

BRAZIL PROPERTY DEVELOPMENT FUND

ARJENT

Investing for you



**Minha Casa  
Minha Vida**

From this...

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...to this

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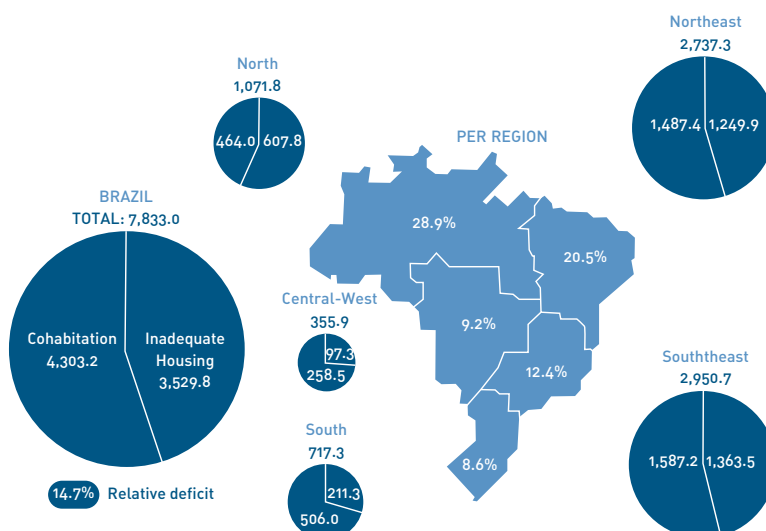




## Investment summary

- **Economy:** Brazil is on course to be the world's fifth-largest economy by 2016.
- **People:** The expanding middle classes now account for more than half of the country's population.
- **Housing:** Despite Brazil's rapid economic expansion there is a shortfall of seven million affordable homes, which is forecast to rise to 22 million by 2020.
- **Government:** The government is investing substantially in affordable housing through its Minha Casa Minha Vida scheme and plans to build three million homes by 2016. It is also offering 30-year capped mortgages to families at a rate of 5-7%.
- **Private developers:** To help fill the housing shortfall the government is encouraging private developers to build homes through tax breaks and investment guarantees.
- **Investment opportunity:** Arjent has teamed up with established Brazilian property Fund Manager Ignition Invest to offer this investment opportunity. The fund will invest in acquiring land and developing residential properties qualifying under the Minha Casa Minha Vida scheme in northeast Brazil.
- **Minimum investment:** £50,000.
- **Investment period:** Expected to be 36 months starting on 3 October 2011.
- **Targeted returns:** Please refer to the Information Memorandum for details on the projected returns.
- **Third-party due diligence:** Arjent has employed a top accountancy firm to conduct due diligence on Ignition Invest. Its findings show Ignition has a successful track record of implementing similar investment structures and that its fund management team is highly experienced.
- **Ongoing due diligence:** Arjent will have a designated representative on the fund's board, which will allow us to distribute relevant documents to investors (when available and appropriate) including quarterly updates, management updates and half-yearly NAVs. (Please note that owing to expenditure in the first year the fund's NAV is likely to fall before recovering).

### Housing deficit per region and component in 2005 in thousands of homes



Source: Ernst & Young, 2008.

# Rapid economic growth

## **Brazil's affordable housing programme is unlikely to be affected by the government's attempts to reduce inflation and cool a potentially overheating economy.**

Brazil is the world's seventh-largest economy and is forecast to become the fifth-largest by 2016<sup>1</sup>. In 2010 its economy expanded by 7.5%<sup>2</sup> and by a further 1.3% during the first quarter of 2011 (5.4% annualised)<sup>3</sup>. This growth has been broadly spread across the country. Central forecasts predict GDP will increase by around 4.5% in the next year<sup>4</sup>, which is significantly faster than the developed world. Brazil is also now the largest exporter to China and forecast to become the world's eighth-largest exporter of oil over the next decade<sup>5</sup>.

Over the past five years 27 million Brazilians have risen to prosperity class C with average incomes of two to five times the minimum wage<sup>6</sup>. These middle classes now account for 91 million people, which is around half of Brazil's total population. At the same time there has been a significant increase in household expenditure and demand for affordable housing.

### **A fast-growing property market**

Brazil is hosting the 2014 FIFA World Cup. The associated investment is forecast to add 1.5% alone to the country's economic growth each year in the run-up to the tournament<sup>7</sup>. With inflation running at an annualised rate of 6.9% in July 2011 there is a risk of the economy overheating and the central bank has raised interest rates five times in 2011 to 12.5%.

Brazil's government is determined to reduce prices and is using other measures such as increasing taxes on consumer spending to restrain lending. It has also implemented tax-based measures to curb speculation on the foreign exchange markets in an attempt to bring down the value of its currency from a twelve year high.

This overheating has taken its toll on the Brazilian equity market during 2011. However, our investment opportunity is in the fast-growing, affordable property market, which also benefits from government backing. Furthermore, the property Fund Manager is taking on board the cost of any currency volatility.

Demographic and economic indicators <sup>8</sup>	2007	2008	2009	2010	2011
Population Aged 65+: Jan 1st ('000)	12,150.42	12,526.21	12,918.18	13,335.45	13,781.72
Population density (persons per sq km)	22.47	22.69	22.90	23.10	23.29
GDP measured at purchasing power parity (international \$ million)	1,857,182.83	2,013,189.91	2,037,823.53	2,191,035.49	2,320,741.24
Real GDP Growth (% growth)	6.08	5.17	-0.17	7.54	4.50
Inflation (% growth)	3.64	5.67	4.90	5.04	5.10
Consumer expenditure (US\$ million)	821,028.99	977,250.65	988,606.54	1,262,114.17	1,314,100.13
Annual gross income (US\$ million)	1,082,154.89	1,301,847.72	1,274,584.79	1,644,891.01	1,712,056.86
Annual disposable income (US\$ million)	839,723.21	1,013,759.84	1,012,876.14	1,294,391.48	1,350,245.28

1 Source: Wharton University.

2 Source: IMF.

3 Source: Brazilian government.

4 Source: Brazilian government.

5 Source: The Economist.

6 Source: Merco Press.

7 Source: Ernst & Young.

8 Source: Banco Central do Brazil, March 2010.

### Airport development

Inframérica Consortium won the contract to build and operate São Goncalo do Amarante International Airport in the city of Natal, Rio Grande do Norte state. The consortium has three years to build the airport with an operating licence for the next 25 years, making it the newest airport and the first gateway in Brazil to be privatised.

The new build and infrastructure improvements to three other airports, including Brazil's largest international airport, Sao Paulo-Guarulhos International, are being undertaken to boost facilities prior to the 2014 FIFA World



Cup and the 2016 Olympic Games.

Brazil's growing demand for air travel saw an increase of 23% in 2010.

### World Cup

Work is already underway throughout Brazil to build 12 new stadia and supporting infrastructure in time for the 2014 World Cup.

The legendary Maracanã stadium, once the largest soccer stadium, is being redeveloped ahead of the 2014 World Cup. The work on the 'temple of Brazilian soccer' in Rio de Janeiro is expected to cost more than \$660 million.

Brazil is investing some \$14 billion, nationwide, on projects directly linked to the World Cup.

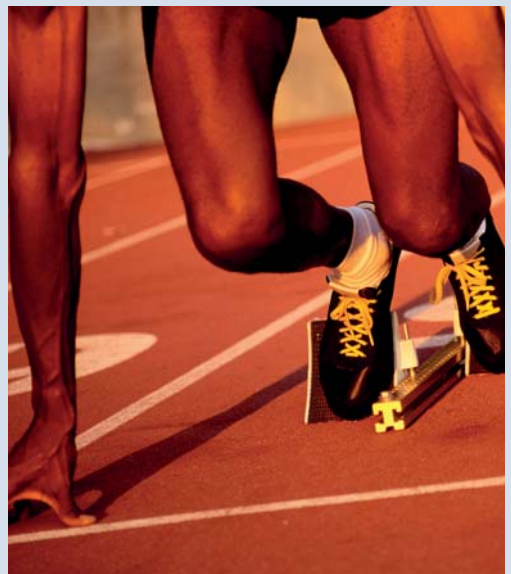
Brazil has won the World Cup five times: 1958, 1962, 1970, 1994, 2002.



### Olympics

In October 2009 Rio de Janeiro was named as the host city for Games of the XXXI Olympiad. Rio will become the first South American city to host the Olympics in 2016.

The unveiling of the winning design for the Olympic Park Urban Master Plan took place on 19 August 2011, at the Maria Lenk Aquatic Centre, which was built in 2007, for the Pan American and Para American Games. The Aquatic Centre will be part of the new Olympic Park. The international design competition brought together 60 entries from 18 countries and was eventually won by AECOM, a global service provider.



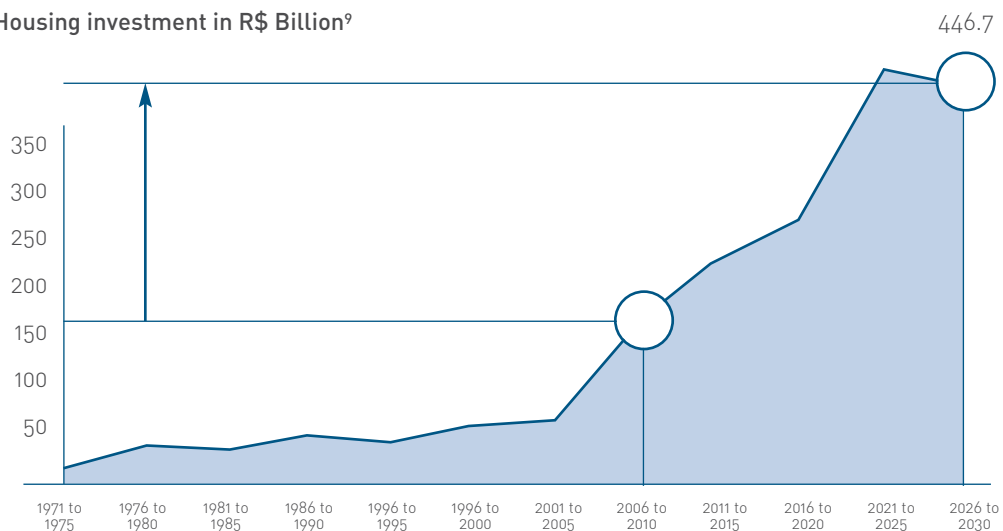
# Building homes for Brazilian families

**Brazil's government is committed to providing millions of affordable homes and encouraging the private sector to help build them**

For many years Brazil's lower and middle classes were unable to borrow money from banks. Unemployment was high and pay was low. As a result the shanty towns (or *favelas*) in and around Brazil's large cities were growing in size. *Favelas* lack basic amenities such as running water and legal supplies of electricity. With crime rates increasing, Brazil's politicians started looking for ways to reverse the trend.

Since Luiz Inácio Lula da Silva became President in 2003 Brazil's economic situation has improved markedly with disposable incomes increasing faster than the cost of living. Consumer spending has also increased along with the demand for better-quality and affordable housing. However, according to the Brazilian Institute of Statistics there is a shortfall of seven million homes across the country. Based on current projections this shortfall will increase to 22 million homes by 2020.

Housing investment in R\$ Billion<sup>9</sup>



## My House, My Life

In March 2009 Brazil's government implemented the Minha Casa Minha Vida programme (My House, My Life). Under this scheme the government invested US\$14 billion to build one million affordable housing units by 2014. This budget has since more than doubled and the target is now three million homes by 2016 through Minha Casa Minha Vida 2 (MCMV2). Following the election in 2010 of President Dilma Rousseff, housing development, and specifically MCMV2, remains a priority on Brazil's political agenda.

<sup>9</sup> Source: Ernst & Young, 2008.

<sup>10</sup> Source: EuroBrazil Invest, February 2010.

<sup>11</sup> Source: Ernst & Young, 2008.

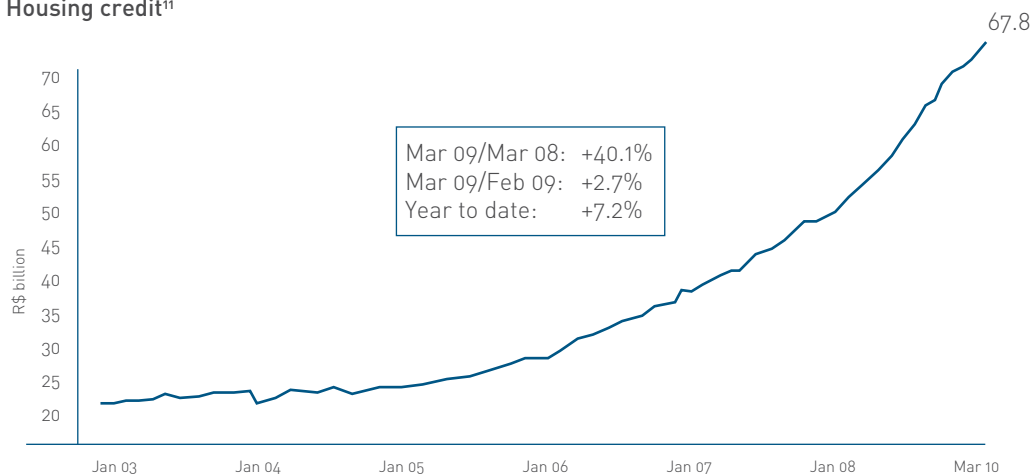
<sup>12</sup> Source: CAIXA.

<sup>13</sup> Source: Financial Times.

Income expenses (program MCMV with 3 years FGTS) <sup>10</sup>	Total Reals	Total Euros	Total %
Monthly family income (average class C)	1.900,00	829,69	100
Yearly family income	22.800,00	9.956,33	
Example house price	85.000,00	37.117,90	
Input value			
Subsidy from program MCMV	8.855,00	3.866,81	10,42
Amount subject to mortgage	76.145,00	33.251,09	89,58
Monthly mortgage payments	550,36	240,33	28,97
Yearly mortgage payments	6.604,32	2.883,98	28,97

The federal investment programme only scratches the surface of the shortfall in affordable housing. Therefore, the government is offering incentives to private businesses. To encourage these private developers MCMV2 provides tax incentives and an opportunity for developers to exit when 30% of a development is pre-sold. Bank finance then becomes available to complete the project. (Please read the accompanying Information Memorandum for more details).

### Housing credit<sup>11</sup>



### Growing demand for homes

This affordable housing scheme is open to Brazilian families earning three times the minimum wage. Families will pay 10% of their income to the government over 10 years. Additional subsidies are available for families earning four to six times the minimum wage along with mortgage credit at a subsidised rate of 5-7% capped over 30 years<sup>12</sup>. A mortgage at this rate is similar to the rent *favela* dwellers pay their slum landlords for a small piece of land.

So far the uptake of these mortgages has been a great success, but mortgages as a proportion of debt remain at a low 4%<sup>13</sup>. The government support and investment is in place, the demand exists and is growing, and bank finance is available for qualifying families requiring a mortgage. The affordable housing scheme now requires participation from more private developers to provide the completed housing units.

# Investment expertise

## Arjent and property investment specialist Ignition Invest have a robust due diligence process in place to guide all investment decisions

Arjent has teamed up with Fund Manager Ignition Invest to offer a tailored fund investing in Brazil's affordable housing scheme. Ignition Invest has experience of property investment in Eastern Europe and more recently Brazil. The Fund Manager has launched six property funds on the Channel Islands Stock Exchange.

For this fund Ignition Invest is looking to invest in areas that:

- Already have established infrastructure (paved roads, electricity and water supplies, and a sewerage system)
- Are no more than 3-15km from a main city centre
- Have existing demand for affordable homes because, for example, there is a lack of existing quality stock or regional employment is growing
- Have a site of 30-50 acres so that the project can be an adequate size of 700 to 1,000 two- to three-bedroom residential units or apartment blocks

The Fund Manager conducts its own due diligence by analysing property developers, available licences and permits, title deeds and purchase contracts, and local planning rules, as well as technical analysis of the development project itself. Only when a project has been 100% legally verified will Ignition commit the fund's capital.

### Investment returns

The finished homes are likely to be sold for R\$75,000 to R\$130,000 (£28,000 to £49,500)<sup>14</sup>. The cost of constructing each home is about R\$39,500 (£15,000) based on R\$730 per square metre and an average size of 48 square metres per unit excluding land, infrastructure and project costs<sup>15</sup>. Typically, the process from the point of acquisition to completing the final unit sale takes between 18 and 32 months.

The Fund Managers have invested in three similar projects in Brazil, which returned 1.2 times to 2.5 times the initial investment for all parties. The average return of 1.7 times initial investment has more than covered agreed investor returns. Notably, the Arjent Fund is structured to ensure investors receive their share of the profits before the developer and Fund Manager.

<sup>14</sup> Source: MCMV/Caixa Economica.

<sup>15</sup> Source: Sinduscon-RN (government MCMV constructor).

# The investment opportunity

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**There are a number of reasons why northeast Brazil is an attractive region in which to invest including a recent offshore oil discovery and a new airport in its main city**

We are proposing to raise £10 million for a fund to invest in a new development in northeast Brazil. The Fund Manager has found that there is a significant demand for affordable housing in this region. Notably, oil has been discovered recently off the northeast coast, which should bring greater prosperity. Furthermore, a new international airport is being built in the main northeast city of Natal. It is expected to attract five million visitors a year when it opens in 2012 rising to 40 million a year within a few years. Natal is also one of the host cities for the 2014 FIFA World Cup.

The following are specific details about the fund:

- **Target size:** £10 million to acquire multiple land sites and build a total of around 5,000 homes in northeast Brazil.
- **Minimum investment:** £50,000.
- **Share classes:** Investors can buy preference shares that carry a priority return over the developer's profit and performance fees.
- **Launch date:** 3 October 2011.
- **Investment period:** expected to be 36 months.
- **Targeted returns:** Please refer to the Information Memorandum for details on the projected returns.
- **Listing:** Cayman Island Stock Exchange.
- **Is the fund pensionable?** Yes. The fund will qualify for SIPP investment subject to meeting listing requirements.

## Due diligence

- Ignition has implemented similar investment structures successfully
- Its management team has a high level of industry experience
- Investors will be offered preference shares entitling them to returns in advance of any development profit paid to joint venture partners and/or Ignition Investments as a performance fee
- Arjent recommends that individual investors seek personal tax advice about their own investments

## Wealth warning

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Investment in overseas property development is speculative, involves a high degree of risk and is not suitable for all investors.

The value of your investments and any income from them may fall as well as rise and may fall below the amount originally invested. This may also happen as a result of changes in the rate of exchange if units/shares are held in foreign currencies.

Past performance is not necessarily a guide to future performance. Figures, including percentage returns, are quoted gross of all charges unless stated.

Investments in speculative overseas residential property are subject to various risks. The Fund is subject to the risks inherent in the ownership of real estate, including general and local economic conditions, changes in the supply or demand for competing land or property in an area, changes in the interest rates and the availability of financing, changes in the rate of property taxes, changes in building, environmental and other laws, environmental factors, and uninsurable catastrophes or casualties, acts of God and other factors which are beyond the control of the Fund. There is no assurance that any investment will be sold at a profit, nor yield a positive cash flow.

Investment in property through investment in the shares/units in the Fund represent an illiquid investment. Not only are the underlying assets of the Fund – residential overseas property – illiquid investments but, as a result, shares/units in the Fund are also designed as an illiquid investment. There is no established market for trading in the shares/units and investors will have no rights to redeem their shares/units. The eventual liquidity of the Fund will depend on the success of the Fund's programme for disposing of the Investments. Accordingly, Investors must be prepared to bear the risk of their investment in the Fund for the duration of the term and beyond.

A subscription should only be considered by a person who is financially able to maintain their investments and has no need for liquidity during the term of the Fund, and who could bear the potential loss associated with an investment in the Fund.

Arjent does not advise on any personal income tax requirements or issues. All figures are quoted gross of tax unless stated. You are encouraged to seek professional advice for your individual tax circumstances.

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**This document should be reviewed in conjunction with the information memorandum.  
Consultation with your Investment Manager should also be undertaken before investing.  
This investment is intended solely for high net worth or sophisticated investors.**



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