Morgan Stanley

Campden Research
A division of Campden Wealth

Risk and Return in Latin America

Latin American Wealth Report 2016

Provided by: Campden Wealth / Morgan Stanley International Wealth Management

THE CAMPDEN WEALTH / MORGAN STANLEY LATIN AMERICAN FAMILY WEALTH REPORT 2016

RISK & RETURN IN LATIN AMERICA

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FOREWORD

As we continue to expand our commitment to the Latin American market, the Morgan Stanley team has had the opportunity to work with some of the most successful and influential business leaders in the region. One of the most valuable services we offer is sharing perspectives with one another. In that spirit, we partnered with Campden Research to conduct this survey of select prominent family business owners in five major Latin American countries.

Through this survey, we seek to understand what leaders of successful Latin American enterprises see as the key opportunities and challenges facing their families, their businesses and their nations. We found it particularly notable to learn that these executives are broadly more optimistic than investors in North America regarding the outlook of the US economy and the investment climate overall. They generally hold a greater proportion of their wealth in fixed income, private equity, and cash, compared with North American investors. Distinctively, Latin American executives look to further develop their wealth management opportunities through establishing family offices, incorporating succession planning and making a positive social impact through philanthropy. Our hope is that these insights will prove useful to you as you consider options for managing your personal wealth and building your businesses. For Morgan Stanley International Wealth Management, these findings support our commitment to provide first-class services that fit the unique needs of our clients.

To the best of our knowledge, this survey is the first of its kind. We are delighted to share this groundbreaking research with you. We would like to thank all who participated in this important study, and express our appreciation to Campden for their partnership. We hope that you will find it both interesting and applicable to your personal and professional aspirations.

John Moore

Head of Latin America
Morgan Stanley

James W. Jesse

Head of International Wealth Management
Morgan Stanley

FOREWORD

Very little is known about the attitudes and behaviors of the most wealthy in Latin America. In this study, Campden Wealth's first research project in the region, we provide some fascinating insight into family business executives' perceptions of the main risks in the region. We examine their most important priorities and the investment and management practices being implemented, while presenting actionable ideas for those wishing to service them.

Our study shows that Latin America remains one of the most challenging places in the world to do business. The need for proactive risk management features prominently in our interviews with executives. While a high level of importance is attributed to identifying risks, and much is already being done, it is an area that still requires rigor and best practice.

Of particular interest to the executives in this targeted survey is the need to grow business interests as a source of the family's prosperity, while preserving the family's wealth for future generations. We see a strong commitment to formalizing personal wealth management and a growing interest in entrepreneurship and philanthropy, motivated by the involvement of younger generations and greater social awareness.

Conducting primary research in Latin America is indeed challenging, but this report shows that the resulting insights are certainly worth the effort. Having identified some practical steps, we hope that this study will inform an innovative and collaborative approach to risk management, and enable more efficient decision-making for the future.

It has been a great pleasure partnering with Morgan Stanley in this pioneering research. Campden Wealth hopes this will be the first of many studies into this dynamic and complex region.

Dominic Samuelson

Chief Executive Officer
Campden Wealth

EXECUTIVE SUMMARY

Latin America was significantly affected by the global financial crisis. Widespread negative effects from the decline in the volume of international trade, and the sharp deterioration in the price of commodities were followed by a period of very restricted external private-sector financing in the region. The ensuing loss of momentum coupled with ongoing political uncertainty have resulted in a complex economic environment for local business executives and potential foreign investors.

This survey investigates the main challenges and opportunities that exist in Latin America from the perspective of a targeted number of UHNW Latin America family business executives, investors and industry experts. It examines the current perceptions of risk and the efforts to manage them, while surveying opportunities that exist in entrepreneurship and social initiatives.

"LatAm is a growing continent with some problems still because it is a patriarchal society. Fortunately there have been a lot of new ventures, and the owners and entrepreneurs who started 40 or 50 years ago are retiring and their sons and daughters are starting to work in their business and to engineer careers, and it's working. They are much more sophisticated. They are much more literate. They know a lot about accounting, finance, marketing, IT. So I see it growing, but the patriarchal element of society, while on its way out, is still not gone." — **Family Business Executive, Mexico**

Background and outlook

Latin America's executive survey participants generally have a negative outlook for their economies. Seventy-three percent expect their domestic economies to become worse or stay the same during the next 12 months, while 20% believe they will become better. They are more positive about the investment climate overall. *Their positivity far outweighs the current sentiment in North America, which is more muted — particularly regarding the economy of the US.*

"People are learning how to develop new business plans. There are plenty of important and decent professionals to work with shrewd investors. Unfortunately, the cycle of crises in the world is not helping anybody." — **Family Business Consultant, Mexico**

"The difference now is there is too much information. This makes it very difficult to do business. Of course nobody is going to want to invest if there is a [15%] interest rate. But a lot of the time opportunities come down to perception." — **Family Business Consultant, LatAm**

Risks and risk management

According to one participant, LatAm family business executives face two types of risk: direct internal risks, and indirect external risks. Personal / business reputation and political / country risk ranked highest in importance, and while risk management is a top priority, the implementation of formal controls isn't always realized. Some common risk management strategies are evident with diversification at the industry and country levels being the primary ones. However, there is reluctance by the family heads or elders to fully explore and adopt risk management frameworks. Stress testing, for example, is still mostly overlooked: only 17% of our sample report stress testing their portfolio annually.

Wealth management

Seventy percent of our LatAm family survey participants are wealth inheritors, and 39% are wealth creators, with some overlap between the two. They often set out to achieve dual goals: preserving the family wealth, while growing the operating business. The majority (70%) claim to take 'moderate risk' for the possibility of moderate gains. South American countries other than their own, Western Europe and Brazil are the top three favored jurisdictions for business and wealth management, with annual average return expectations of 16%, 8% and 27% respectively. The US and Europe have major appeal for these LatAm businesses as international commercial partners.[1]

Advisory services

The take-up of family offices in the region looks set to continue. 'Establishing a family office' is the number one option for those looking to change the management of their family wealth in the near term. Family business executives look to investment consultants to identify private equity, venture capital and joint venture opportunities. *Although broadly satisfied with their advisers' services, the participants would like to see more expertise on foreign exchange risk and knowledge of offshore funds.*

Opportunities

Expansion within LatAm is seen by participants as requisite for business growth. Fifty-six percent perceive M&A opportunities in the region to be excellent or very good, and 43% percent are extremely or very likely to pursue them. Rapid and marked development in entrepreneurship is providing additional opportunities. Philanthropy is growing in importance, and while more than a quarter have no stated policy, 56% of individuals plan to develop one in the future.

1. Past performance is not a guarantee of future results.

ABOUT THE STUDY

The data examined in this study derives from a quantitative survey conducted from July to November 2015. The survey was designed to elicit respondent attitudes and behaviors concerning perceived risk challenges and opportunities in Latin America. Campden Wealth engaged 45 UHNW Latin American family business executives with the help of family business consultant and local language speaker, Mr. Guillermo Salazar, and his network of contacts. To add context to the quantitative component of the study, 12 in-depth qualitative interviews with Latin American business executives, professionals, experts, entrepreneurs, and family business consultants were conducted.

The 45 Latin American participants of this study are domiciled in Argentina, Brazil, Chile, Mexico and Venezuela. They represent over USD 1.5bn in personal wealth, USD 3.1bn of 2014 business revenue, and reflect a diverse range of industries.

This research is one of the very few studies that has engaged directly with ultra-high net worth investors in both a quantitative and qualitative way to deliver robust research findings into this population. Country-specific results should be taken as indicative only.

KEY FINDINGS

- 73% of LatAm executives who participated in this study expect their local economy to become worse or stay the same in the next 12 months;

- They are more positive than North Americans about the US economy and the investment climate overall;

- 19% expect the global economy to improve, 23% expect it to get worse. The majority, 58%, expect the global economy to stay the same.

CHAPTER ONE

MACROECONOMIC CONTEXT

Economy and outlook

Latin America (LatAm) provides a challenging environment for family business executives. This is evident in the study participants' outlook for their local economies. Seventy-three percent expect their local economy to become worse or stay the same during the next 12 months, while only 20% believe it will become better. Inevitably, with five diverse countries in the study, there are significant variances.

These LatAm family business executives are more positive about the investment climate overall, reflecting a personal confidence and innate opportunism among this group of wealth holders. Twenty-four percent expect the investment climate to improve, 43% believe it will stay about the same, and 31% say it will get worse. The Argentinian executives in our sample exhibit the highest level of optimism, potentially reflecting confidence in the outcome of presidential elections at the time of the study.

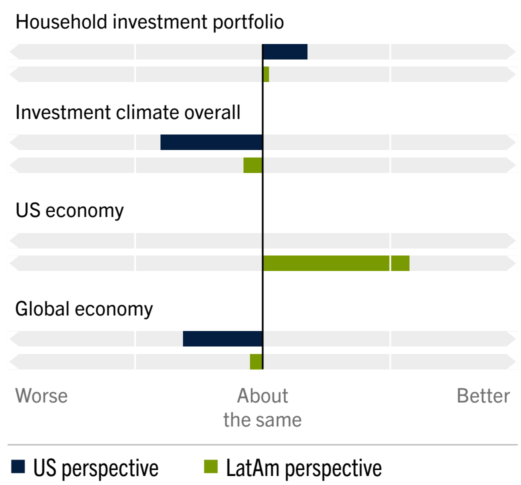
In the three quarters to September 2015, the US economy advanced an annualized 2.1%,[2] a positive for many LatAm countries, and there is confidence among family business executives that it will improve further. Our Brazilian family business executives express the most optimism about the US economy: 78% expect it to improve, and 66% of Mexican family business executives think the same.

At a global level, the outlook of our participants is more muted, 19% of LatAm family business executives think the global economy will improve, 23% are pessimistic and expect it to get worse. The majority (58%) expect it to stay the same.

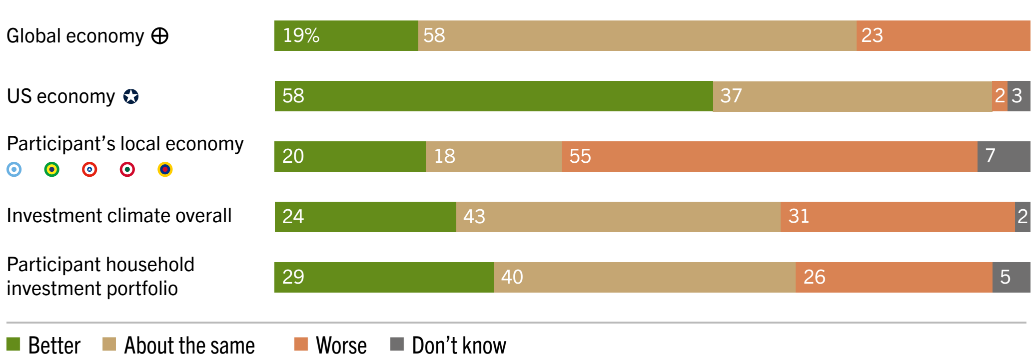
LatAm perceptions compared with North America

LatAm executives are broadly more optimistic than investors in North America regarding the outlook for the US economy and the investment climate overall. Opinions in North America regarding the US economy are balanced, with 29% of respondents believing the outlook will be better and 29% believing it will be worse. Latin American executives, by contrast, are vastly more optimistic (see Figure 1.2).

1.2 Expectations, in the next 12 months
Source: Campden Wealth & Morgan Stanley (2016).



1.1 Expectations for the year to come
Source: Campden Wealth & Morgan Stanley (2016).



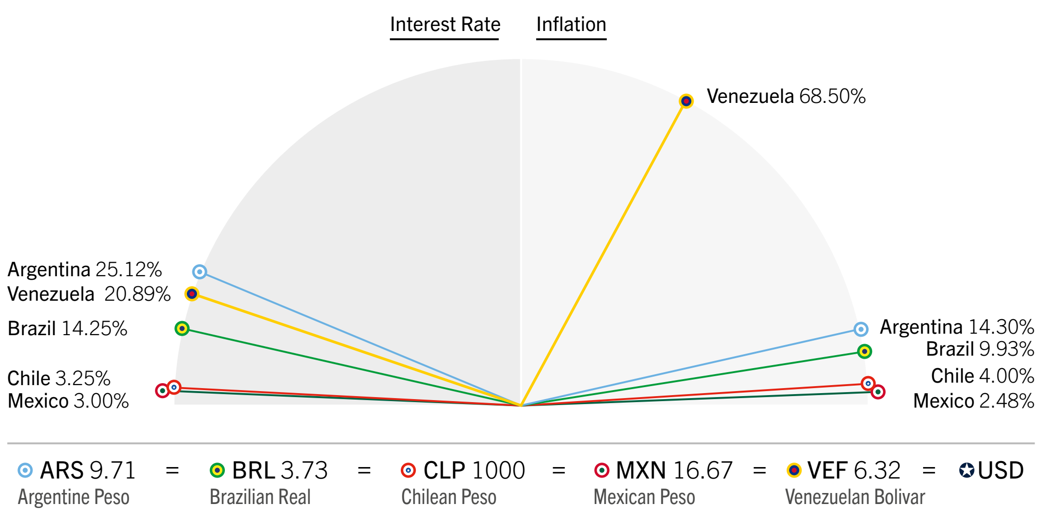
2. http://www.tradingeconomics.com/united-states/gdp-growth, October 2015.

Brief overview of macro issues

According to the International Monetary Fund, growth in LatAm is in decline for a fifth year in a row. Three of its largest economies – Argentina, Brazil, and Venezuela – contracted in 2015. A stronger US economy boosted prospects for those countries with which it has the most direct linkages, such as Mexico.[3] However, lower commodity prices – chiefly oil and copper – weak global demand and slowing investment in the region have impacted the economic pace. These troubles are reflected in the macroeconomic indicators of the five countries (see below). Secondary research shows that in August 2015, Brazil entered the deepest recession since the 1930s with corruption scandals highlighting the need for much-needed economic reform.[4] In Mexico, the ruling PRI (Partido Revolucionario Institucional) government is reportedly more opaque than ever.[5]

But there are some strengths and reasons for hope: Argentina's elections in November brought the end of '*Kirchnerismo*'. Mauricio Macri, the first non-leftist president elected in 12 years, brings new hope to an economy previously mired in populist socialism and sovereign indebtedness. Similarly, in Venezuela, a victory by the opposition in December's National Assembly election signals a much-needed shift in the political power of the nation.[6] Meanwhile, Chilean President Michelle Bachelet is pressing ahead with reforms that include a new labor bill, centralized education, and writing of a new constitution.[7]

1.3 LatAm macroeconomic indicators
Source: World Bank (October 2015).



"I see businesses evolving in Latin America the same way they do in the US – there is no difference. The only difference that I have seen is that transferring the know-how and the way of doing things from Europe or America into Mexico doesn't work. Trying to include outside board directors who vote is a terrible mistake in Mexico. What we want is to have the best advisers – the best specialist advisers. They can help make the decisions, but we do not want them to vote."

— **Family Business Consultant, Mexico**

3. IMF, Rising Challenges to Growth and Stability in Latin America in a Shifting Global Environment, June 1, 2015.
4. BBC News, Brazil's economy enters recession, August 28, 2015.
5. American Al Jazeera, Mexico on the verge of political meltdown, January 9, 2015.
6. CBSNews, Seventeen years after socialist revolution, power shifts in Venezuela, December 7th 2015.
7. FT.com, Political crisis takes a toll on Chile's economy, July 7, 2015.

KEY FINDINGS

- The number and severity of risks is markedly higher than in developed economies;
- While risk management intentions are good, there isn't always the follow-through;
- There is a prevalence of managing risks through internal oversight;
- Diversification at industry and country level is a key risk management strategy;
- 47% of participants from this study perform their own due diligence, 53% either do not, or do so partly.

CHAPTER TWO

RISK & RISK MANAGEMENT

Main risk concerns and challenges

In addition to socio-economic challenges like inequality and lack of sector expertise, our participant LatAm family business executives broadly identify two types of risk they face operating in the region: direct internal risks such as reputational risk, succession, and counterparty risk; and indirect external risks such as political risk. The number and severity of risks are markedly higher than those faced by their counterparts in developed economies like Europe or the US. They are also distinctive to the region and in some cases are perceived by foreign investors as being structural. From the perspective of business executives, they hinder the ability to make decisions.

Figure 2.1 shows how our LatAm family business executives rate the importance of the main risks. Ninety-three percent say that personal/business reputation is extremely or very important. Eighty-nine percent state the same of political/country risk, chiefly because of the uncertainty it harbors for companies' business models and strategy. Capital risk ranks third, reflecting the impact that both internal and external risks can have on companies' capital value.

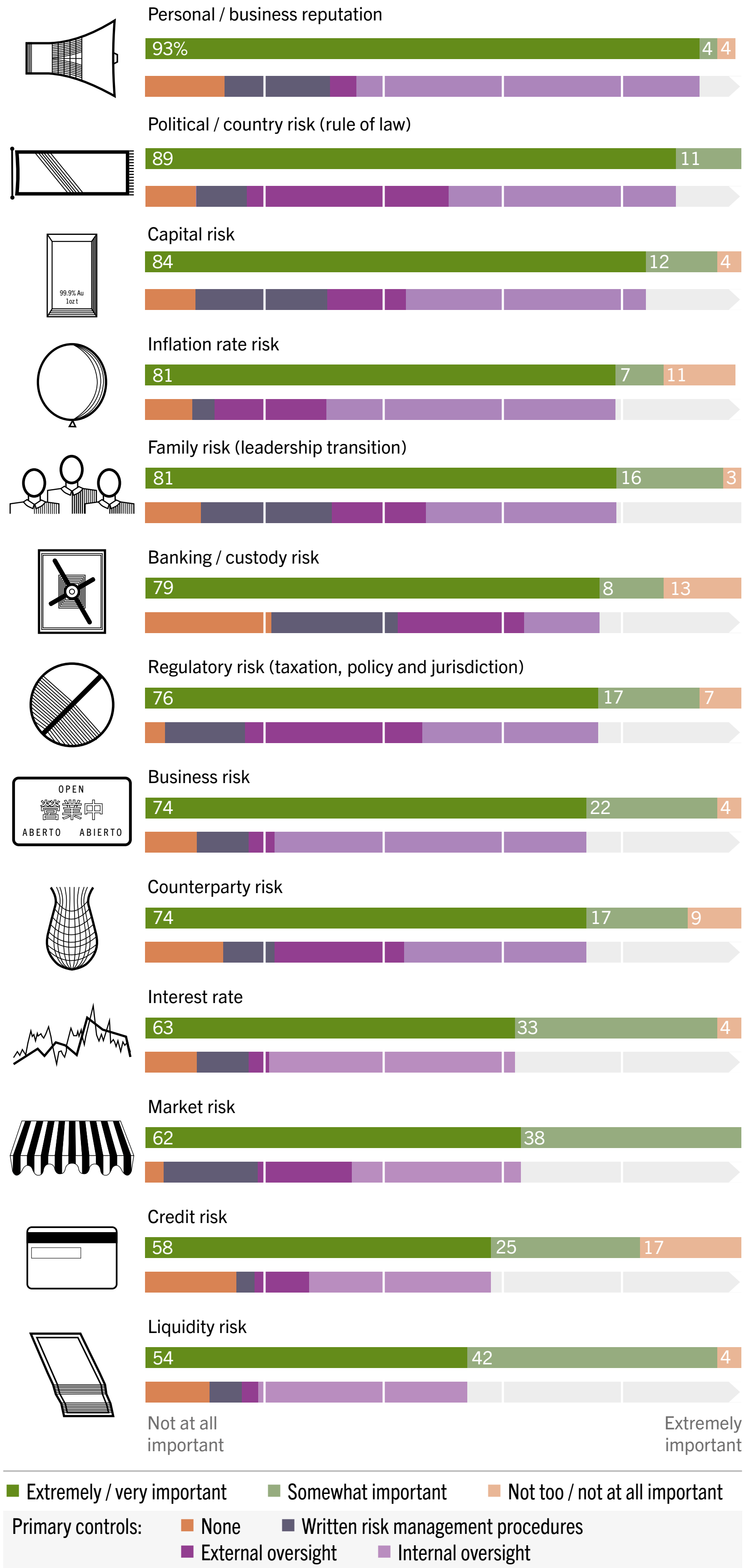
Foreign exchange control, currency devaluation and inflation are other significant external risks cited. These are linked not only to the global economy, but also to a lack of confidence in local governments' economic policies.

Of notable concern to our investors in LatAm are the challenges of bureaucracy, corruption, and an arbitrary rule of law. Governmental involvement is also bemoaned. A family business executive from Venezuela said, "You don't have a legal way to work because we have a price regulation for selling our products." In Argentina, an entrepreneurship consultant and facilitator noted, "there are a lot of businesses that involve the government, because, for example, they need permissions. But there is a lot of corruption in this country, so I have not been working with those businesses."

The exposure of these countries to economic headwinds was also remarked upon: "We are a small country [Chile], so our economy tends to be impacted very easily. This is making people be a lot more aware and careful and re-think when to operate, or invest or expand their operations," said a family business consultant from Chile.

Succession is another major risk, which participants are keen to mitigate by preparing

2.1 Risk factors and primary controls
Source: Campden Wealth & Morgan Stanley (2016).



Multiple answers permitted.

"Some of the biggest risks I see are lack of financial education, market considerations and taxes – corruption is big in taxation – family issues and succession." — **Family Business Executive, Mexico**

the Next Generation (NextGen) from early on. Thanks in large part to the influence of family business consultants, family decision-makers are more actively involving the NextGen in aspects of managing the operating business and the family wealth. Proximity to the US, access to western education as well as the English language are attributes that wealthy family members want instilled in the NextGen from an early age in order to ensure competitiveness in a more connected global economy, and to prepare the NextGen for an eventual transition of wealth.

"When an investor comes in and is thinking about having a return in dollars, and the peso is depreciating, you find that you have capital risk." — **M&A and Tax Lawyer, Mexico**

Risk management and controls

Risk management is cited as being a top priority among our executives. Our study reveals a preference for managing both direct and indirect risks internally, irrespective of their perceived gravity. It also suggests a gap in the take-up of formalized risk management products and services by the participants.

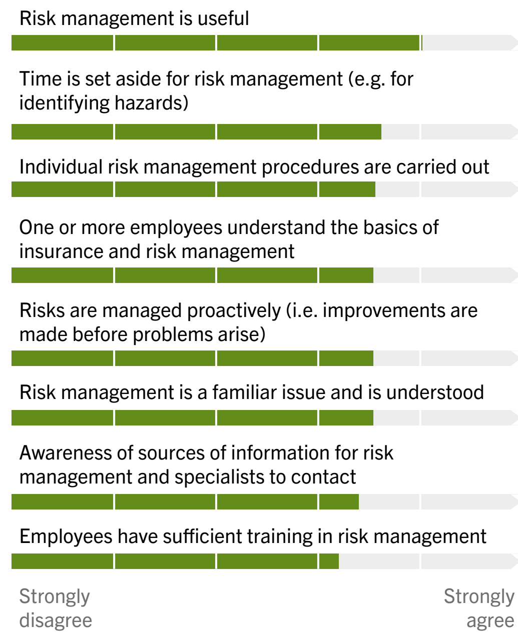
Seventy-three percent of our LatAm family business executives agree that risk management is useful, and 65% say that time is set aside for risk management, for example to identify risks. However, while their risk management intentions are good, there isn't always the follow-through. While 54% of executives say they manage the risks proactively and improvements are made before problems arise, a very large proportion (46%) are either neutral or say they do not. Twenty-seven percent have not carried out individual risk control measures, and 24% say that employees within the business do not have enough training in risk management.

Almost a quarter (22%) don't know where to get information about risk management and which specialists to contact. The same proportion say that employees don't understand the basics of insurance and risk management. Although 57% say that risk management is a familiar issue in the business and is well understood, 43% are neutral on this or disagree.

"Local investments aren't being made: you can't invest with 14% inflation because it's very difficult to measure how you are doing." — **Entrepreneurship Consultant and Facilitator, Argentina**

The problem appears to be rooted in an unwillingness to delegate supervisory control, which in turn stifles a readiness to take on and manage the risks. "The ones who don't want to take risks are the elders – the patriarchs. They're happy being the owners and dictators of the business. They need to give way to the younger generations," noted one family business consultant. According to another family business consultant, some Latin American executives are still wary of international counsel and following US-type models.

2.2 Risk management culture of participants' businesses
Source: Campden Wealth & Morgan Stanley (2016).



A combination of internal oversight, written risk management procedures and external oversight are employed for indirect risks, irrespective of their perceived gravity. According to one family business consultant, the choice of controls is a function of company size. "The bigger companies tend to hire external people to manage the operations of the companies, and in the small companies the members of the family manage the company as well as performing other roles of governance." (Family Business Consultant, Chile).

Figure 2.1 shows the primary controls used for the risks, ordered according to participants' perceived importance. In this survey, political risk ranks high, and is managed internally in 43% of cases, externally in 38%. Ten percent of participants in this study who perceive the risk to be extremely or very important, at present have no controls in place to manage it.

Other indirect risks managed internally are interest and inflation risk, which discussions with our participants reveal as being critical. Eighty-one percent of participants say inflation rate risk is extremely or very important, therefore a motivation for wanting to possess US dollars. It is managed in-house by 62% of participants. Interest rate risk is managed internally by 65%.

The picture is more consistent when considering the direct risks, and a clear preference for managing these by internal oversight can be seen. Only 5% of LatAm executives manage reputational risk externally, while 62% do this in-house. Similarly, 71% of participants manage their business risk in-house.

No specific frameworks were identified in 28% of cases for managing banking and custody risk, credit risk (26%) and liquidity risk (20%). These were discussed by executives in this study as being less of a current priority.

Recognising the volatility of the environment and the importance of the risks, it can well be argued that more external involvement is needed.

Risk management strategies

Some common risk management strategies are evident among the executives who participated in the study. Diversification at industry and country level was cited as being key for best practice, while serving as a basis for business development and growth. While some family business executives look within LatAm, taking advantage of cultural and territorial proximity, many look beyond, hoping to balance their risk profile by expanding in relatively more stable markets like the US.

The US is perceived as the obvious location to invest. It harbors the majority of participants' primary business interests outside of Latin America (55%), followed by Europe (29%) and Asia-Pacific (14%). "We are diversifying and we don't share the opinion that you should keep all your eggs in one basket. For me that's definitely a mistake. Our strategy is split into one third, one third, and one third: one third will be maintaining what we have in Venezuela, the other is expanding throughout Latin America. And the remaining third is investing in new projects" said a family business executive from Venezuela. "I see this as being a little bit risky because the recommended approach is to put 10% into risky projects, but the situation now demands that we do it."

"How to make a budget or determine your revenue growth is very difficult when you don't know how much things are going to cost you in a year or six months." — **Family Business Executive, LatAm**

LatAm family business executives also discussed the "the need to adjust time horizons" when thinking about risk management. In Brazil, the barriers to doing business include a lack of infrastructure and education, entrenched bureaucracy, and legal complexity. The result is very lengthy implementation cycles and executional delays for which investors need to plan accordingly: "You have to go into Brazil thinking this is a 20/30 year play. Opening a company takes [130] days compared with [one] day in the US or England. It takes [160] days for the state-owned electrical services to provide more electricity (if you need it)," said an entrepreneur from Brazil.

Planning for succession is another area attracting attention. "Education helps to open the eyes of the next generation. They come back with experience and ideas about how to develop the company in the future. Founders can be reticent to change, but mostly there's a good partnership between fathers and sons and daughters in developing the company."

"We have been discussing our risk management strategy intensively over the past six months. We are on permanent high-alert. And we revise decisions weekly, practically, we might even be doing this daily."
— **Family Business Executive, Venezuela**

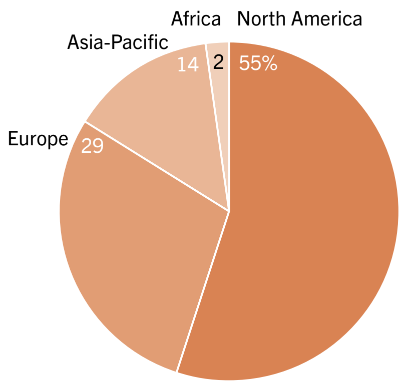
Hiring local experts in addition to international companies was a fourth strategy discussed as helping to better understand local investment risks. According to one interviewee, there are increasingly more local firms which have international standards, "they are able to convey an added value by seeing things from a different angle, and are still able to talk to the investors in the same language as a Big Four would." (M&A and Tax Lawyer, Mexico)

Finally, for one particular executive in Latin America, the key strategy for managing risks in the region is to centralize risk management using enterprise risk software.

"You can't plan on the medium or long term because plans will be affected every time a decision is made by the government. You are always trying to catch up. It's difficult to be on top of all the decisions, because the decisions are not predictable and are not made with a view of the long-term economic impact, but the political impact."
— **Family Business Executive, Venezuela**

"Our plan is to stabilize ourselves in the regions where we operate, and we are now implementing SAP with the purpose to have a unique platform in all the countries where we operate.[8] *We don't want any more territorial expansion. Now we want to get more lines through this platform that we're building. So that we can build within our territory different business lines that will increase our sales, accountability and job security."* — **Family Business Executive, LatAm**

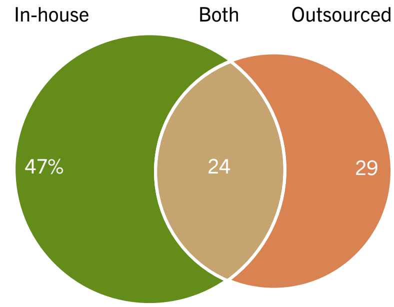
2.3 Additional regions of primary business interest
Source: Campden Wealth & Morgan Stanley (2016).



"We try to differentiate ourselves from our competitors through service and professionalism. We are more flexible and can make decisions faster. The way we make these decisions is shorter, because we are a family business. Corporations take very long to make decisions and face change all the time. Our advantage is that when they talk with a member of the family they know they are talking with the owner."
— **Family Business Executive, LatAm**

Due diligence

2.4 Due diligence: in-house or outsourced?
Source: Campden Wealth & Morgan Stanley (2016).



Although the larger proportion (53%) of our participants report not carrying out due diligence on their own, 47% still do so. When asked which third parties assist them in due diligence, the majority of executives (42%) report using independent consultants, 39% use accountants, and 35% use independent attorneys.

One respondent from Argentina noted that to overcome the lack of cash to conduct due diligence on investments, he would make a loan to the owner of the business he wanted to invest in, and then when the business got larger and there was more cash available to pay the dividend, the loan would be converted into equity: "there is never enough cash for a total investment due diligence.

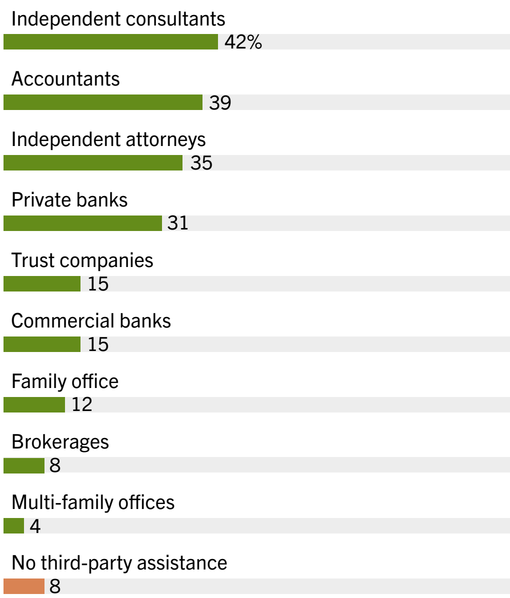
2.5 Rated performance of due diligence with respect to function
Source: Campden Wealth & Morgan Stanley (2016).

8. SAP refers to enterprise software. SAP stands for Systeme, Andwendungen, Produkte in der Datenverarbeitung which, translated to English, means Systems, Applications, Products in Data Processing.

So you make a loan from the investor to the entrepreneur, and then when the entrepreneur gets bigger and there is more cash available to pay the dividend, that loan is converted to equity."

When it comes to performance on different aspects of investment due diligence, our LatAm family business executives believe they do well on revenue, profit margin and trends, management and share ownership, and valuation multiples. They do less well on the more technical, scenario-based and risk-related functions such as stock options, dilution possibilities, and addressing counterparty and adviser risk, which can be more opaque and challenging to resolve.

2.6 Third-party assistance in investment due diligence
Source: Campden Wealth & Morgan Stanley (2016).



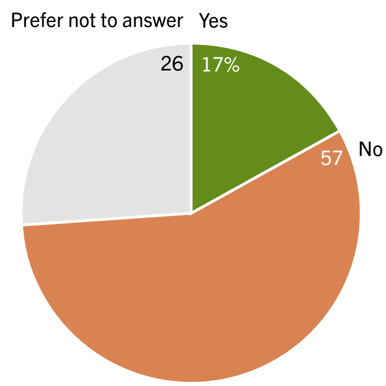
Multiple answers permitted.

Stress testing

Stress testing is increasingly widespread among global institutions following the global financial crisis, and seems particularly relevant to LatAm businesses given the effect of swings in currency, inflation and interest rates. Our study shows that stress testing is still largely overlooked among the participants. Only 17% stress test their portfolio annually, 57% admit they do not (26% preferred not to answer). In the context of risk management and wealth preservation, perhaps this is an opportunity for specialist advisers to help.

"Every company we buy goes through rigorous due diligence. We go through a rigorous analysis of economic freedom, we analyse political freedoms using indexes that are produced by non-governmental organizations, we look at what the banking situation is, what the country situation is, and the demographical opportunities before we make an investment." — Business Executive, LatAm

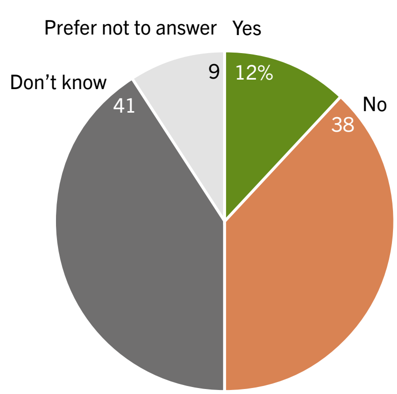
2.7 Do portfolios undergo an annual stress test?
Source: Campden Wealth & Morgan Stanley (2016).



Allocation to offshore funds

There is restrictive legislation in a number of countries around the flow of funds. This barrier to the free flow of wealth goes some way to explaining the modest number (12%) of our participants looking to change their allocations to offshore funds in the next six months. The majority of individuals either aren't planning a change (38%) or don't know whether they will change (41%). Of the minority who said they would change their allocation, the predominant intention is to increase it overall by >15%.

2.8 Changes to allocation to offshore funds, in the next six months
Source: Campden Wealth & Morgan Stanley (2016).



"It's impossible to take your currency outside of Argentina. You cannot take dividends out of your local business. And that's the main reason why external investors haven't been coming to Argentina."
— Family Business Consultant, Argentina

KEY FINDINGS

- Our survey's LatAm executives look for wealth preservation and business growth – but the reality is muddled;

- 70% of individuals claim to take 'moderate risk' for the possibility of moderate returns;

- 84% reported gains in their 2014 portfolio, in 41% of cases performance failed to meet expectations;

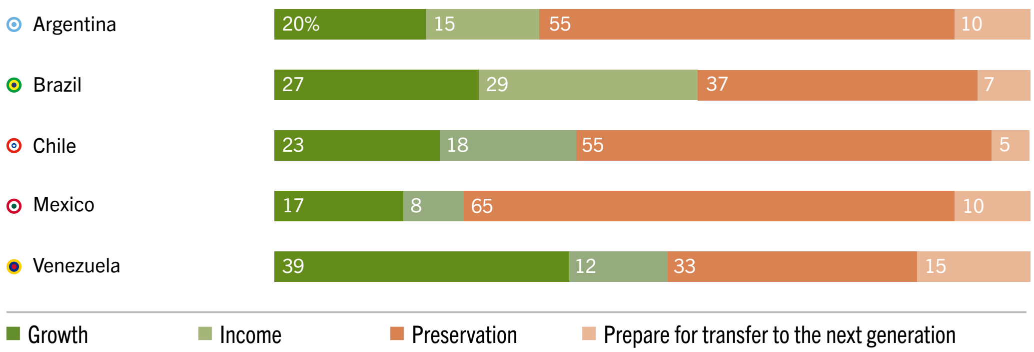
- Fixed income, real estate and private equity are the favored asset classes;

- Our LatAm UHNW individuals hold a greater proportion of their wealth in fixed income, private equity, and cash, compared with North American investors.

CHAPTER THREE

WEALTH MANAGEMENT

3.1 Wealth management objectives, by country
Source: Campden Wealth & Morgan Stanley (2016).



Wealth management objectives

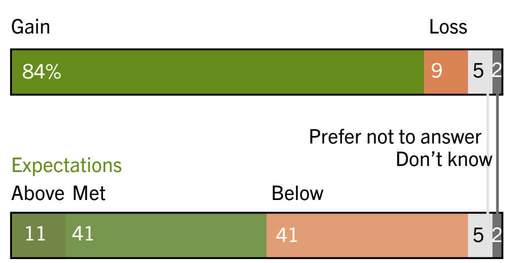
An interesting picture emerges when we look at the wealth management objectives of our LatAm family business executives. The polar opposites of wealth preservation and growth emerge as the two key objectives in the region with 41% selecting wealth preservation and 30% citing growth. This situation may be linked to the markedly different country contexts in which the family business executives find themselves. It is also the case that family executives are being called upon to perform dual roles – to preserve the family wealth in their role as family decision maker, while growing their business as the corporate manager. Our respondent demographic shows that 70% are wealth inheritors, and 39% are wealth creators, with some overlap between the two segments. Put concisely, they are looking for investment preservation, and business growth; however, in practice there may be a bias for one or a blend of both seen across investments and businesses.

This pattern seems likely to continue, based on an analysis of their future intentions. While the majority of our LatAm family business executives are happy with their current investment objectives, of those who are planning to change them, 23% show intention to increase their allocation towards preservation, 31% will be seeking more growth.

Investment performance[9]

Our LatAm executives generally enjoyed gains (84%) in their investment portfolios, in spite of the many challenges. More than half report the performance of their investments either met or exceeded their expectations (40% and 11% of participants, respectively). In 41% of cases, portfolio returns failed to meet expectations. Average portfolio gain in 2014 was 9%, the average loss was -7%. It is noteworthy that despite the general increases, a significant number of family businesses report disappointment in the performance of their portfolios. This may well speak to the weakening in the economy and possibly even a desire to apply business return standards to investment returns.

3.2 Performance of investments, 2014
Source: Campden Wealth & Morgan Stanley (2016).



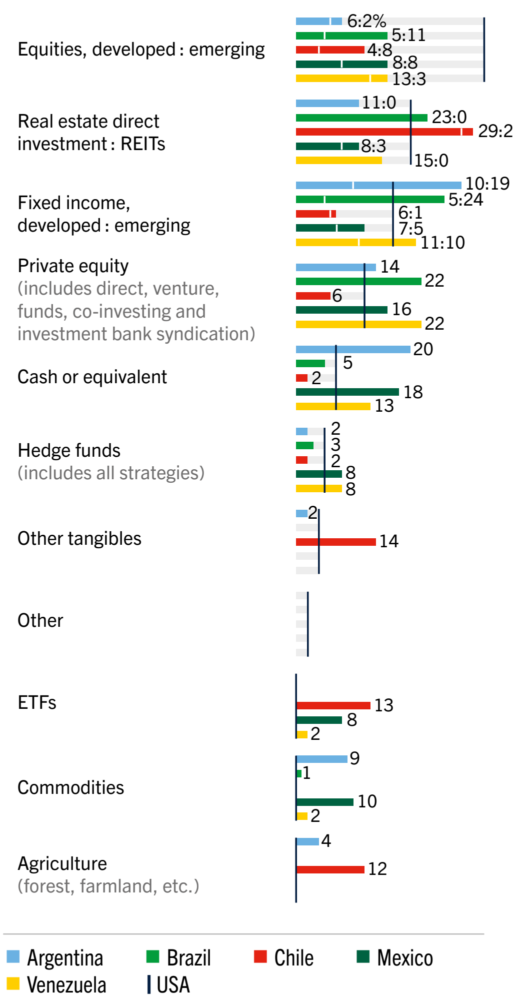
9. Past performance is not a guarantee of future results.

Risk profile and allocations

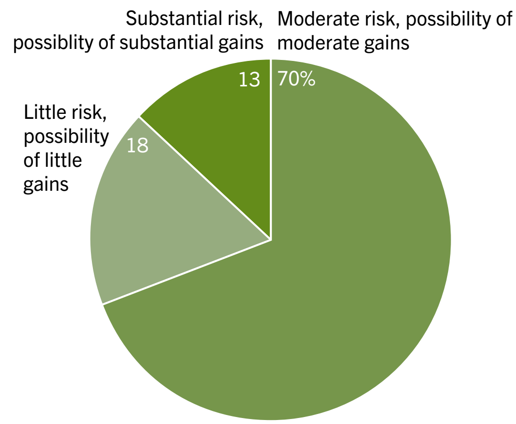
The complex picture, when it comes to wealth management strategies, is further borne out when exploring the level of investment risk our LatAm executives are prepared to take on in order to generate returns. The majority (70%) of our participants claim to take 'moderate risk' for the possibility of moderate gains, despite wealth preservation being cited as the main wealth objective. This suggests that two opposing strategies of wealth preservation and growth are indeed being blended when it comes to how family business executives behave in practice with their investments.

Fixed income, real estate and private equity (including direct investment, venture capital, mutual funds, co-investing and investment bank syndication) are the favored asset classes with average portfolio allocations of 21%, 19% and 18%, respectively. The difference in allocations between emerging market and developed market fixed income is marginally in favor of the former (11% versus 10%). Approximately 10% of respondents hold up to 30% of their assets in cash or equivalent. Agriculture was identified by about 5% of respondents, and makes up 5% of their portfolios.

3.3 Asset allocation, in the last 12 months
Source: Campden Wealth & Morgan Stanley (2016).



3.4 Level of investment risk
Source: Campden Wealth & Morgan Stanley (2016).



Comparison with North America

Compared with North America, LatAm UHNWs hold a greater proportion of their wealth in fixed income, private equity, and cash. They hold less in equities and other tangibles, and a comparably equal amount in real estate and hedge funds (see navy gridlines in Figure 3.3).

Favored jurisdictions and return expectations

Most UHNW participants in LatAm want to diversify their country exposure and invest their wealth across regions. Other South American countries, Western Europe and Brazil are the top three favored jurisdictions for business and wealth management, with annual average return expectations of 16%, 8% and 27% respectively.[10] The US and Europe have major appeal for LatAm businesses because of territorial proximity (in the case of US), strong networks, and ease of doing business, compared with other growth regions like China which currently have higher annual GDP growth, but less transparency, and arguably, a weaker network reach.

3.5 Return expectations in favored jurisdictions
Source: Campden Wealth & Morgan Stanley (2016).

Multiple answers permitted.

Fiscal policy / taxation, control over assets and protection of assets are the most important considerations when choosing the family business / wealth management jurisdictions, although our preservation-driven investors place very high importance on all the criteria identified (see Figure 3.6).

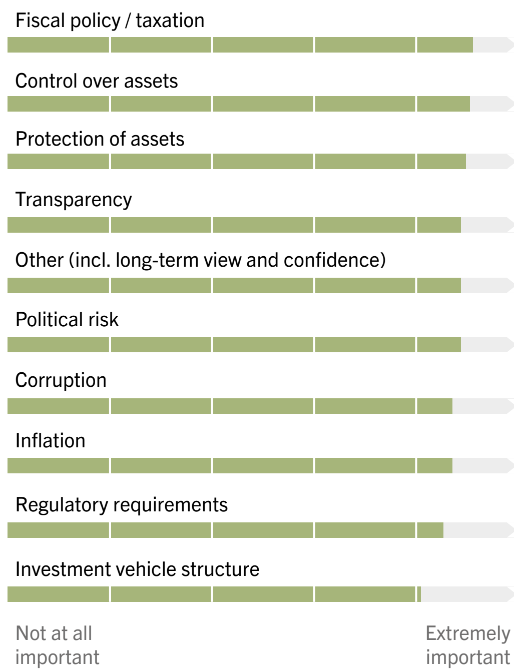
It is interesting to examine these priorities against the macroeconomic backdrop and the wealth management objectives on a country-by-country basis. In the case of Argentinians and Brazilians, inflation is the highest consideration mentioned. The inflation rate in these countries is 14% and 10% respectively.

In Venezuela, family business executives highlight the arbitrary rule of law being a real concern. Predictably, therefore, long-term visibility, control over assets, and fiscal policy/taxation are the most important parameters considered for wealth holders from this country.

"Our neighbouring countries are the main recipients of our investments and our commercial relationships."

— **Family Business Executive, Chile**

3.6 Factors for selecting a family business / wealth management jurisdiction
Source: Campden Wealth & Morgan Stanley (2016).



"Brazil is a very big trading partner. Argentina too. If those countries are unstable, our businesses will be impacted. People are thinking seriously about whether to expand in those countries, even though those markets are huge. Colombia, Peru and Bolivia are now markets that people are very much looking to."

— **Family Business Consultant, Chile**

10. Past performance is not a guarantee of future results.

KEY FINDINGS

- The family office is the favored structure for personal wealth management;
- 27% of the participants manage their wealth in-house, most likely in their family office;
- LatAm executives want to see more advisory expertise in foreign exchange risk and offshore funds;
- They look to investment consultants to help identify Private Equity, Venture Capital and Joint Venture opportunities.

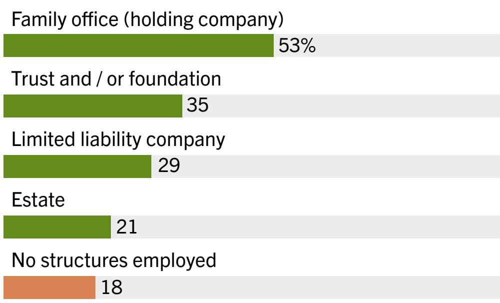
CHAPTER FOUR

ADVISORY SERVICES

Structures used to manage wealth

A significant finding from this research is the widespread use of family offices by our participants. This is the favored structure to manage personal wealth in LatAm, employed by 53% of LatAm family business executives with significant amounts of wealth. Thirty-five percent use a trust or foundation, while 18% do not currently use a structure.

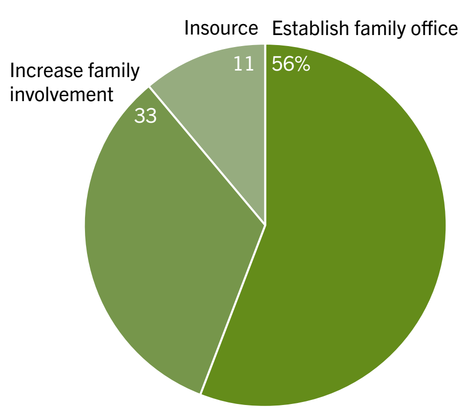
4.1 Structures employed to manage personal wealth
Source: Campden Wealth & Morgan Stanley (2016).



Multiple answers permitted.

The take-up of family offices looks set to continue, with 'establishing a family office' coming out as the number one (56%) option for those looking to change the management of their family wealth in the near term. This is followed by 'increasing family involvement' (33%), recognising the growing importance of succession and the need to incorporate NextGens' knowledge and experiences. Intent to insource management features in 11% of cases.

4.2 Intent to change management
Source: Campden Wealth & Morgan Stanley (2016).



Services required in the next 12 months

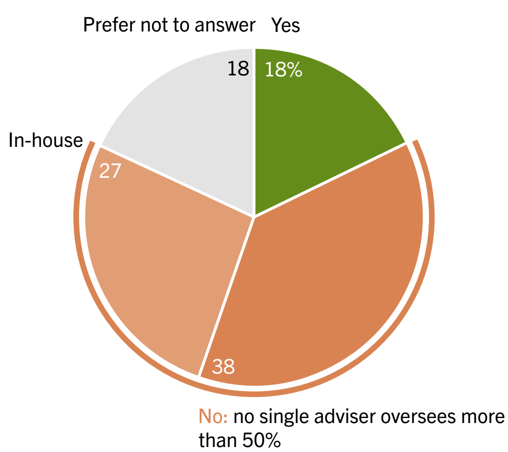
Our LatAm family business executives use a number of advisers and appear to seek the most appropriate expertise for the task, with over 38% saying no single adviser oversees the majority of their wealth. Over a quarter (27%) manage their wealth in-house, most likely in their family office.

Eighteen percent, the minority, rely on one primary adviser, who is typically an individual with a longstanding relationship with the family and appointed by the family elders.

Although primary internal advisers bring valuable counsel particularly on direct risks and soft issues such as investment strategy and succession, alone they cannot resolve everything. The complex macroeconomic environment and political developments in Latin America may warrant greater attention to opportunity and risk management, which includes selecting the most appropriate advisory service providers – both local and international – to address the objectives and challenges identified.

During the next 12 months, LatAm family business executives say the most important

4.3 Does the primary investment adviser oversee more than 50% of participant's wealth?
Source: Campden Wealth & Morgan Stanley (2016).



adviser services they require will be preservation of wealth, introduction to new investments, tax planning, and introduction to new business opportunities. In this survey, asset allocation advice and loan/credit services are comparatively less important. These results reveal that our LatAm executives want a pro-active approach to preserving the family wealth, and preserving and growing the business. In this

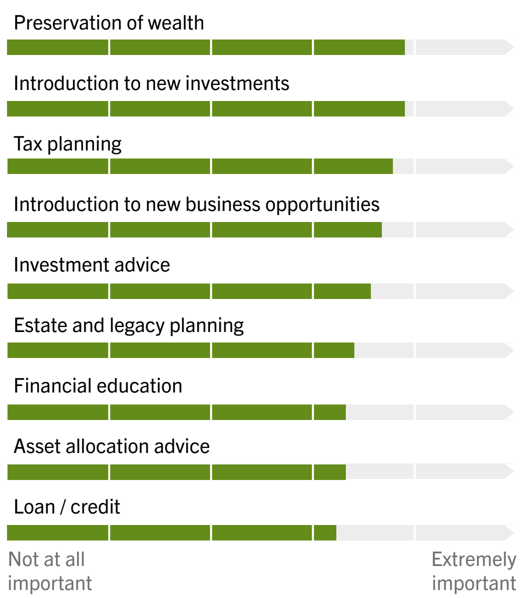
"Things happen in this country [Venezuela] that are unimaginable for Europeans or Americans. Foreign Exchange control, for example. People don't understand what that means."

— Business Executive, Venezuela

study, LatAm family business executives report having less of a need for cash and credit.

It is also worth observing that the diversity of adviser services demanded substantiates the significant uptake of family offices in the region, since offices can deal with wide ranging needs.

4.4 Importance of adviser services, for next 12 months
Source: Campden Wealth & Morgan Stanley (2016).



Multiple answers permitted.

"The good thing about entrepreneurs in Argentina is they are always looking to what's happening outside of Argentina and seeing what kind of business models are working over there that could be working at a local level. So in that way there are entrepreneurs who are open to new ideas and seeing how they can be adapted internally."

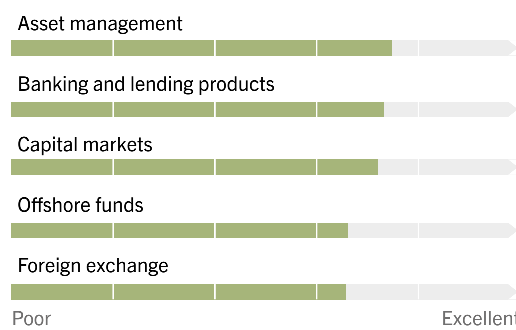
— Entrepreneurship Consultant, Argentina

How our LatAm business executives rate their advisory services

Although broadly satisfied with their advisers' services, LatAm executives would like to see more expertise on foreign exchange risk and knowledge of offshore funds and lending, whereas functions like asset management are rated highly. Both of these areas require technical skills and an international perspective.

Managing foreign exchange risk, for example, is a highly technical function based on currency hedging that requires active oversight and a big enough balance sheet to be able to shoulder the downside. Knowledge of offshore funds is similarly complex, requiring specific expertise and access to international resources.

4.5 Appraisal of primary adviser knowledge, with respect to function
Source: Campden Wealth & Morgan Stanley (2016).



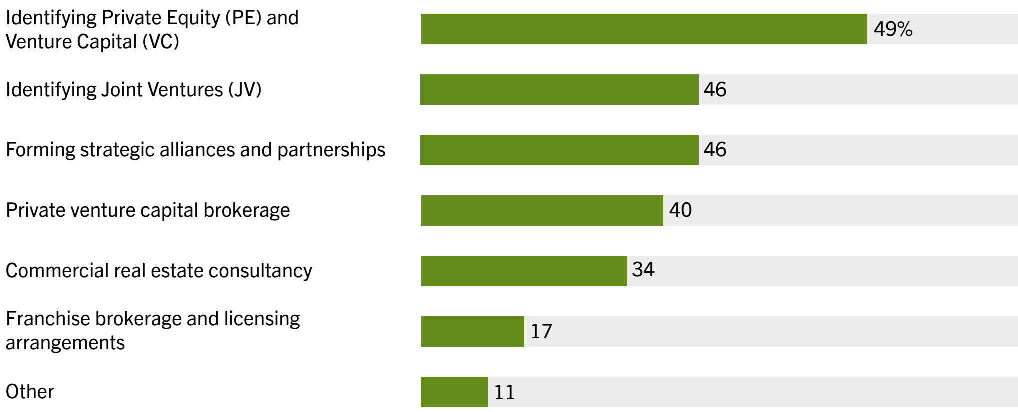
Multiple answers permitted.

Opportunities that require the support of an investment consultant

Identifying private equity (PE), venture capital (VC) and joint venture (JV) opportunities, and forming strategic alliances are the primary opportunities that require the support of an investment consultant. This speaks to the desire by family business executives to grow their businesses. One LatAm family business executive suggested that it may also be linked to the number of aging entrepreneurs with no children to take over the business, who are "desperately looking for a partner that can help them grow."

In terms of accessing these opportunities on a global scale, this requires access to international networks. Local LatAm advisers may play a critical role in this context by providing a local perspective in understanding and conveying the domestic challenges.

4.6 Regional opportunities that will require the support of an investment consultant
Source: Campden Wealth & Morgan Stanley (2016).



Multiple answers permitted.

When asked "how do you source business opportunities?" one family business executive from Venezuela replied "you have friends and you try to connect. For example, in Mexico I am always reaching for young Venezuelans who are working there and looking to take them into our business. We have people who are living in that country and understand better the mentality of the Mexicans than we do. We also work with different chambers of commerce and suppliers everywhere, we participate in international congresses and through them we get very good connections."

"Bigger companies tend to be very cautious, they are well informed and get good advice. Not just from local institutions, but also from international institutions. Even though the owners and managers have mental and cultural barriers about going abroad, they have access to very well prepared advisers and consultants to the business. But when it comes to smaller companies I guess that's something that we need to look into." — **Family Business Consultant, Chile**

KEY FINDINGS

56% of our survey participants perceive M&A opportunities in Latin America to be excellent or very good;

43% are extremely or very likely to pursue M&A opportunities in Latin America;

Over 50% said it's important to make a positive social or enviornmental impact;

They are most interested in supporting education, healthcare and the environment.

CHAPTER FIVE

OPPORTUNITIES

Strengths in domestic markets

LatAm is a challenging place to do business, but the region has unique strengths. From speaking with experts and consultants in the regions, we see that, although some countries still have entrenched mentalities and bureaucracy, the region is experiencing significant political and cultural change. Younger generations are being educated to international standards, and developing new ideas about creating sustainable businesses. Additionally, many local businesses have strong fundamentals and principles. When asked "do you see international investors wanting to be part of your diversification strategy?" one family business executive replied: "We never thought about it, because we have always been a family business and worked as a closed company, but it makes sense. We have strong values and strong human resources, so I think it could be interesting for some investors to jump in." (Family Business Executive, Venezuela)

5.1 GDP growth and forecast, 2013-2016
Source: IMF (2016).

	Growth		Forecast	
	2013	2014	2015	2016
Argentina	2.9%	▼ 0.5	▼ 0.4	▼ -0.7
Brazil	2.7	▼ 0.1	▼ -3.8	▲ -3.5
Chile	4.3	▼ 1.9	▲ 2.3	▲ 2.5
Mexico	1.4	▲ 2.1	▲ 2.3	▲ 2.8
Venezuela	1.3	▼ -4.0	▼ -10.0	▲ -6.0
United States	1.5	▲ 2.4	▲ 2.6	▲ 2.8

On a country-by-country basis, the region has opportunities in the short, medium and long-term bases. According to one participant, Brazil remains a large, attractive and dynamic market in spite of the current recession. "If you can set up a business and operate, then you do have a pretty big market that you can play in, with much less competition. You have 200 million people in Brazil. Couple that with really good internet coverage, internet access and broadband access and you have a big market that you can access to distribute your goods and services," said one European entrepreneur and business executive in Brazil.

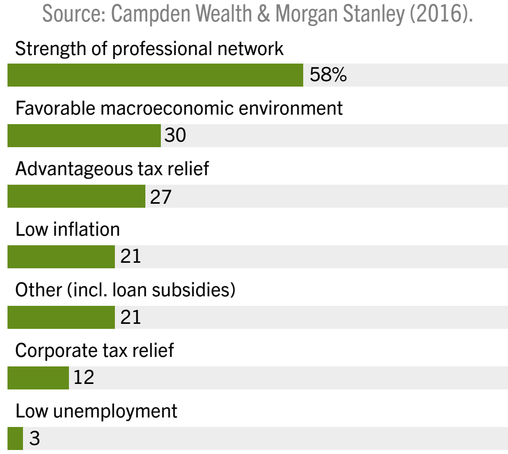
Mexico has been able to sustain moderate economic growth (2.3% in 2015, forecast to be 2.8% in 2016) despite the external challenges. In 2015, the unemployment rate fell to 4.5%.[11]

"There is currently a lot of growth, mostly in the energy sector, since it was just opened by the government. There is a lot of manufacturing based on the low cost of labour and closeness to the US. There are all kinds of transnationals down here and we are one of the most open economies in the world," said an M&A and tax lawyer in Mexico.

Argentina's efforts of achieving social equality place it among the G-20 countries that have most successfully reduced youth unemployment.[12] The country's physical infrastructure, the quality of professional services and education are also favorable elements for business and expansion.[13] An entrepreneurship facilitator in Argentina noted: "Our assets are pretty cheap on an international level. The opportunity here is for someone to take the risk as they might find a lot of upside over the next three years. For the last 15 years in Buenos Aires, we've had a really good tech ecosystem."

Chile's GDP is forecast to grow on a par with Mexico's (2.3% and 2.5% in 2015 and 2016, respectively).[14] In terms of equality, studies show a high concentration of income and wealth at the top, but a more even distribution of income for the bottom 90 percentiles.[15] "There has been a very good private-public partnership in terms of the work by companies and the government in agreeing on very good tools, double taxation agreements and other legal, commercial and financial instruments to facilitate trade," said a family business consultant from Chile.

5.2 Key advantages of participant domicile for family business and wealth management
Source: Campden Wealth & Morgan Stanley (2016).



Multiple answers permitted.

11. IMF Western Hemisphere Department, 'Mexico Shows Resilience In a Complex Global Environment', November 17, 2015; IMF, World Economic Outlook Update, January 2016.
12. IMF Financial Committee, Thirty-Second Meeting, October 9-10, 2015.

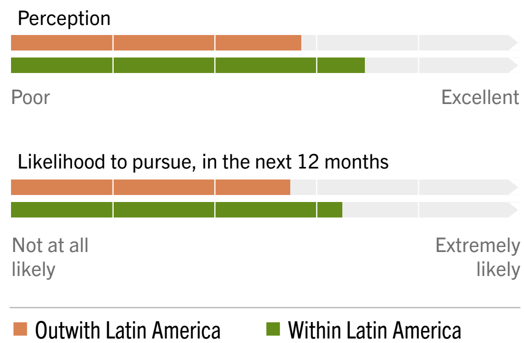
Opportunities in mergers and acquisitions

Expansion within LatAm is seen by many of our respondents as requisite for business growth. Bonded by a broadly common culture and socio-political history, our participant LatAm business executives acknowledge that opportunities exist to serve the regional market, where they are better positioned, compared to their international competitors.

Driven by the key strengths the region offers in terms of low-cost labour and proximity to North American commercial partners, in LatAm has occurred at the trans national and inter regional level, with diversification playing a foundational role in company executives' risk management and growth strategies.

Fifty-six percent of these LatAm business executives perceive M&A opportunities in LatAm to be excellent or very good, compared with 30% who perceive the same of M&A opportunities elsewhere. Forty-three percent are extremely or very likely to pursue M&A opportunities in LatAm, compared with 21% stating the same for opportunities elsewhere.

5.3 Attitudes toward merger and acquisition (M&A) opportunities
Source: Campden Wealth & Morgan Stanley (2016).



Multiple answers permitted.

"We don't buy major companies. The main M&As we have done have been companies with a turnover of 10 million dollars in which we see a potential to grow them up to 30 million dollars according to the opportunity. And there are a lot of opportunities in these countries to buy companies in which the entrepreneurs are around sixty-five years old and none of their children want to run the company. They've reduced their partnership to less than a half because they realize that they don't have the knowledge to grow the business. It's a different era now, things are run differently."

— **Family Business Executive, LatAm**

Among the reasons given, our participants state that "LatAm has a good opportunity window due to massive outflows of foreign direct investment" and "Mexico has a good economic momentum." On the negative side: "it's difficult to find target acquisitions" and there are challenges with the "exchange rate and over pricing."

13. Global Entrepreneurship Monitor, (2015), Argentina country profile, December 1, 2015.
14. World Economic Outlook (WEO) Update, Subdued Demand, Diminished Prospects, January 2016.
15. Inter-American Development Bank and World Bank, Entrepreneurship in Latin America – A step up the social ladder?, 2014.

CASE STUDIES ON ENTREPRENEURSHIP

ARGENTINA

Tell me about the ecosystem for entrepreneurship in Argentina.

People are expecting radical change in the economy regarding risk-taking and investment coming into the country. People are looking at the elections as impacting the economy for the next four years at least.

What are the main opportunities and challenges?

For the last five years Argentina has had a lot of restrictions in doing business with other countries. There are a lot of controls at the border, controls for different currency exchanges. For an entrepreneur it's also a big challenge because there is a lot of distortion between prices. That might be an opportunity if there is a political change – everybody is talking about a new way of doing business.

Is the entrepreneurship focused on one particular sector or industry?

It is across multiple industries. But for the last 15 years especially in Buenos Aires we have a really good ecosystem on the tech side. A lot of good LatAm tech companies come from Buenos Aires. There is a multiplier effect and the tech side has been really developing.

There's also a lot of innovation in traditional businesses related to agriculture. The opportunity here exists because of the international context, and the local context as well: finding the tech opportunities and applying them to agriculture.

How will this evolve in the next five years?

That's tough to say because we don't actually know who's going to win [the elections]. A lot of VC (venture capital) funds and private equity funds have Argentina on their radar and are waiting for the outcome.

What is the time horizon for these projects?

Five years is long term here. Maybe ten years, but no more. The economy changes so much, every ten years we have a crisis – that's rule of thumb in Argentina. If you are in VC you will push for a five year investment, if you're in private equity, you can go maybe for the ten years.

When we work with entrepreneurs in developing their strategy we work with them to see where they want to be in three to five years. That's the vision, and we work with them on the roadmap of the plan of action over the next six to 12 months.

What about counterparty risk?

There is a lot of corruption in Argentina, but we try to stay away from it. There are a lot of businesses that involve the government, because they need permissions, for example, but I have not been working on those businesses for the last five years. There are also a lot of local businesses that depend on the government to get paid, so maybe you are selling but you don't get paid because the government can delay their payment... So that's a big risk.

BRAZIL

Tell me about your business in Brazil.

We set up an internet company and we've been doing extremely well. We've been tripling our revenue every year for the past three years and about a year ago a large American company approached us and they wanted to invest in our company.

When you say 'fast growing' in terms of customer expansion, product differentiation or M&A, what do you see as being the opportunities in Brazil?

The biggest opportunity in Brazil lies in the fact that it's hard to access. If you can access the market and set something up and operate, then you do have a pretty big market that you can play in, with much less competition.

In terms of M&A, it's going to become interesting now over the next 12 to 24 months because Brazil, macroeconomically and politically speaking, is in a really tough spot – the exchange rate devalued [50%] over the last 12 months – with no end in sight. Inflation is at [10%]. So I think a lot of businesses are going to be strangled. I think there will be a lot of margin compression coupled with rising debt and that's going to strangle a lot of businesses and put them in a position where they have to sell their assets off fast. So I think that creates a lot of opportunity.

What do you see as prudent risk management strategies to navigate the next two to three years?

I think currency hedge is something that most people don't really think about and they should. If you're a chief executive looking to buy a company I would say be really careful with the due diligence and choosing the right partners. With my company, we felt more comfortable working with an international team rather than a local Brazilian team. Ultimately there is a lot of short term volatility. If your time horizon is very long term I think there's more opportunity than threat here in the market.

What needs to happen to improve the business environment?

You need fiscal reform, labour laws reform – it should be easier to hire, to fire – there should be more flexibility in terms of the legal requirements around jobs and I don't see any effort being done towards that. You would also need to debureaucratize many processes to open and close a company, for example.

How much innovation takes place?

Every company when it starts has risks that affect it. The biggest risk is 'idea risk' – is your idea right for the market? The second is 'operational risk' – can you execute on a plan to make the company successful? We had a pretty big market risk, pretty big operational risk, so we were not really willing to take on the idea risk. So we looked at a business model that was working very successfully in Europe or in the US, and applied that locally. You don't see many companies here pushing globally innovative strategies – it would be too risky for an entrepreneur to do that. What you see is a lot of old concepts being refreshed rather than new innovation being born.

In terms of traction, I don't think Brazil is big enough to give you something globally innovative. Here you start with a big market but it's a very diverse market. You have very poor people, and very rich people, you have all the shades of grey between that, so it's much tougher to hit the nail on that than it is in the US or in Europe. Maybe we'll see something interesting come out of here in the next couple of years, but I think it's unlikely.

Do you see yourself growing in terms of product differentiation?

You do a bit of everything. You expand your product offering, you differentiate not just on product but also on services, you look opportunistically for M&A, these macroeconomic times create a lot of opportunities for us in our segment, so we're very open to that. I think the idea is to do a little bit more of the same.

Do you see yourself expanding (outside of Brazil) within LatAm?

We've thought about it, but I can't really ship/shift my product: there is no channel to exporting. I mean you can, but not in an acceptable time frame. LatAm is fragmented. If I wanted to be present in other countries, I would have to repeat the investment we did here. Brazil is a certain market size, and Colombia is 1/10th of that. Do I really want to invest that much money going into these countries when we have a deep blue ocean here locally to tap into? It's an idea we play with, but there's no concrete plan at the moment to do that.

CHILE

How easy or difficult is it for local companies to communicate their opportunities, risks, wants and needs with their US counterparts, and who facilitates that process?

In the case of expanding operations or exports to the US, it's quite easy. With the US we've had a free trade agreement for a long time, which has been very successful. The opening of our market has always been the core of our public policies. The government does a very good job in promoting our companies and products abroad.

Would you say the situation contrasts with some of the other countries in LatAm?

The difference between Chile and the other countries is that no matter what type of political ideology was prevalent at the time, it has always been a state policy to promote an open market.

What do you see in terms of entrepreneurship?

There's a lot of public discussion, a lot of debate and there's a good spirit towards it in Chile. But the government is pushing third quarter reforms that are very revolutionary and people are worried about how this will impact their own businesses. People are a little timid about exploring new opportunities, both locally and abroad.

What about other risks?

Our local reforms aren't really a risk, but what's going on in our neighbouring countries can be. Brazil, for example, is a very big trading partner - Argentina too. If these countries are unstable our businesses will be impacted. Colombia, Peru and Bolivia are now markets that people are very much looking to.

What about investing in the US?

Going into the US is a big step for a Chilean company, not only because of the size of the market, but because it is a different market, it's not a Latin market. It's a different language, different regulations, so there are cultural barriers to entering. Some companies backed down because they don't have the capacity locally to double their production. Intellectual property is another key issue when going into the US market.

Do you think there's a different risk appetite between smaller companies and bigger companies in Chile?

Sure, but it also has to do with the fact that smaller companies have bigger problems in accessing credit and other financial means that will help them expand their business. For big companies in Chile it's quite easy. There's a lot you need to cover when you go abroad – all the legal and banking paperwork. The language barrier can be significant.

VENEZUELA

What is the situation geopolitically and commercially at the moment?

We, as entrepreneurs and industrialists, are being affected by political decisions on a daily basis. All our goods are imported and it's difficult to predict the cost of the goods because it's tied to a flowing [volatile] current exchange rate.

Does this landscape represent more of a challenge or an opportunity to your business and investments?

A little bit of both. It's a challenge, because in order to proceed as we are proceeding now, you have to take into account too many things. At the same time it's an opportunity because not everyone is handling the situation in the same way. Some people are deciding to close or minimise their activities or even to try to open a new business outside of Venezuela, so that helps to bring opportunities.

What is the opportunity to stay in the country?

The opportunity to stay really depends on the type of business you are in. In my case, which involves a service, it's not that easy to set up an international operation, especially when you have huge international competitors.

What are your views on entrepreneurship in Venezuela?

A number of organizations here are trying to build up as many hubs around the country so young entrepreneurs can get together and organize their ideas. There is a huge amount of people designing clothes, jewellery, and selling them online. Due to the exchange rate situation it's difficult to get international brands of these items. There are a lot of new brands of organic food like jam, pasta, gluten free chocolate and biscuits that normally are produced by huge international brands but due to the lack of currency, people are deciding to produce their own products here. This has been growing really fast in the last 5 years. Young people realize the money they will get paid for a job after university is not enough to survive. So they've decided to start doing things by themselves.

As a country we don't have a developed tourism industry. There is a group of guys who are taking advantage of this, and started to develop something new. They build these special packages – for example, yoga on the amazon river. All they do is arrange the logistics and you have to pay your own travel expenses. It's a different way of looking at tourism, but they started to develop an industry in this country whereas before there wasn't one.

Philanthropy and CSR

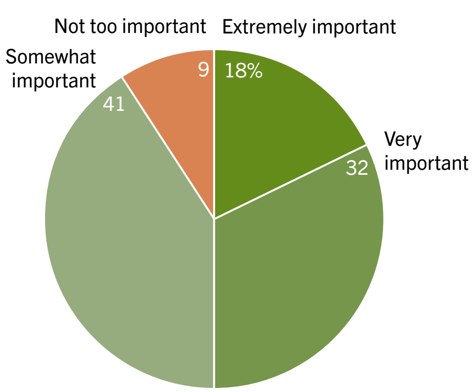
CSR	Corporate Social Responsibility
ESG	Environmental, Social and Governance
SRI	Socially Responsible Investing

In the current economic and political situation, the participants indicate one of the most important opportunities is for companies to develop their CSR. CSR in European and American companies is often a major part of the corporate mission and value. Concerted efforts are made to be seen as a company that gives back to the community. Many stakeholders and investors have stated ESG / SRI policies that will only allow them to do business with companies who have a clear CSR framework. Our LatAm participant companies suggest that now is a great time to include elements of citizenship and responsibility into the corporate strategy.

"There is opportunity to create different kinds of companies – to create companies with different kinds of goals. There needs to be a different kind of businessperson to take advantage of the new opportunities. New models need to be created. It's a big challenge for business people, and it's a big challenge for people to trust in the business people," said a family business consultant.

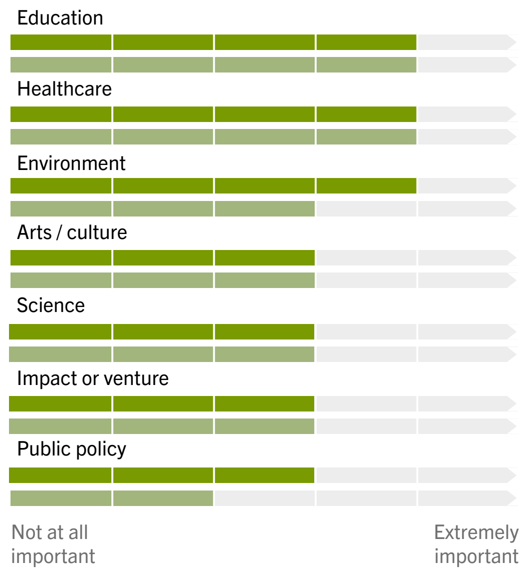
For example, the political reforms in Chile, while aimed at creating a more equal society that has an overall stabilising effect in the country, also promote a more responsible and sustainable corporate culture. If business executives acknowledge and embrace this opportunity, Chile could be poised to set an example by championing responsible capitalism for businesses in LatAm.

5.4 Importance of family private wealth investments directed toward positive social or environmental impact
Source: Campden Wealth & Morgan Stanley (2016).



"A lot of businesses are turning towards ESG in planning strategy; that's becoming more important now. But I won't say all is 'fine and dandy'. Latin America has been slow to do this and it tends to be region or industry specific. Places in Yucatan Mexico, or businesses involved in tourism — these are environmentally conscious. We have to learn to do this." — Family Business Consultant, Mexico

5.5 Level of interest in philanthropy, by category
Source: Campden Wealth & Morgan Stanley (2016).



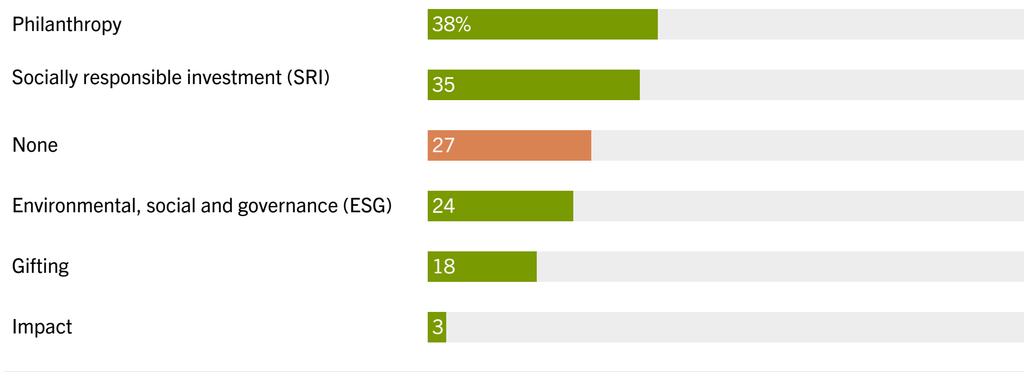
Multiple answers permitted.

The Entrepreneurship section of this report outlines some of the opportunities occurring in countries throughout LatAm. In the short term, they create opportunities by fostering innovation, and create new jobs in local economies which have traditionally been over-reliant on commodity trading and export.

Over the past 15 years, LatAm's UHNW participant families have sent their children to international universities, where they acquire a global mind-set and understanding of the US-type business model. By involving the NextGen in either the family office or the business, ideas can be developed about which causes to support, domestically or abroad. By leveraging professional networks, advisory expertise, and tapping into the local entrepreneurial ecosystem, the opportunities can be readily identified.

"A lot of the new generations (NextGen) think about philanthropy more than anything else, and helping people, more than thinking only about the profit," noted a LatAm business consultant.

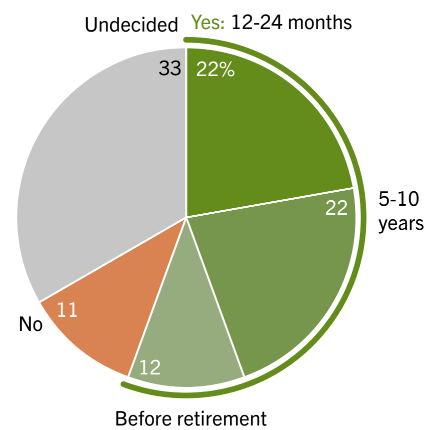
5.6 Stated policies in place
Source: Campden Wealth & Morgan Stanley (2016).



Multiple answers permitted.

Philanthropy is important for LatAm wealth holders and their families. Over 50% say that using their wealth for making a positive social impact is extremely or very important to them. While over a quarter of respondents have no stated philanthropy, SRI or ESG policy, 56% state that they plan to develop one in the future. Twenty-two percent say this will be within the next 12-24 months. Education, healthcare and environment are the areas deriving the most interest. This dovetails precisely with the priorities of a number of LatAm governmental policies.

5.7 Do participants plan to develop a policy or guideline, by horizon
Source: Campden Wealth & Morgan Stanley (2016).



"There's plenty of capital to support these initiatives. There are a lot of companies and plenty of rich people and they don't want to invest it at 1% in banks. It depends on the timing."

— Family Business Consultant, Mexico

CHAPTER SIX

CONCLUSION

This report has provided a select picture of the main challenges and opportunities that exist for our participant clients in Latin America from the point of view of UHNW family business executives and investors as well as those who service them. Having provided this context, it has then explored what executives are doing to manage their businesses and build their wealth in this environment. The result demonstrates significant intelligence, resilience and ultimately good practice by executives and investors, but it also identifies a number of areas for attention and action. In this final chapter, we prioritise what we consider to be the key implications for stakeholders, and the questions they should be asking themselves.

FAMILY BUSINESS EXECUTIVES AND INVESTORS

Separate business risk from family wealth risk…

Recognize the importance of having distinct investment strategies for the operating business and the wealth. Pursuing high-risk regional growth strategies for the business in Latin America may be reasonably justified, but reflect on what this means for investment strategy. Business and investment opportunities may be leveraged by partnering with international players, particularly corporate investors and other family businesses from the Asia, the EU and the US who are less risk averse in seeking markets for growth.

Questions to consider:

- What are the current strategies for the business and investment?
- Do these strategies complement one another and achieve my overall risk and return objectives?
- Would it make sense to partner with others to reduce risk exposure?
- What risk management frameworks and controls would allow me to take advantage of local opportunities?

…and professionalize family wealth management

Our participants' complexity of investment needs and confusion over investment strategies underline the importance of UHNWs accessing professional wealth management services. While single family offices may be the popular way forward, they are certainly not the only way. Another worthy possibility is creating or joining a multi family office. Pooling capital with other families may open up broader opportunities and allow for economies of scale in costs and best practice sharing.

Questions to consider:

- What are my needs in terms of wealth management?
- What are the service options that are open to me? Have I looked beyond the obvious?
- Are there other families with similar nature and needs who might be suitable for a multi family office?

Diversify the knowledge base

A mix of local and international expertise may provide a more rounded perspective and deeper insight into direct and indirect risks. Our results indicate that international advisers tend to be favored by our participants, but they too need counsel on perceiving the idiosyncratic domestic risks. By establishing guidance committees there is opportunity to glean diverse risk perspectives for the benefit of current business owners as well as potential investors.

Questions to consider:

- Do I have the right mix of local and international advisory expertise?
- What gaps are there, and how do I fill these gaps?
- How many advisers am I comfortable dealing with?
- What are the most suitable organisations to help with this?

Build corporate value through CSR initiatives

From many stakeholders' perspective, companies with developed CSR initiatives are seen as relatively attractive by virtue of exhibiting more advanced social ethics. By meeting social objectives, the company may build value and reputation by generating goodwill. Social initiatives also represent opportunities for family wealth to be deployed in socially responsible and impact investing, as well as wider philanthropic endeavors. Family businesses might even wish to satisfy social and business imperatives by supporting the growth of local entrepreneurship – helping to stimulate the local economy and create investment opportunities.

Questions to consider:

- What CSR initiatives do we currently have in place?
- What further actions might we take?
- What would be the social and business benefits of these actions?
- How might we leverage our existing philanthropic endeavors?

ADVISERS WORKING WITH FAMILY BUSINESSES

Meet the need for professional wealth management . . .

Access to professional wealth management services for LatAm UHNWs is encouraged. At present, many executives are running the business while concurrently managing the family wealth. This is frequently ineffective. Wealth management providers should be actively looking to engage and service them, and more entrepreneurial service providers should be looking to help establish single family offices or multi family offices. Strategic selection of host jurisdiction is desired in order to leverage domestic human capital and source international expertise in order to implement best practice.

Questions to consider:

- What services do UHNWs really need?
- How best do I tailor my services and structure to meet these needs?
- What is the best way to engage and evidence my services?

"Americans made a big issue about having a board of directors with three members of the family, and four outside members who vote… this in Latin America does not work. You have to be tactful, you have to understand the culture of Latin America. In Mexico, what I like is to have a (family-owned and managed) board of family members on the board, with advisers who can give them a lot of ideas and (specialized) opinions, but they don't vote"

— **Family Business Consultant, Mexico**

Being proactive on the hard issues and the soft. . .

As UHNW individuals in Latin America increasingly segregate their family wealth from the business, it is important to help formalize the risk protocols and controls according to their type. Frameworks that incorporate early warning systems and a "Risk Register" for family businesses can help executives to visually gauge their position along the risk spectrum.

Questions to consider:

- Which risk management frameworks would allow clients to take advantage of regional opportunities?
- How can I help UHNWs segregate the division between business and wealth?
- How are these two areas related, and how should they complement one another?
- What tools and frameworks can I bring to the management of each of these?

. . .by leveraging both local and international talent

International advisers can provide access to global networks, helping parties to meet and balance their respective risk appetites and maximize opportunities. In our view, while larger institutions can shoulder risks coming from global economic events, local advisers can help with understanding the idiosyncratic risks. While international advisers help to identify and share business models that have worked internationally, local advisers consider their applicability for the domestic market. Cooperating in this sense as part of a diversified counsel can provide greater reassurance to investors when assessing regional investments.

Questions to consider:

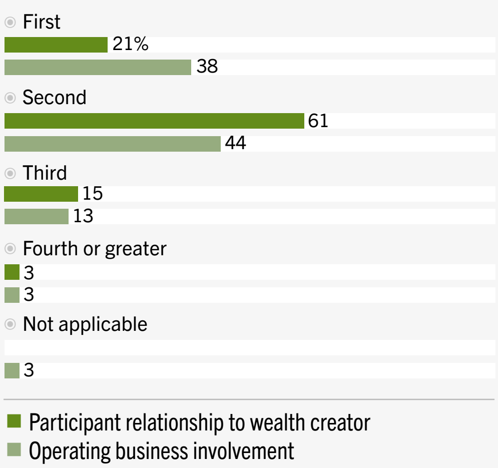
- What international or local relationships do we have?
- What value do these relationships currently provide?
- Are there others that we should be partnering with?
- Are there innovative propositions that we could offer UHNWs that leverage our respective skills?

PROFILE OF PARTICIPANTS

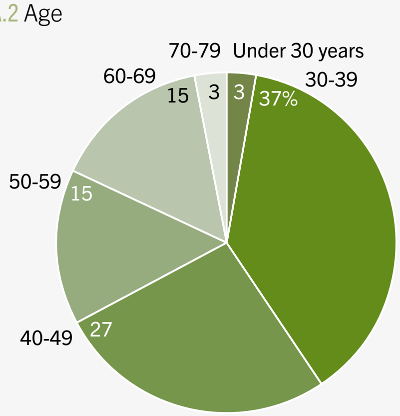
Fifty-three percent of this survey's respondents originated their wealth from the operating business, with 74% currently owning the majority stake. The majority of these businesses were founded in the 1970s and 80s (41% in total). Revenue for 2014 ranged from USD 2-50m up to USD 1bn. The generations most active in the businesses are the second and the first, respectively (44% and 38%).

Participants report operating in multiple diverse industries, with strong representation by financial services, retail and trading, manufacturing and construction. Seventy-five percent are involved at the strategic level, as CEO or director. The majority of survey participants are younger than 50 years of age.

A.1 Generational involvement and composition

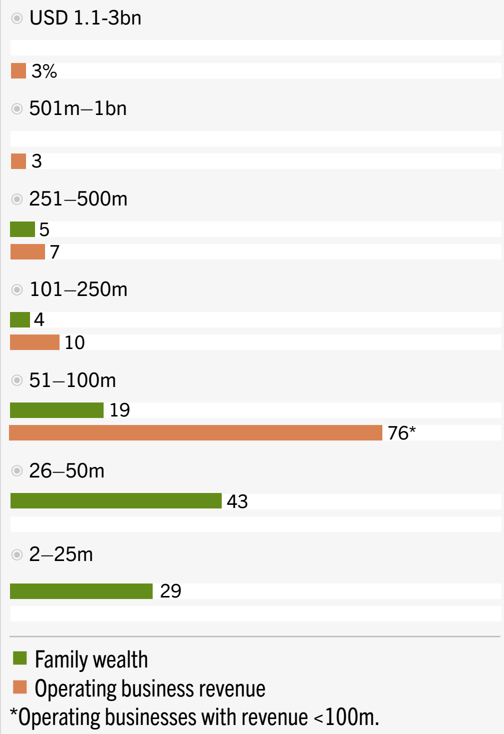


A.2 Age

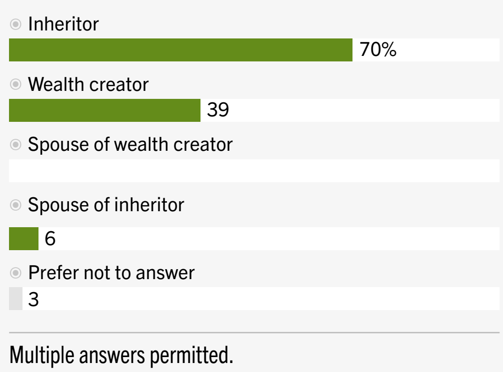


A.3 Gender

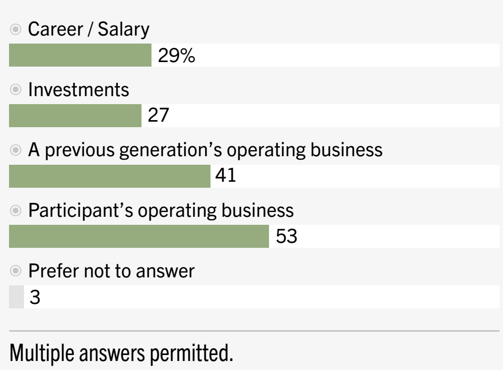
A.4 Overall wealth



A.5 Relationship to the family wealth

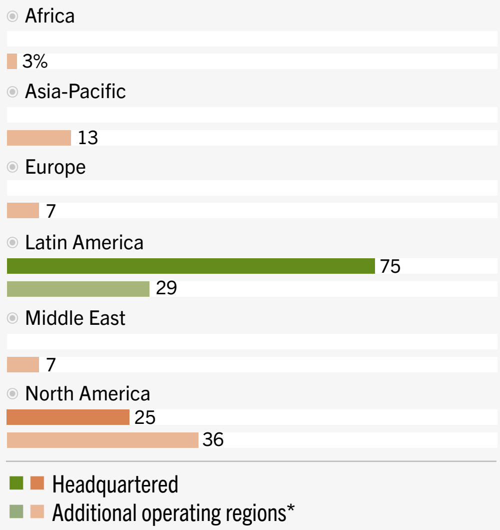


A.6 Original source of wealth



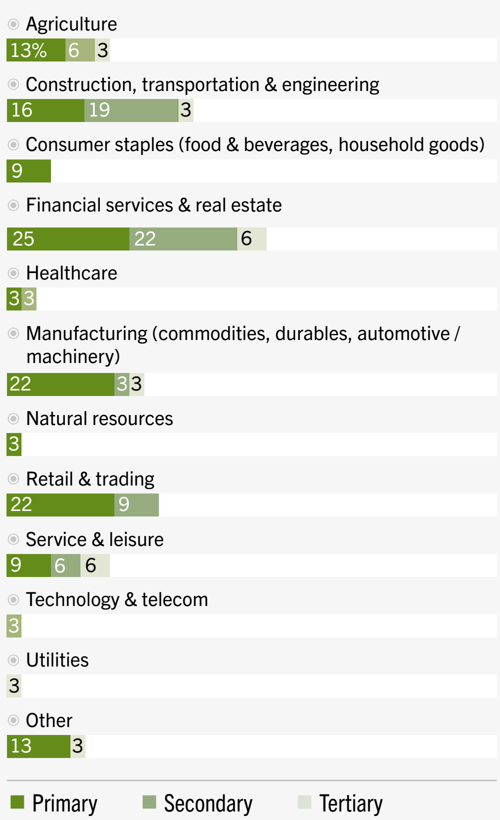
A.7 Operating business retention

A.8 Regional distribution



Multiple answers permitted.
*39% of businesses do not operate in additional regions.

A.9 Sectors of operation

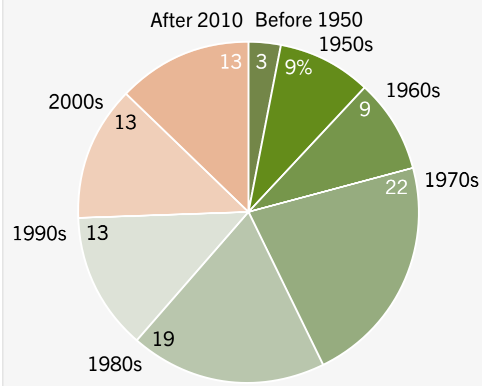


Multiple answers permitted.

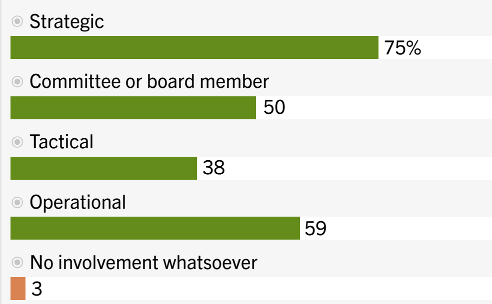
FAMILY BUSINESS OWNERSHIP

Three quarters of participants' businesses are headquartered in Latin America. Additional areas of operation are North America (36%), other countries in Latin America (29%) and Asia-Pacific (13%), although the majority (39%) exclusively operate locally. Twenty-five percent are involved in financial services, followed by retail and trading (22%), manufacturing (22%), and construction (16%).

A.10 Founding of the operating business



A.11 Involvement in the family business



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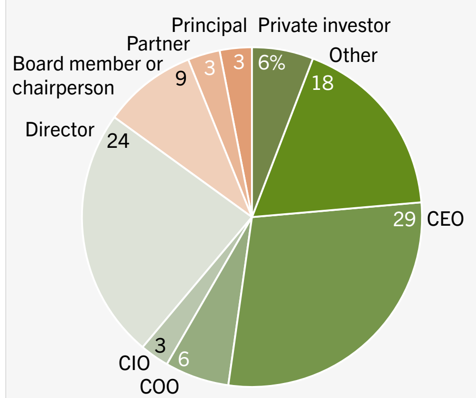
A.12 Professional title



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Campden Wealth is the leading independent provider of information, education and networking for generational family business owners and family offices globally in person, in print, via research and online.

Campden Research supplies market insight on key sector issues for its client community and their advisors and suppliers. Through in-depth studies and comprehensive methodologies, Campden Research provides unique and proprietary data and analysis based on primary sources.

Campden Wealth also publishes the leading international business titles *CampdenFB*, aimed at members of family-owned companies in at least their second generation and *CampdenFO*, the international magazine for family offices and private wealth advisers. Campden Wealth further enhanced its international reach and community in 2011 with the acquisition of the Institute for Private Investors (IPI), the leading membership network of private investors in the US (founded in 1991) and with the establishment of Campden Family Connect PVT. Ltd a joint venture with the Patni Family in Mumbai, India in 2015.

To learn more, please visit campdenresearch.com.

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ACKNOWLEDGEMENTS

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