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As Director of the LatAm chapter of the Hedge Fund Association, what is your overall opinion on the state of LatAm based hedge funds?

The state of local and regional hedge funds is a great indicator of the state of the regional capital markets. For the last ten years, LatAm hedge funds have shown a strong and steady growth primarily due to the activities of hedge funds based out of Brazil. What are the main reasons? Excellent macroeconomic policies, great political leaders and the fact that the Brazilian mutual fund industry evolved in such a way that facilitated the development of hedge funds, under the regulation of the local Comissão de Valores.

Currently, more than 80% of LatAm hedge funds are headquartered in Brazil.

While Brazil has taken the lead in recent times, the hedge fund industry in other LatAm countries will benefit in the short to medium term future as the quest for alternative investments among asset managers around the world continues.

The regional industry showed relative strength during the market dislocation of 2008. The performance of LatAm hedge funds only declined 4.98% which showed that capital preservation was of the utmost importance for managers. While one can claim that the BRIC economies have fallen a bit behind lately, there is no doubt that, among them, Brazil represents a great entry point in the event of a healthy pull back.

Do these hedge funds invest regionally or in a particular country?

Interesting question. Practitioners always try to invest in their own countries because of the comparative and competitive advantages they can have. However because managers look for liquidity, diversification and new investment opportunities it is natural for them to adopt a regional perspective. Currently, some hedge fund managers have two main portfolios (sub-funds): (i) the domestic portfolio and (ii) the LatAm ex-Brazil portfolio.

Why would a hedge fund manager have an ex-Brazil portfolio?

Well, like I said before, 80% of the hedge funds are based out of Brazil. A hedge

fund manager from any other LatAm country will find it hard to convince investors about his/her expertise in the Brazilian market. It is easier to sell the comparative and competitive advantages you may have in other countries.

The line between hedge funds and private equity funds is getting more and more blurry in more consolidated markets, is this case too in Latin America i.e. do hedge funds invest in private equity?

Hedge fund managers can and do invest in what are now called “special opportunities”. Private equity investments are very important for institutional investors around the world and Latin America is not an exception. However, as the region begins to see more Initial Public Offerings, I think that the typical hedge fund managers will stick to listed equity in-

vestments. You should note that the technological infrastructure of regional stock exchanges is more than ready to handle large trading volumes as more investors and issues access the regional capital markets. Also note that in order for IPOs to continue growing, governmental incentives are needed for family business to consider trading off opening their companies for public scrutiny. To finish, it is important to remember that a great number of hedge funds in Latin America have a very important mix of equities and credit (bonds) in their portfolios; this is the way they prepare for possible times of increased volatility. They are pretty savvy managing risks these days.

Are there funds of hedge funds active in Latin America?

This is also a very interesting question. There are funds of private equity funds

LATIN AMERICAN HEDGE FUNDS

LIQ talks to Victor Hugo Rodriguez,
Founding Director of The Hedge Fund
Association (HFA) – LatAm Chapter

and hedge funds. This is because institutional investors from the United States, Europe and Asian consider these vehicles to be very valuable and are willing to pay extra fees for the know-how of where to invest considering the large number of hedge funds in the region in order to reduce their exposure to operational risks. This is interesting because funds of funds are retreating in other regions. Worth commenting as well is that local pension funds are currently analyzing these investments for potential changes in the future.

Given your job as Director of LatAm Alternatives you are probably the right practitioner to ask about how do LatAm's institutional investors view alternative investments.

At LatAm Alternatives we deal with North American and Latin American institutional investors. In the case of LatAm institutional investors they have been rather cautious. For these investors, education is and has always been a very important issue. This particularly true after the big mistakes of 2008 and fraud cases such as the well known Madoff case. Having said this, the LatAm institutional investors are eager for solid, transparent and sound alternative investments opportunities because of the diversification benefits, adjusted volatility and returns.

What are some of the main concerns global institutional investors have when it comes to analyzing potential alternative investments in Latin America?

They consider the following aspects: (i) liquidity of the investment strategy; (ii) strength of the strategy (iii) the team's professional and academic background and what kind of relevant exposure the team's members have had; (iv) fund's size; (v) market's size; (vi) social and political stability of the country; (vii) correlation between the fund's past performance and the economy and world's markets; (viii) the custodians (Multi primes perhaps); (ix) what type of risk management tools the fund's manager is using; and (x) how the manager separates alpha from beta and how he/she actually generates returns.

How do they approach the due diligence of these vehicles?

Institutional investors have rigorous due diligence questionnaires and they also perform internal investigations of potential investments. They also hire firms such as LatAm Alternatives as consultants to know "who is who" which is critical when negotiating.

Are there infrastructure funds active in the region?

Of course. In the alternatives markets there are three fundamental areas: market strategies, private equity and infrastructure. There are funds active in Brazil, Mexico, Chile, Peru, and Colombia. I would like to mention that these types of funds will grow even more in the next decade due to the consolidated expansion of middle class in Latin America and the great infrastructure need in the region.

If so, what is the state of these funds?

They are very active particularly because local institutional investors find them as a very appropriate investment. As I mentioned before, infrastructure funds together with hedge and private equity funds will all keep on growing because there is a lot of liquidity out there and the region's middle class keeps expanding.

On a last note, people that work in the capital markets and particularly in Alternative Investments around the world have a particular mission to "give back to society" in the form of philanthropy. We in Latin America should do the same. There are no excuses. If you can't give out monetary resources you can give out your time. We will be proactively promoting The Hedge Fund Care in Latin America. Our countries need our help and we the LatAm Hedge Fund Community will step in even further. Please visit <http://www.hedgefundscare.org/>

Victor Hugo Rodriguez

Victor Hugo Rodriguez is the Founder and CEO of LatAm Alternatives. Victor Hugo has over 17 years of experience in Management, Sales, Marketing and Business Development across the securities industry in the US-LatAm region. He was Partner and Head of Latin American Prime Brokerage for Merlin Securities (Mid Tier Prime Broker) and Director of Global Institutional Sales at Trade Station Securities. Before he worked as Director of Latin America for Terra Nova Trading (now Light Speed Trading) and in the late 90's he was the Founding President & CEO of Pristine.com Latin America. He has been a live TV Economics News Anchor and currently serves as the Founding Director of The Hedge Fund Association (HFA) – LatAm Chapter. Also he is Member of the STAF Board (Security Traders Association) of Florida and Member of the Board of Advisors at Emerging Markets Virtual Exchange (EMVx). Recently he co-published a white paper "The Spectrum of Investors for Latin American Hedge Funds", and has been interviewed by The Wall Street Journal, Institutional Investors, EuroMoney, Bloomberg, The Trade News, Traders Magazine LatAm Fund Manager, Financial Times, Inversiones.com, FinWeek, Finalternatives, HFM-week, Yorba TV Alternative Latin Investors Magazine and Funds People during the last few weeks.

