Brazil’s Wealthy Spur Increase in Foreign Funds as Economy Slows
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By Cristiane Lucchesi and Filipe Pacheco

Aug. 21 (Bloomberg) -- Brazilian funds that help investors bet on foreign-asset gains increased fivefold in the year through June to a record as the domestic economy slows and local markets stagnate before October’s presidential elections.

Hedge funds and mutual funds designed to give clients access to overseas investments through real-denominated accounts in Brazil had 2.93 billion reais ($1.3 billion) under management as of June, up from 608.9 million reais a year earlier, according to Alberto Jacobsen, chief executive officer of Risk Office SA, a Sao Paulo-based consulting firm that maintains a database of 11,000 funds. He expects another 1 billion reais of inflows by year-end.

Wealthy Brazilians are diversifying beyond their home country, as analysts say the economy is poised for its slowest growth in five years, with a projected weakening of the real that would translate to higher local returns on foreign investments. They’ve done so even as Brazil’s benchmark stock index surged 31 percent from a March low on optimism that President Dilma Rousseff might lose a re-election bid in October, ushering in an opposition party with less interventionist policies that might spur economic growth.

“Banks tried to create these funds in 2003 without success because, back then, the real was gaining value and the Sao Paulo stock exchange was doing great,” Jacobsen said. “Today is different because there is more risk in the foreign-exchange rate given the volatility with the elections, while the equity market in Brazil is less attractive, and there are some good opportunities to diversify investments abroad.”

Superior Returns

The real is forecast to weaken by 9.5 percent versus the U.S. dollar by the end of 2015, the most among 23 emerging- market currencies tracked by Bloomberg after the Argentine peso.

Foreign-focused Brazilian funds posted an average 20.4 percent return in the 12 months through June, according to Risk Office, beating the 12 percent advance in Brazil’s benchmark Ibovespa index during that period. Risk Office’s analysis encompassed funds that buy Brazilian depositary receipts, or BDRs, which are shares of foreign companies traded locally, and Standard & Poor’s index futures traded on the Sao Paulo exchange. It also includes funds that invest in other funds with international assets.

Private-banking clients with 1 million reais to 100 million reais are the most common investors in these funds, Jacobsen said. People with more than that are more likely to get their overseas exposure through exclusive offshore funds, Jacobsen said. Pension funds represent about 10 percent of the amount invested in foreign-focused funds based domestically, he said.

Disney, Volkswagen

Credit Suisse Group AG’s 505.4 million-real CSHG Global Equities Fim IE, the biggest of the funds, is up 6.9 percent in the past year, according to data compiled by Risk Office and

Bloomberg. Many Brazilian investors gravitate toward stocks with brands they recognize, such as Walt Disney Co., Volkswagen AG and CVS Caremark Corp., said Artur Wichmann, a portfolio manager at Credit Suisse Hedging Griffo in Sao Paulo.

“These are names that those investors recognize in advance, because they are used to them from daily life,” Wichmann said.

XP Investimentos, a Rio de Janeiro-based brokerage and money-management firm that oversees 10 billion reais for clients, plans to start the XP Global Equity fund in coming weeks to tap demand for such offerings, according to an official with the firm who asked not to be named, citing company policy.

The new fund will be its third focused on foreign-linked returns.

Natural Diversification

Over the past decade, Brazilian investors had mostly shunned overseas investment opportunities, said Marcelo Karvelis, chief commercial officer at investment firm Claritas Investimentos in Sao Paulo. Now, “with world economic growth rebounding, the local economy cooling off and the currency poised to decline, it makes sense,” he said in a telephone interview. Claritas manages three funds that provide offshore exposure.

Bradesco Asset Management, which has 323.2 billion reais under management, offers a 98.4 million-real fund that buys BDRs, an 11.6 million-real fund tracking Standard & Poor’s index futures and another fund that buys U.S. and European stocks. “It’s natural for investors to diversify, and they feel comfortable doing it through funds denominated in reais and managed here,” Joaquim Levy, superintendent director at Bradesco Asset Management and a former Brazilian Treasury secretary, said in a phone interview from Sao Paulo. “We see demand from our clients to invest more in assets from countries such as Chile, Colombia and Peru.”

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