

UNIDAD DIDÁCTICA 1 (UD 1). EL LENGUAJE ECONÓMICO-FINANCIERO

TAREA 3

FICHA DE LA TAREA.

TÍTULO: Comprensión de textos especializados del ámbito económico-financiero.

TEXTO 1: "The buys from Brazil".



Lectura y comprensión

Lee el siguiente texto y completa las preguntas.

The buys from Brazil

This year's hot market for **private-equity firms** and hedge-fund managers
The Economist, Feb 17th 2011

BUBBLY in hand and bubbly on the boards. The scene at the BM&FBOVESPA, Brazil's main stockmarket, earlier this month encapsulated Brazil's thriving alternative-investment industry. A champagne-sipping crowd milled around José Carlos Reis de Magalhães, the boss of Tarpon, a local private-equity firm, on the floor of Brazil's slick, renovated exchange. They were toasting the successful **initial public offering (IPO)** of Arezzo, Brazil's largest shoe retailer. Tarpon had bought a 25% stake in Arezzo for 76m reais (\$43.8m) in 2007 and seen its investment nearly quintuple in value in three years. Tarpon's own share price is up by 143% from a year ago. The firm counts big endowments, like Stanford University, among the investors in its \$3.5 billion fund.

Tarpon is not the only part of Brazil's private-equity and hedge-fund industry to have attracted international attention. In September Blackstone, a private-equity giant, paid \$200m to take a 40% stake in Pátria Investimentos, a local private-equity firm. In October JPMorgan Chase's Highbridge hedge fund, the world's largest, bought a majority stake in Gávea Investimentos, a \$6 billion Brazilian fund. Brazil is "absolutely the most attractive emerging market right now," says the boss of a big American private-equity firm. Other economies may be bigger but investments there are seen as politically riskier. The Brazilian government is less hostile in its attitudes toward private, and foreign, investment.

Sceptics recall the last time people declared a golden age for private-equity investment in Brazil. Foreign firms and banks flocked there in the 1990s. When shocks from the Asian crisis pulsed through the country, and Brazil devalued the currency in 1999, plenty flocked out again. Some local firms survived the bloodshed: GP Investments, Brazil's largest private-equity firm, is still going strong, as are a handful of others from that era. But most global firms left and didn't come back until 2006, when investment activity started to rev up again.

They are returning to a bigger, more resilient economy. OECD countries saw their GDP decline by 2.7% over the course of 2008 and 2009; Brazilian GDP grew by 4.9% during that time, and by a further 7.5% last year. It is now the world's eighth-largest economy and could overtake Britain, France and Italy to become the fifth-largest by the end of this decade. The **commodities** boom is one source of growth: Brazil is the largest exporter of sugar, coffee and meat, and second only to America in soyabeans. Consumer spending is vibrant. The country is the world's second-largest market for

cosmetics and the third-largest for mobile phones. Its hosting of the 2014 FIFA World Cup and 2016 Olympics will require at least \$50 billion in infrastructure investments, many of them privately funded.

Money is pouring in, as investors throng funds' offices on bustling avenues like Faria Lima in São Paulo and Paiva de Ataulfo in Rio. Local hedge funds managed around \$243 billion in assets at the end of 2010, up by 23% from 2009, according to the Brazilian Financial and Capital Markets Association, an industry group (see chart 1). Private-equity firms oversee \$36 billion.



There are several reasons for this explosive growth. One is the maturing of the country's capital markets. Laws protecting minority shareholders' rights, for example, have fostered confidence. Brazil's exchange is now the fourth-largest in the world by market value. That is a boon for hedge funds, which need liquid instruments to trade, and for private-equity firms, which use IPOs to cash out their investments.

Investors are freer to choose where to put their money, too. Brazil's 400 or so pension funds, with assets of around \$342 billion, have been allowed to place money more freely with alternative-investment firms since 2009. Pensions now account for around 22% of investments in private equity and **venture capital**, according to Claudio Furtado of Fundação Getulio Vargas, a university. Valia, the \$6.8 billion pension fund of Vale, a miner, has increased its allocation to private equity from 1% of assets three years ago to 6% in 2011.

The Brazilian government's sunny view of hedge funds and private-equity firms also helps explain their growth over the past few years. In many countries governments treat private-equity firms and hedge funds with either loathing or teeth-grinding tolerance. Partly because bank loans are very short-term, the tone from Brazilian officials is different. "As a country and an economy, we need private equity and venture capitalists to invest and to help our entrepreneurs," says Maria Helena Santana, who runs the CVM, Brazil's equivalent of America's Securities and Exchange Commission (SEC).

When Brazil's government raised the tax on foreign investment in **fixed-income instruments** last year from 2% to 6%, private-equity firms complained. The government promptly changed it back—but only for them. BNDES, Brazil's development bank, has put \$1.1 billion into private-equity funds, and is the industry's top investor. Private equity accounted for a higher proportion of GDP in 2010 than in most other emerging markets (see chart 2).



Another reason for the rise in alternatives is a decline in interest rates. The benchmark Selic rate stands at 11.25%, much lower than the 26.5% it was set at in 2003. The threat of rising inflation may have reversed that trend in the short term but rates are expected to keep falling in the long run. Brazilian investors can no longer reap extraordinary returns just from parking their money in risk-free bonds. Maurício Wanderley of Valia says he looks for returns of 25-30% on his private-equity investments, and so far they've been "above our expectations". Brazilian hedge funds have posted annualised gains of 17% over the past three years, according to EurekaHedge, a research firm. (North American funds have managed 8.6% on an annualised basis in that time.)

The buzz around Brazil will put those returns under pressure, however. Alvaro Gonçalves of Stratus, a Brazilian private-equity firm, appears dismayed at the speed with which "armies" of global investment firms are arriving. Rather than fly in for visits, they now want to set up offices and hire local deal-makers. The competition is causing salaries to rise. Jon Toscano of Trivella Investimentos, a private-equity firm, estimates that executive salaries have nearly tripled in as many years.

Greater competition has less effect on the hedge-fund industry, since there are many trading opportunities. But for private-equity firms, where the number of deal opportunities is smaller, there are huge consequences. Prices for deals have already gone up in the past year—although most investors say that companies are still not as expensive as they are in China or India, where there is even more competition.

The three largest private-equity deals in Brazil's history took place in 2010, all of them carried out by foreign firms. Stakes in consumer-related companies are particularly prized. Carlyle Group, an American **buy-out firm**, did three deals in 2010, involving a lingerie company, a travel firm and a health-care company—all of them bets on Brazil's middle class. Many local firms are ramping up their efforts to look for deals beyond São Paulo and Rio, where most of the foreign firms are based.

Ballooning deal prices may also drive crafty local firms to invest more money abroad. 3G Capital bought Burger King, an American fast-food chain, for \$4 billion last year because the management felt Brazil had become too expensive and that global firms were too busy chasing deals in emerging markets to notice the opportunities at home. "You can do a buy-out in the United States of a global brand, a well-known company, and really face no competition," says Alexandre Behring of 3G.

Back in Brazil, some worry that the new entrants' preference for big **leveraged buy-outs (LBOs)** could damage the industry's unusually wholesome reputation. In Brazil private-equity deals are mostly unleveraged, and often involve minority positions in medium-sized companies. That's partly because high interest rates make debt crushingly expensive—the average rate for a commercial business loan is 29%. But even if credit becomes more readily available, Brazilian firms are nervous of it. Brazilian managers reel off the names of highly leveraged buy-outs that have tanked in the West. "I hope we can avoid the image that we are raiders and vultures," says Mr Gonçalves. "This is the profile that these large LBO firms left in markets, and we don't want them to do that here."

It is more likely that the foreigners will have to adapt to Brazil than the other way round. Unlike China and India but like many other emerging markets, Brazil has only a limited number of large firms to

invest in. Private-equity investors won't be able to swim in a sea of \$500m and \$1 billion deals. Given the scarcity of long-term financing, some are looking to lend instead. "A large part of our plan is to provide credit and growth-equity capital" in Brazil, says Glenn Dubin, the boss of Highbridge.

Not very wild west

Although Brazil's equity markets are liquid, concentration remains a problem for hedge funds. Eight companies account for more than 50% of the market value of the BM&FBOVESPA. Shorting the shares of smaller firms is expensive because it is hard to find shares to borrow. Larger funds have to be patient when building up positions. Luis Stuhlberger of Credit Suisse Hedging-Griffo, Brazil's largest hedge fund, says it is like being "an elephant in a bathroom. You have to move very slowly, otherwise you break everything."

Funds must also comply with strict requirements for transparency and liquidity. Brazilian hedge funds must report their net asset values daily and their positions on a monthly basis. These are then posted publicly on the website of the CVM for anyone to see. Thanks to the country's long experience of volatility and inflation, most investors do not agree to long lockup periods for their money. As a result, many funds offer daily liquidity, which means they do not have much flexibility with their strategies and cannot take illiquid positions.

Some managers complain that Brazil's regulatory system costs them their edge, because others know what they are up to. But most don't seem to mind too much. Transparency brings legitimacy to the industry and calms investors, many say. Frauds like Bernie Madoff's, which have dented investor confidence in hedge funds in America and Europe, are less likely to go unnoticed in Brazil. "Madoff would never happen in Brazil," says Eduardo Lopes of Ashmore, an emerging-markets fund.

Indeed, other markets are moving closer to a Brazilian-style system of regulating alternative investments. Hedge funds and private-equity firms have been mostly unregulated in America and Europe, but that is set to change. Later this year, America will start to require funds to register with the **SEC** and disclose some of their holdings to regulators. In France hedge funds now have to report their short positions; it is possible that other countries in Europe will enact similar requirements. "The financial crisis showed that many of the choices we made before are good choices," says Ms Santana of the CVM.

There are still plenty of risks in emerging markets, of course. Inflation remains a worry, and Brazil's battle to keep down the value of the real has led to other capital controls on top of the tax on foreign investment. The BOVESPA index has declined by 6% in the past month. But here too, Brazilian alternative-investment managers claim an edge because they have been through rocky markets many times before. "They've basically taken as much chemotherapy as you can take and survived it," says a foreign fund manager.

Many managers in China and other emerging markets are familiar only with good times, so some investors worry that they might not perform well if the economy stumbled. Arminio Fraga, a former central-bank governor who founded Gávea, thinks the volatile global economic environment will play to Brazilian managers' strengths in the coming years: "There are a lot of things out there that look familiar to us, given Brazil's history."

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1. Resumen en aproximadamente 300 palabras las principales ideas abordadas en el texto.

2. ¿A qué se refiere el autor cuando habla de “OECD countries”? ¿Qué países están incluidos?

3. ¿Qué mide el “BOVESPA index”? ¿Qué otros índices de este tipo conoces?

4. ¿Cómo afectan las inversiones de capital privado a la economía de Brasil?

5. ¿Cuáles son los riesgos que corren, en opinión del autor, los mercados emergentes como Brasil?

6. Explica los siguientes términos y expresiones marcados en negrita en el texto:

- Private-equity firms
- Initial public offering (IPO)
- Commodities
- Venture capital
- Fixed-income instruments
- Buy-out firm
- Leveraged buy-outs (LBO)
- SEC