

Precious Things *in Peru*

Mining
Venture Capital

Hedge
Argentina

Emerging
Paraguay

Brazilian
Private Equity Checklist

Investing
in Mexican Agave

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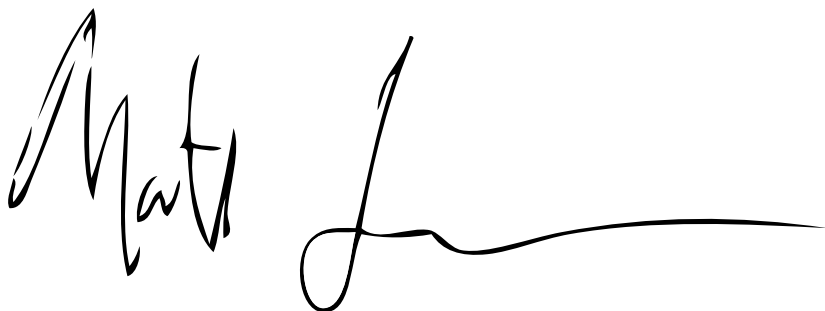
Letter from the Editor

It has been just over a year since the effects of the world's economic downturn were universally felt. There are now signs of recovery, whether to the degree Brazilian President Lula contends or not has yet to be determined, but signs never the less.

The storm has taken its toll on many investment sectors, with alternative asset classes and hedge funds in particular being hard hit. Nevertheless, the widespread hope is that we have seen the worst of it and the mind-set of most investors has now shifted from surviving the crisis to climbing out of it.

For those survivors still standing it is time to regroup and rebuild. We feel it is our duty at Alternative Latin Investor to provide this sector with information to help investment professionals and investors find the best new opportunities. In addition we have created a platform for professionals to share their experiences over the last year to both gain some perspective and receive feedback from colleagues.

Keeping with the theme of rebuilding, we have attempted to shed light on some of the unique investment opportunities that are abundant in Latin America but lack exposure. From "Everything You Need to Know about Brazilian Private Equity" to "Mexican Agave Opportunities," we continue to bring our readers the most up-to-date and unparalleled alternative investment news.



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Hedge Argentina

While the majority of hedge funds in the region have their operations located in the Brazilian cities of Sao Paulo or Rio de Janeiro, Argentina, despite the political and economic uncertainty that continues to affect the country, has attracted its share of funds as well. Almost all funds located in the country are headquartered in Buenos Aires, and use their base in Argentina as an advantage pertaining to investments in the country.

The Argentine market presents significant opportunity for those hedge funds looking to examine: 1) Distressed opportunities in the corporate debt space; 2) Equities that trade at the lowest valuation in the region; 3) Sovereign debt in the local and international market. Argentine corporate and sovereign debt issues have experienced massive rallies in recent months due to declining risk aversion globally and growing confidence that the government of Cristina Kirchner can avoid a sovereign credit event in the near term. Argentina CDS spreads have narrowed from approximately 4,000 basis points at the height of the crisis to 700 basis points currently. Equities have rallied over 100% in the last six months.

After the 2001 debt default and the political noise in recent years, Argentina has not been on the radar of many global or even emerging markets hedge funds. In fact, Argentina's equity market was recently delisted from the MSCI Emerging Markets index, and is now classified as a Frontier Market. Brazil, and to a lesser extent Chile and Mexico, command the majority of in-

vestor attention in the region. Consequently, those hedge funds based in Argentina have been, at times, able to benefit from less researched corporate bonds and stocks. While liquidity in many Argentine assets is poor, hedge funds in Argentina typically have fewer assets under management than their Brazilian counterparts and are thus able to traffic in these less liquid assets. Sell-side research efforts focused on Argentina have also been cut back in recent years, as investment banks have reduced costs associated with a small market. This allows local funds to benefit from their in-country contacts, conduct in-depth research efforts not being done elsewhere, and often secure outsized returns as a result. Local funds maintain and develop good relationships with senior management at locally domiciled companies. Given the size of the local market, access to CEOs and CFOs is often easier when compared to other countries in the region or in emerging markets. Furthermore, private equity investment opportunities can present themselves in industries such as real estate and agribusiness at very attractive valuations. Being located in Argentina allows local funds the ability to

= Hedge Funds =

Given the size of the local market, access to CEOs and CFOs is often easier when compared to other countries in the region or in emerging markets.



= Hedge Funds =

access these opportunities thanks to their web of contacts.

Argentine assets should continue to trade at a substantial valuation discount when compared to its investment grade rated counterparts in Brazil, Chile and Mexico. Additionally, with a questionable macroeconomic policy mix, investment managers globally may shy away from committing on the ground resources to the country. As a result, those hedge funds located on the ground in Argentina garner the potential to deliver outsized returns in a less competitive marketplace.

■ Convex Fund

Convex Fund is a hedge fund managed from Argentina and specialized in Latin America. The fund is multi-strategy and multi-asset class. The book is divided among several strategies, including but not limited to long-short equities, dollar fixed income relative value, local currency fixed income relative value, Latin American currencies and distress. The Fund's strategy varies according to the global environment and the regional situation, but is flexible enough to shift from purely quantitative-oriented relative value trades to special situations or distressed assets. Generally speaking, Convex follows a top-down approach (i.e., it is a macro fund with focus in Latin America). The exceptions to this rule are the equities and distressed strategies, which are carried out using a bottom-up approach. Management is highly experienced in trading Latin American assets, and has more than 40 years of combined experience in doing so. Management's track record in running Latin assets goes back to the late 1980s, and has 10 years of proven and audited track record managing hedge funds, with an average yearly return of over 15% and virtually no negative years. Although based in Buenos Aires, returns come from different markets, such as Ecuador, Venezuela, Mexico, Brazil and Chile. Convex has presence wherever there is a liquid market to trade and a situation that could generate alpha. Although there have been

significant improvements in many of the countries in the region,

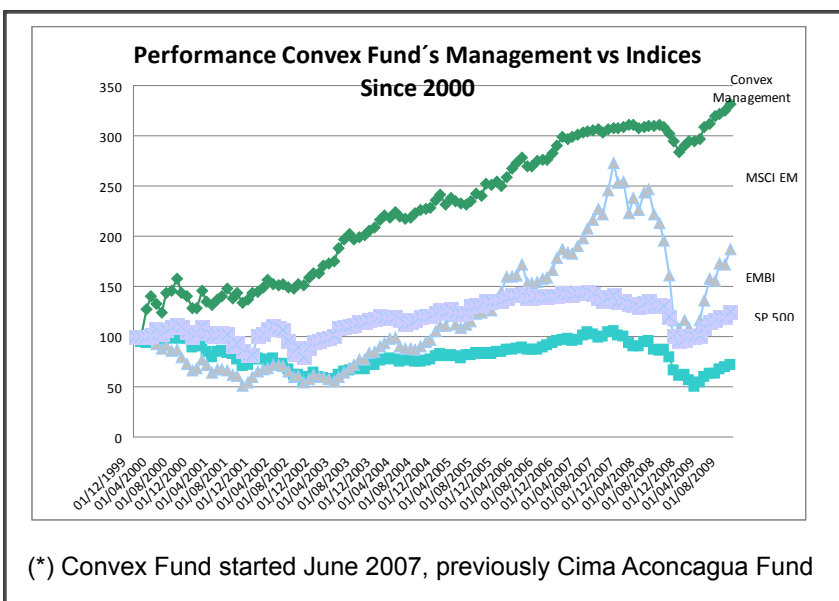
■ Explorador Fund

Explorador Capital Management, LLC is a boutique, multi-strategy investment manager seeking superior returns in emerging markets. The firm was founded by Andrew Cummins in 1996, with support from the Donald Fisher family, founders of Gap, Inc. and Farallon Capital. Mr. Cummins has invested in emerging markets for nearly twenty years. He sits on the board of two publicly traded companies located in Brazil and Chile. He is a graduate of Harvard Business School and UC Berkeley. Explorador has a team of twelve people located in Argentina, Chile and soon Brazil. The fund's primary focus is marketable equity securities, long and short, as well as fixed income.

Since inception of the hedged strategy in January 2004, the fund has delivered annualized returns of 9%, compared to 12% for MSCI Emerging Markets and negative 1.5% for the S&P 500 during that same period. The fund has, since inception, consistently maintained low volatility of 9% on an annualized basis, versus 15% for the S&P and 27% for the MSCI Emerging Markets index. During the challenging period of January 2008–August 2009, Explorador (-4.2%) preserved capital to a much greater extent than emerging markets and U.S. Stocks, both of which are down over 30% over the same time frame. 79% of the time, Explorador's monthly returns have ranged from -2% to +4%, compared to only 34% for the MSCI Emerging Markets index. Explorador places heavy emphasis on capital preservation through different market environments. Explorador offers monthly liquidity and a minimum subscription of US\$100,000.

Explorador pursues a hedged approach to investing primarily in Latin America, maintaining a net long exposure ranging from 10% to 50%. Depending on macroeconomic conditions and the overall market environment, the manager uses its discretion to manage net exposure to preserve capital in more turbulent periods, seeking to capture and exceed the longer-term expected equity market returns. Many emerging markets have historically suffered from suboptimal public policy with respect to promoting resilient and sustainable growth. Some of these economies are also inherently more cyclical due to a stronger dependence on commodities prices. Volatility in emerging markets has been higher than in the U.S. and Europe. As a result, our hedged approach has succeeded in delivering superior risk-adjusted returns. Explorador seeks to deliver double-digit absolute rates of return with single-digit volatility.

The Explorador investment team seeks to find businesses going through change. It then engages in a fundamentals-based, bottom-up analytic approach to security selection of firms where that change is not well understood by the market. The seven-person investment team seeks to identify investment oppor-



= Hedge Funds =

tunities with asymmetric risk-return distribution of expected outcomes and securities that are mispriced. The fund seeks to capture value that will be realized over a six to 24 month time frame. Explorador's investment team engages in over 250 meetings with company management teams per year. Investment committee meetings occur weekly to discuss current portfolio positioning and new investment ideas. Investment team members provide detailed written reports on each company under consideration for the portfolio, and these reports are available to investors. No region in the world has proven immune from the sharp recessions affecting the United States, Japan and Europe. Emerging markets are no exception. Latin American and other economies are decelerating and expected to post zero or slightly negative growth for 2009, as external demand for raw

material exports has fallen dramatically. Importantly, Explorador expects that Brazil, Mexico and Chile, its key target countries, will prevail through this global crisis with no banking system collapse or sovereign credit default. Flexible exchange rates, which have served as shock absorbers, have been key to this resilience. Exchange rates are at much more attractive and competitive levels today. These countries also exercised prudence during the last six years and took advantage of the boom in commodity prices to pay down debt levels and accumulate foreign reserves. Despite slowing economic conditions in Latin America, the major countries are well equipped with fiscal and monetary tools to counteract the slowdown.

Performance

Since inception of the long/short strategy in January 2004, The Explorador Fund has compounded at 9% annually with significantly lower volatility compared to other indexes.

Annualized returns	The Explorador Fund, LP	MSCI Emerging Markets	S&P 500
Year to date	25.8%*	48.0%	13.0%
1 year	(4.2)%	(12.2)%	(20.4)%
3 years	5.2%	2.8%	(7.8)%
5 years	8.5%	13.8%	(1.6)%
Since inception (Jan 1, 2004)	9.0%	12.0%	(1.5)%
Annualized volatility	9.1%	26.7%	15.1%

Source: Explorador internal information. Reference date: August 31, 2009.

*Year to date performance stated on a gross basis.



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The Times They are a Changing for Panama Real Estate

In the new century, Panama has established itself as a player in international real estate investment. The country's economy continues to grow year on year. Foreign Direct Investment is still coming in. There are a variety of potential moneymaking real estate sectors. In short, Panama is more than holding its own despite today's global investment uncertainty.



However, prospective investors should be aware of some very important changes affecting real estate investments in Panama in 2009.

The basics are the same

Foreign investors have chosen to put money in Panama because:

- The economy is strong. Panama has shown strong growth for the past five years (over 11% in 2007 and over 9% in 2008, 3.5% predicted this year).
- Foreigners have the same rights to property and business as nationals.
- Panama uses the U.S. Dollar for currency.
- Tax breaks and exemptions are available.

These pillars may be adapted somewhat but the base for solid opportunities show no signs of change.

Enter Ricardo Martinelli

This year Panamanians elected Ricardo Martinelli, a self-made millionaire who owns businesses including supermarkets, banks and agricultural companies. Martinelli and his party hold the majority of seats in the National Assembly. This allows him to implement his reforms, three of which affect real estate investment.

The first reform focuses on reviewing development and concession agreements to make certain taxes are applied to all and—in a major change from before—they get paid (in order to get money for infrastructure and social improvement projects). This is not an idle goal; Martinelli has already temporarily shut down some major real estate development projects in the Amador Causeway and has taken on the merchants of the Colon Free Zone, which is Panama's second largest moneymaker. Some of these actions have led to payment schedules and increases, and some are still in the "But I'm innocent" stage.

Second, Martinelli has begun the process to change Rights of Possession (ROP) property into titled property. If and when this is completed, it will have a huge impact on buying real estate in Panama. Buying ROP has always been a riskier move, but some prime land could be obtained at bargain prices. Now the inverse is a possibility. It should be noted that the prospect of titling ROP is making some who have purchased ROP nervous.

Finally, a flat tax of 1% is being introduced on real estate. According to the La Prensa newspaper in July 2009, "Property tax would decrease from 2% to 1% for those who willingly update the value of their properties in the civil registry.... The 2% real estate property tax is the highest of the region, we will be more competitive with the 1% tax incentive."

In another article, La Prensa gives these comparison rate for taxes in Latin America: Colombia pays an average tax of 0.75%,

0.25% in Costa Rica, Guatemala 0.56%, and in Mexico and Venezuela 0.6%.

Martinelli still has five years in office, so watch for more business-based reforms to come.

Financing is available but the rules have changed

Due to a conservative lending and investing policy, Panama's International Banking Center has weathered the world financial crunch very well. Be that as it may, financiers are being cautious in order to protect their position.

Latin Business Chronicle (LBC) describes the current bank situation as "extremely liquid. Nevertheless, the Panamanian and foreign banks have assumed a defensive posture as the foreign correspondent banks have cut the lines of credit to all the local banks. This has resulted in the continuation of real estate projects that had already started, but with more stringent credit policies. The developers have to come up with their part of their investments upfront, and any cost overruns have to be met by the developer."

In addition to what LBC describes above, foreigners attempting to obtain financing should also be aware that LTVs are dropping, so getting 70% is doing very well. Also, it is important to remember that financiers in Panama fund renovation and construction; they do not usually lend for the purchase of raw land.

On a final financing note, private funders from the U.S., and to a lesser extent other countries, are still doing deals in Panama. LTVs run about the same as above, and more than sweat equity up front is the norm.

The condo and residential craze is over – at least for now:

Estimates for new condos and high-end residential units currently available, under construction or slated for construction are at 12,000+. There is no MLS system in Panama as of yet, so real median prices for units are hard to determine. What is certain is that prices have dropped, but not bottomed out. Speculators are trying to get their deposits back. New sales and rentals are stagnant.

On the flip side, some great deals can be negotiated—but make certain the building is completed!



Dennis Smith is a Director of BizMeds (www.bizmeds.biz), a full-service Internet Marketing company located in Panama City, Panama. BizMeds specializes in marketing training, brainstorming marketing campaigns and implementation of marketing strategies. BizMeds also tracks and defines what is or is not working in terms of driving qualified leads to a client's sales staff.

Commercial properties remain strong

Megaprojects

Big commercial development is moving ahead. Some examples are:

- The \$5+ billion Panama Canal expansion.
- A new terminal for Panama's Tocumen International Airport.
- A new convention center.
- Panama Pacifico, a 1,400 hectare, mixed-use free zone, located in the old Howard U.S. military base.
- The giant Metromall, under construction near Tocumen.

Hotels

Hotel rooms are a hot sector. In 2007, Panama climbed to second place in the world in hotel occupancy on the Deloitte Global Ranking Index, with 84.7% occupancy. For 2008, international branded properties in Panama City performed at about 78% occupancy and an average daily rate of near US\$175 per night, according to Rogerio Basso, a hospitality analyst with Ernst & Young in Miami.

Nineteen major projects comprising 4,119 rooms were in development as of the close of the third quarter of 2008, according to the Portsmouth, New Hampshire-based Lodging Econometrics. Many more have been started since and most agree that even more rooms will be needed.

Offices

Finally, there is a chronic shortage of Class-A office space due in part to Panama's Law 41 initiative for multinationals. Again the numbers are sparse, but availability is estimated down from 30% last year to 3% now. Naturally, lease rates have risen accordingly.

And the winners are

They can still be both you as an investor and Panama as the place you invest in. You simply have to dig below the hype to find the real story as it exists today. Can you say 'Due Diligence' anyone? And, welcome to Panama.

Pre-Salt: What now?

This event marked an important moment for the Brazilian oil industry, because recent discoveries in the world oil scene have been rare and also because Brazil has always carried the title of eternal latecomer in the race for oil. The Brazilian oil industry was, until then, a classic case of sudden success but with limited potential.

So when their country arrived on the pre-salt scene, Brazilians began to dream of fabulous trajectories of economic development financed by the excessive reserves that surely rested under the water, just waiting to be converted to a new “oil El Dorado.” Brazil would enter the select club of oil exporting countries, and the benefits of being part of this club would be many, including the possibility of obtaining abundant oil rents and participating in OPEC.

But the entry into that club would not be without costs. First, because inevitably the process is slowed by the technological difficulties of producing oil, no matter how abundant, at a depth of several thousand meters and in some places more than 200 miles offshore. Second, because it remains unknown in which direction the world energy grid will go and so it is unclear whether Brazil could recoup the hundreds of billions of dollars spent on pre-salt exploration and production. And certainly in many countries oil hasn’t been the blessing to the economy that one would expect. Many countries that export oil or other

natural resources have in the past suffered from “Dutch disease,” when the inflow of foreign currency raises the exchange rate and makes the rest of the economy less competitive. This is true in Venezuela and could easily be the case in Rio de Janeiro, which has experienced a downward economic trend since it ceased to be the nation’s capital 60 years ago. (To mitigate these risks, a series of measures such as taxes on imports or funds of oil reserves would need to be adopted.) Finally, there is the high political cost that the discussion at the federal regulatory level invariably brings to a country like Brazil, where often the direction of the economy is decided behind the scenes and does not always follow the most honest negotiation procedures.

The general consensus is that the government’s proposal has some major structural defects and needs to be revisited and reworked—up until a certain point, that is, and in political terms, that clearly implies an election.

Clearly, mere entry into the “oil club” would not magically yield economic development. On the contrary, it would be a long and arduous road. It

was surely in this context of elevated costs that the prospect of pre-salt was discussed, and on Monday the 31st of August 2009, after two years of heated debate, the governor of Brazil

“The proposal includes changing the regulatory framework from the current model to concessions for a shared model—one in which the state owns the reserves and the operator pays a portion for the oil produced.”



announced his proposal to manage pre-salt oil. The proposal includes changing the regulatory framework from the current model to concessions for a shared model—one in which the state owns the reserves and the operator pays a portion for the oil produced. This would entail the creation of Petrobras—a state enterprise like the Norwegian Petoro—to manage these shared contracts and decide who would produce in partnership with the state. Additionally, a portion of the state oil income would be reinvested into social issues, thus acting as a driving

force behind the so dreamed of social economic development promised by the “oil El Dorado.” The general consensus is that the government’s proposal has some major structural defects and needs to be revisited and reworked—up until a certain point, that is, and in political terms, that clearly implies an election.

To evaluate how this proposal will impact the future of investments in the Brazilian oil chain, it is necessary to discount the ills of the political game and the hiss of the major international oil companies until the new regulatory model will in fact be the regulatory framework of the pre-salt. It is too early to say how these investments will turn out, as we are still in the second step of a long journey that must precede any true financial results.

Being that this is a long horizon, it is interesting to think in the meantime about the half-life of economic investment in post-salt oil and also about the alternative sources in Brazil—yes, Brazil possesses fantastic renewable resources—and will continue to provide good alternative investment opportunities.



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Special Report: Private Equity

Everything You Need to Know
about Doing Business in Brazil **Part I**

Challenges for Successful Private Equity Investments in Brazil

By Zack Henry & Eric Saucedo

Someone forgot to tell Brazil that we're in the middle of the worst global recession in history.

Brazil is quickly becoming a political and economic leader in Latin America and the world. As with the rest of the global economy, Brazil entered into a recessionary period in 2009, but economic data that have been emerging from the *Instituto Brasileiro de Geografia e Estatística* ("IBGE") increasingly point to a stabilization in the economy, further suggesting that the country has perhaps been less impacted than other markets in this global recession. After the 4.4% quarter-on-quarter decline in 4Q08 and a subsequent 3.5% decline in 1Q09, the country's GDP reached US\$417.8 billion at 2Q09, up 5.2% from the prior quarter, and projected GDP growth for the second half of 2009 is running at about 4.0% or even higher (see Figure 1).

Many economists point to Brazil's changing trade patterns as an important shield from the global recession as this year, for the first time, China overtook the United States to become Brazil's single biggest trading partner. In addition, as copper and oil prices have remained relatively strong, Brazil's commodity-based economy continues to demonstrate strong expansionary growth, and consumer spending, up 2.1% in 2Q09, represented the 23rd consecutive quarter of growth. Any PhD in economics can tell you, in technical terms, that this is ginormous.

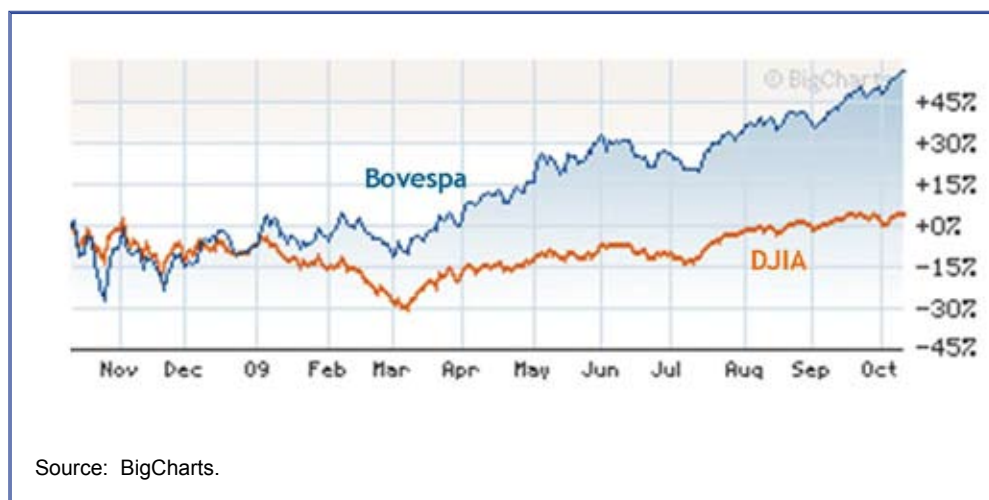
All this good news obviously gets recognized in the markets. While the Brazilian Bovespa was down over 45.0% for 2008, the leading Brazilian index is up approximately 66.7% YTD and up 15.6% for 3Q09 alone, significantly outperforming its American counterpart, the DJIA (see Figure 2). Likewise, sovereign bond spreads similarly demonstrate optimism in Brazil, versus perhaps more pessimistic views towards countries like Argentina and Venezuela.

And as if things weren't good enough, Brazil is a heavy favorite in the 2010 World Cup in South Africa, it will host the 2014 World Cup, and it just became the first South American country ever to host the Olympic Games, as they are now planning to bring the ultimate sporting event and the global audience to Rio de Janeiro in 2016. You could say that things are clicking in Brazil. Muito bom indeed.

Figure 1 Brazilian Gross Domestic Product

	2Q08	3Q08	4Q08	1Q09	2Q09
 GDP at Market Prices	148.2	150.9 1.8%	144.3 -4.4%	139.3 -3.5%	146.5 5.2%
Personal/Family Consumption	142.6	146.6 2.8%	143.9 -1.8%	142.7 -0.8%	147.2 3.2%
Government Consumption	133.1	135.9 2.1%	147.9 8.8%	134.9 -8.8%	136.0 0.8%
Investment	155.0	170.8 10.2%	148.0 -13.3%	123.5 -16.6%	128.6 4.1%
Exports of Goods & Services	266.1	276.1 3.8%	244.5 -11.4%	193.1 -21.0%	235.9 22.2%
Imports of Goods & Services	206.9	231.7 12.0%	208.3 -10.1%	158.0 -24.1%	172.7 9.3%

Source: Instituto Brasileiro de Geografia e Estatística ("IBGE"). Figures indexed 1995 = 100.

Figure 2 Brazilian Bovespa

years will tell you, the ups and downs of Brazil and the emerging markets in general can be stomach-wrenching to say the least. We love you dearly, Maria, but we didn't see you in 1995 or 2001, when things were perhaps a smidge less uplifting in the region.

With that said, we do strongly believe that Brazil currently poses significant opportunities for private equity investors, and we sincerely hope that private equity investments in the country take firmer hold than in other times during the country's history. For Brazilian companies and the Brazilian economy in general, attracting private equity can

be an important source for continued economic growth. But what makes now such an opportune time for private equity transactions in Brazil? "Besides the favorable macroeconomic data and the fact that between 65%-70% of all Latin American private equity capital is focused specifically on Brazil, there are many reasons why the current situation in Brazil is different now than in other years. For one, while the financial sector has shown improvement in the last decade, access to capital for the middle-market and growth companies continues to be difficult, and thus the need for private equity as a source of capital for these early-stage and middle-market companies," said Roger S. Leeds, Chairman of the Emerging Markets Private Equity Association ("EMPEA"), Professor at the School of Advanced International Studies ("SAIS") at Johns Hopkins University and a former partner at Apax Partners & Co. "In addition, what's significant about today is that there is a tremendous amount of Brazilian institutional capital being committed to the sector, as one sees pension funds, for example, placing significant amounts of capital in local private equity funds."

There is already quite a bit of evidence that both private equity and strategic investors are increasingly seeing the opportunities in Brazil. According to data by Thomson Reuters, while global M&A activity has dropped precipitously since 2007, M&A activity in Brazil has remained relatively robust. Specifically, while global M&A activity (closed transactions) dropped 33.0% between 2007 and 2008, Brazil was one of the few countries showing an increase in such activity, up 42.2% and exceeding China in total transaction volume. Likewise, while global M&A activity declined 49.2% for the six-month period through June 2009 from the same period the year prior, M&A activity in Brazil increased 13.2%, with total transaction volume exceeding China's by a ratio of 2:1 (see Figure 3).

Brazil is already seeing an increase in the flow of private equity capital to the region. The Carlyle Group, Goldman Sachs Capital Partners, Draper Fisher Jurvetson, Fortress Investment Group and Eton Park are just some of the major

Private Equity in Brazil

With such favorable economic conditions, the buzz in Brazil again starts to converge on the topic of private equity. Like its fellow BRIC countries India and China, Brazil maintains some of the same arguments for the "perfect market environment for private equity." Hundreds — if not thousands — of bankers' pitchbooks abound with respect to the wonderful opportunities in Brazilian private equity, and we ourselves might be culpable for a few of those. Brazil is the fifth largest country by geographical area, occupying nearly half of South America, and, with an estimated population of 190 million inhabitants, it is the fifth most populous country in the world. It is the world's tenth largest economy and the largest national economy in Latin America. Brazil boasts a solid and modern financial system that escaped the financial crisis relatively unscathed, an improving and credible legal system, a strong local investor base, robust capital markets, and, perhaps more so than any other Latin American country, there has been a strong emergence of a new middle class. According to the Fundação Getúlio Vargas, a Brazilian research institute, since 2002 Brazil, previously notorious for its extremes in income distribution, is now demonstrating the emergence of this strong middle-class society.

Yada, yada, yada. Unfortunately, pretty much what we heard ten years ago, twenty years ago and every other time the emerging markets in general become a popular topic of conversation. Thinking back to years such as 1994 and 2000, everyone was similarly optimistic about the great private equity opportunities in Brazil and throughout Latin America. When Madonna and the mullet were still cool circa 1994, anything with a pulse in Argentina attracted capital, and through the late 1990s, any Latin American company whose only asset was a domain name very often brought in hundreds of private equity professionals ready to write a check. Where is Argentina today? Don't ask. Sure, Brazil becomes popular when Maria Bartiromo discusses the great opportunities in Brazil on CNBC, but as anyone that has been in the emerging markets for many

Figure 3 Global M&A Activity 2007-2008

TARGET REGION/Country	Jan. 1, 2009 - June 30, 2009				Jan. 1, 2008 - June 30, 2008				Change
	US\$ MM	Percent	No. Deals	Percent	US\$ MM	Percent	No. Deals	Percent	
A. AMERICAS	\$ 352,482.2	48.4%	3,827	31.4%	\$ 545,765.9	38.0%	5,636	36.8%	-35.4%
A.1 Caribbean	2,057.4		48		23,054.0		59		-91.1%
A.2 Central America	404.8		58		20,742.6		79		-98.0%
A.3 North America	299,217.4		3,392		460,510.1		5,025		-35.0%
A.4 South America	50,802.6		329		42,459.1		472		19.7%
Brazil	37,415.9		136		33,062.1		321		13.2%
B. AFRICA/MIDDLE EAST	9,388.9	1.3%	228	1.9%	37,350.2	2.6%	304	2.0%	-74.9%
C. EUROPE	264,735.7	36.3%	4,796	39.3%	656,594.7	45.7%	5,436	35.5%	-59.7%
D. ASIA-PACIFIC	79,606.5	10.9%	2,472	20.3%	141,426.7	9.9%	2,741	17.9%	-43.7%
D.1 Australasia	17,677.2		617		37,892.2		825		-53.3%
D.2 South East Asia	18,202.0		629		40,587.4		644		-55.2%
D.3 North Asia	33,523.3		875		45,852.9		868		-26.9%
China	18,083.6		349		13,533.8		413		33.6%
D.4 South Asia	7,265.6		338		14,462.6		383		-49.8%
D.5 Central Asia	2,938.4		13		2,631.6		21		11.7%
E. JAPAN	22,385.1	3.1%	875	7.2%	54,195.3	3.8%	1,204	7.9%	-58.7%
WORLDWIDE	728,598.4	100.0%	12,198	100.0%	1,435,332.8	100.0%	15,321	100.0%	-49.2%

Source: Thomson Reuters. Change based on Transaction Volume (US\$M).

names that have been accumulating some serious frequent flyer mileage because they are either actively pursuing private equity opportunities or have begun to lay significant groundwork for investment activity in that country. In June 2009, even Citigroup -- taking a respite from its daily beatings in the media regarding compensation, bailouts and just about everything else -- announced plans to invest as much as US\$500 million in Brazilian private equity after selling stakes in various Brazilian companies. According to a survey of private equity fund managers conducted by Deloitte, in today's economic environment Brazil is viewed as one country that will gain in economic stature during the next three years. As such, it is no surprise that Brazil is similarly identified as the Latin American country that is expected to witness the highest level of deal activity through at least the next few years (see Figures 4 & 5).

Another aspect perhaps not discussed as often is the activity of private equity backed portfolio companies expanding into

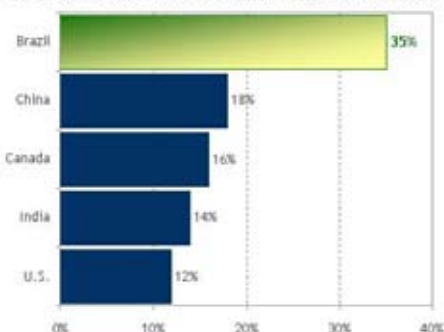
recycling by rewarding households for the amount they recycle, and Brazil is seen as a viable market for them not only because of its size, but because of the high participation rate of recycling within its population. "We've just completed our first significant expansion abroad, establishing a presence in the United Kingdom," said Matt Tucker, President of the company. "As far as the emerging markets go, Brazil is one market that we would seriously consider."

We're guessing that we're not going too far out on a limb by saying that the private equity industry has probably experienced the worst two years of its existence. In fact, that's probably an understatement, as redemptions, a freeze in the credit markets, portfolio company bankruptcies, and uncooperative consumer spending, among other things, continue to hamper the industry as a whole, perhaps sending plenty of private equity professionals into therapy in the process; however, that's another discussion altogether. According to a 2009 poll conducted by EMPEA, despite the

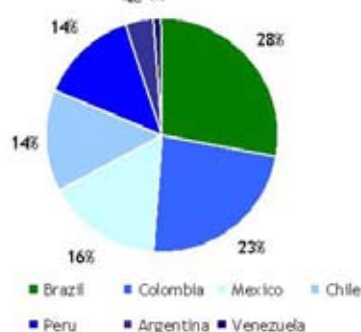
past two years, limited partners plan to increase their exposure to emerging markets private equity, and China, India and Brazil continue to be the largest markets of interest (see Figure 6). In fact, an interesting factoid to impress your friends is that, while limited partners require a higher risk premium for emerging markets private equity investments relative to developed markets (as one would expect), the perception of risk premium with respect to Brazil has actually decreased between 2008 and 2009, suggesting that private equity investments there have, for many reasons, been seen as increasingly less risky.

Figures 4 & 5 Global Trends in Venture Capital 2009 Global Report

Top five locations viewed as having the most to GAIN in terms of overall economic stature, over the next three years (the Americas (excl. U.S.) respondents.)

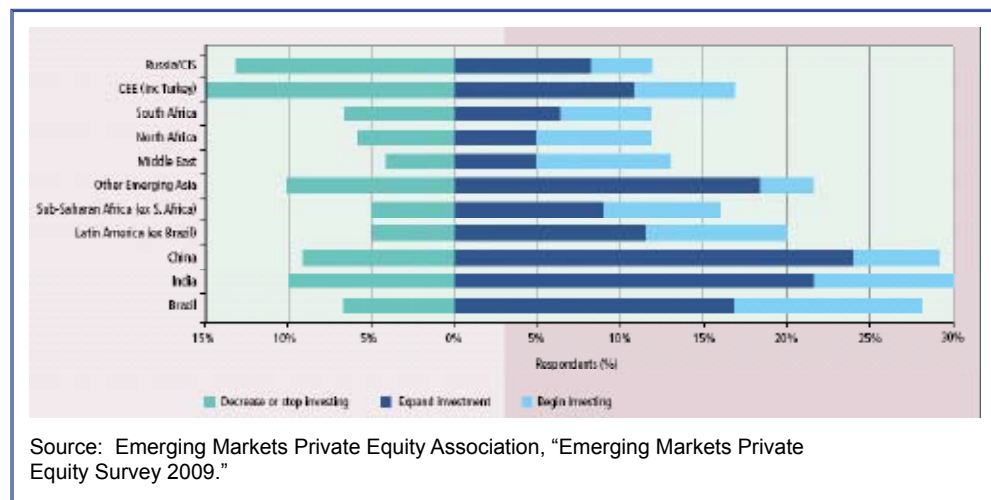


In which countries in the Latin region do you expect to see the most deal activity over the next twelve months?



Source: Deloitte, "Global Trends in Venture Capital 2009 Global Report."

Figure 6 Limited Partners' Planned Changes to their Emerging Markets PE Investment Strategy Over the Next 1-2 Years (Net Change)



equity radar simply because they don't have the growth potential or the high probability of a successful exit. And forget the IPO discussion, because the vast majority of exits in private equity continue to be through strategic sales. While it can be amusing and even entertaining to hear the thousands of financing proposals that claim investment in a given company will lead to an IPO within months and financial euphoria for all, reality dictates otherwise. We also don't mention issues relating to valuation, which, admittedly, is an important aspect of any transaction, although something that too many CEOs see as the single most important issue.

Assuming that a company is in an industry sector that attracts private equity capital, and assuming that a company is in a feasible position to attract private equity, what we address are just a few of the challenges to successful private equity investments in Brazil.

Seeking Private Equity Capital

Despite this favorable environment for Brazil, there remain continued challenges for successful private equity investments in the country. Raising private equity capital is an extremely demanding process that requires a quite significant amount of time and very dedicated attention on behalf of company management. Transactions can take, on average, four to six months to close and it is not uncommon for them to take up to a year. Transactions can die and be resuscitated an endless number of times and can cause serious disruptions to ongoing business activity and significant angst and insecurity among management and employees as an aura of uncertainty about new potential ownership falls upon the company. Probably most notably, it can take a significant emotional toll on employees, management and shareholders. It's definitely not a process that a company can enter into haphazardly.

The types of Brazilian companies that may be in search of private equity vary widely. Some companies in the region have grown and matured in their respective industries and need to recapitalize their balance sheets or require funding to meet the competitive challenges arising from increasing economic globalization. There are a large number of early-stage companies that operate in growth sectors requiring significant ongoing capital infusions in order to continue their expansion. And there are companies that have been family-owned for generations and, for whatever reason, the current CEO does not have the right heir apparent to continue to operate the company.

First of all, we want to be clear that there are many issues that we are not addressing here. For example, some companies are just not viable private equity opportunities. There are many terrific companies in operation that don't fall under the private

Due Diligence Process

Any company entering into a significant financial transaction — whether it be raising private equity capital, selling the company, buying another company or securing debt financing — will be challenged by the process of due diligence. And the basic premise for companies attempting to attract private equity capital is their ability to anticipate and adhere to the due diligence requirements of private equity funds looking to invest in the company. It sounds easy enough, but most deals fall apart simply because companies fail to fully comprehend the level of due diligence that is required.

The first point that is important to understand is that private equity funds have a fiduciary duty to their own investors, their limited partners. And if you think it's tough to sit in front of a private equity fund during a due diligence process, imagine what they have to go through with their limited partners to continue to raise capital for new funds. It's like comparing getting your blood pressure checked to having a colonoscopy. Two very different levels of examination.

Also, it is common for certain limited partners to sit on the investment committee of a fund, and their level of scrutiny in a transaction is both excruciating and sincerely impressive. And it should be, because it's their money that's at risk. And even if limited partners don't sit on the investment committees, they will review a fund's due diligence processes and reports before making capital commitments to a fund. So the issue of due diligence is a real one and it's not simply a form of torture that

they're trying to put you through for their personal entertainment, although many company executives might feel otherwise.

If a company has had one or two meetings with a private equity fund, chances are the fund is looking to do a deal. If they continue to ask company owners for information about financial statements, the market, suppliers or anything else, and the owners don't want to provide it, then just consider the transaction dead. No problem. Unfortunately, it is likely that the fund is looking at hundreds of opportunities, and if owners/partners want to make their life difficult, they will simply move on to the other deals that they're trying to execute. No hard feelings, but they are in the business of closing deals, not chasing company executives for information.

Another important thing to remember in a due diligence process is that the transaction team is typically preparing to present the investment opportunity in a company to their investment committee. As part of their due diligence process, they're gathering information that demonstrates the compelling arguments as to why a particular company is worth investing in, and it is the responsibility of the company executives to help them present this as an attractive opportunity.

However, it must be said that it's also very understandable when privately-held companies are prodded, dissected and analyzed for most likely the first time in their histories. Many family-owned companies have never felt the need to maintain sophisticated accounting systems, perform complex marketing analyses or even put together a simple organizational chart. Many company CEOs seeking to raise private equity are simply unaware of the level of scrutiny that can be undertaken in a private equity fund's due diligence process. This is when the company's accountants, lawyers and investment bankers can play an important role in preparing a company for the due diligence process; however, again, that's another discussion altogether.

"Our own due diligence process with such firms as The Blackstone Group, Hicks Muse Tate & Furst and J.P. Morgan Partners was incredibly thorough," said Mario Chamorro, CEO of CorpBanca in Chile, whose company raised US\$750 million in private equity. "To successfully close the deal, we had to make sure that they understood every aspect of our company, including its history, our various lines of business, the market opportunity and the financial and accounting, particularly how we would be using the capital that they would be providing. Instead of just answering their questions, we were extremely proactive in the process and made sure that they understood every single aspect of our company, and I think that they appreciated that, because banking is not a simple business to understand for people that are not in the industry."

And the current market environment has only made potential transactions subject to an even heightened level of scrutiny. David McDonough, a Principal at Granite Intelligence in New York, explains that private equity investors are taking a harder

look at potential transactions simply because of the many problems that have been arising within failed portfolio companies in recent years, and adding another variable like a foreign country will only further heighten that level of scrutiny. While he declined to identify specific funds for which his firm does work, he noted that now, more than ever, due diligence is playing a more important role in transaction execution and many deals are being restructured on the basis of information developed in the due diligence process. "Not all, but the better private equity funds are throwing more resources to the due diligence process before making an important decision whether to invest in a given company," said Mr. McDonough. "Besides a thorough background check on the members of management, they are looking into supplier relationships, banking relationships, and other business-related issues that allow them to have a better understanding of a company and to make a more informed investment decision."

"Private equity funds are increasingly concerned about the 'reputational liabilities' associated with companies they are looking to finance or acquire, and this concept of reputational due diligence has grown well beyond the exercise of criminal background checks," added John W. Price, Managing Director and Head of Latin American operations at Kroll, Inc. "For example, funds are increasingly concerned about such issues as tax avoidance, labor abuses and even 'soft' issues like customer and supplier relationships, because all of these things truly reflect the soundness of the company to which they're looking to give their money."

Know Your Business

This might sound trivial and not even worth mentioning. Of course company executives know their business. Well, you might be surprised as to some of the problems that can arise.

Unfortunately, there are countless examples of company CEOs who, for whatever reason, have been unprepared to discuss their business operations with potential private equity investors. This is by no means a criticism. What this only demonstrates is that company executives are often not prepared to speak the same language that often comes from newly-minted MBAs carrying reams of spreadsheets and the latest "SWOT" diagram from Michael Porter. When a successful CEO who has been running day-to-day operations for many years, employing hundreds of people and managing a multi-million dollar company well-recognized throughout his country gets asked by a snot-nosed kid about his/her competition, the immediate reaction might be, "We have no competition." That might well be the case in his mind, because it's likely that he passionately believes that nobody competes with his product or he might have led an aggressive pricing battle in the last year which quite literally annihilated his biggest competitor. But that's not what Mr. 19BII or Ms. 12C sitting across the table want to hear,

not what the fund's general partners will want to hear, nor what the fund's limited partners will accept as valid. Of course there's competition. Everyone has competition, even Microsoft and Google have competition, although Bill, Larry and Sergey might opine to the contrary.

Along the same lines as the previous section, it becomes an issue of adhering to the due diligence requirements of the private equity investor, an issue of speaking the same language. Here's a real life story. A University of Chicago PhD in Economics serving as Chairman and CEO of a company and a US educated MBA serving as CFO of a Latin American company involved in the due diligence pertaining to the financing for their company. Both MENSA-level brain power, wickedly smart and the epitome of the definition of "qualified management." They knew the company inside and out, up and down, left to right and around. They could talk FASB accounting, cross currency swaps and Michael Porter's five forces. But the private equity investors routinely pestered them about things that the executives thought were irrelevant and even absurd. That will happen, and unfortunately it happens more often than not. And it's not about who's right or wrong. It's simply about a meeting of the minds. It's about figuring out what the private equity fund wants, and perhaps more important, what it is they are trying to accomplish.

There is no all-encompassing magic list as to what a due diligence will entail or to what level of detail private equity investors expect company executives to be knowledgeable about their business. However, in a general sense, all company executives should have a good understanding and be prepared to discuss the following basic issues with potential private equity investors:

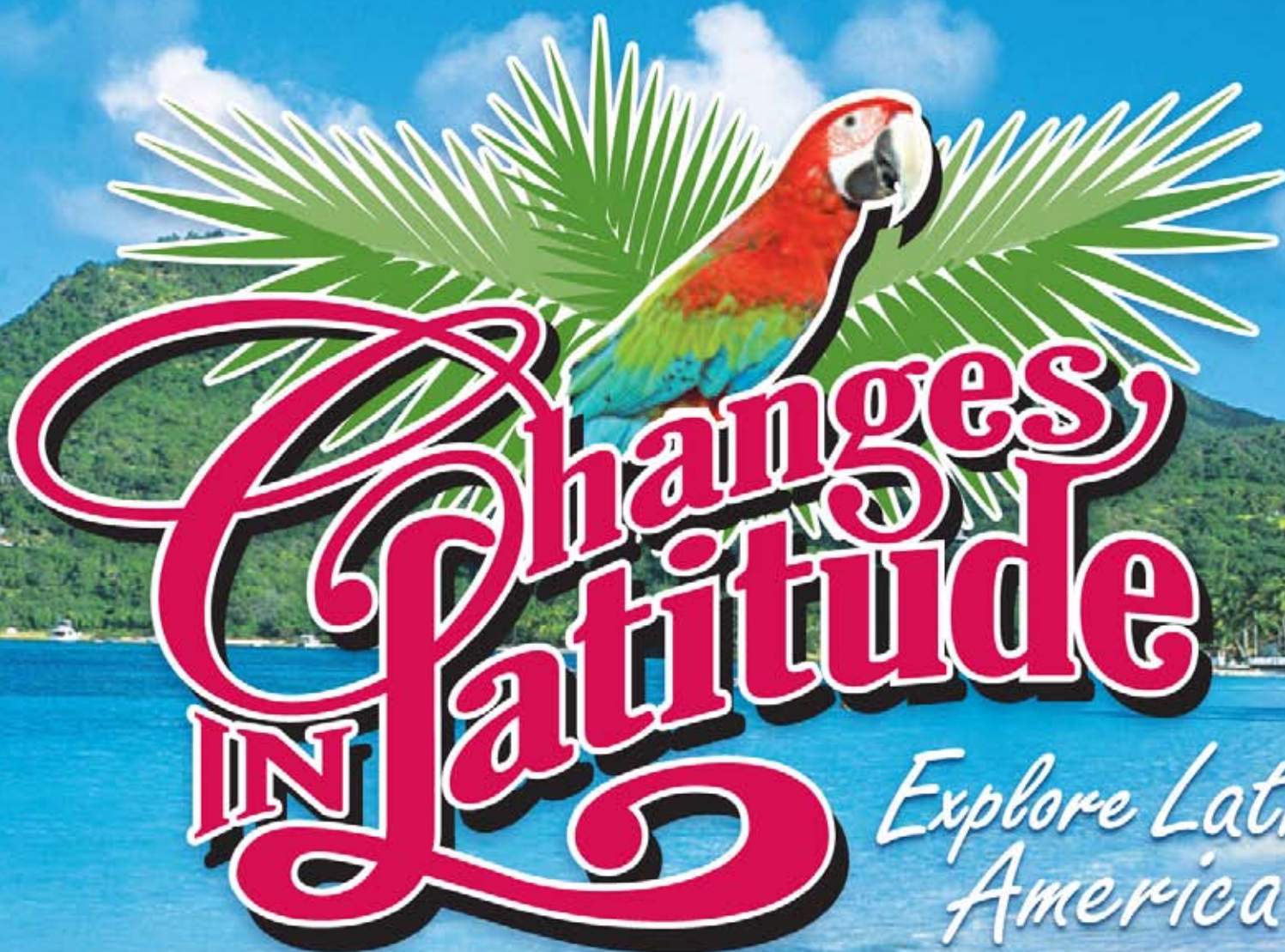
- Company Background
- Product or Service
- Management & Key Personnel
- Organizational & Shareholder Structure
- Financing Sought & Use of Proceeds
- Market Size, Dynamics & Competition
- Business & Operating Strategy
- Historical Financials & 3-5 Year Financial Projections

"I think that any private equity investor would say that it's important that any CEO or senior-level executive should have a good grasp of all the various aspects of the company, because that's who we're depending on to lead the company in the right direction," said Miguel Valenzuela, a Principal with EMX Capital, which manages The Carlyle Group's Mexico fund. "However, what's even more important is that all levels of management and employees consistently convey the same message with respect to any given issue."

About the Authors



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Brazilian Urban Art: From Street to Chic

■ Tiffany Joy Swenson

There has always been something fascinating about the allure of Brazilian culture that has caused people from around the world to want to latch on to its magic. From Carnival to Bossa Nova to Victoria's Secret models—the world wants what Brazil has. When it comes to urban art (commonly referred to as “street” art), Brazil is home to some of the most innovative and inspiring artists to date. The definition of street art, known by some as Graffiti, is “a Form of visual communication involving the unauthorized marking of public space by an individual or group.”

It is true that in cities around the world, many artists have risked delinquency for years in order to display their works. In Brazil, however, authorities stay hushed in light of the cultural value that can be seen in these artistic displays. After having gained recognition in the streets, these artists are quickly translating their works into collectable pieces such as paintings, prints,

photos, fashion and more. This new generation of talent has garnered a legion of faithful and surprisingly young followers, and in turn is becoming a focus point in the ever-expanding Latin American art scene.

When Brazilian fashion marketing wiz Baixo Ribeiro took notice of his young son's collection of local urban artwork,

he thought: there is more to this than graffiti. Having spent years incorporating local street artists into his network of fashion moguls, Mr. Ribeiro took the next logical step and founded urban art gallery Choque Cultural. Since 2000 the gallery has featured the works of some of the city's finest street artists and has gained international acclaim as being one of the most unique and inspiring galleries in São Paulo.

Mural: Titi Freak, São Paulo, 2008





Titi Freak (\$40,000 reales) on display in the Bienal Vento Sul de Curitiba (Curitiba)

According to Mr. Ribeiro, there couldn't be a better time to take notice of the street art movement. Specifically, he notes that Brazilian artists have an energy that is quite distinct from other common street art cultures. European and even Argentine street artists have a tendency to focus on design processes, directing much of their energies towards stenciling and similar techniques. Brazilian artists, while incorporating some of these practices, pride themselves in their individuality and apply more of a manual tradition to their street works. This sense of artistry is what makes these young "Paulistas" stand out in the world of urban art.

With big name brands such as Nike working alongside young Brazilian street artists to design campaigns and merchandise, it is only a matter of time before this urban uprising becomes a bona fide art form. Brazilian artist Titi Freak recently gained a Nike sportswear sponsorship, which has helped him to publish his first book, the 200-page *Freak*, which is available at Choque Cultural gallery. Furthermore, in June of 2009, Nike launched "Movimento Canarinho" – a 100% Brazilian campaign inspired by Brazilian street art and street soccer. The turn around

Stephan Doitschinoff (\$15,000 reales) currently on display in the Afro Brazilian Museum (Sao Paolo)



will be seen from the sales of a limited-edition product line inspired by the Brazilian street culture. Now is the time for investors to think outside of the box by sponsoring a young talent, commissioning a mural, or even starting a product line featuring "street design." When it comes to investment potential, we are really just beginning to see growth in this area. At first glance it would appear that young collectors of street art have little knowledge of their acquisitions. Their impulse to purchase is do to the fact that they identify with the work from an artistic or cultural standpoint. Mr. Ribeiro mentioned one such young collector who entered his gallery not long ago with a poster

that he had purchased at \$60 reales. That same work is now worth nearly three times the price and will surely continue to acquire value.

With Brazilian street art gaining global recognition, major galleries are beginning to take notice and feature exhibits. The Jonathan Levine Gallery in Manhat-

Noteworthy Artists:

Titi Freak

<http://titifreak.blogspot.com/>



Os Gemeos

<http://www.lost.art.br/osgemeos.htm>



Stephan Doitschinoff

<http://www.stephandoit.com.br/>



tan recently featured the works of two popular artists from São Paulo, Titi Freak and Stephan Doitschinoff. All major brand names aside, there is an obvious social movement to this work, an up-leveling in consciousness, if you will. The aforementioned Stephan Doitschinoff, whose street alias is "Calma" is São Paulo born and after traveling abroad and returning to the rural Brazilian countryside of Bahia, felt inspired to "paint the city." His aim was not to make money or gain fame; like most street artists, he was inspired by the idea of creating beauty in the midst of poverty and despair. He began by asking a couple townspeople if they wouldn't mind him painting the sides of their homes with his unique and symbolic murals. Once the people of the town realized that all this man truly desired was space, they offered up their streets, homes, cemeteries and even chapels into the hands of this inspired visionary. The town's Afro-Brazilian folklore began to intermingle with Mr. Doitschinoff's metaphoric imagery, along with bursts of contemporary pop culture and pagan and alchemical symbolism. The work of this young artist is now featured in galleries around the world, and a book of his work has been published and sold internationally.

Visit Choque Cultural for news and updates on São Paulo's most up and coming artists:

<http://choquecultural.com.br/>



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Agave & Tequila:

A Case Study in the Evolution of Opportunity

By Stephen Kaczor

In 1974 Mexico's government established the Appellation of Origin Tequila (DOT) to establish guidelines for agave production. The agave grower's cycle from planting through harvest takes about a decade. This is one reason tequila is so expensive lately—forecasting demand with ten years lead time is difficult.

According to regulations of the Norma Oficial Mexicana (NOM), Tequila can only be produced from agave grown in the volcanic soils in and around the Jalisco region, much like Champagne can only be produced in that region of France. But unlike grapes from Champagne, agave production has seen wide variations in up and down cycles. Such swings are not uncommon in the growth stage of a product life cycle.

In the 1990s there was too much agave, thanks to over-planting by fast-growing commercial tequila distillers engaged in vertical integration. Traditional growers began receiving unsustainably low prices for agave, so they switched to other crops. At the same time that many traditional, organic agave growers abandoned the tequila ship, the popularity of Mexico's national drink began to increase globally. Since 2002, premium tequila sales have increased an average 28% annually. This has led to frequent shortages of agave. Many tequila distilleries closed due to a lack of agave in the last down cycle. There are over 200 varieties of agave but only the Agave Tequilana Weber blue variety is permitted by the NOM. Small organic growers no longer account for a majority of agave production.

Large corporate growers' attempts to forecast and meet demand have created another disaster. According to Ana Valenzuela Zapata, writing in the Journal of Rural Studies, pesticides and fertilizers are wreaking havoc on Jalisco's ecology. Today, fungi attack the root of the agave plant with increasing frequency. Soil erosion is widespread. The species is strained by pest infesta-

tions. Local water quality is dismal. Distillers routinely harvest younger plants (which are required in much larger numbers than mature agave), laying the groundwork for the next down cycle.

The time has come to return to sustainable agave farming and production cycles. Tequila is amongst the national symbols most representative of Mexico throughout the world. Agave was the source of drinks enjoyed by indigenous tribal leaders and high priests long before the Spanish colonized Mexico. According to Aztec legend, fertility goddess Mayahuel is the personification of the agave plant. Archeological evidence of agave culture in this region dates back at least 1700 years, if not even earlier.

In 2009, 100% blue agave commands prices of US\$50 per bottle or more. It is a tragedy that several large corporations outside of Mexico have made themselves the primary beneficiaries of the agave legacy. Hundreds of families who devoted generations to blue agave have been forced to abandon their traditional crop. Corporations turn to inferior black market agave (from outside the DOT region) during down cycles.

The Sauza & El Tesoro brands sold out to Fortune Brands three years ago. Two years ago, the once-trusted brand Herradura was sold to Brown-Forman for US\$776 million. José Cuervo operates a "Tequila theme park" in Jalisco, for those who don't mind a good headache. The vast majority of market share for distilleries like José Cuervo and Sauza come from tequilas made from 49% non-agave sugars (mixed brews containing



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sugars found in vodka and rum, along with agave sugars). Such large commercial operations wreck the ecology of Jalisco with chemicals and subvert a tradition of sustainable organic agave production that is thousands of years strong.

The product life cycle for inferior “mixto” tequilas is no longer in the growth phase. The opportunities for product differentiation are substantial. One direction is fair-trade agave. The current trend is moving toward tequilas made from sustainable crops using practices that promote social equity and fairness for agave producers. Fair Trade Agave certification is a likely next step.

Two organizations already working to correct the missteps in Jalisco are Empresa Ejidal Tequila de Amatitán & Cooperativa Tequilera La Magdalena. Empresa Ejidal is the home of Azuñía & Regional Tequilas (as in, a source of regional pride). Agave for these brands is grown by one of the region's oldest agave growing families, the Sergio Zuñiga family. Crops are grown without chemical fertilizers or pesticides; planting and harvesting is done entirely by hand. These products are finding consumers in the USA through the efforts of Maverick Spirits, exporting to Newport Beach-based Intersect Beverage

Cooperativa Magdalena grows agave used in El Caudillo & Sangre Azteca (“Aztec Blood”) Tequilas. Agave for these brands comes from dozens of organic agave growing families that together make up the cooperative. These family-based farming cooperatives are not interested in making the types of tequilas provided by the multinational corporations (MNC's), “mixto” liquor destined to be mixed in drinks or served as shots with lime and salt. Instead, they create fine, traditional tequilas to be sipped by aficionados. In Mexico, such tequilas are served alongside equal-sized glass of Sangrita, a mixture of tomato, orange, and chili pepper juices.

Family-based agave producers and distillers are not content to watch their traditions perverted. There is talk in the City of Tequila in favor of new NOM regulations that will prevent MNC's from continuing to degrade the reputation of Mexico's national drink along with Jalisco's ecology. “Stricter rules are necessary to make tequila successful for both companies and farmers,” states University of Guadalajara sociologist Peter Gerritson. Regardless of the outcome of such initiatives, there are new agave investment opportunities in Jalisco as the tequila pendulum swings back toward traditional producers.

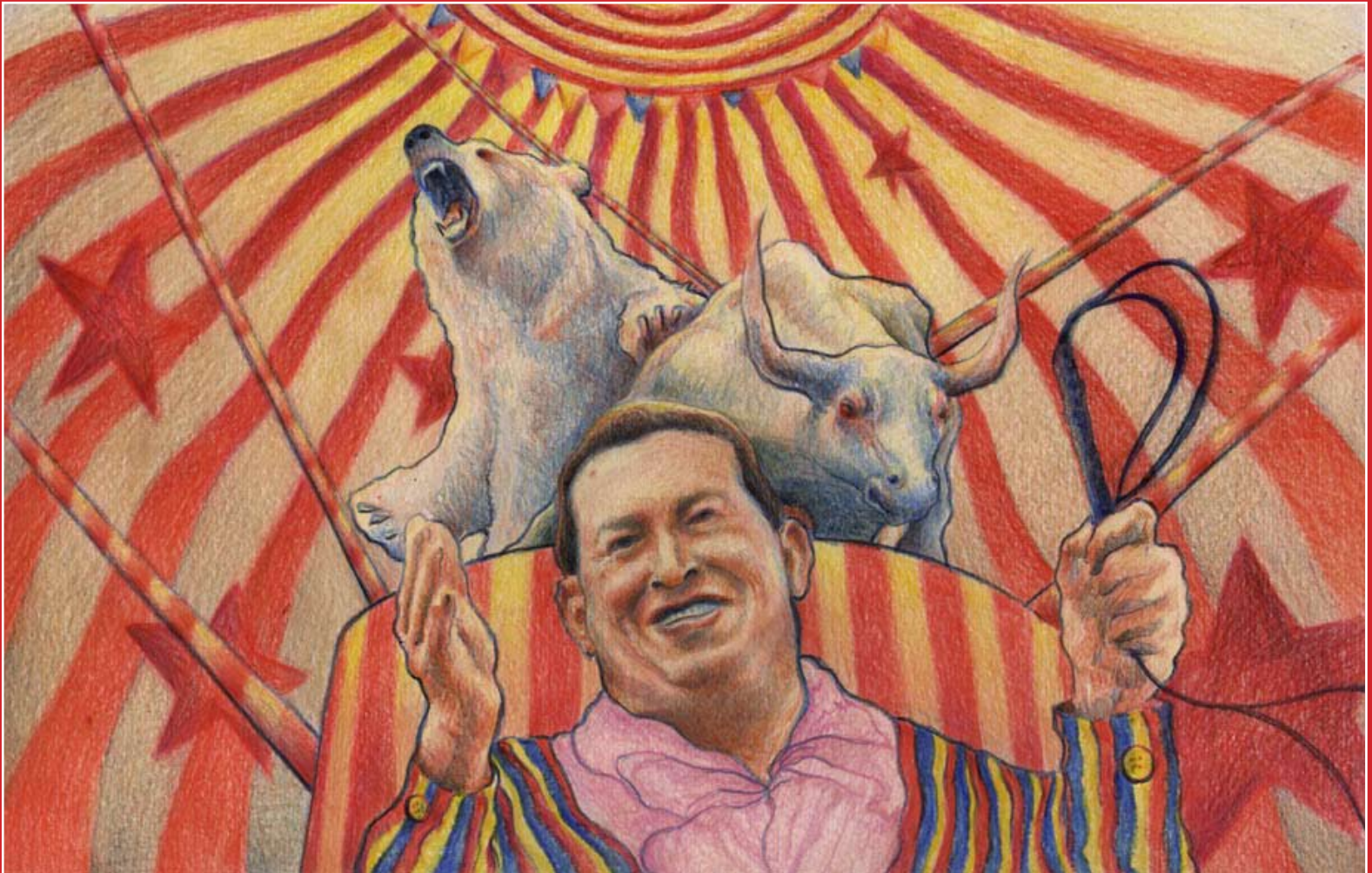
Health food stores now sell the natural sweetener that is undistilled, pure agave nectar for the same price as a fine bottle of tequila. Agave nectar provides an alternative to honey for households worldwide, and an alternative for traditional farmers to the glut created by corporate growers. Savvy consumers are increasingly interested in sustainably produced products as an alternative to corporate headaches such as “shots” that are only half tequila. These trends, coupled with 28% average annual growth for artisanal tequilas, suggest investments in organic agave products can once again provide attractive dividends for investors while supporting farming families and the ecology of the region.

=Commodities=

Chavez And The Diminishing Return – *Part One*

■ By Robert Petrucci

Since coming to power in 1998, Hugo Chavez of Venezuela has not only transformed the political landscape of his own country and influenced the populist movement of South America, but he has also dramatically impacted investment and its outlook. Chavez's power base has made the prospect of investing (and even preserving) money in Venezuela a complicated affair, and unfortunately it is becoming an increasingly difficult riddle.



= Commodities =

Chavez during the height of the boom in oil prices found himself in a politically powerful and cash-rich position, able to spend money for pet projects and military rather carelessly. However, because of the global downturn and retrenchment in oil prices, Venezuela finds itself with a sinking economy that is cash strained. The Bolivar is losing value and its bonds ratings are suffering internationally.

Chavez is widely known as a hawk within OPEC and has called for the oil cartel to try to keep prices as high as possible. While one cannot fault him for wanting his country to profit on the heels of oil's strength, it does leave him open to criticism considering oil's fall and his inability to expand Venezuela's economic base. His one-dimensional approach to growing Venezuela's wealth has left him at a distinct disadvantage. The question that arises for the private or institutional investor considering a placement of capital within Venezuela is a dynamic one. Because of the political situation, it would be foolhardy to invest without promises by the leader himself, Chavez, that capital would be welcomed and secure. Unfortunately his

track record does not support that type of consideration, taking into perspective the fact that he has now begun to extort money from corporations by threatening them, in some cases going as far as taking over facilities of corporations and nationalizing them or penalizing them with a probation process consisting of different time frames per the government's whim.

Chavez has not only made it hard to invest in Venezuela; he has also made it difficult to get money out of Venezuela, putting limits on amounts of money that can be carried out of the country personally and sent by wire transfer. These policies have left the people who have earned good incomes in Venezuela to formulate alternative methods to safeguard their wealth, which has not been easy considering the precipitous fall in the value of the Bolivar.

There is a theory in economics called diminishing return. In most cases this is used to point out that, when an entity receives initial funds for investment in order to create new industry, eventually the money that follows the previous investments will not match the percentage of profit made before. Too much money

There is a theory in economics called diminishing return. In most cases this is used to point out that, when an entity receives initial funds for investment in order to create new industry, eventually the money that follows the previous investments will not match the percentage of profit made before.



= Commodities =

often makes the money that follows less valuable and thus less profitable in many cases. Unfortunately for Venezuela—though it certainly is not being overrun by investment from corporations and individuals currently—even if a person wants to invest in the country, one would be taking a huge gamble on the man in power. Unless one has an ability to know firsthand that their money is secure and that the investment is protected by the nation, why anyone would consider such a move? Chavez has helped reformulate a new law of diminishing returns.

In the past year alone, Chavez has not only set his sights on the continuing confiscation of oil-based corporate assets but has also gone after other companies like Cargill, the commodity giant. Because of Venezuela's clear disregard for basic economic theory, Chavez has created inflation by trying to implement price controls on basic foodstuffs and caused scarcity as well.

Having increased Venezuela's dependence economically on the oil industry, Chavez was able to enjoy a robust return of GDP during the boom oil years, and the end of the calendar year 2008 was even able to achieve a 4.8% gain. However with the downturn caused by the financial crisis within the United States, Europe and Asia, Chavez has seen a reversal not only in the demand for his black gold but also in unstable growth.

S&P now rates Venezuela's bonds with a mere BB rating, which means the country's economic conditions lack clarity and there are now doubts and severe questions regarding Venezuela's ability to cover its debt obligations. With a global economic outlook that continues to be cautious, Venezuela's circumstances will remain challenging in this environment as long as the oil industry remains the main engine for the Venezuelan machine.

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Investors in Venezuela must play a strong and subtle game of political networking at this time to make sure they can maintain production and allow financial assets in the country to perform regularly. A pragmatic approach must be taken by the citizens of Venezuela to essentially safeguard their assets from becoming nationalized or seized "for the good of the people." How to do this without raising the ire of the Chavez government is the one million Bolivar question. The specter of corruption growing in a country that has a "populist" leader is often a grim reality, one that has stood the test of political and economic history as governments try to make money in the "utopian" lands they try to control.



Precious Things in Peru

■ Anthony C. LoBaido

Peru is an interesting country in that it has been forged by the Conquistadors, brought into modern times by the Japanese (including a famous Peruvian leader with Japanese DNA) and may fall into the orbit of Mainland China. Peru, like many Latin American countries, can indeed be seen as a natural resource colony for Asia's emerging power houses.

According to an NGO worker based in Costa Rica, “America is losing power by the day and is no longer able to keep China out of Central and South America, nor Russia for that matter.”

In the wake of these erstwhile geopolitical changes, astute Latin America watchers may well ask what’s going on in Peru? According to Linda Dixon, an American gold entrepreneur now based in Peru, that South American nation ranks high in both silver and gold production. Corporations which may or may not adhere to environmentally-sound mining procedures are assessing the risks in the marketplace in regard to the terms of capital investment, borrowing and the rate of return. Opportunities exist in abundance for the small to medium scale investor.

A lack of solid English-language coverage of the precious metals industry in Latin America, says Dixon, makes the whole assessment process less than perfect. Fifty-plus percent returns are possible on small mining concession in Peru. This is something American and Western investors may well want to consider for their portfolio.

US\$ 50 to \$60,000 investments might be considered prudent, as a sort of micro-lending on steroids. Dixon might well take note of the fact that roughly 15 million artisanal gold miners are digging for gold right at this very moment to the four corners of the Earth.

Again we must ask “Why all the fuss about gold?” Almost everything in America that can be monetized (from AIG and major bank debt to stay at home mothering vs. day care) has already been monetized. After the housing and IT bubbles burst, there is no new source of wealth creation. America has been systematically de-industrialized. In times of bust and fear gold reigns supreme.

Gold mining in Peru offers low overhead and no shortage of buyers (in Latin America, North America, the West and the world.) On-line, vertically integrated real time data on gold extraction, procurement, spotting, selling, acquisition as well as personal and industrial use is not far off. Analyzing and profiting from extraction, refining and selling of gold directly to buyers with a “premium to spot” is the order of the day for entrepreneurs like Dixon.

■ Digging Deeper in Latin America

Surely there is a great global hunger for gold – but whom do you listen to and where to you go to follow the process of gold’s “liberation” from the ground? With on-line data becoming available, from A to Z and every stop of the gold process along the way will be as convenient as reading the box scores of Major League Baseball on your laptop during the Fourth of July. And make no mistake – Latin America, especially Peru, Argentina and Chile, will be a part of the 21st Century gold rush. There is more mineral exploration going on in Latin America than any other region in the world. One out of every four mineral explora-

tion dollars these days is being spent in Latin America.

According to Ceri Jones’, Manic mining in Latin America, “In Argentina for instance, 75% of the mining region has not yet been explored. Barrick Gold Corp’s Pascua-Lama, which straddles the border between Argentina and Chile at a pant-inducing altitude of 15,000 feet. Barrick, the world’s third-biggest gold producer, had planned to move glaciers to get at the gold underneath, but the project has been delayed by wrangling with the local community in the Huasco valley who fear that the massive open-pit gold mine, expected to come on stream in 2009, will contaminate their fields and deplete water supplies.” Jones’ article echoes Dixon’s concerns about the viability of environmentally friendly and sustainable mining practices.

Concerning the future of mining in Peru, Jones’ article added, “Australia’s BHP Billiton has had to work hard to come to an agreement with residents near its inherited Tintaya mine in southern Peru. Many of the miners operating in the region are global companies such as Barrick, Falconbridge, Newmont, BHP Billiton, and Phelps Dodge. Toronto-based Barrick, which operates 14 mines including projects in Peru, Chile, Argentina and Tanzania, is worth a mention because last year it produced almost 5.5 million ounces of gold, at a cash cost of just \$227 per ounce, the lowest cost of all major producers.

“For a pure Peruvian play, Antamina is the country’s leading producer of zinc and the second largest of copper and molybdenum. The company increased its output by over 20% last year. Southern Copper Corporation is a producer of copper, molybdenum, zinc and silver located in Peru and in Mexico. Quoted in New York, the company acquired Minera Mexico last year, and now has a range of operations, including the Toquepala and Cuajone mine complexes in Peru, and both open-pit and underground operations in Mexico which produce zinc, lead, copper, silver, gold and coal.

“One of the most admired miners is Peru’s Buenaventura, a precious metals specialist with a shareholding in Minera Yanacocha. Quoted in Lima and New York, Buenaventura has two growing underground goldmines and the fourth largest silver mine, and a reputation for the best geological information in Peru.

“For instance, Antamina in Peru employs 1,400 workers and is one of the main sources of well-paid work in the country, particularly in Ancash. In five years, per capita income is expected to double in the area. In fact, Peru’s economy grew at its slowest pace for two years in April as fishmeal, natural gas and manufacturing output declined, leaving the economy remaining buoyed only by its \$10 billion mining exports and \$1.5 billion in natural gas sales.

Jones salutes Invesco which is a “Perpetual Latin American fund, run by Dean Newman, has performed well, up 36.6% on the year and 194.5% over three years against sector rises of 17.8% and 62.1% respectively. Other specialist trusts include

Scottish Widows Latin America fund, and Threadneedle Latin American fund, which have both made around 35.5% over one year and 163% over three years, although the latter has a higher minimum investment at £2,000. The UBS Global Emerging Markets fund has around 18% in Latin America, and Axa Emerging Markets fund and First State Global Emerging markets both have around 16% in the region.”

■ An Ancient Quest for Gold

During the days of Ancient Rome, a military general and fire department chief named Crassus was worth almost US\$ 170 billion in today’s paper denominated world. (As ranked by Forbes). Crassus, seeking to imitate Alexander the Great and conquer India, took his expeditionary legions into Turkey. There he hoped to fight and defeat the Parthians and capture Mesopotamia and Persia. Crassus ignored the advice of his advisors who thought he should invade through Armenia and saw his son killed. Crassus himself had liquid molten gold poured down his throat and was decapitated. His head was used in a theatrical play by those who slew him.

Today’s modern English dictionary contains the word “crass” as a reminder to those whose thirst for gold bullion may well be as unquenchable as Crassus’ was. Such a lesson cannot be lost on those readers in tune with the de facto paradigm of the post-American world of oligarch-led finance capitalism. Acting in the face of the conundrum driven by exotic financial instruments like derivatives and the securitization of the so-called sub-prime mortgages, the Fed has printed up Monopoly money out of thin air and bought off/rescued revolving door cronies on Wall St. via their “good old boy” network.

Meanwhile ordinary Americans have no choice but to watch helplessly as American manufacturing, off shoring, 20 million illegal immigrants, legal immigrant visas and other economy destroying phenomena have combined to set up “the perfect storm” of the economic Armageddon we now find ourselves in.

Inflation and the threat of inflation, massive U.S. Dollar devaluation and efforts to resuscitate the economy will be among the factors affecting the price of gold through the rest of 2009. The rigged stock market, regulators who should be wearing orange prison coveralls, low rates of return on U.S. Treasuries, trillions of Dollars of unpayable debt and cronyism do not inspire confidence in the average thinking American.

Therefore look for gold to continue its ascent, despite insider manipulation on the price of gold as organized by Central Banks -- who not only have a monopoly on the creation of paper money, but on the martial violence that money pays for via modern, conquering armies that would make Crassus blush.

Countering the implosion of paper and digital money is the fact that only 160,000+ tons of gold have been mined in all of human history. As such, one gold bar weighing 28 pounds is worth US\$ 333,000+. At 1000 per ounce and rising, gold as they say, is still “money in the bank.”

The question remains, where will all of this lead the world in terms of the price and demand of gold? Why the obsession with this metal? Some years ago, the well-known economist Milton Friedman lamented the idea of mankind placing so much value on something you merely dig up from the ground. There isn’t that much gold in the world to begin with. What can you really do with it beyond jewelry and dental work? The answer – plenty.

Today’s modern English dictionary contains the word “crass” as a reminder to those whose thirst for gold bullion may well be as unquenchable as Crassus’ was.



The people of Burma wear gold medallions around their necks as a hard currency 401 K. Gold sales are up while the American Dollar is down, Brazil just won the right to host the Summer Olympics, a gold-back Dinar may be in the pipeline and a basket of currencies may well be replacing the U.S. Dollar as the major global reserve currency. Digital gold, gold stocks, global gold mining and Latin American gold mining, as well as gold demand in India (which consumed more than 770 tons of gold in 2007) and China (360+ tons in 2007) are key issues which deserve vigilant monitoring.

The world's thirst for gold is sure to continue. According to writer Siddharth Pani, "Most of the Central banks, including India's are holding gold reserves as a hedge against any fiscal crisis. In 1991 the then-Narshima Rao government had taken loan against gold to tide over the Indian fiscal crisis, which ultimately led to the opening up of Indian economy. Unless new gold mines are found in the coming years or some major Central banks sell gold, there will be shortage of Gold. Further, the cost of extracting gold is also rising.

"At this point there is a marginal surplus as far as Gold and supply and demand is concerned. This may change rapidly as more and more investors are diversifying into Gold, particularly in developed nation where gold's penetration as an investment option is still low. Jewelry demand from countries like India and China is expected to rise over the next few years. Demand pressure will continue to increase while goldmine supplies are expected to remain steady. It is worth noting here that it takes at least a few years for a newly discovered mine to be fully operational. Even if new mines are discovered new gold supplies will take time to materialize."

... More About Peru for Investors to Consider ...

Your browser may not support display of this image. In 2006, Peru occupied a leading position in the global production of the following mineral commodities: arsenic trioxide (fourth after China, Chile, and Morocco), bismuth (third after China and Mexico), copper (third after Chile and the United States), gold (fifth after South Africa, Australia, the United States, and China), lead (fourth after China, Australia, and the United States), molybdenum (fourth after the United States, China, and Chile), rhenium (fourth after Chile, Kazakhstan, and the United States), silver (first followed by Mexico and China), tin (third after China and Indonesia), and zinc (third after China and Australia).

In Latin America, Peru was the first ranked producer of, in order of value, gold, silver, zinc, lead, tin, and tellurium and the second ranked producer of copper and molybdenum (after Chile), and bismuth (after Mexico).

In 2006, Peru's economy benefited from high prices for mineral commodities. To date, the Government has privatized 220 state-owned firms via joint ventures and consortia in the mining and fuels industries. The firms have generated \$9.2 billion, with an additional committed capital flow of about \$11.4 billion, representing 17% and 21% of Peru's GDP, respectively. Privatizations and concessions generated a committed investment of \$6.9 billion (2006-2010) by mining companies such as

Perú Copper Inc. for Toromocho copper project (\$2.5 billion), Xstrata plc. for Las Bambas (\$1 billion), Phelps Dodge Corp. for expansion of Cerro Verde copper mine (\$850 million), Monterrico Metals Inc. for Rio Blanco base metals project (\$800 million), Rio Tinto Limited for La Granja copper project (\$700 million), Southern Copper Corporation for expansion of Ilo smelter (\$400 million), Goldfields Ltd. for Cerro Corona copper-gold project (\$350 million), and Companhia Vale do Rio Doce for the Bayovar phosphate project (\$300 million). The Ministerio de Energía y Minas reported that of the committed investment in 2006, Peru received \$1 billion for gas and \$200 million for petroleum.

Petróleos del Perú (PETROPERU S.A.) was created on July 24, 1969 (law No.17753) as a state-owned entity, dedicated sequentially to transportation, refining, and commercialization of refined products and other derivatives of petroleum. The Peruvian Congress on June 2, 2004 (law No.28244) excluded PETROPERU S.A. from the privatization process and authorized its participation in the exploration and production of hydrocarbons. The state agency Perupetro S.A. was created on November 18, 1993 (law No. 26221) to be responsible for promoting investments for hydrocarbon exploration and production in the country. Perupetro negotiates, signs, and administers hydrocarbon contracts, for which PETROPERU must compete with private firms as well. In 2006, PETROPERU invested \$4.5 billion in the hydrocarbon sector.

"At this point there is a marginal surplus as far as Gold and supply and demand is concerned. This may change rapidly as more and more investors are diversifying into Gold, particularly in developed nation where gold's penetration as an investment option is still low."

■ Production

In 2006, the value of Peruvian minerals (metals, industrial minerals, and fuels) production amounted to \$6.5 billion, compared with \$5.1 billion in 2005. Mining and fuel production increased by 8.1% as a result of larger values of metals (7%) and fuel output (23%). The increase of mineral outputs (content) was mainly led by natural gas (77%), molybdenum (22%), gold (20%), crude oil (18%), and iron (8%), and to a lesser extent by silver and lead (4% each) compared with 2005 outputs. In 2006, metal prices were also driven upwards because of the higher consumption associated with increased world economic activity, such as in China, the United States, and other countries.

Metal production growth was mainly led by an increase in copper, iron, silver, and lead, which offset the decreased output of gold, molybdenum, and zinc. The hydrocarbon sector's output also increased owing to the increased extraction of natural gas at Aguaytia and Camisea. Crude oil output was expected to

increase as the result of the 16 new oil exploration and production contracts signed in 2006.

■ Mineral Trade

Peru's mining industry, which has consistently been the country's major foreign exchange generator since 1997, accounted for almost 61.8% (\$14.7 billion) of total export revenues of more than \$23.8 billion in 2006 compared with 56.3% (\$9.8 billion) of total export revenues of about \$17.4 billion in 2005. In 2006, Peru's total trade balance recorded a surplus of about \$8.9 billion compared with \$5.3 billion in 2005, which increased by almost 68% compared with 6.6% in 2005. Peru's minerals sector had a trade surplus of \$16.2 billion compared with \$11 billion in 2005.

In 2006, mining was the main exporting sector of the country. Price increases for zinc (136.5%), copper (82.6%), and gold (36%) played an essential role in the Peruvian trade balance. Almost 82% of the total minerals exported (\$14.7 billion) were copper (\$6 billion), gold (\$4 billion), and zinc (\$2 billion). Peru's other mineral exports were molybdenum (\$838 million), lead (\$713 million), silver (\$479 million), tin (\$332 million), and iron (\$256 million).

Peru's fourth major traditional export, petroleum and derivatives, amounted to \$1.6 billion in 2006 compared with \$1.5 million in 2005. Peru's total mineral exports, which included petroleum and derivatives, amounted to more than 68% of its total exports in 2006. Total mineral imports, which were mostly petroleum and derivatives, however, increased by about 34.8% to \$3.1 billion compared with \$2.3 billion in 2005. Total imports increased by about 21.5% to \$14.7 billion compared with \$12.1 billion in 2005 and generated a surplus of \$2.6 billion compared with \$5.3 billion in 2005. In 2006, the United States (34%), China (11%), Chile (7%), Canada (6%), and Japan (5%) were Peru's leading mineral consumers. The United States, China, and Chile were the main importers of gold, copper, and molybdenum, respectively. Peru sold about 6% of its exports to other members of the Mercado Común Andino (ANCOM), whose members were Bolivia, Colombia, Ecuador, Peru, and Venezuela; about 3% was sold to the Mercado Común del Cono Sur (MERCOSUR) countries of Argentina, Brazil, Paraguay, and Uruguay, and associate members Bolivia and Chile; and 15% was sold to other Latin American countries. Peruvian mineral exports could increase

if the negotiations between ANCOM and MERCOSUR lead to a South American free trade agreement and owing to the free trade agreement signed recently (2006) between the United States and Peru.

■ Metals

Copper

Peru's copper output (Cu content) in 2006 was about 1.05 million metric tons (Mt) compared with almost 1.01 Mt in 2005, an increase of almost 4%. The country's copper metal exports in 2006 totaled about 986,600 metric tons (t) valued at \$6 billion, compared with 984,200 t valued at \$3.4 billion in 2005; this value was 76.5% higher than that of 2005 as a result of the

copper price increase to \$2.829 per pound of copper in 2006 from \$1.549 per pound in 2005.

Gold

In 2006, gold output was 202.8 t compared with 208 t in 2005, a decrease of 2.5%. MyS produced 81.2 t compared with 103.2 t in 2005. Other leading gold producers were Minera Barrick Misquichilca S.A. (51.9 t), Madre de Dios S.A. (15.8 t), Compañía de Minas Buenaventura S.A.A. (7.9 t), and Aruntani S.A.C. (6.5 t). Gold

exports in 2006 totaled about 6,702.1 ounces valued at \$4 billion compared with 7,036.8 ounces valued at \$3.2 billion in 2005; this value was 25% higher than that of 2005 as a result of the gold price increase to \$605 per troy ounce in 2006 from \$445 per troy ounce in 2005.

Silver

The country's total silver content output increased to more than 3,471 t compared with 3,206 t in 2005. Peru, for the third time, surpassed Mexico's silver output of 3,000 t in 2006. In silver output, companies, such as Aruntani, El Brocal, Compañía de Minas Buenaventura S.A.A., and Volcan Compañía Minera S.A.A. were more active, and silver production was higher than last year because Minera yanacocha S.R.L. and medium-sized gold-silver mines exceeded their initial production goals. yanacocha increased its output mainly as a result of technological innovations in its gold-silver recovery process. Higher international prices allowed medium-sized mines and small producers to mine lower grade ores. Peru produced more than 313,300 t of lead in concentrates compared with about 319,400 t in 2005. Exports of silver were valued at about \$479 million, respectively, compared with \$281 million in 2005, respectively.



■ Mineral Fuels

Coal

Peru's largest coal deposits were at Alto Chicama located in La Libertad Region. Other coal deposits occur in the Cuenca del Santa in the Marañón Region and the coal basins of Goyllarisquizga and Hatun Huasi in the Cáceres Region of central Peru. In 2006, Peru's recoverable coal reserves were estimated to be 1.1 billion metric tons, and coal production was relatively small (about 29,535 t) compared with an estimated consumption of more than 1.3 Mt/yr.

Natural Gas and Petroleum

In 2006, Peru's recoverable (proven and probable) and possible crude oil, liquefied natural gas (LNG), and natural gas

resources were estimated to be 6,239.1 million barrels (Mbbbl); LNG 1,373.8 Mbbbl; and natural gas 859 billion cubic meters (30.4 trillion cubic feet), respectively. The leading gasfields were the Aguaytia, which is located about 41 km west-northwest of Pucallpa and had proven reserves of 8.5 billion cubic meters (301 billion cubic feet) of gas and 9 Mbbbl of natural gas liquids (NGL) and the Camisea gasfields in the Ucayali Basin with 250 billion cubic meters (8.7 trillion cubic feet), which included 600 Mbbbl of NGL. Natural gas production increased to 1,775 million cubic meters from 1,517 million cubic meters in 2005 and was produced by Pluspetrol S.A. (59%), Aguaytia S.A. (22%), Petrotech del Perú S.A. (8%), Petróleo Brasileiro S.A. (Petrobrás) (6%), and others (5%). Petrobrás through Petrobrás Energía S.A. acquired exploration and production rights for natural gas and petroleum in Lots 57 and X, respectively.

“Special FX”:

Forex themes as 2009 draws to a close

Our last article focused on the widespread impact of change engineered by ongoing challenges to conventional wisdom and considered various trading styles that have subsequently evolved due to increased volatility and price turbulence within FX markets.

Not much has altered since although it's fair to say markets have calmed down somewhat as players mull financial and behavioral effects to date on business conditions. With a degree of stability returning, players are turning their attention toward the debate on future expectations for FX market conditions, for example attempting to understand the increasingly elevated status of and need for non-deliverable forward contracts and potential deregulation of 'minor' currency markets as the currency world slowly, perhaps ironically, evolves.

Why ironically? Because FX is one of the faster-moving asset classes as far as execution, yet anecdotal evidence shows that even inevitability is always resisted (at least initially) by the human element; despite the advancement of technology, human resources is still the major component of influence in the world of currency trading and therefore can cause developments to move more slowly and more randomly than might otherwise be expected. For example, how many textbook traders would have expected the USD to remain so relatively steady during a bout of Quantitative Easing (QE), or simply put, printing money? The human factor cannot be underestimated because psychology must definitely have played a role in determining the USD's floating market value, defying the odds against almost inevitable devaluation. Players are buying USD even though algo systems and modelers may have specified QE to be a key component of a 'sell' strategy.

Nevertheless, technological improvements are continuously underway and the topic of FX markets facing fresh regulatory issues in the U.S. and Europe may also have impacted recent psychology. This holds true despite obvious potential efficiency improvements that would be attainable in certain instances if people pushed beyond the limits human comfort zones. That's an issue not faced by the robots, black-box models or dark pools, which are emotionless and all about the price at a given point in time rather than what the price might be after an event. The fanfare and buzz that continues to surround the asset class of Forex has been accompanied by reminders through observations and analysis that although entry into the Forex market perhaps rightly generates a great deal of excitement, developing and executing an FX plan efficiently is of far more importance than the speed of its completion. This theme is highlighted by the growing phenomenon of managed accounts and the boom in retail FX volumes, where significant non-correlated returns can be achieved—and not necessarily with leverage. The prospect of 'easy money' is a common but potentially misleading theme in this market space, and it is worthwhile to consider professional advice before deciding to bet the farm on where the markets might be heading.

We think these emotional and psychological sides of trading FX are worthy of mention, and in an attempt to expand dialog with our readership we would like to know more about your



Kevin Sollitt gained international FX trading experience in various financial centers including London, New York, Los Angeles, Sydney, Hong Kong & Tokyo. Kevin's career began in London during the 1980s, later transferring to Sydney. In the mid 1990s he returned to London under the challenging financial conditions of that era, experience that equipped him to successfully deal with more recent turbulent market conditions.

In 1998, Kevin teamed with former colleagues at a super-regional bank in the U.S.A. and through strategic alliances, development of professional relationships & continuous positive trading results, became Head of Foreign Exchange Trading in 2006.

Kevin's market longevity is due to an entrepreneurial nature & the ability to provide innovative currency strategies. These are complemented by an impressive network of financial market professionals that result in a comprehensive, contemporary grasp on world currency markets.



respective thought processes, encouraging related questions and opinions that we'll enjoy using and debating in subsequent articles with intent to continually spread awareness of prevailing market factors and dynamics. What does Forex really mean to our readership and how can we expand upon truly relevant issues?

On the subject of change, our research indicates that many companies and individuals are merely scratching the surface and may not yet be at an advanced stage of recognition or cognisance when it comes to analysis of actual and latent portfolio risks, being more in the camp of general unawareness regard-

ing the advantages to be gained via better management of FX exposure. Indeed, many professional traders see opportunity where peripheral players see risk, and the opposite is also true; in either case, money is being left on the table.

For example, available enhancements such as transparency or price discovery are sometimes not introduced or not used quickly enough, and this affects a multitude of factors that range from simply getting a speculative deal done at the best rate to generating or reducing FX exposure for a business reason and even opening a retail or managed account in order to participate in the market from a P&L standpoint.

The phenomenon of liquidity 'dark pools' is a growing topic of



discussion, and apparently participation, within the institutional FX space. The simplest definition of an FX dark pool is an electronic arena with liquidity supplied from a multitude of sources (banks, hedge funds, sovereign wealth funds, etc.), usually via Prime Brokers, that provides participants with anonymity—thus ‘dark’ because the order books do not provide depth of market in price, direction or size. Their purpose is to enable execution of large trades without overtly or negatively impacting the market. The privacy angle is highly valued by leveraged institutions and has been enjoyed successfully for some time in equity and fixed income markets.

Recent developments in credit markets provide a good example of how dark pools may be used in FX: an entity forced to liquidate positions and therefore push the market adversely if discovered may use a dark pool and preserve its valuable proprietary information, potentially saving itself millions on large trades in the process. A growing recognition that FX can provide valuable ‘Alpha’ as other asset classes wane means that many entities are now using these tried and trusted tactics to generate revenue in FX, particularly because a dark pool circumvents the need to trade on an exchange or an ECN (Electronic Communication Network) where orders with bid/ask and volume data are published.

Institutions still allude to the fact that underhedging is preferred to overhedging—in other words, erring on the side of leaving some aspects of benchmarking to chance. ‘Price discovery’ is, surprisingly, still a relatively unknown or unpopular term for many FX participants, even as we approach the second decade of this millennium. Of all governing factors in FX, these aspects are likely to change very soon and very rapidly, not least because the infrastructure already exists to get around these issues. Live Forex prices are available from a multitude of providers, and the threat of future regulation will cause users to source pricing from more than one source. Entities that are seriously involved and eager to learn what the Forex market has to offer them in the way of meaningful improvements in facilitating business—improvements that happen to result in potential for greater profits—are raising awareness regarding what may be available in the currently unregulated Forex markets, finding pleasant surprises along the way with professional guidance. On a macro level, although the FX market has seen a decline from the estimated daily volume of around \$3 trillion per day of 2008 by around 17% year-on-year to an estimated \$2.5 trillion per day currently, there is still plenty of action, volatility and opportunity to consider when placing an FX trade. Some of this action has resulted in a new wave of enthusiasts for the carry trade, for the first time ever featuring the once-mighty USD as the funding currency.

We talked previously about the carry trade (buying a currency with a high interest rate and selling a currency with a low interest rate) and how it can be lucrative on the one hand but also end in tears for those players that are too highly leveraged or too late to pick up on the trend, entering just as the smart money exits. One of the most interesting discussions taking place right now is the recent trend of a declining USD and the question of the sustainability of this move. If it does continue we will see the USD used widely as a funding currency to enable profits in other currencies as they outperform the greenback on a relative value basis.

We previously projected a more bullish currency environment for LatAm currencies versus market expectations, and based on recent performances by commodity-based currencies such as the Australian and New Zealand Dollars we see no reason to change this view anytime soon.

In particular among more established and liquidly traded markets the Aussie has benefited most from recent negative sentiment against the US unit due to the interest rate environment and the perpetual (albeit reduced) demand for its commodities and associated infrastructure by Asia, in particular China. This theme may continue with the Reserve Bank of Australia hinting that a rate rise may soon be in the cards given economic stability and significant improvements in Australian labor markets.

Economically speaking we suspect a new currency order is gradually taking shape as established markets falter and emerging markets evolve.

So although the USD with zero interest rates enables the Dollar to become the carry trade currency, we are mindful that this vehicle is not always the best means with which to express a view should the trade become crowded.

As with any controversial or even non-mainstream theory, we expect the usual channels of progression with our views at first being met with ridicule or skepticism, followed by fear of the status quo being disrupted and finally acceptance as fundamentals come into play.

We do not have a timetable but the clues are all there, including possibly one of the most important in regards the USD carry trade from the U.S. Federal Reserve itself, repeating again its mantra of keeping rates at extraordinarily low levels for an extended period of time.

We are not expecting a ‘lost decade’ in the U.S. like Japan experienced, as there are many different factors at work. Japan has a shrinking population; the U.S. has a growing population. Japan had delayed policy responses; the U.S. has had an unbelievably quick, meaningful and sustained response. Japan relies on exports to maintain its economic power, but as we all know the U.S. could arguably become largely self-sufficient at some future point if it managed to curb its enthusiasm for consumer spending and dependence on fossil fuels. The 2020 program supported by the current Administration is certainly suggestive of intent to reduce the energy footprint of the U.S., the effects

ARS (Argentinean Peso) - last 12 months trading range			3.1059 / 3.8592
			<u>Forecast average</u>
Current	Q4 2009	Q1 2010	Q2 2010
3.8400	3.7500	3.6500	3.5500

BRL (Brazilian Real) - last 12 months trading range			1.7800 / 2.6202
			<u>Forecast average</u>
Current	Q4 2009	Q1 2010	Q2 2010
1.79	1.75	1.67	1.61

MXN (Mexican Peso) - last 12 months trading range			10.6977 / 15.5892
			<u>Forecast average</u>
Current	Q4 2009	Q1 2010	Q2 2010
13.56	13.25	12.85	12.45

of which would be a long way off but ultimately bullish for the USD.

It may indeed take several years for the U.S. to work its way from the present debt-laden situation and labor force decimation. If the recent decline of the USD Index (DXY) is anything to go by, the next few years will see reserve asset diversification gather momentum, and we will no doubt see the economic baton of power passed to other regions while the repair job goes on, at least from a standpoint of foreign currencies gaining in value as a more stable store of value than the USD. Perhaps one reason the Dollar has not fallen dramatically is due to China's reported \$1.3 trillion of USD-denominated assets and a global realization that there really is no true alternative just yet—try paying for your new home, vehicle or groceries with a gold bar—and when the cost of carry and insurance is calculated on holding gold as opposed to currency, this somewhat fuzzy logic begins to make some sense.

So although the USD with zero interest rates enables the Dollar to become the carry trade currency, we are mindful that this vehicle is not always the best means with which to express a view should the trade become crowded. That said, for now and for reasons stated we stick by our previous estimations for a lower USD in the near-term.

With a generally bearish USD outlook, our earlier projections for an appreciation in LatAm currencies are in good shape. It is generally advantageous to place a trailing stop-loss on all positions to ensure a satisfactory exit level should market sentiment suddenly reverse, although any such danger or signal will most likely manifest itself against the major currencies, at least initially. Q4 is always volatile in FX, and prices can move quickly in either direction, but for now we will stick with a general view of rising LatAm currencies over the foreseeable future. Future projections for LatAm currencies and the USD.

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The above material is the author's personal opinion and is subject to change depending on market circumstances. It does not constitute and is neither intended to be nor should be used for investment advice or investment purposes.

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Multimercado: Funds Go Global

Hedge fund regulations in Brazil provide local funds with global access

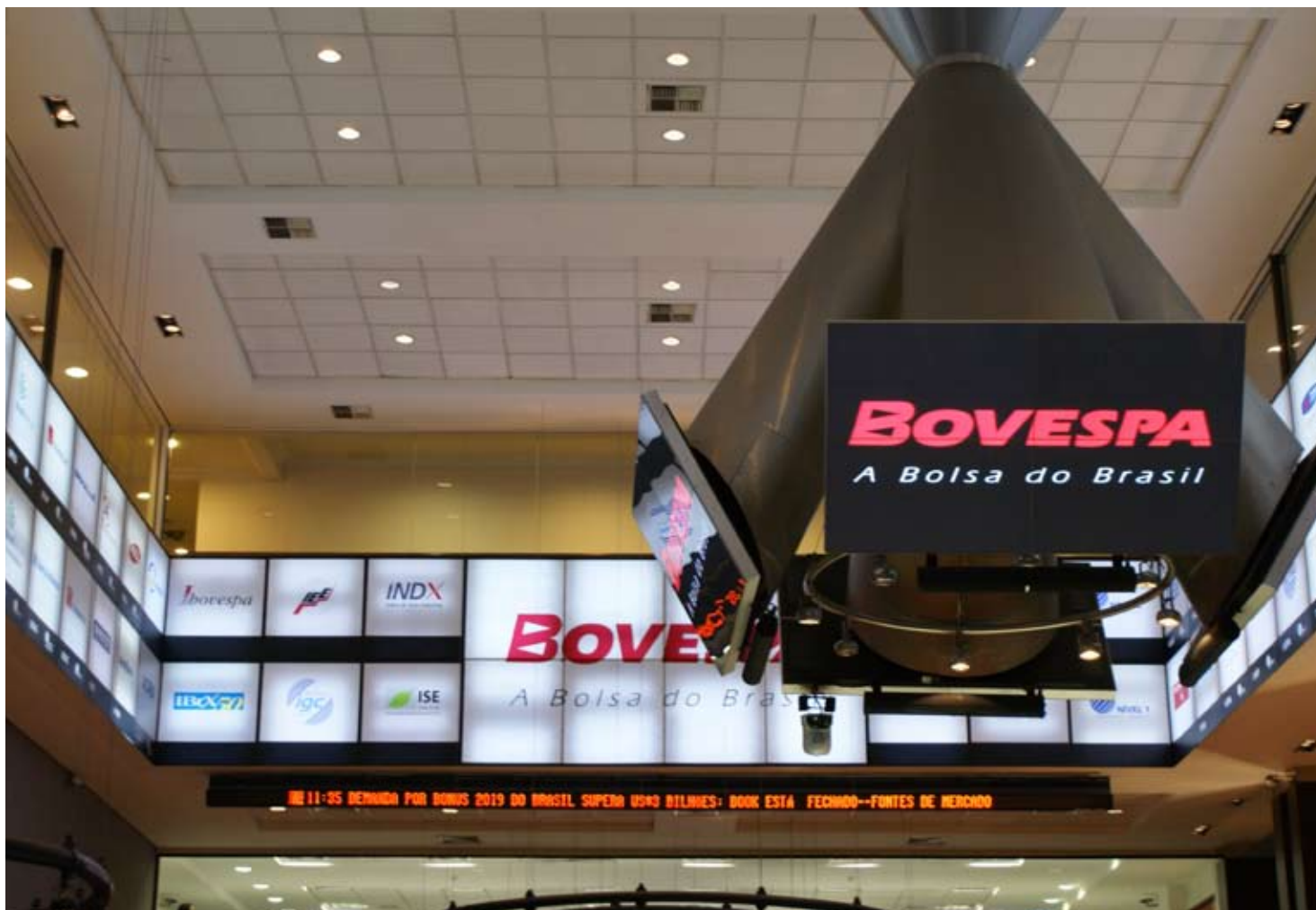
As Brazilian hedge fund managers prepared to take advantage of the long-awaited issue of a resolution that would allow them to access offshore markets in 2008, the global financial crisis hit just in time to set back their hopes. Indeed, local fund managers had waited years for the Comissão de Valores Mobiliários (CVM), Brazil's regulator of investment funds and capital markets, to issue Instructions 450 and 456, which provided long-awaited access to international financial instruments. Essentially, CVM 450 and 456 allowed multimercado funds (the local term used to describe onshore hedge funds) to place up to 20% of fund assets in investments abroad that are similar to those traded domestically by the fund.

Trading in these securities, which was long delayed due to disputed language in the original legislation, was an important step forward for the Brazilian hedge fund market. The industry had benefited from a prolonged bull run in emerging markets, increased visibility of BRIC (Brazil, Russia, India and China) strategies and bigger allocations from global managers. Brazilian managers viewed the approval of CVM 450 and 456 as an important step toward continued growth within the region, and the regulations allowed them to take advantage of increased interest among global investors in Latin American exposure.

Since the beginning of 2008, there were no updates to the resolutions and little activity to support its impact. Today, however, there are indicators of reactivation and requests for price

quotes for related services. This supports the view that offshore funds are being created as a consequence of the resolution.

The opportunity to invest abroad opens the door to attractive markets that can generate bigger returns and add an increased level of diversification to the funds. It allows managers to trade or hedge without having to attempt to replicate the trade locally. But the new regulations failed to establish the full access to global securities that managers desired, because they came with a number of caveats. For example, in order for a fund to trade an instrument abroad, it must already be trading a similar instrument in the Brazilian market. Yet CVM 450 and 456 did not explicitly define a "similar instrument." That became the biggest sticking point among managers and regulators. It was



the primary reason many firms were slow to take advantage of the rules.

By early 2008, the CVM had issued clarification on the language in 450 and 456. Nonetheless, fund managers faced yet another roadblock in the form of taxation requirements imposed on investments abroad by the Receita Federal (the Brazilian IRS). The tax implications on investments abroad, specifically on OTC derivatives, proved significant. The Receita Federal has taken the stance that all money invested by funds in OTC derivatives offshore should be taxed—even if the particular investment results in a loss. Should an offshore swap, for example, lose money, the loss is still taxed as if it were a capital gain. Given local tax rates can top 40%, this can have serious implications.

Another issue addressed by the CVM was the 20% limit placed on fund managers. This is far below the level of access sought by local managers. In response, the CVM issued Instruction 465. It granted 100% access to offshore investments for those funds that accept investments from qualified investors only (qualified investors in Brazil are required to make investments greater than R\$1 million) and then only if such funds are clearly defined as “Investimento no Exterior” (Investment Abroad).

Unlike the U.S., U.K. and many other markets, high minimum investment requirements are less common in Brazil, leaving most managers without full access.

About LaCrosse Global Fund Services

LaCrosse Global Fund Services is a provider of operations, middle-office and administration services to managers of complex hedge funds globally. The firm operates in 10 global office locations: Bogotá, Buenos Aires, Caracas, Istanbul, London, Minneapolis, Moscow, New York, São Paulo and Singapore. LaCrosse provides support for a wide range of strategies traded by global portfolio managers covering fixed income, distressed debt, structured credit, foreign exchange, equities, commodities and a full range of related derivatives. For more information, visit www.lacrosseglobal.com.

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A Truly

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On November 3, 2004, only 36 hours after stepping off a plane from Los Angeles to Buenos Aires, Daniel Karlin met the girl he was going to marry. They just got married last July.

In the interim, Karlin, with the help of his wife Lourdes, started Anuva Wines, a company that sources, imports, distributes and markets boutique wines from Argentina for the U.S. market. The original impetus for the business came from a simple observation that tourists to Argentina fell in love with Malbec and Torrontés—the quintessentially Argentine varieties—just like Karlin did when he arrived. The problem was that they had virtually no way of getting more of these rare gems in the U.S.

Karlin created a wine club to ship specially selected wines from Argentina directly to American tourists who had visited Argentina. They could then enjoy these different collections of wines—all hand selected by Karlin and a panel of wine experts and all from Argentina—in their homes after returning from their trips. Anuva Wines now ships these exclusive wines to 34 states in collections featuring limited productions of the classics Malbec and Torrontés and also unique varieties like Bonarda and Tannat. Setting up this home delivery service, however, wasn't as simple as Karlin thought it would be.

"We spent a lot of money on lawyers to be able to understand how to ship wine to people," Karlin says with a smile. The alcoholic beverage industry in the U.S. is highly regulated. In addition to Anuva's shipping service to clients and wine club members across the U.S., they have the only wine-tasting service for tourists in Buenos Aires. Anuva also offers in-home wine tastings in select cities in the U.S.



Karlin grins again when he talks about his discovery of Julian Cavagnaro's Viña María vineyard. Cavagnaro's great grandfather immigrated to Mendoza from Italy and settled their ancestral land in 1891. Now Julian, the namesake, makes a little-known yet award-winning, 4000-bottle production, single-vineyard Malbec called Cavagnaro Reserva. "I shared it with some retailers in New York and Los Angeles. They all guessed that the retail price to be double what we sell it for," Karlin remarks.

Because of its success with brands like Cavagnaro, Anuva is now branching into the wholesale side of the business where they see even more upsides. "Since the financial crisis, we realized that price points are everything and that's where Argentina wins," says Karlin.

With a lower average cost per liter than any other major wine-producing country in the world, Argentina is growing by leaps and bounds. Not only have they increased their market share of imported wines by 400% over the last 10 years, surpassing Chile to become the number 4 imported wine by country (behind France, Italy and Australia), but they were the only country besides Chile to grow in both dollar value and in volume when comparing the data of 1st Semester 2009 to 1st Semester 2008. Argentina's imports to the U.S. grew over 30% in both volume and dollar value. The only other country to come close to those values was Chile, while every other coun-



try's imports to the U.S. have fallen dramatically. France is down 27% in value and 11% in volume, Italy 20% and 7%, Australia 5% in value, and Spain, South Africa, New Zealand and other minor regions are all down as well. Interestingly, the overall wine market continues to grow in the U.S. for the 15th consecutive year in addition to the fact that imported wines as a segment are also growing.

"We think we're in the right business at the right time," says Karlin. "Malbec and tourism to Argentina are very popular right now but we need that trend to continue."

So why isn't everyone jumping on this business? Karlin says barriers to market entry include proficiency in Spanish, the cultural gap, wineries without websites, wineries with websites but with incorrect contact information, corruption and dishonesty, stolen domestic shipments in Argentina, poor understanding of label regulations, *brettanomyces* (a bacteria found in older wineries creating a "barnyard" aroma and flavor—a big problem for some Argentine wineries) contamination, the ins and outs of international shipping of controlled substances and U.S. import law and logistics issues.

"Our learning curve was steep and treacherous and we made a lot of mistakes," Karlin says, listing such setbacks as delayed shipments, extra costs, interactions with customs officials,

and complicated paperwork. Only now, after three years of operation, does he feel ready for his expansion into wholesale. "We're getting better with age."

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Paradise Lost, Paraguay Found



The hit of the global economic crisis coupled with the harsh and extended drought has transformed the once-vulnerable Paraguay, with its rich agricultural industry and extensive hydro-electricity resources, into an attraction for foreign investors

= Emerging Markets =

Canadian entrepreneurs and investors Neal De Florio and Daniel Wang, Principals of Monarca Capital, are smitten with Paraguay's stable economy, high incentives, low taxes and abundance of water, extensive arable land and clean electricity, oil and gas. "The strategic geographic location of Paraguay, nicknamed the 'Heart of South America' is at the 'heart' of the highest income region of the continent, which accounts for almost 50% of South America's GDP," say the investors.

Wang and De Florio are in for the long run. They have worked diligently to identify a number of investment opportunities in Paraguay in the banking, agricultural, real estate, and infrastructure sectors. De Florio says, "Our first priority is to find the 'right' partners in Paraguay, then we focus on the opportunities that are available to us in each of the specific sectors we have earmarked. Doing business with honest and ethical people is paramount to long-term success in foreign markets."

Monarca's long-term aim is to develop funds for multiple sectors with foreign equity combined with traditional debt and/or fixed income securities. According to Wang, investments into Paraguay would be best suited for the mid-sized institutional investor or high net worth private investors. He says, "You won't necessarily find deep discount opportunities as you would in the United States after the financial crisis, but you will find exceptional opportunities below their intrinsic value and at discounts compared to its neighbouring countries of Argentina and Brazil."

The stigma of corruption in its banking sector can't be easily dismissed, but Wang believes the Paraguayan banking sector is solid due to much improved and notably stricter regulations under the direction of the Central Bank. "The development of inter-banking systems has resulted in increased interest from international banks such as Banco Regional, which is 40% owned by Rabobank, HSBC, and Citibank," he says. The entrepreneurs are also encouraged by a recent press release announcing Paraguay's two largest banks—InterBanco, a unit of Brazil's Itaú Unibanco (NYSE: ITUB), and the local subsidiary of Spain's BBVA (NYSE: BBV)—both posting "the biggest profits in the system from January to August of this year."

While Paraguay enjoys the backing of its international banking partners, it cannot be denied that only 20% of its population has access to financial services due to its extensive rural areas. De Florio and Wang have identified an opportunity in the very need to shift banking from the current 75% dominant 'sight deposits' (similar to that of 'chequing accounts') to medium- to long-term financing and broaden banking participation. "There are plenty of

development opportunities to fill that gap. Paraguayan banks and the government are committed to achieving widespread access to financial services in the country," says De Florio.

In the real estate sector, De Florio and Wang strongly believe developing low- to middle-income housing is an opportunity to 'cash in' on a strong demand to alleviate the housing shortage.



Nothing could be more surprising than Paraguay's recent historical milestone. After a decade, Brazil decided to increase Paraguay's compensation from \$120 million to \$360 million for its share in operating the world's largest energy-generating plant, the Itaipu Hydroelectric Power Plant, jointly owned by Paraguay and Brazil on the Parana River. Paraguay will soon enter into the Brazilian energy market as the agreement will allow Paraguay to sell its unused power

in Brazil. Investors can look forward to infrastructural developments with the replacement of obsolete electric transmission lines by 2012. The powerful lines will increase Paraguay's current 10% generating capacity to correspond with its industrial growth. While other emerging agricultural sectors could account for a deficit because of inadequate water supply, Paraguay's advantage of having extensive water reserves and arable land together with low energy costs will continue to boost agricultural investment incentives.

For Monarca, Paraguay is a country with unlimited growth potential and unrivaled benefits. With Paraguay's equidistance to Brazil and the Atlantic Ocean and to Chile and the Pacific Ocean, and with Rio Parana's natural borders to Brazil and Argentina, Paraguay enjoys access to main commercial centres, free ports, regional ports, barges and transatlantic ships.. It is a land where the VAT is, at 10%, the lowest of all South American countries; a land where 0% is applied to import tariffs on capital goods, capital transfer for investments of more than \$5 million, and payments of interest on foreign loans. And, Paraguay is the ideal country for a business platform for logistics and distribution centres, IT, call centres, financial services, light manufacturing, vehicle and machinery yards and tourism offices.

For other foreign investors, Paraguay awakens an anxious attraction. Moving in the direction of greater investment transparency, stricter guidelines and minimized risks and costs, Paraguay is positioned to break down its barriers and could prove to be among the first in Latin America to emerge as "paradise found."

Priti Ramjee is the President of Stratagem North, Ltd., a Canadian company. Priti has been specializing in global opportunities for asset based lending for eight years.

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