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HEDGE FUND
SPECIAL ISSUE

LatAm's Maturing Hedge Fund Industry

■ ALI Speaks with Victor Hugo Rodriguez of LatAm Alternatives



As they did in 2011, LatAm hedge funds are leading the world in returns in 2012. According to the November Eureka Hedge Report, which tracks global returns through October, LatAm is up 8.17% in 2012, well head of Asia ex Japan, with 6.40%, and emerging markets in general, with 6.14%. These are impressive numbers for a relatively nascent hedge fund industry that is still off many global investors' radars.

Against the backdrop of this positive news, ALI spoke recently with Victor Hugo Rodriguez, Founding Director of the Hedge Fund Association LatAm Chapter and President & CEO of LatAm Alternatives, a third-party advisory boutique for investors and asset managers entering or working in the LatAm region. A leading advocate for LatAm hedge funds and alternative asset investing, Mr. Rodriguez spoke to ALI about the reasons behind LatAm hedge funds' strong and steady performance, the important maturation the industry has undergone in the last 2 years, and what it all means for the region and the world.

ALI: How have LatAm hedge funds been performing over the last 2 years?

Victor Hugo Rodriguez: It's actually been rather amazing how well they've performed. If you look at hedge funds specifically, every region has lost money – not every manager and fund, of course but every region overall – but LatAm funds went up over 2% in 2011 and are leading the world in 2012, at over 8% — the best positive performer. Those numbers are amazing given the uncertainty of the last 2 years and the poor performance among hedge funds worldwide, and they're telling the world how well prepared LatAm is to really manage global money.

ALI: Why do you think LatAm has outperformed Asia, even though both markets are growing?

VHR: I think the main reason is the region's talent, especially in Brazil. It's no secret that among LatAm hedge funds specifically, 80% to 85% are from Brazil. Brazil is a huge part of what's going on in the alternatives in LatAm, and it has some of the most talented asset managers in the world. There is a culture of managers in Brazil who really understand specifically how to manage portfolios and extract alpha under very stressful conditions. So even though Brazil and LatAm have been in the same boat as other emerging markets and the rest of the world, the region has performed better because of the talented Brazilians. And I'd add that LatAm remains well prepared to weather any storm. It won't be immune if we have a major markets dislocation of course, but it appears to be well prepared.

ALI: In terms of local investors looking at alternatives in LatAm, what changes have you seen in the last year?

VHR: The typical LatAm investor is definitely beginning to see LatAm as a frontier where they need to allocate. Historically, these local investors have invested mostly outside the region; there's been a culture of investing offshore, in other latitudes. But the region's macro changes and the growing sophistication of its managers is causing them increasingly to allocate at home – to become what we call in-house investors. And these in-house investors are investing not only in hedge funds and private equity, but also in traditional vehicles that offer positive returns. In particular we're seeing a growing appetite among local pension funds to feed these local managers.

ALI: Have you seen a similar change among foreign investors?

VHR: Definitely. You're seeing major international allocators, main-tier asset managers, exploring this same frontier. And they're not only performing due diligence in the region – which really began in 2005-

2006 – but actually deploying capital, because of the region's growth story and its ability to weather storms.

Until recently, though, foreign investors were unable to sit with well-positioned managers with boots on the ground, except in Brazil. Now you have them in Lima, Bogotá, Santiago, Mexico and, surprisingly, Caracas.

These managers know the markets and have a lot of talent, and there is a growing appetite in Europe and the US to be in contact with them. They're realizing that LatAm is no longer an "it-will-happen" story; it's already happening. It's not just behaving better; it's the region where you wished you were yesterday and where you want to be in the future.

ALI: How do you think the slowdown in China will affect the region?

VHR: Again, the region is not immune to external shocks, but even when external demand, mostly from China, slows, there is still local, in-house demand. It's no secret that that's the big story now. You're seeing massive growth in the middle class across many of these countries, with greater demand and purchasing power. Retail has done very well, and there's an incredible opportunity for banks in these growing regions. Tech is also doing extremely well, with very high demand.

ALI: Within LatAm, are local funds seeing competition from other vehicles in the US, Asia and elsewhere?

VHR: Yes, that's a new part of the reality. Historically there never was competition from locals in the alternative space; there may have been some competition from mutual funds because it's a regulated area and has more of a retail approach, but nothing in alternatives. But now, if you look at hedge funds, they have a much bigger role; they

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know how to do things on the same level as global shops; and they are here to stay. This is not a temporary phenomenon: the landscape has changed. Suddenly saying that you're a Latino has a strong value in the world because of the market share these managers have gained over the last 15 years.

ALI: Two years ago, many institutional investors liked LatAm but wouldn't invest there because the funds themselves were too small and the managers didn't have long enough track records. Has that been changing recently?

VHR: Yes. The important thing is that the region has adapted quickly to international standards. You were seeing more and more demand from international investors to understand the transparency, operational risk and reliability of managers in the region,

and a very important process occurred over the last 36 to 42 months, with local regulators accepting and being willing to work with the international community, and funds learning how to use state-of-the-art technology to increase transparency and real-time risk management parameters – requirements that most of these international allocators were demanding.

Then there's another element: many investors simply fall in love with this region. When you talk to first-time visitors, they seem to be skeptical; but when those same individuals, representing institutions and major global allocators, really get to know the reality of Brazil, Chile, Mexico, Peru, Colombia, they become the region's most compelling advocates. It's not just me saying it, it's the Europeans, the Asians, the Americans who are telling the world, "This

is where the opportunities are." I always believe that people tend to do business where they want to go, and if you look at the BRIC countries and ask anyone where they'd prefer to do business, in Beijing, Moscow, New Dehli, or Rio, where do you think they'd prefer to go?

That may sound like a joke, but there's a truth in it. People have fallen in love with region. It'll be one of the most compelling regions for years to come. And importantly, it has remained humble; despite all its growth and maturity, it's maintained a humility while inviting the world to come and do business here.

SPEAKER BIOGRAPHY

Victor Hugo Rodriguez is the Founder and CEO of LatAm Alternatives. Victor Hugo has over 17 years of experience in Management, Sales, Marketing and Page 7 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 and Member of the STA (Security Traders Association) of Florida. 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, LatAm Fund Manager, Financial Times, Inversiones.com, Traders Magazine, FinWeek, Finalternatives, HFMweek, Yorba TV, Alternative Latin Investors Magazine and Funds People during the last few weeks.

