ALTERNATIVE LatinInvestor

Issue 6

LatAm *Beekeeping*

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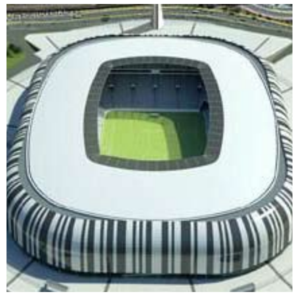
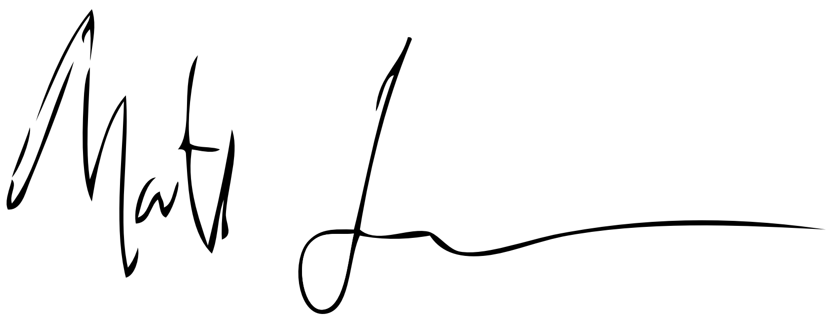


Letter from the Editor

Welcome to the first anniversary issue of Alternative Latin Investor. I would like to thank our contributors, readers and the ALI team for an amazing year which has made me feel hopeful about our success in years to come.

While we always try to bring you the best content from the most informed minds in the industry, this issue we were able to speak with some truly outstanding people. As the world and LatAm in particular, bask in the economic glory of Brazil, one has to wonder, is it sustainable? We asked this very question to the Economist's Head of Forecasting, Robert Ward to determine what the coming year has in store for this BRIC. In the world of Latin American Art, the PINTA group are true movers and shakers, holding yearly, not to be missed events in London and NYC, we spoke with PINTA chairman Alejandro Zaia for a clear look at trends in the contemporary Latin art world.

As we enter the last quarter of 2011, we can look forward to the political chaos of elections in Brazil and Argentina, and the economic madness which will surely follow. The global recovery from the crisis has been much overstated in the US and Europe leaving developing markets at the forefront of economic growth. This growth encourages investment which, when matched with the lack of opportunities in the developed world, will create a potential flood of available capital. However we must be alert to both the opportunities and pitfalls caused by rapid capital inflows.



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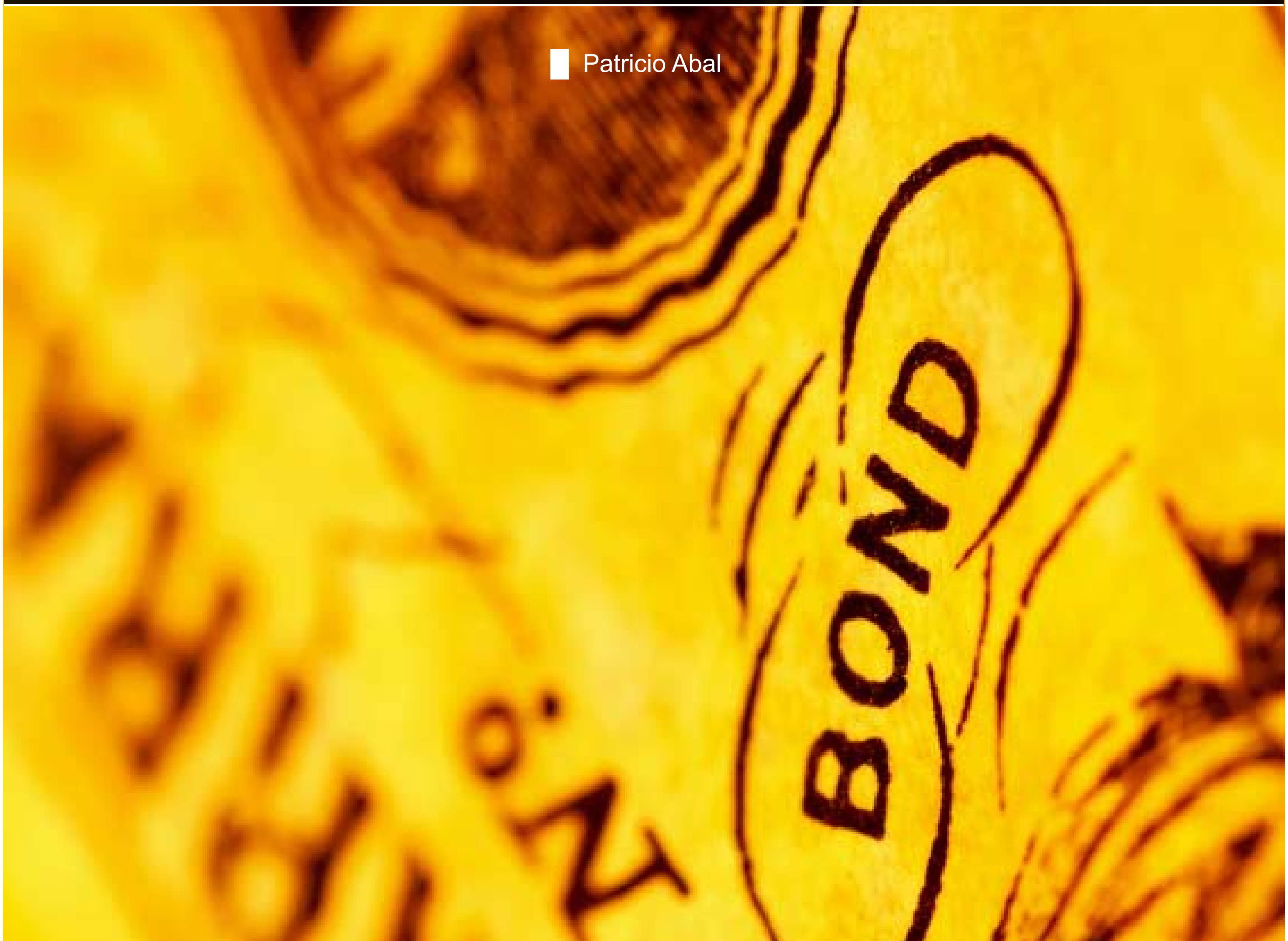
Municipal Bonds **in Latin America**

Patricio Abal



There are several reasons for which municipal governments (MGs) would want to build and/or operate public infrastructure works either through their own agencies or through state-owned companies. The literature mentions: public animosity towards private companies operating essential services (e.g. water & sanitation); electoral politics, i.e., a large number of local residents directly or indirectly depending on the government's budget can translate into a large number of votes; non-competitive returns on investment offered by certain projects; and "social infrastructure" projects.

One of the ways to finance said enterprises, particularly the initial capital expenditure, is through the issuance of medium or long-term bonds. To reduce the exposure to foreign exchange movements and to the volatility of international money flows, these bonds are issued in local currency and are purchased by domestic firms managing substantial amounts of capital such as pension funds, insurance companies and mutual funds. This is important because as Daniel Platz, an Economic Affairs Officer in the Financing for Development Office of the United Nations Department of Economic and Social Affairs, notes, the last financial and economic crisis has generated renewed interest in mechanisms that help limit governments' and companies' exposure to said FX movements and money flows volatility.

Needless to say, not every MG can issue debt. In the same way that markets won't buy the bonds issued by your typical "mom and pop" business they won't buy economically weak MGs' debt.

Mr. Platz asserts that municipal bonds have been an extraordinarily successful vehicle for cities, towns and counties in the United States to raise capital for infrastructure investments. (See Figure 1 for a reference of the use of proceeds of the Build America Bonds instrument created by the American Recovery and Reinvestment Act of 2009)

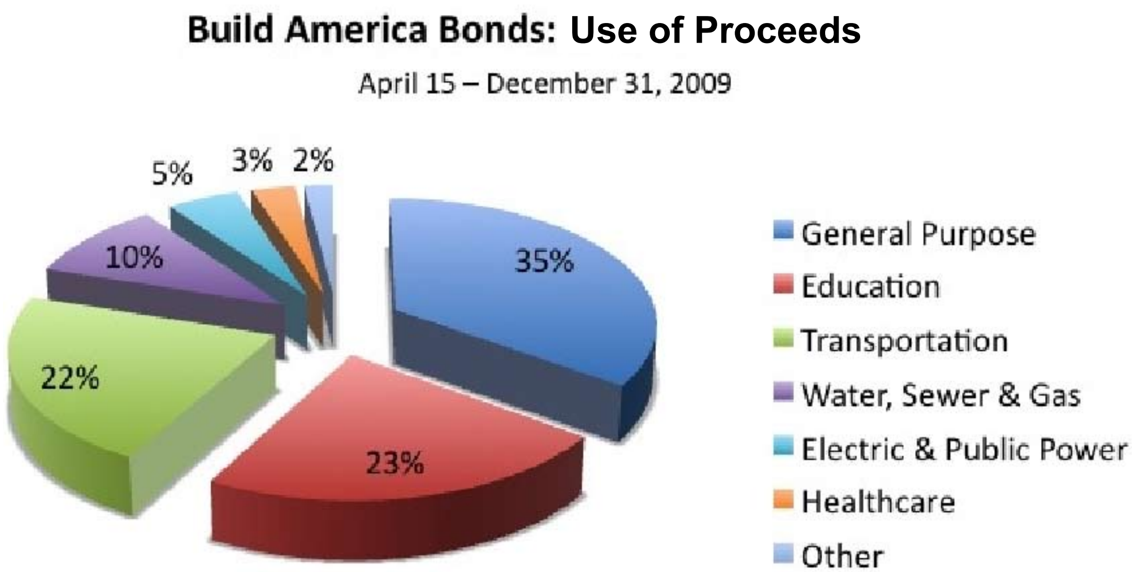
And so it seems appropriate to succinctly describe the factors that have contributed to the success of the municipal bond market in the United States. Regarding the supply-side, first and foremost, it is central to have favorable legal and regulatory frameworks. Also, issuers must be able to afford the borrowing costs without breaking the moral and economic principle of "inter-generational equity". One way to do this is through tax credits to bondholders and/or subsidies on the interest paid to the issuers. Credit enhancement structures also contribute to lower borrowing costs, that is why authorities should allow pooled financing arrangements and government guarantees should be a reachable option to MGs. Bonds issuers must have the technical capacity to manage that debt (accounting systems, financial reports, budgeting systems) and, of course, the power to raise revenue through taxes or tariffs.

On the demand-side, the first factor to zero in on is the yield for which, again, it is important to have favorable fiscal legislation. An active secondary market is vital to avoid the price discount due to the liquidity premium and to allow those buyers whose financial circumstances have changed to sell the bond before maturity. Also, stringent requirements for the public disclosure of financial information are crucial to attract the business of financial intermediaries and credit agencies as well as to promote investor familiarity and confidence with these instruments. (See Figure 2 for a reference of the trading activity of the Build America Bonds)

So, what is the situation of the municipal bond markets in our region? Let's start with Chile and work our way through Argentina, Brazil and Peru. Chilean MGs are not allowed to issue bonds. Leonardo Letelier, an economist at the "Instituto de Asuntos Públicos" (Institute of Public Affairs) of the "Universidad de Chile", believes that MGs should be allowed to borrow on a long-term basis and adds that, if asked, municipal authorities would be on board with the idea. This is probably because they are aware of the success of the market for the "bonos de infraestructura" (infrastructure bonds) which indicates that there is capital available for, and that its managers are willing to allocate it to, investments of these characteristics.

The reason for the prohibition lies in a "moral hazard" concern. This means that a MG might respond differently to the risk of default when it is insulated from said risk by a guarantee provided by the national government than when it is fully exposed to the possibility of going bankrupt. This is a relevant concern because there is a widespread belief among the national government authorities that the recent solid performance of the Chilean economy is in part due to a balanced public budget. This is why any proposal for

Figure 1



Thomson Reuters & Bloomberg

a reform that might lead to a loss of control over the budget, i.e., having to bailout troubled MGs such as the “Gobierno Regional de Valparaíso”, will be treated very conservatively if not rejected.

Argentina offers an interesting situation. Any financing scheme for most sub-sovereign governments and corporations through the issuance of fixed-rate securities at acceptable costs has been out of the question for most of the recent years since the economic meltdown of 2001. The reason is that there is a prevalent perception in the market that the country lacks the institutional structure to provide for stable conditions conducive to long term economic growth which translates to a high risk premium demanded by investors. Furthermore, the current legal framework states that MGs need the approval of the provincial authorities and of the national government’s Ministry of Economy to be able to issue debt. It is worth pointing out, that the way the law is written leaves room for arbitrariness on the part of the governmental agencies performing the financial feasibility analysis that will eventually be the ground for approval or denial of the operation.

Figure 2 Thomson Reuters & Bloomberg

Build America Bonds: TRADING ACTIVITY	Par Amount ($ Million)	Number of Trades
Customer Bought	$74,397	212, 854
Customer sold	$13,399	9,537
Inter-Dealer Trades	$29,574	49,386
Total	$117,370	271,777

April 15 – december 31, 2009

Alejandra Caballero, Director of the “Banco Ciudad de Buenos Aires” and an expert in structuring public financing transactions, has helped numerous MGs to structure their debt financing operations. She told us that MGs have found the way to mitigate, to a large extent, the risk of default through the use of fideicomisos. The legal structure of these vehicles allows for the issuance of fixed-rate debt securities against incoming cash flows such as royalties paid by oil companies or those derived from favorable terms of trade of agricultural commodities.

It is critical to have in mind that in 2008 the national government nationalized the pension funds, a decision that severely shrank the buy-side of the municipal bond market. The investment decisions at the, now enlarged, Argentine Social Security agency are conditioned politically and therefore the market does not expect this agency to play an active or efficient role in the development of a municipal bond market.

The market for municipal bonds in Brazil is arguably nonexistent. The national government, with history on its side, considers municipal borrowing a risky business that can jeopardize its international credit. Hence, the legal framework currently in place states that the national government cannot provide guarantees over bonds issued by MGs. Furthermore, other types of municipal borrowing have to be approved on a case-by-case basis and are closely monitored by the national government, i.e., Central Bank and Senate. We should note that the considered successful Municipal Development Funds are administered by the national government.

Despite the above, some analysts argue that if markets were to perform a risk evaluation of certain MGs they would give the municípios a rate that would provide for tolerable borrowing costs.

The legal framework allows Peruvian MGs to tap the domestic capital markets. Up to this date only the “Municipalidad Metropolitana de Lima” has issued bonds and it has done so seven times, always paying one-digit interest rates and selling the entirety of the bonds offered. The proceeds from these issuances are invested in public works, mainly in the improvement of urban transportation infrastructure. René Guery Cárdenas García, an expert in public finance and a consultant for the “Instituto de Gobernabilidad para el Desarrollo” in Peru, informed us that the buy-side are mainly the pension funds. These funds manage more than 50% of the domestic capital available for this kind of investments. The rest of the buy-side is made up of mutual funds and certain governmental institutions.

For every debt issuance MGs need the guarantee from the national government. Nevertheless, to reduce the chances of moral hazard the Ministry of Economy and Finance performs a very careful financial analysis before granting the guarantee.

The use of municipal bonds in the region is certainly not very common. The reason for this being not only the concern national governments have over their finances and international credit rating but also the availability of other sources of infrastructure finance such as municipal development funds or, in certain cases, the private sector through the multiple types of Public Private Partnerships. Furthermore, as we have seen, the development of a municipal bond market requires not only the MG issuing the bond but also the central government to adopt politically “uncomfortable” measures such as subsidies, tax credits, financial disclosure, fiscal decentralization, etcetera. And even if all these measures are legislated, the demand-side will need time to familiarize itself with these instruments and with the legal and financial structures supporting them.

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Let the World

See Your Wares in The Right Light

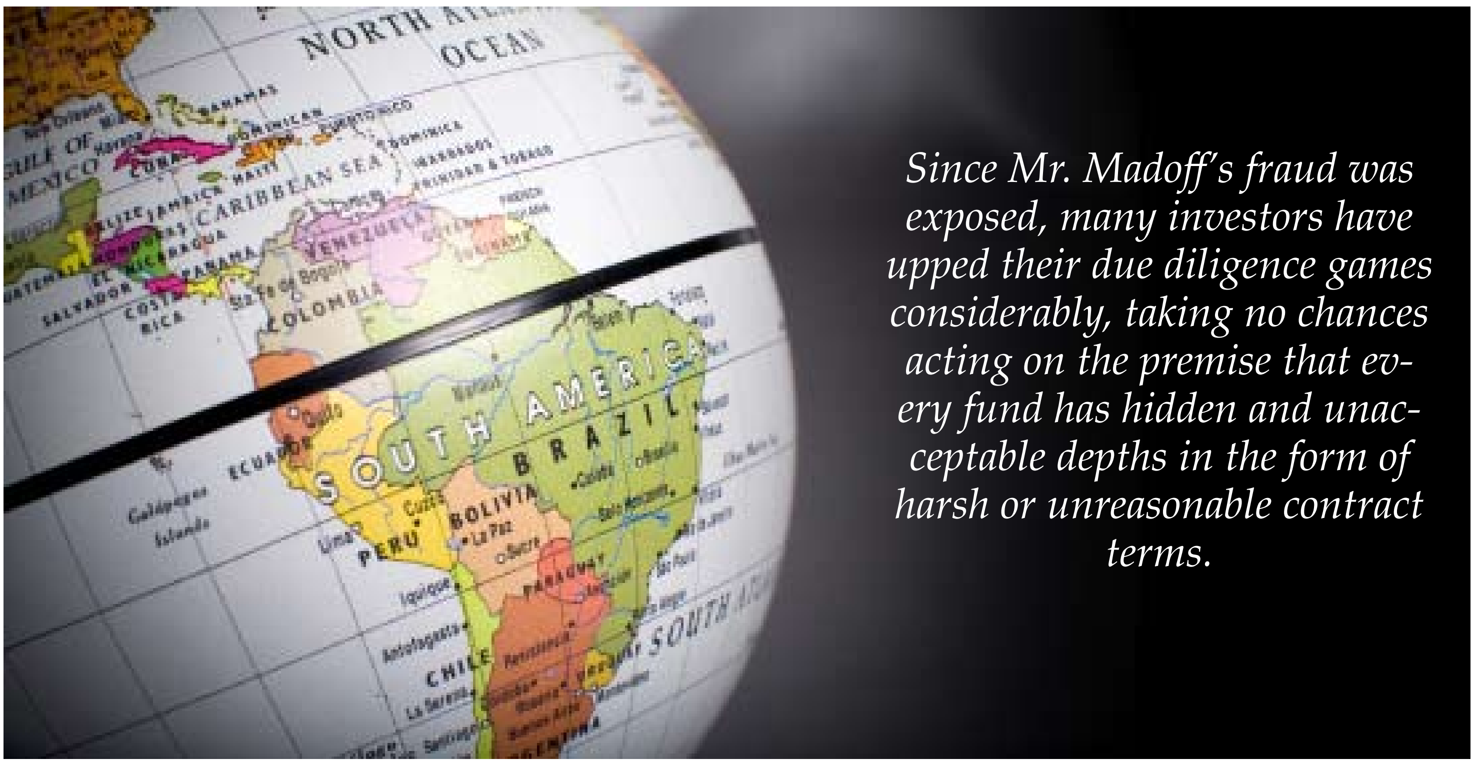
Tony Trescothick

There is little doubt that collective fund investors these days are exercising greater caution in their due diligence processes before taking the investment plunge. Behind every due diligence enquiry is the driving necessity for each investor to uncover the true structure and organisation that is lurking behind every fund's glossy brochure or website.

What's Behind the Marketing Messages?

Whilst the overwhelming majority of funds and similar offerings are bona fide propositions created with a view to bringing interested parties together in investment harmony, a tiny minority may have a darker purpose. Since Mr. Madoff's fraud was exposed, many investors have upped their due diligence games considerably, taking no chances acting on the premise that every fund has hidden and unacceptable depths in the form of harsh or unreasonable contract terms. For some, each fund promoter is a closet Al Capone just waiting to ensnare their monies within a loosely-structured wrapper with little or no facilities to ensure investors have any rights or protections.

So, what features within a fund will highlight the security essentials the investor is looking for, how robust are these features in "the real world" and how can fund managers build-in the right measures to their structure to ensure investors feel comfortable? At the same time, how can the investment management team mix these safeguards with enough flexibility to carry out their job; namely create value for their potential investors?



The R-Word

A quick answer to the above questions will usually include the "R-Word" or regulation, that increasingly familiar solution which now appears on investors' lips more often than ever before. Creating your fund in a regulated location is certain to satisfy your investors' due diligence enquiries, isn't it? Well, perhaps it will, but maybe not. What is the regulatory structure in play? For example, will the regulator actually review your fund's offering document to ensure it makes commercial or investment sense or includes a true representation of its actual terms and conditions?

Regulatory Arbitrage

Across the investing world there are numerous fund locations, each with different regulatory standards and emphases based on various key aspects they feel are important. The problem is that what is important in one location is less so in another, and the global phenomenon of regulatory arbitrage rears its ugly head. Until such time as international regulatory standards reach a globally-accepted minimum - and that seems a long way off - this problem will continue to occur. So what can managers do about this issue, and should Latin American fund managers, seeking to offer their region's very special opportunities to the broader investing world consider opting for an internationally-accepted funds hub as their location of choice?

Latin America's Undeniable Appeal

Clearly, global investors are seeking new sources of value as the dramatic shift that has created such great returns in "emerging economies" continues apace. Recently Middle Eastern investors, keen to spread their petrodollars as widely as possible, have been showing tremendous interest in numerous projects across a variety of asset classes and strategies but they'll not take any undue risks and will insist upon due diligence that will ensure that - investment risk aside - their money is as safe as it can be. Even though Latin American investors and fund managers are almost certainly net losers as a result of Ponzi schemes such as Madoff's, their global investment offerings will need to appear whiter than white, even though they are undeniably very attractive to increasingly adventurous investors. Returns are not enough – governance is equally important.

Just a quick look around the continent will demonstrate Latin America's appeal. Chile's need to generate more energy for its copper industry and build a renewable energy infrastructure provides clear opportunity and investment advantage for those wishing to get involved. Its liberal economy with established economic flexibilities make it a prime investment target. Brazilian hedge funds are keen to attract foreign investment to soak up the billions in redemptions from global hedge funds in general that are still swelling bank accounts many months after the worst excesses of the financial crisis are past. Uruguay where undervalued land stocks, rich natural resources and a sound political and tax environment make for very appealing investment is another cherry on Latin America's cake as far as foreign investors are concerned. Argentina provides opportunities to lease and farm large tracts of land thus creating great investment potential particularly where agricultural funds appeal to investors' broader alternative objectives. The opportunities are probably unparalleled anywhere else in the world as the continent's combination of scale, natural resources and value potential come together in an irresistible investment opportunity. Some have already grasped the nettle and are making and marketing great returns to their investors but clearly there are plenty of other, undiscovered gems just waiting to be picked up by an eager investing audience.

Latin America is experiencing strong economic growth that is the envy of some of its northern and more developed counterparts. Increased demand in Asia for commodities like iron ore, tin and gold, combined with policies in several Latin American economies that exercise deficit-controlling and inflation-reducing measures are enhancing investment and fuelling much of the growth. The World Bank forecasts that the region's economy will grow 4.5 percent during 2010.

Already, growth spurts in the region have surprised many of their governments. Brazil, the region's rising power and the "B" in BRIC, is headlining the regional recovery from the downturn of 2009, growing 9% in the first quarter over the same period last year. After contracting sharply last year, Mexico's economy expanded 4.3% in Q1 and may reach as much as 5% this year, according to Mexican government sources, possibly outstripping its near neighbour, the United States.

The World Awaits

So, with the needs established (such as energy, inward investment) and the talent and desire already in place (for example, Argentina's human resources are regarded as well qualified, skilled and versatile), the world is seeking the right opportunity to enter this billionaire's investing paradise. But what could be a drawback that may hold them off at the continent's borders? We return to earlier comments in this article and suggest that by creating investment funds that are globally accepted within structures that are well-recognised, international pension funds, insurance companies and sovereign wealth funds could be attracted like never before. As the World awaits, what can Latin American fund managers do to ensure their welcome is warmer than ever?

Get The Basics Right – First Time!

You have the right investment team, the right strategies, processes and disciplines your fund is a sure fire winner, right? Probably wrong, as without a good and robust fund structure, all these benefits will lie unused if your fund structure is weak, under-regulated (note I have avoided the word unregulated) and with a governance and administration structure that scares investors that they'll be vulnerable to abuse leading to unacceptable risk and possible irrecoverable loss. No one can guarantee a fund will not lose money through investment risk but a loss due to governance risk is a different and very avoidable matter. Following some simple rules will let your investors know that the opportunities for fraud, embezzlement and loss due to poor controls and fund management are massively decreased. In short, these rules are:

1. Locate your fund in a globally acceptable domicile – that means one that is popular with a broad church of international (and domestic) investors not just appealing to North American or European investors. Going truly global and offering a fund domicile, such as Luxembourg, with the broadest possible acceptability can dramatically reduce the chances of an investor saying no.
2. Ensure your fund is adequately and well-regulated – Regulatory standards are different world-wide with terms like registered, recognised and approved meaning something very different from one jurisdiction to another. Well-regulated should mean that the Regulator will:

- Approve all service providers and fund directors and expect at least the former to be resident in their jurisdiction
- Approve and sense-check your fund offering documents
- Expect investment management and expertise to match the assets and strategy being utilised within the fund's objectives
- Expect administration and custody to be independent of the investment management function
- Provide on-going supervision of your fund with regular reporting, auditing and accounting expected
- Ensure that your target investors are sufficiently suited to your fund's risk and reward profiles

3. Choose the right skill sets to run your fund. If your fund is in the alternatives space, which is probably very likely in the Latin American context, you'll also need to ensure that the structure chosen is flexible enough to easily manage a range of assets. You don't want an administrator who is unused to your asset class and is "learning on the job". Choose a location where expertise across all asset classes and strategies is well-established.
4. Be creative in your fund offerings and use the skills of fund formation experts who can create a vehicle that provides these important features, yet will be flexible enough to let you use all of your investing advantage to build value.

Latin America has a very bright future and by choosing the right fund structure as your shop window, the World will view your wares in a different and more favourable light.

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Investment Flows
and Stock Markets Returns

Bernard Lapointe

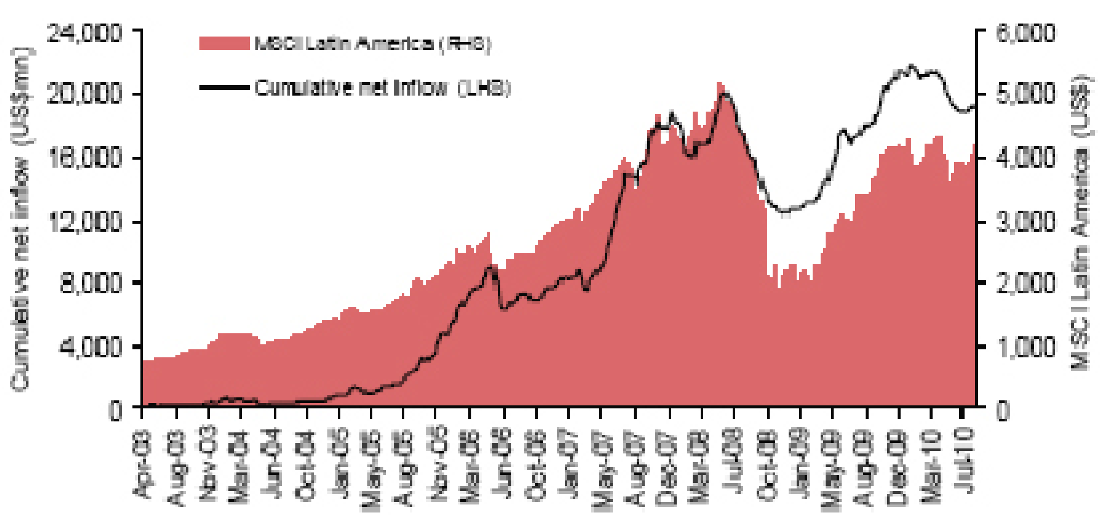
Portfolio flows into equity markets have been strong so far globally in 2010. For example, in Japan, close to US$ 22 Billion has been invested in the stock market, all from foreign investors as domestic investors have been neutral. Asia ex Japan stock markets have attracted just over US $ 30 Billion, the most favored region by investors. On the other hand developed markets have seen massive withdrawals, starting with the US with US $ 28 Billion and Europe with US $ 12 Billion.

What is happening to investment flows into equity markets in Latin America and Asia? After a strong year in 2009, investors have actually withdrawn US $ 2 Billion from stocks so far in Latin America.

US$, Billion	Flows into Equity Funds 2009	 2010 ytd
Latin America	8.8	-2.0
Asia ex Japan	19.1	30.6

Note: 2010 is as of August 20
Source: Bloomberg, EPFR Global

Interesting to note that cumulative net inflow into Latin American mutual funds is as high as the level seen in the first quarter of 2008 but the market, represented by the MSCI Index, is down 10% from the same period.



Source: Nomura International

The line represents cumulative net inflows.
The shaded area is the MSCI Latin America Index.

Divergence of fund flows between Latin America and Asia so far in 2010

We see two explanations.

1 Weakening oil prices in the first half of the year
2 Expectations of the Chinese currency (Renminbi) re-valuation

In the first half of the year crude oil prices dropped from above US $80 per barrel to almost as low as US $70. This had a negative impact on Brazil, a net exporter of crude oil, and the largest equity market in Latin America. On the other hand weaker oil prices had a positive impact on India, a net importer. In fact in Asia ex Japan, India has attracted almost half of the flows into equities in the region – 13 Billion out of 30.6 Billion.

At the beginning of the year, pressure on China to let its currency appreciate became more intense. The foreign exchange market took this for granted and was eventually right as the People's Bank of China (PBOC) announced in June that it would reform the Renminbi (RMB) exchange rate regime by letting it float more freely. As a consequence of that announcement, fund flows into Chinese equities have resumed to the tune of US $4 Billion in the past 3 months.

Equity markets returns in Latin America and Asia so far in 2010

Latin America outperformed Asia ex Japan by 28% in 2009 but is slightly lagging so far in 2010. Brazil, down 2.5% in US $ terms, is definitely the weak link in Latin America because all other markets are up. In Asia, Indonesia is top with a gain of 22% while China domestic shares loose 18%.

Returns in US$ MSCI Index	2009	2010 ytd
Latin America	98.1%	-2.0%
Asia ex Japan	70.3%	1.1%

Note: 2010 is as of August 20
Source: MSCI Barra

What can we expect for the remainder of 2010?

Valuations do not provide a clear case of advantages for either region. Free cash flow and return on capital are rising while the price to book ratio is still, generally speaking, attractive. Some markets appear to start becoming expensive on a price to book measure: Indonesia (3.6x) and Peru (4.2x).

	Free Cash Flow/ Market Cap			Price/ Book		Return on Capital	
	2009	2010	2011	2009	2010	2009	2010
Latin America	1.4x	2.2x	5.2x	2.3x	2.1x	12.0%	15.2%
Asia ex Japan	0.9x	2.2x	5.5x	2.2x	1.9x	12.6%	14.6%

Source: Deutsche Bank, Nomura

Inflows into equities are usually a lagging indicator of stock market returns. It is beyond the scope of this short article to discuss the topic except to say that fundamentals, in terms of macro or micro economics, suggests that both Latin America and Asia ex Japan equity flows should continue to pick up in the years to come as investors globally recognize that growth will be driven by emerging markets.

Our trivia question which stock market has provided the best cumulative returns over the past ten (10) years?
Hint: It is a Latin American market… E-mail your responses to blapointe@argonautglobal.com.

About the Author
Mr. Lapointe is currently managing director at ArgonautGlobal Capital, a capital advisory firm with a special focus on India and China. He spent ten years acting as global equities portfolio manager and co-chief of strategy. He has managed portfolios and traded in equities, currencies and commodities on the world's major exchanges since 1994.

Beekeeping in Latin America

Stephen Kaczor

Bees are essential for honey and for the pollination of crops. These productive creatures accomplish both purposes at the same time. For those who have never considered the possibility of beekeeping as a business, this article will serve as a primer.

Latin America is home to two of the world's major honey producing and exporting countries, Brazil and Argentina; Mexico is a much smaller exporter. In the U.S., demand for imported honey and pollinators has grown since bee colonies began dying off due to colony collapse disorder. There is currently a shortage of honey available for international markets and a growing need for bees to pollinate agricultural crops.

Bees in Latin America

The African Honey Bee (AHB) was accidentally introduced to Brazil in the 1957 and interbred with previously introduced European bees. Following the accidental release, the African queens and drones mated with local queens and drones, and their descendants have since spread throughout the Americas.

AHB/EU hybrid bees have become the preferred bee in Central America and in areas of South America because of improved productivity. The tropical climate in South and Central America favors the AHB. "Genetics research has shown that the large wild AHB population is composed of unbroken African mother lines extending back to the queen bees originally brought to Brazil", according to Entomologist Glenn Hall (DNA Studies Reveal Processes Involved in the Spread of New World African Honeybees, 1992).

"Bees with predominantly African characteristics initially brought disaster to much of South and Central American beekeeping. Over time, beekeepers devised ways to manage AHB. Beekeeping has been returning to many areas in South and Central America."

In Brazil, African hybrids are known as Assassin Bees because they take over an existing hive. Malcom Sandford, University of Florida, explains: "Bees with predominantly African characteristics initially brought disaster to much of South and Central American beekeeping. Over time, beekeepers devised ways to manage AHB. Beekeeping has been returning to many areas in South and Central America."

Latin America's Bee Advantage

Overall, Latin America's small scale sustainable agriculture has led to healthier bee populations. In the USA and EU, colony collapse disorder was devastating in the last decade. A report this year in EDP Sciences by Mexico's Remy Vandame states "There have been no reports of massive colony losses in Latin America". Vandame examined this difference and hypothesized that Latin America's advantage in bee health could be due to the synergistic interaction of multiple factors, such as: AHB's natural resistance to diseases in tropical regions; a lower roportion of cropland over the total land area, resulting in ore abundant or higher-quality pollen resources for bees; the generally small-scale, low-income and little subsidized agriculture; and lower use of insecticides compared to industrialized countries.

There is a current movement away from the use of chemicals in beekeeping, which are already less prevalent in Latin America. The main factors that weaken hives are: crop spraying, the moving of bees thousands of miles to pollinate commercial crops, artificial insemination of queens, sugar water feeding, and deforestation.

Bees for Pollination

Selling the services of bees as pollinators is a growing business. While no data is available on the size of the market for pollination services in Latin America, a case can easily be made for such services where deforestation and the other factors have weakened native bee populations.

Bees pollinate nuts and fruit trees, and vegetables such as broccoli, carrots, celery and onions. Many cultivated flowers are pollinated by bees. Crops that do not require bee pollination will still benefit from increased yields with the help of bees, and farmers increasingly recognize the value of investment in beekeeper's services for pollination. Farmer's often provide land for beekeeper's hives at no cost. Increased yields establish the basis for farmer's to pay for the maintenance of hives near their crops.

The quality of many crops depends on the amount of pollination they receive. For example, fruit trees produce unevenly if bees do not provide enough pollen for good reproduction. Approximately one-third of all food products are directly or indirectly linked to bee-pollinated crops and 3 colonies are needed to pollinate one hectare, on average.

Beekeepers see pollination as an activity complementary to honey production. Demand for bees for pollination is increasing anywhere deforestation is rampant, due to the loss of the bee's native habitat. Habitat destruction is the primary cause of decrease in beneficial insect populations due to deforestation for crop land, the resulting erosion, misplaced insecticides, and the subsequent increase of alien organisms, pollution and fires.

As a natural habitat for bee populations, forests provide pollination services to adjacent coffee areas. Several studies have proven that coffee yields decrease within a distance of approximately 400 meters from healthy forests. "In Ecuador, more intensive coffee management, including a higher percentage of fixed costs, caused a steep decline in net revenues when adjacent forests were destroyed." (Resilience Alliance, 2006).

Opportunity for Honey Bees

There is currently a shortage of honey available for the international market, according to a world market honey report by CPNA International in NY. CPNA reports that "honey prices are well over $1.00/lb. for both industrial and bottle grades. The concern is more for adequate quantities and less about low prices."

The USA imports around 600 million pounds of honey annually from Latin America, which is approximately 10% of total honey production in the region. The main exporters are: Brazil exports 27 million pounds annually compared to 25 million pounds from Argentina. Mexico exports 4 million pounds while Uruguay, Chile, Peru, Venezuela, and Honduras export about 3 million pounds combined.

The opportunity exists for large Latin American honey producers to create supplier relationships with Fortune 100 retail grocery chains, and for smaller producers to create relationships with intermediaries such as Silverbow Honey, one of the USA's top 10 producers. Silverbow packs 5 million pounds of honey annually, for customers such as Safeway, Costco, and Kroger. Silverbow imports honey from South America and other regions to meet retail demand in the USA.

Prices for Argentine white honey (clover/alfalfa) hover around $1.35/lb. (fob export dock). Argentine beekeepers have refused to sell to exporters without a premium price relative to prices for North American white honey. Argentina's export price has doubled during the past decade.

Brazilian honey exporters have seen price increases of 30% for both conventional and organic Brazilian honey since 2007. Brazil, like Argentina, Uruguay, Chile and Mexico, makes more money exporting to Europe where the currency is strong. Also according to CPNA, Brazil's total crop is expected to be 42,000 metric tons. Brazil is an important source of organic honey, which many EU countries prefer.

Cost Structure of Beekeeping

There appears to be ample room in beekeeping business for new players across the Americas. The cost structure of beekeeping is minimal. Beekeeping equipment includes a smoker, smoker fuel, gloves, screens, arm guards, bee brushes, the bees, and a queen bee can be purchased for around $200 per hive. Homeowners will pay beekeepers to remove hives near their homes.

Each well located commercial hive can produce 100-200 pounds of honey annually, depending on the availability of pollen, weather, and the health of the hive. This suggests that capital investments in beekeeping could be recouped in the first year (or certainly two) of operations.

One hectare acre can support 250 hives with adequate pollen sources within a 3 kilometer radius, suggesting a $38,000 per hectare revenue potential. These possibilities bear further analysis specific to Latin America. On its surface, beekeeping represents an interesting opportunity as the practice is not widespread in the region.

For in-depth discussions on beekeeping and honey processing, see: **www.thefarm.org/charities/i4at/lib2/bees.html and www.gobookkeeping.com/lesson%20six.htm**

Additional Resources:

Readers interested in a comprehensive report of worldwide markets with annual forecasts through 2015, consult: **www.reportlinker.com/p0181056/Global-Honeu-Industry.html**. For a spreadsheet on global honey exports see: **https://spreadsheets.google.com/ccc?key=paZpWwSKDaSNft1FnRJKEHA#** Those considering the bee business in Latin America should consult the book Latin American Insects and Entomology, by Charles Leonard Hogue

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

The Modern & Contemporary Latin American Art Show

A veritable feast for Latin American art investors, this exclusive, annual art fair is dedicated to exposing the world to the best of Contemporary Latin American Art. The three-day show features museum-quality works representative of abstract, concrete, neo-concrete, kinetic and conceptual art, as well as other contemporary art movements. The event coincides with Christie's and Sotheby's Latin American art auctions and with important exhibitions in museums and cultural institutions in each of its two locations. It is currently the only fair of its size and caliber in the world to focus on such a unique and niche market.

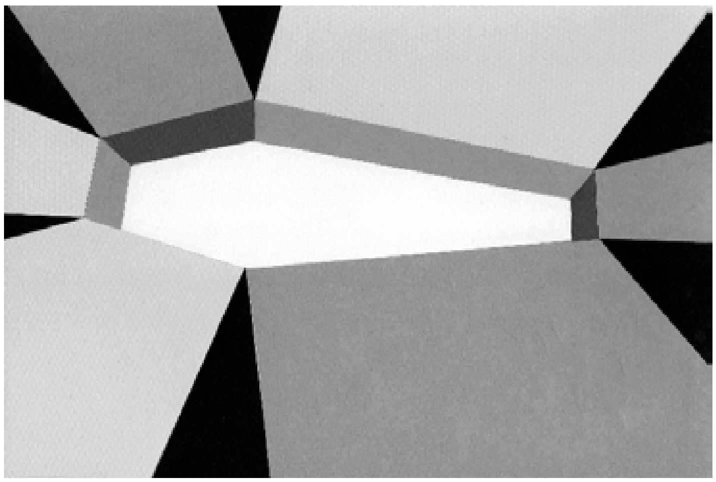
PINTA started in 2007 as the brainchild of Argentine PR mogul Alejandro Zaia, and his business partner Diego Costa Peuser – who runs the most successful contemporary publication in the Latin American art world – "Arte al Día Internacional." To complete the triad, they invited Mauro Herlitka - board member at the MOMA in New York – to join the project. At the time of PINTA's conception there were magazines and literature that covered the sector of Contemporary Latin American Art, however the idea was to create a one-stop marketplace for everyone. The PINTA show was created to be a platform for the sale of Latin American Contemporary art through the participating galleries and is financed entirely via private sponsors, renting space to galleries and ticket sales. The need for an event of this type combined with this knowledgeable, well connected and international group of project leaders is what has made PINTA a success.

PINTA opened on November 13, 2007 with a tribute to the Brazilian conceptual artist Waltércio Caldas. The show was received with warm praise and solid press. In fact, critics admitted it was almost embarrassing that this was the first dedicated and serious effort to highlight the art of an entire continent and century. As the interest in the show continued to grow in 2008 and 2009 in 2010 they decided to expand the event and to hold two annual shows - one in America and one in Europe. The PINTA founders felt that the two most important audiences could be found in New York and London – notably two of the most culturally rich cities in their prospective countries.

The first ever PINTA London fair this year was a success, carving a pathway for the field of Latin American art in London. Accompanied by the educational and promotional work that is currently being spearheaded by institutions such as the Tate Modern, the University of Essex and the Museum of Contemporary Art of Barcelona, along with others – PINTA not only continued with their work of securing the art market for their region abroad, but also offering an excellent exhibit program. Coordinated by the University of Essex – four panels took place dealing with different themes regarding private and public collections of Latin American art in the United Kingdom. Since the successful launch of the London show, there are plans to expand and create a third event, the location has yet to be announced. Also due to the success of this year's London edition of PINTA, the New York fair will also feature a section of individual shows. They have invited London-based curator Pablo León de la Barra who participated in the London PINTA show to join them once again in New York. Pablo León de la Barra was born in Mexico City, however has lived and worked in London for the past 9 years, where he has become known as somewhat of a "cultural interventionist." Both his gallery Blow de la Barra and his magazine Pablointernacional serve as catalysts for the union between European and Latin American art communities, taking the ideas of art and life to new levels.

This year's New York PINTA show is slated to attract 15,000 visitors during the three days that it will be open to the public and will be the fourth time the fair has taken place in the city. The show will include approximately 60 galleries and the aforementioned 15 individual expositions; furthermore, PINTA is looking to expand their museum program. The objective is to allow the public to feel a part of their work, by this year holding an Exclusive Preview. The funds gathered during this preview will be directed to PINTA's program "Museum fund acquisition", through which PINTA donates funds to institutions dedicated to Latin American art, so that they can access the purchase of works of art in order to grow their collections. Another of this year's developments is the continued inclusion of the PINTA "Public Programs" which is a series of chats open to the public, featuring the discussions of various panelists, including professors, researchers, curators, and collectors.

According to a rep from this year's PINTA show, one particular player to watch is Mexican Contemporary artist Pablo Vargas Lugo. Born in Mexico City in 1968 he has participated in nearly 20 solo shows and numerous collective exhibitions. He has been a resident artist in the International Studio Program in Vienna, Stockholm and New York and his collections have been displayed in various museums in the United States, Mexico and Spain. In a recent article from BOMB magazine, Lugo's work is described as "…enigmatic —colorful collages, formalist drawings and site-specific installations—explore such diverse



Pablo Vargas Lugo, New Flag, 2010, Collage, 16 x 24cm, Courtesy of Galeria Labor

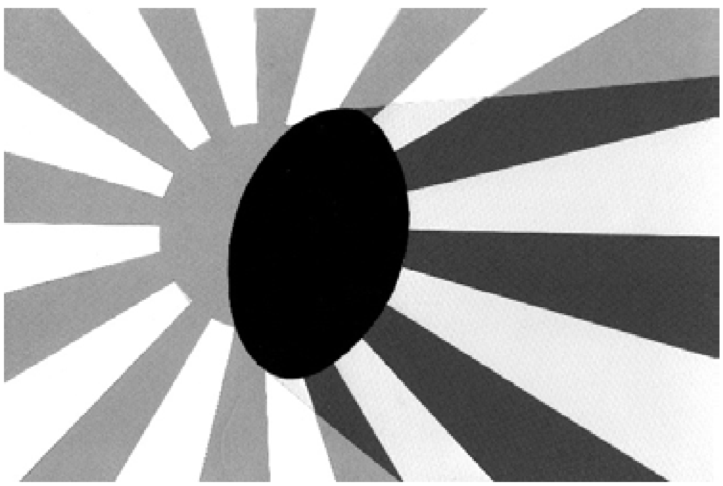



Photo by Pablo Corradi

themes as the extinction of dinosaurs, natural catastrophes and flying machines. These pieces are marked by an uncanny tension between form—bright and playful—and content—often dark, traumatic events, from tsunamis to midair collisions."

Alternative Latin Investor had a chance to meet exclusively with PINTA chairman Alejandro Zaia to get his take on the Contemporary Latin American art sector. His response was quite insightful when asked to compare this sector alongside general contemporary art from an investment perspective.

"That is a very intriguing question – because you have to define sectors within sectors of Latin American Contemporary art. The art collector has a lot of sections to choose from – post war, contemporary, Chinese, Latin America. These are based on geographical reasons and time periods. Normally you have the auction houses that decide and feature these particular sectors and then feature the works from these areas. In terms of Latin American art you have historical Latin American Art, Modern art from the 40's-80's, then contemporary, which can include much older artists who are currently displaying works however had the majority of their success during previous time periods. In terms of bargains and opportunities you can find incredible opportunities in modern art. You have masters who are absolutely undervalued from the 50's, 60's and 70's – there are Latin American artists who lived in New York and Paris in the 50's and 60's and now are either in their 80's or 90's or have since passed on. Their works when recovered today are worth 10 times less than their French or American colleagues who were doing the same type of art during the same time period. They weren't promoted or valued during the time, however, the investment potential in these particular artists is now very interesting as these artists are beginning to be recognized for their abilities and their works are increasing in value. Before the crisis these artists were growing steadily and were not involved in the pre-crisis "bubble" in regards to their pricing and involvement in auctions; they grew steadily and weren't incredibly affected by the crisis. When you talk about contemporary art, a 35 year-old artist of today compared with a German or Swiss artist there isn't much of a difference depending on where they started their career. Therefore there isn't much of a difference to be seen in the contemporary market. The problem is that this isn't a very transparent market it's quite complex. It is necessary to be hand held by an advisor, by someone who knows the market up and down and has studied all aspects of the field. Countries to watch: Colombia, Mexico and Chile. There are also particular gems particularly in the modern art sector in the Argentine and Brazilian markets."

The PINTA New York Fair will take place on Pier 92 - 711 12th Avenue, New York. There will be an exclusive preview at 4:00pm, on the 11th of November followed by the opening ceremony at 6:30pm (by invitation only). Finally, the doors will open to the public November 12, 13 and 14th.

The BP Oil Spill

and the Future of the Brazilian Oil Industry

Francisco Ebeling Barros

Currently there exists a ghost of uncertainty in regards to the world oil scene. If, in recent years, discussions surrounding the climate emissions of greenhouse gases guided the prospects of declining consumption and production in the world, clearly we now have a new element.

In the course of exploration, the oil spill from the field of Macondo in the Gulf of Mexico, investigated by BP, suffered a blowout of drastic consequences. This is undoubtedly a fact that will have serious repercussions on the activity of exploring and producing oil.

The accident is now considered the industry's largest, surpassing the 1989 Exxon Valdez spill. The environmental consequences were terrible, since the oil that gushed from the well reached a very environmentally sensitive area. Due to the accident and its reception in public opinion, especially in the U.S., there will be drastic consequences for those involved directly and indirectly, especially now that the leak has officially ceased on the 15th of July. Combined efforts are now directing the formulation of strategies to avoid a worse scenario involving pointing blame and setting punishments.

Without a doubt the accident had an incalculable consequence of environmental damage, which caused the U.S. government to employ measures that oblige companies to pay for all the damage that is eventually caused by future accidents.

In a business plan, as a direct result of the accident in Macondo, BP now finds itself grappling with uncertainty about their future. The British company tallied a loss of $17 Billion and now talks about a merger with companies like Exxon and Chevron, which would pay more than $100 Billion for its acquisition. It would be a spectacular agreement in an industry that continually involves fewer competitors, especially among private companies.

The most prominent indirect consequence of the accident is speculation around the future of the industry. Certainly, oil will be the dominant power in the coming decades. However, exploration, especially in deep water, has been jeopardized. It is possible now that the trajectory of oil as a dominant energy source has been shortened slightly, largely due to the fact that it probably will abandon some of the harder to find oil. But these are just guesses that are difficult to calculate, as the relative decline in OECD demand per hour eclipses with the great perspective of demand that emerging countries, especially the BRICs, toast to the industry.

In Brazil, sadly enough, the discussion regarding the BP accident and how to draw lessons to avoid similar tragedies in the country have taken on an essentially political component. Brazil, unfortunately, has media that is controlled by a ruling elite that will do anything in order to realize their own political desires. In this sense, time is the objective of the Lula da Silva, who seeks to elect his successor.

The Lula da Silva administration marked a major political shift in the Brazilian economic scenario by allowing the economy to rise into the next level, which was widely reported by media outlets such as the prestigious magazine The Economist. Here, the local media already strives to misrepresent reality.

The fact is that the country's oil industry has proven to be a resounding success, especially from the time that the government set aside the plan to privatize Petrobras and then understood that the company should get stronger and begin to recruit local suppliers. The pre-salt, accordingly, came to support this policy and is an indicator of the vast possibilities that are given to the industry on its current path.

The media, to prove that the oil industry is a strong example of the strength of the current government, seeks to distort the vision that reaches the public about the sector. In the case of the BP accident, this translates to immediately criticizing the way the government would act before a possible accident at the offshore site, unaware that the Brazilian prevention practices are not behind those practices adopted in the United States.

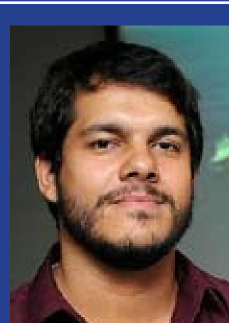
Furthermore, the media orchestrated a campaign to tarnish the name of the state by pointing out alleged serious deficiencies in the maintenance implying that these were due to poor management style chosen by the current government. In criticizing the loss of market value that has recently affected Petrobras, that same media sought to corroborate the weakness of the company and justify possible intentions of privatization. Opening the industry has been beneficial, but so has maintaining the state control of Petrobras. It is pure naiveté to see a leftist anti-capitalist as the media accuses the statist bias that is currently practiced in the oil industry, if the Brazilian government, including the most liberal, always resorts to statism in situations where it appears necessary.

Admittedly the Brazilian oil industry, despite all the negative propaganda that is released in Brazil, is in a golden moment. The figures of production, reserves and investments prove this good moment, so that the investment plans currently in play by Petrobras are better than competitors such as Shell and Exxon. Petrobras also recently became the largest Latin American sector by market value, overtaking PEMEX and PDVSA, another historical milestone.

The media, to prove that the oil industry is a strong example of the strength of the current government, seeks to distort the vision that reaches the public about the sector.

Leaving aside the political bias, the discussion that began around the BP accident and its possible impacts in Brazil seems far from the reality of the country's oil industry. This does not leave aside its exploratory program under virtually any circumstances. Doing so now would certainly be a bad move, as the country needs to take advantage of, at any cost, whatever time it has left to extract the maximum wealth from the pre-salt discovery. With these large amounts of resources it needs to benefit from the technological and industrial environments of its oil industry and especially encourage the country's social development. The opportunities that the pre-salt discovery created are vast and should not be left aside because of uncertainties that will not affect international competition as strongly as projected.

About the Author
Francisco Ebeling Barros is an economist, currently serving on the board of Management of Economy and Energy Policy of the IBP - Brazilian Institute of Oil, Gas and Biofuels. He studied at the Institute of Economics of UFRJ, has completed specialization courses in Energy Economics and has worked as a research assistant in the Group for Energy Economics from UFRJ. He is the editor of the monthly PPI Monitor (www.ibp.org.br) and is one of the editors of the literary Beehive (www.revistacolmeia.com.br). He is also a member of AB3E (Brazilian Association for Studies in Economics of Energy) and IAEE (International Association of Energy Economics).



Sowing Pools:

Argentina's Alternative Financing Model for Agriculture

John Kennedy

Three decades ago, soybean production was a niche activity in Argentina. Since then the country has become the third largest producer and exporter of the commodity globally. Between 2001/02 and 2009/10 alone, soybean production grew by 49%. Sunflower production also grew exponentially during this period. What makes this feat so impressive is that it happened despite the crippling lack of credit in the domestic financial system; a situation which has been very acute since Argentina defaulted on its national debt in 2002.

The huge increase in production in Argentina was facilitated by the diffusion of technology and new farming methods. Over the last 20 years there have been major changes in the way tillage has been carried out. Conventional tillage, which includes activities such as annually ploughing the soil and inter-row cultivation, has been replaced by direct sowing, where the seed is planted directly into the soil by a mechanical seeding machine; providing a solution to the problem of soil erosion. Complementing this, the adoption of genetically modified crops resistant to herbicides became ubiquitous.

Structural change has also been another key factor in the production revolution. Machinery contracting started becoming popular from the 1960s onwards and over time other types of contracted services became widespread. Thus Argentine agriculture evolved from a vertically integrated system to one where all production is outsourced, based on networks of sub-contractors (similar to an industry supply-chain). Although the practice of leasing land had largely disappeared by the 1970s, it started to become a common feature of the agriculture scene again from the 1990s onwards, as producers were keen to expand the area under cultivation, as a profit maximization strategy.

Such changes in the structure of Argentine agricultural and the application of technology created the formula for expansion. But expansion could only happen with finance. And particularly over the last 15 years, access to credit has been problematic in Argentina.

The contagion from the Mexican Tequila crisis in 1995 and the Asian crisis in 1997, led to a tightening of credit and the cost of borrowing skyrocketed. To deal with the fallout from the Mexican crisis, Argentina was forced to increase interest rates from 10% to 35%. And since December 2002, Argentina has been blocked from international credit markets since defaulting on US $93 Billion of its debt.

To surmount these difficulties, in the 1990s, a new feature of agricultural organization began to appear known as sowing pools (los pools de siembra), which were enabled by the structural changes in agriculture. The pools were based on speculative investment funds as a source of financing, obviating the reliance on the banking sector. Although no accurate statistics exist on the number of such funds, it is estimated they cover between 2 to 3 million hectares of productive land. With Argentina cut off from international credit markets, from 2002 onwards, pools took on an increasingly important role in expanding agricultural production.

Sowing pools take on many different forms. The most common structure of pool is where a landowner, an agronomist or specialist agricultural consultancy and a contractor come together and develop a business plan. The organizer, usually the agronomist or consultant then offers it to potential investors. The purchase of inputs, the sowing and harvesting work is done by the contractors and the sale is done through a pre-established network of buyers, processors or exporters. Minimization of climatic risk is a key characteristic of pools. Organizers typically rent land in different regions and diversify the crop types. In some cases pools are formalized investment trust funds, regulated under law and backed by commercial banks.

The level of investment is very much dependent on the size of the pool. Generally the minimum investment is US $10,000 and the maximum can be up to US $100,000. Returns can vary, but in years with good climatic conditions, they can average 15-20% per annum. Typically investments can be anything from two to five years.

The high returns from sowing pools are driven to a large degree by the robust demand for soft commodities and failure of supplies to keep pace with this growth. Commodity prices are likely to remain high in the medium, ensuring that pools will continue to provide a healthy return.

Efficiency is another key factor which enables the pools to be a highly profitable venture. The scale of pools allows the organizer to negotiate lower costs per unit for inputs, technical and contracting services. Information technology is also often used extensively, such as GPS and simulation models, to better manage soil resources and deal with climate risk. Added to the mix is increased professionalism through the use of specialist human resources.

Pools have been very popular among Argentine investors, in particular middle class professionals. Returns have been consistently higher than real estate, which is perceived as low risk in Argentina and also higher than the stock market. Distrust of financial institutions is another key reason, as many Argentines lost their savings following the collapse of currency link to the US dollar in 2002. But with the global economic uncertainty, low interest rates in Europe and the USA, and volatile stock markets, many investors in Europe and the USA are beginning to take note and invest in Argentine sowing pools in increasing numbers.

Growing demand for oilseeds in the domestic market due to the introduction of a biodiesel mandate in April 2009 of 5%, which will increase incrementally to 20% by 2014; increasing international demand for oilseeds and grains and the super-efficiency of Argentine agriculture, will ensure that sowing pools continue to be a highly profitable venture. They present external investors with an enormous opportunity to achieve high returns, better than almost any alternative in today's marketplace.

John Kennedy is an independent economic consultant based in London, UK, specializing in energy and agriculture. He has contributed to various publications on these themes in Europe, Argentina, USA and Australia. You can contact him on Tel: +44 77898 61880 or email at John@johnpkennedy.eu

Latin America's Favorite
Sport For Sale

As the football industry defies the global recession, new investment funds look to fast-track smaller clubs and untapped talent into the lucrative top European leagues.

The spectacle of this summer's World Cup is still fresh in the memory for the estimated 700 million people worldwide who watched Spain beat Holland in the final. Six weeks earlier, Cardiff v Blackpool at Wembley, London didn't quite have the same glamour, or viewing figures. But with promotion to the English Premier League (EPL) —and an estimated £90 Million in additional revenues—at stake, it was officially the richest game in world football.

It is this type of giant windfall that new football investment fund, London Nominees, hopes will encourage institutions and wealthy individuals to invest in the beautiful game. Launched at the beginning of this year, London Nominees plans to fast-track a club from the Championship— the second tier of English football—into the EPL.

The fund joins other recent ventures, including the Emirates NBD-owned Hero Global Football Fund, looking to capture a share of the money that circulates in the game. Their popularity has increased as traditional asset classes were beaten down during the global economic crisis.

As an alternative investment, the financial lure in football is obvious: according to business advisory firm, Deloitte, the top twenty clubs earned over €3.9 Billion in the 2008/2009 season (the latest data available), with Real Madrid becoming the first team in any sport to earn revenues above €400 Million in a single year.

Seven English football clubs were on the top twenty list, underlining the Premier League (EPL)'s commercial pedigree and attracting the new funds. Just last year, the EPL negotiated a record £1.8 Billion TV deal with British broadcasters covering 2010-2013. An additional £1.4 Billion is expected from overseas broadcasters, taking the annual income stream above £1 Billion per season. And that's before sponsorship, merchandising and ticket sales.

According to Ryan Knight, Editor - F.C. Business, these revenue streams are driving up the value of football-related assets, making it increasingly difficult for individual investors or businesses to buy into a club. And then there are the running costs, augmented by sky-high wages for players. "It's not like you're buying a profitable business," says Mr. Knight, speaking to Alternative Latin Investor, "so you're going to have to have the cash to a) service the debt and b) make investments."

With only a select few individuals able to invest that kind of money up front, Mr. Knight thinks football funds like London Nominees will become more and more common in the future. Investors need US $25,000 to buy into London Nominees, which aims to raise US $100 Million for its initial capital outlays. Aside from buying into a carefully chosen Championship club, the fund will also finance the development of players brought over from developing countries, particularly in Asia.

Andrew Leppard, CEO of London Nominees, explained the strategy to CNBC: "the fund will concentrate on talent which is at a low cost. We'll look at developing raw and untapped talent that is maybe going to cost US $100,000 in total to bring that guy to fruition, and then sell him for hundreds of thousands and sometimes millions of pounds."

The method sounds broadly similar to a common strategy in the real estate market – buying 'distressed' assets and 'flipping' them for a profit. But Mr. Knight warns against comparisons with other industries. "Football is a beast of its own, where emotion, paranoia and ego are kings, and the realities of your financial results are dependent on 11 men going out and performing. Without the players' performance it's very difficult to keep your other revenue streams alive and kicking."

Taking On The Sceptics

The fund will also need to overcome a great deal of scepticism regarding third-party ownership of players, at least in the English league. Critics argue that it undermines the integrity of the sport, or point to the ethical issues with what they describe as a trade in human beings.

There are also legal restrictions to contend with. The high profile transfer of Argentine internationals Carlos Tevez and Javier Mascherano from Brazilian club Corinthians to West Ham United in 2006 caused an uproar when it was discovered that the players were 'owned' by Media Sports Investment Ltd, and not the club.

This type of third party ownership is common in South America, which is a traditional seedbed for football talent. However, it is rare in Europe, and the deal became a scandal when it was revealed that those investors could force the London club to sell them on if an offer came in at a stipulated price. The ability of an outsider to influence club decisions was already outlawed (West Ham was subsequently fined by the English Football Association), but following the incident, the EPL ruled that only the club would own its player's registration and economic rights.

That would only affect plans to make a profit from player's transfers. However, an increase in the presence of funds in the football league could prompt further regulatory changes. Currently, the EPL conducts a 'fit and proper person' test to ensure that the owner of a football club has the right character and financial clout to manage a club responsibly. With a fund that's not always possible: London Nominees, for example, plans to cap individual contributions at US $1 Million, giving no one investor a dominant stake.

Despite these risks and potential pitfalls, London Nominees targets 8-10% annual growth in the first two years, and double digit returns after that. If it can deliver on this promise, the fund's investors probably won't care too much about moral dilemmas or legal obstacles. And even the most sceptical fans will change their attitude if their club reaches the EPL on the back of football fund investments. As Mr. Knight points out, "if you can prove that you are going to buy that striker, or you're going to give the manager a big transfer kitty, it's interesting how quick the fans come round."

ASHOKA EMPRENDEDORES SOCIALES

Ashoka:

Inspiring and Supporting Tomorrow's Leaders – Today.

Ashoka is a non-profit foundation started in 1981 by Bill Drayton with the aim of identifying and supporting the growth of social entrepreneurs. According to Ashoka, "Social entrepreneurs are individuals with innovative solutions to society's most pressing social problems. They are ambitious and persistent, tackling major social issues and offering new ideas for wide-scale change…committing their lives to changing the direction of their field. They are both visionaries and ultimate realists, concerned with the practical implementation of their vision above all else." Since their inception in 1981, this global association has elected over 2,000 men and women to serve as Ashoka fellows – providing them with professional support, a living stipend and access to a global network of peers in more than 60 countries.

To give a better idea of what makes a social entrepreneur, here are some classic examples of social entrepreneurs that have made an impact throughout history:

- **Susan B. Anthony (U.S.):** Fought for Women's Rights in the United States, including the right to control property and helped spearhead adoption of the 19th amendment.
- **Vinoba Bhave (India):** Founder and leader of the Land Gift Movement, he caused the redistribution of more than 7,000,000 acres of land to aid India's untouchables and landless.
- **Dr. Maria Montessori (Italy):** Developed the Montessori approach to early childhood education.
- **Florence Nightingale (U.K.):** Founder of modern nursing, she established the first school for nurses and fought to improve hospital conditions.
- **Margaret Sanger (U.S.):** Founder of the Planned Parenthood Federation of America, she led the movement for family planning efforts around the world.
- **John Muir (U.S.):** Naturalist and conservationist, he established the National Park System and helped found The Sierra Club.

Ashoka believes that by providing potential innovators with the resources and support to act upon their ideas, they will in turn stimulate the citizen sector, very similarly to the way the business sector experiences growth. All potential candidates for the Ashoka Fellow program are put through a rigorous selection program involving in-depth interviews, a judging panel, and a final executive board vote. Ashoka's international staff makes visits to the candidates home and work environment in order to get a better idea of not only the candidate's work ethic but also their values, inspirations, personal motives and background. Many candidates have referred to this intensive selection process as one of the most enriching experiences of their lives as it gives them an opportunity to communicate their ideas, scrutinize their methods, and reflect on themselves as individuals. Even those who are not chosen to be a part of the fellow program return to their projects with a heightened sense of inspiration, motivation and energy.

Here is an example of a few social entrepreneurs who have participated in the Ashoka fellow program and made impressive revolutionary strides in their prospective fields.

- Fabio Rosa has helped cut rural electrification costs by 70-80% in Brazil and brought electricity to the homes of over 1 million people. Fabio's innovation has spread to 23 countries worldwide.
- Jeroo Billimoria, through Childline, has provided direct

assistance to more than 26,000 street children in Mumbai. Childline has answered over 2 million calls and spread to 38 cities nationally.

- Paul Rice, through TransFair USA, has generated $54 million in income for family farmers through its equitable model of international trade. TransFair USA audits the entire global supply chain for coffee, tea and cocoa and licenses 300 companies to display its trademarked label on products in more than 25,000 locations in the U.S.

Ashoka is funded by the support of private and institutional donors. The people who choose to invest in Ashoka are truly investing in the promotion of social change throughout the world. According to Charity Navigator, Ashoka is a four star rated charity with an 88.5% in the organizational efficiency of their program expenses.

There are various ways to donate to Ashoka's programs. Aside from a one-time financial donation, patrons are invited to purchase a co-venturer membership, which provides a dependable base of support for Ashoka and enables the donor to participate in a network of like-minded individuals who are leading change in the world. Another option is through endowments. Ashoka endowments are managed with a five-year perspective by three endowment trustees; the endowments have produced investment gains every year from 1982 to the present. Given by both institutions and individuals, Ashoka endowments often create a permanent statement or memorial to someone the donor especially loves or respects. Finally, donors are also invited to join the Ashoka team by interning, volunteering, or even helping to identify potential social entrepreneurs.

Alternative Latin Investor had a chance to speak with Guillermina Lazzaro the Regional Director of Ashoka for the Southern Cone (Argentina, Chile, Uruguay).

How are the operations different here in the southern cone as compared to say Europe or the United States?

The fundamental difference is that here in the southern cone there is no social enterprising treasury or department. Because of this we have to start the conversation regarding the importance of social enterprising and entrepreneurship, and create an environment for that type of conversation. Today Ashoka has become a bit more recognized, however it is very important for us to create alliances with important businesses and corporations to create a network. Another difference between us and the United States and Europe is on a financial level – their offices are self financed and this has to do with the fact that they are already aware of the importance of creating and maintaining social enterprising environments – an idea that Argentina and the other countries here in the southern cone are just starting to understand.

Could you explain some of Ashoka's current projects here in the southern cone?

Our core focus is the search for entrepreneurs. At this moment we have more than 100 entrepreneurs in Argentina, Chile and Uruguay. We are also working on the services that we provide to these entrepreneurs defined in five areas – help for special abilities, which could mean leadership training, time management, help for organizations – managing and marketing, and the impact on public policy, something that is very important here in Latin America. Ashoka believes that it's fundamental to generate a common language alongside other sectors allowing the social entrepreneurs and business entrepreneurs to work together and inspire one another. We have a strong social business program – we are working throughout all of Latin America trying to generate the discussion in social organizations how they can develop businesses to better the lives of the communities in which they operate. We also have an international program called Change Makers, through online conferences we try to give visibility to certain models throughout Latin America and the whole world and to democratize the access to resources and give foreigners the possibility to hear about models that perhaps are less common or even unheard of in their country/community.

Where does the majority of your funding come from, institutions or private investors?

Ashoka internationally has a highly developed resource database, however here in Argentina and the southern cone the main source of our funding is a group of business leaders called the "Ashoka Support Network" – this is a group of 13 Argentine businessmen and women who have decided to invest in Ashoka and help us to finance the stipends for our entrepreneurs and their various projects.

Why would you say that it is a wise investment to become involved with Ashoka?

It's important everything that has to do with investing in the southern cone. If we think about the importance of Latin America having better standards of living, this is directly related to what Ashoka is looking to create which is a systemic change. Investing in Ashoka and its social entrepreneurs gives foreign investors the opportunity to not only have a safe investment channel, however to maximize their investment due to the fact that Ashoka looks for the best social entrepreneurs who have the vision to promote this idea of systemic change in order to achieve an added value in society through their models of social change. Secondly we provide them with a network of services to be able to help them in all of the daily challenges they will face in the development of their activities.

For more information on Ashoka, visit: **http://www.ashoka.org**

DUE DILIGENCE

You Bought the Company. Now What?

Glen Harloff & John Price

With M&A activity surging in Latin America, it's worth remembering that there's only so much due diligence you can do prior to acquiring a company; the real investigation begins after the deal closes. And the key to catching crooks is to have a crooked mindset.

As anyone who has faced a 30-day deadline in a company buy-out knows, there is only so much due diligence that can be conducted prior to closing the deal. Normally, the target firm's management provides a detailed financial review of receivables, payables, assets and liabilities to the buyer's due diligence team pre-transaction. But it is not until new ownership delves into the operations of the company post-transaction that the true financial picture comes to light, including any questionable links between management and vendors or customers.

Typically in Latin America, the sale of a privately held enterprise to financial investors or a foreign strategic buyer will subject management to a new level of performance pressure to which they are unaccustomed. In an effort to retain key managers and even former owner-managers, buyers will sweeten the pot with earn-out bonuses tied to aggressive revenue or profit goals. Be it carrot or stick, or a combination thereof, managers will feel intense pressure to perform.

That pressure can yield better results, but it can also tempt sub-par managers into fraudulent practices. When a manager realizes that he may not reach his performance goals, he may begin manipulating results: overstating sales, understating expenses or capitalizing expenses. If the manager concludes that he will not receive his bonus due to sub-goal performance, he may begin outright stealing from the company through cash sales. Kroll investigated such a case where the manager of a remote subsidiary had been running parallel cash sales for almost three years, pocketing hundreds of thousands of dollars. In the subsidiary's inventory reports, the missing products had been written off as damaged goods that were purportedly thrown away.

Other forms of fraud by disgruntled, dismissed or under-performing managers might include selling off company assets that are gathering dust, including old equipment, input materials and finished goods; selling intellectual property to the competition including customer lists, designs, proprietary formulas and methodologies; or starting a new company and diverting customers to the new firm. If the manager is still employed by the newly acquired company, he may set up his own firm under a presta-nombre structure, where ownership is officially in a third party's name but, by private arrangement, is his. If he has left the employ of the acquired company, the manager may set up his own firm and steal clients directly from his former employer, as non-compete labor contract clauses are often extremely difficult to enforce.

The most common source of financial fraud in Latin American operations is related-party transactions. In a business environment where companies prefer to do business with suppliers they know and trust, vendor selection can cross the conflict-of-interest boundary. A cozy relationship between manager and vendor can lead to managers awarding outsized or overpriced contracts to vendors that are owned by families or friends, who in turn share some of the windfall with the manager. In family-owned companies this practice is all too common, as one family member/manager with vendor connections attempts to extract more than his share of profit from the company.

The good news is that everyone anticipates a thorough house-cleaning during the first six months after a take-over. This is the timeframe for a detailed review of the financial integrity of the firm and the search for fraudulent actions. It is also the time-frame for shoring up operational vulnerabilities, including the dismissal of unethical managers. The following is a list of best practices that new owners are well advised to undertake during this crucial period:

- Conduct a detailed review of sales and accounts receivable. This includes meeting the top customers – i.e. the largest 20% of clients typically responsible for a large portion (80%) of revenues -- in order to understand their purchasing patterns, as well as their historic payment patterns.
- Conduct an evaluation of suppliers. Get to know who they are, how they are structured. Take a close look at smaller suppliers that conduct more than 20% of their business with your company.
- Conduct a related-party transactions review by examining the links between key internal managers and the ownership of key vendors.
- Conduct background checks on second-tier managers, who may have been overlooked in the pre-transaction due diligence phase, but who preside over key functions that are vulnerable to fraud, such as IT, finance, payroll, warehousing and security.
- Identify and put in place appropriate internal controls.
- Conduct regular reporting (weekly/monthly) and exception reports that identify the occurrence of unusual but significant events. Do not rely on year-end financial results, for they are typically too high level and too late in arriving.
- Insert your own trusted and competent managers into key managerial positions (especially the CFO position), but then monitor them just as other managers are monitored.

Many buyers like to think they have the internal skills to conduct their own review of a new acquisition. However, unless they bring to the table local knowledge of fraudulent practices, the internal team may not recognize the schemes that have been built into the firm's operations. Secondly, an internal audit team inevitably butts heads with senior managers in the newly acquired firm, who are anxious to achieve the tough goals that have been tasked with. That battle usually impinges on the ability of the internal auditors to dig as deeply into issues as they would like and need to do. An external team, by contrast, brings to task the privilege of autonomy.

Finally, it is essential that the external team include one or more financial forensic investigators, who bring a very different perspective to the exercise of a financial review than the typical accounting-trained auditor or legally trained compliance manager. The forensic investigator looks for ways to "game the system", manipulate operations and commit fraud when reviewing numbers. To catch a crook, you need to have a crooked mindset. Forensic investigators understand that simple truth.

The authors: Glen Harloff (gharloff@kroll.com) is a Managing Director in Kroll's Miami and Eastern Caribbean offices and heads up the Financial Investigations Team. John Price (jwprice@kroll.com) is a Managing Director of Business Intelligence and a leading case manager on transactional due diligence and political risk investigations throughout Latin America.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Opportunities in Argentine Biodiesel

Carlos St James

Argentina is a country of enormous natural resources which has historically played to its agro-industrial strengths. However, in the 21st century it is shifting priorities to continue to take advantage of its competitive advantage in geography, soils and climates, and appears headed to become a world class leader in clean energy. Already there is significant investment taking place in the windswept southern Patagonia region to harness that energy; in the northwest region opposite the Chilean Atacama desert to develop solar energy; in the woody Mesopotamia region adjacent to Brazil for biomass; and along the Andes to develop its geothermal potential.

But Argentina's greatest success thus far has been in biofuels, specifically biodiesel. Biodiesel is made from fats and vegetable oils, and each producing country makes use of the feedstock it has in comparative abundance. Hence, Colombian biodiesel is made from palm oil, Australians use tallow (animal fat), Canadians use canola oil, and Argentina, soy oil. Argentina is the world's third largest soy grower and its largest soy oil exporter. This abundance of biodiesel feedstock, coupled with export tax differentials that act as production incentives, has made Argentina the world's number one exporter of biodiesel and the fourth largest producer overall, after Germany, France and Brazil. And in 2010 its growth is such that it may surpass its neighbor and become the third largest. Installed capacity has grown from 560,000 tons per year (tpy) in 2007 to almost 2.5 million this year – an amazing achievement for a country where financing is sometimes hard to come by. Yet Argentina alone produces about 10% of the world's biodiesel.

Big players give stability and credence to the industry

This industry is led by the big oilseed crushers of Argentina, global companies like Dreyfus Commodities, Bunge, Vicentin and Molinos. Recently, conservative Cargill announced that they will also join the fray and build a 240,000 tpy capacity biodiesel plant at a cost in excess of $100 million dollars -- which will also generate 18 megawatts of its own energy. There couldn't be a clearer sign that the industry has reached a new level of maturity, where perceived risk is far lower than in the past. These large biodiesel plants are typically located in Santa Fe province, the heart of soy country -- and importantly -- on the shores of the mighty Paraná River, as significant to commerce as the Mississippi River is to the United States. These economies of scale have helped make the industry more efficient than in any other country in the world. For example, while the average size of a biodiesel plant in Brazil is 70,000 tpy capacity, and in Europe 89,000 tpy, the average size of a plant in Argentina is 108,000 tpy. This allows exporters to ship product very efficiently to places like Europe -- which have large biofuels consumption mandates but smaller plants and insufficient access to local feedstock.

Next, there is a tier of smaller biodiesel plants whose focus is primarily on the domestic market, favored by national energy policy. Beginning this year, Argentina instituted a “B5“ mandate, i.e., every liter of diesel fuel bought at the corner gas station has a 5% biodiesel blend; because of its oily composition, it also acts as a lubricant and improves performance. Furthermore, soy-based biodiesel has been found to reduce greenhouse gas emissions by more than 70% when compared to sulphur-containing fossil-based diesel, and is biodegradable as well – a priceless trait in a world fraught with oil spills.

These smaller plants require less overall investment, perhaps in the neighborhood of $10 million dollars for a plant with 30,000 tpy capacity. The price of your product in this case is determined by the government and announced transparently every monthly on a government website, and which allocates your production volume to the market; the current price is about $900 dollars a ton. As in Brazil, the price is a very attractive one in order to attract more investment.

The B5 program has been so successful that in recent months it was expanded to a B7, and discussions are now taking place with leading industry associations such as the Argentine Renewable Energies Chamber, automotive manufacturers, and quality standards organizations to increase it to a B10 sometime next year. In short: there is a need for more biodiesel plants in Argentina, and the niche lies in smaller plants (defined as 60,000 tons a year or less).

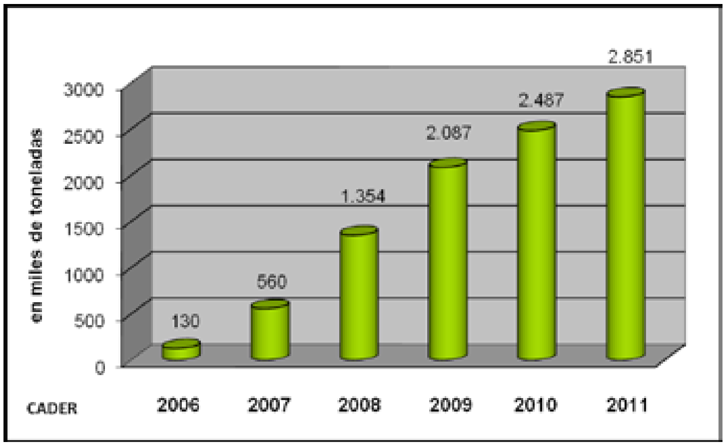
Smaller scale renewable electricity from biodiesel

A new alternative has also emerged recently. Barely 1% of Argentina's primary energy matrix is derived from clean sources such as wind, solar or geothermal. But given a legally mandated target of 8% renewable energy in the matrix by 2016, the government is opening its doors and facilitating investment, including thermal energy from generators that operate not on diesel or natural gas but rather biodiesel – and thus qualifying as renewable. There is a race to acquire generators from companies such as Finland's Wärtsilä, the U.S.'s Caterpillar or Germany's MAN Diesel that can operate on biodiesel (and in some cases directly with soy oil) and connect them to the grid. The government is accepting higher prices per megawatt than has historically been the case to attract this type of investment.

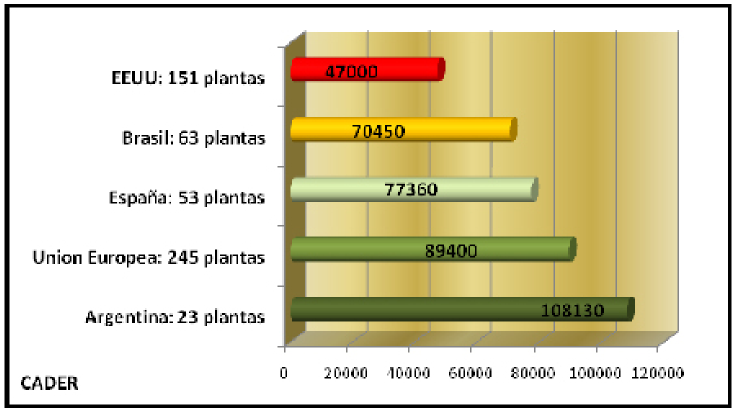
Finally, the fastest growing segment and easiest way to enter the market is through small biodiesel production facilities for local consumption. Here we are seeing a preference for proven foreign technology, companies such as Greenline and Green Fuels America. The latter's largest plant, for example, is 14,000 tpy and sells for less than $2 million dollars – which manufactures the plants in the United States on an assembly line and then ships them ready-to-go in a container. They are able to use diverse feedstocks such as used cooking oil or tallow, which are typically available in smaller volumes but at a lower cost per ton. Dozens of these have been sold around the world and are now beginning to be seen in Latin America. These plants typically sell their biodiesel to farm co-ops, whose agricultural equipment is designed to operate on pure biodiesel (known as "B100"), as well as selling into the B7 or renewable electricity markets.

And these are just first-generation energy solutions. Argentina is also the fifth-largest beef producer in the world, and that industry is beginning to realize the value of using its excess tallow to produce sustainable energy in the form of biodiesel. Also, municipalities are establishing used cooking oil collection programs to reduce contamination and to produce biodiesel for their vehicles and public transport, and new, non-edible biodiesel feedstock crops such as jatropha, camelina and pongamia are being planted -- all of which make it clear that Argentina's early success in biofuels has legs for the long run.

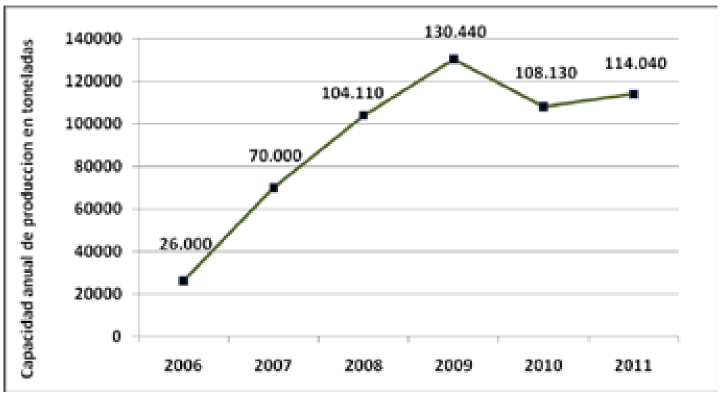
Evolution of the productive capacity of biodiesel in Argentina



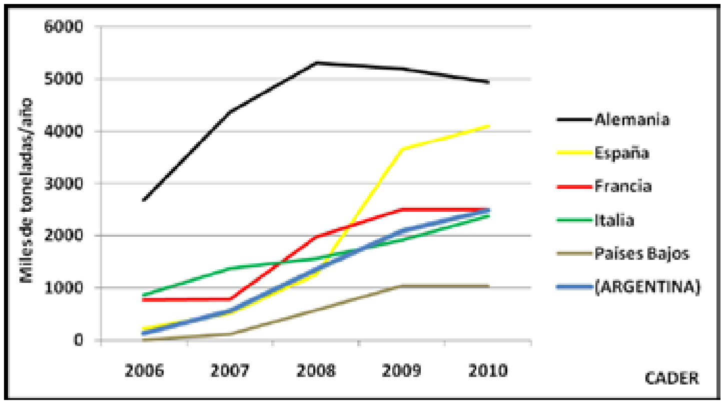
Average size of biodiesel plants worldwide, 2010



Evolution of the average size of biodiesel plants in Argentina



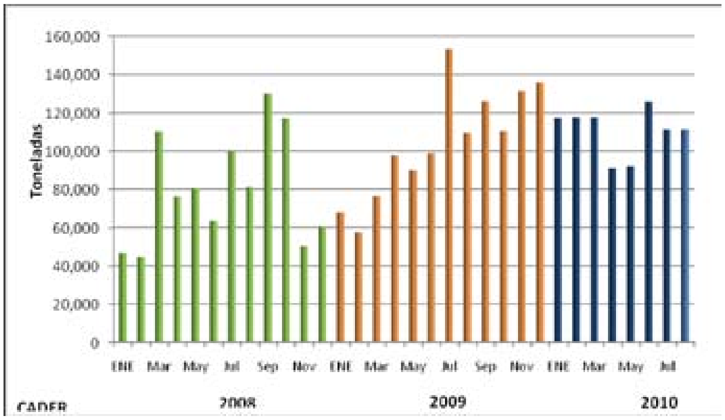
Growth of installed capacity biodiesel - five major European producers



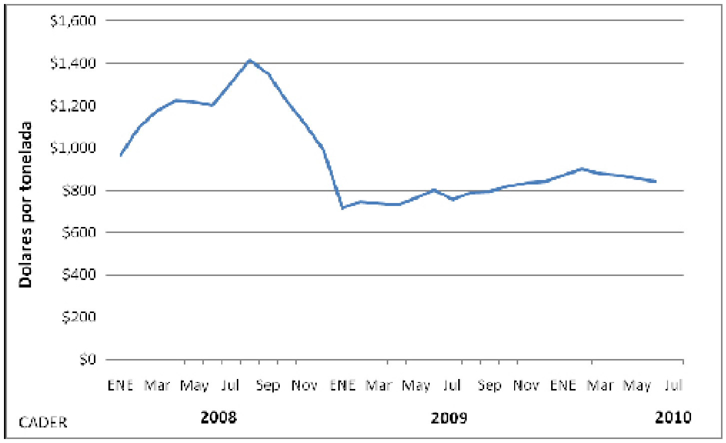
Evolution of Argentina as a world producer of biodiesel, 2007-2010

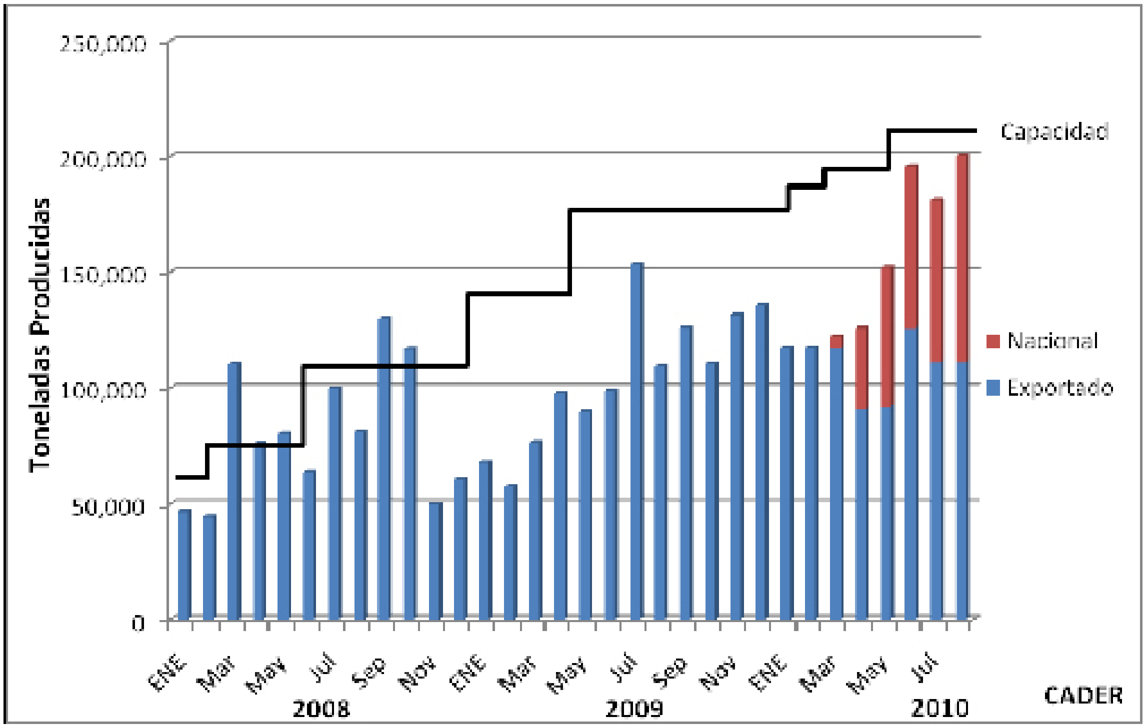
Rank	2007	2008	2009	2010 (proyectado)
1	Alemania	Alemania	Alemania	Alemania
2	EEUU	EEUU	Francia	Francia
3	Francia	Francia	Brasil	**Argentina**
4	Italia	Brasil	**Argentina**	Brasil
5	Brasil	**Argentina**	EEUU	EEUU
6	Austria	Italia	España	
7	Argentina	Malasia	Italia	
8	Portugal	Belgica	Malasia	
9	España	Polonia	Belgica	
10	Malasia	Portugal	Polonia	

Monthy exports of biodiesel



Evolution of the price of biodiesel, factory in Rosario, dollars/ton





About The Author

Carlos St. James is the Managing Director of Santiago & Sinclair, LLC, an advisory firm focusing on the clean tech sector in Latin America. He is also the founder and President of the Argentine Renewable Energies Chamber and Vice Chairman of the Global Renewable Fuels Alliance. In 2008 he was voted “Biofuels Personality of the Year” by readers of *Biofuels Digest*, and will soon appear in *Esquire* magazine’s annual “Best and the Brightest” issue for his work towards developing renewable energies in Latin America. He holds a masters degree in international relations from the Fletcher School at Tufts University. www.SantiagoSinclair.com.

Alternative Latin Investor

Speaks With

Colombia Real Estate Founder Chad Smalley

What brought you to Latin America?

My first experience to Latin America was Boquete, Panama which I went on a father/son trip to visit some family friends. At the time I was living in California and really fed up with the stress and lifestyle. I saw immediately that Latin America providing a different way of life which I fell in love with as well as seeing the amazing business opportunities.

Explain the core of your business

Our core business is very diverse like our clientele; our services range from helping foreigners buy or rent residential or commercial real estate, assisting Entrepreneurs with starting a new business or assisting large investment firms seeking hotels, community projects or more. Our mission is simple; we assist foreigners in every stage of the transaction either property or new business startup providing hard to find resources and contacts to make the process enjoyable and easy.

Why Colombia?

After living and working in Panama for the last 4 years in the real estate industry, I was able to see firsthand the massive real estate boom and really what created that boom. I easily see Colombia as the next Panama and bigger! Only 45-minute flight from Panama awaits an amazing vibrant country that offers 50% less prices, more diverse real estate and commercial options with much higher quality construction, climate, culture, lifestyle and business opportunities.

Why do you think Colombia is still over looked as a good investment?

Panama became great due to the skilled and experienced marketers and experience foreign real estate developers who promoted their project and promoted “Panama” as the place to be. Just like Costa Rica. However, Colombia has not had this great exposure yet, but that is soon to change and you will see Colombia headlines all over the news. The smart investors who “get in first” like they did in Panama or Costa Rica will reap the biggest rewards. You can see some amazing properties on our real estate portal and business directory here: www.colombiare.com

What kind of people or companies are contacting you?

Through our Colombia Network of sites we have seen a 100% increase in traffic within a few months from all over the globe. We receive many diverse requests ranging from North American or Canadian couples wanting to retire here to have a better quality of

life with their retirement funds, Colombia nationals wanting to return to their home country, foreigners living in Panama or Costa Rica wanting a better investment and quality of life, large scale investors, and foreign Entrepreneurs wanting to start a new business.

What types of properties are available in Colombia for the foreign buyer?

One of the amazing things about Colombia is its complete diversity in natural landscapes and habitats. There are amazing community style projects on the beach or in the mountains, New York style Penthouses in the city, large acreage finca's in the cool mountains with country style homes and much more.

Prices are diverse as well, but the average price per meter is much less than what you find in Costa Rica or Panama for example but this will soon change in a few years.

You keep mentioning Panama and Costa Rica compared to Colombia, why?

The comparison is to help people understand that the primary reasons that Panama and Costa Rica are so popular for foreigners in this moment are the following; Security, Investment Opportunities, and Marketing. After ten plus years of Internet marketing for real estate, I can safely say that the amount of Internet Exposure a country has directly relates to the amount of foreign real estate and new business growth as well as popularity. Colombia, in my opinion, has just as much or more to offer than these two very popular countries at the moment, I know for I have lived in both. However, the one primary contributor to the other countries success is the overall marketing and exposure they have versus Colombia. It's as simple as that.

Ok Besides Marketing, What Other Factors Makes Colombia Better?

Every country has positive and negatives for foreigners, but the most important factors are related to security with investments which I feel Colombia has more to offer. For example, real estate transactions are more secure, Colombia has a more sophisticated system for protecting both the buyer and seller such as use of Escrow, Title laws and more. Banking is very advanced here with online banking, e-merchant accounts, amazing 1st world service much more than the other countries in Latin America. Visas are issues quickly and easily versus waiting for months and months or never getting them at all like other countries. These are just a few; contact me to learn more if you are interested.

Colombia Real Estate is a company dedicated to serving the foreign market for real estate, commercial, new business startups, large investment firms, acquisitions and more. Our network of expert consultants, writers, lawyers, and real estate experts helps each of our clients find the best investments and consulting possible. Contact us today or join our Free VIP Member Program for expert consulting.

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Alternative Latin Investor Speaks with The Economist's Robert Ward

Mr. Ward is the Director of the global forecasting team. In this role he oversees the Economist Intelligence Unit's global forecast and, in cooperation with more than 100 country specialists, leads the company's response to changing economic and political trends. Robert also publishes the Economist Intelligence Unit's flagship monthly report on the outlook for the world economy and has special responsibility for the US economic and political forecast. He also plays a core role in communicating the Economist Intelligence Unit's forecasts to clients and other high-level audiences around the world in his capacity as one of the company's leading external speakers.

How have emerging markets fared during this crisis?

Eastern Europe had the biggest crash of any emerging market, putting them to one side, clearly Asia, the Middle East and Latin America are growing very well this year. Brazil has roughly about 7% perhaps a bit more, which is quite good. A few things have been driving this good performance, one of which is the stimulus, particularly in China. You can't really underestimate the importance of the Chinese stimulus to driving growth pretty much across the world. Obviously Brazil has benefited hugely from that, as a well as Argentina. That said, emerging markets are not as indebted, in terms of their consumers, places like Brazil have made a lot of advances securing macro-economic stability, which has allowed them to lower interest rates and stabilize currencies.

Describe the trend of inter-emerging market investment

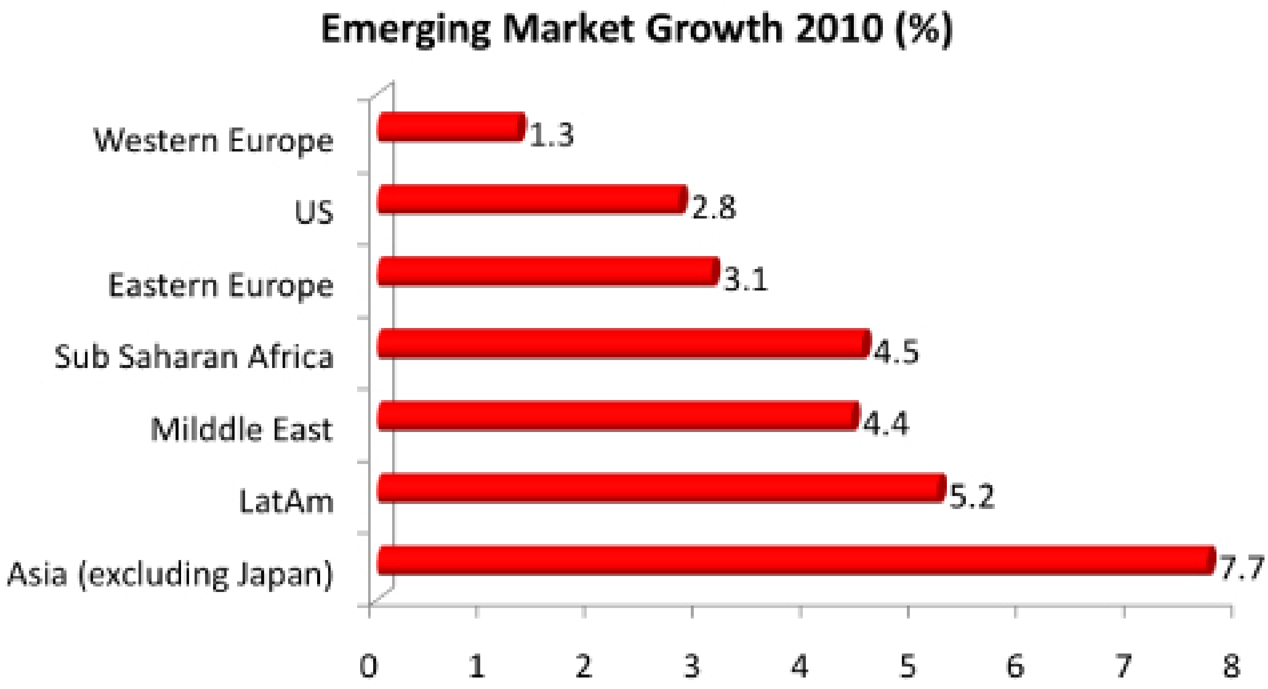
With China now importing more from Brazil than the US, this in particular, is going to be a nexus to watch. Expect to see a lot of investment to continue to come out of China, we expect that around 2014, we'll be looking at just over 100 billion USD a year going into FDI out of China. In terms of the Chinese buying companies becoming more sophisticated in their investment decisions, places like Brazil, some African countries, some European ones as well, will be affected.

What about intra-market trade, within particular emerging markets?

Surely that is something to look forward to, on a global level, but is already happening in places like Asia. As growth in these countries continues and they accumulate money they will have to seek a good return as growth begins to slow.

Do you see a cascade effect with FDI spilling over from Brazil?

I can't see why they wouldn't, at the moment the Chinese are particularly interested in commodities, which I think will change



as their investment gets more sophisticated. Panama for example is already a recipient of quite a lot of Chinese money, building out port facilities. This is one of the consequences of the crisis, this shifting of the global center of gravity as the US and Euro Zone are no longer the biggest source of funds for lots of countries.

Is Brazil getting over exposed?

You could argue that. Everybody loves Brazil at the moment, and why wouldn't they. You have the World Cup, Olympics, oil, a quite sophisticated industrial base, commodities – it's got everything everybody wants, it survived the crisis pretty well, the banking sector is fairly profitable. But this does create problems, for one, how to keep the exchange rate from appreciating too much, stop potential Dutch disease, building out infrastructure, raising the skill set of the population, etc. Brazil is very popular at the moment, but I think one should be aware of the challenges the government has, and it doesn't squander the opportunities that this wealth is generating. If the situation is handled correctly its a once in a lifetime chance to make the changes that need to be made to increase productivity, skill levels, economic efficiency, all of that. If its not handled properly and they defer reform decisions it will be a huge wasted opportunity.

How sustainable is China's growth?

There are two important forecasts: the US and China, and in some cases China's is more important. They do have problems, property bubble, credit bubble, their growth model needs to be completely re-tuned away from export towards boosting domestic demand. If they can do that, they can continue to grow quite quickly, as in lots of other big countries there is this urbanization dynamic which is good for growth. But this does mean they have to start thinking about opening capital account, making the exchange rate free floating before they can really unleash the power of domestic demand. It is quite a long term process, as the system which has given them the growth over the last 8-10 years is now broken, with the US and Euro Zone out for the count for the next 5, 6, possibly 10 years.

How does China's sustainability affect LatAm?

We think the days of China's double digit growth are probably gone, but never the less, 7, 8, 9% should be attainable over the medium term until towards the end of the decade when the demographic begins to age and the economy matures. While LatAm countries can be dependent on FDI, they do need to do these domestic structural reforms, increase resilience to external shocks, and enjoy the Chinese growth story while it lasts.

Robert Ward will be speaking alongside other senior editors from The Economist Group at their exclusive Brazil Summit in São Paulo on November 9th 2010. The event will bring together top business leaders, economists, government officials, academics and other important opinion makers for an insightful, forward-looking discussion about Brazil's business and investment prospects, and what needs to be done to sustain a dynamic economy.

For more information visit: http://www.cvent.com/EVENTS/Info/Summary.aspx?e=bf50d5db-b97b-442e-bb8a-68e29dd24c1f

Stocking up for World Cup 2014:

Charlie Martin

WOULD BRAZILIAN CORPORATE ENTERTAINMENT FIRMS BE WISE TO ORDER YEARS IN ADVANCE?

The Fine Wine commodities market continues to move at an impressive pace, with some Bordeaux wines achieving a 25% growth in value so far this year. It means those in the commercial world are having to plan ahead – and that is not a reference to bar and restaurant owners!

It may seem a fair distance away but much of the planning for Brazil's World Cup in 2014 is well underway, with massive investment programmes for such things as transport and stadia development already being implemented. Soccer fans across the world are waiting with baited breath to see the result of the renovated Maracana stadium, Rio's iconic shrine to the beautiful game, and the recently unveiled plans for the 'Arena Corinthians Itaquera' stadium, tipped to host the opening game. Indeed, according to Brazil's Ministry, $310 million has already been invested in the tournament's host cities, with billions more forecast over the next four years. No doubt all this activity will be alerting entrepreneurs in the tourist industry, who will all aim to slice up some of the massive profits possible from a visiting trade of 600,000 foreigners arriving four years from now. Selling tours will be fiercely competitive and tourist packages will no doubt be marketed with a good two years to spare.

A far more urgent concern however, for a very specific reason, falls on those in the niche Corporate Hospitality industry. Whether based in Brasilia, Sao Paulo or Rio de Janeiro, owners of the biggest Hospitality firms could learn a good lesson from their UK counterparts who are in the midst of preparations for the far more imminent 2012 Olympics. Most of the Hospitality industry's cost base for staging events will stay at consistent levels in the near term: such things as tours, function hire and events tickets will all rise modestly with inflation and therefore pose no budgeting dilemma whatsoever. However one aspect to do with catering budgets appears well worth planning for now: the Fine Wine list. This liquid asset will no doubt be poured freely in the banqueting rooms adjacent to the main event, and it's the fast changing cost of offering the world's best wines that provides the incentive to purchase significant volumes now, well in advance. In very basic terms, the huge increase in values of the world's prestige wine stocks make it a logical move to buy the best bottles today whilst they are much cheaper.

A typical client who books the services of a professional hospitality company is a Blue Chip corporate. The job of the hosting firm will normally involve entertaining the departmental Directors of international firms who see sports events as the ideal environment to cement a new business relationship or close a deal that has simmered for too long. These high flying networkers can be an uncompromising bunch and are never seen drinking a $10 bottle of wine when entertaining their guests; moreover if the wine doesn't feature a famous Bordeaux Chateau with a start price of a few hundred dollars then it simply won't boost the chances of closing that special deal.

> *"Initially my clients thought they would have a storage problem because these firms are not restaurants with their own wine cellars. We have helped them with that, and are looking after their stocks in a Government Bond where the wine can be stored in perfect condition for the next couple of years."*

So for the firms providing the wine lists it is common sense to start ordering the best wines now rather than wait, thereby enjoying for themselves the profit margin that the wine delivers as it rises in value. On paper it looks like a risk not to act now, with the opportunity to buy good stock that will otherwise cost up to four times the amount at the time of the event.

Currently in London, the clever Corporate Hospitality companies are adopting this strategy of "buy now, sell later" when it comes to the wine they will offer to a company's senior staff visiting London's 2012 Olympic Games. The facts make it easy to understand why: this year, the Liv-ex platform that issues data on wine price movement shows that this most traditional of asset classes is moving at the velocity of a penny share. Bordeaux wines are spearheading the wine market and as of the 31st of August 2010 the index read 303.58, indicating an increase of 33.4% year-on-year and 26.8% year-to-date (a 27% jump in 9 months – in the current climate it is difficult to think of other assets delivering that return). This is obviously exceptional growth and this price movement may not always show such pace, but it is symptomatic of the added demand from the BRIC economies for famous Clarets. Luckily for this small region of France it still commands the world's most distinguished taste buds – or ego's? – above all other wine producing regions.

So for the Hospitality firms it's worth hedging that over four years, a rough 30% annual incline in wine values presents both risk and opportunity for when the wines are finally consumed in 2014. For example, just one year ago, a wine that will be at its prime drinking age by Brazil's World Cup, the Chateau Lafite Rothschild, vintage 2005, was $12,000 per case, or $1000 per bottle; twelve months later it is now $16500 per case, nearly $1400 a bottle. So some firms are already kicking themselves, wishing they had bought some stock at least a year ago, even though they won't be popping the corks for another few years. Others won't be caught out, Chieko Aoki, head of the wide reaching Hospitality Management and Entertainment Services firm Blue Tree Group, reveals planning is well underway: "Being one of the main links in the tourist chain we are organising ourselves now so as to offer top end products and services at the time of the event."

Charlie Martin, Managing Director of First Growth Bordeaux, the investment wine specialists in London, offers his insight. "Three of my clients run Corporate Hospitality companies in London and they are definitely showing some decent foresight

Charlie Martin graduated with an International Business Degree from Brunel University, England.

He has been advising private clients on buying fine wines as part of an investment portfolio for over a decade and is now Managing Director of a successful wine consultancy business (First Growth Bordeaux Limited / www.firstgrowthbordeaux.co.uk) based in London.

He is also the Investment Advisor to the 'Fine Wine Top 30' fund (www.FWT-30.com) and writes an informal blog for buying wine En Primeur at http://bordeauxenprimeurblog.wordpress.com

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with regards to the Olympic Games. Whilst most of us here are just crossing our fingers that the arena will be built on time, these firms are buying up some incredible reserves of wine! One of them recently admitted to me that the appreciation in the value of his wine cases could provide the extra margin to pay for additional staff around the time of the event."

From the outside, it might appear that there would be logistical problems with buying vast quantities of wine, but Charlie points out that there's no operational concern: "Initially my clients thought they would have a storage problem because these firms are not restaurants with their own wine cellars. We have helped them with that, and are looking after their stocks in a Government Bond where the wine can be stored in perfect condition for the next couple of years."

Clearly some small firms could consider a negative cashflow aspect to buying wine now and waiting years for the sale, but with interest rates so low the view is that it is worthwhile extending an overdraft in order to buy an early position on the wine. Other firms with larger balances simply cannot ignore the cost savings; having to pay early is easily justified. Matthew Wright, the London based Regional Director at online trading services firm Forex.com, sums up the logic: "We will have a lot of entertaining to do around the Games, both with visits from our other offices and with our key clients and I was recently presented the costings of a hospitality function. It's not really something I get too involved in normally, certainly not at this stage, but when our marketing guy presented two scenarios of ordering the Fine Wine now for a certain price or risk paying three times as much at the time of the event I just had one answer.. buy yesterday!" That could prove to be sound advice for those in Corporate Brazil.

The Spectrum of Investors for Latin American Hedge Funds

Ron Suber, John Quartararo, Patrick McCurdy and Victor Hugo Rodriguez

In the past several years Latin American hedge fund managers have increasingly entered the competitive global race to win investment mandates. By and large, they have been successful.

LatAm funds were once shunned by many investors due to the “boom and bust” nature of many of the region’s economies. Coherent monetary policies were put in place in many of these regions, and as a result they developed well-capitalized banking systems with healthy credit. Many international focused investors have taken note over the past several years; those that began the due diligence process in China and India migrated to Latin America, where they have been particularly impressed by the “Brazil story.”

By 2007, in fact, direct international investments into the LatAm region exceeded USD 100 billion – an unprecedented level.1 With the increased demand for investment opportunities in the region came a crop of new fund managers with both enormous talent and a wide range of experience and sophistication. These managers set up shop at a very interesting time – one of the most historically robust for the region, and one of the most historically perilous for much of the global economy.

The hedge fund industry has since entered into a period of unprecedented uncertainty. Many existing and established funds are struggling simply to keep moving forward against redemptions and difficult market conditions. For those managers who launched in the past several years, while their initial goals may have been clear – get the fund up and running, build a track record and grow to the target AUM goal – the global financial crisis has knocked them off course.

Many investment managers made early infrastructure investments they felt were necessary to reach their goals: they bought advanced trading, reporting and risk technology products; took up expensive space; and hired top-tier talent. They built the foundation for a significant fund platform.

Then came the financial crisis and the ensuing turbulent market. The “ready” capital these managers expected to find early in their development was invested instead with larger, more established funds with better pedigrees and longer operating histories. Additionally, the revenue they anticipated from their “2 and 20” compensation structure never materialized: the management fees have suffered from smaller AUM, and performance fees suffered because the market has been difficult to navigate. Many of these funds are experiencing low single-digit returns and are still under or near their high-water marks.

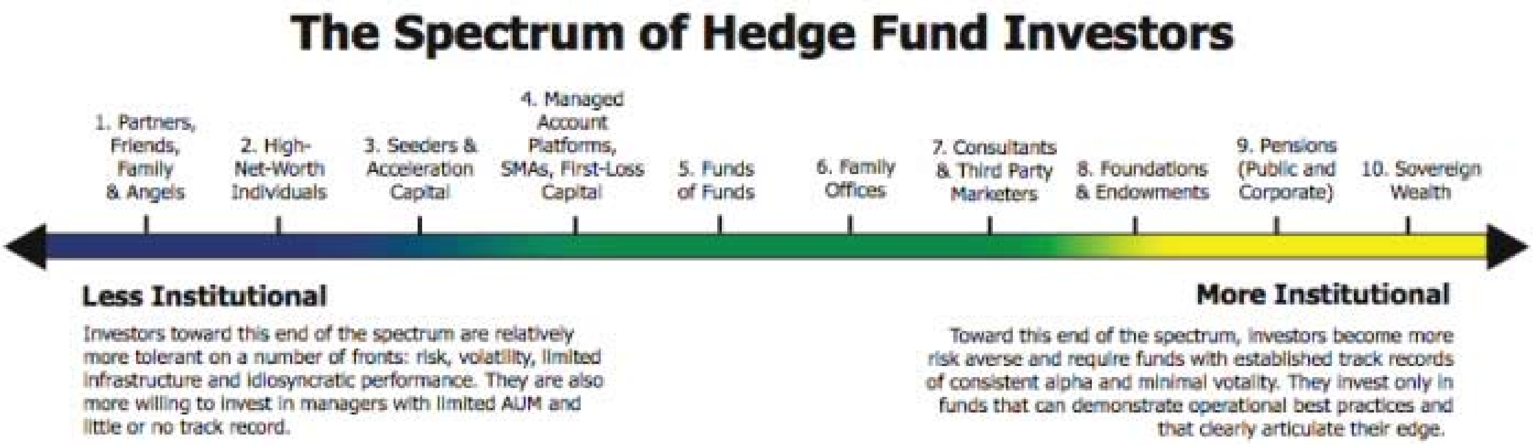
For these managers – as well as other existing managers whose revenues are simply not sufficient to support their operating expenses – today’s climate necessitates difficult decisions both for the top- and bottom-lines. Critical questions that must be asked include: What expenses should be reduced? How can managers grow AUM in this environment? How can a fund meet its day-to-day obligations and pay top-tier talent when the revenues are not where they need to be?

These questions are – at their core – the most basic questions any business manager must ask. And while little good has come from the financial crisis, one positive development has been the realization among many hedge fund managers that they are not simply managing a fund – they are operating a business.

This concept, while seemingly straightforward, is the key to moving up through the various levels of potential investors. For LatAm fund managers looking to advance up the spectrum, this is a particularly interesting time given the lessons the region learned from the economic crisis and the relative resilience LatAm markets have demonstrated.

The Spectrum of Hedge Fund Investors

The spectrum of hedge fund investors is arranged, generally, in terms of how “institutional” each type of investor group tends to be. Regardless of whether these investors are in fact “institutions,” by “institutional” we are referring to the level of general requirements each investor group places on their hedge fund managers: assets, operational practices, risk management framework, track record, reporting and so forth. Similarly, “institutional quality” simply refers to a fund’s level of preparedness to meet the increasingly rigorous requirements of investors further up the institutional scale. Just



as the spectrum goes from risk-tolerant to risk-averse, as a general rule of thumb, hedge funds can assume that if they are ill-equipped to meet the needs of one level of investor, they are unlikely to realistically be able to target any higher, more risk-averse levels further along the spectrum. Many LatAm managers are not settling with their current investor base level on the spectrum, but instead are slowly but surely escalating toward the higher end.

A CLOSER LOOK AT EACH LEVEL OF THE SPECTRUM

1. Partners, Friends, Family & Angels

Overview: Friends and family members are the inner circle of investors. They have close relationships with the general partner(s) of the fund, including in many instances a prior investment relationship. General partners of a fund traditionally make a significant investment of their own net worth into the fund to demonstrate an alignment of interest with their limited partners.

When to access: Prior to Day 1. These investors often comprise a significant portion of a fund's launch capital.

Advantages: The personal relationships that often exist among these investors may enable a manager to find capital without overcoming the institutional hurdle – i.e., without having a significantly developed infrastructure, team, track record and AUM. These investors will also likely require minimal due diligence and will stay with the fund through various market cycles as patient investment capital.

Challenges/Limitations: While these investors are helpful as first movers of capital, they typically make small investments. They may get a fund up and running, but they do not help achieve critical AUM – i.e., a level of assets that allows investors further up the spectrum to invest without becoming a significant portion of overall AUM.

2. High-Net-Worth Individuals

Overview: As a non-institutional group of investors, high-net-worth (HNW) individuals are accredited investors or qualified purchasers as defined by the U.S. Securities and Exchange Commission. In Latin America, managers have the advantage of a local landscape that tends to have wealthier individuals relative to other regions in the world. They have the ability to invest based on referrals from personal relationships. Managers may access HNW individuals by networking with friends and family, current and past investors, executives of the companies the fund covers, hedge fund databases, consultants and third-party marketers.

When to access: Prior to Day 1 and early in a fund's development.

Advantages: Similar to the friends and family group, these investors are often willing to invest in managers that do not satisfy the rigorous requirements of institutions and who have smaller AUMs. They should be longer term investors, typically.

Challenges/Limitations: Check sizes are smaller, investors are harder to source and background and due diligence checks are potentially difficult to perform. Many HNW investors will require access to the portfolio management team, which can become a strain on PMs.

3. Seeders & Acceleration Capital

Overview: Investors who provide seed or acceleration capital receive compensation for their investment, often in the form of a revenue sharing agreement or equity ownership. These investors can provide Day 1 funding from $5 to $100+ million, and that capital is typically provided by one of the 20 traditional seed capital providers, other hedge fund managers, HNW individuals, investment clubs or private equity firms.

This capital is also often used to help spinout funds that are seeking to replicate their previous funds. Once a fund is able to secure this level of capital, they typically are at the first level of critical AUM for marketing to other investors. Acceleration capital is provided to managers who have already launched but are willing to enter into a partnership with an investor to quickly ramp up their AUM level.

When to access: Prior to Day 1, or anytime for acceleration capital.

Advantages: These investments, typically larger in size, enable a manager to reach critical AUM, which in turn opens the door to the first levels of institutional investors, especially those with lower AUM requirements.

Challenges/Limitations: While seeders are willing to invest early with managers, typically they require a revenue sharing agreement or an equity stake in the fund. Given their unique ability to invest significant capital with unproven managers, seeders are extremely sought after. They see many opportunities, but invest in few.

4. Managed Account Platforms, Separately Managed Accounts, First-Loss Capital

Overview: This group of investors requires that their investment be placed in an investor-owned account segregated from the commingled fund. The manager will act as the trading advisor to this account, and while most often traded pari passu, in some cases investors will require additional strategy constraints or risk parameters be applied to the SMA. This source of capital has enjoyed a major surge in popularity by investors and acceptance by managers following the broad market redemptions and gating of 2008. Their popularity is due to the benefits they offer to investors, including transparency, ownership of the account and liquidity through control of assets. Other investors take these benefits one step further and require managers to put up capital into a separately managed account to serve as first-loss capital, thereby creating a principal-protected account.

When to access: SMAs provide liquidity and transparency and thereby enable investors to gain comfort at any stage of the fund's lifecycle.

Advantages: SMAs provide an additional revenue stream to support the business and help build out infrastructure. Taking capital into an SMA shows AUM growth and fundraising momentum.

Challenges/Limitations: SMAs increase the operational complexity for a manager. The assets are not invested with the commingled funds and therefore do not assist in targeting larger investors who, because of their minimum investment size, are limited by the total fund size.

5. Funds of Funds

Overview: As the name suggests, FOFs invest capital across a range of hedge funds. Given today's competitive capital raising environment, and the fact that FOFs typically have a sophisticated investment team that conducts multiple layers of manager due diligence, FOFs can take 6 to 18 months to make an initial investment. Before engaging with FOFs, be sure that a true partnership relationship is possible.

When to access: Once a good source for Day 1 capital, since 2008 FOFs have been less likely to be early investors, preferring instead to look at more established managers with track records of producing alpha and a proven ability to manage their business. Newer managers will be monitored until an investment strategy can be verified by their performance metrics.

Advantages: FOFs are active allocators of capital and are most likely to invest if the fund's strategy is of current interest and the fund is performing well. However, this active allocation practice cuts both ways: underperforming managers or those managing out-of-favor strategies may suffer redemptions. FOFs have a general reputation of having higher turnover rates than institutional investors further up the spectrum, but this must be taken on a case-by-case basis.

Challenges/Limitations: Managers need to perform due diligence on the FOF to understand who are their underlying investors. FOFs may have an unstable capital base and therefore be subject to underlying redemptions. That means they may be "hot money" – i.e., having to redeem capital from managers.

6. Family Offices

Overview: A family office is an organization built to manage a family's wealth and can be administered by the family itself or by a team of investment professionals. Often incorrectly lumped into one bucket, family offices can vary significantly in terms of their level of investment expertise, sophistication, strategy interest and risk tolerance. Smaller family offices allow for closer access to the money, but allocations may be smaller ($1–$5 million) to start. Larger family offices often require as much due diligence as institutional investors and tend to allocate in larger sizes ($5–$25 million). This is particularly true of multifamily offices, which manage assets for a number of HNW individuals and families. The sophistication and expertise of multifamily offices are often at a level more consistent with larger institutions. After HNW individuals, family offices are the second strongest funders of smaller LatAm managers.

When to access: As family offices have varying mandates that enable them to be opportunistic, they can be accessed throughout a fund's lifecycle.

Advantages: Family offices typically have flatter structures that allow managers to get closer to the decision makers and may lead to a shorter due diligence process.

Challenges/Limitations: Unsophisticated family offices may overweight AUM and name brand recognition in their due diligence process and therefore only allocate to the largest, most pedigreed hedge fund managers. Managers with smaller AUMs may find the unsophisticated segment of this group to be very challenging to access. More skilled and seasoned managers may see opportunity with less sophisticated family offices – these managers can distinguish themselves from their less experienced regional peers.

7. Consultants & Third-Party Marketers

Overview: Putting together these two groups is more a function of the outsourced service they provide rather than the similarity of that service. Consultants often work in an advisory capacity to investors, while third-party marketers work as an extension of a fund's marketing efforts. Fundamentally, what each group provides is "access."

Many consultant relationships are set up in an advisory capacity for investors who have decided to outsource a portion of their investment process. Therefore, while consultants do not have discretion to invest capital, they do provide investment options to their underlying investor.

Third-party marketers act as an extension of a fund's marketing efforts and enable the fund to reach a broader universe of investors. Some third-party marketers might focus on HNW individuals; others may provide access to institutions and some may have regional and global reach.

Understanding to whom consultants and third-party marketers are speaking enables managers to determine whether this relationship will be appropriate. Approval on one of these platforms can lead to rapid asset flows, so capacity and AUM targets must be clearly defined.

When to access: There is no set timeframe to begin reaching out to consultants and third-party marketers, but typically only after a fund has reached out to the previous levels of investors can these groups be accessed.

Advantages: These groups provide easy access to a broad and diverse investor base.

Challenges/Limitations: The biggest challenge with these groups is that the fund strategy must have capacity. Once approved, a fund may receive a steady flow of assets. While it may be costly to use third-party marketers, especially if they are simply leveraging performance numbers, they can be of great benefit if they have real investor relationships. In recent years LatAm managers have focused heavily on direct marketing strategies. Consultants and third-party marketers may therefore be able to find opportunities in the region.

8. Foundations & Endowments

Overview: Endowments and foundations are institutional investors that manage the assets of schools and nonprofit organizations. Because the organizations they represent are permanent, these groups invest with exceptionally long-term time horizons.

The longer time horizons translate into sticky capital – i.e., a lower turnover rate in the portfolio. However, that also means that there are fewer opportunities to be added to the portfolio and that the chances of receiving an allocation are proportionately decreased. This investor group is particularly of interest to LatAm managers as we expect foundations and endowments to sharply ramp up their investments in the region in a quest for further diversification.

When to access: Foundations and endowments are essentially untouchable until a fund can demonstrate true institutional quality. There is no value in approaching these investors before the firm's infrastructure has been built out and the fund has demonstrated staying power and a track record of producing alpha. Only funds in Stage 4 (see below for an explanation of the Stages of a Hedge Fund's Development) of their lifecycle need focus on these and subsequent investors.

Advantages: These groups can make significant investments of long-term capital.

Challenges/Limitations: The low turnover rates among these investors mean less opportunity to be added.

9. Pensions (Public and Corporate)

Overview: Pension funds are responsible for preserving and growing capital for companies and governments which is used to support their employees upon retirement. There is a wide range of investment expertise represented by pensions. Some are staffed by highly experienced investment professionals, while others are managed by people with little financial experience. The former will invest in a wide range of strategies to produce a diversified portfolio of strategies, whereas the latter may disproportionately invest with blue chip, pedigreed managers or outsource their research process to consultants. Understanding the different types of pensions will help managers effectively navigate these investors.

When to access: Pension funds have the ability to invest with hedge fund managers at any point in their lifecycle, but given the long-term nature of these investments and their size, they typically spend the majority of their due diligence energy on established, blue-chip managers. With that said, many pensions can be opportunistic with their investments.

Advantages: These groups make significant investments and represent sticky capital. Additionally, for LatAm funds, ongoing regulatory changes are addressing some of the requirements put forth by this investor group and will make more allocations to mid-sized and big funds possible.

Challenges/Limitations: Pensions vary widely in their sophistication. Pensions have ERISA considerations and need to have transparency into a manager's portfolio to understand leverage levels. They may require a separately managed account for transparency purposes.

10. Sovereign Wealth

Overview: Sovereign wealth funds are entities set up by governments to manage a country's wealth through long-term diversified investments. Wealth is often generated by capital account surpluses in natural resource rich countries. Because these funds are so large, capacity becomes one of the critical considerations; managers must be able to accept $500 million to $1 billion as a minimum investment size. Therefore sovereign wealth funds usually deal with only the largest hedge fund managers.

When to access: Managers must have a fully built-out infrastructure and the capacity in the fund to take in a large investment.

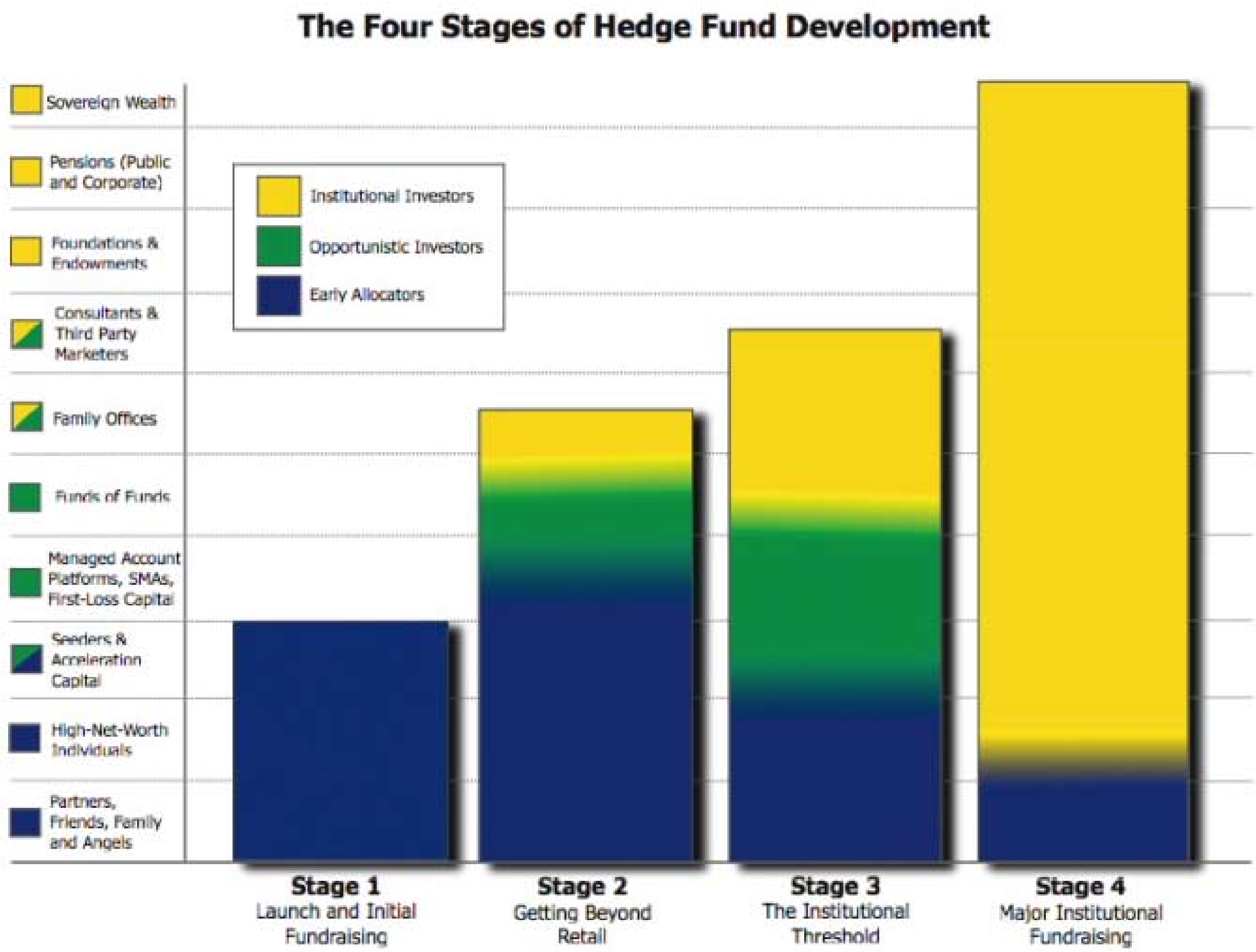
Advantages: Sovereign wealth funds have the ability to write very large checks and are fairly stable with their investments.

Challenges/Limitations: The strategy must have the capacity for large investments, and typically only funds with AUM of at least $5 billion have the necessary infrastructure in place to take on such large allocations. Additionally, such larger investments mean that to maintain a liquid strategy managers will be forced up the market cap curve, which might constrain strategy. These investors are often costly to access and conduct extensive due diligence.

PROGRESSING ALONG THE SPECTRUM — THE FOUR STAGES OF A HEDGE FUND'S DEVELOPMENT

Once hedge funds have a firm understanding of the various types of potential hedge fund investors, the next step is to tailor their marketing program to attract the types of investors most appropriate for their stage of growth, their size and their level of institutional preparedness – that is, the robustness of their platform in terms of operations, risk measuring and management, controls and so forth.

The macro outlook is currently favoring the Latin American region where (of course) most of the LatAm managers have an edge and understand that institutional quality is no longer an option but is a requirement. Showcasing the portfolio's performance, providing the right infrastructure, conveying how perfor-



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mance is repeatable and alpha-driven versus beta-produced, getting offshore vehicles ready, being wiling to accept separate managed accounts – these types of proactive measures are helping LatAm managers better capitalize on this opportunity.

LatAm hedge funds should approach their marketing program in roughly four stages, as highlighted in the diagram that follows. These are not meant to represent unbending rules or firm boundaries, but rather to serve as a guideline to understanding how much attention a fund should be committing to attracting the right type of investors at the right times. Additionally, the stages should be used as a guide to help managers think about what aspects of their marketing program need to be ramped up as they move to each step of the spectrum.

Stage 1, Launch and Initial Fundraising, represents the very early days of a fund's development, including the prelaunch activities of securing initial investment capital. These investors are typically individuals known personally to the manager or seeders which require only a baseline of institutional preparedness.

Stage 2, Getting Beyond Retail, should also take place relatively early in a fund's lifecycle, ideally within the first 180 days. At this stage, managers have established a groove, the fund is functioning well on a day-to-day basis, core personnel and systems are in place and the fund has established clear marketing materials for targeting entry-level institutional investors.

Stage 3, The Institutional Threshold, represents a significant hurdle for most funds. At this stage, managers have successfully gotten several small institutional commitments, perhaps from family offices, consultants and third-party marketers. Now they are ready to break into institutional investors who will require significantly more. We have written extensively this year about the many requirements that come into play at this level.2

Stage 4, Major Institutional Fundraising, is only attainable once all of the aforementioned requirements that we have outlined this year are satisfied: the manager must be able to articulate their "edge," adhere to best practices and demonstrate a significant track record of repeatable performance with minimal volatility. Even when all these conditions are met, getting institutional capital is difficult and takes significant time. In today's environment, institutions can take many months reviewing a small number of funds and ultimately pass on most of them. When they do commit, however, these investors typically bring very significant capital to the table.

Many LatAm managers have begun to recognize the advantages of building up their office presence with investor relations staff in at least one key global money center. This step, usually undertaken in the third or fourth stage, provides critical access and makes it easier to manage language barriers and geographic differences that can affect business relationships. The third and fourth steps, incidentally, generally pose an outsized challenge to LatAm funds, who often have difficulty breaking through and reaching the largest investor targets.

It is critical that funds understand which stage of development and growth best describes them and that they then focus their efforts on the respective targets. Just as seeders are inappropriate targets for a $10 billion fund, pensions are not the optimal target for a $1 million startup fund without a track record. Time spent marketing is valuable and should be treated as such.

In order to advance through the four stages, managers need to demonstrate increasingly that their infrastructure is robust, that the investment process and results are repeatable and that the fund is truly running a business. A fund's collective marketing efforts, outlined in the next section, should reflect these criteria.

MARKETING ACROSS THE STAGES

First, some basic definitions. Marketing, sales and communications are three terms that are often interchanged, but they have distinct definitions:

- Marketing represents a firm's collective efforts to reinforce existing relationships and engage new opportunities. Marketing encompasses both sales and communications.
- Sales is the private introduction of the firm and its relevant product offerings.
- Communications is the public introduction of the firm's brand and range of products.

While sales and communications are different disciplines that produce different results, they are naturally symbiotic. When synchronized, they amplify each other and the overall marketing program.

As funds progress through the stages of their development, a number of marketing activities need to be ramped up at each stage. LatAm funds in particular typically require additional guidance on marketing and distribution and often benefit from guidance on selecting the appropriate distribution platform.

Specific examples of the types of sales and communications efforts that funds should think about as they move through the spectrum include:

Sales activities

- Maintaining ongoing dialogue with existing clients for additional funding; for LatAm funds, this often entails improving language skills
- Demonstrating transparency and liquidity – two issues that are of special import for LatAm managers
- Encouraging existing clients to introduce new potential investors
- Consistently communicating with strategic partners about business growth and fund performance
- Supporting foundations and charitable organizations and joining their boards (activities which, importantly, foster enormous personal growth as well)

- Maintaining connections with university endowment groups and alumni
- Developing relationships with the senior management of companies held in portfolio
- Identifying target investor regions and scheduling international road shows well in advance
- Emphasizing the use of offshore vehicles instead of onshore-only structures
- Communications activities
- Upgrading pitchbook content and design to reflect the fund's size and sophistication
- Refining and improving investor letters and broadening the distribution list
- Upgrading the website
- Getting membership to additional investor databases
- Speaking and attending investor conferences
- Creating and distributing white papers that demonstrate thought leadership
- Developing and fostering relationships with key industry media
- Attending prime broker capital development events

CONCLUSION

Clearly the landscape has changed dramatically for hedge fund managers and the investment community over the past several years around the globe. And so, too, have the investment approaches of each level of the spectrum changed. For hedge funds seeking to reach the next level of AUM, it is important to understand where the fund is in its lifecycle, which investors should be targeted and what each of those investors requires. Only then can a fund begin to organize its overall marketing strategy to meet increasingly stringent investor requirements.

Latin America is no exception. The region will see a reemergence of talent and balanced risk taking in the hedge fund sector. Even with the relatively promising outlook, managers must be prepared to compete in a tough global environment.

All four authors are with Merlin Securities. Ron Suber is senior partner and global head of sales and marketing; John Quartararo is partner, sales and marketing; Patrick McCurdy is partner and head of capital development; and Victor Hugo Rodriguez is partner and head of Latin America sales.