Brazilian increased demand for international investment encourage asset managers

May 16, 2024 by Fund Pro Latin America (Edit)

In line with the trend observed last year, cross-border oriented brazilian mutual funds recorded more outflows than inflows in the first quarter of the year. The volume of outflows – USD 67.5 million – however, was considerably lower than in previous quarters (it had been around USD 420 million in the last quarter of 2023), with asset managers optimistic about a recovery over the next few months, as there is a clearer outlook on the direction of the global economy.

"The positive scenario abroad, especially in the United States, with a resilient economy, slowing inflation, and no short-term risk of recession, has generated a favorable risk sentiment among investors. In addition, the possibility of accessing sectors with good return prospects, such as artificial intelligence and healthcare, has been a significant attraction for international investments," said **Isabella Nunes**, responsible for investor relations at **JP Morgan Asset Management**.

With positive results for international risk assets this year, demand has already shown to be higher than in 2023, said **Luiz Felipe Assadurian**, sales director at **Franklin Templeton** in Brazil.

What attracted attention to international investments the most was the high level of interest rates in fixed income, Assadurian said. "Interest in global fixed income gained momentum from October 2023, when there was a widespread risk aversion movement, which led to an increase in rates," said the executive from Franklin Templeton.

According to Assadurian, this movement was mainly influenced by the market's perception that interest rates in the United States could remain high for an extended period, as well as by increased uncertainty after the start of the Israel vs Hamas conflict.

The **Gama Oaktree Global Credit BRL FIM IE** and **PIMCO Income FIM IE** stand out among the funds with the highest net inflows in the first quarter of the year, with net new inflows of USD 35.7 million and USD 24.2 million, respectively.

The director of Franklin Templeton stated that there was a greater demand for products with more flexible mandates, which, in addition to exposure to developed markets and investment grade, also have the freedom to allocate to emerging markets, high yield, structured credit, and other fixed income sub-classes.

"We have also seen an increase in demand for customized and semi-customized solutions, aiming to meet the specific needs and objectives of each client and portfolio," said Assadurian.

"It was only in the second half of 2023 and the beginning of 2024 that institutional investors realized that the distortions that occurred over the past two years generated excellent investment opportunities," said **Rodrigo Aloi**, head of strategy at **HMC Capital**.

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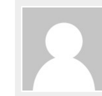

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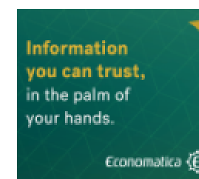

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Once interest rates stabilized abroad, the performance of global assets also normalized, resulting in excellent opportunities in the fixed income market, Aloi said.

Among the most sought-after products in recent months, Aloi also mentions fixed income and credit, whether investment grade alternatives, such as **Man GLG Global Investment Grade Opportunities**; high yield, such as **Man GLG High Yield Opportunities**; or structured credit, via **Pearl Diver Global Floating Rate Income**.

According to Aloi, after the interest focused mainly on fixed income products and private credit, investors are starting to look again at global equity and multi-asset funds.

The search for diversification and extraordinary returns generated by developed markets in recent years (mainly the United States) and the interest in theses that only exist abroad, such as technology and artificial intelligence, are the drivers leading institutions to seek options to diversify their international investment portfolios, said the head of strategy at HMC Capital.

Assadurian, from Franklin Templeton, also said that he anticipates a more optimistic scenario from the second half of 2024, as he closely monitors the changing stance of large and medium-sized brazilian foundations, which are increasingly adopting international allocation as a structural allocation, and no longer just opportunistic.

“This represents a maturing of the industry. The focus, once centered on products, is now on building more comprehensive global portfolios, incorporating a greater diversity of asset classes.”

President of **Schroders** Brazil, **Daniel Celano** states that, with higher interest rates abroad and a local interest rate drop by the end of the year, although less intensely than projected a few months ago, he sees a trend of increased demand for international investment alternatives with the local and international interest rate differential being reduced.

“We see funds with focus in alternative strategies, such as multimarket funds with currency protection, performing above the CDI by 5%, 7%, and 12% in some cases, with annualized volatility of 5% to 7%,” said Celano.

Aloi, from HMC Capital, stated that he sees a significant increase in foreign allocation by institutional investors as a natural path.

From a structural point of view, institutional investors have an extremely low international allocation, significantly below the regulatory limit, notes the specialist. “As we move towards a scenario of lower interest rates in Brazil, the trend is a resumption of the trend seen in 2019 of increased demand for international products, considered essential for portfolio diversification and efficiency,” said Aloi.

“The industry has evolved, and today the providers of access vehicles to international strategies (the so-called feeder funds) have ceased to be simply those who structure and manage the vehicles and have become a true hub of information and relationship with investors, effectively serving as a highly value-added midfield for the investor, who gains not only access to the investment but also information quickly, didactically, and adapted to the Brazilian investor universe,” said the head of strategy at HMC Capital.

Commercial and product director of **BB Asset**, **Mario Perrone** stated that the manager took advantage of the period of lower relative interest from brazilian institutions in global allocations to strengthen its range of international products.

Thus, as demand for diversification abroad grows again, the manager will be well prepared to serve all types of investor profiles, said Perrone. “We try to be very close to the public, to understand how we can generate value for this client,” said the commercial director of BB Asset.

Today, the asset manager owned by **Banco do Brasil** has partnerships with 13 global managers, through which it offers investors 26 foreign investment funds in fixed income, equities, and multimarket strategies, with and without currency hedging.

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“We sought strategies that would start to make more sense for investors,” said the commercial director of BB Asset. According to him, in addition to the more common demand for foreign equity funds without hedging and fixed income funds with hedging, the brazilian investor is showing signs of sophistication, starting to seek balanced products, which provide more freedom and allow the manager to seek the best opportunities as the scenario evolves on a daily basis.

Among the funds that raised the most funds in the first quarter, the **BB Brasilprev Top FI RF IE** and the **BB Brasilprev Top FIM IE** stood out, with net new inflows of USD 93.5 million and USD 61.0 million, respectively.

According to Perrone, BB Asset achieved a net inflow of around BRL 600 million (USD 120 million) in international funds in the first quarter, leading the total portfolio to approximately BRL 3.5 billion (USD 711 million). “We won some exclusive fund mandates, which allow customization according to each investor’s needs.”

The commercial director also stated that, in addition to a clearer perspective regarding the external scenario, domestically, it is necessary for the interest rates paid by inflation-linked public securities (NTN-B) to decrease to a level closer to the foundations’ actuarial target, so that they feel “provoked” to seek new alternatives beyond traditional fixed income.

Today, the real premium of NTN-Bs is above 6%, against actuarial targets that are around 5%, on average. As the rate of public securities approaches the 5% level, institutional investors should start moving more intensively towards global funds, predicts the commercial director of BB Asset.

“Diversifying internationally not only provides access to additional markets and investment opportunities but can also help mitigate specific risks of the local market and potentially increase portfolio resilience in the face of diverse global economic scenarios. This strategic approach can provide significant long-term benefits to institutional investors,” said Nunes, from JP Morgan Asset.

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