

## TIME FOR A CHANGE?



In a chain of events, impeachment has become the most probable scenario, with Vice-president Temer likely to take over



***“From one day to the next, Brazil became a huge opportunity for buyers of distressed assets”***

- Guilherme Ferreira, co-founder of Jive Investments  
(Bloomberg, March 15th 2016)

***“The sense there are no untouchables in Brazil has further increased now that Lula, as he is commonly known, has been charged with money laundering. It is hard to imagine that happening in other corruption-plagued Brics countries, such as Russia or China.”***

- “Brazil’s corruption probe leaves no one untouched”  
(Financial Times, March 15th 2016)

Brazil’s political debacle is becoming like a Hollywood movie; increasingly unbelievable and every time one thinks they are clear on the ending, there is another twist. From one day to the next, the probability of president Rousseff being impeached is fluctuating like a samba dancer at the Rio carnival.

March was a busy month for the political protagonists (see page 6) with the deposition of a high-ranking figure of the ruling workers’ party, the arrest and subsequent attempt to shield the ex-president Lula from the corruption probe, the tapping of phones and the mass protests all increased the likelihood of impeachment. The vote to decide if Rousseff will be forced to step-down to face trial for allegedly manipulating government accounts is expected to take place over the next days.

If she is ousted, vice-president Temer, from the centrist PMDB, will take over as president, which would likely mean higher consensus in congress and an unlocking of the political deadlock. Aécio Neves, leader of the largest opposition party, the centre-right PSDB, said his party would give support to a “transitional government with an emergency agenda”. The macro outlook is improving with a record trade surplus in March and inflation finally showing signs of abating. This is now back in single figures, which has led to the market forecasting that it may even hit the target range 4.5% (+/-2%) this year and subsequently interest rates will start to come down in the near term.

Like every carnival, this madness will come to an end and once this impeachment is off the table in the next month or so, the government will be able to focus their attention back on economics rather than politics and with this should come more transparency, stability and visibility into the future.

Prolifico is about to complete the development of a new Self Storage facility in Rio, which will open doors in the next 2 months and continues to expand its distressed asset focused alternative real estate platforms across Brazil.

Please read on for more on the above, including a complete overview of the astonishing chain of recent events, an update on Prolifico’s progress and other interesting topics.



## INSIDE BRAZIL

### Rousseff's impeachment moves forward in congress

The impeachment committee, formed by 65 congressmen, has initiated its 15 daily sessions to decide, by a simple majority, if the process moves forward to the lower house, where it would need 2/3 of the votes to be formally launched. If approved, Rousseff will step-down immediately, while facing trial in the Senate. Vice-president Michel Temer would take over as acting president, being eventually confirmed as president if the Senate also votes in favour. The lower house is expected to decide before the end of April and after the series of events that took place in March (see page 6), most analysts believe that Rousseff has little room to avoid being ousted.



Michel Temer, Brazil's vice-president

### Brazilian Real leads gains against the US dollar

The Brazilian real was the second worst performing currency last year vs. the US dollar, whereas this year it has been leading the gains. The BRL has rallied more than 12% against the US dollar during the first 3 months of the year, posting in March its biggest monthly gain in 13 years (11%). Emerging market currencies worldwide have been performing strongly against the US dollar, supported by the reduced likelihood of short-term increases in US interest rates and by better prospects for the global economy, but the possibility of having a more market friendly government in the near future is seen as the main driver for the recent rally in the BRL.



Brazilian Real

### Curbing inflation generates optimism

Helped by the administered prices (forecast to rise only 6% this year vs. 18% in 2015) and also by the macro downturn and the BRL appreciation, inflation is starting to slowdown. IPCA-15 consumer price index, stayed at 0.43% in March (vs. 1.24% in March/15). This slowdown was better than all market forecasts, with the 12 month index returning to single digits for the first time since October. IGP-M (wholesale prices) also slowed down to 0.51%, from 1.29% in February. "Several market analysts" now see a "reasonable chance" of inflation "touching the target's ceiling as soon as this year and the target center of the Central Bank by 2017", according to Valor.

### Trade balance posts highest ever surplus for March

The Brazilian trade balance recorded its best March since the series started to be documented in 1989. The USD 4.4bn surplus, that was recorded last month, stands for almost ten times the result recorded in the same period last year (USD 460m). During the first quarter of 2016, the trade surplus reached USD 8.4bn, the best Q1 since 2007. In the first three months of the year, exports reached USD 40.6bn, an amount 5.1% lower than Q1 2015. However, the fall in exports, in USD terms, was largely compensated by a bigger fall in imports, which fell 33.4% to USD 32.2bn.



Iron Ore  
Brazil's most exported commodity

## BRAZIL EXTRA

### **Sao Paulo's stock-exchange has best month in 14 years**

The increased likelihood of president Rousseff's impeachment (see page 6), as well as increased optimism towards emerging markets, have pushed the Ibovespa to its biggest monthly rally in 14 years. Brazil's benchmark equity index rose by 16.9% in March, which is the highest increase since October 2002, when it rose by 17.92%. During the first three months of the year, the Ibovespa gained 15.4%, posting its best quarter since September 2009. According to Globo, investors see impeachment as a step towards economic recovery.



Bovespa, São Paulo

### **Banking system shows resilience amid recession**

The combined profits of the five largest commercial banks in Brazil grew by 11.3% last year, reaching BRL 67bn. Bradesco, Itaú Unibanco and Santander Brasil, the three largest private-sector banks in the country, saw earnings to rise by 15.06%, while the two main state-run banks, Banco do Brasil and Caixa Econômica Federal, posted a combined growth of 1.56% in their net income.



E-commerce grows in Brazil

### **E-commerce grows in Brazil**

Electronic commerce saw its revenues increase by 15.3% in 2015, reaching BRL 41.3bn. The market is taking advantage of a growing number of internet users, over 110 million last year, making Brazil the fourth country globally by number of users. Mobile access has also increased. According to Nielsen, in 2015, 76 million people were using smartphones to surf on the web, which represents 25 million more people than the year before.

### **Nestlé will invest BRL 400 million in Brazil this year**

The Swiss multinational food and beverage company, Nestlé, has plans to invest BRL 400 million in Brazil this year. According to Valor, the company aims to "increase capacity and become more competitive in its fourth largest market". Laurent Freixe, Nestlé's executive vice-president, says that "it's not because short-term has gotten difficult that we've lost the long-term vision", adding that Brazil "continues being a great consumer market and will regain dynamism in the medium term".



Judge Sérgio Moro

### **Sérgio Moro is one of the world's greatest leaders, says Forbes**

Federal judge Sérgio Moro, head of the corruption probe known as operation *car-wash*, which involves several high-ranking politicians and businessman, is the 13<sup>th</sup> greatest world leader, according to a ranking prepared by Forbes that distinguishes people who are "transforming the world and inspiring others to do the same". Forbes says that Moro "is the main protagonist in Brazil's real-life edition of *The Untouchables*", adding that the probe is making "passive coexistence with corruption (...) a habit of the past".



## REAL ESTATE

### **Distressed assets attract foreign investors**



Rio de Janeiro

In a report issued earlier this year, E&Y states that “for investors that understand the Brazilian real estate market, now may be the best buying opportunity in at least a decade”. And according to Valor (Feb/17th), this “rare and probably limited window of opportunity” is catching the attention of international investors. With a sharp BRL depreciation last year and discounts that, in some cases, can go up to 30%, investors see this as an attractive market. Companies such as JLL and Cushman & Wakefield are reporting “a huge increase in foreign demand for Brazilian market information”, says Valor. Roberto Patiño, director at JLL, says he has been seeing “an abnormal rise in inquiries from investors”. Rogério Santos, from RealtOn, agrees that the current moment is a good opportunity, saying that he is “absolutely sure the more patient [investors] will make a lot of money”.

### **Self Storage takes advantage of the recession and grows**



Self Storage facility

According to different articles published in the press last month, the Brazilian self storage market keeps growing amid the recession. Jovem Pam says the market is “surfing on the economic troubles”, with businesses closing and storing what was left over. GuardeAqui CEO, Allan Paiotti, stated that most corporate clients in 2015 resulted from the recession, such as companies downsizing or closing. According to Istoé, last year, Guarde Aqui increased its leased area by 38%, while one of its nearest competitors saw demand rising by 150%. Another self storage operator said that “out of every ten corporate demands we get, six are motivated by the crisis”. Nevertheless, the sector growth is also due to the pent-up demand, agree the main operators. According to Exame, self storage is the only real estate segment that continues to expand in Brazil.

### **Forbes highlights Prolifico and Senior Living opportunities**



Peer Buergin, Prolifico

Forbes recently published an article entitled “The Globalization of Senior Living”, in which it highlights the growing opportunities for Senior Living businesses in emerging markets. Aging population and rising middle class are pointed at as two of the main drivers in BRIC economies. These are producing the same opportunities seen in developed, western economies in the 1980s. In Brazil, Forbes says that Prolifico is one of the “early innovators in senior care”, highlighting the company’s partnership with a former BUPA executive. Peer Buergin, Prolifico’s COO & CFO, said “we are in the very early stages of senior living in Brazil. Now, with the demographic need in Brazil growing, and with increased wealth, we see this sector getting ready to grow”. Brazil is forecast to have the 6<sup>th</sup> most populous elderly population in the world by 2025, according to the World Health Organization.

## THE BRAZILIAN “HOUSE OF CARDS”

The **impeachment of president Rousseff** currently seems to be the most likely scenario, however the probability of this happening is changing almost daily. After the dizzying sequence of events that took place in March, Dilma's position was considerably weakened and the ruling party's (PT) main coalition partner, **the PMDB, which is the largest party in congress, decided to leave the government.**

### What happened?

The escalation of events began on March 3<sup>rd</sup>, when it became public that the former **leader of the government in the senate**, Senator Delcídio do Amaral, made a **plea bargain** in the car-wash probe, following his arrest late last year. According to Istoé, the Senator has **implicated president Rousseff and ex-president Lula in the corruption scheme.** The following day, March 4<sup>th</sup>, the PT workers' party took another serious hit when Judge Sérgio Moro, head of car-wash investigations, authorised the **detention of the ex-president Lula for questioning**, as well as police searches in various properties belonging to his family. The interrogation took several hours. Lula is suspected of receiving money, embezzled from Petrobras, through refurbishments to properties, which the police suspect belong to him. Payments summing to BRL 30 million for lectures given by Lula are also under investigation.

A few days later, on March 10<sup>th</sup>, prosecutors in São Paulo requested the arrest of Lula, arguing that **"there is sufficient evidence of proof"** regarding alleged crimes related to the construction, by one of the companies involved in car-wash, OAS, of an apartment in Guarujá. The prosecution believes that Lula is the real owner of the apartment and that he has concealed assets. The decision regarding his arrest would have to be made by a judge in São Paulo. Then the idea of Lula being appointed as a minister started to gain force in the media. His party sees him as the person who can help improve governability and create consensus in congress. Furthermore, by being appointed, Lula would receive immunity from prosecution, which means that **Judge Sergio Moro** would have to send the investigations to the supreme court to deal with.

Then there were the street protests on March 13<sup>th</sup> and these ended-up being far larger than initially expected. According to police estimates, **3.4 million Brazilians took to the streets** across the country, calling for the president's impeachment and for Lula's arrest. This large turnout of protesters was seen as an important catalyst for congress to move forward with the impeachment, some analysts believe.

On March 15<sup>th</sup>, just two days after the protests, the São Paulo judge who would have to decide on the request for Mr. Lula's arrest, opted to send the case to Judge Moro, arguing that he would be the most competent person to decide. Later on that day, **Lula accepted the appointment to become Rousseff's Chief of Staff.** Then, the day before Lula's official inauguration as minister, Judge Moro disclosed a **wiretap** of a conversation between Dilma and Lula. In the recording, Rousseff says that she would send a document confirming Lula's appointment, which could be used "if necessary". Critics say that the conversation suggests that Rousseff appointed Lula to her cabinet in order to shield him from the corruption probe, which would be illegal.

The following day, Lula took over as minister, but **just one hour later, his appointment was suspended by a federal judge**, who considered it to be an obstruction to justice. After two other injunctions against his appointment, the temporary suspension was confirmed by a supreme court judge. With this decision, the investigation regarding Lula would remain with Sergio Moro. The same day, congress finally created the necessary committee who will decide if the impeachment of president Rousseff goes forward. According to Valor, the group has a majority in favour of impeachment.

The chain of events that took place in March eventually caused **the exit of the PMDB party from the governing coalition**, on March 29<sup>th</sup>. PMDB was the main ally of the workers' party in the government and is the party that holds the most seats in both the chamber of deputies and the senate. It is also the

party of the vice-president of Brazil, Michel Temer. The party announced that, from that point on, no one could hold federal office on its behalf.

The month ended with the supreme court deciding that Judge Sergio Moro would have to send the supreme court all the tapings and investigations involving Lula. Since some of the wiretaps involve people with immunity, the supreme court intends to decide what should remain under the jurisdiction of the lower courts. The decision is of a temporary nature and does not cancel the suspension of Lula's appointment. For now, **Lula remains unable to take office and therefore currently has no immunity.**

## What next?

The probability of president Dilma being impeached has increased considerably over the last month. After the exit of PMDB and aiming to get the necessary votes to stop the impeachment in the chamber of deputies, the workers' party is trying to rebuild the government's support in congress, by offering more power to its allies. To remain in office, Rousseff will need the votes of at least 172 congressmen (out of 513). That vote would only take place if the **impeachment** committee decides, by a simple majority, to move forward with the process, which for now seems to be the **most likely scenario**. With no unexpected delays, the committee's vote is expected to happen around April 11<sup>th</sup>, while **the vote in the lower house** is expected to take place **by April 18<sup>th</sup>**. Bloomberg says that "according to the anti-government group VemPraRua, there are 267 firm votes for and 118 against impeachment in the lower house. A group of Rousseff allies, including members of her workers' party, say there are 123 votes against the president's impeachment". There are still a number of congressmen whose vote direction is unclear and may depend, in some cases, on negotiation from both sides.

**If Dilma is indeed impeached, vice-president Michel Temer will take over as president.** Temer, from the centrist PMDB, is regarded as someone with greater ability to find consensus. His presidency would be more **market-friendly** than the current one, analysts say. He is, however, also facing the possibility of impeachment, since a supreme court judge ruled that congress must open impeachment procedures against him on allegations he also helped conceal the budget deficit. Mr. Temer denies any wrongdoing and a group of congressmen has already appealed, claiming that only the president of the lower house would have the power to open an impeachment process. According to another supreme court judge, Gilmar Mendes, this is also the view of a group of judges in the supreme court.

The **market consensus** at this point seems to be that **Dilma will fall**. Even if this impeachment fails, which is still a possibility, analysts believe that Dilma would be pushed out through other legal procedures. The **Brazilian Bar Association recently submitted a new impeachment request** to congress, which is based on Senator Delcídio Amaral's deposition and an alleged attempt to obstruct the investigations by appointing Lula to the cabinet, which would provide a stronger legal basis than the current one, analysts say. Eurasia Group also said recently (March 28<sup>th</sup>) that "if the president survives the impeachment", it would "expect much pressure on the supreme electoral court to **call for new elections**". The current investigation ongoing in the supreme electoral court, which is investigating the alleged illegal funding of Rousseff's campaign, may gain new material proof after the arrest of Rousseff's campaign strategist in February. The plea bargain agreement announced last month by one of the main companies being investigated in operation car-wash, Odebrecht, could also shake Brasília again, analysts believe. Last month, car wash investigators released a spreadsheet, which contains information regarding **payments** that the company allegedly made **to more than 200 politicians**, including members of the opposition. The illegality of the payments has however not been proved yet.

Lately, a group of senators has also been calling for new presidential elections, an idea backed over the last days by a senator of the PMDB, who is said to be close to vice-president Michel Temer and also by the speaker of the senate, Renan Calheiros, a known allied of Dilma Rousseff. However, regardless of how things develop over the next days, weeks and months, one thing seems very clear by now; **impunity seems to be a thing of the past** in Brazil and the foundations are being laid for a stronger and more transparent future.

## PROLIFICO UPDATE

### PROLIFICO

Prolifico continues to bring investors into its Pledge Fund which is focused on the current window of distressed opportunities in the market.

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Moby has recently raised all of the necessary capital to close on its next distressed transaction. The deal should close over the next few weeks.



The retrofit of Moby's recently purchased distressed asset is now almost complete and on schedule to open doors in June 2016. The property is 140,000 sq. ft. in the heart of Rio.

Moby continues to update its pipeline of assets and the current pipeline is USD 100 million+, consisting of distressed, as well as ground-up developments. All assets are ready to purchase, develop and retrofit. Prolifico is currently conducting talks with a number of interested investors.



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ZAK is considering entering into a joint venture partnership with another student housing operator. Together they have put together a pipeline of distressed assets in Sao Paulo and Rio, which are ready to be acquired and retrofitted into student housing facilities.



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Prolifico is in talks with some senior living operators, reviewing their existing and pipeline assets. It is currently evaluating joint venture opportunities in this space as a means of expansion.

	Months since inception	Asset appreciation
F&F Fund	46	+245% (3.5x)
São Paulo Self Storage Fund	32	+222% (3.2x)
Rio Self Storage Fund	18	+64% (1.6x)
Trancoso Beach Fund	42	+280% (3.8x)

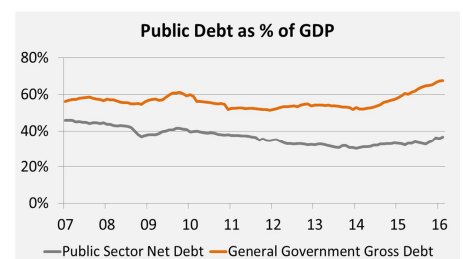
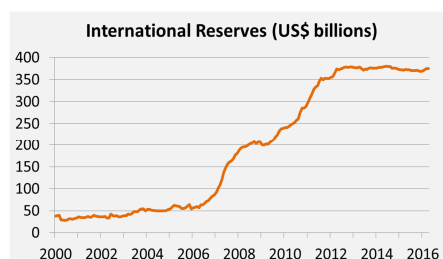
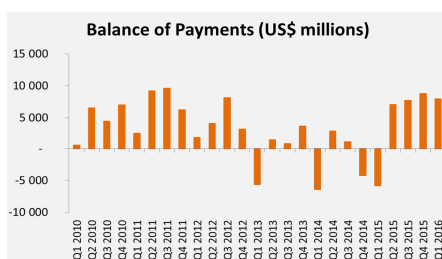
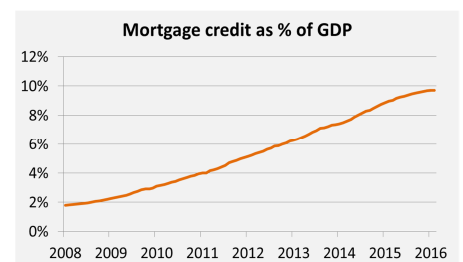
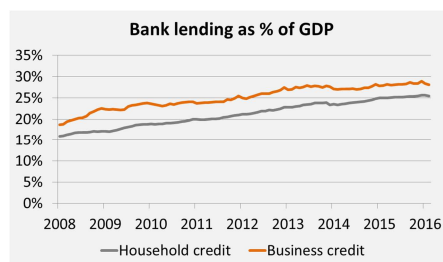
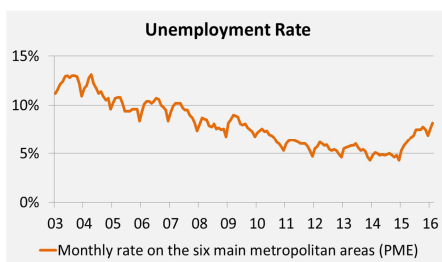
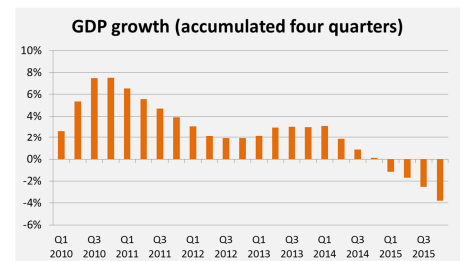
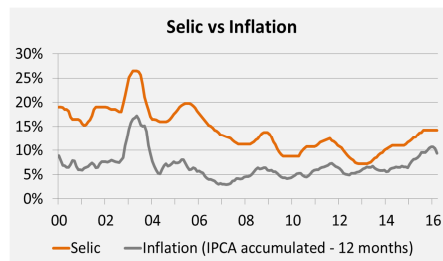
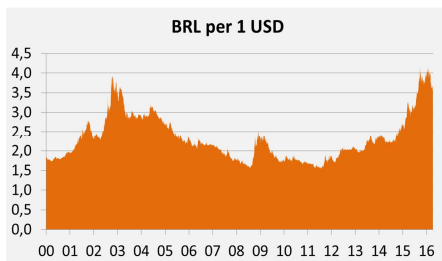
Underlying assets valued as at 31<sup>st</sup> December 2014 by KPMG Avaliações Patrimoniais Ltda / NAI Miami



## KEY ECONOMIC DATA

GDP 2015	- 3.8%	US Dollar <sup>1</sup>	R\$ 3.64	2016 <sup>4</sup>	2017 <sup>4</sup>
Benchmark Interest Rate (Selic) <sup>1</sup>	14.25%	Dollar variation YTD <sup>3</sup>	-6.82%	GDP	-3,77%      +0,30%
Inflation - IPCA March'16 <sup>2</sup>	9.39%	British Pound <sup>1</sup>	R\$ 5.13	Selic	13,75%      12,25%
IBOVESPA Year to Date <sup>1</sup>	+16.02%	Euro <sup>1</sup>	R\$ 4.15	US Dollar	R\$ 4,00      R\$ 4,10
IBOVESPA March'16 <sup>1</sup>	+16.97%	Unemployment (PME) Feb'16	8.2%	Inflation	7,14%      5,95%
		International Reserves <sup>1</sup>	US\$ 375 billion		

1. As of April 8<sup>th</sup> 2016
2. twelve month period
3. variation of the price of 1 USD in BRL terms (as of April 8<sup>th</sup> 2016)
4. projections for year-end, as of April 8<sup>th</sup> 2016, according to the focus bulletin of the Central Bank (median of market expectations)



Source: Brazilian Central Bank, IBGE, IPEA, Google Finance and Portal Brasil. (Data as of April 8<sup>th</sup> 2016 or the most recent available)

*Prolifico is an alternative real estate & private equity investment management firm in Brazil. The company invests in high yielding real estate backed business models that are resilient in all macroeconomic scenarios, such as self storage, student housing, senior living and data centres. <http://www.prolifico.com.br/>*

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