

mar asset
management

November, 2019

A whole new world. Or not so much

Quite unambiguously, it is well known that the present world accumulates a great deal of social dissatisfactions. During the last decades, while we have witnessed the most remarkable qualitative advance of human life in all of history - which has raised the general level of social expectations to an equally unprecedented level - we have once again confirmed the obvious: no development (whether economic or political) is homogeneously distributed among societies, and no structures will be perfect at the same pace of people's desires.

Moreover, if that is the case even among the countries that have enjoyed the most in world politics or economic prosperity in recent history, what should one expect from countries that were already not doing well?

In fact, there is a lot to expect.

In this belief, we publish here our first letter, introducing our communication channel with our investors.

Evolution or Revolution?

As with biological nature, new social environments are never entirely unheard of. Here at **MAR**, resorting to historical precedent research is a sacred expedient, as it deepens our ability to interpret the present and expands our analytic repertoire, perfecting our processors for future interpretations. Hence, instinctively, when we think of deep social polarizations, we automatically resort to rereading of the French Revolution.

Radical ideas about political systems and pressures on absolutist monarchies are known to exist throughout Europe at that time, and it is also known that France met some specific pre-revolutionary conditions. An out-of-control debt, resulted from the negative balance in the Seven Years War and from the adventure alongside the American settlers; the succession of devastating winters and poor agricultural performance; Louis XVI's poor political skills, faced against the rise of Enlightenment and the ideas of Robespierre, "The Incorruptible" (the kind of ever-irresistible popular nickname), are the common explanations given for that perfect storm.

Powerful ideas, seductive proposals, and frustrating scenarios are always ingredients of change, including revolutions. And that includes good revolutions, those that have left their descendants a positive balance. But good revolutions and efficient transformational processes may be quite different things. Understanding such a distinction is as imperative for the portfolio manager as understanding signs of storms. In this sense, the counterpoint of the lesson given to us by England in the same period during and after the French revolution is a marker. The UK went from an absolutist monarchy to a representative democracy in a much smoother fashion than France did. After losing the American colony in the US War of Independence, the British - who embraced Adam Smith's ideas - understood that trade deals could be far more important than political control for economic success.

British pragmatism made its Sharpe ratio¹ infinitely superior to the French one at that time, which makes those readings an interesting exercise for today's manager, in the age of radicalism and transformations we also live on. It is symptomatic that societies can sometimes end in spirals where even the invention of the guillotine comes to be a symbol of humanitarian evolution (a clean and painless death, according to Joseph Guillotin).

Another good example of these imbalances, now in modern pop culture, is seen in the excellent movie "Joker", currently in theaters. Our *spoiler*: The birth of the main character was practically a wish of the society in which he lived. In schizophrenia

1 Sharpe index: The average return earned in excess of the risk-free rate per unit of volatility or total risk.

where the Joker represents the majority, all what minorities can do is to root for the emergence of a Batman.

Meanwhile, we do not wear “black capes” at **MAR**. So, we can only study signs of companies, governments or any agents on trajectories more like the English political transition, less like the French one. We believe that in the long run, these profiles generate higher returns, even (and especially) in times of great transformations.

For those like us, curious enough to dig a little deeper into the clash between French revolutionary ideas and British liberalism, here is a [link](#) to an interesting letter by Benjamin Constant, read in Paris in 1816².

Today's Brazil

Following the world fashion, Brazil's 2018 election experienced an acute political polarization, which eventually brought a radical right-wing populist into power. Despite his liberal promises regarding the economy - extremely welcome, by the way, given the previous political cycle - Jair Bolsonaro's campaign was defined by a claim of rupture with the traditional political *status quo*. Obviously, that sort of claim raises uncertainties and potential for instability, which can slower growth even more, dropping financial asset prices.

That worried us a lot. In fact, by the end of March 2019, a public quarrel between President Bolsonaro and Rodrigo Maia, Speaker of the House of Representatives, led the institutional relationship between executive and Congress to the verge of collapse. Considering that presidents do not survive without Congress support, the institutional risk of the elected Government has reached its peak at that point.

But then, as a pleasant surprise, on March 26th, the ill-spoken and so-called *Centrão* (Center) announced unified support for the pension reform, in response to Bolsonaro's attacks on Rodrigo Maia. At that time, it was clear to us that a new form of institutional relationship between the Congressmen and the executive would be possible. Meanwhile, the charismatic new president who claimed to go by the same nickname as Robespierre's paled. The “Queiroz Case” scandal proved that the new president was much more like traditional politicians than his constituents imagined. A practical result of this moral “disappointment” with Bolsonaro, was the maintenance of a reasonably stable political environment. The source of potential imbalance (Bolsonaro himself) finally chose as majority whips in both Houses (Congress and Senate) two experienced politicians from MDB (political party attacked by Bolsonaro's presidential campaign as the most corrupt one).

In other words, we have just gone through a highly polarized electoral cycle in which Brazil once again flirted with radicalism, but also in which (once again) there was more flirting than radicalism per se. A closer look suggests that we are moving

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<https://www.earlymoderntexts.com/assets/pdfs/constant1819.pdf>

more through the center than it may seem. Inevitably, this is good news to investors, and therefore more likely to push a higher economic growth that will finally solidify such stability. For all these reasons, we credit high odds to the hypothesis that Brazil have already gone through the country's peak of institutional destabilization risk under the current government. At least temporarily, we walk through the political center. In a way, that is a contrast from the rest of the world. Straight up: it means we have a green light for risk.

Our View

We believe the Brazilian government understands that GDP growth and employment rates are the key variables for the country to remain reasonably stable in the coming years. Under the guidance of a liberal Ministry of Economy, this means reducing the size of the state and making room for growth through private sector. Fiscal tightening and monetary easing would be the pillars. Thus, when we find a government committed to fiscal discipline, we expect low inflation (possibly even below target), and loose monetary policy.

We started from a depressed base, as we are just emerging from the biggest recession in country's history. So, the initial growth comes with less effort because we have plenty of labor supply and cheaper capital. Since the first day of the fund (February 1st, 2019), we have focused on the combination between receiving rates in the short end of the curve and on specific Brazilian equity investments. Until the approval of pension reform, we carried implicit inflation in our portfolio, for protection. As the rule for selecting the companies we invest in, we follow the same logic described on the comparison between France and England in their revolutions.

That is, in a world where revolutions are the rule, we seek companies with ability to go well through major transformations, with strong teams, generating profits along the way and benefiting from changes. That is, companies with solid and structured businesses, but with capacity and appetite to eventually disrupt their own business, using their platforms and comparative advantages as that starting point.

How we surf

We pretty much hold the same positions since day one: receiving rates in the short end of the curve and in a few companies with solid business models, prepared to capitalize from market revolutions.

The ocean

In a lineup where - not rarely - extreme opinions are the norm, we believe that our mission is not to define reality but to identify asymmetric opportunities within it, building good returns for ourselves. Always alert to changes, sensitive to environmental signals and immersed in the task of separating noise and signals, we are aware we do not control the variables guiding us. We just read and react to them. From those history classes and the surf lineup we took the lesson that discipline and serenity reap the best waves in the long run, even if a Joker paddles around us.

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