



FOCUS

INVESTING IN BRAZIL
SPONSORED EDITORIAL

FOCUS ON: Investing in Brazil

As fund markets within the Latam region continue to improve their standing as investment destinations, Alberto Elias of BNY Mellon takes a look at the advantages Brazil holds



ALBERTO ELIAS
managing director,
BNY Mellon Asset
Servicing in Brazil

Opportunity, stability, and a highly effective legal system are part of the new formula that is increasingly helping Brazil lure investors from the world over.

Brazil is a country full of paradoxes. On one hand, it has the social problems typical of developing countries, such as inefficient spending and public service, lack of infrastructure and political scandals. It wasn't by chance that former French president Charles de Gaulle allegedly said in the 1960s: "Brazil is not a serious country."

But things have changed a lot since then, and there's no doubt both Brazilians and the world take the nation seriously. Seven ministers were ousted from the current administration on charges of corruption, and although more work lies ahead, Brazil has been successful in its climb onto the world stage.

Let's look at some examples. Brazil's capital market is regarded as highly regulated, transparent and efficient. There's good reason for that. An important factor behind the financial sector's efficiency was the surging inflation that plagued Brazil for years, which forced everyone to embrace technology to minimise the

time needed for bank transfers and cheque clearing. No one wanted to see their money made worthless by inflation and every minute counted. In the 1980s, a money transfer between two banks occurred on the next day, which was already quite advanced compared to other countries. In 2002, the Brazilian Payments System was implemented, permitting immediate money transfers between banks. From then on, banks' reserve accounts were impacted in real time, making for a much more secure financial system overall.

The investment funds market in Brazil reflects similar safeguards. All funds are regulated, asset prices are marked to market and their NAV/share is disclosed daily. Fund administrators must have a pricing manual registered with the self-regulated entity, containing their methodology for calculating asset prices. Even alterna-

tive investments, a private equity fund for example, need to calculate and disclose their NAV/share daily¹. Regulators oversee all these requirements, while administrators must apply daily breaches control, risk (VAR and stress test) control, and liquidity control.

Essentially, two institutions regulate the Brazil investment funds market. The CVM (Comissão de Valores Mobiliários), which is similar to the Securities & Exchange Commission (SEC) in the US, and ANBIMA (The Brazilian Association of Financial and Capital Market Entities), a self-regulated entity that is more than just a nurturer of good market practices. ANBIMA monitors the market, asking questions on a daily basis and applying sanctions and levying fines where it deems necessary. Regulation and self-regulation measures are highly detailed in Brazil. Even typical gray areas, such as what may be booked as fund expenses, are spelled out in the regulations. And CVM's web site has the NAV/share, by-laws and portfolio² of every fund on the market.

It's not unusual for me to be approached by large global financial institutions interested in operating in the Brazilian market, but cautious in their first steps. And it's equally fas-

Fund Industry: November 2011

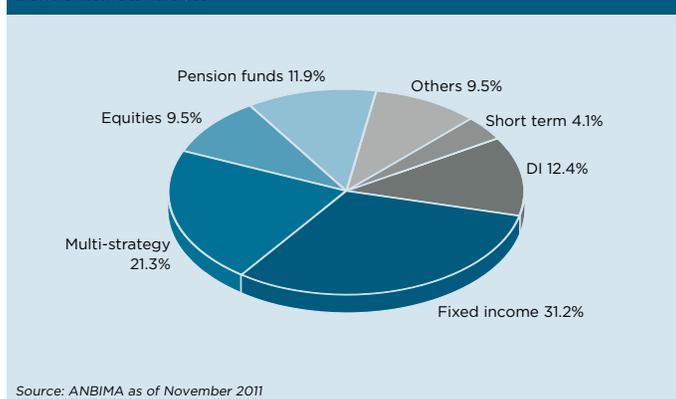
- Local Market
- Approximately \$990bn in AUM
- 11,339 funds



FOCUS

INVESTING IN BRAZIL
SPONSORED EDITORIAL

AUM distribution



cinating to see such institutions show a little surprise as they become better acquainted with and impressed by the country's sophisticated legal system and its wide range of professional service providers. Brazil today boasts a great number of expert law firms, fund administrators/RTAs, custodians and distributors able to meet and exceed the most demanding due-diligence process.

Brazil offers global organisations and investors many options arising out of the country's positive economic outlook for the coming decades. Government treasuries, clearly the most conservative investment, are now yielding double-digit returns. Stocks trading on BOVESPA, Latin America largest exchange³ by market value, are attractive when compared with those abroad, due in many respects to both inherent growth potential as well as the rigid governance standards imposed on listed corporations. Another sizable opportunity is in commodities, a promising market in a nation extremely rich in natural resources. The developing private equity market also brings notable opportunities, and Brazil's real estate market has lately exceeded expectations with its rapid growth.

Still, the market for funds in Brazil remains largely untapped by global

investors. According to ANBIMA data as of October 2011, the Brazilian fund market has 11,339 investment funds, managed by 439 fund managers, totalling about \$990bn in assets.

Brazil is witnessing a special moment in its history. It is widely known that the country will host the next

World Cup in 2014 and the 2016 Summer Olympics. Brazil's currency is stable and inflation has been held in check since 1994. Its healthy macro-economic picture looks even brighter amid the eurozone and global debt crisis. The country is poised to become the sixth-largest economy in the world in 2012⁴, behind only the US, China, Japan, France and Germany, and with an attractive risk-return tradeoff.

Whether one's interest leans toward investing in the Brazilian financial markets or becoming a local player, the question for global institutions shouldn't be "Do I pursue an opportunity in Brazil?" but rather, "How soon can I get started?"

¹ Even if a company's value does not change from one day to the next, the NAV may vary due to the appreciation of liquid assets and/or fund expenses.

² With a certain lag and respecting the right of the Investment manager to hide part of the strategy.

³ Source: World Federation of Exchanges

⁴ Source: CEBR (Centre for Economics and Business Research Ltd)

This article is the view of the writer and does not necessarily represent the views of the BNY Mellon organisation.

BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation and may also be used as a generic term to reference the corporation as a whole or its various subsidiaries. Products and services may be provided under various brand names, including BNY Mellon Asset Servicing and BNY Mellon Asset Management. BNY Mellon Asset Servicing is the brand name encompassing BNY Mellon's affiliated companies that provide the services referenced in this article. BNY Asset Management is the brand name encompassing BNY Mellon's affiliated investment management firms and global distribution companies. Products and services may be provided by various subsidiaries, affiliates, joint ventures and in some instances by third party providers of The Bank of New York Mellon Corporation where authorised and regulated as required within each jurisdiction, and may include The Bank of New York Mellon, One Wall Street, New York, New York 10286, a banking corporation organised and existing pursuant to the laws of the State of New York and operating in England through its branch at One Canada Square, London E14 5AL, England. Registered in England and Wales with

FC005522 and BR000818 and authorized and regulated in the UK by the Financial Services Authority. Not all products and services are offered at all locations.

The material contained in this article is for general information and reference purposes only. It is not intended to provide legal, tax, accounting or other professional advice or investment advice on any matter, and is not to be used as such. This article, and the statements contained herein, are not, and should not be construed, as an offer or solicitation to buy or sell any products or services mentioned or an endorsement of any products or services. The investment products and services mentioned in this article are not insured by the Federal Deposit Insurance Corporation in the United States (or any other state or federal agency in the United States), are not deposits of or guaranteed by The Bank of New York Mellon Corporation or any bank or non-bank subsidiary thereof, and are subject to investment risk, including the loss of principal amount invested. Past performance is no guarantee of future results.

Mutual fund investors should consider the investment objectives, risks, charges and expenses of a fund before investing and should obtain and read carefully the fund's prospectus before investing.