

ALTERNATIVE LatinInvestor

Issue 13



DOUG CASEY

LATIN AMERICA

TOP TEN

LATAM HEDGE FUNDS

ARGENTINA

TIGHTENS FOREIGN CURRENCY CONTROLS

FAMILY OFFICE

SPECIAL ISSUE

On Hedge Funds

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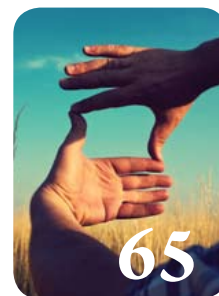
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Letter from the Editor

Dear Alternative Latin Investor readers,

Where did 2011 go? In the midst of keeping a cautious eye on US and European debt problems, whilst dealing with the rapidly increasing influx of investment and interest in the LatAm region, I seem to have lost a year. That is not to say we haven't been busy, but rather, 2011 has flown by.

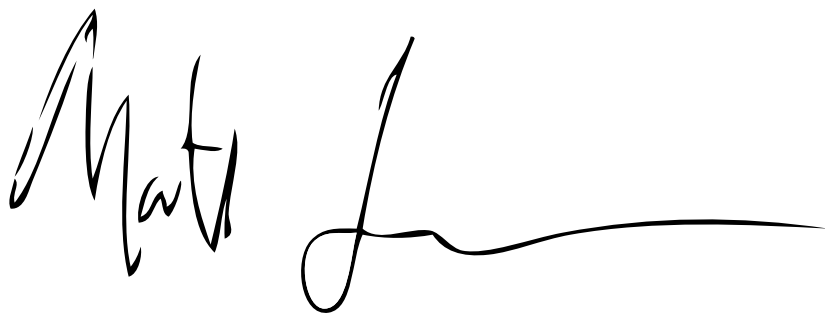
Humala, another four years of Kirchner, the Mercado Integrado Latinoamericano (MILA), property rights for Cuba - it was a very interesting year. More than just 'interesting', the changes and events we saw in 2011 were rather 'positive' and seem to be signaling the growth of a more stable, productive and developed Latin America. In my experience with emerging markets, one of the main oversights is almost universally forethought, long-term goals. Excited by current growth and prosperity, these markets, historically, do not plan for future FDI, the needs of a more affluent population or fiscal controls to moderate growth. As such the story of an emerging market bubble bursting is not an isolated one, from Thailand to Argentina, many have suffered due to shortsighted greed and unpreparedness.

I am very excited by the current changes in policies, legislation, and developments within the region, which will create more scale and liquidity within the markets, vast improvements in regional infrastructure development as well as trending toward the servicing of internal demand as opposed to foreign trade. With the current depressed economies of the developed world and the potential overheating of China, Latin America is perfectly poised to shine in the New Year.

On behalf of the entire Alternative Latin Investor team, and myself we would like to thank you for your continued support and wish you both a very merry holiday season and a prosperous new year.

Saludos,

Nate Suppaiah



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SPOT-trade's

Facundo Molina on Forex and CFDs

In August, ALI reported on the growth of the foreign exchange (Forex) trading industry in LatAm, with a focus on SPOT-trade, a UK money-management firm with their Latin American headquarters in Buenos Aires that specializes in Forex, among other investment vehicles. The global Forex market recently set a new record for average daily trading, in June of this year with US\$5.12 trillion, confirming Forex's standing as the world's largest and most liquid investment vehicle. Though LatAm contributed a disproportionately small fraction of that global total, regional interest in Forex is growing fast, both among large institutional investors and, increasingly, private investors. There is also increasing interest in contracts for difference (CFD), a derivative instrument often utilized in Forex trading.

Investors have long been attracted by the quick and high returns that Forex can provide. But in the face of the sovereign debt crisis in the Eurozone and the general global economic downturn this year, the risk-averse have altered their priorities. In this context, ALI asked Facundo Molina, SPOT-trade's Director of Operations and an expert in the global Forex and CFD markets, to expound on the advantages of Forex trading generally, Forex CFD trading specifically and the benefits of investing with SPOT-trade.

■ Forex Trading: Liquidity, Liquidity, Liquidity

Mr. Molina stresses that liquidity is what matters most to today's Forex investor. "In this

incredibly volatile global financial market, it cannot be stressed enough how important liquidity is. The old cliché of 'cash is king' seems to have taken on extra significance. Having instant access to capital while simultaneously utilizing financial instruments is imperative. This gives active investors the ability to move capital easily between investment vehicles and take advantage of opportunities when they present themselves." He notes that the daily trading volume of the Forex market is 50 times that of the New York Stock Exchange (NYSE), and that its operational hours are longer by half a day than those of global stock markets. With SPOT-trade, investors also have the option of withdrawing all or part of their funds from their capital accounts immediately.



The idea that crises and volatility create opportunities is fundamental to Forex and CFD trading, as investors are able to take advantage of both long and short positions, often for miniscule periods of time, using a distinctive characteristic of this market: leverage. "Difficult economic climates pres-

ent negative market conditions, but also create huge opportunities. With this in mind, quick access to capital or being liquid is key. With Forex and CFDs you have this power in your investment portfolio, and this has made the Forex market more prominent for investors. With regard to trading overall

Key features of Forex CFD trading:

- **Longer Operating Hours:** Market hours begin each Sunday at 18:00 pm EST, when trading begins in the Eastern hemisphere, and end every Friday with the closing of U.S. exchanges. At any given time, brokers and dealers are buying and selling. This implies the possibility of closing operations at the desired time with no waiting to find a buyer or seller.
- **Liquidity:** The daily volume of spot market operation is about 50 times the daily trading volume of the New York Stock Exchange (NYSE).
- **Long or short position (sale or purchase):** With CFDs, traders can take both sides of positions.
- **Availability:** Investors can withdraw all or part of their funds from their capital accounts immediately.
- **Leverage:** This is perhaps the feature that most distinguishes CFDs from other markets, because the investor can purchase a contract without having the money to buy it in cash, allowing the investor to purchase a larger volume from across the capital guarantee deposit.
- **Low Costs:** The only cost in each transaction is the spread, or the difference between the bid or selling price and ask or purchase price.

Example of a Forex CFD trade:

Instrument: Forex Market

Pair: EUR/USD

Leverage: 1 to 10

An investor buys €100,000 at US\$ 1.3510, because the analysis projects that the price will go up, with a target near US\$ 1.3540.

Transaction	Dollars	Euros
Initial balance	US\$ 10,000	
Purchase of €100,000		€ 100,000
Purchase price of €100,000	US\$ -135,100	
New account balance	US\$ -125,100	€ 100,000

Now there is €100,000 and a debit of US\$ 125,100 in the investor's account. Supposing the price then rises to the target level of US\$1.3540, the investor closes the transaction by selling the euros.

Transaction	Dollars	Euros
Previous balance	US\$ -125,100	€ 100,000
Sale of €100,000		€ 100,000
Payment for €100,000	US\$ 135,400	
New account balance	US\$ 10,300	€ 0

With the total balance of US\$ 135,400, the investor pays the debit of US\$ 125,100 and recovers the initial investment along with a gain, earning US\$300 through the purchase and the sale of euros.

With an initial investment amount of US\$ 10,000 the investor was able to obtain gains of 3% with a currency movement of only 0.3%. This example demonstrates the substantial benefits that exist in this market.

it has certainly increased volatility and has driven traders to act more conservatively with an accentuated focus on spot-trading strategies." (Spot trading, a common strategy in Forex, occurs when a currency or commodity is bought or sold for immediate delivery, as opposed to a futures contract, when delivery occurs after the contract's expiration.)

With liquidity paramount these days, Mr. Molina explains that his firm's management team chooses to trade primarily with the fourteen major currency pairs. "While exotic currency pairs are becoming more popular, these less liquid pairings have consequentially more volatile and thus risky movements that are more difficult to predict. Our focus is on our clients' capital, profitability and complete satisfaction."

Contracts for Difference (CFDs): "The Future of Financial Investments"

Mr. Molina says that contracts for difference are becoming more popular, calling them "the future of financial investments." CFDs act as a mirror, where investors enter into a contract to own the difference in the share price of the underlying security without actually owning the share itself, done on the margin. As they are a type of derivative, he explains, they are over the counter (OTC) and not listed on a centralized market. Only recently have CFDs become available to retail investors, mostly in Europe and Asia.

CFDs were created from investment funds in order to give access to higher exposure and bi-directional trading, he says. They are "one of the most important financial tools" because they can be applied to various assets, including stocks, commodities, currencies and interest rates. An essential aspect of CFD trading is that the investor is not required to take physical ownership of the underlying asset, and leverage allows the investor's account balance to serve as a proportion of the overall value of open positions. "This in turn acts as a guarantee," he says, "against all trading positions, allowing the investor to mobilize more than his initial cash deposit."

Summing up the benefits of the CFDs for investors, Mr. Molina says that they "present unique opportunities to generate gains in volatile economic climates like we are currently observing....The possibility of entering the market from both the buy and sell side, one-click execution of short-term transactions, the smart use of risk levels, stop-loss control systems and leverage are some of the advantages that permit significant capital growth in the current market in moments where opportunistic price patterns are observed."

Mr. Molina sees CFDs as an integral part of a diversified portfolio, as well as a way to hedge against certain kinds of risk. "Although the majority of CFD investments are speculative in nature," he says, "the CFD can be utilized as a coverage strategy for individuals and companies in a variety of situations. For example, an export company can protect



“Nowadays, these are the characteristics that active investors crave.”

against a currency fluctuation by acquiring Forex CFDs. Similar strategies can be used by agricultural producers seeking coverage against price fluctuations of commodities, as well as by firms whose products are petroleum derivatives.”

As CFDs are traded over the counter (OTC), Mr. Molina recommends that investors select a broker located in a highly regulated country such as the United Kingdom where the trades are being executed; that they know the custodial bank where deposits are held; that account movements are fully visible via the broker’s software; and, most importantly, that funds are actively traded by an experienced money manager certified in all relevant instruments and markets. For new investors, he recommends committing no more than 30% of one’s available liquidity to this type of trading, and that one know and establish his investment goals before entering the market. “On one side there are individuals who act solely as investors and seek to maintain a passive portfolio,” he says, “while others seek more active, adventurous trading that involves making riskier decisions in uncertain market conditions.”

■ Distinguishing these two types of investors, he says:

“Consider active traders who require the understanding to be able to make decisions while trading their own accounts. To these investors, I suggest that they look for a tutor or mentor who can guide them in the theoretical and practical process, and that they dedicate themselves to studying all related aspects of technical and fundamental analysis of the markets in order to develop effective strategies. When trading their own accounts, it is essential that these traders are careful in managing their money and are not influenced by psychological or emotional decision making. On the other hand, I recommend that more passive investors assess in depth the company that will be responsible for managing their account, as well as the

broker providing the platform, the regulatory framework and the custodial bank that will be holding the funds. It is important to maintain control of the account, and to set a loss limit at which you will withdraw funds in the event that things do not go as planned.

■ SPOT-trade’s Expertise and Methods

Befitting the complex highly-technical world of Forex and CFDs, Mr. Molina has a degree in economics from the Universidad del Sur, where his thesis explored the application of the Fibonacci Retracement Theory to financial markets. He has worked in the financial services industry for the last 16 years, with experience in private banking, portfolio management, pension planning and insurance. In 2003, he started his own trading consultancy firm, MolFx, which provides management consultancy, market research and professional training. He has trained professionals in Spain, Mexico, Peru, Colombia, Chile, Uruguay and Argentina, while publishing articles in various journals and forums.

Currently, as SPOT-trade’s Director of Operations, he oversees all of the firm’s functional areas, working closely with the Corporate & Institutional (C&I) and Private Client Group (PCG) divisions. He describes his firm as “the first to disembark in LATAM with unique financial products in these markets,” adding that SPOT-trade has “provided the building blocks necessary to meet the investment needs of an audience that lacks competitive alternatives today.” SPOT-trade is associated with the London-based global brokerage firm City Credit Capital, subject to Financial Services Authority (FSA) regulations.

■ Describing his firm’s make-up and approach, he says:

“We have a team of over 150 money managers and have accumulated an excellent selection of traders who work with differ-

ent investment amounts, specifically with private clients and corporate or institutional money. Our team has the capacity to trade at multiple risk levels using multiple trading strategies. They have extensive strategic, quantitative and qualitative knowledge to carry out smart trades. The goal of our trading model was to accumulate a diverse collection of professional traders that can match each of our individual client’s unique investment goals, a goal we continuously meet and exceed”

■ Regarding the relationship between SPOT-trade’s clients and its traders, Mr. Molina says:

“Each of our clients is assigned his or her own financial advisor, who works with the client to initially establish their investment goals, their past investment experience, interest in specific instruments, expected returns, liquidity and risk tolerance. These are the main areas that our advisors will assess in order to create a client’s risk profile. The most important part of this process, however, is matching a client’s profile with the correct money manager. The bottom line with any investment is to first identify the goals and objectives of the individual investor, and then to match these goals with the ideal investment vehicle. At SPOT-trade we take this a step further with personalized active money management.

Asked if there was a type of investor that should not invest in Forex, Mr. Molina came back, “The real question should be who should invest in Forex, because I think it is an indispensable market for any person with available capital to invest. It provides diversification of the portfolio, can produce higher revenues than other investment alternatives and offers complete liquidity.”

“Nowadays, these are the characteristics that active investors crave.”

If you have any queries regarding any of the technical content of this article do not hesitate to contact info@spot-trade.com

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Agribusiness Roundup

The end of the year is a good time to look back on commodities covered recently in this space. As we consider recent reports and this year's trends in our hemisphere's dynamic agricultural sector, we would like to thank you, our readers, for your inquiries and invite your feedback.

■ Stephen Kaczor

Citrus production grew 3% in Spain this year, not enough to keep up with growth in EU demand. Peru increased its EU export volume by 10% despite static production levels, due to steady growth in market prices. Florida Citrus Mutual forecasts a 5% production increase for 2011-12 over the prior season. As the G-20 summit concluded in November, Argentina's President Cristina Fernández Kirchner requested that President Obama work to remove duties on Argentine citrus; and, the Governor of Argentina's principal citrus region, Entre Ríos, projected that duty-free status could result in a 30% increase in exports to the U.S.

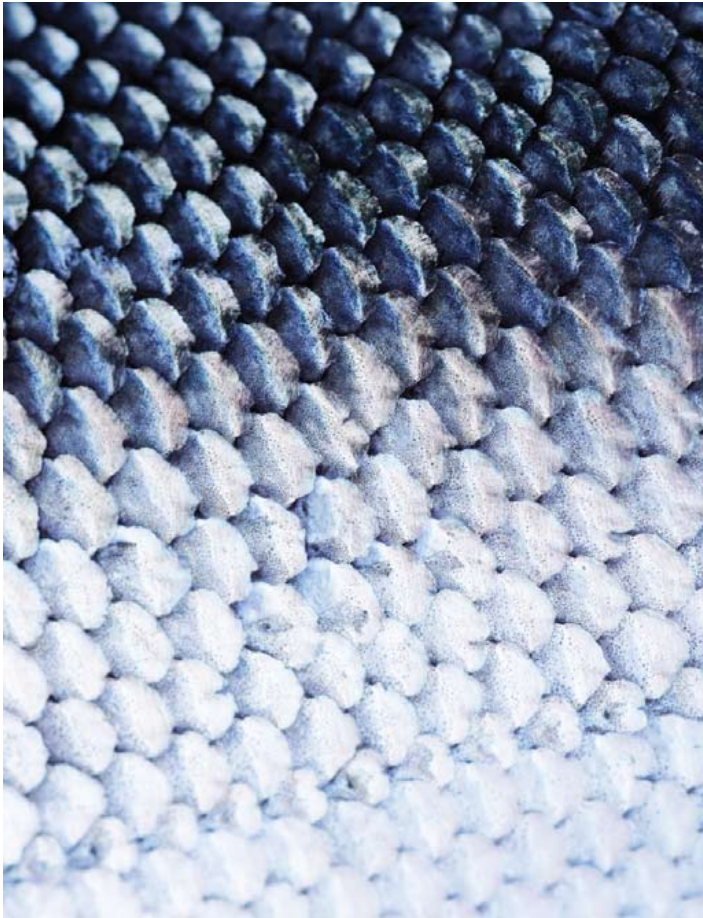
Turning to a holiday favorite, nuts, we find a market just as bullish as citrus. Of course

nuts are a storage item. Nut producers can approach markets cautiously, while citrus growers who don't sell their fresh perishables are subject to the poor returns provided by the frozen juice market. 2011 was the second-largest walnut market in history by volume. China went crazy for cashews this year, setting new price records. Global almond shipments are up 20% over 2010, and Mexico increased its pecan crop by 37%.

The Marine Harvest Group gave a presentation in Oslo on November 22 regarding their fish farming activities, noting the rebound of the Chilean farmed salmon industry as a significant development this year. Global demand for farmed fish continued to grow in 2011. The fish-feed company EWOS is celebrating a milestone by producing one-mil-

lion tons in a year for the first time. EWOS has seen sales of fish feed grow steadily this year in line with increasing global demand for farmed fish, via its offices in Chile, Norway, the U.K. and Canada.

Not all commodities yields. The International Coffee Organization (ICO) decreased its global coffee production estimates for 2011-12 for LatAm. Specialty coffee prices opened in Panama at record highs (\$11.25/lata) and are down only slightly as the peak harvest season begins in late November. Africa's production will, however, increase by an estimated 20% during the 2011-12 season. Overall, the global average price for coffee during October was down 9% over the prior month, representing the lowest price level so far this year. In LatAm, only Peru's coffee yields are up this year, roughly 18% over



2010. Unusual weather patterns are resulting in slightly lower yields in most of South America, Central America, and Mexico.

“Avocado markets were roiling in the first half of September, as products from Mexico, Chile and the new kid on the block, Peru, compete with California growers for shelf space in the USA,” reports Produce Retailer.

The largest exporter, Mexico, has a 2011-12 crop forecasted to be up 15% over last year’s volume. Still, mid-September prices are holding steady, for now, testimony to the resilience of avocado demand. Mexico’s market share is roughly 65% as 2011 winds to a close. California’s avocado crop this past year was roughly half the size of the prior year’s bumper crop. Chile’s crop is not expected to grow

in 2012 according to estimates delivered at the World Avocado Congress this year.

Honey demand continues to outweigh supply in the world market. Raw honey prices are up over 2010, representing market growth that shows no sign of slowing. Most of Latin America’s honey exports continue to flow into Europe. The U.S. has experienced a series of below-average crops that has created a shortage of U.S. honey. There are few carryover stocks from last year. Honey from Argentina and Brazil is in good supply, but Argentina is still struggling with weather, lower bee numbers, and reduced forage area. South American raw honey prices are now near the levels of U.S. raw honey prices.

Cocoa supplies will match demand this season, according to Goldman Sachs, which is good news since supply outstripped demand last year. “Bean production will be about 12,000 metric tons higher than consumption in 2011-12,” according to a September Bloomberg survey. The International Cocoa Organization also forecasts balanced supply and demand for 2012. Reuters anticipates decreasing demand in the face of a global economic slowdown, and the U.S. economy represents significant downside risk. A cocoa buyer from Canada last month complained to me about higher prices for this input to his business, resulting in his traveling to origin to source cacao.

Regardless of economic considerations, the global population reached 7 billion this year, and that means more people eating. Increasing demand for most agricultural commodities continues to be met through increased production. China’s population has grown to 1.3 billion as its agricultural land is being lost to industrialization and pollution. The result is that 22% of the world’s population lives in a country with only 7% of the world’s arable land. LatAm remains a net food exporter, according to the World Bank. Demand for foods from LatAm remains high despite the global economic slowdown. Attractive investment opportunities in the agri-business sector will not decline in the foreseeable future.



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- The Carlyle Group
- BTG Pactual
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- Gávea Investimentos
- SinoLatin Capital
- Aureos Latin America
- Darby Overseas Investments
- Verlex Real Estate Investors
- Blue Orchard Investments
- Intel Capital
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Gauging the Effects of Climate Change on Brazilian Agri Output

Brazil has established itself as a global agricultural powerhouse, boasting about a quarter of the world's arable land. It is the world leader in several major commodity exports, including coffee, sugar cane, ethanol and beef, among others, and the most recent OECD-FAO Agricultural Outlook predicts that growth will only continue to surge in the coming decade. Consequently many see Brazil as the most important provider of food to a world facing the specter of food shortages amidst swelling populations and disruptive climate change.

And yet climate change will no doubt affect Brazil's agricultural production, as well, and economists, agriculture experts and farmers are wondering how.

Among them are researchers at the Center for Meteorological and Climatic Studies Applied to Agriculture (CEPAGRI, for its name in Portuguese), part of the State University of Campinas (UNICAMP). CEPAGRI has done studies to determine that the inevitable if still unpredictable changes in Brazil's climate in the coming decades will have significant effects on its agricultural output, creating an environment more conducive to certain crops and livestock and less conducive to others.

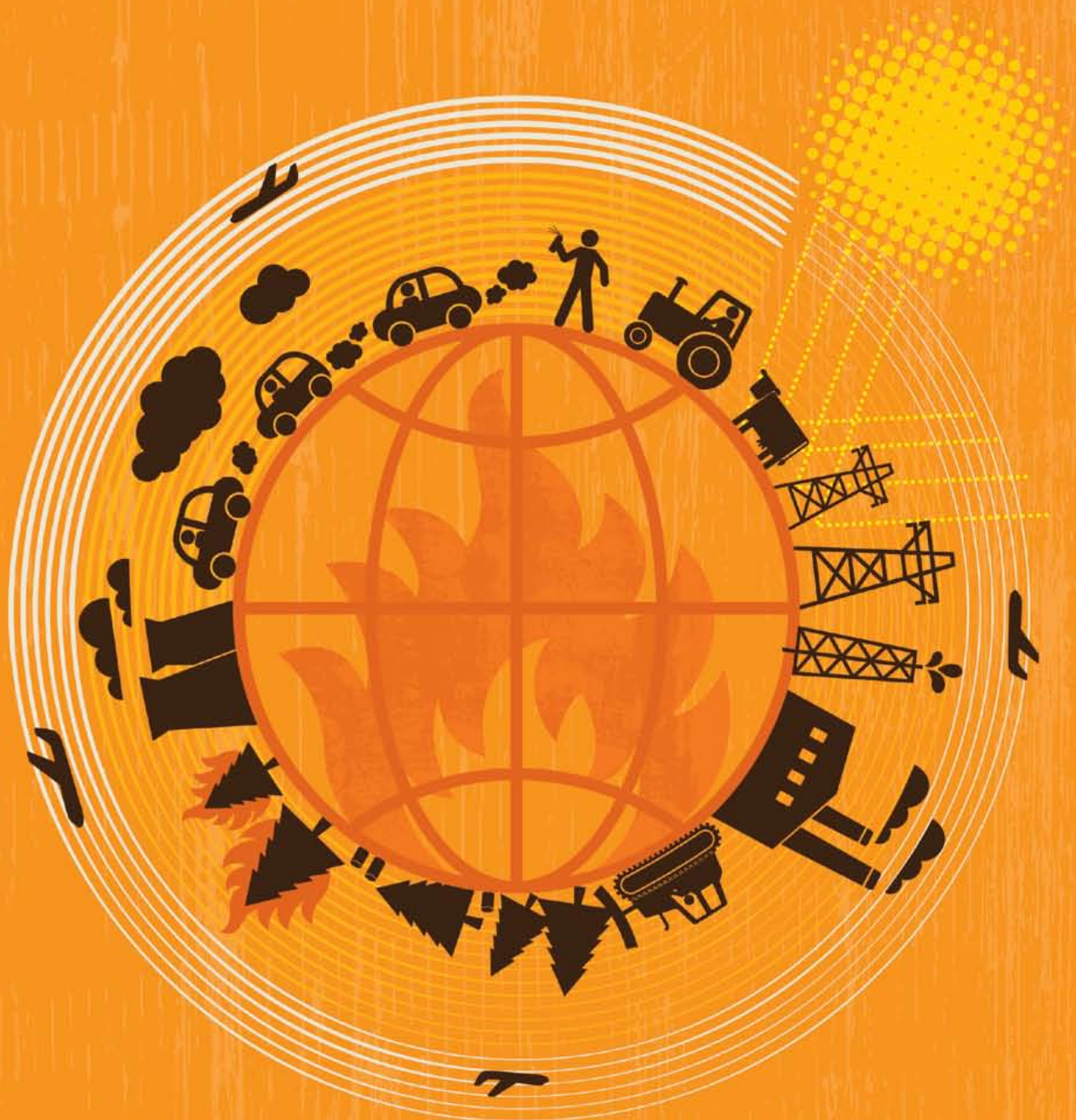
"The geography of Brazilian agriculture based on official risk zoning," explains Hilton Silveira Pinto, CEPAGRI's Director. "Using models for future scenarios for the climate of the world, we applied it to Brazil and recalculated the conditions for 2020, 2030, 2040 and 2050. Then we calculated the economic

conditions to see how much soybean, coffee and other crops Brazil will produce."

CEPAGRI's calculations, he says, show that coffee production will go down, as rising temperatures will affect the coffee beans' necessary flowering process. He estimates that Brazil will lose about US\$7 million a year because of the fall in exports.

On the other hand, higher temperatures and rates of CO2 in the atmosphere will increase the area of land where sugarcane cultivation will be possible. "On balance," says Mr. Silveira Pinto, "rising temperatures should be favorable to [the economy of] Brazil, because sugarcane will be used for ethanol," feeding the global energy demand

He adds, however, that soybean production may fall by as much as 23% by 2020, not because of temperature changes but water shortages. He expects this to be a major problem for Argentina, as well, and could cause both countries to lose significant money, he says.



Two related trends have characterized the management of family assets in the LatAm region over the last decade, and particularly since the beginning of the global financial crisis in 2008. One is that wealthy families have grown dissatisfied and disillusioned with the large private bank model and have turned increasingly to the single or multi-family office model for managing their wealth. As Carol Pepper, CEO and Founder of Pepper International, a New York-based family office serving international clients, explains, “Ultra high net worth families and individuals, particularly since the

crisis, are definitely becoming more interested in the family office model, because they recognize the inherent conflicts of interest in the investment banks and the large broker dealers. They still want to work with these people but they realize that banks and brokers cannot be their independent advisers. You would not ask a Mercedes Benz salesman to send you to a Lexus dealership, and in the same way your guy at Goldman is not going to recommend products at J.P. Morgan. There is a need for an additional unbiased advisor who is only paid by the family and doesn’t take any compensation from the products the family invests in,

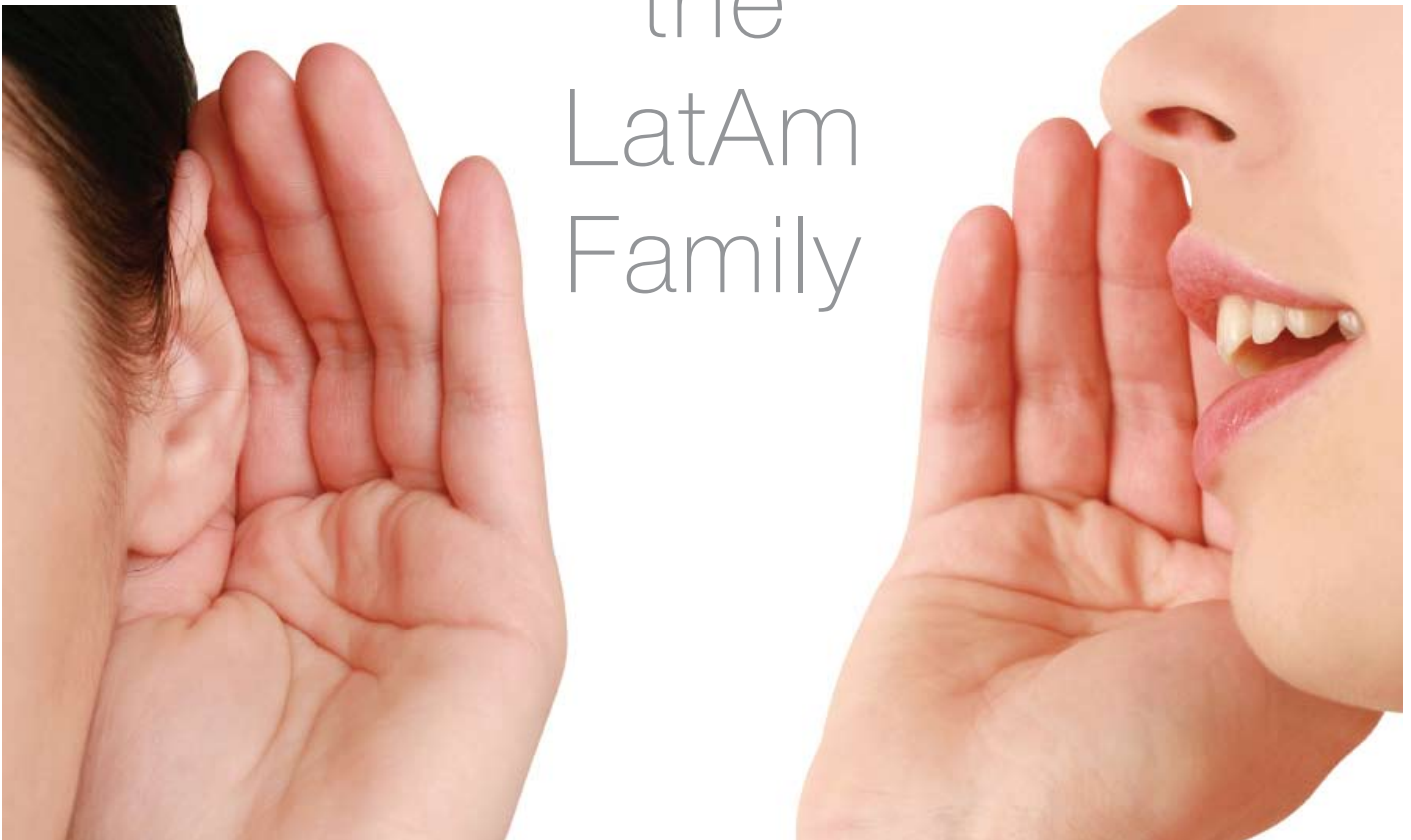
in order for the family to have truly objective advice.”

The second trend is that brokers and advisors from these larger banks are splitting off to start their own boutique offices – whether they be

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How to Pitch To a Family Office

– Seven Criteria You Must Know

■ Steffi Claiden

To understand the asset manager's keen interest in attracting family office investment, let's start with a history lesson: the Gold Rush of 1848-55.

A gentleman named James Marshall kicked the whole thing off in January 1848 when he found gold at Sutter's Mill in northern California. Word of the discovery quickly spread around the West Coast and then dispersed around the world. Prospectors came from all over the globe on the hope of striking it rich. Originally, nuggets could be found simply by walking around and picking them up off the ground. But soon the easy pickings were gone and prospectors had to work harder, panning through the silt in streams and rivers. In the end, it was mostly companies and not individuals doing the work, because the methodology advanced and only companies could afford the necessary technology. All in all, the gold rush attracted over a quarter of a million people, turned San Francisco into a boomtown and developed California into a thriving territory that gained statehood in 1850. However, it's important to note the gold mined in that period, while valued at millions then and billions now, made only a select few wealthy.

Returning to the present day, we have the Cerulli Associates family office sizing report, released August of this year, blowing the proverbial lid off the heretofore hidden numbers of the family office. The Cerulli report, excellently done by Boston-based Robert Testa and team, estimated the market size to be close to US\$1 trillion and suggested asset managers treat the family offices as a discrete market segment. And other leading industry figures say the figure is substantially higher. Up to this point, the family office market was not exactly unknown but the Cerulli report seems to have bestowed it with "rock star" status. The family office gold rush of 2011 seems to be on.

High ho, off to work they go. Asset managers all over the world are now trolling for the reticent and elusive family offices and their investment

capital. Searching they are, however, at a disadvantage. There are really no easy pickings in this industry. And unlike the institutional world, where the companies are easy to identify and the rules of engagement are straightforward and well known, the rules of this hunt are obfuscated.

There are seven basic criteria that asset managers should be aware of when approaching the family office market. How they execute on them forms the basis of the criteria on which they will be judged.

The seven criteria:

- How you go in
- Your connections
- The company you keep
- Size (this will surprise you)
- Qualitative analysis
- Follow-up
- Patience and Expectations

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A low-angle photograph of a man in a dark suit and tie, looking upwards towards a tall, modern glass skyscraper. The building's facade is composed of many rectangular glass panels, reflecting the sky. The sky is a deep blue with some wispy white clouds. The man is positioned in the lower right foreground, his head tilted back and eyes looking towards the top of the building. The building itself is on the left side of the frame, extending from the bottom left towards the top left. Another similar building is visible in the background on the right side.

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Family Talent:

An Intangible Alternative Asset

Sometimes the best investment requires a subtle change of focus. According to Lisa Gray, the founder of graymatter Strategies LLC, one of the most important assets that a family can invest in is rarely considered an asset at all. “There are alternative assets within the family that most families overlook: the family members themselves, the hidden talents and abilities that are there.” By investing there, she says, families can “have returns at multiple levels: in the relationship with the family member and in the material form to the family’s wealth.”

Ms. Gray’s firm consults wealthy families and their advisors on issues of family governance, family dynamics and generational perspective; she is author of the books *Generational Wealth Management* and *The New Family Office*. She says that is focus on family talents is an essential point that she tries to drive home to her clients. “You can legitimately consider these talents assets,” she says, “because, first of all, they are considered economic resources by the International Accounting Standards Board, and second of all, there’s an entity that has privileged access or ownership to those assets, and that’s the family. These assets are alternative assets, and if you ignore them you open yourself up to a family crisis down the road. The opportunity cost of not developing those assets can be huge on multiple levels, not just the level of the materialization of wealth into the family portfolio but also relationship risk that can haunt the family for decades to come.”

At graymatter Strategies LLC, she says, they have created a wealth management continuum “designed specifically to integrate the system of a family’s issues – considering both the organic assets and the more intangible assets: the communication that goes on, the family dynamic, the risks that are present but often overlooked, which, if not addressed, may affect families in an unpleasant way down the road.”

She stresses that the strong family bonds in many LatAm families is itself an asset that can potentially give these families great advantages as they cope with difficult and rapidly changing times. “I think the opportunity that LatAm families have as they morph into a different level of relationship with one another and take advantage of some of these opportunities is that they are closer with their other family members. They have a big

advantage over U.S. families in many ways because they have kept their family focus as a

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This issue's art feature considers the work of two North American artists who independently mine Native and Latin American traditions in their work. Taking two very different tacks, Keister focuses on the corporeal; Adams on the spiritual.

Steve Keister (b. 1949, Lancaster, Pennsylvania) has consistently explored the body and physical form since arriving in New York. He first haunted SoHo's streets and the industrial surplus stores on Manhattan's Canal Street for inexpensive materials to fabricate his work, typical of the "No-Wave" art movement active in the 1970's. He first relied on Plexiglas shards and sidewalk discards to make futuristic, abstract sculptures and mobiles, before moving on to Spandex-covered sculptural suspensions, anticipating the work of Latin American constructivist and conceptualist artists, like Lygia Clark and Ernesto Neto.

During a serendipitous holiday in Isla Mujeres (Quintana Roo, Mexico) in 1979, Keister jettisoned his artistic assumptions about abstraction, recognizing that he was developing a lexicon of forms and shapes which were far more substantive. Like an urban archaeologist, Keister collected Styrofoam and molded-paper packaging materials discarded on New York's streets and sidewalks to create cast of those materials terra cotta and concrete. Unlike the acclaimed British artist Rachel Whiteread, who casts and interprets negative spaces, Keister recombines his ce-

ramic and concrete casts to assemble original sculptures that bear resemblance, but do not copy, Olmec, Mayan, Aztec and other Meso-American artifacts.

Keister's focus on packaging materials also makes use of the Duchampian readymade prevalent in conceptual art. His dual references to Meso-American and contemporary North American cultures result in what he terms "interstitial archaeology," a unique place between classic Olmec (2000-1000 BC) and today's consumer cultures. His recent works are a commentary on both.

Keister is represented in more than 40 museum collections. In 2010, his work was featured at the University of Pennsylvania's Museum of Archaeology and Anthropology, Mesoamerican Galleries, where it was situated among existing artifacts, enabling museum-goers alternative ways to see, interpret or experience the museum's collections.

Adam Henry's (b. 1974, Pueblo, Colorado) paintings can be experienced as portals that transcend abstraction with highly personal meditations on painting's inherent metaphysical character. Portals (inter-dimensional doorways, two-way tunnels, curtains of light) are a recurring concept in Native American and Hispanic tradition allowing for spiritual travel between worlds and a means of transcending time and space.

As an avid outdoors person the desert landscape of the Southwest was a perfect place for him to develop an interest in perception and

Collected by more than 40 American museums and an equally large number of private collectors, Keister's work has steadily appreciated over time, but not through auction activity.

Meso-American Remix

■ Clayton Press



the optical. As Henry puts it, “With painting I believe it is possible to illuminate realities that logic cannot reach.” His reductive, often minimalist works create pathways into other potential realities, similar to the work of American Agnes Martin and Venezuelan Mauro Mejías, who favored the personal and spiritual over the intellectual.

Henry explores the religious iconography native to his Xicano heritage, as well as the geometry of Native American crafts. His most recent work investigates optics imagery and the ways in which abstraction can bridge visual belief systems. Henry’s work revolves around a process of splicing together various modes of systemic representation such as cartography, perspective, diagrams and signage. By bringing together distinct protocols, he reconfigures basic systemic structures. He puts his faith in imaginative restructuring, where decisions become expressions, and expressions new visual forms.

The surface of each work is highly tactile, whether it is the fondant-like finish of his synthetic polymer paintings or the coarse threads of jute canvas. The synthetic polymer paintings are labor-intensive works, which are layered accretions of painting experiments. Visually, they “vibrate,” and the viewer is drawn into one or more vortices.

Keister’s work ranges in price from US\$3,000 to US\$15,000 and is available directly from his studio or www.agencyplc.com, his representative.

Henry’s work ranges from US\$900 to \$8,000. His work has been acquired primarily by forward-thinking collectors with an interest in painting. His work has been exhibited in numerous solo and group exhibitions in the United States and China. Henry, who welcomes studio visits, can be contacted at henrystudio@gmail.com.

Author Bio

Clay is the co-founder of LINN | PRESS art advisory services, which leverages its 30+ years’ experience in modern and contemporary art to help clients develop or augment distinguished collections or to make selected art investments. They provide expert advice on collection development, management, and deaccession, helping their clients to select works that have the potential for appreciation, in both cultural and financial terms. From modern masters to emerging artists, they have a uniquely global perspective on the art market and its dynamics, emphasizing quality and value.

Top: Mictlantecuhli, 2006
Terracotta, earthenware, glaze, and acrylic
9 x 12 x 4”

Middle: Chac Mool, 2006
Terracotta, cement, pigment, plaster, wood, glaze, and acrylic
26 x 30 x 19”

Bottom: Olmec Head, 2010
Glazed ceramic
9 x 7 x 4 1/2”

Global enthusiasm for Latin Art is on the Rise

Christies and Sotheby's Offer Proof

Recap Provided by Artvest Partners LLC

After several years of sluggishness, global enthusiasm for Latin American art is on the rise. In New York, November was a significant month for the Latin American art market. In addition to several important exhibitions by Latin American artists, such as the show of paintings by Mexican muralist Diego Rivera at the Museum of Modern Art (on view through May 14, 2012) and The Pace Gallery's exhibition of works by Chilean surrealist Roberto Matta (on view through January 28, 2012), New York also hosted a full week of opportunities for acquiring Latin American art.

Kicking off with the fifth edition of Pinta, a fair highlighting Latin American Modern & Contemporary art, the week also featured evening and daytime auctions at the three leading auction houses, as well as a forum by the Art Dealers Association of America that focused on the role of Latin American art in global collections. The prevalence of events committed to furthering awareness of the category supports the growing interest in the field, not only amongst Latin Americans but also on the part of private and institutional collectors around the world.

While many Manhattan galleries and exhibitors at Pinta showed exceptional property, the most important Latin American artworks were offered at the evening auctions held at

Sotheby's, Christie's and, for the first time, Phillips. Sotheby's evening auction totaled just over a hammer price of \$14.1 million (against a pre-sale estimate of \$15.3 to 20.7 million), Christie's evening auction totaled a hammer price of \$12.7 million (against a pre-sale estimate of \$13.0 to 18.1 million), and Phillips evening auction totaled just under a hammer price of \$3.0 million (against a pre-sale estimate of \$5.9 to 8.2 million). While all three evening sales hammered in under their low estimates, 27% of lots managed to achieve prices above their forecasted range, compared to 20% last year. Although many works failed to reach auction house estimates and results were somewhat uneven across the board, with several important lots unable to find buyers, some significant prices were achieved.

The most notable price of the week was for famed Mexican artist Rufino Tamayo's still life *Watermelon Slices* (1950), which, along with seven other works by the artist, was sold on behalf of the Museum of Modern Art for its acquisition fund. The painting fetched \$1.9 million (\$2.2 million including the auction house fee, known as Buyer's Premium), at the high end of its \$1.5-\$2.0 million pre-sale estimate.

Another noteworthy price was for the 10 ft. 5 in. *Dancers* (2007), by Colombian art-

ist Fernando Botero, which Christie's sold for \$1.8 million including Buyer's Premium (\$1.5 million hammer). Despite selling just at the low end of Christie's estimate range, this work set a new auction record for a sculpture by the artist, exceeding the previous record of \$1.6 million set at Christie's in 2007. *Dancers* was reportedly purchased by a private European collector, suggesting that Latin American masters are likely in demand internationally.

A record was also set for Venezuelan Kinetic artist Carlos Cruz-Diez, whose *Physichromie 88* (1980) brought in a hammer price of \$430,000 at Sotheby's, against a pre-sale estimate of \$200,000 to \$300,000. In addition, works by Mexican Francisco Toledo, Argentine Juan Mele and several Brazilians, including Alfredo Volpi, Antonio Bandeira and Jose Pancetti, also achieved record prices.

Beyond a handful of exceptional prices, there are critical takeaways from a thorough analysis of the Latin American art auctions. After three years of weak market conditions, demand in this sector is increasing. However, a lack of buying during the prolonged down market has yielded an abundance of available property. Largely due to this over-saturation, many of today's buyers are price conscious and wary

Lot 23
Matta
Lispard du Mèdi
Est. \$350/450,000
Sold for \$ 566,500
Sotheby's New York
Latin American Art
16 & 17 November 2011



Lot 59
Fernando Botero
Natura Morta Con Tenda Verde
Est. \$160/180,000
Sold for \$302,500 with premium
Sotheby's New York
Latin American Art
16 & 17 November 2011





Lot 29
Jesús Rafael Soto
Tes De Monza
Est. \$140/180,000
Sold for \$374,500 with premium
Sotheby's New York
Latin American Art
16 & 17 November 2011



"Lot 35
Carlos Cruz-Diez
Physichromie 88
Est. \$200/300,000
Sold for \$ 518,500
Sotheby's New York
Latin American Art
16 & 17 November 2011"



Lot 53
Fernando Botero (Colombian b. 1932) *Dancers* signed, numbered and stamped with foundry mark 'Botero, 1/3' (on the base) bronze with dark brown patina 125¼ x 78¾ x 63 in. (318.1 x 200 x 160 cm.) Executed in 2007. Edition one of three.
Estimate: \$1,500,000 – 2,000,000
Price Realized: \$1,762,500
Sotheby's New York
Latin American Art
16 & 17 November 2011



Lot 6
Property from the Museum of Modern Art, New York, Sold to Benefit the Acquisitions Fund
Rufino Tamayo
Watermelon Slices
Oil on canvas
Signed and dated 0-50 lower left
Est. \$1.5/2 million
Sold for \$ 2,210,500 with premium
Sotheby's New York
Latin American Art
16 & 17 November 2011

ometry. For instance, Jesus Rafael Soto's *Tes De Monza* (1978) sold for a hammer price of \$310,000 at Sotheby's evening sale. This work was purchased at Christie's Paris in December 2007 for \$92,236, earning the seller a four-year compound annual return of 35.4% (net of auction fees). Post-War Kinetic art also dominated the exhibitions at Pinta, underscoring interest in the sector. Brazilian art from the 1950s and 1960s has undergone rapid price appreciation as well. Wealth concentration in Brazil, combined with limited availability of these works, has led Brazilian collectors and non-Brazilian speculators to compete fiercely for these pieces.

Even for artists who have been struggling at auction in recent years, certain works are now showing significant increases in price. For example, the market for paintings by Matta has been slow since 2008 and was noticeably weak during this year's November auctions, with bidding on several works by the artist failing to reach the low estimate. Still, his painting *Lis-pard du Medi* (circa 1953) sold at Sotheby's for a hammer price of \$470,000, exceeding its pre-sale estimate of \$350,000 to \$450,000. The painting had been purchased at Christie's in May 2007 for \$264,000, yielding a 4.5-year compound annual growth rate of 13.7%.

On the whole, sales results from the November Latin American auctions underscore the fact that buyers, while looking towards art from emerging economies, are very aware of appropriate pricing. That said, works by Latin American masters are still reasonably priced compared to the Modern & Contemporary art sold the week before, and there are deals to be had by knowledgeable collectors and investors. Latin American art performed its best since 2008, and continued growth is expected as the global economy strengthens.

About Artvest Partners LLC

Artvest is an independent advisory firm that provides investment advice for the art market. With three decades of experience in art and finance, Artvest offers impartial guidance and custom strategies for acquiring and selling, protecting art wealth and passing it on to future generations. Artvest fills a need in the market by introducing a disciplined financial focus for collectors at all stages.

of overpaying. Results from the sales of works by internationally acclaimed Fernando Botero illustrate this point, as 18 Botero works were offered across the auction houses' evening sales, yet only one sold above its high estimate.

Despite evident caution on the part of buyers, certain sectors of the Latin American market performed exceptionally well. Kinetic art by Venezuelan artists has proven lucrative for savvy investors, perhaps because of the global appeal of the works' focus on ge-

The first element is a concern over costs. “In an environment where it’s harder to generate high investment returns and preserve the value of your family patrimony,” he says, “there is much higher focus on what investors are actually paying. They are asking themselves, ‘What am I paying my investment advisors and portfolio managers? What is this fund structure costing me? What embedded fees or commissions do I suffer in my annuity or life insurance?’” With this heightened cost consciousness, he says, there is greater need for advisors to explain and justify clearly the value of a given solution.

The second element is diversification, both across asset classes and geographies. “Families of wealth have come to realize that no given solution is perfect. Each solution has pros and cons, and they need to make sure that the overall picture [of their portfolio] is in balance.” He says that the family office model can help families meet this need, if the advice is unbiased – stressing, however, that a family office’s “independence” is not enough to ensure that its advice is truly unbiased.

Mr. Zeller says that his families have been generally disenchanted with alternative and fixed income assets, and, like many observers, he sees a general desire for liquidity. “Some investors have learned that even with fixed income you can still lose money. Liquidity is crucial and was the big problem in the crisis: investors couldn’t get out of investments at the price they were hoping for. For the same reason, I had several individuals disenchanted with alternative investments – not the idea itself, the idea was valid and still is, but the fact that they are rather illiquid. The fact that you can’t get out of them easily, that unpredictability and uncertainty, doesn’t sit well.” He sees renewed interest in such investments, however (pointing to the current real estate market in Florida as an example), and thinks that “if alternative investments can be packaged in ways that address these concerns, they will find a welcoming market.”

Regarding geographic diversification, Mr. Zeller says it depends to a great extent on what LatAm country an investor is in, and yet he insists that it should be an essential part of any investor’s strategy. “A lot of the wealth created in Brazil stays in Brazil, and there is really hardly any reason why a Brazilian investor would put money abroad except for what we tell them: diversify no matter what, don’t put your eggs in one basket. It’s only been eleven years since we saw what happened in Argentina; the need for diversification

The Investment Priorities of Wealthy LatAm Families

Klemens Zeller of RBC
Discusses Disclosure Protection
and Other Regional Trends

In the face of persistently volatile markets, rising fees, and more aggressive financial regulations around the world, there are three elements that characterize the investment approach of wealthy LatAm families, according to Klemens Zeller, Director of International Solutions in the Miami office of RBC Wealth Management.

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Mitigating Currency Risk when Investing in LatAm:

ALI Speaks with City Credit Capital Brazil's Andrew Braine

Recent selloffs in emerging market currencies, which have caused sharp drops in such LatAm currencies as the Mexican peso and Brazilian real, are but latest development of an historical pattern, and they point to a stubborn truth: currency volatility is a problem when investing in the region, and investors are wise to hedge against it or position themselves to benefit from it. As Andrew Braine, the Director of City Credit Capital LatAm operations explains, "Investing in locally denominated vehicles in LatAm has its pro and cons, but being at the mercy of currency fluctuations can cause a lot of worries."

Mr. Braine says that it is "essential that investors hedge against such risk." One way, he says, is by diversifying their portfolios with dollar-based vehicles. Another is by investing in Forex. "Intelligent investors," he explains, "understand that they can significantly reduce their risk by diversifying their exposure. Trading Forex puts the power back in the hands of the investor, enabling them to take advantage of currency fluctuations in both directions, thus allowing them to offset any losses incurred in other holdings." He says that investor can gauge whether Forex will complement, and how it could complement, existing LatAm investments by "re-

viewing one's overall exposure to currency risk," but notes that its massive volume and liquidity ensure that there are "few investors who wouldn't benefit from the investing in the Forex market."

According to Mr. Braine, the Mexican peso is currently the most volatile in LatAm. "Fears that the European debt crisis will affect the global economy further has hit the Mexican Peso the hardest – its decline against the dollar over the last few months has ranked it the 2nd worst performing currency after the South African rand. We have already seen the effect: foreign investors are getting rid of their Mexican T-bills fast because the peso's volatility is making it harder from them to protect against currency losses."

He expects to see a similar effect on other currencies in the region, as a flight to value in the face of the Eurozone debt crisis, U.S. recession fears, and worries over a slowdown in China continue to suck money out of the region and into more safe haven investments, particularly the U.S. dollar. "Investors from LATAM still see the dollar as an attractive option," Says Mr. Braine, "so the E.U./U.S. debt crisis has, if anything, increased LATAM flight to dollars. Should the U.S. economic



picture deteriorate more significantly, this is likely to hurt U.S. stocks, commodities and other 'risky' assets. If that happens, we can expect Latam currencies such as the Chilean, Colombian, Mexican and Argentine peso to have a big sell-off.

"There are number of LatAm currencies," he goes on, "which are exposed to the U.S. and Chinese economies, and it's fair to say they will all be affected to some extent by the continues slowdown in these respective economies, some in a more volatile way than others. Argentina is one to watch, especially with the government there imposing new restrictions on the purchase of dollars."

He notes that the Brazilian real had been on an upward trend against the dollar, with 50% gains between 2008 and July of this year. "But a slowdown in exports cited talk of a 'currency war' from Brazil's finance minister," he explains, "leading to cutting interest rates and causing the real to see a rapid fall against the dollar." Many believe the real will continue to see volatility, he says.

Mr. Braine observes that recent developments in the global economy have diminished the status of certain erstwhile safe havens, creating opportunities for savvy Forex investors. "The yen and the Swiss franc have always been referred to as 'Safe Haven' currencies," he says, "but this year we have seen the central banks of both countries intervening to halt the rapid appreciation of their currencies, and I think it's fair to say neither of the currencies are the safe haven they once were. Japan's economy is reliant on exports and therefore a weaker currency is beneficial; many believe the Bank of Japan will once again intervene, causing the USD to strengthen against the Yen."

But given investors' agility in the forex market, this can be a good thing. "Any intervention with the yen and franc will cause volatility, and LatAm investors can take advantage of this by trading the trend and going long or short on that currency. Forex traders love these type of fluctuations because they present opportunities."

"Fears that the European debt crisis will affect the global economy further has hit the Mexican Peso the hardest – its decline against the dollar over the last few months has ranked it the 2nd worst performing currency after the South African rand."



Blurred Lines

Paul Koch of Altasol on the Many Faces of the Family Office

Like most things undergoing rapid growth and change, the family office space has seen its share of semantic confusion – with the same words meaning different things to different people. According to Paul Koch, president of Altasol, a Miami-based provider of performance and risk management services to international banks in the commercial banking and wealth management space, this has been one of the unfortunate consequences of the vogue taken on by the term “family office” in recent years. “You have a family office which may be owned by a major family in Brazil to service their own needs, for example; and then you have family offices that service many clients, whether it’s located in a given country or in a regional center like Miami, New York, or Geneva; or you have a business unit of a major bank that wants to include in their branding that they provide highly tailored services to their ultra-high net worth clients. The name is used by different people for different purposes.”

Mr. Koch sees this diversity of meanings as the inevitable consequence of the profound pressures and changes that characterize the present moment. “The fact is that the industry as we know it is going through great changes by the minute and the business model of everyone is trying to adapt to these new realities, whether they like them or not.” One result is that single family offices are combining to create multi-family offices and benefit from economies of scale. “They are trying to service a number of families with a number of needs – whether it’s investments or estate and tax planning or succession needs. All of that has a cost, so many

organizations are bulking up and servicing more than one or two families.

“In terms of big organizations,” he adds, “some are subject to pressures they hadn’t anticipated, and it’s forcing them to cut costs and resources. On the one hand, they want to provide tailored services. On the other, this personalized service is being jeopardized by the realities going on in many big organizations that are now getting new managers, undergoing restructurings and having to account to different shareholders and regulators with changing demands. So you have

many challenges in terms of matching revenues and expenses all along the value chain of what we call family offices.”

He is optimistic, however, regarding the innovation that will arise from this uncertainty.

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Political Moves: Brought to you by

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ARGENTINA: Currency exchange controls fuel economic fears

Her impressive re-election victory on October 23 has given President Cristina Fernández plenty of political capital and room to maneuver – and maneuvering she is. Just four days after her victory, Fernández surprised by introducing strict controls on the foreign exchange market in an attempt to keep the U.S. dollar/peso exchange rate stable as well as curbing the increasingly worrying levels of capital flight. These measures were followed shortly afterwards by the announcement that “clearly profitable” sectors of the economy (banks, insurance and telecoms companies, gaming businesses and extractive

industries) would no longer benefit from heavily subsidized energy rates.

Fernández has taken a gamble and it is a big one: if her policies fail, she risks much more than cooling the economy – the alleged reason why she does not focus on curbing inflation – and could lead to its freezing altogether. It is simply too early to say whether she will succeed in maintaining economic growth and stability, but it is clear that at the very least, the latest measures have increased uncertainty. Private citizens fear that the government may be forced to allow for a much faster depreciation of the peso than the 7% slide it has registered against the dollar so far this year as double-digit inflation continues to hurt manufacturers and exporters. These fears have increased the demand for the greenback, prompting the government to take other impromptu measures like unofficial temporary bans on imports, which in turn have fuelled more worries.



BRAZIL: Rousseff no Snow White, say opposition

On 7 November, with a seventh scandal-hit cabinet minister clinging onto his post by his fingernails, the leading opposition senator and 2014 presidential aspirant Aécio Neves declared that the government led by President Dilma Rousseff “only punishes wrongdoing when it becomes a scandal.”

Neves, of the main opposition Partido da Social Democracia Brasileira (PSDB), said he “lamented” the fact that all the corruption denunciations this year have come from the mainstream conservative press rather than from the government’s own organs of control. Neves is not the first to argue that President Rousseff’s publicly popular ‘zero tolerance’ stance against corruption is merely an exercise in PR and crisis management, and that it is purely reactive, rather than any genuinely pro-active attempt to clean up government. The president’s hands are tied, the argument goes, by Brazil’s highly clientelist coalition politics and the need to preserve stability in congress around the executive’s legislative agenda.

Certainly, Rousseff appears to have put Lupi’s removal on the long finger until after the coming recess (December 23) in order to secure congressional passage of key legislative bills. These include the executive’s bill to extend the so-called DRU budget retention mechanism to 2015. The DRU allows the federal government to use up to 20% of fiscal revenues for priority purposes and Rousseff argues that it’s necessary to

help Brazil face the global crisis. Also before parliament are a controversial reform to the country's forestry code; framework regulation for the 2014 World Cup; and a contentious new regulatory system for the distribution of oil royalties. In early November the president signed off on the end-year release of some pork barrel funds for congress, which presumably comes on the condition that the ruling coalition behaves itself in congress. Deputies are desperate to get their hands on these monies ahead of municipal elections in 2012 and so will likely play ball with Rousseff. Arguably, it is indeed business as usual then.



COLOMBIA: Santos riding high

The military delivered the most crushing blow against Colombia's largest guerrilla group in its entire history on November 4 by striking down the leader of the Farc, Alfonso Cano. It was a triumph for President Juan Manuel Santos, who is the scourge of the Farc. He has accounted for three of its four frontline leaders in the last three years: Cano; the maximum military commander, Mono Jojoy in late 2010; and the group's foreign minister Raúl Reyes in 2008 (the Farc's long-time leader Manuel Marulanda also died in this year of natural causes). The Farc rebuffed the government's call to demobilize, but it faces tough times ahead. It has a gaping leadership vacuum: with Cano and Jojoy gone, it is not clear what the line of succession will be.

Santos is surfing a wave of popularity: his approval rating reached 83% in a survey conducted shortly after Cano's death. Just days earlier, on October 30, Gustavo Petro, a former M-19 guerrilla, won the mayoralty of Bogotá, the second most important elected post in Colombia, in the country's regional and municipal elections. Both Cano's death and Petro's election sent out a powerful signal to guerrilla fighters of the benefits of reinsertion and the bleak prospects for continuing the armed struggle.



MEXICO: Michoacan's three way fight

The last major state election before the congressional and presidential elections on 1 July 2012 took place in Michoacan, western Mexico, on November 13. The race, and the result, provides plenty of pointers to what might happen in 2012. According to the final opinion polls of the campaign, President Felipe Calderon Hinojosa's sister, Luisa Maria, who was running for the Partido Accion Nacional (PAN), had timed her run perfectly and was about three percentage points ahead. The election authorities, however, found that Fausto Vallejo, from the Partido Revolucionario Institucional (PRI), and a long time mayor of the state capital Morelia, had edged her out by 35.4% to 32.7%, with the Partido de la Revolucion Democratica candidate back in third with 28.9%.

Michoacan is politically interesting because it is one of the few of Mexico's 32 states in which there is a three-way fight, thus resembling the country as a whole. It is also a state in which Drug Trafficking Organizations (DTOs) are active. Indeed, all three parties accused the others of being in league with the gangsters. The third reason why the election is important is what happens next: President Calderon, according to both the PRI and the PRD, poured federal government money into the election campaign, knowing that if his sister won his position inside, the PAN would be bolstered and that he would have a major role in choosing the PAN's presidential candidate.

Luisa Maria Calderon refuses to accept that she lost and claims to be half a point ahead of Vallejo and is demanding a full recount. This puts the president in a politically awkward spot because he won the presidency in 2006 without a full recount despite finishing only 0.58 of a percentage point ahead of Andres Manuel Lopez Obrador, a left-winger.

The outlook is complicated by two further factors. The first is that Michoacan is the Calderons' home state. So any move by the president not to recognise Vallejo would set a dismal precedent for 2012. The second factor is that the interior minister, Francisco Blake Mora, was killed when his helicopter crashed on November 11. The government insists the crash was an accident, but Mexico's rumour mills claim that the DTOs were involved. It is just possible that Blake Mora's death prompted undecideds in Michoacan to vote for the PRI under whose hegemony from 1930 to 2000 the DTOs were kept in their place.

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Latin America fund assets to exceed \$3 trillion by 2020

Driven by appetite for asia - U.S. and European asset managers benefit most

■ Daniel Enskat, Head of Global Consulting, Senior Managing Director, New Strategic Insight

New York, London, and Hong Kong, November 7, 2011

While still smaller than other global regions in terms of aggregate assets - around US\$1.4 trillion in mutual fund assets and about \$710 billion in pension assets - fast growth in Latin America as a region is capturing the imagination of investors, distributors and asset managers alike, with tactical and strategic opportunities prompting resource allocations and investments.

A ccording to a new 110-page Strategic Insight research study on the region, 'State of the Asset Management Industry - Latin America', "Depending on the global market environment the region's mutual fund industry could reach between US\$2.8 trillion and US\$3.6 trillion in assets by 2020, while its pension fund assets could approach \$3 trillion – a total of over \$6 trillion," stated Daniel Enskat, Head of Global Consulting for Strategic Insight and author of the book. "Fund managers see Latin America as the primary region of focus for cross-border distribution by a margin of three to one compared to Asia, with Strategic Insight data showing more Luxembourg-domiciled funds registered in Chile than in Hong Kong."

Added Enskat, “Many international fund managers are selling cross-border funds into the region, have acquired local firms or stakes and are building out distribution and investment capabilities on the ground, either with exclusive third-marketers or with broader teams that service multiple providers”.

Among the key themes discussed in detail in this report: *Local market opportunities: “Markets such as Brazil, with over \$1 trillion in mutual fund and pension assets, or Mexico, with US\$250 billion, and a highly profitable asset management business for some firms, as international managers establish a foothold for regional expansion and local growth, such as Julius Baer’s stake in wealth manager GPS, Credit Suisse with strong performance fees from Hedging-Griffo, JP Morgan High-bridge acquiring Gávea, and Blackrock after acquiring Barclays aggressively expanding on the ground for ‘SAXB’ (South America ex-Brazil).”

Institutional pension fund progress via UCITS: “Chilean pension funds now hold 45% of its US\$155 billion in assets in UCITS. Notably, the most appealing area of investment for Chilean Pension funds is Asia. Leading fund firms working with exclusive or multi-partner third-party marketers such as Econsult, Compass and others include Fidelity, Blackrock, Franklin Templeton, Vanguard, Schroders, DFA, and Investec. Of late, the data also shows increasing use of U.S. 1940 Act funds across Latin America”, stated Enskat.

Cross-border emerging market links: Chile, Peru and Colombia display similar characteristics as Hong Kong, Singapore and Taiwan in Asia- cross-border UCITS hubs with strong growth potential for international firms, especially U.S. and European firms offering Asia expertise. “We see increasing links between emerging market regions: e.g., the best-selling fund in Japan in 2010 was Nomura US High Yield Bond linked to the Brazilian Real, conceived by Nomura’s NY team, set up by London via Cayman and then sold to retail investors in Japan by the securities house (sub-advised by JP Morgan for the second installment). And, despite regulatory hurdles, Asian firms such as Mirae are now moving into Latin America to gain market share in the Asia emerging market space.”

Exporting LatAm investment expertise: According to Enskat, “Latin American specialist investment boutiques are registering UCITS products to be wrapped into fund of funds, platforms or investment solutions, to be sold non-domestically via Europe: e.g. BTG Pactual in October 2010 launched a Luxembourg SICAV UCITS, BTG Pactual Brazil Equity Plus; Itaú has a few Luxembourg SICAVs focusing on Latin America and Brazilian equity; and Victoire Brasil Investimentos has a Luxembourg domiciled OEIC and works with Casa4Funds, a Luxembourg third party manager to package investment solutions for European fund buyers.”

High-Net-Worth (HNW) in LatAm: LatAm is home to the densest population of Ultra-HNW investors in the world – by far. “The non-resident investor growth for U.S. fund managers through hubs such as New York, Miami, California or Atlanta, et al, is becoming a strong growth path for those firms, and private banks in Europe and Asia are pushing hard into Latin America. Already, 2011 profits for some prominent private banks primarily come from Latin America. For instance, HSBC on the wealth management side in 2011 is seeing two-thirds of revenues from Latin America and Asia. Santander outside of Spain is mostly focusing on Latin America, and BBVA so far in 2011 has reported 60% of total profits from Mexico and South America, compared to 37% from Spain.”

Latin American asset base in offshore hub is growing rapidly, along with needs: Strategic Insight research shows that “global financial institutions in international finance hubs (e.g. Switzerland, London, Singapore et al) are seeing increasing proportions of assets in booking centers come from Latin American investors, ranging from 25% at the low end to up to 70% for some Latin America focused private banks. Thus, with greater asset power in booking centers attributed to Latin America HNW investors and institutional clients, information and service demands of those clients are rising, and local support is becoming more important for success.”

Europe and the U.S. can learn from LatAm regulators: We also see a paradigm shift for the industry globally around local investment approaches and a new norm of asset allocation mindsets and regulation. Added Enskat,

“Emerging markets are finding their stride and, while willing to listen to ‘developed markets,’ see the world through their prism, culture and history. Chile recently removed Dublin-based funds from its pension funds, while Asia is discussing a regional or limited passport to compete with UCITS. Brazil has a transparent and sophisticated hedge fund industry with multimercado that could offer guidance to the UCITS/Newcits debate in Europe. All of these trends offer an opportunity to listen and build different business models for success going forward, especially as emerging markets are now starting to build bridges away from developed markets.”

GDP and demographic growth: LatAm is home to 600 million people with a growing middle class, and already has the highest proportion of ultra-HNW investors in the world. Moreover, the world is interested in LatAm as an investment area, as part of emerging market investing and for specific countries and sectors (such as BRIC). At the moment, the opportunities for Latin America are primarily institutional and family office/ HNW mandates. However, local markets opening up and a growing middle class over time (the global middle class is expected to grow from 500 million people today to almost 2 billion in the next 10-15 years) will likely add an additional US\$100 billion per year in retail net cash flows to the industry in the region in the second half of this decade.

To receive a copy of the executive summary for this report, please contact Chantelle Davis (cdavis@sionline.com) at 212-217-6879, or visit: www.sionline.com

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Mutual Funds in Argentina

■ Eduardo Bardelli

Significant changes have occurred since the end of Argentina's crisis and default in 2001. Top of the list is the fact that LatAm is no longer flying under the radar of international investors. The returns of the fixed income assets have called the attention of the investment community around the world. A good alternative to fill the appetite for Argentine exposure that combines diversification and local expertise are the mutual funds locally called Fondos Comunes de Inversion (FCI).

In Argentina FCI's have 50 years of track record and currently approximately US\$ 6 billion of assets under management. 44% of FCI's are focused in fixed income, 38% in money markets, 9% in equities and the other 9% in a mix of fixed income and equities. There are 38 Asset Managers for FCI's, mostly related to banks (e.g., Santander, HSBC, BBVA, Standard Bank, Itau), stock brokers

or international asset managers like Raymon James, Schroder, Compass or Toronto Trust.

■ Pros

Returns: fixed income is very attractive (YTD 10%; 2 years, 35%). Equities are more volatile, and 2011 was not a good year, hence the MERVAL was the most profitable stock index in 2010 (ie: YTD -20, 2 years 20%). World class portfolio managers: Regarded professionals with a deep knowledge of the local market.

Transparency: The portfolio is published with a small delay.

Liquidity: 0 to 72 hours depending on the fund. No notice period.

Ranked: mostly by Fitch or S&P.

Institutional: FCI's are regulated and overseen by the CNV (the local capital market authority).

Low fees: from 1% to 2.5%. Success fees are very unusual in the FCI market.

Low costs: usually between 0.5% and 1.25%.

No leverage.

All investments with clear and transparent valuations, no private investments permitted.

Mandatory diversification. It is also a risk because in exceptional situations the FCI can become fully liquid or divested.

Macro: The fundamentals of the economy are reasonable and certainly good in comparison with other emerging and frontier countries.

■ Risks

Political and regulatory risk: There was a precedent ten years ago and during the peak of the Argentine crisis when the government forced the FCI to invest in Argentine assets.

Liquidity: As mentioned before, the mandatory diversification of the portfolio makes it impossible for the FCI to become fully liquid in an emergency situation.

Reserves: Maybe the main issue is the current limitations to certain flows of foreign investments in an attempt to reduce the volatility of the currency and capital markets. The government is analyzing ways to relax the market barriers.

■ Conclusion

Argentina is not a risk-free market, but according to the opinion of financial experts there is an overestimation of local risk. The fundamentals of the economy are still in relatively good shape, which is not a minor detail if you have to measure the ratio of risk/reward. In the short-term scenario a default is highly improbable. In summary, be cautious and well advised: the FCI focus on fixed income, denominated in US dollars, is a rare opportunity to invest with an attractive risk/reward correlation.



Top 10

LatAm Hedge Funds

Increase in assets in Latin America has hedge funds in the region seeing a rise in productivity and interest. Here is a list of the top performing LatAm hedge funds in 2011 (provided by EurekaHedge). ALI caught up with representatives of three of the top performing funds to dig a bit deeper in regards to their fund strategies and goals for the coming year.

GAP Long Short

What is the strategy of your fund?

It is a long-short market-neutral fund that seeks gains using the relative equity performance in the Bovespa market.

Have you remained fairly liquid or not?

Yes.

What have been our allocations this year:

The allocation is usually balanced between a long-term portfolio hedged in the Bovespa index future and many different pair trades (mostly intra-sector).

Please describe your investor demographic, where are they from, private or institutional:

The fund accepts investments only from Brazilian Investors and the current client base is composed mostly of private clients.

Why do you think you've been more successful than other funds?

The fund leverages on GAP's 15-year unparalleled knowledge about local markets and as a hedge-fund pioneer in Brazil. The firm possesses a long and consistent history of results within the Brazilian hedge fund community, having surpassed diverse global scenarios, both political and economic in nature, since 1996.

What are your goals for 2012?

The idea is to keep the growth achieved over the last 15 years, in addition to stressing the expansion of the areas of retirement plans, international and wealth management. We will expand the platform of products, but our priority will be to maintain the quality of management of investment funds.

Top Ten LatAm Hedge Funds	
Source: EurekaHedge 2011	
Paineiras Hedge FIM	14.97%
Polo Macro FIM	14.77%
Polo Crédito Privado FIM	12.7%
Fator Cambial	13.54%
BNY Mellon ARX Extra FIM	13.1%
Teorica FI Multimercado	12.74%
EF X	12.31%
GAP Long Short	10.88%
Duna Long Short 60	10.86%
NEO Long Short Fund	10.76%

Exhibit 1

Type	% liabilities
Individuals	8
Pension Fund Institutional Investors	36
Distributors, Allocators (includes third-party funds of funds and family offices)	16
Foreign Investors	27
Others	13*

Database: September 2011 * refers to cash funds for cash sweeping

■ Teorica FI Multimercado

What is the strategy of your fund? Teorica FI Multimercado is a macro fund. The Fund seeks to provide investors with the opportunity of long-term capital gains through investments from a wide range of macroeconomic opportunities, mainly related to Brazilian assets. The Fund's policy is to achieve those returns through a strategy of investing in equities, indexes, sovereign debt, currencies, fixed income instruments and commodities. The Investment Manager explores the opportunities where the risk / return ratio is attractive, always considering extreme outliers or rare events ("the Black Swan"). The Fund will invest primarily in liquid instruments

Have you remained fairly liquid or not?

Our investment philosophy is to invest only in liquid assets.

What have been your allocations this year?

Our investment scenario is that the world is in a great unwinding process that started in 2008. After almost two decades of expansion through leveraging, the economy is in the middle of the deleveraging phase. Therefore, the world economy is extremely vulnerable to shock and the probability of recession is very high. In this environment, we believe that unthinkable events can happen. Thus, we see tail risk events can become normal. We structured your portfolio to be prepared for a relevant deceleration or a global recession. In this scenario the US dollar would strengthen, commodities will free-fall and

equity markets will tumble. Teorica FI Multimercado is short equity, long dollar and short commodities.

Please describe your investor demographic, where are they from, private or institutional.

Our investor profile is high net worth, local, private and institutional, and understands perfectly the Fund's risk and investment philosophy.

Why do you think you've been more successful than other funds?

We have solid risk management; we deeply understand our investment decisions; we have independent way of thinking and we are always prepared for the stress scenarios. Thus, we highly believe in our work and our capabilities.

What are your goals for 2012?

The same as every year. Try to keep our track record of approximately 20% performance a year.

■ BNY Mellon ARX Extra FIM

Hedge Fund Strategy – EQUITY HEDGE

This strategy aims to beat the CDI rate in the long term using an active management in asset allocation without taking credit risk, and seeking to seize the best investment opportunities available in the market. Due to a greater focus on the long term and a holding period, there is greater tolerance in maintaining certain operations. There is no concern regarding volatility in the short term. This strategy seeks gains from long-term positions set up gradually after an analysis of the mac-

roeconomic variables and the fundamentals of the selected companies. The strategy may use derivatives, not limited to the stockholders' equity, for hedging, arbitrage, as well as for directional bets in order to boost results. The strategy may have a significant chunk of its stockholders' equity in the stock markets, potentially utilizing their respective derivatives, but without linking it to any pre-determined performance indicator.

Have you remained fairly liquid or not?

Yes, quite liquid.

What have been our allocations this year?

Our Gains came mostly from relative value positions in the stock market, while in October the gains came from directional equity positions. Currency played a small role in the gains.

Please describe your investor demographic, where are they from, private or institutional?

See Exhibit 1

Why do you think you've been more successful than other funds?

We believe the main outperformance factor was better stock picking.

What are your goals for 2012?

Achieve consistent outperformance over the benchmark interbank rate.

Heading for Shifting Shores

As wealthy LatAm families have begun diversifying their portfolios more aggressively, they are doing so not only across asset classes and markets but across jurisdictions, as well. This trend has persisted, or indeed accelerated, as many traditional save havens have reformed their exchange of tax information regulations to conform with international standards.

“There is a great benefit to having multiple jurisdictions holding your money, assuming you can legally you do it,” says Carol Pepper, CEO and Founder of Pepper International, a New York-based family office serving international clients. “You just don’t know what’s going to happen within the government of your country. Where you can be offshore from your home jurisdiction, it’s a wise thing to do.”

Oscar Alerhand, a founding partner and CEO of Galileo Investment Management, a New York-based multi-family office, agrees,

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Uruguay's Zonamerica: LatAm's Premier Business Park

For family offices and private banks serving LatAm clients, as well as other corporations looking to establish offshore offices in the region, one of the most attractive locations is Zonamerica Business and Technology Park. Located in a free trade zone in Montevideo, Uruguay's capital and the financial capital of the Mercosur region, Zonamerica is the largest business park in South America, with 280 tenant companies. Large firms such as Mer-

rill Lynch, Bank of Canada, Sabre Holdings, Watson Wyatt, Price Waterhouse Coopers, and Citigroup, among others, have offices there, as well as more than 50 family offices and financial services companies.

Along with Montevideo's new airport and the Route 102 highway, Zonamerica is an integral part of Uruguay's recent infrastructural development. The park covers 92 hectares and includes over 100,000 square meters of

office space, centered on the gorgeous, sea-vessel-shaped Celebra Building, a contemporary architectural icon. Along with the tax incentives and benefits they receive for locating themselves there, tenant companies also receive logistical, technological and financial services.

Companies are choosing Uruguay for offshore offices for several reasons, says Jaime Miller, Zonamerica's General Manager. The



Buildings @1 (left) and @2 (right).

first is its location: nestled between the region's two largest economies, Argentina and Brazil, and close to financially prominent Chile, Uruguay is ideal for companies serving clients or doing business in those countries. The second is the country's political and economic stability. "Because of the hard data on democracy levels, economic freedom, and institutional strength," says Mr. Miller, "Uruguay is perceived as a safe haven from unexpected changes to the rules of the game." He adds that the free currency exchange, where currencies can be bought and sold without surcharge, makes Uruguay "like the Singapore of Latin America."

Another attractive characteristic of Uruguay, Mr. Miller says, is the country's human talent. "There are many educated, bilingual workers here who are quick to adapt to new requirements of foreign companies. Our growth has been fueled mainly by the fact that most of the companies that wanted to find something here quickly found the right people to deploy their operations." He adds that "there is a huge tradition of financial services in the country: Uruguay was a hub for financial services in the region for many years, and we continue to have a strong banking services industry that provides the necessary human capital."

Zonamerica develops this human capital, as well, through its educational foundation, Fundacion Zonamerica, training professionals to meet its tenants' needs. "We find that the university level does not always provide the actual skills to get a job," says Mr. Miller. "For example, how to manage a Bloomberg Terminal screen, use Excel more efficiently, speak multiple languages, or utilize a specific financial technique – the Foundation provides the courses and training space necessary to develop those skills." Many of its trainees go on to work for Zonamerica tenants. Zonamerica is constantly flooded with resumes and currently has a database of over 40,000 potential employees; one of the main services it provides is linking such talent with the appropriate opportunities, and vice versa.

Zonamerica was the brainchild of its current president, Orlando DovatMela. It first manifested in 1990 as Zona Franca de Montevideo, in the wake of a 1987 Uruguayan law creating the possibility of a tax-free zone to

attract foreign business. It was Mr. Dovat Mela's vision to create a park that provided not only logistics services to companies but technological and financial services, as well. With initial investments from Mr. Dovat Mela's family and friends, as well as financing from the Inter-American Investment Corporation (part of the Inter-American Development Bank), Zona Franca de Montevideo opened in 1990.

Now in its 21st year, and bearing the new name Zonamerica, the park currently employs over 8,000 workers and accounts for almost 3% of Uruguay's GDP. Mr. Miller says that about 60% of the groundspace is currently devel-

oped, and new buildings are being planned, which will double the occupancy.

Yet, as space and highly skilled human talent are necessarily limited, Zonamerica is already planning to expand to other locations, to tap into other labor markets and better serve other financial markets. "We realized that, in some cases the lack of human capital and the geographic location of our country impedes us with some customers," he says. In the second semester of 2012, they will break ground in Cali, Colombia, to develop a 50-hectare business park devoted entirely to financial services, oriented toward the Central and North American markets.



Braglia Square and Beta 4 Building.



Building @3 (and @1 at the left side of the picture).

Electric Energy Storage in Latin America: Smart Grid Technologies ■



Carlos St. James

The world's current electric power system is built around an early twentieth century premise: electricity must be produced on demand because, unlike most other commodities, there is no way to store it. So those involved in the generation, transmission, distribution and even consumption of electricity have to invest for peak demand, even if that occurs for only brief periods during any given day. The amount of surplus investment in assets getting inadequate use -- and therefore substandard returns -- has been a serious stumbling block for the industry for decades.

New energy storage technologies eliminate this antiquated premise by allowing market participants to produce and store electricity for later use, thereby becoming far more ef-

ficient -- and opening doors to myriad new opportunities in energy. As famously stated by Matt Rogers, a senior adviser to the U.S. Energy Secretary, "Energy storage is the killer app for taking the grid to the next level."

This killer app is an increasingly important component of an industry generally encompassed under the heading "smart grid technologies" that focus on more efficient use of energy. And it is not short on imagination or commitment: in LatAm, for example, storage is being launched with the announcement of a one gigawatt "energy warehouse" to be built in Mexico along the border with California.

This is at the heart of what "smart grid" means: more efficient use of energy and infrastructure in the coming decades. They in-

clude solutions such as demand side management and smart grid technologies that offer reliable and high quality power, while effectively meeting increased energy demand.

But this intelligent energy management will be difficult to achieve unless efficient energy storage systems are implemented alongside. Investors are seeing that storage can stabilize electricity markets, make intermittent renewable energies such as wind and solar photovoltaic even more viable, and allow for streamlining and deferring of expensive additional transmission capacity installation. In the case of wind farms, prevailing winds often supply more energy at night -- but the power gets dumped because there isn't concurrent demand to make use of it; a solar park's ability to deliver energy to the grid consistently is hampered by passing clouds and nightfall. And governments will make use of energy storage for security reasons: it helps create a reserve that could be tapped in case of national emergencies, much like the U.S.'s petroleum reserve. After all, the world -- including national defense capabilities -- runs on electricity.

A rendering of what the energy warehouse will look like in Mexico



Storage technologies can act as a shock absorber for the entire grid and can help address some of the key challenges facing the industry, such as efficiency, reliability, and security. It can also help electric utilities maximize yields for the power they generate using what is known as “time shifting”: storing lower-cost energy produced at night and then release it to the grid during peak demand, when it is more valuable.

A variation on this very theme will soon take place in Mexico. In what promises to become the world's largest energy storage center, President Calderon announced during the course of the United Nation's climate change meetings in Cancun last year that Dubai-based Rubenius LLC has committed to build a one gigawatt (1000 MW) “energy warehouse”

along the border with California over the next five years. It will purchase electricity generated during the night in Mexico – in large part by wind farms in Baja California, where most prevailing winds are nocturnal -- and store it at the energy warehouse; this same energy will then be resold to southern California the following afternoon, when high temperatures and greater economic activity result in noticeably higher electricity prices. A simple energy price arbitrage opportunity.

As a clean tech investment fund owner has recently declared, grid-scale energy storage is the “game-changer” in the alternative energy industry. The rules of the game are changing entirely, and knowledgeable early market entrants will reap the rewards.

Energy storage: the growth story within a growth industry

A recent report by Technavio Insights forecasts that the smart grid energy storage market will grow at a compound annual growth rate of 39.7% through 2013. A report prepared by Frost & Sullivan entitled European Large Scale Energy Storage Market and Opportunities from Growth in Renewable Energy indicates industry revenues of US\$1.2 billion in 2010 and over \$2 billion by 2017 in Europe alone.

California already has an energy storage law that will establish storage targets through 2020 and is being replicated in other states as well as overseas.

Author Biography

Carlos St. James is the CEO of the Argentine subsidiary of Rubenius LLC, a United Arab Emirates-based provider of smart grid and large-scale energy storage solutions. He is also the founder and ex-President of the Argentine Renewable Energies Chamber; a board member of the Latin America & Caribbean Council on Renewable Energy out of Washington; and the author of numerous published studies on the state and future of renewable energy in Latin America. He holds a BA in international economics from DePaul University and an MA in international relations from the Fletcher School at Tufts University. He can be reached at carlos.stjames@rubenius.com.

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Argentina

Tightens

Foreign Currency Control

■ Javier Canosa

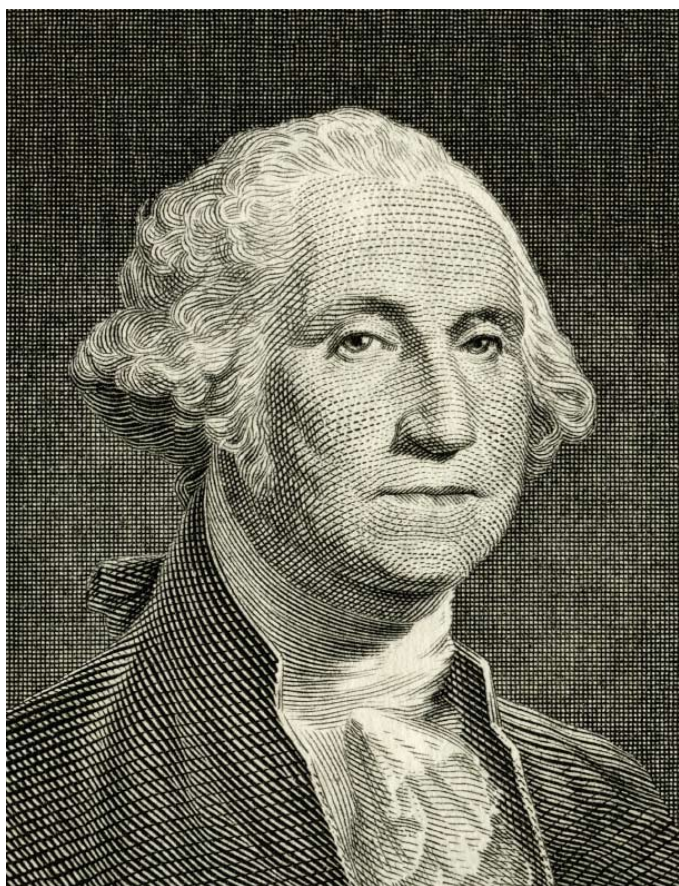
The Argentine government has imposed new restrictions on the purchase of foreign currency (although the vast majority of the transactions are in U.S. dollars). The measure formally aims at reducing tax evasion and money laundering; arguably, it also aims at reducing capital flight. Individuals and companies wanting to exchange Argentine pesos for foreign currency (for hoarding and not for transactional purposes) must now explain the source of their funds and be current with their tax obligations – according to the Argentine Tax Authorities (“Tax Authorities”). As a result of these measures, currency trading in Buenos Aires has been very much reduced.

Tax Authorities, by means of General Resolution N° 3210/11 (“GR 3210”), issued on October 31 2011, created the “Consultation Program of Banking Operations.” This program implements a computer system called “Foreign Exchange Consultation (“FEC”) in order to intensify reviews on the sale of foreign currency in Argentina.

This new measure, which came into force on November 9, 2011, provides that financial institutions authorized to trade foreign currency by the Argentine Central Bank (“ACB”) must verify and record, through the FEC system, the aggregate amount in pesos of each exchange transaction at the time that the relevant transaction will be perfected. For this reason, as from the date of entry into force of GR 3210, the sale of dollars through ATMs, internet banking (home banking) and telephone banking has been suspended.

This procedure, allowing real time assessments of the fiscal and economic-financial situation of anyone expecting to make a foreign currency transaction, affects sales of foreign exchange (currency or banknotes) in all forms, whatever the purpose or destination for the acquired money.

The consultation and registration must be made using the Information Sharing System through a web service or the FEC System available on the Tax Authorities’ website. When using the lat-



ter, the acquirer must have a Tax Code (with security level 2, 3 or 4) and authorize the officials who will use it via the “Relations Manager” service. In these procedures, the entities must fulfill certain guidelines set out in an external user manual available on the Tax Authorities’ website.

The entity that will make the transaction will require of the potential acquirer, in addition to his or her tax ID, Labor ID, Identification Key or National Identity Document number, that he or she state the currency to be acquired, its destination, the amount in pesos of the operation, and the relevant exchange rate. From there, the agency will examine instantly the source of the funds of the individual or company that requested the approval of the transaction and their ability to pay and automatically will decide whether to authorize the operation.

According to those input data and the information contained on the database of the AFIP, the reply issued by the agency may be:

Validated: data entered passed the control system, assigning the operation a transaction number. With inconsistencies: control system has not been passed, detailing the reasons for rejecting the transaction. In the latter case, the purchaser may consult the Tax Authorities, in which he or she is registered or which corresponds to his or her address (if not registered), over the reasons for the inconsistencies.

According to GR 3210, the causes for the inconsistency may be rectified by regularizing it in an appropriate way depending on the case. If the reason is “insufficient economic and financial capacity,” the resolution specifies that the acquirer should make a note accompanied by the impression of the reply issued by the system and the documentation certifying the origin and amount of funds to be used for the purchase of foreign currency. After the presentation, the Tax Authorities look through these documents and decide on the application, without any time limit specified by the resolution. This new regimen also establishes an online consultation system through which the potential pur-

In these procedures, the entities must fulfill certain guidelines set out in an external user manual available on the Tax Authorities’ website.

chaser may find out for him or herself, before going to the entity, if the amount of money to be changed would be approved or not by the Tax Authorities. For this purpose, the acquirer should enter the agency's website (www.afip.gob.ar) where, with his tax information, he will be able to make the consultation.

Tax Authorities will ensure that the agencies authorized to carry out foreign exchange operations obey RG 3210's provisions. In this regard, the organization issues daily reports about the transactions recorded in its system and verifies that all operations reported by the ACB have a transaction number assigned. Also, it will audit the queries made by any acquirer who has obtained the answer "with inconsistencies" and, in particular, the operations of foreign currency sales reported by the system "with inconsistencies" that finally are realized with its intervention.

On the other hand, complementing the present controls, the ACB – through Communication "A" 5245, which came into force on November 11, 2011 – states that in cases of foreign currency sale for the formation of foreign assets by residents without the require-

ment of a subsequent specific application, i.e. for what is commonly called "hoarding," the entities authorized to trade in foreign exchange may only give access to the local exchange market who obtains the FEC system validation.

The following entities are exempt from getting the fiscal validation:

international agencies and institutions performing functions of official agencies of export credit; diplomatic and consular representations and diplomatic staff accredited to the country; representations from courts, authorities or departments; special missions, bilateral commissions or bodies established by international treaties or agreements in which Argentina is party, as carried out in exercise of their functions; local governments; local governments employees who are not integrated into the Argentine Integrated Social System (AISS) until the measures necessary for such integration are implemented, and for a maximum period of 30 calendar days from and including October 31, 2011, to the extent that the transaction is in the financial institution in which the payments of salaries are accredited and for up to a maximum

amount equal to the amount of the last salary received from the local government;

operations conducted within 15 calendar days from October 31, 2011, including those by individuals with the application of funds of mortgage loans in local currency granted by local financial institutions for home purchase, and to the extent that the amount acquired is assigned simultaneously to the payment of the specific property;

Operations conducted within 30 calendar days from October 31, 2011, including those by individuals who apply for the purchase of foreign currency notes, the funds resulting of the collection of pensions received from abroad.

Exchange transactions to customers by other concepts that do not correspond to the formation of foreign assets by residents without application to a specific destination also are exempt from the requirement of validation under the "Consultation Program of Banking Operations." In spite of this, banks also must verify that the remaining foreign exchange regulations that may apply are fulfilled.

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OASIS COLLECTIONS



Alternative Latin Investor Interviews Parker Stanberry Co-Founder & CEO at Oasis Collections

Why did you start Oasis?

It was a combination of a lifelong love of travel and the hospitality business and good-old-fashioned necessity. My first project when I moved to Buenos Aires in 2006 was to create a small property investment fund, through which we bought period apartments and homes in Palermo, renovated and decorated them, and rented them. At that time, the concept of renting furnished apartments for a few days to a few months was just starting to gain steam in BA, so that was the highest return use for our properties. After trying to rent through some local agencies, I was unimpressed so decided to do it myself.

Where did you start, where would you like to expand to?

We started in BA and now have properties in various cities and vacation destinations around Argentina, Brazil, Colombia and Uruguay. Our immediate expansion plans are based more on building out our portfolio of properties and amenities in the destinations we've recently opened (São Paulo, Bogotá, Cartagena, to name a few) as opposed to entering new markets, although we will be adding properties in Bahia (northern Brazil)

soon, and eventually we'll take the concept to the remaining major cities in LatAm (Santiago, Mexico City) as well as Miami and New York.

Who is the ideal Oasis client?

The guests that end up having the best time and falling in love with our concept are seasoned, discerning travelers who "get it." Someone who likes nice places, good design and good service, but doesn't equate that with daily maid service and chocolates on pillows. They appreciate the unique experience we offer, our inside tips on the less touristy restaurants and bars and sights, and the "authenticity" of staying in a real home rather than a hotel. Staying at a rental property isn't the Four Seasons - it's better some ways, but

it's obviously not the same in terms of amenities and 24/7 service.

What advantages and disadvantages are there in choosing Oasis over hotels?

Following on my last answer, the advantages of a rental property over a hotel are space, value and authenticity. The disadvantages are the trust factor (who am I renting from? Will someone greet me at the property?), the lack of on-site staff like a concierge, and the lack of the social aspect (the lobby bar). With Oasis, what we are doing is bridging the gap between the hotel experience and the rental experience - the idea being that we offer guests all of the intrinsic advantages of a rental property vs. a hotel, while also eliminating the disadvantages. We're a trusted intermediary that eliminates the risk of renting directly from an individual owner. We have a lobby bar - it's The Clubhouse in Palermo. We have a concierge - via our deal with Quintessentially. We haven't completed that model in all of our destinations, but that's what we'll be doing in the coming years - essentially we are building a "virtual" boutique hotel chain.

Do you offer a loyalty program or services catered to the business traveler?



Villa Joatinga

Rio de Janeiro, Brasil

4 Bedroom/4 Bathroom

3100 sq. ft.

This recently renovated 4 bedroom villa with stunning, unique views over the ocean, mountains and city of Rio de Janeiro is simply magnificent. Set in a secure cliff top community, it is minutes from Joatinga, Rio's most exclusive beach and a convenient distance from Leblon, Ipanema and Copacabana.



Casa Carlos Calvo

Buenos Aires, Argentina

4 Bedroom/4 Bathroom

4000 sq. ft.

The recently completed restoration of this 1860 home has created one of the finest private rental properties in Buenos Aires. Meticulous attention has been paid to retaining period details such as hardwood floors, original French doors and crystal chandeliers, while the decoration fuses classic elegance and modern style.

We have small extras that we offer repeat guests (no administration fees, a complimentary bottle of champagne upon arrival), and we are currently working on a more complete loyalty program, which we will roll out next year. In terms of the business traveler, the concierge service that we offer, access to The Clubhouse (in Buenos Aires) should they need a place to work or take meetings, and fact that all of our properties are personally checked before arrival to make sure that things like internet are working and sheets and towels have been properly cleaned all point to our efforts to make sure that business travelers feel comfortable staying with us.

Do you offer concierge services of advice based on needs of client, i.e., what regions of the city might be best, etc.? Yes, and that's one of our strongest points. We are on the ground in our destinations, so we know them inside and out. We have printed city guides that we send each guest after he confirms his booking, and our reservations team is very hands on in terms of guiding guests through the process. Then of course we have the deal with Quintessentially.

Who is your largest competition and how is Oasis set apart from those firms?

What competition? haha. Well, there are two types of competition: the worldwide listing services, like AirBnB and Homeaway, and local operators who have properties in Rio or BA or Cartagena only. We differentiate ourselves from the former because we are a full service hospitality company which hand-picks every property, is responsible for maintaining standards of those properties, and provides excellent guest and owner service every step of the way. With AirBnB, both owners and guests are flying blind. And then compared to the local agencies, we are an international brand, which means that people know what they are getting as opposed to hoping that Joe's Apartments in BA is actually a reputable agency. Plus, we have properties all over the continent. And then there's our service component and the social component...the list goes on and on. :) Seriously though, we are sort of defining our own niche, which is part of what makes it so much fun and why travelers are responding so well.

From your experience, where do you think are the new LatAm 'hot spots' and where do you think might be slowing down?



*Casa Voltaire
Buenos Aires, Argentina
3 Bedroom/2 Bathroom
1850 sq. ft.*

This is a romantic three bedroom and two bath free-standing house, completely renovated in 2011. It sits on a historically preserved alley in Palermo Hollywood, the hippest neighborhood in Buenos Aires.



*A Tres Pasos de Havana
Cartagena Colombia
4 Bedroom/5 Bathroom*

This unique house combines the antique colonial-style of high ceilings, exposed brick walls, beautiful tiling and arches with the modern amenities and style of a boutique hotel. The common areas are airy and open while the four bedrooms provide privacy and a cool retreat from the hot Cartagena days.

Colombia is my pick for the next 5 years. It has a variety of destinations (Bogotá, Medellín, Cartagena, Santa Marta, the Zona Cafetera, etc.), is physically beautiful, has a rich culture, and the nicest people of any country I've been to. Despite the hubbub of the Olympics and World Cup, I see Rio waning a bit, due mainly

to the price point (it's now significantly more expensive than New York City, which really throws people off), but also because it feels a bit played out. That being said, it's still an amazing city that everyone should see once.

Massive Opportunities: LatAm Family Offices

LatAm has the highest density of high and ultra-high net worth individuals per capita of any region in the world, and as their numbers and fortunes have swollen in recent years, many have turned to family offices to manage their wealth. The independence and versatility of the family office model attracts them, especially in the face of recent volatility in the global markets. While some family offices outside the region have won LatAm clients, the numbers and sophistication of local family offices has been growing rapidly, as well. As Paul Karger, a co-founder of Twin Focus Capital Partners, LLC, a Boston-based multi-family office with several LatAm clients, says of the LatAm local family office market, “The opportunities are massive. People need independent advice.”

Mr. Karger, whose firm provides advisory services for US\$1.6 billion in assets belonging to fifteen families in LatAm, the Middle East, Asia and the U.S., explains that his firm tends to work with LatAm entrepreneurs who have built and sold businesses and now have large amounts of cash they want to invest. Many of them have made their fortunes in a concentrated way and are now looking for diversification away from a certain country or asset class. “As wealth has proliferated around the world in the last ten years,” he says, “people are starting to look at things differently and realize that we do live in a globalized world. Things are so interconnected now, money is so fungible and moves in and out of corners of the global via capital markets, and there’s a significant need for looking at things differently. These [LatAm high net worth] fami-

lies and individuals are more educated about the markets now and realize that if they have all their money invested in reals, for example, they’re still subject to the volatility of global currency markets. So increased exposure to all asset classes is definitely something our clients are looking for.”

And yet it is not merely a question of asset classes, he says. “When you live in the world we live in today,” he adds, “sophisticated wealthy families are seeing the problems the big banks have had and are realizing that they need they need global diversification not just across assets but across custodians and banks.” He describes his firm’s main task as “developing one-off customized solutions for complex situations that wouldn’t fit on a bank platform.”

It is the independence, flexibility, and integrity the family office model allows that

Mr. Karger says is so attractive to high net worth individuals and families, many of whom have become disillusioned with the bank model. “I think all the bad press about banks [in recent years] has been great for more independent shops that have a different story to tell, that are completely, truly independent and allow their clients to decipher the various layers of fees embedded in a product. When you’re an independent advisor, you’re making recommendations based on what you think is right for the

PREMIUM CONTENT
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A Primer

*on Colombian Taxes
for the PE Investor*

■ Felix A. Villalba



TAX	United States	Colombia
Corporate Tax (on Pre-Tax Income)	35%	33%
Long-Term Capital Gains	15%	0%*
Financial Transactions Tax	0%	0.4%

Hidden Surprises

Colombia's taxation offers some "hidden" surprises for small and mid cap PE investors. The DIAN (Colombian IRS equivalent) and other local taxing authorities have created some rules that complicate the lives of investors unnecessarily. However, with a well-managed strategy, companies can minimize the impact. Here is a primer, but by no means an exhaustive explanation, of what to expect.

Multiple relatively independent taxing authorities: In addition to the DIAN, your business in Colombia will be subject to a number of other local taxes. Perhaps the best example would be the states' franchise taxes. For example, in Barranquilla, the local city government issued a tax called Pro-hospital, a 1% tax on company revenues. Even if you haven't any revenue you have to file, and if you don't, you'll be penalized. No arguments.

Tax on financial movements. This is perhaps one of the most annoying for investors because it means keeping the number of companies to a minimum. If, for example, you want to set up a group of companies instead of one large company that houses different businesses, be prepared to pay 0.4% on your money every time you move it across to another entity. In other words, every time that you issue a check, wire, or other form of cash outflow transaction from a bank, your company will have to pay 0.4% on the amount being transferred.

Other taxes to watch out for: Alternative minimum tax, complex monthly payable withholdings on individuals and companies, Zero tax filings penalties (if you don't file, even if your tax bill is zero, you get penalized).

Tax accounting in lieu of financial accounting

In the U.S., companies are allowed to keep two sets of books, for financial accounting and for tax accounting. In Colombia, that is potentially illegal, and if you mention it, CPAs will frown upon you in disbelief. Investors and the taxing authorities see things from different perspectives. But in Colombia, investors do not get financial statements in pure economic format because the taxing authority imposes rules on financial reporting. Financial reporting and tax financials are one and the same. Companies in Colombia, unlike in the United States, have to follow the "Listado de Cuentas," in other words, all companies are forced to have a single chart of accounts. Such a chart may or may not help investors trying to understand a company's economic value. Understandably, a one-size fits all chart of accounts can be helpful for keeping things simple with respect to over-seeing tax compliance. However, from an investor's perspective, different industries will be better off presenting financials in their specific format. Therefore the accounting departments of multinationals, having a large enough staff, can afford to create mappings of their Colombian books and into the more understandable and investor friendly format. McDonald's, for example, used to map and

adjust the "Listado de Cuentas" into their United States accounting. This can be a challenge for a small to mid cap PE investor due to the implied expense, human resource challenge, and training required to accomplish such an ongoing accounting operation.

No Double Taxation

In Colombia, corporations pay corporate taxes at a 33% rate on pre-tax income. Shareholders of the corporation then pay no additional tax since the company already paid the tax. All companies in Colombia are a form of pass-through entity where the difference from the United States system is that the company pays the tax, not the shareholder. This is opposed to the United States where a corporation (not LPs or LLCs or other pass-through entities) pays a 35% tax rate and then the shareholder pays an additional 15% long-term capital gains tax.

There are some interesting complications in the Colombian tax system, although they are not unbearable due to the nonexistence of double-taxation. The latter ultimately leads to a lower corporate tax as compared to the United States.

(To write to the author please write to Felix@AccordoLLC.com)

Companies in Colombia, unlike in the United States, have to follow the "Listado de Cuentas," in other words, all companies are forced to have a single chart of accounts.

Impact Investing in Mexico

Alvaro Rodriguez
of Ingia
Discusses
the Challenges
and Opportunities
of a Burgeoning
Asset Class



Impact investing, or investment that aims to make significant social and/or environmental impact while also being profitable, has been gaining ground steadily since the concept emerged toward the end of last decade. A recent report by J.P. Morgan and the Rockefeller Foundation, defining it as its own asset class, estimates that impact investment will present an investment opportunity of between US\$400 billion and US\$1 trillion and a profit opportunity of between US\$183 billion and US\$667 billion over the next decade. This includes investment across the housing, water, health, education and financial services sectors, with the target population defined as those who earn less than US\$3,000 annually.

Among the most important impact investment fund managers in the world, and one of the only in LatAm, is Ingia Partners, LLC. Based in Monterrey, Mexico, Ingia was founded by Alvaro Rodriguez and Michael Chu in 2007, just as impact investing emerged on the international finance and development scene. This year it was ranked as one of the top 50 impact investment fund managers in the world by ImpactAssets, a nonprofit financial services company whose ImpactAssets 50 list tracks the burgeoning industry.

As Mr. Rodriguez explains, Ingia was founded “under the premise that there’s a tremendous lack of access to quality goods and services at the bottom of the [socio-economic] pyramid, and that this presents an opportunity to give them this access by creating businesses that can serve this market at the scale it deserves.” It aims to address what Ingia’s website describes as the “extremely deficient

value propositions” of the goods and services that currently reach the bottom of the pyramid (or BoP), to the extent that they reach them at all, as well as the problem of the so-called “poverty premium,” that is, the often disproportionately high prices of these goods and services for the poor.

In its first four years, Ingia has raised about US\$100 million in commitments and has invested in equity in ten companies across various sectors, including telecom, water, agriculture (including organic agriculture), and housing, all of which companies are currently in the development phase. Committed investors include individuals and institutions such as J.P. Morgan, the Rockefeller Foundation, the Inter-American Development Bank, and the International Finance Corporation (the development financing arm of the World Bank), among others. Mr. Rodriguez says that Ingia is a 12-year fund and he expects the average hold period to be 8 years.

Mr. Rodriguez defines the BoP likewise as those making less than US\$3,000 a year, or less than 8 dollars a day. “For those who earn less than 2 dollars a day, it’s very hard to address their needs with commercial solutions. So basically we are targeting the segment that makes 2 to 8 dollars a day, per person. In a

country like Mexico, that means 70% of population.” According to Ingia’s numbers, In LatAm, there are about 360 million people, out of a total population of 550 million, who fall into this segment, making it the largest market in the region, with an aggregate purchasing power of US\$510 billion per year, and US\$130 billion in Mexico alone.

In spite of the recent enthusiasm over the region’s swelling middle class, Mr. Rodriguez cautions against defining impact investment as an effort to help the BoP move up. “We define impact relatively simply,” he says. “We don’t define it as helping those at the base of the pyramid move up, because there are so many variables that can help someone move up, and we don’t think it’s helpful to define impact investing in those terms. Instead, we look at what there is and say, ‘This is the typical product and service, this is what we’re offering, does it improve the quality of life?’ We define impact according to the amount of people that we serve and the quality of that service.”

It is this focus which distinguishes Ingia from the typical venture capital fund, he says. “We see ourselves at the intersection of impact investing and venture capital, so we have a process that’s very similar to any venture capital firm. The only difference is that, aside from all the market research these firms do, we also look at potential for impact. You bring a great business plan and a great product to the table, but if it doesn’t have any positive impact and won’t improve the quality of the life of people at the base of the pyramid, we aren’t interested.” He says that Ingia well understands the added risk in many of their investments, as compared to a typical venture. “The degree of innovation is much higher in our area, as these are businesses that don’t exist – no one is doing these things. And as innovation involves risk, we realize we’re putting a very high bar on ourselves to demonstrate that this can be done.”

Part of getting it done, he says, is to generally foster an environment for entrepreneurship, and to focus on developing not only isolated businesses but more widespread industries. “You have to look at the size of the markets and issues we are trying to address. In health

care, for example, we are investing in a company, but the issue we are trying to address is so large that no single company is going to solve it. The only way to solve it, or at least address it, is through industries, and the only way we are going to create these industries is by fostering a context where the entrepreneur community is going to see opportunities for return, which means creating competition. And competition will lead to better products, better services, better pricing.”

Ingia has its own competition, not so much from other, like-oriented funds, but from governments and NGOs. “That is something we look at. If there’s an opportunity that comes around, we look at whether governments or NGOs are serving this market, because in many ways we see them as disruptive competition. If I am setting up a clinic that treats people at the base of the pyramid, and all of a sudden there is government or NGO providing that for free on a large scale, then all of the sudden there is a disruption in your market. So far, though, we haven’t seen much of that.

“Unfortunately,” he adds, “we have had situations where, for example, while developing a housing project, some populist politician has come around and said, I’m going to give houses to everyone – and there goes your market. Obviously those houses never arrive, but in the meantime, the people don’t buy your product. But those situations are the exception, not the rule. The market is simply too large for both populist governments and NGOs to actually address all of these markets, and the market has become smart enough in understanding that those letters to Santa Claus never arrive.”

On the other hand, Mr. Rodriguez says that Ingia welcomes more funds entering the



market. “I’m a big believer that the more funds like us there are,” he says, “the more entrepreneurs will be willing to set up these businesses. It’s a virtuous cycle. So far, there are not many funds like us, but hopefully there will be more.”

Mr. Alvaro Rodriguez Arregui will be speaking at the following two events:

Real Estate Investment World Mexico, 31 January - 2 February 2012, The Four Seasons, Mexico City, Mexico: <http://www.terrapinn.com/conference/real-estate-investment-world-mexico/index.stm>

Mexico Investment Summit, 31 January - 2 February 2012, The Four Seasons, Mexico City, Mexico

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Doug Casey on Latin America

An ALI Exclusive Interview

Douglas Casey is a maverick, highly influential voice within the international investment community, known as much for his contrarian assertions and droll eloquence as for his expertise and intuition. In the early 1980s, he came to prominence by literally writing the book on where to put money in hard times: *Crisis Investing* became the best-selling finance book of all time, and was followed by several other titles laying out Mr. Casey's investment, political, and life philosophy. For the last quarter century, he has promoted this investment philosophy, which he calls "rational speculation", through Casey Research, a firm focused on opportunities in mining, precious metals, energy, and technology, as well as through his popular newsletter, *International Speculator*, focused on the junior mining sector. At the same time, Mr. Casey has garnered certain notoriety as a radical, free-market "anarcho-capitalist", espousing his beliefs that any kind of government infringement on or regulation of personal freedom, including business and investment freedom, is absolutely bad and should be eliminated. This libertarian philosophy mirrors Mr. Casey's obvious lust for the adventurous life without boundaries, which he distilled in his guidebook to the expat traveler's life, *The International Man*, and the recently launched website of the same name. Having lived, by his own count, in twelve



countries outside the U.S. and visited 175, it is safe to say that – whatever you think of his conclusions – Mr. Casey knows more than most about what is out there.

In conversation with ALI recently, Mr. Casey said that he is bearish on the world economy for at least the next five years and believes the situation is particularly ominous for the world's richest economies. "The U.S. and Europe definitely," he says, summing up the contemporary backdrop, "and China and Japan, all of the major economic blocs in the developed world – if you want to consider China developed – are in massive trouble, and I don't think there's any way out of it at this point." He is relatively optimistic, however, about certain so-called developing countries and emerging economies, where prosperity is more easily ensured these days by generally lower costs and an easier transfer of technology between markets. He is particularly optimistic about LatAm, even if many of its generally heavy-handed governments are anathema to his ideals. "What I like about LatAm," he explains, "is that it's still a low-cost area; it has a generally young population and low population density; and it's a large food producer – and with the earth's population at 7 billion, that's a plus. Another thing is that, unlike the Middle East, it's relatively ethnically homogenous and of out of harm's way, geographically isolated from the world, and those are pluses, too." Mr. Casey appreciates the region's general lack of debt compared to its "developed" counterparts, and as many LatAm markets continue their robust growth, he thinks they should continue this policy. "The accumulation of debt is just a bad thing: you become wealthy by producing more than you consume and saving the difference; you can't become wealthy by borrowing.... I certainly hope LatAm doesn't go into debt, but I don't think there's much danger of that. Who's going to lend to them? They're chronically uncreditworthy, and none of these developed countries is in a position to lend money at this point." Nevertheless, Mr. Casey still sees far too much government intervention. "All of these governments there are kleptocracies," he says, "or worse than kleptocracies, because they make it impossible to invest and produce anything." His radical free market approach applies here as much as anywhere. "If a country wants to be prosperous, whether it's in LatAm or any-

where else in the world, it has to radically cut taxes, radically cut regulations, and it has to have a sound currency. When those conditions are met, any place can and will become prosperous."

In spite of his aversion for government intervention, Mr. Casey says that his favorite country in the region is, of all places, Argentina, a choice he says is founded on much experience and careful consideration. "I spend a lot of time living outside of the U.S," he says, "so I have to ask myself where I would prefer to live. As a pure investor, I'd much rather be in Colombia or Chile. Argentina has had an unbroken track record of economic disaster since the 1940s. But the reason I like Argentina is for the culture, the sophistication, the climate, the wide-open spaces – for those reasons, not as an investor. Although periodically it's a real bargain, like when I really moved into Argentina in a big way about ten years ago, it was at the bottom of the crisis and it was a huge bargain." Mr. Casey says Argentina is in a good position because of its lack of debt – and yet far from having reached its potential. He attributes this stunted development directly to the government, which he deems "one of the dumbest in the world." "The best thing that could happen to Argentina would be for it to have no government. There's no reason that Argentina shouldn't be the most prosperous country in the world. It should be more prosperous than Singapore and Hong Kong and anyplace else, but the government is basically a kleptocracy: people get into the government because that's where the money is – that's the problem with Argentina."

Mr. Casey's distaste for Argentine regulations, however, has not prevented him from investing heavily there. He estimates that he has put about US\$50 million into Argentina and neighboring Uruguay – "a considerable chunk of change" – including in a cattle ranch in the Argentine province of Salta, where he says he and his partners hope to have 10,000 heads of cattle in the coming years. He and several partners have also built a massive resort in Cafayate, also in Salta, which Mr. Casey reckons is the "finest resort development in the world, at any price." It includes, among other things, an 18-hole golf course, polo fields, and vineyards. The investment

was split 50% between foreign and Argentine partners. Mr. Casey says the resort is set to open soon.

"As a pure investor, I'd much rather be in Colombia or Chile. Argentina has had an unbroken track record of economic disaster since the 1940s."

While his ultra-capitalism is paradoxically at home in Argentina, Mr. Casey is not riding its biggest neighbor's fast-growth bandwagon. "I think Brazil is overpriced," he says. "They've gone through a boom that is basically commodity-driven; it hasn't been a real sustainable boom because the government there is just as dirigiste and inflation-happy and regulation-happy as the Argentine government. So I'm not bullish on Brazil at all; it's had its recent day in the sun, it's too expensive, and I can't see any reason to be there." Nor is he comfortable with the other major economy in the region, Mexico. "A lot of the Mexican government's net revenue is coming from the oil fields," he says, "and partly due to mismanagement and lack of investment from the

national oil company, their oil production has declined. That decline will continue, so the government's revenue is going to decline. At the same time, problems in the U.S are going to increase."

On the other hand, Mr. Casey is more optimistic about some other emerging LatAm markets, particularly Colombia. "I really like Colombia. I've been going there on and off for the last thirty years, and I'm really pleased that it's turned the corner." He thinks, again, that the country must continue and accelerate its trend toward a more business-friendly climate. "It is impossible for Colombia to have too open a door or lower its taxes too much – that's the secret to success." Likewise, he thinks there will be immense opportunity

the next century; I'll be surprised if Bolivia doesn't break up into at least two countries; I think there's an excellent chance that Brazil could break up into at least a couple of countries."

And stepping away from LatAm specifically, he reiterated one of his major themes: that the greenback's days as the world's go-to currency are limited. "I think in the next ten years, or even five, the dollar is going to cease to exist as a reserve currency. The U.S. government is in the process of destroying the dollar; they've created a trillion of the things since the crisis began and they're going to be creating more, it just seems inevitable at this point. The government is running a trillion-and-half dollar

Then Doug broke the record with his next book, *Strategic Investing*, by receiving the largest advance ever paid for a financial book at the time. Interestingly enough, Doug's book *The International Man* was the most sold book in the history of Rhodesia.

He has been a featured guest on hundreds of radio and TV shows, including David Letterman, Merv Griffin, Charlie Rose, Phil Donahue, Regis Philbin, Maury Povich, NBC News and CNN; and has been the topic of numerous features in periodicals such as *Time*, *Forbes*, *People*, and the *Washington Post*.

Doug, who divides his time between homes in Aspen, Colorado; Auckland, New Zea-

"A lot of the countries in LatAm are artificial constructs. I'm not sure if Mexico should really be one country, the regions are so different culturally."

in Cuba as it opens up. "I've been to Cuba four times over the years. It's pretty clear to me that once it loosens up – and it has to loosen up – it's going to become very popular. I would be very bullish on Cuba when it opens up. The problem is that the stupid embargo that the U.S. government has put on them just means that it's going to be the Europeans and the Latin Americans that are going to capitalize on it."

Though Mr. Casey is certainly not alone in thinking the global economy has reached a point of fundamental crisis, he has been one of the more vocal prophets of how a reorganization might shake out. He has said elsewhere that he thinks the nation-state itself is an obsolete construct that will soon be added to the dustbin of history, and he told ALI that he expects LatAm political structures and boundaries to change in the coming century. "A lot of the countries in LatAm are artificial constructs. I'm not sure if Mexico should really be one country, the regions are so different culturally. I wouldn't be surprised to see Mexico break up into several countries over

deficit, and who's going to buy their paper, especially with these artificially controlled interest rates? The dollar is going to be a hot potato. "Gold isn't cheap anymore," he adds, again reiterating one of his major investment themes, "but I think more and more people, starting with central banks and also astute individuals, are going back to gold."

■ About Doug Casey

Doug Casey is a highly respected author, publisher and professional investor who graduated from Georgetown University in 1968.

Doug literally wrote the book on profiting from periods of economic turmoil: his book *Crisis Investing* spent multiple weeks as #1 on the New York Times bestseller list and became the best-selling financial book of 1980 with 438,640 copies sold; surpassing big-caliber names, like *Free to Choose* by Milton Friedman, *The Real War* by Richard Nixon, and *Cosmos* by Carl Sagan.

land; and Salta, Argentina, has written newsletters and alert services for sophisticated investors for over 28 years. Doug has lived in 10 countries and visited over 175.

In addition to having served as a trustee on the Board of Governors of Washington College and Northwoods University, Doug has been a director and advisor to nine different financial corporations.

Doug is widely respected as one of the pre-eminent authorities on "rational speculation," especially in the high-potential natural resource sector.

Exhibit 1: Emerging stock markets returns

Data for 2010	Total Exports (% of GDP)	Commodity Exports (% of GDP)
Argentina	19	60
Brazil	9	55
Chile	35	75
Colombia	14	57
Mexico	29	21
Peru	23	78
Venezuela	29	100
LATIN AMERICA	21	48

Source : MSCI

Note : Data as of Nov. 7. BRIC is Brazil, Russia, India and China. EMEA is Emerging Europe, Middle East and Africa.

Exhibit 2: Latam Export Profile

MSCI Index, US\$	Return 2011, %	Return - 10 years, annualized, %
Emerging Asia	-13	+13
Emerging Markets	-14	+14
EMEA	-15	+12
Latin America	-16	+17
BRIC	-17	16

Exhibit 3



Source : Citigroup

2012 Should Be Better: A wasted year for LatAm Stock Markets

■ Bernard Lapointe

Sequential economic growth is currently weak by historical standards in most emerging market countries. There can be little doubt that investor concerns about the crisis in the euro zone coupled with weak growth in Europe and the U.S. have been key drivers of the fall in emerging markets' growth momentum.

LatAm has underperformed global emerging equity markets so far in 2011, but the long term picture is still largely positive. Hence the MSCI LatAm is down 16% so far this year to date in U.S. dollar terms but up

17% annualized over the past ten years (Exhibit 1). Among emerging markets only Indonesia (+3%) shows positive returns in dollar terms in 2011. However equity markets growth could resume quickly in LatAm for a couple of reasons.

■ Economics:

LatAm's economy, while in general not very dependent on exports – total exports to GDP is only 21% - is still highly geared to the commodity cycle. Commodities represent 48% of total exports and in some countries like Venezuela and Chile that number is quite high (see Exhibit 2). Any pick-up in commodities exports once global growth resumes will have a significant positive impact on the region.

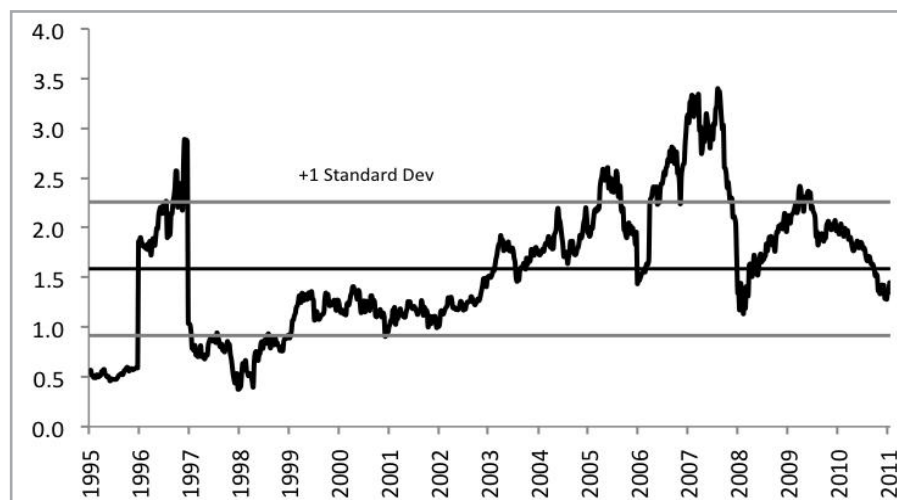
The outlook for global agribusiness is positive since an escalating proportion of China's household income is spent on food. The country is increasingly dependent on the global agriculture market in part because of a lack of arable land. LatAm is the clear candidate to capture global food demand growth because it is a structurally low-cost producer in many commodities.

Exhibit 4

Price to Book Value	Avg 2002-07	Current
Latam	2.2x	1.6x
Emerging Asia	2.0	1.6
EMEA	2.3	1.3
Emerging Markets	2.1	1.6
BRIC	-17	16

Source : JP Morgan

Exhibit 5



Source : Bloomberg



Policy maneuvering room to counter the global crisis looks narrower than in 2008, but still wide enough to keep growth around trend levels. We think inflation in most countries has peaked in the third quarter. Brazil is clearly in easing mode while Chile might cut interest rates in December. Even in Mexico there is room, although not much, to ease interest rates if need be.

Credit to GDP is low at 34% while financial linkages show hardly any exposure to Spanish banks, except for Chile. The region may be at the cusp of a turning point for growth. The Citigroup Economic Surprise Index is now -0.1. A positive reading suggests that the economic releases have been on balance better than the consensus. It appears that economists and analysts have been too sanguine about the outlook for the region.

Valuations:

The MSCI Latam index trades at around 10 times its 12-month forward earnings price to earnings ratio. According to our calculations this is 20% below the Gordon growth fair value of 13.3x. The price to book value for the region is 28% below its average during the period 2002-07. The MSCI Brazil price/book value ratio is now almost back to the 2008 crisis level which seems too low given the weight of Brazil in the global commodity universe (see Exhibit 5).

Earnings:

How much downside to earnings? During the 2008-2009 global financial crises LatAm earnings per share (EPS) fell 49% y/y. However, 2011 EPS are only 10% above

that trough level and the consensus expects around 12% growth in 2012. In the consumer sector, profitability could surprise to the upside by more than 15% in 2012.

With inflation peaking or declining and with short rates on hold, we expect real rates to rise in LatAm. Historically, the forward relative performance of emerging markets has been negatively related to changes in short rates and inflation, and positively correlated with changes in real rates. In other words, emerging markets have tended to do well when real interest rates rise, especially when that is driven by falling inflation.

In conclusion, improving economic data, resilient earnings and underweight investor positions should be positive for LatAm stock markets in 2012.

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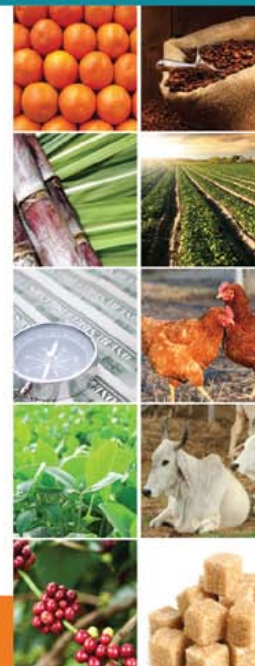
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INVESTMENT FORUM

Families and Hedge Funds

With the rising wealth and sophistication of LatAm investors in the last decade, many followed the global trend toward investing in hedge funds as part of their portfolio diversification strategies, attracted by the high returns often promised from that asset class. But the poor performances of some hedge funds during the world financial crisis and in the years since has left a bitter taste in the mouths of many families and high net worth individuals in the region.

“Their view of hedge funds is mixed at best, if not negative – and rightly so,” says Oscar Alerhand, the founder and CEO of Galileo Investment Management, a New York-based multi-family office that specializes in alternative investments with a focus on hedge funds. “There has been an abuse of the term ‘hedge fund’ and there have been many products that failed and didn’t deliver on their promise. Many investors in LatAm thought hedge funds would protect them when times were tough and appreciate their capital in other

times. But that promise was not fulfilled, and it was a great disappointment.”

Mr. Alerhand, however, says he thinks that disappointment is misplaced. “The world

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Christina Kappaz brings a unique perspective to bear on private equity (PE) and venture capital (VC) investment in Latin America. She is an associate at Cimarron Capital Partners, a firm that has managed regional funds of funds in such U.S. states as Iowa, Oklahoma and Arkansas for close to two decades, helping them develop fund-focused and market-driven approaches to investment. While the firm worked in these essentially emerging market spaces in the U.S., its managers and directors were active in indus-

try-building activities and were among the early members of the ILPA and, through an affiliate firm, helped launch the Latin American Venture Capital Association (LAVCA). Ms. Kappaz herself was President of LAVCA from 2002 to 2007, and during that time she helped apply Cimarron's North American regional emerging market expertise to LatAm, including coordinating a team that advised the Mexican government on the establishment of a US\$450 million fund of funds program for Mexico.

Ms. Kappaz believes that the model Cimarron developed in the U.S. and in Mexico is essentially transferrable to other regions in LatAm. "PE and VC investment is all about finding talented enterprises and companies with high growth potential and putting smart capital into them to make them grow," she says. "It's a model that's applicable anywhere in the world." While many people complain that the Silicon-Valley-style model cannot be applied to LatAm, "they mean we're not likely to find the next Google or Amazon of the world in LatAm. But in LatAm, PE and VC are more about investing in sectors that

are well established in the U.S. where they don't have huge growth potential anymore yet in LatAm still have lots of room for consolidation and growth. These include traditional sectors, like retail." She gives Xeroxing businesses, funeral services, and gyms as examples.

region's strong fundamentals, and particularly the stable economic growth and rapid growth of the middle class in many of its markets. They are interested in Brazil in that regard, she says, but also in such countries as

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Private Equity *in* Family Office Allocation

■ ALI Speaks with Christina Kappaz of Cimarron Capital Management

The Tug of War

The challenge to control your wealth and destiny

Part 1 ■ Daniel Melhem

When John D. Rockefeller opened his family office, Rockefeller Family and Associates, in 1882, I am sure he did not lack reasons to do so. Without doubt he recognized that very few people in the world, certainly no commoner, had ever amassed such an extraordinary fortune. Furthermore, he was well aware that no banking institution in the United States or elsewhere, for that matter, had the means or the know-how to serve America's first billionaire.

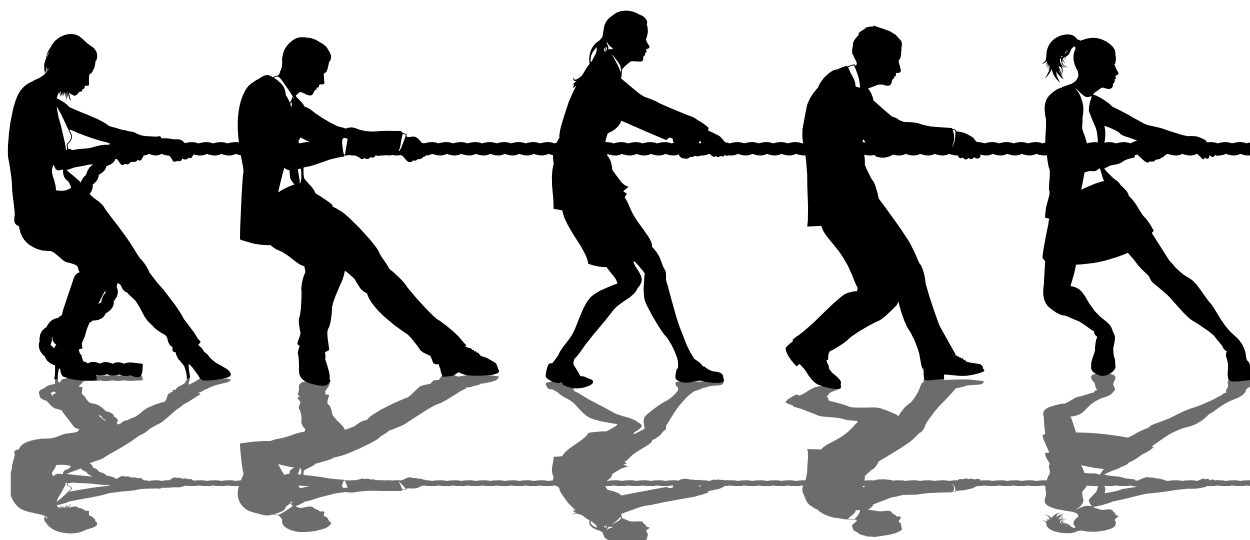
At that time, Mr. Rockefeller, like many investors today, was deeply concerned by the effects of a severe international economic depression triggered by the Panic of 1873. It was during that year that one of the largest investment

banks, Jay Cooke & Co., became insolvent and filed for bankruptcy, and it was at that moment that he found necessary to establish his own investment management and knowledge-based office. As a man of vision and uncanny pragmatism, Rockefeller decided to control his destiny and, above all, preserve his family's wealth by creating a new model.

In fact, time and time again, the decision to establish a family office has mostly occurred during periods of economic uncertainty, market crashes and bubble bursts. I have witnessed this first hand. After Lehman Brothers filed for bankruptcy in September 15, 2008, many LatAm families asked me for the first time for advice in setting up their own family office. Admittedly most did not understand what a

family office did. However, the dramatic experiences and massive financial losses accumulated during that year were a signal for many to toss out the old model—one that produced subjective and often contradictory advice. Built overtime like a spider web, it typically began with opening accounts with different financial institutions, and relied heavily on the day-to-day advice from numerous private bankers, analysts, brokers and so-called sophisticated experts. In the end, the model was exploited and became detrimental to wealth preservation.

Between 1997 and 2007 the stakes associated with investing in both equities and bonds markets became higher than ever—yet most risks had little if anything to do with corporate profits. In early 2000, I described the U.S. stock market to a client as a minefield. Shortly after, the schemes perpetrated at Enron, Tyco, Worldcom and Adelphia became public, revealing a sea change in corporate America. Daily news headlines were full of stories of corrupt hedge fund managers, rogue traders and systematic fraud. Wall Street “vil-



lains”, made millions by knowingly deceiving their firms and their clients. Such was the case of Fabrice Tourre, a Goldman Sachs vice-president, whose 2007 e-mail rightly predicted that a catastrophic situation was looming in the horizon. In this email, Tourre wrote: “The whole building is about to collapse anytime now... Only potential survivor, the fabulous Fab... standing in the middle of all these complex, highly leveraged, exotic trades that he created without necessarily understanding all the implications of these monstrosities!!!” While his firm, allegedly, continued to push toxic mortgage-backed securities to its clients, Tourre helped a leading client, the notorious hedge fund manager John Paulson, place a \$1 billion bet against the same housing market.

It was precisely what Tourre had predicted that ultimately happened: the whole building eventually collapsed, bringing down not only the housing market but, along with it, the prestigious investment banking establishment—and in due course it would eventually affect the new gold standard, the United States AAA credit rating. Most bulge bracket firms—Bear Stearns, Lehman Brothers, Merrill Lynch and Citigroup’s investment banking arm, Smith Barney—suddenly disappeared. On both sides of the Atlantic Ocean, several more banks and insurance companies were forced to merge, forced to accept government bailouts, or forced out of business. The accomplices were many, by the mid-2000s, the U.S. Federal Reserve as well as many European central banks, along with mortgage lenders,

credit agencies, investment banks and insurance companies contributed to the build-up of a colossal house of cards which, through its painful but inevitable downward spiral, almost brought down the modern financial system. A system built on trust became all of a sudden—worthless.

The Panic of 1873 was in many cases similar to today’s global financial crisis and had long-term effects in both Europe and the United States. The causes as well as the resulting effects are inauspicious and revealing—as one major factor was massive government grants and subsidies to the railroads industry. Cheap money resulted in abnormally high growth rates, which in turn brought large numbers of speculators, including many financial institutions and foreigners, into the market. Eventually too much capital was invested in assets with no immediate returns—the same flaw of the housing market.

Even in a time of new technological marvels – it took passengers over 7 days and 10 hours to cross the North Atlantic in the fastest steamship afloat, the *Britannic* – the crisis spread like wildfire, reaching Britain, Germany, the newly formed Austro-Hungarian Empire and eventually the Ottoman Empire. Unemployment in the U.S. rose to 14% by 1876, while real estate values, stock prices and corporate profits plummeted. What is now known as the “Long Depression” motivated the richest man in the world to manage his wealth independently from the existing financial system of his time.

There should be no surprise then that the collapse of Lehman Brothers was a major blow for many LatAm wealthy families. Although the firm’s Private Client Services division was comparatively small in the region—this I know since I had the privileged to work there for three great years – when compared to other financial institutions such as J.P. Morgan, UBS, *Deutsche Bank*, Citigroup, Credit Suisse and Merrill Lynch, the firm’s demise was the last drop of a series of shockwaves that profoundly affected LatAm high-net worth individuals since the Asian financial crisis in 1997.

Accustomed to local economic uncertainty, currency devaluations and political unrest, LatAm wealthiest families kept significant deposits offshore—mainly in London, Geneva and New York as a safe haven from regional instability. Benefiting from unusual high U.S. interest rates during the late 1970s and early 1980s, LatAm families invested their offshore savings conservatively—typically in money market funds, treasuries and high-grade corporate bonds yielding over 12%.

However, Paul Volcker’s actions of raising the fed funds rate, which eventually peaked to 20% in June 1981, was a turning point and started a massive exodus of capital from LatAm to offshore banks. With the region’s debt crisis looming in the horizon and the prospect of savings in U.S. dollars or Swiss francs at extraordinary high interest rates, it didn’t take much for private banks to control an increasingly large portion of LatAm wealth.



Investors Beware

Investors in Brazilian ABS backed by consumer loans should be wary of increasing levels of non-performing loans (NPLs) in Fundos de Investimento em Direitos Creditórios (FIDCs). LatAm Structured Finance has warned about this before (www.latamsfc.com). Evidence that the situation is worsening includes the following recent developments in Brazil:

- The Central Bank of Brazil surprised markets by lowering the SELIC 50 basis points.
- Banks increased reserves and provisions for bad debt to record levels.
- FGC helped to sanitize the financial system.

What are the implications for investors? New-issue investors need to evaluate carefully the issuing entity's portfolio for the quality of debt underwriting and the entity's ability to service the loans. Investors that currently hold FIDCs need to monitor the credit portfolio's performance carefully.

We see weakness in consumer loans issued by banks and finance companies and we have no doubt that this is the single thread that unites some of the otherwise contradictory economic news in the Brazilian press. Both the Central Bank of Brazil (BCB) and the Fundo Garantidor de Crédito (Credit Guarantee Fund, FGC) have been working behind the scenes to contain the growing problems from NPLs and to prevent a full blown credit crisis in Brazil.

FIDCs do not have this government protection. FIDC credit quality has deteriorated since the beginning of the year according to data we pulled from Orbis, a structured finance database and news service from Uqbar. Of the 250 FIDCs in the Orbis system with data for the last seven months, 77% have seen increases in provisions for bad debt (PDD – Provisões Devedores Duvidosos). PDD increased more than 100% since the beginning of the year in 29 FIDCs. Fifteen of those deals were either multiple market or multiple segment deals. Due to lack of transparency in the Brazilian ABS market, it is better to look directly at the credit markets themselves to understand these trends.

■ Putting Together the Pieces to Understand Brazil's Credit Markets

The August 30 meeting of the COPOM, the monetary committee for Brazil's central bank (BCB) dramatically altered the general perception of the economic picture in Brazil when they cut SELIC by 50 basis points. Most analysts were caught by surprise; however, our calculations show that the market had been forecasting approximately an 80% chance of a 25 basis point interest rate cut on August 29. The COPOM has since been criticized from many corners for lowering the rate even though Brazilian inflation has not yet retreated.

The market now expects the COPOM to cut SELIC to about 10.25% by June 2012,

of Brazilian FIDCs (ABS) Backed by Consumer Credit

■ Vernon H. Budinger



while analysts polled by the BCB survey are divided between 10.50% and 10.75% as the low, as you can see in the first graph. Both the market and economists now view the BCB as very accommodative. The BCB conveniently cites the growing problems in Europe as the motive for cutting rates. We don't believe that's their main motivation. In our view, the BCB and the Brazilian Government are more worried about the growing problems with consumer credit at home and about protecting the banking system. This explains why the BCB cut rates at the risk of losing control of inflation and some credibility with the international financial community.

We have been warning that the Brazilian financial system is showing signs of strain

due to the extraordinarily high growth in consumer credit balances and the high level of consumer NPLs since May 2011. Government efforts to rein in the growth of this market have failed. We also pointed to the evidence that payments on consumer loans are not sufficiently large enough to amortize the principal. As a result loan balances continue to grow in spite of declining issuance (See our Second Quarter Review).

The Brazilian press continues to point to the overall low levels of non-performing loans and occasional reductions in the levels of non-performing loans. We put these reports in the basket labeled "misleading statistics." As with FIDCs, the overall numbers in the financial system are obscuring some impor-

tant developments in the sub-sectors. Most importantly, there is a growing number of NPLs on the consumer portfolios of both banks and non-bank finance companies.

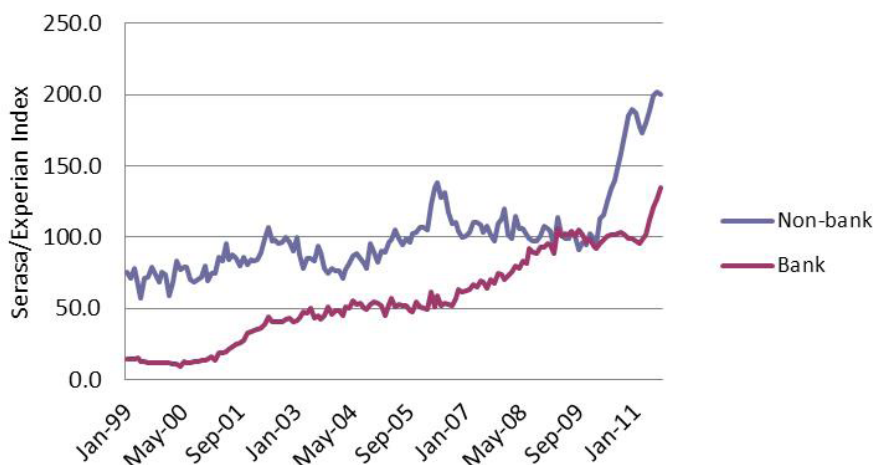
Smaller Brazilian banks have encountered difficulties in managing their balance sheets since the 2008 global credit crisis. These banks find it difficult to sell parts of their credit portfolios to the larger banks because the large banks have tightened up their credit underwriting standards, especially after the Banco PanAmericano scandal. The second graph indicates two dangerous trends. First, NPLs continue to run much higher than 2008/2009. Second, the lagged but sudden increase in NPLs in bank portfolios indicates that the problems in consumer credit portfolios for non-bank finance operations seem to be affecting or "contaminating" the bank consumer credit portfolios.

Estado de São Paulo announced in a September 15 edition that the Fundo Garantidor de Créditos (FGC) had realized "sanitation operations" of around R\$7.5 billion this year to clean up problems with some medium- and small-sized banks. The most recent operation transferred Banco Matone to Grupo JBS, thanks to support of R\$850 million from the FGC. The other big "sanitizing operation" for 2011 was a R\$1.5 billion package to help BMG absorb Banco Shatin. That leaves roughly R\$5 billion more in other operations that have been used to shore up other banks. FGC currently has resources of a little more than R\$26.8 billion. This means that the fund has spent about 25% to 33% of its resources to prop up the financial system this year.

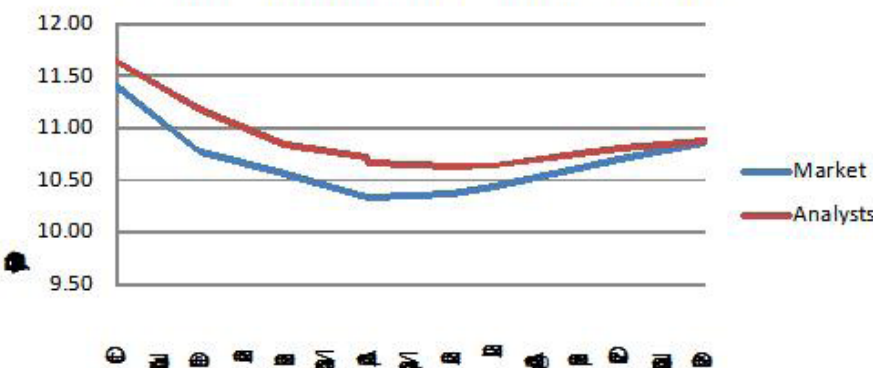
It is clear that the BCB and the Brazilian government are trying to avoid a panic. An editorial in Estado de São Paulo points out that the FGV's operations have two advantages promoted by Brazil's Central Bank: they don't involve public money and they are discreet. The operation's discretion prevents depositors from panicking about the financial health of other banks. The editorial points out that this helps reduce systemic risk in the Brazilian financial system.

At the end of August we produced a report that analyzed the recent actions taken by Brazilian banks to shore up reserves and in-

Late Payments on Brazilian Consumer Debt
Serasa/Experian Data



Forward Forward CDI Curve vs
BCB Survey of Analysts
Central Bank of Brazil Data - September 19, 2011



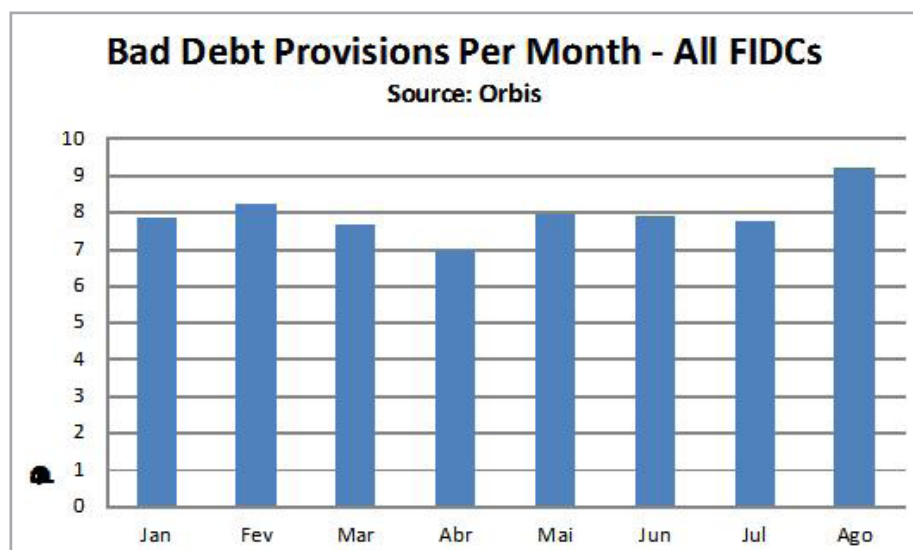
crease provisions for non-performing loans. (See “At What Height Does A Bank Seawall Protect From a Credit Tsunami?”) The biggest Brazilian private and government banks have been increasing loan loss provisions and reserves to almost unheard of levels. Caixa Econômica Federal is provisioning 300% of NPLs. Given that banks recover on average 30% to 40% of bad debt, with the range spanning from 5% to 60% of the value of loan, a provision of 300% of NPLs seems like overkill unless the bank knows something that the public doesn’t. Brazilian banks execute “renegotiation operations” that banks in other countries would normally consider bridge loans for defaults. The BCB would know if banks are entering into these types of agreements frequently.

Summarizing the condition of the FIDC Market

This brings us to the FIDC market in Brazil. The statistics are deceptively reassuring. As the third graph demonstrates, the overall PDD level has been fairly stable. It appears that the problems in the consumer credit market have not yet affected FIDCs in general. As with the banking system, we believe the overall statistics are hiding the problems. Statisticians often quote the paradox of a person drowning in a river that is on average 5 inches deep. We believe that the distributions are skewed and that the averages are hiding problems.

We used data from Orbis to calculate the percent change PDD from January to July 2011 and plotted the data in the histogram in the fourth graph. We took out all of the deals with extraordinary changes over 500% to err on the side of caution in our calculations. PDD increased by more than 25% in more than 47.6% of the FIDCs over this period, even with our conservative approach.

Part of this artificial stability stems from the issuer’s ability (and common practice) to buy back loans that are more than 90 days past due. However, the CVM has passed new rules (Instruction 489) that will severely limit the balance sheet options for issuers who repurchase substantial amounts of bad loans from FIDC credit portfolios. In addition, the banks will not have the balance sheets to continue this practice if the credit markets continue to deteriorate. We believe this pic-



ture will worsen as the economy slows down more.

As stated in the opening, new issue investors need to evaluate carefully the issuing entity’s portfolio for the quality of debt underwriting and the entity’s ability to service the loans. Investors that currently hold FIDCs need to monitor the credit portfolio’s performance carefully for the near future.

As bank portfolios deteriorate in quality and larger banks rein in issues, smaller banks will have more incentive to sell loans

into FIDCs. Investors in FIDCs backed by short term credit, such as factoring receivables, need to be especially vigilant. These revolving FIDCs experience large turnover and the credit quality can drop dramatically in one month. Any sudden jumps in PDD or sharp increases in late payments (Créditos Vencidos e Não Pagos – CVNP) should be investigated quickly. This information can be found on the Informe Mensal on the CVM website.

Author Biography

Vernon Budinger is an investment professional and a CFA with more than 28 years of experience. Prior to forming LatAm Structured Finance, Vernon worked at Western Asset Management and spent the last 3 years working for Western in Brazil where he evaluated Brazilian structured finance.

LatAm Structured Finance is an investment advisor specializing in Latin American asset-backed securities. We use our proprietary technology and experience to identify unique investment opportunities and to protect our clients from risks embedded in complex structures.





The Potential of Impact Investing in Chile

Few investors today question the assertion that Chile is a safe, profitable and prosperous place for investments to thrive. In the global recession, even when growth has slowed down, Chile has stayed mostly unaffected. It even managed to avert the macroeconomic effects of a devastating earthquake with savings from its copper exports. This stable environment also favors impact investing and those investors who want to do good while doing well. However, while there are many enterprises that could potentially offer positive social, environmental and financial returns, for this to happen, several important challenges must first be overcome.

The context is important. Small enterprises represent most of the Chilean economy. In 2010, Chile had 1.5 million micro and small enterprises, including self-employed individuals. About 721,000 (47%) of these were formally registered (pay taxes) and more than 805,000 (53%) were not. Together, small enterprises represent 96% of all enterprises.

These small ventures, many of which are comprised of rural producers and artisans, face important challenges. Chilean wages remain fairly low, with 76% of Chileans earning less than US\$700 per month. According to a recent report by the OECD, 90% of all workers earn less than US\$1,270 per month—the minimum average monthly income of all OECD countries. On average, 53% of all small entrepreneurs and local producers receive monthly incomes below US\$600. 21% receive income below US\$300 per month.

Like much of LatAm, small producers and artisans from low-income communities in Chile often live in isolated areas; lack access to skills, networks and markets; have

low sales volumes; confront competition or monopolies held by larger producers; and encounter discrimination because of their social or economic status. Many also face social barriers to productivity, such as a lack of access to health care and quality education, as well as the prevalence of domestic violence or alcoholism in some cases.

Impact investing needs to address these social and market barriers if it wants to develop a healthy pipeline of potential investments. The essentials exist. Committed entrepreneurs and producers, unique materials, fibers, fruits and value-added products can be found all over Chile.

Non-profits and the government provide technical assistance and build capacity in producer groups to improve their products and market access, but they seldom enter the value chain to become partners in developing, commercializing, and expanding economic activities. A significant opportunity exists to work with organizations supporting small producers and artisans to develop and expand market-based approaches to increase both producers' income and obtain financial returns for investors.

Approaches to solving problems and entering the value chain differ, but NESsT's experience and research shows social enterprises—businesses that sale products and services while solving a critical social problem—represent one of the best solutions available to impact investing. Between 2008 and 2009 - the beginning of the global recession - the social enterprises supported by NESsT increased income by 16%. They also created jobs at a rate of 24% per year, while providing a wide array of services and value-added products to the market.

Social enterprises represent a market-based solution to improve incomes, build capacity, and provide skills that are essential for creating a healthy pipeline of investments.

In Chile, after the 2010 earthquake, NESsT witnessed social enterprises succeed in the affected regions despite very adverse conditions. One such social enterprise is Relmu Witrál ("Rainbow Loom"), an association of 150 indigenous women producing hand-woven textiles using traditional Mapuche techniques in the town of Tirua. The earthquake and tsunami completely paralyzed Relmu Witrál's production and sales.

With support from NESsT, the store and production workshops were repaired, allowing sales to resume. Psychological support was provided to overcome earthquake trauma. This was later replaced with support to deal with domestic violence, a larger barrier to production. NESsT worked with Relmu Witrál on the completion of a business plan, which has become the guidepost to the consolidation and expansion of its business and to increase income levels. Similarly, with a mixture of tailored-made financial and psychological support, the Manos del Bío-Bío (Hand of the Bio-Bio) crafts store in Concepción doubled profits three months after the earthquake.

The success of this approach lead NESsT to launch a three-year effort, supported by its partners (Multilateral Investment Fund and Inter-American Foundation) to allocate more than US\$140,000 to repair infrastructure and to provide psychological support to other social enterprises in the earthquake affected regions. Simultaneously, long-term intensive support is being provided in enterprise development, product quality improvement, and sales and marketing.

Through these types of metrics-driven social enterprise development efforts – which include large doses of quality capacity-building and softer mixed funding – local producers can begin to strengthen their entrepreneurial capacities and the entrepreneurial capacity of their productive activities to enter the formal market place and become ready investments for the larger impact investing market. Social enterprises in Chile need investors that are willing to move into this riskier space in order to yield real social impact while generating financial returns.



SEPADE microentrepreneurs attend a business administration workshop lead by NESsT staff in the town of Coronel, southern Chile (November, 2011)

About NESsT

NESsT is a catalyst for social enterprises in emerging markets and worldwide.

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Learn to Fly

The Flight to Control

Benno Raeber of Prime Advisory Group Risk Management for LatAm Families

A man in a dark suit is walking across a thin rope (tightrope) stretched between two large, dark rock formations. He is holding a black umbrella over his head with his right hand, and his left arm is extended outwards for balance. The background is a bright blue sky with soft, white clouds. Two small birds are flying in the upper right corner of the sky.

Benno Raeber, a Principal at Prime Advisory Group, a family office, describes his firm as “essentially a risk management group.” With offices in Zurich, the Bahamas, and Ireland, the firm serves mostly five large clients, two of which reside in LatAm, while the others have invested or are looking to invest there, specifically in Brazil, Ecuador, Colombia, and Venezuela.

Distilling what he sees as the main trend in the region in terms of managing risk, he says that, important as liquidity no doubt is, investors care more about control and tangibility. “People want to buy stuff they understand,” he says, “and people want to buy stuff they can touch.” He gives as an example a client interested in setting up a bakery chain in Colombia. “Colombia is a booming country, bread is something people eat regardless of how the

market is going, and bread is something people understand. In the bakery business they would control the business altogether, and they aren’t as worried about liquidity because they’re self-confident that they can run it properly. If it were to be 20% minority stake in a Brazilian sugar mill, the concerns would be different.”

With control in mind, many families are interested in direct investment, but there other means of preserving control, he says. “We

work with two groups in Brazil that have a participation company, which runs basically on a private participation basis where the cli-

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One of the most obvious yet underexploited voices for change in an emerging market can be found in its artistic community. Musicians have been known to use their music to inspire change, cultivate hope and heal indifference. Nowadays, even the biggest-name artists in the industry are struggling to sustain out-dated revenue models. This has become increasingly difficult due to an ever-advancing landscape of technology, making music accessible to all with just the click of a button. PeaceTones has set their sights on creating an innovative fair-trade business model that is focused on giving outstanding, entrepreneurial-minded artists the tools they need to protect their works, sell them globally and in turn invest their revenue back into the emerging community from which they hail. *Alternative Latin Investor* recently caught up with PeaceTones correspondent Adam Berkowitz to gain some insight as to the purpose, strategy and impact of PeaceTones.

PeaceTones

Giving Emerging Market Musicians the Tools to turn Art into Profit

■ Tiffany Joy Swenson

The idea emerged in 2005 when Jeff Aresty, a practicing lawyer and professor of law began the PeaceTones parent organization, The Internet Bar Organization, as a result of wanting to find private justice systems for individuals in developing countries who felt it dangerous or in some cases impossible to go to their local justice systems. This topic evolved into the idea of economic justice and how to use technology to track earnings and instate the supremacy of law. This is, however, much easier said than done, as concepts as elementary as “the use of a contract” are oftentimes completely foreign to an individual from an emerging market community. The most effective remedy to this is to visit these communities directly and provide free legal workshops, teaching artists the basic principles for protecting and promoting their work on an international level. This initiative began by partnering with local NGOs around the world and then seeking out bands within those communities who were focused on promoting an extremely positive message with their music. Through PeaceTones, Jeff sought to secure the “logistic chain needed to connect frontier countries to the modern marketplace, and to educate musicians and their communities about the legal realities of digital business.”

While PeaceTones originally began by partnering with the local NGOs in the chosen community and utilizing their contacts to get involved in the community and reach out to local bands with positive messages in order to support them. The process has since been democratized, and via Facebook they have used an *American Idol* style contest as an incentive mechanism for as many musicians as possible to participate in their legal workshops. By participating in a legal workshop, the musicians also get the opportunity to film a few songs. The 3-minute original music clips are filmed in the community themselves, then posted on Facebook where the world gets to vote. In the last “Haiti sings” contest, the response was overwhelming, with over 10,000 votes counted – it also was a great mechanism to thrust the

musicians into the digital platform at a very early stage in their career. They had to start posting videos and pictures to garner attention for the contest and they witnessed the power of social media as tool for self-promotion.

The goal is not to simply provide these artists and communities with legal aid but to empower them to put this knowledge into action by providing them with the intellectual tools to be able to become economically self-sufficient.

PeaceTones Brazil

Born in the favelas of Recife, a group of teenagers, after witnessing the violence around them, decided to use their voice to speak out against the violence. A veritable gangland of “us versus them” between two local gangs, the problems in the favela range from drug wars to turf wars to teen pregnancy and incarceration. Deciding that this was not their chosen path, this group began to use music as an outlet with a goal of producing an album in order to tell their story and use the proceeds to bring the music back into the community. The group is called Ato Periférico, or “Act from the Outside.” They employ a mixture of hip-hop, rap, break-dance and capoeira, this multi-talented group writes, records, and choreographs original music and performances.

Through the help of PeaceTones and Shine a Light, an international non-profit, The Ato Periférico CD is now available for purchase. (Shine A Light is an international non-profit that helps youth in impoverished communities sell their music and art as an income-generating project.) Kurt Shaw, the Executive Director of Shine A Light, recorded all the music at a make shift studio in Recife.

The proceeds from the album have been used to build a recording studio right in the heart of the favela and this group of young entrepreneurs has been able to record not only their own creations but also the work of deserving emerging artists in the community, thus creating an outlet. The studio is completely managed by the artists and the community has come together in a respectful way in order address issues in the community such as police violence – using their newfound legal knowledge to initiate intelligent conversation to pacify encounters which may have otherwise turned violent – PeaceTones is providing musicians with the “intellectual weapons” necessary to defend their rights and their work.

As Adam states, “We are not handing money out by any means, this is not charity, we want to strike a business deal with you (the artist). In that regard we sign distribution/recording contracts with all of the artists we work with, given its very fair terms – we call it fair trade music because 90% of the profits from the album sales go to the artist and the community project of their choosing. We are definitely bumping the whole music model. Digitizing and iTunes has already started to buck the model, but we are bringing that one step further with what’s been termed ‘Music Plus’: giving the audience not just an amazing product but a reason to buy it as well – so they can say, ‘I’m getting great music here but I’m also giving back to a person who needs it and their local community.’”

For more information email adam@peacetones.org or visit the web-site, www.peacetones.org



Applause:

Audience at an Ato Periférico concert on March 25, 2011, sponsored by the NGO Pé no Chão. Recife, Brazil



Cops:

Aldir Rodrigues and DJ Big (l-r) negotiating with the police, who had tried to break up the show because the rappers were criticizing police brutality in the favela.



Rapping:

The three principle members of Ato Periférico: Jonas França (artistic name, Jonas Racional), Luziel Costa (Detefon) and Ellan Barreto (MC Okado)



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