

Perspective

Practical ideas for manufacturers and distributors

Fourth Quarter 2010

Brazil – A Land of Opportunities

Brazil is known as a top destination for international investment. In fact, in 2001, Goldman Sachs branded Brazil, along with Russia, India and China as the BRIC countries. The news propelled Brazil into the spotlight as one of the key emerging economies that will drive growth over the next century. Since then, Brazil has been a premier investment opportunity in Latin America and the region's leader in foreign direct investment.

Over the last 20 years, the level of foreign investment in Brazil has made a clear statement to the business world about its attractiveness to multinational companies. With a population of 193 million, Brazil is the largest country in South America and the fifth largest worldwide. It is the world's leading exporter of beef, chicken, orange juice, sugar, ethanol, and second in the world in soybeans and maize. It will host the Olympics in 2012 and the World Cup in 2014. The IPO of the state owned oil giant Petrobras raised \$70 billion, the world's largest on record. Clearly, Brazil is a profitable harbor for international capital.

Although Brazil is well known as a great place to invest, it is also known as a complicated place to do business. Businesses considering operations in Brazil should consider a wide range of cultural issues and business practices, including:

- a) Non-convertible currency – Despite the stability of the economy, Brazilian currency (BRL) is non-convertible, meaning that it is impossible to legally buy or sell it outside the country. Brazilian Central Bank is making efforts to remove this barrier and to experiment with foreign conversions, but the process is still not permitted on a large scale. Due to this restriction, all deals denominated in a foreign currency must be registered and reported to the Brazilian Central Bank.
- b) Compliance, compliance, compliance – Dozens of ancillary obligations and strict regulations affecting almost all



areas of business activity make Brazil complex business environment. All statutory data bases, transactions, documents, forms, etc. must be written in Portuguese and denominated in the local currency. The company's managers and the accountants responsible for producing financial and tax information are required to use unique electronic signatures to file all tax returns on the Tax Authorities' website. These are only a few examples of local compliance obligations, and none of these functions can be performed from outside the country.

- c) Plurality of taxes – Brazil has three different levels of tax - Municipal, State and Federal. Depending on the nature of the business, companies may face multiple indirect taxes for a single transaction. Selecting the appropriate tax regime and taxation system for local operation is critical and might make the difference between success and failure. Dealing with foreign trade (import and/or export of goods and service) triggers additional duties for consideration, which must be planned, analyzed and carefully structured ahead of time in order to avoid unnecessary expenses.
- d) Payroll charges – On average, for each dollar paid as salary to employees, some additional 65 cents must be paid for

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McGladrey and Greenwich Associates Release Hedge Fund Survey Report

Many mid-sized hedge fund managers pursuing institutional investors as a source of investment capital may be underestimating the challenges and costs associated with competing for institutional clients.

“**As smaller hedge fund managers look for new sources of growth, many have set their sights on endowments, pension funds and other institutions**”

Over the past decade, U.S. institutions have become an important source of capital for hedge fund managers. For the largest U.S. hedge funds, institutional investors — led by university endowments and foundations — now rival and even exceed high net worth individuals and family offices as a

primary fundraising source. As smaller hedge fund managers look for new sources of growth, many have set their sights on endowments, pension funds and other institutions. In doing so, managers are marketing to clients whose expectations and demands often differ significantly from those in the high net worth segment.

In July 2010, McGladrey teamed with Greenwich Associates in a research study designed to shed light on hedge funds' capital-raising activities, to provide peer benchmarks on sales and service infrastructure and to identify best practices in reporting and transparency. In short, the study sought to answer a simple question: To what extent are mid-sized hedge fund managers targeting institutional investors and what, if anything, are they doing to prepare for the demands of these clients? In order to answer those questions, Greenwich Associates conducted in-depth interviews with 52 U.S. hedge funds with \$100 million-\$500 million AUM. Interviews focused on the challenges facing mid-sized hedge funds in the current market and the increasing demands placed on them by investors. Participating hedge funds were asked about changing requirements for liquidity and fees, reporting and client service. Managers were also asked a series of questions on fund demographics and performance, selling and due diligence infrastructure, reporting transparency and tax planning.

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social security charges and mandatory legal benefits. Most common fringe benefits, which are discretionary in other countries, are mandatory in Brazil.

- e) Banking system – Brazil has a sophisticated banking system that uses state of the art technology. Most transactions are handled on a real time basis, regardless of the location of the parties involved. This demands a clear financial plan to deal with these constraints. Payment terms are in general short (30 days) and taxes are often due before the actual collection of the sale is processed.
- f) Relocation of foreigners to work in Brazil – The visa process is bureaucratic and might take much more time than a foreign investor would normally expect. The process is designed to protect the job security of local nationals.
- g) Joint Ventures – Many foreign companies start local operations in Brazil through a joint venture with a local partner. It enables easy entry into the country and requires minimal capital investment.

Brazil is a challenging business environment that requires a posture of respect and understanding for the local culture and procedures. On the other hand, it is a booming market that can serve as a platform for the entire South American region. Our key recommendation is: plan ahead, plan during incorporation, plan during start-up and plan while the business is running. Of course, it is not easy, but with proper preparation and the recognition that local expertise is a must, success is just around the corner.

Cicero Alencar is the founding partner of RSM International's member firm in Brazil, ACAL Consultoria e Auditoria S/S Ltda. He serves as the International Liaison Partner and Tax Practice Head at ACAL, founded in 1984. Cicero has assisted with several start-up businesses of foreign companies in Brazil, has been a Country Controller and Latin American Controller of major international corporations and has partnered with the government on several large economic projects.

McGladrey's 2010 Innovation Industry Report

U.S. still leads, but clouds on the horizon

Despite the sharpest financial downturn since the Great Depression, the United States remains the world's largest economy, with nominal gross domestic product of \$14.3 trillion in 2009. A significant reason why the nation maintains its top economic standing is a dynamic, inventive spirit, which has helped U.S. entrepreneurs turn innovative ideas into profitable business ventures.

This year, U.S.-based research and development (R&D) expenditures are expected to total just over \$400 billion, when accounting for all academic, government and industry research programs. While that puts overall domestic investment for innovation ahead of all Asian and European countries, there are signs that U.S. dominance in this area is starting to wane.

For example, in the last decade R&D spending in emerging Asian economies has outpaced U.S. growth by at least 2-to-1,

according to the Manufacturers Alliance/MAPI in Arlington, Va. According to the National Science Foundation, the annual growth of total U.S. expenditures for R&D (academia, government and industry) has averaged just over 5 percent since the mid-1990s. That is far less than the double-digit increases posted by several rising Asian nations, including China, Malaysia and Singapore.

In its 2010 Global R&D Funding Forecast, Battelle Memorial Institute, an Ohio-based nonprofit trust focused on scientific research for government and industry, projects China will surpass Japan for second place in overall global research expenditures. Based on current growth trends, the report also projects the BRIC nations (Brazil, Russia, India and China) will dominate future R&D growth, with the potential to match U.S. R&D spending by 2022.





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