Gávea Investimentos

# A shore thing

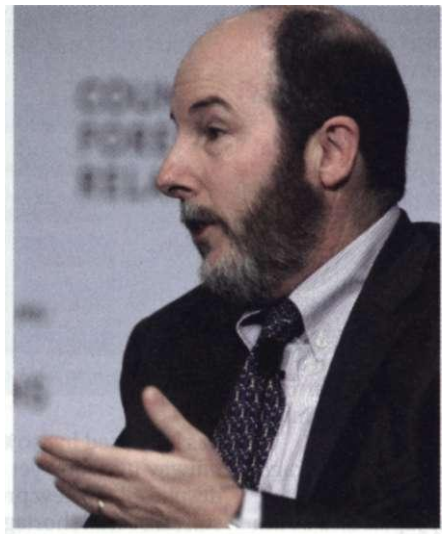
RIO DE JANEIRO

**A Brazilian fund manager has caught the eye of investors around the world**

BLISSFUL beachgoers in Rio may not worry much about the rest of the world. But two blocks from Leblon, one of the city's best beaches, is the headquarters of Gávea Investimentos, a Brazilian fund manager with $7 billion in assets under management, which makes money by looking over the horizon.

The firm runs a respected "macro" hedge fund, which bets on global market trends. It recently raised a $1.9 billion private-equity fund, Brazil's largest ever. In 2010 Gávea attracted the attention of Highbridge, a $27 billion hedge fund run by JPMorgan Chase, which bought a majority stake for a reported $1.5 billion. "With Gávea the organisation has become an expert in Brazil overnight," says Glenn Dubin, the boss of Highbridge.

Gávea is not the only Brazilian asset manager to have attracted the attention of outsiders. The likes of Blackstone and Evercore have also made investments in local firms to gain a foothold in Brazil (see table). But Gávea is the industry's most gilded name. In Arminio Fraga, the joint founder of Gávea, the firm has Brazilian finance's equivalent of Shakira-a celebrity whose fame has spread beyond Latin America.



Shakira with a beard

### Fraga rocks

Mr Fraga ran the central bank from 1999 to 2002, after Brazil's currency devalued, and is credited with helping the country avoid the fate of its neighbour, Argentina, where economic crisis culminated in default. Previously, he had run the emerging-markets portfolio at George Soros's Quantum Fund, a hedge fund in New York. In 2003 he decided to launch his own hedge fund with his cousin, Luiz Fraga, the firm's co-chief investment officer, and Luiz Figueiredo, a former central-bank colleague who has since left the firm. The fund makes bets on what Arminio Fraga calls "emerging and submerging economies" across the world. In 2006 it started raising a private-equity fund to take advantage of investments that are not publicly traded; private equity now accounts for 57% of the firm's assets under management.

Rio de Janeiro is not an obvious place to run a global hedge fund but it has its advantages. The crisis in Europe has been easier to understand. "Portugal, Greece and Ireland seem to have very similar problems to what Latin America had in the 1990s," says Edward Amadeo, Gavea's chief economist. The Fraga's contact book is a big help as the team travels around the world to gauge the outlook in the 20-or-so countries the fund is invested in. And there is also plenty of interest among foreigners in tapping the firm's local knowledge: Gávea runs a Brazil-focused hedge fund, for instance. In all, around 80% of the firm's investors are from outside Brazil.

Running a hedge fund in Brazil is rather different from doing so in other places, however. Interest rates remain high: the benchmark rate is 9.75%. Local hedge funds report their performance relative to that rate. Gávea keeps around 80% of its book in cash and only takes a position when it strongly believes it can beat the risk-free return. It is a conservative firm by nature, which helps explain why it has solid but not outstanding performance. As of March, its offshore global macro fund had posted an annualised return of 9.5% since inception, but its returns-and those of its onshore Brazilian fund-have dwindled over the past two years.

In private equity, too, Gávea sambas to a different beat. It buys only minority stakes in companies with very little debt, a practice common in emerging markets. But unlike most private-equity firms, Gávea does not target problem-child companies that need operational improvements. The firm invests in companies that are well run but cannot access capital, since financing is expensive and hard to come by in Brazil. It pays a lower price for being willing to take a minority stake, unlike many of its foreign competitors descending on Brazil. "We are buying an extremely well-run dollar for sixty cents," says Luiz Fraga.

Gávea was part of a group that bought Arcos Dorados, a McDonald's franchise, and made more than ten times its money when the firm listed it last year. But there has not been an initial public offering (IPO) in Brazil since last July, which is a problem, ipos are usually the easiest way to exit investments, since minority owners find it hard to force a company's owner to sell.

In the meantime Gávea is planning to venture into credit and property. Because financing is scarce, Gávea sees an opportunity to do direct lending in Brazil, and to buy loan portfolios from Brazilian banks. Luiz Fraga reckons Gávea could double its assets to reach $15 billion in the next five years. But George Wachsmann of BAWM, which runs money for wealthy families in Brazil, warns that asset-gathering could hurt the performance of the firm's hedge funds. Others worry what will happen to Gávea once Arminio, who is 54 and the lifeblood of the firm, retires.

Another question is whether Gávea will remain a Brazilian firm that caters to international clients, or whether it can also conquer its home country. Brazilians are still wary about putting money in hedge funds and private equity, and local pension funds are only just starting to consider them. But lower interest rates will prompt investors to look for alternatives. Political stability helps. "Now that there's a lot of continuity politically, the investment horizons are lengthening," says Arminio Fraga. "With longer horizons there's much more that you can do as an asset manager."

**Brazil dazzle**

Acquisitions of Brazilian hedge funds and private-equity firms (selected)

| Date | Asset manager | Acquirer | % of total equity | Assets under management, $bn, latest |
|---|---|---|---|---|
| Dec 2006 | Hedging-Griffo | Credit Suisse | 50 | 25.8 |
| Nov 2007 | ARX Capital Management | BNY Mellon | 100 | 5.8 |
| Jul 2008 | GAP Asset Management | Prudential | 40 | 2.7 |
| Sep 2010 | G5 | Evercore Partners | 50 | 3.0 |
| Sep 2010 | Pátria | Blackstone | 40 | 5.0 |
| Oct 2010 | Gávea | Highbridge/JPMorgan Chase | 55 | 7.0 |
| Mar 2012 | Claritas Administração | Principal Financial | 60 | 1.8 |

Source: *The Economist*

**Fonte: The Economist, London, v. 403, n. 8780, p. 85, 14 a 20 Apr. 2012.**