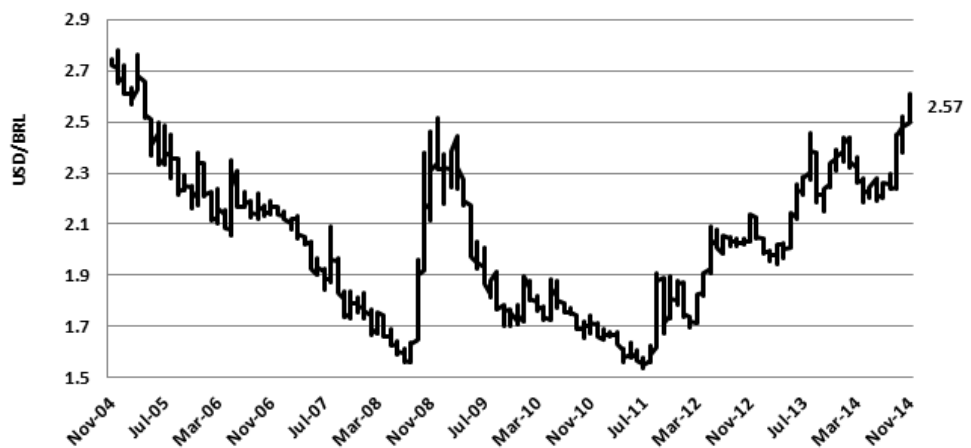


RAMPING UP REFORM IN BRAZIL

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In October's presidential elections, the people of Brazil voted for the status quo when they re-elected Dilma Rousseff. Since then, markets have cast their votes as well. With growth continuing to slow, prices remaining stubbornly high and corruption investigations dominating the headlines, many investors have reduced their exposure to Brazilian assets. However, the market's response seems to have finally caught the government's attention. On November 27, President Rousseff shook up her cabinet through the appointment of Joaquim Levy as finance minister. In our opinion, this marks a positive first step by the administration in its attempt to re-establish its credibility with the market. Our hope is that Brazilian assets respond in much the same way that Indian markets rebounded in response to reforms enacted by the Reserve Bank of India's governor, Dr. Raghuram Rajan, over the last year. **Brazilian Real Exchange Rate,**



11/30/04- 11/30/14 Source: Bloomberg, as of 11/30/14 Past performance is not indicative of future results.

With an impressive professional background and academic pedigree, Mr. Levy represents the reform agenda that we believe Brazil needs. As Treasury secretary in Lula's administration¹ from 2003 to 2006, Mr. Levy helped effect a dramatic improvement in Brazil's [fundamentals](#) that ushered in a golden age of growth for the country's economy. No stranger to difficult tasks, he has the potential to help Brazil turn the corner. With government largesse clearly in need of restraint, Mr. Levy has announced that he will target [fiscal surplus](#) over the coming years to help improve fundamentals and increase business confidence.² In our view, his appointment represents an acknowledgment by the administration that change is necessary. In recent years, the market had grown increasingly skeptical of Mr. Levy's predecessor, Guido Mantega. This lack of confidence translated into a reversal of investment flows and a weakening of Brazil's currency, the real. While transformation will clearly not occur overnight, in our view Brazil continues to represent a long-term opportunity for investors. Today, [interest rates](#) are among the highest in the emerging markets in both [nominal](#) and [real](#) terms. Additionally, the Brazilian real is trading at levels not seen since 2005.³ while the [Bovespa Index](#) is higher year-to-date, most U.S. investors are sitting on losses due to weakness in the currency.⁴ Cheap assets can continue to get cheaper, but we are more constructive on

Brazil, given the governments focus on fundamentals. Should additional reforms have the intended effect, we believe the government can avoid an embarrassing credit rating downgrade and markets can trade higher. In our view, investors should consider increasing allocations to the Brazilian real and locally denominated Brazilian bonds. While improvements will continue to occur over time, we believe that at current valuations investors are being adequately compensated for these risks. With a tacit acknowledgment from the government that change is needed, we believe that reformers such as Finance Minister Levy will help improve investor confidence and lift Brazilian asset prices over time.

¹Luiz Inácio Lula da Silva, president of Brazil from 2003 to 2010. ²Source: Bloomberg, as of 11/27/14. ³Source: Bloomberg, as of 11/30/14. ⁴Source: Bloomberg, as of 11/30/14.

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DEFINITIONS

Fundamentals: Attributes related to a company's actual operations and production as opposed to changes in share price.

Fiscal surplus: a situation where government revenue (taxes) exceeds expenditures.

Interest rates: The rate at which interest is paid by a borrower for the use of money.

Nominal interest rate: Interest rate that does not account for the impact of inflation.

Real interest rate: Interest rate accounting for the impact of inflation. From the nominal interest rate, which does not account for the impact of inflation, the rate of inflation is subtracted to get to the real interest rate.

Bovespa Index: a theoretical portfolio of stocks that seeks to serve as a gauge of performance for the Brazilian stock market.