

# Country Report: Brazil

eVestment Research  
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## Executive Summary:

The *Country Report* uses eVestment's suite of analytics to provide a summary of institutional investors' exposure to a specific country. The goal of the Brazil edition is to illustrate not only the size and composition of the institutional investor base with exposure to Brazil, but its change over time and to provide insight into which investors have a higher tolerance for exposure to Brazilian markets. Asset managers operating strategies either with some exposure, or elevated exposure to Brazil will find this report most useful.

## Report Highlights:

- *eVestment's coverage of strategies with exposure to Brazil has grown significantly*

There is nearly USD 1.8 trillion of assets in traditional institutional strategies with exposure to Brazil reporting to eVestment, a figure which has grown at quarterly rate of over 7% since 2004 and over 8% since the financial crisis.

- *Preferences for exposure to different Brazilian asset classes vary widely by investor types*

Public funds account for a greater portion of Brazilian equity exposure vs. Brazilian fixed income.

Sovereign wealth and insurance funds are the third and fourth largest investors in Brazilian fixed income, but account for a small fraction of exposure to Brazilian equities.

- *Accounts from Africa/Middle East are among the larger investors in strategies with exposure to Brazil*

While U.S.-based investors account for nearly 42% of assets in strategies with some exposure to Brazil, investors from Africa/Middle East are the third largest, accounting for nearly 10%, having emerged as significant investors following the financial crisis.

- *Managers of Brazil-focused strategies may be best served targeting particular institutional investor domiciles and account types*

Strategies with elevated exposure to Brazil had a higher proportion of assets come from investors domiciled in Europe as well as insurance, corporate, and sovereign wealth funds compared to all strategies with some exposure to Brazil. These investors appear more willing to accept, or are attracted to elevated exposure to Brazilian markets.

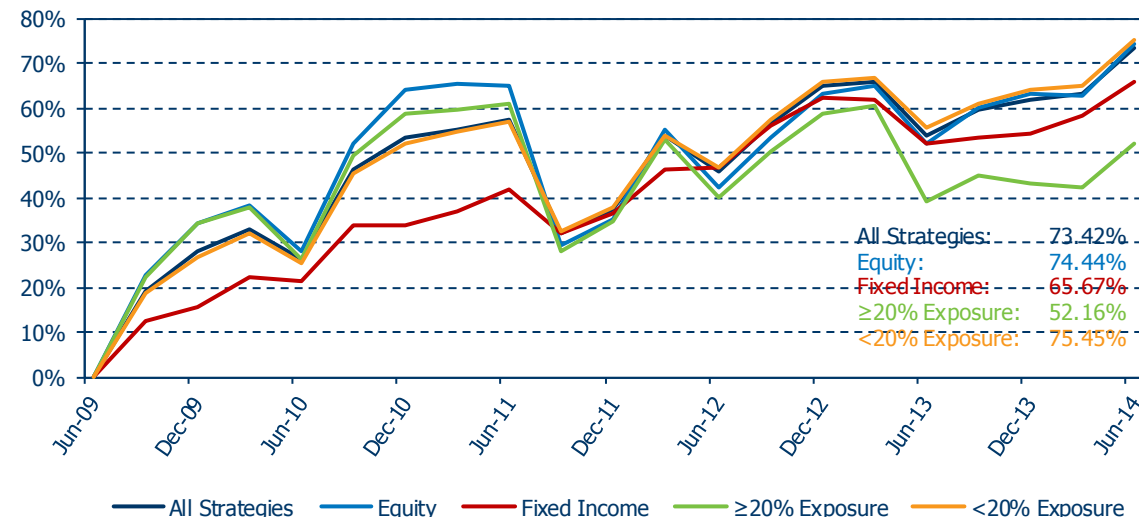
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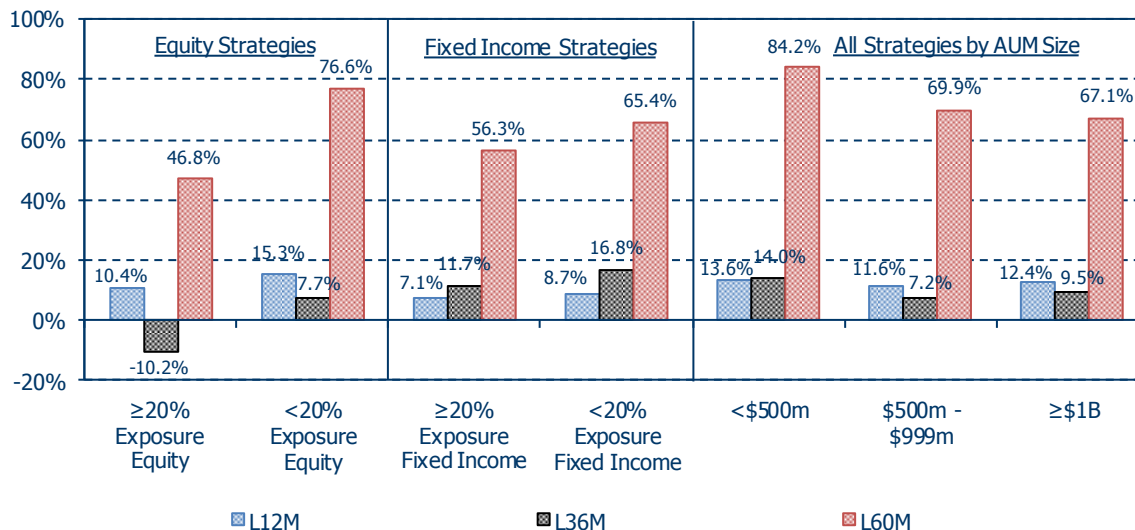
## Performance Summary

A quarterly rebalanced index of long-only strategies with some level of exposure to Brazil returned 12.56% during L12M, 10.28% during L36M, and 73.42% during L60M. The equity strategy index outperformed the fixed income strategy index in L12M and L60M periods but trailed during L36M (returning 5.72% vs. 16.93%, respectively). Indices of equity and fixed income strategies with  $\geq 20\%$  portfolio exposure to Brazil underperformed their  $< 20\%$  portfolio exposure peers in all three periods analyzed; moreover, the  $\geq 20\%$  exposure equity index returned -10.24% in L36M, representing the only group with negative returns throughout the three periods. The quarterly rebalanced size indices show strategies with less than USD 500 million outperformed their larger peers throughout, while those with USD 1 billion or more had higher returns than the mid-tier, USD 500 – 999 million AUM, strategies during L12M and L36M.

**Figure 1:** Cumulative returns for strategies with exposure to Brazil by universe and exposure level (both rebalanced quarterly) for currently active funds as of Q2 2014



**Figure 2:** Cumulative returns for strategies with exposure to Brazil by universe and AUM size (both rebalanced quarterly) for currently active funds as of Q2 2014



## Strategies with Exposure to Brazil:

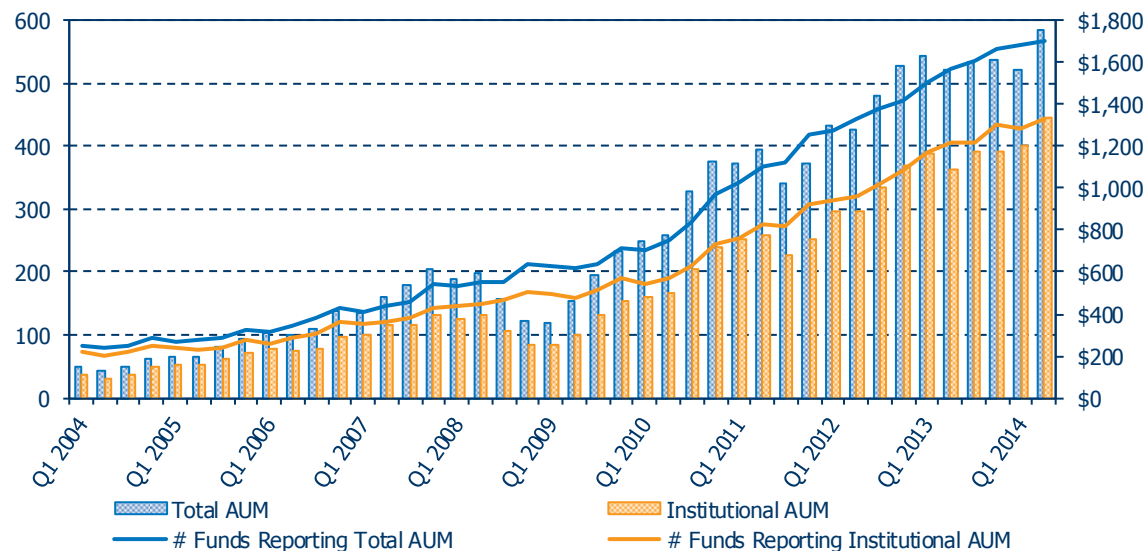
### Assets & Growth

In Q2 2014, there were 569 strategies reporting some level of exposure to Brazil along with total AUM information (443 of which also reported institutional asset information).

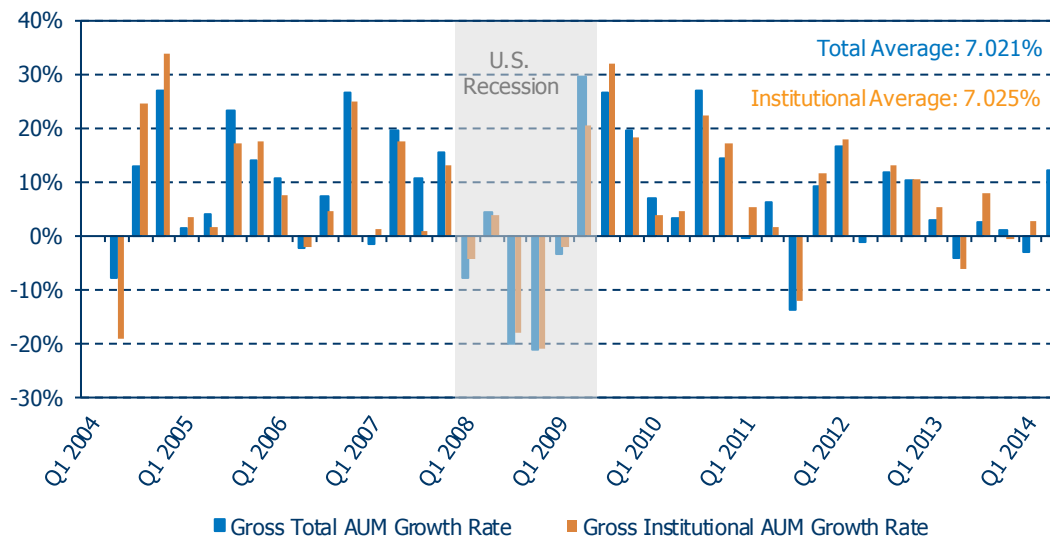
Total AUM in long-only strategies with some level of exposure to Brazil reached USD 1.76 trillion in Q2 2014, with institutional assets accounting for USD 1.33 trillion or nearly 76% of this total. Both figures are recent highs and the institutional component represents an above-average level of assets (since Q1 2004, institutional AUM has averaged 70.6% of the total). Average institutional AUM for strategies with exposure to Brazil was USD 3.0 billion, the median USD 779 million, and the max USD 51.8 billion in Q2 2014.

Quarterly institutional AUM growth (7.025%) averaged slightly higher than quarterly total AUM growth (7.021%) over the past 10 ½ years. In general throughout the most recent U.S. recession, officially lasting from December 2007 – June 2009, total and institutional AUM in strategies with exposure to Brazil declined; but in the final quarter of the recession there was a robust rebound followed by another strong expansionary period. Total AUM growth outpaced institutional growth in Q2 2009 (29.38% vs. 20.41%), but institutional growth was stronger in Q3 2009 (31.78% vs. 26.65%)—indicative, perhaps, of institutional investors’ more drawn out decision-making processes. Since the end of the recession, however, institutional assets have grown at a faster rate than total assets (8.20% vs. 7.35%).

**Figure 3:** Total and institutional AUM for the currently active strategies with Brazil exposure as of Q2 2014



**Figure 4:** Gross quarterly AUM growth rates for strategies with Brazil exposure as of Q2 2014



## Strategies with Exposure to Brazil:

### Investor Composition & Change Over Time

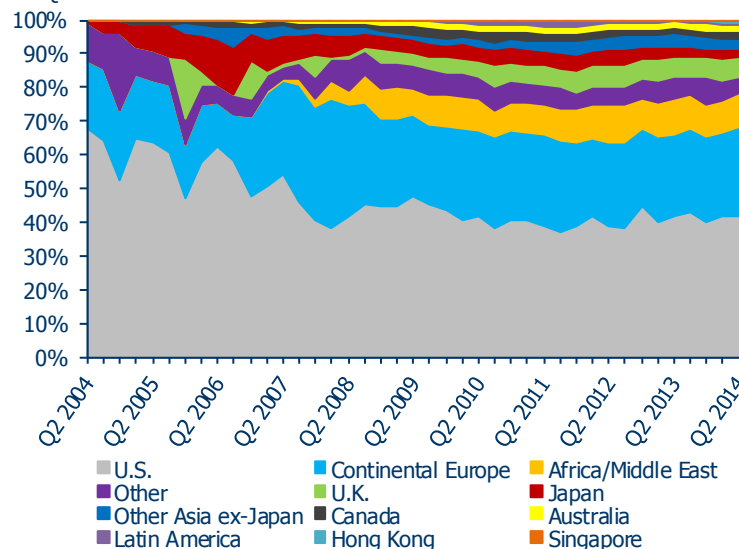
As of Q2 2014, total reported exposure to Brazil primarily comes from U.S. domiciled investors (41.85% of total AUM), followed by those domiciled in continental Europe (26.71% of total AUM), and then Africa/Middle East (9.80% of total AUM). During the past 10 ½ years, the AUM representation of U.S. domiciled investors hit a high of 67.76% in Q2 2004, a low of 37.23% in Q3 2011, and has averaged 46.76% throughout.

Y/Y declines in composition were most pronounced for investors domiciled in the U.S. (-1.16 points), Other Asia ex-Japan (-92 bps), and Other (-75 bps) regions, while the largest Y/Y increases came from investors domiciled in Continental Europe (1.98 points), Singapore (45 bps), and Canada (42 bps).

Institutional exposure to Brazil mainly comes from corporate accounts (20.44% of institutional AUM), public accounts (19.33%), and sub-advised accounts (10.07%). However, accounts part of our “Other” category—which include investor types such as central banks, European UCITS, institutional mutual funds, special corporate, and trade organizations—represent the largest single institutional component.

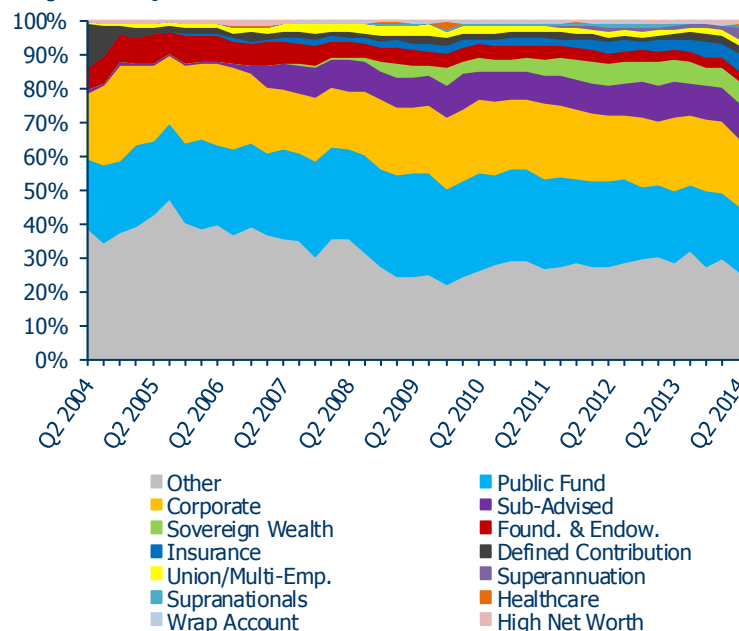
In terms of assets, the largest average institutional account type with exposure to Brazil at the end of Q2 2014 was superannuation (USD 3.5 billion) and the smallest was high net worth (USD 125.6 million). Despite this vast difference, they were the second and third, respectively, fastest growing Y/Y account types based on reported institutional AUM data, trailing only the supranationals segment.

**Figure 5:** Breakdown of total assets with exposure to Brazil by location of investor domicile for currently active strategies as of Q2 2014



Assets by Investor Domicile	Q2 2014
U.S.	41.85%
Continental Europe	26.71%
Africa/Middle East	9.80%
U.K.	6.29%
Other	4.60%
Other Asia ex-Japan	2.87%
Japan	2.26%
Canada	2.25%
Australia	2.06%
Latin America	0.62%
Singapore	0.48%
Hong Kong	0.21%

**Figure 6:** Breakdown of institutional assets with exposure to Brazil by institutional account type for currently active strategies as of Q2 2014

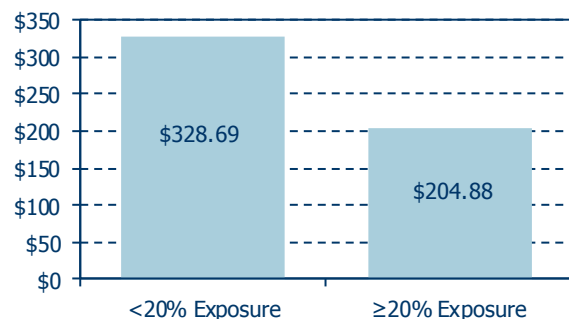


Assets by Account Type	Q2 2014
Other	25.68%
Corporate	20.44%
Public Fund	19.33%
Sub-Advised	10.07%
Sovereign Wealth	6.50%
Insurance	5.30%
Superannuation	4.01%
Found. & Endow.	3.11%
Defined Contribution	2.37%
Union/Multi-Emp.	1.60%
Supranationals	0.70%
Healthcare	0.34%
High Net Worth	0.32%
Wrap Account	0.23%

## Strategies with Elevated Exposure to Brazil: Asset Distribution

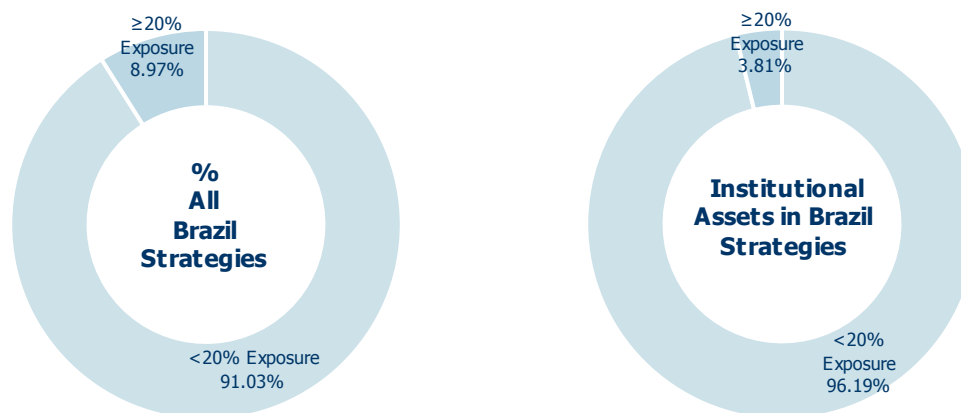
There are 53 strategies with  $\geq 20\%$  exposure to Brazil as of Q2 2014, representing 8.97% of all strategies with some level of exposure to Brazil. Average exposure to Brazil among these 53 strategies is 50.03% and the median 53.00%. These strategies comprise a small 3.81% of the total institutional AUM in Brazil, or USD 5.74 billion of USD 150.69 billion—a figure determined by combining individual strategies' portfolio exposure levels to Brazil with their reported institutional AUM, *see page 8 for additional info*—and on average contribute less assets towards Brazil than strategies with  $< 20\%$  exposure as shown in *figure 8*. The implication here is that institutions seeking exposure to Brazil generally tend to allocate more to strategies with less concentration and greater distribution diversity among other emerging markets.

**Figure 8:** Average institutional AUM in Brazil strategies (USD millions)



Despite comprising only about a quarter of the strategies with  $\geq 20\%$  exposure to Brazil, strategies with an exposure level between 50-59.99% contributed the largest share of institutional assets to Brazil, at 37.65% or USD 2.16 billion. Strategies with an exposure level between 60-69.99% contributed the most amount of assets relative to their representation of strategies (9.43% of strategies responsible for 29.36% of assets) and also had the highest average AUM, at USD 842.11 million.

**Figure 7:** Percentage of strategies with  $\geq 20\%$  and  $< 20\%$  exposure to Brazil and percentage of institutional AUM in Brazil by these strategies as of Q2 2014



**Figure 9:** Breakdown of institutional assets for strategies with  $\geq 20\%$  exposure by various levels of exposure to Brazil in USD millions as of Q2 2014

Exposure to Brazil	% Strategies	Average Inst. AUM in Brazil (USD mm)	Total Inst. AUM in Brazil (USD mm)	Average Inst. AUM (USD mm)	Total Inst. AUM (USD mm)
20-29.99%	43.40%	\$136.37	\$1,772.81	\$547.10	\$7,112.28
30-39.99%	1.89%	N/A	N/A	N/A	N/A
40-49.99%	1.89%	N/A	\$1.03	\$2.22	\$2.22
50-59.99%	24.53%	\$240.02	\$2,160.14	\$440.36	\$3,963.25
60-69.99%	9.43%	\$842.11	\$1,684.23	\$1,270.86	\$2,541.72
70-79.99%	0.00%	N/A	N/A	N/A	N/A
80-89.99%	1.89%	N/A	\$97.61	\$113.50	\$113.50
90-100%	16.98%	\$10.48	\$20.95	\$10.48	\$20.95
<b>Total</b>	<b>100.00%</b>		<b>\$5,736.77</b>		<b>\$13,753.93</b>

## Strategies with Elevated Exposure to Brazil: Investor Composition

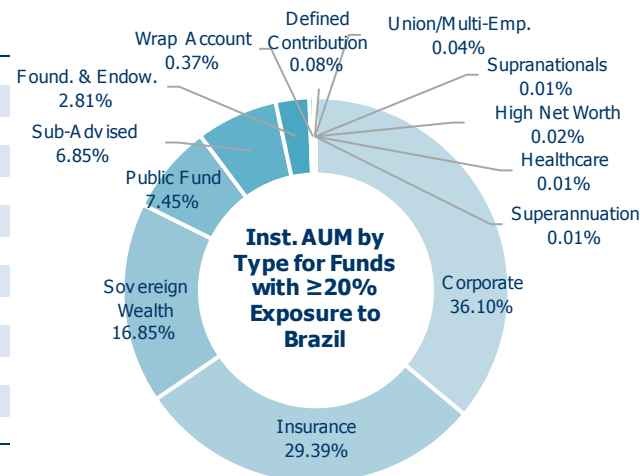
Nearly 68% of the USD 5.74 billion in institutional assets is in equities with strategies utilizing a fundamental approach to security analysis. Compared to all strategies with some level of exposure to Brazil, there is a slightly higher percentage of strategies targeting equities (67.77% vs. 63.91%), a significantly larger percentage of strategies engaged in fundamental investing (80.50% vs. 60.27%), and a considerably smaller share of quantitative investment strategies in the  $\geq 20\%$  exposure group (0.31% vs. 15.42%).

Institutional assets for strategies with  $\geq 20\%$  exposure to Brazil primarily come from corporate accounts (36.10% of institutional AUM), insurance accounts (29.39%), and sovereign wealth funds (16.85%). While corporate accounts were also responsible for the largest share of institutional assets for all strategies with some level of exposure to Brazil, insurance accounts in particular and sovereign wealth funds (SWF) in general were more integral to the AUM base of  $\geq 20\%$  group while public fund and sub-advised accounts were more important for all strategies with Brazil exposure.

Total reported AUM for strategies with  $\geq 20\%$  in exposure to Brazil primarily comes from continental Europe domiciled investors (36.09%) and then U.S. investors (25.31%). The order of the top two domiciles is the reverse of that found for all strategies with some level of exposure to Brazil. Africa/Middle East domiciled investors were the third largest asset contributors among both groups.

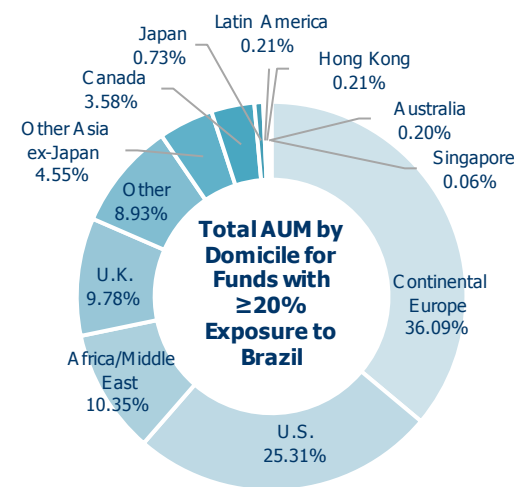
**Figure 10:** Breakdown of institutional assets by account type excluding "Other" for all strategies with some exposure to Brazil and those with  $\geq 20\%$  exposure to Brazil as of Q2 2014

Account Type	All Strategies	$\geq 20\%$	Difference
Corporate	27.50%	36.10%	8.60%
Insurance	7.13%	29.39%	22.26%
Sovereign Wealth	8.74%	16.85%	8.11%
Public Fund	26.01%	7.45%	-18.56%
Sub-Advised	13.55%	6.85%	-6.71%
Found. & Endow.	4.18%	2.81%	-1.37%
Wrap Account	0.31%	0.37%	0.06%
Defined Contribution	3.19%	0.08%	-3.11%
Union/Multi-Emp.	2.15%	0.04%	-2.11%
High Net Worth	0.43%	0.02%	-0.41%
Healthcare	0.46%	0.01%	-0.45%
Superannuation	5.40%	0.01%	-5.39%
Supranationals	0.95%	0.01%	-0.94%
<b>Total</b>	<b>100%</b>	<b>100%</b>	



**Figure 11:** Breakdown of total assets by domicile for all strategies with some exposure to Brazil and those with  $\geq 20\%$  exposure to Brazil as of Q2 2014

Domicile	All Strategies	$\geq 20\%$	Difference
Continental Europe	26.70%	36.09%	9.39%
U.S.	41.84%	25.31%	-16.53%
Africa/Middle East	9.80%	10.35%	0.55%
U.K.	6.29%	9.78%	3.49%
Other	4.63%	8.93%	4.30%
Other Asia ex-Japan	2.87%	4.55%	1.68%
Canada	2.25%	3.58%	1.32%
Japan	2.26%	0.73%	-1.53%
Latin America	0.62%	0.21%	-0.41%
Hong Kong	0.21%	0.21%	0.00%
Australia	2.05%	0.20%	-1.85%
Singapore	0.48%	0.06%	-0.41%
<b>Total</b>	<b>100%</b>	<b>100%</b>	



## Investor Exposure to Brazil:

### Assets & Composition

For Q2 2014, there were 591 strategies reporting some level of exposure to Brazil. Individual strategy exposures to Brazil ranged from 0.05% up to 100% and averaged 13.69% during the quarter. Three out of every four strategies also provided institutional AUM information. Portfolio exposure to Brazil among these strategies also ranged from 0.05% up to 100%, but averaged slightly less at 12.32%. Combining individual strategies' portfolio exposure levels with their institutional AUM shows there to be USD 150.69 billion in institutional asset exposure to Brazil, or 11.31% of the overall institutional AUM. Nearly 64% of this USD 150.69 billion is in active equities utilizing a fundamental approach to security analysis.

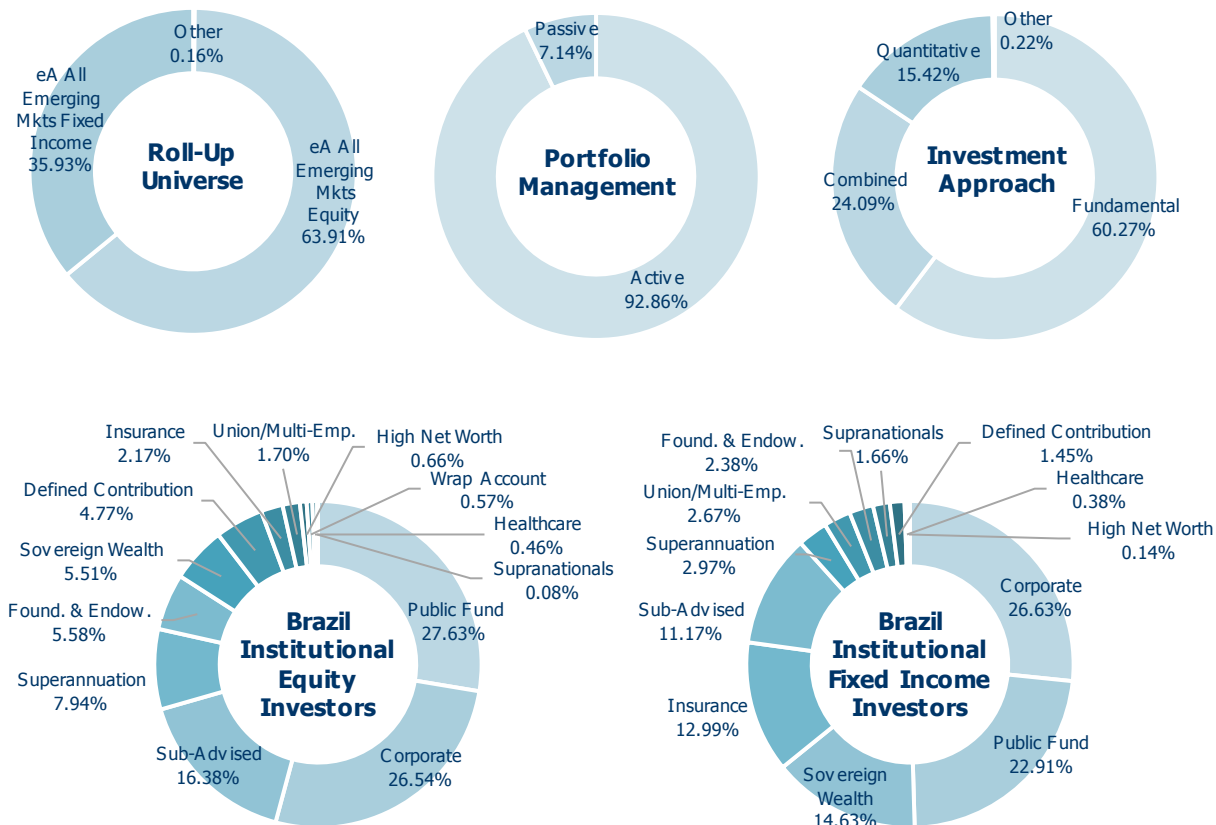
There are similarities but also distinct differences between the institutional investor composition of strategies targeting the equity asset class versus those focusing on fixed income. For example, and outside the "Other" category of investors:

- 1) Corporate and public fund accounts represent the largest share of equity and fixed income investors, combining for 53.98% and 49.54%, respectively, of institutional AUM directly exposed to Brazil.
- 2) Insurance and SWF are more integral components of institutional AUM for fixed income strategies compared to equity strategies. Insurance accounts are responsible for 12.99% of fixed income investors' AUM versus 2.01% for equity, while SWF are responsible for 14.63% versus 5.09%, respectively.
- 3) Sub-advised accounts represent a much larger proportion of equity strategies' institutional AUM than fixed income strategies' in absolute (USD 6.21 billion more) and relative (6.16 points more) terms.

**Figure 12:** Summary counts and assets of strategies with exposure to Brazil as of Q2 2014

# of Strategies with Exposure to Brazil	591
# of Strategies with Exposure to Brazil Reporting Total Assets	569
# of Strategies with Exposure to Brazil Reporting Total & Institutional Assets	443
Total Assets in Strategies with Exposure to Brazil (USD billions)	\$1,755.10
Institutional Assets in Strategies with Exposure to Brazil (USD billions)	\$1,332.56
Institutional Exposure to Brazil (USD billions)	\$150.69
Institutional Exposure to Brazil as % of Total Brazil-Exposed Institutional Assets	11.31%

**Figure 13:** Breakdown of assets with institutional asset exposure to Brazil by universe, management style, and investment approach (top) and composition of market exposure by account type excluding "Other" (bottom) as of Q2 2014





## Hedge Funds in Latin America & Brazil

Latin America is home to a small percentage of the active hedge fund universe reporting to eVestment, however fund representation in Brazil is among the industry's largest. Among all nations, Brazil ranks 6<sup>th</sup> in the number of hedge funds operating within its borders and within Latin America it is indisputably the most popular location, representing 82.56% of all hedge funds.

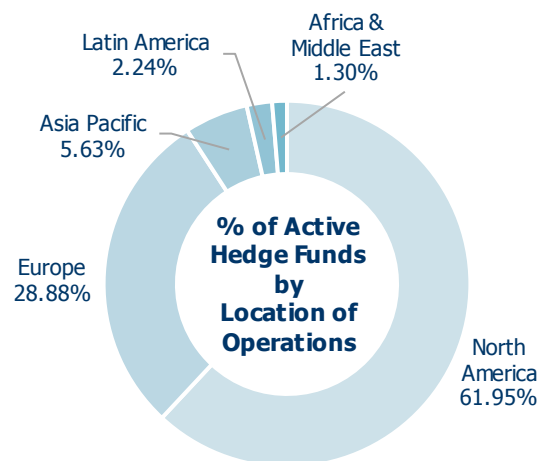
Latin America's asset base as a home of operations is smaller than its representation of active funds. eVestment's asset distribution sample created from its research dataset (a combination of commercial and privately managed databases) estimates Latin America has nearly \$25 billion in hedge fund AUM domiciled locally.

Among active Brazil hedge funds, long-short equity (29.58%) is the most commonly executed strategy, followed by long-only equity (26.76%), macro (19.72%), and multi-strategy (15.49%).

Over three-fifths (61.11%) of Brazil hedge funds follow a fundamental investment process while a quarter (25.93%) use a multi-strategy approach. Funds' investment sub-processes consist primarily of bottom up analysis (58.97% of funds), a blend of bottom up and top down (25.64%), and global tactical (12.82%).

A breakdown of frequently cited service providers for active Brazil hedge funds shows some local firms, Banco Itaú and Banco Bradeso, as custodial favorites.

**Figure 14:** Distribution of active hedge funds by location of operations as of Q2 2014

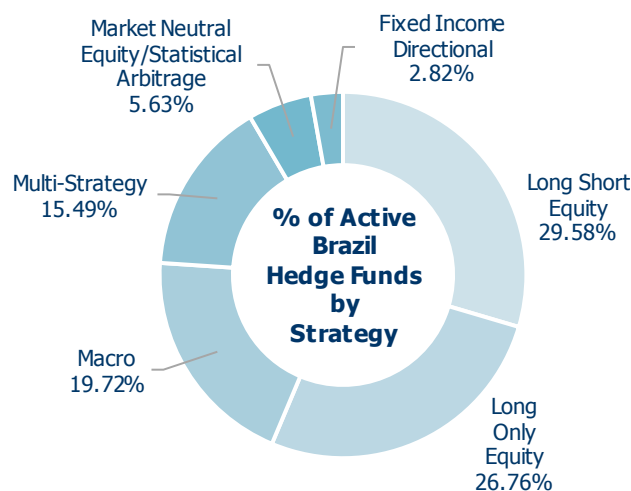


Top 10 Countries	% HFs
USA	57.81%
United Kingdom	16.25%
Canada	4.14%
Switzerland	3.62%
Hong Kong	2.01%
Brazil	1.85%
France	1.82%
Germany	1.74%
Australia	1.69%
Luxembourg	1.20%

Latin America	2.24%
Brazil	82.56%
Mexico	5.81%
Argentina	3.49%
Chile	3.49%
Panama	2.33%
Uruguay	2.33%

**Figure 15:** Distribution of active Brazil hedge funds by primary strategy and a list of most frequently cited service providers in the region as of Q2 2014



Type	Firm
Legal Counsel	Ogier Morgan, Lewis & Bockius Seward & Kissel
Administrator	BNY Mellon UBS Credit Suisse
Custodian	Banco Itaú Banco Bradesco J.P. Morgan
Auditor	KPMG PwC Ernst & Young
Prime Broker	UBS Morgan Stanley Credit Suisse

## COMPANY DESCRIPTION

eVestment provides a flexible suite of easy-to-use, cloud-based solutions to help global investors and their consultants select investment managers, enable asset managers to successfully market their funds worldwide and assist clients to identify and capitalize on global investment trends.

With the largest, most comprehensive global database of traditional and alternative strategies, delivered through leading-edge technology and backed by fantastic client service, eVestment helps its clients be more strategic, efficient and informed.

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