Julius Bär

INDUSTRY REPORT: LATIN AMERICA

NOVEMBER 2014

EDITORIAL

Dear Reader

The financial industry has undergone fundamental changes over the past few years. This global trend continues to accelerate in areas such as regulation, technology and competition, and at the same time is complemented by a progressive sophistication of client requirements. Latin America, the fourth-largest wealth region in the world, is partaking in this industry-wide shift. Nevertheless, when compared with the United States, Europe or Asia-Pacific, relatively little public information is available on themes such as wealth creation, wealth management tendencies or the investment behaviour of Latin American high net worth individuals.

With this inaugural edition of Julius Baer's 'Industry Report: Latin America' we aspire to highlight various aspects of the changing wealth management landscape in Latin America. While Julius Baer has substantially increased its client base and global presence in recent years, we are unwavering in our commitment to providing comprehensive services to private clients, family offices and external asset managers. Thus, consistent with our open product and service platform philosophy, we partnered with some of the leading market specialists for this report, which we hope will serve as a reference for participants in the Latin American wealth management industry.

The Julius Baer 'Industry Report: Latin America' reflects our dedication to guiding our clients through complexity by anticipating trends and jointly developing strategies to prepare for a prosperous future. We hope that many of the following insights will prove to be of immediate relevance to you or your business.

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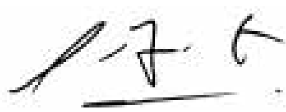

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EXECUTIVE SUMMARY

Latin America has seen a profound transformation over the past 40 years, preparing the foundation for medium-term wealth creation. The wealth management sector is ready to unlock the region's full potential and is adapting and firmly embracing the industry's global reshuffle.

Michael Rist, Julius Baer

Ingredients for sustained wealth creation

Latin America has been growing at a strong pace over the last years allowing for sustained periods of political stability. Governments have not only wisely used the windfall profits of the commodity super cycle to strengthen their financial position; they have also driven institutional and socio-economic change. A more business-friendly environment as well as checks and balances on governmental institutions continues to be established. This allows for a broader participation by the increasingly educated and entrepreneurial population, a precondition for sustained growth. Thus, the ingredients necessary to reveal the region's full potential for wealth creation are provided for.

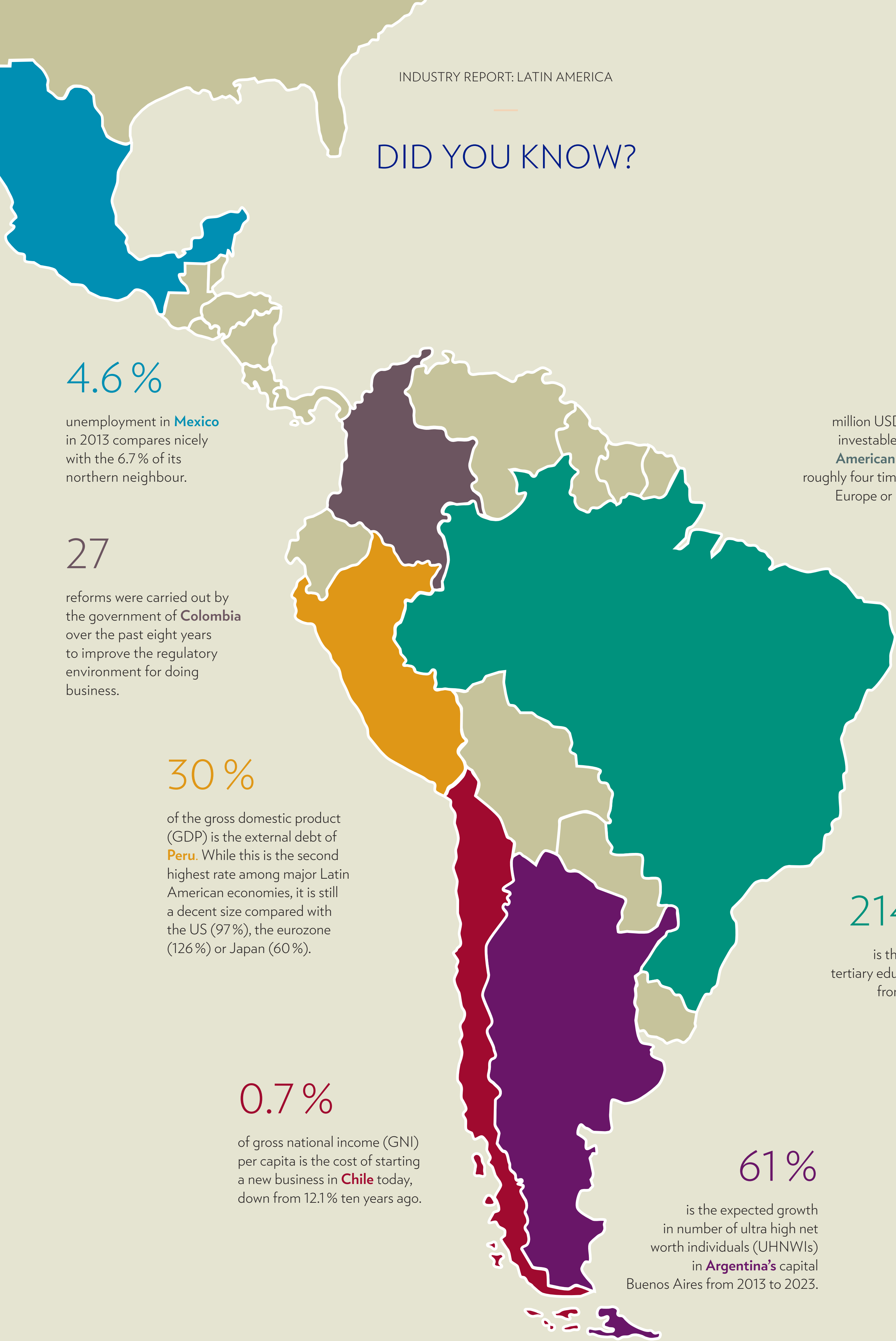
Fundamental shifts within the wealth management landscape

Latin American high net worth individuals (HNWIs) are on average far wealthier than those in other regions. The wealth management industry servicing this clientele is changing, evidenced by a shifting landscape of market participants, the drive towards localisation, the rise of transparency, and the renewed role of offshore banking. Consequently, this will accelerate the demand for a refined HNWI service offering, focused on professionalism, accessibility, and a sophisticated understanding of client needs and circumstances. In light of this new environment, financial institutions such as dedicated private banks and professional external asset managers – if committed to adapting accordingly – will thrive.

Evolving investment behaviour

Latin American investors have become younger and more sophisticated over the past decades, resulting in an increasing risk appetite and a more diversified portfolio to achieve investment objectives.
Latin American economies, at the same time, are more integrated into the global economy today than ever before and thus more exposed to international economic cycles and global social trends. With total wealth in the region set to continue to grow, heightened exposure to external shocks and increased investor sophistication will lead to new investment behaviours. This has been prominently highlighted most recently by Argentina's technical default.
The growing middle classes are forced to think beyond their immediate consumption needs and to re-evaluate notions of saving, wealth protection, investment preferences and allocations, while considering systematic risks amongst others.

DID YOU KNOW?



4.6 %

unemployment in **Mexico** in 2013 compares nicely with the 6.7 % of its northern neighbour.

13.5

million USD is the average investable assets of **Latin American** HNWIs. This is roughly four times more than in Europe or North America.

27

reforms were carried out by the government of **Colombia** over the past eight years to improve the regulatory environment for doing business.

30 %

of the gross domestic product (GDP) is the external debt of **Peru**. While this is the second highest rate among major Latin American economies, it is still a decent size compared with the US (97 %), the eurozone (126 %) or Japan (60 %).

214.5 %

is the growth of the tertiary education in **Brazil** from 1998 to 2011.

0.7 %

of gross national income (GNI) per capita is the cost of starting a new business in **Chile** today, down from 12.1 % ten years ago.

61 %

is the expected growth in number of ultra high net worth individuals (UHNWIs) in **Argentina's** capital Buenos Aires from 2013 to 2023.

Source: Capgemini, Datastream, Knight Frank, UNESCO-IEU, World Bank, Julius Baer

THE TAILWINDS OF A NEW SOCIO-ECONOMIC ORDER

Over the past decade, Latin America experienced profound changes. Aside from the commodity boom and the recent slowdown, major long-term institutional and socio-economic developments as well as the broadening of the economy continue to set the stage for further wealth creation.

Emiliano Surballe, Julius Baer
María Eugenia Larrañaga, Julius Baer

A decade of extraordinary growth

Economic theory contends that trade creates wealth, especially when countries export the goods they can produce competitively. Latin America is living proof of the effectiveness of this theory. The development of exports has generated an encompassing breakthrough in all aspects of the region's economy; the indirect benefits of exports are widespread across the whole private and public sector of the region. As exports have driven investments, construction and services, new companies have thrived. Companies have hired more employees and salaries have been pushed higher, generating a boom in consumer demand. Now, besides commodity exports, internal demand has become a main engine of the region. The rise of a new breed of companies to serve domestic consumption has not only increased the participation of the private sector, but also the tax revenues of governments in Latin America.

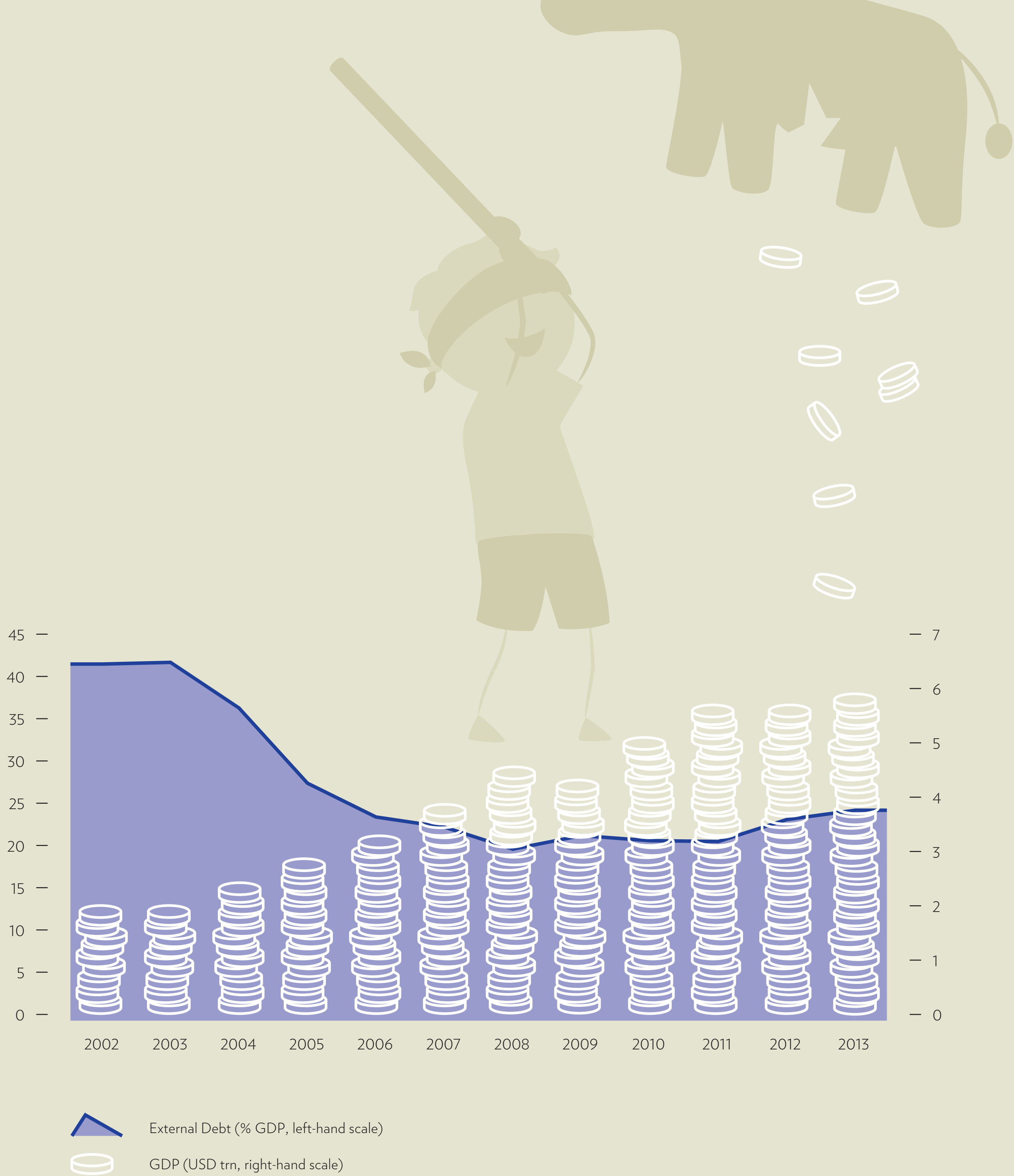
Since 2002, the region has almost tripled its gross domestic product (GDP). Initially, growth was driven by commodity exports to the rest of the world, in particular to Asia.

The structural decrease of unemployment has been one of the most welcomed changes of the last ten years, allowing for the development of domestic consumption and local industries in the region. Brazil has been the fastest-growing economy; at some point it was the main growth engine of the whole region. Its GDP in USD quadrupled and its unemployment rate more than halved between 2003 and 2013. Hyperinflation, once a chronic disease, is no longer a concern at this stage.

The reduction in external debt is one of the greatest achievements of recent years. The sale of commodities to international markets generated hard currency balances that were wisely used to pay back external debt. Historically, high levels of external debt exposed Latin America to the risk of insolvency during periods of low growth. As of today, the region has very low levels of indebtedness and therefore has the financial flexibility to reshape itself for the future. Even Argentina has low levels of debt, both in the public and private sector. Despite the legally induced default and a currency crisis, the country should, in principle, have the resource to resolve its creditor issues.

Since 2002, Latin America has almost tripled its gross domestic product.

LATIN AMERICA'S ECONOMIC TRANSFORMATION OVER THE PAST DECADE



Source: Datastream, Julius Baer

Beyond the commodity supercycle

Looking beyond growth figures, Latin American economies are going through a period of profound change: (1) improvements in the management of monetary policy have anchored inflation; (2) demands for higher levels of transparency to control its investments by international investors continue to improve the corporate governance of the public and private sectors; (3) the adoption of international management best practices is facilitating a deeper integration with the world economy; plus (4) the development of a 'middle class' continues to improve the level of education of the population, which provides upside potential on labour productivity and consumer demand. Overall, Latin American economies, young democracies once plagued by hyperinflation and indebtedness, are now on solid financial footing, with low levels of indebtedness, more checks and balances on government policies, and better capabilities to interact with other economies of the world.

According to the World Bank 'ease of doing business' indicators, most Latin American economies have shown strong improvements in many respects. Since 2005, almost all of the economies within the region carried out reforms to improve their economy's regulatory environment for business. With 27 reforms over the last eight years, Colombia stands out within the region, followed by Mexico with 19. Furthermore, since 2003, key economies of Latin America have more than halved the time to start up a new business. Currently, less than a month is required to set up an enterprise in Chile, Colombia, Mexico and Peru. Also, the costs of starting a business were cut significantly during the last decade. As a percentage of gross national income (GNI) per capita, costs in Chile decreased from 12.1% to less than 1% of GNI. Similarly, Colombia start-up procedure costs represent 7.5% of GNI per capita today, almost four times less than ten years ago.

In more recent times, we have witnessed the development of checks and balances originated in the private sector, limiting government officials from acting in their own interests. The larger private sector can now constrain erratic government policy. Also, self-regulation is proving very efficient in increasing transparency and avoiding abuses of power. For example, stock exchanges across the region constantly demand higher levels of disclosure on publicly traded companies. Furthermore, the recent and more widespread increase in wealth is driving voters to defend their property rights, putting pressure on governments to avoid interventions in their respective economies. For example, the institutional enhancements that allow the free economy to develop, such as the energy, labour and antitrust reforms in Mexico, set the stage for a more sustainable path towards wealth creation and preservation.

Key economies of Latin America have more than halved the time to start up a new business.

The rise of the middle class
Latin America, in the past characterised by wide-spread lower classes and powerful minorities controlling the countries to their advantage, has experienced profound socio-economic changes in recent years. The development of middle class is resulting in a richer and more educated population, with more power to influence the economies through consumption and more sophisticated demands on public authorities. Furthermore, the revolution in telecommunication and Internet is enabling cultural change to happen faster. Despite the cultural legacy of populism that continues to influence the region, citizens of Latin American countries are rapidly incorporating more investor-friendly models used by developed economies where private property rights are among key priorities.

The rise of the middle class has shaped, and continues to shape the economic structure of Latin America. An overall higher purchasing power has enabled important parts of the population, which, historically speaking were economically insignificant, to influence the overall level of activity in the region. For example, increasing demand for manufactured products in Brazil such as cars has been impressive, surging from 1.7 million units a year in 2005 to 3.8 million units in 2012. Health, education and financial services are also among the key sectors with positive long-term prospects. The development of a strong domestic demand, a consequence of the rise of the middle class, has enabled Latin American economies to find new sources of growth, significantly reducing its dependence on commodities.

The growing middle class is demanding not only better delivery of public goods and services, but also economic reforms. Although Latin American countries have implemented new public policies and changes in fiscal policy, social tensions surfaced in Brazil in 2013 over corruption and poor public services. Consequently, Brazil now has to catch up and needs to initiate meaningful reforms – irrespective of the results of the 2014 presidential elections.

An investor-friendly environment supports a new generation of high net worth individuals
Growth in Latin America has also given rise to a larger population of high net worth individuals. The boom of the commodity export industry set the stage for business and wealth to develop. The need for labour, construction, engineering services, capital goods, infrastructure and financial services to support the commodity industry allowed small and mid-sized private companies in the region to thrive at an extraordinary pace, significantly increasing the wealth of those pushing for change. As of 2013, Latin America had 9,677 ultra high net worth individuals (UHNWI). By 2023, the number of UHNWIs is expected to increase by 42 % to 13,711 according to a

Demand in Brazil for products such as cars has surged from 1.7 million in 2005 to 3.8 million units in 2012.

INGREDIENTS FOR SUS

ECONOMIC BREAKTHROUGH OF LATIN AMERICAN ECONOMIES

TAINED WEALTH CREATION

TRANSFORMATION
OF BUSINESS
MODELS AND
SOCIO-ECONOMIC
SITUATION

Economic output

	NOMINAL GDP (USD BN)			GDP PER CAPITA (USD)		
	2003	→	2013	2003	→	2013
ARGENTINA	157	+290 %	612	4,135	+10,625 USD	14,760
BRAZIL	552	+307 %	2,246	3,040	+8,168 USD	11,208
CHILE	78	+255 %	277	4,866	+10,866 USD	15,732
COLOMBIA	95	+298 %	378	2,261	+5,565 USD	7,826
MEXICO	713	+77 %	1,261	6,601	+3,706 USD	10,307
PERU	58	+248 %	202	2,136	+4,524 USD	6,660

Source: Datastream, Inter-American Development Bank, UNESCO-IEU, World Bank, Julius Baer

ECONOMIC BREAKTHROUGH OF LATIN AMERICAN ECONOMIES

Employment			Purchasing power			Indebtedness		
UNEMPLOYMENT (%)			INFLATION (%)			EXTERNAL DEBT (% GDP)		
2003	→	2013	2003	→	2013	2003	→	2013
14.5	−8.1 %	6.4	13.4	−2.8 %	10.6	97	−78 %	19
12.3	−7.6 %	4.7	14.7	−8.5 %	6.2	34	−20 %	14
9.2	−3.5 %	5.7	1.0	+2.0 %	3.0	49	−9 %	40
13.6	−5.2 %	8.4	7.1	−5.1 %	2.0 %	38	−14 %	24
3.6	+1.0 %	4.6 %	4.5	−0.7 %	3.8	23	+6 %	29
8.8	−3.0 %	5.8	2.3	+0.5 %	2.8	52	−22 %	30

TRANSFORMATION OF BUSINESS MODELS AND SOCIO-ECONOMIC SITUATION

The rise of the middle class

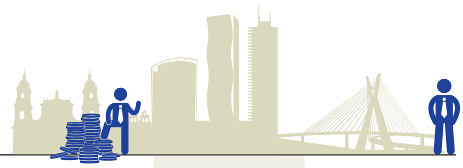
INCOME INEQUALITY (GINI COEFFICIENT[1])			MIDDLE CLASS (% OF POPULATION)			CONSUMPTION (USD BN)		
2002/2003	→	2009/2010	2005	→	2030	2003	→	2013
54.7	–10.2	44.5	37	+25 %	62	81.9	+398 %	408.1
58.8	–4.1	54.7	25	+16 %	41	342.1	+311 %	1,406.2
54.6	–2.5	52.1	35	+32 %	67	49.6	+258 %	177.5
57.9	–2.0	55.9	21	+16 %	37	65.1	+254 %	230.7
49.7	–2.5	47.2	27	+16 %	43	484.7	+79 %	869.5
55.2	–7.1	48.1	14	+36 %	50	41.4	+200 %	124.3

[1] The Gini coefficient varies between 0, which reflects complete equality, and 100, which indicates complete inequality (only one person has all the income)
[2] Data only available from 1998 to 2010

Ease of doing business

GROWTH OF TERTIARY EDUCATION (%)	COST OF STARTING A NEW BUSINESS (% GNI PER CAPITA)			DAYS REQUIRED TO START A BUSINESS (d)			
1998–2011	**2003**	→	**2013**	**2003**	→	**2013**	
74.3 %	12.4	*+60 %*	19.9	66	*–41 d*	25	ARGENTINA
214.5 %	13.1	*–65 %*	4.6	152	*–44 d*	108	BRAZIL
161.1 %	12.1	–94 %	0.7	27	*–21 d*	6	CHILE
110.2 %	28.0	*–73 %*	7.5	60	*–45 d*	15	COLOMBIA
72.6 %	29.5	*–33 %*	19.7	58	*–52 d*	6	MEXICO
64.3 %[2]	39.4	*–74 %*	10.1	98	–73 d	25	PERU

EXPECTED EVOLUTION
OF THE NUMBER OF WEALTHY INDIVIDUALS



Metropolises – Number of UHNWIs (USD 30m+)	2013	% change	2023
Buenos Aires	264	*+61 %*	425
Rio de Janeiro	550	*+56 %*	856
São Paulo	1,310	*+41 %*	1,843
Mexico City	1,088	*+32 %*	1,431

Latin America	2013	% change	2023
Number of UHNWIs (USD 30m+)	9,677	*+42 %*	13,711
Number of Centa-Millionaires	1,625	*+44 %*	2,348
Number of Billionaires	94	*+45 %*	136

Source: Knight Frank, Julius Baer

Latin America is one of the regions with the highest expected growth rate of wealthy individuals.

study by Knight Frank, positioning Latin America as one of the regions with the highest expected growth rate of wealthy individuals.

The growth of wealth in the region will not only be supported by the continuous growing global demand for commodities and the advent of new industries, but also by socio-economic and institutional developments. For example in Mexico, new antitrust regulation and an energy reform allowing for participation of the private sector in the industry should support the growth of private wealth. In Colombia, a peace agreement with the guerrillas, and structural reforms in Peru, should continue to support the increase of wealth in these countries. Brazilian business continues to expand globally, capturing the upside not only domestically, but also through opportunities around the world. For example, Odebrecht, the largest construction company in Latin America, has been developing its operations in Africa for a while. Oi, one of the major telecommunications companies in Latin America, is merging with Portugal Telecom to become the largest telecom company in the Portuguese-speaking world. Gerdau and Braskem, operating in the steel and petrochemical industry, respectively, have been expanding operations in the United States for some time now. Last but not least, Brazilian banks have been gaining market share in the global investment banking and private banking industries.

Conclusion

To sum up, Latin American countries have wisely used the windfall profits of the commodity supercycle over the past decade. They have strengthened their financial position and have entered a far more encompassing process of enhancing their business models and socio-economic situations. A more business-friendly environment as well as checks and balances on governmental institutions continues to be put in place. This allows for a broader participation of the more educated and entrepreneurial population, a precondition for sustained growth. Thus, the ingredients are in place for a sustained pace of wealth creation across Latin America.

The ingredients are in place for a sustained pace of wealth creation across Latin America.

LATIN AMERICA'S CHANGING WEALTH MANAGEMENT LANDSCAPE

Though often sidelined in a global context, fundamental changes in the wealth management landscape of Latin America have considerably raised the bar for serving high net worth individuals.

Stephen Wall, Aite Group

The global wealth management sector is changing. In the past, big global banks ruled the wealth management roost alone, covering the globe with a headquarter-centred plan for the world, facing little real competition from local providers, and happily going about their business with little or no need to change. All this has now been turned on its head.

Latin America, the fourth-largest wealth region in the world, and often neglected by the global media, is wholly caught up in this evolving wealth management landscape. Change has been running through the region for some time, with the old static model of wealth management dominated by big international banks coming under pressure from newer, more localised, often smaller, and more targeted wealth management players.

Catalyst: the global financial crisis

The wheels of change were set in motion decades ago but the speed of transformation has accelerated radically since the 2008 global financial crisis (GFC). This global event was the tipping point for change, and its broad repercussions are still being felt in many ways across the global wealth management eco-system.

Prior to the GFC, the wealth management sector strode around serenely, unconstrained in most markets by the hassles of regulatory burden and stringent oversight, the demands of an empowered and expectant client base, the requirement to invest huge sums in new technology, processes and propositions, and by threats from new competition. Today all of these elements, and more, are pushing for evolution.

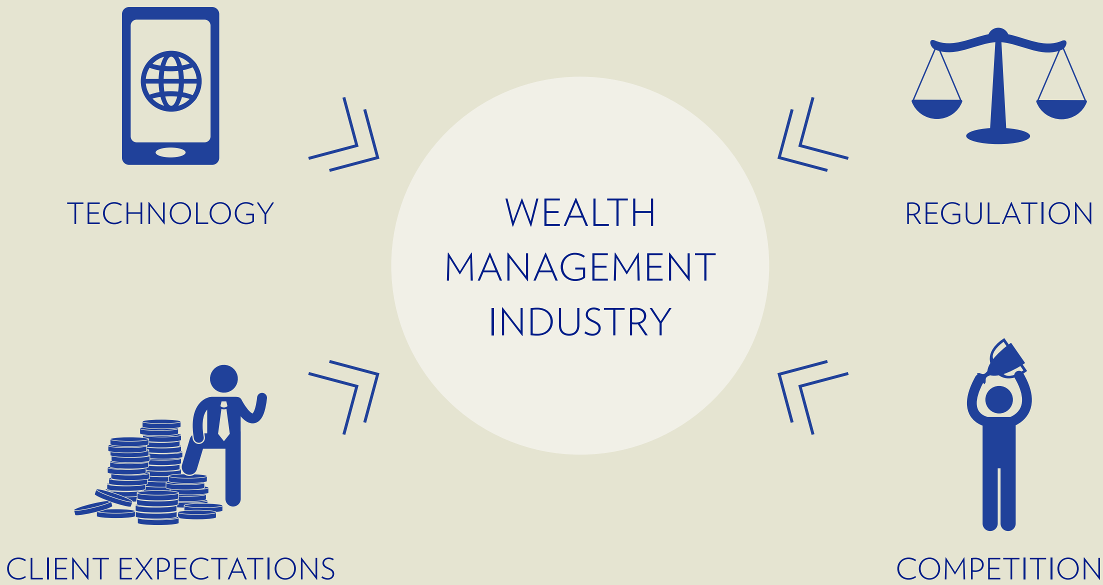
We sum them up as the four drivers of change: regulation, client expectations, technology and competition. These drivers have always been there but, fuelled by the shock waves from the GFC, they are now stronger than ever, driving business reviews, repositioning and forcing full or partial market exits. Markets are now increasingly being forced to localise, creating a path for new businesses to come in and compete. These drivers are forcing new ways of thinking about and servicing clients, and they will increasingly kill off businesses that are unwilling to adapt and face this new reality. Critically, what might have started a few short years ago via the GFC is now only a short way into a long journey of change.

Enter the new order

Of course, one can always argue the precise relevance of these drivers to each jurisdiction and region, and it is certainly true that Latin America is not yet facing the same sort of regulatory tsunami experienced in the United States or Europe. However, these factors are apparent everywhere, including in Latin America. There is no hiding from it: the business of wealth management is altering and only those who recognise this and adapt accordingly will survive and succeed.

As we see it, the old winners (mostly the big international banks that dominated the old wealth management model in Latin America) are under pressure and must change. However, not all will be losers. If there is any group that has the resource to reshape and come out with a successful business it is the big international banks. Nevertheless, there is a clear role for local and regional wealth managers as our four drivers of change favour specialisation and localisation above global coverage.

LEAD DRIVERS OF WEALTH MANAGEMENT SECTOR CHANGES



Source: Aite Group, Julius Baer

Indeed, there is a new order of different types of wealth managers in Latin America and their number and growth is already noticeable, especially in the big key geographies of Latin America, and our focus markets here: Argentina, Brazil, Chile, Colombia, Mexico and Peru. Localised, targeted, flexible, in tune with local needs, increasingly transparent and client-centric firms are profiting from a growing awareness amongst local high net worth individuals (HNWIs) across the region. To compete with this trend, the international banks that were once prevalent are being forced to adapt and specialise too.

External asset managers

As these changes deepen and further unfold, we feel that one segment of the wealth management landscape with much potential is that which is commonly referred to as external asset managers (EAM). Familiar in developed markets like Switzerland, the United Kingdom and the United States, among others, EAMs have clearly been on the rise in Latin America too, both onshore and offshore, and if the sector adapts as now required, we see the characteristics within its model for further growth. The wealth management stars, one could conclude, are aligning for EAMs.

WEALTH IN LATIN AMERICA

According to the 2014 edition of the Capgemini World Wealth Report, by the end of 2013 there were 13.7 million HNWIs in the world, each with in excess of USD 1 million in investable assets[1]. Latin America's share of that was only 4 %, or 542,000 HNWIs, the same figure the region had in the year 2000. That low figure, plus the region's failure to grow it, helps to explain why Latin America gets relatively little coverage in the global context of wealth management compared with high-profile markets like North America and Asia-Pacific.

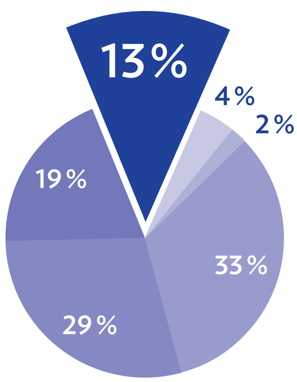
However, despite a low percentage of HNWIs, the region has a far higher share of their investable assets. Capgemini sized total global high net worth (HNW) investable assets at USD 52.6 trillion in 2013[2], of which Latin America had USD 7.7 trillion for a 15 % share. Furthermore, the region has grown its share from 13 % in 2000 when it had USD 3.2 trillion out of USD 25.9 trillion. Since 2000, while global HNW investable assets rose by 103 %, Latin America has grown by 141 %. Only Asia-Pacific did better.

The comparison of the number of HNWIs with their investable assets tells us a clear and important story: the average Latin American HNWI is significantly richer, on average, than their global counterparts. We looked at the Capgemini World Wealth Report data from 2000 to 2013[3] and found that the average HNWI across all regions for those 14 years had investable assets of USD 3.8 million. For Latin American HNWIs, however, the average jumps more than three and a half times to USD 13.5 million.

LATIN AMERICA'S SHARE OF THE WORLD'S HNW INVESTABLE ASSETS

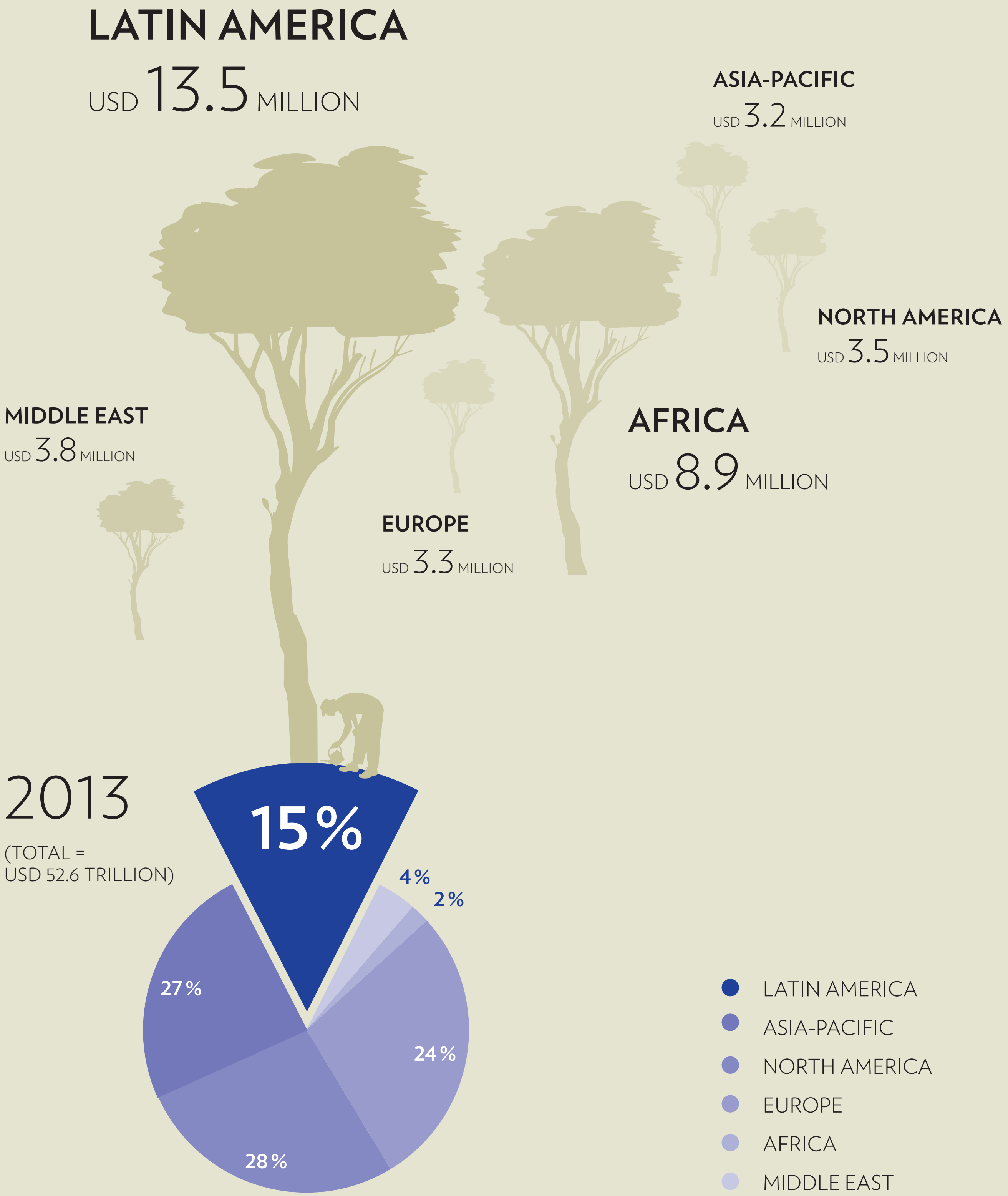
2000

(TOTAL = USD 25.9 TRILLION)



1 All investable assets, excluding primary residence, collectibles, consumables, and consumer durables
2 Capgemini / RBC Wealth Management, World Wealth Report 2014
3 Capgemini / RBC Wealth Management, World Wealth Reports 2012–2014; Capgemini / Merrill Lynch, World Wealth Reports 2001–2011

AVERAGE INVESTABLE ASSETS OF WORLD'S HNW INDIVIDUALS



Source: Capgemini, Julius Baer

ASSETS UNDER MANAGEMENT

But what about wealth managers, what reach have they got into this asset base? According to data from McKinsey for 2012[4], private banks actively serving Latin America clients, whether onshore or offshore, had a total of USD 2.66 trillion assets under management (AuM)[5]. That sum is dominated by Brazil with 42 % (AuM of USD 1.1 trillion) and Mexico with 25 % (AuM of USD 651 billion). These two represent 67 % of the region's private banking AuM – no surprise when considering their populations and economies plus the fact that they have, along with Chile, the most advanced onshore financial markets in the region. The other countries such as Argentina (7 %), Colombia (6 %) and Chile (4 %) form a tiny part of the market in comparison, while Peru has a smaller share still which is factored under 'Others'.

Onshore versus offshore

Critically, when considering Latin American HNW wealth, we also have to consider a backdrop of an emerging market where there has been ongoing and significant political and economic risk. Local HNWIs are very well known to have placed considerable assets offshore to minimise their exposure to local risks.

Offshore AuM

The size of the offshore base is hard to determine as the numbers vary from estimate to estimate, depending on the wealth segment as well as the country in question. On average, however, according to the same McKinsey data cited for AuM[6], 51 %, or USD 1.36 trillion, was held offshore. A huge percentage and evidence of the risk that has run through the region.

The leading offshore jurisdictions

So where do these assets go? According to our market research, these assets are generally held and/or structured through either Switzerland or the United States, as the two leading destinations, or one of the financial centres in the Caribbean, Panama or Uruguay. Boston Consulting Group's (BCG) analysis for year-end 2011[7] suggests that Switzerland as well as the Caribbean and Panama both had a 29 % share of Latin America offshore assets, followed by the United States with 28 %, while the remaining 14 % was divided among various other locations. That analysis, based on our qualitative research, is a fair reflection of the general distribution and, despite various influences, will not have changed significantly since then.

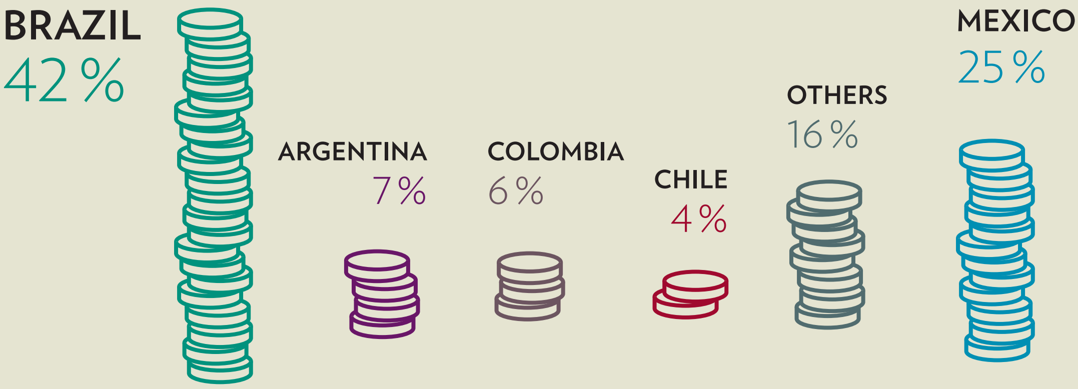
However, this is not a one-size-fits-all model. There are also geographical and segment nuances to this picture, i.e. Argentinians are more likely to use Uruguay; Mexicans the United States or Panama (like the Colombians). Anyone in Latin America with any significant money invests in real estate in the United States. Richer HNWIs, let us say with investable assets in excess of USD 10 million (remember: the average Latin American HNWI is worth USD 13.5 million), are more likely to use Switzerland and to have a private banking relationship with a Swiss private bank, and so on. The nuances of the use of offshore are therefore far more subtle than one may imagine.

[4+6] McKinsey Global Private Banking Survey 2013, 'Capturing the new generation of clients'
[5] McKinsey defines a private bank as any financial institution or unit within a larger financial institution whose main source of business comes from individuals with at least USD 1 million to invest. Private banks typically offer banking, investment, lending and other financial services.
[7] Boston Consulting Group: Global Wealth 2012, 'The battle to regain strength'

A CLOSER LOOK AT LATIN AMERICAN PRIVATE BANKING ASSETS

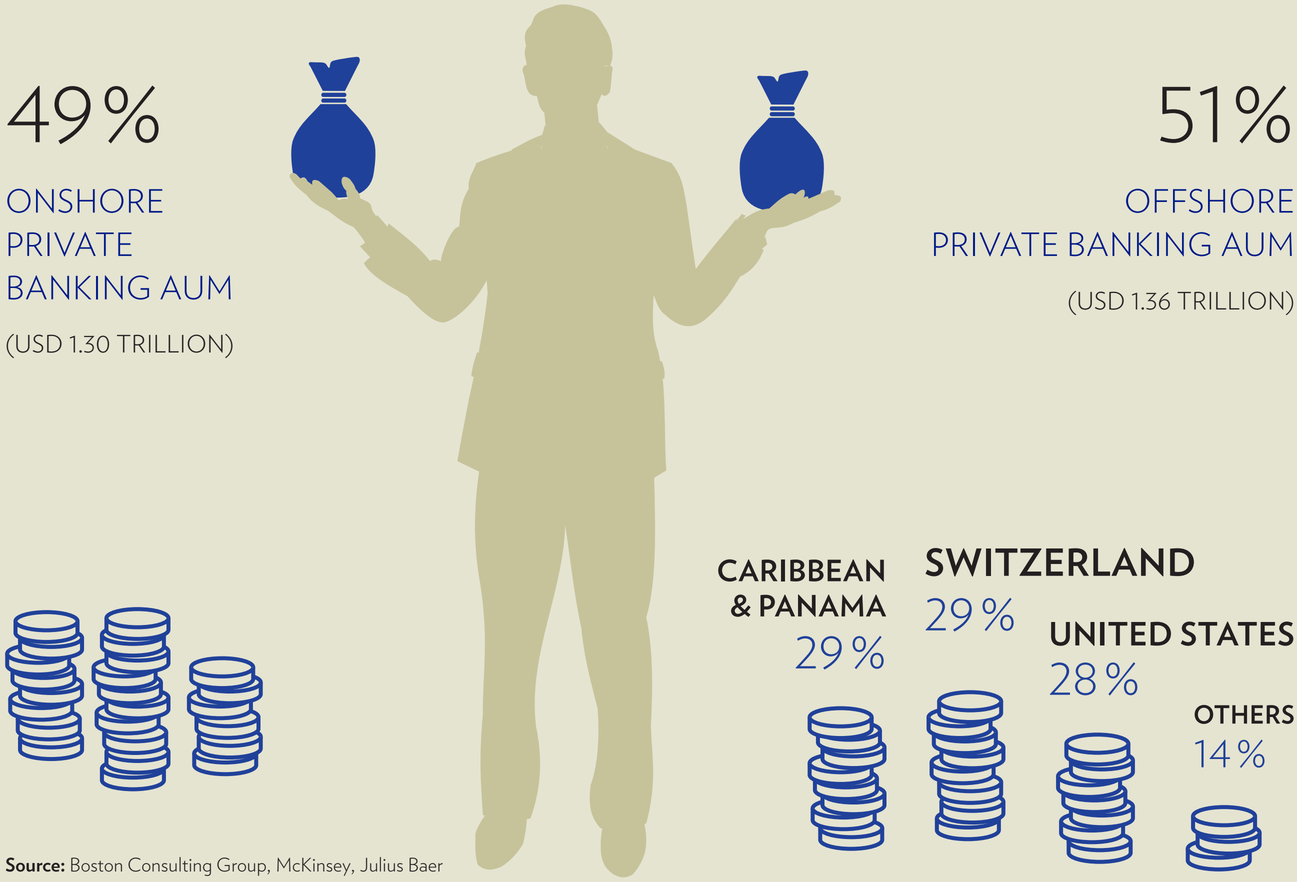
BY CLIENT DOMICILE

(TOTAL = USD 2.66 TRILLION)



BY BOOKING CENTRE

(TOTAL = USD 2.66 TRILLION)



Source: Boston Consulting Group, McKinsey, Julius Baer

MARKET PARTICIPANTS

Latin America throws up a range of specific types of wealth management market participants. As referenced earlier, this mix has become increasingly varied over the last ten to fifteen years. The table below lists the types of firm we see as active.

TYPES OF WEALTH MANAGERS

ACTIVE IN LATIN AMERICA

Type	Detail
DOMESTIC BANKS	Increasing numbers of banks offering wealth management, including universal, retail, commercial, investment and private banks
FOREIGN BANKS	Active onshore or offshore, foreign banks (e.g. from Canada, Switzerland, United States) are significant participants
FUND MANAGERS	Local fund managers focusing on distributing their own and third-party funds to HNWIs
BROKER-DEALERS	Broker-dealers are active in trading securities for HNWIs; some are independent, others are bank-owned
SINGLE-FAMILY OFFICES	Private companies exclusively managing the financial assets of one HNWI or HNW family; increasingly seen locally
MULTI-FAMILY OFFICES	Similar to a single-family office, servicing several HNWIs or HNW families; commercial venture also seen more locally now
EXTERNAL ASSET MANAGERS	Financial services firms, generally founded by former bankers, managing client assets without being influenced by banks or product providers
INTRODUCERS AND AGENTS	Mostly individuals with a significant HNWI network (e.g. lawyers, accountants) introducing their clientele to one or several banks

Source: Aite Group, Julius Baer

PERFORMANCE AND PROFITABILITY

Considering that relatively little focus is placed on Latin America as a wealth management region compared with, for instance, Asia-Pacific, it is tempting to think that this is down to weak economics. In fact the opposite is true. Using various significant business performance measurement data collected from BCG's annual status reports on the global wealth management sector from 2009 to 2014, we have compared the performance of private banks across regions. The results shine a very positive light on Latin America.

Looking at AuM growth first, Latin America posts the best average for the six-year period from 2008 to 2013 with 12 %. It was the only region that did not post one negative year. While it saw some very credible growth years (2009 = 20 %, for instance), continually growing AuM is the main reason it had the highest six-year average. Asia-Pacific, the model for growth (real or hoped for), had a six-year average growth of 10 %. While it recorded the biggest gains (2009 = 28 %, 2012 = 23 %, 2013 = 24 %), its average was hit by a 25 % loss in 2008.

If we have a look at the cost-income ratio, Latin America is again the top performer from 2008 to 2013, averaging 64 %, 6 % below the sector average of 70 %. Although the region saw its cost-income ratio deteriorating from a fantastic 52 % in 2008 to 68 % in 2013 (it was up at 70 % in 2012), by 2013 it nevertheless had a far more manageable cost-income ratio than its peers. As to why Latin America has a lower cost-income ratio, the main driver is likely to be the fact that the local market remains relatively simple (and therefore cost-effective) to serve from a product and service perspective.

LATIN AMERICAN BANKS IN A GLOBAL COMPARISON

AUM GROWTH[1]	NET NEW MONEY GROWTH[2]		COST-INCOME RATIO[1]	REVENUE PER RM[3]
0.3 %	1.4 %	EUROPE OFFSHORE BANKS	72.7 %	USD 2.4 M
3.2 %	3.1 %	EUROPE ONSHORE BANKS	65.0 %	USD 1.4 M
6.5 %	1.3 %	NORTH AMERICAN BANKS	73.7 %	USD 2.5 M
10.4 %	9.0 %	ASIA-PACIFIC BANKS	75.5 %	USD 1.6 M
6.5 %	4.6 %	AVERAGE	70.2 %	USD 2.0 M
12.2 %	8.0 %	LATIN AMERICAN BANKS	64.3 %	USD 2.1 M

[1] 2008 to 2013 average
[2] 2009 to 2013 average
[3] 2009 to 2013 average per relationship manager
Source: Boston Consulting Group, Julius Baer

A CHANGING LANDSCAPE

We have seen that Latin America is potentially a very good place to do business. Let us now look at how we see the market changing and some of the ways that we feel this will impact the wealth management sector.

Global reshuffle

Let us consider our four lead drivers of change: regulation, client expectations, technology and competition. Deeply interconnected, these drivers and their constituent factors are pushing up the complexity and costs of being a wealth manager. This has forced wealth managers to refocus and consider how they do business. In Latin America, as with much of the world, this has resulted in some major firms pulling back either in full or in part and others revitalising their commitment to the region.

Major internationals exit

Some large international wealth managers have either partially or completely exited their Latin American wealth management businesses. In examining their business strategy, several have deemed some or all of Latin America to be out of their sweet spot and have thus pulled back in order to focus elsewhere. The infographic below highlights some example actions from the last two to three years, but this reshuffle is not over yet; more could follow.

THE BANKING INDUSTRY'S RECENT RESHUFFLING

EXAMPLES INVOLVING LATIN AMERICAN BUSINESSES AND CLIENTELE

The British private bank **Coutts & Company** sold its Latin America, Caribbean and Africa business to **RBC Wealth Management.**

Bank of America-owned **Merrill Lynch** sold its entire international wealth management business outside the United States, including in Latin America, to Swiss private bank **Julius Baer.**

Barclays Wealth & Investment Management is said to have sold its Miami- and New York-based business of Latin American and Caribbean clients to **Santander Private Banking.**

2012

2013

Source: Aite Group, Julius Baer

These events were all covered in the media. Behind the scenes, however, further repositioning has been taking place. International wealth managers have been re-examining how and whether to do business in Latin America. Some have downsized and shifted between onshore and offshore jurisdictions depending on the strengths and weaknesses of their businesses and the changing environment around their target markets. The flipside to this is that other foreign firms recommit to all or part of the region, whether onshore or offshore. In addition to the banks named in the infographic below, other banks upping their commitment include Grupo BBVA, Credit Suisse, Lombard Odier, Scotiabank, and UBS. Furthermore, earlier in 2014, Bank Julius Baer deepened its commitment to the onshore Brazilian market through its acquisition of a majority stake in São Paulo-based EAM, GPS Investimentos Financeiros e Participações SA (GPS). The Swiss bank actually raised its ownership of GPS to 80 % having first bought 30% in 2011.

Impact

The roster of firms in or out of Latin America is in flux but, more importantly, this trend is opening a gap for others to fill. Whether a firm makes a full or partial exit from Latin America, the change in approach to business will not always fit with the preferences and needs of their bankers or clients. In either case, the resulting gap is an opportunity to be filled by other wealth managers, whether local or foreign, banks, broker-dealers, or EAMs.

BNP Paribas Wealth Management is widely believed to be selling its Miami-based private banking business, which dealt primarily with Latin American clients, to **Santander Private Banking.**

RBC Wealth Management announced the closure of its office in Chile, as part of the same strategic review of its businesses in the region; the bank also closed in Uruguay.

HSBC Private Bank in Switzerland sold a book of clients to **LGT Bank.** This included Latin American assets and was part of a review in which it was decided to cut back its client markets from 150 to 70.

RBC Wealth Management is closing its offices in Houston and Miami as part of a process of reorganisation in the United States; both offices were hubs for cross-border business.

2014

Localisation

Amidst all of this, the local Latin American wealth management environment has been undertaking change for the last ten to twenty years. Once the sole realm of foreign players, the local market is fast catching up and is now more developed and sophisticated than ever before. Since the mid-1990s when local dedicated wealth management services started to appear, the sector has continued to evolve.

Opportunity and competition

Domestic banks started on their journey to build a wealth management proposition in the mid-1990s, realising the latent opportunity they had to build this business around the many HNW clients in their retail and commercial businesses. With direct access to these clients, several banks started to segment their clients and build a tailored local wealth management proposition. While this necessitated baby steps to start, today, those firms that took the bull by the horns are little different from their international peers. They have also, increasingly, started to operate regionally and even internationally.

Developing mix of players

As time has passed, these developments have spurred many types of local wealth managers into action onshore and offshore. There are universal, retail, commercial, investment, and regional banks offering wealth management, as well as broker-dealers, fund managers, and various forms of EAMs such as single and multi-family offices, classic EAMs, and all sorts of introducers and agents. These firms are a mix of exclusively onshore operations, exclusively offshore operations, and increasingly a mix of the two, depending on the needs of their target clients.
In Brazil, for instance, the vast majority of firms are onshore-oriented, underlining why Julius Baer bought into GPS, while in Argentina it is largely the opposite. But whatever the type and focus of these firms, their overall number has jumped over the last ten years, particularly in Brazil and Mexico. The result is a far more competitive and sophisticated market.

This localisation is also happening in the local offshore centres that naturally target onshore Latin American markets. Centres such as the Bahamas, now armed with a new dedicated and compliant fund-structuring tool for Brazil, and others in the Caribbean, as well as local cultural and socially linked jurisdictions like Panama and Uruguay are becoming more important. Just look at the number and type of international wealth managers now active in these centres.
The increasing focus of these centres on specific Latin American markets is also pushing their relevance within this theme of localisation.

Stability and client demand

Critically, behind much of this, as much as the opportunity, is the region's greater level of political and economic stability, with the one onshore exception perhaps being Argentina. For the others, their governments and economies are now far more stable, which has allowed the financial sectors to develop a more trustworthy platform.

Furthermore, as trust has evolved, in markets like Brazil, Colombia, Mexico and Peru, there has been a growing desire for HNWIs to have their lead wealth management relationship locally. This does not necessarily have to mean that their assets are invested

> There is a growing desire for HNWIs to have their wealth managed locally.

in their home country but it does mean the relationship is closer. Offshore relationships had other benefits, but often meant infrequent communication and, from the HNWI's perspective, a lack of control. Additionally, with greater stability have come greater levels of trust to hold assets onshore. Obviously, in some instances, this has also been helped by the returns available in their home markets hugely outstripping what was available offshore.

Regulations and standards

Another area to have developed positively is regulation and business standards. This is seen to be particularly true in Brazil, Chile and Mexico: markets described as sophisticated. With regulation playing such a major role today, and with regulators across the world talking to each other, best practices are being brought into play for wealth managers. There are certainly global standards to be met (as FATCA shows), developing local banking and securities market regulations and self-regulatory organisations (SRO) defining standards.

Impact

Going back ten to twenty years, local wealth management had little or no weight or credibility. Today, there has been a quiet revolution in competence and the range of participants so that now the market is in fact dominated by local players, led in each market by the local banks. Foreign players, whether banks or not, can still participate but they must also be targeted and dedicated as well as embracing the theme of localisation in order to compete with a growing and varied onshore market which includes EAMs.

Global transparency

Further blurring the onshore-offshore mix, as it used to be known, is the rise of tax transparency as a global standard. We have described the importance of the offshore proposition for Latin American HNWIs. This will remain but the environment around that market is changing significantly. We are entering an irreversible era of tax transparency.

Two major initiatives are:

- **Automatic tax information exchange**
  Led by the G20 and the Organisation for Economic Co-operation and Development (OECD), governments are pushing for a multilateral global standard of tax information exchange. In June 2013, the leaders of the G8 agreed to establish automatic exchange as the new global standard and this was soon followed by a similar agreement from the G20. As of the end of June 2014, around 60 countries had signed up.

- **Foreign Account Tax Compliance Act (FATCA)**
  The United States FATCA law partially came into being on 1 July 2014. This huge piece of legislation seeks to gain access to the accounts held by US taxpayers in other countries, placing the burden on identifying taxpayers on the individuals themselves and, more importantly, the foreign financial institutions (FFIs) where US taxpayers have accounts. As of the end of June 2014, over 80,000 FFIs from around 90 countries had signed or initialised agreements on FATCA.

The scale of these initiatives is vast and no region is exempt, including Latin America. Global standards and information-sharing will soon be the norm.

Global standards
and information-sharing
will soon be the norm.

Impact

Ultimately, these moves will focus the Latin American wealth management sector on professionalism and compliant business practices. It is in effect a streamlining exercise; those that will not or cannot live by these standards will be forced out. Furthermore, it will place far greater emphasis on real planning for HNWIs and therefore the supporting advisory processes, infrastructure and expertise of their wealth managers, onshore and offshore (as the latter is not going away). Considering the wealth of Latin American HNWIs and the extent to which they hold assets offshore, the trend to transparency will force wealth managers to intensify their efforts.

The role of offshore

Very clearly, in light of these trends, as well as considering the evolving needs of HNWIs, the role and proposition of offshore financial centres is also shifting considerably. The new world is far more sophisticated, being about real client-centric advice and planning from professional advisors. Compliant legal structures must be used in well-regarded financial centres. Any shortcutting of that route in today's arena of transparency and compliance could have financial, tax, reputational, or even legal implications.

Changing reasons to be offshore

In the past, given the economic and political environment, the rationale for Latin American HNWIs having assets offshore was asset protection and preservation. The very real threat of wealth loss due to political or economic instability, security risk, corruption or other negative events, forced their hand. In today's world, while asset protection and preservation remain very valid reasons to have money offshore, they have been joined in the mix by a more complex and professional set of criteria such as privacy and confidentiality, comprehensive and tax-efficient wealth and estate planning, international diversification, access to international expertise, multi-generational/multinational family wealth structuring, and so on.

A new breed of players

The various offshore financial centres are under more scrutiny than ever and they must adapt. As a result, the offshore environment is in a state of flux. This is a reflection of the increasingly competitive and professional wealth management sector, as described earlier.

Similiar to the changes within the industry, traditional and often smaller offshore centres that do not or cannot meet higher standards are seen to be losing share and to be sidelined, while others are adapting to

Smaller offshore centres that cannot meet higher standards are seen to be losing share and to be sidelined, while others are adapting to stay relevant.

stay relevant. A clear example of this is the increased focus on target jurisdictions within Latin America using specific compliant and dedicated solutions.

Interestingly perhaps, a new set of players less geographically associated with Latin America has emerged. Within this group, this development can be divided into two camps: those existing and well-known offshore centres such as Singapore (more relevant due to their profiles, solutions, and/or investment opportunities); and second, onshore markets like the United Kingdom and New Zealand (with a competitive structuring solution relevant to Latin American clients).

A joined-up view

Finally, due in large part to risk, it was once typical that assets held onshore and assets held offshore were clearly separated, with absolutely no link. Once more, in an area of transparency, when assets are declared and more complex planning is required, it makes far more sense for a HNWI to have a joined-up view of their total wealth, onshore and offshore. This again helps explain the strategies of various wealth managers in the region, looking to ensure they can serve both onshore and offshore wealth and thus deliver this joined-up view.

Impact

Once again this theme of change relates to a more sophisticated and professional market. As so many Latin American HNWIs have offshore assets, they increasingly need access to joined-up (onshore and offshore) advice. The wealth management sector must be able to mirror this onshore and local, plus offshore and international, mix and be able to do so in a compliant and transparent manner.

FOCUS ON THE EAM SEGMENT

When we look across this changing environment, one segment that we feel could benefit is the EAM sector. Our research across the six markets of coverage shows that EAMs are a growing part of the market and have certain clear advantages and thus, perhaps, an opportunity to grow their collective market share. However, at the same time, we also see an EAM segment in Latin America that has areas of clear weakness that will severely hinder those entities that fail to adapt to the times.

EAM introduction

The EAM segment is a growing part of the broader Latin American wealth management sector. The ongoing reshuffle of foreign banks, the development of the onshore market and the local offshore market, the greater alignment with client interests, and clients' general understanding of the concept, have pushed their case since the segment started to emerge in the mid-1990s.

> It makes far more sense for a HNWI to have a joined-up view of their total wealth, onshore and offshore.

While it is extremely difficult to put a figure on the number of active EAMs in Latin America in our six focus markets through our qualitative research process we estimate a total number of 1,000 to 1,500 onshore and offshore EAMs of varying types (family offices, traditional EAMs, as well as a high number of introducers and agents) active in serving Latin American HNWIs. This estimate includes local EAMs of all types in our six focus markets, as well as EAMs in Uruguay, Panama, the Caribbean, Switzerland, and the United States.

It should be strongly noted, however, that the core of professional EAMs that exists to serve Latin American HNWIs is a far lower number. By professional we mean those that are under the umbrella of a relevant SRO, and have relevant staff, processes, and infrastructure to meet the rising needs of the market. Across these six onshore markets and their offshore peers the number of professional EAMs lies more likely between 300 and 400.

In terms of the EAM segment's AuM, it varies of course by market, with perhaps Brazil and Mexico considered the most advanced onshore centres dominating the EAM landscape. In talking to market participants of various types, the AuM of the EAM segment is typically seen falling between 5 % and 7 % of total AuM. If we compare those percentages with the figure reported by McKinsey for the private banking sector AuM, we would see total EAM sector AuM at between USD 133 billion and USD 186 billion.

EAM segment opportunities

Considering the drivers of change – global reshuffle, localisation, global transparency, and the role of offshore – the EAM sector has the opportunity to grasp these developments and grow as a segment of the broader Latin American wealth management sector.

Wealth continues to grow and the circumstances around wealth holders and their assets increasingly require more sophisticated support. Furthermore, there is a clear shift in the types of wealth managers at play in the market alongside a further gap created by the exit of some major players. Plus, in an increasingly stable environment, there is a growing desire of HNWIs to have local and closely held wealth management relationships, whether to manage onshore assets, offshore assets or both.

These conditions open further opportunities for the EAM segment offering independence from banks and other product providers and thus an alignment of interests; a small, sophisticated, flexible and local service offering which gives more control, oversight, and involvement with the client, and can access best-in-class expertise from outside when required; and, the likelihood of a longer relationship than is typical with a bank.

The changing landscape opens further opportunities for the EAM segment offering independence from banks and other product providers.

As bankers continue leaving international banks there remains a potential flow of senior bankers into the EAM landscape offering the EAM segment the energy for growth.

However, it is also clear that various barriers exist to the EAM segment. In achieving growth and greater relevance, it will not all be plain sailing. Therefore, although we can state a case for the further development of the EAM segment based on its advantages and opportunities, we can also see some major roadblocks.

First up are size and infrastructure. Far too many EAMs are too small, and even one-man/woman shows, and have little if any relevant infrastructure. In a world of complex investment markets, taxation, stringent and changing regulations, an evolving onshore-offshore landscape, and where HNWIs increasingly expect (and need) sophisticated services, small firms with neither the staff nor infrastructure are very unlikely to meet expectations. To grow their market share, EAMs will need to institutionalise through specialised staff, technology, and perhaps partnerships. There will likely be an element of self-regulation at play here too, where in each market the relevant regulators and SROs, as well as major counterparties like the banks, will increase their expectations of EAMs.

Next is the concept of independence. As of today, only a few EAMs are fully 'independent' in the sense that they charge a fixed fee to their HNW clients and select investments in an open architecture framework. Such business practices are in line with the desire of the client to take advantage of the EAM business model. In addition, this alignment of interest will ensure this segments' ability to grow. Slowly, such changes are being witnessed due to regulation, client demand, and new market entrants, but there is a long journey ahead.

The EAM sector also remains hampered by a relative lack of client understanding and familiarity when

To grow their market share, EAMs will need to institutionalise through specialised staff, technology, and partnerships.

compared with the big banks, local or foreign. Even though the market is more stable today, the apparent stability (real or imagined) of a big bank is often still seen as a safer bet than an EAM for HNW clients. The process of breaking through this barrier will take time but also a certain degree of industrialisation.

EAMs going forward

So, where will the EAM segment go from here? The segment has made headway as HNW clients have understood the benefit of the model, and some of the drivers of change around the broader wealth management sector in Latin America should play further into the hands of EAMs. However, the sector as a whole still has a relatively small share of the available AuM opportunity and, for many, significant barriers to further growth exist. In our view, given how the segment has developed, only those who now recognise the real needs of HNW clients and are willing to institutionalise where required, will drive the segment forward.

To do that, EAMs will need to:

- scale their businesses internally with dedicated IT and staff or through partnerships to meet the increased demands of clients and regulators
- ensure independence and transparency by introducing an advisory fee charged to clients instead of a commission based model
- select professional and dedicated custodian banks to deliver a fully capable team-based model to their clients (equally applicable onshore as well as offshore)
- adhere to codes of best practices of regulatory bodies such as the ‘Associação Brasileira das Entidades dos Mercados Financeiro e de Capitais’ (ANBIMA) in Brazil and the ‘Asociación Mexicana de Asesores Independientes de Inversiones’ (AMAII) in Mexico

As of today, only a few EAMs are fully ‘independent’ in the sense that they charge a fixed fee to their clients.

Conclusion

While in the global context Latin America is often sidelined, the above indicates the dynamism and value that can be achieved from serving the region's HNWIs, a group as we have seen that are on average far wealthier than those in other regions. What the background shifts – a changing landscape of market participants, the drive towards localisation, the rise of transparency, and the changing role of offshore – are telling us is that now, more than ever, serving Latin American HNWIs is about professionalism, accessibility, and a sophisticated and targeted understanding of their needs and circumstances.

It is in this context of localisation, professionalism, specialisation, and increased expectations that the dedicated EAM is ripe not only to survive, but to thrive. The fact that more senior bankers are entering the market as part of the reshuffle only adds to the momentum and energy for growth. As we have signalled, the segment is not without challenge, but at its core, its values and strengths align with the needs of today's marketplace and those of its target HNW clients. Considering the weight of industry change, the professional and regulated Latin American EAM is on a journey to success.

AITE GROUP

Aite Group (www.aitegroup.com) is an independent research and advisory firm focused on business, technology, and regulatory issues and their impact on the financial services industry. With expertise in banking, payments, securities and investments, and insurance, Aite Group's analysts deliver comprehensive, actionable advice to key market participants in financial services. Headquartered in Boston with a presence in Chicago, New York, San Francisco, London, and Milan, Aite Group works with its clients as a partner, advisor, and catalyst, challenging their basic assumptions and ensuring they remain at the forefront of industry trends.

Serving Latin American HNWIs is about professionalism, accessibility, and a sophisticated and targeted understanding of their needs and circumstances.

THE BAHAMAS: ALIGNING FOR A HIGHLY COMPETITIVE FUTURE

Think of The Bahamas and you think of a turquoise blue sea and palm trees. But it is not just the tourism industry that flourishes in this island country. The Bahamas is a booming financial hub with diverse products and related services which contribute directly and indirectly to about 36% of the economy. Here, The Hon. L. Ryan Pinder, Minister of Financial Services in The Bahamas, tells Julius Baer why he attributes the success of The Bahamas as a global business centre to its progressive thinking, diversity and professionalism.

Interview by Amanda Kayne, Julius Baer

What attracts financial services to The Bahamas?
Our independence, our geographical location and our reputation for being a stable and compliant economy are why the financial services industry in The Bahamas continues to grow. Sovereignty is a tremendous asset because we are free to make decisions in the best interests of our people, our industry and our clients. This is especially important as we focus on the Latin American market. Stability and sovereignty are very high on the risk agenda of our Latin American clients. Credible reports and evaluations from entities such as the International Monetary Fund consistently rank The Bahamas highly in compliance. We are located at the gateway to the Americas – we service clients in all of today's exciting growth economies from Canada in the north to Argentina in the south.

Why do clients want to keep their money in The Bahamas?
The Bahamas financial services industry is diverse. Our clients are in business across many different jurisdictions with many types of legal systems to contend with and they have the confidence that The Bahamas, with its broad offering and its expertise, can satisfy all their needs from a single jurisdiction, from banking and trust services to insurance products and fund administration. The Bahamas has a reputation for exceptional professionalism. The Bahamas recognises that the financial industry drives its middle class and so it has done an excellent job of developing its people and providing professional careers – especially those that have returned after studying abroad – to its people. 85 % of professionals in the workplace are Bahamians. We don't just sell products. We are service providers – specialists – who support the product as well as the client.

How has the financial services industry in The Bahamas changed in recent years?
More recent developments in the international regulatory system mean that a jurisdiction like The Bahamas has to provide cutting-edge solutions to its clients. You have to be able to shift your focus in an effective way to identify opportunities and to develop products that are attractive to new growth markets. I think The Bahamas is very good at this. For example, we effectively shifted our focus and investment from the traditional Europe-based client to countries such as Brazil, Mexico and Colombia where we are now actively growing. We are flexible and open. Institutions operating in The Bahamas know that they have a visionary government that works closely with them to ensure that the overall strategy is aligned and the strategies for growth work together.

What opportunities have increased regulations brought to the financial industry in The Bahamas?
As the regulatory environment changes so does The Bahamas: our laws and our strategy for growth opportunities. Ten years ago we adapted to the development of anti-money laundering regimes which today we effectively govern with the talent of our professionals. We are seeing a global shift now certainly with respect to tax regulatory matters. The Bahamas is committed to international best practices, but in doing so always with a mindset of positioning itself for the interests of our clients. We take a very strong national position in that we still value financial privacy as a key element of

our business. It is a delicate balance but we analyse and invest in strategies to ensure that we remain a viable business centre for our clients and are still respected internationally for having the regulatory integrity that is required to excel.

China just built a large embassy in The Bahamas. Why?

The Chinese embassy marks the cooperation between The Bahamas and China. China is making significant capital investments in The Bahamas and the Caribbean region as a whole but certainly disproportionately in The Bahamas with hotel development. There are many opportunities in hotel development and hospitality in The Bahamas and the Chinese want to holiday in this part of the world. We are cooperating mutually with China in a number of ways: trade, seafood and financial services. We are also sponsoring events in China to help with the linkages to financial services along with tourism. There is a lot of opportunity for economic development. It is a large market and a market that is maturing to global exposure and diversification.

How do you attract new business?

Cooperation and constant dialogue with the industry is fundamental. In addition, the government of The Bahamas saw the opportunity to go out and actively seek new business for the jurisdiction. I travelled to South America to visit asset managers, to develop relationships and to attract business to The Bahamas. When a senior government representative can place a message and philosophy abroad, it is very powerful in attracting new business.

What is the future of the financial industry in The Bahamas?

We want to be number one in private banking, but we also want to be number one in trust administration and captive insurance and fund administration. So the capacity is still very large to develop and to grow. We will continue to be forward-looking, always analysing what the global marketplace is doing and where the trends are going. For example, we see opportunities in the Middle East and the United Arab Emirates and we have invested in taking trade missions to that part of the world. You have to be quick to access new opportunities but you have to access them in a way where you have your research done. Progressive thinking is fundamental for a small country that is providing a service to clients in growth areas. If you don't have the ability to seek new opportunity and then shift your strategy to take advantage of it, you won't survive in this highly competitive atmosphere.

"Progressive thinking is fundamental for a small country that is providing a service to clients in growth areas."

The Hon. L. Ryan Pinder,
Minister of Financial Services in The Bahamas

THE EVOLUTION OF INVESTMENT BEHAVIOUR IN LATIN AMERICA

Latin American investors have become younger and more sophisticated over the past decades, which has resulted in increasing risk appetite and more diversified portfolios.

Research compiled by BlackRock

Impressive wealth growth in Latin America

Latin America, in particular Brazil, Mexico, Chile, Colombia and Peru, has seen a profound transformation in the last forty years. Following the debt crisis of the early 1980s, Latin American economies, for the most part, have cleaned up their balance sheets and have developed into markets with attractive conditions for both local and foreign investors. The changes in Latin America's macroeconomic situation have been radical and have helped drive the growth of the local wealth segment. In addition, given that a great majority of wealth assets are invested locally, the good performance of local equity and fixed income markets since 1990 has helped grow the total wealth, despite the volatility and mixed returns.

Today, Latin America is an important player in the world economy across a variety of sectors. The situation is no different in the wealth segment, which according to the Capgemini World Wealth Report 2014[1] amounts to USD 7.7 trillion or 15 % of the total world wealth market, as of the end of 2013. This represents strong growth in the past five years, when the total wealth segment in the region stood at USD 5.8 trillion. And the high net worth and ultra high net worth segments are expected to continue growing in the region, reaching USD 8.3 trillion by 2016.

Social and demographic transformation

The strong economic growth and the influx of foreign investment have helped transform the Latin American economies into the diversified economies that they are today. This has had great social and demographic impact that has further accelerated the region's wealth growth.

While inequality and income disparity remain an issue among emerging markets, including Latin American countries, the latter have seen tremendous growth of what was a non-existent middle class fifty years ago. This has been fuelled by stability and strong growth.

The emergence of a middle class has also led to continued growth of the wealthier social classes. This is reflected in the number of high net worth individuals (HNWIs), who, according to Credit Suisse and Cerulli Associates research, are estimated to total over 600,000 millionaires (in USD) in Brazil, Mexico, Chile, Colombia and Peru. This number is expected to more than double to 1,313,000 by 2016. Although this number may not seem large, it is worth noting that according to Cerulli Associates the average HNWI in Latin America is worth USD 15 million compared to USD 3 million in the United States.

> The total wealth in Latin America is expected to continue growing, reaching USD 8.3 trillion by 2016.

1 Capgemini/RBC Wealth Management, World Wealth Report 2014

Explaining this high concentration of wealth among HNWIs is the fact that much of the wealth that has been accumulated is a result of entrepreneurial efforts and family businesses, particularly in the construction, technology and exports sectors. Given the size of many of these family-owned companies, a public listing is not necessarily a viable option, thus wealth generated through M&A activity and private equity buyouts has been much more important than that generated through IPOs. The only country where IPOs have been a major contributor to wealth creation is Brazil, where there were 233 IPOs between 2005 and 2011. In 2010 and 2011 alone M&A activity in Brazil raised USD 47.3 billion and USD 18.7 billion, respectively. The main reasons for this were Brazil's large equity markets and the inflow of foreign capital into the region, particularly in the commodities space. Brazil's developed equity market combined with investor demand encouraged companies to go public. Conversely, in other countries in the region, a sort of reluctance of some firms to make their books public led to a preference for private equity deals.

Finally, compared with other regions, the population in Latin America is substantially younger with approximately 60 % being between the ages of 15 and 55 according to Cerulli Associates. This implies that some of the wealth is owned by young individuals who have a higher likelihood of growing their assets than an older population. Moreover, the affluent segment of the population, which still represents a large portion of the overall wealth, is also usually highly educated, thus open to exploring numerous investment alternatives that could potentially lead to further growth in capital. The relatively young population with high levels of Internet and technology penetration is increasingly asking for more sophisticated wealth management services. Latin America is leading the world in the shift towards digitalisation. Wealth managers who are better prepared to tailor their approach as well as to advance technologically will be better positioned to service and reach clients across the region.

The comparably young population in Latin America is asking for more sophisticated wealth management services.

‘Conservative’ asset allocation

HNWIs in Latin America have traditionally had a low risk appetite. This is apparent in the asset allocation of investors today, with cash, fixed income, and real estate representing approximately 76 % of investors’ portfolios.

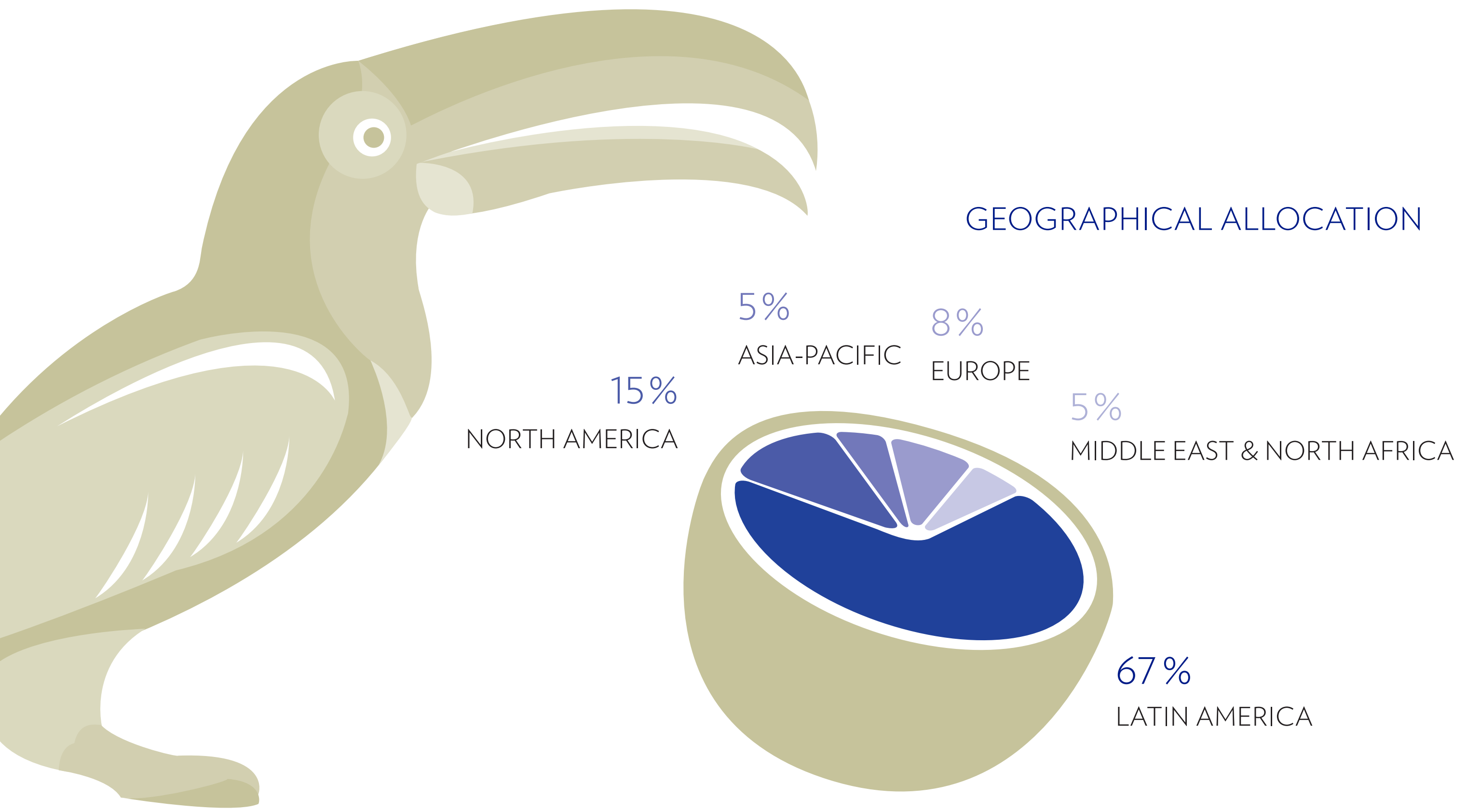
Given high interest rates at home and the apparent safety of local fixed income investments, throughout the last decade many investors could not rationalise the idea of investing in foreign vehicles or equities with expected returns of less than 10 % and higher levels of volatility. Thus, Latin American private clients have a higher proportion of fixed income in their portfolios than any other wealth segment in the world. In addition to fixed income, real estate remains one of the preferred investments in Latin America accounting for almost 30 % of HNWIs’ allocation according to the Capgemini World Wealth Report 2014 and Cerulli Associates research. This was partly driven by the commercial real estate boom in the region since 2006 that has resulted in significant wealth creation. The asset class also performed fairly well in the global financial crisis, thus garnering the confidence of investors, which has been further increased by the protection it offers from both market and economic instability.

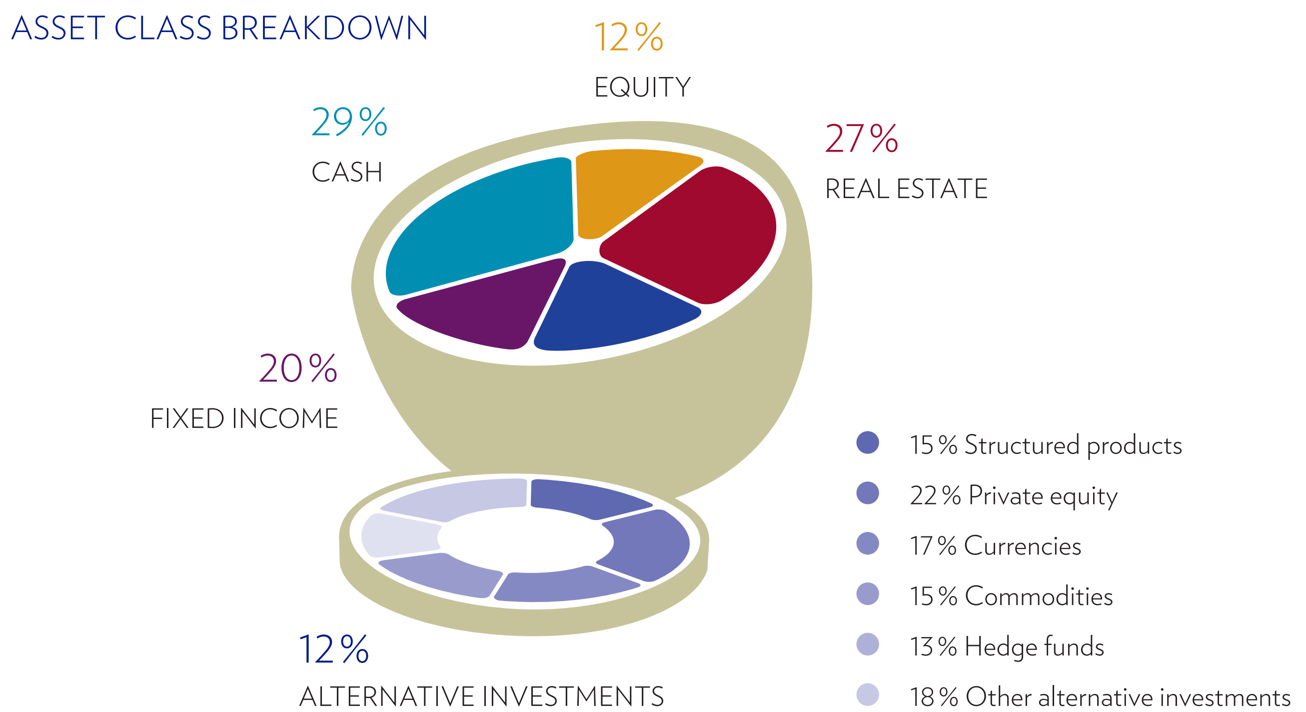
Investments in equities and alternatives make up for the remaining quarter of the assets. While the allocations decreased slightly in 2013 driven predominantly by an increase in market uncertainty and disappointing market returns in the region, the call to diversify is clear and the trend is expected to continue going forward. Worth analysing is the allocation to alternative investments in the region. Today, approximately USD 900 billion in assets are invested across different strategies within the alternatives asset class (excluding physical real estate). There is no clear preference in terms of type of alternative investment, although private equity gets the highest proportion of the allocation.

Investors across different markets behave differently when it comes to allocation into different asset classes, according to Cerulli Associates. The differences can often be attributed to the level of sophistication of a particular group of investors, which is highly correlated to the development of local capital markets and access to international investments. For example, investors in Chile are believed to have had greater market experiences, in many ways due to a high level of openness, and therefore have historically allocated a higher portion of their capital to riskier asset classes. Mexican investors tend to be comparatively more conservative. This difference may also be a result of the economic history of both countries, with Mexico having endured severe crises in the 1980s and 1990s while Chile has remained more stable.

Cash, fixed income, and real estate still represent 76 % of an average Latin American portfolio.

HOW THE AVERAGE LATIN AMERICAN HNWI IS INVESTED TODAY





Source: Capgemini, Cerulli Associates, Julius Baer

Recent internationalisation of assets

With the region's economic transformation, in particular the integration of Latin America into global markets and its greater importance, investors are provided with greater and easier access to global investments. Local investors had long been accustomed to high interest rates and domestic investments that often performed substantially better on a risk-adjusted basis than potential overseas investments. However, with the structural decline in interest rates, and weakness in local equity markets, many investors have been looking abroad recently for viable investment alternatives that generate the income they desire. As of Q1 2013, 76 % of the wealth in Latin America was invested locally: by the end of Q1 2014, that percentage had decreased to 67 %. That allocation has mostly gone to North America and Europe.

According to the Capgemini World Wealth Report 2014, the reasons behind Latin American investors' growing international exposure have begun to change recently. Whilst in the past, allocations to international assets were driven by political/economic instability and growing distrust of local institutions, today, better access to global financial markets and improved perception of global brands through the investment made in the local economies are playing a larger role in the shift towards international asset allocation. Also, given the demographics of the region, many of today's HNWIs have accumulated their wealth recently and are relatively young. These investors, with high levels of education and lower liabilities, are willing to invest in asset classes and geographies that were not predominant among older generations.

Regardless of the allocation to onshore versus offshore investments, investors in the region have an increasing risk appetite and are diversifying their typically heavy fixed income holdings in an effort to achieve their investment objectives of both wealth growth and capital preservation.

Conclusion

Latin America has been growing at a strong pace over the last twenty years allowing for sustained periods of economic growth and political stability. Today, Latin American markets are more integrated into the global economy than ever before and therefore are more vulnerable to international economic cycles and global social trends. While globalisation will help attract investments and continue growing the total wealth in the region, the perceived instabilities and increased investor sophistication will lead – albeit slowly – to new behaviours within the region. Such behaviours include for example areas of asset protection, investment preferences and notions of saving.

BUILDING BRIDGES IN LATIN AMERICA'S LARGEST WEALTH MANAGEMENT MARKET

GPS, founded in 1999, is the largest external asset manager in Brazil. Here co-founder José Eduardo Martins talks about the importance of the holistic advisory process and the investment behaviour of a typical Brazilian investor.

Interview by Amanda Kayne, Julius Baer

You founded GPS fifteen years ago. Why?

Some of the founders had made some money working for investment banks or in corporate finance and were looking for the type of services GPS offers today – investment advisory in both our local and offshore currencies – that would charge one single fee from A to Z in the investment process. At that time, only banks were offering financial services in Brazil and they were not 100 % dedicated to wealth management. We were experienced professionals with credibility both in the local financial market and among large wealthy families and so we saw the opportunity to develop a company fully dedicated to wealth management.

What has really been the driving force behind your success?

In my opinion there are two main drivers that led to the success of our business. The first has been the liquidity of cash in Brazil during the last ten years – companies going public and mergers and acquisitions. The second has been our one-of-a-kind business model in Brazil. This business model is conflict-free, as we always charge our clients just one single fee to do an asset allocation. We don't have our own products and we don't receive commissions.

How would you say the local investor has changed over the years?

Clients are much more invested in offshore equities than they used to be. Fifteen years ago when we started, interest rates in Brazil were higher than they are today, so investors were positioned much more in fixed income than equities. Today the allocation in equities for the total portfolio is approximately 20 to 25 % compared with 5 to 15 % in the past. Also, Brazilians used to invest 80 to 90 % of their portfolio in the Brazilian real and now this is about 65 to 70 % of total investment allocation.

> "Our business model is conflict-free, as we always charge our clients just one single fee to do an asset allocation. We don't have our own products and we don't receive commissions."
>
> José Eduardo Martins, co-founder GPS

How would you say investor attitude has changed over the years?
The savings of Brazilians are increasing and local investors are becoming more sophisticated. Our clients have at least 3 million reais (USD 1.3 million) in financial assets and are much more aware about saving for the future. They (together with GPS) are also teaching their children how to allocate financial assets. In the past, Brazilian investors bought real estate and fixed income in general. Now they are looking for more investment opportunities like private equity or private investments in public equities. In addition, our clients are seeking best-in-class fund managers who do not pay back commissions and therefore are not accessible for traditional private banking clients. They are also looking for financial advisors who can take care of 100 % of their financial assets and occasionally consolidate other portfolios. This consolidation brings GPS an advantage in Brazil because we have access to more information from clients and access to more information from our competitors.

How does your average client invest his money today?
The average local currency portfolio invests about 5 to 10 % in equities, 20 to 25 % in local hedge funds and the rest is fixed income. The average offshore portfolio contains approximately 20 to 30 % equities, 30 to 35 % hedge funds and the rest is fixed income. Locally, our clients use one of the three major custody banks in Brazil, while abroad several large international institutions like Julius Baer are used.

What are the future challenges for investors in Brazil?
Inflation in Brazil today is about 6 % and we expect it to rise further. So it is very important for the local investor to protect his money against inflation and to achieve a good interest rate.

Julius Baer recently bought 80 % of GPS. What opportunity does this stake in GPS create?
Fifteen years ago, we were one of the first companies that was not a bank, advising investors in Brazil. Since then several companies have been created and today 10 % of the financial advisory sector in Brazil is made up of companies like GPS. With Julius Baer as our partner, we now have the opportunity to consolidate the advisory business in Brazil and become one of the largest players in the Brazilian market.

> “The savings of Brazilians are increasing and local investors are becoming more sophisticated.”
>
> José Eduardo Martins, co-founder GPS

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