NBA 5420 – Investments and Portfolio Management Problem Set 8 – Case Study 1
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1. Do some internet research on the tech sector in Brazil. What's happening in the industry? What are some companies, both established companies and start-ups? What strategies allow them to succeed in Brazil?
Answer: Now, The economy experiences recession in Brazil, the unemployment decresese, the wage decrsess. the currency is decreasing. While the technology part(IT industry) develops pretty fast. For the case study part, the economy was experiencing boom.

2. How do various risks discussed in the case directly impact the returns of PE investors? For example, why should investors care about the political risks? Also discuss other possible risks including: commodity boom and bust cycles, capital inflows and credit booms, fraud and corruption risk, fiscal and monetary risks, global macro risk (e.g., a China slowdown). Think through specific mechanisms of how each of these risks can or cannot impact PE investors in the tech sector.

Answer: The political risk may Cause different government leader may have different polices, so the political crisis may bring more uncertainty of economy.
1 global macro risk. when the economy does not do well. the export to other countries may decrease
2 fiscal and monetary risks. Different fiscal policy. May cause more risk for the assests
3 commodity boom and bust cycles. will not involve obvious risk
4 capital inflows and credit booms, there may cause more default, so the risk increses
5 fraud and corruption risk. Companies will not get real information about assets invested, so it will bring more risk to their assets invested

3. What structural changes over the period 2003 to 2010 make investing in Brazil more promising than in the past? Cite specific economic statistics. What are some structural reasons for concern going forward?

Answer: the Structural changes happened:
1. **Rule of law**
   law plays a important role in Brazil and investors believe that they are protected by the low enforced by the government

2. **Macroeconomic Stability**
   a) **the government reconstruct the finance system that reassured the international investors. For instance, Minister Antonio Palocci (2002–2006) increased the target for the primary budget surplus and swapped short-term dollar-linked debt for medium- and long-term debt denominated in domestic currency.**

3. **Wealth Redistribution and the Rise of the Middle Class**
   a) **more people enter the middle classAs a result, over 30 million Brazilians entered the middle class from 2003– 200918 and 18 million more were projected to enter it by 2014.**

4. **Export Promotion**
   a) **Brazil's exports of goods went from $73 billion in 2003 to $210 billion in 2010, a CAGR of 16% per annum (see Exhibit 3).**

Reasons for concern going forward.
1. **Slower long-term growth, Brazil does not have enough resources and ability to make sure long-term development**

2. **Insufficient capital formation and poor infrastructure**

3. **Brazil has poor infrastructure.**

4. **Business environment the tax burden is heavy in Brazil, with with total taxes of roughly 35% of GDP and government spending, so it limited how fast that the economy can grow without causing inflation**

5. **Strong real, The concurrency is kind of expensive compared the value it should be .**

6. **Labor market, tight labor market, There are not enough labors or workers in this economy. As a result, the government can not hire enough workers.]**

7. **Return of inflation, The inflation returns, Risk of a credit bubble, The rate of default is high**

4. Combining your answers to questions 2 and 3 above, try to assess whether the boom in Brazil is for real this time (as of 2011)? Can the country go bust again?
Answer: Maybe, the government can use monetary tool to achieve one short-term growth. But if the government wants to achieve long-term development, it needs to do some more things on government reform and give more resources on infrusture and education
Answer: it is not real, it is achieve short-term of growth in expense of long-term of growth.

5. Should Silver Lake open an office in Brazil? Comment on different entry strategies for PE firms (e.g., operate from NY, buy local PE firm, hire a local team, hire a big shot Brazilian) and the pros and cons of each. Talk specifically about the success or challenges of the different models of General Atlantic, Warburg Pincus, Carlyle or Blackstone.
Answer: Hire local team
1. **the company may be not very familiar with the econmomy in Brazia, so that's why it should hire a local team.**
2. **it can not hire a local PE firm, because the corruption in this country is serious.**
3. **It is essential to build local teams, and we need to hire someone really understand Brazil. Because they need the source of local message. Also they need some people who really understand the technology firms in Brazil. To conclude, the best strategy is to hire a team in Brazil.**

6. One problem of investing in emerging markets is what one might call "institutional voids." However, firms operating in emerging markets can turn institutional voids into competitive advantages if their business models overcome such voids and adapt to the local context. Which of these voids can Silver Lake fill in with an advantage?
Answer: not sure about that
Answer: institutional voids refers to the absence of intermediaries like market research firms and credit card systems to efficiently connect buyers and sellers. So the Silver lake can work on finding the large technology company.

7. What's the economic and political situation in Brazil right now (meaning in April 2016)? What's happened since this case was written? You may want to read the following three recent articles (posted on Blackboard): o Brazil's Economy Tanks as Political Upheaval Looms – WSJ o Brazil Economic Woes Deepen Amid Political Crisis – WSJ o Brazil's political crisis, explained in 500 words - Vox

Answer: Now the economy is suffering, mainly because tof he political crisis. The economy shows features of recession.