

Brazil

A big step in the right direction



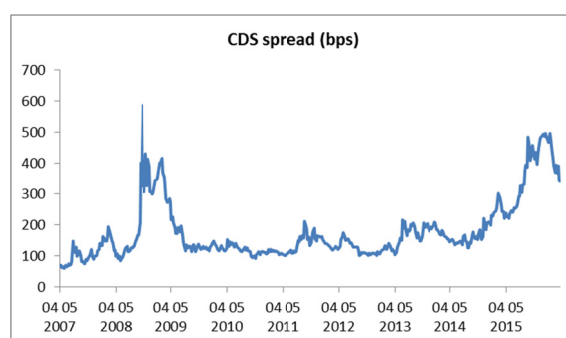
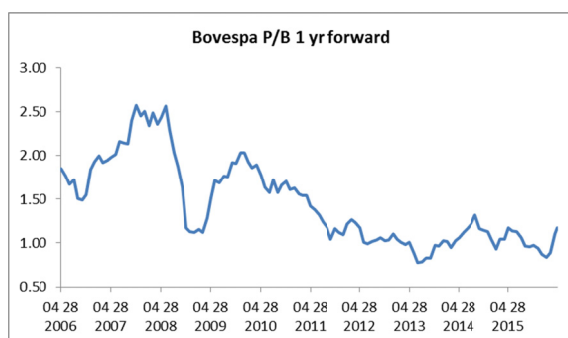
Ian Simmons, Lead Portfolio Advisor, Latin America

comments on the market implications of the latest political developments in Brazil

April 2016

Brazil's Congress voted to begin impeachment proceedings against President Dilma Rousseff on Sunday night with a comfortable majority. If the Senate vote to proceed then Rousseff will need to step down and Vice-President Temer will take over while the trial is held. Political specialists do not see the Senate voting to reverse the path set by Congress at the weekend, so this was a significant first step in returning Brazil to a stable footing and reviving long-term growth prospects. Given the dire state of government finances it is crucial for Temer to appoint credible cabinet members and garner multi-party support in Congress to quickly implement policy changes which Rousseff was unable to pass. To halt the upward path on debt/GDP Brazil needs to reduce its fiscal deficit so temporary tax hikes and government expenditure cuts are needed in the short term, with a broader reform package to reduce the cost of social security and pensions also expected. If Temer can lay the groundwork for reforms then the incoming President in 2018 will be on a much stronger footing to complete the job. Many of these changes will be unpopular, and could be a drag on earnings in the very short term, however, the boost to confidence is likely to outweigh these concerns as far as markets are concerned.

The end of political paralysis and evidence that politicians are moving in the right direction should be enough to reduce country risk in Brazil and stimulate investment again. A stronger currency will contribute to lower inflation and may allow the central bank to cut rates, both supporting consumer confidence. Even after the recent rally, Brazil's Credit Default Swaps (CDS) spreads and long term bond yields are still well above historical norms, indicating plenty of upside in a blue-sky scenario for the Bovespa index which is still only trading just above book value. The charts below illustrate the potential upside on some of these metrics. One recent reference point is the rally we saw in 2014 where investors started to hope that we would see a new president elected. We are still short of these levels, although arguably in a much better position given a lot more clarity on policy leadership than a 50/50 election outcome. Admittedly a lower price/book ratio is warranted today with high cost of equity and lower returns, but economic and policy



Source: Charlemagne Capital

normalisation can speed up the rate at which these two factors reverse and justify further upside. In the first stages of this rally, reductions in cost of equity will push analyst target prices higher (50bps reduction adds about 8% to equity market value according to Morgan Stanley). As confidence takes hold and investment follows, and as we work our way through the cycle, GDP can turn positive and future year earnings forecasts should move up to support medium term share price performance.

Dilma will not depart without a fight, and the corruption scandal will rumble on, but for the first time in 20 years meaningful constitutional reforms are on the agenda in Brazil. There may be some profit taking, especially in sectors where the rally has been extreme and buoyed by global commodity prices, but we would treat any volatility as a chance to add to our positions in Brazil.

Investors can access the Latin American region via Charlemagne Capital's Magna Latin American Fund, the performance of which is shown below.



The Magna Latin American Composite is based on all share classes of the Magna Latin American Fund. Charlemagne Capital claims compliance with the Global Investment Performance Standards (GIPS®), as verified for the period 1 Jun 2000 through 31 Dec 2014 by Ashland Partners. A copy of the verification report and a presentation that adheres to GIPS standards are available upon request.

Source: Charlemagne Capital, MSCI

This document is issued by Charlemagne Capital (UK) Limited, which is authorised and regulated by the Financial Conduct Authority.

Address: Charlemagne Capital (UK) Limited
39 St James's Street
London
SW1A 1JD

Tel: + 44 (0)20 7518 2100
Fax: + 44 (0)20 7518 2199
Email: marketing@charlemagnecapital.com
Website: www.charlemagnecapital.com

*This document may not be disclosed, distributed, copied, reproduced or used (in whole or in part) for any purpose without the express written consent of Charlemagne Capital (UK) Limited ("Charlemagne"). Charlemagne has been appointed by Magna Umbrella Fund plc (the "Company") to procure the distribution of its Shares. The Company is an open-ended umbrella investment company authorised by the Central Bank of Ireland as a UCITS. Charlemagne Capital (UK) Limited is authorised and regulated by the Financial Conduct Authority ("FCA"). The Company has sought and has been granted approval by the relevant regulatory authorities to market and distribute its Shares as appropriate in the following jurisdictions: UK; Germany; Luxembourg; Austria; Switzerland; The Netherlands; Denmark; Singapore; France, Finland, Sweden and Italy. In Canada, the distribution of this document and any other document relating to the distribution or marketing of the Company (including the Prospectus relating to Company), is made and will be made only to accredited investors (as defined in National Instrument 45-106 – Prospectus and Registration Exemptions) or pursuant to another applicable prospectus exemption. Full information on the regulatory status and the applicable laws relating to the marketing and distribution of the Company's Shares in the various jurisdictions in which the Company is registered are more particularly set out in the Prospectus of the Company. The purchase of shares in the Company constitutes a high risk investment and investors may lose a substantial portion or even all of the money they invest in the Company. Investors are advised to read the section of the Prospectus entitled "Risk Factors" prior to investing in the Company. The information within does not constitute investment, tax, legal or other advice and is not a recommendation or an offer to sell nor a solicitation of an offer to buy Shares in the Company, which may only be made on the basis of the Company's Prospectus. An investor in the United Kingdom who enters into an agreement to acquire Shares in the Company will not have the right to cancel the agreement under any cancellation rules made by the FCA. Charlemagne reasonably believes that the information contained herein is accurate as at the date of publication but no warranty or guarantee (express or implied) is given as to accuracy or completeness. The information and any opinions expressed herein may change at any time. The Prospectus of the Company shall not be distributed and Shares in the Company shall not be offered, distributed or sold in any jurisdiction in which such distribution, offer or sale would be unlawful. Prior to investing in the Company, investors are advised to contact their independent financial adviser and should read all documents relating to the Company that may be obtained from the Administrator, the Share Distributor or the website of www.fundinfo.com. This document includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology. These forward looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include statements regarding the intentions, beliefs or current expectations of Charlemagne concerning, amongst other things, the investment objectives and investment policy, financing strategies, investment performance, results of operations, financial condition, prospects, and dividend policy of the proposed investment vehicle and the markets in which it, and its portfolio of investments, invest and/or operate. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. The proposed fund's actual investment performance, results of operations, financial condition, dividend policy and the development of its financing strategies may differ materially from the impression created by the forward-looking statements contained in this document. There is no assurance the Company will achieve its investment objectives or the target returns described in the document. *The prospectus for Switzerland, Key Investor Information Documents, the articles of incorporation, the annual and semi-annual reports, as well as the list of the buying and selling transactions can be obtained free of charge from the representative in Switzerland, Carnegie Fund Services S.A., 11, rue du Général-Dufour, 1204 Geneva, Switzerland, Tel. +41 227051177, Fax: + 41 227051179, www.carnegie-fund-services.ch. The paying agent is Banque Cantonale de Genève, 17 Quai de l'Île, 1204 Geneva, Switzerland.*