Brics offer investors a varied harvest

INVESTMENT

Wealth managers provide a number of ways to tap into the rapid economic growth of the four nations, writes Matthew Vincent

The Brics countries accounted for 39 per cent of global initial public offering volume last year, up from 18 per cent in 2000.

For private investors, then, the most obvious way to gain exposure to these markets is through actively managed equity funds.

Michael Konstantinou, an Allianz fund manager, says the Brics countries are showing no signs of slowing in 2008. He argues they will remain crucial to global economic growth, with Brazil achieving above average economic and growth, Russia seeing higher oil prices compensate for the weaker capital inflows, India boosted by higher domestic consumption, and China maintaining GDP growth rates well above 10 per cent thanks to buoyant domestic commodity prices and freight rates.

"Brazil is expected to perform China in 2008," Mr Konstantinou says. "We think this should support asset prices and especially the equity market in Brazil, making it less sensitive to what happens in the global economy next year."

But some wealth managers question the timing of this move into the Brics by retail fund managers.

Graeme Currie of Atlas Real Estate Asset Management says: "The question now is how much steam is left in them? Are unprecedented rates of expansion sustainable? The financial services industry has a remarkable record of promoting niche funds towards the upper curve of the parabola - think of technology, health funds, property and commercial property."

Mr Currie still backs the more experienced retail fund managers to pick stocks widely and capture further growth. Private banks, however, are now suggesting ways to gain a more institutional exposure and manage the risk to capital. UBS uses real estate, private equity and structured products linked to commodities and currencies to give clients exposure to the Brics. "We know where the ship is going, it just might be a bit stormier along the way," explains Gavin Rankin, head of products and services consulting at UBS Wealth Management in the UK. "So we use a longer time horizon and think about different asset classes."

Real estate investments are made through a specialist fund that diversifies its exposure across a basket of fund managers. It can make opportunities in developments of residential and commercial property, in areas of the Brics where it can take advantage of increasing commercial activity and a growing middle-class.

Private equity exposure can be provided across a spectrum, from venture capi
tal to growth capital, lever
ded buy-outs and distressed companies. But it is in growth capital that UBS sees most opportunity - it closed a global fund last year that invests in "companies trying to get to next stage" and has a 20 per cent allocation to India. "That again is something that clients love," says Mr Rankin. "It has a long time horizon, and takes it really into a attractive long-term theme: the emergence of giants."

Currency and commodity trends are invested in through structured products linked to capital markets in the Brics. These offer a play on Brics currencies that are strengthening against the dollar. Agricultural commodity prices are also remaining strong, linked to the trend in Brics countries towards more western-style diets. "Clients are investing in a variety of structured products based on agricultural food indices," explains Mr Rankin. "Initial interest came from clients who saw this as a theme - maybe they were exposed to it within their own businesses. But we had strong research underpinning to this, too."

UBS clients can even have an opportunity to invest in a fund that is going to buy farmland in Latin America, work the land, and then exit after seven years through an IPO or sale. "We do use some equity funds," admits Mr Rankin, "but you can expose yourself to some short-term volatility. Most clients take their emerging market exposure through structured products. They like the idea, but they are not prepared to lose everything on it."

Barclays Wealth also takes a more institutional approach to offering clients opportunities in Latin America, India, and eastern Europe. It uses long-only funds that have exposure in line with the market, alongside longer-term investments in private equity, real estate and infrastructure.

Barbara An-Jung, head of alternative products, explains: "Clients can gain access to their own fund through their own fund." That is because of the unique way in which their investment professionally managed. Access to such institutional quality products is given to private clients via "feeder funds" at lower entry levels. At present, Barclays Wealth has a particular focus on residential and real estate in India, and agricultural infrastructure in Latin America. "We believe "tiger" two cities in China look viable for real estate and infrastructure investment, and is monitoring opportunities. "Products will largely be provided through a classic private equity structure of a 10-year investment," says Ms King.

Credit Suisse suggests a longer-term approach. "One of the easier, less expensive but equally effective ways of doing it is through exchange traded funds," argues Paul Savory, managing director and head of investment solutions at its private banking business. He points out that investors can now buy a Brics ETF outside or create their own Brics portfolio of individual country index trackers.

"There are some extremely exciting long-term opportunities, so we're trying to provide investment solutions for all investors - institutional or wealthy retail," says Nick Sheldall, head of business development for the Asia business in the UK and Singapore.

"What the iShare FTSE Brics can do is add diversification to any portfolio, avoiding sector-specific risks, allowing investors to allocate their risk budget elsewhere where they may be more confident that they can achieve alpha [market-beat
ging returns]. It could be used by a pension fund, family money funds, or retail investors."

Eldridge also offers individual

null