locally focused mandates that capture the outstanding growth in consumer-oriented sectors.

“There are not enough managers outside Brazil,” says Carlos Rojas, a Peru-based manager

who is one of only a handful of Andean success stories. “It has 400-plus managers, while Colombia, Chile and Peru have maybe 10 between them. So there’s a huge gap to fill, little by little. If we don’t fill it, others will.”

■ Andean Equities

Mr. Rojas has done much to fill that gap on his own. Formerly the Chief Investment Officer at Compass Group Peru, he founded his own shop, Andino Asset Management, early this year. Andino’s first fund, inau-

gured in February, is a long-short hedge fund with a long bias focused exclusively on Peruvian equities, raising US\$40 million between February and April. Next year, Andino will launch an equity fund focused on the Andean region as a whole.

Andino does not focus on the commodities companies, particularly in the mining sector, that have long been the region's bread and butter; instead, it targets stocks that are benefiting from the steep and ongoing rise in domestic growth and internal consumer demand.

"Our plan is to grab the future growth of these countries that are basically catching up with the world, doubling their GDP per capita every 6 to 7 years. We're giving in-

vestors exposure to the internal demand economy – retail, food, cement, construction, banks – where you're going to see high growth rates with real growing demand."

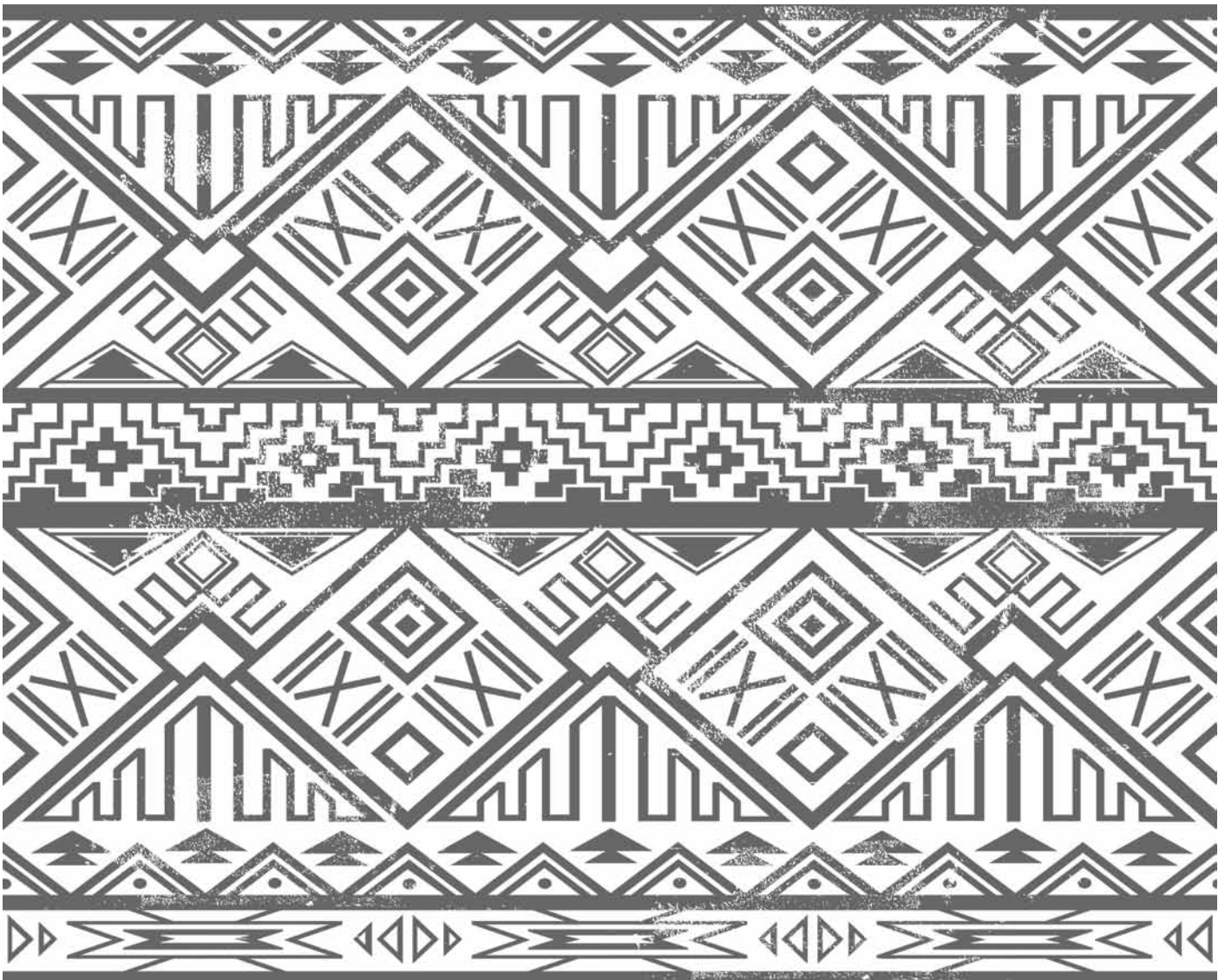
■ Consumer-Driven

Andino's Peruvian equity fund invests only 15% of its AUM in mining companies, which constitute about 50% of the companies listed on the Peruvian Bolsa. Peru remains the second-leading producer in the world of copper, silver and zinc, yet the sector does not necessarily provide the best sustainable returns for investors.

"Mining production has actually slowed down in the last 3 years while prices have

gone up, so you're really playing into the prices of metals, not production," Mr. Rojas explains. "But over those same 3 years, consumption grew by 15% every year, GDP per capita doubled from US\$3,000 6 years ago to US\$6,000 today, and it's going to double again in the next 6 years. That middle class wants homes, mortgages, health care, pensions, insurance. All of that demand that wasn't there because the country was poor is now gaining traction."

He notes that Peruvian public equities are trading at multiples of 6 or 6-and-a-half, while transactions in private equity are at multiples of 13. "That's all because of liquidity. So the opportunity is huge. The



catch-up in prices will be huge if liquidity improves.”

The retail industry is growing particularly fast, with local companies investing large sums and international retailers, including the Chilean giants, swooping into the country.

“One chain that was opening 8 stores a year will now open 28 in the next 15 months,” he says. “It’s a changing trend. Companies have started to invest to catch up with consumer demand, because if you don’t invest now, your competition will capture your market share.”

It’s not only Peru’s growth numbers that have attracted investors. Mr. Rojas concurs with many experts in the region who are impressed by the regulatory reforms they have seen in recent years, and relieved by the market-friendly measures taken by Peru’s new president, Ollanta Humala, of whom many in the investment world had been skeptical.

“People were scared about elections last year; they thought a Chavez won, not a Lula. But he’s practical and has become a Lula, not a Chavez. He’s supported the economic model we’ve used for the last 20 years, so investors have calmed down. And the confidence of the consumer never slowed down at all.”

■ Market Reform

The government has taken great strides with capital market reform in particular, he says. “They have to, because liquidity is extremely low and you can’t help small companies get better loans and retail investors get better access to savings if you don’t develop capital markets. Otherwise it’s only for very rich people and local pension funds, very elitist.”

He explains that the government plans to copy what Colombia did with the state oil giant Ecopetrol a few years ago, stimulating

growth in the equities market by initiating a massive retail sale. It’s also trying to lower commissions, as Peru’s is one of the most expensive bourses in the world.

“So reform is coming from a lot of angles,” Mr. Rojas says. “From 2001 to 2011, we had 5 IPOS and no secondary placement,

“Our plan is to grab the future growth of these countries that are basically catching up with the world, doubling their GDP per capita every 6 to 7 years. We’re giving investors exposure to the internal demand economy – retail, food, cement, construction, banks – where you’re going to see high growth rates with real growing demand.”

*Carlos Rojas, Founder
& CEO, Andino Asset
Management*

but 2012 marked a change, with 4 IPOS and 2 secondary placements. Finally the capital market is starting to move. We’ll see if it’s sustainable. For this to get to higher volumes and more traction for investors, you will have to see this repeated for the next 3 to 4 years.”

■ New Frontier

Mr. Rojas’s investors so far are mostly local, but he expects the Andean region and Peru in particular to garner more interest from investors in the coming years.

“My feeling is that money is so cheap around the world, especially in developing countries, that these global investors looking for growth, and this region is one of the few that provides it,” he says. “That’s why you’re seeing very high EV/EBITDA multiples: they’re paying above 12 to 13 times in private equity, and you say why? It’s because they’re looking for structural growth and they don’t believe in growth in Europe and America.”

To capture this growth, these investors are looking for long-term investments in strong companies.

“Some international funds need to catch up to growth, because they’ve committed to certain returns in the medium and long terms. They’re coming in looking for growth over the next 5 to 15 years. So it’s not the hedge funds or funds of funds coming to invest, it’s more the long-term investor looking for long-term plays and lockups with long-term horizons, big value strategies, low risk.”

Mr. Rojas is currently running Andino Asset Management and managing his Peruvian fund on his own, though he is looking for partners going forward. He says that his substantial experience in the region will be important when seeking new clients going forward.

“Before Andino, I had a solid track record for 5 years. Investors can see it in Bloomberg, they rely on it. They want to see how it was, what you did, how you were in 2008, how you survived the first 6 to 12 months. That’s important especially for European and US funds who are getting involved with the sexiest play in the region.”

LatAm's Maturing Hedge Fund Industry

■ ALI Speaks with Victor Hugo Rodriguez of LatAm Alternatives



As they did in 2011, LatAm hedge funds are leading the world in returns in 2012. According to the November EurekaHedge Report, which tracks global returns through October, LatAm is up 8.17% in 2012, well head of Asia ex Japan, with 6.40%, and emerging markets in general, with 6.14%. These are impressive numbers for a relatively nascent hedge fund industry that is still off many global investors' radars.

Against the backdrop of this positive news, ALI spoke recently with Victor Hugo Rodriguez, Founding Director of the Hedge Fund Association LatAm Chapter and President & CEO of LatAm Alternatives, a third-party advisory boutique for investors and asset managers entering or working in the LatAm region. A leading advocate for LatAm hedge funds and alternative asset investing, Mr. Rodriguez spoke to ALI about the reasons behind LatAm hedge funds' strong and steady performance, the important maturation the industry has undergone in the last 2 years, and what it all means for the region and the world.

ALI: How have LatAm hedge funds been performing over the last 2 years?

Victor Hugo Rodriguez: It's actually been rather amazing how well they've performed. If you look at hedge funds specifically, every region has lost money – not every manager and fund, of course but every region overall – but LatAm funds went up over 2% in 2011 and are leading the world in 2012, at over 8% — the best positive performer. Those numbers are amazing given the uncertainty of the last 2 years and the poor performance among hedge funds worldwide, and they're telling the world how well prepared LatAm is to really manage global money.

ALI: Why do you think LatAm has outperformed Asia, even though both markets are growing?

VHR: I think the main reason is the region's talent, especially in Brazil. It's no secret that among LatAm hedge funds specifically, 80% to 85% are from Brazil. Brazil is a huge part of what's going on in the alternatives in LatAm, and it has some of the most talented asset managers in the world. There is a culture of managers in Brazil who really understand specifically how to manage portfolios and extract alpha under very stressful conditions. So even though Brazil and LatAm have been in the same boat as other emerging markets and the rest of the world, the region has performed better because of the talented Brazilians. And I'd add that LatAm remains well prepared to weather any storm. It won't be immune if we have a major markets dislocation of course, but it appears to be well prepared.

ALI: In terms of local investors looking at alternatives in LatAm, what changes have you seen in the last year?

VHR: The typical LatAm investor is definitely beginning to see LatAm as a frontier where they need to allocate. Historically, these local investors have invested mostly outside the region; there's been a culture of investing offshore, in other latitudes. But the region's macro changes and the growing sophistication of its managers is causing them increasingly to allocate at home – to become what we call in-house investors. And these in-house investors are investing not only in hedge funds and private equity, but also in traditional vehicles that offer positive returns. In particular we're seeing a growing appetite among local pension funds to feed these local managers.

ALI: Have you seen a similar change among foreign investors?

VHR: Definitely. You're seeing major international allocators, main-tier asset managers, exploring this same frontier. And they're not only performing due diligence in the region – which really began in 2005-

2006 – but actually deploying capital, because of the region's growth story and its ability to weather storms.

Until recently, though, foreign investors were unable to sit with well-positioned managers with boots on the ground, except in Brazil. Now you have them in Lima, Bogotá, Santiago, Mexico and, surprisingly, Caracas.

These managers know the markets and have a lot of talent, and there is a growing appetite in Europe and the US to be in contact with them. They're realizing that LatAm is no longer an "it-will-happen" story; it's already happening. It's not just behaving better; it's the region where you wished you were yesterday and where you want to be in the future.

ALI: How do you think the slowdown in China will affect the region?

VHR: Again, the region is not immune to external shocks, but even when external demand, mostly from China, slows, there is still local, in-house demand. It's no secret that that's the big story now. You're seeing massive growth in the middle class across many of these countries, with greater demand and purchasing power. Retail has done very well, and there's an incredible opportunity for banks in these growing regions. Tech is also doing extremely well, with very high demand.

ALI: Within LatAm, are local funds seeing competition from other vehicles in the US, Asia and elsewhere?

VHR: Yes, that's a new part of the reality. Historically there never was competition from locals in the alternative space; there may have been some competition from mutual funds because it's a regulated area and has more of a retail approach, but nothing in alternatives. But now, if you look at hedge funds, they have a much bigger role; they

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know how to do things on the same level as global shops; and they are here to stay. This is not a temporary phenomenon: the landscape has changed. Suddenly saying that you're a Latino has a strong value in the world because of the market share these managers have gained over the last 15 years.

ALI: Two years ago, many institutional investors liked LatAm but wouldn't invest there because the funds themselves were too small and the managers didn't have long enough track records. Has that been changing recently?

VHR: Yes. The important thing is that the region has adapted quickly to international standards. You were seeing more and more demand from international investors to understand the transparency, operational risk and reliability of managers in the region,

and a very important process occurred over the last 36 to 42 months, with local regulators accepting and being willing to work with the international community, and funds learning how to use state-of-the-art technology to increase transparency and real-time risk management parameters – requirements that most of these international allocators were demanding.

Then there's another element: many investors simply fall in love with this region. When you talk to first-time visitors, they seem to be skeptical; but when those same individuals, representing institutions and major global allocators, really get to know the reality of Brazil, Chile, Mexico, Peru, Colombia, they become the region's most compelling advocates. It's not just me saying it, it's the Europeans, the Asians, the Americans who are telling the world, "This

is where the opportunities are." I always believe that people tend to do business where they want to go, and if you look at the BRIC countries and ask anyone where they'd prefer to do business, in Beijing, Moscow, New Dehli, or Rio, where do you think they'd prefer to go?

That may sound like a joke, but there's a truth in it. People have fallen in love with region. It'll be one of the most compelling regions for years to come. And importantly, it has remained humble; despite all its growth and maturity, it's maintained a humility while inviting the world to come and do business here.

SPEAKER BIOGRAPHY

Victor Hugo Rodriguez is the Founder and CEO of LatAm Alternatives. Victor Hugo has over 17 years of experience in Management, Sales, Marketing and Page 7 Business Development across the securities industry in the US-LatAm region.

He was Partner and Head of Latin American Prime Brokerage for Merlin Securities (Mid Tier Prime Broker) and Director of Global Institutional Sales at Trade Station Securities. Before he worked as Director of Latin America for Terra Nova Trading (now Light Speed Trading) and in the late 90's he was the Founding President & CEO of Pristine.com Latin America. He has been a live TV Economics News Anchor and currently serves as the Founding Director of The Hedge Fund Association (HFA) - LatAm Chapter and Member of the STA (Security Traders Association) of Florida. Recently he co-published a white paper "The Spectrum of Investors for Latin American Hedge Funds", and has been interviewed by The Wall Street Journal, Institutional Investors, EuroMoney, Bloomberg, The Trade News, LatAm Fund Manager, Financial Times, Inversiones.com, Traders Magazine, FinWeek, Finalternatives, HFMweek, Yorba TV, Alternative Latin Investors Magazine and Funds People during the last few weeks.



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Aquaculture

Bluefin tuna is an endangered species. Stocks are down 60% to 80% worldwide. Demand keeps prices high. Without international monitoring and management these magnificent creatures will disappear. This point isn't too far off according to environmental groups monitoring the situation. So industry researchers and innovators have been experimenting with tuna ranching and farming, which are not the same thing.

Tuna Ranching VS. Tuna Farming

■ Stephen Kaczor

Commercial tuna fishing operators rejoiced in April when a 2-year Pacific ban on tuna was partially lifted. Two-thirds of the world's tuna has historically been fished from a thin triangle between the Philippines, Papua New Guinea and Fiji, leading to big-eye tuna becoming diminished in that area to the point that breeding stock was approaching collapse. Other tuna species like skipjack, yellow fin and albacore remain more plentiful, but global tuna demand and supply have created an intense debate nonetheless.

Western and Central Pacific Fisheries Commission (WCPFC) jurisdiction covers 20% of the planet's surface. It only partially lifted its ban in 2010. The commission maintained that entry to the marine reserves would be limited, refusing proposals from the European Community and South Korea for unlimited access to one of the world's richest fishing grounds.

"Everybody would suffer if a free-for-all access is granted," reported Mark Dia of Greenpeace.

Japan, the world's top tuna harvester, is notorious for overfishing a single area before moving on to another. The Philippines have limited access in the seas off its shores, access approved by the WCPFC because the government agreed to report its catch and limit the number of fishing vessels to 36. Filipino vessels must also apply for international fishing permits. The Philippines' fisheries director Asis Perez believes the marine reserves fishing ban is counterproductive as it forced fishing companies to harvest in its national waters, which is considered to be a spawning ground for various types of tuna. These complexities in fisheries management, coupled with the increasing scarcity of tuna, point to opportunities in tuna ranching and/or farming. Innovations in the past 2 years in the Mediterranean Sea involve catching wild bluefin tuna and releasing

them into underwater corrals where they are fattened before slaughter to help meet the high demand for sushi sales. This new aquaculture industry is controversial. A recent PBS report suggests that this practice is very lucrative, and “tuna ranchers believe that their operations take pressure off wild tuna populations because the tuna fishermen get a better price for their catch and therefore need to fish less intensively.”

However, because many populations of Atlantic bluefin are considered severely overfished, critics of the industry say that these ranching operations are adding to an excessive hunt that is steadily pushing some populations toward commercial extinction. Taking younger fish out of wild breeding

stock before they can ever breed is a questionable practice.

Mexico is also ranching tuna, the smaller Pacific bluefin that are thought to be in better shape than Atlantic tuna populations. The concern is that tuna demand will lead Pacific stocks to become as stressed as Atlantic populations, thus the bans by WCPFC and other fisheries management groups. Quota reductions have led to recovery in Atlantic stocks although “the magnitude and speed of the increase vary considerably,” according to a stock assessment by scientists released ahead of the annual International Commission for the Conservation of Atlantic Tunas (ICCAT) set for November 2012 in Morocco.

The Pew Environmental Group operates a Global Tuna Conservation. It is lobbying ICCAT to keep current quotas of 12,900 metric tons a year intact through 2015. Clearly this is a very political industry involving a public asset, a common asset that must be protected. And there is another key tuna ranching issue: the volume of forage fish which tuna are being fed, which environmentalists say will have negative impacts on marine systems. The math involves determining whether this form of aquaculture consumes more fish protein than it creates, and whether it creates excessive competition by wild tuna for food, further stressing wild populations.

“It is not a closed-water farming cycle that is breeding and reproducing the tuna; rather



they are capturing them in the wild. The farms are increasing pressure on the wild stocks,” according to Pablo Xandri, Director for the Conservation Program of the World Wildlife Fund in Madrid. Tuna farming could alleviate the problems of overfishing by growing tuna on ranches, and it is being tested in many countries.

According to a report this year by the European Commission Research & Innovation Centre, scientists from the EU’s Selfdott research project are examining how to farm bluefin tuna in Spain. This year, every night in July they took a boat out to collect eggs from cages containing 60 bluefin tuna. The coordinator of the project in Cartagena is Fernando de la Gándara. He states, “This project aims to make it possible to produce bluefin tuna in the same way as we already produce sea bream, sea bass, turbot and salmon: using aquaculture. This year we brought the cages into a cove, into a small bay where we hoped to have less currents, but this year again we had few eggs, probably because temperature didn’t rise quick enough. This year was a quite cold year for sea water temperature and during what we think is the best eggs-laying period for tuna in captivity, we had cold temperatures.”

Bluefin tuna are difficult to handle because of their size, so it is more difficult to monitor farm stock maturation, and to collect eggs, versus smaller species. And this is just one challenge. Bluefin grow very fast but do

Naturally Japan is also leading research in this area; Japanese consume 80% of the world’s bluefin, and the price has exceeded US\$1,000 per pound.

not breed quickly. They require high-energy food but are also delicate and need living conditions with perfectly oxygenated water.

And they are a migratory species. Pacific bluefin spawn near the Philippines and migrate to Mexico’s Baja Peninsula, returning after many years (if not caught) to reproduce. There has been worldwide interest in moving aquaculture further out to sea where the water quality is better, but it is vastly more expensive than near-shore farming.

Spain’s harvested eggs go to France, Greece and Israel, and some stay in Spain. Scientists use them to learn how to produce a full-grown fish, which is the next step of this project. Germany, Italy and Norway are also taking part in the project. Australia has a project of its own and its director, Dr. Nicole Kirchhoff, published her research last year in PLoS One. Naturally Japan is also leading research in this area; Japanese consume 80% of the world’s bluefin, and the price has exceeded US\$1,000 per pound. As a result, scientists from Kinki University in Osaka have developed their own species and bred it successfully for three generations. For more information on this innovation, the market and the viability of captive tuna farms, visit The Ecologist at www.theecologist.org.

AUTHOR BIOGRAPHY

Stephen is Chairman of the Big River Foundation, a non-profit focused on river and watershed ecology conservation initiatives throughout the Americas. He is an organic farmer, eco-entrepreneur, consultant, and a writer with a documentary film in production in Central America. As a Panama-based consultant, Stephen’s focus is sustainable organizational development, research & management. In addition to consulting and writing, he is passionate about sustainable agriculture, Latin American culture, travel, and the ecology.

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