



INVESTORS' PERSPECTIVES

on Private Equity and
Venture Capital
in Brazil



The Brazilian Private Equity and Venture Capital Association (ABVCAP) is a non-profit organization, active since 2000, which aims to develop long-term investment activity in the country, in the segments covered by Private Equity, Venture and Seed Capital. As a representative body of the private equity and venture capital industry, ABVCAP defends the interests of industry members with public and private, national and foreign institutions, seeking increasingly favorable public policies for the promotion of these investments in the country.



The Brazilian Agency for Export and Investment Promotion (Apex-Brazil) works to promote Brazilian products and services abroad and attract foreign investment in strategic sectors of the Brazilian economy. This happens through diverse trade promotion activities aimed at promoting exports and valuing the Brazilian products and services abroad, such as prospective and trade missions, business rounds, supporting the participation of Brazilian companies in major international fairs, visiting foreign buyers and opinion makers to know the Brazilian productive structure and other business platforms that also aim to strengthen the Brazil brand. Apex-Brazil coordinates efforts to attract foreign direct investment (FDI) in Brazil focusing on strategic sectors for the development of the competitiveness of Brazilian companies and the country.

inBrazil

● Private Equity & Venture Capital

The program, initiated in 2009 through the first agreement signed between ABVCAP and Apex-Brazil, aims to attract foreign capital to the Brazilian PE/VC industry, thus promoting investments in Brazilian companies and supporting the growth of entrepreneurial capital in the country. Through its actions, the program looks to represent the Brazilian PE/VC industry in the international marketplace, thus helping to showcase Brazil's qualities as a solid and attractive market for international investments.

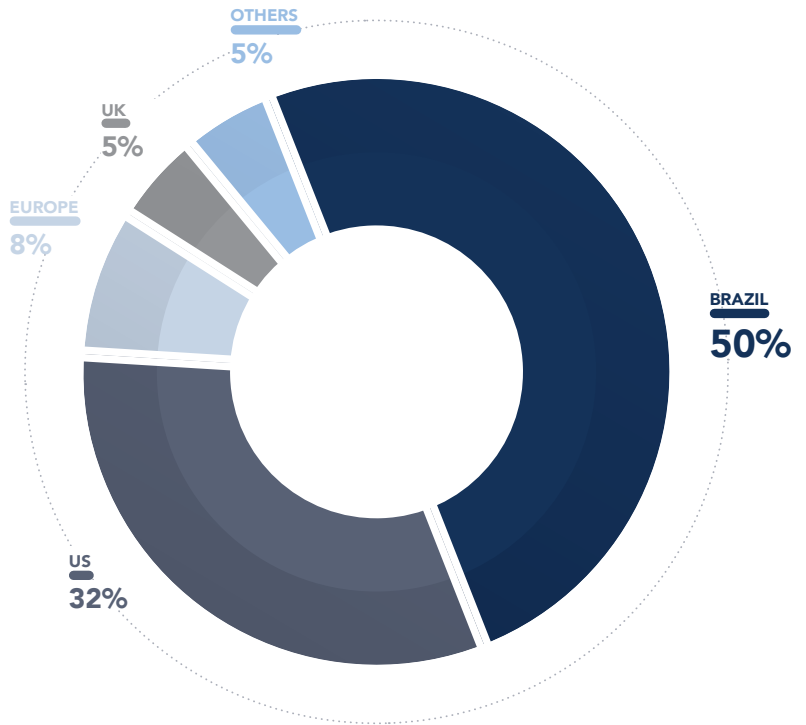
THE SURVEY



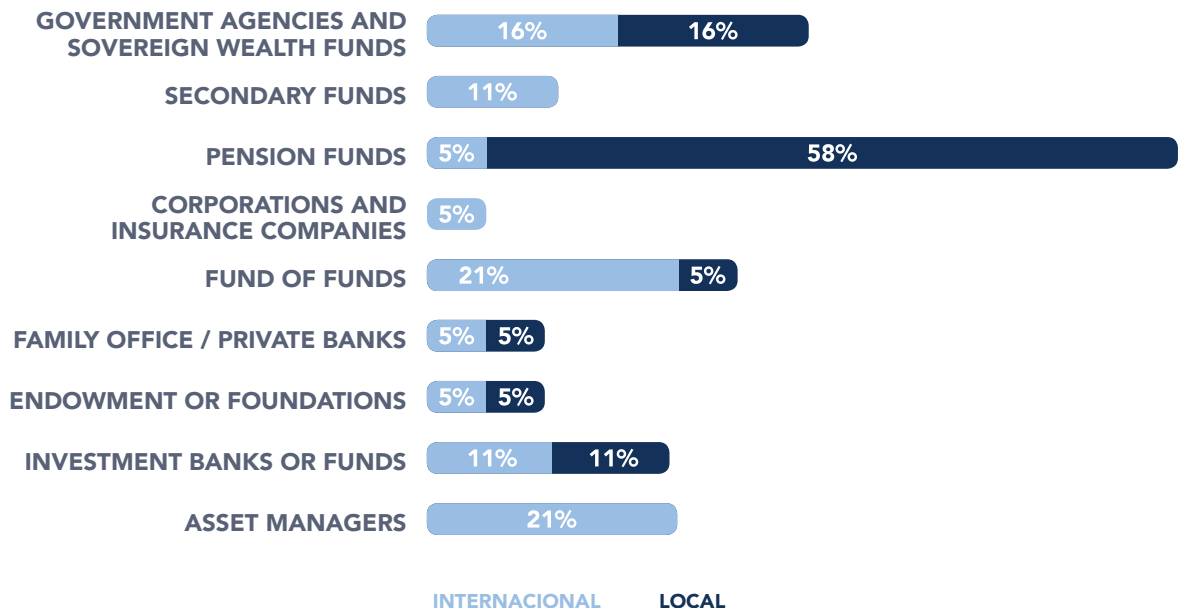
The survey collected data that reflects the perspectives of local and international investors on investments in private equity and venture capital in Brazil, with the aim of presenting relevant data about the challenges and opportunities of this kind of investment in the country.

The survey had the participation of 39 private equity and venture capital investors: 19 international and 20 Brazilian. Among the major groups of investors who participated in the survey are pension funds, followed by government agencies, sovereign wealth funds and funds of funds.

01 GEOGRAPHICAL LOCATION OF THE PARTICIPANTS



02 TYPE OF PARTICIPATING INSTITUTION

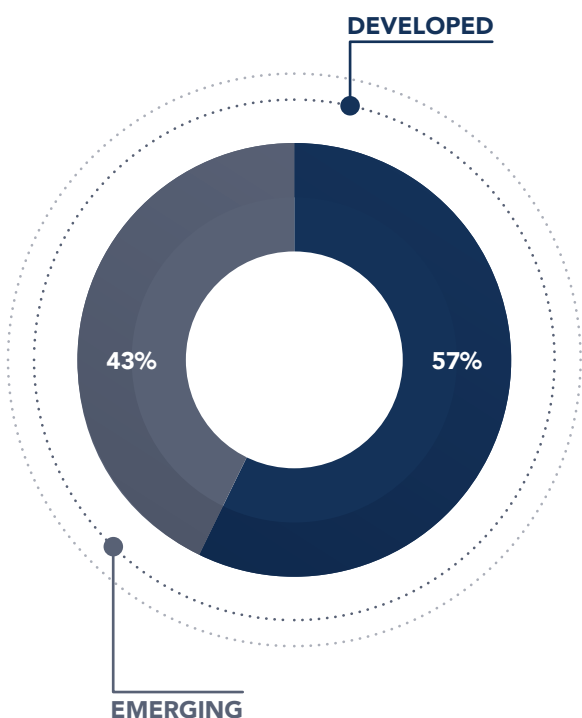


INTERNATIONAL INVESTORS' PERSPECTIVES

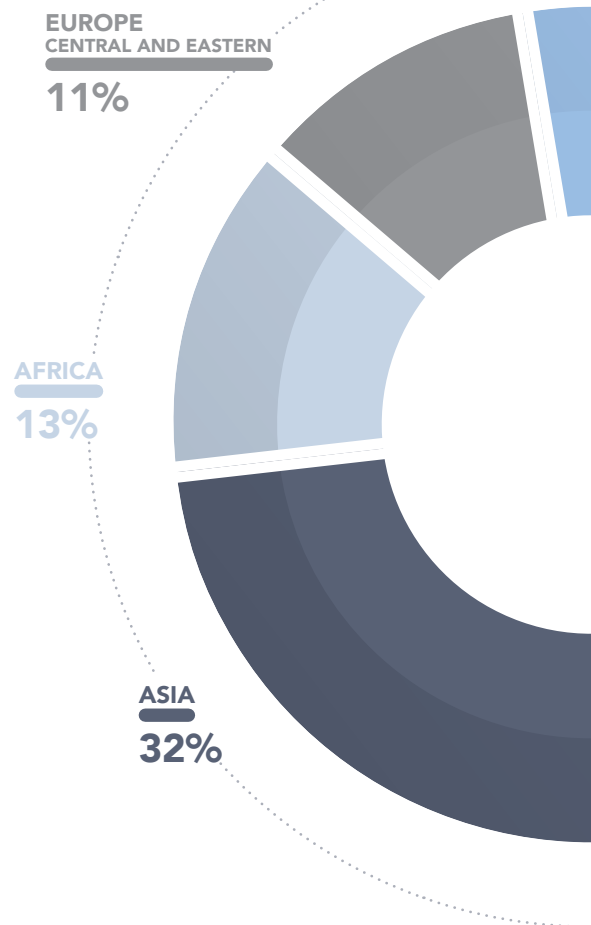
LATIN AMERICA (INCLUDING BRAZIL) CONCENTRATES MOST OF THE INVESTMENTS IN EMERGING MARKETS

The following data shows that investments in emerging markets represent a very significant portion of the portfolio of international investors, close to half of the total investments (43%). Among emerging markets, Latin America (including Brazil) was the most attractive market, followed by Asia and Africa. The capital of foreign investors allocated to PE/VC should increase in coming years. According to the survey, at least 26% of the participants considered their capital allocated to these markets as under-allocated and planned to invest more in the future. In addition, 32% were considered already allocated but with plans to increase this allocation in the near future.

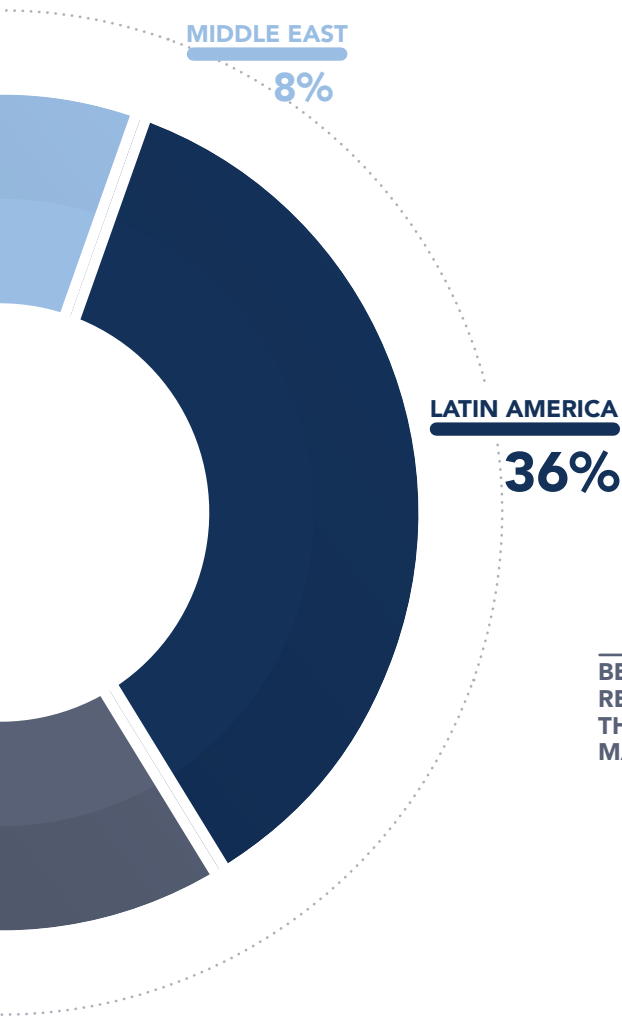
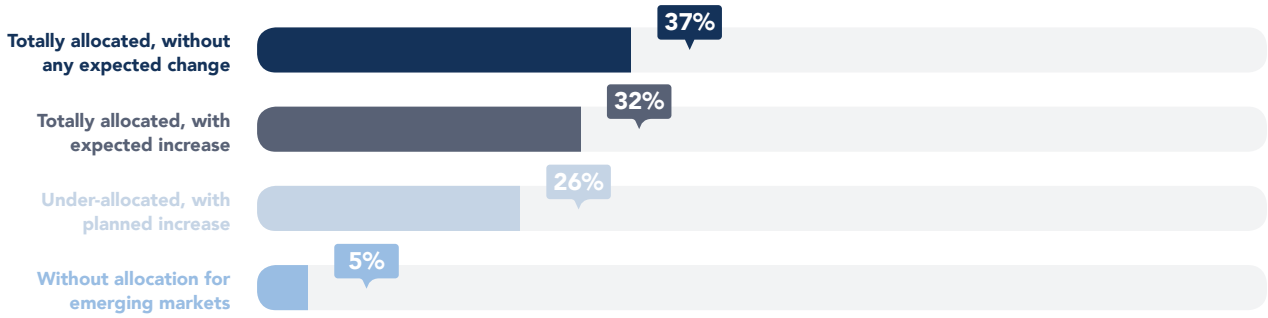
03 PORTFOLIO: EMERGING MARKETS X DEVELOPED MARKETS



04 GEOGRAPHIC FOCUS IN EMERGING MARKETS

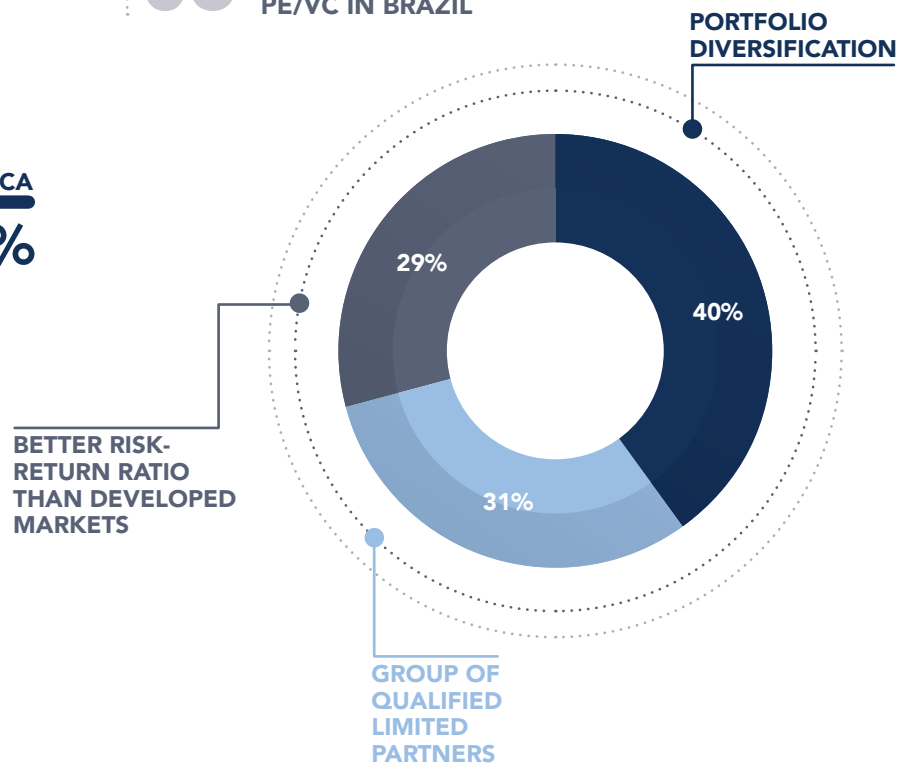


05 ALLOCATION TO PE/VC IN EMERGING MARKETS



Despite the socio-economic challenges in Latin America for foreign investors, the main reasons to invest in the region were considered as generating a useful diversification in portfolios, the qualifications of the General Partners and a risk-return ratio that is higher than that of developed markets PEVC.

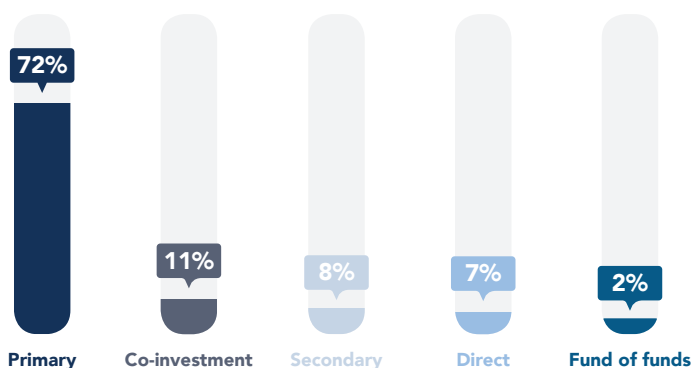
06 MAIN REASONS TO INVEST IN PE/VC IN BRAZIL



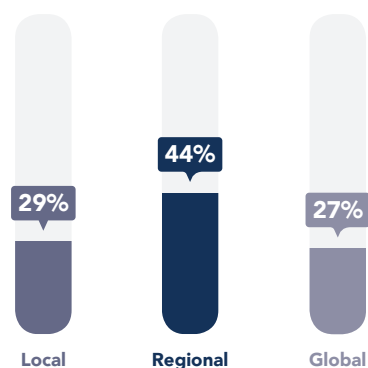
CO-INVESTMENT GROWING FASTER THAN OTHER METHODS IN ALLOCATION OF PE/VC IN BRAZIL FOR THE NEXT THREE YEARS

Primary investment represents most of the allocation to PE/VC of foreign investors in Brazil (72%) and should remain predominant in the future, with an expected growth of 65% for the next three years. Co-investment, which currently represents only 11% of the allocated capital, is seen as providing potential for significant growth in the medium term, according to the survey. Of the total primary investments, a larger part of it is allocated to regional funds with a significant Brazilian component.

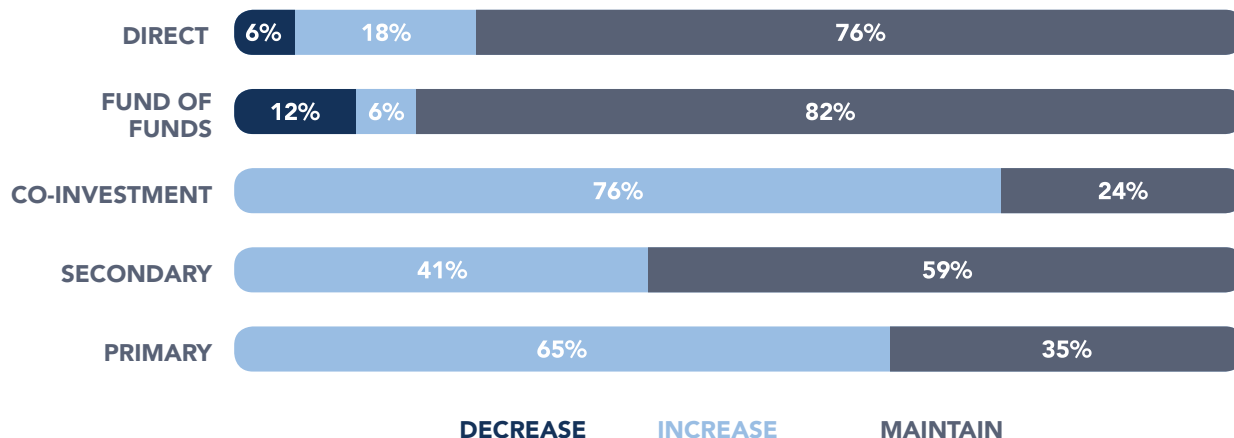
07 PERCENTAGE ALLOCATION TO PE/VC IN BRAZIL BY TYPE OF INVESTMENT



7.1 PRIMARY INVESTMENT PERCENTAGE ALLOCATED IN BRAZIL BY TYPE OF FUND

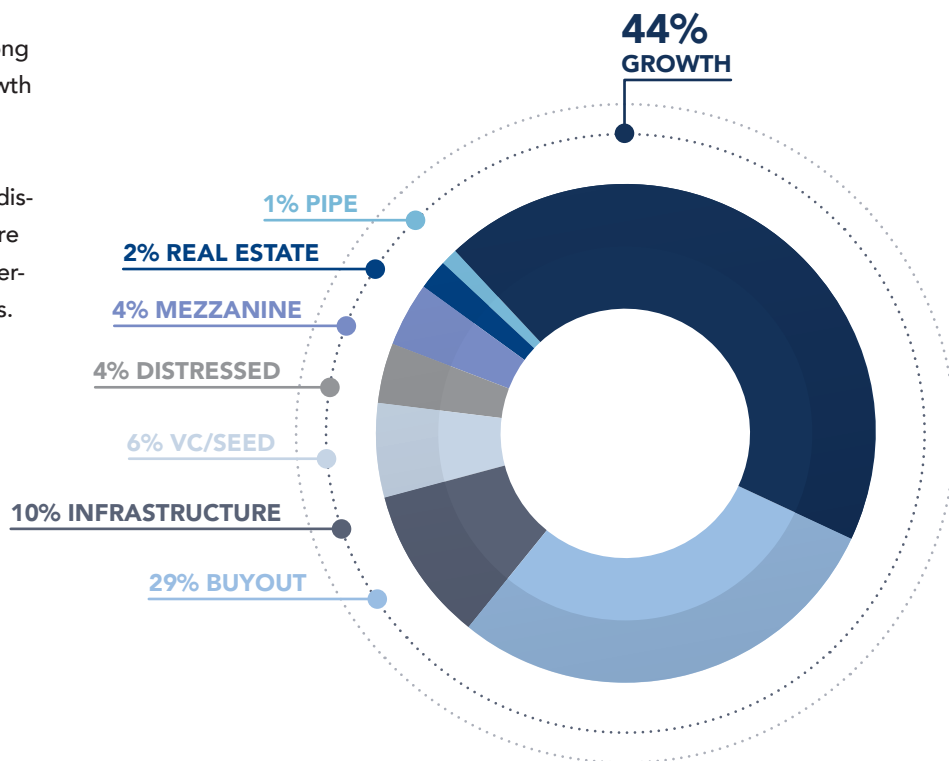


08 INVESTMENT PLANS EXPECTED IN BRAZIL FOR THE NEXT THREE YEARS

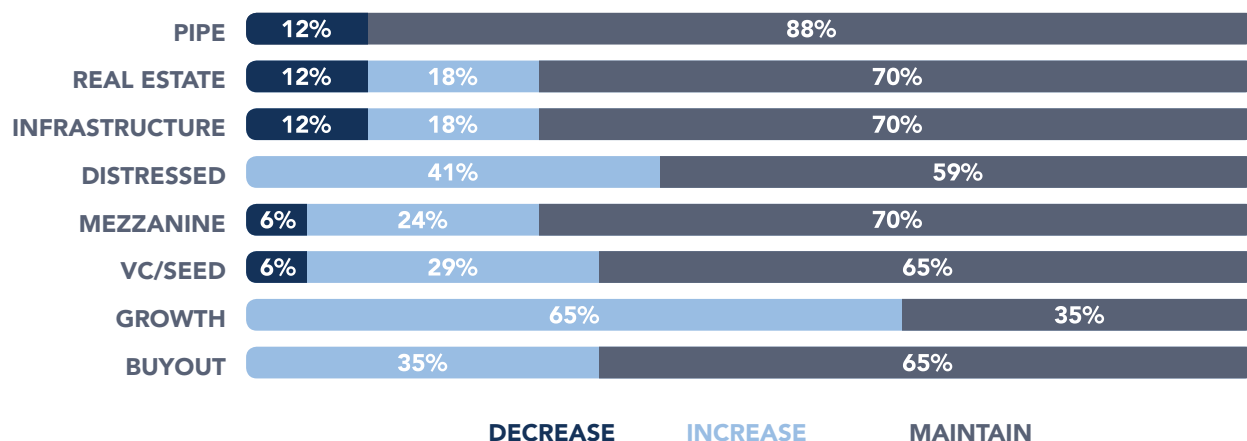


Of the entire portfolio of PE/VC in Brazil, the most popular investment strategies are growth (44%) and buyout (29%), which are also among those seen with the greatest growth potential in the next three years. Another strategy that is showing growth in investor interest is the distressed segment and Infrastructure funds continue to have strong interest, especially from local investors.

09 PERCENTAGE OF THE PORTFOLIO IN BRAZIL BY TYPE OF FUND STRATEGY



10 INVESTMENT PLANS EXPECTED IN BRAZIL BY TYPE OF FUND STRATEGY FOR THE NEXT THREE YEARS

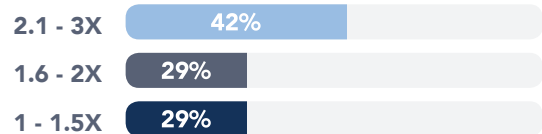


THE ECONOMIC SITUATION OF THE COUNTRY IS THE MAJOR REASON FOR THE DISSATISFACTION OF INVESTORS IN RELATION TO THE PORTFOLIO PERFORMANCE

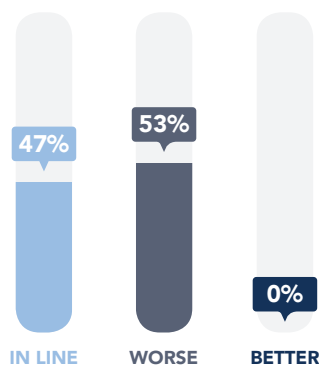
The survey shows that 53% of investors believe that the results of their investments in PE/VC in Brazil were worse than expected. The main reason cited was that the economic scenario of the country has deteriorated compared to the time when the investments were made. However, few investors stated that this was due to the performance of the investee company or of the general partner and they continued positive on overall returns going forward.

Although the Brazilian economy has been underperforming compared to previous years, almost half of the investors, or 47%, considered that their investments were in line with expectations.

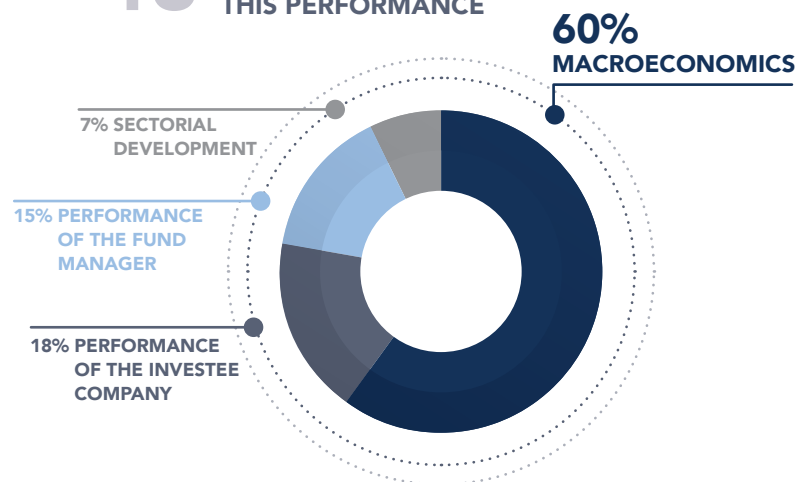
11 EXPECTED RETURN ON CURRENT PORTFOLIO IN THE REGION



12 PORTFOLIO PERFORMANCE IN BRAZIL RELATIVE TO EXPECTATIONS



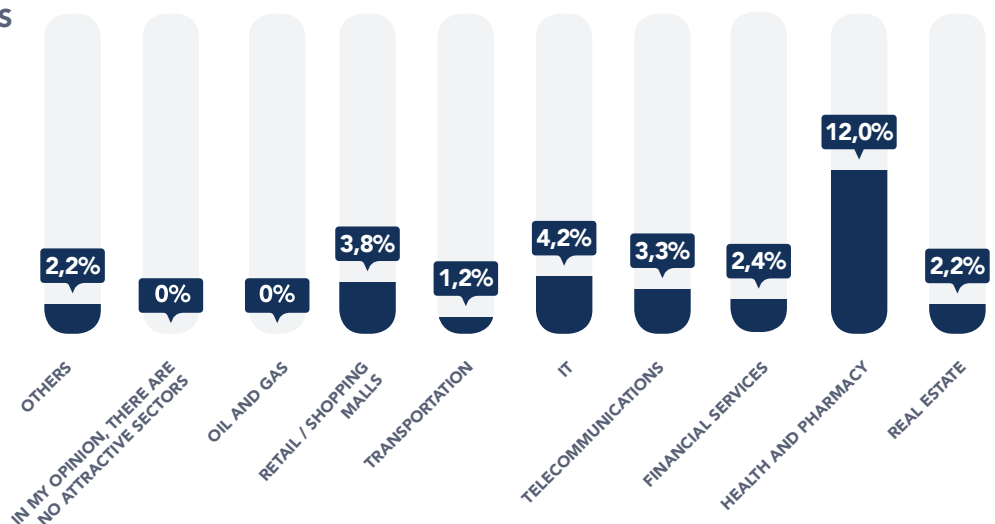
13 MAIN REASON FOR THIS PERFORMANCE



14 ATTRACTIVE SECTORS IN BRAZIL

23.5% of investors said that all sectors in Brazil are attractive and have investment potential.

The sectors that stood out in the survey were health and pharmacy with 12% and agribusiness with 11.8%.

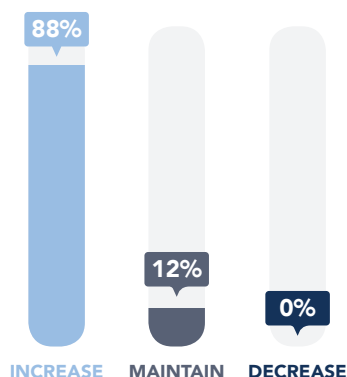


DESPITE THE UNCERTAINTIES, FOREIGN INVESTMENT IN PE/VC IN BRAZIL SHOULD INCREASE IN THE NEXT THREE YEARS

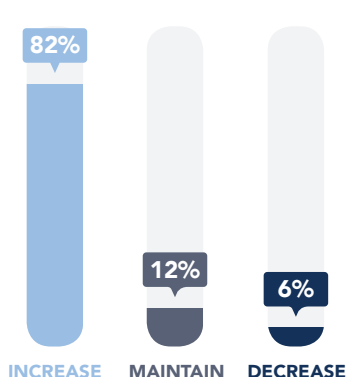
Despite the uncertain macroeconomic scenario, 88% of the international investors polled intend to increase their allocation of PE/VC in Brazil over the next three years and none demonstrated interest in reducing the current allocation. This corroborates the data presented earlier in the graph with the investment plans for the next three years, by type of investment. In addition, 82% of investors showed an interest in increasing their relationships with Brazilian general partners. In previous years, the global trend was to increase contributions and yet reduce or maintain relationships with general partners.

ALSO A OVERWHELMING TOTAL OF 88% OF INVESTORS FELT THAT THE BRAZILIAN PE/VC MARKET WOULD IMPROVE IN THE NEXT THREE TO FIVE YEARS.

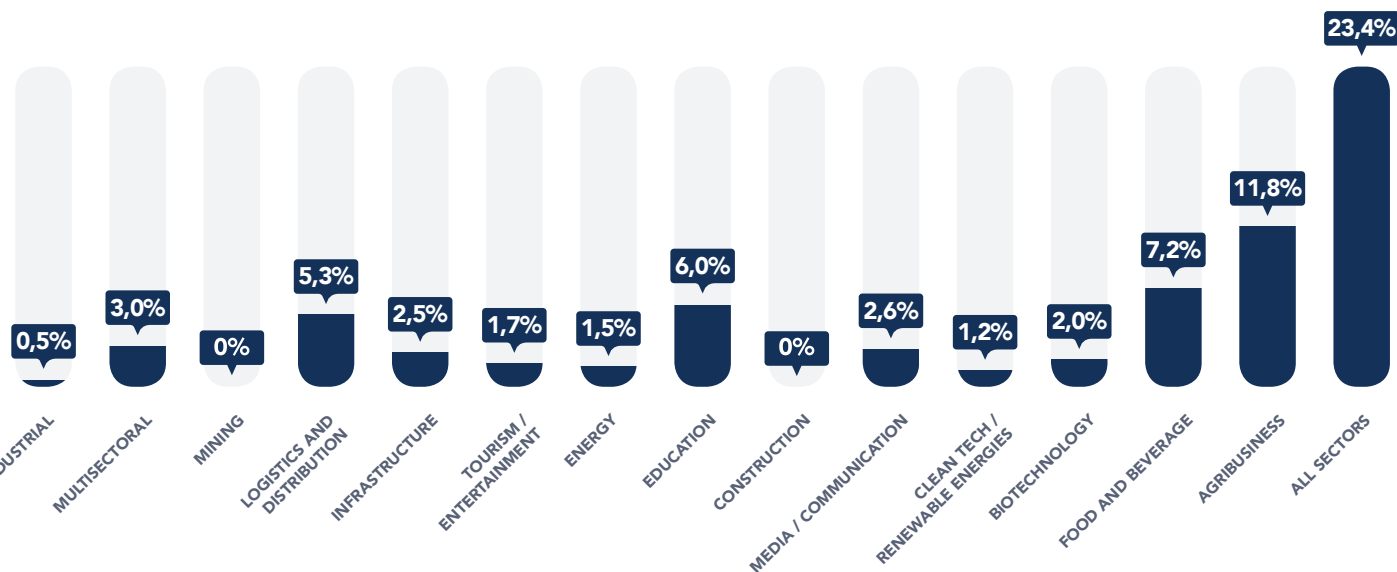
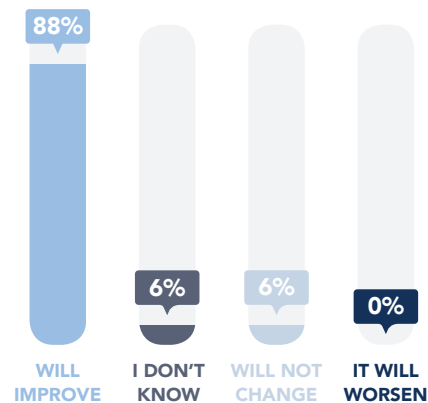
15 CHANGES PLANNED FOR ALLOCATION OF PE/VC IN BRAZIL OVER THE NEXT 3 YEARS



16 EXPECTATION OF NEW RELATIONSHIPS WITH GENERAL PARTNERS IN THE REGION OVER THE NEXT 3 YEARS



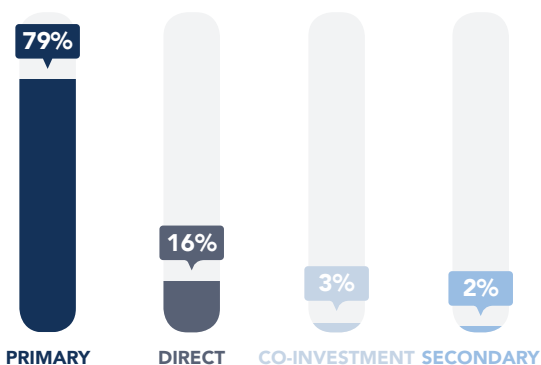
17 EXPECTATION ON THE BRAZILIAN PE/VC MARKET FOR THE NEXT THREE TO FIVE YEARS



BRAZILIAN INVESTORS' PERSPECTIVES

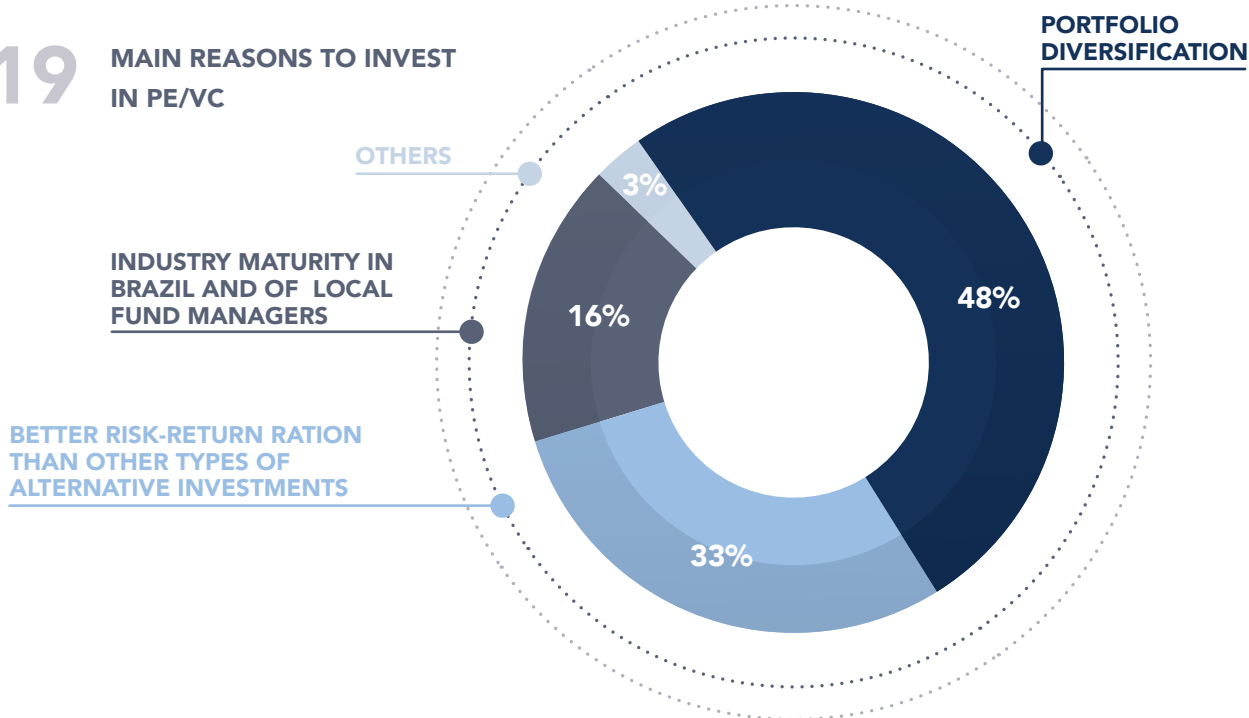
AMONG DOMESTIC INVESTORS, ACCORDING TO THE SURVEY, THE MAIN TYPES OF PE/VC ALLOCATION ARE PRIMARY INVESTMENT (81%) AND DIRECT INVESTMENT (16%)

18 PERCENTAGE ALLOCATION TO PE/VC BY TYPE OF INVESTMENT



The PE/VC portfolio in Brazil is composed mostly by primary and direct investments (95%). As shown in graph 20, this capital is primarily directed to the strategies of growth, infrastructure and buyout. Besides the need for portfolio diversification, 29% of investors point to a better risk-return ratio than other alternative investments. A total of 17% of Brazilian investors pointed to industry maturity in Brazil as a positive and the quality of the local general partners as one of the main reasons to invest in PE/VC, despite the fact that PEVC is considered a developing industry in Brazil when compared to US and Europe.

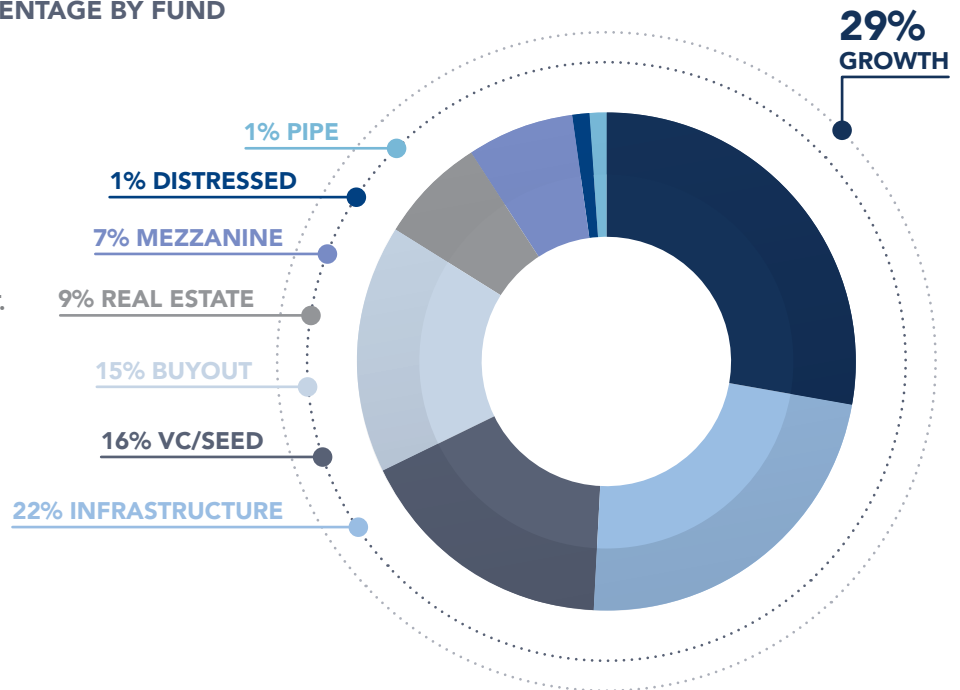
19 MAIN REASONS TO INVEST IN PE/VC



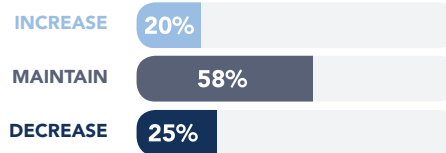
20 PORTFOLIO PERCENTAGE BY FUND STRATEGY

THE GROWTH STRATEGY IS THE MOST USED IN THE MENTIONED INVESTMENTS. INFRASTRUCTURE AND VENTURE CAPITAL COME NEXT.

ACCORDING TO 58% OF BRAZILIAN INVESTORS, IN THE NEXT THREE YEARS, THE EXPECTATION IS TO MAINTAIN THE CURRENT ALLOCATION.

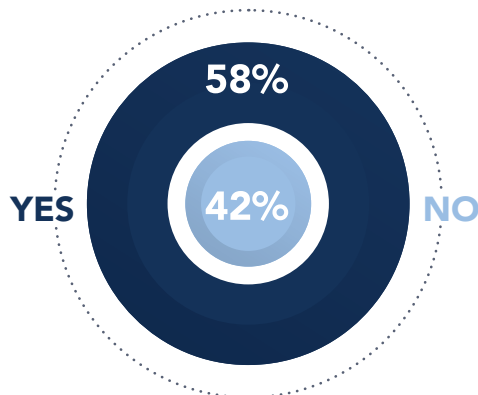


21 PROJECTED CHANGES FOR PE/VC ALLOCATION IN BRAZIL OVER THE NEXT THREE YEARS

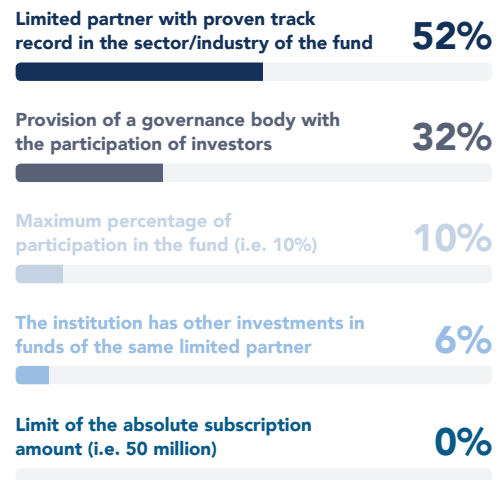


According to the survey, 58% of Brazilian investors would participate in funds without an investment committee formed by Limited Partners. Among these, 52% indicated the proven track record of the general partner and 32% pointed to the existence of a governance body with investor participation as conditions for the absence of Limited Partners in the investment committee.

22 ASSESSMENT OF INVESTORS CONCERNING PARTICIPATION IN INVESTMENT FUNDS WITHOUT AN INVESTMENT COMMITTEE FORMED BY LIMITED PARTNERS



23 CONDITIONS NECESSARY FOR INVESTMENT IN FUNDS THAT DO NOT OFFER PARTICIPATION OF LIMITED PARTNERS IN THE INVESTMENT COMMITTEE



METHODOLOGY

The survey started in December 2015 and ended in July 2016 with the presentation of data during the LP Morning, a closed-door event exclusive for international and Brazilian Limited Partners held on July 6 at the 2016 ABVCAP Conference. The survey was conducted through a Web platform and counted on the participation of 39 Brazilian and international investors active in private equity and venture capital industry. The survey included questions chosen to better understand the expectations of local and international investors in order to provide relevant data on the challenges and opportunities of private equity and venture capital investments in Brazil.

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