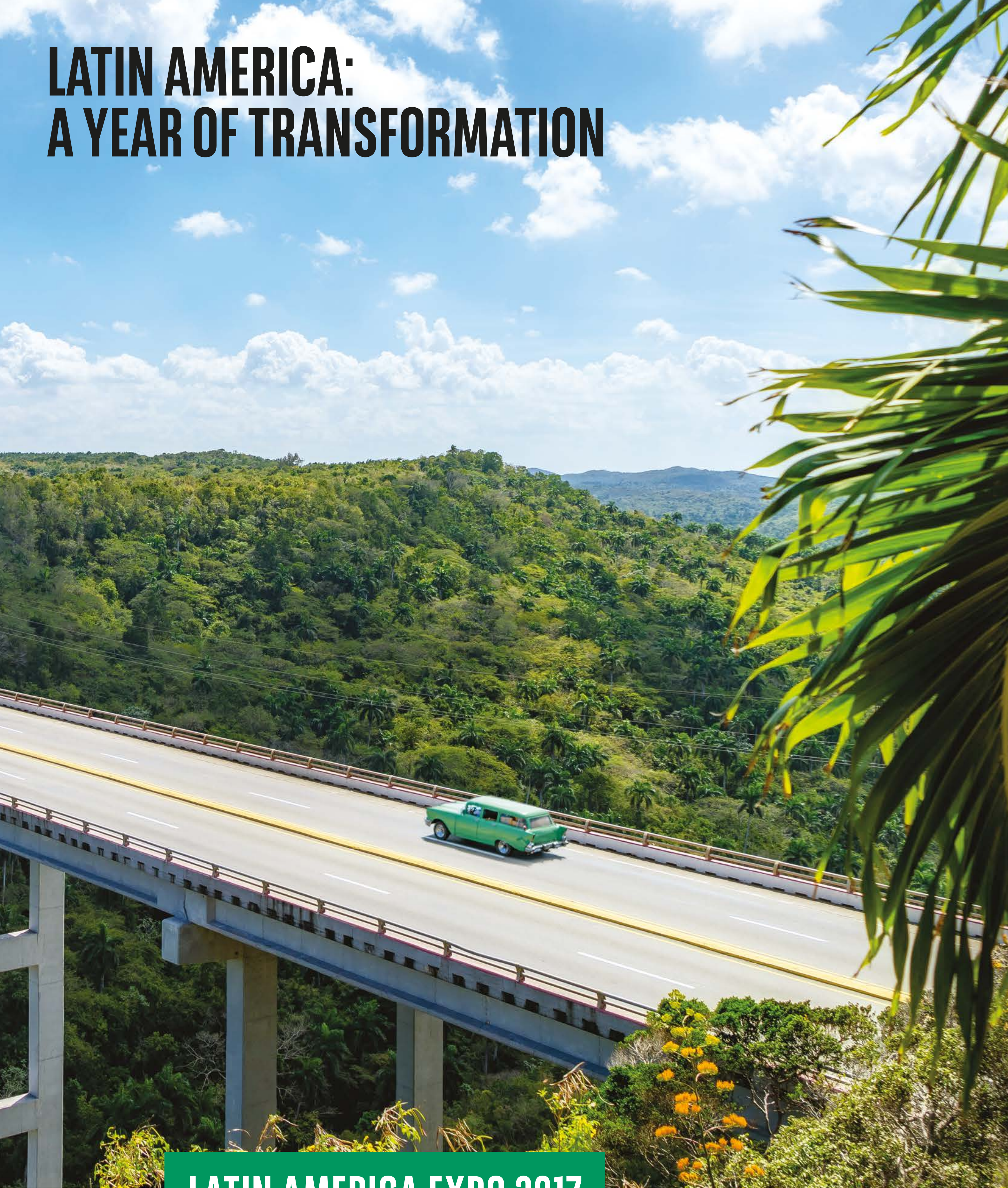
LATIN AMERICA: A YEAR OF TRANSFORMATION



LATIN AMERICA EXPO 2017

BNP PARIBAS

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LATIN AMERICA: A YEAR OF TRANSFORMATION

LATIN AMERICA EXPO 2017

Over the past year portions of the historically potent Latin American markets began to show signs of life, having weathered a sustained pullback resulting from weak commodities pricing and a rising US dollar. Led by fiscal improvements in Brazil, Mexico and Argentina, during 2017's first quarter aggregate GDP for the region rose 0.7%, according to data from FocusEconomics group. Following the impeachment of former President Dilma Rousseff last August, Brazilian investors, heartened by a succession of labor and pension reforms, once again streamed into the market; by May the country's IBOVESPA stock index had rebounded nearly 20%. While fresh corruption charges leveled against Brazil's current President Michel Temer have helped stem some of that progress, efforts to rein in spending, along with a more proactive central bank and gradually recovering Brazilian real, are likely to help support the country's fiscal standing moving forward.

Opportunities continue to abound elsewhere in the region. Last year BNP Paribas Securities Services became the first regional provider to begin offering investors in Peru local custody and clearing capabilities on a centralized basis via Colombia, and has earmarked a similar approach for Chile later this year. Meanwhile, constitutional reforms paint a positive picture for Mexico going forward, while in Colombia the long-term outlook also remains upbeat, despite recent trade-related shocks.

CLAUDINE GALLAGHER
Americas Head of
BNP Paribas Securities Services

At the sixth annual Latin America Securities Services Expo held in New York earlier this summer, representatives from host BNP Paribas along with the Brazilian stock exchange B3, J.P. Morgan, LarrainVial Securities, Sumitomo Mitsui, and Thomas Murray offered a comprehensive assessment of current and forward-looking regional dynamics. Bottom line: with a growing number of investors once again sizing up Latam/Hispanic Latam opportunities, "having an on-the-ground provider that can offer direct access to regional infrastructures, issuers, as well as regulators and tax authorities will be crucial to investment success in the years to come," said Claudine Gallagher, Americas Head of BNP Paribas Securities Services, during her opening remarks.

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Claudine Gallagher, Americas Head of BNP Paribas Securities Services

LOCAL LEVERAGE

FRANCISCO OLIVEIRA

Deputy Head of Hispanic Latin America, Corporate & Investment Bank and Head of Global Markets, Latin America, BNP Paribas

Leading off the plenary session *Investing in Latin America in 2017 – 'On the Road Again,'* Francisco Oliveira, Deputy Head of Hispanic Latin America, Corporate & Investment Bank and Head of Global Markets, Latin America for BNP Paribas, echoed Gallagher's theme, encouraging participants to seek institutions with a bona fide local presence. "With 100 years of history in the region, we consider ourselves locally committed to these markets, and have a wealth of local talent in research, business and operations to help investors stay on course," said Oliveira, adding, "if you're not in Latin America at present, we believe you're missing a huge opportunity."

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Francisco Oliveira, Deputy Head of Hispanic Latin America, Corporate & Investment Bank and Head of Global Markets, Latin America, BNP Paribas

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MARCELO CARVALHO

Chief Economist and Head of Emerging Markets Research, Latin America, BNP Paribas

Marcelo Carvalho, Chief Economist and Head of Emerging Markets Research, Latin America, BNP Paribas, offered a historical snapshot depicting the ebbs and flows of the regional markets over the past decade, as well as expectations for the near term. Of particular note, said Carvalho, was the anticipated upward trajectory for Brazil's GDP in the coming years, as the country emerges from a prolonged period of negative growth. If there's a caveat, said Carvalho, it's that domestic, rather than global, factors will likely drive Brazil's fortunes going forward, resulting in a more modest, US-styled recovery, rather than the commodities-fueled advances of the past. Given the severe turbulence of the past several years, however, continued forward momentum would be most welcome.

"This has been Brazil's worse recession ever," conceded Carvalho, "the first time the country has experienced consecutive years of negative growth since the early 1930s. But the good news is that Brazil is bouncing back, and should be able to sustain a respectable growth rate over the coming years."

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Marcelo Carvalho, Chief Economist and Head of Emerging Markets Research, Latin America, BNP Paribas

Despite widespread dissatisfaction with the established ruling class, Carvalho sees Brazil's structural reforms remaining intact. Central Bank President Ilan Goldfajn has already indicated favoring sustained interest rate cuts to support Brazil's economy, similar to the quantitative easing strategies undertaken by the US and EU. "While it's possible that parts of the agenda, including Social Security reform, may get diluted in the process, by and large the reform movement will persevere," said Carvalho.

The imposition of a spending cap aimed at reducing projected debt levels by 20% through 2024 will also be key to Brazil's longer-term viability, said Carvalho. "Today the retirement age in Brazil is 54, which is obviously well below similar thresholds in developed regions. Therefore, pushing ahead with these debt-reduction plans is certainly a major part of the recovery process."

For his part, Oliveira challenged the notion that Brazil's FX framework remains soft. "Many people think of Brazil's currency as non-convertible, when in reality anyone with the proper tax credentials can easily transfer money in and out of the country, or access the same instruments available to local investors. There are no capital controls in the region, just central-bank monitoring, which is part-and-parcel for exchanges across the globe."

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Francisco Oliveira, Deputy Head of Hispanic Latin America, Corporate & Investment Bank and Head of Global Markets, Latin America, BNP Paribas

Earlier this year Brazilian exchange BM&FBovespa completed its acquisition of clearinghouse Cetip SA Mercados Organizados, and pending approval of the Securities and Exchange Commission of Brazil (CVM) will operate under the new moniker B3 S.A. – Brasil, Bolsa, Balcão. The deal makes BM&FBovespa the leading custodian for Brazilian fixed-income assets and OTC derivatives, with additional interests throughout the Latam region. Among the major benefits the new company brings to the region is enhanced capital efficiency, greater revenue diversification along with a significant reduction in margins.

Such elements will be crucial over the near term, particularly as Brazil copes with ongoing economic aftershocks. While Moody's recently upgraded the country's credit rating from negative to stable, citing gradually improving macroeconomic conditions, the fiscal outlook remains tenuous, with current-year deficit numbers mirroring 2016's 2.7% of GDP, according to Moody's.

CARLOS RATTO

Executive Director, Sales & Product, Securities Unit, B3

In the Brazil 2017 – *A Year of Transformation* conference seminar led by Andrea Cattaneo, Brazil Country Head of BNP Paribas Securities Services, Carlos Ratto, Executive Director – Sales & Products – Securities Unit, B3, reaffirmed the importance of foreign-investor participation in the Brazilian market. "Naturally there has been some reticence, particularly among those currently invested in Brazil," said Ratto during the break-out seminar *Brazil 2017 – A Year of Transformation*. Nevertheless, with the capital markets gaining ground and evidence of a recession-ending economic surge intact, on balance investors have elected to stay put, said Ratto.

"It's impossible to have an emerging markets portfolio without Brazil, plain and simple," affirmed Ratto. "You can re-allocate your assets, adjust the tenor of your holdings, but, bottom line, Brazil needs to be part of your ongoing strategy, which perhaps explains why we haven't seen any substantive changes in investor participation, despite the various ratings adjustments."

"It's impossible to have an emerging markets portfolio without Brazil, plain and simple."

Carlos Ratto, Executive Director, Sales & Products, Securities Unit, B3

Ratto acknowledged that Brazil's regulatory nuances can pose real challenges to non-resident institutional participants. "You do lose some flexibility compared to working in the US and similar markets – the inability to use rehypothecation strategies in Brazil can create issues around liquidity, for instance. But learning to work with the country's unique regulatory framework is just part of the game."

Colombia, which led the region in GDP growth during 2003-2014 and weathered the subsequent downturn better than most, is expected to resume its frontrunner status, with infrastructure expansion helping the country once again eclipse 4% growth in the years ahead. And while the absence of commodities is likely to keep Mexico's growth prospects lagging its South American peers, it has also given the country more stability during the recent pullback, with GDP remaining relatively static through the period, said Carvalho.

The ability for Colombia's central bank, finance ministry and political establishment to reach consensus around economic matters has also helped the country weather the regional turbulence better than most, and is one of the main reasons why BNP Paribas remains particularly upbeat about its chances going forward, added Oliveira. "The society is committed to facilitating foreign trade and promoting a stable environment for global investors. At the same time, our Colombian clients have remained focused on re-investing in the country, more so than expanding into other markets."

"The society is committed to facilitating foreign trade and promoting a stable environment for global investors."

Carlos Ratto, Executive Director, Sales & Products, Securities Unit, B3

REGIONAL PROSPECTS

GRACE TARELHO
Network Manager,
Thomas Murray

During the region-wide panel discussion *Navigating the Markets*, moderated by Bruno Campenon, Head of the Financial Intermediaries & Corporates Client Line with BNP Paribas Securities Services, Grace Tarelho, Network Manager, Thomas Murray, noted that investors are primarily focusing on Brazil and Mexico, with additional allocations to Pacific Alliance countries Chile, Peru and Colombia. "While Chile is viewed as more mature and stable, Colombia has nonetheless generated considerable interest over the last several years, despite the political and economic turbulence that has affected the region as a whole," said Tarelho. Meanwhile in Argentina, reforms aimed at easing controls on FX transactions, part of a broader effort by President Mauricio Macri to bolster the country's economy, is likely to help restore investor confidence, said Tarelho.

> "While Chile is viewed as more mature and stable, Colombia has nonetheless generated considerable interest over the last several years."

Grace Tarelho, Network Manager, Thomas Murray

SERGIO VINELLI
Partner and Managing Director
Institutional Business,
LarrainVial Securities

Sergio Vinelli, Partner and Managing Director Institutional Business, LarrainVial Securities, also noted increased allocations to Peru, Colombia and Chile, due in part to the turmoil affecting Brazil. "The continued growth of the Mercado Integrado Latinoamericano (MILA) market association, which aligns CSDs with the stock exchanges of the three countries plus Mexico, has further sustained capitalization throughout these regions," he said.

In the past, foreign investors have typically increased their exposure to regional debt securities in response to improving market fundamentals, and this year has been no different. "An enormous amount of capital has come into the markets of late, resulting in greater issuance of both investment and non-investment grade securities," said Vinelli. While many view Chile and Peru as relative safe havens, potential disruptions arising from political events such as Chile's upcoming elections as well as the recent ouster of Peru's finance minister bear watching. "The risk premium has certainly risen some, although by and large the outlook remains positive for Chile going forward," he said.

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Sergio Vinelli, Partner and Managing Director Institutional Business, LarrainVial Securities

Despite keeping Argentina at arm's length, investor interest remains high, added Walter Salvatori, Senior Market & Infrastructure Manager for the Americas and Caribbean, J.P. Morgan. "We've already begun to see a transformation take place, including companies coming into the region to explore infrastructure opportunities," said Salvatori.

WALTER SALVATORI

Senior Market & Infrastructure Manager for the Americas and Caribbean, J.P. Morgan

"We've already begun to see a transformation take place, including companies coming into the region to explore infrastructure opportunities."

Walter Salvatori, Senior Market & Infrastructure Manager for the Americas and Caribbean, J.P. Morgan

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Georgiana Bobe, Head of Network Management, Sumitomo Mitsui, agrees that clients "have taken a wait-and-see approach to Argentina for the time being, and as a result we've stayed put while investors seek opportunities mainly in Chile but also in Brazil, Peru and to a lesser extent in Colombia."

Documentation remains a stumbling block for many Latam participants, and is symptomatic of the growing complexity within the region. "Smaller mutual-fund clients in particular may lack the necessary paperwork required by the various jurisdictions," concurred Bobe. "Tax and accounting regulations also continue to be problematic in some regions, requiring that providers offer guidance to clients as needed," she said.

GEORGIANA BOBE

Head of Network Management, Sumitomo Mitsui

"Tax and accounting regulations also continue to be problematic in some regions, requiring that providers offer guidance to clients as needed."

Georgiana Bobe, Head of Network Management, Sumitomo Mitsui

As has often been the case, firms entering the region must be both patient and vigilant, said J.P. Morgan's Salvatori. "For instance, it's likely that we'll have to wait for the outcome of Argentina's legislative elections before we see any changes to that country's capital-gains tax rules." Salvatori also noted problems around the issuance of Chilean bonds through Euroclear, initially due to communications issues between key players. "It is therefore incumbent upon participants and their agent banks to ask the right questions, as well as be able to lobby on behalf of their clients."

CLAUDIA CALDERON

Head of Hispanic Latam,
BNP Paribas Securities Services

The Power of Centralized Access

As part of its enhanced Client Service program, BNP Paribas Securities Services has begun offering clients fully integrated, local account management throughout Hispanic Latam via its operational support team based in Bogota, Colombia. This "centralized access" approach provides clients that utilize the firm's US and global custody platforms with real-time, multi-lingual operational assistance, greatly improving transactional efficiency in the process. During her conference workshop, Claudia Calderon, Head of Hispanic Latam for BNP Paribas Securities Services, emphasized the importance of having a centralized, on-the-ground operational support system in order to maintain a successful client experience. "This level of commitment allows our Hispanic Latam clients to connect directly with locally based account managers, who in turn can quickly respond to investor questions," said Calderon. "Initiatives like these will help make investing in Hispanic Latam more attractive to prospective clients throughout Europe, Asia and other global locales in the years ahead," she added.

> "This level of commitment allows our Hispanic Latam clients to connect directly with locally based account managers, who in turn can quickly respond to investor questions."

Claudia Calderon, Head of Hispanic Latam, BNP Paribas Securities Services

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ANDREA CATTANEO

Head of Brazil, BNP Paribas
Securities Services

Overseeing Non-Resident Requirements

Under Brazil's recently enacted CMN Resolution 4373/2014, non-resident investors, including both foreign-born and Brazilian residents currently living outside of the country, may access the region's financial products via local stock exchange or OTC market, provided that all Brazilian assets are properly registered and maintained under custody or in a recognized deposit account.

For its part, BNP Paribas Securities Services offers clients safekeeping of all assets in segregated accounts, with frequently updated reports. The company also acts as both legal and tax representative on behalf of the investor, providing the necessary credentials to the local authorities, while ensuring all taxes and other fiscal matters are handled in a timely manner.

"Our global network, financial strength and stability ensure the safety of our clients' assets," said Andrea Cattaneo, Head of Brazil for BNP Paribas Securities Services. "From a client's perspective, we will customize our solutions to meet their requirements, and they can depend on a 'boutique' level of customer service."

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Andrea Cattaneo, Head of Brazil, BNP Paribas Securities Services

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