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Brazil's 'Better Than Goldman' Bank Slowly Rebounds From Scandal

By VINOD SREEHARSHA SEPT. 5, 2016



André Esteves, the former president of BTG Pactual who was arrested last November on charges of obstruction of justice. CreditClayton De Souza/Agencia Estado, via Associated Press

SÃO PAULO, Brazil — BTG Pactual, a once highflying Brazilian investment bank that stumbled badly during a brush with scandal last year, is reinventing itself with more modest aspirations.

Gone is the brash desire to outdo the American investment bank [Goldman Sachs](#) — some here once joked that BTG stood for “Better Than Goldman,” and the bank expanded to Hong Kong, the United States and Europe, even Switzerland.

Today, simply getting back into the game may be as meaningful for BTG, given the tumultuous nine months it has endured since its former chief executive and guiding force, André Esteves, [was arrested in November](#) on charges of obstruction of justice in the [sprawling Petrobras corruption investigation](#), accusations he has denied.

BTG Pactual’s share price immediately took a beating, and clients withdrew 33 billion reais (\$10.1 billion) of their money from its funds in November and December, according to the Brazilian consulting firm Economática, sparking a crisis of confidence that [executives scrambled to fix](#).

Since then, the bank has showed signs of stability. Although profit in the most recent quarter, reported in August, came in below market estimates, the company no longer faces net withdrawals by clients or pressure to prove liquidity.

BTG Pactual's flagship hedge fund, called GEMM, shrank to \$150 million from \$5 billion after Mr. Esteves's arrest but has since bounced back to about \$500 million, Roberto Sallouti, one of the bank's co-chief executives, said in a recent interview at the bank's headquarters in São Paulo. The bank also now has excess capital after selling assets.

BTG Pactual, said Mr. Sallouti, a Wharton graduate who joined the bank in 1994 and became a partner in 1998, is now in the final steps of what he called a strategic repositioning that it was forced to undertake. "Clearly the worst is over, and we're back to the normal course of business," he said.

The firm is even considering expansion in Latin America, particularly in Mexico and Argentina, and is seeking to acquire nonperforming loan portfolios, he said.

Analysts say BTG will need more time to recover its credibility. Still, executives see its future success tied to being a more pared-down company.

"The new BTG Pactual of 2016, 2017 and 2018 is probably much closer to the BTG Pactual of 2012," Mr. Sallouti said. "Our motto in 2012 was 'Latin America's business and investment hub,'" he said. To the company, that meant combining its full-service investment bank for Latin America with a focus on asset management, wealth management, investment banking, sales and trading, credit, and its global hedge fund business.

The new thinking is distinctly less aggressive than the growth plan put in place by Mr. Esteves, but it signals a return to what was once viewed as BTG's strength. For example, in 2012, BTG Pactual [acquired Celfin Capital](#), an investment bank and brokerage firm based in Chile with operations in Peru and Colombia. The same year it [bought Bolsa y Renta](#), a Colombian brokerage firm.

Yet by 2014 it was less focused, seeking to diversify its business through such tactics as [buying Ariel Re, a reinsurance company](#) based in Bermuda and London.

Those types of direct investments will be eliminated, Mr. Sallouti said. BTG has abandoned plans to expand operations in wealthier markets abroad. The bank's income, he said, is going to be mostly Latin America-related, "with the exception of asset management, where you will have fees coming from our hedge fund business." Specifically, he added, "I would expect that Mexico and Argentina become more relevant every month and every year as a percentage of our revenues," and he estimated that only about 25 percent of the bank's revenue would come from outside Brazil.

There are other indicators that the bank has entered a new phase. Over all of the funds that it runs, BTG had a net gain of 2.6 billion reais in June, and in July a net rise of 1.1 billion reais, according to the Economática report — the best two months since Mr. Esteves's arrest. That the bank even reached this point surprised some observers.

The Nov. 25 arrest of Mr. Esteves shook up Brazil's business establishment. He was then the most prominent nonpolitician to be snared in the [Petrobras](#) investigation, which has affected a wide array of industries in Brazil. Over the last two years, investigators have uncovered an elaborate bribery and money-laundering ring centered on the state-controlled oil giant Petrobras. An influential senator from the Workers' Party, then governing, who was arrested on the same day accused Mr. Esteves of helping an important witness try to flee the country.

The bank immediately [named a new chief executive, Persio Arida](#). He was already a partner, but as president of the Central Bank of Brazil in 1995 and someone involved in the economic stabilization plan for Brazil in the 1990s, he brought credentials and reassurance to the market. They then swapped Mr. Esteves's controlling shares with those of other partners. Finally, the bank made Mr. Sallouti and Marcelo Kalim co-chief executives and moved Mr. Arida to preside over the board.

The bank, worried that it needed to preserve liquidity, started selling assets. In December, it [sold its stake](#) in the Brazilian hospital chain Rede D'Or to the Singapore [sovereign wealth fund](#) GIC for about 2.38 billion reais.

In February, it [sold the Swiss bank BSI to EFG](#) International for 1.33 billion Swiss francs (\$1.36 billion).

A line of credit of 6 billion reais from the Fundo Garantidor de Créditos, a Brazilian deposit guarantor, gave it an important lifeline while it sold assets, Mr. Sallouti said. The bank still has 30 percent of that credit line left to pay back but expects to do so once the sale of BSI concludes, by the end of this year, if not sooner, he said.

In April, Mr. Esteves was freed from house arrest in São Paulo.

He did not waste a minute, showing up unshaven and in jeans at the bank's headquarters the same day to address employees at an afternoon town hall meeting.

He has since been a regular presence at the bank.

"I talk to him almost every day," Mr. Sallouti said.

He does not have a management role, because he is still under investigation in Brazil, but his lawyer said in a recent interview that he continues to claim his innocence and hopes to be cleared soon.

Still, the bank is likely to face numerous challenges.

"They still have the problem of recovering their image," said **Luis Miguel Santacreu, a financial sector analyst for the credit ratings agency Austin Rating**. "I think their growth will be slower and more modest," he added.

Second-quarter revenue was 2.6 billion reais, significantly less than the 3.6 billion reais in the previous quarter but higher than the 2 billion reais in the second quarter of 2015.

The results reflected the bank's downsizing for the first time, Goldman Sachs said in a research note. "The smaller footprint will make it difficult to generate profitability at a much higher level, though an economic recovery could help," Goldman said.

It continues to lead in merger advising, ranking first through June in the volume of announced deals in Latin America, according to Dealogic. And it spun off its commodities unit, which will reduce its exposure to volatile markets.

The Petrobras investigation is out of BTG's control, and it shows no signs of slowing. Moreover, it appears likely to focus increasingly on the financial industry.

The lead federal prosecutor, Deltan Dallagnol, said in a recent interview that many banks facilitated the movement of illicit money in overseas accounts, so investigators were closely scrutinizing that. He declined to provide details and did not mention BTG Pactual or any other banks by name.

Nevertheless, he said that the information the authorities had uncovered so far "demands a deeper analysis that will be done at the opportune moment."

A separate investigation into Brazil's pension funds also presents risks for the bank and finance sector. Federal police said on Monday that they carried out 106 search and seizure judicial orders, looking into fraud at the country's four largest pension funds. While BTG Pactual is not being targeted at the moment, in the past its [private equity](#) operations obtained capital from some of those funds.

Still, for now, many here give BTG Pactual credit for surviving.

“They were trying to get back into the game very rapidly and vigorously,” said Luiz Cezar Fernandes, the founder of Pactual, who first brought on Mr. Esteves in 1989. “They made the right decisions,” he said.

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