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Asset managers launch funds for infrastructure bonds

By **Adriana Cotias** | São Paulo

A new crop of infrastructure-bond funds is starting to come to the market amid signs of resumption in offerings of corporate bonds that are tax exempt for individual investors. Brasil Plural has starting raising its second fund, with minimum investment of R$100, and AZ Quest has just registered with the Securities and Exchange Commission of Brazil (CVM) its first fund of the type, and will accept investments starting at R$5,000 when it launches it.

The perception that Brazil has giant investment needs and can't rely on subsidized funds from the Brazilian Development Bank (BNDES) has been stimulating the creation of such mutual funds. Since March, six infrastructure-bond issues came to the market under the umbrella of law no. 12,431, of 2010, raising R$1.27 billion. There are 62 more projects authorized by the government that can join that list, XP Gestão says.

The new mutual funds, which are tax exempt as long as they obey certain criteria of position and average duration of the securities in portfolio, join at least a dozen market options. Funds open for investments and with the highest number of shareholders include portfolios launched by XP and Fator, with minimum investments of R$10,000. For qualified investors, with more than R$1 million in financial assets, there is an RB Capital fund.

In order to take advantage of a potentially promising moment for the issuance of tax-exempt bonds, Brasil Plural intends to raise R$250 million in its second fund. In the first, launched a year ago, the asset-management firm managed to draw R$115 million in two fundraising windows and ensure a return equivalent to 120% of the CDI, the rate for interbank deposits.


Leonardo Breder

“Demand and supply converge,” says Leonardo Breder, managing partner responsible for the fund. “Companies already begin seeking the market to get funding, there will be enough bonds and, on the secondary market, nine out of the ten most traded bonds are of infrastructure, which gives security for the product to grow. It already has underlying assets.”

After names like Algar Telecom and power companies CTEEP, EDP Energias do Brasil, Voltália São Miguel do Gostoso and Engie Brasil Energia went to the market this year, he estimates there are R$1 billion more from six issuers in the pipeline.

To offer exemption of income tax to individuals, funds must have assets with a weighted average duration of four years. Funds have up to six months to invest at least 67% of their assets in infrastructure bonds. And, when completing two years, the portion allocated in such bonds must rise to 85%. If these conditions are not met, the tax benefit is lost.

It was because of the initial grace period that Brasil Plural decided to create another fund instead of raising another tranche in the older fund. Last year, Mr. Breder says, with the lack of corporate issues of such nature, the decision was to close the fund for new investments quickly. “In the reopening, in May, in three hours we raised R$30 million, which bolstered the notion that opening another fund was the right thing.”

The bulk of tax-exempt bond offerings so far had the Extended Consumer Price Index (IPCA), which is the reference for the Central Bank’s inflation-targeting, as index of adjustment. The bonds are being absorbed with a premium varying from 6.04%, case of CTEEP, which raised R$148.3 million in mid-July with debt maturing in 2021, and, at the highest end, paying 8.35%, the issue of EDP Energias do Brasil, which in March raised R$250 million with securities maturing in April 2022. That is real interest.

Comparatively, inflation-linked National Treasury notes (NTN-B) with maturities in five and six years currently have indicative rates of 6.02% and 5.97%, respectively, according to the Brazilian Financial and Capital Markets Association (Anbima).

But analyzing long-term projects is no easy task, there are risks of credit and secondary-market price swings. That is why the mutual fund was the way found to make these securities reach investors, says Yannick Bergamo, manager of Fator Administração de Recursos. “There is a lot of demand in the segment and the funds have been emerging as a way of bring the projects to the universe of individuals or for those investors who have no time to analyze the issues.”

Launched two years ago, XP Gestão’s infrastructure-bond fund was one of the first to come to the market and faced all sorts of questions from the CVM about liquidity, underlying assets and risks and also had to deal with the macroeconomic setback that played against it, says the firm’s manager of bond funds, Fausto Filho.

“When we built the portfolio there were more than 100 projects approved as priority, but economic and political issues delayed its launch. Then came the cycle of hikes in the Selic [base interest rate] and securities with pre-fixed or IPCA exposure have a huge market risk.”

To address this type of problem, what was agreed with the regulator was to limit the fundraising to R$200 million. The expectation now is to reach that volume by December. Today, XP’s fund has R$103.3 million in assets, nearly 1,800 investors and this year is showing a return of 11.7% in comparison with 20.3% of the IMA Geral, the market reference index for fixed-income government securities.

“Since the fund’s securities are indexed to the IPCA, there is a lot of return to deliver,” Mr. Filho says. “The assets will surf on the fall of interest rates further ahead and may provide an interesting capital gain to the fund.”

RB Capital preferred to have qualified investors as target, or those with more than R$1 million in financial assets, precisely because of the effects that marking the assets to market may bring to the shares, says manager Tiago Lima.

The fund, that has R$25 million in assets, began being distributed in April and the target is to reach something between R$80 million and R$100 million. But he doesn’t rule out opening the access to high-income retail investors, as the issuance of tax-exempt bonds gains traction. Mr. Lima says that in comparison to previous years, when they amounted to about R$5 billion, the primary offerings, which provide the best premium potentially, are still timid.
