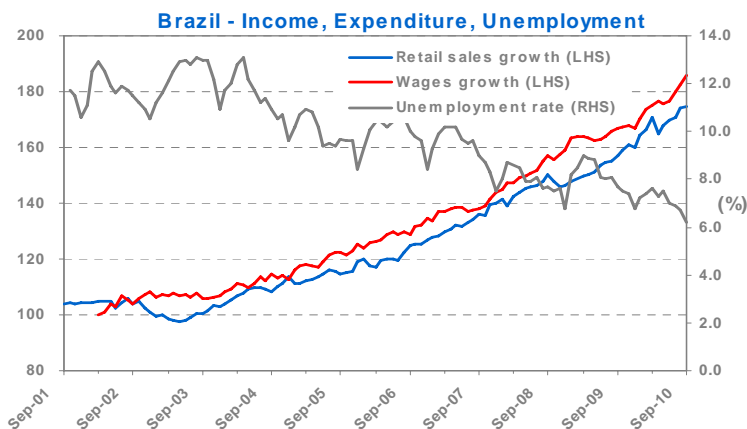


Brazil: More than ore

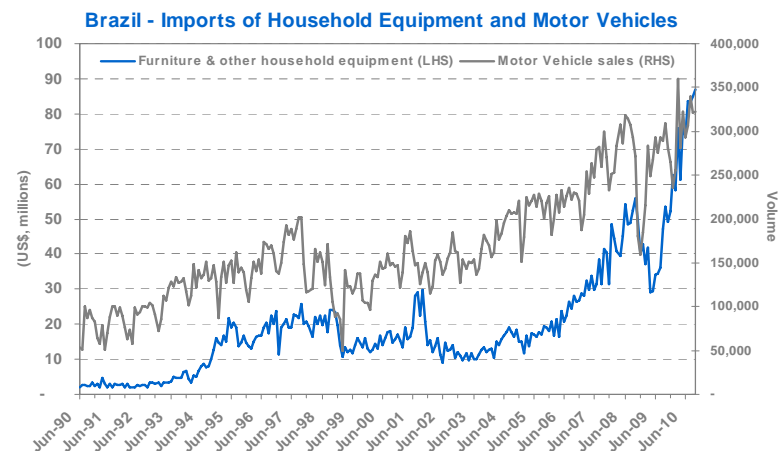
MARKET PERSPECTIVE: LATIN AMERICA

Brazilian incomes and expenditure on the rise...



Source: IBGE, Datastream, as at 30 September 2010

...with consumers chasing high-value goods



Source: Datastream, Desenvolvimento, as at 31 October 2010

Brazil has been built on export success. It is the world's largest producer of iron ore and ethanol, and helps to fill millions of cappuccinos each day with its sugar and coffee. Yet, as home to over 200 million people, it ranks as the fifth-most populous nation with a fast-developing consumer economy. What are the Brazilians doing with their growing wealth?

- The reasons for Brazil's inclusion among the emerging market elites of China, Russia and India are widely recognised. Brazil is a global leader in iron ore production and one of the largest producers of nickel and copper – key inputs for roads, rail and real estate construction in developing nations like China.
- It is also home to a thriving agricultural industry. Brazil is one of the world's largest suppliers of the sought-after Arabica coffee beans and the second-largest sugarcane producer. Brazil is likely to sustain this leading position given it is endowed with 11%¹ of the world's fresh water reserves – a key ingredient in agriculture development.
- Success in export markets for raw materials and food products has created new employment opportunities for Brazilians, particularly for those outside of the main cities. Income growth has given rise to a middle-class consumer segment who are enjoying the highest disposable incomes in a generation and are happily spending. Brazil's retail sector grew 15.7% in 2009, with automobiles sales up a record 32%, furniture and appliances up 25% and clothing and shoes, 16%.² Impressive results considering the economy was just emerging from the global financial crisis.
- Incomes are rising, output is growing and employment opportunities increasing. The government claims that over 14 million jobs have been created in Brazil since 2002.

“ We expect the region at large to boom as incomes rise, keeping demand for credit high and providing opportunities for expansion in all consumer sectors ”

Angel Ortiz, Portfolio Manager, Fidelity International

Sources: 1. Government of Brazil website, 12 December 2010

2. csnews.com, “Six Trends Shaping Brazil's Retail and C-store Market”, 4 October 2010

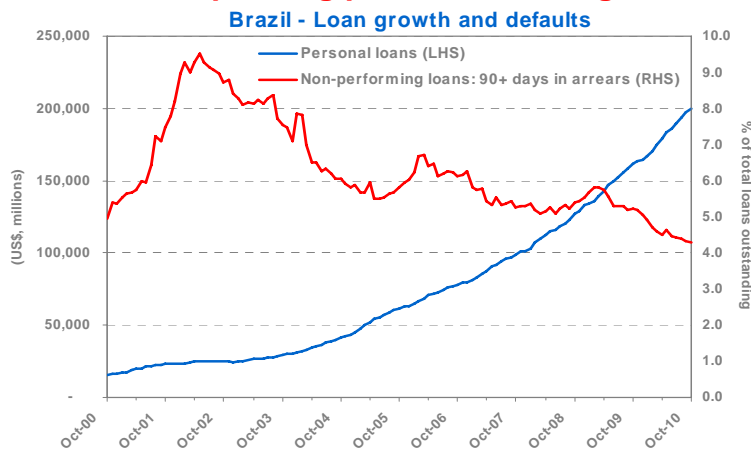
January 2011



Healthy credit growth and a healthier Brazilian economy

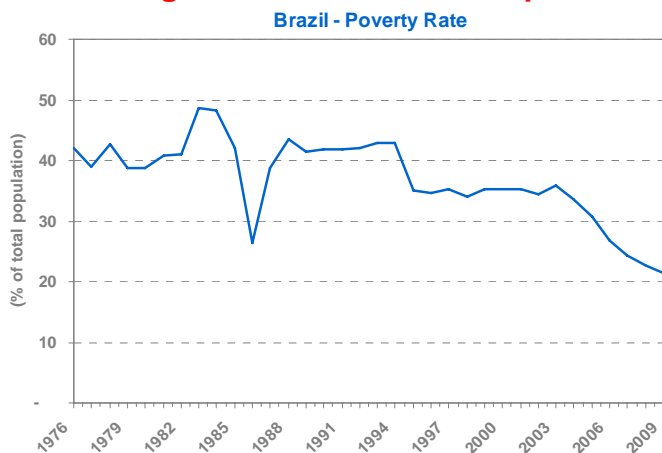
MARKET PERSPECTIVE: LATIN AMERICA

Increased spending promotes credit growth



Source: Banco Central do Brasil, Datastream, as at 31 October 2010

Increased government assistance promotes equality



Source: IPEA data, sourced 10 December 2010

Will spending spin out of control?

- Lower inflation and declining borrowing costs are another factor driving consumer spending. Official interest rates have fallen from 26.5% in 2003 to 8.75% today.³ Major banks have eased lending policies and enabled a greater number of people to purchase cars, homes and major appliances.
- History has shown that falling interest rates and a rapid expansion in lending can lead to asset price bubbles and increases in loan defaults, but Brazil is unlikely to follow this pattern. Non-performing loans - those issued by Brazilian banks that are classified as significantly in arrears or likely to be unpaid, have remained relatively stable before, during and after the global financial crisis. Latest figures show just 4.3%⁴ of total loans issued in Brazil fall into this category. Such are the credentials of bank loan books that six Brazilian banks have received a credit rating upgrade since August. No Brazilian bank has been downgraded this year.

"I think that investors can do well from looking at companies benefitting from the growing consumption trend"

Angel Ortiz, Portfolio Manager, Fidelity International

Casualties of economic success

- Economic progress is evident but the gap between Brazil's rich and poor remains an area of concern. Brazil is ranked 73rd by the United Nations in its Human Development Index, which takes into account life expectancy, literacy, education and standards of living, well below most of its South American peers.
- Former Brazilian President, Luiz Inácio Lula da Silva, set out extensive plans for social reform early in his first term in 2003. One key initiative was Bolsa Familia, which translates to "family grant". The program effectively doubled the amount of income for families who earn less than 70 reais (US\$41). Since the grant was introduced, those classed as being "in poverty" has fallen by 31 million people.⁵

Sources: 3. Bloomberg, 25 November 2010

4. Bank of America Merrill Lynch, "No credit bubble in LATAM", 12 November 2010

5. IPEA data, obtained 10 December 2010

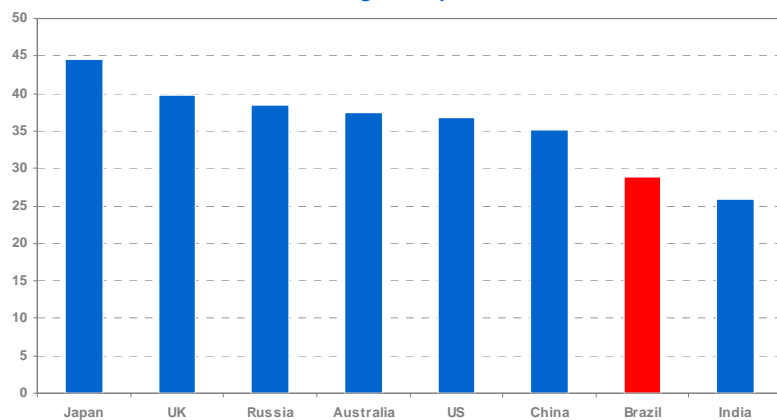


Brazil's younger generation in focus

MARKET PERSPECTIVE: LATIN AMERICA

Young population - key to a stronger future

Median Age of Population



Source: CIA World Factbook, 2010 estimates, sourced 10 November 2010

“The transformation of Latin America will continue and that represents a very attractive long-term case for equity investors”

Angel Ortiz, Portfolio Manager, Fidelity International

Young population places Brazil at an advantage

- It is the composition of Brazil's population people that sets it apart. Unlike China and many western nations, Brazil has a growing young population and has the highest rate of population growth in the world.⁶ Younger people are typically consumption-driven and are benefiting the greatest from higher disposable incomes.
- The country's dependency ratio, a measure of the number of dependant people for each working adult including children and the retired population, has fallen from 90:100 in the early 1990's to 48:100 today. A lower dependency ratio means less reliance on government support for the non-working population and larger taxation revenues.
- Of course, the news is not all good. The country has a high incidence of crime and HIV-related deaths, a real risk to growth of the young population. The country is also regarded as the second-largest consumer of cocaine in the world.⁶
- Redistribution of wealth, employment and training opportunities remain high on the agenda for Dilma Rousseff, Lula's nominated successor. Brazil is increasing investment in tertiary education, particularly for engineering and science courses in order to develop an technically-skilled population. Professional education offerings have expanded by 75% between 2004 and 2010.⁷ Initiatives like this will allow the economy to diversify from dependence on exports of primary goods and make Brazil an essential destination for global companies keen to grab a slice of the rapidly emerging domestic market.

Sources: 6. CIA World Factbook, 2010 estimate; 29 November 2010

7. The Brookings Institution, "Brazil's Social and Political Transformation", 8 October 2010

Disclaimer

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