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Hedge Fund World 2006 Latin America Participant Survey

Latin America is undergoing a transformation from a politically unstable, inflation-ridden, region to a democratic fiscally prudent group of nations that has caught the imagination of hedge fund managers seeking alpha. In 2005 Latin American hedge funds returned 19% to investors. The positive returns of Latin American hedge funds over the past 5 years as measured by industry indexes has asset allocators seeking investment opportunities with hedge fund managers who are in direct contact with the pulse of the region. While the light of enthusiasm generated from the possibility of market beating returns allures investors, the savviest will ultimately temper their exuberance with a full understanding of the risks involved and move slowly into the light.

Hedge Fund World 2006 successfully brought together power players in the industry to share ideas, fears, hopes and opinions on the way forward for Latin America. The following is a layout of the field of players in attendance and highlights of their comments:

Asset Allocators – Fund of hedge funds managers, international bankers, wealthy family asset managers, and vice presidents generally want to move away from the model of investing with hedge fund managers located in New York or London who manage portfolios of companies in Brazil and other Latin American countries. The asset allocators are seeking savvy locally based hedge fund managers with an ear to the street and a familiarity with the culture that is the result of living and breathing the air on a daily basis. Most of the asset allocators present had exposure in Europe and the Far East. A few of the asset allocators had moved small portions of their investment pools into Latin American funds, but the majority attended to learn more about the region before making any investment decisions. Asset allocators mentioned a desire to have a diverse offering of strategies beyond macro and long/short equity. Asset allocators also suggested that hedge fund managers should develop the uncanny ability to recite portfolio positions as well as the reasoning for each by memory during presentations. Asset allocators also spoke about the emergence of BRIC (Brazil, Russia, India, and China) funds reinforcing the growing importance of these emerging regions.

Hedge Fund Managers – Local talent from fast growing areas including Brazil, Argentina, Columbia and Mexico were present to paint a first hand account of how the changes in their respective countries have led to increased investment opportunities in Latin America. Hedge fund managers with the hot ‘local presence’ distinction used this venue as an opportunity to meet the asset allocators and potentially increase their assets under management. Multiple fund managers talked up real estate assets in Brazil and Mexico as attractive areas for investment. The growing consumer market in Brazil and the need for credit also made Brazilian banks a hot topic of conversation. Others pointed to the political stability of Columbia, the export potential of Argentina and the economic responsibility of Chile as reasons for investors to consider investments in these countries. When the question of how managed investment portfolios measure up against non-managed portfolios such as ETFs (Exchange Traded Funds) the consensus was that during downturns non-managed portfolios outperformed managed portfolios, but over longer periods of time managed funds outpaced non-managed portfolios.

Service Providers – The custodians and legal expertise that can setup the structure for a fund were represented by the British Virgin Islands, the Bahamas, Bermuda and the ruling king of hedge fund formations, the Cayman Islands. The Cayman Islands leads the way as the home to more than 7,000 active hedge funds representing approximately 80% of hedge funds worldwide. Each offering a blend of legal, accounting and fund administration services targeted specifically for hedge fund professionals. The service providers stressed the importance of establishing relationships with the managers they work with. In addition, the service providers emphasized the importance of hedge funds developing relationships with name brands in terms of the custodial accounts and prime brokerages used for daily operations. The use of brand name firms was cited as a solid move towards earning quick acceptance of these offshore hedge fund service providers.

Exchanges – The Brazilian Mercantile Exchange (BME), the 5th largest futures exchange in the world, was on a mission to attract more attention to its’ services and to relay the role Brazil plays in supplying commodities to developing nations. The BME traded an average of 1million contracts from January through September of 2006, up 30% from the prior year.

Market Strategists - Experts in the fields of debt, equities and Latin American markets shared their knowledge of past economic cycles and events in an attempt to discern the future. Overall, the sentiment for Latin America remained bullish, with caution being expressed over Venezuela’s President Hugo Chavez’s often inflammatory rhetoric and the possible effects of a slowing U.S. economy. Pessimists believe a slowdown in the U.S. economy as evidenced by the drop in home prices precipitates a recession that could cause inflation that would negatively affect Latin American exports. The optimistic, believe the global demand for Latin America’s commodities including iron ore, sugar, copper, beef, soybeans and others will create favorable investment opportunities in the region for the long term. In addition, even with a possible U.S. recession on the horizon, the ensuing inflation would ultimately give a boost to commodity prices and benefit Latin America’s forward movement.