

A world map is faintly visible in the background, centered on the Atlantic Ocean. The map is rendered in a dark red color, matching the overall theme of the slide. The title text is overlaid on the map.

Active vs. Passive Strategies In Latin America

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September 2010

Upside

Timing	The portfolio manager can choose the best time to buy the stock, therefore enhancing the upside.
Stock-picking	The portfolio manager can choose the best stocks to buy/short according to the most attractive upside/downside.
Alpha generation potential	The portfolio selected have a potential to create alpha over the benchmark.
Arbitrage potential	The portfolio manager can profit from arbitrage opportunities.
Weights selection	The portfolio manager can choose the weights of their positions for better risk/return management.

Downside

Higher costs	Having a team to analyze and select the stocks is more expensive.
Low transparency	The analysis of the stocks and the portfolio are usually confidential, being only disclosed if required by law or in specific cases.
Performance disparity	The performance of a respective fund relies highly on the decisions of the portfolio manager and therefore the performance of the funds can present great disparity.

Upside

Reduced Costs

Since no complex analysis is needed to select the stocks, passive funds present lower cost structure.

Transparent Portfolio Criteria

The index methodology is publicly available, therefore the decision criteria is simpler to track.

Downside

No alpha

Since passive funds keep tracking the performance of the respective index, by definition, no alpha can be generated.

No timing

Since the index rebalances its portfolio on a predetermined schedule, the rebalance date may not be the best date to buy the stock.

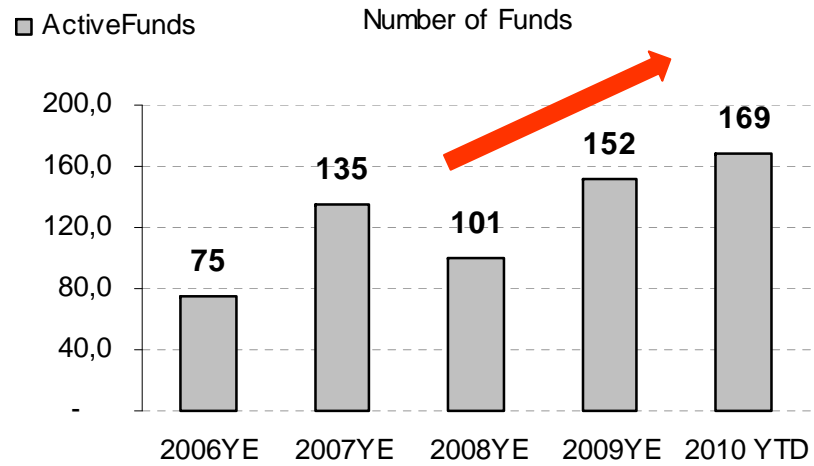
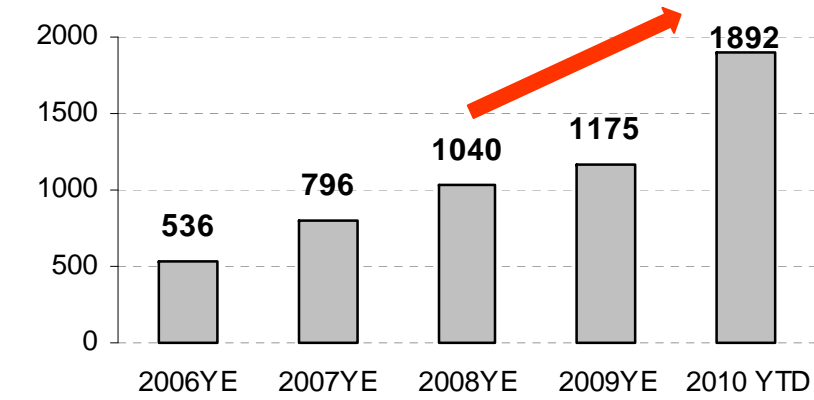
Weighting method

The weighting methodology is usually a measure of liquidity (Ibovespa) or by market cap/free float or (IBrX)

Numbers Comparison – Active funds x Passive funds in Brazil

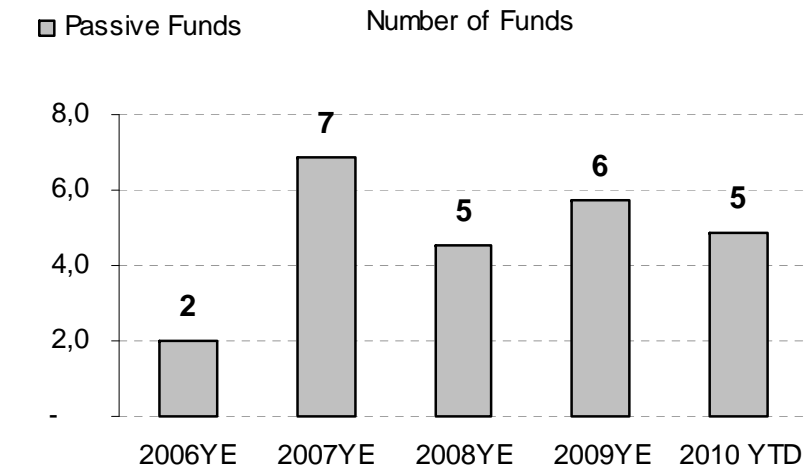
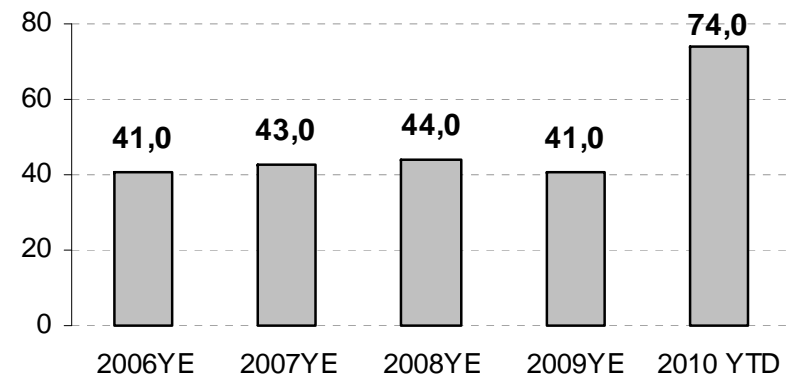
ACTIVE FUNDS

Figure 1 – Number of Active Funds and Net Worth Evolution



PASSIVE FUNDS

Figure 2 – Number of Passive Funds and Net Worth Evolution



What is Alpha?


Alpha is the risk adjusted abnormal return over the benchmark. To calculate this alpha we use the Jensen's Alpha methodology.

Jensen's Alpha


Alpha = Fund Return – [Risk Free Rate + β (Index Return – Risk Free Rate)]

Why look at the Alpha?

Alpha is a good measure to see if the active funds can have a superior risk/return relation than the respective benchmark.



Criteria for Inclusion in our Study


- Funds with Active management (excluding Sectorial Funds);
 - Track record minimum required 5 years;
 - Net Worth minimum required > R\$ 5 million;
 - Funds with Ibovespa's *Benchmark*;
- 

Results - Looking at the Alpha (%)

Jensen's Alpha

$$\text{Alpha} = \text{Fund Return} - [\text{Risk Free Rate} + \beta(\text{Index Return} - \text{Risk Free Rate})]$$

Figure 3 – Active Funds: Jensen's Alpha Analysis





	Criteria	Number of Active funds	2006*	2007	2008	2009	2010 (YTD)	5 Years*
High Alpha	(5y alpha) >3	92	23.9	27.7	-8.5	24.4	6.5	8.5
Total		222	18.3	21.05	-7.95	14.4	2.4	4.35

Net/Net

- Overall, the active funds can provide abnormal returns despite the sluggish performance in 2008 due to the financial crisis;
- **We see that the asset allocation skills of the portfolio manager can provide abnormal returns in the long term when compared to the benchmark index.**

Figure 4 – Active Funds: Performance Analysis

	Criteria	Number of Active funds	2006*	2007	2008	2009	2010 (YTD)	5 Years*
	High (5y alpha) >3	92	27.5	49.6	-35.4	74.2	6.4	129.9
	Total	222	21.0	43.5	-39.5	68.7	1.1	85.5
	Ibovespa (Benchmark)		19.2	40.8	-40.2	70.4	0.9	85.6

Net/Net


- Here we see that active funds with higher alpha can provide much **higher returns in the long term**, performing better than the benchmark **consistently** through time;

Results - Looking at the Risk

Risk

$$\text{Risk} = \text{St.Dev}(\text{Fund Return}(\%)) * \sqrt{252} \text{ (annualized)}$$

Figure 5 – Active Funds: Risk Analysis



	Criteria	Number of Active funds	2006*	2007	2008	2009	2010 (YTD)	5 Years*
High	(5y alpha) >3	92	20.5	22.5	42.2	25.2	17.9	28.1
Medium	-3 < (5y alpha) < 3	130	22.1	23.6	47.5	28.6	20.1	31.0
Total		222	21.7	23.1	45.7	27.7	19.7	30.2
Ibovespa (Benchmark)			24.4	27.3	52.4	31.4	21.1	34.0

Net/Net


- We see that active funds can provide lower volatility of returns compared to the benchmark in all periods;
- We see that the asset allocation skills of the portfolio manager can provide both lower risk as well as higher returns when compared to the benchmark index.

Results - Looking at the Information Ratio (IR)

Information Ratio

$$IR = \text{Avg}(\text{Fund Return} - \text{Index Return}) / \text{St.Dev}(\text{Fund Return} - \text{Index Return})$$

Figure 6 – Active Funds: Information Ratio Analysis



	Criteria	Number of Active funds	2006*	2007	2008	2009	2010 (YTD)	5 Years*
High	(5y alpha) >3	92	0.48	0.16	0.06	-0.08	0.61	0.16
Medium	-3 < (5y alpha) < 3	130	0.01	-0,03	-0.25	-0.78	-0.30	-0.13
Total		222	0.16	-0.02	-0.17	-0.58	-0.14	-0.08

Net/Net

- Again we see in one indicator of risk/return the performance of active funds compared to the benchmark. We see that funds with higher alphas tend to perform better consistently through time with the exception of 2009 where they performed similarly to the benchmark;
- We see that the asset allocation skills of the portfolio manager can provide abnormal returns without necessarily increasing the overall risk of the portfolio.

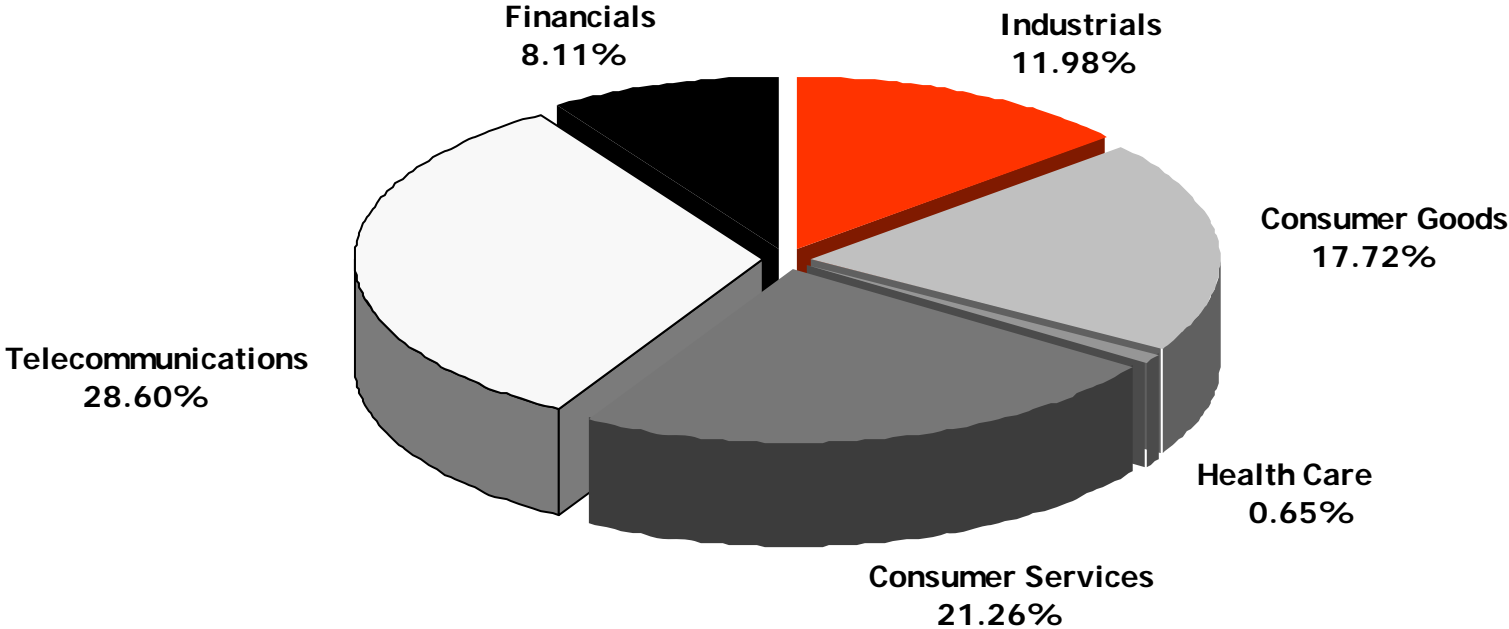
A world map is faintly visible in the background, rendered in a dark red color against the lighter red grid background. The map shows the continents of North America, South America, Europe, Africa, and Asia.

Performance of Santander Recommended Strategies

Santander Latin America Strategy

September 2010

Mexico IPC Index - Sector Weight

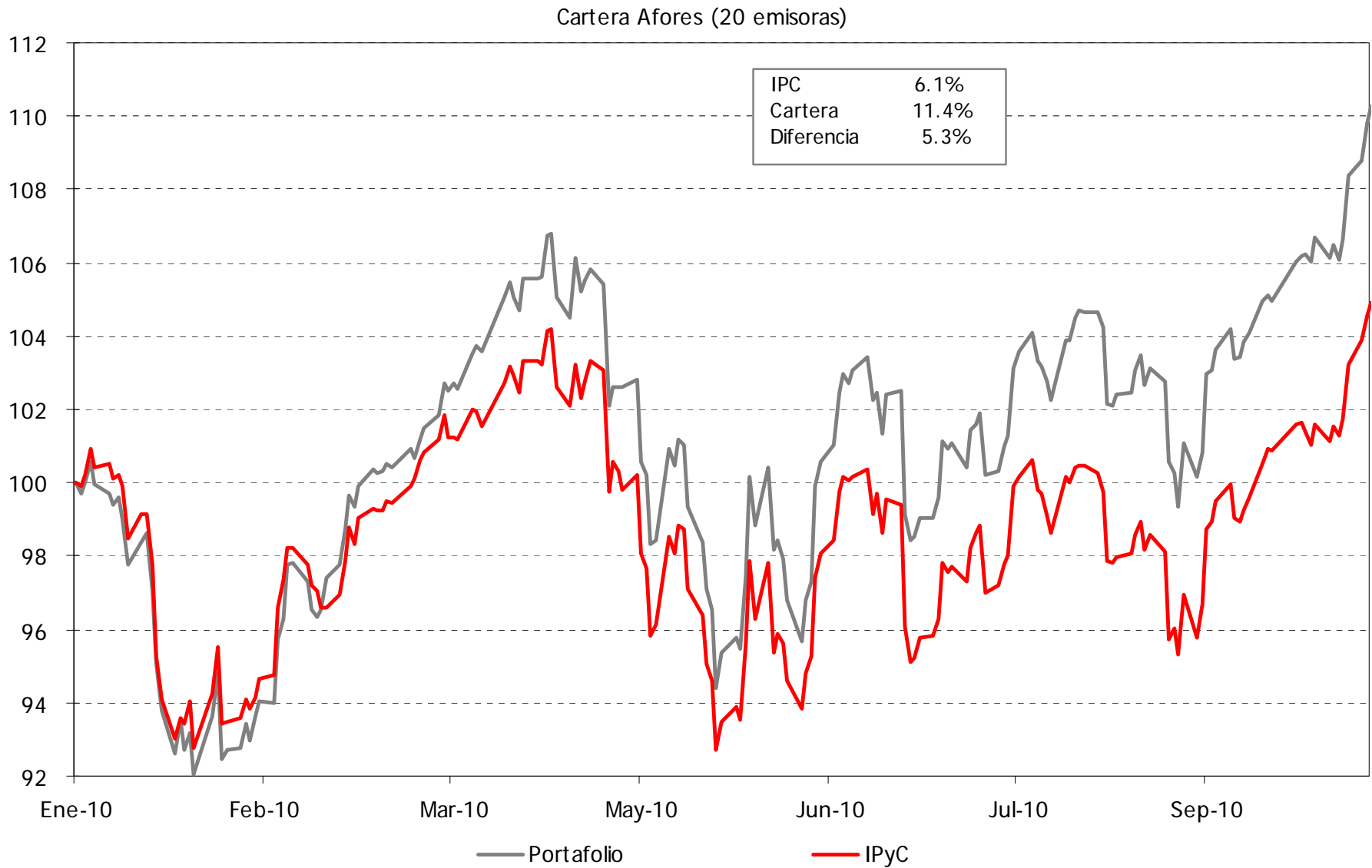


Santander – Recommended portfolio for Afores

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Emisora	Serie	Peso en	Peso en la Cartera		Diferencia vs.		Precio	Precio	Rendto.
		IPC	Anterior	Actual	Anterior	IPC	30-Sep-10	Objetivo	Esperado
ALFA	A	2.7	2.9	3.0	0.1	0.28	97.3	90.0	-7.5%
ALSEA	*	NA	1.0	1.0	0.0	NA	12.6	18.0	43.2%
AMX	L	26.0	27.0	26.0	-1.0	0.03	33.6	37.0	10.2%
ARA	*	0.4	2.0	2.0	-0.0	1.59	8.2	9.7	19.5%
BOLSA	A	0.3	1.9	2.0	0.1	1.67	21.1	25.5	20.7%
CEMEX	CPO	5.5	5.9	5.5	-0.4	0.02	10.8	14.5	34.5%
COMPART	O	1.3	2.1	1.0	-1.1	-0.34	80.3	80.0	-0.4%
FEMSA	UBD	7.2	3.7	4.0	0.3	-3.20	64.0	75.2	17.5%
GEO	B	1.0	3.0	3.0	-0.0	1.97	36.2	48.9	35.1%
GFNORTE	O	3.8	2.4	3.8	1.4	-0.01	47.7	60.0	25.8%
GMEXICO	B	7.3	10.1	10.0	-0.1	2.65	36.3	44.8	23.5%
HERDEZ	*	NA	1.5	1.5	0.0	NA	18.5	25.5	37.8%
ICA	*	1.0	4.7	5.0	0.3	3.97	30.7	43.0	40.2%
KIMBER	A	2.3	2.0	2.0	0.0	-0.31	80.2	77.0	-4.0%
LAB	B	0.7	3.7	4.0	0.3	NA	24.2	30.5	25.9%
MEXCHEM	*	1.3	3.9	4.0	0.1	2.68	35.3	44.5	26.2%
PE&OLES	*	1.9	3.1	3.0	-0.1	1.09	307.8	335.0	8.9%
SORIANA	B	0.5	2.0	2.0	0.0	1.55	34.9	40.0	14.6%
TLEVISA	CPO	6.0	3.7	5.5	1.8	-0.47	47.8	56.0	17.3%
WALMEX	V	11.8	13.5	11.8	-1.7	-0.00	31.6	39.0	23.5%

Afores Portfolio - Jan to Oct 2010 – Gonzalo Fernández



2-Ene-08	18-Jun-08		5-Ago-08	
Portafolio Inicial:	Entran:	Salen:	Entran:	Salen:
AMX	GEO	AXTEL	URBI	GFAMSA
AXTEL	GFAMSA	CICSA	KIMBER	HOMEX
CICSA	GFNORTE	GAP		
GAP	ICH	URBI		
HOMEX	TLEVISA	WALMEX		
ICA				
MEXCHEM				
OMA				
URBI				
WALMEX				

5-Ene-09		22-Abr-09		11-May-09	
Entran:	Salen:	Entran:	Salen:	Entran:	Salen:
LAB	GFNORTE	GFNORTE	URBI	ALFA	ASUR
FEMSA	ICH			ICH	KIMBER
ASUR	OMA				

Top Picks – Changes

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8-Dic-09		20-Ene-10		23-Mar-10	
Entran:	Salen:	Entran:	Salen:	Entran:	Salen:
GMEXICO	ALFA	BOLSA	AXTEL	ARA	BOLSA
COMPART	AMX			PE&OLES	WALMEX
WALMEX	GEO				
ASUR	ICH				
AXTEL	TLEVISA				

10-May-10		14-Jun-10		6-Jul-10	
Entran:	Salen:	Entran:	Salen:	Entran:	Salen:
FINDEP	ASUR	AMX	ICH	WALMEX	FINDEP
ICH	COMPART			ALSEA	GFNORTE

158/10/2010

Portafolio Actual:

ALSEA

AMX

ARA

FEMSA

GMEXICO

ICA

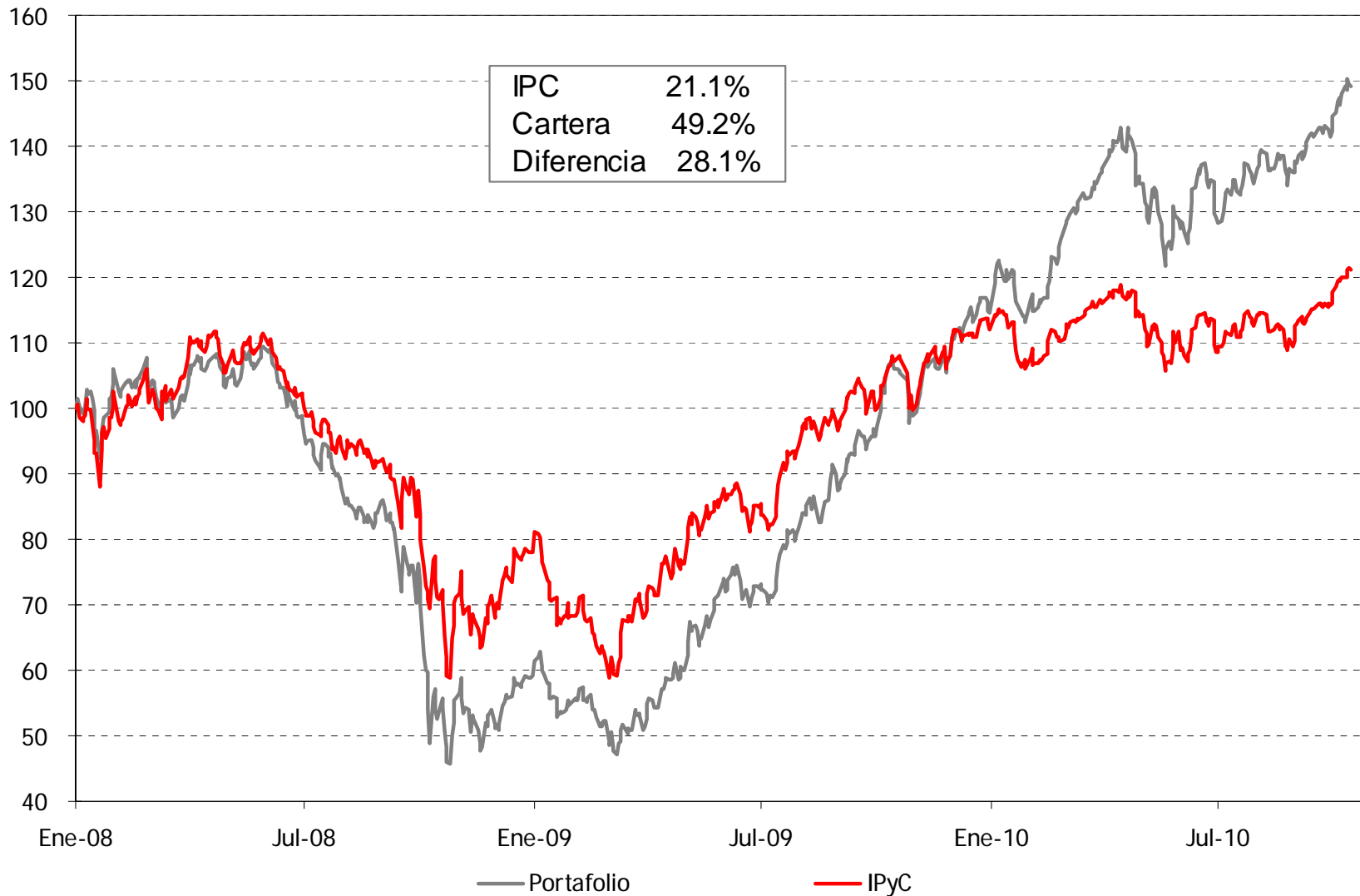
LAB

MEXCHEM

PE&OLES

WALMEX

Top Picks Mexico – Jan 2008 to Oct 2010



Santander Brazil Strategy's Portfolio Performance – Marcelo Audi

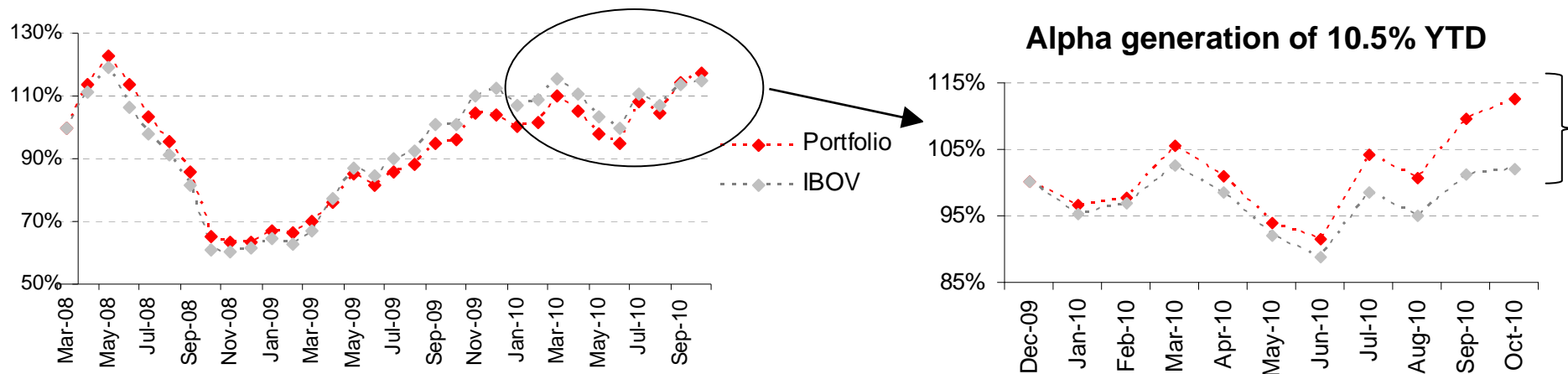


Figure 7 – Strategy Recommended Portfolio Performance

Company	Sector	Stock	Rating
BR Properties	Income Properties	BRPR3	Buy
MRV Engenharia	Homebuilding	MRVE3	Buy
PDG Realty	Homebuilding	PDGR3	Hold
Banco do Brasil	Financial Institutions	BBAS3	Buy
Cielo	Financial Institutions	CIEL3	Buy
BM&F Bovespa	Financial Institutions	BVMF3	Buy
Vale	Mining	VALE.P	Buy
Gol	Aerospace & Transportation	GOL	Buy
CCR	Aerospace & Transportation	CCRO3	Hold
lochpe Maxion	Industrials	MYPK3	Buy
Randon	Industrials	RAPT4	Buy
Lojas Renner	Retail	LREN3	Buy
Petrobras	Oil & Gas	PBR	Buy
CSN	Steel	SID	Buy

(1) Recommended weightings: 6.70% MRV and 6.70% PDG. (2) Recommended weightings: Banco do Brasil 11.90%, BVM&F 5.90% and Cielo 5.90%. (3) Recommended weightings: Gol 5.00% and CCR 5.00%. (4) Recommended weightings: 1.00% lochpe-Maxion and 1.00% Randon. Sources: Bovespa and Santander.

Chile IPSA vs. Santander Top 5 – Francisco Errandonea



- The study shows the favorable evidence in the long term and that the appropriate choice of managers is crucial to the profitability of the fund, given that high Alpha fund managers presented consistent better results. Corroborating in favor of active management.
- **We see that the asset allocation skills of the portfolio manager can provide abnormal returns in the long term without necessarily increasing the overall risk of the portfolio** when compared to the benchmark index.

Important Disclosures Key to Investment Codes

Rating

Definition% of

Companies Covered with This Rating% of Companies Provided Investment Banking Services in the Past 12 MonthsBuyExpected to outperform the local market benchmark by more than 10%.55.32%55.88%HoldExpected to perform within a range of 0% to 10% above the local market benchmark.37.77%41.18%Underperform/SellExpected to underperform the local market benchmark.6.91%2.94%Under review---The numbers above reflect our Latin American universe as of Monday, April 12, 2010.

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