

Why now is the time to invest in Brazil?

By Guy Saxton

12 years ago I was asked by my billionaire boss to visit Brazil and buy the rights for the Rio to Sao Paulo TGV alongside Jumeriah Capital. From my office in London's Park Lane the idea of building a fast commuter train from cities with 12million and 21million* inhabitants just 300kms apart seemed common sense. (*metropolitan area 2014 national census)

My initial concern was where to stay so I called my friend who worked for Seacontainers, the owners of Orient Express hotels and asked if he knew of a decent hotel in Rio. After a few hours he called me and said we have the Copacabana Palace I'll think you'll like it.

The City of London is like a 'London club'. Where possible we try to help one another. There are exceptions to this and there are those who take advantage of this but on the whole the market is friendly and people will help if possible. For this reason, I was introduced by a friend to meet a well-known Lord at the Turf club. After eating dozens of sausages I sat in front of an enthusiastic old man, who looked slightly older than the building we were sitting in.

"Sir, I am going to Brazil and I understand you may have some advice for me?"

"Well I don't know if I can advise you but I have 120,000 head of cattle there and I know the country well. Let me tell you a joke which will explain things for you:

God was making earth and at the end of creation the chap next to him said "but god you rested your arm on Brazil it's empty". "Oh!" Exclaimed god and quickly took things from all over the world and threw them into Brazil.

The man said to god "You can't do that god, it's not fair on the rest of the world, Brazil has everything". God replied "Oh, I've thought of that too. I'm going to even things out. I'll get the Portuguese to colonise it".

A few days later I arrived in Brazil. I was late to a meeting with about a dozen businessmen besides the pool at the Copacabana Palace. I listened to a representative of the Italian government and others justifying their roles in the transaction and the benefits of the endeavour. A tall man sat besides me and said quietly "No one here has the authority to give you what you want. I've been sent by the government to make sure you don't get ripped off. The person best placed to advise you on this investment is the President of Congress. He has a party this evening in Brasilia and you and the guy from Jumeriah Capital are invited". I replied by saying "I haven't checked in to the hotel yet and isn't that 2 or 3 hours flight from here?" "Yes, you're right but I have a jet at Santos Dumont. Leave your case with the concierge and put a shirt in your briefcase and let's go". We arrived at the President of Congress's penthouse overlooking Brasilia and he explained that the transport lobby was so strong that it would be at least 10 years before the TGV would be built and even then it was unlikely they'd let foreigners do it. He explained things to me very clearly "Mr Guy Saxton we have a wonderful country it is the world's

leading producer of Coffee, Beef, Soya, Sugar, Pork, Poultry, Pineapples, Mangoes we have abundant minerals, for example, the largest Iron ore producer and one of the largest oil reserves in the world. All our vehicles are dual fuel and can run on ethanol. Over 80% of our electricity is from hydro power. We are 55% of Latin American's Land mass, GDP and population. You are in the real garden of Eden; we have the most beautiful women, the best beaches and great food. You are in good hands, use your time here to look at our country and to understand it. Find the outstanding opportunities we have but don't waste your time on the TGV".

During the days that followed I met many exceptional businesses and people. Perhaps the most exceptional person was Dr Eliezer Batista, the so called 'engineer of Brazil' who speaks 11 languages and is a member of the institute of science in Moscow. He explained to me that after the second world war when he was the minister of mining a Japanese delegation headed by K Inada had approached him and said that the Anglo Saxon world had destroyed his country and now controlled the world's Iron ore which the Japanese needed to rebuild Japan. The Japanese had studied Brazil and developed the world's largest Ocean going vessels for bulk transport of Iron Ore to start a 1mpta project. Dr Batista then created the largest rail and ports network in South America and founded Vale. To this day Vale is still the World's largest Iron ore producing company and operates around two thirds of Brazils railways. He told me to look at that the northern part of Brazil which has excellent but under used infrastructure, a good mining code, and thanks to Vale little real competition. It seemed to be a speech he gave many people. It bothered him that his countrymen had not carried on his legacy.

Some years later I find myself as CEO of a Brazilian Mining company able to take advantage of his insights and wanted to share with you why I think now is the best time in the last 12 years to invest in Brazilian resources.

Before I do that let me go back to God. At the end of Pangea some 175 million years ago the world's singular landmass was ripped apart. The largest waterfall in earth's history made the Mediterranean and left the Atlas Mountains and the rock of Gibraltar and the continents formed. During this process the largest rivers and forests were torn apart and Africa, South America and the Atlantic were left with the world's largest oil reserves. The Sao Francisco and Congo cratons were formed and the world's highest quality Iron Ore deposits were left in Africa and Brazil.

The problem with Africa is that bulk resource production is capital intensive and political uncertainty had led many excellent resources to be undeveloped as projects or licences change hands with each change of government. God also put Iron ore in Canada and Australia but they are expensive and well explored. For high quality ore, with in place infrastructure and a supportive licensing and legal system Brazil is the leading country on a risk-adjusted basis for many resource projects.

Brazil has a reasonable mining code and a good set of laws but the system which implements it can be bureaucratic and slow, its tax and labour

legislation is complex and sometimes counter productive. It has seen foreign direct investment fall for the last 5 years; however last year saw this reverse and FDI inflows rose from \$58 billion to \$60 billion (Source UNCTAD). In 2017 9 of the 10 largest acquisitions in South America were in Brazil. The US, Spain and Holland are the largest investors in Brazil because they realise that Brazil has a market of over 210 million people, easy access to raw materials, a diversified and some-what insulated economy and is geographically placed to easily access other South American countries. The key sectors for FDI are Finance, beverages, Oil and Gas and telecoms. The fastest growing regions are in the north. Realising he will not get re-elected Michel Temer has taken some bold steps and provided some useful infrastructure concessions and managed to reverse unaffordable state pensions.

Brazil is now far less corrupt than the previous 12 years sitting between the US and Germany in the protection of investors chart below.

Country Comparison For the Protection of Investors

	Brazil	Latin America & Caribbean	United States	Germany
Index of Transaction Transparency*	5.0	4.0	7.0	5.0
Index of Manager's Responsibility**	8.0	5.0	9.0	5.0
Index of Shareholders' Power***	7.0	6.0	4.0	8.0
Index of Investor Protection****	6.5	4.8	6.5	6.0

Source: Doing Business - Latest available data.

*Note: *The Greater the Index, the More Transparent the Conditions of Transactions. **The Greater the Index, the More the Manager is Personally Responsible. *** The Greater the Index, the Easier it Will Be For Shareholders to Take Legal Action. **** The Greater the Index, the Higher the Level of Investor Protection.*

As you can see from the chart above following the physical protests of millions of people the Courts have become emboldened and Brazil has become far less corrupt. It's President, former President, most popular Presidential candidate and its leading businessmen have all been indicted. From my own experience when I recently met in the Presidents Palace the focus was not on how do they or the party benefit but how much more will you invest in Brazil,

how many jobs will this create and what positive impact will it have on GDP and GSP?

Brazil provides the world with the natural resources it needs at a competitive price. Without Brazil the world could not afford to feed itself, build its cities, infrastructure, trains, rails, cars, roads or streetlamps. Now that the corruption of the past is diminishing Brazil will start to add value to its own natural resources by creating refined products and manufacturing goods and in the process create domestic employment and an improved skills base. This will make Brazil a compelling investment destination.

Brazil is too large to fail and too important to be ignored; for example, The Amazon forest contains 40% of the world's virgin rainforest which produces 20% of the world's oxygen and freshwater (in past rainy seasons this has risen to 40%).

On a risk adjusted basis Brazil is now perhaps the leading emerging market. It is mispriced by foreign investors who are currently focused on negative market sentiment created by past corruption which is now significantly diminished and by domestic crime which has fallen by over 80%* in Sao Paulo and will be reduced nationally when a new president takes power (*World economic forum comparing 1999 to date).

Now is the best time in the last 12 years to invest in Brazil because corruption has been challenged and the judicial system empowered; the global economy will continue to favor Brazil for the foreseeable future as US tax cuts fuel Chinese and global growth and the world looks to Brazil for raw materials and agricultural produce. In January The IMF revised Brazil's 2018 GDP growth from 1.5% to 1.9%. The Brazilian Central Bank's survey of economists puts GDP growth projections at 3% in 2019. October's election is most likely to result in a coalition government which will be technical in nature and after October's election the rest of the world will start investing.