

Brazilian funds ended 2017 with USD 30 billion in offshore investments

The major sponsors of globally-oriented funds in Brazil - in particular Western Asset, JP Morgan and Claritas - all benefited from the uptick. The expectation is for additional managers to enter the space.

Cross-border investments by Brazilian asset managers reached their highest level in 2017, hitting BRL 93.3 billion (USD 30 billion), though this translates to just 2.5% of overall industry assets. The cross-border allocation numbers were compiled by the analytical firm, **Economatica**, which has longtime Brazilian presence. In December 2013, investments abroad represented just 0.7% of the industry. The good performance of this asset class can be explained by a positive global scenario, instability in Brazil, and, more recently, Brazilian significant drops in interest rates on local vehicles.

The underlying cross-border investment by the USD 1.1 trillion Brazilian mutual fund industry and tracked by Economatica includes cross-border funds, equities, bonds, futures, ETFs, and other instruments.

"Last year proved to be as good as we imagined," **Marc Forster**, executive director at **Western Asset Mgt.** in Sao Paulo, told **Fund Pro Latin America**. "The global scenario offered opportunities that met with investors's expectations." Western Asset had a total of BRL 2 billion (USD 650 million) in AUM from global fixed-income and equity products. "We were already expecting this result. For that reason, we launched a series of funds throughout the year, which should start to have an expressive performance this year," said **Roberto Teperman**, head of sales for **Legg Mason Global Asset Management** in Brazil, of which Western Asset is an affiliate.

Western Asset launched three cross-border funds in Brazil last November, totaling seven different products. "We see a demand for that, especially now, with [the Brazilian Monetary Council flexibilizing rules for international investments.](#)" said **Teperman**.

JP Morgan AM also reported positive results from cross-border funds in Brazil, with BRL 1.5 billion (USD 500 million) under management in 2017, while a year before the amount was of BRL 300 million (USD 90 million). By the end of the year, JP Morgan inked a partnership with **Santander Asset Management** in Brazil [to transfer all its local Brazilian portfolio management](#), keeping only the international products under its management and reinforcing the focus on the cross-border industry. "We had a big expansion last year and the partnership with Santander Asset gave us a distribution platform. They will make our cross-border products available to their customers," said **Giuliano De Marchi**, JPM's head of sales for Latam.

"We wanted to have a wide platform of funds abroad, and despite the transfer of local funds to Santander Asset, now we have a team with 15 people focused 100% in the international fund business," DeMarchi said. JP Morgan is preparing the launch of new feeder funds this year, starting with a fixed-income product to be launch this quarter.

Foreign-exchange hedge

One of the turning-points of the industry was when managers started to offer foreign-exchange-hedged funds, attending a demand from investors for lower foreign-exchange risk. "Our larger and more representative funds have the exchange hedge," **Ernesto Leme**, sales director from **Claritas Investimentos**, which is owned by **Principal Financial Group**, said. "These funds have more acceptance from investors."

Opportunities

With a complicated local scenario in 2018, without a well-defined candidate for Brazilian elections, this year will probably remain positive to international asset managers. New funds will be entering the industry and more managers are expected to set up a local office in the country. "Since we completed two years of the new regulation with **Instructions 554 and 555** of **Brazilian Securities Commission** (CVM), and with international managers understanding that the market has more appetite and has a better defined law, the attraction is almost certain," said Legg Mason's Teperman. "Having great managers coming to Brazil helps to foster the international fund market."