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Banks

JPMorgan looks to expand in Brazil

Investment bank to raise staff numbers

Asset management opportunities eyed

By Joe Leahy in São Paulo

JPMorgan plans to almost double its headcount in Brazil as it seeks to tap opportunities in asset management, corporate finance and other areas of business in Latin America's largest economy.

The US investment bank has already expanded to 630 people – a more than sixfold increase in 14 months – as it seeks to expand across various business areas.

It would add another 150 or more people in the next 12 months and planned to reach a headcount of 1,100-1,200 in the medium term, Cláudio Berquó, JPMorgan's Brazil chief executive said, adding that the group was expanding to cover five cities from three. "Then we will have a footprint that covers 80 per cent of the gross domestic product of Brazil," Mr Berquó said.

The figures, which do not include JPMorgan's high-profile acquisition of Rio de Janeiro-based hedge fund and private equity firm Gávea Investimentos last year, come as investment banks are keen

to grab market share in Latin America's largest economy.

According to figures from Dealogic, the data company, last year set a record across all the big business areas of investment banking in Brazil, as the economy grew 7.5 per cent year on year.

The volume of mergers and acquisitions in 2010 reached almost \$153bn compared with about \$60bn a year earlier, while equity issuance was more than \$49bn, close to

630

Number of people working for the bank in Brazil

\$153bn

Brazil's 2010 M&A volume, up from \$60bn a year before

double that of a year earlier. Debt issuance was more than \$48bn compared with about \$30bn in 2009.

This year, Brazil has made a slower start amid efforts by the government to slow an economy that is showing signs of overheating, with the central bank tightening monetary policy and implementing capital controls to restrict credit growth.

But bankers remain confident Brazil will continue to be one of the big sources of growth in their industry over the next few years alongside other fast-growing large emerging markets, such as China and India.

Louis Bazire, the country head of Brazil for BNP Paribas, said the French bank had added about 400-500 people in Brazil over the past four years to bring its total headcount to almost 2,500. It was now expanding into new areas, including the establishment of a securities brokerage, he said.

"The banks that survived or even got stronger through the crisis are expanding. We are seeing the Chinese coming to Brazil and the Japanese, who had disappeared, are also coming back, at least on the lending side," Mr Bazire said. "Everybody's looking at Brazil."

Last week, Brazil's central bank confirmed plans by Industrial and Commercial Bank of China, the world's biggest lender by market capitalisation, to open a branch in São Paulo.

Chinese banks are eager to tap growing trade between their domestic market and Brazil, which reached \$56.2bn last year compared with only about \$2bn a decade earlier.

Strategy aims to harness rapid growth

Interview

Mary Callahan Erdoes and
Cláudio Berquó

Executive officers, JPMorgan

Bank seeks to cut dependence on US, write **Joe Leahy** and **Francesco Guerrera**

In September 2008, the International Council of JPMorgan was scheduled to hold its annual meeting in São Paulo to familiarise members with Latin America's largest economy ahead of a planned expansion.

But days later, Lehman Brothers imploded and the visit by the high-level advisory board, headed by former British prime minister Tony Blair and including luminaries such as former US secretary of state, Henry Kissinger, was postponed.

Then in November last year, the group finally made it to Brazil for the meeting.

The interest in the country from JPMorgan's top ranks comes as the bank is embarking on a major expansion there, where its headcount has already grown sixfold.

The move is part of a wider strategy at the bank, which emerged from the crisis in better shape than many of its Wall Street peers, to try to grab market share in the fastest growing of the large emerging markets.

"What one saw coming out of 2009 in the first and second quarters was not just [the issue] that we were among the strongest on the block, but we were going to do something with that," said Mary Callahan Erdoes, chief executive of JPMorgan Asset Management, who was in São Paulo to discuss expansion of the wealth management arm.

Cláudio Berquó, chief executive of JPMorgan in Brazil, concurred: "Our bank

was well-run and we wanted to expand. Brazil was the logical choice."

The bank's push into Brazil comes as financial institutions, from banks to private equity groups, are seeking to take advantage of rapid economic growth in Latin America's largest economy.

Aside from JPMorgan, Barclays Capital, Goldman Sachs, Morgan Stanley and other banks have stepped up hiring in Brazil to keep pace with record volumes over the past five years in mergers and acquisitions and equity and debt issuance.

For JPMorgan, Brazil is crucial to its strategy of reducing its dependence on the US by expanding in faster-growing economies.

After buying two US rivals – the investment bank Bear Stearns and the regional lender Washington Mutual – in cut-price deals during the crisis, JPMorgan now finds itself too closely tied to the US economy.

Last year, Jamie Dimon, the bank's chief executive, placed Heidi Miller, one of his most senior lieutenants, into the new position of head of international operations.

Ms Miller's task is to co-ordinate the efforts of JPMorgan's various businesses – ranging from investment banking to asset management – in overseas markets.

Mr Berquó said one of the



Skilled people are becoming scarce, says Cláudio Berquó



Mary Callahan Erdoes says a hedge fund plan in emerging markets is needed, but quality acquisitions are not easy to find

Helayne Seidman

key challenges of this push in Brazil has been to find talent. Frenzied hiring, not only in the financial industry but across other booming sectors, such as oil and gas, is leading to a scarcity of highly qualified people.

'Our bank was well-run and we wanted to expand. Brazil was the logical choice'

Cláudio Berquó

"I think the shortage of people here is not only going to be in the financial sector, it's going to be across the board," said Mr Berquó.

While he did not give figures for compensation increases in investment banking, a survey by Brazilian search firm Dasein Executive in December found that senior executives in Brazil are on average earning higher salaries than those in New York and London.

One of the next frontiers for expansion for JPMorgan in Brazil will be asset management, with several key appointments expected in the coming month, Ms Erdoes said. Brazil has more than \$1,000bn in government pension funds

that will be looking for higher returns once the current interest rate tightening cycle reverses, said Mr Berquó.

The bank made an important acquisition in its global alternatives platform last year with the purchase of Rio de Janeiro-based Gávea Investimentos, a \$6bn hedge fund and private equity firm whose founders include Arminio Fraga, a former Brazilian central bank chief.

Crucial to the investment was that the founders remained at the helm.

"We wanted the transaction to be orchestrated in such a way that it served the long-term advantage of the people who were there so they would stay, and not consider it something that they were selling," said Ms Erdoes.

She added that JPMorgan needed to introduce a hedge fund strategy in its other emerging markets as part of its asset management businesses but quality acquisitions, such as Gávea, were not easy to find.

Regarding other acquisitions, she admitted: "Yes, we think about it all the time. But it would have to be another special situation and they are very hard to come by."

"Generally, we would always prefer organic growth over acquisitions."