A LATIN LEGEND

In 1946, a young blue blood, Ivy League investment banker named Clarence J. Dauphinot, Jr. convinced his boss, Kidder Peabody & Co., to back him in what became one of the most daring investment adventures ever undertaken in Latin America. With an original capital investment of $50,000, Dauphinot founded what is today a group of firms which manages over $1.3 billion, some $1.1 billion from clients and over $200 million of its own capital.

Clarence J Dauphinot Jr.

Deltec Comes Home

Although Deltec withdrew from almost all direct investment activities and commercial lending in Latin America in the mid-1970s, it quietly returned to the region in the late 1980s. By the mid-1990s, its track record was firmly re-established: the Deltec Latin American Fund posted the top returns of any regional debt fund for the one-year, three-year and five-year periods ending September 2, 1996, according to Micropal *(see page 22)*. The fund's five-year return is an astounding 321%.

During its decade-long absence from Latin markets, the Deltec legend was almost lost from view—something that didn't bother Deltec's partners or clients, whose preference for a low profile was cemented by the nationalization of its Argentine holdings in 1971 *(see box, page 12)*. In fact, with its network of investors—primarily high net worth individuals with whom it maintained decades-long relationships—Deltec has the lowest possible sales and advertising budget: zero. Only now, with the coming launch of its limited partnership private equity fund, Deltec Latin American Capital Partners, is the firm actually seeking out investors.

However, that is exactly what the early Deltec'ers did. In 1958, *Time* described its operations: "Over rutted Brazilian jungle trails last week jounced a task force of clay-spattered, green and yellow jeeps, carrying as incongruous a crew as ever penetrated the steaming wilderness. They were securities salesmen, hardy young men carrying briefcases, who were on their way to sell a $1.6 million issue of stock in Willys Overland do Brasil to back-country natives who had never even heard of Wall Street. Fighting dirt, dysentery and distrust, the salesmen are specialists in a unique investment operation known as Deltec SA."

by Judith Evans

Deltec Comes Home

Dauphinot, who died in January 1995, wrote his own memoir of Deltec's beginnings. He explained how, when he graduated from Princeton in 1935, his father, a life-long Wall Streeter, called his old friend Al Gordon with whom he had worked at Goldman Sachs for many years. Dauphinot Senior asked Gordon if there wasn't a spot for his son at Kidder Peabody, where Gordon had recently been installed by J.P. Morgan and Edwin Webster to keep the firm afloat. When Gordon asked about Clarence's credentials, he said, "Well, he plays a very good game of golf." Gordon, Dauphinot wrote, retorted, "Well, in that case, of course, we will take him."

Alan Werlau, ex-Chase, ex-Bankers Trust and now managing director of Deltec, says this anecdote reveals two important things about Dauphinot. First, the "Clarence Dauphinot and his friends" structure remains a bedrock of loyalty to this day. Second, in the middle of the depression, Dauphinot started out as an $18 a week runner and by the middle of World War II was the head of Kidder's international bond department. Clearly, this was not just a privileged man, but also a very ambitious one.

> Deltec's strategy remains simple: "We look for a value of a dollar that's for sale for 50 cents."
>
> **Alan Werlau**

Pioneering, Door-to-Door

Between 1942 and 1946, Dauphinot made three trips to Latin America to get buy orders for the region's defaulted bonds. He became especially enthused about Brazil, where capital markets only barely existed, and the possibilities for setting up an investment and securities house. He persuaded Kidder to put up 40%, five leading Brazilian banks to put up 50% and Dauphinot took the remaining 10%. It would take three years before this project could get off the ground as it waited for an investment bank license.

In the meantime, Dauphinot was determined not to let the Brazilian grass grow under his feet. With Al Gordon, Eddie Webster and Monteiro Aranha & Co., Deltec was set up. But to do what? "We did odds and ends like importing automobiles, getting an agency in Brazil for Ames Baldwin shovels, buying abandoned merchandise out of customs or warehouses where people did not pay the warehouse fees, anything we could do to make a buck and we just about broke even," he wrote. Dauphinot, who had been joined by John Holmes (an old friend who worked with Clarence's father and with Kidder), Angus Littlejohn and Earl Elrick, a Portuguese-born American married to a Du Pont, raised $100,000 in NY for the trading firm that handled this medley of transactions. It was called the Brazilian Automobile Company and its shareholders included Salim Lewis of Bear Stearns, Gustave Levy of Goldman Sachs, Eddie Webster and Joe Kresewich of Bonner & Gregory, as well as a few more FOC's (friends of Clarence).

Deltec's Swift expropriation and Argentina's slow justice

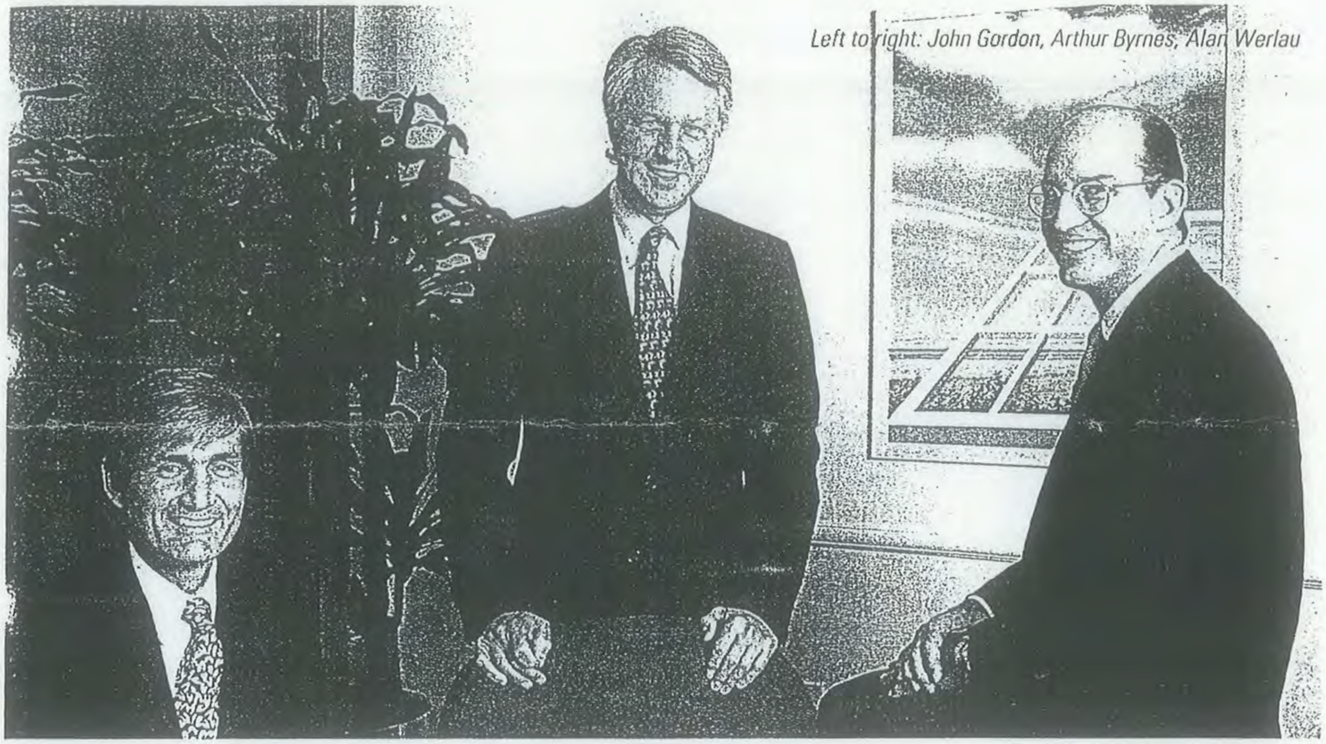
In a vivid reminder of the risks that pioneers often run, since 1971 Deltec has had several suits pending in Argentina's courts for settlement of a de facto expropriation of all the investments it then had in the country. In March 1969, Deltec and International Packers Ltd. (IPL) merged, giving management control of the Swift Meat Packing Co. in Argentina to Deltec. Not every partner in Deltec was thrilled with this move. Agustín Legorreta, chairman of Banco Nacional de México, a Deltec board member, was shocked. In a meeting in Paris held in June 1968, he huffed: "I thought I was a partner in a financial firm, not a butcher shop." Swift would precipitate Deltec's withdrawal from direct investment in Argentina and its eventual two decades-long absence as an important player in the region as a whole.

Although IPL stock shot up spectacularly on the New York Stock Exchange when the merger was made public, the company was, in fact, in deep trouble. Enrique Holmberg, a courtly Argentine whose family roots go back to the colonial era, remembers that he thought something was wrong at IPL. The Swift managers repeatedly showed up at the weekly Deltec Coordinating Committee meeting without any information on the firm. Less than a year later, Adalbert Krieger Vasena, a former economy minister who was on Deltec's board, told Holmberg he had a question for him, but that Holmberg's answer could only be "si" or "si." The question: "Will you take over at Swift?"

Holmberg headed Swift for less than eight months, but they changed his life forever and arguably changed Deltec for twenty years. His tenure started out dramatically: in one day he fired all of the company's managers and, after a 30-day feasibility study was finished, he reduced the payroll from 19,000 to 11,000. He also brought in specialists and new young managers from other Deltec operations in Argentina. The firm began to turn the corner. By May 1971 it was making real money.

Swift's worst problems were not, however, on the meat packing plant floor. The tide was beginning to turn against multinationals in Argentina. One early sign was the fine against half a dozen foreign meat packers for so-called "monopolistic practices." Then one day the center of Buenos Aires was plastered with posters denouncing Swift as a vende-patria octopus, as a holding company that owned virtually all of the most important US industrial firms and banks. In the employee elevator of Swift's downtown headquarters in Buenos Aires, someone—an insider, Holmberg believes—left an ominous graffiti: "Be careful. The ERP (the People's Revolutionary Army) is watching you."

Indeed they were. Before it was all over, seven Swift managers would be kidnapped, one of whom was killed, and a large number of foreign firms, after similar experiences, packed up and went elsewhere.



Left to right: John Gordon, Arthur Byrnes, Alan Werlau

Soon, he wrote, "It became totally evident that there was no way we were ever going to have any securities business in Brazil unless I made it my life's work." Still, "peddling pots and pans, glassware, Old Crow whiskey, shovels and Crosley cars," while "a great experience in getting to know the country," was not a profitable venture. Dauphinot decided to merge Deltec and the trading firm.

It wasn't until the end of 1949 that Deltec got its first break. American and Foreign Power Corporation asked them to take on the sale of an issue for Companhia Paulista de Força y Luz which served over half the state of São Paulo. With everyone from his

Holmberg himself received four death threats, his apartment was vandalized twice and he would be forced into exile for five years.

What finally did in Deltec Swift was not the guerrillas; it was corruption in high places. Not long before the company became a target of the state cattle board, Holmberg and David Beaty agreed to see three very controversial figures, one of whom would become minister of the economy not long after. They offered to buy all of Deltec's assets for $6 million. The offer was so ludicrous that Holmberg began to smile. The future minister told him, "Don't smile. With your experience, you must know that there are many ways to make an expensive company cheap." Shortly afterwards, Swift's application for a kind of short-term financing, guaranteed under the law, was canceled.

Already feeling the impact of the growing economic chaos, Swift faced a cash flow problem that was aggravated by the cattle junta's delay in authorizing shipments of frozen beef. Holmberg contends that this was part of a deliberate campaign against Swift and points out that it also refused to authorize meat extract exports. The company decided to seek protection under Argentina's version of Chapter 11. The creditors—mostly breeders and brokers, with a few local banks—agreed to a restructuring while hundreds of Swift workers shouted support outside. The presiding judge, Salvador Losada, warmly congratulated the Swift managers.

Yet, one month later, Judge Losada decreed Swift to be bankrupt and ordered its intervention. However, he also ordered the confiscation of all other Deltec assets, violating the legal principle of the corporate veil.

The case, formally named DASA S.A. versus the Republic of Argentina is still used in law schools, and has literally become one for the books.

When it was first tried in 1977, the court valued Swift at $51 million and the rest of Deltec's assets at $96.5 million, while expert testimony, called by the court, appraised the assets at over $200 million. Deltec won in that round but the opinion was reversed in the appeal filed by the government. In a 1989 hearing, a lower court ordered the state to pay Deltec an amount that—taking into account the two Argentina indexation laws, one passed during the military government of General Jorge Videla and the other in 1986 with the Austral Plan—was over $1 billion at the end of April 1992. That decision was overruled in the Appeals Court in 1990 and since then the case has been pending in the Supreme Court.

Deltec chairman Clarence Dauphinot spoke with US Secretary of the Treasury Nicholas Brady in 1993. He explained that his firm was willing to accept binding arbitration, direct negotiations with Argentine authorities or a work-out in which it would settle for other assets, including local currency, shares in privatized firms or any other mutually acceptable form of payment. Moreover, Deltec has consistently repeated that it is willing to accept a non-indexed reparation. What it—and most vehemently, Enrique Holmberg—is not willing to do is withdraw the claim.

In the last six years, Deltec has not heard a word from the Supreme Court. Argentine justice appears, yet again, to be anything but swift or just to Swift Deltec.

—*Judith Evans*

office and several Brazilian tennis partners he recruited, over the next three years Dauphinot and the jeep brigade sold $13 million of CPFL. Those years were, said Dauphinot, "among the most interesting of my entire life...traveling by road from place to place, calling on farmers, coffee owners, calling on industrialists, storekeepers, every kind of person imaginable; from this activity, I became one of the greatest enthusiasts about the country of Brazil that had ever come out of the United States of America."

In his manuscript, The Deltec Story, Dauphinot recounts his own unforgettable first sale. He drove his jeep into the largest gas station in a small wealthy town named Batatais, where he spent an hour and a half giving the owner a hard sell. He explained how important the future of his state was going to be, how CPFL's power was going to make it all possible and how such a company should be owned by the people who would use the electricity. The station owner finally gave in. "This was a $1,000 investment by a garage owner in a little town in the center of the state of São Paulo. I believe it was the greatest business thrill of my life," he wrote.

Dauphinot saw himself not just as a securities salesman and a soon-to-be full fledged investment banker, but also as a missionary for capitalism. He and his growing sales staff were selling to people who had never heard of a share of stock. "It was total education in the capitalist structure and in the roots of a private enterprise," he said.

Little by little, the group, joined by high-powered international financial figures or institutions, began to make equity deals on its own. Almost always the deals were brought to them by Dauphinot's network. For example, in 1952, General Robert E. Wood of Sears Roebuck, an old friend of Webster's, came to Deltec with the idea of setting up a factory for manufacturing chenille in Brazil. They did and over time it became successful. They later sold it to Listas Telefónicas in exchange for some of its stock. "An interesting venture for all concerned," he called it, which was a Wasp way of saying that they made a lot of money.

Deltec increased its investment banking activities to the point that it underwrote over 35 issues between 1953 to 1959. This era ended with a bang for Deltec when it was able to sell over $30 million of Willys Overland do Brasil stock to more than 50,000 Brazilians. It was Deltec's crowning glory in securities sales.

At the end of the 1950s, Deltec was thrown into crisis. As political and economic crises mounted in the region, the group began to look elsewhere to duplicate its formulas for

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The securities sales trip from hell

On November 28, 1953, Fulton Boyd returned from a sales trip to Minas Gerais where he had gone hoping to sell the Paulista common stock. He submitted a long report to Clarence Dauphinot, excerpts from which appear below.

First, I started out from Belo Horizonte early Thursday morning (November 12) to Barbacena. By 3:00 that afternoon I had the bank's list of names and was making visits. By Friday afternoon I had exhausted the list and was dropping in on places with placards in front of them—lawyers, doctors, etc.—because I was determined to sell something—anything—in Barbacena before leaving. By Saturday night I was pretty discouraged with the interior of Minas, and I decided to spend Sunday driving to São João del Rei and Bom Sucesso and back, to see what the bank managers there thought.

Bom Sucesso was a miserable looking town, and the manager there, Edgard Silva, confirmed my impression that no one there had a cent. Anyhow, he suddenly thought of Santo Antonio de Amparo, a town about one-and-a-half hours away, full of idle rich people, and told me that there was the place to go. Lots of money, wealthy widows, fazendas, and no local industries to invest it in.

Thursday morning I was off bright and early to the land of the wealthy widows, San Antonio do Amparo. It was a beautiful day, and my spirits rose as I saw rich green coffee trees growing on both sides of the road. It is the same color green you see on money. Next, a fazendeiro saved me a lot of time and trouble by crossing off names of his close relatives (the rich widows) who only invested at his advice. He put all of his and their excess money into apartments in Rio and land in Minas. There was still one wealthy widow to go. I managed to have her (in her 70s) waked up and dragged out of a sick bed to meet me at the door. She was in an explosive temper at all the unnecessary bother, and she waved a long bony finger at me and raved for a good two or three minutes in a feverish rage. I did not even get to mention the 25-year dividend record.

Then my troubles began. Saturday afternoon was a black, black afternoon. Trouble on the road from Oliveira to Bom Sucesso—it was under water in stretches due to torrential rain all day Friday. So I went a different way, via Santo Antonio de Amparo. Shortly after passing through the latter, I was sideswiped by a cream colored Chevrolet. Then at Carmo da Mata, the gasoline tube came unconnected from the tank, and in trying to connect it up again, I broke the tube.

I finally got on a train the following Friday night and got here Saturday afternoon. It was the worst train ride I have ever had. Hard seats, smoke and cinders coming in the window, a head that would make any other head in the interior look as sanitary as a Borden's milk plant, screaming kids, all sorts of smelly, unattractive people—and 20 hours of it. I then found out that there has not been a plane into here for eight days—the air strip turns to mud when it rains and planes cannot land on it. No concrete yet.

Then I got tangled up in a strange business. There is a Presbyterian church here, and I thought that was such a curiosity that I walked in to look at it, forgetting it was Sunday. Well, I ended up in a Sunday school for kids between about 10 and 14 and could not get out of it. After that, a regular service began. After the sermon, I was called upon to say a few words. It would have been a great opportunity to plug shares but I was so startled that it did not occur to me till later.

That about winds things up. I am sorry not to have better news but hope to have some soon.

Atenciosamente, Fulton

success. Unfortunately, in another lesson for today, it proved to be impossible to reproduce. Losses in the Middle East and Spain forced dramatic meetings with board members in New York in 1959. While Lewis of Bear Stearns and Levy of Goldman Sachs promised any help that was necessary, Deltec had to appeal (successfully) to Frank Scafero of Bank of America to refinance a $350,000 loan.

Deltec not only survived this crisis but was propelled by it into its third crucial growth phase. Dauphinot interrupted his European honeymoon to raise capital so that the group could take advantage of the ever-greater volume of financing in Latin America and opportunities to invest in equity participation. During a previous trip to London, he spoke with Siegmund Warburg, who brought his bank in as a partner and offered to help Deltec acquire associative relationships with one important institution in every country in Europe. Deltec was able to enlist an extremely impressivé group of partners: Deutsche Bank, Crédit Suisse, Amsterdamsche Bank, the Société Genérale de Banque, Banque d'Indo Chine and Suez, the Banca Commerciale and the Bank of London & South America.

Pioneers No Longer

Three factors led Deltec to reduce its Latin presence: political difficulties in Brazil, the confiscation of its holding in Argentina and the declining profitability of its lending operations under the avalanche of petrodollar lending by larger banks. However, in the run up to the decision to move to the Bahamas, its banking business increased substantially. In 1962, financings in Latin America totaled $25 million and by 1964 had risen to $70 million. By June 1967, the consolidated net assets of its Latin operations, now called Deltec Panamerica, were over $13 million.

The change of location was not only a business decision. Dauphinot actively lobbied against Brazilian President João Goulart, privately and publicly. In 1962, a telex he had sent during Goulart's famous 10-day return trip to Brazil from the People's Republic of China was found in the files of a telegraph company. In the telex, he urged Deltec's directors and friends "to do everything possible to persuade the generals to continue their work to stop Goulart." Not surprisingly, Dauphinot was accused in a number of newspapers of being part of a US government supported plot to overthrow Goulart. After living in Brazil for sixteen years, Dauphinot knew the country well enough to realize that it was time to leave.

Al Gordon, with portrait of Kidder's Edwin Webster

When Al Gordon asked about Dauphinot's credentials, he was told he played a very good game of golf. "Well, in that case, of course we'll take him," retorted Gordon.

Deltec Returns

In 1989, Gustavo Vollmer Sr., then chairman of Venezuela's Banco Mercantil and a long-time Deltec board member, called Dauphinot and told him he was buying Venezuelan debt for 35 cents on the dollar. With coupon payments of 6%, that was a current yield of somewhere around 17%. Dauphinot liked those numbers. Arthur E. Byrnes, hired right out of Stanford Business School and now, as chairman of Deltec Asset Management Corporation, manager of its Latin American debt funds said, "With Vollmer's phone call, we re-immersed ourselves in Latin America."

In the post-Dauphinot period, Deltec's investment strategy remains straightforward: "We look for a value of a dollar that's for sale for 50 cents," said Alan Werlau. He explains that this old "buy cheap, sell dear" adage has worked so well for Deltec in part because of its FOC—friends of Clarence—network, as the Vollmer phone call attests. Moreover, the FOC investment structure—Deltec and its five decades-old cadre of high net worth individuals and institutions investing side-by-side—remains in place in all of its funds.

But the strategy also rests on its own principle: When the 1994 Mexico crisis hit, Deltec had no exposure. "Why? It wasn't cheap," said Werlau. It also led Deltec to be the largest holder of Ecuadorian and Panamanian paper until recently. Byrnes makes a connection between the firm's investments in distressed assets in the US market and its return to Latin America, while emphasizing that the current high debt prices are Latin America's reward for the staggering positive changes in the region.

The future, argues Byrnes, is most likely to be like the past. Debt is relatively more expensive than equity now, but high volatility from 1989 to the present is a clue that more of the same can be predicted. "Markets are ignoring risk and being blind sided by chasing yield," he said. His expectation of a coming correction is predicated on the improbability that current international liquidity levels can be sustained. For Byrnes, the best credit risk in Latin America today is Brazil, the country where he grew up and where Clarence Dauphinot and Deltec spent their pioneering years. LF