

A Juicy Investment

Argentine Vineyards

The MILA's Effect
on Hedge Funds

ALI Speaks
with Walmart Latin America CEO

NESsT
Non Profit Enterprise and Self Sustainability

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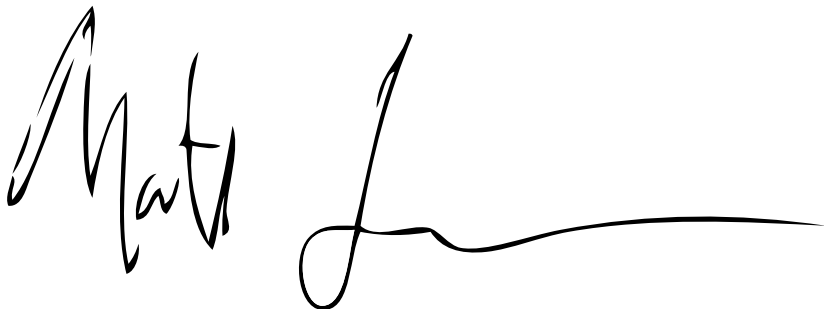
Letter from the Editor

Welcome readers and friends to the Year of the Rabbit, a sign of the Chinese zodiac marked by its inner qualities of delicacy and diplomacy. With the current state of the world marked by a tediously slow economic recovery, regime changes throughout Latin America, and the most recent upheaval in the Middle East, treading lightly and delicately into the New Year seems to be wise counsel, in spite of its astrological origins.

While in 2010 Latin America proved its resilience against the suffocating grip of the global recession, it remains vulnerable to the innate risk within the region. Drug related deaths in Mexico are much higher than originally assumed, reaching beyond 15,000, and affecting nearly every sector of the Mexican economy, from real estate to capital markets. Sadly, the resolution of this conflict remains elusive. In a bold move, Cuba's President Raul Castro plans to lay off 1.3 million workers, in an economy which currently does not have a private sector robust enough to absorb that number of unemployed. North of Rio de Janeiro, in Teresópolis, floods and landslides claimed the lives of at least 443 people, the deadliest natural disaster the next host of the Olympics has witnessed in decades.

Tragic news aside, Latin America is on the right path as we see a dramatic increase in coffee prices, a serious interest from foreign investors for infrastructure development projects, and what is to be a ground breaking endeavor, the joining of the Chilean, Colombian, and Peruvian exchanges into the MILA, which will create more liquidity and derivatives allowing hedge funds to more easily access those markets.

While stability, infrastructure, and investor confidence within Latin America continues to grow, currently outpacing much of the world, it is of utmost importance to maintain a clear perspective of where we are, where we have come from, and where we are going. As in many emerging markets, growth, if not carefully nurtured, can be just as dangerous as the lack of it. Despite the amazing progress made to the investment environment, we must stay vigilant against a false sense of stability and remain steadfast in the delicate development of Latin America.



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POLITICAL MOVES:

First Quarter 2011



ARGENTINA: Divisions in the UCR favor Fernández's re-election

The three possible presidential candidates for the opposition Unión Cívica Radical (UCR) in the 23rd of October presidential election - Ernesto Sáenz, Julio Cobos and Ricardo Alfonsín - are attacking each other over whether to hold an early primary in April/May or wait until the 14th of August mandatory and simultaneous open primaries to determine who will represent the UCR at the polls. The bickering is very detrimental to the UCR's image, dividing its electorate and giving an advantage to the ruling Frente para la Victoria of President Cristina Fernández (likely to seek re-election), which regularly accuses the UCR of being unfit to govern. Cobos, Fernández's estranged vice president, has repeatedly stated he will not participate in the early primary – this contest will have to be non-binding and closed (allowing only registered party members to participate) so as not to violate new electoral regulations - and has accused Sáenz and Alfonsín of back-tracking on an earlier agreement: "We had all agreed to draft a government programme first so as not to put the horses in front of the cart ... how are we going to reach electoral agreements without a program?" said Cobos in a recent interview.



BRAZIL: Rousseff's baptism of fire

Brazil's new President Dilma Rousseff is enduring a tough early introduction to coalition politics, amidst a face-off between Rousseff's ruling Partido dos Trabalhadores (PT) and its main coalition partner, the centrist Partido do Movimento Democrático Brasileiro (PMDB), over lucrative positions in the new administration. The PT, now the biggest party in the federal congress and the second largest in the senate, has been put in charge of 17 ministries. The PMDB, which was assigned six ministries and also has the vice presidency under the veteran party leader Michel Temer, is miffed and wants more, including a seat on the political coordination committee, the inner nucleus of the executive, and juicy posts at the helm of key state agencies and companies. The risk for Rousseff in not acquiescing is that PMDB deputies might withhold support in congress for key government proposals – including a cap on the minimum wage increase for 2011 and planned budget cuts to the tune of US\$15bn. Following a week of talks Rousseff has managed to placate her allies, but at the expense of allowing Temer to carve out a much more powerful role for himself inside the government than normally exercised by Brazilian vice presidents. The next battle comes on the 1st of February, when the new parliament sits and the PT and PMDB expect to receive the presidencies of the lower house and the senate respectively. A successful vote on this day is key to ensuring governability moving forward.



PERU: Wide open

With just three months to go until the first round of presidential elections on the 10th of April, no single candidate has established a decisive lead let alone threatened to cross the 50% threshold required to win outright. This means that a run-off on the 5th of June is practically certain. Two of the three leading candidates in the opinion polls - former president Alejandro Toledo (2001-2006) and the former mayor of Lima, Luis Castañeda - hail from the centre-right but both are making populist gestures to the Left to try and differentiate themselves. Keiko Fujimori, the daughter of imprisoned former president Alberto Fujimori, is the third main candidate. Her campaign, until recently, did not extend beyond seeking a pardon for her father, but now includes right-wing populist policies, such as stiffer sentences for serious offenders, including the reintroduction of the death penalty. Another candidate to keep an eye on is Ollanta Humala, who is running for the nationalist party, backed by a coalition of small left-wing outfits. Polls consistently understate his support, due to his rural powerbase. He was the surprise package in 2006, taking President Alan García to a run-off. He has denied fresh allegations by his rivals that his campaign is being financed by Venezuela's President Hugo Chávez. He said he would not follow Chávez's model, stressing that he opposed indefinite re-election and would respect private property and the freedom of the press.



Mexico: Manoeuvring begins in earnest ahead of 2012

The presidential and congressional elections, due in July 2012, are now looming over the political landscape. There are several important state elections this year: The importance of these elections will lie in establishing whether the left-wing Partido de la Revolución Democrática (PRD) and the right-wing and ruling Partido Acción Nacional (PAN), can work in an alliance against the Partido Revolucionario Institucional (PRI). The PRI, which ruled Mexico from the end of the Mexican Revolution (which started in 1910) until 2000, remains the country's only national party. National opinion polls point to its likely candidate, Enrique Peña Nieto, currently the governor of the Estado de México, recovering the presidency in 2012. One hurdle Peña Nieto has to jump this year is ensuring that his candidate to succeed him as governor of the Estado wins in the gubernatorial elections on the 3rd of July 2011. It is just possible that either the PRD in alliance with the broad Left, or a PRD-PAN candidate could beat Peña Nieto as yet an unnamed choice. If that happens, the Mexican presidential race will be wide open. The PRD and the PAN started to talk, gingerly, about an alliance in the Estado on the 12th of January. They were tentative because key figures on the Left, notably Andrés Manuel López Obrador, a former mayor of Mexico City who was narrowly defeated in the 2006 presidential election (López Obrador himself claims he was cheated of victory) want to have nothing to do with the PAN.



Coffee's Record-breaking Prices

■ by Stephen Kaczor

Central American coffee prices have skyrocketed since last year's coffee article in this space. ALI spoke again with farmers in Costa Rica & Panama about this dynamic market; these farmers are featured in the insets below, with contact info for more information.

One market yardstick for coffee growers in this region is the price of coffee cherries per lata. Lata is a volumetric measure usually containing 28 to 30 lbs of freshly-picked coffee cherries. 2010 coffee markets witnessed 13-year highs. In 2003, the price per lata varied in Central America between \$3.50 and \$4.25. It has increased annually to last year's (2009-10 harvest) price of \$7.00 per lata.

2011's current price in Boquete, Panama is \$10.00 per lata, with prices in Costa Rica tending toward \$12.00 per lata. According to the International Coffee Organization's (ICO) year-end report, the ICO composite indicator price in December was the highest monthly average recorded since October 1994. What is driving such unprecedented prices?

On the supply side, heavy rains in Central and South America have decreased yields. The coffee plants need the rain, but they also need sunlight to ripen. During the harvest season the cherries ripen quickly but if there is too much rain, flowers cannot become cherries. If there is not enough sunlight, cherries cannot ripen and there is more fungus, known as "Ojo de Gallo," on the trees as a result of the constant moisture. This year, weather conditions in Central and South America led to yields decreasing by 25% - 40%.

On the demand side of the equation, there are more coffee drinkers than ever before. Coffee consumption is up in India and especially among younger urban Chinese - the percentage increase in demand is in the double digits. Starbucks has announced plans to triple its number of stores in these traditionally tea-focused markets. As a result, global coffee prices should continue to rise this year for the more fragile and flavorful Arabica coffees.

The Coffee, Sugar and Cocoa Exchange (CSCE) operates as an independent unit of the NY Board of Trade and as a wholly owned subsidiary of the Intercontinental Exchange (ICE). The price of coffee contracts traded on this exchange (www.theICE.com) jumped 53% since June 2010. As Kona Coffee Roasting has observed, the impending shortage of specialty beans is reflected in world markets where speculation has caused many to bet on the future price increases, thus creating an influx of money on the ICE, where the buying and selling of coffee futures occurs.

They are constantly working to improve the quality and quantity of their coffee. They are a small organic farm, growing with bio-dynamic principals and processing the coffee in the natural method. This year they will introduce the use of solar drying units and substantially increase the use of worm casings in the organic fertilization of the farm.

Stephen is a Seattle-based writer, entrepreneur, and consultant. He is a partner at International Market Resources, a Latin American trade consultancy, and the founder of Changes In Latitude, a travel company. The focus of Stephen's consulting is strategic market development, research & management. In addition to consulting and writing, he is passionate about Latin American culture, travel, and sustainable agriculture.



Rich Lipner of Panama's Finca Dos Jefes is constantly working to improve the quality and quantity of his label, Cafes de las Luna. Finca Dos Jefes is an organic specialty coffee farm, growing with bio-dynamic principals and processing the coffee in the natural (dry) method. This year he will introduce the use of solar drying units and substantially increase the use of worm casings in the organic fertilization of the farm. Visit www.boquetecoffee.com



Jennifer Long of Costa Rica's Finca Lilo de Biolley's marketing strategy is and will continue to supply individuals, small coffee roasters and specialty suppliers with premium beans. Finca Lilo de Biolley will not plant more coffee on its own farm land, preferring to coop with neighboring farmers to cultivate the same quality and consistency for its exports abroad. Visit via www.biolleybuzz.com and <http://bcrcoffee.com>

Innovación Estratégica

Valorice esfuerzos y resultados desarrollando sistemáticamente eficientes procesos de innovación para neutralizar los desafíos permanentes del mercado y satisfacer las necesidades del consumidor

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Ciudad de México, D.F.

“¿Cuál es la verdadera importancia del proceso de innovación?”

Asista a Esta Conferencia y Logre:

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- **Promover** la innovación a través de la generación de ideas
- **Valorizar** y estimular la cultura y la participación en equipos de innovación dentro de la corporación
- **Analizar** el impacto de la tecnología en los procesos de manufactura e innovación
- **Estudiar** los métodos y las herramientas aplicables en cada proceso relacionado con la innovación sustentable
- **Ampliar** y continuar con el plan de reestructuración financiera que apoyen a los procesos de innovación

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Whirlpool: Innovación: Herramienta indispensable para el crecimiento y la ventaja competitiva

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Agrana: Proyecto de innovación: "Estaciones"

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- Director de Innovación
- Director de Innovación y Desarrollo
- Director de Desarrollo de Proyectos
- Innovation Manager
- Director of Consumer Satisfaction
- Director of Quality and Consumer Satisfaction
- Sub-Director de Innovación
- Director de Sistemas
- Gerente de IT
- Director de Tecnologías de la Información
- Director de Administración de Operaciones y Tecnologías
- Director de Marketing
- CIO para Mexico, Centroamérica y el Caribe



La innovación puede descifrarse como la legitimación de una estrategia, en donde la creatividad y el buen uso de tecnologías se unen para satisfacer las necesidades del consumidor y generar beneficios rentables para la corporación.

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Guide to Infrastructure Investment in Latin America

Many countries in Latin America are well under way in developing successful partnerships between the public and private sectors that are creating vast portfolios of future infrastructure projects. Any investment officer (IO) analyzing the news of the past year will see that there are many financially attractive projects for the development and upgrade of ports, subways and trains, airports, and energy related infrastructure in the region.



However, IOs evaluating investing in or granting a loan to a project company bidding to build, finance, and operate an infrastructure project (the Infrastructure Company) in most Latin American countries will also have to take into consideration several factors that might be somewhat outside of their comfort zone. These factors are mostly legal and political and have a major influence on decision makers, since they have the potential to alter financial statements, valuations and models.

A comprehensive understanding of these legal and political factors is crucial in order to: negotiate more effectively with government officials, project sponsors and/or lenders; create a knowledge base that allows asking the right people the right questions; constrain the scope of work required to the local counsel and risk to financial consultants; establish coherent reporting requirements to the different parties providing services to the IO's firm and to the Infrastructure Company; and create a realistic execution and implementation timeline with appropriate milestones.

Numerous discussions with IOs, specialized literature, and the analysis of the day-to-day news of the sector have allowed us to put together this guide of legal and political factors influencing infrastructure investment in Latin America. Because each investment has its particular complexities, our intention is for this guide to serve merely as a point of reference to those who might be new to the region and/or the industry or might need clarification of an idea or a concept.

Ten Legal and Political Factors

1) Host government's willingness to develop or enhance certain infrastructure works needed for the project

It is crucial here to identify which governments (federal, provincial, municipal) have a stake in the development of the project. This task requires a previous study of what infrastructure works are needed for the technical and economic feasibility of the project. Once these works have been determined, it should be easier to identify which governments have jurisdiction over each of them.

These works might be needed for logistical purposes, i.e. to get machinery, equipment, and/or raw materials from abroad as close as possible to the project site, to access the site, to supply the project with electricity and/or water, or to make sure that telephone and internet services are available at the project site.

Request for proposal documentation should establish which infrastructure works must be afforded by the Infrastructure Company and which works must be financed by the government. The documentation should also specify which level of government is in fact in charge of funding the needed work. This provides important information to the IO for the following reasons, among others: (i) some governments finance the majority of their infrastructure with foreign resources i.e. credit lines or grants from multilateral development banks. If this is the case, the IO should inquire whether the loan is still being analyzed by local governmental officials, if the multilateral development bank's officers have conducted several missions, or if the approval of the Federal Executive branch

is forthcoming; (ii) in the case of a government using foreign financing, it is important to review the relationship they have with the Federal government as the latter is usually the one that needs to be the guarantor of the repayment of the loan provided by the multilateral development bank; (iii) some other governments might be in the midst of raising funds through a bond issuance in the domestic and/or international markets to finance, among others, the needed work (point (ii) applies here as well); and (iv) other governments might include the work in their budget, so the IO will inquire about the status of the legislative process, among others.

It is of critical importance to acquire a comprehensive understanding of each and every one of these factors for financial and operational purposes as well as for negotiating with the numerous parties that are involved in the development of infrastructure.

2) Host government's legal aptitude and political willingness to provide guarantees and/or subsidies

So called "sovereign guarantees" might be needed to secure financing from banks because they serve the purpose of isolating the Infrastructure Company from the risk of non-execution of contractual obligations by a sub-national government, a governmental agency or a state-owned company. These obligations can emerge from, for example, a concession or an off-take agreement.

Subsidies for governmental agencies, state-owned or privatized companies are aimed at facilitating the purchase, preferably at market rates, of the Infrastructure Company's output. The stability of this financial aid will be examined by the IO. For this purpose the IO will determine whether the subsidies are provided by decrees from the Executive branch or are the product of a legislative act. The reason here is that decisions made by an Executive branch can be amended or repealed in a simpler way than enacted laws.

3) Stability agreements

Stability agreements are contracts executed between the sponsors of the Infrastructure Company and a ministry or governmental agency of the country where the Infrastructure Company will operate.

While these agreements can cover numerous issues ranging from expropriation to permits and concessions, the spirit behind each clause is, in every case, to reduce the uncertainty that can arise out of particular events that are extrinsic to the Infrastructure Company.

The clauses in these agreements serve no other purpose than to mitigate risks and, therefore, to protect, in different ways, the Infrastructure Company from commercially adverse effects that may derive from any change in the content, interpretation or application of legal provisions during the life of the project.

Stabilization clauses are categorized into three broad classes: freezing clauses, economic equilibrium clauses and hybrid clauses. A recent analysis of several contracts from the Latin America and Caribbean region indicated that the bulk of the stabilization clauses used are economic equilibrium clauses. These clauses allow the government to reserve the right to exercise sovereignty in the public interest as long as the exercise of said right is followed by the payment of adequate compensation.

The IO will determine if there are laws that allow stabilization clauses and will need to assess the level of enforceability of said clauses by the courts of the country where the Infrastructure Company will be operating.

4) Collateral

Banks' IOs will be aware that foreclosing on the Infrastructure Company's assets, should an event of default occur and persist, means losing money, as enforcing liens (mortgages, pledges) on the Infrastructure Company's personal and real property and selling said property usually has very high transaction costs.

Notwithstanding the above, IOs understand the value of the contracts that will be negotiated by the Infrastructure Company's sponsors (off-take agreements, licenses, permits, etc). After reading the financing proposal sent by the project sponsor, the IO should have a complete idea of the project and should then be able to identify those strategic contracts that could eventually ensure the completion of the construction phase or the value of the project, should the sponsor mismanage the operation.

The IO will want to determine whether the Infrastructure Company's rights emerging from permits, concessions, insurance policies, construction contracts and other significant project agreements can eventually be assigned to the lender itself and/or another assignee. Also, the lender will be looking to obtain some security interest on the cash flows deriving from long term off-take agreements, damage payments, and guarantors.

5) Permits & concessions

Obtaining and maintaining whatever permits the Infrastructure Company needs to carry out the project is key because a delay in the granting or the revoking of a permit can, directly or indirectly, trigger contractual clauses that can put a quick end to the project.



If the sponsor has a history of operating in the country, obtaining and maintaining the necessary permits might be easier. Despite this, it is good practice to perform or require an assessment of the political relationship between the sponsor and the authorities granting the permits.

The IO will examine decisions made by oversight agencies or the relevant ministries and will research local and specialized media.

From the terms of the concession agreement, the IO will have to extract what the government expects from the Infrastructure Company and what will be the role of the government during the concession: construction timeline; governmental rights to terminate the concession if certain events occur that impact

sponsor or to the Infrastructure Company; how the price paid for the Infrastructure Company's output is determined; guarantee created to assure that the Infrastructure Company will be paid if it sells its output to the government or a state-owned company; environmental, labor and operational standards.

6) Political succession & change of law

Having just highlighted the importance of permits and concessions it is clear that the project can, at any stage, be affected by political succession at a federal, state, or even municipal level.

If political campaigns are well under way, the IO's research will zero in on statements by both the incumbent and the challenger regarding nationalism, privatization programs and corruption in bidding processes.

The IO will want to find out about the sponsor's relationship with both contenders. Is the sponsor closely linked with the incumbent, or is it financing the challenger's campaign? How are competing consortia managing their own relationships?

In case of absence or flagrant illegality of stability agreements, the IO will be aware that many legal governmental actions can affect the ability of the project to service debt or even make the project unprofitable. Research here can be rather complex, so the IO will inquire with local experts on the history and current framework of the applicable tariffs, production/consumption controls, taxes and environmental regulation.

7) Expropriation

Scandalous Chavez-style sweeping acts do not occur very often in the region. That is why the IO will look for a history of what experts call "creeping expropriation acts." These may be in the form of, among others, taxes, fees, the freezing of tariffs or the continuous postponement of tariff renegotiation. The aggregate of these creeping acts might, over time, constitute an expropriation.

Squeezing the Infrastructure Company's profits can have a purely financial reason or there can also be a political motivation, as blocking the reinvestment of profits hinders the performance of the Infrastructure Company's operations and paves the way for the governmental authority to move for termination of the concession due to breaches in the agreement.

8) Contract repudiation by the host government

Forecasting costs and revenue over the long term is vital for the success of any project. The reliability of long term forecasting depends on whether the Infrastructure Company can fix both its revenue and costs, hence the importance of robust concession, off-take and supply agreements, among others.

When studying this subject the IO will have in mind that contract repudiation is a very broad term. While research in national and

specialized media looking for statements made by politicians is a must, more exhaustive research should be done or required on decisions made by oversight agencies or ministries. These decisions can consist of arbitrary interpretations of the terms of a concession contract or can affect the capacity of a state-owned company to, for example, comply with its obligations under an off-take agreement.

9) Foreign exchange matters

When the Infrastructure Company is operating out of a country somewhat unstable or that has a lower credit rating, funds for the project are normally raised in the international capital markets rather than locally. However, most of the time the revenues generated by the Infrastructure Company are denominated in the local currency, which gives place to a certain degree of investment risk.

If this is the case, the IO will have to make sure that there are no restrictions on converting the revenues into a foreign currency or transferring those funds to bank accounts abroad.



Many countries in Latin America have foreign exchange controls in place that set forth a series of requirements to remit funds outside those countries, and impose controls on capital inflows.

These controls may go as far as establishing a minimum stay in the country for foreign investments (in some cases up to 365 days), providing for a mandatory conversion of the foreign currency into the local currency, or creating a compulsory encashment in local currency of a certain percentage of any amount entered through the local foreign exchange market.

In any of these cases, a suitable stability agreement shall be critical to guarantee the repayment of any financing provided to the Infrastructure Company or its sponsors.

Needless to say that offshore reserve accounts, countertrade agreements and political risk covers may also come in handy to armor the investment against these foreign exchange risks.

10) Cross-border anticorruption regulations

When governments undertake infrastructure works with international private contractors, certain IOs will pay special attention to cross-border anticorruption regulations such as the Foreign Corrupt Practices Act 1977 (FCPA) and the UK Bribery Act 2010.

The FCPA criminalizes payments made to foreign officials to secure business, and applies to: (i) issuers i.e. companies with securities registered with, or required to make filings with, the Securities and Exchange Commission; (ii) domestic concerns (US companies and US citizens or residents); and (iii) foreign persons acting within US territory. In particular, the FCPA prohibits the payment, offer or authorization of payment of money or anything of value to a foreign official for purposes of influencing any act or decision or securing an improper advantage to obtain or retain business.

Wider than the FCPA, the new Bribery Act creates three offenses: (i) a general offense of bribery (including private to private bribery); (ii) the bribery of foreign officials; and (iii) a corporate offense of not being able to prevent bribery.

It is worth bearing in mind that a breach of any of these regulations does not necessarily entail the existence of criminal intent. The FCPA very broadly prohibits giving “anything of value” to a foreign official, or an intermediary, to obtain an unfair competitive advantage. The Bribery Act considers that there is bribery when someone directly or through a third party, offers, promises or gives “any financial or other advantage” to a foreign official (or an intermediary).

The IOs will inquire with local counsel experienced in dealing with corruption claims about this factor. Lawyers will be able to provide valuable input as to how local “business practices” should be dealt with, and might also be instrumental in identifying sensitive areas in connection with the transaction the IO is considering.

Conclusion

This article has covered subjects and ideas of critical importance for any infrastructure project, particularly those located in emerging markets like Latin America.

In the quest of providing the most accurate analysis possible to their investment committees, IOs will decide in each case whether to conduct the research internally or take the issue to external specialized professionals. Regardless, it is of critical importance to acquire a comprehensive understanding of each and every one of these factors for financial and operational purposes as well as for negotiating with the numerous parties that are involved in the development of infrastructure.

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Alternative Latin Investor
is excited to announce the

ALI Infrastructure Deal Directory

We are calling upon every project sponsor/investor, bank, project operator, engineering and/or construction company, government official linked to infrastructure projects in Latin America to complete the following 5-minute survey

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If you are unable to follow this button, please go to
www.alternativelatininvestor.com/survey/infra to complete survey



The ALI Infrastructure Deal Directory is the first of its kind to be distributed for free. It will create a platform that will facilitate fund raising, making connections, generally increasing your organization's and project's exposure.

MILA

A New Phase of Integration in Latin America

Chile, Colombia, and Peru are moving ahead with a project to join a common regional stock exchange (MILA), which they hope can compete with Latin America's biggest capital markets for foreign investors.

Strong growth in Latin America is catching the eye of many businesses and investors. But when it comes to decision time, Brazil is often the only financial market big and sophisticated enough to make a trade worthwhile. However, three of Latin America's smaller, but most dynamic economies plan to combine forces to offer a viable alternative and open up their markets to local and international investors.

Chile, Colombia and Peru have already begun the first phase of integration in a process that will eventually lead to direct trading on a common bourse. The Integrated Latin American Market, known under its Spanish acronym MILA, will unite 563 companies, and have a total market capitalisation of US \$647bn, according to Bloomberg data. That would make it second only to Brazil's Bovespa in the region, relegating Mexico to third place.



Trade volume is also set to be among the highest in the region, with initial estimates pointing to a daily sum of US \$300mn.

The three Andean states make natural companions: they share a Pacific coastline, an economic model based on openness to trade, and democratic values. But individually, each market is too small to attract large sums of investment compared to the continent's economic and financial powerhouses.

By pooling liquidity and deepening capital markets, each of the countries should be better placed to compete for foreign investment with the region's traditional powerhouses, with Mexico the most likely to lose market share, according to Victor Hugo Rodriguez, CEO LatAm Alternatives. This scale advantage applies especially to the two smaller markets in the MILA group, Peru and Colombia, which hope to gain more weight in regional indices.

As well as the obvious benefits of lower transaction costs and improved cross-border trade efficiencies, the combined market will allow investors to diversify their holdings. Where now most investors in Peru are concentrated in the booming mining sector, a portfolio in MILA could be expanded to include Chilean



retailers and Colombian construction firms. Each individual market, especially Peru and Colombia, has traditionally been too small or risky for most investors, particularly foreign, to look beyond the countries' dominant industries.

■ Attracting the Big Players

The increased market depth and new trading opportunities should make each of the MILA countries more attractive to institutional investors, such as hedge funds. The injection of liquidity that funds could bring will benefit companies operating in all the nations involved, as they will be more likely to draw on the increased capital and issue shares. There is also hope for a fresh wave of IPOs, particularly among medium-sized firms that have traditionally struggled to raise equity finance due to the limited number of buyers.

However, according to Rodriguez, for hedge funds to be drawn to the integrated market, the project needs to be complimented with new regulation that makes it easier for investors to trade on the short side. "While there are a lot of opportunities on the long side, they are hedge funds, so they need to hedge the risk. If they don't have an easy way to short the securities then there is no appetite to even go long."



Prior to the launch of the first phase of integration in November, Chile was the only market out of the three that permitted short selling. As liquidity grows, Carlos Rojas, Chief Investment Officer at the Compas Group, expects a new derivatives market to develop rapidly from 2012, with an 'explosion' of activity in the short market. Carlos expects the creation of many new hedge funds in the next 12-24 months, drawn in by the region's growth potential as well as the considerable arbitrage opportunities that will exist, in the short term at least, between the three merged markets.

■ The Practicalities of Integration

International investors such as hedge funds will also require evidence of a solid and harmonised market infrastructure. The alignment of tax and legal systems across three countries is a complex project already underway. Peru's involvement in the regional integration was temporarily stalled as legislators resisted reducing the capital gains tax to a flat 5%, so as to align regulation with the other two countries. This hold up was largely behind the decision to delay the launch of the new bourse—originally scheduled for the end of January—until March at the earliest.

These complications aside, the MILA project is part of a concerted effort among certain Latin American countries to consolidate their markets and make them more attractive for global investors. In a move that is separate, but complementary to MILA, Colombia and Peru have also announced a corporate merger of their respective bourses, the first deal of its kind in Latin America. Rojas believes that by end-2011 these two markets will be fully integrated, and then expects Chile to join the process.

In addition, Panama's stock exchange has expressed interest in combining with other bourses in Central America, and does not rule out petitioning to join MILA at some point. Argentina is also reportedly considering integration options so as not to be left behind in the region.

Closer financial ties will also support broader economic integration in the region: In December, for example, Mexican officials joined the three countries involved in MILA in talks over a new trade and development deal provisionally named the Pacific Pact.



The Search For Alpha In Latin America



February 16, 2011 | Miami City Club, Miami

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ALI Speaks with

President and CEO of Walmart

Latin America Eduardo Solórzano

How did you become the CEO of the Fortune 500's number one company in Latin America?

Well I've been in the retail industry for more than 25 years. I started with Cifra, the partner we used to have in Mexico when we started our joint venture in 1991. I had a diversity of responsibilities such as managing, logistics and buying and in 1998 really started my executive career. I first worked in Sam's Club and then the Super Center working as the food director and later in charge of taking deliveries for the Walmart Super Centers in Mexico. After that I was in charge of the orders for retail format in Mexico and a couple of years later I was appointed the Chief Operational Officer for Mexico with the responsibility of all the formats down there. A couple of years after that I was appointed as the CEO of Walmart Mexico and I was in that position for five years until January 2010 when I was appointed the head of region here in Miami.

Can you give me a brief history of Walmart in Latin America?

Well Cifra was the very first operation that Walmart had outside of the US. In 1991 we had a joint venture between Walmart and Cifra and that joint venture was quickly translated into opening a Sam's Club in Polanco, Mexico which still exists today and is doing very well. We have remodelled that store a couple of times. Then the joint venture was extended to the Super Centers and finally the company acquired the control in Mexico in late 1997. We also opened our operation in Argentina and Brazil in 1995 and the latest member of the family is Chile and we acquired that business in 2009. And then Central America, it was a business that originally we acquired the shares of Ahold, a Dutch competitor, and we had a partnership with the Central American partners who we finally acquired 100% of the business through our operation of Mexico in late 2009.



Say you were to move into Peru or Colombia, what kind of research or indicators do you look for before opening a store in a new country? How do you decide where to expand?

You take a look at the general performance of the country in terms of how the country is doing. See if the country is growing or not. Clearly we take a look at the competitive landscape that we have. We take a look if our value proposition may be well accepted or not by the potential customers in that particular market. I believe we have a very disciplined methodology in order to try and enter into a new country. In general we take a look at the socio-economic indexes that we have: inflation, economic growth, income distribution, purchasing power of the consumer, etc.

How do you find the competitive landscape in Latin America?

I believe we have a lot of very good competitors in Latin America, probably different than the competitors that we find in the US. I would say we have two or three dimensions of competitors in Latin America. One dimension would be multinational competitors, competitors that are in multiple continents such as Carrefour. We have regional competitors and we have a lot of very good local competitors in each of our markets. It's a very different kind of landscape when you compare one country to another country, they are completely different.

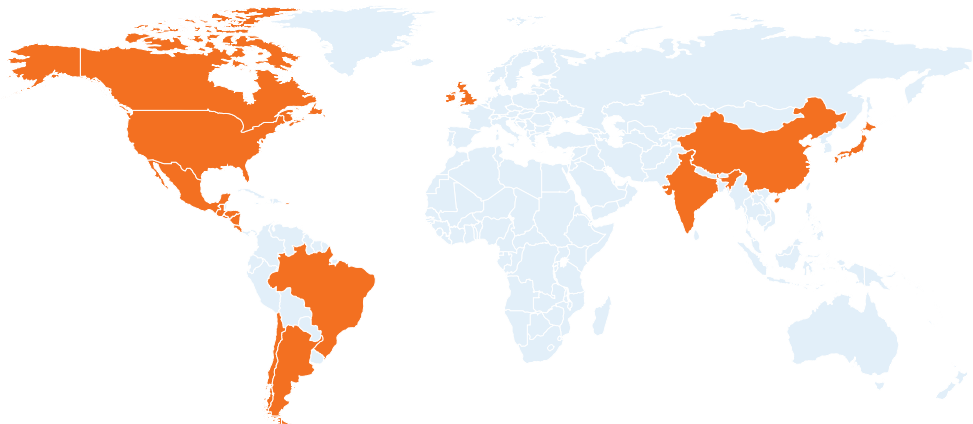
How does Walmart Latin America compare to other emerging market Walmart segments, for example in Asia or Eastern Europe?

To give you an idea, they are selling in the low US\$ 20 Billion We have disclosed, as a company, that our international sales are just above US\$ 100 Billion so Mexico itself is about 20% of the entire international sales. Then it's followed by Brazil, our second largest operation in the region. We are very pleased. I believe that we have achieved our goal in terms of growth and in terms of profit as a region. So I am happy that our teams in the region are doing a fine job in order to try and deliver what we are expecting from them. I can tell you that I am really pleased about those results. We have almost 3,000 stores in the region. We are a multi-format, very different from the way we are structured in the US. In the US what we have are basically the Walmart stores, we have the neighbourhood markets which is a small piece, and then we have the Sam's Club. In Latin America we have many banners of format, many local banners of format. As a matter of fact the local banners that we have in the region are much larger than the Walmart banners in terms of number of stores and in terms of sales. In Mexico our largest format is Bodega Aurrera. Bodega Aurrera is a format of what has developed in Mexico. It started developing in the early 70's and today is the

KEY FINANCIAL INDICATORS AS OF JANUARY 31, 2010

- Walmart U.S.: \$258.2 billion in net sales
- Sam's Club: \$46.7 billion in net sales
- Walmart International: \$100.1 billion in net sales
- Worldwide total: \$405 billion in net sales

TOTAL GLOBAL UNITS: 8,416



UNITS BY MARKET					
Argentina	43	El Salvador	77	Mexico	1,469
Brazil	434	Guatemala	164	Nicaragua	55
Canada	317	Honduras	53	Puerto Rico	56*
Chile	252	India	1	United Kingdom	371
China	279	Japan	371	U.S.	4,304
Costa Rica	170				

Unit count as of January 31, 2010
* Effective February 1, 2010, Walmart stores and Sam's Clubs in Puerto Rico became a part of their respective U.S. segments.

largest component of the Walmart of Mexico sales and profit. It's our biggest format and it's growing faster than any other one. If you take a look as well, in Latin America convenience is more important than in the US. So we are going after smaller stores, we are not building in Latin America the big boxes with the size that you see in the US, keeping in mind that most of our customers do not have cars. On the other hand as well, the public transportation is usually poor so convenience, or proximity I should say more than convenience, is more important in Latin America than in the US. So you will see our portfolio is very different than the portfolio we have in the US, the UK, Canada, or other countries.

Within Latin America how has the reception to Walmart been? Is it becoming a very recognizable name and brand?

I would say so. I believe that we are clearly a meaningful player in every market where we are. Our customer count continues to grow. The customers in Latin America are well receiving the value proposition that we have for them and they like what they are hearing from us. I am pleased to see the results of the progress of the name of the company. In some cases we are in transitions such as in Chile. Chile is a company that used to be D&S and recently the name has been changed to Walmart Chile a couple of months ago, but if you talk about Walmart in Chile, everybody is going to know they are talking about us. In terms of operating in Latin America, it's obviously working on a US template of the business.

Is there any difficulty in operating with the type of bureaucracy or red tape that you find in say Argentina or Brazil? Have there been any difficulties in setting up your operations?

There is no market in the world that is plain vanilla. And every country may have their own challenges and their own procedures and you have to fulfil a lot of requirements. This is a matter that clearly the authorities have the right to frame the circumstances under which we operate. I don't feel that in any country we are finding something that we cannot deal with, in other words, we are not finding any difficulties in order to expand our business. In some countries it's more difficult than others. We will continue expanding our footprint in Latin America. We will continue investing in Latin America because we believe that this is the right decision. I believe that all the Latin American countries have improved their economy. They have emerged from the financial crises faster than other regions and

countries. I would say the macro-economics in general for the Latin American countries are very strong. Because of that we are very encouraged to continue investing in Latin America.

In terms of online development, will Latin American Wal-marts begin online sales? Does that depend on the technological advancements within the country?

We are doing kind of a mix. We are doing both. Certainly a part of the retail business is moving through e-commerce. Multi-channeling is what the experts are now calling it. We have already started with that. We launched in Brazil a couple of years ago an e-commerce business and it's very well positioned. In Brazil we are very happy to see the results. Very quickly we are among the key players in Brazil in terms of e-commerce and recently we have launched as well in Mexico and Chile. So there is no doubt in our mind that e-commerce will be a key ingredient for our value proposition that we are working with our consumers. We know that our consumers are demanding to have e-commerce. We are using both the US platform and the local platform so we have a kind of combination and we are adjusting to the country needs. That is something that Walmart does very well, to adapt to the local market and to the local needs. We are not trying to set a solution that may not be appropriate for a particular market.

We know that our consumers are demanding to have e-commerce. We are using both the US platform and the local platform so we have a kind of combination and we are adjusting to the country needs.

What are Walmart's plans for 2011?

In Mexico, because we are a public company, we will be announcing our expansion plan very soon. The amount of investment that we are going to do this year in Latin America is unprecedented. We are going to invest more money than we have ever invested into the region and clearly Mexico and Brazil will be the countries that will be receiving more investment compared to the others. It doesn't mean that in relative terms we will not invest in the others. We will keep investing in Argentina, Chile and Central America. So basically our commitment of continued investment in Latin America is in our priorities.



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(Non Profit Enterprise and Self Sustainability)

Sustainability not Charity.



The for-profit capital market includes a rich variety of financing sources and instruments for capitalizing the various stages of enterprise development. Meanwhile, despite the tremendous diversity within the nonprofit sector, the nonprofit capital market relies predominantly on one single financing instrument, outside charity, for providing capital to organizations of various sizes, types, and stages of development. Many civil society organizations - particularly those smaller groups working for social change and development - remain highly vulnerable, underfunded, and unsustainable. Furthermore, they commonly lack the strategic, financial development necessary to create a sustainable, long-term plan for their company.

Founded in 1997 by social entrepreneurs Lee Davis and Nicole Etchart, NESsT works to solve critical social problems in emerging market countries by supporting social enterprises. NESsT has provided financial capital and business management support to over 2,600 social enterprises, transforming thousands of lives and demonstrating entrepreneurial and sustainable solutions to critical social problems. Although NESsT began in Eastern Europe, it expanded its reach shortly thereafter to include Peru, Argentina, Brazil, and Ecuador. They are now a global team of 50+ with operations and staff in 11 countries.

Given most philanthropic organizations' heavy dependence on charitable donations, specifically in the emerging market sector – NESsT started to develop new, sustainable ways to finance nonprofit organizations. Their idea was to create a new way to finance social impact by adapting some of the best practices of entrepreneurship and investment and fusing them with philanthropy to create what they call "venture philanthropy." NESsT considers itself to be the philanthropic equivalent of a venture capital or private equity firm, but focused on generating "social return on investment" rather than just financial return. They provide both financial capital and business development

training and mentoring to their portfolio of social enterprises to help them start up their business, or expand or improve an existing one. These social enterprises ultimately become more financially self-sustaining and generate a sustainable revenue stream to support the nonprofit that runs them. Oftentimes the social enterprise is directly related to the social mission of the nonprofit/charity/NGO that owns them (e.g., creating a business to employ people with physical or intellectual disabilities).

In regards to funding, NESsT is supported by private foundations and trusts in the USA and Europe, corporate foundations, family foundations and family offices, as well as Private Equity Shares donations. They also generate about 15-20% of their annual income from their own social enterprise (the NESsT Consulting arm), selling their services to paying clients. Examples include international foundations that hire them to work with their grantees and partners helping them to develop social enterprise activities.

NESsT basically “invests” in philanthropic capital in their portfolio of social enterprises; they support those organizations with time and advice; and ultimately seek to exit their investment by ensuring the social enterprise is able to stand on its own feet financially. They believe this approach is one of the best and smartest ways to invest in the long-term development of the social sector of the region.

NESsT works as a social enterprise catalyst worldwide in part through the following three priority initiatives:

- **NESsT Venture Fund:**
A philanthropic investment fund providing capacity-building & financing support to a portfolio of high-impact social enterprises in emerging markets.
- **NESsT University:**
Promotes accountability, innovation, leadership & professionalism in the social enterprise field worldwide through forums, workshops, trainings, internships, and publishing.
- **NESsT Consulting:**
Offers professional services in social enterprise development to clients worldwide, typically foundations, national and international organizations.



Aside from these initiatives, NESsT is actively involved in their Equity Shares Program (<http://www.privateequityshares.org/>). The program is designed to make philanthropic giving easy and effective for the private equity industry and to promote excellence in philanthropy within the private equity industry and beyond. NESsT adapts these market-based approaches to solving critical social needs in communities across Latin America, currently in Argentina, Brazil, Chile, Ecuador and Peru.

For example, in Brazil, NESsT is supporting AHIMSA, a nonprofit organization dedicated to building the technical and vocational capacity and ensuring the labor market insertion of people with multiple sensorial disabilities (deafness and blindness) who often live in isolation with little hope of working and leading independent lives. With support from NESsT, AHIMSA is launching a professional bakery that will employ this target group, and generate revenues to sustain its operations and provide additional services to other multiple sensorial communities. NESsT is supporting other similar social enterprises across Argentina, Brazil, Chile, Ecuador and Peru.

There are over 30 private equity firms involved in providing financial support to the work, volunteering on the investment committee or mentoring social enterprises in the NESsT portfolio. Many of the individuals representing these firms also serve on the NESsT business advisory network – helping to form an extensive community for growing social enterprises. Aside from the firms involved in this program, NESsT also has partnerships with private equity associations to promote venture philanthropy amongst private equity firms (e.g., EMPEA, LAVCA, ABVCAP, etc).

NESsT current projects in Latin America:

NESsT has just launched a tremendous public effort to expand their work in Latin America as was announced at a recent meeting of the Clinton Global Initiative in New York.

At the meeting, held on Sept 10th, 2010, NESsT announced its new US\$ 7.5 million portfolio supporting the development of social enterprises designed to improve the livelihood of over 2,000 artisans and small-scale producers in Latin America.

The NESsT Venture Fund has a Portfolio in Latin America called "Fondo Nido." After having received pre-feasibility study, feasibility study, and business plan development support during the early stage, NESsT Venture Fund (Fondo Nido) later-stage portfolio members receive an individually-tailored, multi-year venture financing and capacity-building package from NESsT to help start up or expand their social enterprise.

Here are some examples of organizations in four different LatAm regions, currently receiving later-stage support from the NESsT Venture Fund (Fondo Nido) to develop their social enterprises:



ECUADOR	
Quito Eterno (Quito, Ecuador)hts	
Promoting the arts, history and tradition of one of Latin America's richest cultures	
Social Mission:	Promote the arts, history and traditions of Quito using educational and theatrical tools, thereby contributing towards the development of a more diverse and integrated educational system that reflects Ecuador's cultural diversity.
Social Enterprise:	Social Enterprise: Quito Eterno offers a tour package called "Rutas de Leyendas Nocturnas" to individuals and businesses. Typical characters lead guided night tours to historical sites and promote the city's vast cultural diversity. This enterprise is also targeted at school groups and teachers during the day as part of the organization's social program, offering subsidized tours with exclusive insight into Quito's historical center.

PERU	
AGTR (Lima, Peru)hts	
Supporting skills development, labor and human rights	
Social Mission:	Defend the rights of domestic workers and prevent domestic child labor. Promote empowerment of domestic workers and increase their formal participation in the labor market through a network of supporters and allies from the public sector and civil society.
Social Enterprise:	Social Enterprise: AGTR operates an employment agency for domestic workers called "La Casa de Panchita". The agency provides integral training to domestic workers in all aspects, from cooking to child and elderly care. Upon completing the training program, the agency finds formal job placements with decent working conditions for the workers while generating income for the organization by charging a commission to the employer.

CHILE		ARGENTINA	
Fundación Templanza Ex Casa La Morada (Santiago, Chile)		Andar (Buenos Aires, Argentina)	
Fighting gender discrimination		Generating opportunities for people with disabilities	
Social Mission:	La Morada is dedicated to improving the lives of low-income Chilean women, reducing domestic violence and workplace discrimination and advocating public policies that benefit under-served women.	Social Mission:	Improve the quality of life of people with mental, sensory, or motor disabilities, generating increased opportunities for participation in their communities, strengthening their family ties and social inclusion.
Social Enterprise:	La Morada's Treatment Center makes therapy services accessible to low- and middle-income women by cross-subsidizing these services with therapy offered to higher-income clients.	Social Enterprise:	Social Enterprise: Andar Catering offers gourmet products, baked goods and catering services for business lunches, coffee breaks and receptions, among others. Through this activity, the organization brings in revenue that allows it to cover part of the bakery's costs while providing dignified work to its beneficiaries, thereby making a significant contribution to Andar's social mission.

NESsT Brazil Portfolio Organization – BemTV

NESsT is supporting BemTV in Rio de Janeiro to develop its social enterprise; a photography and video production company aimed at helping nonprofit organizations better communicate their programs and results. BemTV writes the educational content, trains and employs at-risk youth in the production, creating high-impact communications material while offering new opportunities to its beneficiaries.

Levantando Chile Fund - Trabajo Para Un Hermano Concepción

Through NESsT's Levantando Chile Fund, artisans like Ramón Espinoza, whose property was severely damaged by the 2010 earthquake, will receive funds to rebuild and to purchase tools. Other artisans, who have had no income since the earthquake, are receiving stipends to purchase supplies. NESsT is also helping find new markets for products outside the affected areas and to rebuild Manos del Bío Bío, which sells products made by the artisans. www.levantandochile.org

Additional Mention Worthy NESsT Initiatives:

RARAMP Peru – a program supporting rural social innovators in Peru:
<http://www.ramp-peru.org.pe/portal/>

Levantando Chile Fund - a program created post earthquake in Chile focused on supporting small/local producers to get back on their feet through social enterprise development: <http://www.levantandochile.org>

For more information on NESsT – please visit:
<http://www.nesst.org/>

Algodon Wine Estates



Though winemaking in Argentina dates back to the 16th century, the South American giant has only recently emerged as a genuine competitor at an international level. On the back of the astonishing commercial success of Malbec, the country's emblematic varietal, Argentina is now one of the hottest prospects in the global wine industry, winning over connoisseurs and casual consumers in equal measure.

The surge in popularity of Argentine wine has also put Mendoza, the country's wine stronghold at the foot of the Andes Mountains, on the map for tourists and investors alike. Known locally as the 'land of sun and good wine', Mendoza's dry climate and high altitude valleys create ideal conditions for vine cultivation, giving Argentine wine the intense, fruity flavours that have proved so popular among US consumers.

This idyllic location, attractive real estate prices, and a competitive exchange rate have stirred foreign interest in the vineyards that sprawl across the Andean foothills. Meanwhile, savvy entrepreneurs have seized the opportunity to develop a number of interesting new property ventures.

Algodon Wine Estates is one of several concept real estate developments in Mendoza that offer individual investors an easy way into the vineyard lifestyle. The premise is simple: Algodon's 2,050-acre estate is split into over 300 hundred private 'home sites', which are put up for sale individually. A parcel of land comes with the community's team of farm workers, oenologists, architects and accountants who help owners plan their personal vineyard and run the day-to-day operations.

The modest size of the individual lots—typically ranging from 1-5 acres—makes them more accessible to smaller investors, while the community aspect of the development keeps operational costs down.

As Scott Mathis, owner of Algodon Wine Estates, says "It gives people who love wine and who fancy being around a vineyard, the chance to buy something at a scale that they can buy into without risking their net worth or savings [...] to participate without the huge financial and physical burden of working a vineyard".

Aside from investment potential, it is the lifestyle that Mathis hopes will attract people to his wine community. The opportunity to build custom-designed villas means that owners can create a holiday home or permanent residence on the estate, living among the vines and drinking their own wine.

A unique feature of the Algodon project is the combination of wine with championship-standard sports facilities, including an 18-hole golf course, tennis center and polo fields. A 5-star hotel and spa is also under construction, opening the estate to tourists and potential investors. "People have to see the property first," explains Mathis, "once they do they get excited."

Algodon Wine Estates is a project developed by InvestProperty Group (IPG) and its parent company DPEC Partners, of which Mathis is founder and chairman. The company seeks out ground-floor investments for individual investors, with IPG specialising in real estate opportunities in Argentina. Aside from the Wine Estates in San Rafael, Mendoza, it also owns the Algodon Mansion, a luxury boutique hotel and restaurant in an upscale neighbourhood of Buenos Aires.



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Steering Clear of Potholes

Brazil has committed to billions of dollars worth of infrastructure investments in preparation for the 2014 World Cup and the 2016 Olympic Games. The opportunities for foreign suppliers, contractors and investors are considerable. So, too, are the risks of fraud.



Traveling by air, land or sea in Brazil can be a feat of epic proportions. The Federation of International Football Association's (FIFA) Secretary General told the country's authorities that airport facilities and connections between host cities are the Federation's greatest concerns for the 2014 World Cup. The apprehension is well-founded: although the World Economic Forum's Travel & Tourism Competitiveness Report 2009 ranked Brazil 45th out of 133 countries overall, its airport infrastructure was rated 101st.

The country is also home to some of the world's worst automobile traffic: São Paulo, the largest city, regularly endures traffic jams of over 100 miles long – the longest was 165 miles. The city puts the annual cost of the traffic at \$2.3 billion. The ports are choked with lines of ships, as well. Bloomberg News reports that trucks delivering sugar wait up to 40 hours to unload their cargo onto vessels.

Brazil must address these problems in order to sustain current levels of economic growth. Of more immediate urgency, however, is the need to be ready for the inundation of tourists expected for the World Cup in 2014 and the Olympics in 2016. In its application to host the latter, for example, Brazil committed to spend \$1.1 billion on upgrades to Rio de Janeiro's suburban railway, \$1.5 billion on projects to expand and connect pre-existing bus rapid transit systems, and \$1.2 billion for metro line extensions. In addition, \$80 million is earmarked for airport upgrades to renew and add terminals and runways, and to expand parking facilities in order to accommodate 25 million passengers annually by 2014.

Whatever its immediate cause, such infrastructure investment will clearly provide long-term benefits for the country's population and significant opportunities for investors and companies alike. Investors and project planners, however, must take into account the prevalence and history of fraud that has long tainted this industry in Brazil. The latest Global Fraud Survey, produced by the Economist Intelligence Unit, suggests this trend continues, having found that 83% of Brazilian companies believe that their exposure to fraud has increased over the last 12 months. The survey also revealed that 27% of Brazilian companies indicated that they had been the victim of vendor, supplier, or procurement fraud during that time. In the coming wave of investment, the planning, organization, and management of these projects will be critical to determining whether they will be successes or costly failures beset by fraud.

Two cautionary tales

For years, transportation infrastructure projects in Brazil have been rife with fraud and the problem shows no sign of abating.

As recently as August 5, 2010, arrest warrants were executed for 28 individuals accused of rigging bids and diverting funds related to several transportation infrastructure projects in Brazil. Losses are estimated to be nearly \$2.9 million and the accused range from government administrators and officials to owners and employees of the companies contracted to perform the work. They face a wide range of charges, from corruption, embezzlement, and money laundering to forgery, conspiracy, and other criminal violations of Brazilian bidding laws.

Another recent example of fraud in the sector came to light in September 2009 when a whole host of individuals, companies and other entities that provide or manage services related to the air travel industry were investigated for allegedly rigging online auctions and forming a cartel that served to exclude potential competitors from the market. Of the 305 companies authorized to participate in bids, only 16 actually registered.

The fraud, estimated to have reached more than \$286 million, was one of the largest of its kind in recent Brazilian history.

The ways in which fraud in the industry has been perpetrated are seemingly endless: overbilling, overpayments, use of ghost employees, use of materials of inferior quality, attesting to work that has not actually been completed, forewarnings about upcoming audits, altering or concealing documents. Given the widespread presence of fraud, the risks inherent in participating in infrastructure projects can outweigh the benefits. In most cases, these projects involve government officials or entities in some capacity. Conse-

quently, if your company has any significant link to the United States or the United Kingdom, the far-reaching provisions of the Foreign Corrupt Practices Act (FCPA) or UK Bribery Act could lead to crippling costs, including penalties, disgorgement of profits, and mandatory monitoring. Moreover, Brazilian authorities can separately impose their own hefty fines and initiate criminal and civil litigation. Finally, conviction for fraud, or even investigation, can result in reputational damage which, while difficult to quantify, will certainly leave a long-lasting scar on any company or individual involved.

Be prepared

For companies seeking to exploit upcoming investment opportunities there are several ways to build up a layer of protection against fraud. The first step is to evaluate the transparency and fairness of the bidding process carefully. Some of the key questions that should be asked include: Have the details of the process been clearly communicated? Is an independent committee or person presiding over the process? What criteria will be used

The latest Global Fraud Survey, produced by the Economist Intelligence Unit, suggests this trend continues, having found that 83% of Brazilian companies believe that their exposure to fraud has increased over the last 12 months.

to qualify or disqualify bidders? Are these criteria fair or tailored to disqualify all but a select few companies? Are they reasonably related to the necessities of the present project? What factors will be considered in selecting the winner? All of these questions should be answered to the company's satisfaction before it submits a bid.

The second step for a business is to conduct background checks on its own employees and on those companies which it will engage. This is especially important when subcontracting local workers and businesses. A thorough background check can provide clearer details of their qualifications and prior experience, how they are perceived by their competitors and clients, and whether they have previously been involved in fraudulent projects or have otherwise been the subject of a fraud investigation.

Competitive market intelligence is an additional weapon in the investor's arsenal. Fundamental questions to consider in this analysis include: Are competitors able to sell their services and products at abnormally low prices? If yes, is there a legitimate reason or is the real explanation that fraudulent methods are being employed, such as the use of substandard or counterfeit

materials and products? Is there a cartel or similar organization in place that is preventing other companies from entering the market in general or a particular bidding process? Is it possible other relationships exist between competitors that would constitute unfair competition?

Safeguards against possible fraud and exposure to corruption during the project's execution are equally important. It is essential that corporate executives be aware of local and international laws, regulations, and industry standards, particularly when doing business in new jurisdictions. These must therefore be researched and resultant actions and policies clearly communicated and enforced through appropriate training and periodic monitoring of the work underway. Additionally, audits of, for example, purchase orders, invoices and payroll information will provide information that can raise red flags.

Brazil's need for transportation infrastructure is great, and the government's commitment to investment and to the industry is clear. Those wishing to take advantage of this tremendous opportunity, however, need to put in place protection against high levels of fraud.

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Certainty in Uncertain Times: Investing in Life Settlements

■ By J. Mark Goode

Growth Opportunity for Latin American

Mutual funds and alternative asset funds around the world have the shared experience of volatility and downward fluctuations during the past few years. Investors have lost confidence in fund performance and their redemptions are putting greater pressure on asset managers to deliver a return. At this moment there is a substantial flight of investment from mutual funds and the equities markets. Many investors today are looking for non-correlated investments that, with greater certainty and less sensitivity to market turmoil, still offer potential for growth.

Despite today's turbulent market conditions, a high-yield investment opportunity exists within life settlements, a non-correlated alternative asset class. Presently, the US life settlement market is out of balance creating a "buyer's market" to the benefit of investors. With heightened senior insurance consumer awareness and a record number of seniors needing to monetize their permanent life insurance contracts, there is an abundance of suitable investment grade policies being offered for purchase. A record number of quality senior policies have entered the market at a time when there is limited capital available for purchase. These conditions of a robust supply of senior policies combined with a limited supply of capital are producing record discounts in purchase price that will deliver exceptional value and returns for investors.

The US life settlement industry has now completed a decade of activity. The market growth has been attributed to the exceptional value creation for senior insurance consumers and fueled by substantial capital from both European and American investors. Industry sources estimate that the life settlement market has grown from a de minimis amount in 1999 to a forecasted

annual market of US\$9 billion in 2010. Specifically, a Conning & Co. report published in 2009 estimated that approximately US\$12 billion worth of life insurance policies (based on face value) were settled in 2008. The aggregation of more recent figures from both Conning and Cantor Fitzgerald suggest that \$60 billion in US life settlements have been transacted in the past decade.

The structure of a life settlement product offers unique security and benefits to the Latin American investor market. The investment products are life insurance contracts denominated in US dollars. Each of these life policies is backed by the statutory reserves of "A" rated US life insurance companies. Never in the history of the highly regulated US life insurance industry have life carriers failed to pay a claim on a valid insurance contract. The obligation of a US life carrier to pay claims is ahead of any of the life insurance company's financial obligation to bond holders, creditors or shareholders. The majority of life settlement funds are domiciled off-shore in jurisdictions that include Ireland, Bahamas, Cayman and Luxemburg. These offshore fund structures may provide potential tax advantages to Latin American investors.

The strength of a life settlement asset within any portfolio comes from its risk-return ratio. Unlike other assets that are dependent upon market fluctuations to produce returns, life settlement products provide consistent and stable returns. The decreased volatility within a fund of life settlements can help to yield a more consistent rate of return. The diversification of a portfolio of life settlement assets further decreases longevity risk and reduces statistical fluctuation. A life settlement fund has little market correlated risk and is able to provide a steady return at a rate higher than corporate bonds. From a risk-return

perspective, with opportunistic returns available in the mid to high teens, there has never been a more favorable time to invest in the US life settlement market.

The maturity that occurred during the first ten years of the industry is evidenced in a well regulated and more transparent and efficient market. This maturity has helped to mitigate the early entry and developmental risks as the industry has defined best practices and standardized its operations. Comprehensive regulation and oversight have been enacted on a nationwide basis.

In addition, the independent medical underwriters that serve our market are better able to quantify mortality risk. On a combined basis, the largest and most respected life expectancy providers have completed nearly one million individual life expectancy projections during the last decade. Based upon their considerable data and experience, mortality tables have been updated, processes have been improved and methodologies have been enhanced. The result has been more conservative medical underwriting which has resulted in longer life expectancies.

On average, life expectancies issued by independent underwriters have been 20% longer since they made their adjustments

in late 2008. Today's longer life expectancies benefit investors with, what we believe to be, more reliable mortality predictions, as well as a lower ultimate purchase price for life policies.

Life settlement investment products provide lower volatility and predication returns in good markets or bad. A portfolio of life settlements can be a standalone fund or be a diversified investment within a pool of different assets. As an investment in a larger fund life settlement acts to stabilize returns and decrease risk, helping to provide asset managers greater "certainty in uncertain times".



About the Author

Mark Goode is CEO of The Peninsula Group, LLC, a Washington DC-based holding company serving both the emerging senior life insurance settlement and the life premium finance markets. He can be contacted at jmg@peninsulagroupllc.com. The Peninsula Group managers are experts in longevity investing. Organized in 2003, Peninsula continues to offer unique and transparent investment products that can meet intermediate or long-term investment goals with performance that is unaffected by market volatility.



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Beyond Certainty

■ By Daniel Melhem

Ever since the collapse of the economy in December of 2001, life has been dull for both local and international Private Equity and Real Estate firms, as well as for Investment Banks doing business in Argentina. Long gone are the days of the roaring 1990s, when large amounts of capital from Europe, Japan and the United States found their way into Argentina in a wake of privatizations and open market policies, dubbed by John Williamson the “Washington Consensus”, that sprung a great deal of M&A and private equity activity.

Today, South America’s second largest economy, and the bearer of both abundant natural resources and human capital, has been, for much of the past decade, merely forgotten. For those firms that used to drive on institutional capital and foreign investors, they look at markets such as Brazil, Chile, Colombia, and Peru with a deep feeling of nostalgia.

So what has happened since 2001 and why has Argentina not been able to attract as much capital as other markets?

When Argentina suffered its worst economic crisis in its history, most international private equity and real estate firms quickly sold their assets, at cents on the dollar, and left, refocusing



their efforts elsewhere. This was not only the case of Hines, the Houston-based real estate investment firm that closed its doors in Buenos Aires, but also Morgan Stanley, ING Real Estate, Tishman Speyer, and many others. Even local firms such as Southern Cross capped their exposure to Argentina and diversified their investments into Chile, Mexico and Brazil. For a country with a long track record of political and economic turmoil, this latest implosion and inevitable default seemed to many as the “last nail,” and darkened the decade with the smoke of burning tires, set ablaze by their own clients at the doorsteps of every major financial institution—demanding their deposits. Since then, much has happened in Argentina and in the investment world at large, but it may very well be the time to look back again towards Argentina, and particularly into certain sectors.

After all, Argentina did not completely vanish as many had predicted. Though its GDP fell by -10.5% in 2002, it recovered rapidly and ended the decade with an average growth rate of 4.5%. A few sharp private equity investors saw value in Argentina early on and invested between 2002 and 2004. One of them was George Soros, who, together with a local group, entered into the relatively new asset class of Agribusiness by acquiring \$130 million dollars worth of farmland assets, which is known today as Adecoagro, a leading food production company. It was a no-brainer: acquire some of the best quality farmland in the world (at a discount) that produces not one, but two crops during one year (generating on average 10% income) with production costs devalued at a new currency exchange by ¾, and finally have an end product that is then exported in US dollars—with an increasing demand from India and China. Still, very few international investors capitalized on this opportunity. Farmland prices more than doubled between 2002 and 2006. Even so, in my view the sector will continue to benefit in the coming years from the far-reaching demand for food from Asia, Africa and the Middle East, and few countries are in a better position, as far as food production is concerned, to benefit from than Argentina. In fact, I will argue that Argentina (along with Brazil) is second to none. For one thing, the country produces all major grains, oilseed, meats and dairy products, as well as most fruits and sugar.

Furthermore, the country does not limit foreign ownership of farmland, which is now the case with Brazil, Russia and Ukraine. For many years, the food sector has been one of the driving forces in the economy. Thus, Argentina has developed a “clustered” food industry (know-how, technology, non-till farming practices, infrastructure, transportation and experienced labor) where production costs these days are more competitive than those of Brazil, whose labor and

transportation costs are more expensive, and infrastructure, especially in states of Mato Grosso, Tocantins, and Bahia, is still not as developed as it should be. Over the past years, there have been a number of acquisitions and some consolidation in the industry, but we expect much more to come. In 2007 the Brazilian beef giant, Marfrig Group, acquired Quickfoods, a large meat processing company, for over \$260 million. But we see further opportunities in poultry, beef, dairy, and certainly among agricultural products and sugar. While most Middle East Sovereign Wealth Funds are looking very closely at this sector, driven by the need to secure food for their own countries and for the MENASA region at large, few deals have actually been conducted. (To my knowledge, only Qatar Investment Authority has made any investments thus far.)

Demand for energy will only continue to increase over the next decades—so will the oil price; and in particular the world will all of a sudden experience a strong demand for renewable energy.

Additionally, I continue to remain optimistic about the Renewable Energy sector, where Argentina has found new horizons from its deep roots in the agricultural sector. Energy insiders such as Lord Browne, the former Chairman of BP, recognizes this. During a recent conversation with him in London, he mentioned that he was impressed by the competitiveness of Argentina in the renewable energy sector and added that, “the country has superb infrastructure and

access to ports.” His firm, Riverstone Holdings, has invested in Patagonia BioEnergia S.A., a plant that produces over 250,000 tons of biodiesel mainly from soybean oil. Demand for energy will only continue to increase over the next decades—so will the oil price; and in particular the world will all of a sudden experience a strong demand for renewable energy. During the 1970s the Brazilian government made the decision to become self-sufficient in both food and energy. Today over 90% of the cars manufacture in that country, the 6th largest in the world, use flexible-fuel technology—engines can run with either gasoline or ethanol. If the demand for ethanol and biodiesel strengthens due to new regulations, few countries will be able to produce vast quantities of sugarcane, oilseeds or corn. When we take a look at soybean production, for example, we see a clear picture—only three countries produce over 82% of the world’s output: the United States, Brazil and Argentina.

For long-term Real Estate investors it may be time to look back at the commercial real estate market—both office and retail. When we compare current, per square meter, prices in Argentina with two of its neighboring countries, Chile and Brazil, we see a significant price gap, between 30-60%. Furthermore, conventional wisdom argues that real estate is a hedge against inflation, and in a country with a real inflation rate of 27% in 2010 (official data from the INDEC was 12% for the same period); real estate prices will continue to be driven upwards not only by inflationary pressures, but also from a lack of available office space, steady demand, and the impending rise of rental prices.

In a country that offers both positive and negative surprises, an additional advantage is that commercial lease contracts are made in US dollars—hedging the currency exposure, since you both buy and rent in dollars.

There is no question that government policy, more than any other factor, has impaired the true potential of Argentina, especially

during the past decade. Yes, the default in 2001 was dramatic, but so was the recovery. Yes, the nationalization of the pension fund system was an absurdity—it constrained local capital markets by putting those funds into the hands of a wasteful government. Hopefully this law will be overturned by a future administration. And yes, Argentina still offers both true value as well as growth opportunities for those willing to risk capital.

Daniel Melhem
Knightsbridge Partners, Partner

Daniel is a Partner of Knightsbridge Partners. An Investment Management firm based in South America. Prior to forming this firm; Daniel headed Morgan Stanley's Private Wealth Management, Latin America Southern Cone team. He began his career at Lehman Brothers as a financial analyst, moving on to manage portfolios and advising ultra-high net worth individuals from Brazil, Argentina, Chile, Ecuador and Spain, as well as servicing several financial institutions within the region. Daniel received a BS in Economics and International Business along with the faculty's Economics Achievement Award from Babson College. He is President of the local Babson Alumni Club and serves as a Director for two foundations.

In 2008, he was bestowed an Honorary Membership from the World President Organization. In 2010, Daniel co-founded the Gulf Latin America Leaders Council (GLLC), a non-profit, non-political organization which aims at "bridging the gap" between the GCC and Latin America. Its Members are some of the most influential families and span from more than 21 countries. The GLLC also advises governments on economic development and investments.



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Emerging markets vulnerable to rising inflation

■ By Bernard Lapointe

■ Flows into Latin American stock markets disappoint in 2010

Inflows into Latin American stocks decreased substantially in 2010 compared to 2009 (see Table 1). In fact the region attracted less money than all others, even Emerging Europe, Middle East and Africa (EMEA). Asia ex Japan remained the favorite region globally while country-wise Japan took first place. In the US, flows stabilized after massive withdrawals in 2009. The Greek and Irish financial crisis took a toll on flows in developed Europe, negative over US\$10 billion for the year.

Table 1.

Flows into equities US\$, million	2010	2009	Change 2010 versus 2009
Asia ex Japan	78,896	74,405	+4,491
Japan	37,887	5,803	+32,084
India	34,196	21,755	+12,441
South Korea	22,670	28,661	-5,991
China + Hong Kong	12,547	13,138	-591
Taiwan	9,456	16,052	-6,596
EMEA	6,146	2,135	+4,009
Latin America	2,339	9,018	-6,679
US	-9,545	-59,110	+49,565
Developed Europe	-10,088	2,832	-12,920

Source: Bloomberg, EFPR Global

Note: Data as of 17 Dec. 2010, EMEA (Europe Middle East Africa)

How can we explain the 'poor' interest by investors for Latin American equities in 2010? The answer seems to be coming from the weakness in the performance of the Brazilian market. Among BRIC countries (Brazil, Russia, India, China), the country's stock market returns for 2010 are pretty dismal at +4%. Only China does worse (+3%) while India (+19%) and Russia (+17%) lead the group. In fact the main Brazilian Index, the Bovespa, is still almost 5% below its 2007-08 high while Chile, Colombia and Mexico have passed those 2007-08 levels. In 2010 Latin America's largest market did not do justice to the region as returns elsewhere were extremely good, especially in Argentina (see table 2).

Table 2.

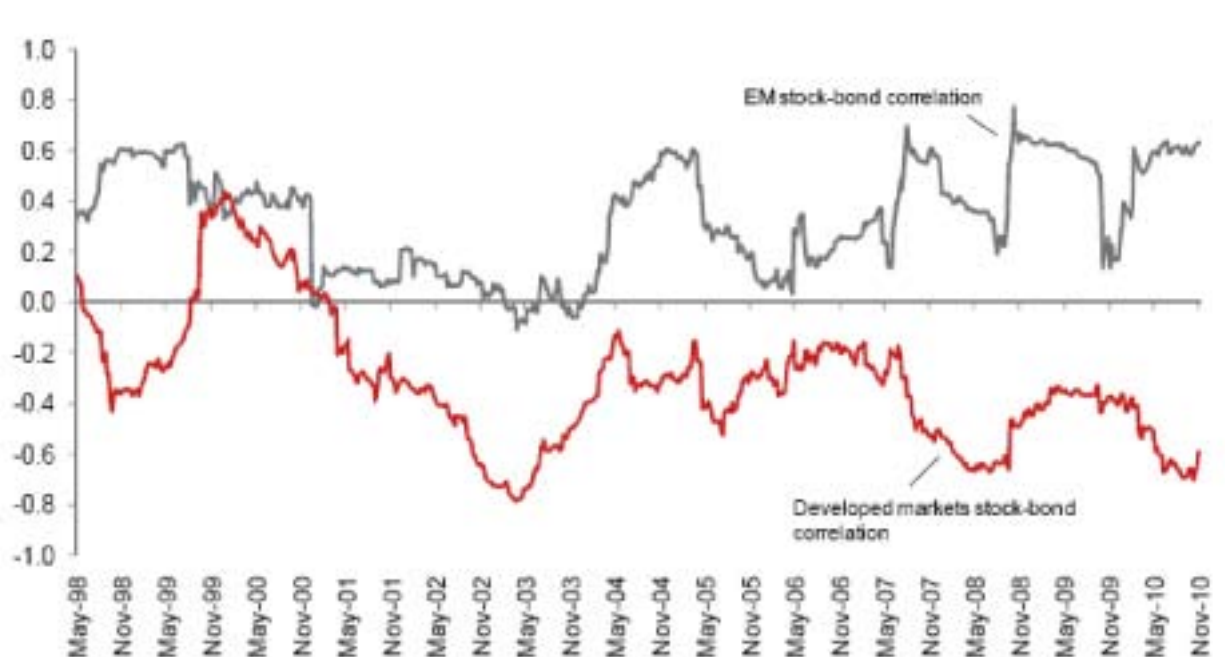
MSCI Index performance US\$	2010
Argentina	+70%
Peru	+49
Chile	+42
Colombia	+41
Mexico	+26
Brazil	+4

Source: MSCI Barra

What can we expect in 2011?

The risks associated with investing in emerging markets have risen. Higher inflation, for example oil prices at \$90/bbl and grain prices at record high, will inevitably lead to higher nominal interest rates or at least more upward pressure on short term interest rates. If this is the case, emerging markets equities will be vulnerable as there has been a persistent positive correlation between equity and bond returns in emerging markets (see top panel of Graph 1). If bond prices drop as a result of higher inflationary expectations or short-term rate hikes by central banks, emerging stock markets will start trending lower. The obvious reason is that asset allocators, most of them located in developed economies, tend to treat emerging markets exposure, whether being via bonds or equities as complementary.

Graph 1.



Source: Nomura

In Latin America, inflation, in particular is already creeping higher and the region is forecasted to see prices rise around 7-8% year over year in 2011. This is higher than in all other regions and signals that central banks will be moving to try to curb accelerating inflation.

Past episodes of high inflows into emerging markets have been followed by relatively poor performance of equities. Since it appears that recent flows have been predominantly driven by institutional investors, benchmark readjustment is probably done.

For investors that need to be invested, we believe that the best performing stock market in Latin America in 2011 will be Brazil because the underperformance is overdone. Otherwise we would stay light on emerging market stocks.

Bernard Lapointe is the managing director at ArgonautGlobal Capital, a capital advisory firm with a special focus on India and China.

Mr. Lapointe spent ten years with Societe d'Analyses Economiques et Financieres, a French-based investment advisor, acting as global equities portfolio manager and co-chief of strategy. Prior to that he was with Bank of America (New York) as an Asian equity trader and Optimum Gestion (Montreal) as an international equities portfolio manager. He has managed portfolios and traded in equities, currencies and commodities on the world's major exchanges since 1994.

Mr. Lapointe holds a Master's degree in Economics from the University of British Columbia. He speaks French and Mandarin. Apart from his activities in the financial world, he teaches martial arts.

Latin American Currency outlook

Q1

■ By Kevin Sollitt

With the new calendar year of 2011 now underway, traditional expectations of optimism are becoming entrenched and supported at a relatively early stage, in many cases becoming further emboldened on a daily basis by factors that include the continuance of low interest rates in major economies thereby fostering a global stock market rally that has bounced significantly over the past quarter with many markets returning to 2008's pre-crash levels, the return of confidence in certain regions causing higher interest rates to choke off inflation and last but not least the somewhat quaint notion that global banking & Eurozone troubles are now firmly behind us.

All this bullish news is only slightly tempered by a miniscule fall in commodity values although it has to be said that in market parlance 'the trend is your friend' in this asset class and a collective and apparently insatiable appetite for soft and hard commodities amid uncertain supply chains continues unabated in established and emerging markets alike.

So full steam ahead and nothing to worry about, right?

Let's at least hope so, but we would be doing readers and ourselves a tremendous disservice if we didn't at least raise some issues that might come home to roost and rock the boat a little as the year unfolds.

■ USA

As we go to press, U.S. President Obama just delivered the annual State of The Union address to the nation. Of course it's too early to say just how markets will react to the facts, wishes, nuances and as yet hidden messages within the text* but suffice to say for now that the U.S. Administration seems open to the idea of a bipartisan government collaboration with priorities on domestic job creation and sustenance thereof, international cooperation with its trading partners, a push towards a meaningful effort to fix the deficit within 5 years by curbing government spending, all underlined by a basic suggestion that we're in this together, a theme that this column spoke to in one of our last issues of 2010.

*Link: <http://www.whitehouse.gov/photos-and-video/video/2011/01/24/inside-white-house-state-union>

Despite apparent woes of the USD evidenced by the strength of a rebounding EUR from 1.19 to 1.37 and commodity Dollars of AUD & CAD at parity, coupled with reports citing 100 major cities in the U.S. are approaching insolvency, we do not think these will ultimately be causes for great concern as far as currency valuation. America has had and will likely to continue to have a handy knack of successfully reinventing itself and if the current loose monetary policy can be further maintained for the foreseeable future without more QE we would expect the current economic bounce to continue and allow expansion to be the light of growth that leads the country and the USD back to respective stronger footings. Sure it may take years but politicians now seem committed to policies and to be fair at least they have some ideas, which is perhaps more than can be said for the Eurozone that seems to be getting by more on luck than judgment these days, proverbially kicking the can down the street, looking for that elusive and perhaps imaginary goal in the hope that something good will turn up. With Japan and the Swiss National Bank lurking in the wings due to heavy appreciation of Yen and Swiss Francs, we would not be surprised to see the USD additionally bolstered by some kind of intervention this year.

■ EU

Given events of the past 12 months and also looking ahead, we find it hard to believe in the continuance of the Eurozone having a currency worth almost 40 percent more than the Dollar especially with the various unknowns surrounding that fragile marriage of economic and political wills. Admittedly the uncertainties over Fed QE last spring with the EUR/USD rebounding

from 1.19 seemed fair, but with almost frighteningly and inevitable regularity, one problem after another just keeps surfacing to bring into question the future true value of the Euro. It's almost a year since markets grappled with the Greek crisis and since then we have witnessed actual or expected downgrades of other member states such as Spain, Ireland and Portugal. As recently as December 2010, German Finance Minister Schaeuble was reported as citing the increasing 'risk' of an anti-euro political party arising, urging other officials to take the threat seriously. As an EU Finance Minister it's a natural fulfillment of duties to defend the troubled single currency but the point is that problems do exist and these have, to a large extent, gone seemingly unrecognized or unpunished by the markets so far and the greater risk may simply be to continue on the current path. Encapsulating the theme and potential issues of political will coupled with broad monetary policy requirements is a reported remark from ECB Executive Board Member Juergen Stark last weekend: Stark apparently said that the Eurozone's latest rescue fund could recapitalize banks or buy government bonds, with Europe discussing ways to bolster its European Financial Stability Facility (EFSF), which has a headline value of 440 billion euros (\$595 billion) but an effective lending capacity estimated at just 225 billion euros because of the need to secure a triple-A credit rating. Tellingly, Stark said that any such decision would have to be decided at the political level, the contrast between the deft actions of the Fed and the potential for EU policy makers to succumb to 'analysis paralysis' is clear. If the EFSF is a flop, as far as a downside catalyst for EUR we think that the ECB may yet be forced to embark on its own version of QE and of course if this transpires we expect a test towards parity to the USD.



competitors on the global stage, collectively reflected by higher currency valuations & coupled with a much rosier and optimistic outlook than has been seen for decades.

Ever-improving and increasing domestic demand are two main reasons for heightened economic progress with governments beginning to make more noise about providing wider access to quality public services and jobs, two factors that will be seen as crucial to continue moving people up the social ladder.

As regular readers know, for some time now we have been bullish on Latin America with particular weight on the Brazilian economy. As far as recent moves in the currency (BRL), the government's steps of doubling taxes it charges to foreigners on bond purchases definitely took the wind out of the BRL's sails. Ultimately though the trend remains firmly intact and this intervention has really only served to give the markets cause for pause as the undeniable and almost unstoppable strength of the Real continues. After a swift fall from around 1.62 to the 1.70 region at the end of 2010 the BRL is currently trading back in the mid 1.60s, not far from where it had been prior to the introduction of taxes designed to dissuade foreign investors thereby alleviating demand for currency.

Brazil's new government is being proactive in other areas and perhaps prompted by what some commentators see as a potentially escalating currency war, is reportedly preparing to challenge U.S. ethanol aid and EU beef import barriers in the World Trade Organization, according to industry and government sources.

The Brazilian government is also set to expand anti-dumping barriers to several Asian countries allegedly being used by China as a front for exports to Brazil, another official said. These undertakings clearly signal President Rousseff's intentions to

CHINA

President Hu was in the US this week, coincidentally just as the USD/CNY exchange rate made a new (price) low for the year at the fixing. China has indicated its willingness to allow further Yuan appreciation, albeit mostly on its own terms. This is not a fight the US wants to pick at this fragile stage of its recovery and of course China has its own problems with soaring domestic inflation to worry about. In a testament to global cooperation, General Motors announced this week that it sold more cars in China last month than it did in its homeland, also a nod to American diversity and an uncanny ability, for want of a better phrase, to reinvent the wheel.

China had announced the need for continued diversification of its \$2.85 trillion of foreign exchange reserves & also confirmed it has no interest or desire to withdraw from participation as a buyer of US Treasury paper. The game goes on.

LATAM

The region has fared better than markets expected and also outperformed many of its more established neighbors and

preserve the nation's trade balance, fast being eroded by the positive momentum of the Real, appreciating against the dollar by around 40% in the last three years. Estimates say the trade surplus will fall to around \$7 billion this year and \$4.5 billion in 2012 from around \$20 billion last year, which then already stood at its lowest in almost a decade..

That said, Brazil is and will likely remain the largest national economy in the region and some forecasters suspect that Brazil may increase in size to become one of the top five economies of the world in coming years. This notion is given credence by huge agricultural mining manufacturing and service sectors and associated large available labour pools, which could arguably be motivated to continue recent successes. The government speaks about more innovative social policies to become effective in reversing inequality and social decline, encouraging prosperity and shared results so in a nutshell we see the Real continuing its ascent albeit at a slower pace.

Chile's economy is also very commercially oriented and geared heavily towards foreign trade so it's probably fair to say that Chile's currency might also be a natural beneficiary of the recently announced step up in global collaborations by the US and also China, among others. As recently as January 23, Chile's CB Chief Jose De Gregorio expressed worries about rising inflation and that rates may need to rise sooner than later. Chile has also said that it plans no forex controls at this time. The CLP is firmer on all this news with the Dollar slumping from 540 to 465 from mid 2010 until mid January, closing at around 490 as we go to print most likely due to market expectations of imminently higher interest rates. With continued global demand for its commodities such as copper, wine, fruit and fish the CLP may well outperform other more established currencies and at 490 to the Dollar currently we see room for a retest of the 450 region especially with food price inflation forcing the CBS to raise rates.

The problem with this scenario might be the possible yet natural side effect of the prospect that exporters will be hurt by passing on costs acquired such as higher borrowing charges. In addition, the discovery of high yields by hot money in emerging economies' interest rates ironically attracts funds to the source,

further exacerbating the problem as local currencies soar in value due to external demand, damaging exporters.

In the big picture we think food price inflation is going to be a real issue going forward and although pessimism is not on the menu, a large dose of reality might need to be served. For example, in Latin American nations, collective food spending accounts for around 20% of total household average outgoings, hence its heavy CPI weighting and close monitoring by the monetary authorities in these regions. We also note that while Peru has already raised interest rates, annual inflation is also up in Brazil, Argentina and Mexico.

These problems exist in many countries, with particular reference to the UK, the US and even China, in that latent or rising inflation is becoming entrenched. Debt chiefs in these nations have always had half an eye on the effect on monetary policy on their exchange rates and it's a fair bet that monetary policy seems to rule the day at the expense of the currency. Witness the decline in buying power of the British pound and the American dollar over the past few years as interest rate policies have subordinated exchange rate concerns.

In summary we think another bullish year ahead for LatAm currencies with an initial theme along the lines as discussed here, namely that higher interest rates naturally support the currencies, further bolstered by uncertainty in other parts of the world and underpinned by that most basic need of humankind around the world - the necessity to eat as nutritiously as possible and, for most, as cost consciously as possible.

People talk about gold being the ultimate investment, but here's a thought: In the same way that North America could be somewhat self sufficient, it is not inconceivable that a paradigm shift in global food supply could take place over the next few years as wealth is redistributed by soft commodities versus traditional methods of hard commodities like gold or platinum or cash, which, like the prospect of higher interest rates, would definitely attract interest and investment to the respective sources. All that without mentioning oil riches, until now.

Good luck and good fortune with your FX participation in 2011.

Kevin Sollitt is a Forex professional actively involved in markets since the 1980s, continuously building international experience in financial centers that include Europe, North America and Asia. London career began at a major Australian bank, later transferred to Sydney. He completed two stints at Japanese banks on return to London, subsequently moving to the United States in 1998. Spent 10 years at a super-regional bank, eventually managing the FX Trading sector. Market longevity is due to an entrepreneurial approach & willingness to provide innovative strategies alongside development of professional relationships. An appreciation of market dynamics is tied with a grasp of technology and the interplay between fundamental and technical aspects of FX. Feel free to contact the author for feedback & discussions: kevinsollitt@greatlakesforex.com



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