**Japanese investors think Brazil assets the real deal**

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*Whether it is the morning banana diet craze a couple of years ago or the queues outside Krispy Kreme doughnut stores, when an idea catches on in Japan it spreads like wildfire.*

In the Japanese investment world, the latest fad is Brazilian assets. So popular have Brazilian investment trusts become that, as of the end of March, individual investors held a record Y2,343bn ($25.1bn) in the Latin American country's stocks and bonds, according to Japan's Investment Trusts Association.

The data suggest that investors have not been put off by a 2 per cent tax on the inflow of money destined for financial assets the Brazilian government imposed late last year.

That makes the Brazilian real the fourth most popular currency out of 40 in which Japanese individuals buy investment trusts, after the US dollar, the euro and the Australian dollar. Brazil even beats demand for investment trusts in India and China, the data show.

This represents rapid growth for an investment vehicle that barely existed a few years ago. Until 2007, there were only a few launches of real-denominated funds for Japanese retail investors, but the number started increasing significantly in 2008, according to data collected by JPMorgan.

One of the main attractions of Brazilian bonds in particular, in which about two-thirds of the investment trusts are held, is the interest-rate differential that individuals get from investing their low-yielding yen in Brazil, where interest rates are at 8.65 per cent. Japan's interest rates are 0.1 per cent.

Japanese individuals have long been keen pliers of the carry trade as they search for higher returns than they get investing at home. However, more than half of the Y1,456,000bn of household financial assets is stuck in bank deposits, where it earns as little as 0.05 per cent.

With concern about pension pay-outs increasing, more Japanese could start seeking out more risky investment strategies.

Another way Japanese individuals have been gaining exposure to the real and the Brazilian interest-rate differential is through buying emerging market currency overlay funds. Typically, these invest in high-yielding underlying assets such as US junk bonds, dollar-denominated emerging market debt or real estate investment trusts. The currency overlay comes in with a choice of currencies in which to "hedge" the portfolio through the use of non-deliverable forward contracts.

JPMorgan estimates that about $27.4bn of Japanese individuals' money is invested in fixed-income overlay funds hedged in the real. The investment bank does not track equity funds.

Early last year Nomura was the first Japanese financial institution to introduce this type of product to individual investors. Strong demand has since prompted rivals to bring other such funds to the market.

"Japan has 30 per cent more retired people today than 10 years ago and they need high coupon income, making Brazil still a top destination [for their investment]," said Will Oswald, global head of emerging market quantitative strategy at JPMorgan in London.

**Fonte: Financial Times, London, Apr. 13th 2010, Emerging Markets, online.**