

## New Buzz on Brazil's Bovespa (But Are Receivables Funds as Good as They Smell?)

Sao Paulo, April 29 (BrazilPortfolio) -- At first glance, they look tempting.

For one, fund managers say, consider the stellar credit ratings given to receivables funds, known as FIDCs, by Standard & Poor's Corp. and Fitch Atlantic Ratings. For another, look at their eye-catching performance targets, promising returns as high as 115 percent above the benchmark interbank certificate of deposit rate -- for less risk than stocks.

But though FIDCs offer investors a new and seemingly safer way to invest in a domestic fixed-income security -- with the caché of being backed by credit assets such as auto and consumer loans and trade receivables -- local fund managers say they're treading cautiously into the new market. For the moment, at least.

"Remember, this is relatively new," warns Helena Biasotto, who helps manage 2.8 billion reais (\$951 million) in assets at Banrisul SA, in the southern city of Porto Alegre. "If the receivables are of a good quality, then they may be a good investment. But it's a difficult thing to figure out. It's a new type of credit here. You have to look at each fund and each fund will be different."

Less than half of one percent of Banrisul's portfolio is currently invested in shares of FIDCs.

Biasotto isn't alone in her interest -- and her caution.

"If we continue to see interest rates decline, and that's the direction the government seems to be going, than investing in these funds is a good alternative," says Pedro Furato, finance director at Banco BNL SA, a unit of Italy's Banco Nazionale del Lavoro.

While his bank doesn't hold any FIDC shares in its portfolio, "it's a security that I've looked at with a great deal of interest," he says.

### Doubling Again

Before 2001, only real estate could be used as collateral to back domestic securities. In December of that year, Brazil passed a law authorizing creation of Fundos de Investimento em Direitos Creditórios, or FIDCs. A year and a half later, officials adopted enabling legislation allowing the formation of the funds.

Since mid-2003, the local securitization market has taken off. Last year, it doubled in value to 1.66 billion reais in issued stock, says Carlos Lopes, a partner at Rio de Janeiro-based financial consultancy Uqbar.

And this year, it should double again, since FIDCs offer a far cheaper way for companies to raise capital for longer periods of time, without the burden of the usual financial taxes.

"It's pretty much a nightmare (in Brazil) to raise money by issuing a bond, so it's far more worthwhile for companies to raise money through an instrument like this," says Lopes.

Some of Brazil's best-performing companies -- from top poultry processors Sadia SA and Perdigão SA to petrochemical company Braskem SA and the country's largest retailer Cia. Brasileira de Distribuição -- have launched FIDCs.

Only institutional investors, such as pension funds, or private investors with a minimum investment of 250,000 reais -- are qualified to invest in the shares of receivables funds.

### Risks vs. Rewards

So far, the young industry is proving itself resilient in the face of adversity.

A case in point is the Parmalat FIDC, notes Furato. “This was a big test for the industry, but it did well,” he says. “The Parmalat fund, in spite of the company’s problems, continued to pay.” The fund, begun with 130 million reais, is legally isolated from the Italian-owned parent company, Parmalat Brasil SA and Batavia SA, and its crippling financial scandal. The fund has a triple-“A” local rating from S&P, while Italy’s Parmalat Finanziaria SpA and Parmalat SpA has a “D” rating after defaulting on a put option last Dec. 17.

On the other hand, the market for FIDCs is still tiny, and the trading volume low. Many investors in Brazil aren’t prepared to put their money into credit-related securities given the country’s inexperience with structured and other kinds of company financing.

“I don’t like to work with products with credit risk, [as] you always have the chance that someone won’t pay their debt,” says Francisco Costa, a partner at GAP Asset Management in Rio de Janeiro which manages 1.7 billion reais in Brazilian securities.

Moreover, say analysts, the risks of investing in receivables funds are difficult to gauge. Analyzing a receivables fund is “one of the most complex and sophisticated operations in the world,” says Sergio Garibian, director of S&P’s Sao Paulo office.

### 'Shop Well'

Notwithstanding the triple-“A” or double-“A” local ratings assigned to most FIDCs, there are risks to investors that rating companies do not measure, such as the fund’s continually-changing portfolio, its performance and its lack of recourse to the parent company should it fall on hard times.

“It’s not a very transparent industry so far,” says Garibian. His advice to investors? “Be very careful. Look at the risks. Shop well.”

Even so, the industry is expected to boom this year as interest rates decline in Brazil. S&P is now analyzing more than 10 new proposals, though the average size of start-up funds is shrinking “to more reasonable levels that make it easier to place in the market,” he says.

Of the more than 20 FIDCs in Brazil, 10 are listed in the Sao Paulo Stock Exchange’s fixed-income markets BovespaFix and SomaFix. The majority of the listed FIDCs are closed-end funds.

“The number and volume of FIDCs traded on the BovespaFix is going to grow a lot this year because interest rates in Brazil are too high and companies need a better way to raise capital,” says Romeu Pasquantonio, the Bovespa’s director of new projects. “Every receivable that exists in Brazil can be securitized.”

For example, state-controlled oil company Petroleo Brasileiro SA is planning to securitize its 18 billion reais worth of receivables later this year, Pasquantonio says.

“Instead of investing in public debt, investment funds can invest in companies by investing in FIDCs, and this will help generate growth in employment,” he says. “Brazil isn’t growing right now. It’s not possible to be a producer with our interest rates. We have to change direction. This is a great opportunity for Brazil.”