

OVERVIEW OF THE ASSET MANAGEMENT INDUSTRY IN LATIN AMERICA

The UCITS brand is well established and well respected globally, with nearly 30 years of history in the market. It represents strong investor protection and cross-border market-ability. Its structure, compliance and disclosure has been constantly improving and growing, thereby facilitating the distribution of funds into Latin America.

The Association of the Luxembourg Fund Industry, (ALFI), has been supporting fund managers and institutional investors to promote Luxembourg funds in Latin America. LFF spoke with Marc Saluzzi, ALFI Chairman, to ask him for his insight into the opportunities and challenges for the fund industry in Latin America.



Marc **SALUZZI**,
Chairman,
ALFI

► **LFF: WHAT ARE THE KEY OPPORTUNITIES FOR LATIN AMERICAN CLIENTS TO INVEST IN LUXEMBOURG UCITS?**

► **MS:** In Latin America, the main opportunities for us are the local pension fund systems. Like any investors, those in Latin America, retail or institutional, need to diversify their asset allocation and gain exposure to different markets and asset classes. We believe that our UCITS funds and sub-funds are great tools to build this asset diversification. This is particularly true for local pension funds. In Chile, 70% of foreign investments made by local AFPs are channeled through Luxembourg UCITS.

The local pension fund systems will need to diversify their asset allocation by investing abroad, and what we need to do is convince them that instead of investing directly, that it is beneficial to consider our UCITS and AIF'S to achieve that exposure to capital markets. That is an opportunity for us and what we have been able to achieve in Chile, Peru and Columbia, so the momentum is building for Luxembourg funds.

► *LuxembourgforFinance*

WHICH COUNTRIES IN LATIN AMERICA REPRESENT THE BIGGEST OPPORTUNITIES?

► *Marc SALUZZI*

In Latin America, our key target client segment is pension funds. In most of these countries, national and private pension systems are quite developed and they offer great opportunities for our UCITS today and AIFs tomorrow. In Chile, Peru and Columbia, a Luxembourg UCITS is the preferred investment vehicle to get exposure to international financial markets. Our objective is to replicate these success stories in Mexico and Brazil. We have been visiting Mexico and Brazil quite regularly over the last two years and have built relationships with the local pension fund associations and pension regulators.

On that basis, Luxembourg funds are quite competitive in Latin America but we can certainly not rest on our laurels. Irish funds have regained access to the pension fund markets this year and the US is trying hard to make some inroad in countries like Chile. It is also interesting to note that some countries in the region have the ambition to become the "Luxembourg of Latin America."

► LFF: LOOKING TO THE FUTURE, WHAT CHANGES DO YOU SEE IN ASSET MANAGEMENT IN LATIN AMERICA?

► **MS:** The prospects for Latin America are promising and we are working hard to attract local asset management groups to set-up funds in Luxembourg and distribute Luxembourg funds in the local markets. Countries such as Brazil and Chile want to position themselves as hubs for investment funds and replicate the Luxembourg model. Luxembourg could benefit from this situation and build synergies. **GM**

► LFF: WHAT ARE THE DIFFERENCES WITHIN LATIN AMERICAN COUNTRIES IN THE WAY BUSINESS IS DONE?

► **MS:** The main difference is a varying domestic focus when it comes to investing. In Mexico and Brazil, which are large economies, local pension funds have to mainly invest locally. When it comes to Chile or Peru, local capital markets not being allowed to invest more than 50% of their assets abroad. This is the main difference. And the more pension funds invest large or diversified enough, regulators have quickly allowed pension funds to invest abroad, the more likely they will invest through our Luxembourg funds.

► LFF: WHAT ARE THE CHALLENGES THAT LUXEMBOURG HAS TO OVERCOME IN ORDER TO BE COMPETITIVE WITH OTHER FINANCIAL CENTRES?

► **MS:** As we are essentially dealing with institutional investors, we have to make sure our products meet their selection criteria:

► Fund domicile with good rating

► Well regulated funds

► Tax efficiency

► Cost competitiveness

ASSET MANAGEMENT OPPORTUNITIES IN BRAZIL

Brazil has the world's eighth largest asset management industry, with upwards of US\$1 trillion of invested assets. Traditionally, invested assets have been tied up in domestic bond and equity markets but new regulatory changes are enabling a shift of direction for international diversification for investment flows towards the international markets. Such changes in the rules pave the way for registered investment funds, high net worth investors and, above all, pension funds to increase investment allocations abroad.

*Roberto COLAPINTO,
Head of Regional Coverage Southern Europe
& Latin America,
CACEIS*



Roberto Colapinto, Head of Regional Coverage Southern Europe & Latin America at CACEIS, works with asset managers to support their investment in Luxembourg. He sees a growing interest towards Luxembourg investment vehicles and UCITS funds from Latin American asset managers who are looking for partners to help them to support their Luxembourg projects.

"It is exciting to see that Luxembourg is now being used by Latin American managers as the primary hub for cross border international distribution. These managers have gained a domestic share in their own market and, now want to be able to distribute to nearby countries and Luxembourg is the preferred option."

SUPPORTING BRAZILIAN FUND MANAGERS

Currently Bradesco, BTG Pactual and Itau have set up UCITS funds in Luxembourg to distribute primarily to Europe and Asia.

Other large Brazilian fund management groups are looking at setting-up in Luxembourg and turning to specialist asset service providers for support with the preparation of legal documentation and prospectuses.

"We will take care of compliance, risk management, distribution, essentially everything that is required for fund to be managed in Luxembourg. We are essentially a partner and allow Latin American managers to set up their own structure and to be sure that the investment vehicle will be administered properly, so all they have to think of is managing the investments of the funds", Colapinto explains.

UNWRAPPING UCITS

With over US\$2.5 trillion of assets in UCITS investment funds, Luxembourg is the No. 1 global center and distribution hub for UCITS. Investors and asset managers in Brazil, are increasingly using the



Jon **GRIFFIN**,
Managing Director,
JP Morgan



José **CORREIA**,
Head of Private Clients,
Alter Domus

UCITS framework to broaden distribution. Renowned for traditional products, such as equity, bond, money market and mixed funds, UCITS may also be used to create funds of such funds, master-feeder structures, exchange traded funds, structured funds and some alternative types of funds.

"Offshore funds cannot be sold in Brazil so asset managers use locally domiciled 'international investment funds' to invest offshore." says Jon Griffin, Managing Director at JP Morgan Asset Management in Luxembourg.

AIFMD OPENS UP NEW OPPORTUNITIES

UCITS in many ways is just the older and more established fund sibling of the Alternative Fund Managers Directive (AIFMD) which is aimed at institutional and professional investors. The European

Securities and Markets Authority (ESMA) has approved co-operation arrangements between Brazil and all 27 of the EU securities regulators for the supervision of alternative investment funds (AIF). This applies to Brazilian alternative investment fund managers (AIFMs) that manage or market AIFs in the EU and to EU AIFMs that manage or market AIFs in Brazil.

"The AIFM Directive has set several new challenges for the private equity industry. One of them is the obligation to appoint a depositary for each private equity fund", points out José Correia, Head of Private Clients at Alter Domus.

With over ten years experience as a PE and RE specialist, Alter Domus have created a Depositary function in Luxembourg to support managers in the Directive and have set up a dedicated team of experts.

"The members of our Latin American Desk all speak Portuguese or Spanish and have the extensive experience and knowledge necessary to discuss any potential improvement you may wish to bring to your projects or existing structures. We set up local visits on a regular basis to present our firm and to meet our Brazilian clients and local law firms."

FUTURE GROWTH

Asset managers in Brazil are positioning themselves as hubs for investment funds. With nine times the assets of Mexican mutual funds, Brazil's fund industry is by far Latin America's largest mutual fund marketplace and the sixth in the world, with more than 300 mostly independent asset management firms in operation.

Looking ahead, analysts predict Brazil's hosting of the World Cup in 2014 and the Olympic Games in 2016 will attract additional foreign investors to Brazil. **GM**

WHY LUXEMBOURG IS MORE THAN UCITS

For several decades now, the Grand Duchy of Luxembourg has been recognised globally as a jurisdiction of choice for the establishment of UCITS funds and the structuring of corporate groups. Presently, however, there is growing interest from Brazilian players in other types of Luxembourg solutions and structures.



"Luxembourg investment vehicles, which benefit from wide investor recognition, offer attractive, flexible and tried-and-tested solutions."

Marc **TKATCHEFF**,
Corporate Senior Associate in charge
of the Luxembourg-LatAm desk,
Allen & Overy

Firstly, Marc Tkatcheff, Corporate Senior Associate in charge of the Luxembourg-LatAm desk at Allen & Overy, explains that they have recently seen several Luxembourg funds being launched with a view to offering non-Latin American investors the opportunity to invest in Latin American, particularly Brazilian, private equity or real estate assets.

"Latin America is a very attractive investment region for global investors. This is due to several factors, including the development of several key countries (eg, Brazil, Peru, Colombia, Mexico and Chile), the fair (and sometimes undervalued) price of local assets, and the recognised expertise of Latin American asset managers. Also, in the aftermath of the global financial crisis, EU and US investors are looking for new investment opportunities in 'emerging markets' and countries."

The challenge for most Latin American asset managers or banks is converting interest into concrete investments. Some non-Latin American investors may be reluctant to invest in investment vehicles which are governed by regulations that are unknown to them. *"Confidence, not only in the asset manager's capacities, but also in the proposed investment structure, is crucial for investors"*, points out Marc. *"Against this background, Luxembourg investment vehicles, which benefit from wide investor recognition, offer attractive, flexible and tried-and-tested solutions."*

Secondly, there are also see more and more Latin American (Ultra) High Net-Worth Individuals ((U)HNWIs) using Luxembourg vehicles to manage their private wealth.

*"Brazilian corporations may use
Luxembourg companies to tap
international debt capital markets."*

*Jean-Christian SIX,
Investment Funds Partner,
Allen & Overy*



Jan-Christian Six, Investments Funds Partner at Allen & Overy says *"Luxembourg offers a wide range of vehicles which may be used by (U)HNWIs to structure all or part of their wealth, including the specialised investment fund (SIF), the private wealth management company (SPF) and, in the near future, the Luxembourg private foundation."* Many Brazilian (U)HNWIs have set up new structures in Luxembourg, or relocated existing structures to Luxembourg. Luxembourg vehicles may be particularly appropriate, for instance, for the holding of European investments (eg, EU private equity or real estate). Particularly because of its reputation as a safe and onshore centre, and the depth of its range of available vehicles, Luxembourg is a very attractive location for the establishment of private wealth structures.

Finally, many Brazilian groups or Brazilian public entities seek financing through the listing of bonds on the Luxembourg Stock Exchange. As of today, there are 190 securities listings (debt, equity and depositary receipts) issued by Brazilian entities which are listed on the Luxembourg Stock Exchange.

Six continues, *"Brazilian corporations may, for example, use foreign companies (and, in particular, Luxembourg companies) to tap international debt capital markets. In the traditional structure, a regular Luxembourg financing company (SOPARFI) issues notes and onlends the proceeds thereof to the Brazilian operating company. Investors have long been familiar with this type of financing structure."*

Currently, many arrangers use Luxembourg securitisation undertakings, which benefit from a very favourable legal regime. When using a securitisation undertaking, the issuer may benefit, *inter alia*, from the recognition by law of the most important features for securitisation transactions (such as the possibility of creating ring-fenced compartments, the recognition of limited recourse and non-petition provisions, etc). **LR**

¹ The Grand Duchy of Luxembourg was removed from the Brazilian grey list in April 2011.