

FUND MONITOR: CONCENTRATING ON VALE

SUMMARY

> **Opportunity Lógica fund** has shifted out of steel-maker Gerdau, and increased its concentration in Vale, betting on an increase in iron ore prices.

> **Prisma's share fund** has been boosted by the performance of bus-body-maker Marcopolo, whose share price doubled in 2010, although it reduced its stake in the middle of the year.

> **The funds have taken different stances on stock market laggard Petrobras:** Opportunity has sold its shares, while Prisma has invested in it for the first time.

Asset manager Opportunity is keeping faith with Vale (VALE5:SAO), despite rumours that the mining company's chief executive may be forced out.

Yet while the Opportunity Lógica fund has struggled to keep pace with the Bovespa, smaller manager PrismaInvest has managed to outperform significantly – thanks partly to manufacturer Marcopolo (POMO4:SAO).

Opportunity Lógica and Prisma's share fund are both long-term operators in Brazil, running long-term portfolios. Opportunity stresses attractive valuations, while Prisma emphasises bottom-up analysis and invests across the size spectrum.

Opportunity

Fund: Opportunity Lógica II FIC FIA

Fund AUM: R\$2.6bn (\$1.56bn, £0.98bn, €1.1bn)

Type: Long bias

Interviewed: Dorio Ferman, executive partner

Offshore equivalent fund: Unique Lógica Equities

Opportunity's focus on price-earnings ratios helps to explain its enthusiasm for Vale, which currently trades at around six times expected earnings. The stock accounts for 85% of the Lógica fund's holdings – up from 60% a year ago. "The market is pricing in a reduction in the price of iron ore and we expect any fall to be much less than predictions. In fact, the price has even gone up slightly," Mr Ferman notes. He argues that Chinese economic growth will continue to be strong and that the US recovery will

take root, raising Vale's share price by up to 50%.

Other investors have focused on possible government intervention in Vale, including finance minister Guido Mantega's apparent desire to replace chief executive Roger Agnelli with someone more inclined to invest in Brazilian manufacturing. Yet Mr Ferman sees significant intervention as unlikely.

The fund has moved out of steelmaker Gerdau (GOAU4:SAO) and energy company Petrobras (PETR4:SAO), which a year ago formed 21% and 28% of its holdings respectively. Currently its remaining investments are in Banco do Brasil (BBAS3:SAO), 11% of its shares, and construction stocks, such as Cyrela (CCPR3:SAO), Even (EVEN3:SAO), MRV (MRVE3:SAO), PDG Realty (PDGR3:SAO) and Rossi Residencial (RSID3:SAO), which together constitute 7%. The interest in property stocks reflects a desire to diversify the portfolio. Although share prices have fallen recently, Mr Ferman argues that the long-term growth of the Brazilian economy and shortages in housing will underpin the sector. The fund is less upbeat on consumer stocks Ambev (AMBV4:SAO) and Lojas Americanas (LAME4:SAO), holding short positions on both.

PrismaInvest


Fund: Prisma Fundo De Investimento de Ações

Fund AUM: R\$13m

Type: Long only

Interviewed: João de Costa Marques, partner

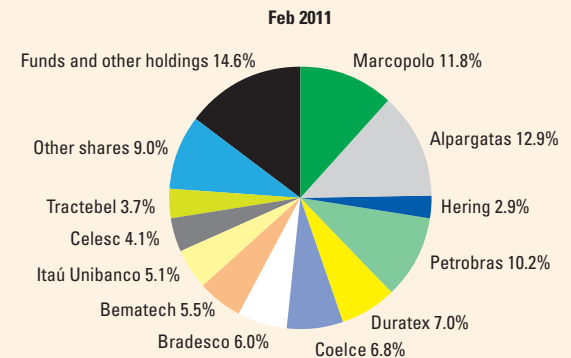
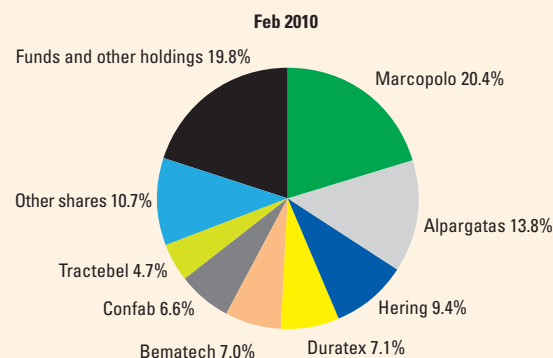
Offshore equivalent fund: None

Prisma's Mr Marques makes a strong case for Marcopolo, Brazil's leading manufacturer of bus carriage- 

Trimming down on Marcopolo, wading into Petrobras

Prisma share fund (Prisma Fundo De Investimento de Ações)

% of total holdings



Source: Economática

es, whose share price more than doubled during 2010. He argues that the company should benefit from the World Cup and Olympics as municipalities renovate their bus fleets. Private long-distance bus companies are also likely to invest in modernising their buses in anticipation of more foreign tourism. Moreover, the company is doing well in critical markets such as India and is looking for a partner to develop business in China. Buses are tailored to each market and Marcopolo's expertise is difficult to replicate, Mr Marques argues.

However, the fund has significantly reduced its exposure to Marcopolo – from 20% of its total investment a year ago to under 12% today (see chart) – although the company remains its second-largest holding. Most of the sell-off came between February and June 2010, while Marcopolo shares continued to rally for several months. (The stock fell by almost 20% in January and February, although it has recovered most of that since.) Mr Marques says at Marcopolo's biggest risk is the strong Real, especially as its business depends increasingly on income from overseas.

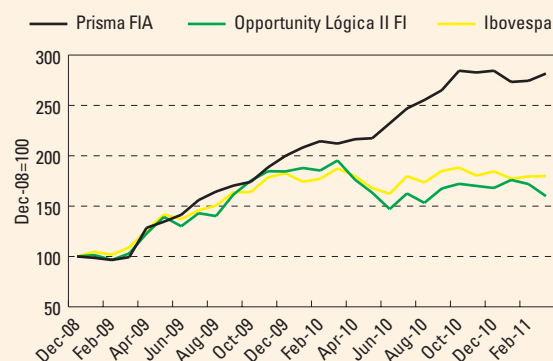
The fund's largest holding is now clothing manufacturer Alpargatas (ALPA4:SAO), but generally it has been moving out of consumer stocks, partly to shield against inflation. Clothes retailer Hering (LHER4:SAO) has fallen from 9% to 3% of the fund's holdings. A restructuring helped Hering increase annual revenues by more than 40%, but Mr Marques argues that this growth is fully reflected in the share price.

Prisma sees energy companies as a good, inflation-resistant option. Recently, it shifted out of Copel (CPLE6:SAO), the state energy company of Paraná, and into Celesc, its equivalent in Santa Catarina, betting that the new state government will succeed in implementing operational improvements.

Last year, Mr Marques invested in Petrobras for the first time, on the basis that worries over the timing of pre-salt development were more than priced into the stock. "It's the price that motivates us rather than the business per se," he notes. The stock now represents one-tenth of Prisma's portfolio. ■

Prisma outperforms Opportunity Lógica

Funds' performance as of March 24 2011



Source: Economática – Provider of Financial Data And Analytics

Brazilian funds by performance

Performance as of March 21 2011, funds averaging over 1,000 investors

Fund	Change over last 12 months (%)	Change over last 24 months (%)	Avg. net assets in last 12 months (\$m)
Unibanco Small Cap FIA	16.97 ▲	155	69,692
Itaú Personalite Momento Acoes FICFI	16.76 ▲	182	114,031
BB Ações Energia FI	15.86 ▲	73	50,188
Itaú Personalite Selecao Acoes FICFI	15.48 ▲	148	238,951
Santander FI Energy Acoes	14.21 ▲	62	84,587
Itaú Equity Hedge Advanced Mult FI	13.29 ▲	19	184,219
Bradesco Prime FICFIA Small Cap	11.61 ▲	100	107,457
Itaú Equity Hedge Mult FI	11.16 ▲	25	216,398
Itaú Person Infra Estrutura Acoes FICFI	9.03 ▲	84	66,382
Brad Prime FICFI Mult Long Short	7.89 ▲	17	97,945
Itaú Person Governanca Corp Acoes FICFI	7.66 ▲	89	188,577
BB Acoes Dividendos FICFIA	7.45 ▲	61	478,299
Itaú Personalite Valor Acoes FICFI	5.50 ▲	85	152,812
BB Acoes Multigestor FICFI	4.57 ▲	81	127,498
Bradesco Prime FICFIA Dividendos	4.25 ▲	55	131,257
Itaú Pers Ace Dividendos Acoes FICFI	3.90 ▲	56	97,458
HG Top Acoes FICFIA	2.38 ▲	78	103,022
BB Acoes Construcão Civil FICFI	2.05 ▲	167	95,450
Itaú Pers Mult Setorial Acoes FICFI	1.41 ▲	91	75,771
BB Acoes Small Caps FICFI	1.35 ▲	122	56,143
BB Acoes BB FI	1.21 ▲	99	110,368
Legg Mason Selecao Acoes FICFI	0.83 ▲	116	62,141
Santander FI Vale do Rio Doce BR Acoes	0.68 ▲	73	334,526
Itaú Pers Excelencia Social Acoes FICFI	0.59 ▲	66	126,035
Bradesco FIA Vale	0.53 ▲	71	476,644
HSBC FIA Vale do Rio Doce	0.46 ▲	72	161,006
BB Acoes Vale do Rio Doce FI	0.17 ▲	72	914,208
Santander FICFI Vale Plus Acoes	0.12 ▲	73	112,318
Santander FIA Vale do Rio Doce	0.08 ▲	71	57,982
Santander FICFI Ethical Acoes	0.08 ▲	64	142,794
Caixa FIA Vale do Rio Doce	-0.02 ▼	70	801,177
Safra Setorial Bancos FIA	-0.13 ▼	61	83,147
Santander FI Dividendos Acoes	-0.26 ▼	41	54,756
Xp Investor FIA	-0.51 ▼	133	120,548
Lm Acoes Sustent Empresarial FICFI	-0.56 ▼	70	55,993
HSBC FIA Valor	-0.67 ▼	75	152,203
Schroder Valor FIA	-0.73 ▼	58	77,977
Safra Vale do Rio Doce FIC Acoes	-0.81 ▼	67	150,911
Sant FICFI Vale do Rio Doce 2 BR Acoes	-0.95 ▼	68	71,875
Itaú Acoes Vale FI	-0.96 ▼	67	674,328
Unibanco Vale do Rio Doce FIA	-1.01 ▼	67	149,563
Santander FI Vale do Rio Doce Acoes 2	-1.95 ▼	64	103,578
Bradesco Prime FICFIA Active	-3.21 ▼	64	95,717
BTG Pactual Mult Acoes FIA	-4.08 ▼	60	50,100
Santander FICFI Ibovespa Ativo Acoes	-4.11 ▼	57	62,413
Itaú Personalite Acoes Index Ibov FICFI	-4.40 ▼	62	154,656
Geração FIA Programado	-5.07 ▼	83	491,331
Itaú Índice Acoes Ibovespa FICFI	-5.23 ▼	59	71,601
HSBC FIA Top	-5.29 ▼	58	101,428
BB Acoes Ibrx Indexado FICFI	-5.35 ▼	44	172,342
Santander FIA	-5.45 ▼	54	71,795
Unibanco Classe Mundial FIA	-5.50 ▼	42	93,363
Bradesco FICFIA	-5.75 ▼	51	282,669
Itaú Personalite Acoes Ibov Ativo FI	-5.79 ▼	53	187,225
Santander FICFI Índice Bovespa Acoes	-5.87 ▼	56	61,899
Itaú Personalite Acoes Ibrx Ativo FICFI	-6.24 ▼	47	128,235
Itaú Acoes FI	-6.30 ▼	46	539,922
Itaú Carteira Livre Acoes FI	-6.49 ▼	46	52,405
Bradesco FICFIA Ibovespa Ativo	-6.52 ▼	47	64,606
Caixa FIA Ibovespa	-6.64 ▼	55	130,272
Bradesco FICFIA Ibovespa Indexado	-7.05 ▼	53	93,425
HSBC FIC FIA Acumulacao	-7.14 ▼	44	81,262
Caixa FIA Ibovespa Ativo	-7.18 ▼	53	70,187
Safra Small Cap FIA	-7.21 ▼	88	105,106
Unibanco Blue FIA	-7.37 ▼	43	83,555
Itaú Ibovespa Select Acoes FICFI	-7.69 ▼	47	81,067
BB Acoes Ibovespa Indexado FICFI	-8.06 ▼	50	154,599
BB Acoes Ibovespa Ativo FICFI	-12.91 ▼	46	62,161
Safra Selection FIC Acoes	-12.97 ▼	39	69,779
HSBC FIA Petrobras	-18.69 ▼	-8	98,279
Bradesco FIA Petrobras	-19.18 ▼	-9	316,002
Caixa FIA Petrobras	-19.29 ▼	-9	648,782
Santander FI Petrobras BR Acoes	-19.33 ▼	-6	193,893
BB Acoes Petrobras FIA	-19.74 ▼	-7	703,565
Safra Petrobras FIC Acoes	-19.93 ▼	-9	103,300
Santander FICFI Petrobras Plus Acoes	-20.23 ▼	-1	110,545
Itaú Petrobras FIA da Petrobras	-20.24 ▼	-11	472,142
Unibanco Petrobras FIA	-20.28 ▼	-11	91,774
BB Acoes Siderurgia FICFI	-21.02 ▼	71	112,913
Santander FICFI Petrobras 2 BR Acoes	-21.44 ▼	-12	51,514
Santander FICFI Petrobras Acoes 2	-22.82 ▼	-15	64,660

Source: Economática - Provider of Financial Data And Analytics