

# COUNTRY REPORT BRAZIL 2008

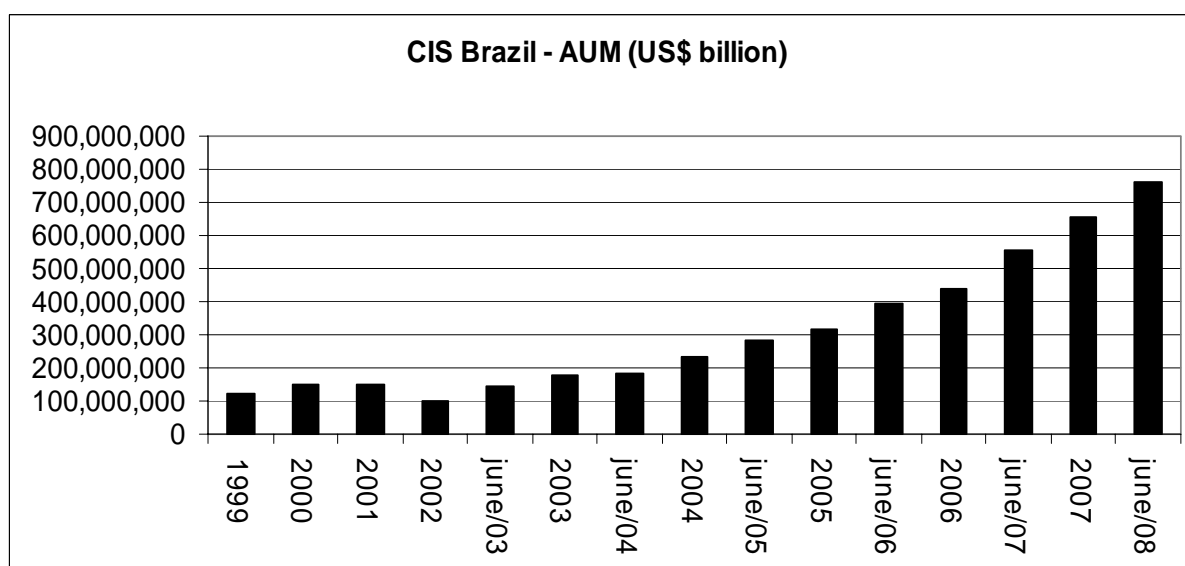
## 1. Economic and Financial Background

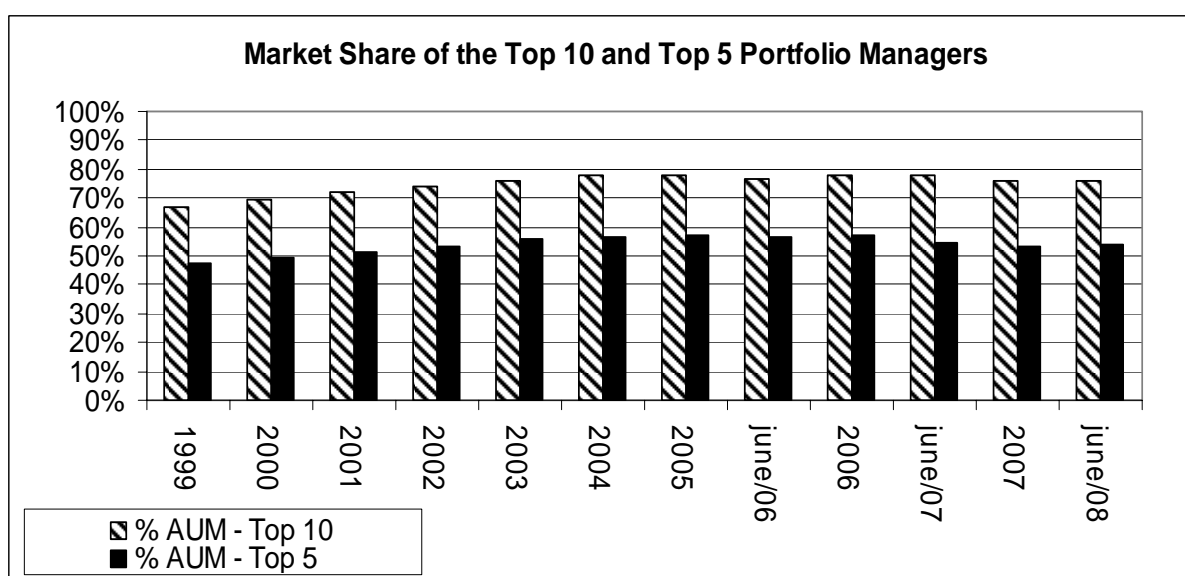
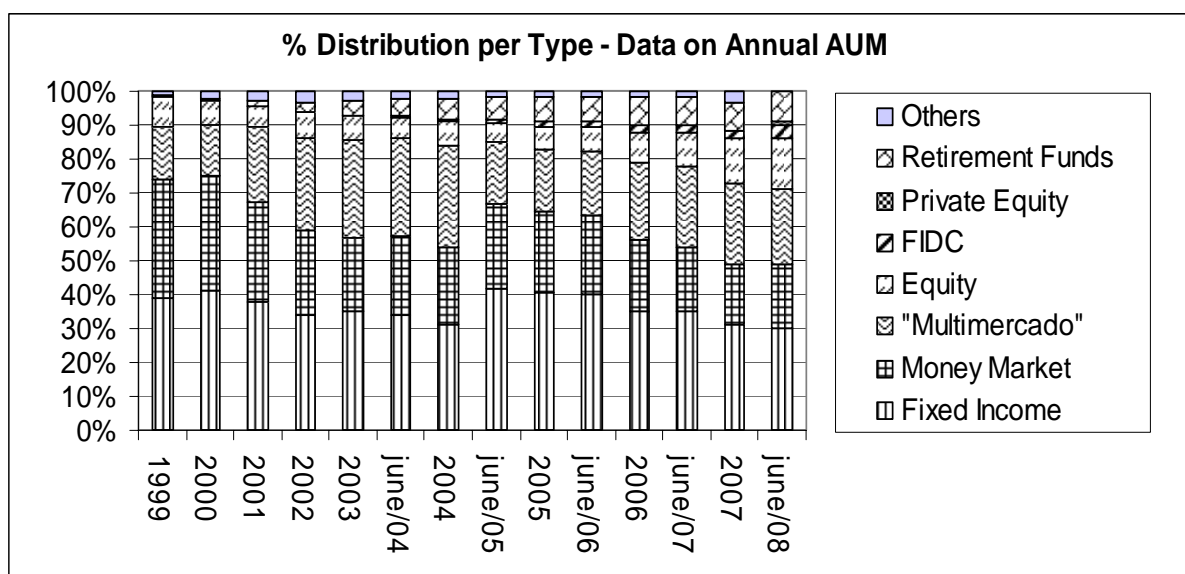
Key Indicators	2008	2007	2006	2005
Population (million)	192*	190	187	182
GDP (US\$ billion)	1,518*	1,151	903	768
Real GDP growth	4.83%*	5.40%	2.86%	2.28%
GDP <i>per capita</i> (US\$)	7,900*	6,070	4,820	4,214
Inflation rate (retail)	6.57%*	4.46%	3.14%	5.69%
Unemployment rate	14.60%*	15.50%	16.80%	17.90%
Stock market capitalization (US\$ billion)	1,382**	1,398	723	482
Number of Companies	398**	404	350	343
Saving deposits (US\$ billion)	155.36*	105.71	77.06	67.67
Time deposits (US\$ billion)	311.21*	151.69	133.66	93.32
Trade Balance (US\$ billion)	22.60*	40.04	46.08	44.71
Total International Reserves (US\$ billion)	200.83*	147.10	62.67	59.88
	(Jun/08)	(Jun/07)	(Jun/06)	(Jun/05)
Exchange Rate (R\$/US\$)	1.5919	1.9254	2.1635	2.3504
	(Jun/08)	(Jun/07)	(Jun/06)	(Jun/05)
Net Public Sector Debt (as % of GDP)	40.65*	42.80	49.97	51.65
	(Jun/08)	(Jun/07)	(Jun/06)	(Jun/05)

\* Forecasts for close of 2008. Source: Central Bank's FOCUS report or economists of principal financial market institutions.

\*\*Source: BM&FBOVESPA – June 2008

## 2. Data for funds under management and portfolios





### 3. Key Trends in flows and assets under management

**The funds industry reports total assets of US\$ 741.2 billion** – The total AUM in June 2008 amounted to US\$ 741.2 billion, equivalent to an increase of 31.66% compared with the same month in 2007, when AUM stood at US\$ 556.6 billion.

**Funding raised in the period** – Funding raised in the period from June 2007 to June 2008 was US\$ 2.4 billion. Leading fund raising vehicles were: (i) FIDCs (ABS funds) with US\$ 13.9 billion; (ii) Private Equity with US\$ 9.6 billion; (iii) Retirement Funds, US\$ 4.6 billion and (iv) Money Market: US\$ 6.9 billion. Net redemptions were largely concentrated in the following categories: (i) Fixed Income: US\$ 28.1 billion and (ii) "Multimercado": US\$ 4.6 billion.

It should be pointed out that during this period a further category – Private Equity – was instituted, these funds hitherto being included under Equity Funds in our statistics. As a result, the segregation of these funds and the creation of a specific fund class generated a distortion in our statistics and for this reason it is important to analyze the annual flow in the light of this migration to the new category amounting to US\$ 9.3 billion. In other words, given this reclassification, funds raised in the Private Equity category during the period was close to zero, while effective funds raised for inclusion in the equity funds was approximately US\$ 9 billion.

### 4. Regulatory and Self-regulatory Developments

#### 4.1 Regulatory

- **Advances in regulation with the internationalization of the market** – The CVM (the Brazilian regulator) has published Instruction 465/08. This has introduced changes to fund regulation, principal of which are: (i) modifications in operational aspects for overseas investments involving the custodian and the guarantee of the existence of assets held by the fund in these markets; (ii) authorization for allocation of up to 100% in overseas markets for those funds which require minimum investments of R\$ 1,000,000.00 per investor; (iii) these funds are exempted from complying with limits of concentration per asset and issuer, mandatory for remaining funds; and (iv) the marking to market of equity is now to be based on closing as opposed to average prices before;
- **Additional rules for politically exposed persons** – CVM Instruction 463/08 has introduced new procedures for tracking operations undertaken by politically exposed persons. It represents an effort on the part of the domestic regulator to improve the regulation for combating money laundering and illicit practices.

## 5. Self-Regulatory

- **New classification of equity funds** – Revised classification is based on the concept of strategies and on the international standardization and no longer on eligible assets for investment. The following types of classification were created: (i) Dividends; (ii) Small Caps, (iii) Sustainability/Governance, (iv) Sectorial and (v) Private Equity Funds;
- **New code for self-regulation processes approved** – This code disciplines the procedures adopted in the event of evidence of failure to adhere to the norms established for all ANBID's codes. Previously, such practices were individually defined for each code. A specific code has now been introduced for standardizing procedural processes for the various self-regulatory segments: investment funds, corporate finance, custody and private banking;
- **Structured Funds Commission** – At the beginning of 2008, the Structured Funds Commission was created with three subcommittees: ABS Funds, Private Equity Funds and Real Estate Funds. These types of funds have been becoming more and more popular in Brazil and, therefore, a focused forum for the players in these markets was organized. Self-regulation initiatives are their hot topic;
- **STI ANBID** – A project started in late 2007, ANBID's Information Exchange System ("STI") consists of a new service that will enable the exchange of standardized files and messages related to investment funds and managed portfolios between industry players – portfolio managers, custodians, brokers, distributors etc. The system should go live by mid-2009;
- **New guidelines for the Self-Regulation Code for Investment Funds**

**Proxy Voting** – New chapter in the funds self-regulation code requiring that each manager has a policy for proxy voting allowing for mandatory voting under certain very specific situations in meetings involving companies, funds and debentures in which the fund under management has a participation;

**Suitability** – Suitability practices are defined. Under the new rules, fund dealing institutions should adopt suitability methodologies for all investor profiles, including private and retail segments;

**Division of the responsibilities by service provider** – Previously all responsibility was concentrated on the fund manager itself even for those activities of the funds undertaken by service providers. With the introduction of the new Code, each service provider is accountable for its own sphere of operations;

**Mandatory contracting of only service providers which have signed up to the self-regulation codes** – Complementary to the division of the responsibilities was the requirement of fund managers

to engage only service providers that have signed up to the Codes or which are members of ANBID. This thus obviates exposure of investors to service providers outside the scope of the self-regulation code and jurisdiction;

**New criteria for membership/adhesion** – Criteria for the admission of new members or those adhering to the ANBID codes, establishing a series of minimum requirements, and a more rigorous process of due diligence than the current one;

**Minimum criteria for ranking** – Minimum prerequisites were defined for use of rankings and awards in fund advertising;

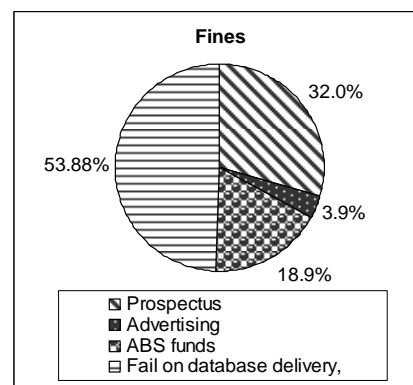
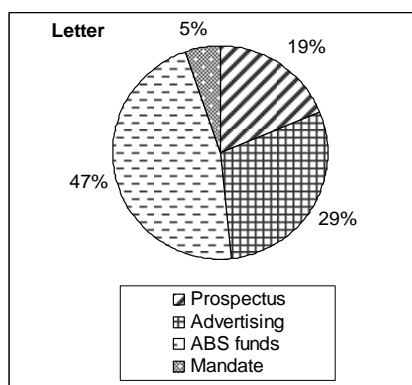
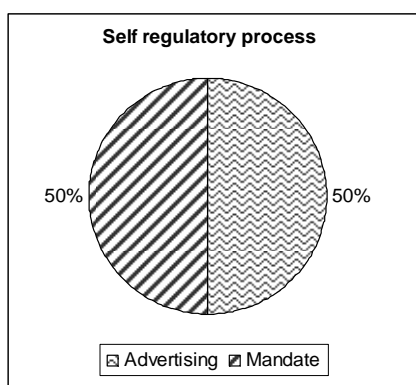
• **Advances in supervision procedures of fund self-regulation**

**Supervision based on risk** – Implementation of self-regulation supervision based on risk, initially focused on the analysis of the fund prospectus. Under the new methodology, the prospectus will be analyzed on a sample basis. Eventual errors identified will be classified according to their potential risk for the market. Cases that involve more serious risks shall be given greater priority, being brought to the notice of the investment funds monitoring commission (ANBID's self-regulation body which analyzes cases and decides on the eventual opening of proceedings), which shall decide the most appropriate course of action;

**Methodology of fund supervision routine filters revised and improved as well as the definition of new thematic filters** – The old filters were perfected, and a new method defined, incorporating non-parametric techniques for the selection of funds subject to analysis by the technical area. Analysis is designed to verify adherence of the funds to their mandates as defined in the Investment Policy. New 'thematic filters' were also instituted for analyzing the consistency of funds where there is a concentration on certain classes of assets. In this case, funds with a major concentration on private issues were selected;

• **Self-regulation statistics** – The following statistical chart tabulates the penalties imposed under the investment funds self-regulation criteria in the period - divided by the principle topics covered by the Funds Self-Regulation Code;

Enforcement	Prospectus	MTM	Advertising	ABS funds	Mandate	Fail On database delivery	Total
Letter	11	0	17	27	3	n.a	58
Fines	66	n.a	8	21	n.a	111	206
Self regulatory process	0	0	2	0	2	n.a	4



**5.2 Private Banking**

• **Educative Visits** – During 2007, ANBID's technical area undertook educative visits to 20 institutions signatories to the Private Banking Self-Regulation Code, the purpose being to verify compliance with required minimum provisions and, in addition, to clarify doubts;

- **Suitability in Private Banking** – Two new chapters were also included on Suitability, defining the need for verification of the adequacy of the investments to investor profile;
- **Supervision “in loco”** – Methodology was developed in the first half of 2008 for supervision “in loco” of the Participating Institutions' adherence to the code focused on the minimum requirements. Supervision based on risks and their application will be begin in 2009.

### 5.3 Qualified Services

- **“In loco” Supervision** – In the second half of 2007, work on adapting, revising and updating the “in loco” supervisory methodology was undertaken for meeting the needs of the Services Self-Regulation Code. In addition to Custody services, this Code now encompasses the Asset and Liability Management and Accounting;
- **Publicity** – The Code was upgraded with the inclusion of a chapter on advertising and publicity, with details on the procedures adopted for publicity and disclosure of technical material of the services rendered.

### 5.4 Licensing

- **CPA 10 (retail) and CPA 20 (qualified investors) licensing** – From June 2007 to June 2008, 91,772 candidates sat the CPA 10 examinations and 15,252, the CPA 20. Out of this total, 47,188 professionals obtained their CPA 10 certificate and 7,082, the CPA 20. To date, 120,000 professionals have been awarded their certification in the CPA-10 and CPA-20 examinations, 44,506 of them in the past 12 months;
- **Certification of portfolio managers** – ANBID is designing a new certification project first and foremost to be focused on evaluating portfolio managers;
- **CFP licensing** – As a member of FPSB – Financial Planning Standards Board, ANBID has been responsible for the CFP – Certified Financial Planner certification in Brazil since 2006. It has organized examinations twice a year and more than 800 professionals have sat the last five examinations. There are now 298 certified professionals in Brazil.

## 6. Product Development

- **Dedicated healthcare funds** – Investment funds exclusive to members of the National Supplementary Healthcare Market. The financial institutions may only create this specific fund through an agreement signed with the ANS (National Supplementary Healthcare Agency);
- **Ranking of net inflow/outflow Investment and redemption** – ANBID launched a new ranking based on the net inflow/outflow of the investment funds categorized by type and fund management company for the month, year-to-date and for a rolling 12-month period;
- **New statistical bulletin of returns by type** – The statistical bulletin contains a series of information that describes the types of funds as classified by ANBID. Every month, the document contains two types of funds and is composed largely of risk-return dispersion graphs, frequency distribution and volatility, net asset track record, net inflow/outflow and statistical return data.

## 7. Education

- **Investors: Launch of an instrument for search and comparison of several Brazilian Investment Funds** – In June 2008, ANBID launched in the website [www.comoinvestir.com.br](http://www.comoinvestir.com.br) an instrument called *Escolha Seu Fundo* (Chose Your Fund) for search and comparison of about 2,600 Brazilian Investment Funds available to the investors. The objective of this special instrument is to increase the transparency of fund industry data and to help investors in their investment decisions.

### 7.2 Industry Events

- **4<sup>th</sup> ANBID capital markets' seminar** – On November 29 2007, ANBID held a debate on the importance of the capital markets to the real estate and infrastructure sectors, mainly with respect to their relevancy in the capital markets. Government and financial sector specialists were present at the event. Legislation and regulatory issues were discussed in addition to securitization, credit and long-term investments. **An audience of 317 was present at the event;**
- **4<sup>th</sup> ANBID annual legal seminar** – Law and economics (interaction between legal and economic aspects and their influence on issuing new rules in the Brazilian capital markets); issues examined: ANBID's self-regulation; Brazilian market's institutional soundness; evolution of regulations in Brazil; the Brazilian monetary system; legal framework for public offerings. **An audience of 220 was present at the event;**
- **5<sup>th</sup> ANBID annual legal seminar** – New Brazilian market scenario and perspectives (enhancing the Brazilian legal and corporate institutions to improve the market); issues examined: new Brazilian market environment following BOVESPA's demutualization; relationship between minority and controlling shareholders; new trends in Brazilian market regulations; mutual funds' foreign investments, securities' intermediaries duties and liabilities. **An audience of 231 was present at the event;**
- **"B.E.S.T. – Brazil: Excellence in Securities' Transactions"** – Roadshows on the domestic financial market and the capability of the Brazilian services' structure. **Geneva (34 participants); Luxemburg (45 participants); London (98 participants); Dubai (23 participants);**
- **2<sup>nd</sup> ANBID Corporate Finance Seminar** – Held on the 10<sup>th</sup> of June 2008. The main issues discussed in the Seminar: Small and Middle market companies – how to grow with capital markets; Effects in Brazilian capital markets and in the assets management industry upon receipt Investment grade note; Progress in Brazilian capital markets regulation and self regulation and the relationship of independence in private equity and capital markets. **This second edition had an audience of 350 people;**
- **2<sup>nd</sup> ANBID Private Banking Seminar** – On October 30 2008, we are to hold the second edition of ANBID's Private Banking Seminar. In addition to other topics, this year's key panel involving the Boston Consulting Group is to present the Brazilian Private Banking Benchmarking concept - the first survey of the subject. **Over 300 are expected to attend the seminar;**
- **Other Events**
  - 2<sup>nd</sup> Corporate Finance Seminar (seminar and trade fair) – June 10 2008;**
  - Private Banking Breakfast Meeting – October 30 2007;**
  - ANBID Self Regulation Investment Funds Seminar – December 5 2007;**
  - Launch of ANBID's 3<sup>rd</sup> Book on Capital Markets – December 6 2007;**
  - Qualified Services Self Regulation Processes Codes Workshop – April 30 2008;**
  - Self Regulation Workshop for Investment Funds – May 6 2008;**
  - Cocktail in commemoration of the opening of the new ANBID headquarters – May 19 2008.**

## 8. Statistical Summary

**Table 1 – AUM**

Period	R\$ Million	US\$ Million	Number of Funds	Exchange Rate
1999	220,936.81	123,497.38	1,931	1.7890
2000	297,104.31	151,940.43	2,295	1.9554
2001	344,413.38	148,428.45	2,524	2.3204
2002	356,056.49	100,771.66	2,927	3.5333
June 2003	419,889.60	146,201.11	2,773	2.8720
2003	515,957.13	178,581.31	2,925	2.8892
June 2004	565,488.88	181,975.51	2,906	3.1075
2004	613,700.58	231,201.24	3,001	2.6544
June 2005	660,110.27	280,850.18	2,823	2.3504
2005	739,179.30	315,794.12	2,885	2.3407
June 2006	853,163.30	394,198.26	2,906	2.1643
2006	939,356.18	439,362.10	3,337	2.1380
June 2007	1,072,306.62	556,695.37	3,348	1.9262
2007	1,157,916.78	653,710.15	3,770	1.7713
June 2008	1,213,588.28	762,352.08	4,037	1.5919

**Table 2 – Data on Annual AUM - % Distribution per Type**

Period	Equity	Fixed Income	Money Market	"Multimercado"	Retirement Products	Private Equity	FIDC	Others
1999	9.02	38.71	35.20	15.57	0.36	-	-	1.14
2000	7.29	40.96	33.81	14.96	0.78	-	-	2.20
2001	6.42	37.45	29.36	22.48	1.44	-	-	2.84
2002	7.85	34.00	25.44	26.66	2.99	-	-	3.06
2003	6.95	34.73	22.41	28.57	4.48	-	0.21	2.65
June 2004	5.96	34.39	23.12	28.81	5.16	-	0.41	2.14
2004	7.30	31.42	22.53	29.79	6.05	-	0.78	2.13
June 2005	6.40	41.51	24.90	17.94	6.59	-	1.06	1.60
2005	7.12	40.87	23.69	17.76	7.07	-	1.71	1.77
June 2006	7.10	40.40	22.88	18.84	7.06	-	2.00	1.73
2006	8.84	34.80	20.91	23.37	8.18	-	2.12	1.78
June 2007	10.38	35.21	18.56	23.58	8.14	-	2.19	1.94
2007	12.98	31.21	17.55	24.30	8.29	-	2.50	3.18
June 2008	14.54	30.40	18.99	22.17	8.60	1.37	3.83	0.10

**Table 3 – Portfolio Composition as % of the AUM**

Period	Repo	Federal Public Bonds	State and Municipal Public Bonds	CD's	Debentures	Other Fixed Income	Equity	Other Equity
2000	-	76.14	0.08	4.52	5.13	2.79	11.11	0.23
2001	-	75.16	0.04	7.65	4.74	2.52	9.52	0.37
2002	-	73.43	0.03	5.93	5.08	4.37	10.88	0.27
June 03	-	76.66	0.03	7.08	4.72	1.38	9.96	0.17
2003	-	75.86	0.03	6.77	3.89	2.89	10.33	0.24
June 04	-	74.54	0.10	7.94	3.45	3.71	10.03	0.24
2004	13.23	58.99	0.05	8.44	3.08	4.65	11.17	0.38
June 05	9.44	61.96	0.04	10.74	4.11	3.73	9.82	0.15
2005	9.43	60.53	0.04	10.66	3.93	3.98	11.16	0.24
June 06	10.86	57.05	0.04	11.84	4.05	3.17	12.65	0.25
2006	11.35	54.80	0.05	10.18	4.62	3.38	15.25	0.28
June 07	15.05	50.20	0.00	9.24	4.23	3.63	17.32	0.22
2007	13.60	47.04	0.00	8.96	4.17	4.28	21.71	0.24
June 08	15.47	42.82	0.00	11.53	3.74	4.95	21.21	0.27

Source: ANBID

**Table 4 – Portfolio Managers and Market Share**

Period	Number of Portfolio Managers	Growth rate	% Market Share AUM of TOP 10	% Market Share AUM of TOP 5
1993	175	-	58.1	39.8
1994	188	7.4	57.2	38.9
1995	172	(8.5)	66.1	46.1
1996	171	(0.6)	66.6	47.8
1997	158	(7.6)	64.3	45.3
1998	149	(5.7)	65.7	48.8
1999	133	(10.7)	67.0	47.2
2000	131	(1.5)	69.3	49.4
2001	120	(8.4)	72.3	51.4
2002	110	(8.3)	74.3	53.3
June 2003	110	0.0	76.3	55.6
2003	111	0.9	75.8	55.7
June 2004	101	(9.0)	78.2	56.7
2004	102	(8.1)	77.7	56.5
June 2005	97	(4.9)	79.3	58.4
2005	92	(9.8)	77.6	57.4
June 2006	88	(4.4)	76.3	56.7
2006	87	-1.1	77.6	56.9
June 2007	87	0.0	76.6	54.7
2007	87	0.0	75.8	53.0
June 2008	87	0.0	76.2	53.7