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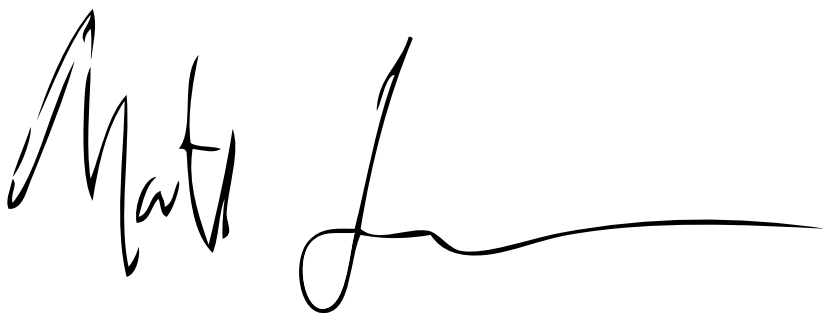
Letter from the Editor

Big things are happening, both on a global platform and here at Alternative Latin Investor. Before I tell you about the exciting new developments in our magazine, please allow me to address the small matter of the US Standards and Poors downgrade. While this was perhaps no real surprise given the current debt debacle within the United States, the difference between an assumed risk and public downgrade is an enormous one. However, this does fall in line with the position we take, and will continue to pursue. In a zero-sum view of the world, as the 'developed' world is forced to re-evaluate economic policy, and is perceived as more risky, emerging markets will fill the void created by the decline of the so-called 'super powers'. Perhaps one day a 'flight to quality' will refer to mass demand for real, peso or kuai, though such an eventuality is still on a distant horizon.

While we maintain coverage of all of Latin America, working to provide exposure to less 'googleable' topics, for this issue we have focused on private equity investment within LatAm's powerhouse, Brazil. I am continually impressed by the country's inward focus, which has benefited the region's largest economy by balancing a heavy dependence on commodities exports with huge growth in internal demand.

In our coverage of this sector and region, it is with great pride that I would like to announce the launch of Alternative Latin Investor Premium. We will continue to provide you with the same coverage of alternative assets within the region for free, but will now offer a new subscription option, with twice the content, premium articles are more specific, in-depth and actionable.

I would very much appreciate your thoughts regarding this, our first premium issue, as well as what stories, sectors, or regions you would like us to cover in the future.



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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 sky is blue with scattered white clouds. The building's glass facade reflects the sky and other parts of the building.

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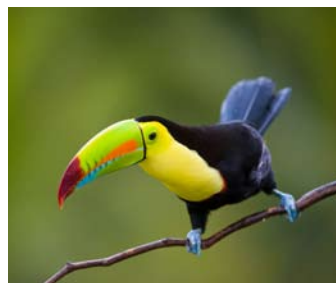
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Political Moves: Brought to you by

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BRAZIL – Rousseff replaces Palocci with novice

President Dilma Rousseff took a major decision in mid-June to axe her scandal-hit number two, the minister of the presidency, Antonio Palocci, a veteran baron of the ruling left-wing Partido dos Trabalhadores (PT). In a sign of her single mindedness, she went against the advice of senior party members including her predecessor and mentor Lula da Silva (2002-2010) and replaced Palocci with a first time PT senator, Gleisi Hoffmann, and later also replaced the struggling PT minister for institutional relations, Luiz Sérgio, with another woman, Ideli Salvatti, whom she switched across from the fisheries ministry.

The Palocci scandal, Rousseff's first serious political crisis, underlined the fact that nothing can be taken for granted in the executive's relationship with the coalition and congress. For all the talk back of Rousseff's unprecedented parliamentary majority, at the end of the day there is no strength in numbers in Brazil, where parties act first and foremost on a self-interested basis. Rousseff is committed to an efficient, technocratic administration and has an obvious distaste for traditional backslapping politics. She will expect of Hoffmann and Salvatti the same type of managerial diligence. Yet unless the president herself intends to step into a more active role in managing the complex relationships with her political partners, she may be taking a gamble with these novice appointments, who will have to be tough skinned to operate in Brazil's chauvinistic environment. Though Rousseff has shown resolve in cutting away the dead wood from the Lula administration and surrounding herself with her own team, she needs to demonstrate stronger political leadership, at least in order to prove to skeptical observers that she is more than a temporary proxy for Lula until 2014.



CHILE – Poll drop to cause polarisation

President Sebastián Piñera's opinion poll rating continues to fall. On 2 June an opinion poll by Adimark put his approval rating at 36%, a new low. As Chilean presidents cannot serve consecutive terms, this slide means that Piñera's influence on the choice of the rightwing candidate he would like to succeed him in 2013 is ebbing. His low opinion poll ratings and rising disapproval ratings do not mean, however, that the country is sliding towards either unrest or political confrontation. What it does mean is that party politics may become more ideological. Thus the second half of Piñera's administration is likely to be more right wing and, correspondingly, the opposition to his government is likely to become more left wing. It's worth noting that it has been the most radical opposition politicians who have drawn, metaphorically, most blood from

the government, in forcing ministerial and other resignations.

This polarization is already having an effect on moderates. The former president Ricardo Lagos (2002-2006) seems to have sensed the change in the political mood. In May he flipped from being a supporter of the Piñera government's policy over the controversial hydroelectric project in southern Chile – HidroAysén - but a critic of the government's methods, to become a fully-fledged opponent of the HidroAysén project. In his new position Lagos aligned himself with radical environmentalists, some of whom appear to believe that violent street demonstrations will stop the project more effectively than reasoned argument.



COLOMBIA – Colombia gets investment grade from second ratings agency

The May 31st move by the US-based credit ratings agency Moody's to upgrade Colombia's foreign debt from speculative grade (Ba1) to the lowest level of investment grade (Baa3), which followed a similar move by Standard and Poor's in mid March, means that the Andean nation can now become a destination for institutional investors, who require that a country has been given investment grade by at least two of the world's leading credit ratings agencies. Furthermore, Colombian companies requesting loans overseas will benefit from lower interest rates.

The expected inflow of foreign currency into the country has already triggered a slight appreciation of the peso, the value of which against the US dollar could be further bolstered as investors trickle in. Minister of Economy Juan Carlos Echeverry has warned that he will continue to take the necessary measures to maintain the peso at a competitive exchange rate, which Moody's itself recognizes as a long-term challenge for emerging markets since they are expected to grow at a much faster pace than developed economies. Colombia's "political and economic maturity to face internal and external shocks" was the reason cited by Moody's to grant it investment grade. The agency also upgraded the ratings of foreign currency denominated bonds to Baa2 from Baa3 and bank deposits to Ba2 from Baa3.



PERU – Second time lucky for Ollanta Humala

The narrow victory of the left-winger Ollanta Humala over his right-wing rival, Keiko Fujimori, in the June 5th Peruvian presidential round off sent the markets spiralling out of control. They bounced back the next day, however. To reassure the markets, Humala will choose centrist, and possibly independent, candidates for the key positions of Economy and Finance Minister and Prime Minister; the current head of the central bank, Julio Velarde, may see his mandate extended. Fears that a Humala administration would lead to an abrupt leftward shift in economic policy are exaggerated. A Humala-led government will seek to place greater emphasis on social policy but Humala will be torn between the constituency that voted for change and those who voted for the maintenance of the status quo. Managing expectations will be crucial. With regard

to foreign policy, relations with Brazil will be the point of reference.

Humala may not be able to hold together his winning coalition, Gana Perú, which won 47 seats in congress against Fuerza Social's (Fujimori's party) 37. Humala doesn't have a majority in congress but could cobble one together with Perú Posible, of former president Alejandro Toledo, which has 21 seats; this could help him pass legislation, but it is still short of the 87 votes required to change the constitution. The most visible threat will come from social conflict, which tends to flare into violence, particularly around mining.

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Growing

M&A activity between Asia and Latin America?

■ Bernard Lapointe

■ Trade

Will rising bilateral trade between Asia – especially China – and Latin America lead to more merger and acquisition activity between the two regions?

Asian exports to Latin America rose 65% in 2010 from the prior year. Two-way trade amounted to US\$ 172 billion in 2010, a jump of 50% from 2009, and in favor of LatAm. Trade has risen at a 25% annual compounded aggregate growth rate (CAGR) since 2000. Brazil and Chile run trade surpluses with Asia while most other LatAm countries have a deficit with the Asian continent. Mexico has a US\$13 billion trade deficit with Asia. Notably, China is Brazil's largest trading partner.

Bilateral trade between Asia and LatAm, US\$ billion

Latin America trade balance US\$ billion	Latin America ex-Mexico	All Latin America
With China	+8.9	-31.5
With US	+20.0	+127.0
With EU	+16.0	-2.3

Source: JP Morgan

China is the top destination for exports from Brazil and Chile with trade links growing fast. Brazil sells the following products to China: soy, iron and steel, petroleum, meat, and wood products. China sells to Brazil: cars, motorcycles, appliances, textiles, footwear, and electronics. Argentina now exports more to China than to the U.S. In the region, Mexico is the exception among large economies with its dependency on the U.S. market quite obvious since it sends nearly 84% of its exports to its northern neighbor. In Latin America total exports account for 21% of GDP, while exports to China represent nearly 10% of total exports, making it the region's second-largest trading partner after the U.S.

Exports to China as a share of total exports	2010	2005
Chile	24%	11%
Brazil	17	6
Peru	12	11
Venezuela	10	2
Argentina	9	8
Colombia	5	1
Ecuador	2	<1
Mexico	1	<1

Source: Bloomberg

Growing links between China and Latin America date back to the 1970's when Chile became the first South American nation to establish diplomatic ties with Asia's most populous country and to recognize it as a 'market economy'. However it was really in 2008 that the bilateral relationship between China and Latin America took off, after the proactive policy towards Latin America was clearly laid out by the Chinese government in a publication titled "Chinese Policy Document for Latin America and the Caribbean." In fact, China and Latin America are quickly diversifying and elevating their trade and investment, as witnessed by the host of agreements signed by China and Cuba, Uruguay, and Chile in the past few weeks. Latin America's trade links with Asia have outpaced trade with Spain, historically the region's largest commercial partner. LatAm exports to Spain only account for 1.6% of the region's total exports.

M&A

If bilateral trade growth is an indication of potential mergers and acquisition (M&A) trend, then investors could expect a flurry of activity between the two regions in the next few years. In the first six months of 2011, M&A activity is up 30% globally versus the same period last year. However, in Latin America, transactions are down 26% year over year in volume.

Mergers and Acquisitions breakdown by target region

1 Jan- 30 June	2011 (US\$ bn)		2010 (US\$ bn)	Volume change
Latin America	86		116	-26%
North America	551		452	+22
Europe	390		221	+76
Asia	240		190	+26

Source: Bloomberg

M&A activity in Latin America, quarterly.

The year-over-year comparison for Latin America comes from a high base following the US\$25 billion acquisition of Brasilcel by Telefonica in the summer of 2010. Asian M&A activity in the region has also dropped but comparisons are again skewed due in part to the US\$7 billion acquisition of 40% of Repsol's Brazilian division by China Petroleum & Chemical Corp. (more commonly known as Sinopec) in 2010. So far in 2011 few Asian companies have made large acquisitions in Latin America. Most recent data show that Asia-Pacific companies have made less than US\$7 billion in acquisitions in the region. Indeed in Latin America the largest deals have all been between Brazilian companies. Brazil Telecom's US\$7 billion purchase of Tele Norte at a price-to-book value of 0.8 times is the largest so far. However, Asian companies continue to be active in LatAm. Perhaps as a consequence of the strong yen, Japanese trading companies like Itochu, Mitsui and Marubeni have made small acquisitions in Mexico, Colombia and Brazil. Current valuations make Latin American small and mid cap companies attractive. Small and mid cap companies trade at 2.1 times EV/sales versus 3.2 times for their Asian counterparts. Rising trade flows and cash-rich Asian corporations provide a solid background for further expansion of M&A activity in Latin America.

Author Biography

Bernard Lapointe is a Portfolio Manager in the Overlay Strategies division at Caisse de dépôt et placement du Québec, a Canadian-based global fund manager. Mr. Lapointe has been a portfolio manager and trader of equities, currencies and commodities since 1994. He holds a Master degree in Economics and speaks French and Mandarin.

Latin American Venture Capital: *Lessons* from *China*

■ Leonardo Navarro

The Venture Capital (VC) story in Latin America is anything but a shared experience. Where some countries such as Chile have actively stimulated their VC industry since the 1990s, other countries such as Peru have only now begun to promote theirs; and where some such as Brazil have actively established the necessary legal frameworks for early-stage investments, investments in Mexico are made more in spite of – and less because of – local regulations. It should not be surprising, then, that LatAm’s fragmented mishmash of regulations makes the object of investment in the region anything but definite.

Emerging markets with VC industries with a longer track record offer a glimpse into probable models of VC investment in Latin America. China, for example, underwent the growth of its VC industry more than a decade ago. Three main types of early-stage investments in China can provide VC professionals with a useful framework to evaluate a specific investment’s potential:

The C2C model.

The C2C, or “Copy-to-China” model, is implementing a successful business model from elsewhere in China, especially in web and IT. Baidu.com, for example, is the “Chinese Google”; Alibaba.com is the “Chinese eBay.”

The consumer market model.

China’s large population and its expanding middle class demand new products and services. Companies in sectors such as education, health, and financial services are especially attractive investments. NeWorld, for example, a recent Carlyle Group investment, provides instruction in Japanese as a second language throughout China.

The global integration model.

Foreign funds also invest in Chinese companies whose value increases via integration with operations elsewhere. Infinity I-China, a Sino-Israeli VC fund, increases the value of its Israel-based innovations by integrating them with a competitive manufacturing base in China.

These investments contrast with the traditional VC model. Statistics from the US National Venture Capital Association reveal that the largest US-based investments in 2010 were in software, industrial/energy, biotechnology, medical devices, and IT services. In the US, these sectors of the economy are the ones able to deliver the high growth rates required by the VC model.

Investments in emerging markets fit a different profile. The sectors of the economy

capable of delivering similar growth rates are more often riding the back of an expansion in the economy. Because of this fundamental difference, it is therefore likely that LatAm's VC business model will have more similarities with China's than with the US's.

The C2C model in Latin America, for example, can be implemented regionally to benefit from economies of scale. Mercadolibre.com, the flagship success story of Latin America, fits this model. The company, "Latin America's eBay," went public in 1999 commanding a price at the top of its valuation. Similarly, Deremate.com and Despegar.com, are local implementations of successful US business models. There is no shortage of other local implementations. There is no Latin American Amazon, Groupon, nor Gilt.

The consumer market model, for its part, is especially attractive in countries with expanding middle classes, such as Brazil or Mexico. Changing needs fuelled by an evolution in values create markets with high growth rates. Private education, for example, is a growing

sector in the region. Wal-Mart is trying to tap into mass financial services in Mexico by developing products tailored to a previously underserved sector of the population.

Integration with global business models varies by country, especially taking into account specific local competitive advantages. Latin American competitiveness is not constrained to low labor costs – it can also mean specific innovations. Mexican-based sports auto maker Mastretta, for example, highlights a sector of the Mexican economy that is able to develop an innovative product that can benefit from partnering with an investor with global capabilities.

The Chinese experience in VC is a relevant case study for Latin American governments, limited partners, and fund managers. As different countries in the region experiment with their own solution to local conditions and constraints, minimizing wasteful investments is crucial. "Nadie piensa en cabeza ajena," an oft-said proverb, means "no one learns from others' experience." Leaders in the region would do well to learn from China.

Author Biography

Leonardo Navarro has worked in Taipei and Beijing, via Mexico City, in the public, private, and non-profit sectors. He is Co-editor of China Latin Diaries, a bilingual magazine on China and Latin America. He holds a Wharton MBA/MA with a concentration in Finance and Mandarin Chinese. He is currently based in New York. Follow him at: <http://twitter.com/leonavarroavila>



Be Careful What You Wish For

Vander Giordano & Eduardo Gomide

Foreign firms bidding on infrastructure projects or buying up local companies in Brazil are understandably keen to get in on the country's economic boom. But two projects gone awry provide a cautionary tale of the considerable risks that accompany potential rewards in Brazil.

In November 2009, The Economist noted that "Brazil has been democratic before, it has had economic growth before, and it has had low inflation before. But it has never before sustained all three at the same time. If current trends hold (which is a big if), Brazil, with a population of 192 million and growing fast, could be one of the world's five biggest economies by the middle of this century, along with China, America, India and Japan."

Predictably, Brazilians have embraced the optimistic scenario. They have concluded that it is Brazil's time to shine. The media has reported extensively on how Brazil is finally tapping into opportunities in a changing world economy and fulfilling all the potential of its large population, fertile lands, vast mineral resources, and now huge deepwater oil reserves discovered in the last decade.

However, economic growth and prosperity – Brazil's GDP grew 7.5% in 2010 – also bring the risks associated with excessive optimism and a gold-rush mentality. On top of the "big if" listed above, investors and companies need to pay careful attention to details when it comes to where they put their money. A consideration of just two areas – the potential pitfalls of Brazil's rapidly growing infrastructure sector and compliance issues arising from new environmental legislation – show that a lack of such care can be costly.

Playing the game cleanly, Brazil is about to host two major international sporting events. In 2014, the World Cup will be played in Rio de Janeiro and 12 other major cities. Two years later, Rio will welcome the Olympic Games. Analysts are predicting an enormous impact on the economy, with infrastructure investment as the driving force. A study by Brazil's Sports Ministry estimates the potential economic impact from the World Cup to be nearly US\$100 billion between 2010 and 2014 and cites an expected \$5.1 billion in incremental tourism, US\$9.2 billion in tax collection and the creation of 330,000 permanent jobs.

The vast opportunities related to the rebuilding and expansion of Brazilian infrastructure are attracting foreign investors. Some estimates put the likely cost of the planning and construction of Olympic sports venues at US\$15 billion. The building of new stadiums and the refurbishing of existing ones for the World Cup, along with improvements to ports, upgrading of public transport and roads, and the expansion of airports necessary for both events will involve at least another US\$18 billion. These figures may even be underestimated.

Taking part in the infrastructure boom in Brazil will almost always involve a public bid. The major infrastructure projects, such as hydroelectric plants and enhanced power grids, as well as new ports, highways, and airports are largely backed by agencies with full or partial government ownership, including BNDES, Brazil's National Development Bank. The second phase of the national Growth Acceleration Program (PAC), the largest public sector investment program of the past 20 years, will open up US\$220 billion in opportunities for foreign investment in Brazil from 2011 to 2014. The federal government has also established the Olympic Public Authority to coordinate the construction projects for the Olympic and Paralympic Games. Companies must be aware of the risk of getting caught up in bribery or corruption schemes in violation of Brazil's own laws, as well as the US Foreign Corrupt Practices Act and the UK Bribery Act.

One cautionary tale involves a European company that came under scrutiny by both European and Brazilian authorities in 2009. The company had subcontracted a European engineering firm for its infrastructure projects. Authorities began to suspect that a US\$6.8 million expense the subcontractor had on its books was, in fact, a payment

made to local public officials in order to win a US\$45 million subway project in Brazil.

Further investigation revealed that this same company made close to US\$200 million in suspicious payments in connection with a hydroelectric project in Brazil. The scheme allegedly involved a consultancy contract with a Panamanian company. The consultant was hired to provide information to help in the bidding process for the hydroelectric power plant. But both Brazilian and European investigators are convinced that the Panamanian company never provided any consulting services and that its sole purpose was to act as a go-between to deliver bribes to secure the contract. Meanwhile, the European engineering firm is prohibited from participating in contract bids in Brazil until the investigation concludes, effectively barring it from the infrastructure boom.

Another cautionary tale involves a foreign company getting embroiled in legal action related to government regulation of waste treatment.

Brazil produces 150,000 tons of garbage annually. Its comprehensive National Policy on Solid Waste, passed into law last July, is the culmination of a long line of policies strongly emphasizing the use of recycled materials. Nevertheless, despite the efforts of the national government, states, municipalities, agencies, and industry organizations, up to 43% of waste collected in Brazil may not be adequately treated.

Compliance with the new law's regulations will require many companies to invest in new technology and procedures, as well as spend considerable amounts on monitoring and auditing activity. For international investors looking to purchase Brazilian companies, due diligence should now go beyond assessing the background, reputation and integrity of these

businesses to include compliance with the new waste management regulations. Otherwise, buyers risk inheriting liabilities that might eventually jeopardize their entire investments.

Recently, a foreign group acquired a Brazilian petrochemical company. Eight months later, the firm's legal department received a subpoena from the State District Attorney. The company, along with others which outsourced waste management to a particular garbage treatment and disposal business, was being included in a civil action. The waste treatment company was not compliant with the new law: waste was being discarded without treatment. This left the petrochemical company also in violation of the law and subject to heavy fines.

Kroll was hired to investigate the matter and found that the risk could have been managed during the due diligence process had the auditors at the time done a more thorough review and spent more time looking at the waste disposal company's record. Evidence already existed about its failings as did complaints about operational activities. Kroll's evaluation of waste disposal documentation also found large discrepancies in weight and outright falsifications. In some cases, the waste management truck did not even enter company premises, although the contractor had a record of trash removal. Similarly, field interviews indicated that some of the waste was simply thrown in the city's public dump. Kroll's reports supported efforts by the foreign acquirer's lawyers to prove that the new shareholders of the petrochemical company had acted in good faith. The responsibility for the violations of the waste law was therefore assigned to the former owners.

Brazil's economy provides substantial opportunities for foreign investors. To fully profit from them, however, companies need to study and gauge the underlying risks.

Author Biography

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The Brazilian Bubble Argument: Full of Hot Air?



In the midst of the Brazilian economy's continuing surge – it grew 7.5% in 2010, its highest rate of growth in twenty-five years, and is forecast to grow another 4% this year – some skeptics have emerged warning of an overheating system and a swelling bubble poised to burst. They are particularly concerned with the soaring real estate prices in São Paulo and Rio de Janeiro and a booming middle-income housing market fueled by unprecedented levels of consumer credit being dispensed to the enormous and growing middle class. Paul Marshall, the CEO of Marshall Wace, has been perhaps the most prominent and vociferous skeptic; in columns published in the Financial Times, he has sounded the alarm on the increasing risk of a full-blown credit crisis, arguing that the middle class's debt burden is becoming unbearable. Walter Molano, writing in the Latin Business Chronicle, agreed, declaring that consumer credit is the main driver behind a frenzy of unsustainable economic

activity. "Brazilian households are now addicted to credit," he writes, "in the same way that their North American brethren were just a decade ago."

In addition to these concerns over credit, some analysts are wary of what they perceive as an over-dependence on Chinese consumption and unusually high commodity prices that are bound to fall; they argue that, healthy as Brazil's current trade deficit is, it would be dangerously high were commodity prices to fall back to where they were five years ago. They are closely scrutinizing President Dilma Rousseff and the Brazilian Central Bank to see how they manage the three-headed problem of rising inflation, chronically high interest rates, and the surging value of the Brazilian currency, the real, which threatens the domestic industrial sector. There is also concern with the extremely low unemployment rates at a time when demand is growing so fast; a recent column in

The Economist warns that the tight labor market will keep pushing inflation up, to the economy's detriment.

In the face of this skepticism, however, ALI has found a decidedly more confident view of the Brazilian economy in the alternative asset community. In interviews with a broad range of experts, including Brazilian fund managers and industry heads as well as foreign fund managers and investors intimately involved with various sectors of the Brazilian economy, there is a broad consensus that the skeptical pronouncements of a Brazilian bubble are inaccurate or fundamental.

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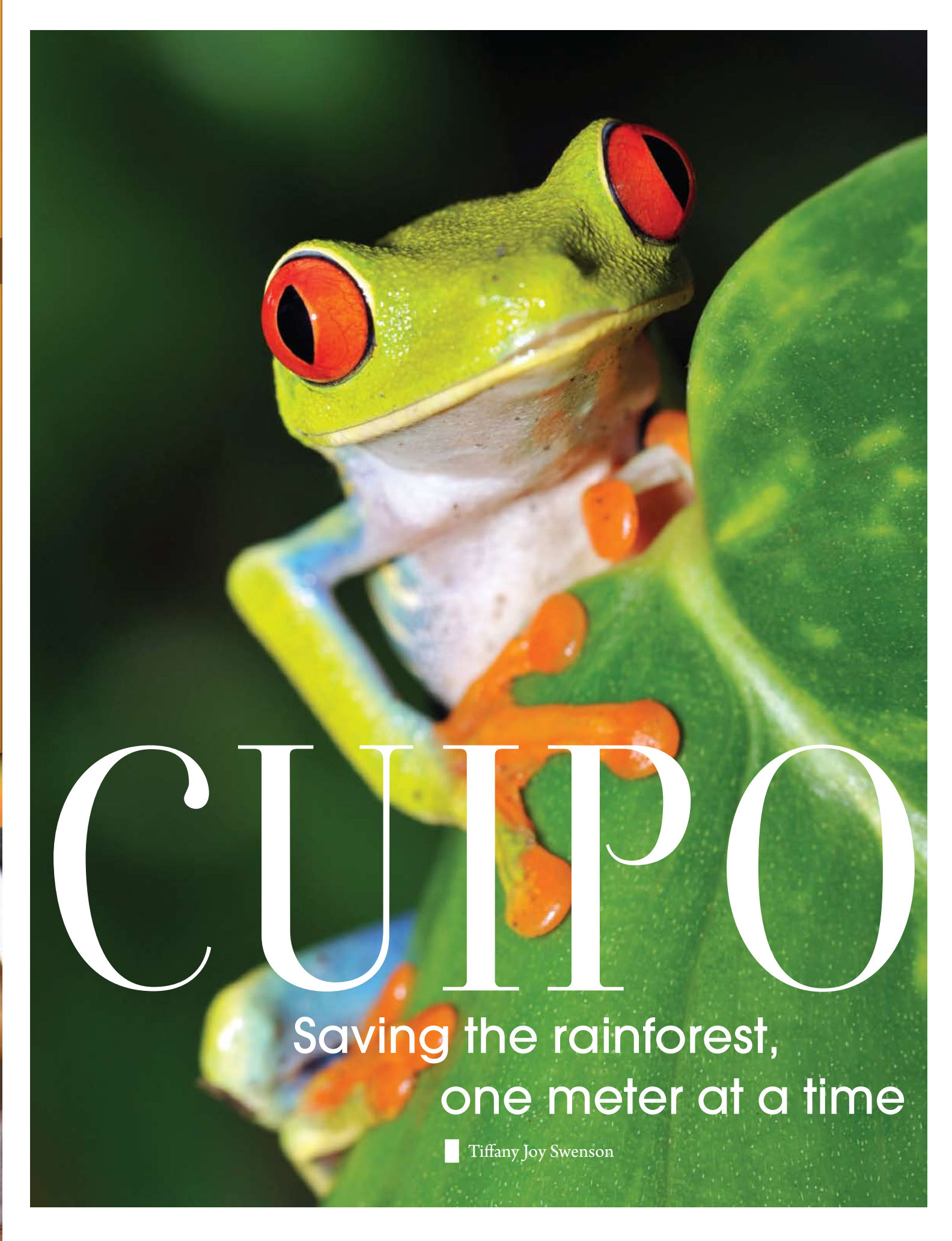
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CUIPO

Saving the rainforest,
one meter at a time

■ Tiffany Joy Swenson

A few years back, a beautiful coastal community in California was devastated to learn that their neighborhood had been zoned for hotel development and the developer was en route to begin construction. It was then that Thomas Murray, President and co-founder of The Two Oceans Fund L.P., came up with an ingenious idea: “Let’s lay a grid on the land and let’s pay this developer real world money – what he would have made on the project – and allow individuals to buy sections of it and then we can turn it over to the city and make it into a park. The developer doesn’t get shorted and everybody gets what they wanted.”

This particular story doesn’t have a fairy tale ending as the city found the loss of the potential property tax revenue from the hotel less than appealing and the idea was never put in to play. Nonetheless, Thomas took the idea with him and it was in 2007 that he and partner Gus Hurst began Cuipo (www.cuipo.org), a unique idea for how to make rain forest preservation accessible to the masses. The name Cuipo is derived from an endangered tree located in Central American tropical rain forests, which also serves as the home for the Panamanian national bird - the also endangered Harpy eagle.

Thomas and Gus operate two private equity real estate funds in Panama and since 2006 have bought a variety of properties throughout the country. Throughout that process they have done numerous helicopter flyovers and have been remarkably impressed by the apparent “golf courses” in the middle of lush jungle land. They quickly came to realize that these were areas that had been deforested, mostly by local farmers and ranchers who simply wanted to create more space for crops or cattle.

Inspired to preserve such a precious natural resource, in 2007 Gus and Thomas began to buy primary rainforest land in Panama, and they have currently committed to purchasing 5.2 square miles or 13.46 square kilometers for permanent preservation and conservation. The Cuipo model for preserving this land is based on the idea of saving “one meter at a time”. An easier approach compared to inspiring millionaires to buy the land for mere preservation purposes or convincing governments to radically change their policies to protect the land. As Thomas Murray explains, “Why don’t we take the impetus on the individual and buy the land with our own money and then allow people to adopt in very small increments.”

As you can imagine, it is not practical to sell people one meter of the rainforest due to the paper work and logistics involved; furthermore, due to various landowners, and complicated surveying and titling requirements, merely obtaining the land is a tedious and time consuming process. Therefore, the land is purchased in large parcels using private capital, and then, as it becomes “adopted,” Cuipo donates 100% of that land to A Meter at a Time, its 501(c) 3 non profit foundation, whose responsibility is to protect, preserve and educate.

Next Stop: Brazil

Cuipo currently has their sights set on Brazil. Land in the state of Pará, located in the northern region and considered one of the most threatened areas in the Amazon basin will be available for adoption in 2012. Whatever Cuipo purchases will be 100% protected, and the goal is to have upwards of 10 million hectares in the next 20 years.

This issue is quite current, as an amendment has recently been proposed to the Brazilian “Forest Code”, a legislation which requires large landowners to maintain 80% of their land as forest. The proposed changes (approved in the lower house and awaiting final decision by the Brazilian Senate) would reduce this percentage to 10%.

Looking at Brazil, this is the process Cuipo undertakes in order to obtain land:

- Contract an environmental agency in Brazil to research the land, attesting to the fact that the land is not already protected.
- Approach the property owners of the land that is in the most danger. In most cases, landowners are in a position to sell their land to either a private buyer or a logging company because the land has no protection basis.





- Assure that the purchase includes outright ownership of the land and the rights to the trees. Since the majority of the land has no commercial value unless it is stripped, and owners are typically eager to sell if it means the land is going to be preserved, and the already titled land can be quickly turned over to the new buyer if the price is right.

Thomas adds, “We’re concentrating on countries in the tropics that have primary rainforest. Once primary rainforest is gone, there’s no getting it back. I don’t believe in telling people what to do with their property, but if it’s my property, I bought it, I’m going to protect it.”

Cuipo operates on a social enterprise model. **A social enterprise is an organization that applies capitalistic strategies to achieving philanthropic goals.**

“The Red Cross is pleased to announce Cuipo’s participation in aiding our efforts to help those affected by the Japan earthquake/tsunami. We think this partnership is a great way of allowing participants to benefit two world causes at once: aiding in the Japan relief efforts and preserving deforestation in our planet’s most biodiverse region, says Greg Cherry, A sociate Director of Major Gifts, Red Cross.

As Thomas explains, “If people are directed to Cuipo through an affiliate and they adopt meters of the rainforest, nearly ½ of that money is given back to the affiliate. The affiliate can choose to: reinvest it in the rainforest, use it for some other social cause, or pocket it. But we would have never gotten to that base of people had it not been for the outreach of the affiliate. What we want to do is make our revenue share compelling enough that people will do it without the incentive of ‘it’s a nonprofit.’ We believe this business model will allow us to reach exponentially more people and therefore create an unparalleled sense of awareness, thereby promoting our ultimate cause, which is saving one of the world’s most precious resources. Our concept is to be non-political it’s not to be promoting one agenda or the other - we have this motto it’s called ‘Stop the Chop’ – we would like Sean Penn and Rush Limbaugh to both like Cuipo because our model has nothing to do with one agenda or another. All we’re doing is buying land, not chopping down the trees and implementing a preservation/conservation plan, it’s that simple and I don’t think you can argue with that”.

Cuipo is creating a purpose oriented; environmental social enterprise whose goal is to have millions of members who can create social change, something that has not been achieved by any other environmental organization. Part of their strategy will involve talking to well-known actors, musicians and spokespeople to get them on board, and working alongside John



All we’re doing is buying land, not chopping down the trees and implementing a preservation/conservation plan, it’s that simple and I don’t think you can argue with that”

Oswald – former CEO of Paul Frank apparel to explore licensing opportunities for merchandise. For example, to create hangtags for popular retail items – “With this purchase you have just adopted a meter of the rainforest.”

In the age of Facebook and Twitter, Cuipo is a great way for companies and individuals to do a green, sustainability project without having to build it out themselves; they just have to tweet about it and promote it with their social media.

"Rather than giving your friend a bottle of wine, why not give him 20 meters of the rainforest instead, there's no carbon footprint because it's an electronic transfer. Our demographic is kids, teenagers - youth - making it social media friendly - the new way to do something good."

Thomas Murray speaks passionately about this project that has taken up an inordinate amount of time over the past few years, "We'd love to take this to the Philippines, the Congo, Indonesia and create a grassroots effort to do this because it allows people who don't have a lot of money to be involved - kids can do this. What I love is that anyone can feel empowered - it's not like were trying to sell people a product that they can't use or don't need, through Cuipo everyone can get involved, everyone can make a difference, you don't have to have a lot of money ... we would like to turn Cuipo into a verb, 'what land should we Cuipo next'".

Adopt the rainforest today:

<https://cuipo.org/ali>

Outsider Opinions

"Rainforest preservation and carbon sequestration programs are finally being properly accounted for in contemporary market economics, from which social prerogatives are providing healthy profit margins for investors. The greatest business success is that which provides value to the community."

"We'd love to take this to the Philippines, the Congo, Indonesia and create a grassroots effort to do this because it allows people who don't have a lot of money to be involved - kids can do this."



Cuipo Founders
Gus Hurst (in white shirt) and
Tom Murray (green shirt)

ty and environment, while using market forces to monetize an otherwise intangible value.

Sustainability cannot reach its objectives without a profit margin, and reforestation projects will be the carbon sequestration mechanism affording clean air for all of us, while providing a solid margin for investors. It's a win-win. Finding parity between our ethics and income desires has always been a conflict. It seems humanity is finally embracing the necessity of a solid financial model for a sustainable planet."

-Samuel C. Larson

VP of LatAm Operations - Eco Ventures Group, Inc

"UC Berkeley's carbon calculator helps individuals understand the most effective ways to reduce their carbon

footprint and fight global warming. This aligns with Cuipo's goals since rain forest preservation is key to reducing global warming."

-Chris Jones

Lead developer of the calculator at UC Berkeley's Renewable and Appropriate Energy Lab.



Nuts:

Cultivating crops that

Grow Well

in the Americas

■ Stephen Kaczor

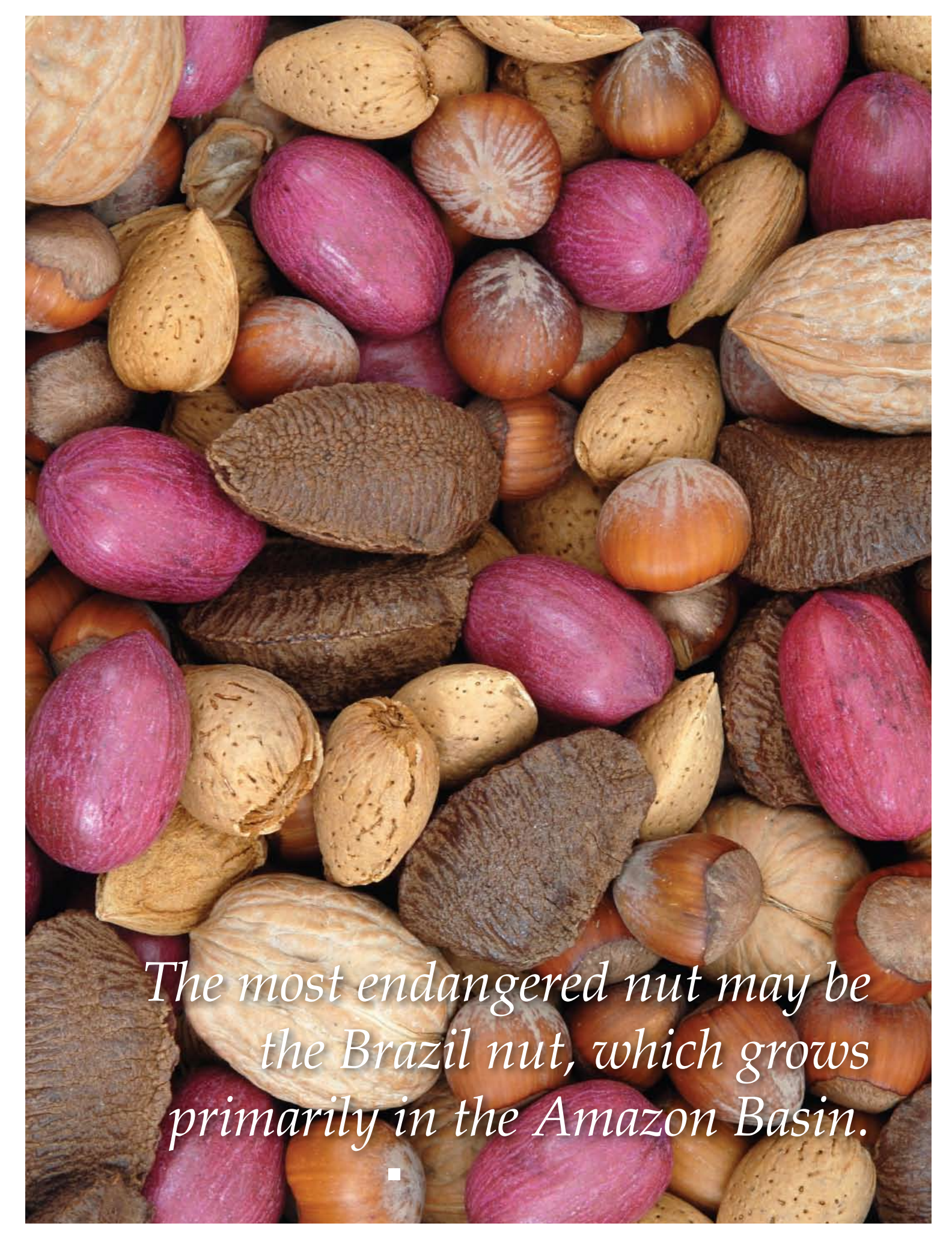
While the USA is the world leader in tree nut production, growing nuts in Latin America represents a significant investment opportunity. The USA produces one-third of world nut volume, half of it exported to Europe. Nut consumption is high in many countries where domestic growers may enjoy a logistical advantage but suffer from high labor costs, high taxes, regulation, less ability to borrow money, and increased fertilizer and orchard costs. With many nut types being cultivated in Latin America, is there any reason the region could not displace the number two producer, Turkey, with one-fourth of world volume?

While the ubiquitous peanut is native to South America, it is not properly a nut but a legume, as it grows in the ground. Cashews are perhaps the most widely cultivated and

popular of nuts, as they make an excellent snack and are used in baking and cooking. Native to Brazil, the cashew, *Anacardium occidentale* L., belongs to the *Anacardiaceae* family. The Portuguese name refers to the shape of the fruit, which looks like an inverted heart (ana means “upwards”, -cardium, “heart”). Other important plants of this family are the mango and the pistachio. Cashew trees, which live for 35 years, start bearing fruit in the third year. They grow in warm regions with annual rainfall of 1,000 to 3,000 mm, such as Central and South America, Asia and Africa. Easily cultivated, they require little care and produce an annual average of 3 kg of cashews per tree. The “fruit” of the cashew tree is a false fruit; what appears to be the fruit is an oval or pear-shaped cashew apple that develops from the flower. It is known in Central America as *marañón*.

The most endangered nut may be the Brazil nut, which grows primarily in the Amazon Basin. Vast forests of Brazil nut trees grow in the shrinking rainforest, often reaching 150 feet tall. The mature tree has a huge trunk and the nuts are contained in large woody pods resembling coconuts. Inside are approximately 18 nuts arranged in sections like a grapefruit. They generally contain high levels of the antioxidant selenium. Brazil nuts from Peru and Bolivia are not as high in selenium because the nut can only grow wild in tropical jungles. As the rainforests continue to be decimated, this nut will continue to become scarcer and the price will rise accordingly.

Almonds are commonly named as the favorite among many North Americans; the Nut Factory in Spokane, Washington, grows 1.5 billion pounds of almonds annually. They are found,



*The most endangered nut may be
the Brazil nut, which grows
primarily in the Amazon Basin.*

■

however, all over the Americas and grow on a small yet hardy tree native to the Mediterranean. Global production is approaching 2 million tons annually. The almond, *Prunus dulcis*, is classified with the peach in the subgenus *Amygdalus*. The almond is not a true nut, but a drupe (a fruit in which an outer, fleshy part surrounds a shell). The favorite variety is the Spanish Marcona, which is even shorter, rounder, sweeter and more delicate in texture than other varieties. In California, the pollination of almonds is the largest annual managed pollination event in the world, with close to one million bees trucked in to the almond groves (half of all hives in the country).

The sweetest nut is certainly the macadamia. The macadamia tree is an evergreen native to Australia and are now grown in Hawaii, Central America, Colombia, and Bolivia. The fat content of Macadamia nuts is high, amounting to about 72%, primarily made up of monounsaturated fats. They are an excellent source of copper, magnesium and thiamin and a good source of iron and niacin. Aside from their nutritional value, they are a popular snack, eaten raw or roasted and are also used in salads, cooking and baking.

In Mexico, pecans are an important crop. The pecan - *Carya illinoensis* - is a species of hickory, native in Mexico from Veracruz and Jalisco (northern region) into much of the USA, which is the major producer due to favorites such as pecan pie in southern states and praline candy from New Orleans. A pecan is also technically a drupe, like the fruit of all other members of the hickory genus. In addition to the pecan nut, the wood is also used in making furniture, in wood flooring, as well as flavoring when smoking meats. Pecans are one of the most recently domesticated crops and show strong investment potential.

Walnuts are grown in Chile, and are the edible seed of any tree of the genus *Juglans*.

Walnuts increase fat oxidation and reduce carbohydrate oxidation, improving the use of body fat. Compared to certain other nuts, walnuts (especially in their raw form) contain the highest level of antioxidants.

Overall, Nuts are an excellent source of protein, fiber, vitamin E, magnesium, zinc, selenium, copper, potassium, phosphorus, zinc, biotin, riboflavin, niacin and iron. Nuts may also be a source of helpful biologically active components found in plant foods, such as phytochemicals. Phytochemicals are compounds that are potentially beneficial to people, but not currently classified as vitamins or minerals. Recent studies show the inclusion of nuts in diets can work to decrease cardiovascular diseases, including coronary heart disease, hypertensive heart disease, congestive heart failure, and stroke.

A case study showing potential scale of the nut business, is the English company H.B.S. Foods Ltd. They are fully owned by the Hopcraft family – a husband and wife team, along with one of their sons and just 40 employees.

Their annual sales total US\$15 million with 3,000 tons of processed nuts; they source nuts from all over the world.

One important investment consideration is that nuts are a storage item. Nuts can be kept for up to one year, provided they are properly dried after harvesting (maximum moisture 9%) and properly stored to prevent mold. Nuts are typically sun dried and turned regularly for several days until the kernels become loose within in the shell. After drying they can be roasted, processed, or shipped green. Turkey, as mentioned, is the number two producer, mostly of hazelnuts, and China is currently the third most important nut grower, with 12% of the market, according to the USDA. U.S. tree nut imports, mostly cashews from the tropics, amount to more than US\$5 billion annually. With many Pecans being imported from Mexico, as well as substantial amounts of macadamia nuts from Central America, and Brazil nuts from South America, Latin America could easily gain a greater market share of the world nut market.

Author Bio

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

www.BigRiverFoundation.org



The Secondary Market for for LatAm Private Equity

In the coming years, a strong secondary market will emerge in LatAm – and particularly Brazil – for funds launched toward the middle or end of last decade, offering foreign and local LPs new investment and exit opportunities.

According to Duncan Littlejohn, the Latin American representative at Paul Capital, a global alternative investment firm that includes a US\$1.6 billion fund for secondary assets in emerging markets, the LatAm secondary market is only in its infancy. “If you think of the inventory of existing LatAm funds,” he says, “the bulk of them were raised 2007 onwards, so most of the funds aren’t yet five years old, are just getting to the end of their investment period, and LPs aren’t really pressured to sell them.” He says that the patterns of growth of secondary markets tend to reflect those of the primary market, only with a time lag, and that the LatAm secondary market will be healthy, reflecting the massive influx of PE investment to the region in recent years.

Mr. Littlejohn says that a lot of secondary private equity will enter the market for administrative housekeeping reasons, as institutional LPs accumulate a multitude of funds.

“Over the life of a fund,” he explains, “after it has made Substantial distributions, Net Asset Value shrinks, and there comes a time when the LP has accumulated a lot of these tail-end funds that are no longer as significant to his portfolio, and which still require the same amount of work as a big fund.” Often, he says, the LP will put these funds on the market in their eighth or ninth year, “because at that point the IRR is basically baked in, most of the distributions have happened, and if they sell that for a little more or little less, it won’t make much of a difference to their fund-level IRR. That’s a recurrent source of secondary private equity deal flow.”

In LatAm, however, few funds have reached that stage. “Most of the funds are young and haven’t reached their peak distribution,” he says. “The LPs are still ramping up to their

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Maria Jorge, CEO
(would benefit from attending this Summit)



Mezzanine Finance *for* LatAm's Infrastructure

■ Patricio Abal

Mezzanine finance is an innovative and complex way to finance corporate expansion projects, acquisitions, recapitalizations and leveraged buyouts and to structure re-financings. The infrastructure sector is no exception and private sector companies use it to develop public infrastructure. A mezzanine financing can be structured in a number of ways. This facilitates its capacity to evolve with market conditions and adapt to meet the particular financial needs of companies and projects. A “well structured mezzanine transaction aligns all interests around the success of the project and provides all sides with a better deal, as it mitigates risks from the investor side while avoiding unnecessary dilution from the sponsors.”

The infrastructure sector in our region has had limited experience with mezzanine funds. Darby Overseas Investments (Darby), an experienced player in mezzanine finance worldwide, launched the Darby Latin America Mezzanine Fund back in 1999 and the Brasil Mezanino Infra-estrutura – FIP (BMI) in 2007. Darby is also apparently in the process of closing its Darby Latin America Mezzanine Fund II after a number of years of fundraising. Infrastructure professionals are also watching EMP Latin America invest in its Central American Mezzanine Infrastructure Fund (CAMIF).

This article will provide an overview of mezzanine finance and the most common issues surrounding it. It will then address the characteristics and activity of the funds mentioned above.

■ Characteristics of mezzanine finance

As previously noted, this type of financing mechanism can be structured in a number of ways to provide a tailor-made solution, based on the transaction and the capital structure of the company receiving the financing. In fact, mezzanine finance is a collective term for hybrid forms of finance, as it has features of both debt and equity.

It is important that companies considering mezzanine finance understand that the return of the mezzanine providers, up to 20% in most cases, will be the aggregate of any or all of the following: (i) interest cash payment; (ii) the so-called “payable in kind” interest, which basically means that the interest amount is added to the principal outstanding; (iii) the return from the equity stake; and (iv) whatever participation the provider gets over the results of the company’s performance.

■ Issues to be considered by companies applying for mezzanine finance

With the previous section in mind it shouldn’t be a surprise that negotiations over mezzanine finance can involve many issues, extend over time and demand plenty of documentation. That is why companies considering this type of finance are advised to seek proper le-

gal and financial advice – both before applying for the finance (to anticipate the expectations and requests of mezzanine providers) and, subsequently, during the negotiations of term sheets – and legal documentation, to be able to tackle more efficiently the issues that are listed below.

Due to the equity and debt elements that characterize this type of long term risk capital, investors and companies have to understand and negotiate a number of complex issues:

- **Security.** Mezzanine is subordinated to senior loans, therefore security can consist of second liens on assets. Security packages will need the consent of senior lenders (see “Intercreditor issues,” below).
- **Exit structure/s.** The most common ways for mezzanine finance providers to exit an investment are through a recapitalization of the company (using generated cash or senior debt contracted on more convenient pricing) or through an acquisition of the company by a strategic investor.
- **Covenant protection.** While the debt component of a mezzanine transaction shares a similar set of covenants to bank loans, ratios are not as stringent.
- **Intercreditor issues.** Senior creditors and providers of mezzanine finance will have to negotiate an intercreditor agreement to address, among others things, the collateral to guarantee the mezzanine loan, the remedies to be exercised upon a default on their respective loans, and the conditions under which the mezzanine provider can accept a payment (different from the interest payment) from the company.
- **Interest rates.** Can be fixed or variable.
- **“Equity kicker.”** Can be in the form of warrants and/or profit sharing arrangements tied to the company’s performance (measured using net profits, EBITDA, or operational metrics).
- **Holding or operating company.** Providing the mezzanine finance to the former means additional risk for the provider (the reason being that the holding company has no operational cash flows, so a legal structure to secure the dividends from the operating company has to be put in place); hence costs increase for

the recipient. The plus side is that the debt won’t affect the operating company’s ratios involving interest coverage or leverage.

- **Transparency requirements.** Companies are expected to report certain financial and operational information in a timely and complete fashion to allow appropriate monitoring.

Last but certainly of no less importance, there is the subject of the beneficial effects for a partner company of a mezzanine provider. As when partnering with a private equity firm, the company’s image improves, which at the same times increases the chances of partnering with sponsors and the access to relevant deal flow.

■ Our region’s experience with infra-focused mezzanine funds

In 1999, Darby launched the pioneer Latin America Mezzanine Fund. By 2005, it had made 12 investments for a total of US\$200 million. Today, it is fully divested. This fund had a strong focus on infrastructure. The investments showed great diversification among countries and infrastructure sub-sectors (toll roads, ports, pipelines, energy, telecom, etc).

These last few years have been quite active, compared to previous years, in the launching of infra-focused mezzanine funds.

In 2007, Darby certainly led the way, yet again, with the launching of the BMI. As the name suggests, this is a mezzanine fund focused on just one country and a specific sector. Furthermore, the currency of investment is the Brazilian real (R\$387.5 million) and the external capital was raised from Brazilian institutional investors (we use the word “external” now to note that the fund’s sponsors, Franklin Templeton Investments and Brazilian Grupo Stratus, have also invested in the fund).

The BMI has a 4 year investment period and part of its capital has been invested in the generation of electricity and in a cargo terminal. We have been told that “investing in Brazilian infrastructure is a complex activity that requires a number of pieces to be put in the right place simultaneously: senior financing, all required licenses, a certain amount of equity from a sponsor with a remarkable track record and indisputable reputation, among

other characteristics. The main challenge for a professional infrastructure investor is to find robust and economically attractive investment opportunities that match all these requirements and can go through an in-depth due diligence process without any major issues identified.” The fund can invest in (i) energy and biofuels; (ii) water, sewage and waste management; (iii) logistics and transportation; (iv) oil and gas and; and (v) suppliers to the Brazilian infrastructure sector.

In late 2009, EMP Latin America closed its CAMIF. Major multilateral and bilateral

development banks appeared as investors in the US\$150 million fund that focuses on traditional infrastructure sectors but can also invest in related sectors such as alternative fuels and health & education. Part of CAMIF’s capital has already been invested in a palm oil producer in Mexico and in a hydroelectric power company in Guatemala.

Darby seems to be closing the follow-up fund to the Latin America Mezzanine Fund. The firm intends to raise US\$200 million and will focus on investment opportunities in the range of US\$10 to \$30 million in the manu-

facturing, services and infrastructure sectors of primarily Mexico, Brazil, and Colombia.

Special thanks to SoRon Hung and Eduardo Farhat from the São Paulo office of Darby Overseas Investments.

Author Biography

Patricio Abal is an infrastructure law and finance professional and the Infrastructure Editor of Alternative Latin Investor. Holds a J.D. from the Universidad Católica Argentina and is a Master in Project Evaluation Candidate at UCEMA & ITBA in Buenos Aires, Argentina. He is an Attorney at DFG Abogados. He can be reached at patricio@alternativelatininvestor.com.

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2M Brazilian Oil:

*ALI Talks with
Will Honeybourne
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In the last half-decade, after a series of discoveries of enormous fields in the so-called pre-salt layer beneath the ocean off its south-east coast, Brazil has jumped to elite status among oil-rich nations. It is still unknown exactly how much oil and gas are contained in the discovered fields, and how many more undiscovered fields there might be, but the general consensus is that the quantities will make Brazil a leading oil producer and exporter in years to come. Petrobras, the partly state-owned oil and gas giant, has already committed to investing US\$224 billion in development through 2014, with the intention of doubling its output. “Brazilians joke about these discoveries as a gift from god,” says Will Honeybourne, Managing Director of First Reserve, an investment firm specializing in the energy industry, “and it really is. These discoveries are absolutely massive.”

Foreign investors, including First Reserve, have responded by investing in Brazil’s oil industry, particularly in smaller companies charged with supplying equipment to Petrobras and other producers. “\$224 billion translates into an amazingly large amount of equipment,” says Mr. Honeybourne. “The pressure is on to source those needs locally, but the local market can’t provide without an infusion of growth capital. So there is a huge interest on the part of foreign companies who want to participate in setting down a footprint and fulfilling the requirements of the local content, and that’s a very interesting dynamic.”

Aside from generous geology, says Mr. Honeybourne, other factors that have at-

• Fine Art Funds: Taking the Soul out of Art Investing?

Throughout history, retailers and individual collectors have been trading valuable works of art, whether for pleasure or investment potential. As far back as the 1800's art trading clubs were formed and investors would gather to discuss their collections and potentially trade works. It wasn't until after the year 2000 that commercial art funds began to gain traction as investment vehicles. At that time a number of entrepreneurs from the financial and arts industries who had a strong personal or vocational interest in art set up these funds, a number of which have fizzled out over the years.

An art fund, much like a hedge or private equity fund, provides commercial rewards to both the capital providers and the fund managers. Considered by those involved to be a sophisticated type of alternative investment, art funds provide a long-term hedge during periods of financial crisis and inflation. For this feature, ALI spoke to two prominent fine art funds as well as to top art advisors to understand and analyze strategies of art investment funds as well as the recent growth in the Latin American sector.

■ The Fine Art Fund Group

A leading global fine art investment company, founded in 2001 by Philip Hoffman, TFAFG was the first group of private-equity type funds focused solely on investing in art as an asset class. Their investors are chiefly HNWIs and family offices representing 16 different countries. The Group currently manages over US\$100 million in assets, spread across five separate funds: three Western art funds, a

Chinese art fund and a Middle Eastern art fund. TFAFG values their assets both internally and externally, with valuations performed by auction houses on an annual basis and by the fund's Directors on a quarterly basis.

ALI spoke with Paola Matallana Gonzalez, Vice President, Latin American and Spanish Markets, for TFAFG. After spending five years working within the private wealth management department at a major European bank, she joined The Fine Art Fund Group in 2008 to focus on increasing the client base in Latin America and Spain. The impressive increase in interest in Latin America inspired the Fine Art Fund Group's decision to bring on a specialist in this arena. "Art from Latin America has experienced a solid and steady growth over the past years. There have been world record prices paid for key artists. As a group, we are interested in high quality works of established [Latin American] artists, whether modern or contemporary pieces. For example, we invested in a female contemporary Brazilian painter, who is well known in the international scene [Beatriz Milhaes]."

Brazil Golden Art Private Equity Investment Fund

BGA is a part of the Rio de Janeiro and Sao Paulo-based firm Plural Capital, a private equity 5-year fund. The BGA fund is worth R\$ 40 million under management, or approximately US\$ 26 million. The fund consists of 70 investors, all Brazilian, mainly from São Paulo and Rio de Janeiro. Their funds are allocated between fixed-income assets with daily liquidity and moderate risk, and works of art that are now starting to make up the fund's investment portfolio (primarily Brazilian contemporary art). As currently there is no art index in Brazil, BGA uses expert appraisals and auction results to benchmark the current value of the fund.

According to Heitor Reis, BGA Founding Partner and Fund Manager, "Given the success of BGA, which had its fundraising complete after 30 days, we are likely to open new fine art funds and possibly offer them to foreign investors. Moreover, we will expand to create funds based on other alternative asset classes, for instance, Brazilian film." Mr. Reis worked in the Brazilian art market for over 20 years. He served as director of the Museum of Modern Art in Bahia and Rio de Janeiro, organized several exhibitions and biennales in Brazil and overseas, and currently sits on the board of important Brazilian institutions such as the AICA - Associação Internacional de Críticos de Arte (International Association of Art Critics).

Brazil and Latin America

Emerging markets economies of some Latin American countries have had one of the best economic runs ever in the past years, influencing positively the local art market development and permitting local collectors to invest in local hard assets. According to Ms. Gonzalez, "The Latin American art market will continue growing and we will continue to see new world price records in the international market."

In 2010 the LatAm sales for auctions at Christie's Sotheby's and Phillips de Pury exceeded 1 million dollars (Insert Graph from Page 9 – source Alternative Latin Investor Art Investment Outlook 2011).

"Brazilian art has out-performed other asset classes, thus proving to be an excellent investment. It is a matter of time before other art funds dedicated to this segment are established locally and abroad."

An increasing number of museums and galleries are now making a point to include departments dedicated to Latin American art or hiring curators with expertise in the region.

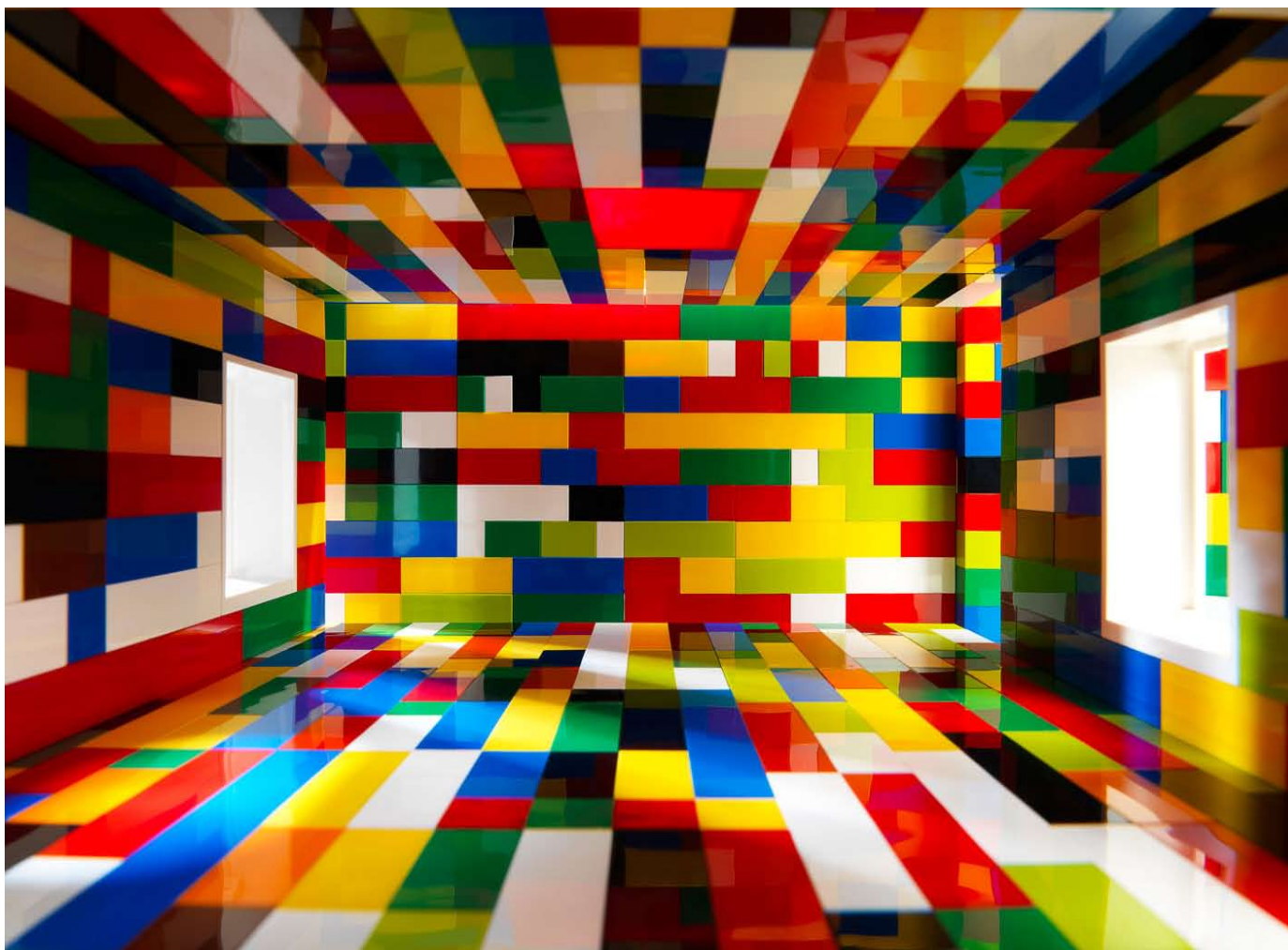
Within the Latin American context, Brazilian art has had the steadiest appreciation over the last 10 years. Even during the 2008 crisis, which hit every sector of the international market, Brazilian art continued to appreciate. Such stability is directly associated with a solid GDP growth rate, which is unique in the history of Brazil. Mr. Reis adds, "Brazilian art has out-performed other asset classes, thus proving to be an excellent investment. It is a matter of time before other art funds dedicated to this segment are established locally and abroad."

When it comes to comparing LatAm works to other emerging economies, one can see similar training based on key vanguard figures such as Picasso or Matisse, which influence strongly their work. The role, however, that art plays in each culture is influenced by various factors and difficult to define on a global basis, as the complexity of each country and culture is profound.

As Ms. Gonzalez adds, "Modern Latin American art is freely inspired both from political and cultural forces. An example is work by the Brazilian artist di Cavalcanti depicting strong cultural and social perspectives such as images of the Carnaval, whereas work from China might contain more overt political references, yet still have pop influences by artists such as Warhol and Lichtenstein, who moved that market internationally."

Skepticism: Taking the "soul" out of art investing:

There are many individuals within the fine art investment community who remain skeptical when it comes to art funds, as there are some significant differences when compared to other investment funds (i.e. hedge or private equity). Much like the real estate and entertainment markets, the art market doesn't have concrete quantitative values that you see in other industries, making it difficult to track ROI and forecast. Another obvious difference is that that art, unlike other, conceptual assets, is a physical asset, thus the fund's strategy must include a series of buying and selling costs associated with fine art which are not applicable to non-physical property funds. As art advisor Clayton Press from LINN|PRESS art advisory



Valentino Fialdini
Untitled, 2010
 C-print
 Edition of 5
 125 x 180cm

services points out, art investment involves “shipping and handling, storage and transportation, so you can’t dispose of the assets quickly due to illiquidity of the physical property.”

Furthermore, while the majority of Art Funds boasts a slew of “in-house” counsel, such as advisors and art historians, it is difficult to invest with certainty, as what is “hot” is entirely dependent on uncontrollable factors such as political and social trends. As the holding period for an art fund is generally much longer than the term for other funds – inspiring the hope of a high rate return – the ability to cash in on that is highly susceptible to aforementioned market trends. Mr. Press goes on to say, “I’ve never had a single one of my clients either

on the family or the art side ever come to me and say: I’m considering investing in an art fund, do you think it’s a good idea? It is still a highly speculative venture with questionable return on investment, mostly due to the management fees and holding costs associated with the investment.”

Generally speaking, the people who invest in an art fund are an entirely different class than those independent investors, speculators or fine art collectors who have a genuine interest and love of art. While the latter group does define some of their works as pure asset investments, and follows market trends, their purchases are largely inspired by “gut” instinct.

Many passionate art collectors would argue that art acquisition with only financial gain in mind takes the soul out of art investment. Art fund management companies have one primary objective: work to deliver returns to their investors. Hence art buying and selling is based on rational reasons only.

To quote Ms. Gonzalez, “We look at art purely as an investment. We never buy a work of art because we like it aesthetically; we only buy in order to seek longer-term capital growth for our investors.”

Sergey Skaterschikov, CEO of Skate’s Art Market Research, takes the same approach: “There is no universal set of principals when it comes to the way that each fund chooses its assets. The only eligibility requirements are financial.”

This strategy, however “passionless” it may sound, is successful from an investment perspective, as the risk to finding new talent based solely on one’s objective opinion is that the particular work or artist may or may not yield positive financial gains. Mr. Skaterschikov believes that art investment outside the list* of artists with proven artistic legacy market value and public sales records represent a high-risk, venture-capital-like investment that is most successfully managed by industry insiders. Essentially, dealers and gal-



“We look at art purely as an investment. We never buy a work of art because we like it aesthetically; we only buy in order to seek longer-term capital growth for our investors.”

eries are investors at the bottom of the value chain, and to be successful in “new talent” art investment one has to dedicate significant resources to the process.

The price of an artwork is connected to basic economic principles – the law of supply and demand – as well as to the art market, with its auctions, galleries, institutions and fairs. As Mr. Reis adds, “At the end of the day, despite their different sources of motivation, both investment and passion-driven buyers bet on the success of the art and artists whose work they collect.” In regards to question of taking the soul out of the investment, Mr. Press said it best: “I don’t think there’s any passion whatsoever in an investment fund – it is more that there is a desire to entrust someone else to generate a profit for you.”

■ The future of art funds:

Succeeding in the art world as an Art Fund is indeed a very difficult task. The degree of speculation and the overheated nature of the market can be great threats to the suc-

cess of investment funds. This being said, those funds that understand the working of the market will be able to capitalize on its potential and benefit from the money to be made in the sector. According to Ms. Gonzalez, “The keys to success in investing in art include: the need for agility and cash in hand to seize opportunities; reliance on experts; as well as a critical awareness of the impact of changing tastes. If you have an excellent team of experts, are sitting on a lot of cash and are prepared to hold art over a five-year period, you can make substantial profits.”

Marcelo Moscheta
HIC SVNT DRACONES v.01, 2010
Charcoal on paper
140 x 200 cm

Entering

The Brazilian *Agribusiness Sector*

Foreign entrepreneurs are entering the Brazilian agribusiness sector, reaping the benefits of an agricultural powerhouse that is among the world's leading producers and exporters of soybean, corn, coffee, and sugar, among other cash crops. In the last year, however, many have been forced to alter their business models in light of new regulations restricting foreign ownership of land.

Philip Corzine is one such investor. An established soy farmer in Illinois, in 2003 he founded South American Soy, a U.S.-based company with large, crop-yielding land holdings in the Brazilian state of Tocantins, in central Brazil. The company has been capitalized through small private offers, and currently has about a hundred members/investors focused on long-term real estate appreciation in the Brazilian agribusiness sector.

South American Soy began by purchasing three farms in Tocantins, where land prices remain cheap even as major export-oriented infrastructure projects in the works promise to push values up in the coming years. The purchased farmland comprises 1,500 hectares, of which about 80% is devoted to soybean, 20% to corn; the eighth and most recent crops were the best to date, says Mr. Corzine, with 3.2 metric tons of soybean and 7.2 metric tons of corn per hectare.

The company recently expanded its acreage and production using a different model,

where they leased two different farms, one in Tocantins and one in the bordering state of Goiás, totaling another 1,500 hectares. They financed it with a European, agri-focused hedge fund that was interested in agricultural production, not buying land. They then partnered with local farmers, covering half the production costs (usually fertilizer and seed) and handling merchandising, marketing and distribution, while the farmers covered the rest of the production costs and worked the farms. Profits were split 50/50. Mr. Corzine says that the arrangement has been good for

MILA

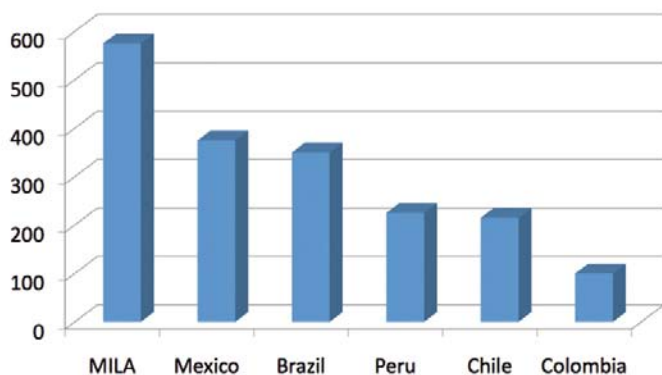
Integration

■ Joseph Hogue

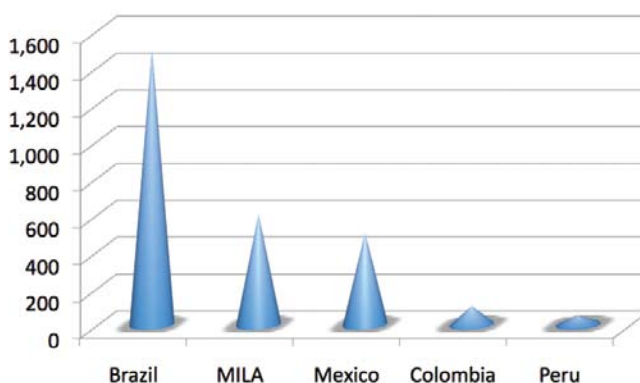
As Brazil frightens investors with threats of escalating its “currency wars” with more capital controls and China’s growth looks its weakest in two years, investors continue to search for alternatives within the emerging market space. Enter MILA, the Mercado Integrado Latinoamericano, or Latin American Integrated Market, which combines and integrates the stock exchanges of Chile, Colombia, and Peru. MILA is the culmination of a four-year process, the goal of which was to create economies of scale and scope for equities trading on the exchanges and firms operating within the region. Trading officially began in May of this year and has already attracted interest from some of the larger regional exchanges. Following is an excerpt from a report released this month from the investment consulting firm Efficient Alpha.

The integration will create the largest exchange in Latin America by number of issuers (see next page) and the second largest by market capitalization after Brazil’s Bovespa (see next page). Hasan and Malkamaki (2001) studied 38 exchanges in 32 countries and found considerable economies of scale and scope with greater exchange size. Demand for recent issuances has been strong in all three countries. Nutresa, a Colombian food manufacturer, saw its IPO of US\$522 million oversubscribed by 17 times in its July offering. In December 2010, the offerings for Concreto and Davivienda were oversubscribed by 12.6 and 13 times, respectively. The success of these placements and hopes for increased liquidity has helped to bring more issuers to market.

**Latin American Exchanges by
Number of Issuers**



**Latin American Exchanges by Market
Capitalization**



The mix of equities from the three countries will also greatly improve diversification across sectors. Currently, sector weights within the individual indices range from .3% to 50.2%, with each index holding most of its composition in one or two sectors. The IGBC, Colombia's index, has 42% of its composition in energy, and 28% weighted in Finance. The IGBVL, Peru's index has over 50% of its composition in mining and mining service companies. The IPSA, Chile's index, is more diversified than the other two indices, but still holds approximately 24% in finance. The sector weights in the integrated exchange will range from 2.4% to 23.7% with the largest holdings in basic materials and banking.

Trading on Chilean equity market was almost three times that of other two markets combined, at approximately US\$39 billion in 2009. Trading on the Peruvian and Colombian equity markets in 2009 was approximately US\$4 and \$12 billion, respectively. Despite low trading volume, the three markets have experienced an average annual growth in trading of approximately 22% since 2002. The composition of the markets is different across the three exchanges. Equity trading makes up less than one-tenth (8.3%) of the total exchange volume in Colombia, while equity trading in Peru and Chile amounts to approximately 68% and 6%, respectively, of total exchange activity. Fixed income trading on the Peruvian exchange is only 32% of total activity while making up 85% and 78% of trading on the Colombian and Chilean exchanges.

*Although 2011 has
not been as strong,
the three indices have
fallen an average of
5.7 % in the first three
months of the year*

Correlations between the three markets since 2004 show a high positive relationship, ranging from .74 to .88, but still providing diversification effects and high returns. An equal-weighted portfolio of the three indices over the last seven years would have returned 21.9% versus the return for the S&P500 of 2.2%, and would have had a standard deviation of only 16.8%. Including the S&P500, with an equal-weighting across all four indices, lowers the portfolio return to

Index Returns and Volatility, All Data

	IGBC	IPSA	IGBVL	S&P
Annualized Returns	20.4%	16.4%	29.6%	2.2%
Portfolio	Return	0 Returns		
Equal Weights (Colombia, Chile, Peru, S&P)	17.2%	13.1%		
Equal Weights (Colombia, Chile, Peru)	21.9%	16.8%		

Correlations: Market Indices All Data

	IGBC	IPSA	IGBVL	S&P
IGBC	1	0.88	0.74	0.20
IPSA		1	0.82	0.06
IGBVL			1	0.42
S&P				1

17.2%, but also reduces the standard deviation to 13.1%.

Final benefits of the integration are yet to be realized, but many are using the Euronext creation as a model for forecasting. Research by Marco Pagano (2005) on efficiency gains from the Euronext formation shows that a reduction in volatility and increased liquidity helped Euronext reduce costs of trading by an average of between 15% and 31% for the participating exchanges, and a reduction in bid-ask spreads of between 23% and 48%. Pagano also found a statistically significant increase in volume on the order of 35-50% attributable to the creation of Euronext. This increase in volume was found

after adjusting for seasonality and economic trends. Bastianen (2009) showed in a study of the Euronext formation that removal of informational and regulatory barriers in integration lead to higher valuations and stock prices through increased investor pool and liquidity. It remains to be seen if risk will be reduced as significantly for the MILA exchanges as for the Euronext exchanges. Latin American exchanges and economies carry considerably more emerging market risk than those domiciled in Europe, so risk reduction effects may not be as pronounced.

Trading will be managed through brokers listed on each exchange with shares held in cus-

tody in the local markets and local currency. MILA will run on a FIX-based message routing network allowing information exchange between the exchanges, managers, and participating brokers. Foreign investors will have access to the exchange through brokerage. Since investments in MILA securities will be held in custody in local currency, investors will need to decide on the amount of desired currency exposure. Colombia is the only market of the three with a standardized derivatives market in addition to over-the-counter instruments. As currency derivatives will not be traded in the integrated market, investors will need to take necessary precautions to hedge currency risk. Some of the risk will be naturally hedged by virtue of less than perfect correlations between the currencies, but correlations are relatively high between the three currencies and may increase

as a function of the integration.

Last month, the chief operations manager of the Lima exchange, Francisco Palacio, reported that Mexico's stock exchange had expressed interest in joining MILA, and this month the Colombian newspaper El Colombiano reports talks between the Brazilian Bovespa and Colombia's BVC exploring a possible integration of the bourses. Although 2011 has not been as strong, "the three indices have fallen an average of 5.7 % in the first three months of the year"; returns were among the top five best performing in 2010 with the IGBVL, IPSA, and IGBC appreciating 65%, 38%, and 34%, respectively.

Author Biography

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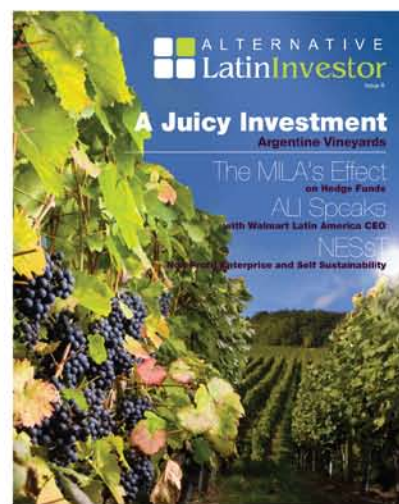
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One of the major stories of the Brazilian boom is the growth of its domestic consumer market fueled by a swelling middle class with rising purchasing power. This middle class, or Class C (according to the official class stratification scheme), with family incomes between US\$750 and US\$3,229 a month, has grown by almost 40 million since 2003, and now includes about 105 million people, or half the Brazilian population, accounting for nearly half of the country's total purchasing power. Class AB (the upper-middle and upper classes) has also grown in the last decade. All classes of the population are spending more, with Class C expected to increase its total spending 19% this year. Brazilian fund managers and foreign investors are looking to the consumer market as one of the best means to gaining exposure of Brazilian growth.



Investing *in the* Brazilian Consumer Market

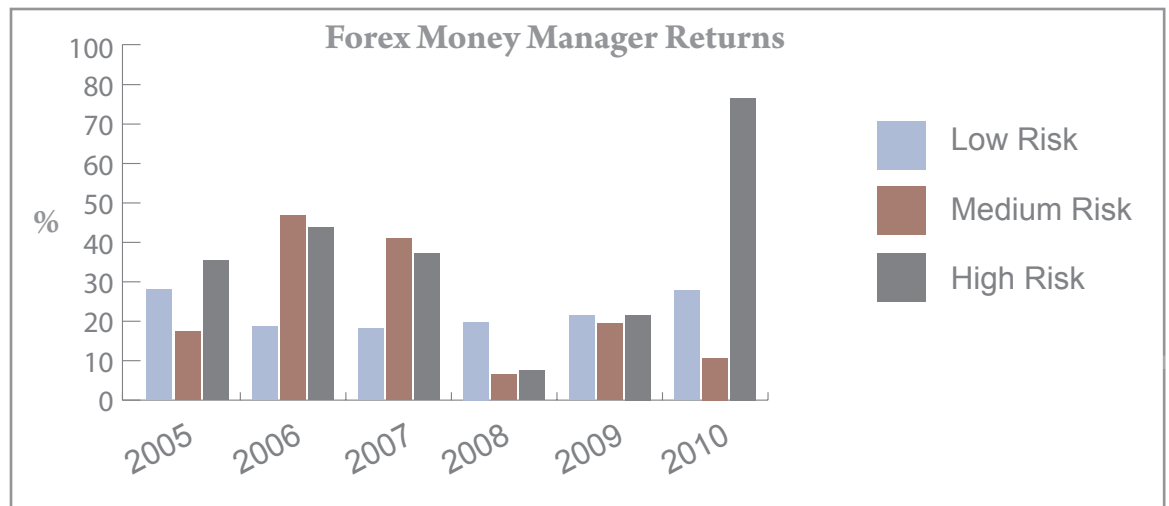
Spotting Opportunities in Lat Am Forex Trading

The foreign exchange (forex) market—already the world's largest and most liquid investment vehicle—set a new record for average daily trading of US\$5.12 trillion in June. While major institutional investors dominate the sector, private investors are increasingly active, drawn by 24-hour markets and the proliferation of simple online trading programs.

Geographically, forex trading remains highly concentrated, and trades conducted in Latin America repre-

sent a small segment of the global market. Latest data from the Bank of International Settlements (BIS) puts the Lat Am market at \$42 billion in April 2010. Within the region, Mexico was the most active in forex trading, with an average daily turnover of \$17 billion. Brazil was second at \$14 billion, although this marked a spectacular increase from just \$6 billion in 2007.

Despite the small numbers, interest in forex trading in the region is growing, spurred by strong economic growth, increasingly sophisticated financial markets,





and the impact the global commodities boom is having on currencies around the region. In the last twelve months, for example, the Brazilian real appreciated 11.6% against the dollar—the pesos of Chile (12.7%), Uruguay (11.3%) and Mexico (8.95%) also made strong gains against the greenback.

It is in this emerging market that brokers such as SPOT-trade are looking to establish a foothold, focusing on a personalized service for the growing community of private investors, whilst offering institutional investors a chance to diversify their portfolios.

“We are trying to incorporate face-to-face, local services of investment vehicles typically offered online in locations where the market is still undeveloped,” explains SPOT-trade Director of Corporate and Institutional Trading, Jonathan Rivas, adding that it is the personalized service that gives the company a competitive edge in a crowded market.

The possibility of quick and high returns is one of the big attractions of forex trading for individual and small investors. But wild and rapid currency swings can be devastating for the portfolio of an investor without an understanding of the market that is dominated by a small group of major institutions.

Rivas says SPOT-trade’s goal is to form long-term relationships with its clients, beginning with an assessment of each investors’ targets, finances, and risk appetite. Then the company’s team of experienced money managers adopt a hands-on approach to guide an investor—whether experienced or a first-timer—through the confusing mass of online trading platforms and adverts.

Market expertise also has to be matched with a close understanding of a historically turbulent region, where knowledge of local politics and culture is vital for outside investors. In a period of rapid development, it is particularly important to anticipate legislative changes. For example, recent regulatory adjustments to Brazil’s forex market are set to make trading more transparent and fairer, particularly for small investors who have little or no influence over aggregated trading volumes. Local analysts welcomed the change, but warned that it could reduce the size of Brazil’s forex market. Several governments in the region are also considering new policies to stem the appreciation of their currencies, over fears that it will harm local competitiveness.

SPOT-trade’s LatAm HQ is based in Buenos Aires. Although Argentina is not one of the major markets for forex trading in the region—and one of the few LatAm countries whose currency weakened against the dollar in the last year (4.82%)—Mr. Rivas says a significant investment community and strategic location in the thriving Southern Cone sub-region makes it a prime spot to stay ahead of the ever-changing investment landscape.

For more information regarding SPOT-trade please see spot-trade.com or email info@spot-trade.com

LatAm Fund Due Diligence:

What Managers Need to Know

■ A Conversation with Vidak Radonjic

Vidak Radonjic, the founder and CEO of Beryl Consulting Group, which provides independent hedge fund research and advisory to family offices and institutions, recently gave ALI a window into how he evaluates LatAm managers.

As an analyst, he says, he always draws comparisons between managers working in a similar space; in approaching Latin American managers, he compares them to those he finds in other emerging markets, particularly Asia. Currently he is unimpressed overall by the limited range of investment strategies in Brazil and throughout LATAM compared to their Asian counterparts, seeing the region as lagging about ten years behind.

“In Asia today, when you compare it with ten years ago, you can find ‘local’ global macros, long-short credit funds, volatility arbitrage funds; you can even find funds that are very specific, for example, sector funds within long-short equities space – and you don’t have that in Brazil right now. In order to attract funds of funds type of investing into Brazil, it would be very useful to have more strategies to choose from, because if you want to allocate your money into Brazilian space, you also don’t want to put all your eggs in one basket, in one strategy, but to be able to have a variety of strategies with a Brazilian focus.”

Mr. Radonjic adds that the overall lack of manager competition within the region is detrimental. “In Asia you have 1200 or 1300 hedge fund managers,” he explains. “Most of these managers are small, so the number is vastly inflated. But on the other hand, the number of managers in Brazil and Latin America is miniscule, so the competition isn’t as large and therefore managers are less inclined to give you a presentation that is as stunning as those you would find in Asia, New York, or London. If you compare the quality of interest you receive from an Asia-based fund that’s doing a strategy that a certain Brazilian fund is doing too, I’m much more inclined to do business with the Asian manager. You get much more for a buck in terms of people and resources.”

He also says that, in LatAm, the fund’s overall size and infrastructure is a key factor. “I would be more inclined to invest in a hedge fund that

Tax Incentives Software Development in Argentina

Federal Incentives for the Software Industry.

At the federal level, in 2004 two pieces of legislation aimed at promoting the Software Industry were enacted in Argentina.

These laws were aimed at promoting the activities of creation, design, development, production and implementation of software systems and their technical documentation, including the developed software to be incorporated into various processors. Software development for personal use is excluded from this system.

These laws cover individuals and legal entities incorporated in Argentina whose principal activity is to develop software. The incentives granted at the federal level are the following:

- Fiscal stability – for all federal taxes – for a period of ten (10) years as from the date of enactment of these laws (2004);
- Fiscal credit for federal taxes (except Income Tax) of up to seventy percent (70%) of social security contributions due by the relevant individual or company;
- Tax exemption of sixty percent (60%) of Income Tax applicable to each relevant fiscal year;
- The software production activity will be considered as a productive activity of transformation, like any industrial activity, in order to receive any benefits that

the Argentine Government provides for industrial activities.

- In addition, the incentive regime provides that those individuals or companies subject to this regime will be excluded from any present or future restriction for the repatriation of funds relating to the payment of importation of hardware and other components of computer use necessary for the software production activity.

Municipal Incentives for the Software Industry.

On the local level, in 2008 the City of Buenos Aires enacted Law No. 2,972 for the Promotion of Information Technology and Communications Companies (ITC).

This local law creates the “Technological District” of Buenos Aires, a designated area in the south of the city of Buenos Aires that provides certain incentives for IT companies.

The main purpose is to achieve the best possible combination of resources and capacities to develop the production and business processes, research and development to generate innovative products and services, and collaboration to certify world-class quality.

Individuals and companies doing business in the Technological District are entitled – for a ten-year period – to the following tax benefits:

- Total exemption from Gross Income Tax for income originated in IT activities;
- Exemption of Stamp Tax applicable to public deeds or any other document for the transfer of property in the Technological District, provided that the purchaser is registered as an IT company. Such exemption shall be
- Total if the relevant instrument is executed within the first three years as from the date the law is enacted,
- Seventy-five percent (75%) of the applicable Stamp tax if the relevant instrument is executed between the third and seventh year as from the date the law is enacted, and
- Fifty percent (50%) of the applicable Stamp tax if the relevant instrument is executed between the seventh and tenth year as from the date the law is enacted;
- Exemption from payment of contributions to Street Lighting, Sweeping and Cleaning for properties in the Technological District which receive improvements mainly for development of the technology industry. This profit will also benefit the properties owned or rented by the employees of companies registered in this scheme.
- Finally, it is noteworthy that this local law is also under the scope of the federal software development law No. 25,922.

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Javier Canosa is the managing partner of Canosa Abogados (www.canosa.com.ar) who help foreign entities and funds setting up and developing their business in Latin America.

He has vast experience in mergers and acquisition and the negotiation of commercial agreements. Javier has represented and advised several companies, including financial institutions, in corporate M&A, business development and real estate undertakings.

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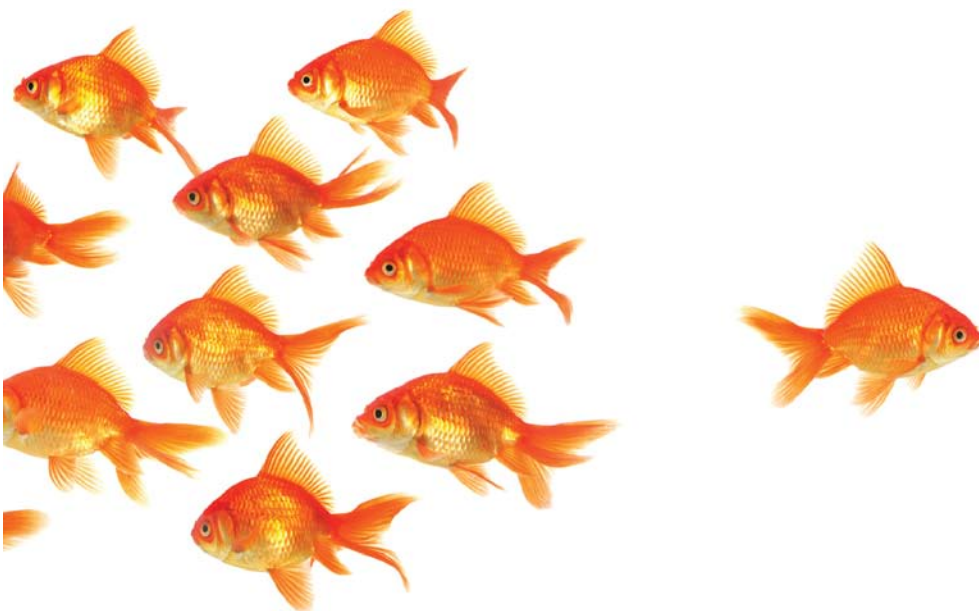
Institutional Investing in LatAm:

A Contrarian's View

ALI speaks with Mark Yusko of Morgan Creek

For most institutional investors, there is an uncertainty about LatAm's quality and future and a certainty about its checkered past that gives them pause as they investigate young managers in the region. Most of these investors want to see a strong and sufficiently long track record from a manager, demonstrating sustained high performance, before they commit, but many of the managers cannot provide one. This unproven inexperience is a deterrent for risk-averse institutional investors, and many choose to wait and see how a young manager grows, relying on established reputations in the meantime.

Mark W. Yusko, however, disagrees with this prevailing mentality. The CEO & Chief Investment Officer of Morgan Creek Capital Management, a Chapel Hill-based Investment Advisory Firm, he was formerly the head of the UNC Chapel Hillendowment,



Going Small

As foreign investors have flooded the Brazilian market in recent years, much of their capital has gone toward select blue-chip companies with international reputations, leading to increases in competition, prices, and multiples. “There is some overcrowding at the high end of the market, where there are fewer companies, said Duncan Littlejohn, the Latin American representative at Paul Capital, a global alternative investment firm. Traditionally you’ve had a handful of players and managers that have been active in that space, and now they are being joined by a number of U.S. and European private equity managers that have come in for big deals.”

Meanwhile, both Brazilian fund managers and foreign investors with more knowledge of the Brazilian market are pursuing small and mid-cap companies for the best prices and returns. As Mauricio Levi, Chief Investment Officer of FAMA Investimentos, an asset management company based in Brazil, explained, “Not many foreign investors are willing to go into these less liquid names; they are looking for liquid stories in Brazil, where it is easy to come in and easy to get out. But when you look at mid-caps, and especially small-caps, and micro-caps, you do not find foreign investors. It is an overlooked sector of the market.”



FAMA invests seed capital mostly in small and mid-cap listed companies that are already established, eventually buying between 5% and 25% of the company, enough to give them one or two seats on the management board. We're very collaborative investors in the sense that we help the company develop, Mr. Levi says, in most cases until the company is liquid enough to sell on the open market. "In the small and micro cap capital segment there is very little competition right now, because people see a lot of risk in Brazil and tend to go higher up in the food chain; they're interested in later stage buyouts, which is good for us at this moment."

Eduardo Menge, Portfolio Manager at Olimpia Partners, an independent strategy and

asset management firm based in Sao Paulo, sees investment in smaller companies as the best way to get exposure to Brazilian growth. "A good portion of Brazil's GDP growth is driven by the small and midsize companies," he said, "and these are companies that historically have had limited or no access to financing and equity. That is where we see a good niche for us to add value and find good opportunities." Ninety per cent of Olimpia's mandates are focused on small and midsize companies, which Mr. Menge defined as those that do between 100 million and 1 billion in sales.

The lack of foreign capital at the smaller end of the market, Mr. Menge said, results from foreign investors wanting to make sure-fire bets on blue-chip companies that are easier to

audit and are often listed; indeed, even local lending banks, such as the government-run development bank, BNDE, are more comfortable with these companies. "Banks and investors would rather go to them instead of doing the heavy lifting, due diligence and intensive credit analysis with smaller companies that might not have an audited balance sheet or numbers in English, but are still very good from an operational and credit perspective." He added, however, that the tide is turning-

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Mercatrade

Inter-emerging Market Trade

With its shallow banking sector and limited debt—the legacy of decades of economic turmoil—the direct impact of the 2008 credit crunch was minimal in most Latin American countries. The second-round effects of the crisis, however, were clearly evident, with investment inflows drying up and exports to major markets slumping as the developed world slid into recession.

Yet the region remained relatively resilient. Emmanuel Besserve, co-founder of Mer-

catrade, an online b2b marketplace connecting importers and exporters in Latin America, says the crisis caused a deceleration in growth among the region's traders rather than an outright recession: "First companies eliminated their stock, then very quickly, by 2010, they were all buying again."

Latest macroeconomic data support the idea of a robust recovery, with regional GDP set to rise by 4.2% in 2011. But another feature of Latin America's newfound economic steel is its increased ability to sustain itself as a region,

largely down to soaring trade among individual states. According to a recent report by the Latin American Integration Association (ALADI), inter-regional trade rose by 24.6% in 2011, hitting US\$133 billion. Though this still falls short of the 2008, pre-crisis high of \$146 billion, ALADI estimates that similar growth this year will take trade volumes in the region to historic highs at around \$160 billion.

According to Besserve, whose business is based in the Colon Free Zone (CFZ) in Panama, companies throughout the region



are discovering the potential of expanding into neighbouring markets. “Whereas before national [domestic] consumption was very important, now they need to find a new market to accelerate growth, and we see LatAm companies are doing business between themselves much more intensely.”

This trend is aided by a growing number of bilateral and multilateral trade agreements made between different Latin American states. Sub-regional associations such as Mercosur and ALBA have helped promote inter-regional trade, while countries such as Chile, Colombia and Panama have implemented widespread reforms to liberalise trade and encourage foreign investment.

A growing middle class in populous countries like Brazil is also creating a strong consumer market that exporters in other Latin American countries are targeting. For example, more than 80% of Argentine automobile exports—one of the country’s most dynamic industries in recent years—are destined for Brazil.

There are still limitations. Protectionism is rife in the region, and barriers to trade still lead to disputes that disrupt the exchange of goods and services around the region. Earlier this year, Brazil imposed retaliatory restrictions on vehicle imports after Argentina had added new trade restrictions on several products sold by its larger neighbour. Still, trade between the two South American giants still increased by over 30% in the first half of 2011 (compared to the same period in 2010).

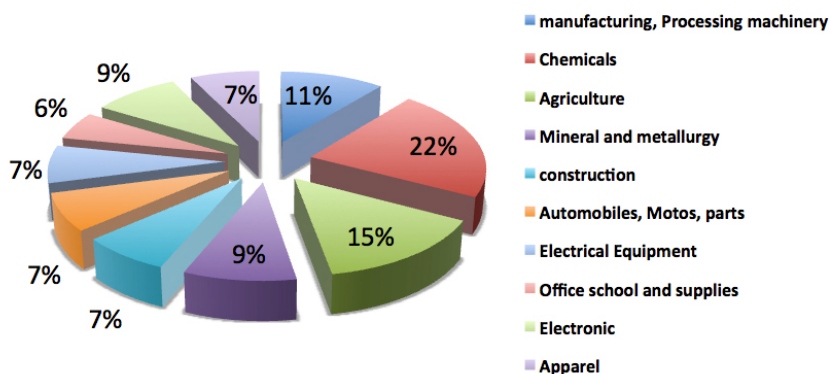
That some 400-500 companies are registering with Mercatrade.com every month demonstrates the appetite for increase trade in Latin America, with businesses outside the continent also drawn to the dynamic market. According to Besserve, Chinese companies in particular are aggressively pursuing new

business opportunities in the region. And in a very recent reversal of the historic trend, Besserve says an increasing number of U.S. companies are looking to sell to, rather than buy from, Latin American markets.

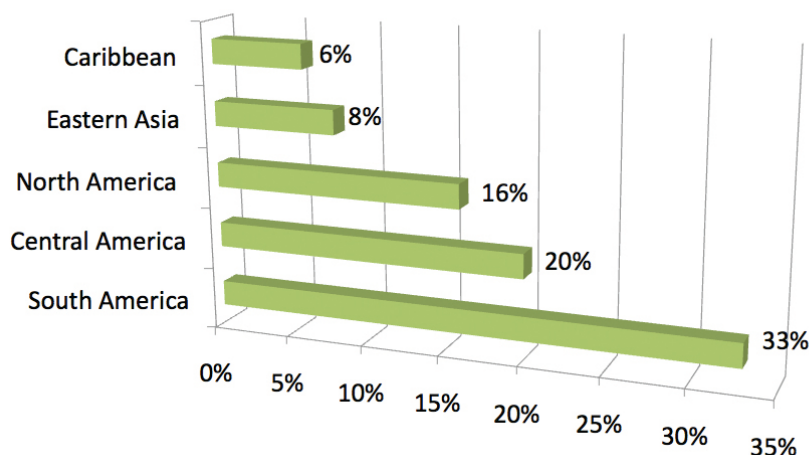
Meanwhile, even as new opportunities emerge closer to home, exporters based in Latin America continue to view the U.S.,

Europe, and, Asia (especially China), as lucrative markets for their products. “Organic products are very strong in all Latin American countries, and everything that is eco-friendly and fair trade” says Besserve, “this is a very aggressive market.”

Top 10 MercaTrade Members by Business Lines



Top 5 MercaTrade Users By sub-continent



Quickstart Global

With more and more aspects of business conducted online, companies of all sizes are now able to make connections with partners, suppliers and customers all over the world. Yet, in many industries, establishing a successful multinational company still requires a physical presence in several countries.

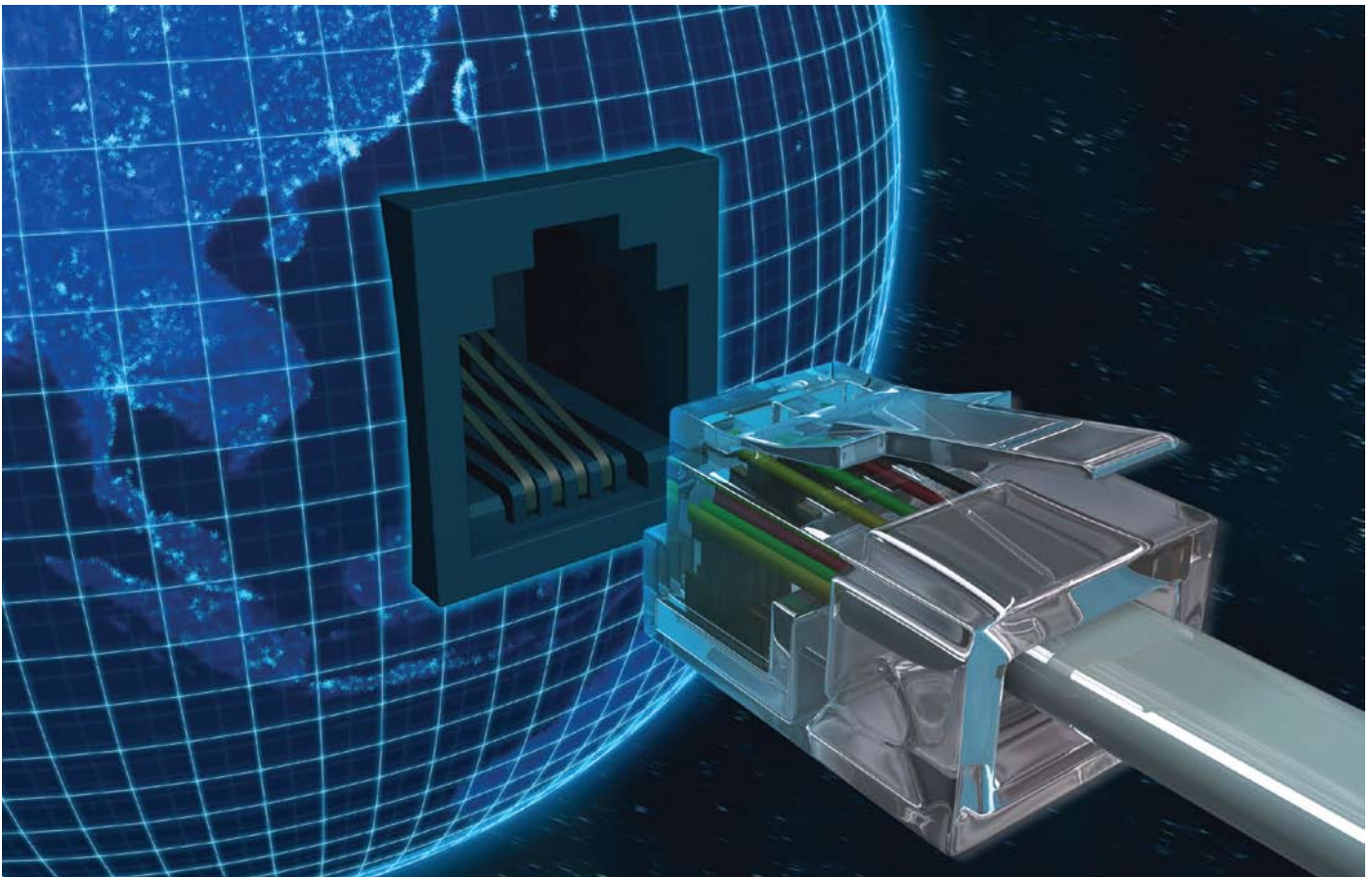
Whether it is to manage the supply chain, handle administrative operations, or make sales to new customers, setting up abroad involves significant capital outlays and a great deal of time-intensive effort. That, combined

with the added uncertainty of operating in an unfamiliar country, can be too much risk for managers with limited financial and personnel resources.

This is where new ventures like Quickstart Global (QSG) operate, giving more entrepreneurs and firms the opportunity to com-

pete in the globalised market by smoothing their transition from local to international.

QSG was launched in Vadodara, India, in 2006 by entrepreneurs Kaushal Chokshi and Neal Gandhi. Recognising the importance of speed in today's fast-moving, globalised marketplace, QSG offered businesses a safe shortcut to international operations by tak-



ing on the duties involved in setting up an overseas office. These include finding an appropriate property, recruiting a skilled and effective workforce, and navigating unfamiliar political and legal environments. By outsourcing these tasks to a specialist, companies can focus on their core business without worrying about the logistical and legislative pitfalls that can derail plans for international expansion.

QSG soon expanded into the US and UK, and, as demand for its services grew—largely via networking and word of mouth in the business and investment community—began setting up offices all around the world. The company has created over 1500 jobs globally and employs 600-1000 employees at any given time since some of their clients exit once they become large enough to sustain their own legal entity. The services QSG provide can benefit companies in any industry, though most clients operate in the IT (particularly software and game developers), legal or financial sectors.

“We revolutionised the way small and medium-sized companies can go global by establishing and maintaining an overseas subsidiary”

The QSG’s one-stop model is designed to keep costs and risks low, enabling firms to enter markets that would normally be beyond their reach. “We revolutionised the way small and medium-sized companies can go global by establishing and maintaining an overseas subsidiary” says Chokshi. In particular, fledgling start-ups stand to benefit from being able to immediately frame their growth strategy in global terms, picking locations with the most appropriate resources, talent and market for their specific business model.

Marta Caballo, Business Development Director at QSG, says all companies stand to benefit from the ability to set up operations quickly and securely in any part of the world: “every-

thing is really global so you just need to make sure you know where each part of the company needs to be in the planet for your advantage.”

As it continues to grow, QSG gains additional experience and expertise in the countries that their clients—both existing and potential—are looking to reach. One region attracting considerable attention today is fast-growing Latin America, where QSG is preparing to deepen its presence. On top of the established office in Managua, Nicaragua, the company has a new office about to open in Buenos Aires, with others expected in Rio de Janeiro and Santiago de Chile within a year.

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Attracting U.S. Institutional Investors *to* LatAm Funds

U.S. Institutional investors looking to increase their exposure to emerging markets have been turning increasingly to a handful of LATAM countries, where they see a swelling pool of experienced fund managers working within a context of political stability and economic growth. Brazil has garnered the most attention, but Chile, Colombia, Perú, and México are also increasingly attractive.

“I’ve been in the private equity market for the last fifteen years,” says Eduardo Farhat, a Principal at Darby Overseas Investments, the private equity arm of Franklin Templeton Investments specializing in emerging markets, “and the last five have been the brightest I’ve seen so far for PE investments in Latin America.”

As the Web site Institutional Investor recently reported, private equity investment across the entire region surged 149 percent last year, and “nine of the ten biggest deals in Latin America – and the five largest investments in Brazil – were made by global funds rather than vehicles dedicated to investing in the region.”

Hedging is on the rise, as well, particularly in Brazil. Bloomberg News recently reported on the success of Brazilian hedge funds investing mostly in stocks and bonds, with Credit Suisse Hedging-Griffin, the country’s leading hedge fund in recent years, having to turn down eager foreign institutional investors lest its fund grow too large. As Alper Ince, Managing Director of Pacific Alternative Asset Management Company, a group of hedge funds whose clients include large public and private pension plans, endowments, and foundations, observes, “The hedging is much better in Brazil than in places such as Eastern Europe or the Middle East or any other frontier market. It’s quite liquid and you can find quality managers who are willing to hedge and can run a hedged book to emphasize alpha over beta, and we like those characteristics.”

Institutional investors are attracted to the GDP growth of these LATAM nations, as compared to their Eastern European and Middle Eastern counterparts, and to the allocation opportunities they provide, as compared to Asia, says

Quant Funds in Latin America

After taking a battering during the 2008 credit crunch and struggling in the early stages of recovery, quantitative (or ‘quant’) funds are trying to reassert themselves in the industry. And a small, but growing, number are looking to start afresh in the world’s most promising emerging markets.

In Latin America, quant funds, which use complex computer models and algorithms to identify investment opportunities, are a relatively new phenomenon. Although the first appeared in the region in 2004, it wasn’t until 2007-2008 that the sector began to grow. Even today it remains on the fringes of a nascent industry—Latin America holds only a tiny fraction of global hedge fund assets—with fewer than 20 active quant funds based in the region.

According to local experts, aside from one or two quant funds in countries like Chile and Mexico, most quant funds operating in Latin America are based in Brazil; if they venture elsewhere in the region they typically trade from their headquarters in the US or Europe.

This concentration in Brazil is no surprise: it is by far the largest economy in the region, with a financial market deep and sophisticated enough to attract institutional investors. It is also actively encouraging the high-frequency trading that quant funds require, with the national exchange BM&FBovespa offering steep discounts to encourage more intra-day trades and increase liquidity in the market. That high-frequency still only represents around 6% of total trades demonstrates how undeveloped the quant fund market still is.

A New Frontier for Modelling

Bruno Freitas Miranda, managing partner at the São Paulo-based MIRA capital, is one of the asset managers looking to entice institutional investors interested in diversifying into Brazil. After actively trading in 2008-2009, his company temporarily stopped trading in 2010 so as to redefine their investment strategies and redevelop their computer models

Airlift

Encourages Latin America to reach for the skies

With air passenger traffic and tourism on the rise throughout much of Latin America, ALI examines the impact an airport can have on the local real estate market.

Last year, Brazilian airports welcomed over 150 million passengers—a new record for Latin America’s biggest country. Almost 90% of air travel was domestic, fuelled by increased wealth and the emergence of low-cost carriers such as Azul. In 2010, for the first time ever, more Brazilians chose to travel around their country by plane rather than use the traditional long-haul buses.

This is a trend echoed around much of Latin America (though not always reaching the same highs). And it is set to last: not only will the World Cup and Olympics in Brazil cause a spike in demand in 2014 and 2016, but aircraft maker Boeing forecasts that air

traffic in the entire region will grow at almost 7% a year over the next two decades.

The expansion of the aviation industry required to satisfy this demand will have important consequences for real estate development in the region, particularly the tourism and leisure sector. A new airport, especially if it receives international flights, can connect a holiday destination to the mass market, opening up a slew of potentially lucrative investment possibilities for resort developers.

This is known as airlift, and is one of the key factors when hoteliers conduct due diligence on a new or emerging destination; what is the location’s proximity to airports, and how well it is serviced by airlines.

“In the hotel industry you live and die by access and the airlift,” says Christian Charre, President of BridgeRock Capital, “certainly if you want to reach a critical mass at the destination.” Hotels in the Caribbean, for example,

How High Net Worth Individuals in LatAm VIEW Alternative Assets

The wealth and quantity of high net worth individuals (HNWI) in LatAm has grown in recent years. According to the Capgemini/Merrill Lynch World Wealth Report 2011, the number of LatAm HNWI grew by 6.2% in 2010, and its total HNWI wealth by 9.2%. There are about a half-million HNWI in LatAm, a relatively low figure compared to developed regions, though its concentration of ultra-high net worth individuals among the HNWI population is the highest in the world.

By and large, however, they have refrained from investing their wealth in alternative assets. The report observes that LatAm HNWI invest conservatively, “holding 47% of their aggregate portfolios in either cash/deposits or fixed-income, despite surging equity prices,” with hedge funds accounting for most of their alternative investment holdings.

Carlos Alamo, a Miami-based financial advisor, has seen this resistance to alternative asset investment first hand, both among HNWI and their wealth managers. He attributes it to a general lack of sophistication in the regional market, with HNWI lacking exposure

to and knowledge of different kinds of investment, as well as to a misguided prevailing wisdom among their advisors. “I feel that the private bankers and wealth managers tend to give more traditional investment alternatives to these investors,” he says, “but honestly I don’t think they’re doing the right thing. I think the right thing would be to give the investors exposure and education about what’s going on in the world.

In 2009, Mr. Alamo founded Candor Asset Management, a multi-family office focusing on alternative asset investments for an exclusively LatAm clientele, in large part in response to that more traditional, conservative approach. One of Candor’s goals, Mr. Alamo says, is to expose its clients to the benefits of alternative assets, which he sees as part of a global trend toward a more comprehensive approach to investing, and away from bread and butter portfolios.

There is a lot of resistance to change, he says, especially among the older generation of HNWI, but he believes that Candor’s more personal approach can meet that resistance. As a family office, I have a different strategy, a different way of introducing myself, and sometimes they open themselves up more because they feel like we’re working with them instead of selling them something.

Once you get their trust and get them to listen to you, you can start educating them. He says that the best eye-opener for these investors is the success of hedge fund investing and record-high fund subscriptions in the U.S. I tell them that we see all the big institutional and smart money doing it, checking different alternatives for the portfolio, while they are stuck in the traditional portfolio model that hasn’t worked.

The Capgemini/Merrill Lynch report also notes that HNWI allocations within LatAm are expected to drop significantly in 2012, with an increase in North American allocations. Mr. Alamo says that his clients, who have minimal exposure in the LatAm region, are averse to investing there because of what they perceive as the high risk. He expects the tide will change, however, benefitting the region. I think it’s important to get Latin American investors themselves to invest in the region. They’re taking everything out of the countries, [Financial advisors] have to convince them to take it back, and that’s when you’ll see that the Americans and everyone else will follow.”

He suspects the new Latin American Integrated Market (MILA), which combines the stock markets of Chile, Perú, and Colombia, will make the region more attrac-