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Principal works on Latin fund

By Wouter Klijn

Principal Financial Group is forming a partnership between its Mexican office, Chilean office and its recently acquired Brazilian fund manager, Claritas Investments, for the establishment of a Latin American fund.

The long-only equities fund will be established in the fourth quarter of this year as an Undertakings for Collective Investment in Transferable Securities (UCITS) structure in Luxembourg.

The global financial services company acquired 60 per cent of the \$2 billion Brazilian investment manager in April last year.

Brazil makes up 55 per cent of the MSCI Emerging Markets Latin America Index and with Claritas' access to Principal's offices in the region, the managers will be able to cover the entire market.

"After becoming part of Principal, we have access to all the on-the-ground managers in Latin America," Claritas founding partner Marcelo Karvelis Franco said in an interview with theinstoreport.

"We believe our strength is to be present in the local market and being able to identify value by playing a local game.

"We have 15 years' experience in the local market and Principal has very established offices in Mexico and Chile, so we think there is a good opportunity to put together those investment professionals in one product."

The investment process is largely driven by fundamental analysis, but Franco was hesitant about calling it a value strategy.

"When you say value in Brazil, it is a different thing than when you say value in the US," he said.

"When we say value we mean companies that we believe have a high potential to appreciate in terms of price, driven by fundamentals.

"Our process is 75 per cent bottom up, driven by fundamental analysis. We take advantage of visiting the local companies."

He said the portfolio managers actively engaged with the companies they invested in.

"In some cases, we apply what we call the friendly activism approach; we don't want to try and change the way the managers run a company, but there are some areas that we can add value," he said.

"For example, how they communicate to the market. In emerging markets, some companies are

just newly IPO'ed and they have little sell-side coverage.

"We help them be covered and increase liquidity. We are long-term investors."

Although the resources success of the country has attracted many investors since the global financial crisis, more recently investors have been hesitant to allocate funds to Brazil, due to the strong domestic currency making the market expensive to enter.

But the real has started to make its way back since its height of US\$0.62 in mid-2011 to about US\$0.42 in recent weeks.

"The currency was clearly overvalued. Most of the depreciation has gone, but we see some room for the real to depreciate," Franco said.

At the same time, Brazil is experiencing a more structural growth phase, driven by better access to banking services and increased consumption.

"Brazil has been going through massive change in the last 15 years. The most impressive change is the number of people that have gained access to consumer credit, even just a bank account," Franco said.

"How many people have moved from poverty to middle class ... this number is amazing: 60 million. Imagine 60 million people suddenly having access to loans and bank accounts.

"The first wave is demand; the demand has grown very quickly. The second wave is supply. There still are a lot of gaps, mainly in real estate and basic consumption supplies."

Franco said he expected further growth from privatisation and construction projects related to the 2016 Olympics, which will be held in Rio de Janeiro.

Claritas was founded in 1999 in Brazil and offers both alternative, long-only and private market asset strategies in the domestic market.

Principal said it hoped the private market capability would also find interest among the large Australian super funds.

"Increasingly the big funds here are saying: 'How do we get away from straight public equities?'" Principal Australia chief executive Grant Forster said.

"They are looking overseas for a different style and private market assets, so [Claritas] does that work as well."

- See more at: <http://www.theinstoreport.com.au/articles/principal-works-on-latin-fund#sthash.9vaIN8Lw.dpuf>